In association with:

EXECUTIVE SURVEY 2024
THRIVING DESPITE ADVERSITY

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FOREWORD

For UK manufacturers, growth is firmly at the top of the agenda. After a tough few years, we welcome the more positive outlook evident in this year's Executive Survey. Manufacturing leaders have good reason to be upbeat: they are gearing up for an improved set of conditions and believe opportunities outweigh risks - and most are planning to expand their product lines accordingly.

With input costs reducing, they are trying to get themselves on a positive footing - so it's no surprise to see cost controls topping the agenda. Growth plans have to prove margin enhancing and fit for the future. With this in mind, it's notable that 23% of manufacturing leaders see opportunities in net zero, digital tech, cloud and artificial intelligence (AI).

Take decarbonisation: while it's not top of the to-do list for most, going green can help tackle pressing cost concerns and labour shortages. Those leading the charge are tuned in to changing market demands, making purpose-driven investments.

This means getting to grips with the inner workings of supply chains to understand where inefficiencies lie, and where to make small, simple changes. The key is to look beyond energy saving measures, taking a big picture approach that seeks to transform the entire value chain, even if it's done in small steps.

Progress is easier too with digital tech - it helps create more innovative products, tap into new markets, reduce faults and costs. The survey shows manufacturers are well aware of this - the majority expect digital tech to play a serious role in increasing productivity, and are conscious workforces need to be trained to harness the tech.

Despite this awareness, the survey also shows only 12.5% are making digital tech central to their strategies. Manufacturers need to understand the strategic implications of digital tech to identify routes to value and prioritise opportunities. A good place to start would be to migrate/replatform operations to the cloud, or check the efficiencies of existing platforms.

PwC research[1] around the benefits of cloud tech across EMEA manufacturers found it increased productivity for 36% of respondents - the second most measurable value created after enhanced customer service at 37%. Overall, half expect increased productivity over the next year.

Businesses without a fit for purpose cloud and data strategy will be left behind, unable to grasp the benefits of new tech, such as AI and Generative AI, that depend on cloud. GenAI, for example, isn't the tech solution to every problem, but it can automate and enhance aspects of almost all business operations - increasing productivity. That's why it's important to have the right foundations in place, both technical and operational.

Reviving productivity is a key economic challenge for the UK, in which manufacturers play a central role. We are proud to support this year's Executive Survey - it shows manufacturers are increasingly embracing technology and digitisation to pave the way for a greener, smarter future - one that boosts competitiveness and unlocks sustainable growth. And they are prioritising increased investment in upskilling or retraining their people to get there. They're right to do so: Human skills, such as judgement, creativity, critical thinking and subject matter expertise, are as critical as ever. Educating at all levels, including board members and executives, is key to managing costs and overcoming barriers to growth - particularly between technology and business.

Cara Haffey
Leader of Manufacturing and Automotive
PwC UK

[1] www.pwc.com/gx/en/issues/technology/emea-cloud-business-survey.html

EXECUTIVE SUMMARY

The Executive Survey 2024, from Make UK in association with PwC, finds that the UK's manufacturers view the country as a more competitive place to operate than they did last year, with an increasing number believing that they are moving ahead of their European rivals.

The past few years have been challenging for manufacturers. However, they have shown great resilience in overcoming a range of obstacles. There is now cautious optimism - conditions are improving, thanks to a more supportive and stable policy environment. Almost a third believe the UK is increasing its competitiveness against Germany and France, while more than a quarter say the UK is moving ahead of Spain and Italy. However, manufacturers remain wary of the threat to their competitiveness posed by the US, India and China. In the US, the Inflation Reduction Act has increased its appeal as a place to do business - it has earmarked $369bn for clean energy incentives and reduced inflation by lowering energy costs.

Despite this, UK manufacturers are bullish about their potential to grow and see opportunities outweighing the risks to their business. Our latest survey shows that after a very difficult few years through the pandemic and other wider shocks, there are optimistic signs for the prospects for the manufacturing sector in 2024. Manufacturers are investing in innovative products and services, exploring new markets, and accelerating the use of digital technologies to transform their businesses while expanding their product portfolios.

In the year ahead, more than half of manufacturers are gearing up to launch new products, while more than a quarter are ready to expand into new, previously untapped markets. Around a quarter are also looking to net zero opportunities to boost growth, with a handful looking to take advantage of the opportunities associated with Environmental, Social and Governance (ESG) standards and commitments. This highlights the need to keep the UK's transition to net zero firmly on the agenda, and to continue making the case for net zero initiatives that can help the UK's economic path to prosperity and growth.

These findings should be boosted by the recent positive announcements from the Government in its Autumn Statement, which took place soon after our survey concluded. The combination of full expensing being made permanent, the extension of the Made Smarter scheme, and the creation of an Advanced Manufacturing Plan, will keep the sector front and centre of efforts to boost UK growth, and will begin to give companies the long-term certainty they need.

And it is very much needed. While 45% of businesses say changes to Government policy do not influence their investment decisions, a slightly larger proportion (48%) report holding back investment until they have policy certainty. If a stable policy environment is unlocked, we may see a significant increase in the level of business investment. Recent announcements may offer the much needed certainty and longevity which could unlock much needed investment, including essential digitalisation investment, in the sector.

However, this year's survey also shows manufacturers are wary of economic threats at home and abroad, and significant challenges remain around increased energy and employment costs, as well as access to domestic skills and labour. The vast majority of companies expect employment costs to rise, either moderately or significantly, as they battle it out to recruit and retain top talent through pay premiums, alongside taking on significant rises in the National Living Wage.

Looking ahead, the balance between people and skills, and digitalisation and automation, will be key to managing costs as well as strategic direction. With opportunities outweighing risks, growth plans in place, and investment intentions well and truly on the cards, it looks like 2024 may be the start of a real manufacturing renaissance.

