

## State of the Sector Survey Manufacturer Feedback: October 2022

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### Introduction

This is the fourth of our quarterly EDA State of the Sector Surveys for 2022, where we asked manufacturers to reflect on business performance in July, August and September 2022.

The Q4 survey opened on Wednesday 5 October 2022, closing on Friday 21 October 2022. This survey represents the feedback of EDA manufacturers (affiliates). There is a separate survey for EDA wholesalers.

This survey attracted 40 responses, a 43% response rate.

As at 24 October 2022, the EDA has 92 manufacturer businesses.

A summary of wholesaler and manufacturer feedback was shared at our Talking Shop Zoom Dialogues Tuesday 25 & Thursday 27 October 2022.

### Highlights

Three quarters of the way through the year and time to look back and share thoughts on what's ahead for 2023.

Over [62% of respondents experienced a slow down of the market during Q3 2022](#): reasons shared include manufacturing challenges, wholesalers' reducing stock levels, domestic market contracting, and foreign exchange issues. The [survey explored the impact of currency fluctuations in more detail](#).

[Q3 turnover](#), when compared to the same period in 2021, remains healthy, but manufacturers' top [3 operational challenges](#) show a new entrant taking the top slot. Strategically, manufacturers are concerned about [what a greener future](#) looks like for their businesses.

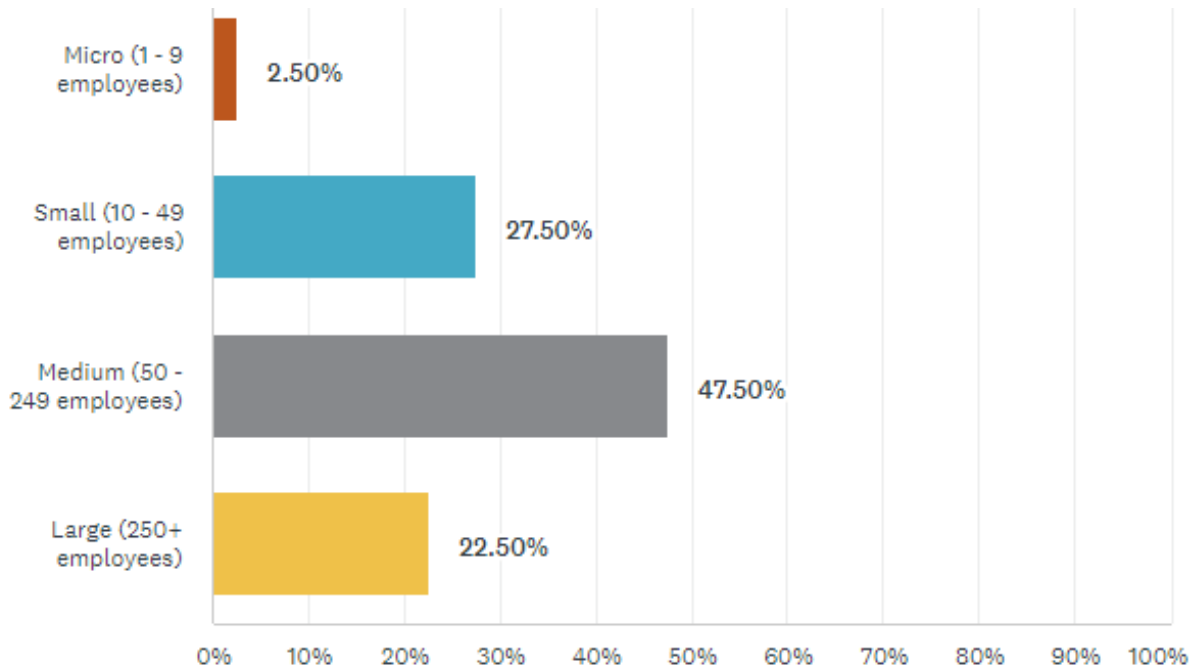
ONS data shows company insolvencies in England and Wales are at their highest level in Q2 2022, since Q4 2009: are [manufacturers reviewing the credit limits and payment terms of their customers?](#)

This survey also asked about the [recent changes to the Electric Vehicle \(EV\) Smart Charging Products](#) regulations.

