



FSB North West Quarterly Small Business Index

Q4 2020

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Foreword

As we move forward into 2021 and the third national lockdown, the North West Small Business Index (NWSBI) clearly shows how businesses in the North West continue to be negatively impacted by the pandemic.

As well as uncertainty due to COVID-19, issues such as the general economic conditions in the UK, uncertainty over Brexit, consumer demand and the foreign economy are the greatest perceived barriers to growth over the coming twelve months for business in the North West. Consequently Confidence in business performance is again in the negative territory.

This uncertainty in confidence witnessed amongst North West small businesses is apparent across the country, with index scores among all regions in negative territory. That being said, North West small businesses are among the lowest in terms of confidence (-57%) and lower than the average for England (-47%).

It is clear 2021 will be a challenging year for North West small businesses across the region FSB members and the wider business community face a number of additional challenges with discussions around Local Government Reorganisation proposals, upcoming Mayoral Elections, and delivering the levelling up agenda.

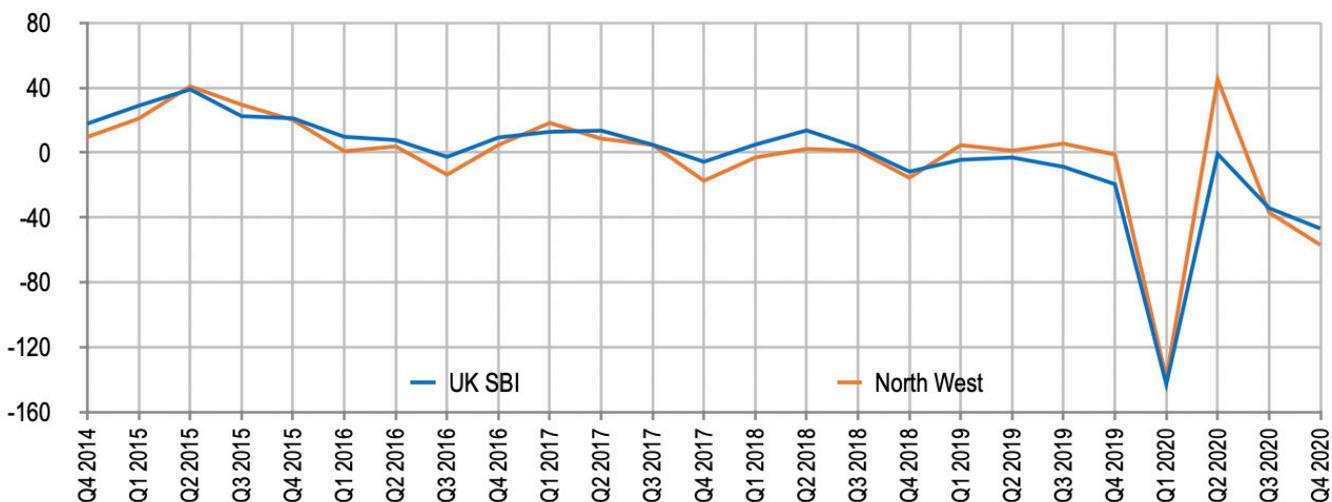
The North West Small Business Index (NWSBI), which measures confidence amongst businesses, is again in decline in Q4 after showing some signs of improvement in Q2. It currently stands at -57%. In Q3, the reading stood at -37%.

Confidence in business performance is again in the negative for small businesses, with uncertainty due to COVID-19 and Brexit seemingly having a negative impact on the region.

The uncertainty in confidence witnessed amongst North West small businesses is apparent across the country, with index scores among all regions in negative territory. That being said, North West small businesses are among the lowest in terms of confidence (-57%) and lower than the average for England (-47%). The only other region reporting lower scores than this is London (-61%).

Confidence in business performance for next 3 months continues to fall in the North West.

