

A man with a mustache, wearing a blue and white checkered shirt over a blue polo shirt and dark jeans, is sitting on a wooden stool in an art studio. He is looking towards the camera. The background is filled with colorful abstract paintings and art supplies.

# FSB London Quarterly Small Business Index

Q2 2023

fsb<sup>03</sup>

# Foreword

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**Foreword by Laura Timm**  
**London Policy Representative**  
Federation of Small Businesses



The FSB London Confidence Index has dipped back into negative territory in the last quarter – reflected by the falls in net revenues for small firms because of the cost of doing business squeeze. This is heightened by multiple interest rate increases.

Amid the rate rises and sticky inflation of the second quarter, and with economic growth underwhelming at best, it's disappointing but perhaps not surprising that the momentum from the first three months of the year petered out somewhat – but small firms are survivors, and there are positive signs in our findings.

In terms of growth aspirations and investment intentions, London is outperforming every part of the UK. This positive outlook shows the determination and stoicism within small businesses and every opportunity must be provided at local, Mayoral and national level to create a business environment conducive to growth.

Tackling late payment in the official response to the recent late payment consultation would forge a path to an environment where late payments are all but eliminated. We also want to make London a 'Prompt Payment Capital' where all Anchor Institutions lead by example and encourage big businesses to pay their supply chains on time.

Taking concrete action on late payment would help to unlock confidence in the third quarter, especially with the end of the rises in the base rate perhaps finally in view.

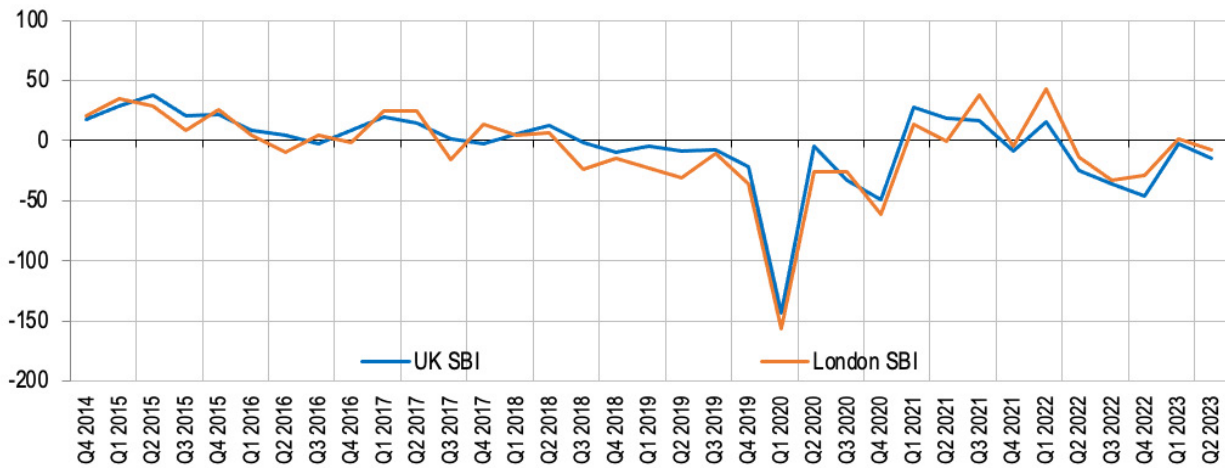
Furthermore, the Ultra Low Emission Zone (ULEZ) is an issue of great concern to many FSB members. We must give small businesses 'time to comply' with the Extension. We feel that implementing a no charge 'sunset clause' period up to September 2024 to be a sensible measure, and greater awareness for small firms of scrappage and retrofitting options.

**The London Small Business Index (LSBI)<sup>1</sup>, which measures confidence amongst businesses, has fallen versus the previous quarter. Confidence stands at -7 as of Q2 2023. In Q1, it stood at 2.**

Business confidence has returned to a negative outlook in Q2 2023, as the impact of uncertain economic conditions and inflationary pressures influences small businesses in the region. Having said that, London’s confidence level in Q2 2023 is higher than the nationwide average of -14.

