

A high-angle photograph of a man and a woman sitting at a table, looking at a laptop. The man, wearing a striped shirt and glasses, is leaning over the woman, who is wearing a red top. They are both focused on the laptop screen. The table is covered with a woven placemat. In the foreground, there is a smartphone, a small potted cactus, and a larger green plant. The background shows a grey sofa.

FSB South East Quarterly Small Business Index

Q4 2023

This document was produced by
FSB South East in January 2023

fsb⁸

Foreword

Foreword by Ian Ross
FSB South East Regional Chair
Federation of Small Businesses



The final South East Federation of Small Business (FSB) Small Business Index (SBI) for 2023 makes depressing reading. It reports a cumulative downward trend of business confidence across 2023. From a positive rating of 4 at the beginning of 2023, every quarter showed worsening levels of business confidence. At the end of 2023, business confidence in the South East slumped to -27. This is well below the UK average of -15.

Feedback on revenue and employment show significant problems for small business in the South East. Small firms reported a reduction in net revenue from 6% in Q3 to -14% in the last quarter. Again, it is well below the UK average of -6%. For the first time in 2023, small businesses reported a net reduction in staffing numbers. In Q4 2023, 11% of small businesses increased staffing levels, but 16% decreased them.

Looking ahead, small businesses are more pessimistic than they were a year ago. 39% of businesses plan to grow, compared to 18% that plan to contract, downsize, or sell, with a net score of 21%. Last year that net score was 26%.

Ian Ross, regional chair for the FSB in the South East, said, 'these results show worsening business conditions for small firms in the South East. At the start of 2023 we saw a healthy post-Christmas bounce that took business confidence into positive territory. This year's figures show a worsening slump. With confidence dipping every quarter, it shows that businesses are struggling, and little has eased the burdens they face. Policy makers need to act to support small businesses urgently to stem the tide of worsening business confidence.'

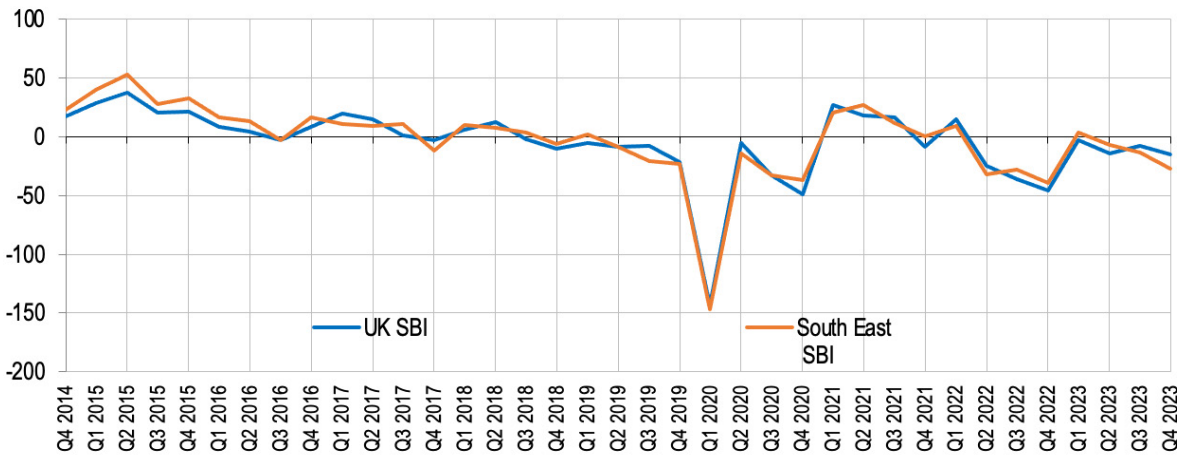
The South East Small Business Index (SESBI)¹, which measures confidence amongst businesses, has decreased further since the last quarter. It currently stands at -27, whilst in Q3 2023, the reading was -13.

