

A man with a beard and tattoos, wearing a white t-shirt and a plaid shirt tied around his waist, holds a wooden crate filled with vegetables. He is looking at a woman with blonde hair, wearing a white shirt and blue overalls, who is holding a clipboard and looking at the man. They are in a greenhouse with rows of plants.

FSB East of England Quarterly Small Business Index

Q4 2021

fsb⁰⁸



Foreword

The latest Small Business Index (SBI) shows a mixed picture for small businesses within the East of England, with business confidence at its lowest level since the start of 2021. However, in terms of future growth and investment, the SBI shows a desire amongst local small businesses to grow rapidly, taking on more staff and increasing wages.

A key finding of the SBI is that business confidence was significantly curtailed in Q4 2021. This is likely to be attributed to growing concerns around inflation, which is hitting small businesses hard, and the uncertainty around the Omicron Covid-19 variant. And with the hospitality, leisure, and tourism sectors making up a significant part of the East of England economy, it is unsurprising that business confidence in the East of England was lower than the UK average.

In terms of turnover, it is encouraging to see that in the last three months of 2021, more small businesses within the East of England reported an increase in profits than reported a decrease. Although the increase is small, this is the first reported rise since 2017, with the East of England outperforming all other UK regions. However, the results from the SBI call for caution in terms of forecasting future growth, with only the North-East showing greater levels of pessimism from small businesses about future gross profits.

A further area in which the East of England is outperforming the rest of the UK is in employment. Over one in five (21%) small businesses took on more staff, with 14% reducing the number of staff they employed. Taking these statistics together, this delivers a net employment score of 7%, compared to the UK average of 3%.

The SBI also shows that East of England small businesses are increasing wages in the race to retain staff. With skills shortages particularly acute in the East of England (40% of small businesses reported that it was a barrier to growth), over half of small businesses surveyed had increased wages over the last twelve months with 62% expecting to increase wages further in the coming year. Focused on future growth, the SBI also showed that just over half of small businesses expected to grow rapidly in the next twelve months, with 30% looking to increase investment in the coming quarter.

Although the latest SBI outlines some positive news for small businesses in the East of England, particularly around future plans and investment, it shows that there is also still a significant level of uncertainty. And with the effects of rising energy and fuel costs beginning to bite and increases in national insurance contributions coming around the corner, small businesses may find that their plans to invest and grow are put on pause.

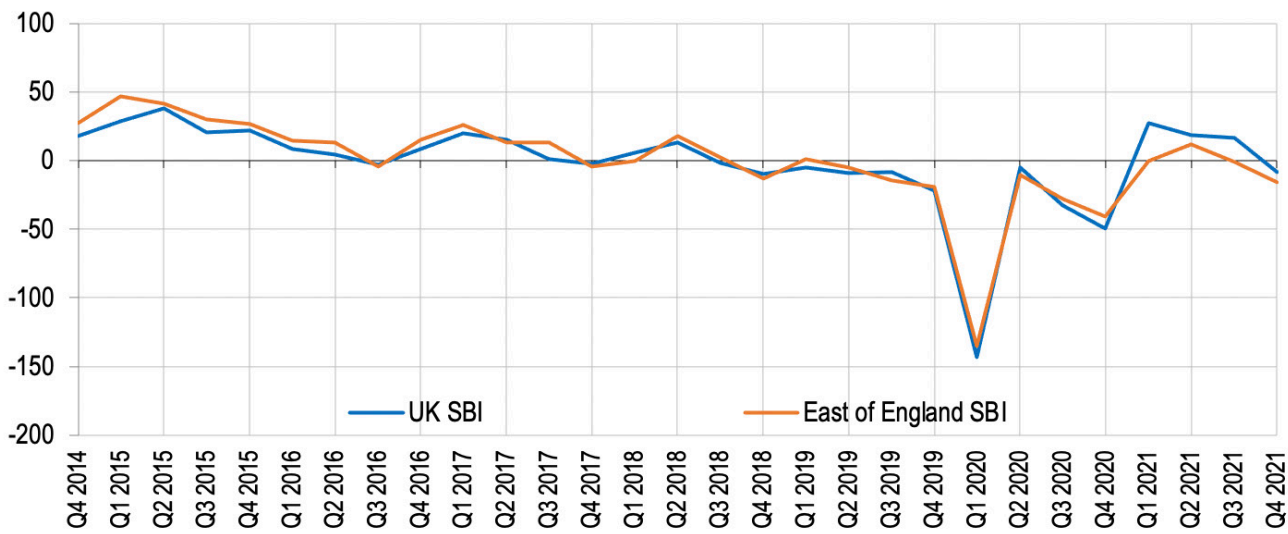
The East of England Small Business Index (EESBI)¹ – which measures confidence amongst businesses – has fallen further into negative territory. The reading in Q4 stands at -16%, a fall from what was seen in Q3 (-1%).

