



FSB South West Quarterly Small Business Index

Q3 2023

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Foreword

Foreword by Craig Carey-Clinch
FSB South West Policy Representative
Federation of Small Businesses



Small business confidence here in the South West is, sadly, falling once again.

Those of you who follow our quarterly reports will know that we began 2023 on a positive note with our first report of the year showing regional positivity on an encouragingly steep upturn. Last quarter, however, we saw that confidence rise stall somewhat and today things have got worse again as ongoing inflationary problems and cost of living issues have caused a notable dip in sentiment and business mood.

Usually when we release these reports they offer quite a mixed picture on growth, investment, revenue and jobs but for this quarter most of the indicators are in negative territory and the overall headline confidence figure continues to be at a much lower level than we would want. Not only is that confidence number lower than the past two quarters but it now puts the South West right back at the bottom of the regional league table again which is not where this vibrant, SME-dominated area expects or needs to be.

Our report shows that small businesses are still clearly in an uncertain economic position and the fear is that as we are now heading for the crucial winter period (where utility bills will inevitably increase again) there is little evidence that the growing nervousness around the SME community in the South West is set to quickly lift.

We know, of course, that it is not all bad news out there. Many small businesses are doing very well and are thriving - our report shows there are still a reduced but healthy number of SMEs looking to grow and take on staff – but for many others it is a testing, difficult and unpredictable time.

It is important therefore that the Government and other key stakeholders do all they can to show their support for small businesses so we can try to get the economy working again and reverse these worrying trends for SMEs here in the South West.

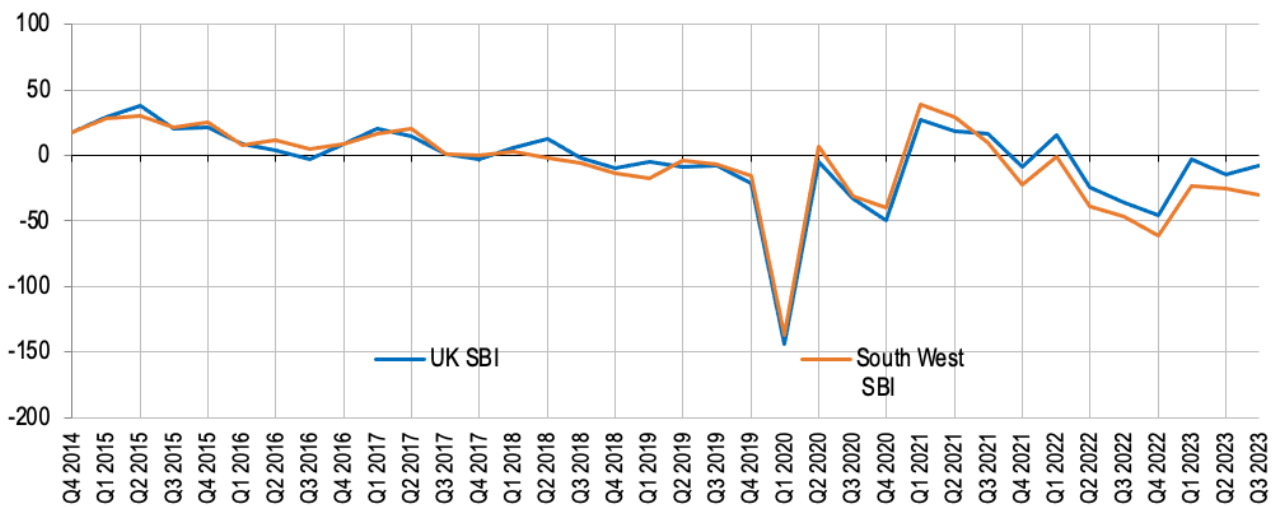
The South West Small Business Index (SWSBI)¹, which measures confidence amongst businesses, has fallen over the last quarter. It currently stands at -31, which represents a decline from the last quarter, where the reading stood at -25.

