

SCOTLAND Q1 2024 SMALL BUSINESS INDEX

The Small Business Index (SBI) in Scotland rose by 29.9 points in Q1 2024 to reach 10.7, its highest level since Q1 2022. The positive reading means that the number of Scottish small businesses expecting their performance to improve over the coming quarter exceeds the number expecting their performance to worsen.

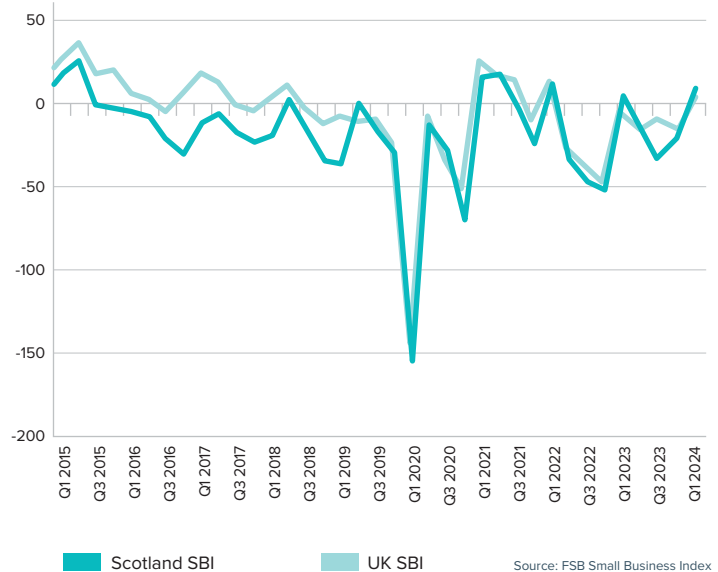
Following this strong improvement, the index now sits in positive territory for the first time since Q1 2023, after remaining in negative territory for three consecutive quarters. This positive sentiment reflects an improvement in the broader economic landscape. Although Scotland's GDP contracted by 0.6% in Q4 2023 on a quarterly basis, growth prospects appear more positive moving forward. This shift in sentiment reflects improvements in consumer spending. While economic headwinds remain, small businesses in Scotland can expect demand from households to improve further this year once the Bank of England begins cutting interest rates. Cebr expects the Scottish economy to grow by 1.1% on the year in 2024, following growth of 0.4% in 2023.

The UK-wide SBI also returned to positive territory in Q1 2024, hitting 5.5. This follows a reading of -15.0 in Q4. The return to optimism reflects an improving UK economy. February saw GDP grow for a second consecutive month, therefore increasing the likelihood that the UK has exited the technical recession it entered in the second half of 2023. Cebr is forecasting annual UK GDP growth of 1.0% in 2024, which would mark a significant acceleration from the 0.1% seen in 2023.

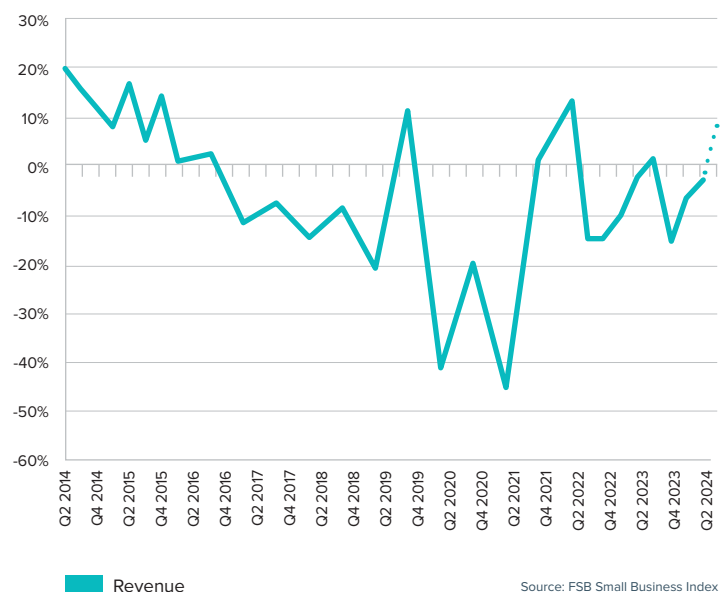
Notably, only two UK regions saw a negative reading on the SBI in Q1 2024. Scotland's reading was the third most optimistic amongst the UK's nations and regions.

At the same time, however, the number of Scottish small businesses reporting revenue declines in Q1 still exceeded the number reporting an increase. As such, the net balance of firms reporting revenue increases was negative, amounting to -2.7%. This is the third consecutive quarter of a negative reading, although it is the second consecutive quarter of this indicator becoming less negative. Within the net balance figure, 31.3% of Scottish small businesses reported revenue growth over the quarter, slightly less than the UK-wide share of 32.0%. The share of Scottish small businesses reporting a revenue contraction over the quarter stood at 33.9%, lower than the equivalent figure for the UK which stood at 40.5%.

