



FSB South West Quarterly Small Business Index

Q3 2022

fsb⁰³

Foreword

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Once again, sadly, our latest FSB small business confidence report for the South West makes for very worrying reading.

Every quarter we survey our members to look at how they view their current business experience and how they see the futures and the latest results are quite shocking.

Regional confidence has fallen yet again to a new record low (outside of Covid) and the South West has once more regained the unwanted title of the least positive region in the country. Our businesses are clearly hurting – and the figures reflect that.

Sustained rises in inflation and the general cost of doing business have undoubtedly had a major impact on these sentiments and our regional SMEs are also far from confident that things will change for the better. More businesses expect to lose members of staff than take them on in the next quarter and our survey also shows the South West has the lowest investment intentions for small businesses across the whole UK. Nearly twice as many of those surveyed expect to decrease investment than increase it.

Perhaps most worryingly, our report also shows that nearly one in five South West businesses have said they intend to ‘contract’ their business in the next 12 months (which means downsizing, selling or even closing) and this could be very detrimental to all the local economies they serve.

With so much political and economic turmoil around at the moment it is perhaps no surprise that our businesses are finding it so hard to feel confident. Businesses want stability and the right environment to get on with their jobs and we must hope that those in power realise that many great SMEs are struggling at the moment to stay positive and need support, understanding and sensible pro-business policies to help them get back on track.

The only good news we can report is that we know from our past FSB surveys that even very bad confidence figures can be reversed. We must therefore hope that something happens – and quickly - to help start that process because the current situation is a very troubling one.

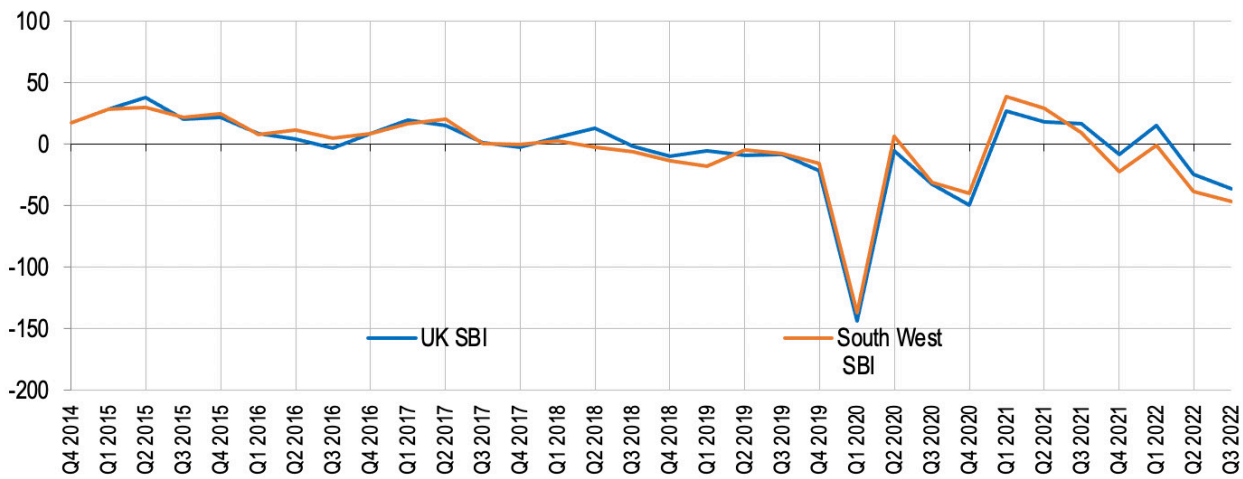
The South West Small Business Index (SWSBI)¹, which measures confidence amongst businesses, has fallen again to -47 in Q3 2022. Despite previously rising from Q4 2021 (-22) to Q1 2022 (-1), confidence levels have continued to fall since that point and now sits below the level last seen in Q4 2020 (-40).

Small business confidence for the next 3 months remains negative in Q3 (-47), with a decline since Q2 (-39). This level of sentiment is far below the confidence levels seen at the same time last year (9 in Q3 2021) and is likely driven in part by the sustained rises in inflation and general cost of living.

Looking at the rest of the UK more broadly, small businesses in the South West display confidence below the UK average, which sits at -36. South West has the lowest sentiment score in the UK; the closest performing region is the North East & Yorkshire and the Humber (-38). By contrast, the highest levels of confidence in the next three months can be seen in the South East and East Midlands, both with a score of -28. Each region in the UK currently has a negative score.

