



FSB London Quarterly Small Business Index

Q4 2021

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fsb⁰³



Foreword

The fourth quarter of 2021 was another challenging one for FSB London members – but resilience and determination is evident. Investment intentions, employment intentions and predicted net gross profit is still holding up at a time when the ‘work from home’ message and international travel restrictions are still in place. This has culminated in a difficult ‘Golden Quarter’ for retail, leisure, and hospitality industries in the Capital. We need clear and consistent messaging and support from Government giving many small businesses confidence to plan.

Supply chain issues, high inflation and further taxation are playing on the minds of small businesses. Increasing the small businesses rates relief ceiling to £25,000 would take 200,000 more firms out of this regressive tax. The National Insurance ‘Jobs Tax’ in April will disincentivise many small firms from growing – and so an increase in the Employment Allowance would provide some welcome support.

We also need to see an urgent London-level tourism marketing fund to welcome back visitors to help boost the recovery in the centre of London as we move into Spring.

The wider National SBI study of more than 1,200 business owners finds that close to one in three has seen late payment of invoices increase over the last three months, with a further 8% experiencing other forms of poor payment practice. Only 6% say that a change in payment terms has been agreed over that period.

As a result, approaching one in ten (8%) say late payment is now threatening the viability of their business.

Latest government statistics show that there are an estimated 5.5 million small business in the UK – a figure which fell by 400,000 over last year’s lockdowns.

The new FSB study suggests that over 80,000 small firms in the Capital could be forced to close again this year due to late payment alone.

Every big UK corporation should have a non-executive director on its board with direct responsibility for payment culture. And every big business and government organisation should be abiding by the prompt payment code: 30-day payment terms are not a nice to have, they’re the norm for those who are committed to environmental, social and governance best practice.

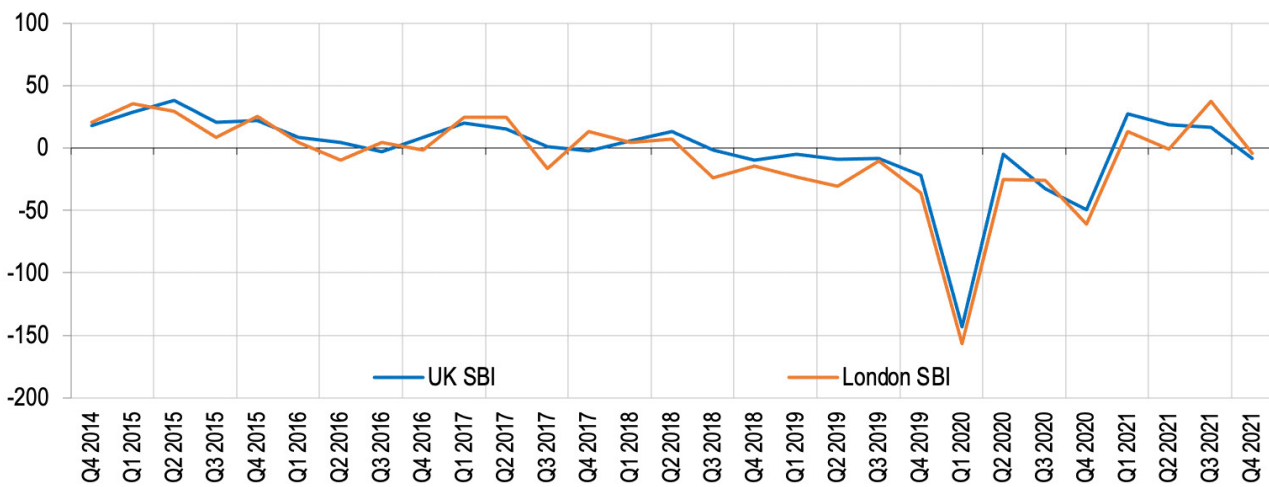
The London Small Business Index (LSBI)¹, which measures confidence amongst businesses, has dropped since the last quarter. It currently stands at -5%; in Q3 2021, the reading was 38%. This may potentially be reflective of uncertainty associated with the new Omicron variant.

Confidence levels have fallen substantially to -5% during Q4, following a sharp rise from Q2 2021 (-1%) to Q3 2021 (38%). Despite this, it's worth noting that this is still significantly ahead of the readings taken during all of 2020 (average score of -67% for the year of 2020).

Sentiment in London (-5%) slightly outperforms the national average (-8%). In terms of confidence scores, the North East (-64%) and East Midlands (15%) are placed as the weakest and strongest regions in Q4 2021 respectively.

