



# FSB South East Quarterly Small Business Index

Q1 2021

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## Foreword

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**Foreword by Deborah Turner**  
**South East Regional Policy Chair**  
Federation of Small Businesses



Welcome to our latest Small Business Index (SBI) for the South East. This survey, the most comprehensive of its kind, reports upon the views of smaller firms in Surrey, Sussex and Kent.

With the local elections nearly upon us, it is vitally important that decision makers look at the fragile state of small firms in the South East. We all know our economy is primarily small business based, reliant on High Street consumer spending and visitors to our lovely coast and countryside.

The SBI highlights that resilient smaller business owners are sounding more optimistic and positive for the future but that strong economic headwinds still remain. The report indicates that investment intentions for South East businesses are the lowest across the country; the net balance of firms expecting to increase their investment stands at 10%, which is below the UK average of 18%. Let us not forget that many businesses will have utility and Council bills to pay, new repayments on emergency loans and unforgiving landlords still knocking at their door.

Recovery plans therefore need to be robust and practical, avoiding lengthy and complicated documents that are not actionable. These plans need to include continued financial support on an inclusive basis for all viable businesses – not just sector specific or those deemed ‘high growth’ or, indeed, by applying an arbitrary criterion, such as a certain number of employees. Support needs to also include skills and mentoring: growing more apprenticeships, start-ups firms, businesses in the early stages of their development and those struggling to adapt to the new realities of the digital age. FSB is ‘punching above its weight’ on this score and we urge other big players to weigh in, on a collaborative basis.

Whilst FSB’s policy unit continues to lobby Ministers at a national level, I urge stakeholders and influencers across the South East to read and act on the data in this report, to take economic recovery forward for all.

**The South East Small Business Index (SESBI)<sup>1</sup> which measures confidence amongst businesses, has risen over the preceding three months. It has now increased from -37% in Q4 2020 to 21% in Q1 2021.**

Confidence levels among small businesses in the South East have greatly improved from the last quarter. The initial impact of COVID-19 dramatically reduced confidence levels in Q1 2020, however now with the forthcoming easing of lockdown restrictions, confidence levels have improved and are rising.

Despite this increased confidence, the South East scores lower than most regions for confidence when compared to the rest of the country, with only London being lower at 13%. As such, small businesses in the South East are less confident than the national average, which stands at 27%.

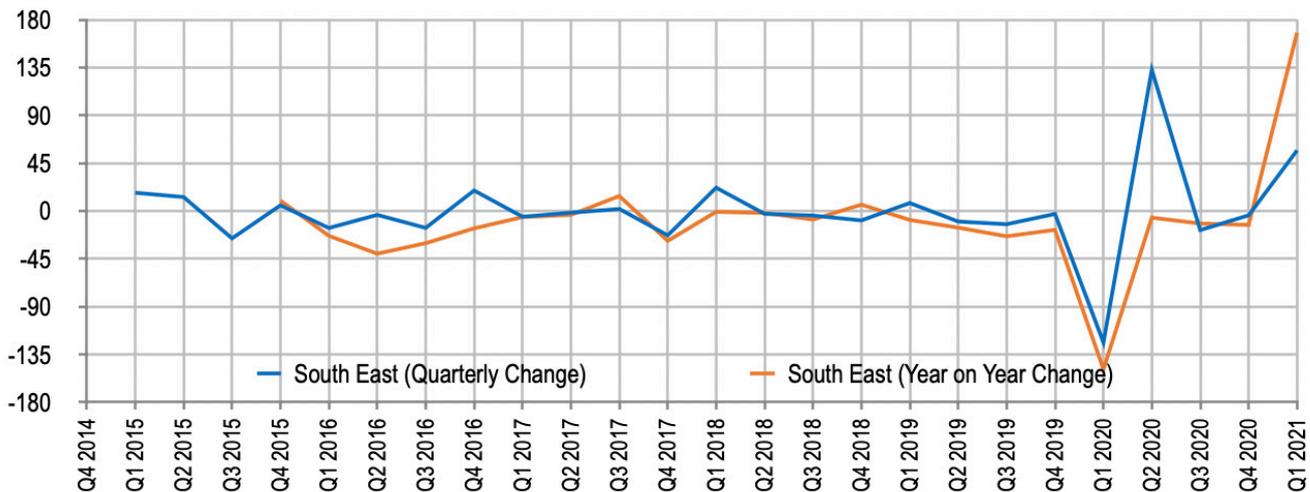
**Confidence in business performance for the next three months is on the rise for the South East.**

