



FSB East of England Quarterly Small Business Index

Q1 2022

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Foreword

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Business confidence is creeping back up in the East of England with a positive overall score for the first time in a year.

The East of England still lags behind the national average in terms of confidence and year to date confidence is still down by -22%.

Business revenue remains stable with high levels of optimism regarding future revenue growth for small businesses in the East. Employment rates also remain about average with a net change of 2% in the region.

In the East of England, small businesses have been progressively increasing the average salary over the past year. In Q1 2022, 65% of small businesses surveyed cited that they are considering increasing staff salaries in the months ahead. However, for many small businesses wage inflation is presenting a challenge, with 34% of small businesses stating that labour costs are a barrier to growth.

East of England small businesses continue to demonstrate an appetite and ambition for growth, with nearly half of small businesses intending to grow rapidly over the next 12 months. However, inflation remains a very real threat to business growth along with labour costs, other barriers to growth for local businesses are the domestic economy (52%) and fuel costs (41%).

It is important for policy makers to support the East of England's return to positive sentiment and take action to protect small firms from the rapid rise in fuel costs and to positively take steps to grow the domestic economy with small business centric policies.

The East of England Small Business Index (EESBI)¹, which measures confidence amongst businesses, has returned to a positive position after dropping across the last three quarters consecutively. The reading in Q1 2022 stands at 11%, a notable increase from what was seen in 2021 Q4 (-16%).

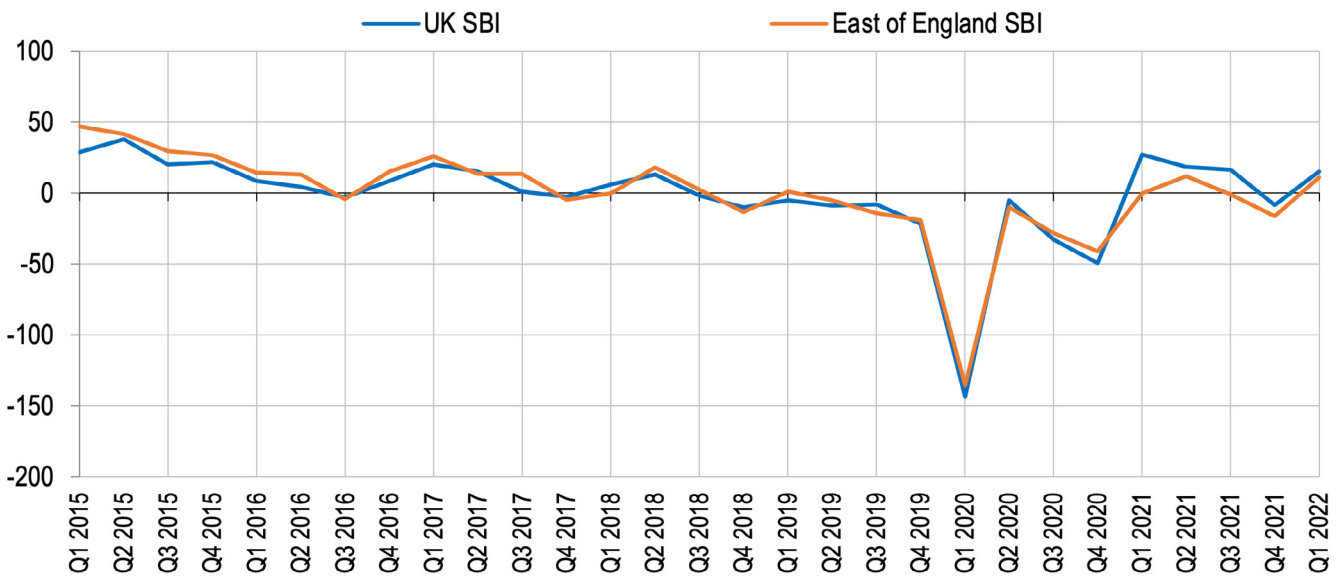
¹ The East of England Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous 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.

After a downward trend over the past year, confidence levels appear to be finally improving, marked by a return to a net positive figure (11%). Whilst this might indicate early signs of positivity seeping back into the region, it is also important to note that vs. a year to date confidence is down by -22%.

An increase in consumer confidence is also seen more broadly across the UK, with a national average of 15% (previously -8%), **meaning the East of England (8%) is currently tracking slightly below UK-wide confidence.** For comparison, the highest performing region is London (43%), with the lowest being the South West, at -1%.

