Manufacturing Outlook Report
2022/23

In Association with CBM

Key findings

Where has the majority of your financing come from?

Using own cash/resource

43%

In the next 12 months, do you expect turnover to:

Grow

60%

What is your main barrier to growth in the next 12 months?

Global and Economic conditions

38%

Have you made an R&D claim in the past year?

Yes

38%

What is your main barrier to growth in the next 12 months?

Brexit

6%

Have you invested in becoming carbon neutral?

Yes

66%

Is government support for the sector adequate?

No

81%

Have your wages increased in line with inflation / the cost of living?

No

62%

Do you think Industry 4.0 will start to replace the more traditional manufacturing methods?

Partially

48%

Introduction

A very warm welcome to our Manufacturing Outlook Report.

The results that follow were collated from our annual survey, respondents across the UK manufacturing community gave us their views during the autumn of 2022, during a continued period of political and commercial uncertainty, which to a large extent, has continued into 2023.

The prospects for the future are certainly challenging but of course, opportunity presents itself regardless and we hope that these results and our commentary will help you to capitalise on them.

I hope you find this report of interest and use.

If any of the matters raised here provoke the need for advice or just to comment and chat through issues, please do not hesitate to get in touch with either myself or your usual Crowe contact.

Jonathan Dudley
Partner and Head of Manufacturing, Crowe

A few words from our survey partner, The Confederation of British Metalforming (CBM)

At the CBM we've said many times the manufacturing sector has been resilient over the past few years, with the challenges they've had to face, and its clear they will need these qualities, together with a tenacious streak, to get through the current headwinds they face.

It's difficult to find any positives from media sources or economists as there is always a downturn around the corner, always a negative to find despite the qualities we've seen from our sector. Against this background it's hardly surprising that we see a slight drop in optimism on turnover growth in the survey.

The importance of our sector to the economy, with £138 billion output and delivering over 50% of UK exports, plays a key part in supporting the UK's GDP. However, you wouldn't think so given the lack of government support, unless there are votes involved or good news story they aren't interested, as we've witnessed with the total lack of Industrial Strategy and lack of ongoing support for business, with 81% saying it was insufficient.

This was highlighted by the failure to extend payment terms on CBIL loans, which we lobbied for. More recently we've seen the reduction of the R&D scheme in the autumn statement and now the reduction of the energy support scheme from April, which will have severe cashflow implications on already stretched businesses.

As a Trade Association, we've spent more time lobbying to support members on issues, rather than supporting them on Innovation and Investment.

Whilst there are still opportunities for growth, which we've encouraged, its understandable with a lack of funding, pressure on cashflow and still uncertainty on future demand, that survival is still very much at the forefront of the manufacturing sector. As always with the challenges we still face going forward, we will be here to support our members.

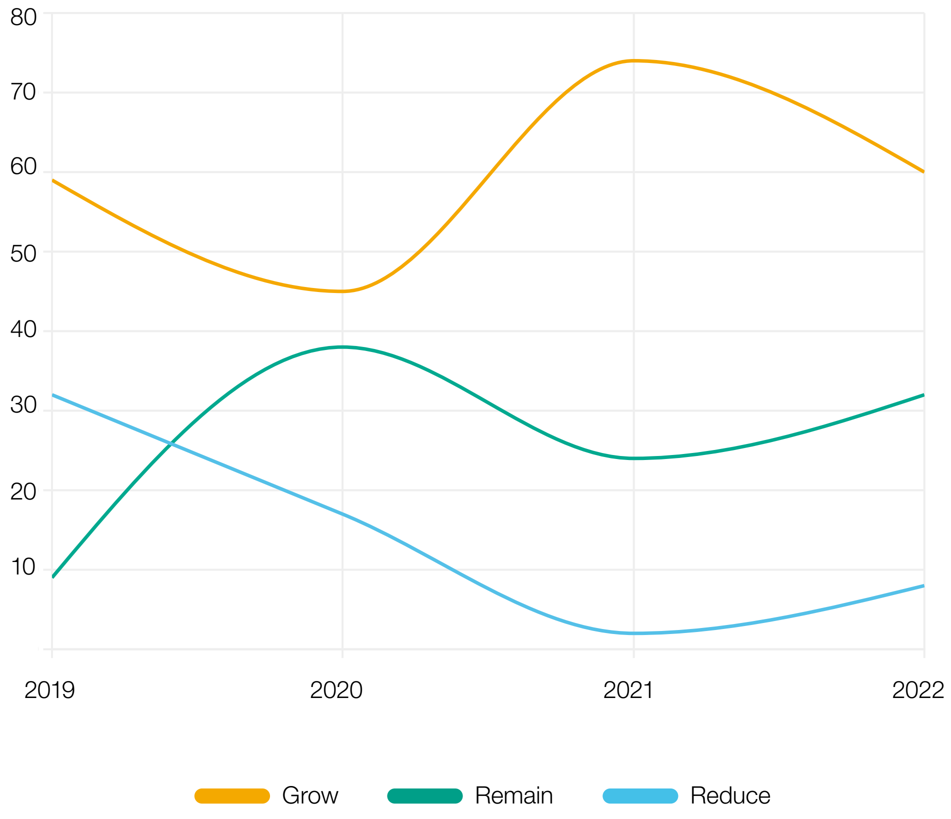
Stephen Morley
President
CBM

Commercial outlook

Our latest manufacturing survey has revealed that despite a backdrop of uncertainty, 60% of our respondents still expect their turnover to grow in 2023 (down from 74% predicted last year).

