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COVID-19 MANUFACTURING MONITOR



#BackingManufacturing

Key findings



Introduction

Make UK's third edition of the Manufacturing Monitor updates the key stats following its day one release. The latest survey includes information on manufacturers' furlough activities, impact on sales and orders, as well as their future expectations. Additionally, Make UK has posed new questions to manufacturers in regards to redundancy plans and operating levels.

In summary, manufacturers have reported a slight increase in furlough activity over the past two weeks yet there has been a fall in the number of firms that have furloughed almost all their staff. Manufacturers have confirmed plans for redundancies, particularly amongst the worst hit subsectors, however there is a large number of firms that are still unsure about whether to make workers redundant. With an announcement on the Coronavirus Job Retention Scheme (CJRS) expected imminently, it may be the case that some manufacturers are waiting for the detail on the future of the scheme before confirming their decision.

Sales and orders continue to nosedive due to the pandemic. However, almost a third of manufacturers believe they can achieve between 75% and 100% of their operating capacity by the start of 2021 – resulting in a long lead time before sales and orders increase again. In particular, some parts of the UK will be more successful than others in achieving this feat.

It has been said many times that this is an unprecedented crisis that few could have predicted. As it is likely that we are past the peak health wise, it's currently not possible to say whether or not we are past the peak of this crisis economically, although many forecasts suggest Q3 GDP could be the worst in its history. Yet, many UK manufacturers have begun to prioritise long-term recovery over short-term survival and with the right support the sector could lead the way towards economic recovery.



People

The previous Manufacturing Monitor recorded UK manufacturers furlough decisions prior to the Chancellor's announcement to extend the CJRS (Coronavirus Job Retention Scheme). The changes were welcomed by the manufacturing community – who had encouraged a more flexible scheme since its initiation – but details remain as to what burden employers will bear from August onwards.

It's clear that the government is keen for manufacturers to take a more creative approach to retaining staff, in which case the CJRS could now represent a skills preservation system rather than a blanket shield on employment. Indeed, some skills are replaceable at minimal cost, whilst replacing high-skills workers once the economy restarts could be more burdensome than paying the price to hold onto those workers today. Make UK is acutely aware that manufacturers have considered making redundancies alongside using the CJRS.

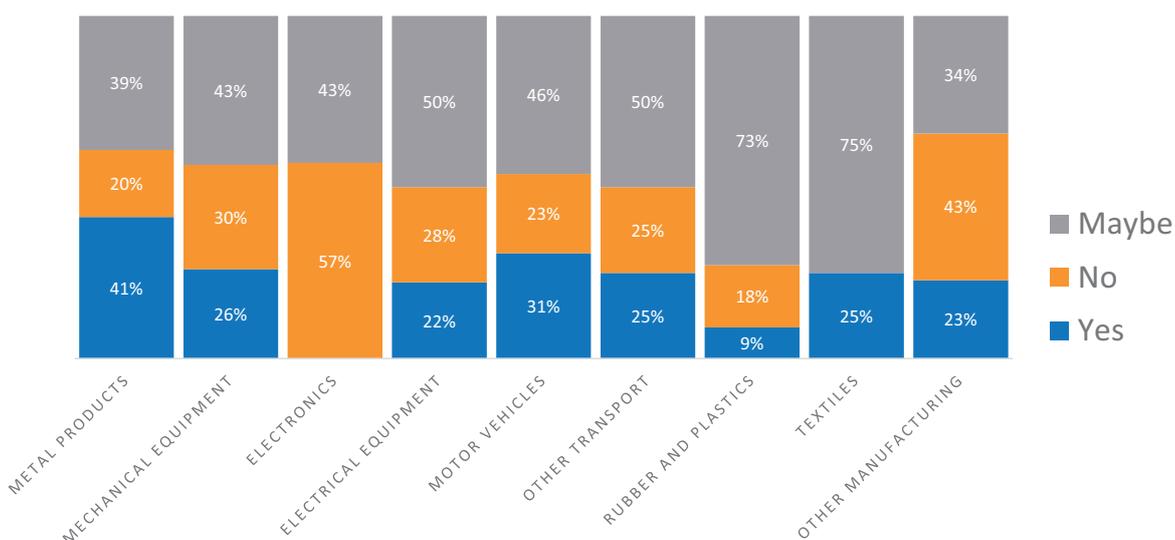
The latest edition of the Monitor reported that 19.4% of firms have furloughed between 1% and 10% of their staff. A similar 20% of manufacturers furloughed between 11%-25% of their staff in the last two weeks. Contrary to the previous report, there has been a

marked fall in the number of manufacturers (from 14% to 5%) furloughing up to 99% of staff indicating that some firms may have taken workers off furlough already. As such, 60.6% of manufacturers do not plan to furlough more staff in the next two weeks. However, it is not clear whether this is in order to pursue a redundancy path instead.

According to the Monitor, a quarter of firms are planning to make redundancies in the next 6 months, whilst 44% are yet to make such commitments. Certainly, there was a mixed bag of results as to how many staff, as a proportion of their entire workforce, manufacturers intend to make redundant. In summary, 33.3% indicated they would make redundant 6%-10% of their staff, 31.1% said 11%-25% and 28.9% indicated 26%-50% of their staff would be made redundant. No manufacturer stated they would make more than 50% of their staff redundant.

