Manufacturing under pressure: three measures to keep Industry investing

A brief overview of the engine of Britain's production economy as we move into the Summer of 2026 including: the short-term outlook, what's holding the sector back and what action can be taken to back Britain's makers and the 2.5 million jobs they support.

At a glance

The issue: Rising energy, employment and input costs are putting increasing pressure on manufacturers' cashflow and competitiveness.

The risk: Investment, hiring and production are likely to be scaled back.

The evidence: Growth forecasts are weak, confidence has dropped, margins are under pressure and 26% of businesses could run out of cash within 12 months.

The ask: Three targeted interventions to preserve liquidity before the Autumn fiscal event.

Make UK is asking Government to take three immediate steps to keep manufacturers liquid, investing and employing through the next 12 months:

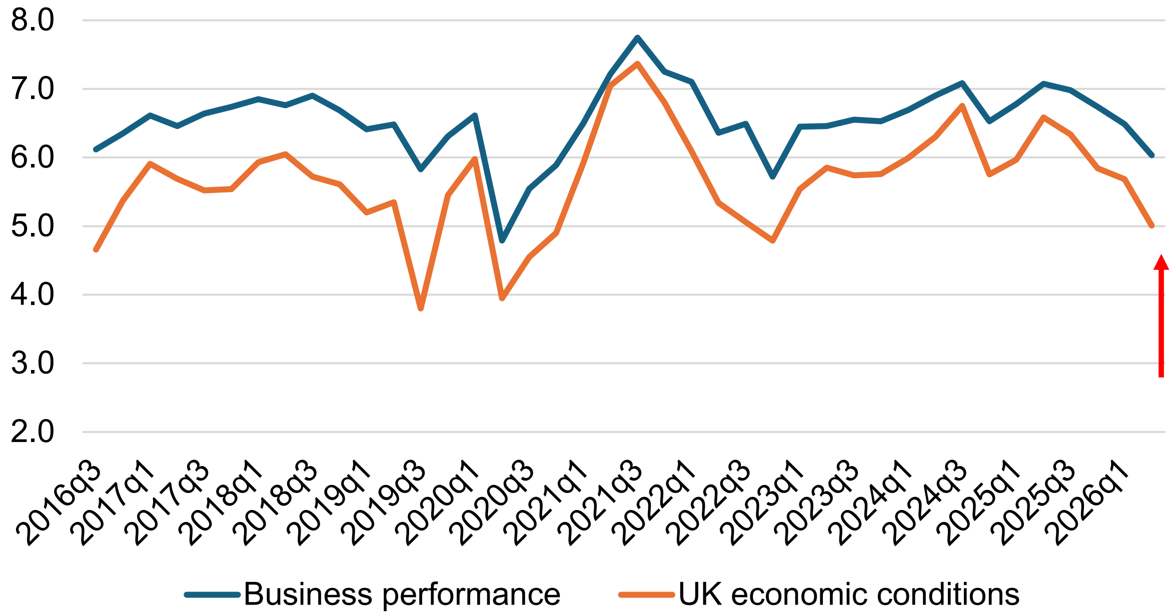
1. Bring forward and widen BICS.
2. Delay business rates changes by 12 months.
3. Temporarily increase the employer NICs threshold from £5,000 to £7,500.

What's been happening over the past few months?

Four years ago, British manufacturing suffered the worst energy market disruption seen for decades brought about by Russia's invasion of Ukraine. At the time, soaring wholesale energy prices served to compound an already inflationary environment for British manufacturers, which saw the highest ever recorded balance figures for price-setting behaviour in our in-house economic research's over thirty-year history.

Now, years on, the sector finds itself in a familiar predicament, with energy once again a driving force of hardship. The combination of factors that brought such difficulty to the sector in 2022 are familiar to industry today. Renewed geopolitical instability, rising wholesale energy costs and wider business cost increases, despite little evidence of economic growth.

Chart 1: ***Manufacturer's business confidence drops to its lowest level since 2022***
(diffusion index: >5 positive <5 negative)



The sector is now well versed in industrial crises over the past decade, but it also means we have a stronger intuition than ever before of what will likely happen next. We can already see through our 2026 Q2 research that the sector is cutting its investment plans. This serves to further fuel a pessimistic outlook right the way into 2027 where growth isn't even forecast to be in single digit territory. **Manufacturing sector growth is forecast to be only 0.4% in 2026 and a barely visible 0.1% in 2027.**

Previously, when the sector has faced similar circumstances in the past decade, the first move has been to protect cash. This isn't limited to the curtailment of investment, it extends to hiring freezes, limited pay settlements, extraordinary price increases and production stoppages, amongst other cash-saving moves.

