FSB East Midlands Quarterly Small Business Index

Q3 2022

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Foreword

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Our East Midlands Small Business Index (EMSBI) 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 three (Q3) of 2022, shows that small business confidence remains low but above the average for all UK regions. The following sections of this report provide the detailed figures and findings, which I will summarise as follows:

The number of small firms reporting reduced revenues in Q3 was greater than the number reporting an increase - to an extent that the region ranks the lowest of all UK regions on this indicator. The outlook for revenue for the coming three months also sees more expecting a continued decline, rather than an increase.

The number reporting reductions in staffing levels in Q3 also exceeded the number reporting increases by 3%, though this is in line with the national average across all regions. Expectations for the next quarter are that net employment growth will stagnate.

Unsurprisingly, more than half of respondents had increased average salaries during Q3 and the vast majority expect further increases in the next 12 months.

In terms of growth and investment aspirations it's an almost even split, with just under half of respondents expecting to grow rapidly or moderately over the next 12 months. However in terms of capital investment intentions, the Q3 report shows almost 8 out of 10 small businesses in the East Midlands anticipate stagnant (approximately the same) investment, compared to less than half feeling that way in Q2.

The main barrier to growth is perceived to be the general economic conditions in the UK. This was mentioned by more than two thirds of respondents. Next came utility costs with more than half seeing them as a barrier, while almost 2 out of 5 cited consumer demand.

In summary, the overall picture is one of a continued decline in the confidence of small business owners in the East Midlands – based upon both their recent performance and their future outlook.

While it is heartening to see that confidence levels remain more positive than the average across all UK regions, it's clear that the cost of doing business crisis must be tackled effectively and urgently – before it becomes a small business confidence crisis.

The new Government must act urgently, to bring the stability and certainty needed for small businesses to trade profitably now - and to plan effectively for the future.

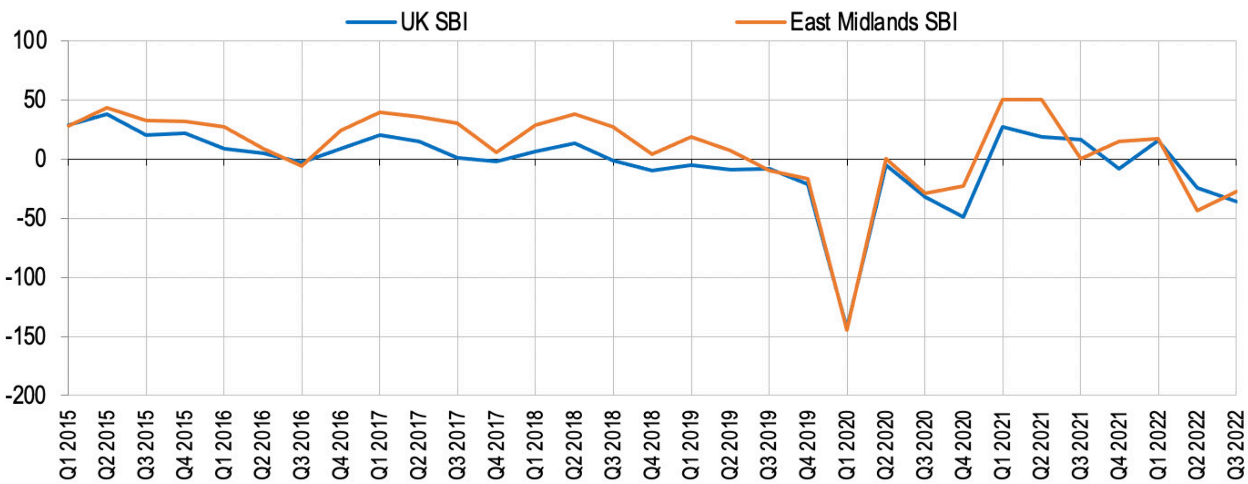
The East Midlands Small Business Index (EMBI)[1], which measures confidence amongst businesses, remains negative in Q3. It currently stands at -28. In the last quarter the reading stood at -43.

