

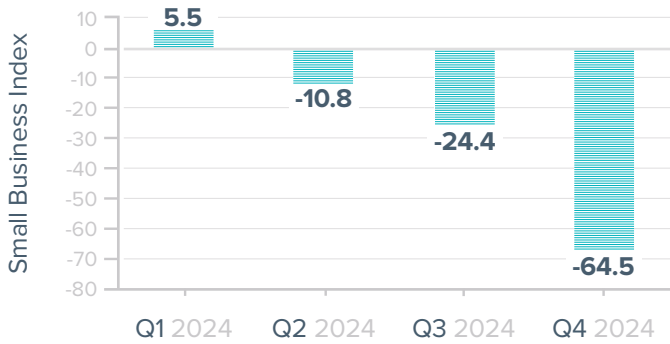
Q4

FSB VOICE OF SMALL BUSINESS INDEX

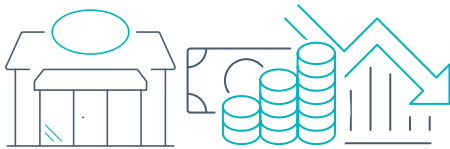
QUARTER 4, 2024

SBI Q4 2024

“ Significant fall in confidence as small business momentum weakens ”



Small businesses' revenue growth remains anaemic



-32.1%

Net balance of **small businesses reporting revenue growth** over the past three months, while expectations for the **current quarter remained negative**

Employment growth falls for eleven consecutive quarters



-12.1%

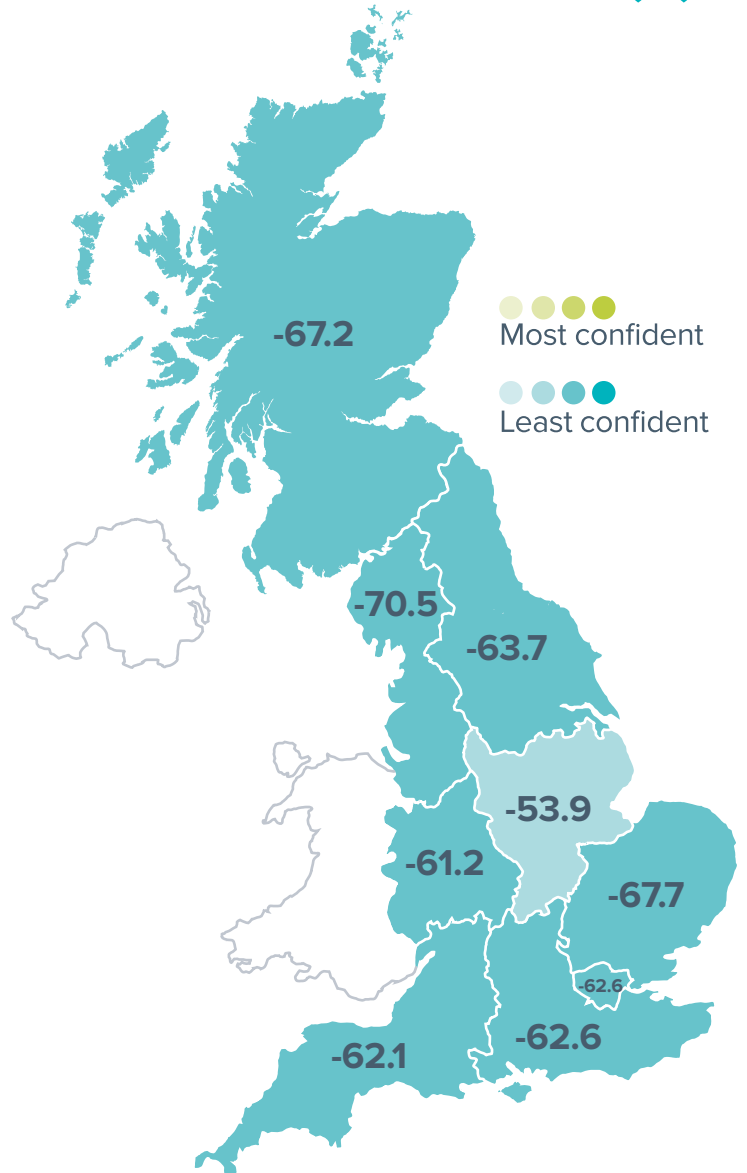
Net balance of small businesses reporting a growth in employee numbers, with more small businesses seeing **decreases in staff levels than increases**

Small businesses, growth aspirations weakened in Q4



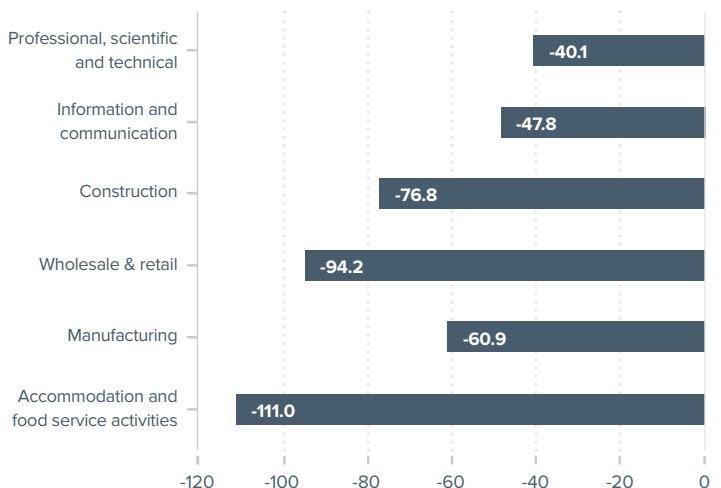
43.4%

of small businesses **aspire to grow over the next 12 months**, down from 51.2% in Q3



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

The fourth quarter blues reported by small firms in this survey underline how urgently the Government's growth push is needed.

Small firms are understandably nervous about their prospects as 2025 gets underway.

The upcoming Employment Rights Bill is a major source of stress for small firms, with nine in ten business owners saying they are concerned about its introduction,¹ and this is undoubtedly a major cause of the very subdued confidence levels seen in our research.

On the plus side, the Government's plans to reduce late payment – a perennial source of financial pain and misery to small firms – cannot come soon enough. Improving small firms' cashflow will relieve countless headaches, and free up the mental space for them to make plans to invest – based on reliable cashflow predictions, rather than subject to the whims of their customers.

The Government has called for regulators to put forward ideas to nurture growth, while we sent our own list of suggestions targeted at helping small businesses, which we look forward to seeing adopted within the regulatory system. We would encourage the Government to extend this push to more of a pro-growth mindset to HMRC as well. Small firms collectively spend £25 billion and 280 million hours on tax compliance each year; reducing those amounts even by just a few percent would be great news for productivity, and for stress levels among small business owners.

In the Spending Review, the Government must prioritise spending on programmes that will deliver small business growth.

The King's Speech later this year should include a Small Business Bill, to bring together the different strands of support and reform needed to give people dreaming of starting their entrepreneurship adventure the confidence they need to go for it, and to help people running small enterprises and in self-employment to expand and fulfil their potential.



Tina McKenzie,
Policy Chair

¹ FSB: "New research shows scale to which Labour's employment plan will harm jobs, lock people out of work and cause spiralling benefits bill". 6 Jan 2025: <https://www.fsb.org.uk/resources-page/new-research-shows-scale-to-which-labour-s-employment-plan-will-harm-jobs-lock-people-out-of-work-and-cause-spiralling-benefits-bill.html>

ECONOMIST'S VIEW

The latest SBI data have revealed a large deterioration in confidence. Businesses are now at their most pessimistic since the onset of the Covid-19 pandemic, with Q4's reading being the second weakest on record.

Such negativity is wide-ranging across business demographics. All sectors recorded a negative, and worsening, SBI score in Q4, with particularly low readings exhibited for consumer-facing services, such as accommodation and food services and wholesale and retail. When considering the data at the regional level, the same trend of unanimous negativity and worsening was observed.

There are several posited drivers of this widespread negativity amongst businesses. The first is the generally poor state of the UK economy. Having expanded rather sharply in the first half of 2024, the tables turned in the latter. Growth was meagre at best, with a genuine risk of economic stagnation or even contraction. These poor growth dynamics have manifested in weak financial performance for small businesses. The net balance of small businesses reporting revenue growth in Q4 stood at -32.1%, the lowest value on record. Looking ahead, the net balance of small businesses expecting revenue growth in Q1 is similarly negative, at -25.9%. With the exception of the onset of the Covid-19 pandemic, this also marks the weakest value on record. Businesses continue to cite the domestic economy as the main potential barrier to their growth this year, being selected by 65.3% of relevant respondents.

It seems fair to say that the reaction to the Budget is another factor driving negativity. The Chancellor announced a range of tax-raising measures in order to improve the state of public finances, many of which will be felt by small businesses. Key here are the increases to employers' National Insurance contributions and the National Living Wage, which will put upward pressure on employment costs. When asking businesses about potential barriers to their growth, the tax burden and labour costs were cited by 43.1% and 42.0%, respectively. Both of these shares were up sharply from the previous quarter. The rising costs of maintaining staff

may also force some businesses to reduce their headcount. Indeed, businesses in our survey expect this to be the case, with a net balance of -17.4% predicting growth in employee numbers in Q1 2025. If this manifests, we would expect to see an increase in the unemployment rate.

