

A smiling woman with long dark hair, wearing a white apron over a pink top, stands in a floral shop. She is holding a smartphone in her right hand and a pair of yellow-handled pliers in her left. The background shows shelves with various items and a large white bucket filled with white lilies.

FSB East Midlands Quarterly Small Business Index

Q1 2024

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Foreword

This FSB Small Business Index Report for the first quarter of 2024, describes the findings of our latest, comprehensive research into small firms' recent performance, current circumstances, and future aspirations.

Subsequent pages of this document provide detailed analysis of these findings, which I can summarise as follows:

Overall: In Q1 2024, the overall level of confidence of regional small businesses has improved dramatically, turning positive following seven consecutive quarters of negative findings.

Revenues: While marginally more of the region's small businesses saw a decrease in their revenues during the period than saw an increase, performance overall was slightly above the national average.

Employment: Little change over the previous quarter, with a slightly higher proportion of small businesses reducing staff numbers than increasing them. However, the outlook for the second quarter of 2024 is more upbeat.

Wage growth: Almost three quarters of small business owners had increased their average salaries and a similar proportion expect further increases in the next 12 months.

Growth & investment: Slightly more than half of respondents expect to grow rapidly or moderately over the coming 12 months – as was the case in the preceding two quarters. Less than 1 in 10 expect to contract or close.

Barriers to Growth: The top three, most cited challenges facing the regions' small firms were the domestic economy (73%), flat/weak consumer demand (45%) and high labour costs (22%).

It is encouraging to see overall levels of confidence in the region's small businesses improving significantly in Q1 2024.

In addition, the Autumn Statement of 2023 and the more recent Spring Budget 2024 responded to key 'asks' from FSB with tangible help for small businesses - notably the raising of the VAT threshold from £85,000 to £90,000 and the cut to National Insurance contributions. There has also been more positive news recently on inflation and interest rates. These are all welcome steps towards creating better conditions for small businesses.

This initial progress must now be built upon.

Small businesses contribute an enormous amount to the regional economy. A sustainable recovery is reliant upon on their formation, success and growth.

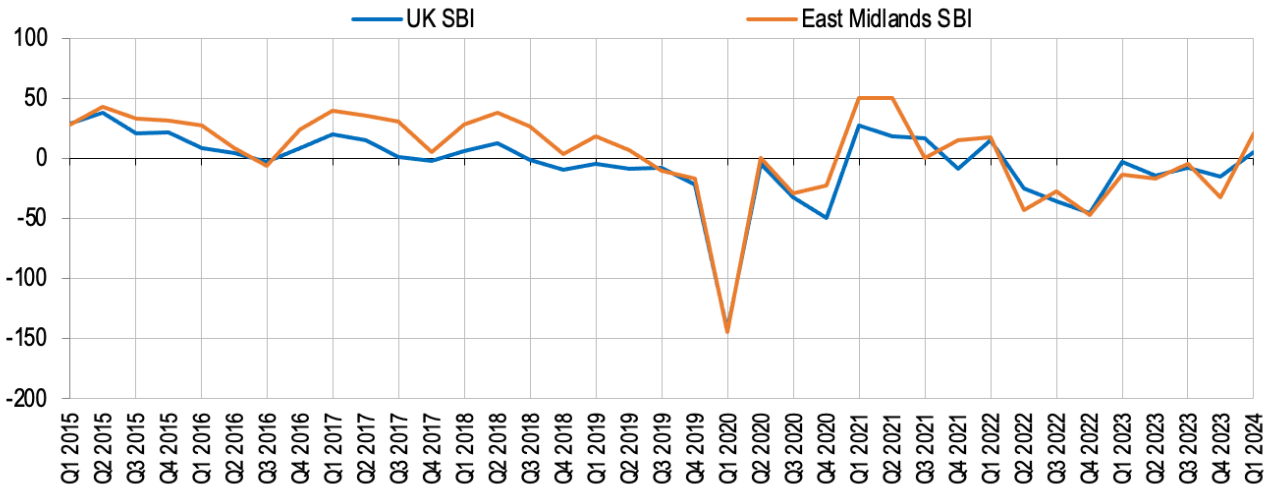
The East Midlands Small Business Index (EMSBI)¹, which measures confidence amongst businesses, rises sharply in Q1 2024, returning to a positive score. It currently stands at 21; in Q4 2023, the reading was -32.

