

A woman with curly hair, wearing a blue jacket and an orange safety vest, is sitting in the driver's seat of a car. She is smiling and looking towards the camera while holding a document. The background shows a white van parked outside.

FSB South East Quarterly Small Business Index

Q3 2023

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fsb⁰³

Foreword

Foreword by Ian Ross
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Our research for the third quarter of 2023 shows another decline in business confidence in the South East of England. From -7 in Q2, confidence has fallen to -13, reflecting the ongoing battles small businesses have with high inflation and increasing interest rates. The trends aren't encouraging, the trend downwards is a continuous one from the start of 2023, where the South East recorded a positive rating of 4. Compared to the rest of the country, the South East is joint-third lowest in confidence, with the lowest being the South West at -31.

However, firms report a continuing upward trend in revenue, with 39% reporting an increase and 33% reporting a decrease. This net 6% score is an increase on last quarter, where more firms reported a decrease in revenue. The South East registers the second highest net revenue, behind the East Midlands and only one of two where firms report a net increase in revenue.

On employment and wage growth, small businesses report a slight increase, but below expectations. Over the last quarter 15% of firms increased staff, while 12% decreased. This 3% net result, while positive, is well below the 14% anticipated by small firms in the last quarter. Just over two thirds increased wages in the last 12 months, 63% increasing by 2% or more. Looking ahead 7 in 10 firms expect to increase wages next year, and 6 in 10 by 2% or more.

The trends show growing pessimism among small businesses. A year ago, more businesses expected to grow than they do today, although this quarter 46% of small businesses still expect to grow. This is also reflected in the investment intentions of small businesses, where 24% expect to increase investment and 16% decrease.

In summary, it's not an overwhelmingly positive set of figures. Despite revenue increasing, this is not matched by significant increases in investment or growth. It reflects unease at the economic picture and worry about interest rates and lingering inflation. That hesitation to act is stopping business growth that would kick start the UK economy. Policy makers should take heed before stagnation sets into the British economy.

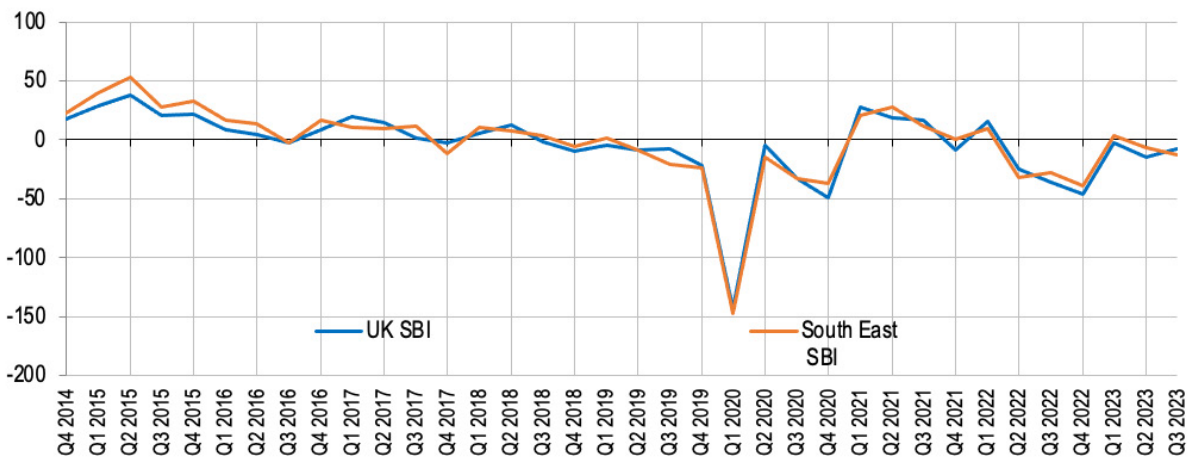
The South East Small Business Index (SESBI)¹, which measures confidence amongst businesses, has decreased further since the last quarter. It currently stands at -13; in Q2 2023, the reading was -7.

