Xero Small Business Index United Kingdom Update
July - September 2023
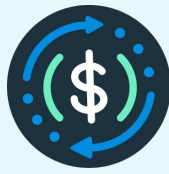
Jobs remain positive in challenging economy

The latest Xero Small Business Insights data for the UK shows that sales growth returned to its slowing trend in the three months to September, after a short-lived uptick in June. Payment times also rose in the past three months, with the late payment measure at three year highs in September. The jobs result was more positive and jobs have now recorded four months of gains.

Overall conditions for small businesses in the UK worsened slightly over the three months to September. The Xero Small Business Index was at 85 points in September - the lowest Index reading so far in 2023 and below the first half of the year average of 93 points.

There is a pattern emerging in the two payment time measures. Payments were made, on average, 7.7 days late in September and 7.1 days late in the three months to September. This is 0.7 days longer than the average in the first half of 2023 (6.4 days). Similarly, time to be paid was 29.7 days in September and an average of 29.4 days in the three months to September. This quarterly average is 0.5 days longer than the half of 2023.

Sales growth was also soft, rising just 1.1% year-on-year (y/y) in September and averaging only 2.1% y/y in the three months to September. This comes after an 8.9% y/y rise in June, which had given some hope that this measure might be starting to improve in last quarter's data release. The latest three months of results are well below the pre-COVID (Jan 2017 to Dec 2019) average of 9.2% y/y for this series.

Wage growth also slowed over this three month period. Wages rose 2.9% y/y in September and averaged 3.5% y/y in the three months to September, compared to 4.2% y/y in the first half of 2023.

The main piece of good news in this latest data is that jobs continue to grow, following an extended period of declines. Jobs grew 0.9% y/y in September and 0.8% y/y in the three months to September. This is the best three-month result since the first three months of 2022.

This data highlights that small business owners continue to face a number of headwinds. Using the CPI as a proxy for prices, small businesses, in aggregate, have been selling fewer goods and services than a year ago for six of the past seven months.[1] This is a timely reminder about the importance of shopping with local small businesses to support their sales. In addition, the increase in payment times is a reminder for small business owners to work with their advisers on how to make it as easy as possible for customers to pay them, such as providing online payment methods on invoices.

[1] The XSBI series is a nominal series, reflecting movements in both prices and sales. We can convert this sales measure to a real or volumes basis using the CPI as a proxy for prices to reflect changes in the actual number of goods and services sold.

United Kingdom Small Business Index

Index, average = 100, standard deviation = 15
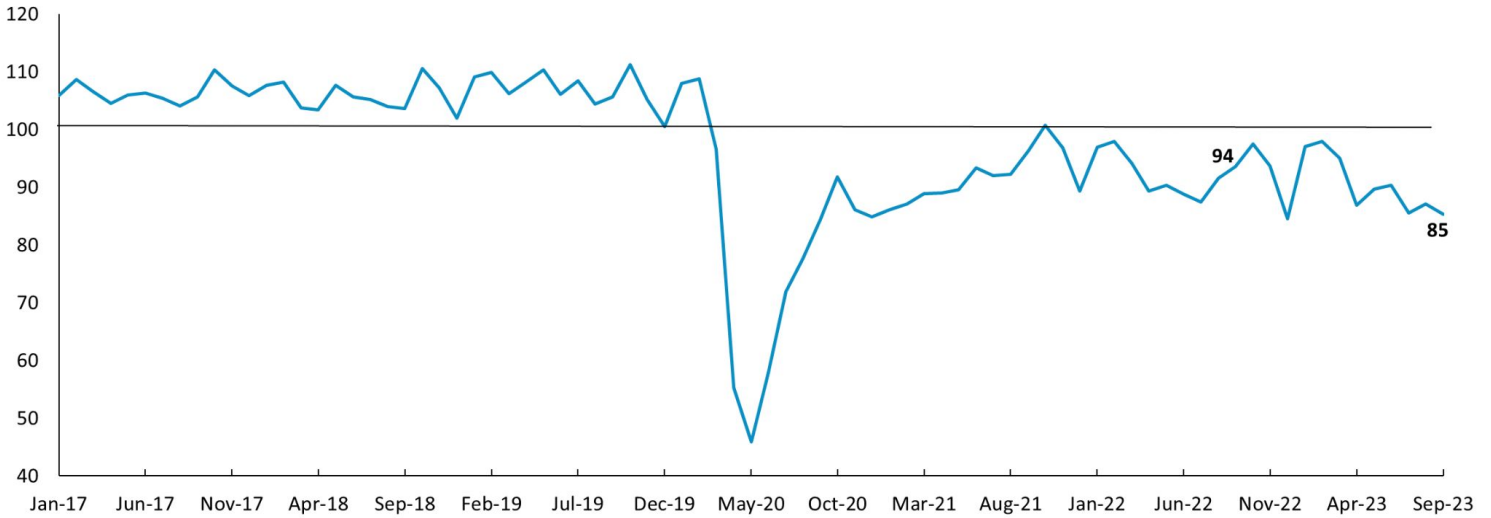
Payment times showing upward trend

