

07/09/20

MAKE UK MANUFACTURING MONITOR



#BackingManufacturing

Key findings



Introduction

Make UK's sixth 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.

Going forward the survey will monitor the manufacturing sector throughout its recovery on a monthly basis.

In summary, manufacturers' furlough activity has dropped significantly since the previous report. Currently, 31% of manufacturers have no workers furloughed, the highest share since the surveys inception. At the other end of that spectrum, no manufacturer has more than 75% of their staff on the scheme. Certainly, this development was expected as the scheme comes to a close next month and orders return sluggishly, manufacturers will bring workers back. However, as the latest data indicates, redundancies have already taken place as a means for cost cutting for businesses too. For some, these decisions may be based on building a leaner workforce for the future, for others, it may simply be due to a lack of cash flow.

In anticipation of this eventual reality comes with it an opportunity to place skills at the forefront of recovery. As such, Make UK is collaborating with various trade unions and fourteen other manufacturing trade bodies

to call for a National Skills Task Force with a view that protecting key skills whilst identifying those for the future is a strategic national priority. Especially as the manufacturing sector faces an apprenticeship crisis, a key source of engineering skills.

Together with the Taskforce the latest survey indicates a view to extend the Job Retention Scheme (JRS) for critical subsectors in order to avoid a second wave of job losses, which is also referenced by the data. In particular, Make UK calls for an extension to the JRS for the Automotive and Aerospace subsectors, as both remain unequivocally vulnerable and are employers of high-paying high skill jobs, especially in regions outside of the service dominated city of London.

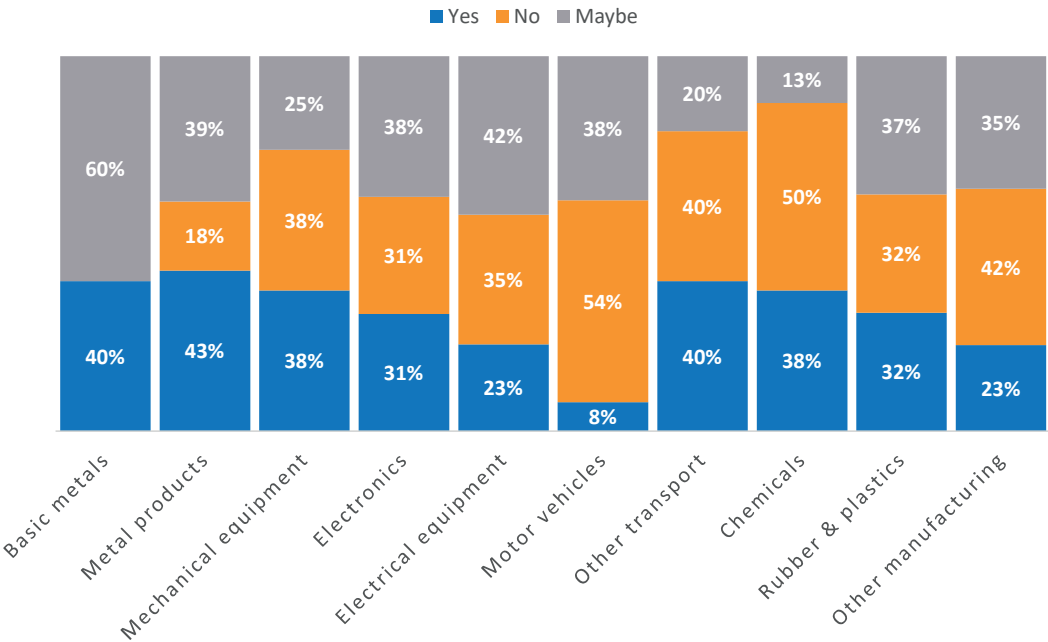
Sales and orders continue to favour the downside as the majority of manufacturers reported falls in the last two weeks. However, the share of firms indicating an increase in orders is now double what it was in the publication's first instalment during the darkest days of lockdown. It is still expected as economic activity returns orders will increase alongside, provided the Government is able to offer confidence in its policy decisions – something that it has not afforded with irregular changes to the UK's travel corridors.

People

As the UK grapples with the possibility of a second wave of infections, much like that seen across Europe, the economy is now facing its first wave of job losses. The Job Retention Scheme (JRS) from this month onwards will require employers to make an additional contribution to their furloughed workers' wages, as the Government's coverage will fall to 70% (up to a maximum of £2187.50) of their monthly salary. In October, this benefit will fall to 60% until its eventual end. Naturally many workers will return to work before then, whilst others will not.

