01/05/20

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The Manufacturers' Organisation

COVID-19 MANUFACTURING MONITOR

#BackingManufacturing

Key findings

- Over three quarters of companies have seen a decrease in sales
- Four fifths of companies have seen a decrease in orders
- One in five companies have seen their orders fall by more than half
- One in five companies have furloughed up to a quarter of staff, 15% by up to half
- A third of companies will wait to see an increase in orders before taking staff off furlough

Introduction

Following the start of the coronavirus outbreak in the UK a plethora of measures have been enacted and continuously adapted by the government to limit its impact on life and the economy. Restrictions on our social behaviours included everything from social distancing to complete isolation for the most vulnerable, reshaping the status quo of our daily lives.

However, it is the effectiveness of these measures on businesses that have generated tremendous debate in recent weeks as the impact of Covid-19 on producer activity is yet to be fully understood. From the standpoint of the manufacturing industry – with raw materials and goods filtering through complex supply-chains – making the things consumers use on a daily basis, it is imperative to raise the curtain on how the sector is faring during the crisis.

Make UK is proud to introduce a fortnightly Covid-19 Manufacturing Monitor to provide an accurate and timely barometer of the impact Covid-19 has had on the UK's manufacturing sector.

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People

One of the main concerns highlighted by manufacturers revolves around the Job Retention Scheme (JRS) – a temporary scheme for companies who can furlough employees and apply for a grant that covers 80% of their usual monthly wage costs, up to £2,500 a month, plus associated costs. By now many firms will have already made their decisions on which of their staff to furlough, if any.

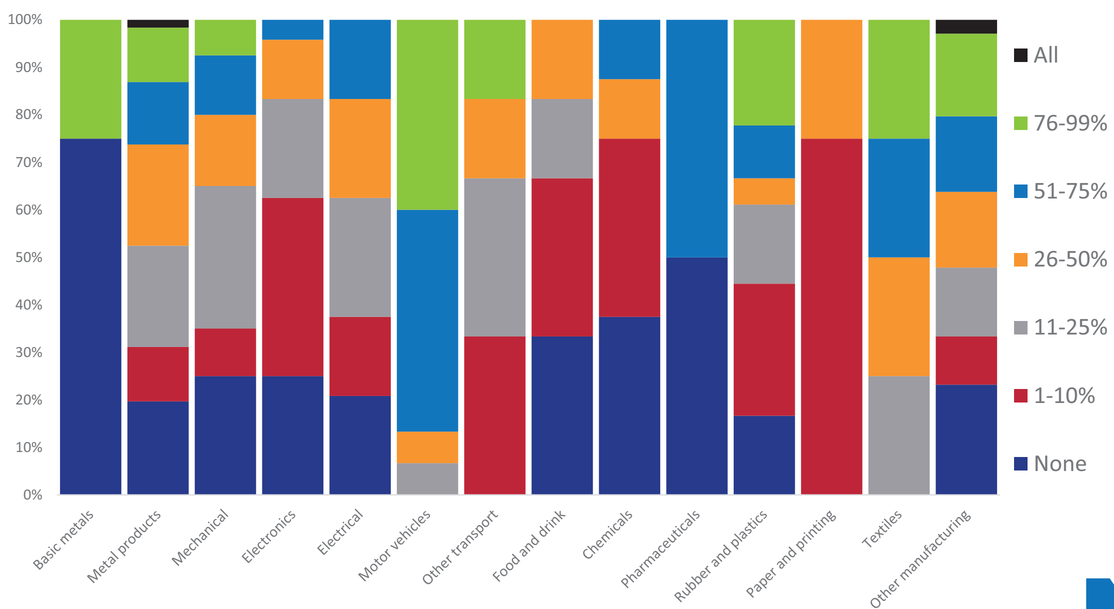
Our Manufacturing Monitor reports that just a fifth of manufacturers have not furloughed any staff since the start of the scheme, whilst 16.8% and 18.6% of manufacturers have furloughed 1-10% and 11-25% of their staff respectively. The low adoption rate of the JRS by manufacturers highlights the barriers workers face in working from home as well as the strategic need for many firms to continue operating. This includes manufacturers that produce essential products, such as in food and drink for household consumption or SMEs in the Chemicals subsector producing raw ingredients for hand sanitisers. The low adoption of the scheme may also indicate that the JRS in its current form is inaccessible to manufacturers as many Make UK members have cited a flexible scheme would be more appropriate.

