



# FSB West Midlands Quarterly Small Business Index

Q1 2024

This document was produced by  
FSB West Midlands in May 2024

fsb<sup>03</sup>



# Foreword

Foreword by Rob Harrison  
FSB West Midlands Policy Representative  
Federation of Small Businesses



This FSB Small Business Index Report for the first quarter of 2024, describes the findings of our latest, comprehensive research into small firms' recent performance, current circumstances, and future aspirations. Subsequent pages of this document provide detailed analysis of these findings, which I can summarise as follows:

**Overall:** There has been a considerable improvement in confidence compared to the previous quarter. It is now in positive territory for the first time since Q1 2023, though still marginally lower than at the same time last year.

**Revenues:** Performance during Q1 2024 saw a slight decline over the previous quarter. However, expectations for Q2 are more positive.

**Employment:** There was a decline in net employment levels for the sixth consecutive quarter. However, the vast majority saw no change and a marginally higher proportion of respondents expect employment to grow, than expect it to contract, in Q2 2024.

**Wage growth:** A large majority of respondents increased average salaries during Q1 2024. Even more expect further increases in next 12 months.

**Growth & investment:** More respondents expect to grow either rapidly or moderately in the next 12 months than expect to contract. Marginally more small businesses expect to increase investment in next 12 months than decrease it. The situation remains similar to the position in Q4 2023 and below the national average.

**Barriers to Growth:** The most cited challenges facing the region's small businesses were the general economic conditions in the UK (76%), flat/weak Consumer demand (42%) and increasing labour costs (34%).

While it is encouraging to see overall levels of confidence improving quite significantly in Q1 2024, on several key measures, past performance suggests that optimism for the future should be cautious at best.

On a positive note, the Autumn Statement of 2023 and the more recent Spring Budget 2024 responded to key 'asks' from FSB with tangible help for small businesses - notably the raising of the VAT threshold from £85,000 to £90,000 and the cut to National Insurance contributions. There has also been more positive news recently on inflation and interest rates. These are all to be welcomed as steps towards creating better conditions for small business formation and growth.

These initial steps must be built upon.

Small businesses contribute an enormous amount to the regional economy. A sustainable recovery is reliant upon on their success and growth.

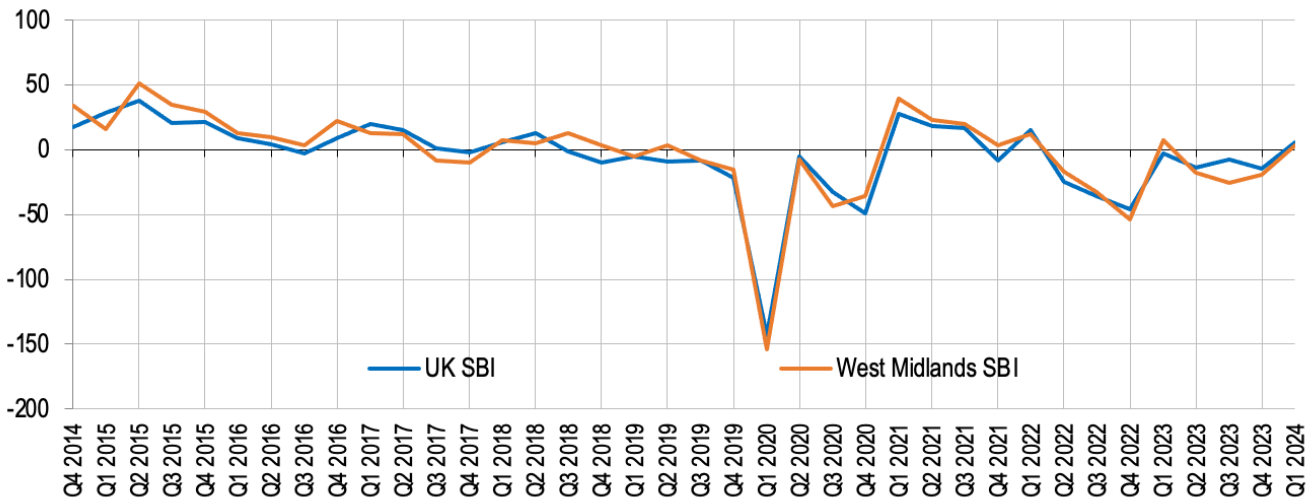
**The West Midlands Small Business Index (WMSBI)<sup>1</sup>, which measures confidence amongst businesses, has improved considerably since the last quarter. It currently stands at 3. In Q4 2023, the reading was -20.**

Confidence among small businesses when viewing performance over the next 3 months has increased and is now positive for the first time since Q1 2023, when it had a score of 7. As a result, the index score is at a slight YOY decline.

Small business confidence in the West Midlands sits slightly below the UK average this quarter, which is 5. For reference, the most pessimistic score for this quarter is -7 in the South East. On the other end of the scale, the North East & Yorkshire and the Humber is the most optimistic region, with a score of 31.

