In partnership with:

IDEAS | PEOPLE | TRUST

MANUFACTURING OUTLOOK

2022 QUARTER 3

With support from:

Inflationary pressures spotlight special

FOREWORD

Seamus Nevin
Chief Economist
Make UK

Richard Austin
Head of Manufacturing
BDO LLP

From China to Latin America, an abnormally dry winter and spring followed by record-breaking summer heatwaves have made visible the Hunger Stones and hidden sculptures once used to warn of worryingly low water levels that forecast famines. Their re-emergence is not just an ecological omen but an economic one too.

In Europe and the UK, drought has reduced major rivers, including the source of the Thames, to mere trickles. The consequences for industry could be severe. Waterways are not just vital environmental assets. They are our commercial arteries, used for manufacturing, irrigation, food production, freight transport, and power generation.

Beyond the summer heatwaves, however, fuel shortages combined with cold weather forecasts mean households and businesses can expect a very difficult autumn and winter.

Britain's new Prime Minister thus enters office facing a perfect storm.

The escalating cost-of-living crisis means millions of people are struggling as households are set to experience the largest collapse in real wages and living standards since records began 60 years ago. In addition, inflation has hit a 50-year high. While, this quarter, the UK reported its worst trade deficit since records began.

The Bank of England is now predicting the longest downturn since the Global Financial Crisis of 2008. It recently upped interest rates by 0.5%, the biggest increase in 27 years, in an attempt to cool rising consumer prices.

Electricity prices, which had already shot up as economies around the world recovered from the Covid-19 pandemic, have been sent soaring due to supply disruptions caused by Russia's invasion of Ukraine.

Unlike domestic consumers, businesses are not insulated by the energy price cap so some firms have reported electricity price increases of up to 450%. Almost 60% of UK manufacturers say that without government intervention the costs would be so severe their company's continued existence would be in question.

The impact of all this is borne out in this quarter's Make UK/ BDO *Manufacturing Outlook* survey results. Manufacturers are reporting that the cost of doing business remains exorbitantly high. UK and export market prices are at near record levels for the second quarter in a row and, as a result, profit margins have collapsed even farther than before. Output and order levels remain low but stable with no sign of the difficult business environment improving anytime soon.

Rising prices and falling margins offer an ominous forecast, indicating trading could become unsustainable if this gap continues to persist in the coming quarters. Businesses may go bust.

On a positive note, employment growth is relatively strong and employers say they will continue headhunting in the next three months. Yet, the current recruitment rate is falling far short of what manufacturers intended to hire last quarter. This is a clear sign of labour and skill shortages in the workforce. As a result, overall investment intentions remain stagnant.

Government can't make it rain but policymakers can create the right climate for economic growth so reforming the Apprenticeship Levy to increase the amount a business can spend on Apprenticeship standards where there is a prominent skills gap and reviewing the Shortage Occupation List to ensure employers can recruit the requisite skills will be vital if firms are to weather the oncoming storm.

Grey clouds are gathering over our economy at present, but great political leaders make the weather. Ending a decade of stagnant productivity and real wage growth should be the new Prime Minister's top priority. Supporting Britain's world beating manufacturing sector would be a great place to start.

INFLATIONARY PRESSURES: IS BRITISH INDUSTRY OVERHEATING?

Introduction
It is little secret that inflation is running rife in the UK economy. Whether it be on the evening news, interest rates creeping up or quite simply seeing the bottom line on your energy bill, almost everyone will have experienced the effects of the price-wave wash over the economy.

The cost-of-living crisis is familiar to most but fewer people are aware of the cost-of-doing-business crisis and its potential ramifications for everyone's livelihoods and wider UK prosperity.

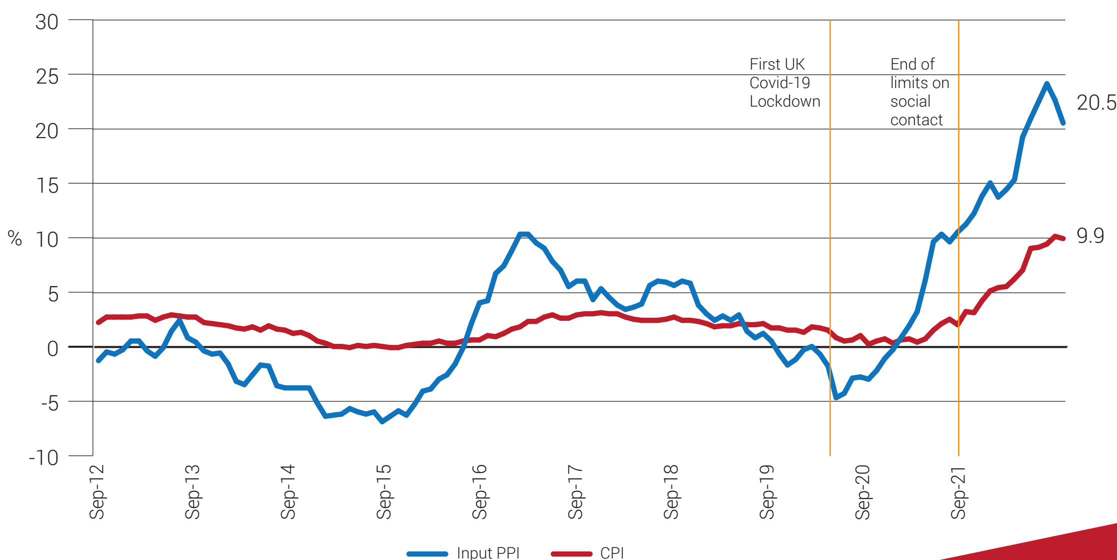
This special report in partnership with BDO, uses new survey fieldwork to understand just how the UK manufacturing sector is coping with the inflationary spiral. The report details the impact on industry across a range of key indicators - from prices and profitability, to production volumes and redundancies - we explore the latest data coming from the industry.

Prices and Profitability
Producer price inflation (PPI) saw the start of its seemingly never-ending climb just after the UK went into its first Covid-19 national lockdown in March of 2020. At the time, this wasn't given much attention, as businesses had more immediate Covid-19 related challenges on their doorstep. In addition, it was widely understood by businesses that freight and logistic disruptions due to illness, travel bans, and closed international ports would cause inflationary effects on input pricing as access to goods became more difficult during the pandemic.

Fast forward to July 2021, when the limits on social contact were removed and what has come to be considered the end of government lockdowns, and the economy was back open again with fewer and then no restrictions. Alas, as the global economy got back to trading, we did not see PPI settle down to normal levels. Instead, it started accelerating at an alarming pace. Come November 2021, the PPI charts had reached historic numbers, recording the highest ever value since the ONS introduced it as a metric in 1984. Since then, the metric has all but steadily continued climbing up to its current extraordinary value of 20.5%. Meaning that, on average, industry's material production inputs cost 20.5% more now than they did this time last year.

While consumer price inflation is also eye-watering, a quick glimpse of the chart below shows that its rate of expansion pales in comparison to that of PPI. However, these metrics are far from mutually exclusive, as PPI, being a measure of

Producer price inflation Vs. Consumer price inflation



Source: ONS inflation data, September 2022

inflation on the supply side of the economy, will inevitably trickle through into consumer prices and subsequently apply upward pressure on CPI.

This year so far, just under 80% of UK manufacturers report increasing their prices to adjust for inflation. Not only that, but as of September 2022, just under 60% of manufacturers say that they are planning to increase prices further again in the next 3 months. The signal is very clear, even as we move away from the pandemic, where we saw the start of the inflationary activity, the reverberations and rises look set to continue.

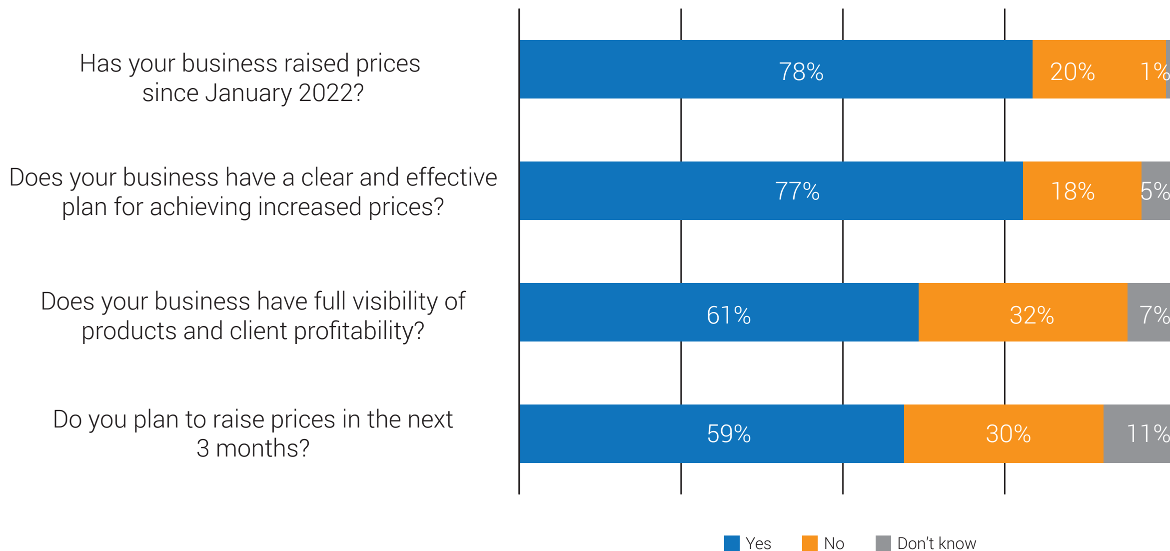
With input prices ever-rising, it's little wonder businesses are forced to pass on the costs in order to protect their margins and remain sustainable. Worryingly, even with such a high prevalence of costs being passed on to customers, this quarter's BDO/Make UK *Manufacturing Outlook* report, published in tandem with this special inflationary pressures themed report reveals that manufacturers' margins are actually in significant decline despite this.

