



Federation of Small Businesses
The UK's Leading Business Organisation

FSB Voice of Small Business Index

Quarter 1, 2014

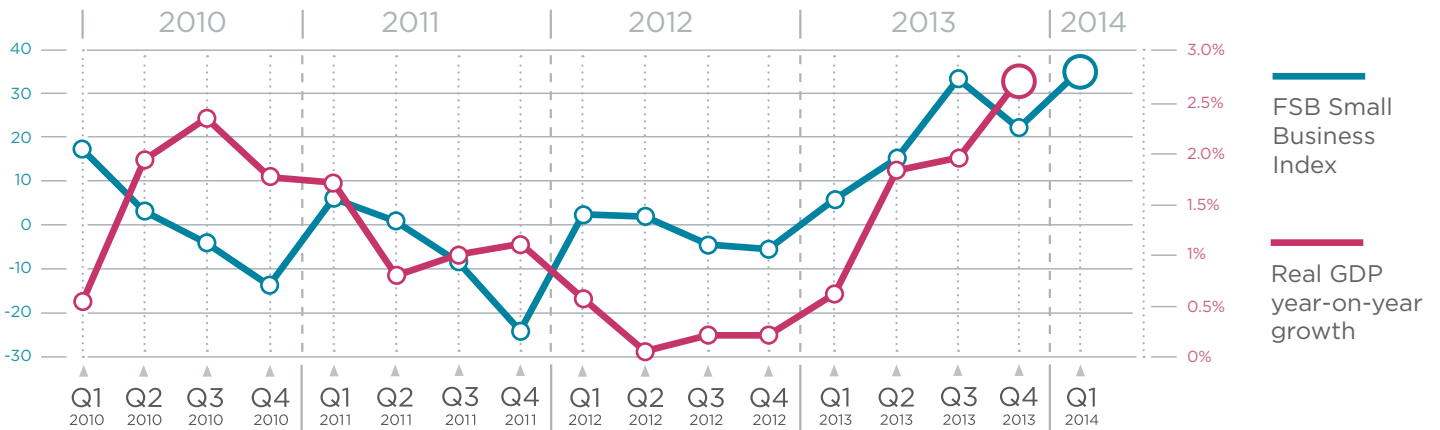
Q1 Q2
Q3 Q4

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Voice of Small Business INDEX Q1, 2014

The **record-breaking Index score** indicates that GDP is likely to reach pre-recession levels in 2014

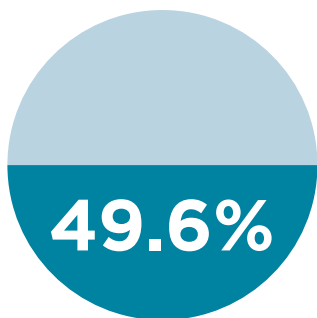


62.3%

of businesses report they want to **grow moderately or rapidly** in 2014 – an all time high

25%

of firms expect to **increase export activity** in next three months – **10% growth** since Q4 2013.



of businesses have **spare capacity** within their firms

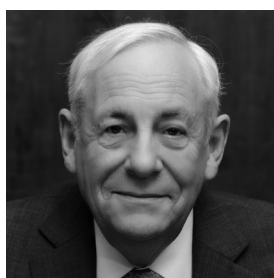


25% of firms plan to **increase their capital investment** over the next 12 months



1 in 4 businesses highlight **skills** as a barrier to achieving growth aspirations

FSB Voice of Small Business Index



**John Allan,
FSB National
Chairman**

Our measure of optimism, the Small Business Index (SBI), is at a record high and has now surpassed the previous high in Q3 2013. Other forward looking indexes, such as employment, exporting and investment intentions, are all showing robustly positive numbers. And encouragingly, the confidence is broad based, both in terms of sectors and across all regions of the country. This bodes well for 2014 and for the small business community in general.

All regions of the UK now show positive year-on-year growth. Importantly, regions with a strong public sector presence are now showing small business confidence. Looking at the sectors, all are in positive territory including the important manufacturing and construction sectors. Manufacturing has gone from almost -10 SBI points to a positive score of over 50 points.

While this is encouraging, and demonstrates small firms' trademark resilience and ability to create jobs, further support and encouragement is needed for our entrepreneurs. As this report shows, significant capacity levels within small firms remain underutilised. Nearly half of firms report running below capacity and this index will now be keenly watched by rate setters at the Bank of England. A concern for us is that after the state of the economy and consumer demand, hiring skilled staff is the third highest barrier to growth. As this report comes after the Government's Apprenticeship Week, the FSB continues to work closely with policy makers to highlight the importance of vocational education to small firms and the economy at large. We welcome the attention on maths and English from the Government that remains a concern for many small firms.

The 2014 Budget which comes shortly after the release of these results will provide an opportunity to address these issues and support small firms and enterprise in general. Our Budget submission identifies a number of areas which can support this recovery. First is to ensure important markets such as banking and energy work effectively. This will lower the costs of doing business for our members and in the case of banking, ensure they get the access to finance they require to build their businesses.

Tax policy is also important, and we have highlighted the central role it can play in supporting economically productive activities such as business investment, an area where the UK has had an historically weak record. For example, the increased Annual Investment Allowance announced in 2012 was the welcomed but it is time limited and ends in 2015. We believe the Chancellor should look again at that decision: we want it extended or ideally made a permanent feature of the business landscape. Our member survey due to be published later in March, shows that only 2% of businesses know of this scheme, presenting a strong case for extending the higher allowance.

A further area that we have long highlighted and have done so again in our latest Budget submission is to clarify and simplify enterprise support – everything from mentoring services to leadership programmes. The British Business Bank is carrying out this work for Government sponsored finance schemes, but there are roughly 65 other central Government schemes that need evaluating. Getting those schemes right and effectively supporting small firms is an important component in helping enterprise, and something long overdue.

Economist's View

It is encouraging to see optimism in the UK's small business sector continuing to rise this quarter, climbing to record levels. These latest findings from the SBI illustrate just how much stronger the private sector business environment is at the start of 2014 than it was a year before.

An even more positive finding behind the headline confidence index is not just that firms are optimistic about the business climate, but what they're planning to do with this improvement. The latest results show more and more firms aspire to grow rapidly over the coming 12 months and they're planning on making the real changes necessary to achieve this: further job creation and faster capital investment growth are expected ahead.

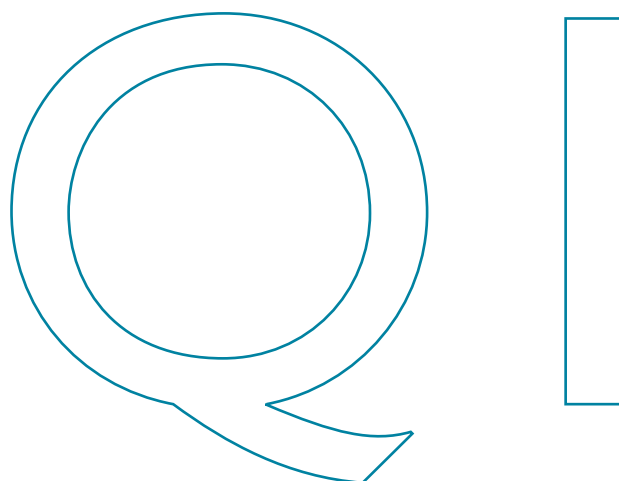
However, with increased hiring and a strengthening labour market – UK employment continues to reach new all-time highs – the problem of skills shortages is starting to emerge. In particular this is a problem in the technology sector and the construction industry. Both of these sectors are expected to see strong growth this year and next. As such, this may be an issue the Chancellor will want to look at closely at the upcoming Budget.

A further encouraging sign from the latest 'Voice of Small Business' index comes from the results on credit conditions. The share of small businesses successfully applying for credit has reached a new high, and the reported availability and affordability of new credit continues to improve. Although small firms may find that lines of credit such as overdrafts to help with cash-flow are less necessary as turnover and profitability growth pick up, it is encouraging that small firms are at least more able to access these facilities if required.

Overall, small businesses are providing much cause for cheer in 2014. The UK economic recovery so far has been quite consumer-led, but with firms willing to ramp up investment, growth should become more broadly based. Although risks remain to the economic outlook from the sharp Government spending cuts that will be necessary over the coming years, small businesses look set to drive the economy forward in an age of public sector austerity.



Rob Harbron,
Senior Economist,
Cebr



Executive summary

Key findings this quarter:

- The headline SBI measure of confidence continued to rise this quarter to +35.7. This is well up from the +6.3 seen a year ago and completes the second full year of annual growth on the Index.
- Expectations are climbing further for turnover and profitability growth. If these expectations are realised, financial performance will be the strongest since comparable data began in 2010.
- Export performance continued with the general improving trend seen over much of the past year, with a net balance of one in 10 firms seeing export related growth in the past quarter. Firms are even more positive about the coming quarter, with almost 25% expecting to see an increase.
- In line with rising confidence and expectations of stronger turnover growth, small firms are aiming higher. More than three in five firms (62.3%) expect to grow moderately or rapidly over the next 12 months, a proportion that is well up from the 54.3% seen a year before.
- To help support this anticipated expansion, small firms have been adding to their headcounts for the third consecutive quarter, with further job creation expected for the three months ahead. Likewise, investment intentions continue to rise higher, as this quarter more than one in four firms plan to increase their capital investment in the next 12 months.
- However, with these increases in staffing and capital, levels of spare capacity remain broadly unchanged this quarter. Spare capacity is now what the Bank of England is watching closely to determine when to tighten monetary policy; these findings suggest no change in interest rates in the short-term.
- With the economy strengthening, firms are less concerned about levels of consumer demand. Starting to replace this concern at the front of business owners' minds is the availability of skilled labour – a trend that will likely continue as unemployment continues to fall.
- Credit availability and affordability are much improved on a year ago, with a larger share of firms being granted approval for loan applications.
- Small business confidence is rising around most of the UK, with the north east of England being the one major exception. Technology firms have led the rise in confidence, although small manufacturers have also displayed a marked turnaround in optimism levels over the past year.

