

SCOTLAND Q2 2019 SMALL BUSINESS INDEX

Scottish small business confidence has risen sharply, in contrast to elsewhere in the UK. In the second quarter of 2019, the FSB Scottish Small Business Index (SBI) jumped from -34.5 points to +3.0 points. This is the highest reading since Q2 2018 and marks just the second positive reading of the index since the end of 2015.

Across the UK as a whole, the small business confidence index remained in negative territory, falling 3.8 points in Q2 to -8.8.

This quarter, a net balance of 49.5% of small businesses in Scotland reported that they operated at below capacity over the last three months, a 12.6 percentage point decrease on the 62.1% recorded in Q1 2019.

Interestingly, despite the rise in confidence, a net balance of -12.1% of small businesses in Scotland reported that their profits had risen over the last three months. While this is an improvement on the -18.3% of small firms reported in Q4 2018, the reading has remained negative in every quarter since Q2 2015.

Utility costs were the top driver of small business overhead increases in Q2 2019 – with almost half (49.3%) of businesses experiencing rising cost pressure from this quarter (up 1.5 percentage points on the previous quarter).

Across the UK, small business confidence fell over the last three months. The UK-wide SBI index fell 3.8 points quarter-on-quarter, down from -5.0 in Q1 2019, to -8.8 in Q2 2019. The Scottish SBI, on the other hand, was up an impressive 37.5 points to +3.0 in Q2 2019. Northern Ireland declined almost 61 points to -35.7 in Q2, the biggest move in any direction across the UK. London was the most pessimistic region in England, at -30.6 points.

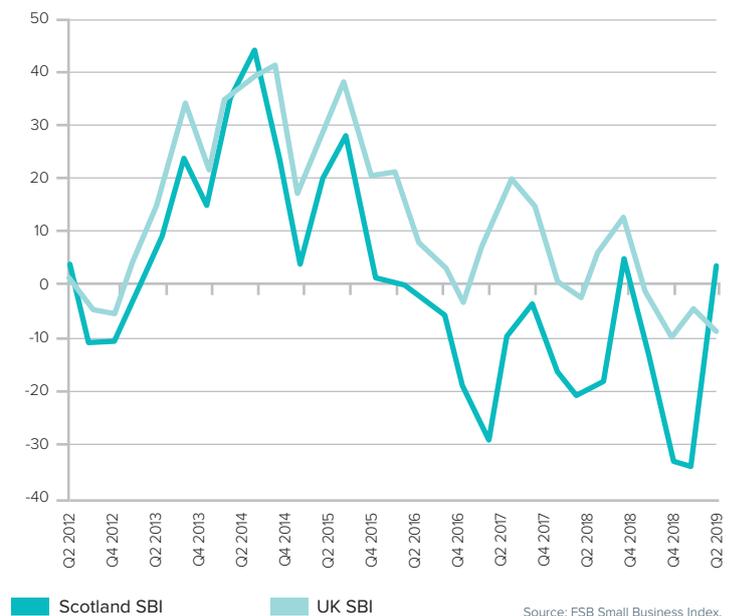
In the midst of a general decline in business sentiment, Scotland's rise in business confidence comes as something of a surprise, but could be explained by the higher share of small firms in Scotland expecting an improvement in capacity utilisation over the next three months. Alternatively, the Brexit extension in April may have let businesses in Scotland – who were particularly concerned about staffing issues once free movement comes to an end – breathe a sigh of relief that the threat of leaving the EU without a deal had receded for the immediate future.

More small businesses in Scotland reported improving profits in the past three months, although the net balance remains negative. More businesses are still seeing profits fall than rise – continuing the position in every quarter since Q2 2015. A net balance of -12.1% reported that their profits had risen over the last three months. That said, this is an increase of 6.2 percentage points on the -18.3% figure from Q4 2018.

Although there was a modest pick-up in activity in April, overall, Scotland's private sector suffered a drop in output for the fifth time in six months in May, which partly explains the continued negative net balance.

More positively, small businesses in Scotland anticipate to see profits grow as they head into Q3 2019, with a net balance of 1.0% of firms expecting to be more profitable in the next quarter.

