

A photograph of a man and a woman sitting at a desk, smiling and looking towards the right. The man is wearing glasses and a grey shirt, and the woman is wearing a light blue shirt. They are in a meeting or collaborative work environment. There are white mugs, a laptop, and papers on the desk. A vase with white flowers is in the background.

FSB London Quarterly Small Business Index

Q3 2023

This document was produced by
FSB London in November 2023

fsb^{co}

Foreword

Foreword by Laura Timm
London Policy Representative
Federation of Small Businesses



The FSB London Confidence Index has grown in the past quarter which is welcome news.

In terms of growth aspirations and investment intentions, London data is still showing positive signs – and we must build on this and meet the profitability and productivity challenges facing small firms.

We are urging the Treasury to address the late payment issue – and plainly condemn the pernicious impact it has on small businesses. This can be mirrored by the GLA as we want to make London a ‘Prompt Payment Capital’ where all Anchor Institutions lead by example and encourage big businesses to pay their supply chains on time.

It is also important that we extend the SME focused 75 per cent Retail, Hospitality and Leisure Business Rate relief from March 2024 - as these sectors have had the hardest time over the last three and a half years.

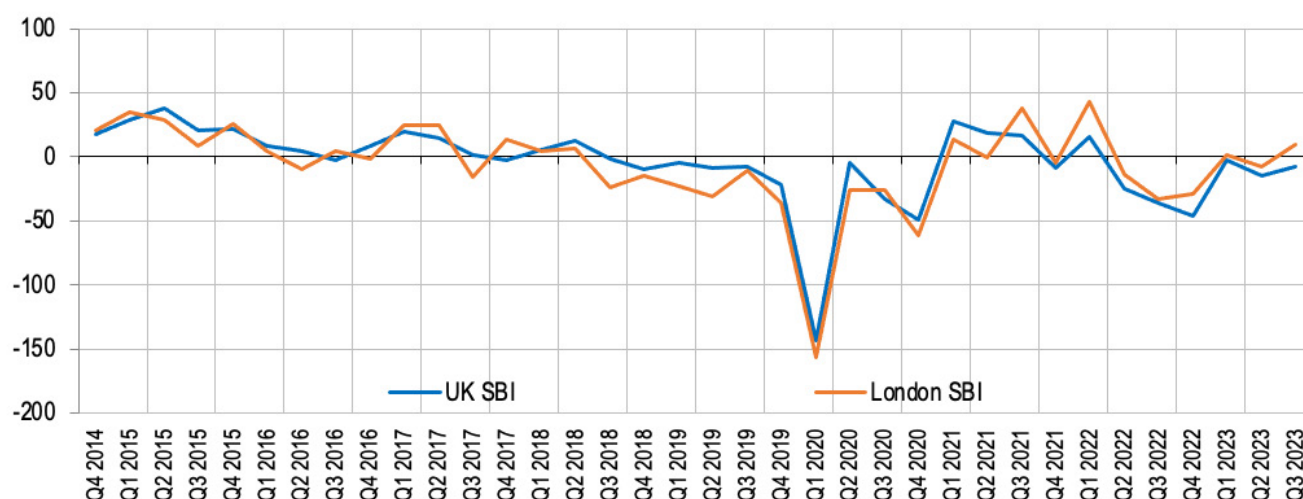
Finally, skills remain a huge challenge for London businesses and we want to see more small firms in the capital take on Apprentices – and so maintaining the current Apprenticeship Levy and resisting calls to turn this into a more generalised skills levy is important. We are keen to see the creation of an Apprenticeship Grant scheme for London employers whereby they receive fiscal support for creating and maintaining Apprenticeship places.

The London Small Business Index (LSBI)¹, which measures confidence amongst businesses, has grown versus the previous quarter. Confidence stands at 10 as of Q3 2023. In Q2, it stood at -7.

Business confidence has returned to a positive outlook in Q3 2023, as the impact of uncertain economic conditions may be easing in the region. London's confidence level in Q3 2023 is higher than the nationwide average of -8.

