

A woman with long brown hair, wearing a black and white striped long-sleeved shirt, is smiling and looking towards the camera. She is holding a white dress shirt with a red tag. The background shows a clothing store with racks of clothes and a staircase railing.

FSB South East Quarterly Small Business Index

Q2 2022

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Foreword

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The Federation of Small Business Index for Quarter 2 2022 makes for grim reading. It was perhaps surprising to see a positive reading for the first quarter, which was +9. This positive reading came when taxes were rising, the war in Ukraine had begun, and inflation was biting. In reality, Q1 2022 was a confidence boost from the end of lockdown and the prospect of daily trading returning to normal. The negative elements in the economy have caught up with the findings in Quarter 2.

Confidence in the Southeast has plummeted from +9 to -32, back to where we were during the dark days of lockdown at the end of 2020. By comparison, the national average is -25, putting the Southeast in an even gloomier position. Over the last quarter, a third of businesses reported an increase in revenue, while just over four-in-ten reported a decrease. Employment levels are discouraging too, with 9% of businesses reporting an increase in staff, and 14% decreasing them. Although it is worth highlighting that three quarters of SMEs have not had any change in staffing levels. Whilst only one-in-ten plan to decrease staff numbers, 16% plan to increase their workforce.

There is similar positive news in terms of wage growth. Nearly two-thirds of SMEs reported an increase in staff wages, with 58% increasing by 2% or more. Only 6% reported a decrease in staff pay. Similar numbers expect to see wages increase and by 2% or more in the coming year. Just under half of Southeast SMEs plan to grow in the next 12 months. Only 14% plan to downsize, close or sell.

Of the biggest challenges facing SMES, the domestic economic situation is the largest concern. There are also worries about consumer demand and skills. The economic conditions are not fortuitous but SMEs are resilient. We in the FSB will continue to champion SMEs and put the positive case for engagement with our small businesses. We will continue to lobby for, represent and help our small businesses in every conceivable way we can.

The South East Small Business Index (SESBI)¹ which measures confidence amongst businesses, has dramatically fallen over the preceding 3 months to -32, sitting at a similar level of confidence as seen throughout the latter part of 2020.

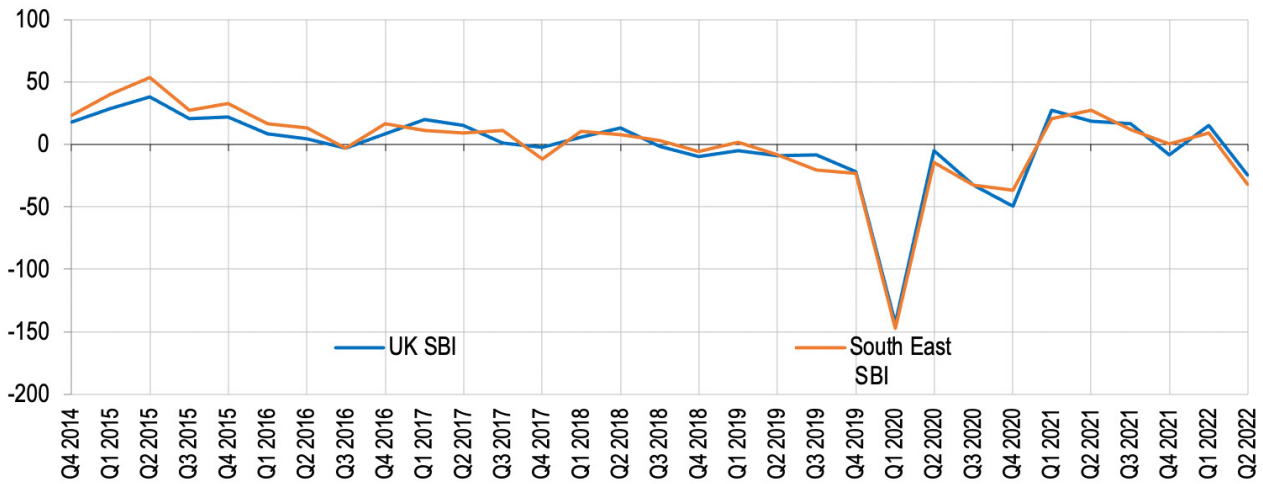
Confidence levels among small businesses in the South East have sharply declined to -32 in Q2 2022 following a rise in the previous quarter from 0 (Q4 2021) to 9 (Q1 2022). The sentiment levels for the current quarter have returned to levels last seen in Q3 2020 (-32) and Q4 2020 (-37), with this being the first negative confidence score since that period. This recent decline in Q2 2022 is likely due in part to the rapid rise in both inflation and fuel prices, increased costs and uncertainty for small businesses and the wider public.

