

# SCOTLAND Q1 2020 SMALL BUSINESS INDEX

**Scottish Small Business confidence crashes amid coronavirus shutdown.** In the first quarter of 2020, the FSB Scottish Small Business Index (SBI) fell by 127.6 points to -154.8. This, perhaps unsurprisingly, was the largest quarterly fall in the confidence barometer ever recorded and brings sentiment among Scottish businesses to the lowest level since the index was established in 2012.

Besides the headline confidence index, record lows were also reached on several other key measures of small business performance.

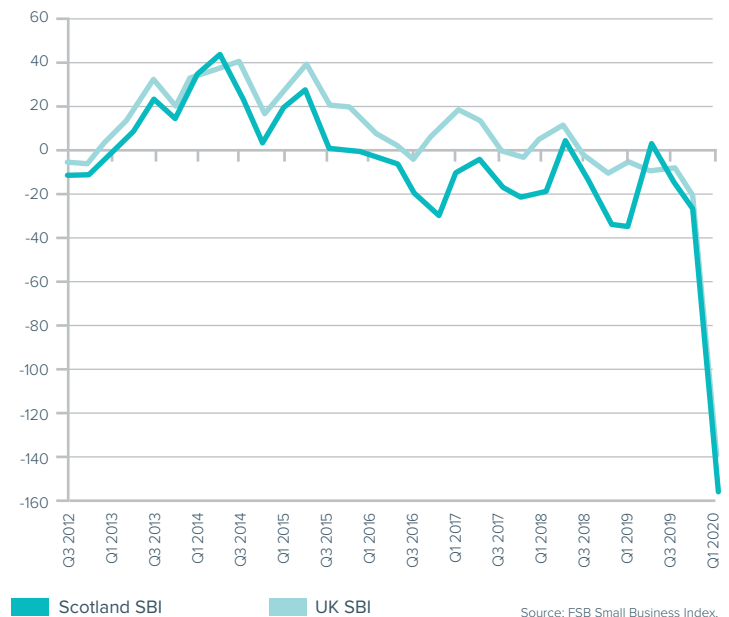
**Small business confidence fell by record levels in every one of the UK's regions and nations during Q1 2020.** This meant that, across the UK as a whole, the small business confidence index fell by 121.8 points in Q1 to stand at -143.4. During the first quarter of 2020, the only part of the UK where small businesses were less confident than Scotland was in London, where the index fell by 120.0 points to -156.4. Before Q1 2020, the worst UK-wide reading on the SBI was -24.5, highlighting the scale of the difficulty facing the economy in the weeks and months ahead. The current crisis is different from previous recessions as new restrictions were implemented rapidly and, within just a few weeks, much of the economy had been deliberately shut down for an indeterminate period.

**The coronavirus outbreak was held responsible for a "significant" reduction in confidence by almost three-quarters of Scottish small businesses.** Overall, 85.7% of businesses in Scotland felt that the coronavirus was directly responsible for a loss of confidence, and 73.8% of businesses believed the loss of confidence was significant. On the contrary, just 4.5% of businesses saw an improvement in their confidence. These may well be the type of businesses for whom the huge increase in the number of people working from home has presented new opportunities.

**Small businesses in Scotland reported weaker revenues over the past three months but expect much worse to come.** As was inevitable, the measures to contain the virus have affected sales across a number of industries, with a large proportion of Scottish small businesses already seeing revenues take a hit in Q1. In total 60.8% of businesses recorded falling revenues in Q1, compared to 20.1% recording a rise. The resulting net balance of -40.7% is a record low for the FSB index.

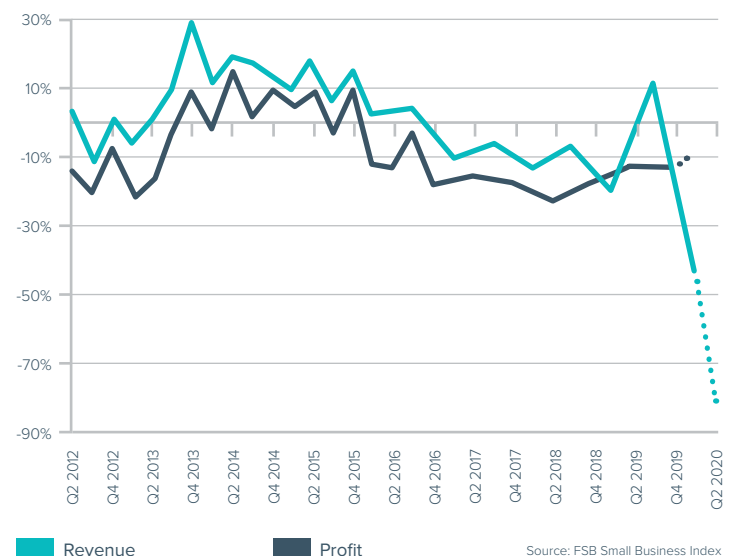
With the lockdown only taking effect right at the end of the quarter, the issue of falling revenues only looks set to worsen as the crisis continues into Q2, with no end date set for easing the restrictions. With nine in ten (88.4%) of firms expecting sales to decline, compared to just 6.0% of businesses expecting their revenues to grow, the net balance for revenues expectations in Q2 2020 is down to -82.4%. This is a fall of 81.8 percentage points, down from a net positive balance of 0.6% recorded the last time this question was asked, in Q3 2019.

**Small Business Confidence**



Source: FSB Small Business Index.