The latest Manufacturing Monitor reports 31% of manufacturers have no staff furloughed, the highest share of firms reporting this since the surveys inception. The result partly indicates firms are taking advantage of the flexibility of the JRS by bringing workers back on a "need" basis. However, as the policy expires at the end of October, it is possible this percentage will come down again if firms wish to take advantage of the benefit one last time.

Chart 1: % share of firms planning to make redundancies in the next 6 months, by subsector



Source: Make UK, Manufacturing Monitor #6 (Aug-Sept 2020)

Moreover, 28.8% of manufacturers have furloughed between 1-10% of their staff. In that same fashion, 19.9% have furloughed 11-25%, 15.9% have furloughed 26-50%, and 4.4% have furloughed 51-75% of staff. No manufacturer surveyed currently has more than 75% of staff furloughed.

For the latest survey, Make UK has looked to gauge what share of firms have already acted on their intentions to make workers redundant. According to the data, 42.4% of manufacturers have already made redundancies due to Covid-19, however, the magnitude of those job losses is less clear at this stage as the unemployment rate remains low at 3.9%.

As a consequence of many firms already proceeding with plans to make workers redundant, the share of manufacturers who are planning to make redundancies in the next six months has fallen from an ominous 53.3% to 30.2%. Still, even now, almost two-thirds of manufacturers are either planning to, or are considering, making redundancies over the next six months. However, the result remains highly mixed amongst key manufacturing subsectors (chart 1).

Production and Capacity

The latest Manufacturing Monitor survey continues to indicate manufacturers are seeing orders and sales decline, with a very small proportion seeing either no change or an increase.

The share of firms reporting a decrease in sales and orders stand at 61% and 50.7% respectively. Whilst the former has worsened, indicating delays to payments, the share of firms reporting a decrease in orders continues to tread in a positive direction. However, the share of manufacturers reporting an increase in orders has fallen slightly from 18.8% to 16.4%. Instead, the share reporting no change has increased to 32.8% (up from 28.2% previously).

For those manufacturers that reported a decrease in orders, 6.6% indicated a fall between 1-10% in the last two weeks. Similarly, 27.9% reported a fall between 11-25%, 23.9% saw fall between 26-50%. Finally, only 8.1% reported a decline between 51-99%.

Recently the Chancellor announced a range of support measures to initiate the UK's recovery using policies that are aimed at stimulating household consumption – such as the incredibly successful “Eat out to Help out” scheme which has seen approximately 84,000

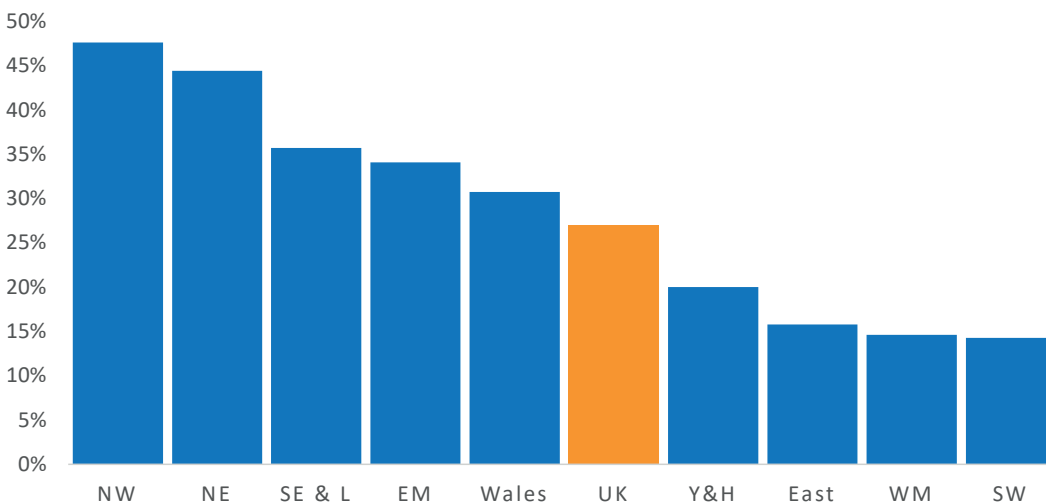
restaurants registered resulting in claims totalling £64m. Of course, such a scheme directly benefitted the Food & Drink subsector, and indirectly benefitted other manufacturing supply-chains. However, subsectors such as Aerospace and Automotive still face an uncertain future. The latest policy suggests a change in tack for a Government that is reverting to a traditional view of using consumer-led growth as a means to stimulate the economy.

