



FSB Yorkshire, the Humber & North East Quarterly Business Index

Q4 2021

Foreword

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Whilst likely in part due to uncertainty caused by increasing levels of the Omicron variant in the fourth quarter of 2021, it is incredibly concerning to see confidence among FSB Yorkshire, Humber and the North East members moving to negative territory. However resilience and determination is evident with the employment picture amongst FSB members over the preceding three months painting a more positive picture, albeit slightly less so than Q3. In addition, investment intentions for Yorkshire, Humber and the North East remain positive going into 2022, with the majority of businesses hoping to grow moderately or indeed rapidly over the next 12 months. Coupled with the outlook for future gross profit looking marginally improved to the current situation, it is clear that Businesses in Yorkshire, Humber and the North East are ready to drive a post Covid economic recovery.

In order to do this Yorkshire, Humber and the North East businesses need the confidence from Government to be able to plan. Supply chain issues, high inflation and further taxation are playing on the minds of small businesses. Increasing the small businesses rates relief ceiling to £25,000 would take 200,000 more firms out of this regressive tax. The National Insurance 'Jobs Tax' in April will disincentivise many small firms from growing – and so an increase in the Employment Allowance would provide some welcome support.

The wider National SBI study of more than 1,200 business owners finds that close to one in three has seen late payment of invoices increase over the last three months, with a further 8% experiencing other forms of poor payment practice. Only 6% say that a change in payment terms has been agreed over that period. As a result, approaching one in ten (8%) say late payment is now threatening the viability of their business. To this end 2022 needs to be the year that the scourge of late payment stops.

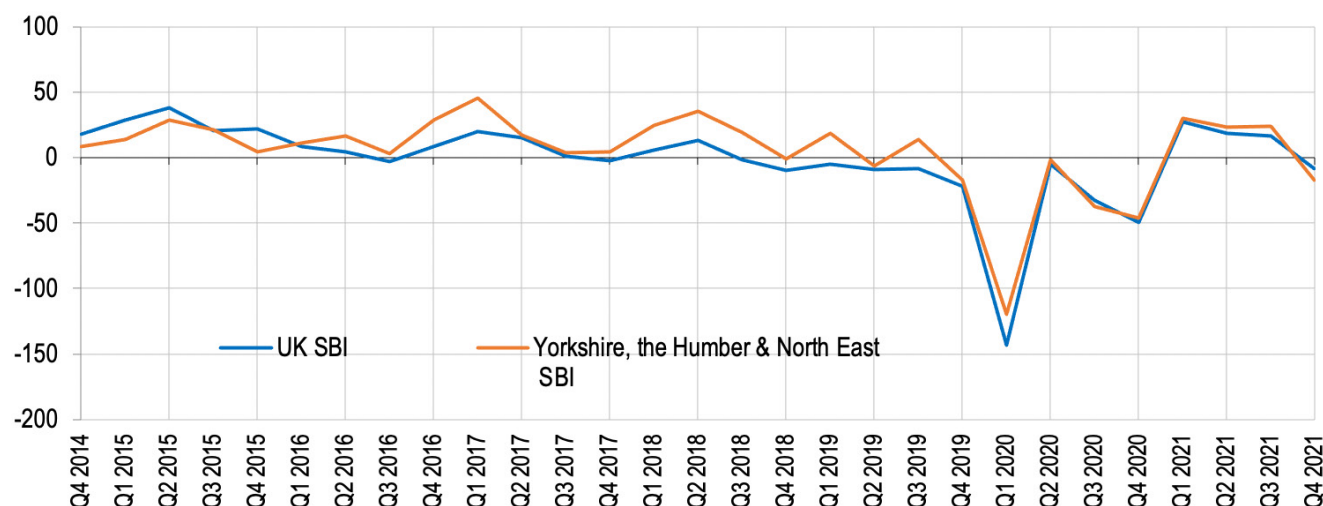
The Yorkshire, Humber & North East Small Business Index (YHNESBI)¹, which measures confidence amongst businesses, has sharply declined from Q3 to Q4 2021, where it now stands at -17%.