**Net balance of small firms in Scotland reporting revenue/profit growth**



Source: FSB Small Business Index

**Scottish small business employment looks set to fall sharply in Q2.**

The small business employment net balance fell by 3.4 percentage points over the first quarter of 2020 to stand at 7.4%.

Looking ahead, cutting staff costs has risen up the agenda for small businesses as many will struggle with cashflow due to the widespread drop in demand. Nearly three-in-ten businesses (29.7%) now anticipate reducing their employment in the coming months, compared to just 2.5% that expect staff numbers to increase. This leaves the net balance at -27.2%, which is the lowest level on record by some margin.

**Utilities rise to the top of businesses cost concerns in Scotland.**

In Q1 2020, the net balance of small businesses in Scotland that saw costs rise over the last three months fell by 9.2 percentage points to 50.8%. This was above the average for the UK as a whole (49.2%). The Scottish costs net balance was down by 20.9 percentage points year-on-year from 71.7% in Q1 2019.

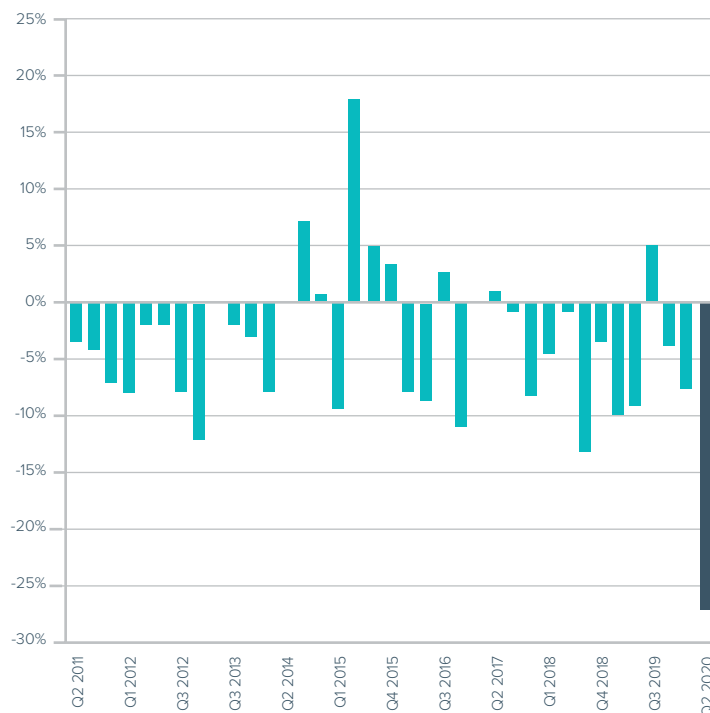
42.4% of businesses reported the cost of utilities as a source of cost pressures in Q1 2020. This was an increase of 2.6 percentage points on Q4 2019 and made utilities the most important cost driver for Scottish small businesses. Meanwhile, the proportion of businesses reporting inputs as a cause for concern rose by 10.4 percentage points between Q4 2019 and Q1 2020 to stand at 37.6%. The value of the pound fell as the coronavirus outbreak reached pandemic status and investors sought out safe haven assets. This may have been a factor in pushing up the cost of inputs as import prices rose.

**Scottish businesses believe they have more spare capacity than the average UK small business.**

Over the next three months, a net balance of 89.8% of Scottish businesses expect to operate with some spare capacity, compared to 81.0% of businesses on average across the UK. The response to the coronavirus has forced the closure of a wide range of businesses and kept potential customers away from many of those that remain open as they follow advice and stay in their homes.

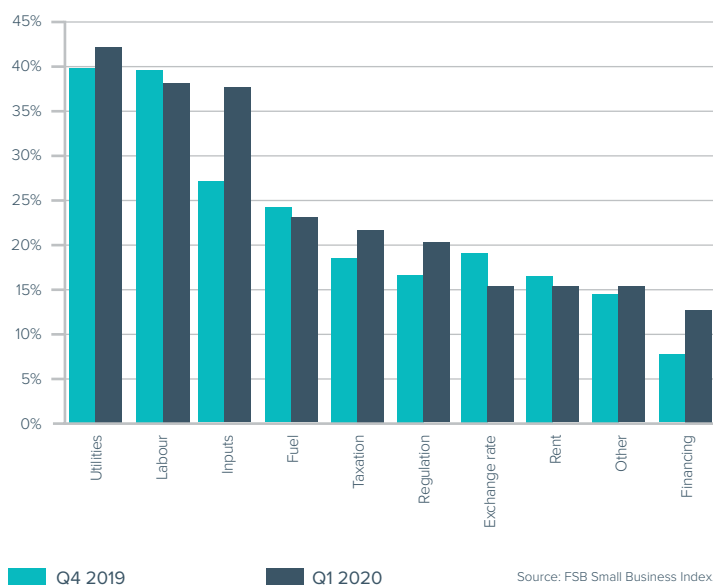
For the majority of businesses this means a loss of demand while the outbreak is brought under control, in some cases even reducing the output of successful businesses to effectively zero. If the restrictions can be lifted soon and the government schemes announced to support businesses can be implemented effectively, then some of these impacts might be reversed in the second half of the year. However, the longer the shutdown lasts, the more expensive this crisis will become for businesses, increasing the risk that many small firms will be forced to downsize or close permanently.

**Net balance of firms reporting employment growth, Scotland**



Source: FSB Small Business Index

**Share of firms reporting factor as main cause of change in business cost, Scotland**



Source: FSB Small Business Index.

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