

In association with:



EXECUTIVE SURVEY 2022

HARNESSING AGILITY AND RESILIENCE

CONTENTS

EXECUTIVE SUMMARY	3
KEY STATISTICS FROM 2021	4
PART 1: FUTURE FOCUS AND OPPORTUNITIES	
– MANUFACTURERS’ VIEWS ON THE YEAR AHEAD	5
PART 2: IN 2022 MANUFACTURERS ARE GOING GREEN, SECURING SKILLS AND ADAPTING TO CHANGE	14
KEY STATISTICS FOR 2022	24
PART 3: CONCLUSION	25
PwC VIEWPOINT	26
ABOUT MAKE UK AND PwC	27

EXECUTIVE SUMMARY

The last two years have been a rollercoaster for UK manufacturers who have ridden the troughs of a severe loss in output to record lows, followed by a rebound in demand which has seen them reach record highs. While clouds remain on the horizon, not least in the form of the recently emerged Omicron variant of Covid-19, as one of a few sectors of the UK economy that remained open throughout the Covid-19 pandemic, UK manufacturers have already proved their resilience and agility beyond any measure helping keep the lights on, putting food on the table, and keeping the UK economy moving. Will 2022 bring more stable conditions and will they have some breathing space to take a longer-term view of the economy and their business?

The positive news is that demand is set to stay strong, and the outlook for growth in, and exports to, all the major markets is positive. Latest forecasts are for growth in 2022 of approximately 6%. The other positive story is that manufacturers are set to rapidly step up their move towards net zero, around a third of manufacturers attribute COP26 to a move to accelerate their plans to transition to net zero. In addition around two thirds of manufacturers say that in 2022 their business will focus more on net zero - with half of companies saying they will invest in green technologies and energy efficiency measures.

These investments are a concrete illustration that manufacturing and engineering will be part of the solution to the big societal challenges we face including climate change.

However, the next twelve months will also bring a continuation of the challenges that manufacturers are facing - especially those that have been in the spotlight over the last year, namely access to talent and supply chain disruption. Manufacturers told us the biggest risk to their companies was access to domestic labour and skills, the top indicator in this survey. In order to meet this, two thirds of companies say that upskilling or retaining existing staff is their main priority, and encouragingly, almost half say they plan to invest in apprenticeships. The second biggest risk to companies was seen as significant upward pressure on input costs. While some factors impacting on this are global, such as increased energy and shipping costs, other factors are self-imposed, such as the increases in National Insurance and Corporation Tax.

This combination is creating a perfect storm of inflationary pressures for manufacturers which, combined with the level of debt many accrued during the pandemic or through the various business interruption loan schemes, is placing severe pressure on business models. Given the low inflation environment which has existed for some time, many manufacturers will not have built their business models on the basis of inflation at 10% plus or even higher. Given there is increasing evidence that such pricing is now being built in there seems little prospect of an easing of cost pressures anytime soon.

Overall, however, given the impact of the pandemic and the disruption caused by the decision to leave the European Union, manufacturers are looking to the future with a level of confidence that might not have been foreseen a year ago.

This Executive Survey 2022 demonstrates with the rapid adoption of new technologies and investment in people, the role of the sector at the heart of the UK economy's recovery is now as clear as it has been for some time. The time to back UK manufacturing is now.

KEY STATISTICS FROM 2021

THE UK IS THE

9TH LARGEST



MANUFACTURING NATION
BY VALUE OF OUTPUT

UK MANUFACTURING

ACCOUNTS FOR



9%
OF GDP

AND



51%

OF THE UK'S
TOTAL EXPORTED
GOODS

ONS'S INDEX OF PRODUCTION (IOP)

DATA SHOWS
MANUFACTURING OUTPUT

FELL BY 0.1%

LAST QUARTER,
WITH MOST OF THIS DECLINE



DRIVEN BY SUBSECTORS

INCLUDING TRANSPORT
EQUIPMENT (-5.1%)

VACANCY RATE IN THE MANUFACTURING SECTOR

IS AT THE **HIGHEST** IT'S BEEN

SINCE ONS RECORDS BEGAN,

STANDING AT **3.7%** IN OCTOBER
2021



(VS. AVERAGE 1.8%)

MANUFACTURING COMPANIES CONTINUE TO PAY WAGES

13% HIGHER

THAN THE REST

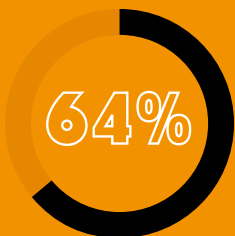
OF THE UK ECONOMY



50%

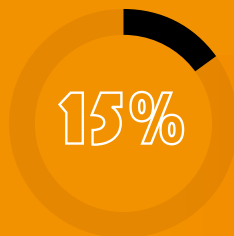
OF
MANUFACTURERS
SAID THEY
**OFFER FLEXIBLE
WORKING**
AS A WAY TO

RECRUIT AND RETAIN STAFF



64%

OF ALL UK BUSINESS
**RESEARCH AND
DEVELOPMENT**
AND



15%

OF TOTAL UK BUSINESS
INVESTMENT
COMES FROM THE
MANUFACTURING SECTOR

PART 1: FUTURE FOCUS AND OPPORTUNITIES – MANUFACTURERS’ VIEWS ON THE YEAR AHEAD

CONDITIONS FOR INDUSTRY SET TO IMPROVE

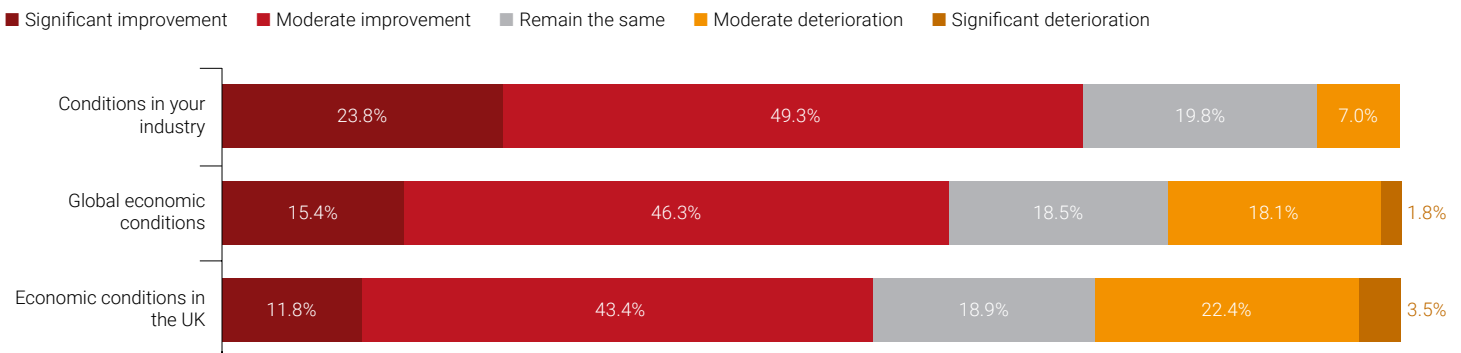
This year, partly in response to the global pandemic, the Chancellor of the Exchequer raised taxes by £40 billion, put the tax burden on a path to exceed 36% of national income, and allowed public spending boosts to take the state back to a size not seen since the early 1980s. While companies rev their engines to escape the Covid mire, their wheels slipping in labour shortages and supply chain problems, rising Corporation Tax and National Insurance contributions have made road conditions extra difficult.

Yet not all is doom and gloom. Despite many challenges across the past 12 months, UK manufacturing companies hit a record high level of output and orders growth in the second and third quarters of last year, as growth surged in response to the UK and overseas economies continuing to reopen and bounce back after their respective Covid-19 lockdowns. Having seen a brutal 10% decline in output in 2020, the sector is now set to recover almost all of that loss by the end of 2021, with growth based on a surge in both domestic and overseas orders for UK-made goods.

Make UK members are increasingly optimistic too. Almost three-quarters (73.1%) of surveyed firms expect conditions for their industry to improve overall in 2022. That includes almost a quarter of manufacturing firms (23.8%) who believe 2022 will see a significant improvement in conditions for their subsector. More (49.3%), however, expect a more moderate improvement for the industry. Just 7% of firms expect a decline in conditions, and none expect that decline to be significant, with all saying it will be moderate.

As for expectations about the UK economy, firms are still very optimistic overall, albeit a little more restrained. A total of 55.2% of manufacturers are optimistic about improving economic conditions (11.8% expect significant improvements; 43.4% expect more moderate improvements), and 18.9% anticipate that conditions will remain roughly the same. However, 22.4% expect some worsening of conditions, while a further 3.5% expect that worsening to be severe.

Chart 1: Conditions for manufacturers are set to improve in 2022



Source: Make UK / PwC Executive Survey, 2022

Good news for those who trade internationally, firms expect global conditions to fare a little better:



A TOTAL OF



SOME



JUST



All in all, most manufacturing firms are looking forward to 2022 and say things are looking up.

OPPORTUNITIES TRUMP RISKS IN 2022

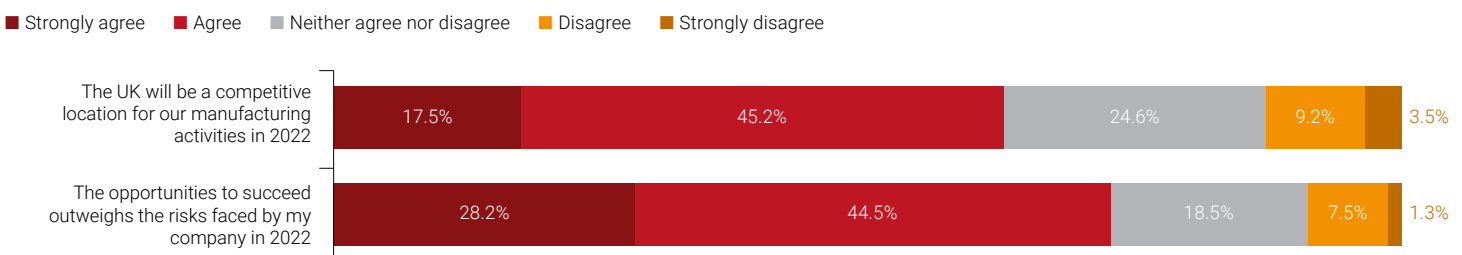
Whilst governments aren't solely responsible for generating economic growth, they can create the necessary conditions and business environment to stimulate growth. Thankfully, the UK has a world-leading private sector and many advantages, including a skilled workforce, excellent legal and financial institutions, a safe and steady political environment (generally), consistent and predictable weather conditions, the English language, and a sweet-spot time zone.

