06/04/21

MAKE UK MANUFACTURING MONITOR

#BackingManufacturing

Key findings

40% of manufacturers currently have no staff furloughed

56% say sales and orders are better than in the first national lockdown

65% believe the UK will return to normal in less than 12 months

58% believe super-deduction will have the most positive impact on business

HOWEVER ONLY 23% say they will increase investment

57% say the increase in the corporation tax rate will have no impact on investment plans

Introduction

The latest Manufacturing Monitor updates a number of key metrics that measure output and furlough take up. This edition in particular looks to shed light on manufacturing activity in comparison to the first UK national lockdown as well as understand Make UK member's views on the Chancellors Spring Budget 2021.

The latest data reports the number of manufacturers that have furloughed staff has increased slightly since January. Now just under four-in-ten manufacturers have no workers furloughed. However, of those using the Job Retention Scheme (JRS), most have only furloughed up to a tenth of their staff, with many likely utilising flexible furlough to manage short-term costs. The JRS is now expected to close again in September 2021, with employers expected to contribute a growing share of the payslip over time in a déjà vu of the tapered approach adopted last summer. At this point there is no guarantee that there will not be a further extension to the furlough scheme. That decision will largely depend on where the UK stands on its road to recovery later this year.

This edition of the Manufacturing Monitor survey asked manufacturers how sales and orders have changed in comparison to, 1) the first national lockdown in March 2020, and 2) since the start of 2021. The data indicates that most manufacturers are doing better in sales and orders now than in the first lockdown. Although the picture is a bit less positive when compared to January 2021, sales and orders are shown to have improved, or at least not worsened, in the first quarter of this year too. However, uncertainty remains around the current relationship between the UK and EU – a substantial source of sales and orders for UK businesses.

According to Make UK members, the super-deduction capital allowance, the extension of the JRS and increasing R&D tax credits are the favourite policy outcomes from the Chancellor's Spring Budget 2021 that are expected to have a positive impact on business. In particular, the super-deduction scheme, although unlikely to significantly boost investment plans, will increase investment to some extent, at the very least bringing plans forward. Moreover, in regards to increasing the corporation tax by 2023, interestingly manufacturers seem more concerned about how this makes the UK appear as a place to do business, hence risk reducing foreign investment levels rather than how it may impact their own investment plans.

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People

The Job Retention Scheme (JRS) continues to support the UK workforce in these strange times, and although the recent extension announced by the Chancellor was well received by manufacturers, there remains uncertainty over the impact the end of the scheme will have on unemployment. Yet, many job losses have already taken place since March 2020. The latest available data indicates unemployment increased by 51,000 between the first and last quarter of 2020 in manufacturing, with the latest unemployment rate for manufacturing at 4.6%. Although, relatively speaking, the sector is faring better employment wise than say accommodation and food services which has an unemployment rate of 10.9%.[1]

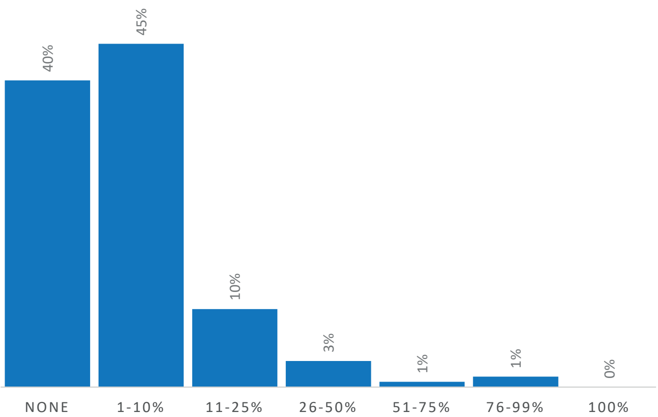
Even after incurring such a great loss of workers within the industry the JRS continues to support almost 295,000 workers in manufacturing.[2] About 51% of these workers are furloughed only partially as manufacturers use the scheme more strategically to manoeuvre amongst an uncertain environment. The latest data from Make UK's Manufacturing Monitor also indicates furlough take up remains relatively low within manufacturing.

The survey reports that 39.9% of manufacturers have no staff currently on furlough, slightly lower than the previous survey's 44.3% indicating the number of furloughed workers has increased. This is a reflection of the recent extension allowing manufacturers to manage costs as they deal with the aftermath of leaving the EU in the short term. Nevertheless, a large share (44.6%) of Make UK's members have indicated they are only furloughing 1-10% of their staff. While a further 10.1% of manufacturers are furloughing between 11-25% of their staff. The total share of manufacturers furloughing anything more than 25% of their workforce stands around only 5%. See a breakdown illustrated below (chart 1).