The likely levels of [cost inflation across a range of product groups](#) is explored, and manufacturers share their thoughts on [what's ahead for 2023](#).

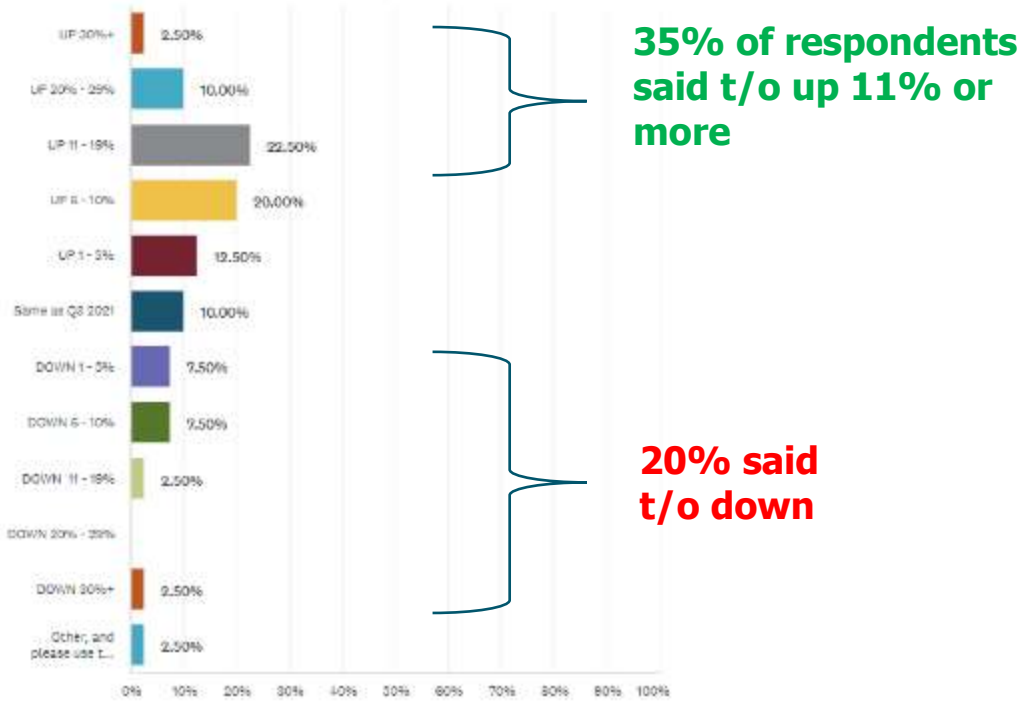
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## Q1: Please tell us the size of your business



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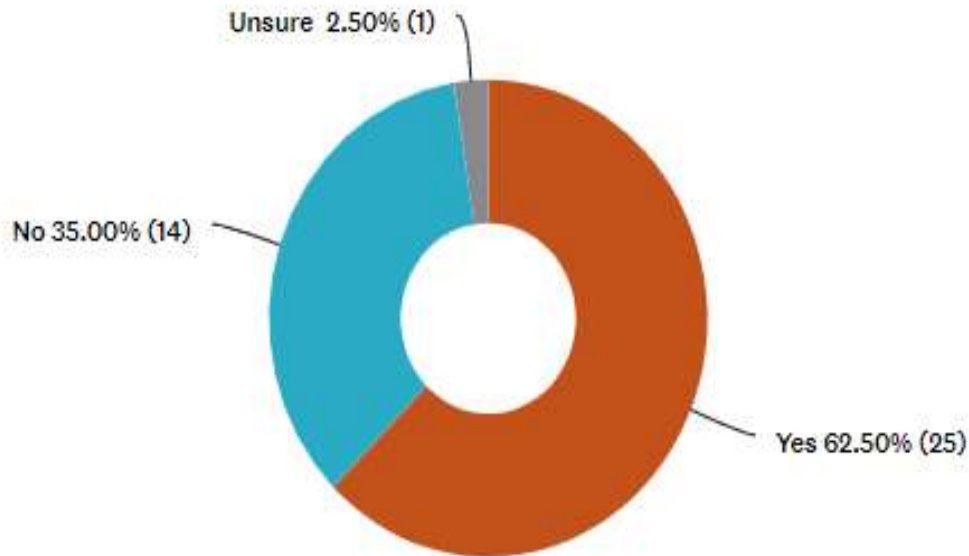
## Q2: Please tell us how your turnover in Q3 2022 compares with turnover in the same period in 2021



