FSB East Midlands Quarterly Small Business Index

Q2 2024

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Foreword

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This FSB East Midlands Small Business Index Report for the second quarter (Q2) of 2024, sets out the findings of our latest, comprehensive research into small firms' recent performance, current circumstances and future aspirations.

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

Overall: In Q2 2024, the level of confidence of regional small businesses in the East Midlands declined significantly. It had turned positive in Q1 following seven consecutive quarters of negative results. However, Q2 saw confidence back in negative territory and below the national average.

Revenues: More of the region's small businesses saw a decrease in their revenues during the period than saw an increase, with performance overall being slightly below the national average.

Employment: A slightly higher proportion of small businesses reduced staff numbers than increased them and the outlook for the third quarter of 2024 suggests this trend will continue.

Wage growth: Almost two thirds 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. There has been a small increase in the proportion of small businesses expecting to downsize or close compared to Q1.

Barriers to Growth: The top three, most cited challenges facing the regions' small firms were the domestic economy (65%), flat/weak consumer demand (49%) and high labour costs (30%).

It is of course concerning to see overall levels of confidence amongst the region's small businesses declining again, after the positive upturn recorded in Q1 2024.

However, with local and general elections now concluded, I hope that we can look forward to a more settled political and economic outlook, which will go a long way towards helping confidence to recover.

These are of course early days for the new administration. However, the Federation of Small Businesses, celebrating its 50th anniversary this year, is ready as ever to engage with - and support - all those who want to support small businesses, secure growth in the economy and ensure wealth creation in every local community.

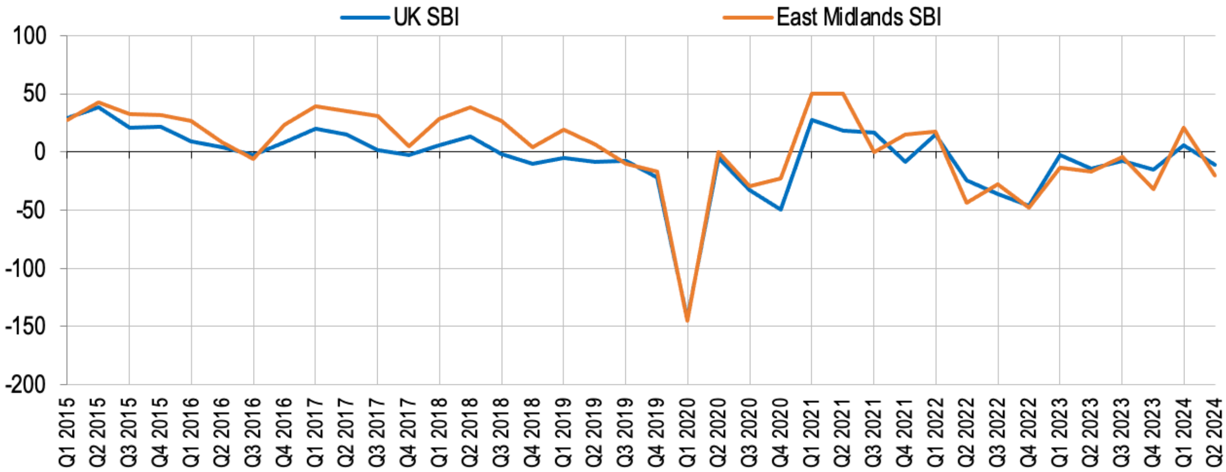
The East Midlands Small Business Index (EMSBI)[1], which measures confidence amongst businesses, continues with a drastically fluctuating pattern and returns to a negative score in Q2 2024. Previously, in Q1 2023, it was 21, but after the sharp decline this quarter, it currently stands at -20.

After peaking at a positive confidence level last quarter, following 7 consecutive negative scores prior to that, the score has again turned negative at -20 for the East Midlands. This negative confidence level shows an increase in uncertainty within the East Midlands, due, once again, in part to the cost-of-living crisis.

The national average is also seen to dip back into the negative (-11) from previously being positive in the last quarter (5), but still places it above the score seen in the East Midlands. For context, the North West (-23) and South West (-23) are the only regions scoring lower than the East Midlands. Meanwhile, the North East & Yorkshire and The Humber see is the highest scoring region (-2).

