



# Overcoming Disruption in the Manufacturing Sector

UK Powerhouse, January 2022

# Foreword

About this sector summary



# Welcome to our UK Powerhouse manufacturing sector summary report.

Produced in partnership with the Centre for Economic and Business Research (Cebr), this study aims to explore critical themes and issues faced by businesses as we move into 2022.

## What does 2022 have in store for the manufacturing sector?

Despite the huge challenges that the manufacturing sector has had to navigate in 2021, the next 12 months offers opportunities for growth and recovery.

According to the Cebr, the economic consultancy which supports our UK Powerhouse campaign, manufacturing is forecasted to grow by 3.5% in 2022. This follows a 6.9% growth in 2021.

This report summarises the challenges that have affected manufacturing businesses recently, and looks at the disruptors likely to impact the sector in the future.

It will also provide recommendations from both our legal teams and the CBI.

For a more detailed insight, read our full [UK Powerhouse report](#).

I hope you find this report to be of use and interest. I look forward to hearing your feedback.



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# The State of Manufacturing

A deep dive into the pressures affecting manufacturers



## The State of Manufacturing

The UK was heavily impacted by the coronavirus pandemic in 2020, with manufacturing taking a big hit due to lockdown restrictions.

Manufacturing output fell by 8.8% that year, a stark drop compared to the 3.1% increase in 2019. Nonetheless, with much of the lockdown restrictions in the UK now lifted, manufacturing production has seen an uptick.

While the sector saw a 1% quarterly decline in GVA in Q1 2021, Q2 2021 saw it expand by 1.8%, reflecting the easing of some restrictions in April.

As of Q2 2021, manufacturing contributed 9.9%, or approximately £49 billion, to the total UK GVA.





In particular, medium to high-tech manufacturing has performed particularly well. It has experienced a growth rate of 4.9% in the past ten years, and its productivity and wage growth significantly outranks other parts of the economy.

Quarterly increases in jobs were seen within the sector (+1,520 jobs) to September 2021, and chemicals and pharmaceuticals remain Britain's largest manufacturing export, annually adding £15.2bn to the UK economy.

Data for 2021 suggests somewhat strengthening performances in the manufacturing sector. The UK Manufacturing PMI – which indicates manufacturing performance – stood at a two-month high at 57.7 in October, before increasing again to 58.1 in November.

Much of the increase in the headline index can be attributed to strong labour market performance and the rate of new orders picking up.

## The challenges

Nonetheless, the PMI values were significantly below the peak value of 65.6 attained in May 2021, hinting at underlying headwinds against manufacturing.

This is further bolstered by a slump in the UK Manufacturing Output PMI to an eight-month low of 50.6 in October. A significant portion of this downturn can be attributed to the supply shortages that have impacted economies around the world.

Raw materials shortages have meant that manufacturers are struggling to keep up with surging consumer demand. Moreover, rising energy prices, severe staff shortages, increased raw material prices and higher freight costs have translated into input-cost inflation, compounding problems for manufacturers.

For sub-sectors such as transport equipment, and computer, electronic and optical products that are heavily reliant on freight for parts delivery, supply-chain disruptions have translated into contractions in manufacturing output, with the two sub-sectors witnessing a 3.7% and 0.5% decline in output in August 2021 respectively.

The ongoing semi-conductor shortage has been particularly impactful on the auto and transport industries. In June, the Society of Motor Manufacturers and Traders reported car sales as 17% lower than June 2019, with Chief Executive Mike Hawes calling it the 'long Covid' of vehicle supply challenges.

Transport equipment manufacturers report a 16.5% fall between May and June of this year, with factory shutdowns featuring increasingly in the news.





## Spotlight on food manufacturing

The largest manufacturing sub-sector – food products, beverage, and tobacco – saw a 4.9% rise in output in August 2021, following 3.6% in July and 9.2% in June.

Over the past five years, productivity has increased by 11% in this sector, but it's predicted that almost 110,000 new recruits will be needed by 2022. With the sector's imports far outweighing its exports, particularly in fresh fruit and vegetables, supply constraints have held back the output rates.

This was particularly pronounced in July and August. With vacancies in manufacturing at 79% above February 2020 (the last month of normal economic activity), staff shortages and supply constraints are expected to last for the rest of 2021 and into 2022, all of which will contribute to holding back output in manufacturing.

Nonetheless, Cebr forecasts manufacturing to grow by 6.9% in 2021 and 3.5% in 2022, as the UK looks set to continue its economic recovery. The former statistic should be taken with caution, considering it accounts for a low base set in 2020.

# Drivers of Disruption

The headwinds affecting businesses' post-pandemic recovery



# Drivers of Disruption

Businesses are facing unprecedented levels of disruption. Our insight from sector-based analysis shows five key themes:

## Staff shortages

The pandemic has changed the way people think about work and life. Employees are realising that their skills are in demand, which gives them the opportunity to look for and negotiate a better deal elsewhere. Indications are that 40% of workers are likely to move in 2022, of which 18% are certain to move.

