



FSB South East Quarterly Small Business Index

Q1 2023

fsb^{co}



Foreword

Are these the green shoots of recovery? When we compare the latest FSB Small Business Index (SBI) to the last one, we see a vast improvement. The last Quarter of 2022 heralded the lowest confidence score since lockdown, with concerns that we were going to stay there. For Quarter 1 in 2023, however, we are back in positive territory, with business confidence at 4. Compared to the wider UK score of -3, the results in the South East show that we are slowly climbing out of the economic doldrums.

Although revenue remains in negative territory at -5%, this is an improvement on the -12% of the last quarter. This is above the UK average of -7%. Looking forward, SMEs predict a net figure of 22% over the next quarter, anticipating some significant economic growth across the region. This is reflected in the employment statistics. 17% of SMEs increased their employment levels, and 13% decreased them. This is above the predictions of the last quarter, where 11% predicted an increase and 12% foresaw a decrease.

In the South East, three-quarters (75%) of small businesses increased the average salary in the last 12 months, with 70% increasing the average salary by 2% or more. This positive trend is reflected in the investment intentions of small businesses. In the South East, we outperform the whole UK. The net balance of firms looking to expand stands at 15%, compared to a national average of just 2%.

Hopefully these findings will give us a reason to cheer. These positive statistics show that supporting small business matters. Despite the economic backdrop, they are investing, they are recruiting, and they are continuing to drive our economy forward.

The South East Small Business Index (SESBI)¹, which measures confidence amongst businesses, turns positive. It rose sharply in Q1 2023, now sitting at 4.

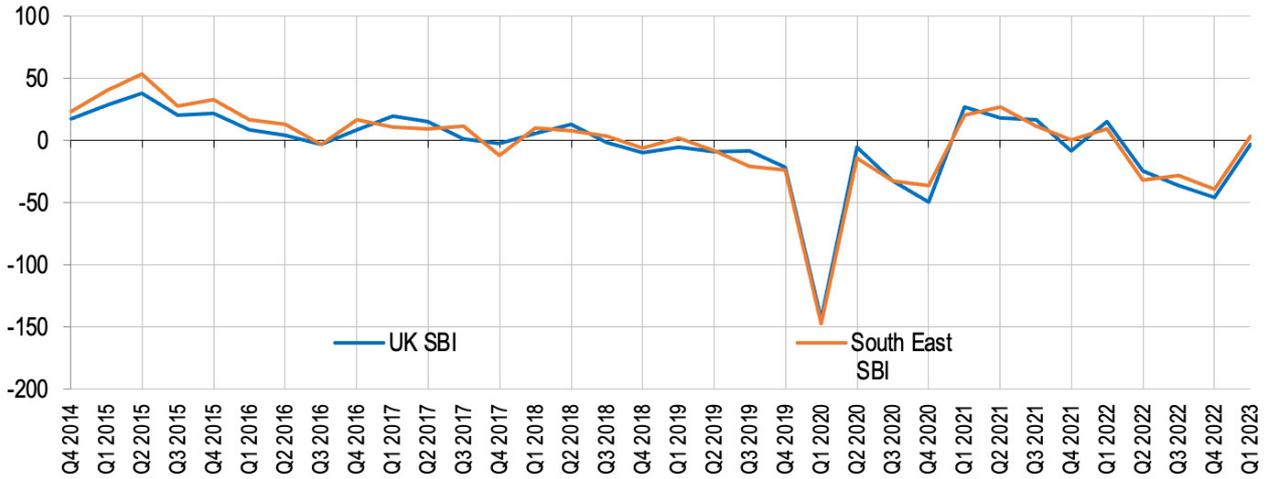
The current score of 4 follows a strong improvement from the end of last year; the index was -39 in Q4 2022, which was the lowest level seen since Q1 2020 at -147. It now sits just below the level of confidence seen at the start of last year (9 in Q1 2022).

This rise in confidence levels has occurred despite current inflationary pressures, which has driven increased costs and uncertainty for small businesses and the wider public, as seen in the wider picture across the UK (which sees a confidence level of -3). For context, the weakest performing region is the South West (-23), with the West Midlands the strongest (7).

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 risen strongly for the South East in Q1, and remains above the UK average.

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



There have been strong improvements in confidence levels among South East small businesses compared to the previous quarter.

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



Business Conditions

Although revenue in the region remains negative (net score -5%)², the situation has improved since the previous quarter (where it was net -12%).

