



FSB North West Quarterly Small Business Index

Q4 2021

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Foreword

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The fourth quarter of 2021 was another challenging one for FSB North West members – with confidence dipping into negative territory for the first time in 2021. But resilience and determination is evident. Investment intentions for the North West remain positive going into 2022, with the majority of businesses hoping to grow moderately or indeed rapidly over the next 12 months. In addition the outlook for future gross profit looking marginally improved to the current situation which shows that Businesses in the North West are placed to drive a post Covid economic recovery.

In order to do this North West 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. 2022 needs to be the year that the scourge of late payment stops.

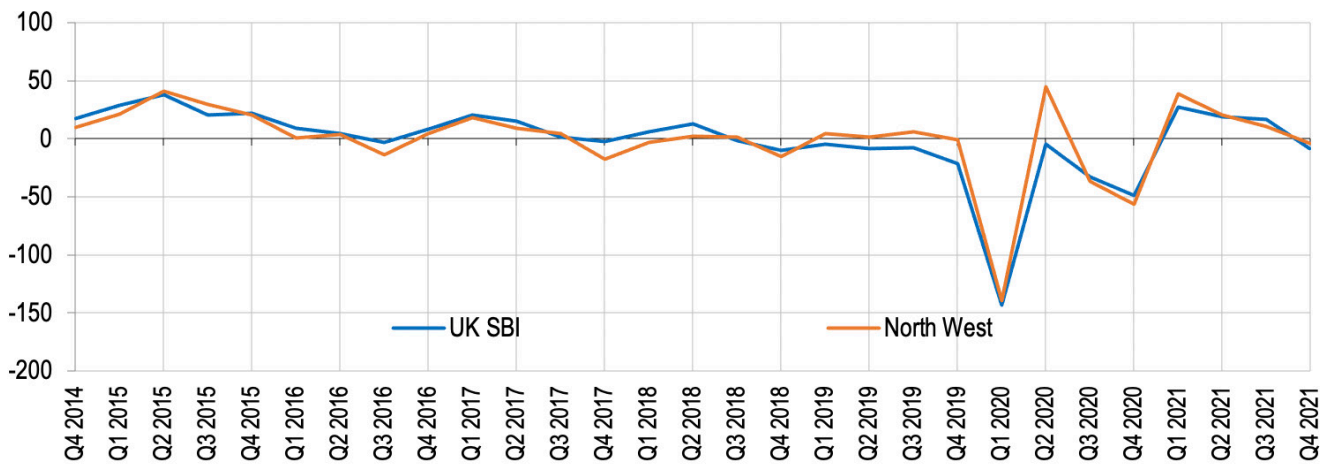
The North West Small Business Index (NWSBI) , which measures confidence amongst businesses, has fallen from the read taken in Q3, 2021. It currently stands at -4% in Q4, whereas 3 months ago confidence was higher at 11%.

Confidence levels have again shown a decline in Q4 (now standing at -4%), following a surge in confidence through the region at the beginning of the year (Q1, 39%). This is the first time in 2021 the reading has fallen into negative territory and may potentially be reflective of the uncertainty associated with the emerging Omicron variant.

Concern in the region is also seen more broadly in the UK, with a national average of -8%; this means the North West is currently tracking slightly above the UK confidence-wise. For comparison, the highest performing region is the East Midlands (15%), with the lowest being the North East at -64%.