Small Business Confidence



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



Small business employment picked up in Q2 2019, with further growth anticipated in Q3. The small business employment net balance was -8.9% in Q2 2019, an increase of 1 percentage point over the last quarter. Although a larger proportion of small businesses still reduced their workforce than increased it, the outlook for Q3 2019 is positive.

The figures come amidst an improving Scottish labour market. In the three months to March, the unemployment rate was 3.3% in Scotland, lower than the UK average for the ninth month in a row.

Utilities overtake inputs as the top cost concern. In Q2 2019, the net balance of small businesses in Scotland that saw costs rise over the period stood at 68.3%, down from 71.7% in the quarter before. As was the case in the first quarter of the year, this was above the UK average (65.9%).

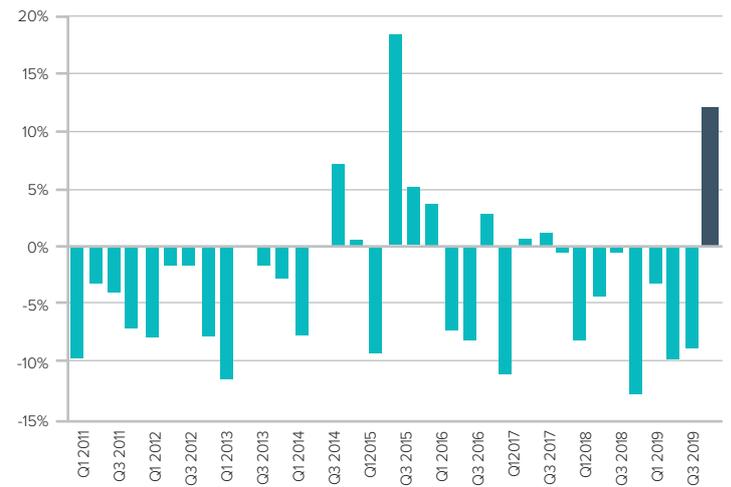
Utilities were the top driver of small business costs in Q2. 49.3% of businesses experienced rising cost pressures from this source in Q2 2019 – a significant 14.4 points higher than the equivalent UK-wide figure.

However, it is up just 1.5 percentage points on the quarter before, suggesting utilities have been a source of pressure on the bottom line for some time. Labour was a cost driver for 48% of Scottish respondents. This is a 12.4 percentage point increase from Q1 2019.

Despite the fluctuating value of the pound against other major currencies in response to UK political developments, only 12.3% of businesses identified the exchange rate as a factor for increasing business costs in Scotland, down 14.4 points from the previous quarter.

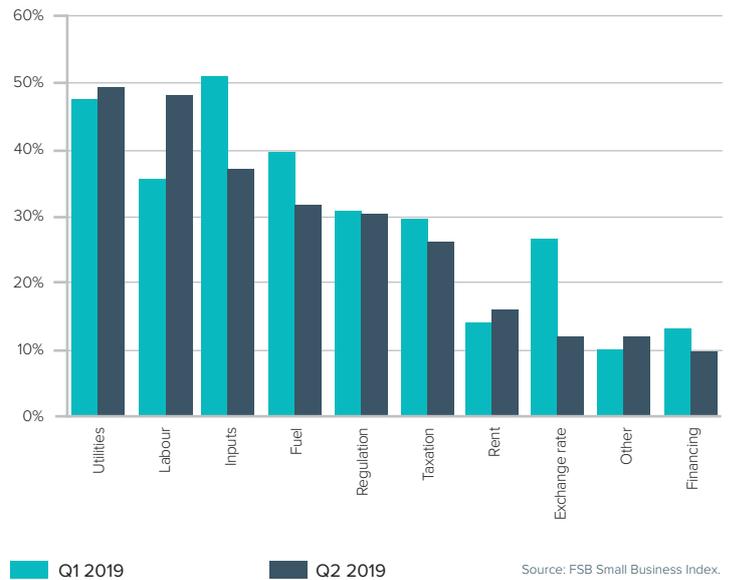
The share of small businesses in Scotland operating below capacity fell in the second quarter of the year. In Q2 2019, a net balance of 49.5% of small businesses in Scotland reported that they operated at below capacity over the last three months, a welcome 12.6 percentage point decrease on the 62.1% recorded in Q1 2019. Only three other regions in the UK had a smaller share of firms expressing this view – North East England (35.3%), South West England (44.4%) and Wales (47.5%).

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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