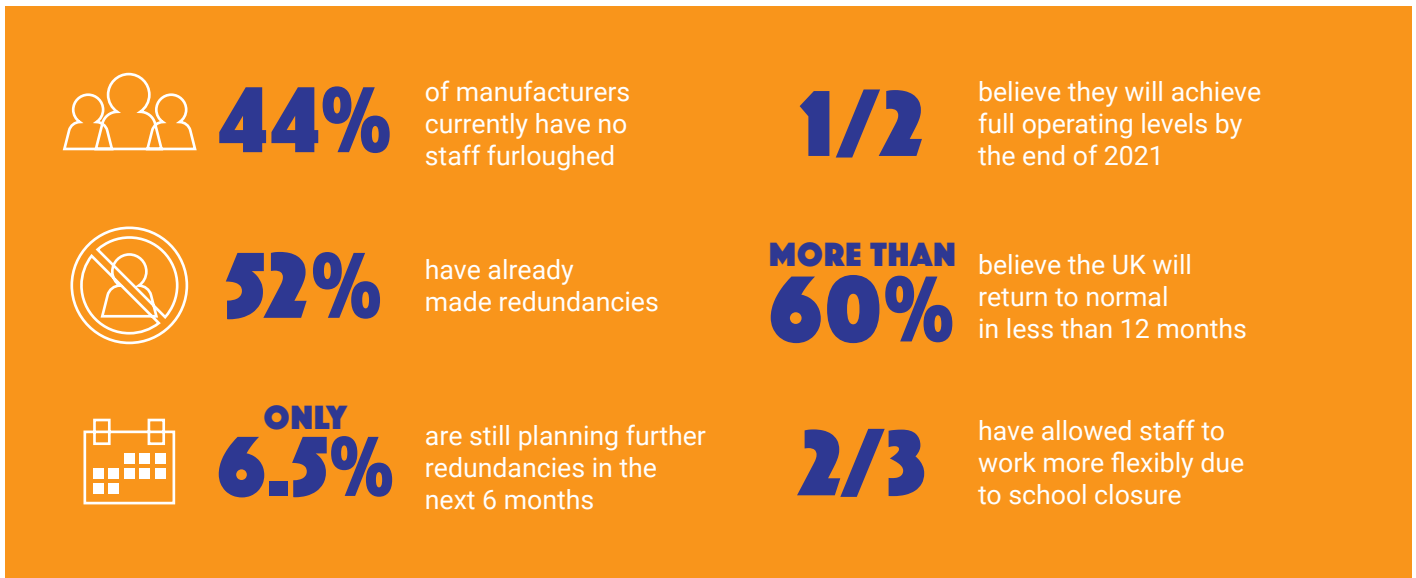


08/02/21

MAKE UK MANUFACTURING MONITOR

#BackingManufacturing

Key findings



Introduction

Make UK's eighth edition of the Manufacturing Monitor brings with it updates to a number of key stats from its previous editions. The latest survey includes information on manufacturers' furlough activities, redundancies, sales & orders, operating levels, and future expectations. Additionally, the survey has recorded Make UK members' views on the latest lockdown and the impact of school closures.

Ever since the UK went into its first national lockdown nearly a year ago the economy has experienced ups and downs and is now in its third full lockdown. Although, it may feel for many as if little has changed, the global economy has advanced significantly since then. With a deal with the European Union ratified and vaccinations on the rise, 2021 could be a year of hope and success for many.

The latest results report the number of manufacturers that have furloughed staff has increased slightly since the end of last year. Now, 44.3% of manufacturers have no workers furloughed whilst there has been a marginal rise in the share of manufacturers furloughing more than three-quarters of their workforce emphasising the impact the longevity of the pandemic has had on business activity. However, the majority of businesses have still only furloughed up

to a tenth of their workforce, indicating that average take up is still low in manufacturing. The end of the Job Retention Scheme could accelerate joblessness in the sector dramatically in April, and this is on top of recent unemployment figures which have shown that unemployment in the manufacturing sector has already increased by 50,000 between 2019 and 2020 (ONS). This is the second worst increase in the UK after the hospitality industry and concurs with the survey's latest results which report that a large share of manufacturers have already cut staff.

The majority of manufacturers have continued to report sales and orders declining in the last two weeks but the data is still trending in a positive direction. However, it remains that the majority of firms still sit within the no-change bracket as trade stalls due to weak demand and Brexit related bureaucracy slowing down inbound and outbound trade.

