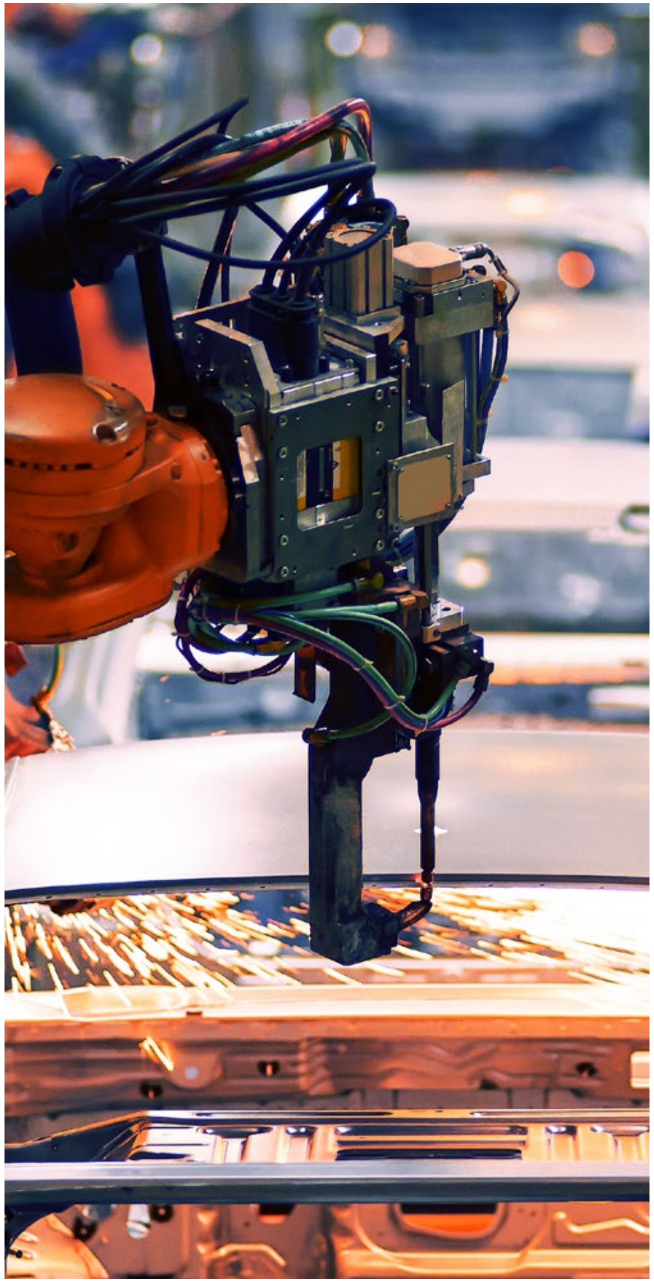
SME Q2 2023 Barometer

An SME Led Recovery

MANUFACTURING

paragon



A word from
Wayne Hall

Business Development Manager, Manufacturing

Manufacturing SMEs are confident, investing in new assets and expanding their work forces.

Those are the findings of the new report, An SME Led Recovery, published by Paragon Bank.

Featuring fresh research conducted for Paragon by leading pollsters Opinium, An SME Led Recovery looks behind the scenes and into the decisions being made by SMEs throughout the country.

The first in an ongoing series of research reports into UK SMEs, the new report includes specific data on manufacturing businesses – providing a real insight into their plans for the year ahead.

Specialists in asset financing for manufacturing SMEs, Paragon speaks with businesses daily and is proud to support this vital sector.

It is greatly encouraging to see that, after the challenges of recent years, they are ready to take the proactive steps necessary to support our national economic recovery.

Our sector has enabled industry to innovate, improve, and deliver results for end users – and as An SME Led Recovery makes clear, when the economy recovers from the challenges of recent years, it is manufacturing SMEs that will once again be at forefront of making this happen.

Supported by access to asset financing, our sector is ready to play its part and I look forward to working with businesses throughout the UK in the month ahead.