UK macroeconomic overview

UK economic growth expected to head back toward pre crisis levels

The UK economic recovery continues apace, as the first estimate of growth for 2013 as a whole was given by the Office for National Statistics (ONS) at 1.9%. This is the fastest rate of expansion seen since 2007 and is well up on the 2012 figure of just 0.3%, as UK business confidence continues to strengthen.

The results for Q4 2013 GDP marked the third consecutive period of quarterly expansion coming from across the economy, in construction, industrial production and the services sector. Although this trend of growth being broadly-based across different industries is encouraging, there is still some a to go for some parts of the economy before regaining their previous peaks. In Q4 2013, output in the industrial production and construction sectors both remain more than 10% below the levels seen prior to the 2008-09 recession. This is in contrast to output in the services sector, which currently stands at an all-time high, 1.3% above the previous peak at the start of 2008.

In addition, annual growth is expected to pick up further across 2014. The Office for Budget Responsibility (OBR) and the IMF both forecast economic expansion of 2.4% this year, while the Bank of England projects an increase of 3.4%. The Bank's forecast may be difficult to achieve, but even if the lower forecasts of 2.4% are reached, economic growth will have headed back toward the levels seen before the financial crisis.

The sustained trend of economic expansion has been feeding through into the labour market, as the unemployment rate stood at 7.2% during the final quarter of 2013, down by 0.6 percentage points on a year before. In addition,

employment levels stand at record highs, at 30.1 million during the same period. Pay growth has remained constrained, continuing to stand around the 1% mark, year on year. However, this too is expected to begin strengthening in 2014, with the OBR forecasting 2.6% growth in average pay across 2014. With a stable inflation outlook of close to 2% for the year, wages are therefore expected to return to increases in real terms this year, helping to further support the economic outlook.

One factor helping to boost the outlook for consumer spending power this year is monetary policy. The Bank of England had previously stated it would start to consider raising rates when unemployment reached 7%. However, the downward path of the unemployment rate was much steeper than anticipated and, as such, this forward guidance policy has been altered. The Bank now states it will monitor the amount of spare capacity in the economy, along with other factors, and will only tighten monetary policy once this has come down. Although this is a difficult metric to measure, the Bank expects rates to remain on hold in 2014 and into 2015. This suggests an increase in mortgage costs is on hold for now, meaning that this impact on consumer spending power will not be felt in the short-term.

The Bank also warned that the current recovery is unsustainable. With the deficit in public finances still needing to be addressed after the 2015 election, a reduction in Government spending weighs on the outlook for the medium term. However, as the latest findings from the 'Voice of Small Business' Index suggest, business prospects in the private sector are buoyant and much strengthened from a year ago.

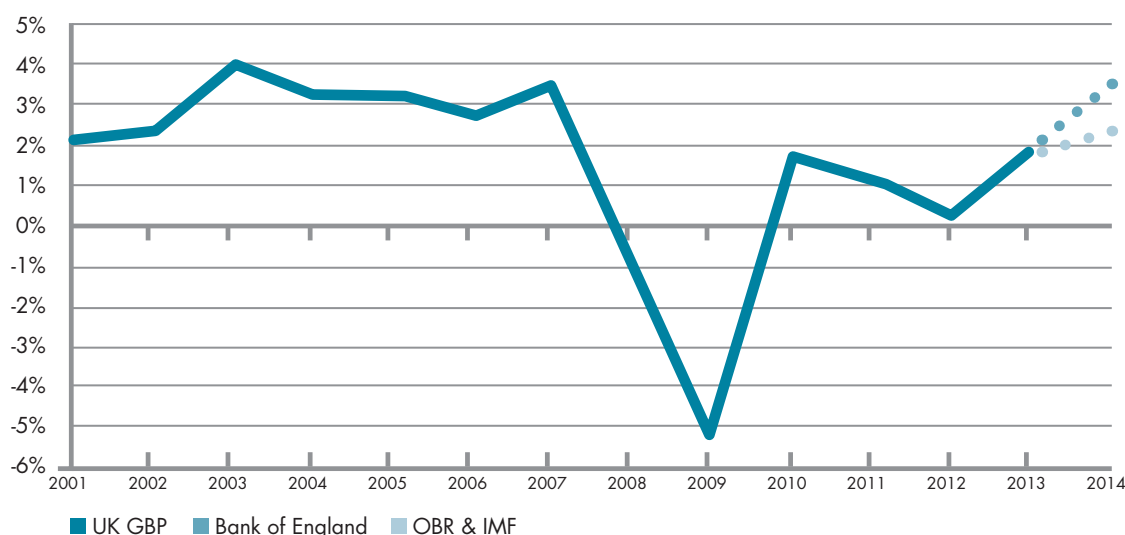


Figure 1:
UK growth in 2014
forecast to return to
near pre financial
crisis levels

UK GDP, annual %
change

Source: Office for National Statistics, Bank of England, IMF, Office for Budget Responsibility (OBR)

Small Business Index

Small business confidence remains strong

In Q1 2014 the SBI, which reflects sentiment about business prospects over the coming three months, climbed to +35.7. This is an increase on the +21.6 seen in the previous quarter and takes the Index to a record high.

This latest reading is well up on the figure seen a year before, continuing the trend of annual growth in small business confidence that has now been in place for two full years, underlining the extent to which the economic recovery has taken hold.

Within the headline Index, nearly half of small companies (44.9%) expect a strengthening of the business environment over the coming three months – the largest proportion with these expectations since the Index began in 2010. At the other end of the scale, now just 14.3%

of firms expect conditions to worsen over the coming quarter.

These continued positive findings from the UK's large population of small businesses paint a positive picture for the UK's growth prospects in 2014. Although the economy expanded by 1.8% in 2013, its fastest growth since 2007, this rate is expected to pick up even further over 2014 as a whole. The Bank of England's latest estimates suggest that expansion could reach 3.4% this year – in line with that seen in 2007, before the economic downturn that has marred the growth path over the past five years.

Figure 2:
The FSB SBI¹:
small business
prospects over
coming three months

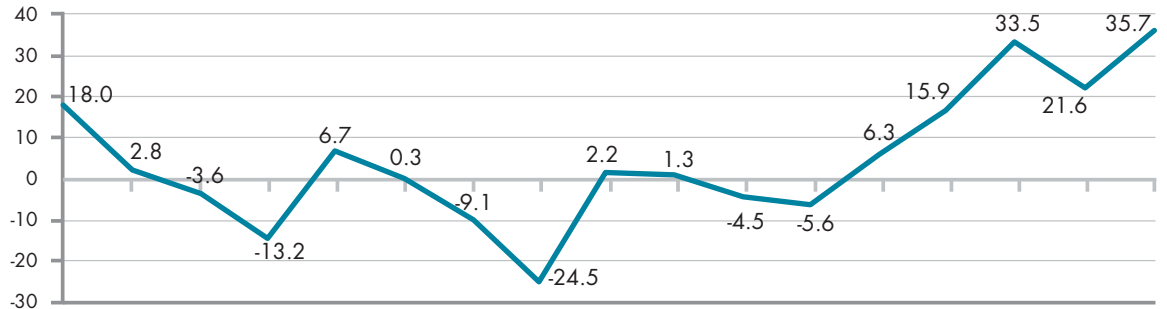
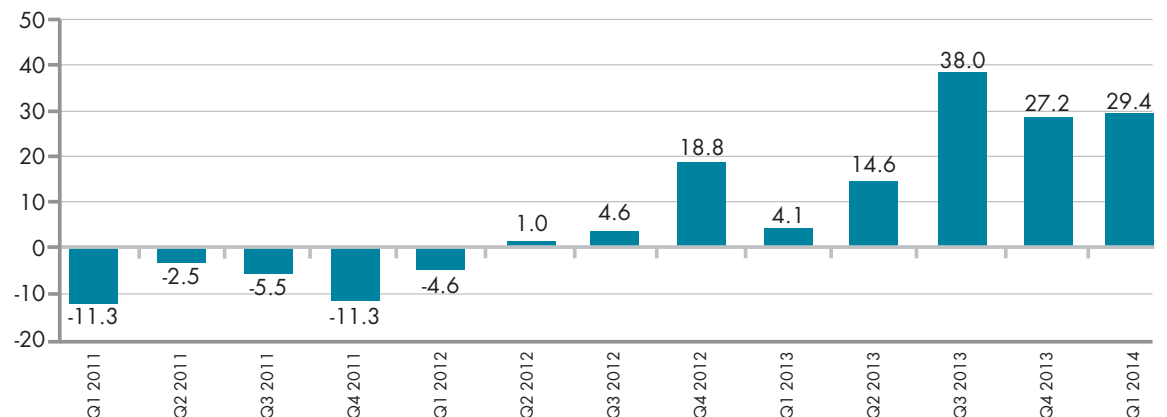


Figure 3:
Year-on-year change
in the FSB SBI



Source: FSB-RbD 'Voice of Small Business' Panel Survey

¹ The SBI 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 SBI is derived from the sum of these factors

Regional Small Business Indices

Confidence in the devolved regions of Scotland and Wales has improved markedly over the past year.

