

15/05/20

COVID-19 MANUFACTURING MONITOR

#BackingManufacturing



Key findings



9/10 manufacturers have continued to trade during the crisis.



1/4

of manufacturers have seen orders fall by more than half.

4/5

of manufacturers have seen a further decrease in orders and sales.

Manufacturers maintain their stance on bringing furloughed workers back only when orders increase.



1/5

of manufacturers have furloughed between a quarter and half of their staff.



OVER 1/3

of manufacturers believe it could take more than 12 months to return to normal trading conditions.

Introduction

Make UK's second edition of the Coronavirus Manufacturing Monitor brings forth an update to all the key stats from its initial publication. This survey provides an accurate and timely barometer of the impact Covid-19 has had on UK manufacturing. This includes information on manufacturers' furlough activities, impact on sales and orders, as well as their future expectations.

Overall, the manufacturing sector has reported little change in recent weeks in terms of deferring taxes, and falling sales and orders, the latter of which has observed further severe declines. However, according to the latest data there has been an increase in firms furloughing staff to shield against wage costs and protect jobs.

It is clear that the reactions to Covid-19 have disrupted activities in such a seismic manner that few parts of the economy have been spared.

This was confirmed with this week's latest GDP result for Q1 2020 which reported an average 2% decline in national earnings since the previous quarter. The national accounts indicate steep declines in services, construction and parts of the manufacturing sector, such as motor vehicle sales. On the other hand, the pharmaceutical and cleaning products industry witnessed a boom in demand demonstrating the manufacturing sectors importance to the UK in times of crisis.

What is worrying, however, is that the decline in GDP for Q1 was thanks to a huge drop in activity in March alone. This raises great concern for what we can expect from Q2.



People

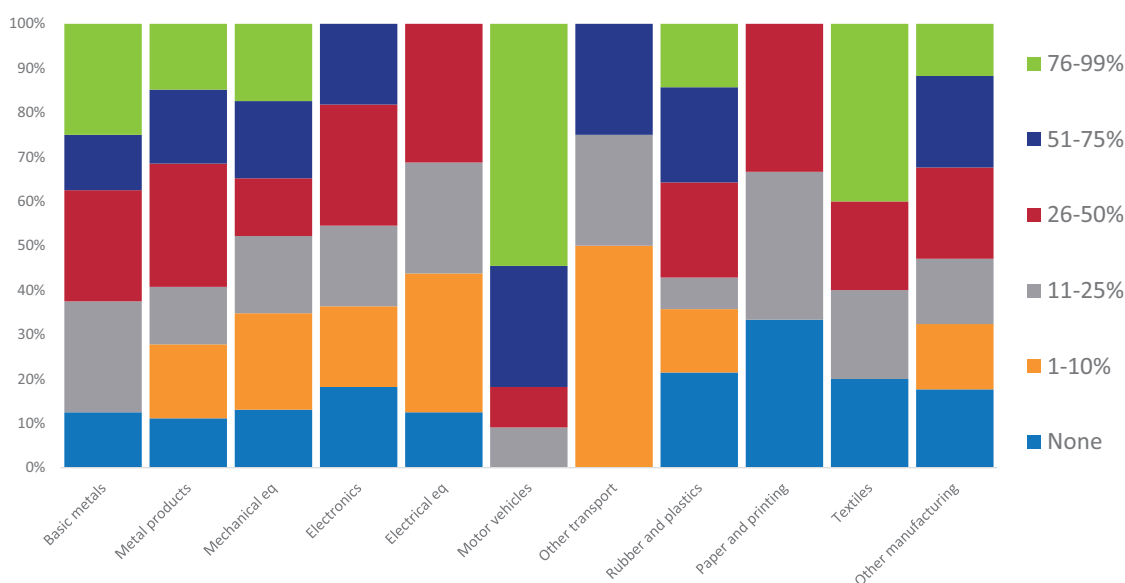
The previous Manufacturing Monitor reported that 1/5 of firms had furloughed no staff since the scheme opened, whilst a similar proportion of firms furloughed anywhere from 1% of staff to 99% of staff. The data generally suggested a low adoption rate of the CJRS (Coronavirus Job Retention Scheme) at the time due to the various barriers preventing work from home and the industry being spared from compulsory shutdowns.

As an important note, a significant proportion of the data for this survey was collected prior to the Prime Minister’s announcement encouraging able workers to return to work. Additionally, manufacturers were yet to be aware of Chancellor Rishi Sunak’s announcement to extend the CJRS through to October which will undoubtedly impact a business’s furlough decisions going forward. In fact, a key barrier to the furlough scheme was a need for flexibility, which the government has taken notice of since the last Manufacturing Monitor, as such the latest announcements appear to offer greater manoeuvrability for manufacturers who desire to use the scheme to restart productions.