This news is not new for businesses, as was established earlier, producer input costs have continued to rise since the end of Covid-19 restrictions. A large proportion of the industry, 77%, suggest that they have a clear and effective plan for achieving these raised prices. A smaller majority of 61% of the industry suggest they have full sight of both product and client profitability.

What this demonstrates is that, following just over two years of an embattled market, manufacturers are taking considered strategies to continue doing business in adverse trading environments.

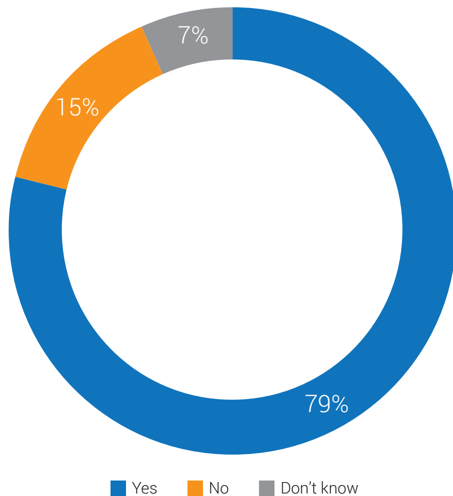
This evidence indicates that these planned pricing strategies, much to the detriment of UK economy inflation, will nevertheless see business continue to successfully trade in the coming 6 months, as 79% of firms surveyed suggest that their business will be profitable in the next 6 months. However, what should not be ignored are the 15% that suggest their business will not be profitable, as the existential threat to those businesses whose margins cannot sustain ballooning inputs grows as intra-business prices continue to rise.

Businesses are bringing in considered price increases



Source: Make UK and BDO Inflationary Pressures survey, September 2022

Is your business expected to be profitable over the next 6 months?



Source: Make UK and BDO Inflationary Pressures survey, September 2022

Contracts and Volumes

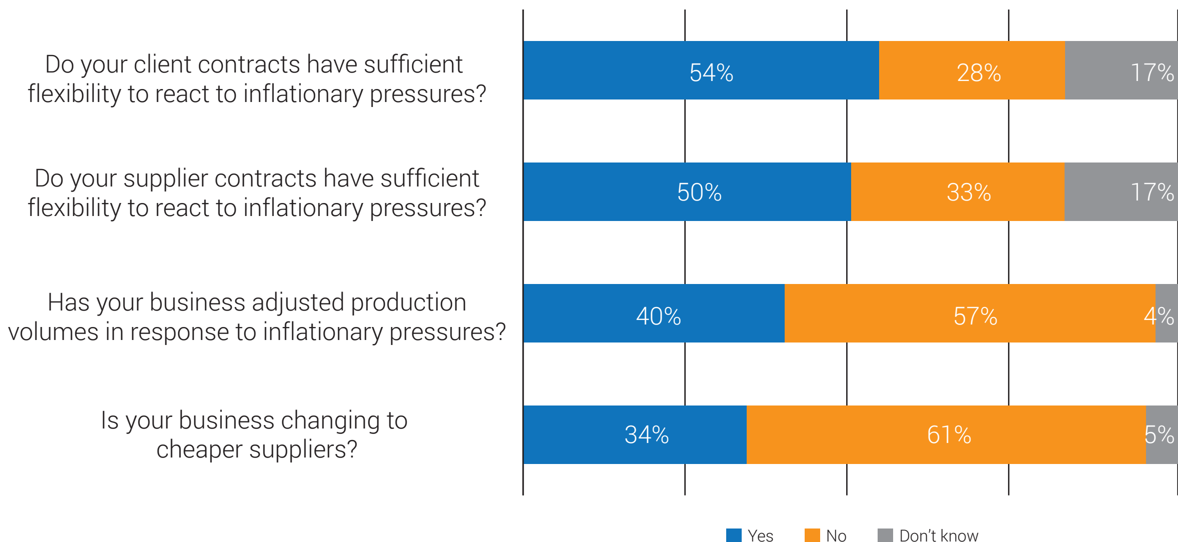
The industry is almost perfectly polarised when it comes to contract flexibility for price changes both on the supplier and customer sides. Just over half of manufacturers, 54%, report that their client contracts have sufficient flexibility for inflationary price changes. 50% report that their supplier contracts have sufficient flexibility for inflationary price changes.

Since the start of the year, contract pricing clauses have been cast into the spotlight. In times of calmer inflation, it was of little concern for manufacturers that in the period between quoting for a project and delivering that project there could be significant shifts in the costs required for the project's completion. Now, as of the third quarter of 2022, a significant shift in input pricing is all but guaranteed.

As the data shows, half of the manufacturing industry already has contracts in place to mitigate the worst of the margin-eating effects mid-project input cost fluctuations will have. The other half, those that either know their contracts do not have that capacity or don't know either way, are exposed to deal failures and instances of force majeure, especially when they and/or their suppliers will not deliver on contracts that force them to incur significant losses.

Sizeable portions of the industry are taking production and procurement actions as a result of the inflationary

Industry is split on contract flexibilty



Source: Make UK and BDO Inflationary Pressures survey, September 2022

environment. 4 in 10 manufacturers have adjusted production volumes in response to the pressures, with the overwhelming majority of that cohort most likely reducing production on lines where margins are either nil or negative. Similarly, 34% of the industry say that they have changed to cheaper suppliers in response.

Time horizon and redundancies

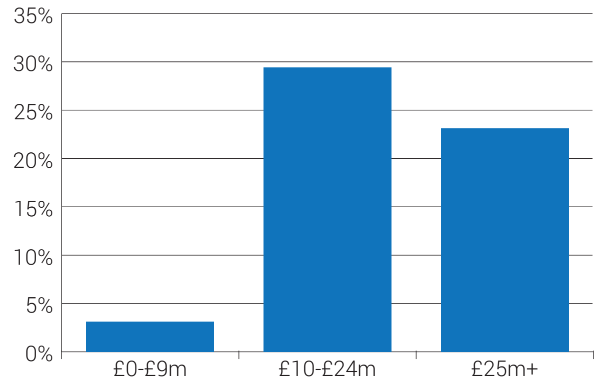
The most ominous aspect of the current inflationary challenge is that it is unknown how long it will last. Over the past year and a half, continued pessimism in UK manufacturing's outlook has been pushed further off into the distance in consecutive rounds of forecasting. Indeed, in this quarter's full edition of *Manufacturing Outlook* we have significantly revised down 2023 growth estimates by such a degree they are less than a percentage point away from being negative.

Manufacturers' sentiment is now also imbued with this longer-term pessimism, with 65% not expecting inflationary pressures to ease before the second half of 2023. This is further illustrated by just over one in five manufacturers reporting that they are taking on higher levels of debt.

Despite there being, on aggregate, a very large demand for labour in the industry, individual businesses coming under duress are still making redundancies due to cost pressures. 15% of the industry have reported that they have made some amount of redundancies in the past year to reduce business costs.

When we analyse the data by company turnover bands, we see an interesting trend emerge. So far this year, those companies in the lowest turnover band of £0-£9m are

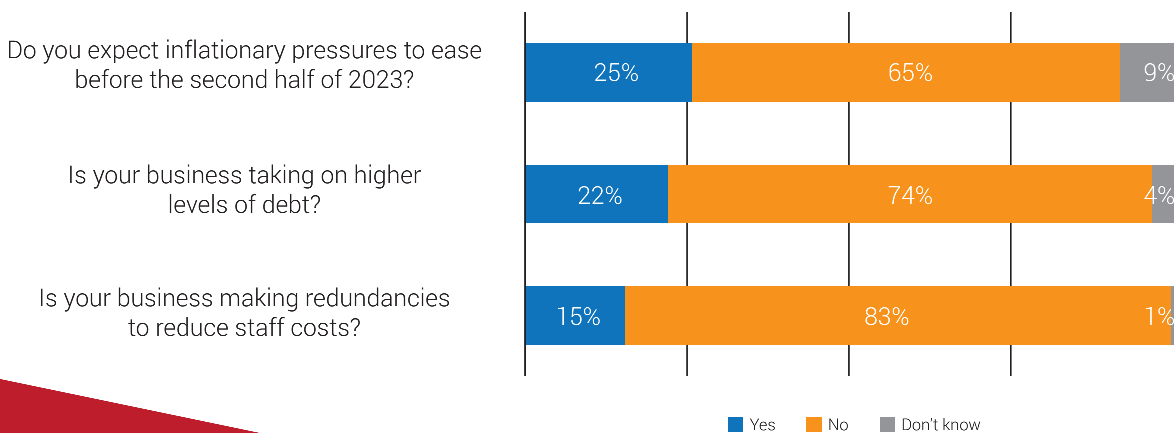
Is your business making redundancies to reduce staff costs?