The FSB Small Business Index: Small business prospects over coming three months



Net balance of small firms in Scotland reporting revenue growth



Looking ahead, a net balance of 10.9% of small businesses in Scotland expect a rise in revenues over Q2 2024. Small businesses across the UK as a whole hold an even more optimistic outlook, with a net balance of 22.1% expecting revenue growth over the next quarter. This aligns with Cebr’s anticipation that UK quarter-on-quarter GDP growth will be robust in Q2 2024.

A net balance of -0.9% of Scottish businesses recorded increased employee headcount in Q1. The negative net balance means that the number of firms reporting a contraction in their employee numbers outweighed the number of firms reporting an expansion. This metric has now recorded negative net balances for five consecutive quarters, however, the breadth of decline has narrowed. This finding is in slight contrast with official data on Scotland’s labour market, where the unemployment rate fell to 4.0% in the three months to February relative to the prior three-month period. Meanwhile, the employment rate increased slightly to 74.2%.

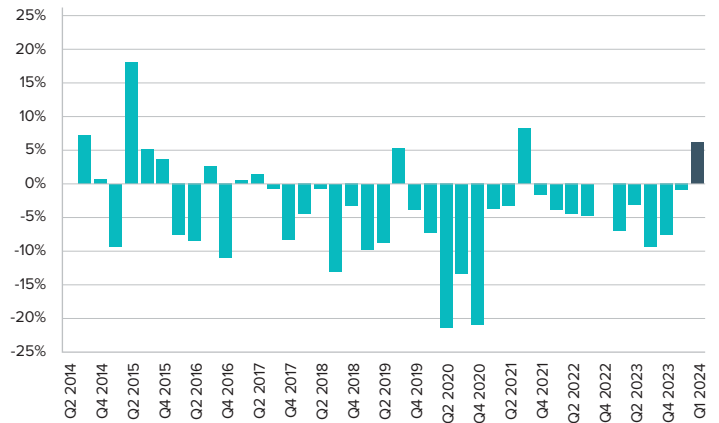
Looking ahead, a net balance of 6.2% of Scotland’s small businesses expect headcount numbers to rise. If this optimism comes to fruition, it would be the first positive net balance on this measure since Q3 2021. The anticipated growth in employment comes amid, as noted above, small businesses being optimistic over revenue growth in Q2. This improved outlook among businesses is also evident in the proportion of small Scottish businesses with aspirations to grow in the next 12 months. This stands at 39.1%, up from the previous quarter’s reading of 37.2%, although still lower than the UK-wide reading of 52.4%.

A net balance of 79.7% of small businesses in Scotland experienced rising costs in Q1. Within this figure, 83.2% of respondents reported rising costs, while only 3.5% of Scottish small businesses saw their costs decrease.

In Scotland, 58.2% of businesses reported utilities as a main cause of changing costs in Q1. That said, this figure was noticeably down on Q4 2023. Inputs and labour saw the second and third largest shares at 56.1% and 48.0% respectively, with both being higher than the previous quarter.

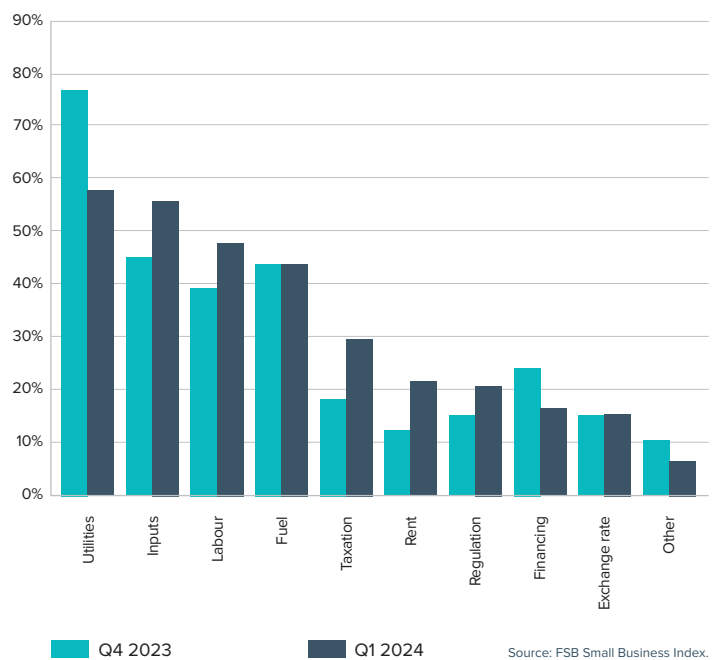
The share of respondents selecting rent as amongst the main causes for changing business costs increased to 21.4% in Q1, up from 12.1% last quarter. This is reflective of the Bank of England’s (BoE) monetary policy tightening campaign which has resulted in higher interest rates and in turn mortgage rates. Consequently, this has been partially passed through to rental prices.

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.