



FSB West Midlands Quarterly Small Business Index

Q1 2023

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Foreword

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Welcome to this latest edition of our West Midlands Small Business Index (WMSBI) quarterly report – covering the first quarter of 2023.

The report summarises our findings from comprehensive research, which investigates small firms' recent performance, current circumstances, and future aspirations.

I am glad to report that, overall, there has been a significant improvement in confidence amongst the region's small business owners compared to previous reporting periods. In fact, confidence levels have entered positive territory for the first time since the beginning of 2022 and the region sits above the UK average.

On revenue generation, the position has moved from negative to neutral, with the same proportion of firms now reporting an increase as those reporting a decrease. Meanwhile the outlook for future profits is also positive, with almost twice the number of respondents expecting an increase than expect a decline.

There is also positive news with regards to regional SMEs' growth and investment aspirations. Half expect to grow in the next 12 months, compared to just 1 in 20 who expect to downsize, sell or close their business. Plus, marginally more expect to increase capital investment in their business than expect to decrease it during the coming quarter.

It's a more mixed picture for employment and wage growth. For while the overwhelming majority of firms reported that staff levels had remained unchanged, more than 1 in 10 had reduced employee numbers and only 1 in 20 had increased them.

Unsurprisingly, the greatest perceived barriers to growth over the next year remain the general economic conditions in the UK, followed by rising utility costs and increasing labour costs.

Our small businesses have shown tremendous resilience and determination. They have overcome the disruption caused by events such as the UK's exit from the EU, national political upheaval and global events such as the pandemic and major, disruptive conflicts, to start 2023 in a much more confident manner.

This is a welcome step forward and the Federation of Small Businesses remains committed to working with local stakeholders and national government to build on this positive momentum and to create the best possible conditions for small business creation and growth.

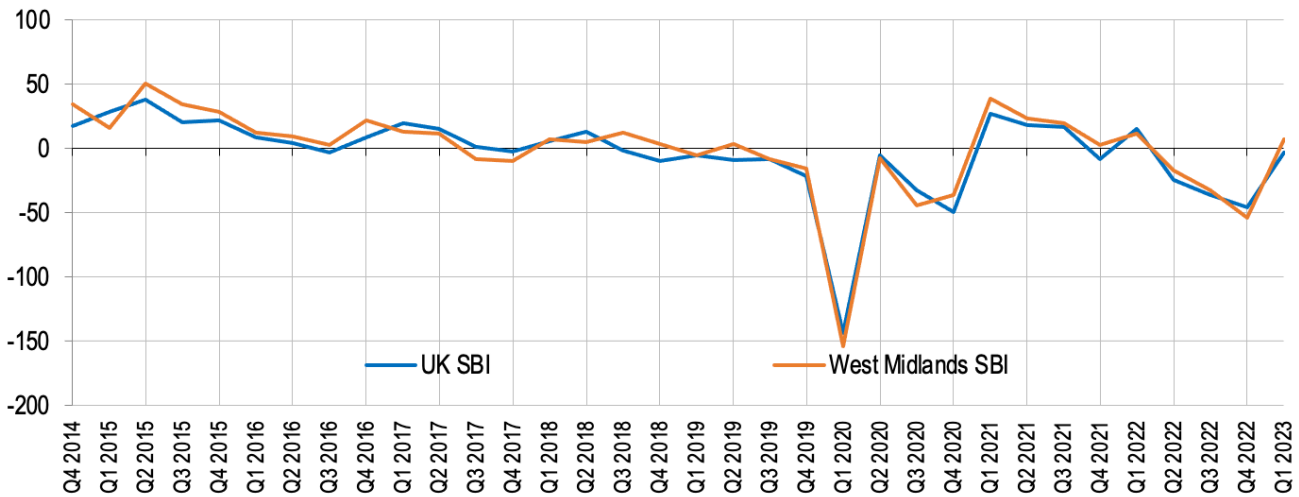
The West Midlands Small Business Index (WMSBI)¹, which measures confidence amongst businesses, has sharply risen in Q1 2023. It currently sits at 7, a noticeable improvement from -33 in Q3 2022 and -53 in Q4 2022.

Small business confidence for the next 3 months has again turned positive in Q1 2023 (7), the first-time confidence levels have been positive since the same time last year (it was 12 in Q1 2022). This represents a strong positive change compared to the results seen across most of 2022 (-17 in Q2 2022, -33 in Q3 2022 and -53 in Q4 2022) and sits ahead of results seen just before the start of the pandemic (-16 in Q4 2019).

In keeping with this sharp increase in confidence levels in the West Midlands from Q4 2022 to Q1 2023, data shows the region sits above the UK average (-3) and places as the most optimistic region for Q1. For reference, confidence in performance for the next 3 months is lowest in the South West (-23).

Confidence in business performance in the West Midlands for the next 3 months again turns positive and sits above the UK average.