The latest lockdown is reported to be impacting most manufacturers in a similar way to previous lockdowns, however a large share have also reported better outcomes. Interestingly, many manufacturers have reported that the impact of school closures has resulted in more employees working more flexibly.

People

One of the biggest economic concerns to date has been the risk of high unemployment due to the impact of the pandemic and, due to this, the Job Retention Scheme (JRS) has been extended to the end of April 2021. The scheme has been a saving grace for many businesses who have sought to retain rare skill sets but, as a result of last minute extensions and uncertainty many businesses, including manufacturers, have already cut a significant proportion of their staff. At the time of writing, the official data from HMRC on furlough only extended to October 31st and this reports only 188,200 workers were furloughed in the manufacturing sector amounting to £5.3bn in claims to date. The latest Manufacturing Monitor gives more recent data on JRS take up as well as employer redundancy plans.

The survey reports that 44.3% of manufacturers have no staff currently on furlough, slightly lower than the previous 50.8% indicating an overall increase in furloughed employees amongst manufacturers. This is down to the implementation of the third national lockdown, despite manufacturers being able to remain open. The results show that, 37.8% of manufacturers have furloughed 1-10% of their staff. Similarly, 7.6% have furloughed 11-25%, 6.5% have furloughed 26-50%, and 1.1% have furloughed 51-75% of staff. 2.7% of firms have furloughed over 75% of their workforce¹. However the majority of firms have either no staff, or a very small proportion of their staff, furloughed indicating a relatively low take up of the scheme.

Redundancies continue to be a cause for concern and many still believe once the JRS expires joblessness will rise again substantially. The latest data shows 52.5% of manufacturers have already made redundancies due to Covid-19. However, only 4.4% have cut more than 25% of their total workforce. The majority (32.8%) have cut 1-10% of their workforce indicating that many businesses are making small cuts in order to remain operational.

Although, it is widely believed that a large number of jobs are due to be made redundant only after the expiration of the JRS in April 2021 (assuming it is not extended further), the data indicates this may not be true for manufacturing. Only 6.5% of manufacturers are still planning to make further redundancies over the next 6 months, the lowest share of firms to say so since this survey's inception. This indicates that either most redundancies have already been completed or the expectation of a change in business fortune for some as demand returns. Therefore, those employees that remain on furlough are likely to be highly skilled professionals who will still be needed once the economy's gears are running again. Nevertheless, 27.2% of manufacturers have still not ruled out making further cuts. In terms of what proportion of staff are at risk of losing their jobs, the majority of manufacturers indicated redundancies would take place closer to the lower tail of 1-10%. The distribution of redundancies completed regionally is illustrated below (chart 1).

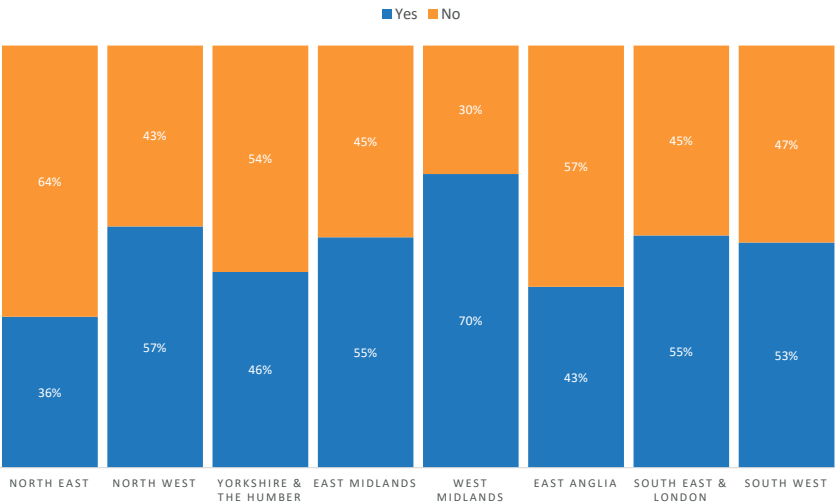


Chart 1: % share of manufacturers that have made redundancies, by UK regions (excl Scotland, Wales, Northern Ireland)

Source: Make UK, Manufacturing Monitor #8 (January 2021)

¹ See the Appendix for a clear breakdown of responses

Production and Capacity

The latest Manufacturing Monitor survey reports that between 35.6% and 36.6% of manufacturers have seen a fall in sales and orders respectively over the last two weeks. Although, this is concerning it is greatly improved on previous iterations of the survey which, at its peak, saw over 80% of manufacturers reporting a fall in sales and orders. However, the share of firms that sit within the "no change" bracket has increased to 53.9% (from 43.8%) for sales and 52.5% (from 41%) for orders highlighting that securing a thin deal with the European Union (EU) has not necessarily resulted in an improvement in trade.

