26/10/20

The Manufacturers' Organisation

MAKE UK MANUFACTURING MONITOR

#BackingManufacturing

© This is Engineering

Key findings

51% of manufacturers currently have no staff furloughed	**26%** believe they will achieve full operating levels by the start of 2021
1/2 have already made redundancies	**50%** believe the UK will return to normal trading conditions in less than 12 months
1/5 still planning further redundancies in the next 6 months	**58%** do not plan to use the JSS

Introduction

Make UK's seventh edition of the Manufacturing Monitor brings with it updates to a number of key stats from its previous editions. The latest survey includes information on manufacturers' furlough activities, redundancies, sales & orders, operating levels, and future expectations. Additionally, the survey has recorded initial views on the Government's incoming Job Support Scheme (JSS).

The latest survey shows the number of manufacturers that have furloughed staff has dropped again since the previous report. Currently, 50.8% of manufacturers have no workers furloughed. At the other end, no manufacturer surveyed has more than 75% of their staff furloughed. The results are not surprising as this is the final, and most expensive, month of using the Job Retention Scheme (JRS). The numbers indicate that a mixture of both employees returning to the workplace and being made redundant – both of which have accelerated in recent weeks. Regrettably, as the data also indicates that there has been a marked increase in the share of businesses that have already made redundancies and it is likely that this has dominated reasons for ending furlough. Many of these job cuts will have taken place before the announcement of the JSS raising fears that the scheme either was announced too late or is an insufficient measure to protect viable jobs.

Nevertheless, the survey also indicates the majority of manufacturers do not plan to use the JSS as a measure to support viable jobs. The results paint a worrying picture for UK manufacturers who either plan to move forward without any support or do not find the scheme a suitable replacement for the JSS. As far as we know the JSS is wildly more expensive than the JRS, asking any employer to pay significantly more for less productive hours worked by the employee. Although the deal is beneficial to the worker, it is a bad one for the employer. Unfortunately, the JSS may fail where it is needed most, in vulnerable firms that cannot afford the minimum requirements and where viable jobs are most at risk.

The majority of manufacturers have continued to report sales and orders declining in the last two weeks. However, that share is greatly less than this survey's historical record and that is somewhat positive. Unfortunately, the fall in the share of manufacturers that are seeing fewer sales and orders is not accruing to a population seeing an increase. Rather, many manufacturers are now sitting in a stalemate with little clarity on the future trading environment due to a combination of Covid-19 and UK-EU negotiations.

People

After approximately seven long months the UK's powerful Job Retention Scheme (JRS) expires at the end of October. The scheme's purpose to act as life support for workers across the country has successfully saved many jobs that would have otherwise been made redundant. Unfortunately, the timeline of the JRS did not match up with the extremely optimistic and hopeful schedule for the pandemic that is now enveloping the globe with a second wave. The latest data from HMRC shows that the total value of claims stands at approximately £34bn as of 31st July 2020, with expectations that this will exceed £40bn once it ends. Now, the latest Manufacturing Monitor brings with it a final update to the share of workers that are currently furloughed. As well as an update to redundancy plans.

