



# FSB South West Quarterly Small Business Index

Q2 2023

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## Foreword

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The FSB has been polling its members every quarter for many years to try and get an accurate, consistent handle on the shifting sands of SME business confidence. For many of those years (prior to Covid) it was usually ‘steady as you go’ with little real movement one way or another.

Since Covid, however, all bets have been off and we have seen some truly dramatic changes in both national and regional levels of business confidence. Sometimes it has shot up, sometimes it has crashed but at other times – like this quarter – the confidence figures for small businesses here in the South West portray a decidedly confused picture.

Let’s start on the plus side.

Firstly, regional confidence is well above where it was this time last year and the South West is also slowly but surely climbing in the regional confidence ‘league tables’ and both of these are positive signs. In addition nearly twice as many businesses polled said they intended to increase staff rather than lose people in the coming quarter and a third of businesses are predicting an upturn in revenue over the same period. All of this is to be welcomed.

However it isn’t all good news. Growth and investment aspirations remain behind the national average and the overall headline confidence figure was disappointing. The last quarter revealed a sharp upturn in confidence levels locally and we had hoped this would continue but this quarter the levels have actually dropped slightly. This is a shame because confidence breeds confidence and had we seen some of the momentum revealed earlier in the year continue, we really could start to say that things were moving in the right direction again.

The reality is that business confidence – like the economy that influences it – is just in a totally uncertain place. All we can hope is that some of the positive signs we are seeing can be built on and increasing confidence can start to become the norm again rather than the exception.

We at FSB will continue to work hard with leading policy makers to stress that small businesses can and will do their bit to try and get things moving forward again - but they can’t do it alone. Pro-small business policies are essential to get SME confidence firmly back on track.

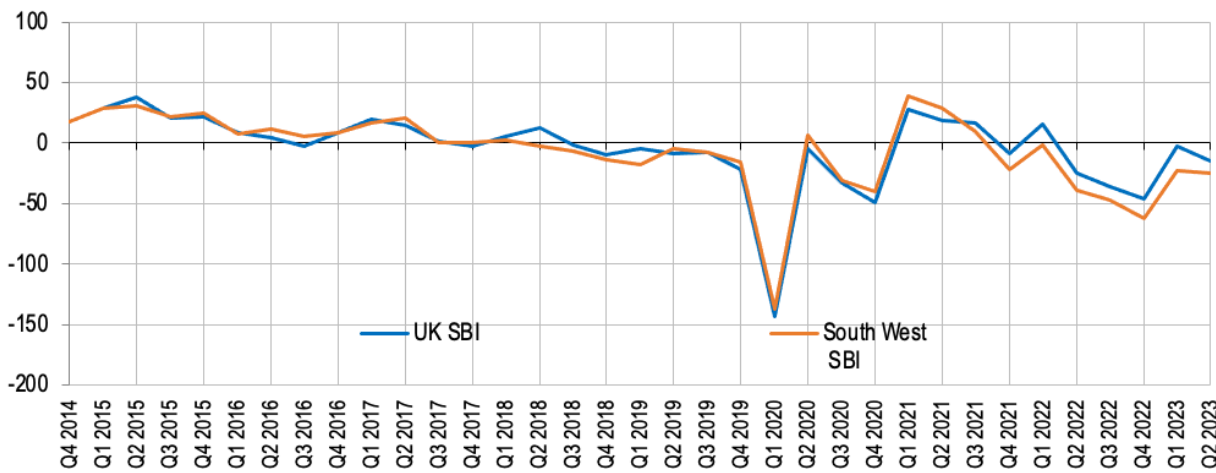
**The South West Small Business Index (SWSBI)<sup>1</sup>, which measures confidence amongst businesses, has fallen slightly to -25 in Q2 2023. While the overall level remains negative, and below the previous quarter (-23 in Q1 2023), confidence levels largely place above those seen over 2022.**

Small business confidence for the next 3 months remains negative in Q2 (-25), falling slightly from the previous quarter (-23 in Q1 2023). Despite this fall, confidence levels remain above those seen across most of 2022, where confidence fell to a low of -62 (Q4 2022). This persistent negative outlook is likely driven by the continued rises in inflation and general cost of living that have sustained over the course of 2022 and beginning of 2023.