Confidence has remained low since the last quarter in the East Midlands. Inflationary pressures and a cost-of-living crisis continue to have a significant impact on the sentiment held by small businesses in the region.

This uncertainty resonates nationwide, with all regions returning negative confidence levels in Q3. The East Midlands confidence level is above that of the countrywide average of -36.

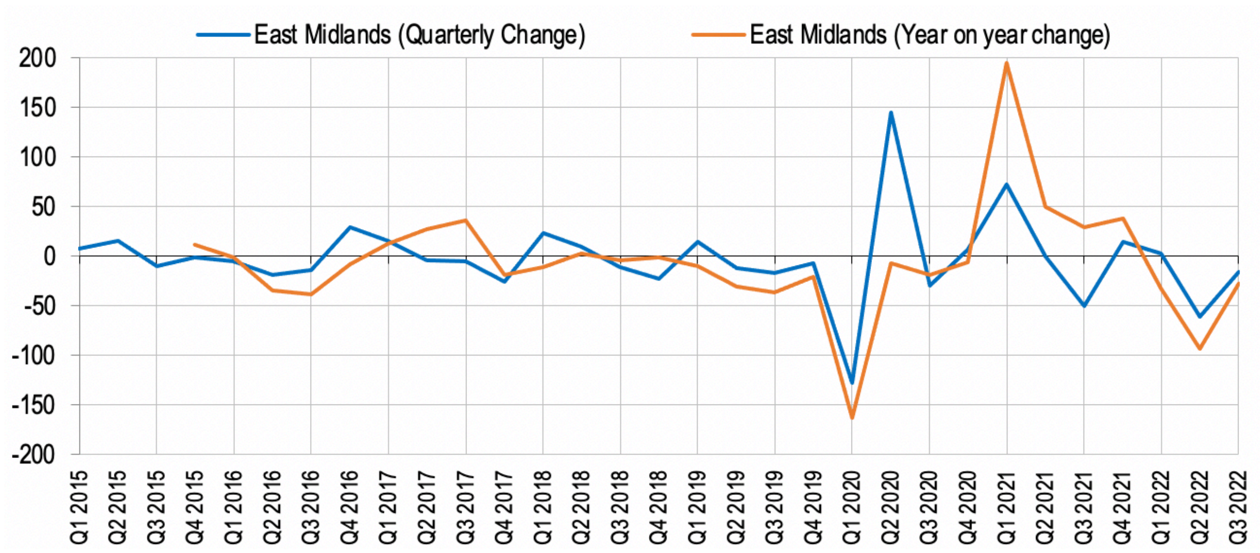
The outlook for business confidence in the East Midlands remains negative in Q3 2022, but the decline has slowed versus Q2.

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



By both quarterly and yearly measures, East Midlands Small Businesses show negative sentiment about business prospects for the next three months.

Fig.2 FSB East Midlands Small Business Index: small business confidence levels (%)



[1] The East 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.

Business Conditions

Sentiment towards revenue is negative amongst East Midlands small businesses, with the region returning the lowest net balance figure of all regions for Q3.

In Q3, 53% of small businesses in the East Midlands reported a decrease in revenue over the last 3 months, as cost of living concerns impacts consumer spending power. Only 21% of small businesses in the East Midlands showed resilience through increased revenue levels in Q3.