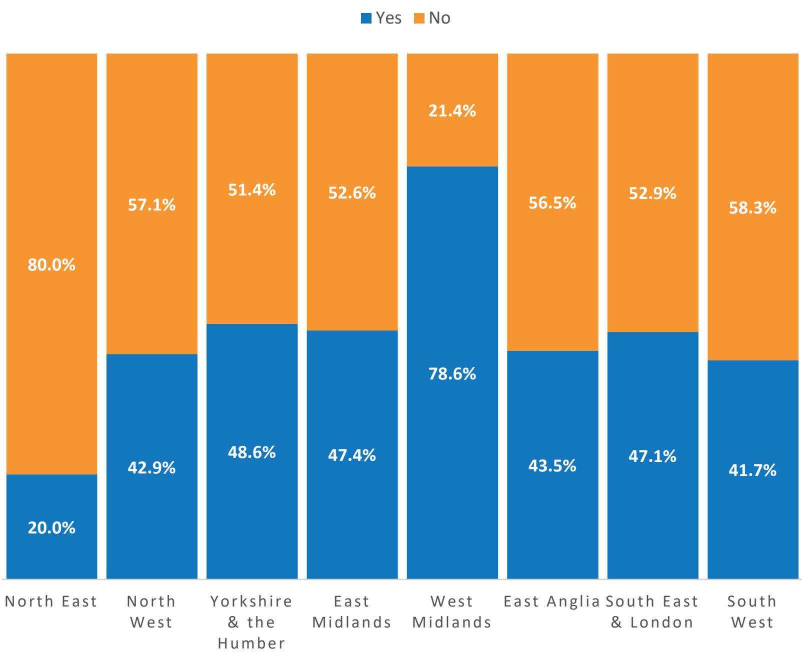
The survey reports 50.8% of manufacturers have no staff currently on furlough, beating the peak of the previous survey's 31%. This is down to a mixture of firms either taking advantage of flexible furlough, bringing workers back full-time, whilst making other workers redundant. Additionally, 27.4% of manufacturers have furloughed between 1-10% of their staff.

In that same fashion, 14.5% have furloughed 11-25%, 6.1% have furloughed 26-50%, and 1.1% have furloughed 51-75% of staff. No manufacturer surveyed currently has more than 75% of staff furloughed.

There is a growing concern of redundancies increasing at an alarming rate. The latest data shows that just under half (49.2%) of manufacturers have already made redundancies due to Covid-19. This is up from 42.4% last month. Of those businesses that have made cuts, only 6.7% cut between 26-50% of their workforce. Whilst 42.4% of firms cut between 1% and 25% of their workforce. No manufacturer has made more than half of their workforce redundant, which could be viewed in a positive light. However, many will now wonder whether the Government's new JSS may be too late to save many viable jobs.

Given so many firms have already made staff redundant, the share of businesses still looking to make cuts over the next six months has fallen from 30.2% to just under one in five (19.6%). Whilst a further 28.5% are still considering redundancies, and the share of firms that plan no further cuts stands at 52%. For those that still plan to make redundancies over the next six months, the majority only plan to cut 1-10% of their workers. See a regional breakdown of which locations have already made redundancies (chart 1).

Chart 1: % share of manufacturers that have made redundancies, by UK regions (excl Scotland, Wales, Northern Ireland)



Source: Make UK, Manufacturing Monitor #7 (Oct 2020)

The Manufacturers' Organisation

Job Support Scheme

Only a few short weeks ago the Chancellor announced the novel Job Support Scheme (JSS) will replace the JRS from November 2020. The scheme is designed to protect what is being classified as a "viable" job, but with any material guidance still to be released at the time of writing it is unclear whether this support is the right one for manufacturers. Make UK's general view is positive as this scheme is largely the preferred outcome to an alternate state of the world that lacks any scheme at all. However, we have concerns that the scheme will not protect jobs in critically important sectors where demand unfortunately remains at an all-time low.