Confidence positive across every region of UK

Small business confidence increased everywhere in the UK over the past year except in north east England, the latest 'Voice of Small Business' survey reveals.

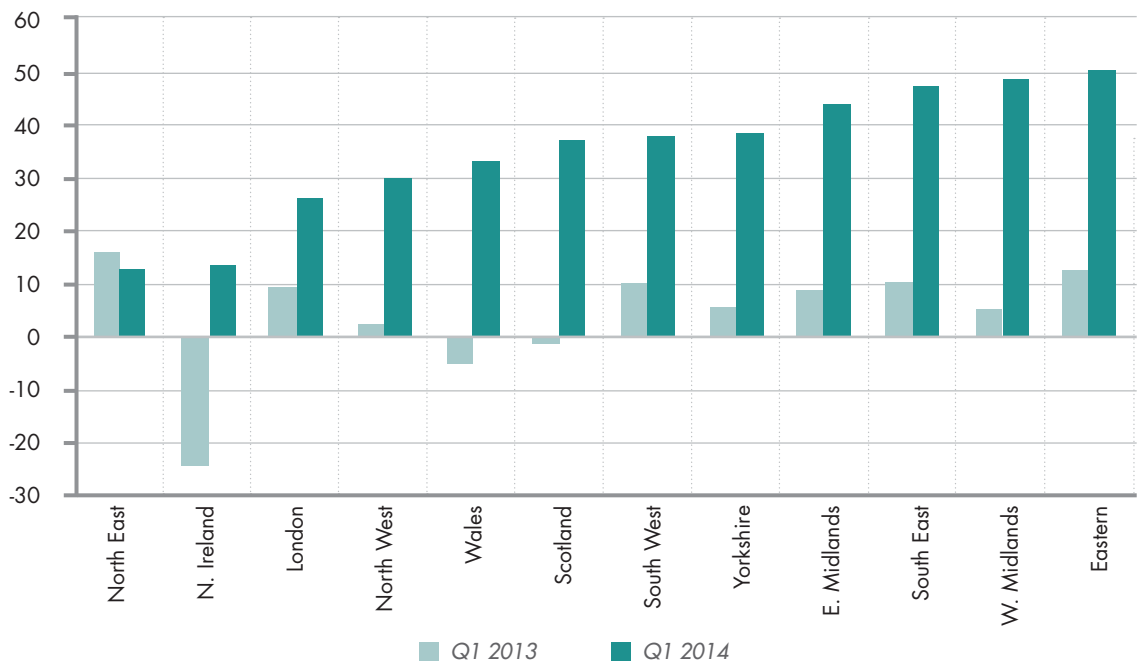
Optimism was strongest in the east of England, with a Small Business Index score of +51; well up from +12 in the same quarter a year before. The West Midlands and south east were a close second and third in confidence readings and all three regions have seen a notable strengthening in local labour markets over the past year.

At the other end of the scale, small businesses in the north east recorded a much weaker confidence reading of just +12 this quarter, below the +15 seen in the same quarter a year before. These latest findings corroborate data from

the ONS, which show a stark worsening of employment prospects in the north east. Unemployment stood at 10% during the final quarter of 2013, 0.3 percentage points up from a year ago at a time when overall UK unemployment was falling.

Meanwhile, confidence in the devolved regions of Scotland and Wales has improved markedly over the past year, now standing firmly in positive territory compared to the negative readings seen in Q1 2013. The positive balance of small firms expecting business conditions to improve over the coming three months suggests that economic growth will see a robust first half of 2014 across both nations.

Figure 4:
FSB SBI - regional variation in small business prospects over coming three months



Source: FSB-RbD 'Voice of Small Business' Panel Survey

Sector Small Business Indices

Confidence is strongest among small businesses in the computer activities sector.

Positive confidence levels return to small businesses across all sectors

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This quarter, all UK economic sectors are recording a positive reading on the Small Business Index – the first time this has happened since the series began in 2010.

Confidence is strongest among small businesses in the computer activities sector according to the results from the latest 'Voice of Small Business' survey, with an Index reading of +59. This is up from the score of +21 the same time a year before, and is the highest reading since the series began. These latest results echo strong readings from the ONS, which show economic output in the computer programming and consultancy industry rose year on year in November 2013 by 3.3%, compared to the 2.6% seen across all service industries.

Highlighting the marked turnaround in the fortunes of the manufacturing sector, business confidence among small manufacturers has grown significantly over the past year, with an Index score of +54, up from -8 in Q1 2013. ONS data show economic output increasing by 1.9% in Q4 2013 compared to a year before, a stark improvement from the year-on-year declines seen throughout the first half of 2013 and 2012. A protracted extension of this trend will be needed before the industry can regain its pre-financial crisis highs, as output still remains some 9.2% below the peak seen in early 2008. However, the latest Small Business Index results suggest that strong growth will be seen among manufacturers in the first half of 2014.

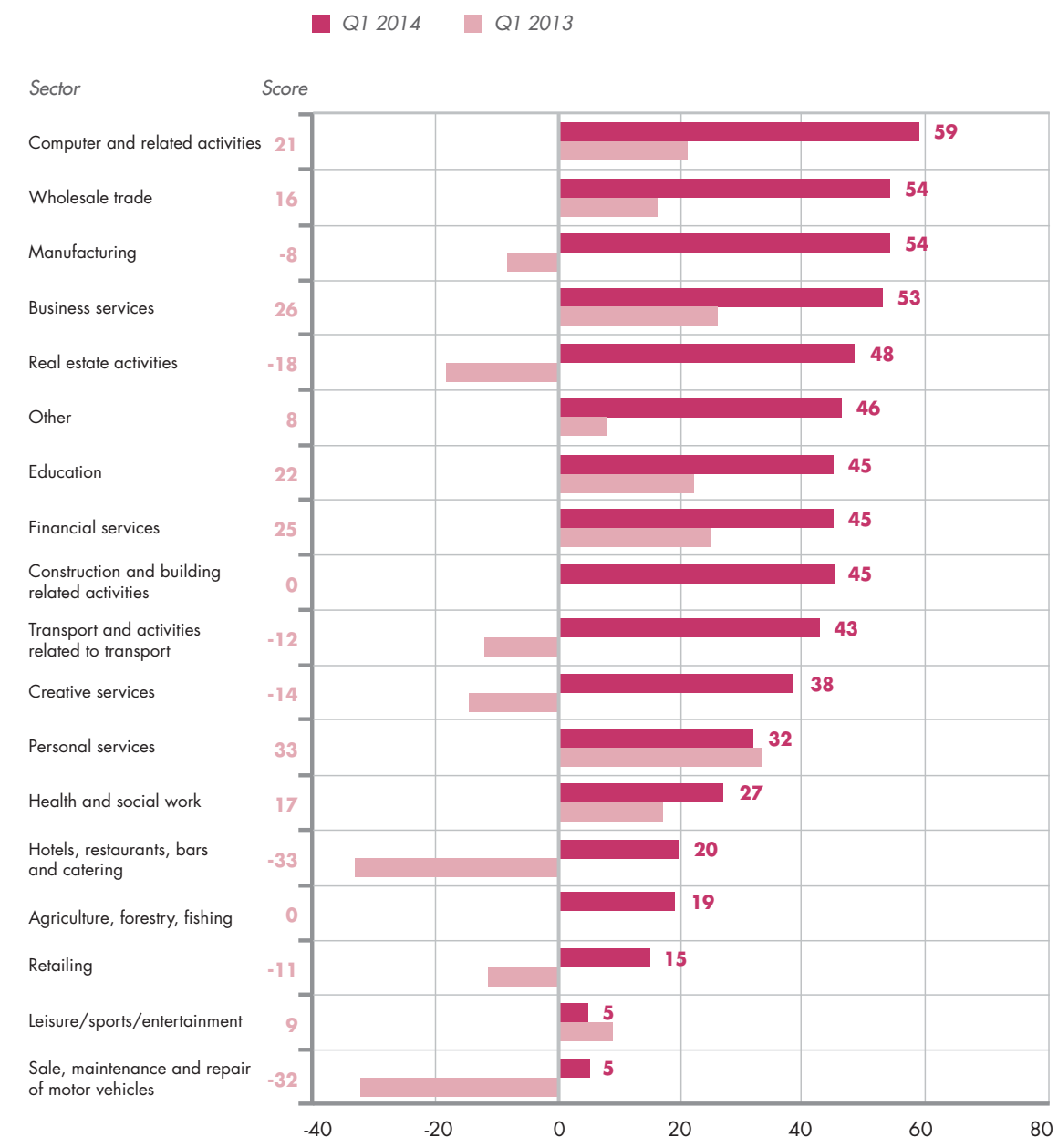
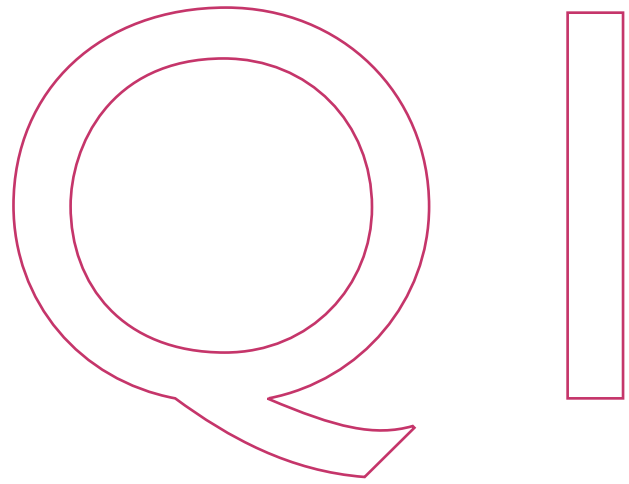


Figure 5:
FSB SBI by sector
– small business
prospects over coming
three months

Source: FSB-RbD 'Voice of Small Business' Panel Survey

Credit

This quarter 45.3% report success accessing credit, pointing towards easing credit conditions.

