

# Q4

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## FSB VOICE OF SMALL BUSINESS INDEX

QUARTER 4, 2018

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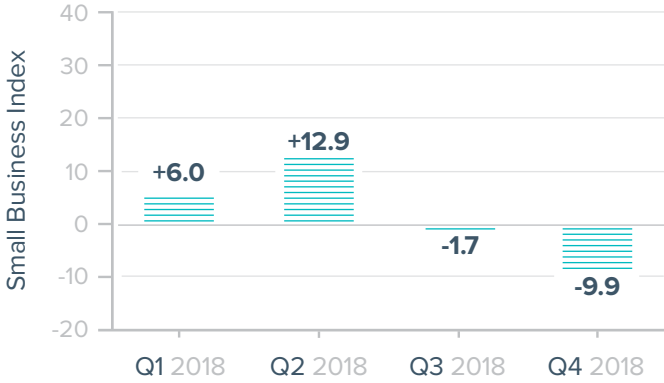
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Experts in Business

# SBI Q4 2018

“ Small business confidence hits lowest point since wake of the financial crash ”

Optimism nosedives amid uncertainty



Small businesses flag domestic economy fears

58% say it is a barrier to growth



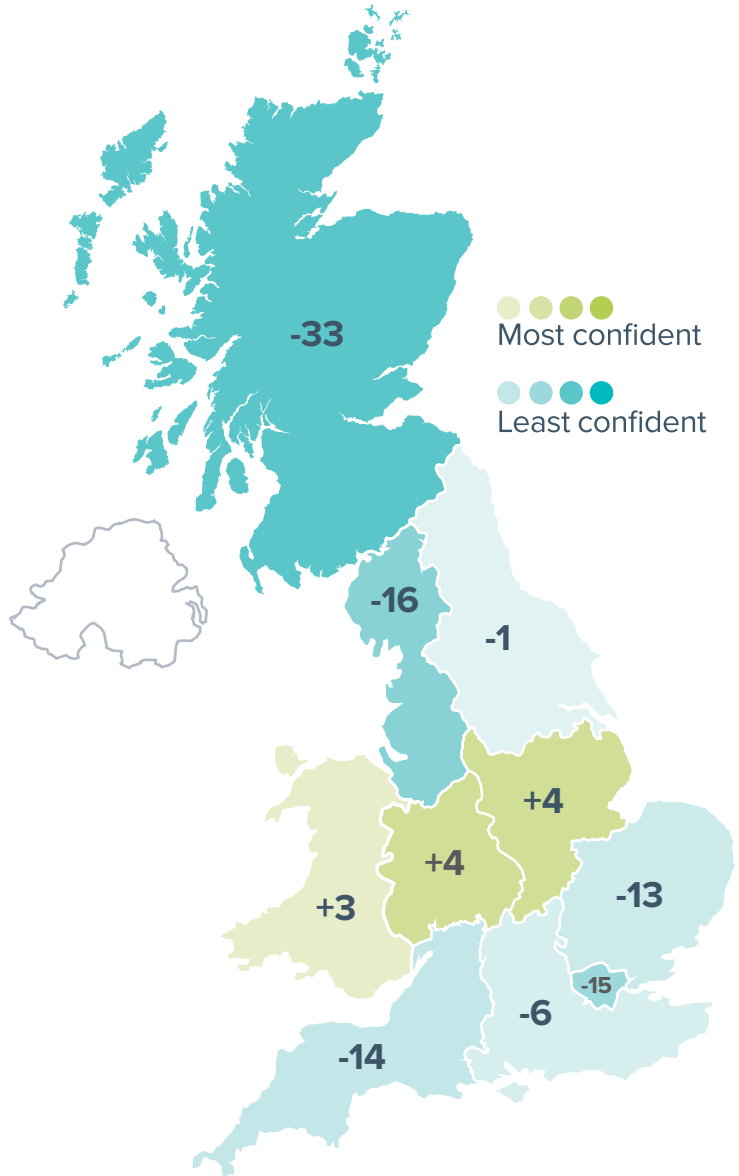
Wages keep rising

68% of small business owners have upped wages over past 12 months

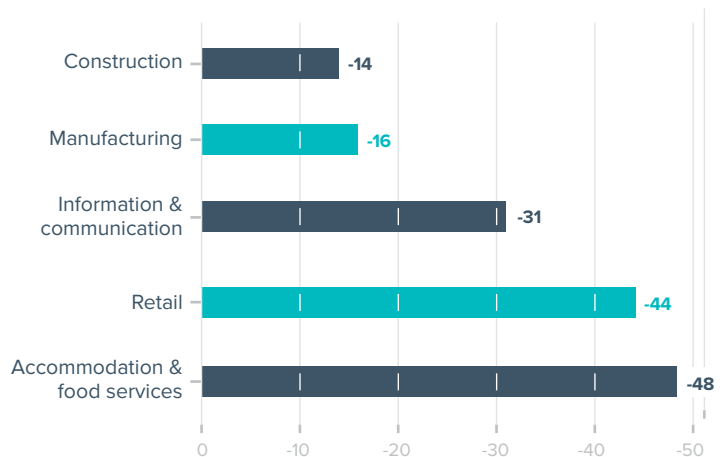


Skills shortages start to bite

36% say lack of right staff is holding back expansion



Small business confidence by sector



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# FSB FOREWORD

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Small businesses have faced an unprecedented level of economic and political uncertainty for over two years and we can now see the undeniable toll this has taken on small business sentiment. Small businesses are renowned for their trademark resilience and agility. However, the current level of political uncertainty has tested their endurance to the very limits and damage is now being done to the small business community and the wider UK economy. Small business confidence (in all but one region of England) has fallen across the UK to its lowest level since the immediate aftermath of the financial crisis. Therefore, it is no surprise that profitability is either stagnant or declining for the majority of smaller businesses.

Even small business exporters are being hit. In spite of the sustained depreciation in sterling, expectations of export growth amongst small exporters are at their lowest since the index was introduced in 2012.

There is no easy path forward on Brexit, but a roadmap must be found. The Government must work across political parties to find a new centre of consensus for a deal that can get through Parliament. For small business, the parameters are clear. We must avoid a cliff edge no deal Brexit on 29 March at all costs; we must secure a transition period proposed by FSB and agreed by both sides in the negotiations that provides the time for small firms to adapt. And for as long as Government continues to ask smaller businesses to prepare for such a disruptive possibility, financial support must be made available, whether through a combination of vouchers and/or soft loans to help to alleviate the financial costs that smaller businesses face.

The uncertainty around Brexit is having a severe impact on small business sentiment and it will now clearly take time – and politicians of all stripes coming together – to try to find a pragmatic way through that works for the UK economy. FSB continues to call for a pro-small business Brexit which means easy trade with the EU and continued access to EU labour and skills.

Domestic policy does, however, remain within the control of Government. We are acutely conscious that in the run up to April 2019, the UK's small businesses will face significant increases in the cost of doing businesses, with transitional relief for business rates tapering off, VAT registered small businesses being required to comply with making tax digital (often requiring the use of new software), increases in the National Living Wage, and pensions auto-enrolment contributions.

The Government needs to consider seriously how it can alleviate some of these additional costs that will hit small businesses in the grip of huge Brexit uncertainty, and with the further threat of a Brexit crisis if a chaotic 'no deal' scenario were to materialise on 29 March 2019.



Mike Cherry,  
National Chairman



Martin McTague,  
Chairman,  
Policy and Advocacy

# ECONOMIST'S VIEW

The UK economy is currently facing the highest level of uncertainty in about a decade. The ongoing Brexit negotiations have raised innumerable questions about future trade relationships, immigration policies and currency stability. While all periods of transition bring about both challenges and opportunities, the bulk of Brexit developments thus far can be classified as the former.

This precarious state of affairs is very much reflected in this quarter's FSB Small Business Index which collapsed by 8.2 points to -9.9. The decline in confidence was widespread, with London the only region to see a rise in confidence. Still, even in the capital the picture is far from rosy with confidence well in the red at -14.6.

Tellingly, even with the sustained depreciation in Sterling post the referendum result, export growth expectations have fallen to the lowest level on record in Q4. A net balance of just 0.2% of small businesses expect to grow exports in Q1 2019. It appears that businesses feel this upside is more than offset by the downside risks associated with a possible disruption in trade with the European Union and the ongoing uncertainty.

One SBI component which continued to perform well is the employment measure. Small businesses expanded their workforce for the tenth consecutive quarter. While this is a positive sign, it is also a reminder that the UK economy is essentially at full employment, making a cyclical slowdown almost inevitable. This means that in addition to the Brexit and political risks, the parts of the economy that have been supporting growth are gradually running out of steam.

For all businesses, now is the time to create contingency plans and evaluate how they would adapt in the event of an economic downturn. Small businesses are remarkably resilient but have contended with arguably unprecedented levels of economic and political uncertainty, and this is now exacting too high a price.



Nina Skero,  
Head of  
Macroeconomics,  
Cebr

# FSB EXECUTIVE SUMMARY

## Key findings this quarter:

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- **Small business confidence plunges in Q4.** The FSB Small Business Index collapsed by 8.2 points to -9.9 in Q4 2018. This is the lowest index level since Q4 2011.
- **Confidence declines in most of the UK's nations and regions.** The only region in which confidence saw an improvement was London, although the index remained negative in the capital it rose to -14.6. Elsewhere, despite experiencing large falls, confidence remained positive in the East Midlands (+3.7), West Midlands (+3.6) and Wales (+2.9).
- **Confidence in the construction and manufacturing industries fell into negative territory.** Construction firms registered a fall from +16.0 in Q3 to -14.0 in Q4. Meanwhile, manufacturing businesses recorded a 47.5 point decline to -16.4 over the same period.
- **Export growth expectations fall to the lowest level on record.** The net balance of small businesses reporting an increase in exports over the past three months decreased for the second consecutive quarter to stand at 7.6%. A net balance of only 0.2% expect to grow exports in Q1 2019 - the lowest score ever recorded in the FSB Small Business Index.
- **Gross profits flat or falling for the majority of small businesses.** The net percentage balance of small businesses which saw gross profits rise was -4.4% in the quarter. Small businesses in Scotland and the North West fared particularly badly, with net balances of -18.3% and -12.2%, respectively.
- **Small businesses expand their workforces for tenth consecutive quarter.** The net balance of firms indicating they intend to increase employment rose by 2.5 percentage points compared to the same quarter last year, reaching the highest level since Q2 2017 (3.9%).
- **Limited availability of skilled labour threatens future small business growth.** The proportion of small businesses citing the availability of appropriately skilled staff as a barrier to growth rose 1.9 percentage points to 36.2%.