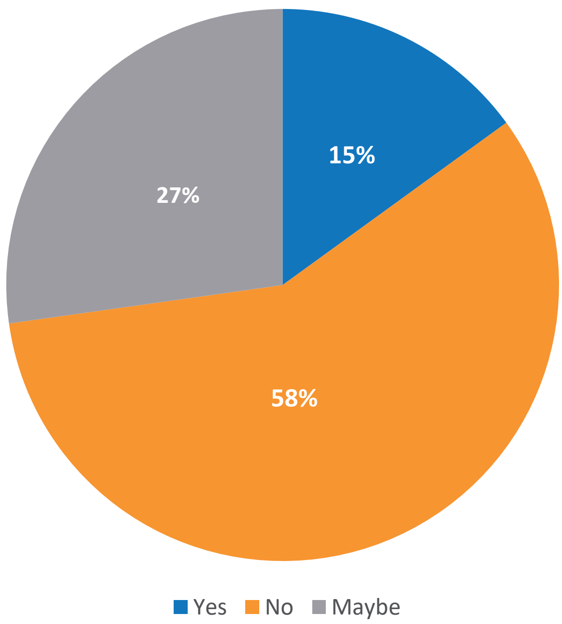
As far as we know, the JSS is substantially less generous than the JRS and requires employers to over pay for productive hours with a minimum requirement of 33% of weekly hours. For many manufacturers this results in an expensive method to retain high-skilled staff and will be used on a case by case basis. Employers will need to spend much time analysing the cost of using the JSS versus the cost of redundancy today and re-recruitment of the same skillset once there is less uncertainty in the market. For many others, they may not be able to support even 33% of weekly hours until there is more clarity on the trading environment. For the former issue, it could be argued that firms that are able to offer a significant number of hours to their staff will not find using the JSS very costly. The focus should be on those firms that are on the margins near the minimum requirement who are at most risk and are more likely to choose redundancy as a preferred method to save cash. For these firms the cost per hour of work should be reduced to at least match the employers' contributions. On the other hand, for firms that are not able to meet the 33% criteria a widening of the JSS which allows an even lower number of hours, say 10%, should be considered for vulnerable subsectors.

Nevertheless, these concerns only pertain to those firms that have not already made their staff redundant. As the data here shows, the scheme is too late for the 49% of manufacturers that have already cut their workforce. Interestingly, almost 60% of manufacturers have opted to not use the JSS, see breakdown below (chart 2).

The Government has taken steps to amend the schemes' restrictions in areas that are affected by stricter forms of lockdown which is a positive step in the right direction. However, it should be recognised that due to the complex nature of supply-chains the JSS remains an insufficient tool for many manufacturers across the country.

Discussions with Make UK members have indicated many reasons for opting out of using the JSS. Results have varied from firms that no longer believe they need financial support to those who find the scheme simply unaffordable or are unable to offer the minimum hours required. Little can be done in the immediate future to protect the roles that have already gone. However, as opposed to encouraging the preservation of viable role, it may be time to consider whether businesses can be incentivised to hire new staff once there is clarity on the new trading environment. Particularly, as it is well known during a recession there is usually a sharp increase in start-ups. A scheme that supports job creation would be an appropriate next step for the JSS.

Chart 2: % share of manufacturers that will use the JSS (based on the information available)



Source: Make UK, Manufacturing Monitor #7 (Oct 2020)

MAKE uk
The Manufacturers' Organisation

Production and Capacity

The latest Manufacturing Monitor survey reports the lowest share of manufacturers indicating a fall in sales and orders since the start of the pandemic. The current share for “decline” in sales stands at 38.8%, which is markedly improved on historical results, but is still concerning as an isolated figure. The same is true for orders too, which also reports 38.8% of manufacturers saw a decrease in the last two week. However, it is the lack of growth in orders that is even more concerning as the majority of manufacturers now sit in the “no change” bracket (at 43.8% and 41% for sales and orders respectively).

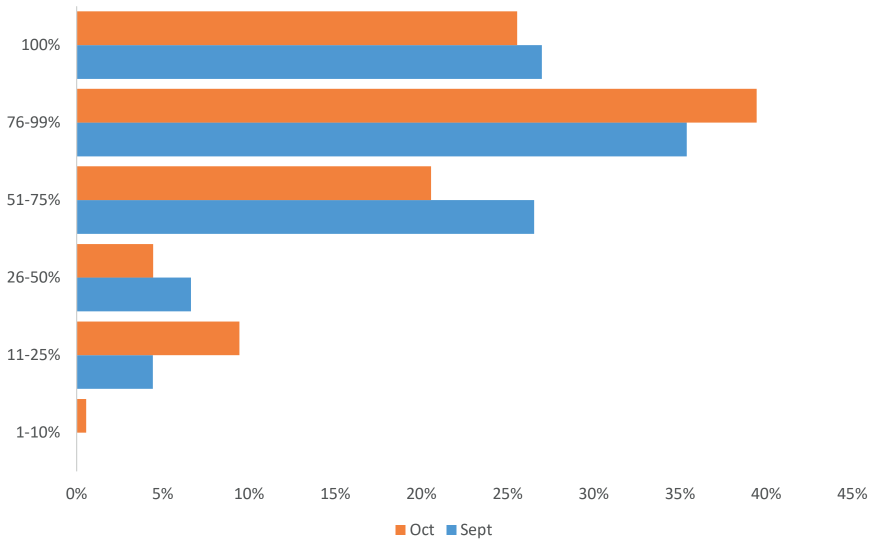
For those businesses that reported a decrease in the last two weeks, the breakdown of the magnitude of declines in sales and orders shows the majority of manufacturers have seen falls between 11-25% (21.1% and 19.9% for sales and orders respectively). However, cumulatively speaking, a slightly greater share of businesses have reported sales and orders declining between 26-75%.[1]

