FSB East of England Quarterly Small Business Index

Q4 2023

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Foreword

Despite the last three months of the year being known as the 'golden quarter', the reality was relatively bleak for our small businesses in the East of England although they remained positive about the road ahead.

First the good news: investment intentions were significantly higher than the national average and nearly half of small businesses signalled that they aspired to grow in the next twelve months. But, sadly, the prevailing optimism of small businesses in the region was not reflected in the revenue figures for the final three months of 2023.

With 39% of small businesses reporting a drop in revenue during a period when many small businesses usually expect revenue to rocket, it is unsurprising that business confidence has fallen to very low levels. In fact, the East of England reported significantly lower business confidence compared to the national average. This was perhaps expected with sectors such as hospitality, tourism, manufacturing, agriculture, and construction (widely reported to be feeling the full force of cost pressures and a crash in consumer confidence) being prevalent in the region.

As expected, challenges to recruit and retain staff saw local small firms increase their wage bills. However, in terms of staffing, the survey shows a downward trend - with the number of firms reducing headcount outpacing those businesses that increased their headcount. This points to a nervousness amongst small businesses to realise their growth ambitions whilst the economy remains volatile.

Regardless of the reasons behind the region's results, our small businesses have experienced prolonged pressures which, for many, are making their businesses unsustainable. They are desperately looking towards Government to get the economy growing again, and swiftly, to safeguard their survival.

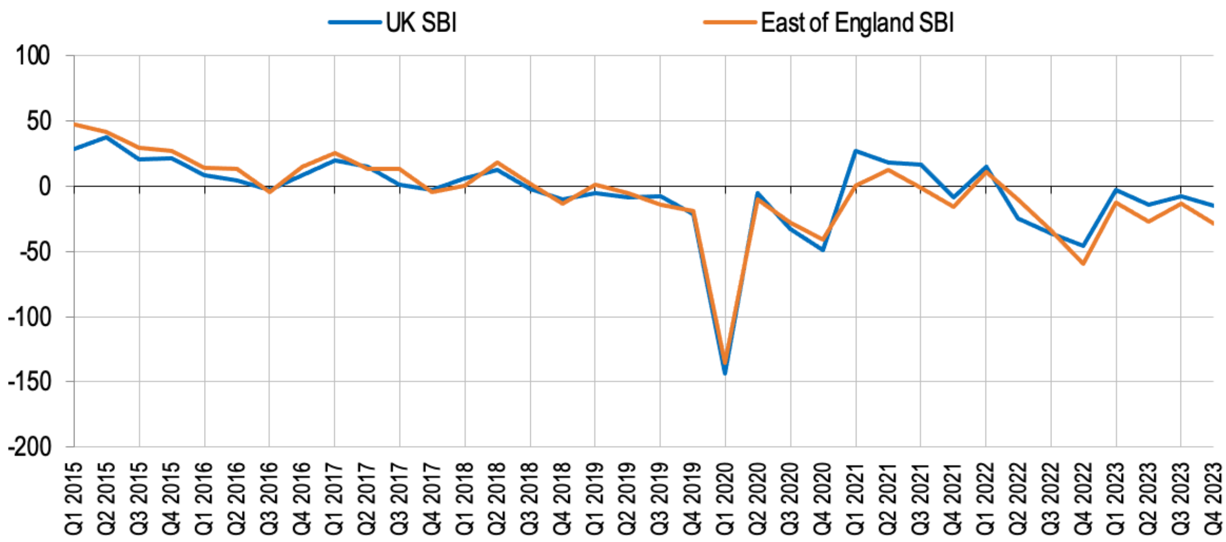
The East of England Small Business Index (EESBI)[1], which measures confidence amongst businesses, remains negative for the seventh consecutive quarter. Confidence stands at -28 in Q4 2023. Comparatively, in Q3, it stood at -13.

Confidence in the East of England has worsened during Q4. Continued economic uncertainty and inflationary pressures continue to impact small businesses in the region, dampening financial outlook.

This prolonged uncertainty and low confidence shown amongst East of England small businesses reflects the economic situation seen across the UK in Q4. However, the East of England confidence level (-28) is significantly more negative than the nationwide average (-15).

