

SCOTLAND Q2 2024 SMALL BUSINESS INDEX

The Small Business Index (SBI) in Scotland fell by 17.7 points in Q2 2024 to land at -7.0. This negative reading means that the number of Scottish small businesses expecting their performance to worsen over the coming quarter exceeds the number expecting their performance to improve.

The Index has now returned to negative territory after Q1 had marked the first positive reading for a year. This trend reflects renewed negative sentiment even amidst improvements in the broader economic landscape. For instance, Scotland's GDP grew by 0.9% in the three months to May, compared with the previous three-month period. Moreover, consumer sentiment, as measured by the Scottish Consumer Sentiment Indicator, has continued to rebound. The Indicator turned positive in Q2, rising 8.5 points from the previous quarter to reach 2.4, its highest level since Q4 2021. While economic headwinds remain, small businesses in Scotland can expect demand from households to improve further this year now that inflation has subsided and the Bank of England has started to cut interest rates. Cebr expects the Scottish economy to grow by 1.1% on the year in 2024, following growth of 0.2% in 2023.

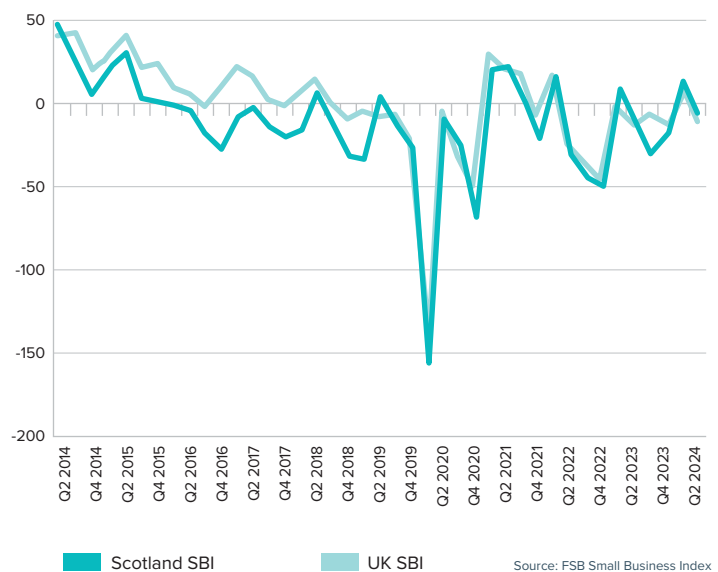
Similarly, the UK-wide SBI also returned to negative territory in Q2 2024, falling from 5.5 in Q1 to -10.8. This return to pessimism contrasts an improving UK economy, which saw GDP grow by 0.9% in the three months to May. Cebr is forecasting annual UK GDP growth of 1.2% in 2024, which would mark a significant acceleration from the 0.1% seen in 2023.

Though Scotland's SBI reading in Q2 was negative, it did outperform several other regions. For instance, the East Midlands, South West, and North West all recorded net balances of -20.0% or lower.

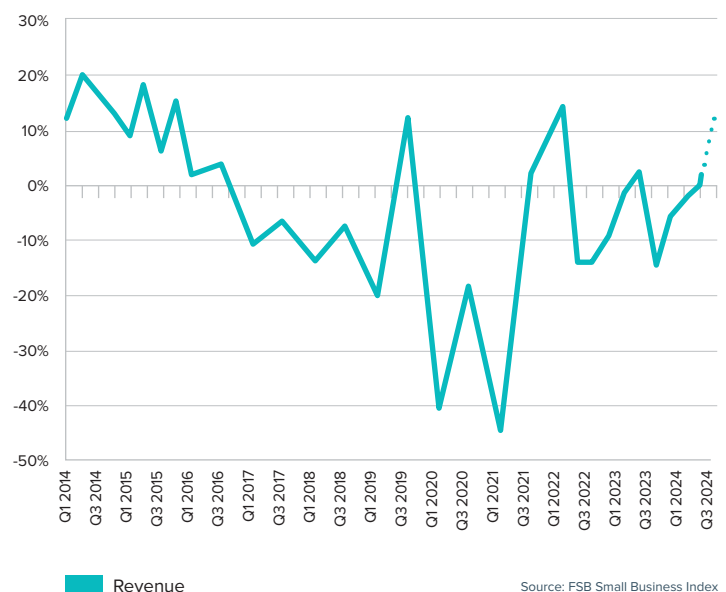
The proportion of Scottish small businesses reporting revenue growth in Q2 equalled the share reporting revenue declines, with both figures converging at 34.8%. This constitutes a net balance of 0.0% represents the first non-negative reading in a year and was significantly higher than the UK-wide net balance of -9.3%, within which 32.1% of small businesses experienced revenue increases, while 41.4% saw revenue declines.

Looking ahead, small businesses in Scotland broadly expect revenue growth over Q3 2024, with a net balance of 13.4% projecting this. This represents a significantly brighter outlook compared to the whole of the UK, where a net balance of only 4.6% of small businesses expect revenues to rise. These readings align with Cebr's anticipation that UK quarter-on-quarter GDP growth will be robust in Q3 2024.

