



FSB North West Quarterly Small Business Index

Q3 2023

fsb⁰⁸

Foreword

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It is good to see that overall business optimism in the North West is finally in the positive after over a year of negative index scores, tracking ahead of the national average.

This hopefully indicates that economic uncertainty and, with fewer businesses reporting utility costs as a major concern, that the stifling inflationary pressures we have seen are easing somewhat. However, the data also shows there are significant challenges ahead.

Investment intentions in the North West are falling and lagging behind the national figure. While future revenue expectations are more positive, in Q3 revenues are struggling. Small businesses face many other challenges as well, including sluggish consumer demand and the availability of appropriately skilled staff.

There is still some way to go before confidence levels in the North West reach previous heights, with small businesses facing up to a challenging winter and new year.

It is important that national and local government engage properly with small businesses, put in place effective pro-enterprise policies and create the support infrastructure we need for economic growth.

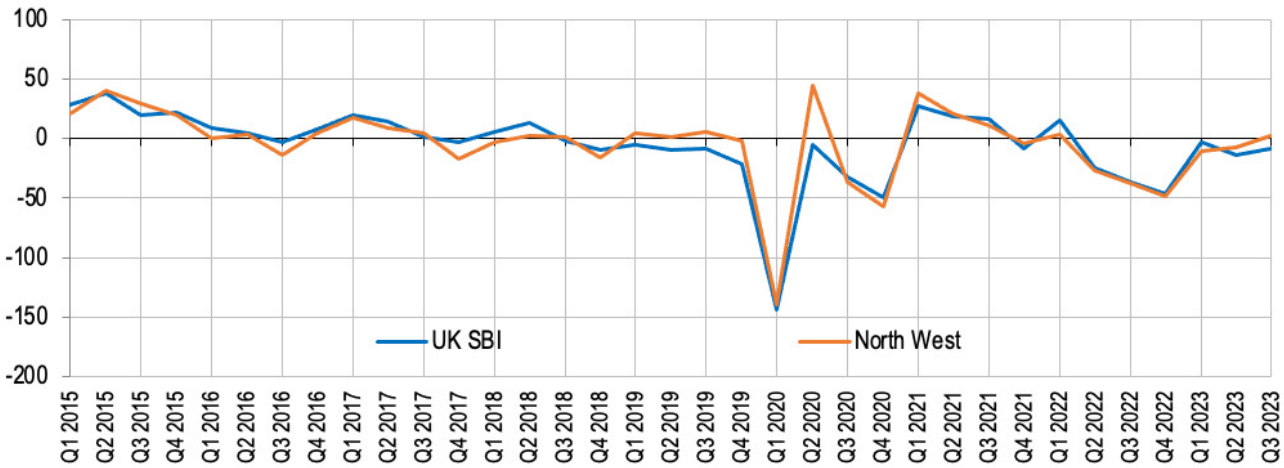
The North West Small Business Index (NWSBI)¹, which measures confidence amongst businesses, returns to a positive figure in Q3 2023. It currently stands at 3, whereas in Q2 2023 it was -7.

Confidence in the region is now positive after five consecutive quarters of negative index scores. This may indicate the impact of economic uncertainty and inflationary pressures on small businesses is somewhat easing.

The North West now displays a less negative outlook than the nationwide average sentiment; the overall score for the UK stands at -8 in Q3.