Reviewing the data from a subsector perspective reports which industries are looking to make more redundancies. As expected sectors that have been worst hit by the pandemic have already made plans for redundancies (see chart 1).

Chart 1: Does your company plan to make redundancies in the next 6 months? Selection of subsectors



Source: Make UK, Manufacturing Monitor #3 (April-May 2020)

Production

It's clear very few manufacturers have closed their doors during this crisis. The latest survey reports that 94% of manufacturers are continuing to trade during the pandemic – the result is consistent across the previous two surveys. Nevertheless, the impact of Covid-19 on sales and orders continues to create dire consequences. For the third edition in a row a significant number of firms have reported further declines in the last two weeks, as 72.8% reported a decrease in sales whilst a comparable 71.7% said the same for orders. In particular, 31.8% of firms reported that orders declined 26%-50% whilst a further 27.1% reported a larger 51%-75% drop in orders. Mentioned previously, this creates huge barriers for manufacturers looking to generate cash-flow and will impede the sectors economic ability to recover.

However, as there is growing sentiment amongst the industry to restart production lines and be on the front lines of economic recovery, the latest Monitor assessed operating levels too. According to the data, only 11.7% of firms are currently operating at full capacity, whilst up to 35.6% of firms are operating at anywhere between zero and half of their capacity, relative to pre Covid-19 times. In more positive news, 38.9% of manufacturers believe they can reach between 75% and 99% of their operating capacity by the start of 2021.

Nevertheless, as stated previously many Make UK members have expressed that other parts of the supply-chain, including those overseas, will need to be reactivated in order to start the recovery process fully. This does not mean only maximising internal operating capacity, but also enabling access to logistical capacity in the form of shipping and air freights, the latter of which faces significant barriers due to the government's quarantine policy.

Breaking down the question of capacity by region, chart 2 provides a view of which areas could reach between three quarters and 100% of their operating capacity by the start of 2021.

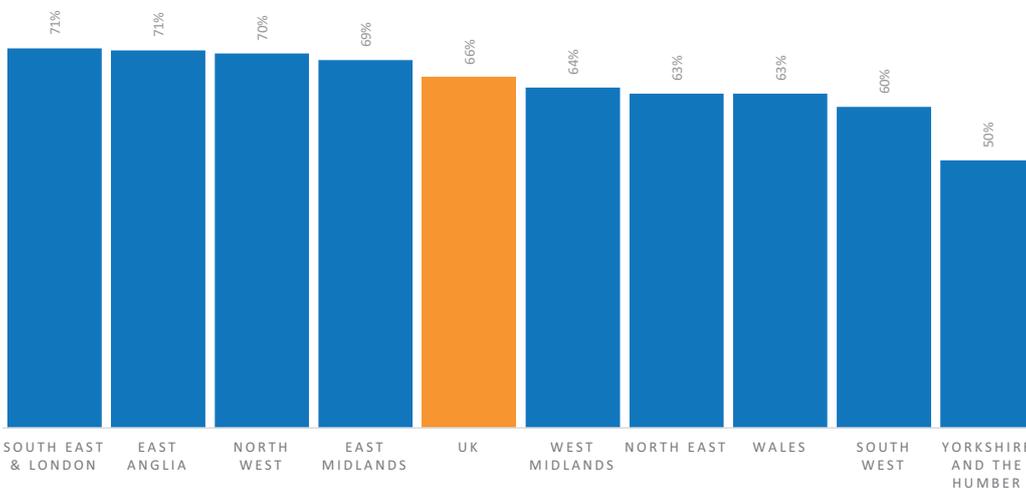


Chart 2: % of firms that expect to achieve from 75% up to 100% of their operating level by the start of 2021, by region

Source: Make UK, Manufacturing Monitor #3 (April-May 2020)



Expectations

The last Manufacturing Monitor reported a stark increase in the number of firms who had downgraded their expectations for recovery. In the latest edition, there was another increase, albeit a meagre one, of manufacturers that believe it could take more than 12 months to return to normality. Interestingly, another 5.6% of manufacturers instead believe that conditions will never return to normal. Again, this is a slight increase from the previous Manufacturing Monitor survey (which reported only 3.4% of manufacturers adopted this view).

It reinforces the view that as the market releases new information about the impact of Covid-19 on UK manufacturing, Make UK members have rationally adjusted their expectations by becoming more pessimistic (see Chart 3).

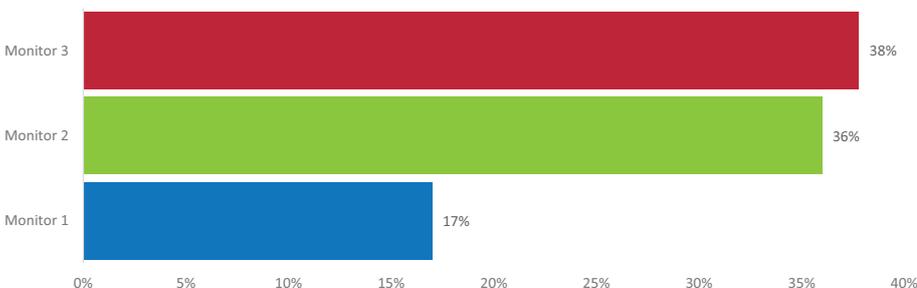


Chart 3: % of firms that expect it will take more than 12 months to return to normal trading conditions

Source: Make UK, Manufacturing Monitor #3 (April-May 2020)

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

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About Make UK

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

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

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

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



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