



FSB London Quarterly Small Business Index

Q4 2022

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Foreword

The latest London Small Business Index shows a mixed picture with London bucking many UK trends. The report highlights positive news surrounding increases in profits, investment intentions and growth aspirations for London.

However, we are still in high negative confidence territory, and what is evident from these results is that the ability for employers to get the skills they need has become the second highest barrier to growth. With 42% of businesses saying it is the single biggest barrier we must act now. The upcoming Spring Budget must show a clear signal of intent by HM Treasury to support employers taking on staff.

The fact that investment intentions remain strong is something we must build on. We must make it easier to invest in skills in small businesses by minimising bureaucracy and creating fiscal incentivisation, most notably through Apprenticeship support – we call on the Mayor of London to introduce an Apprenticeship Grant for microbusinesses.

HM Treasury should remove the 25 per cent cap on Apprenticeship Levy transfers. Currently, Apprenticeship Levy payers can transfer up to 25 per cent of their unused funds; increasing this to 100 per cent would lead to more apprenticeship opportunities for small businesses.

Furthermore, we need to build on the success of Skills Bootcamps by introducing 50+ Skills Bootcamps, which would provide the skills older people require to remain in or re-enter the labour market. To encourage older workers who became economically inactive due to the pandemic to re-enter the workforce.

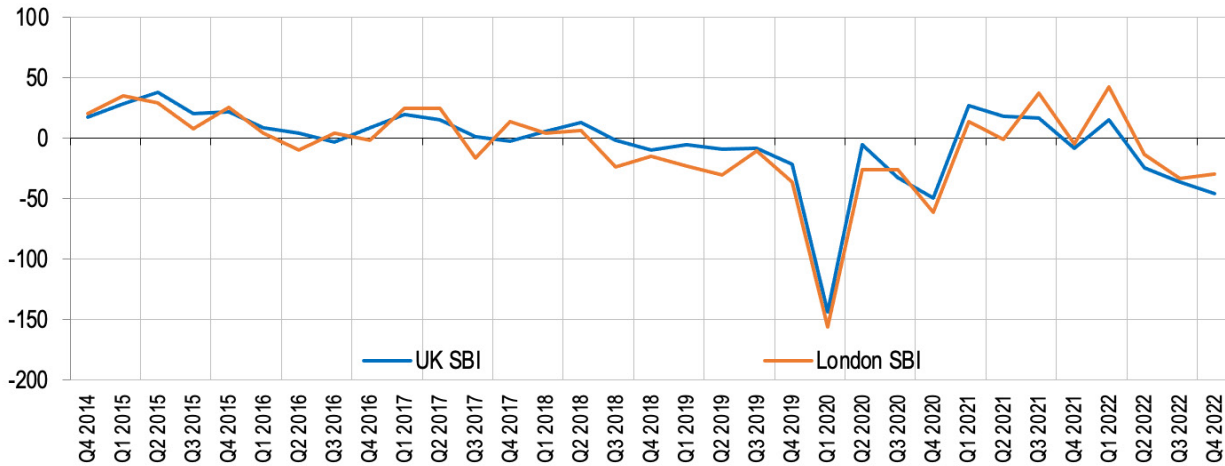
FSB London are also keen to see action taken to support small businesses who will be impacted by the extension of the Ultra-Low Emission Zone in August 2023. At this critically difficult time for struggling small businesses, any introduction of the scheme should be accompanied by further mitigation measures on top of the Diesel Scrappage Scheme. Making the extension non-chargeable for the first year would be a welcome measure along with further investment in the scrappage scheme.

The London Small Business Index (LSBI)¹, which measures confidence amongst businesses, has marginally risen versus the previous quarter. Confidence currently remains negative, however, and stands at -29 as of Q4 2022. In Q3, it stood at -33.

Widespread economic uncertainties, inflationary pressures, and low consumer confidence are having significant impacts on the performance of small businesses in the region. Note London's confidence level is not as negative as the nationwide figure of -46, but is on par with the North East (-30).

