

A man with a beard, wearing a blue and white plaid shirt over a white t-shirt, is focused on working on a bicycle wheel. He is holding a tool, possibly a spoke wrench, near the hub of the wheel. The background is a workshop with various tools and equipment visible. The lighting is bright, highlighting the man's concentration.

FSB West Midlands Quarterly Small Business Index

Q1 2022

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Foreword

Our West Midlands Small Business Index (WMSBI) quarterly report, tracks small business confidence across the region. It is based upon comprehensive research that investigates small firms' recent performance, current circumstances, and future aspirations.

This latest report, covering quarter 1 (Q1) of 2022, paints a mixed picture.

Some of the findings sound alarm bells for the future. For example,

- The proportion of small businesses reporting a decrease in staffing levels has doubled, compared to Quarter 4 2021. So while net employment was close to zero for much of 2021, this quarter is the first to report negative net employment growth since Quarter 1 of 2021.
- Respondents also report significant wage bill pressures. Almost two thirds saw their average salaries increase during the past 12 months with more than half of those reporting an increase of 2% or more. An even greater proportion expect average salaries to rise over the next 12 months, with two thirds expecting an increase of 2 % or more.
- While our regional small businesses are more confident about their prospects for the next 3 months following a decline in Quarter 4 2021, they remain less optimistic than they were this time last year.
- In terms of the main barriers to growth, around two thirds of respondents cite UK domestic economic conditions. More than a third of respondents are concerned about rising input costs, with a similar proportion identifying consumer demand as an issue.

There are many positive developments however.

- More than half of respondents expect to grow rapidly or moderately in the next 12 months.
- Two fifths of respondents report an increase in revenue, which is more than those reporting a decrease.
- The outlook for future profit is also very positive in the West Midlands. Almost half expect an increase in revenue vs a quarter predicting a decline. The net, positive figure is above the UK average.
- More than a quarter expect to increase capital investment, with the region's small businesses being well ahead of those in the rest of the UK in terms of net investment intentions.

Overall, these latest WMSBI findings show that local firms remain resilient and defiantly optimistic, even though they are facing serious challenges.

That's why FSB is urging Government and decision-makers to go further - to address key challenges, such as the increasing cost of doing business, late payment and the gaps in business support.

The message from us to policymakers and corporates alike is clear: let's make this a small business summer – backing them, the 99% of all businesses in the UK, on which our local and national recoveries will depend.

The West Midlands Small Business Index (WMSBI)¹, which measures confidence amongst businesses, has risen following a decline in Q4 2021. It currently stands at 12%, compared with Q4 where it was 3%.

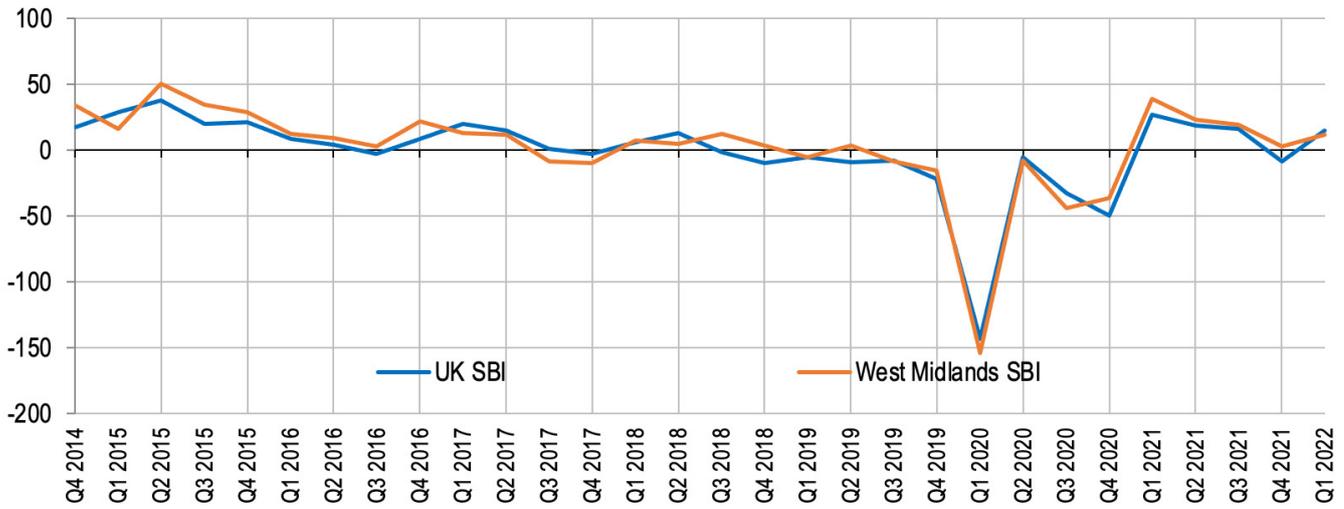
Small business confidence for the next 3 months remains positive in Q1 2022 (12%), showing an improvement from the decline in Q4 2021 (3%) but still below the previous level in Q3 (20%). Although this current score still sits below the levels seen at the beginning of 2021, compared with scores taken during 2020, sentiment in the region has improved greatly (-154% in Q1 2020). This is most likely driven by a relative relaxation of restrictions across the country.

