

A woman with curly hair, wearing a leopard print dress, is looking down at a tablet computer she is holding. She is in a cafe or shop setting with a counter and a green water bottle in the foreground. The background is softly blurred, showing shelves and plants.

# FSB East of England Quarterly Small Business Index

Q2 2022

fsb<sup>08</sup>





## Foreword

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### **East of England small businesses report sharp decline in confidence**

Concerns about the domestic economy, lack of consumer demand and fuel costs are some of the reasons given by small businesses in the East of England, where we have seen business confidence plummet this quarter.

Whilst 42% of those surveyed have increased revenue in the last quarter, 40% have seen a decrease and that is up 10% since the previous quarter.

The investment expectations in the East of England have sharply fallen, more so than the UK average (net -5% vs. UK average net 3%).

Employment figures have also slipped into a net negative this quarter with 13% of firms having decreased staff numbers, and 11% having employed more staff.

This presents a growing challenge for policy makers in the East of England who want to encourage growth and prosperity in the region. Whilst many of the challenges are not unique to the East, local focus should be given to creating employment opportunities and investment in small businesses.

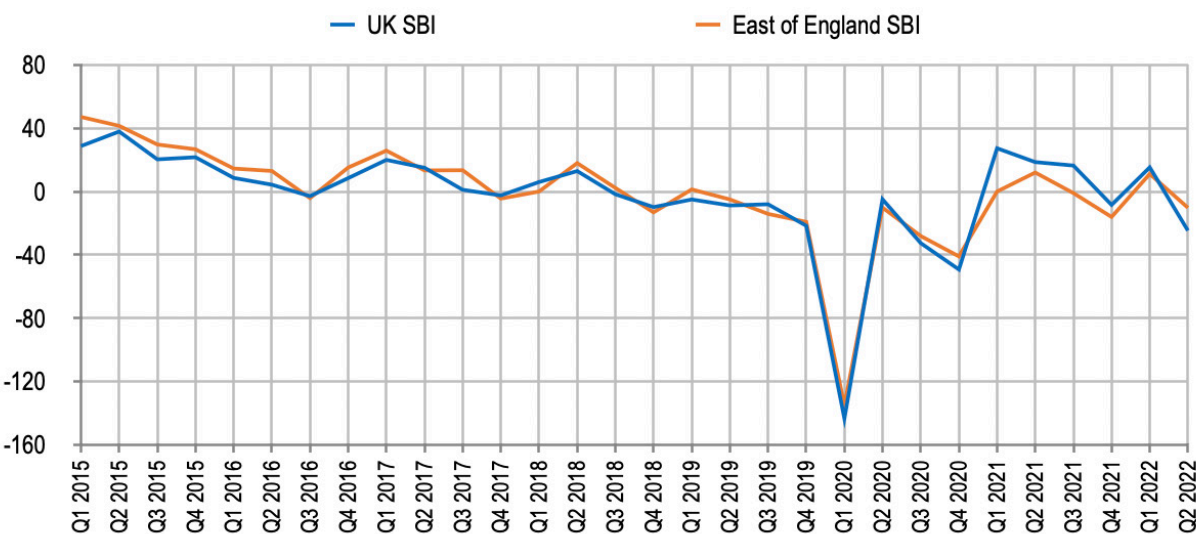
**The East of England Small Business Index (EESBI)<sup>1</sup>, which measures confidence amongst businesses has taken a sharp, negative turn in the last quarter. From a positive reading of 11 in Q1 2022, it now stands at -10 in Q2 2022.**

Confidence is increasingly destabilised in the region after a positive uptick from Q4 2021 to Q1 2022. The East of England is now being impacted by wider economic trends and uncertainty, including rising inflation and a cost-of-living crisis.

This uncertainty is reflected across the country. Despite the East of England falling to negative levels of confidence in Q2 2022, the countrywide average reveals an even more negative picture. Across the UK, confidence is at -25. This is a reversal of the picture seen in Q1, where the region lagged slightly behind UK confidence levels (East of England Q1 2022 11; UK Q1 2022 15).