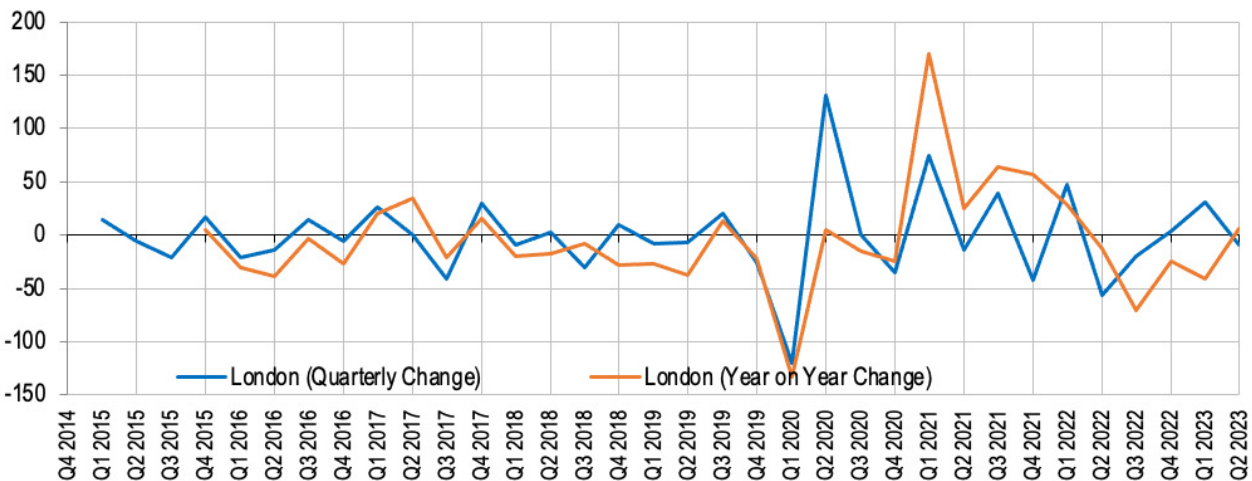
**Confidence amongst London small businesses returns to a negative level in Q2 2023, reversing the moderate positive level recorded in Q1.**

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



**Quarterly sentiment in London is negative, whilst year-on-year shows a modest improvement in outlook.**

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



<sup>1</sup> The London 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

## Revenue performance remains negative in London for Q2 2023, reflecting nationwide sentiment.

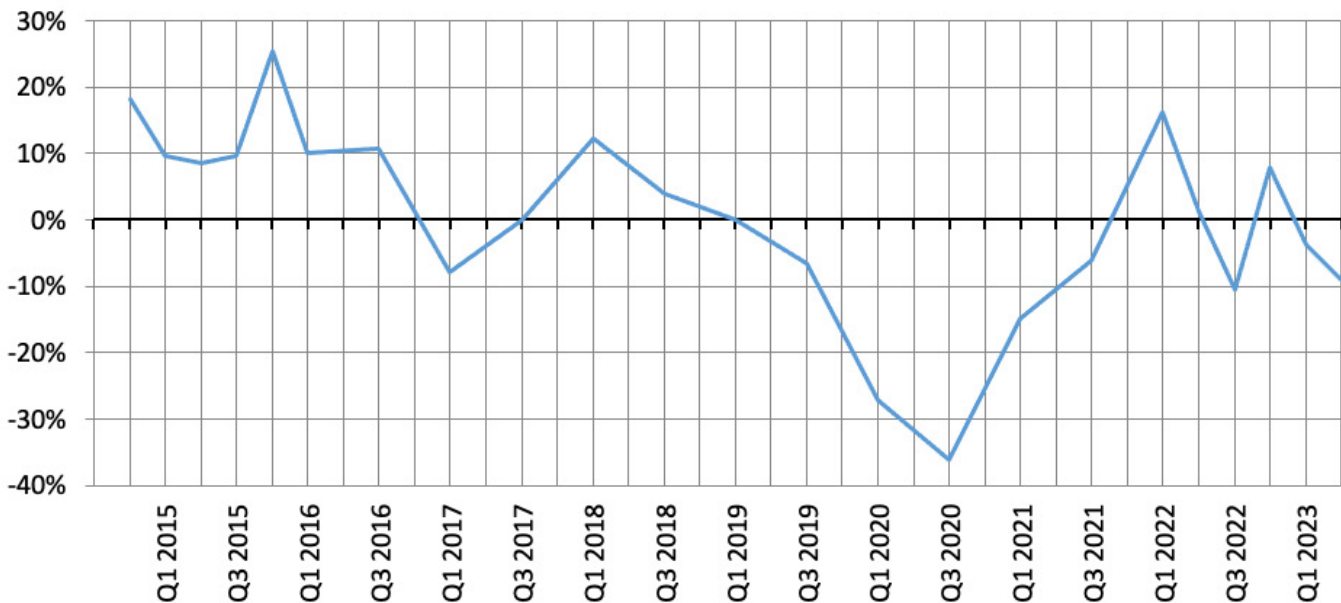
In Q2, 31% of London small businesses reported an increase in profit, with a 40% reporting a decrease. The net balance figure of -9%<sup>2</sup> is a fall from performance in Q1 2023, where net revenue was -4%. Revenue in London in Q2 is on par with the countrywide average net (also -9%). For context, several other regions have reported a lower performance in Q2 than London; this includes the East Midlands (net -20%) and East of England (net -16%).

The outlook for future revenue is now negative in London, with a net score of -2%. This is a fall from Q1 2023 where the net outlook for future revenue stood at 19%. This is also on par with the nationwide average in Q2 2023, where there is a net score of -3%.