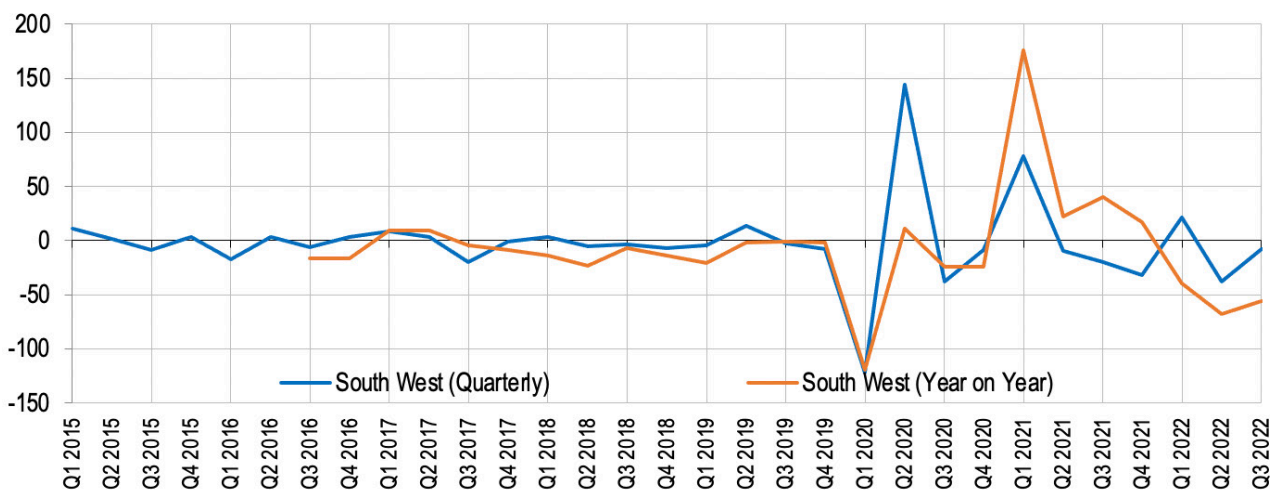
Confidence in business performance for the next 3 months in the South West continues to fall and sit below the UK average.

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 Q3 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

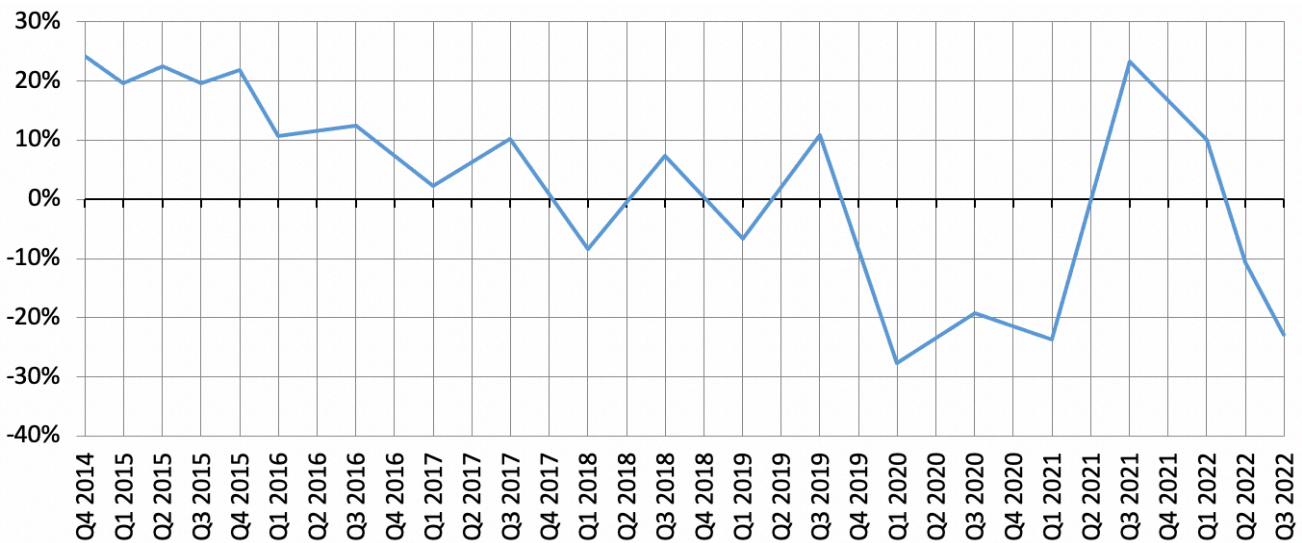
South West small businesses report a net negative balance for revenue over the last 3 months, with predictions for a continued decline (albeit at a slightly lower level).

In Q3, the overall net balance for revenue in the region was negative (net -23%)², showing a continued decline for the second quarter in a row (i.e. Q1 2022 (net 10%), Q2 2022 (net -11%). This decline in net revenue for Q3 2022 also goes beyond predictions from the previous quarter (net -13%). Signs of a quarterly decline are observable across the UK more widely – with a net average of -12%, sentiment across the country appears less optimistic than in previous quarters. The South West, therefore, sits below the UK average in terms of revenue for the last 3 months (net -23%), with the West Midlands (net 6%) the strongest and the East Midlands (net -32%) the weakest performing regions over the same timeframe.