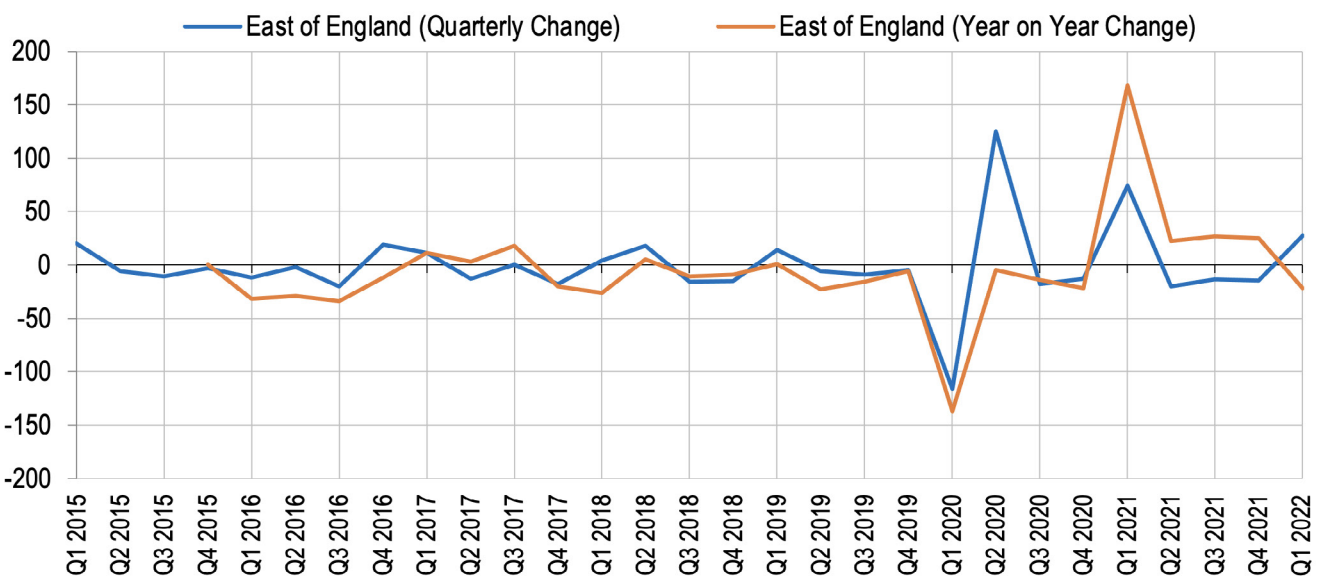
Confidence in business performance over the next 3 months has improved for the East of England in Q1 2022: returning to positive sentiment.

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



Despite year-on-year confidence being lower (-22%), confidence in Q1 2022 breaks the three-quarter downward trend and climbs into the positive.

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



Business Conditions

Revenue appears to have remained stable in Q1 2022 (net 10%), with sentiment vs. a year to date showing significant improvement (Q1 2021; net -30%).

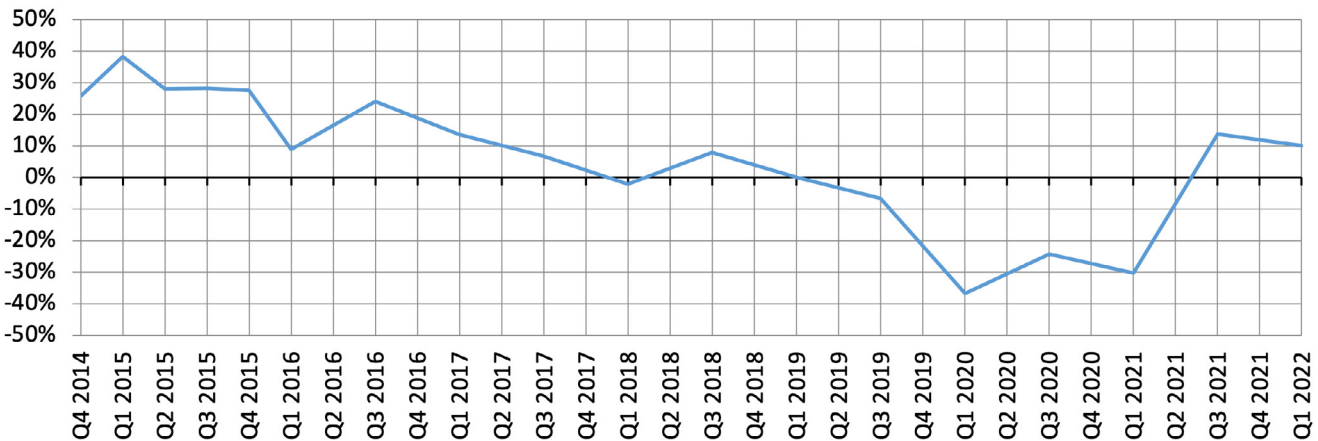
The overall net balance for revenue in the region remained in the positive this quarter (10%), a strong improvement on a year to date (Q1 2021; -30%). This also represents signs of stability, as the last time a read was taken in Q3 2021, sentiment was also positive (14%).

With a net balance figure of 10% for Q1, revenue from East of England small businesses are on par with the national average (11%). The highest performing region for Q1 was London (16%), while on the other side of the spectrum, North East & Yorkshire and the Humberside reported a low of 4%.

