

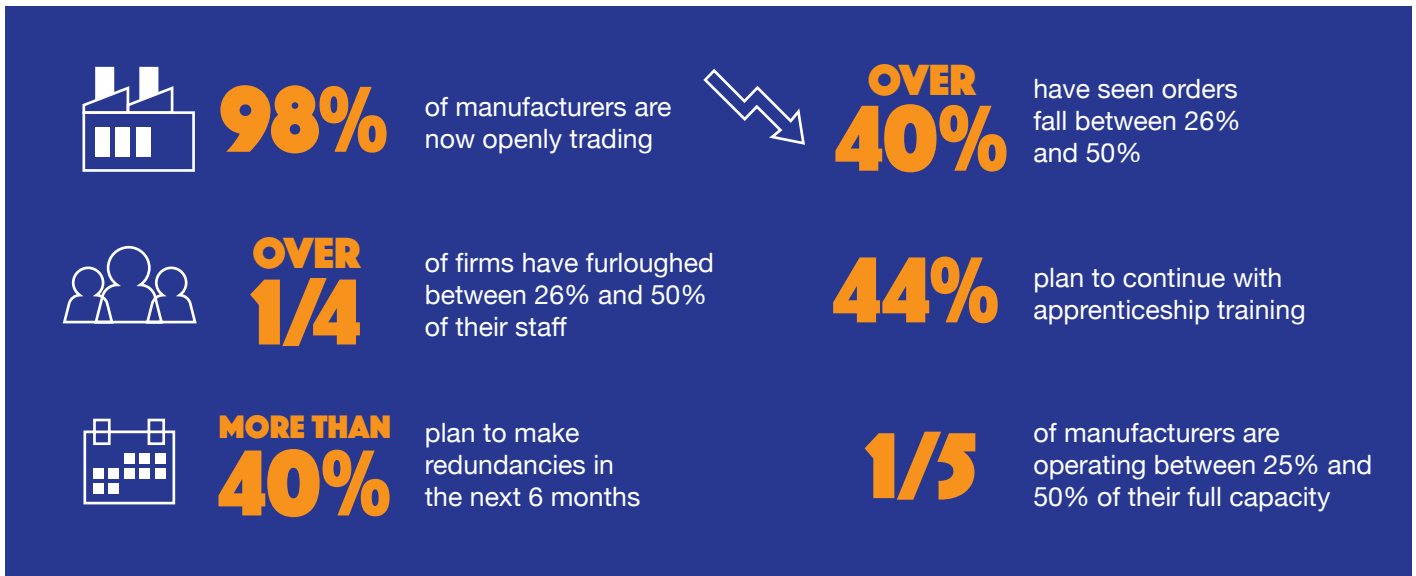
03/07/20

COVID-19 MANUFACTURING MONITOR

#BackingManufacturing



Key findings



Introduction

Make UK's fourth 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, skills, sales, orders and capacity, as well as their future expectations. Additionally, Make UK has posed new questions about actions that Government could undertake to support the sector.

In summary, manufacturers have reported a slight increase in furlough activity over the month, a reflection of the last call imposed by the Government to furlough additional workers. Going forward, we expect manufacturers will bring workers back on a part-time basis – should an increase in demand justify it. However, the latest survey also reported a marked increase in the number of firms who are planning to make redundancies over the next 6 months. Unfortunately, even with access to the Coronavirus Job Retention Scheme (CJRS), it is possible manufacturers do not plan to use the scheme to protect jobs that may no longer exist in the future.

The latest survey also reports on manufacturers' plans to engage in training apprentices and other staff. Promisingly, a dominant share of manufacturers have not put apprenticeship training on hold, making clear that firms view apprenticeships as critical to their success even in times of crisis. However, the same assessment does not hold for wider training for existing staff, and the majority of manufacturers have either put some or all training on hold.

As expected, sales and orders have shown little sign of improvement since our last survey. However, there has been an increase in the number of firms operating at full capacity, likely thanks to the easing of a series of restrictions. However, many firms will remain cautious to the probability of local lockdowns that may disrupt activity through the value-chain.

