

A woman with dark curly hair tied back, wearing a blue and white striped short-sleeved shirt under denim overalls, is smiling and looking down at a bouquet of flowers. She is in a greenhouse, with a white trellis structure and various colorful flowers (red, pink, purple) visible in the background and foreground. The lighting is soft and natural.

FSB London Quarterly Small Business Index

Q3 2022

fsb⁰⁸

This document was produced by
FSB London in October 2022

Foreword

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The latest London Small Business Index shows that confidence is drifting in the wrong direction. The lack of clear and consistent business friendly policies, combined with the political and economic conditions, are putting huge pressure on small businesses.

We must concentrate on what is required to keep small businesses functioning, and the benchmark must be continued access to finance. Businesses will not want to take out more debt at a time of rising interest rates and will be struggling to service the existing debts accumulated during the Covid crisis. Our financial institutions must be on their side through maintaining positive relations and an understanding manner.

The fact that investment intentions remain strong is something we must build on. We must make it easier to invest in skills in small businesses by minimising bureaucracy and creating fiscal incentivisation, most notably through Apprenticeship co-finance support.

FSB London are also keen to see action taken to support small businesses who will be impacted by the extension of the Ultra-Low Emission Zone in August 2023. FSB recognises the climate emergency and the commitment to move to net zero – but the Mayor and Department for Transport must support the small business community through education and incentive approach to make greener decisions, discouraging non-essential business private vehicle journeys, and not to punish essential business journeys at this time of economic crisis.

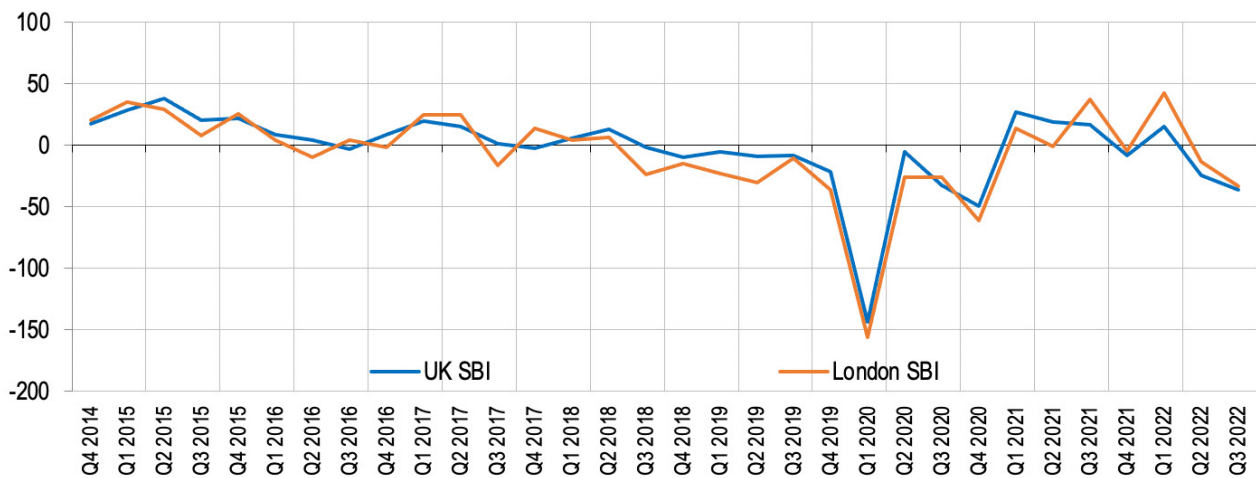
The London Small Business Index (LSBI)¹, which measures confidence amongst businesses, has fallen sharply in the last quarter. It currently stands at -33 as of Q3 2022.

Confidence amongst London small businesses continues to become increasingly negative. In Q1 2022, confidence measured at +43, before slipping to -14 in Q2. The further fall in Q3 may reflect a continuation of economic uncertainty, both in the UK and abroad, with persisting inflationary pressures.

London’s confidence level is similar to the countrywide average of -36 in Q3. Some regions display even more significant drops in confidence, with the South West returning a level of -47. The present issues feeding into these low confidence levels are clearly widespread, and represents a scaling back of the initial positivity seen after the ending of COVID-19 lockdowns.