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### Q3: Did you experience a slow down of the market in Q3 of 2022?



#### Comments from manufacturers:

"Wholesalers appear to be reducing stock levels based on excessive orders placed in Q1"

"Slow down not related to demand but simply manufacturing challenges for our products"

"Again we are seeing a slow down in the domestic market"

"Our customers are saying footfall is dead but projects still going ahead"

"Uncertainty in FX and potential recession have definitely affected supply chain confidence."

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## Q4: Your Operational Challenges: from a prompted list below are the top 3 challenges for October 2022.

	Sept 2021	November 2021	January 2022	April 2022	July 2022	October 2022
1	Increased cost of shipping	Increased cost of raw materials	How to manage increasing costs across all areas of the business	Raw material price increases	Raw material price increases	Devaluation of sterling against foreign currencies
2	Increased cost of raw materials	Increased cost of shipping	Forecasting manufacturing output, stock levels and managing allocation	Attracting and retaining staff	Raw material or component availability	Raw material prices increases
3	Increasing shortage of raw materials	How to manage increasing costs across all areas of the business	Attracting and retaining staff	Increased running costs + Raw material or component availability	Attracting and retaining staff	Attracting and retaining staff



Challenge	Percentage	Count
Devaluation of sterling against foreign currencies	57.50%	27
Raw material price increases	49.50%	23
Attracting and retaining staff	46.00%	21
Inflation	27.50%	13
Raw material or component availability	23.00%	11
China's continued Covid lockdown policy and resulting disruption	25.00%	12
Forecasting manufacturing output, stock levels and managing allocation	22.50%	11
Cash flow challenges	15.00%	7
Change of manufacturing capacity in the UK	12.50%	6
Costs of raw materials	9.50%	4
Projects being delayed or cancelled due to a shortage of building materials	7.50%	4
The cost of energy (including electricity) going up	6.00%	3
Raw labour	5.00%	2

On the left is the full list of responses and above a summary showing a history of the top 3 operational challenges.



## Q5: Manufacturers' top strategic challenges.

	April 2022	July 2022	October 2022
1	Improving my business systems and processes	Improving my business systems and processes	Adapting my business for a green future
2	Identifying growth areas for my business	Identifying growth areas for my business	Slowdown in infrastructure investment
3	Adapting my business for a green future	Adapting my business for a green future	Moving away from an over-reliance on China for our manufacturing

