In association with:

EXECUTIVE SURVEY 2023
COST, COMPETITIVENESS AND CONFIDENCE

MakeUK.org

CONTENTS

INTRODUCTION

THE UK MANUFACTURING SECTOR MUST BE THE ENGINE OF UK ECONOMIC GROWTH

2022 was a turbulent year for the UK economy. Manufacturers came under strain from an array of incredible challenges, from record high inflation to a historically weak pound sterling and continuously rising interest rates, alongside declining global demand, the lowest level of unemployment in decades coinciding with the highest level of immigration ever, a global energy crisis, ongoing pandemic lockdowns in key international trade ports, and unprecedented political turmoil at home. UK manufacturers have seen it all.

The headwinds firms face in 2023 remain substantial. This year's Executive Survey demonstrates that hampering manufacturers are the short-term challenges of stifling labour shortages, the rising cost of doing business, and ongoing supply chain disruption. UK GDP forecasts suggest that the UK economy will contract in 2023 by around 1.4%,[1] with Make UK expecting a 3.2% reduction in output for the manufacturing sector when compared to the previous year. Against this difficult economic backdrop, manufacturers will need to adapt to weather the storm of both external and internal challenges.

IN GOOD NEWS, MANUFACTURERS ARE SEASONED PROS AT THIS

The last few years have been a roller coaster for UK manufacturers as firms have learned to ride the waves of severe lows and record highs, through major domestic political changes, changing global trade patterns, a once-in-a-century pandemic and major military conflict. Forged in this fire manufacturers have proven their resilience.

Now, laying the foundations for economic growth must begin with supporting manufacturers to:

- reduce the cost of doing business;
- increase competitiveness at home and abroad;
- reboot business confidence.

The international trade environment has transformed in recent years. The COVID-19 pandemic, war in Ukraine, global warming and political rivalries have seen economies turn in on themselves. Reshoring manufacturing has become the norm once more. We seem to be living in a new age of autarchy. The UK is seeking energy independence. The US wants its microchips to be 'made in America'. China is targeting self-sufficiency in food. India wants technological 'self-reliance'. Growing our manufacturing base will be of key importance to the UK's self-sufficiency and future economic prosperity.

Not only can this ensure the manufacturing sector grows from accounting for 10% of UK GDP to 15%, but we can also collectively reboot UK economic growth, adding an extra £142bn to the UK economy.[2]

This will drive a substantial uplift in long-term domestic and foreign investment and critically support UK manufacturers to continue to press ahead on the long-term priorities of transitioning to a net-zero future and accelerating digital adoption in 2023.

[1] Office for Budget Responsibility, Economic and Fiscal Outlook, November 2022
[2] Make UK, State of the Industry, the potential for growth, July 2022

KEY STATISTICS FROM 2022

THE PROPORTION
OF PEOPLE AGED 16-64 WHO ARE
ECONOMICALLY INACTIVE
IS AT AN ALL-TIME RECORD HIGH OF
22% IN 2022

THE MANUFACTURING
SECTOR HAS
90,000
LIVE VACANCIES

15%
OF TOTAL BUSINESS INVESTMENT
WAS MADE BY UK
MANUFACTURERS

THE SECTOR PROVIDED
2.5M JOBS IN THE UK

UK GDP GROWTH
WAS JUST
2.4%

UK INFLATION
JUMPED ABOVE
11%
FOR THE FIRST TIME
IN MORE THAN
40 YEARS

£183BN
OF OUPUT
CAME FROM
THE UK
MANUFACTURING
SECTOR

MANUFACTURING
PAID
12%
HIGHER
WAGES
THAN THE REST
OF THE WHOLE
ECONOMY
AVERAGE

PART 1: REDUCING COSTS

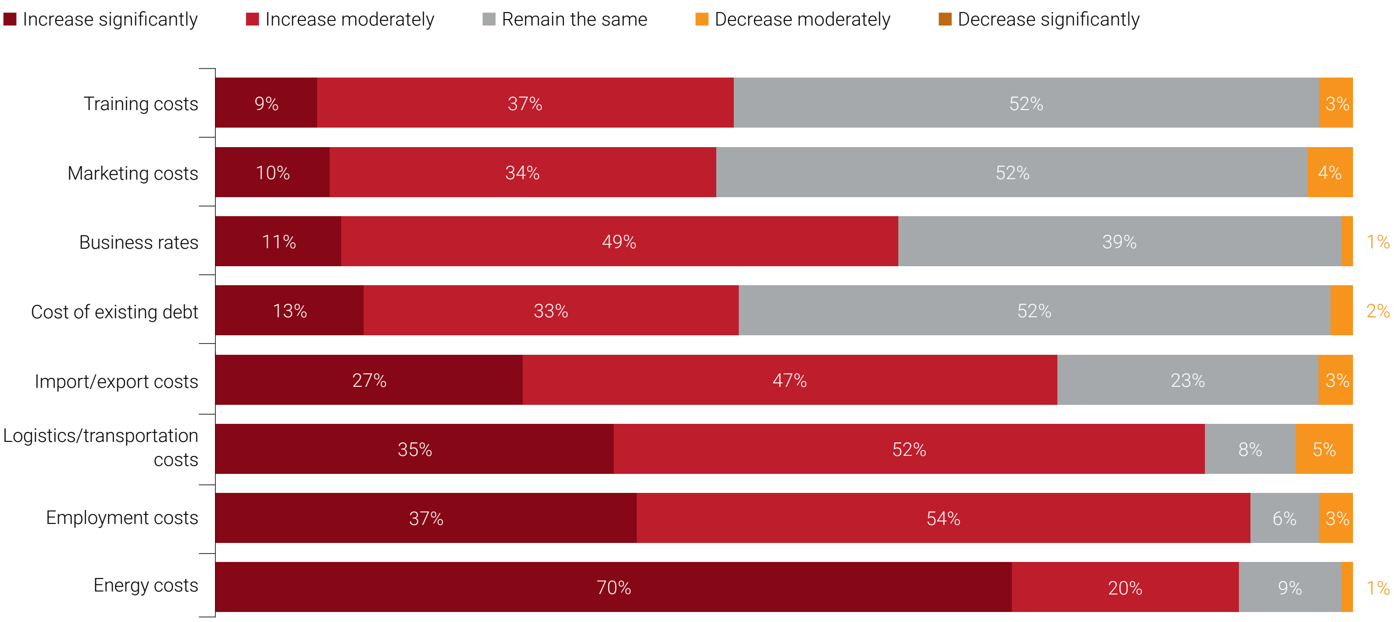
ENERGY COSTS ANTICIPATED TO BE BIGGEST COST FACING MANUFACTURERS IN 2023

Manufacturers are facing rising costs, which is making doing business considerably more expensive. Unsurprisingly the highest cost manufacturers expect to face next year is for energy – in fact, an overwhelming 70% of manufacturing leaders said that energy costs are expected to increase significantly in 2023, with a further 20% expecting a moderate increase next year. It is evident that even businesses who are not defined as intensive energy users are now being sucked into this category, with such costs consuming a higher proportion of total business expenditure than ever before – this is despite there currently being Government support.

