FSB Yorkshire, the Humber & North East Quarterly Small Business Index

Q1 2022

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Foreword

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“It is great to see business confidence increasing this quarter. I am hopeful that this may indeed indicate that the stark dips of 2021 caused by changes in lockdown restrictions are finally settling. However, times are clearly still tough and it is concerning to see we are below the National average for confidence, showing that much more needs to be done to signal a long-term stable economy for small businesses”.

“As our local elections have brought new elected representatives, we will continue to work with and lobby local policymakers and partners on the necessary levers for positive change.”

The Yorkshire, Humber & North East Small Business Index (YHNESBI)[1], which measures confidence amongst businesses, has returned to a positive figure, rising from Q4 2021 to Q1 2022, where it now stands at 1%.

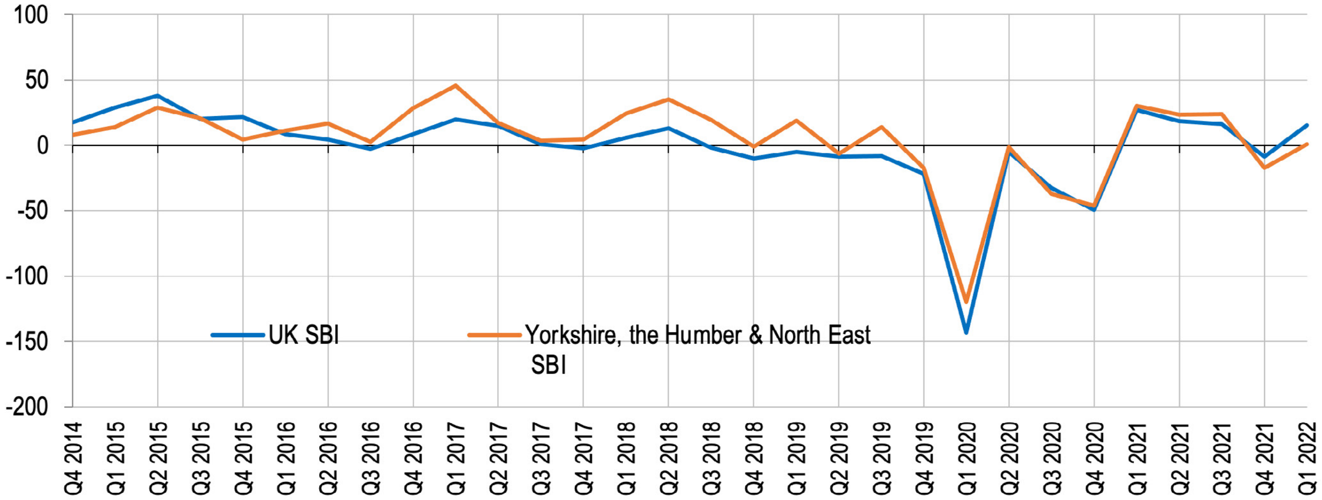
Confidence amongst small businesses in Yorkshire, the Humber & North East is now again positive (1%) after a temporary decline in Q4 2021 to -17%. It is, however, below the previous positive figure seen in Q3 2021 (24%). Despite this, the results for Q1 2022 sit well above the level of confidence seen through 2020 (-51% average through the year), and suggests a return towards ‘normal’ following concerns around the Omicron variant at the end of 2021.

Small businesses in the region display confidence below the current UK average (15%). The only region which scores more poorly is the South West (-1%), with the strongest performing region being London (43%).

[1] The Yorkshire, the Humber & North East 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.

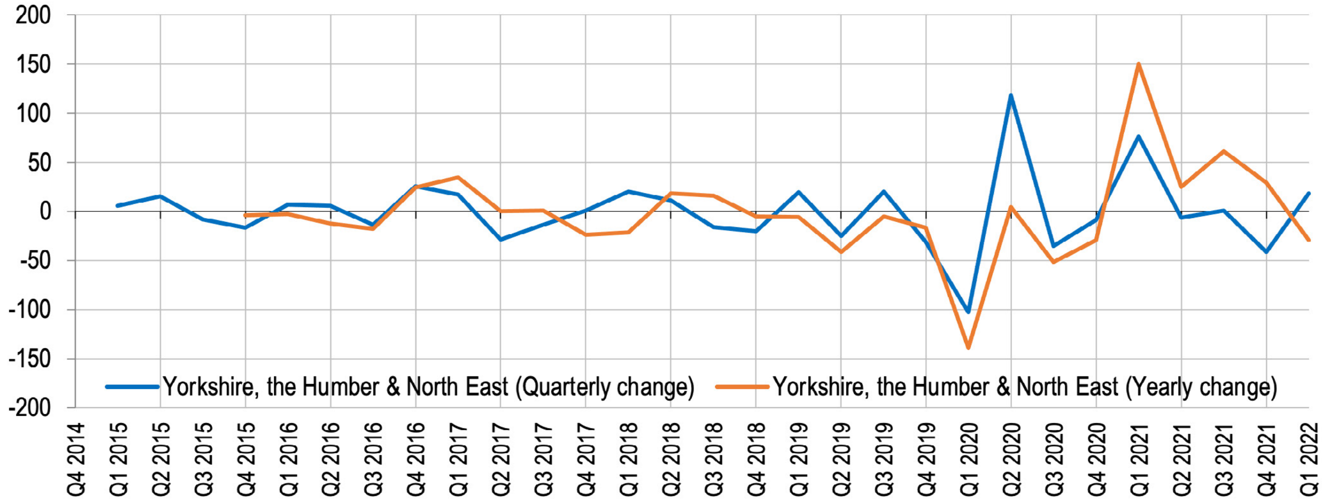
Confidence in business performance for the next 3 months rises across Yorkshire, the Humber & North East, but remains below the UK average.