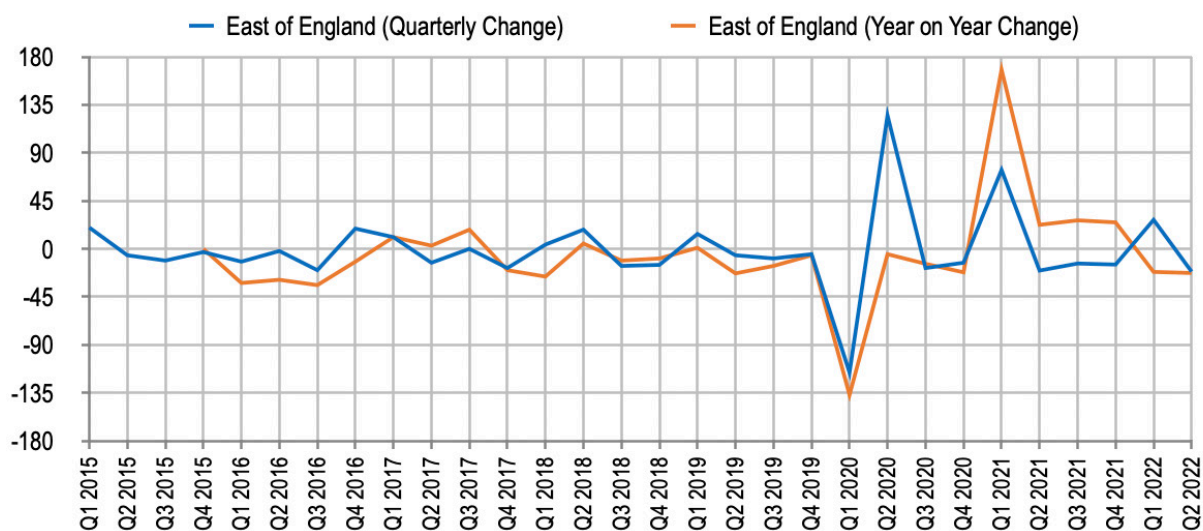
**Confidence in business performance for the next 3 months returns to negative territory as East of England small businesses battle economic uncertainty.**

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



**Year-on-year confidence continues a downward trend (-23), as Q2 2022 quarterly confidence turns negative after a momentary lift in Q1.**

**Fig.2 FSB East of England Small Business Index: small business confidence levels**



<sup>1</sup> The East of England 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 East of England remains positive for revenue in Q2, but more small businesses are anticipating an upcoming fall.

In Q2, there has been an increase in East of England small businesses reporting a decrease in revenue – from 30% in Q1 to 40% in Q2. Many businesses are showing resilience, however, with 42% in the region reporting an increase in revenue.

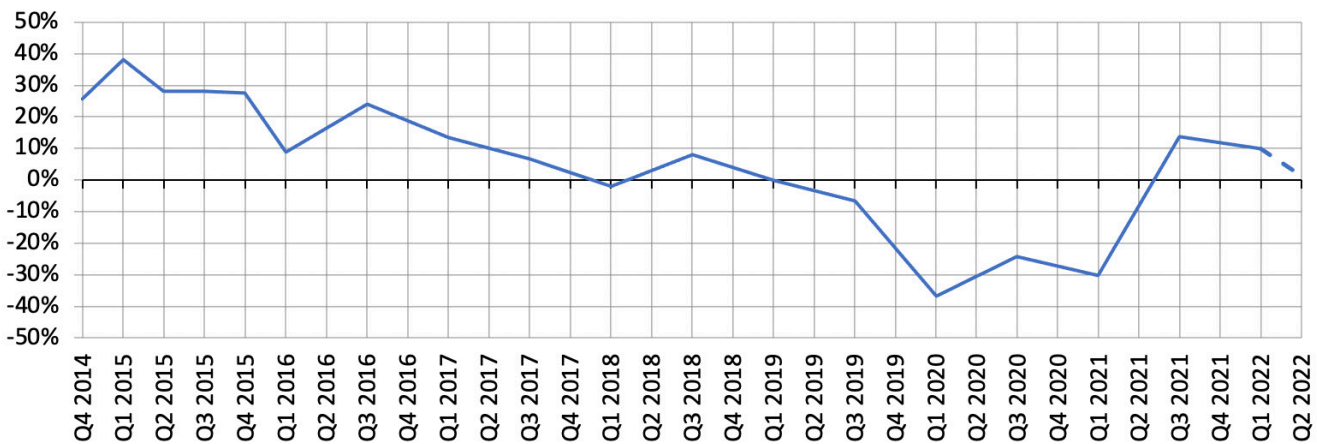
With a net balance figure of 1%<sup>2</sup> for Q3, East of England has performed relatively well compared to other areas in the UK. Many have seen considerable falls in revenue during Q2. East Midlands has the most negative result of all the regions, with a net balance figure of -14%.

In Q1, 23% East of England small businesses predicted an upcoming fall in revenue. This has risen to 41% in Q2. The region has a net figure for upcoming revenue of -8%; this net decline is less severe than other regions such as the South East (-17%), and South West (-13%).

The proportion of East of England small businesses expecting a decrease in revenue (41%) is slightly worse than the countrywide average (36%).