Future revenue predictions are more hopeful, with an overall net figure of 26% for the East of England. This is notably higher than the UK average (21%) and positions the East of England among the top three optimistic regions (East Midlands, 34%; North East & Yorkshire and the Humber, 37%).

Revenue for the last 3 months remains in the positive, following substantial negativity throughout the pandemic.

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



Employment and Wage growth

The proportion of small businesses increasing headcount vs. those losing staff has reached an equilibrium – with the net change in the region (2%) on par to the UK average (3%).

The employment picture amongst FSB members over the preceding three months showed that 14% had increased staff numbers, whilst 12% had decreased employment levels. As a result, the net employment score (2%) is similar to that of the UK average (3%). More than two thirds of small businesses' staffing levels have been unaffected in the East of England, with 67% reporting that levels have 'stayed the same'.

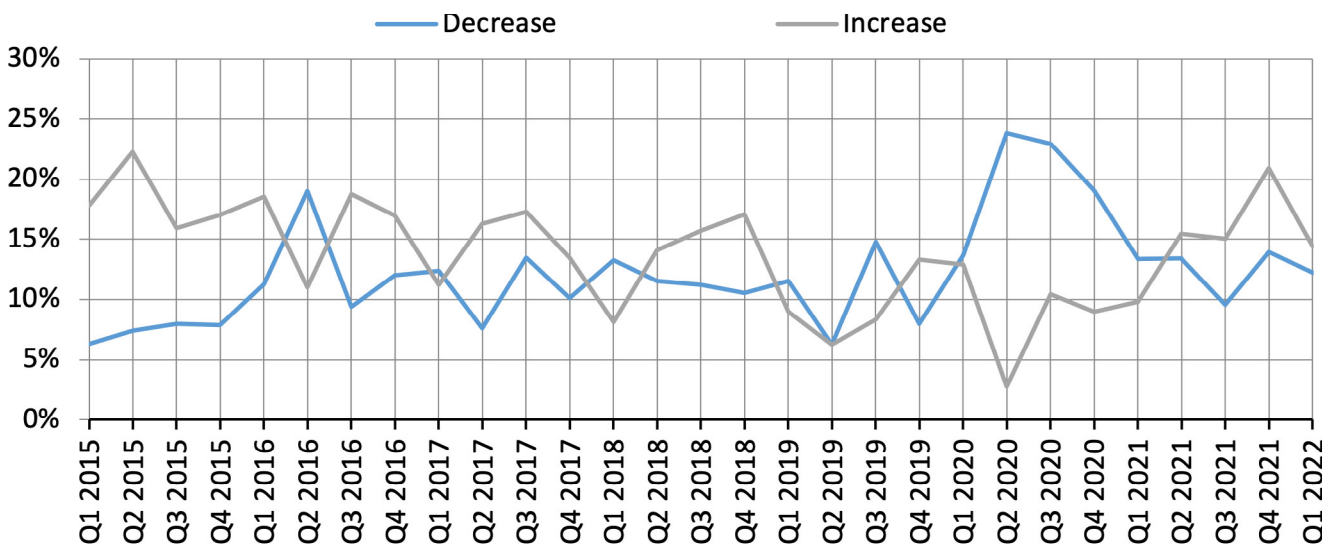
Small businesses are more optimistic for the next quarter, though. The intention is for 31% of businesses to increase headcount and only 7% to decrease staff numbers.

Wage Growth

In the East of England, small businesses have been progressively increasing the average salary over the past year. Climbing from 34% in Q4 2020 to 65% in Q1 2022, businesses are now more likely to be looking to increase salaries. Looking ahead to the next 12 months, the expectation is that more than three quarters (77%) of small business will increase employee salaries, with 65% reporting a likelihood of an increase to be 2% or more.

The proportion of small businesses increasing headcount continues to be neutralized by the number losing staff.

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



Growth and Investment aspirations

For this quarter, 49% of small businesses in the East of England said that their aspirations in the next 12 months were to grow rapidly (increase turnover/sales by over 20%) or moderately (up to 20%) - a slight decrease from 53% in Q4 2021. On the other side of the spectrum, 13% of businesses intend to contract over the next twelve months (to downsize, sell or close the business); a slight decline from 16% in Q4 2021.

Predicted investment activity for the coming year is net positive (11%), matched by sentiment seen more broadly across the UK (9%).

22% of businesses in the East of England are planning to increase investment, while 11% look to decrease this. This leaves a net balance for investment in the region at 11%, which compared with the last year represents a decline (net average Q1 2021 was 18%). That said, sentiment in the East of England is on par with that seen more broadly across the UK (9%) Compared to other regions, the West Midlands plans to be most active in the coming quarter (net 14%), whereas the North West will be the least active (4%).

In the East of England, appropriately the domestic economy (52%), fuel costs (41%) and labour costs (34%) are the greatest perceived barriers to growth over the coming twelve months.

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