

Q2

FSB VOICE OF SMALL BUSINESS INDEX

QUARTER 2, 2024

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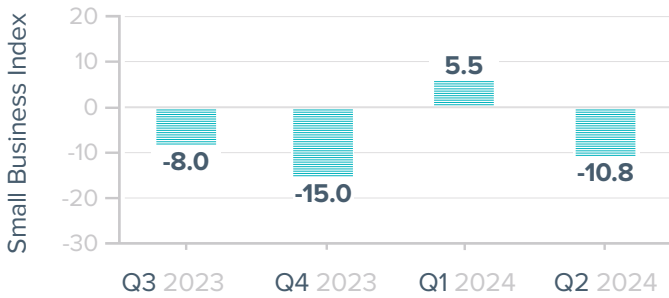
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Federation of
Small Businesses

SBI Q2 2024

“ Small business confidence loses momentum and tumbles in Q2 ”



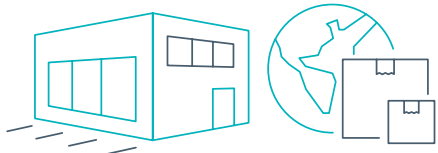
Small businesses' successful credit applications improve



60.5%

of small businesses who **applied for credit in Q2 were successful in their application**, an increase of **13.9 percentage points** from Q1

Exports conditions improve after a difficult start to the year



-0.4%

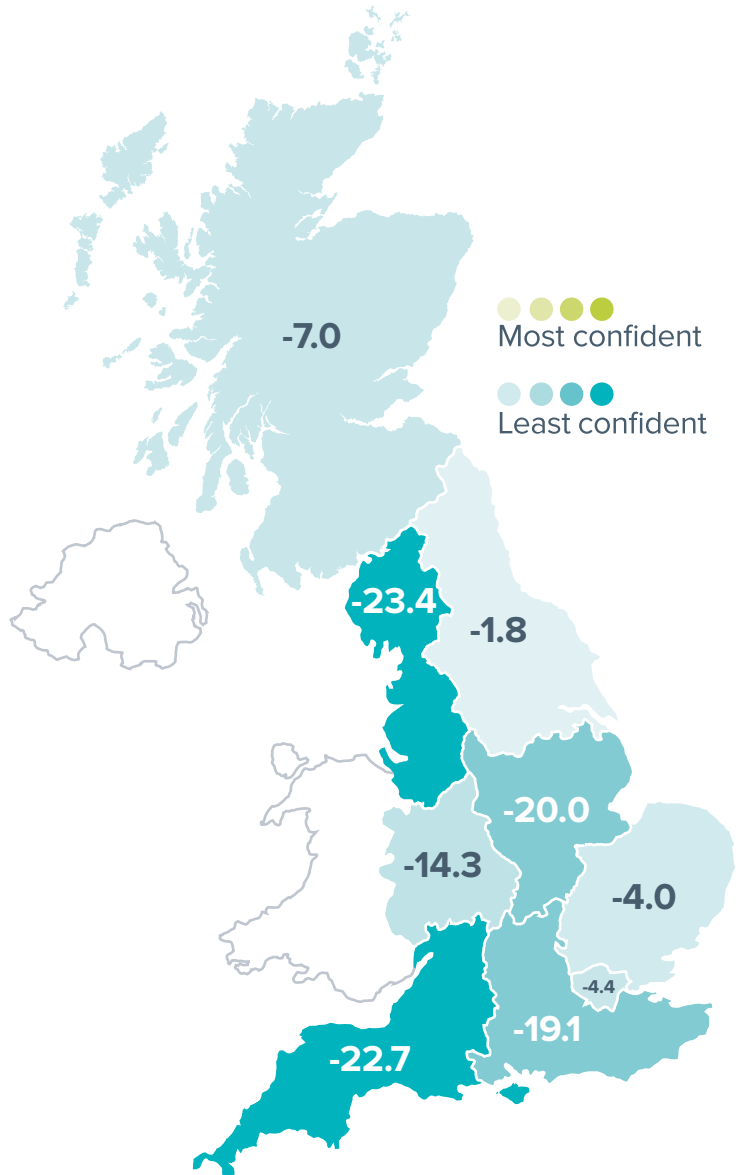
net balance of **exporting businesses** reporting an **increase in the value of their exports**, up from Q1's **-8.2%**

Employment costs as a factor of business costs hit all time high



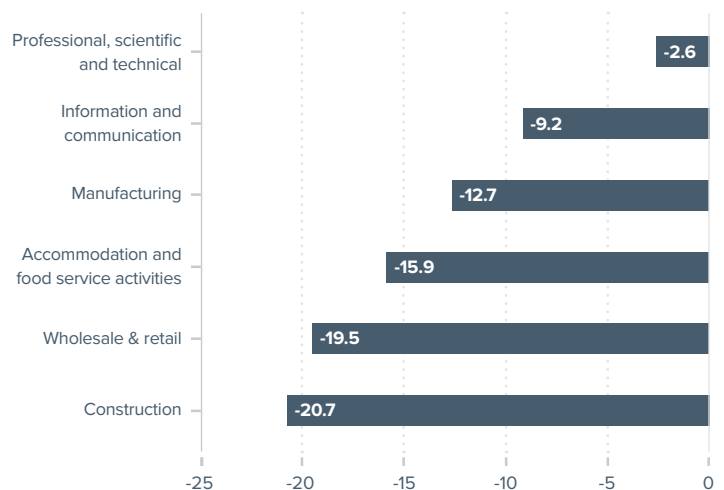
52.2%

of small businesses stated that **labour costs are a factor in increased business costs**



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



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FSB FOREWORD

Is it one step forward and two steps back for small business confidence levels in the second quarter of 2024? Going from +5.5 points in Q1 to -10.8 in the following three months is certainly a setback, but it could well be a temporary setback on an otherwise more positive trajectory, not a return to the deep freeze experienced in the depths of the pandemic and cost-of-living crisis.

The confidence fall goes against the general tide of economic news over the period in question, with fairly robust GDP growth of 0.9% recorded in Q2, although inflation and interest rates did not fall as rapidly as had been predicted. Looking more closely at the data contained in the SBI underlines that the new Government – whose election happened bang in the middle of the period when this latest survey was undertaken – needs to take the needs and concerns of small businesses seriously, if the economic expansion and wealth creation we all want to see is to be nurtured.

Most striking is how the rosy expectations for revenue growth predicted by small firms in the previous iteration of this report failed to materialise. Back in Q1, nearly half (45.6%) of small businesses anticipated higher revenues in Q2; as it turned out, only a third of them (32.1%) enjoyed rising sales over the quarter. This bout of optimism has dissipated, and now the proportion expecting to see a rise in revenues in Q3 (34.7%) is far closer to the percentage of those bracing for a fall (30.1%).

With the summer now officially recognised as the coldest in the UK since 2015, it remains to be seen whether small firms' sales figures for Q3 will have been boosted by the cornucopia of sporting events which took place, or whether they will turn out to be a damp squib. Gloomy talk from the new Government about fiscal black holes and the tough choices ahead may be adding to the downbeat atmosphere, with the deplorable outbreaks of rioting and violence in some areas of the UK not helping matters; while no one denies the tricky situation we find ourselves in, small businesses could be forgiven for wanting to hear a bit more positive news as they look towards the forthcoming Budget.

Small businesses are also 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 the national economy.

The Employment Allowance, whose value has been significantly eroded by inflation, should be uprated at the autumn Budget, to restore the level of relief it provides to employers. When it was introduced, it covered the employer's National Insurance contributions for the equivalent of four full-time staff on the National Living Wage, but in intervening years this has fallen to the equivalent of three full-time employees, making it that much harder for small firms to maintain and grow their headcounts.

All the major sectors saw a decline in their headline confidence level, be it relatively minor (the accommodation and food service sector went from -11.8 points in Q1 to -15.9 points in Q2, a 4.1-point fall) or more dramatic (manufacturing swung from a healthy +19.2 in Q1 to -12.7 points in Q2, a precipitous 31.9-point drop). The construction sector was the gloomiest overall in Q2, sitting at -20.7 points, almost twice as pessimistic as the -10.8 points recorded across all businesses. We are calling for targeted help for small housebuilders, such as reforming the consumer infrastructure levy, so small building firms can access the finance they need, to allow them to form an integral part of the Government's ambitious housebuilding plans.

A slight easing in the proportion of small firms saying the cost of running their business was higher than this time a year ago is welcome, but going from 83.7% in Q1 to 80.4% in Q2 still means four in five small businesses are reporting a hit from inflation. Employment costs are the most commonly-cited major cause of this higher cost of doing business, jumping from second place in Q1 to the top spot in Q2. With employees' rights much in the news of late, this placing is a reminder that small firms are already facing challenges when it comes to keeping people in jobs and finding skilled staff, and the last thing they need is more headaches around whether it is possible for them to employ a new staff member.