Nevertheless, a significant number of firms have furloughed more than 50% of their staff as the adoption of the JRS varies significantly between industry and region.

For example, Figure 1 highlights 40% Motor Vehicles firms have furloughed between 76-99% of their staff whereas a number of major steel companies (Basic Metals) have furloughed no staff.

Looking to the future over a third of manufacturers reported they would bring furloughed workers back to work only when orders increase, whilst 25% of firms will opt for a phased approach to returning workers.

Chart 1: Manufacturers have furloughed a number of staff since the introduction of the JRS, % of companies citing proportions of staff furloughed by sector



Source: Make UK, Manufacturing Monitor #1 (April-May 2020)

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Production

Our Manufacturing Monitor reports that 86.5% of manufacturers have continued to trade during the crisis. This may appear positive but akin to the results of the JRS it suggests firms in this sector are less able to halt production during a crisis. As a result many manufacturers have reported significant falls in sales and orders indicating poor current and future trading expectations. Consequentially, cash-flow problems will continue to exacerbate over time.

Nearly eight in ten (77%) manufacturers have reported a drop in sales whilst a slightly larger 80.7% saw a fall in orders. The monitor indicates a similar consistently pessimistic view amongst all subsectors. Furthermore, the regional breakdown of the data for sales and orders again reports a similar story with a number of nations and regions seeing orders fall, namely – Wales (90.9%), West Midlands (88.9%) and Yorkshire and The Humber (86.9%).

The fall in sales is concerning but not surprising given the current state of the world. What is more problematic is the fall in orders which can indicate future performance and will be key for the UK to returning to cyclical normality. Astonishingly, just over half of all manufacturers have seen orders decline between 11-50%. This share rises to approximately three quarters of all firms when you include those that have seen orders fall 51-75%.

A breakdown of the regions that experienced declines in orders is illustrated in Chart 2 below.

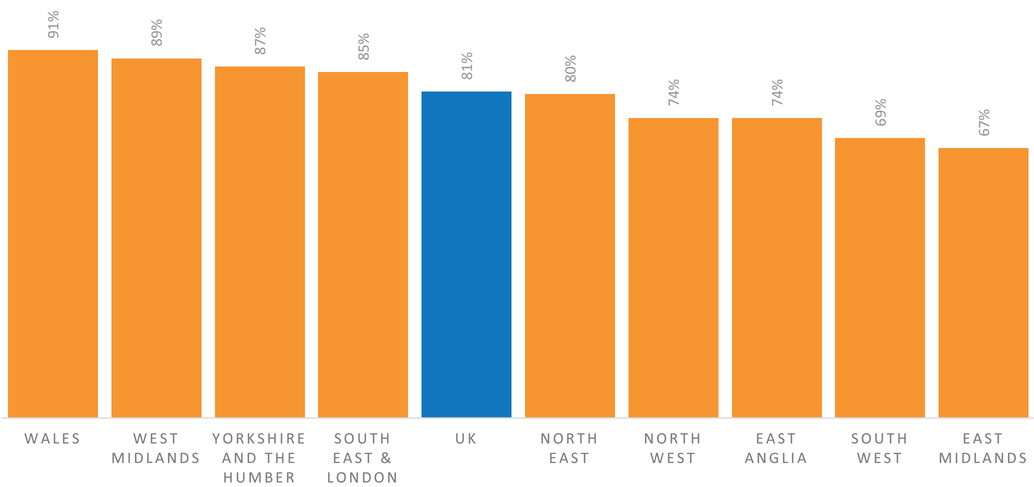

Chart 2: Manufacturers have experienced a significant decline in orders, % companies citing decreases in orders by region

