

A woman with dark curly hair tied back, wearing a blue and white striped shirt under denim overalls, is smiling and tending to pink hydrangeas in a greenhouse. The background shows the glass structure of the greenhouse and other plants.

FSB South West Quarterly Small Business Index

Q4 2022

This document was produced by
FSB South West in January 2023

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Foreword

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As we enter 2023, it is sad to see that 2022 had a final sting in its tail for business.

After a challenging year where we had seen political wars in Westminster, a real war in Eastern Europe and turmoil in the energy market it is hardly a surprise that all this hit small businesses hard. And that is why our report today about small business confidence in the South West makes for gloomy reading.

We survey our members every quarter so we can really track and monitor how they are faring and the four quarters in 2022 got steadily worse ending with small business confidence here in the South West falling to a new seven year low (not counting the Covid lockdowns).

Confidence is significantly down, revenue continues to decline and the amount of businesses shedding staff locally has increased. It is a tough picture all round.

If there are some seeds of hope – and it is important we try to find them if we can - there is a modest increase in businesses planning to invest in the coming month and even in these very challenging times it is still the intention of 11 per cent of the South West businesses we surveyed to increase headcount. Those small rays of light are to be welcomed.

Overall, however, our report seems to sum up how many businesses felt about last year. It all began with a renewed sense of hope as we looked to have Covid behind us but then it all got gradually worse as domestic and international events combined to wreck hopes, ambitions and small business' finances.

We can only hope that we have now reached the bottom of this cycle and 2023 can start to slowly but surely change the narrative. Small businesses and the self-employed here in the South West will do everything they can to try to make that happen but, as ever, we can't do it alone. We need sympathetic, innovative and supportive people at the heart of Government to put business first and help us keep our great local businesses and entrepreneurs on track to begin the economic fight back we all crave.

The South West Small Business Index (SWSBI)¹, which measures confidence amongst businesses, has fallen again to -62 in Q4 2022. This continues a general trend seen across 2022, with confidence falling sharply quarter-on-quarter (-1 in Q1, -39 in Q2 and -47 in Q3).

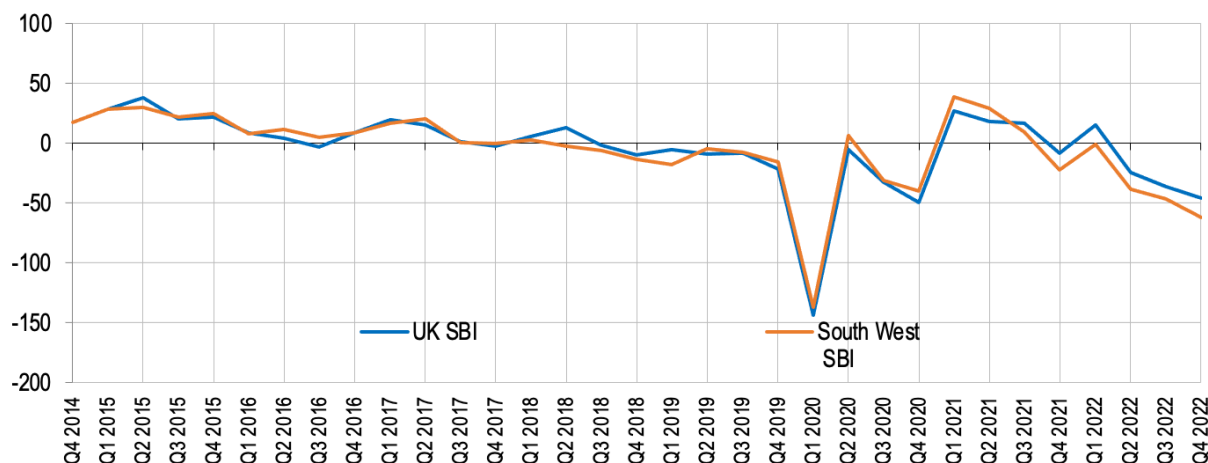
Small business confidence for the next 3 months remains negative in Q4 (-62), with a decline since Q3 (-47). Sentiment is also lower than this time last year (-22 in Q4 2021), likely driven by the continued rises in inflation and general cost of living that have sustained over the course of 2022.

Looking at the rest of the UK more broadly, small businesses in the South West display confidence below the UK average, which sits at -46. South West continues to have the lowest sentiment score in the UK; the closest performing region is the East of England

(-60). By contrast, the highest levels of confidence in the next three months can be seen in London, which has a score of -29; each region in the UK currently has a negative score.

