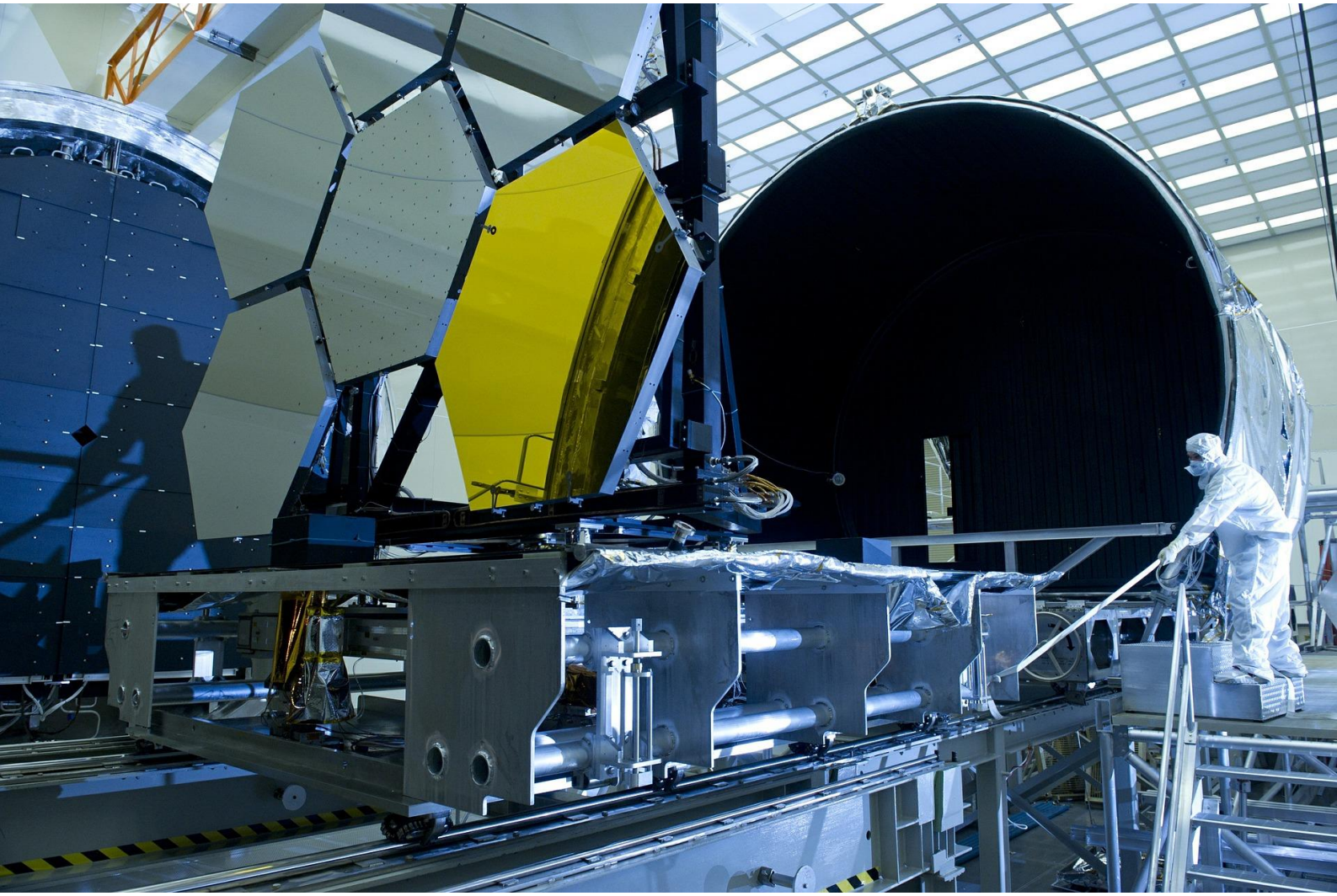
Manufacturing Insight

January / 2020

HAWSONS CHARTERED ACCOUNTANTS



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Welcome to our Manufacturing newsletter

Happy New Year and welcome to the new decade. Undoubtedly this decade will see many changes throughout manufacturing. The continuing development of artificial intelligence, Global Economic uncertainty and the continuing use of 3D industrial printing to name but a few.

We at Hawsons have an in-depth knowledge of this sector through a broad range of Partners and Advisors across a wide range of clients and look forward to working with you.

Hawsons has a dedicated team of specialist manufacturing and engineering accountants in Sheffield, Doncaster and Northampton.