Confidence amongst small business in the South West for the next 3 months remains negative. Despite this, confidence remains above the levels seen in 2022 (the SWSBI was -47 in Q3 2022 and -62 in Q4 2022).

When comparing to the other regions in the UK, the South West scores the lowest for this quarter. For reference, the UK average is currently -8, and the highest index score is for London, at 10. Beyond this, whilst business confidence in the South West has fallen since the last quarter, confidence for the UK overall has seen an improvement, from -14 in Q2 2023, to -8 this quarter.

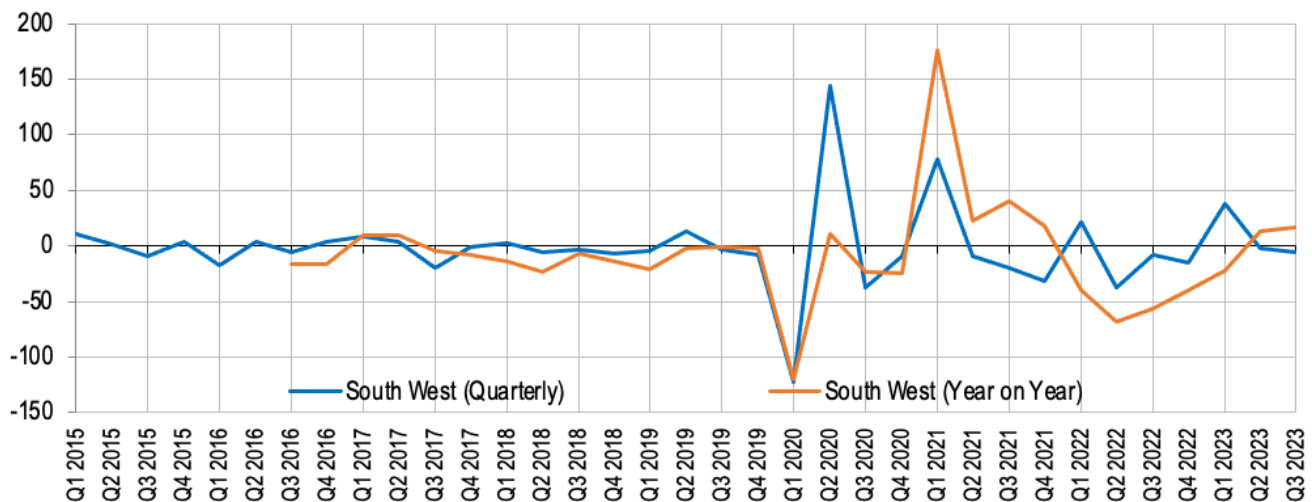
Confidence in business performance for the next 3 months in the South West has continued to decline, moving further from the UK average.

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



Due to low confidence levels in 2022, confidence in South West business performance rises YOY, despite seeing a decline from Q1 2023.

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



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.

Business Conditions

After improving between Q4 2022 to Q2 2023, the net balance of revenue in the South West has fallen again this quarter, and is predicted to remain below zero in the next quarter.