While it is still encouraging, it does show a trend towards a period of reduced growth in the future.

In the next 12 months, do you expect the turnover of your business to:

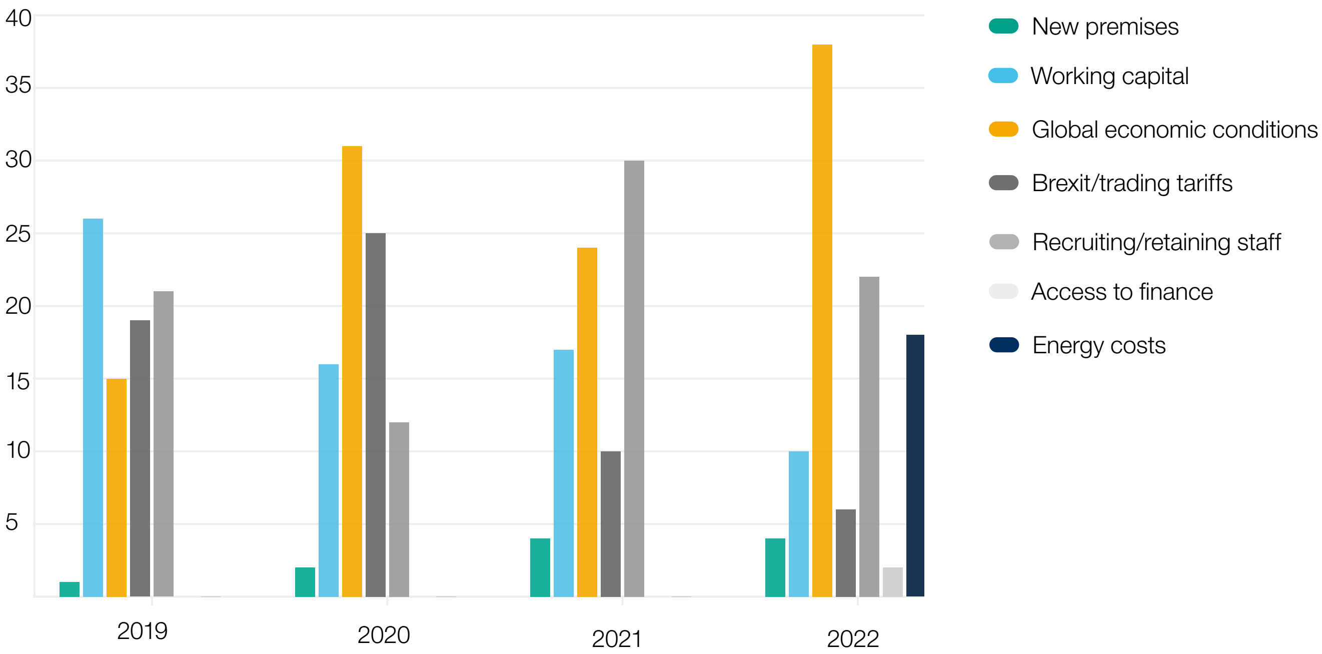


2022 was the year where supply chain issues and global price rises had a direct adverse effect on cash resources. We saw big increases in requirements for working capital for business and at the same time, credit scores came under increased pressures too.

We then overlay the effects of the war in Europe, as well as the energy crisis and it's easy to see that funding business through 'own resources' will become increasingly difficult in the coming months, with the obvious knock on effect on investment plans.

Barriers to growth

What is your main barrier to growth in the next 12 months?



Our results show that just 10% (down from 17% last year) of respondents see working capital/cash as a main barrier to growth in the next 12 months. This is possibly indicative of a sector focussing on survival rather than growth, especially given the increase of concern over global economic factors (up by over a half on last year) and of course energy costs, which were previously not featured as a concern at all.

A slowing of growth, even a contraction, generates more cashflow in the short term and this may be a factor in our respondents thinking, given wider economic concerns.

When considering energy, it's encouraging to note that 66% of respondents had already invested in working towards carbon neutral. All publicly quoted entities (and therefore most original equipment manufacturers) are actively driving this initiative down their supply chains (as they now have to report on it). The impact of staggering energy cost increases, at a level that jeopardises profitable business models, is now surely driving this trend.

Interestingly, there is much less concern about Brexit (6% saw this as a barrier to growth compared to 10% last year and 25% in 2020); perhaps businesses are now getting to grips with the challenges.

Recruiting and retaining staff has often been seen as a significant issue; while continuing to poll relatively high at 22%, it has dropped from the 30% polled in 2021. This could be a result of expectations in the market softening with the clear concern for the global economy.

When questioned whether employers had increased wages in line with inflation/cost of living (at a time when inflation stayed consistently in double digits and domestic energy cost fears abounded), just 38% said that they had. This response will have clearly been affected by a number of factors, not least of which will be commercial affordability. Once you have awarded a pay rise, you cannot take it back and the only alternative is what might be politely termed 'employment restructuring'. However, the reduced importance of recruiting and retraining would imply that this may be in an expectation of the market weakening in what promises to be an easing employment market in 2023, coupled perhaps by an expectation of inflation falling back sharply in the new year.