A third factor is the international trading environment. Geopolitical uncertainties were prevalent last year and are expected to persist in 2025, bringing impacts across the supply chain. Meanwhile, the incoming Trump presidency is also expected to affect global trading dynamics, through the risk of tariff imposition and the anticipated inflationary impacts of proposed policies. UK exporters are therefore exposed. Worsening sentiment from these businesses has already been highlighted in our survey, with the net balance of exporters reporting growth in the value of their exports being negative in Q4, a trend that is expected to persist in Q1. Some respite could come from exchange rate dynamics, however, with the pound having weakened against other major countries recently, reducing the cost of UK goods and services for overseas purchasers.

While businesses are clearly showing a negative outlook at the moment, 2025 may yet present an opportunity. Cebr expects growth to pick up slightly, albeit remaining short of the pre-pandemic trend. This will be supported by interest rate cuts, reducing the cost of borrowing and encouraging demand-side activity. Continued earnings growth for consumers in both nominal and real terms also presents upside potential.

Nevertheless, small businesses will need to contend with a multitude of headwinds this year. Amongst the anticipated effects of these, perhaps the most severe will relate to investment. The rising costs faced by small businesses and the poor trading environment they are operating in have weakened incentives, through reduced availability of funds and heightened uncertainty. If this does indeed restrict investment, this could present a risk not only to near-term performance, but to longer-term economic growth too.



Sam Miley,
Managing Economist
and Forecasting Lead

Q4

FSB EXECUTIVE SUMMARY

Key findings this quarter:

- **The FSB Small Business Index (SBI) decreased to -64.5 in Q4 2024 from -24.4 in Q3.** This marks the lowest reading since Q1 2020.
- **Amongst regions, the North West registered the greatest level of pessimism for the next three months, recording an SBI score of -70.5.** No region reported an improvement from Q3, and all recorded negative scores.
- **In Q4 2024, the net balance of small businesses reporting revenue growth was -32.1%.** Expectations for future revenue growth also worsened, with a net balance of -25.9% anticipating an increase in revenue over the next three months, down from -4.0% on the previous reading.
- **The export environment deteriorated, as the net balance reporting growth in value dropped from -10.6% in Q3 2024 to -22.7% in Q4 2024.** Businesses expect a further deterioration in export value in Q1 2025, with 36.9% of exporting businesses forecasting a decrease in value, compared to 29.2% expecting an increase.
- **The net balance of small businesses reporting an increase in operating costs reversed its decline since the start of the year, rising to 79.8%, its highest level since Q3 2023.**
- **Small business headcounts failed to record growth on net for the eleventh consecutive quarter.** Meanwhile, the share of businesses expecting to cut their staffing levels over the next three months increased to 25.8%.
- **The share of small businesses aspiring to grow over the next twelve months fell to 43.4%, its lowest reading in four years.** Concerns around the tax burden rose substantially. This was the second most cited response when considering factors weighing on businesses' growth prospects.
- **The share of small businesses applying for credit receded to 14.1% in Q4,** with the average interest rate decreasing to 7.5%.
- Small businesses' perceptions of credit availability and affordability remained relatively stable over the quarter. **The credit index increased 0.1 points on Q3 2024 but remained negative, at -29.6.**
- **The net balance of small businesses expecting to increase investment recorded a negative reading for the first time since Q4 2020, at -14.0%.**

UK MACROECONOMIC OVERVIEW

UK growth slows further as first half momentum dissipates

The economy grew by 0.4% in December, according to data from the Office for National Statistics (ONS). This followed a contraction of 0.1% October and a rise of 0.1% in November. Collectively, this resulted in growth of 0.1% in the three months to December, the ONS said. It is clear that the economy has lost momentum following the initial burst of growth seen in the first half of 2024.

In the three months to December, the construction sector recorded the strongest growth, amounting to 0.5%. Services growth slowed significantly to 0.2% in the three months to December after driving expansion across the first half of the year, while the production sector contracted by 0.8%.

Cebr forecasts GDP growth to rise to 0.3% in Q1 2025. Annual growth of 0.9% was recorded in 2024, up from 0.4% in 2023, and this is projected to increase further to 1.1% in 2025. Though these values would mark two consecutive years of accelerating growth, it should still be highlighted that they reflect subdued rates compared to historical trends. For instance, the economy grew at a pre-Covid trend of around 1.8%. We do not foresee the economy achieving growth rates this rapid until 2030.

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

Small Business Index hits four-year low as economy stagnates

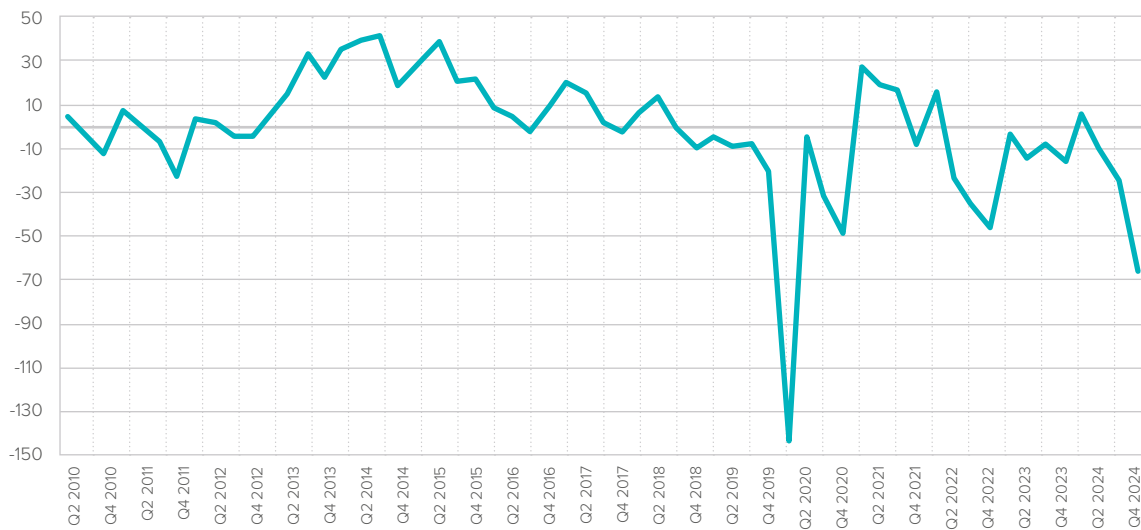
The Small Business Index (SBI) fell to -64.5 points in Q4 2024, the lowest reading in over four years. The negative value implies that the share of businesses that expect worsening performance in the coming quarter outweighs the share of businesses expecting an improvement. The Q4 reading marks a sharp increase in the prevalence of pessimistic sentiment, with 80.9% of small businesses now foreseeing worsening conditions.

This growing pessimism among small businesses likely reflects rising concerns surrounding the UK's domestic economy and poor ongoing performance. The latter is evidenced by the SBI revenue growth metric. The net balance of businesses reporting an increase in revenue stood at -32.1% in Q4 2024, indicating that more businesses reported revenue declines than increases. Notably, this marks the weakest reading in the entire back history of this indicator.

Meanwhile, Q4's decline in the SBI may also reflect concern amongst businesses at the measures announced at the Budget. The combination of increased employers' National Insurance contributions and a higher minimum wage, on top of the Employment Rights Bill, threatens to raise costs for businesses at the same time as demand remains fragile.

There are further factors expected to hold back business performance. Amongst these are continued inflationary pressures and geopolitical risks, including but not limited to the new Trump presidency. Overall, there are mounting global and domestic headwinds, presenting considerable risks to small businesses and threatening their performance over the coming year.