Confidence amongst small businesses in Yorkshire, the Humber & North East is now negative, contrasting with the positive results seen in the earlier quarters of 2021. Whilst this remains above the level of confidence seen through 2020 (-51% average across the year), the decline from Q3 2021 to Q4 is likely in part due to uncertainty caused by increasing levels of the Omicron variant.

Looking at the rest of the UK more broadly, small businesses in this region display confidence well below the UK average (-8%). The regions which score more poorly are South West (-22%) and the North East by itself (-64%). For context, Yorkshire and the Humber on its own sits at 3%.

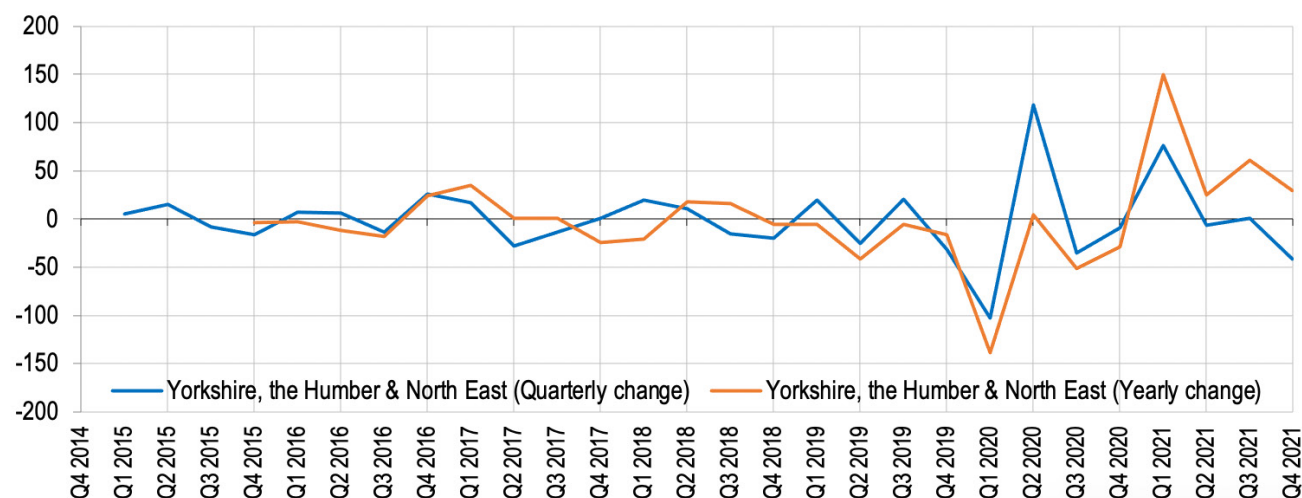
Confidence in business performance for the next 3 months declines across Yorkshire, the Humber & North East, now falling just below the UK average.

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



Confidence falls in Q4 2021 as sentiment in the region declines from Q3 – despite this, yearly scores are above confidence levels from Q4 2020.

Fig.2 FSB Yorkshire, the Humber & North East Small Business Index: small business confidence levels



¹ The Yorkshire, the Humber & North East 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

Businesses in Yorkshire, the Humber & North East report a return to a net negative balance in gross profit over the last 3 months, following a rise into positive territory in Q2 2021 for the first time since 2018.

