



**Federation of Small Businesses**  
The UK's Leading Business Organisation

# SCOTLAND Q2 2015 Voice of Small Business Index

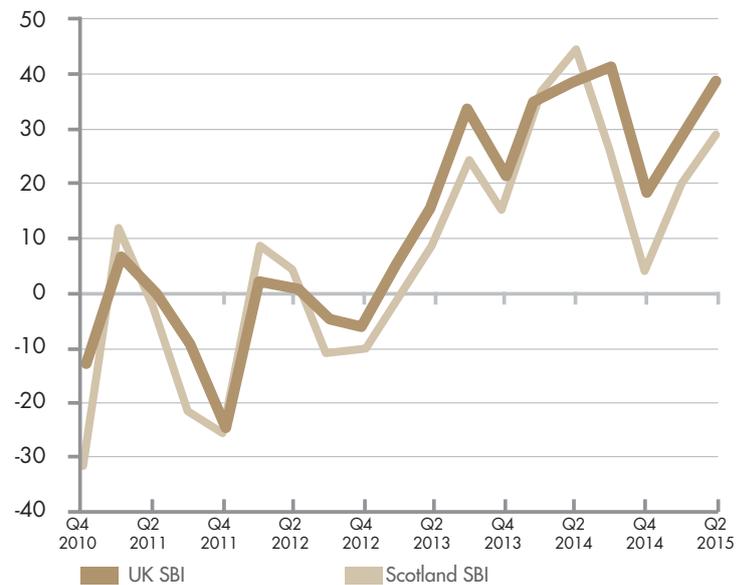
**Small business confidence in Scotland is picking up, but remains below the level recorded a year ago.** The Small Business Index (SBI) for Scotland rose from +20.4 points in Q1 2015 to +28.5 points in the latest quarter. 46% of small firms expect prospects to improve over the next three months, while 18% believe that prospects will deteriorate. However, in line with the slight slowdown of the UK economy, the SBI for Scotland remains 15.5 confidence points lower than recorded in Q2 2014.

**Average UK small business confidence is higher than the Scottish rate, though is slightly lower than a year ago.** The UK experienced an increase in confidence levels in the latest quarter to +37.9 points from +28.7 points in Q1 2015. This leaves confidence 1.8 percentage points lower than the same period of 2014. Quarterly economic growth in the UK slowed to 0.3% over the first three months of 2015, the lowest rate since the final quarter of 2012. Over this period, output in mining and quarrying, which includes oil and gas extraction and is a key sector of the Scottish economy, fell by 0.7%. Fortunately for the economy, the overall pick-up in confidence suggests that this slowdown should be temporary and that growth should pick up towards the levels seen a year ago in the coming quarters.

**The unemployment rate in Scotland rose to 6% in Q1 2015 compared to a fall across the UK as a whole.** Between Q4 2014 and the first three months of 2015 the rate of unemployment in Scotland increased by 0.7 percentage points, with the number of people unemployed increasing by 19,000. At the same time, UK unemployment fell to 5.5% in Q1 2015 from 5.6% in the previous quarter. However, despite the slip in the labour market, the Scottish economy expanded by 0.6% in the final quarter of 2014, the same rate as the UK as a whole. Additionally, while unemployment rose in the latest quarter, it remains below the 6.5% recorded in Q1 2014 and youth unemployment has fallen to its lowest level since Q1 2008.