This change continues to follow a downward trend that has been seen since the start of 2023, when the reading was 4. Despite this, it remains a YOY improvement from -39 in Q4 2022.

This confidence score for the South East is below the UK average, which stands at -15. However, the UK score has also fallen from -8 in the previous quarter. Similarly to the South East, despite this recent decrease, there has been a YOY improvement for the UK overall; the score stood at -46 nationally in Q4 2022. The current index score of -27 for the South East is the 4th lowest of the 8 regions in England, and is well below the highest index score of 7, for London, which is the only positive regional score this quarter.

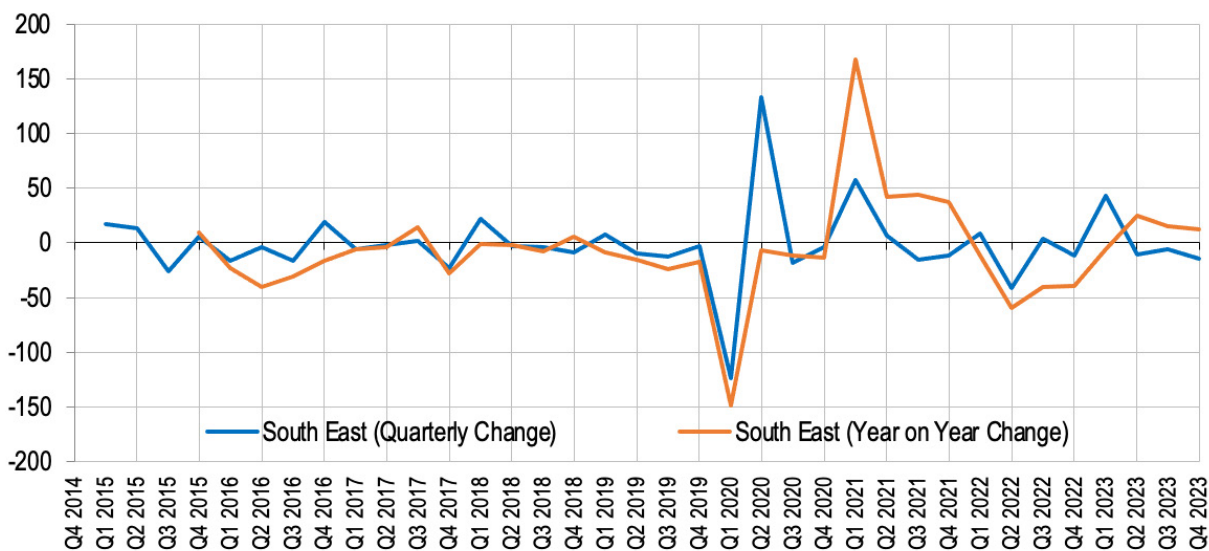
Confidence in business performance over the next 3 months for the South East has fallen along with the UK, and remains below this average.

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



Whilst YOY confidence among small businesses in the South East has remained positive, confidence has decreased slightly since Q3 2023.

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



¹ The South 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.

Business Conditions

The net revenue balance in the South East has fallen sharply this quarter, from 6% to -14%², and is just below the net revenue balance seen this time last year.