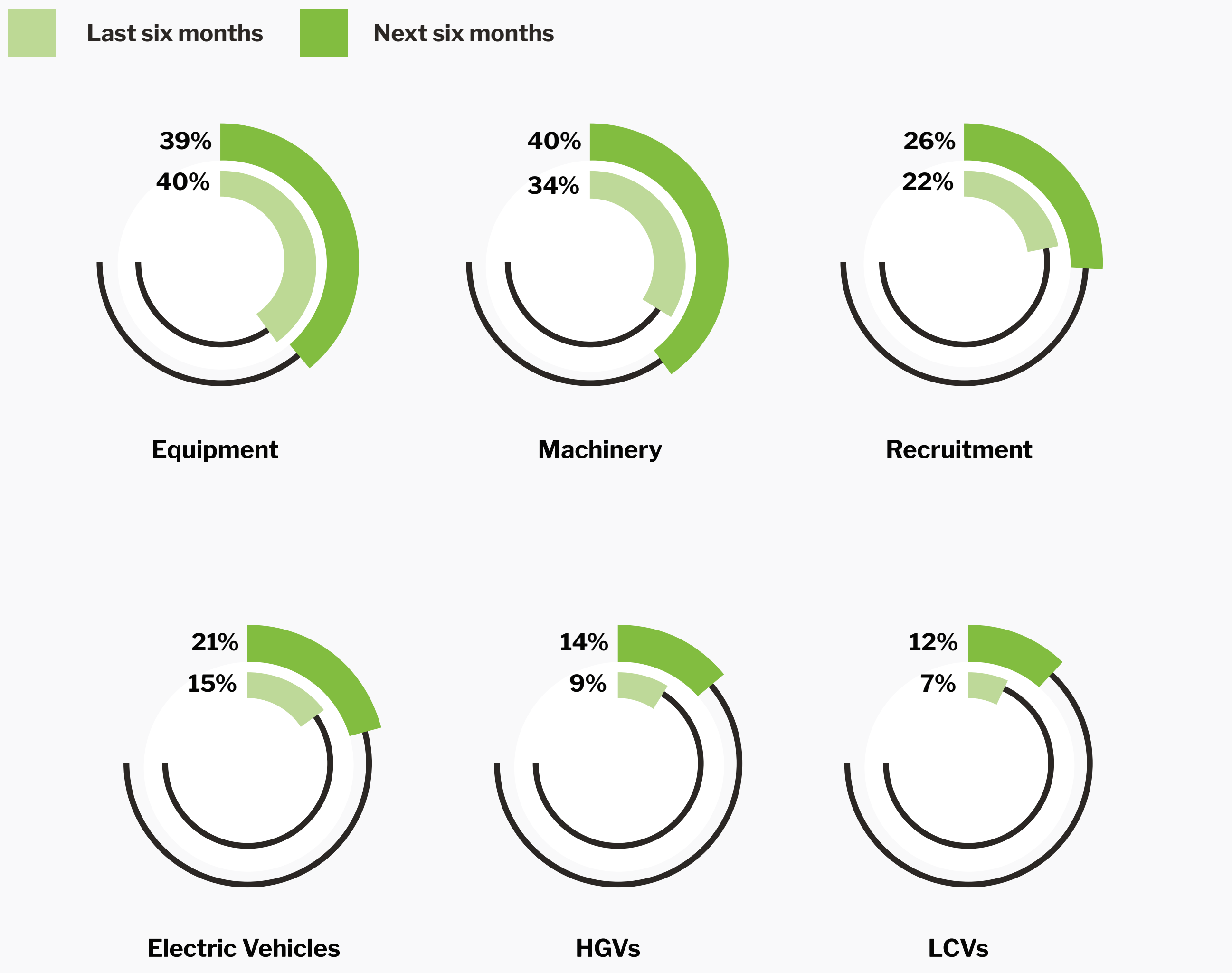
Plans for investment

Manufacturing SMEs are planning to invest over the next six months, with fresh spending planned and under consideration across key operational areas.

In the last six months 34% and 40% of all manufacturing SMEs invested in machinery and equipment respectively, with but planned investment over the next six months remaining steady at 40% and 39%.

Further plans for asset investment sees large increases to the number of businesses investing in transport assets, with electric vehicles seeing the largest rise – rising from 15% to 21% over the same period. HGVs and LCVs are also set to record impressive growth, with rises from 9% and 14% to 7% and 12% respectively.

