

SCOTLAND Q1 2022 SMALL BUSINESS INDEX

FSB's Small Business Index (SBI) for Scotland rose in Q1 2022, reaching a score of +14.3 points. This follows the slump to -22.0 points seen in Q4 2021, when the effects of the Omicron variant put significant downward pressure on business confidence across the UK.

Improvements in the SBI were seen across all of the UK's regions in Q1. Scotland's increase was the third-largest, behind only those for London and Wales. This increased positivity was driven by the easing of Covid-related issues during the quarter, including the complete removal of restriction measures at both the UK-wide and Scottish level.

It should be noted, however, that Scotland's SBI reading of +14.3 points is a lower figure than was seen in the same period in 2021 (+18.8 points). These figures show that many local businesses are still worried about trading conditions.

The UK-wide SBI also picked up in Q1. This followed consecutive quarterly falls in the final three quarters of 2021. An increase in the headline index was seen across all regions and nations, indicating that more small businesses are confident ahead of the coming quarter than not.

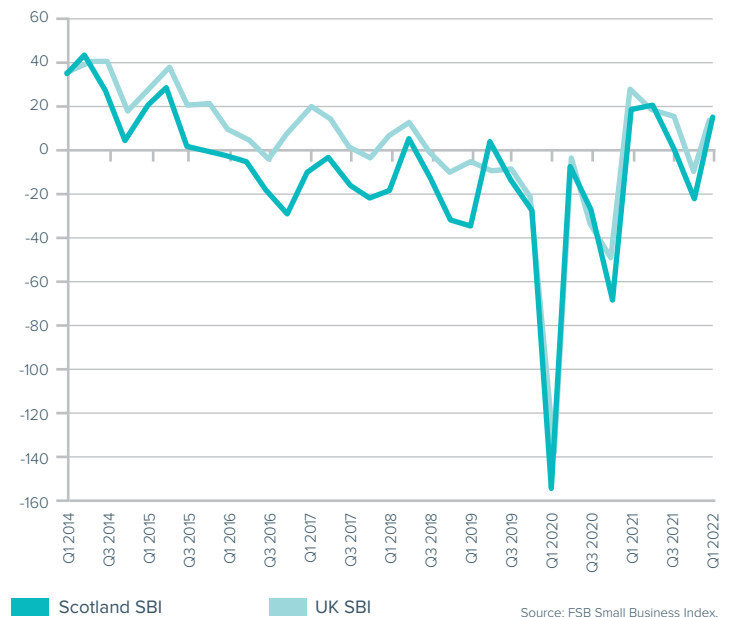
The widespread relative positivity on the SBI across the UK comes despite several headwinds facing the UK economy. Key amongst these are the cost-of-living crisis, driven by spiralling inflation. Indeed, the research shows that nine in ten (88%) Scottish business owners say that their running costs have increased over the last three months. Two fifths (41%) of firms say costs have increased by more than 10 per cent.

More Scottish businesses saw revenue increase than decline in Q1. The net balance of Scottish businesses reporting revenue growth in Q1 stood at 14.2%. This figure was significantly stronger than the net balance of 2.3% seen in Q3 2021, the last time this question was posed. Within the net balance figure, 45.7% of small businesses in Scotland reported a quarterly increase in their revenues. This outweighed the UK-wide equivalent figure of 42.0% – and was only surpassed only by that of Wales, 49.5%.

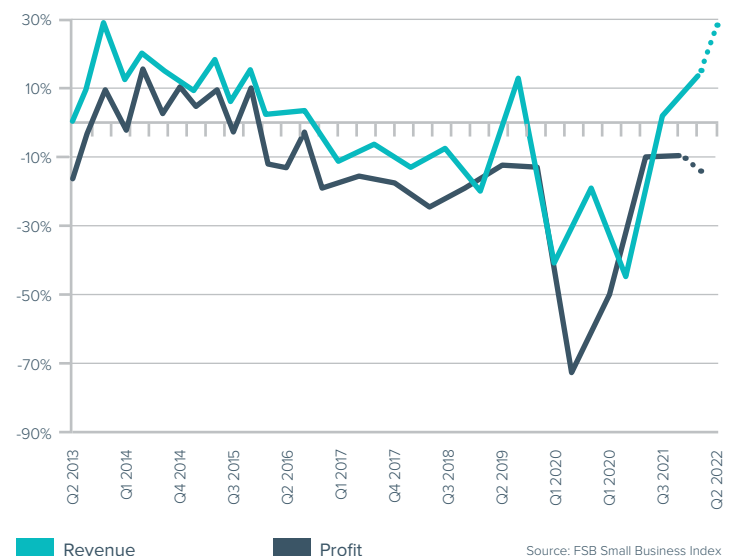
Businesses across the UK have benefitted from the return to economic growth in the early months of 2022. Growth has been stimulated by the easing of fears related to the Omicron variant, as well as the lifting of all remaining Covid-19 restrictions, which has fed into increased business revenues.

However, it should be noted that, while revenues are stronger, profits are still suppressed, with a net balance of -10% reporting profit growth. This will be largely attributable to the rise the cost of doing business.

