

SCOTLAND Q4 2021 SMALL BUSINESS INDEX

Small businesses in Scotland saw a further decline in confidence in Q4, according to the latest FSB Small Business Index. Scotland's SBI fell by 23.2 points between Q3 and Q4, reaching -22.0. This marked the second consecutive quarterly decline and the first negative reading since Q4 2020. Scotland's reading is the third lowest of any region or nation, with only Wales and the South West, at -31.1 and -22.2 respectively, scoring lower

The fall in confidence amongst small businesses in Scotland came amidst widespread supply-side issues, the emergence of the Omicron Covid-19 variant and cashflow issues caused by late payment. The pessimism shown in the latest round of the Scottish SBI likely reflects businesses' fears over more Covid trading restrictions in late 2021 and early 2022.

The UK-wide SBI also fell sharply in Q4. The index saw a third consecutive monthly fall in Q4, reaching -8.5. As with the Scottish SBI, this marked the first negative reading on the headline measure since Q4 2020. The fall in the headline index was mirrored across all of the UK's regions and nations, with the vast majority also exhibiting negative scores.

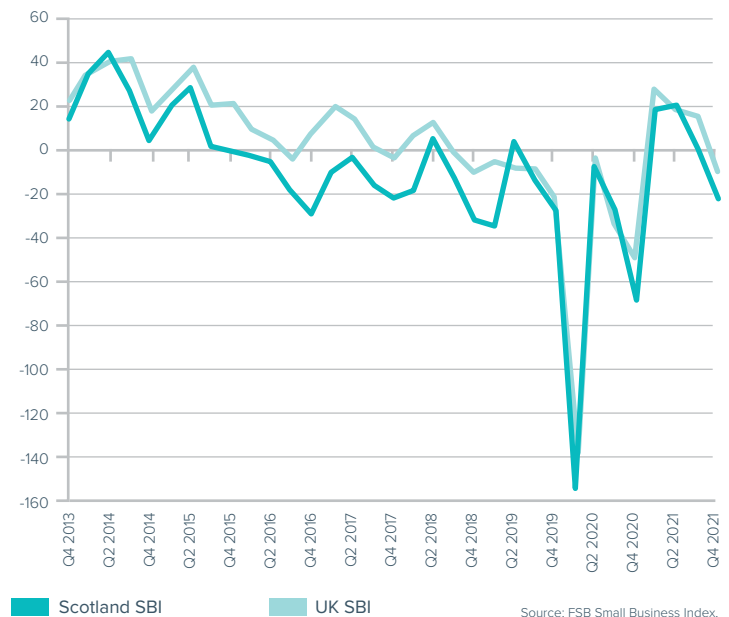
In addition to the emergence of the Omicron variant, it's likely that these unanimous falls in SBI readings were also driven by ongoing supply chain issues. Businesses grappled with rising input prices during Q4, while staff shortages have also adversely impacted capacity. These trends are expected to continue into 2022 and could further hold back business optimism.

More Scottish businesses saw profits decline than increase in Q4. The net balance of Scottish businesses reporting profit growth stood at -9.7% in Q4. This figure was equal to that reported in Q2 2021, the last time that the survey enquired about profitability. Within the net balance figure, just 31.8% of respondents reported that their profits increased in Q4 relative to the previous quarter. This proportion was amongst the lowest of any UK region or nation.

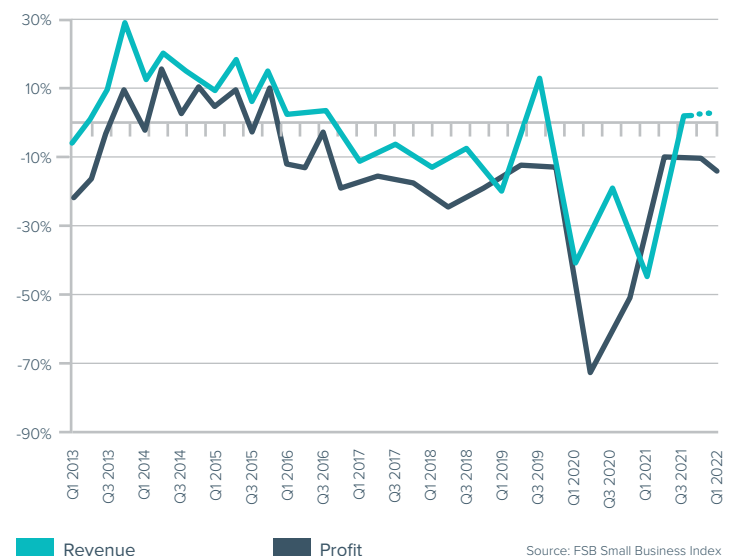
Input price rises, late payment, supply constraints and a potential dampening of demand due to the emergence of the Omicron variant, all stand as potential drivers behind Scottish businesses' weak profit performance.

Looking ahead to Q1 2022, Scottish businesses are even more pessimistic. A net balance of -13.7% anticipate gross profit growth. This expectation of weak profits likely reflects the uncertainty brought about by the new variant, as well as fears over further restriction measures.

Small Business Confidence



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



Scottish small businesses saw a decline in employee headcount in Q4. A net balance of -1.9% of Scottish small businesses saw their employee headcount grow in Q4. This marks a return to negativity, having stood in positive territory for the first time in two years in Q3 2021.

