

Q3

FSB VOICE OF SMALL BUSINESS INDEX

QUARTER 3, 2017

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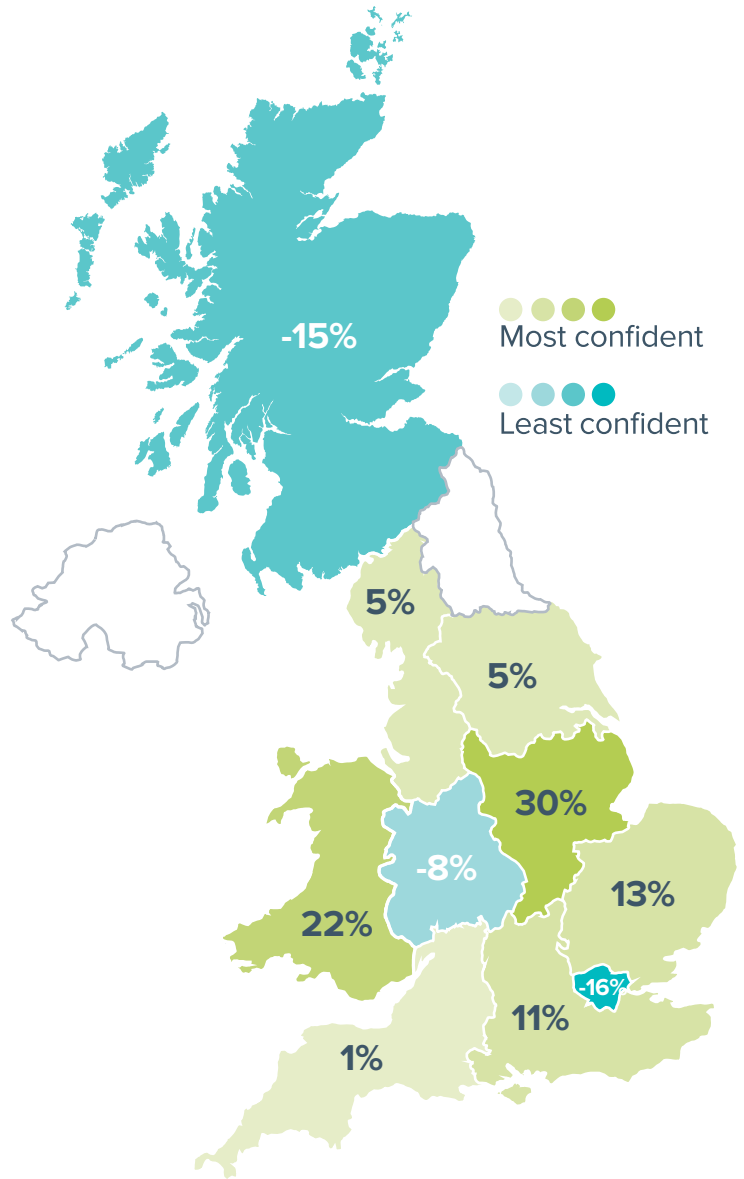
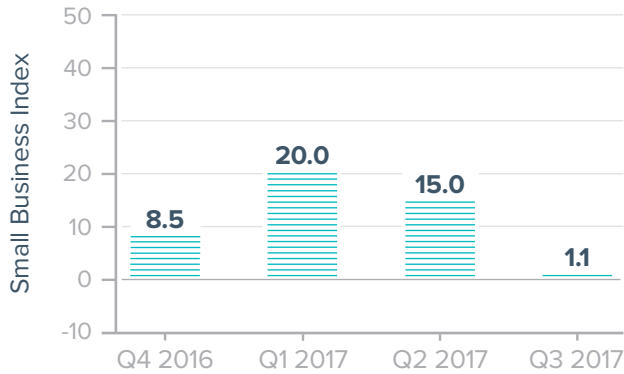
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Experts in Business

SBI Q3 2017

“ Small business confidence falls to lowest level since wake of EU referendum amid unprecedented uncertainty ”

Small business confidence plummets



Record number expect activity to contract



13% Planning to **downsize**, **close** or **hand on** business

Sharp fall in successful credit applications



63% of applicants **secured** external finance

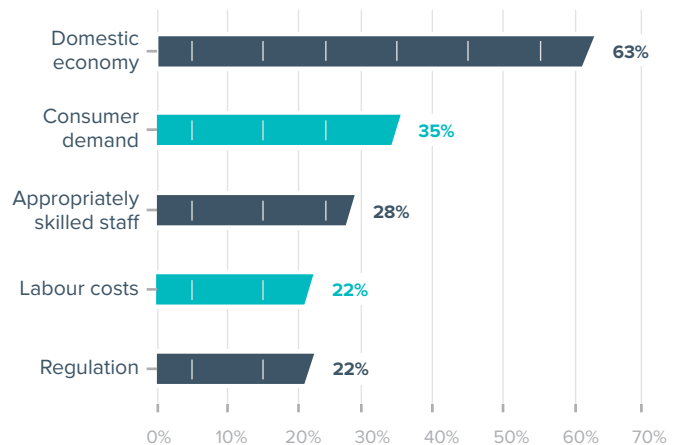
Investment intentions dip



73%

Not expecting to increase **capital investment**

Greatest barriers to achieving growth



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FSB FOREWORD

Confidence within the small business community has fallen to the lowest level in a year, likely explained in part by the political uncertainty resulting from the election result in June. Having steadily risen from -2.9 in Q3 2016 to a high of +20.0 in Q1 2017, confidence among small businesses has now fallen for the past two quarters and stands at just +1.1.

The fact that confidence was falling even before the election result suggests that political uncertainty is not the sole cause for concern. Businesses are facing the twin pressures of a weakening domestic economy, as well as rapidly rising costs of doing business. Costs are going up at precisely the same time as the potential to do more business is going down. Higher numbers of businesses claim that the domestic economy is hindering their growth compared to a year ago. Looking forward, the economy is seen as a major barrier to growth aspirations by 63.2% of members - the highest proportion since Q1 2013.

The task for the Government is therefore three-fold.

Firstly, Ministers should provide reassurance to small businesses that they are prepared and able to address some of the challenges which business face, most notably to deliver a good Brexit deal that works for the UK's 5.5m small businesses. FSB is engaging across all levels of Government to influence these negotiations, based on our extensive research into the risks and opportunities of Brexit to the small business community. The recently published position papers are welcome but it is critical that agreement with the EU27 is now reached on issues such as the length and nature of an interim / transitional period and the status of EU citizens already working in the UK or who start working in the UK before we exit the EU. Without certainty on these issues in the coming quarter, we risk business confidence dipping even further.

Secondly, it is essential that the anticipated Industrial Strategy White Paper includes concrete support for all small businesses at all stages in their lifecycle to achieve their growth ambitions. Without this scope we cannot meaningfully tackle the productivity challenge which holds the UK economy back, just as we look for opportunities to drive growth and jobs.

Investment in skills and infrastructure, alongside supporting the adoption and diffusion of innovation, will be critical to delivering the preconditions for growth. Beyond this, a new system for supporting regional and local growth will be essential, especially as existing EU funding programmes come to an end. Small businesses must be at the heart of any Industrial Strategy – and any Sector Deals being developed must reflect this.

Thirdly, the upcoming Budget must not increase the costs of doing business for small businesses, or remove existing tax incentives to support entrepreneurship and small business growth - including those related to access to finance, R&D and employment. Small businesses urgently need more help not a diminution of existing support levels.

There are, however, some positive data points in this quarter. A net balance of 3.2% of businesses report increasing headcount in the past three months, with hiring intentions for the next quarter remaining positive. Despite an uncertain outlook, we are not seeing a contraction of employment.

In an otherwise troubling set of data, the brightest light to report this quarter is on exporting. For the third quarter in a row, exports have seen a significant and sustained increase, with small firms expecting this trend to continue into the next quarter. While boosted by the sustained depreciation of sterling, this is clear evidence that small businesses are key partners in delivering export-led growth. FSB research shows that the right support could double the number of small exporters from around 20% to 40%. In the face of rising costs and a weakening domestic economy, the Department for International Trade should be looking at new ways to help and encourage small firms to export to growth markets around the world.

Despite these positive notes, the overall picture remains one that should be of some concern to policy makers. As we approach the Chancellor's first Autumn Budget and the next stage of the Industrial Strategy, Government should be grasping every opportunity it can to boost small business confidence.



Mike Cherry,
National Chairman



Martin McTague,
Policy Director

ECONOMIST'S VIEW

The data in this quarter's FSB Small Business Index is the first gathered since the surprising outcome of the UK's recent general election. The resulting political uncertainty, as well as the weak economic growth seen over the first half of the year are both reflected in this quarter's index which stands at a one-year low.

The economic risks within the UK have intensified recently and small businesses are feeling the pressure. Following the depreciation of the pound in mid-2016 inflation has risen steadily and now stands above the Bank of England's 2% target. Despite record high employment, earnings growth remains anaemic meaning that many workers are experiencing a fall in real wages. In fact, 2017 is expected to be the first year since 2013 to see a decline in real incomes.

This is creating a particular challenge for small businesses in consumer-facing sectors. The index stands in negative territory for businesses in the wholesale & retail and the accommodation & food services sectors.

Looking at the regional picture, small businesses in London are the most pessimistic about future prospects. Sectors such as financial activities, which are particularly exposed to political uncertainty and the ongoing Brexit negotiations, are concentrated in the capital making London-based small businesses wary about the period ahead. London businesses also include a large proportion of those most affected by the recent business rates revaluation and indeed those now facing a new and backdated 'staircase tax' on premises on office floors with only communal stairs / lifts.