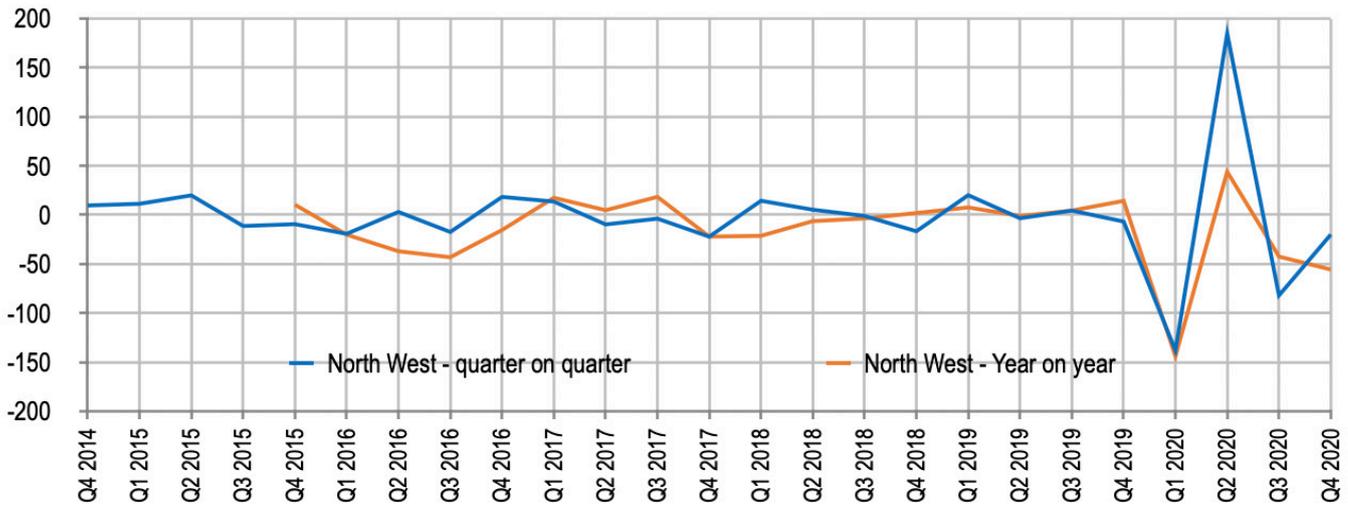
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



¹ The North 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.

Compared with the previous quarter, and Q4 last year, reported confidence is lower among North West small businesses.

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



Business Conditions

Overall sentiment towards profit is net negative, with small businesses in the North West among the most likely to report a decline in profit in the last 3 months compared with other regions in the UK.

In Q4, close to two in three (61%) small businesses in the North West reported a decrease in profit over the last 3 months, as COVID-19 restrictions had considerable impact on spending opportunities for consumers. Some resilience was shown by businesses in the area, however, with 21% reporting an increase in profit over the period.

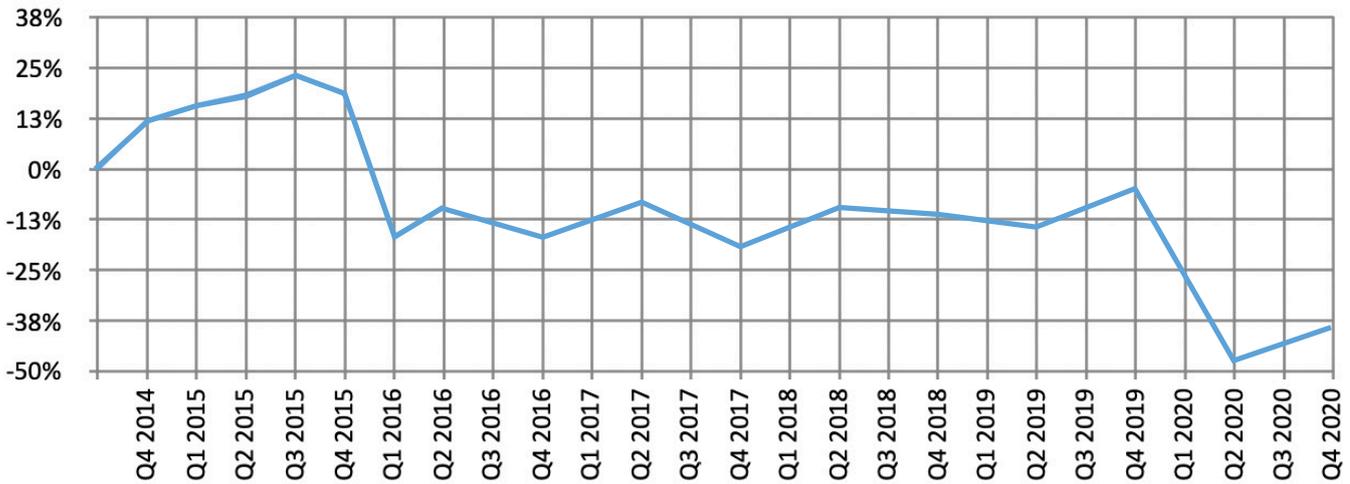
Despite a small improvement compared to Q2 (-47%), profits for small businesses in the North West were among the worst hit in the country, with a net balance figure of -40% for Q4. Profits were only hit more negatively in London (-41%) and the West Midlands (-43%).