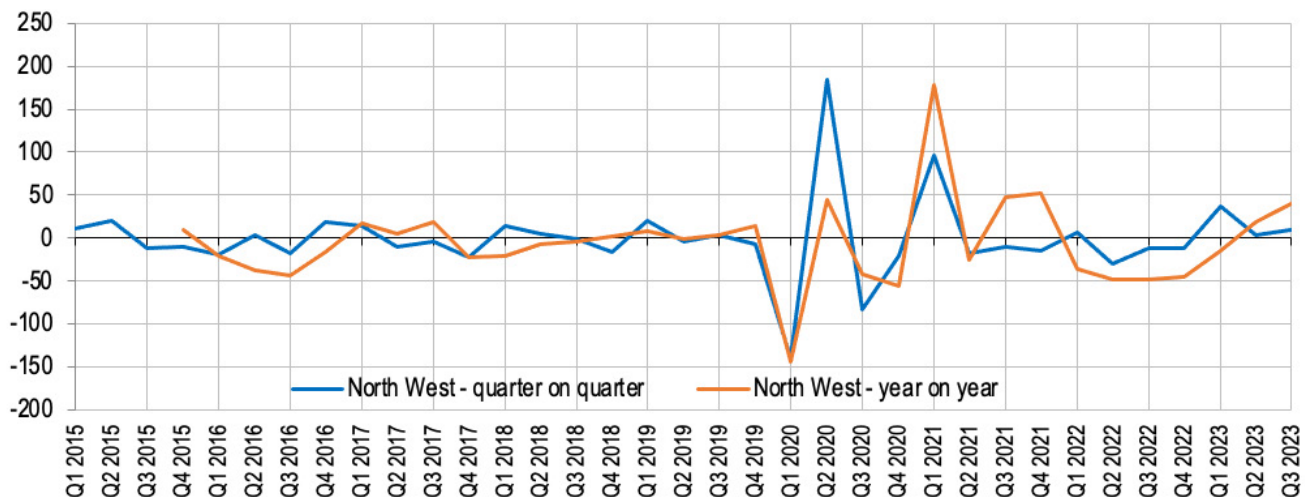
Confidence amongst North West small businesses improves in Q3, outpacing the UK average.

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



Quarterly and year-on-year metrics are positive in the North West, demonstrating some improvement in confidence levels.

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



¹ The North West 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 sentiment in the North West remains negative in Q3 2023, with a net figure of -9%.

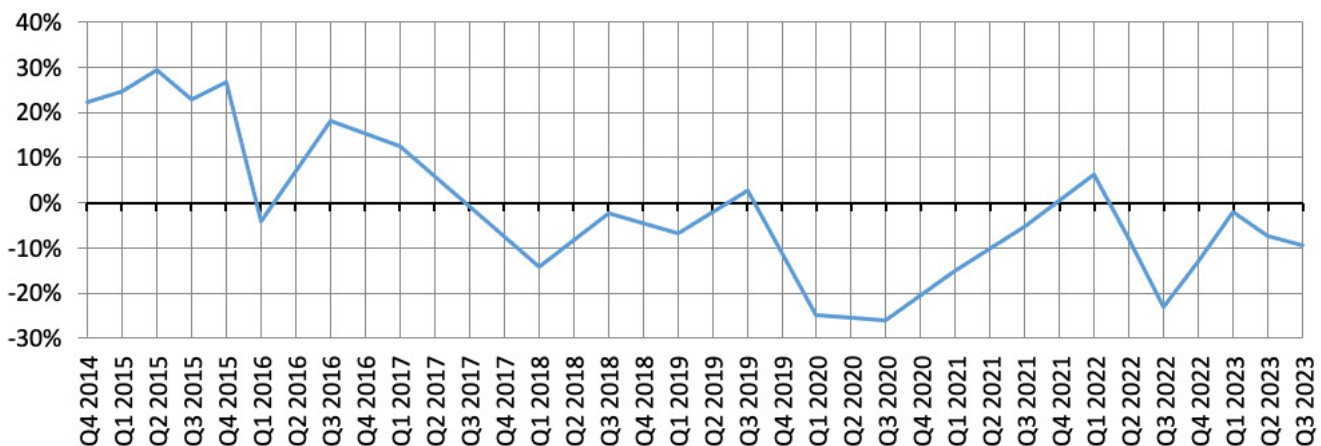
In Q3 2023, 48% of small businesses in the North West reported a decrease in revenue over the last 3 months. Some resilience was shown by North West businesses, however, with 39% reporting revenue increasing during the period.

The net balance of -9%² for Q3 represents a slight fall from what was recorded in Q2 (-7%) and continues a trend of declining revenue in the region. That said, other regions in the country have experienced net revenue performance that is more negative than the North West during Q3, including the South West and North East & Yorkshire and The Humber (both -17%).

Despite this, the outlook for future revenue remains positive in the region. A net balance of 8% expect growth in profits for the coming quarter. This is a fall, however, from Q2, where the net balance stood at 13%. Having said that, revenue outlook for Q3 2023 in the North West is more positive than the net national average (which is 5%).

Net revenue in the North West remains negative in Q3 2023, and has slipped further versus the previous quarter.

