MANUFACTURING barometer

NATIONAL REPORT FOR Q4 2021/22

JANUARY, FEBRUARY & MARCH 2022 - SURVEYED IN APRIL 2022

SWMAS

INTRODUCTION

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

This quarterly survey is exclusively for small and medium-sized manufacturing businesses in the UK.

The findings uncover past performance and future expectations in four key areas; sales, profits, investment, and staff numbers, allowing us to map these core trends over time. Each quarter, a 'special focus' also explores a current topic in greater depth to reveal how this is affecting SME businesses across the UK manufacturing industry.

This report will be shared with national and local government representatives to provide a critical insight into small and medium-sized businesses across the manufacturing sector. Thank you to all the businesses who contributed to this quarter's report - every response is vital to help ensure that future support addresses the specific needs highlighted.

CONTENTS

Click on a title below to be directed to that particular page.
Click on the Barometer logo in the page footer to be directed back to this Contents Page.

- Survey Demographics
- National Core Trends
- Trading through Current Conditions
- A Summary of Core Trends and Current Trading Conditions
- Special Focus: Manufacturing Challenges
- Special Focus in Summary
- Business Aspirations
- Conclusion
- About the Manufacturing Barometer

NATIONAL

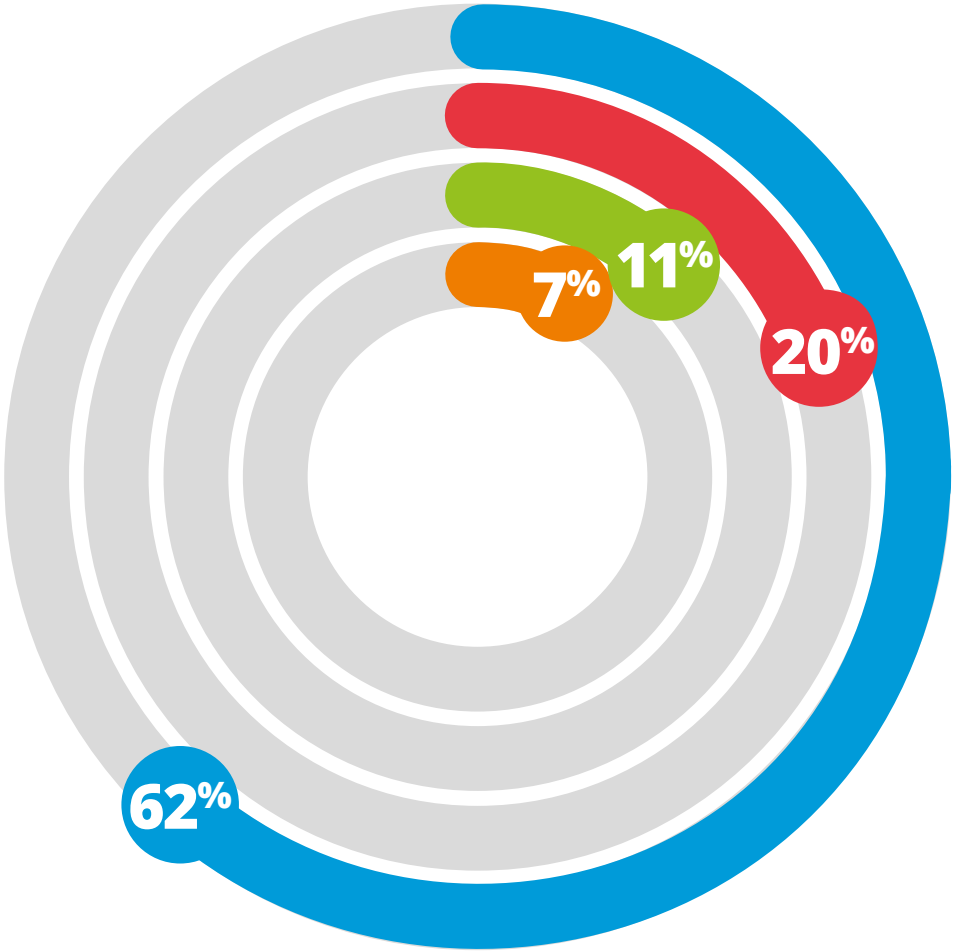
SURVEY DEMOGRAPHICS

189 RESPONDENTS

82%

of respondents are Managing Directors, CEOs or Directors

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



KEY

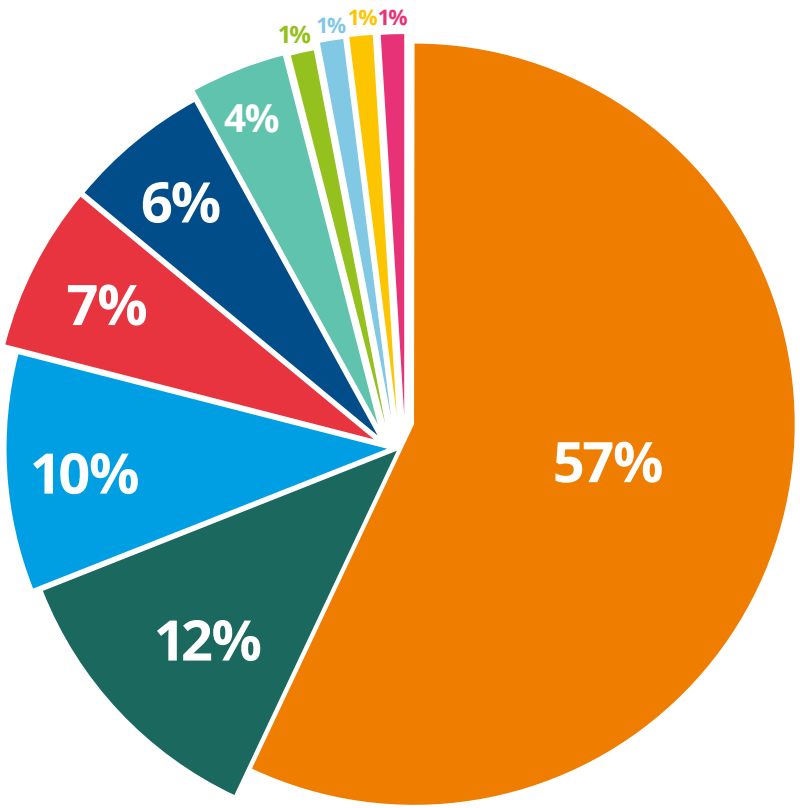
- MD/CEO
- Director
- Senior Manager
- Other