A significantly larger proportion of London businesses expect a further decrease in profits for the coming quarter (35%) versus the outlook expressed in Q1 (19%).

## London net revenue continues to fall, remaining negative in Q2 2023.

**Fig.3 FSB Small Business Index: net balance of small firms in London reporting revenue (revenue question previously only asked in Q1 and Q3 phases of SBI).**



<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'

# Employment and Wage growth

**Q2 2023 sees a fall in headcount in London, with a net score of -5% in terms of staffing levels.**

9% of small businesses report increased employment levels over the last three months. 14% decreased their headcount; a rise from the 9% who decreased headcount in Q1 2023.

London employment levels show a greater fall than the nationwide average, with UK small businesses reporting a net -2% change in headcount in Q2.

For the next quarter, London small businesses anticipate a net 5% change in staffing levels. This is a marginally more negative outlook than reported in Q1, where businesses expected net 7% growth.

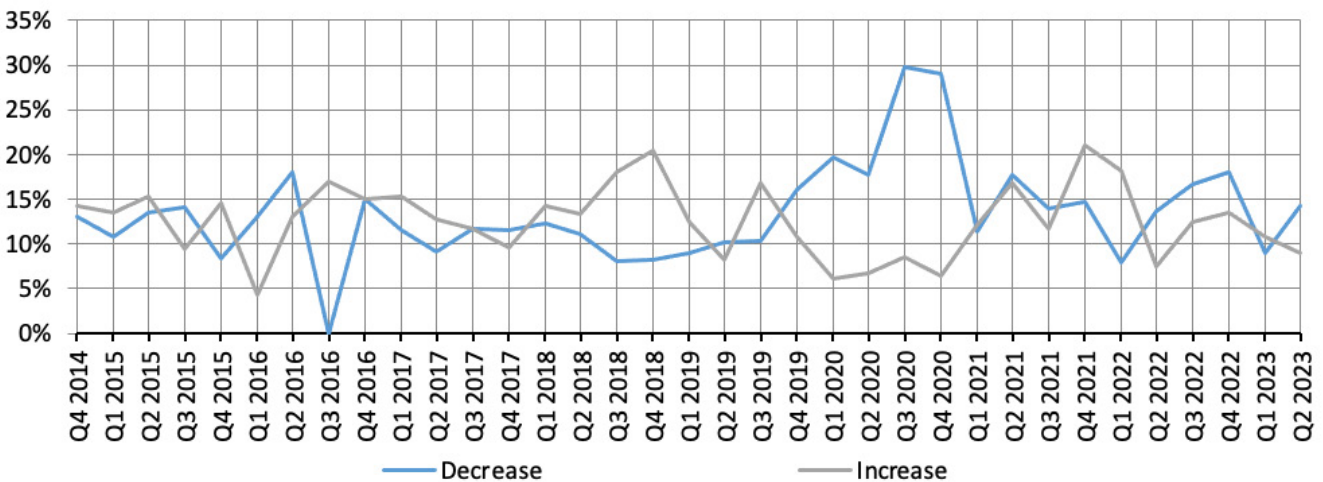
## Wage Growth

In London, 74% of small businesses increased salaries over the previous 12 months. This is higher than the 64% reporting increased salaries in Q1 2023. Fewer smaller businesses this quarter report decreasing salaries in the past 12 months (4% in Q2 versus 11% in Q1). In Q2, net wage changes stand at 70%.

Wage predictions are more positive in Q2 2023 versus Q1 2023. In Q1, wage predictions saw London small businesses anticipating a net 53% change in wages. In Q2, this now stands at a net 57% change.

## London small businesses decreasing headcount outpaces those increasing headcount in Q2.

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



## Growth and Investment aspirations

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In Q2 2023, 65% of small businesses in London 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%). 14% report an expectation to downsize their business, resulting in a net change of 51%. This is significantly higher than the net growth aspirations expressed in Q1 2023, which stood at 31%.

**Investment intentions for London businesses have risen significantly, with a net positive outlook (21%).**

The outlook in London for investment is positive, with 38% of small businesses reporting an intention to increase this. The net investment outlook for Q2 (21%) is significantly higher than the net outlook reported in Q1 (-13%).

London's investment outlook is significantly higher than the UK average of net 7%. There is a varied outlook across UK regions: from strong growth expectations (East Midlands; net 11%), to lower expectations (West Midlands; net -13%). London is the highest performing region in the UK.

**In London, the general economic conditions (53%), consumer demand (38%), and appropriately skilled staff (25%) are the greatest perceived barriers to growth over the next 12 months.**

## About FSB

As experts in business, FSB offers members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. Its aim is to help smaller businesses achieve their ambitions. More information is available at [www.fsb.org.uk](http://www.fsb.org.uk)

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