Since lockdown restrictions were eased across the UK, as well as in overseas markets, the previous monitor already indicated that 99% of manufacturers were open for business. At the moment it is assumed all manufacturers are operating, and once again Make UK has assessed operating levels as well as expected operating levels by the start of 2021.

The latest results report 17.8% of manufacturers are operating at full capacity, up from 15.3% previously. Over 60% of firms have achieved anywhere between 51-99% of their operating capacity, whilst only 20% are still operating below half of their optimal level. Promisingly, albeit slower than one would hope, manufacturers are reaching their potential output.

Looking forward, the share of firms that believe they will reach 100% of their operating level by the start of 2021 stands at 27%. However, there are stark differences when reviewing the data regionally (chart 2).

Chart 2: % share of manufacturers that expect to be at full operating levels by the start of 2021, by nation/region



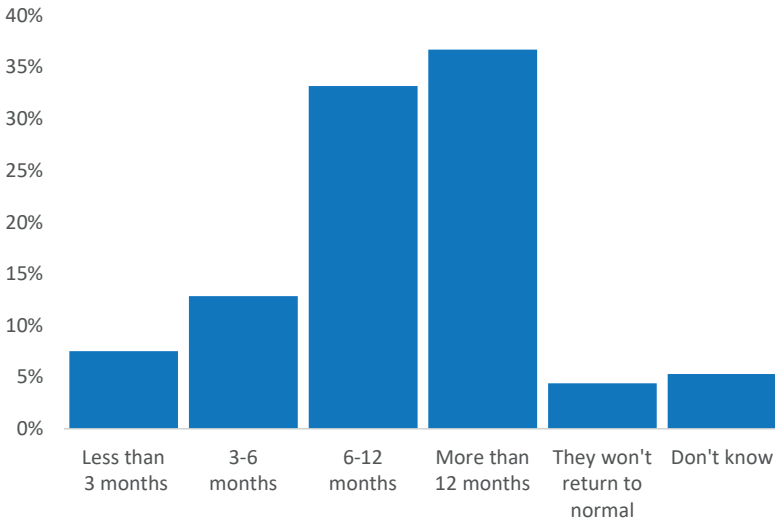
Source: Make UK, Manufacturing Monitor #6 (Aug-Sept 2020)

Future expectations, and what next for the JRS?

The latest survey indicates a large share of manufacturers (37%) still believe it will take more than 12 months to return to normal trading conditions, down from 41.8% previously. Although the current view is still quite pessimistic, there is also a larger share of firms (53.5%), cumulatively speaking, that believe it will take less than 12 months to return (see chart 3). Despite the slight positive turn, the UK is still in the midst of a recession and the emergence of a substantial second wave of infections, coupled with a spike in unemployment could still do away with any positive sentiment.

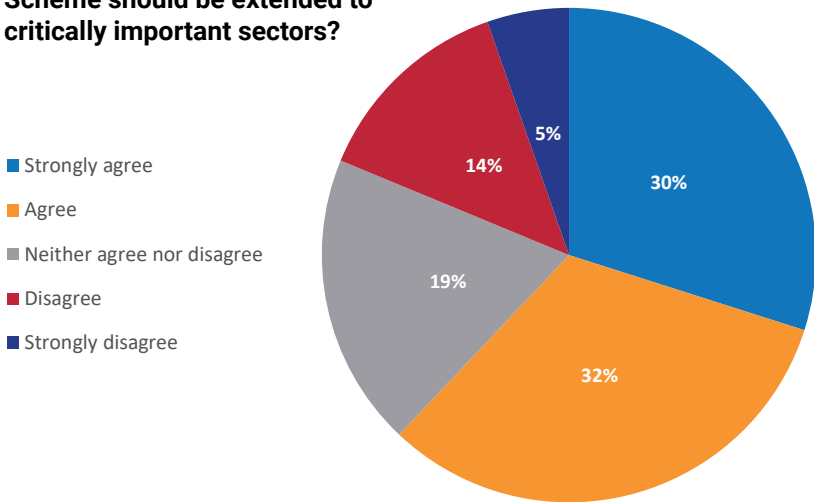
The biggest story over the next month(s) will be the closing of the JRS, and its impending impact on unemployment and the UK's recovery. The Chancellor announced in the mini-budget that firms will receive £1000 for each furloughed employee kept in employment until the end of January 2021. However, many Make UK members see this as a small incentive and instead many (62.1%) would prefer to see an extension of the JRS for critical subsectors (chart 4).