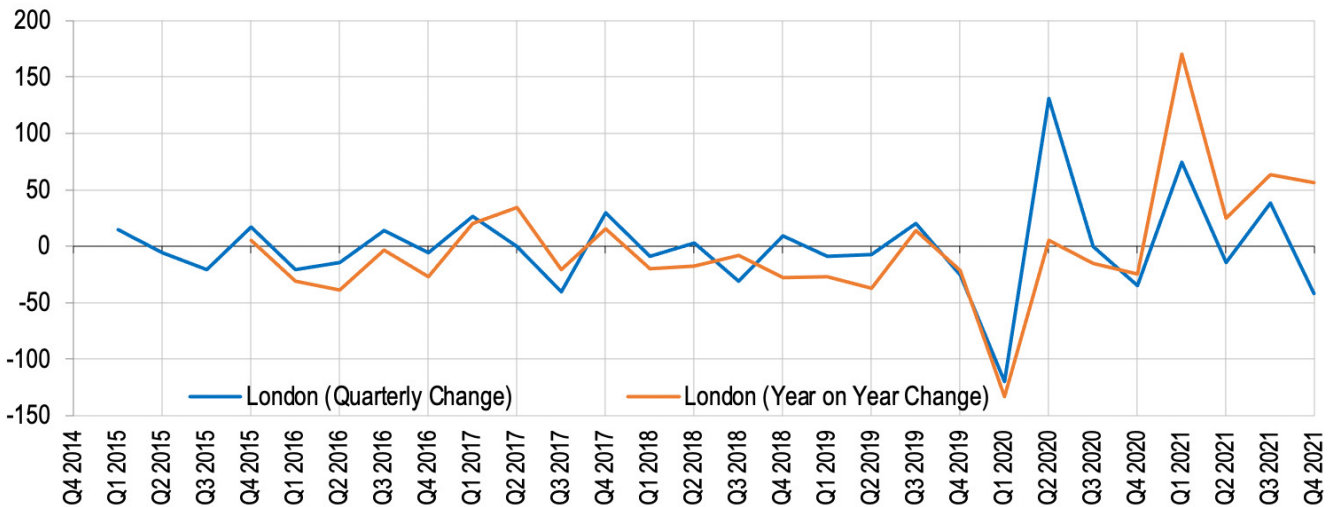
Confidence decreases in London alongside the UK average. Confidence in the region continues to sit just above the UK average by a small margin.

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



While yearly confidence scores are up, there has been a decline between Q3 and Q4 2021 as London small businesses are feeling less positive about business prospects for the next three months.

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



¹ The London 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

The overall difference in gross profit from the last 3 months is positive (net score, 4%)² with businesses in the region performing above the UK average (-5%). Furthermore, London is the most positive region for predicted net gross profit over the next three months in the whole of the UK.

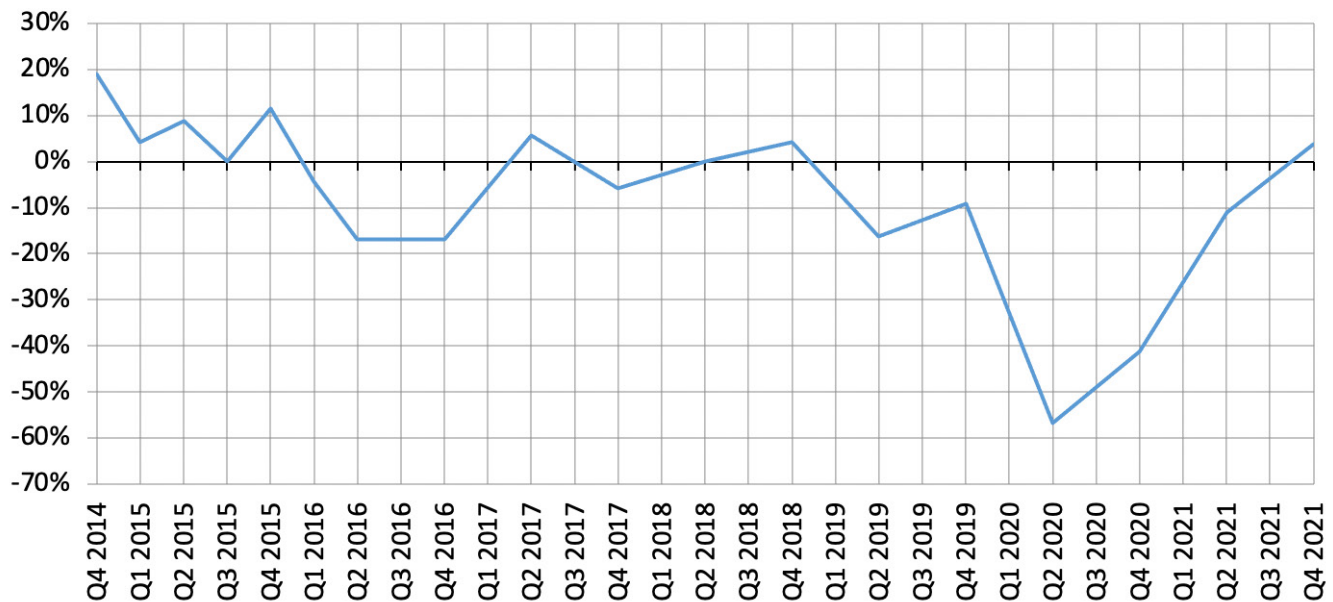
In Q4, 38% of small businesses in London reported a decrease in gross profit over the last 3 months. Conversely, a slightly larger group of 41% reported an increase in gross profit over the last 3 months.