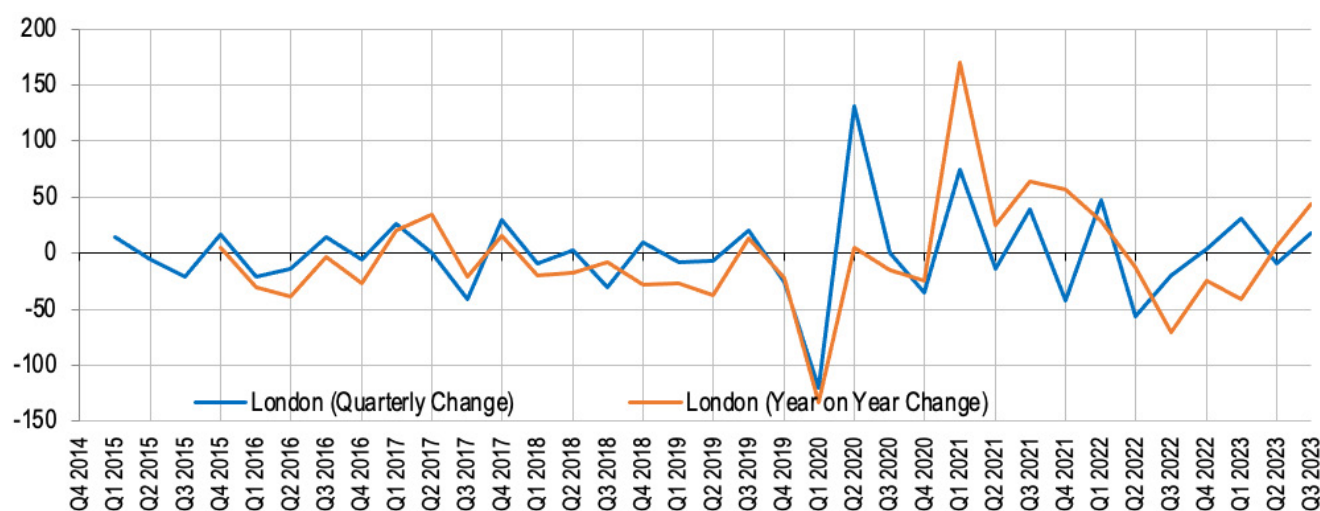
Confidence amongst London small businesses returns to a positive level in Q3 2023, performing more strongly than the UK average.

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



Quarterly and year-on-year sentiment amongst London small businesses shows a clear improvement in outlook.

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 performance remains negative in London for Q3 2023, reflecting the wider nationwide view.

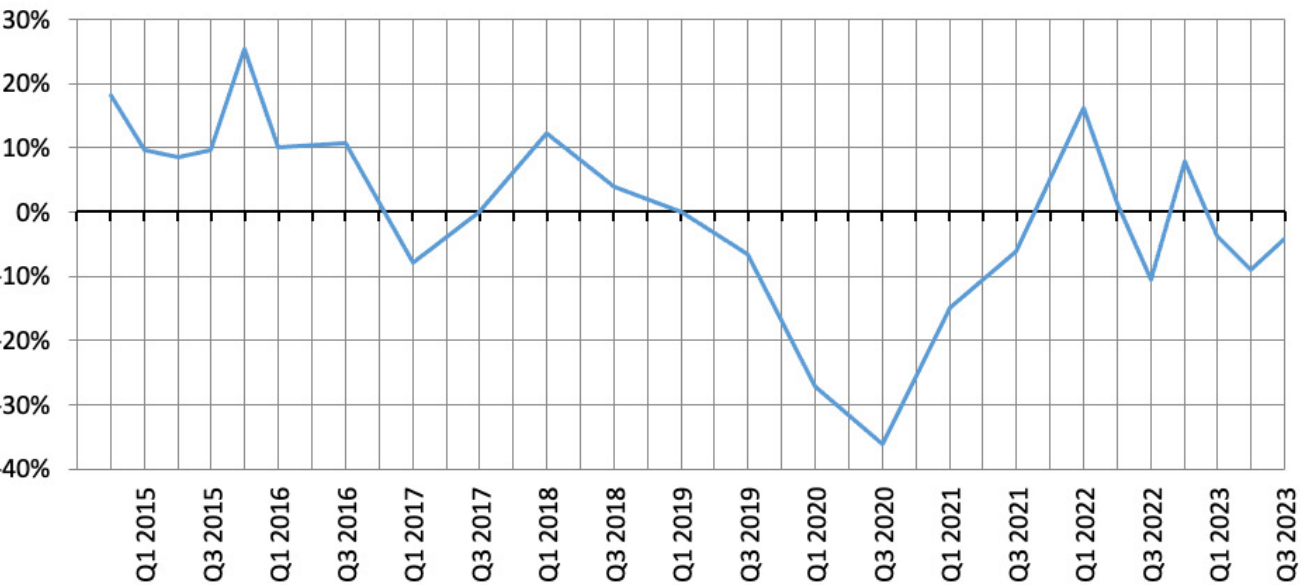
In Q3, 33% of London small businesses reported an increase in profit, with a 37% reporting a decrease. The net balance figure of -4%² for Q3 2023 is higher than figures reported in Q2, where net revenue was -9%. Revenue in London in Q3 is on par with the low countrywide average (net -6%). For context, several other regions have reported a lower performance in Q3 than London; this includes the South West, and North East & Yorkshire and The Humber (both net -17%).

