

A man with a beard and safety glasses is working on a metal mold in a factory. He is wearing a blue polo shirt and is focused on his work. The background shows industrial machinery and a workshop environment.

FSB West Midlands Quarterly Small Business Index

Q3 2023

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Foreword

Foreword by Rob Harrison
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This FSB Small Business Index Report for the third quarter of 2023, summarises the findings of our latest, comprehensive research into small firms' recent performance, current circumstances, and future aspirations.

The following pages provide detailed information and analysis across a range of established indicators. The headline findings are:

- Confidence levels of small business owners in the region declined slightly this Quarter. This follows a sharp decline in Quarter two and currently places the West Midlands below the UK average.
- Revenues over the past three months were down overall – with 10% more respondents reporting a decline than reported an increase. Similarly, for the next three months, more thought that revenues would decrease than thought the opposite.
- Employment levels for around three-quarters of respondents remained static over the period. Of those that saw a change, slightly more reduced staff numbers than increased them.
- Average salary bills increased for almost two thirds of respondents and an even higher proportion expect further increases in the next three months.
- Growth aspirations are muted, with fewer than half of respondents expecting to grow, while more than a fifth anticipate downsizing, selling or closing their business.
- Capital investment intentions follow this trend, with a quarter of respondents intending to increase the capital in their business but a fifth contemplating a reduction.
- The greatest barriers to small business growth were perceived to be the general economy, followed by consumer demand and then utility costs.

Based on these findings, it's clear that many small business owners are facing multiple challenges.

Plus, the Government's own quarterly insolvency statistics for April to June 2023, show that corporate insolvencies across the UK are at a 14-year high.

Clearly more needs to be done, fast, to make the UK the best place to run a business – small or large. The FSB will continue to provide Government and policymakers with analysis, insight and practical solutions to help achieve this goal.

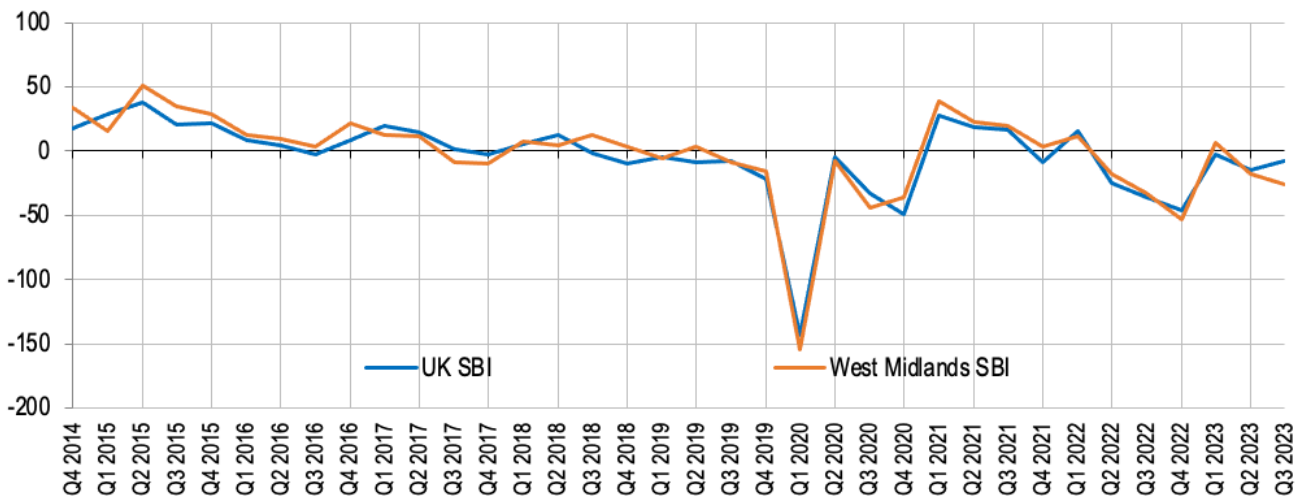
The West Midlands Small Business Index (WMSBI)¹, which measures confidence amongst businesses, has fallen since the last quarter. It currently stands at -26. In Q2, the reading was -18.

Confidence among small businesses for the next 3 months has decreased from Q2 2023. Although this is a steady decrease in confidence since the start of the year (in Q1 2023 it was 7), this still represents a YOY improvement; confidence was -33 in Q3 2022.

Confidence in the West Midlands sits below the UK average this quarter, which is -8. It is the second most pessimistic of all the tracked regions, only scoring ahead of the South West (-31). On the other end of the scale, London is the most optimistic region, with a score of 10 – this is one of only 2 regions, along with the North West (3), with a positive confidence index score.

Confidence in business performance among the West Midlands for the next 3 months continues to decrease, whilst the UK average sees a slight improvement.

