Q1

FSB VOICE OF SMALL BUSINESS INDEX

QUARTER 1, 2024

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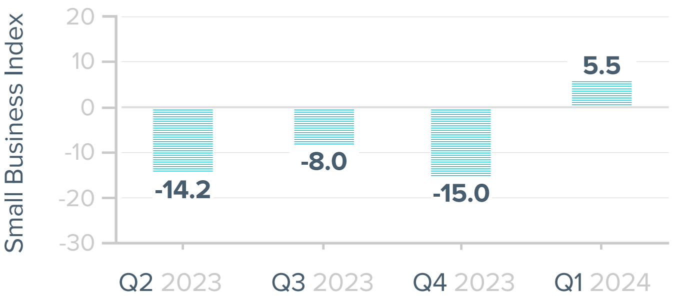
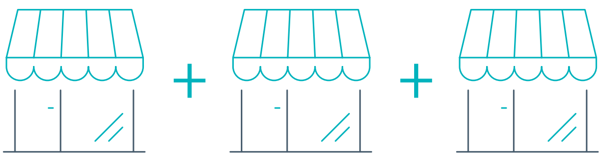
SBI Q1 2024

"Small business confidence rebounds as economy turns a corner"



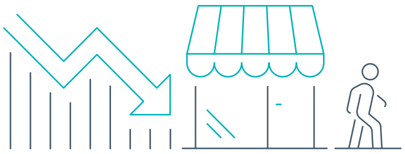
Small businesses have stronger growth ambitions



52%

of small businesses **aspire to grow over the next 12 months** – this is the highest share of businesses hoping to expand in more than two years

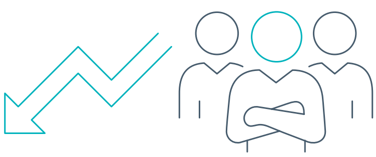
Revenue continues to be weak at the start of the year



41%

of small businesses saw a **decrease in revenue in Q1**, compared to only **32%** who reported an increase

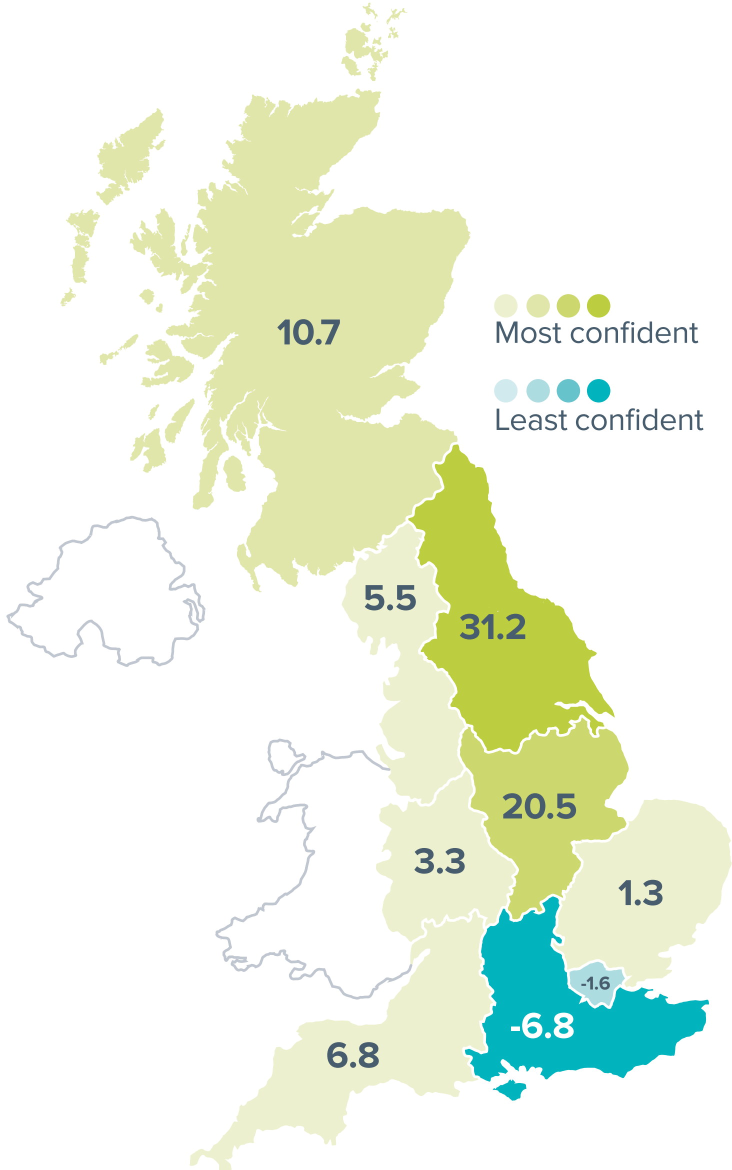
Employment levels remain stagnant



Q1 saw an **employment level net balance** of

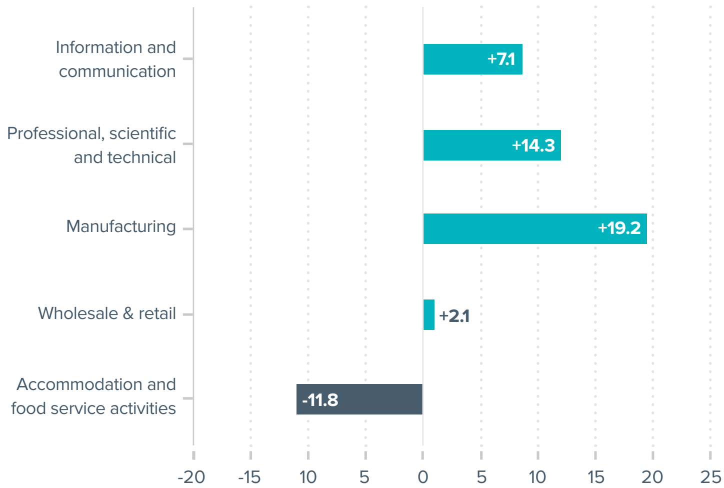
-3.9%

meaning **more small businesses saw a fall in their staff levels in Q1 (13.7%)** than grew their staff numbers **(9.8%)**



Please note: Sample sizes for Wales and Northern Ireland are insufficient for accurate reporting. The North East is combined with Yorkshire and the Humber to produce a combined region, due to low sample sizes for the former region.

Small business confidence by sector



CONTENTS

FSB FOREWORD

Tina McKenzie,
Policy Chair

What a difference a quarter makes. From the disappointing -15 points recorded in the final three months of last year, headline small business confidence has rebounded strongly in Q1 2024, to +5.5 points – the first above-zero reading for two years since Q1 2022. Looking back beyond the period of COVID turbulence, this is the first positive reading since 2018.

The bounce in confidence correlates with the relatively robust economic growth measured in the first three months of the year, putting the shallow recession from the second half of last year firmly in the rear view mirror. Or that is, at least, what small firms will be hoping, as they make plans for the rest of the year.

There are, as always, clear differences between major sectors in terms of how optimistic they are, but it is welcome to see a much narrower spread in confidence levels than in the previous report, indicating an upspring across much of the economy, rather than just a limited slice. The only major sector to see a decline in optimism between Q4 and Q1 was information and communication, which fell by 17.3 points to reach +7.1 in the first quarter – still, crucially, in firmly positive territory.

In the most recent findings, the most positive major sector is manufacturing, at +19.2 points, while the least positive is accommodation and food services at -11.8 points – a 31-point difference. In Q4 of last year, meanwhile, the gap between the most positive sector (information and communication, at +24.4 points) and most negative (accommodation and food services, at -73 points) was over three times larger, at 97.4 points. And while accommodation and food services was the gloomiest major sector in both quarters, hospitality firms' confidence level did at least make up a huge amount of ground over Q1, jumping up over 60 points, and raising hopes that a return to positive confidence could be within touching distance for the sector.

Q1's GDP momentum was not uniformly reflected in small firms' revenues, which declined slightly when compared with the final quarter of last year. Over three in ten small businesses (32.0%) said their revenues increased in Q1 2024, while two in five (40.5%) reported a fall, making it the eighth consecutive quarter to show a net negative revenue balance. However, with the festive season in the last three months of the year, it is perhaps less surprising for revenues in the first quarter to be slightly down in comparison.

It is certainly heartening that revenue expectations for the second quarter leaped upward, with nearly half (45.7%) of small businesses expecting their revenues to be higher in Q2, with just under a quarter (23.6%) bracing for a drop. This is a significant improvement on the expectations in the previous quarter, when almost the same proportion of firms expected their revenues to rise (31.6%) as fall (32.0%), and we can only hope that this rebound in revenue expectations is matched by reality, to cement the economic recovery from recession and put small firms firmly back on the path to expansion.

