

Xero Small Business Index

United Kingdom Monthly Update

January 2023



Index rebounds but remains below 100

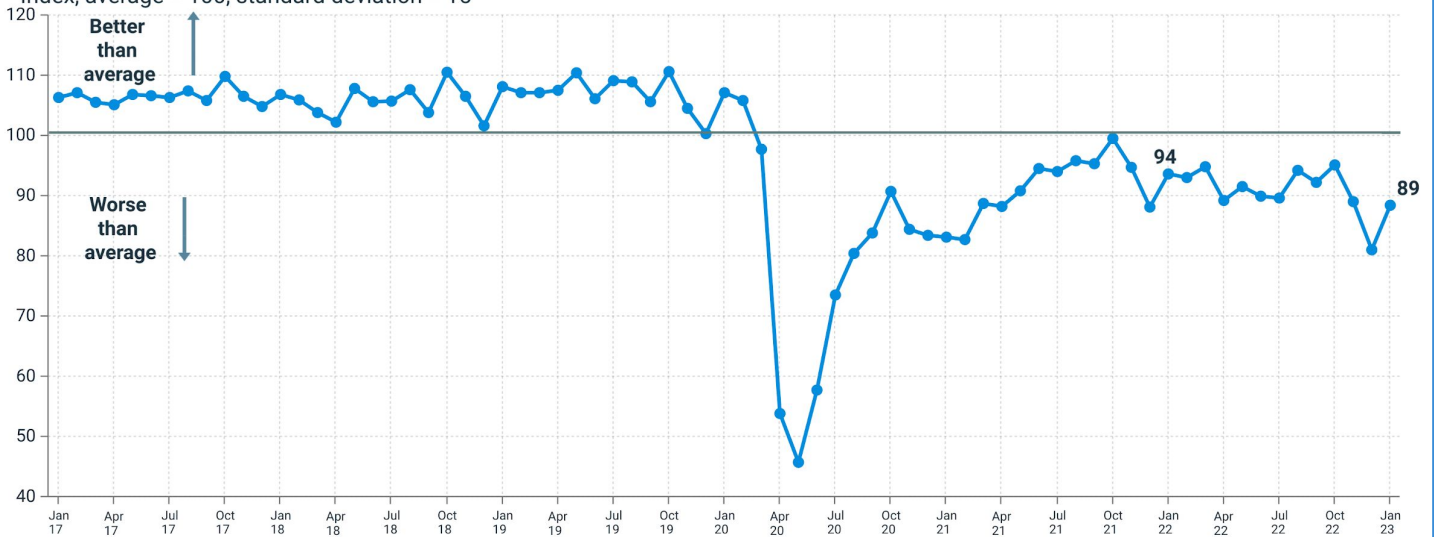
The Xero Small Business Index for the United Kingdom, part of Xero Small Business Insights, rose 7 points in January to 89 points, lifted by stronger sales and wages growth and a smaller fall in jobs.

Three of the four metrics improved during January. Wages rose 4.8% y/y in January, equal to the historical record for this series first recorded in May 2022. Sales rose 5.1% y/y, after just a 2.7% rise in December. Jobs fell 2.5% y/y in January, but this was the smallest fall in jobs since April 2022. These were partially offset by the time to be paid measure which rose 0.6 days to 30.5 days - the longest time since September 2020 and above the 2022 average of 29.2 days.

The latest XSBI results show the overall performance of small businesses has changed very little over recent months, as the decline in the Index in December was reversed in January. This broad stability in the Index has been a theme for the past two years as the economy has struggled to shake off the economic impacts of both the pandemic and the loss of preferential trade with Europe. The Index averaged 91 points in both 2021 and 2022. On the one hand this means small business performance hasn't got worse, but it also means performance hasn't improved in two years. The economic headwinds of ongoing high inflation, slowing growth and difficulties finding staff are likely to continue to be challenges for small businesses in 2023.

