



FSB South West Quarterly Small Business Index

Q1 2024

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Foreword

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For over two years now, confidence levels among South West businesses have been at a very low level and have consistently been going in the wrong direction. These reducing positivity figures have also ensured that (sadly) we were firmly bottom of the nationwide small confidence league against all other regions. It has not been a happy picture.

Thankfully today that has changed and we are pleasantly surprised to report a huge shift upwards in business sentiment here in the South West.

Our report for the first quarter of this year has seen a remarkable rise in regional confidence which has gone up by over 40 percentage points and put us in the best position since October 2021. And that surge has also seen the region climb well away from the bottom of the confidence league which is also good news for the perception of South West business strength as a whole.

The fall in inflation, the stabilisation in the energy market and the genuine hope that interest rates may start to come down again have all probably helped to fuel some of the change in attitude and it is definitely to be welcomed after what has been a very difficult couple of years in this region. Problems still remain of course – investment hopes are quite low and far too many businesses are still considering downsizing or even closing in the region – but in the context of what we saw throughout both 2022 and 2023 we have to feel a sense of some relief about the more upbeat response we have had from the South West businesses surveyed.

Our quarterly reports are really important indicators of the mood of the local small business community and for too long now we have seen disappointing figures. To see such a dramatic change for the start of 2024 therefore is a real tonic and we hope it will suggest we may just be turning some sort of corner at last..

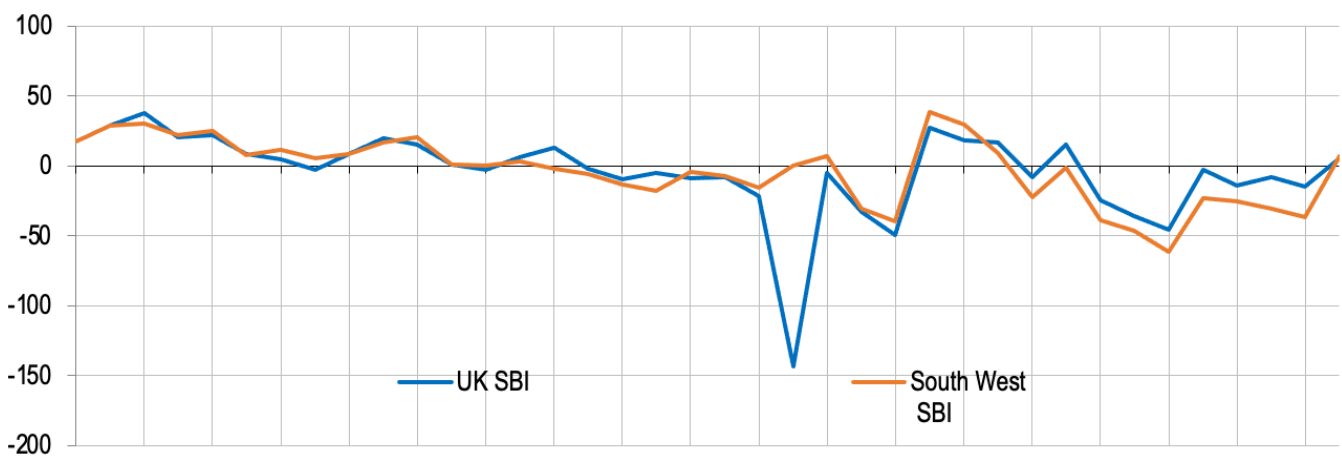
The South West Small Business Index (SWSBI)¹, which measures confidence amongst businesses, has increased considerably over the last quarter. It currently stands at 7, well above the index score from Q4 2023 of -37.

This confidence index score also represents a YOY improvement from the -23 reported in Q1 2023, and has returned to positivity for the first time since Q3 2021, following 9 consecutive quarters with negative index scores for the region.

