In association with:

EXECUTIVE SURVEY 2025
A STRATEGY FOR GROWTH – RISK AND OPPORTUNITIES

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FOREWORD

UK manufacturers face new challenges heading into 2025, with rising costs driven largely by the introduction of government policies and uncertainty over energy bills. Those feeling optimistic are eyeing the opportunity: accelerating plans to adopt technology with the aim of boosting productivity and reducing overheads. Others are looking to mitigate rising costs by expanding product offerings, providing access to new revenue streams. There is a risk though that some may be left behind: the ability to remain competitive demands decisive action and access to capital.

It is no surprise that growth remains front of mind for most. After some challenging years, there is pressure to deliver value for shareholders. In the run up to the Autumn Budget, it looked like an improved set of conditions were ahead: input costs were reducing, and the political landscape had settled. However, a need to control margins has been compounded by rises in employment costs, with 92% expecting these additional financial pressures to affect the bottom line.

While heading off rising cost pressure will remain a significant focus, what is interesting is how manufacturers plan to do so.

Technology, cloud and artificial intelligence (AI) are seen as significant drivers of growth, with almost one third of manufacturers (29%) citing this as an opportunity for 2025. When we consider only 7% are focusing on headcount expansion, it seems that growth will not necessarily equate to new jobs, but instead a focus on output, which is where AI and automation come in. In previous years, there was a feeling technology might deliver incremental benefits. Given the cost environment, there is now a growing sense manufacturers are taking investment in technology more seriously. It needs to deliver wholesale transformation across the value chain, whether that be increased productivity, enhanced products, data to improve operational performance, or reduced waste.

Meanwhile, it is encouraging to see innovation is not being hampered by cost pressures, with almost half of manufacturers looking to expand their product portfolio. While this feels at odds with removing costs, investing in products will open new revenue streams for businesses. When combined with advances in digital technology, there is an opportunity to reduce production faults and costs too.

Innovation is at the heart of manufacturing and the workforce has highly transferable skills. As manufacturers look to upskill their people with digital capability, maintaining human-led skills such as critical thinking, creativity and judgement will be crucial as new technology is rolled out.

As manufacturers look to accelerate decarbonisation, green jobs and skills will continue to play a key part in future innovation. Demand for these roles is continuing to grow, with the sector posting a 29% increase in green jobs in the past year.

Seen as a ‘growth-driving sector’, manufacturing is central to the Government’s industrial strategy. And it’s only by embracing technology and investing in the workforce to unlock productivity gains will they be able to play their part. This requires an understanding of the skills required now and in the future, with organisations starting to plan how to bridge that gap.

As we support the Executive Survey for the fifth year, it is encouraging to see the resilience of the UK manufacturing sector. While the impact of the Budget may hold back some investment, leaders who successfully balance cost control measures with forward-looking investments in technology, skills and sustainability will secure their future.

Cara Haffey
Leader of Industrials and Services
PwC UK

EXECUTIVE SUMMARY

For UK manufacturers, 2025 will be a year defined by the need to change and adapt in adverse winds. Increasing employment and energy costs will create a significant degree of turbulence for companies, but they stand ready to evolve to meet the challenges ahead.

The *Executive Survey 2025,* delivered by Make UK in association with PwC UK, sets a scene of both optimism and realism. Manufacturers are aware of the challenges they face in the coming year: increasing wages and a higher cost of energy will put immense pressure on companies' bottom lines. These cost increases will be substantial for many to absorb. It is inevitable that some companies intend to pass on this burden to their customers, hitting consumers' pockets hard, but what other strategies can they take to mitigate costs?

Nonetheless, compared to 2024, there is a good deal of consistency in manufacturers' outlooks. A comparable percentage of companies still think the opportunities of the coming year outweigh the risks (62% last year versus 63% this year), despite only 37% expecting an improvement in the UK's economic conditions this year (compared to 36.6% last year).

