

Enginuity®

# SME Snapshot

March 2026



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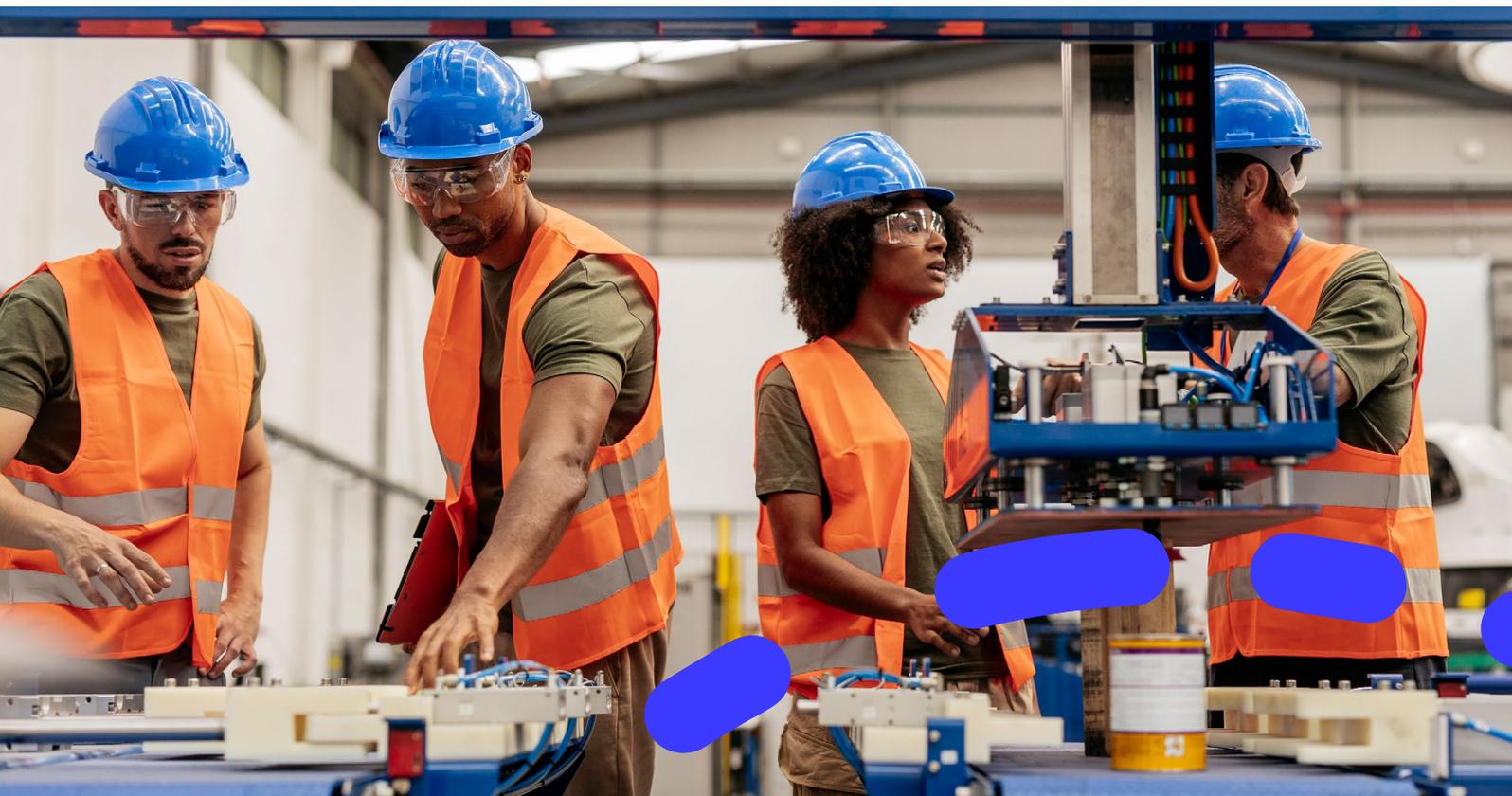
# The Policy Centre for Supply Chain and SMEs: Powered by Enginuity

Enginuity's snapshot survey gathers views on the business health, outlook, and experience of skills policy amongst engineering and manufacturing small and medium businesses.

The Snapshot survey is commissioned by the **Policy Centre for Supply Chain and SMEs: Powered by Enginuity**, which unifies and amplifies the voice of the UK's manufacturing and engineering businesses.

As an independent voice, the Policy Centre brings together industry, government, policy organisations and industry representative bodies to:

- Convene businesses to identify shared challenges and opportunities, from skills gaps to productivity.
- Amplify the collective voice of SMEs within the engineering and manufacturing ecosystem.
- Provide evidence and insight to ensure policymakers understand and act on supply chain & SME priorities.
- Advocate for policy change to close skills gaps and enhance productivity.
- Co-design practical solutions and initiatives that address skills shortages and support business growth, as well as regional and UK economies.
- Drive and deliver lasting impact through partnership, influence and innovation.



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# Foreword

**Over the last 18 months the Government have made clear that driving economic growth is a priority, and that skills and education are the route to achieving it. Given Small and Medium Enterprises (SMEs) make up 99% of all UK businesses and 90% of those in manufacturing and engineering, they are critical to the success of this ambition.**

The January 2026 SME Snapshot survey signals that the skills system is not working for SMEs at a time when they continue to face recruitment challenges and labour costs are a major concern.

Published in July 2025, Enginuity's first snapshot survey gathered the views of SMEs in the UK engineering and manufacturing sector, representing 6,500 employees and generating £1.1 billion in sales.

The January 2026 snapshot survey has seen **participation grow by almost 90%**, and this new report reflects the views of more than **250 SMEs**, employing over **10,000 people**, and generating **£1.91 billion**. Engineering and manufacturing SMEs are increasing their engagement with policy at a time of major changes in the skills system and our second survey now allows trend analysis, providing a sense of how government reforms on skills over the last year have impacted SMEs on the ground.

This survey shows a mixed picture: employers have reported **an increase in business** optimism, but also told us that economic conditions remain highly challenging. For a second time, labour costs remain the main cause of pressure to raise prices, and **widespread recruitment difficulties** demonstrate the skills system is not doing enough to address labour market needs, or support jobs, productivity and growth.

