

# SCOTLAND Q3 2023 SMALL BUSINESS INDEX

**The Small Business Index (SBI) in Scotland declined in Q3 2023, dropping by 18.5 points to reach -30.2.** The negative reading means that the number of Scottish small businesses expecting their performance to improve over the coming quarter is exceeded by the number expecting their performance to worsen.

**Small business sentiment in Scotland was negative for a second consecutive quarter, having recorded -11.7 in Q2.** The negative sentiment reflects the prevailing uncertainty in the current economic landscape, across both the UK and Scotland. Growth prospects are hindered by tighter interest rates, continually elevated inflation, and subdued consumer activity.

**The UK-wide SBI remained in negative territory in Q3.** Q3 represented the sixth consecutive negative reading on the UK-wide SBI. This prolonged period of pessimism underscores the economy's recent struggle with slow growth, as it contends with various challenges.

**Scotland's SBI reading was the second most pessimistic amongst UK nations and regions.**

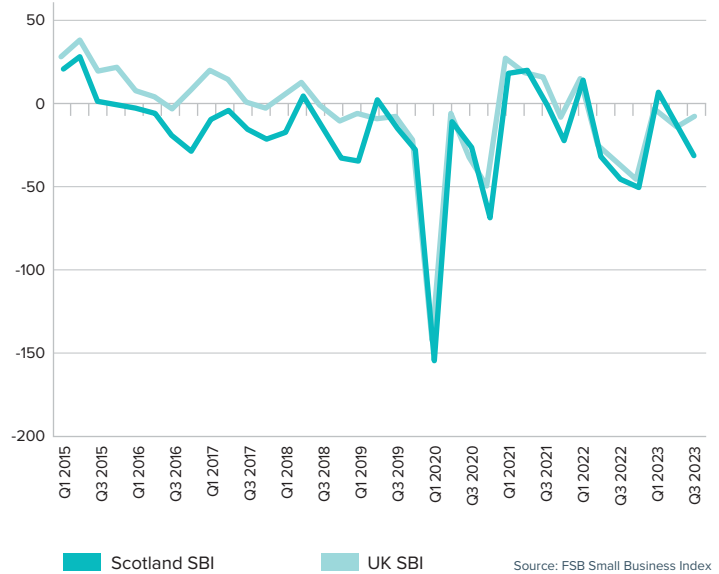
**The number of Scottish small businesses reporting revenue declines in Q3 exceeded the number reporting an increase.** As such, the net balance of firms reporting revenue increases was negative, amounting to -14.6%. This is a notable worsening compared to Q2 when this metric recorded its first positive reading since Q1 2022.

**Within the net balance figure, 28.1% of Scottish small businesses reported revenue growth over the quarter, less than the UK-wide share of 33.5%.** The share of Scottish small businesses reporting a revenue contraction over the quarter was higher than the equivalent figure for the UK as a whole.

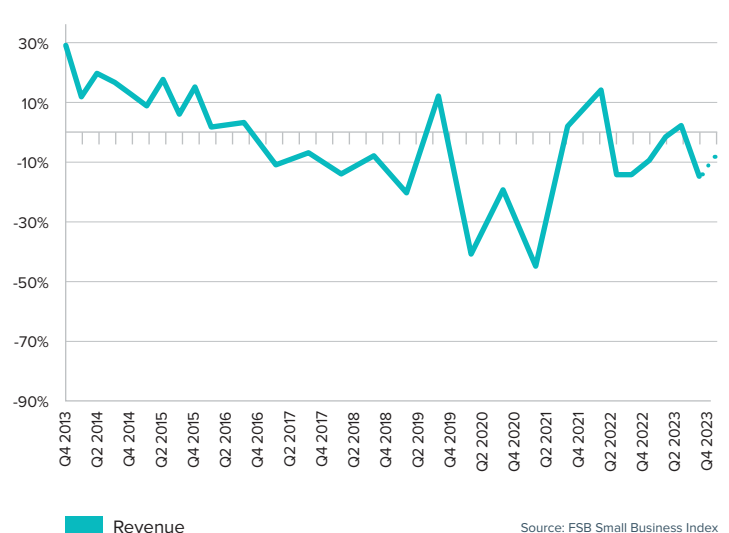
**These findings are consistent with the lower overall SBI reading for Scotland compared to the UK, showing the link between business sentiment and revenue performance.**

**Despite this, there are some signs that small businesses in Scotland believe the situation will begin to improve, with a higher net balance expecting revenue growth in Q4 2023.** That said, at -8.5%, the figure remains in overall negative territory.

