



FSB East of England Quarterly Small Business Index

Q4 2022

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Foreword

Small businesses are facing exceptionally strong headwinds - with sky-high energy costs, record inflation, falling consumer confidence, and staff shortages pushing many to the brink. Therefore, it is no surprise that business confidence across the East of England fell heavily in the last quarter of 2022. Indeed, business confidence is now at its lowest level since the onset of covid restrictions in the UK, with many business owners citing that they have never known trading conditions to be so tough.

Another worrying trend is that more businesses in the East of England saw their revenue decline than increase and the outlook for future growth trailed the national average – as a result business confidence in the region is lower than the national average.

In this quarter, we saw more businesses reduce headcount than increase staffing numbers, in response to continuing uncertainty about the economy, with 73% stating that this was the biggest barrier to growth.

Right now, many small businesses are focused on surviving rather than expanding. They need the Government to focus on growing the economy, driving down inflation, and restoring confidence amongst consumers, to ensure they make it through 2023.

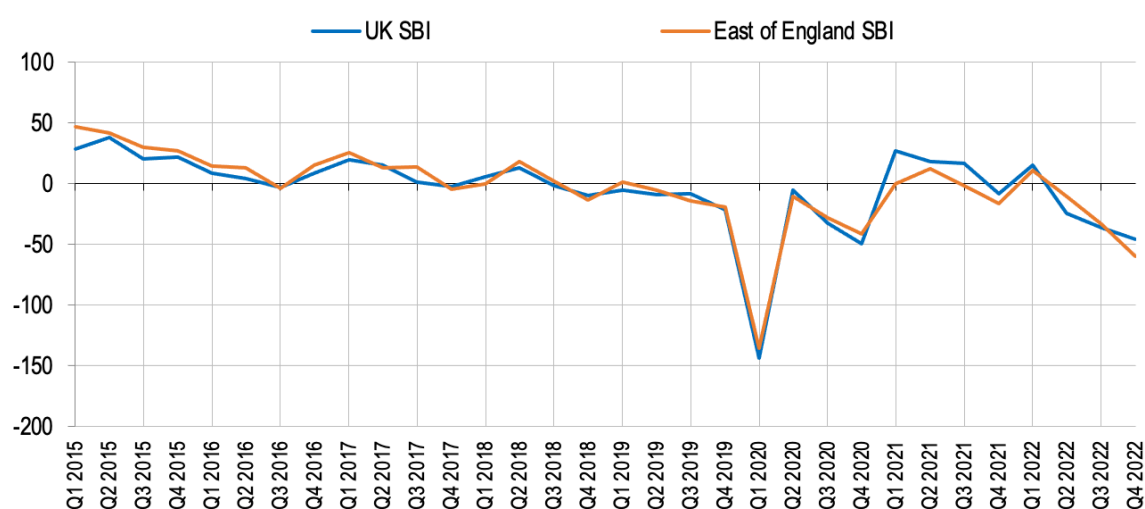
The East of England Small Business Index (EESBI)¹, which measures confidence amongst businesses, has fallen heavily in the last quarter. It now stands at -60 in Q4 2022, dropping from a score of -33 in Q3 2022.

Confidence in the East of England continues to fall. Widespread economic uncertainties including inflationary pressures are having a considerable impact on small businesses in the region. Net confidence in the East of England is now at its most negative rate since Q1 2020 where it stood at -135.

The uncertainty shown amongst East of England small businesses reflects a similar drop in confidence seen across the UK. The East of England confidence level (-60) is notably more negative than the nationwide average, however (-46).

