

# SCOTLAND Q1 2019 SMALL BUSINESS INDEX

**Scottish small business confidence remains depressed as the UK index recovers limited ground.** In the first quarter of 2019, the FSB Scottish Small Business Index (SBI) fell 1.8 points to -34.5. This is the third consecutive quarterly fall in the confidence barometer and brings Scottish sentiment to another new record low.

Across the UK as a whole, the small business confidence index rose by 4.9 points in Q1 to -5.0. Alongside the decline in confidence, a larger proportion of Scottish small businesses saw revenues fall rather than rise in the latest quarter. This measure last showed a positive reading in Q3 2016 when a net balance of 3.4% of businesses recorded higher revenues.

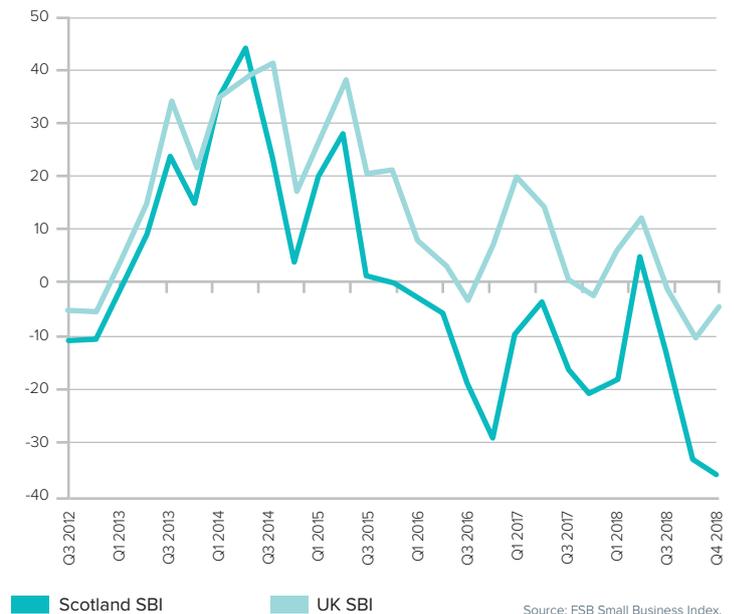
Business costs also rose for the majority of Scottish small businesses in the 12 months to Q1 2019. Higher input costs were the most significant driver of cost increases during the quarter.

**UK small business confidence rose in Q1 despite regional divergences.** The SBI for the UK as a whole rose from -9.9 in Q4 2018, to -5.0 in Q1 2019. Although the overall index rose over the latest quarter, confidence has moved in opposite directions in different nations and regions of the UK, increasing the gap between the most (Yorkshire and the North East, +18.9) and least confident (Scotland, -34.5) areas to 53.4 points. Year-on-year, the UK-wide index fell by 11.0 points, and (excluding Q4 2018) remains lower than every other quarter since Q4 2012. Perhaps paradoxically, the quarterly uptick in confidence coincided with disappointing economic growth of 0.2% in the three months to January 2019. The first quarter of 2019 had been expected to mark the end of two and a half years of uncertainty over the way the UK will leave the EU. With so little progress made in the UK Parliament (certainly when the field work was carried out), almost all outcomes remained plausible, allowing businesses from different regions of the UK to form markedly different expectations of the most likely scenario and its consequences.

**Small businesses in Scotland report weaker revenues over the past three months.** A negative net balance of -20.2% of small businesses in Scotland reported that their revenues had risen over the last three months. This is a dramatic decline of 12.5 percentage points on the -7.7% balance from Q3 2018. Expectations for the coming three months show that Scottish small businesses hold a less gloomy view of Q2 2019, with the net balance of firms expecting revenues to increase moving back towards balance at -10.0%.

This latest fall in the revenue net balance means more Scottish small businesses have reported revenues falling than rising in every quarter the question has been asked since Q3 2016. The Scottish economy had more or less flat-lined in 2016 and until the middle of last year had been performing worse than the UK average since 2014. It should therefore not perhaps come as a major surprise that this has fed through into weaker revenue growth for small businesses.

**Small Business Confidence**



Source: FSB Small Business Index.

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



Source: FSB Small Business Index

**Small business employment continues its fall into Q1 2019.** The small business employment net balance fell by 6.5 percentage points over the last quarter. In Q1 2019, the net balance was -9.9%, as a larger proportion of small businesses reduced their workforce than saw it rise. This extends the run of negative employment growth on this indicator to seven consecutive quarters.

At the same time, official labour market statistics for Scotland show the labour market is in good health, with an unemployment rate of 3.4% in the three-months to January 2019, 0.5 percentage points below the UK rate. Over the same time period the inactivity rate was 22.0%, an increase of 0.1 percentage points compared to the previous year. This stands in contrast to the UK figure, where inactivity has fallen to a record low of 20.7%. Scotland's population is older than the UK average and even though the very low unemployment rate implies that opportunities are available for those seeking work, the proportion who have withdrawn from the labour market is higher leaving employers to draw from a smaller pool of labour. A net balance of 3.3% of Scottish firms expect to increase employment levels over the next three months, below the UK average of 7.0%.

