



MANUFACTURING barometer

SOUTH WEST REPORT FOR Q4 2021/22

JANUARY, FEBRUARY & MARCH 2022 - SURVEYED IN APRIL 2022

 **SWMAS**

INTRODUCTION

Welcome to the South West Report for Q4 2021 (covering January, February and March 2022).

Responses collected from across the South West of England are used to create this regional report; a useful tool to help you compare your confidence levels and current business position with that of other SME manufacturers across the region.

This report will be shared with regional government representatives to provide a critical insight into SME manufacturing businesses across the South West. Thank you to all who contributed to this quarter's report - every response is vital to help ensure that future support addresses the specific needs highlighted.

What is the Manufacturing Barometer?

This national quarterly survey, exclusively for SME manufacturers based across the UK, uncovers past performance and future expectations, allowing us to map these core trends over time. Each quarter, a 'special focus' explores a current topic in greater depth to reveal how this is affecting SME businesses across the manufacturing industry, both nationally and regionally.

**Click here to download the
Q4 National Barometer Report**

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SOUTH WEST

SURVEY DEMOGRAPHICS

107 RESPONDENTS

79%

**of respondents are
Managing Directors,
CEOs or Directors**

Individuals with the highest level
of strategic responsibility across
their business.

KEY



MD/CEO



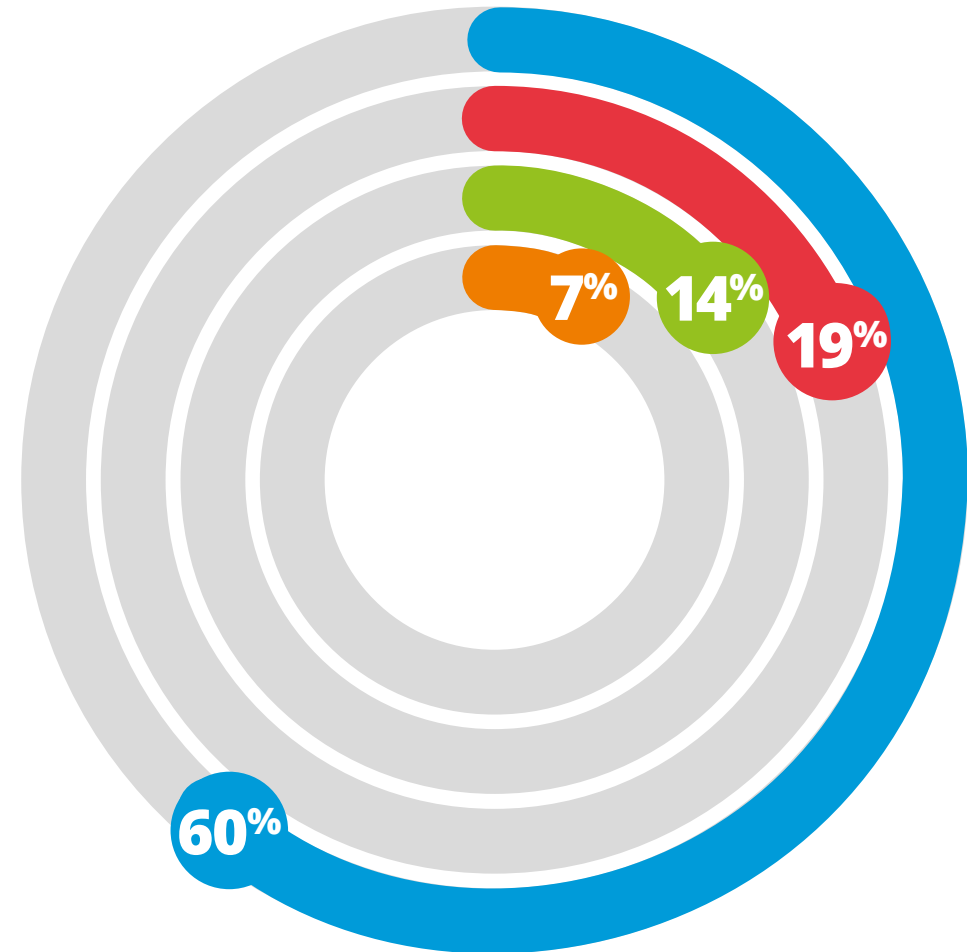
Senior Manager



Director



Other

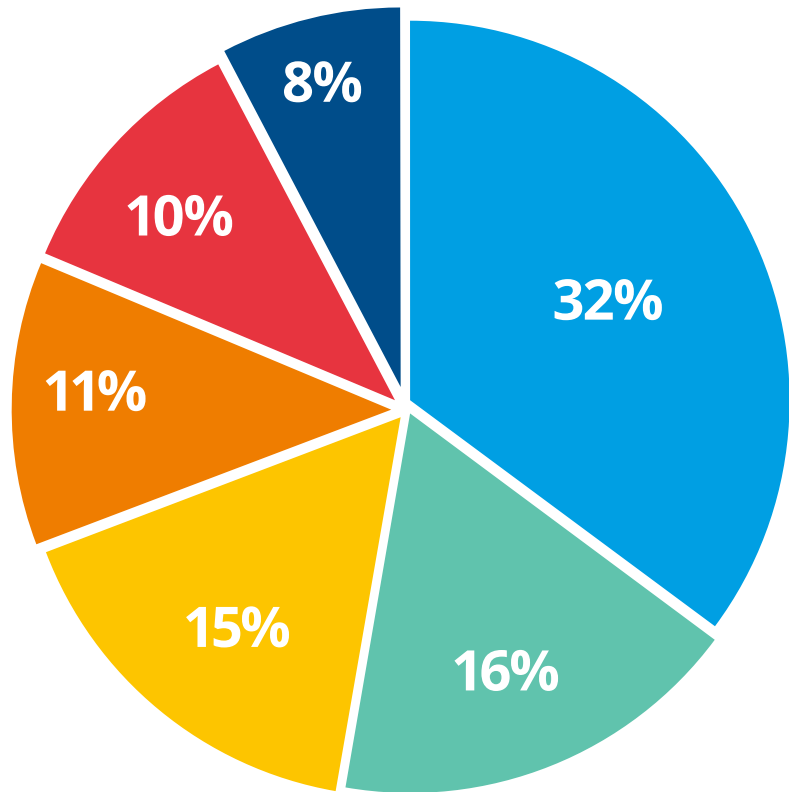




SOUTH WEST SURVEY DEMOGRAPHICS

107 RESPONDENTS

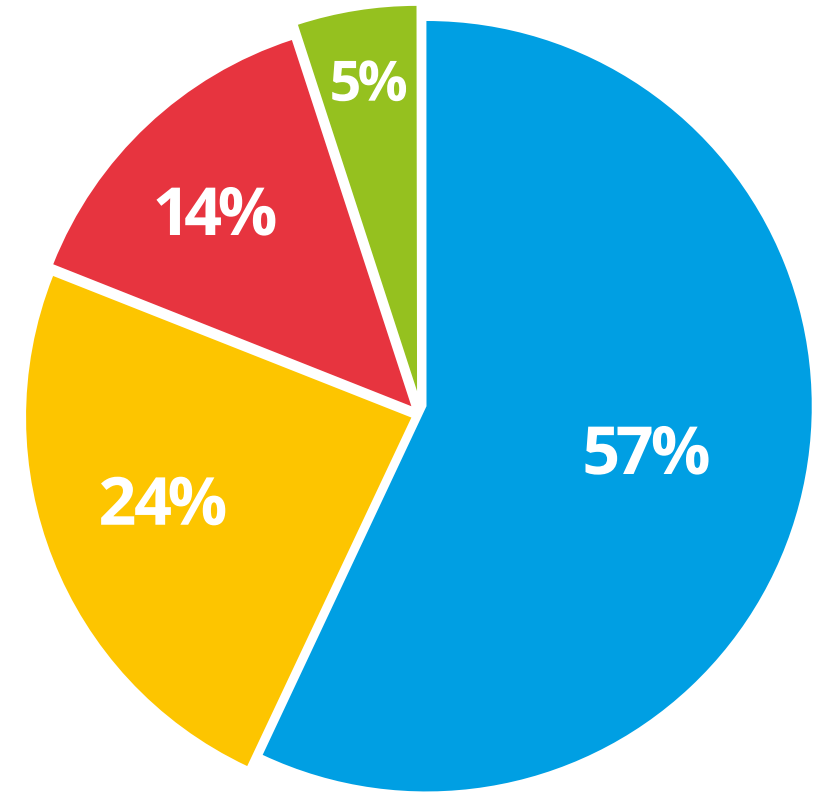
LOCATION



- HotSW LEP (Devon and Somerset)
- Cornwall and the Isles of Scilly LEP
- Dorset LEP
- Gloucestershire LEP
- Swindon and Wiltshire LEP
- West of England LEP

8% of respondents could not be allocated as they did not provide their business address.