While unimpressive GDP growth weighs down on small business confidence (63% of small businesses identified the domestic economy as a barrier to achieving growth aspirations), the range of ongoing changes within the economic landscape has also created new opportunities. For instance, the weaker pound makes UK exports cheaper for foreign buyers. The net balance of small businesses anticipating exports to rise over the next three months stands at 20.5% in Q3 2017, up from 17.9% a year ago. Additionally, a shrinking share of small businesses considers the global economy a barrier to growth. This suggests that the pick-up in global growth over the first half of 2017 has been felt by the UK's small businesses.

Overall, the snapshot presented by this quarter's index is mixed, but the momentum is strongly downwards. While the latest headline confidence measure is just above zero, it has fallen dramatically and is the lowest in a year. Furthermore, if we exclude the Q3 2016 reading, the Index has not been this low since late 2012. One factor likely to be weighing on confidence is the uncertainty surrounding the policy direction of the newly formed Government and the slow progress of the Brexit negotiations with the EU27.

Small businesses now need clear decisions to be made on key issues ranging from the length and nature of the transitional / interim period, the right to remain status of EU citizens already in the UK or who arrive before we exit the EU and the replacement for EU funding for regional economic development including the replacement of the EIF. Without progress in the next couple of months, businesses of all sizes will pause key strategic decisions, and some will begin to enact their contingency plans.

Domestically, the Chancellor's first Autumn Budget is the next major fiscal moment where the Government should be backing enterprise, growth and jobs. Across business rates, tax, employment, access to finance and business support, small firms and the self-employed will be looking for signs the Government understands the issues and barriers they face, and will help remove them – this would see confidence recover in the coming months.



Nina Skero,
Managing Economist,
Cebr

Q3

FSB EXECUTIVE SUMMARY

Key findings this quarter:

- **Small business confidence falls to one-year low in Q3 2017.** The FSB Small Business Index fell from +15.0 in Q2 2017 to +1.1 this quarter. However, the Index remains in positive territory for the fourth consecutive quarter and is higher than a year ago.
- **Input costs faced by small businesses continue to rise sharply.** The net balance of businesses reporting increased business costs stands at 63.8% in the third quarter of 2017 compared to a year ago. Wage bills and the exchange rate were among the main causes of the rise in overall business costs.
- **Exports are expected to continue rising as the global economy strengthens.** The net balance of small businesses anticipating exports to rise over the next three months stands at 20.5% in Q3 2017, up from 17.9% a year ago. At the same time, a smaller proportion of companies see the global economy as a major barrier to future growth, suggesting that strengthening global demand will support exports.
- **A slowing service sector at the beginning of the year, and issues such as the revaluation of business rates which disproportionately affect London firms, are likely to have weighed on confidence in the capital.** Small business confidence in London has fallen since a year ago and is in negative territory for the third time in the past 18 months. Meanwhile, higher levels of confidence in the East Midlands and in Wales helped to keep the UK index in positive territory, but only just.
- **Employment levels edge up further.** A net balance of 3.2% of small businesses report an increase in the number of people employed this quarter. This is down from 6.8% a year ago, but signals ongoing jobs growth in the small business community. Companies also plan on raising head counts further in the short-term.
- **Wage growth slows further in Q3, but acceleration expected over the next 12 months.** Average small business employee wage growth slowed to 1.6% in Q3 2017, down from 1.9% last quarter and the lowest in two-and-a-half years. However, small businesses anticipate an acceleration of wage growth to 2.0% over the next year.
- **Growing number of small businesses expect to downsize, close or hand on the business.** The share of companies expecting to downsize, close or hand on their business stands at 13.5% in Q3 2017, up from 10.9% a year ago. The domestic economy, weakening consumer demand and rising input costs are seen as major barriers to companies' growth aspirations.

UK MACROECONOMIC OVERVIEW

Manufacturing performance set to improve in second half of the year

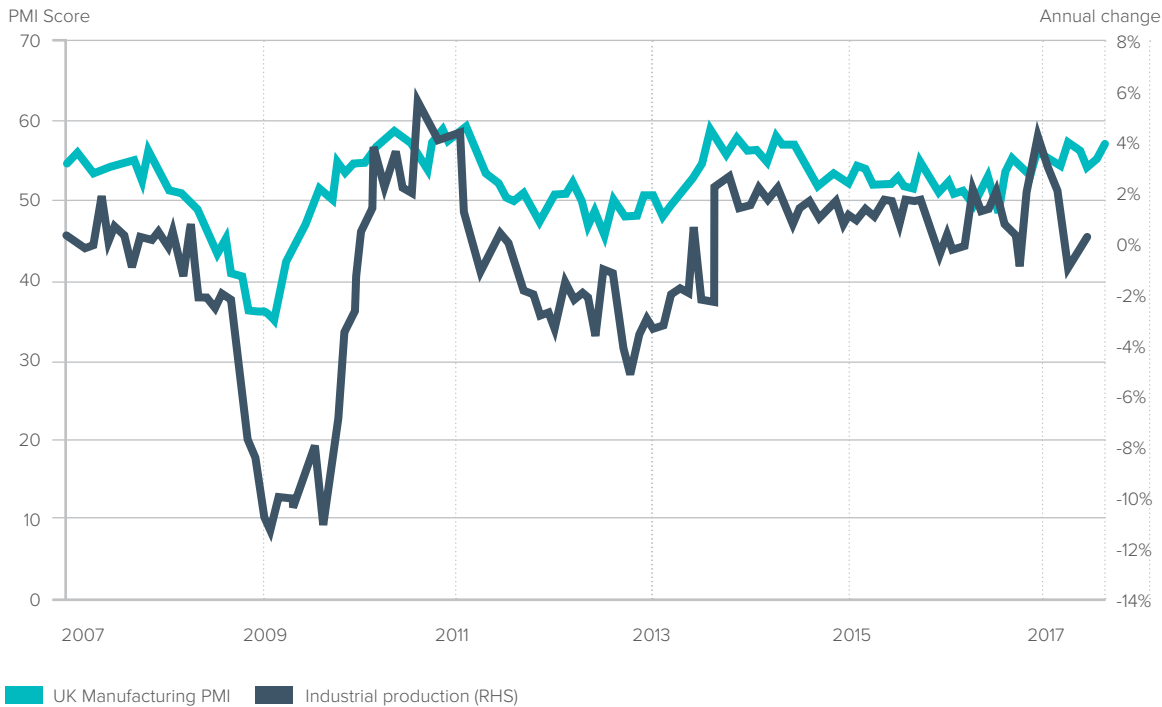
The UK economy failed to gather significant momentum in the second quarter of the year, growing just 0.3% since the previous quarter. Despite a weak pound in theory making exports more competitive, the export-oriented manufacturing sector acted as a drag on economic growth in the three months to June. That said, a rise in the manufacturing PMI (purchasing managers' index) indicates that the manufacturing sector will experience an uptick in the second half of the year and should therefore contribute positively to economic growth.

Falling real wages have been one of the features of a slowing economy since the start of the year as consumer price inflation outstrips wage growth, thereby squeezing spending power and weighing on consumer spending.

Retail sales fared particularly weakly in the opening quarter of 2017 but have since partially recovered. Nonetheless, it is likely that the squeeze on household finances will continue for the remainder of the year as record-employment has so far not generated any substantial uptick in earnings growth.

Although inflation is eroding the value of workers' earnings, the Bank of England has so far communicated that it is in no rush to raise interest rates as the economic recovery slowed significantly since the end of last year. Instead, the bank is expected to tolerate above-target inflation and keep the Bank Rate at its current record low of 0.25% at least until next year.

Figure one: UK Manufacturing PMI and industrial production.
Sources: IHS Markit/CIPS, Office for National Statistics.



SMALL BUSINESS INDEX

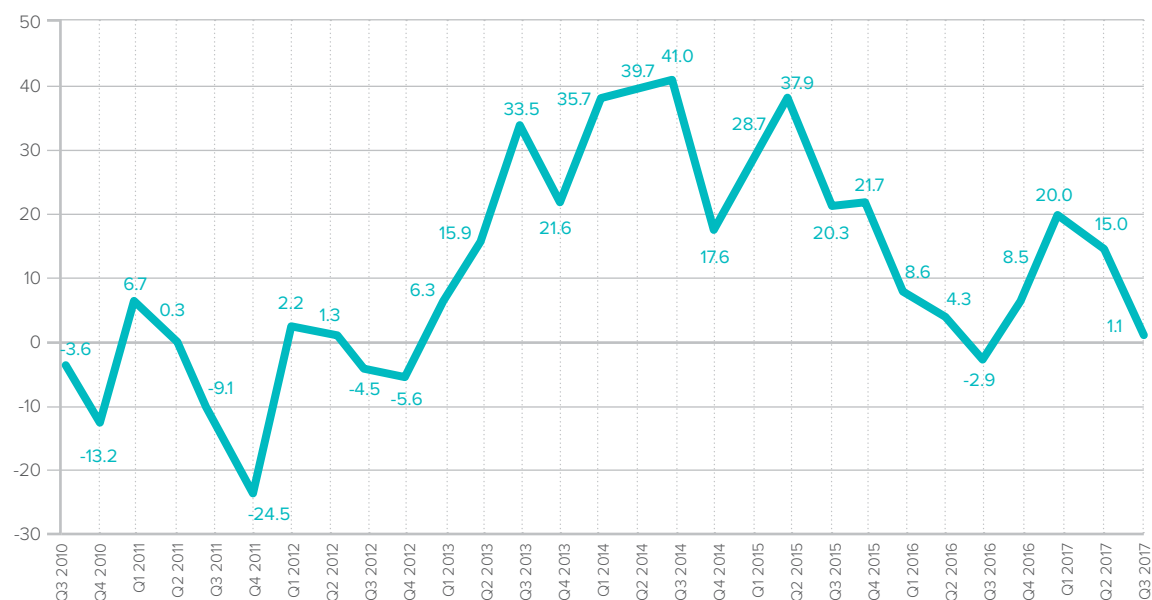
Small business confidence falls to one-year low

The Small Business Index stands at +1.1 in the third quarter of 2017, down further from the recent high of +20.0 seen in Q1. Business confidence among small firms is at a one-year low, but remains higher than in the third quarter of 2016 when the unexpected outcome of the Brexit vote weighed on sentiment.