Payment times have been gradually rising over 2023. While only a slight rise at this stage, this trend is in contrast to the long-term trend of shorter payment times that this series has had since it began in 2017. We will need more months of data to understand if this is a firm trend.

Small business **waited to be paid** an average of 29.4 days in the three months to September, which is 0.5 days longer than the average for the first half of 2023.

The increase is even greater in the **late payment time** measure. On average payments were made 7.1 days late in the three months to September, which is 0.7 days longer than the average for the first half of 2023. The monthly September result (7.7 days) is a three year high.

When small businesses are paid late, it makes it difficult for them to pay their own bills and manage their cash flow. It's also hard to plan for investment in new hires or equipment.

There is considerable variation in late payments across industries. Two of the fastest paying sectors are construction and retail trade. However, these two industries have seen the largest increase in late payment times so far in 2023. Construction small businesses were paid an average of 6.6 days late in the three months to September - a full day longer than in the first half of the year. These numbers were 4.5 days and 1.4 days respectively for small retailers. This most likely reflects the disproportionate impact that tight monetary policy is having on these two interest-rate sensitive industries.

Small businesses in manufacturing were paid the most late in the three months to September - at an average of 10.1 days.
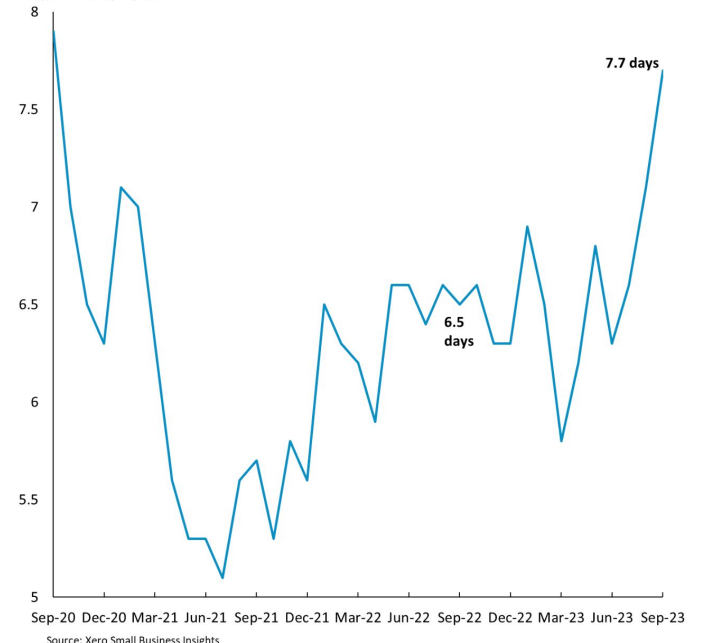
Time to be paid
Days, seasonally adjusted
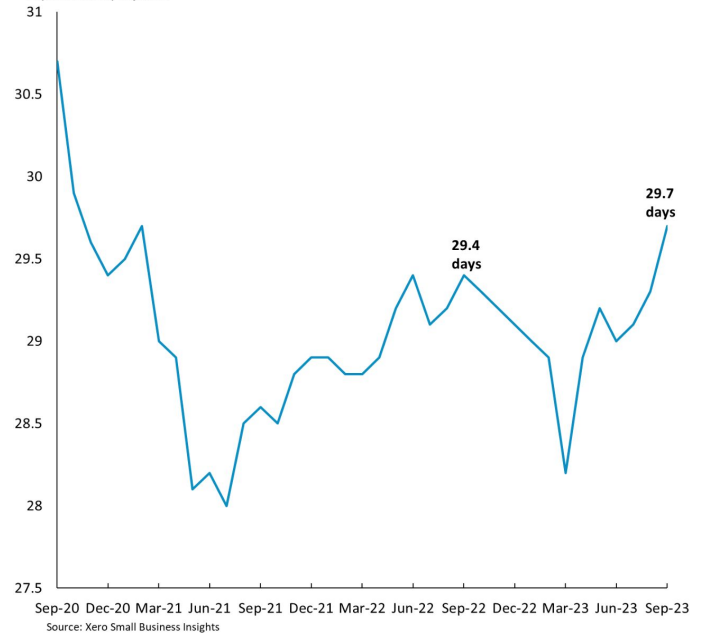
Average late payments
Days, seasonally adjusted

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Sales growth returns to slowing trend

The combination of persistent inflation and ongoing high interest rates are hitting household budgets and not leaving much room for extra spending in small businesses. Sales rose just 1.1% y/y in September and 2.1% y/y in the three months to September, down from an average of 7.3% y/y in the first half of 2023.