More businesses successful in credit applications

The success rate of small businesses applying for credit from their bank is on a cautious but welcome upward trend, as this quarter 45.3% of 'firms reported' success. This is up from 42.2% last quarter and 41% in Q1 2013 and points towards an easing of credit conditions in the UK. However, with turnover and profitability on the up, businesses may need these lines of short-term credit less and use their cash-flow instead. This quarter, 19.4% of

small firms applied for credit, broadly unchanged from a year ago, suggesting easier access to credit is not encouraging greater indebtedness. In fact, the latest figures from the Bank of England show that repayments by UK SMEs were larger than gross lending amounts throughout 2013, highlighting that appetite for debt in this sector is actually diminishing.

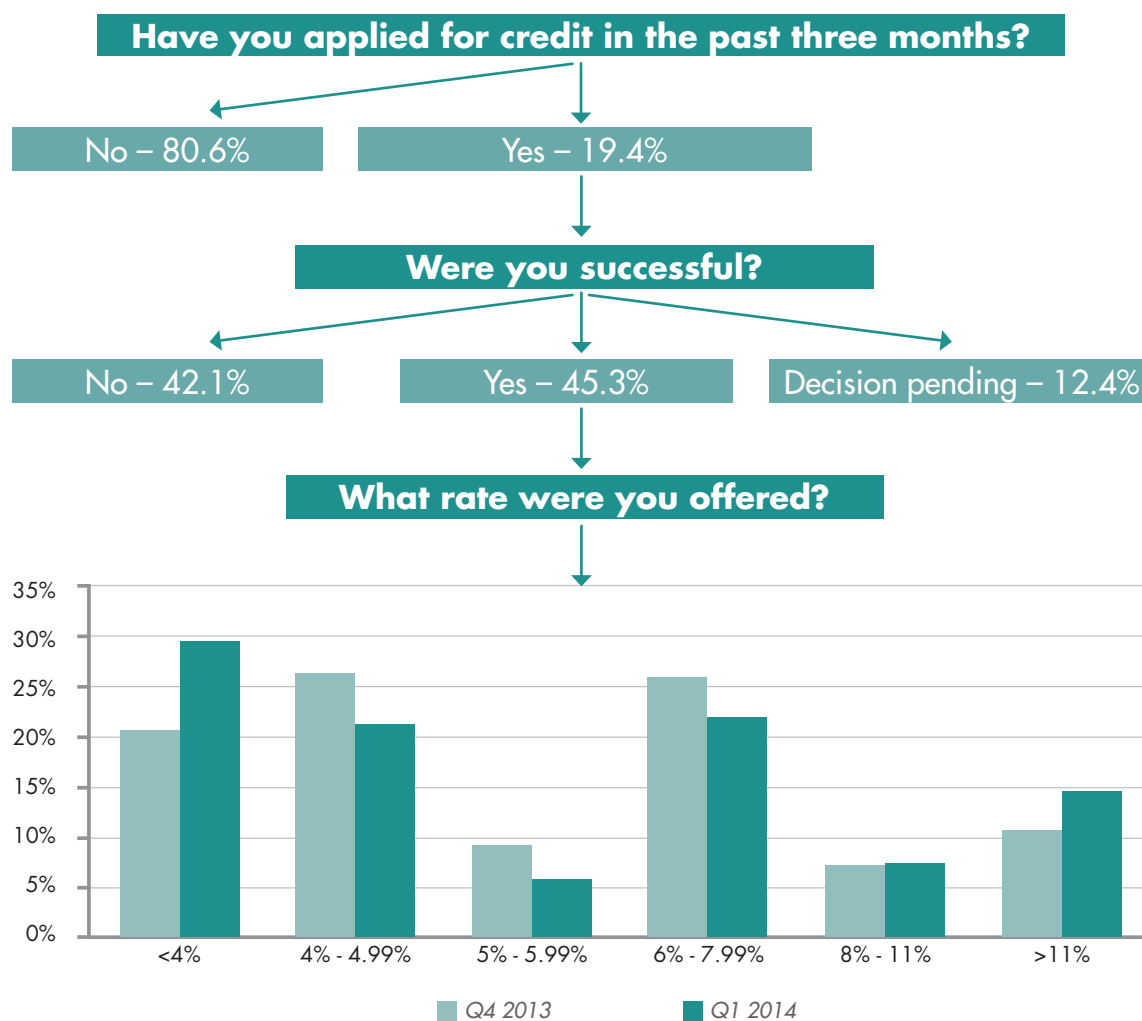


Figure 6: Credit applications and interest rates offered

Source: FSB-RbD 'Voice of Small Business' Panel Survey

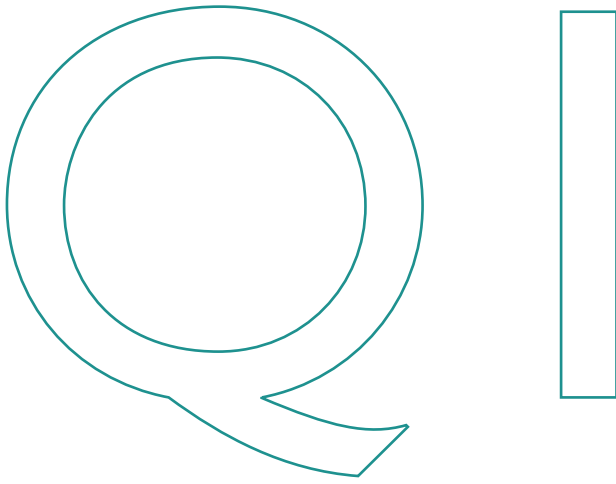


Figure 7:
Proportion of small businesses successful in bank credit (e.g. loan or overdraft) application in the past three months



Credit conditions continue to strengthen

In further signs of easing credit conditions for small businesses, this quarter 13.5% of firms reported that credit availability is either quite or very good, well up from the 9% seen at the same point a year ago. Likewise, more than one in five small firms (19.2%) are now reporting that credit is quite or very affordable, a sharp

increase from 13.8% reporting the same in Q1 2013. However, despite these recent improvements in the lending environment, the majority of small firms continue to find that the availability of credit is poor, and 49.8% believe that credit is unaffordable.

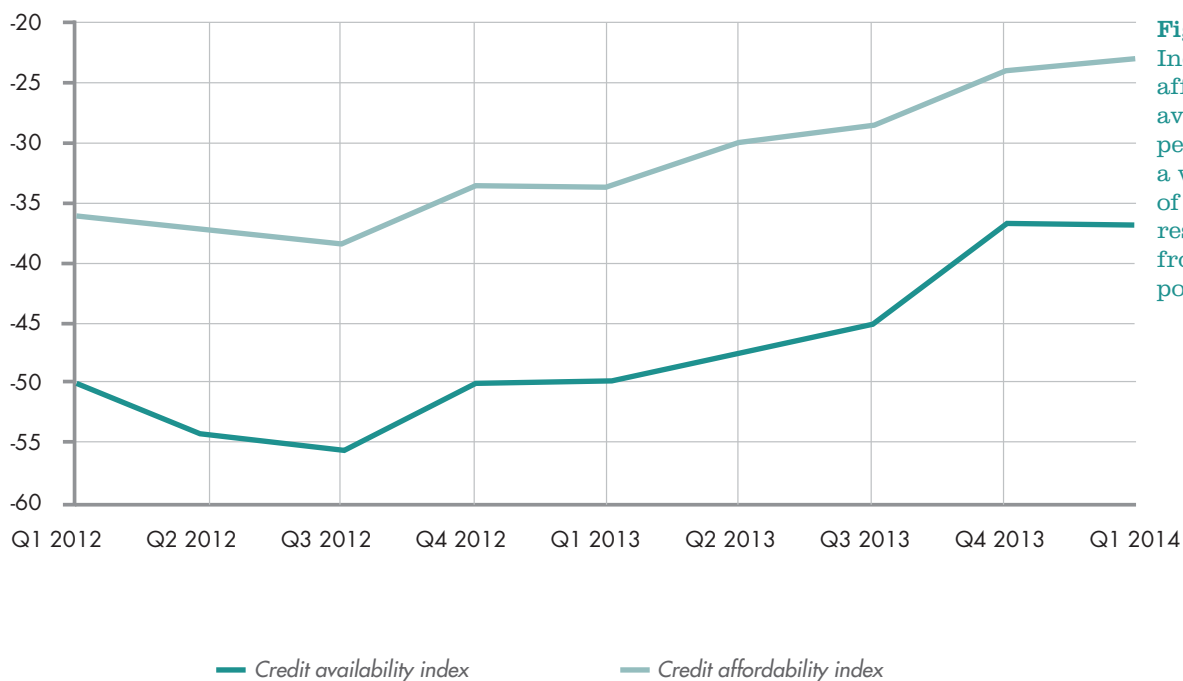


Figure 8: Indices of credit affordability / availability perceptions over time, a weighted net balance of those with negative responses subtracted from those with positive responses

Revenue and profitability

26.5% of small businesses expect turnover to increase over the coming three months.