NATIONAL

SURVEY DEMOGRAPHICS

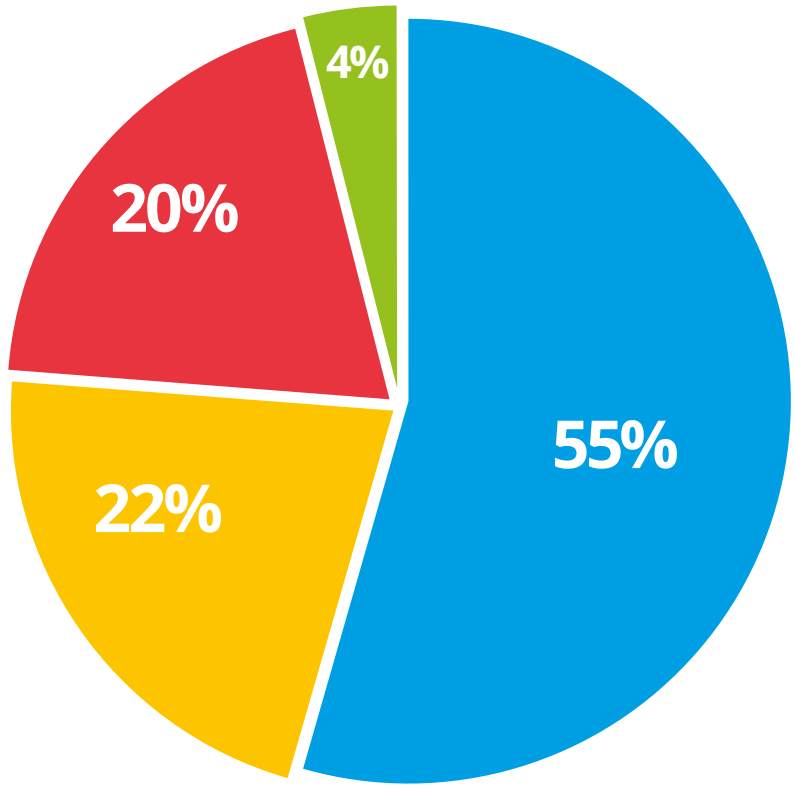
189 RESPONDENTS

LOCATION



- South West
- West Midlands
- South East
- East Midlands
- Yorkshire & Humber
- East of England
- North West
- North East
- Wales
- London

SIZE



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

NATIONAL

SURVEY DEMOGRAPHICS

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

- 34% Materials & Engineering
- 22% Construction
- 17% Electronics
- 17% Automotive
- 16% Food & Drink
- 14% Marine
- 12% Aerospace
- 12% Retail
- 12% Pharmaceutical & Medical
- 11% Defence
- 9% Agriculture
- 9% Oil and Gas
- 8% Furniture
- 7% Chemical
- 6% Health & Beauty
- 5% Low Carbon Energy
- 5% Rail
- 5% Textiles
- 4% Nuclear
- 3% Offshore Wind