Overall, expectations for the future remain on the whole pessimistic. Although, the data does indicate an improvement on its last report.



People

The previous Manufacturing Monitor highlighted the dichotomy UK manufacturers are faced with when opting to either furlough staff or make workers redundant. Undeniably, as a system to preserve skill, the CJRS was accessed to a certain degree by firms across the country. Albeit the usage varied between subsectors, at great cost it stands that 9 million workers are furloughed across the country today. Consequentially, the latest unemployment rate remains at 3.8% as the likely impact of redundancies is yet to be seen. Of course, the CJRS has been redesigned multiple times and now employers will be able to utilise this facility in a more flexible manner as we ease the working populous back to their original day-to-day habits.

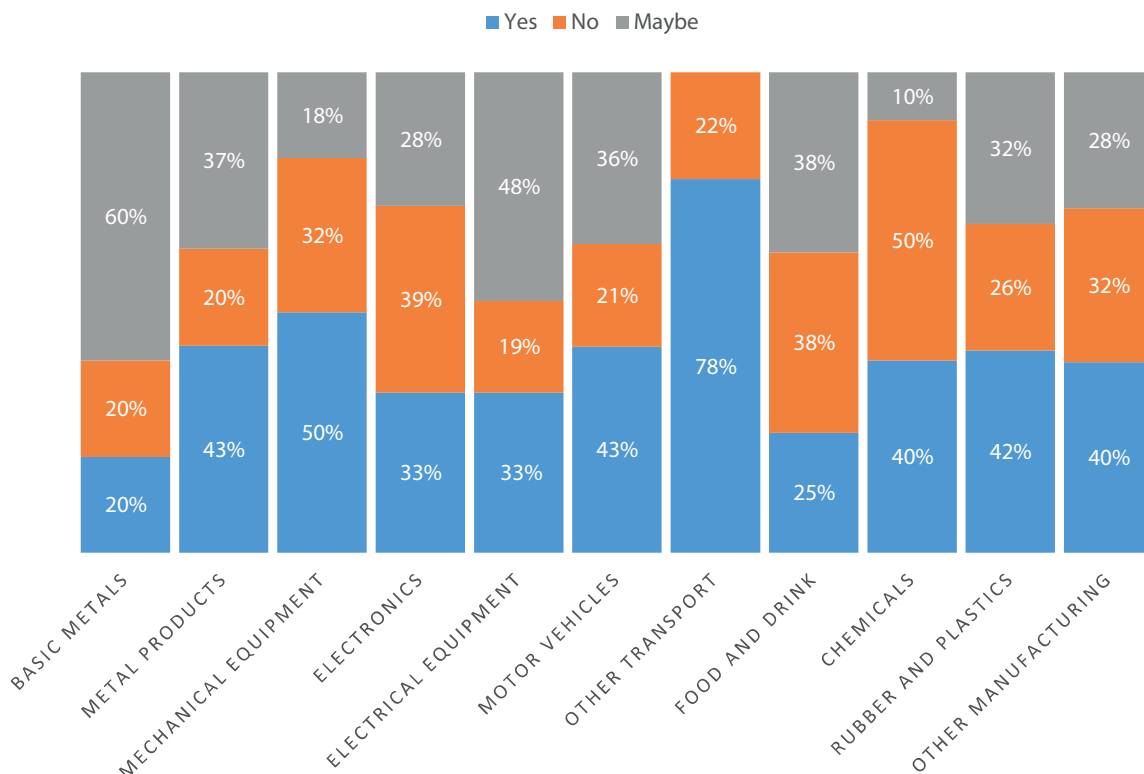
The fourth instalment of Make UK’s Manufacturing Monitor reports very similar levels of furlough activity seen across our previous surveys. 16.3% of firms have furloughed no staff, up from 15.6% previously. As a result of the deadline to the furlough scheme, 26.4% of manufacturers have furloughed between 26% and 50% of their workers, up from 21% last period. However, over time we expect the proportion

of furloughed staff to decrease, the real question is whether these workers would be substituting a furloughed state for an unemployed one over the next few months.