SMEs have again told us decisively that labour and skills shortages are negatively impacting their businesses. **60% of businesses have engaged in recruitment** over the last six months, and of those, **80% said they experienced difficulties getting suitable staff**, with **60% citing lack of candidates with appropriate technical qualifications as the biggest driver of skills gaps**.

This is all comes against a backdrop of a complex skills system. UK Government skills policy, which plays a key role in underpinning occupational competence, enabling careers, and driving business growth, is undertaking major changes to apprenticeships and qualifications. A key shift in emphasis is towards younger people – particularly those not in employment, education or training (NEET). In February, the Office for National Statistics reported that unemployment in the UK rose to its highest rate in nearly five years at the end of 2025. Young people are bearing the brunt, with unemployment for those aged between 16 and 24 rising to 16.1%, its highest in more than 10 years. While employers will welcome measures to tackle this, a focus must also remain on upskilling and reskilling existing workers.

Skills England, only operational from July 2025, has moved from the Department for Education (DfE) to the Department for Work and Pensions (DWP). This is the first time that the DWP has owned direct responsibility for apprenticeships, skills, training and careers in England. Skills and employment policy have not been under the same roof since 2001. Whilst the change does offer the potential to align skills policy with welfare and employment policy, it represents another governance reform and risks overwhelming SMEs who already struggle to understand and access the skills landscape.

SMEs welcome the Government's mission to remove barriers to opportunity through prioritising skills training as the enabler of employment and business growth. But the increasing pace and number of reforms risk overwhelming businesses – and direct support, such as incentivising apprenticeship take-up – must be informed by need and be sufficient to catalyse SME investment.

These changes, whilst still evolving, will affect all SMEs in the engineering and manufacturing sectors over the next few years, and that is why it is vital at this time that the experience of SMEs is gathered and signalled to meet employers' needs.

While **53% of businesses said they are optimistic** about the year ahead, **60%** said they were more pessimistic following announcements made in the Autumn Budget 2025.

At the report pre-launch round table, SMEs strongly recognised the report's findings - emphasising again that rising labour costs are undermining recruitment, apprenticeships and business growth.

This is a critical time for engineering and manufacturing. An **Advanced Manufacturing Jobs Plan**, in support of last year's Industrial Strategy, is due to be published this year. The Migration Advisory Committee is refining its **Temporary Shortage Occupation List**, supporting a stated policy aim of driving improvement in the domestic skills system to meet employer demand. DWP, the new home of skills, will announce detailed plans in the coming months for **tackling youth unemployment**, including the Youth Guarantee, and Skills England will push through **significant reforms to apprenticeships and the Growth & Skills Levy**.

Representing 90% of the UK engineering and manufacturing sector, SMEs are well positioned to strengthen the labour market and inform the skills system, but as this research shows, they continue to face barriers and challenges. **Productive engagement between SMEs and Government is key to overcoming these challenges, and the Policy Centre for SMEs and Supply Chain will help to drive this.**

The findings in this new report power the sector's messages to Government:

- Engineering and manufacturing together represent around a third of the UK economy. The sector's SMEs are both the **foundation and driving force of economic growth**. Having enough people with the right skills at the right time is essential to their success and vital to economic growth and prosperity. A one-size-fits-all approach to skills policy risks failing to meet employers' needs. **We call on Government to engage meaningfully with engineering and manufacturing SMEs to collaborate on reform of the skills system and improvement of the labour market.**
- SMEs understand what occupational competency means in practice and its importance in safety, prosperity and business growth: they should have a leading role in ensuring that skills solutions and the skills system have occupational competency as their North Star. **We urge Government to draw on the expertise and experience of SMEs to ensure that those people who are being supported to enter the labour market have the right skills, knowledge and behaviours to allow them to sustain employment, thrive in their jobs, and drive business growth.**
- SMEs are the supply chains for large, strategic, and often international businesses, but they are also rooted in the communities from which they attract their employees. Supporting them sufficiently will be key to their success in creating sustainable and productive employment. **We call on Government to understand the crucial role that SMEs play in sustaining their major customers, and to support them with the costs of recruiting and training staff on whose skills complex supply chains rely.**

## Key insights



60% of firms have attempted to recruit in the last six months  
– same as the July 2025 survey.



80% said they experienced recruitment difficulties  
– same as the July 2025 survey.



60% cited lack of appropriate technical qualifications as the biggest driver of skills gaps – up from 57% in the July 2025 survey.



40% reported a lack of candidates with meta-skills (employability skills)  
– same as the July 2025 survey.



52% said the UK labour market was a difficult place to do business  
– up from 41% in the July 2025 survey.

# Emerging trends

Business confidence among SMEs in engineering and manufacturing has improved, alongside increased recruitment activity and stronger intentions to invest in technology and capital. However, these positive signals are not yet translating into a meaningful reduction in skills gaps.

The core drivers remain consistent as employers continue to report shortages in candidates with appropriate technical and vocational qualifications, alongside gaps in employability skills such as communication, teamwork and workplace readiness.

This underlines the need for closer alignment between SME skills needs and qualification design. As skills policy becomes more centrally driven, there is a clear case for deeper SME engagement in curriculum development and delivery to ensure provision reflects real workplace demand.

SMEs also report that it is often easier to train existing staff than to recruit new employees. A more accessible and responsive skills system – with tailored support for smaller employers – could unlock greater employer investment in workforce development.

Looking ahead, delivery of the Industrial Strategy will require a step change in skills investment. While measures in the Autumn Budget 2025 to fully fund apprenticeship training for under-25s in SMEs were intended to stimulate recruitment, early signals suggest limited impact on employer intentions. This indicates that training cost is not the only barrier. Employment costs, administrative complexity and concerns about candidate work-readiness continue to influence SME decisions on apprenticeship recruitment.

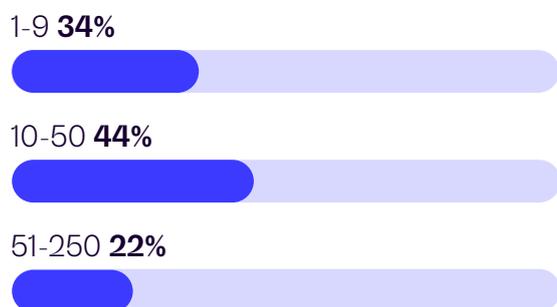
# The sample



- West Midlands **19%**
- South East **17%**
- Yorkshire & Humber **15%**
- East Midlands **12%**
- South West **11%**
- East of England **10%**
- North West **6%**
- Wales **3%**
- Scotland **2%**
- North East **2%**
- Northern Ireland **2%**
- London **1%**

The sample saw an **87% increase in returns**, representing the views of **252 SMEs**, with 10,500 employees, and **£1.19bn of sales**.

