

A man with short brown hair and a beard, wearing a light blue button-down shirt and khaki trousers, is looking down at a tablet computer he is holding. He is standing in a warehouse or storage area with high shelves filled with cardboard boxes in the background. The lighting is warm and focused on the man.

FSB Yorkshire, the Humber & North East Quarterly Small Business Index

Q2 2022

fsb⁸

Foreword

Foreword by Richard Askew
Yorkshire, the Humber & North East Policy Representative
Federation of Small Businesses



“The cost of doing business crisis has worsened to the point where confidence is now at its lowest recorded figure outside of periods when significant trading restrictions aimed at halting the spread of Covid were in place.

Small firms continue to try to absorb additional cost pressures and manage the challenges surrounding labour shortages but can only do so much before they’re forced to raise prices or scale-back their business.

The small business community reduced in size to the tune of hundreds of thousands over lockdowns. Businesses desperately need policymakers to act fast and help with the charges hitting them, or history is set to repeat itself.

“We’re looking to prime ministerial candidates for unequivocally pro-business, pro-growth commitments. There is still time to act to support those businesses that are the backbone of our nation’s economy, but time is of the essence and quickly running out.”

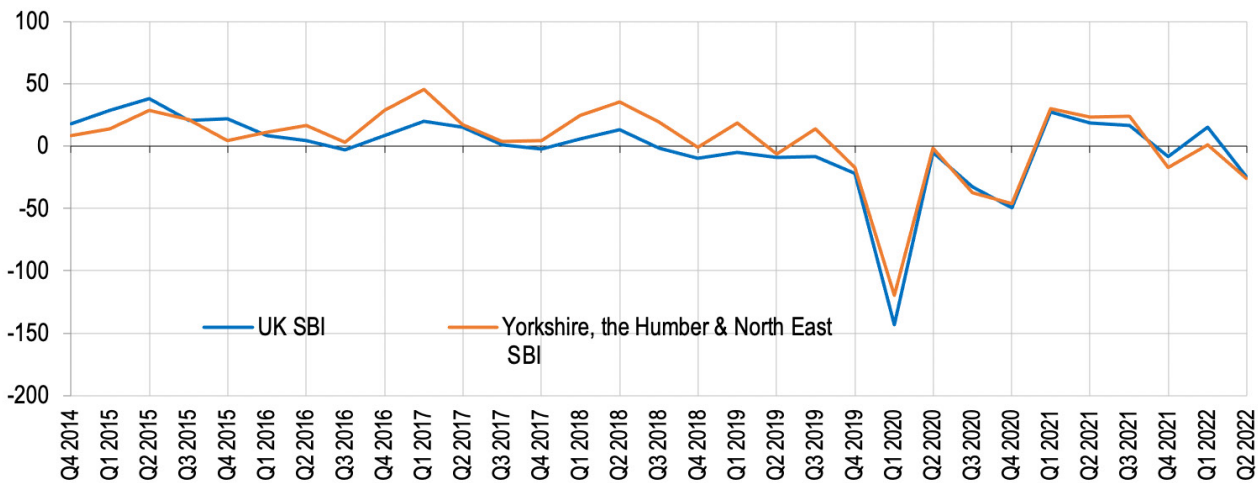
The Yorkshire, Humber & North East Small Business Index (YHNESBI)¹, which measures confidence amongst businesses, has returned to a negative figure in Q2 2022. It has fallen sharply from Q1 2022, and now stands at -26.

Confidence amongst small businesses in Yorkshire, the Humber & North East is again negative (-26) after a rise in Q1 2022 to 1. The sentiment levels for Q2 are also below the previous negative figure seen in Q4 2021 (-17). This decline is likely due in part to the recent rise in inflation and fuel prices, although it's worth noting that the results for Q2 2022 still sit above the level of confidence seen through 2020 (average of -51 through the year).