After seven consecutive quarters of negative confidence levels in the East Midlands, the score has again turned positive at 21, and is also higher than the last positive score seen in the region (17 in Q1 2022). This paints a positive picture following a sustained period of uncertainty within the East Midlands, likely due at least in part to the cost-of-living crisis.

This surge in confidence within the East Midlands places it ahead of the national average (5), only scoring behind the North East & Yorkshire and The Humber (31). For context, the lowest performing region in the UK was the South East (-7).

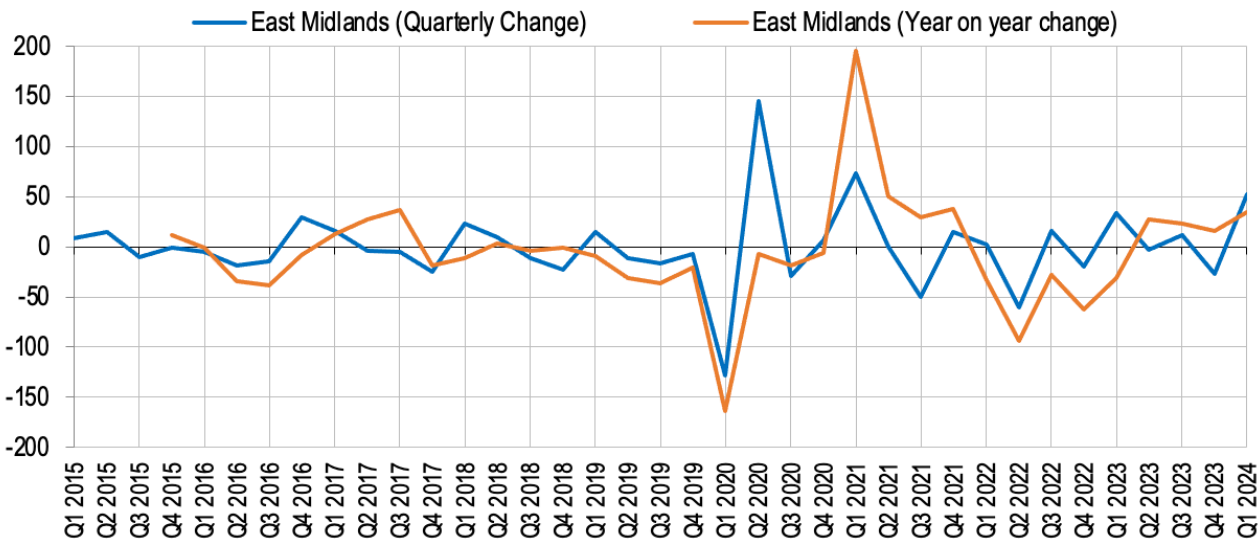
There is a sharp rise in confidence for business performance over the next 3 months, with scores returning positive for the first time in 2 years.

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



East Midlands small businesses report a positive outlook when viewing quarterly and year-on-year changes.

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



¹ The East Midlands 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

Net revenue amongst East Midlands small businesses remains negative in Q1 2024, although this is above the national average.

In Q1 2024, 38% of small businesses in the East Midlands reported a decrease in revenue over the last 3 months. Comparatively, 32% of East Midlands businesses reported an increase in profit levels over this period, showing some resilience. Although this outperforms the results seen in the previous quarter (25% saw a revenue increase in Q4 2023), it still lags behind Q3 2023 (43%).