This declining confidence is aligned with the wider picture across the UK, although the South East scores lower when compared to most of the country. The national average sits at -25, with the lowest performing region being the East Midlands (-43) and the strongest performing being the East of England (which is also negative, at -10).

¹ The South 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.

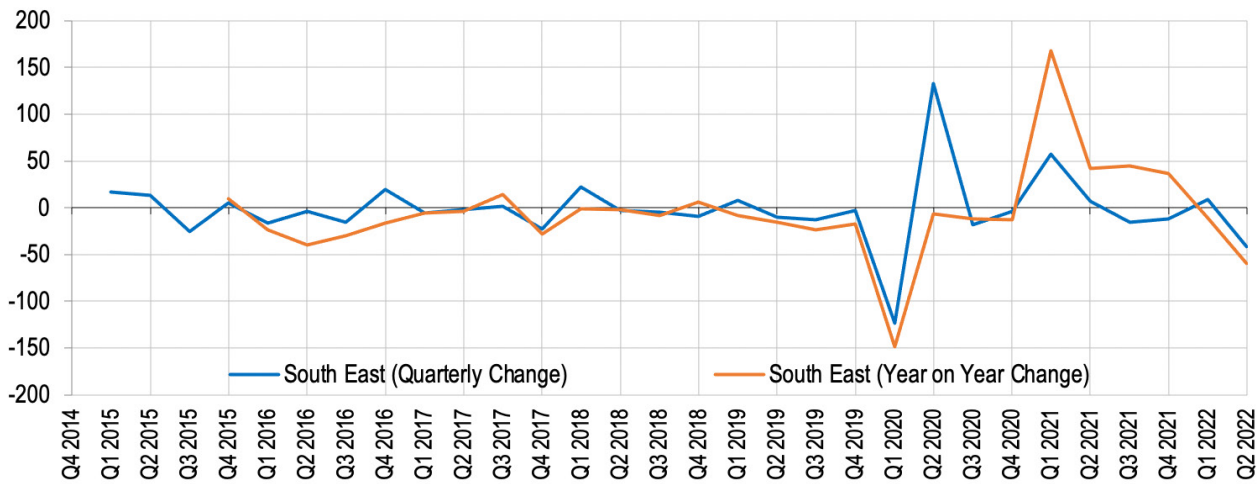
Confidence in business performance over the next 3 months has fallen for the South East in Q2.

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



South East small businesses are less positive about business prospects for the next three months in Q2 2022, when compared to results seen in the previous quarter and during the same period last year.

Fig.2 FSB South East Small Business Index: small business confidence levels (%).



Business Conditions

Revenue in the region (net score -11%)² is below the level seen in the previous two recorded quarters, similarly falling behind the current UK average (which is net -6% by comparison).