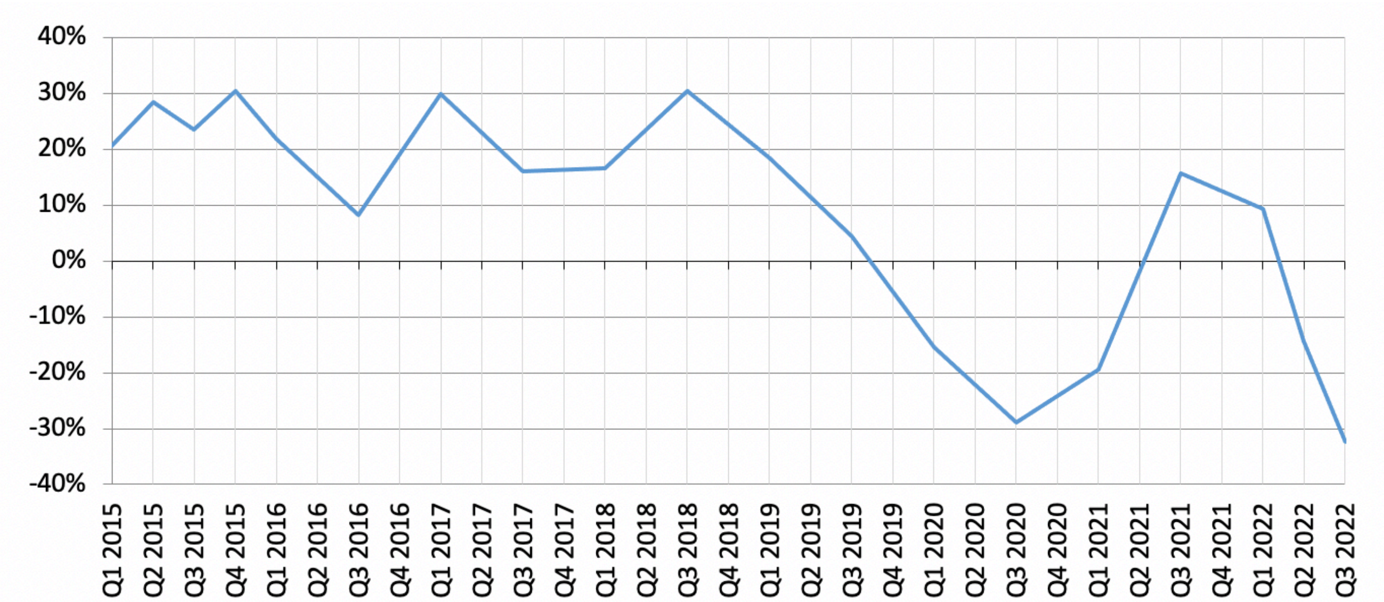
Accordingly, with a net balance figure of -32% for Q3, East Midlands' small businesses' profits were the worst hit region nationwide. The next worst hit regions are the North West and South West, which both returned a net balance revenue figure of -23%.

The outlook for future revenue remains in negative territory in the East Midlands. A net balance of -5% expect growth in profits for the coming quarter. This compares to a net balance figure of -8% in Q2. Several other regions have even more negative outlooks for net revenue, for example: the South West (-19%), and the North East & Yorkshire and the Humber (-14%).

A significant proportion of East Midlands businesses do expect a further decrease in profits for the coming quarter (35%), but negative expectations are less widespread than the UK average (41%).

The proportion of East Midlands' Small Businesses reporting decreased net revenue is noteworthy as it represents the lowest scores recorded for the region.

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



Employment and Wage Growth

East Midlands employment levels show a net negative score in Q3 2022, but the decline tracks with the nationwide contraction in headcount.

The employment picture amongst East Midlands FSB members over the preceding three months showed that 12% had decreased staff numbers, and 9% had increased employment levels. The net score of -3% in staffing levels is similar to the nationwide score of -4%. Other regions have shown a more negative view in headcount during Q3, for example the North West (-15% net).

For the next quarter the anticipation is for employment stagnation in the region, with an expectation of net 0% change in headcount.