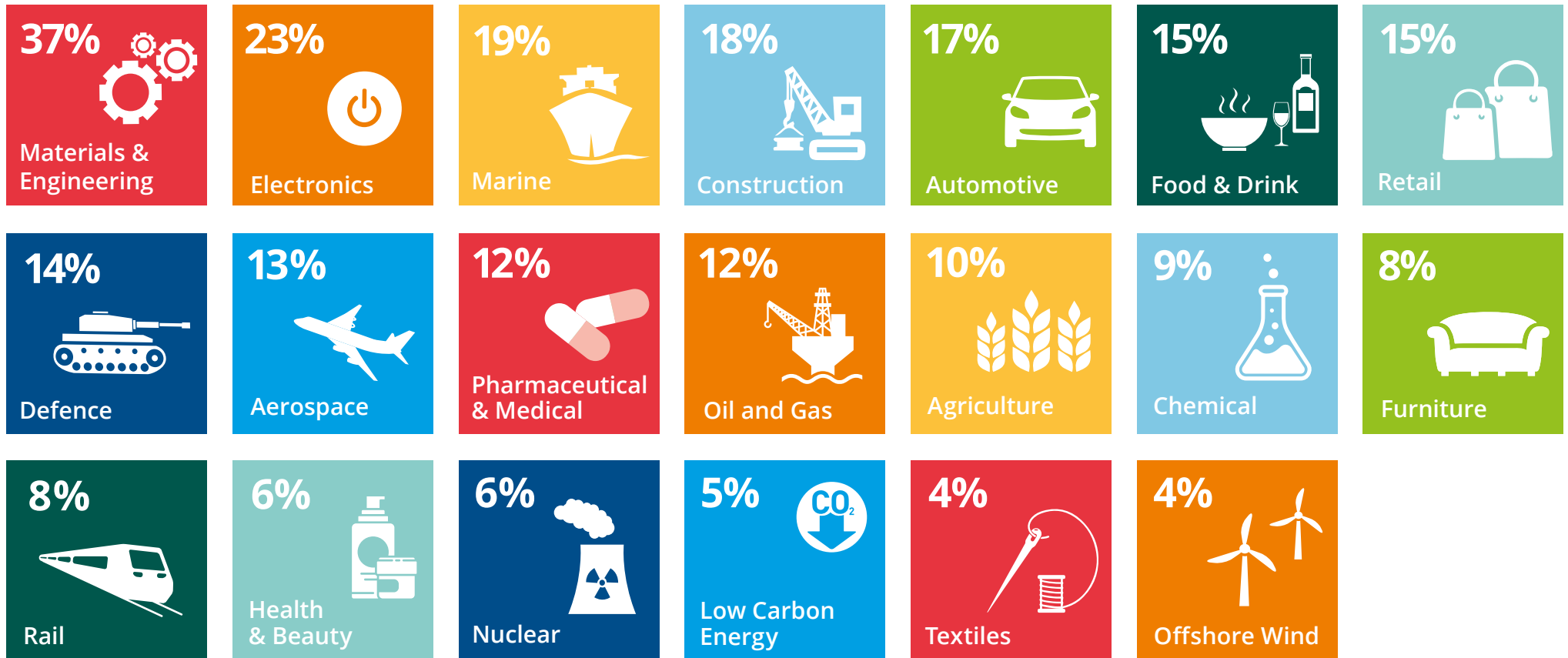
SIZE



- Small
10-49 employees
- Medium
50-249 employees
- Micro
0-9 employees
- Sole Trader

SOUTH WEST **SURVEY DEMOGRAPHICS**





We asked respondents to tell us which of the below key sectors they currently operate in...



 **PAST
SALES &
PROFITS**

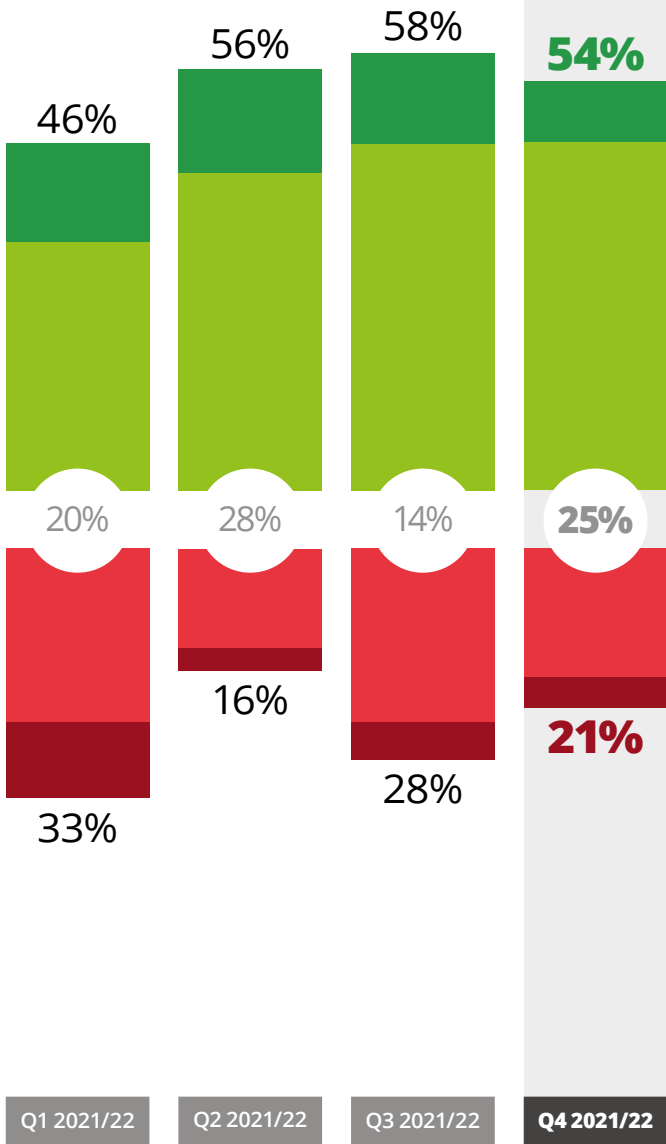
How **sales** turnover and **profits** have changed for SME manufacturers over the **past six months**, compared to the previous three quarters...