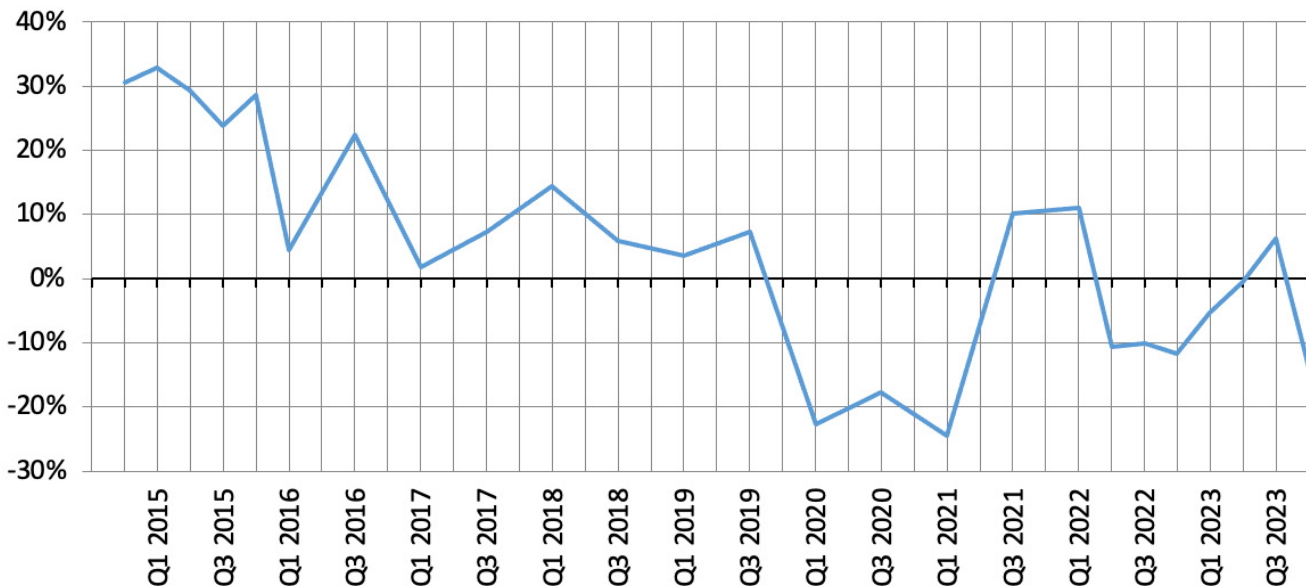
32% of small businesses in the South East have reported an increase in revenue over the last 3 months. This is down from the previous quarter, where 39% of small businesses reported a revenue increase. This is the first quarter-on-quarter reduction since last year, although remains just above the 30% reported in Q4 2022.

The net balance of small businesses reporting revenue increases vs. those reporting a fall in quarterly revenue has decreased to -14% this quarter. This also represents a reduction when compared to this time last year (net -12% in Q4 2022) and is also below the current UK net average of -6%, which has remained stable since the last quarter. Despite being below the UK average, the South East has performed better than the East Midlands and South West (both -20%).

The outlook for the future has consistently diminished since the start of 2023, to a net predicted revenue for the next 3 months at -5% this quarter. Comparatively, this score was 22% in Q1 2023. Despite the recent decline, this remains a YOY improvement, from -18% in Q4 2022. The current net predicted revenue is, however, below the UK average of 0%.

The net revenue for small businesses in the South East has decreased for the first time in 2023, and has fallen sharply since 3 months ago.

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

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

Employment and Wage growth

Whilst small businesses in the South East predicted a net increase in headcount last quarter, there has instead been an actual small net reduction in Q4. Over the next 3 months, they still predict that there will be a minor net increase in employment numbers.

In the South East over the last quarter, there has been a net reduction in employee numbers, with 11% of businesses increasing their staff numbers since Q3, compared to 16% decreasing them. This net change of -5% is below the prediction from Q3 2023, of net 3%. Despite the net reduction, 65% of small businesses in the South East say they haven't changed their headcount over the last quarter. This net employment change is similar to the UK average of -4%.

Over the next quarter, small businesses predict a small net increase in employment numbers of 1%, with 13% predicting that their headcount will increase over the next quarter, and 12% believing this will decrease.