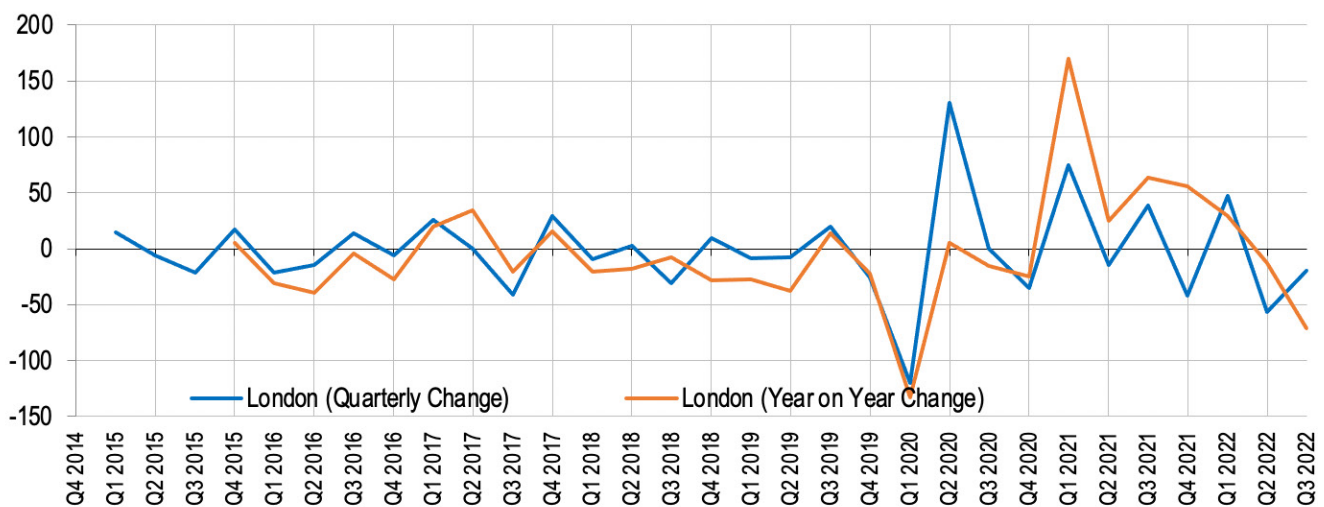
London confidence follows nationwide trends, continuing to fall in Q3 2022.

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



Quarterly change in London sentiment remains negative, with year-on-year confidence displaying a dramatic fall.

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

Revenue sentiment is worsening, with profit net scores negative in both London and across the countrywide average.

In Q3, 33% of London small businesses reported an increase in profit. In contrast, 43% reported a decrease.

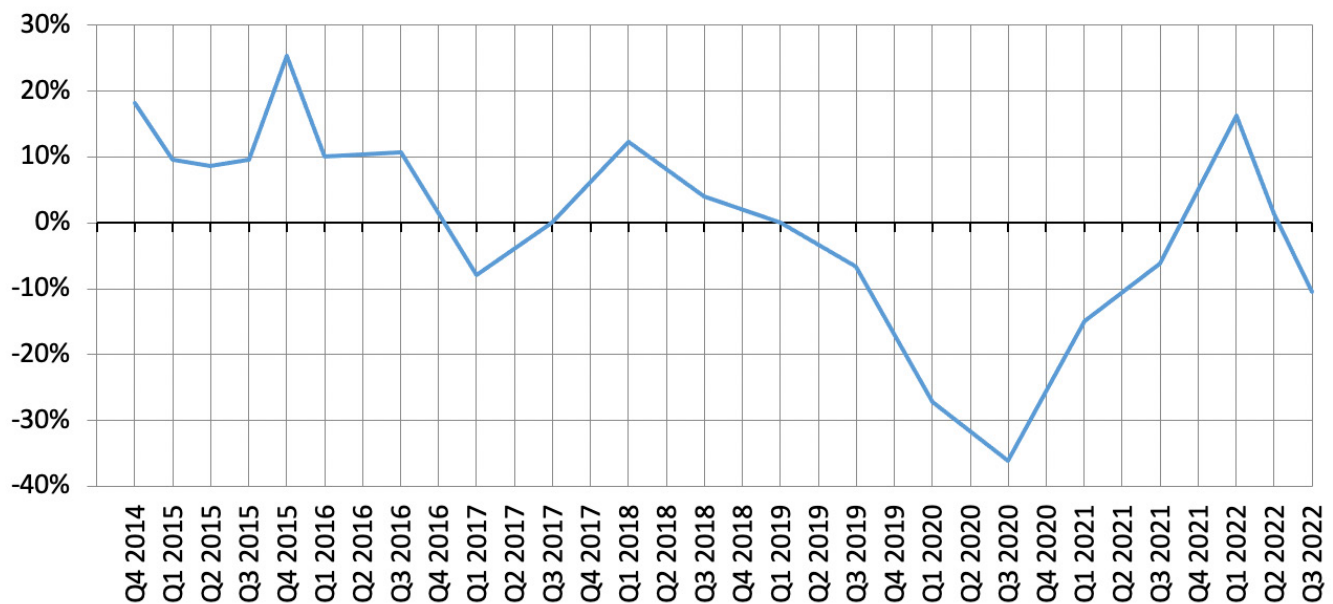
London’s net balance figure of -11% in Q3 closely reflects the reported countrywide average profit (-12% in Q3). This represents the lowest net profit figure in London since Q1 2021, when it was -15%. Other regions have reported even lower profit performance, however, with the East Midlands returning a net score of -32% in Q3. The West Midlands is the strongest performing region according to this metric, with a net score of 6%.