Employee numbers followed a similar pattern to revenues, with a net balance of -3.9% of small businesses reporting growth in employee numbers in Q1, the eighth consecutive quarter with no growth on this measure. Looking ahead, though, small firms are more bullish about their employment intentions, with a net balance of around one in 11 (9.1%) expecting to increase headcount in the second quarter, although previous SBI results shows that bullish hiring intentions do not always come to fruition, and the impact of rising labour costs on recruitment should not be underestimated.

Small firms' hopes for a cut in interest rates in early summer are now dimmer, with most forecasters now predicting that the Bank of England will wait until later in the year to begin reducing the base rate. Yet in spite of this, small firms' view of the accessibility and affordability of finance marginally improved in the first quarter, with around one in six (16.5%) describing the availability and affordability of new finance as good, up from one in seven (14.5%) in Q4; likewise, the proportion of small firms rating it as poor fell from 52.0% in Q4 to 46.0% in Q1. The interest rates offered to successful finance applicants also eased somewhat, with the percentage being offered a rate of 11% or more falling from its record high of one in three (33.4%) in Q4 to around a quarter (26.1%) in the most recent survey. It's not all good news, however, as the proportion of small businesses successful in their credit applications fell from 52.2% in the last quarter of 2023 to 46.6% in Q1, the lowest reading on this measure since Q1 2023.

By the time the next iteration of this research is published, a new Government will be in place. Whoever wins the General Election in early July, the messages coming through from small businesses are clear: they want to expand and take on staff, and are looking for policies which will help provide a sturdy platform for growth. The domestic economy is still by some distance the largest perceived barrier to growth among small firms, cited by over three in five (61.5%), followed by consumer demand (30.7%) and labour costs (27.3%).

We will do our utmost to make sure the next Government listens to small firms, and takes action on their priorities, from overhauling business rates to make the system fairer and less burdensome, to grasping the nettle of late payments and bringing in measures to clamp down on big businesses with poor payment practices towards their smaller suppliers, restoring the small profits threshold for corporation tax to the previous level of £250,000 and pledging not to increase the small profits rate, improving access to finance and closing loopholes in protections for those giving personal guarantees, and much more. The next Government should make a Small Business Act one of its first legislative commitments, so that the strong economic growth we all want to see is powered by the industry and energy of small firms.

ECONOMIST'S VIEW

Christopher Breen, Head of Economic Insight

Small businesses believe they have reached a turning point. For the first time in two years, small businesses, on aggregate, expected in Q1 that their performance would improve over the next three months. They similarly expected revenue to increase over the next three months at the sharpest rate since Q1 2021.

This expectation aligns with the economic consensus that the UK will have returned to growth in Q1, largely driven by an improvement in consumer spending, with nominal wages having grown faster than inflation for some months already. Demand from households and businesses alike should improve further this year once the Bank of England is able to begin a rate-cutting cycle, albeit at a gradual pace.

This is not to say that small firms are out of the woods just yet. Indeed, small businesses reported that revenue fell on aggregate in Q1. This was the eighth consecutive quarter that small businesses reported falling revenues, which points to a general under-performance during this time, given that the economy overall only shrank for the last two quarters in 2023.

It is unlikely to be smooth sailing from here on out, with plenty of risks that could blow the recovery off course. Arguably, the most prominent risk is that cost pressures do not continue to ease as expected. Indeed, the percentage of small businesses that saw costs rise over the past three months compared with the same period last year was broadly the same as the previous quarter.

There is a clear distinction between goods cost pressures and services cost pressures. Data from the Office for National Statistics (ONS) showed that input prices for producers fell by 2.5% in the year to March 2024, while services producer price inflation was 3.6% in Q1, a figure which has crept up over the past two quarters. While inflation on the Consumer Prices Index (CPI) measure is on a downward path, nominal wage growth and, therefore, services inflation remain too high for now. There is a real chance that the Bank of England will delay rate cuts if further progress is not made in upcoming inflation and wage data releases. It is also not totally out of the question that rates are hiked again if the Bank feels it is necessary to curb inflation, although that outcome seems much less likely.

Wage growth remains high despite easing inflation because demand for staff remains robust. While the labour market is easing, it remains tight by historical standards, with unemployment at 4.3% in the three months to March, according to the latest labour market bulletin. While small businesses expect to increase headcounts in Q2, their reported headcount growth has consistently disappointed against expectations one quarter earlier. Given that 24.8% and 26.3% of small firms report finding appropriately skilled staff and the cost of staff as amongst the greatest barriers to growth, respectively, it seems that small businesses are too often not able to recruit effectively, which is having a knock-on impact on wider business performance.

Small firms' optimism about improved performance in Q2 is not matched by optimism about improved exports. Indeed, small businesses have not reported growth in exports since Q1 2019. It would be easy to blame Brexit, but exports to non-EU countries have suffered similarly to those to the EU. It is likely that these data reflect an ongoing decline in UK cost competitiveness, given that the peak of inflation was greater here than for key trading partners, as well as a recent strengthening in the pound.

Overall, it is clear to see why most economists do not expect growth to take off any time soon. While the UK is out of recession, the outlook remains similar to much of the previous decade, characterised by stunted growth. With inputs becoming scarcer and more expensive and demand conditions remaining weak, the biggest opportunity for firms and the economy alike remains in improved efficiency and productivity. Solving that puzzle remains the UK's greatest economic challenge.

One silver lining to the labour cost challenge is that it may lead to firms' willingness to invest more, particularly where it may help to improve worker productivity. Indeed, we find that small businesses expect to increase investment over the next three months on net, at the strongest rate since late 2022. Higher investment is a major contributor to higher productivity, which is the only sustainable way to improve standards of living in the long term. Therefore, it is great to see a quarter of small businesses point to plans to increase investment spending in early 2024.

This is one sign that further proves what we knew already: small businesses are resilient. Indeed, nearly half have ambitions to grow over the next year, with over a third more expecting to remain about the same in that time. And small businesses are right to feel confident in an improving economic picture over the current calendar year. With inflation easing gradually, the Bank should be able to start cutting rates from the middle of the year, allowing the economy to establish some positive momentum. Despite the ongoing risk of additional headwinds, both from a lack of progress in fighting inflation domestically or from geopolitical tensions abroad, small businesses can hope to end 2024 in better standing than they started.

Q1

FSB EXECUTIVE SUMMARY

Key findings this quarter:

- **The FSB Small Business Index (SBI) increased to 5.5 in Q1 2024** from -15.0 in Q4. This marked the first positive reading since Q1 2022.
- **This return to positive territory reflects an improving UK economy.** March saw GDP grow for its third consecutive month, therefore confirming that the UK has exited the technical recession it entered in the second half of 2023.
- **The improvement in the headline index was broadly exhibited across the regions.** Small business optimism over the next three months was most prevalent in the North East, Yorkshire and the Humber. Meanwhile, London (the only region to have a positive reading in the previous quarter) recorded a broadly neutral score, and the South East recorded a negative score.
- **Over the previous three months, the net balance of small businesses reporting revenue growth stood at -8.5% in Q1 2024.** However, looking ahead to the next three months, the net percentage rose to 22.1%. This is the strongest positive reading since Q1 2021.
- **Exports rose from -10.8% in Q4 2023 to -8.2% in Q1 2024.** Exports are expected to be broadly flat in Q2 2024.
- **The net balance of small businesses reporting an increase in operating costs was broadly similar to last quarter, at 79.6% compared to 79.0% in Q4 2023.** Despite this, the score is significantly lower compared with Q1 2023 (88.7%), reflecting a further slowdown in inflation.
- **Small business headcounts failed to record growth for the eighth consecutive quarter (net balance of -3.9%), but they also expect to expand their staffing levels, on net, in the next three months (9.1%).** This is an improvement from Q4 2023, where a net balance of -4.5% for staff numbers was recorded.
- **The share of small businesses aspiring to grow over the next twelve months surged to 52.4% in Q1.** This is the highest share of businesses hoping to expand in more than two years.
- **Despite these aspirations, the number of small businesses applying for credit slipped to 14%.** This follows a three-year high of 15.5% in Q4 2023.
- **Perception of credit affordability and availability remained negative in Q1.** The credit index improved but remains firmly negative at -25.4.
- **The net balance of small businesses expecting to increase investment stood at 9.9%. This is the highest figure recorded since Q4 2022.** Improving investment expectations comes alongside forecasts of rate cuts from the Bank of England.