KEY

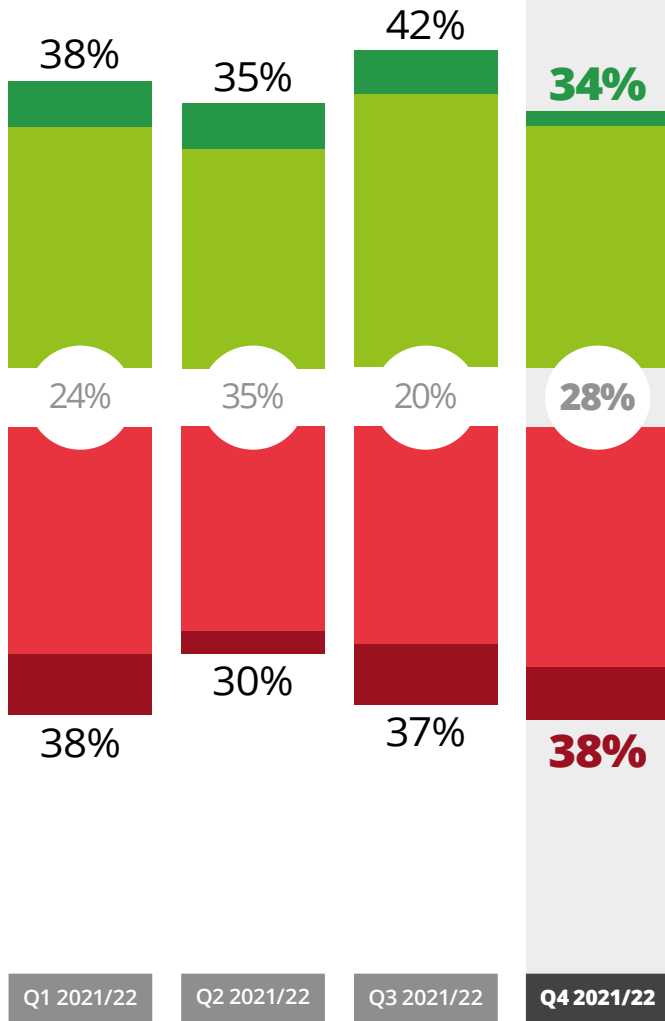
-  Much Increased
-  Increased
-  No change
-  Reduced
-  Much Reduced



SALES
PAST SIX MONTHS



PROFITS
PAST SIX MONTHS



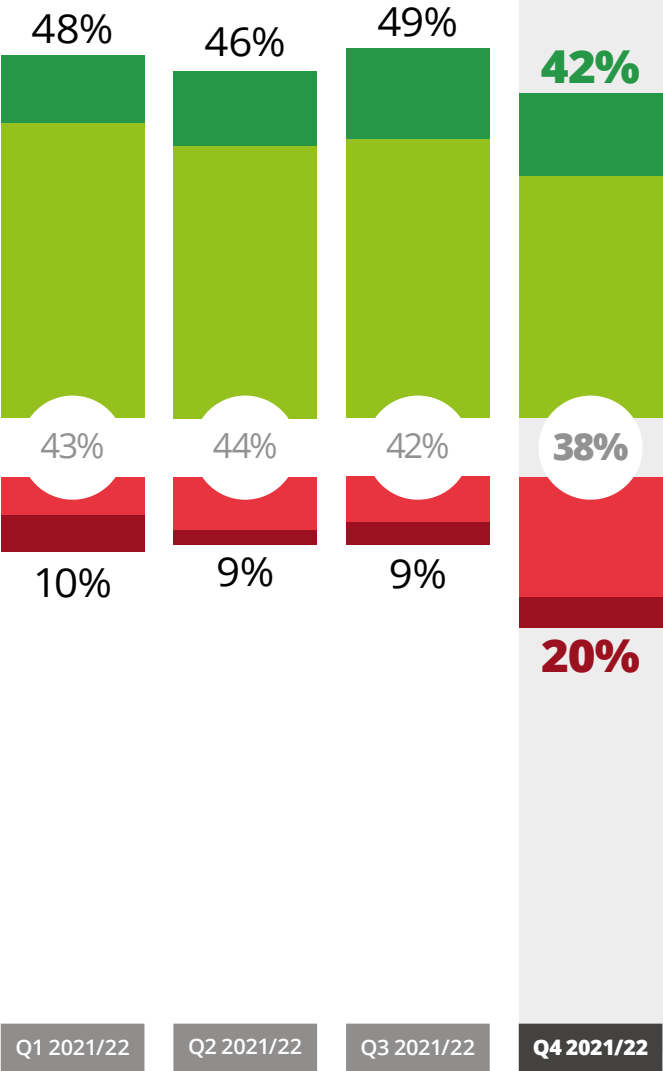
 **PAST CAPITAL INVESTMENT & EMPLOYMENT**

How **capital investment** and **staff numbers** have changed for SME manufacturers over the **past six months**, compared to the previous three quarters...

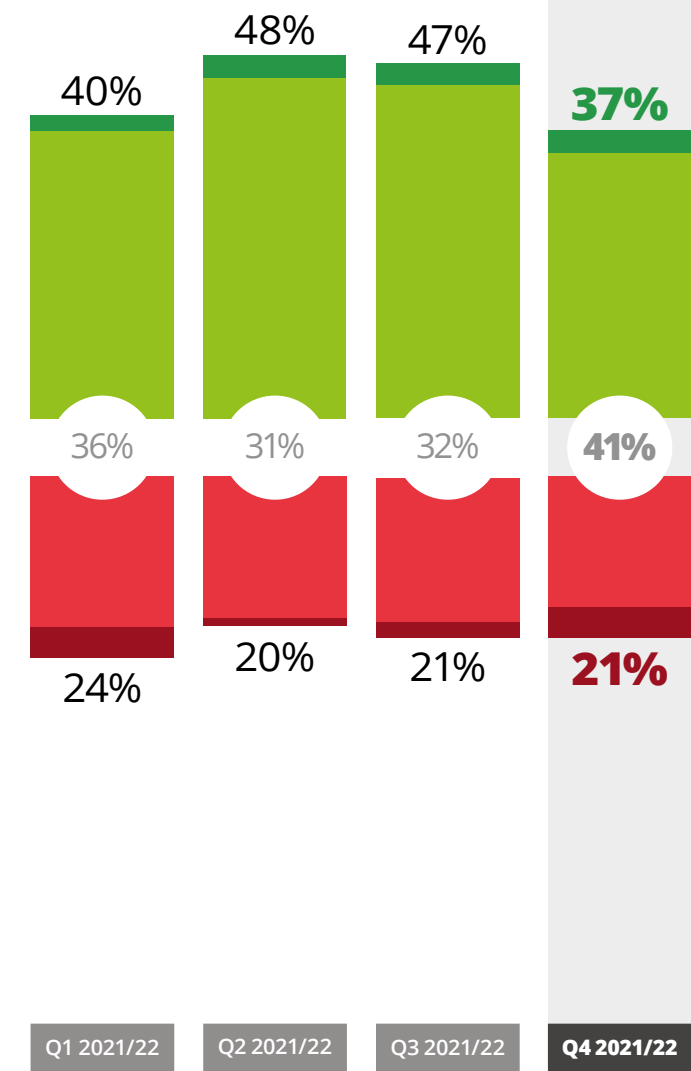
KEY

-  Much Increased
-  Increased
-  No change
-  Reduced
-  Much Reduced

 **CAPITAL INVESTMENT**
PAST SIX MONTHS



 **STAFF NUMBERS**
PAST SIX MONTHS



 **FUTURE
SALES &
PROFITS**

How **sales** turnover and **profits** will change for SME manufacturers over the **next six months**, compared to the previous three quarters...

