

20/07/20

COVID-19 MANUFACTURING MONITOR

#BackingManufacturing

Key findings



99%

of manufacturers
are openly trading



**OVER
45%**

have seen orders
fall between 26%
and 50%



77%

of firms have furloughed
between 1% and 50% of
their staff

**ALMOST
50%**

have reported an
increase in logistic
costs



**MORE THAN
53%**

plan to make
redundancies in
the next 6 months

**OVER
41%**

expect it will take more
than 12 months to return to
normal trading conditions

Introduction

Make UK's fifth edition of the Manufacturing Monitor brings with it updates to a number of key stats from its previous editions. The latest survey includes information on manufacturers' furlough activities, redundancies, sales & orders, operating levels, logistic costs & travel times, and future expectations.

In summary, manufacturers' furlough activity has largely remained consistent with minimal changes since the previous report. Approximately 77% of manufacturers have furloughed anywhere between 1% and 50% of staff, with the majority of firms within the 26-50% category. For the moment, the expectation that manufacturers will, slowly, bring workers back on a part-time or full-time basis remains and more so given the recent introduction of 'flexible furlough.' Yet, it is the rising certainty amongst those that are looking to make workers redundant in the next six months that is increasingly concerning. Nevertheless, very few firms have indicated redundancy will be applied to large proportions of their entire workforce – whether this is a positive result is debatable.

The results for sales and orders continue to be poor, however, the survey's trajectory indicate signs of life returning as the share of those firms seeing an increase in activity are rising steadily. As of now, almost 99% of firms are open for business since lockdown restrictions were eased, as a result a number of manufacturers have encouragingly increased their operating activity nearer to their pre-Covid-19 levels. Although, a large gap still exists.

Additionally, the latest survey indicates that both logistic costs and travel times have increased for the majority of manufacturers since the start of the pandemic. What the latest crisis has made clear is the current logistics infrastructure is highly malleable to significant supply-side shocks. As such a major overhaul of the network may be required in order to build in resilience into the system.

Four months on since the start of the pandemic, the prospects of a quick V-shape recovery, as believed so strongly by some, remain bleak. The latest results for UK GDP reported a growth of 1.8% in May alone, which does little to repair the damage from the 20.3% decline in April. However, the data does indicate that some growth is possible even amidst complete shutdown, which raises the possibility of a strong bounce back being reported when the results for July 2020 are finally released. Yet, the possibility of the UK entering a recession once Q2 GDP results are released remains likely.

People

The previous Manufacturing Monitor indicated minor changes in furloughing activity amongst UK manufacturers. At this point, the deadline to furlough additional staff has passed and from next month onwards the scheme will begin to wind down in a tapered manner until its expiration in October.

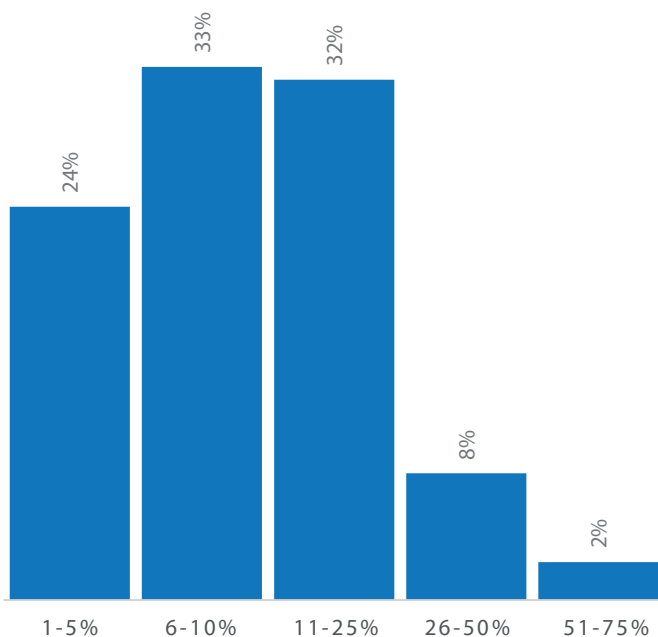
Over time it is expected that employers will bring workers back and we expect a number of manufacturers to use the flexible furlough scheme, which would allow employees to return on a part-time basis. Assuming orders return, most may avoid redundancy too. Currently, the unemployment rate is at 3.9% for the three-months ending to May – showing the expected wave of redundancies are yet to start. Following the recent mini-budget update, the probability that the Chancellor's £1,000 grant to prevent an increase in redundancies for furloughed staff will prevail currently falls closer to the unlikely side.