It's clear that our respondents do not consider that there has been anything like the government support received in 2022, compared to the two years affected by COVID-19 for the manufacturing sector, 81% of respondents expressed the view that there is insufficient support for manufacturers in what has been a really tough year. This is especially disappointing when so many manufacturers, innovated and diversified into manufacturing ventilators, PPE and supported the Nightingale initiatives during lockdown periods.

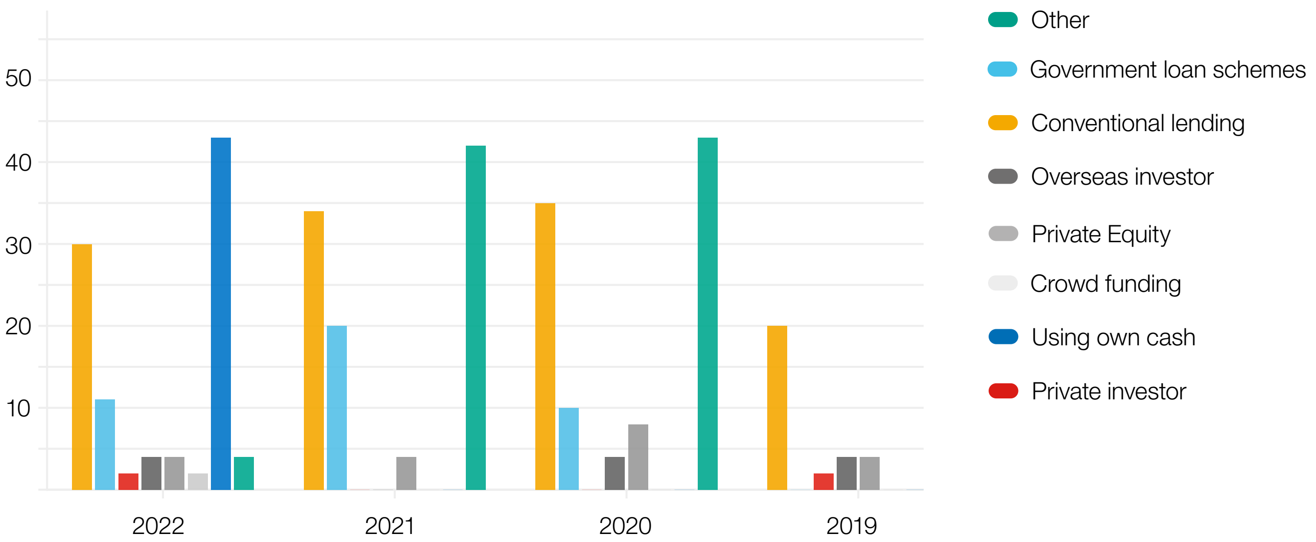
If the government intend to use GDP growth to fund its income and therefore payment commitments through tax, without spiralling central government debt (as seems to now be the political consensus), it is going to be essential for the manufacturing sector to play a significant part in the required economic growth.

While manufacturing only officially represents about 10% of GDP, its relatively well paid workforce (just 38% of respondents, compared to 47% in 2020, considered the minimum wage an issue for their business), indirectly supports much of the service based sectors, such as banking and finance, retail, hospitality and leisure. Its impact has a magnifying effect on the overall GDP of the UK. The survey results present a number of issues for politicians of all political persuasions to address.

Funding

2022 was the year when 'COVID-19 related borrowings' were no longer widely available, and the first full year when the lending needed to start to be paid back. This is reflected in our survey results.

In the past 12 months, where has the majority of your financing come from?



In theory, the Recovery Loan Scheme (RLS), the 'replacement' for any financial support to businesses affected by coronavirus, including the Coronavirus Business Interruption Loan Schemes (CBILS), as a 'Post Covid' government loan, does still exist. However, our research revealed that the RLS was unpopular with many banks and applications for lending were turned down, especially where they considered that businesses were 'geared enough' from existing CBILS debt.

Secondary lenders do, anecdotally, take a more commercial view, but moving to another lender requires the complicity of the primary lender to either subordinate or release existing security, which they are naturally reluctant to do without being repaid for their lending. Businesses are required to either swap their existing CBILS loan at low interest rates (especially if they fixed their rates), with much higher rates for a recycled RLS.

There is no doubt that this has been a factor in businesses, especially manufacturers, not taking up additional debt and also for the poor take-up of the RLS nationally. Portability of existing Coronavirus debt would assist this immensely and has been lobbied to government by Crowe, CBM and others. In July 2022 the government announced an extension of the RLS scheme for two years. In our view this will have a limited effect in the future until the wider issue is addressed.

Equity investment, in all its forms are shown to be falling back too. Whether this is by virtue of a reluctance to share equity with unknown third parties (many manufacturers are 'owner managed' and have a traditional aversion to take diluting third party equity investment) or a lack of appetite for this funding community to invest in manufacturing in these uncertain times, remains to be seen.