KEY

Much Increased

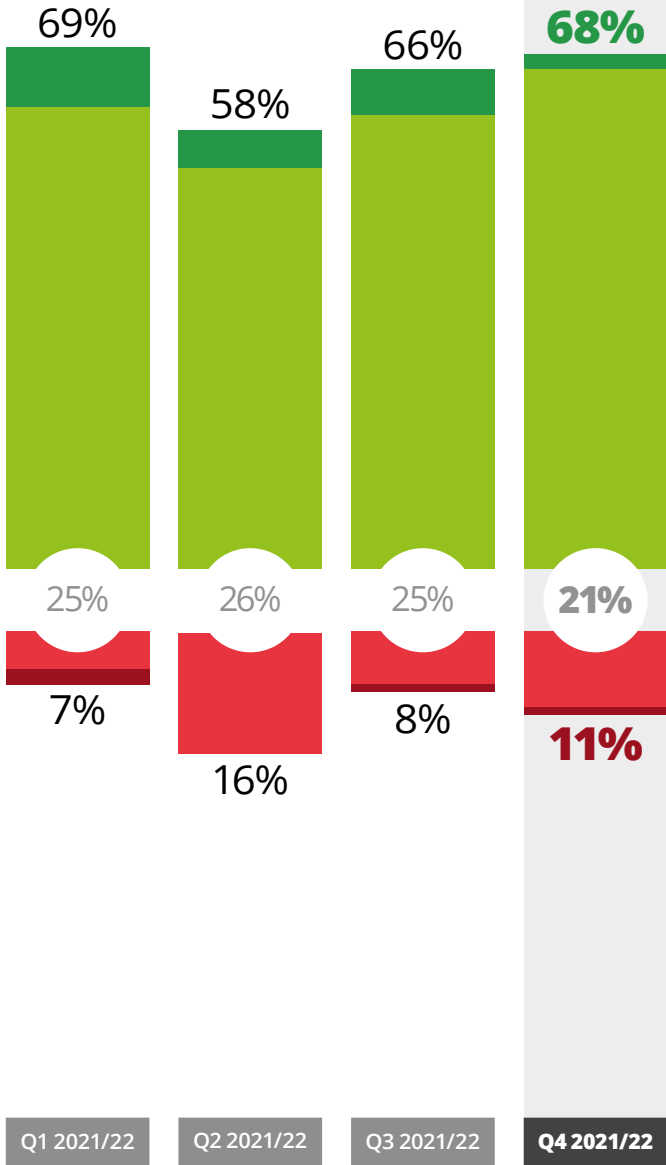
Increased

No change

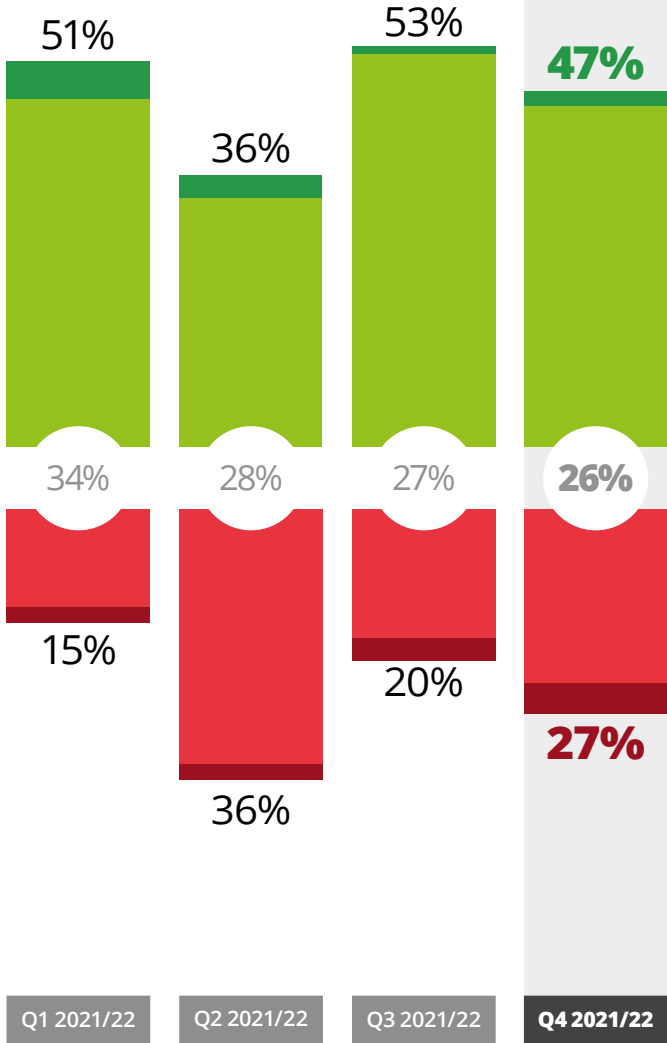
Reduced

Much Reduced

 **SALES**
NEXT SIX MONTHS



 **PROFITS**
NEXT SIX MONTHS



FUTURE CAPITAL INVESTMENT & EMPLOYMENT

How **capital investment** and **staff numbers** will change for SME manufacturers over the **next six months**, compared to the previous three quarters...

