

A man with a beard is looking at a tablet in a cafe setting. The background is blurred, showing a window with blinds and some plants. The text is overlaid on the image.

FSB South West Quarterly Small Business Index

Q2 2022

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This document was produced by
FSB South West in July 2022

Foreword

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When we surveyed FSB members in the first quarter of the year we saw a cautious but still encouraging rise in local confidence levels. We hoped this would be the first indication that our hard pressed small business community was slowly, but surely, on the road to recovery.

Sadly, however, our latest quarterly report today has dented that hope considerably. We have seen that the rising confidence we reported in the spring has dramatically reversed and we are now looking at positivity levels at their lowest for two years – a time when we were still in the major Covid battle.

The figures here show that South West small business confidence levels have dropped by a staggering 39 percentage points since our last report and, although very disappointing, it is perhaps not surprising considering the worrying economic position many SMEs now find themselves in.

Concerns over the general economic picture, the ever rising costs of doing business and a major recruitment and staffing crisis have clearly all affected how small business owners feel at the moment . Looking ahead, an obvious nervousness about the future is also reflected in the report with a noticeable fall in the amount of South West businesses predicting they will grow in the next 12 months. And, once again the region is also lagging behind virtually the whole of the country in terms of its business positivity.

Yes, there are some brighter spots in our report – marginally more of our businesses intend to increase staff than lose people and 18 per cent of our respondents are still planning to increase investment in the coming three months – but the overall report is more than a little concerning.

We must just hope that our report and its findings will serve to remind both regional and national policymakers that they can't simply take our local SMEs for granted. Without practical support and understanding of the many issues facing small businesses we will see more of them struggling throughout 2022 and that can only be bad news for the region and also for Great Britain plc as a whole.

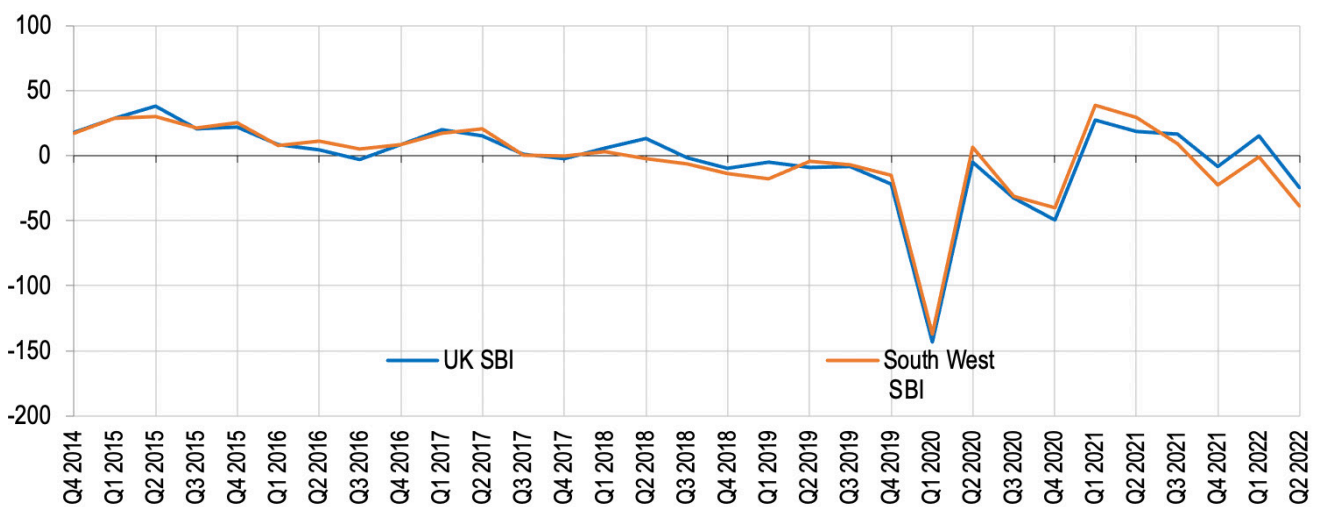
The South West Small Business Index (SWSBI)¹, which measures confidence amongst businesses, has fallen to -39 in Q2 2022. Despite seeing a rise from Q4 2021 (-22) to Q1 2022 (-1), confidence levels have again fallen to levels last seen in Q4 2020 (-40).