The FSB Small Business Index: Small business prospects over coming three months



Net balance of small firms in Scotland reporting revenue growth



A factor impacting the revenues of Scottish small businesses has been the surge in late payments. In Q2 2024, 62.5% of businesses in Scotland reported receiving late payments, up from 57.1% in Q1 2024. This also represents an annual increase of 13.1 percentage points from 49.4% in Q2 2023. Moreover, the share of Scottish businesses reporting an increase in the prevalence of late payments has also risen from 19.8% in Q1 2024 to 32.3% in Q2 2024. However, late payments are less severe in Scotland relative to the UK as a whole, for which 68.4% of businesses reported receiving late payments in Q2. This was up from 65.5% in Q1 2024 and from 53.2% in Q2 2023. The share of businesses reporting an increase in late payments has also been higher for the UK-wide metric in recent quarters at 33.7% in Q2, up from 29.1% in Q1.

A net balance of 0.0% of Scottish small businesses recorded increases in employee headcount in Q2 2024, marking the first non-negative reading since Q4 2022. This finding is in slight contrast with official data on Scotland’s labour market, where the unemployment rate rose to 4.9% in the three months to May, up 0.8 percentage points relative to the prior three-month period. Meanwhile, the employment rate decreased to 72.9%.

Looking ahead, a net balance of 5.1% of Scotland’s small businesses expect headcount numbers to rise. If this optimism comes to fruition, it would be the first positive net balance on this measure since Q3 2021. This anticipated growth in employment aligns with small businesses’ optimism over revenue growth in Q3. This improved outlook among businesses is also evident in the number of small Scottish businesses with aspirations of growth in the next 12 months. This stands at 47.0%, up from the previous quarter’s reading of 39.1%, although still lower than the UK-wide reading of 54.1%.

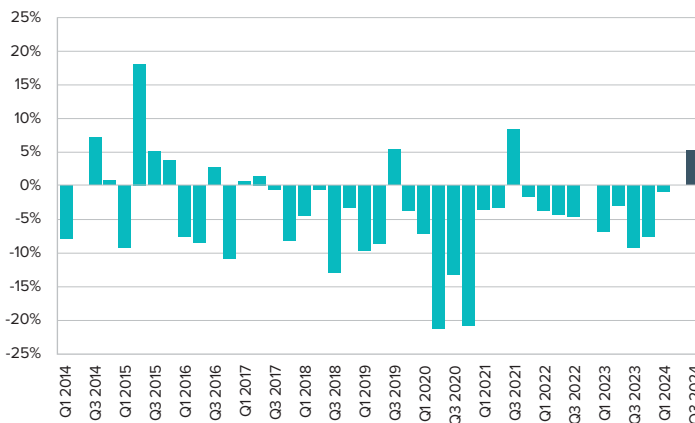
A net balance of 75.9% of small businesses in Scotland experienced rising costs in Q2. 81.0% reported rising costs, while only 5.2% saw their costs decrease.

53.0% of Scottish small businesses reported utilities as a main cause of changing costs in Q2. Although the most frequently cited source of cost changes, its share was down from Q1. Labour costs and inputs saw the second and third largest shares, respectively, with the share citing labour remaining unchanged from the previous quarter at 48.0%.

The share of respondents selecting inputs as amongst the main causes of changing business costs fell by 17.1 percentage points from the previous quarter to reach 39.0% in Q2 2024. This decline reflects continual input price deflation at the aggregate level, with prices falling by 0.4% on the year in June. This represents the thirteenth consecutive month of producer input price declines on an annual basis. Among the main input categories, price deflation is currently being observed for imported food, fuel, chemicals, and parts and equipment.

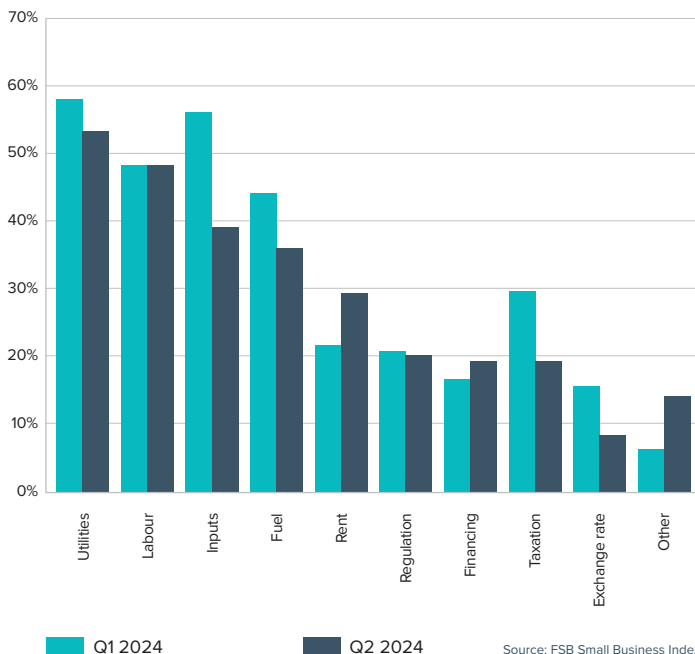
The share of respondents citing rent as a primary cause for changing business costs rose to 29.0% in Q2 2024, up by 7.6 percentage points from the previous quarter.

Net balance of firms reporting employment growth, Scotland



Source: FSB Small Business Index

Share of firms reporting factor as main cause of change in business cost, Scotland



Source: FSB Small Business Index.