KEY

Much Increased

Increased

No change

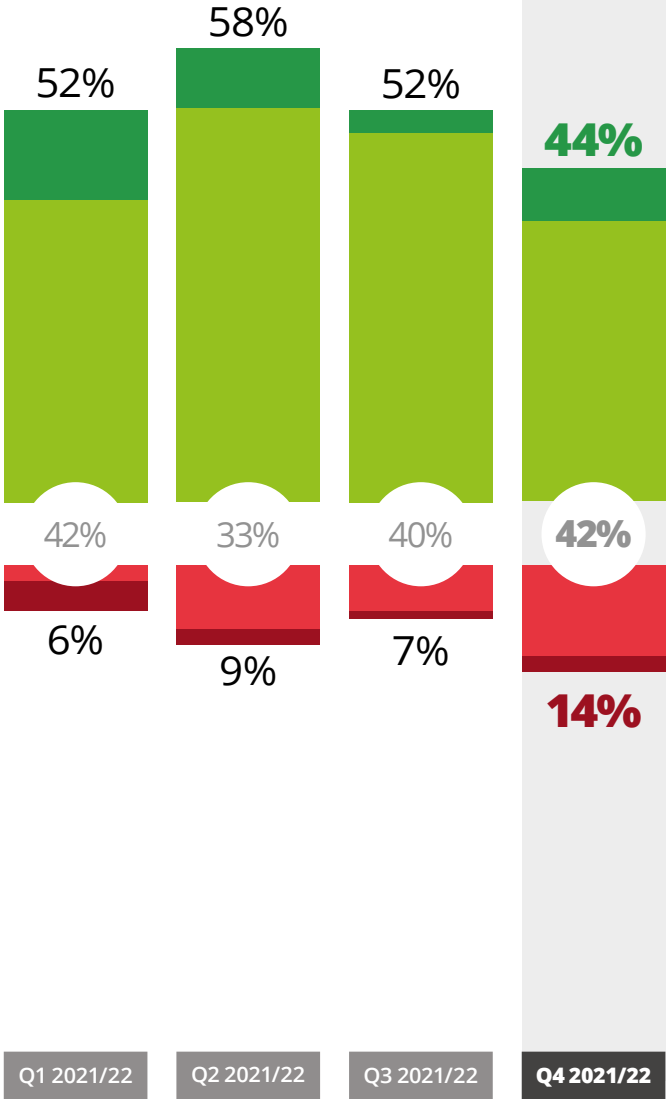
Reduced

Much Reduced



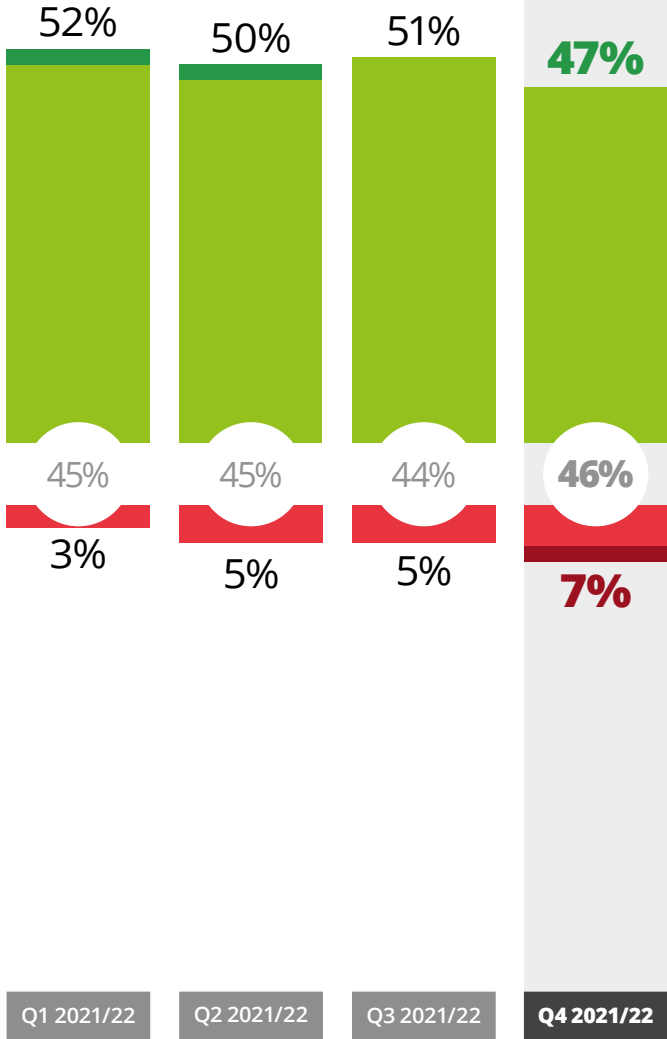
CAPITAL INVESTMENT

NEXT SIX MONTHS



STAFF NUMBERS

NEXT SIX MONTHS





SOUTH WEST
OVERALL CORE TRENDS

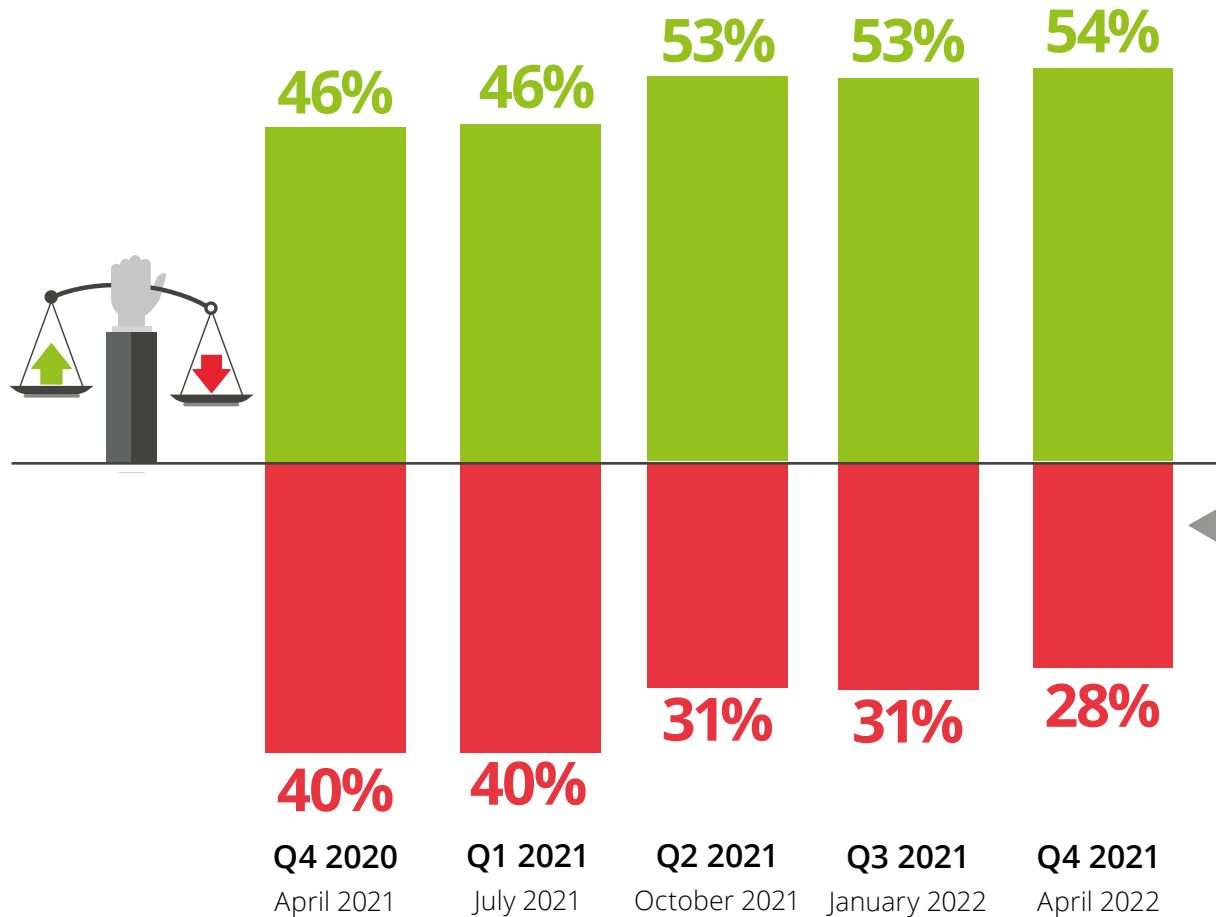
A summary of changes over the past six months
and expected changes over the next six months...

	Much Reduced	Reduced	No Change	Increased	Much Increased
Past sales turnover	4%	17%	25%	46%	8%
Past profit	7%	31%	28%	32%	2%
Past staff numbers	4%	18%	41%	35%	3%
Past Investment	4%	16%	38%	31%	11%
Future sales turnover	1%	10%	21%	66%	2%
Future profit	4%	23%	26%	45%	2%
Future staff numbers	2%	6%	46%	47%	0%
Future investment	2%	12%	42%	37%	7%

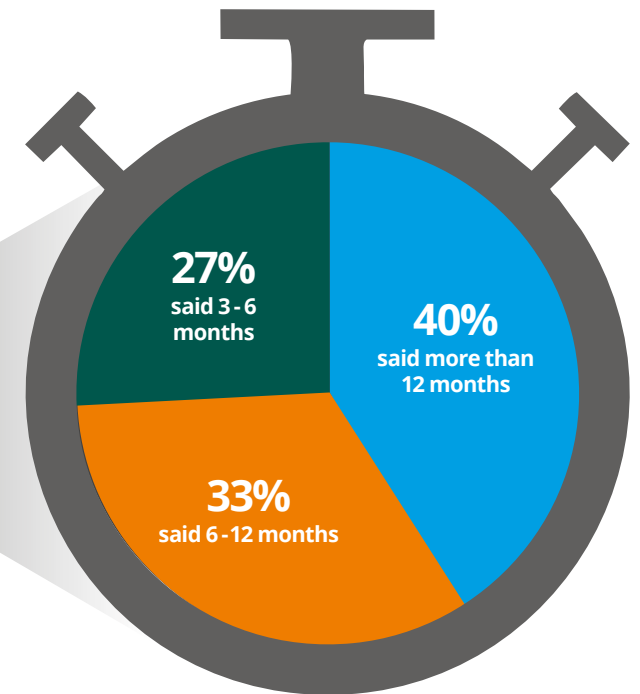


TRADING THROUGH CURRENT CONDITIONS

To track how COVID-19 is continuing to impact the manufacturing sector, we have asked respondents whether their business is trading at increased or reduced levels when compared to their pre-pandemic position...



We asked the **28%** of respondents now trading at **reduced levels** how long they expect recovery to take...



Increased

Reduced

Please note: these figures exclude those who said they have not been affected by the COVID-19 pandemic.