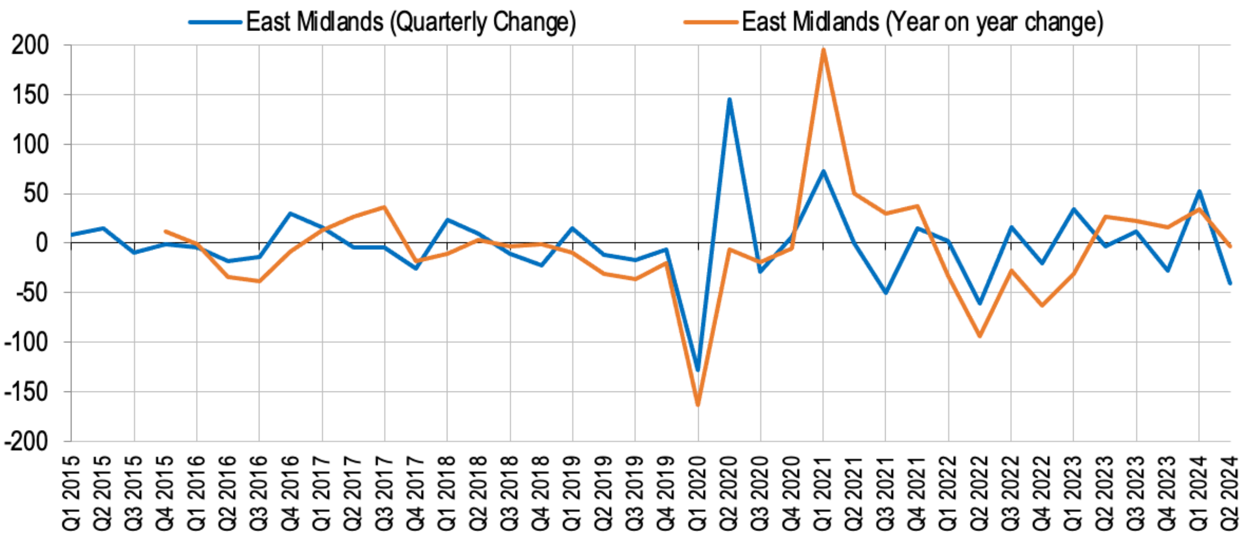
There is a drastic dip in confidence for business performance over the next 3 months, with scores returning to negative similar to Q4 2023.

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



When viewing quarterly and year-on-year changes, East Midlands small businesses report a negative outlook.

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

Dipping below the national average, net revenue amongst East Midlands small businesses remains negative in Q2 2024.

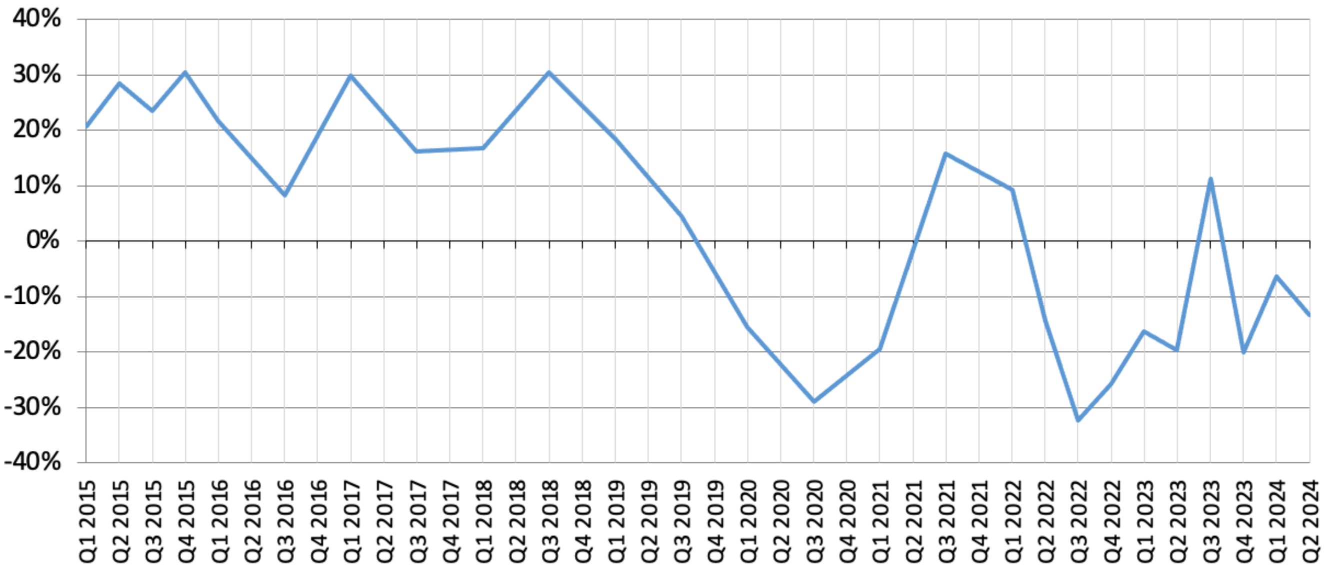
In Q2 2024, nearly half (46%) of small businesses in the East Midlands reported a decrease in revenue over the last 3 months. Comparatively, some resilience was shown with a third (33%) of East Midlands businesses reporting an increase in profit levels over this period. This places net revenue within the region at -13%, representing a decline from the previous quarter (-6%).

The UK net balance revenue for Q2 remains negative, standing at -9%; this shows the East Midlands performing slightly below the UK average. However, when looking at net balance figures, the East of England (-17%) and the South East (-18%) were the worst performing regions.