UK MACROECONOMIC OVERVIEW

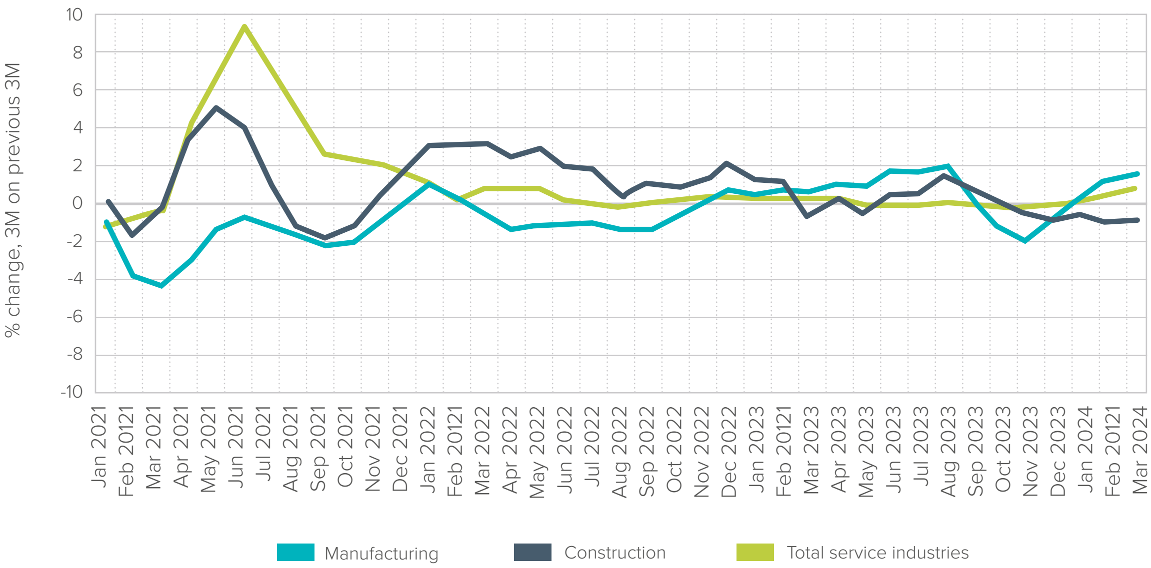
UK economy enters technical recession

The latest data from the Office for National Statistics (ONS) show that UK GDP grew by 0.4% in March. This marked a third consecutive month of growth after January's and February's expansion of 0.3% and 0.1% respectively. Looking over a three-month time horizon, GDP grew by 0.6% in the three months to March (Q1 2024) and confirms that the UK economy has escaped the recession experienced in the latter half of 2023 of two successive quarters of contraction.

At the sectoral level, manufacturing drove growth after expanding by 1.4% in the three months to March. Transport production was a significant contributor, growing by 3.7% in the three months to March. Meanwhile, construction weighed on total growth after the sector contracted by 0.9% in the three months to March. This was due to unseasonably wet weather causing delays to planned work.

Although March's data evidences that the UK is out of recession, renewed economic growth, although positive, remains weak. That said, economic performance is expected to improve throughout 2024 as monetary policy loosens and inflationary pressures ease in the coming months. Cebr is projecting growth of 1.2% across the year, which would mark a significant acceleration from the 0.1% seen in 2023. As a result, values in the Small Business Index (SBI) are expected to improve in the coming quarters.

Figure one: Monthly growth rates by sector of the UK economy, latest three months on previous three months Source: Office for National Statistics.



SMALL BUSINESS INDEX

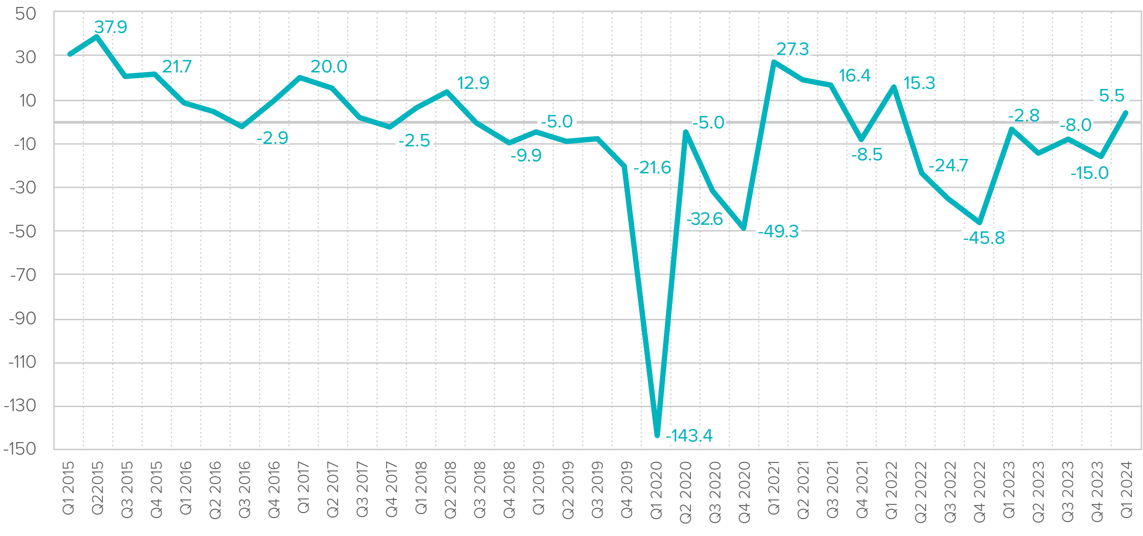
First positive reading in Small Business Index since Q1 2022

The Small Business Index (SBI) increased to 5.5 in Q1 2024. This represents the first reading of net optimism amongst small businesses since Q1 2022. In other words, the share of businesses expecting their performance to improve over the coming quarter outweighs the share expecting their performance to worsen.

The positive SBI reading likely reflects the gradually improving economic backdrop following a difficult 2023. Indeed, April's flash PMI suggests that UK business activity is improving after its sharpest monthly rise since May 2023, which was driven by a strong recovery in the services sector. Demand will likely be supported in the coming months by a boost in household spending power following the downgrade to the energy price cap in April and May.

Small business sentiment is likely to improve throughout the remainder of 2024 as monetary policy loosens and activity picks up. As a result, the SBI is expected to continue to record positive values over the coming quarters.

Figure two: The FSB Small Business Index[1]: small business prospects over coming three months
Source: FSB- Verve 'Voice of Small Business' Panel Survey



1 The 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 are given the following weightings: 'much improved' +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.

Figure three: Year-on-year change in the FSB Small Business Index
Source: FSB - Verve 'Voice of Small Business' Panel Survey

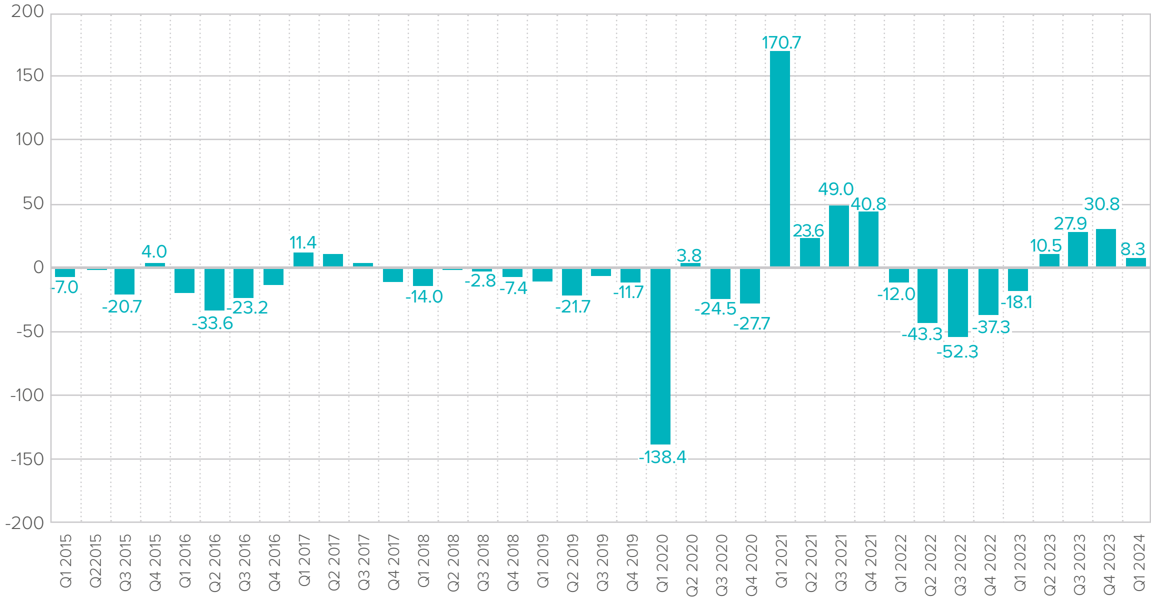
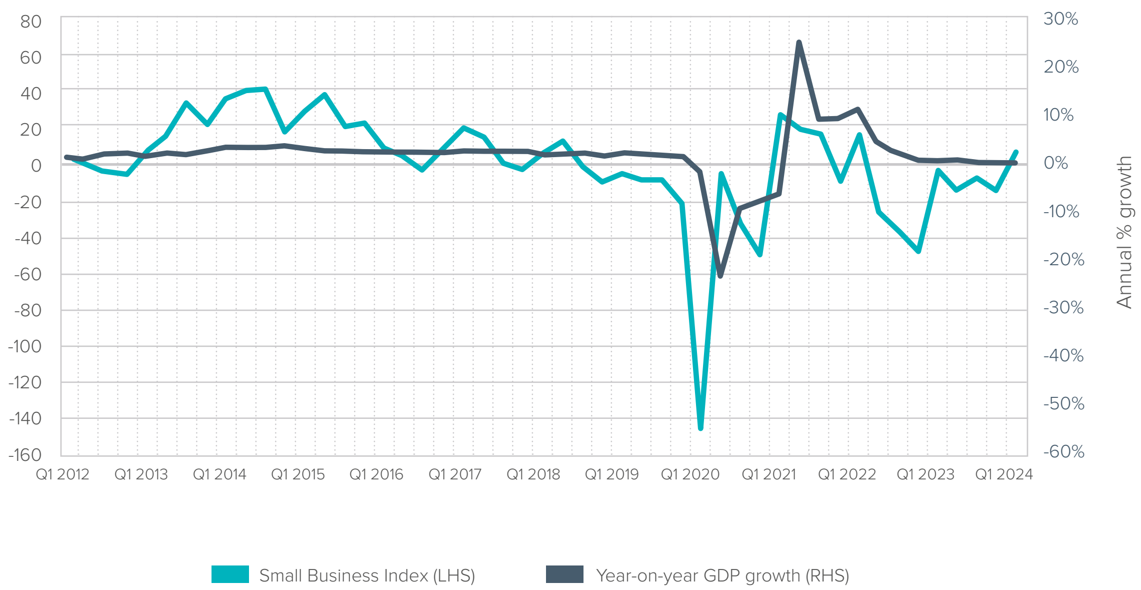