KEY STATISTICS FROM 2023

THE UK WAS THE 8TH LARGEST MANUFACTURING ECONOMY BY VALUE OF OUTPUT

THE PROPORTION OF PEOPLE AGED 16-64 WHO WERE ECONOMICALLY INACTIVE WAS AT A RECORD HIGH AT 22% IN 2023

UK GDP GROWTH WAS JUST 0.6%

£224BN OF OUTPUT CAME FROM THE UK MANUFACTURING SECTOR

THE MANUFACTURING SECTOR HAD 69,000 LIVE VACANCIES

UK MANUFACTURING ACCOUNTED FOR 10% OF UK GDP AND 49% OF THE UK'S TOTAL EXPORTED GOODS

MANUFACTURING PAID 9% HIGHER WAGES THAN THE REST OF THE WHOLE ECONOMY AVERAGE

41% OF ALL UK BUSINESS RESEARCH AND DEVELOPMENT AND 16% OF TOTAL BUSINESS INVESTMENT WAS MADE BY UK MANUFACTURERS

THE SECTOR PROVIDED 2.6M JOBS IN THE UK

PART 1: MANUFACTURERS' VIEWS OF THE YEAR AHEAD

ECONOMY AND INDUSTRY CONDITIONS SET TO IMPROVE AFTER A LANDMARK AUTUMN STATEMENT

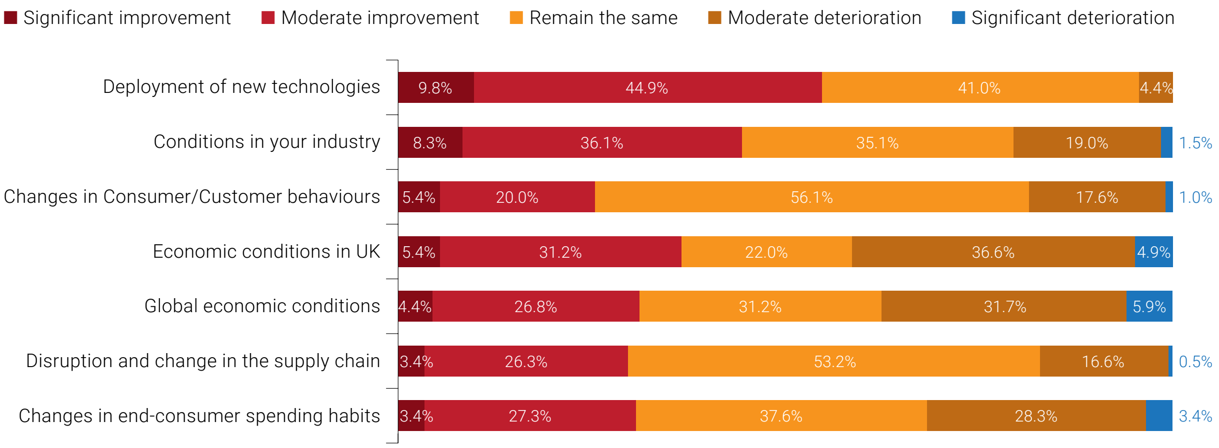
2023 felt like the year that the Government and political parties stood up and took notice of the manufacturing sector. This resulted in a landmark Autumn Statement for industry, with huge policy announcements for the sector, including permanent full expensing, the rollout of the Made Smarter programme and a fund to increase engineering apprenticeships.

But it's not just about the policies; there has also been a significant change in rhetoric from the Government and opposition parties around why manufacturing is integral for growth. Manufacturing and productivity are intrinsically linked, with manufacturing accounting for 10% of GDP. If the goal is growth, then manufacturing must be prioritised.

And this shows. As inflation fell to 4.6%, manufacturing outputs increased from £183 billion of output from the UK manufacturing sector to £224 billion of output (and core inflation is also now lower than half of the economies in the EU).

In fact, 44% of manufacturers expect improvements in the industry, with 30% of manufacturers predicting that disruption to supply chains will improve. However, predictions for economic conditions are more mixed. While 37% expect economic conditions to improve, 41% think they will slightly deteriorate, while 22% expect conditions to stay the same.

Chart 1: Changes in conditions expected in 2024, compared with 2023



Source: Make UK, PwC, Executive Survey 2024

RISKS REMAIN IN 2024

Despite improvements to economic conditions and the green shoots that have appeared following a successful Autumn Statement, risks remain on the horizon.

Cost pressures:

Once again, the dominant risk is around costs. Despite falling from their 2022 peak, energy prices remain the biggest risk to growth for UK manufacturers in 2024, cited by more than half (53%) of employers. This finding is echoed by PwC's Global Risk Survey[2], which found that inflation and macroeconomic volatility were the top two risks for the next 12 months for business leaders.

We have seen energy bill support fall away, leaving many companies without support schemes, left to battle it out on their own. That said, as we explore later in this report, manufacturers' efforts to drive energy efficiency and accelerate decarbonisation can turn such risks into potential opportunities.

But it's not just energy costs on manufacturers' minds. Almost half (47%) of companies cite significant pressure on input costs as a major risk in the next 12 months. However, latest Office of National Statistics (ONS) data indicates producer prices have been falling quickly for both inputs and outputs. For example, input inflation was down 2.6% in the 12 months to October 2023, while output prices were down by 2.1%. This is mainly a result of the cost of fuels and energy falling, although manufacturers still face higher costs to parts and equipment.[3]

Nevertheless, this decline follows record breaking input inflation last year, which exceeded 20% growth during peak periods. As a result, many manufacturers continue to operate and make decisions in a high cost environment.

RECENT EVIDENCE SUGGESTS THAT COOLING INPUT PRICES DOESN'T ALWAYS STIMULATE DEMAND IN THE SECTOR

Despite recent cooling in the rate of increase of input costs, the index values remain higher than before the pandemic. This, coupled with the expectation that base interest rates will remain high in 2024, means the sector is likely looking at a new normal for commodity input costs. While it's likely that input price inflation will contract as we move into the first half of 2024, the pressure from an expensive credit market will mask much of the benefit manufacturers may receive from any mild negative inflation seen in input costs.

"The pressure from an expensive credit market will mask much of the benefit manufacturers may receive from any mild negative inflation seen in input costs."

The impact of elevated base rates was seen in input stocking behaviour, where a sudden change in strategy by businesses due to the relative cost of holding stock swept across the industry. Around the turn of 2023, the sector exhibited near record breaking levels of stockpiling activity, a strategy prompted by the difficulties of the previous year.

During the second half of 2023 this strategy reversed at breakneck speed, as the relative cost of holding stock increased while interest rates remained high. As the sector swiftly destocked, the knock on effect through value chains in the sector was pronounced: Orders took an unexpected slump in the second half of 2023 as the industry chewed through previously held stock, and fresh orders were minimised, on account of a deliberately cautious decision to preserve liquidity into the end of the year.

As we move into the sustained high base rate environment of 2024, the continued cooling in input prices will not necessarily prompt more stockpiling as the relative cost of doing so may continue to outweigh the resilience benefits it offers to manufacturers.

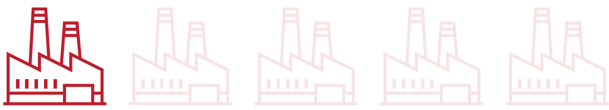
[2] www.pwc.com/gx/en/issues/risk-regulation/global-risk-survey.html
[3] ONS, Producer Price Inflation (November 2023)

Make UK research indicates that as inflation cools, profit margins have been recovering at a snail's pace, with the majority of manufacturers reporting declining margins on balance quarter on quarter.[4] In addition, costs associated with the UK's full exit from the EU remain on the risk register, with more than one in five manufacturers (22%) citing increased costs to meeting EU regulations, such as REACH, as a risk to growth.