For the first time, this year we have seen some crowd funding recorded. This is interesting and possibly dependent on businesses product ranges and customer affinity. Clearly this is indicative of a sector prepared to embrace and deploy the unconventional and innovative to drive results.

What is very stark from these results, but perhaps no less predictable, is the reduction in conventional lending, as well as lending from other sources and the very significant increase in the utilisation of 'own resources'. Put simply, we believe these respondents have either been reluctant, or unable, to secure borrowing or funding from elsewhere and have been living off reserves.

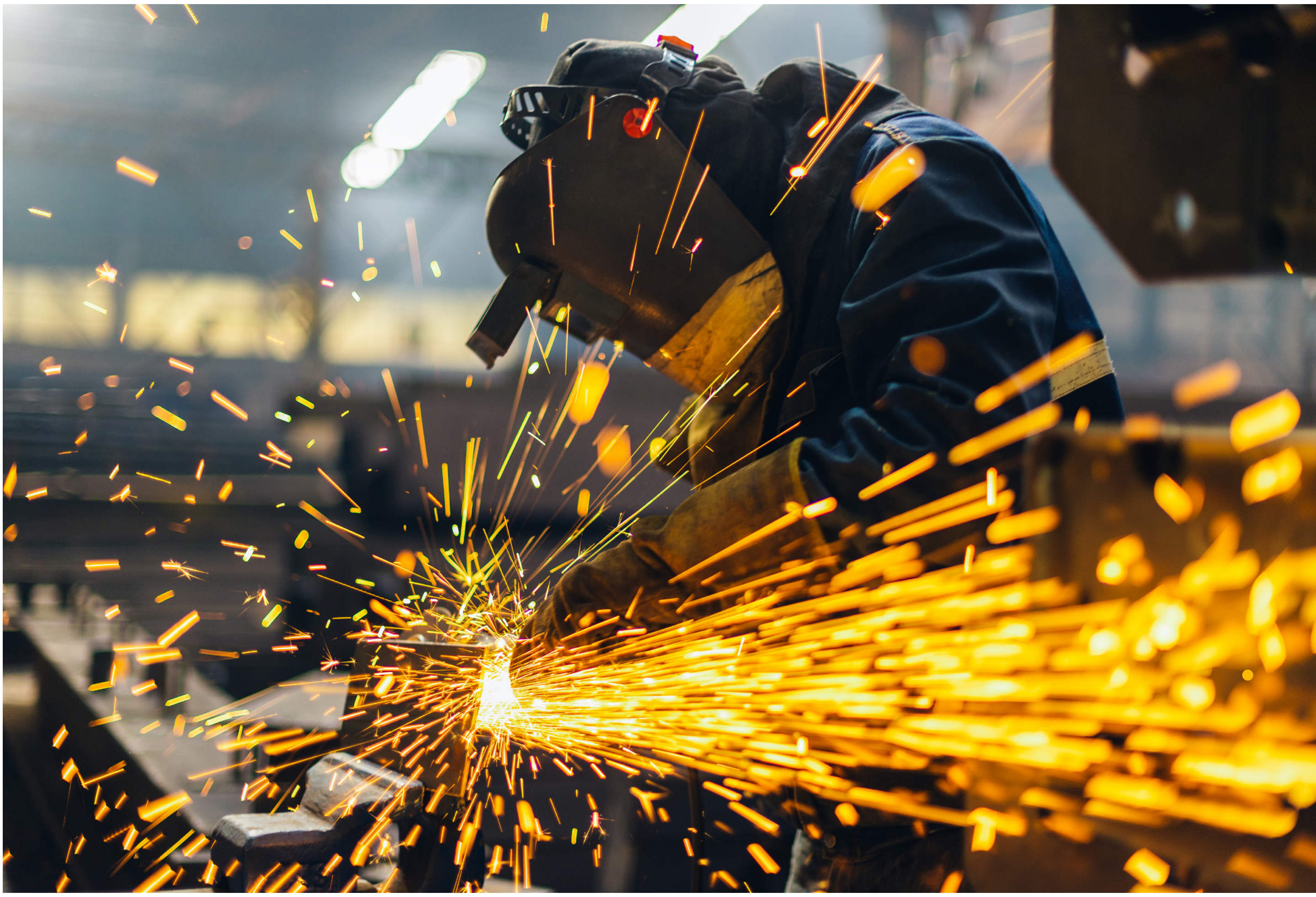
While commendable in terms of short-term probity, the results also show hints that there has been a reluctance to invest; and that in turn will adversely affect productivity, innovation and growth in at least the medium term. It also suggests tactical decisions based on survival rather than strategic decisions making businesses thrive in the medium term.

In the meantime, any growth will require an increased working capital requirement in an environment when securing funding is already becoming, and will get even more, difficult and time consuming in the future.

Maintaining your management information, including regular management accounts, rolling forecast for profitability, cashflow and your balance sheet are all important to ensure that you can identify cashflow pinch points and investment requirements, and plan to fund them with plenty of time to spare. Otherwise, what could be a fairly urgent requirement may be unnecessarily be delayed.

Innovation and investment

Chancellor Hunt expressed in his 2022 Autumn Statement a desire ‘to turn the UK into the next Silicon Valley’. For this to happen, our manufacturing base has to be supported and encouraged to invest and thrive, in an environment where every government in at least the G7 will have similar aspirations.