Looking at the rest of the UK more broadly, small businesses in the South West display confidence below the UK average, which sits at -14. South West continues to have one of the lowest sentiment scores in the UK; the lowest performing region is the East of England (-28), with London, the North West and the South East (all -7) all seeing the highest levels of confidence. This means that for Q2, all regions across the UK see negative confidence levels.

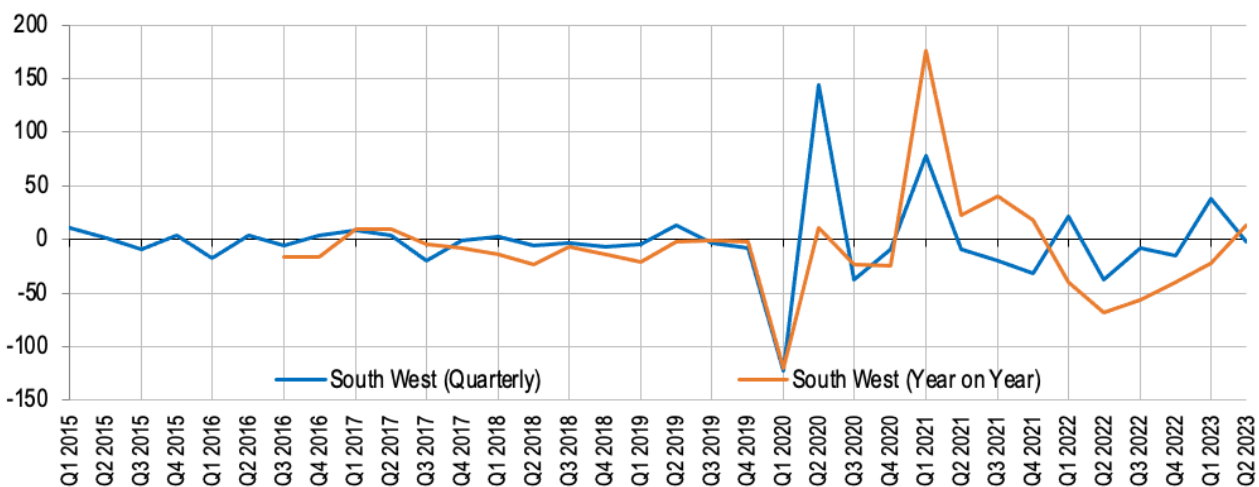
**Confidence in business performance for the next 3 months in the South West declines slightly in Q2, remaining below the UK average.**

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



**Due to low confidence levels in 2022, confidence in South West business performance rises YOY, despite seeing a small decline from Q1 2023.**

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



<sup>1</sup> The South West 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

**Despite levels continuing to improve since Q4 2022, South West small businesses report a net negative balance for revenue over the last 3 months, and predict this will continue in the coming quarter.**