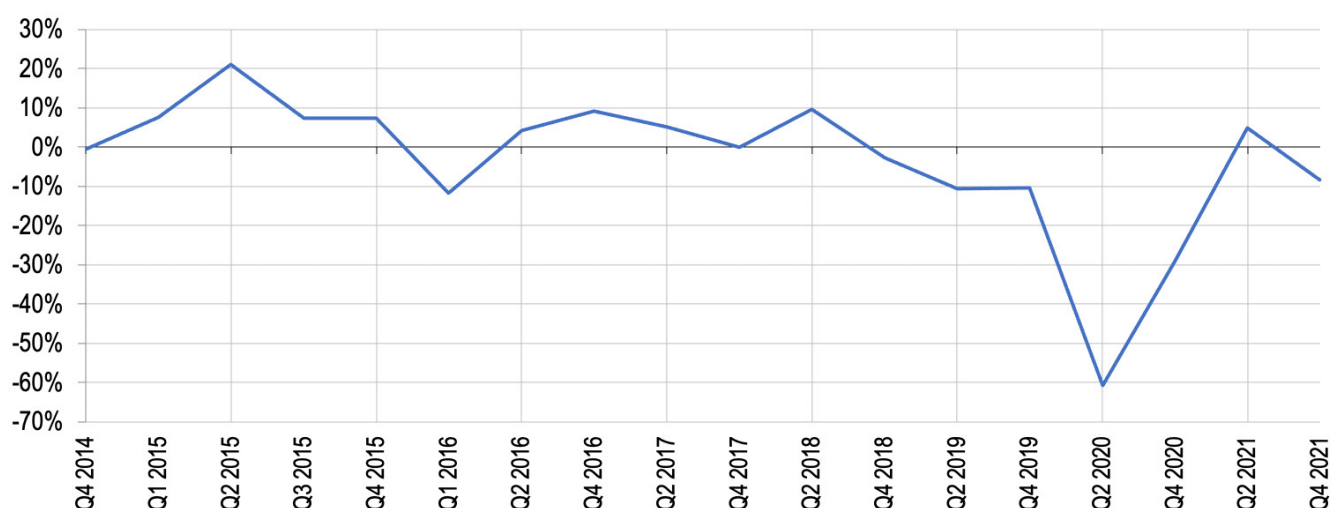
In Q4, the overall net balance for gross profit in the region was negative (net -8%)², contrasting Q2's return to a positive figure (5%) for the first time since Q2 2018. Despite Q4 seeing a negative figure, this remains above the levels seen in 2020 (-29% Q4 2020). The relative improvements witnessed in the area and similarities to pre-pandemic levels of gross profit (e.g. -10% in Q4 2019) continue to suggest a return to 'normal'.

Signs of decline since Q3 are also observable across the UK more widely; with a net average of -5%, sentiment across the country is also negative. Yorkshire, the Humber & North East is therefore slightly below average in terms of gross profit across the UK for the last 3 months (net -8%). The North East by itself (-20%) and the East of England (5%) represent the weakest and strongest levels of net gross profit respectively.

The outlook for future gross profit appears to continue this downward trend in Yorkshire, the Humber & North East. In the region, 29% of small businesses expect a growth in gross profit over the next 3 months, with 44% expecting a decrease. This leaves a net balance of -15% for predicted profit changes in the region (below the UK average, which is -3%).

Gross profit in the region returns to negative figures, with more businesses reporting a decrease in gross profit in the last 3 months.

Fig.3 FSB Small Business Index: net balance of small firms in Yorkshire, the Humber & North East reporting gross profit (Gross profit question only asked in Q2 and Q4 phases of SBI – question is asked on a rotational basis)



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

The number of small businesses in the area taking on new staff outnumbers those who are losing staff in Q4.

The employment picture amongst FSB members over the preceding three months continues to paint a positive picture, albeit slightly less so than Q3, with 16% increasing staff numbers and 11% decreasing them in Q4. This leaves a net increase of 5%, just behind the 6% rises in both Q2 and Q3, but far above the -8% decline seen in Q1. This, however, represents a slightly more positive outcome than predicted (net 4% increase).

Despite this, the majority of staffing levels remain unaffected (71%) in Q4. For the next quarter, staffing levels are predicted to slightly decrease, with 9% looking to increase and 10% expecting to decrease their headcount (and 78% stay the same).