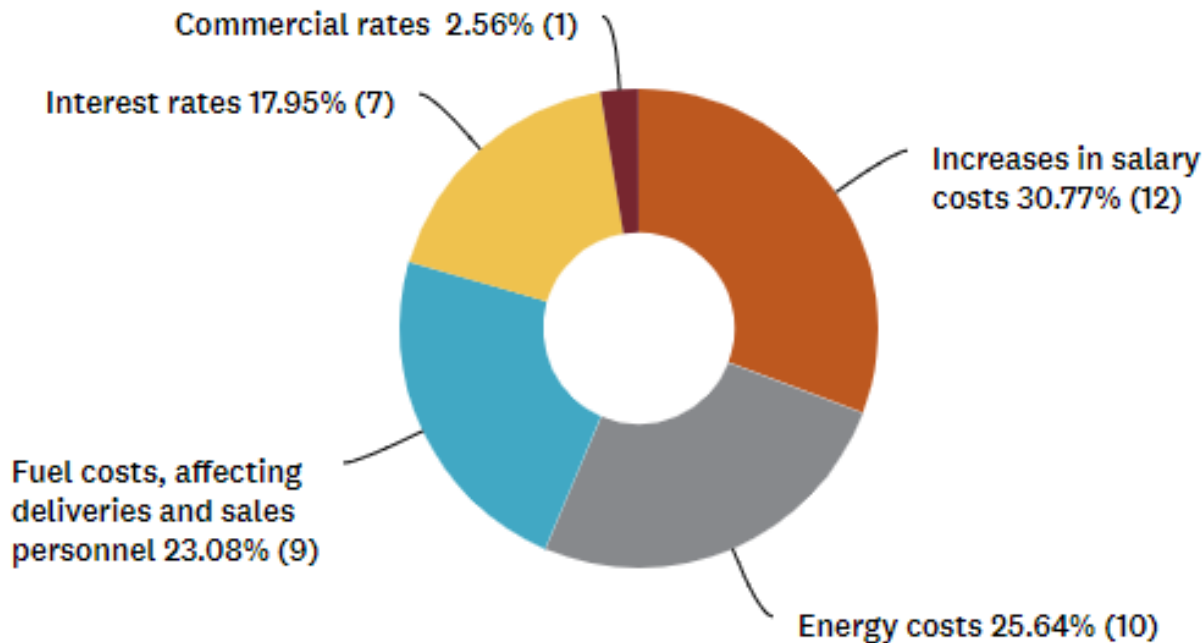
ANSWER CHOICES	RESPONSES
Adapting my business for a green future	13.21%
Slowdown in infrastructure investment	10.04%
Moving away from an over-reliance on China for our manufacturing	30.34%
Improving my business systems and processes	32.43%
Identifying growth areas for my business	33.40%
Adapting my business for a more digitised world	21.67%
Availability of materials previously sourced from China, Russia, or Belarus	18.05%
Attracting a more diverse workforce	16.92%
Training and implementing a programme of staff development and training	15.67%
Investor confidence	10.81%
Developing new digital skills in my workforce	10.81%
Introducing electric vehicles for both deliveries and representatives	5.11%
Total responses: 37	

On the left is the full list of responses and above a summary showing a history of the top 3 strategic challenges.

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**Q6:** Of the following cost increases which will have the biggest negative impact on your business?



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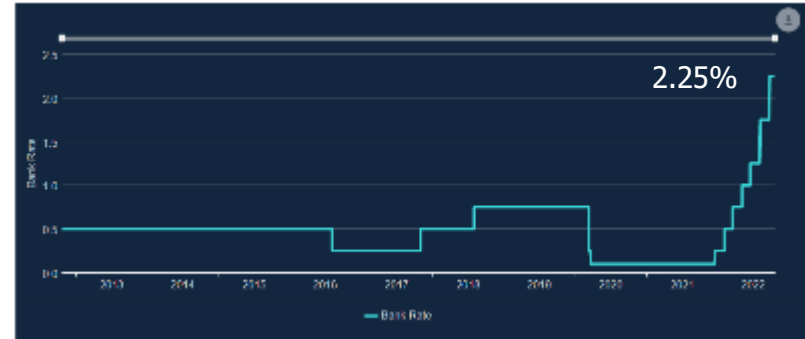




## Q7: What do you think the impact of rising interest rates will be on your business? (open-ended question)

An open-ended question and below is a selection of manufacturer comments:

- “Significantly decreasing profit margins when the company have performed well”
- “Lack of consumer confidence, due to inflation and macro-economic issues, which cause a slowdown in the construction output.”
- “Less profitability due to higher interest costs.”
- “Minimal impact in terms of business costs but we expect that this will further slow economic growth meaning a shrinking market.”
- “Not very reliant on external funding.
- “Massive. some banks have already stopped 40% of mortgages or applied exorbitant rates”
- “An increase in the cost of invoice financing, and reluctance for higher levels of lending which may restrict investment plans”
- “We have to look at where we can find this additional revenue. We look at pricing constantly and this is where these sort of increase have to off loaded. We can't keep absorbing ever increasing costs.”
- “Creates more caution in the market place, with expected slow down in residential market”
- “Wholesalers not holding as much stock so more expectation put on manufacturers”



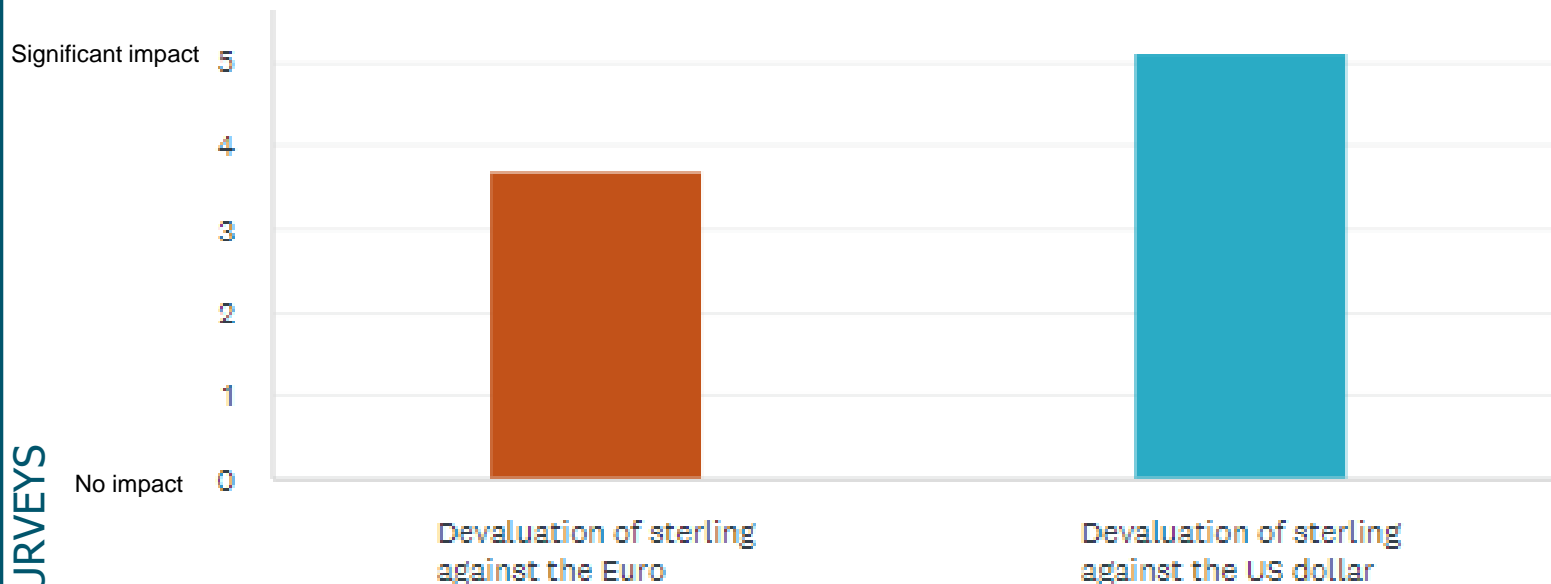
Economic Indicators	2020	2021	2022	2023	2024
	Actual	Actual	Estimate	Forecast	Projection
GDP	-11.0%	7.5%	-4.1%	-1.0%	1.9%
Fixed Investment	-10.5%	5.6%	5.3%	0.0%	2.9%
Household Consumption	-12.9%	6.2%	-4.5%	-1.1%	2.7%
Real Household Disposable Income	-1.0%	0.8%	-2.8%	-1.3%	3.0%
Government Consumption	-7.3%	12.6%	1.5%	2.7%	1.2%
CPI Inflation	0.8%	2.7%	8.0%	5.0%	2.2%
RPI Inflation	1.5%	-4.1%	11.3%	8.6%	2.8%
Bank Base Rates - June	0.10%	0.10%	1.25%	4.00%	3.50%
- December	0.10%	0.25%	3.75%	3.75%	3.25%