The inevitable consequence of sustained cost pressures is profit decline. As part of the 2024 Executive Survey fieldwork, respondents' views were requested on a wide range of variables and how they expect them to shift in 2024. These ranged from productivity and net zero opportunities, right through to supply chain frictions and sales. Of this broad spectrum of concerns, the sector expects to see the greatest declines in profits and cash flow in 2024.

of firms anticipate reduced cash flow in 2024

Some 21% of manufacturers expect to see profit margins decline in 2024. This is further evidence that, despite an expected decrease in input prices, the sector will continue to battle with high interest rates and the wider economic inflation that these accommodate. Similar can be said for cash flow, with 16% expecting a decrease in 2024. It is important to highlight that the sector has little to no respite to begin recovering margins or cash flow for three years - since the start of the pandemic.



Just over **1 IN 5** manufacturers expect their profit margins to decline in 2024

The recovery period was exceptionally short-lived, with the brakes being so rapidly applied by unexpected events, such as the war in Ukraine, subsequently launching European energy pricing skywards. With such a proportion expecting further challenges in their profits and cash flow, despite the waning of acute economic shocks, this highlights the fragile position that a significant slice of the sector finds itself in, foreshadowing a possible increase in the quantity of businesses in distress as we move through 2024.

Access to people and skills:

While we are beginning to see improvements in the labour shortages, we are still some way from overcoming concerns for manufacturers. The number of live vacancies in manufacturing was 69,000[5] in November 2023, having peaked at around 95,000 in May 2022. While this might look like a significant improvement, pre-pandemic in February 2020 there were just 1.6 unfilled vacancies for every 100, and yet this figure now appears stalled at 2.8. It is unsurprising that more than a third (34%) of manufacturers say access to domestic labour is a risk in 2024.

There is no magic bullet to help solve this challenge. Manufacturers aren't expecting recruitment from overseas to help them. This is often seen as a last resort, with some 13% of companies reporting access to labour from outside the UK as a risk. Whereas previously it was easier to recruit from the EU, there is now a points based system which applies regardless of where companies recruit from.

Plus, from spring 2024, the Government will increase the minimum salary overseas workers must earn, and there will be a limit on who can bring family members into the UK. This announcement could impact manufacturers who try to use overseas labour to fill shortages.

What compounds the labour challenge is that it presents both an access to people and an access to skills issue: A third of companies cite skills as a barrier to growth in the year ahead. Even if they can get a good number of applicants, the skills don't always follow. As a result, there are more plans to train domestic employees and ensure they are equipped with the right skills for the future.

[4]Make UK, Manufacturing Outlook (2023)
[5]Office for National statistics, Vacancies by Industry (November 2023)

Instability and disruption:

Manufacturers have faced significant disruption and instability over the past few years and political and geopolitical instability remains in the top three risks for 2024. The likelihood of a General Election in 2024 could bring further uncertainty. Questions remain as to whether the early signs of stability shown by the Autumn Statement will be followed through if we see a change in the UK Government.

Looking beyond the UK, the Inflation Reduction Act in the US aims to protect US interests by providing $369bn in subsidies to public and private entities via grants, loans and tax credits. Additionally, the ongoing instability in the Middle East and Eastern Europe will likely mean further uncertainty.

Supply chain pressures may have eased slightly, but for more than a third (36%) of companies, supply chain disruption remains a risk. Separate Make UK research indicates 90% of manufacturers are still reporting challenges trading with EU partners, down only from 96% from December 2020, when the Trade Cooperation Agreement was signed. Key challenges reported by firms surveyed included problems with customs paperwork and border delays (64%), logistics issues (52%), barriers to recruiting from the EU (44%), and trouble demonstrating goods' rule of origin (36%).

Chart 2: Increased costs, access to skills and instability are key risks identified in 2024

% companies citing risks to their business in the year ahead

Source: Make UK, PwC, Executive Survey 2024

BUT IN A POTENTIAL YEAR FOR GROWTH, OPPORTUNITIES LIE AHEAD

There are risks, but manufacturers are taking them in their stride and turning these into opportunities.

Product portfolios:

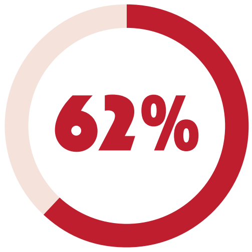
Topping the list of opportunities reported by manufacturers is expanding their product portfolios. Manufacturers are the driving force behind innovation, constantly pushing the boundaries and revolutionising products, especially as we transition towards a more digital and green economy. There are clear benefits for firms that invest in digital technologies, such as artificial intelligence (AI), machine learning (ML) and the Internet of Things (IoT). These technologies can help businesses to improve their efficiency, reduce their emissions and create new products and services.

Companies can benefit from the opportunities of achieving net zero by: Developing new or improved methods of manufacturing; increasing energy efficiency for the business; producing sustainable products; and delivery services. Such improvements can lead to increased efficiency, better quality and reduced costs, which, in turn, can increase productivity and resilience while also reducing their carbon footprint.

Net zero:

Given this, it is unsurprising that 26% of companies see the net zero target as a major opportunity for their business in 2024. In a similar vein, 13% see value chain opportunities associated with ESG targets. Growth in the UK manufacturing sector's focus on ESG, over even just the last two years, has been astounding.

Currently, just under two-thirds of manufacturing businesses in the UK have ESG targets within the firm. Compared to 2021, the proportion of the sector which have these targets has grown by 48%, highlighting the speed at which sustainability concerns have grown.



of manufacturers agree that opportunities outweigh risks in 2024

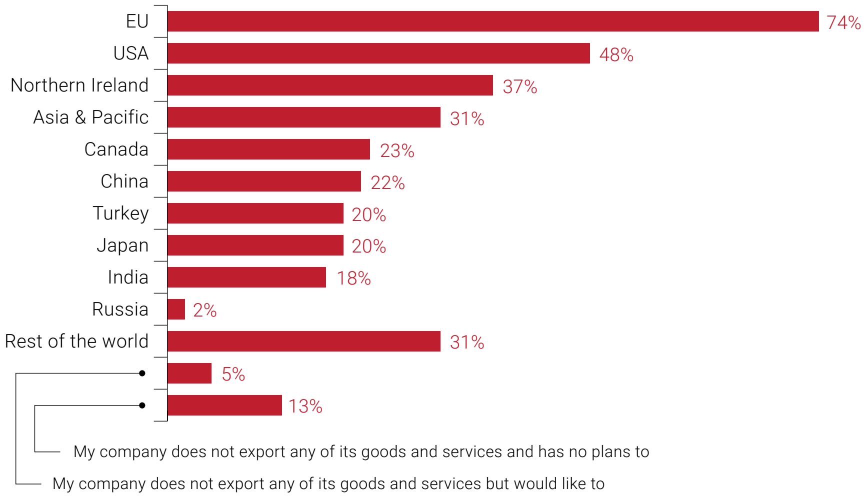
Net zero investments, most of which have been energy efficiency investments, have been bolstering the UK manufacturing's business investment volumes, and will continue to do so. With wider economic metrics for the sector seeing a downturn towards the end of 2023, investment intentions have avoided some of this negativity as the sector accelerates plans to minimise energy use. In the short term, this mobilisation has been driven by heightened energy costs, but the improvements from energy efficient technologies being invested in by the sector will deliver benefits far beyond cost minimisation in the long run.

