



# FSB London Quarterly Small Business Index

Q1 2022

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# Foreword

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**Foreword by Rowena Howie**  
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Federation of Small Businesses



At this time of mounting uncertainty across the domestic and international stage it is heartening to see London's small businesses showing an increase in sentiment and confidence levels.

A healthy London is pivotal to the UK economy and with small firms making up 99 per cent of London's businesses we need to harness their ambitions. The one notable concern from this the report is the intended decline in investment intentions – and this will be associated with the high cost of doing business as firms look to scale back operations with increased input costs within the business fuelled by high inflation.

The opening of the Elizabeth Line is something to be proud of as a city and we would celebrate the efforts of businesses that have contributed around £7.5bn to the total cost. A smooth opening, and a successful 'Let's Do London' campaign will hopefully light the touch paper for a strong inbound tourism recovery this summer where we need to see a bounce back on our high streets and across the Central London Economy Zone.

At this time of uncertainty, we must continue to support small businesses with targeted support for them to increase headcount in their business – so a Mayoral-led Apprenticeship Grant for micro businesses would be well received.

We must also support our businesses by paying London businesses on time, every time. Late Payments remains a scourge of our great city and small business owners are the ones who take the mental strain of this scandalous practice – it simply must be eradicated.

Finally, we have had elections take place across all London Boroughs and we urge the new executive teams to hear our calls for a Local Leadership Partnership pledge:

- Work with FSB to develop supportive policy for small business in authority areas – particularly around procurement and payment terms
- Establish a culture of parity of focus between residents and small businesses
- Create (or continue in the next term) the post of a small business Champion (elected member) and Single Point of Contact (officer) within the Council.

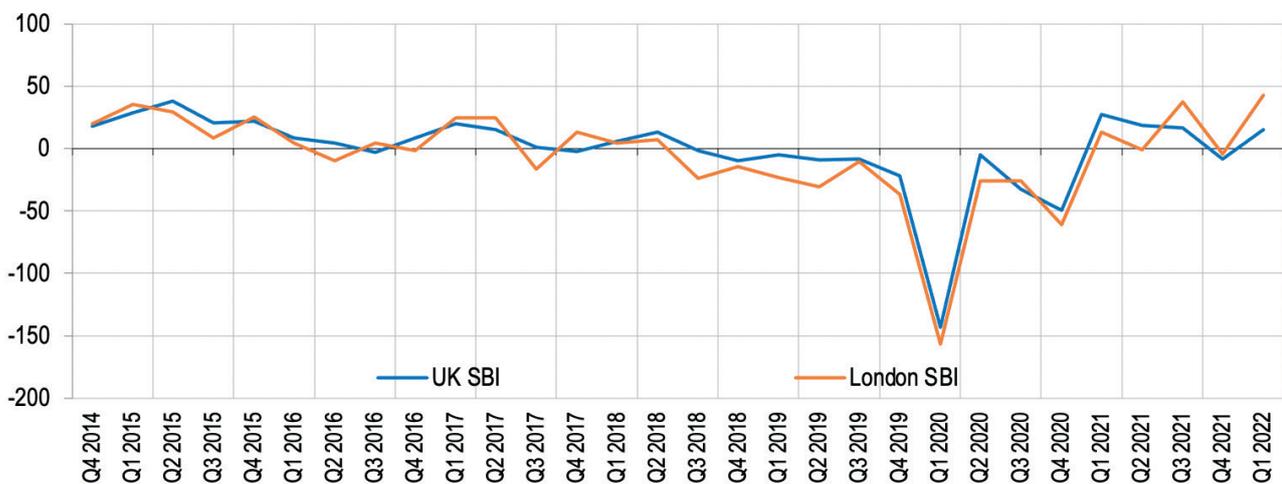
**The London Small Business Index (LSBI)<sup>1</sup>, which measures confidence amongst businesses, has risen strongly since the last quarter. It currently stands at +43; in Q4 2021, the reading was -5, while in Q3 it stood at +38. This may potentially be reflective of a return towards ‘normal’ after the uncertainty associated with the new Omicron variant seen in Q4 2021.**

Confidence levels have risen substantially to +43 during Q1 2022, following a decline from Q3 2021 (+38) to Q4 2021 (-5). Similarly, it's worth noting that this is still significantly ahead of the readings taken during all of 2020 (average score of -67 for the year of 2020).