Source: ONS, Construction Products Association

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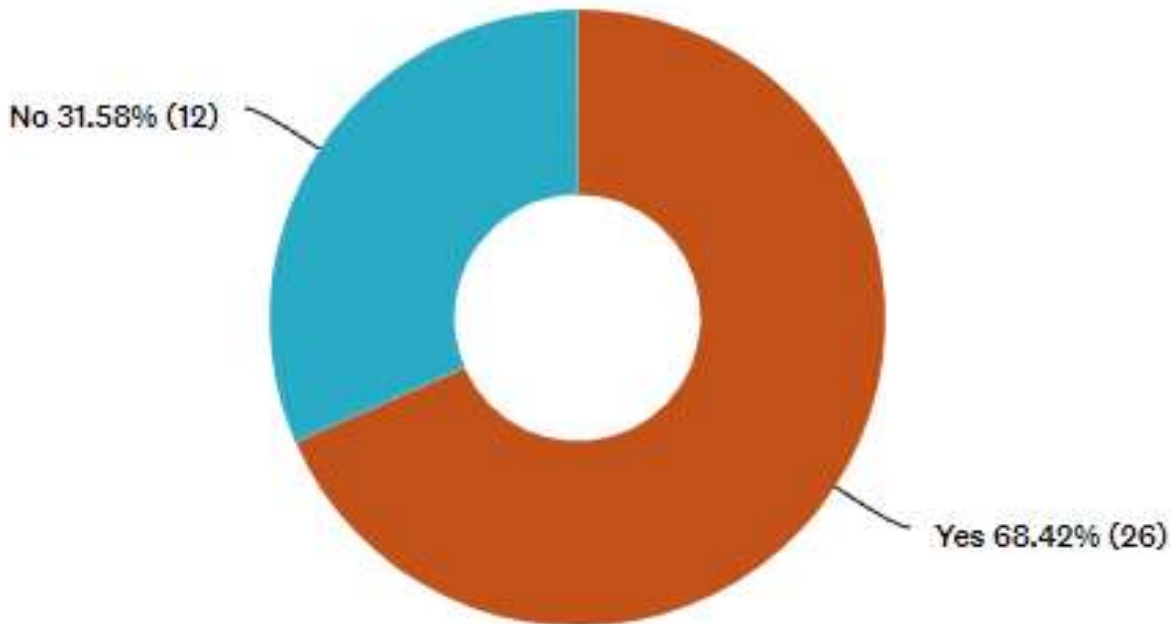


## Q8: Which of the following currency fluctuations is having the biggest impact on your business?



Respondents were asked to rank the level of impact using a scale of 0 – 5, where 0 is no impact and 5 is significant impact

**Q10:** Have you reviewed the credit limits, payment terms, and/or trade credit insurance levels of your customers in the last 3 months?

