



---

THE ADECCO GROUP

# Manufacturing Sector review

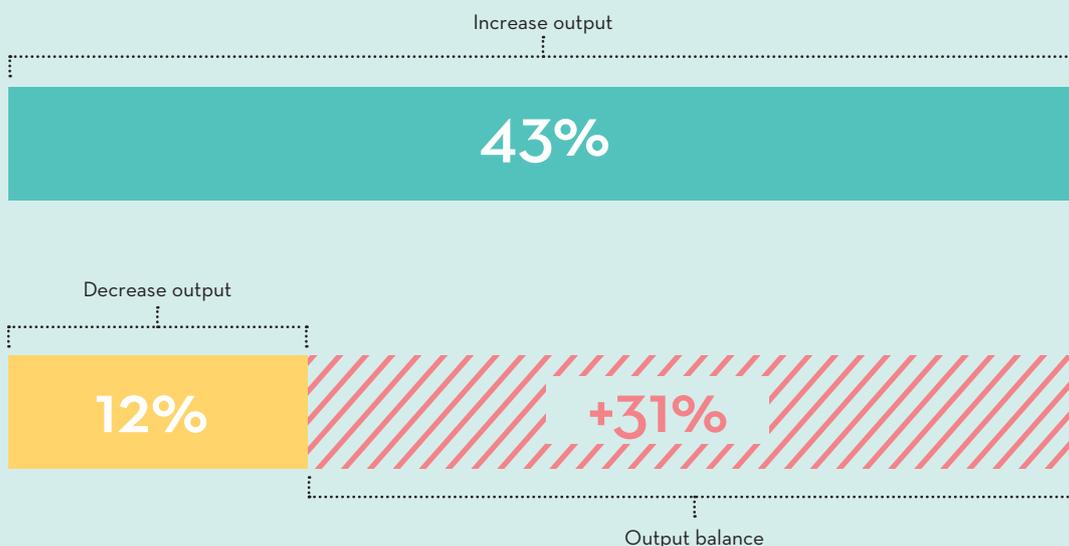
Q3 2017

[adeccogroup.co.uk](http://adeccogroup.co.uk)

## Highest output balance since January 1995

(Source: CBI Industrial Trends Survey, July 2017)

In the three months to July 2017:



The third quarter of 2017 saw a fall in demand for manufacturing talent from the previous quarter but that still left the number of vacancies higher than the same time last year.

Demand fell by nearly 15% compared to the second quarter, the second consecutive quarter with a fall. At the same point, there was nearly 10% more vacancies than in the third quarter of 2016. This second statistic is perhaps a better indicator of the long-term state of the market that has seen the number of vacancies more than double since the final quarter of 2014.

### Manufacturing output fuels employment growth

Demand for talent can always be expected in the manufacturing sector as long as output is high.

The latest CBI industrial trends survey reported in Q3 that British manufacturers are currently increasing their production at the fastest rate since the mid-1990s, or more than 20 years. The CBI attributed it mostly to the fall in sterling over the last year, a 12% decline against the dollar.

The report found 43% of firms said the volume of output increased in the three months to July, compared with 12% that said it was down, giving a balance of +31%, the highest since January 1995.

Rain Newton-Smith, the CBI's Chief Economist, said: "Output growth among UK manufacturers is the highest we've seen since the mid-90s, prompting the strongest hiring spree we've seen in the last three years."

A report from manufacturers body the EEF showed the 34% of their members expected output to rise in the third quarter of 2017.

The Purchasing Managers Index produced by Markit and CIPS also recorded high figures, the second highest in the last three years, as it hit 56.9 in August.

The report also reported the fastest increase in employment for the manufacturing sector for just over a year.

The third quarter of the year also saw the Office for National Statistics (ONS) report the first 'significant' production growth of 2017.

Rob Dobson from Markit said the sector continued to show signs of "solid progress".

He said it was increasingly likely that growth in the sector would be maintained "given the breadth of the expansion", with both big and small companies seeing conditions improve.

This optimism has been showing up in the ONS labour market reports where manufacturing employment added 34,000 jobs between March 2017 and June 2017 (an increase of 1.3%).

### Scepticism

Not everyone is quite so bullish however about the future of manufacturing in the UK.

While the ONS report was positive they were the first to admit that the sector remains relatively subdued since the start of 2017. The ONS had previously reported that output fell during the second quarter of the year by 1.1%.

Vacancies also fell 4.5% in the period June to August 2017 compared to the previous three months according to the ONS. And whilst employment has risen over the last year it is only by 0.3% compared to the 1.2% experienced by the UK overall.

Howard Archer, Chief Economic advisor for the EY Item Club suggested that the outlook was, at best, mixed with political uncertainty and diminished consumer spending power dampening demand in the domestic market along with increased prices.

