

Rising costs and falling revenues sees small business confidence plunge, survey finds

Confidence among small business entrepreneurs has plunged to new lows as “headwinds against them right now are gale-force”, latest survey figures from the Federation of Small Business reveal.

According to the latest Small Business Index (SBI), cost pressures, falling revenues and a growing reliance on debt to prop up cashflows are causing the greatest level of pessimism among small business owners outside of lockdowns.

Among the gloomy findings, the UK headline small business confidence measure had plummeted to -35.9 in Q3 2022, down 11.2 points compared to the previous quarter.

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Almost half of survey respondents (43%) reported falling revenues over the three months to October, compared to less than a third (32%) reporting an increase. Over the coming three months, four in ten (41%) expect revenues to decrease.

Rising costs continued to affect the vast majority of small firms (89%), with nearly two in five (38%) seeing costs increase by more than 10%. The primary cost factors were utilities (60%), fuel (57%), inputs (48%), and labour (43%).

More than two thirds (68%) of small business employers have increased wages over the last year, with the average wage increase 4.5%.

For the third consecutive quarter there has been a rise in the number applying for finance – 13% in Q3, compared to 9% in Q1.

Of those, nearly half (46%) have turned to finance to help manage cashflow, up from 35% in Q2. Only a quarter (25%) applied for finance to expand their business, down from 29% the previous quarter.

One in five (20%) finance applicants failed to find an offer with an interest rate below 11%, while the majority of successful applicants (57%) were offered rates between five and 10%.

FSB national chair Martin McTague said: “Small business entrepreneurs are, by their nature, an optimistic, dynamic and innovative bunch, which is why it is all-the-more stark to see this plunge in confidence. They want to be driving growth and economic recovery, but the headwinds against them right now are gale-force.

“Recent political and economic turmoil hasn’t helped, which is why it is vital the UK Government focuses on stability, including delivering on its promises to help with energy bills for small firms and to reverse the hike in National Insurance. That money must be in the pockets of small firms by next month, no ifs, no buts, followed by clarity on what will happen after the initial six-month period.

“While the new Chancellor has focused in his first days on reassuring markets to bring economic stability, he will need to turn again later to pro-growth measures, including revisiting issues such as IR35 changes and the decision to raise the equivalent of National Insurance for hard-working entrepreneurs who are paid via dividends. Raising taxes now will not generate growth, and we risk seeing high taxes with low or no growth for the foreseeable future.”

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FSB is also urging ministers to tackle a systemic problem in the economy on late payments, which would not require expenditure at a time of focus on public finances.

More than half (54%) of small businesses had their cashflow woes in Q3 compounded by the late payment of invoices, often by bigger business customers. More than a quarter (27%) said late payments are becoming an increasing problem, up from 22% in Q2.

Business-to-business firms were the biggest victims, with the worst affected including those in the manufacturing sector (67%), professional, scientific and technical activities (65%), and construction (64%).

Wales policy chair Ben Francis said: "Late payment is a constant struggle for many businesses and is even more pronounced at a time of economic challenge where cashflow is key to survival. Audit committees of big corporates must be made accountable for payment practices. Meanwhile, UK ministers must double-down on blacklisting big businesses which treat their smaller suppliers and contractors badly from landing lucrative taxpayer-funded contracts. This is a way of promoting growth without a price tag for the Exchequer."

He added: "Welsh Government ministers also need to play their

own part in redoubling efforts to ensure not only that Welsh firms benefit from a greater proportion of public sector contracts but that public authorities set the standard for prompt payment. Local supply and delivery should be at the heart of any strategy for driving up economic growth in Wales and growing smaller businesses and creating opportunities for employment.

“We look to Welsh Government now to outline their own proposals for supporting Welsh businesses and re-state our call for the reintroduction of 100% business rates holiday for businesses in retail, hospitality and tourism – sectors particularly hit by low consumer spending”.

“Today’s worrying inflation figures underscore the massive pressures on business owners and their customers and the need for UK and Welsh Governments to act in concert to ensure business and jobs in Wales are protected to put us in the position for future growth could not be clearer”.

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