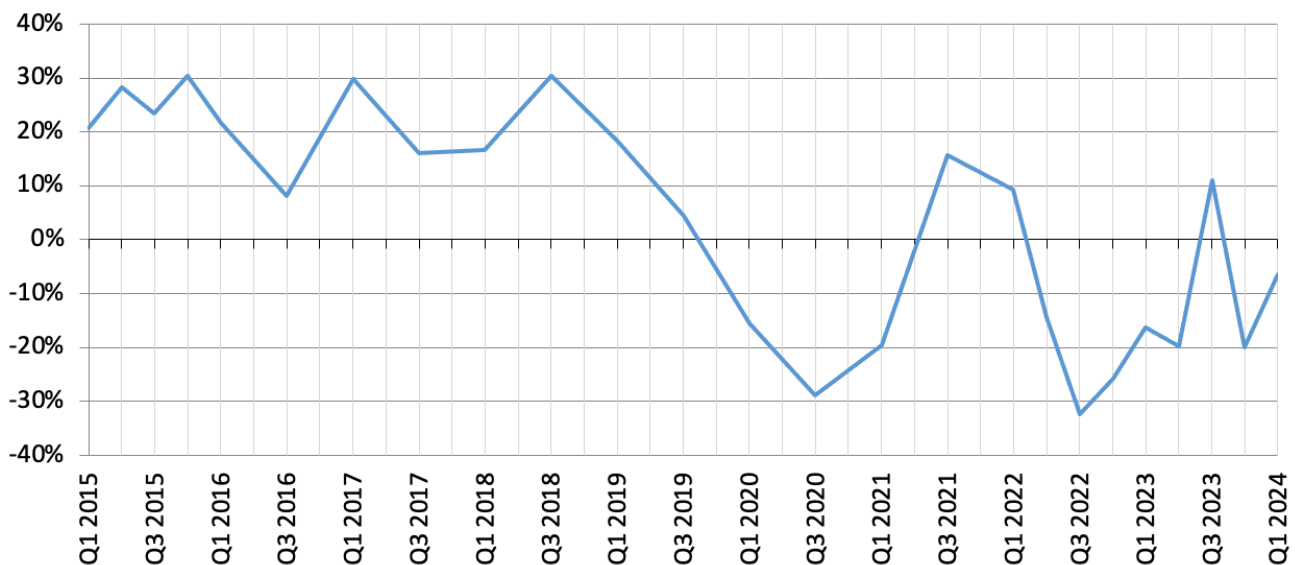
With a net balance figure of -6%² for Q1, East Midlands small businesses' profits performed slightly better than the nationwide average. The UK net balance revenue for Q1 remains negative, standing at -9%.

The outlook for future revenue is, instead, positive in the East Midlands. In the coming quarter, a net balance of 25% expect growth in profits, a strong increase from the net balance of -23% who expected growth in Q4 2023. For context, net revenue outlook in East Midlands is just above the nationwide average (which is net 22%). The region with the most positive outlook is the North East & Yorkshire and The Humber (net 37%).

The proportion of those expecting a revenue increase nationwide over the next quarter (46%) is on par with the sentiment among East Midlands, where 46% also anticipate an increase.

East Midlands small businesses report an improvement in net revenue in Q1 2024, although the overall net figure remains negative.

Fig.3 FSB Small Business Index: net balance of small firms in the East Midlands reporting revenue



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

East Midlands employment levels remain net negative in Q1 2024, following the return to a net negative figure in Q4 2023.

The employment picture amongst FSB members over the preceding three months showed that 9% had increased staff numbers and 13% had decreased employment levels. The net change of -4% reflects an overall decline in staffing levels in the region; this period keeps the East Midlands in net negative employment levels as seen in the previous quarter (where it was net -5%); comparatively, Q3 2023 showed a respective score of net 11%.

For the next quarter, there is a positive expected employment growth in the region, with an anticipated net 6% change in headcount. This is a more positive outlook versus what was reported in Q4 2023 (net -16%), and sits slightly above the outlook in Q3 2023 (net 5%)