The major difference in 2025 is the burden of employment costs, with 92% of manufacturers believing this to be their highest cost for the year ahead. Our survey, conducted after the new government's 2024 Autumn Budget*, which laid out a challenging suite of measures for UK manufacturers, likely reflects the impact of these proposed new changes. This includes the decisions to raise the rate of employers' National Insurance contributions, increase minimum wages levels and to increase Capital Gains Tax. Furthermore, the Government's Employment Rights Bill, which is currently progressing through Parliament, increases compliance demands which will be enforced by the new Fair Work Agency. Moreover, the Bank of England is expected to maintain interest rates at 4.75% in 2025 to manage inflationary pressures. Combined, these measures make for a tougher business environment.

Despite this, there is heightened optimism that public policy will benefit the sector soon, namely through the publication of an industrial strategy in Spring 2025, which many hope will be a game-changer for investment. Certainly, manufacturing will be at the strategy's heart. There will also be innovation opportunities through greater R&D investment and the commercialisation of the UK's world-leading research institutions.

In the context of rising costs and an uncertain economic climate, manufacturers are nevertheless preparing strategies to survive and grow. There will be a concerted focus on offsetting costs through productivity gains, digital transformation, automation, energy efficiency improvements and investment. Manufacturers see boldness and innovation as the two key pillars of their future success, and companies will not shy away from their international ambitions, with a substantial number seeing expanding abroad as a key component of their growth strategy.

To navigate this year of change, manufacturers will need to strike a careful balance between managing their financial pressures and making the most of growth opportunities. Despite many thinking that the UK economy will deteriorate throughout the year, they simultaneously believe the UK remains a competitive place to do business.

The culmination of rising tax burdens, coupled with higher energy and employment costs, will test manufacturers' resilience. However, manufacturers have weathered previous challenges before and have come out stronger every time, most recently the COVID-19 pandemic or shock to supply chains during geopolitical tensions. Companies are taking a high-risk, high-reward approach. By reimagining their strategies and embracing technology, manufacturers can capitalise on their competitive advantage. In understanding these risks as opportunities, 2025 has a navigable path of success for the UK manufacturing sector.