Despite the increase in confidence in West Midlands since Q4, data suggests the region has fallen slightly behind of the UK average (15%). For reference, confidence in performance for the next 3 months is the highest in London of all regions (43%), whereas the South West by comparison is by far the lowest (-1%). Locally, East Midlands sits at 17% compared to West Midlands at 12%.

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.

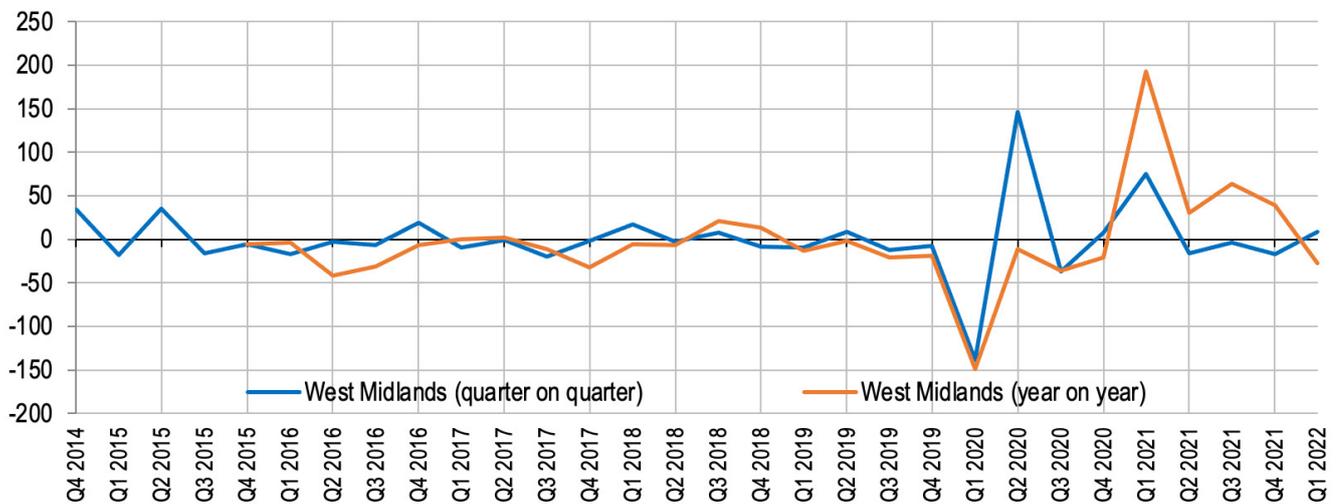
Confidence in business performance in the West Midlands for the next 3 months strengthens, following a temporary decline in Q4.

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



Confidence since the last quarter has increased, but compared with last year is still lower (27% lower vs. Q1 2021).

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 remains positive (net 7%)² but sees a slight decline from Q4 2021 (13%). The next 3 months are more optimistic for revenue in the area (22%), with expectations on par with the UK average (21%).

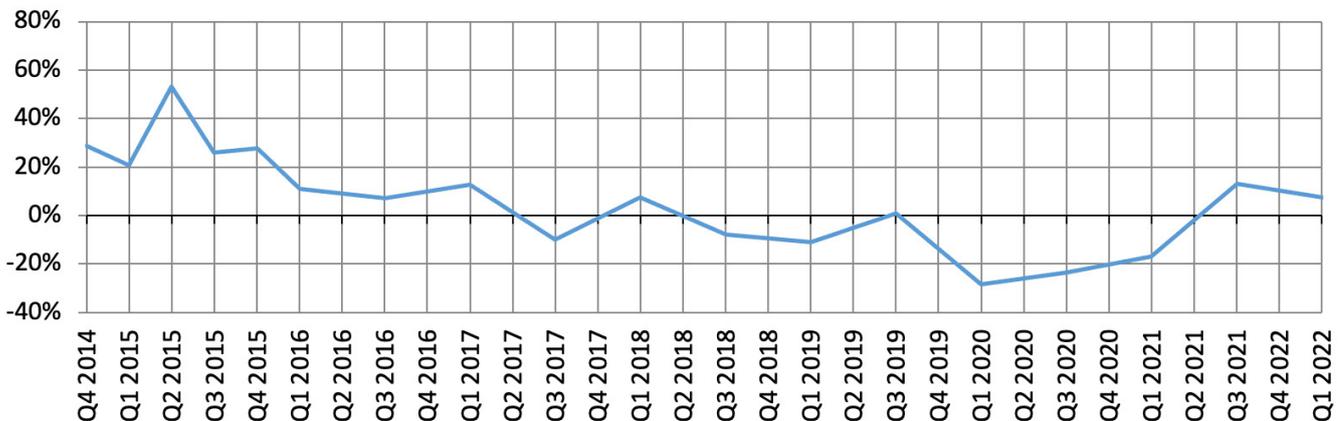
In Q1, two-fifths (40%) of small businesses in the West Midlands reported an increase in revenue over the last 3 months, whereas a slightly smaller amount (33%) saw a decrease in revenue over the same time period.