Going global:

Manufacturers have their eyes on the prize when it comes to tapping into new international markets and exporting their goods and services across the globe. Some 27% of companies see major opportunities with new international markets, and almost a quarter (23%) see opportunities to export to new countries.

With the UK/India trade deal due to be signed imminently, and the UK/Comprehensive and Progressive Agreement for Trans-Pacific Partnership agreed in the last year, manufacturers are grabbing exporting opportunities with both hands. Although the EU remains the top choice for manufacturers, our research indicates that geographical proximity, cultural similarities and now, wider trade considerations, continue to dictate trade relations for many UK manufacturers and their exporting choices.

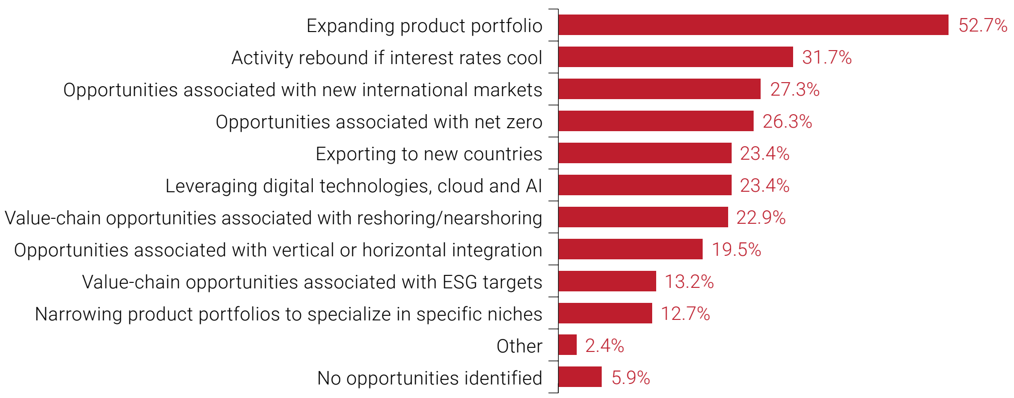
Chart 3: The EU remains the top choice for exporting manufacturers



Source: Make UK TCA Survey 2023

Chart 4: Digital, green and going global are major opportunities in the year ahead

% companies citing biggest opportunities for their business in 2024



Source: Make UK/PwC, Executive Survey 2024

Digitalisation:

While automation, robotics and cobotics may have found a firm place in many factories, it is the emergence of new smarter technologies that companies are looking to take advantage of, with almost a quarter (23%) seeing key opportunities in leveraging digital technologies, such as the cloud and AI.

SPOTLIGHT ON TECHNOLOGY

Manufacturing businesses are investing in digital technologies more than ever before and reaping multiple benefits, including increased productivity, improved products, reduced waste, and labour efficiencies.

of firms agree digital tech will drive productivity in 2024

UNLOCKING PRODUCTIVITY

Advanced technologies and digital tools such as robotics, cloud, data analytics, and AI can automate business processes, including finance, human resources, manufacturing and procurement, resulting in increased productivity.

For example, PwC's recent EMEA Cloud Survey[6] shows that for the Industrial Manufacturing sector, 80% of all respondents have either:

- started implementing or have adopted cloud in many parts of their business
- have evolved their operating model already, or
- are all-in on cloud and have scaled it throughout the business.

The survey found that cloud tech increased productivity for 36% of respondents - the second most measurable value created after enhanced customer service at 37%. Overall, half expect increased productivity over the next year.

Make UK's previous research shows the adoption of new technologies is growing quickly, with 49% of manufacturers in the evolution stage of digital transformation (where manufacturers are beginning to adopt technologies such as cloud, 3D printing and machine learning, but are yet to see the productivity benefits).[7]

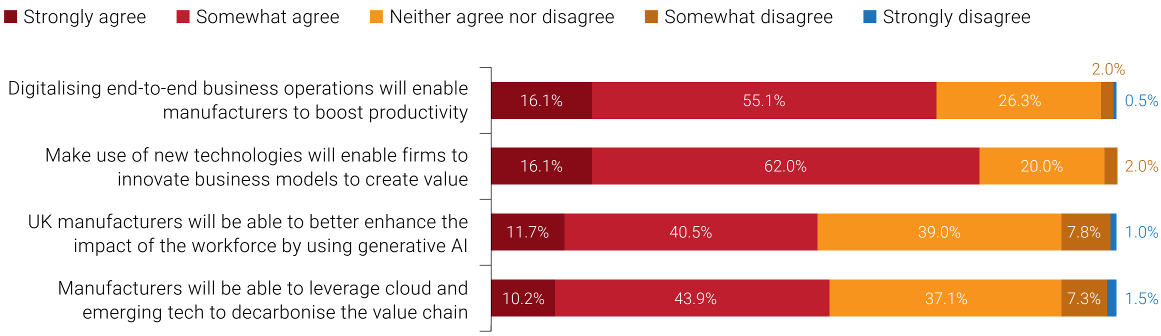
Previous research also indicates 39% of manufacturers are planning to use GenAI to automate tasks in their business.[8] This enthusiasm for GenAI echoes PwC's Global Digital Trust Insights Survey, in which 77% of respondents stated that GenAI will help their organisation develop new lines of business over the next three years.

Despite the enthusiasm for new tech, our survey shows that looking ahead to 2024 only 23% of manufacturers see opportunities in digital technologies - and only 12.5% are making digital tech central to their strategies.

Previous Make UK research has found a lack of technical skills, integration and data challenges, alongside high costs/ lack of budget and workforce/cultural challenges, have hindered plans to automate and invest in new technologies.

Manufacturers need to understand what digital tools are available, if they are applicable to their specific type of manufacturing process, and what the strategic benefits could be for their business - in order to identify the route to value.

Chart 5: UK manufacturers' ability to leverage technology



Source: Make UK/PwC, Executive Survey, 2024

[6]www.pwc.com/gx/en/issues/cybersecurity/global-digital-trust-insights.html
[7]Make UK, Digital Adoption: The Missing Link in Productivity Growth (2022)
[8]Make UK, Manufacturing and Automation: Opening the Gates for Productive and Efficient Growth (2023)

OPPORTUNITIES OF DIGITALISATION

Digital transformation is changing how businesses operate, offering opportunities for cost savings and increased efficiency. Manufacturers can streamline operations, reduce waste, and eliminate inefficiencies using digital tools and technologies, which can also improve their sustainability and help them reach net zero goals.

FUTURE READY

Getting digital tech basics right by, for example, moving to cloud, digitalising processes, investing in sensors, connecting different equipment to talk to each other, and going paperless, can allow manufacturers to tap into greater innovation and productivity. With the right foundations in place - such as a fit-for-purpose cloud and data strategy - they will be ready to embrace the benefits of new tech, such as AI and GenAI, that depend on cloud and other fundamentals.