Even as the UK exited the strictest form of lockdown, it is now heading into a series of local lockdowns with varying levels of restrictions based on a traffic light system. Although the manufacturing sector is exempt from many of these rules, it is still indirectly impacted through downstream supply-chains in sectors that are required to shut. Unfortunately, additional Government support is in place to only support those businesses in local lockdowns that have been told to shut, without considering the implications of firms affected upstream. The lack of growth in sales and orders will dampen the UK’s recovery.

Nevertheless, the focus for manufacturing is being open for business. Although, significant uncertainties remain around Covid-19 and UK trade negotiations there has been a notable increase in the share of manufacturers that are now operating at their pre-Covid levels. The latest survey indicates this share has increased from 17.8% to 24.3%. A further 35% of manufacturers have achieved 75-99% of their operating levels. Promisingly, 81% of manufacturers are operating somewhere above 50%. The results highlight the effectiveness of Government support, such as the JRS, which have benefitted many businesses. However, significant challenges remain as redundancies are expected to continue rising and the threat of further lockdowns and a no-deal lingers.

Looking forward, as we near the end of an unforgettable year, the share of firms who expect to be at 100% of their pre-Covid operating level has fallen marginally from 27% to 25.6%. The downgrade of expectations is likely a result of recent developments in Covid-19 restrictions and deteriorating UK-EU discussions. See a breakdown of this below (chart 3).

Chart 3: % share of manufacturers operating levels expectations by the start of 2021, September 2020 vs October 2020



Source: Make UK, Manufacturing Monitor #7 (Oct 2020)

The Manufacturers’ Organisation

[1] See Appendix for full breakdown

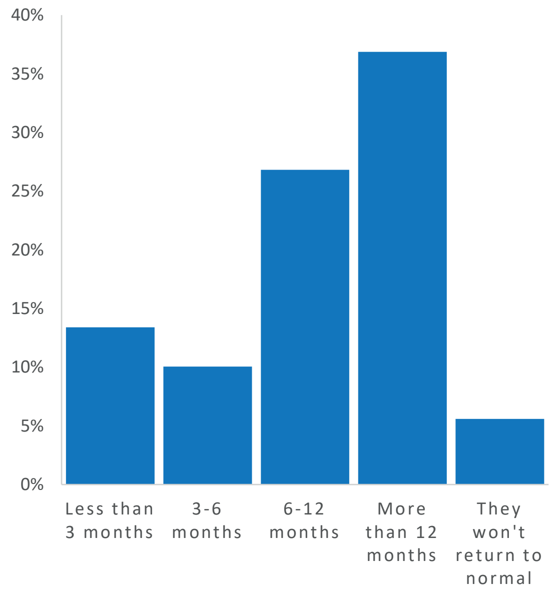
Future expectations and Government support

The latest survey indicates a large share of manufacturers (36.9%) still believe it will take more than 12 months to return to normal trading conditions, effectively unchanged from 37% previously. Additionally, the cumulative share of firms that believe it will take less than 12 months remains at approximately half (at 50.3%, down from 53.5% previously). Although the changes are minuscule, the movement in the data indicates an increase in overall pessimism amongst manufacturers. Similar to capacity levels, these likely reflects recent developments in Covid-19 restrictions as well as UK-EU discussions on the future trading environment. See below a breakdown of the latest for future expectations (chart 4).