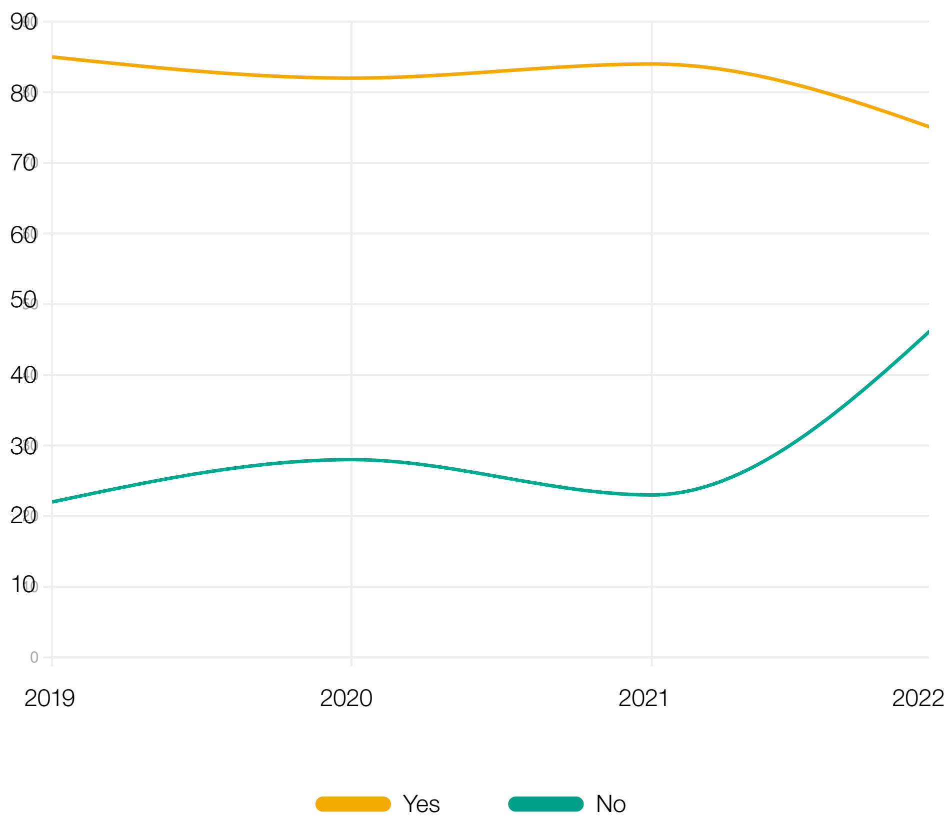
Many of us found the measures introduced in the Autumn Statement, to restrict enhanced tax relief on Research and Development expenditure, citing anti avoidance as somewhat perplexing, if not contradictory.

It is clear that to be globally competitive, let alone world beating, there will be a constant need to innovate; in terms of products, efficiencies and processes. Never before has there been a greater need for more innovative thinking and investment.

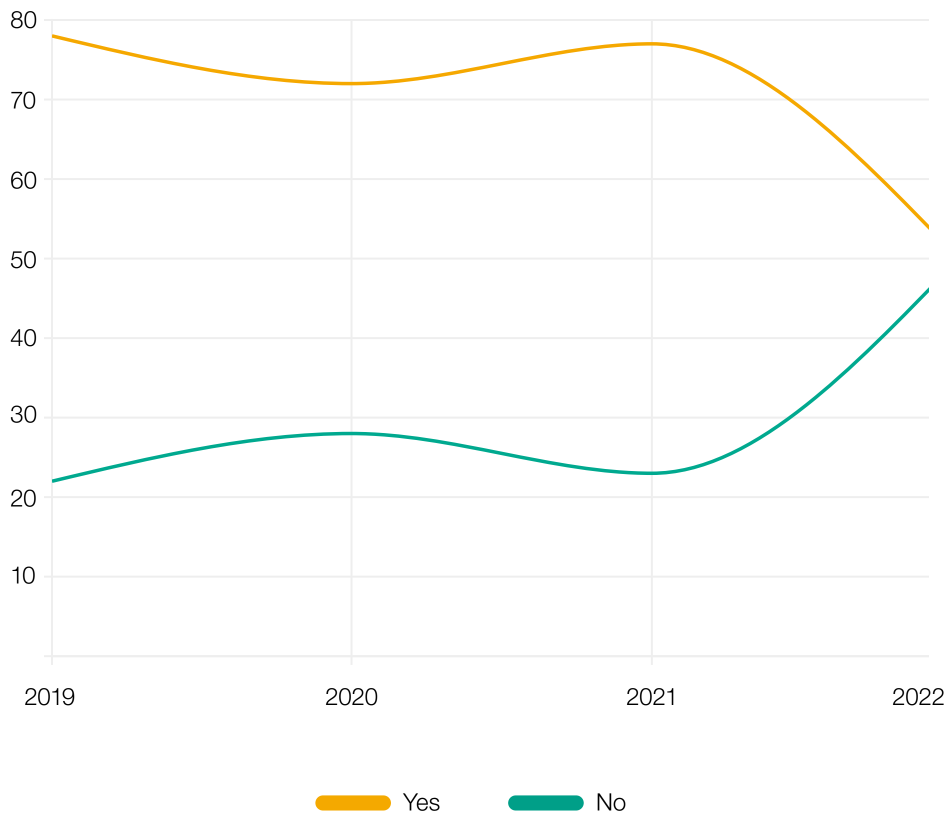
It is a concern that these new measures have been introduced to seemingly deter business incentives from an apparently already falling base; caused in part by a lack of awareness (to quote past governments) and perhaps more recently by a desire to cut back, in an attempt to survive economic downturn.

