



FSB South West Quarterly Small Business Index

Q4 2023

This document was produced by
FSB South West in February 2024

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Foreword

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2023 turned out to be a challenging and somewhat unsettling time for many small businesses in the South West – and that has been reflected in our final confidence report for last year which we are sharing with you today. Sadly, the figures in our report paint a now depressingly familiar picture of SME positivity here in the South West.

For the third quarter in a row we saw small business confidence slip back across the region and once again we find ourselves in the unenviable position of being the least confident SME region in England. It is a worrying report.

As we now enter a new year where we fervently hope to see a marked improvement in SME sentiment locally it is worth pausing to understand why this all actually matters.

The reality is when confidence is low it affects every aspect of business thinking. When businesses lack confidence they take less risks, are less inclined to take staff on and can put growth plans firmly on hold. And none of that is good for the economy as a whole. When SMEs struggle the whole of UK plc struggles and with two thirds of small businesses in the South West citing the general state of the economy as the biggest barrier for growth for 2024 this clearly needs to be addressed.

As we now enter a possible election year we must ensure that all politicians take note of what is happening in the small business arena and make it at the heart of their economic agendas. 2023 ended on a downbeat note for far too many of our great South West businesses - let us now hope that picture changes quickly and 2024 can see the 'bounce back' we all want to see.

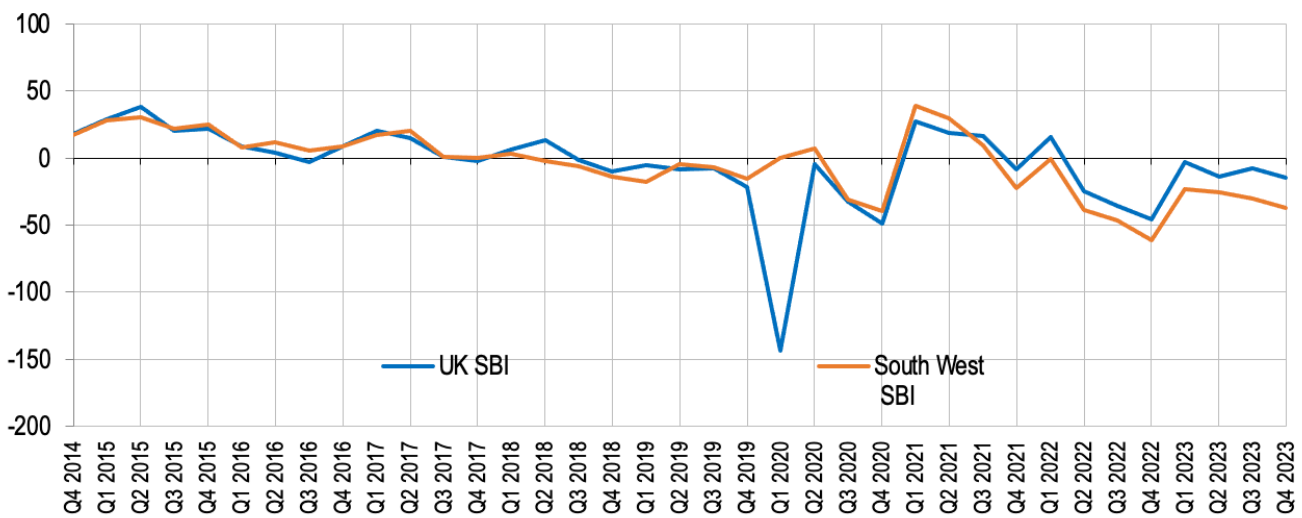
The South West Small Business Index (SWSBI)¹, which measures confidence amongst businesses, has fallen over the last quarter. It currently stands at -37, which represents a decline from the last quarter, where the reading stood at -31.

Confidence amongst small business in the South West for the next 3 months remains negative. Despite this, confidence has improved YOY (the SWSBI was -62 in Q4 2022).

When comparing to the other regions in England, the South West scores the lowest of all for this quarter. For context, the UK average is currently -15, and the highest index score within this is for London, at 7. Whilst small business confidence in the South West has decreased since the previous quarter, the average for the UK overall has also decreased; from -8 in Q3 2023, to -15 in Q4.

Confidence in business performance for the next 3 months in the South West has continued to decline, mirroring sentiment across the UK as a whole.

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



Due to low confidence levels in 2022, confidence in South West business performance rises YOY.

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



¹ The South 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.