Past vs. planned investment

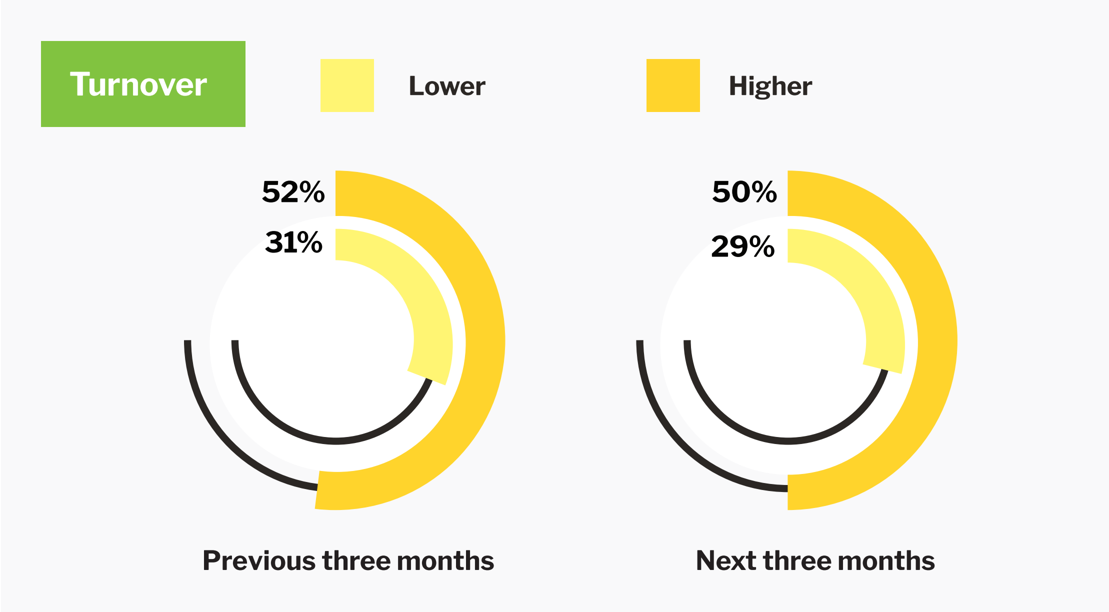


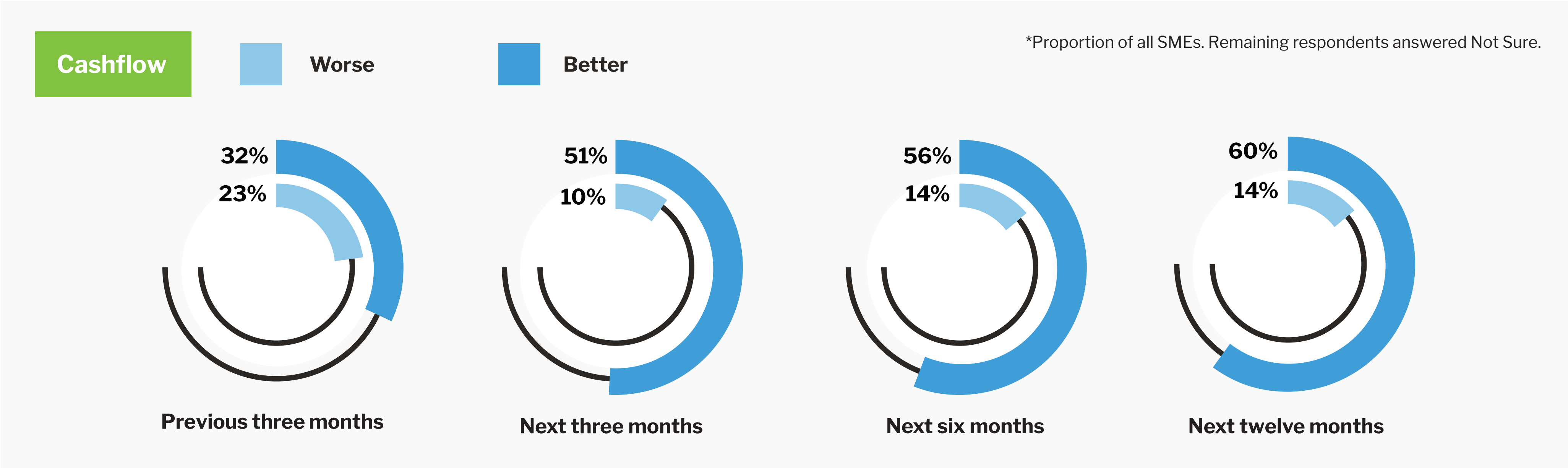
Cashflow and turnover improvements

Plans to increase investment are matched by the expectations of manufacturing SMEs for strong improvements to cashflow over the next year.