The Energy Bill Support Scheme, introduced by the Government in September 2022, was designed to support both domestic and non-domestic users. The aim of the scheme was to reduce wholesale gas and electricity unit prices for six months. However, almost 4 in 10 manufacturing leaders said the scheme would not reduce their energy bills to a reasonable amount. This may, as we explore later in this report, lead to companies taking significant and drastic action to mitigate the impact of rising energy prices.

Chart 1: Extent to which manufacturers are expecting costs within their business to increase in 2023

% of manufacturers



Source: Make UK survey, November 2022

HAS THE ENERGY BILL RELIEF SCHEME HELPED?

The Government's introduction of the Energy Bill Relief Scheme has provided some temporary breathing space for manufacturers. In fact, 34% of manufacturing leaders said that with the energy scheme in place for an initial six months, they expect their energy bills to be reduced to a reasonable amount once it is in place. In addition, 30% said the scheme would prevent previously anticipated job cuts within their business. That said, as energy costs begin to hit a tipping point, the impact on manufacturers' competitiveness is profound. More than 7 in 10 (73%) have seen reduced margins or profits and 56% have seen prices increase. Already we are seeing companies reducing production for short periods or avoiding production during peak hours (13%), and a further 12% have already made job cuts as a direct result of energy price hikes.

It's not just the cost of energy that is on manufacturers' minds; it is also security of supply. Some 60% of manufacturers are increasingly concerned about blackouts in the coming months. Blackouts would significantly affect manufacturers, causing considerable damage to products and processes and potentially adding even more costs.

Action manufacturers are taking to mitigate the cost of energy in 2023

54% ADJUSTING BUSINESS PRACTICES TO REDUCE

39% ONSITE GENERATION

53% PRICING INCREASING ENERGY COSTS INTO FINAL PRODUCT

36% REVIEWING ENERGY PROCUREMENT STRATEGY

Closed

13% CONSIDERING CLOSING THE BUSINESS/ SHUTDOWNS

EMPLOYMENT COSTS ARE ALSO AT THE TOP OF THE AGENDA FOR MANUFACTURERS

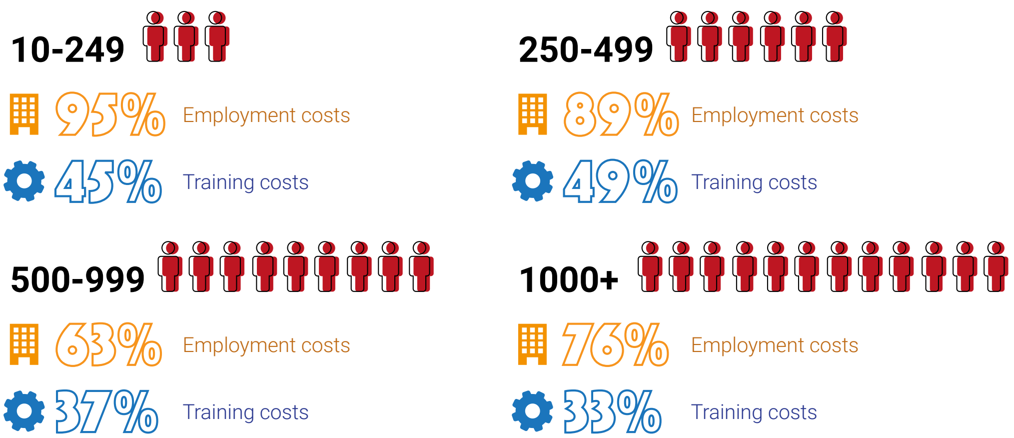
In addition to energy costs, 37% of manufacturing leaders said that they expect employment costs to increase significantly next year, with an additional 54% expecting a moderate increase. This reflects a chronic labour shortage facing the manufacturing sector. The latest ONS data shows there are 90,000 live vacancies in the sector, with 36% considered 'hard to fill' – i.e. the vacancy has been live for a considerable period of time, typically six months or longer.

A large proportion of the employment costs relate to increased pay offers, in both attracting and retaining employees. Salaries, additional financial benefits and the on-costs of employment, such as NICs and pensions, mean that employment costs are now rocketing. In fact, Make UK research shows that 20% of manufacturers are anticipating pay settlement levels to reach 6% or more in 2023. The fight for talent on the ground means manufacturers are going above and beyond not only to attract but also, crucially, to retain talent in their businesses. The increase to the National Living Wage from April 2023 may not hit many manufacturers directly, as they already tend to pay above this rate, but it will cause significant upward pay pressures as companies seek to maintain pay differentials.

SMALLER MANUFACTURERS ARE MORE LIKELY TO FEEL THE BURDEN OF CUMULATIVE COSTS

The impact of these rising costs, from energy and transport to business rates, is that manufacturers will be squeezed in other areas. This is likely to have a disproportionately larger impact on smaller manufacturers, who will be less able to absorb the rising costs. This is most notably demonstrated in costs relating to people. More than 9 in 10 manufacturers employing between 10 and 249 employees said employment costs are likely to either significantly or moderately increase next year, versus 76% of large manufacturers (employing more than 1,000 employees). Similarly, 45% of manufacturers employing between 10 and 249 employees said training costs will either significantly or moderately increase next year, versus one-third of large manufacturers (employing more than 1,000 employees).

EXTENT TO WHICH MANUFACTURERS EXPECT AN INCREASE IN EMPLOYMENT AND TRAINING COSTS IN 2023, BY MANUFACTURER SIZE*



The cumulative effects of this could be that the short-term costs may become so substantial that they begin to crowd out the long-term investments that manufacturers need to be making to be competitive. There is some evidence to suggest that this is the case – a smaller proportion of SMEs are planning to increase investment next year across a range of areas, compared to larger manufacturers.

*Increase in costs includes both significant and moderate increase.

AREAS IN WHICH MANUFACTURERS ARE PLANNING TO INCREASE INVESTMENT IN WITHIN THE NEXT 12 MONTHS, BY MANUFACTURER SIZE

10-249

- 33% Apprenticeships
- 25% Training programmes for new recruits (excluding apprenticeships)
- 45% Upskilling or retraining existing staff
- 25% Digital technologies and data analytics
- 40% Capital equipment

1000+

- 43% Apprenticeships
- 43% Training programmes for new recruits (excluding apprenticeships)
- 38% Upskilling or retraining existing staff
- 62% Digital technologies and data analytics
- 33% Capital equipment

We explore the areas of planned investment by manufacturers in 2023 in the subsequent section.