# UK MACROECONOMIC OVERVIEW

## Brexit uncertainty slows UK growth after summer rebound

The UK economy expanded by 0.6% in real terms over the third quarter of 2018, representing an annual growth rate of 1.5%. Despite being the highest annual rate of growth for a year, this remains below the equivalent figure for every quarter between Q2 2012 and Q3 2017. Business investment fell by 1.1% over the quarter, the third consecutive quarter of decline.

The first half of 2018 experienced slow growth as extremely cold weather held back the economy. Construction output grew by 2.3% in Q3, with progress on infrastructure and housing projects picking up in September after having lost out earlier in the year due to weather related delays. Manufacturing output also increased, growing by 0.4% in Q3 after entering a technical recession (the recording of two consecutive quarters of contraction) in the first half of the year.

There are still causes for concern among manufacturers, however, as despite a quarterly increase in the production of transport equipment, output fell by 1.0% compared to the same quarter last year. Car production was especially weak as new emissions testing regulations interfered with production, while exports may have been dampened by slowing global growth.

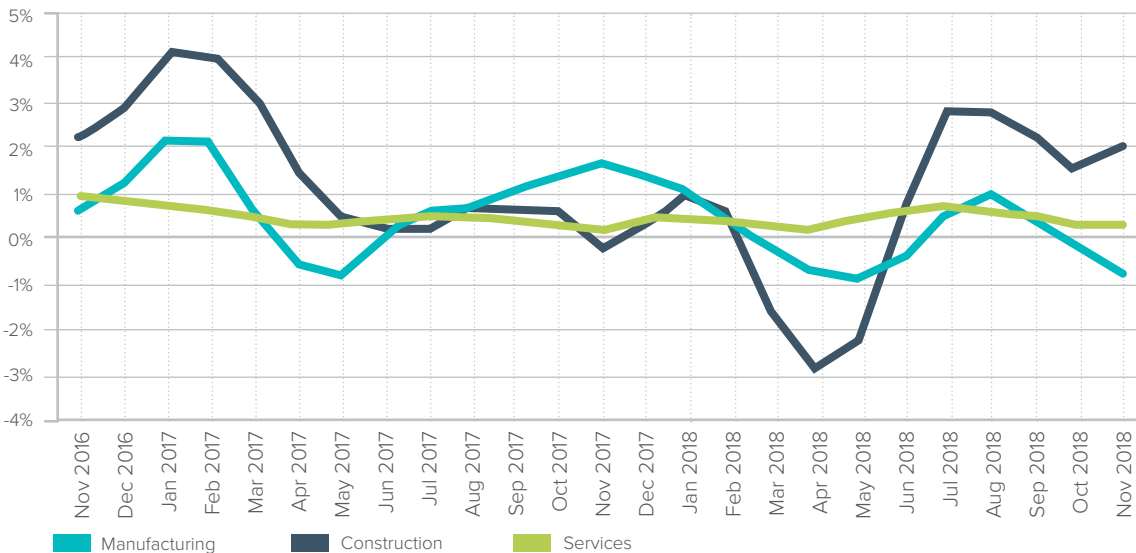
The UK economy is dominated by services which, by contrast to other sectors, saw growth slow during Q3 2018. Output grew 0.5% quarter-on-quarter, falling back from 0.6% in Q2 when retailers saw the benefits of warmer weather and a football World Cup. The retail sector saw growth of 1.0% in Q3, dropping from

1.7% in Q2. Performance was affected by falling output in motor trades, the services side of the car industry, reflecting weaker domestic demand for cars. Weak retail numbers look set to persist as the latest monthly data show output in wholesale, retail and motor trades declining in November.

Other forward looking economic indicators also point to a further slowdown in the rate of growth. Footfall fell in November and December across high streets, shopping centres and retail parks, to levels not seen since the last recession, despite promotions surrounding Black Friday. While some of this activity is likely to have simply moved online, a decline in the number of shoppers visiting physical stores looks ominous for the sector. Furthermore, in October the annual growth of consumer credit slowed to 7.1%, the lowest rate since March 2015. This comes despite a strong labour market which has seen the unemployment rate hovering around lows not witnessed since the 1970s, and the highest rate of real wage growth since 2016.

With uncertainty over the future of the UK's relationship with the EU still widespread, consumers are suffering from reduced confidence. No doubt, the desire to pay down some existing debts in the face of higher economic uncertainty and the return to rising interest rates will have been contributing factors. The latest GDP growth estimate for the three months to November shows growth slowing to 0.3%, reflecting a softening in a number of sectors and a weaker outlook for the UK across Q4 and into 2019.

Figure one: Monthly growth rates by sector of the UK economy, latest three months on previous three months. Source: Office for National Statistics.



# SMALL BUSINESS INDEX

## Small business confidence falls to the lowest level since Q4 2011

Business confidence among small firms fell for the second consecutive quarter in Q4 2018. The FSB Small Business Index dropped to -9.9, a fall of 8.2 points from the -1.7 recorded in the third quarter. Year-on-year the index fell by 7.4 points, reaching the lowest level since Q4 2011. This represents the third lowest index reading recorded since its inception in 2010.

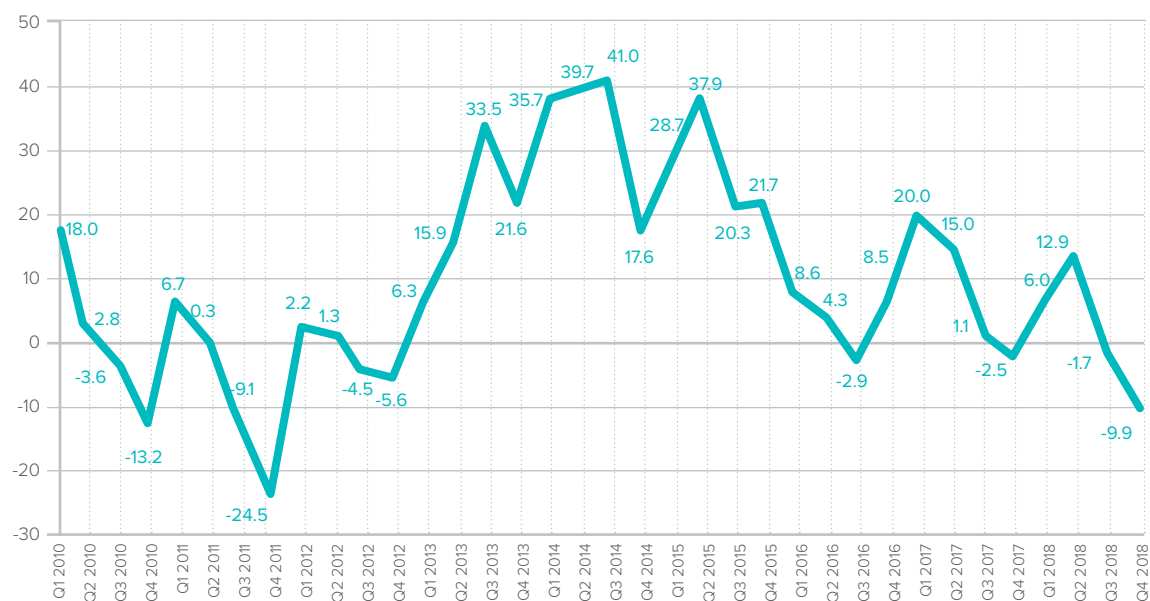
The UK services Purchasing Managers' Index (PMI) also fell to 51.2 in December, only marginally higher than November's 50.4 which was a 28-month low.

Survey respondents suggested that Brexit uncertainty was affecting customer decisions. The construction PMI was also subdued, falling from 53.4 in November to 52.8 in December. In contrast the manufacturing PMI showed a modest improvement.

While current surveys paint a mixed picture across different sectors, the outlook for the economy is clearly subdued. The corrosive effect of uncertainty regarding the UK's future relationship with Europe on business confidence and investment is increasingly apparent.

Figure two: The FSB Small Business Index<sup>1</sup>: small business prospects over coming three months

Source: FSB - Verve 'Voice of Small Business' Panel Survey.



1. The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' The share of firms reporting 'much improved' are given the following weightings: +2, slightly improved +1, approximately the same 0, slightly worse -1 and much worse -2; the Small Business Index is derived from the sum of these factors.



Figure three: Year-on-year change in the FSB Small Business Index.  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.

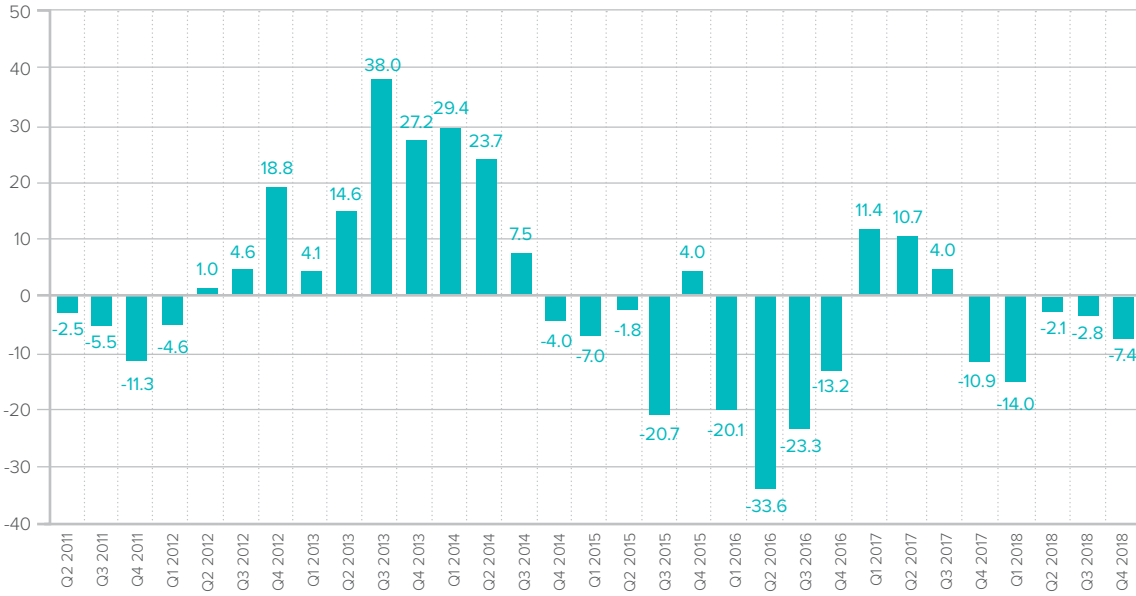
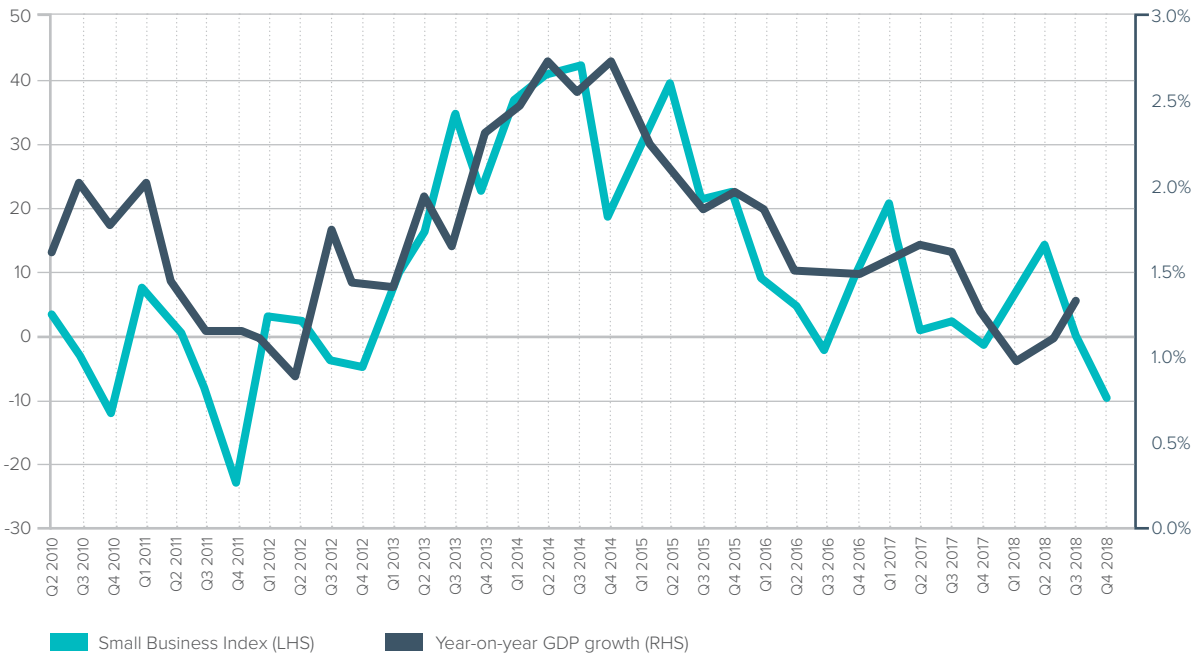