According to the Monitor, the share of firms that are planning to make redundancies in the next 6 months has risen substantially to 41.2% of UK manufacturers, a marked increase from 25% previously. The share of firms that remain undecided is now 30.6%, down from 44% previously. Of those that are planning or considering redundancies, the results remain mixed. 29.6% of firms plan to cut less than 5% of their staff, whilst the majority of manufacturers (61.2%) are planning to make between 6% and 25% of their staff redundant. Fortunately, only a small proportion (1%) of manufacturers plan to cut more than 50% of staff.

Reviewing the data from a subsector perspective shows which industries have more firms looking to make redundancies over the next 6 months (see chart 1).

Chart 1: Does your company plan to make redundancies in the next 6 months? Selection of subsectors



Source: Make UK, Manufacturing Monitor #4 (June 2020)

Skills and Training

Given the worrying trends Make UK had been seeing on redundancy plans, in this fourth edition of our Manufacturing Monitor we asked manufacturers whether they had put apprenticeship and wider training plans on hold.

Previous Make UK surveys have revealed that manufacturers are true champions of apprenticeships, and many offer them. The Monitor reflects this with almost three-quarters of manufacturers offering apprenticeships. They are seen as valuable and credible programmes that offer learners a blend of off the job training and more tailored and company specific on-the-job training. Manufacturers are heavily reliant on apprentices to secure the skills their businesses need in the future.

Promisingly, almost half of respondents (44.5%) have continued with their apprenticeship plans. With apprentices being employed directly by the company this is positive news. Manufacturers are clearly seeing the value of retaining apprentices, many of whom will be younger learners, to ensure they are training the next generation of innovators, creators and makers. That said, almost three in ten (28.8%) have put some or all of their apprenticeship training on hold. The reasons are likely to be two-fold. Firstly, there will be those companies who simply cannot afford to deliver apprenticeship training during this period – manufacturing and engineering apprenticeships are known for being high quality and high cost. We also know that many employers have been left with no

option but to furlough apprentices, as with their other employees. Secondly, some employers may have been willing to continue training their apprentices but their training provider or college would have been forced to close and may still not be open or running at full capacity.

Wider training (excluding apprenticeships) has taken a more significant hit. With almost half (46.7%) saying that some of their training plans are on hold and one in five (18.5%) saying all of their training plans are on hold. While concerning, this is somewhat unsurprising as manufacturing employers will be looking at where they can make immediate cuts to cost in these unprecedented times. Unfortunately, with both training and apprenticeships, the impacts will be felt at a later date and it is likely that we will see a major skills crunch in our sector in the coming years.

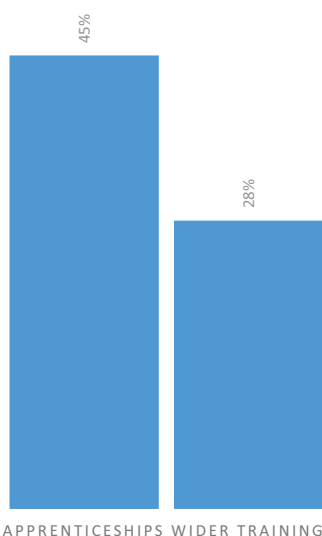


Chart 2: Share of manufacturers that have continued with training plans, Apprenticeships vs Wider Training

Source: Make UK, Manufacturing Monitor #4 (June 2020)

Production and Capacity

Make UK's most recently published Manufacturing Outlook 2020 Q2 indicated falls in output and orders which mirrored the demise of the sector during the Global Financial Crisis. However, the falls were not unexpected. More concerning was the speed of that decline, which hit the sector like a silent tsunami following positive Q1 results. Our latest survey continues to report poor performances for sales and orders.

As such, a significant number of firms have reported contractions in the last two weeks, as 67.8% reported a decrease in sales, whilst 60.9% said the same for orders. A greater 43.5% of firms reported orders had declined between 26% and 50% whilst a further 20.8% reported a larger 51% to 75% drop in orders. The latest data, worryingly, indicates that orders are not returning for manufacturers as of yet, raising doubts over the sector's recovery.