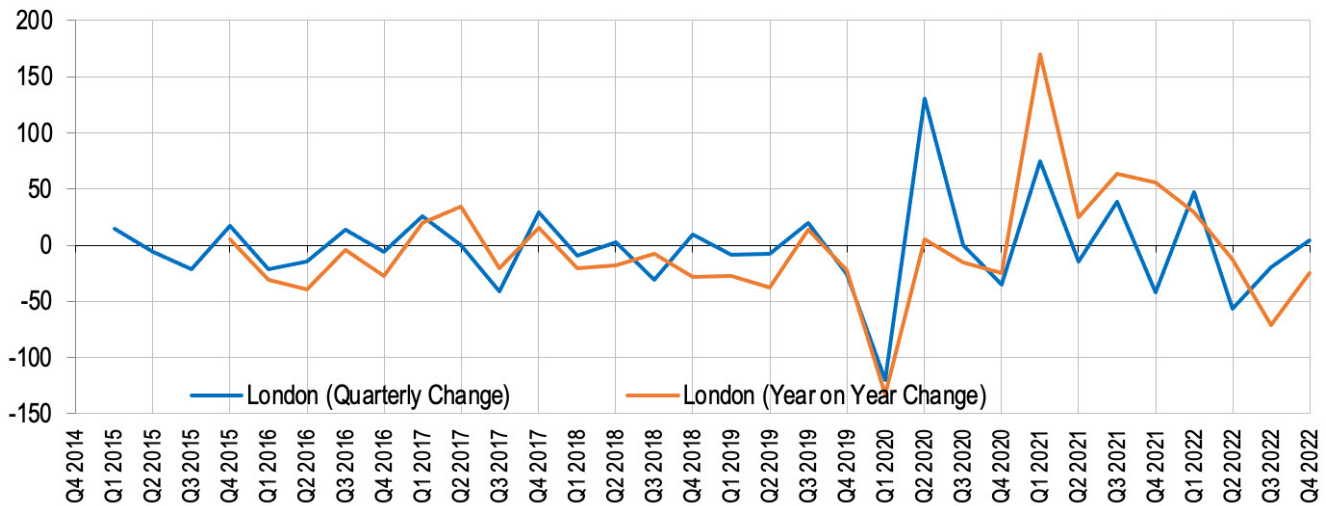
Confidence amongst London small businesses remains negative in Q4 2022.

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



From a quarterly change perspective, London sentiment is marginally positive in Q4, whilst the year-on-year change remains negative.

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



¹ The London 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

Revenue performance is positive in Q4, with London small businesses recovering from a notable dip in Q3.

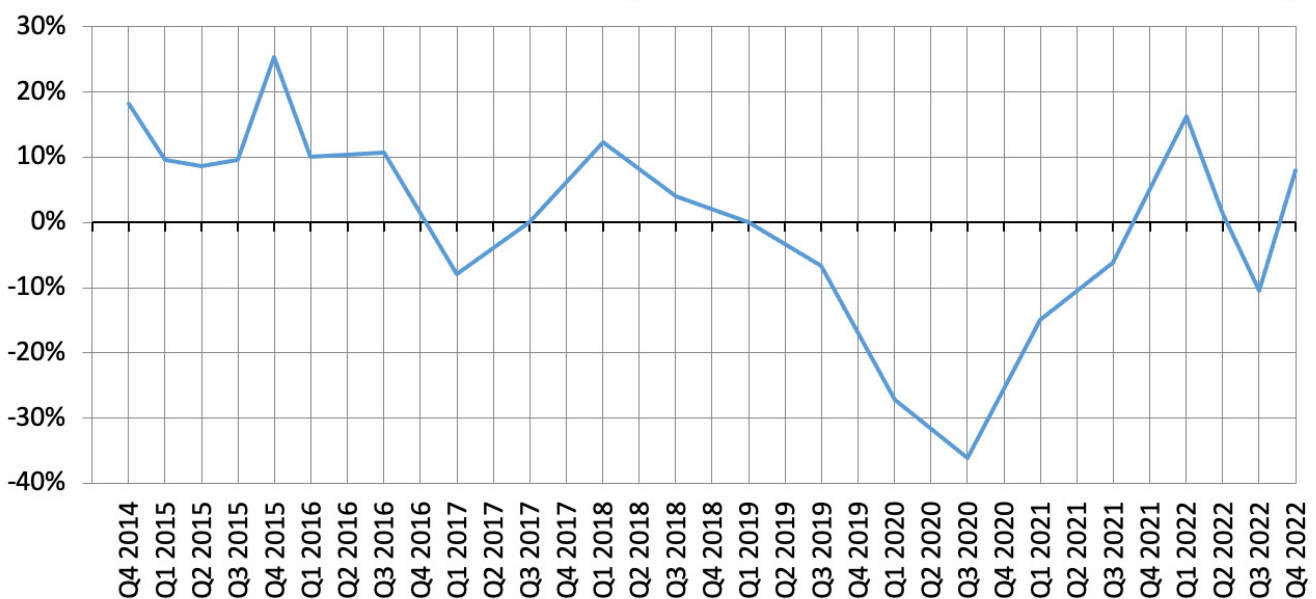
In Q4, two in five (41%) of London small businesses reported a net increase in profit, with a third (33%) reporting a net decrease. The net balance figure of 8% outperforms the reported countrywide average net (-10%). For context, other regions have reported a much lower performance in Q4, with the South West returning a net of -30% and Yorkshire and the Humber -31%.