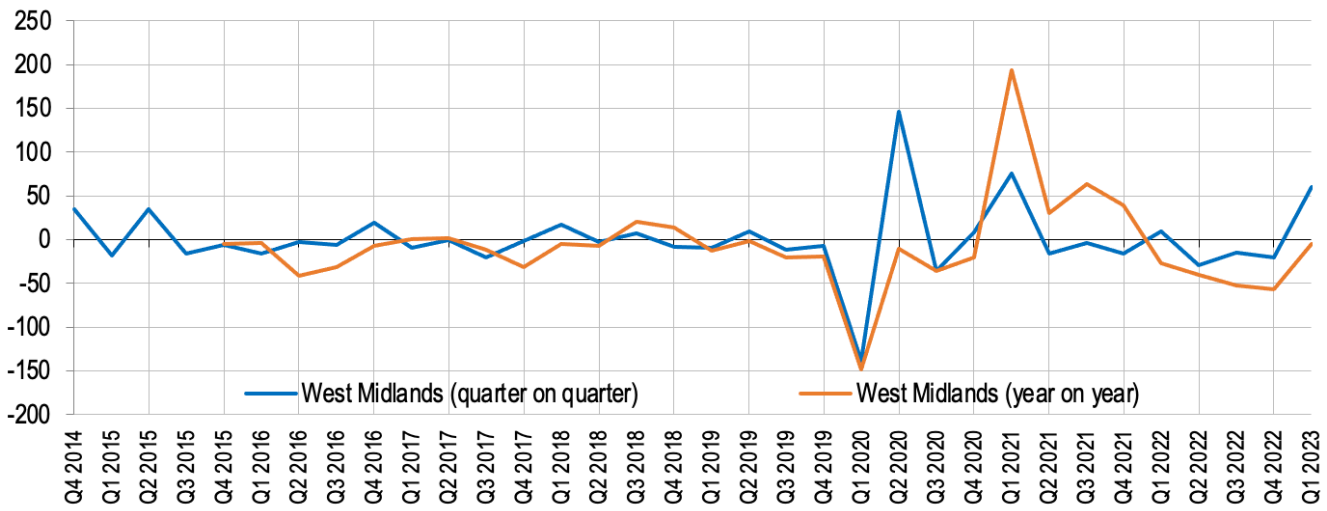
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



Although confidence improves both quarter-on-quarter and year-on-year in the West Midlands, the latter lags in comparison.

¹ The West Midlands 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.

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



Business Conditions

The overall net balance for revenue over the last 3 months has risen (net 0%)² after a brief decline in Q4 2022 (net -12%). The next 3 months look increasingly optimistic for revenue in the area, with a predicted net increase (19%).

In Q1, around a third (34%) of small businesses in the West Midlands reported an increase in revenue over the last 3 months, with the exact same amount (34%) seeing a decrease in revenue over the same time period.

Accordingly, businesses in the area report a net balance figure of 0% for Q1 2023. This represents a rise after the brief decline from Q3 2022 (net 6%) to Q4 2022 (net -12%). The current level of net revenue in the region is above the UK average of net -7%. When comparing nationally, the West Midlands is the strongest performer for net revenue and the only region not in negative territory. The weakest is the South West (net -19%).

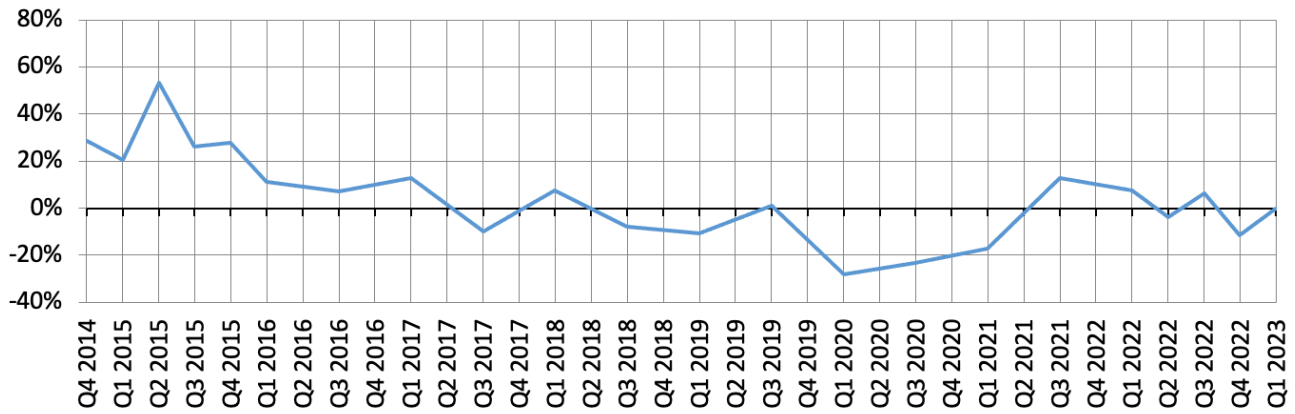
The outlook for future profit suggests a rise in net revenue compared to the current quarter in the West Midlands. 41% of businesses in the area expect an increase in revenue, while 22% predict a decline, which gives a net balance of 19%. This also sits above the UK average for the same metric (13%).