## How many employees does your company employ in the UK?



Responses from SMEs with fewer than 10 staff rose from around a fifth in the June 2025 survey to over one third in this edition.

## What are the main sectors that the company operates in?\*



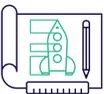
Industrial Manufacturing **48%**



Mechanical Engineering **34%**



Automotive **30%**



Aerospace **28%**



Defence **25%**

\*Respondents were given the option to select up to 3 sectors that they supply into. SME manufacturers and engineering businesses often do not fit neatly into a single sector definition.



# Skills for jobs, productivity and growth

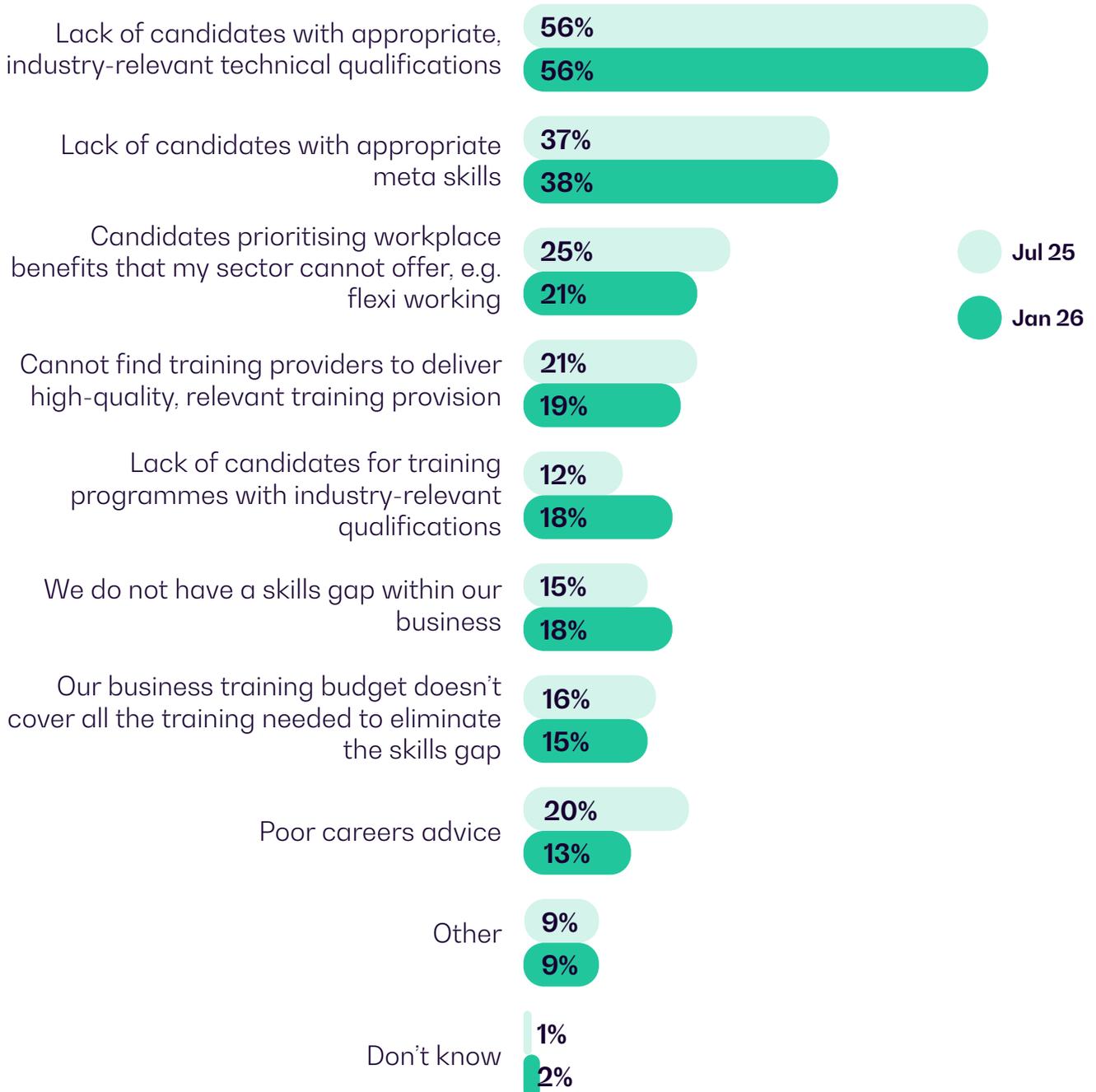
**SMEs feel unserved by the UK skills system and continue to experience adverse labour market conditions driving inflationary pressures.**

In the January 2026 survey, the proportion of SME respondents considering the UK labour market as an attractive place to invest and do business in was just 17%, up slightly from 15% in July 2025. Those considering it not attractive rose from 41% to 52%.

**The majority of SMEs are facing challenges in recruiting.**

60% of SMEs had engaged in recruitment in the previous six months, with 80% of those experiencing difficulties finding suitable staff. Skills gaps continue to present issues with almost 60% reporting a lack of candidates with appropriate industry-relevant technical qualifications, and 40% reporting a lack of candidates with appropriate meta skills, such as communication skills, self-management, and problem solving.