The outlook for future revenue is more positive in London, with a net score 14%. This is a considerable improvement on Q3, when the net outlook for future revenue stood at 1%. This is also far higher than the nationwide average in Q4, which stands at net of -14%.

A significant proportion of London businesses do expect a further decrease in profits for the coming quarter (27%). However, this is lower than the proportion seen in Q3 (37%).

London net revenue returns to a positive figure in Q4, showing a recovery from the dip seen during Q3.

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



Employment and Wage growth

Around a fifth (18%) of London small businesses report falling staff numbers over the last three months, with a net change of -4% in overall employment levels in the area.

13% of small businesses report increased employment levels over the last three months. The majority - 62% - reported no change in headcount during Q3. Shifts in headcount have remained largely stable from the previous quarter, Q3, where there was also a net change of -4% in overall employment levels. In summary, Q4 reflects a continuation of the moderate decline in headcount across the region.

For the next quarter, 22% of businesses expect an increase, and 6% of businesses expect a decrease in headcount.

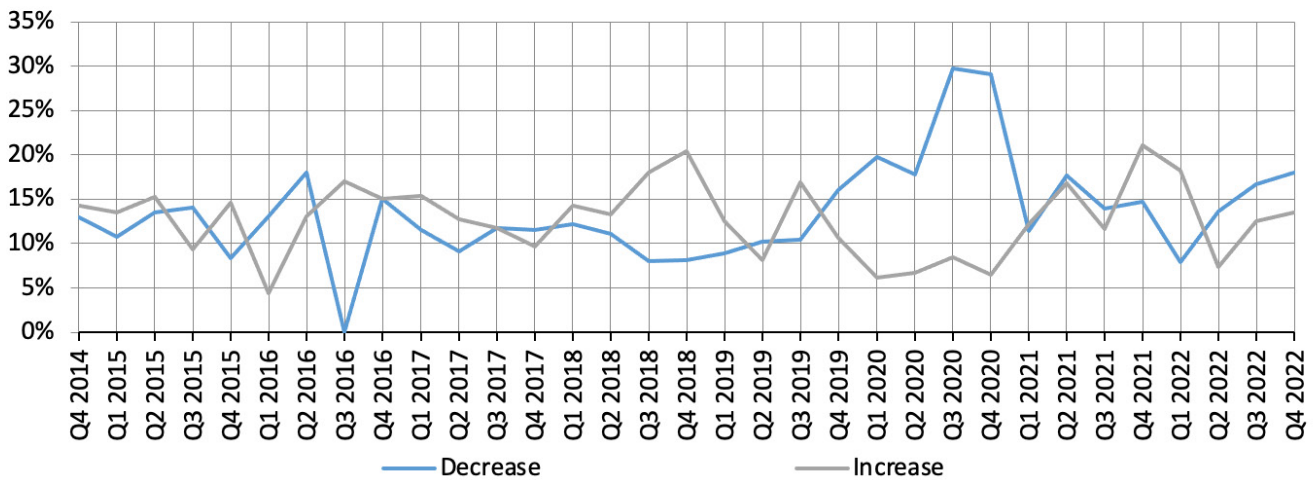
Wage Growth

In London, two thirds of businesses (67%) increased salaries over the previous 12 months. This is on par with 66% reporting increased salaries in Q3 2022.

Exactly three-quarters of London small businesses expect to see salary increases in the next quarter, and only 3% predict that salaries will fall. Wage predictions are significantly more positive in Q4 versus Q3, when 61% of small businesses in the region anticipated wage growth.

London small businesses decreasing headcount continue to outpace those increasing headcount in Q4.

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



Growth and Investment aspirations

In Q4 2022, over half (56%) of small businesses in London 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%). 11% report an expectation to downsize their business, resulting in a net change of 45%. This is the same as the net change recorded in Q3, but a lower figure than that recorded one year ago (Q4 2021, 57%).

Investment intentions for London businesses are well above the UK average.

The outlook in London for investment is positive, with 41% of small businesses reporting an intention to increase. With 8% expecting a decrease, the net score of 33% stands in considerable contrast to the UK average of net 9%, and compared to nearby regions such as the East of England (net -4%) and the South East (-3%).

The expected value of capital investment in the coming quarter has moved positively in London throughout 2022; In Q1 2022, the net score stood at 8%, in Q2 2022 it stood at 11%, and in Q3 2022 it stood at 17%.

In London, the general economic conditions (56%), appropriately skilled staff (42%), and consumer demand (25%) are the greatest perceived barriers to growth over the next 12 months. Appropriately skilled staff has grown considerably as a concern for businesses, when in Q3, 27% of small businesses pointed to this as a major issue.

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