Sentiment in London (+43) strongly outperforms the national average (+15). In terms of confidence scores, London is the strongest performing region, with East Midlands (+17) the second strongest. For comparison, the South West (-1) is the most pessimistic in Q1 2022.

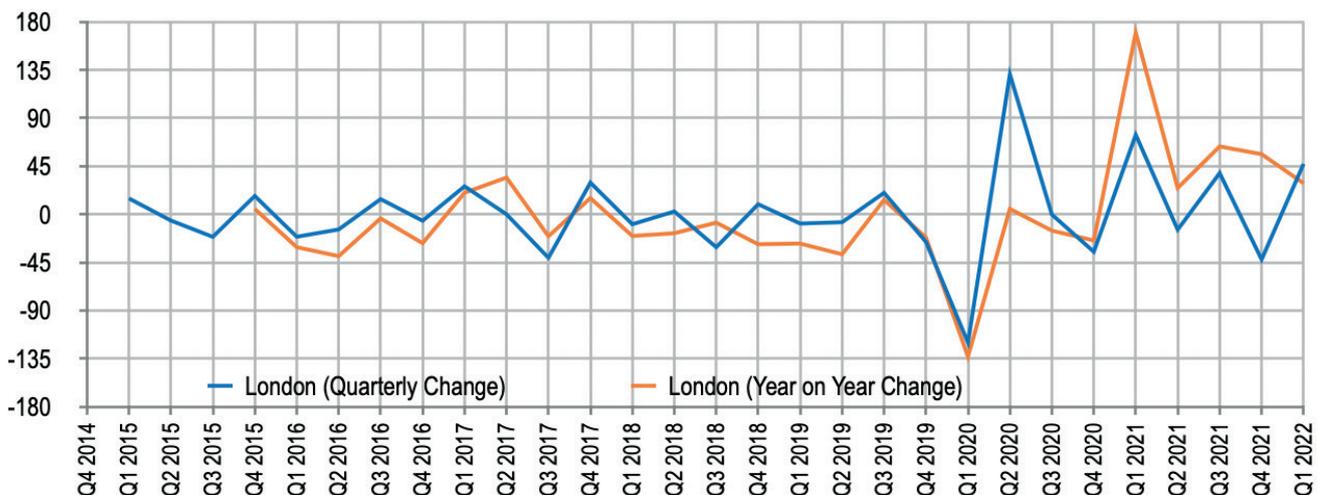
**Confidence increases again in Q1 2022, sitting well above the UK average.**

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



**There is a strong increase quarter-on-quarter in Q1 2022 after a decline from Q3 to Q4 2021.**

**Fig.2 FSB London Small Business Index: small business confidence levels**



<sup>1</sup> The London 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 overall difference in revenue from the last 3 months is positive (net score, 16%)<sup>2</sup> with businesses in the region performing better than the overall UK average (11%). Furthermore, London is the most positive region for predicted net revenue over the next three months in the whole of the UK.