Source: Make UK and BDO Inflationary Pressures survey, September 2022

making fewer redundancies as a result of cost pressures when compared to companies in the £10-£24m and £25m+ turnover bands. It follows that smaller turnover companies are likely to have smaller headcounts, and so a much greater proportion of employees in smaller turnover companies are likely to be business critical. This stands in strong contrast to those companies in the £10-£24m and £25m+ turnover bands that report having made some form of redundancy due to staff costs in the past year at 29% and 23% respectively. Of course, the inverse applies here, that larger headcount companies will be more likely to reduce headcount without affecting business-critical functions.
In any case, with the expectation that this inflationary environment will persist for at least the coming year, seeing redundancies due to cost pressures now is a grim omen for what may transpire to be continued upset for the labour market in 2023.

Industry pessimistic that the storm will pass soon



Source: Make UK and BDO Inflationary Pressures survey, September 2022

BDO Commentary

Margins are under attack, input prices are skyrocketing, and factory gate prices are not keeping pace. With the rate of inflation currently seen and expectations that it will continue well into 2023, the usual tools of improved operational efficiency and procurement optimisation to improve profits and preserve cash have been blunted. In this environment, having an effective pricing strategy is the key lever. We found 80% of respondents have increased prices this year and 60% are expecting to do so again by the end of the year.

Until recently, manufacturers experienced a relatively benign trading environment, with customer contracts running for 3-5 years and little need for adjustment. That era is well and truly over, but in many cases contracting and pricing approaches have not been brought up to date. Around half of our respondents either don’t have suitable contracts in place or don’t know.

The key to success and, in some cases, survival over the next 12 months will be the ability of manufacturers to quickly and efficiently pass on price increases. In many cases this is not as simple as increasing the list price.

For larger complex and strategic clients, this requires an effective pricing strategy, focused planning, execution at pace, and the right contractual arrangements to allow for flexibility in the future. Without this, there is a real risk that margins and cash positions will be further squeezed. Companies that develop a suitable strategy with a deep understanding of costs, margins, competition, and the value that they create for their customers will be best placed to compete and succeed.

HEADLINES

Make UK's Q3 2022 *Manufacturing Outlook* report, in partnership with BDO shows manufacturers continue to see activity slow down and inflation continue to place immense pressure on the industry.

Output and orders growth has now slowed down for four quarters in a row. It signals the inevitable end of the pandemic induced recovery period succeeding in the coming years as new challenges begin to put significant pressure on manufacturers.

The output and order gap remains wide by a significant margin indicating continued supply-chain challenges. The persistence in this gap is partially to blame for ongoing inflation across the economy resulting in many manufacturers finding it more difficult to access critical inputs and fulfil orders. Most manufacturers expect growth in Q4 2022, however given how quickly the external economic environment is changing it is difficult to predict whether businesses will be able to keep the heating on this winter.

to employ at speed due to the belief that orders will grow again. However, rising energy costs are already resulting in businesses considering making fresh redundancies before year's end which could reverse the employment growth trend. Improving investment intentions is a good sign that businesses are aware of their needs to expand, but a balance of +5% is only just matching output growth this quarter meaning it is likely investment activity will still fall short of what is required.

Prices have grown at exorbitant rates since the first quarter of 2021. For almost a year now the balance of growth for domestic and export prices has exceeded +50% repeatedly, indicating widespread inflation across the industry. Margins show no signs of improving after three quarters of negativity indicating higher costs are not being passed through fully resulting in reduced profits for businesses.

Business and economic confidence have diverged for the first time in recent memory, with the former having improved between Q2 and Q3 this year. Although manufacturers expect their own business performance to be positive over the next 12 months, it is clear businesses do not feel optimistic about how the UK economy future will fare.

INDICATOR	BALANCE	CHANGE	
Confidence	6.5	↑	Businesses remain optimistic
Output	5%	↓	Production continues to fall
UK orders	12%	↓	Domestic market remains dominant but is losing momentum fast
Export orders	3%	↓	Export orders growth marginally above 0
Employment	10%	↑	Jobs growth stable
Investment	7%	↑	Investment intentions improves slightly

Source: Make UK Manufacturing Outlook Survey

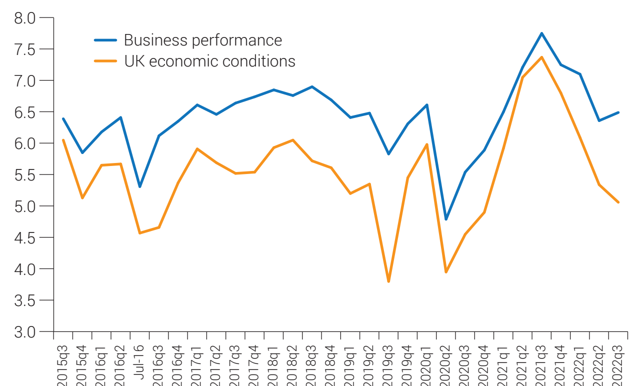
The latest balance for output reported at +5% this quarter, down from +10% in Q2 2022. This means, across the sample of manufacturers surveyed a slightly greater share of manufacturers reported higher output volumes than those that reported lower output volumes. Therefore, it is likely the sector experienced some growth, albeit the level of growth achieved quarter on quarter has been declining for a year now. The orders balance reported at +15%, three times more than the output balance, which suggests that supply-chain challenges are not easing despite demand falling.

The metrics for UK and export orders have reported positive balances this quarter, at +12% and +3% respectively. It is the seventh quarter in a row that the domestic market growth has exceeded the export market growth. It is an impressive feat that has not been seen since 2013 but is likely a reflection of supply-chain challenges being more significant abroad with businesses able to trade comparatively more freely domestically. Nevertheless, export orders growth has yet to turn negative on balance meaning businesses continue to see some demand from international customers persist even in these dire times.

The balance on employment and investment intentions improved slightly following a significant fall last quarter. Manufacturers reported a balance of +10% for employment as they continue

Business and economy confidence begin to diverge

Confidence in the next 12 months 1 = substantially worse, 10 = substantially better



Source: Make UK Manufacturing Outlook Survey

OUTPUT

The rate of growth for output has consistently slowed quarter on quarter since Q3 2021. As the balance of change has remained positive during this time manufacturing has continued to grow due to strong levels of demand. The latest balance of +5% indicates a positive share of manufacturers have reported growth in output in the last three months, but this figure is down from +10% last quarter.

The latest series of results contrast significantly with expectations set by manufacturers over the last quarter, where businesses almost always predicted the next quarter would be better than the last. In every instance, their optimism has been proven wrong because of unpredictable external challenges, such as energy costs and supply-chain disruptions. The +5% balance reported by manufacturers is just above zero and it is difficult to say exactly when the industry will fall into contractionary territory, especially since manufacturers are once again predicting growth for the following quarter. However, the most recent Manufacturing PMI (August) is already below 50 (the inflexion point between expansion and contraction) which suggests a portion of the industry is already in decline.

consistently very positive expectations by manufacturers could also indicate the sector is aware of existing demand which businesses are struggling to fulfil due to high costs and supply chain disruption.

Most manufacturers operating within intermediate industries achieved greater than average growth on balance, except for the Metal Products subsector which reported a negative balance of -5% this quarter, and the Rubber & Plastics subsector which reported a balance of 0%. These subsectors, which comprise energy intensive manufacturers, are facing higher production costs and supply-chain challenges which together have negatively impacted production.

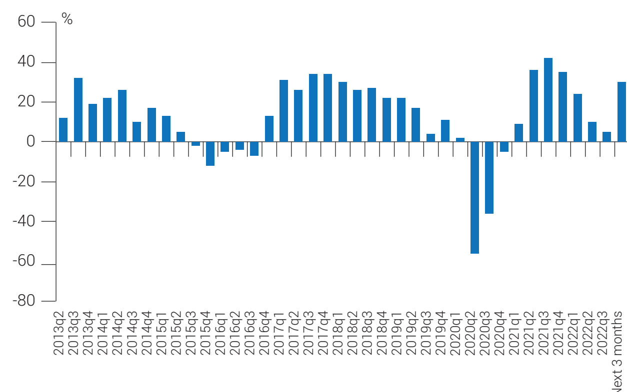
Basic Metals, Mechanical Equipment, Electronics, and Electrical Equipment all reported above average growth in output balance indicating these sectors are still growing. This may be a result of demand from downstream industries remaining strong, as has been the case throughout the year. However, the same risks facing the rest of UK manufacturing exist for these firms too, with further slowdowns a possibility next quarter.