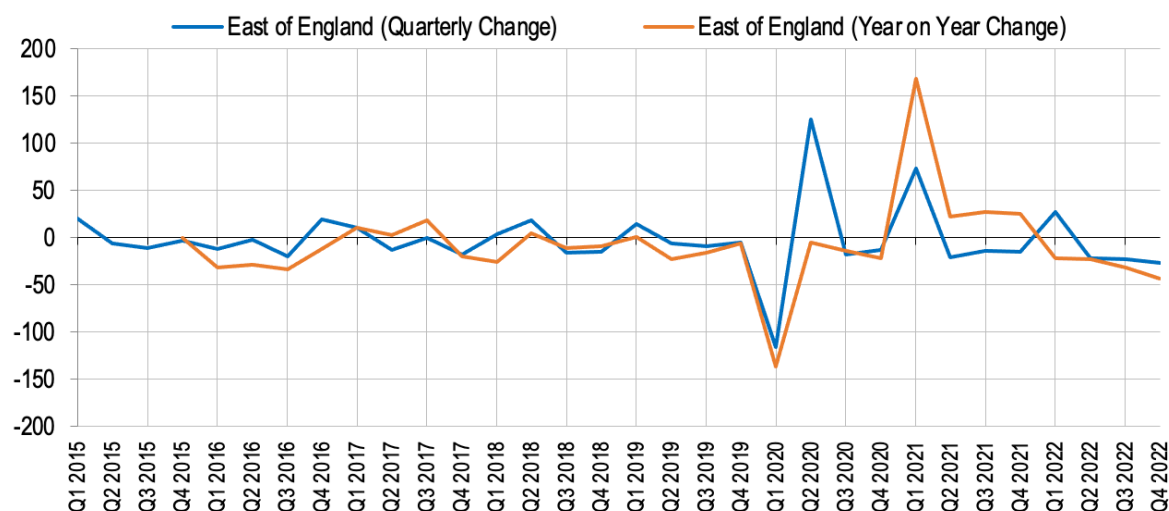
Confidence in business performance for the next 3 months continues to fall as East of England small businesses face the impact of widespread economic uncertainties.

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



East of England small business confidence levels are negative in Q4 2022 by both quarterly and year-on-year metrics.

Fig.2 FSB East of England Small Business Index: small business confidence levels



¹ The East of England 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.

Business Conditions

East of England small businesses see a fall in net revenue in Q4, with the outlook for future revenue more negative than the nationwide average.

In Q4 2022, 33% of East of England small businesses reported an increase in revenue. 42% of the region's small businesses outlined a decrease in revenue in Q4, compared to 37% in Q3.

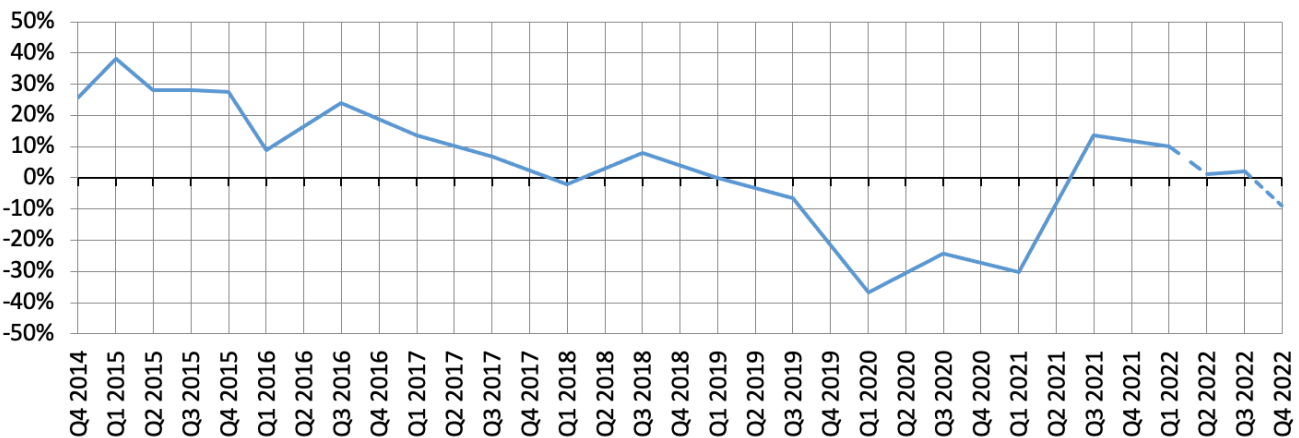
With a net balance figure of -9%², the East of England performs on par with the UK average (-10%). Other regions show a more drastic fall in revenue in Q4, however. For example, the South West (-30%) and the East Midlands (-26%).

The outlook for future revenue remains in negative territory in the East of England, with a net balance of -29% anticipating profit growth within the upcoming quarter. This is significantly more negative than the nationwide sentiment; the countrywide average is -14%.

51% of East of England businesses anticipate decreased revenue in the next 3 months, outpacing the nationwide figure of 44% predicting falls in revenue.

East of England small businesses see revenue slip into net negative in Q4 2022.

Fig.3 FSB Small Business Index: net balance of small firms in East of England reporting revenue



Employment and Wage Growth

Net falls in staffing levels continue in the East of England in Q4, reflecting a nationwide net fall in headcount.

