FSB South West Quarterly Small Business Index

Q3 2021

This document was produced by
FSB South West in October 2021

fsb

Foreword

Foreword by Craig Carey-Clinch
FSB South West Policy Representative
Federation of Small Businesses

As we enter what many businesses are telling us could be an uncertain and unpredictable winter, it is understandable to see that confidence among our South West FSB members has fallen.

Our quarterly membership survey shows local member confidence dropping markedly since we reported back in the summer and, disappointingly, the South West has now gone from being one of the most confident regions in the UK to one that is below the national average.

These figures show that concerns about increasing business and utility costs, shortages of both staff and materials, uncertain consumer demand and the fear of further cost rises are now starting to dent some of the positive feelings we saw in the region earlier in the year.

It is not all bad news, however. Compared to the same period last year confidence has improved greatly, net revenue figures among our businesses is still rising and we are still seeing more members planning to recruit new staff rather than to reduce their staffing numbers.

We will now continue to work with stakeholders locally, regionally and nationally to stress the importance of supporting our small businesses through these next potentially challenging months and hope that SME confidence will grow again so we can play our part in supporting the economic recovery which the South West SME community will strive to lead.

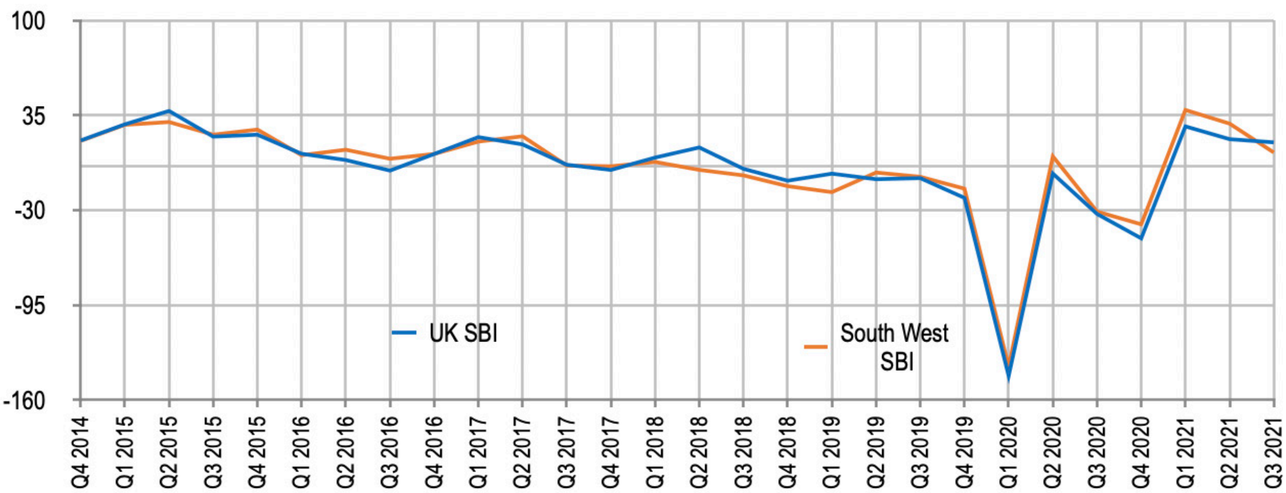
The South West Small Business Index (SWSBI)[1], which measures confidence amongst businesses, has fallen to 9% in Q3. This represents a fall from the reading taken in Q2 2021 (29%).

Small business confidence for the next 3 months remains positive in Q3 (9%) despite showing a decline from Q2 2021 (29%). Despite this decline, when compared against Q3 2020 (-31%), sentiment has greatly improved. This is most likely driven by relaxation of restrictions across the country.

Looking at the rest of the UK more broadly, small businesses in the region display confidence slightly below the UK average (16%). Sentiment in the South West is among some of the lower regions in the UK, with only the East Midlands (0%) and East of England (-1%) scoring lower on the confidence metric.

Confidence in business performance for the next 3 months in the South West remains positive, but declines to slightly below the UK average.