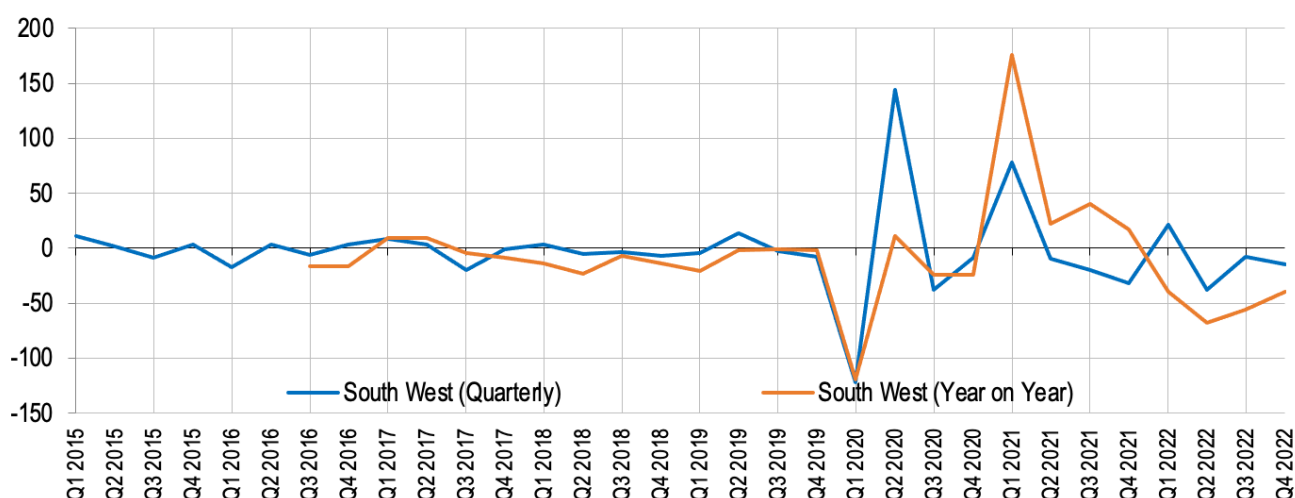
Confidence in business performance for the next 3 months in the South West continues to fall, remaining below the UK average.

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



Confidence in South West business performance continues to sit in negative territory for both quarter-on-quarter and YOY scores in Q4 2022.

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



¹ The South 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.

Business Conditions

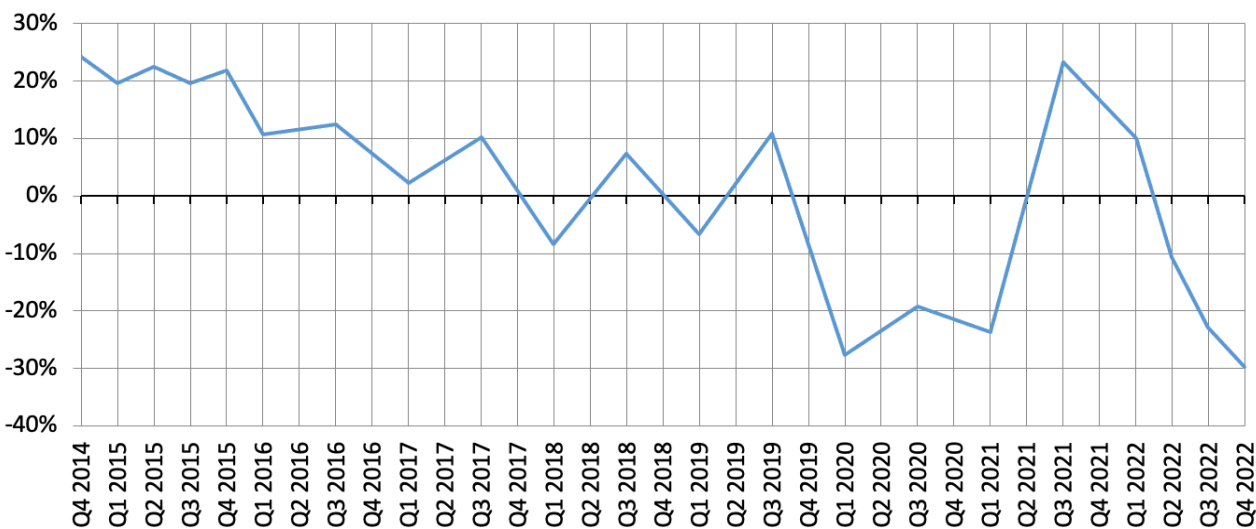
South West small businesses report a net negative balance for revenue over the last 3 months, with predictions for a continued decline.

In Q4, the overall net balance for revenue in the region was negative (net -30%)², showing a continued decline for the third quarter in a row (i.e. Q1 2022 (net 10%), Q2 2022 (net -11%) and Q3 2022 (net -23%)). This decline in net revenue for Q4 2022 also goes beyond predictions from the previous quarter (net -19%). Signs of a quarterly decline are observable across the UK more widely – with a net average of -10%, sentiment across the country appears pessimistic. The South West, therefore, sits below the UK average and as the weakest performer across the UK for revenue growth over the last 3 months. For comparison, the next weakest performing region was the East Midlands (net -26%), with the strongest overall as London (net 8%).

The outlook for future revenue predicts a slightly higher rate of decline compared to the actual levels seen in Q4 2022 for the South West. Small businesses predict that revenue will decline by net -34% over the next quarter, with 21% predicting an increase in revenue and 55% predicting a decrease. Compared to the rest of the UK, this prediction is again more pessimistic than other regions, with the UK average set at net -14%.