Figure four: UK SBI against year-on-year UK GDP growth.  
Source: ONS, FSB - Verve 'Voice of Small Business' Panel Survey.



# REGIONAL SMALL BUSINESS INDICES

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Optimism drops across the UK

# CONFIDENCE DECLINES IN MOST OF THE UK'S NATIONS AND REGIONS

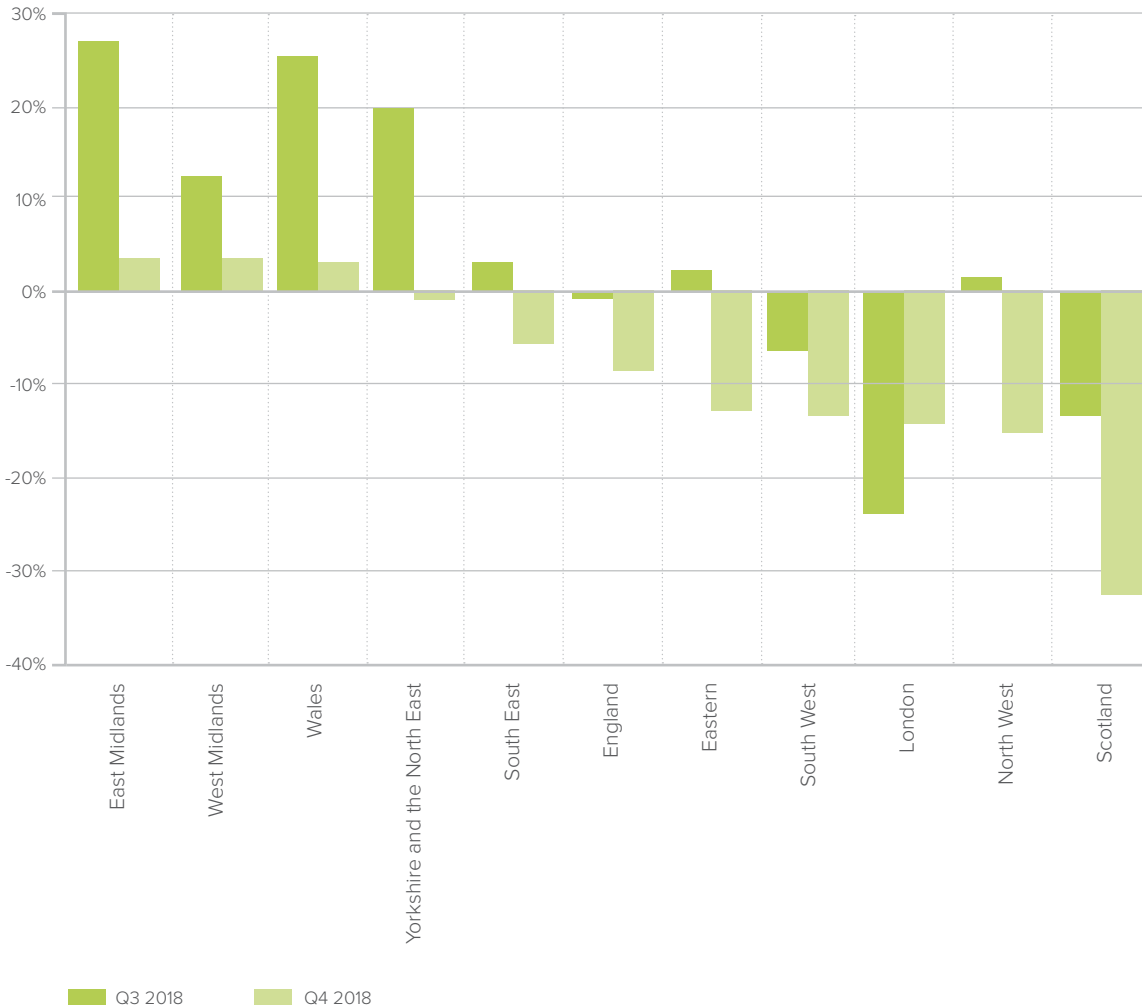
Small business confidence declined in almost every region of the UK between Q3 and Q4 2018. The only region in which confidence saw an improvement was London, where the outlook became only slightly less negative, rising to -14.6 from -24.0. This brings the capital slightly more in line with other UK regions, although confidence in London is lower than everywhere bar the North West and Scotland, where the index sits at -15.6 and -32.7, respectively.

Confidence in each of the East Midlands, Wales and Yorkshire & the North East regions fell by over 20 points between Q3 and Q4. The upshot of this development, coupled with the less pessimistic outlook recorded in London, is closer alignment of the confidence levels across the different regions and nations of the UK. The difference between the most confident (East Midlands, +3.7) and least confident

(Scotland, -32.7) areas has narrowed to 36.4 points. The West Midlands and Wales are the only other areas in which confidence remains positive at +3.6 and +2.9.

The regions with the most negative small business confidence such as London, Scotland and the North West are typically the regions with economies most heavily skewed towards the services sector. For instance, the proportion of workforce jobs in the services sector was over 91% in London, and over 82% in both Scotland and the North West. By contrast, the highest proportion of workforce jobs in the production sector can be found in the East Midlands which, despite the largest quarter-on-quarter fall of any region at -23.0 points, remains at the top of the regional rankings for small business confidence.

Figure five: FSB Small Business Index – regional variation in small business confidence for the coming three months  
 Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# SMALL BUSINESS SECTOR INDICES

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Heavy industries take a hit

# CONFIDENCE TUMBLES AMONG MANUFACTURING AND CONSTRUCTION FIRMS

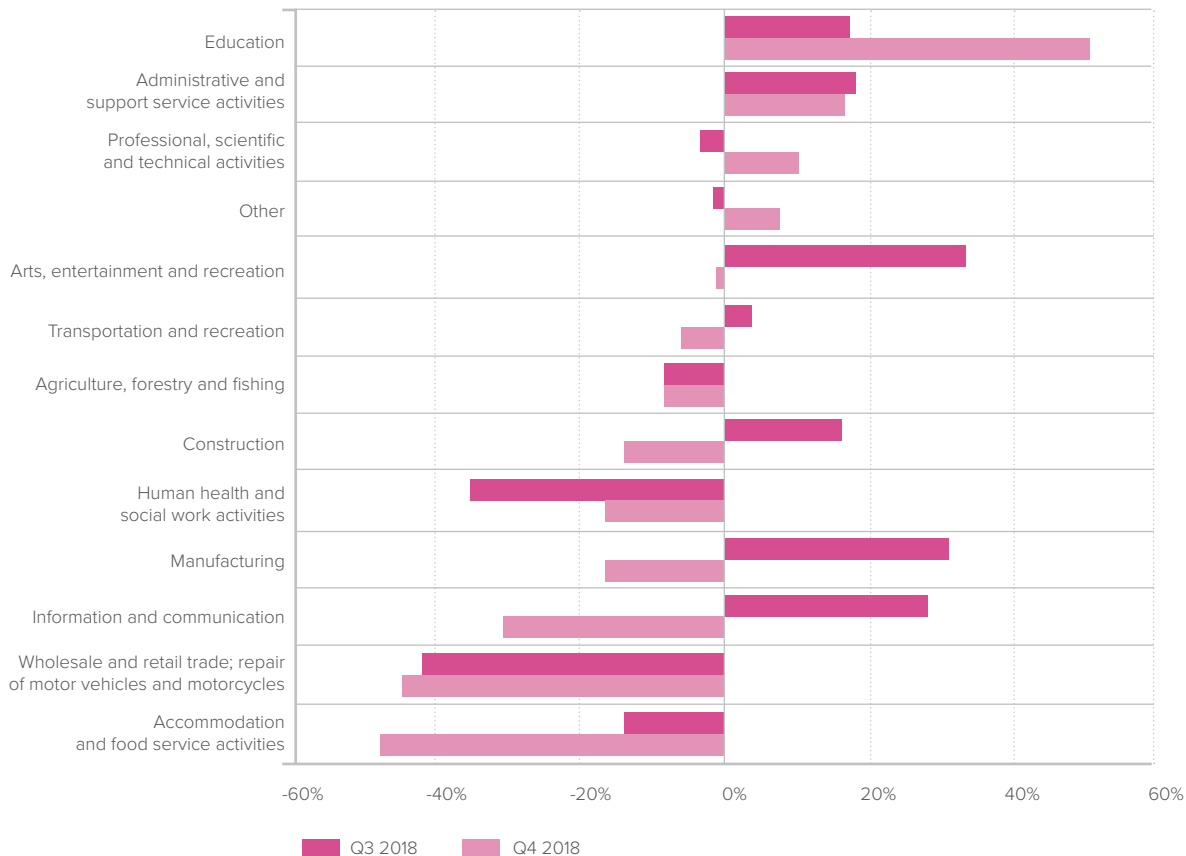
Confidence amongst small businesses in the UK's information and communication industry has collapsed by 58.5 points from +27.7 in Q3 to -30.8 in Q4 2018. The latest data also show confidence among small businesses in the construction and manufacturing sectors falling into negative territory from strong, positive positions. Construction firms registered quarterly growth in output of over 2% in Q3, and this was reflected in an FSB Small Business Index score of +16.0 for the same period. Ominously, the index has fallen to -14.0 in Q4, suggesting that the performance of construction firms has since worsened.