Business Conditions

The net balance of revenue in the South West has fallen again this quarter, and is predicted to stay consistent in the next quarter.

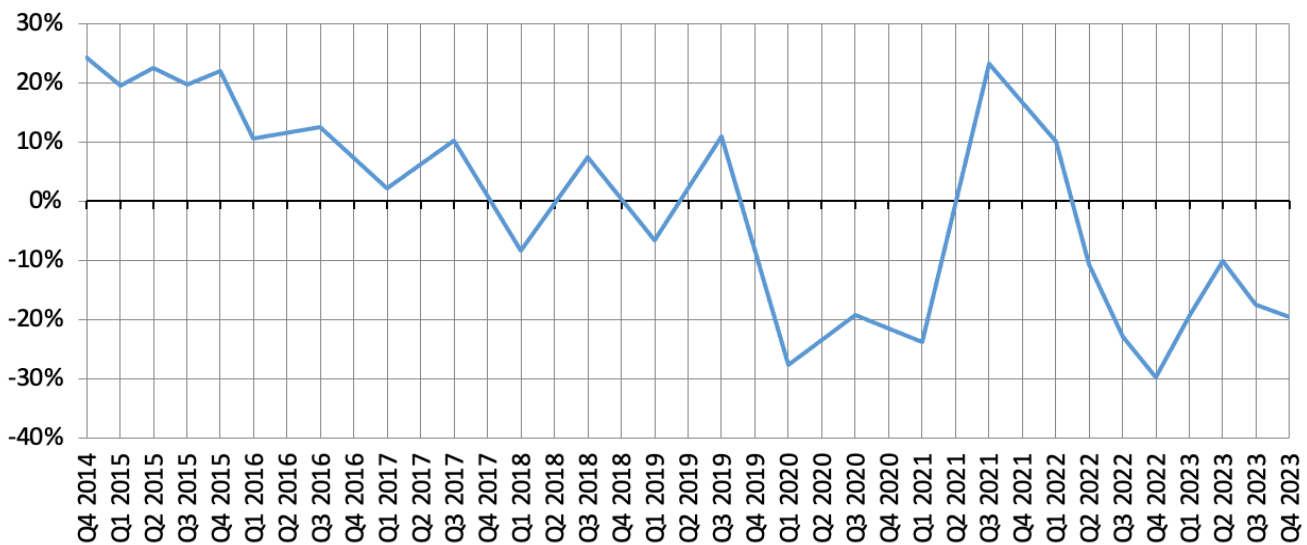
In Q4 2023, the overall net balance for revenue in the region remains negative (net -20%)², decreasing slightly from the -17% reported last wave. Despite this, it is still a YOY improvement; in Q4 2022, the net balance was -30%. Compared to predictions made in Q3, the South West is underperforming. Back then, it was predicted the net revenue would rise to -8%, however this has not been the case.

When comparing net revenue across other regions in England, the South West is joint worst with the East Midlands (also -20%). For reference, the UK average is -6%. Only the North West (9%) and London (7%) record positive net scores.

The outlook for future revenue over the next 3 months reveals similar sentiment, with a net score of -19%. This comes from 24% of small businesses predicting revenue to increase, whilst 43% anticipate a decrease. Compared to other regions in England, the South West has the second lowest predicted net balance for the next quarter, with the East Midlands the only region predicting lower than this (-23%). The UK's overall predicted net balance stands at 0%.

Net revenue among South West small businesses has fallen again this quarter, after previously rising from the end of 2022 to Q2 2023.

Fig.3 FSB Small Business Index: net balance of small firms in the South West reporting revenue.



² The NET number of businesses is calculated by subtracting the total number of businesses who reported a decrease in gross profits from those who reported an increase in gross profits in the last 3 months

'How has the gross profit of your business changed over the last 3 months'

Employment and Wage growth

The South West scores just below the UK average in terms of Q4 employment levels, with ‘actual’ employee cuts slightly worse than predicted in Q3.

The employment picture amongst FSB members over the preceding three months showed that, in the South West, 12% had decreased staff numbers, whilst 6% had increased employment levels; this results in a net decrease of -6% over the last quarter. In comparison, the UK net employment change was -4%.

76% of small businesses in the South West region reported their staffing levels have ‘stayed the same’ since the previous quarter, up from the 65% reported in Q3 2023. This net employment change in the South West falls slightly below the predicted net score of -2% for employee numbers in Q3 2023.