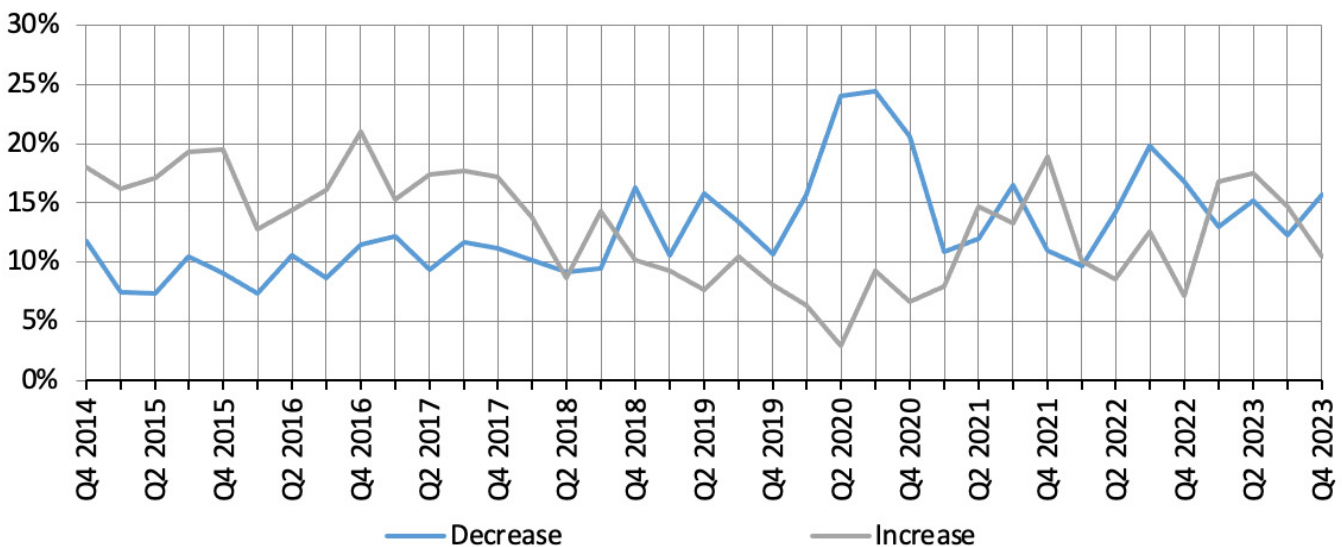
Wage Growth

In the South East, 69% of small businesses increased the average salary for their employees over the past 12 months, with 65% doing so by 2% or more. 8% of small businesses reported a decrease over this time, resulting in a net score of 61%; the same as the previous quarter. This is a sizeable improvement from the net increase of 45% reported in Q4 2022.

Over the next 12 months, 74% of small businesses in the region expect their average wage to increase, with 60% expecting the increase to be 2% or more. Comparing this to Q4 2022, 65% predicted an increase in the average salary, although 62% predicted this would be by 2% or more. Therefore, although more businesses expect an increase in Q4 2023 compared to what was outlined in Q4 2022, the percentage size of the expected increase was bigger 12 months ago compared to current expectations.

A combination of more small businesses reducing their headcount, and fewer increasing, has resulted in a net reduction in employment numbers in the South East.

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



Growth and Investment aspirations

In Q4 2023, 39% of small businesses in the South East said that their aspirations in the next 12 months were to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). 18% report that they will be likely to contract their business over the next 12 months (downsize, close or sell), resulting in a net score of 21%. When compared to 12 months ago, small businesses in the region are slightly more pessimistic (net 26% in Q4 2022).

The investment intentions for small businesses in the South East over the next quarter are slightly below the national average. The net balance of firms that expect to increase their investment is 5%, compared to the UK average of 8%. This means that the South East has fallen behind the UK average since Q3 (when the regional average for the South East was net 8%, and the UK average was net 6%). Despite falling below the UK average, the South East remains well above the worst performing region for investment intentions, which is the East Midlands (net -8%).

Over the next quarter, 25% of small businesses in the South East anticipate increasing investment, whilst 20% expect this to decrease, resulting in this net score of 5%. This is a YOY improvement from net -2% in Q4 2022.

In the South East, the domestic economy (66%), consumer demand (31%), and labour costs (28%) are the greatest perceived barriers to growth over the coming twelve months. Since the previous quarter, the proportion that perceive utility costs to be a barrier to growth has also increased, from 17% to 24%.

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