Regarding future revenue in the East Midlands, the outlook is also negative (-6%). This represents a steep decrease from the net balance of 25% who expected growth in Q1 2024. For context, net revenue outlook in East Midlands is also below the nationwide average, which has a positive outlook (net 5%). The region with the most positive outlook is the East of England (net 12%) while the South East has the most negative (net -8%).

East Midlands small businesses report a weakening in net revenue in Q2 2024, with the overall net figure remaining 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

Despite a brief return to positive scores in Q3 2023 for net employment levels, Q2 2024 continues the negative trend seen since Q2 2022.

When looking at the employment picture amongst FSB members over the preceding three months, 11% had decreased employment levels whilst 6% had increased staff numbers. The net change of -5% 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 the score was similar (net -4%); comparatively, Q4 2023 showed a respective score of net -5%, indicating that the net change has remained in the same range for the last 3 quarters.

There is a negative prediction for employment growth in the region for the next quarter, with an anticipated net -1% change in headcount. This outlook is, therefore, more pessimistic than what was predicted in Q1 2024, where a 6% net increase in employment levels was reported; this means both actual and predicted employment levels in Q2 2024 are below Q1 2024.

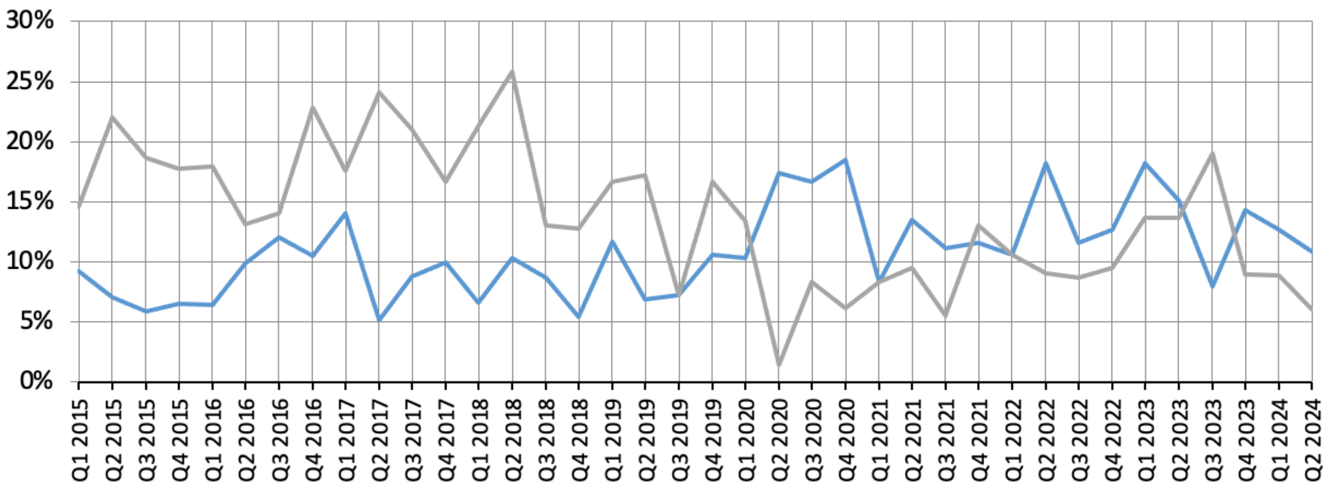
Wage Growth

In the East Midlands, the net change in average salaries for Q2 (50%) has declined since the previous quarter, Q1 2024 (67%). This dip has ended the steady increase quarter-on-quarter since Q3 2023 (63% in Q3 2020, 65% in Q4 2020). For this quarter, 62% increased the average salary in the East Midlands, with 57% increasing it by more than 2%.

The net expected wage growth for the upcoming 12 months in the East Midlands continues to fluctuate. This quarter, the net change decreased to 64%, showing a decline from 72% in Q1 2024.

There is a continued decline of East Midlands small businesses employment figures in Q2 2024, with the headcount changes remaining net negative.

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



Growth and Investment Aspirations

In Q2 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 on par with Q1 2024 and similar to Q4 2023, where 51% and 50% of businesses respectively intended to do so. There are now more small businesses that intend to contract in Q2 2024 (13%) compared to Q1 2024, where 9% of small businesses in the region expressed a desire to do so.

As of Q2 2024, there has been neutral investment intentions for East Midlands small businesses, following an outlook that had previously been positive in Q1 2024 (net 16% in Q1 2024, versus net 0% in Q2 2024). The East Midlands is no longer the most positive region in the UK for investment intentions in Q2 2024. In fact, this quarter, the East Midlands has one of the least optimistic outlooks within the UK, with only in the West Midlands (net-3%) and North East & Yorkshire and The Humber (-3%) being more pessimistic. The UK average of net 8% in Q2 2024 does reveal a more positive outlook, however; this has remained positive each quarter nationally since Q4 2020.

In the East Midlands, over the coming twelve months, the greatest perceived barriers to growth remain the same in Q2 2024 as it was in Q1 2024: domestic economy (65%), consumer demand (49%), and labour costs (30%).

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