

# SCOTLAND Q3 2021 SMALL BUSINESS INDEX

**Small businesses in Scotland saw a decline in confidence in Q3, according to the latest FSB Small Business Index.** Confidence amongst Scottish small businesses slumped by 19.3 points between Q2 and Q3 2021, reaching a reading of 1.2. Scotland's reading in Q3 was amongst the weakest of all nations and regions, with only the East of England and East Midlands returning lower readings (at -1.4 and 0% respectively). Whilst business confidence has improved from Q3 2020's level of -26.3, this result suggests that the Covid-19 pandemic will cast a long shadow over the small business community.

**The UK-wide SBI reading also fell in Q3, though businesses remain confident on balance.** The UK reading saw a second consecutive monthly fall in Q3, reaching 16.4. This is down on the near-term high of 27.3, witnessed in Q1.

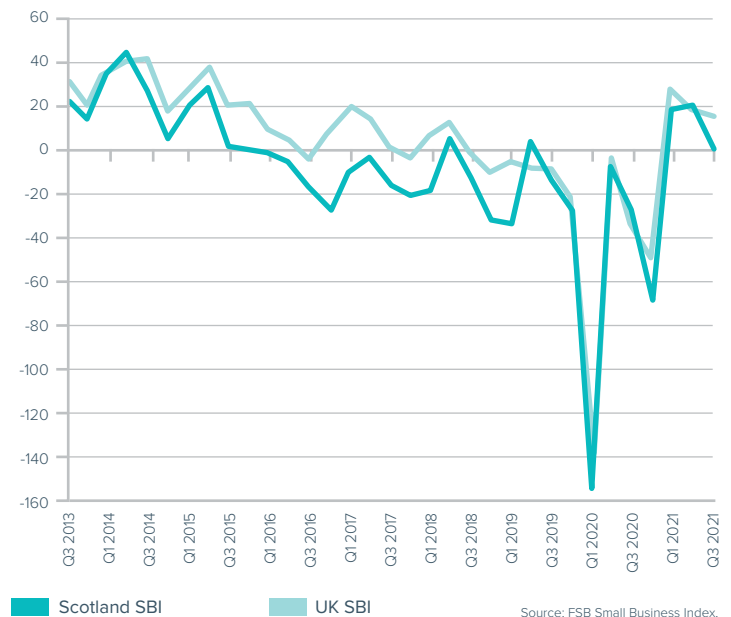
The dip in SBI levels in Scotland and the rest of the UK was driven by two main factors. Firstly, many businesses saw a surge in output in Q2 in line with the loosening of Covid restrictions and subsequent uptick in demand levels across the economy. Many of these gains have since been exhausted, meaning output growth rates are slowing. As such, there is less scope for businesses to improve their performance further in the coming months. Nevertheless, it should be noted that this represents a normalisation of growth rates towards pre-pandemic levels.

The second predominant factor behind the fall in the SBI stems from the supply side, notably the disruptions to global supply chains witnessed in recent weeks. Such disruptions have created shortages of input goods, put upward pressure on producer prices and reduced businesses' ability to satisfy demand levels. At the same time, businesses are experiencing rising overheads in a range of areas – energy, fuel and labour – and these are significantly impacting revenue and profit levels.

**Scottish businesses amongst least likely to see revenue growth in Q3.** Scottish businesses have reported weak financial performance in recent rounds of the Small Business Index. This continued in Q3, with a net balance of only 2.3% of Scottish small businesses witnessing a quarterly uptick in revenues. Amongst the nations and regions to exhibit positive scores on this measure, Scotland ranks as the lowest, and lags the UK-wide average of 7.8%.

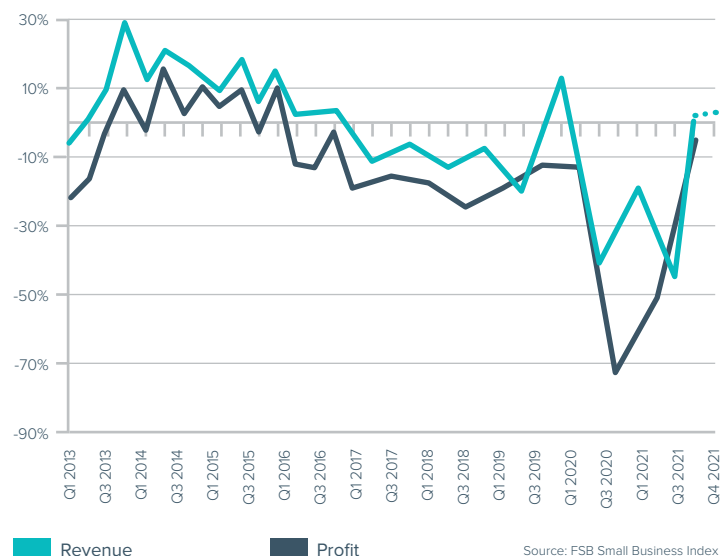
**Scottish businesses expect a similar revenue performance in Q4.** A net balance of just 2.9% of small businesses in Scotland expect revenue to grow further in the final quarter of 2021. Here, the shortfall compared to the rest of the country is even more pronounced, with the UK-wide measure standing at 20.1%.

**Small Business Confidence**



Source: FSB Small Business Index.