Small business confidence for the next 3 months remains negative in Q2 (-39), with a clear decline since Q1 (-1). This level of sentiment is far below the confidence levels seen the same time last year (29 in Q2 2021) and is likely related in part by the recent rises in inflation and fuel prices.

Looking at the rest of the UK more broadly, small businesses in the South West display confidence below the UK average (-25). South West has one of the lowest sentiment scores in the UK – the lowest confidence levels can be seen in the East Midlands (-43). By contrast, the highest levels of confidence in the next three months can be seen in the East of England, which has a score of -10, and shows that each region in the UK has a negative score.

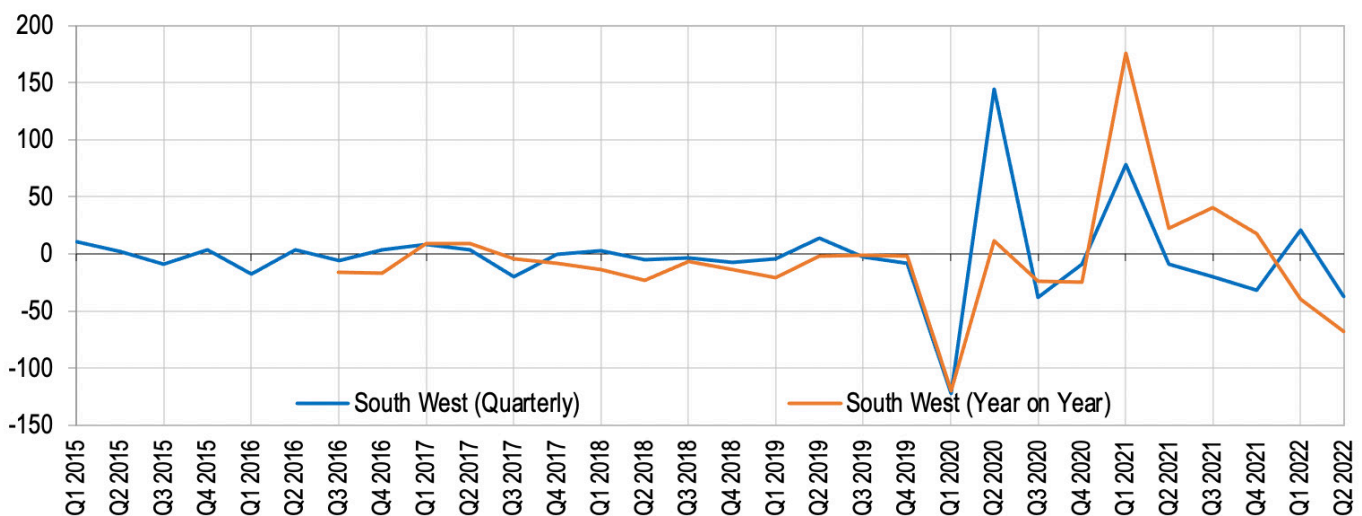
Confidence in business performance for the next 3 months in the South West sharply declines following a rise in Q1 2022, and remains below the UK average.

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



Confidence in business performance declines after a rise in Q1 2022, falling well behind YOY scores.