PART 2: INCREASING COMPETITIVENESS

THE COSTS OF PRODUCING GOODS AND SERVICES CONTINUE TO INCREASE

A big risk to manufacturers' competitiveness in 2023 is the increasing cost of producing goods and services. Manufacturers face significant upward pressure on input costs. In fact, 58% of manufacturers identified this as the biggest risk they face to being competitive in 2023. There remain lingering shortages of raw materials across the world, with demand vastly outstripping supply. This is likely to be made more challenging with the ongoing supply-chain disruptions. Despite some easing, supply chains have not returned to pre-pandemic levels, with an overwhelming 87% of manufacturers expecting logistics or transportation costs to increase either significantly or moderately next year.

Chart 2: Biggest risks manufacturers face to being competitive in 2023

% of manufacturers

Source: Make UK survey, November 2022

FINDING THE PEOPLE NEEDED TO PRODUCE GOODS OR SERVICES

Just as employment costs are rising, manufacturing leaders have identified access to domestic skills and labour as a key risk to competitiveness next year. In fact, 52% said access to domestic skills was the biggest barrier, with a similar proportion (51%) citing access to domestic labour. The skills crunch that the manufacturing sector has faced for some time is now turning into a labour shortage. This is compounded by almost one-fifth of manufacturers flagging access to labour from outside the UK as a key risk. Despite the highest net migration ever recorded last year, there remains a shortage of available people in the UK with the skills manufacturers need.

While pressure to ease the labour shortage has forced the hand of the Government to commission the Migration Advisory Committee to review the shortage occupation list, for many manufacturers this is simply too late. Recommendations as to which job roles will need to be included on the revised list won't be made until spring 2023,[3] leaving manufacturers facing a significant labour shortage for at least another nine months.

A CHALLENGING EXTERNAL BUSINESS ENVIRONMENT

Manufacturing leaders said the biggest risk to competitiveness is the increased cost of energy, both gas and electricity (64%). Previous Make UK research shows that over 4 in 10 manufacturers have seen their electricity bills increase by double in the past 12 months, with just over 3 in 10 seeing gas prices increase by more than 100% in the past year. And the outlook is predicted to worsen in 2023. Looking ahead, more than half (52%) of manufacturers expect their electricity costs to more than double in the next 12 months, and 42% expect to see their gas prices to more than double.[4]

In a bid to mitigate some of these costs and remain competitive, manufacturers are taking proactive steps to offset the cost. Previous Make UK research finds that adjusting business practices to reduce energy consumption remains the top mitigating action for manufacturers. This is followed by almost half of manufacturers insulating buildings and installing better performing heat systems, and 27% moving to on-site generation. The action to offset the high energy costs is driven by the need for manufacturers to remain globally competitive.[5] Evidence shows UK manufacturers face higher energy costs in comparison to global counterparts, resulting in an uneven playing field and risking manufacturers becoming globally uncompetitive.

In addition to the cost of energy, our new trading relationship with the European Union is increasing the cost of doing business. Our research found that delays at customs owing to new trading rules was cited as the biggest barrier to being competitive for 31% of manufacturers. This, coupled with increased costs related to meeting EU regulations (19%) and increasing trade protectionism in export markets (12%), is clearly making trading across the EU and international markets considerably harder for UK manufacturers. That's why supporting manufacturers to boost trade home and abroad can ensure manufacturers continue to remain competitive on a global stage, as well as continue to be in the top 10 largest manufacturing nations in the world.

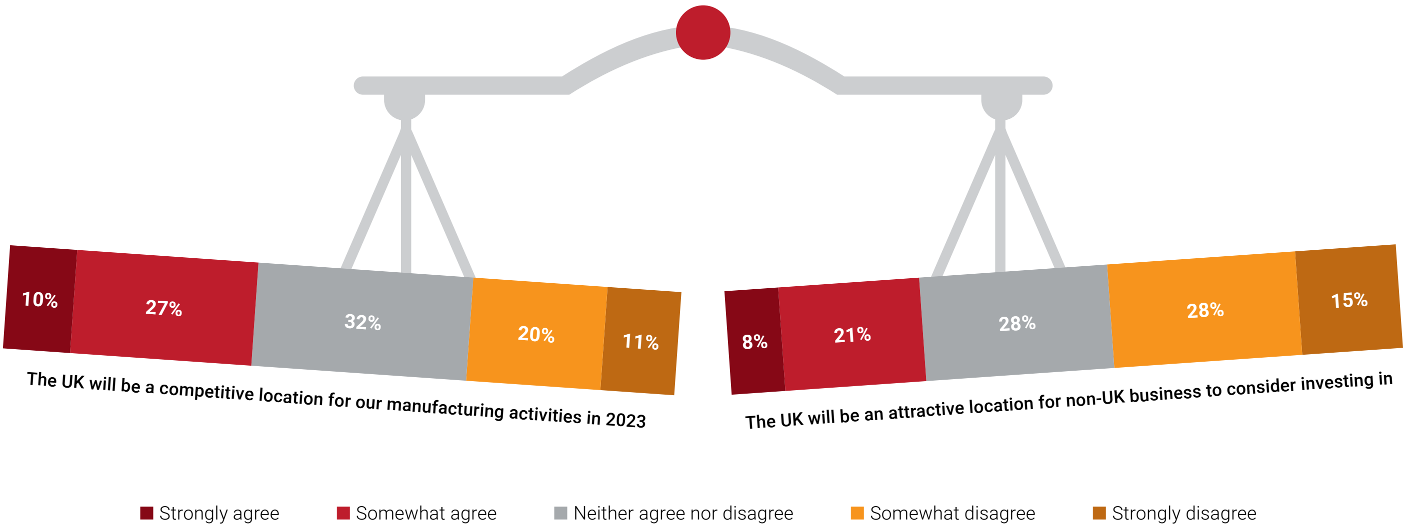
[3] MAC commissioned to review shortage occupation list: MAC commissioned to review shortage occupation list – GOV.UK (www.gov.uk)
[4] Make UK survey of manufacturers, August 2022
[5] Make UK survey of manufacturers, August 2022

POLITICAL AND GEOPOLITICAL INSTABILITY REMAINS A BARRIER TO IMPROVING COMPETITIVENESS

For the first time in recent years, our evidence shows that manufacturing leaders are growing increasingly concerned about international geopolitical instability. More than half of manufacturers (55%) say this is the biggest risk to business confidence next year. It is clear the domestic political chop and change has led to significant policy churn, which in turn is making doing business in the UK much harder.

All of these factors are making manufacturing leaders question whether the UK will be a competitive location for manufacturers in 2023.

On the one hand, 37% believe it will be; on the other hand, a not dissimilar proportion (31%) believe it won't be. And for non-UK businesses who may be considering investing in the UK, the findings are even more stark. A large proportion (43%) disagree that the UK will be an attractive place to invest for non-UK businesses in 2023, versus just 29% who believe it will be. It is evident that the uncertainty and instability – political, geopolitical and economic – are making businesses already based in the UK more cautious, and potentially adding a premium for non-UK businesses to doing business here in the UK.