Revenue and profitability expectations rise further

This quarter, a net balance of 26.5% of small businesses expect turnover to increase over the coming three months. If realised, this will be the highest proportion of firms reporting turnover growth since the data series began in 2010, illustrating the strengthening outlook for the UK economy. Within this headline number, more than two in five small businesses (44.6%) expect turnover to rise, compared to just 18.2% expecting a decline.

In addition, rising turnover is projected to help support an increase in profitability. Over the next three months, a net balance of 10.7% of small firms expect to see profit growth, which again would be the highest on record if expectations are borne out.

These rising projections for business conditions ahead follow a general strengthening trend in recent quarters. The net balance of 13.1% of small companies reporting turnover growth over the past three months is a sharp improvement from the 7.2% net balance of those expecting quarterly declines in Q1 2013. Likewise, the equal split between those seeing profit growth and decline over the last three months is well up from the 16.5% net balance reporting a fall back in profits in Q1 2013.



Figure 9: Small business revenue growth and gross profit, net percentage balance - share reporting increase less share reporting decrease

Exports

Almost one in four firms project an increase in exports in next three months.

Small businesses look forward to faster export growth

Overseas sales prospects for the UK's small business population are expected to pick up over the coming three months, as this quarter a net balance of almost one in four firms (23.9%) project an increase in exports ahead, helping to support the growth projections for overall turnover.

The export performance of small firms has also seen a general improving trend over much of the past year. This quarter, a net balance of 9.2% of companies report exports rising during the past three months, well up from the net balance of just 2% of businesses reporting the same in Q1 2013.

These latest results from the 'Voice of Small Business' survey come as the eurozone economy posted its third consecutive quarter of economic growth. Although this growth remains fragile for now, at just 0.3% in Q4 2013, this return to expansion is good news for the trading prospects for small businesses: the UK sells roughly half of its goods exports to the single currency area. However, growth in the eurozone is likely to remain well below the average seen before the financial crisis for some time. As such, for the UK's small businesses to achieve more rapid increases in exports, companies are likely to need to re-balance their exports towards faster-growing emerging market economies.

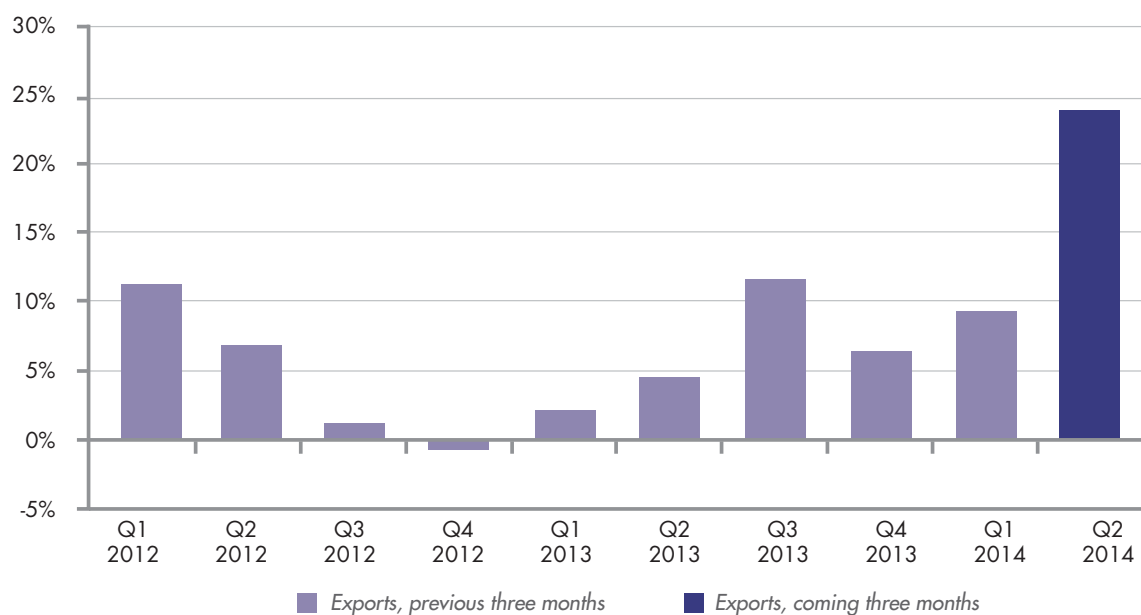


Figure 10: Changes in exports – previous three months and expectations for coming three months; net percentage balance, share reporting increase less share reporting decrease

Source: FSB-RbD 'Voice of Small Business' Panel Survey

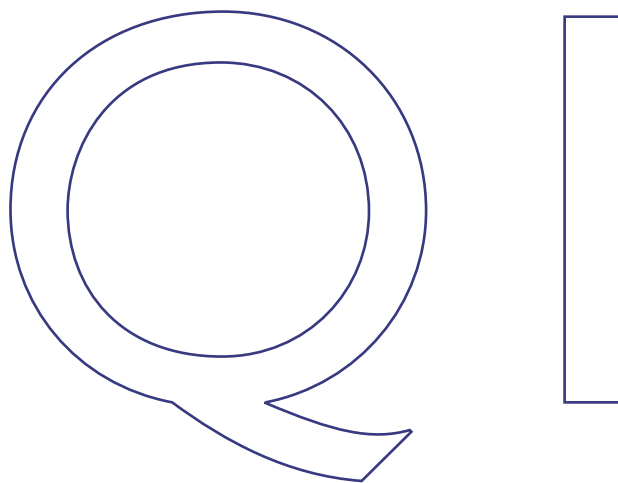
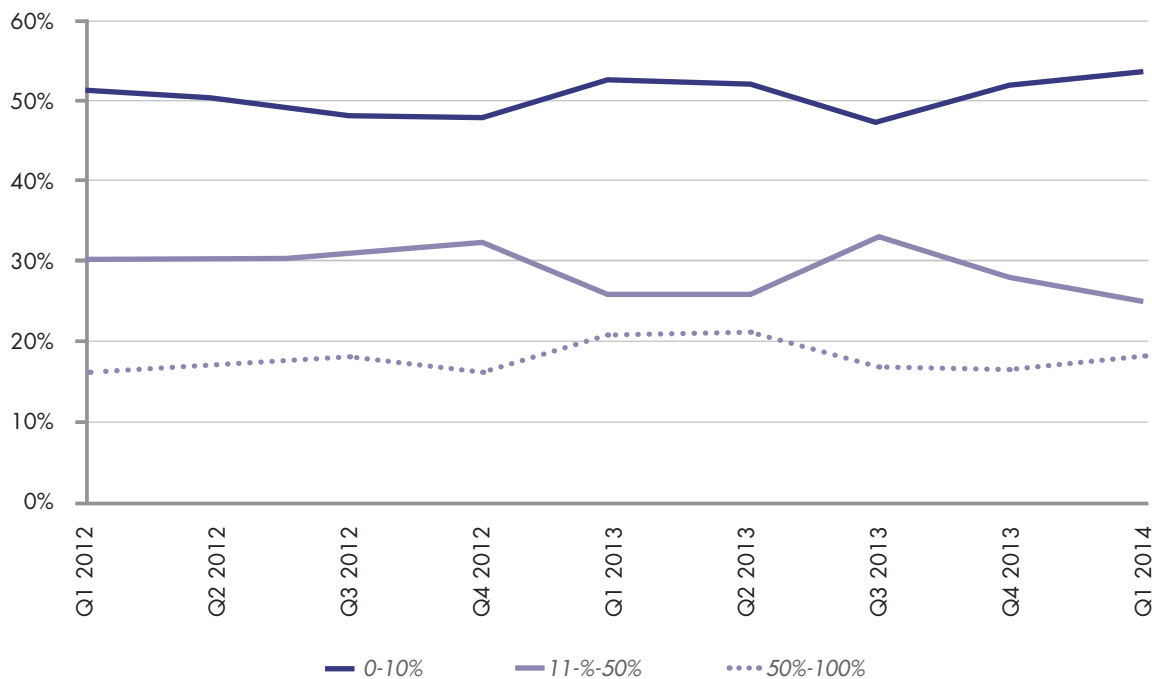


Figure 11:
Exports as a
proportion of revenue



Source: FSB-RbD 'Voice of Small Business' Panel Survey

Costs and inflation

The rising price of utilities remained the main source of cost inflation for over half of small businesses.