PAST THREE MONTHS	↓	5%	NEXT THREE MONTHS	↑	30%

Next quarter manufacturers forecast an output balance of +30%. This means the share of businesses expecting to increase output in the fourth quarter of this year is to jump from +5% to +30% on balance. From one perspective there is little weight to be placed on this type of forecast due to increasing uncertainty in the external economic environment. For example, last quarter manufacturers predicted an output balance of 29% for Q3 2022 which did not come to pass. However, these

Output continues to slow

% balance of change in output



Source: Make UK Manufacturing Outlook Survey

Interestingly, smaller manufacturers are reporting greater output growth than larger manufacturers this quarter. It is not clear what is causing this phenomenon, but it may be related to their position in the supply chain and/or to disruptions resulting in abnormal production scheduling changes.

Output summary

% balance of change

SECTOR	PAST 3 MONTHS	NEXT 3 MONTHS
Basic Metals	10%	-10%
Metal Products	-5%	20%
Mechanical	8%	33%
Electronics	16%	32%
Electrical	13%	48%
Rubber & Plastics	0%	43%
TURNOVER		
£0-9m	18%	34%
£10-24m	16%	43%
£25m and over	5%	38%

Source: Make UK Manufacturing Outlook Survey

ORDERS

The total orders balance for our latest quarter's research indicates the slowdown is continuing in line with output. The latest balance of +15% is a smaller decrease than happened last quarter, when the order balance fell by more than half. However, the balance is still positive meaning a larger share of manufacturers are still reporting more orders, than those reporting less.

The gap between the balance for output and orders remains wide, with total orders now three times greater than the balance of output. Supply-chain challenges such as increasing cost of inputs and shortages of raw materials have made it very difficult for manufacturers to meet demand. Despite there being plenty of demand in the sector, many businesses are losing potential revenue every day.

For the first time since the post-pandemic recovery began manufacturers predict a slowdown for domestic orders, albeit it is only a marginal slowdown by a factor of +1%. This indicates businesses may be starting to revise their expectations more aggressively downward. However, for export orders and total orders, manufacturers expect improvement in Q4.

As in the case of output, the difference between the expectations set for the quarter ahead and the reality of performance once that quarter is reached has widened significantly this year. This is an indicator of rising uncertainty across industry with manufacturers less able to accurately predict orders and output even just a few months ahead. That unpredictability has created a challenge when trying to plan effectively and operate efficiently.

UK ORDERS

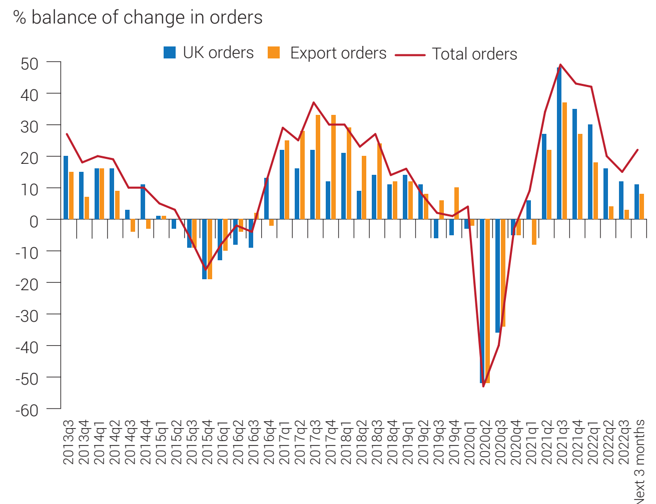
UK orders continue to outperform export orders, reporting a balance of +12% for this quarter, down from +16% in Q2. It is the seventh quarter in a row where there have been more manufacturers reporting growth in the UK markets than there are businesses reporting growth in exports.

It is still not possible to confirm whether this ongoing trend presents a permanent shift in the trading environment for manufacturers. Supply-chain challenges have created barriers to doing business since early 2020 and many of these problems are continuing today, for example shortages in critical materials. Arguably these frictions are worse when importing and exporting internationally due to the challenges around freight access.

The domestic order performance of a few intermediate subsectors shows positive balances for most, except for Electronics which reported a balance of -17%. While the Electronics subsector is performing better in export markets, its domestic market has contracted due to the shortages of critical materials, such as semi-conductors. Manufacturers in this subsector expect further declines in the domestic market, but equally expect this to be rebalanced by improved export performance in Q4.

UK ORDERS	PAST THREE MONTHS	↓	12%	NEXT THREE MONTHS	↓	11%
EXPORT ORDERS	PAST THREE MONTHS	↓	3%	NEXT THREE MONTHS	↑	8%
TOTAL ORDERS	PAST THREE MONTHS	↓	15%	NEXT THREE MONTHS	↑	22%

All measures of orders growth are losing momentum



Source: Make UK Manufacturing Outlook Survey

Interestingly, smaller manufacturers by turnover (less than £25m) are outperforming larger businesses in the domestic market suggesting demand is still strong in the middle of the supply chain. However, many small manufacturers rely on larger OEMs for their orders, and if this is an indication of larger firms slowing down then it could spell further difficult times ahead for SMEs.

EXPORT ORDERS

Export orders reported a balance of +3%, a decline of 1% from last quarter.

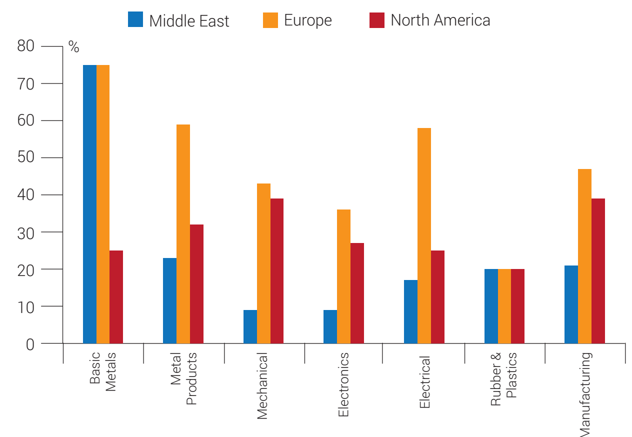
Orders from international customers continue to grow on balance, but in line with other metrics the growth rate has slowed again. Despite the weakness of the Pound, UK manufacturers have not been able to sell abroad more easily, partly because the high value-added nature of UK manufacturing means many firms sit in the middle of global supply chains so are less well-positioned to take advantage of relative devaluations in Sterling. Ongoing frictions with the UK's largest economic partner, the European Union (EU), may also explain part of these challenges.

Additionally, a weaker EU market which is more exposed to the war in Ukraine may be resulting in reduced trade overall. Recent Purchasing Manager Index's (PMIs) have already indicated manufacturers in the EU reported declining activity even before UK manufacturers reported similar trends recently.

Manufacturers continue to report positive demand conditions from the rest of Europe. However, the share of businesses indicating those conditions are improving has fallen from 54% in Q2 to 47% this quarter. Additionally, whilst Asia is often the third best market for demand, this quarter the Middle East has performed slightly better for UK manufacturers. North America remains a strong second-best market for the UK.

Demand conditions weaken across most key markets

% of companies reporting positive demand conditions by market



Source: Make UK Manufacturing Outlook Survey

Orders summary

% balance of change

	UK ORDERS		EXPORT ORDERS		TOTAL ORDERS	
SECTOR	PAST 3 MONTHS	NEXT 3 MONTHS	PAST 3 MONTHS	NEXT 3 MONTHS	PAST 3 MONTHS	NEXT 3 MONTHS
Basic Metals	50%	0%	0%	0%	40%	0%
Metal Products	12%	5%	-3%	-10%	10%	15%
Mechanical	8%	14%	-3%	10%	13%	24%
Electronics	-17%	-6%	7%	27%	-5%	21%
Electrical	26%	32%	-12%	6%	21%	22%
Rubber & Plastics	0%	57%	0%	40%	14%	43%
TURNOVER						
£0-9m	16%	16%	7%	10%	20%	25%
£10-24m	16%	21%	0%	22%	27%	31%
£25m and over	10%	15%	8%	14%	25%	23%

Source: Make UK Manufacturing Outlook Survey

EMPLOYMENT & INVESTMENT

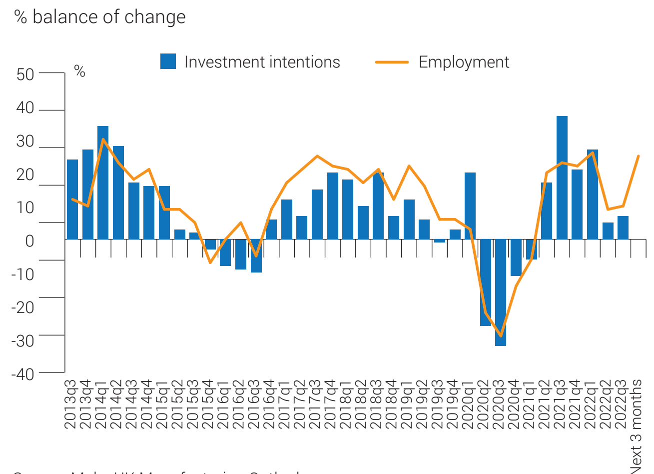
Our Employment and Investment intentions metrics have remained almost stationary in their balance figures compared to last quarter. The balance figures for both metrics had fallen significantly in the period between the first and second quarters of the year, so unchanged balance figures now, in the third quarter of the year, are a negative indicator. Marginal improvements in Employment and Investment Intentions balances, by one percentage point and two percentage points respectively, can be misinterpreted to show an improving trend, but in practice, such small shifts fall within the margin of error and represent an unchanged landscape.