For the next quarter, net employment cuts are expected, with 6% of small businesses in the South West planning to increase their headcount, whilst 20% say they will decrease it; a net change of -14%.

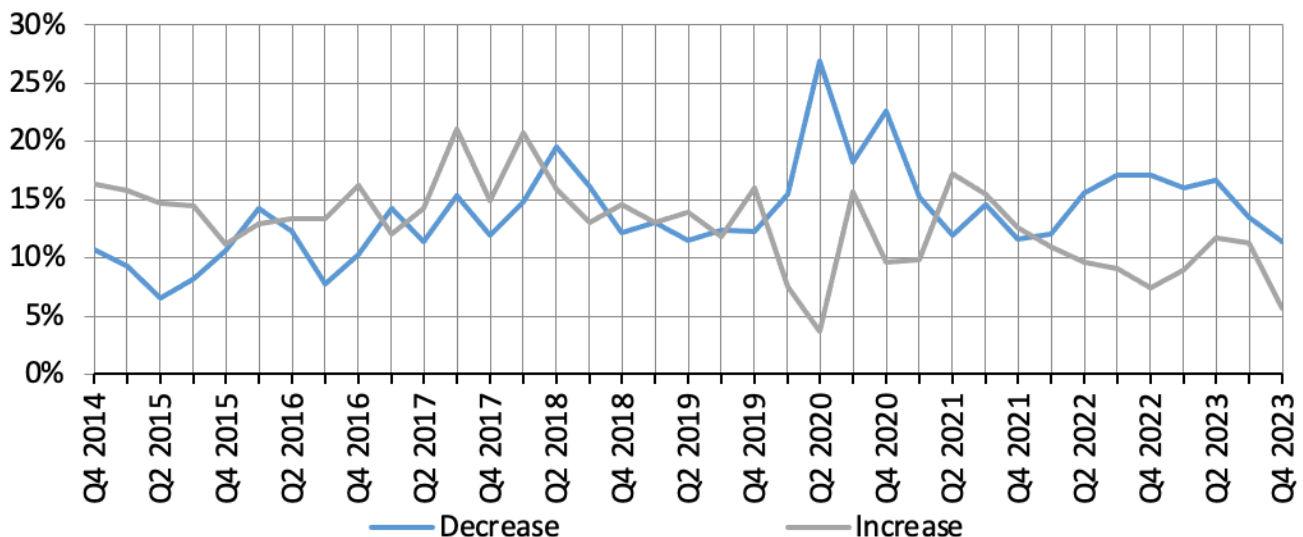
Wage Growth

In the South West, 73% of small businesses increased the average salary across the business over the last 12 months, with 68% of those reporting the average increase to be 2% or more. This is up from the 63% reported in the previous quarter.

Predicted wage growth over the next 12 months, which sits at net 64% this quarter, is slightly up from Q3 2023, when it was reported at 60%. 72% expect to see the average salary increase, whilst 8% are reporting this will likely decline over the time period.

Despite fewer small businesses lessening their headcount, the bigger decline in those who are increasing their headcount results in a net reduction in staff numbers.

Fig.4 FSB Small Business Index: change in people employed in the South West over last 3 months



Growth and Investment aspirations

In Q4 2023, 42% of small businesses in the South West said that their growth aspirations in the next 12 months are to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). Growth aspirations in the South West this quarter are just above aspirations noted in the previous quarter (40%), but sit below the UK average for Q4 (48%). These current growth aspirations are similar to Q4 2022, where 40% of small businesses in the South West expected to grow over the following 12 months.

The net score for investment intentions in the South West has improved since last quarter, and is positive once again.

21% expect to increase investment over the next 3 months, whilst 16% expect this to decrease over the time period. The net balance for investment intentions in the South West therefore stands at 5%, which is below the -1% indicated in the previous quarter. The net score for this quarter is slightly below the national average of 8%, but is better than the East Midlands (-8%) and North East & Yorkshire and the Humber (3%).

In the South West, 15% of businesses have stated that they intend to contract the business in the next twelve months (to downsize, sell or close the business), which is the same proportion as seen in the previous quarter. This is, however, a slight decline from results seen YOY (12% of businesses in the South West stated an intention to contract in Q4 2022).

In the South West, the general economic conditions in the UK (64%), labour costs (31%), appropriately skilled staff (26%), consumer demand (25%) and utility costs (24%) are the greatest perceived barriers to growth over the coming twelve months.

About FSB

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