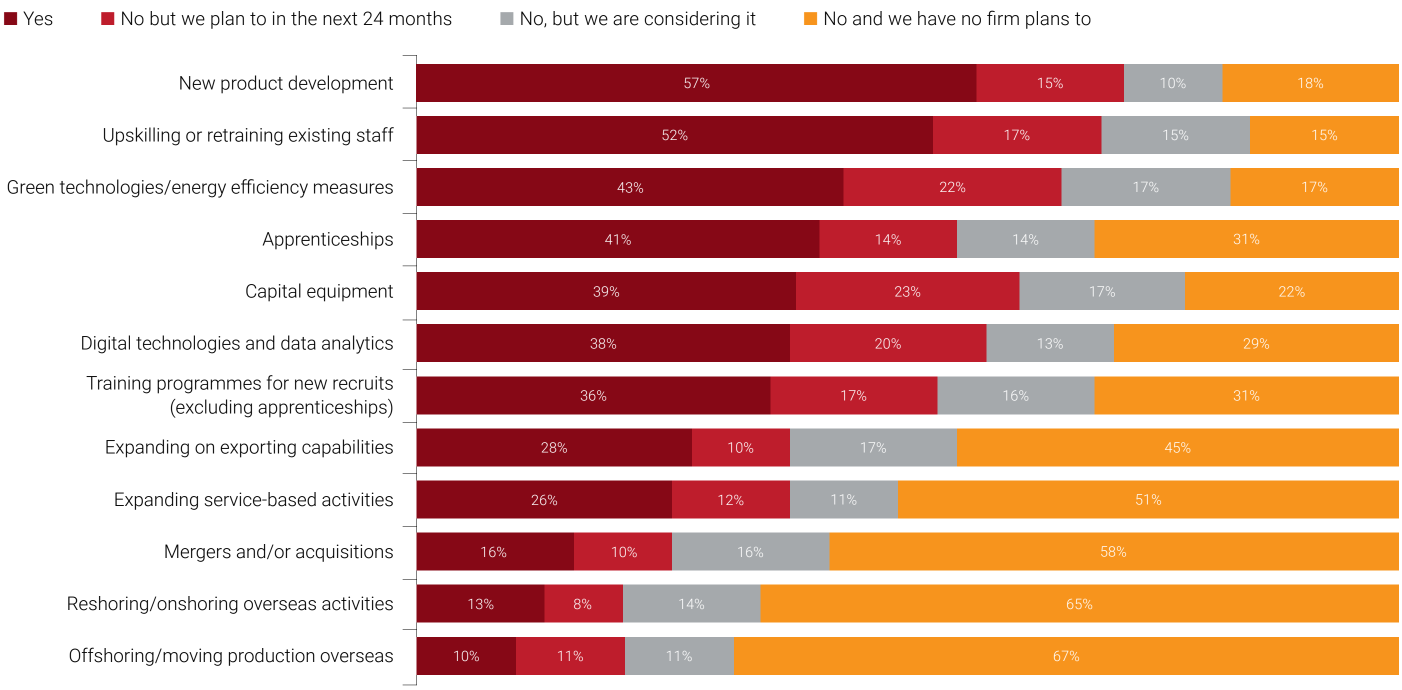


WHAT IMPACT HAS THIS ALL HAD ON PLANNED INVESTMENT FOR 2023?

In good news, the risks facing manufacturing leaders have not discouraged them from setting intentions to increase investment in several areas of their businesses, with a focus on people, products and processes. There remain opportunities for manufacturers in 2023, and it's critical that they seize the potential for growth.

Chart 3: Areas in which manufacturers are planning to increase investment in within the next 12 months

% of manufacturers



Source: Make UK survey, November 2022

OVERCOMING THE CHRONIC LABOUR SHORTAGE BY CONTINUING TO INVEST IN PEOPLE

Despite challenging conditions, manufacturers are looking to upskill or retrain existing staff in a bid to find the skills they need for their businesses. More than half of manufacturers (52%) said they plan to increase investment in this area within the next 12 months, with a further 17% planning to do so in the next 24 months. In addition, 36% of manufacturers are planning to increase investment in training programmes for new recruits. This demonstrates that manufacturers are taking proactive steps to fill the labour shortage they face, turning to shorter, modular courses to upskill and retrain staff for these roles.

The evidence also shows that a large proportion of manufacturers (41%) are planning to increase investment in apprenticeships within the next 12 months. Since the inception of the Apprenticeship Levy, we have seen the number of apprenticeship starts slowly falling owing to many factors. In some sectors of the economy, the number of apprentices finishing their courses has also been poor. However, in the manufacturing sector, the ambition and intention to invest in training and skills for the next generation is very strong. Encouraging more manufacturers to use apprenticeships as a pathway to seek the skills and labour they need for their businesses will be important – the Government should consider how this can be made easier through greater flexibilities of the Apprenticeship Levy.

BUILDING EXPORTING CAPACITY

Manufacturers are also seeing opportunities in expanding their export capabilities, with 28% planning to increase investment within the next 12 months. A further 26% of manufacturers are looking to invest in expanding service-based activities. Both underline the importance manufacturers are placing on boosting trade, and equally emphasise the need to be globally competitive. Exporting remains a key way to boost profit margins and drive productivity improvements for manufacturers, but achieving greater economies of scale and higher profit margins in the current climate is challenging. As previously flagged in Chart 2, 12% of manufacturers said increased trade protectionism is a barrier to increasing competitiveness.

UNLOCKING ENERGY EFFICIENCY THROUGH INVESTMENT IN GREEN TECHNOLOGY

The number one area in which manufacturers are planning to increase investment in the next 12 months is new product development (57%), with a further 15% expected to do so in the next 24 months. Manufacturers are actively exploring how to diversify their portfolios, offering new products and services to customers. Just as consumer pressure is driving the ESG (environmental, social and governance) agenda, the need to continue to innovate and gain a competitive edge is driving manufacturers to explore new product development. This means more and more manufacturers are now planning to increase investment in green technologies and/or energy efficiency measures (43%).

This has accelerated in part as a result of the energy crisis, with manufacturers seeking ways to reduce their energy bills. In fact, implementing new digital technologies and techniques has increased sustainability and improved energy efficiencies within manufacturing businesses. Around one-third (34%) of manufacturers said that digital adoption improved energy efficiencies, and one-third said process improvements contributed to the reduction of emissions, all of which are vital in achieving the sector's net-zero ambitions.