Figure two: The FSB Small Business Index:² small business prospects over coming three months
 Source: FSB- Verve 'Voice of Small Business' Panel Survey



² 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

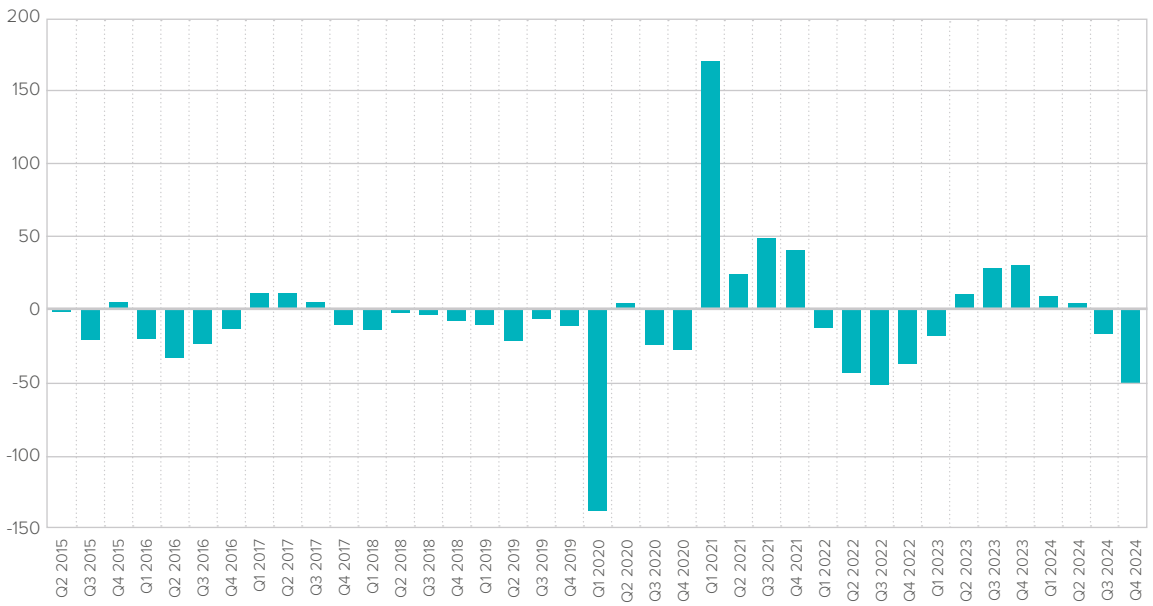
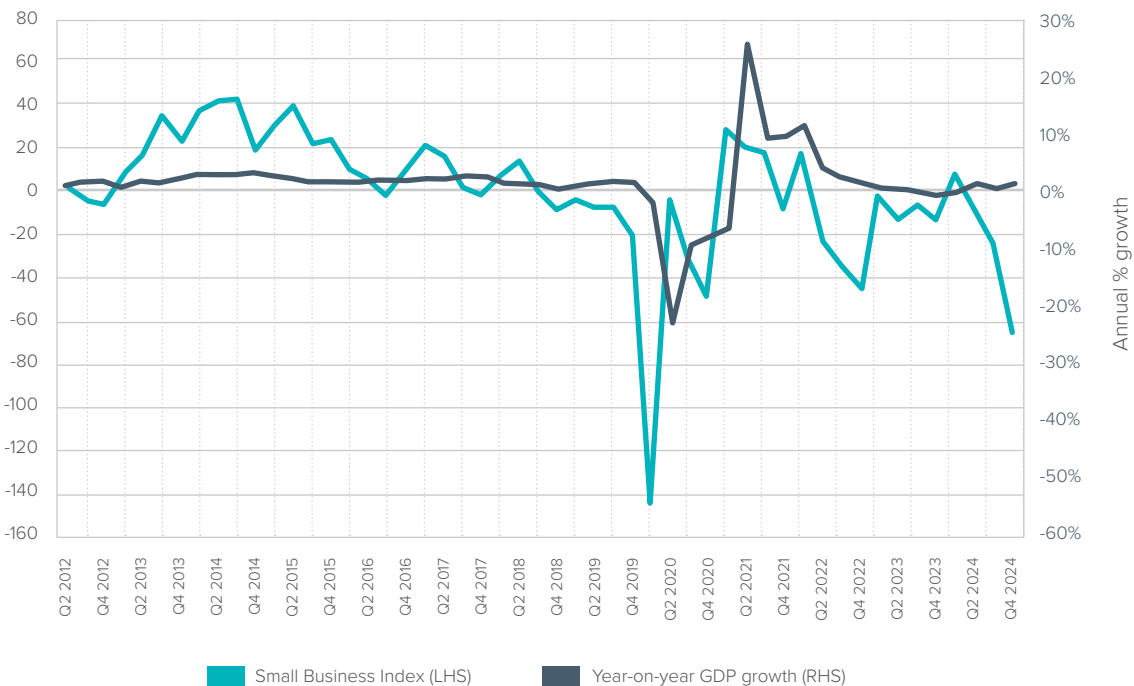


Figure four: UK SBI against year-on-year UK GDP growth
 Source: ONS, FSB - Verve 'Voice of Small Business' Panel Survey



REGION AND NATION SMALL BUSINESS INDICES

ALL UK REGIONS EXPRESS GROWING PESSIMISM AMONGST SMALL BUSINESSES

All UK regions registered a negative reading on the SBI in Q4 2024, indicating that the small business pessimism seen at the national level was widely shared. A negative score means that the proportion of small businesses expecting an improvement in performance in the coming quarter was outweighed by the proportion expecting a worsening. In addition, all regions displayed heightened pessimism compared with Q3 2024.³

The North West replaced Scotland as the most pessimistic region in Q4 2024, with an SBI score of -70.5. The West Midlands experienced the

smallest, albeit still substantial, decline in its SBI score, falling 23.3 points from Q3 2024 to -61.2 in Q4. On the other hand, London's score fell the most of any region, dropping by 61.4 points on the quarter, to a score of -62.6. On the year, London's fall was even more stark, with the capital previously being the only region to record a net positive figure. Similarly large annual changes were experienced across all regions, with each recording a fall of at least 20.0 points from the same period last year in a clear sign of the negative shift in sentiment experienced over this period.

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



³ Sample size for Northern Ireland and Wales 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

PESSIMISM OVER THE COMING THREE MONTHS RISING IN ALL SECTORS OF THE ECONOMY

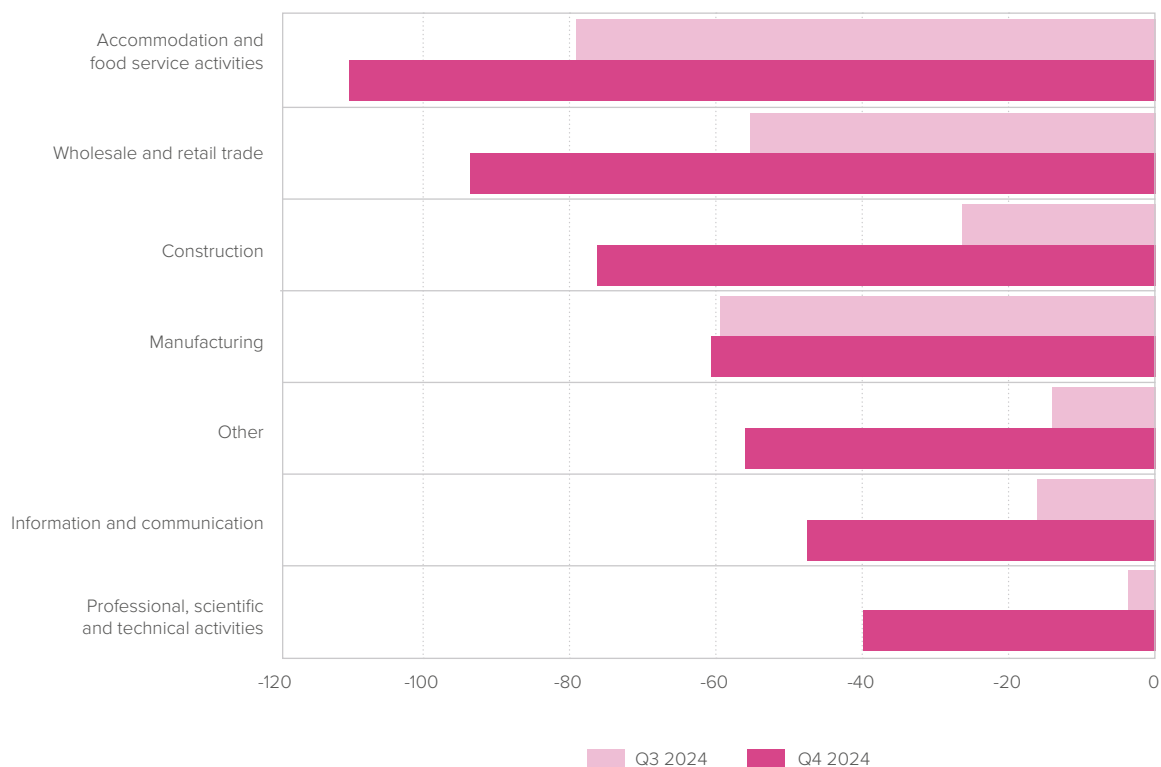
On a sectoral basis, the SBI readings remained negative in Q4 2024. This marked the third consecutive quarter in which all major sectors failed to record a positive score. The negative scores across the different sectors indicate continued pessimism amongst small businesses regarding their performance over the coming quarter.

Similarly to the regional scores, all sectors reported heightened pessimism compared with the previous quarter. Accommodation and food services recorded the greatest level of pessimism in Q4 2024, with an SBI reading of -111.0 points, down from -79.4 in Q3 2024. There are likely two main factors contributing to the poor outlook amongst such businesses. On the supply side, they are particularly exposed

to upcoming policy changes announced at the Budget, such as the increase in employers' National Insurance contributions and the National Living Wage, due to the labour-intensive nature of their operations. Meanwhile, the demand-side outlook remains weak, with consumers continuing to show caution despite the worst of the cost-of-living crisis being over.

