



FSB London Quarterly Small Business Index

Q2 2022

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Foreword

The London Small Business Index has gone into reverse gear over the last quarter, and it is evident that external factors are playing a big part in this negative sentiment. The cost of doing business in London is increasing from all angles. From the costs of materials to the price of filling up the tank to paying sky high energy bills – and this is before we even factor in the cost of commercial space and employment tax rises.

FSB London were delighted to be a founding partner at the launch of London's 'Property X-Change' - An exchange of new and diverse ideas leading to a fair recovery and bright future for London's high streets. The time is now for innovative working relationships between landowners and tenants to maintain thriving high streets and so in the spirit of collaboration we urge Landowners to be patient and understanding with tenants.

FSB London is separately releasing the results of our Ultra Low Emissions Zone/Road User Charging survey. Our findings show that the Mayor and Transport for London must heed concerns of small businesses with many simply unable to afford the cost of a compliant vehicle by August 2023. With a long-term funding settlement between TfL and Central Government still to be found, FSB London are calling for an all-encompassing Vehicle Scrappage Scheme for small businesses and a longer lead in time to help those micro businesses who are struggling financially.

We must also support our businesses by paying London businesses on time, every time. Late Payments is a form of debt that has not been authorised – and is a practice that must be stamped out.

Firms desperately need help with the charges that hit them regardless of profitability: business rates, national insurance, utilities, fuel and those linked to supply chain disruption.

At this time of economic and political upheaval we are looking to prime ministerial candidates for unequivocally pro-business, pro-growth commitments. There is still time to act, but time is of the essence.

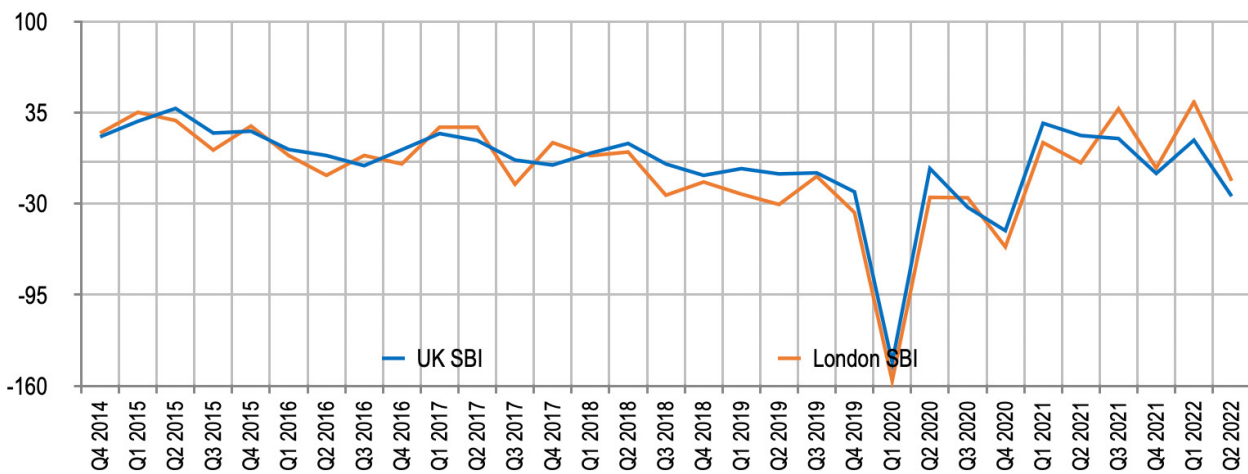
The London Small Business Index (LSBI)¹, which measures confidence amongst businesses, has fallen sharply since the last quarter. It currently stands at -14 in Q2 2022, showing a decline since the previous quarter (43 in Q1 2022).

Confidence levels have dropped substantially to -14 in Q2 2022, following a strong rise from Q4 2021 (-5) to Q1 2022 (43). The results from the past quarter also represent a decline year-on-year, where confidence levels in Q2 2021 sat at -1. This is likely due in part to the recent rises in inflation and fuel prices. However, it's worth noting that this is still significantly ahead of the readings taken during all of 2020 (the average score was -67 for the year of 2020).

Despite this decline, sentiment in London (-14) still outperforms the national average (-25). In terms of confidence scores, London is the second strongest performing region, with the East of England (-10) the strongest, and the East Midlands (-43) the weakest.