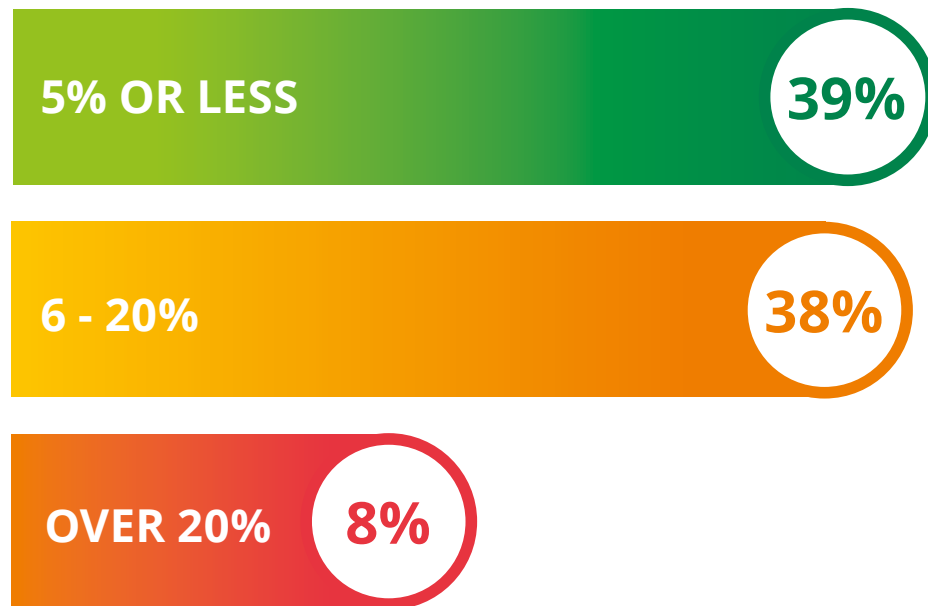
SURVEYED SPRING 2022

MANUFACTURING
barometer



TRADING THROUGH CURRENT CONDITIONS

We asked respondents to indicate the rates of absence they are currently experiencing throughout their workforce...



15% of respondents said this is not an issue

85%

of respondents reported some level of staff absence as a result of Covid-19

(this figure includes staff self isolating)



CORE TRENDS

WHAT DOES THIS QUARTER'S DATA TELL US?

PAST SALES & PROFITS

Over half of South West respondents, reported increased turnover in the last six months, whereas only 34% saw this translate into higher profits (4% lower than reported nationally). 38% of South West respondents said profits were down between October 2021 and March 2022, but less than a quarter reported reduced turnover in the same period. This variance could be due to the increased costs highlighted in this quarter's special focus.

PAST CAPITAL INVESTMENT & EMPLOYMENT

Around 40% of regional respondents increased capital investment over the past six months. However, the number reporting a reduction has grown to 20% against a 9% average over the preceding three quarters. The majority said that staff numbers have remained static, which is similar to the national picture. This could indicate that firms are struggling to find suitably skilled staff, or are reluctant to take on the associated cost of recruitment in the uncertain global market.

FUTURE SALES & PROFITS

Nationally, optimism around sales dropped 6% since last quarter, but the number of South West businesses expecting sales turnover to increase has grown from 66% to 68% (which is 3% higher than reported nationally). However, only 47% of South West respondents are anticipating increased profits, showing that over 20% don't expect future profits to align with sales growth.


FUTURE CAPITAL INVESTMENT & EMPLOYMENT

Just over half of regional respondents (52%) expected to increase investment in January, but this dropped to 44% this quarter, and the number expecting to reduce spending has doubled. When compared to last quarter, those expecting to increase staff numbers is down 4% and there is a slight rise in the number expecting to reduce their workforce over the next six months. This reflects a continued downward trend in confidence in these measures, both nationally and across the South West.

COVID-19 IMPACT SUMMARY OF CURRENT TRADING CONDITIONS

 As reported nationally, it's encouraging to see that **over 50%** of South West firms are continuing to trade at **increased** levels when compared to their pre pandemic position

 However, the impact of COVID-19 is still affecting over a quarter of the regional businesses surveyed, with **28%** reporting **reduced** levels of trade (and 40% of these expecting recovery to take **longer than 12 months**)

 **85%** of respondents have been affected by **staff absence** as a direct result of COVID-19 (5% higher than the national number). This presents an additional barrier to growth and indicates that many South West manufacturers will need to adapt even further to address this issue as we continue to live alongside COVID-19.



SPECIAL FOCUS **MANUFACTURING** **CHALLENGES**

Last quarter, despite positive reports of heightened demand and healthy order books, Barometer respondents across the South West also highlighted how supply chain disruption and price increases are continuing to negatively impact them.

This quarter's special focus asks whether the challenges previously identified are improving or worsening, and explores how energy price increases and other external factors are also affecting SME manufacturers across the region...



SPECIAL FOCUS

MANUFACTURING CHALLENGES

These were the top **barriers to growth** highlighted by around **90%** of respondents in January's South West Barometer report.



Over the past three months these issues have **worsened** for the majority of respondents...



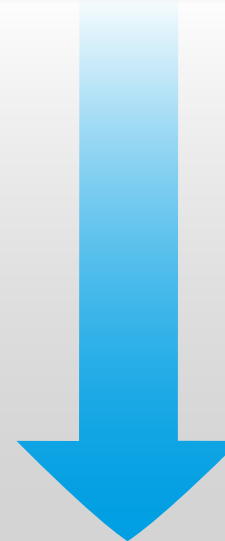
Supply Chain Costs



83%



Longer Lead Times



67%



Supply Chain Disruption

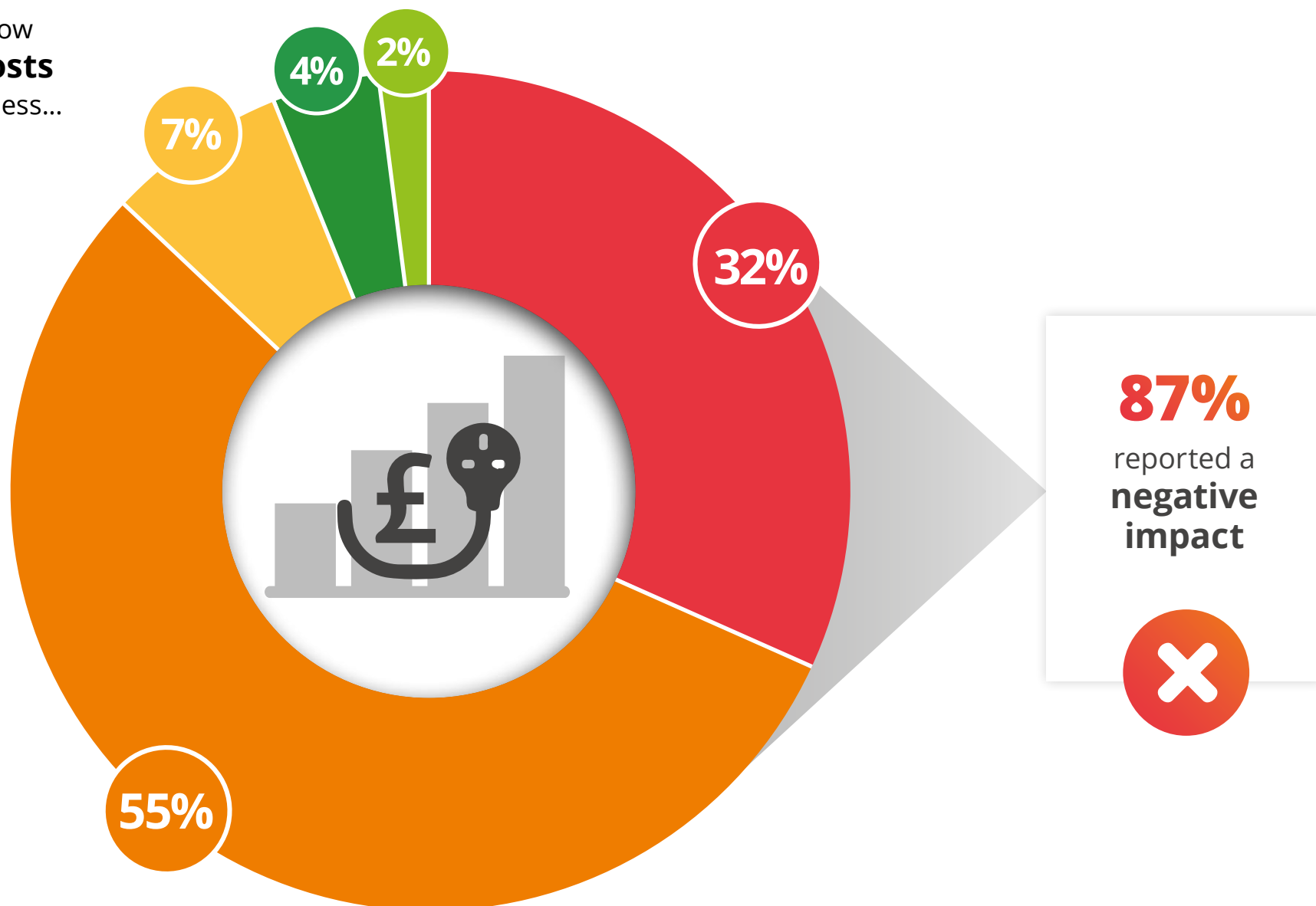


57%



SPECIAL FOCUS MANUFACTURING CHALLENGES

We asked respondents how **changing energy costs** are impacting their business...