As the vaccination programme drives ahead despite supply concerns, there are highlights of positivity emerging for employment expectations. The Office of Budget Responsibility (OBR) has recently revised downs its unemployment rate expectations from 11.9% to 6.5% as the UK economic recovery appears ahead of schedule. Additionally, recent Make UK surveys, as well as IHS Markit's PMIs, have indicated job losses are not only slowing but hiring is returning to some extent too.

It is likely then that manufacturers will start to turn their attention back to skills, both in terms and recruitment and retention, and this will undoubtedly be the policy agenda they will want to see Government shift its focus to. Make UK, together with the TUC, sector skills bodies and manufacturing trade associations has recently established a National Manufacturing Skills Taskforce and stands ready to work with Government to delivery on this critical agenda.

Chart 1: % of workers furloughed by manufacturers, % share of responses



Source: Make UK, Manufacturing Monitor #9 (March 2021)

[1] Labour Force Survey (2021), ONS (2021)
[2] HMRC CJRS Statistics (March 2021)

Production and Capacity

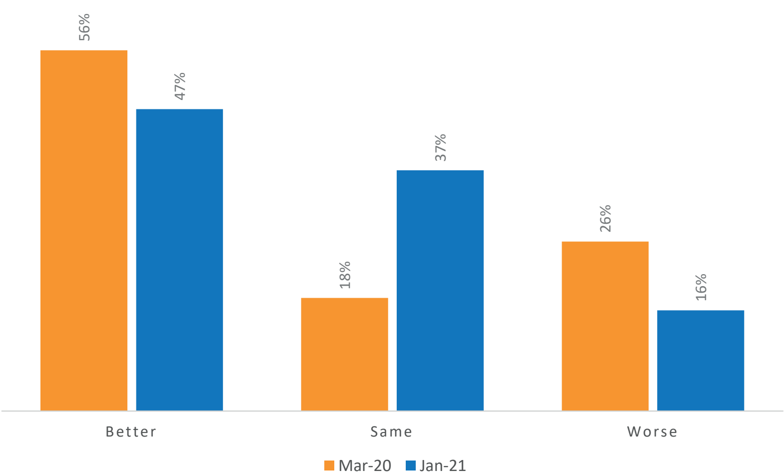
Since the first lockdown last year manufacturers faced one of their biggest losses in the form of sales and orders. This was due to a combination of falling demand for goods and services, such as motor vehicles and air travel, as well as supply-chain issues preventing the delivery of key components of production. During that first lockdown approximately 80% of manufacturers had indicated they experienced a decrease in sales and orders, although this figure gradually dissipated over time to an extent that even indicated sales and orders may finally be improving. However, there is some ambiguity in how manufacturers are faring now in comparison to the first lockdown and therefore the latest Manufacturing Monitor survey sought to understand this better.

When Make UK members were asked how sales and orders were performing in comparison to the first lockdown (March 2020), 56.1% said that it was better. Whilst only 26.4% said sales and orders were actually worse. The former result is expected given the severity of the first lockdown compared to the third, specifically for manufacturers, who became less subject to shut-downs and had the opportunity to build expertise on managing a workforce within social distancing requirements. However, it is not directly clear what has caused a worsening of sales and orders for other manufacturers. The survey indicates that the Electronics and Electrical Equipment subsectors were a major contributor to the share of firms indicating a "worsening" of sales and orders. This can be a result of a significant shortage of semi-conductor chips that has caused supply-chain issues for many businesses.

Alongside comparing sales and orders to the first lockdown, manufacturers were also asked how sales and orders compare to the start of 2021. A slightly lower 46.9% of manufacturers said they were better whilst only 15.6% said sales and orders were worse. A breakdown of these figures are illustrated below (chart 2).

The biggest barrier currently faced by manufacturers' keen on improving their orders books, at least in the short-term, is the Trade Corporation Agreement (TCA) with the UK's closest neighbour. Although securing a deal was preferred to a no-deal the current status of trade is a huge step away from the frictionless movement of people and goods businesses benefitted from prior to January 2021. The initial impact of new trading restrictions was so severe that exports to the EU declined by 40% in January 2021, though some of this fall is likely to be recovered over time. Alongside the new rules manufacturers are also significantly warier of rising input prices and logistic costs which will either impact margins or reduce sales.