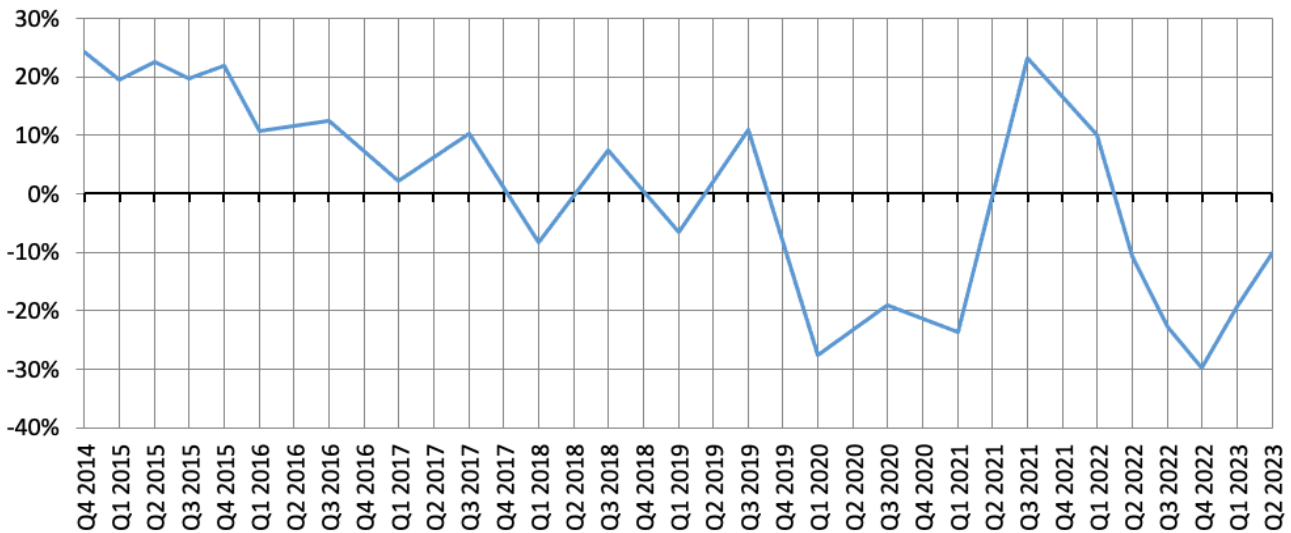
In Q2 2023, the overall net balance for revenue in the region remains negative (net -10%)<sup>2</sup> but sees a continued rise from the previous quarters (where it was net -30% in Q4 2022 and net -19% in Q1 2023). This continues to represent a reversal of the trend seen over 2022, where net revenue declined for three quarters in a row (i.e. Q1 2022 (net 10%), Q2 2022 (net -11%), Q3 2022 (net -23%) and Q4 2022 (net -30%). Despite this, the improvement in net revenue for Q2 2023 falls behind predictions from the previous quarter (where the expectation for improvement sat at net -2%).

Despite this relative growth within the region, revenue levels still lag the rest of the UK, which holds a net average of -9%. The South West, therefore, sits just below the UK average, with the weakest performer for Q2 being the East Midlands (net -20%). For contrast, the strongest performer across the UK for revenue growth over the last 3 months is the South East (net -1%).

The outlook for future revenue predicts a lower rate of decline compared to the actual levels seen in Q2 2023 for the South West. Small businesses predict that revenue will decline by net -6% over the next quarter, with 33% predicting an increase in revenue and 39% predicting a decrease. However, compared to the rest of the UK this prediction is more pessimistic, with the UK average for future growth set at net -3%.

**Despite remaining net negative, revenue among South West small businesses continues to rise following a clear decline across 2022.**

**Fig.3 FSB Small Business Index: net balance of small firms in the South West reporting revenue.**



<sup>2</sup> 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'

# Employment and Wage growth

**Employment in South West small businesses remains net negative (-5%) in Q2 2023, although showing a small rise from Q1 (-7%) but falling behind predicted growth (net 6% predicted in Q1 2023).**

The employment picture amongst FSB members over the preceding three months showed that 17% had decreased staff numbers, whilst slightly fewer (12%) had increased employment levels; this results in a net decrease of -5% over the last quarter. However, many staffing levels have been left unaffected, with 69% reporting that this 'stayed the same'. This result falls below the predicted increase of net 6% for staffing levels from Q1.

For the next quarter, the intention is for 17% of businesses in the South West to increase headcount, and 9% to decrease staff numbers.