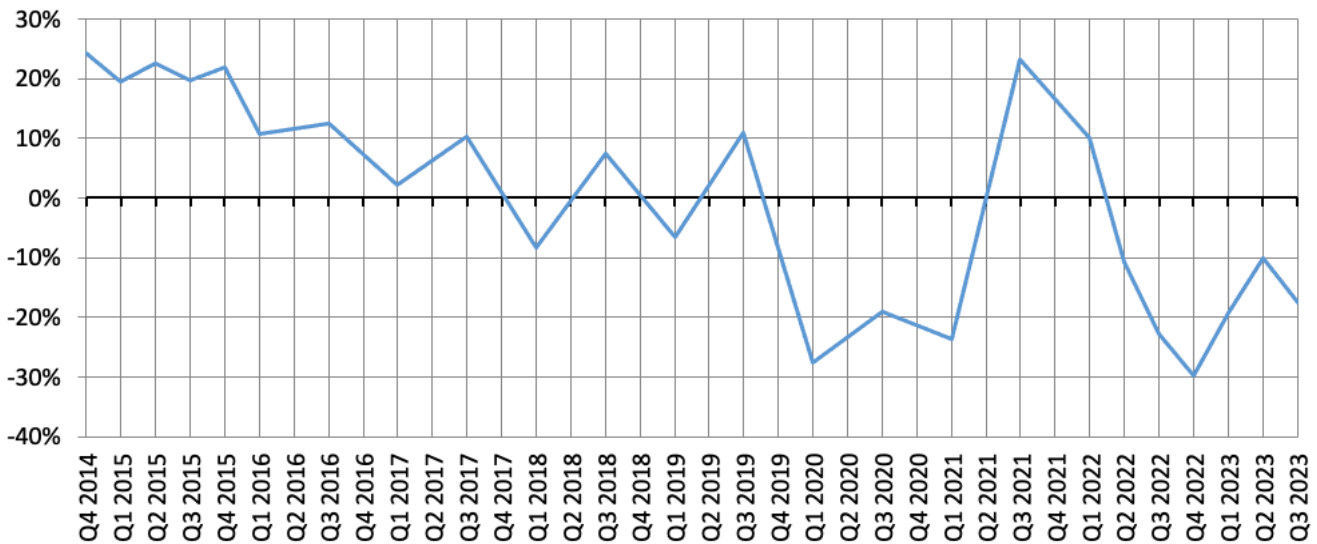
In Q3 2023, the overall net balance for revenue in the region remains negative (net -17%)², and has fallen from -10% in Q2 2023. This is, however, a slight improvement from Q1, where the net score was -19%. This quarter-on-quarter decrease is a change from the previous upward trend that was seen from Q4 2022 to Q2 2023, where the net balance of revenue improved from -30% to -10% over that period. Compared to predictions that were made for this quarter in Q2, the South West is also underperforming – in Q2, it was predicted that the net revenue would rise to -6%, however this has not been the case.

The South West falls also below other regions for net revenue balance in the UK, and is joint lowest with North East & Yorkshire and The Humber. For reference, the UK average for this quarter is -6%, and the East Midlands is the strongest performer, at 11%.

The outlook for future revenue shows an improvement for the next quarter, with the predicted net balance of revenue over the next 3 months at -8%. This net value comes from 28% of small businesses predicting a revenue increase, and 36% predicting a revenue decrease. When compared to the rest of the UK, the South West has the lowest predicted net balance; the UK average is 5%. London has the highest predicted net score comparatively, at 18%.

Net revenue among South West small businesses has fallen for the first time since Q4 2022.

Fig.3 FSB Small Business Index: net balance of small firms in the South West reporting revenue.



² The NET number of businesses is calculated by subtracting the total number of businesses who reported a decrease in gross profits from those who reported an increase in gross profits in the last 3 months

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

Employment and Wage growth

The South West scores slightly below the UK average in terms of Q3 employment levels, with ‘actual’ employee cuts worse than predicted in Q2.

The employment picture amongst FSB members over the preceding three months showed that, in the South West, 13% had decreased staff numbers, whilst 11% had increased employment levels; this results in a net decrease of -2% over the last quarter. The UK net score came in at 0%, in comparison. 65% of small businesses in the South West region reported that their staffing levels have ‘stayed the same’ since the previous quarter. This result falls below the predicted net increase of 8% for employee numbers from Q2 2023.

For the next quarter, the intention is that 10% of small businesses in the South West will increase their headcount, whilst 12% say they will decrease it; a more modest prediction compared to the previous quarter.