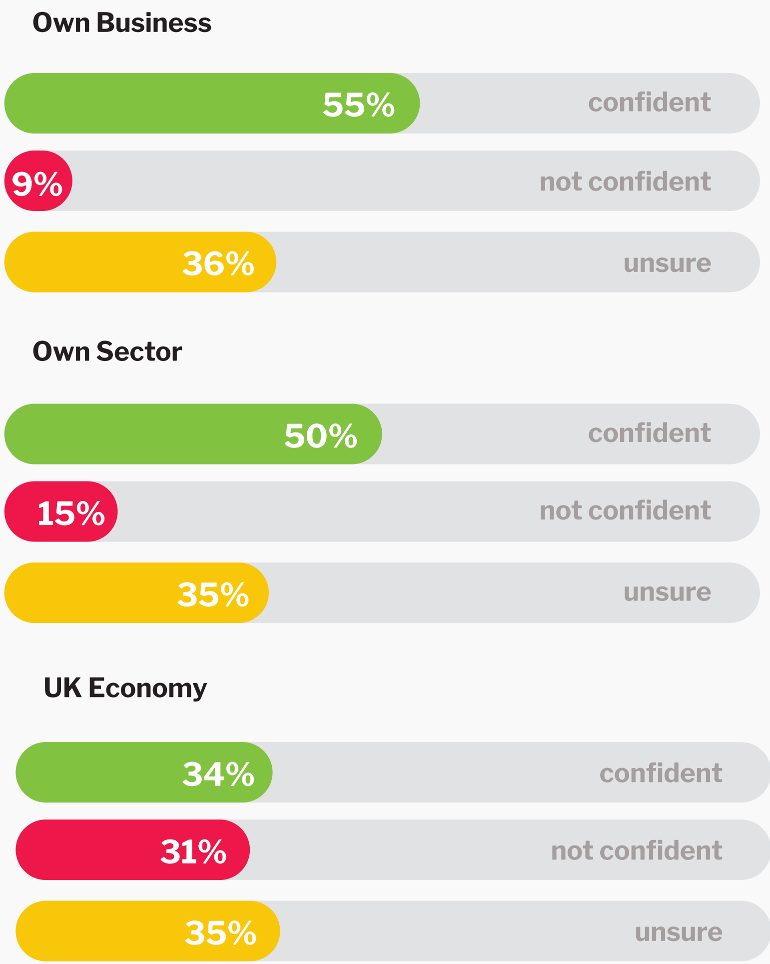
Whilst only 32% of the firms surveyed say their current cashflow is better than it was three months ago, over half (51%) expect it to increase over the next three – and this rises again to 56% in six months and then to 60% across the year ahead.

Turnover is also set to improve – 52% of businesses reported rising turnover levels during the first quarter of the year, with 50% expecting turnover to improve further during the second quarter, compared to 29% that forecast a fall.





Confidence in the next three months



*Other respondents Prefer not to Say.

Renewed confidence

Manufacturing SMEs expressed confidence in their prospects for their own businesses and the sector in which they operate but were less confident about the macro environment. Over half said they were confident in their own business (55%) and their sector (50%) in the next three months, compared to 9% and 15% respectively that were not confident.

Confidence was less strong in the UK economy, with only 34% of manufacturing SMEs surveyed expressing confidence.