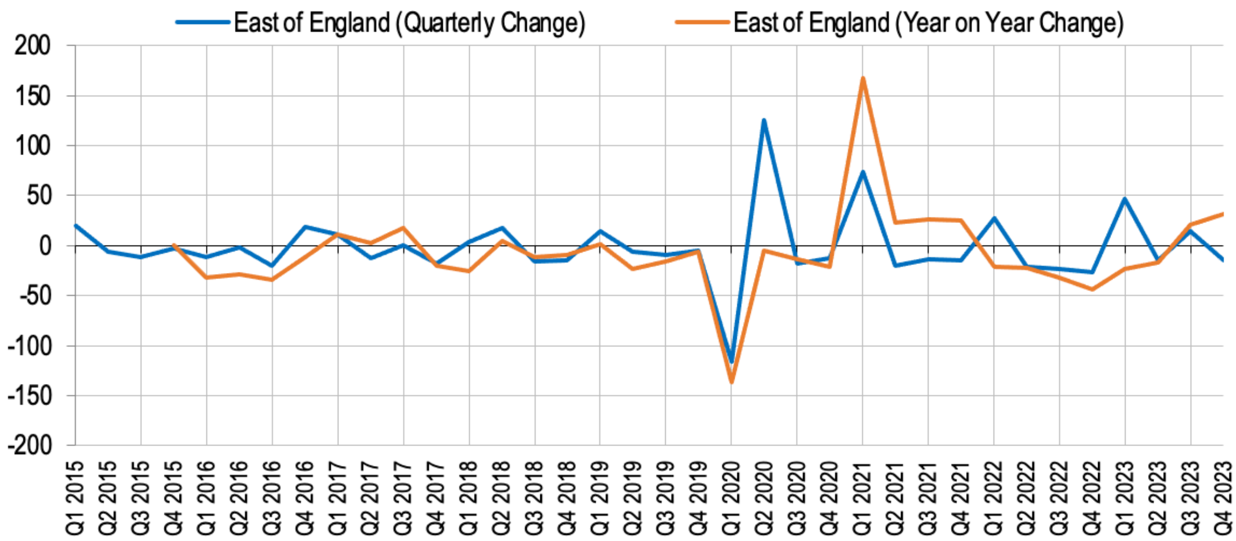
Outlook on business performance for East of England small businesses remains more negative than nationwide confidence levels.

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



East of England small businesses report improved year-on-year confidence metrics, but confidence is down versus the previous quarter.

Fig.2 FSB East of England Small Business Index: small business confidence levels



[1] The East of England 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

East of England small businesses again see negative net revenue in Q4 2023, for the fifth consecutive quarter.

In Q4 2023, 29% of East of England small businesses reported an increase in revenue. 39% of those in the region outlined a decrease in revenue, compared to 40% in Q3 2023.

With a net balance figure of -10%[2], the East of England returns lower revenue performance than the UK average (-6%). Net revenue in the region has remained steady from Q3, where a figure of -10% was also recorded.

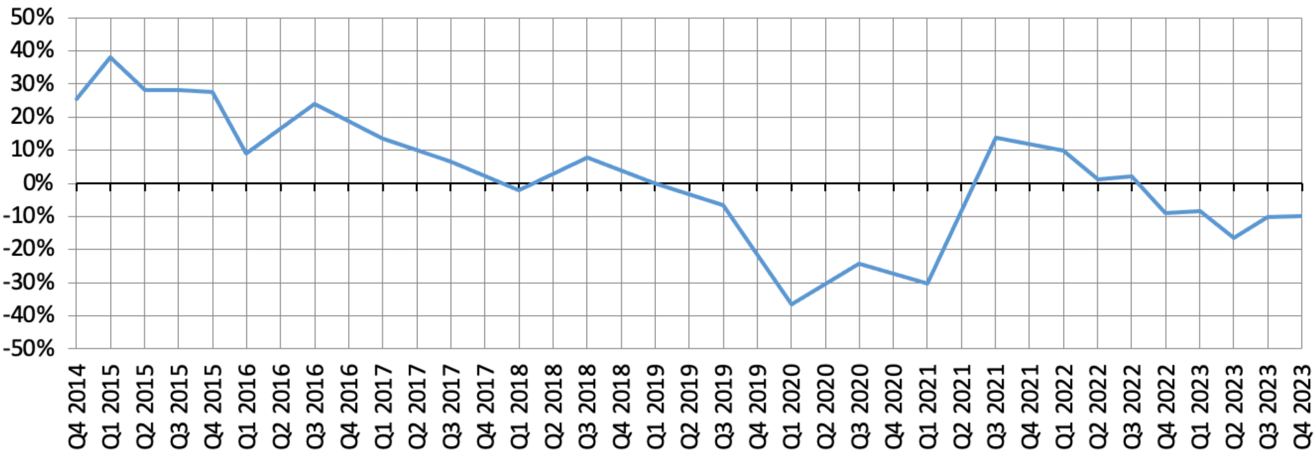
The outlook for future revenue remains positive in the East of England, with a net balance of 7% anticipating profit growth in the upcoming quarter. This shows a continuation of the positive outlook recorded in Q3, which stood at net 6%, after five consecutive quarters of negative outlook before that.

The region now has a more positive revenue outlook versus the nationwide sentiment; the countrywide average forecast is net 0% in Q4.