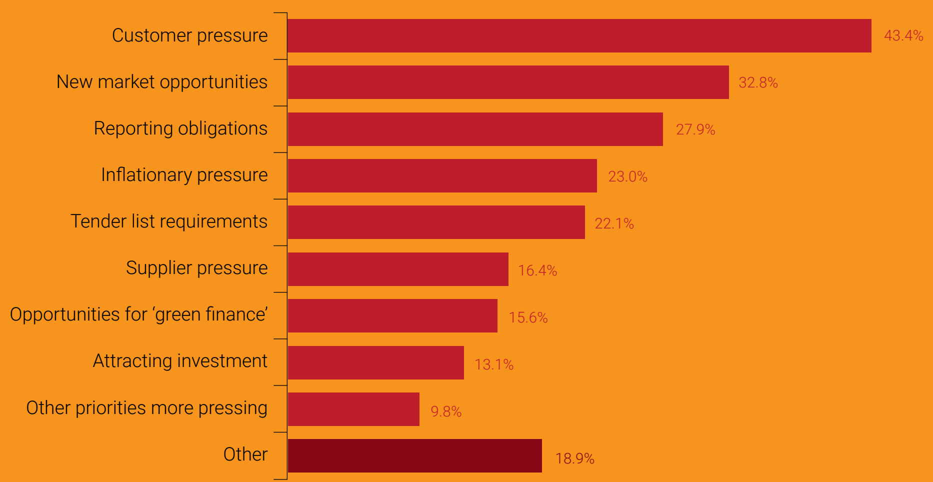
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REMAINS A TOP PRIORITY FOR UK MANUFACTURERS

Despite facing significant challenges, UK manufacturers are continuing to prioritise being a 'good business', and this is reflected by their increased focused on ESG. In fact, 43% of manufacturers said their focus on ESG has actually increased in the past 12 months, with a further 48% saying it has stayed the same. While ESG is not solely focused on environmental factors but also incorporates wider social considerations, the drive towards net zero in particular has put a renewed focus on ESG.

And this pressure to continue to prioritise ESG is coming primarily from customers (43%), who are increasingly looking for ESG credentials and new market opportunities (33%), as well as reporting obligations (28%) such as climate risk management for larger firms. As a result, ESG is a top priority at board level too. In fact, 51% of manufacturers said that their company has an ESG strategy led by their board, with a further 39% appointing a board director with nominated responsibility to drive the ESG agenda forward.

Chart 4: Manufacturers reasons for increased focus on ESG

% of manufacturers



Source: Make UK survey, November 2022

BUT MANUFACTURERS ARE PUTTING BUSINESS STRATEGIES IN PLACE TO MITIGATE RISING COSTS AND REMAIN COMPETITIVE IN 2023

Despite the risks posed in 2023, 44% of manufacturing leaders have both short- and long-term strategies in place to mitigate rising costs and remain competitive. A smaller 27% of manufacturers said they had a short-term strategy to mitigate costs, but no long-term strategy to grow and remain competitive, with a quarter currently in the process of developing or adapting a strategy. Evidently, manufacturing leaders are taking the necessary action required to shield their businesses from the risks identified in Chart 2. While some manufacturers are hedging on these risks to be short-term shocks, it's clear a larger proportion are planning for the longer term too.

They are also wasting no time in executing these strategies. An overwhelming 87% have already begun to execute these cost-saving strategies, with almost 1 in 10 having fully executed their plans already. The combination of domestic political instability and the rising cost of doing business means manufacturing leaders are taking proactive action.

PART 3: REBOOTING CONFIDENCE

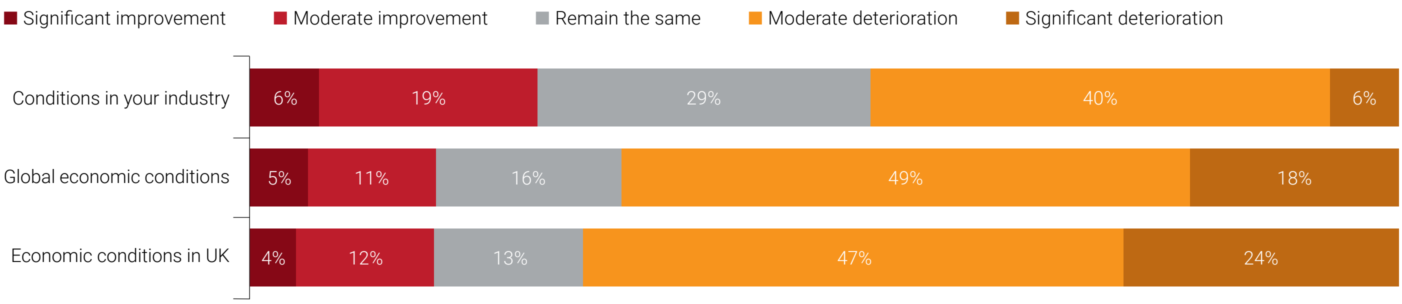
STIFLED BUSINESS CONFIDENCE IS DRIVEN BY INCREASED UNCERTAINTY AND RISING COSTS

Business confidence is critical to growth and investment, but the challenges of 2023 could potentially stifle that confidence. Manufacturers are expecting tough conditions next year – the vast majority (71%) expect economic conditions in the UK to either significantly or moderately deteriorate, and a further 67% expect global economic conditions to worsen. This is supported by data from the IMF, World Bank and OECD, who have all downgraded 2023 GDP growth forecasts for many countries, reflecting a sharper-than-expected slowdown owing in part to high inflation. The IMF forecasts UK GDP growth of 3.6% for 2022 and 0.3% for 2023, down from 0.5% at the time of its previous forecast in July.[6] The OECD says that among the G20 economies, the UK is predicted to be hit hardest and to take the longest time to recover from the coming recession.[7]

In relatively better news, only 6% of manufacturing leaders expect conditions in the manufacturing sector to significantly deteriorate, and 40% expect only a moderate deterioration. This is reflected in manufacturers' tempered optimism that relatively healthy order books can help sustain some business growth throughout the year. And continuing with the theme of tempered optimism, 41% of manufacturing leaders either strongly agree or somewhat agree that the opportunities to succeed outweigh the risks faced by their business in 2023 – although this is down from 73% last year.[8]