What has endured, despite a continued downturn in output performance in the industry, is a strong intention to employ from businesses. The balance figure for employment intentions for the next three months stands at +25%, indicating that industry is still trying to grow its headcount. While this future employment intentions figure is down by five percentage points compared to last quarter, it still suggests firms have strong intentions to recruit regardless. However, as we have witnessed for the past two quarters, these intentions are unlikely to be realised as manufacturers struggle to access labour and skills in sufficient quantities to fulfil their employment growth ambitions.

lessons and exhausted resources during the capital-intensive period of the pandemic, industry is battening down the hatches again and planning to minimise capital expenditure in the coming quarters.

Investment intentions and employment growth remain subdued following falls last quarter

% balance of change



Source: Make UK Manufacturing Outlook survey

EMPLOYMENT	PAST THREE MONTHS	↑ 10%	NEXT THREE MONTHS	↑ 25%
INVESTMENT	NEXT TWELVE MONTHS	↑ 7%		

The latest ONS data[1] for August shows a sustained labour shortage in the UK's manufacturing sector, with 3.9 vacancies in the industry for every hundred workers employed in manufacturing. As we highlighted in our last edition of *Manufacturing Outlook*, by comparison, the average figure over the past twenty years, excluding 2022, stands at only 1.9. This contrast shows just how severely the labour shortage has grown for the manufacturing sector in 2022.

As other production limiting pressures continue, most notably the challenges presented by rising material and energy costs, we can only presume that the feverish demand for labour throughout the industry will begin to cool off as the post-pandemic activity boom recedes.

The warning signal of a tumultuous end to 2022 was clearly received by manufacturers last quarter when we saw this borne out by a sudden and significant drop in investment intentions for the next 12 months. This quarter's balance figure remains at those subdued levels, at +7%, demonstrating that industry remains in a risk-averse holding pattern as businesses weather the storm of uncertain demand and eye-watering inflationary shifts. While the industry can perhaps take some solace in the knowledge that investment intentions have not dropped further than they had last quarter, as they were already at very low levels there is currently little to celebrate. Having learned

Employment and Investment summary

% balance of change

	EMPLOYMENT		INVESTMENT
SECTOR	**PAST THREE MONTHS**	**NEXT THREE MONTHS**	**NEXT TWELVE MONTHS**
Basic Metals	-10%	30%	30%
Metal Products	5%	17%	-8%
Mechanical	16%	25%	6%
Electronics	16%	32%	6%
Electrical	17%	33%	38%
Rubber & Plastics	14%	14%	0%
TURNOVER			
£0-9m	20%	32%	16%
£10-24m	20%	27%	3%
£25m and over	16%	25%	6%

Source: Make UK Manufacturing Outlook Survey

[1] ONS Vacancies by Industry data, Published 16th Aug 2022, accessed 1st Sept 2022.

PRICES & MARGINS

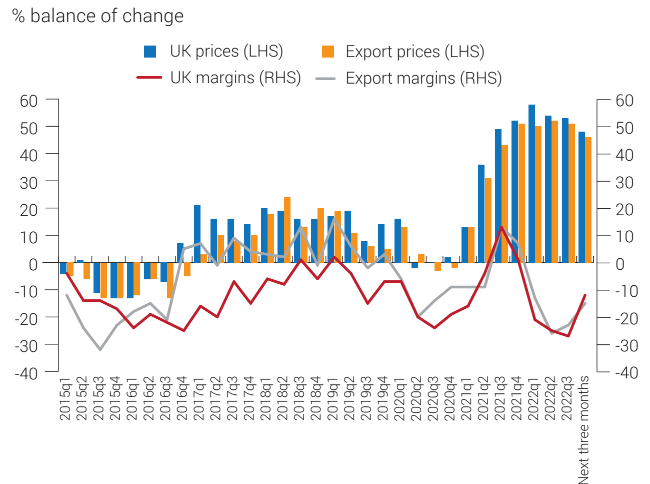
How much the outlook on prices has changed in only two quarters. Not long ago, both Government and the Bank of England suggested that the inflationary spiral would be a short-lived transitory phenomenon. Now, it ranks as the largest threat to businesses' survival in the coming year. What is new in this quarter, and perhaps even more concerning, is that inflationary pressures look to be enduring despite a significant cooling off in demand, fuelling fears that the UK could fall victim to 'stagflation'.

A potent cocktail of high commodity prices, a tight labour market and eye-watering energy prices are making manufacturing businesses' balance books look unrecognisable when compared to just before the pandemic.

While the balance figures for UK prices and Export prices have cooled slightly from their peaks, figures of +53% and +51% respectively are exorbitant, revealing that the industry is continuing to ramp prices up to survive. Despite this, however, margins remain in deep negative territory, and in the case of UK margins, have fallen even further compared to the previous quarter. What this reveals, is that even given the record-breaking rate that the industry is raising its prices, it is still not enough to compensate for the rate at which the industry's costs are rising, leading to falling margins despite record-level factory gate price rises.

Prices growth remains historically high but hints at a pace reduction

% balance of change



Source: Make UK Manufacturing Outlook Survey

UK PRICES	PAST THREE MONTHS	↓	53%	NEXT THREE MONTHS	↓	48%
EXPORT PRICES	PAST THREE MONTHS	↓	51%	NEXT THREE MONTHS	↓	46%
UK MARGINS	PAST THREE MONTHS	↓	-27%	NEXT THREE MONTHS	↑	-12%
EXPORT MARGINS	PAST THREE MONTHS	↑	-23%	NEXT THREE MONTHS	↑	-15%

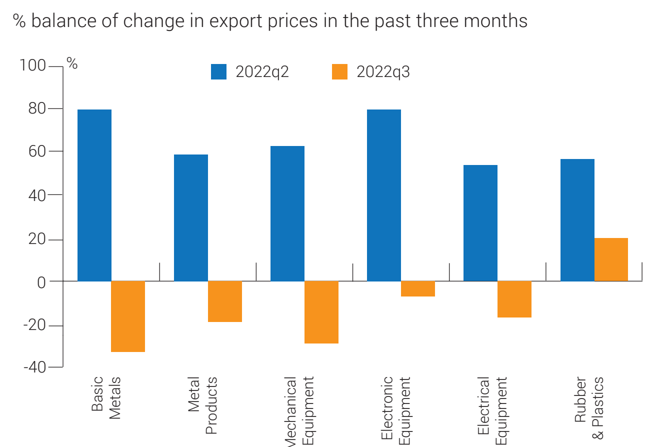
Recent ONS[2] data details just how severe these input pressures are. Producer Price Inflation rose by 22.6% in the year to July 2022, and Producer Output prices (factory gate) rose by 17.1% in the year to the same period, the highest figure recorded since 1977.

While the future industry 3-month expectation for both prices and margins offer little solace, they are taking slight steps in a cooling direction, with price growth expected to be less severe next quarter, albeit still experiencing significant growth. Margins too, expecting less of a severe decline next quarter, but a decline nonetheless.

It is hard to be anything other than pessimistic with the inflationary outlook now, perhaps not least because most of the drivers of this spiral are not unique to the UK and are global in nature. While the Government certainly can, has, and will continue to, intervene with measures to enable businesses to keep their heads above water, the UK, just like other industrial economies, remains at the behest of soaring energy prices as well as other input cost rises.

Export prices of materials signalling a fall in price

% balance of change in export prices in the past three months



Source: Make UK Manufacturing Outlook Survey

[2] ONS Producer price inflation published 17th Aug 2022, accessed 2nd Sept 2022.

NATIONAL & REGIONAL

This quarter's *Manufacturing Outlook* report finds that firms' confidence in business conditions remains optimistic despite ongoing challenges. Business confidence on average has increased, with all regions above the '5' inflexion point. However, confidence in the UK economy has dipped, with some regions now feeling more negative about the next 12 months.

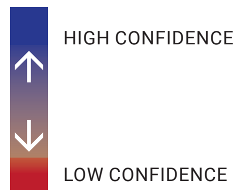
All regions and nations reported positive expectations for their own business conditions. It is the first time business and economy confidence have diverged in recent

Region	✲	🚹	£	☺
Scotland	↓	↓	↑	5.0
North East	↑	↑	↑	5.9
North West	↓	↑	↓	6.8
Yorkshire & Humberside	↓	↑	↑	7.0
East Midlands	↑	↑	↓	6.2
West Midlands	↑	↑	↓	6.7
East of England	↓	↑	↓	6.7
Wales	↓	↓	↑	6.5
South West	↓	↑	↑	6.0
London & South East	↓	↑	↑	6.7
Northern Ireland*				

KEY:

↑/↓ INCREASE/DECREASE ON PREVIOUS QUARTER
✲ OUTPUT
🚹 EMPLOYMENT
£ INVESTMENT
☺ BUSINESS CONFIDENCE
* INSUFFICIENT NI DATA FOR CALCULATION IN THIS INSTANCE

The map is coloured according to the business confidence levels difference from average UK business confidence



HIGH CONFIDENCE

LOW CONFIDENCE

Source: Make UK Manufacturing Outlook Survey

memory which is surprising given the difficult environment manufacturers are operating in. The latest result could be an indication of a silver lining or a level of denial across the sector about near future prospects.

