FSB South West Quarterly Small Business Index

Q4 2020

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Foreword

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The South West Small Business Index (SWSBI) has shown an unsurprising fall in business confidence. Uncertainty from both the COVID-19 pandemic and Brexit has continued to have a negative impact, however although the uncertainty in confidence witnessed amongst South West small businesses is apparent across the country, the confidence in the South West is slightly higher than many other parts of the UK region.

Small business owners in the South West are clearly suffering in terms of profit over the last 3 months and Government must recognise the huge contribution that businesses across the South West make to the rest of the UK economy and concentrate on policies that enhance business confidence in the short term. Access to finance and debt accumulation are significant concerns, and Government must look to put in place a bold business support infrastructure as many cannot wait for a March Budget.

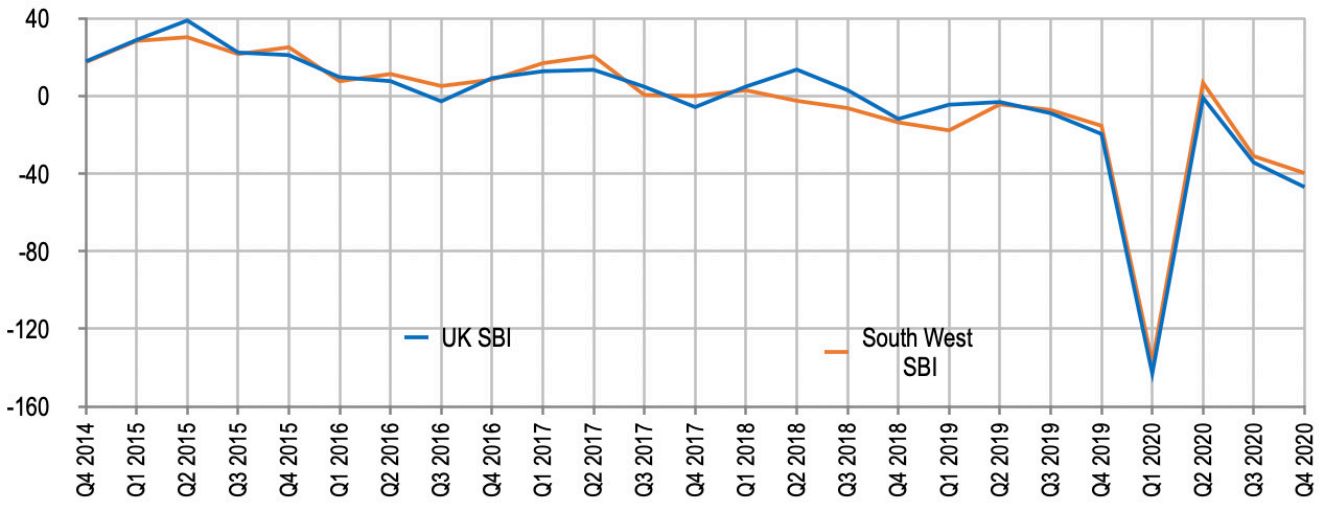
The South West Small Business Index (SWSBI)[1], which measures confidence amongst businesses, has fallen to -40% in Q4. This represents a decrease from the reading taken in Q3 (-31%).

Confidence has again fallen in Q4 for small business owners in the South West. Uncertainty from the COVID-19 pandemic and Brexit has had a negative impact on business confidence in the region, despite having moved into positive territory at Q2 (+7%).

The uncertainty in confidence witnessed amongst South West small businesses is apparent across the country, with index scores across all regions in negative territory. That said, confidence in the South West is higher than the UK region average of -47%. The East Midlands (-23%), South East (-37%) and West Midlands (-36%) are the only other regions displaying higher confidence than the South West (-40%).

Confidence in business performance for the next three months drops as South West businesses once again feel the impact from economic uncertainty.