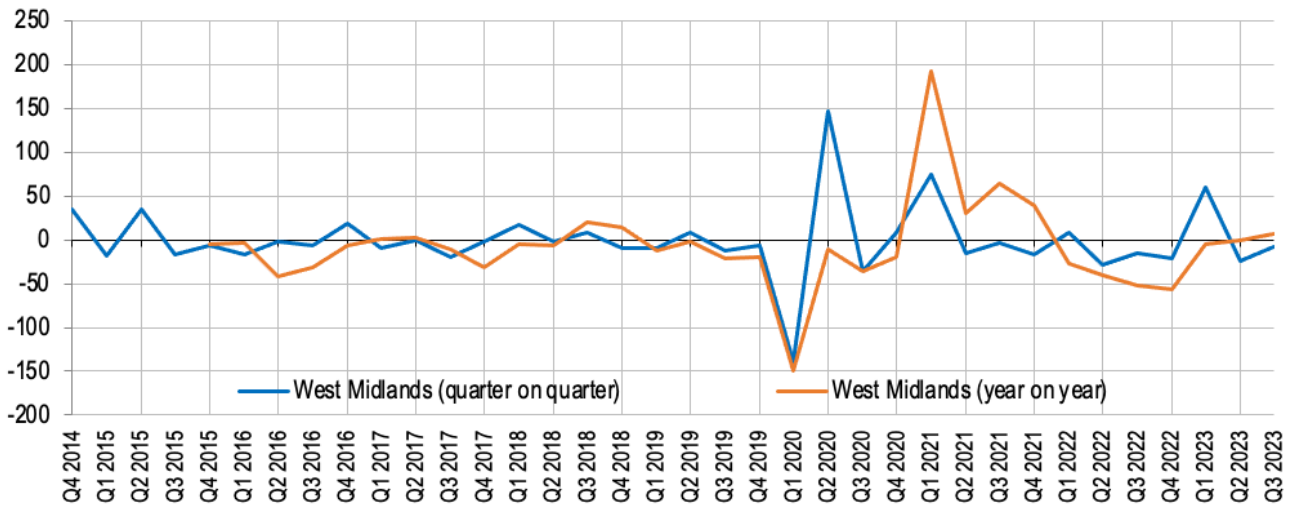
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



Year on year scores show a slight improvement for the West Midlands.

¹ The West Midlands 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.

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



Business Conditions

The overall net balance for revenue over the last 3 months has fallen (net -11%)² compared to Q2 2023, where it was net -5%. Predictions for the next 3 months remain low, at -7%, although this is a slight improvement compared to prospects in Q2, where this stood at -13%.

In Q3, just under a third (30%) of small businesses in the West Midlands reported an increase in revenue over the next 3 months, with a larger proportion (41%) reporting a decrease in revenue through this time period.

Accordingly, small businesses in the area report a net balance figure of -11% for Q3 2023. This continues the steady decline that has taken place since the start of the year (0% net balance in Q1 2023 and -5% in Q2 2023). When comparing nationally, the current level of net revenue in the West Midlands region is below the UK average (-6%) and is only above North East & Yorkshire and The Humber, and the South West (both -17%). For reference, the best performing region is the East Midlands (net 11%).

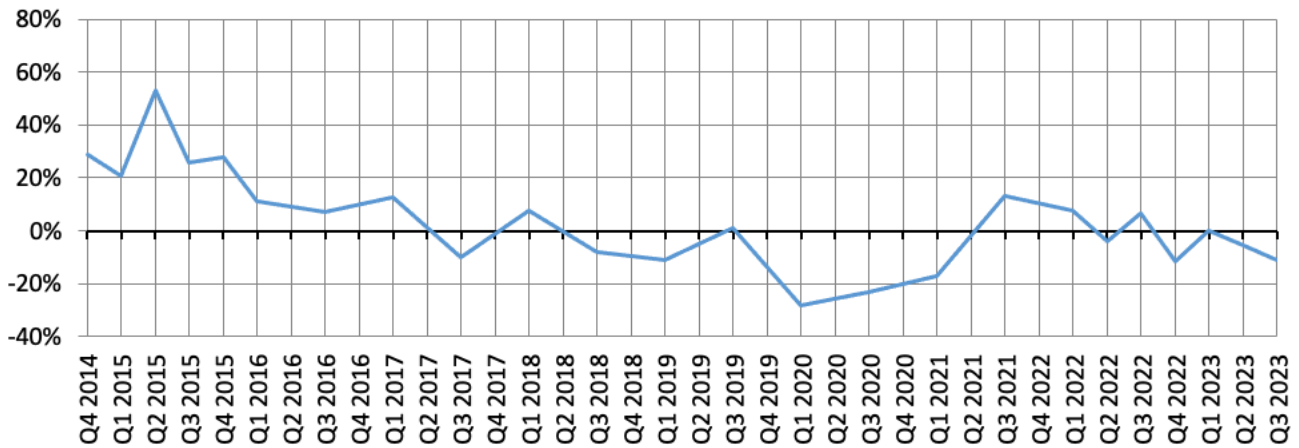
The outlook for future profit for small businesses in the West Midlands suggests a continued net decrease. 34% of small businesses expect to increase their revenue over the next 3 months, whilst 41% expect it to decrease over the same time frame, resulting in a net balance of -7%. Comparatively, the predicted UK average is 5%.