What are the main drivers of skills gaps in your business?\*

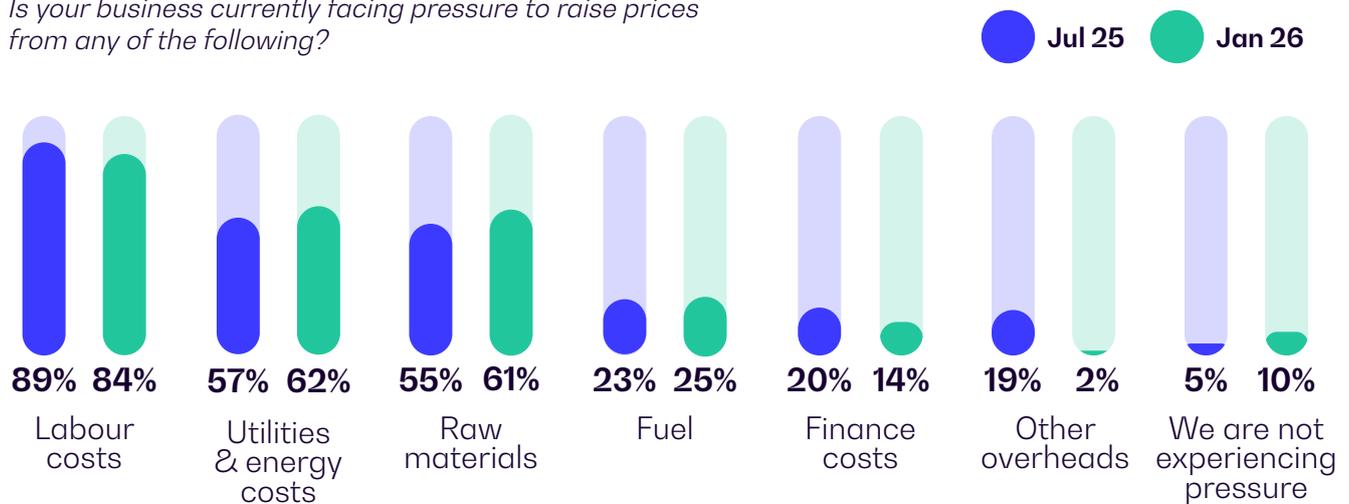


\* Respondents were invited to select more than one answer. Percentage totals may therefore exceed 100%.

## Employment remains the top inflationary pressure driving up prices.

A growing number of SMEs reported a worsening picture over the last six months of increasing energy and utility costs as adding pressure to raise their prices, **but for over 80% of them labour costs remain the biggest inflationary pressure.**

*Is your business currently facing pressure to raise prices from any of the following?*

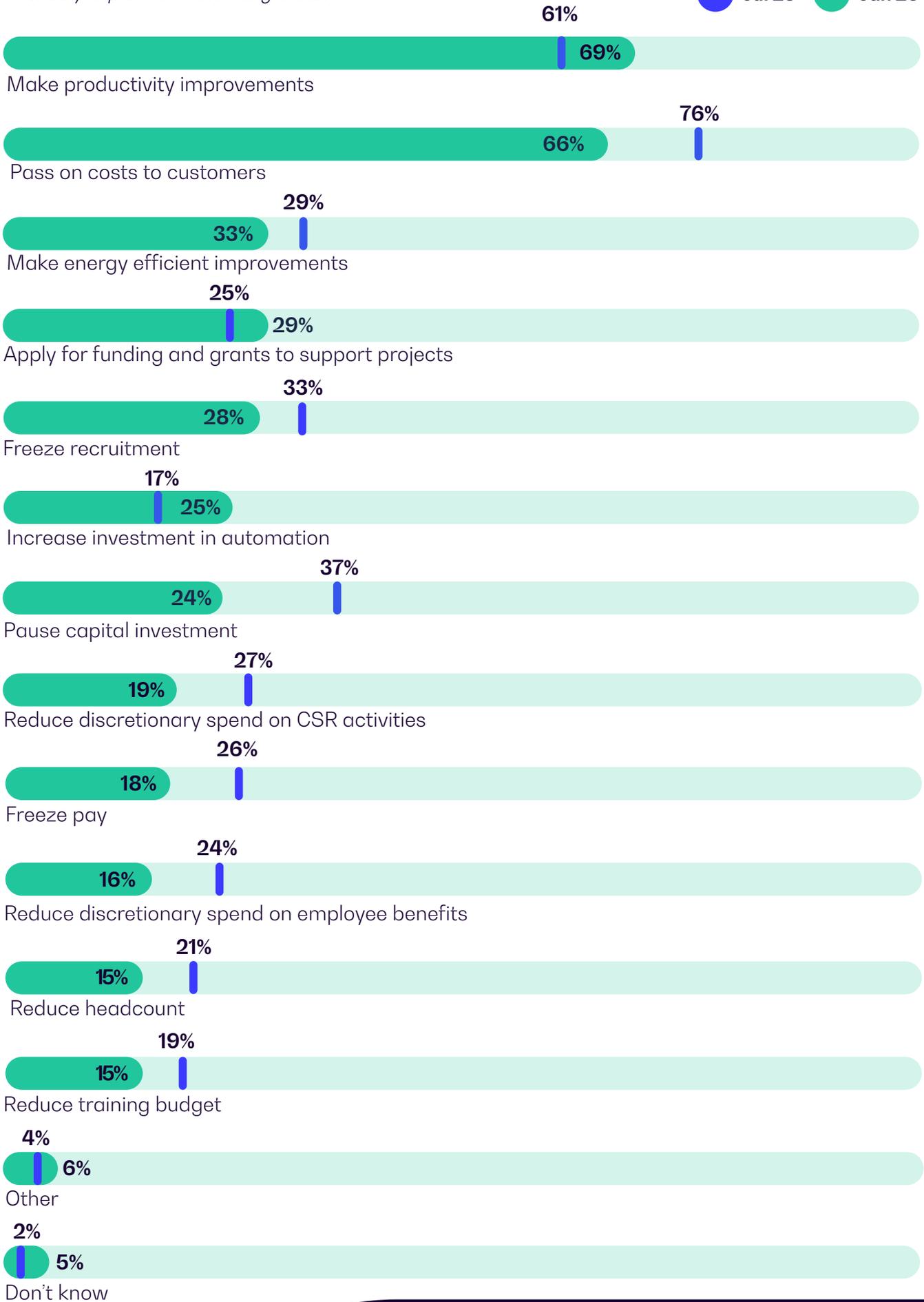


## More SMEs say they will need to offset rising costs with productivity improvements.

In a significant change from the previous survey, around **70% of SMEs, up from around 60%, said they would seek to make productivity improvements to offset rising costs.** SMEs passing on costs to customers has fallen by 10%, while increasing investment in automation as a remedy to rising cost had risen from 17% of respondents to around 25%.

How do you plan to offset rising costs?

