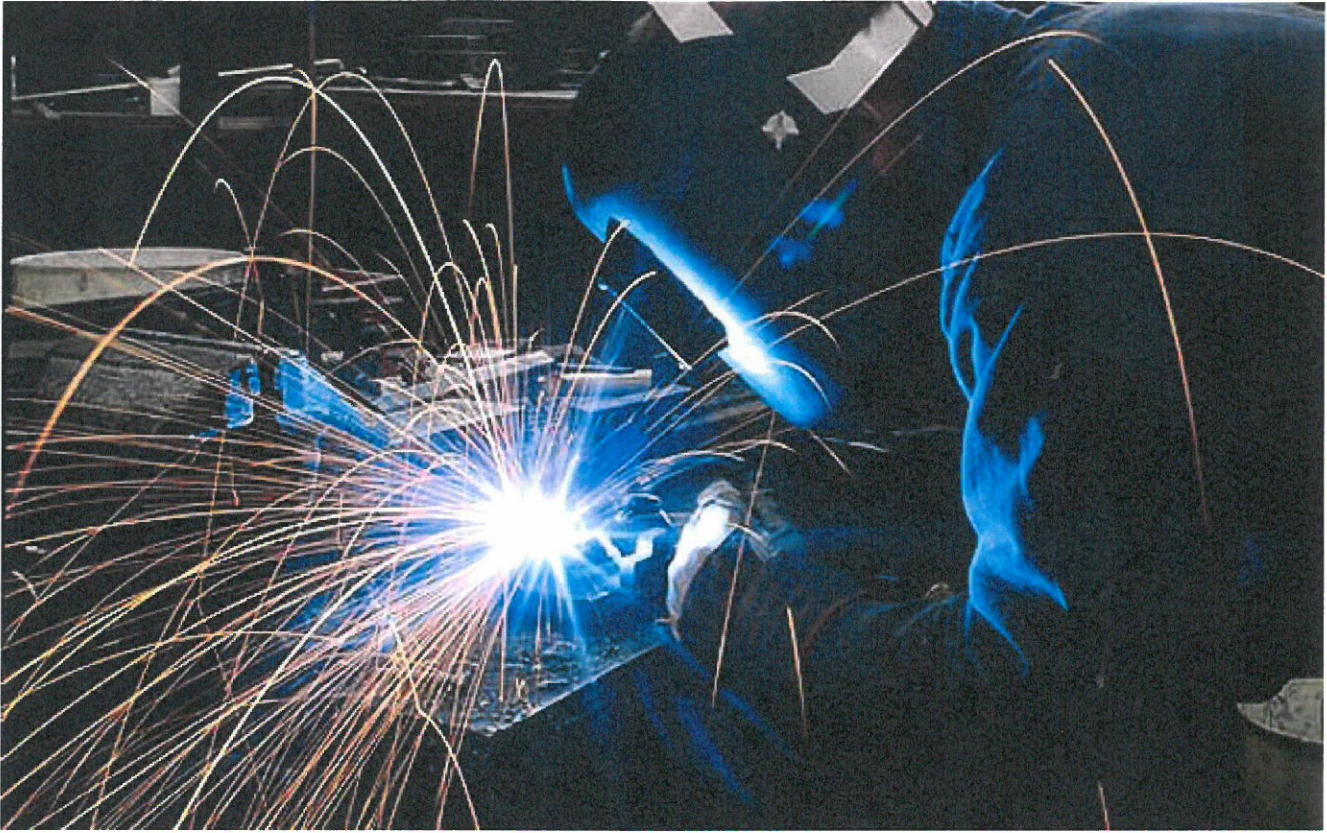


Is the 'march of the makers' rebalancing the economy?

Manufacturing represents just a tenth of Britain's economic output but this sector punches above its weight and is enjoying a new found importance



Bright future: British manufacturing may represent less of the total economy than in the past, but much of what remains is high value

By Alan Tovey, Industry Editor

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“People want to come to work here in British manufacturing creating objects of desire,” says Jonathan Peedell, one of the craftsmen who helps turn out the stunning wooden interiors in Rolls-Royce cars.

When he started his career in manufacturing at Rover 20 years ago, the third-generation auto industry worker didn't feel the same way.