When comparing to the other regions in England, the South West is slightly above the UK average score of 5 for this quarter. For context, the highest index score of the 8 English regions that are reported on is for the North East & Yorkshire and The Humber, at 31. Whilst small business confidence in the South West has increased since the previous quarter, the average for the UK overall has also improved; from -15 in Q4 2023, to 5 in Q1 2024.

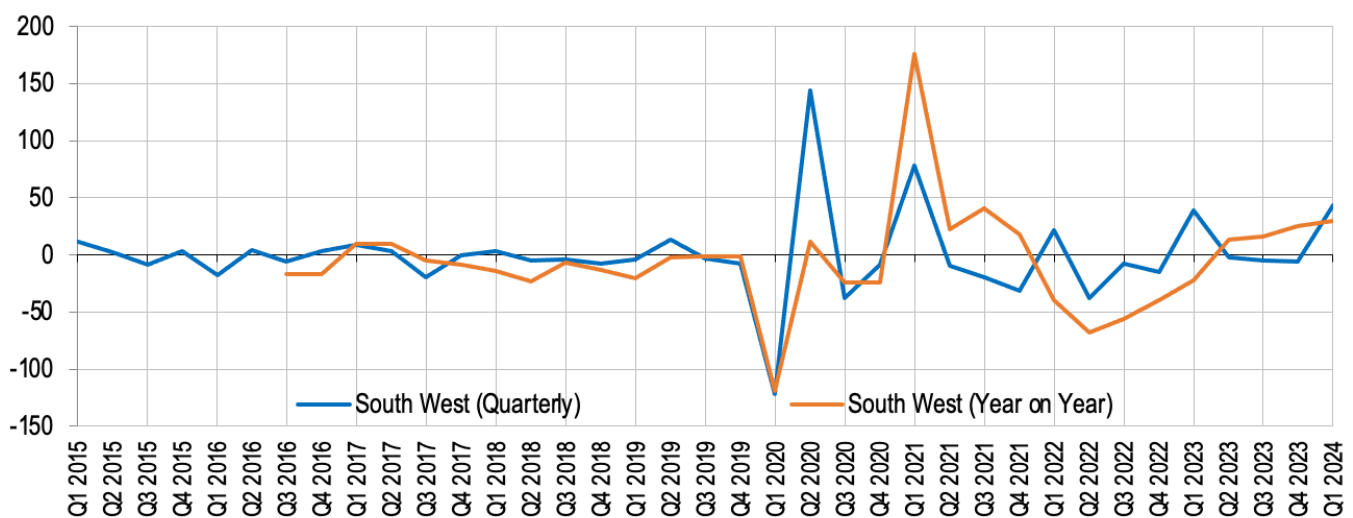
Confidence in business performance for the next 3 months in the South West has improved considerably, and is now above the UK average.

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



Confidence has improved significantly since Q4 2023, whilst YOY confidence scores continue to improve at a consistent rate.

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



¹ The South West 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 net balance of revenue in the South West has improved this quarter, although remains below zero. Despite this, predictions show a considerable improvement in the net balance over the next 3 months.