With such solid foundations to start from, it is no surprise so many UK manufacturers expect opportunities to trump the risks they may face in 2022. Almost three-quarters of manufacturers surveyed say the opportunities to succeed outweigh the risks faced by their company this year. Of the total, nearly 30% (28.2%) strongly agree with that statement.



Moreover, 45.2% of firms agree that the UK will be a competitive location for their manufacturing activities in 2022, while a further 17.5% strongly agree. By contrast, only 3.5% strongly disagree and 9.2% moderately disagree.

Chart 2: The UK remains a competitive base for manufacturing in 2022



Source: Make UK / PwC Executive Survey, 2022

However, despite so many firms seeing the UK as a great place to do business, relatively few are planning to replace international suppliers with British suppliers. Some 15.8% are strongly planning to and a further 18.9% are planning to, but most (39.9%) are planning no change, while 18% say they are not planning to and 7.5% are definitely not planning to replace international suppliers with British suppliers.

On a similar theme, when asked if their company will look to move some or more of their production back to the UK in the coming year, 14.9% strongly agreed with the statement and 16.2% agreed. Yet 43.9%, the vast majority of those surveyed, said they neither agree nor disagree, perhaps indicating a wait-and-see approach. By contrast, 12.7% disagreed and a further 12.3% strongly disagreed, suggesting they are definitely not looking to move some or more of their production back to the UK in 2022. If reshoring and redomiciliation are priorities for the Government, it is clear from these results that UK businesses still need to be convinced.

Perhaps the biggest issue facing business right now is climate change. On the vital question of the transition to net zero, the response has been very encouraging. A whopping 43.4% of UK manufacturers said they will prioritise net zero this year, in addition to 20.6% who said it will be a strong priority for their business. Some 25% have yet to make up their mind. Only 7.5% of UK manufacturers did not agree that focusing on net zero will be a priority for their business over the next year, and just 3.5% strongly disagreed that transitioning to net zero carbon emissions will be a target for their firm in 2022.

Concerningly, a sizeable majority of businesses reported that the impending rules on customs and the changes to product labelling that have resulted from the UK's exit from the EU will be significant challenges for their business in 2022. Almost a quarter (23.3%) say this will be a top challenge for their business, in addition to one-third (32.9%) who say it will be a challenge. A further 31% are unsure of the impact just yet. Only 12.7% in total of firms surveyed believe these changes will not pose a challenge for their business, of which just 2.2% are very confident that the customs and labelling changes won't impact their business negatively. Clearly, there is still a lot to do to prepare British manufacturers for these coming changes.

At the time of writing, the new Omicron coronavirus variant has just been detected in the UK. When asked whether the impacts of the Covid-19 pandemic will be felt just as much in 2022 as in 2021, 20.6% of our respondents replied that they strongly believe Covid-19 will cause just as many disruptions and difficulties over this coming year as it has over the past year. A further 32.9% agreed with that statement, while 31.1% neither agreed nor disagreed. Just 10.5% disagreed, while a mere 2.2% strongly disagreed.

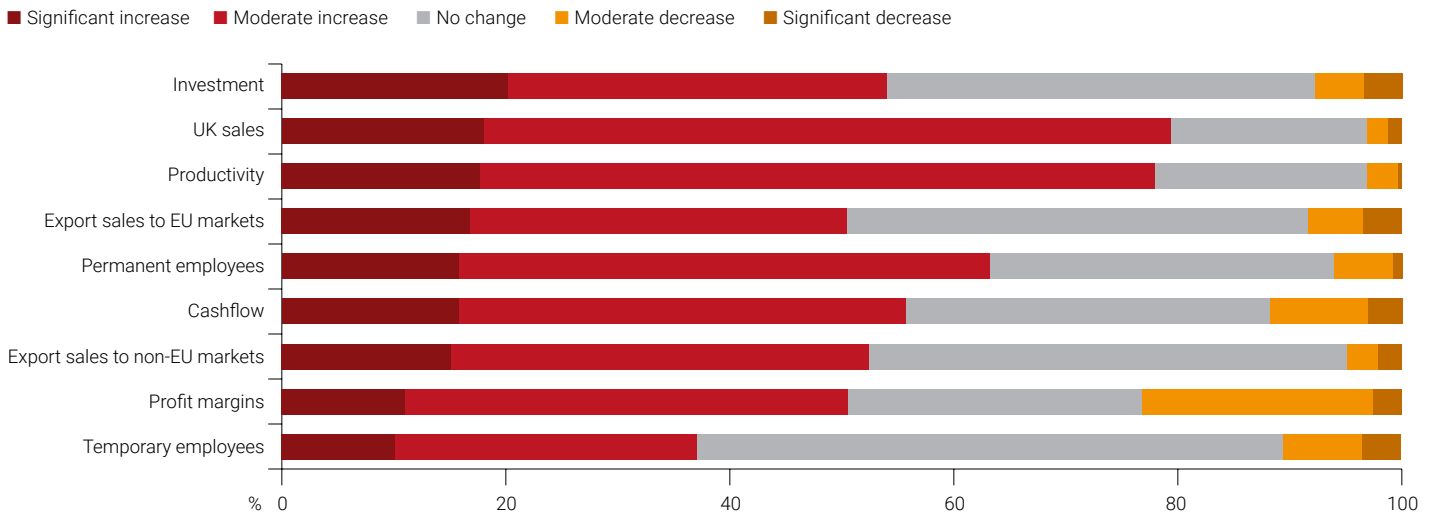
PEOPLE, PRODUCTIVITY, AND SALES ON THE UP

In many ways, the UK economy has been transformed over the last two years as the evolution of our trading relationship with the rest of the world beds in post-Brexit, combined with the impact of the Covid-19 pandemic on every industry and individual in the country. As the economy shows signs of returning to normal, firms are looking increasingly optimistic about the future. When asked what their expectations are for the next 12 months, relative to the previous 12 months, the manufacturing firms surveyed had the following to say:

- 15.8% anticipate a significant increase in permanent employees within their firm;
- A very encouraging further 47.4% expect a moderate increase in recruitment of permanent employees at their company;
- 30.7% say their employment levels will stay the same; no bad thing given the turbulence of the last two years;
- Only 5.3% expect a moderate decrease in permanent jobs at their firm;
- Less than 1% say they will see a significant decrease.

In terms of temporary employees, things are looking equally positive. A solid 10.1% of firms say they will see a significant increase in the number of temporary employees they will recruit over the coming year. Additionally, a little over a quarter (26.9%), say they will see a moderate increase in the number of temporary employees they recruit in the next 12 months. More than half (52.4%) say they will neither increase nor decrease their temporary staff numbers. Just 7% expect a moderate decrease in numbers. Finally, 3.5% will see a significant decrease in non-permanent staff numbers at their firms.

Chart 3: Permanent employees, sales and productivity set to increase in 2022



Source: Make UK / PwC Executive Survey, 2022

Despite a challenging economic environment, firms are also looking positively to the future when it comes to UK sales. Some 18% expect 2022 to be a bumper year for their firm. A further 61.4% expect a moderately positive increase in domestic sales. A total of 17.5% believe no change will take place for their sales numbers, either negative or positive. A mere 1.8% say UK sales will decline moderately, while just 1.3% say they will suffer a significant decline in UK sales.

Export sales to EU markets are also looking good overall, with 16.8% of British manufacturers anticipating a big increase in exports to the EU over the coming year and a further 33.6% expecting a smaller increase. Some 41.2% say sales to the EU will stay steady. Just short of 5% (4.9%) say they are expecting a small decline in EU sales, while 3.5% say they will see a severe decline in sales numbers to the EU.

Export sales to non-EU markets look equally bullish: 15.8% of British manufacturers anticipate a big increase in exports to non-EU markets next year and a further 37.3% expect a smaller increase. This compares with 42.7% who say sales to non-EU countries will remain steady. Just 2.7% say they are expecting a small decline in non-EU sales, while only 2.2% say they will see a severe decline in sales.

After a challenging few years of stockpiling ups and downs and supply chain disruptions, it would be understandable to expect firms to be struggling on the financial front, and indeed many are. However, the signs for recovery are looking promising as we enter the new year and, hopefully, a return to more normal business conditions. Of the companies surveyed, 15.8% report very positive cashflow expectations for the coming year, on top of 39.9% who expect a more moderately positive year ahead. Almost one-third (32.5%) say their firm’s

cashflow will remain in a steady state. However, almost one in ten (8.8%) of firms expect a challenging year, and a further 3.1% believe their cashflow will take a severe hit this year.

Consequently, investment intentions are also looking promising overall. One in five (20.2%) firms plan significant investments over the next year, many of which will have been postponed during the pandemic. A further one-third (33.8%) say some investments will take place, compared with 38.2% who plan no change. Only 4.4% of firms expect moderate cuts to their investments, while 3.5% expect to have to make significant investment cuts.

This comes on the back of improved profit margin expectations for the coming 12 months, whereby 11% of firms are anticipating a big boost to profits in 2022. Another 39.5% expect some increase in profitability. A little over a quarter (26.6%) say profit margins will stay roughly the same. One in five (20.6%) say their profits will take a slight hit, and, thankfully, just 2.6% expect their profits to decline significantly.

