FSB North West Quarterly Small Business Index

Q1 2021

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Foreword

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I am delighted that Small firms across the North West have one of highest confidence figures in the UK, according to the latest FSB study. The region's confidence figure is matched by the South West and West Midlands, and surpassed only by the East Midlands. It also stands higher than the UK SBI measure of +27.3. In addition, the North West small firms' investment intentions were the highest of all the UK regions, at 27% - a figure that moved into positive territory for the first time since Q2 2020. The average UK figure was 18%. The survey also shows 66% of small businesses in the region expect their performance to improve this quarter, compared to fewer than one in three (28%) that expect theirs will worsen.

However with emergency loan repayments now starting to bite, and as the economy shifts, support measures need to evolve – particularly where support for start-ups is concerned to ensure this confidence is realised.

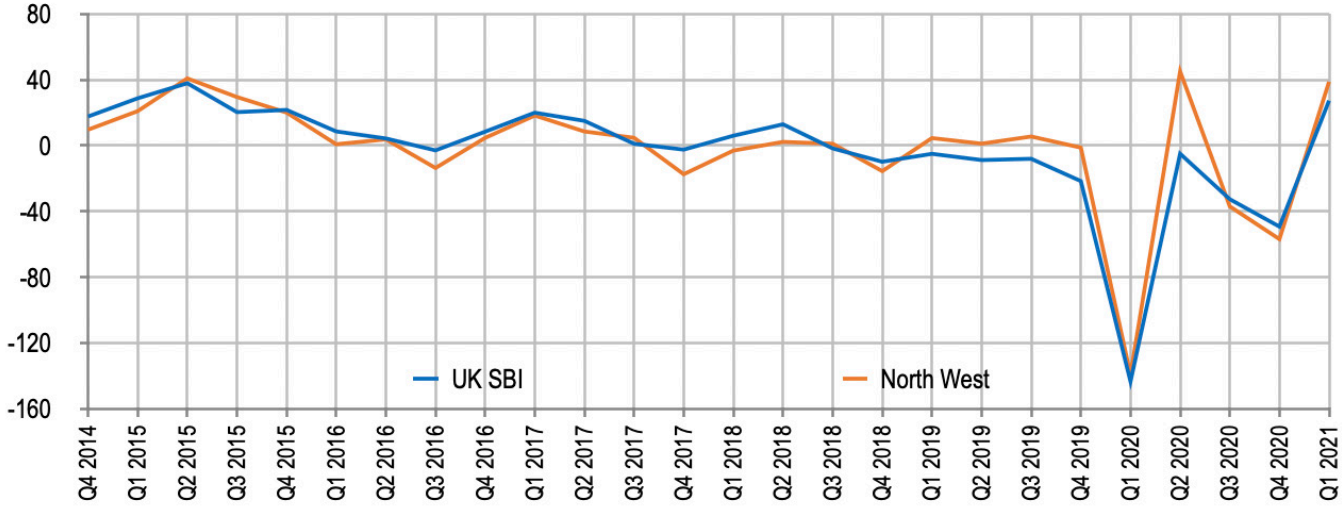
The North West Small Business Index (NWSBI)[1], which measures confidence amongst businesses, increased greatly since Q4 2020. It currently stands at 39%. In Q4, the reading stood at -57%.

Confidence levels are a vast improvement compared to the previous quarter in the North West, to the extent that we are now back in positive figures for the first time since Q2 2020. The vaccine roll-out and easing of lockdown measures are likely to be contributing factors to this.

Whilst all regions across the UK have shown a great improvement in confidence levels, the North West scores among the highest (39%), scoring similarly to South West and West Midlands (both 39%), and surpassed only by East Midlands (50%). This indicates that the region is particularly confident about the upcoming quarter. This is further highlighted by the North West scoring above the UK average (27%).

Confidence in business performance for the next three months rises strongly in the North West.