The latest Manufacturing Monitor reports 17.1% of manufacturers have furloughed no staff and 24.1% have furloughed between 1-10% of their staff. In that same fashion, 22.9% have furloughed 11-25%, 30% have furloughed 26-50%, 5.3% have furloughed 51-75% and 0.6% have furloughed 76-99% of their staff. No manufacturers have furloughed all their workers.

Since the third edition of this publication, the survey has tracked the share of manufacturers that are either planning to, or are considering making redundancies in the next six months. Previously, the data indicated a sharp increase in those manufacturers who were certain about making redundancies from 25% to 41.2%. Ominously, this share has increased again to 53.3% in the latest survey.

However, of those that are planning, or considering, to cut workers, the results on what share of a firm's entire workforce will be made redundant remains mixed. This is demonstrated below (chart 1), which also indicates that no manufacturers are planning to cut more than 75% of their staff.

Chart 1: Proportion of workforce manufacturers intend to make redundant in the next six months



Source: Make UK, Manufacturing Monitor #5 (July 2020)

Production and Capacity

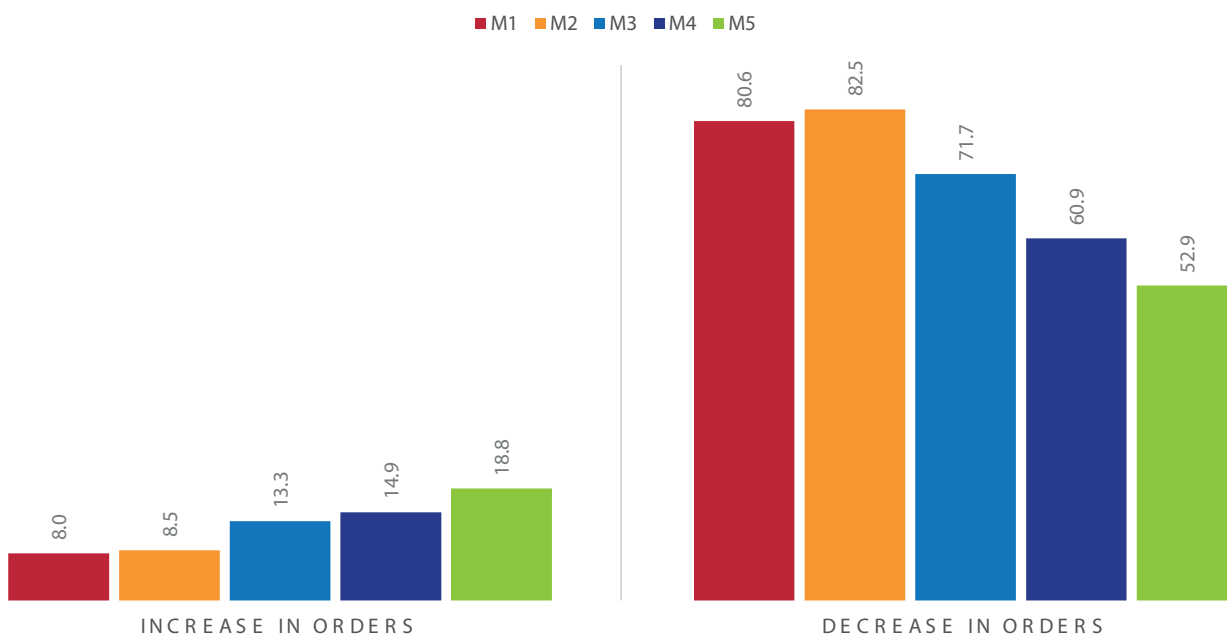
The latest data from the Index of Production (IoP) indicates that, following a sharp fall of 24.4% in manufacturing output in April, output increased in May by 8.4%¹. Although the data is in some ways behind current times, it does highlight that activity is returning to the industry – albeit at a pace slower than would be preferred.