Likewise, manufacturing businesses report plunging confidence. The industry index score of +31.1 in Q3 was reduced to -16.4 in Q4, a 47.5 point decline. This

is the first time that small manufacturing businesses have seen their confidence index dip below zero since Q3 2016, in the immediate aftermath of the referendum result. With weakening global growth holding back export markets, and a disorderly Brexit that could affect cross-border supply chains and the cost of inputs still considered a plausible outcome, the perceived risks to manufacturers are rising.

Conversely, the SBI for small businesses operating in the professional, scientific and technical activities space moved into positive territory with an increase of 12.6 points, bringing their index score up to +9.5 in Q4, compared to -3.1 in the previous quarter.

Figure six: FSB Small Business Index by sector – small business prospects over coming three months. Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# FINANCIAL PERFORMANCE

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Profitability down among  
small firms

# GROSS PROFITS FLAT OR FALLING FOR THE MAJORITY OF SMALL BUSINESSES

While 38.5% of small businesses experienced declining gross profits over the past three months in Q4, only 34.1% saw their profits increase. As a result, the net percentage balance of small businesses which saw gross profits rise was -4.4% in the quarter. This is a small improvement on the net balance of -5.0% in Q2 2018, although it marks the seventh consecutive negative quarterly reading of this measure, with the last positive score recorded in Q4 2015.

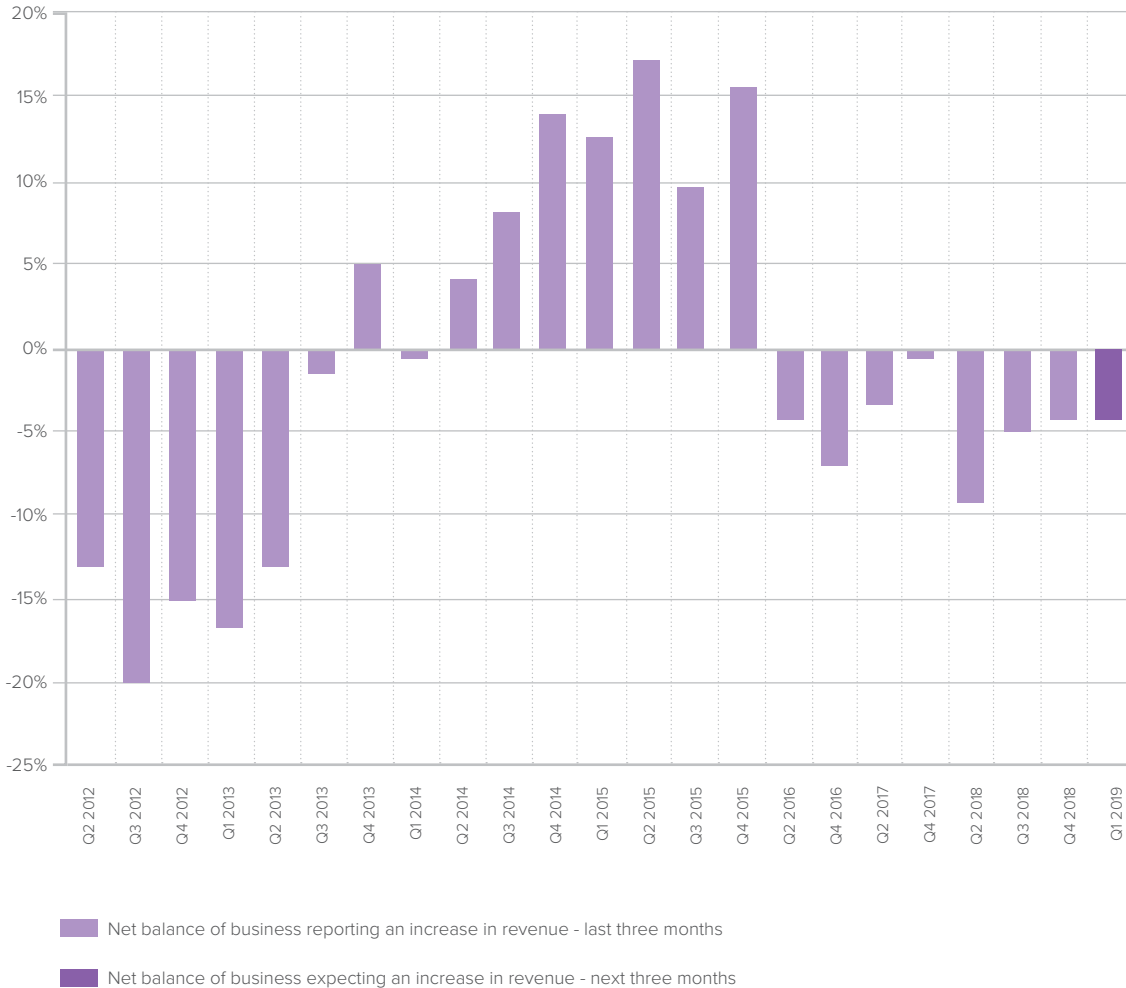
Small businesses in Scotland and the North West fared particularly badly, with net balances of -18.3% and -12.2% respectively reporting a rise in profits. The industry with the most positive financial performance

over the last three months was the information and communication sector, where a net balance of 2.0% of firms recorded growing profits. However, this sector is less optimistic regarding its prospects over the next three months, with a net balance of -1.7% of small firms expecting profits to rise next quarter.

Looking at profit expectations for small UK firms as a whole, profits are – on balance – expected to decline further over the next three months. A net balance of -3.1% of small businesses expect a decrease in profits in Q1 2019. This is well down on from the 8.2% recorded for small businesses expectations of their profits in Q3 2018.

Figure seven: Small business gross profits, net percentage balance – proportion reporting increase less proportion reporting decrease.

Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# EXPORTS

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International sales plummet



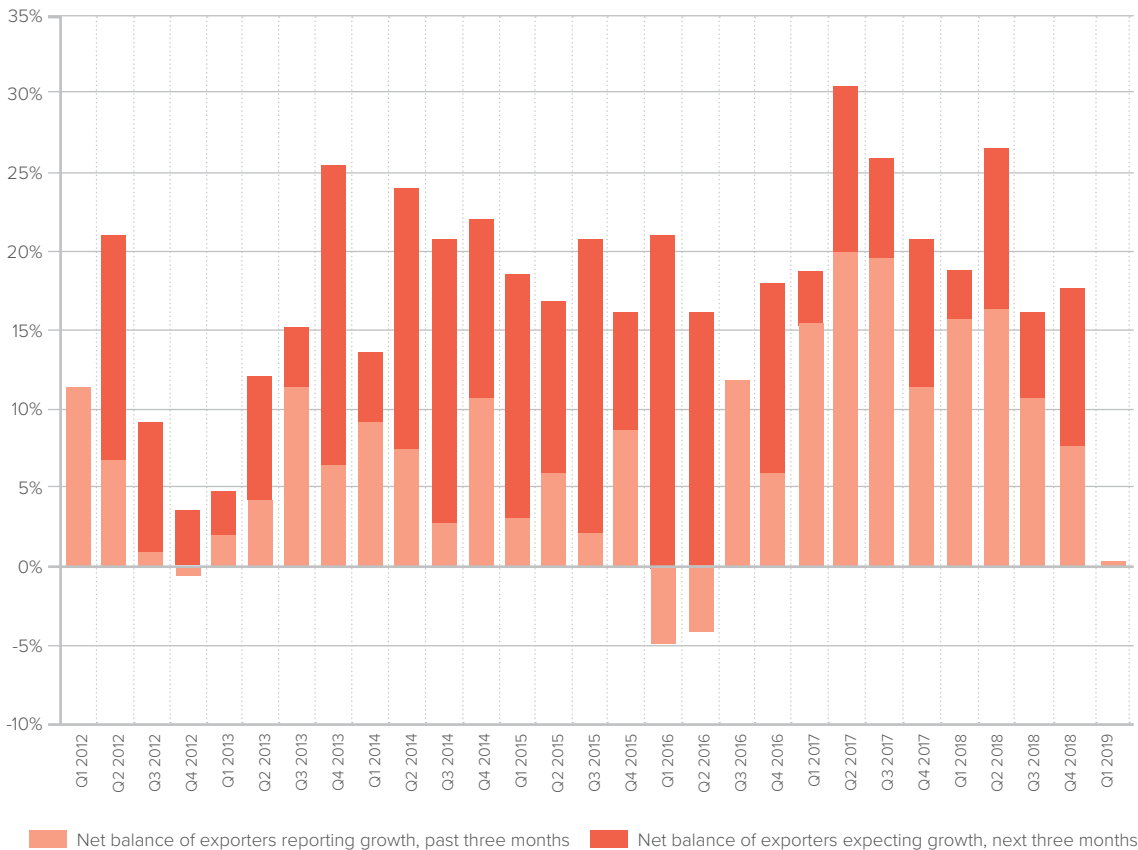
# EXPORT GROWTH SLOWS FOR SECOND CONSECUTIVE QUARTER

The net balance of small businesses reporting an increase in the value of their exports decreased for the second consecutive quarter to stand at 7.6%. This is down 3.1 percentage points from in Q3 2018 (10.7%). It is also down 3.9 percentage points compared to the same quarter in the previous year, Q4 2017 (11.5%).

Official statistics show that the total trade deficit, for goods and services, widened by £3.1 billion in the three months to October 2018. Total exports in the three months to October increased by £4.0 billion compared to the three months to July. In line with our findings, the level of export growth had slowed from £4.7 billion in the previous three-month period.

The net balance of firms expecting an increase in exports in Q1 2019 was 0.2%. This is the lowest score ever recorded in the FSB Small Business Index since this question was introduced in 2012. This highlights the extent to which uncertainty over the changing nature of the UK's trading relationships is impacting exporters in the run up to 29 March 2019 when the UK is officially due to leave the EU.

Figure eight: Changes in value of exports – previous three months and expectations for coming three months; net percentage balance, proportion reporting increase less proportion reporting decrease.  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# COSTS AND INFLATION

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Most small firms up against  
higher outgoings

# MAJORITY OF SMALL BUSINESSES SEE OPERATING COSTS RISE

A net balance of 63.2% of small businesses reported an increase in operating costs during the past three months compared with the same period a year ago. This is roughly in line with a general downward trend since Q4 2017 when the net balance was 4.5 percentage points higher, at 67.7%.