It is no wonder, then, that most firms expect their productivity to improve over the coming year. As a famous economist, the Nobel Prize winner Paul Krugman, once said, “Productivity isn’t everything, but in the long run it is almost everything.” Some 17.7% of surveyed firms expect their productivity to increase dramatically over the coming year on the back of improving business conditions overall. In addition, a whopping 60.2% of manufacturers expect moderate improvements to their productivity performance. Just shy of one in five firms (19.0%) report that their productivity will remain consistent. Only 2.7% of firms surveyed believe their productivity will decline, albeit slightly, while a mere 0.4% say their productivity will see a sharp decrease.

TALENT AND TECHNOLOGY ARE PRIORITY INVESTMENTS IN 2022

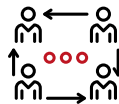
UK manufacturing is a high-skill sector. Manufacturing companies in this country pay significantly higher wages than the national average and Make UK members are often at the cutting edge of innovation. Our survey results confirm that investing in talent and technology are key priorities for firms in 2022.



Apprenticeships: A total of 44.7% of firms say they are planning to recruit apprentices within the next 12 months, while a further 19.7% say they plan to within the next 24 months. An additional 17.5% do not yet have plans to but say they are considering doing so. Just 18% of UK manufacturers definitely do not plan to hire any apprentices in the next two years.



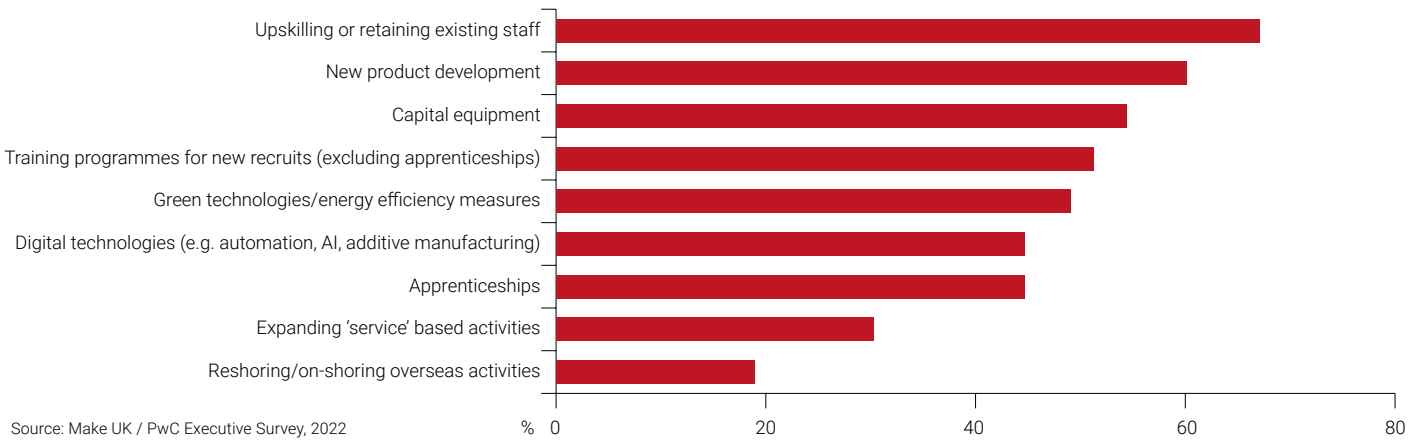
Wider training programmes: In addition to apprenticeships, other training programmes are proving popular too, with 51.3% of manufacturers saying they will recruit people for non-apprenticeship training programmes within the next 12 months and a further 15.8% saying they will do so within the next two years. And only 16.2% of manufacturers say they have no firm plans yet but are considering recruiting extra people for all their training programmes. Just 16.7% say they do not have plans to hire people on training programmes within the next two years.



Retraining existing staff: Upskilling and retraining existing staff is also something many businesses are planning on investing in this year. In fact, 67.1% of manufacturers have made plans to do so in 2022, while a further 14.9% plan to do so in the next 24 months. A smaller percentage, 10.5% of businesses surveyed, say they do not yet have plans but are considering investing in upskilling and retraining of existing staff, while a tiny minority, only 7.5%, definitely will not do so within the next two years.



Chart 4: Investment in people, products and tech are planned for 2022



With so many companies planning on new investments in their staff, it is pertinent to ask how many businesses are planning to reshore or onshore some or all of their overseas operations and activities to the UK. Interestingly, 18.9% of respondents say they definitely plan to do so over the coming year, while a further 16.7% will do so within the next two years. In addition, 12.7% are considering reshoring or onshoring overseas activities but have yet to decide. An overall majority, 51.8%, definitely do not plan to reshore or onshore any of their overseas activities to the UK in the immediate future.

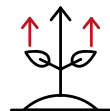
As well as investments in labour, many manufacturers are planning investments in technology to improve or grow their business.



Digital technologies and techniques: Just short of half of all businesses surveyed (44.7%) have made concrete plans to invest in automation, artificial intelligence (AI), additive manufacturing or other forms of digital technologies over the next year. Another 19.7% of firms plan to do so if not next year, then the following year. On top of this, 20.6% of manufacturers say they are considering doing so but have not yet made a final decision. Only 14.9% of manufacturers surveyed do not plan to invest in new digital technologies within the next 24 months.



Capital equipment: Investment in other capital equipment is also on the agenda. More than half (54.4%) of all firms will invest in capital equipment next year and another 20.6% will do so the following year. An additional 15.4% of manufacturers are considering investments in capital equipment. Just 9.6% have made up their mind not to do so next year or the year after.



Green technologies: Regarding the transition to net zero, this appears to be a top priority for many manufacturers, with 49.1% of firms saying they plan investments in green technologies or energy-efficiency measures over the next 12 months and a further 21.5% saying they will make these investments within the next 24 months. On top of this, 18.4% of manufacturers are considering investments in green technologies or energy-efficiency measures, while just 11% do not plan to make any investments in these areas.

These investments may be the result of the huge number of firms who plan to develop new products next year. A significant 60.1% of manufacturers surveyed said they will be developing new products in 2022, in addition to 10.5% who want to do so over the next two years. Furthermore, 14% of firms are considering developing new products, while just 15.4% are content with their current range and will not aim to develop new products in the immediate future.

On a similar theme, 30.3% of businesses surveyed plan to expand service-based activities to complement their existing product and services ranges. Another 18% will do so within the next 24 months, while 11.8% are considering doing so but are yet to make a final decision. Nevertheless, 39.9% of firms do not plan to add new service ranges to their existing portfolio any time soon.

DOMESTIC RISKS TEND TO DOMINATE IN 2022, WHILE BREXIT CONCERNS REMAIN

The best businesses are adaptable and resilient. They need to be in order to survive and thrive. New challenges and threats emerge all the time.

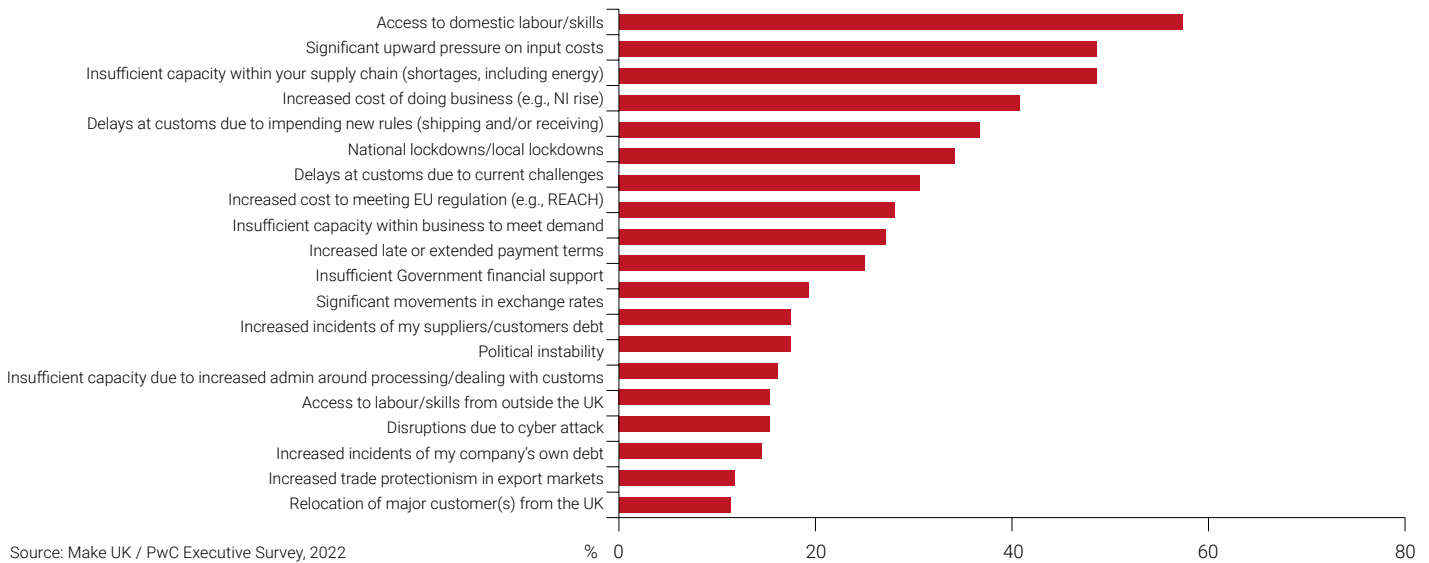
55.7% OF FIRMS
SURVEYED FOR THIS REPORT
EXPECT THEIR COMPANIES’ BIGGEST RISKS
IN 2022 TO BE DIFFERENT FROM THOSE
FACED IN 2021

Delays at customs owing to impending new rules (shipping and/or receiving) are seen as the biggest risk to manufacturing by an overwhelming 37% of respondents. Even without the impending changes, 30.7% of firms say they will face major challenges next year just based on the current difficulties their goods face when being imported and/or exported through customs clearance. Insufficient capacity owing to increased admin around processing and dealing with customs requirements is a risk anticipated by 15.4% of firms surveyed. The fear of increased trade protectionism in export markets is also a pressing concern for 19.3% of firms.