**Confidence in business performance among the West Midlands for the next 3 months has improved, along with the UK average.**

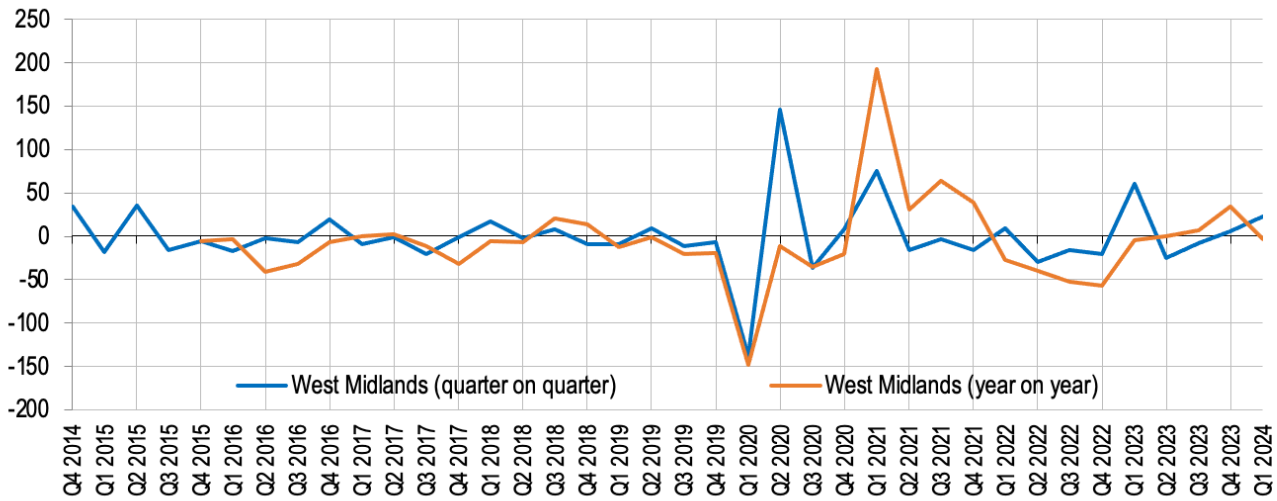
**Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months**



**Whilst quarterly confidence index scores have improved this quarter, YOY confidence is slightly down.**

<sup>1</sup> The West 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.

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



## Business Conditions

**The overall net balance for revenue over the last 3 months has declined, to -17%<sup>2</sup>. This is compared to Q4 2023, where it was net -11%. Predictions for the next 3 months do, however, show an expectation of a quarterly improvement in net revenue balance, to 8%.**

In Q1 2024, under a third (29%) of small businesses in the region reported an increase in revenue over the last 3 months, whilst 46% outlined their revenue has decreased.

Accordingly, small businesses in the West Midlands report a net balance figure of -17% for Q1 2024. This is below compared to the previous quarter, and is the lowest net revenue balance for the region since Q1 2021, when it was also -17%. This is below the UK average, which stands at -9%, and is only above London, which has a net balance of -20%.

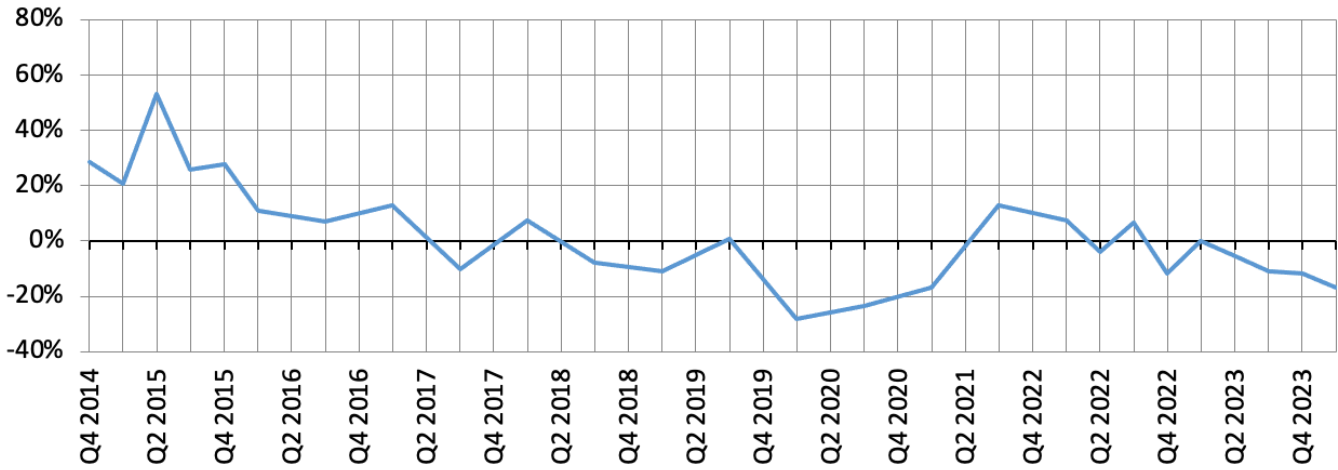
The outlook for net revenue among small businesses in the West Midlands over the next 3 months is improving and stands at 8%. This is made up of 36% of small business expecting their revenue to increase over the next quarter, whilst 28% expect this to decline. For reference, the prediction for the UK is net 22%. When compared with all other regions, the West Midlands is the most pessimistic for revenue predictions over the next quarter.