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



**Compared to last year, South East small businesses are notably more positive about business prospects for the next three months.**

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



<sup>1</sup> 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

**Overall sentiment towards revenue from businesses in the South East is still negative in Q1, however the next three months looks more positive.**

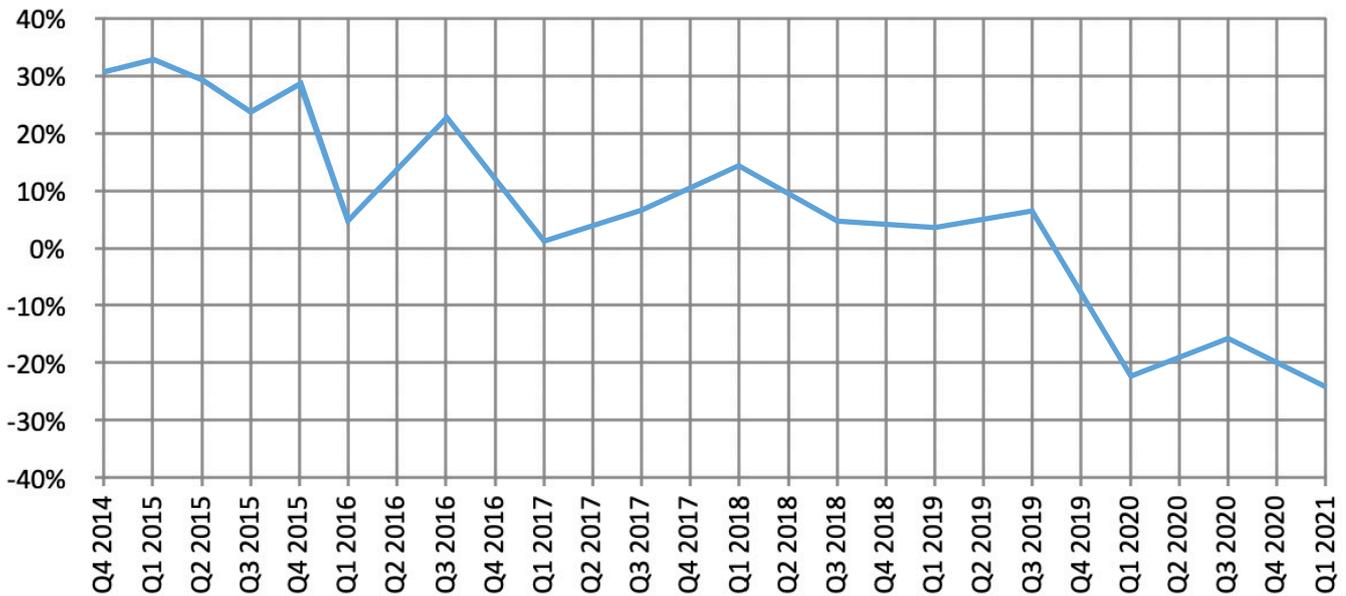
In Q1, just over half (52%) of small businesses in the South East reported a decrease in revenue over the last 3 months, which remains consistent with Q3 2020 (51%). By comparison, only 28% of small businesses reported an increase in profit over the period.

Accordingly, with a net balance figure of -25% for Q1, South East's revenue was slightly lower than the UK average (-23%). Some regions such as the East of England (-30%) and Yorkshire and the Humber and the North East (-31%) were more heavily hit, while other regions such as London and the North West (-15%) were less affected.

However, the outlook for future revenue looks more positive, with an overall net figure of 27% for the South East. This is also in line with what we see in the rest of the country, where the average is also 27%. The only area of the country which is more pessimistic is London (19%).

**The net revenue for small businesses in the South East shows a decline from Q3 2020.**

**Fig.3 FSB Small Business Index: net balance of small firms in South East reporting revenue (revenue question only asking in Q1 and Q3 phases of SBI – question is asked on a rotational basis)**



# Employment and Wage growth

**South East small businesses have seen a slight decline in employee numbers, although fewer businesses reported a decrease than had been predicted.**

The employment picture amongst FSB members over the preceding three months showed that 11% had decreased staff numbers, while 8% had increased their employment levels. Interestingly, the actual decline in staff numbers seen in Q1 is lower than what was predicted to be the case in the previous quarter (14%).