The data indicates that we're at the beginning of a period of persistent price increases. **Despite the fastest increase in the rate of price setting behaviour since 2022, margins have moved into decline**. This is clear evidence of a situation where the cost of doing business is outpacing the sector's ability to pass through these costs, and because of that, we can expect to see continued subsequent increases in pricing as the sector looks to stabilise its faltering margins.

There are many policy levers that could be pulled to minimise the disruption to the sector and the wider UK economy, but **there is no lever more immediate and critical than the one on energy**. UK manufacturers already pay the highest industrial costs in the world. Global energy price shocks are exacerbating this problem. Now is the time for immediate action on industrial energy costs. The recent evidence Make UK receives consistently highlights the incoming inflationary spiral the sector looks set to embark upon. Action to make sure UK industrial users pay a fair and commensurate price to what their peers are paying on the continent is now no longer just a question of international competition, it's one of also controlling inflation on our own shores.

What's holding the sector back right now?

The much-used term 'the increasing cost of doing business' has been such a common feature of discourse in the UK manufacturing business environment over the past few years that when it's heard, it's potence has become limited. Now, the cost of doing business is rising at a rate fast enough to be re-coined 'the cost-crisis of doing business'. As of June 2026, the most pressing issues weighing on manufacturers' ability to operate are almost all cost related, and the nature of these cost pressures cover the full spectrum of production from commodities, energy, labour and so on.

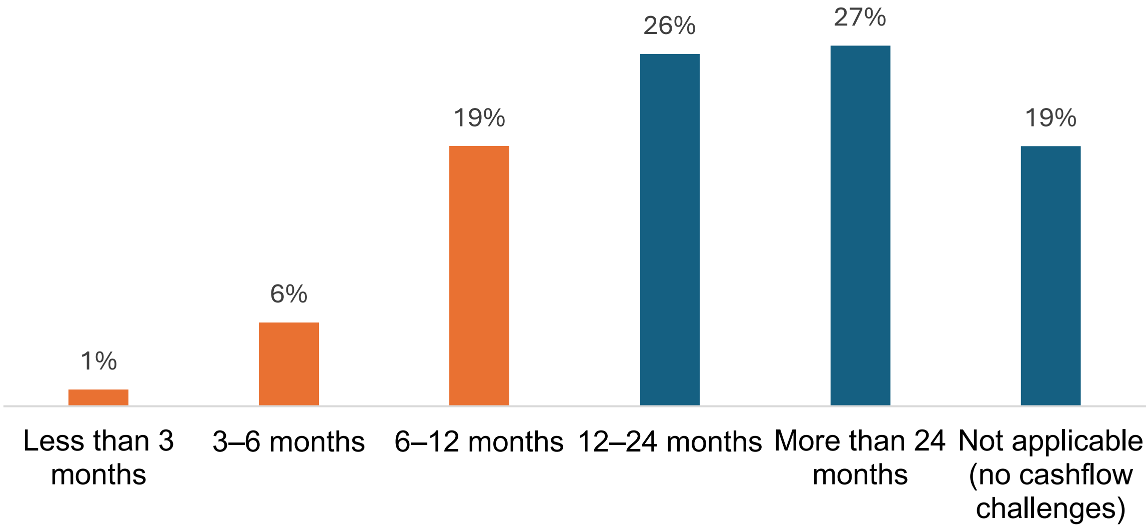
Overleaf follows a table highlighting these major growing cost drivers and why they are so impactful for the sector.

