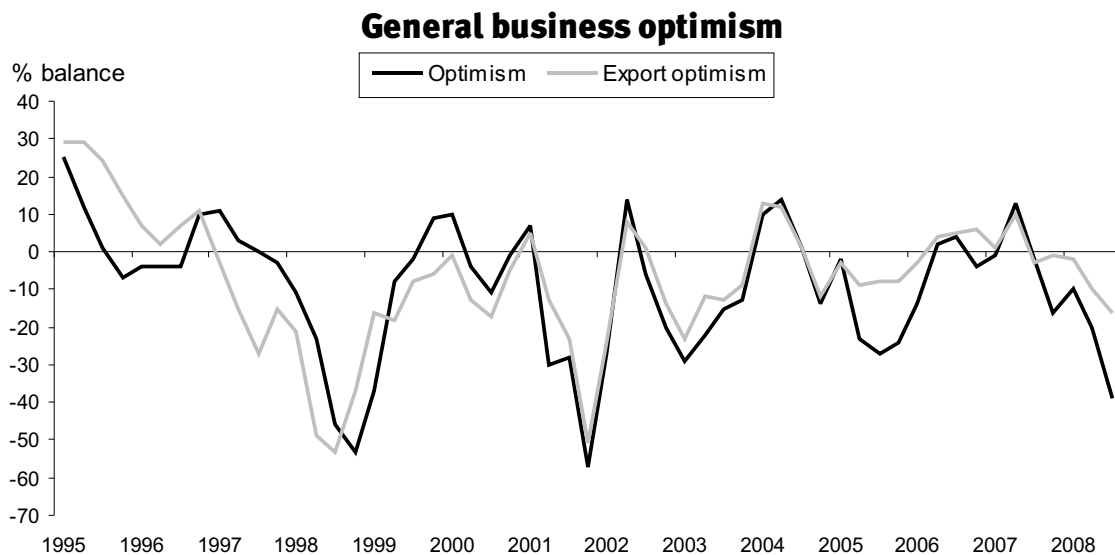


CBI Quarterly SME Trends Survey

A survey of small and medium-sized firms in manufacturing

July 2008



Embargoed until 00:01 hrs, Tuesday 12th August 2008

Economics & Enterprise Directorate
DL: +44 020 7395 8097 F: +44 020 7836 5856



INVESTOR IN PEOPLE

CBI Centre Point 103 New Oxford Street London WC1A 1DU
T: +44 (0)20 7379 7400 F: +44 (0)20 7836 0645 E: enquiry.desk@cbi.org.uk W: www.cbi.org.uk
Director-General: Richard Lambert President: Martin Broughton

SME Trends Survey

The CBI supplies the European Commission with harmonised manufacturing data, derived from the Industrial Trends Survey. The CBI acknowledges the European Union's financial support for the technical development and supply of this data.