KEY

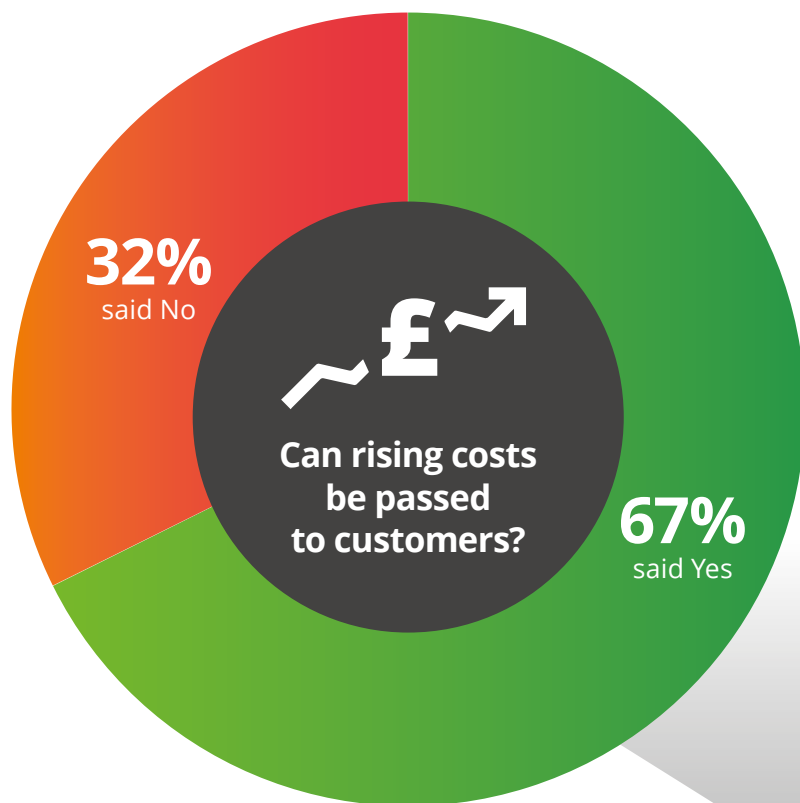
- Significant negative impact
- Moderate negative impact
- No impact
- Moderate positive impact
- Significant positive impact



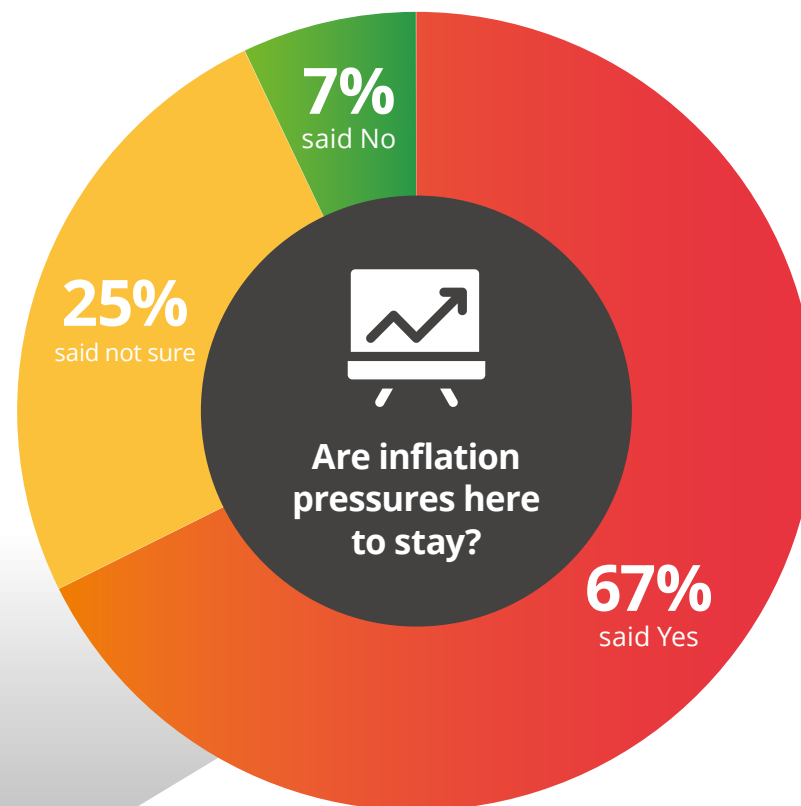
SPECIAL FOCUS

MANUFACTURING CHALLENGES

We asked the following questions to find out how external pressures are affecting SME manufacturers?



1% said not applicable



Over **two thirds** of respondents said they are able to pass **rising costs** on to their customers, and the same percentage believe that **inflation pressures** are here to stay. This indicates that a section of the market is already taking proactive steps to address what they expect to be a long-term challenge.



SPECIAL FOCUS

MANUFACTURING CHALLENGES

We asked businesses if they are currently **struggling to source goods** as a direct result of the conflict between Ukraine and Russia...



Of the **29% who said yes**, here are some of the items they are struggling to source...



Raw materials

Steel, Timber, Birch Plywood, Titanium, Nickel, Aluminium, Copper



Chemicals

Solvents, Phosphoric acid-based solutions



Packaging Materials

Plastic



Electrical Components

Wiring Looms



Inert Gases

Argon



Food Products

Wheat, Maize Starch, Oil, Egg products, Flour, Fishing bait and Fish by-products

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barometer



SPECIAL FOCUS IN SUMMARY

MANUFACTURING CHALLENGES

IN SUMMARY

The overwhelming majority of respondents last quarter indicated three main challenges:



Supply Chain Costs
(92%)



Longer Lead Times
(89%)



Supply Chain Disruption
(94%)

Major global events and energy price changes have occurred in the intervening period.

83% of South West manufacturers said incoming supply chain costs have worsened since last quarter (the same as reported nationally) and 57% said supply chain disruption is getting worse (4% lower than the national number). Furthermore, around two-thirds of respondents (both regionally and nationally) said lead times are getting longer.

Unsurprisingly, and similar to the national picture, 87% of South West respondents said changing energy costs were having a negative impact on their business. This negative impact appears to be most prevalent in Dorset and Swindon & Wiltshire; with all but one of the respondents in each of these counties reporting a moderate or significant negative impact.

Nationally, twelve businesses reported a positive impact, six of which are based in the South West, (three in Gloucestershire, two in Cornwall, and one in Devon). These businesses may supply certain sectors that are experiencing increased production because of the market changes (i.e., solar panel production).

Just over two-thirds of South West manufacturers (67%) believe that inflationary pressures are now here for the long term, and the same percentage said they were able to pass on any rising costs to their customers. These numbers are similar to the national results and indicate that, the majority of businesses are factoring current price increases into their business strategies. With rising costs continuing to be passed from supplier to customer, it seems there will be no short-term solution to the soaring price of both materials and other business overheads.