28% of East of England businesses anticipate decreased revenue in the next 3 months, versus the outlook expressed in Q3, where 31% of small businesses expected this to be the case.

Net revenue among East of England small businesses remains negative in Q4 2023, for the fifth consecutive quarter.

Fig.3 FSB Small Business Index: net balance of small firms in East of England reporting revenue



[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

Staffing levels decrease in the East of England, with a net -7% change in headcount reported in Q4 2023.

The employment picture amongst East of England FSB members over the preceding three months showed that 15% had decreased staff numbers and 8% had increased employment levels. This compares with the Q3 figures of 17% increasing staffing, and 11% decreasing it. The East of England net change in employment levels of -7% in Q4 represents a fall versus the positive figures reported in Q3 (net 6%).

Looking ahead to the next quarter, the intention is for 8% of businesses to increase headcount and 8% to decrease staff numbers. This means that overall, the outlook is for a net 0% change in headcount in the upcoming quarter, and therefore stagnation in staffing levels.

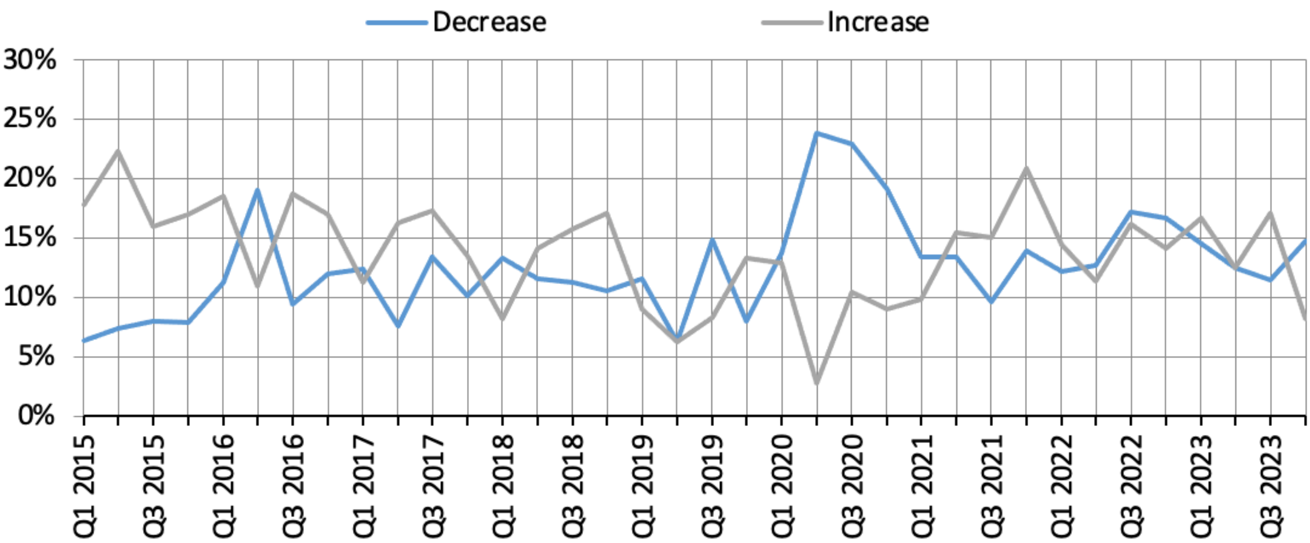
Wage Growth

In the East of England, 67% saw salary increases over the previous 12 months in Q4, versus the 72% reported in Q3. The number of businesses decreasing wages reduced from 11% in Q3 to 4% in Q4. The net change in wages during Q4 (63%) is therefore marginally higher than that seen in Q3 (61%).

Predicted net wage changes for the upcoming 12 months are higher than the previous quarter. Net outlook for wages in Q4 stands at 66%, versus 57% in Q3.

Staffing levels in East of England fall in Q4 2023, as headcount decreases outpace increases.

Fig.4 FSB Small Business Index: change in people employed in East of England over last three months



Growth and Investment Aspirations

In Q4 2023, 48% of small businesses in the East of England 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 is on par with the 49% of small businesses who said they were intending to grow as of Q3 2023. Those expressing an intention to downsize their business stands at 12% in Q4, compared with the 9% expressing an intent to do so in Q3. The growth aspirations for Q4 therefore stands at net 36%.

The investment intentions for East of England small businesses emerges at net 14% in Q4, higher than the UK average of net 8%. Several other UK regions report lower investment intentions comparatively, such as the East Midlands (net -8%).

In the East of England, the general domestic economic conditions (53%), consumer demand (35%), and labour costs / appropriately skilled staff (both 27%) are the greatest perceived barriers to growth over the coming twelve months.

Notably, the proportion pointing to general domestic economic conditions as a key barrier to growth has fallen significantly since Q3; from 72% to 53%, despite continuing to be the main concern overall.

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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