Our specialist team offers a wide range of services which are tailored to meet your individual needs. Our understanding of the issues faced by the manufacturing and engineering businesses means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

Shutdown of car plants hits UK production around Brexit deadline

Car manufacturing declined in November as many car plants slowed down their production due to the previously expected Brexit date of 31 October. If you compare the statistics to November 2018 car output decreased by a staggering 16.5%, with figures showing that 107,753 units were produced. (Figures from the Society of Motor Manufacturers and Traders)

In 17 of the past 18 months up to November 2019, UK car production had decreased. It had fallen by 14.5% during the first 11 months of 2019. This was because the car industry had to confront many difficult challenges, for example, less demand from overseas markets and a drop in sales of diesel vehicles.

During the month of November some British factories stopped work altogether for a number of days to soften disruption from a potential no-deal Brexit. But this wasn't the first time that plants had shut down in 2019. In April which was around the original Brexit date, there was a fall in production of 44.5%.

According to the Society of Motor Manufacturers and Traders it would cost over £500m for car manufacturers to implement Brexit contingency measures. This is because about 80% of cars built in the UK are exported. EU countries are the biggest overseas market for UK built cars, with over half of exports.

The chief executive of the Society of Motor Manufacturers and Traders, Mike Hawes, has said that they would like to work together with the newly elected government "to deliver an ambitious trade deal with the EU". He also said that "To ensure our competitiveness at a time of dramatic technological change, that deal needs to be tariff-free and avoid barriers to trade, which, for automotive, means that our standards must be aligned."

The industry fears that if a tariff free deal is not agreed then tariffs could be as high as 10%. Brexit could also cause longer border checks which means parts could take longer to arrive which would delay the manufacturing process.

Is the UK falling behind in developing automation and robotics

The First Industrial Revolution was led by the UK in 1760 and yet there are serious concerns that the UK is falling behind other countries. This was the conclusion to a report conducted by the House of Commons Business, Energy & Industrial Strategy committee (BEIS) which was published on 9 September 2019.

The report has suggested that a failure to invest and develop in automation and robots will mean that productivity will fall, less investments will be made and people and businesses will move to other countries who have invested in future.

The main reason why BEIS arrive at this conclusion is because their research showed that the Government and business are hesitant to pave the way into the Fourth Revolution. This is because there is a fear that 'robots will take our jobs'. However, BEIS's report has concluded the opposite because if the UK does not take the initiative other countries will. Therefore, they will be able to take advantage of the new technologies which will result in growth and new employment opportunities.

BEIS's message is that the UK needs to think about the future of manufacturing. Robotics and automation offer higher levels of productivity, which will ultimately lead to higher production and more jobs in the UK.

BEIS believe that the UK Government should do more work with UK businesses that are developing automation and robotics. This is so they can share this information with other businesses that are more hesitant in investing in automation and robotics. But the main problem with this is that businesses are looking for something that will make them stand out, and if automation gives them this edge, they won't be willing to tell other businesses about this. Why would they?

In the past there have been concerns that the fast development in automation would affect employment and an income tax charge was suggested for businesses that use robots as the robot had more than likely taken someone's job. But BEIS says that this would be completely illogical as there is currently low development in automation and taking this measure would only reduce it. They believe that the Government should actually introduce a tax incentive for investing in automation and robotics to encourage investment instead of driving it away.

Minimum wage rates to rise in April

The government has announced a 6.2% increase in the National Living Wage (NLW), which applies to workers aged 25 and over.

From 1 April 2020 the NLW will rise from the current rate of £8.21 to £8.72 an hour, in the largest increase since it was introduced two decades ago.

The new rate will result in an annual increase of £930 for 2.8 million full-time workers earning the NLW.

Workers aged under 25 earning the National Minimum Wage (NMW) will also see increases of between 4.6% and 6.5%, depending on their age.

Bryan Sanderson, Chair of the Low Pay Commission (LPC), commented "The NLW has been an ambitious long-term intervention in the labour market. The rate has increased faster than inflation, faster than average earnings and faster than most international comparators. This has raised pay for millions without costing jobs, although employers have had to make a variety of other adjustments to deal with the increases."

The new rates from April 2020

- The National Living Wage for ages 25 and above up 6.2% to £8.72

- The National Minimum Wage for:

21 to 24-year-olds	up 6.5% to £8.20
for 18 to 20-year-olds	up 4.9% to £6.45
for under-18s	up 4.6% to £4.55
for apprentices	up 6.4% to £4.15

A four-step checklist for employers:

1. Know the correct rate of pay (including the National Living Wage)
2. Find out which staff are eligible for which rates
3. Update the company payroll and keep an eye out for future announcements
4. Communicate the changes to staff as soon as possible