In a sign of the effect Brexit is having on British industry, the increased cost of meeting EU regulations, such as the REACH directive, comes in second highest on the list of expected challenges this year according to 28% of UK manufacturers. Adding to the impact of changes that have resulted from Brexit, access to domestic labour and/or skills in the context of a more restrictive UK immigration system is joint second on the list for 57.5% of respondents. Unsurprisingly, access to labour and/or skills from outside the UK comes next with 15.4% citing it as a top concern.



Chart 5: Domestic risks creep up, while risks associated with leaving the EU remain



Insufficient Government financial support is also a major concern for manufacturers next year, with 19.3% listing it as a concern. Increased incidents of their company’s own debt was cited by 11.8% of respondents as a concern, while 17.5% cited increased incidents of their suppliers’ or customers’ debts. Increased late or extended payment terms was listed as a risk for exactly a quarter (25%) of manufacturing firms in our survey. Significant movement in exchange rates was cited by 17.5% of firms as a concern, and 48.7% listed upward pressures on costs as a fear, though just 40.8% said the increased cost of doing business is a risk they anticipate next year.

Financial concerns are followed closely by threats to cybersecurity, which was listed by 14.5% of manufacturers as a major worry.

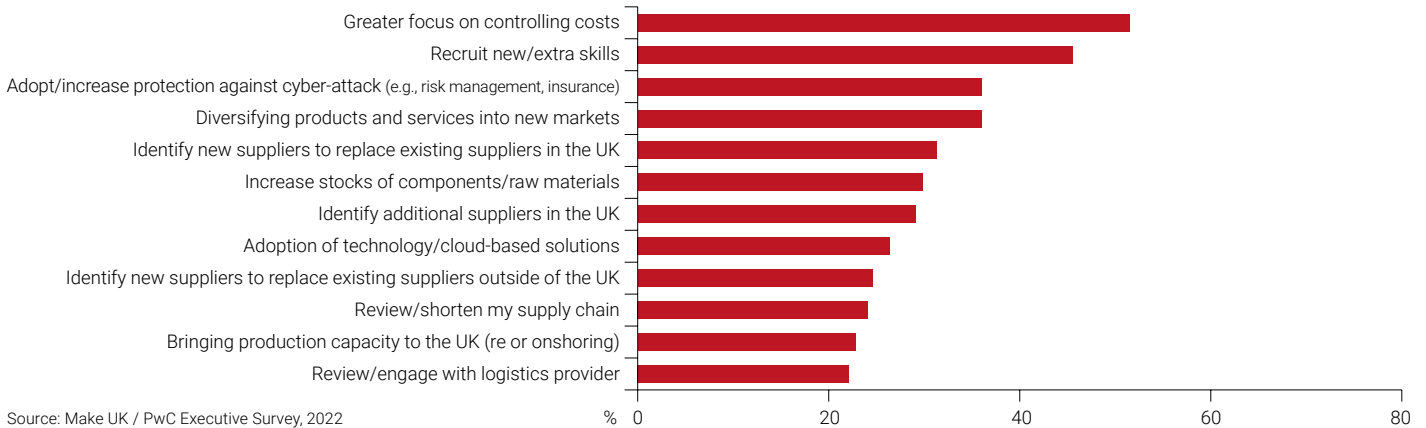
Political instability – for example, a change of Prime minister or an election – is concerning for 16.2% of manufacturers, but of equal concern is the threat that a new Covid-19 lockdown might at some point be deemed necessary. At the time of writing, the new Omicron coronavirus variant has just been detected in the UK so, perhaps unsurprisingly, 34.2% of manufacturers list the potential for new local or national lockdowns as a potential threat to their business in the coming year.

MANUFACTURERS ARE PUTTING IN PLACE PLANS TO MITIGATE TOP RISKS

The Covid-19 outbreak has underlined the importance of the UK’s industrial base to maintaining our national prosperity and well-being. Through ingenuity and innovation, UK manufacturers have been at the forefront of the national effort to tackle the pandemic. Automotive makers switched to building ventilators for the NHS; clothing and textile companies repurposed to make medical gowns and face masks. Food and drink factories made hand sanitisers and helped to ensure our household supplies continued. British manufacturing is operating at the cutting edge of science and technology, whether by using the latest 3D printing techniques to produce critical components for medical equipment or by working at speed to produce the medicines and vaccines we urgently need.

Having learned many lessons from the global pandemic, manufacturers are now putting in place plans to mitigate their top risks. The primary concern is placing greater focus on controlling costs, which 51.5% say is a key priority. Next on the list, at 45.6%, is recruiting new/extra skills, while protecting against cyberattacks and diversifying products and services into new markets are joint third (36% each). Relatedly, 31.3% of firms say they will be taking action to identify new suppliers to replace existing suppliers in the UK this year, and 29.1% plan to identify additional suppliers in the UK.

Chart 6: High-priority strategies adopted by manufacturers to mitigate risks



While readers might have expected the end of stockpiling, it seems the experience of the last few years has induced a permanent behavioural shift among the firms surveyed. Some 29.8% say they will increase stocks of components/raw materials as supply chain disruptions continue to cause considerable anxieties for UK manufacturers. Almost a quarter of manufacturing firms (24.1%) are taking action to review or shorten their supply chains, having learned valuable lessons about vulnerabilities and resilience in recent years, and 22.1% say they will review and/or engage with their logistics providers for similar reasons. Building supply chain resilience through M&A/Vertical Integration is a priority for 18% of firms, though 52.6% say it is a low priority, signalling that they see other alternatives as more appropriate.

Bringing production capacity to the UK (re- or onshoring) is a priority for 22.8% of firms, but many more (46.5%) say it is a low priority for them. Boosting production capacity outside the UK is a key aim for 18.9% of British manufacturers this year, though for 59.6% it is not.

On the back of the shift to remote working that the Covid-19 pandemic forced on so many businesses, 26.4% of manufacturers say they plan to look at adopting new technology/cloud-based solutions within their business.

However, more than one-third (33.9%) do not see this as a priority for 2022.

In terms of the things that are of least concern to businesses this year, 65.8% of UK manufacturers say reviewing or introducing hedging strategies are of low priority for them. Next on the list is taking out insurance to protect against bad debt (trade credit insurance), which 60.8% of firms say is not a key concern for them at the moment. In third place on the list of low priorities is creating new or additional production capacity outside the UK (59.6%), though reviewing finance arrangements with banks trails closely behind at 55.7%, followed by the aforementioned building supply chain resilience through M&A/Vertical Integration (52.6%).

It is clear from these figures that Brexit and the global Covid-19 pandemic have had a scarring effect on the mentality of many businesses, which are traumatised by the ongoing delays and disruptions to their supply chains. In the medium to long term, however, the behavioural shift we are witnessing, and the possible death of the just-in-time supply chain business model, may be a good thing for British manufacturers who are now developing ways to ensure they are more resilient and less exposed to unforeseen international risks in future. This will hopefully strengthen British businesses for years to come.

IS 'RESHORING' A THING?

The disruption caused by Brexit and the pandemic mean the question of whether to reshore is now very much on the agenda for British manufacturers and the British Government. Supply chain disruption and supply chain resilience has now become an increasing part of the narrative for manufacturers, whose networks were exposed during the early part of the pandemic as a lack of freight capacity and myriad lockdown policies in respective countries resulted in substantial challenges for firms that needed to access critical components. Our survey results show that almost one in five (18.9%) of UK manufacturers say they plan to reshore some or all of their overseas operations to the UK within the coming year. A further 16.7% plan to do so within the next two years. In addition, 12.7% are considering reshoring or onshoring overseas activities but have yet to decide, while 14.5% of manufacturers say they expect at least one major customer to exit the UK and offshore elsewhere over the next year. However, 51.8%, the majority overall, do not plan to reshore or onshore any of their overseas activities to the UK in the immediate future.

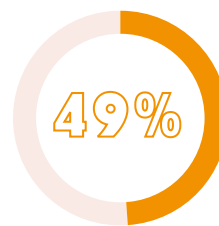
PART 2: IN 2022 MANUFACTURERS ARE GOING GREEN, SECURING SKILLS AND ADAPTING TO CHANGE

GOING GREEN: THE TRANSITION TO NET ZERO BEGINS

2021 was a milestone year. Following the Paris Agreement, when countries across the world agreed to step up their net zero ambitions, the spotlight was officially on the UK as it hosted the UN Conference of Parties (COP26). This provided a time for UK manufacturing to shine and demonstrate that it is part of the solution to net zero, and not the problem. The UK manufacturing sector has a key part to play in the transition to a net-zero carbon economy, not only by cutting its own greenhouse gas emissions, but also and more crucially through the innovative products, processes and services that will become an integral part of the green industrial revolution. Manufacturers’ net zero journey has definitely begun.

Almost half (49%) of manufacturers report that they are planning to increase investment in green technologies and energy-efficiency measures in the year ahead, with a further one in five (21%) saying that while they may not in the next 12 months, they will do so in the next 24 months. Only one in ten (11%) report that they have no plans to invest in green technologies. Investing in green technologies will be crucial not just to the success of the sector’s transition to net zero,

but also to helping develop the products and services that will support the wider economy to meet that all-important 2050 net zero target.

