



FSB West Midlands Quarterly Small Business Index

Q3 2022

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Foreword

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Our West Midlands Small Business Index (WMSBI) quarterly report, tracks small business confidence across the region. It is based upon comprehensive research that investigates small firms' recent performance, current circumstances, and future aspirations.

This latest report, covering quarter three (Q3) of 2022, paints a mixed picture.

Small firms' revenue performance improved on the previous quarter, with 6% more small businesses reporting an increase than those reporting a decrease. This is the strongest performance of all UK regions. However, the outlook for revenue for the coming three months sees this figure reversed, with 6% more expecting a decline than those expecting an increase.

The region's small businesses also reported net employment growth in Q3 – the first time this has happened this year. Despite the vast majority reporting that staffing levels had remained static, 7% more small business owners increased employment than reduced it. While this is good news for Q3, estimates for the next quarter indicate that net employment growth will fall to just 1%.

Unsurprisingly, increased wage bills were reported by the majority. More than two thirds raised salaries in Q3, almost all by more than 2%. A similar proportion expect to see rises in the next three months with half anticipating increases of more than 2%.

In terms of growth and investment aspirations, just under half of respondents expected to grow rapidly or moderately over the next 12 months and as many expected to increase capital investment in their business as expected to reduce it. Less than a fifth expect to downsize, sell or wind up their business.

The main barrier to growth is perceived to be the general economic conditions in the UK. This was mentioned by two thirds of respondents, compared to less than one third who mentioned either increasing fuel costs, accessing skilled labour or rising input costs.

In summary, the overall picture is one of a continued decline in the confidence of small business owners in the West Midlands – especially as they look to the future.

The indicators remain finely balanced, with no massive swings in business sentiment for better or worse. However, the cost of doing business crisis must be tackled effectively and urgently – before it becomes a small business confidence crisis.

The new Government must act now, to bring the stability and certainty needed for small businesses to trade and plan with confidence.

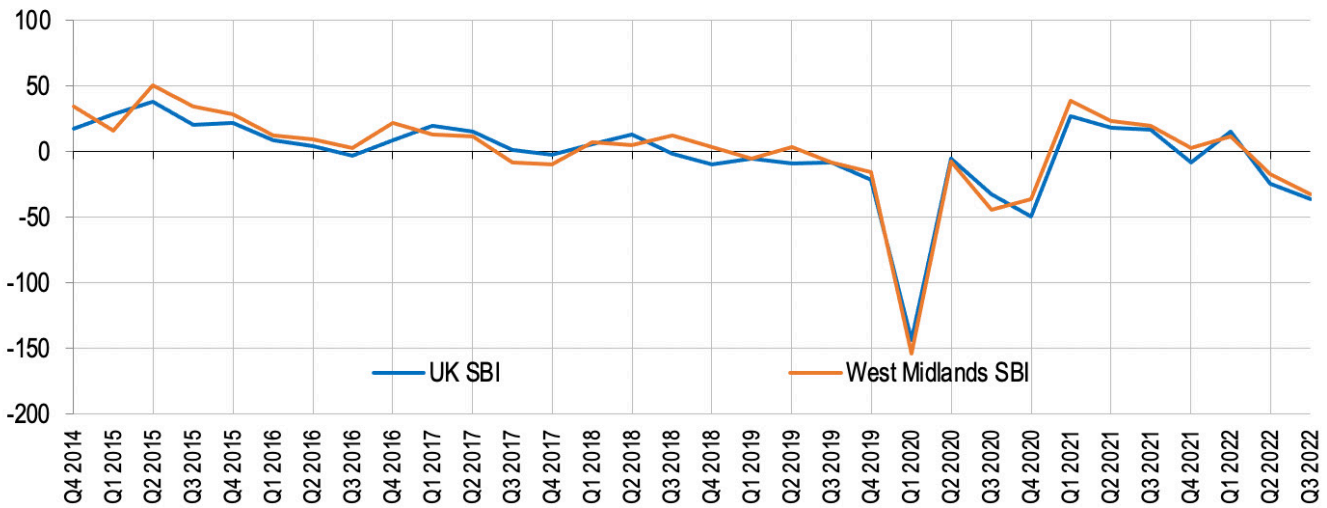
The West Midlands Small Business Index (WMSBI)¹, which measures confidence amongst businesses, has continued to sharply decline in Q3 2022. It currently sits at -33, down from -17 in Q2 and 12 in Q1.

Small business confidence for the next 3 months has remained negative in Q3 2022 (-33) and almost returned to levels last seen in Q4 2020 (-36). This is likely to be driven by the current cost of living crisis and its resultant impact on consumers. However, despite this trend, sentiment does remain far above that seen at the beginning of 2020 (-154 in Q1 2020).

