FSB Yorkshire, the Humber & North East Quarterly Small Business Index

Q2 2024

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Foreword

After a strong start to 2024, we were all hoping that the latest quarter would be just as positive for small businesses – if not more so. But sadly it is not to be.

Small businesses are looking with trepidation at the Government's forthcoming plans to change employment, which could both increase risk around small businesses employing people, and the costs when they do. The rise of labour costs will hold back economic growth, and points to the possibility of a contraction in small business job numbers, which would be terrible news for firms, for staff, for local communities and for our regional economy.

It is also worth noting that our national figures show that the construction sector has the lowest confidence reading among the major sectors. This underpins our calls for more support for small housebuilders, especially as the Government's homes target cannot be achieved without new policies to unlock the potential of small housebuilders.

Foreword by Nancy Prest
Regional Policy Representative for Yorkshire, the Humber and the North East, Federation of Small Businesses

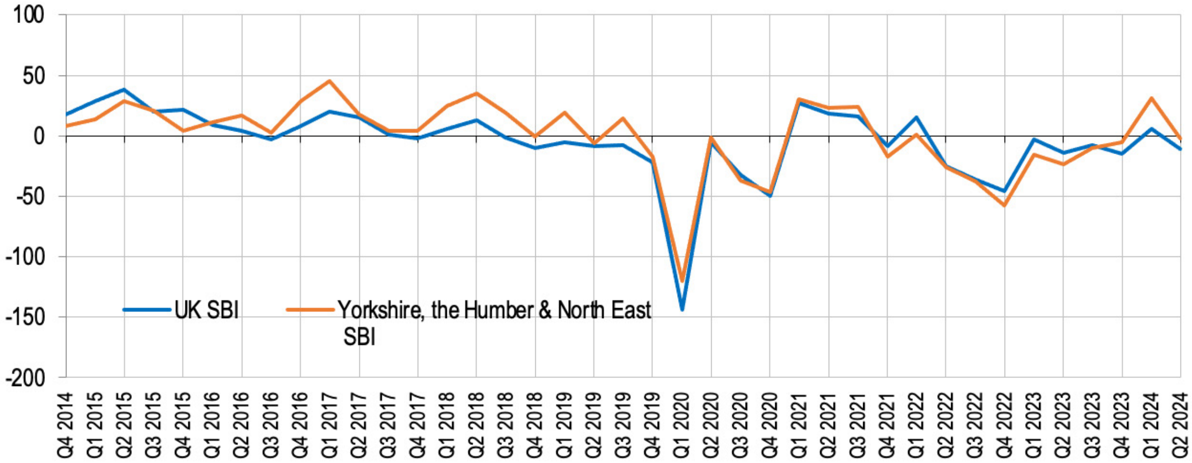
The Yorkshire, Humber & North East Small Business Index (YHNESBI)[1], which measures confidence amongst businesses, has declined substantially from 31 in Q1 2024, to -2 this quarter.

Confidence among small businesses in Yorkshire and the Humber & North East has declined to levels similar to Q4 2023, when the confidence index score was -5. This is the first decline in business confidence since Q2 2023, after an upward trend had continued until the current quarter. Despite this decline since last wave, the YOY improvement in confidence for the region is notable, from -24 in Q2 2023, to -2 in Q2 2024.

Despite the decline in confidence, Yorkshire and the Humber & North East remains the most confident UK region of those that are reported, and is above the UK average of -11, which has reduced from 5 in Q1 2024. For reference, the least confident regions are the North West and South West, both with a net index score of -23.

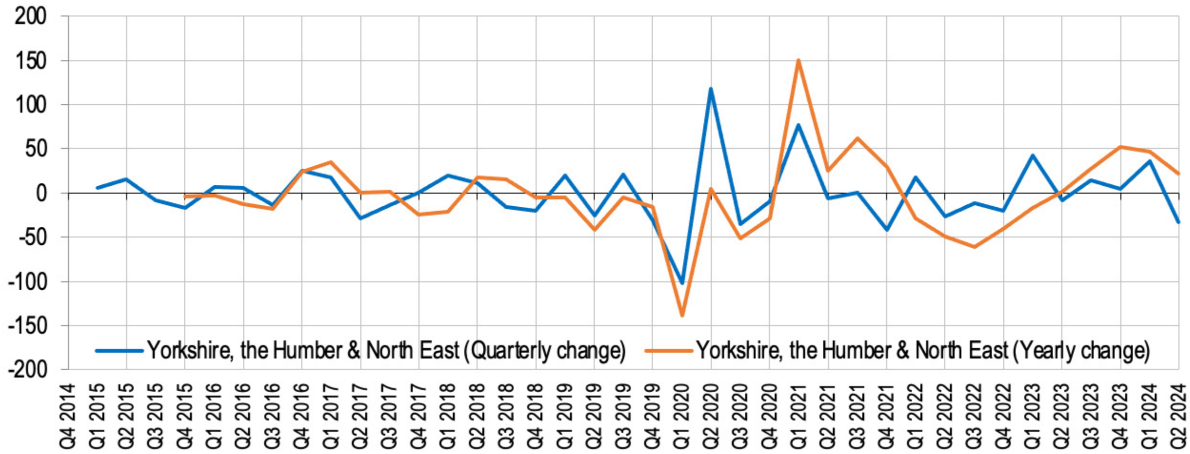
Confidence in business performance for the next 3 months has declined for both Yorkshire, the Humber & North East, and the UK as a whole, after an improvement in Q1.