However, following a series of announcements by Government to ease social distancing restrictions nationwide, many manufacturers will be making plans to maximise use of production plants for their

recovery. Our latest data already reports that 97.8% of manufacturers are continuing to trade, but till now most have operated below their productive potential. According to the survey, 16.4% of firms are operating at full capacity, up from 11.7% previously, whilst 28.4% of firms are operating at anywhere between zero and half of their capacity. This is a positive fall from 35.6% previously, and could indicate some manufacturers have increased their operating levels since our last survey.

Although the developments are marginally positive, many manufacturers are still unable to optimise their operating capacity, given a rise in orders must be coupled with access to skilled labour in order to rejuvenate the industry. However, as experienced by the city of Leicester recently, local lockdowns remain a hazard across the UK. There is a significant cost in restarting a business, and as a result, some manufacturers will no doubt refrain from opening production lines until the probability of future shutdowns are eliminated.

Chart 3 shows at what level businesses are currently operating, compared to the start of the year. This is broken down by region, with a UK average included as a reference point.

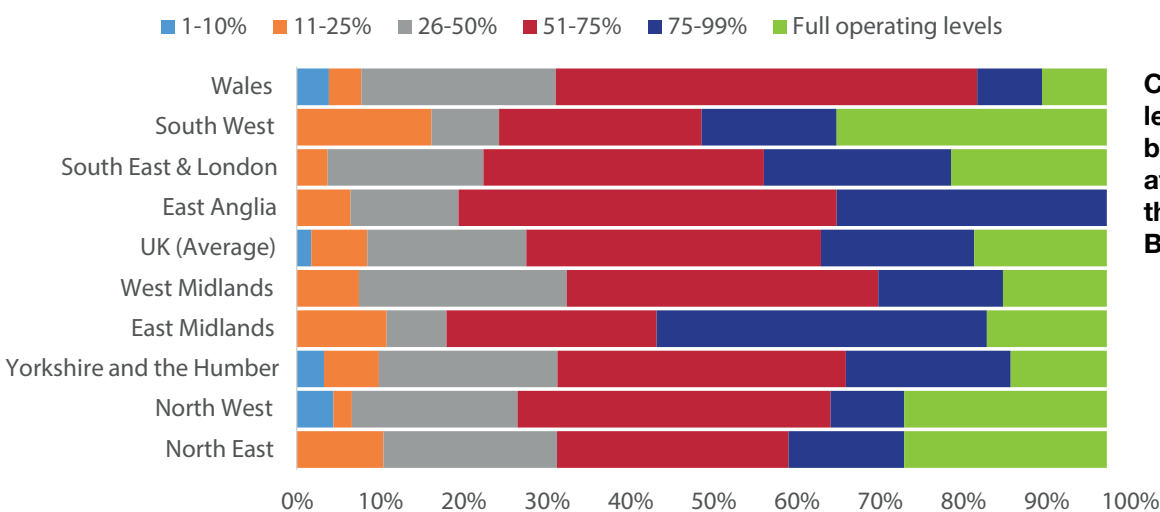


Chart 3: At what level is your business operating at now compared to the start of the year? Broken by region

Source: Make UK, Manufacturing Monitor #4 (June 2020)

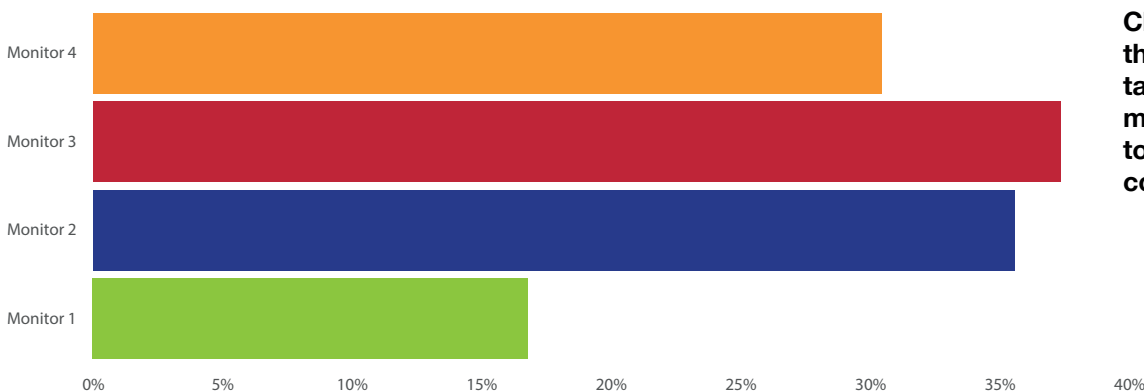
What should happen next?