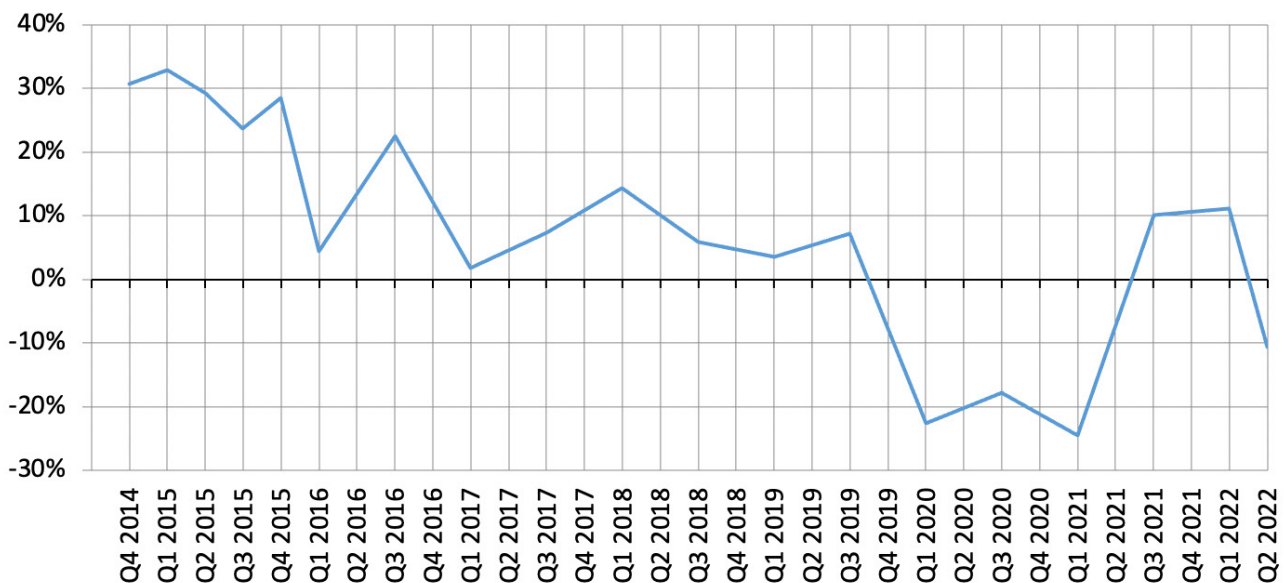
In Q2, under a third (31%) of small businesses in the South East reported an increase in revenue over the last 3 months, below Q1 2022 (41%). By comparison, 42% of small businesses reported a decrease in revenue over the period, higher than the previous quarter (29% in Q1 2022).

With a net balance figure of -11% for Q2, South East's revenue sits behind that of both Q1 2022 (net 11%) and Q3 2021 (net 10%) as well as the current UK average (net -6%). For comparison, the highest performing regions in England are London and the East of England (both net 1% revenue), with the weakest performer being the East Midlands (-14% net revenue).

The outlook for future revenue looks increasingly pessimistic for the region, with an overall net figure of -17%, falling well behind the national average (-3%). The South East is the least optimistic region across the UK, with the most optimistic for revenue predictions being London (net 14%) for the coming quarter.

The net revenue for small businesses in the South East returns to net negative levels, falling behind the figures seen over the previous two recorded quarters.

Fig.3 FSB Small Business Index: net balance of small firms in the South East reporting revenue (revenue question previously only asked in Q1 and Q3 phases of SBI).



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'

Employment and Wage growth

South East small businesses have seen a slight fall in employee numbers, falling behind predictions made in the previous quarter.

The employment picture amongst FSB members over the preceding three months showed that employment levels have fallen, with 9% of businesses having increased their staffing numbers and 14% decreasing them; this left a net change of -6%. This is below predictions from Q1 2022, where 21% predicted an increase and only 9% predicted a decrease in staffing levels.

However, it's worth noting that almost three-quarters of small business staffing levels have been unaffected, with 71% reporting these as having 'stayed the same'. For the next quarter, the intention is for 16% of businesses to increase their headcount and 10% to decrease staff numbers.