United Kingdom Small Business Index

Index, average = 100, standard deviation = 15



Source: Xero Small Business Insights

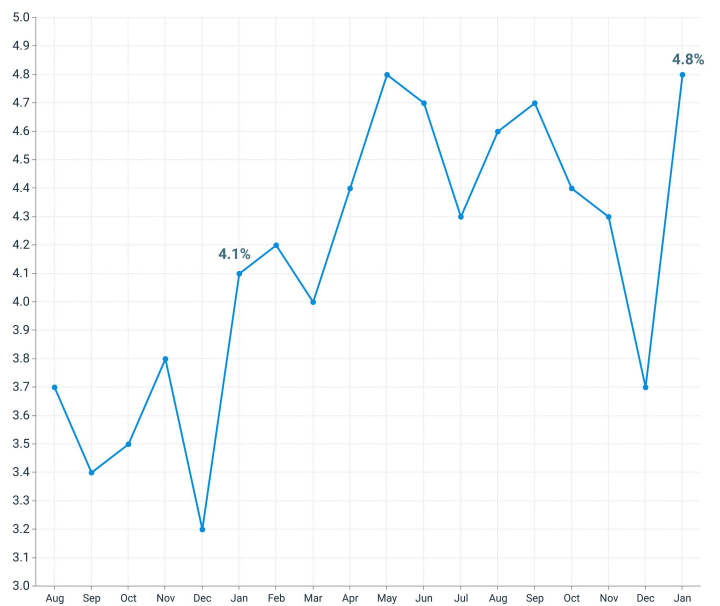
Wage growth returns to record high

Wages rose 4.8% y/y in January, equal to the historical record for this series first recorded in May 2022 and well above the long-term average for this series of 3.4% y/y. This result has reversed the slowing trend in wages growth of the previous three months.

All industries saw an uptick in wage growth in January although there was a wide range of results. The smallest rise was in rental, hiring and real estate (+3.8% y/y). The largest wage rises were in information, media & telecommunications and other services (both +5.9% y/y).

Employee hourly earnings

% year-on-year, monthly



Source: Xero Small Business Insights

Sales improve but volumes falling

Sales rose 5.1% y/y, after just a 2.7% rise in December. Looking through monthly volatility, sales growth has been slowing for the past year since the most recent peak at 24.4% y/y in January 2022.

XSBI measures sales in nominal terms, which includes changes in both price and volume. Using the December (9.2% y/y) and January CPIH's (8.8% y/y) as a proxy for price rises, sales volumes fell 6.5% y/y in December and 3.7% y/y in January. That is, small businesses are most likely selling fewer goods and services than a year ago.

The weakest industry in January was retail trade (-4.2% y/y), reflecting the impact of ongoing rises in interest rates on discretionary spending. This was offset by solid hospitality (+9.2% y/y) and construction (+9.7% y/y) results.

North West England (+7.7% y/y) and South West England (+7.5% y/y) led the regional sales gains but East Midlands (+1.1% y/y) saw much slower sales growth.

Jobs situation improving but still fewer jobs than a year ago

Small business jobs declined 2.5% y/y in January - the tenth consecutive month where jobs have been less than a year ago. [Vacancy levels](#) have declined in recent months but remain high by historical standards. Instead, the lack of jobs growth remains largely due to economic inactivity rates still being above pre-pandemic rates, making it hard for small business owners to find staff.

Jobs continued to decline in large employing industries such as manufacturing (-6.1% y/y) and hospitality (-5.8% y/y).

Only London (+2.2% y/y) has more jobs than a year ago. The largest falls were in South West England (-5.5% y/y) and Yorkshire & The Humber (-4.9% y/y).