## East of England small businesses are seeing reduced growth in revenue in Q2 2022.

Fig.3 FSB Small Business Index: net balance of small firms in East of England reporting revenue



<sup>2</sup> The NET number of businesses is calculated by subtracting the total number of businesses who reported a decrease in gross profit from those who reported an increase in gross profit in the last 3 months.

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

# Employment and Wage growth

## East of England employment levels slip into negative for Q2, reflecting a nationwide trend.

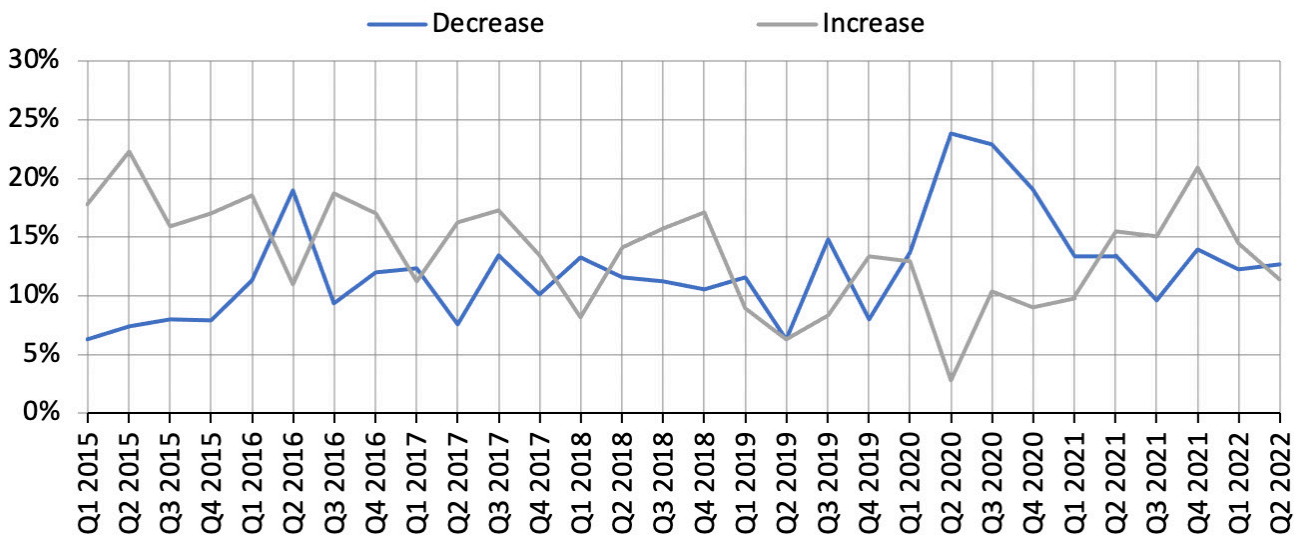
The employment picture amongst FSB members in the East of England over the preceding three months showed that 13% had decreased staff numbers, and 11% had increased staff numbers. Employment figures have therefore slipped into a net negative, to -1% in Q2 from 2% in Q1. The employment situation in the region is broadly reflective of the nationwide perspective, with the net countrywide average at -4% in Q2.

## Wage Growth

In the East of England, 66% of small businesses increased the average salary awarded across the business over the last 12 months. The number of businesses decreasing salaries rose marginally from 8% in Q1, to 10% in Q2. Net wage changes remain in a more positive place compared to a year to date: 55% in Q2 2022, versus the 39% seen in Q2 2021. Looking ahead, 66% of East of England small businesses expect to raise wages over the next 12 months – a fall from the 77% predicting wage rises in Q1.

## The number of East of England small businesses decreasing staffing levels has overtaken the proportion increasing staffing levels.

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



## Growth and Investment aspirations

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In Q2 2022, 44% of East of England small businesses indicated that their intention was to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). This is a slight fall from the 49% of small businesses which outlined aspirations for growth in Q1. A large proportion of businesses in the region aim to stay the same size in the upcoming 12 months (38%), and 8% expect to downsize or consolidate. This is broadly in line with nationwide sentiment, where 39% expect their businesses to remain the same size, and 9% expect downsizing or consolidation.

**The investment intentions for East of England businesses have retracted in Q2 from Q1, performing more negatively than the countrywide average (net -5% vs. UK average net 3%).** The investment expectations in the East of England have sharply fallen versus Q1, when the net average stood at 11%. This is also negative when looking back a year-to-date (Q2 2021), where the net for expected upcoming capital investment was 14% in the region.


**In the East of England, the domestic economy (50%), consumer demand (41%), and fuel costs / appropriately skilled staff (35%) are the greatest perceived barriers to growth over the coming twelve months.**

## About FSB

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