Small businesses in the region display confidence just below the current UK average (-25). For reference, the strongest performing region is the East of England (-10), and the weakest being the East Midlands (-43).

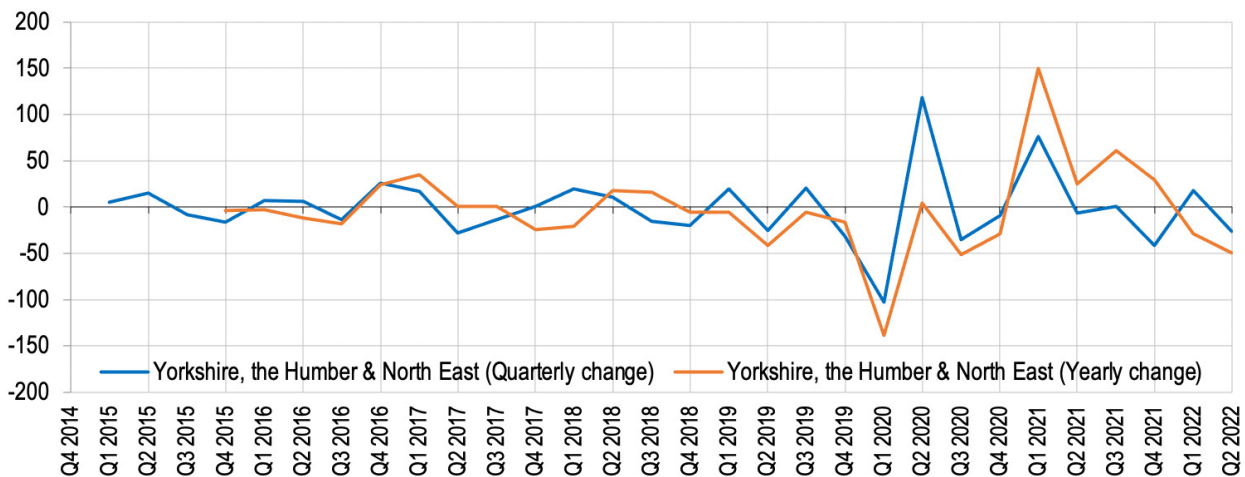
Confidence in business performance for the next 3 months falls across Yorkshire, the Humber & North East; scores are similar to the UK average.

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



Confidence declines both from the previous quarter and previous year in Q2 2022.

Fig.2 FSB Yorkshire, the Humber & North East Small Business Index: small business confidence levels.



¹ The Yorkshire, the Humber & North East 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

Businesses in Yorkshire, the Humber & North East report a net negative balance in revenue over the last 3 months, remaining above the levels seen in 2020 but below revenue levels before the pandemic.