This is a continuation of the downward trend that has been seen recently. 2023 started positively, with a reading of 4 in Q1. However, it has only decreased since then.

When comparing this reading of -13 to the wider UK as a whole, confidence in the South East is lower (the overall score is for the UK is -8). The UK has also seen an improvement in business confidence from Q2 2023, whilst the opposite is true for the South East. This index score of -13 is the joint 3rd lowest of the regions that are tracked, but is far from the lowest index score, with the South West at -31, and the West Midlands at -26.

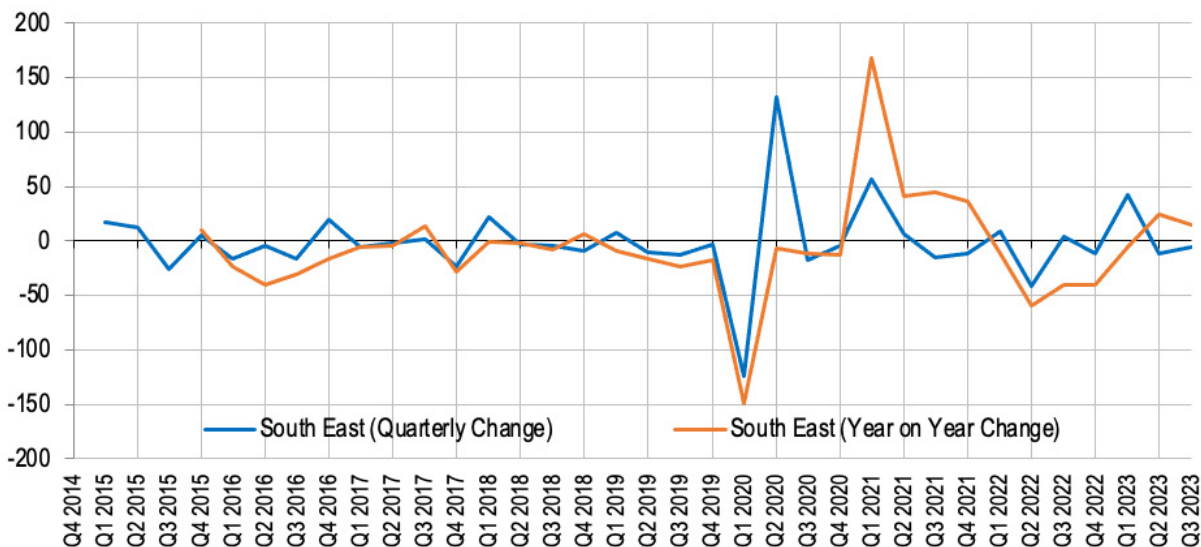
Confidence in business performance over the next 3 months has remained below zero and fallen below the UK average.

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



Whilst there was an increase in confidence among small businesses in the South East from Q2 2023 to Q3 2023, the YOY confidence has decreased slightly.

Fig.2 FSB South East Small Business Index: small business confidence levels (%).



¹ The South East 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

Whilst business confidence in the South East has been decreasing, revenue has been increasing, with a net score of 6%², compared to -1% in the previous quarter.

