Optimism among SME manufacturers deteriorates

Business optimism amongst SME manufacturing firms deteriorated in the three months to July, at the fastest pace since July 2016.

In a survey of 268 small and medium-sized manufacturers, optimism about export prospects for the year ahead also worsened, to the greatest extent since the financial crisis (April 2009).

Activity was weak among SME manufacturers, with both domestic and export orders falling at the quickest rates in several years (since April 2013 and October 2015 respectively). In addition, output stagnated following three years of continuous growth. Firms expect domestic orders to continue falling over the next three months, and output and export orders to remain flat.

Other results include:

- Investment intentions for the next year remained poor, with manufacturers expecting to spend less on buildings, plant & machinery, and training & retraining. Capital expenditure on products & process innovation is expected to be flat relative to the past year
- Growth in stocks slowed noticeably, following a record-high pace of growth (for raw materials and finished goods stocks) last quarter. Nonetheless, stocks of raw materials particularly continued to grow significantly. Manufacturers expect inventories of all categories to fall slightly next quarter
- Headcount was flat in the quarter to July, following six years of continuous growth, and is expected to remain broadly steady next quarter
- Growth in output prices also slowed sharply, with domestic prices flat and export prices falling, both following continuous growth over the last two-and-a-half years. This continued to be outpaced by costs inflation, albeit with the latter slowing on the previous quarter.

Key findings – three months to July:

- 9% of firms said they were more optimistic regarding their business situation, while 37% said they were less optimistic, giving a balance of -28% (from -12% in April 2019). Optimism about export prospects for the year ahead worsened again (-31% from -25% in April 2019)
- 22% of small and medium enterprise (SME) manufacturers said output volumes increased and 24% said it decreased, giving a balance of -2% (from +9% in April). Output is expected to remain steady over the next quarter (+1%)
- 29% of SME manufacturers reported an increase in total new orders, and 34% said they decreased, giving a rounded balance of -4% (from +11% in April)
- Domestic orders (-13% from +2% in April) fell at their quickest rate since April 2013, while export orders declined (-19% from +6% in April) at the fastest pace since October 2015
- Looking ahead, manufacturers expect domestic orders to continue falling at a similar rate (-11%), and export orders to be flat (-1%)
- Numbers employed were broadly unchanged, with 19% of firms saying they had seen growth in headcount and 21% saying they had seen a reduction, giving a balance of -2%. Growth is expected to remain steady next quarter (+3%)
- SME manufacturers plan to reduce investment in training and retraining (-19%), buildings (-20%) and plant & machinery (-19%) in the year ahead. Capital expenditure for product and process innovation is expected to be flat (+1%)
- Growth in stocks of raw materials (+10%) and finished goods (+5%) slowed noticeably following a record-high pace of growth in the quarter to April 2019. Stocks of work in progress were flat (0%). Manufacturers expect stocks of all three categories to fall slightly next quarter (-4%, -7% and -5% respectively)
- The proportion of firms working below capacity picked up (62% from 52% in April) to its highest since April 2013.