Labour costs remained the most frequently cited cause of rising costs for small businesses in Q4 2018 (42.7%). The net balance of small businesses referring to rising labour costs rose by 3.0 percentage points compared to Q3. Official data show that in the three months to October the number of unemployed people was down by 49,000 on the same period in 2017, bringing the unemployment rate down to 4.1% from 4.3% over the same period. Such low levels of unemployment are boosting the bargaining power of workers as firms have to compete to attract or retain staff and wages are starting to rise as a result. Official data show that in the three months to October average weekly earnings increased by 3.3%, the fastest rate in a decade.

There are signs of inflationary pressure building for small businesses as a result of the rising cost of inputs and the effect of a weaker exchange rate. Compared to Q3, the net balance of firms reporting an annual increase in costs as a result of these factors grew by 3.6 and 3.4 percentage points respectively. Nevertheless, the data also reveal that as global energy prices have stabilised this has reduced the net balance of firms that are experiencing higher fuel costs compared to the previous quarter to 34.1%. Other overheads such as rent and utilities are also less frequently cited as sources of cost pressure.

Figure nine: Small businesses reporting an increase in overall cost of operation over past three months, compared with the same period a year ago; net percentage balance.  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.

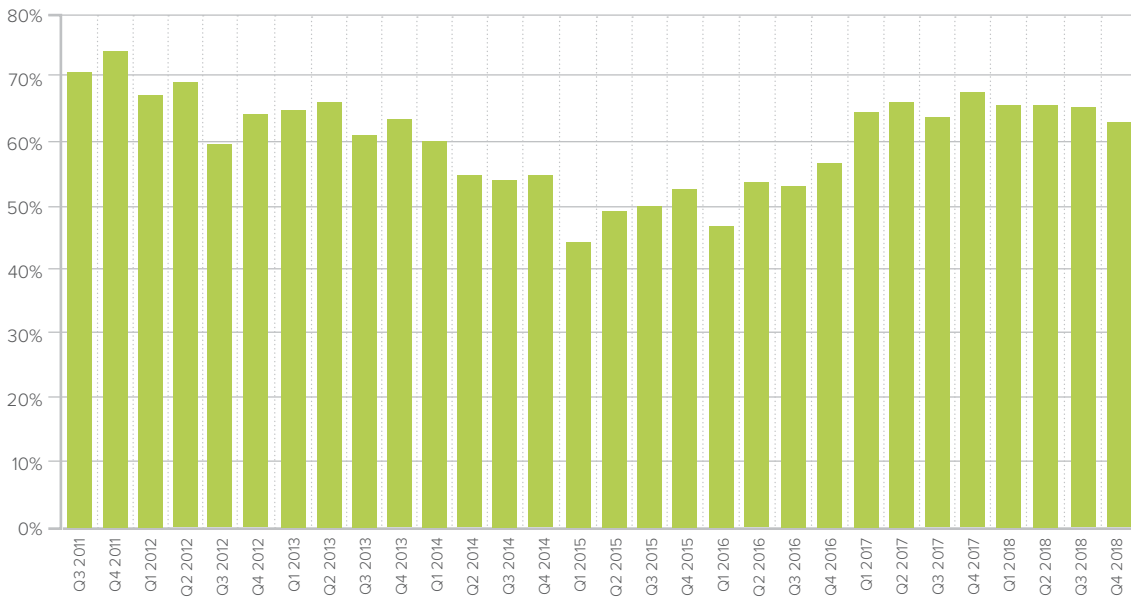
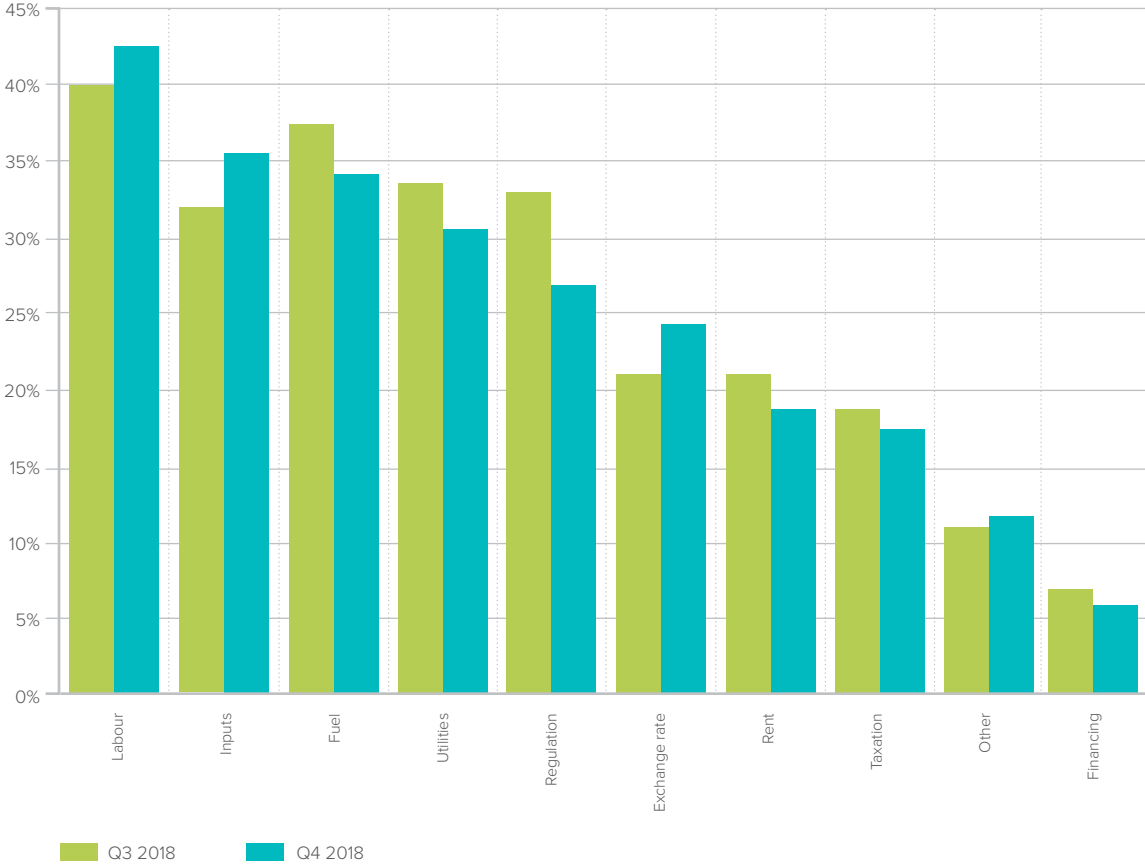


Figure 10: Main causes for changing business costs (firms may give multiple answers).  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# CAPACITY

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Less spare capacity among  
small firms

# SPARE CAPACITY CONTINUES TO DECLINE BUT FURTHER FALLS APPEAR UNLIKELY

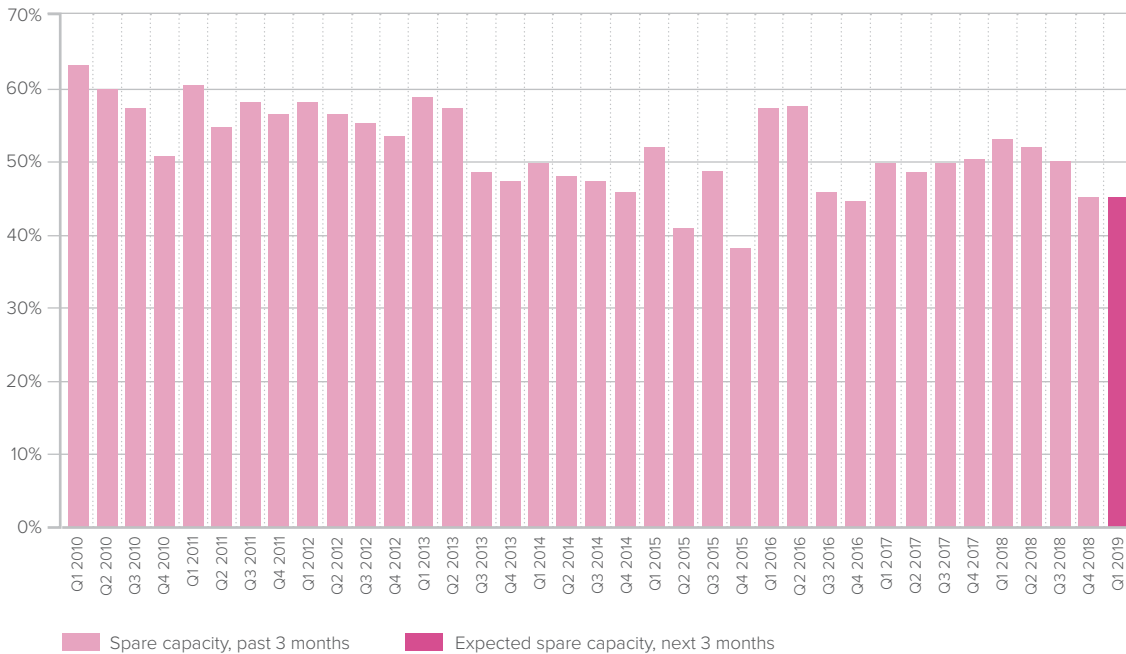
The latest survey results show that the share of small businesses operating below capacity declined for the third consecutive quarter. A net balance of 45.1% of firms operated below capacity in Q4 2018, a decline of 5.1 percentage points since the last quarter, and down 5.4 percentage points since Q4 2017. A net balance of 61.8% of small businesses in Wales had spare capacity in Q4, significantly higher than the UK average.

However, when looking ahead to the next three months, expectations of spare capacity have increased, compared to the results of the previous quarter. A net balance of 45.3% of small business

expect to be operating below capacity in the coming three months. This is up from a net balance of 40.9% recorded in Q3. The latest figure is also up by 0.2 percentage points compared to the actual (rather than predicted) level observed in the current quarter (45.1%).

This result is in line with generally weakening confidence among small businesses which expect tougher trading conditions. The weaker prospects for the next quarter offer fewer opportunities for those businesses currently operating below capacity to expand their output.