Cost Driver	Why it's so damaging
Energy costs	UK manufacturers pay the highest rates for industrial energy in the world. This isn't just because of global market effects which increase the price of oil, for example recently driven by the war in Iran, the real issue is that the **Government makes a policy choice** to levy a variety of policy charges onto end-user's bills, sending business' bills soaring relative to the international competition regardless of the global wholesale oil and energy price. This means that, by design, **UK businesses will always pay significantly more than their competition regardless of a preferential global energy price market or not.**
Employment taxes and regulation	Just over one year on from the significant changes to employer National Insurance contributions (NICS), we have been able to see how manufacturers have been impacted by the changes. **These changes have brought an average additional cost to every manufacturer of ~£950 per employee per year.** Having previously had an earnings threshold of £9,100 before employer's NICs were payable, this was reduced to £5,000. The rate payable beyond these thresholds changed from 13.8% to 15%. The nature of the change, beyond the cost concern, has also driven down opportunities for young people and early-career roles as their relative cost is now increased. Rising employment costs are not just a business cost issue; they make it harder for manufacturers to take a chance on young people, early career roles and apprenticeships at exactly the point Government wants more people moving into work. Coming in waves, the changes being brought in by the Employment Right Act carry significant compliance costs for manufacturers, further adding to the cost burden at a time when margins are already in freefall.
Steel tariffs	Incoming changes to import steel tariffs and quotas on the 1st of July will have significant effects for most UK manufacturers, whether they directly

	deal with steel imports or not. The significant increase in exposure to now-to-be-tariffed products, and a 50% levy for any beyond restrictive quotas, compounds the growing cost issue. UK manufacturers support the Government's policy objective of protecting the British steel industry from injurious global market behaviours, **but manufacturers will no longer be able to support the industry if they themselves are no longer in business.**

Chart 2: ***26% of the sector could run out of cash in the next 12 months***

Responding to:" Approximately how long could your business continue operating at its current cash burn rate without seeking additional financing?"



What action should be taken now?

There are long standing policy issues that the manufacturing sector has grappled with for many years. The calls below look past that, and instead they are calls for immediate intervention to stop a growing liquidity crisis in the sector, which if realised, will have massive negative subsequent effects for the wider economy. Every one of the interventions detailed below, ranked by positive relative impact, has a sole objective – enable the sector to remain liquid.

Rank	Policy Intervention	Lead department	Why it backs Britain's makers
1	**Widen and bring in**	HMT / DBT / DESNZ	The British Industrial Competitiveness Scheme, which aims to lower or equivalise industrial energy

	BICS immediately		pricing for businesses compared to close competitors is currently only due to come **in 2027 and for a limited subset of manufacturers, only covering around 1 in 8 businesses**. This must be accelerated and widened to all manufacturers. Bringing forward BICS would provide immediate relief, but Government should also use the Autumn fiscal event to set out the next phase of industrial electricity price reform, including policy cost rebalancing and grid measures that support industrial electrification.
2	**Delay changes to Business Rates**	HMT / MHCLG	Changes coming as part of the Business Rates revaluation has immediate cost implications for manufacturers. Two of our members have recently entered into administration explicitly citing the upcoming business rates hike. If the Government delays the changes by 12 months, this would save ~£939 million for the sector up front, allowing much needed liquidity. **Our modelling estimates that approximately 25,000 jobs will be at risk as a result of these changes.** For manufacturers, business rates are particularly damaging because they penalise the very things Government says it wants more of: investment in sites, machinery, energy efficiency and productive capacity.
3	**Temporarily increase employer NICs threshold**	HMT	The biggest shock to employment costs was the rise in employer National Insurance Contributions (NICs), increasing the cost of employment on average by approximately ~£950 per head, and costing the sector ~£2.5bn and hitting youth employment hard. **We are calling on Government to increase the threshold where NICs become payable from £5,000 to £7,500. This would reduce the total bill for the sector by ~£946 million.** This temporary allowance would not only help liquidity in the short term, but it would ease the disincentive for hiring young people and early career roles.

In summary

UK manufacturers are facing a renewed squeeze on liquidity driven by energy costs, employment costs and wider business pressures. Without intervention, the likely response will be reduced investment, slower hiring and weaker growth.

The three measures set out in this briefing would provide targeted, time-limited support to help manufacturers remain competitive, continue investing and protect jobs while longer-term industrial strategy reforms take effect. As Government continues to devolve powers and funding, these interventions should be delivered through a coherent national framework that avoids creating further complexity or inconsistency for manufacturers operating across multiple regions.

Make UK will set out further, in-depth analysis as part of it's Autumn Budget submission.

For further information please contact:

James Brougham
Senior Economist
JBrougham@makeuk.org

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