Accordingly, businesses in the area report a net balance figure of 7% for Q1, which is slightly below the UK average of 11%. The closest performer to the West Midlands is the North West (6%), with London (16%) and the North East & Yorkshire and The Humber (4%) acting as the strongest and weakest performers respectively.

The outlook for future profit looks more positive in the West Midlands. 49% of West Midland businesses expect an increase in revenue, while 26% predict a decline; this gives a net balance of 22%. This sits just above the UK average (21%).

Reported net revenue in Q1 2022 remains positive (7%) but declines slightly from Q4 2021 (13%).

Fig.3 FSB Small Business Index: net balance of small firms in the West Midlands reporting revenue (revenue question previously only asked in Q1 and Q3 phases of SBI).



² 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.

Employment and Wage growth

The proportion of small businesses decreasing staff levels in Q1 2022 (15%) has doubled vs. Q4 2021 (7%).

The employment picture amongst FSB members over the preceding three months showed a small decline in staffing levels, with 15% decreasing employment numbers and only 10% increasing them; accordingly, this leaves net employment levels at -5%. Although net employment levels have been close or equal to 0% for much of 2021, this quarter is the first return to a net negative level since Q1 2021 (-1%). This growth falls well behind the predicted 13% net increase in staff levels from Q4.

That said, just under three-quarters of small businesses have shown unaffected staffing levels, with 71% reporting that these have ‘stayed the same’.

For the next quarter, the intention is for 16% of businesses to increase headcount and 3% to decrease staff numbers, predicting a net increase of 13%.

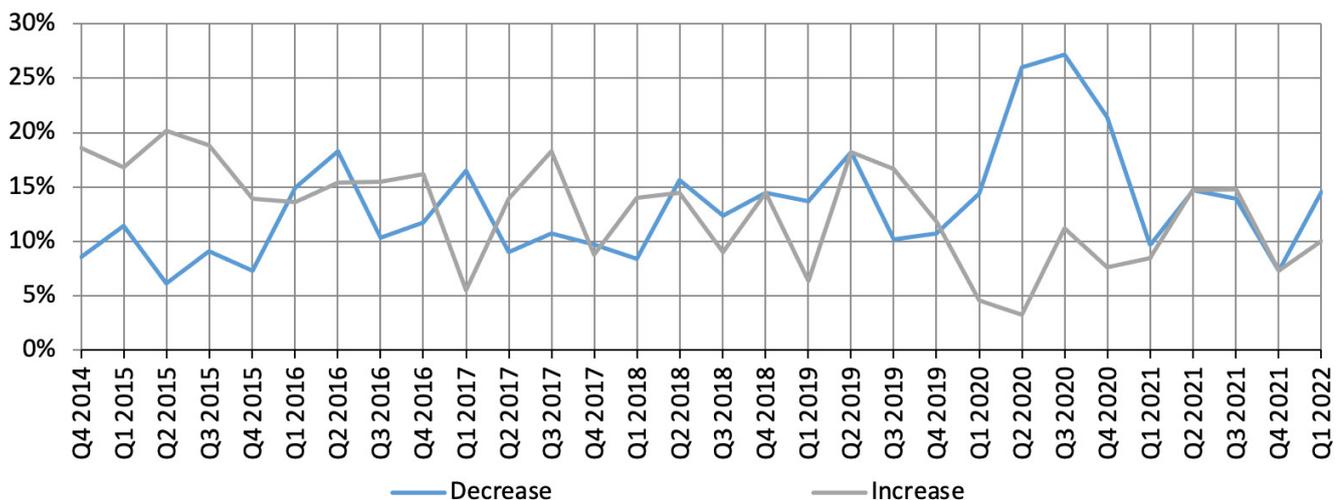
Wage Growth

In the West Midlands, over half of small businesses (60%) increased the average salary across the business over the last 12 months – with 57% increasing the average salary by 2% or more.

69% expect to see salary increases over the next 12 months, with 64% reporting the likely increase to be 2% or above. This predicted wage growth is slightly higher than 12 months ago; in Q1, 2021, only 60% of small businesses expected to increase the average salary. This again indicates the continued steady economic recovery in the area.

The number of small businesses increasing headcount (10%) falls below the proportion of those decreasing headcount (15%) for the first time since Q1 2021.

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



Growth and Investment aspirations

In Q1 2022, 53% 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 are likely to report an aspiration to downsize, sell or close their business (8%).

Over one-quarter (27%) of small businesses in the West Midlands expect to increase the amount of capital investment in their business during the coming quarter.

The number of small businesses in the region expecting to decrease investment (13%) slightly rises from Q4 (12%), with those expecting to increase investment (27%) staying the same compared to the previous quarter (27%); this represents a small decrease in net investment (14% in Q1 2021 vs. 15% in Q4 2021). This, however, is ahead of the UK average of 9%, and represents the highest net investment intentions across the whole of the UK. For comparison purposes, the North West (4%) has the lowest investment intentions across the nation.

In the West Midlands, the general economic conditions in the UK (64%), consumer demand (36%) and input costs (34%) 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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