**The FSB Small Business Index: Small business prospects over coming three months**



**Net balance of small firms in Scotland reporting revenue growth**



**A net balance of -9.3% of Scottish businesses recorded decreased employee headcount in Q3.** The negative net balance means that the number of firms reporting a contraction in their employee numbers outweighed the number of firms reporting an expansion. Negative net balances have now been observed for three consecutive quarters on this metric.

**This finding aligns with official data on Scotland’s labour market from the Office for National Statistics. Scotland’s unemployment rate increased by 1.2 percentage points in the three months to July, relative to the previous quarter’s reading of 3.1%.**

**Looking ahead, Scotland’s small businesses expect headcount numbers to remain flat, with a net balance of 0.0% anticipating an increase in the size of their workforce.**

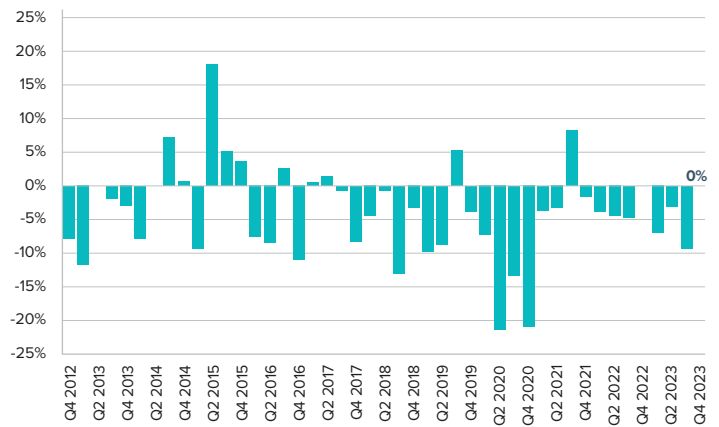
There are also supply-side factors; in the latest SBI survey, ‘labour costs’ and finding ‘appropriately skilled staff’ were cited as potential barriers to growth by 26.1% and 21.7% of small businesses in Scotland, respectively.

**A net balance of 80.2% of small businesses in Scotland experienced rising costs in Q3, compared with the same period a year prior.**

**64.0% of Scottish small businesses reported utilities as a main cause of changing costs in Q3.** Inputs and fuel saw the second- and third-largest shares at 53.9% and 44.9%, respectively.

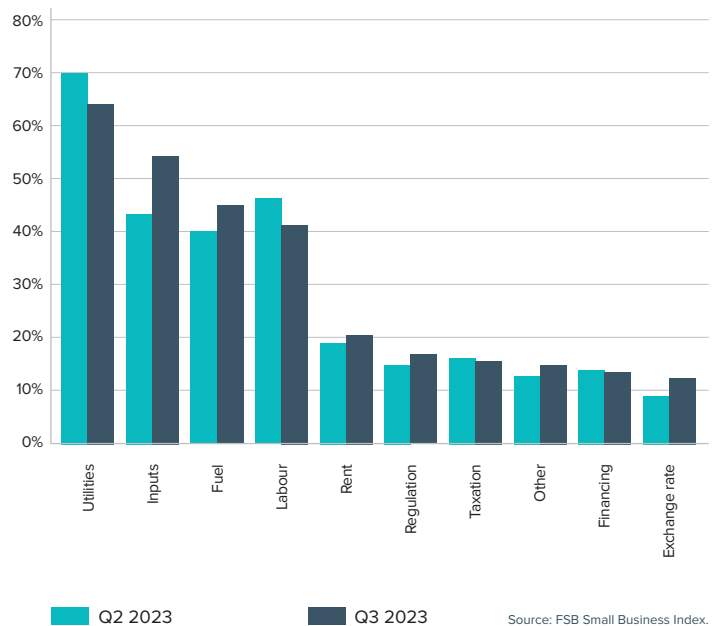
**56.8% of small businesses in Scotland continue to experience late payments.** This has increased from 49.4% in the last quarter. 25.7% of businesses reported an increase in late payments, also slightly up from Q2.

Net balance of firms reporting employment growth, Scotland



Source: FSB Small Business Index

Share of firms reporting factor as main cause of change in business cost, Scotland



Source: FSB Small Business Index.