Chart 2: How sales and orders compare today to previous lockdowns (March 2020 vs January 2021), % share of responses

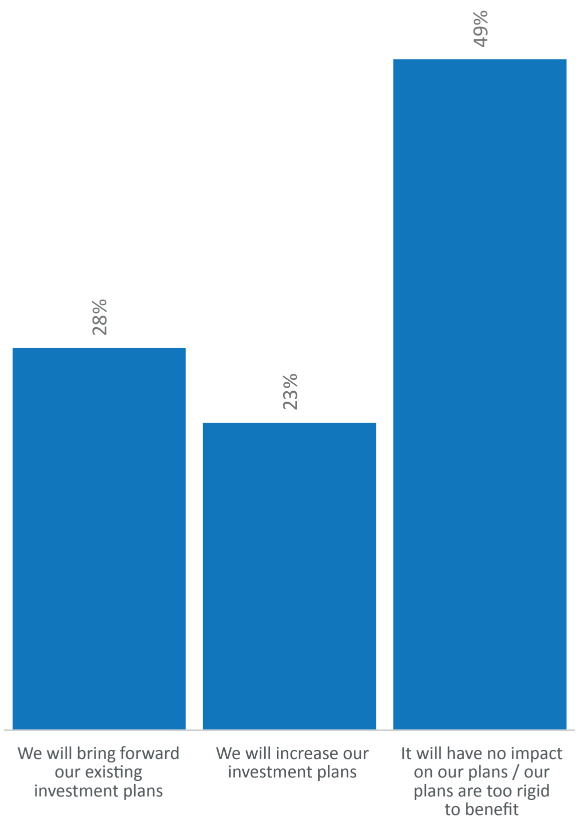


Source: Make UK, Manufacturing Monitor #9 (March 2021)

Manufacturers’ response to the Spring Budget 2021, and future expectations

The UK is currently surging forward with nationwide vaccinations and a cautious roadmap out of lockdown restrictions that give businesses much to be positive about. However, many manufacturers still face significant uncertainty on trading with the EU. This is not down to only an increase in taxes, red tape and bureaucracy that has significantly slowed down trade but a sharp rise in logistic and input costs is also placing pressure on profit margins. Nevertheless, the Chancellor recently outlined the next set of steps to be taken to help the UK economy out of this hole in the Spring Budget. As such the latest Manufacturing Monitor sought to understand how manufacturers feel about these various announcements and which policy decisions will have a positive impact on their business.

Chart 3: Manufacturers’ investment intentions in response to the Super-Deduction Capital Allowance, % share of responses



Source: Make UK, Manufacturing Monitor #9 (March 2021)

Manufacturers were asked which of the two following announcements they expect will have the most positive impact on their business, from a list that included: an extension to the JRS, greater incentives to recruit apprentices, higher R&D tax credits, super-deduction, free ports, recovery loans and Help to Grow schemes. Interestingly, the top three preferred announcements were super-deduction (58.3%), the JRS extension (41.7%), and R&D tax credits (38.1%) which indicate manufacturers in this case preferred a combination of short-term and long-term strategies to support both the sector’s recovery and its growth.

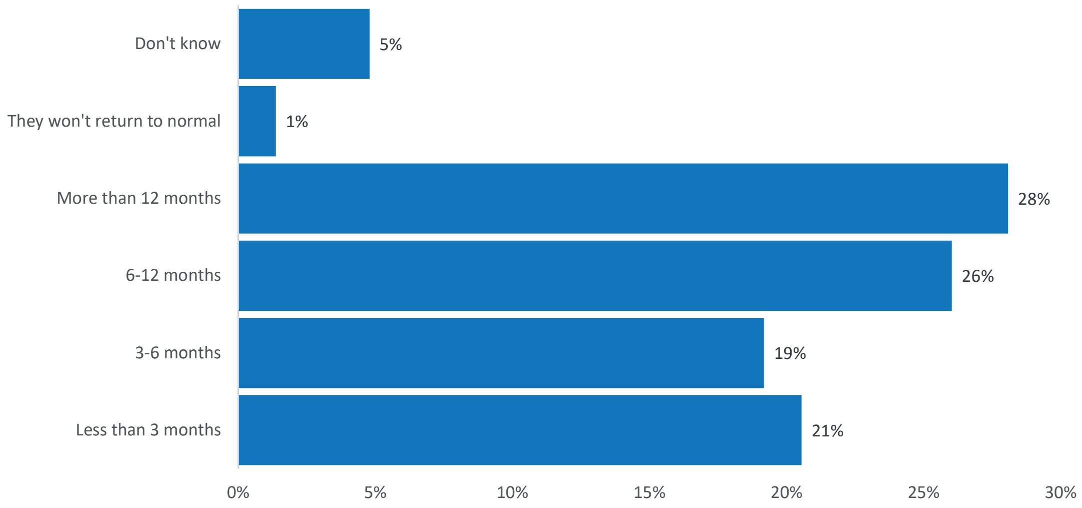
Although super-deduction, a tax relief that works alongside the Annual Investment Allowance to provide 130% relief to eligible investments in plant and machinery, is expected to positively impact business, it is not certain in what shape or form this will take. When asked specifically how manufacturers’ investment intentions will change as a result of the super-deduction allowance 49.3% said that it would have no impact as their investment plans are too rigid. This is because capital investments by manufacturers are regularly made with long-term returns on investment (ROI) that extend beyond this 2-year scheme. Nevertheless, the tax relief is expected to result in an increase in investment for 22.6% of manufacturers, whilst the remainder will bring forward future investment. A combination of the latter two groups will result in a boost to GDP in the short-run that will support the UK’s recovery. See the breakdown illustrated here (chart 3). With half of companies saying their current plans are too rigid to take advantage of the scheme, there remains a strong case for a longer-term investment strategy. Therefore, Government should also look to increase Annual Investment Allowances over a longer-term period i.e., the next five to ten years.