REDUCING COSTS

With reduced costs topping the table as the main benefit behind adopting digital technologies, many manufacturers see it as an investment that pays for itself.

67% of respondents[9] say their past investment in digital technologies have paid off and they are better prepared to weather storms such as supply chain volatility and labour shortages.

TACKLING LABOUR SHORTAGES

There are circa 70,000 live vacancies in the sector, and we expect these shortages to worsen. Manufacturers require access to both long-term skilled labour and immediate labour to fulfil orders and continue operations.

An extremely tight labour market and high turnover in the sector is putting significant pressure on firms to pay more and offer better benefits to retain their existing talent. Digitalisation can alleviate some of these issues by replacing low-skilled, manual and often repetitive tasks with automation, freeing workers to be reskilled or upskilled.

DRIVING EFFICIENCIES

Smart factories mean more intelligent, efficient processes which will keep manufacturing relevant, successful and competitive. Manufacturers have made specific electricity and gas cost savings too. Some 42% of firms surveyed saved between 2% - 19% on electricity, while 34% have saved the same on gas.[10]

IMPROVING WORKPLACE SAFETY

Manufacturing automation and digital workplace tools can help businesses stay on track and meet new and existing equipment and safety guidelines.

Workplace injuries have decreased significantly in the last 50 years. With even more of a focus on digital workplace safety with the assistance of automated tools, that number should decrease further. Today, manufacturing companies can assign laborious, dangerous tasks to robotic devices and heavy items can be lifted using equipment, reducing the risk of worker injuries.

[9] Digital Adoption: The Missing Link in Productivity Growth | Make UK
[10] Digitalise to Decarbonise Report | Make UK

PART 2: GROWTH STRATEGIES AND INVESTMENT INTENTIONS

LAYING THE FOUNDATIONS FOR GROWTH IN 2024

Acknowledging that costs are the major risk to growth in 2024, manufacturers are focusing on cost control as a core component for their growth strategy. Almost half (48%) of manufacturers cited this as their main strategy for securing growth in 2024.

But to what extent are the costs of doing business expected to rise? Our survey suggests cost pressures are set to increase once more, with employment-related costs looking particularly alarming.

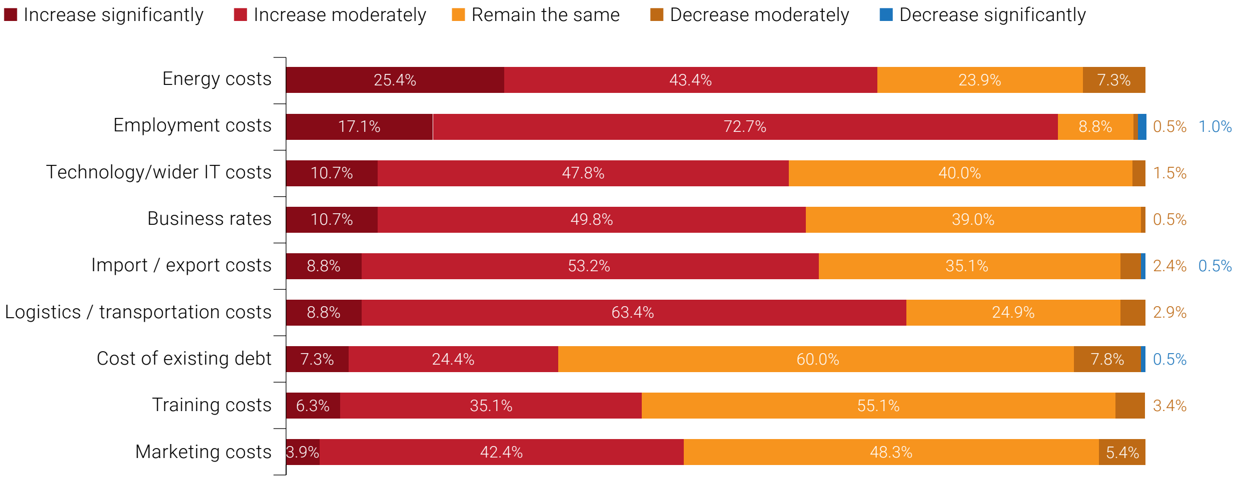
SPOTLIGHT ON COSTS

At a glance, it is easy to be distracted by the number of companies (25%) saying they expect energy costs to significantly increase and the further 43% expecting them to moderately increase. This is rightly a cause for concern, and with no support to reduce their bills, companies are, to some extent, going it alone.

However, the more alarming figure is the spike in employment related costs, with almost 90% of companies expecting significant or moderate increases. The planned increase in the National Living Wage of 9.8% to £11.44 per hour from April 2024 – plus the lowering of the age threshold from 23 to 21, alongside large increases in the rates for the other age bands – will account for some of this increase, not just at the bottom of the pay scale, but throughout the workforce as manufacturers try to maintain differentials. The high number of unfilled vacancies in the sector and demand for technical skills, due to the current labour shortage, continues to drive higher pay alongside this, while recent increases in fees and charges when recruiting skilled workers from overseas are also contributing to higher recruitment costs.

Chart 6: Employment costs set to rocket in 2024

% of companies citing whether they expect costs to increase or decrease in the year ahead



Source: Make UK/PwC, Executive Survey, 2024

The costs of importing and exporting are unsurprisingly worsening for more than 60% of manufacturers over the next 12 months. For some time now, manufacturers have been dealing with new administrative costs for trading with the EU and an uncertain trading environment, impacting their competitiveness abroad. Some 90% of manufactures say the Trade Cooperation Agreement (TCA) resulted in challenges to trade when trading with the EU.[11]

Outside the EU, the UK has done little to reduce barriers to exporting to non-EU countries, despite securing trade deals with Japan and New Zealand. With negotiations still ongoing with India, opportunities to reduce trade barriers are limited.

The extent of these challenges include access to logistics, as manufacturers rely on shipping, rail and air freights to ensure they can produce their products. As many manufacturers in the UK sit within the middle of the value chain (they neither manufacture end-use products, nor extract raw materials), they are impacted by transport costs for both inbound and outbound transportation.

This results in both financial and time costs, as we have seen from the disintegration of just-in-time supply chains, following significant disruptions to the access of components and materials in the last year.