Revenue amongst South West small businesses shows a continued decline from Q3 (net -23%), remaining negative (net -30%).

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



² The NET number of businesses is calculated by subtracting the total number of businesses who reported a decrease in gross profits from those who reported an increase in gross profits in the last 3 months

‘How has the gross profit of your business changed over the last 3 months’

Employment and Wage growth

Employment in South West small businesses remains net negative (-10%) in Q4 2022, with this set to remain negative in the upcoming quarter as well.

The employment picture amongst FSB members over the preceding three months showed that 17% had decreased staff numbers, whilst slightly fewer (7%) had increased employment levels; this results in a net decrease of -10% in staff numbers over the last quarter. However, many staffing levels have been left unaffected, with 69% reporting that this ‘stayed the same’.

For the next quarter, the intention is for 11% of businesses in the South West to increase headcount, and 14% to decrease staff numbers.

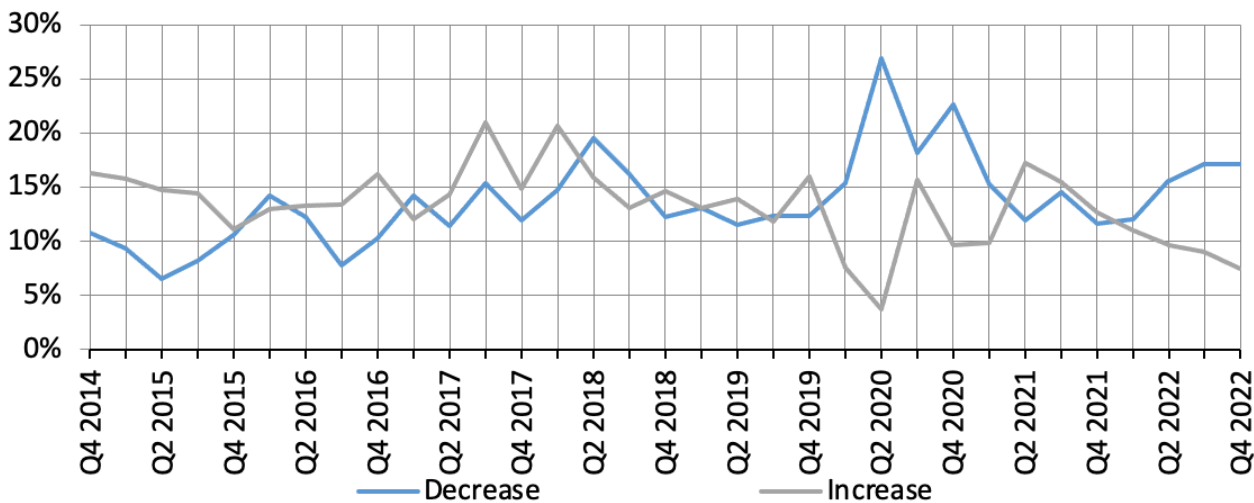
Wage Growth

In the South West, just over two-thirds (70%) of small businesses increased the average salary awarded across the business over the last 12 months, with 66% reporting an average increase of 2% or more.

Predicted wage growth, however, is at similar levels to the same quarter in the previous year; this quarter, 72% expect to see salary increases over the next 12 months, with 67% reporting the likely increase to be 2% or above. Whereas in Q4 2021, 72% of small businesses expected to increase the average salary (although it’s worth noting that only 63% expected the increase to equate to 2% or more, which is below the current quarter’s predictions).

In the South West, the proportion of small businesses increasing headcount continues to lag behind the proportion decreasing headcount.

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



Growth and Investment aspirations

In Q4 2022, 40% of small businesses in the South 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%). Growth aspirations within the South West are just below the UK average for Q4 (45%), and slightly lag behind the levels seen in Q3 2022 (41%). The current growth aspirations also lag behind both the rest of 2022 (averaging 43% across Q1 to Q3) and the average of 2021 (49%).

The South West sees the first net positive score for investment intentions for small businesses since Q1 2022, despite remaining behind the UK average.

27% expect to increase investment over the next 3 months, with 20% expecting to reduce the amount invested. The net balance of firms expecting to increase their investment in the South West therefore stands at 6%, the first positive score since Q1 2022 (where it was net 9%). This, however, does leave the region behind the national average (net 9%). The region with the highest net investment intention is London (33%), with The North East, Yorkshire & The Humber placed as the region with the lowest net investment intentions (-7%).


In the South West, the general economic conditions in the UK (60%), consumer demand (37%) and utility costs (32%) are the greatest perceived barriers to growth over the coming twelve months.

In the South West, 12% of businesses have said they intend to contract the business in the next twelve months (to downsize, sell or close the business). Although this represents a decline from last quarter, when 18% expressed an expectation to do so, it exceeds the level seen at the start of the year when just 6% said they expected to contract (Q1 2022).

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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