The latest Manufacturing Monitor survey continues to report a large share of firms that are still seeing decreases in sales and orders, currently standing at 58.8% and 52.9% respectively. However, the overall trend since our first publication in May indicates that sales and orders are promisingly improving too, this can be seen below (chart 2), which although reports the data for orders only, are mirrored closely by the trends for sales too. For those firms that have experienced a decrease in orders, over 45.6% reported a drop of between 26%-50%, whilst 33.3% of firms reported a drop between 11-25% in orders. A relatively smaller proportion (12.2%) saw a much greater 51-75% fall in orders.

It has been just over a fortnight since major easing in restrictions were announced. Since then the Chancellor announced a series of measures dedicated to supporting specific industries, such as a VAT cut from 20% to 5% for the hospitality industry, in an attempt to boost sales directly and indirectly generate economic activity by bringing shoppers back to the high streets. At the moment, 98.8% of manufactures are in operation, a marginal increase from our previous edition.

Most of these firms have continued to operate albeit at levels below their pre-Covid-19 levels. Still, although the results remain mixed, the latest data does indicate manufacturers are treading towards greater levels of activity. The latest results show only 0.6% of manufacturers are operating at 1-10% of their pre-pandemic levels. In the same manner, 6.5% of firms are operating at 11-25%, 18.8% of firms are operating at 26-50%, 31.8% are operating at 51-75%, 27.1% are operating at 75-99% and 15.3% are operating at full capacity. However, the prospects of local lockdowns and the challenges around implementing social distancing on the ground remain an impediment to reaching 100% capacity.

Chart 2: Time series of Manufacturing Monitor surveys (M1-M5), % of manufacturers to see orders either increase and decrease



Source: Make UK, Manufacturing Monitor #5 (July 2020)

¹ ONS (July 2020)

Logistics

Although often excluded from manufacturing performance indicators, logistic networks form an integral piece of the supply-chain puzzle, without which the movement of goods would not be possible in a globalised economy. Indeed, during the early days of the Covid-19 pandemic it was the cancellation of air and ocean freight routes, key methods of transport for physical goods, and the corresponding increase in freight rate costs for logistic options that were available, which created substantial barriers for both UK and international manufacturers' operations.

As such, the latest Manufacturing Monitor survey opted to gather intelligence on how the crisis has impacted logistical costs as well as understand whether UK firms were reviewing options to improve resilience in the event of further adjustment and challenges that would affect global logistics.

Since the start of the pandemic, 48.5% of manufacturers have reported that logistic costs have increased. Of those, the majority of firms (48.1%) indicated logistics costs have increased by 6-10%. Similarly, 53.8% of manufacturers have reported that travel times for logistics have increased. Of those, the largest share (45.6%) of manufacturers said travel times increased by 6-10%, whilst a slightly

smaller (32.2%) share of firms indicated a greater 11-25% increase in travel times. This data can be reviewed below (chart 3), which reports by how much logistic costs and travel times have increased – for those manufacturers that have reported an increase in costs and travel times.

Additionally, the survey reported that 71.6% of manufacturers were not reviewing “buying forward” (The process by which a company books logistics capacity in the future, locking in a time slot and price early) as an option to build supply-chain resilience. Moreover, 68% of manufacturers indicated they were not reviewing the mode of freight logistics currently used for the entry and exit of goods. This is a concern as with a new border model for the UK, particularly with the EU, coming into force at the end of the year manufacturers will need time to understand how to eliminate or at least mitigate disruptions in their supply chains. It is likely that many firms are addressing immediate and acute disruptions caused by the crisis and will need time to digest, plan and put in place new operating models when the changes to the border comes. It is essential that the Government works with industry to raise awareness and understanding and helps manufacturers prepare for this significant change.