It's clear that getting the small business community's confidence back up has to be a political priority to fulfil economic goals. We hope the new Government takes heed of this in the run-up to its first major fiscal event. After a chilly and dismal summer, a bit of sunlight would be gratefully received.



Tina McKenzie,
Policy Chair

ECONOMIST'S VIEW

Small businesses experienced a disappointing Q2. Despite expecting, on aggregate, that revenues would rise sharply over this period when asked last quarter, revenues instead fell again.

This continues a pattern of small businesses underperforming the wider economy over the last two years, failing to report revenue growth since Q1 2022, despite the UK economy regaining economic momentum in early 2024, expanding by 0.7% in Q1 and 0.6% in Q2.

Though the UK economy has recently picked up, conditions remain tough. The domestic economy was by far the most cited barrier to growth ambitions for the year ahead, while nearly two-thirds of small businesses operated below capacity in the past three months. International conditions seem slightly better, with the value of exports broadly flat in the past quarter.

Small firms remain optimistic that revenues will pick up, on balance, over the next three months, but over half expect to remain working below capacity. More positively, over half (54.1%) of small firms aspire to grow over the next 12 months, compared to only 13.3% expecting to contract.

Given weak demand conditions, which are hindered by high interest rates, it is no surprise that the labour market has been easing. Growth in the number of payrolled employees remains positive but has been slowing since early 2022, while the number of vacancies has been on a consistent decline for some time. Meanwhile, unemployment has risen recently and now is at its highest rate since Q3 2021.

Small businesses have reported falling headcounts for nine consecutive quarters, but the pace of decline eased in Q2 compared to the previous two quarters. Furthermore, small firms expect headcounts to grow over the next three months. This is in line with our expectation that unemployment will soon peak and then start to fall gradually.

Easing interest rates will support small firms in a number of ways. General demand levels should improve, supporting higher sales and revenues. Smaller firms would also face lower borrowing costs, an important factor as over half of small firms rated the availability and affordability of new credit as poor this quarter.

While this quarter disappointed small firms overall, a combination of improved economic growth and easing cost pressures should likely drive improved business conditions over the remainder of this year and into next.



Christopher Breen,
Head of Economic
Insight

FSB EXECUTIVE SUMMARY

Key findings this quarter:

- **The FSB Small Business Index (SBI) decreased to -10.8 in Q2 2024.** This is a marked contrast from the net optimism expressed in the previous quarter.
- The fall in the headline index was broadly exhibited across the regions. **Small business pessimism over the next three months was most prevalent in the North West.**
- The pessimism amongst small businesses over their growth ambitions for the coming months can be attributed to challenging conditions in the domestic UK economy, **with more small firms reporting a decrease in revenue, compared to an increase in the past three months.**
- **In the previous survey, the net balance of small businesses expecting revenue growth in Q2 2024 stood at 22.1%.** However, over this period, the net balance of small businesses that reported **revenue growth stood at -9.3%.**
- **Exports continued to fall but at a slower pace from -8.2% in Q1 2024 to -0.4% in Q2 2024.** Exports are expected to rise in Q3 2024.
- **The net balance of small businesses reporting an increase in operating costs was broadly similar to last quarter, at 75.6%.** Labour costs have become the most cited source of changing business costs for the first time since Q4 2020.
- **Small business headcounts failed to record growth for the ninth consecutive quarter, recording net -1.4%,** but they also expect to expand their staffing levels, on net, in the next three months to 2.4%.
- **The share of small businesses aspiring to grow over the next twelve months continued to rise to 54.1% in Q2.** This represents the highest share of businesses hoping to expand for three years.
- **This improved sentiment towards growth contributed towards an increase in the share of small businesses applying for credit, up to 16.0% in Q2.** The number of successful applicants among those who applied also rose by 13.9 percentage points in this quarter.
- Despite this, small business perceptions of credit availability and affordability worsened in the quarter. **The credit index remained negative, falling to -34.2.**
- **The net balance of small businesses expecting to increase investment continues to be positive at 7.6%.**

UK MACROECONOMIC OVERVIEW

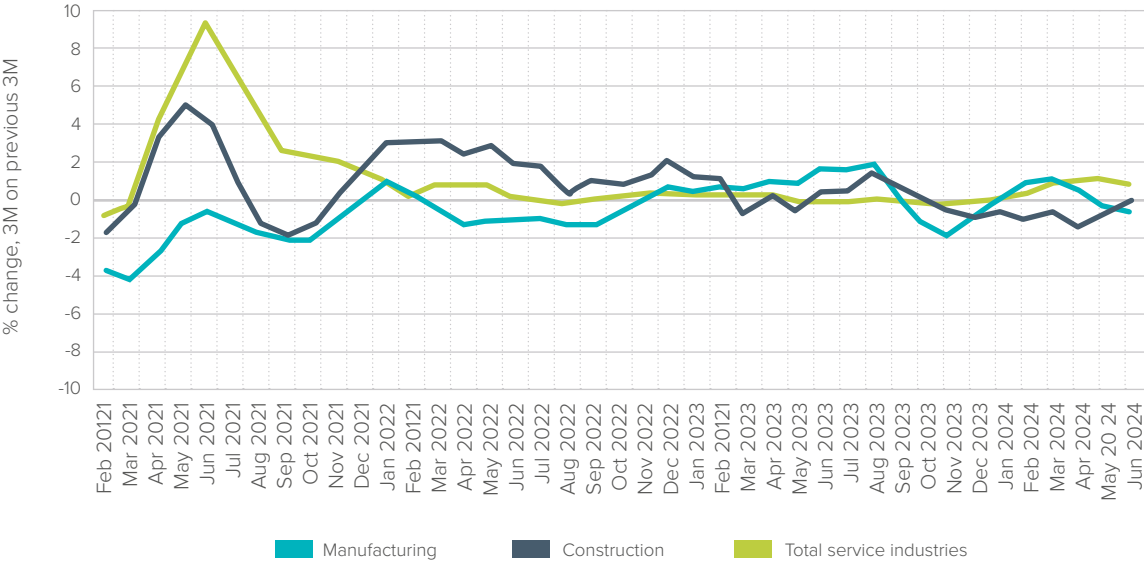
UK economy has returned to growth this year, but prospects remain historically weak

The UK economy grew by 0.6% between April and June, according to data from the Office for National Statistics (ONS). Growth was also recorded in the first three months of this year, with the economy having regained momentum following the mild recessionary period experienced in the second half of 2023.

Services sectors have been the main drivers of growth recently, with particularly strong performance across professional, scientific, and technical activities, administrative and support services, and health and social work activities. At the other end of the scale, output has been declining in construction and has been largely stagnant across production sectors.

Though the economy has turned a corner so far this year, it should be cautioned that growth prospects remain relatively weak by historical standards. Cebr currently forecasts GDP growth of 1.2% this year, picking up to 1.5% next. These rates fall short of the pre-Covid trend, with growth having averaged 1.8% in the 20 years prior to the pandemic, rising to 2.3% when excluding the years affected by the global financial crisis.

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

Q1 2024's positive reading in the Small Business Index is short-lived as pessimism rebounds in Q2 2024

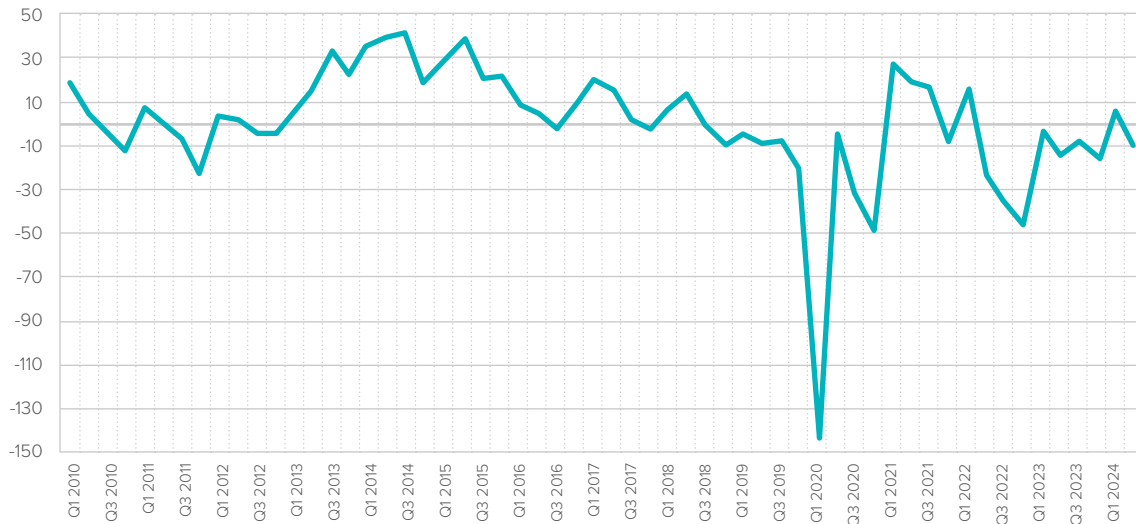
The Small Business Index (SBI) fell to -10.8 in Q2 2024. This reading of net pessimism felt by small businesses is a marked contrast from the net optimism expressed in the previous quarter. In other words, the share of businesses that expect an improvement in their performance over the coming quarter is outweighed by the share of businesses that expect a worsening in their performance.