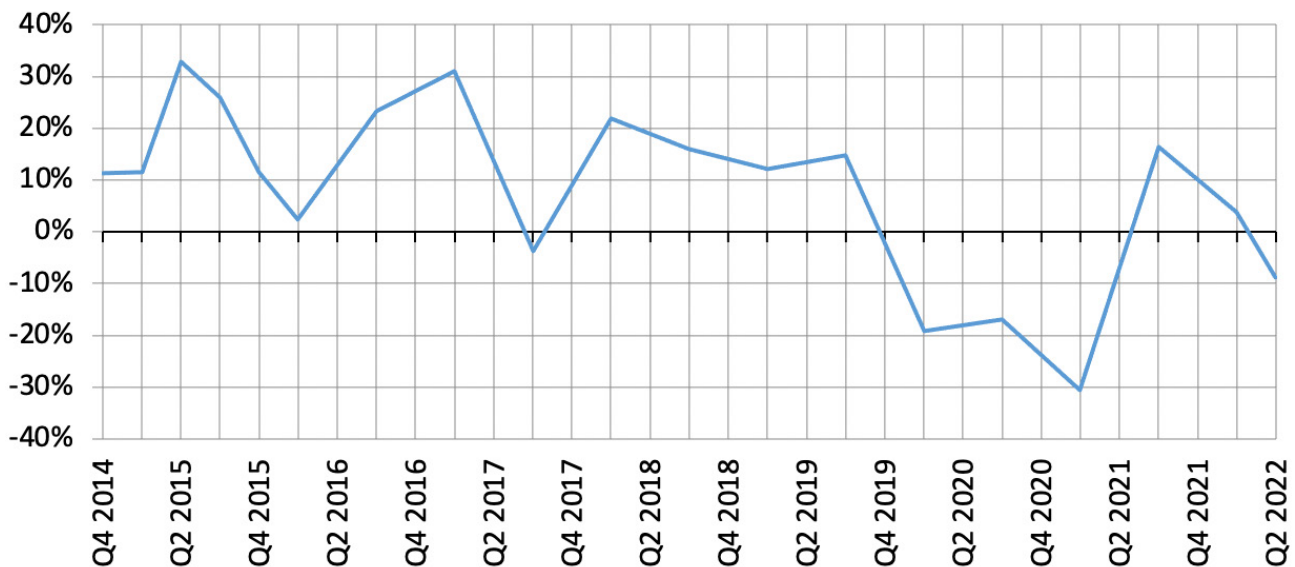
In Q2 2022, the overall net balance for revenue in the region was negative (net -9%)², continuing the decline seen following Q3 2021 (where it was net 16%). Despite this fall, which may have been caused by rapid rises in inflation and fuel prices, this remains above the levels seen in 2020 and still higher than in Q1 2021 (where it was net -31%). However, the current levels of revenue are still below the pre-pandemic levels (e.g. 15% in Q3 2019).

Signs of decline are also observable across the UK more widely; with a net average of -6%, sentiment across the country is also negative. The lowest performing region in terms of revenue across the UK for the last 3 months is the East Midlands (-14%), with the strongest performances in England coming from the East of England and London (both net 1%).

In terms of outlook for future revenue, 31% of small businesses expect a growth in revenue over the next 3 months, with 36% expecting a decrease. This leaves a net balance of -5% for predicted profit changes in the region (similar to the UK average, which sits at -3%).

Revenue in the region falls back to net negative, continuing the decline seen since Q3 2021.

Fig.3 FSB Small Business Index: net balance of small firms in Yorkshire, the Humber & North East reporting revenue (Revenue question previously only asked in Q1 and Q3 phases of SBI).



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. 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'.

Employment and Wage growth

The number of small businesses in the area taking on new staff has fallen behind those who are losing staff.

The employment picture amongst FSB members over the preceding three months has shown a less positive view, with the first net negative set of employment numbers since Q1 2021 (where results were net -8%). In Q2 2022, 12% of small businesses in the region increased staffing numbers, with 16% decreasing them; leaving a net of -4%. In the previous quarter, employment numbers were net 5%, with scores since Q2 2021 also showing a similar picture up to Q1 2022. The current net of -4% in staffing levels for Q2 2022 falls short of the predicted change from the previous quarter, where small businesses then expected staffing levels to increase by net 13%.

However, it's worth noting that the majority of staffing levels continue to remain unaffected (65%) in Q2. Looking ahead, for the next quarter staffing levels are predicted to rise, with 12% looking to increase and 6% expecting to decrease their headcount. 78% expect this to stay the same.