The return to soft sales growth, after a solid June result, is disappointing but not unexpected, given similar patterns in the UK's monthly GDP series. GDP rose 0.9% y/y in June but then recorded 0.3% y/y in July and 0.5% y/y in August.

We recently added two industries to the XSBI program - arts & recreation and education & training. Unfortunately, the latter's sensitivity to interest rates means it is one of the weakest industries currently. Sales actually fell 0.2% y/y in the three months to September, after rising 8.6% y/y in the first half of the year. For similar reasons, retailers had the largest decline in sales, down 2.4% y/y in the three months to September. In contrast, education & training was the second best performer over this period (+6.0% y/y), just behind health care (+6.9% y/y).

We have also added two regions to XSBI - North East England and Wales. These regions recorded the smallest rises in sales in the three months to September - Wales grew just 0.3% y/y and North East England just 1.0% y/y.

Compared to other countries tracked by XSBI, the UK's sales growth is the second strongest behind Australia. This comparison is covered in more detail in the Global report.
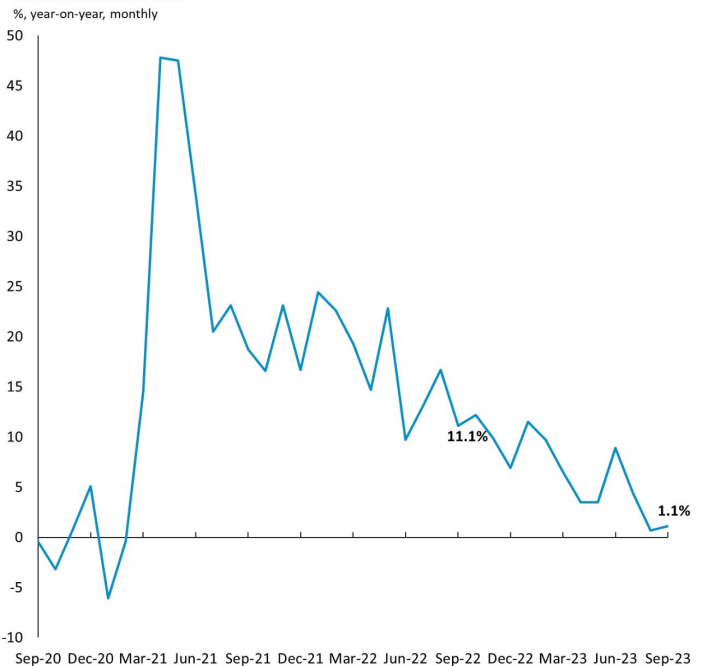
Real wages still falling

An ongoing negative influence on sales is that real wages continue to fall - with prices rising faster than wages. Wages rose just 2.9% y/y in September and 3.5% y/y in the three months to September. These are both slower than the 4.2% y/y rise recorded in the first half of the year.
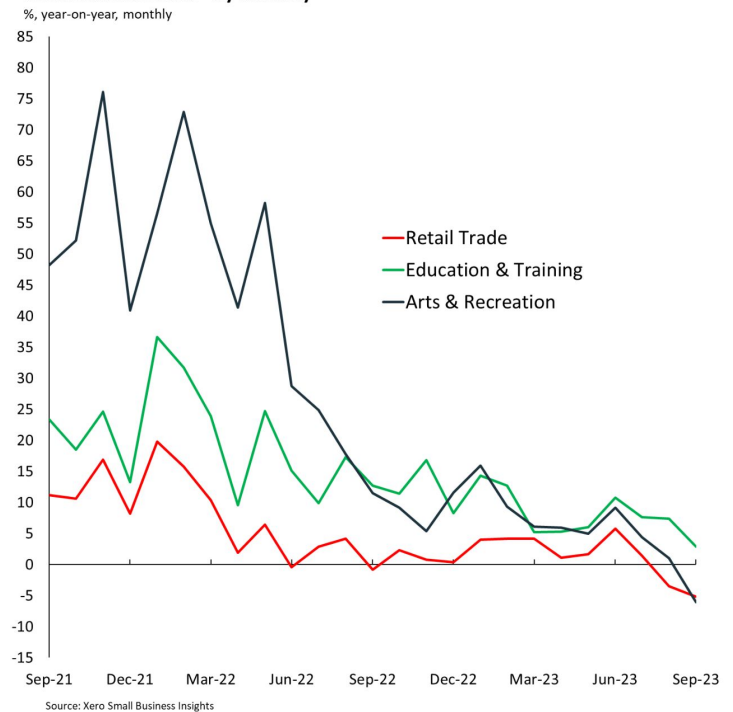
Across industries, in the three months to September, hospitality (+4.3% y/y), information, media and telecommunications (+4.1% y/y) and other services (+4.1% y/y) continued to lead wages growth. Construction (+2.6% y/y) and administrative services (+2.6% y/y) both had the smallest wage gains over the same time period.

