



# FSB North West Quarterly Small Business Index

Q2 2023

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## Foreword

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Federation of Small Businesses



While it is disappointing Q1's significant upturn in confidence has not carried over into the second quarter, our research shows that there are reasons for optimism.

Over half of all small firms expect to grow over the next year. In addition, confidence in the North West is less negative than the national average and net revenue performance significantly better than several other UK regions.

It is particularly encouraging that energy and fuel costs are falling in the ranks of small firms' most-cited barriers to growth – and welcome that Ofgem has recently backed our call for energy companies to allow small businesses to 'blend and extend' their contracts.

Of course, significant challenges lie ahead. North West businesses are less likely to seek investment and growth support, for example, there is a pressing need to tackle the perennial problem of late payment of invoices and, of course, successive interest rate rises have not really tamed inflation but are hitting consumer demand and small business margins hard. We are warning that further increases will seriously undermine their prospects and economic growth.

Confidence is often fragile but we know small firms are survivors and there are positive signs in our SBI findings for Q2 2023. Over the next quarter and more we will work to make our politicians and policy-makers, nationally and locally, heed the data and play their part in supporting small business.

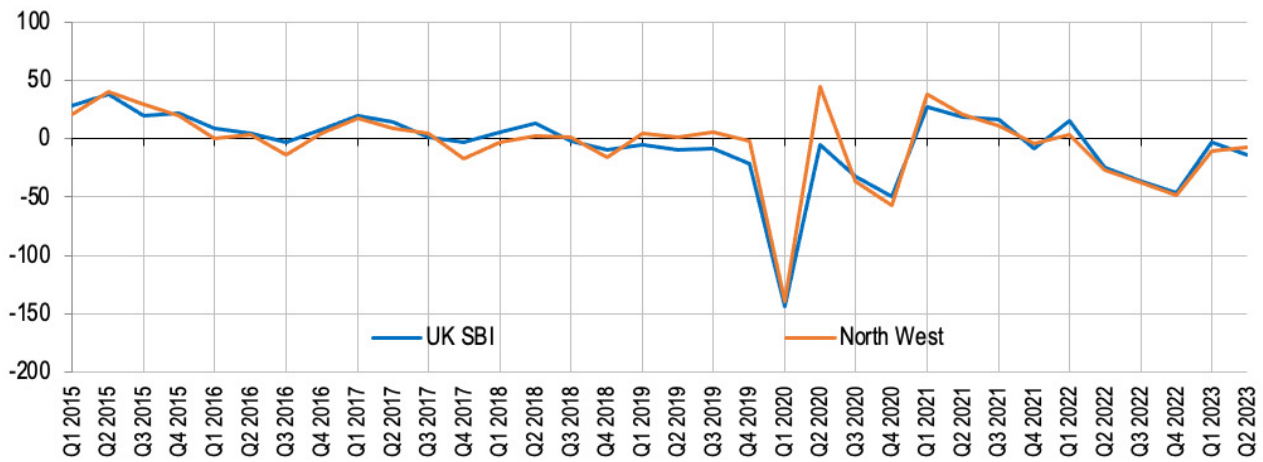
**The North West Small Business Index (NWSBI)<sup>1</sup>, which measures confidence amongst businesses, remains negative in Q2 2023. It currently stands at -7, whereas in Q1 2023 it was -11.**

Confidence remains negative for the fifth consecutive quarter despite a marginal improvement from Q1. Small businesses in the region continue to face the ongoing impact of economic uncertainty and inflationary pressures.

The low confidence witnessed amongst North West small businesses (-7) is also visible across the country. The North West now displays a less negative outlook than the nationwide average sentiment, however, which stands at -14.