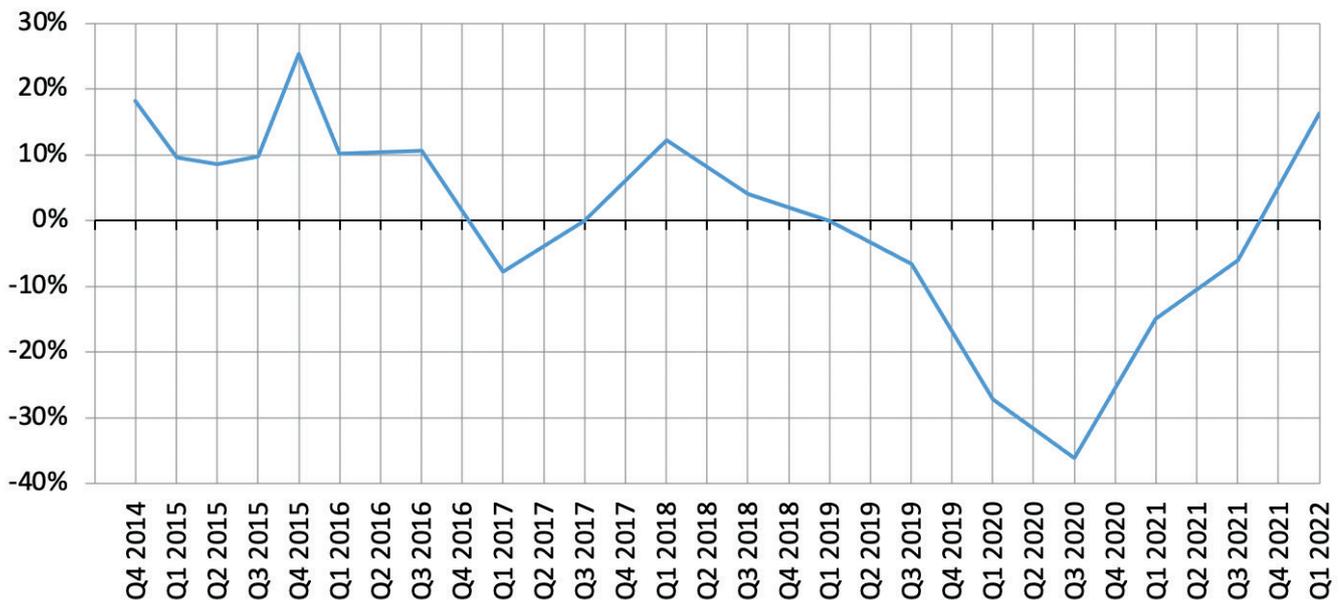
In Q1, 44% of small businesses in London reported an increase in revenue over the last 3 months, with 28% reporting a decrease.

Accordingly, with a net balance figure of 16% for Q1, London small businesses' revenue returns to a positive figure – this is the first net positive figure since Q3 2018 (net 4%). Revenue in the region is above the UK-wide average (11%) and is the strongest performing region, with the weakest being North East & Yorkshire and The Humber (4%).

The outlook for revenue in the coming 3 months is also positive (35% net score) – with more firms expecting an increase in revenue vs. a decrease. This represents a small decline from the predicted net change in Q3 2021 (37%). Looking at other regions in the UK, London holds the most positive outlook for net revenue. The nationwide average sits at 21%. The next highest predicted net revenue comes from the East of England (26%), and the lowest is the South West (7%).

**Reported revenue shows signs of a continued recovery since Q3 2020, following a sharp decline during the pandemic. Accordingly, Q1 2022 sees a return to a net positive score for the first time since Q3 2018.**

**Fig.3 FSB Small Business Index: net balance of small firms in London reporting revenue (revenue question previously only asked in Q1 and Q3 phases of SBI)**



<sup>2</sup> The NET number of businesses is calculated by subtracting the total number of businesses who reported a decrease in revenue from those who reported an increase in revenue in the last 3 months

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

# Employment and Wage growth

**Almost 1 in 5 (18%) small businesses in the region have gained staff in Q1 2022, leading to a larger net increase in employment than in Q4 2021.**

The employment picture amongst FSB members over the preceding three months showed that 18% had increased staff numbers, whilst 8% had decreased them across the region; leaving a net increase in employment levels (10%). This represents a smaller net increase than predicted in Q4 2021, when 20% intended to increase staff numbers, and only 4% expected to decrease staff levels (net 16%). Despite this however, the actual net increase of 10% remains positive from Q3 2021 (6%), following a net negative score across both Q2 (-1%) and Q3 (-2%).