Accordingly, with a net balance figure of 4% for Q4, London small businesses' gross profit returns to a positive figure – this is the first net positive since Q4 2018 (4%). Gross profit in the region is well above the UK-wide average (-5%), with the only other region reporting a higher net gross profit score being the East of England (5%).

The outlook for gross profit in the coming 3 months, however, looks increasingly positive (19% net score) – with more firms expecting an increase in gross profit vs. a decrease. Looking at other regions in the UK, London holds the most positive outlook for net gross profit. The nationwide average sits at -3%. The next highest predicted net gross profit comes from the East Midlands (1%), and the lowest is the North East (-40%).

Reported gross profit shows signs of a continued recovery since Q2 2020, following a sharp decline during the pandemic. Accordingly, Q4 2021 sees a return to a net positive score for the first time since Q4 2018.

Fig.3 FSB Small Business Index: net balance of small firms in London reporting gross profit (gross profit question only asked in Q2 and Q4 phases of SBI – question is asked on a rotational basis)



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'

Employment and Wage growth

Over 1 in 10 (15%) of small businesses in London have lost staff in the previous quarter, leading to a smaller net increase in employment than predicted in Q3.

The employment picture amongst FSB members over the preceding three months showed that 21% had increased staff numbers, whilst 15% had decreased them across the region; this leaves a net increase in employment levels (6%). This represents a smaller net increase than predicted in Q3 2021, when 22% intended to increase staff numbers, and only 2% expected to decrease staff levels (net 20%). Despite this however, the net increase of 6% is the first time that there has been a clear net positive score since Q3 2019.

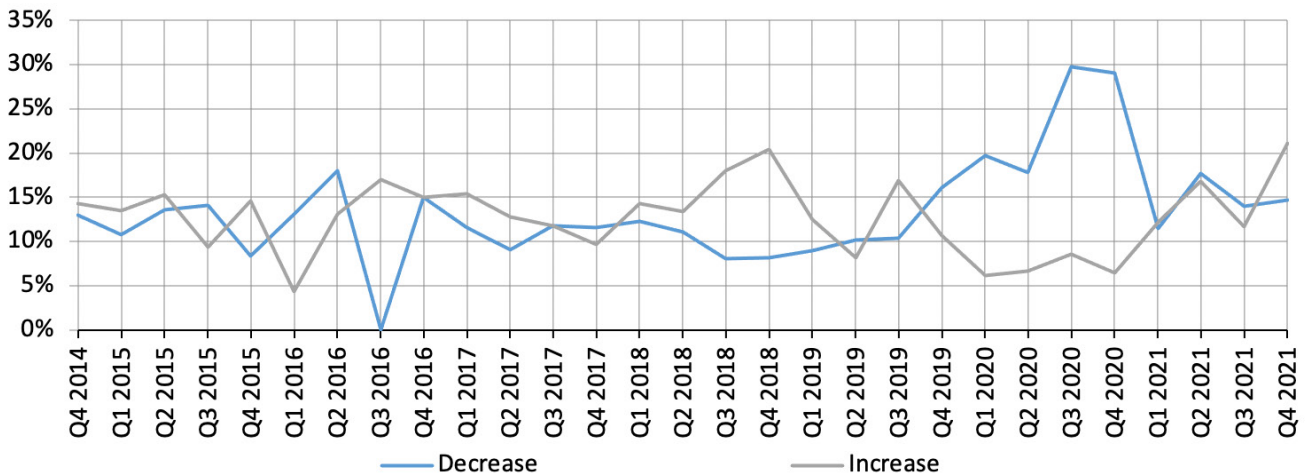
For the majority, staffing levels remained the same in Q4 2021, with 57% reporting no change. For the next quarter, the intention is for 20% of businesses to increase headcount and 4% to decrease staff numbers.

Wage Growth

In London, over half (60%) increased the average salary awarded across the business over the last 12 months – with 49% increasing the average salary by 2% or more. 74% expect to see salary increases over the next 12 months, with 64% reporting the likely increase to be 2% or more.

The number of small businesses in London hiring last quarter (21%) begins to overtake the number decreasing staff numbers (15%).

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



Growth and Investment aspirations

In Q4 2021, 66% of small businesses in London 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%). Compared with this time last year, fewer small businesses report a desire to downsize or sell their business (9% in Q4 2021, vs. 21% at Q4 2020).

Investment intentions going into the next quarter are strong and well ahead of the UK average, with London expecting to receive the highest net investment out of all regions.

In London, 41% of small businesses expect to increase investment in their business over the next 3 months, with a smaller proportion (11%) expecting to decrease it. With a net score of 30%, London is above the investment sentiment seen across the UK, where a net average of 19% was registered. London is the region with the highest net investment intentions, with the South West in second (19%).

In London, the general economic conditions in the UK (64%), consumer demand (36%) and appropriately skilled staff (30%) are the greatest perceived barriers to growth over the coming twelve months.

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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