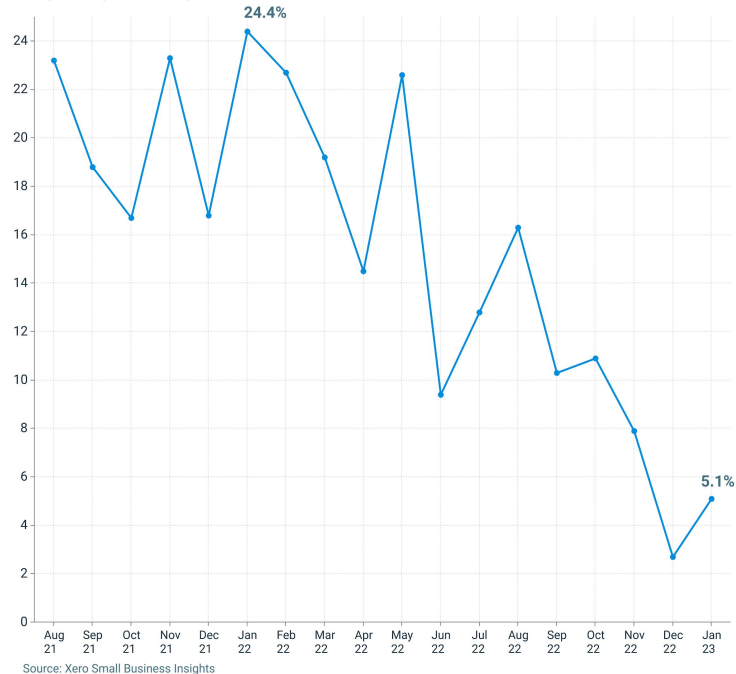
Payment times lengthen

Time to be paid rose 0.6 days to 30.5 days - the longest time since September 2020 and above the 2022 average of 29.2 days.

Late payments rose by a much larger 1.8 days to 8.4 days in January, the highest since August 2020.

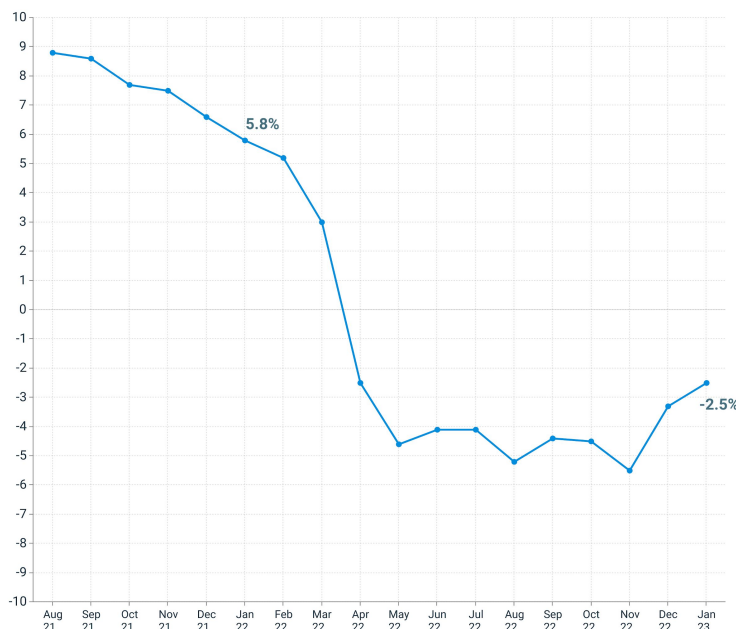
Small business sales

% , year-on-year, monthly



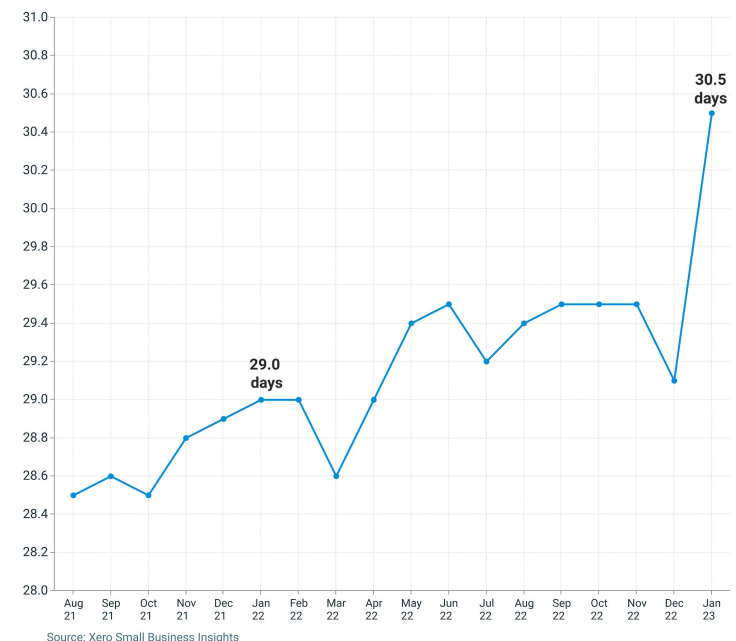
Small business jobs

% , year-on-year, monthly



Time to be paid

Days, seasonally adjusted



Additional Details

About Xero

Xero is a global small business platform with 3.5 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 anonymized to ensure the privacy of Xero subscribers, and their counterparts.

Methodology

Full details of the methodology used to construct the Xero Small Business Index can be found [here](#).

Disclaimer

This report was prepared using Xero Small Business Index 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.