The Manufacturers’ Organisation

In addition to the aforementioned capital scheme, the survey also polled what manufacturers believe will be the expected impact of the corporation tax increase to 25% by 2023 on investment. Interestingly, more than half (56.8%) believe the tax rise will have no impact on investment. However, for those that have shown concern, the majority (35.6%) believe the most costly impact of raising taxes is sending negative signals to international investors and deterring inward investment.

Looking forward, the various announcements on the Spring Budget were largely positive and reassured many that the focus was on both short and long-term objectives, such as surviving the Covid-19 pandemic and inching closer to our carbon goals. But for most manufacturers (77%) the Budget itself did not impact business confidence. But just as important it only worsened confidence for a small minority of businesses (3.4%). Now, similar to the previous Manufacturing Monitor, the sum of manufacturers that believe it will take less than 12 months to return to normal trading conditions is just under 66% - a positive indication that many believe the end is in sight. However, even after passing the one year mark since this all began, 28% of manufacturers still expect it will take longer than 12 months to return to normal trading conditions, see a full breakdown illustrated below (chart 4).

Chart 4: How long do you expect it to take before normal trading conditions return? % share of responses



Source: Make UK, Manufacturing Monitor #9 (March 2021)

Appendix

Survey details, key questions and % share of respondents
Sample: 148
Survey Period: 08/03/21 – 26/03/21

How do sales and orders in your business now compare now to the start of the year? (select one)	
Better than the start of the year	46.9%
The same as the start of the year	37.4%
Worse than at the start of the year	15.6%

How do sales and orders in your business now compare to the first national lockdown (March 2020)? (select one)	
Better than the first national lockdown	56.1%
The same as the first national lockdown	17.6%
Worse than the first national lockdown	26.4%

What proportion, if any, of your staff are currently on furlough? (select one)	
None	39.9%
1-10%	44.6%
11-25%	10.1%
26-50%	3.4%
51-75%	0.7%
76-99%	1.4%
100%	0%

How long do you expect it to take before trading conditions return to normal? (select one)	
Less than 3 months	20.5%
3-6 months	19.2%
6-12 months	26%
More than 12 months	28.1%
They won’t return to normal	1.4%
Don’t know	4.8%

What impact has the Chancellor's Budget statement had on your business' confidence for the remainder of the year? (select one)	
Improved business confidence	19.6%
Business confidence is the same	77%
Worsened business confidence	3.4%

Which of the following announcements from the Budget will have most positive impact on your business? (select two)	
Extension of the Job Retention (furlough) Scheme	41.7%
Increased incentive to recruit apprentices (now £3,000)	12.9%
Increase in R&D tax credit to 13% (up from 12%)	38.1%
Super-deduction for investment in plant and machinery with a 130% first-year capital allowance	58.3%
Introduction of Free Ports	13.7%
The Recovery Loan Scheme	4.3%
Help to Grow (supporting SMEs for digital skills and management training)	10.8%

Will the new super-deduction for investment in plant and machinery have any impact on your company's investment intentions? (select one)	
We will bring forward our existing investment plans	28.1%
We will increase our investment plans	22.6%
It will have no impact on our plans/our plans are too rigid to benefit	49.3%

The Chancellor announced that Corporation Tax will increase to 25% by 2023. What impact, if any do you think this will have on investment? (select all that apply)	
It sends signal internationally and will deter inward investment	35.6%
It will have no impact on inward investment	12.3%
It will have a negative impact on my company plans for investment	20.5%
It will have no impact on my company plans for investment	56.8%

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

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About Make UK

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

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

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

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

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