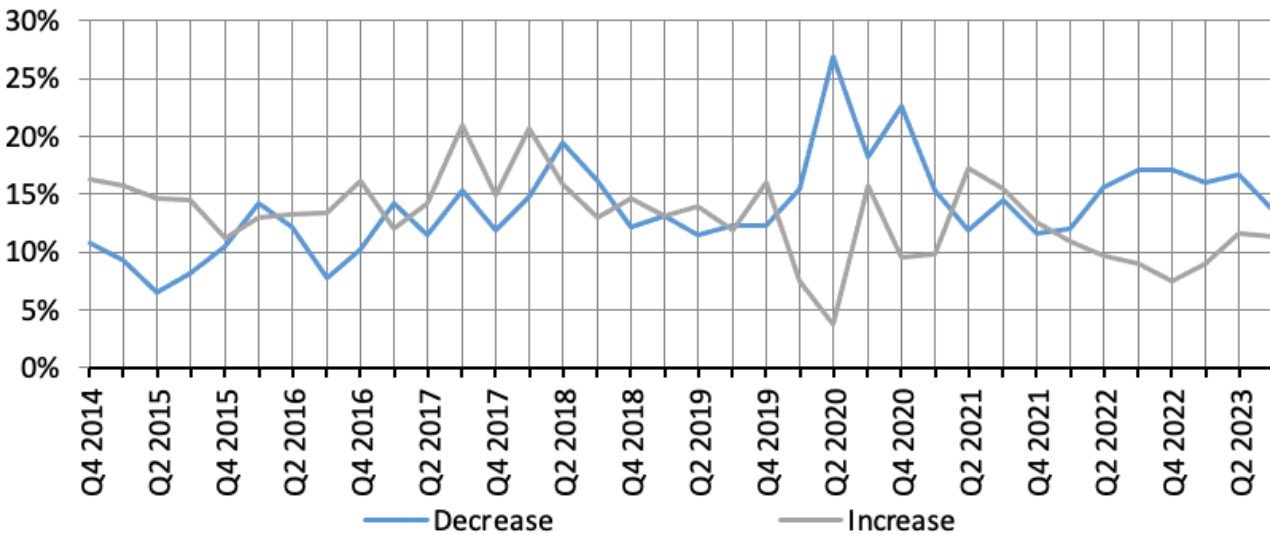
Wage Growth

In the South West, two thirds (67%) of small businesses increased the average salary across the business over the last 12 months, with 63% reporting the average increase to be 2% or more.

Predicted wage growth over the next 12 months, which sits at net 60% this quarter, is below the last 3 quarters (65% in Q4 2022, 68% in Q1 2023, 67% in Q2 2023). 66% expect to see the average salary increase, whilst 6% are reporting that this will likely decrease over the time period.

In the South West, whilst there has been a decrease in the proportion of small businesses decreasing their headcount, this level still remains above the proportion of businesses who are increasing their staff numbers.

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



Growth and Investment aspirations

In Q3 2023, 40% of small businesses in the South West said that their growth aspirations in the next 12 months are to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). Growth aspirations in the South West this quarter are below the predictions seen in Q2 2023 (47%) and also sit below the UK average for Q3 2023 (50%). Despite this, current growth aspirations remain consistent with the averages seen across 2022 (average of 43%) for the region.

The net score for investment intentions in the South West has moved just below zero this quarter, falling from the previous quarter.

18% expect to increase investment over the next 3 months, whilst 19% expect investment to decrease over this time period. The net balance for investment intentions in the South West therefore stands at -1%, which is below the 6% noted in the previous quarter. However, it is not far from the net 2% from Q1 this year. The net score for this quarter is below the national average (6%) and is only higher than North East & Yorkshire and The Humber (-2%). The region with the highest net investment intention is the East Midlands, at 13%.

In the South West, 15% of businesses have stated that they intend to contract the business in the next twelve months (to downsize, sell or close the business). When compared to the previous quarter, this is an increase of 7% of businesses. This is, however, an improvement from results seen YOY (18% of businesses in the South West intended to contract in Q3 2022).

In the South West, the general economic conditions in the UK (62%), consumer demand (34%), utility costs (30%) and input costs (29%) are the greatest perceived barriers to growth over the coming twelve months.

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