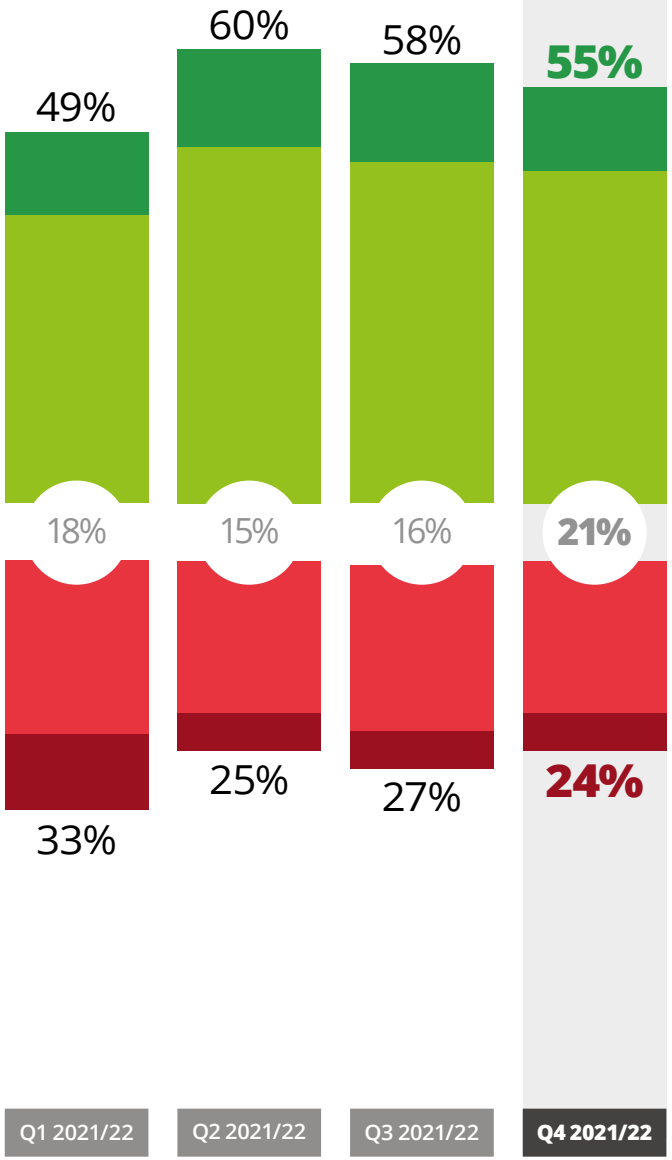
PAST SALES & PROFITS

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

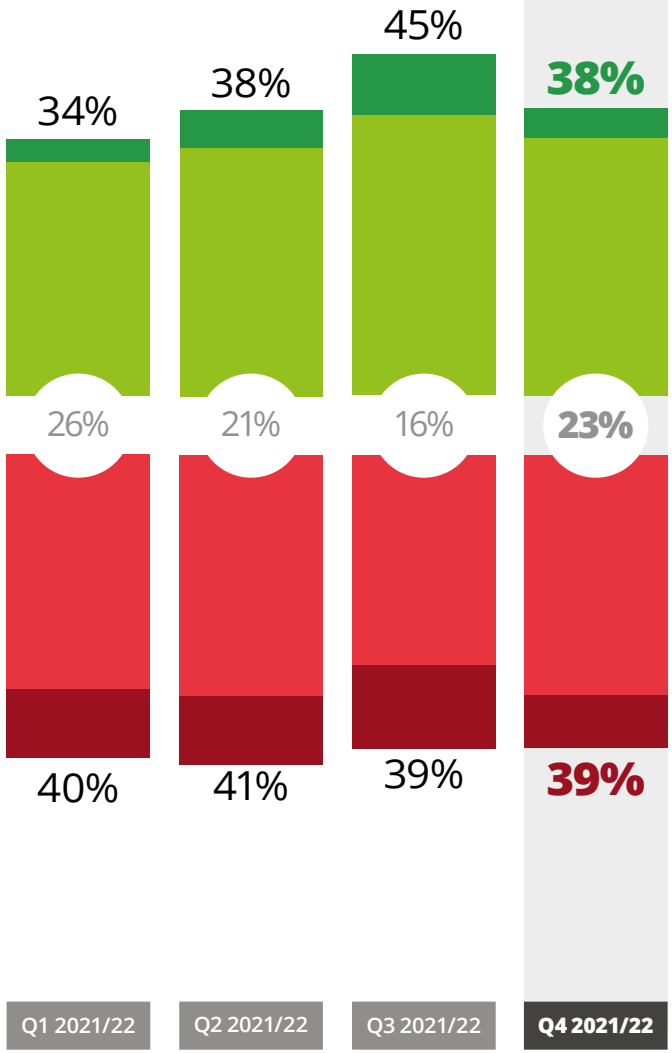
KEY

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

SALES
PAST SIX MONTHS



PROFITS
PAST SIX MONTHS



PAST CAPITAL INVESTMENT & EMPLOYMENT

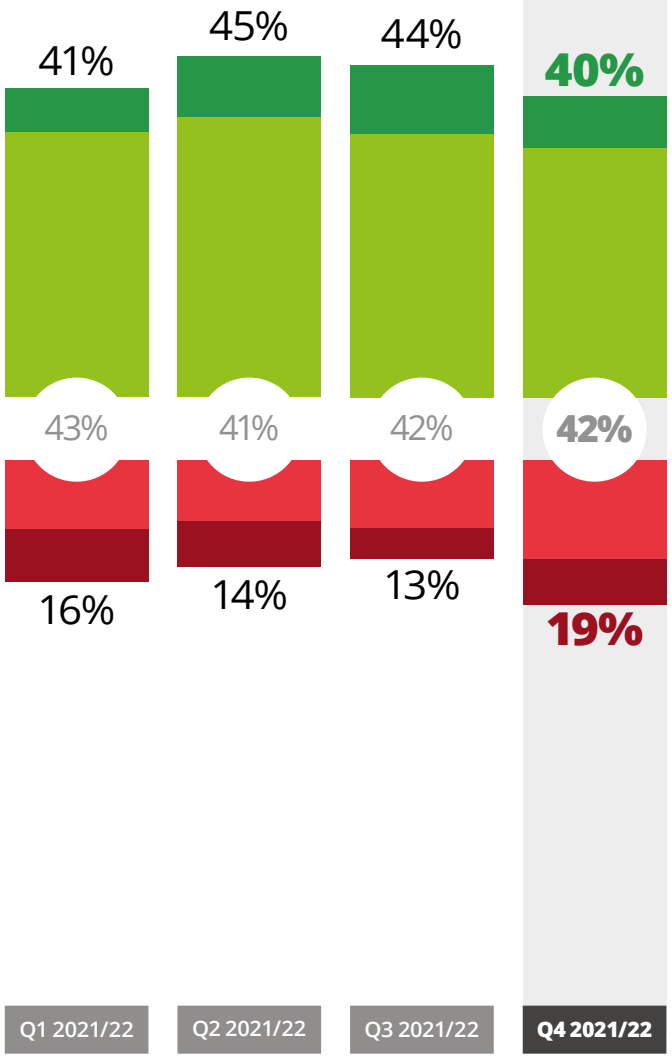
How **capital investment** and **staff numbers** have changed for SME manufacturers over the **past six months**, compared to the previous three quarters...