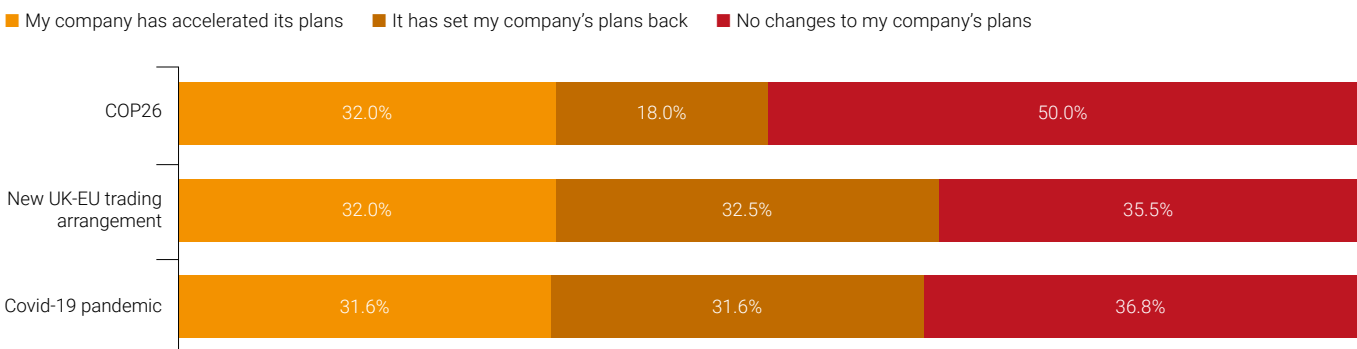


49% OF MANUFACTURERS SET TO INCREASE INVESTMENT IN GREEN TECHNOLOGY IN 2022

The focus on going green in 2022 is apparent, with almost two-thirds (64%) of manufacturers agreeing that 2022 will see their business focus more on net zero, and this is evident from the increased investment in green technologies that manufacturers have planned.

The events of 2021 are driving some of this increased attention to the green agenda. One-third of companies reported that COP26 has accelerated their plans to transition to net zero.

Chart 7: The events of 2021 will spur on green investment in 2022



Source: Make UK / PwC Executive Survey, 2022

HOW WILL THE COMMITMENTS AT COP26 IMPACT UK MANUFACTURERS?

In marking the global resolve to combat climate change, COP26 serves to spur manufacturing's green transition. The commitments at COP26 had a significant impact upon manufacturers across a range of themes.

Widespread breakthrough of corporate and sector alliances

COP26 created a breakthrough of corporate and sector alliances, from green coalitions to public-private partnerships across fossil fuels and cars.

Manufacturers will undoubtedly be the first in line to feel the impact of these breakthroughs, all set to create rapid and profound global transformation in major sectors, from heavy-duty vehicles, cement and concrete, consumer goods and retail, to electronics, pharmaceuticals and MedTech – with more to come.

Global carbon trading and commerce

COP26 ensured that the rules governing international voluntary carbon markets have been agreed, which will now allow for the establishment of a global carbon price that would tie the negative GHG emissions to polluters.¹ This will impact manufacturers as it should positively impact markets in the UK, particularly for raw materials.

Reporting of emissions

The Glasgow Breakthrough coalition to dramatically accelerate the innovation and deployment of clean technologies in five key sectors of the economy requires its signatories to report and increase their commitments next year. This places pressure on the UK and its manufacturing industries to both report and scale up decarbonisation efforts.

Private finance

Investments that integrate some sustainability measurement are estimated to total \$30trillion (8% of total global financial assets), yet only \$3trillion of those investments seek positive sustainability impacts. As financial intermediaries look to align to the OCED Sustainable Development Goals (SDGs), manufacturers will now have to showcase how planned investments are aligned with the net zero goal.²

But it's not just the action and announcements from COP26 that are putting net zero into boardroom discussions; the UK's full departure from the EU and the Covid-19 pandemic have also led to companies fast-tracking their plans. Resilience was a key theme of 2021, and it appears that this theme is continuing in 2022 and includes climate change resilience. It is the right time for manufacturers to identify climate-related risks, as they look to re-evaluate their businesses post-Covid and to build greater resilience into their businesses to help mitigate the risks, such as supply chain disruptions, price risks, product risks and those linked to external stakeholders such as investors and legislators.

Manufacturers are acknowledging that they need to prepare, but they can and should take further steps to prepare more robustly for the changes that could occur owing to climate change. For example, climate-related reporting will have to be transparent to inspire investors' confidence in the sustainability of the business.

Rethinking their businesses as they continue to recover from the pandemic represents a major opportunity for manufacturing companies, to make them resilient and fit for the future, as does the new Trade and Cooperation Agreement.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES RECOMMENDATIONS GO FORWARD

By April 2022, disclosing climate-related financial information will become a mandatory requirement for the UK's biggest financial institutions and companies, in line with the recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). Founded in 2015, the TCFD's purpose is to ensure clear, high-quality climate-related financial information, to determine organisations' impact upon the global climate and to provide transparency about their climate-related risks and opportunities to investors. This won't only ensure the stability of the financial system but will also create a greater understanding of climate risks to ensure that investments can be channelled into sustainable opportunities in order to facilitate the transition to a more stable and sustainable green economy.

¹<https://carboncredits.com/cop26-global-carbon-market-deal-reached/>

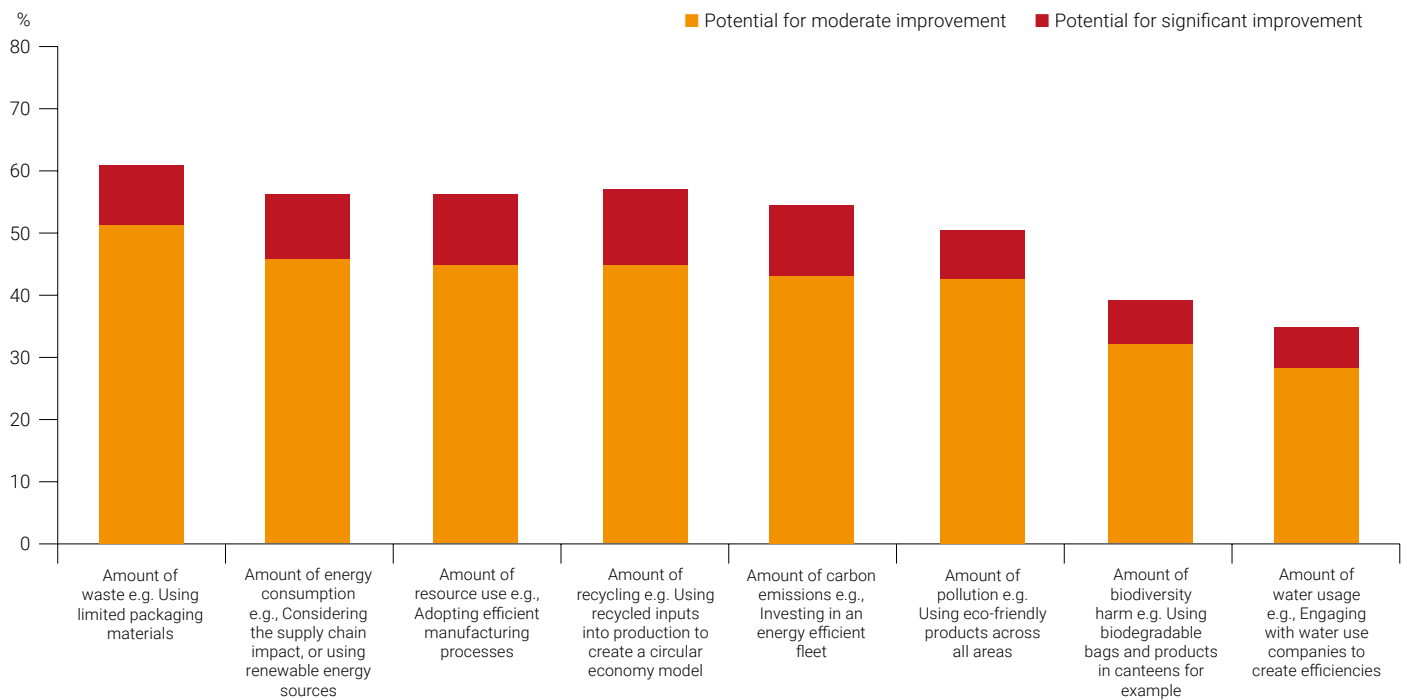
²OCED, Global Outlook on Financing for Sustainable Development 2021 : A New Way to Invest for People and Planet, 2020

By embracing new green and digital technologies, products and services, manufacturers of all sizes will be providing the solutions and products for a low-carbon, sustainable and internationally competitive UK manufacturing sector.

Our survey also reveals a strong sentiment to create environmental improvements across the manufacturing sector. Manufacturers ranked recycling, resource use and carbon emissions as the highest areas on which their companies will focus to make significant positive changes over the next one or two years. In terms of moderate improvements, waste and energy consumption are top priorities, with recycling and resource use closely behind.

The companies that will have the most success delivering financial returns while ensuring environmental stewardship –and thus ensuring that sustainability delivers positive returns– need to embed the goals of decarbonization and net zero into their organizational culture, innovation architecture, governance and reporting systems, and overall purpose. By making bold changes to their business, operating models and approaching the green agenda as an investment that creates value and drives improved results in the short and long term, rather than as an initiative that imposes higher unwanted operating costs.

Chart 8: The potential for environmental improvements within manufacturing firms



HOW TO GO GREEN

Manufacturers regard the acceleration of digitisation and the adoption of new technologies as priorities in ensuring future growth and resilience. Investing in technology and further digitisation has provided numerous benefits for the manufacturing sector, from increasing productivity to improving the standardisation of output and reducing waste. Below are some examples of the ways sectors within manufacturing are going green:

THE GLASS INDUSTRY

is already using recycled glass in operations. This results in a much lower carbon footprint of glass products.

THE STEEL INDUSTRY

is transitioning away from new materials to the reuse of scrap metal as well as powering processes by electricity rather than fossil fuels: – Electric Arc Furnaces (EAFs) utilize scrap metal rather than iron ore as the main fuel. Coke and iron ore that are needed for blast furnaces are no longer being predominantly sourced in the UK and instead are imported –EAFs are therefore associated with lower scope 3 – category 1 and 4 emissions as materials can be sourced locally.

THE FOOD AND DRINK INDUSTRY

are already collaborating with farmers to reduce the emissions of agricultural processes, through initiatives such as: – Livestock production efficiency – increased efficiency through diet management/strategic feed selection will reduce methane emissions per unit of product – Nitrogen efficiency – slow/controlled-release nitrogen products to optimize the amount being absorbed by plants and reduce the amount degrading to N₂O – Precision agriculture – tailor production inputs to specific plots within a field – reduces input costs and increase yields.