The wholesale and retail sector performed poorly over Q4, according to ONS GDP data, while the accommodation and food services sector barely held on to positive growth. However, the professional, scientific and technical sector recorded relatively robust growth over Q4, which is reflected in these businesses having the least negative outlook of all major sectors.

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

SMALL BUSINESSES EXPERIENCED A SHARP DETERIORATION IN REVENUE GROWTH

In the previous SBI survey (Q3 2024), the net balance of small businesses expecting revenue growth in Q4 2024 stood at -4.0%. However, over the past three months, the net balance of small businesses reporting revenue growth stood at -32.1%. As such, businesses' recent experience was far worse than they had initially predicted.

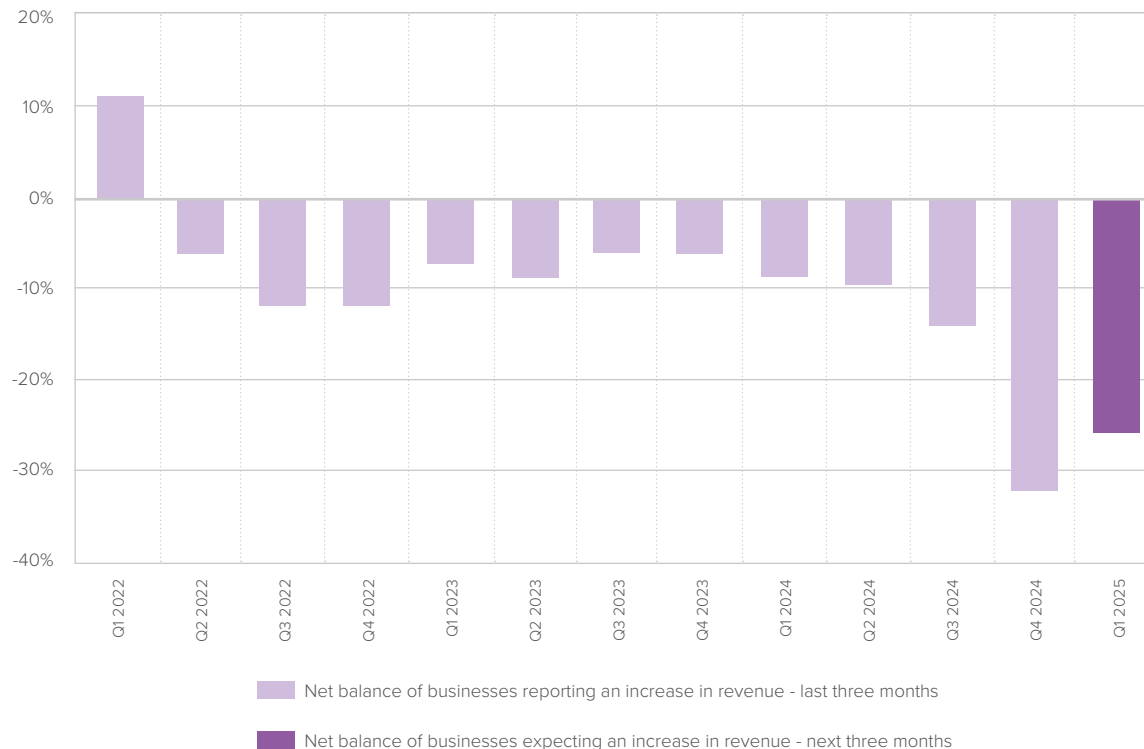
Q4's negative balance indicates that the number of businesses reporting a decrease in revenue outweighed those reporting an increase. The last period to record a positive balance was Q1 2022, pointing to the continued struggles faced by the UK economy, and especially small businesses, since then. Moreover, Q4's reading was the lowest on record.

The reported decline in revenue in Q4, in part, owes itself to broader economic conditions. The economy exhibited no growth in Q3 and contracted in the months of September and October.

Amongst surveyed sectors, the wholesale and retail trade had the highest share of businesses reporting a net decrease in revenue, with the figure standing at -50.9%. No sector recorded a positive net balance. The weak performance was also common across all regions of the UK. The West Midlands recorded the lowest net balance, with -39.8% experiencing revenue increases over Q4 2024.

Looking ahead, more small businesses expect revenue to decrease in Q1 2025 than increase, with a net balance of -25.9% forecasting improvement. This is the lowest net balance of firms expecting revenue growth over the next quarter since Q1 2020.

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



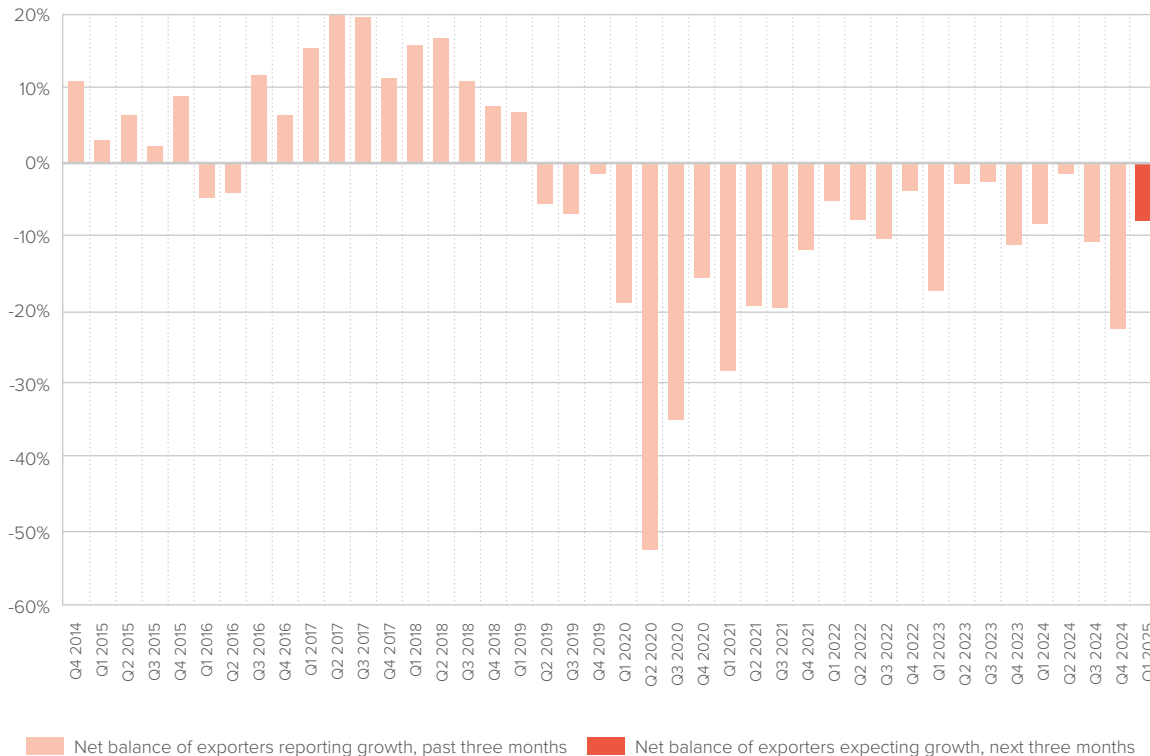
EXPORTS

EXPORTERS REPORT DETERIORATION IN CONDITIONS AND ANTICIPATE CONTINUED STRUGGLES IN Q1 2025

In Q4 2024, a net balance of -22.7% of exporting businesses reported an increase in the value of their exports. This represents a second consecutive dip, falling from -10.6% in Q3 2024. The index data align with the latest trade statistics. Recent official data show that UK exports in the three months to November shrank by 4.3%, compared with the three months to August. Both goods and services exports decreased, with goods falling by 8.2% and services by 1.3%.

Looking ahead, small businesses anticipate a further decline in export value in Q1 2025. A net balance of -7.7% of exporting businesses expect growth in the value of their exports. Small businesses may be affected by uncertainties in the global economy. For instance, ongoing conflicts in the Middle East risk restrictions on the major shipping route through the Suez Canal, while the new US administration is threatening a range of countries with tariffs. How these issues develop in 2025 will influence the overall trajectory of international trade and small businesses' ability to export to international markets. .

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

COST PRESSURES RETURN AS THE TAX BURDEN COMES UNDER SCRUTINY

The net balance of small businesses reporting an increase in operating costs rose in Q4 2024 to 79.8% from 73.7% in the previous quarter. This takes the balance 0.8 points higher than the reading a year ago.

This finding aligns with the persistence of cost pressures throughout the economy. On the producer side, price deflation appears to be slowing, with month-on-month inflation rates moving out of negative territory in October. Meanwhile, rising costs are passing through to customers, as shown by higher consumer price inflation in recent months. After slowing to a near-term low of 1.7% in September, CPI inflation recorded 2.3% in October, 2.6% in November, and 2.5% in December. These developments coincide with a reacceleration in wage growth

over the past two months. Such dynamics point toward enduring cost pressures, which will caution the Bank of England against aggressive monetary easing this year.