Much more could be done to support the manufacturing sector. Alongside job support schemes, and potential job creation schemes, the latest survey also asked Make UK members what Government measures should be prioritised to support UK manufacturing. Interestingly the top three options reported: Waiving business rate bills and reducing the cost of business rates (20.4%), increasing investment allowances on capital expenditure (18.4%) and increasing the R&D tax credit limit. It is clear the manufacturing sector is aware of its needs to progress, and promisingly, many businesses prefer solutions that allow them to increase innovation and investment. Something the UK is desperately lacking.

© This is Engineering

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



Source: Make UK, Manufacturing Monitor #7 (Oct 2020)

The Manufacturers' Organisation

Appendix

Survey details, key questions and % share of respondents
Sample: 181
Survey Period: 30/09/20 – 19/10/20

What has been the impact on sales for your business as a result of the Coronavirus in the last two weeks? (select one)	
Increase in sales	17.4%
Decrease in sales	38.8%
No change	43.8%

If your business has seen a decrease in sales, by approximately how much have they decreased? (select one)	
1-10%	6.2%
11-25%	21.1%
26-50%	18.6%
51-75%	4.3%
76-99%	0%
100%	0%
N/A	49.7%

What has been the impact on orders for your business as a result of the Coronavirus in the last two weeks? (select one)	
Increase in orders	20.2%
Decrease in orders	38.8%
No change	41.0%

If your business has seen a decrease in orders, by approximately how much have they decreased? (select one)	
1-10%	9.6%
11-25%	19.9%
26-50%	17.3%
51-75%	3.8%
76-99%	0%
100%	0%
N/A	49.4%

What proportion, if any, of your staff are currently on furlough? (select one)	
None	50.8%
1-10%	27.4%
11-25%	14.5%
26-50%	6.1%
51-75%	1.1%
75-99%	0%
Full operating levels	0%

How long do you expect it to take before trading conditions return to normal? (select one)	
Less than 3 months	13.4%
3-6 months	10.1%
6-12 months	26.8%
More than 12 months	36.9%
They won't return to normal	5.6%
Don't know	7.3%

At what level is your business operating at now compared to the start of the year (i.e. before Covid-19 pandemic)	
1-10%	10.2%
11-25%	7.9%
26-50%	22.6%
51-75%	35.0%
75-99%	24.3%
Full operating levels	10.2%

At what level do you expect your business to be operating at by the start of 2021? (select one)	
1-10%	0.6%
11-25%	9.4%
26-50%	4.4%
51-75%	20.6%
75-99%	39.4%
Full operating levels	25.6%

MAKE uk
The Manufacturers' Organisation

Has your company already made redundancies due to Covid-19? (select one)	
Yes	49.2%
No	50.8%

What proportion of your staff has your business made redundant due to Covid-19 (select one)	
1-10%	50.8%
11-25%	22.3%
26-50%	20.1%
51-75%	0%
75-99%	0%
100%	0%

Does your company plan to make redundancies in the next 6 months?	
Yes	19.6%
No	52.0%
Maybe	28.5%

What proportion of your staff do you plan to, or are considering planning on, making redundant in the next 6 months (select one)	
1-10%	40.6%
11-25%	8.0%
26-50%	0.6%
51-75%	0%
75-99%	0%
100%	0%

Based on what you know about the Job Support Scheme to date, will your company use the Scheme? (select one)	
Yes	15.0%
No	57.8%
Maybe	27.2%

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

For more information please contact:

Fhaheen Khan
Senior Economist
fkhan@makeuk.org

James Brougham
Senior 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 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.

@MakeUKCampaigns

www.linkedin.com/company/makeuk

Make UK General Enquiries
0808 168 5874
makeuk.org

MAKE uk
The Manufacturers' Organisation