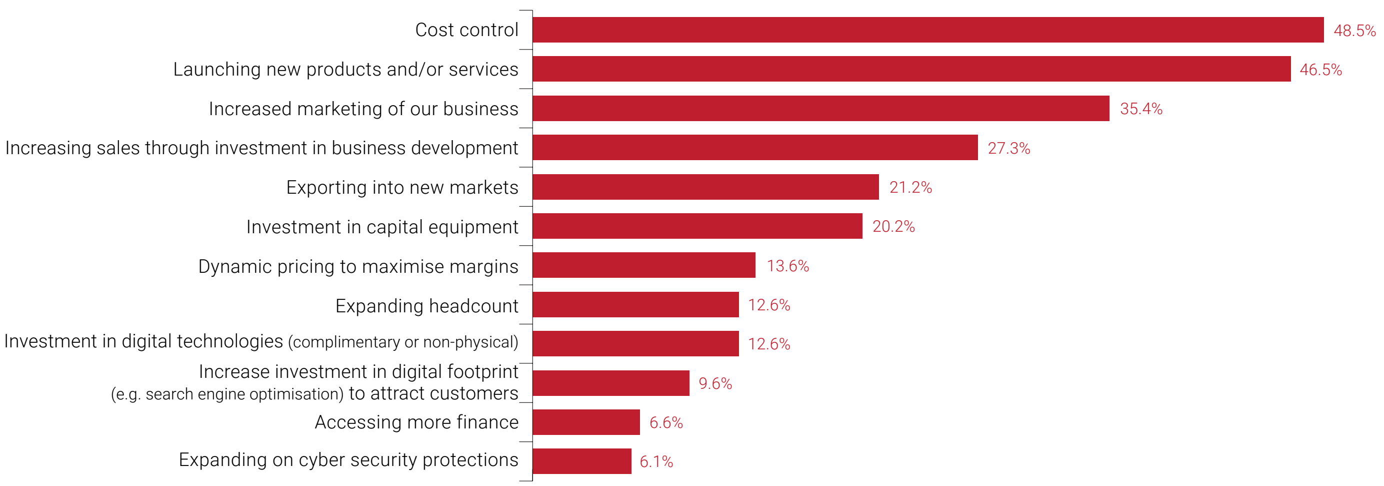
The UK Government published its critical mineral strategy in 2023, aiming to improve the security of supply, as it recognised the need to accelerate growth of domestic capabilities and enhance international markets to make them more responsive, transparent and responsible.

Some of the other costs, such as technology, training and marketing, will be strategic cost decisions which are needed to fulfil the growth ambitions that manufacturers have set out.

BUSINESS GROWTH REQUIRES INNOVATION AND ADAPTABILITY

In 2024, manufacturers will aim to secure growth by implementing flexible and innovative strategies in a constantly changing landscape. To explore new opportunities, they will be looking to launch new products and services, with 46% reported to focus on this, and 21% planning to export to new markets. Additionally, 35% will aim to increase their marketing efforts, while 27% will focus on enhancing sales through investments in business development. The primary area of focus for businesses to ensure growth will be to control costs, which we know are set to increase.

Chart 7: Businesses strategies for growth in 2024



Source: Make UK/PwC, Executive Survey, 2024

[11]Make UK, TCA 3 years on (2023)

PEOPLE AND PRODUCTS ARE PRIORITY INVESTMENTS IN 2024

People and skills:

To implement growth plans, companies recognise the importance of having access to people and skills. We have seen a growing emphasis on upskilling and retraining existing staff for the year ahead, with nearly 60% of companies planning to invest in acquiring the necessary skills in-house. Although successful recruitment is increasing, companies must rapidly upskill their workforce to fully capitalise on future opportunities.

The main focus for manufacturers is IT and digital skills, and line management and people skills - not just in the immediate term, but also for the future. It is important to note there is still a significant shortage of labour, so relying solely on new recruitment is not always an option.

More than a third of companies are investing in apprenticeships. This figure has seen a bit of a downward trend since the introduction of the Apprenticeship Levy, with national data suggesting that manufacturing and engineering apprenticeship starts are down 38% compared to pre-Levy years. There is a lot more work to do to reverse this trend, and it is an issue Make UK is actively campaigning on.

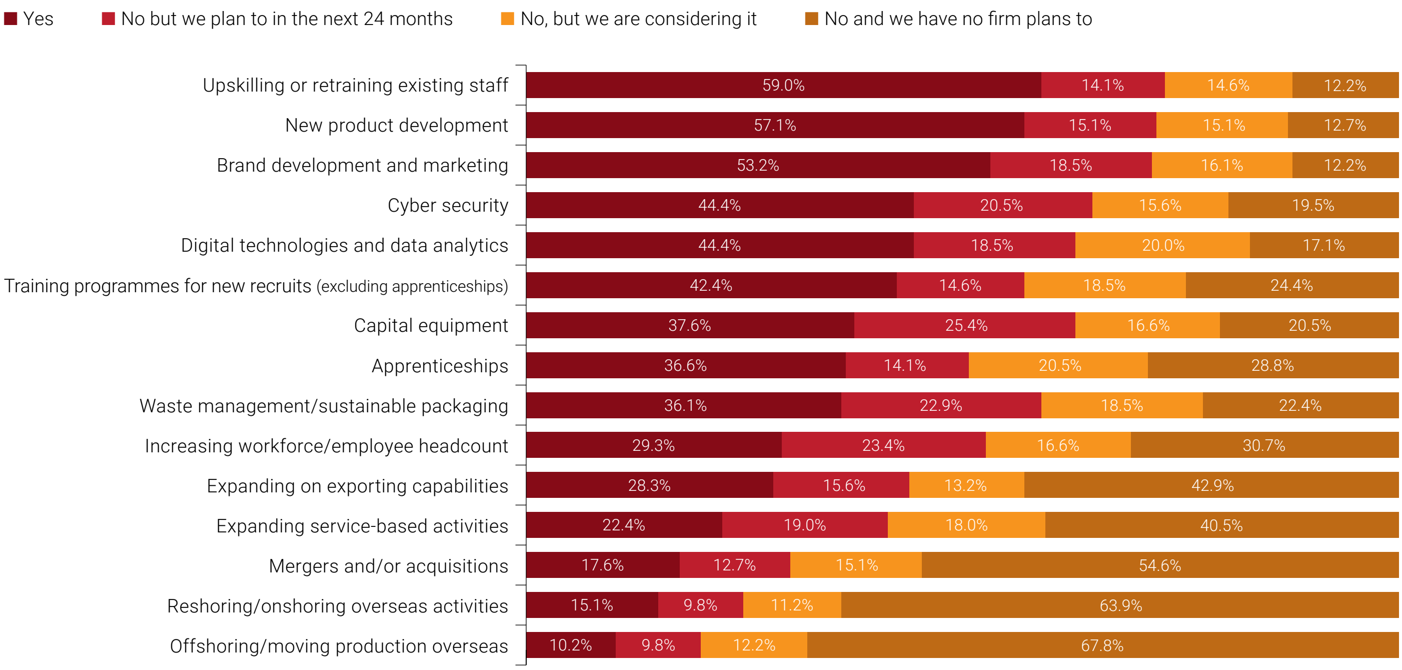
As we move into 2024, meaningful collaboration between business, Government and academia will be key. Effective collaboration could mean unlocking the power of data to help retain talent, providing wider financial incentives to encourage more investment in tech to help with the skills shortages, and ensuring that digital infrastructure supports the economy so that across every part of the UK, businesses can innovate and grow.