As was also the case in Q3 2024, labour remains the most cited source of changing business costs, selected by 54.9% of respondents. The share selecting this category was up by 5.6 percentage points on the quarter. The tax burden saw the biggest increase in the share of businesses citing it as a cost pressure. In Q4 2024, 45.7% reported the tax burden as a cause of changing costs, up from 22.9% in Q3. The increasing salience of this pressure is likely the result of policies announced at the Budget, several of which have yet to be fully implemented.

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

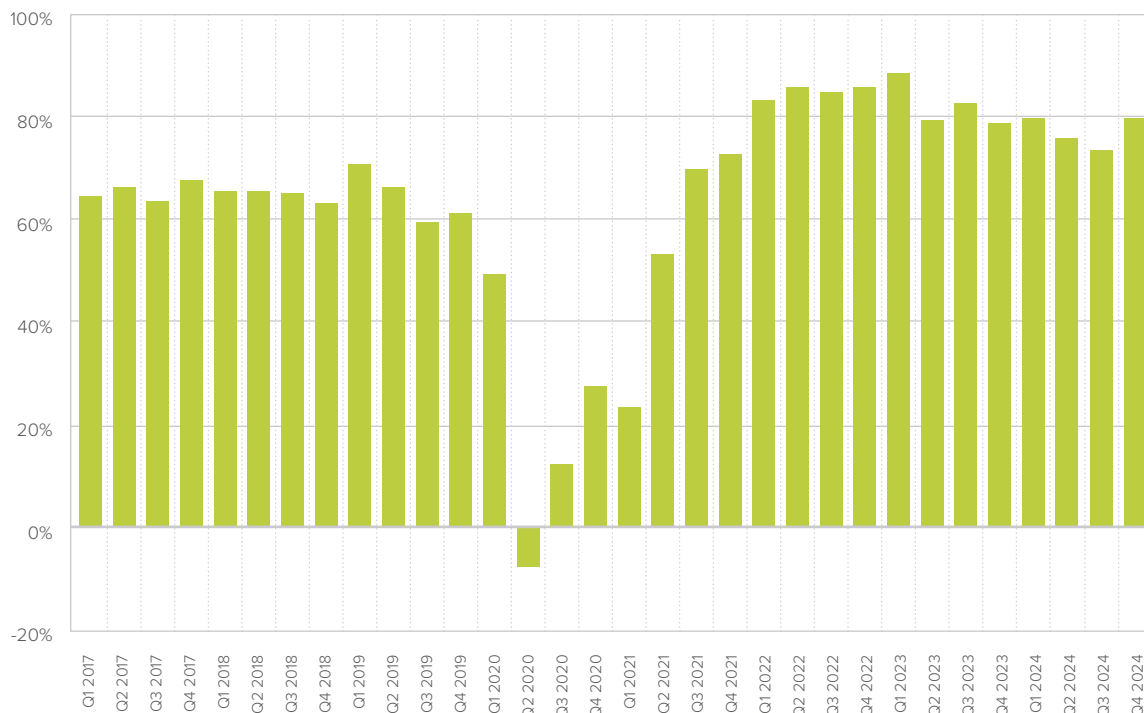
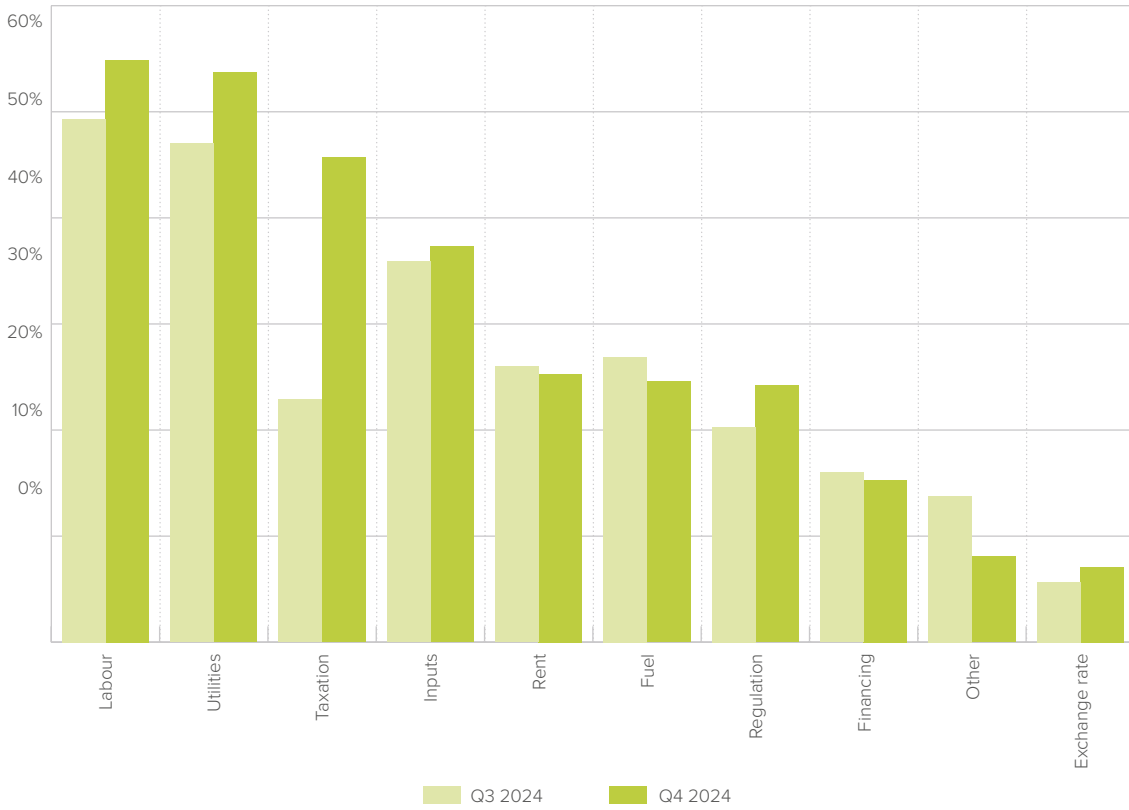


Figure 10: Main causes for changing business costs (Respondents could select multiple answers)
Source: FSB - Verve 'Voice of Small Business' Panel Survey



%

EMPLOYMENT

SMALL BUSINESS EMPLOYEE NUMBERS EXTEND CONTRACTION WITH FURTHER LAYOFFS EXPECTED IN 2025

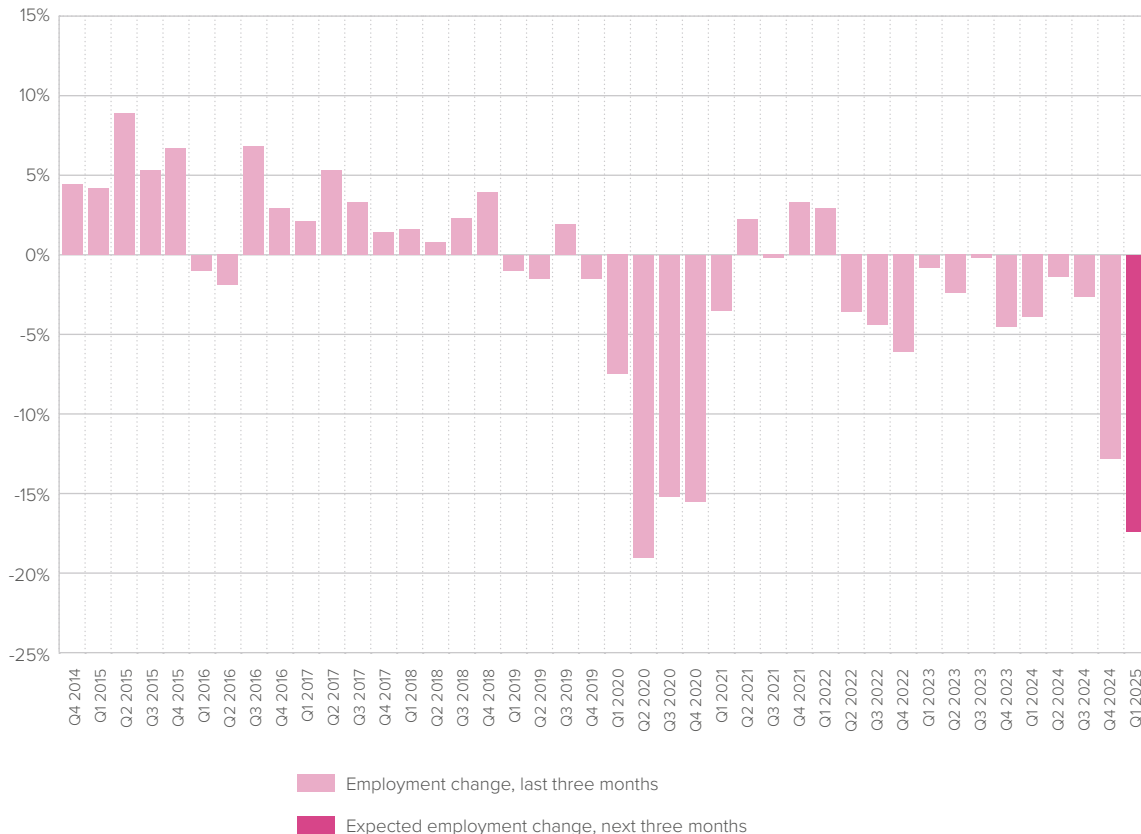
A net balance of -12.8% of small businesses reported growth in employee numbers in Q4. The negative reading means that the number of businesses expanding their workforce was outweighed by the number of businesses reporting a contraction. This marks the eleventh consecutive quarter of net contraction on this metric. The pace of contraction accelerated again in Q4 2024, having decelerated through the first half of 2024.