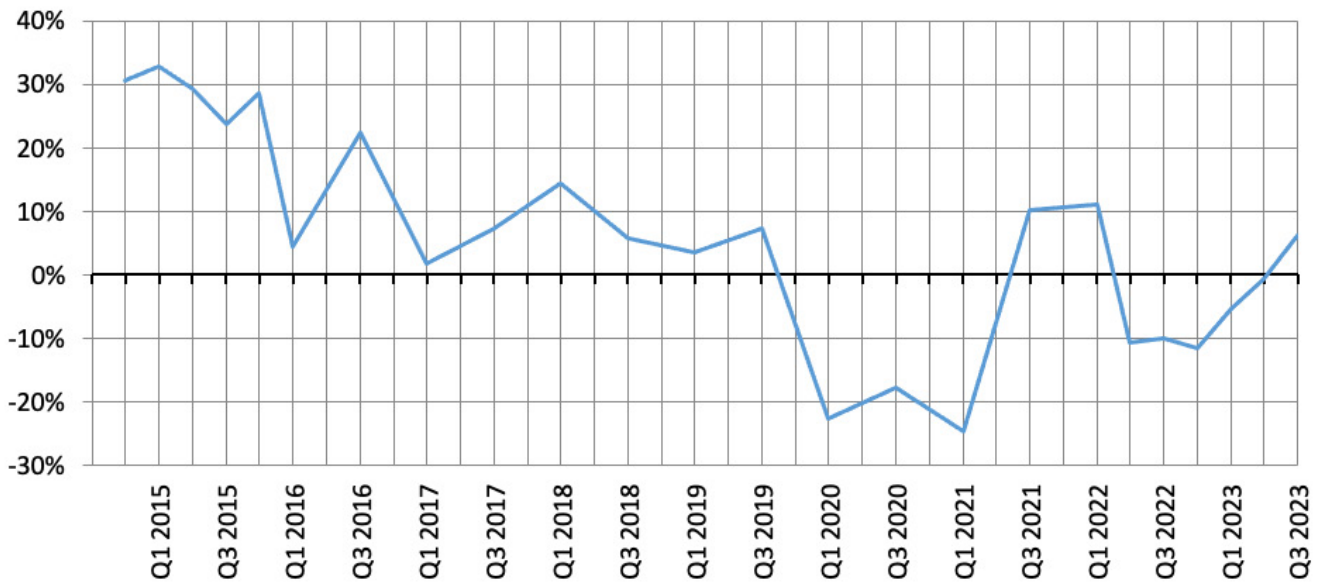
39% of small businesses in the South East have reported an increase in revenue over the last 3 months; this continues an upward trend since late last year (30% in Q4 2022, 35% in Q1 2023, and 38% in Q2 2023). 33% of small businesses reported a decrease in revenue over the last 3 months – this is an improvement over the last quarter where this was 39% of small businesses.

With a net balance figure of 6% for Q3, the net revenue for the South East has improved since Q2 2023 (-1%). This is an improvement when compared to this time last year (net -10% in Q3 2022). When looking across the UK, the South East has the second highest net revenue score, and is one of only two regions with a positive net score for this quarter (the other being East Midlands, with 11%). This results in an average net of -6% across the UK.

The outlook for the future has diminished steadily since the start of the year, with the predicted net revenue for the next 3 months sitting at 1%. This represents a decline from 22% in Q1 2023 and 7% in Q2 2023. This is lower than the national average of 5%, which is boosted by the predicted net score from London of 18%.

The net revenue for small businesses in the South East is net positive for the first time since Q1 2022.

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



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'

Employment and Wage growth

Whilst there are more small businesses in the South East that are increasing, rather than decreasing their headcount, this net level continues to remain below predictions from the last quarter.

Amongst FSB members with businesses in the South East, there has been a small net increase in employee numbers over the last quarter, with 15% of businesses having increased their staff numbers and 12% decreasing them; resulting in a net change of 3%. Whilst this is a net positive value, it falls well below the predicted net increase of 14% from the last quarter. Despite this, however, 71% of small businesses in the South East have kept their headcount the same over the last quarter.

For the next quarter, 13% have predicted an increase in headcount, whilst 10% have predicted a decrease, resulting a net prediction of 3%. This is a drop from the previous 2 waves, where there was a net prediction of 17% in Q1 2023 and 14% in Q2 2023.