A further fall in business confidence in the third quarter suggests that economic growth in the UK remained sluggish at the start of the second half of the year.

Data from the Office for National Statistics showed that the UK economy grew at a quarterly rate of just 0.3% in the second quarter. Although this is an improvement on the 0.2% rate recorded in Q1, the data highlight that the UK economy remained in a weak growth spurt during the second quarter. The slight uptick in growth was almost entirely driven by the services sector which expanded by 0.5%, up from the sluggish 0.2% recorded in Q1. However, construction and manufacturing acted as drags to economic growth, contracting 0.4% and 0.9% respectively. Confidence deteriorated in both of the aforementioned sectors, suggesting that the economic performance in the secondary sector was subdued in the third quarter.

Figure two: The FSB Small Business Index¹: business prospects over coming three months
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



1. The 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.

Figure three: Year-on-year change in the FSB Small Business Index.
 Source: FSB - Verve 'Voice of Small Business' Panel Survey.

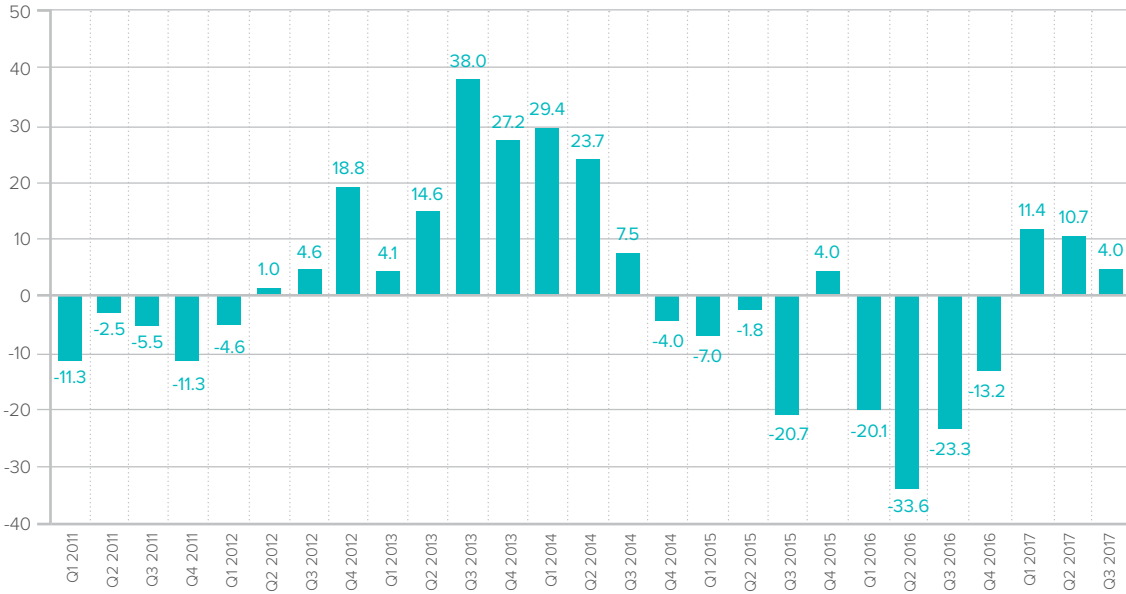


Figure four: UK SBI against year-on-year UK GDP growth.
 Source: ONS, FSB - Verve 'Voice of Small Business' Panel Survey.



REGIONAL SMALL BUSINESS INDICES

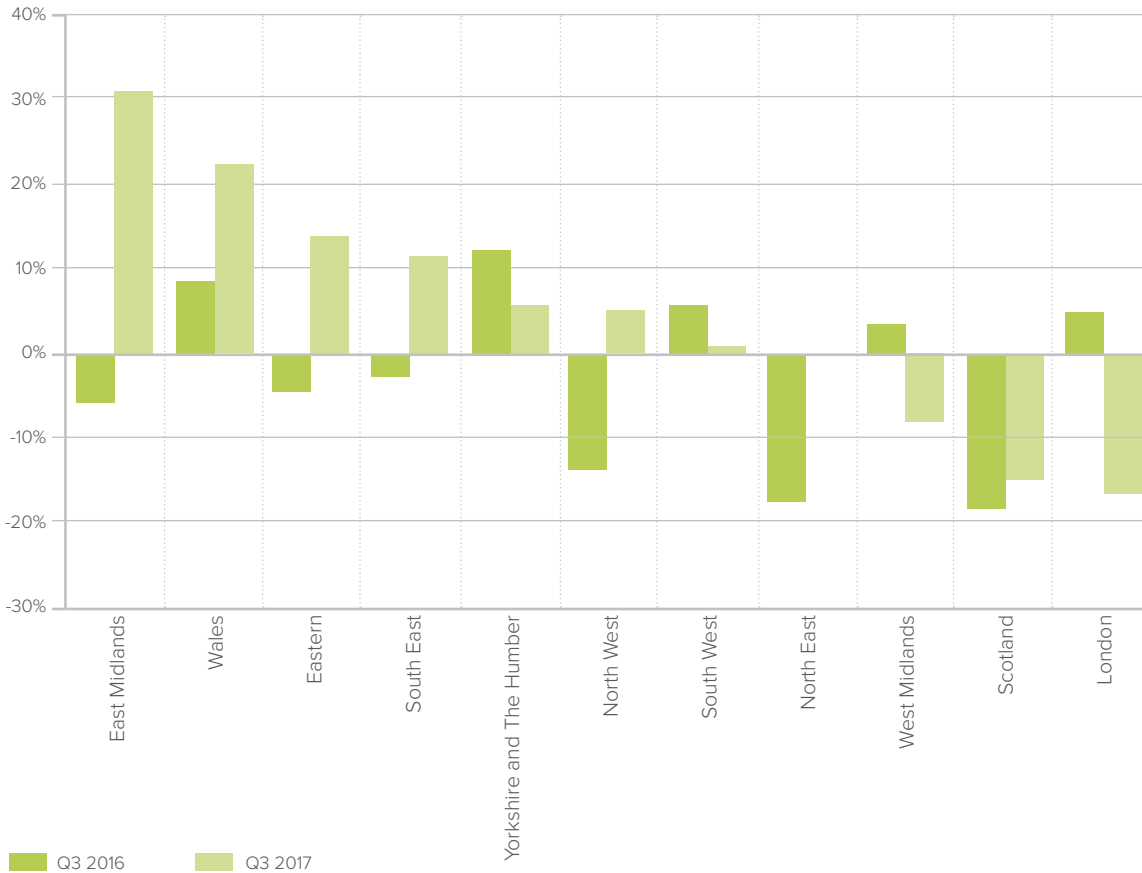
Confidence tumbles in London
and surges in the Midlands

SMALL BUSINESS CONFIDENCE IN LONDON TURNS NEGATIVE

Small business confidence in Scotland remains in negative territory in the third quarter despite improving compared to a year ago. First quarter GDP data highlighted that the Scottish economy expanded at a rate that was four times higher than that recorded at the UK level, with Scottish exports having seen solid growth. A prominent example is the Scottish whisky industry which sold over 18 million bottles in Q1 2017, up 5% year-on-year. The industry contributes an estimated £5 billion to the Scottish economy annually. Confidence rose to its highest levels in the East Midlands, Wales and the East of England.

Confidence has declined sharply in London over the past year, falling back into negative territory and to the lowest level since Q1 2011. The UK service sector performed particularly poorly during the first quarter of 2017 and with the vast majority of London's economy linked to the service sector it is not surprising that confidence has fallen. The capital's financial centre is especially vulnerable to post-Brexit regulatory questions, thereby adding uncertainty to its economic future.

Figure five: FSB Small Business Index – regional variation in small business prospects.
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