The latest ONS data revealed that the unemployment rate increased to 4.4% in the three months to November, up from 4.3% in the three months to October. Other indicators have weakened recently, evidenced by falling job

vacancies and payrolled employee numbers. Collectively, these developments point to a loosening labour market, in line with the sentiment expressed by small businesses.

Turning to the forward-looking measure, small businesses expect to decrease their headcount further in Q1 2025. A net balance of -17.4% of businesses expects to expand the number of employees over the next three months. This marks a substantial increase in pessimism, as the respective balance was only -1.5% in the previous quarter. Furthermore, this balance represents the weakest expected growth since Q1 2020.

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

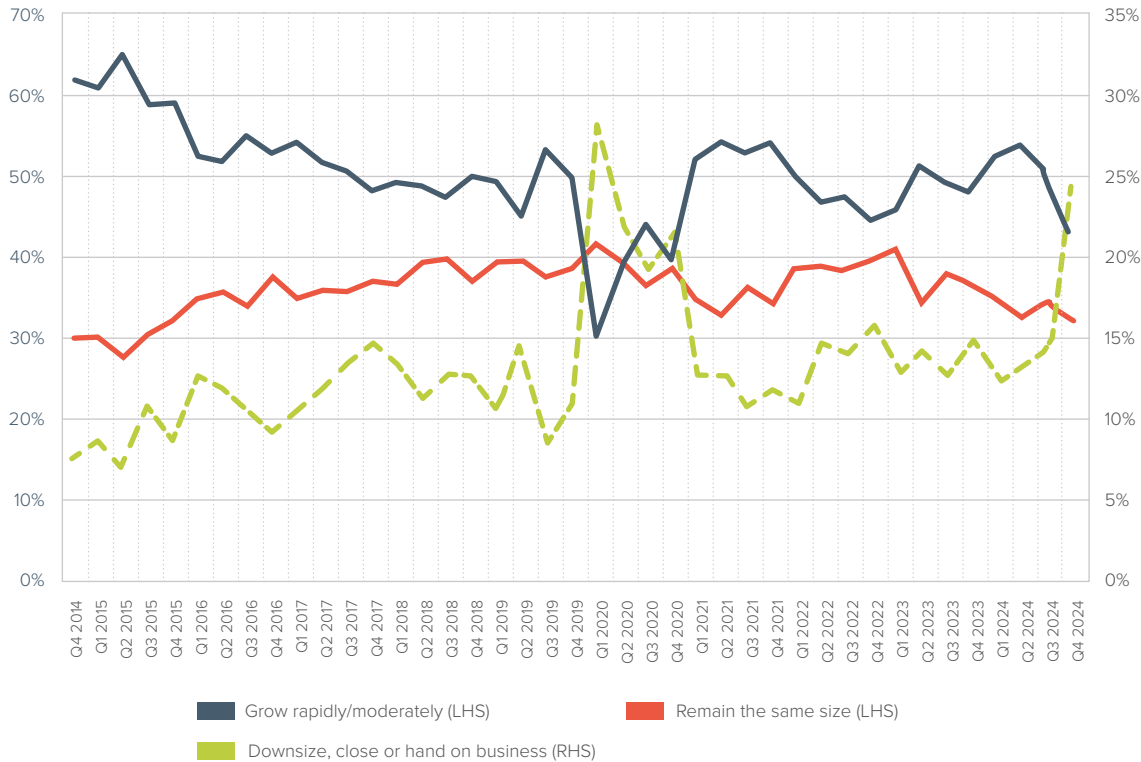
PESSIMISM ABOUT GROWTH PROSPECTS OVER THE COMING YEAR DEEPENED IN Q4

In Q4 2024, the proportion of small businesses aspiring to grow over the coming year decreased to 43.4%, from 51.2% in Q3 2024. The proportion of small businesses seeking to contract their operations rose by 9.6 percentage points to 24.2% in Q4. The last period a larger share of firms expected to shrink over the next 12 months was Q1 2020, the onset of the Covid-19 pandemic.

When considering the net balance of businesses expecting to grow, construction recorded the weakest value, of -1.9% in Q4. As a sector sensitive to interest rates, the relatively poorer outlook for construction is likely the result of moderating expectations of future rate cuts.

In contrast, businesses in professional, scientific and technical activities are the most optimistic, with a net balance of 35.6% seeking to grow over the next year. This fits with the official data, which show that the sector was flat in the three months to November, remaining above other sectors which performed more negatively.

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



SMALL BUSINESSES CONCERNED ABOUT UPCOMING TAX INCREASES ANNOUNCED AT BUDGET

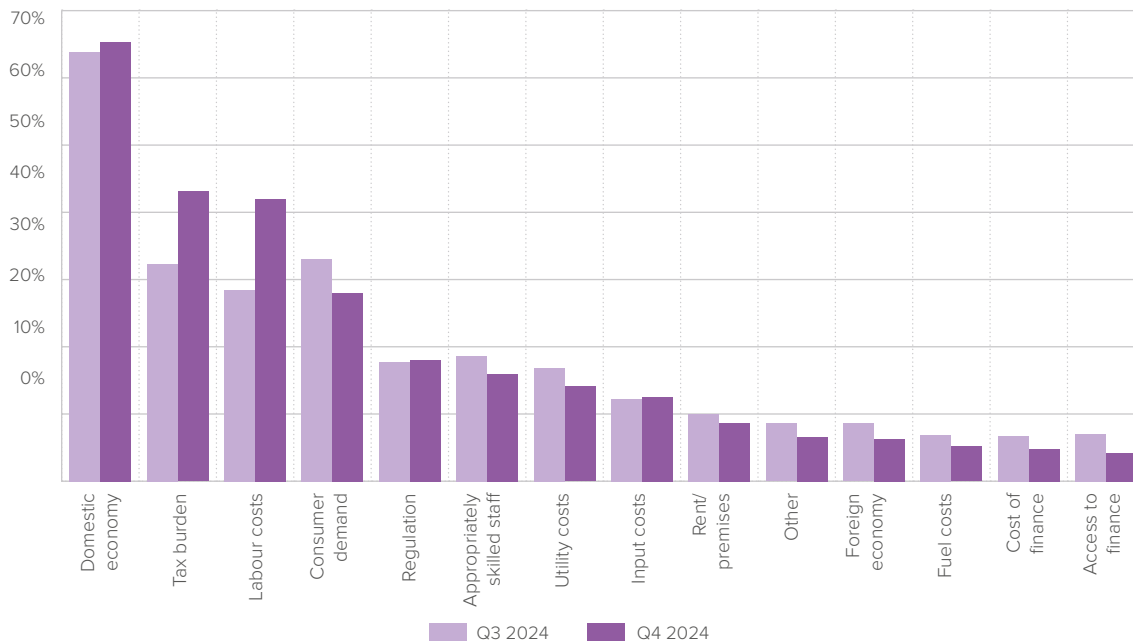
The domestic economy topped the list of factors cited by businesses as potential barriers to growth. This aligns with recent official data showing the economy losing momentum in Q3 and Q4 2024. Amongst businesses expecting to grow over the next year, 65.3% named this category as a potential barrier.

In addition to these concerns, many small businesses are worried about the tax burden. These concerns were growing before the Budget, as the previous SBI report described increases in the share of businesses deeming this as a potential barrier to their growth. However, they have since worsened. The Chancellor announced an increase in employers' National Insurance contributions, on top of raising the minimum wage. Consequently, small businesses are growing more concerned about the effects these measures, alongside the new Employment Rights Bill, will have on labour costs and the tax burden. The share of firms citing the tax burden as a potential barrier to growth increased 10.8 percentage points to 43.1%, while for labour costs the share of firms increased by 13.6 points to 42.0%.

The increased share of firms selecting labour costs may also owe itself to the resurgence in wage growth over recent months. Recent official data show annual average earnings growth rose to 5.2% in the three months to October, up from 4.9% in the three months to July.

Some factors recorded a falling citation rate in Q4. Notably, the share of small businesses selecting consumer demand declined for a second consecutive quarter, to 28.0%. The consumption outlook is slightly stronger now than in other recent editions of this report, owing to continued wage growth in both real and nominal terms, improving spending power. However, consumers remain cautious despite the worst of the cost-of-living crisis being surpassed. As such, Cebr expects below-trend rates of consumption growth to persist into 2025, presenting a barrier to expansion for many businesses.