Confidence levels have again shown a decline in Q4 (now standing at -16%), following a significant surge in confidence spreading through the region at the beginning of the year (Q1 2021, 33%). This is the third consecutive quarter where confidence has fallen in 2021, with the recent drop potentially being reflective of the uncertainty associated with the emerging Omicron variant.

Uncertainty in the region is also seen more broadly in the UK, with a national average of -8%, meaning the East of England is currently tracking slightly below UK-wide confidence. For comparison, the highest performing region is the East Midlands (15%), with the lowest being the North East, at -64%.

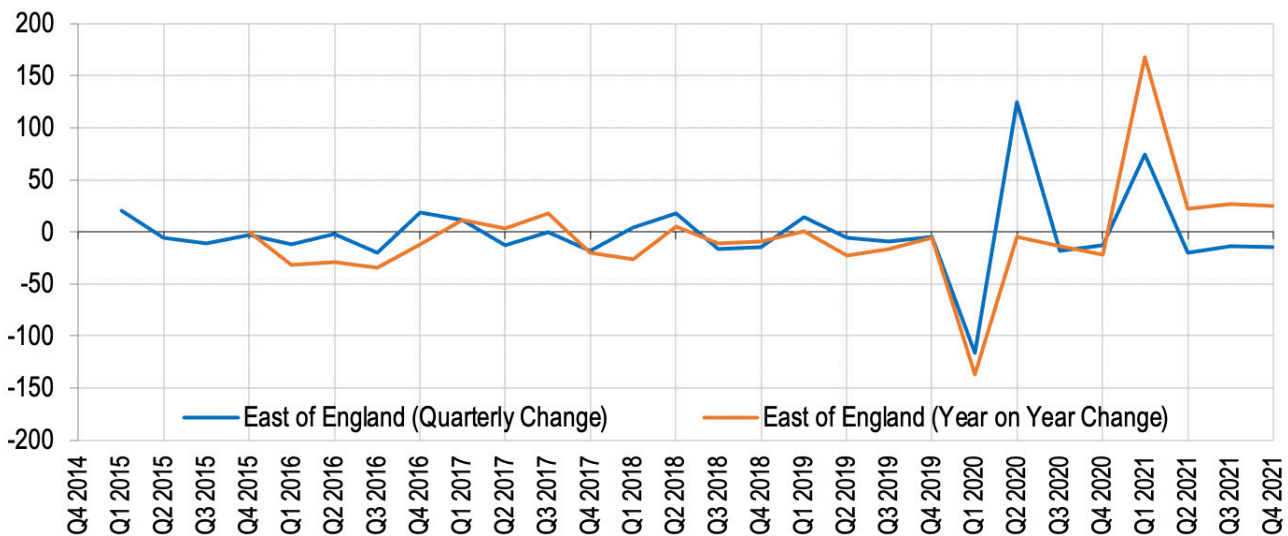
Confidence in the East of England drops for the third consecutive quarter and is currently tracking behind the UK average.

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



Despite year-on-year confidence being vastly improved (+25%), confidence continues to struggle in the East of England.