Jul 25 Jan 26



## Workforce expansion has increased amongst SMEs since last year.

20% of SMEs in the July 2025 survey reported that they had increased staffing levels in the preceding six months. In the January 2026 survey those reporting workforce expansion had risen to 28%. Conversely, SMEs reporting that they had reduced workforce in the preceding 6 months was 34% in the July 2025 survey and 24% in the January 2026 survey.

Over the **past** six months, has your workforce decreased, increased, or remained the same?

July 2025



January 2026



Looking ahead to the next six months, SMEs report a significant lift in those expecting to increase staff, and a drop in those expecting staff numbers to decrease.

Over the **next** six months, do you expect your workforce to...\*

July 2025



January 2026



\*In July 25 1% said they don't know, and in January 2026 3% said they don't know

## SMEs are more confident in training than recruiting staff.

When it comes to employer confidence in being able to recruit or train enough workers to meet their organisation's skills needs over the next **3 to 5 years**, SMEs report greater confidence in their ability to **train** their staff than to **recruit** them.

Businesses very confident in their ability **to recruit** fell from 8% to 5% in the six months between the surveys, while those having some confidence rose from 25% to 30%. Conversely, those having no confidence fell from 24% to 14%, while those expressing low confidence increased from 17% to 29%. On **training**, low or no confidence was around 20%, and confident or very confident was slightly above 50% for both surveys. This presents a shifting but complex picture.

*How confident are you that you will be able to recruit or train enough workers to meet your organisation's skills needs over the next 3-5 years?*

### Recruit Jul 25\*



\*1% of respondents indicated that they did not know, and 2% answered N/A.

### Recruit Jan 26\*\*



\*\*2% of respondents answered N/A.

### Train Jul 25\*\*\*



\*\*\*1% of respondents indicated that they did not know, and 1% answered N/A.

### Train Jan 26\*\*\*\*



\*\*\*\*3% of respondents answered N/A.



# Capacity, cash flow and investment intentions

## More SMEs are optimistic about the year ahead.

General business optimism has increased, with 53% of SMEs agreeing or strongly agreeing with the statement. Although around three quarters say they are not operating at full capacity yet, those reporting increased profitability in the three months preceding the surveys has risen from 15% in July 2025 to 24% in January 2026. Looking three months ahead sees further expectations of increased profitability, from 29% of respondents to 36%. This is in the context of increasing capital investment and automation, and we are keen to more closely identify the drivers of profitability through closer engagement with SMEs.

SMEs report increased optimism with 53% agreeing or strongly agreeing, compared to 38% in the July 2025 survey, while those who disagreed or disagreed strongly had dropped from 27% to 21%.

*Our business is optimistic about the year ahead...*

Jul 25\*



\*1% of respondents indicated that they did not know, 0% answered disagree.

Jan 26



- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

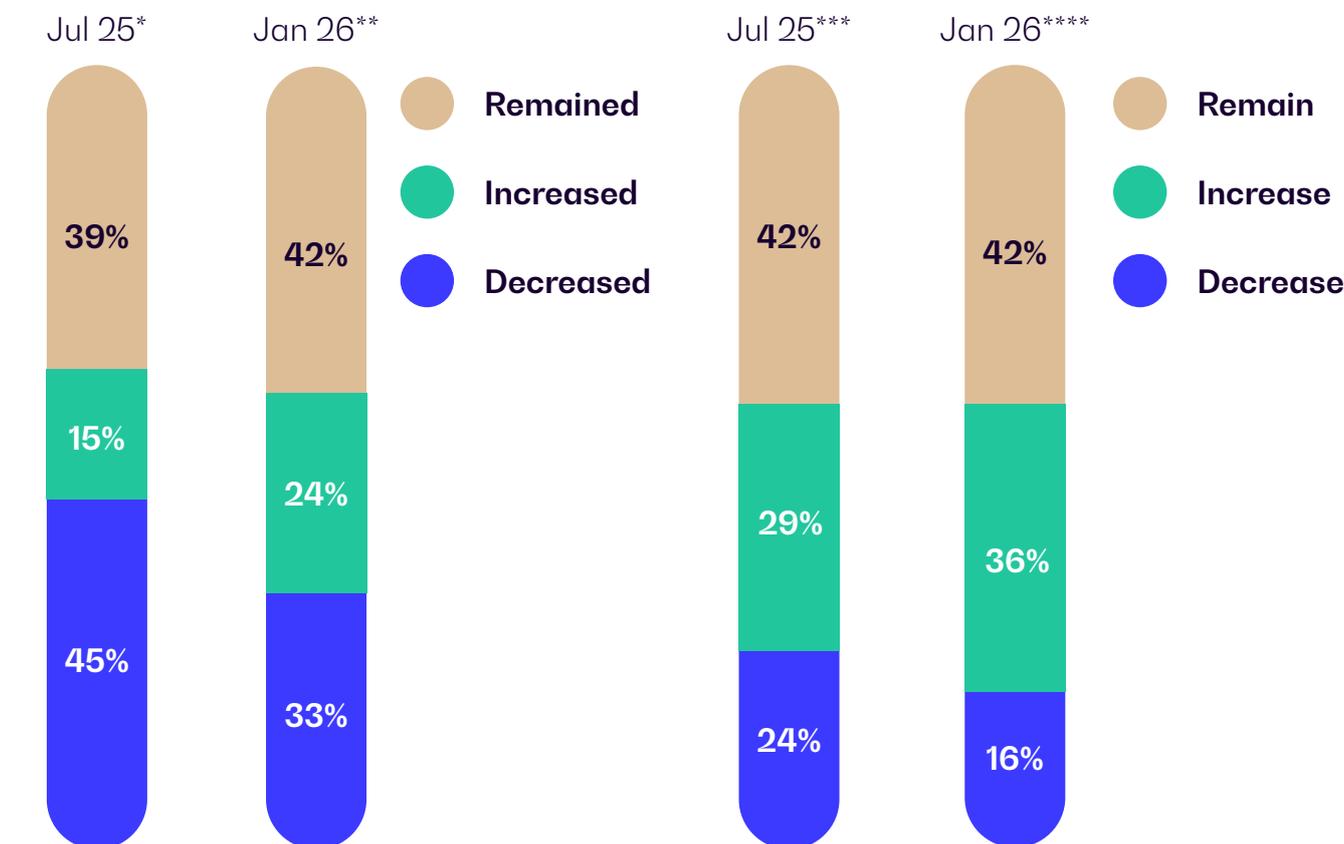
## Majority of SMEs not operating at full capacity yet more report profitability.