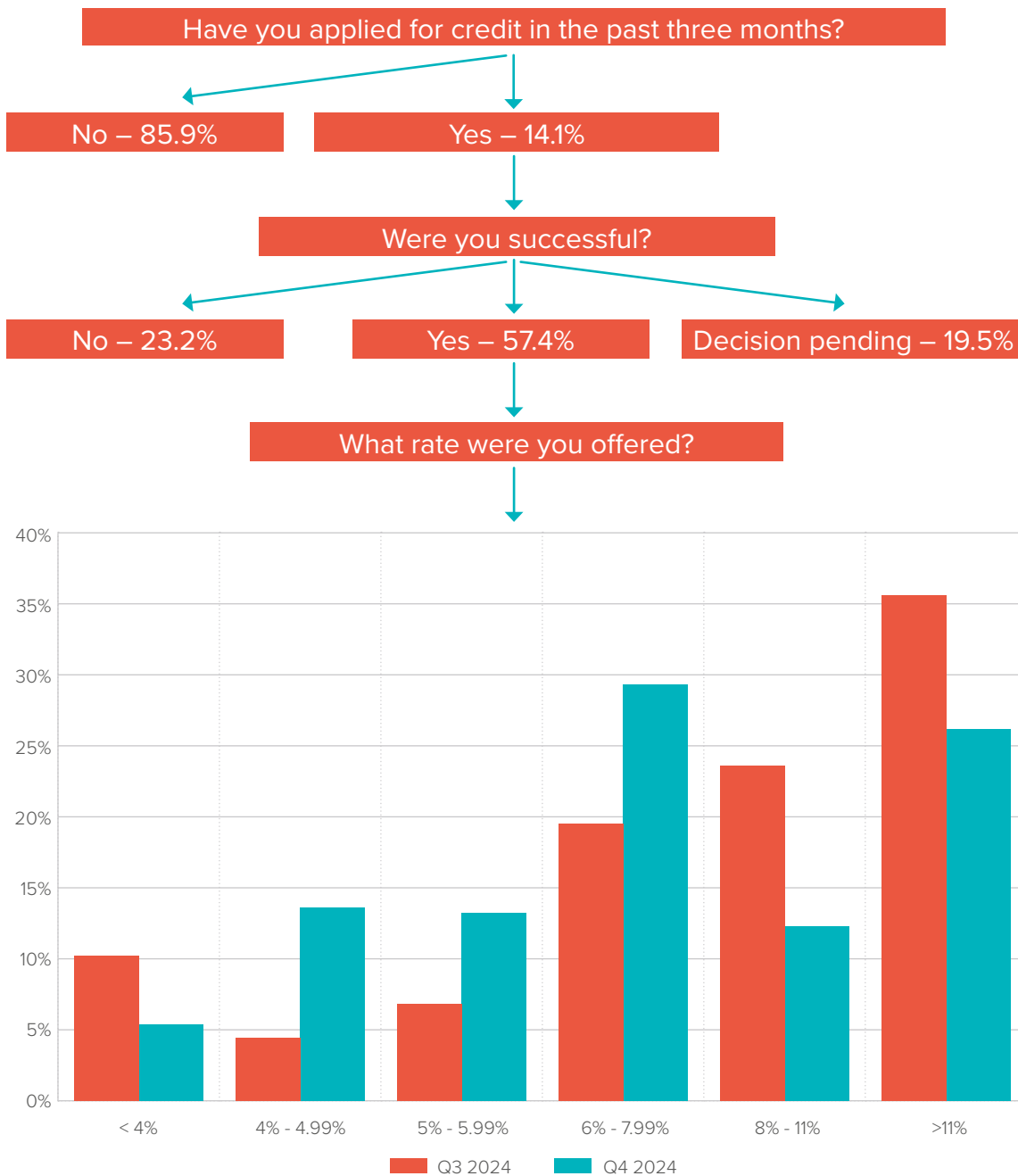
Figure 13: Potential barriers to achieving growth aspirations – multiple answers possible
Source: FSB - Verve 'Voice of Small Business' Panel Survey



CREDIT

SHARE OF SMALL BUSINESSES APPLYING FOR CREDIT RISES FOR SECOND CONSECUTIVE QUARTER

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.



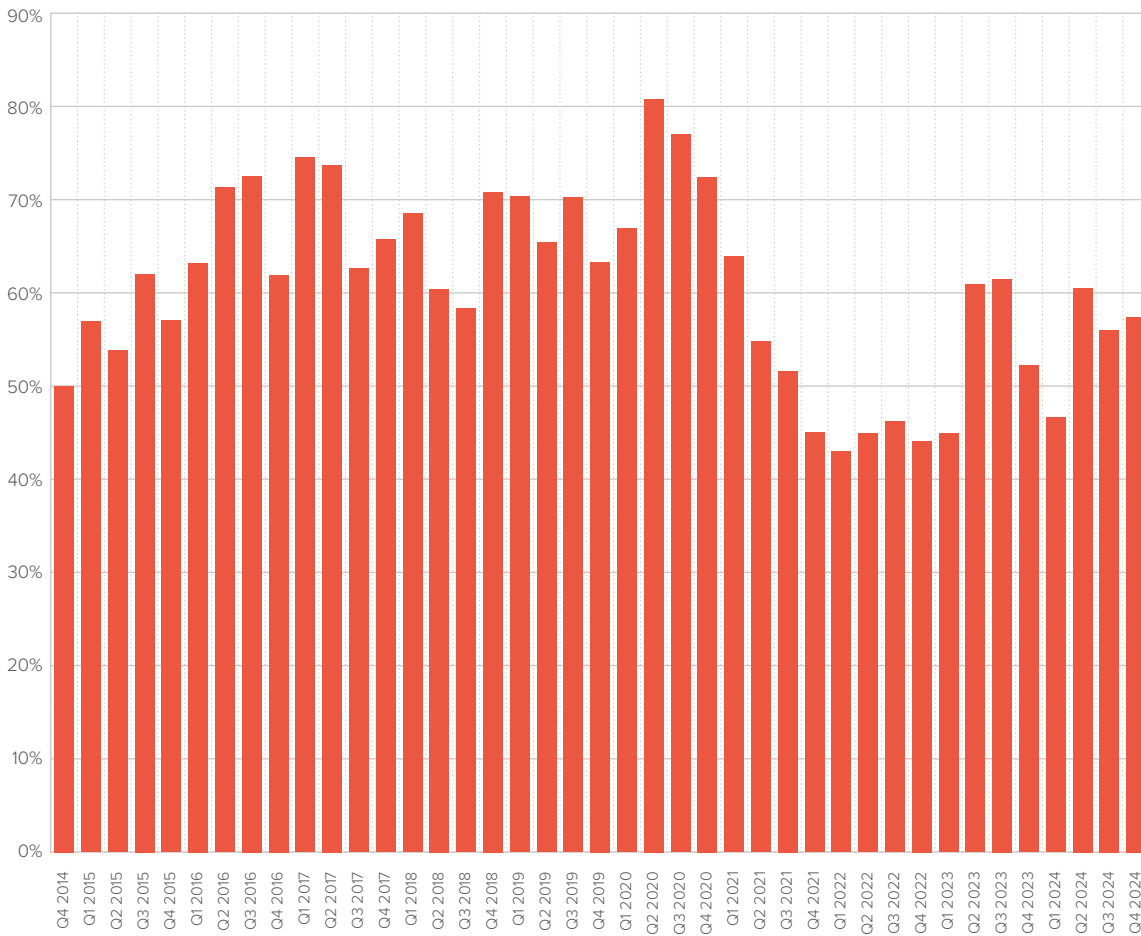
In Q4 2024, 14.1% of small businesses reported applying for credit, down from 16.5% in Q3. Amongst those making a credit application, the share of successful applications was up 1.4 percentage points.

The share of applicants awaiting final decisions increased by 7.5 percentage points on the quarter to reach 19.5%. The share of unsuccessful applicants decreased on the quarter to 23.2%.

The average interest rate offered to successful credit applicants decreased to 7.5% in Q4 2024, down from 8.3% in Q3. The proportion of credit applications receiving rates in the 8% to 11% range decreased sharply, falling to 12.3% in Q4 from 23.6% in Q3. The share of applicants offered rates in excess of 11% also fell sharply on the quarter. These developments align with the Bank of England lowering its base rate in November and the subsequent pass-through to commercial lending markets.

In contrast, the share of credit applications with rates in the 6% to 7.99% range increased significantly, rising to 29.3% in Q4 from 19.5% in Q3. Meanwhile, the percentage of successful credit applications offered rates below 4% continued to decline, dropping from 10.2% in Q3 to 5.4% in Q4. In general, the changes this quarter suggest that while average rates have decreased, access to credit remains constrained, particularly at low rates, which have become increasingly scarce.