The increase in pessimism amongst small businesses over their growth ambitions for the coming months can be attributed to the challenging conditions in the domestic UK economy. Firstly, high interest rates set by the Bank of England are constraining domestic demand and hence firm revenues. Secondly, these high interest rates are raising borrowing costs for small businesses, as they struggle to gain access to cheap credit. Moreover, due to the weak demand conditions, the unemployment rate remains

elevated, which can cause downside risks to future consumption levels. Furthermore, as detailed later, Q2 revenues also came below expectations, with 41% of small businesses reporting a decrease in revenue compared to 32% reporting an increase. These factors can, therefore, play a significant role in impairing small businesses' ambitions for the near future.

That said, small business sentiment is likely to improve throughout the remainder of 2024. Small businesses expect headcounts to grow over the next three months, which is in line with our expectations that unemployment will soon peak, or has done so already. Moreover, the easing in the labour market and inflationary pressures will soften wage growth, which has been reflected in Bank of England making its first rate cut. While rates will be cut at a gradual pace, small businesses will benefit as domestic demand improves and borrowing costs fall.

Figure two: The FSB Small Business Index¹: 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

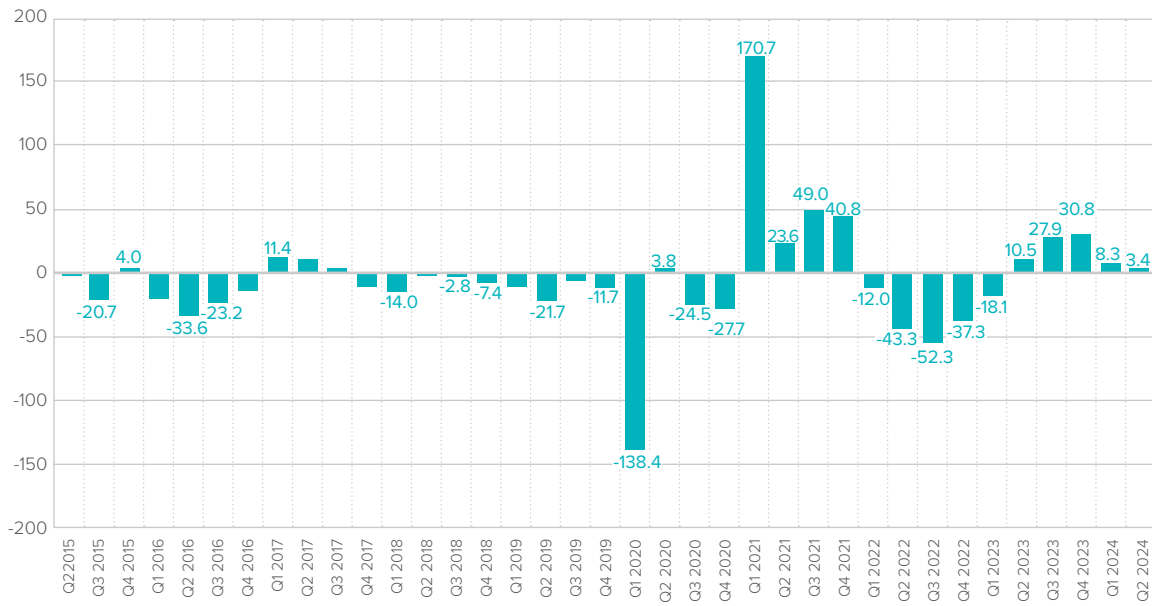
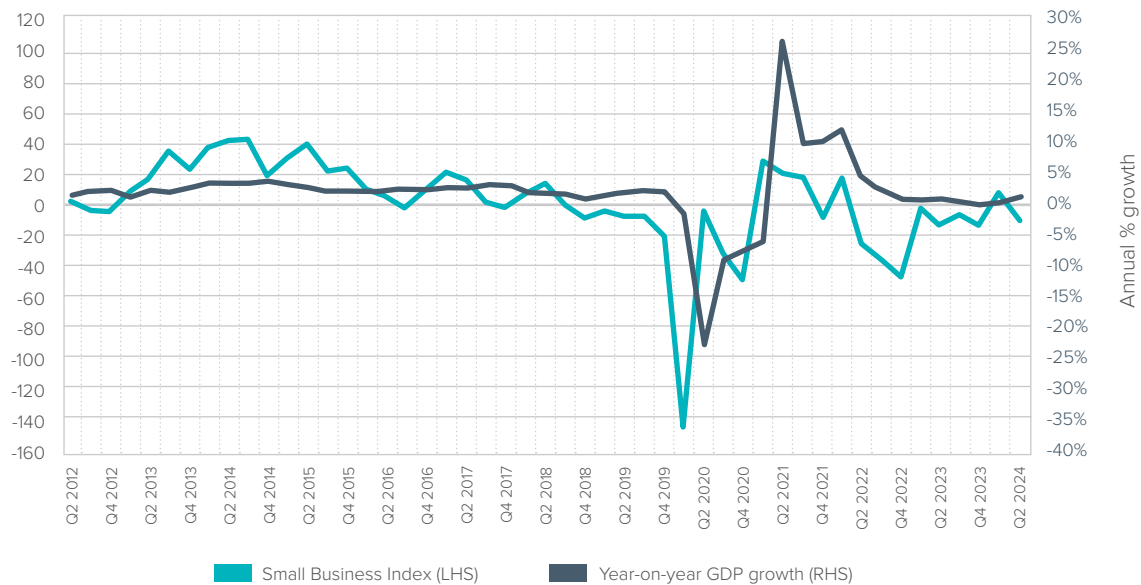


Figure four: UK SBI against year-on-year UK GDP growth
 Source: ONS, FSB - Verve 'Voice of Small Business' Panel Survey



REGION AND NATION SMALL BUSINESS INDICES

SMALL BUSINESSES ACROSS MOST UK REGIONS EXPRESS PESSIMISM OVER THEIR PERFORMANCE OUTLOOK FOR THE COMING THREE MONTHS

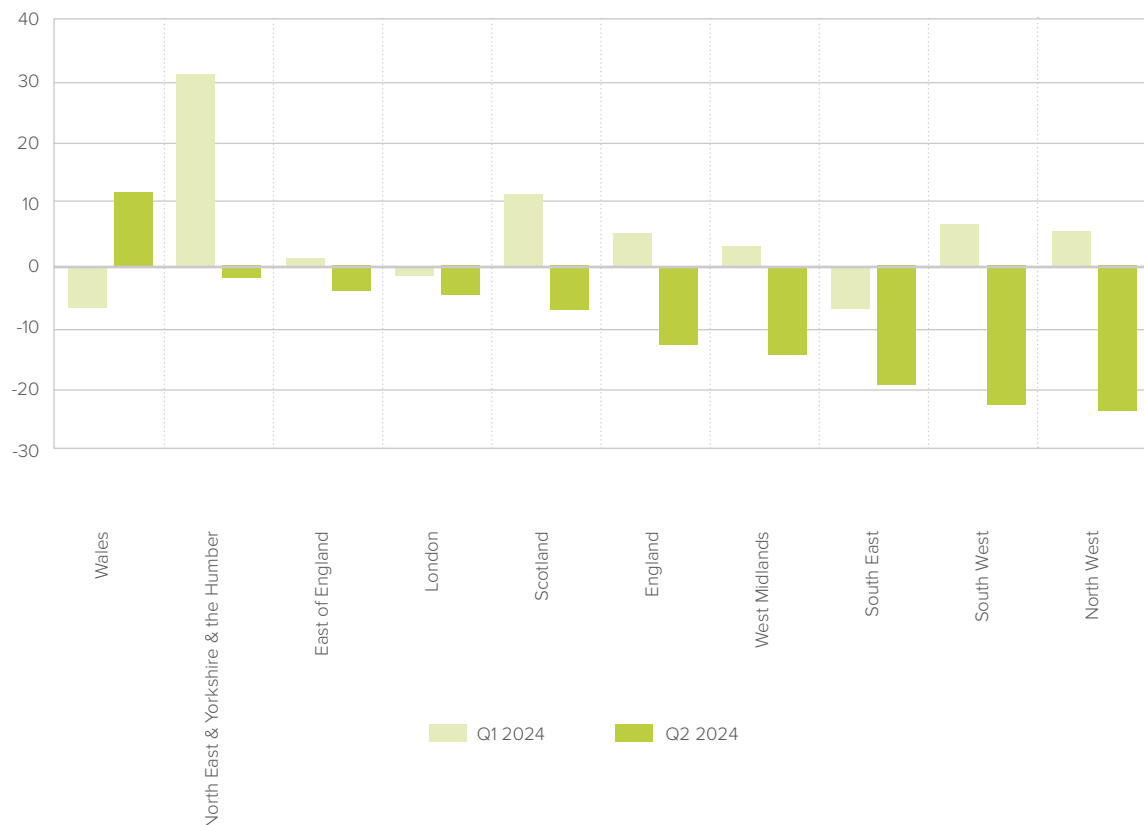
Most UK regions saw a negative reading on the regional SBI in Q2 2024, with most regions' optimism expressed in Q1 reverted to pessimism in Q2. This means that the proportion of small businesses expecting an improvement in performance in the coming quarter was outweighed by the proportion expecting a worsening, indicating that business pessimism is broad-based across the regions.²

