



FSB West Midlands Quarterly Small Business Index

Q2 2021

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Foreword

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The FSB's quarterly Small Business Index surveys small business confidence and is based upon respondents' views regarding their recent performance, their current trading conditions and their future plans. The large sample size allows for both national and regional interrogation of the data and this is the West Midlands report for quarter 2 of 2021.

It shows that growth and hiring aspirations are strong amongst West Midlands small business owners. Half predict their performance will improve in the next three months, a reversal of the negative territory confidence was in at the same time last year. In addition, 1 in 5 small firms in the region expect to increase their staff numbers over the next quarter.

However, there is less welcome news on issues such as access to skilled staff, input costs, late payment and changes to trading rules. In each case, a high proportion of respondents reported that these were acting as barriers to growth and causing concern.

So, with most restrictions lifted and some semblance of normality returning, the region's small businesses are, in the main, well-positioned to take full advantage of the opportunities on offer to them as the economy recovers.

Confidence overall is moving in the right direction, although what happens to small firms as the pandemic ends remains to be answered.

The challenges around skills shortages and rising input costs should concern us all – anything which puts the brakes on small business recovery is bad news for the economy. Recent announcements around upskilling are welcome but will not be in place rapidly enough to provide immediate relief.

We need to see further positive actions from both central and regional governments to energise the small business recovery further.

We're also urging everyone to respect the house rules at each small business they visit – to help owners keep their customers, suppliers and staff safe.

Concerted action, coupled with mutual respect, will be key to harnessing the increased confidence of small businesses and delivering a safe and speedy economic recovery.

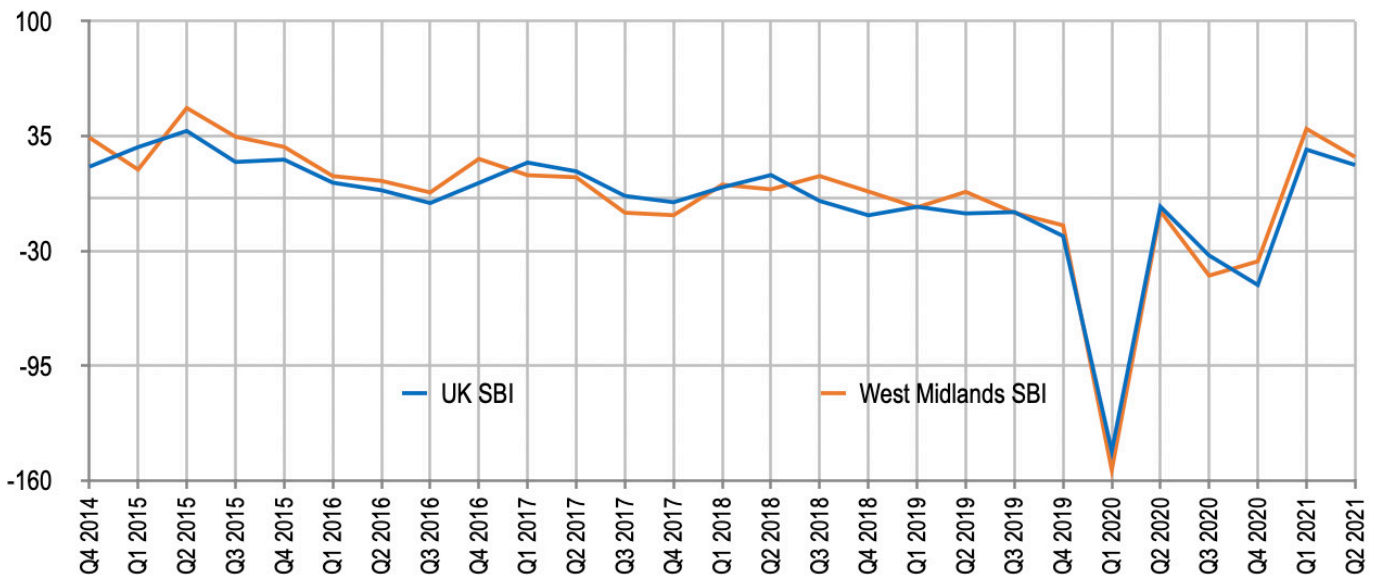
The West Midlands Small Business Index (WMSBI)¹, which measures confidence amongst businesses, shows a lessening of the improvement seen in Q1. Whilst still positive, and in contrast to the negative confidence scores since Q3 2019, it currently stands at 23% in Q2 compared to the last quarter, where it stood at 39%.

Small business confidence for the next 3 months is positive in Q2 2021 (23%) despite showing a decline from Q1 2021 (39%). Whilst a marginal decline in confidence has been observed in the last 3 months, if we compare this with scores taken during 2020, sentiment in the region has improved greatly. This is most likely driven by relaxation of restrictions across the country.

Despite the fall in confidence, it's worth calling out that the metric is measured as 'confidence in business performance for the next 3 months vs. last 3 months'. The comparative nature of the metric, then, would likely have been affected by the high levels of pessimism at the end of 2020 (-36% in Q4 2020). This would make any improvements give the impression of particularly high 'confidence', suggesting that the decline in Q2 may be a return to 'normal'.