The latest Manufacturing Monitor reports a slight drop in the share of firms that expect it will take more than 12 months to return to normal trading conditions. However, a significant 30.4% of manufacturers remain pessimistic about a quick recovery. Although, not referenced below (chart 4), there has been a marginal increase (from 28.3% to 31.5%) in the number of firms that believe it will take 6 to 12 months to return to normal trading conditions – in other words, an increase in firms who believe it will take less than 12 months to recover.

Of course, as the Government releases new information daily about the pandemic and social restrictions, manufacturers will equally revise their expectations to reflect the current climate. As mentioned earlier, the possibility of local bursts

in infections remains likely and could result in local lockdowns. Due to the complex nature of manufacturing supply-chains, a local lockdown could potentially stop entire supply-chains from moving should a key supplier be located in a high risk area.

Nevertheless to support the sector’s recovery, this survey asks Make UK members what policy action they believe would have an immediate positive impact on their business. The most common answer referred to a reduction in business rates, where six in ten manufacturers indicated so. Almost half (43%) indicated incentives to invest in automation, AI and other digital technologies as a priority, whilst over a third (34%) of firms would like increased support for export activities.



Source: Make UK, Manufacturing Monitor #4 (June 2020)

This Monitor comes at a time where the Government is expected to announce a Stimulus Package in a bid to kick-start the UK economy and set a path to recovery. On the back of Make UK’s Monitor findings as well as the continued insight and intelligence we receive directly from our manufacturing members, Make UK is calling for a statement that puts industry and skills at the heart of a recovery plan.

Indeed, Make UK is calling for immediate measures to ease the cost base for companies and safeguard as many jobs and key skills as possible. These include relief on business rates for industry similar to that already granted for the retail sector and extended time to pay VAT and PAYE costs which have been deferred. >>

To support those employees who face redundancies, Make UK is re-iterating calls for a National Skills Taskforce. In addition, Make UK is calling on Government to significantly boost the existing National Retraining Scheme. This includes expanding the eligibility of the National Retraining Scheme (NRS) so that it is accessible to anyone at any skill level, and at any age; removing the requirement that the worker has to leave their current job before they can access training from the NRS with another employer and funding the employer-led training element of the NRS for up to 12 months.

To mitigate the impact of an acute skills crunch in the coming years, Make UK is calling on Government to future proof the skills of the next generation, with a direct payment incentive to employers and increasing the current Apprenticeship Incentive Funding for Employers.

Looking ahead, Make UK is calling on Government to promote a digital, global and green economy with manufacturing at its heart. This includes accelerating plans to roll out 5G and ultrafast broadband, rolling out Made Smarter to other regions, increasing investment allowances for 'smart investments' and exempting green and smart investments from counting towards the rateable value of business premises. Widening access to export finance, insurance and other guarantee schemes will also support the global agenda.

Make UK is confident that the economy will emerge from this pandemic and, as it has shown during the crisis, manufacturing will be the sector to which the nation will turn to re-purpose and rebuild toward a greener and sustainable future. Science, engineering and digital technologies have been catapulted centre stage and the upcoming Stimulus Package announcement is the ideal opportunity for Government to set out a vision for a rebooted economy.



The results of the fourth Make UK Manufacturing Monitor provide unique insights relevant to the current situation, covering a number of elements including the level of furloughs and redundancies, apprenticeships & training, impact on production, and capacity to return to normal levels of trading, as well as the general impact the pandemic has had 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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