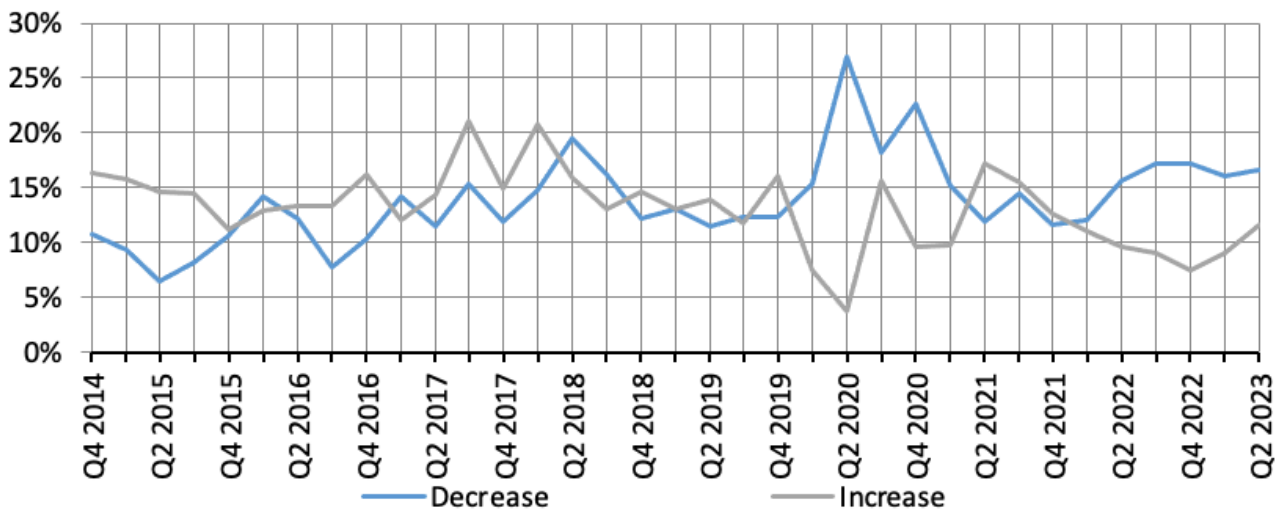
## Wage Growth

In the South West, over two-thirds (72%) of small businesses increased the average salary awarded across the business over the last 12 months, with 66% reporting an average increase of 2% or more.

Predicted wage growth, sitting at net 67% in Q2 2023, is at similar levels to the past 2 quarters (65% in Q4 2022, 68% in Q1 2023). For the current quarter, 70% expect to see salary increases over the next 12 months, with 68% reporting the likely increase to be 2% or above.

**In the South West, the proportion of small businesses increasing headcount continues to lag behind the proportion decreasing headcount, although the gap continues to narrow.**

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



## Growth and Investment aspirations

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In Q2 2023, 47% of small businesses in the South West 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%). Growth aspirations within the South West are above the levels seen in Q1 2023 (38%) but lag behind the current UK average for Q2 2023 (51%). Despite this, the current growth aspirations are on par with the averages seen across 2022 (43%) and 2021 (49%) for the South West region.

**The South West keeps a net positive score for investment intentions for small businesses, rising slightly since the previous quarter.**

25% expect to increase investment over the next 3 months, with 19% expecting to reduce the amount invested. The net balance of firms expecting to increase their investment in the South West therefore stands at 6%, remaining net positive, and above the level seen in Q1 2023 (net 2%). This does, however, leave the region just behind the national average (net 7%). For comparison purposes, the region with the highest net investment intention is London (21%), with the West Midlands placed as the region with the lowest net investment intentions (-13%).

In the South West, 8% of businesses have said they intend to contract the business in the next twelve months (to downsize, sell or close the business). This is just below the previous quarter, when 13% expressed an intention to do so, and also below results seen YOY (where it sat at 17% in Q2 2022).

**In the South West, the general economic conditions in the UK (64%), consumer demand (41%) and utility costs (31%) 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](http://www.fsb.org.uk)

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