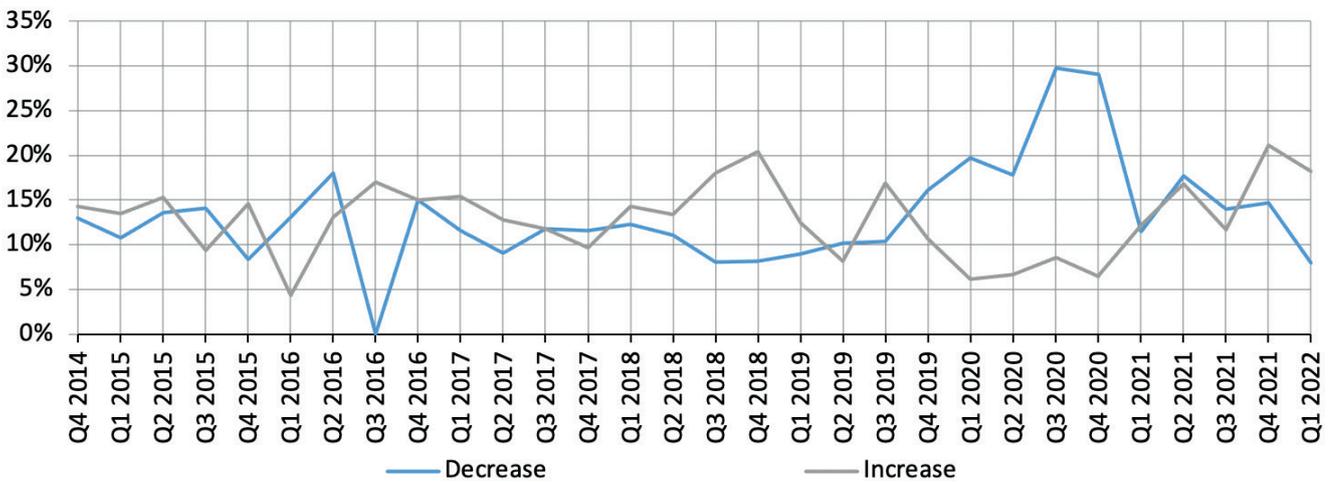
For the majority, staffing levels remained the same in Q1 2022, with 64% reporting no change. For the next quarter, the intention is for 20% of businesses to increase headcount and 5% to decrease staff numbers.

## Wage Growth

In London, over half (58%) increased the average salary awarded across the business over the last 12 months – with 52% increasing the average salary by 2% or more. 71% expect to see salary increases over the next 12 months, with 60% reporting the likely increase to be 2% or more.

**The number of small businesses in London hiring last quarter (18%) continues to rise above the number decreasing staff numbers (8%).**

**Fig.4 FSB Small Business Index: change in people employed in London over last 3 months**



## Growth and Investment aspirations

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In Q1 2022, 59% of small businesses in London 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%). The number expecting to contract their business sits at 8%, giving a net figure of 51%; this mirrors the overall score seen in Q1 2021.

**Investment intentions going into the next quarter remain positive but have declined since the previous quarter, sitting just behind the UK average.**

In London, 19% of small businesses expect to increase investment in their business over the next 3 months, with a smaller proportion (12%) expecting to decrease it. With a net score of 7%, London has declined since Q4 2021 (net 30%), and now sits just below the investment sentiment seen across the UK, where a net average of 9% was registered. The West Midlands is the region with the highest net investment intentions (net 14%), with the North West lowest (4%).

**In London, the general economic conditions in the UK (61%), appropriately skilled staff (31%) as well as consumer demand and foreign economy (both at 25%) are the greatest perceived barriers to growth over the coming twelve months.**

## About FSB

As experts in business, FSB offers members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. Its aim is to help smaller businesses achieve their ambitions. More information is available at [www.fsb.org.uk](http://www.fsb.org.uk)

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