However, the result could be down to cost pressures improving in some areas, for example with the cost of fuels coming down to alleviate rising pressures from energy prices. Although price growth remains very high for goods, the latest quarter's research has indicated some slowdown in the growth of prices too.

The improvement in confidence may also relate to news stories surrounding the new Prime Minister, Liz Truss, with the hope she will reverse the increase in National Insurance and cut other costs affecting the manufacturing sector, thus improving the industry's cash flow.

Confidence is often volatile and does not always measure current performance. Interestingly, this year manufacturers have consistently predicted better outcomes for output and orders than what was realised quarter on quarter due to many unexpected economic shocks. The latest crisis on rising energy prices is currently the biggest issue for businesses to manage, with almost six in ten indicating the situation is now "business threatening"[3].

Nevertheless, it is good news that all regions and nations remain within positive confidence territory this quarter[4].

Headline business confidence reported at 6.49, a rise of 0.13 from Q2 2022. It is the first time confidence has ticked up since the downward trend began in Q4 2021.

However, average business confidence still declined in a few regions this quarter. Both the North East and East Midlands reported a decline of 0.9 and 0.1 respectively, compared to Q2 2022. This is despite improving output levels in the past three months for both regions indicating the next 12 months may not be as rosy for them.

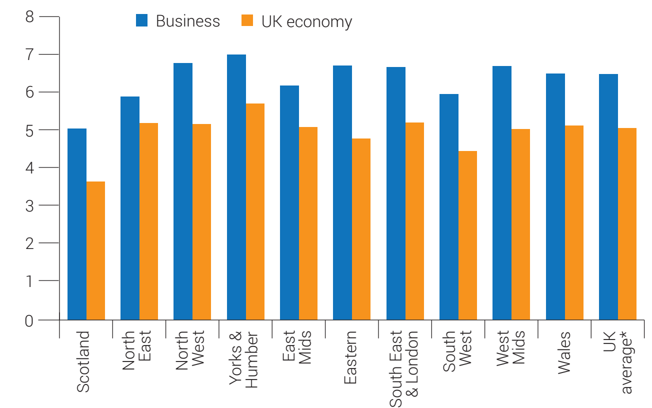
Yorkshire and the Humber reported the highest business confidence this quarter at 7.0. The region boasts a strong Food & Drink subsector which is largely recession-proof and can thus help shield the region in a difficult economic environment. The most improved confidence was reported by the North West, which increased by 0.7 points this quarter. Finally, seven regions or nations reported a business confidence level that exceeded the UK average.

UK ECONOMY CONFIDENCE

Manufacturer's views of the overall UK economy came in at 5.06, marginally above the inflexion point for negative expectations. It is interesting that manufacturers expectations of the UK economy performance are not worse, especially given the Bank of England's warnings of a recession on the horizon.

Business confidence positive for all regions and nations

Confidence in the next 12 months 1 = substantially worse, 10 = substantially better



* Average =/= component parts due to instances of undeclared regionality

Source: Make UK Manufacturing Outlook Survey.

[3] Make UK, Energy Cost Intervention survey, August 2022.

[4] This includes Scotland which follows a different survey elicitation method, which means Scottish confidence values should be compared with other Scottish confidence values only.

Regional summary

% balance of change

	OUTPUT		TOTAL ORDERS		EMPLOYMENT	
REGION	PAST 3 MONTHS	NEXT 3 MONTHS	PAST 3 MONTHS	NEXT 3 MONTHS	PAST 3 MONTHS	NEXT 3 MONTHS
Scotland	10	37	20	24	21	32
North East	50	30	67	56	50	50
North West	9	35	39	22	9	22
Yorks & Humber	-24	12	24	12	24	29
East Mids	32	27	23	9	23	36
Eastern	31	15	14	36	29	21
South East & London	26	51	23	37	16	21
South West	-8	13	-12	8	19	12
West Mids	21	45	30	30	6	39
Wales	0	50	13	63	13	25

Source: Make UK Manufacturing Outlook Survey

ECONOMIC ENVIRONMENT

The new Prime Minister would be forgiven for wondering if they've inherited a poisoned chalice.

The escalating cost-of-living crisis means millions of UK households look set to experience the largest collapse in real wages and living standards since records began 60 years ago. In addition, inflation has hit a 50-year high. While, this quarter, the UK reported its worst trade deficit since records began. The Bank of England (BoE) is now predicting the longest downturn since the Global Financial Crisis of 2008. The economy already contracted by 0.1% in the second quarter of the year, according to the Office for National Statistics (ONS).

At least given job vacancies are at near-record levels the labour market looks in good shape, but labour market data show where the economy has been, not necessarily where it is going.

International forecasters including the OECD say that due to factors including our diminished global trade since Brexit, Great Britain is more susceptible to recession and inflation than other Western economies, and we are also less equipped to recover. The IMF is among the groups predicting the UK could see the slowest growth and most painful inflation of any G7 economy in 2023, thanks, in part, to our relatively high reliance on fossil fuels, a big driver of inflation.

Electricity prices, which had already shot up as economies around the world recovered from the Covid-19 pandemic, have been sent soaring due to supply disruptions caused by Russia's invasion of Ukraine. Even the UN has slammed what it called the "excessive" profiteering of oil and gas firms amid the war.

Ofgem raised the energy price cap limiting the amount suppliers can charge by 80% for the roughly 23 million households in England, Scotland, and Wales who have their bills governed by the energy regulator. The typical domestic customer will now pay £3,244p/a from October, then £3,363p/a from January, with estimates peaking at a possible £5,000p/a by the end of next year[5]. For context, the typical bill is currently just £2,000p/a which is an increase of £700p/a compared to six months previously. Hopefully, the Government's upcoming energy price freeze will limit inflation, at least in the short term.

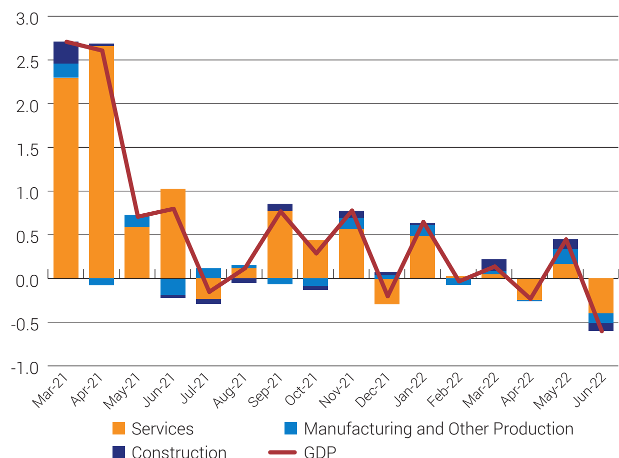
Price increases mean less disposable income for households to spend on other things, which will likely result in closures of pubs, shops, and restaurants as well as reduced revenue for other sellers too. Activity in consumer-facing services were already down by 4.9% compared to before the pandemic but the British Retail Consortium says sales are now falling at a rate not seen since the depths of the first Covid-19 lockdown.

This is not just a catastrophe for the worst off. It is a disaster for almost everyone.

Unlike domestic consumers, businesses are not insulated by the energy price cap so some firms have reported electricity price increases of up to 450%. Almost 60% of UK manufacturers say the costs are so severe their company's continued existence would be in question without significant interventions from government. Details of how HMG's £200bn energy price freeze will work in practice are awaited at the time of writing.

UK GDP fell in March due to a decline in services

Contributions to monthly GDP, percentage points, January to June 2021



Source: ONS

[5] Though forecasts have become more unpredictable after Ofgem announced it will increase the frequency of its energy price reviews from every six months, to every three months, under new plans aimed at avoiding future price shocks.

Nor is it just energy that is affected. Russia's invasion of Ukraine has disrupted global supply chains and increased freight costs at a time when UK rail and port workers are threatening to go on strike. The demise of HM Queen Elizabeth II has postponed these impending strikes, for now, and potentially bought the new administration in Downing Street time to intervene.

The war has also increased manufacturing costs for inputs including rare earth metals and fertiliser. Reduced crop yields following the summer heatwave will further push up the cost of groceries. Consequently, the Food and Drink Federation, which represents UK manufacturers in that subsector, said price inflation, which already rose to 8.7% in the year to May, might not peak until well into next year and that food and drink prices could rise some way above 10%.

On a positive note, Northern Ireland, the only part of the UK that remains in the EU single market, has seen its economic output hit an all-time high but as some EU steel quotas have now been exhausted, coupled with the Northern Ireland Protocol which applies to the UK, this has resulted in some steel exports from Great Britain to Northern Ireland facing a 25% tariff and there is the prospect of extra tariffs soon being levelled on chemicals exports as well[6]. That is bad news for manufacturers who have recently been informed by HM Government that the cost of registering industrial chemicals to Britain's replacement for the EU's Reach regime will be approximately £2bn, twice the price initially estimated and four times the cost to industry of our former membership in the EU's programme.

