



FSB West Midlands Quarterly Small Business Index

Q2 2022

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This document was produced by
FSB West Midlands in July 2022

Foreword

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Our quarterly West Midlands Small Business Index (WMSBI) is a barometer of small business sentiment across the region. It is based upon comprehensive research that looks at our small businesses' recent performance, current circumstances and future aspirations.

This WMSBI, for the second quarter of 2022, shows a significant decline in confidence compared to the previous reporting period.

The following pages explain how the region's small business owners are facing mounting challenges with regards to their revenues, profits and employment levels.

For example on revenue, while 37% of respondents saw an increase during the period, a larger proportion (41%) recorded a fall. In terms of future profits, 37% said they expect revenues to increase but more (39%) anticipate reductions. Continuing this overall, marginally negative trend, employment levels increased for 11% but fell for 12%.

Respondents said that the main barriers to growth were: the general economic conditions in the UK (59%); appropriately skilled staff (35%); consumer demand (17%); and fuel costs (also 17%).

On costs, the FSB has been campaigning tirelessly in recent months - to highlight what we have termed the 'cost of doing business crisis'. Wages are of course one of the key costs for many business owners and here too, there is unwelcome news. More than two thirds (67%) of business owners reported that their wage bills increased in Quarter 2, 2022. More than three quarters (76%) predict there will be further rises in the coming 12 months.

Overall, the region's small business owners are reporting negative trends and increasing costs across a range of key performance indicators.

There are a couple of more positive findings. The Index shows that almost half (49%) of the region's small business owners expect to grow either rapidly or moderately. A much smaller proportion (12%) said that they would downsize or close their business. Plus, despite most of the indicators being negative, they are only slightly so and are, in fact, holding up well compared to the national averages.

However, with business confidence down and performance measures teetering into negative territory, this WMSBI provides clear evidence that we need action now, to reverse the decline and stop more, good businesses going to the wall.

There is still time for Government and policymakers to act, but time is of the essence.

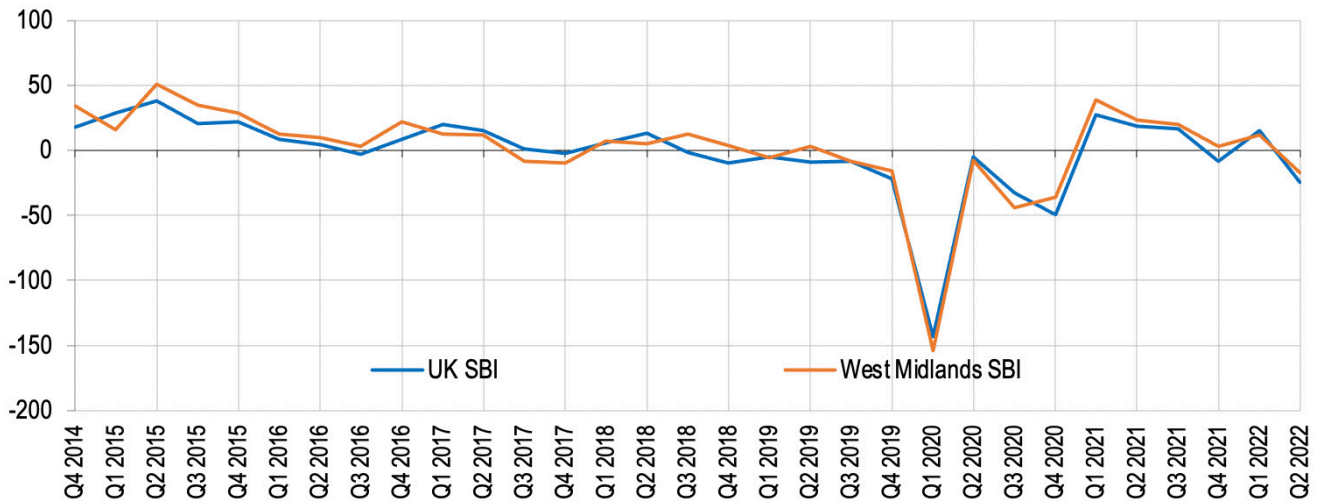
The West Midlands Small Business Index (WMSBI)¹, which measures confidence amongst businesses, has sharply declined following a rise in Q1 2022. It currently stands at -17, compared with Q1 where it was 12..

Small business confidence for the next 3 months has turned negative in Q2 2022 (-17), showing a decline from Q1 2022 (12) and from confidence levels seen previously in Q4 2021 (3). Although this current score shows confidence levels at their lowest since Q4 2020, the current sentiment is still far above the score seen at the beginning of that year (-154 in Q1 2020).

Despite the decrease in confidence in West Midlands since Q1, data shows the region sits slightly ahead of the UK average (-25). For reference, confidence in performance for the next 3 months is the highest in East of England among all regions (-10), whereas the East Midlands sits at the lowest of all regions (-43).