The outlook for future revenue predicts a slightly smaller rate of decline compared to the actual levels seen in Q3 2022 for the South West. Small businesses predict that revenue will decline by net -19% over the next quarter. However, this prediction is again more pessimistic than what is seen for the UK average (net -10%). In the South West region, 26% of small businesses expect an increase in revenue over the next 3 months, with 45% expecting a decrease.

Revenue amongst South West small businesses shows a continued decline from Q2 2022 (net -11%), remaining net negative (-23%).

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 (-8%) in Q3 2022, with this set 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 (9%) had increased employment levels; this results in a net decrease of -8% in staff numbers over the last quarter. However, many staffing levels have been left unaffected, with 66% 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 13% to decrease staff numbers.

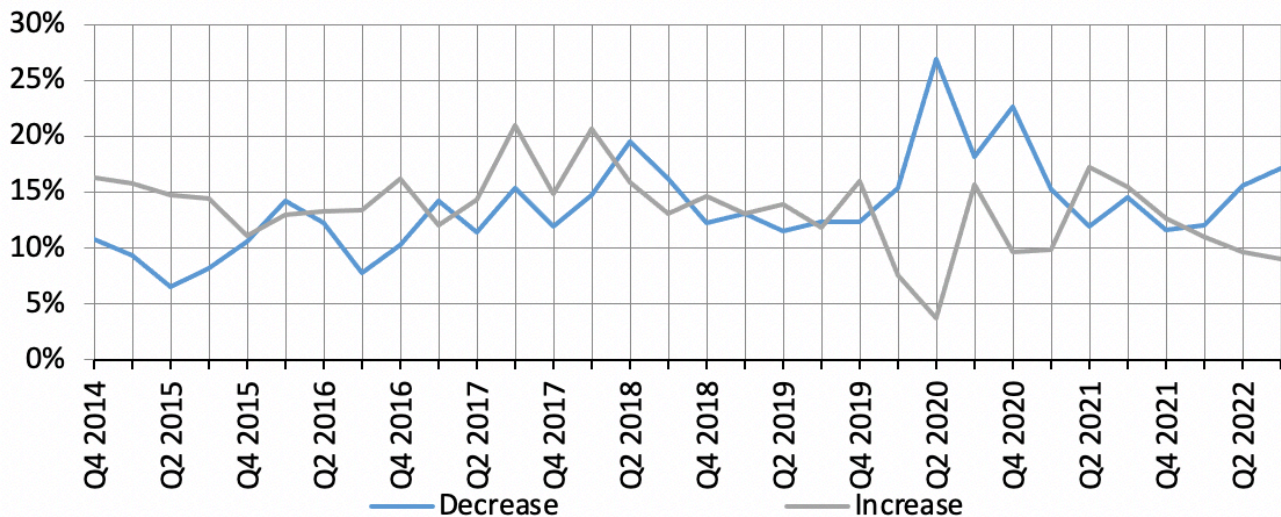
Wage Growth

In the South West, just over two-thirds (67%) of small businesses increased the average salary awarded across the business over the last 12 months, with 63% reporting an average increase of 2% or more.

Compared with a year to date, predicted wage growth has fallen slightly; this quarter, 63% expect to see salary increases over the next 12 months, with 58% reporting the likely increase to be 2% or above. Whereas in Q3 2021, 65% of small businesses expected to increase the average salary (although it's worth noting that only 52% expected the increase to equate to 2% or more, 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 Q3 2022, 41% 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%). While growth aspirations within the South West are lower than the UK average for Q3 (47%), it is on par with what was seen within the region in Q2 2022 (41%). In Q1 2022, 48% of businesses expected to grow, with the average across 2021 sitting at 49%; this therefore represents a less optimistic landscape in the South West compared to previous quarters.

The South West has the lowest net investment intentions for small businesses across the UK.

17% expect to increase investment over the next 3 months, with 29% expecting to reduce the amount invested. The net balance of firms expecting to increase their investment in the South West therefore stands at -12%. This puts the region behind the national average (net 4%). The region with the highest net investment intention is London (17%), with the South West placed as the region with the lowest net investment intentions.

In the South West, the general economic conditions in the UK (66%), utility costs (34%) and appropriately skilled staff (30%) are the greatest perceived barriers to growth over the coming twelve months.

In the South West, 18% of businesses have said they intend to contract the business in the next twelve months (to downsize, sell or close the business). This represents a slight rise from last quarter, when 17% expressed an expectation to do so, and a larger rise from the start of the year when just 6% said the same (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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