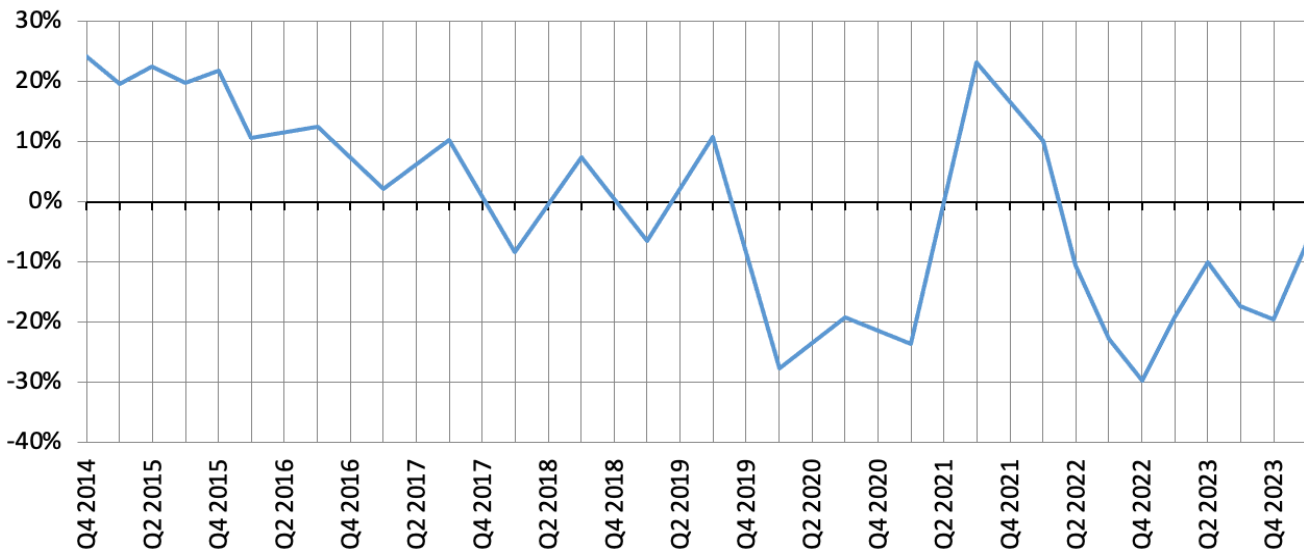
Between Q4 2023 to Q1 2024, the overall net balance for revenue in the region has improved, from -20% to -7%². This also represents a YOY improvement, from -19% in Q1 2023. Compared to predictions made in Q4 2023, the South West is outperforming; back then, it was predicted the net revenue would be -19%.

When comparing the net revenue balance across other regions in England, the South West is slightly above the UK average of -9. For reference, the best performing region is North East & Yorkshire and The Humber, with a net balance of 12%, and the worst performing region is London, with a net balance of -20%. This is a notable improvement, particularly as the South West was the worst performing region in Q4 2023.

The outlook for future revenue over the next 3 months is increasingly positive, with a predicted net revenue balance of 18%. This comes from 45% of small businesses predicting revenue to increase, whilst 27% anticipate a decrease. Compared to other regions, the South West is slightly below the UK average of net 22%.

Net revenue among South West small businesses has increased this quarter, rising to the highest point since Q1 2022, but still remains below zero.

Fig.3 FSB Small Business Index: net balance of small firms in the South West reporting revenue.



² The NET number of businesses is calculated by subtracting the total number of businesses who reported a decrease in gross profits from those who reported an increase in gross profits in the last 3 months

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

Employment and Wage growth

The South West scores below the UK average in terms of Q1 2024 employment levels, although the net ‘actual’ employment change is slightly better than predicted in Q4 2023.

The employment picture amongst FSB members over the preceding three months showed 19% of small businesses in the South West as having decreased staff numbers, whilst 8% had increased employment levels; this results in a net decrease of -11% over the last quarter. In comparison, the UK average net employment change among small businesses was -4%. This net employment change in the South West is slightly above the predicted net change of -14% for employee numbers in Q4 2023. 68% of small businesses in the South West region reported their staffing levels have ‘stayed the same’ since the previous quarter, down from the 76% reported in Q4 2023.

For the next quarter, net employment is expected to improve slightly, with 14% of small businesses in the South West planning to increase their headcount, whilst 9% say they will decrease it; resulting in a net of 5%.