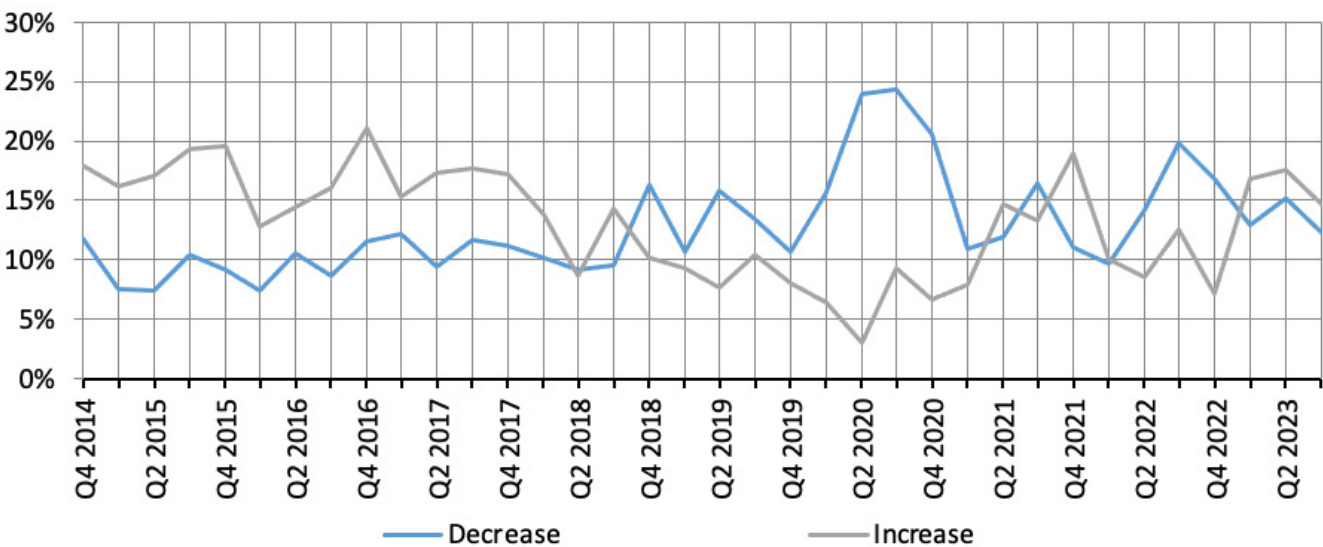
Wage Growth

In the South East, over two thirds (68%) of small businesses increased the average salary of their employees in the last 12 months, with 63% increasing this by 2% or more. 7% reported a decrease in average salary, which results in a net score of 61%. This represents a slight drop since the beginning of the year (66% in Q1, 64% in Q2). Over the next 12 months, 67% expect to see an average salary increase, with 59% reporting this increase will likely be 2% or more.

When looking at the previous 12 months, 70% predicted an increase in the average salary in Q3 2022, with 60% predicting that this increase would be by at least 2%.

Whilst the overall number of small businesses in the South East increasing their headcount has declined since last quarter, this is still higher than the proportion of those decreasing their headcount.

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



Growth and Investment aspirations

In Q3 2023, 46% of small businesses in the South East said that their aspirations in the next 12 months were to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%), with 13% reporting a likelihood to contract (downsize, close or sell) their business; this results in a net score of 33%. Compared to 12 months ago, small businesses in the South East are slightly more pessimistic (net 37% in Q3 2022).

The investment intentions for small businesses in the South East over the next quarter are just above the national average. The net balance of firms that expect to increase their investment is 8% - slightly ahead of the UK average of 6%. This is similar to the previous quarter, where the net balance was 9%, and the UK average 7%. For context, the lowest regions for net investment in England are the North East & Yorkshire and the Humber (-2%) and the highest is the East Midlands (13%).

In the next quarter, 24% of small businesses in the South East anticipate increasing investment, with around 1 in 6 (16%) expecting a decrease – this results in a net score of 8%. When looking at previous years, the average intended increase has remained relatively steady at 23% for 2022, 27% for 2021 and 22% for 2020. This puts the current level of expected investment increases at a similar level to the previous 3 years.

In the South East, the domestic economy (60%), consumer demand (35%), labour costs (26%) and appropriately skilled staff (25%) are the greatest perceived barriers to growth over the coming twelve months.

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