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



¹ The South West 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

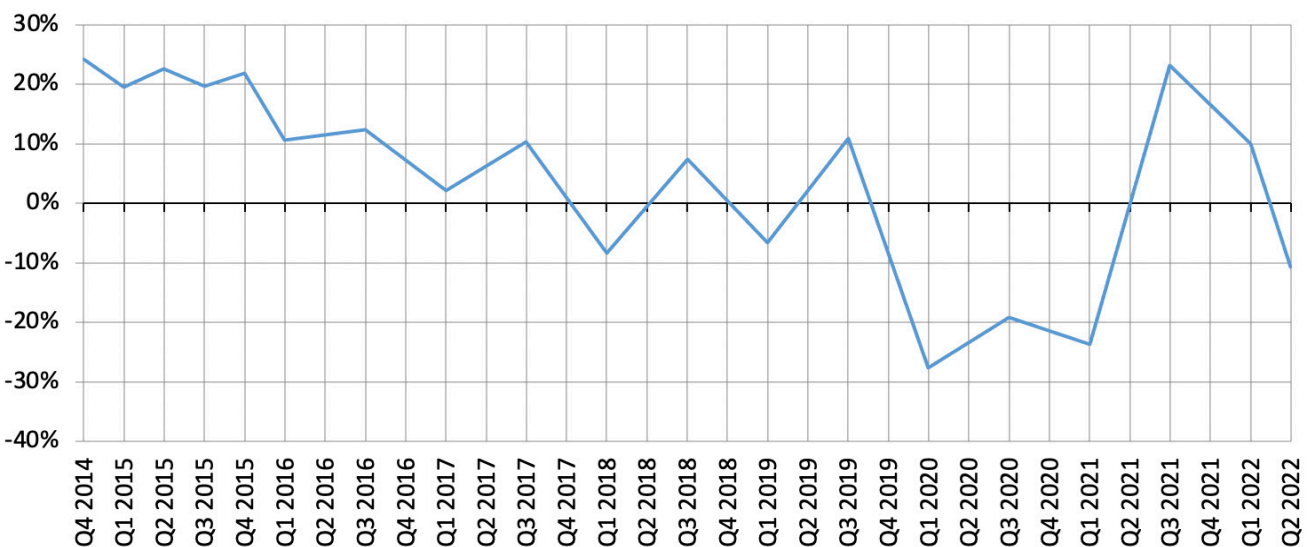
South West small businesses report a net negative balance for revenue over the last 3 months, with predictions for a continued decline in future revenue at a slightly higher rate.

In Q2, the overall net balance for revenue in the region was negative (net -11%)², showing a decline since Q1 2022 (10%). This falls short of the growth predicted in Q1 2022 of 7%. Signs of a quarterly decline are observable across the UK more widely – with a net average of -6%, sentiment across the country appears less optimistic than previous quarters. The South West, therefore, sits below the UK average in terms of revenue for the last 3 months (net -11%), with London and the East of England (both net 1%) the strongest and the East Midlands (net -14%) the weakest performing regions over that timeframe.

The outlook for future revenue predicts a further decline from the actual levels seen in Q2 2022 for the South West. Small businesses predict that revenue will decline by net -13% over the next quarter. This prediction is more pessimistic than what is seen for the UK average (-3%). In the South West region, 28% of small businesses expect an increase in revenue over the next 3 months, with 41% expecting a decrease.

Revenue amongst South West small businesses shows a continued decline from Q1 2022 (net 10%), turning net negative (net -11%).

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



² The NET number of businesses is calculated by subtracting the total number of businesses who reported a decrease in gross profits from those who reported an increase in gross profits in the last 3 months

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

Employment and Wage growth

Employment in South West small businesses remains net negative (-6%) in Q2 2022, with this set to marginally improve in the next quarter.

The employment picture amongst FSB members over the preceding three months showed that 16% had decreased staff numbers, whilst slightly fewer (10%) had increased employment levels; this results in a net decrease of -6% in staff numbers over the last quarter. However, many staffing levels have been left unaffected, with 68% reporting that this has ‘stayed the same’.

For the next quarter, the intention is for 12% of businesses to increase headcount and 11% to decrease staff numbers.