In May, HM Government announced £37bn worth of help for households with the rising cost of living. A lot more may be needed if businesses are to survive the coming winter.

UK Economic Forecasts

% change except where stated

	2021	2022	2023
TRADING ENVIRONMENT			
Exchange rate (€/£)	1.16	1.16	1.16
Exchange rate ($/£)	1.38	1.22	1.25
Exports	-0.4	4.0	6.7
Imports	3.9	12.3	0.0
Current account (% GDP)	-3.0	-6.40	-3.84
OUTPUT			
Manufacturing	6.8	2.4	0.6
GDP	7.5	3.6	0.3
COSTS AND PRICES			
Average earnings	5.8	5.7	3.8
Oil price (Brent Oil $/bl)	70.7	105	96
EMPLOYMENT			
Manufacturing (000s)	2,533	2,592	2,548
Rest of economy (000s)	34,963	35,521	35,203
Unemployment rate (%)	4.5	3.9	4.6

Source: Oxford Economics and Make UK

International Economic Forecasts

% change

	GDP			INFLATION		
	2021	2022	2023	2021	2022	2023
US	5.7	1.7	1.0	4.7	8.1	3.3
Eurozone	5.2	2.5	0.6	2.6	20.0	12.4
France	7.0	2.7	0.9	1.6	5.7	2.0
Germany	2.8	1.5	0.2	3.1	7.1	2.3
Japan	1.6	2.0	2.0	-0.2	2.1	0.8
China	8.1	3.2	5.1	0.9	2.2	2.3
India	8.3	7.1	5.7	5.1	7.1	5.4
World (2015 PPPs)	5.9	2.8	2.3	4.3	7.7	4.3

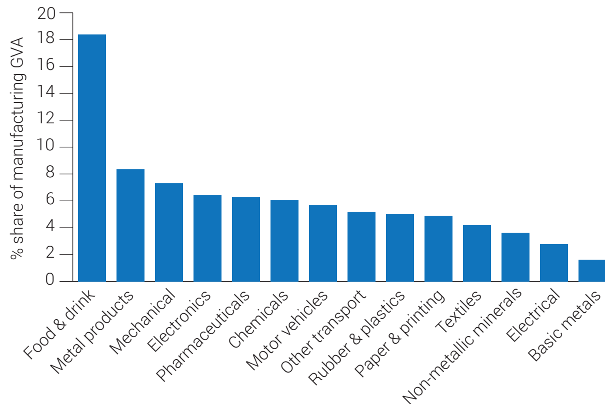
Source: Oxford Economics

[6] Unfortunately our ability to grow the economy to cope with these pressures has reduced just as the bills we have to pay are increasing. The Treasury recently admitted that the UK's Brexit divorce bill could rise to £42.5bn, that's £7.5bn higher than initially estimated. The independent Office for Budget Responsibility (OBR) also recently calculated that the UK's decision to leave the EU has knocked £80bn off our GDP meaning we will, in the medium term at least, be 4% poorer than if the UK had stayed in the EU.

SECTOR FORECASTING 22Q3

Q3 2022 Manufacturing Sector composition by GVA (% share)

Subsector share of Manufacturing Gross Value Added



Source: ONS

FOOD & DRINK

The **Food & Drink** subsector remains the UK's most significant contributor to overall manufacturing gross value added. So large, relative to other UK manufacturing subsectors, in fact, that it contributes more than twice as much to UK gross value added than the second largest manufacturing subsector. Food & Drink's output performance is set to outpace the UK manufacturing growth average for 2022, with the subsector's output growth forecast to be 4.6% for 2022. However, the outlook for 2023 is far bleaker. As in the case for many other subsectors, output growth is expected to be only 0.6% for the year ahead. Employment forecasts are expected to follow a similar trend, with a more subdued outlook in 2022, below the overall manufacturing average, at only 1.7%.

ELECTRONICS

Electronics is one of the subsectors which has had its output forecast for 2022 revised upward, by just over a whole percentage point compared to last quarter. Consequently, the forecast for the subsector's output growth in 2022 now stands at 4.2%. However, further growth expectations for 2023 are much lower, standing at only 0.7%. Despite the Electronics subsector's upward revision to output growth, the employment forecast for this year is negative, with the industry set to decline in overall levels of employment by -6.3%, the second largest employment decline forecast for 2022 out of all manufacturing subsectors. 2023's outlook is more in line with the average expectation for manufacturing employment, with a decline of -1.6% expected.

BASIC METALS AND METAL PRODUCTS

The **Basic Metals** subsector has seen consecutive positive revisions to its output growth forecast for every quarter this year so far. Towards the end of 2021 and at the start of 2022, the Basic Metals subsector's growth expectations closely mirrored those of the wider manufacturing industry, but since the first quarter of the year, output projections have exceeded expectations. The latest forecast for output growth in the subsector in 2022 stands at 12.4%, the largest growth forecast of all manufacturing subsectors. 2023 growth is expected to be negative, however, with a small decline expected at -0.3%. Employment in the subsector is set to grow by 1.1% this year but is forecast to decline by -4.3% in 2023, which is the third largest forecasted decline in employment for 2023.

The **Fabricated Metals** subsector will typically have a similar outlook to that of the Basic Metals subsector, as both are interrelated and have close links in the supply chain. However, as we approach the end of 2022 these expectations diverge. The output growth forecast for this year for this subsector has been downgraded by approximately a percentage point, to 6.4%. Fabricated Metals' 2023 output forecast is for a contraction of -3.2%. Employment is set to grow in the subsector this year by 5% but decline in 2023 by -1.2%.

MECHANICAL EQUIPMENT

The **Mechanical Equipment** subsector has suffered a volatile year, having seen its 2022 output forecast swing between strong growth and now into marginal contraction. The significant downgrade in the sector's growth prospects this year is due to its relationship to wider capital expenditure rates in the UK economy, for example when factories invest in new machinery. Due to a sudden tightening of capital expenditure plans in other subsectors since last quarter because of the escalating cost of doing business, the subsector's output forecast has subsequently declined. Having previously been expected to grow in output by 4.6% this year, the latest

forecast for 2022 output growth now stands at -0.9%, with a greater decline of -2.3% in 2023. Employment levels are also set to decline this year, by -1.8%, with a small 0.8% improvement in 2023.

TEXTILES

Having started 2022 off the back of the largest growth out of all manufacturing subsectors last year, the **Textiles** subsector looked set for continued growth in 2022. While it has not been immune to the downturn in the wider manufacturing sector's output, the subsector's output forecast for 2022 nevertheless remains positive at 4.8%, approximately twice as strong as the wider industry average. However, this is a downgrade from the previous quarter when it stood at 5.6%. Employment in the Textiles industry is expected to grow marginally this year, by 1%. However deep cuts to the total level of employment are expected in 2023, with our balance forecast now -7.6%.

PAPER & PRINTING

The **Paper & Printing** subsector is set to perform below the average growth rate in terms of output this year and the same is expected in 2023. While the forecast for this subsector remains positive for 2022 with output growth at 1.6%, that is down 0.2% from last quarter and down by 2.2% compared to the first quarter of this year. 2023 shows little respite, with a contraction in output of -1.2% expected. Employment prospects look similar, with growth expected this year of 2.7%, but a decline in 2023 by -3.9%.

ELECTRICAL EQUIPMENT

While the **Electrical Equipment** subsector forecast is not showing particularly extraordinary positivity, it does stand as a subsector that has managed to buck the trend by seeing its forecasts for output growth this year revised upwards compared to the last two quarters. Improving on last quarter's forecast of 0% growth, in this third quarter forecast the subsector is expected to grow by 2.7% this year. 2023 output forecasts are also rosier than most, with 3.1% growth forecast. Of course, with this trend-bucking growth, employment is likely to expand as well, both this year and in 2023. 2022's employment growth forecast for the subsector stands at 9%, while 2023's is at 4%.

NON-METALLIC MINERALS

The **Non-metallic Minerals** subsector primarily supplies the construction market with bricks, mortar, glass, and other materials. Construction activity, to which the subsector's performance is closely linked, is a key determinant of this subsector's performance. The subsector's output growth forecast for 2022 stands at 3.4%, a whole percentage point above the UK manufacturing average. In 2023 we expect a growth rate for the Non-metallic Minerals subsector of 2.3%, which is just shy of two percentage points above the average. Employment is forecast to increase in the subsector by 6.4% this year and suffer a slight decline in 2023 of -0.9%.

PHARMACEUTICALS

The **Pharmaceuticals** subsector is still cooling off following extraordinary output growth during the Covid-19 pandemic. Therefore, while the output growth figure for this year is negative, at -6.3%, much of this decline is a return to the mean following inflated output levels over the past two years. It does not necessarily signal poor health in the sector. Testament to this is the subsector's 2023 forecast, which stands at 1.8%. Employment is forecast to decline moderately in 2022 by -0.8% and more significantly in 2023 by -5.4%.