Our questions on Research and Development (R&D) show a worrying trend, with now less than ¾ respondents considering it to be relevant to their business, and of that just 51% having made a claim in the last 12 months.

Is R&D applicable to you?



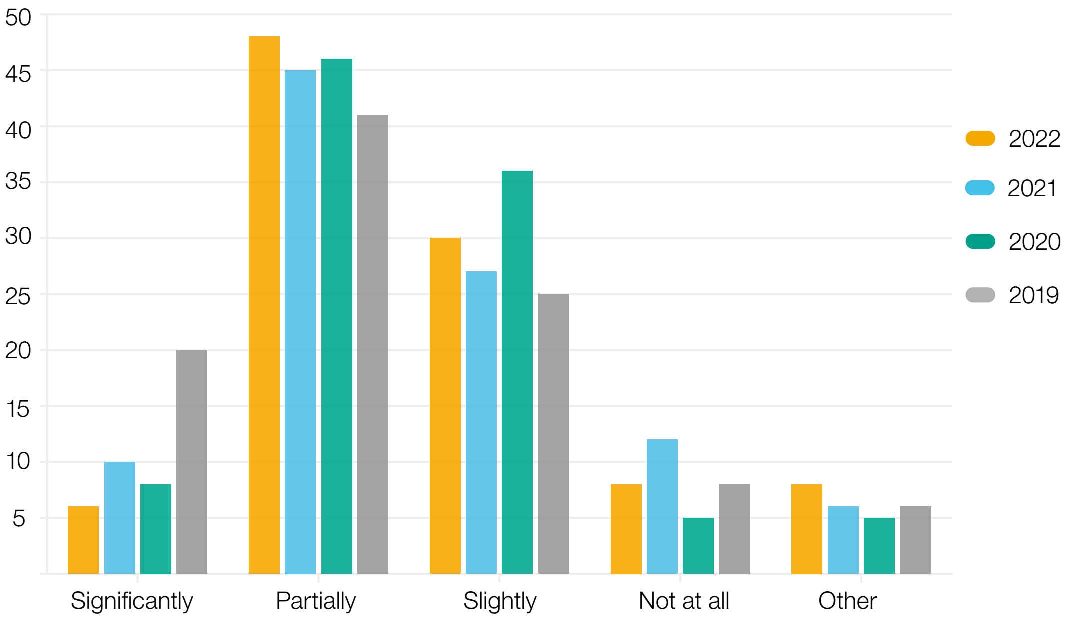
If yes, have you made a claim in the past 12 months?



In 2021, of our total respondents 65% made a claim for R&D (59% in 2020, 67% in 2019). For 2022, this figure has plunged to just 38% (a 42% drop). A worrying statistic, even before the effects of the Chancellor's Autumn Statement has had time to take effect.

Moreover, our continuing question on the impact of 'Industry 4' digital manufacturing methods shows a result that correlates with the hint of reduced investment.

Do you think Industry 4.0 will start to replace the more traditional manufacturing methods?



While its notable that 54% of respondents continue to think that there will be either a significant or partial shift, this trend is reduced from 55% last year and 61% pre-pandemic in 2019.

We commented in our 2021/22 report that with a skills shortage, the need to globally compete and to be innovative and dynamic is imperative for our manufacturing base.

Opportunities of digital manufacturing processes and investment should be embraced and supported by the government and the banking sector.

Our view on this has not changed. With all of the other headwinds presenting themselves to manufacturers, investment in something new, challenging and demanding of vital cashflow could lean 'towards the back burner', in a period where there is tendency to defer investment and 'stick to what we know' to survive.

In the short term this may make sense for individual companies with challenging cashflow and restricted funding but in the future global economy it will be essential to make existing products, faster, cheaper and lighter using less energy; even from different or new materials, as well as to conceive new products and processes that cannot be conceived using traditional methods.