For those manufacturers at the beginning of their net zero journey some simple steps can be taken now:

INTRODUCING LOW-COST ENERGY AND PROCESS EFFICIENCY MEASURES

such as automatic door closures, variable speed drives, LED lighting with motion sensor and small process changes (e.g., programming temperature controls).

CHANGING BEHAVIOURS

(e.g., not lighting the whole factory up when not needed or making sure that idling engines are turned off).

CREATING A 'GREEN FUND'

with the savings made over the first two years to use for the medium/high-cost investments such as process improvements, equipment replacement (e.g., compressors, boilers, pumps, ventilation/cooling systems), or onsite generation which will reduce carbon emissions more significantly. for the manufacturing sector to get to net zero.

CARBON OFFSETTING

should be done as a last resort, when all the other measures to reduce the emissions have been exhausted.

FOCUSING ON BUILDING IMPROVEMENTS

which are important but can be a challenge particularly when leasing buildings and sites which may require permissions for on-site generation (solar panels) or even when owned in the case of very big old spaces.

SECURING SKILLS: STRATEGIES TO RECRUIT AND RETAIN

Holding on to skills remains a key business priority for 2022, and this high priority comes as no surprise given the concern manufacturers have around people and skills leaving not just their businesses, but also the wider manufacturing sector, in the year ahead.

The overwhelming majority (87%) of companies report that they are concerned about skills leaving their business, with 86% concerned that skills will be lost from the sector entirely. With the latest national statistics reporting that 39% of vacancies in manufacturing remain hard to fill owing to skills shortages, it is easy to see why we are seeing such widespread concern.



Companies are taking a range of actions in a desperate bid to hold on to the talent they have. This includes measures around pay, with 65% increasing basic pay to retain skills and 38% increasing wider remuneration packages, such as overtime and shift pay, and 11% offering retention bonuses.

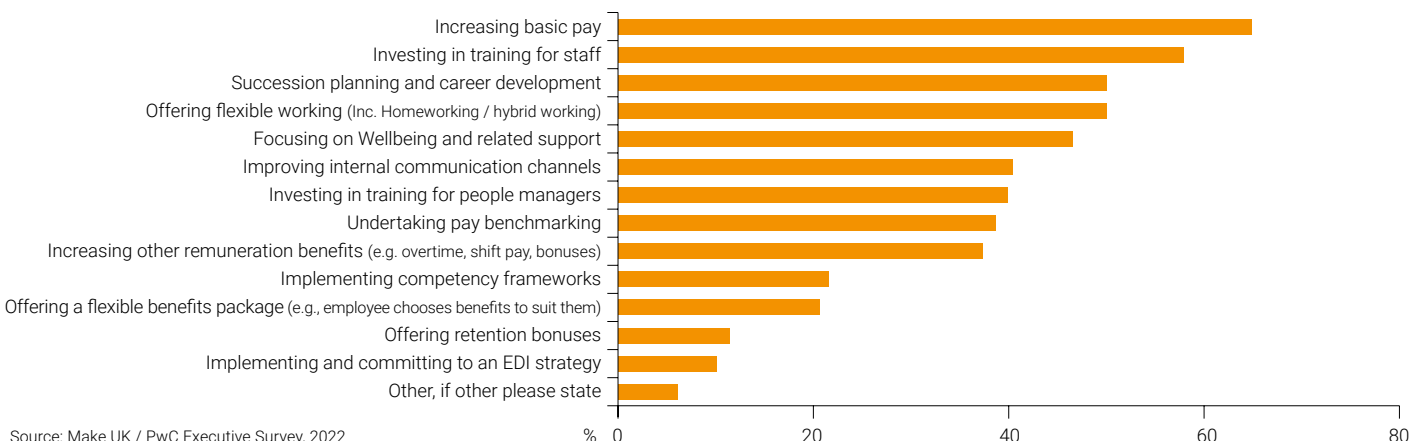
But it's not just about money. Manufacturers are ensuring that they are investing in training for their staff, with 58% citing this as a means to retain skills, half reporting succession planning and career development plans, and one in five (22%) undertaking competency frameworks, which can help support potential career progression for their employees. This comes on top of almost six in ten manufacturers already committing to take on an engineering or manufacturing apprentice in the next 12 months.³

In addition, offering greater flexibility is a key policy for holding on to people in the year ahead, as manufacturers learn lessons from the pandemic with regard to operating remotely. Half of manufacturers are offering flexible working as an attraction and retention tactic.

Business leaders across industries increasingly acknowledge that a focus on diversity, inclusion, wellbeing, and workforce engagement can help improve competitive edge. Offering flexible working where possible can help achieve these ambitions as well as helping firms attracting new talent.

Manufacturers need to continue to communicate the opportunity and excitement of working in their industry. More and more individuals are invested in the Environment, Social and Governance (ESG) agenda and pursue purpose as much as salary and seek to make a difference and that messages needs to be amplified for the industry.

Chart 9: Pay and progression key to retaining staff in 2022



Source: Make UK / PwC Executive Survey, 2022

³Make UK Retain, Recruit, Revise – Apprenticeship Levy 4 Years On, 2021.

FLEXIBLE WORKING – CHALLENGE OR OPPORTUNITY?

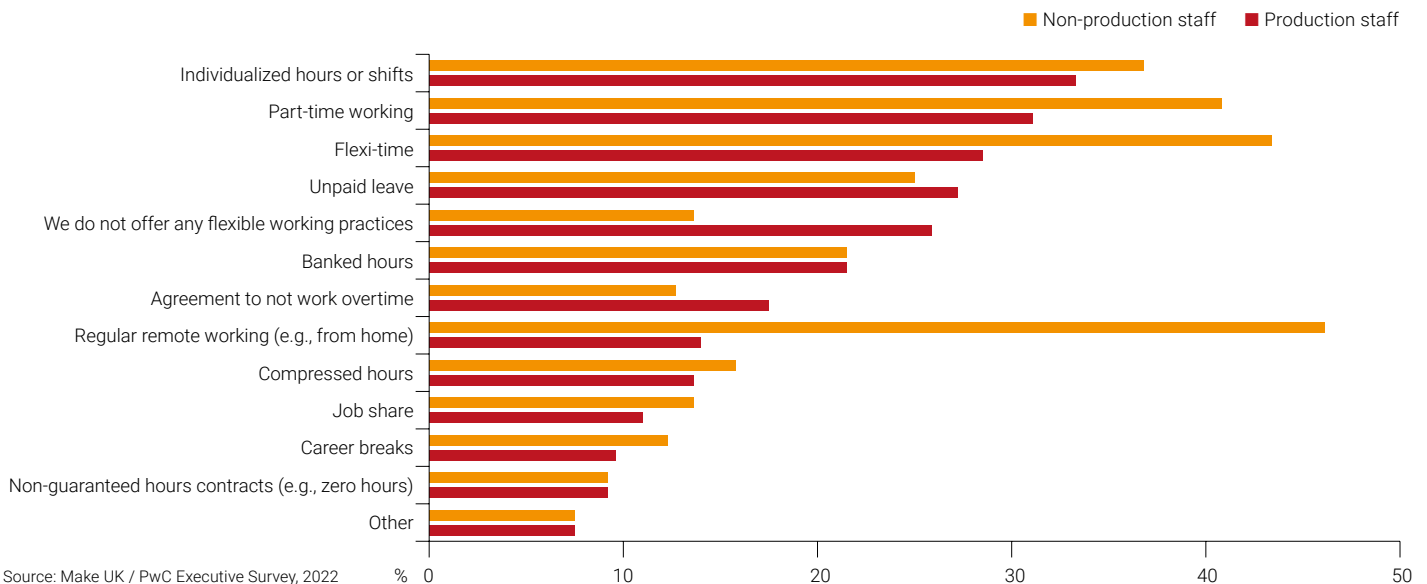
At the end of 2021, the Government consulted on making flexible working the default, setting out a number of proposals to the current right to request flexible working legislation. The proposals include making the right to request flexible working a day one right, increasing the number of formal requests an employee can make in a 12-month period, reducing the period within which employers have to respond to a request, and asking whether the current eight business reasons that an employer can reject a request can remain.

In 2022, it is likely that the much-delayed Employment Bill, including these proposals, will resurface, and as a result, manufacturers will have flexible working on their mind if they haven't already. So, then, to what extent are manufacturers offering flexible working? Has the pandemic led to a complete shift in the way manufacturers manage their employees? Our survey shows a split between production and non-production staff. When it comes to non-production staff, who are likely to be those who have been operating remotely through homeworking during the pandemic, these are most likely to be offered remote working, flexitime, and part-time working, with just one in ten manufacturers reporting they don't offer flexible working to this category of workers.

For production staff, things look a little different, with more than a quarter of companies reporting that they don't offer flexible working for employees in production roles. Those that do are more likely to offer banked hours, individualised hours, or overtime.

The proposed changes to flexible working will pose challenges, but also opportunities, such as the opportunity to attract a more diverse range of talent and potentially tap into an otherwise untapped talent pool. But it will also bring changes in terms of possibly managing more requests, adding layers of administration to a business, and potentially holding some difficult conversations when not all requests can be accommodated.

Chart 10: Flexible working arrangements differ among production and non-production staff



ADAPTING TO CHANGE: A POST-COVID, POST-BREXIT WORLD

2021 was a tough year for industry, driven in part by structural changes towards onshoring, but in the main it was adversely affected by the Covid-19 pandemic. Demand reduction, especially in the manufacture of transport equipment, marked out a period of volatility.

Many manufacturers remained open but with reduced headcount because of the need to social distance. Depleting order books, as global demand declined, meant manufacturers had to look for other ways to improve conditions. Many manufacturers sought to overcome these challenges by diversifying their products – some looked at manufacturing PPE or other in-demand goods, and other manufacturers considered exporting to new markets. 2022 looks set to be the year manufacturers fully adapt to change, whether this is adapting to changes in the way they operate their workplaces and workforce's post-pandemic or adapting to the quite considerable changes following the UK's full departure from the EU.