CHEMICALS

The **Chemicals** subsector was subject to a similar phenomenon as the pharmaceutical's subsector, when it saw incredible growth during the pandemic and now its negative forecast figures reflect the cooling off of that heightened output level rather than a real-terms decline in the subsector. With an output growth rate of -8% forecast for 2022 the Chemicals subsector has the most negative growth forecast out of all UK manufacturing subsectors this quarter. 2023's forecast expects the Chemicals subsector to continue to contract, but by a lesser degree, by -1.8%. Employment is set to decline by -6.7% in 2022 and by -6% in 2023.

RUBBER & PLASTICS

UK made plastics continue to experience heightened levels of demand due to disrupted supply chains and a lack of global availability. As such, the forecast output growth is the second highest out of all manufacturing subsectors. This output growth figure has been revised downward since last quarter. Nevertheless, the **Rubber & Plastics** growth forecast remains over three times the

size of the manufacturing average growth rate at 7.1%. 2023 expectations are less encouraging, with a modest decline of -0.5% expected. Employment is forecast to expand in both years, with a growth of 3.2% expected in 2022, and 3.6% in 2023.

MOTOR VEHICLES (AUTOMOTIVE)

Following two consecutive years of severe contractions, the **Motor Vehicles** subsector looked to be staging a modest recovery, or at the very least, a cessation in its contraction. While the current 2022 output growth forecast for the subsector is positive at 1.3%, this figure has been significantly downgraded from last quarter's 8.8%. However, the subsector's 2023 growth forecast is the second highest of all subsectors, at 7%. This heightened growth expectation in 2023 is a result of the pent-up demand in the economy for Automotive vehicles and products, a result of the longstanding and widespread delays in securing inputs owing to the global supply-chain disruptions of recent years. Employment is forecast to grow by 6.5% in 2022, and contract by -3.4% in 2023.

OTHER TRANSPORT

The **Other Transport** subsector, which is comprised of aerospace, defence, shipping and rail industries, is forecast to see a decline in its output this year, by -3.3%. A longer-than-expected delay in the return to mass transit has hampered the outlook for this subsector over the past year. This subsector saw similarly deep declines in its output during the pandemic alongside the motor vehicles subsector. However, the industry is set to catch up in 2023, with the largest forecasted growth in 2023 out of all subsectors at 9.2%. The employment growth forecast for the industry is the second highest in 2022 at 7.3%, with a marginal decline expected in 2023 by -0.5%.

Sector growth rates and forecasts

% change

	OUTPUT			EMPLOYMENT		
	2021	2022	2023	2021	2022	2023
Basic metals	1.8	12.4	-0.3	0.9	1.1	-4.3
Metal products	7.0	6.4	-3.2	0.5	5.0	-1.2
Mechanical	14.6	-0.9	-2.3	-3.8	-1.8	0.8
Electronics	1.4	4.2	0.7	-9.7	-6.3	-1.6
Electrical	8.6	2.7	3.1	-1.2	9.0	4.0
Motor vehicles	3.1	1.3	7.0	-3.1	6.5	-3.4
Other transport	-5.6	-3.3	9.2	-5.6	7.3	-0.5
Food & drink	4.2	4.6	0.6	4.6	1.7	-3.0
Chemicals	2.0	-8.0	-1.8	0.3	-6.7	-6.0
Pharmaceuticals	3.7	-6.3	1.8	-7.4	-0.8	-5.4
Rubber and plastics	10.9	7.1	-0.5	-9.1	3.2	3.6
Non-metallic minerals	15.1	3.4	2.3	-1.4	6.4	-0.9
Paper and printing	13.3	1.6	-1.2	-8.4	2.7	-3.9
Textiles	18.4	4.8	-1.8	-13.1	1.0	-7.6
Manufacturing	6.8	2.4	0.6	-2.6	2.1	-1.7

Source: Oxford Economics

Source: Oxford Economics

BDO VIEWPOINT

ADDRESSING INFLATIONARY PRESSURES IN THE MANUFACTURING SECTOR

Our Q3 survey shows UK manufacturers are continuing to see activity slow down with inflation placing huge pressure on the industry. Prices are at near record levels for the second quarter in a row and profit margins have collapsed even farther than before.

The recent government announcement to cap business energy bills for 6 months is welcome, but only partially addresses the broader inflationary pressures that manufacturers are experiencing, which are expected to remain for the next 12-18 months.

So, how can manufacturers look at addressing inflation?

KEY LEVERS TO ADDRESS INFLATION

1. **Reducing input costs**
   With cost inflation and assurance of supply outweighing savings, unless you are a vertically integrated business, there is limited opportunity to improve input costs. Our survey shows that, where possible, companies have reviewed supply chains and renegotiated these.

2. **Increasing operational efficiency by reducing complexity**
   Typical opportunities include reducing stock-keeping units and automating where possible. Many companies have rationalised product lines within their portfolio, having conducted a focused review of line profitability. Automation requires investment which, in many cases, is constrained due to availability of cash and payback.

3. **Effectively reflecting cost increases in pricing**
   Having an efficient and effective pricing strategy with the appropriate mechanisms to reflect the value created in manufacturing is probably the fastest and most efficient way to deliver profit and cash benefits.

UPPING YOUR PRICING GAME

Responsive pricing is not always a well-honed weapon in the manufacturers' armoury, with normal contracts of 3-5 years reflecting a historically benign trading environment.

Our survey shows that margins are being eroded, indicating that many manufacturers are unable to react sufficiently fast to growing inflation. Indeed, only 54% report that their client contracts are flexible enough to reflect inflationary pressure.

Given the pace of change we are seeing, successful manufacturers will establish a pricing strategy, negotiate price increases effectively, and reflect increased volatility in appropriately flexible contracts.

ESTABLISH A PRICING STRATEGY

Amongst others, this requires an understanding of product and client profitability, your strategic importance to your clients, knowing your competitive position, and having clear visibility of costs.

What is your stated strategy for a particular client? Is it to gain market share, revenues or increase profit margin? What attributes does your product and service have that accentuates the value that you provide?

There will be some clients where passing through price increases will be straightforward, with little more required than providing a revised price list. For other more strategic clients, greater effort will be required.

NEGOTIATE EFFECTIVELY

Once you have a suitable pricing strategy, reflecting this in a negotiating strategy is paramount, especially for key clients.

Who are the key decision makers and what are their 'hot buttons'? How do you use your position to your advantage? What are you prepared to trade in the negotiation and when, and how does this impact success? What is your best and least acceptable outcome, and what are the options should this not be achieved?

EMBED CONTRACT FLEXIBILITY

Finally, with the changing environment expected to continue for some time, future-proofing contracts to efficiently and effectively reflect the impact of inflation will reduce ongoing effort and trading friction. Typical areas include using indices, leading indicators, and the ability to renegotiate based on specific trading parameters.

In the rapidly changing current environment, taking a pragmatic and focused approach is paramount to ensure success.

Richard Austin
Head of Manufacturing and Value Creation Services, BDO

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

MakeUK.org

To find out more about this report, contact:

Fhaheen Khan
Senior Economist
fkhan@Makeuk.org

James Brougham
Senior Economist
jbrougham@Makeuk.org

Seamus Nevin
Chief Economist
snevin@makeuk.org

Make UK Information Line
0808 168 5874
research@Makeuk.org

The data used in this survey have been provided by UK manufacturers including members of Scottish Engineering, Manufacturing NI, and Make UK. Contributing to our surveys helps to accurately reflect trends and behaviours that shape the UK manufacturing sector. If you would like to participate in future surveys, please contact our Information and Research team research@Makeuk.org

Accountancy and business advisory firm BDO LLP is the UK member firm of BDO International, which has more than 1,700 offices in 164 countries. We operate from 18 offices across the UK, employing 6,130 people offering tax, audit and assurance, and a range of advisory services.

Manufacturing is a priority sector for BDO and this focus enables us to tailor the wide range of services we offer and apply our skills and knowledge to help clients achieve their objectives.

We provide real solutions to industry issues, utilising our capabilities in everything from sector-specific tax, audit and business advice to patent box, research and development claims and acquisition opportunities to help our clients grow in the UK and overseas.

We have an excellent understanding of the issues affecting UK manufacturers as an industry sector, but we also focus on specific sub-sectors to improve our knowledge and our service to clients. These include: aerospace, automotive, building products, chemicals and pharmaceuticals, electrical, food and drink, industrials, technology and test and measurement.

Manufacturing remains one of the key industries of the UK economy. We are delighted to be able to play an active role in supporting the businesses that operate in this vibrant, changing and challenging sector.

For further information about our business and services, please visit our website: **www.bdo.co.uk**

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

Richard Austin
Head of Manufacturing, BDO LLP
07808 24613
richard.austin@bdo.co.uk

Baljit Bhamra
Marketing and Business Development Manager, BDO LLP
0121 352 6296
baljit.bhamra@bdo.co.uk

Front cover image © University of Southampton. Mechanical Engineering.

Make UK is a trading name of EEF Limited.
Registered Office: Broadway House, Tothill Street, London, SW1H 9NQ.
Registered in England and Wales No. 05950172

makeuk.org

(C) 2021 Make UK

Ref: 21.04.POL.JB.FK.NB