Fig.2 FSB East of England Small Business Index: small business confidence levels



¹ The East of England 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

Gross profit in the region (net score 5%)² shows a slight improvement from Q2 (-3%) and outperforms the UK average (-5%).

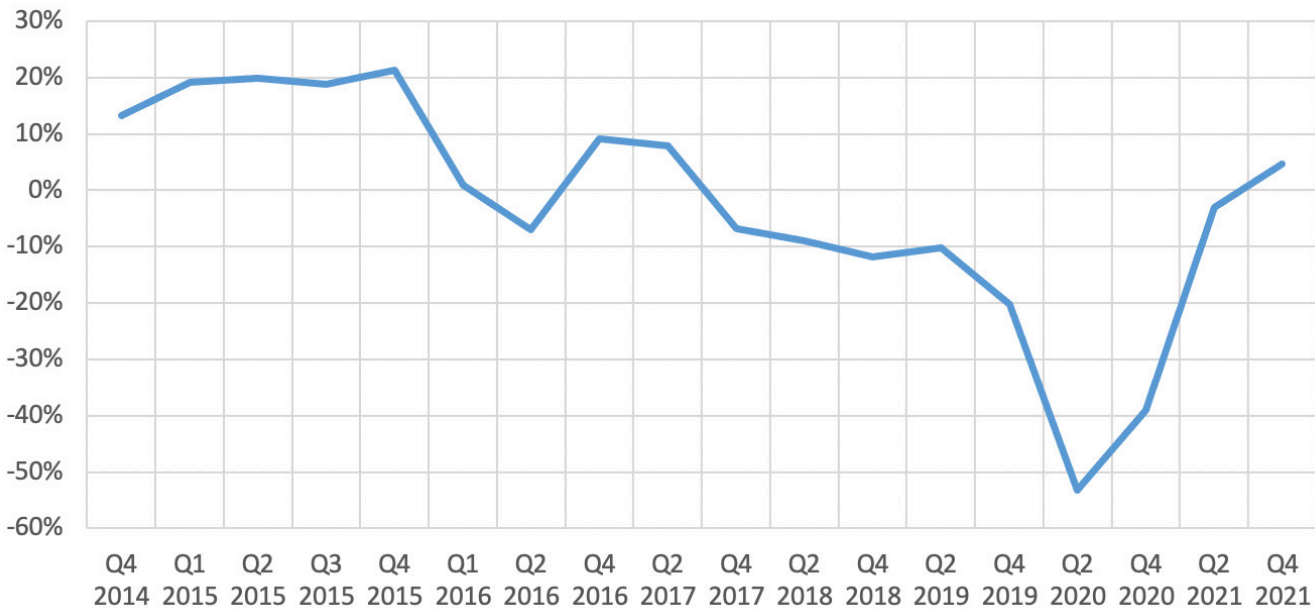
In Q4, the overall net balance for gross profit in the region was positive (net 5%), which is a slight increase from Q2 (-3%), when the metric was last measured. Sentiment towards gross profit has been negative since Q2 2017, with this quarter being the first time since then that the region has had more businesses reporting an increase in gross profit compared to a decrease.

With a net balance figure of 5% for Q4, the East of England gross profit is higher than the UK average (-5%). Encouragingly, this score is the highest compared to all other regions.

However, the outlook for future gross profit looks more pessimistic (net -18%), a concern also seen in other regions of the UK (net UK average -3%). That said, East of England is among the most negative regions for future gross profit, with only businesses in the North East showing greater levels of pessimism (-40%).

Gross profit for the last 3 months is net positive for the first time since 2017, and appears to be improving following the significant fall through COVID-19.

Fig.3 FSB Small Business Index: net balance of small firms in the East of England reporting gross profit (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 gross profit from those who reported an increase in gross profit in the last 3 months.

'How has the gross profit of your business changed over the last 3 months'

Employment and Wage growth

The proportion of small businesses increasing headcount (21%) is greater than those losing staff (14%) – with the net score in the region (7%) stronger than the UK average (3%).