The latest edition of the Monitor reported a slight drop in firms furloughing zero staff as only 15.9% of manufacturers have not accessed the scheme. In contrast, the number of manufacturers furloughing between a quarter and half of their staff has increased slightly to 21.7%. Interestingly the number of manufacturers furloughing up to 99% of staff has also increased marginally (from 12.5% to 14.8%). A key question remains on whether manufacturers yet to furlough their remaining staff will do so over the coming weeks – our data reports 18.5% of firms are looking to furlough more staff in the next two weeks. Moreover, the latest announcement from the Chancellor stating that the CJRS will be closed to new applicants from June may drive a sudden surge in the numbers being furloughed, we may see this reflected in our next Monitor.

Reviewing the data from a subsector perspective reports little change in the furlough choices made by some, such as motor vehicles which continues to report significant levels of furloughed staff. There has overall been a marginal increase in firms furloughing between 3/4 and all their staff for a number of subsectors (see chart 1).

Chart 1: What proportion, if any, of your company’s employees has been furloughed? Broken down by subsectors.



Source: Make UK, Manufacturing Monitor #2 (April-May 2020)

Production

Despite the majority (90%) of firms continuing to trade during incredibly arduous times, most have experienced significant declines in sales and orders. This was reported to worrying levels in the last instalment of the Manufacturing Monitor and raised significant concerns for cash-flow as orders evaporated. The latest results report a similar set of outcomes as manufacturers say within the last two weeks they have seen sales (78.3%) and orders (82.5%) decrease. A large number of these manufacturers (30.1%) have seen orders in particular fall between 26% and 50% in the period covered. A slightly smaller, but still significant (26.9%) number of manufacturers have astonishingly claimed orders have fallen between 51% and 75%.

As mentioned previously this will consequentially further exacerbate cash-flow problems and delay a return to normal business conditions for some time. Even if manufacturers make plans to return to full capacity, many of Make UK's members have expressed concerns that unless the entire supply-chain is reactivated together (particularly in the case where component suppliers are based abroad) it will be extremely challenging to return to pre-covid times regardless of whether workers return to work. In fact, a caveat that remains in the latest report is that a third of manufacturers will not "un-furlough" staff until orders increase.

The views of manufacturers in the Manufacturing Monitor signal that the steps taken to solve the cash-flow crisis, keep unemployment low and catapult the manufacturing industry into the 4th industrial revolution are mutually inclusive events.

Breaking down the data by region (see Chart 2) reports slightly adjusted, albeit generally similar results on the impact the pandemic has had on orders. The UK average has increased by 2%, whilst the same regions remain above and below that average since the last edition. However, there has been a notable increase in manufacturers in the South West reporting a decrease in orders since the last Manufacturing Monitor.

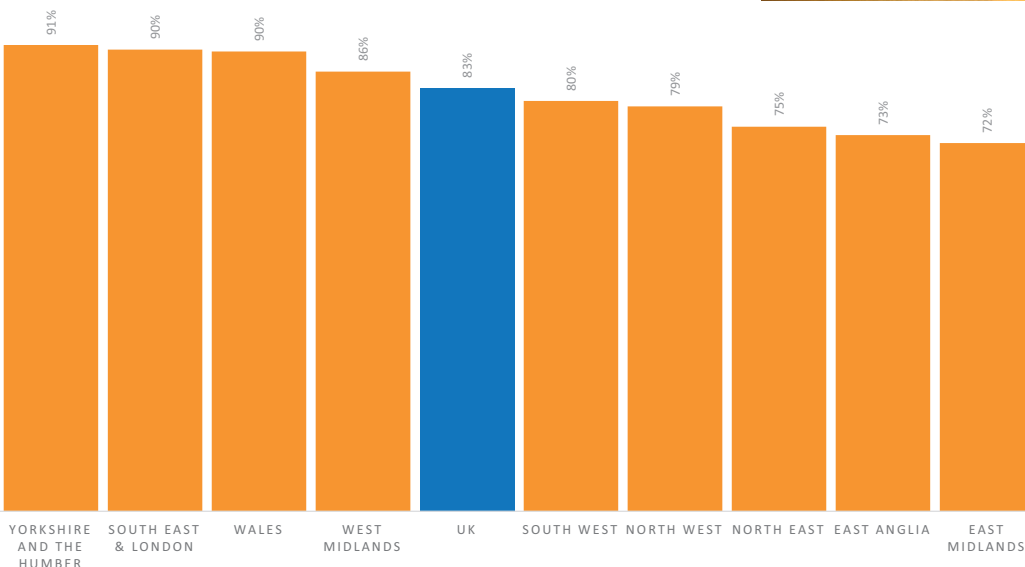
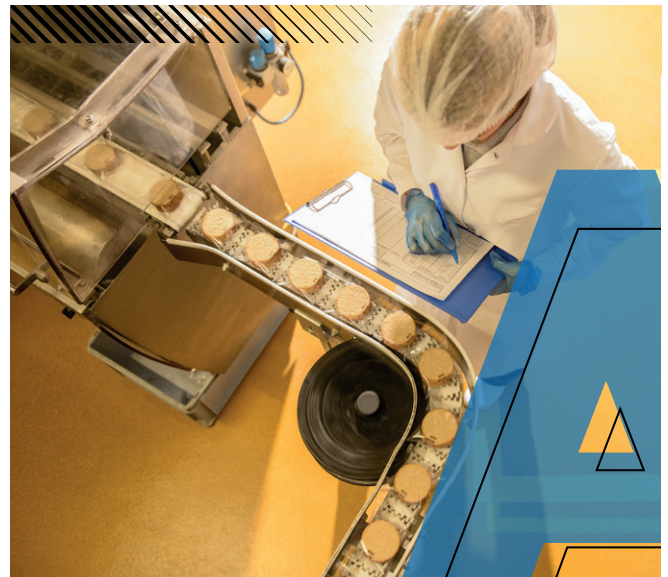