KEY

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

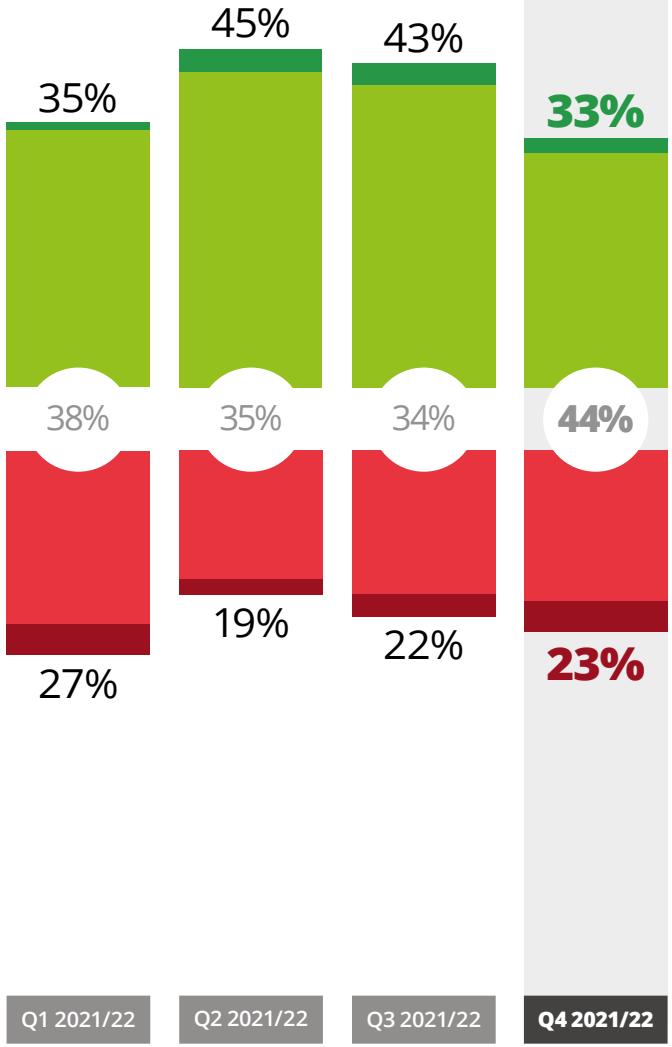
CAPITAL INVESTMENT

PAST SIX MONTHS



STAFF NUMBERS

PAST SIX MONTHS



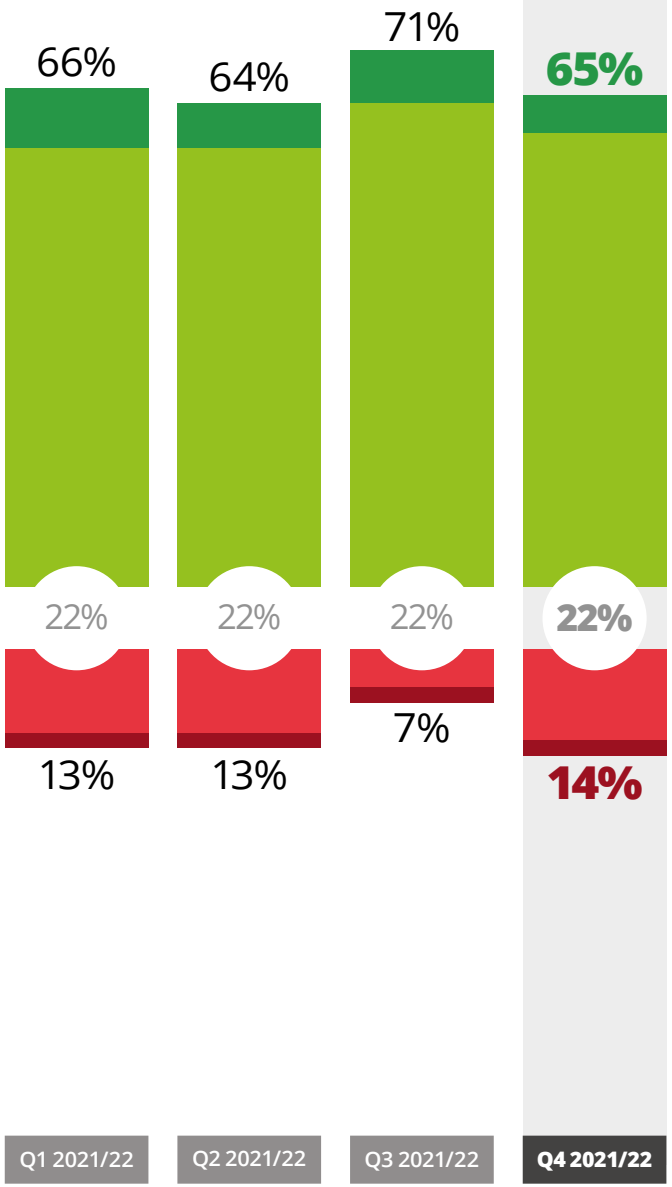
FUTURE SALES & PROFITS

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

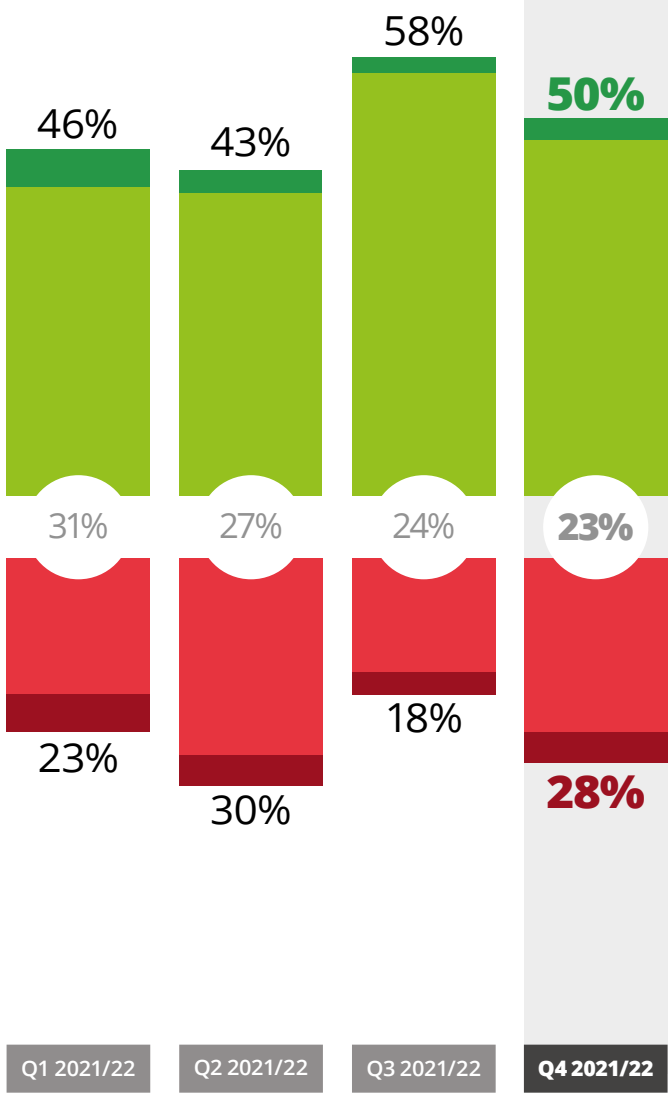
KEY

- 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...

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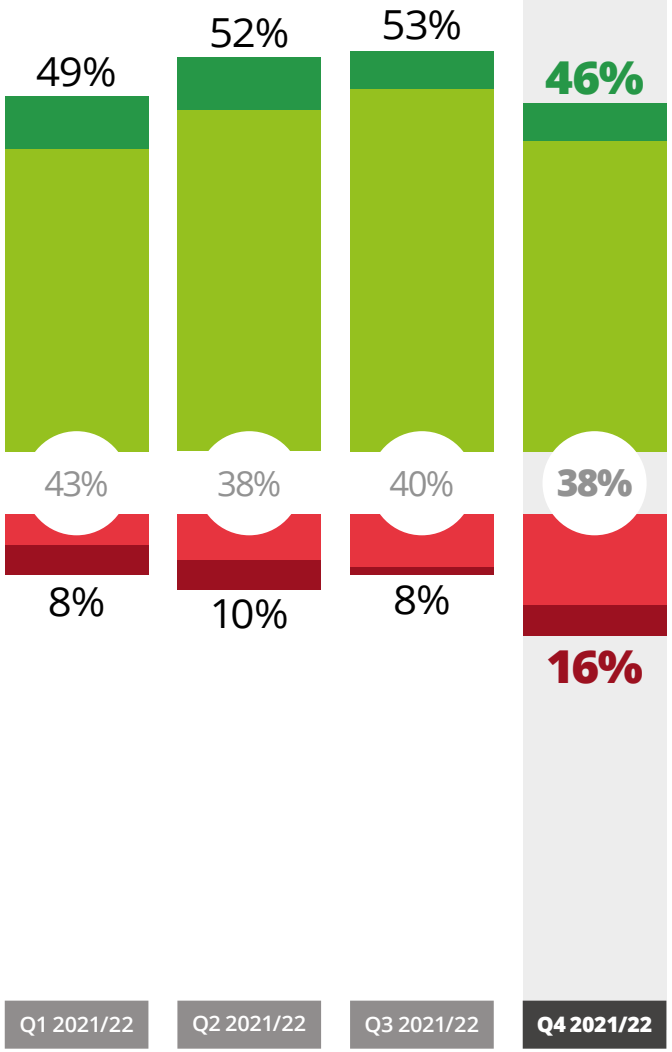
- Reduced
- Much Reduced