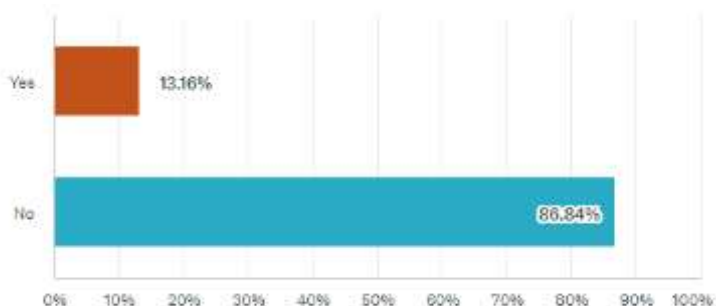


“We have been doing this consistently since Covid times.”



## Q11: We asked a number of questions relating to the changes to Electric Vehicle Smart Charge Point regulations.

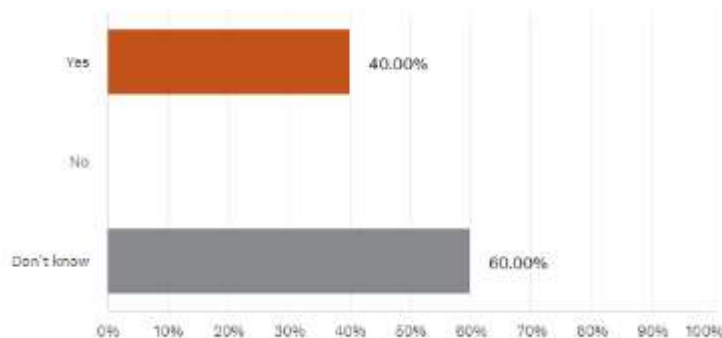
### Q. Do you manufacture EV Smart Charging Products?



### Q. What impact have the new EV Smart Charging Regulations had on your business?

“Increased demand for products”

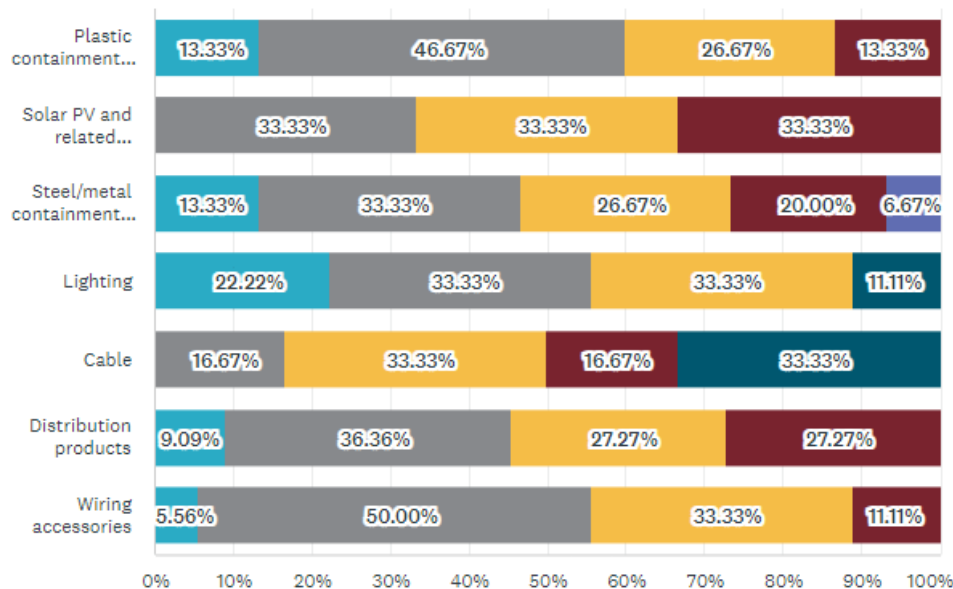
### Q. Are your wholesaler customers aware of their obligations under the new regulations?



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## Q12: For the products you manufacture, please indicate the likely level (in percentage terms) of potential cost inflation in 2022.



Below we looked in more detail at the respondents who said likely level of cost inflation is 11% or more (yellow block and beyond) for the products they manufacture.