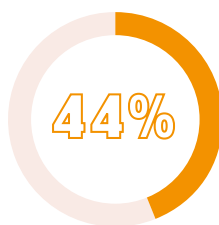
Manufacturers have had to adapt to a changing landscape over the past 12 months. Last year was difficult economy wide, but specifically for manufacturers, who have not only grappled with a new trading relationship with the EU but have also dealt with difficulties across their supply chains and have had Covid-19 recovery to contend with. Yet, even with these challenges, the manufacturing sector continues to demonstrate its agility and resilience. This ability to adapt to an ever-changing landscape – but not just ever-changing; in some instances, ever-challenging – demonstrates the strength in the sector.

The pandemic has proved to be very problematic for manufacturers. For many sectors in the economy, large swathes of the workforce were told to work remotely, and although this was troublesome to deal with initially, a new way of working was found. For manufacturers, where large proportions of the workforce are production staff, dealing with the pandemic was far tougher. Thankfully, manufacturers were able to remain open during the multiple lockdowns, although they had to reduce headcount on site to ensure ample social distancing. This required manufacturers to open longer and to alter shift patterns so output could remain high while headcount on site could stay low to help prevent the further spread of Covid-19.

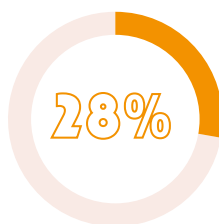
Although the vaccine roll-out has been a success, and despite large swathes of the workforce returning to the workplace, six in ten (58%) manufacturers agree that Covid-19 will have a similar impact in 2022 as it had in 2021, and, as highlighted earlier in this report, potential national lockdowns are still in the back of many manufacturers' minds. This further demonstrates the need to remain agile and fleet of foot as,

although the vaccine has quelled some concerns around Covid, the pandemic is far from over, and manufacturers are acting cautiously and adapting to the continuing new ways of working.

2022 will still be a year in which manufacturers will be hampered by Covid-19, and they will need to alter their ways of working in order to continue to grow. Manufacturers have for the past year looked at ways to remain open in safe and secure ways while keeping output high; this will be no different in the year to come. As expected, some plan to bring back all of their workforce to work from site again while others plan to continue to offer a hybrid model for staff:



OF MANUFACTURERS SEEK TO BRING BACK ALL STAFF TO THE WORKPLACE; AND



OF MANUFACTURERS HAVE PUT IN SHORT-TERM PLANS FOR WORKERS TO REMAIN OPERATING IN A HYBRID MODEL

A further 24% of manufacturers plan to readdress working conditions at the end of the year, although there is a strong feeling within the sector that the sooner all members of staff who want to return to the workplace can, the better. Other manufacturers, on the other hand, have an opposing view, with 13% planning on closing some of their offices.

There's no question that the pandemic has challenged all businesses across the sector, but it has also offered businesses the opportunity to accelerate digital transformation and to experiment with alternative ways of working, such as remote and hybrid.

Following the conclusion of the Trade and Cooperation Agreement (TCA) between the UK and the EU in 2020, UK manufacturers saw the single greatest change in how they do business in the EU in more than four decades.

UK manufacturers have long been part of complex just-in-time supply chains that spanned many Member States, with component parts travelling seamlessly across borders several times before the products were finally assembled and sold.

The change has meant UK manufacturers have faced many new requirements in how trade is conducted, not just between the UK and the EU but also between Great Britain and Northern Ireland. Despite the impact that Covid-19 continues to exert across the UK manufacturing sector, UK manufacturers have needed to adjust, and throughout 2021 have reported challenges in dealing with the new trading environment.

The obvious and ongoing issues affecting businesses have centred on understanding and complying with new customs paperwork and procedures for exports to the EU. This includes associated considerations for export accounting and tax rules, ensuring that goods exports meet Rules of Origin requirements to retain tariff-free preferences on entry into the EU, and making sure goods and products are correctly tested and labelled for sale in the EU.

While UK manufacturers continue to be resolute and are trading and working with our European partners with emerging optimism that some of the processes are becoming more 'business as usual', 66% state that leaving the EU has hampered their business. Only 29% believe that leaving the EU has made little to no difference to their business. In 2021, if some predictability has returned to European trade but not at the levels seen in the years prior to 2020, this has come at a higher cost and with longer delivery times.

The outlook for 2022 comes with further changes in the trade arrangements, brought about by the next phase of TCA implementation. These changes will affect the UK border, with the introduction of full customs and administration controls

on goods arriving in GB from the EU, the change to the UK's IT platform for the administration of customs and related documentation, and the requirement for full proof of origin under Rules of Origin requirements to maintain tariff-free access to the EU. During 2022, UK and international firms will need to ensure that they will be ready for the product labelling rule changes that are scheduled to be in full legal effect from 2023.

In response, 56% of UK manufacturers state that the impending changes to rules concerning UK customs arrangements and the further planned changes will present significant challenges to their business.

The UK is at a crucial point as it defines its place in the global trading environment. Having left the EU and now negotiating its future trading relationship with its largest market, it is also spearheading global trade strategies with other influential trade partners to take advantage of new opportunities and to eliminate barriers to trade.

The good news is that exporting is widespread in manufacturing, with manufacturers selling to a wide range of countries and through various mechanisms to bring real value and benefits to their businesses. The international trading environment has witnessed increased political tensions and practical disruptions in recent years and is now adjusting through the ongoing demand and supply disruptions to global supply changes caused by the Covid-19 pandemic.

STEPS MANUFACTURERS CAN TAKE TO:

- Make sure you understand your supply chain including roles and responsibilities, costs, and potential weaknesses (supply chain resilience to pandemic, Brexit, Suez Canal blockage incident etc is still having impact)
- Make sure that there are robust agreements in place with supply chain partners - including hauliers, forwarders, brokers, suppliers, customers - and that terms of supply are understood. Incoterms are often incorrectly applied, and this causes confusion within supply chains, even more so in EU / UK where Brexit caused a shift from essentially domestic supply to a more global import / export approach
- Make sure your business has the right customs expertise or access to advisors who can help you when there is a particular issue to resolve
- Test your customs duties exposure and check whether you can reduce them. for example, processing approvals (outward processing, inward processing) if you manufacture goods and storage approvals (customs warehousing) if you store goods

EXPORT EXPECTATIONS IN 2022

There remains a strong focus that UK manufacturers still export to the EU more than any other country or region. This will continue to be the case moving into 2022, with 75% of manufacturers stating that trade with the EU will increase or stay the same in the coming year. This can be attributed to the close geographical proximity and the strong manufacturing supply chains that connect the UK and the EU.

As the UK's relationship with the EU evolves and the UK takes a sovereign approach to market legislation and regulation, it will be interesting to monitor UK-EU trade and to avoid where possible the establishment of new non-tariff barriers to trade. In 2021, there was a decline in trade with Europe that can be attributed to a few factors, including a slump in global demand during the Covid-19 pandemic, UK manufacturers managing the new relationship with the EU, issues across the global supply chain network, and access, cost, and timeliness to secure key materials.

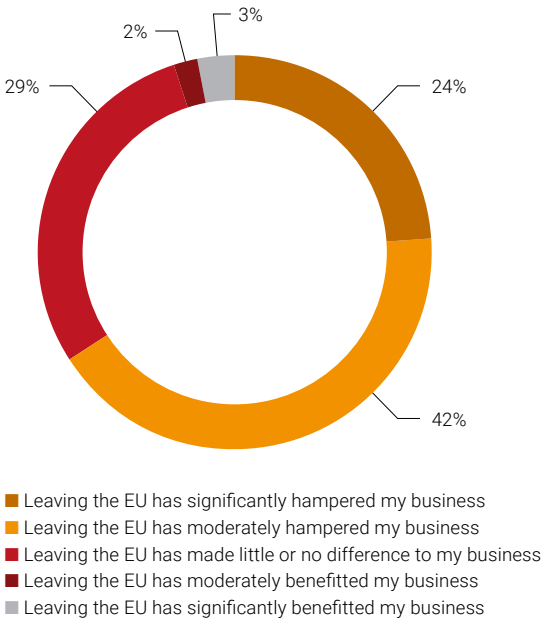
Manufacturers, although still looking at their closest neighbours for trade, are strengthening their focus to look further afield to sell goods and related services. Many are exploring new markets, with more firms exporting to the USA, India, China, Brazil, the UAE, and Canada than in previous years. It's possible that manufacturers, having had to adjust to the new rules in trading with the EU, have used that trade administration knowledge to export into other countries.

The ability and appetite to export to new markets comes with the need to understand the rules of access to these markets, to develop the right organisational and operational networks and to ensure that key staff remain focused on export strategy and possess the required skill sets. There is also further support that can be offered to UK exporters. The UK Government's 2021 Export Strategy provided commitments that will aid UK manufacturers to develop the necessary skills and abilities to develop their export strategies. Making the details of further trade agreements between the UK and third countries more comprehensible and relevant to business remains ongoing, as is ensuring that trade agreements reduce and then eliminate technical barriers to trade in goods and services, such as regulatory and market standards. Our data supports this: 40% of manufacturers expect that their trade with the US will increase in 2022, a further 26% expect to see an increase in trade in the Asia Pacific region and 21% expect to see growth in the Middle East.

It is no surprise that the EU and the US are the top export destinations for UK manufacturers. This is mainly a result of strong historical and cultural links, bilateral inward investment into and from the UK and commonality in products.