The outlook for future revenue remains in negative territory in the North West. Once more, North West businesses are among the most negative compared with the rest of the country. A net balance of -42% expect growth in profits for the coming quarter, a figure more pessimistic only in London (-45%).

Linked to this, a significant proportion of North West businesses expect a decrease in profits for the coming quarter (63%), with negative expectations more widespread than the UK average (58%).

Gross profit amongst North West small businesses is beginning to show signs of recovery – but the outlook remains negative.

Fig.3 FSB Small Business Index: net balance of small firms in North West reporting profit (profit question only asking in Q2 and Q4 phases of SBI – question is asked on a rotational basis)



Employment and Wage growth

The size of North West small businesses continues to shrink in Q4, with 1 in 5 reporting a decrease in the amount of staff employed.

The employment picture amongst FSB members over the preceding three months showed that 21% had decreased staff numbers and only 3% had increased employment levels. Despite this, many staffing levels have been left unaffected, with 70% reporting that this has ‘stayed the same’.

For the next quarter, the intention is for 6% of businesses to increase headcount and 14% to decrease staff numbers.

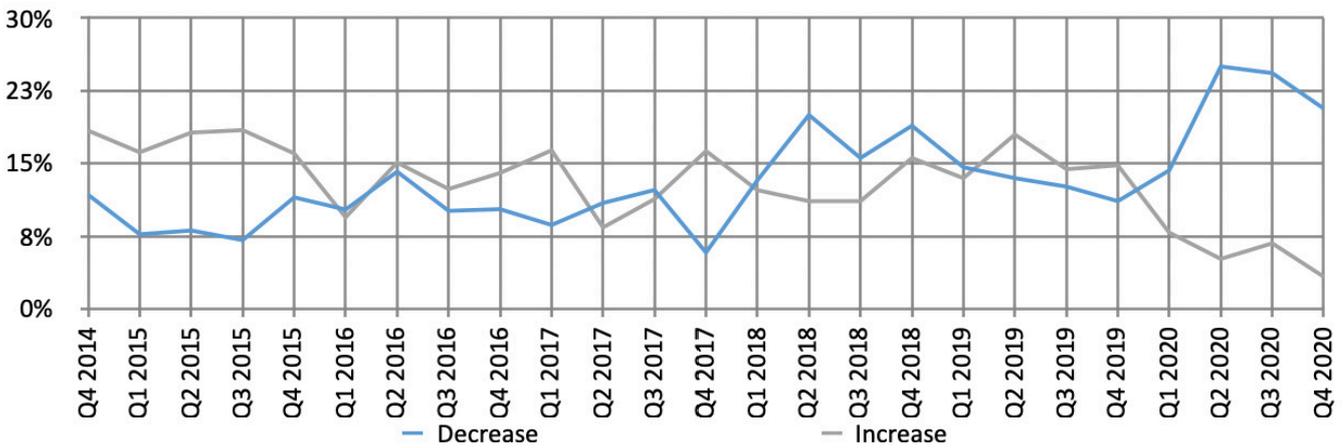
Wage Growth

In the North West, around a third of small businesses (35%) increased the average salary awarded across the business over the last 12 months – with 24% doing so by 2% or more.

49% expect to see salary increases over the next 12 months, with 33% reporting the likely increase to be above 2%. However, predicted wage growth is considerably lower than 12 months ago; in Q4, 2019, 68% of small businesses expected to increase the average salary (with 48% expecting the increase to equate to 2% or more).

1 in 4 businesses (21%) have decreased the amount of staff employed over the last three months of Q4.

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



Growth and Investment aspirations

In Q4, 2020, 33% of small businesses in the North West 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%). With 25% of businesses intending to contract over the next twelve months (to downsize, sell or close the business), this figure has increased from 20% at Q3.

The investment intentions for North West businesses heading into Q1 2021 are currently in negative territory (-3%) and lag slightly behind the country average (0%) in terms of the net balance.

20% of businesses are planning to increase investment vs. 23% looking to decrease this. Whilst the net balance for investment in the North West is in negative territory, investment intention is lower in London (-5%) and North East & Yorkshire (-6%).

In the North West, the general economic conditions in the UK, consumer demand and the foreign economy are the greatest perceived barriers to growth over the coming twelve months.

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