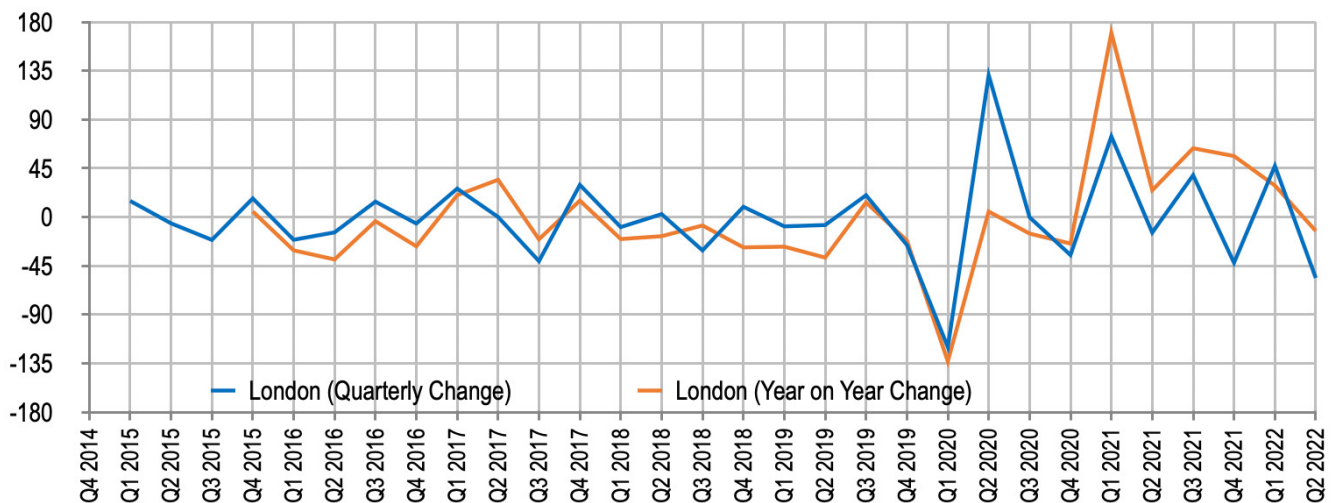
London confidence falls in Q2 2022, although remains above the UK average.

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



There is a clear decline both quarter-on-quarter and year-on-year in Q2 2022, despite the overall rise seen from Q4 2020 to Q1 2022.

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



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.

Business Conditions

The overall difference in revenue from the last 3 months is positive (net score, 1%)² with businesses in the region performing better than the overall UK average (-6%). Furthermore, London is the only England region, along with East of England, which has a net positive revenue over the last three months, while also being the only region to show a positive predicted net revenue over the next three months.

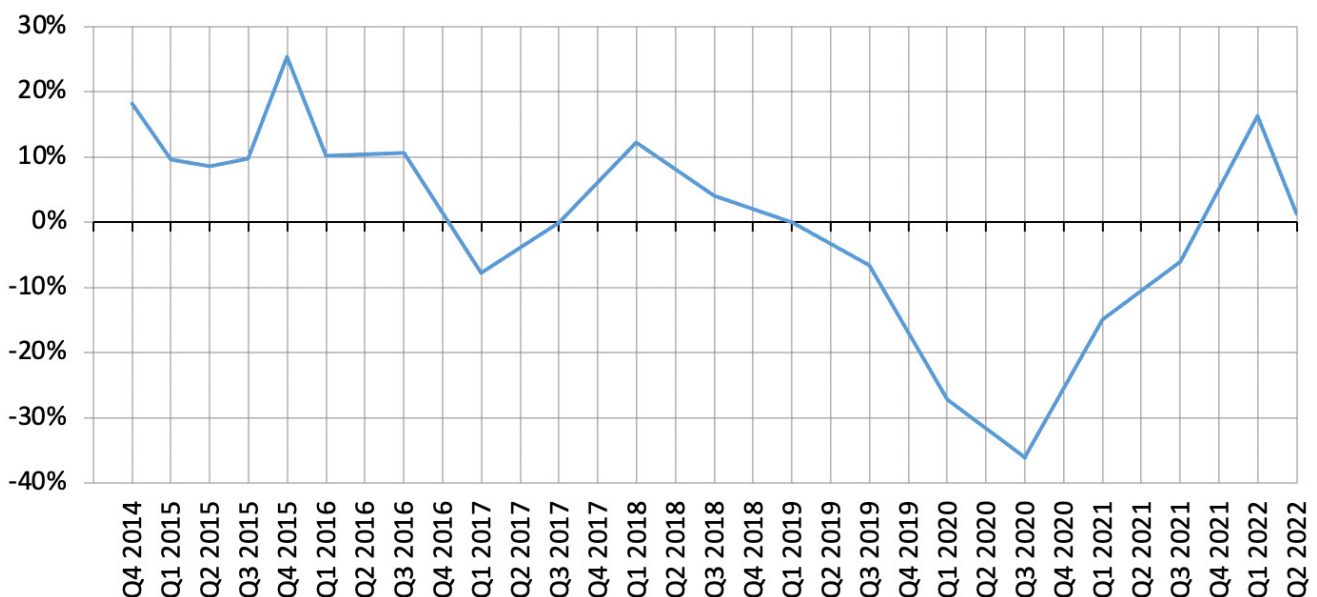
In Q2, 38% of small businesses in London reported an increase in revenue over the last 3 months, with 36% reporting a decrease.

Accordingly, with a net balance figure of 1% for Q2, London small businesses' revenue remains positive – following the net positive score in Q1 2022 (16%), this is only the second net positive figure since Q3 2018 (net 4%). Revenue in the region is above the UK-wide average (-6%) and is the joint strongest performing region with the East of England (also net 1%), with the weakest being the East Midlands (-14%).