“Manufacturing was a dirty word then,” he adds. “British design was – and still is – great. The cars we built back then may have looked great but they just didn't work. I couldn't think of a manufacturer I wanted to join with any confidence that they would still be around in a few years' time.”

Peedell, now 36, has witnessed the resurgence of UK manufacturing from the shop floor, having

worked for other car makers before starting at Rolls-Royce's Goodwood factory six years ago.

"British design has always been revered but now we're back on track with manufacturing too," he says. "There's no longer any stigma attached to being in manufacturing."

This confidence is shown in Rolls-Royce's announcement that it is to add an off-road vehicle to its line-up, which chief executive Torsten Müller-Ötvös says will come down the line at the company's West Sussex plant, requiring investment new in tooling.



Rolls-Royce's Jonathan Peedell has seen the change in UK manufacturing from the shop floor

"We have made a long, long, long-term investment in British manufacturing," he says of the company's factory, which sits on land that 12 years ago was countryside but

now employs 1,500 staff producing more than 4,000 cars a year.

"You got to be courageous to invest because you have to wait for the returns."

The change seen by Peedell on the production line and Müller-Ötvös from the executive suite is repeated by the success of peer Jaguar Land Rover and seems to indicate that the manufacturing sector has responded to Chancellor George Osborne's call for a "march of the makers" to rebalance the British economy away from its dependence on the service sector.

However, on some measures the figures don't support that view. Latest data from the Office for National Statistics shows that of the UK's £1.7 trillion annual GDP, manufacturing is responsible for just 10.1pc of that number, a level that has been pretty constant for the past six years. By comparison services made up 78.4pc.

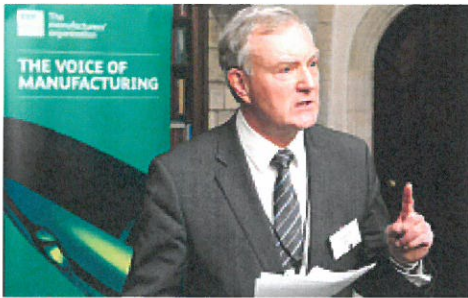
But wind back the clock to 1997 – as far back as comparable data goes – and manufacturing was at 18.5pc, a level from which it declined steadily until 2009.

According to Terry Scuoler, chief executive of EEF, the trade association which represents the UK's engineering and manufacturing companies, the sector's contribution to total GDP doesn't paint an accurate picture of what's happening in the sector, despite seeming to indicate if any

rebalancing is taking place.

"It's not a zero-sum game," says Scuoler, whose organisation is holding its annual conference on Thursday, when the sector's health is certain to be discussed. "I would love to see manufacturing at 15pc of GDP but it's up against the expansion of other sectors.

"I'm not a proponent measuring this way. The EU has set a target of getting 20pc of GDP from manufacturing by 2020 from the current 15.1pc. I applaud the target because it focuses the mind but the EU's historical record of meeting targets is woeful."



Instead of looking at absolutes, Scuoler, pictured left, prefers to see the sector in isolation, pointing to the 3.5pc growth it recorded last year and the forecast of 2.6pc this year.

"We are enjoying something of a manufacturing renaissance," he says. "But until we see measurable growth in manufacturing investment and exports we can't claim a rebalancing is complete."

According to UK Trade and Investment, exports of goods from the manufacturing sector totalled £263bn in 2013, representing 52pc of all foreign sales, and the ONS's index of production data, which shows performance by sector, reveals that manufacturing is showing an upward trend.

Other issues that the EEF says are preventing the sector playing a greater role in the UK economy include a ready supply of people with science, technology, engineering and maths (STEM) skills, a reluctance amongst banks to lend, the threat of regulation and, for many businesses, worries about the cost of energy.

In the face of these Scuoler is a cautious about the sector's recovery: "If I were a teacher and manufacturing were my pupil I'd mark it at six out 10."

The EEF's views are backed up by the British Chambers of Commerce, of whose membership about one in seven are in manufacturing. John Longworth, the body's director-general, says that manufacturing is only shrinking because of services' strength.