Chart 3: How long manufacturers believe it will take before returning to normal trading conditions, % share of responses

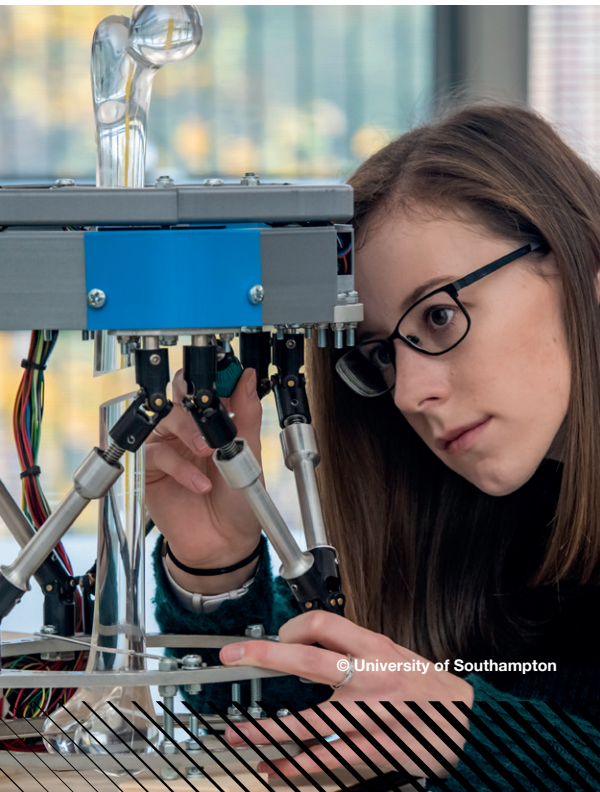


Source: Make UK, Manufacturing Monitor #6 (Aug-Sept 2020)

Chart 4 – To what extent do you agree that the Job Retention Scheme should be extended to critically important sectors?



Source: Make UK, Manufacturing Monitor #6 (Aug-Sept 2020)



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Appendix

Survey details, key questions and % share of respondents

Sample: 226

Survey Period: 20/08/20 – 01/09/20

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	10.8%
Decrease in sales	61.0%
No change	28.3%

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

1-10%	8.8%
11-25%	27.8%
26-50%	28.8%
51-75%	5.9%
76-99%	0.5%
100%	0.5%
N/A	27.8%

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	16.4%
Decrease in orders	50.7%
No change	32.9%

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

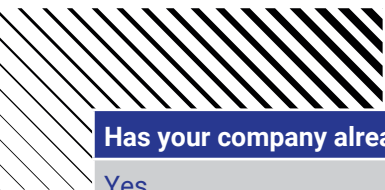
1-10%	6.6%
11-25%	27.9%
26-50%	23.9%
51-75%	6.6%
76-99%	1.5%
100%	0%
N/A	33.5%

What proportion, if any, of your staff are currently on furlough? (select one)	
None	31.0%
1-10%	28.8%
11-25%	19.9%
26-50%	15.9%
51-75%	4.4%

How long do you expect it to take before trading conditions return to normal? (select one)	
Less than 3 months	7.5%
3-6 months	12.8%
6-12 months	33.2%
More than 12 months	36.7%
They won't return to normal	4.4%
Don't know	5.3%

At what level is your business operating at now compared to the start of the year (i.e. before Covid-19 pandemic)	
1-10%	0.4%
11-25%	5.8%
26-50%	13.8%
51-75%	34.2%
75-99%	28.0%
Full operating levels	17.8%

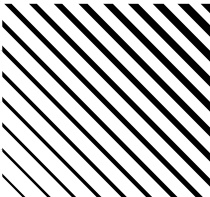
At what level do you expect your business to be operating at by the start of 2021? (select one)	
1-10%	0%
11-25%	4.4%
26-50%	6.6%
51-75%	26.5%
75-99%	35.4%
Full operating levels	27.0%



Has your company already made redundancies due to Covid-19? (select one)	
Yes	42.4%
No	57.6%

Does your company plan to make redundancies in the next 6 months?	
Yes	30.2%
No	34.2%
Maybe	35.6%

To what extent do you agree that the Job Retention Scheme should be extended to critically important sectors? (select one)	
Strongly agree	29.9%
Agree	32.1%
Neither agree nor disagree	19.2%
Disagree	13.4%
Strongly disagree	5.4%
Strongly agree	29.9%



The results of the sixth Make UK Manufacturing Monitor provide unique insights 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 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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