Inflationary pressures have eased from 2013

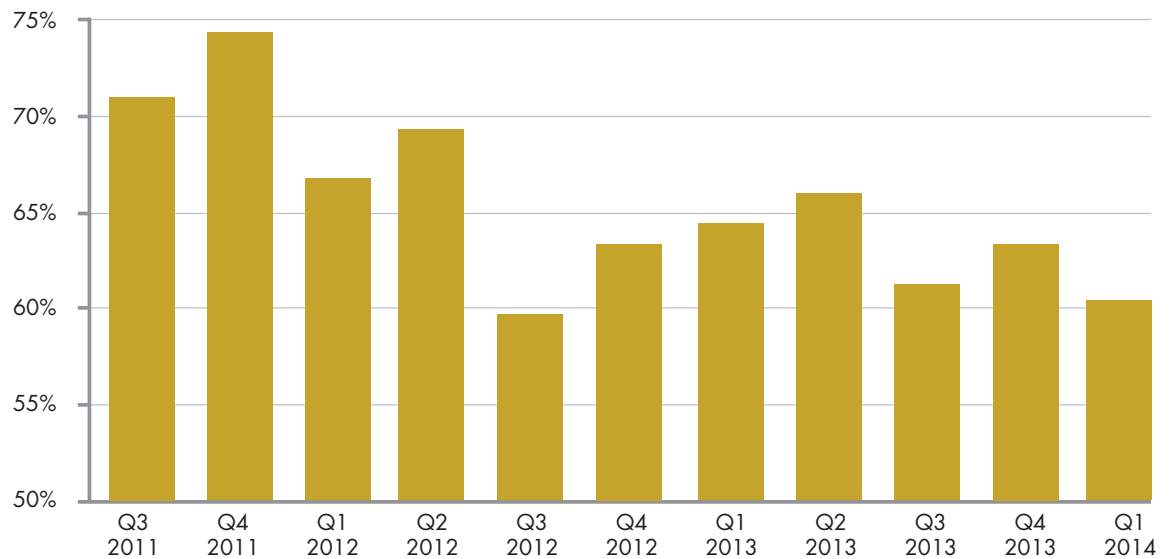
The inflationary environment for small businesses eased at the start of 2014 compared to much of the past year. This quarter, just 60.3% of firms report an increase in their overall cost of operations compared to a year before, down from a recent high of 66.2% in Q2 2013 and an average of 63.8% across 2013 as a whole. Within this headline figure, just 19.2% of firms are reporting a significant increase in costs, the lowest share since 2011.

Inflationary pressures for the UK's small businesses could ease further over the coming 12 months, as global commodity markets are expected to cool. The IMF predicts average oil prices will fall from \$105 per barrel in 2013 as a whole to \$101 across 2014, and reach

just \$95 in 2015. Likewise, the IMF expects non-fuel commodities (such as minerals and agricultural products) to fall back in price over 2014, as demand growth from emerging markets slows. China in particular is expected to see slower economic growth this year, easing the demand for commodities.

These global economic factors are likely to feed through into the picture for UK prices. Consumer Price Inflation is expected by the Bank of England to remain near the 2% target level over the medium term, while annual factory gate price inflation is unlikely to rise much above the 0.9% rate for January 2014.

Figure 12:
Small businesses reporting increase in overall cost of operation; net percentage balance



Source: FSB-RbD 'Voice of Small Business' Panel Survey

Fuel costs drop back as cause for business concern

This quarter, 39.7% of small businesses reported that fuel costs were one of their main causes of operating cost increase, down from 46.9% the previous quarter and the high of 62.3% seen in the final quarter of 2012. These findings come as the latest data from the consumer price index showed petrol and diesel prices fell back by 1.8% in January 2014 compared to a year before.

The rising price of utilities remained the main source of cost inflation for more than half of small businesses (53.8%), the largest share of any other factor. This proportion has stood broadly unchanged for much of the past three years, highlighting the impact rising energy costs have on small businesses.

The cost of rent is rising as a source of cost inflation, as this quarter a fifth of small businesses (20.3%) report this factor as a main cause for overall rising costs. This is up from 15.9% the previous quarter and reflects the

strengthening of the UK economic recovery. The prime rent and yield monitor from property firm CBRE showed 2.6% annual growth in Q3 2013, the latest available data, up from close to zero growth during 2012 and 2011. This factor is likely to increase as a concern over the medium term, as a sustained period of robust economic growth drives up demand for office and retail space.

The exchange rate continues to fall back as a factor driving up overall cost growth, as this quarter just 4% of small businesses reported this as a key source of cost increases. This is down from 7.2% the previous quarter and 10.7% in Q1 2013 and comes as the value of pound sterling continues to appreciate against the US dollar, with rates of \$1.65 per pound seen in February 2014, up from \$1.60 at the start of Q4 2013.

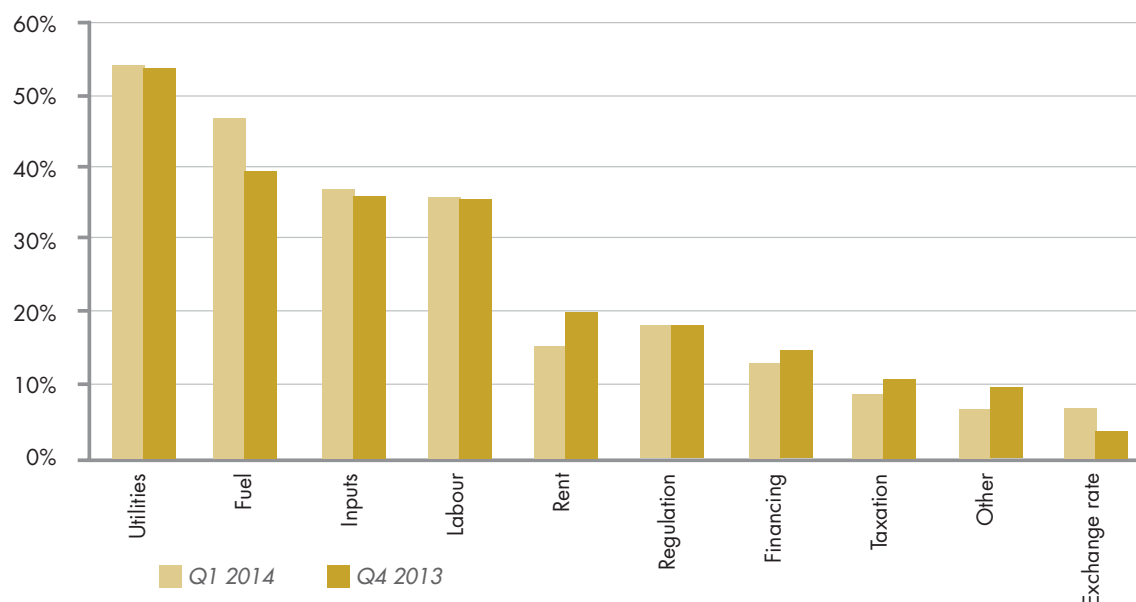


Figure 13:
Main causes for rising business costs – multiple answers possible

Capacity

A balance of 49.6% report running below capacity, remaining broadly unchanged over last two quarters.

Levels of spare capacity remaining broadly stable

This quarter, a net balance of 49.6% of small businesses report running below capacity, remaining at broadly the level seen over the previous two quarters. This suggests that although the recovery for both the general UK economy and for the small business population as a whole is now looking more firmly entrenched, much spare capacity remains. Within the headline figure, just under one in 10 firms (8.5%) report running above their full capacity, while a third (33.3%) are running at capacity. However, 58.1% report having resources to spare.

This trend is projected to continue over the coming three months, with a net balance of 48.7% of businesses expecting to run beneath capacity over the next quarter. Measures of spare capacity will be an important input

into monetary policy over the coming years, as the Bank of England has recently changed its policy of forward guidance away from concentrating solely on unemployment. When this was announced in summer 2013, the Monetary Policy Committee stated that they would consider increasing interest rates once the unemployment rate reached 7%. However, unemployment fell back much faster than had been anticipated and as such, the Bank's new framework for guiding interest rate decisions relies more on measures of the amount of slack in the economy. Although this is a difficult metric to measure precisely, the 'Voice of Small Business' indicator of spare capacity among small UK firms will help to provide insight.

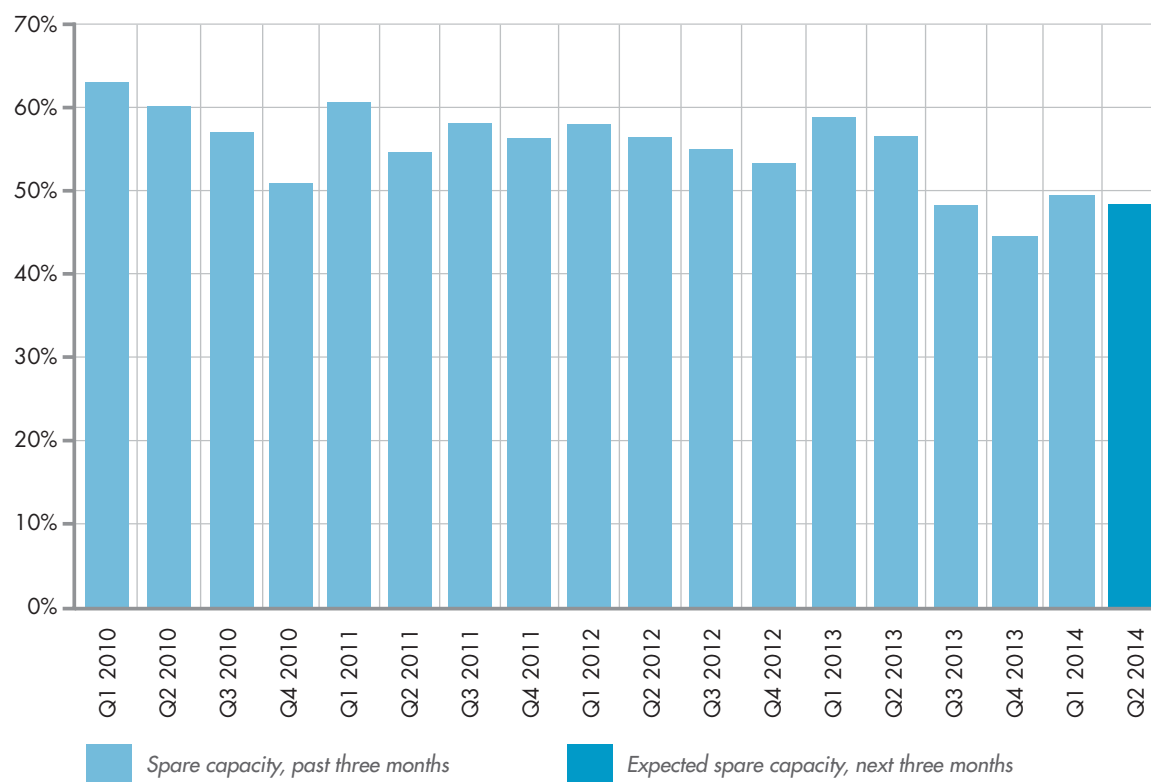


Figure 14:
Net percentage balance of businesses running below capacity – share below capacity less share above capacity

Source: FSB-RbD 'Voice of Small Business' Panel Survey

Employment

A balance of 2.1% of companies report increasing staffing levels over the last three months.