**Net balance of small firms in Scotland reporting revenue/profit growth**



Source: FSB Small Business Index

**Scottish small businesses saw strong employee headcount growth in Q3.** A net balance of 8.2% of Scottish small businesses saw their employee headcount grow in Q3. This marks the strongest score on this measure since Q2 2015 and aligns with the wider recovery in the labour market witnessed over the summer months. Indeed, only Wales saw a stronger reading than Scotland.

On an aggregate basis, Scotland is one of only two regions for which employment levels remain below pre-pandemic levels. As such, the country's high prevalence of employee headcount growth in Q3 could be explained by there being relatively more scope for improvement.

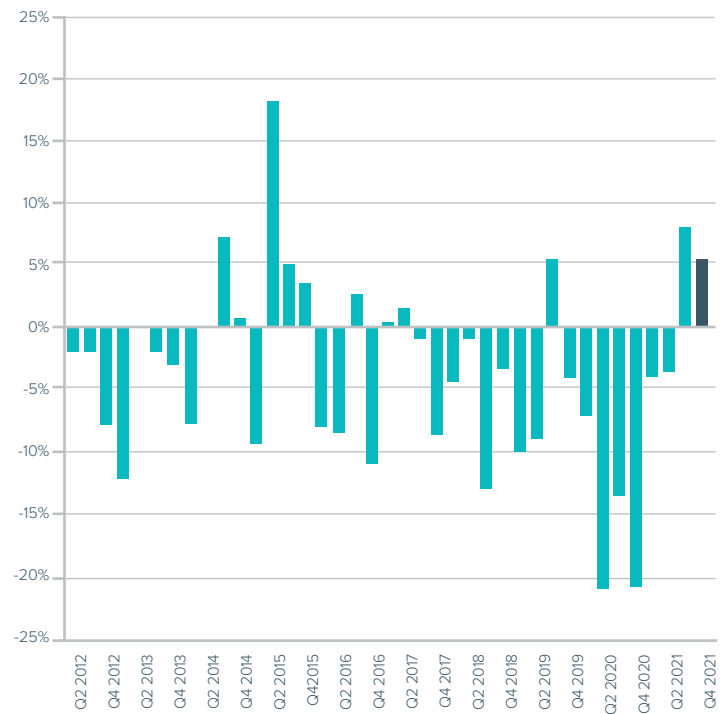
Looking ahead, businesses in Scotland anticipate further growth in employee numbers. A net balance of 8.8% of small businesses in the country expect this to be the case in the final quarter of 2021, which should help the labour market react to the end of the Job Retention Scheme.

**More than three quarters of small businesses in Scotland witnessed rising costs in Q3.** The net balance of Scottish small businesses witnessing an increase in costs stood at 72.6% in Q3. This marks a significant uptick on Q2's value of 55.8%. Indeed, the increase of 16.8 percentage points was the fourth largest of all nations and regions. Within the net balance figure, 77.4% of businesses reported year-on-year cost increases.

As has been well documented, businesses across the country were met with rising costs in Q3, triggered by global supply chain disruption. This was clear in Scotland, with nearly half (49.3%) of small businesses citing inputs as a driver of rising costs. Nevertheless, the proportion of firms citing input prices as a driver of rising costs fell between Q2 and Q3.

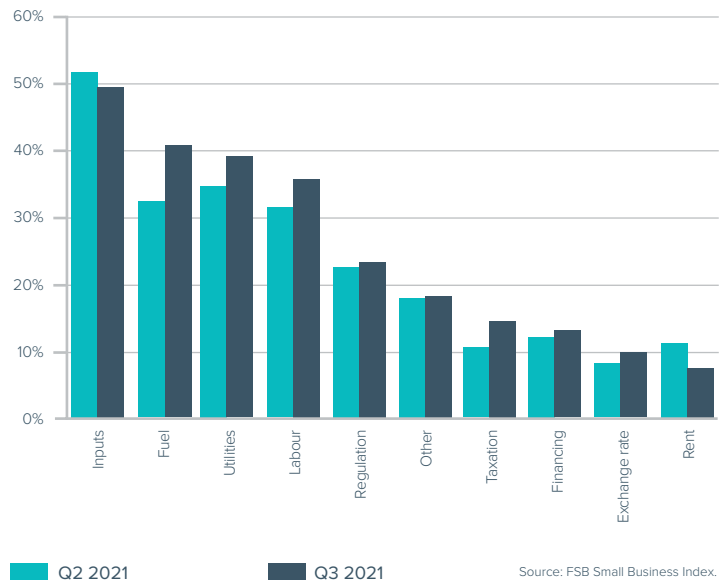
Other sources of upward cost pressure on Scottish small businesses included fuel and utilities. Again, as has been widely reported, these categories have been impacted by global supply disruptions. Prices in wholesale gas markets have surged, putting upward pressure on businesses' energy bills. Meanwhile, oil prices have risen, feeding into higher fuel prices. These categories were the next most cited sources of changing costs amongst Scottish small businesses, with this being the case for 40.6% of respondents in the case of fuel and 39.1% for utilities.

**Net balance of firms reporting employment growth, Scotland**



Source: FSB Small Business Index

**Share of firms reporting factor as main cause of change in business cost, Scotland**



Source: FSB Small Business Index

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