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Small business sales
% , year-on-year, monthly

Source: Xero Small Business Insights

Small business sales - by industry
%, year-on-year, monthly

— Retail Trade
— Education & Training
— Arts & Recreation

Source: Xero Small Business Insights

Employee hourly earnings
%, year-on-year, monthly

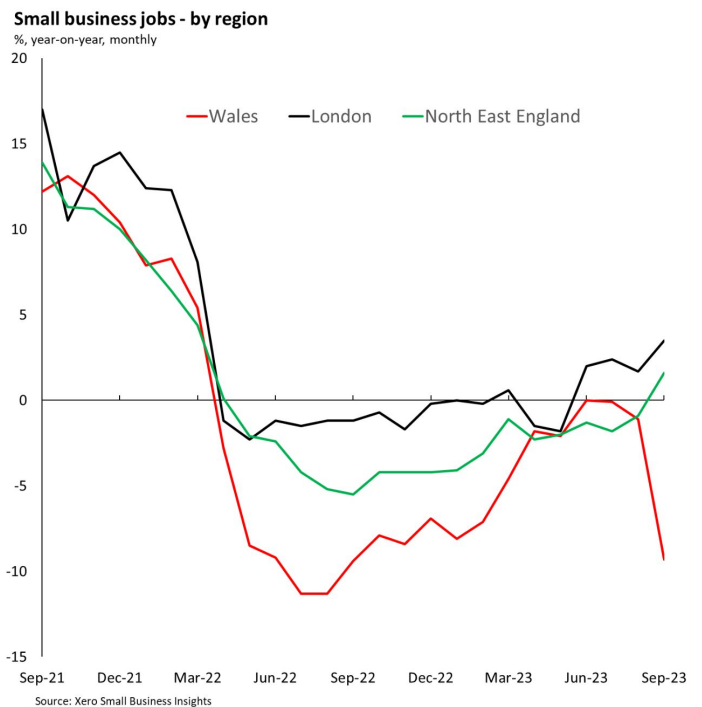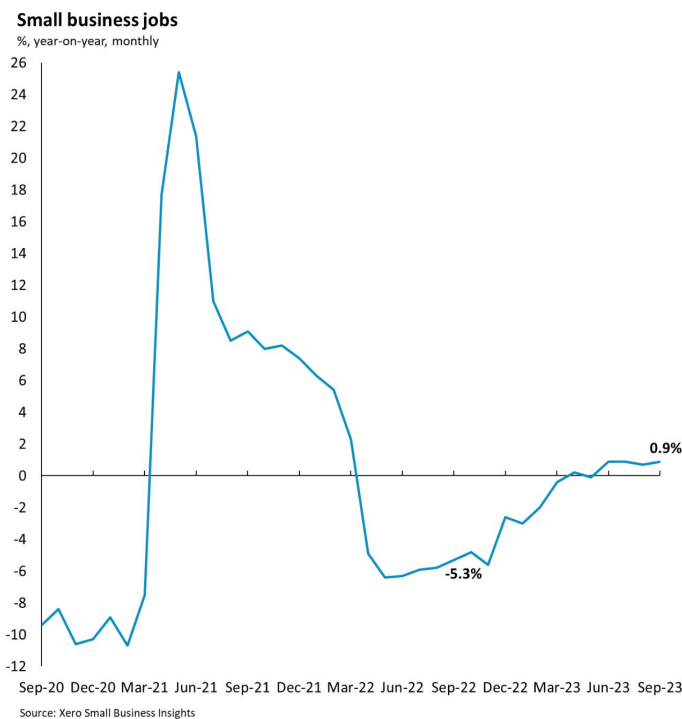
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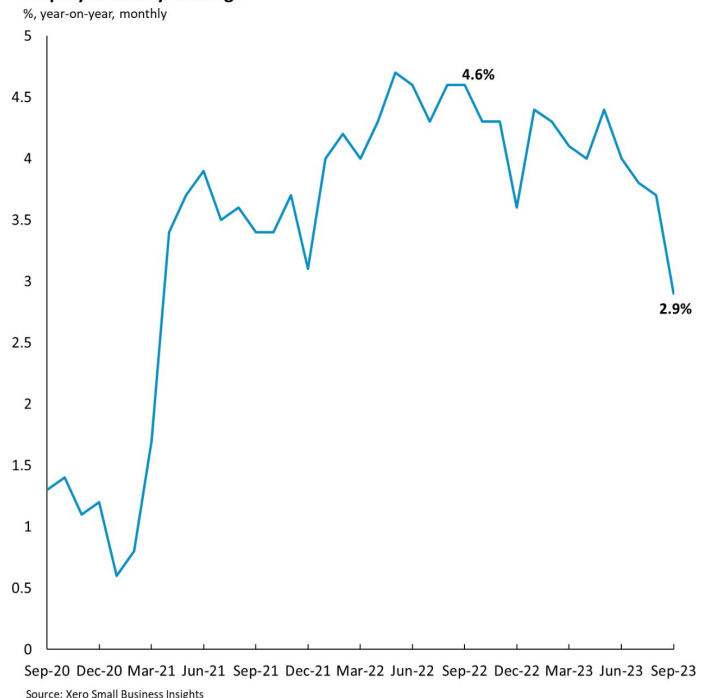
Jobs record four months of growth

