

Small firms have big problems, CBI survey reveals

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The owners of small businesses have seen orders collapse due to the lockdown, with many having to lay off staff



The lockdown of the economy to combat the spread of the coronavirus pandemic has been, predictably, a disaster for small manufacturers. Although it has not been a total catastrophe for all, most small businesses fear the worst is yet to come.

The collapse over the past month in manufacturing output among small and medium-sized enterprises (SMEs) has been at its fastest rate since the global financial crisis a decade ago.

The data from the CBI, the employers' organisation, adds up to an unremittingly bad story for most. Yet the figures indicate there are companies, albeit in the minority, reporting that not all has turned to dust.

New orders have fallen at the fastest rate in seven years. Export orders have dived quicker than any time since 2015 and four out of five companies blame the declines on the lockdown.

In a snapshot on how small manufacturers are operating, the CBI survey found that just over half of firms have partially shut down or closed UK production or activity altogether, with a little over half also saying they have temporarily laid off staff.

In the survey of 300 employers, just under 10 per cent said they had made workers redundant.

Among the SMEs, three quarters said they faced cash flow difficulties.

The survey showed how critical government support is to the sector, Alpesh Paleja, the CBI's lead economist, said.

“The government's support schemes have been a real lifeline for businesses so far and they [ministers and banks] should remain conscious of getting money to those who need it quickly,” he said.

While not everyone in the small business sector has been a loser in the Covid-19 crisis — the number of firms working at under-capacity was put at 76 per cent — the bad news is that they are not expecting any good news.

Business sentiment and export expectations have dropped by their fastest on record. Small manufacturers expect output to plunge at a faster pace in the coming quarter, marking a slough of despond not witnessed in any previous surveys going back to 1988 when the CBI started collecting this data. That takes in at least two recessions for the sector in 1991 and 2009.

The respondents reckoned domestic and export orders will fall even faster in the coming weeks and months and, as such, they are pulling the plug on investment in buildings, plant and machinery.

Even if people aren't being laid off permanently yet, the expectation is that they will when the government support money is turned off.

The SME sector is crucial to the British economy. Before the virus crisis there were about 5.8 million small businesses of between 1 and 49 employees, accounting for more than 99 per cent of all businesses in the country. At more than 16 million workers between them, they account for 60 per cent of Britain's workforce and, pre-virus, more than £2 trillion of turnover.