SMALL BUSINESS SECTOR INDICES

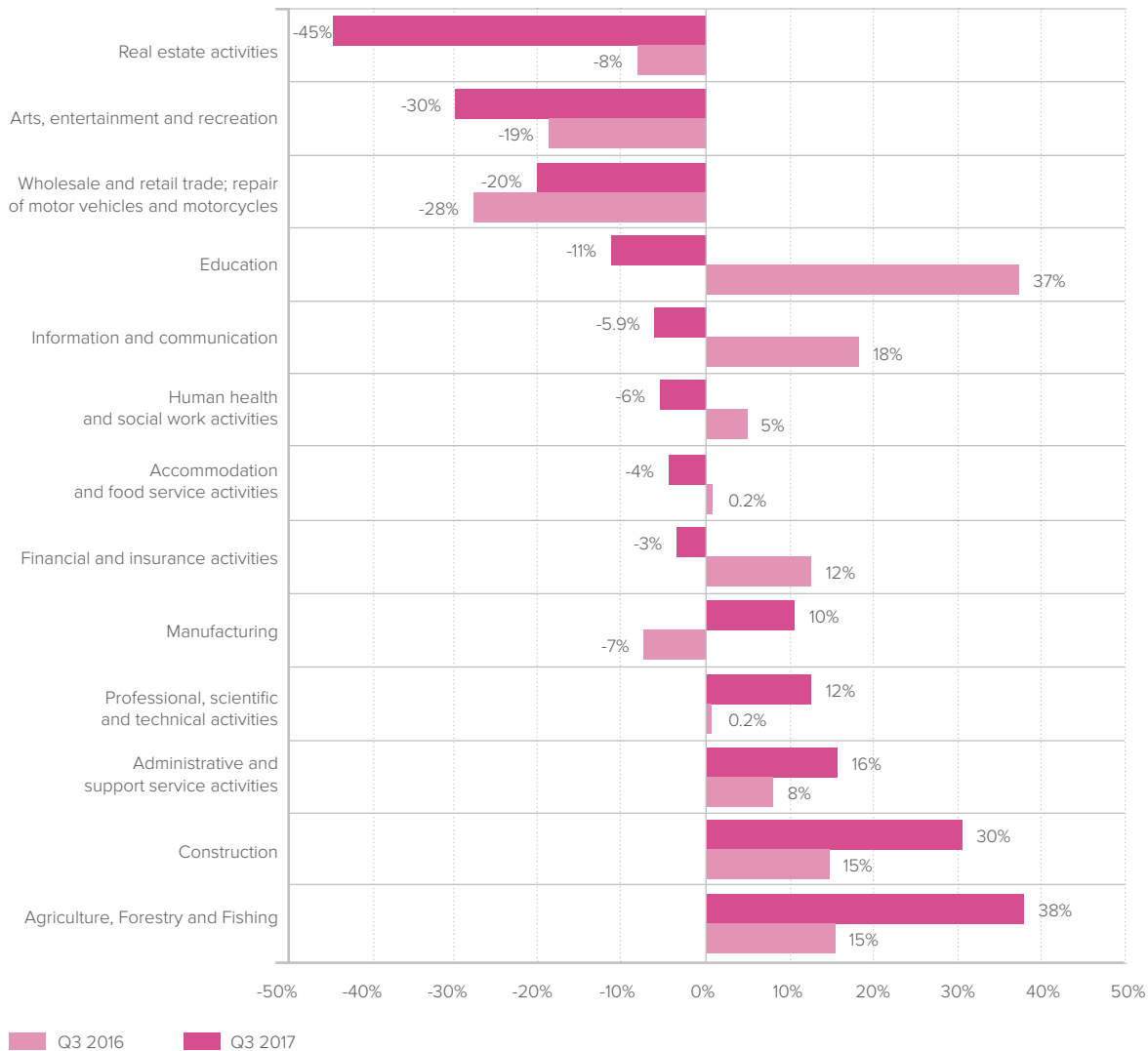
Consumer-facing firms
feel the squeeze

UPBEAT SECTORS INCLUDE MANUFACTURING, CONSTRUCTION, AGRICULTURE

Small business confidence in the wholesale and retail sector remains in negative territory in the third quarter of 2017 despite improving compared to a year ago. This suggests that falling real wages continue to put pressure on the sector. Data from the Office for National Statistics showed that although retail sales recovered in Q2 2017 following a particularly weak first quarter, retail volumes are now broadly where they were at the beginning of the year.

This quarter, small business confidence remains high in the construction sector despite falling marginally since the second quarter. That said, data from the ONS showed that construction output is estimated to have fallen in Q2, following two consecutive quarters of growth. Manufacturing has moved into positive territory, perhaps connected to export success, while Agriculture saw the biggest rise.

Figure six: FSB Small Business Index by sector – small business prospects over coming three months.
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



FINANCIAL PERFORMANCE

Revenue growth hits
four-year low

MIXED PICTURE ON REVENUES

The proportion of small businesses reporting rising revenues over the past three months was largely unchanged since Q1 2017. However, with a larger share of companies highlighting falling revenues, the respective net balance has fallen from 7.0% in Q1 2017 to 2.6% in Q3 2017. Although the net balance is now at the lowest level since Q2 2013, small business revenues continued to rise.

Over the next three months, a net balance of 9.3% of small businesses expect revenues to increase. Construction firms and manufacturers are particularly optimistic regarding the revenue outlook, while wholesale and retail businesses anticipate a decline over the next quarter. The predicted decrease in revenues is likely to be a result of falling real wages weighing on consumer spending.

Figure seven: Small business revenue, net percentage balance – proportion reporting increase less proportion reporting decrease.

Source: FSB - Verve 'Voice of Small Business' Panel Survey.



EXPORTS

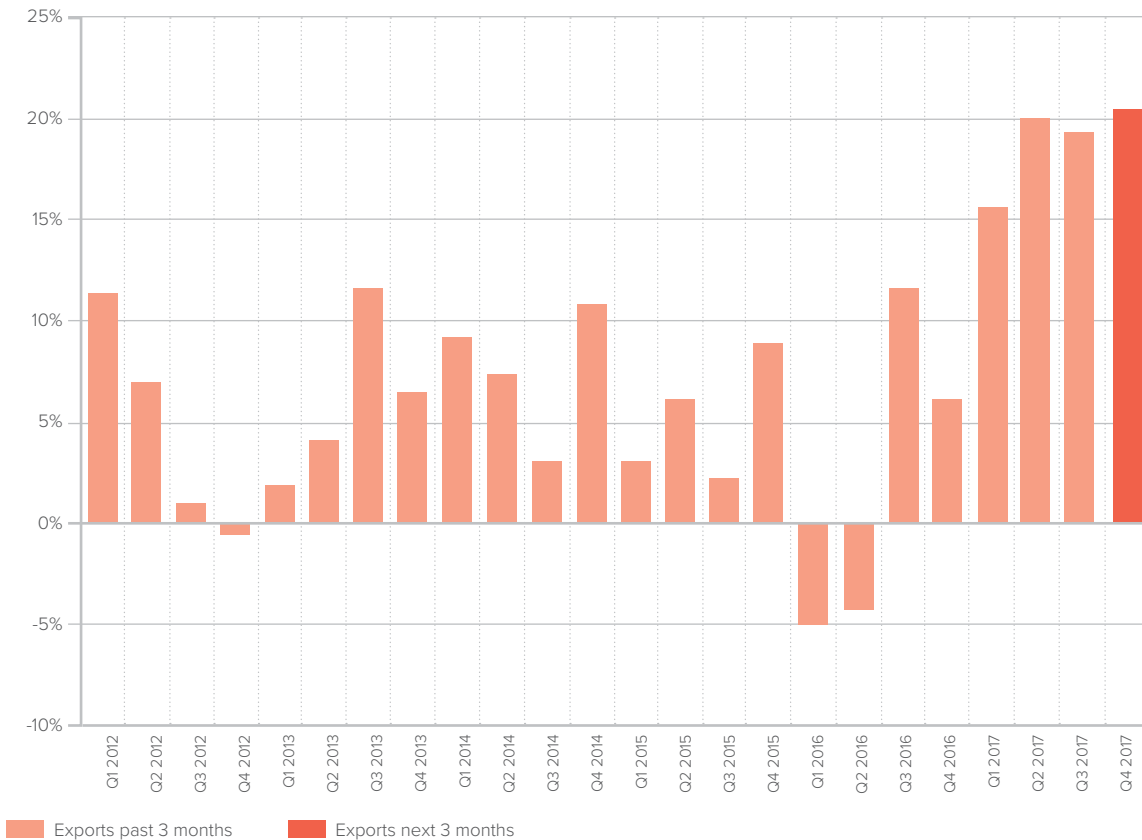
International sellers still bullish

SMALL BUSINESSES REPORT IMPROVED EXPORT PERFORMANCE

This quarter, a net balance of 19.5% of small businesses highlight an increase in exports over the past three months, substantially higher than the 11.7% recorded a year ago. Exports are expected to continue rising, with a net balance of 20.5% of small businesses predicting growth in export values in the final quarter of 2017.

Although the depreciation of sterling has not yet led to a significant uptick in exports across the economy, the Bank of England noted that UK exports should strengthen on the back of an improving global economic environment. GDP growth picked up in both the Eurozone and the US with unemployment continuing to fall in both regions. That said, there remains a degree of uncertainty regarding the long-term exports outlook stemming from potential protectionist measures from the US administration and the outcome of Brexit negotiations.

Figure eight: Changes in value of exports – previous three months and expectations for coming three months; net percentage balance, proportion reporting increase less proportion reporting decrease.
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



COSTS AND INFLATION

Operating costs continue to soar

OPERATING COSTS REMAIN HIGH

Overall operating costs faced by small businesses continue to rise, with a net balance of 63.8% of companies reporting an increase over the last three months, compared with the same period a year ago. However, the net balance is at its lowest level in 2017 so far.

Meanwhile, with global oil prices remaining relatively low, the proportion of small businesses reporting fuel as a main cause behind higher overall business costs has fallen from 18.8% in the third quarter of 2016 to 18.1% this quarter.

A large proportion of small businesses cite labour bills as a main cause for rising business costs. With a weak pound raising the cost for imported materials, roughly one third of small businesses (32.9%) see inputs as a main contributor to overall cost inflation, with a quarter commenting specifically on the exchange rate. Changes to business rates are also likely to have exerted some upward pressure on business costs, with the share of small businesses making reference to rent at 18.8%, up from 17.2% a year ago.

Figure nine: Small businesses reporting an increase in overall cost of operation over past three months, compared with the same period a year ago; net percentage balance.
Source: FSB - Verve 'Voice of Small Business' Panel Survey.