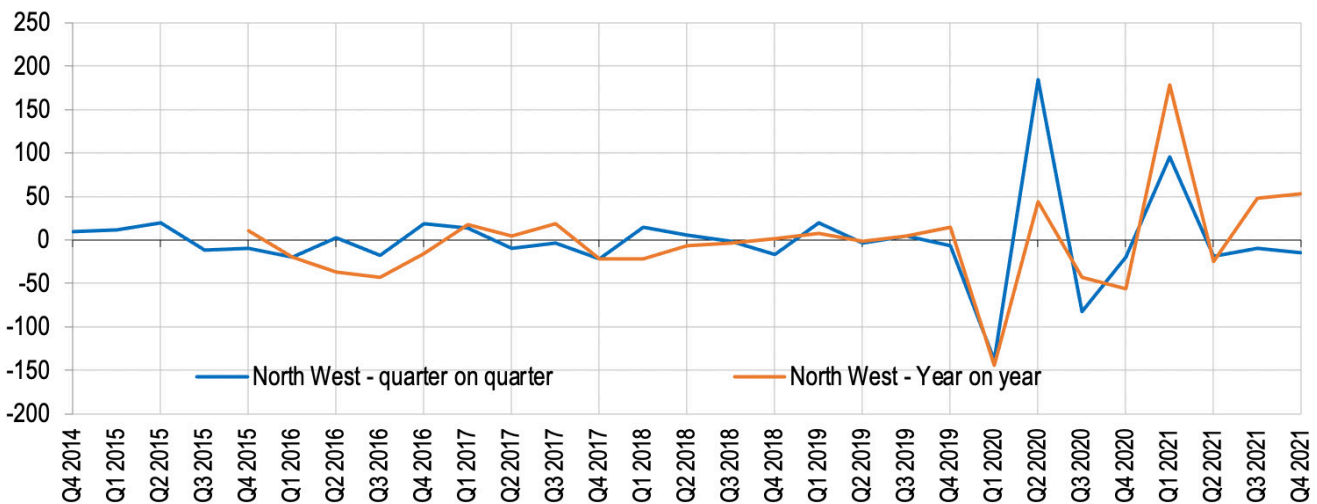
Confidence in business performance over the next 3 months has declined for the North West in Q4: dropping into negative figures.

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



Despite year-on-year confidence being vastly improved (+53%), confidence in Q4 drops for the third quarter in a row in 2021.

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



¹ The North 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

Gross profit in the region (net score -16%)² shows a decline from Q2 (8%) and trails the UK average (-5%)..

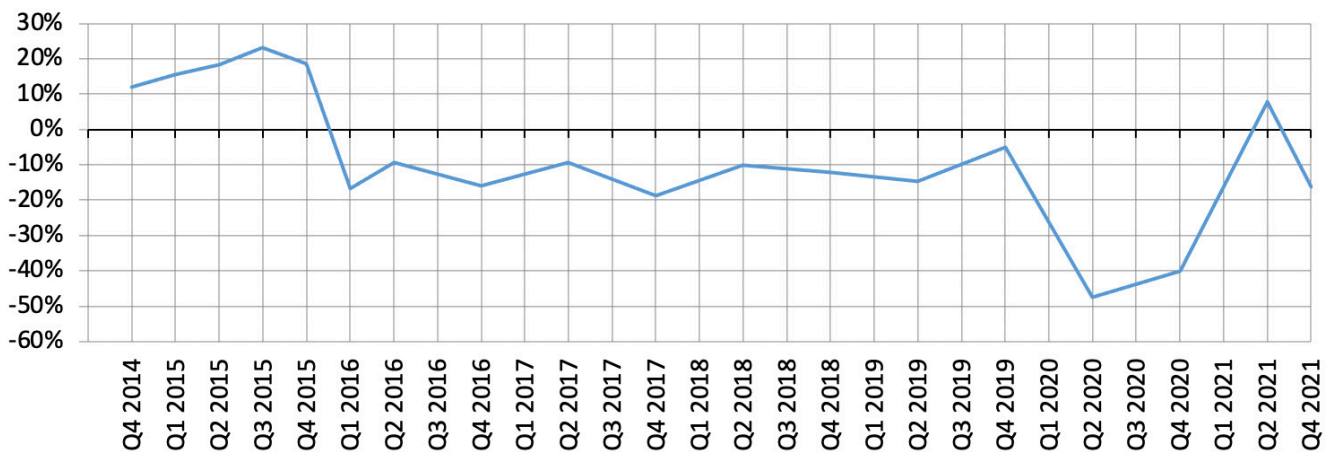
In Q4, the overall net balance for gross profit in the region was negative (net -16%), which is a drop from Q2 (8%), when the metric was last measured. Sentiment in the region appeared to improve in Q2 (8%), following gross profit in the whole of 2020 being negative (Q2 2020, -47%; Q4 2020, -40%). This means a there's been a slight reversal of the positivity felt in the first half of 2021.

With a net balance figure of -16% for Q4, North West gross profit is lower than the UK average (-5%). The highest performing region is the East of England (5% net gross profit), with the weakest performer being the North East (-20% net gross profit).