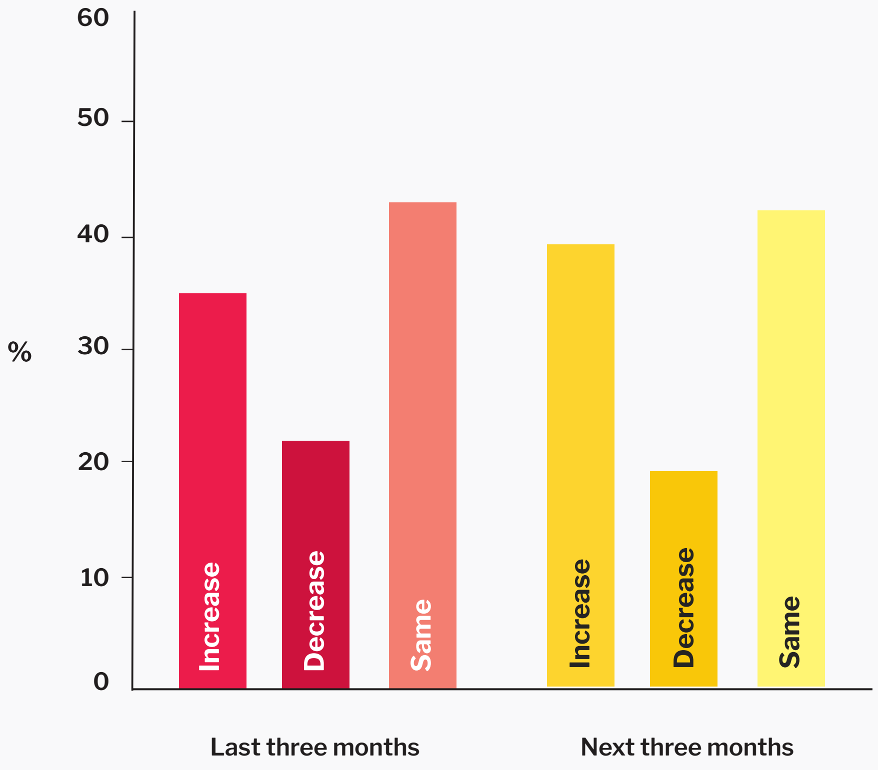
Staffing increases

Along with increased asset investment and improved cashflows, manufacturing SMEs are also planning to increase their full-time work forces to meet the needs of increased activity. Over the last six months, 35% of firms hired more staff, compared with 22% who made reductions – but over the next six months 39% intend to increase their workforce, with the number planning decreases falling to 19%.

The proportion of businesses seeking to increase their workforces may reflect a skills shortage, with SMEs seeking to fill gaps in their operations in the months ahead.

Staffing

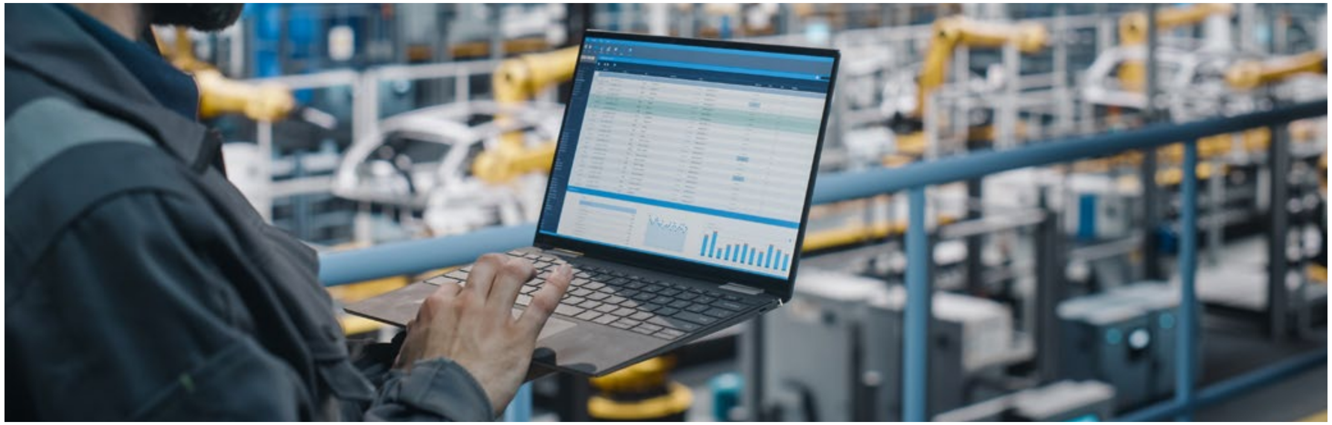
*Proportion of all SMEs. Other respondents answered Don't Know.