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



Confidence since the last quarter has increased, but compared with last year is still lower (27% lower vs. Q1 2021).

Fig.2 FSB Yorkshire, the Humber & North East Small Business Index: small business confidence levels.



Business Conditions

Businesses in Yorkshire, the Humber & North East report a net positive balance in revenue over the last 3 months, albeit with a decline relative to Q3 2021.

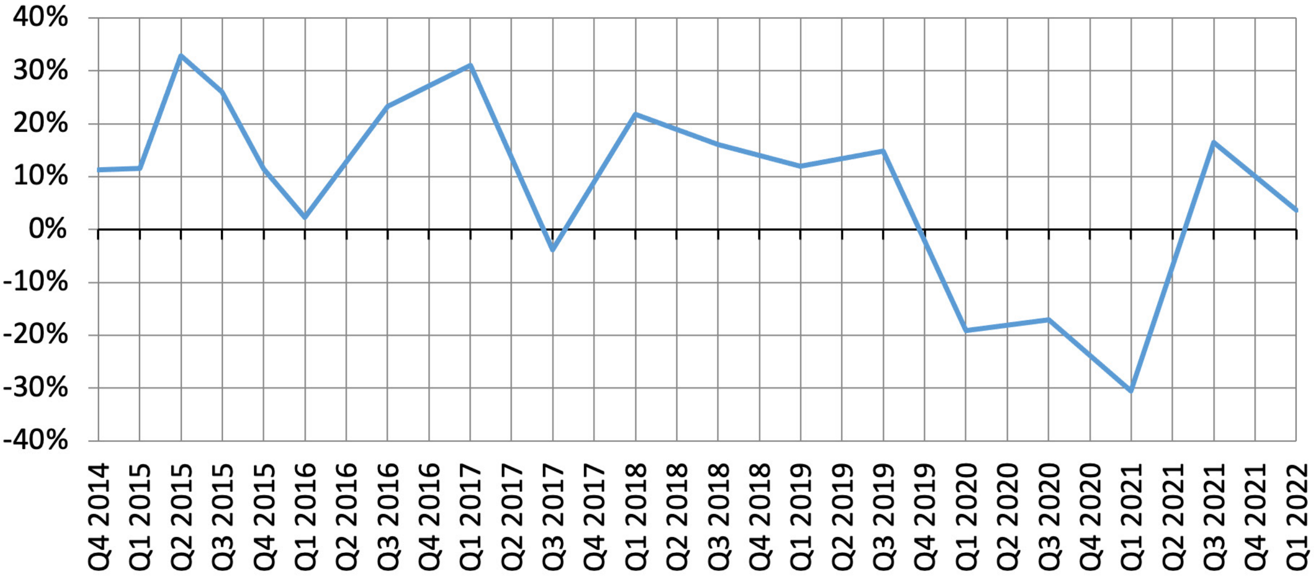
In Q1 2022, the overall net balance for revenue in the region was positive (net 4%) , but has declined since Q3 2021 (net 16%). Despite this fall, which may have been caused by concerns around the Omicron variant, this remains above the levels seen in 2020 and still higher than in Q1 2021 (where it was net -31%). The relative improvements witnessed in the area and similarities to pre-pandemic levels of revenue (e.g. 15% in Q3 2019) continue to suggest an overall return to 'normal'.

Signs of growth are also observable across the UK more widely; with a net average of 11%, sentiment across the country is also positive. Yorkshire, the Humber & North East is the lowest performing region in terms of revenue across the UK for the last 3 months (net 4%). The strongest performance, in contrast, comes from London (net 16%).

The outlook for future revenue, however, seems increasingly positive in Yorkshire, the Humber & North East. In the region, 42% of small businesses expect a growth in revenue over the next 3 months, with 30% expecting a decrease. This leaves a net balance of 11% for predicted profit changes in the region (although still below the UK average, which is 21%).

Revenue in the region remains positive but sees a slight decline relative to Q3 2021.

Fig.3 FSB Small Business Index: net balance of small firms in Yorkshire, the Humber & North East reporting revenue (Revenue question previously only asked in Q1 and Q3 phases of SBI).



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

'How has the revenue of your business changed over the last 3 months'.

Employment and Wage growth

The number of small businesses in the area taking on new staff continues to outnumber those who are losing staff in Q1 2022.