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



SMALL BUSINESSES' PERCEPTIONS OF CREDIT AVAILABILITY AND AFFORDABILITY WERE LARGELY UNCHANGED AMIDST TIGHTER LENDING STANDARDS

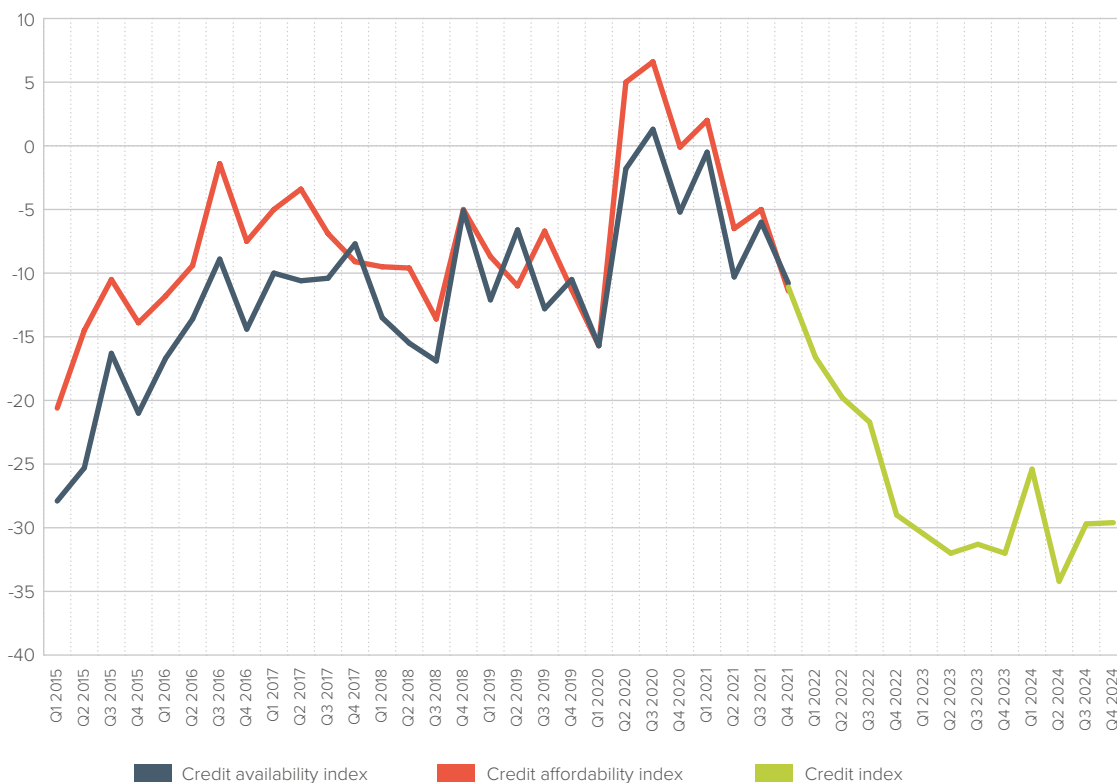
Perceptions of credit availability and affordability were largely unchanged in Q4, despite the higher approval rate and the decrease in the average interest rate offered. The credit index increased by only 0.1 point on the quarter to -29.6.

The proportion of businesses expressing a positive attitude on credit availability and affordability was 12.7% in Q4, a 1.1 percentage point decrease on Q3. The share of respondents rating the availability and affordability of credit as 'quite good' decreased to 11.9%, whilst those rating it as 'very good' fell to 0.8%.

The proportion of small firms with a negative attitude towards credit availability and affordability also fell slightly, reaching 49.0%, having stood at 49.7% in Q3. Within this group, the share of respondents rating these factors as 'very poor' decreased by 1.1 percentage points, while those rating them as 'quite poor' increased by 0.5 percentage points. Meanwhile, the proportion of respondents adopting a neutral stance increased to 38.2% this 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 INTENTIONS ENTER NEGATIVE TERRITORY

The share of small businesses planning to increase capital investment in the coming quarter declined sharply to 18.3% in Q4, down from 24.6% in Q3. Simultaneously, the proportion of businesses expecting to reduce their capital investment rose significantly, by 11.6 percentage points, reaching 32.3% in Q4. Consequently, the net balance of small businesses anticipating increased investment turned negative, falling to -14.0%. This marks a steep decline from positive net balances of 7.6% in Q2 and 4.0% in Q3.

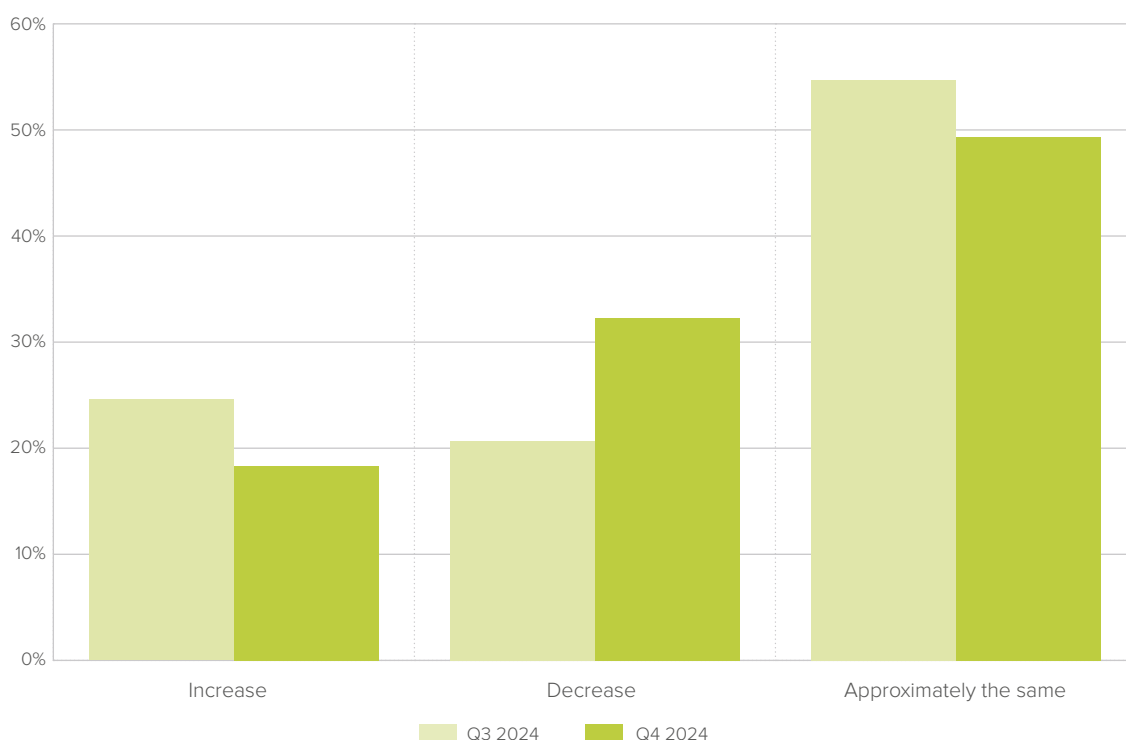
The dampening of investment expectations is in line with the loss of momentum the UK economy has experienced over the last two quarters. The economy has shown little growth recently, while small firms are seeing more difficult access to finance and a range of other headwinds, including from policy and geopolitical developments. The impact of the former on operating costs is ultimately expected to leave lower levels of funds with which to invest, while the latter category is contributing to heightened uncertainty.

In line with being amongst the least pessimistic sectors, businesses in information and communication showed the highest net balance when considering investment intentions. Nevertheless, this value was still negative, at -1.8%. At the other end of the scale, accommodation and food services recorded the most pessimistic expectations, with a net balance of -25.7% of respondents expecting to increase investment. The aforementioned factors of increased labour costs and a continually below-par consumption landscape are likely drivers of this.

Other sectors showing weak investment intentions include retail, which is expected to suffer from similar headwinds to accommodation and food services, and the manufacturing and construction sectors. The latter two are particularly exposed to monetary policy risks, given their dependence on finance and lending for large projects and investments. These sectors recorded net balances of -28.2%, -18.9%, and -15.5% on the investment intention metric respectively in Q4.

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 December 2024 research survey of FSB members carried out by Verve. 1,396 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 10 December 2024 to 30 December 2024.

SUMMARY DATA TABLE

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Small Business Index	-2.8	-14.2	-8.0	-15.0	5.5	-10.8	-24.4	-64.5
Employment - previous three months	-0.8%	-2.4%	-0.2%	-4.5%	-3.9%	-1.4%	-2.6%	-12.8%
Employment - coming three months	8.3%	6.1%	2.6%	-1.2%	9.1%	2.4%	-1.5%	-17.4%
Exports - previous three months	-17.7%	-2.9%	-2.6%	-10.8%	-8.2%	-0.4%	-10.6%	-22.7%
Exports - coming three months	-6.4%	-0.6%	7.3%	0.8%	-1.6%	6.7%	-6.6%	-7.7%
Credit availability and affordability – rated 'good' or 'very good'	12.3%	11.8%	14.4%	14.4%	16.4%	11.6%	13.8%	12.7%
Credit availability and affordability – rated 'poor' or 'very poor'	50.9%	52.0%	53.1%	52.0%	45.9%	53.2%	49.7%	49.0%

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.

Q4

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