Scotland's net balance was amongst the weakest of any nation or region, being with only the North West posting a lower score, at -5.2%.

This weak net balance is partially corroborated by other trends and data sources. Scotland's labour market recovery has, in parts, not been as strong as in other region and nations of the UK. For instance, in the latest labour market data, Scotland's employment rate of 75.1% was 0.4% lower than the UK figure.

Scottish small businesses expect a reversal of this trend, however, with a net balance of 7.6% expecting headcount growth in Q1 2022. Though this suggests that more Scottish businesses expect their employee numbers to grow than shrink, this is still a comparatively low figure compared to other UK regions and nations, with the UK-wide figure standing at 9.8%.

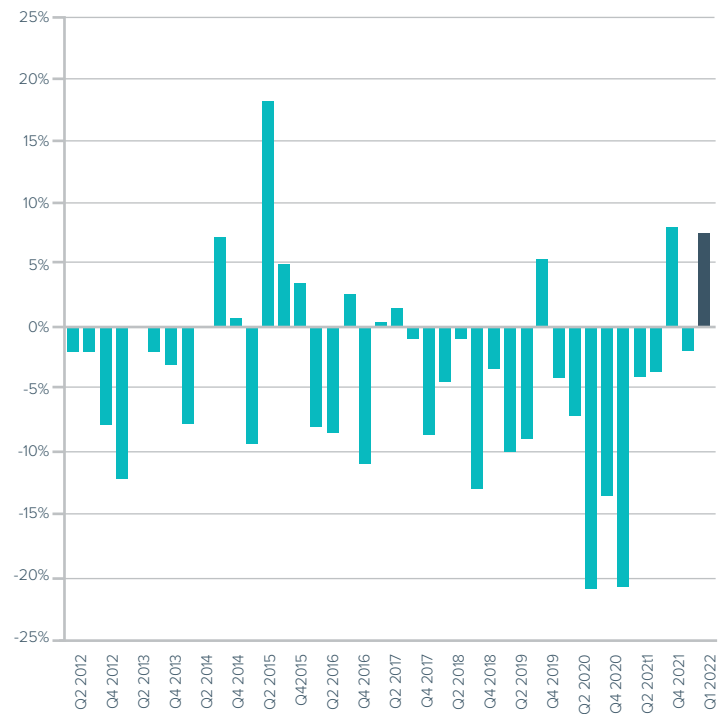
More than eight in ten small businesses in Scotland experienced rising costs in Q4. Only 5.0% of Scottish small businesses saw their costs decrease in Q4, relative to the same quarter of 2020. This compares to more than eight in ten respondents, 82.5%, who saw their costs increase. Thus, Scottish businesses were amongst the most likely to experience cost pressures in Q4, apart from Wales and Yorkshire and the Humber, where respective shares of 84.1% and 82.8% were recorded.

Rising business costs remained a key theme across the UK economy in Q4, as supply-side problems put upward pressure on the prices of key input goods. Meanwhile, the overall cost of doing business has risen in recent months, again being driven by supply chain and logistics issues.

Amongst respondents in Scotland, inputs were the most commonly cited source of rising business costs. This was the case for 60.0% of such respondents. General input price pressures have been experienced by businesses across the board, with the annual rate of input price inflation in the UK reaching a 13-year high of 14.3%, according to the ONS. However, only 48.7% of businesses UK-wide reported inputs as a source of cost pressure, suggesting that these effects are more pronounced in Scotland.

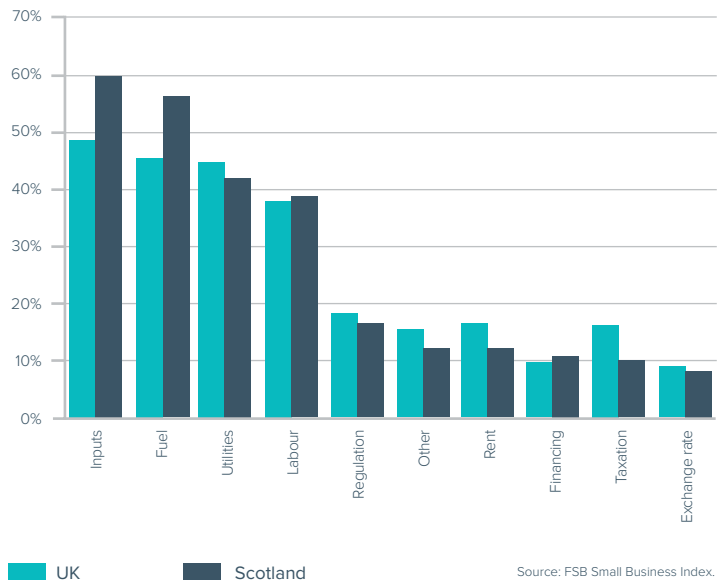
Fuel was also a major source of upward cost pressure, being reported by 45.6% of respondents across the UK and 56.4% of respondents in Scotland. Upward cost pressure from fuel has been driven by weak global oil supply relative to demand, leading to surging prices. And lastly, late payments increased causing significant cashflow pressures and threatening the viability of one in ten Scottish firms (12%).

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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