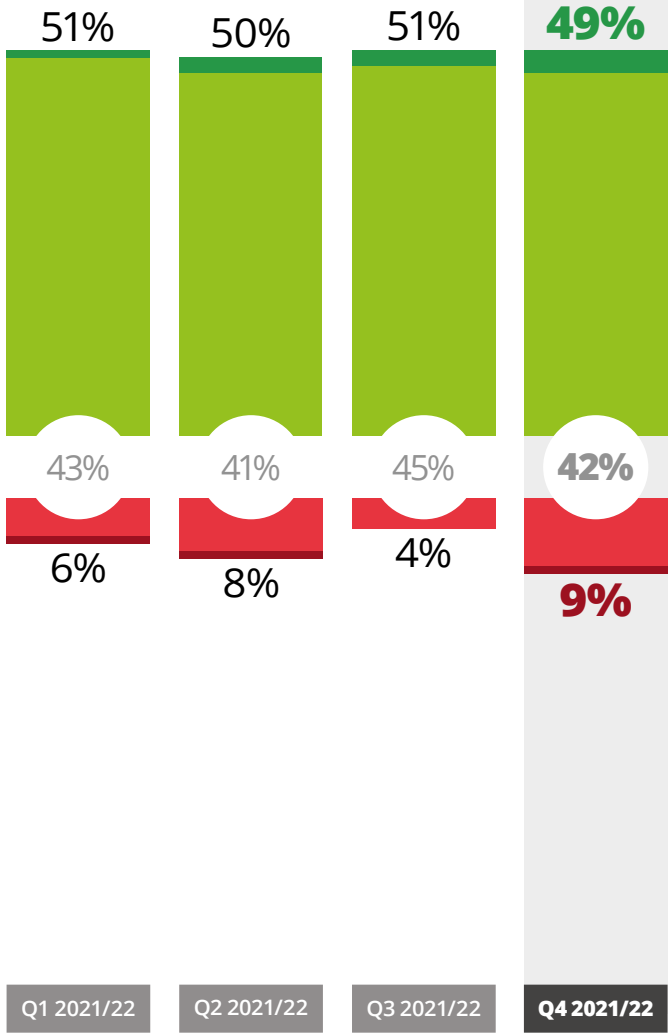
CAPITAL INVESTMENT

NEXT SIX MONTHS



STAFF NUMBERS

NEXT SIX MONTHS



NATIONAL

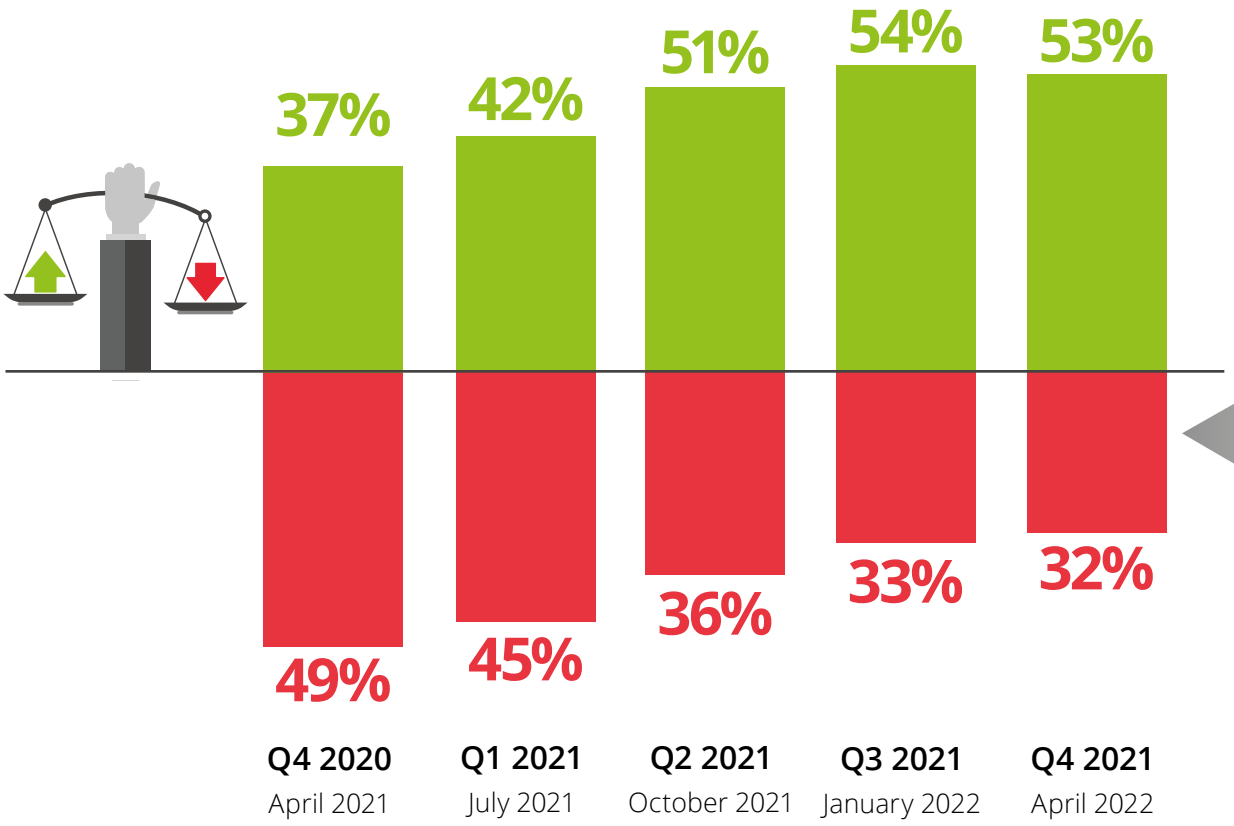
OVERALL CORE TRENDS

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

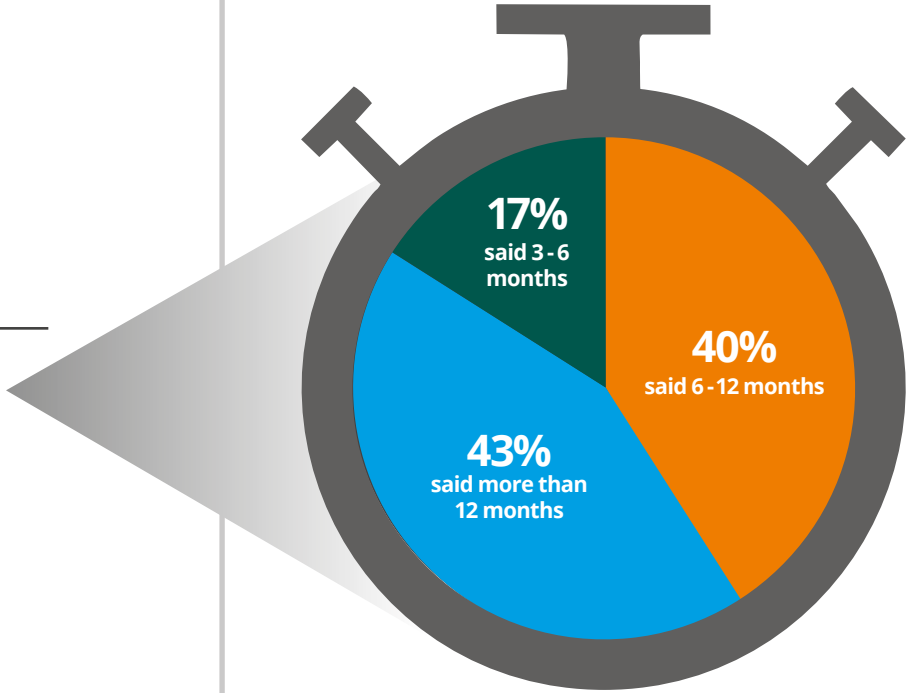
	Much Reduced	Reduced	No Change	Increased	Much Increased
Past sales turnover	4%	20%	21%	**44%**	11%
Past profit	7%	32%	23%	**34%**	4%
Past staff numbers	4%	20%	**44%**	31%	2%
Past Investment	6%	13%	**42%**	33%	7%
Future sales turnover	2%	12%	22%	**60%**	5%
Future profit	4%	23%	23%	**47%**	3%
Future staff numbers	1%	8%	42%	**48%**	1%
Future investment	4%	12%	38%	**41%**	5%

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...