Figure four: UK SBI against year-on-year UK GDP growth
Source: ONS, FSB - Verve 'Voice of Small Business' Panel Survey



REGION AND NATION SMALL BUSINESS INDICES

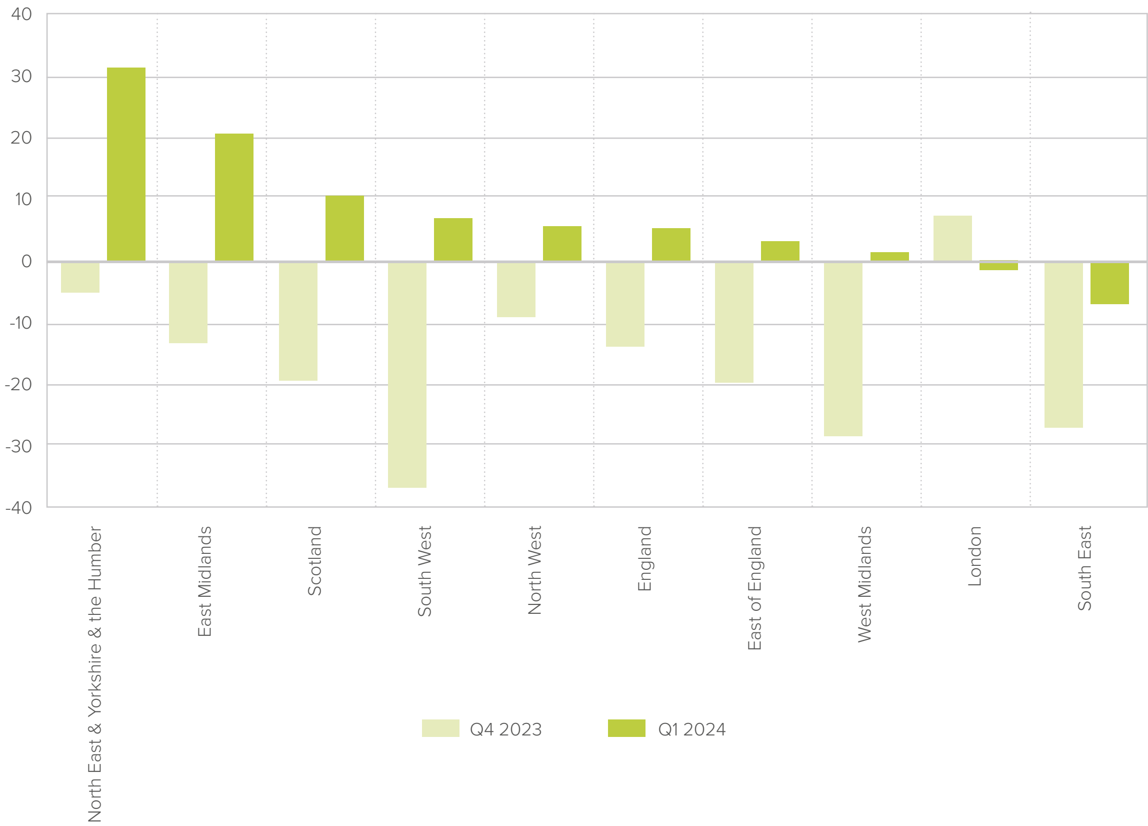
SMALL BUSINESS INDEX SCORES ARE NOW POSITIVE FOR THE MAJORITY OF REGIONS IN Q1

Only two UK regions saw a negative reading on the regional SBI in Q1 2024 after only one region recorded a positive figure in the previous quarter.[2] For the majority of regions, this means that the proportion of small businesses expecting an improvement in performance in the coming quarter now exceeds the proportion expecting a worsening. This suggests that business optimism is broad-based across the regions.

The most optimistic region was the combined area of the North East and Yorkshire and the Humber, with an SBI score of 31.2. This is likely in part due to the region's strength in manufacturing and life sciences. Notably, both manufacturing and professional, scientific and technical activities were amongst the most optimistic sectors across the economy as a whole, supporting the SBI score for this region.

The most pessimistic region in Q1 was the South East, with an SBI reading of -6.8. Only 35% of businesses in the South East expect performance to pick up in the next three months, the lowest share of any region. The only other region to register a negative SBI score was London, with -1.6, after it was the most optimistic region in the last quarter. This was driven by 40% of businesses expecting performance to worsen, while a below-average share of businesses expect performance to improve.

Figure five: FSB Small Business Index – Regional variation in small business prospects over coming three months
Source: FSB - Verve 'Voice of Small Business' Panel Survey



2 Sample sizes for Wales, Northern Ireland, and the East Midlands are insufficient for accurate reporting. The North East is combined with Yorkshire and the Humber due to low sample sizes for the former region.

SMALL BUSINESS SECTOR INDICES

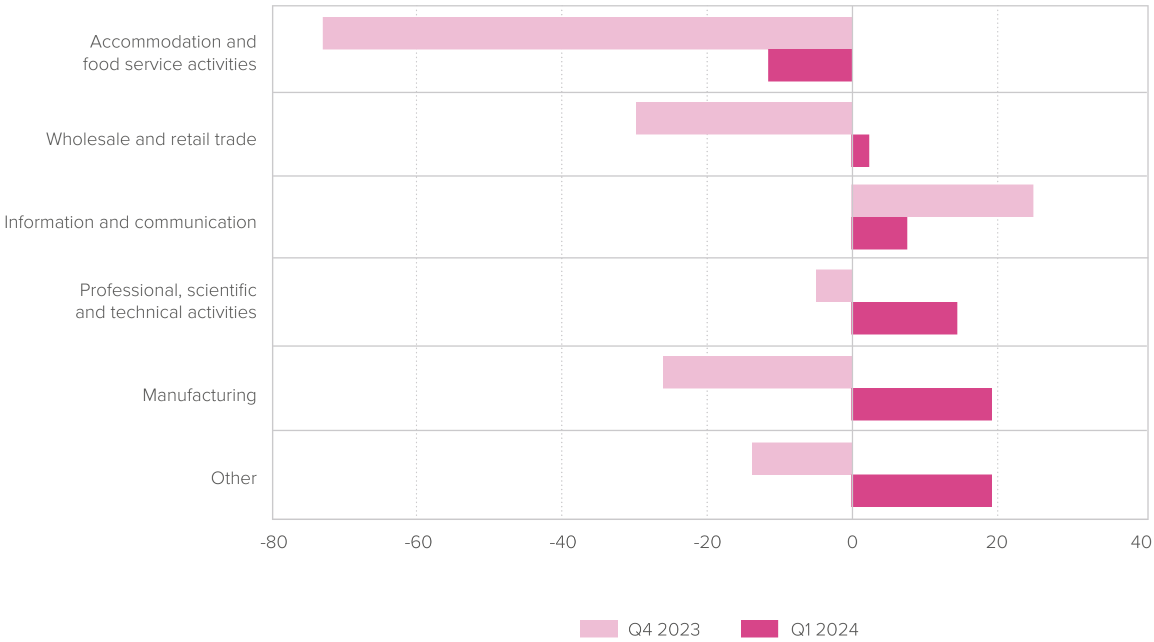
MANUFACTURING BUSINESSES AMONGST THE MOST OPTIMISTIC OVER THE COMING THREE MONTHS

In line with the headline index, the vast majority of SBI readings across industries turned positive in Q1 2024. The broadly positive scores indicate that optimism has improved across most sectors with regard to their performance over the coming quarter.