On a more positive note, the recovery in jobs, albeit slow, should offer some support for future sales growth as more people become employed in small businesses.

Small business jobs rose 0.9% y/y in September and 0.8% y/y in the three months to September. This is a turnaround from the 0.7% y/y fall in jobs in the first six months of 2023.

Over the three months to September, by far the strongest industry was information, media and telecommunications (+5.6% y/y). The two newly added industries had the largest declines in jobs in the three months to September - education & training down 4.4% y/y and arts & recreation down 4.5% y/y.

Across the regions, the strongest areas for the three months to September were North West England (+3.7% y/y) and London (+2.5% y/y). Despite the recent improvement in jobs, there are still regions that have fewer jobs than a year ago, led by Wales (-3.5% y/y), East Midlands (-1.9% y/y) and East of England (-1.5% y/y).

Small business jobs
%, year-on-year, monthly

Source: Xero Small Business Insights

Small business jobs - by region
%, year-on-year, monthly

Source: Xero Small Business Insights

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Additional details about Xero Small Business Insights

About Xero
Xero is a global small business platform with 3.7 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also has an extensive ecosystem of connected apps and connections to banks and other financial institutions helping small businesses access a range of solutions from within Xero's open platform to help them run their business and manage their finances. For four consecutive years (2020-2023) Xero was included in the Bloomberg Gender-Equality Index. In 2021 and 2022, Xero was included in the Dow Jones Sustainability Index (DJSI), powered by the S&P Global Corporate Sustainability Assessment. Xero is a FIFA Women's Football partner.

About Xero Small Business Insights
The aim of Xero Small Business Insights is to create insights to help inform decision makers in support of the small business economy as a whole. The principal source of small business insights in this report is customer data from Xero - a small business platform that supports online accounting and a range of other applications. Xero is a responsible custodian of our customers sensitive data and does not release any data that could identify individual businesses. The data used is aggregated and anonymised to ensure the privacy of Xero subscribers, and their counterparts.

As part of the program, we publish regular blogs and research notes and deep-dive Special Reports on specific small business topics. These can all be found at xero.com/xerosbi.

Methodology
Full details of the methodology used to construct the Xero Small Business Index can be found **here.**

Annual review impacts
Since the July data release we have undertaken the annual review of XSBI data. This involves (a) re-weighting the data against the latest business data from the national statistics office (b) reviewing the industry and regional data to ensure we have sufficient sample sizes to publish. This review process can result in some revisions to previously published data and the inclusion/exclusion of regions and industries.

Disclaimer
This report was prepared using Xero Small Business Insights data and publicly available data for the purpose of informing and developing policies to support small businesses.

This report includes and is in parts based on assumptions or estimates. It contains general information only and should not be taken as taxation, financial, investment or legal advice. Xero recommends that readers always obtain specific and detailed professional advice about any business decision.

The insights in this report were created from the data that was available as at the date it was extracted. Data used was anonymised and aggregated to ensure individual businesses can not be identified.

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