Confidence in business performance in the West Midlands for the next 3 months weakens, following a temporary rise in Q1.

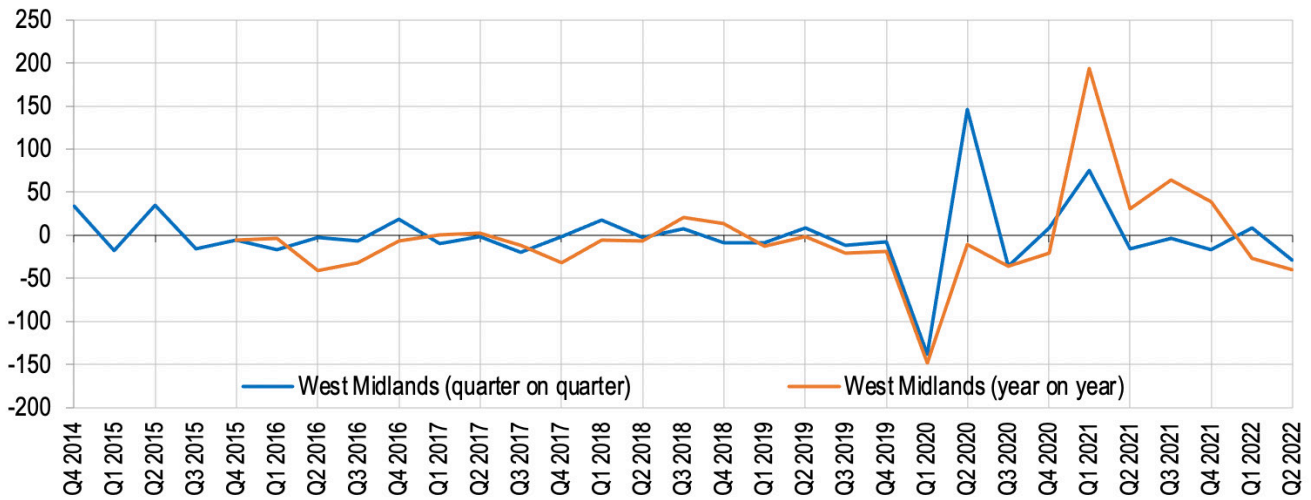
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



Confidence quarter-on-quarter and year-on-year have both seen declines over the time period.

¹ 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 turns negative (net -4%)² and sees a decline from Q1 2022 (7%) and Q3 2021 (13%). The next 3 months are pessimistic for revenue in the area, albeit predicting a lower decline (-2%) than the actual figures show for this quarter.

In Q2, just under two-fifths (37%) of small businesses in the West Midlands reported an increase in revenue over the last 3 months, whereas a slightly larger amount (41%) saw a decrease in revenue over the same time period.

Accordingly, businesses in the area report a net balance figure of -4% for Q2, which is slightly above the UK average of net -6%. Nationally, London and the East of England (both at net 1%) are the joint strongest performers, with the East Midlands (-14%) as the weakest performer in terms of revenue.

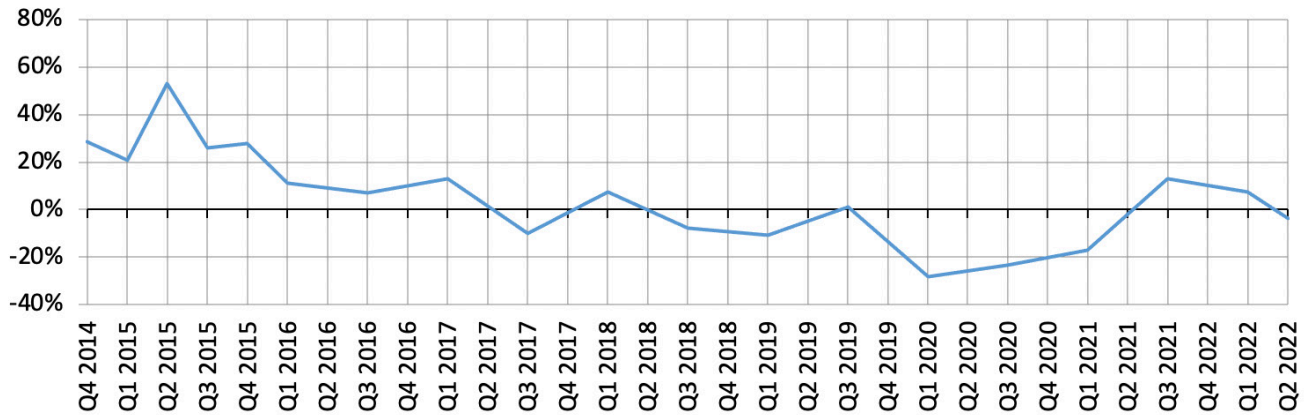
The outlook for future profit looks more positive in the West Midlands. 37% of businesses in the area expect an increase in revenue, while 39% predict a decline; this gives a net balance of -2%. This sits just above the UK average (-3%).