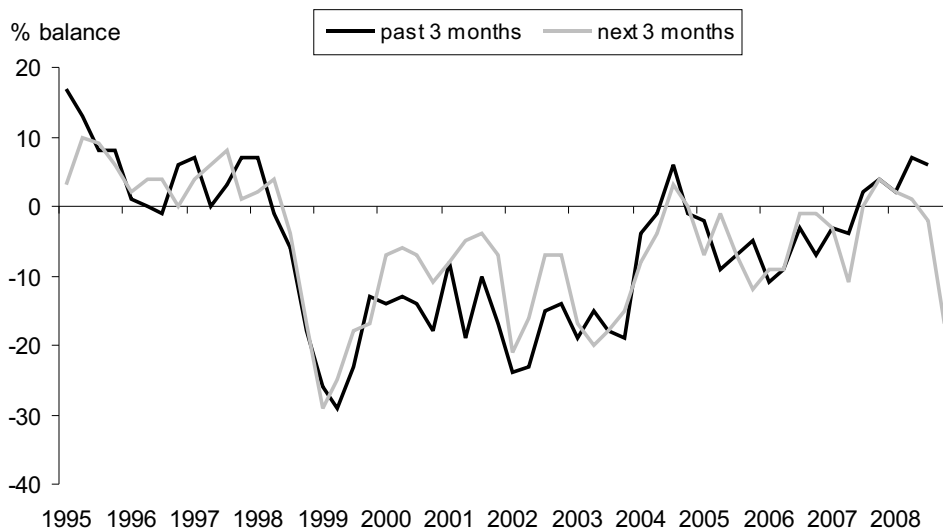
CBI SME Trends Survey - July 2008

The July 2008 survey indicates that there has been a severe squeeze on profit margins; average unit cost growth is at a survey high, dwarfing the highest rate of price increases for 13 years. More positively, small and medium-sized manufacturers have modestly increased their workforce numbers. However, the outlook for the next quarter is negative; business sentiment is at its lowest for nearly seven years and small firms in particular expect significant falls in total new orders and output. In addition, SMEs expect the highest rate of job cuts for five years.

Key points

Over the last three months, the **volume of total new orders** has fallen for the first time since January 2006, bucking expectations of modest growth. This significant fall is reflected in the decrease in **domestic orders**. Small firms also saw a decrease in the **volume of export orders**, though in medium sized firms it held stable. Looking ahead to the next quarter, medium-sized firms expect only a modest decrease in total new orders and the volume of export orders to remain stable. However the picture is more negative for small firms who expect total new orders and domestic orders to fall back at a faster pace than in the previous three months.

There was a significant deterioration in sentiment about the **general business situation**. The deterioration in **optimism about exports** was more modest.



Numbers employed were modestly increased, though significant job cuts are planned

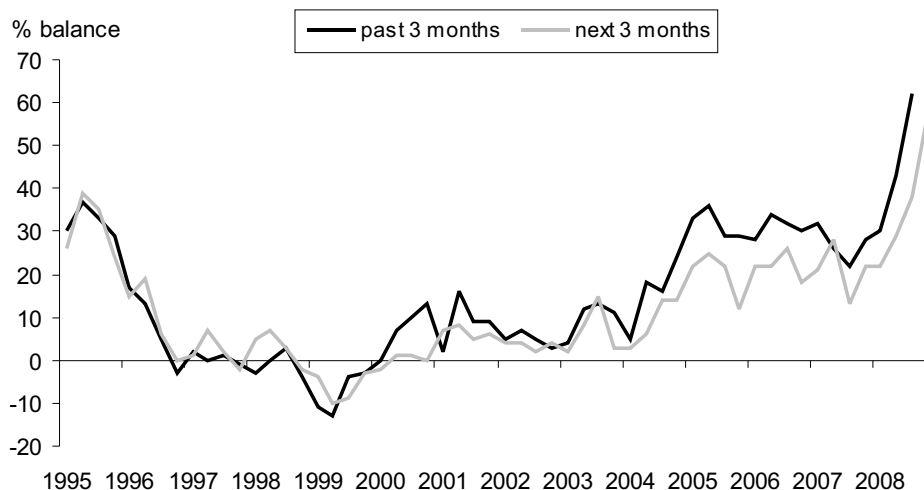
(Numbers employed)

Small firms have recorded a decrease in the **volume of output** for the first time since January 2006 and they expect a more significant fall in the next three months. Output of medium sized businesses was broadly flat and it is expected to remain so over the next quarter. Despite a reduction in output, small firms have modestly increased employee numbers. Meanwhile the numbers employed by medium-sized firms has stayed broadly stable.

Lack of orders or sales continues to be cited by SMEs as the factor most likely to limit output in the next three months. However, the proportion of firms citing plant capacity has been above the long-term average for the second quarter in a row. This is perhaps a reflection of SMEs' expectation to reduce their workforce numbers at the fastest rate for five years in the next quarter.