Confidence in business performance in the West Midlands for the next 3 months indicates signs of a return to 'normal', following a decline since Q1 2021.

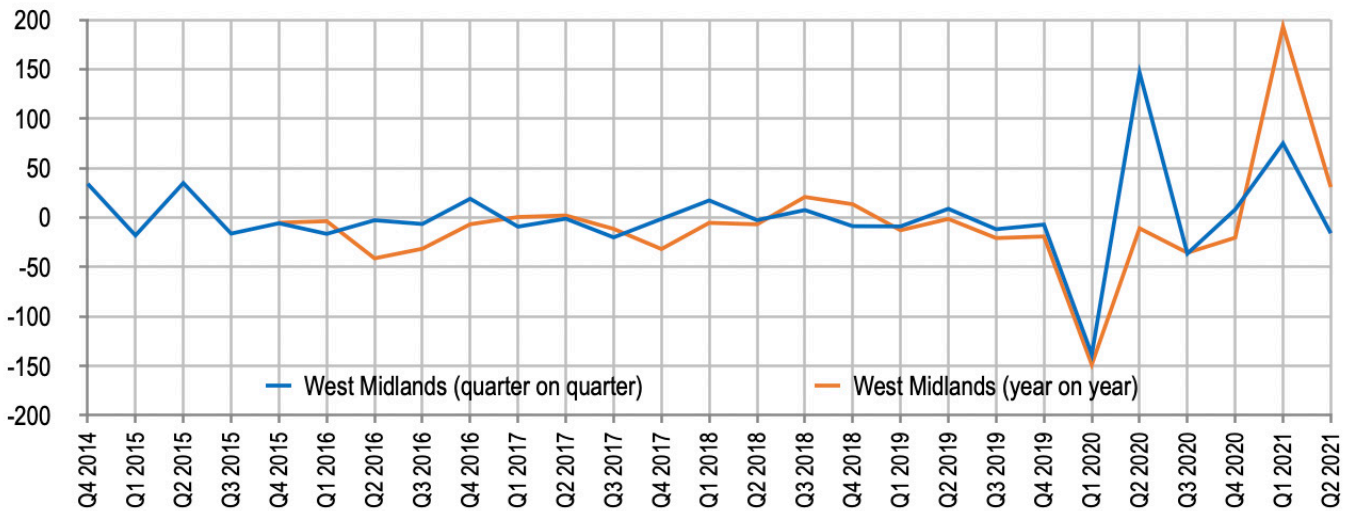
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



Confidence since the last quarter has declined, but compared with last year is still higher (31% higher vs. Q2 2020).

¹ The West 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.

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



Business Conditions

The overall net balance towards gross profit is negative (net -14%)² – whilst the next 3 months look positive for the West Midlands (7%), gross profit expectations are still lower than the UK average (9%).

In Q2, just under half (44%) of small businesses in the West Midlands reported a decrease in gross profit over the last 3 months, as the nationwide lockdown continued to impact on spending opportunities for consumers. Some resilience was shown by West Midlands businesses, however, with 29% reporting an increase in gross profit levels over the period.

Accordingly, businesses in the area report a net balance figure of -14% for Q2, which is underneath the UK average of -1% and places as the lowest performing region in the UK. The closest performers to the West Midlands are London (-11%) and the East of England (-3%).

The outlook for future profit looks more prosperous in the West Midlands. The net balance of 7% for gross profit falls around the average across the UK (9%) for the coming quarter.

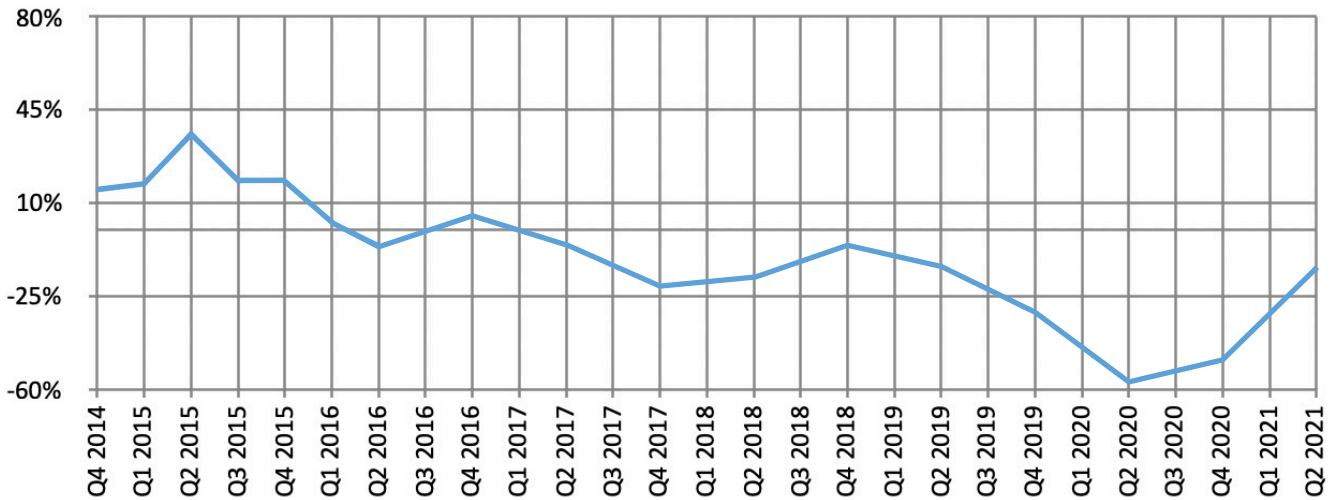
Two fifths of West Midlands businesses do expect a further increase in gross profit for the coming quarter (40%), with a slightly smaller amount (33%) predicting a decrease.