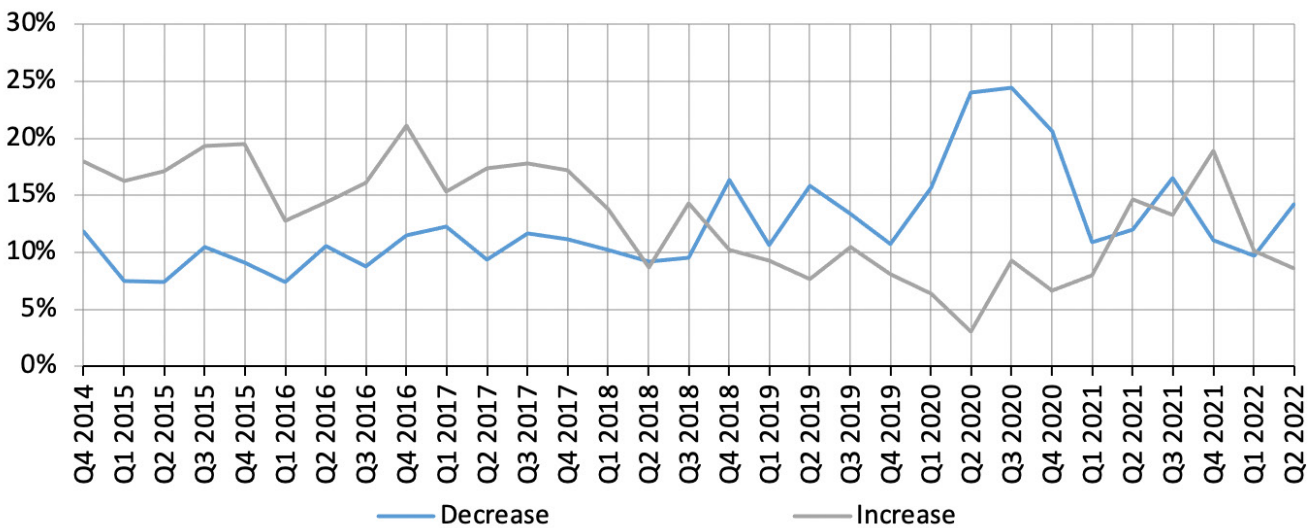
Wage Growth

In the South East, just under two-thirds (63%) of small businesses increased the average salary in the last 12 months, with 58% increasing the average salary by 2% or more. Only 6% reported a decrease in the average salary, resulting in a net score of 58%; this represents a rise from Q1 2022 (net 51%). Over the next 12 months, 64% expect to see salary increases, with 56% reporting the likely proportion to be 2% or above.

Predicted wage increases are slightly higher than 12 months ago (64% expect an increase when asked in Q2 2022, vs. 62% in Q2 2021). However, this is slightly behind predictions seen in the quarters between those periods (i.e. 68% in Q1 2022, 72% in Q4 2021 and 68% in Q3 2021).

Employment numbers saw a slight fall in Q2 2022, dropping behind the figures seen in the previous quarter and in the same period last year.

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



Growth and Investment aspirations

In Q2 2022, 47% of small businesses in the South East said that their aspirations in the next 12 months were to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%), with 14% reporting an aspiration to contract (downsize, close or sell) their business; this shows a net score of 33%. Compared with this time last year (net 43% in Q2 2021), small businesses in the region are less optimistic, with this fall in net score driven largely by a decline in growth aspirations (56% in Q2 2021 vs. 47% in Q2 2022).

The investment intentions for South East businesses are just behind the UK average; the net balance of firms expecting to increase their investment stands at 2%, which is just short of the UK average of 3%. For context, the lowest regions for net investment in England are the East of England and the North East & Yorkshire and The Humber (both at net -5%), with the highest investment intentions coming from London (11%).

In the coming quarter, just under one-fifth (18%) of small businesses in the South East anticipate decreasing investment, with one-fifth (20%) expecting to increase it. In comparison to 2021, the average intended increase was 27% overall, with the average across 2020 sitting at 22%; the current level of expected investment therefore suggests a return to the levels seen during the earlier phases of the pandemic.

In the South East, the domestic economy (73%), consumer demand (30%) and appropriately skilled staff (29%) are the greatest perceived barriers to growth over the coming twelve months.

South-Central: A dedicated view

The South-Central region is currently performing behind the South East and UK average in terms of confidence, revenue and investment intentions, but exceeding both in relation to employment and wage growth.

Regarding the South-Central region specifically, this area sees lower levels of confidence (-44) than both the UK average (-25) and wider South East (-32). In terms of net revenue over Q2 2022, South-Central (net -20%) falls behind both the South East (-11%) and UK average (-6%). For investment intentions, South-Central (net score of -2%) similarly falls behind the South East (2%) and the UK average (3%).

With regards to employment in South-Central, the area slightly exceeds the South East despite remaining negative overall, registering a net employment figure of -5% (8% increased headcount, whereas 13% decreased headcount); South East scores at -6% in comparison.

Finally, salaries in the region have seen a rise over the past 12 months, with 71% of small businesses in South-Central reporting an increase in the average salary, and 61% of businesses giving a rise of 2% or more. No small businesses in the area recorded a decrease in the average salary, meaning the sub-region saw a net increase of 71%. This outperforms both the South East (net 58%) and UK average (net 55%). Over the next 12 months, South-Central businesses predict a net increase for salaries of 64% (with 53% being an increase of 2% or above). This net figure is again slightly ahead of the South East (59%) and UK average (58%).

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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