Despite the decrease in confidence in West Midlands from Q2, data shows the region sits just ahead of the UK average (-36). For reference, confidence in performance for the next 3 months is the highest in the South East and East Midlands (both -28). The South West sits at the lowest of all regions (-47).

Confidence in business performance in the West Midlands for the next 3 months weakens further.

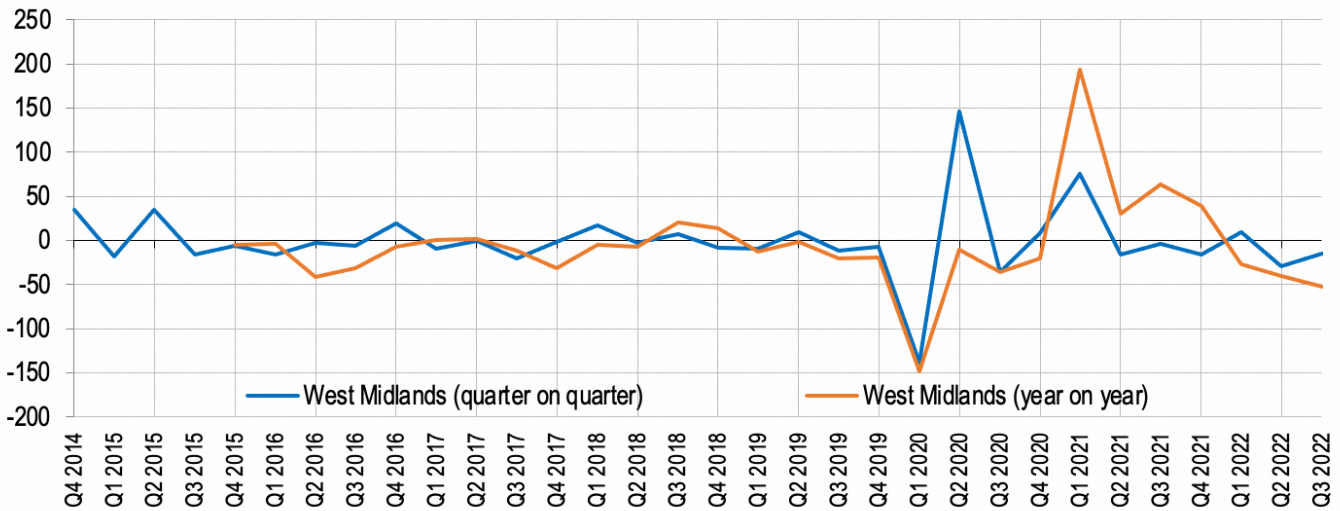
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



Confidence year-on-year has continued its decline over the recent time period.

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 turns positive (net 6%)², returning to a similar figure from Q1 2022 (7%) after a brief drop in Q2 2022 (-4%). The next 3 months are however pessimistic for revenue in the area, with a predicted net decline (-6%).

In Q3, just under two-fifths (38%) of small businesses in the West Midlands reported an increase in revenue over the last 3 months, whereas a slightly smaller amount (31%) saw a decrease in revenue over the same time period.

Accordingly, businesses in the area report a net balance figure of 6% for Q3, which is well above the UK average of net -12%. When comparing nationally, the West Midlands is actually the strongest performer for net revenue (6%), with the weakest being the East Midlands (net -32%).

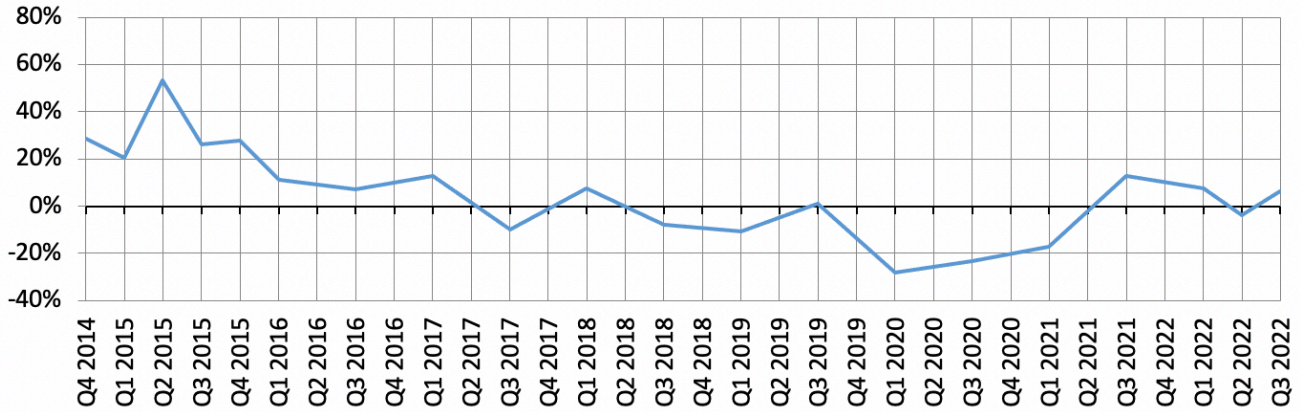
The outlook for future profit looks less positive in the West Midlands, however. 34% of businesses in the area expect an increase in revenue, while 40% predict a decline; which gives a net balance of -6%. This sits just above the UK average (-10%).