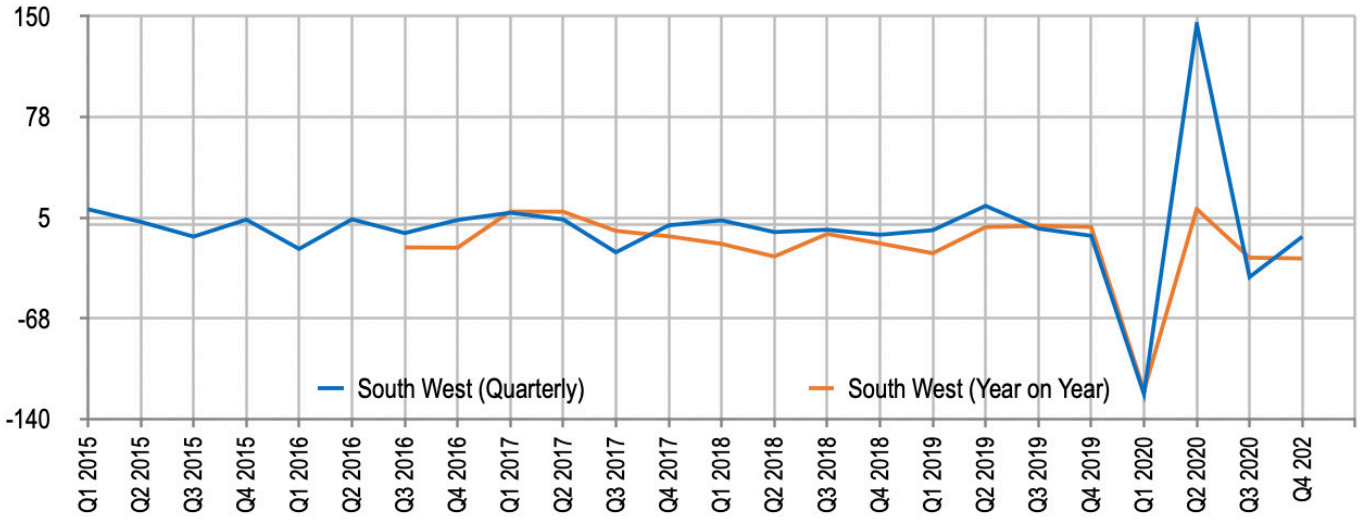
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



[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.

Compared with year-to-date, South West small businesses are less positive about business prospects for the next three months.

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



Business Conditions

Small business owners in the South West are clearly suffering in terms of profit over the last 3 months, albeit less so when compared to other regions in the UK.

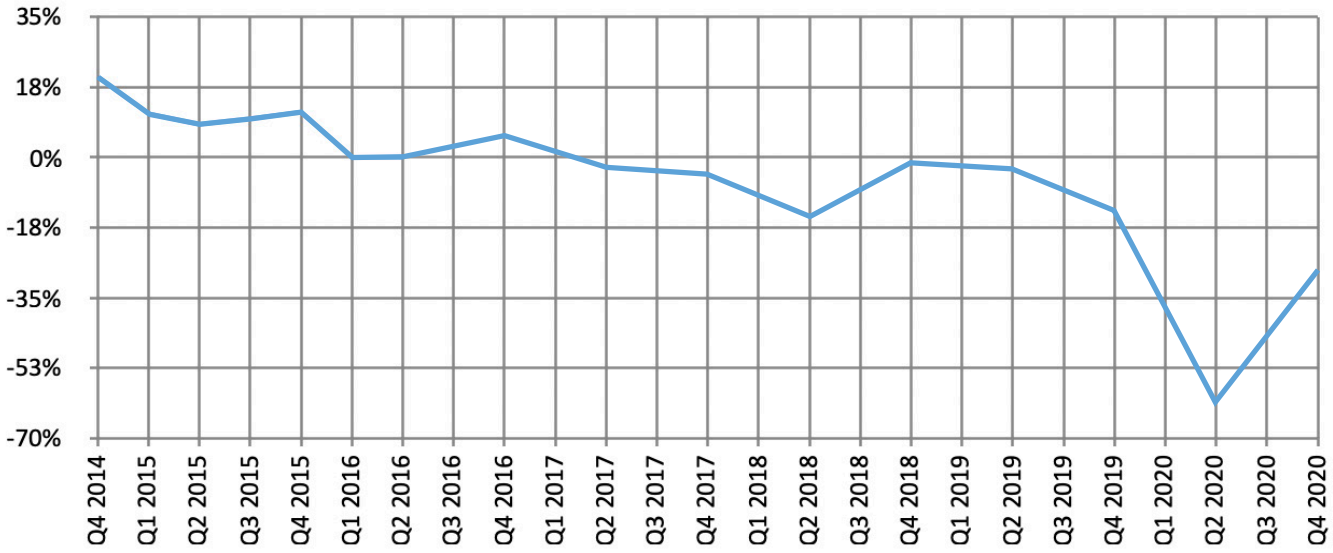
In Q4, over half (54%) of small businesses in the South West reported a decrease in profit over the last 3 months, as the nationwide lockdown had a considerable impact on spending opportunities for consumers. Despite this, some resilience was shown by some South West businesses, with 25% reporting an increase in profit levels over the period.

The overall net balance for profit in the South West for Q4 is -29%, although this is above the average across the English regions as a whole (-38%). Only businesses in the North East and Yorkshire (-27%) and the East Midlands (-28%) report net balances higher than the South West.

Despite being among the least impacted in terms of profit over the last 3 months, small businesses in the South West are sceptical about turning a profit in the next 3 months. 56% anticipate decreases in profit, with 20% expecting to see an increase. This leaves a net expectation for future profit of -36%, which is only marginally above the average across the UK (-39%). Regions less negative when it comes to profit over the next 3 months include East Midlands (-14%), South East (-33%) and the West Midlands (-35%).