The outlook for future revenue is positive in London, however, with a net score of 18%. This is a significant improvement from Q2 2023, where the net outlook for future revenue stood at -2%. This is also higher than the nationwide average in Q3 2023, where there is a net score of 5%.

A lower proportion of London businesses expect a further decrease in profits for the coming quarter (20%) versus the outlook expressed in Q2 (35%).

London net revenue remains negative in Q3 2023, for the third consecutive quarter.

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

Q3 2023 sees a growth in headcount in London, with a net score of 8% in terms of staffing levels.

18% of small businesses report increased employment levels over the last three months. 10% decreased their headcount; a fall from the 14% who decreased headcount in Q2 2023.

London employment levels are more positive than the nationwide average, with UK small businesses reporting a stagnant net 0% change in headcount in Q3 as a collective.

For the next quarter, London small businesses anticipate a net 2% change in staffing levels. This is a marginally more negative outlook than reported in Q2, where businesses expected net 5% growth.

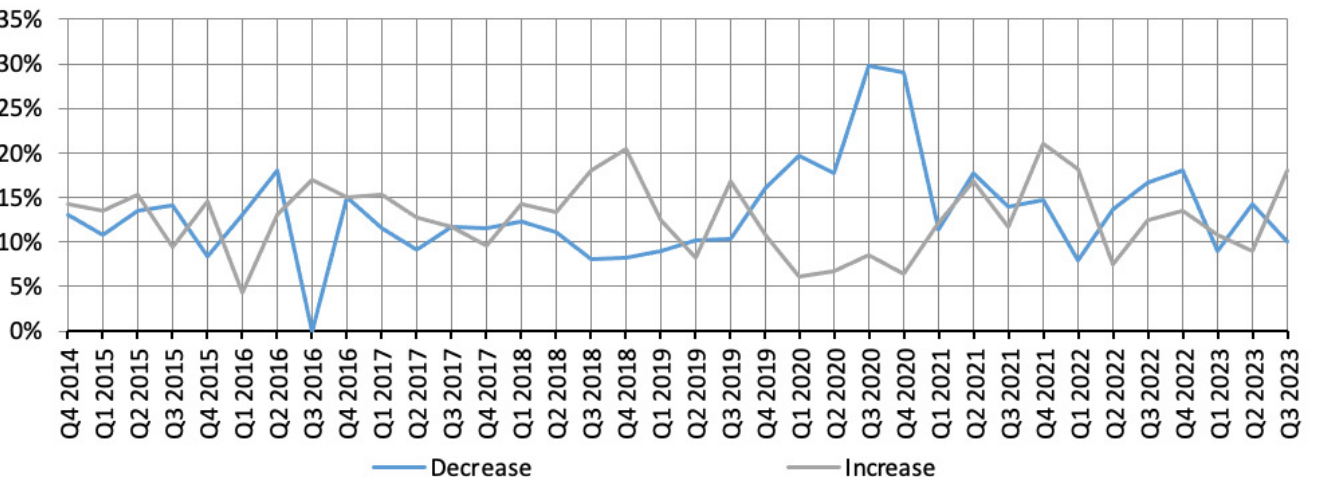
Wage Growth

In London, 63% of small businesses increased salaries over the previous 12 months. This is lower than the 74% reporting increased salaries in Q2 2023. A similar proportion of small businesses this quarter report decreasing salaries in the past 12 months (3% in Q3, versus 4% in Q2). In Q3, net wage changes stand at 61%.

Wage predictions for the next 12 months are more positive in Q3 2023 versus Q2 2023. In Q2, wage predictions saw London small businesses anticipating a net 57% change in wages. In Q3, this now stands at a net 64% predicted change.

London small businesses increasing headcount outpaces those decreasing headcount in Q3.

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



Growth and Investment aspirations

In Q3 2023, 57% 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%). 10% report an expectation to downsize their business, resulting in a net growth aspiration of 47%. This is slightly lower than the net growth aspirations expressed in Q2 2023, which stood at 51%.

Investment intentions for London businesses have fallen from Q2 to Q3, but outlook remains net positive (Q2: net 21%, Q3: net 9%).

London's investment outlook is higher than the UK average of net 6%. There is a varied outlook across UK regions: from strong growth expectations (East Midlands; net 13%), to lower expectations (North East & Yorkshire and The Humber; net -2%).

In London, the general economic conditions (66%), consumer demand (32%), alongside appropriately skilled staff and tax burden (both 22%) are the greatest perceived barriers to growth over the next 12 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

fsb.org.uk

 facebook.com/FSB.Greater.London

 [@FSBGtrLondon](https://twitter.com/FSBGtrLondon)

If you require this document in an alternative format
please email accessability@fsb.org.uk