The employment picture amongst FSB members over the preceding three months showed that 21% had increased staff numbers, whilst 14% had decreased employment levels. As a result, the net employment score (7%) is tracking slightly above the UK average (3%). Most small businesses' staffing levels have been unaffected in the East of England, with 52% reporting that levels have 'stayed the same'.

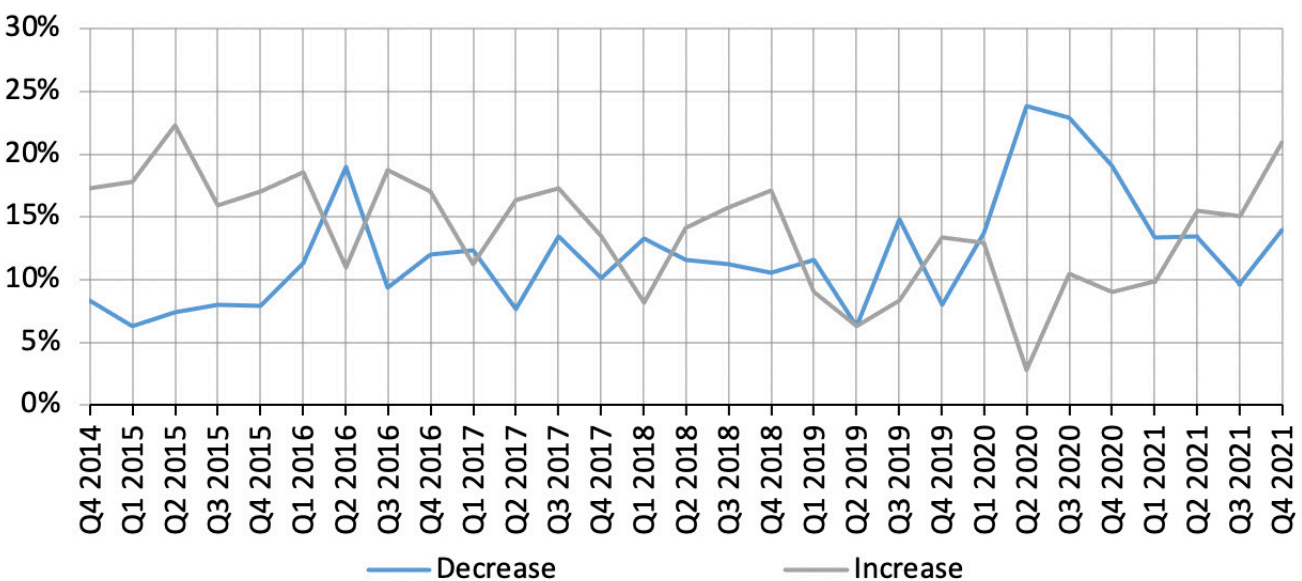
For the next quarter though, the intention is for 16% of businesses to increase headcount and 7% to decrease staff numbers.

Wage Growth

In the East of England, 55% of small businesses increased the average salary over the previous 12 months. Looking ahead to the next 12 months, just under two-thirds (62%) expect to see salary increases, with 53% reporting the likely increase to be 2% or more.

Staff employment continues to be net positive for the third quarter in a row.

Fig.4 FSB Small Business Index: change in people employed in East of England over last three months



Growth and Investment aspirations

In Q4, 53% of small businesses in the East of England said that their aspirations in the next 12 months were to grow rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). Additionally, compared with this time last year, small businesses are slightly less likely to report an aspiration to downsize their business (16%, vs. 25% in Q3 2020).

Close to a third of small businesses (30%) anticipate increasing investment in the coming quarter, with the net investment score (17%) on par with the UK average (19%).

The net investment intention for the East of England is 17% in Q4, meaning sentiment in the region is similar to the UK average of 19%. London (30%) is the region where net investment intention for the coming quarter is highest, whereas the South East (10%) reports the lowest score.


In the East of England, appropriately skilled staff (40%), the domestic economy (38%), input costs (29%) and consumer demand (29%) are the greatest perceived barriers to growth over the coming twelve months.

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