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## Strong growth from SME manufacturers in latest trends

Output growth among the UK's small and medium-sized (SME) manufacturers picked up in the three months to January, with a further acceleration expected next quarter according to the latest quarterly SME Trends Survey.

The survey of 339 respondents also found that optimism improved at the fastest pace since April 2014 and export optimism improved at the fastest pace on record. Driving strong growth in output was the quickest rise in total new orders since April 1995, underpinned by a pick-up in both domestic and export orders growth.

Total orders growth is expected to pick up further over the next three months, with similar growth in domestic orders expected alongside a sharp acceleration in export orders – expectations for the latter are the strongest on record. As a result, another firm rise in output is also predicted, with expectations for growth also the strongest on record.

Investment intentions also improved, with firms now expecting to increase spending on plant & machinery modestly – the first time that investment intentions have been positive in almost two years. Planned expenditure on intangible areas remained firm, particularly on product & process innovation.

Numbers employed grew at a solid pace over the past quarter, and growth is expected to continue at a similar pace next quarter. However, concerns over skill shortages have ramped up, with the number of firms citing skilled labour as a factor likely to limit output rising to its highest since January 1989. In the face of strong growth in activity, capacity pressures more broadly seem to have intensified, with the proportion of firms working below capacity edging to its lowest since April 1989.

Average unit costs growth remained elevated, and costs are expected to grow at a similarly strong pace next quarter. Consequently, domestic price and export price growth has picked up. Next quarter, prices are expected to rise at a quicker pace.

### **Alpesh Paleja, CBI Principal Economist, said:**

“Growth is going strong for SME manufacturers, who are reaping the benefits of a lower pound and buoyant global growth – as seen in record expectations for export orders growth. But margins are clearly still under pressure, with cost pressures high, and firms expect to raise prices further to regain some ground.

“Furthermore, concerns over skill shortages have rocketed, stoking capacity pressures further. This underlies the importance of establishing a future immigration system that provides companies with access to talent and labour. The building blocks of a new system that meets economic needs and public concerns must start with scrapping the net migration target, which has never been fit-for-purpose.”

Looking at growth in the economy more broadly, momentum has been tepid for most of 2017.

### **Key findings:**

- 36% of firms said the volume of output over the past three months was up and 15% said it was down, giving a balance of +21%, similar to rates of growth seen in July (+21) and April (+18). Growth is expected to accelerate next quarter (+29)
- 32% of firms said they were more optimistic about the general business situation than three months ago and 10% were less optimistic, giving a balance of +22% - the quickest growth since April 2014
- 43% of businesses reported an increase in total new orders, and 18% a decrease, giving a balance of +25% - the fastest since April 1995
- This was underpinned by a pick-up in domestic (+23% from +13%) and export orders growth (+27% from +18%)
- Total orders growth is expected to accelerate further over the next three months (+30%), with similar growth in domestic orders expected (+25%) alongside a sharp pick-up in export orders (+43%). Expectations for export orders growth are the strongest on record



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- 30% of manufacturers said employee numbers were up and 13% said they were down, giving a rounded balance of +18%. This represents growth at a solid pace, which is expected to continue next quarter (+19)
- 39% of manufacturers reported an increase in average unit costs, and 4% said they were down, giving a balance of +35%
- The proportion of firms working below capacity was the lowest since April 1989 (42%)
- Concerns over skilled labour as a factor to limit output were the highest since January 1988 (29%).

## **Key findings – looking ahead:**

- Total new orders (+30%), domestic orders (+25%), export orders (43%) and output (+21%) are expected to grow strongly over the next quarter. Expectations for both output and export orders growth are the strongest on record.
- Growth in average domestic prices (+33%), export prices (+26%) and unit costs (+32%) over the next quarter.