**Input costs rise to the top of Scottish businesses cost concerns.**

In Q1 2019, the net balance of small businesses in Scotland that saw costs rise over the last three months stood at 71.7%, up from 66.8% in Q4 2018. This was above the average for the UK as a whole (70.6%).

Q1 also saw a 13.8 percentage point increase in the proportion of small businesses that had experienced rising cost pressure from their inputs, now standing at 51%. Between Q4 2018 and Q1 2019, the research also shows large increases in the proportion of Scottish small businesses who considered regulation and taxation as drivers of further cost increases. Regulation was referenced by 31% of businesses, an increase of 12.8 percentage points over the previous quarter.

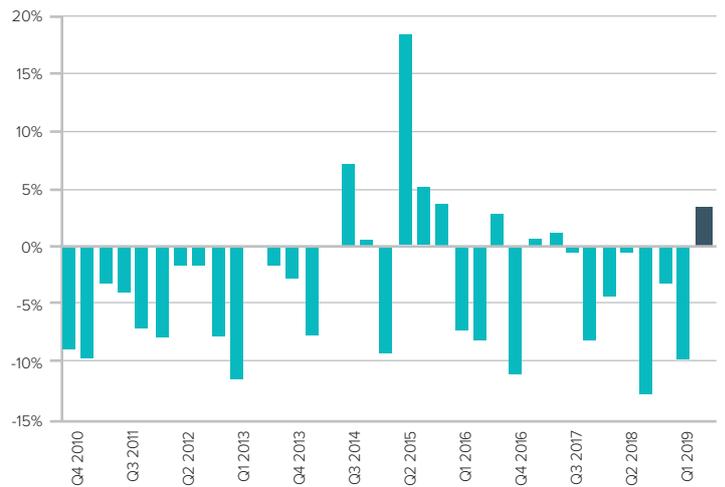
Despite the decline in global oil prices towards the end of 2018, fuel was still listed as the third most important source of cost pressure for Scottish small business (40.0%).

**Small businesses in Scotland are more likely to be operating at below capacity.** In the first quarter of 2019, a net balance of 62.1% of small firms in Scotland reported that they operated at below capacity over the last three months, a 13.6 percentage point increase on the 48.5% recorded in Q4 2018. This was higher than the average spare capacity net balance for the whole UK, which stood at 52.2%.

Scottish businesses are also more pessimistic than their counterparts around the rest of the country regarding spare capacity over the next three months. The net balance of 52.2% for Scotland on this forward looking measure indicates that a higher proportion of Scottish business feel they will be operating at below full capacity compared to the total across the UK (44.5%).

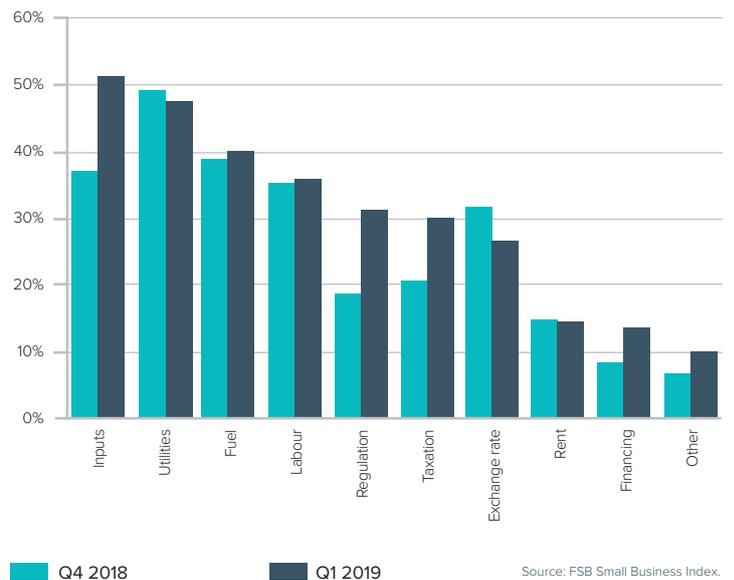
Meanwhile, the proportion of Scottish small business owners that plan to downsize, close or hand on their business over the next 12 months is 20.7%, almost twice the rate of small businesses in the UK as a whole (10.9%). Furthermore, the proportion of Scottish firms that intend to grow is lower at 42.2%, compared to the 49.8% UK average.

**Net balance of firms reporting employment growth, Scotland**



Source: FSB Small Business Index

**Share of firms reporting factor as main cause of change in business cost, Scotland**



Source: FSB Small Business Index.

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