The outlook for future revenue is marginally positive in London (net score 1%). This is the most positive outcome, compared to pessimistic results from other UK regions such as the South West (-19%) and Yorkshire and the Humber / North East (-14%).

A significant proportion of London businesses do expect a further decrease in profits for the coming quarter (37%). This continues a trend of falling faith in profit outlooks; in Q1 20% of London small businesses expected profit decreases, and in Q2 this had risen to 26%.

London net revenue returns to a negative figure for the first time since Q3 2021.

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

17% of London small businesses report falling staff numbers over the last three months, with a net change of -4% in overall employment levels in the region.

In Q2 2022, 12% of London small businesses reported an intention to increase headcount and 9% reported an intention to decrease staff numbers. With 13% reporting increased employment levels over the last three months, this aligns with predictions. However, the reported 17% of businesses decreasing headcount displays a greater than expected loss of staff in the region. Importantly, the majority - 63% - of small businesses did report no change in headcount during Q3.

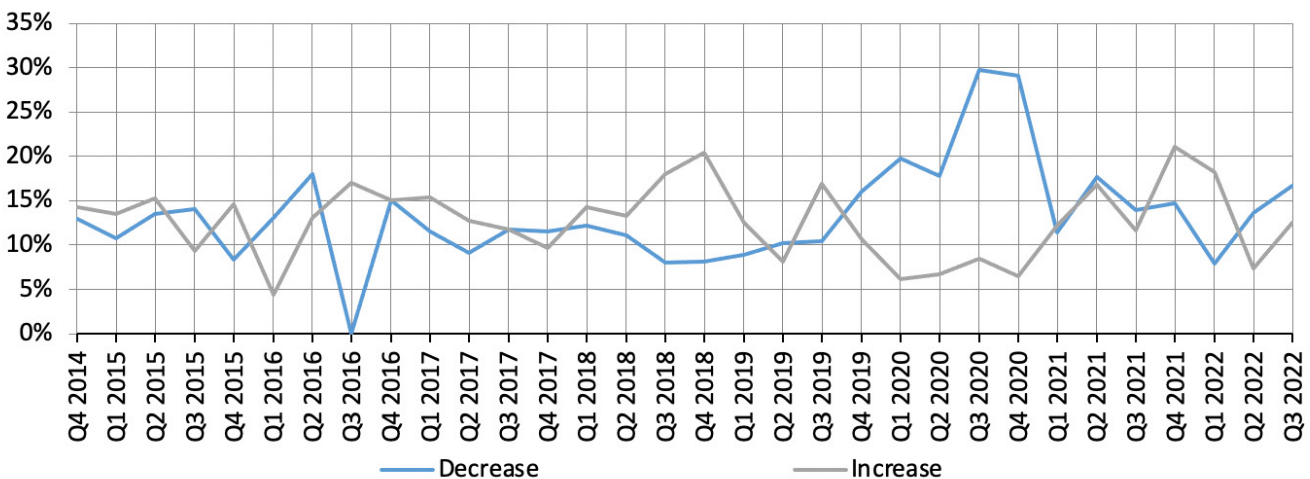
For the next quarter, 17% of businesses expect an increase, and 10% of businesses expect a decrease, in headcount.

Wage Growth

In London, two thirds of businesses (66%) increased salaries over the previous 12 months. This is notably larger than the 53% of businesses reporting increased salaries in Q2 2022. 61% expect to see salary increases in the next quarter, and 12% expect salaries to fall.

London small businesses decreasing headcount (17%) outnumber those increasing (13%) in Q3 2022.

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



Growth and Investment aspirations

In Q3, 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%). This matches the aspirations reported in Q2 2022 (55%). 9% report an expectation to downsize their business, resulting in a net change of 45%. This is a fall from the net growth aspirations from one year previously, which was 52% in Q3 2021.

The investment intentions for London businesses are well above the UK average.

The outlook in London for investment is positive, with 34% of small businesses reporting an intention to increase. With 17% expecting a decrease, the net score of 17% stands in considerable contrast to the UK average of net 4%, and other regions performing poorly in comparison such as the South West (net -12%).

The expected value of capital investment in the coming quarter has moved positively in London through 2022; In Q1 2022, the net score stood at 8%, and in Q2 2022 it stood at 11%.

In London, the general economic condition (58%) and consumer demand (40%) are the greatest perceived barriers to growth over the next 12 months, with appropriately skilled staff (32%) coming in third.

Consumer demand has grown considerably as a concern since Q2, when it stood as a primary worry for 24% of small businesses. This may be linked to an expectation of continued inflationary pressures.

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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