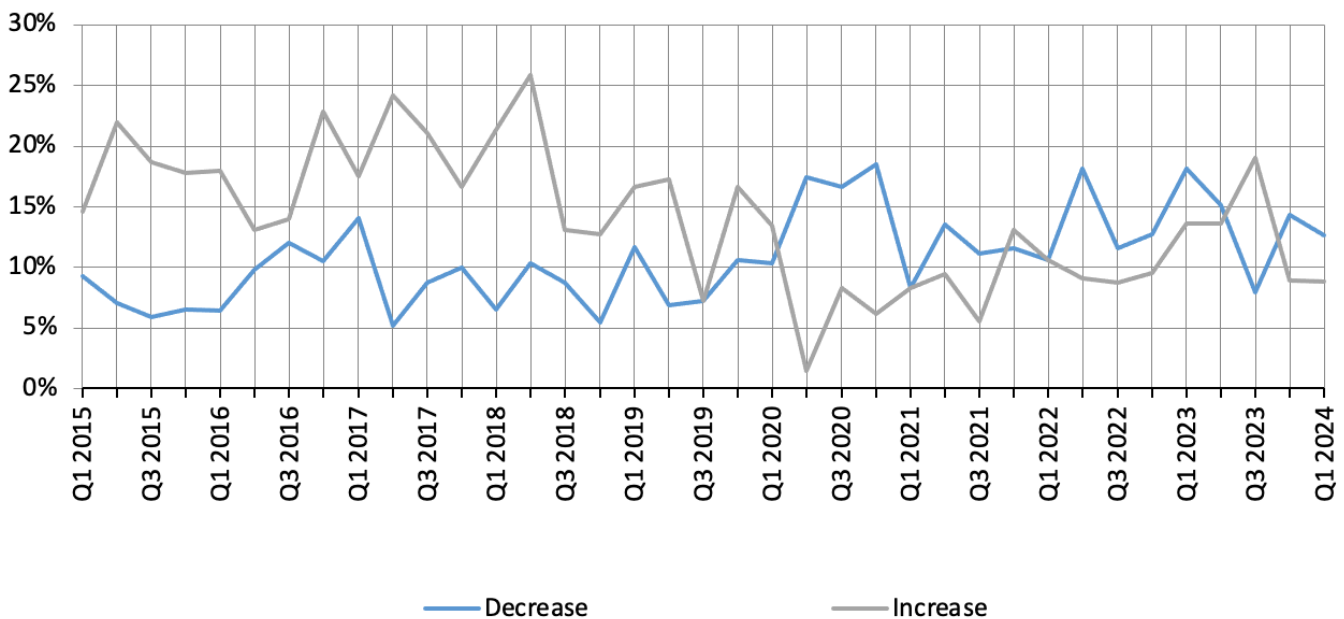
Wage Growth

In the East Midlands, the net change in average salaries for Q1 (67%) has continued to slightly increase quarter-on-quarter (63% in Q3 2023, 65% in Q4 2023). 72% of small businesses increased the average salary awarded across the business over the last 12 months, just ahead of 71% in Q4 2023. Meanwhile, just 5% of small businesses in the region decreased average salaries over the last quarter (down slightly from 6% in Q4 2023).

The net expected wage growth for the upcoming 12 months in the East Midlands increases slightly to 72% as of Q1 2024, up from 68% in Q4 2023.

There is little change in the proportion of East Midlands small businesses increasing headcount in Q1 2024. The proportion of those decreasing headcount outpaces those increasing.

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



Growth and Investment Aspirations

In Q1 2024, 51% of small businesses in the East Midlands aspire to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%) over the next 12 months. This is similar to Q4 2023 and Q3 2023, where 50% and 53% of businesses respectively intended to do so. Fewer small businesses now intend to contract in Q1 2024 (9%) compared to Q4 2023, where 11% of small businesses in the region expressed a desire to do so.

As of Q1 2024, there has been a return to positive investment intentions for East Midlands small businesses, following a brief negative outlook in Q4 2023 (net 16% in Q1 2024, versus net -8% in Q4 2023). The UK average of net 10% in Q1 2024 reveals a positive outlook; this has remained positive each quarter nationally since Q4 2020. The East Midlands is the most positive region in the UK for investment intentions in Q1 2024, with the closest region being London (net 14%). For context, the least optimistic outlook within the UK is seen in the South West (net 2%).


In the East Midlands, the domestic economy (73%), consumer demand (45%), and labour costs (22%) are the greatest perceived barriers to growth over the coming twelve months.

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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