The outlook for future gross profit looks marginally improved to the current situation, with an overall net figure of -7%. That said, the outlook for the coming 3 months does appear to remain net negative in general; this sentiment is observable more widely in the UK (-3%). London (19%) and the North East (-40%) are the most and least optimistic respectively in terms of gross profit predictions for the coming quarter.

Gross profit for the last 3 months is net negative, following a surge in Q2 2021.

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

The proportion of small businesses increasing staffing levels vs. reducing headcount appears to be slightly more stable in Q4 2021, vs. the last quarter.

The employment picture amongst FSB members over the preceding three months showed that 17% had decreased staff numbers and 11% had increased employment levels. This leaves a net of -5%, showing small businesses in the area are more likely to be losing staff. This is an improvement when compared to Q3, when a net of -11% was recorded and broadly speaking, the majority of staffing levels have been left unaffected, with 64% reporting that this has 'stayed the same'.

For the next quarter the intention is much more positive, as 20% of businesses aim to increase headcount and 10% look to decrease staff numbers.

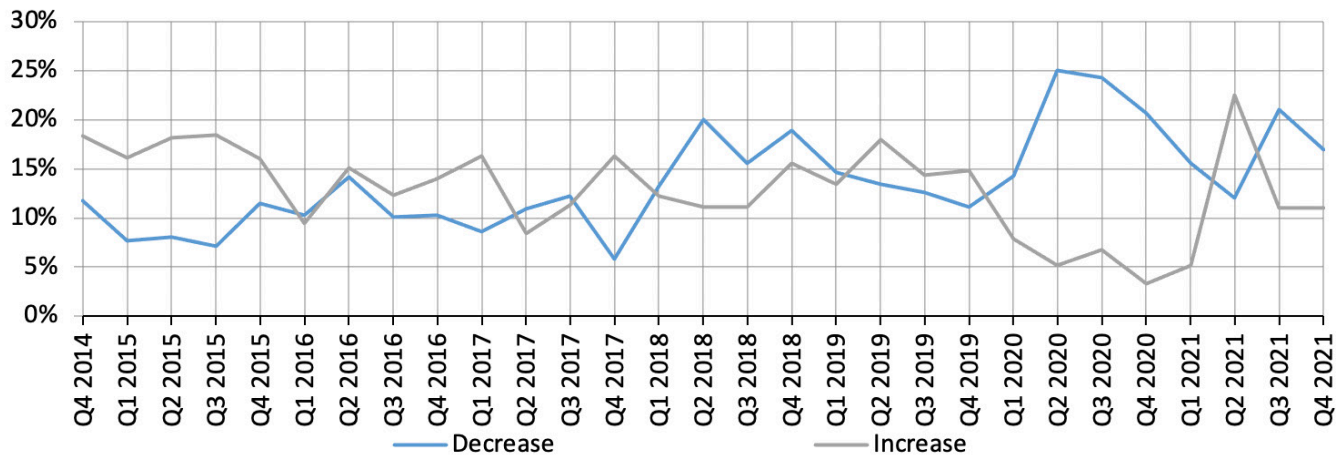
Wage Growth

In the North West, 68% of small businesses increased the average salary awarded across the business over the last 12 months; with 57% doing so by 2% or more. This means the proportion of businesses increasing wages is on par with pre-pandemic levels (c.61% average pre-2020).

Predicted wage growth is also higher than in Q3, as 72% expect to see salary increases over the next 12 months, with 65% reporting the likely increase to be above 2%.

The proportion of small businesses decreasing headcount continues to be greater than those increasing staffing level, despite the gap closing vs. Q3.

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



Growth and Investment aspirations

In Q4, 2021, 58% of small businesses in the North 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%). Conversely, 9% of businesses intend to contract over the next twelve months (to downsize, sell or close the business).

Investment intentions for the North West remain positive going into 2022, with 33% looking to increase the amount of capital being invested in their business (net 17%).


33% of businesses in the North West are planning to increase investment, vs. 16% looking to decrease this. This leaves a net balance for investment in the North West at 17%, which compared with the last year is a significant improvement (net average for 2020 was -3%). Investment intentions in the North West (net 17%) is on par with the UK average (net 19%). For comparison purposes, London plans to be most active in the coming quarter (net 30%), contrasted with the South East where investment intentions are lowest (net 10%).


In the North West, the general economic conditions in the UK (57%), appropriately skilled staff (34%) and input costs (34%) are the greatest perceived barriers to growth over the coming twelve months.

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