Source: Make UK, Manufacturing Monitor #1 (April-May 2020)

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Finance

The decline in sales and orders coupled with many firms who have not furloughed staff creates enormous challenges for manufacturers trying to manage their cash-flows. Indeed, liquidity has been a major talking point for firms as manufacturing is a highly capital intensive industry with cash generally lost in sunk costs and returns tied to the future alongside the delay of payments within supply-chains a common feature of the industry. The government has adequately responded to these problems by creating a number of financing facilities, the most prominent being the Coronavirus (Large) Business Interruption Loan scheme (or C(L)BILS). The scheme is designed to offer SMEs and larger firms with short-term financing up to £5m (for SMEs) and £25m (for large firms). A part of this also includes an 80% government guarantee for lenders who offer these loans to businesses impacted by the pandemic.

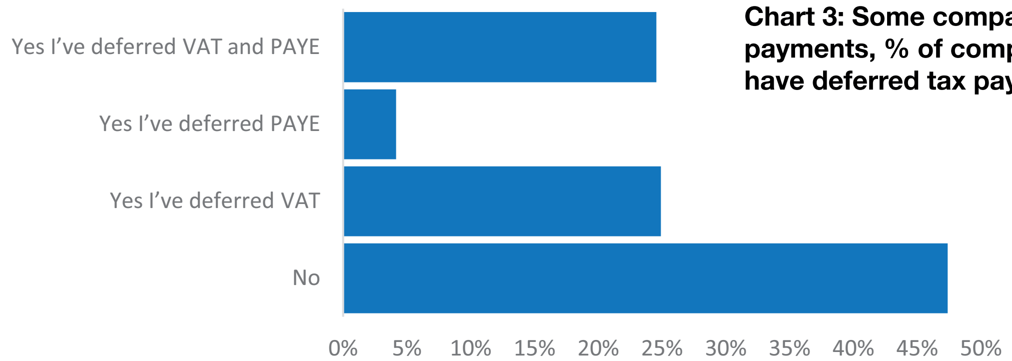
Many manufacturers in the UK (mainly SMEs) do not see debt as a cure for their cash-flow problems. Undeniably, further gearing on SMEs balance sheet would only serve to delay, possibly even worsen the financial problems they would experience post-Covid-19 without genuine confidence that orders will return. This is also seen in the approach a third of manufacturers have taken to bring furloughed employees back to work.

Moreover, almost half (47.8%) of manufacturers are not deferring tax payments. The deferral of tax payments is a low impact solution that firms can take advantage of without incurring debt. However, during this crisis the majority of manufacturers do not view deferrals as a solution – likely because many firms had already made multiple deferrals prior to the crisis. See Figure 3 for a summary of the results on tax deferments.

Nonetheless, the results are not consistent when inspecting the industry by subsector. 60% of firms in the motor vehicle sector have deferred both VAT and PAYE payments. As a recurring feature of this publication motor vehicle firms have consistently reported negative results and understandably taken necessary precautions to remain liquid. Interestingly, approximately a third of firms in Rubber & Plastics (38.9%), Textiles (37.5%), Other Transport (33.3%) and Mechanical equipment (32.5%) have also deferred both VAT and PAYE taxes during the crisis.

Generally deferring VAT has proved to be more popular amongst manufacturers than deferring PAYE. The results are more mixed when considering a regional perspective.

Chart 3: Some companies have deferred tax payments, % of companies citing whether they have deferred tax payments



Source: Make UK, Manufacturing Monitor #1 (April-May 2020)

The results of the first Make UK Manufacturing Monitor provide unique insights relevant to the current situation, covering a number of elements such as the Job Retention Scheme, Finance and 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 that 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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