Accommodation and food services was the most pessimistic sector for a third consecutive quarter, with an SBI reading of -11.8. That said, it should be noted that the sector also saw the largest quarterly change after recording a score of -73.0 in Q4 2023. The negative reading likely reflects lingering demand-side headwinds from the cost-of-living crisis and high interest rates, as well as cost pressures affecting the already-tight profit margins of the industry. Looking ahead, we expect these headwinds to ease as energy prices fall and the Bank of England begins to loosen monetary policy.

Information and communication was the only sector with an SBI reading lower than in Q4 2023, at 7.1 compared with 24.4. According to the ONS, growth in the sector has slowed down following a 0.7% contraction in January. Meanwhile, manufacturing was one of the most optimistic sectors with an SBI reading of 19.2 points, similarly the ONS reporting manufacturing output to have increased by 1.4% in Q1 2024. We expect optimism in the sector to remain strong in the coming quarters.

Figure six: FSB Small Business Index by sector – small business prospects over coming three months
Source: FSB - Verve 'Voice of Small Business' Panel Survey



FINANCIAL PERFORMANCE

SMALL BUSINESSES EXPECT TO SEE INCREASING REVENUE GOING FORWARD

In the first quarter of 2024, the net balance of small businesses reporting revenue growth over the past three months stood at -8.5%. This negative balance indicates that the number of businesses reporting a decrease in revenue outweighed those reporting an increase, the eighth consecutive quarter for which this has been the case.

While all sectors recorded negative net balance figures, manufacturing recorded the smallest, at -0.8%. Construction recorded the weakest revenue net balance figure among the major sectors in Q1, at -19.3%. Those in wholesale and retail and accommodation and food services also recorded weak figures, at -13.3% and -7.5% respectively.

In terms of regional performance, London exhibited the weakest net balance figure of -20.3%. Only two regions recorded positive net balances, namely the North West, and the North East and Yorkshire and the Humber.

Looking ahead, small businesses' expectations of revenue have fluctuated between negative and positive net balance figures across 2023. The figure for Q1 2024 is the strongest since Q1 2021, with a net balance figure of 22.10%, expecting revenue growth in the next three months. This optimism aligns with the current trajectory of economic recovery in the UK.

Figure seven: Small business gross profit, net percentage balance – Proportion reporting / expecting increase less proportion reporting / expecting decrease
Source: FSB - Verve 'Voice of Small Business' Panel Survey

EXPORTS

EXPORT EXPECTATIONS CONTINUE TO BE SUBDUED, REFLECTING HEIGHTENED GEO-POLITICAL UNCERTAINTY

In Q1 2024, a net balance of -8.2% of exporting businesses reported an increase in the value of their exports. The reading has recorded a negative value for the twentieth consecutive quarter.

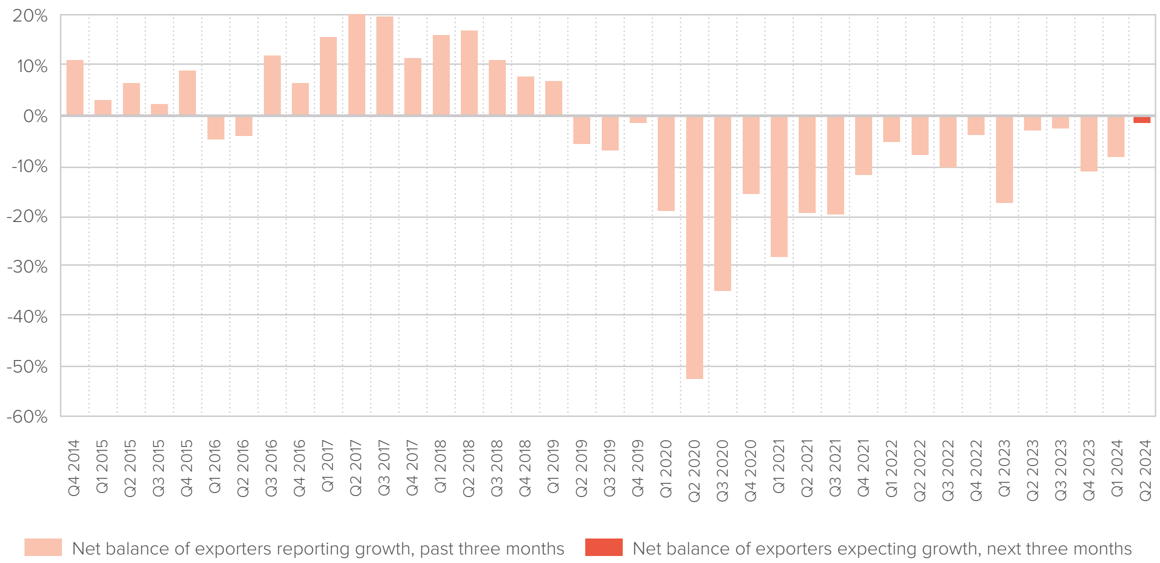
Recent official data reveals that the value of UK exports decreased by 0.5% in the first quarter of 2024 compared to the previous quarter, driven by a 2.5% decline in trade in goods, while exports in services increased by 1.1%.

The performance of sterling has likely influenced the net balance figure and the subdued export value. According to the effective exchange rate index released by the ONS, the pound is 5.8% higher than it was a year ago in March, which is higher than the 3.5% recorded in December 2023.

The strong performance in the currency is likely driven by investor confidence in the UK's prospects compared to its major trading partner, the EU, as well as expectations that the UK will cut rates faster than the US.

Looking ahead, exporters anticipate a broadly flatlining export performance, with a net balance of -1.6% exporting businesses expecting increases in their export value. This marks a return to negative expectations after two consecutive quarters of improved forward-looking sentiment. Heightened geopolitical uncertainties compounded by supply chain disruptions are likely to be driving this shift in outlook.

Figure eight: Changes in value of exports over the previous three months and expectations for the coming three months; net percentage balance (proportion reporting increase, less proportion reporting decrease)
Source: FSB - Verve 'Voice of Small Business' Panel Survey



COSTS AND INFLATION

SHARE OF BUSINESSES IDENTIFYING UTILITIES AND INPUTS AS SOURCES OF BUSINESS COST DECLINES ON THE QUARTER

The net balance of small businesses reporting an increase in operating costs remained largely unchanged at 79.6% in Q1 2024 from 79.0% in the previous quarter. However, this figure is 9.1 percentage points lower than a year ago, reflecting the sharp slowdowns in cost inflation experienced in the first quarter. Producer input prices have been falling since June 2023, according to the ONS, with the latest price fall amounting to 1.6% in the year to April 2024. Services inflation, which remained relatively sticky owing to relatively tight labour market conditions, has also recorded deceleration for three consecutive months. However, from March to April, the drop was only 0.1 percentage points, bringing the latest reading to 5.9%.

Utilities continued to be the most cited source of changing business costs for small firms. However, the number of businesses selecting it as a main source of changing business costs decreased by 7.3 percentage points in Q1. Labour came in as the second most cited source, with the number of businesses selecting it as a source of changing business cost increasing by 2.4 percentage points in Q1. Those selecting rent as a source of changing business costs also increased in the quarter. Excluding these two sources, all other factors recorded a decrease in the number of businesses identifying them as sources of changing business costs.