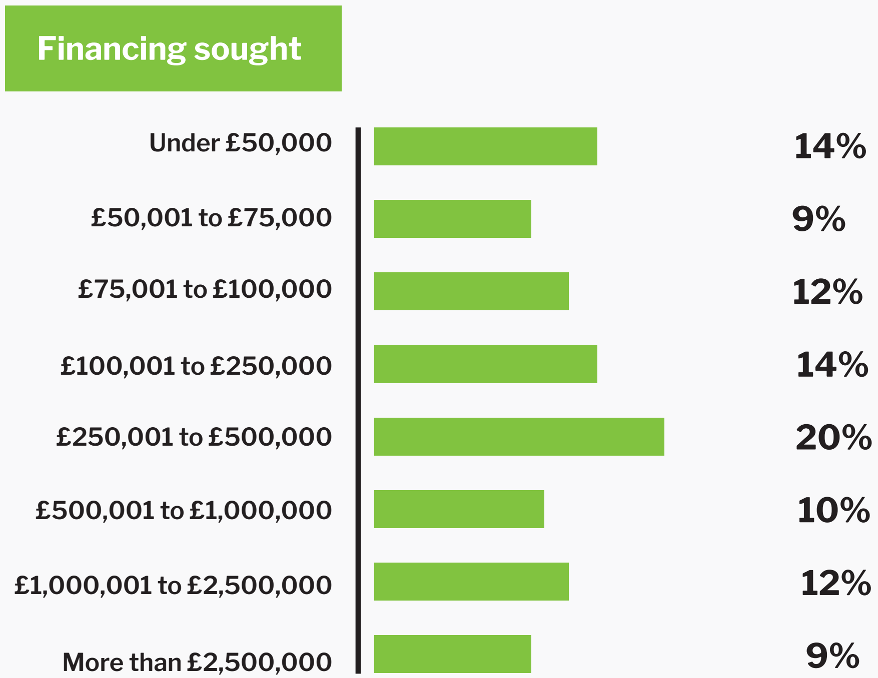


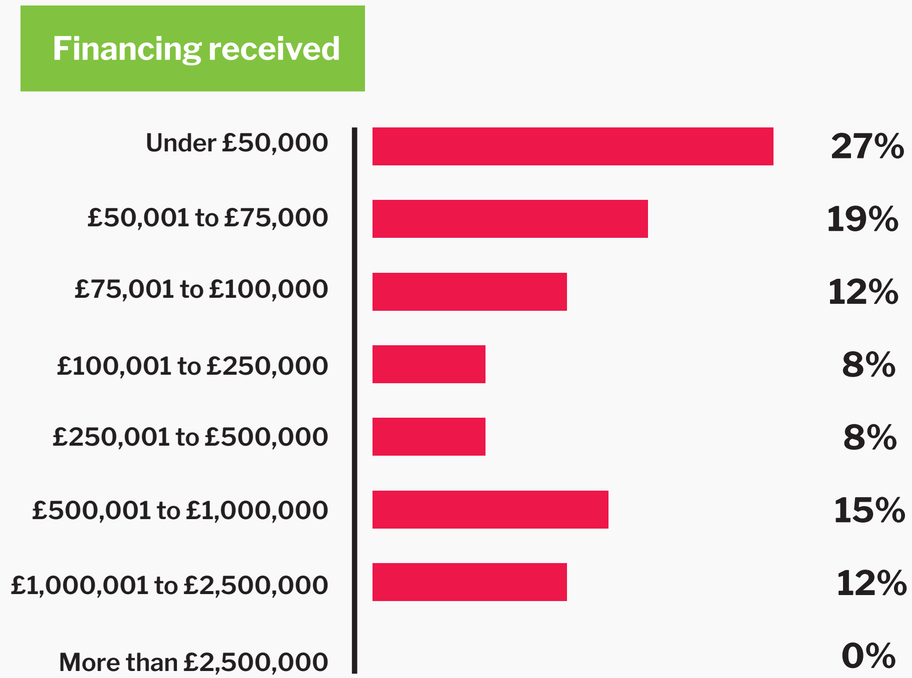
Planned financing

The research found that 51% of manufacturing SMEs sought additional financing over the last three months, with 65% of those businesses seeking over £100,000.