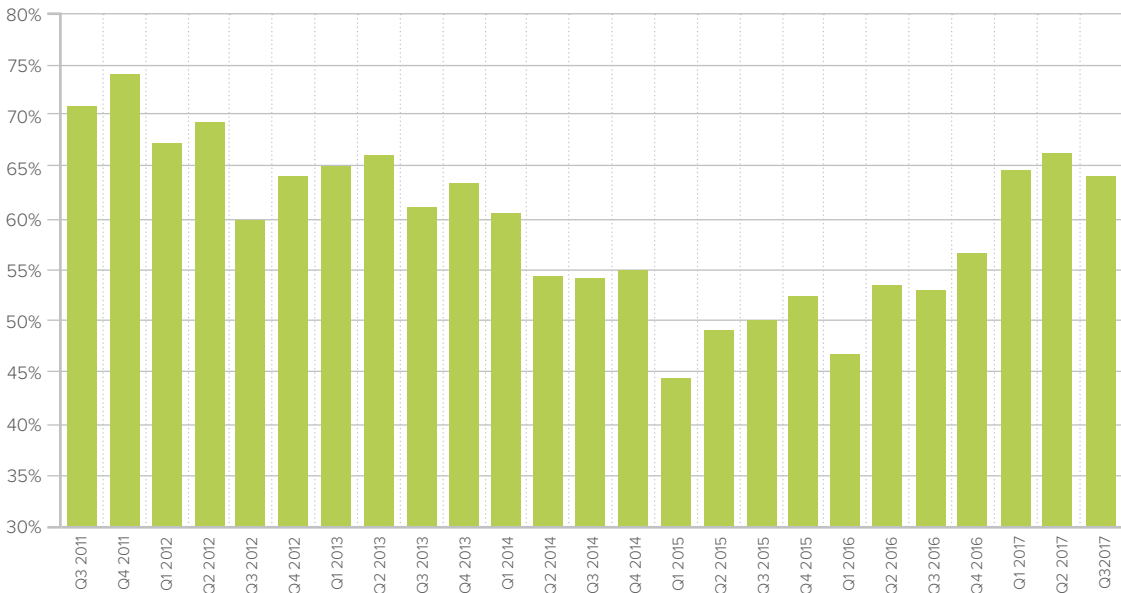
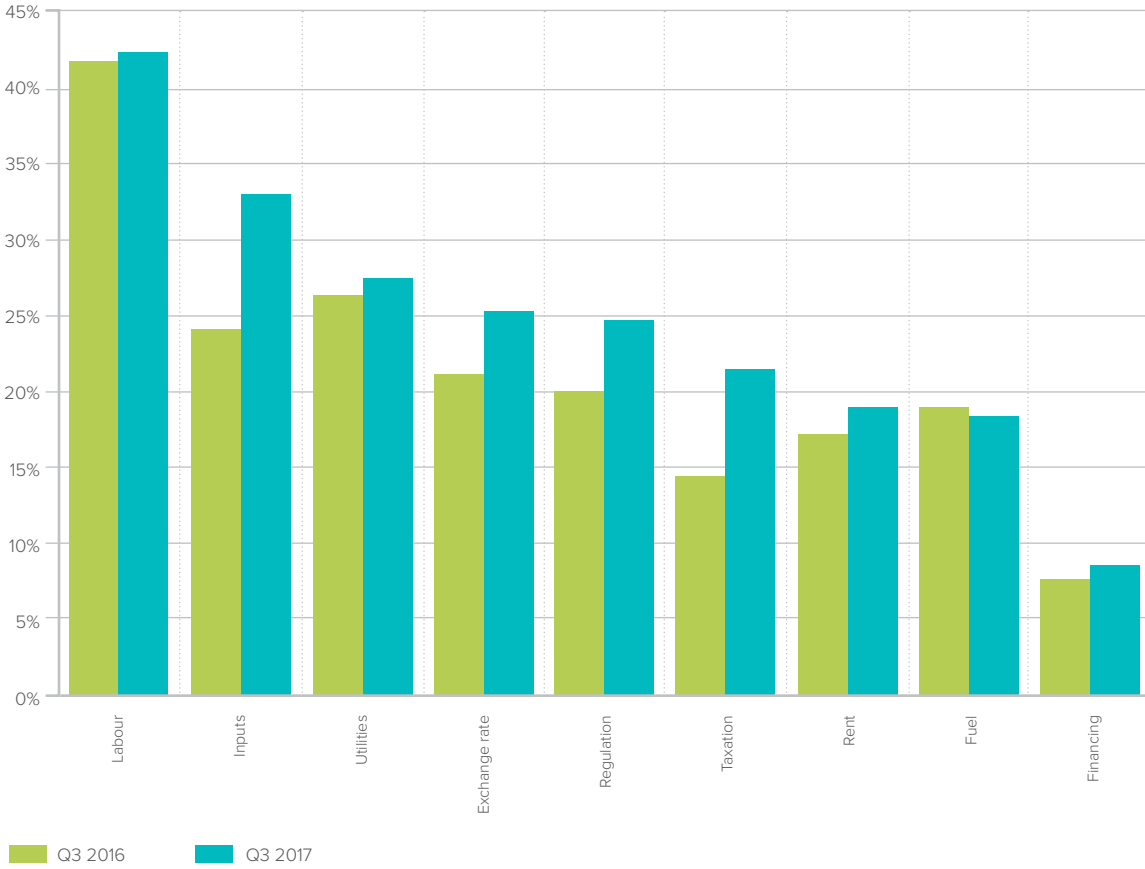


Figure 10: Main causes for changing business costs (firms may give multiple answers).
 Source: FSB - Verve 'Voice of Small Business' Panel Survey.



CAPACITY

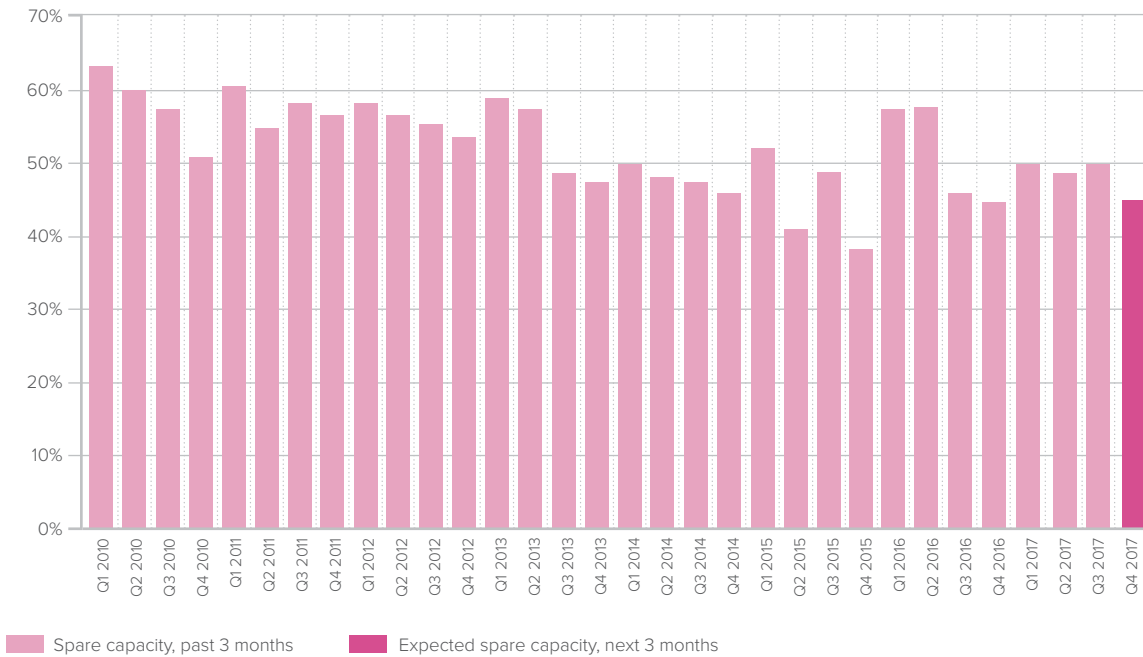
Half of firms operating
with spare capacity

SPARE CAPACITY RISES

This quarter, a net balance of 49.6% of small businesses report operating below capacity, up from 45.8% recorded a year ago and the highest since Q2 2016. That said, spare capacity is expected to diminish slightly over the coming three months, with a net balance of 44.7% anticipating to be running below capacity.

The Bank of England Governor Mark Carney has recently stated that some removal of monetary stimulus is likely to become necessary if spare capacity continues to erode. However, with our data suggesting that a relatively large proportion of companies continue to operate below capacity, an immediate change to monetary policy seems unlikely.

Figure 11: Net percentage balance of businesses running below capacity: proportion below capacity less proportion above capacity.
 Source: FSB - Verve 'Voice of Small Business' Panel Survey.



EMPLOYMENT

Intentions down as market
reaches natural rate

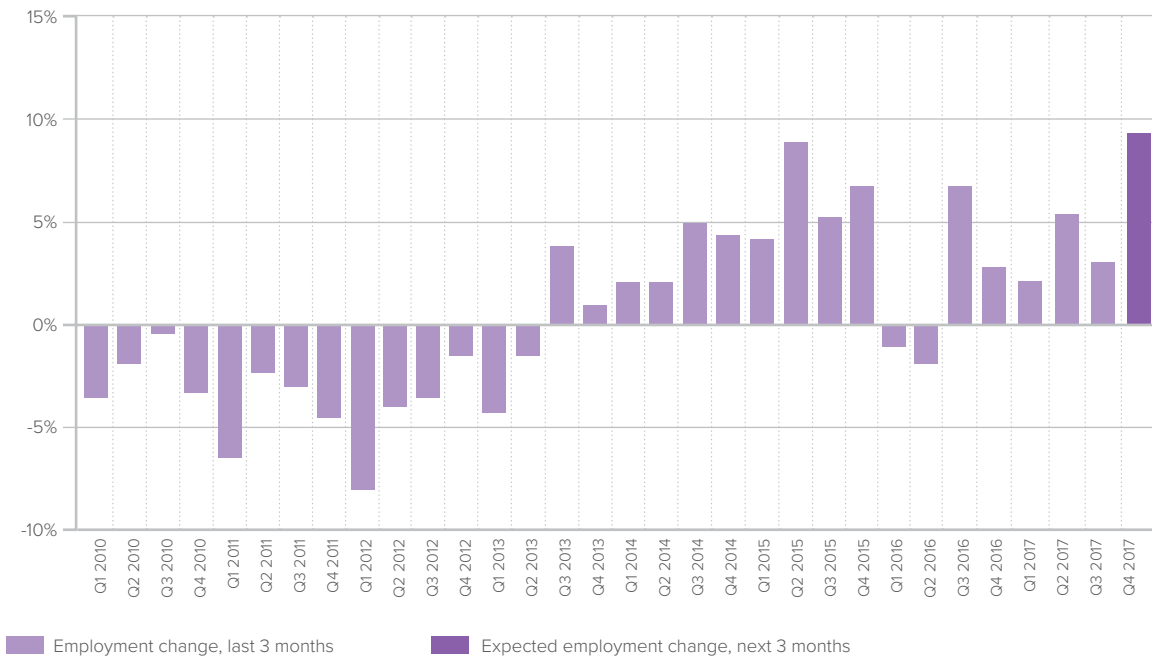
RATE OF HIRING SLOWS SLIGHTLY

The net balance of small businesses reporting higher workforce numbers stands at 3.2% this quarter, down from 5.3% last quarter and less than half the 6.8% recorded in Q3 2016.