Reported net revenue in Q2 2022 turns positive (6%), rising from Q2 2022 (from -4%).

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 (revenue question previously only asked in Q1 and Q3 phases of SBI).



Employment and Wage growth

Small businesses in the region have reported the first net positive employment levels since this time last year (7% in Q3 2022 vs. 1% in Q3 2021).

The employment picture amongst FSB members over the preceding three months showed a rise in staffing levels, with 10% decreasing employment numbers and 17% increasing them; accordingly, this leaves net employment levels at 7%. This comes in contrast to the net employment levels in Q1 and Q2 2022 (-5% and -1% respectively), and shows a return to levels last seen in Q3 2019 (6%). Despite this, the level of growth for Q3 2022 falls behind the predicted 13% net increase in staff levels from Q2.

That said, just under three-quarters of small businesses have unaffected staffing levels, with 70% reporting that these have ‘stayed the same’.

For the next quarter, the intention is for 13% of businesses to increase headcount and 12% to decrease staff numbers, revealing a net increase of 1%.

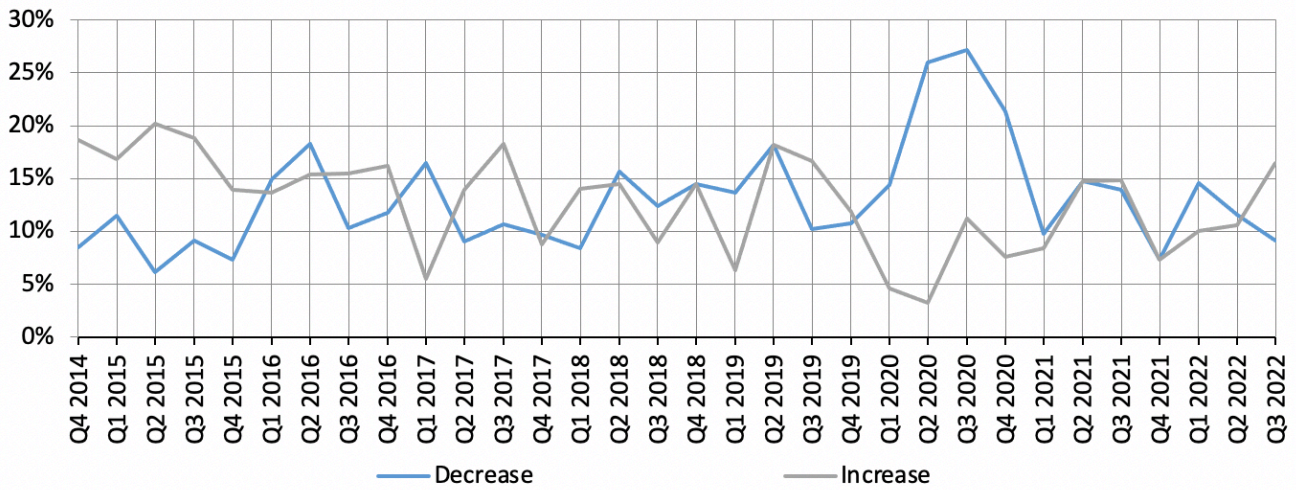
Wage Growth

In the West Midlands, just over two-thirds of small businesses (69%) increased the average salary across the business over the last 12 months – with 62% increasing the average salary by 2% or more.

68% expect to see salary increases over the next 12 months, with 51% reporting the likely increase to be 2% or above. This predicted wage growth is on par with the results 12 months ago; in Q3 2021, 52% of small businesses expected to increase the average salary by 2% or more.

The number of small businesses increasing headcount (17%) is now higher than the proportion of those decreasing it (9%).

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



Growth and Investment aspirations

In Q3 2022, 46% 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%). A much smaller proportion of small businesses report an aspiration to downsize, sell or close their business (17%) although this number has risen since Q2 2022 (where it was 12%).

As many small businesses in the West Midlands are expecting to decrease the amount of capital investment in their business as those expecting to increase it during the coming quarter.

The number of small businesses in the region expecting to decrease or increase investment both sit at 27%, resulting in a net level of 0%. This sits just behind the UK average of 4%. For comparison purposes, the region with the highest net investment intention is London (17%), with the South West placed as the region with the lowest net investment intentions (-12%).

In the West Midlands, the general economic conditions in the UK (63%), fuel costs and appropriately skilled staff (both 31%) along with input costs (29%) are the greatest perceived barriers to growth over the coming twelve months.

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