

# SCOTLAND Q4 2018 SMALL BUSINESS INDEX

**Scottish Small Business confidence collapses to a record low** in the fourth quarter of 2018. The Scottish small business confidence index fell 19.5 points to -32.7. 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. This is the lowest level of confidence recorded since the Scottish SBI began in 2010.

More positively, Scottish small businesses appear to be more streamlined and profitable than they were last quarter. Fewer firms report they have spare capacity and a higher net balance of firms are reporting increased profits. That said, the outlook is far from rosy. The net balance of respondents reporting improved profitability remains deep in the red and firms expect it to worsen in Q1 2019. Operating costs also continued to climb this quarter, with utilities cited as the primary cause.

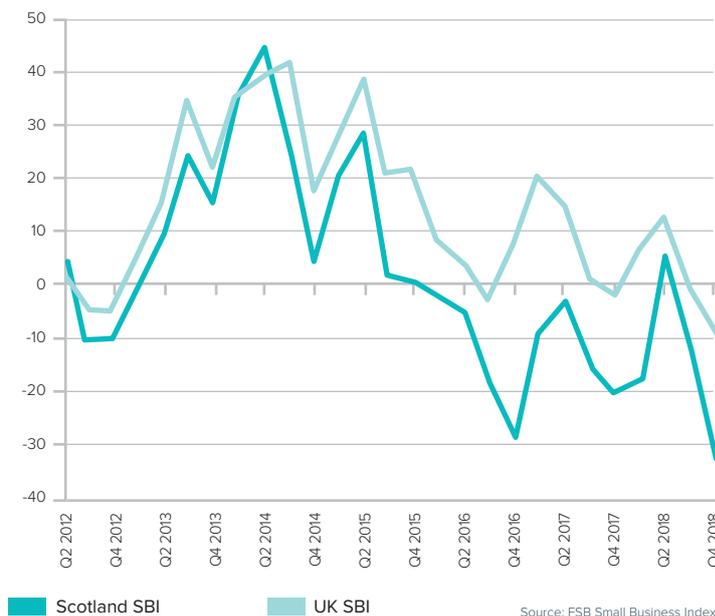
**Small business confidence across the UK also continues to decline.** The Small Business Index fell for the second consecutive quarter across the UK, falling by 8.2 points to -9.9 in Q4 2018. This is the lowest index level since Q4 2011 and represents the third lowest level since its inception in 2010. Current surveys paint a mixed picture across different sectors: order books have strengthened for manufacturing and construction firms in November, but declined for the important services sector. With uncertainty lingering over the future of the UK's relationship with Europe, the effect on business confidence and investment is increasingly apparent.

**Scottish small businesses temporarily slow the decline in profitability.** In the fourth quarter of 2018, a negative net balance of -18.3% of small businesses in Scotland reported that their profits had risen over the last three months. This was an improvement on the -23.9% seen in Q2 2018, although it still shows that fewer firms saw profits rise than fall or hold steady. Expectations for the coming three months predict a reversal of this trend, as the net balance moves back down to -22.8%. Scottish firms continue to report worse performance than the average UK business, with a net balance of -4.3% of small UK firms reporting improved profits during the last quarter.

**Small businesses continued to reduce headcount in Q4.** The net balance of small firms increasing employment in Scotland remained negative for the sixth consecutive quarter, at -3.4%. This is a notably different labour market performance to that of the UK as a whole, where a positive net balance of small firms reporting that they have increased employment for the past two and a half years.

Official data shows that in September to November of 2018, Scotland had a slightly lower employment rate (75.3%) than the UK as a whole (75.8%). While unemployment was lower in Scotland by 0.5 percentage points, this reduced level was slightly offset by a higher rate of economic inactivity. Going forward, though, small businesses in Scotland look to be more optimistic about their ability to take on new staff, with a net balance of 3.9% expecting to expand their workforce in the first three months of 2019.

Small Business Confidence



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



**Utilities push up business costs for Scotland's small businesses.**

The proportion of small businesses that saw costs rise over the last three months stood at 71.3%. This is down from 73.6% in Q3, but above the UK average of 70.3%.

In Scotland, the share of firms citing utilities as a cost driver has risen by 10.8 percentage points to 49.7%, making it the most commonly noted cause of higher costs. This is opposed to firms across the UK as a whole, where labour, inputs and fuel costs were more frequently cited. The lesser role of labour as a cost driver is perhaps a result of the lower demand from Scottish firms for new staff. 58.3% of small firms noted that wages increased over the past 12 months in Scotland, well below the 68.4% of small firms in England.

It is also interesting to note that the share of firms reporting the exchange rate as a primary cause of a change in business costs more than doubled to 32.0% in Q4, from 15.3% in Q3. This follows the continued weakening of the pound, as Brexit uncertainty lingered.

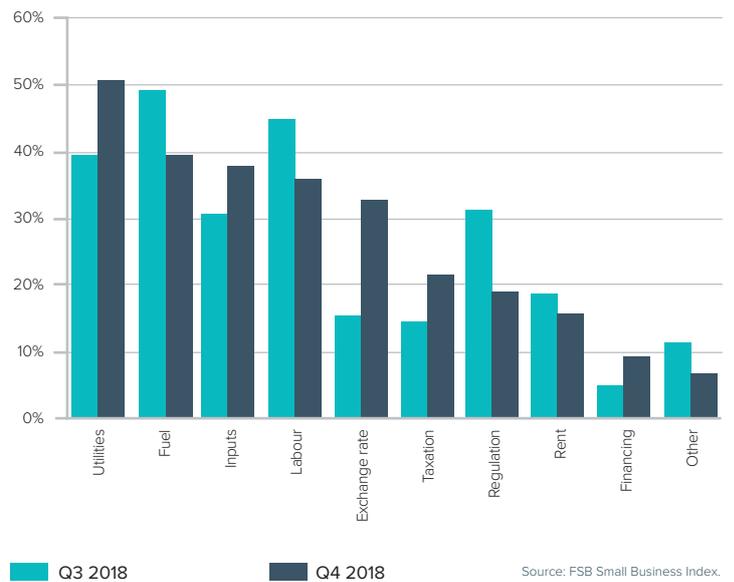
**Fewer small businesses in Scotland have spare capacity.** As noted overleaf, a net balance of 48.5% of small firms in Scotland reported that they were operating at below capacity over the last three months – notably down on the 55.0% reported in Q3. While higher demand may be driving up production, the SBI data show that these businesses have been reducing headcount, and hence productive capacity, for the past year and a half. Going forward, more of these firms expect to have spare capacity, with 55.1% predicting they will be operating below capacity in the first quarter of 2019.

**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.

**FSB Scotland**

74 Berkeley St  
Glasgow  
G3 7DS

Tel: 0141 221 0775  
scotland.policy@fsb.org.uk  
www.fsb.org.uk/scotland

federationofsmallbusinesses  
 @FSB\_Scotland