The UK unemployment rate fell to 4.5% in the three months to May, its lowest level in over four decades and in line with what the Bank of England defines as the 'natural rate'. Meanwhile, the employment rate (the proportion of people aged 16 to 64 who were in work) rose to 74.9%, the highest since comparable records began in 1971. Despite the jobless rate falling and the number of advertised vacancies (an indicator of the strength of labour market demand) remaining near record-high levels, wage growth has so far failed to significantly accelerate.

With growing signs of a tightening labour market, the net balance of small businesses intending to increase their headcounts over the next three months stands at a one-year low of 9.4%. Last quarter, a net balance of 10.3% of small business predicted an increase in employment numbers.

Figure 12: Net percentage balance change in number of people employed – proportion reporting increase less proportion reporting decrease.
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



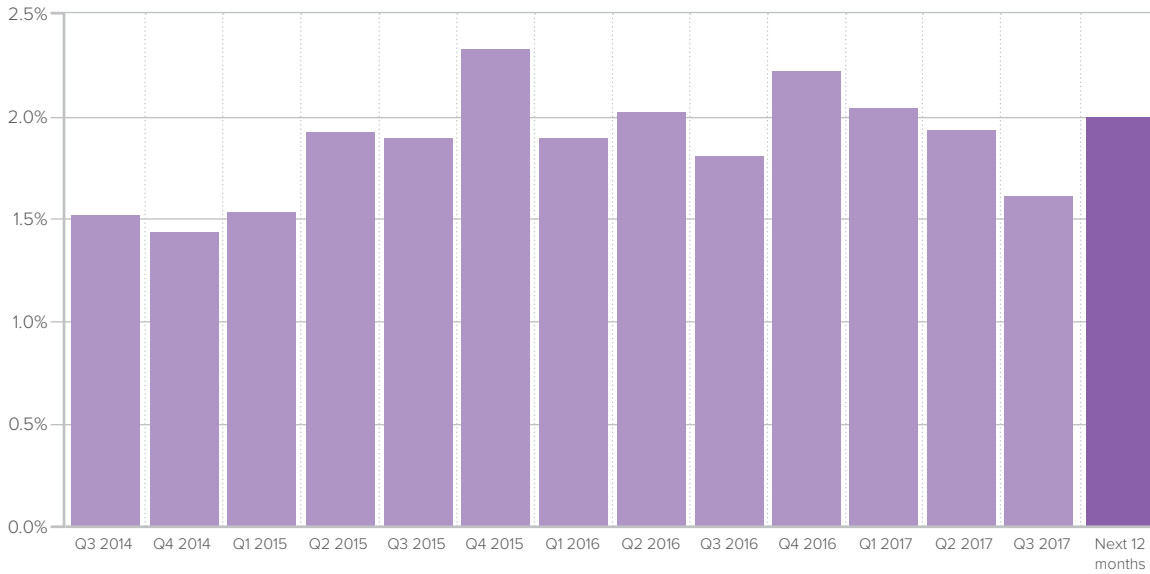
WAGE GROWTH EXPECTED TO PICK UP OVER THE NEXT 12 MONTHS

Annual average small business wage growth slowed to 1.6% in Q3 2017, down from 1.9% in Q2 2017 and mirroring the trend of subdued weekly earnings growth across the whole economy. Average salaries rose at the slowest pace since Q1 2015, but are expected to grow by 2.0% over the next 12 months.

Small businesses expect wage growth to pick up only slightly at a time when consumer price inflation outstrips earnings growth. Falling real wages will intensify the pressure on small businesses in the wholesale, retail and hospitality sectors as households' incomes continue to be squeezed.

Latest data from the ONS showed that average weekly earnings (excluding bonuses) grew at an annual rate of 2.0% in the three months to May, up from 1.7% in the previous three-month period. However, when bonuses are included, wage growth in fact slowed to 1.8%, down from 2.1% in the prior period. Average weekly earnings growth remains well below levels seen in 2015.

Figure 13: Average salary increase awarded, this quarter versus a year before.
Source: FSB - Verve 'Voice of Small Business' Panel Survey.



GROWTH ASPIRATIONS AND CHALLENGES

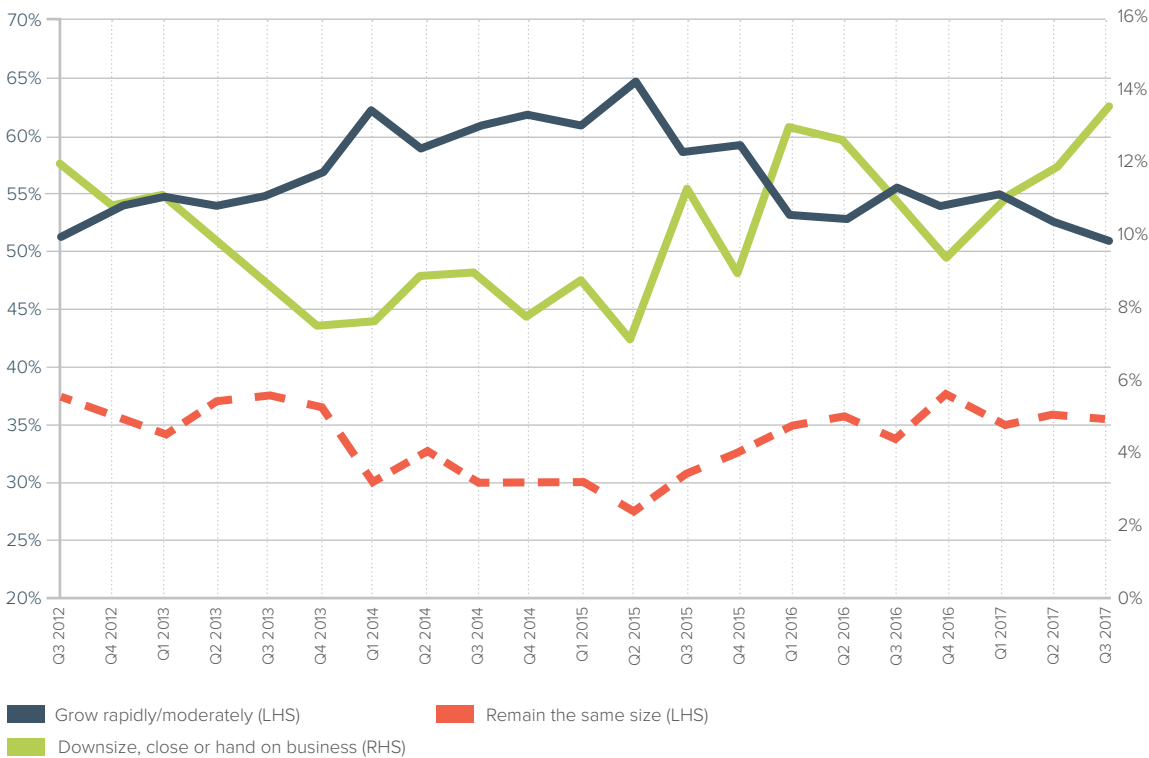
Record numbers expect to
downsize or close

SHARE OF BUSINESSES EXPECTING TO DOWNSIZE TICKS UP AS WORRIES ABOUT DOMESTIC ECONOMY INCREASE

There is a growing number of small businesses expecting to downsize, close or hand on the business over the coming 12 months. The share of those firms stands at 13.5% in Q3 2017, up from 10.9% in Q3 2016 and the highest since comparable data first became available in Q1 2012. The proportion of businesses expecting to grow over the next 12 months dipped slightly. Nonetheless, more than half of small businesses predict an expansion.

The share of businesses expecting to downsize, close or hand on the business has increased steadily since Q4 2016 when less than one in ten firms was pessimistic about the future. The domestic economy remains a main worry with almost two thirds of small businesses citing it as a major growth barrier. GDP growth was disappointingly weak over the first half of 2017, growing at quarterly rates of just 0.2% and 0.3% in Q1 and Q2 respectively.

Figure 14: Growth aspirations for next 12 months.
Source: FSB - Verve 'Voice of Small Business' Panel Survey.