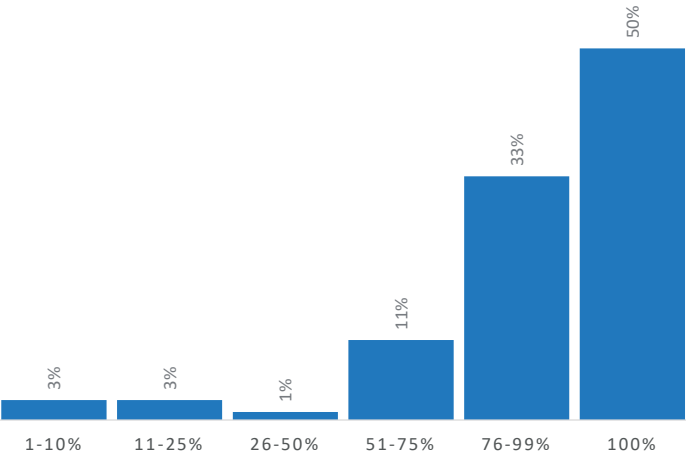
The breakdown of the magnitude of declines in sales and orders shows the majority of manufacturers have seen falls of between 11-25% (21.1% and 19.9% for sales and orders respectively). This is similar to the results of the previous Manufacturing Monitor survey. Across both sales and orders, only 13.7% of firms have reported declines of over 26% in the last two weeks.

The exit of one lockdown was quickly followed by the start of another last month as businesses continue to grapple with the challenges of low demand from major downstream subsectors such as automotive and aerospace. Alongside these issues, our new trade deal

with the EU has resulted in a major downgrade from the status quo of frictionless trade as manufacturers now face up to the cost of bureaucracy resulting in increased lead times and a breakdown of some customer-supplier relationships across borders.

Manufacturers continue to operate under extreme circumstances, whilst still keeping jobs alive in many regional economies. Yet many uncertainties remain, such as whether the red tape for sending goods to the EU is the new normal or just a temporary adjustment period. At the moment, 25.4% of manufacturers are currently operating at their full pre-pandemic levels (up from 24.3%). A further 42.2% have achieved 75-99% of their pre-pandemic operating levels (up from 35%). Summarising the bottom 75% of the distribution reports 32.4% of manufacturers are still operating at somewhere between 1% and 75% of their pre-pandemic levels. Nonetheless, the results highlight a positive view that the industry is moving in the right direction as more and more manufacturers slowly return to greater operating levels. With the right support from Government on managing the impact of the pandemic and the aftermath of Brexit the industry can look forward to returning to 100% of their capacity in due course.

Chart 2: % share of manufacturers operating level expectations by the end of 2021



Source: Make UK, Manufacturing Monitor #8 (January 2021)

For the remainder of the year, we can see what share of firms expect to be at 100% of their pre-Covid operating level. The latest data shows a significant improvement in expectations as 50% (up from 25.6%) of manufacturers expect to achieve their pre-pandemic operating levels by the end of 2021. Although we are a long way from perfect foresight, the positive expectation is a welcome indication of business plans this year. A breakdown of these expectations is illustrated to the left (chart 2).