Digital and cyber security:

Some 44% of businesses plan to invest in new digital technologies in the year ahead. While doing so, they acknowledge it is more important than ever to be cyber secure, so the same number again plan to invest in cyber security. We know from wider Make UK research that the latter can be a barrier to investment in digital technologies: we are now seeing these investments made simultaneously.

Chart 8: People and products remain priority investment areas for manufacturers in 2024

% companies citing plans to make investments in the next 12 months



Source: Make UK/PwC, Executive Survey 2024

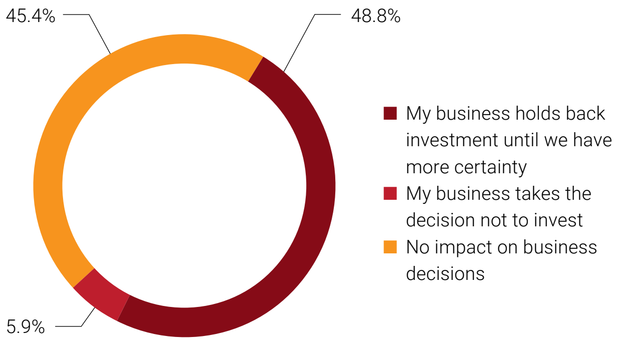
BUT MUCH OF THIS HINGES ON CERTAINTY

We know investment in manufacturing is lagging. Since surveying manufacturers for this report, we have seen some improvements to the policy landscape, namely the announcement that full expensing will be made permanent, which will give companies certainty to invest in plant and machinery. In addition, the Advanced Manufacturing Plan, while falling short of an Industrial Strategy, provides the foundations to build a longer-term plan and strategy for the sector.

Longevity and certainty are critical. When it comes to policy decisions, and changes to policy decisions, we see a tale of two halves. For almost half (45%) of manufacturers, changes to policy decisions have no bearing on their investment decisions. They are likely to be the cohort of companies that feel if they aren't investing and moving forward, they are simply standing still.

The other (and slightly larger) half (48%) will hold back on investment until they see some certainty, which could be the reason for the investment lag that has been evident in the sector. What is clear is that long-term policy decisions that aren't susceptible to change will encourage more investment, and stable policy work is needed for the sector.

Chart 9: Investment decisions



Source: Make UK/PwC, Executive Survey 2024

THE EASE OF DOING BUSINESS WILL BE CRITICAL TO MAKING INVESTMENT INTENTIONS AN INVESTMENT REALITY

It's not just longevity and certainty that plays a role; the ease of doing business will also be a key factor in making investment decisions that lead to growth. For example, more than a third (36%) of manufacturers cite ease of access to new markets as a main factor influencing their decisions to invest in their companies in the year ahead. If firms can make the case that such investment will lead to selling more goods and services, and therefore securing a return on investment, they are going to make the jump.

But they also need to be assured that the business environment around them will deliver what they need.

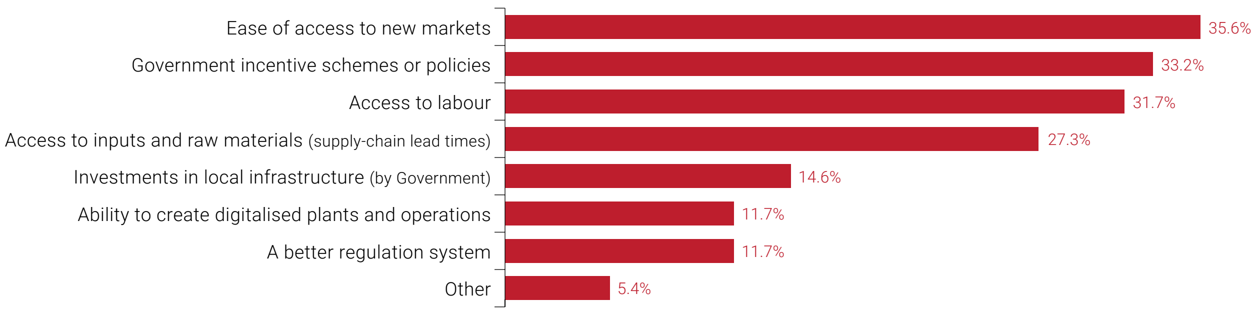
This brings us back, once again, to access to labour as well as access to inputs, raw materials and infrastructure. Without these core components, companies risk failing in their endeavours to successfully implement their growth strategies.

1 IN 3

firms cite Government incentives schemes as a key driver behind their decision to invest in their businesses in 2024

Chart 10: A strong and stable business environment is needed to secure investments for growth

% companies citing the main factors that will influence their decision to invest in growth in 2024



Source: Make UK/PwC, Executive Survey 2024

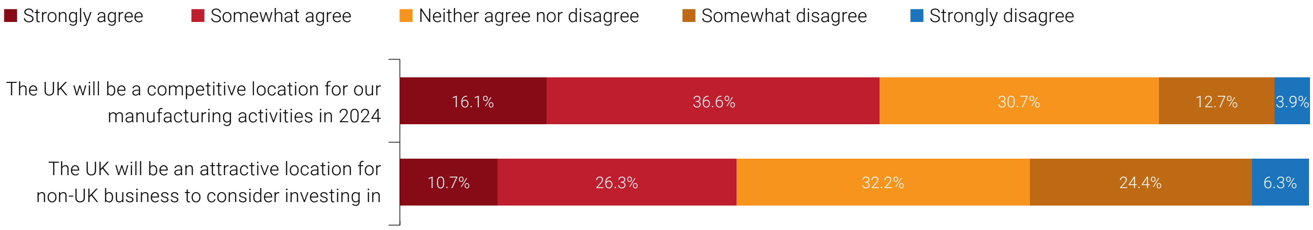
PART 3: IS THE UK A COMPETITIVE PLACE TO DO BUSINESS ONCE AGAIN?

The UK's manufacturers view the country as a more competitive place to operate compared to a year ago. An increasing number believe they are moving ahead of European rivals, and more than half (52.7%) see the UK as a more competitive place to locate their manufacturing activities. This compares to just under a third (31%) a year ago, following the political upheaval of 2022. Now, less than a fifth (16.6%) believe the UK is not a competitive place in which to manufacture.

Almost a third of companies believe the UK is increasing its competitiveness against Germany and France (31% and 30% respectively), while more than a quarter believe the UK is moving ahead of Spain and Italy (29% and 28% respectively). These figures are greater than those who believe the UK's competitiveness is decreasing.