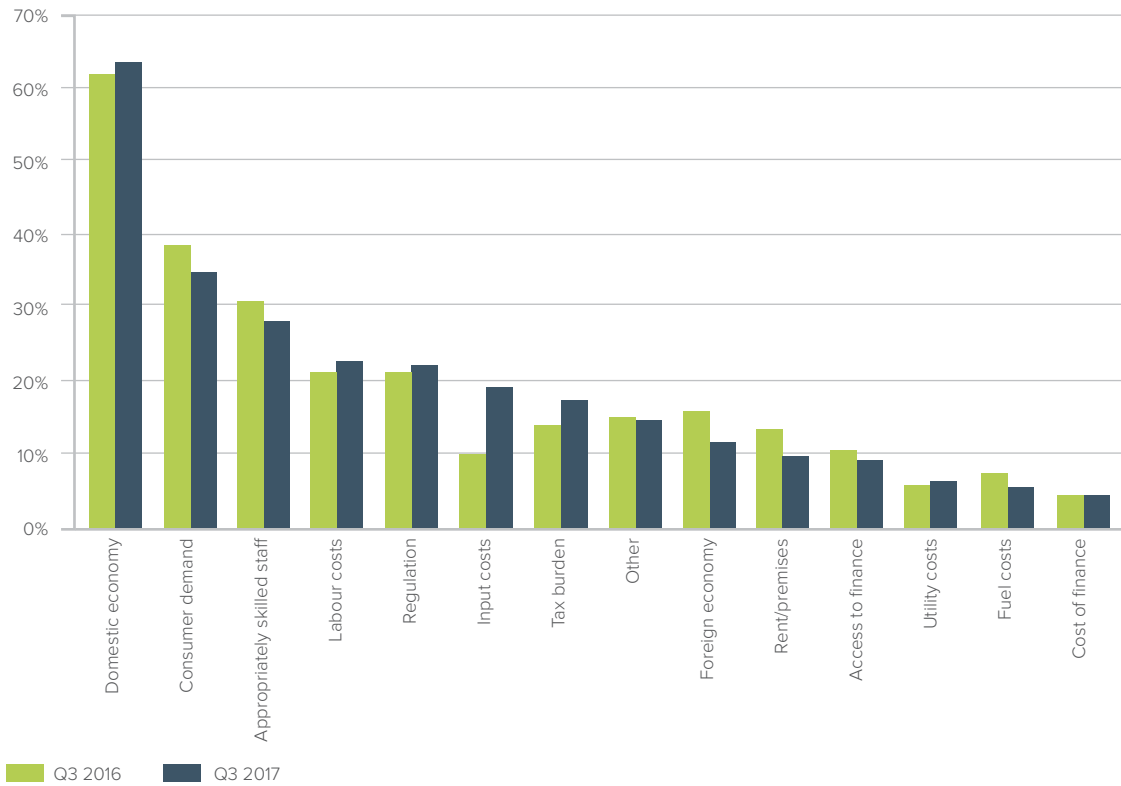


DOMESTIC ECONOMY AND CONSUMER DEMAND TO WEIGH ON GROWTH

Small businesses continue to see the domestic economy as a major barrier to growth aspirations. The proportion of small businesses citing the domestic economy as a barrier to growth stands at 63.2% in Q3 2017, up from 62.1% in Q3 2016 and the highest since Q1 2013 when GDP rose at an annual rate of just 1.5%. Meanwhile, a smaller share of businesses cite the foreign economy as a major barrier to growth. At 11.6% this quarter, the figure is down from 15.7% a year ago, suggesting that businesses may benefit from accelerated GDP growth in the Eurozone and the US and a robust performance of the Chinese economy in the second quarter.

Over one third of small businesses see consumer demand as a major barrier to growth. With consumer price inflation outstripping wage growth, real earnings are falling, thereby weighing on consumer spending overall. This will be felt particularly in consumer-focused sectors such as hospitality, retail and wholesale.

Figure 15: Potential barriers to achieving growth aspirations – multiple answers possible.
Source: FSB - Verve 'Voice of Small Business' Panel Survey.

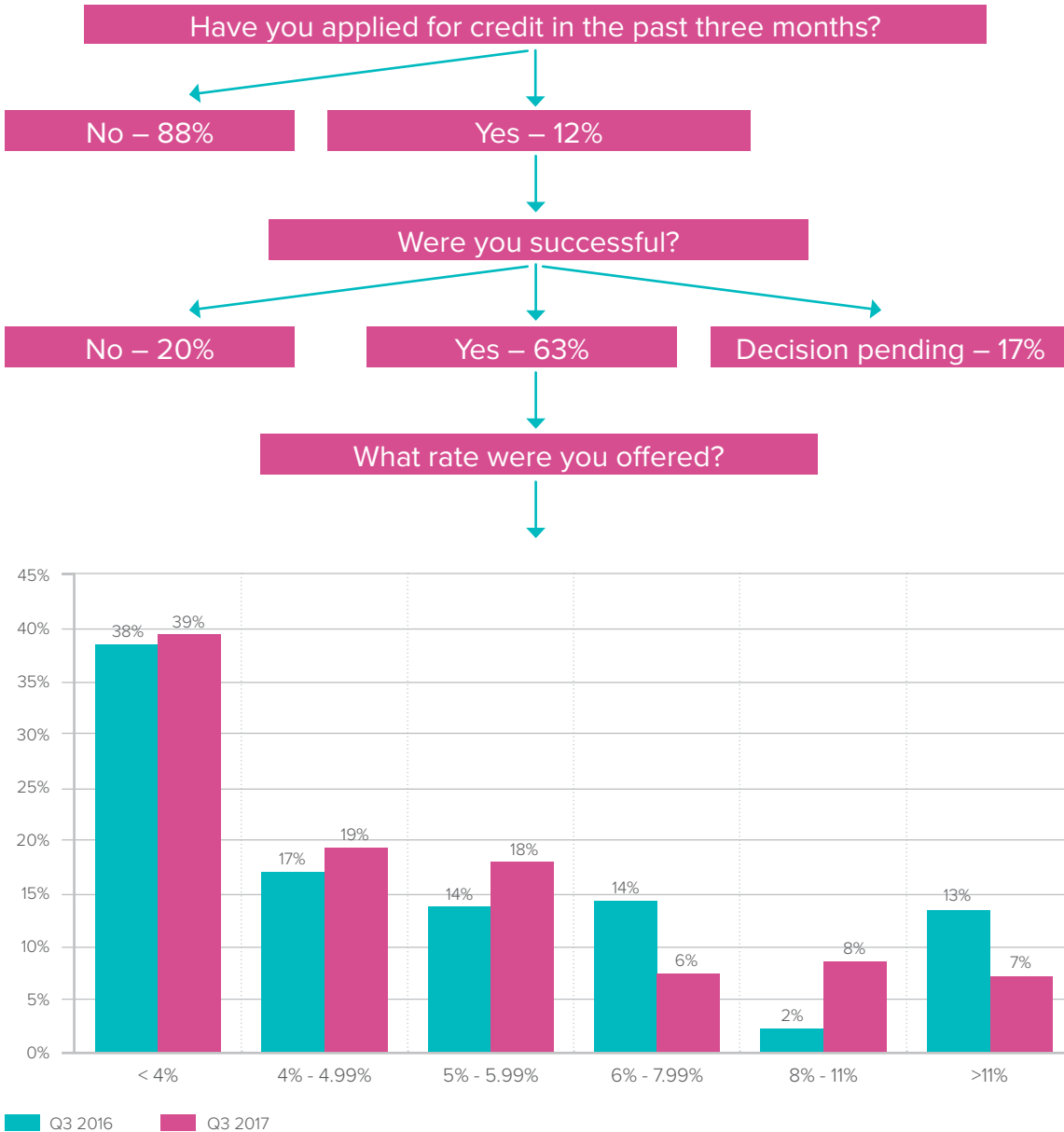


CREDIT

Applications and
affordability down

FEWER BUSINESSES APPLY FOR CREDIT

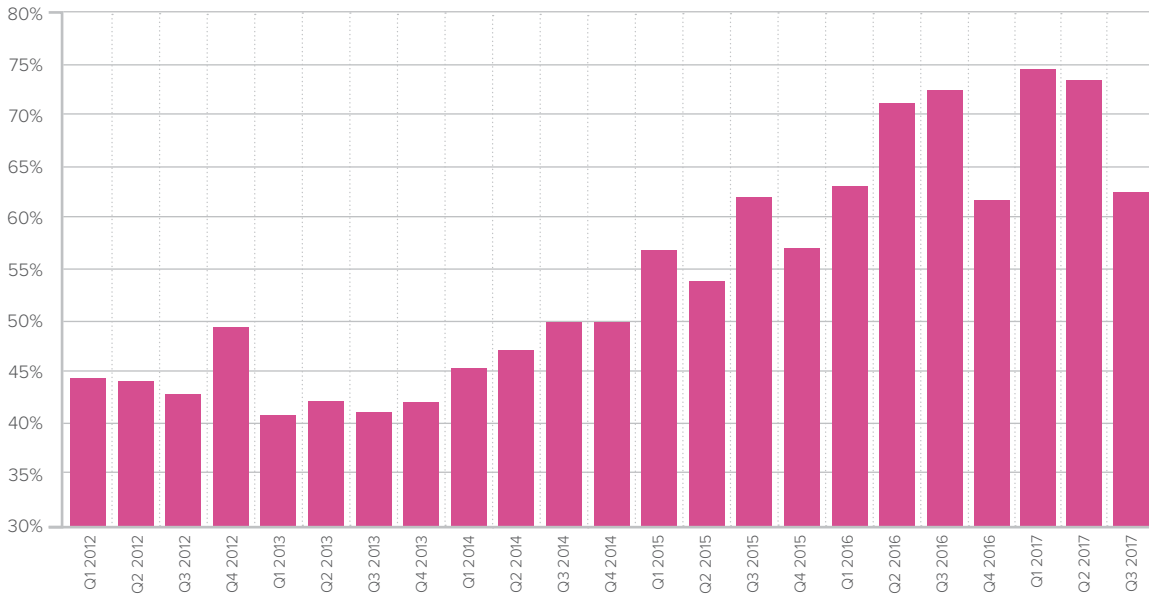
Figure 16: Credit applications and interest rates offered.
 Source: FSB - Verve 'Voice of Small Business' Panel Survey. Respondents were able to give multiple answers to this question.