Therefore, employers need to understand what their employees want and why they're leaving. Is it about pay? Or are they unhappy with other elements of the working environment?

## Supply chain issues

Many businesses have been affected by the [global semiconductor chip shortage](#), which isn't expected to improve until 2023. Companies with large delivery and transport operations integral to their core business have felt it the most – an obvious area for additional costs being unplanned maintenance of older stock.

On top of this, the staffing problems have been evident in logistics and transportation, with a [shortfall of 100,000 qualified HGV drivers](#), further disrupting the supply chain.

## A worrying economic outlook

Concerns over fuel and food shortages, rising inflation, and the cost of borrowing likely to increase as interest rates rise, has led to growing pessimism. And those are on top of the ongoing spectre of COVID-19. Consumer confidence has also declined for the third consecutive month.

## Brexit

With free movement of people, imports and exports becoming more difficult because of new immigration rules, trade barriers, and increased red tape, it'll take some time before all Brexit-related issues are laid out. These factors are already adding to the staffing and supply chain issues previously discussed.

## The rise of innovators

Technology, combined with government pressures to achieve net zero, continues to drive forward the manufacturing sector.

Figures from the Faraday Institution suggest that the battery supply chain could be the fastest growth area in vehicle manufacture up to 2040 in the UK, just ahead of battery gigafactories.

Its projections show the growth in these two areas alone will counteract the fall in internal combustion engine production job numbers in the UK.

Less Common Metals (LCM) also published a feasibility study recently which assessed the viability of a rare earth magnet operation in the UK.

# The Compelling Business Case for Innovation

Read the key recommendations from the Confederation of British Industry (CBI)



# The Compelling Business Case for Innovation

**Vanessa O'Donnell**, Senior Policy Adviser at the CBI, looks at recommendations for businesses ahead of 2022.

"This report has shone an important light on the disruptors impacting everyday businesses operations and the areas that will be prioritised in the future. While the pandemic, recent and systemic labour shortages, and the road to net zero each present unique challenges, they all share the ability to turbocharge innovation.



## Embrace technology

"From productivity improvements, new products and services, and refreshed business models, here at the CBI, we've seen first-hand how many businesses are prioritising investments into cutting-edge technologies. This has unlocked growth, increased resilience and boosted agility.

"The business case for innovation is clear – those who invest in R&D and adopt new technologies enjoy increased turnover and profits, and are more likely to experience higher levels of productivity and growth. As our economy fires up again and we chart our path to net zero, the role that innovation will play in powering the success of individual businesses and the wider economy, as well as addressing societal challenges, is set to grow even further.



## Provide employees with the skills you need

"While the onset of the pandemic saw an acceleration of tech adoption, we're now at risk of losing this momentum. Research undertaken by CBI Economics chimes with the findings of this report that the key barrier to tech adoption is now skills. This puts into sharp focus the urgent need to tackle labour shortages if we're to avoid our access to talent from holding back the economy.

## Learn from others

"The risks are particularly acute for less digitalised firms and we must act now to prevent the gaps in adoption translating into significant gaps in business performance. One way this can be addressed is through best practice sharing. Our recent study showed that over half of organisations accessing tech support did so by learning from peer companies and business networks.

"The CBI has been leading the charge on these issues and our project Big Fish, Little Fish offers businesses a series of vital tools, as they seek to collaborate on innovation initiatives.

"But the government must also do more to support the trend towards digitalisation. This is crucial in our drive towards a more productive and levelled-up economy, with a high-wage, high-skill workforce.

"The new innovation strategy provides a valuable opportunity to foster a more supportive ecosystem, which better connects the various players across the system.

"Current changes to the regulatory framework and data protection regime must also ensure we incentivise rather than deter innovation.

"The CBI is now working with BEIS and DCMS to ensure the strategy, wider regulatory framework and the Spending Review settlement deliver a truly world-leading innovation offer, which unlocks further business-led innovation.



## Go green

"Environmental sustainability is now firmly a boardroom issue, with two-thirds of organisations now citing this as a consideration when determining supply chain relationships, as well as new products and services.

"This transition offers real benefits for all businesses, with the potential to deliver growth through job creation and boosting exports. Embracing this disruptor also offers businesses a strong value proposition that can put them ahead of the game, with strong climate credentials being likely to lead to increased customer share, improved attraction and retention of talent and greater favourability with investors.

## Innovation is key

"While we're experiencing unparalleled levels of disruption to traditional business practices, there's much to be gained for those that embrace these shocks.

"Innovation is key to achieving this successfully and strategically, and we look forward to continuing to support our members as they chart their path through these unprecedented times."



Thank you for reading

# Overcoming Disruption in 2022

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