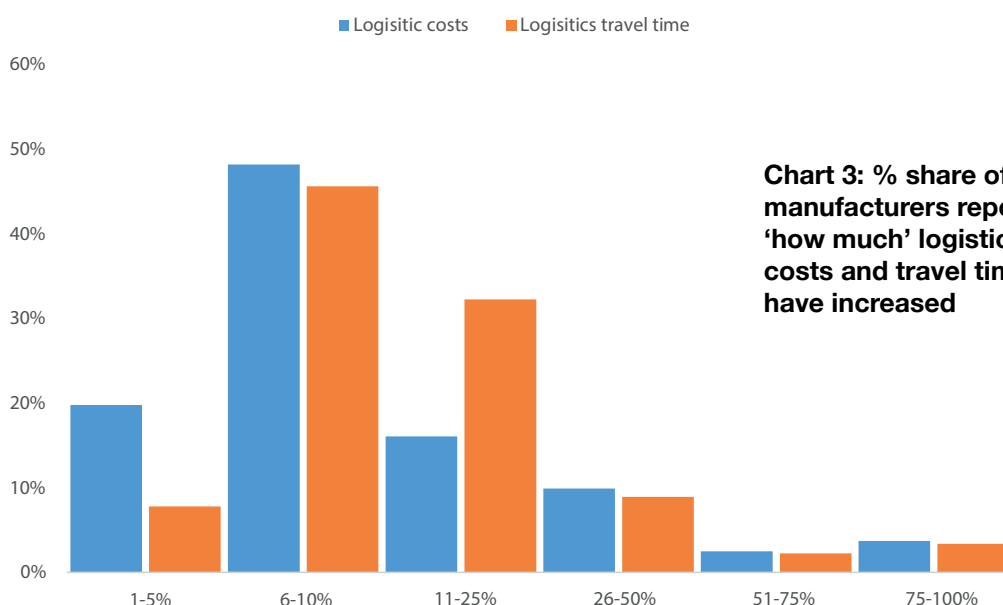


Chart 3: % share of manufacturers reporting 'how much' logistic costs and travel times have increased

Source: Make UK, Manufacturing Monitor #5 (July 2020)



Expectations

Following a slight drop in the share of manufacturers that expect it will take more than 12 months to return to normal trading conditions, pessimism amongst manufacturers has increased substantially again to 41.8% of firms (see chart 4). This shades a gloomy perspective for the industry's confidence in its own recovery, particularly as so few of the Government's recent stimulus announcements have been aimed at the manufacturing sector directly. As the latest breakdown of GDP data highlights, manufacturing is one of the few sectors leading on growth across the economy and as such should be at the heart of the UK's long-term plans for progress.

Additionally, concerns remain amongst manufacturers about the prospects of local shutdowns impacting supply-chains, as the threat of a second wave of local infections remain likely. However, Government interventions to limit the impact of local waves of infections have so far had minimal effect. The Manufacturing Monitor's latest survey asked Make UK members whether they had been impacted by the Test and Trace system – currently 97% of manufacturers reported they have not been negatively affected.