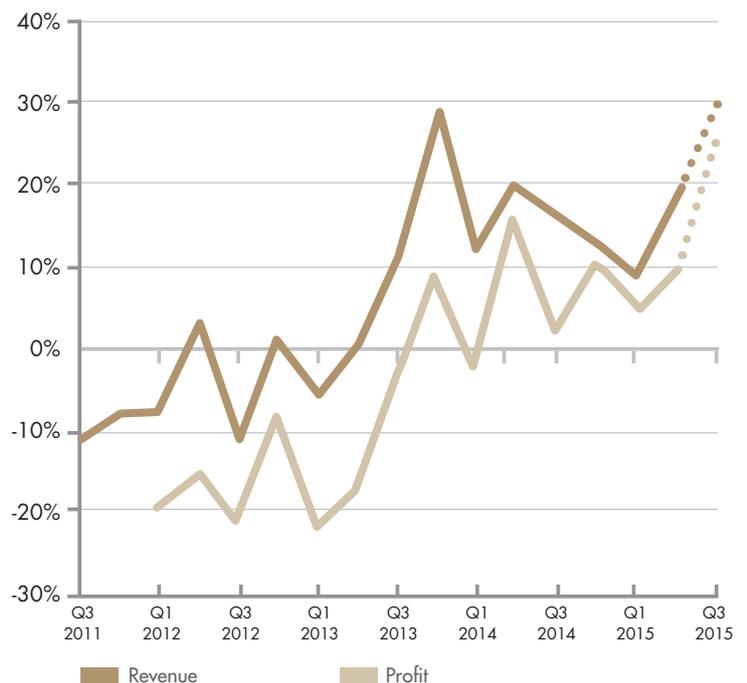
**More Scottish firms are reporting increased revenues and profits.** In the latest quarter, a net balance of 18% of firms reported increasing revenue, twice the share recorded in the previous quarter, reversing three consecutive declines in the level. The share of small businesses in Scotland reporting profit growth also picked up slightly in the latest reading, although at 9%, the balance remains relatively weak. However, in line with rising confidence levels, an increasing share of Scottish small firms are expecting an improved financial performance in the coming three months. A net balance of 25% of firms believe profits will be higher over the next quarter, well over double the balance recorded in the latest quarter and, if realised, would be the best performance recorded since the series began in Q1 2012.

Small Business Index



Source: FSB Voice of Small Business Survey. Sample of 1415 small businesses across the UK, with 166 small businesses surveyed across Scotland.

Net balance of small firms in Scotland reporting revenue/profit growth



Source: FSB Voice of Small Business Survey

**Despite a rise in unemployment in the latest quarter, small businesses in Scotland are increasingly concerned about the availability of skilled staff.**

In the latest quarter, 31% of Scottish small firms reported that staff skills were a potential barrier to the growth of their business. This is significantly higher than the 19% recorded in Q2 2014. Further, the share of firms concerned about the state of the UK economy has increased slightly to 49%, compared with 45% a year ago. Economic growth as a whole has slowed since the turn of the year and key industries within Scotland, such as oil and gas, have faced challenges. Additionally, alongside the other devolved nations, Scotland has one of the highest shares of public sector employment across the UK. With further government job and spending cuts expected, local demand in Scotland could come under pressure in the coming years.

**The falling price of fuel and utilities have significantly eased cost pressures on small businesses.**

Headline inflation in the UK hit -0.1% in April, turning negative for the first time since 1960 having sat at zero in February and March. The sharp fall in commodity prices, particularly the cost of crude oil, since the middle of 2014 has been a key driver of the inflationary slowdown. As such, the share of firms reporting fuel and utility costs as a main cause of changes in their costs has fallen over the past year – just 17% cited fuel costs in the latest quarter, compared with 38% a year before. However, not all business overheads are falling with wages rising at slightly faster rates than seen a year ago. As a result, the share of businesses reporting labour costs as a key factor behind changes in their business costs has risen to 44%, up from 38% at this time last year.

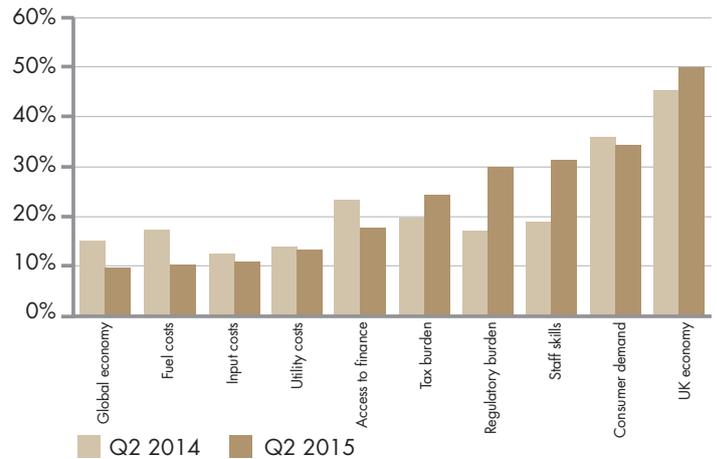
**Scottish firms report limited progress in the business finance market.**