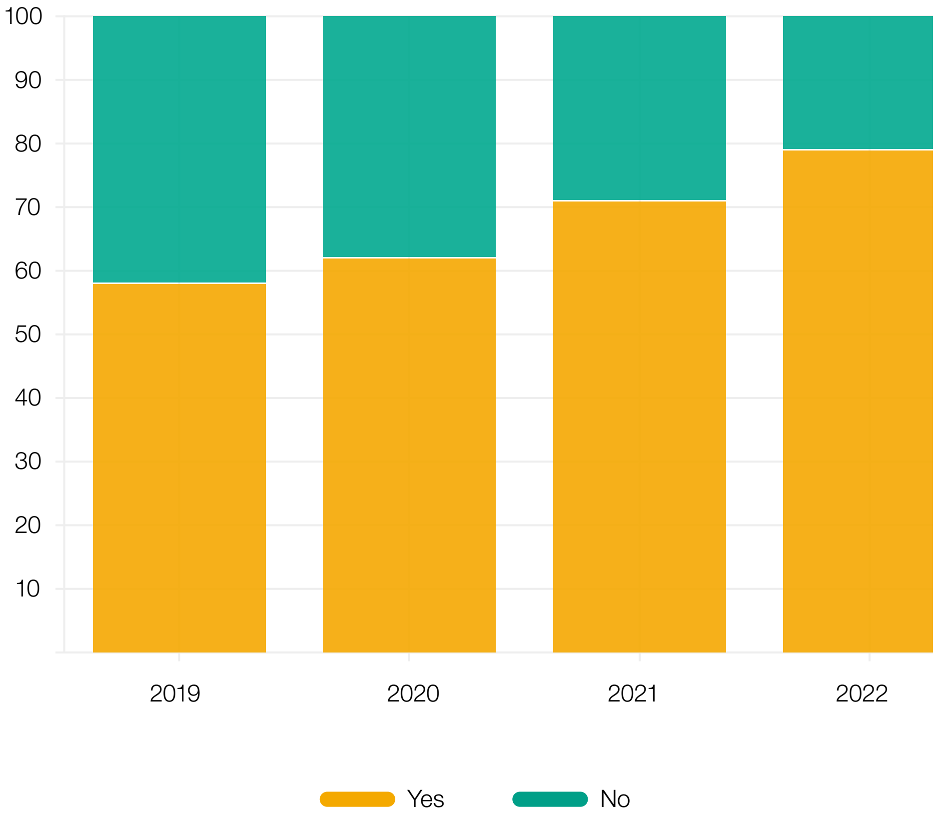
In the long term, research and development and investment in new digital processes is going to affect all businesses on a strategic level and surely has to be considered in all business plans.

The 'gamble' associated to investment in a period of economic downturn must in a sense be weighed again the gamble of the risk to business and shareholder value, should a business fail due to lack of that appropriate strategic investment.

Business support

The global pandemic heralded a renaissance for organisations such as trade associations, Chambers of Commerce and the CBM.

Are you a member of a manufacturing network or a local chamber?



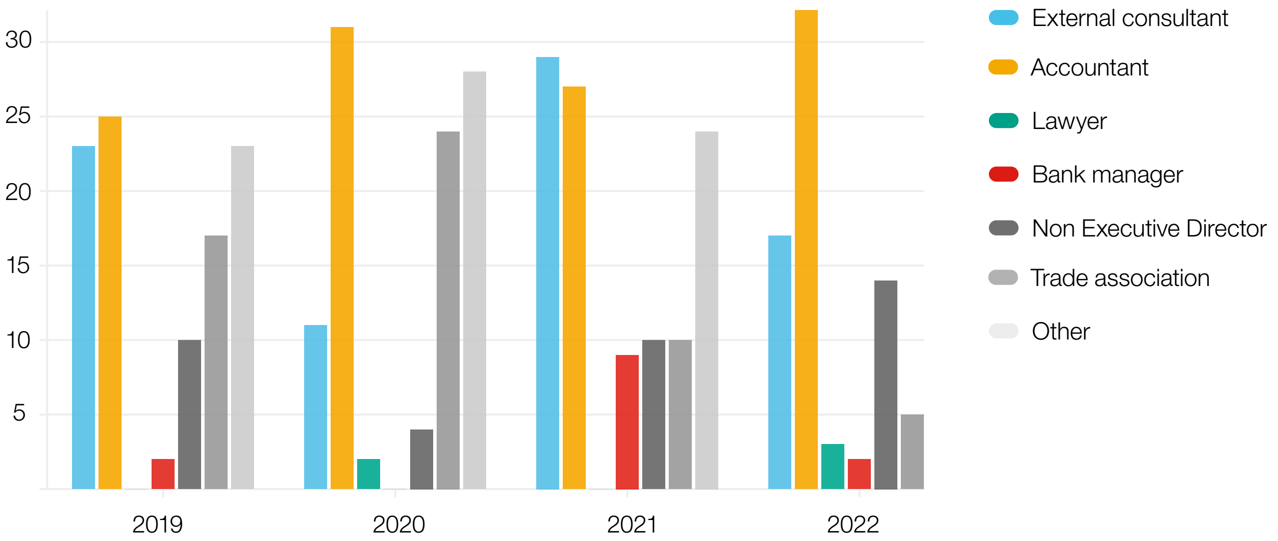
This trend has continued and the challenges have changed but are arguably even greater now, with less central government support.

If you are not a member of a trade organisation it's certainly worth considering. Problems shared are often solved by joint best practice and collaboration.

Your local Chamber of Commerce are always a good source of advice/ signposting on international trading, best practice and practical help too. At Crowe, we provide regular insight both in person and virtually through webinars, video and podcasts.

www.crowe.com/uk/industries/manufacturing

Who is your go to external advisor?