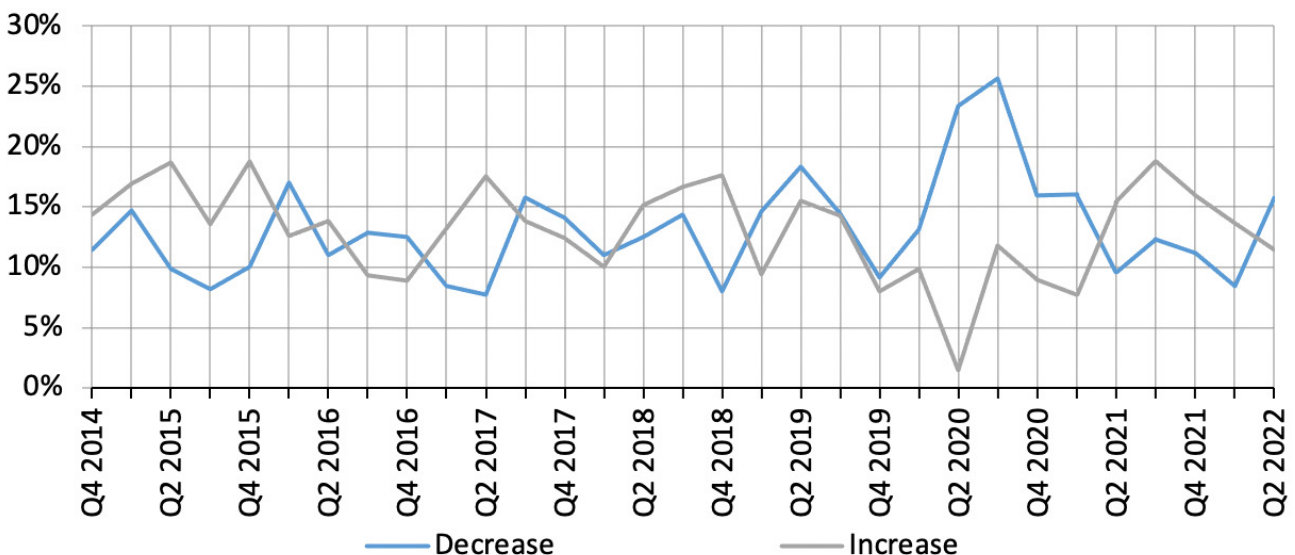
Wage Growth

In Yorkshire, the Humber & North East, over half (64%) of small businesses increased the average salary awarded across the business over the last 12 months (with 58% of these increases above 2%). 60% expect to see salary increases over the next 12 months, with 51% reporting the likely increase to be above 2%.

Predicted wage growth continues to slowly decline since Q4 2021 (72% predicted an increase then, 70% in Q1 2022 and now 60% in Q2 2022) but still remains strong in relative terms, and above Q1 2020; at that time it dropped as low as 48%.

The number of small businesses increasing headcount falls below those decreasing headcount for the first time since Q1 2021.

Fig.4 FSB Small Business Index: change in people employed in Yorkshire, the Humber & North East over last 3 months.



Growth and Investment aspirations

In Q2 2022, 43% of small businesses in Yorkshire, the Humber & North East 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%). This represents a yearly decline, falling by -6% year-on-year (this was 49% in Q2 2021) and a small quarter-on-quarter decline of -2% (this was 45% in Q1 2022).

The investment intentions for Yorkshire, the Humber & North East businesses turn negative, falling below the UK average.

19% of businesses in Yorkshire, the Humber & North East expect to increase investment in the coming quarter, while 25% expect to decrease investment. This leaves a net balance of -5% which is below the UK average (net 3%). Yorkshire, Humber and the North East is actually placed as the joint lowest region for investment intentions in England alongside the East of England (both at net -5%), with the highest being London (net 11%).

In Yorkshire, the Humber & North East, the general economic conditions in the UK (72%), consumer demand (37%) and input costs (28%) are the greatest perceived barriers to growth over the coming 12 months.

In Yorkshire, the Humber & North East, 13% of businesses have said they intend to contract the business in the next 12 months (to downsize, sell or close the business). This is a slight rise from Q1 2022 (10%) and remains just below the intentions seen across 2021 overall (average of 13%).

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

fsb.org.uk

 facebook.com/federationofsmallbusinesses

 [@FSB_policy](https://twitter.com/FSB_policy)

If you require this document in an alternative format please email accessibility@fsb.org.uk

fsb⁰⁸