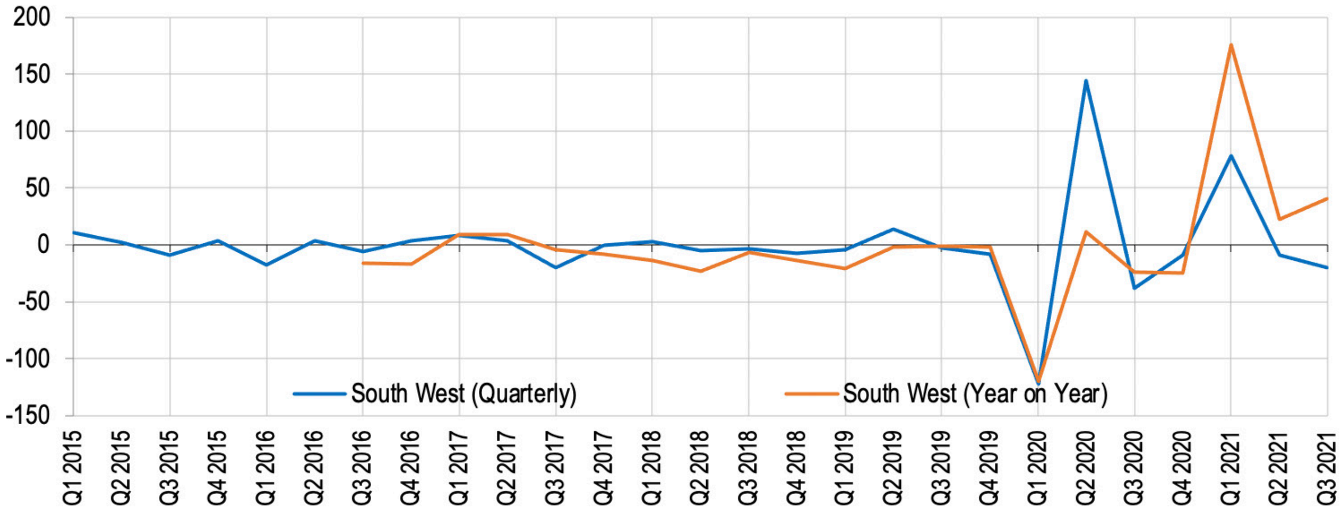
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



[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.

Compared with year-to-date, South West small businesses are more positive about their business prospects.

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



Business Conditions

South West small businesses report a net positive balance for revenue over the last 3 months, with predictions for continued improvements over the coming quarter.

In Q3, the overall net balance for revenue in the region was positive (net 23%) , showing a strong increase since Q1 2021 (-24%). This is the first positive net revenue since Q3 2019 (11%), with quartlery results between then and Q3 2021 sitting at an average of -24%.

Signs of improvement are also observable across the UK more widely – with a net average of 8%, sentiment across the country appears positive. The South West is the most optimistic region in the UK in terms of revenue for the last 3 months (net 23%), followed by North East & Yorkshire and The Humber (16%) and the East Midlands (16%).

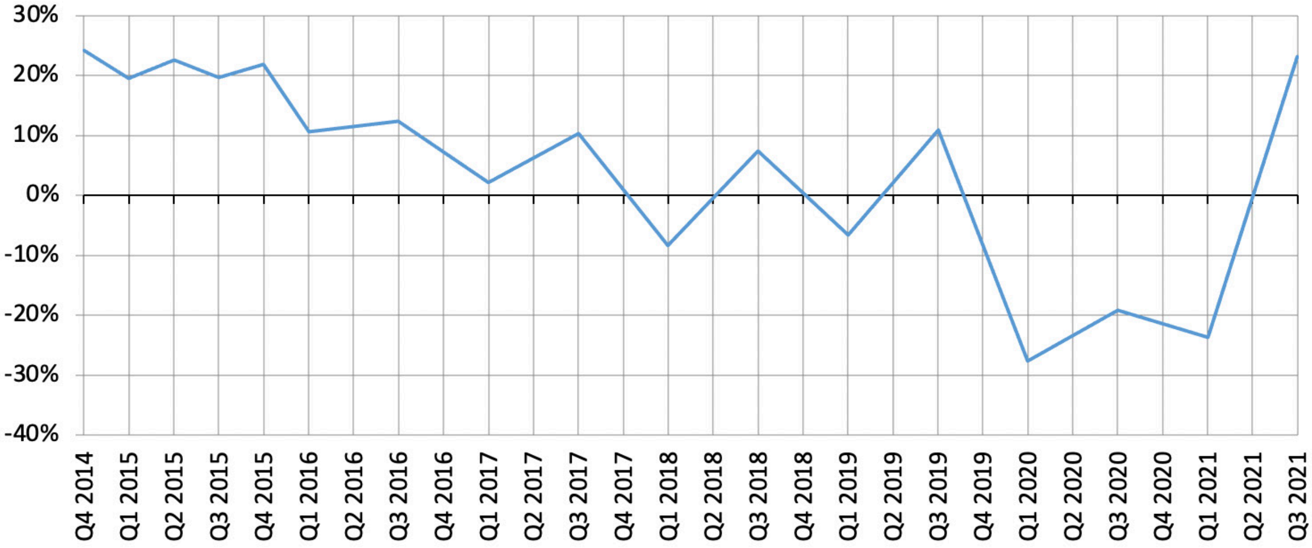
The outlook for future revenue also remains positive in the South West, but sees a decline from Q1 2021. In the region, 37% of small businesses expect a growth in revenue over the next 3 months, with 27% expecting a decrease. This leaves a net balance of 10% for predicted revenue changes in the region (down from 28% in Q1 2021), which is much less optimisitic than the UK average of 20%.