Figure nine: Small businesses reporting an increase in overall cost of operation over past three months, compared with the same period a year ago; net percentage balance
Source: FSB - Verve 'Voice of Small Business' Panel Survey

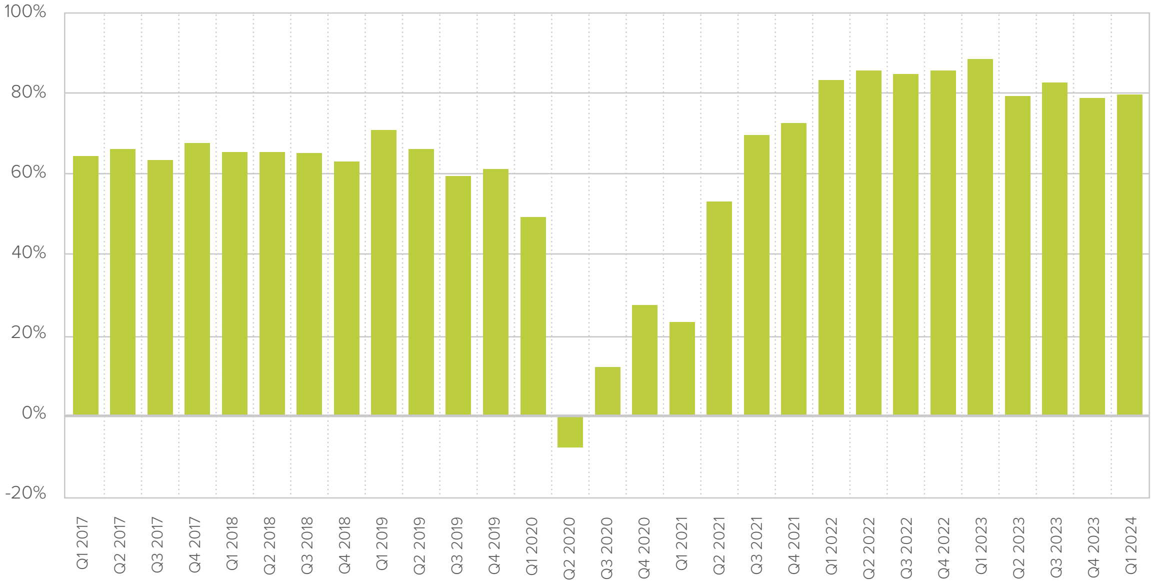
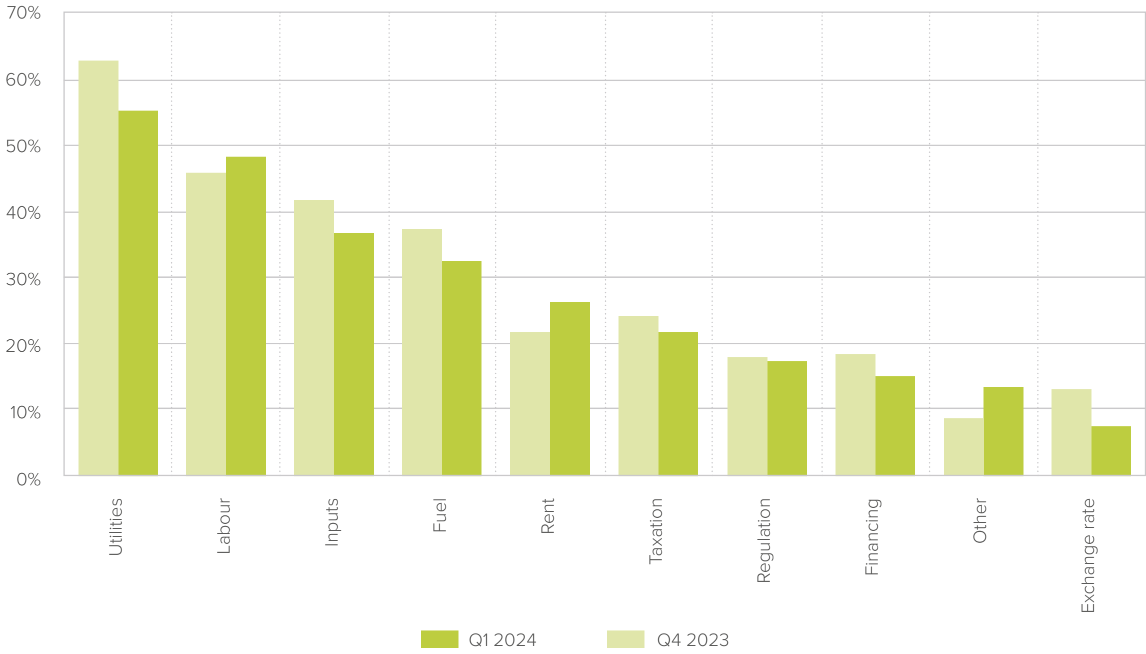


Figure 10: Main causes for changing business costs (Respondents could select multiple answers)
Source: FSB - Verve 'Voice of Small Business' Panel Survey



EMPLOYMENT

SMALL BUSINESS EMPLOYEE NUMBERS CONTRACT BY LESS THAN THE PREVIOUS QUARTER

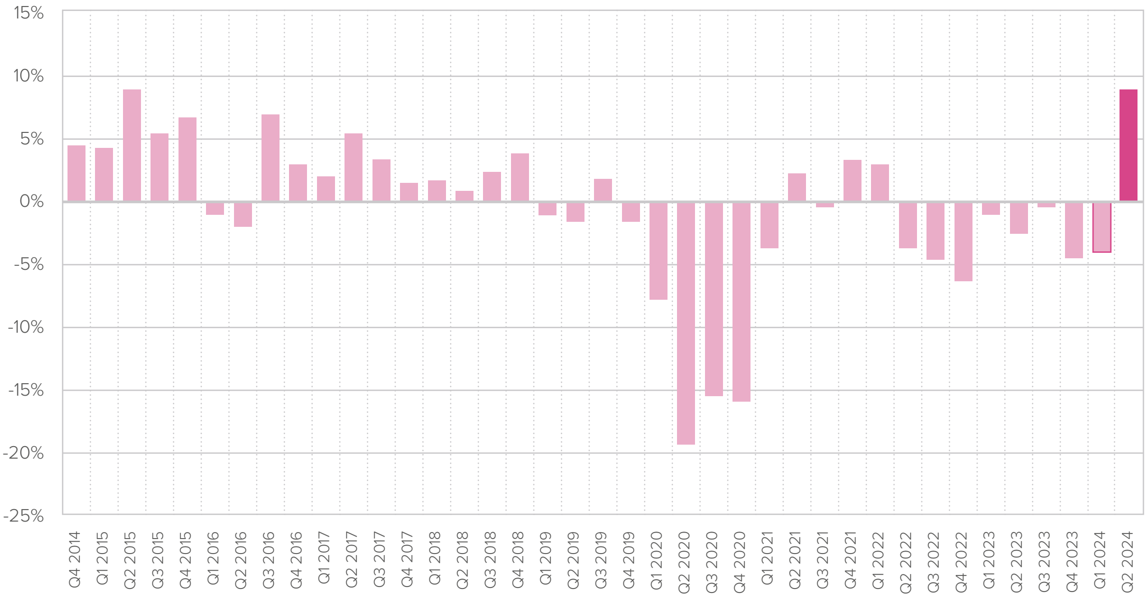
A net balance of -3.9% of small businesses reported growth in employee numbers in Q1. The negative reading means that the number of businesses expanding their workforce was outweighed by the number of businesses reporting a contraction in headcount. This marks the eighth consecutive quarter with no growth on this metric.

The latest ONS data revealed an uptick in the unemployment rate to 4.3% in the three months to March and a slowdown in nominal wage growth, which is now 2.8 percentage points lower than the peak levels of 2023. These metrics suggest a moderate cooling of the labour market. However, employment is still growing, which implies that businesses are still hiring workers, compared to the survey data, which shows that headcounts have largely been falling. This could be driven by small businesses seeing falling revenues or a sign that smaller businesses face increased competition from larger counterparts when recruiting employees.

Across the surveyed sectors, the weakest net balance score was recorded in the accommodation and food service sector at -18.9%. Comparatively, the strongest net balance scores were recorded in information and communication and professional, scientific and technical activities at 1.3% and 1.2%. On a regional basis, the worst net balance score was seen in South West at -10.7%. In contrast, the region with the strongest balance score was the North East, Yorkshire and the Humber, with a net balance of 7.7%.

Looking ahead, small businesses are looking to expand. A net balance of 9.1% of businesses expect to expand staffing levels. Whilst this optimism is likely to be heavily influenced by the ongoing recovery in the UK economy, this reading has also generally been susceptible to over-optimism by small businesses.