"A march of the makers is not impossible to deliver," he says, adding that there is an opportunity to "reboot" the sector though it does face challenges. "But we have got to rebalance towards growing exports as the current account balance is unsustainably poor. To do that we have got to make sure firms can get access to the finance they need."

Without this “long-term, patient” capital Britain will never create a manufacturing base along the lines of Germany’s Mittelstand, he says, though this country will never see the sector become the main part of the economy.



One company with a claim to being part the UK’s Mittelstand is Luton-based Hayward Tyler, whose specialised pumps and motors are used in power stations and the oil and gas industry. The business, pictured left in the 1950s, celebrates its 200th anniversary in 2015 and was trading back when Britain was known as the workshop of the world.

Its chief executive, Ewan Lloyd-Baker, says that while the manufacturing industry may be smaller now, what remains is better. “The complex products we make mean there’s a higher added value, which make us more competitive globally,” he says. “UK manufacturing is leaner and fitter.”

At the other end of the scale, giants of the sector are more positive. BAE Systems chief executive Ian King rates manufacturing as “pretty healthy”, though is unsure if the historic cycle of traditional industry declining as advanced manufacturers such BAE come to the fore has yet occurred, though he suspects it’s “pretty close”.

That UK manufacturing accounts for only a tenth of GDP compared with Germany where it's more than a fifth is “disappointing”, according to JCB chairman Lord Bamford. However, he sees many reasons to be positive, citing politicians focusing on the sector’s economic importance and the jobs it can create.



JCB's Lord Bamford says politicians now realise manufacturing's importance

“It’s encouraging that strategies are at last being developed for individual industry sectors,” he says. “But there is clearly a lot more to do before manufacturing accounts for a

much higher proportion of our national GDP.

"A long-term decline can't be reversed in just two or three years. It will take time, but with some more long-term thinking from both politicians and industry itself, I'm absolutely convinced that manufacturing can contribute a lot more to our national economy."

Aircraft engine and power systems manufacturer Rolls-Royce – which once produced cars before the businesses split in the 1970s – sees a bright future for the sector. The High Value Manufacturing Catapult centre which brings together the public and private sectors to promote research and development collaboration between scientists, engineers and businesses is a prime example of this.

Hamid Mughal, Rolls-Royce's director of manufacturing, calls these centres "one of the best industrialisation models in the world". "These centres translate early ideas into proven ones, from the lab to a successful solution," he says. "You get 50, 60 companies together in one space creating ideas which spill down into the supply chain."

Embracing the catapult's output could be key to ensuring Britain keeps its standing – or improves it – in manufacturing, a sector which Mughal believes will play an increasingly important role on the world stage.

"People don't think hard enough about this," he warns, saying a strong manufacturing industry could be important to national sovereignty. "In 20, 30, 40 years when there's a scarcity of resources in materials and energy, having the advanced techniques will be critical."

Taking such a long term view is vital. Unlike the services industry, strengthening manufacturing is a capital, rather than cash, intensive process, and comes with extra risks according to Mark Gregory, chief economist at EY. The consultancy last week released research that claimed "reshoring" employment – much of it in manufacturing – that has been exported to countries with lower labour costs could deliver a £15.3bn a year boost to Britain's economy and create 315,000 jobs.

"We're seeing an upward trend in manufacturing where we're starting to recapture the value lost over the past five or 10 years," he says, but adds automation in the sector will mean not all of the jobs that went overseas will return. "But it's a two Parliament project where we need to rebuild skills, education, infrastructure."

It is this long-term nature that means flagging up the importance of the sector and celebrating it is so important, according to EEF's Sculoer. "Come May 8, whichever party wins the election, they will have to deliver some sort of budget that takes many billions of pounds out of public spending. I hope they have the courage to continue to invest in manufacturing."

One of the benefits of this new-found fondness for the sector is being felt at the cutting edge – literally – of manufacturing. Barnsley-based Cutting Technologies's 30 staff provide super accurate and bespoke laser cutting and engraving for the engineering and creative industries.

Co-founder Jane Robinson says that the value of the company's work is now much more appreciated by the public.

"People appreciate that we are a business that actually makes things and physically ships out a product to customers," she says. "The population at large now seems to appreciate that as well as having service industries like finance, it's important to have that mix."

How we moderate

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