

Enginuity Report – Labour Costs Holding Back Growth

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High employment costs are now outstripping energy costs as the most cited source of pressure to raise prices, creating inflationary headwinds and threatening the competitiveness of the UK labour market, according to a new report from the former sector skills council, [Enginuity](#).

Skills shortages – where the labour is available but not with the right skills for the role – are also hampering business growth and causing SMEs to hold back on investment. The vast majority (80%) of SMEs (Small and medium firms) that engaged in the research experienced difficulties finding suitable staff during recruitment in the last 6 months.

Only 15% of SMEs think that the UK labour market is attractive, and only 24% said that labour and skills shortages have not affected their business. The UK's skills system is fundamentally failing to meet industry demand in engineering and manufacturing. SMEs struggle to engage with the UK skill system, despite making up the vast majority of the manufacturing sector, a priority industrial growth sector for government.

Enginuity – a former Industry Training Board and Sector Skills Body – produced this report to help employers in the manufacturing and engineering sectors to close the skills gap. The report captures insight from 135 manufacturing and engineering micro and SMEs from across the UK, who represent 6,500 employees and £1.1 billion pounds worth of sales.

The employers that engaged in the research remain optimistic about the year ahead, even whilst operating in a labour market they find challenging. The recent Industrial Strategy has provided a strategic 10-year vision for business and demonstrates the Government's commitment to kickstarting economic

growth. Awareness of the strategy is high amongst the employers that engaged in the research, providing an opportunity for government to focus on helping SMEs to thrive.

To unlock public and private sector investment in skills Enginuity is calling on the Government to focus on replacing fragmentation with cohesion, complexity with clarity. To realise employer commitment, SMEs need strong institutional arrangements, cultural esteem for vocational learning, and long-term policy continuity.

This will allow SMEs to help the Government meet its ambition to kickstart economic growth, break down the barriers to opportunity, and make Britain a clean energy superpower.

The report's author, Poppy Bramford, Enginuity's Policy Manager, said "This report is a striking confirmation of how severely the skills system is failing the majority of engineering and manufacturing SMEs, stifling their ability to grow. Despite significant increases to employment costs, SMEs remain determined to keep investing in training.

"Whilst the Government wants to see increases to employer investment in skills, barriers keep SMEs locked out of the skills system that would enable them to do so. For SMEs to realise the ambitions of the UK Government on economic growth, the skills landscape must move beyond policy chop and change by injecting longevity and SME engagement into policy creation."

Report Key points:

Labour costs are driving up prices

- Almost 9 in 10 (89%) of SMEs identified labour costs as a source of pressure to raise prices.
- Labour costs significantly out ranked energy and utilities (57%) as the second most commonly identified source of pressure to raise prices.
- To offset rising costs, the vast majority of SMEs plan to pass on costs to customers (76%), demonstrating the inflationary ripple effect of rising employment costs.
- Unfortunately, 37% said that they would pause capital investment to offset rising costs and 33% said they would freeze recruitment.

The labour market and skills system are not working well for the majority of SMEs

- Only 24% of SMEs said that labour and skills shortages have not affected the business and that they have not had difficulties filling vacancies.
- Only 15% of SMEs agree or strongly agree that the UK labour market is attractive.
- The two biggest threats identified by employers to the competitiveness of the UK labour market are skills shortages, where the labour is available but not with the right skills for the role (73%) and labour costs (70%).
- 80% of SMEs experienced difficulties finding suitable staff during recruitment in the last 6 months.
- When asked about the impact of labour and skills shortages, 41% of SMEs said that they have been unable to grow and respond to new business opportunities despite demand.

SMEs are optimistic about the year ahead, despite operating in a labour market they find challenging

- More than 1 in 3 (38%) SMEs agree or strongly agree that their business is optimistic about the year ahead.
- Despite significant challenges, 80% of SMEs expect their workforce to remain constant or increase over the next 6 months and 31% of SMEs expect their investment in training to increase in the next 12 months.

Awareness of the 2025 Industrial Strategy and the Advanced Manufacturing Plan is high, with 79% of SMEs stating they've heard of it, but they remain divided about whether these announcements have changed the outlook for their business over the next 12 months ...

- Just over 1 in 3 (37%) SMEs in the Engineering and Manufacturing sector are familiar with the Industrial Strategy and the Advanced Manufacturing Plan, whilst 42% have heard of it but are not familiar with the details.
- 21% of SMEs in the sector are not aware of the government's Industrial Strategy and Advanced Manufacturing Plan.
- 1 in 3 (30%) SMEs have a slightly more optimistic or significantly more optimistic outlook for their business over the next 12 months following the announcement of the Industrial Strategy and Advanced Manufacturing Plan. 44% reported no change to their outlook for the next 12 months.
- 10% of SMEs said that the publications made them feel slightly or significantly more pessimistic about the next 12 months.