The North East and Yorkshire and the Humber, which had expressed the most optimism in Q1 with an SBI score of 31.2, fell to -1.8 in Q2 2024. Given the region's strength in manufacturing and life sciences and that both manufacturing and professional, scientific and

technical activities were pessimistic in Q2 2024, this is likely helping to drive the negative SBI score in the region. The South West also fell from an SBI score of 6.8 in Q1 2024 to a negative score of -22.7 in Q2.

The North West is the most pessimistic region with an SBI score of -23.4, falling from a positive score of 5.5 in Q1 2024. London and the South East were the only two regions that continue to be pessimistic since Q1 with SBI scores of -4.4 and -19.1, respectively.

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 size for Northern Ireland is 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

ALL SECTORS ACROSS THE ECONOMY DISPLAY PESSIMISM OVER THE COMING THREE MONTHS

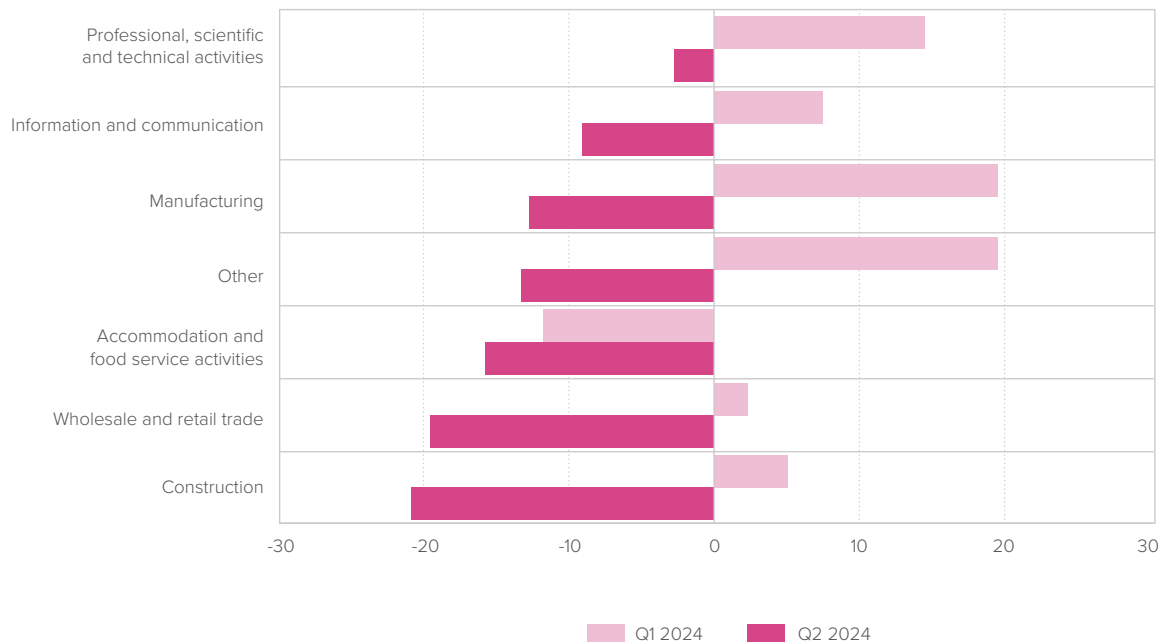
In line with the headline index, all of the SBI readings across industries turned negative in Q2 2024. The broad negative scores across the different sectors indicate growing pessimism amongst small business regarding their performance over the coming quarter.

Most sectors that displayed optimism in Q1 2024 have now expressed strong pessimism in Q2 2024. The construction sector expressed the strongest pessimism in Q2 2024 with an SBI reading of -20.7, falling from slight optimism of 4.8 in Q1 2024. This is followed closely by the wholesale and retail trade sector which recorded an SBI reading of -19.5 in Q2. Manufacturing also declined from an optimistic score of 19.2 to a strongly pessimistic score of -12.7. Other sectors follow a similar trend of reversal in optimism. This reversion in sentiment can be attributed to the Bank of England maintaining interest rates at high

levels over Q2, until they made a cut in August, resulting in lingering price pressures, especially in the service sector. With borrowing costs remaining at historic highs, accompanied with subdued consumer confidence, this is likely to influence the negative sentiment felt across industries.

Accommodation and food services continued to show pessimism in Q2 2024 for the fourth consecutive quarter, with an SBI reading of -15.9. The negative reading likely reflects lingering demand-side headwinds from the cost-of-living crisis and high interest rates, as well as cost pressures such as the new National Living Wage in April 2024 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 monetary policy continues to loosen.

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

DESPITE A SOBERING Q2 2024 PERFORMANCE, SMALL BUSINESSES CONTINUE TO EXPECT TO SEE INCREASING REVENUE GOING FORWARD

In the previous SBI survey, the net balance of small businesses expecting revenue growth in Q2 2024 stood at 22.1%, likely driven by the trajectory of the UK's economic recovery. However, over the past three months, the net balance of small businesses that reported realised revenue growth stood at -9.3%. This negative balance indicates that the number of businesses reporting a decrease in revenue outweighed those reporting an increase, the ninth consecutive quarter for which this has been the case.

The negative surprise in revenue growth over Q2 does not seem to reflect broader economic conditions. Bad weather did hinder activity in April, but even accounting for that, the economy grew by 0.6% in the three months to June. This indicates that small businesses are faring worse than the broader

economy, a hypothesis that is strengthened by the fact that the smallest firms (those with no employees) had the worst net score for revenue in the past three months, followed by those with one to nine employees.

Most sectors continued to record negative net balance figures, with construction and wholesale and retail recording the weakest net balance figures in Q2, at -28.8% and -22.6%, respectively.

Looking ahead, small businesses' revenue expectations have fluctuated between negative and positive net balance figures across 2023. Despite Q2 2024 revenues falling short significantly, expectations for Q3 2024 are still optimistic, with a net balance figure of 4.6%.

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

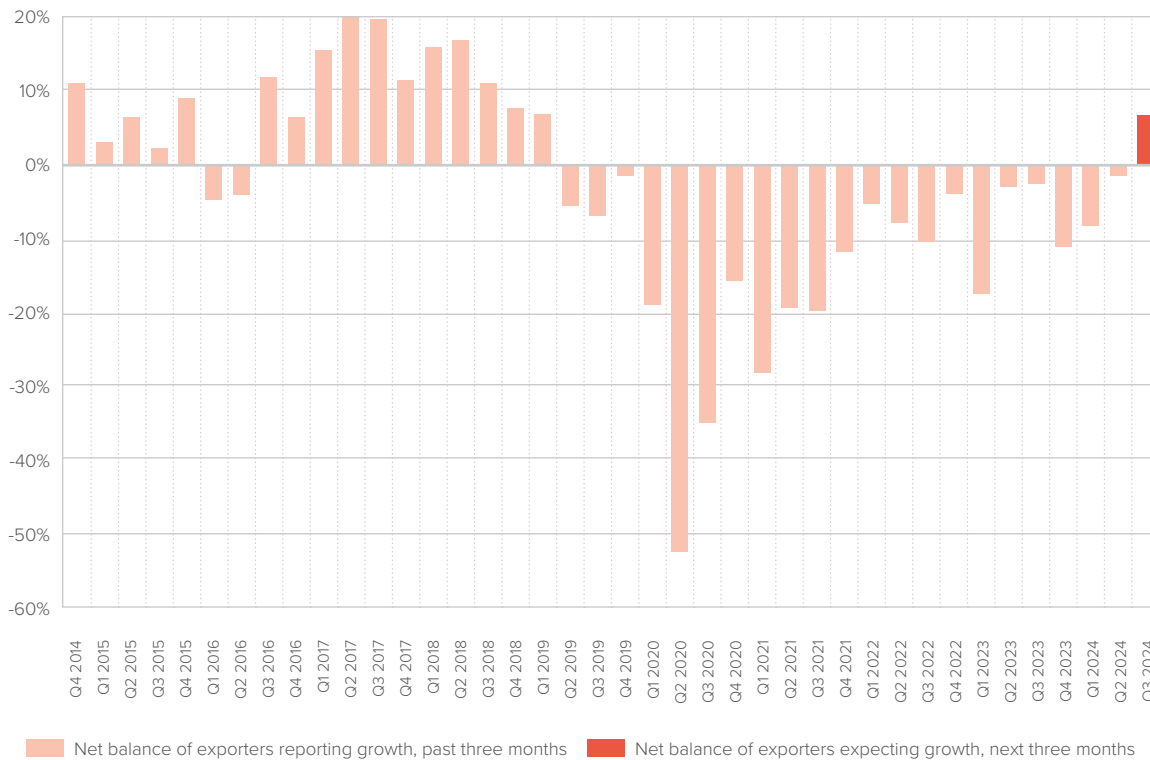
WITH Q2 2024 EXPORT VALUES BROADLY FLAT, EXPORTERS ANTICIPATE STRONG IMPROVEMENTS IN Q3 2024