Around three quarters of respondents say their businesses are operating at below full capacity – slightly increasing from 72% to 76% between surveys.

In the July 2025 survey, just 15% of respondents reported increased business profitability in the preceding three months; this has increased to a quarter in the January 2026 survey. The proportion seeing a decline in profitability has also decreased significantly.

Over the **last** 3 months, business profitability has...

Over the **next** 3 months we expect business profitability to...



\*1% of respondents indicated that they did not know.

\*\*1% of respondents indicated that they did not know.

\*\*\*4% of respondents indicated that they did not know.

\*\*\*\*6% of respondents indicated that they did not know.

Looking three months ahead shows the proportion of SMEs expecting business profitability to increase, rising from 29% in the July 2025 survey to over a third in the January 2026 survey.

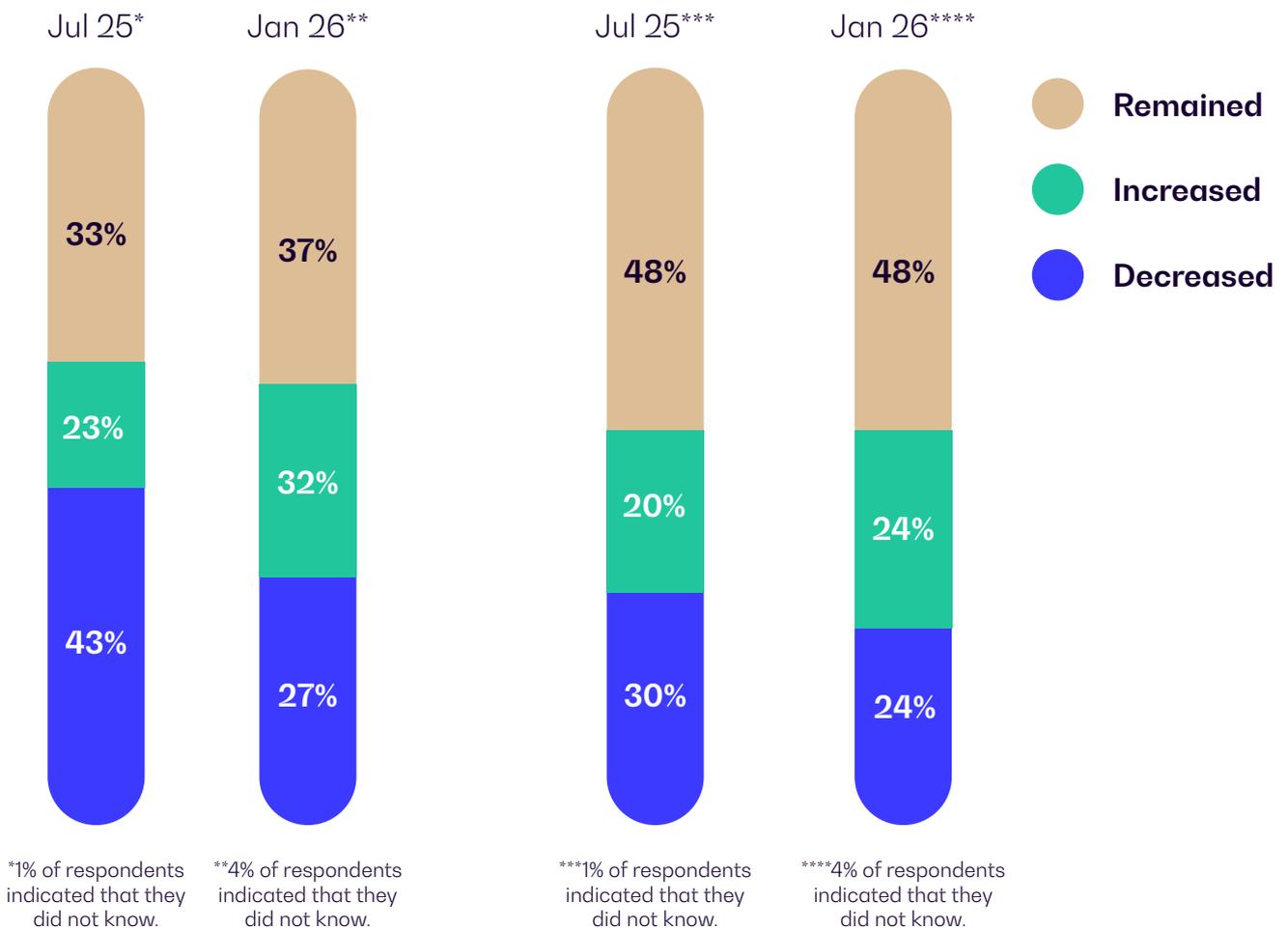
## Investment by SMEs has seen a boost.

SMEs report significantly increased investment in capital equipment in the January 2026 survey compared to July 2025. About a third said in this wave that they had increased investment in the past 12 months compared to a quarter previously.

Increases in investment in training were positive, but less marked than capital.

What has been the trend in the **past 12 months** in investing in capital equipment (plant, machinery, tech, equipment...)

What has been the trend in the **past 12 months** investing in plans for training