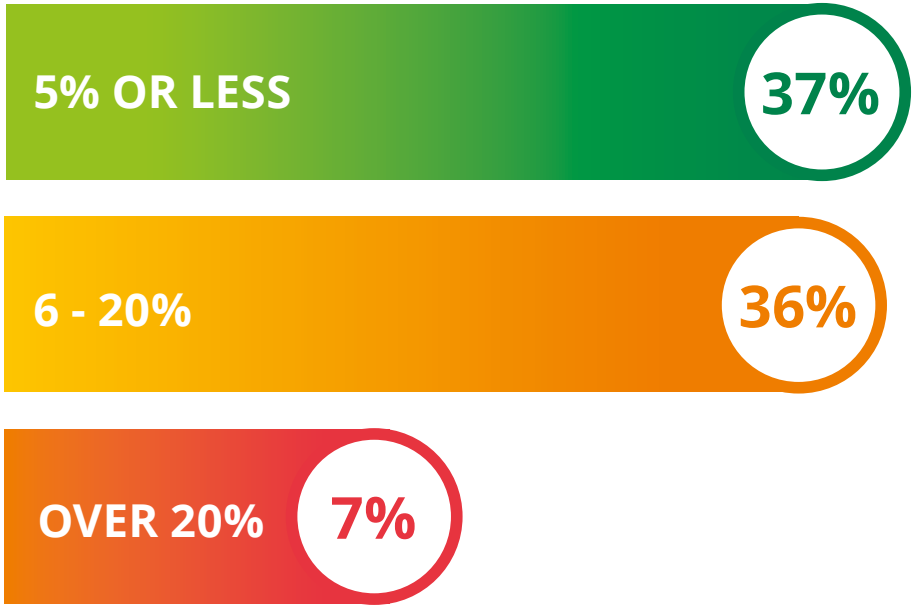
We asked the **32%** of respondents now trading at **reduced levels** how long they expect recovery to take...



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

TRADING THROUGH CURRENT CONDITIONS

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



20% of respondents said this is not an issue

80%

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

Past performance figures indicate that the plans and adjustments already put into place remain static for many firms at this time.

Although the majority of respondents (55%) reported increased turnover, this did not translate into higher profits, with only 38% seeing this rise over the past six months.

PAST CAPITAL INVESTMENT & EMPLOYMENT

Despite reports of increased turnover, the majority of respondents did not look to change capital investment plans or staff numbers. This could either indicate that firms still have sufficient staff to enable further growth, or that they are reluctant to take on the associated cost of recruitment and/or capital investment in the uncertain global market.

FUTURE SALES & PROFITS

Despite future growth forecasts appearing positive this quarter, optimism has reduced since the last survey was conducted three months ago. In addition, there is still a significant difference between sales and profit predictions... 65% are expecting turnover to increase over the coming months but only 50% predict a rise in future profits.

FUTURE CAPITAL INVESTMENT & EMPLOYMENT

When looking at future investment, it's encouraging to see that the majority of firms are planning to invest in machinery or staff between now and September to support business growth. However, over a third are not planning to make changes, and the percentage of respondents expecting to reduce staff numbers and capital investment is higher than it's been since January 2021.

COVID-19 IMPACT

SUMMARY OF CURRENT TRADING CONDITIONS

- It's encouraging to see that **over 50%** are continuing to trade at **increased** levels when compared to their pre pandemic position
- However, the impact of COVID-19 is still affecting almost a third of the SME manufacturing businesses surveyed, with **32%** reporting **reduced** levels of trade (and **40%** of these expecting recovery to take **longer than 12 months**)
- **80%** of respondents have been affected by **staff absence** as a direct result of COVID-19. This presents an additional barrier to growth and indicates that many businesses will need to adapt even further to address this issue as we continue to live alongside COVID-19

SPECIAL FOCUS
MANUFACTURING CHALLENGES

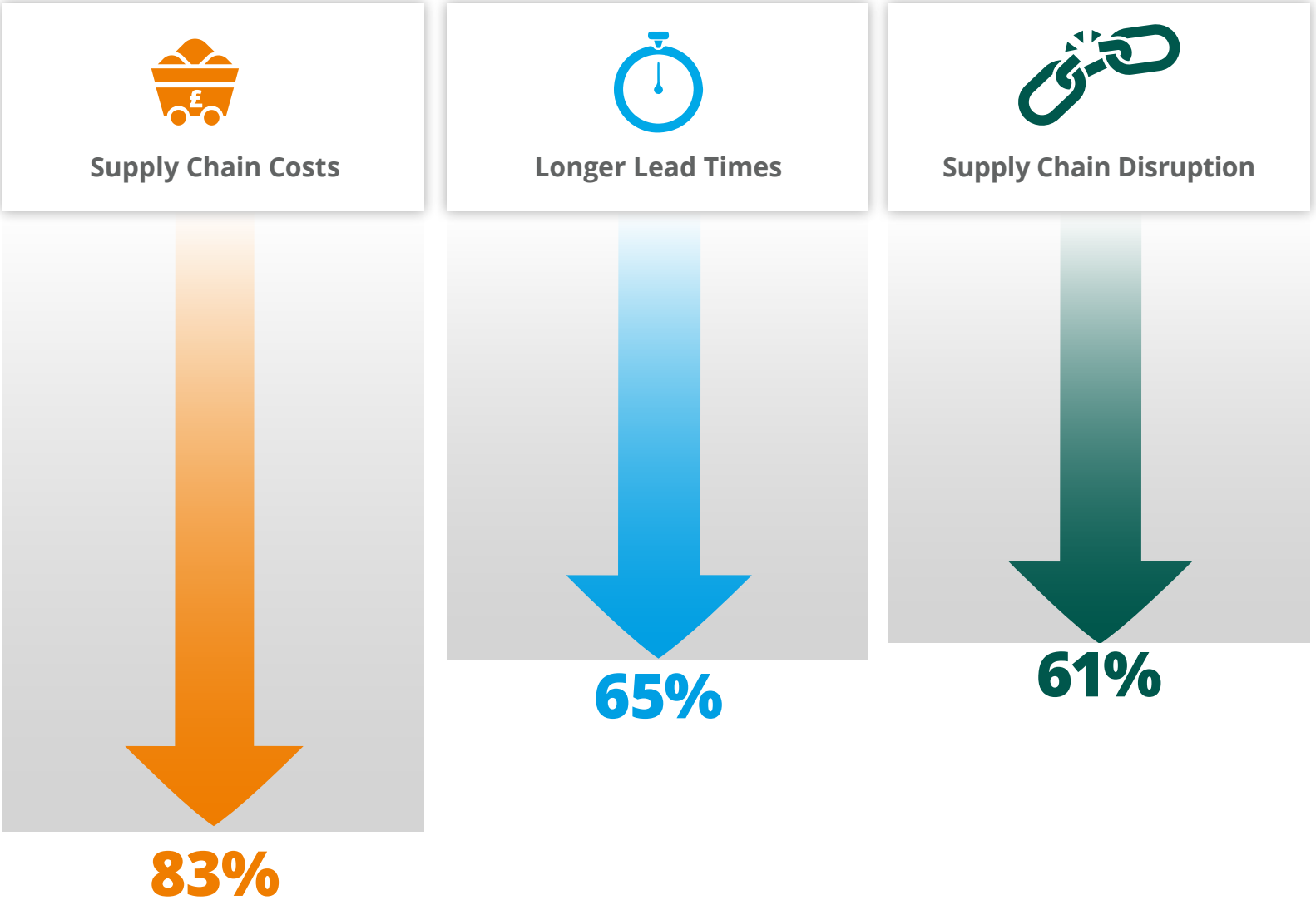
Last quarter, despite positive reports of heightened demand and healthy order books, Barometer respondents also highlighted how supply chain disruption and price increases are continuing to negatively impact them.