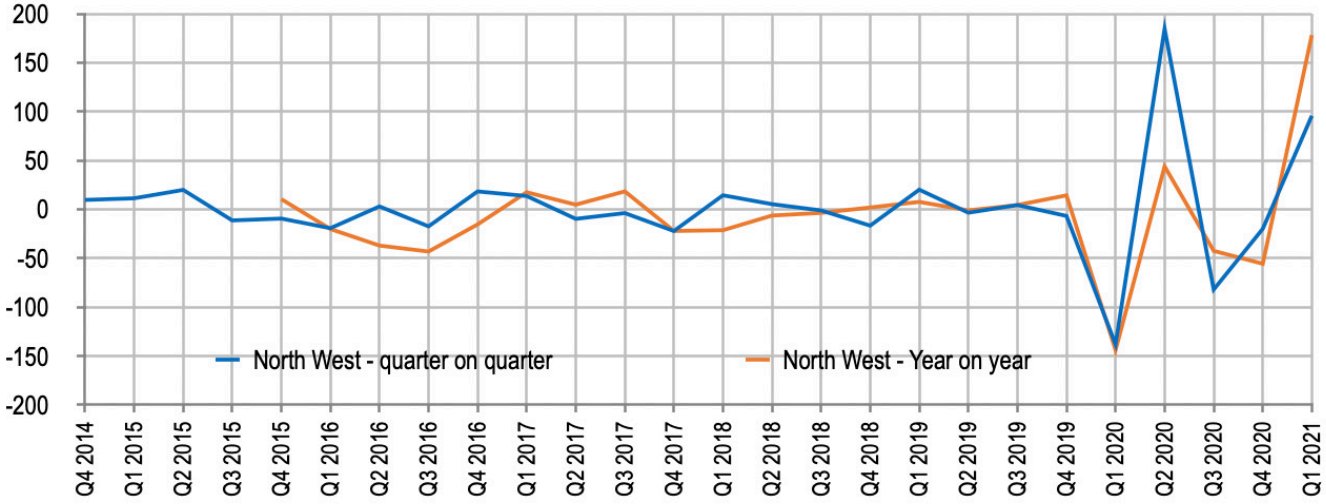
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



[1] The North West 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.

Compared with the previous quarter, and Q4 last year, reported confidence is considerably higher among North West small businesses.

Fig.2 FSB North West Small Business Index: small business confidence levels



Business Conditions

The overall net balance towards revenue is negative (net -15%) – however the next three months look positive in terms of revenue for the North West (28%), with revenue expectations in line with the UK average (27%).

In Q1, around half (47%) of small businesses in the North West reported a decrease in revenue over the last three months, as COVID-19 restrictions had considerable impact on spending opportunities for consumers. Resilience was shown by some businesses in the area, however, with 32% reporting an increase in profit over the period.

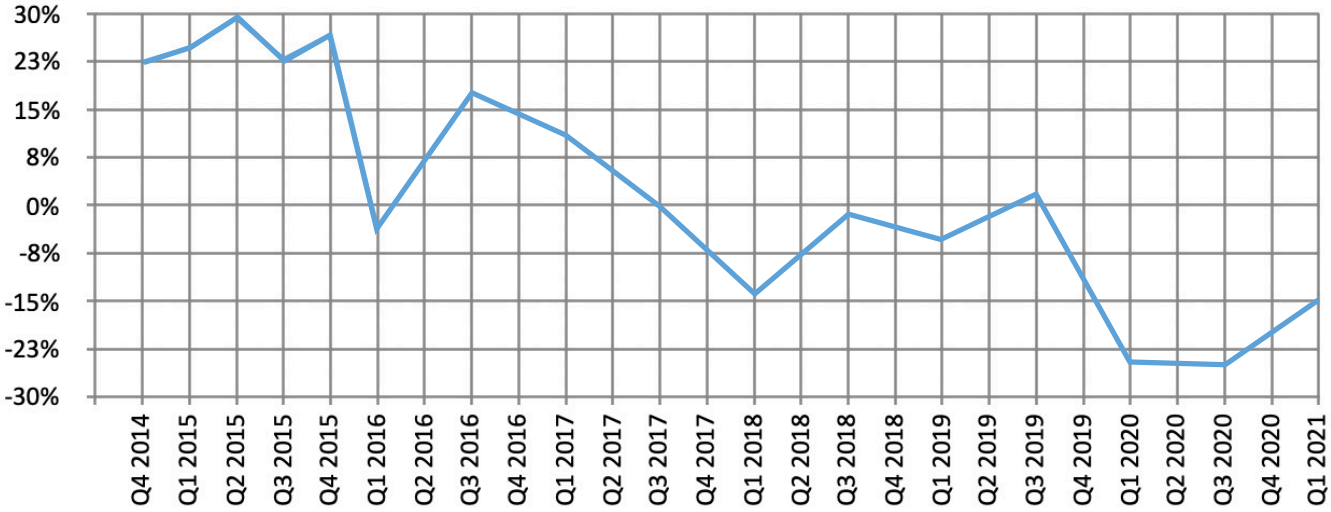
This leaves an overall net balance of -15% in the North West, which despite being in negative territory, is an improvement on Q3 2020 (-26%) and leaves the North West among the least impacted regions in the UK. With a UK average of -23%, the North West is above par and matched only by London small businesses, who also registered -15%.

The outlook for future revenue moves into positive territory in the North West for the first time since 2019. In the region, 52% of small businesses expect a growth in revenue over the next 3 months, with only 23% expecting a decrease.