Average unit cost growth has increased to a survey high

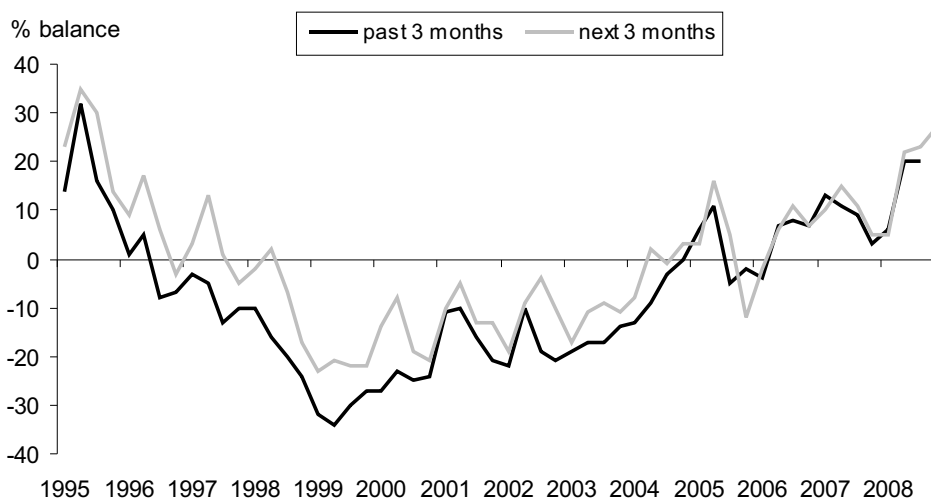
(Average unit costs)



Average unit cost growth has accelerated, reaching a survey high, as have expectations for the quarter ahead. Despite average domestic prices continuing to grow at the 13 year high rate recorded in the April survey, the increase is dwarfed by unit cost increases, suggesting a severe squeeze on profit margins. In the next three months small firms expect to accelerate the rate of price increases while medium-sized firms expect price growth but at a more modest rate.

Price growth at 13 year high

(Average domestic prices)



SMEs continue to plan less investment in buildings than in the twelve months previously, cutting back plans at the highest rate since October 2003. They also plan a significant reduction in investment in plant & machinery. Reflecting the fall in new orders, uncertainty about demand continues to be the factor most likely to limit capital expenditure; the proportion citing the factor is at a three year high. Despite poor demand conditions medium-sized firms are pushing ahead with plans to invest in innovation, significantly increasing their expenditure at an above average rate. However, they expect to reduce expenditure on training and retraining their employees. This is in contrast to small firms who forecast reduced expenditure on innovation but intend spending on training and retraining to remain stable.

The CBI SME Trends Survey was conducted between 25th June 2008 and 9th July 2008. The total response was 483 manufacturing companies with fewer than 500 employees, of which 404 employed under 200 staff. The survey comprises a part of the CBI Quarterly Industrial Trends Survey, published on 23rd July 2008.

CBI SME Trends Survey

July 2008: Results

Total trade

			Apr	Jul	Oct	2008		
						Jan	Apr	Jul
1	Optimism re business situation							
	SME (0-499 employees)		+13	-2	-16	-10	-20	-39
	Small (0-199 employees)		+9	+2	-15	-11	-18	-38
	Medium (200-499 employees)		+26	-14	-17	-6	-25	-44
3	Twelve month forecast of capital expenditure compared with previous twelve months on:							
	a. buildings							
	SME		-17	-14	-17	-17	-11	-25
	Small		-19	-10	-14	-12	-8	-22
	Medium		-11	-26	-25	-35	-17	-34
	b. plant and machinery							
	SME		+3	+3	-7	-5	-12	-19
	Small		+3	+4	-2	-1	-8	-21
	Medium		+3	-3	-20	-18	-23	-15
4	Firms working below capacity *							
	SME		57	55	60	53	52	58
	Small		61	58	59	56	56	60
	Medium		48	46	62	46	41	50
6	Numbers employed							
	SME	- past 3 months	-4	+2	+4	+2	+7	+6
		- next 3 months	0	+4	+2	+1	-2	-17
	Small	- past 3 months	+1	+3	+5	+4	+12	+7
		- next 3 months	+3	+7	+2	+4	+2	-17
	Medium	- past 3 months	-18	0	0	-4	-8	0
		- next 3 months	-10	-5	+1	-12	-17	-19
7	Volume of total new orders							
	SME	- past 3 months	+12	+12	+2	+10	+3	-14
		- next 3 months	+10	+7	-2	-3	+3	-18
	Small	- past 3 months	+5	+11	+2	+9	+7	-15
		- next 3 months	+5	+9	-1	-2	+3	-21
	Medium	- past 3 months	+35	+13	+3	+15	-9	-11
		- next 3 months	+25	-1	-7	-5	+3	-6
7a	Volume of domestic orders							
	SME	- past 3 months	0	+7	+1	+3	-10	-20
		- next 3 months	+7	+4	-3	-4	-1	-24
	Small	- past 3 months	-2	+9	+4	+4	-7	-21
		- next 3 months	+6	+7	-3	0	0	-27
	Medium	- past 3 months	+6	+1	-8	+1	-19	-15
		- next 3 months	+12	-5	-3	-18	-5	-13