Figure 11: Net percentage balance of businesses running below capacity: proportion below capacity less proportion above capacity.  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# EMPLOYMENT

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Headcounts rise as labour  
market tightens

# SMALL BUSINESSES EXPAND THEIR WORKFORCE FOR TENTH CONSECUTIVE QUARTER

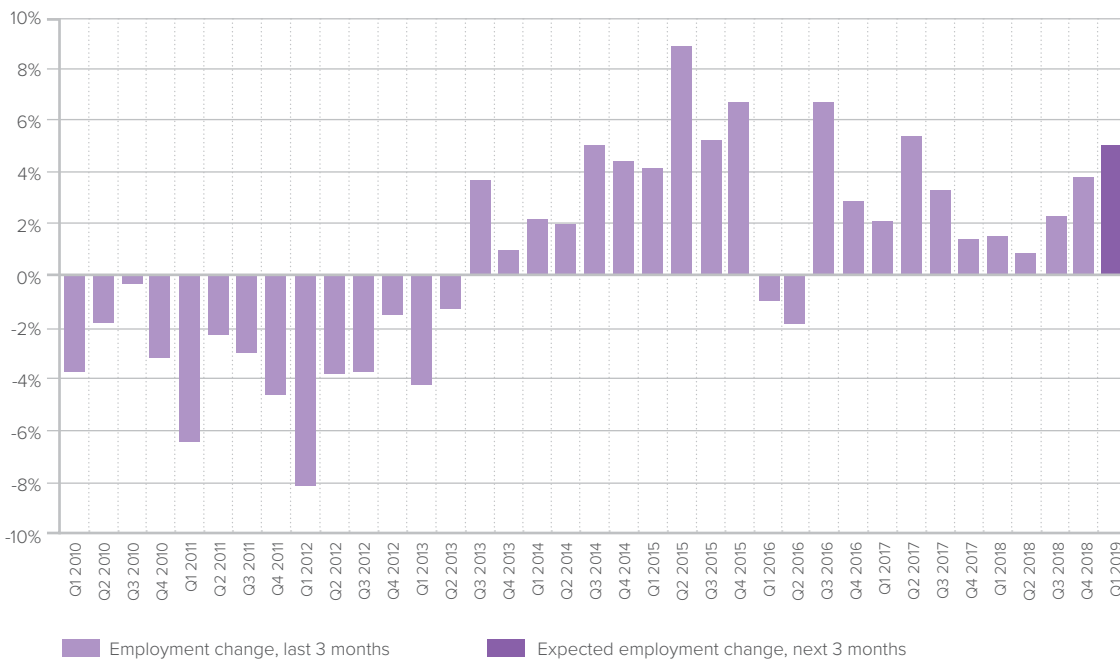
This quarter, a net balance of 3.9% of small firms report that they've increased the size of their workforce over the last three months. The level of small business employment growth has now been positive for ten consecutive quarters and the net balance increased by 2.5 percentage points compared to the same quarter last year, reaching the highest level since Q2 2017.

A net balance of 5.1% of firms expect to increase hiring activity in the first quarter of 2019. This marks a reduction in the balance of firms that expect to increase their headcount of 2.3 percentage points from the previous survey. This reflects the lack of confidence among small businesses in their potential for growth in the near term, as well as the scarcity of labour given the tight labour market.

Data released by the Office for National Statistics (ONS) show that in the three months to October 2018 the employment rate, i.e. the share of people aged 16-64 who are in work, was 75.7%, the joint highest rate since records began. Similarly, the economic inactivity rate was the joint lowest since 1971 at 21.0% while the unemployment rate was also at a historically very low rate of 4.1%. The combined impact is a shrinking pool of potential workers, making it hard for businesses to continue to fill positions quickly, dampening expectations around further hiring into 2019.

Figure 12: Net percentage balance change in number of people employed – proportion reporting increase less proportion reporting decrease.

Source: FSB - Verve 'Voice of Small Business' Panel Survey.



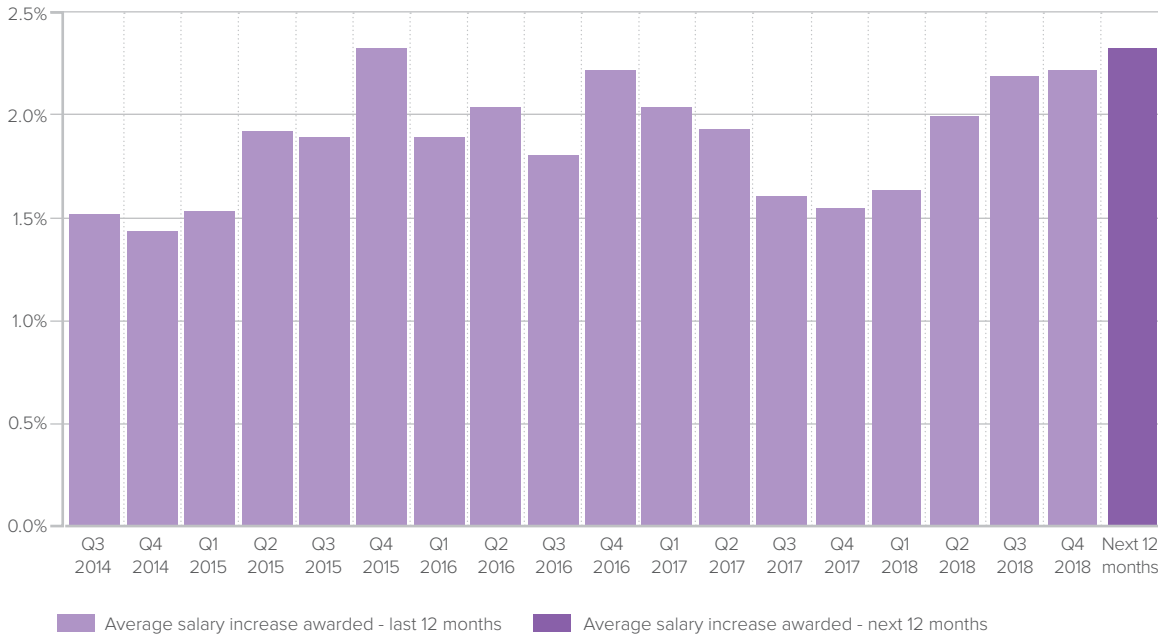


# SMALL BUSINESS WAGE GROWTH CONTINUES

This quarter, annual average small business wage growth was maintained at 2.2%. A higher proportion (68.0%) of firms offered pay rises over the last three months compared to the previous quarter (65.0%). These pay increases were reportedly slightly lower in the latest period, keeping the overall level of wage growth constant. This is in line with the frequent citation of labour as a cost driver, noted earlier this report. The rate of wage growth was last recorded at above 2.2% in Q4 2015 when it reached 2.3%.

Labour costs are likely to continue rising however, and small business owners expect to increase wages by 2.3% in the coming year. The latest ONS data show annual earnings growth in the three months to October was 3.3% across the UK, up from 2.5% for the same month a year earlier. The latest findings from the FSB Small Business Index suggest there may be further to go for earnings growth over the coming year.

Figure 13: Average salary increase awarded, current quarter versus a year before.  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# GROWTH ASPIRATIONS AND CHALLENGES

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Skills shortages start to bite

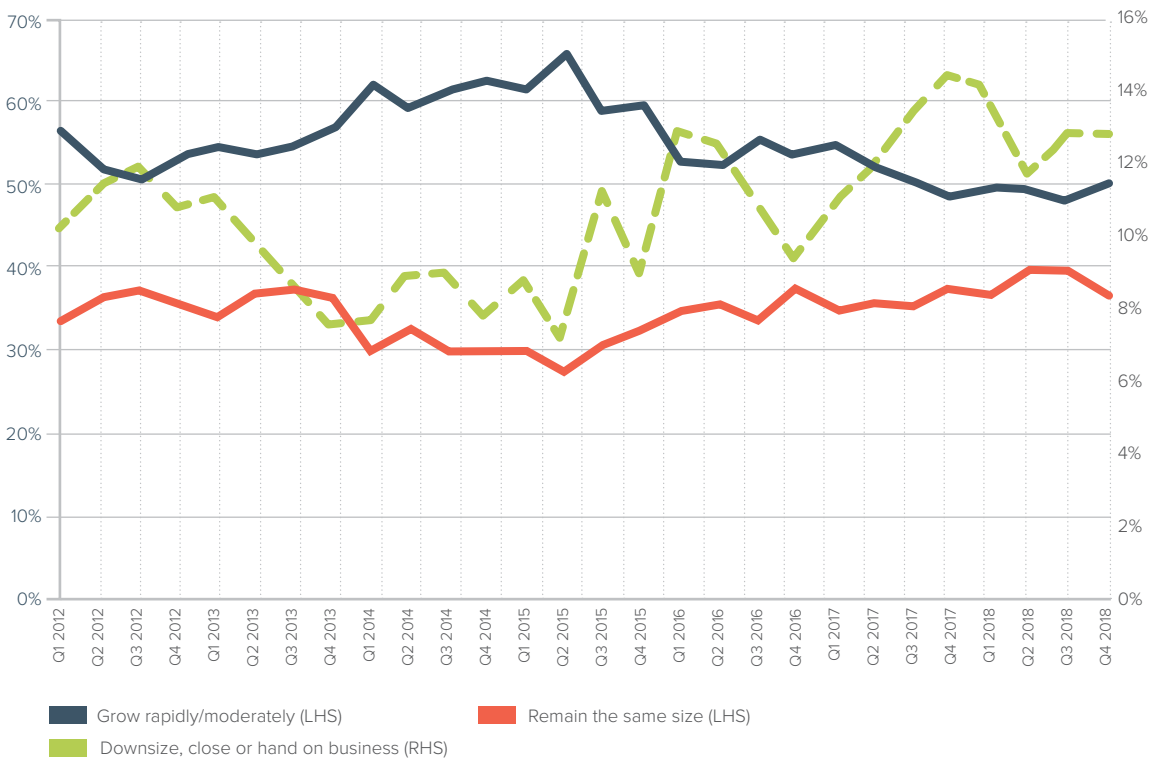
# GROWTH ASPIRATIONS RECOVER FROM Q3 LOW POINT

Despite the low levels of confidence indicated by the Small Business Index, more than half (50.4%) of small firms do still expect to grow over the next 12 months, an increase of 2.6 percentage points from 47.7% in Q3 (the lowest level ever recorded). This also marks an increase of 1.9 percentage points compared to Q4 2017.

Businesses in Yorkshire & the North East are the least optimistic about their growth prospects, with only 42.9% of firms aspiring to grow in the next 12 months. Small businesses in the East Midlands were much more positive, with 54.6% of these holding growth aspirations.

The share of small business owners planning on downsizing, closing or handing on their firm stayed relatively flat, increasing only 0.1 percentage points to 12.8%.

Figure 14: Growth aspirations for next 12 months.  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# AVAILABILITY OF SKILLED LABOUR THREATENS SMALL BUSINESS GROWTH

The domestic economy has consistently been the most frequently cited barrier to growth for small businesses in recent years. In the latest survey, the proportion of small businesses holding concerns about UK economic performance rose by 3.2 percentage points compared to the same period the previous year. Compared to the previous quarter, the figure fell by 1.9 percentage points.