Chart 5: Changes manufacturers are expecting in 2023 compared with 2022

% of manufacturers

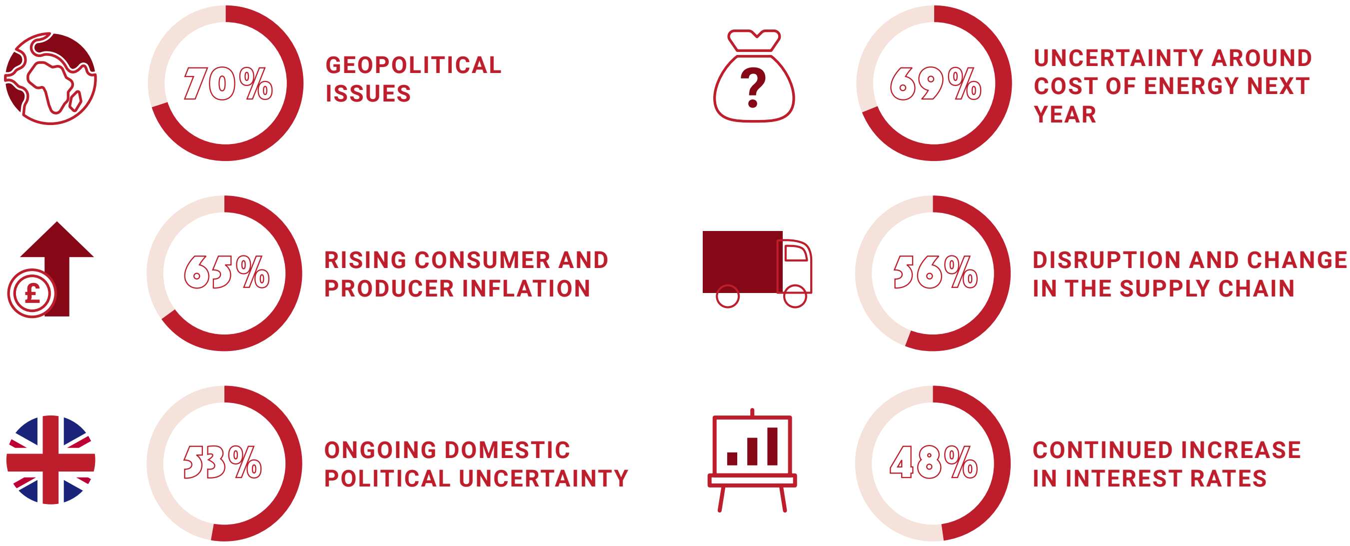


Source: Make UK survey, November 2022

[6]House of Commons Library, GDP – International Comparisons: Key Economic Indicators, November 2022: GDP – International Comparisons: Key Economic Indicators – House of Commons Library (parliament.uk)
[7]OECD Interim Report 2023 Forecasts: https://doi.org/10.1787/ae8c39ec-en
[8]Make UK/PwC, Executive Survey 2022: Harnessing Agility and Resilience, January 2022.

The biggest risks to business confidence next year are, unsurprisingly, all possible external shocks – from ongoing geopolitical uncertainty, to expected increases in interest rates. These are all elements out of the control of manufacturers, which make it harder to put in place strategies to mitigate their impact.

Biggest risks to confidence in 2023 identified by manufacturers



WHAT IMPACT WILL THIS ALL HAVE ON MANUFACTURERS' PRODUCTIVITY IN 2023?

The all-important 'p-word' is dominating conversations not just among business leaders, but in the policy-making world too. UK labour productivity has grown by around 2% per year, but since the 2008/2009 recession it has risen more slowly – growing at an average of only 0.6%. As a result, productivity in the UK has consistently lagged behind a number of other advanced economies, including France, Germany, Sweden and the US.

Yet, despite historically low UK productivity, the manufacturing sector has made the biggest positive industry contribution to productivity growth – 1.2% in Q2 2022.[9] And this trend is expected throughout next year. In fact, 36% of manufacturers said they expect to see productivity increases of up to 10% next year, with a healthy 19% expecting an increase of between 10% and 25%.

Chart 6: Expected productivity (output per hour worked) increases in 2023

% of manufacturers

Source: Make UK survey, November 2022

[9]ONS, Productivity overview, UK Productivity overview, April to June 2022

We anticipate that much of this will be driven by manufacturers continuing to invest in new technologies and accelerating digital adoption – 38% of manufacturers said they plan to significantly increase investment in digital technologies and data analysis in the next 12 months. In addition, previous Make UK evidence has found that more than two-thirds of manufacturers said past investment in digital technologies has paid off and left them better able to cope with the current challenging economic conditions. Furthermore, 58% said they were able to move quickly and provide new critical components where needed, and a further 40% said it helped their business increase productivity by streamlining processes using powerful big data analysis tools.[10]

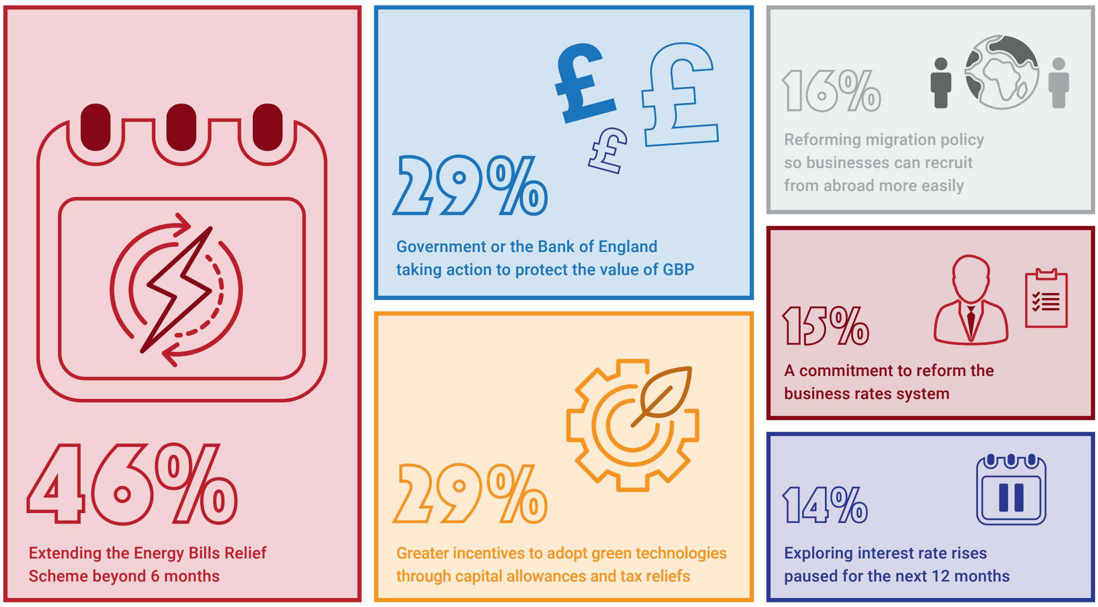
HOW CAN WE REBOOT BUSINESS CONFIDENCE AND KICKSTART ECONOMIC GROWTH?

It starts with a long-term economic vision. Make UK has long argued that the scrapping of the Industrial Strategy has put the UK at a significant disadvantage over G7 counterparts. A successful element of the Industrial Strategy was the partnership between industry, stakeholders and the Government. However, with no long-term vision in place, there is little room for that partnership to collectively tackle the big challenges we face as a society – from climate change to the changing world of work. Hence it is no surprise that 42% of manufacturing leaders expressed a lack of long-term economic plan as one of two primary risks to business confidence in 2023. A lack of, and need for, a coordinated, regional approach to long-standing challenges is still missing from the Government's agenda.

OFFER CERTAINTY AND STABILITY BY EXTENDING THE ENERGY BILL SUPPORT SCHEME BEYOND SIX MONTHS

However, there is no getting away from the immediate issues that for now are stifling business confidence. Addressing these can ensure that short-term economic shocks do not become persistent or systemic problems.

