



FSB London Quarterly Small Business Index

Q3 2021

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Foreword

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It is great to see the level of stoicism amongst London’s small businesses in the face of multi-layered challenges that have impacted them on a day-to-day basis. The level of investment and employment intentions in the Capital are welcome, however, Small firms are swimming against a tide of spiralling costs, supply chain disruption and labour shortages and so support at national, Mayoral, and local level is critical.

Expanding the Small Business Rates Relief to a rateable value of £25,000, removing hundreds of thousands of small firms from the scope of this tax, would make a huge difference to small firms in these regions, along with increasing the Employment Allowance, saving small businesses £5,000 rather than £4,000 on their annual jobs tax bills, and help them invest in their staff themselves. We must also address the scourge of late payments on small businesses that is a London and nation-wide problem.

The London Small Business Index (LSBI)¹, which measures confidence amongst businesses, has strongly risen since the last quarter. It currently stands at 38%; in Q2 2021, the reading was -1%.

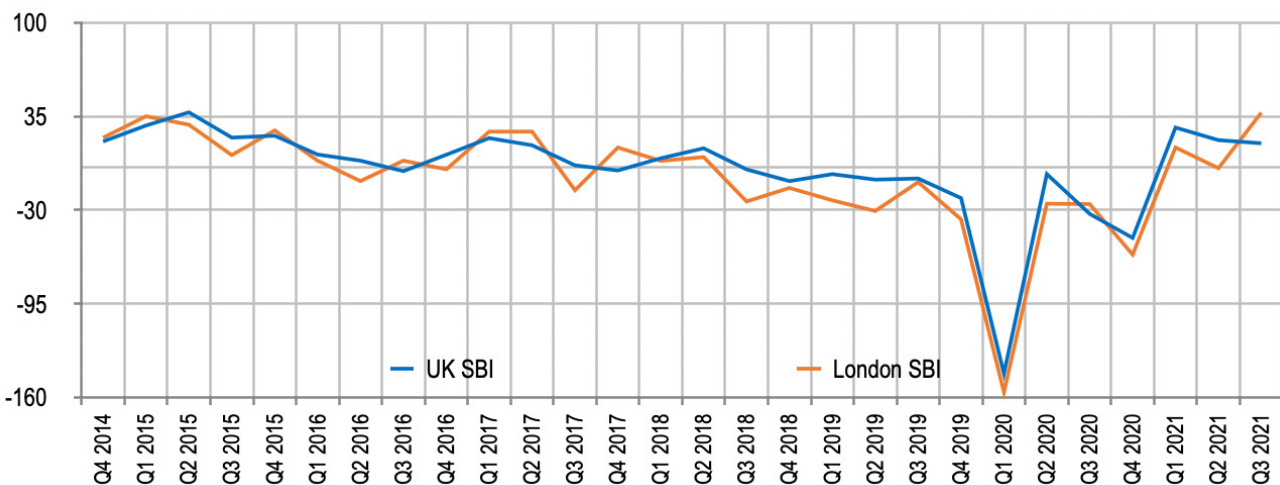
Confidence levels have grown substantially to 38% during Q3, following a drop from Q1 2021 (13%) to Q2 2021 (-1%). It’s worth noting that this is also significantly ahead of the readings taken during all of 2020 (average score of -67% for the year). Sentiment across the rest of the UK also appears more positive than that of 2020, with almost all regions now reporting positive levels of confidence.

Accordingly, sentiment in London (38%) heavily outperforms the national average (16%) and in terms of confidence scores, London has reported the highest of the UK regions.

Confidence is second greatest in the North East (25%), with the only negative confidence level evident within the East of England (-1%).

Confidence greatly increases in London, whilst the UK average slightly declines. Confidence in the region now sits above the UK average by a considerable margin.