Small Business Confidence



Net balance of small firms in Scotland reporting revenue/profit growth



A net balance of -3.9% of Scottish businesses saw an increase in 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 was the second consecutive quarter in which Scotland has witnessed a negative net balance on this figure. This is in contrast to the UK-wide measure, which has shown a positive reading in each of the last four quarters.

This finding is corroborated with official labour market data. Scotland's employment rate stood at 74.7% in the three months to February 2022, down by 0.3 percentage points on the three months to November.

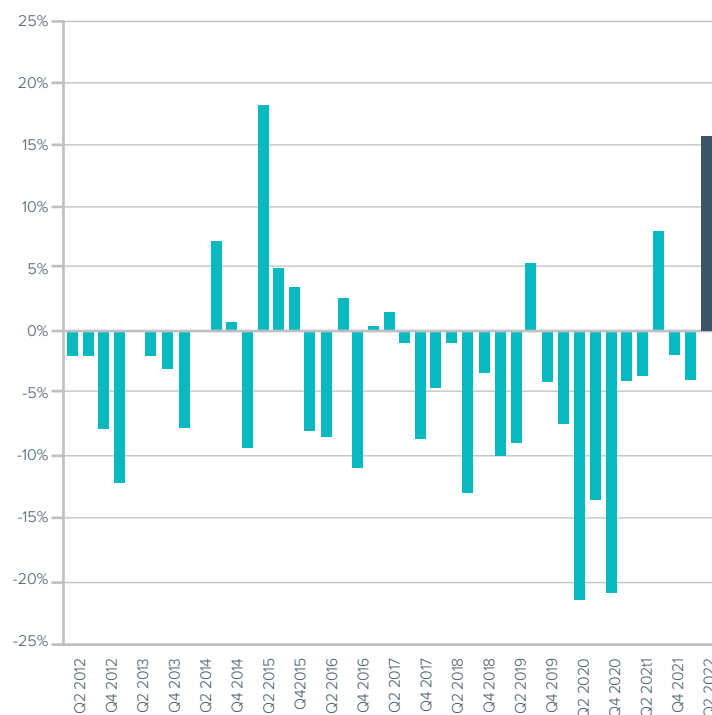
Looking ahead, small businesses in Scotland expect this trend to be reversed. The net balance of respondents expecting growth in employee numbers in Q2 stands at a historically healthy 15.6%. It should be borne in mind, however, that the intention to increase staff headcount is not the same as being able to successfully hire staff to fill vacant roles – and staff recruitment is proving an issue for many employers.

Almost nine in ten small businesses in Scotland experienced rising costs in Q1. 88.2% of respondents reported increased overheads, whereas only 1.6% said they had fallen, underlining that few businesses are immune from inflationary pressures.

Indeed, cost pressures have been witnessed across the UK's business landscape, with the annual rate of input price inflation reaching 19.2% in March. Particularly stark price increases have been seen in commodity markets, driven firstly by general shortages and secondly by the impacts of Russia's invasion of Ukraine. These factors have been reflected in stark increases to fuel and utility prices. These two categories were the most commonly identified sources of changing business costs in the latest UK-wide SBI survey, cited by 60.1% and 58.0% of respondents respectively. This ranking also holds for Scottish businesses, though the proportion of business citing each source is slightly higher in both cases, at 68.4% and 62.3% respectively.

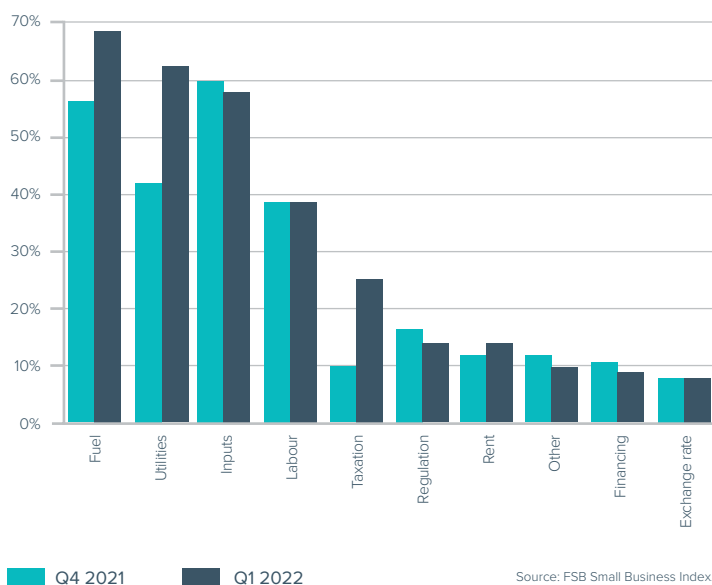
There was an increase in the share of Scottish businesses citing taxation as main cause of changing business costs. More than a quarter, 25.4%, of Scottish businesses saw this as a main cause of changing costs in Q1, up from just 10.0% in Q4 2021. One factor behind this is likely the changing policy landscape post-Covid, with some covid related rates reliefs being wound down. In addition, increases in national insurance contributions, by both employees and employers, are likely to be reflected in a higher fraction of businesses citing taxation as a cost barrier.

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

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