The proportion of small businesses successful in their credit applications stands at 63% this quarter, down from 72% in the same quarter a year ago and the lowest in 2017 so far. However, a larger proportion of small businesses are being offered lower interest rates compared to a year ago. The proportion being offered a rate below 6% has risen from 70% in Q3 2016 to 77% in Q3 2017. Over the same period, the proportion of businesses being offered a rate of above 11% has fallen from 14% to 7%.

Fewer businesses applied for any form of finance compared to previous quarters. The percentage of small businesses applying for bank loans rebounded in Q3 2017 and stands at 38%. This is up from 23% in Q2 2017 and the highest in a year. That said, other types of financing such as crowdfunding continue to gain in popularity amongst small businesses.

Figure 17: Proportion of small businesses successful in their credit applications in the past three months.
 Source: FSB - Verve 'Voice of Small Business' Panel Survey.



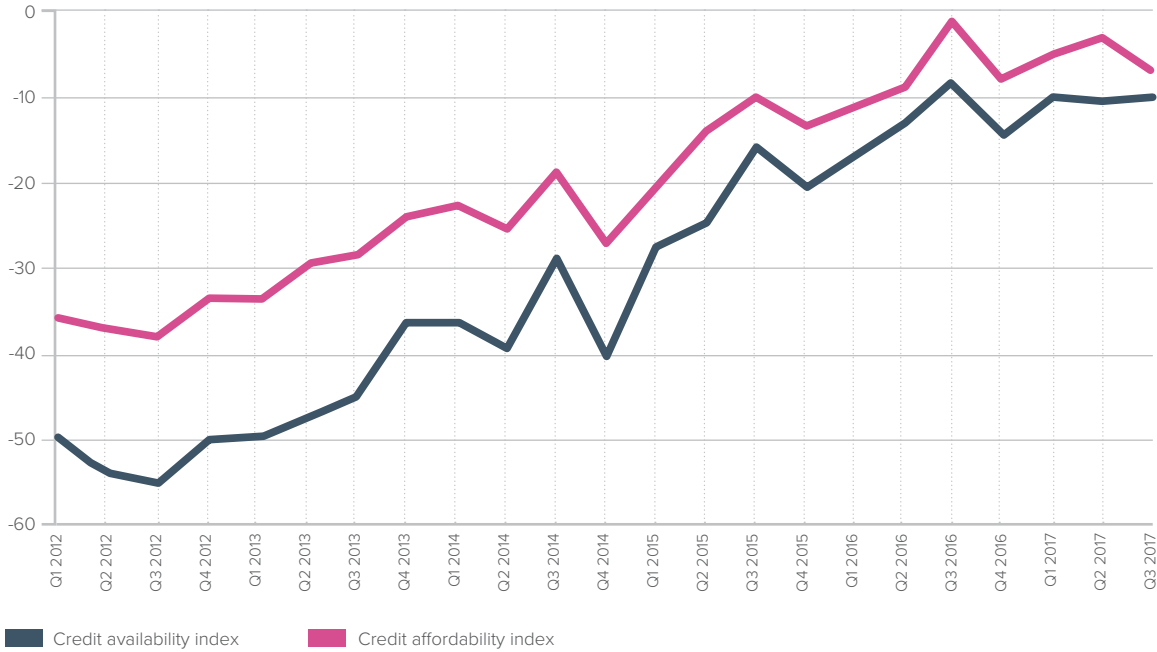
CREDIT AFFORDABILITY DETERIORATES SLIGHTLY

Our credit affordability index dipped slightly in Q3 2017 with a larger proportion of small businesses reporting that new credit was unaffordable. However, new credit is more affordable than it has been at any point before Q3 2016. Meanwhile, the index was little-changed since the previous quarter and remains near its Q3 2016 peak.

With the Bank of England base rate remaining at a record low of 0.25%, new credit to small businesses should in theory continue to be affordable. In its August monetary policy meeting, the bank voted 6-2 to keep interest rates on hold, thereby suggesting policymakers believe the UK economy is too sluggish to handle higher borrowing costs despite inflation overshooting the bank's target of 2%. Meanwhile, a diversification of the lending market with a wider range of financing opportunities is likely to support credit availability to businesses.

Figure 18: Indices of credit affordability / availability perceptions over time, a weighted net balance of those with negative responses subtracted from those with positive responses.

Source: FSB - Verve 'Voice of Small Business' Panel Survey.



INVESTMENT AND PRODUCTIVITY

Investment intentions stable
despite uncertainty

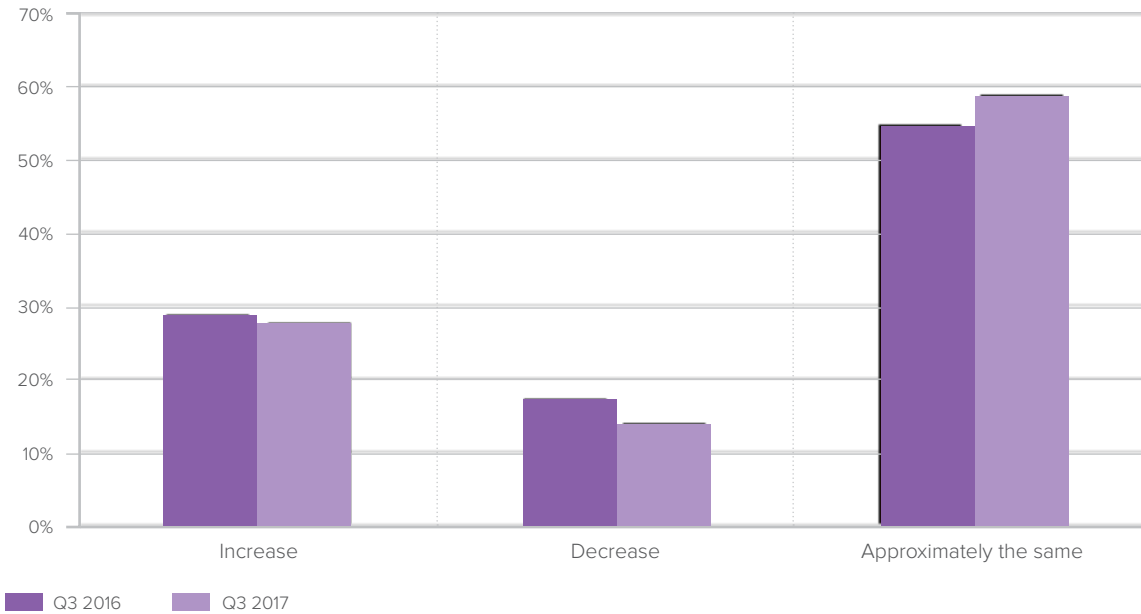
INVESTMENT INTENTIONS LARGELY UNCHANGED

The proportion of small businesses expecting capital investment to increase over the next 12 months stands at 27.4% in Q3 2017, down slightly from 28.4% in Q3 2016 and the lowest since comparable data first became available in Q1 2012. That said, the proportion of small businesses anticipating a decrease in capital investment also fell and stands at 13.8%, down from 17.0% in the same quarter a year ago. Meanwhile, well over half of companies (58.8%) expect investment to hold steady over the coming year.

Although a smaller proportion of businesses expect an increase in capital investment, it is encouraging that the proportion of those predicting a decline has also fallen since Q3 2016. Despite the high level of economic and political uncertainty, the majority of firms predict no change in capital investment.

Figure 19: % of small businesses expecting to increase and decrease capital investment over next quarter, compared with the previous quarter.

Source: FSB - Verve 'Voice of Small Business' Panel Survey.



METHODOLOGY

This report is based on the July 2017 research survey of FSB members carried out by Verve. 4,976 Big Voice members who had previously participated in an SBI survey were invited to take part in an online survey. Reminders were sent to all non-respondents. 1230 responses were received, a response rate of 25%. The data are weighted by regional gross value added to match the profile of small businesses across the UK. The survey was undertaken between 10 and 26 July 2017.

SUMMARY DATA TABLE

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Small Business Index	+20.3	+21.7	+8.6	+4.3	-2.9	+8.5	+20.0	+15.0	+11
Employment - previous three months	+5.3%	+6.7%	-1.0%	-1.9%	+6.8%	+2.9%	+2.1%	+5.3%	+3.2%
Employment - coming three months	+8.2%	+7.3%	+7.1%	+6.6%	+4.9%	+9.6%	+11.3%	+10.3%	+9.4%
Exports - previous three months	+2.2%	+8.8%	-5.1%	-4.2%	+11.7%	+6.1%	+15.6%	+20.0%	+19.5%
Exports - coming three months	+16.1%	+21.0%	+15.9%	+12.0%	+17.9%	+18.6%	+30.4%	+25.8%	+20.5%
Credit availability - rated good or very good	23.5%	18.2%	20.8%	26.0%	26.3%	23.7%	25.8%	28.0%	24.1%
Credit availability - rated poor or very poor	41.6%	43.6%	39.1%	39.6%	36.5%	39.1%	36.4%	37.9%	35.2%
Credit affordability - rated good or very good	27.6%	23.3%	24.9%	25.3%	32.3%	27.5%	29.1%	30.4%	28.8%
Credit affordability - rated poor or very poor	38.8%	40.7%	37.7%	37.4%	34.2%	36.9%	36.1%	33.2%	38.3%

The Small Business Index weights strong responses (much improved or much deteriorated conditions) double and subtracts the weighted proportion of firms reporting deterioration in business prospects over the coming three months from the weighted proportion expecting an improvement.

The Employment and Revenue indicators are net percentage balances, with the proportion of firms reporting a decrease subtracted from the proportion reporting an increase.

Responses are also weighted according to regional gross value added.

Q3

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