The share of small firms in Scotland reporting poor availability/affordability of credit has fallen over the past two years. However, over the last 12 months, improvements in availability have slowed and a greater share of small businesses are finding poor credit affordability compared with a year ago. 54% of small businesses reported poor credit availability in the latest quarter, down from 59% in Q2 2014 and 69% in Q2 2013. In contrast, 44% of respondents reported poor credit affordability in Q2 2015, up slightly from the 43% recorded in the same period a year ago. Statistics from the Bank of England suggest that the overall availability of credit to the corporate sector was unchanged in Q1 2015, and lenders expect it to remain broadly unchanged in Q2.

**Overall, the latest findings from the Voice of Small Business survey indicate that more businesses are feeling optimistic, suggesting the slowdown in growth may be short-lived.**

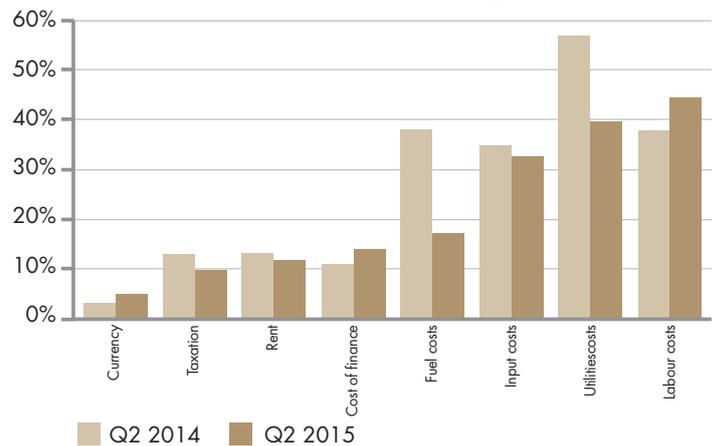
Revenue and profit growth in Scotland rose slightly in the last three months across the small business community, and firms are buoyant about the prospects for the coming quarter. Additionally, investment expectations have picked up with a net balance of 23% expecting to increase capital investment over the next 12 months, up from 15% in the previous quarter. However, the picture hasn't universally brightened over the past three months. With consumers playing a significant role in the economic recovery to date, a sharp rise in unemployment over the first quarter of 2015, combined with small business concerns about skills and labour costs, are economic threats which should concern Scottish policymakers.

**Share of firms reporting factor as perceived barrier to growth, Scotland**



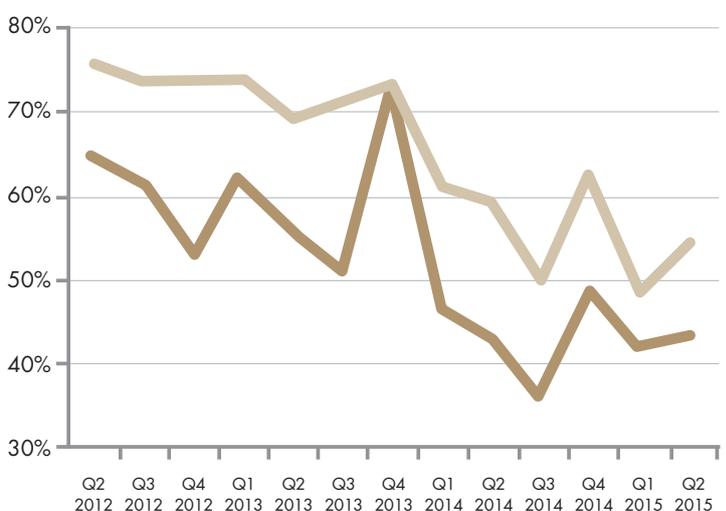
Source: FSB Voice of Small Business Survey

**The main reasons for business cost changes in Scotland**



Source: FSB Voice of Small Business Survey

**Share of firms reporting poor availability/affordability of credit**



Source: FSB Voice of Small Business Survey