In Q2 2024, a net balance of -0.4% of exporting businesses reported an increase in the value of their exports. While this represents broadly flat values compared to Q1, this is the best score on this metric since Q1 2019.

Recent ONS data reveals that the total trade in exports grew by 2.1% compared to Q1, driven by a 2.8% increase in services exports and 1.3% increase of exports of goods. The net trade balance figure however remains in deficit as imports rose more than exports.

Looking ahead, businesses anticipate an improvement in Q3 2024, with a net balance of 6.7% of exporting businesses expecting growth in their export value. This could be down to improving conditions in the UK's major trading conditions helping demand for UK goods and services.

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

LABOUR COSTS BECOME MOST CITED SOURCE OF CHANGES TO BUSINESS COSTS FOR FIRST TIME SINCE 2020

The net balance of small businesses reporting an increase in operating costs fell in Q2 2024 to 75.4% from 79.6% in the previous quarter. Moreover, this figure is down by 5.0 percentage points from Q2 2023. This decline reflects the continued easing of cost inflation in the second quarter, with producer input prices remaining in deflationary territory and consumer inflation falling to the Bank of England's 2.0% target for the first time since July 2021.

Whilst producer input prices have been falling since June 2023, the latest data from the ONS suggest a slowdown in the rate of this decline, with the latest price fall of 0.4% being the smallest change since prices began dropping. Services inflation has eased slightly through Q2, falling from 6.0% at the start of the quarter to 5.7% in the latest reading. This, however, remains persistently higher than both headline and core inflation and thus may serve as a barrier to further anticipated interest rates cuts for the remainder of the year.

Labour has become the most cited source of changing business costs in the SBI survey for the first time since Q4 2020, with a 4.1 percentage point quarterly increase in the share of businesses selecting it as a driver of changing costs. The share of businesses selecting this category now stands at 52.2%. The share of businesses selecting utilities as a main source of changing costs has continued to fall in Q2, with a 6.8 percentage point quarterly decrease following the 7.3 percentage point fall in Q1. Nevertheless, this remains the second-most cited factor, being selected by 48.4% of businesses. Alongside utilities, the share of businesses selecting taxation and fuel fell on the quarter. Other factors, such as inputs and regulation, recorded an increase in the share of businesses citing them as main sources of changing 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

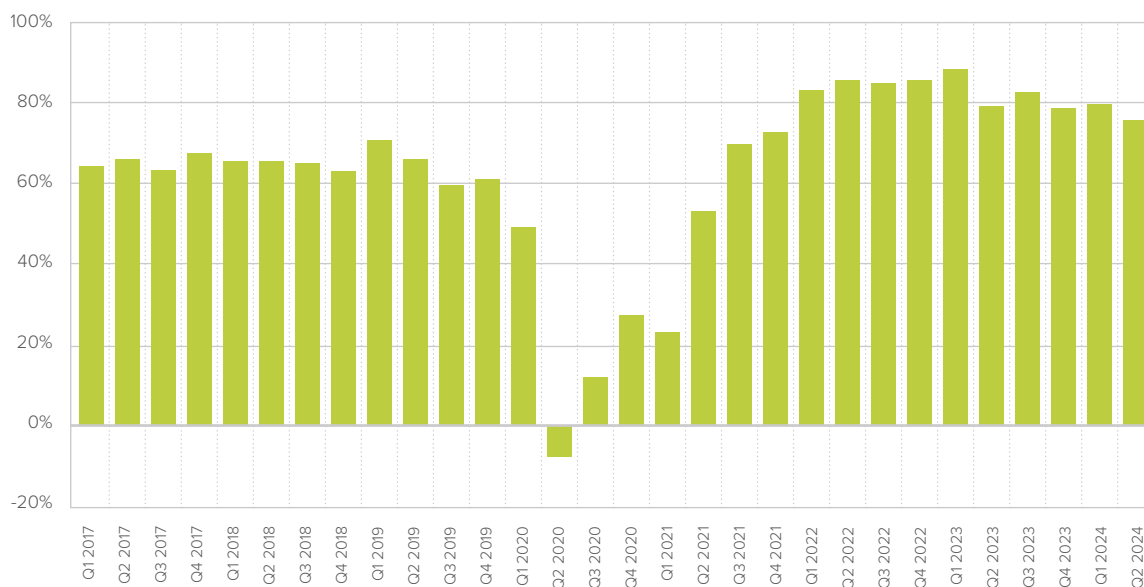
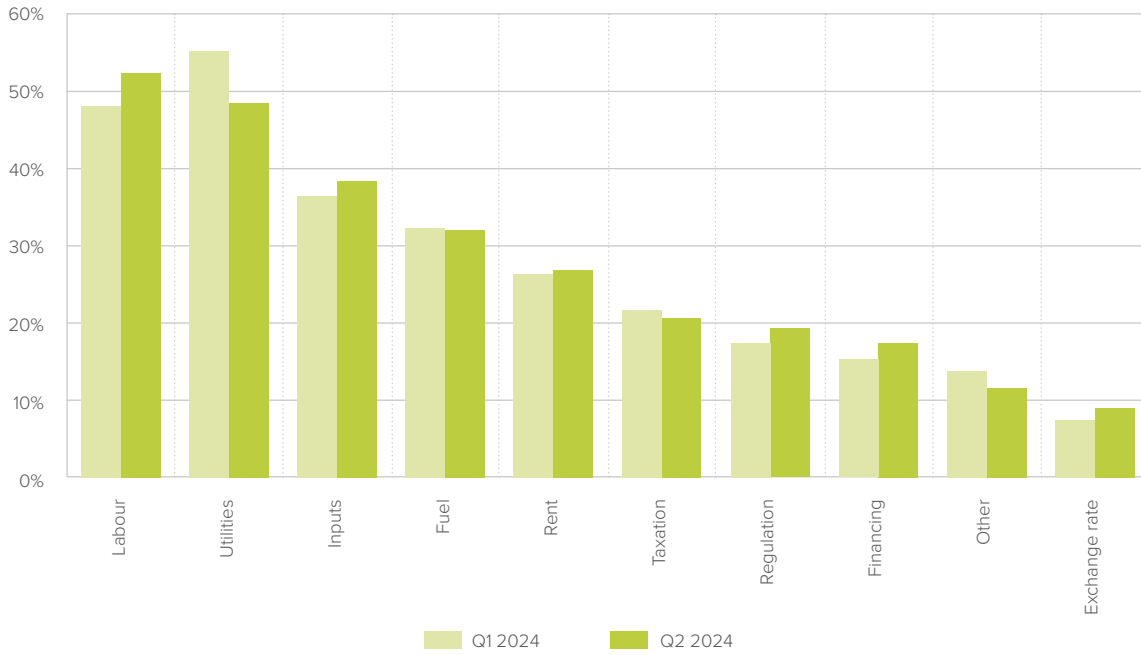


Figure 10: Main causes for changing business costs (Respondents could select multiple answers)
Source: FSB - Verve 'Voice of Small Business' Panel Survey



EMPLOYMENT

SMALL BUSINESS EMPLOYEE NUMBERS CONTRACTED BY LESS THAN THE PREVIOUS QUARTER

A net balance of -1.4% of small businesses reported growth in employee numbers in Q2. 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 ninth consecutive quarter with no growth on this metric. However, this has been the second consecutive quarter where the rate of contraction has fallen.