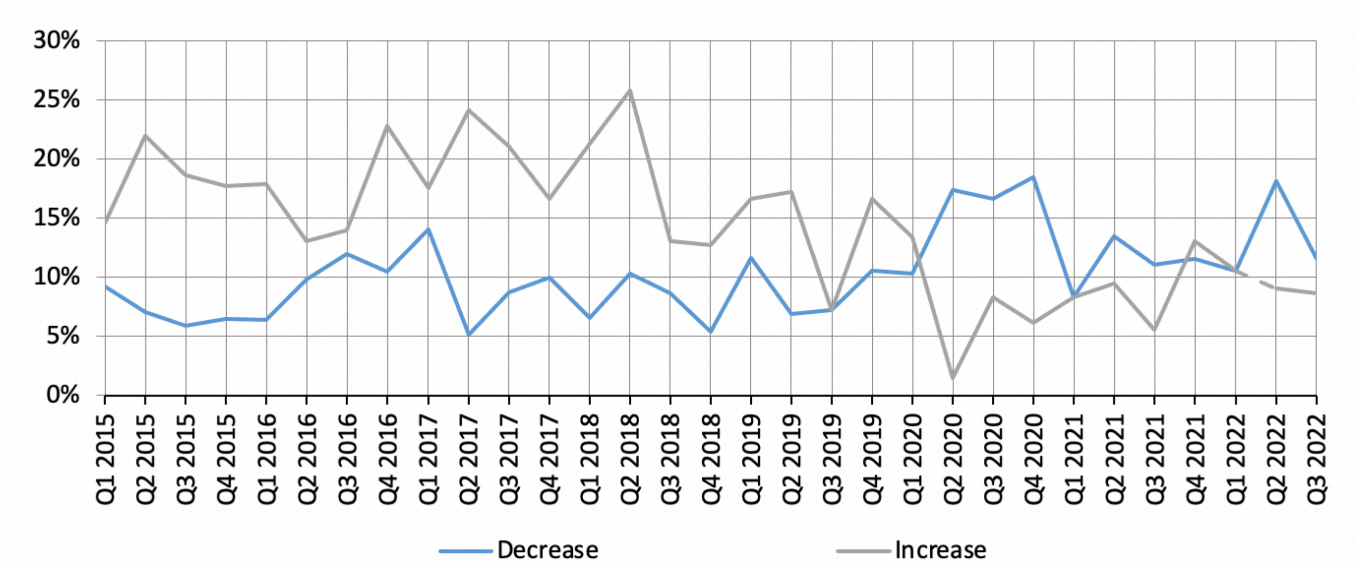
Wage Growth

In the East Midlands, 56% of small businesses increased the average salary awarded across the business over the last 12 months, and 18% decreased average salaries. The net wage change of 39% in Q3 2022 is smaller than that recorded in Q2 2022 (55%).

69% expect to see salary increases over the next 12 months. This is an increase from the 63% of small businesses that anticipated salary increases in Q2. The anticipated net change of 63% as of Q3 2022 is also higher than the anticipated net change of 51% when compared to one year ago (Q3 2021).

The proportion of East Midlands small businesses decreasing headcount is outpacing the proportion increasing headcount in Q3 2022.

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



Growth and Investment Aspirations

In Q3, 2022, 49% of small businesses in the East 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%). In Q2 2022, 25% of East Midlands small businesses expressed a desire to net contract their business. This has fallen significantly in Q3 2022, to 9%.

The investment intentions for East Midlands small businesses are weaker than the countrywide average (net -5% vs. UK average net 4%). There has been a significant increase in small businesses anticipating stagnant (approximately the same) investment in the East Midlands in Q3 (78%), versus Q2 (49%).

Regarding the expected value of capital investment in the coming quarter, the East Midlands shows a -5% negative difference among those expecting an increase vs. a decrease. This proportion is slightly lower than in Q2 2022 (1%) and represents an even more negative result following year-on-year from Q3 2021, where the percentage difference at that point stood at 13%.

In the East Midlands, the general economic conditions in the UK (69%), and utility costs (56%) are the greatest perceived barriers to growth. This is followed by consumer demand (38%).

Utility costs have grown significantly as a concern for small businesses in the region, as during Q2 they were a major worry for only 17% of small businesses.

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