Reported net revenue in Q2 2022 turns negative (-4%), declining from Q1 2022 (7%).

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

'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 (revenue question previously only asked in Q1 and Q3 phases of SBI).



Employment and Wage growth

Small businesses in the region continue to see decreasing net employment numbers (net -1%), albeit at a slightly lower rate compared to what was seen in Q1 2022.

The employment picture amongst FSB members over the preceding three months showed a small decline in staffing levels, with 12% decreasing employment numbers and 11% increasing them; accordingly, this leaves net employment levels at -1%. Although net employment levels in Q1 2022 showed a slightly higher rate of decline (-5%), Q2 is more in line with the results seen across much of 2021 where net employment numbers were mostly close to or equal to 0%. However, this growth falls behind the predicted 13% net increase in staff levels from Q1.

That said, just under three-quarters of small businesses have unaffected staffing levels, with 72% reporting that these have ‘stayed the same’.

For the next quarter, the intention is for 19% of businesses to increase headcount and 6% to decrease staff numbers, revealing a net increase of 13%.

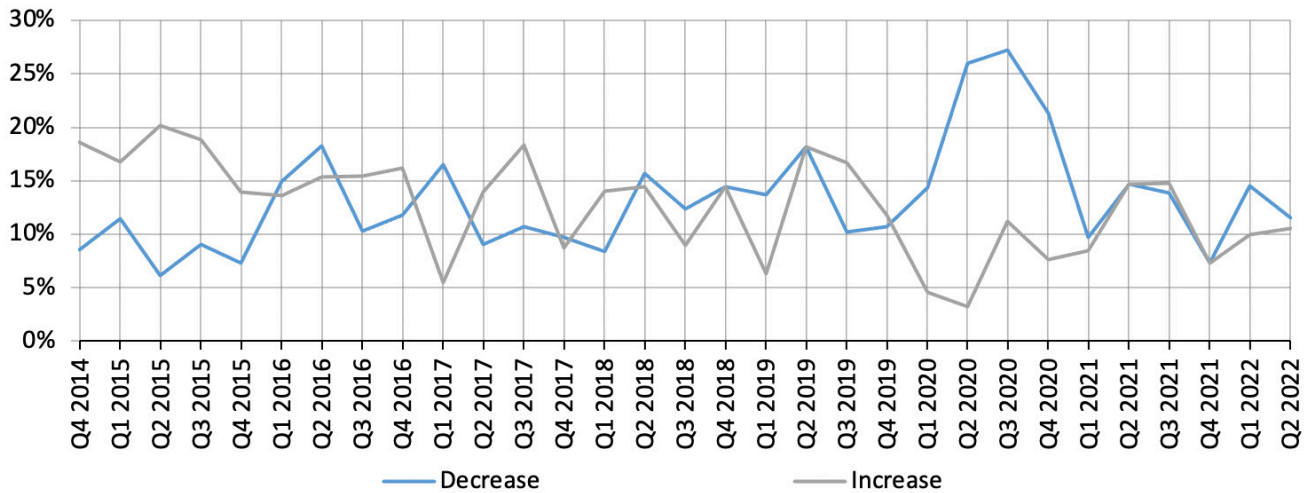
Wage Growth

In the West Midlands, just over two-thirds of small businesses (67%) increased the average salary across the business over the last 12 months – with 56% increasing the average salary by 2% or more.

76% expect to see salary increases over the next 12 months, with 64% reporting the likely increase to be 2% or above. This predicted wage growth is slightly higher than 12 months ago; in Q2 2021, only 62% of small businesses expected to increase the average salary.

The number of small businesses increasing headcount (11%) remains below the proportion of those decreasing headcount (12%).

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



Growth and Investment aspirations

In Q2 2022, 49% 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%). A much smaller proportion of small businesses are likely to report an aspiration to downsize, sell or close their business (12%).

Just under one-quarter (24%) of small businesses in the West Midlands expect to increase the amount of capital investment in their business during the coming quarter.

The number of small businesses in the region expecting to decrease investment (23%) has risen from Q1 (13%), with those expecting to increase investment (24%) falling slightly compared to the previous quarter (27%); this represents a decrease in net investment (1% in Q2 2022 vs. 14% in Q1 2022), and sits behind the UK average of 3%. For comparison purposes, the East of England and the North East & Yorkshire and The Humber (net -5%) both have the lowest investment intentions across the nation, with London seeing the highest (net 11%).

In the West Midlands, the general economic conditions in the UK (59%), appropriately skilled staff (35%) and both consumer demand and fuel costs (both 27%) are the greatest perceived barriers to growth over the coming 12 months.

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