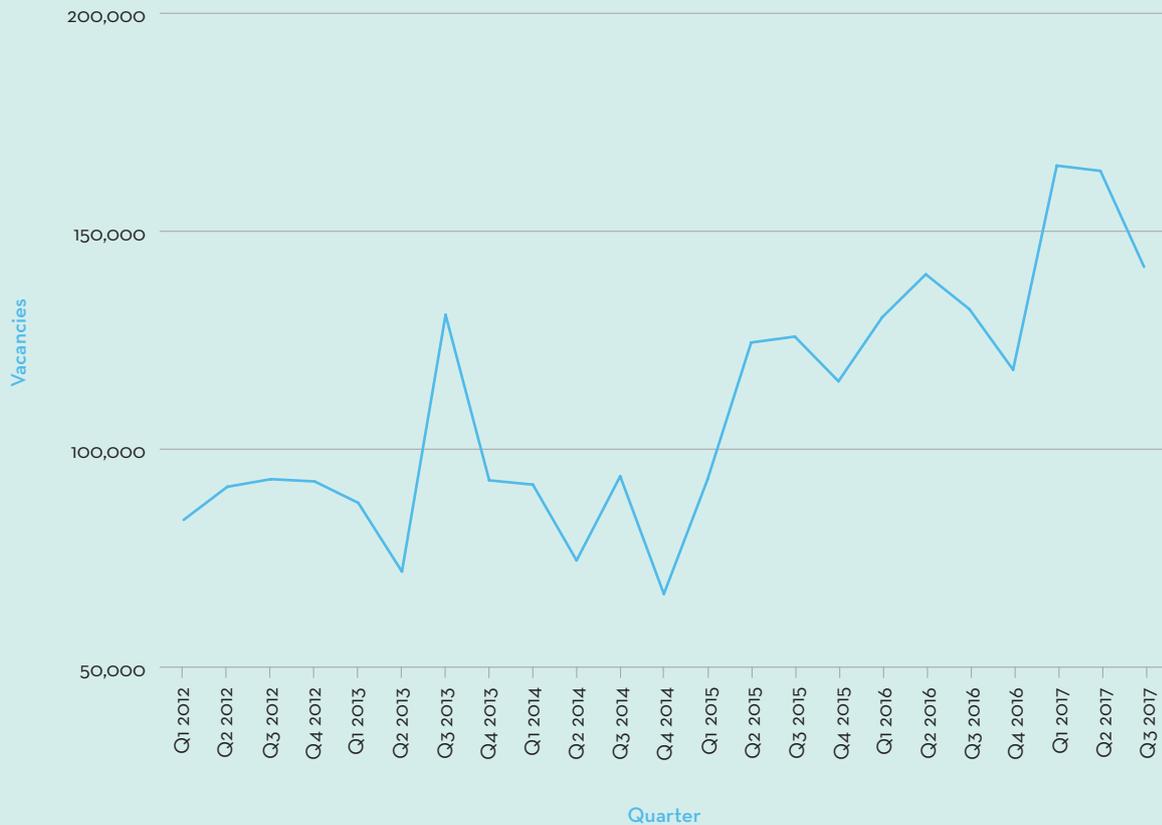
This view was echoed by EEF Chief Economist Lee Hopley.

Samuel Tombs, Chief UK Economist for Pantheon Macroeconomics, suggested that it was a case of context and that the point is that the manufacturing sector should be doing a lot better 'given sterling's huge depreciation and the emergence of a strong recovery in the Eurozone.'

The automotive industry is a particular area of concern as the Society for

## Demand for talent: Manufacturing vacancies by quarter

(Source: Burning Glass)



Motor Manufacturers and Traders (SMMT) reported that output was down 13.7% in June 2017 compared to June 2016. The first half of 2017 saw output fall by 3% compared to the first half of 2016.

Here domestic demand is definitely an issue given that it has fallen by 10%. This was underscored by confirmation that BMW will not be building the electric Minis in its Oxford from 2019 – the year that the UK is expected to leave the European Union.

### The Brexit Effect

The manufacturing sector continues to be concerned about the effect of Brexit on both their workforce and their ability to export goods to the continent.

The CBI reported that fears of a shortage of skilled labour restricting production among small and medium manufacturers is currently at its highest level for 28 years, since October 1989.

At the same time the food and drink industry has warned of significant disruption to the industry if UK nationals continue to leave employment in the industry. According to a survey by the Food and Drink Federation nearly one in three businesses in the sector had seen non-UK EU nationals leave roles since the referendum.

This is a big concern for a sector that counts these individuals as around a quarter of the four million employed in the food chain.

Ian Wright, Director General of the Food and Drink Federation, which represents more than 6,000 processors and manufacturers, said: "It is only

a matter of time before the uncertainty reported by businesses results in an irreversible exit of EU workers from these shores. This is a scenario that will hurt the UK culturally and economically."

Tariffs are the other concern and while high-tech manufacturers such as Dyson have dismissed the idea the British Aerospace sector voiced concern this quarter.

Paul Everitt, the Chief Executive of ADS, the trade body for the aerospace, defence, security and space sectors, said: "We are concerned that there could be a long-term erosion of Britain's competitiveness and that big projects will not be allocated to the UK."

### What this means

In the short term the British manufacturing sector has enjoyed the benefits that followed the EU referendum. Namely the ability to export items at a much cheaper rate and thereby rake in sales.

This situation is unlikely to last however, and the sector must start looking towards securing its future.

As it stands there is no guarantee that the sector will have access to the talent it needs to continue operations at the level. In terms of skilled individuals businesses must start to look now at upskilling those in the workforce that are sure to be allowed to work in the future.

For the lower skilled elements of the workforce employers should start to consider different talent attraction and retention strategies in order to acquire and keep a workforce they need.