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 the UK's SME manufacturing sector...

MANUFACTURING CHALLENGES

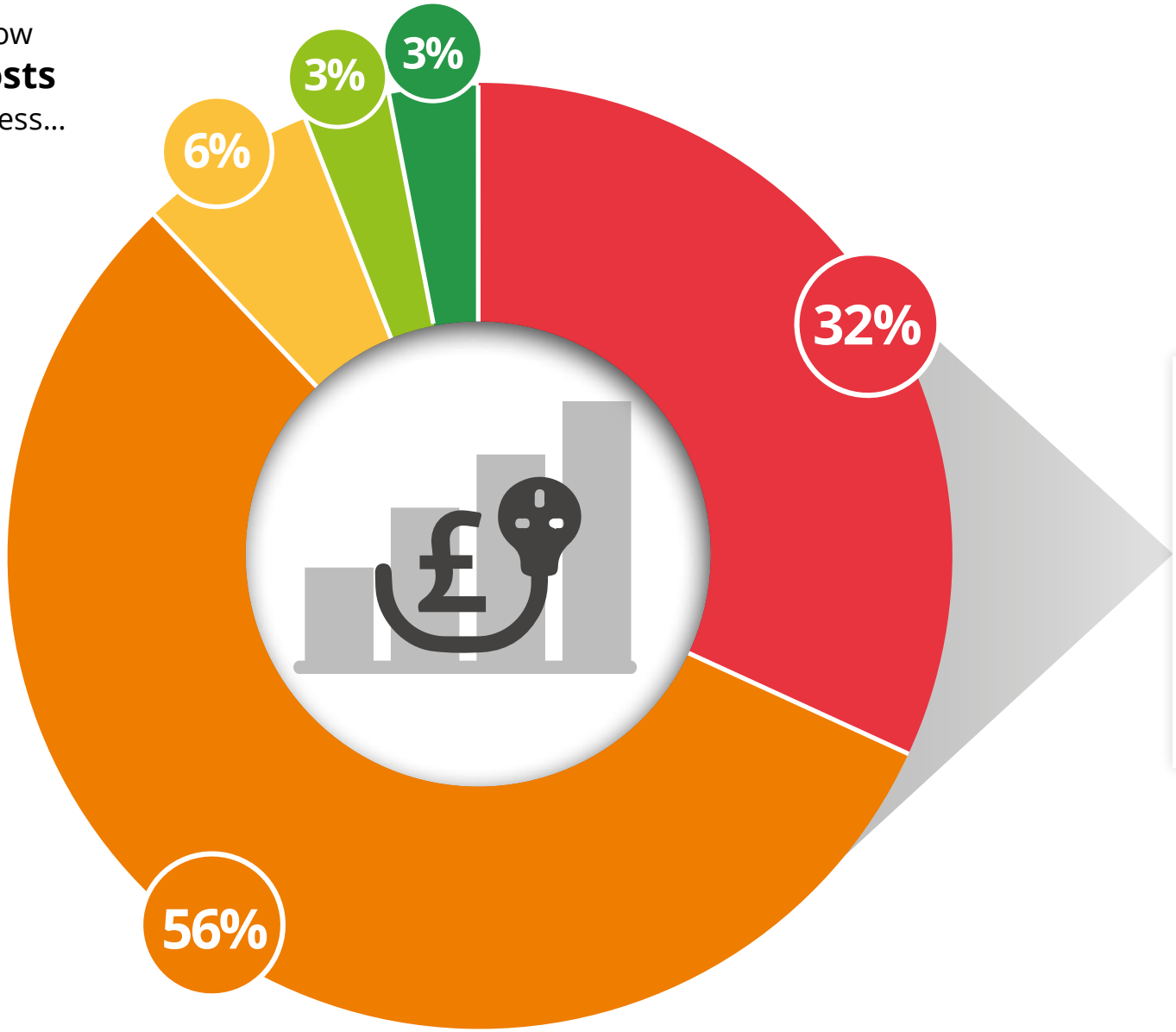
These were the top **barriers to growth** highlighted by over **90%** of respondents in January's Barometer report.