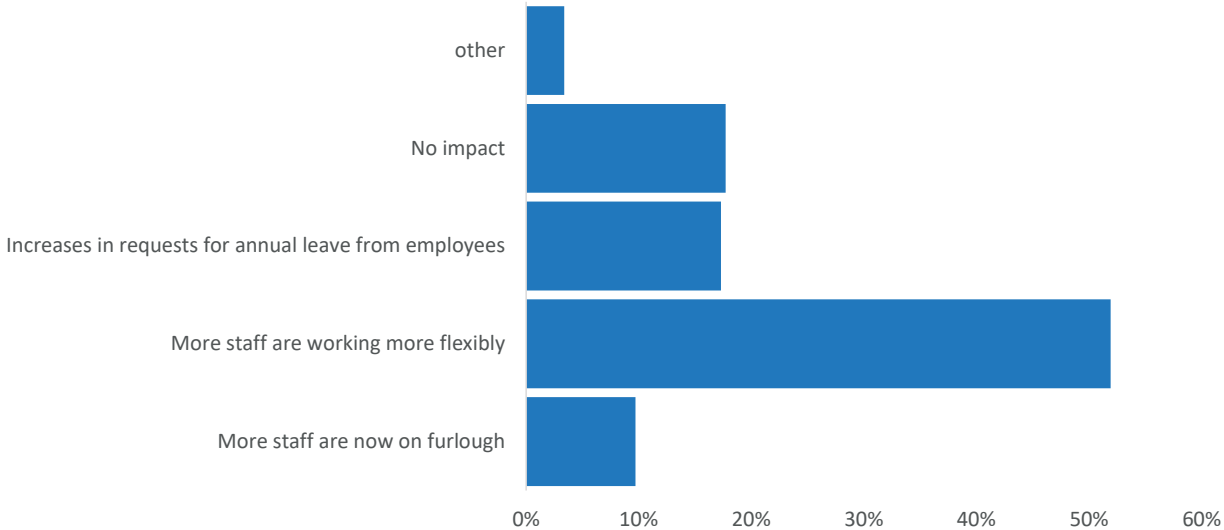
Lockdown Effects

As the UK is in the middle of its third national lockdown the survey sought to understand how the current restrictions compare to previous ones (in terms of how detrimental they are to business activity). The nature of these lockdowns has changed to varying degrees as there is a greater understanding of challenges on both sides (government and business). We believe that many businesses have learnt some lessons from previous lockdowns and therefore should find the latest lockdown at least comparatively more manageable.

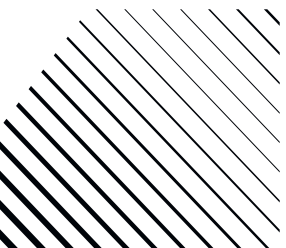
As expected, the majority of Make UK members (86.6%) have reported either the same impact or better in comparison to previous lockdowns. However, a large share of these sit within the "same" category indicating that experience does not necessarily relate to better outcomes in a pandemic. Nevertheless only 13.4% of manufacturers have reported worse outcomes relative to previous lockdowns.

A key feature of the latest lockdown was whether the Government should close schools in order to reduce the transmission rate of the virus. It was a necessary step to prevent the pandemic spiralling out of control as we are only at the beginning of the vaccination programme but its impact on working parents, and hence employers should not be ignored. Alongside the general impact of the third lockdown, the survey asked Make UK members what effect the closure of schools has had on their business. Interestingly, 66.5% of manufacturers reported that more staff have been working more flexibly to deal with the challenge of home-schooling responsibilities. Approximately one in five have reported that there has been an increase in requests for annual leave whilst 12.4% of businesses have cited the closure of schools as a reason for putting more staff on furlough. The full breakdown is illustrated below (chart 3).

Chart 3: Impact of school closures during the latest lockdown on business, % share of responses



Source: Make UK, Manufacturing Monitor #8 (January 2021)



Future expectations and Government support

The latest survey indicates that a large cumulative share of manufacturers (61.7%) now believe it will take less than 12 months to return to normal trading conditions, with the majority (36.7%) opting for a 6-12 month expectation. This is an improvement on previous surveys and indicates business optimism is now trending in an upward direction, likely fuelled by the vaccination programme which brings hope to many that we are in one of the final acts of the pandemic.

The manufacturing sector still needs support from the Government in order to prosper. In particular, the sector requires a long-term strategy aimed at creating the conditions required for the innovation, skills, and investment on which the industry thrives. The survey asked Make UK members again what Government measures should be prioritised to support UK manufacturing. The top three priorities includes the following: Waiving business rate bills and reducing the cost of business rates (56.8%), extending the job retention scheme beyond April 2021 (47.5%) and increasing investment allowances on capital expenditure (45.4%). This is a change from the previous Manufacturing Monitor which did not include extending the JRS scheme as a priority for the manufacturing sector.

Interestingly, although the sector is more optimistic about a return to normal business they believe that they will still need access to the JRS post the current expiration. This is likely motivated by the concern that the current lockdown will not be the last and, for as long as the economy is closed, businesses will need a solution to deal with the high cost of labour (which is generally the largest variable cost on a business's account). Cutting employment related costs such as NICs was also selected as a preferred option for many firms (43.7%).