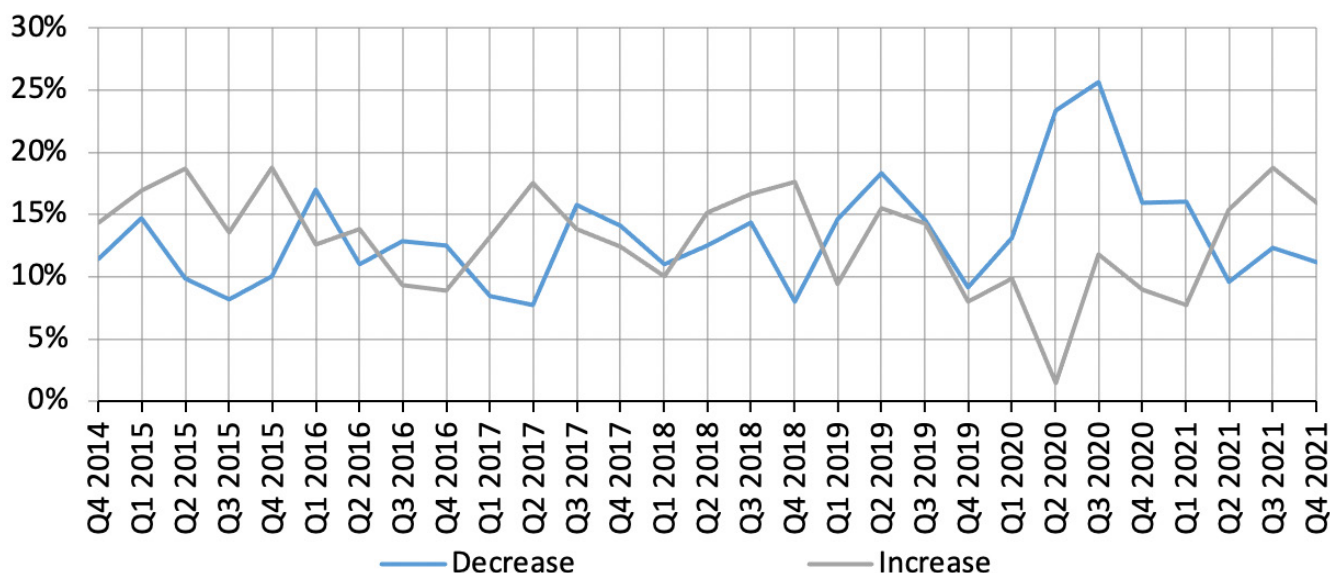
Wage Growth

In Yorkshire, the Humber & North East, just over half (55%) of small businesses increased the average salary awarded across the business over the last 12 months (with 45% of these increases above 2%). 72% expect to see salary increases over the next 12 months, with 58% reporting the likely increase to be above 2%.

Predicted wage growth continues to grow since Q1 2020; at that point in time it dropped as low as 48%. Despite the slight lapse in this trend in Q3 2021, which saw a slight decline from 64% in Q2 2021 to 58% in Q3, Q4 2021 sees a strong return to 72%. This slightly exceeds pre-COVID levels (c. 67% from 2014-2019).

The number of small businesses increasing headcount (16%) continues to stay above those decreasing headcount (11%).

Fig.4 FSB Small Business Index: change in people employed in Yorkshire, the Humber & North East over last 3 months



Growth and Investment aspirations

In Q4 2021, 45% of small businesses in Yorkshire, the Humber & North East 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%). When compared with last year, we can see that this figure has increased by 13% (i.e. 45% in Q4 2021 vs. 32% in Q4 2020). Again, this points to signs of a more positive sentiment returning to the region.

The investment intentions for Yorkshire, the Humber & North East businesses remain positive but see a small net decrease from Q3 and sit below the UK average.

29% of businesses in Yorkshire, the Humber & North East expect to increase investment in the coming quarter, and 17% expect to decrease investment. This leaves a net balance of 12%, which is below the UK average (19%). The highest net investing region is London (30%), with the lowest being the South East (10%).

In Yorkshire, the Humber & North East, the general economic conditions in the UK (49%), input costs (41%) and utility costs (30%) are the greatest perceived barriers to growth over the coming twelve months.

In Yorkshire, the Humber & North East, 16% of businesses have said they intend to contract the business in the next twelve months (to downsize, sell or close the business). This has seen a slight rise from Q3 2021 (12%) but remains just below the intentions across 2020 (average of 20%).

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