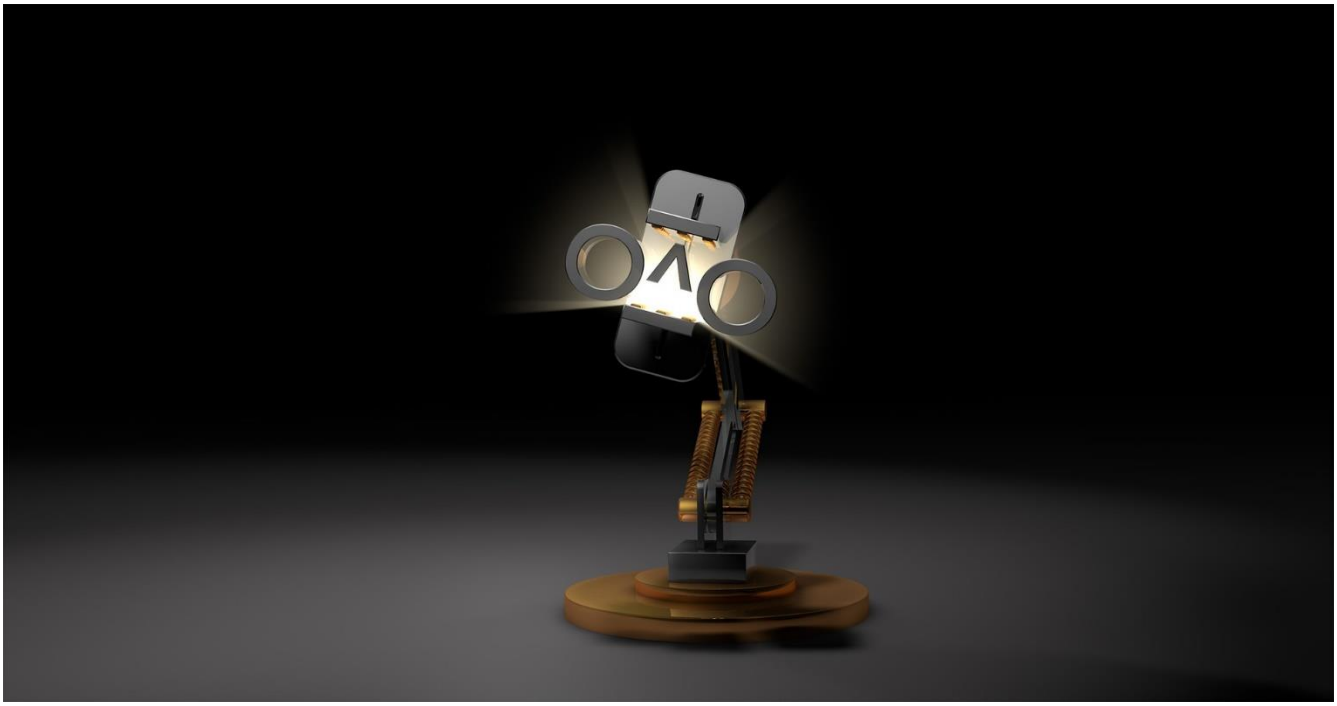
UK manufacturing job losses are at highest level in seven years

The UK manufacturing industry cut jobs at their highest ever rate in November, more than any other month in the past seven years. According to data from HIS Markit/CIPS Purchasing Manager' Index (PMI) survey the rate of job losses in the manufacturing industry hit the highest level since September 2012.

The survey found that uncertainty around Brexit meant that companies were attempting to cut costs and redundancies were made. The manufacturing sector was hit badly because many companies ordered in supplies before the original October 31st Brexit deadline. This meant that companies were still using these supplies and are not purchasing new ones. Therefore, manufacturers have scaled back production as order intakes reduced and less staff were needed.

The HIS Markit/CIPS Purchasing Managers' Index for manufacturing fell to 48.9 in November and anything below 50 suggests that a large amount of business are decreasing in output. It is this decrease in activity that has resulted in a large amount of job losses.

Chris Hill, Hawsons Partner, commented: "Since the Conservatives won the recent General Election with such a large majority there is now much more clarity on Brexit as it now looks extremely likely that we will leave on or before January 31st 2020. This is great news for manufacturers as this offers more stability for the manufacturing industry as companies will no longer be stockpiling supplies".



Manufacturing orders increase after no deal Brexit avoided

A survey conducted by the Confederations of British Industry (CBI) shows that there has been an increase in orders for British manufacturers during November, although this was against a backdrop of near decade lows. It is believed that the avoidance of a no-deal Brexit is one of the main reasons for such an increase. The level of orders in October was the worst in nine years.

The CBI have said that they think manufacturing output will be flat in the next three months as the new Brexit deadline of January 31 set by the European Union begins to move closer.

Anna Leach, CBI's deputy chief economist commented: "While the thick fog of uncertainty from a no-deal Brexit has lifted somewhat, the manufacturing sector remains under pressure from weak global trade and a subdued domestic economy."

Get in touch...

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