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Appendix

Survey details, key questions and % share of respondents

Sample: 186

Survey Period: 13/01/21 – 22/01/21

What has been the impact on sales for your business as a result of the Coronavirus in the last two weeks? (select one)

Increase in sales	10.6%
Decrease in sales	35.6%
No change	53.9%

If your business has seen a decrease in sales, by approximately how much have they decreased? (select one)

1-10%	6%
11-25%	24.4%
26-50%	11.9%
51-75%	0.6%
76-99%	1.2%
100%	0%
N/A	56%

What has been the impact on orders for your business as a result of the Coronavirus in the last two weeks? (select one)

Increase in orders	10.9%
Decrease in orders	36.6%
No change	52.5%

If your business has seen a decrease in orders, by approximately how much have they decreased? (select one)

1-10%	11.3%
11-25%	21.4%
26-50%	13.1%
51-75%	0%
76-99%	0.6%
100%	0%
N/A	53.6%

What proportion, if any, of your staff are currently on furlough? (select one)	
None	44.3%
1-10%	37.8%
11-25%	7.6%
26-50%	6.5%
51-75%	1.1%
75-99%	2.2%
100%	0.5%

How long do you expect it to take before trading conditions return to normal? (select one)	
Less than 3 months	7.8%
3-6 months	17.2%
6-12 months	36.7%
More than 12 months	28.9%
They won't return to normal	3.3%
Don't know	6.1%

At what level is your business operating at now compared to the start of the year (i.e. before Covid-19 pandemic)	
1-10%	2.2%
11-25%	3.8%
26-50%	4.9%
51-75%	21.6%
75-99%	42.2%
Full operating levels	25.4%

At what level do you expect your business to be operating at by the start of 2021? (select one)	
1-10%	2.7%
11-25%	2.7%
26-50%	1.1%
51-75%	10.8%
75-99%	32.8%
Full operating levels	50%

Has your company already made redundancies due to Covid-19? (select one)	
Yes	52.5%
No	47.5%

What proportion of your staff has your business made redundant due to Covid-19? (select one)	
None	47%
1-10%	32.8%
11-25%	15.8%
26-50%	2.7%
51-75%	1.6%
75-99%	0%
100%	0%

Does your company plan to make redundancies in the next 6 months?	
Yes	6.5%
No	66.3%
Maybe	27.2%

What proportion of your staff do you plan to, or are considering planning on, making redundant in the next 6 months (select one)	
None	68.7%
1-10%	25.8%
11-25%	4.4%
26-50%	1.1%
51-75%	0%
75-99%	0%
100%	0%

What impact, if any, has the closure of schools during this latest lockdown had on your business? (select all that apply)	
More staff are now on furlough	12.4%
More staff are working more flexibly	66.5%
Increases in requests for annual leave from employees	22.2%
No impact	22.7%
Other, please state	4.3%

How does the inception of this third national lockdown affect your business strictly compared to prior national lockdowns? (select one)

More negatively affected than previous lockdowns	13.4%
Same/similar to previous lockdowns	61.8%
Better than previous lockdowns	24.7%

Which of the following measures do you think Government should do to support UK manufacturing at this current time? (select all that apply)

Waive business rate bills and reduce the overall cost of business rates	56.8%
Provide additional support and flexibility when recruiting apprentices	26.8%
Reducing VAT	18.6%
Cuts to employment related costs e.g. NICs	43.7%
Support those at risk of redundancy with retraining and upskilling	30.1%
Support for businesses to manage debt sustainably	23.5%
Increase investment allowances on capital expenditure	45.4%
Increase the R&D tax credit limit	35.5%
Roll out of 5G	9.8%
Extending the Job Retention Scheme beyond April 2021	47.5%
None of the above	2.2%

The results of the eighth Make UK Manufacturing Monitor provide unique insight relevant to the current economic environment, covering a number of elements including the level of furloughs and redundancies, impact on production, and capacity to return to normal levels of trading, as well as the general impact of the pandemic on business performance.

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About Make UK

Make UK works for the success of more than 2.7 million men and women employed in UK manufacturing. Representing member companies – from small businesses to multinationals – across every industrial sector, we are the most influential voice of manufacturing, enabling our members to connect share and create opportunities together.

We stimulate success for manufacturing and technology related businesses, enabling them to meet their objectives and goals. We empower individuals and inspire the next generation.

We create the most supportive environment for UK manufacturing growth and success and we represent the issues that are most important to our members, working hard to ensure UK manufacturing remains in the government and media spotlight.

Our extensive knowledge of manufacturing means we're able to influence policymaking at local, national and international levels. We push for the policy changes that our members want to see. We are the voice of manufacturing.



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