Figure 11: Net percentage balance change in number of people employed – proportion reporting increase, less proportion reporting decrease
Source: FSB - Verve 'Voice of Small Business' Panel Survey



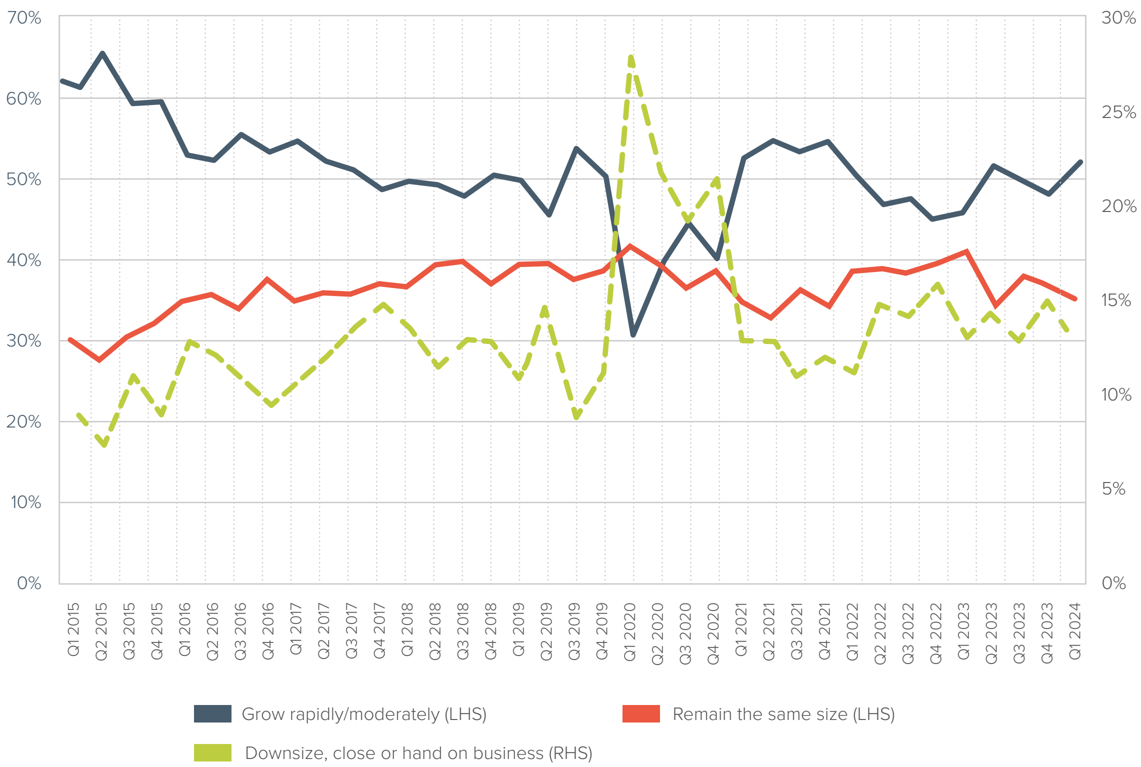
GROWTH ASPIRATIONS AND CHALLENGES

SMALL BUSINESSES ARE MORE OPTIMISTIC ABOUT GROWTH PROSPECTS OVER THE COMING YEAR

In Q1 2024, the proportion of small businesses aspiring to grow over the coming year increased to 52.4%, marking the highest share of businesses looking to expand in more than two years.

Analysing businesses by sector, those engaged in professional, scientific, and technical activities exhibited the highest level of optimism regarding growth prospects, with 61.1% of businesses aspiring to expand. Moreover, there has been an increase in growth aspirations in consumer-reliant sectors compared to previous quarters. Both the wholesale and retail sector, as well as accommodation and food services activities, indicate intentions of business expansion, with figures standing at 50.6% and 37.0% respectively. This heightened optimism in these sectors likely reflects expectations of a more robust consumer spending trend throughout the year, which is anticipated to be a significant driver of economic recovery.

Figure 12: Growth aspirations for next twelve months
Source: FSB - Verve 'Voice of Small Business' Panel Survey



SLOWDOWN IN INFLATION RESULTS IN INPUT COSTS BEING LESS OF A BARRIER TO GROWTH

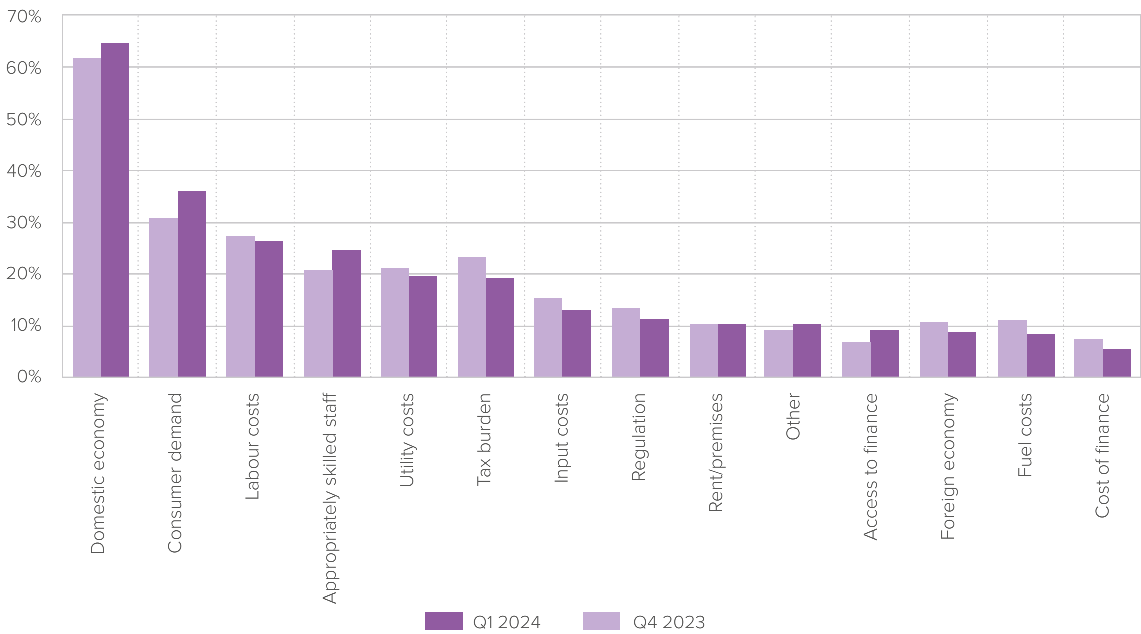
Among businesses expecting growth over the next 12 months, the domestic economy remains the most frequently-cited potential barrier to such growth, being the case for 64.6% of respondents. Consumer demand was the second-most chosen barrier to growth for the fourth consecutive quarter, with 35.6% of small businesses selecting it. Both of these figures increased from the previous quarter.

The UK economy returned to growth in Q1, following the technical recession recorded in 2023, largely driven by improvements in consumer spending. However, it is important to note that consumer spending is recovering from a prolonged period of elevated cost of living with a backdrop of historically elevated interest rates. Despite interest rates being expected to fall from Q3 this year, it is unlikely that they will reach the pre-cost-of-living lows and will likely remain elevated for the foreseeable future.

Therefore, any advancements in the coming months will likely be gradual and will see incremental improvements rather than a sudden boost. These factors are likely the reasons that small businesses still perceive the domestic economy and consumer spending as barriers to growth despite the expected uptick in overall economic activity.

The selection of labour costs as a barrier to growth decreased slightly from the previous quarter, with 26.3% of respondents choosing it. This reading likely reflects a slowdown in UK wage growth in the past few months. With inflation slowing down, the number of businesses identifying utility, input, and fuel costs as barriers to growth has also fallen in the quarter. However, finding appropriately skilled staff has risen as a barrier to 24.8%, up from Q4 2023's 20.7%, reflecting a tightness in the labour market.

Figure 13: Potential barriers to achieving growth aspirations – multiple answers possible
Source: FSB - Verve 'Voice of Small Business' Panel Survey



CREDIT

NUMBER OF SMALL BUSINESSES APPLYING FOR CREDIT DROPPED IN THE QUARTER

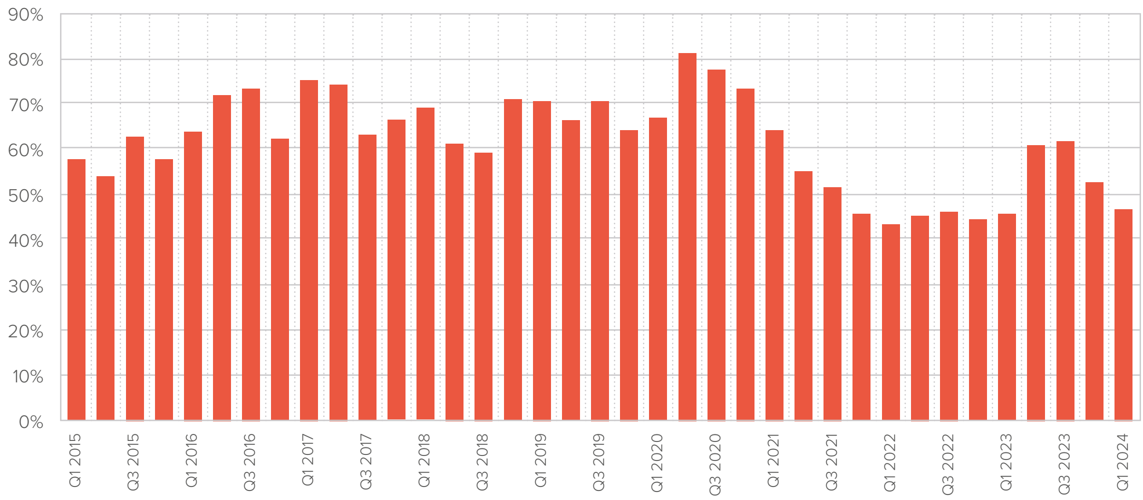
Figure 14: Credit applications and interest rates offered
Source: FSB - Verve 'Voice of Small Business' Panel Survey
Respondents were able to give multiple answers to this question.