Job creation continues at small firms

Small businesses have been helping to boost total UK employment to record levels, as this quarter, a net balance of 2.1% of firms report increasing their staffing levels over the past quarter. This latest result follows a general improving trend over the past year and compares to a balance of 4.2% of companies reporting a quarterly net reduction in job numbers in Q1 2013. Total UK employment stood at 30.1 million during the three months to December 2013, broadly unchanged from the three months to November and standing at the highest levels ever recorded.

Looking ahead, a larger balance of 7.6% of small firms expect to further increase headcount over the coming three months. If realised, this job creation should help bring down the unemployment rate further from the 7.2% seen during the final quarter of 2013 and back towards the levels of closer to 5% seen before the financial crisis. In addition, these hiring intentions may be one factor keeping the expected level of spare capacity broadly on hold despite the reported increases in turnover.

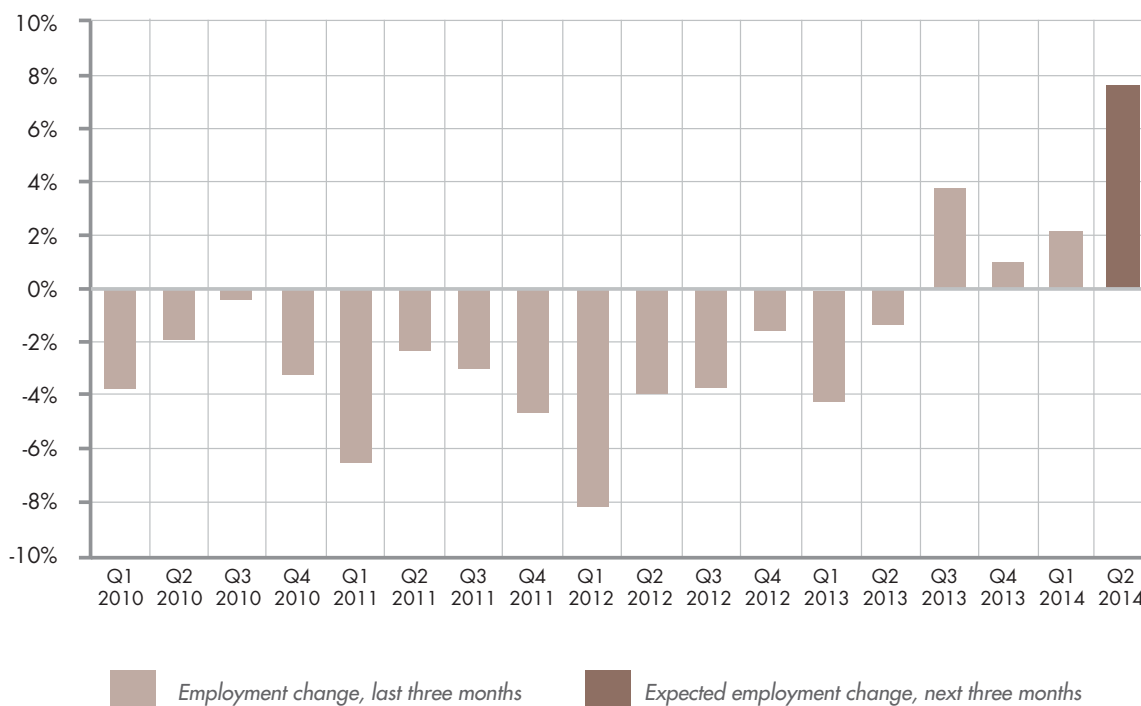


Figure 15: Net percentage balance change in number of people employed – share reporting increase less share reporting decrease

Source: FSB-RbD 'Voice of Small Business' Panel Survey

Growth aspirations and challenges

More than six in 10 firms report
growth aspirations in 2014.

Aspirations continue to rise in 2014

A further encouraging trend emerging among small businesses comes as the latest figures show that growth aspirations are rising ever higher. This quarter, more than six in 10 (62.2%) firms reported aspirations of growing either moderately or rapidly over the next 12 months. This proportion is the highest since the series began in 2012 and is up from both 56.6% the previous quarter and from just 54.3% in Q1 2013.

Similarly, the proportion of companies planning to downsize, close or hand on their businesses in the next year stands this quarter at just 7.7%, well down from the 10.9% seen in the same quarter a year before. The UK Insolvency Service's latest figures showed that the total number of company liquidations in England and Wales in 2013 fell to 15,000, down from 16,100 in 2012 and 16,900 in 2013, corroborating the 'Voice of Small Business' findings.

These results are a further indication of the strength of the UK economy's prospects for 2014. Although consumer spending increases accounted for most of the recovery in 2013, consumer price inflation outpaced average wage increases, eroding workers' real spending power. As a result, expenditure increases in real terms were financed by reductions in saving and credit growth – a trend that cannot continue indefinitely. For a more sustainable UK growth path, businesses will need to invest in production facilities and expand overseas. As such, rising aspirations among small businesses are good news for the overall economy.