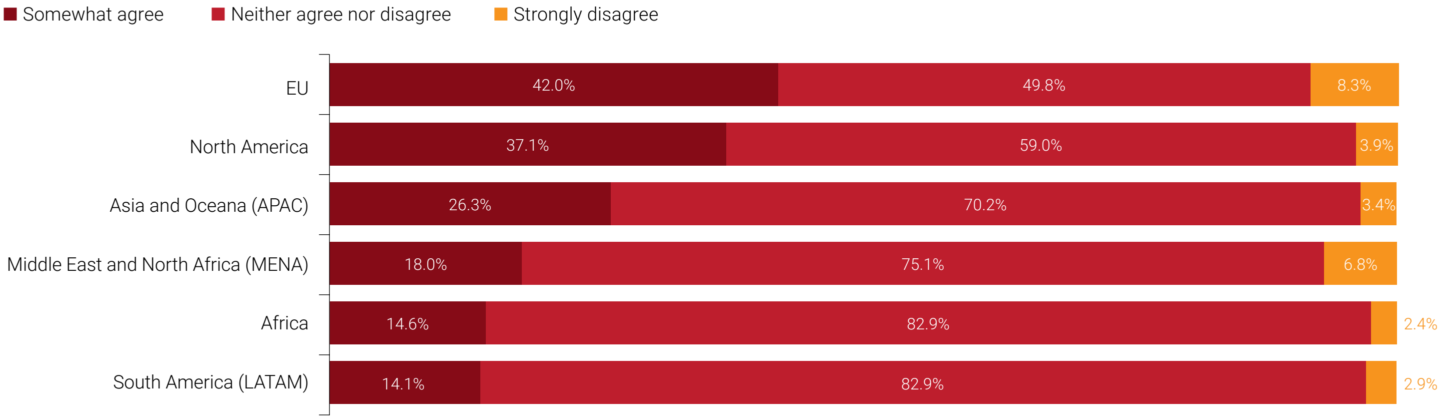
However, and perhaps unsurprisingly, by contrast, the share of companies who believe the UK is losing competitiveness against low cost rivals in India and China dwarfs those who believe the UK is gaining.

Chart 11: The UK is seen as a competitive location for manufacturing



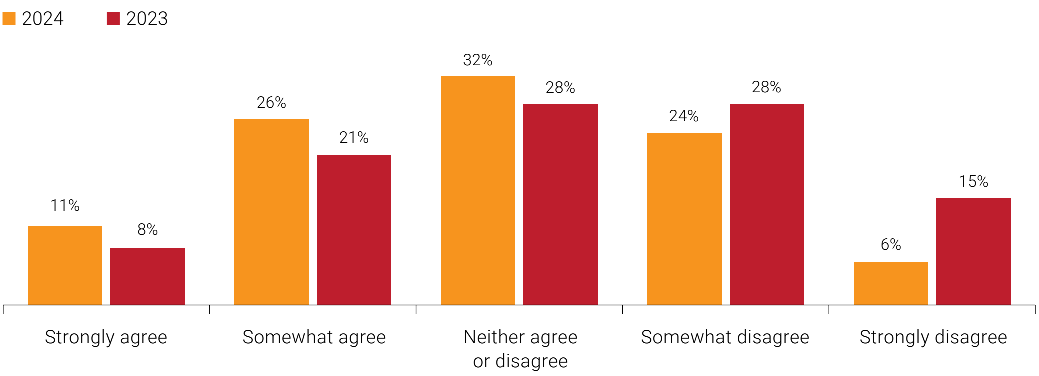
Source: Make UK/PwC, Executive Survey, 2024

Chart 12: Manufacturers' views on competitiveness compared to key countries



Source: Source: Make UK/PwC, Executive Survey, 2024

Chart 13: Non-UK business appetite for investing in the UK



Source: Source: Make UK/PwC, Executive Survey, 2024

DOES FULL EXPENSING MAKE THE UK MORE COMPETITIVE? THE OUTSIDER'S PERSPECTIVE

When the Chancellor outlined Government support for businesses, Make UK welcomed the extension of the full expensing regime (100% first year capital allowances). It was hailed as one of the most transformational options that the Government could take to support business investment.

Make UK research shows 60% of manufacturers invest in plant and machinery every two to eight years. This indicates there is significant diversity in investment planning from business to business and highlights the main reason why other short-term policy tools have failed to make a mark on the UK.

Full expensing alone might not make the UK more competitive, but it should stimulate investment in capital projects. Businesses will feel a degree of confidence from the certainty of the measure being made permanent and supported by both main political parties. Importantly, this change sends a strong message to the rest of the world that the UK will prioritise supporting the growth of the manufacturing sector.

According to the Tax Foundation, full expensing makes the UK the fifth most generous country in the OECD in terms of how it treats capital investment for tax reliefs. Previously, it was ranked 30th out of 36 countries. This change in tactics from the Government will send a strong message to investors looking at the UK from the outside and could generate new foreign direct investment - if this is a signal for how Government policy will be conducted in the future. It is no surprise that manufacturers are starting to believe that the UK is the best place to do business.

Changing the perceptions of manufacturers is only half the battle. The next step is to ensure the steps we take now are in the interest of making the UK competitive and attractive for investment. Government policy can directly impact this, and recent events following the announcement of the Advanced Manufacturing Plan, such as Nissan's £2bn investment in electric vehicles (EVs), highlight that global corporations are backing the UK. As most manufacturers in the UK are SMEs, this promotion will ensure that these businesses are also able to grow.

CONCLUSION

As we enter 2024, UK manufacturing is experiencing a significant shift towards a brighter future. There is a newfound sense of optimism that supports the sector, fuelled by its resilience to economic shocks and commitment to innovation in the face of adversity. New tech and digitalisation no longer feel like they are out of reach for many manufacturers, but instead, present a way to raise their competitive edge. With the UK Government's increasingly supportive policies, businesses are recognising the UK as a competitive and inspiring place to operate.

Of course, there are issues to contend with – particularly rising costs and the limited availability of skilled labour. These are inherently long-term, complex problems, but given that both are a live threat for many manufacturers to continue operating, taking meaningful steps towards resolving these issues is essential.

Ultimately, the next year offers an optimism that must be taken seriously. It can only be actualised by promoting a long-term vision that unlocks growth regionally, nationally and internationally for the UK's manufacturers.

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

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At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 156 countries with over 295,000 people who are committed to delivering quality in assurance, advisory and tax services.

Our experts work closely alongside organisations to help them respond agilely to the market conditions affecting the manufacturing industry. We bring together the right teams to identify opportunities and how to act on them.

With the costs and rewards of operating in different countries in flux, deciding where to design, make and service products is increasingly difficult. Manufacturing leaders also face tough competition against other industries as they look to attract the best people and skills to develop the next generation of products.

Added to this is the scale and complexity of the need to decarbonise at pace, which affects the entire value chain. But these issues don't need to sit in competition. With the right approach to decarbonisation, we believe businesses can unlock real competitive advantage. It's just a case of knowing where to start.

We use digital technology and data to connect the dots, turning pockets of success into broader opportunities to unlock investment and productivity. We provide guidance in areas such as revenue growth, inventory costs, supply chain management, M&A, product lifecycle management, and sales and operations management. As disruption continues to test the resilience of businesses, we're proud to help them adapt and emerge stronger.

For further information, please visit the PwC website.

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

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The Manufacturers' Organisation

MakeUK.org

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