The employment picture amongst East of England FSB members over the preceding three months showed that 17% had decreased staff numbers and 14% had increased employment levels. This compares with the nationwide average of 10% increasing staffing, and 16% decreasing. The East of England net change in employment levels therefore stands at -3% in Q4, marginally worse than the -1% figure recorded in Q3 2022.

For the next quarter, the intention is for 15% of businesses to increase headcount and 3% to decrease staff numbers.

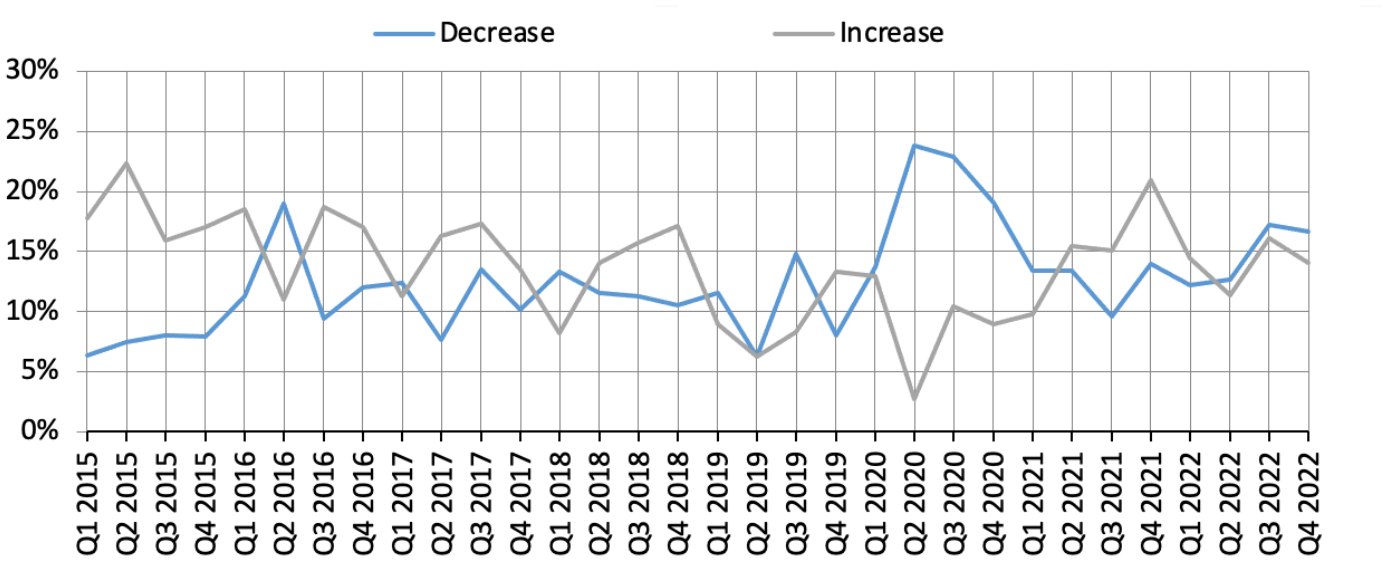
Wage Growth

In the East of England, 66% saw salary increases over the previous 12 months. The number of businesses decreasing wages grew from 8% in Q3 2022, to 13% in Q4 2022. The net change in wages during Q4 (53%) is lower than that seen during Q3 (64%).

Predicted net wage changes for the upcoming 12 months are lower in Q4 than in the previous quarter; this was 64% in Q3 and has now shown a decrease to 55% in Q4.

Decreasing staff levels continues to outpace headcount increases during Q4 2022.

Fig.4 FSB Small Business Index: change in people employed in East of England over last three months



Growth and Investment Aspirations

In Q4 2022, 38% of small businesses in the East of England 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%). This is a fall from 47% who said they were intending to grow as of Q3 2022. Those expressing an intention to downsize their business stands at 21% in Q4, an increase on the 13% expressing an intent to downsize as of Q3.

The investment intentions for East of England small businesses stands at net -4%, compared to the stronger UK average of 9%. This net average of -4% for East of England businesses in Q4 2022 is significantly lower than the regional net average of 17% recorded in Q4 2021.


Regarding the expected value of capital investment in the coming quarter, the East of England (net -4%) is amongst the lowest performing regions. Other regions such as London (33%) and the North West (12%) show a positive investment outlook in contrast, and in spite of widespread economic uncertainties.


In the East of England, the general domestic economic conditions (73%), appropriately skilled staff (40%), alongside input costs and utility costs (both 30%) are the greatest perceived barriers to growth over the coming twelve months. Input costs have grown as a concern for businesses in the region, with only 16% identifying this as a major issue during Q3 2022.

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