While 6% of this group received no additional financing, 19% received some of the finance they were seeking, and the remaining 27% received all of the financing they sought.







*Proportion of all SMEs. Remaining respondents answered Prefer not to say.

Business costs

Employee salaries and the price raw materials has had the most significant impact on the business costs of manufacturing SMEs over the previous three months, with 97% reporting that they have increased wage expenditure and 95% citing material costs.

Fuel price increases have also affected the sector, with 84% of SMEs recording expenditure increases - closely followed by 75% seeing increases to their asset and equipment costs.

Businesses not reporting increases to their operating costs may be a result of their benefiting from prior fixed-pricing agreements with suppliers covering the period in question.

	Fuel for vehicles	Employee salaries	Employee benefits	Raw materials	Premises rent / commercial mortgage	Production asset / equipment prices	Vehicle maintenence
Costs have decreased	5%	1%	2%	1%	1%	1%	3%
No Change	11%	2%	36%	4%	39%	24%	25%
Less than 10% Increase	21%	4%	27%	24%	15%	24%	18%
10%-20% Increase	24%	39%	14%	38%	16%	24%	18%
21%-30% Increase	10%	19%	5%	15%	8%	7%	10%
31%-40% Increase	7%	5%	6%	6%	8%	10%	8%
41%-50% Increase	3%	6%	3%	5%	4%	6%	1%
51%-60% Increase	2%	1%	1%	2%	1%	1%	1%

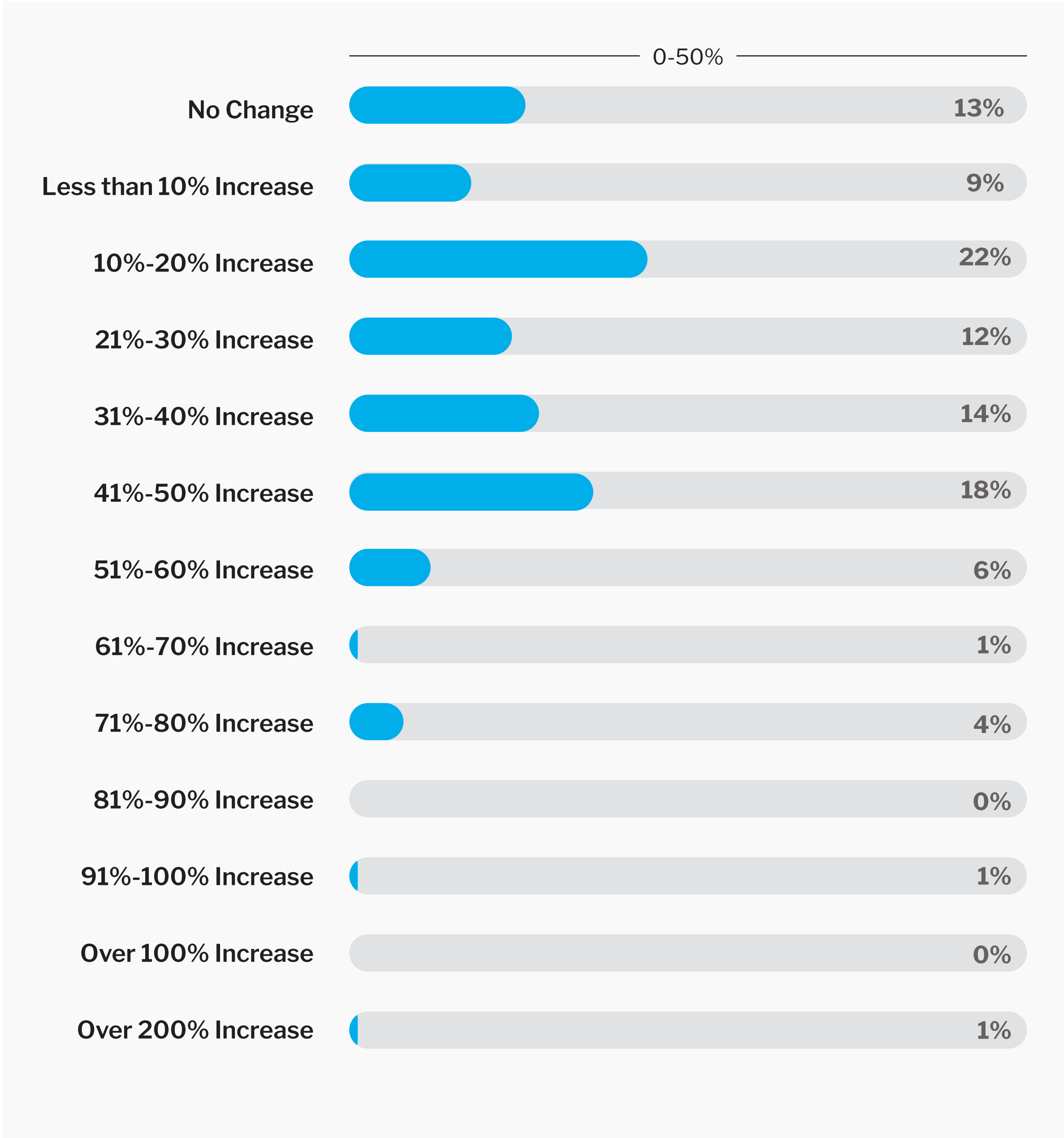
*Respondents asked to select all that apply to their business.