With a net balance of 28% for future revenue, the North West is on par with the UK average (27%). Regions such as the East Midlands (35%) and the West Midlands (38%) report the highest improvements to revenue for the coming three months, whereas London (19%) is well below other regions.

Revenue amongst North West small businesses are beginning to show signs of recovery – despite remaining in negative figures.

Fig.3 FSB Small Business Index: net balance of small firms in East Midlands reporting revenue (revenue question only asking in Q1 and Q3 phases of SBI – question is asked on a rotational basis)



Employment and Wage growth

Future intention for employment is net positive (14%) for the coming three months, suggesting signs of improvement.

The employment picture amongst FSB members over the preceding three months showed that 16% had decreased staff numbers and only 5% had increased employment levels. Despite this, many staffing levels have been left unaffected, with 73% reporting that this has 'stayed the same'.

For the next quarter, the intention is for 19% of businesses to increase headcount and 5% to decrease staff numbers This indicates early signs of improvement.

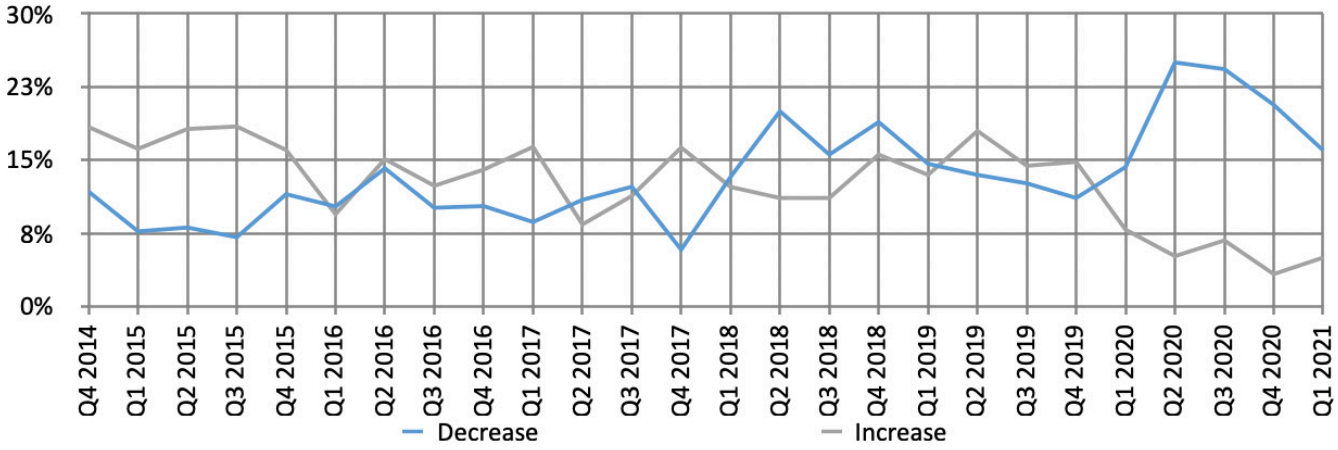
Wage Growth

In the North West, around half of small businesses (51%) increased the average salary awarded across the business over the last 12 months – with 34% doing so by 2% or more.

53% expect to see salary increases over the next 12 months, with 36% reporting the likely increase to be above 2%. Predicted wage growth has risen from 12 months ago; in Q1 2020, 45% expected to increase the average salary – suggesting things have improved year-on-year. Despite this, predicted wage growth still lags behind pre-COVID rates; for example, in Q4 2019 68% of North West small businesses predicted a wage increase over the next 12 months.

The number of North West businesses losing staff has improved since Q4 2020, however overall net employment is still negative (-10%).

Fig.4 FSB Small Business Index: change in people employed in the North West over last three months



Growth and Investment aspirations

In Q1, 2021, 55% of small businesses in the North West said that their growth aspirations in the next 12 months were to grow either rapidly (increase turnover / sales by over 20%) or moderately (up to 20%). With 10% of businesses intending to contract over the next twelve months (to downsize, sell or close the business), this figure has declined from 25% in Q4 2020.

The investment intentions for North West businesses are positive (27%) for the first time since Q2 2020. These intentions in the North West are the highest in all of the regions in the UK.

39% of businesses are planning to increase investment, vs. 12% looking to decrease. This leaves a net balance for investment in the North West at 27%, which is the first-time investment intention has been net positive since Q2 2020. Investment intention in the North West are the highest in the UK, with an average across the country of 18%. The East Midlands (20%), North East, Yorkshire & Humber (20%) and West Midlands (21%) are the next highest regions in terms of investment intention.

In the North West, the general economic conditions in the UK (74%), consumer demand (30%) and labour costs (23%) the greatest perceived barriers to growth over the coming twelve months.

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