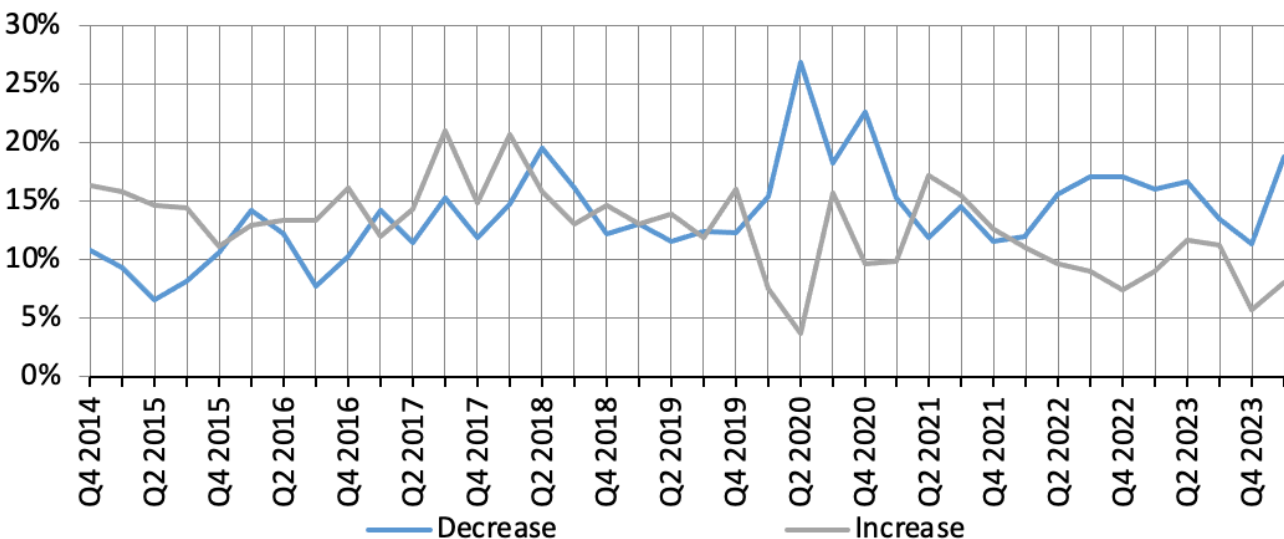
Wage Growth

In the South West, 68% of small businesses increased the average salary across the business over the last 12 months, with 63% of those reporting the average increase to be 2% or more. This is down slightly from the 68% who reported wage growth of at least 2% in the previous quarter.

Predicted wage growth over the next 12 months, which sits at net 69% this quarter, is up slightly from Q4 2023, when it was reported at 64%. Now, 75% said they expect to see the average salary increase, whilst 6% are reporting this will likely decline over the time period.

The proportion of small businesses in the South West who have decreased their headcount over the last 3 months has increased to its highest level since Q4 2020.

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



Growth and Investment aspirations

In Q1 2024, 48% of small businesses in the South West said that their growth aspirations in the next 12 months are to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). Growth aspirations in the South West this quarter are above what was noted in the previous quarter (42%), but sit just below the UK average for this quarter, of 52%. These current aspirations are a YOY improvement when compared to Q1 2023, when 38% of small businesses in the South West expected to grow over the following 12 months.

On the other hand, 15% of small businesses in the region have stated that they intend to contract in the next twelve months (to downsize, sell or close the business), which is the same proportion as seen in the previous two quarters. This is, however, slightly worse than results seen YOY (13% of businesses in the South West stated an intention to contract in Q1 2023).

The net score for investment intentions in the South West are similar to the previous quarter, and remain positive.


24% expect to increase investment over the next 3 months, whilst 22% expect this to decrease over the same time period. The net balance for investment intentions in the South West therefore stands at 2%, which is below the net 5% indicated in the previous quarter. The net score in the South West for this quarter is below the national average of 10%, and is the most pessimistic region in England reported on. Comparatively, the most optimistic region is the East Midlands, with a net score of 16%.

In the South West, the general economic conditions in the UK (63%), labour costs (35%), consumer demand (32%), utility costs (27%), and tax burden (25%) are the greatest perceived barriers to growth over the coming twelve months.

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