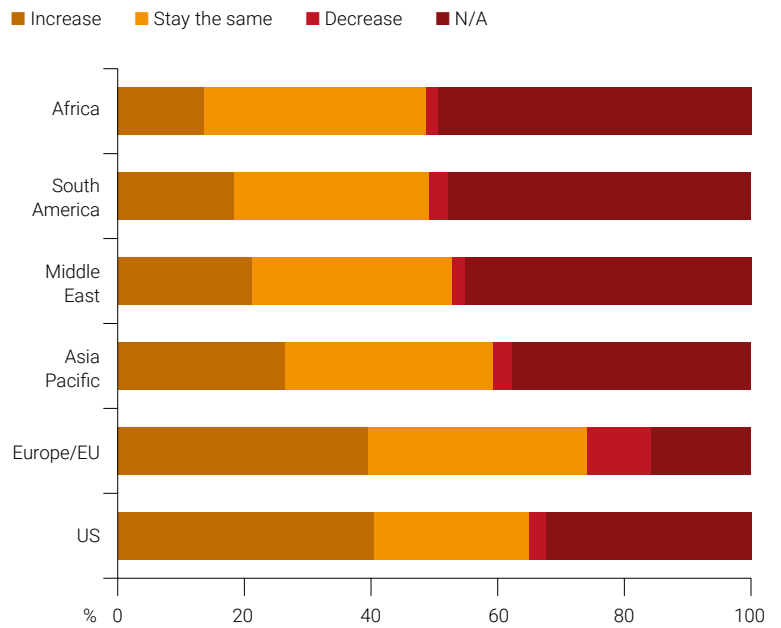
When asked about where they expect to see a slump or a decline in trade with certain regions, very few UK manufacturers indicated that they expect to see a decline in the coming year: 3% expect to see a decline with trade with the US, 3% expect to see a decline with South America, a further 3% expect to see a decline with trade in the Asia Pacific region, and 2% expect to see a decline in the Middle East. Overall, these figures are welcome – not only are manufacturers expecting to see growth in many markets globally, but also only a very small percentage are expecting a drop in demand in those markets. This is definitely welcome news on the back of a difficult year for the sector.

Chart 11: The UK's full exit from the EU has been felt within manufacturing



Source: Make UK / PwC Executive Survey, 2022

Chart 12: Exports to US and EU set to pick up in 2022



That being said, there are further changes to come, including product labelling, along with further customs checks that will have an impact on UK manufacturers moving into 2022. Some 56% of manufacturers state that the impending changes to rules on customs and product labelling will present significant challenges to their business. The coming 12 months are envisaged to be equally as difficult as the 12 just past, with manufacturers still coming out of an unprecedented pandemic and also still adjusting to the new relationship with the UK's biggest trading partner. There are definitely opportunities on the horizon, but 2022 will be a tough year for the sector.

KEY STATISTICS FOR 2022

UK GDP
GROWTH
FORECAST
FOR 2021

AT
7.2%

AND AT
5.7%
FOR 2022

MANUFACTURING
OUTPUT GROWTH
FORECAST
FOR 2021

AT
6.9%

AND
3.3%
FOR 2022

AND BY THE SECOND QUARTER
OF 2021 GLOBAL
MANUFACTURING
PRODUCTION REGISTERED AN
ANNUAL OUTPUT GROWTH
OF 18.2%

THE UK'S LANDMARK
NET-ZERO STRATEGY
IS FORECASTED TO **UNLOCK**
£90 BILLION
IN INVESTMENT BY 2030

PRICES ARE RISING AT THEIR
FASTEST RATE IN MAKE UK'S RESEARCH HISTORY,
AND ARE EXPECTED TO **CONTINUE INTO 2022**



PART 3: CONCLUSION

In many ways, the UK economy has been transformed over the last two years as the evolution of our trading relationship with the rest of the world beds in post-Brexit, combined with the impact of the Covid-19 pandemic on every industry and individual in the country. Despite many challenges across the past 12 months, and potential new ones to come including the threat posed by Omicron and potential other new Covid variants, the UK manufacturing sector remains the world's workshop and this country's economic engine. Yet again in 2021, the sector demonstrated that being agile and resilient in the face of uncertainty can lay the foundations for future growth.

This year's Executive Survey shows manufacturing leaders believe the opportunities in 2022 will trump the risks.

Yet, the next twelve months will also bring a continuation of these challenges. Manufacturers told us the biggest risk to their companies was access to domestic labour and skills. Upskilling or retaining existing staff will therefore take on increased priority this year.

The second biggest risk Executives identified is the significant upward pressure on input costs. While some factors impacting this are global, such as increased energy and shipping costs, other factors can be addressed at home, such as the increases in National Insurance and Corporation Tax.

Overall, however, given the impact of the pandemic and the disruption caused by the decision to leave the European Union, manufacturers are looking to the future with a level

of confidence that might not have been foreseen a year ago. From positive recruitment intentions, to increasing sales, to improved investment intentions - the outlook for our industry is more positive than for much of the wider economy. And this year, manufacturers are looking to the future with a level of confidence that might not have been foreseen a year ago.

Make UK's Executive Survey 2022 demonstrates with the rapid adoption of new technologies and investment in people, the role of the sector at the heart of the UK economy's recovery is now as clear as it has been for some time. In 2022 manufacturing leaders will be looking to build on the growing importance of the UK's industrial base to maintaining our national prosperity, wellbeing, and economic growth. Through investment in talent and technology, UK manufacturers can support the Government's ambition to level up different UK regions, transition to net-zero, and bring life to the global Britain vision.

METHODOLOGY

This research is based on a survey of 228 manufacturers across a range of sizes and sub-sectors. The survey was conducted between 27 October and 17 November 2021. Early analysis of the results was then shared and discussed with groups of manufacturers to ensure that our quantitative data was backed up by qualitative research.

VIEWPOINT

The last two years have been a rollercoaster for UK manufacturers. Business resilience and agility has been tested by dual forces - a severe loss in output to record lows, followed by a rebound in demand which has seen them reach record highs.

2022 will bring with it new challenges and ongoing uncertainty. However, there is still optimism to be found, with the industry feeling much more positive as they look ahead.

The joint Executive Survey gets under the skin of this new environment, identifying where the investment opportunities lie and, specifically, how businesses will meet critical targets along the way. It is clear that priorities include strengthening the UK's industrial base in the UK, navigating the relationship with the EU, addressing the skills challenges and developing an agile and truly responsive manufacturing sector.

Environmental, social and governance (ESG) priorities have accelerated up the agenda post COP26 and this will be bolstered by a strong investment in technology and talent.

It's early days for manufacturers, however those businesses already seeing financial returns as a result of strengthening their environmental stewardship are working hard to embed the goals of decarbonisation and net zero into their organisational culture, innovation architecture, governance, reporting systems, and overall purpose. By making bold changes to their business and operating models, they've approached sustainability as an investment that creates value and drives improved results in the short and long term, rather than as an initiative that imposes higher unwanted operating costs.

A focus on diversity, inclusion, wellbeing, and workforce engagement can also help improve competitive edge - and, crucially, help retain and attract new talent. As the manufacturing industry looks to address the skills shortage, businesses need to be attracting new and emerging skills into the industry, by better communicating the opportunity and excitement of working in the industry. More and more individuals are invested in the ESG agenda and pursue purpose as much as salary, and seek to make a difference. The industry's ambitions to build out their green skill base through the recruitment of 'green' jobs, has already been acknowledged as outperforming the UK sector average in our recent Green Jobs Barometer. These messages need to be amplified for this industry.

Green technology adoption also presents a major opportunity to boost efficiency and drive productivity for manufacturers. We're seeing technology such as VR and AR being used to speed up 'time-to-market', for example, with rapid prototyping through to process improvements that enable greater productivity, efficiency and accuracy in the field. The sector can also learn from automotive manufacturing, which has successfully rebranded itself as innovators - pioneers of electrification, mobility, and autonomous driving.

The UK can - and must - build on its strengths to become a world leader in these manufacturing and product technologies of the future.

Manufacturers have had to adapt to a changing trading landscape over the past 12 months: a year that has created a perfect storm with supply chain difficulties, logistics issues and some operational uncertainty as a result of Covid-19. As we look ahead, manufacturers need to ensure they:

- Understand their supply chain including roles and responsibilities, costs and potential weaknesses. Plus the role of technology, data and analytics to create the transparency necessary to understand supply chain resilience issues
- Have robust agreements in place with supply chain partners (hauliers, forwarders, brokers, suppliers, customers) and that terms of supply are understood;
- Have the right customs expertise or access to advisors who can help you when there is a particular issue to resolve and;
- Test their customs duties exposure and check whether you can reduce them.

This year has shown, probably like no other, that the manufacturing industry is resilient and agile and the findings of this survey demonstrates with the rapid adoption of new technologies and investment in people, the role of the sector at the heart of the UK economy's recovery is now as clear as it has been for some time. The time to back UK manufacturing is now.



Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK's economic engine and the world's workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

www.makeuk.org

@MakeUKCampaigns



At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with over 276,000 people who are committed to delivering quality in assurance, advisory and tax services.

Through our work with both UK headquartered and overseas organisations with a UK presence, we are in tune with the many emerging challenges facing the UK manufacturing industry, as well as the range of opportunities available to businesses as market dynamics continue to change.

The costs and rewards of operating in different countries around the world continue to evolve, making decisions about where to design, make and service products increasingly difficult. Manufacturing leaders are also facing tough competition against other industries in trying to attract the best people and skills to develop the next generation of products. Firms are also looking to invest in the latest digital technologies to ensure efficiency gains are achieved and exposure to future cyber risks minimised.

Our focus is to help businesses evolve and thrive in this changing world, where disruptive technologies, an increasing spotlight on net zero ambitions across shareholders, employees and consumers and talent challenges are taking centre stage.

We work alongside businesses, providing guidance in areas such as revenue growth, inventory costs, supply chain management, M&A, product lifecycle management, and sales and operations management. As ongoing events and disruption continue to test the resilience of businesses, we're proud to stand with them, helping them to react, adapt and thrive in this new business landscape.

www.pwc.co.uk/industries/manufacturing.html

@PwC_UK

For more information, please contact:

Seamus Nevin
Chief Economist
snevin@makeuk.org

Verity Davidge
Director of Policy
vdavidge@makeuk.org

Bhavina Bharkhada
Head of Policy & Campaigns
BBharkhada@makeuk.org

To talk about any issues your manufacturing business may be facing please contact:

Cara Haffey, PwC UK
Manufacturing and Automotive Leader
cara.haffey@pwc.com