The outlook for revenue in the coming 3 months is increasingly positive (14% net score) – with more firms expecting an increase in revenue vs. a decrease. This does however represent a drop from the predicted net change in Q1 2022 (35%). Looking at other regions in the UK, London holds the only net positive outlook for revenue in the coming quarter; the nationwide average sits at -3%. The next highest predicted net revenue comes from the West Midlands (-2%), and the lowest is the South East (-17%).

Reported net revenue remains positive in Q2 2022 but sees a decline from Q1. Despite this, Q1 and Q2 in 2022 record net positive scores for the first time since Q3 2018.

Fig.3 FSB Small Business Index: net balance of small firms in London 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

Just over 1 in 10 (14%) of small businesses in the region have lost staff in Q2 2022, leading to a lower net increase in employment than what was reported in Q1 2022.

The employment picture amongst FSB members over the preceding three months showed that just 7% had increased staff numbers, whilst 14% had decreased them across the region; leaving a net decrease in employment levels (-6%). This falls short of the predicted 16% net increase predicted in Q1 2022. The last time a net negative change in staffing numbers for the region was recorded was in Q3 2021 (-2%).

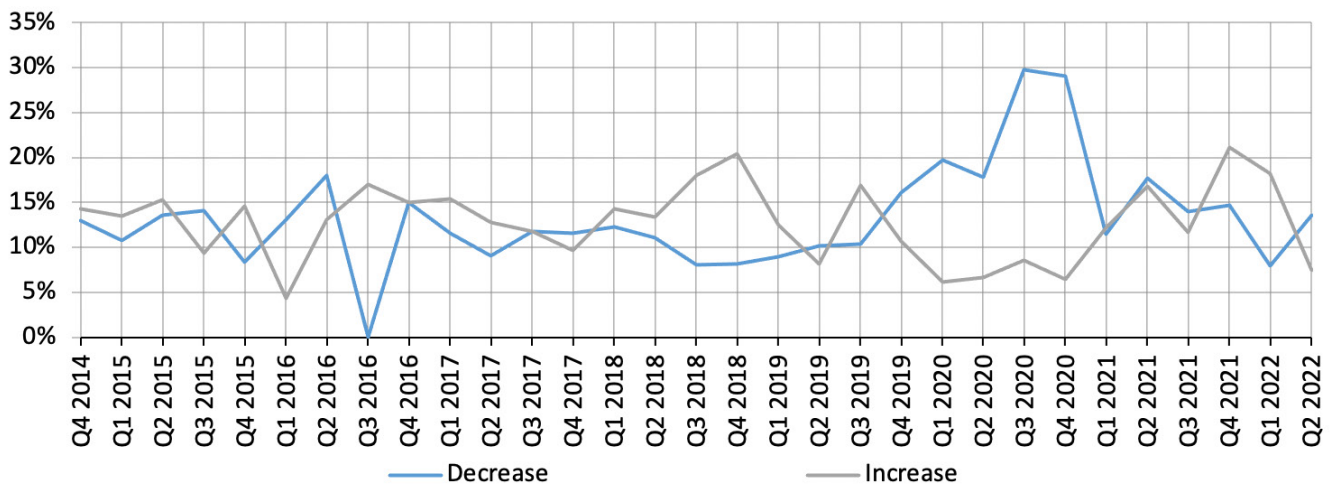
For the majority however, staffing levels did stay the same in Q2 2022, with 70% reporting no change. For the next quarter, the intention is for 12% of businesses to increase headcount and 9% to decrease staff numbers.

Wage Growth

In London, over half (53%) increased the average salary awarded across the business over the last 12 months – with 49% increasing the average salary by 2% or more. 60% expect to see salary increases over the next 12 months, with 49% reporting the likely increase to be 2% or more.

The number of small businesses in London hiring last quarter (7%) fell below 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 Q2 2022, 55% 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%). The number expecting to contract their business sits at 13%, giving a net figure of 43%; this is almost identical to the overall score seen in Q2 2021 (45%).

Investment intentions going into the next quarter remain positive and have risen slightly since the previous quarter, sitting well ahead of the rest of the UK.

In London, 25% of small businesses expect to increase investment in their business over the next 3 months, with a smaller proportion (14%) expecting to decrease it. With a net score of 11%, London has shown an increase since Q1 2022 (net 7%) but is below the overall score seen in Q4 2021 (where it stood at net 30%). Despite this, London sees a strong level of investment intention compared to other regions, where the average score across the UK as a whole sits at net 3%. While London sees the highest net score in England, the second highest is seen in the South East (2%), with the joint-lowest seen in both the East of England and North East & Yorkshire and The Humber (both at net -5%).

In London, the general economic conditions in the UK (68%), appropriately skilled staff (32%) as well as the foreign economy (29%) are the greatest perceived barriers to growth over the coming twelve months.

About FSB

As experts in business, FSB offers members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. Its aim is to help smaller businesses achieve their ambitions. More information is available at www.fsb.org.uk

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