At the top of the list is to extend the current Energy Bill Relief Scheme beyond the initial six months to support manufacturers through the energy crisis (46%).



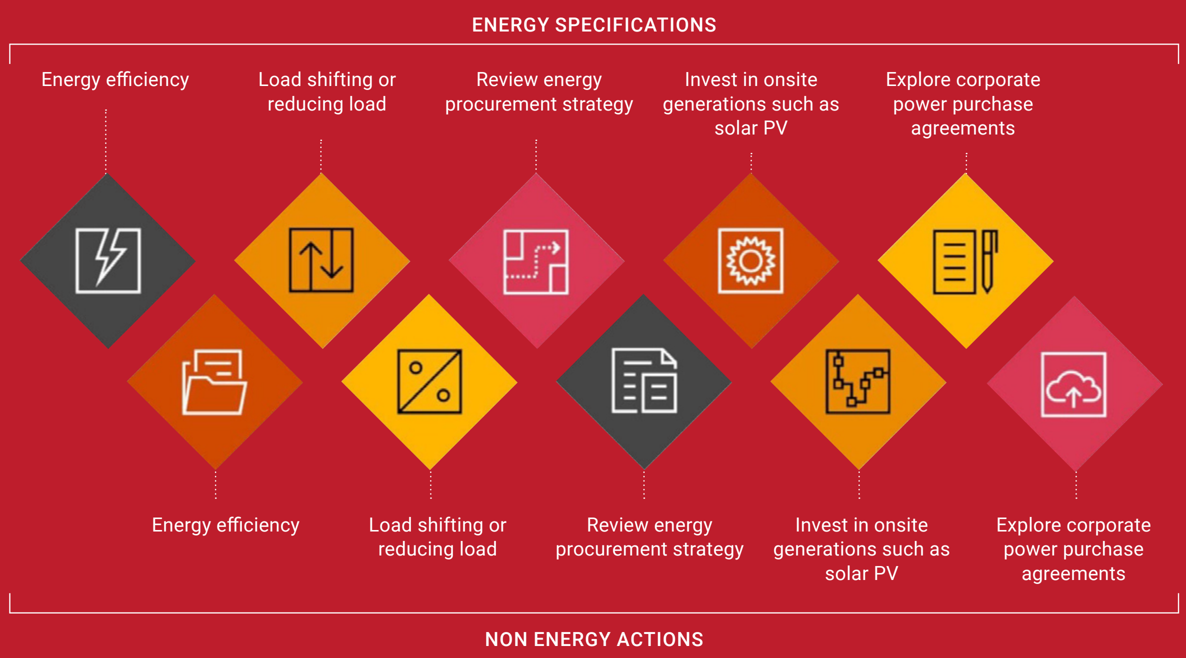
Source: Make UK survey, November 2022

[10]Make UK/Infor, Digital Adoption: The Missing Link in Productivity Growth, October 2022

The single biggest policy intervention that could reboot business confidence would be for the Government to extend the Energy Bill Relief Scheme for firms beyond March. In fact, almost half of manufacturers want to see this from the Government. Not only would it support manufacturers by avoiding the arbitrary cliff-edge next year, but it can also support manufacturers who will be in the position of having to renew their energy contracts next year. Estimates from Cornwall Insight suggest that the energy crisis shows no sign of subsiding or returning to normal.[11] In fact, most analysts predict energy prices will remain above historic levels for several years to come, meaning continued support for critical sectors like manufacturing is likely to be needed. Manufacturers' business cycles and investment decisions operate in years, not months, so any support will need to go beyond short-term blocks of emergency measures to provide a greater amount of certainty for businesses.

TACKLING RISING ENERGY COSTS - PwC'S 10 POINT PLAN FOR BUSINESS

While there are measures that manufacturing firms can take to reduce their exposure to rising energy bills, some businesses may be disproportionately impacted and unable to absorb these higher prices in both the short and long term. Businesses will need to strike the right balance in their approach to the situation to identify the most appropriate combination of actions including passing through costs and targeting cost reductions in a way that maximises their value to the business.



Whilst these actions, both energy specific and non-energy specific, will vary according to the sector the business operates in and the flexibility it has with respect to customers, supply chain or how it uses energy, many manufacturers have already accessed the low hanging fruit such as LED lighting, reducing out of hours lighting or Heating, Ventilation and Air Conditioning (HVAC) running times. Going forward, manufacturers should consider implementing other efficiency measures such as investing in improving data accuracy on energy consumption, through use of sub-metering. This may also highlight where older energy inefficient assets could be upgraded or replaced to further reduce energy consumption without impacting productivity.

PwC's 10 point plan reflects on the details of the Energy Bill Relief Scheme, and crucially focuses on the steps that businesses can take to address challenges around cost, financial sustainability and growth. Read the plan: Rising Energy costs - PwC's 10 point plan for business - PwC UK **- LINK NEEDED**

[11] Cornwall Insight's default tariff cap forecasts, November 2022:

	Q2 2023	Q3 2023	Q4 2023
Electricity per unit cost (p/kWh)	61.31	47.35	48.94
Gas per unit cost (p/kWh)	15.81	14.49	14.22

PROTECTING THE VALUE OF THE POUND

The joint second most wanted interventions to reboot confidence are for the Government or the Bank of England to protect the value of the pound, and the introduction of greater incentives to adopt green technologies through capital allowances and tax reliefs.

Taking the first, the UK pound has fallen to record lows in recent months. Concerns over the impact of the Russia–Ukraine war on inflation in the UK, a fifth prime minister in six years and the mini budget fallout have added further downward pressure. As a result, the Bank of England has raised interest rates for a record eight times in a row, from 0.10% in December 2021 to 3.0% in November 2022. The direct impact of this is that the costs of imports have increased for UK manufacturers, and are expected to continue to do so into next year.

While for end-product producers this can make British goods more attractive to foreign purchasers because the pound is cheaper relative to other currencies, the number of UK manufacturers who might benefit from this is minimal because the overwhelming majority of manufacturing firms sit in the middle of global supply chains, importing parts before exporting their goods on to other manufacturers to further process. This leaves manufacturers with little choice but to pass on costs to consumers, making UK-based products more expensive relative to global competitors. In fact, almost three-quarters of manufacturing leaders expect either a significant or a moderate increase in import/export costs next year. In addition, 45% of manufacturers said significant movement in exchange rates is the biggest risk to increasing competitiveness next year.