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



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

88% reported a **negative impact**

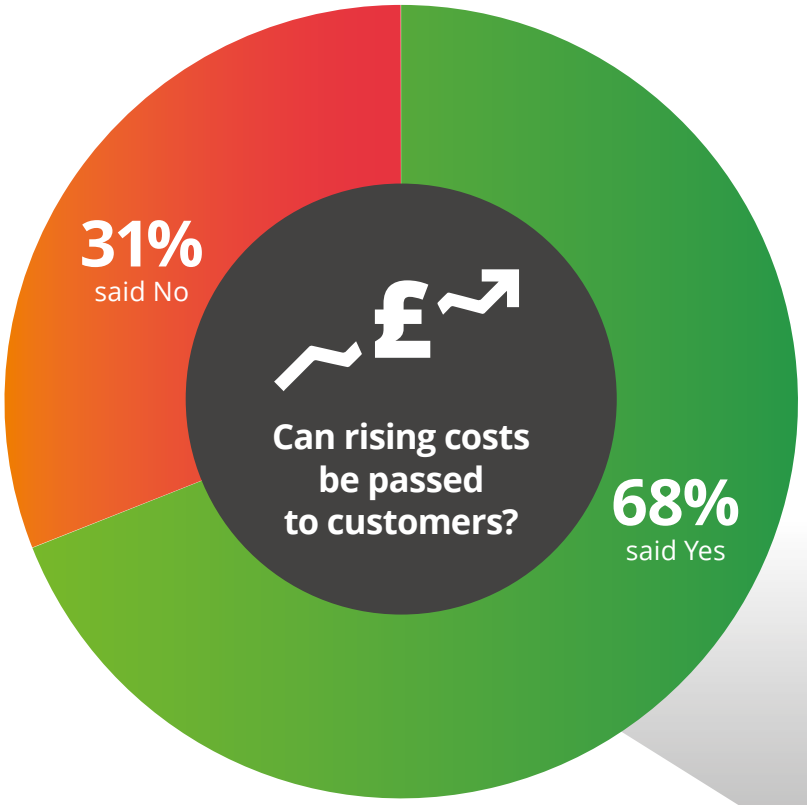
SURVEYED SPRING 2022

MANUFACTURING barometer

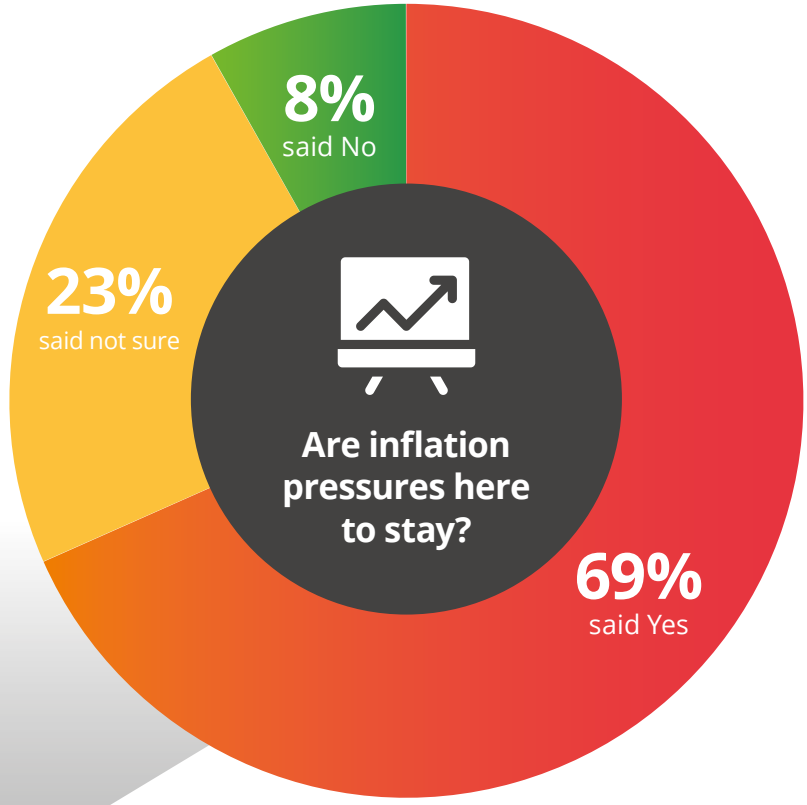
SPECIAL FOCUS

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 a similar number 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 **31% 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, Paper, Cardboard

Electrical Components
Wiring Looms, Integrated circuits (IC)

Inert Gases
Argon

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

MANUFACTURING CHALLENGES

IN SUMMARY

The overwhelming majority of respondents last quarter indicated 3 main challenges:

Supply Chain Costs
(92%)

Longer Lead Times
(90%)

Supply Chain Disruption
(93%)

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

This quarter, and in all cases, the majority of respondents have indicated that this has made the situation worse.

Unsurprisingly, 88% of the firms surveyed said that rising energy prices are having a negative effect on their business. Of the 6% who indicated that the rising energy costs were having a positive effect, there appears to be two groups...

75% of firms in this category have not needed to renegotiate their contracts recently, so may be seeing a benefit from improved competitive position against others in the market.

The other group are in sectors such as solar panel production which could indicate an expectation of increased production as a result of the market changes.

Almost 70% of firms said they are able to pass rising costs on to their customers, which almost mirrors the number of respondents who believe inflation is now here for the long term. 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.

In addition, just under a third of the companies surveyed have indicated that they are struggling to source certain goods as a result of the conflict in Ukraine. The types of products which are being reported fall into the following categories:

- **Raw materials**
- **Chemicals**
- **Electrical Components**
- **Inert Gases**
- **Food Products**
- **Packaging Materials**

*(please **click here** for further details)*

BUSINESS ASPIRATIONS

WEST MIDLANDS

Increasing emphasis on digital selling, and re-assessment of manufacturing process given supply chain challenges.

Short-term: survive without digging too deep into cash and increase marketing activity.

Medium-term: extend development of own products.

Long-term: expand premises with additional R&D facility.

EAST OF ENGLAND

Short-term: trying to stabilise after pandemic and world market costs.

Medium-term: start to increase turnover.

Long term: increase profits back to previous levels.

To get several pre-production prototypes to completion.

NORTH WEST

Upgrade machinery and buildings in order to diversify production. Increase training of staff to become more capable of handling different machines and products with less supervision.

SOUTH WEST

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

With massively rising costs, and staff still impossible to find, I am investing almost 100% of my profits into boosting production capacity, and automating as many operations as possible. The business is also looking at "green" options (such as solar panels) to reduce costs and carbon footprint.

NORTH EAST

Introduce a new range of products to boost our sales.

Maintain growth in the business in the short term.

YORKSHIRE & HUMBER

We are looking to increase profitability, adding further in house operations.

We have a full order book but are struggling to attract and keep new personnel.

SOUTH EAST

Cautious, manageable, and risk free expansion.

We are heavily dependent on steel prices and the supply. The sector has been hit hard by energy and steel prices because of the Ukraine conflict... I am expecting further issues and a downturn.

EAST MIDLANDS

As we are in fuel-saving for trucks, we expect growth over the next 2 or 3 years, and are developing new products for that market. We are also developing a product for Infection Control, which, quite apart from Covid, is a pressing need in hospitals.

To exist is now the priority, with a lack of raw materials and extortionate costs to look forward to it is currently a knife edge situation.

MAKE YOUR VOICE HEARD!

Click here for your invitation to participate in next quarter's Barometer survey.

CONCLUSION

Manufacturing is a vital sector of the economy, accounting for 9.7%[1] of the total UK economic output.

This quarter's survey highlights that, with 65% of businesses still forecasting increasing sales, the positive options for growth seem to be strong for the majority of 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.

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

There is a positive correlation between those firms who can pass rising costs on to their customers (68%) and the outlook on whether inflation is long term or short term (with 69% believing it is here to stay). This indicates that the majority of 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 (there appears to be some evidence of this in the survey comments).

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.

MANUFACTURING
barometer

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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