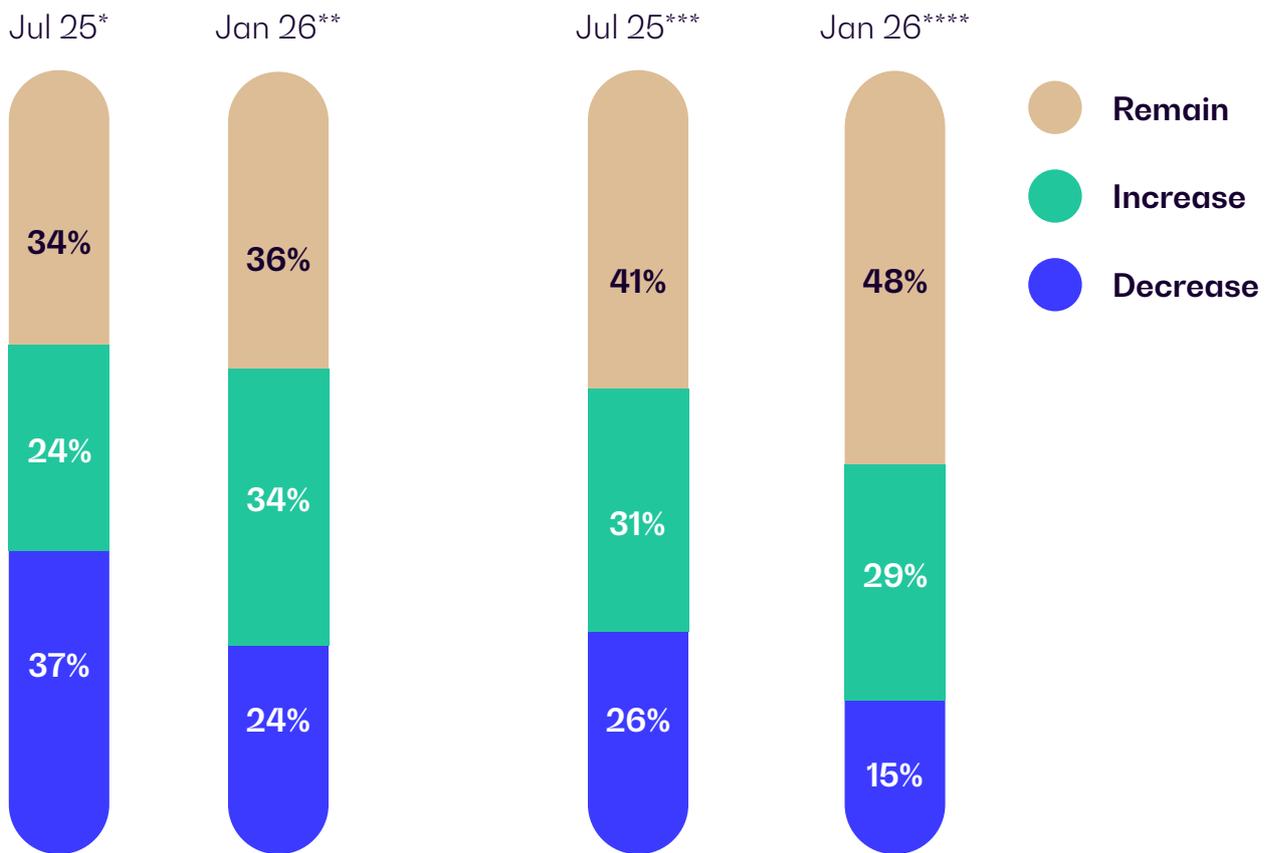


Looking at the same types of investment for the 12 months ahead: firms expecting an increase in capital investment rose from 24% in July 2025 to 34% in the January 2026 survey.

For investments in training over the 12 months ahead, SMEs planning to increase investment fell slightly, with almost half of respondents saying it would remain constant.

Over the **next** 12 months investment plans in capital equipment (plant, machinery, tech, equipment...) will:

Over the **next** 12 months investment plans for training will



\*5% of respondents indicated that they did not know.

\*\*6% of respondents indicated that they did not know.

\*\*\*2% of respondents indicated that they did not know.

\*\*\*\*7% of respondents indicated that they did not know.

# SME reaction to measures in the Autumn Budget 2025

## Most SMEs are pessimistic following Autumn Budget.

The last major planned fiscal event before the January 2026 survey was the Autumn Budget 2025. This saw announcements that included increases to the National Living Wage, National Minimum Wage, and Apprenticeship Rate (that will be effective from April 2026). The budget also announced that SMEs will no longer have to pay co-investment contributions for apprentices under the age of 25, i.e. the training will be fully funded by Government.

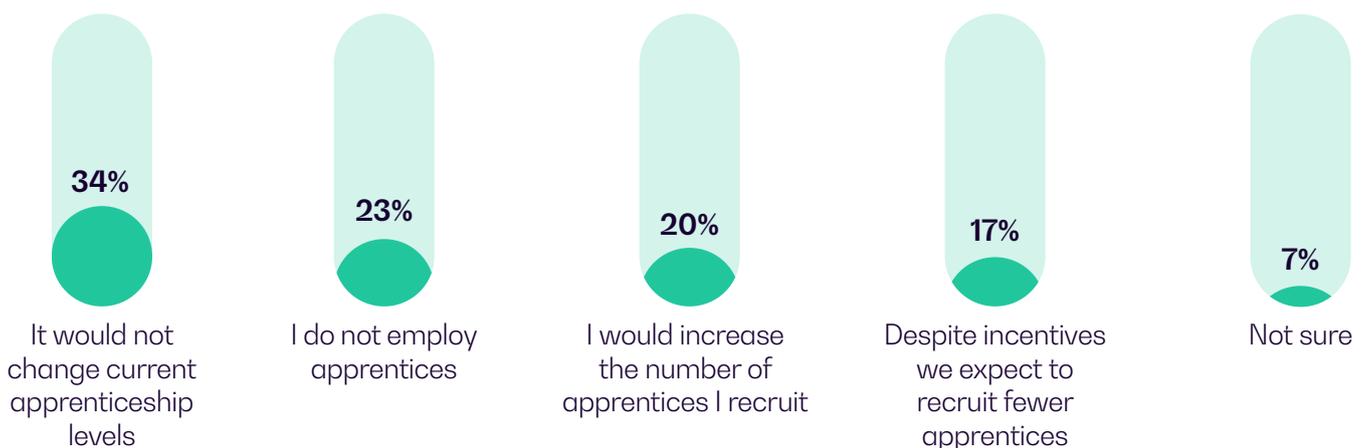
In response to the question, 'How have announcements in the Autumn Budget 2025 influenced your business confidence/outlook for your business for the next 12 months?' **61% of SMEs were more pessimistic, and only 6% more optimistic.**



## Fully funded training for apprenticeships in SMEs is not enough to incentivise recruitment, and 23% of SMEs do not employ apprentices.

At a time when there is a major shift in focus of skills policy towards supporting young people who are not in employment, education or training to get them into jobs, there is a need to understand the barriers to taking on apprentices that almost one-in-four SMEs experience.

In response to how the announcement of fully funded apprenticeships for under 25-year-olds in SMEs might affect apprenticeship recruitment, **over a third said it would not change current apprenticeship levels**, 17% of firms said that they expected to recruit fewer apprentices, and almost a quarter of SME respondents do not employ apprentices.