PROVIDING INCENTIVES TO ADOPTING THE TECHNOLOGIES OF THE FUTURE

The other joint second most wanted intervention to reboot confidence is for greater incentives to adopt green technologies through capital allowances and or tax reliefs (29%). The energy crisis has spurred on manufacturers' ambitions to go green using technology. Implementing new digital technologies and techniques can increase sustainability and improve energy efficiencies within a manufacturing business. These benefits are now being realised across the sector – with a little more than one-third (34%) of manufacturers finding that digital adoption has improved energy efficiencies across their business, and one-third saying that process improvements have contributed to reducing emissions. All of these are vital in achieving the sector's net-zero ambitions.[12]

A BUSINESS-FRIENDLY MIGRATION SYSTEM THAT HELPS TACKLE LABOUR SHORTAGES

In the same vein, taking a longer-term view on reforms to the migration policy so businesses can recruit from abroad more easily (16%) is another way the Government can reboot business confidence. While manufacturers would agree that developing our own pipeline of talent through apprenticeships, graduates and newly introduced T Levels is important, these pathways will not bear fruit for a number of years. The sector remains short of people now – and to fill that gap between demand for labour and supply, the Government should reform current migration policy to enable filling these critical labour shortages more easily. This means reviewing the shortage occupation list (SOL) immediately, with the recommendations ready to be implemented by no later than Q2 of 2023. Critically, it is also important that, in future, the SOL is reviewed and revised at more regular intervals to ensure it remains an accurate depiction of contemporary labour shortages across the UK.

[12]Make UK/Infor, Digital Adoption: The Missing Link in Productivity Growth, October 2022

A FIT-FOR-PURPOSE BUSINESS RATES REGIME

Manufacturers pay rates on factories and warehouses, and also on machinery. For decades now, this tax has been a disincentive with regard to capital investment in new technologies that could boost productivity and lower greenhouse emissions. While a few exemptions have been applied to improve incentives to invest in green technologies, long-term reforms are still needed. However, in the short term, manufacturers faced a sharp inflation-adjusted rise in rates from April 2023, which has now been blocked from happening with a £13.6bn package from the Government to freeze the rates multiplier over the next five years. Additionally, the Government will abolish downward transitional relief caps, so businesses who expect to lower their rates bills next year will benefit immediately. This change is positive news for manufacturers.

However, recent announcements haven't all been so positive, and the need to review the business rates system is long overdue. The recent decision to delay improvement reliefs by a year, for example, means that any property enhancements made this year will now be accounted for in the revaluation process, which could prove costly for those that were intending to take advantage of it.

CONCLUSION

In recent years, the need for manufacturers to be resilient, agile and innovative has become the toolkit for survival. However, this was all predicated on the fact that manufacturers could mitigate and weather the many unprecedented challenges thrown at them. So much of what is likely to be faced by manufacturers in 2023 is external. External shocks to the economy can only be mitigated to a certain degree.

As a result, manufacturers will be facing their own crisis – a crisis in the cost of doing business in 2023. A potent cocktail of spiralling consumer and producer inflation, soaring energy costs, stifling labour shortages and ongoing supply chain disruption leaves manufacturers in a perilous situation.

As such, business confidence, and consequently investment and employment intentions, are now falling, and the rising cost of doing business is now becoming 'business threatening' for some manufacturers.

Getting a grip on these rising costs is critical. Not only will it support manufacturers through this challenging period, as well as the UK economy as a whole, it will also help them to become more competitive in the short term. Underpinning this all is still the need to set a long-term economic vision that both inspires and signals to manufacturers that the UK is the best place to make, create and innovate. Only then can we successfully reboot business confidence and kickstart economic growth.

VIEWPOINT

MANUFACTURING LEADERSHIP IN 2023

The last few years have been tough for UK businesses. Rising energy costs, skills shortages and inflation, alongside the pressing need to decarbonise operations, are all creating new challenges for manufacturers. Yet, opportunities exist too, particularly in the decarbonisation agenda. There are some big decisions to be made – whether to be proactive now, or to delay investment and risk being left behind.

It's clear from this year's survey findings that manufacturers, large and small, must find ways to invest in the future, while also dealing with short and medium-term cost challenges. If issues are left unaddressed, there's no doubt that they will turn into systemic problems later down the road.

While many of the risks to confidence remain in the hands of the Government, it's refreshing to see that UK manufacturers aren't waiting around for solutions. They're doing what needs to be done: demonstrating leadership during a time of uncertainty.

Manufacturers are already exploring new ways to stand out in their market through innovation, with new product development being a priority. Many are funding upskilling and retraining programmes to support employees, helping them to develop new skills and add value to their sector. Leaders are ensuring they're keeping on top of working capital, despite the lengthening of supply chain waiting times. And they're using energy efficiency measures, like the adoption of green technology, as a means of reducing expenditure across the value chain.

There's an opportunity now for firms to build on these foundations, taking big strides forward and shaping the future.

When it comes to productivity and resilience, organisations that are intensely focused on driving revenue, investing in the right markets, and investing in development and innovation find themselves in a strong position.

Tapping into new ways to drive productivity is key to turning challenges into opportunities for growth. Leading manufacturers will ensure the strategic implementation of meaningful changes, learning from their teams and proactively investing back into the business. Customers are driving the push for a new green economy, demanding more energy efficient jobs, products and workplaces. Successful manufacturers will be considering what businesses and customers need not only now, but in the years to come.

In our view, the manufacturing leaders of the future are those who adopt an open source management style, demonstrating a willingness to learn from others in the community. They are the ones who develop innovative approaches to solving immediate problems, while not losing sight of long-term objectives.

There's no doubt that manufacturers across the UK are feeling the pressure of remaining relevant in a rapidly changing global market. But organisations that continually learn, prioritise cost efficiency, reduce their carbon footprint, drive export growth, tackle low investment and solve skills shortages will benefit from a competitive advantage.

Despite these challenging times, winning manufacturers recognise ESG and decarbonisation as opportunities to drive out costs and create a real competitive advantage — and they are investing in their organisation in a way that shapes the industry for the better. Manufacturers continue to strive for success.

The Manufacturers' Organisation

The UK manufacturing sector must be the engine of UK economic growth.
The 20,000 manufacturers we represent have continued to invest in the new technologies of tomorrow, and nurtured the workforces of the future. Collectively, the sector has, and is, helping to develop the solutions to the UK's big challenges.

But the headwinds manufacturers face in the years ahead remain substantial.
Hampering manufacturers are the short-term challenges of stifling labour shortages, the rising cost of doing business, and on-going supply chain disruption. All whilst manufacturers are continuing to press ahead on the long-term priorities of transitioning to a net-zero future and accelerating digital adoption.

By growing the manufacturing sector from 10% of UK GDP to 15%, we can collectively reboot UK economic growth adding an extra £142bn to the UK economy, and drive a substantial uplift in long term domestic and foreign investment.
Laying the foundations for economic growth begins with supporting manufacturers to; reduce the cost of doing business, increase competitiveness at home and abroad, and reboot business confidence.

www.makeuk.org
@MakeUKCampaigns

For more information, please contact:

Verity Davidge
Director of Policy
vdavidge@makeuk.org

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

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.

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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

The Manufacturers' Organisation

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