In Q1 2024, the number of small businesses that reported applying for credit dropped to 14.0%. This decline occurred amidst the Bank of England (BoE) maintaining the interest rate for five consecutive meetings.

Among those who applied for credit, the number of successful applications dropped to 46.6%, marking the third consecutive quarterly decline in this reading. Meanwhile, the number of applicants awaiting final decisions reached 17.6% in Q1 2024, the highest figure in this regard since Q1 2023. The number of unsuccessful applicants dropped to 35.9%.

The average interest rate offered to successful credit applicants stands at 6.9%. In Q1 2024, the proportion of credit applications receiving rates in the range in which the average rate falls, i.e. 6.0% to 7.99%, decreased to 14.4%, down from 19.3% in the previous quarter. However, there were notable shifts at both ends of the interest rate spectrum. The percentage of successful credit applications offered rates lower than 4.0% increased from 4.2% in Q4 2023 to 8.3% in Q1 2024. Conversely, the share of successful applications receiving rates higher than 11.0% decreased from 44.8% in Q4 2023 to 39.2% in Q1 2024. These changes suggest that applicants are accessing more favourable and affordable interest rates compared to previous periods.

Figure 15: Proportion of small businesses successful in their credit applications in the past three months
Source: FSB - Verve 'Voice of Small Business' Panel Survey



BUSINESSES' PERCEPTIONS OF CREDIT AVAILABILITY AND AFFORDABILITY SHOWS IMPROVEMENT IN THE QUARTER

Perceptions of credit affordability and availability improved in Q1. The credit index improved by 6.6 points on the quarter. Nevertheless, the index remains in the negative territory at -25.4.

The proportion of businesses expressing a 'positive attitude' on credit availability and affordability increased on the quarter to 16.4%. The share of respondents rating affordability and availability of credit as 'very affordable' and 'quite affordable' both increased in Q1.

The proportion of small firms with a 'negative attitude' towards credit availability and affordability marginally decreased by 6.1 percentage points in the quarter to reach 46.0%. The negative attitude includes those who consider affordability and availability as either 'quite unaffordable' or 'very unaffordable', both of which recorded falls in the quarter.

Figure 16: Indices of credit perceptions over time, a weighted net balance of those with negative responses subtracted from those with positive responses[3]
Source: FSB - Verve 'Voice of Small Business' Panel Survey

3 Due to methodological changes to the survey, the Credit Availability and Credit Affordability Indices have been superseded by a composite Credit Index, taking into account both of these factors.

INVESTMENT

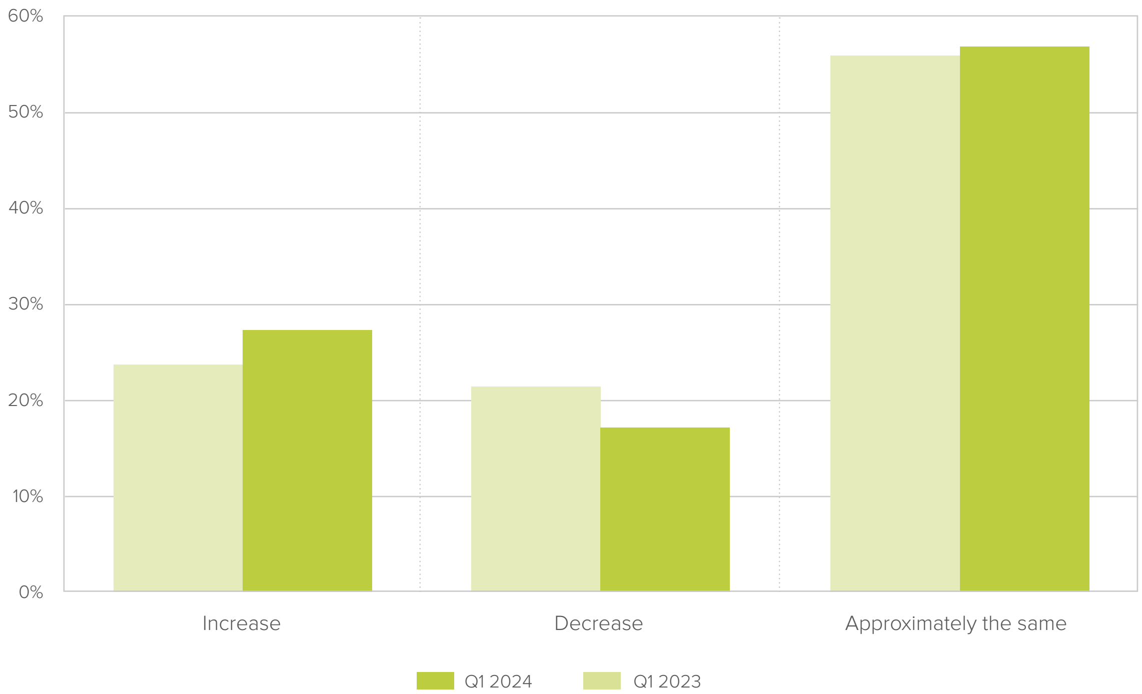
ANTICIPATED RATE CUT BY THE BANK OF ENGLAND BOOSTS INVESTMENT SENTIMENT

The share of small businesses expecting to increase their capital investment over the coming quarter grew slightly to 26.9% in Q1, from 25.6% in Q4 2023. Meanwhile, the number of businesses expecting to decrease their capital investment over the coming quarter decreased to 16.9% in Q1, from 17.4% in Q4 2023. As a result, the net balance of small businesses expecting to increase their investment picked up to 9.9% in Q1 from 8.2% in Q4 2023, the highest value recorded on this metric since Q4 2022.

These changes come amidst the easing of inflation and cooling labour market conditions, increasing optimism about a rate cut by the BoE later in the year.

On a sectoral basis, businesses in information and communications were the best performers on this metric, with a net balance of 21.8%. Businesses in consumer-heavy sectors also intend to increase investment. For those in accommodation and food service activities and wholesale and retail, the net balance figure for the metric stood at 10.0% and 5.3% respectively. Meanwhile, the construction sector was the only one to record a negative net balance on this metric at -8.6%, indicating that the number of businesses intending to increase their investment is less than those planning to decrease their investment.

Figure 17: % of small businesses expecting to increase and decrease capital investment over next quarter, compared with previous quarter
Source: FSB - Verve 'Voice of Small Business' Panel Survey



METHODOLOGY

This report is based on the March/April 2024 research survey of FSB members carried out by Verve. 967 responses were received. The data are weighted by regional gross value added to match the profile of small businesses across the UK. The survey was undertaken between 25 March 2024 to 8 April 2024.

SUMMARY DATA TABLE

	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
Small Business Index	-24.7	-35.9	-45.8	-2.8	-14.2	-8.0	-15.0	5.5
Employment - previous three months	-3.6%	-4.4%	-6.1%	-0.8%	-2.4%	-0.2%	-4.5%	-3.9%
Employment - coming three months	7.2%	2.7%	3.2%	8.3%	6.1%	2.6%	-1.2%	9.1%
Exports - previous three months	-7.7%	-10.8%	-3.3%	-17.7%	-2.9%	-2.6%	-10.8%	-8.2%
Exports - coming three months	1.4%	-4.3%	7.9%	-6.4%	-0.6%	7.3%	0.8%	-1.6%
Credit availability and affordability - rated good or very good	17.6%	17.4%	14.7%	12.3%	11.8%	14.4%	14.4%	16.4%
Credit availability and affordability - rated poor or very poor	42.3%	44.1%	50.5%	50.9%	52.0%	53.1%	52.0%	45.9%

The Small Business Index weights strong responses (much improved or much deteriorated conditions) double and subtracts the weighted proportion of firms reporting deterioration in business prospects over the coming three months from the weighted proportion expecting an improvement.

The employment and revenue indicators are net percentage balances, with the proportion of firms reporting a decrease subtracted from the proportion reporting an increase.

Responses are also weighted according to regional gross value added.

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