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



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'

Employment and Wage growth

North West small businesses reduce headcount, with a net drop in staff levels for Q3 2023 (-4%) for the second quarter running.

The employment picture over the preceding three months showed that 16% had decreased and 12% had increased staff numbers. The net employment level of -4% for Q3 reflects a similar shrinking of staff levels as reported in Q2 (net -5%).

Most small businesses in the region have had no change in staffing levels in Q3, however, with around two-thirds (67%) reporting headcount had stayed the same. The net change in headcount of -4% in the North West is slightly lower than the respective net score nationwide, which stands stagnant at net 0%.

For the next quarter, the intention amongst North West small businesses is for net 0% change in headcount.

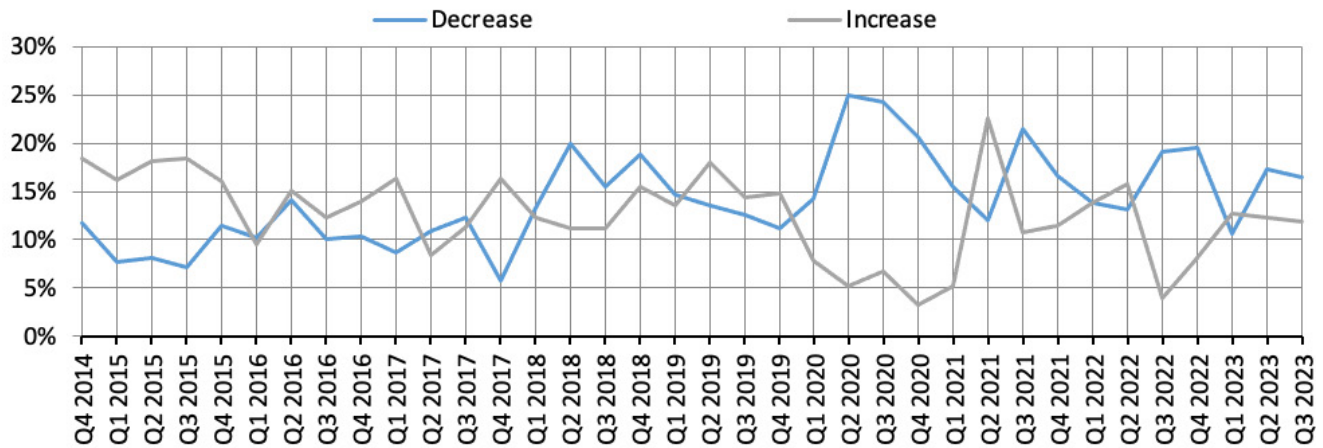
Wage Growth

64% of small businesses in the region increased the average salary awarded over the last 12 months. This is a similar proportion to the 66% at a nationwide level. The net change in salary for the North West in Q3 2023 (55%) is marginally higher than that seen during Q2 (59%).

72% expect to see salary increases over the next 12 months. This predicted wage growth is on par with figures recorded in the previous quarter, where 71% anticipated wage increases.

The proportion of North West small businesses decreasing headcount in Q3 continues to outpace those who are increasing.

Fig.4 FSB Small Business Index: change in people employed in the North West.



Growth and Investment aspirations

In Q3 2023, 58% 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%). This is an improvement versus the previous quarter (50%). Overall, net growth aspirations have increased from 35% in Q2 to 43% in Q3.

The investment intentions for North West small businesses have fallen since the previous quarter, now standing at net 0% compared to the net 3% recorded in Q2. The stagnant investment expectation in the region underperforms the nationwide average in Q3 (which stands at net 6%).

32% of small businesses in the North West expect to increase investment levels in the coming quarter, which is greater than the proportion of 25% nationwide. However, far more expect to decrease investment in the region (32%) versus the UK average (19%).

Investment intentions in the North West perform on the lower end compared to other regions, as several anticipate higher levels of investment (East Midlands; net 13%, London; net 9%).

The general economic conditions (68%), consumer demand (39%), and appropriately skilled staff (26%) are the greatest perceived barriers to growth over the next 12 months in the North West.

Utility costs fell considerably as a major concern in the region, from 33% of small businesses identifying them as a key worry in Q2, to only 18% in Q3.

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