Nationally, just under a third of manufacturers (31%) said they are struggling to source goods as a direct result of the conflict between Ukraine and Russia, with 29% of South West respondents saying this is causing issues for their business. When breaking down this South West data, the proportion of businesses struggling to source goods was highest across the Heart of the South West LEP (Devon and Somerset) at 38%, followed by Swindon & Wiltshire LEP at 36%.

CORNWALL

Bring more processes in-house to become less reliant on others.

Short-term: align our prices more closely to reflect rising costs.

Medium-term: new marketing/online activities to drive growth.

Long-term: use new digital presence to increase product range/services and throughput of enquiries.

SOMERSET

Short term: manage the recent downturn in business and the increased costs for energy and materials.

Medium-term: look to expand into other sectors, promoting and driving engineering business resilience.

Long-term: be the leader of innovation and change, and embrace the environmental changes that will be required in our core business sector.

The company needs to become profitable again as despite the increase in turnover, rising costs have meant profitability hasn't followed. In the medium term, increase turnover by £300K in year one and in the longer term (4 years) to increase turnover by 60% from last year's.

GLOUCESTERSHIRE

Short term: ensure we can service the debt we needed to introduce to the business over the last two years.

Medium-term: get back to pre-pandemic turnover levels.

Long-term: stabilise the business with profitable trading and return to growth trajectory that we were on.

We wish to strengthen our team with further training, consolidate what we have, and increase sales.

SWINDON & WILTSHIRE

Maintain supply and costs in inflationary market and launch new products to increase growth.

Due to price increases in raw materials and energy we are relying on increasing our in-house efficiencies to remain competitive and retain our customer base.

WEST OF ENGLAND

We have invested in machinery to increase productivity and reduce costs.

Grow and scale up as possible however, with the skills shortage and lack of resource, this will prove extremely difficult.

DEVON

Recovery and stable trading from the two-year pandemic. Stability and increasing operating margin whilst also improving skills and retaining those skills.

Short-term: meet current demand whilst dealing with serious supply chain issues.

Medium-term: prepare the company for continued growth by investing in training and equipment.

Long-term: review overall product range with the aim to reduce variety whilst still fulfilling customer requirements.

DORSET

To stay in business and try to remain profitable while competing for business in a competitive market.

Increase production capability plus speed of production.



MAKE YOUR VOICE HEARD!

[Click here](#) for your invitation to participate in next quarter's Barometer survey.



GOOD NEWS STORIES

Hear how some SME businesses across the South West have made positive changes to overcome challenges and current barriers to growth.

Phonetica

GLOUCESTERSHIRE

This electronic engineering company has developed a device that provides high-accuracy energy reading for individual appliances, to help customers control and cut usage at this critical time.

[Read more...](#)

Grosvenor Pumps

CORNWALL

This innovative pump manufacturing firm has recently launched a procurement service; offering customers in house products, and supplementary equipment from its own established supply chain to help ease their sourcing issues..

[Read more...](#)

Precision Acoustics

DORSET



As a leading global manufacturer of acoustic measurement products, this business addressed a significant supply issue to create additional business opportunities.

[Read more...](#)



Manufacturing is a vital sector of the economy, accounting for 9.7%⁽¹⁾ of the total UK economic output, and this report uncovers the performance, expectations, and confidence levels of those firms based across the South West.

This quarter's survey highlights that, with 68% of businesses still forecasting increasing sales, the positive options for growth seem to be strong for many firms. Despite this, predictions for future staff numbers and capital expenditure to support this sales growth appear lower. This could be due to:

-  **Reported supply chain challenges (sourcing goods and/or extended lead times)**
-  **Challenges in recruiting skilled staff**

These issues may dampen the positive outlook from firms in the short term and have the potential to constrain overall growth going forward.

The region's manufacturers are facing difficulties accessing goods and materials, continued cost increases from suppliers, and rising energy costs. These challenges are only increasing as a result of the conflict in Ukraine and Russia, and the effect this is having on global energy prices.

67% of South West firms have said they are able to pass rising costs on to their customers, with the same percentage of respondents saying they believe that current inflation pressures are here to stay.

This indicates that the majority of regional firms will be adjusting their strategic plans to compensate for rising inflation, which the Bank of England recently predicted could hit 10%.

Through the Levelling Up White Paper, Build Back Better Plan, and Energy White Paper, the government has highlighted the importance of manufacturing and domestic capability, indicating that it wants more goods manufactured here in the UK. Current supply chain challenges around sourcing goods provide a potential opportunity for products to be reshored back to the UK with shorter, more agile, supply chains.

The reshoring appears to be driven by firms attempting to protect their customers from rising prices (wherever possible) by locking companies into longer term contracts, and sourcing with firms who can provide alternatives to their existing supply chain. The question remains - is this a long-term trend, or a short-term issue with customers trying to build inventory levels and buffers to be in a better position to supply?

Those who said rising energy costs are a positive factor appear to be linked to low carbon sectors, which could indicate that they are seeing accelerated growth in products to deal with the high cost of energy. For all firms, energy price increases will challenge production costs, but firms who supply to the low carbon sector appear optimistic about the potential for future growth outweighing the possible cost impact.

⁽¹⁾ [*Source - SN05206.pdf \(parliament.uk\)*](#)





WHAT ARE THE NEXT STEPS FOR UK MANUFACTURING?

To quote the Levelling Up white paper... ***“We must support high-growth businesses and reverse the historic decline in manufacturing in the UK with more of the sort of innovation which characterises economies such as South Korea and Israel.”***

This will only become a reality if the government support UK manufacturing in the form of an easy to access, long-term coherent strategy, focusing on issues such as:

-  **Skills development/recruitment**
-  **Long term finance and incentivisation for capital investment**
-  **Supporting firms to develop their own products and intellectual property**
-  **Digitisation adoption, and support to improve competitiveness**
-  **Net zero transition**

The government announced the UK Shared Prosperity Fund just before Easter, which offers an opportunity to provide coherent support to the manufacturing sector.

The main challenge that needs to be considered in the design of any support for the sector is the fact that small and medium-sized manufacturers are resource constrained. Whilst there may be existing government schemes to support each of these issues, firms are having to apply and provide similar information into multiple sources to access it. There may not be a need for more government-funded schemes, but there does need to be a step change in co-ordination between government support and ease of access.

Planned energy infrastructure investments to transition to low carbon, the associated construction, and potentially defence are all driven by government policy. Now is the perfect time to revive UK manufacturing, but the government must support UK firms to ensure they can access these opportunities.

The UK manufacturing sector still has fantastic capabilities and a unique feature... it is made up of smaller, agile firms who can easily pivot to support new products and customers very quickly. To capitalise on the government intent, support must be accessible to not only high growth larger firms, but also to the small and medium-sized manufacturers who form vital elements of their supply chain.

WHAT IS THE MANUFACTURING BAROMETER?

The UK's largest survey of SME manufacturers; delivered quarterly to capture the views and challenges of small and medium-sized businesses, who account for over 95% of UK manufacturing firms. The reports generated from these findings have informed both government industrial strategy and the national debate on manufacturing.

Run by SWMAS (South West Manufacturing Advisory Service) the Manufacturing Barometer has been recording trends in employment, turnover, and investment for over a decade. Each quarter, a 'special focus' explores topical issues in greater depth, such as productivity, overseas production, and energy efficiency.

WHAT ARE THE BENEFITS?

- The Manufacturing Barometer is exclusively for SMEs, offering them a platform to make their voice heard, in a sector that is often dominated by larger corporations
- SME manufacturers can highlight the specific support they require from Government on a local and national level
- The results can be utilised by respondents to compare their challenges and expectations against those of others across the industry
- It offers vital intelligence to Government to help them plan future industrial strategies that adequately support the needs of SME manufacturers for future sector growth

WHO ARE SWMAS?

SWMAS are experts in productivity and growth and provide fully funded, bespoke support to SME manufacturers across the South West.

If you would like one of our team to help you identify opportunities in your business, or for more information on this report, please get in touch:

info@swmas.co.uk | 01278 767 010 | www.swmas.co.uk

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