Similarly, the number of businesses that believe consumer demand is a barrier to expansion fell by 3.4 percentage points to 29.1%, the lowest response rate for this category ever recorded. Even having fallen to this historically low level, it remains the third most important concern for small businesses, and is particularly relevant to those in wholesale and retail, where it was cited by 48.9% of firms. Despite higher wage growth, low levels of consumer confidence

and the slower pace of growth in consumer credit recorded by Bank of England are factors behind the concerns of consumer-facing industries.

Compared to the previous quarter, more small businesses are reporting access to finance (11.2%) and the cost of finance (6.1%) as barriers to growth, most likely as a result of the Bank of England's recent decision to raise interest rates.

However, concerns around finance remain much less important than concerns about the availability of appropriately skilled staff, which also rose between Q3 and Q4. The 1.9 percentage point increase in the share of firms citing this as a barrier to growth, to 36.2%, is in line with official data that show unemployment at near record lows and slowing international migration reducing the pool of available skilled workers.

Figure 15: Potential barriers to achieving growth aspirations – multiple answers possible.  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.

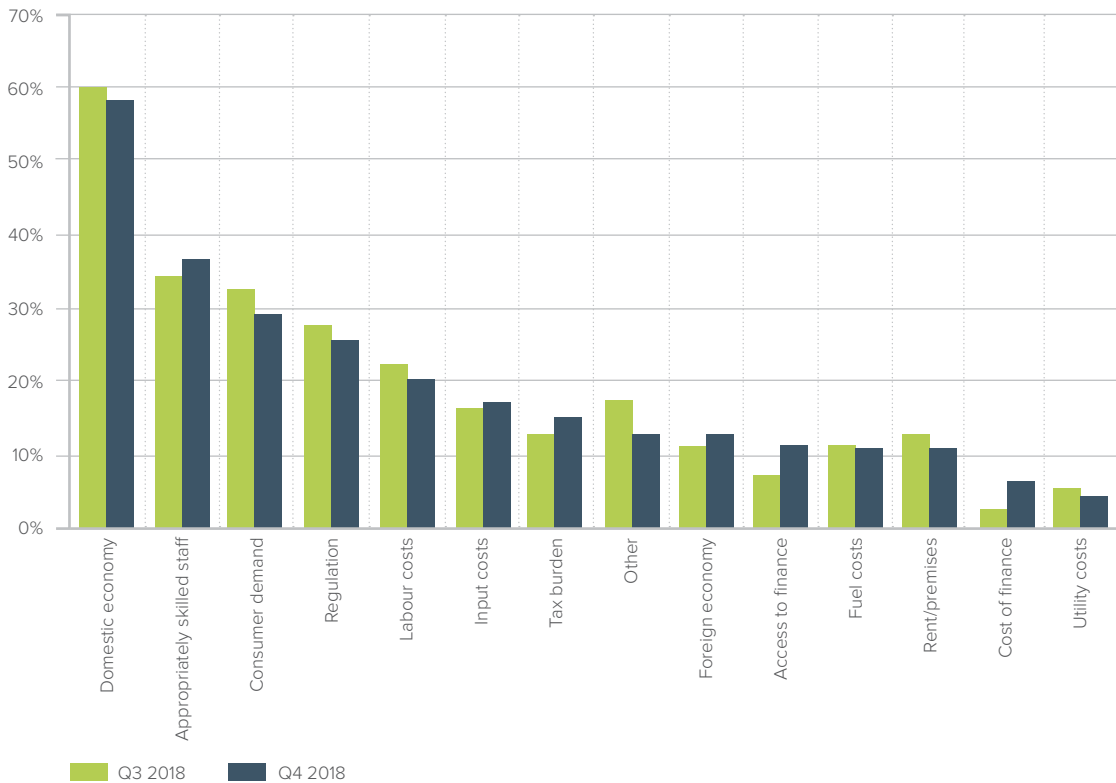
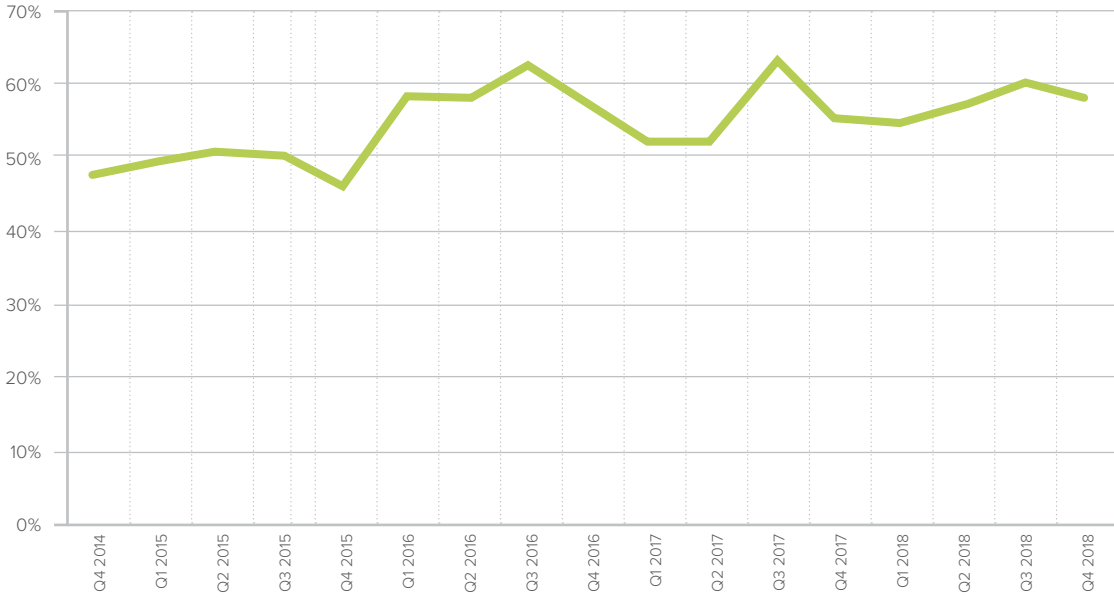


Figure 16: Share of businesses citing the domestic economy as a barrier to achieving growth aspirations  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



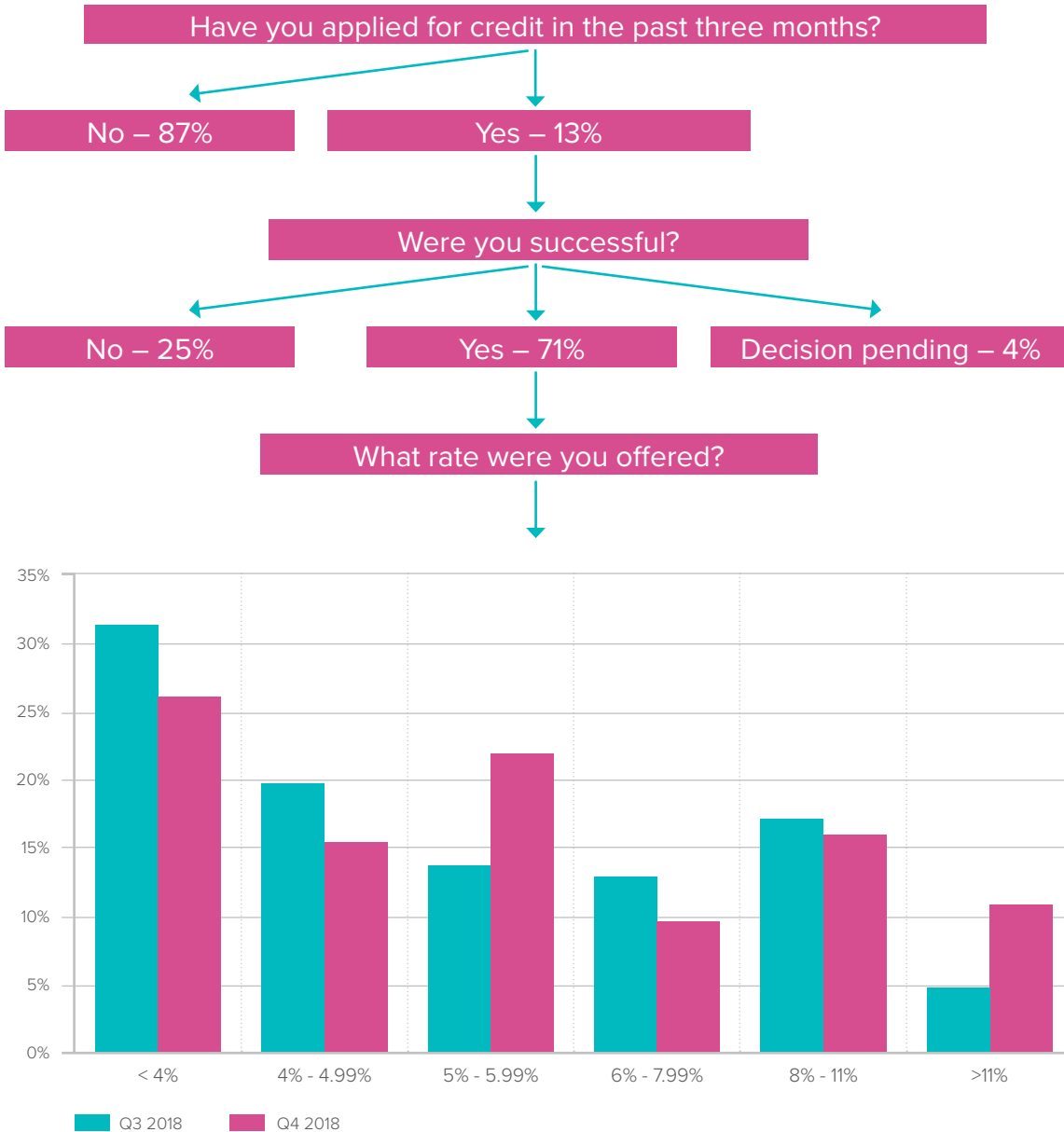
# CREDIT

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Borrowing rates surge for  
successful applicants

# FEWER BUSINESSES APPLY FOR CREDIT

Figure 17: Credit applications and interest rates offered.  
 Source: FSB - Verve 'Voice of Small Business' Panel Survey. Respondents were able to give multiple answers to this question.