**40%** (up from 30% in July 2022)

**66%** (up from 20% in July 2022)

**53%** (down from 71% in July 2022)

**45%** (up from 30% in July 2022)

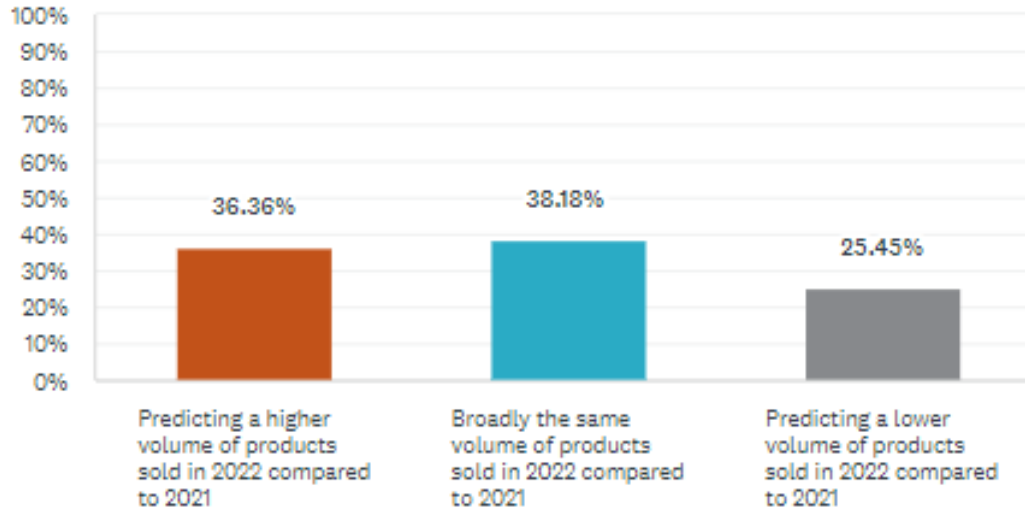
**83%** (up from 78% in July 2022)

**55%** (up from 50% in April 2022)

**45%** (45% in July 2022)

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**Q13:** Three quarters of the way through the year, we'd like your thoughts on business growth and the volume of products sold by your business. How will 'like for like' sales in 2022 compare with 2021?



"We expecting that a winter World Cup during our busy season will impact on our forecasted figures."

*20 November – 18 December 2022*

## Final comments from manufacturers on what's ahead for 2023

"Challenging 2023, with both economic and political instability negatively affecting construction output. More time spent managing rather than strategic development and investment. A recession / correction in the economy, softening sales volume, but with continued price inflation increasing margin pressures. Overall, a more competitive market with pressures on market share across wholesalers and manufacturers."

"Increased demand from Utilities as they reinforce the distribution network but decreased demand from house building."

"Will be very challenging in the first 1/4 - Too much uncertainty in the market."

"Bumpy"      "Very flat YOY."

"Extremely complicate to predict. inflation: from 2... to >10% ? market: even if the demand was looking healthy... before the last political/economical events... now my crystal ball is fuzzi !"

"Challenging times with regards to contractors' ability to spend, therefore potentially a decrease in sales volumes of products. Cost of energy and inflation will reduce what is purchased by the contractors."

"Tough year with high inflation and interest rates likely recession and increase in unemployment."

"Volumes for construction related products are expected to remain low. Volumes will remain strong in utilities and telecom related business."

"A very tough time indeed if the interest rate hikes lead to house building stalling."

"Difficult to tell - things can change very quickly. Continued inflationary pressures, weak pound and a very jittery market."

"We believe 2023 could be a tough year with a shrinking economy."

"A difficult market ahead unless more contractors can be found to carry out the larger projects current on hold, and a release of the public purse to stimulate growth."

"We don't know what 2023 will bring as 2022 has had so many issues which affected our industry that were unplanned - who knows."

"Very hard to predict with all the issues were faced with, Russia Ukraine conflict, Cost of living etc etc forcing confidence to lowest levels that I've seen before."

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