			2008					
			Apr	Jul	Oct	Jan	Apr	Jul
8	Volume of output							
	SME	- past 3 months	+10	+12	+5	+10	+2	-9
		- next 3 months	+19	+13	+5	+6	+7	-13
	Small	- past 3 months	+3	+13	+6	+12	+6	-12
		- next 3 months	+14	+13	+4	+10	+4	-17
	Medium	- past 3 months	+33	+6	+4	+3	-8	+1
		- next 3 months	+34	+13	+9	-8	+16	+2
9a	Volume of domestic deliveries							
	SME	- past 3 months	+4	+4	-2	+6	-12	-15
		- next 3 months	+12	+7	0	-1	0	-19
	Small	- past 3 months	+2	+10	+3	+8	-7	-17
		- next 3 months	+12	+8	-3	+1	0	-22
	Medium	- past 3 months	+10	-17	-19	+3	-26	-10
		- next 3 months	+13	+4	+6	-10	0	-10
10a	Stocks of raw materials							
	SME	- past 3 months	+7	+9	+8	+3	+13	0
		- next 3 months	+1	-5	-7	-10	-6	-13
	Small	- past 3 months	+6	+8	+7	+4	+12	-3
		- next 3 months	+3	-5	-11	-5	-3	-12
	Medium	- past 3 months	+9	+11	+12	0	+16	+9
		- next 3 months	-3	-4	+6	-25	-15	-18
10b	Stocks of work in progress							
	SME	- past 3 months	+1	+5	+6	+2	0	-9
		- next 3 months	-2	-3	-8	-8	-6	-18
	Small	- past 3 months	+2	+5	+5	+1	+1	-11
		- next 3 months	+1	-2	-12	-6	-3	-19
	Medium	- past 3 months	-3	+8	+8	+4	0	0
		- next 3 months	-12	-6	+4	-15	-17	-16
10c	Stocks of finished goods							
	SME	- past 3 months	+1	-2	-4	-6	-5	-3
		- next 3 months	-3	-2	-8	0	-8	-15
	Small	- past 3 months	+6	0	-5	-6	-9	-2
		- next 3 months	+1	0	-10	+2	-5	-18
	Medium	- past 3 months	-13	-7	-1	-4	+5	-5
		- next 3 months	-16	-10	-2	-9	-19	-7
11	Average unit costs							
	SME	- past 3 months	+26	+22	+28	+30	+43	+62
		- next 3 months	+13	+22	+22	+29	+38	+58
	Small	- past 3 months	+34	+21	+29	+33	+49	+64
		- next 3 months	+19	+22	+24	+36	+37	+59
	Medium	- past 3 months	-1	+24	+24	+21	+27	+58
		- next 3 months	-6	+22	+14	+8	+39	+56
12a	Average domestic prices							
	SME	- past 3 months	+11	+9	+3	+6	+20	+20
		- next 3 months	+11	+5	+5	+22	+23	+27
	Small	- past 3 months	+13	+13	+5	+8	+24	+22
		- next 3 months	+14	+7	+7	+27	+21	+32
	Medium	- past 3 months	+5	-3	-3	0	+10	+15
		- next 3 months	+3	-1	-2	+8	+26	+11