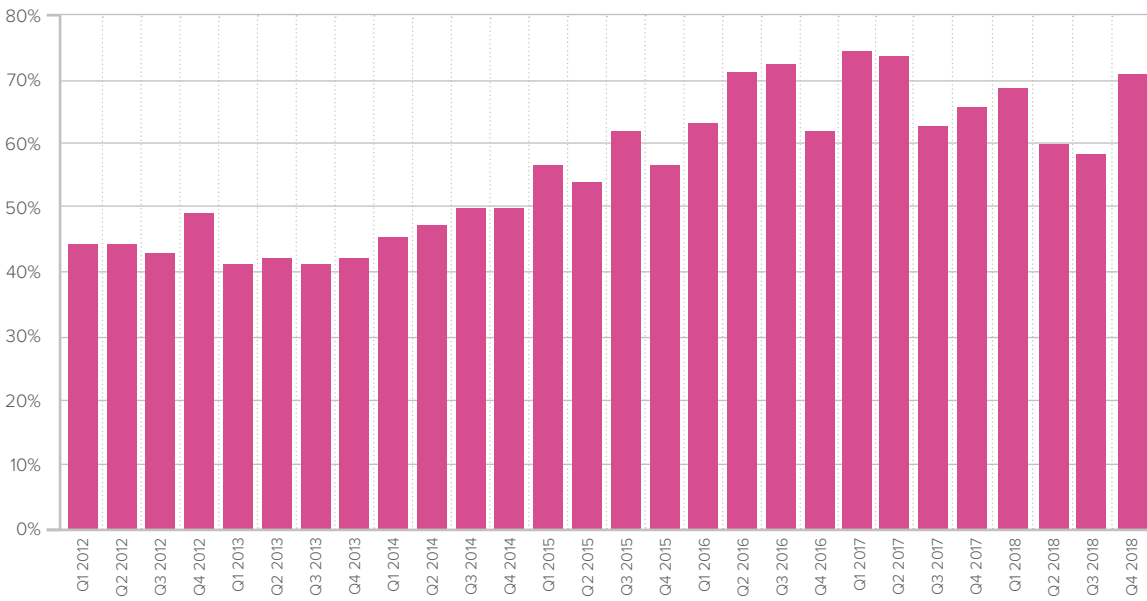
This quarter, the proportion of small businesses successful in their credit applications stands at 71%, up by 13 percentage points on the third quarter of 2018. 25% saw their applications declined as the proportion

of businesses unable to gain access to credit fell by five percentage points. 4% of credit applicants listed their status as decision pending, an 8.0 percentage point reduction from Q3.

The proportion of businesses being offered a borrowing rate of up to 4% has fallen by 12.5 percentage points in the past year, from 38.5% in Q4 2017 to 26.0%. Similarly, the proportion of firms that have been offered an interest rate of over 11% rose to

10.9%, a 6.9 percentage point increase on the same time period. This follows the Bank of England raising interest rates to 0.75% in August, the highest level since March 2009.

Figure 18: Proportion of small businesses successful in their credit applications in the past three months.  
 Source: FSB - Verve 'Voice of Small Business' Panel Survey.





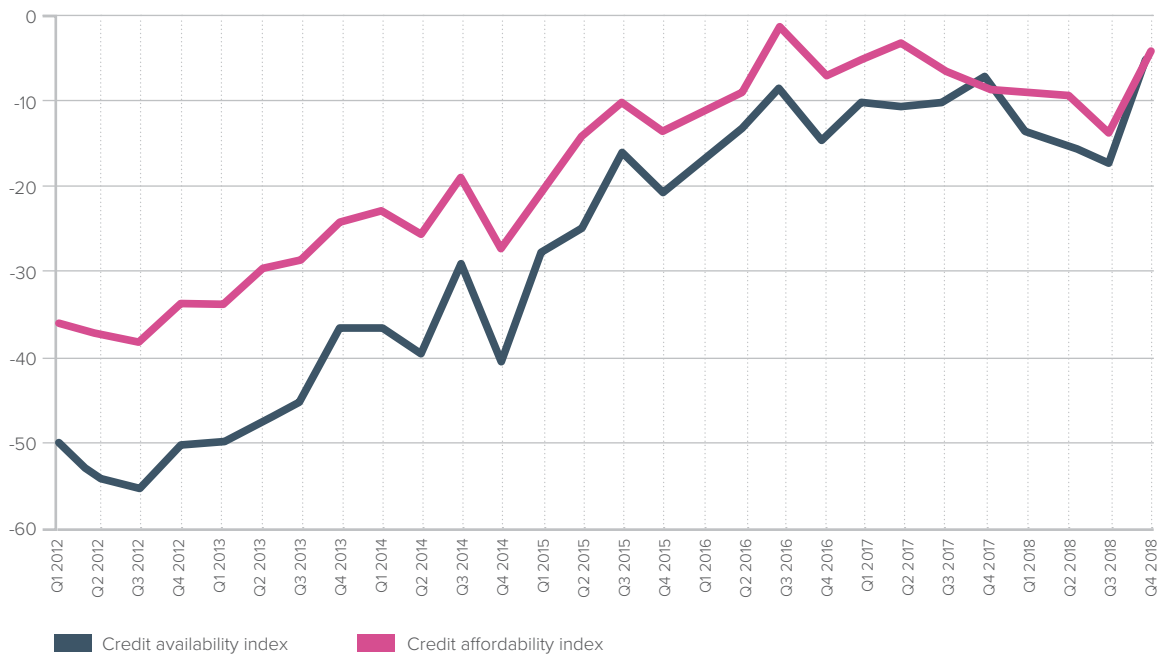
# CREDIT AVAILABILITY INDEX REACHES ITS HIGHEST LEVEL

This quarter, the FSB credit affordability and credit availability indices both increased significantly. While interest rates have increased in recent times, they still remain historically low and competition among lenders may still be providing businesses with good deals.

The credit availability index rose to its highest level in Q4 2018 with the proportion of firms rating the availability of credit as good or very good increasing by 6.1 percentage points to 30.2% over the last quarter.

Figure 19: Indices of credit affordability/availability perceptions over time, a weighted net balance of those with negative responses subtracted from those with positive responses.

Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# INVESTMENT AND PRODUCTIVITY

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Future plans on ice amid  
political uncertainty

# SHARE OF BUSINESSES EXPECTING TO DECREASE INVESTMENT RISES

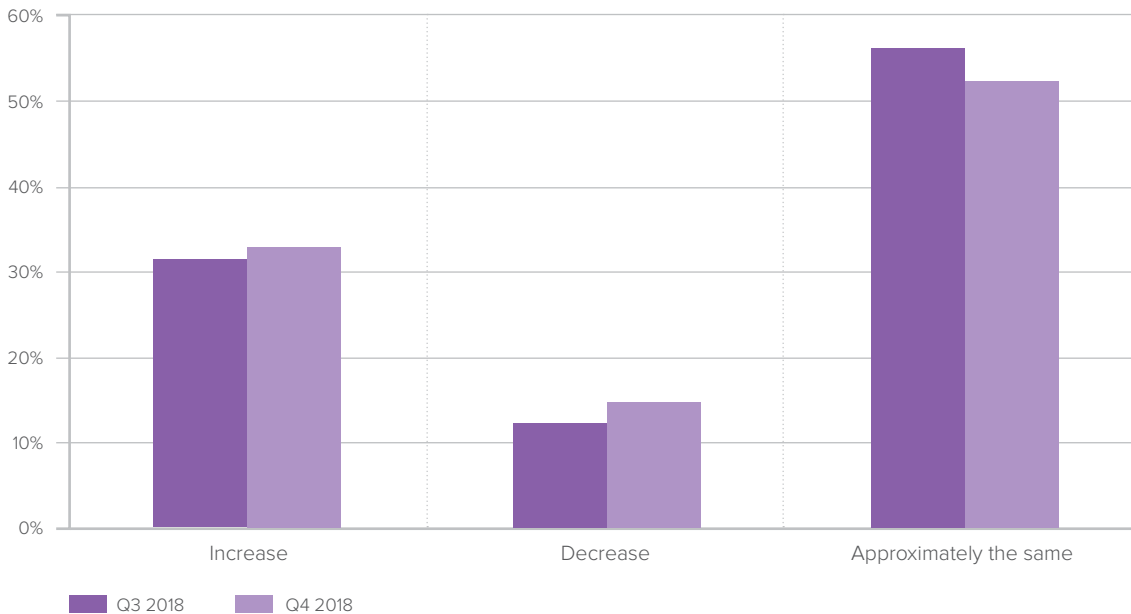
The share of firms expecting to decrease capital investment over the coming quarter increased by 2.6 percentage points compared to the third quarter of 2018 and now stands at 14.9%. This is also 1.3 percentage points higher than in the same period last year. By contrast, the share of firms intending to increase their level of investment rose by only 1.2 percentage points over the quarter, to stand at 32.7%.

Official statistics, published by the ONS, show that business investment fell for the third consecutive quarter in Q3 2018. At 1.2%, the decline between Q2 and Q3 was the fastest since Q1 2016 and survey data suggests this represents significant uncertainty

around the political situation and Brexit. Once the UK has more clarity around its future trading relationship with the EU and the government returns its focus back to domestic policy, the investment environment should become clearer.

The fall in the proportion of small businesses planning to maintain their current level of investment, to 52.4%, down from 56.2% in the previous quarter, suggests that firms expect a change to the status quo in the coming period, although there is no consensus as to whether the final outcome will be supportive of further investment or not.

Figure 20: Proportion of small businesses expecting to increase and decrease capital investment over next quarter, compared with the previous quarter.  
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



# METHODOLOGY

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This report is based on the Q4 2018 research survey of FSB members carried out by Verve. 6,216 panel members were invited to take part in an online survey as well as through an open link shared with FSB members. Reminders were sent to all non-respondents. 1064 responses were received, a response rate of 17% for the panel. The data are weighted by regional gross value added to match the profile of small businesses across the UK. The survey was undertaken between 19th November and 3rd December 2018.

# SUMMARY DATA TABLE

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Small Business Index	20	15	11	-2.5	6	12.9	-1.7	-9.9
Employment - previous three months	2.1%	5.3%	3.2%	1.4%	1.6%	0.8%	2.3%	3.9%
Employment - coming three months	11.3%	10.3%	9.4%	2.9%	8.7%	8.2%	7.4%	5.1%
Exports - previous three months	15.6%	20.0%	19.5%	11.5%	15.8%	16.5%	10.7%	7.6%
Exports - coming three months	30.4%	25.8%	20.5%	18.8%	18.8%	16.0%	17.8%	0.2%
Credit availability - rated good or very good	25.8%	28.0%	24.1%	26.0%	24.1%	21.9%	24.1%	30.2%
Credit availability - rated poor or very poor	36.4%	37.9%	35.2%	31.7%	39.3%	40.0%	42.5%	34.4%
Credit affordability - rated good or very good	29.1%	30.4%	28.8%	24.8%	25.3%	25.4%	23.7%	32.2%
Credit affordability - rated poor or very poor	36.1%	33.2%	38.3%	36.1%	39.2%	35.3%	41.7%	36.1%

The Small Business Index weights strong responses (much improved or much deteriorated conditions) double and subtracts the weighted proportion of firms reporting deterioration in business prospects over the coming three months from the weighted proportion expecting an improvement.

The Employment and Revenue indicators are net percentage balances, with the proportion of firms reporting a decrease subtracted from the proportion reporting an increase.

Responses are also weighted according to regional gross value added.

# Q4

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