Revenue amongst South West small businesses turn positive for the first time since Q3 2019, showing a sharp rise from Q1 2021..

[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'

Fig.3 FSB Small Business Index: net balance of small firms in the South West reporting revenue (revenue question only asking in Q1 and Q3 phases of SBI – question is asked on a rotational basis)



Employment and Wage growth

Employment in South West small businesses' is currently net positive (1%), with this increase set to rise in the next quarter.

The employment picture amongst FSB members over the preceding three months showed that 15% had decreased staff numbers, whilst the same proportion (15%) had increased employment levels. Accordingly, many staffing levels have been left unaffected, with 66% reporting that this has 'stayed the same'.

For the next quarter, the intention is for 13% of businesses to increase headcount and 7% to decrease staff numbers.

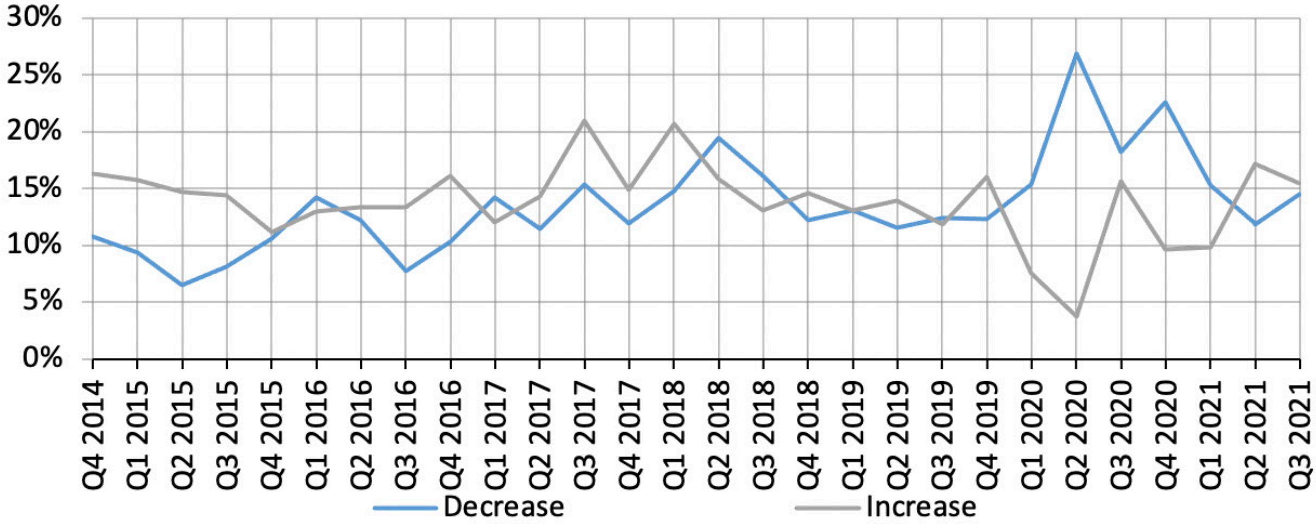
Wage Growth

In the South West, over half (58%) of small businesses increased the average salary awarded across the business over the last 12 months, with 45% reporting an average increase of 2% or more.

Compared with year to date, predicted wage growth has risen; in Q3 2020, 42% of small businesses expected to increase the average salary (with 30% expecting the increase to equate to 2% or more). This quarter, 65% expect to see salary increases over the next 12 months, with 52% reporting the likely increase to be above 2%, indicating confidence that the business environment in the region is improving.

In the South West, the proportion of small businesses increasing headcount now only just exceeds the proportion of those 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 Q3 2021, 48% 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%).

Investment intentions for small businesses in the South West has slightly increased vs. last quarter, with the region's intentions on par with the UK average.

31% expect to increase investment over the next 3 months, with 15% expecting to reduce the amount invested. The net balance of firms expecting to increase their investment in the South West therefore stands at 16%. This puts the region just above the national average (15%). The highest investing regions are the North East (21%) and London (20%), with the lowest being the West Midlands (3%).

In the South West, the general economic conditions in the UK (56%), getting appropriately skilled staff (40%) and consumer demand (30%) are the greatest perceived barriers to growth over the coming twelve months.

In the South West, 11% 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 slight rise from last quarter, when 9% 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**

fsb.org.uk

facebook.com/federationofsmallbusinesses

@FSBSouthWest

If you require this document in an alternative format please email **accessability@fsb.org.uk**