Reported gross profit in Q2 2021 shows signs of improvement, however still remains in negative territory.

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 West Midlands reporting profit (revenue question only asking in Q2 and Q4 phases of SBI – question is asked on a rotational basis)



Employment and Wage growth

Employment rates over the last 3 months in the West Midlands remain static, with no net change in staff levels.

The employment picture amongst FSB members over the preceding three months showed that equal numbers of small businesses have increased and decreased their staff levels, resulting in no net change. This lack of change in Q2 goes against the intended increase in staff levels from Q1, where an overall net increase of 15% was predicted.

In line with this, two-thirds of small businesses have shown unaffected staffing levels, with 66% reporting that these have ‘stayed the same’.

For the next quarter, the intention is for 20% of businesses to increase headcount and 5% to decrease staff numbers.

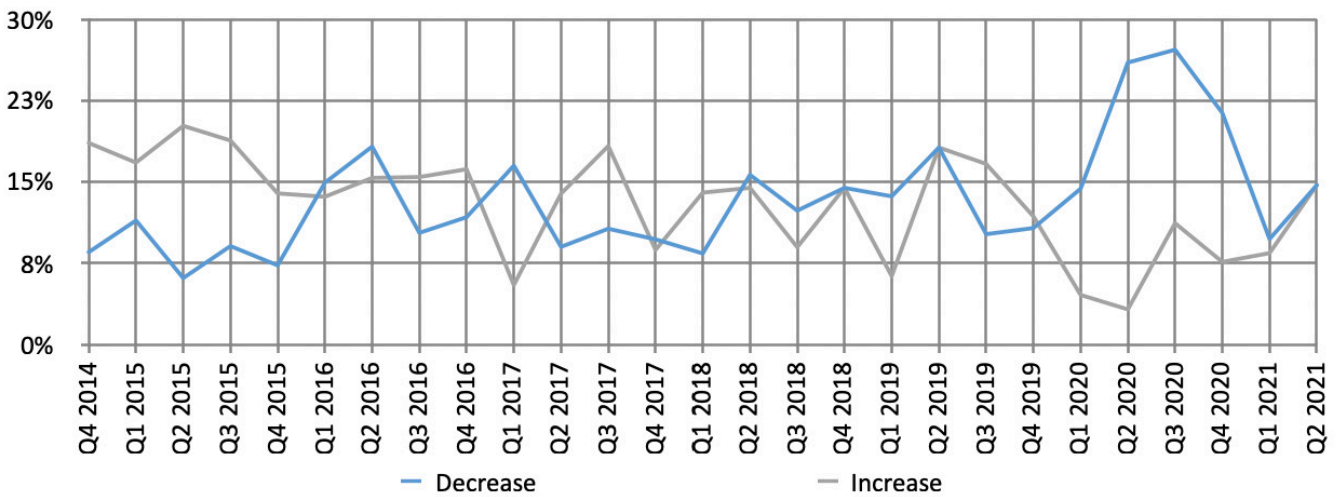
Wage Growth

In the West Midlands, just over half of small businesses (51%) increased the average salary across the business over the last 12 months – with 38% increasing the average salary by 2% or more.

62% expect to see salary increases over the next 12 months, with 49% reporting the likely increase to be 2% or above. This predicted wage growth is considerably higher than 12 months ago; in Q2, 2020, 46% of small businesses expected to increase the average salary. This again may indicate the continued steady economic recovery in the area.

Employment rates over the last 3 months in the West Midlands remain static.

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



Growth and Investment aspirations

In Q2, 2021, 54% of small businesses in the West Midlands 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%). Also, compared with this time last year, small businesses are less likely to report an aspiration to downsize, sell or close their business (12%, vs. 22% at Q2 2020).

A quarter (25%) of small businesses in the West Midlands expect to increase the amount of capital investment in their business during the coming quarter.

With under one-fifth (16%) still expecting to decrease investment; this leaves the net investment at just under 10%. This is slightly behind of the UK average of 13%, suggesting businesses in the area are just below par with sentiment compared to the rest of the UK.

North West is the region showing the greatest intention to increase investment (22%), with London close behind (19%).

In the West Midlands, the general economic conditions (56%) in the UK, input costs (37%), and appropriately skilled staff (30%) 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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