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



The quarterly decline in confidence for Yorkshire, the Humber & North East is the greatest since Q4 2021, but the YOY confidence change remains positive.

Fig.2 FSB Yorkshire, the Humber & North East Small Business Index: small business confidence levels.



[1] The Yorkshire, the Humber & North East 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

Small businesses in Yorkshire and the Humber & North East report a net negative revenue balance over the past 3 months, after the first positive value since Q1 2022 was noted in the previous quarter.

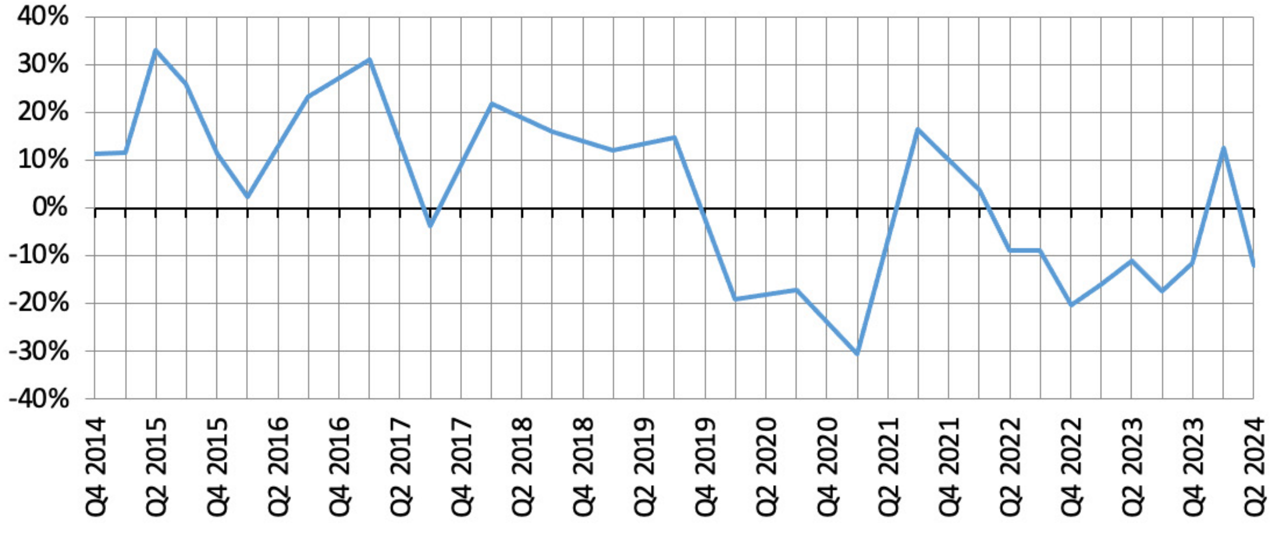
In Q2 2024, the overall net balance for revenue in the region is once again negative (net -12%)[2], and has declined since the previous quarter, where it was 12%. There is little change when comparing YOY, as in Q2 2023 the net balance was -11%.

The net revenue balance for this quarter is the joint third highest of all the regions reported (alongside the North West, also at -12), below the West Midlands (-3%) and London (-4%). For reference, the UK average is -9% - the same as the previous quarter. The worst performing region is the South East, with a net revenue balance of -18%.

The outlook for future revenue has declined since last wave, but remains positive – in the region, 40% of small businesses expect this to grow over the next 3 months, while 30% of small businesses expect a decline in revenue. This results in a predicted net balance of 10%, which is below the net prediction from the previous quarter of 37%. The UK average predicted net revenue for this quarter is 5%, and Yorkshire and The Humber & North East is the second most optimistic region, behind the East of England (12%).

The revenue balance in Yorkshire and the Humber & North East falls back to a net negative score, this was after a brief positive net score in Q1 2024.

Fig.3 FSB Small Business Index: net balance of small firms in Yorkshire, the Humber & North East 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 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

The net score in employment numbers for small businesses returns to a negative outlook, declining from 8% in Q1 2024 to -3% this quarter.