**The net revenue for small businesses in the West Midlands has fallen slightly, and is now at the lowest level since Q1 2021.**

<sup>2</sup> 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'

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



## Employment and Wage growth

**Small businesses in the West Midlands reveal a similar fallout in net employment levels compared to 3 months ago, with scores at -8% for both this quarter and Q4 2023.**

Among small businesses in the West Midlands, net changes in staff numbers remain negative for the 6th consecutive quarter, with 13% decreasing employment numbers and 5% increasing them over the previous 3 months, resulting in a net employment change of -8%. This remains consistent with the net changes seen throughout 2023, as this has sat between -6% and -8% for each quarter since Q1 2023. 75% of small businesses have not seen a change in their employee numbers this quarter. Predictions for the next 3 months remain similar to those made the previous quarter, at net 3%; the respective score was net 4% in Q4 2023, suggesting caution is being exercised.

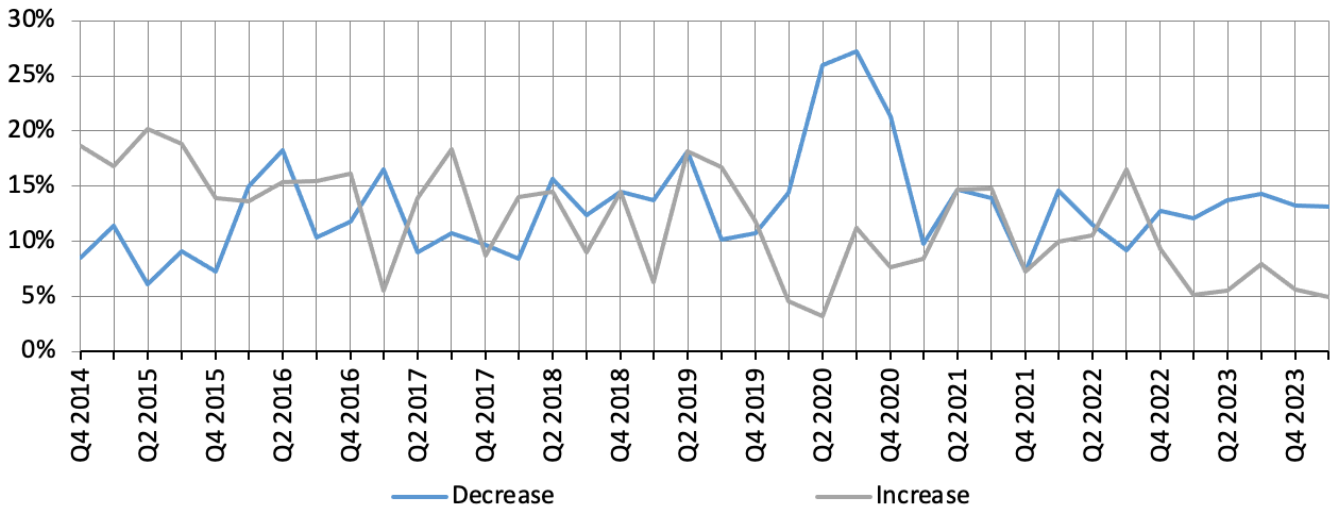
### Wage Growth

In the West Midlands, just over two-thirds of small businesses (71%) increased the average salary across the business over the last 12 months – with 67% doing so by 2% or more. This is similar to the previous wave, where 72% reported an average wage increase over the past 12 months; 67% said this was 2% or more.

Looking ahead to the next 12 months, 85% expect to see salary increases over the period, with 69% reporting the likely increase to be 2% or above. This predicted wage growth is an improvement over results from 12 months ago; in Q1 2023, 66% of small businesses expected to increase the average salary, with 50% expecting this growth to be 2% or more at the time.

**Employment levels for the West Midlands continue to be negative this quarter and are similar to scores seen in Q4 2023.**

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



## Growth and Investment aspirations

In Q1 2024, 53% of small businesses in the West Midlands 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%). Fewer small businesses report an expectation to downsize, sell or close their business (15%). This is worse, however, than Q4 2023, where only 9% expected to contract their business.

**The proportion of small businesses in the West Midlands expecting to increase the amount of capital investment in their business is slightly above those expecting it to decrease over the next 3 months.**

West Midlands small businesses expecting to increase investment in the next quarter stands at 26%; higher than the proportion of small businesses looking to decrease it (22%), resulting in a net level of 4%. This is very similar to the previous quarter, where the predicted net capital investment was 5%. When compared to the rest of the UK, the West Midlands is below the nationwide average of net 10%, and is only above the South West, where net investment intentions over the next quarter is 2%.

**In the West Midlands, the general economic conditions in the UK (76%), consumer demand (42%) and labour costs (34%) are the greatest perceived barriers to growth over the coming twelve months.**

## About FSB

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