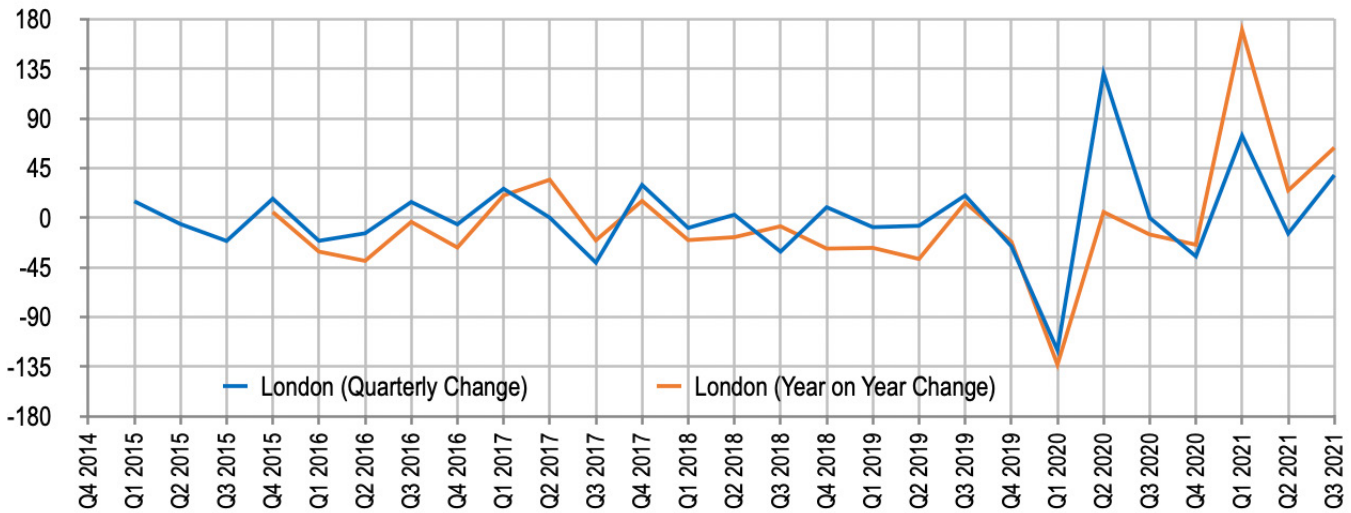
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



¹ 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.

Both quarterly and yearly confidence scores are comparatively up as London small businesses are more positive about business prospects for the next three months.

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



Business Conditions

The overall difference in revenue from the last 3 months is negative (net score, -6%)² with businesses in the region the most likely to report having been negatively impacted during the period. Despite this, London is the most positive region for predicted net revenue over the next three months.

In Q3, 41% of small businesses in London reported a decrease in revenue over the last 3 months. Conversely, a smaller group of 35% reported an increase in revenue over the last 3 months.

Accordingly, with a net balance figure of -6% for Q3, London small businesses’ revenue remains in negative territory – despite showing signs of significant improvement since Q3 2020 (-36%). Revenue in the region is the most impacted (the UK-wide average is 8%), with the only other region reporting a negative net revenue score being the North West (-5%).

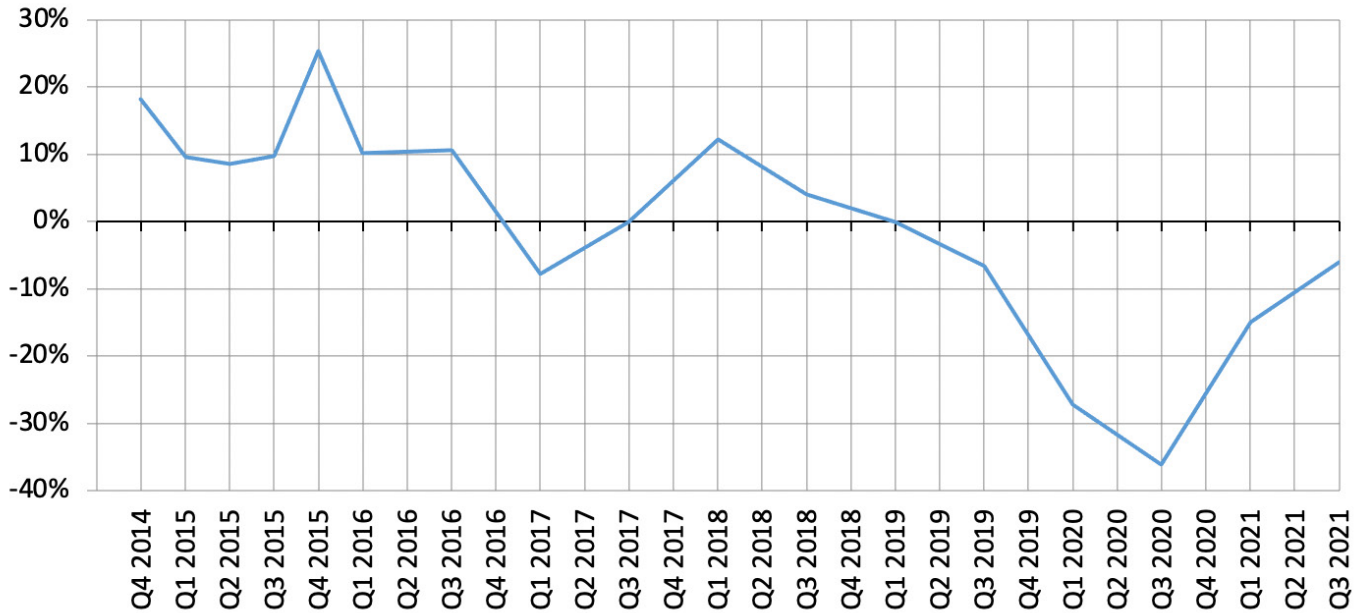
The outlook for revenue in the coming 3 months, however, looks net positive (37%) – with more firms expecting an increased revenue vs. a decrease. Looking at other regions in the UK, London holds the most positive outlook for net revenue. The nationwide average sits at 20%, with the second highest predicted net revenue coming from the North East (29%), and the lowest from the East Midlands (9%).