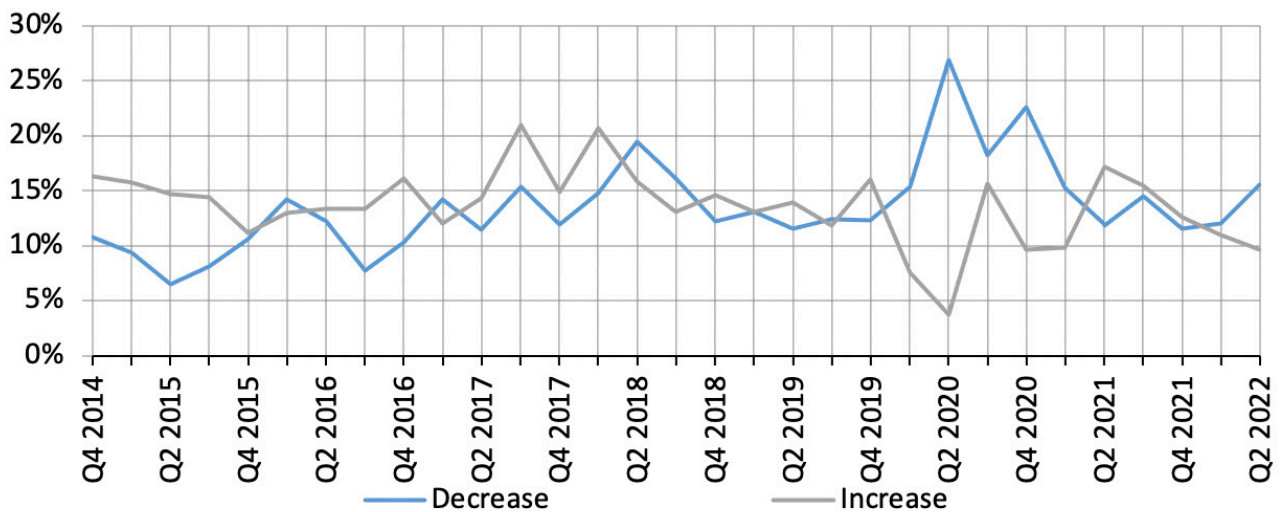
Wage Growth

In the South West, just under two-thirds (65%) of small businesses increased the average salary awarded across the business over the last 12 months, with 59% reporting an average increase of 2% or more.

Compared with a year to date, predicted wage growth has fallen slightly; this quarter, 64% expect to see salary increases over the next 12 months, with 56% reporting the likely increase to be above 2%. Whereas in Q2 2021, 66% of small businesses expected to increase the average salary (although it is worth noting that 47% expected the increase to equate to 2% or more, below the current quarter’s predictions).

In the South West, the proportion of small businesses increasing headcount lags behind the proportion decreasing headcount.

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



Growth and Investment aspirations

In Q2 2022, 41% of small businesses in the South West 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%). Not only are the growth aspirations within the South West lower than the UK average for Q2 (47%), it also lags results seen within the region in the recent period. For example, in Q1 2022, 48% of businesses expected to grow, with the average across 2021 sitting at 49%; this therefore represents a less optimistic landscape in the South West compared to previous quarters.

Investment intentions for small businesses in the South West has declined vs. last quarter, with the region's intentions below the UK average.

18% expect to increase investment over the next 3 months, with 21% expecting to reduce the amount invested. The net balance of firms expecting to increase their investment in the South West therefore stands at -3%. This puts the region behind with the national average (3%). The region with the highest net investment intention is London (11%), with the lowest jointly the East of England and North East & Yorkshire and The Humber (both at -5%).

In the South West, the general economic conditions in the UK (65%), consumer demand (34%) and fuel and input costs (both 27%) are the greatest perceived barriers to growth over the coming twelve months.

In the South West, 17% of businesses have said they intend to contract the business in the next twelve months (to downsize, sell or close the business). This represents a rise from last quarter, when just 6% expressed an expectation to do so.

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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