Gross profit amongst South West small businesses is beginning to show signs of recovery – but the outlook remains negative.

Fig.3 FSB Small Business Index: net balance of small firms in the South West reporting revenue (revenue question only asking in Q2 and Q4 phases of SBI – question is asked on a rotational basis)



Employment and Wage growth

South West small businesses continue to see a decline in staffing levels over the final 3 months of Q4.

The employment picture amongst FSB members over the preceding three months showed that 23% had decreased staff numbers, while 10% had increased employment levels. This leaves an overall negative net score of -13%, which is broadly in line with the national average of -14%. Regions which have seen an overall net score closer to 0% include North East and Yorkshire (-8%), the East of England (-10%) and the East Midlands (-12%).

The staffing levels of almost two in three small businesses have been unaffected in the South West, with 62% reporting that levels have 'stayed the same'.

For the next quarter, the intention is for 13% of businesses to increase headcount and 14% to decrease staff numbers.

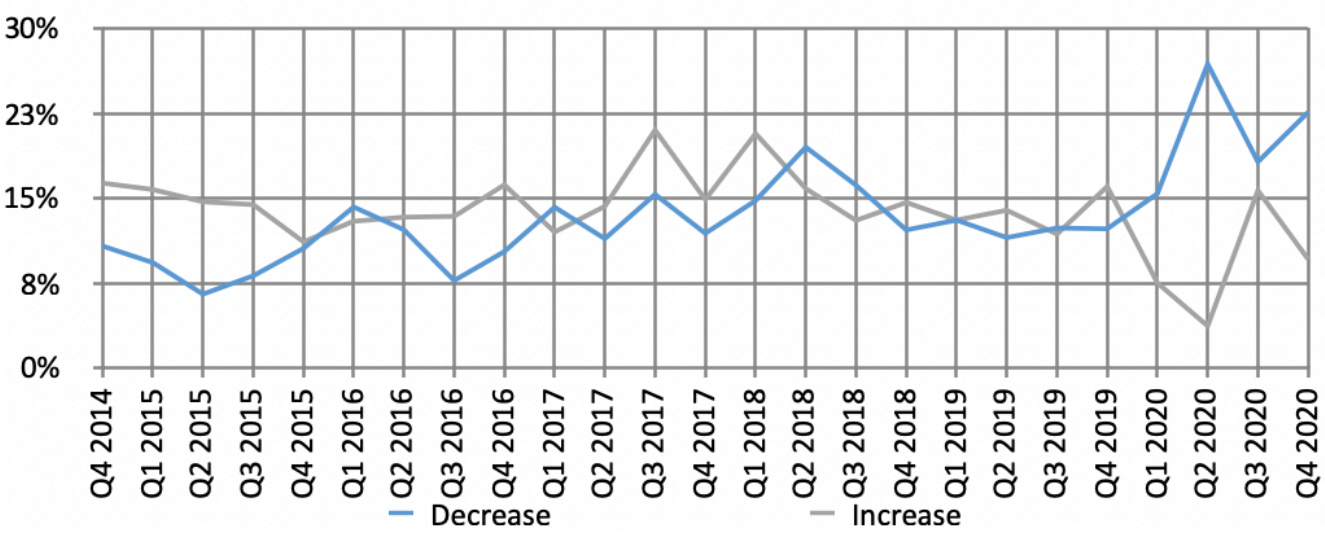
Wage Growth

In the South West, around two in five (41%) of small businesses increased the average salary awarded across the business over the last 12 months, with 31% reporting an average increase of 2% or more. A further 48% expect to see salary increases over the next 12 months, with 33% reporting the likely increase to be above 2%.

Despite this, predicted wage growth is considerably lower than 12 months ago; in Q4, 2019, 69% of small businesses expected to increase the average salary for employees. This means that the salary increases made in Q4 2020 (41%), fell short of the targets made back in Q4 2019 (69%).

In the South West, the proportion of small businesses decreasing headcount exceeds the number increasing headcount.

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



Growth and Investment aspirations

In Q4, 2020, 37% 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%).

Investment intentions for small businesses in the South West are polarised – with close to equal numbers planning on ramping up or scaling back investment in the first quarter of 2021.

Just under 1 in 4 are expecting to increase investment over the next 3 months (22%), with 23% expecting to reduce the amount invested. The net balance of firms expecting to increase their investment in the South West therefore stands at -2%, and slightly trails the national average of 0%. The East of England (11%), East Midlands (7%) and West Midlands (2%) are the only regions where the number of small businesses increasing investment is greater than the proportion who are decreasing investment.

In the South West, the general economic conditions in the UK, consumer demand, and getting appropriately skilled staff are the greatest perceived barriers to growth over the coming twelve months.

In the South West, 21% of businesses have said they intend to contract the business in the next twelve months (to downsize, sell or close the business). This represents an increase from Q3, when 13% of businesses expressed an expectation to contract their business.

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