		2008					
		Apr	Jul	Oct	Jan	Apr	Jul
14	Three month forecast of factors likely to limit output *						
	Orders or sales						
	SME	70	68	69	78	77	71
	Small	74	68	73	80	80	72
	Medium	58	68	58	72	69	68
	Skilled labour						
	SME	16	21	21	13	18	13
	Small	19	23	17	14	20	14
	Medium	8	15	32	7	14	10
	Other labour						
	SME	2	2	2	3	9	1
	Small	3	2	3	4	12	1
	Medium	0	2	1	1	1	1
	Plant capacity						
	SME	17	22	16	15	22	23
	Small	12	20	15	12	20	21
	Medium	31	30	21	25	28	28
	Credit or finance						
	SME	5	4	3	2	5	5
	Small	6	4	4	3	4	5
	Medium	1	1	1	1	6	2
	Materials/components						
	SME	10	9	9	8	5	10
	Small	9	7	8	7	5	11
	Medium	14	14	11	12	8	10
	Other						
	SME	2	3	3	1	1	1
	Small	3	3	3	1	1	2
	Medium	1	1	3	0	0	1
16a	Firms with present capacity at least adequate to meet expected demand *						
	SME	87	85	85	89	87	86
	Small	90	85	88	91	88	83
	Medium	76	83	78	82	84	93
16b	Reasons for expected capital expenditure authorisations *						
	Expand capacity						
	SME	33	32	30	28	31	28
	Small	27	29	25	26	26	23
	Medium	53	40	46	33	47	47
	Increase efficiency						
	SME	55	54	54	54	52	49
	Small	47	45	47	51	44	45
	Medium	78	83	72	65	77	64
	Replacement						
	SME	43	47	47	48	42	49
	Small	44	45	44	44	39	48
	Medium	39	55	56	58	52	49

		2008					
		Apr	Jul	Oct	Jan	Apr	Jul
	Other						
	SME	6	8	7	4	5	9
	Small	6	8	6	4	3	10
	Medium	4	7	10	5	10	8
16c	Twelve month forecast of factors likely to limit capital expenditure authorisations *						
	Inadequate net return						
	SME	45	36	38	36	42	35
	Small	44	35	39	35	43	32
	Medium	49	39	34	36	38	43
	Internal finance shortage						
	SME	17	20	19	18	16	16
	Small	16	18	16	14	15	14
	Medium	19	29	27	27	20	20
	Inability to raise external finance						
	SME	3	4	3	4	5	5
	Small	3	5	3	4	4	4
	Medium	2	2	4	5	6	8
	Cost of finance						
	SME	5	5	5	5	6	6
	Small	6	5	6	5	5	7
	Medium	1	6	3	4	10	2
	Uncertainty about demand						
	SME	53	52	53	53	48	59
	Small	56	53	56	54	49	59
	Medium	42	50	44	47	46	59
	Labour shortage						
	SME	7	11	14	9	11	8
	Small	7	12	11	10	12	8
	Medium	8	9	23	5	6	9
	Other						
	SME	5	3	3	3	3	5
	Small	5	2	2	3	3	5
	Medium	6	6	4	2	3	4
17	Twelve month forecast of expenditure authorisations compared with previous twelve months on:						
	a. product and process innovation						
	SME	+7	+12	+11	+15	+7	-1
	Small	+4	+10	+8	+11	+5	-9
	Medium	+18	+19	+19	+29	+13	+25
	b. training and retraining						
	SME	+14	+12	+16	+14	+4	0
	Small	+13	+12	+11	+13	+6	+2
	Medium	+17	+12	+29	+17	-3	-6