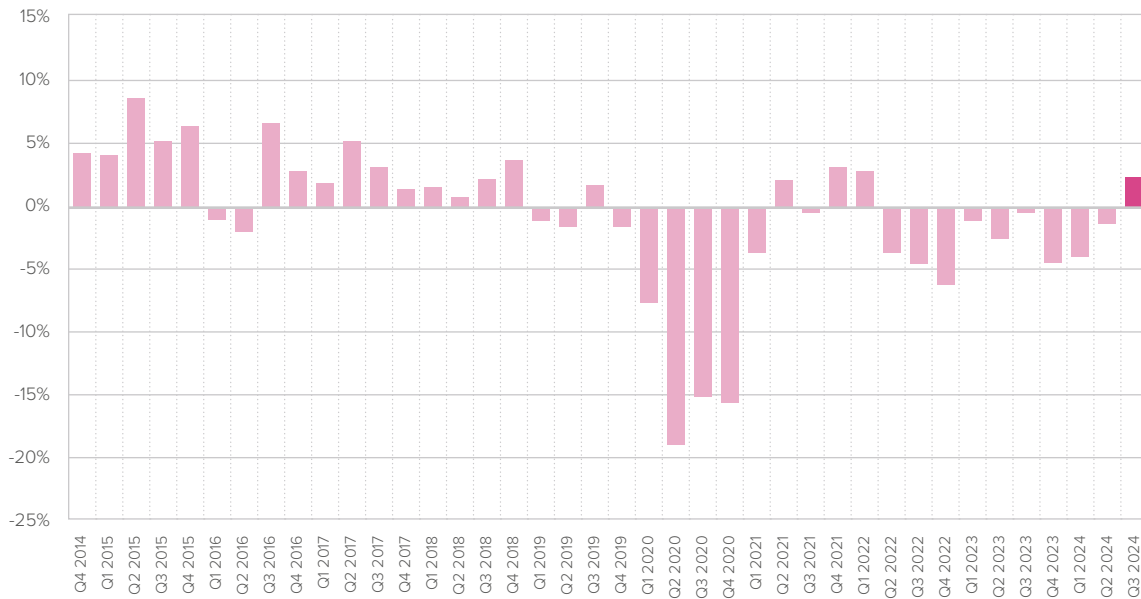
The latest ONS data revealed an drop in the unemployment rate to 4.2% in the three months to June, down from the previous quarter 4.4%. ONS data also showed a slowdown in nominal wage growth at 5.4% in the three months to June, the lowest recorded since August 2022. These metrics suggest a moderate cooling of the labour market. Simultaneously, the employment rate has seen a slight increase on the quarter, increasing by 0.1 percentage points to 74.5% in the three months to June.

Across the surveyed sectors, the weakest net balance scores were recorded in accommodation and food services and manufacturing at -12.4% and -10.1%, respectively. On a regional basis, the worst net balance score was seen in Yorkshire and the Humber at -9.2%. In contrast, the region with the strongest reading was the West Midlands, with a net balance of 1.3%.

Looking ahead, small businesses are looking to increase their headcount. A net balance of 2.4% of businesses expect to expand staffing levels over the next three months. This does, however, represent a fall from the 9.1% of businesses who expected to expand their headcount in Q2 when asked in Q1, which may reflect weaker small business optimism than at the turn of the year. It should also be noted that recent quarters have shown a general disconnect between businesses' expectations and eventual performance on this metric.

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

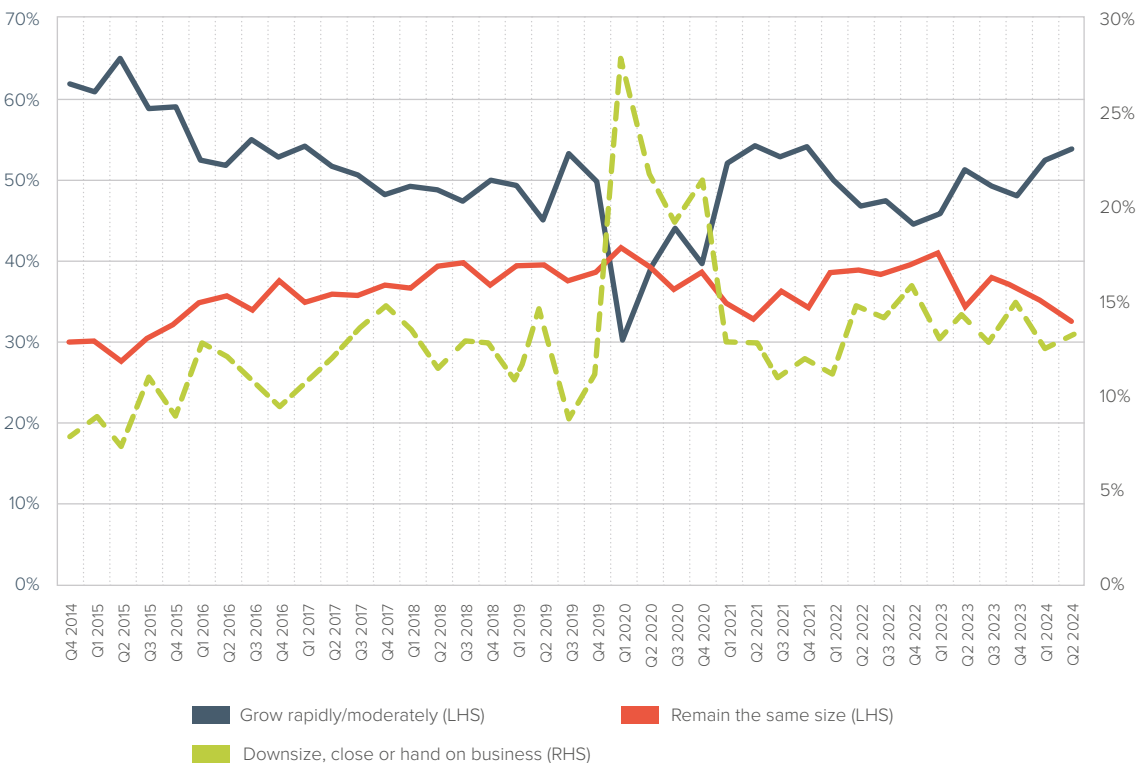
SMALL BUSINESSES ARE MORE OPTIMISTIC ABOUT GROWTH PROSPECTS OVER THE COMING YEAR

In Q2 2024, the proportion of small businesses aspiring to grow over the coming year increased to 54.1%, marking the highest share of businesses looking to expand in three years. However, there has also been a slight increase in the proportion of small businesses seeking to contract their operations, to 13.3%.

Analysing businesses by sector, those engaged in information and communication exhibited the highest level of optimism regarding growth prospects, with 63.6% of respondents aspiring to expand. Small businesses are likely seeking to capitalise on the recent advancements in the field and establish themselves further in the industry. Businesses undertaking professional, scientific and technical activities were also optimistic, with 59.5% of these businesses also hoping to grow over the next twelve months.

Small businesses in the wider services sector remain positive about their growth prospects for the next twelve months, although there have been slight declines in the extent of optimism in both the wholesale and retail sector and accommodation and food services. The shares of businesses aspiring to grow in these sectors now stand at 51.6% and 44.2%, respectively. Whilst consumer spending has recovered more slowly than expected so far this year due to the legacy of the cost-of-living crisis, this general optimism likely reflects expectations of growth in consumer spending towards the end of the year following the first interest rate cut and further anticipated cuts.

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



WEAKER PRICES PRESSURES RESULT IN INPUT COSTS BEING LESS OF A BARRIER TO GROWTH

Among businesses expecting growth over the next year, the domestic economy remains the most frequently-cited potential barrier to such growth, being the case for 60.5% of respondents. Consumer demand was the second-most chosen barrier to growth for the fifth consecutive quarter, with 34.6% of small businesses selecting this category. However, the share of businesses citing these factors as potential barriers to growth declined in this quarter.

Small businesses appear to be concerned about the impact of future regulatory changes on their growth prospects, with the share of businesses selecting tax burdens and regulation as potential barriers to growth seeing the largest and third largest increases in this quarter, respectively. This may reflect some political uncertainty, given that respondents were surveyed in the run-up to the recent General Election.