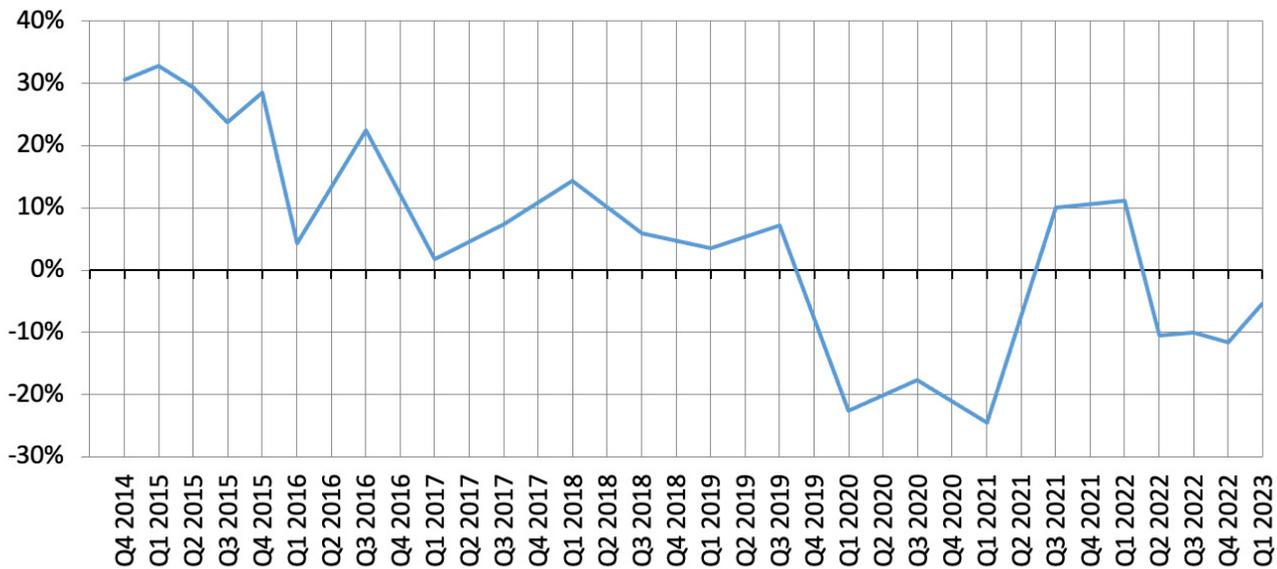
In Q1, just over a third (35%) of small businesses in the South East reported an increase in revenue over the last 3 months; this represents a slight increase from the previous quarter (30% in Q4 2022). 40% of small businesses reported a decrease in revenue over the period, which is similar to the previous quarter (41% in Q4 2022).

With a net balance figure of -5% for Q1, South East's net revenue sits just above Q4 2022 (-12%). Despite this quarter-on-quarter rise, results are behind what was seen this time last year (net 11% in Q1 2022). Despite this, the South East sits slightly above the current UK average (which is net -7%). For comparison, the highest performing region in England is the West Midlands (net 0% revenue), with the weakest performer being the South West (-19% net revenue).

The outlook for future revenue looks bright, especially compared to current revenue levels. Small businesses in the region predict an overall net figure of 22% over the next quarter, placing it ahead of the national average (net 13%) and tied with the North West as the most optimistic region for revenue predictions in the coming quarter. For context, the North East & Yorkshire and The Humber is the least optimistic region across the UK (net -9%).

The net revenue for small businesses in the South East remains net negative, although does show a rise from the previous quarter.

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 rise in employee numbers, exceeding predictions made in the previous quarter.

The employment picture amongst FSB members over the preceding three months showed that employment levels began to rise again, with 17% of businesses having increased their staffing numbers and 13% decreasing them; resulting in a net change of 4%. This is above predictions from Q4 2022, where only 11% predicted an increase and 12% predicted a decrease in staffing levels.

It's worth noting that two-thirds of staffing levels have been unaffected, with 66% reporting these as having 'stayed the same'. For the next quarter, the intention is for 24% of businesses to increase their headcount and 8% to decrease this.