Energy costs

Almost nine in 10 (87%) manufacturing SMEs have reported increases in their energy costs in 2023, including 44% reporting an increase of between 20% and 50%, with 12% recording an energy bill hike in excess of this.

John Phillipou, Paragon Bank SME Lending Managing Director, said: “The cost of energy has negatively impacted the majority of business throughout the UK, even with the Government support package.

“However, it’s also positive that companies have been looking at ways they can reduce their energy bills by making themselves more efficient. We have seen businesses invest in their operations with the addition of more energy efficient equipment, whilst we have also funded changes to premises, such as the addition of solar panels. These are positive steps towards a greener future.”



Supply chains

Manufacturing SMEs have been forced to extend the life of their existing assets as global supply chain issues reduce the availability of new assets. Four in ten SMEs (43%) had operated existing machinery longer than planned in the past 12 months, with 30% acquiring pre-owned machinery due to the unavailability of new assets – and 13% reported that they had refinanced an existing machinery asset.

A similar story was reported with commercial vehicles, with 33% of SMEs running these for longer than planned and 15% acquiring pre-owned equipment.

	Machinery	Technical equipment (e.g. audio visual equipment)	Commercial Vehicles	Other Assets
We have had an existing asset longer than planned	43%	24%	30%	19%
We have acquired pre-owned assets	30%	15%	25%	21%
We have refinanced an existing asset	13%	21%	25%	19%
We sold an existing asset	13%	11%	18%	17%
We ceased use of an asset requiring repair	8%	9%	6%	8%
Not applicable – we do not use this type of asset	14%	34%	15%	30%

Case study

Wolverhampton-based 3D Tooling Technologies (3DT) has expanded its operations following the acquisition of new hardware from Chester Machine Tools, facilitated by funding from Paragon SME Lending.

The five-figure package will see the specialists in product and component prototype development, design and manufacturing expand the range of services now available to clients, including steel cutting.

Based in Staffordshire and a leading global supplier of manufacturing equipment, Chester Machine Tools supplied 3DT with a Chester VF1100 High Speed Ultra High Performance CNC Machining Centre, designed for high-speed and high-efficiency machining.

The funding for 3DT's acquisition was arranged by Wayne Hall, Paragon SME Lending's Business Development Manager for manufacturing. Commenting on Paragon's role in supporting the acquisition between Chester Machine Tools and 3DT, Wayne said:

"I'm delighted that Paragon has facilitated 3DT's acquisition of new equipment from Chester Machine Tools, two leading specialists in their fields. By providing innovative businesses with access to funding in a timely and efficient manner, Paragon is playing a key role as a catalyst for growth in the manufacturing sector. I look forward to supporting other businesses in accessing the funding necessary to further their aims and grow their client base."