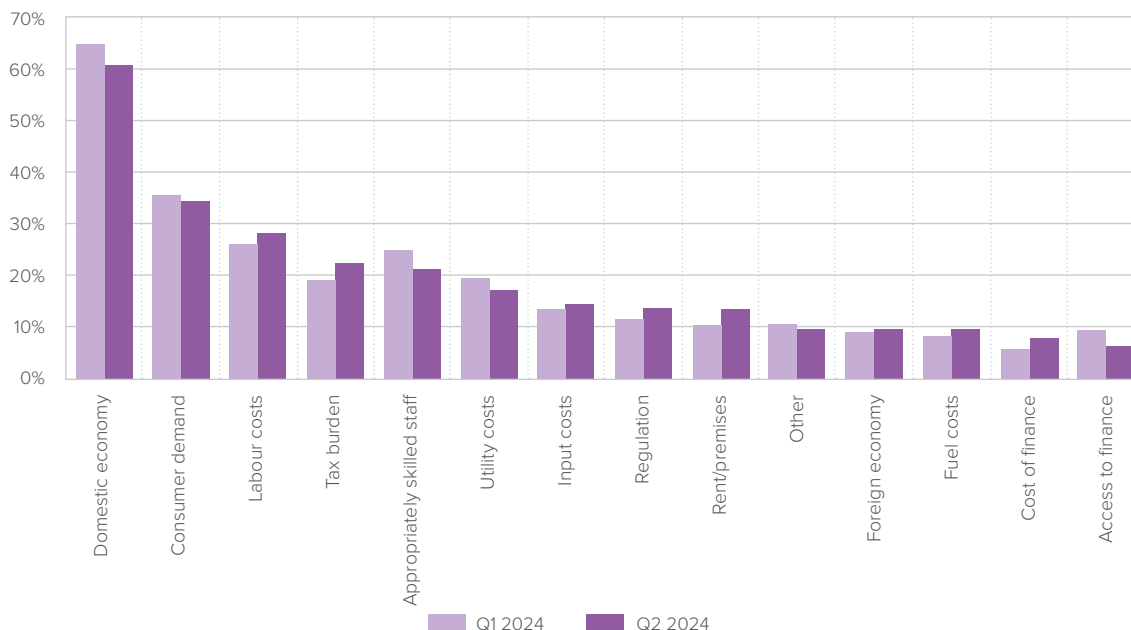
Concerns regarding the future of the domestic economy are easing as inflation has returned in line with the BoE's 2% target in Q2. Another alleviating factor is the change in monetary policy, with the base rate cut in August and further cuts expected to take place in the second half of this year, helping to further

stimulate economic activity. Meanwhile, strong real growth in total pay, which reached 2.4% in the first month of Q2, the highest level since March 2022, has boosted consumer spending power. Whilst this may mitigate small businesses' concerns regarding consumer demand, the legacy of the cost-of-living crisis remains fresh in the mind. Therefore, it appears unlikely that any changes to consumer demand will be sudden for the foreseeable future. Instead, it seems likely that change will be gradual, and therefore, this likely explains why small businesses still perceive consumer spending and the domestic economy as the main barriers to growth despite the expected uptick in overall economic activity.

The selection of labour costs as a barrier to growth increased slightly from the previous quarter, with 28.5% of respondents choosing it. With price pressures being less prevalent, the share of businesses identifying utility costs as barriers to growth has also fallen in the quarter. However, the shares citing fuel and input costs increased, which may reflect the slowdown in the rate of producer input price deflation in Q2.

Figure 13: Potential barriers to achieving growth aspirations – multiple answers possible

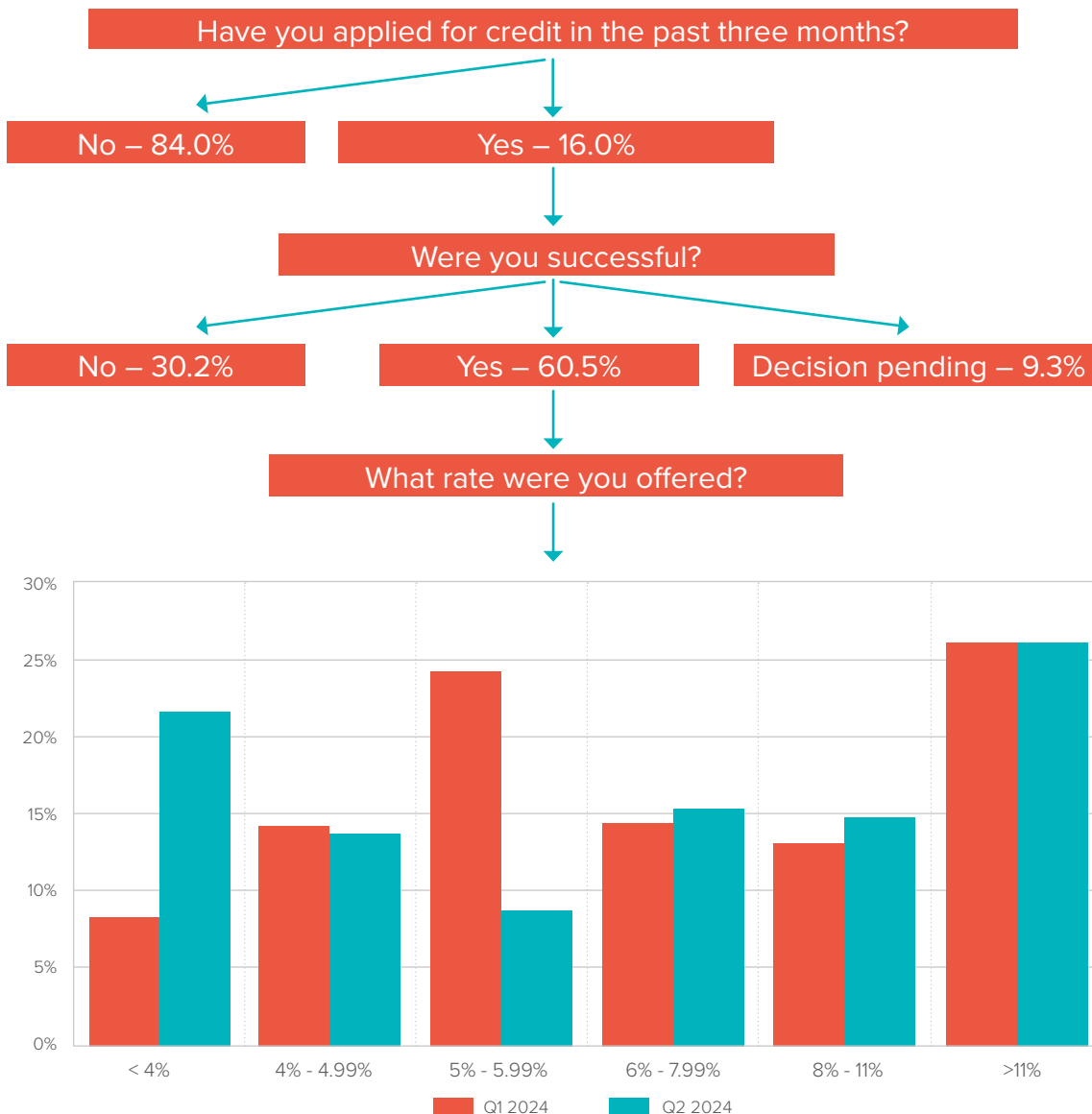
Source: FSB - Verve 'Voice of Small Business' Panel Survey



CREDIT

NUMBER OF SMALL BUSINESSES APPLYING FOR CREDIT RISES WITH INTEREST RATES EASING

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.



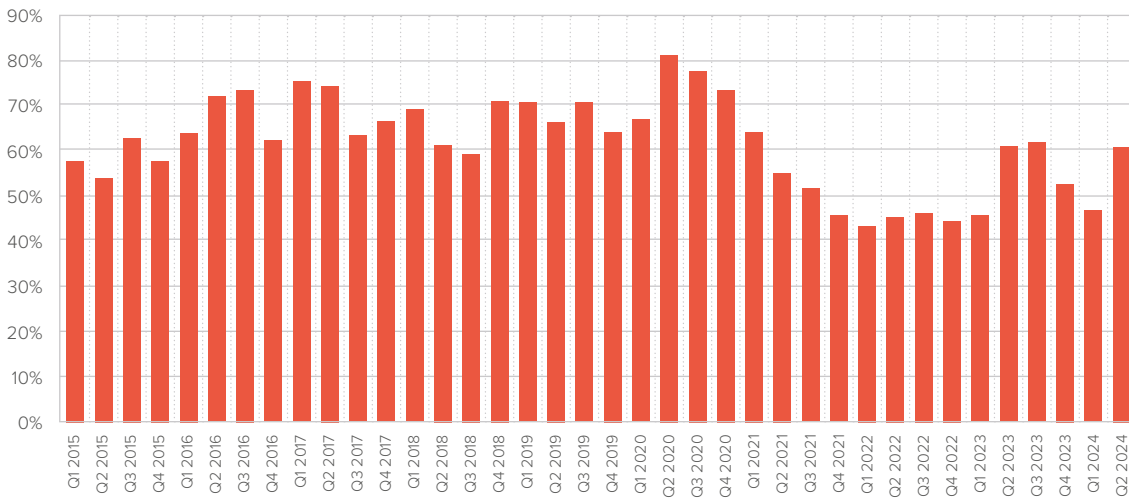
In Q2 2024, 16.0% of small businesses reported applying for credit, up from 14.0% in Q1. This occurred as the share of businesses citing access to finance as a barrier to growth fell by 2.6 percentage points to 6.5%.