Over three-quarters of small business staffing levels have been unaffected, as 76% reported these as having 'stayed the same'. For the next quarter, the intention is for 18% of businesses to increase their headcount and 5% to decrease staff numbers.

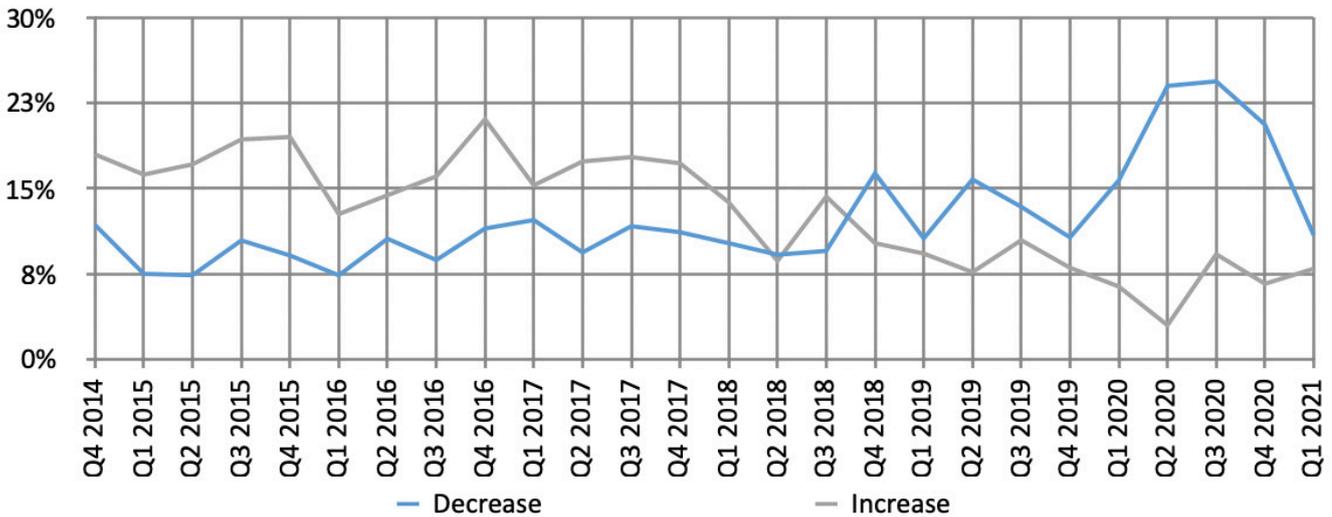
## Wage Growth

In the South East, 33% of small businesses increased the average salary in the last 12 months, with 24% increasing the average salary by 2% or more. Over the next 12 months, 52% expect to see salary increases, with 32% reporting the likely proportion to be above 2%.

Whilst net predicted wage increases are significantly higher than 12 months ago (47% in Q1 2021, vs. 18% in Q1 2020), it still lags behind predicted wage growth pre-COVID (65% in Q4 2019).

## Around 1 in 10 small businesses in the South East (11%) have decreased the amount of staff employed over the last three months

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



## Growth and Investment aspirations

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In Q1 2021, 51% 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%). Additionally, compared with this time last year, small businesses are less likely to report an aspiration to downsize, close or sell their business (18% vs. 25% at Q1 2020).

**The investment intentions for South East businesses are the lowest across the country;** the net balance of firms expecting to increase their investment stands at 10%, which is below the UK average of 18%. For context, the next region which scores above the South East is the South West, which has investment intentions at 17%. At the other end of the scale is the North West (27%), the region that has the greatest investment intentions.

The actual percentage of small businesses in the South East expecting to increase investment has remained consistent with the previous quarter. 24% now expect investment to increase in the next quarter compared to 25% in Q4. The Q1 scores are below the UK average (33%).

**In the South East, the domestic economy (66%) and consumer demand (46%) are the greatest perceived barriers to growth over the coming 12 months.**

18% said they intend to contract the business in the next twelve months (to downsize, sell or close). This represents a 5% decrease from what we saw in Q4 (23%) and therefore shows signs of improvement.

## About FSB

As experts in business, FSB offers members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. Its aim is to help smaller businesses achieve their ambitions. More information is available at [www.fsb.org.uk](http://www.fsb.org.uk)

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