The employment picture for small businesses in Yorkshire, the Humber & North East over the last 3 months shows the net employment level at -3%. This is due to 13% of small businesses in the region decreasing their headcount over the last 3 months (compared to 8% reported in Q1 2024), and 10% increasing their headcount (down from the 16% reported in Q1 2024).

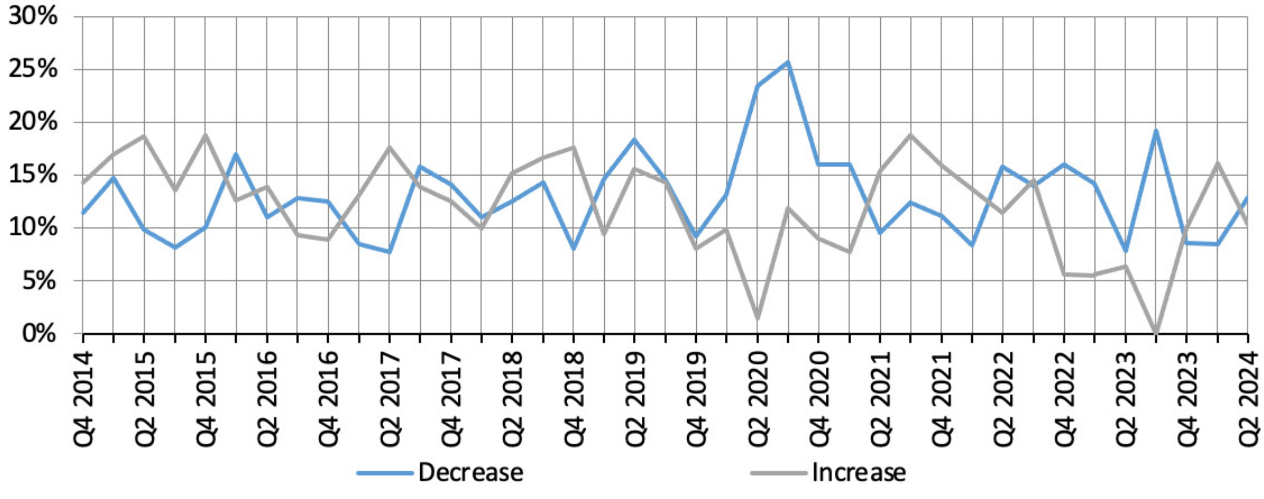
Staffing levels are predicted to increase slightly, with 11% indicating an intention to increase their headcount when looking ahead to the next 3 months. There is a predicated net change of 3%, as a result of the 8% expecting to decrease staffing levels. Three in four businesses (75%) expect staffing numbers to stay the same.

Wage Growth

Withing the region of Yorkshire, the Humber & North East, just under two-thirds (64%) of small businesses increased the average salary across their business over the past 12 months. In Q1 2024, this was 65%, indicating it has remained relatively consistent, with a marginal decrease of 1% between quarters. Nearly a third (30%) say they have not increased the average salary at all, while 62% say they have increased the average salary by 2% or more. When looking ahead, the outlook is consistent, with 63% of small businesses predicting an average wage rise over the next 12 months.

After the second net positive change in a row in the number of small businesses increasing employee numbers against those decreasing them, this value is now negative as more businesses are reducing employee numbers.

Fig.4 FSB Small Business Index: change in people employed in Yorkshire, the Humber & North East over last 3 months.



Growth and Investment aspirations

In Q2 2024, 51% of small businesses in Yorkshire, the Humber & North East say that their growth aspirations in the next 12 months are to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). This is a small decline since Q1 2024, when 55% had these growth aspirations.

10% of businesses in the region have said they intend to contract their business in the next twelve months (to downsize, sell or close the business). This is an improvement from Q1 2024, where it was 13%.

The investment intentions for Yorkshire, the Humber & North East small businesses have fallen below the UK average once again.

22% of businesses in Yorkshire and the Humber & North East expect to increase investment over the next quarter, whilst 25% expect to decrease it – resulting in a net balance of -3%. This is below the UK average of 8%, and is the joint least optimistic region measured, alongside the West Midlands. This is a considerable decline since the previous quarter, where the region was the second most optimistic in the country. For reference, the most optimistic region this quarter is the East of England (net 18%).

In Yorkshire, the Humber & North East, the general economic conditions in the UK (56%), tax burden (30%), consumer demand (30%), utility costs (29%) and labour costs (26%) are the greatest perceived barriers to growth over the coming twelve months.

Since Q4 2021, fears about appropriately skilled staff have decreased (from 24% to 13% this quarter), whilst concerns about the tax burden and utility costs have both increased (22% to 30% and 22% to 29% respectively).

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