The employment picture amongst FSB members over the preceding three months continues to paint a positive picture, on par with Q4 2021, with 14% increasing staff numbers and 8% decreasing them in Q1 2022. This leaves a net increase of 5%, which is consistent with what was seen in Q4 2021 (also 5%), and similar to Q3 2021 (6%). It is also far above the -8% decline seen in Q1 2021. This represents a more positive outcome than predicted (net -1% decrease was anticipated in Q4 2021).

The majority of staffing levels continue to remain unaffected (71%) in Q1. For the next quarter, staffing levels are predicted to rise, with 17% looking to increase and 4% expecting to decrease their headcount. 71% expect this to stay the same.

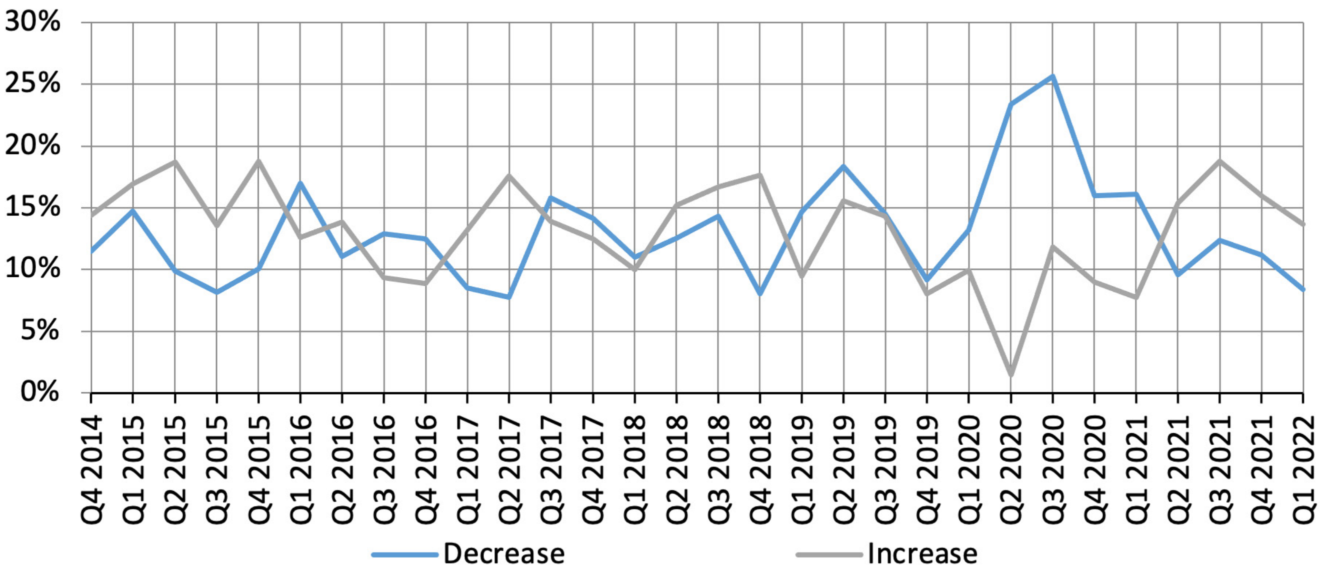
Wage Growth

In Yorkshire, the Humber & North East, over half (60%) of small businesses increased the average salary awarded across the business over the last 12 months (with 53% of these increases above 2%). 70% expect to see salary increases over the next 12 months, with 59% reporting the likely increase to be above 2%.

Predicted wage growth sees a slight decline since Q4 2021 (72% predicting an increase then) but continues to grow since Q1 2020; at that time it dropped as low as 48%. The current predictions slightly exceed pre-COVID levels (c.67% predicted an increase from 2014-2019).

The number of small businesses increasing headcount (14%) continues to stay above those decreasing headcount (8%).

Fig.4 FSB Small Business Index: change in people employed in Yorkshire, the Humber & North East over last 3 months.



Growth and Investment aspirations

In Q1 2022, 45% of small businesses in Yorkshire, the Humber & North East 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%). When compared with the same time period last year, we can see that this figure has slightly declined, by -4% (i.e. 49% in Q1 2021 vs. 45% in Q1 2022). Despite this, when looking at the net change for Q1 2022 (34%) compared to Q4 2021 (29%), this represents a rise of 5%.

The investment intentions for Yorkshire, the Humber & North East businesses remain positive and just above the UK average, and are on par with scores seen in Q4 2021.

29% of businesses in Yorkshire, the Humber & North East expect to increase investment in the coming quarter, and 17% expect to decrease investment. This leaves a net balance of 11%, which is just above the UK average (9%). The highest net investing region is the West Midlands (14%), with the lowest being the North West (4%).

In Yorkshire, the Humber & North East, the general economic conditions in the UK (62%), input costs (47%) and consumer demand (31%) are the greatest perceived barriers to growth over the coming twelve months.

In Yorkshire, the Humber & North East, 10% of businesses have said they intend to contract the business in the next twelve months (to downsize, sell or close the business). This is a slight fall from Q4 2021 (16%) and remains just below the intentions seen across 2021 as a whole (average of 13%).

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