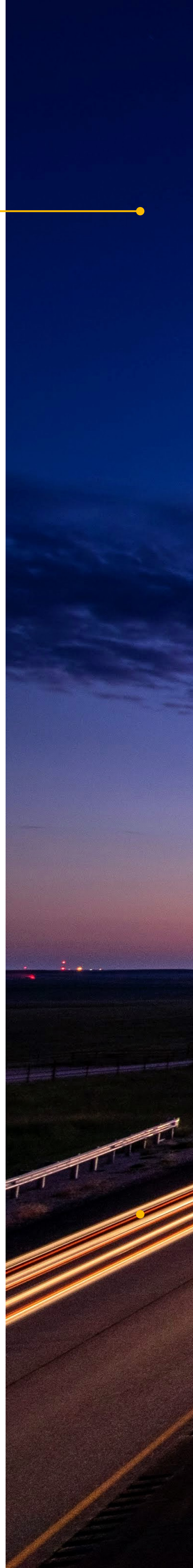


There are trusted advisors out there and a manufacturing business will always benefit from advice and help. From our results, accountants remain the highest single category here, though it is also good to note that external consultants are a growing category with trade associations remaining high scorers too.

Conclusion

The successful manufacturing businesses will be those that manage their risks, anticipate trends and act on the opportunities that are presented by them.

If you would like to discuss any of the matters raised in this report; please do not hesitate to get in touch.

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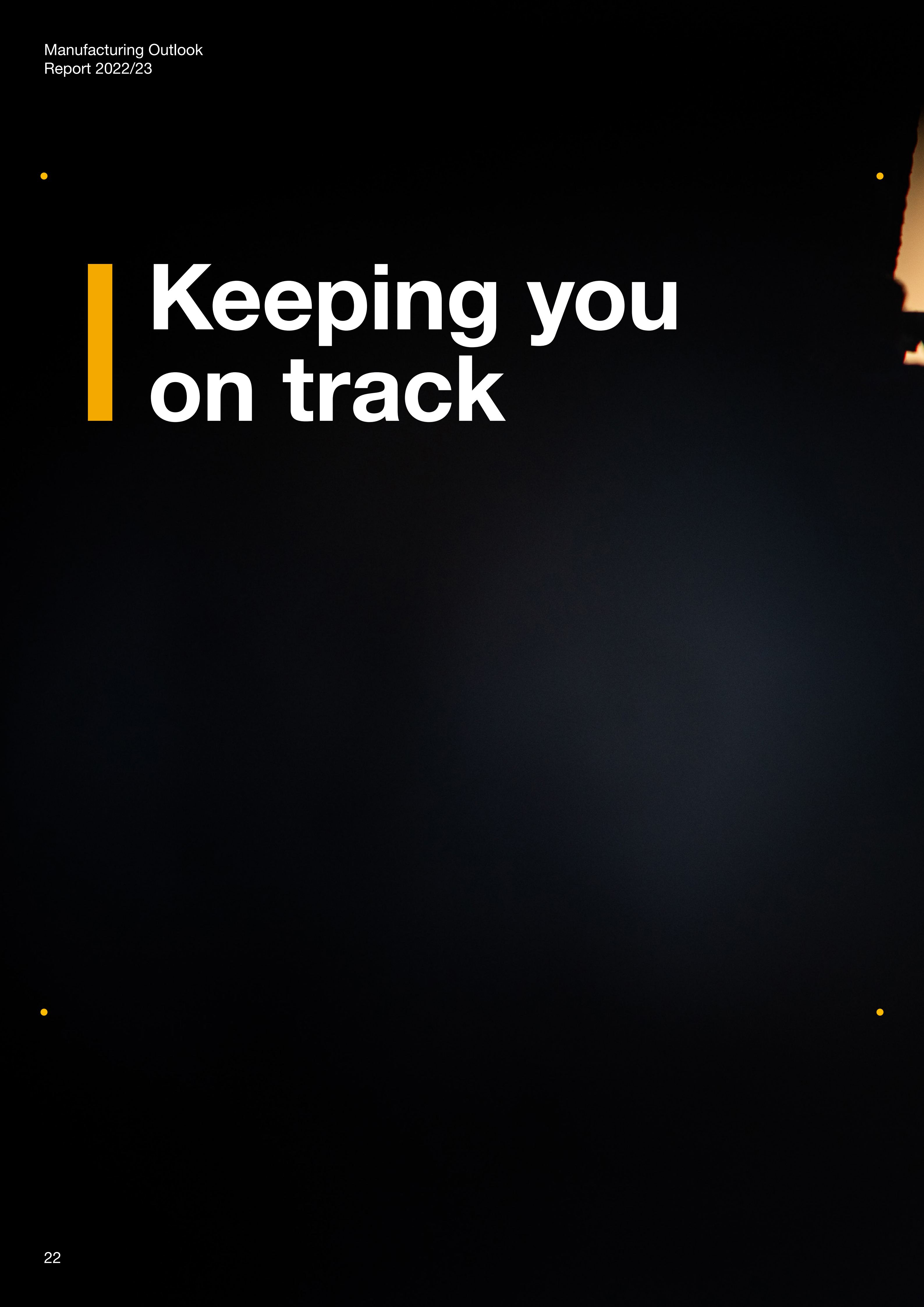

Keeping you on track

Photo credit: Spacesuit Media

Start the conversation

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We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to businesses of all sizes, professional practices, social purpose and non profit organisations, pension funds and private clients.

We work with our clients to build something valuable, substantial and enduring. Our aim is to become trusted advisors to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

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