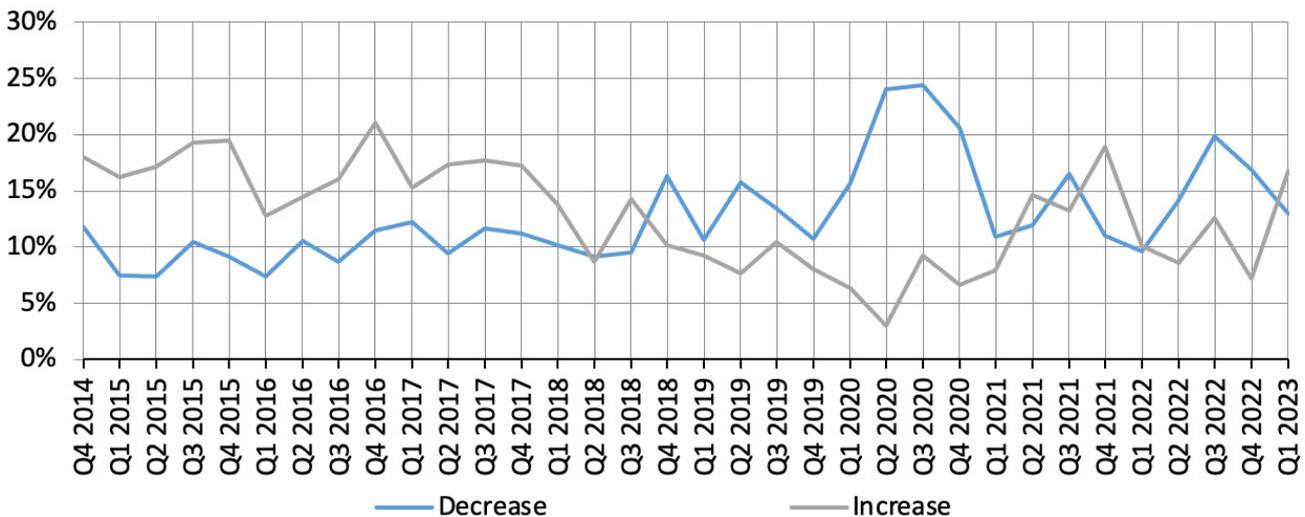
Wage Growth

In the South East, three-quarters (75%) of small businesses increased the average salary in the last 12 months, with 70% increasing the average salary by 2% or more. 9% reported a decrease in the average salary, resulting in a net score of 66%; this represents a clear rise from Q4 2022 (net 45%) and shows a return to figures seen in Q3 2022 (67%). Over the next 12 months, 77% expect to see salary increases, with 68% reporting the likely proportion to be 2% or above.

Predicted wage increases are higher than when asked 12 months ago (68% expected an increase when asked in Q1 2022 vs. 77% in Q1 2023) and is higher than what was predicted in the previous quarter (65% in Q4 2022).

The number of South East small businesses seeing an increase in employment numbers has overtaken the number of those reporting a decrease.

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



Growth and Investment aspirations

In Q1 2023, 59% 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 11% reporting an aspiration to contract (downsize, close or sell) their business; this results in a net score of 48%. Compared with this time last year (net 35% in Q1 2022), small businesses in the region are therefore much more optimistic.

The investment intentions for South East businesses over the coming quarter outperform the UK average; the net balance of firms expecting to increase their investment stands at 15%, well ahead of the UK average of 2%. For context, the lowest region for net investment expectations in England is The North East, Yorkshire & The Humber (net -14%), with the highest net investment intentions coming from the North West (18%).

In the coming quarter, just over a quarter (28%) of small businesses in the South East anticipate increasing investment, with fewer (13%) expecting to decrease it. In 2022, the average intended increase was 23% overall, with the averages across 2021 and 2020 at 27% and 22% respectively. The current level of expected investment therefore shows a slightly higher level than what was seen over the previous 3 years.

In the South East, the domestic economy (58%), labour costs (35%) and utility costs (26%) are the greatest perceived barriers to growth over the coming twelve months.

South-Central: A dedicated view³

The South-Central region sees a mixed picture in terms of performance against the wider South East region and the UK as a whole. Although it outperforms the UK average for confidence levels alongside current and predicted salaries, it lags behind it and the South East with regards to net revenue for Q1 2023.

Regarding the South-Central region specifically, this area sees higher levels of confidence (3) than the UK average (-3) but just falls behind the wider South East (4). In terms of net revenue, however, in Q1 2023, South-Central (net -21%) sits well behind both the South East (net -5%) and UK average (net -7%). More positively, for investment intentions, South-Central (net score of 15%) is on par with the South East (net 15%) and exceeds that of the wider UK average (net 2%).

With regards to employment in South-Central, the area performs below the South East, registering a net employment figure of 0% (12% increased headcount and 12% decreased this); the South East, by contrast, scores at net 4%.

Salaries in the region have seen a rise over the past 12 months, with 75% of small businesses in South-Central reporting an increase in the average salary. 69% of businesses gave a rise of 2% or more. By contrast, 10% of small businesses in the area recorded a decrease in the average salary, meaning the sub-region saw a net score of 66%. This slightly outperforms the UK average (net 63%) and sits on par with the South East more widely (net 66%).

Over the next 12 months, 72% of South-Central businesses predict an average increase in salaries of 2% or above. The predicted net figure (79%) is ahead of both the South East (net 74%) and the UK average (net 65%).

³ Results are based on a small base size. N = 29 (unweighted)

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