Export trade

			2008					
			Apr	Jul	Oct	Jan	Apr	Jul
2	Optimism re export prospects for year ahead							
	SME		+10	-3	-1	-2	-10	-16
	Small		+8	-4	-3	-1	-8	-16
	Medium		+23	+4	+11	-8	-18	-20
7b	Volume of export orders							
	SME	- past 3 months	0	-4	+4	+12	-11	-9
		- next 3 months	+7	+1	+2	0	-1	-12
	Small	- past 3 months	-3	-6	0	+9	-9	-10
		- next 3 months	+4	-3	0	-3	+1	-13
	Medium	- past 3 months	+31	+9	+36	+31	-19	-1
		- next 3 months	+45	+26	+17	+21	-6	0
9b	Volume of export deliveries							
	SME	- past 3 months	+1	-1	+4	+12	-6	-7
		- next 3 months	+5	+3	+5	+4	0	-7
	Small	- past 3 months	-2	-4	0	+10	-10	-7
		- next 3 months	0	-2	+1	+1	+3	-9
	Medium	- past 3 months	+29	+14	+34	+31	+15	-4
		- next 3 months	+56	+32	+37	+30	-13	+16
12b	Average export prices							
	SME	- past 3 months	-1	+3	-3	+6	+10	+15
		- next 3 months	+8	+1	-2	+9	+13	+24
	Small	- past 3 months	-2	+6	-1	+7	+7	+13
		- next 3 months	+8	+2	0	+12	+13	+24
	Medium	- past 3 months	+1	-11	-21	-3	+23	+36
		- next 3 months	+9	-7	-17	-13	+14	+23
15	Three month forecast of factors likely to limit export orders *							
	Prices							
	SME		65	65	66	66	66	63
	Small		67	67	66	65	66	65
	Medium		39	54	65	67	62	42
	Delivery dates							
	SME		19	19	19	11	20	17
	Small		16	16	17	9	17	18
	Medium		38	33	34	29	36	10
	Credit or finance							
	SME		6	2	3	4	5	7
	Small		7	3	3	4	5	7
	Medium		0	1	2	0	2	3
	Quota and licence							
	SME		1	2	2	2	1	2
	Small		1	2	2	0	2	2
	Medium		0	2	2	10	0	4

	Apr	Jul	Oct	2008		
				Jan	Apr	Jul
Political/economic conditions abroad						
SME	9	9	9	12	18	17
Small	10	10	9	12	15	15
Medium	7	5	11	10	29	29
Other						
SME	14	13	7	6	12	11
Small	15	13	7	6	13	11
Medium	8	11	10	12	6	16

Figures marked thus (*) are weighted percentages of respondents. All other figures are percentage balances, ie the difference between those replying 'more', 'up', 'above normal' or 'more adequate' and those replying 'less', 'down', 'below normal' or 'less than adequate'.

CBI Economic Analysis

Publications and services

The CBI Economic Analysis Group takes advantage of the CBI's diverse contacts with British business to build up an accurate assessment of the latest developments in the UK and international economy. Widely acknowledged for its professional standards, the Group's work is vital since Government statistics, where available, are often slow to be published and are subject to revision. Apart from the Economic & Business Outlook, the Group publishes the unique CBI business surveys, covering manufacturing, distribution, consumer, business & professional services, financial services, property trends, SME's and the UK regions. All results are carefully scrutinised and discussed by business people and economists before publication.

Title		CBI members		Non-members	
		Annual subscription	Single issue	Annual subscription	Single issue
CBI Economic & Business Outlook Monthly Update	(6 issues)	FREE	FREE	FREE	FREE
CBI Economic & Business Outlook Quarterly	(4 issues)	FREE	FREE	*	*
CBI Industrial Trends Survey Full Results Book	(4 issues)	£285	£75	£495	£130
CBI Industrial Trends Survey (Monthly & Quarterly combined) Full Results Book	(12 issues)	£435	£45	£695	£65
CBI Industrial Trends Survey	(4 issues)	£235	£60	£395	£100
CBI/PricewaterhouseCoopers Financial Services Survey	(4 issues)	£210	£60	£360	£95
CBI Distributive Trades Survey	(12 issues)	£385	£30	£460	£45
CBI/Experian Regional Trends Survey	(4 issues)	£210	£60	£335	£90
CBI/Grant Thornton Service Sector Survey	(4 issues)	£210	£60	£360	£95
CBI/GVA Grimley Property Trends Survey	(2 issues)	Provided free by GVA Grimley			

* Available on the CBI website two months after publication

If you wish to take advantage of any of these publications, please contact:

CBI Publication Sales
Centre Point
103 New Oxford Street
London WC1A 1DU.

Tel: 020 7395 8071
Fax: 020 7497 3646
E-mail: bookshop@cbi.org.uk

Or if you wish to participate in our various business surveys or gain further information, please contact:

Veljka Cassidy
Senior Survey Officer
Survey Management Group
Centre Point
103 New Oxford Street
London WC1A 1DU.

Tel: 020 7395 8104
Fax: 020 7836 5856
E-mail: veljka.cassidy@cbi.org.uk

CBI website: <http://www.cbi.org.uk>