# Make your voice heard

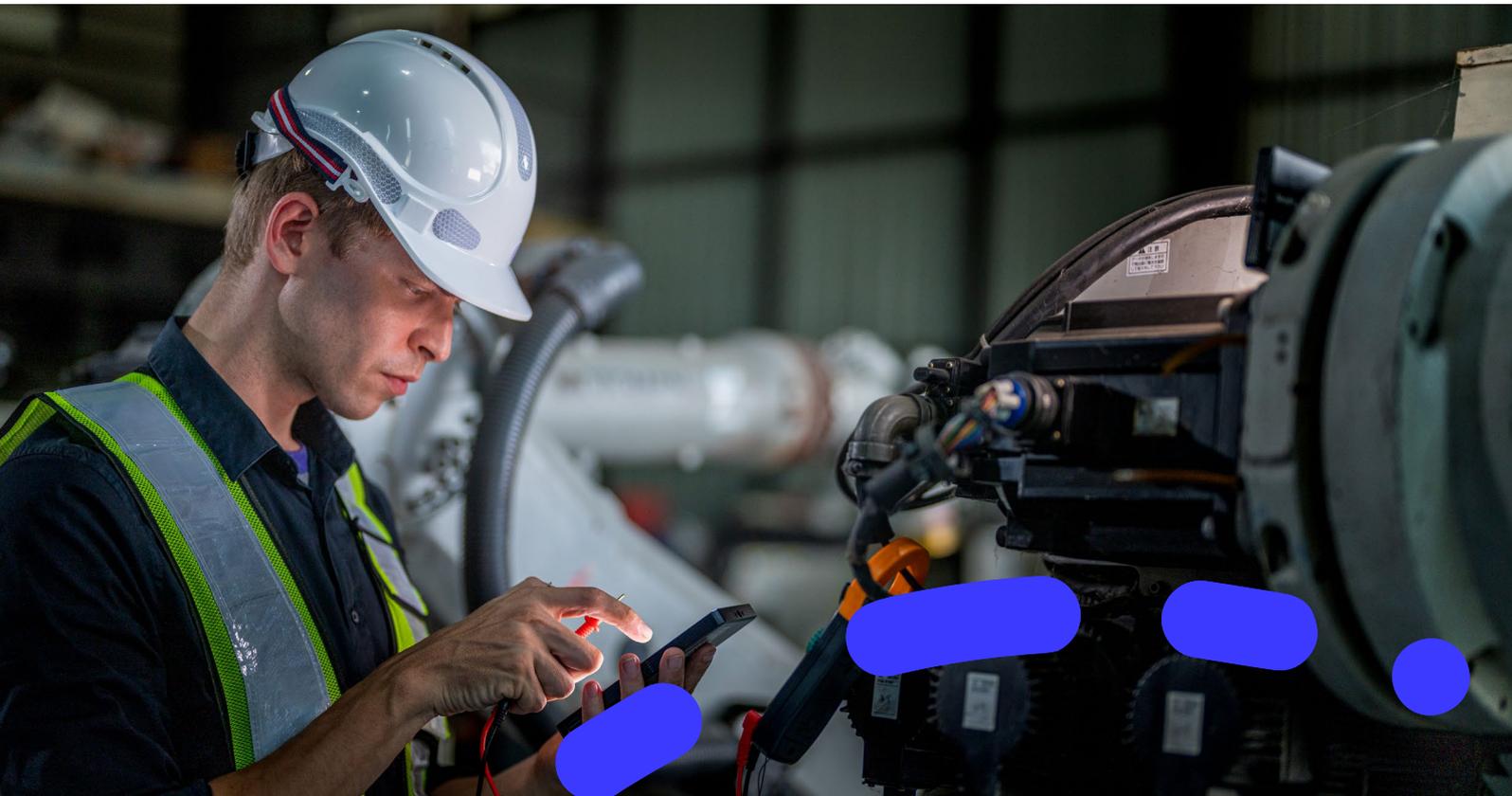
Growing in reach and impact, the Enginuity SME Snapshot is amplifying the voices of engineering and manufacturing SME businesses to Government and key policymakers.

Register now for updates on the snapshot survey and to be notified first when a new survey round opens for your input.

If you are a business decision maker, sign up here to make sure your voice is heard and helps to shape the policies, strategies, and support that your business needs now and in the future.

To get in touch, email [policy@enginuity.org](mailto:policy@enginuity.org).

[Click to sign up](#)



# About Enginuity

**Enginuity is dedicated to helping employers in the manufacturing and engineering sectors to close the skills gap.**

Enginuity is an independent charity that invests £2 million annually in initiatives and programmes that improve access to skills for businesses and people.

Combining a wealth of up-to-date sector data with long experience and seasoned understanding of skills challenges, we help ensure that the sector's safe, skilled, and sustainable workforce is effective, competitive, and future facing. Our Policy Centre for SMEs and Supply Chain tests policy proposals, leverages employer perspectives, and develops solutions through our key employer-led groups – the SME Advisory Council and the Strategic Advisory Board, with wider collaboration via engagement with the National Manufacturing Skills Taskforce, which we co-founded.

Our charitable investment funds a wide range of practical skills solutions – from supporting Alternative Provision and removing the obstacles for inclusion for neurodiverse young people, to improving employee retention through enabling career-break return, engaging schools, and developing leadership skills programmes for SMEs.

We remove barriers, reduce disadvantage, and drive greater representation in the engineering and manufacturing sectors.

## Report methodology

320 UK employers responded to the survey invitation, with 252 providing the data for this report. Some responses were excluded from this analysis where insufficient questions were answered, or if the business was substantially larger than the accepted Small and Medium Enterprise definition of a firm with 250 or fewer employees.

This report represents the views of 252 employers in the engineering and manufacturing sectors, collectively employing 10,500 staff and recording £1.19 billion in sales.

The second Enginuity Snapshot survey ran from Monday, 26 January to Sunday, 8 February 2026.

The Enginuity Snapshot survey has been developed to gather real-time data on how SMEs in engineering and manufacturing are experiencing economic and policy development. The SME Snapshot report offers insights for policymakers, stakeholders, and the SME community.

Due to rounding, the percentages in some graphs may not total exactly 100%.

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