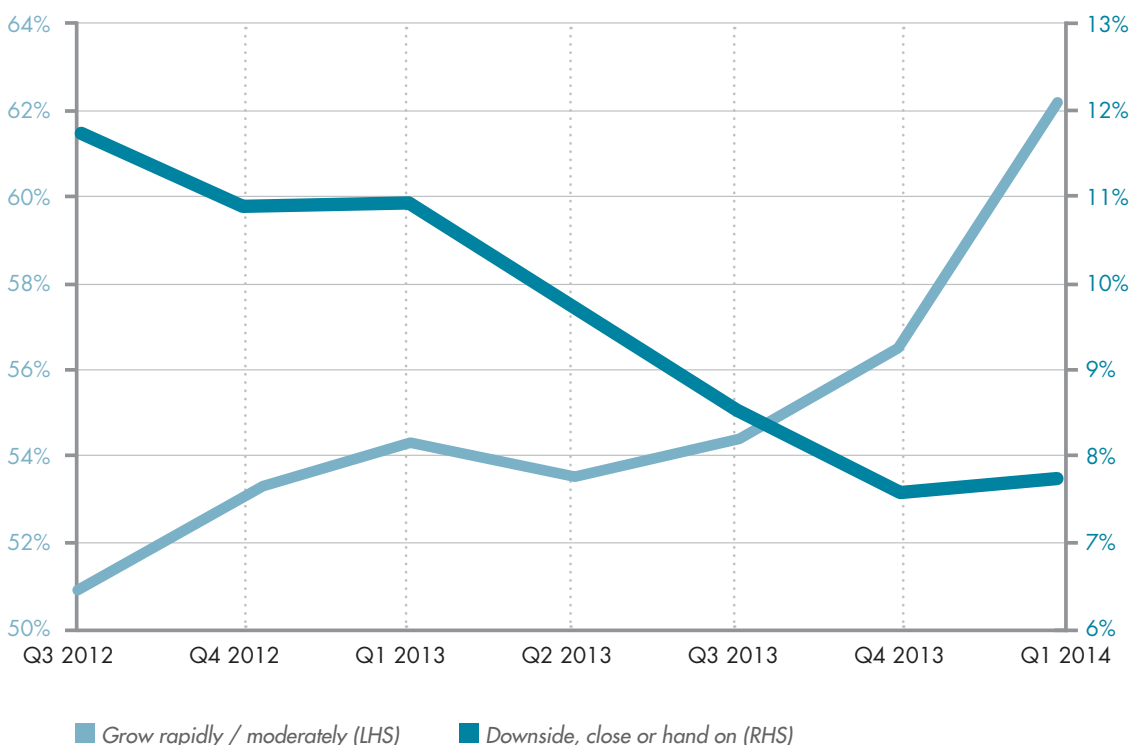


Figure 16:
Growth aspirations for next 12 months

Source: FSB-RbD 'Voice of Small Business' Panel Survey

Economic constraints becoming less of a concern

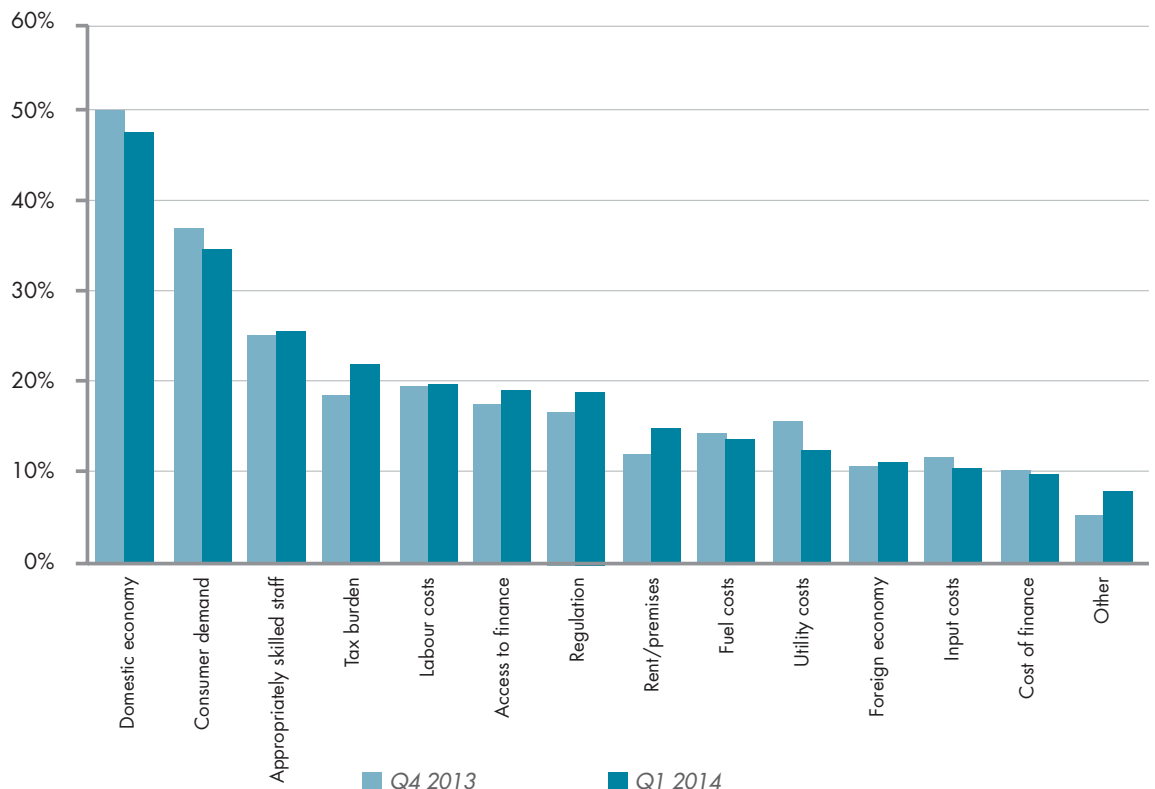
There are signs that alongside some continued economic expansion, small firms are finding some aspects of the business environment are acting as less of a barrier to growth. This quarter, 47.6% of companies reported that general economic conditions in the UK are preventing them from achieving their growth aspirations, down from 50.2% the previous quarter and 65.5% in Q1 2013. Likewise, the share of firms reporting consumer demand is a barrier to growth has fallen to just over one in three (34.5%) this quarter, down from 37.2% last quarter and 39.6% a year before. With growth expected to remain robust over 2014, these proportions are likely to fall further this year.

The availability of staff with the appropriate skills is the next greatest concern behind these economic factors, as one in four firms (25.4%) report this factor as a possible barrier to achieving their growth aspirations. With the UK unemployment rate now coming down from the

highs seen since the financial crisis, skills shortages are starting to emerge – a trend that is likely to continue as the unemployment rates fall back further.

As economic factors become less of a growth constraint on small businesses, attention is starting to turn to both the regulatory and taxation environments. This quarter, 21.9% of firms report their tax burden as a barrier to growth, up from 18.6% last quarter and 19.6% a year ago. Although the Government has introduced some measures to reduce tax burdens, including the national insurance contributions holiday for new small businesses in selected regions (to be replaced with a straight £2,000 employers NICs cut for all firms in April 2014) and a lowering of the main corporation tax rate, these latest findings suggest that further measures may be needed to allow business to continue expanding and supporting recovery, both in terms of tax compliance and tax burdens.

Figure 17:
Possible barriers to achieving growth aspirations – multiple answers possible



Source: FSB-RbD 'Voice of Small Business' Panel Survey

Investment

26.6% of companies plan to increase capital investments over the next 12 months.

Investment intentions rise ever higher

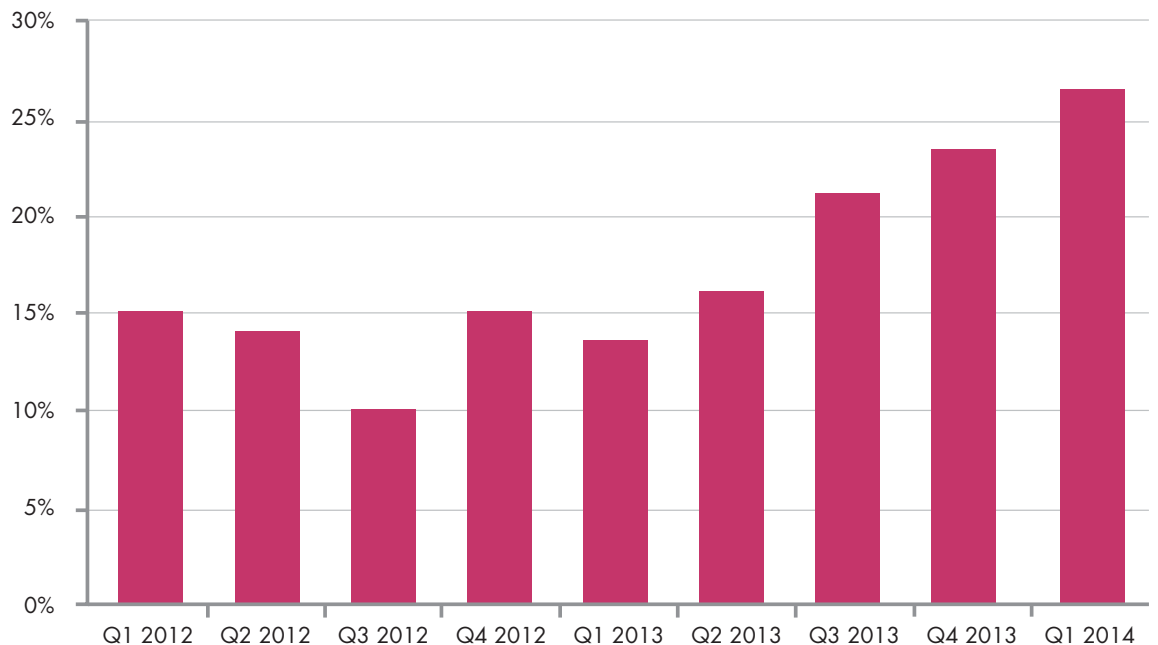
In line with rising aspirations for expansion among small businesses, the share of firms planning to increase their capital investment is on the up. This quarter, a net balance of more than a quarter (26.6%) of firms plan to increase their capital investment over the next 12 months. This is the largest share since Q1 2012 and compares to 23.2% last quarter and just 13% at the same point a year ago.

Within the headline figure there are further positive findings, as 15.5% of small firms are planning significant

increases in capital investment (of more than 5%) for the next year – a share that has also been on a general upward trend. At the other end of the scale, just 4.7% of businesses anticipate a significant reduction in capital investment, the lowest share on record.

The continued upward path of investment intentions is further good news for the sustainability of the UK's growth path, as faster investment growth will help to rebalance economic expansion away from relying on domestic consumer demand.

Figure 18:
Net percentage balance in anticipated capital investment growth over next 12 months – share reporting increase less share reporting decrease



Source: FSB-RbD 'Voice of Small Business' Panel Survey

Method

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This report is based on the February 2014 FSB ‘Voice of Small Business’ Panel survey of FSB members carried out by Research by Design. All panel members (7,909) were invited to take part in an online survey. Reminders were sent to all non-respondents. 2,814 responses were received, a response rate of 36%. The data is weighted by regional gross value added to match the profile of small businesses across the UK and this accounts for the slight variation in results from the FSB ‘Voice of Small Business’ panel surveys. The survey was undertaken between 28 January and 6 February 2014.

Summary data table

	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
SBI	1.3	4.5	5.6	6.3	+15.9	+33.5	+21.6	+35.7
Employment - previous three months	-3.9%	-3.7%	-1.5%	-4.2%	-1.4%	3.7%	1%	2.1%
Employment - coming three months	0.8%	-0.4%	0%	0.8%	+4.8%	5.8%	3.1%	7.6%
Revenue - previous three months	-2.2%	-6.5%	-3.5%	-7.2%	-0.4%	12.8%	18.8%	13.1%
Revenue - coming three months	2.8%	-4.4%	-3.4%	5.7%	11.3%	20.1%	16.2%	26.5%
Investment intentions – coming 12 months	14.3%	9.9%	15.1%	13%	15.8%	21.1%	23.2%	26.6%
Credit availability – rated good or very good	7.7%	6.9%	8%	9%	9.7%	12.4%	12.7%	13.5%
Credit availability – rated poor or very poor	72.8%	74.7%	68.2%	71.1%	67.5%	65.9%	58.3%	58.5%
Credit affordability – rated good or very good	12%	10.9%	14.4%	13.8%	14.1%	19%	18.1%	19.2%
Credit affordability – rated poor or very poor	61.5%	61.9%	58.5%	59.7%	54.8%	55%	50.7%	49.8%

The SBI 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.



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