Reported revenue shows signs of a continued recovery since Q3 2020, following a sharp decline during the pandemic. However, this continues to be net negative (-6%).

² 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’

Fig.3 FSB Small Business Index: net balance of small firms in London reporting revenue (revenue question only asking in Q1 and Q3 phases of SBI – question is asked on a rotational basis)



Employment and Wage growth

Over 1 in 10 (14%) of small businesses in the region have lost staff in the previous quarter, leading to a larger net decline in employment than predicted in Q2.

The employment picture amongst FSB members over the preceding three months showed that 12% had increased staff numbers, whilst 14% had decreased them across the region; this leaves a net decline in employment levels (-2%). This is more negative than predictions made at the end of Q2 2021, when 23% intended to increase staff numbers, and only 9% expected to decrease staff levels.

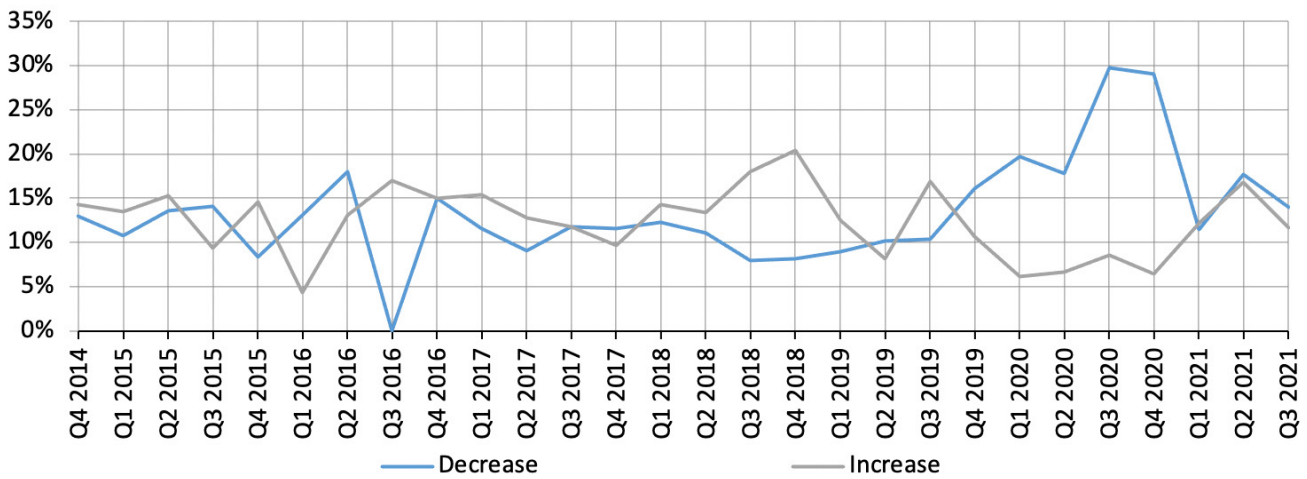
For the majority, staffing levels remained the same in Q3 2021, with 65% reporting no change. For the next quarter, the intention is for 22% of businesses to increase headcount and 2% to decrease staff numbers.

Wage Growth

In London, just under half (42%) increased the average salary awarded across the business over the last 12 months – with 34% increasing the average salary by 2% or more. 57% expect to see salary increases over the next 12 months, with 39% reporting the likely increase to be 2% or more.

The number of small businesses in London hiring last quarter (12%) continues to trail the number decreasing staff numbers (14%).

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



Growth and Investment aspirations

In Q3, 2021, 60% 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%). Compared with this time last year, fewer small businesses report a desire to downsize or sell their business (8%, vs. 22% at Q3 2020).

Investment intentions going into the next quarter are relatively high and stronger than the UK average.


In London, 27% of small businesses expect to increase investment in their business, with a smaller proportion (7%) expecting to decrease this over the next 3 months. London (net 20%) is above par with the investment sentiment seen across the UK, where a net average of 15% was registered. The only region where investment intent is higher is the North East (21%).

In London, the general economic conditions in the UK (58%), appropriately skilled staff (38%) and consumer demand (25%) are the greatest perceived barriers to growth over the coming twelve months.

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