The proportion of West Midlands Small Businesses reporting a decrease in revenue over the last 3 months continues the decline seen since Q1.

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'

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



Employment and Wage growth

Small businesses in the West Midlands have seen a marginal improvement in net employment levels since the previous quarter, but they remain below zero (-6% in Q3 2023).

The employment picture among FSB members over the preceding three months continues to show staffing levels in negative territory, with 14% decreasing employment numbers and 8% increasing them; accordingly, this results in net employment levels of -6%. These scores remain below levels seen throughout 2022, where they didn't go below -5% on average. Despite this, it is a slight improvement over the previous quarter (net -8% in Q2 2023) but is below the prediction made in Q2 for net employment levels, at 3%.

That said, 73% of small businesses have not seen a change in their employee numbers since the previous quarter, and the prediction is that net employment levels will not change over the next 3 months (0%).

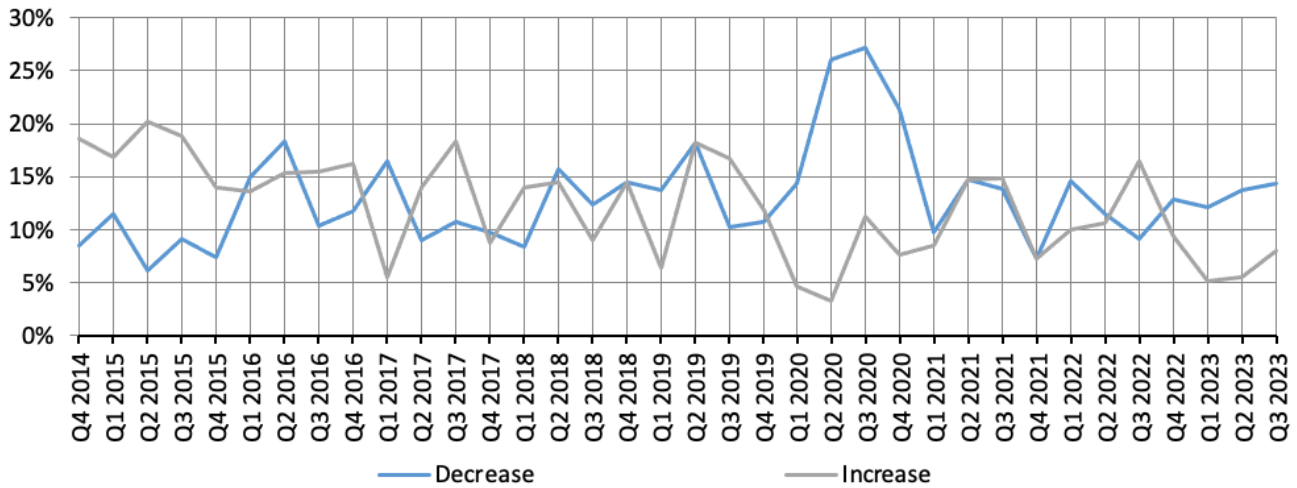
Wage Growth

In the West Midlands, just under two-thirds of small businesses (63%) increased the average salary across the business over the last 12 months – with 59% increasing the average salary by 2% or more.

70% expect to see salary increases over the next 12 months, with 60% reporting the likely increase to be 2% or above. This predicted wage growth is a small improvement over results from 12 months ago; in Q3 2022, 68% of small businesses expected to increase the average salary, with 51% expecting this growth to be 2% or more, at that time.

Employment levels continue to stay in negative territory in Q3 2023, but the number of businesses increasing their headcount has gone up slightly.

Fig.4 FSB Small Business Index: change in people employed in the West Midlands over last 3 months



Growth and Investment aspirations

In Q3 2023, 47% of small businesses in the West Midlands 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%). Fewer small businesses report an aspiration to downsize, sell or close their business (22%). This is, however, a rise from the previous quarter, where 15% expected to contract their business.

The number of small businesses in the West Midlands expecting to increase the amount of capital investment in their business is now exceeding those expecting it to decrease over the next quarter.

The number of small businesses in the region expecting to increase investment in the next quarter sits at 25%; higher than the proportion of small businesses looking to decrease it (19%). This results in a net level of 6%. This is a considerable improvement over the previous quarter, where the predicted net capital investment was at -13%. When comparing to the rest of the UK, the West Midlands matches the average net score for the UK, at 6%. For reference, North East & Yorkshire and The Humber has the net lowest investment intentions, at -2%, and the East Midlands has the highest, at 13%.

In the West Midlands, the general economic conditions in the UK (57%), consumer demand (38%) and utility costs (33%) are the greatest perceived barriers to growth over the coming twelve months.

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

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