Chart 2: % of firms that reported a decrease in orders by region

Source: Make UK, Manufacturing Monitor #2 (April-May 2020)

Finance

Last time the Manufacturing Monitor highlighted a series of possible problems faced by SMEs. As mentioned previously many Make UK members do not view taking on debt during a contractionary phase of their life cycle as adequate support to restarting production lines. Indeed, it is during the expansion phase, which would now be the restarting phase that requires the bulk of the financial support. It is clear the government recognised this to some extent and responded by developing a Coronavirus Bounce Back Loan – a scheme which enables SMEs to obtain loans of up to £50,000 with a 100% government guarantee. Such a facility could be beneficial for SMEs who are keen to avoid unnecessary debt but still require support for when the economy returns to an upswing.

Additionally, Make UK members have expressed a number of concerns with the current schemes, these include the slow delivery of cash to businesses that have applied for the C(L)BILS. Unintentionally, this may be impacting a OEM's ability to make payments down the supply-chain resulting in inconvenient spill over effects.

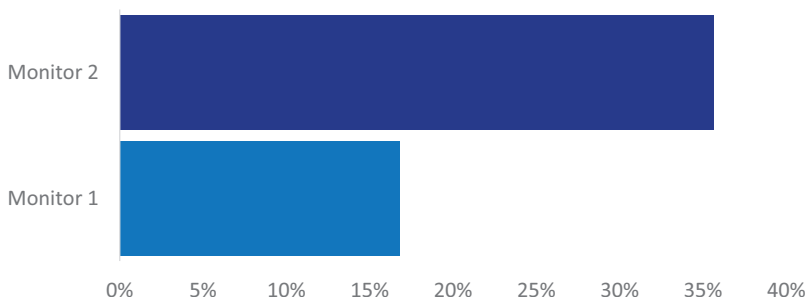
In terms of tax deferrals, the latest Manufacturing Monitor reported similar results to its first issue. According to the data, the majority of firms (45.5%) have not deferred VAT or PAYE. Moreover, 27.5% of firms deferred VAT only whilst 23.6% have deferred both VAT and PAYE. Across the sample, deferring PAYE remains the least popular at only 3.7% of manufacturers.

Expectations

A significant change reported in the latest Manufacturing Monitor entails a manufacturer's expectation on the time it will take to return to normal trading conditions. In the first edition only 16.7% of manufacturers believed it could take more than 12 months to return to normality. As Make UK members received new information over time on the economic environment their expectations inevitably grew more pessimistic as now the number of firms expecting a delayed recovery has increased to 35.6% (see Chart 3).



Chart 3: % of firms that expect it will take more than 12 months to return to normal trading conditions



Source: Make UK, Manufacturing Monitor #2 (April-May 2020)

The results of the second Make UK Manufacturing Monitor provide unique insights relevant to the current situation, covering a number of elements such as the Job Retention Scheme, finance and the general impact the pandemic has had on business performance.

For more information please contact:

Fhaheen Khan

Economist

fkhan@makeuk.org

James Brougham

Economist

jbrougham@makeuk.org

Verity Davidge

Director of Central Policy

vdavidge@makeuk.org

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 that 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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www.linkedin.com/company/makeuk

Make UK General Enquiries

0808 168 5874

makeuk.org