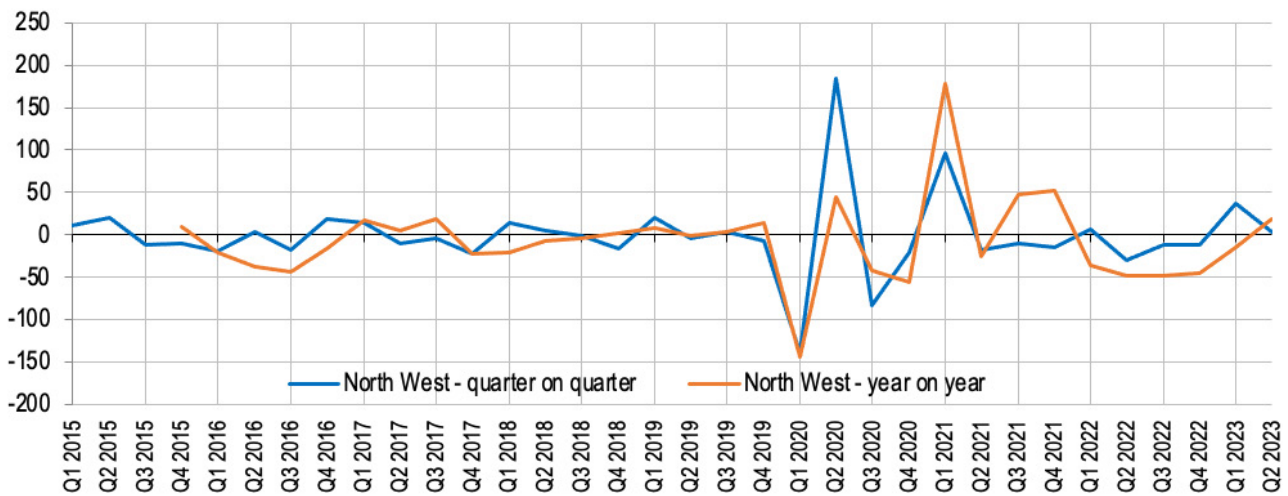
**Low confidence persists amongst North West small businesses, reflecting nationwide economic concerns.**

**Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence.**



**Quarterly and year-on-year metrics are positive in the North West, demonstrating some improvement from lows in confidence.**

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



<sup>1</sup> The North 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

## Revenue sentiment in the North West remains negative in Q2 2023, with a net figure of -7%.

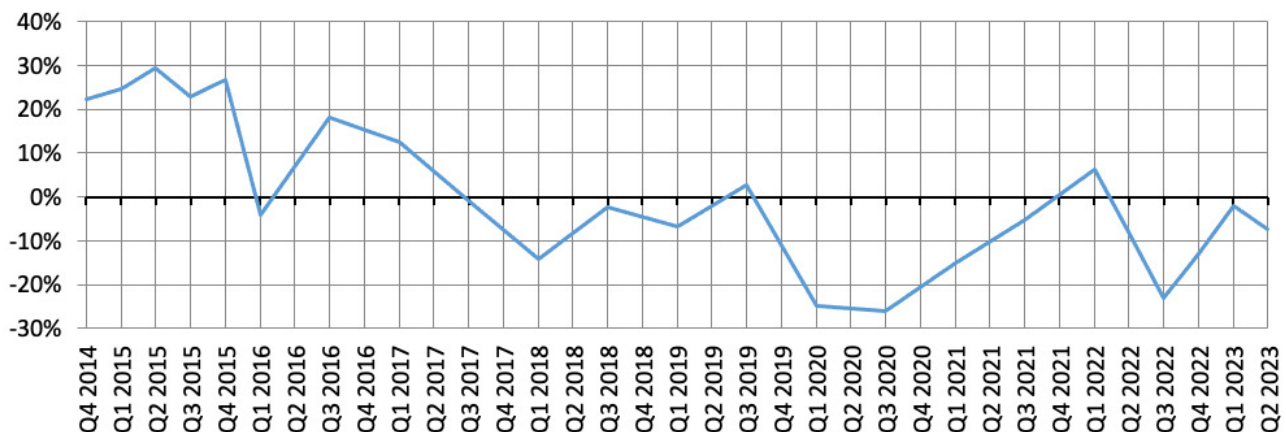
In Q2 2023, 43% of small businesses in the North West reported a decrease in revenue over the last 3 months. Some resilience was shown by North West businesses, however, with 36% reporting revenue increases during the period.

The net balance figure of -7%<sup>2</sup> for Q2 represents a fall from what was recorded in Q1 (-2%) and shows a trend of declining revenue in the region. That said, other regions in the country have experienced net revenue performance that is considerably more negative than the North West during Q2, including the East of England (-16%) and East Midlands (-20%).