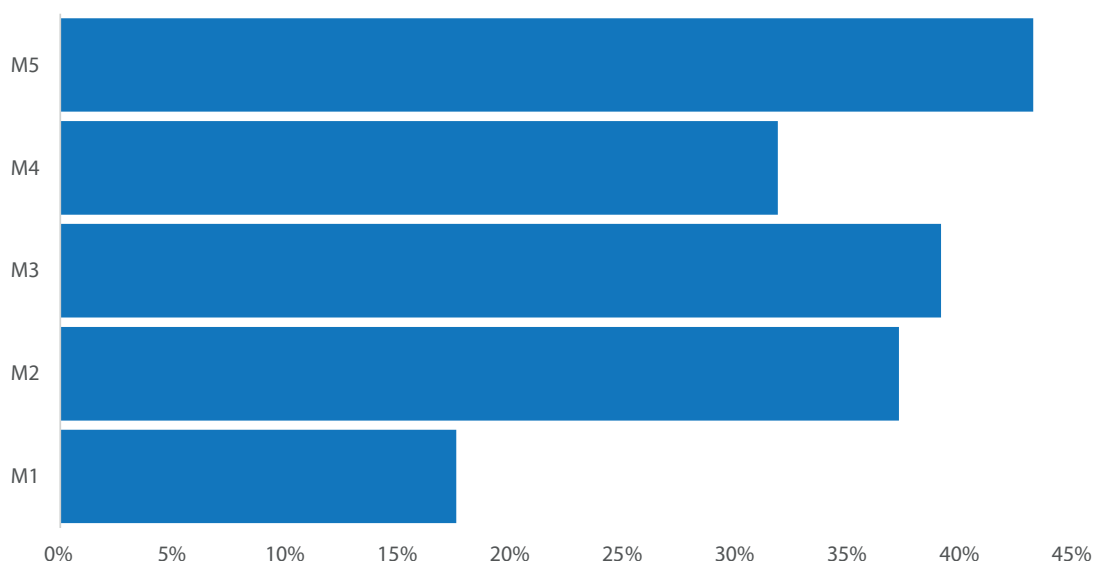


Chart 4: Time series of Manufacturing Monitor surveys (M1-M5), % of firms that expect it will take more than 12 months to return to normal trading conditions

Source: Make UK, Manufacturing Monitor #5 (July 2020)

Appendix

Survey details, key questions and % share of respondents

Sample: 170

Survey Period: 03/07/20 – 14/07/20

What is the current trading status of your business? (select one)

Continuing to trade	98.8%
Has temporarily closed or paused trading	1.2%

What has been the impact on sales for your business as a result of the Coronavirus in the last two weeks? (select one)

Increase in sales	14.7%
Decrease in sales	58.8%
No change	26.5%

What has been the impact on orders for your business as a result of the Coronavirus in the last two weeks? (select one)

Increase in orders	18.8%
Decrease in orders	52.9%
No change	28.2%

If your business has since a decrease in orders, by approximately how much have they decreased? (select one)

1-10%	2.2%
11-25%	33.3%
26-50%	45.6%
51-75%	12.2%
76-99%	6.7%
100%	0%

What proportion of your staff is currently on furlough? (select one)

1-10%	17.1%
11-25%	24.1%
26-50%	22.9%
51-75%	30.0%
76-99%	5.3%
100%	0%

How long do you expect it to take before trading conditions return to normal? (select one)

Less than 3 months	4.7%
3-6 months	17.6%
6-12 months	27.1%
More than 12 months	41.8%
They won't return to normal	3.5%
Don't know	5.3%

At what level is your business operating at now compared to the start of the year (i.e. before Covid-19 pandemic)

1-10%	0.6%
11-25%	6.5%
26-50%	18.8%
51-75%	31.8%
75-99%	27.1%
Full operating levels	15.3%

Does your company plan to make redundancies in the next 6 months?

Yes	53.3%
No	26.6%
Maybe	20.1%

If yes or maybe what proportion of your workforce do you intend to make redundant? (Select all that apply)

1-5%	24.4%
6-10%	33.1%
11-25%	32.3%
26-50%	7.9%
51-75%	2.4%
75%+	0%

Has your business been impacted by the new test and trace system?

Yes	3.0%
No	97.0%

Are you reviewing 'buying forward' options for your logistic needs for this year and into 2021?

Yes	21.3%
No	71.6%
Don't know	7.1%

Are you reviewing the mode of freight logistics you currently use including the UK entry and exit points for your goods?

Yes	27.8%
No	68.0%
Our business doesn't use any modes of freight	4.1%

Has the cost for logistics increased since the start of the Covid-19 pandemic?

Yes	48.5%
No	51.5%

By how much?

1-5%	19.8%
6-10%	48.1%
11-25%	16.0%
26-50%	9.9%
51-75%	2.5%
75-100%	3.7%

Has the travel time for logistics increased since the start of the Covid-19 pandemic?

Yes	53.8%
No	46.2%

By how much?

1-5%	7.8%
6-10%	45.6%
11-25%	32.2%
26-50%	8.9%
51-75%	2.2%
75-100%	3.3%

The results of the fifth Make UK Manufacturing Monitor provide unique insights relevant to the current situation, covering a number of elements including the level of furloughs and redundancies, logistics, 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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