Among those who applied for credit, the number of successful applications rose by 13.9 percentage points to 60.5%, marking the largest quarterly increase in this figure since Q1 2023. Meanwhile, the number of applicants awaiting final decisions fell to 9.3% in Q2 2024, with the share of unsuccessful applicants falling to 30.2%. The increased approval rate, combined with the reduced share of applicants waiting for a decision, likely contributed to the improved business sentiment towards access to finance.

The proportion of credit applications receiving rates in the range of 6% to 8% fell sharply to 23.9% in Q2 from 38.5% in Q1. The percentage of successful credit applications offered rates lower than 4% increased significantly from 8.3% in Q1 2024 to 21.6% in Q2

2024. This is the highest level this figure has reached since Q4 2022. In general, the changes in this quarter suggest that applicants are more able to access 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 WORSENS IN THE QUARTER

Perceptions of credit affordability and availability worsened in Q2 despite the apparent improvements in credit application approval rates and the decline in the average interest rates offered.

The credit index fell by 8.8 points on the quarter, with the index falling further into negative territory at -34.2.

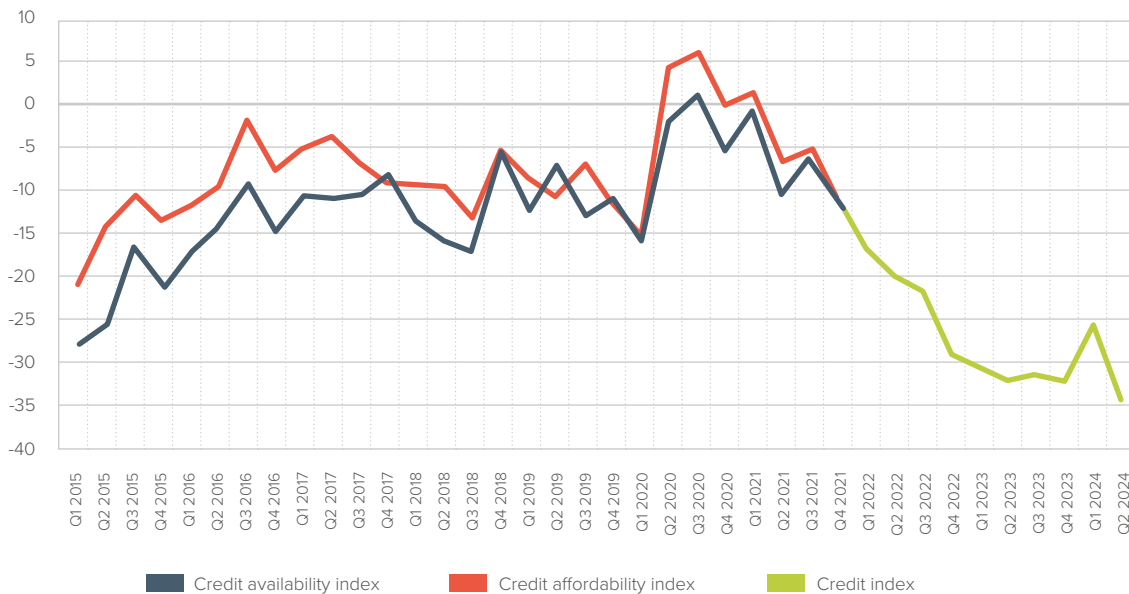
The proportion of businesses expressing a 'positive attitude' on credit availability and affordability fell on the quarter to 11.6% from 16.5% last quarter. The share of respondents rating affordability and availability of credit as 'very good' remained the same at 1.9%, whilst those rating it as 'quite good' fell to 9.7% from 14.5%.

The proportion of small firms with a 'negative attitude' towards credit availability and affordability rose by 7.3 percentage points in the quarter to reach 53.2%.

The negative attitude includes those who consider affordability and availability as either 'quite poor' or 'very poor', both of which rose substantially 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 responses³

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

INVESTMENT CONTINUES TO RISE, ALBEIT AT A SLOWER PACE

The share of small businesses expecting to increase their capital investment over the coming quarter fell marginally to 24.9% in Q2 2024 from 26.9% in Q1. Meanwhile, the number of businesses expecting to decrease their capital investment over the coming quarter rose to 17.3% in Q2 from 16.9% in Q1. As a result, the net balance of small businesses expecting to increase their investment fell to 7.6% in Q2 from 9.9% in Q1. Nonetheless, this remains a positive change and indicates that small business investment continues to rise.

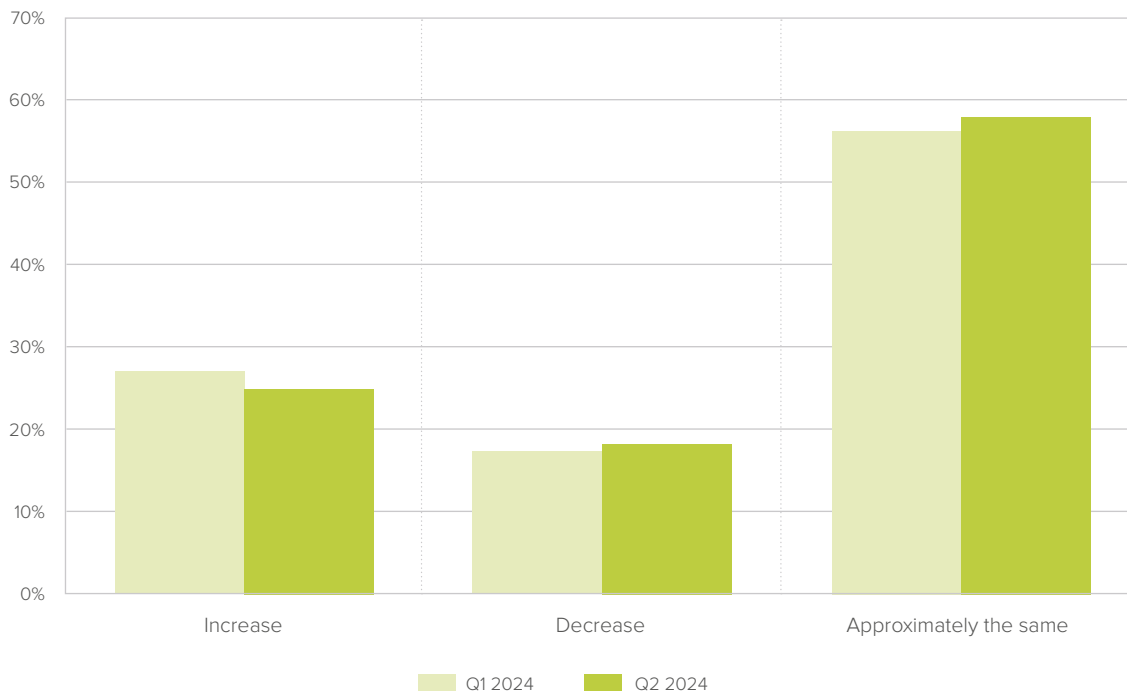
A relatively small improvement in investment expectations is in line with the gradual improvements in economic conditions that the UK is experiencing. Inflation has hit the 2% BoE target in this quarter for the first time in over three years, which resulted in the Bank of England making the first rate cut. Small

firms are already seeing better access to finance and better rates, which will support more investment. If expectations for revenue growth in the next three months are realised and cost pressures continue to ease, this should lead to higher profits, increasing access to internal finance for many.

On a sectoral basis, businesses in construction reported the strongest improvements to investment expectations, with a net balance of 22.8%. For those in accommodation and food service activities, the net balance figure for the metric stood at -16.0%. Businesses in the wholesale and retail sector performed better on this metric in this quarter with a 13.6% net balance, as did information and communications (18.0%) and professional, scientific and technical services (15.4%).

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 June/July 2024 research survey of FSB members carried out by Verve. 1,144 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 June 2024 to 8 July 2024.

SUMMARY DATA TABLE

	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
Small Business Index	-35.9	-45.8	-2.8	-14.2	-8.0	-15.0	5.5	-10.8
Employment - previous three months	-4.4%	-6.1%	-0.8%	-2.4%	-0.2%	-4.5%	-3.9%	-1.4%
Employment - coming three months	2.7%	3.2%	8.3%	6.1%	2.6%	-1.2%	9.1%	2.4%
Exports - previous three months	-10.8%	-3.3%	-17.7%	-2.9%	-2.6%	-10.8%	-8.2%	-0.4%
Exports - coming three months	-4.3%	7.9%	-6.4%	-0.6%	7.3%	0.8%	-1.6%	6.7%
Credit availability and affordability - rated good or very good	17.4%	14.7%	12.3%	11.8%	14.4%	14.4%	16.4%	11.6%
Credit availability and affordability - rated poor or very poor	44.1%	50.5%	50.9%	52.0%	53.1%	52.0%	45.9%	53.2%

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.

Q2

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