Reported net revenue in Q1 2023 rises quarter-on-quarter, sitting at a net neutral level (0%).

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'

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



Employment and Wage growth

Small businesses in the region have continued to see net negative employment levels (-3% in Q4 2022 and -7% in Q1 2023).

The employment picture among FSB members over the preceding three months continued to show a decline in staffing levels, with 12% decreasing employment numbers and 5% increasing them; accordingly, this leaves net employment levels at -7%. This sees net employment levels drop below anything seen in 2022 (where the lowest was net -5% in Q1 2022), with Q1 2023 results the lowest net level for employment since Q4 2020 (where it was net -14%). This continues the decline from the previous quarter (-3% in Q4 2022) and exceeds the predicted level of decline for Q1 2023 (where net -2% was outlined).

That said, just over three-quarters of small businesses have unaffected staffing levels, with 81% reporting that these have ‘stayed the same’.

For the next quarter, the intention is far more optimistic, with 12% of businesses expected to increase headcount and 2% to decrease staff numbers, leaving a net increase of 10%.

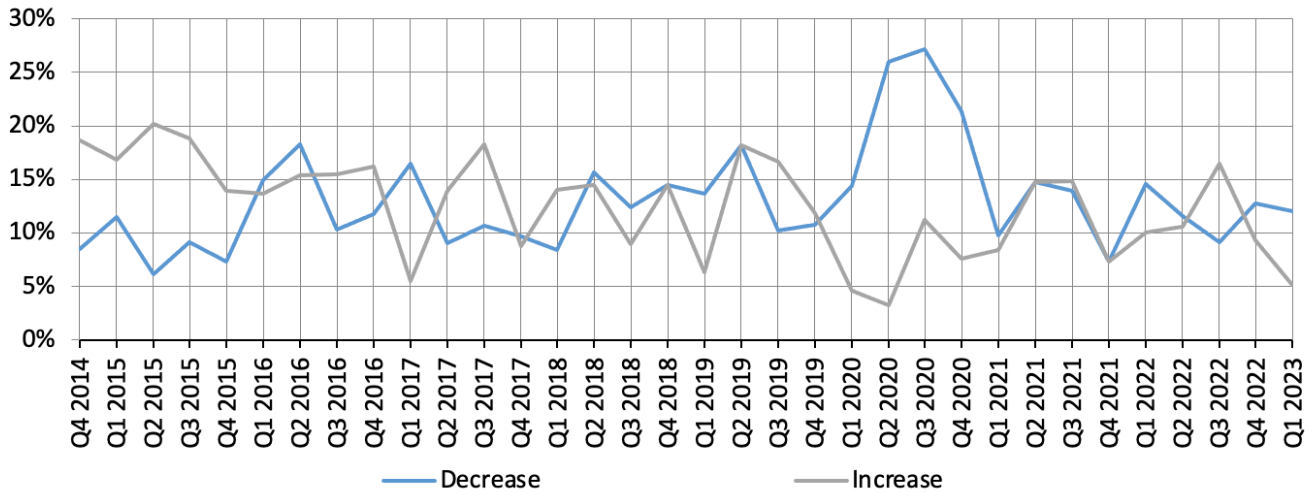
Wage Growth

In the West Midlands, just under two-thirds of small businesses (64%) increased the average salary across the business over the last 12 months – with 53% increasing the average salary by 2% or more.

66% expect to see salary increases over the next 12 months, with 50% reporting the likely increase to be 2% or above. This predicted wage growth is just ahead of the results from 12 months ago; in Q1 2022, 69% of small businesses expected to increase the average salary, with 64% expecting to increase this by 2% or more at that time.

Employment levels decline in Q1 2023, mostly driven by a small proportion of businesses increasing their current employment numbers.

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



Growth and Investment aspirations

In Q1 2023, 50% of small businesses in the West Midlands 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%). A much smaller proportion of small businesses report an aspiration to downsize, sell or close their business (5%), showing an improvement since Q4 2022 (where 16% reported an aspiration to contract their business).

The number of small businesses in the West Midlands expecting to increase the amount of capital investment in their business exceeds those expecting to decrease it during the coming quarter.

The number of small businesses in the region expecting to increase investment in the next quarter sits at 21%, more than those looking to decrease it (17%); this results in a net level of 4%. This sits just ahead of the UK average of net 2%. For comparison purposes, the region with the highest net investment intention is the North West (net 18%), while the North East & Yorkshire and The Humber (net -14%) places as the region with the lowest net investment intentions.

In the West Midlands, the general economic conditions in the UK (73%), utility costs (38%) and labour costs (27%) are the greatest perceived barriers to growth over the coming twelve months.

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