Despite this, the outlook for future revenue remains positive in the region. A net balance of 13% expect growth in profits for the coming quarter. This is a fall, however, from Q1, where the net balance stood at 22%. Revenue outlook for Q2 2023 in the North West is also significantly more positive than the net national average (which is -3%).

## Net revenue in the North West remains negative in Q2 2023, but shows a stronger performance versus previous quarters.

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



<sup>2</sup> 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

## North West small businesses reduce headcount, with a net drop in staff levels for Q2 2023 (-5%).

The employment picture over the preceding three months showed that 17% had decreased and 12% had increased staff numbers. Most small businesses in the region have had no change in staffing levels in Q2, with around two-thirds (67%) reporting headcount had stayed the same. The net change in headcount of -5% in the North West is slightly lower than the respective net score nationwide, which stands at -2%.

For the next quarter, the intention in the North West is for 15% of businesses to increase headcount and 11% to decrease headcount.

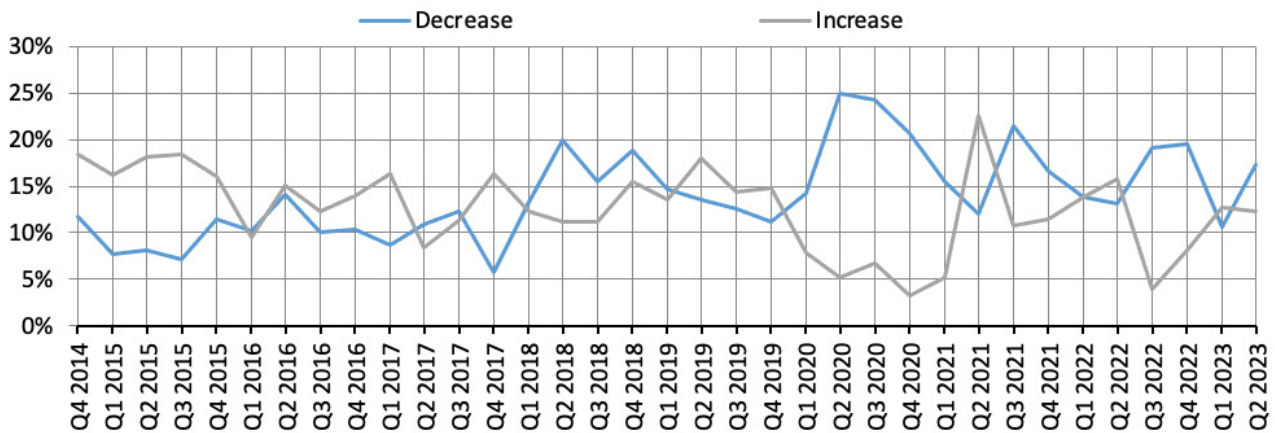
## Wage Growth

67% of small businesses in the region increased the average salary awarded across the business over the last 12 months. This compares to 70% nationwide. The net change in salary for the North West in Q2 2023 (59%) is higher than that seen during Q1 (55%).

71% expect to see salary increases over the next 12 months. This predicted wage growth is higher than that recorded in the previous quarter, where 66% anticipated wage increases.

## The proportion of North West small businesses decreasing headcount outpaces those increasing in Q2 2023.

Fig.4 FSB Small Business Index: change in people employed in the North West.



## Growth and Investment aspirations

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In Q2 2023, half (50%) 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%). This is on par with the previous quarter (51%). However, overall net growth aspirations have fallen from 43% in Q1 to 35% in Q2.

**The investment intentions for North West small businesses have fallen significantly since the previous quarter, standing at net 3% from the net 18% recorded in Q1.** The region underperforms the nationwide average in Q2 (net 7%).

26% of small businesses in the North West region expect to increase investment levels in the coming quarter, which is similar to the proportion of 27% nationwide. Despite this, investment intentions in the North West perform on the lower end compared to other regions, as several anticipate higher levels of investment (London; net 21%, East Midlands; net 11%).

**The general economic conditions (68%), consumer demand (41%), and utility costs (33%) are the greatest perceived barriers to growth over the next 12 months in the North West.**

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