**161 senior manufacturing executives were surveyed between 24 October and 20 November 2024.*

KEY STATISTICS FROM 2024

THE UK IS THE 12TH LARGEST MANUFACTURING ECONOMY GLOBALLY BY VALUE OF OUTPUT

MANUFACTURING ACCOUNTS FOR 9% OF UK GDP AND £394 BILLION OF EXPORTED GOODS

THE SECTOR PROVIDED 2.6 MILLION JOBS

£224BN OF OUTPUT CAME FROM THE UK MANUFACTURING SECTOR

THE MANUFACTURING SECTOR HAS 58,000 LIVE VACANCIES

41% OF ALL UK BUSINESS RESEARCH AND DEVELOPMENT

AND

16% OF TOTAL UK BUSINESS INVESTMENT WAS MADE BY MANUFACTURERS

MANUFACTURERS PAID 9% HIGHER WAGES THAN THE WHOLE ECONOMY AVERAGE

KEY SURVEY FINDINGS

92% EXPECT EMPLOYMENT COSTS TO RISE

29% WILL LOOK TO TECHNOLOGY, CLOUD AND AI TO SUCCEED IN 2025

69% INTEND TO PASS ON THEIR INCREASED COSTS TO CUSTOMERS

29% WILL DECREASE THEIR INVESTMENT PLANS BECAUSE OF THE 2024 AUTUMN BUDGET

68% PLAN TO TACKLE GREATER COSTS THROUGH PRODUCTIVITY IMPROVEMENTS

57% AGREE THAT THE GOVERNMENT'S INDUSTRIAL STRATEGY WILL INCREASE THEIR PLANS FOR INVESTMENT

51% EXPECT THEIR BIGGEST CHALLENGE TO BE THE HIGH COST OF ENERGY

50% WANT REFORM OF THE BUSINESS RATES SYSTEM

63% WILL LOOK TO EXPLORE NEW PRODUCTS THIS YEAR

49% BELIEVE THE UK WILL BE A COMPETITIVE LOCATION FOR MANUFACTURING IN 2025

PART 1: COST AND COMPLIANCE

Rising costs and evolving compliance demands are fundamentally reshaping the manufacturing landscape. Businesses must navigate the delicate balance between managing financial pressures and meeting new regulatory standards in employment and other areas. While cost control remains a top priority, compliance challenges require proactive strategies to avoid negative consequences and maintain trust.

EMPLOYMENT COSTS ARE THE PRIMARY CONCERN

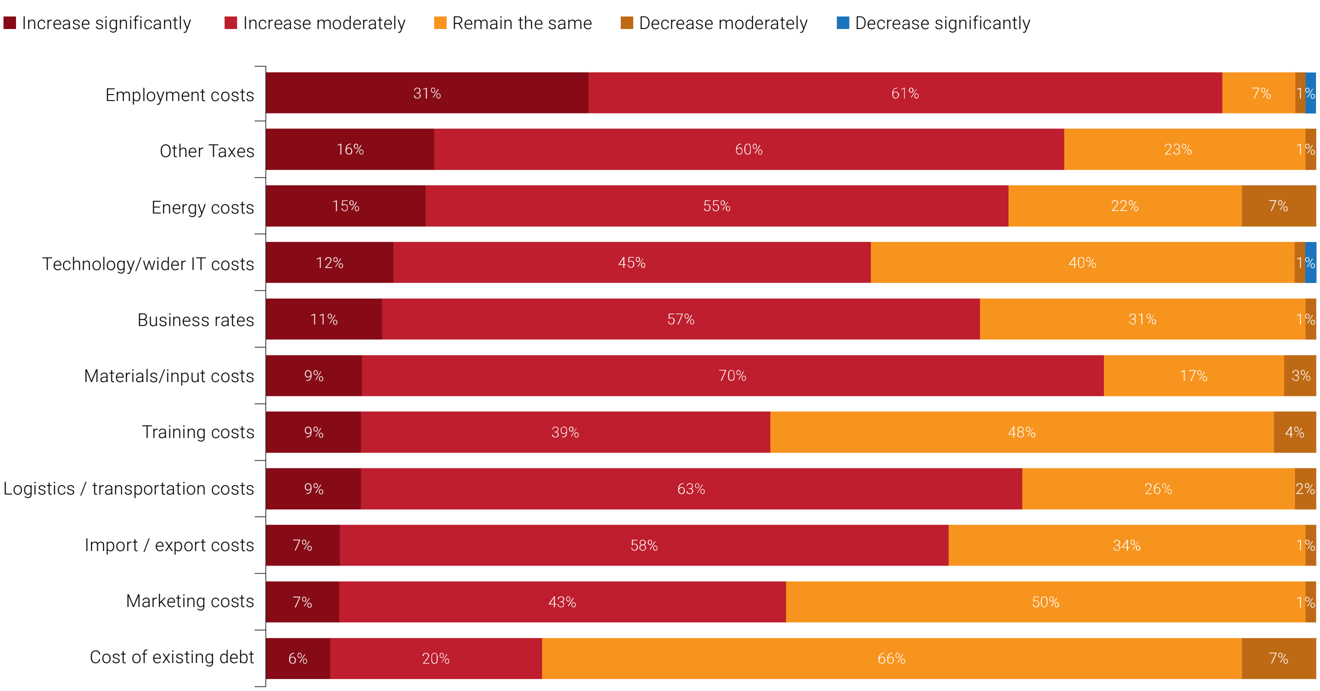
A huge 92% of those surveyed cite employment costs as the key risk to their company's growth. These findings were taken following the 2024 Autumn Budget, which had significant employment and tax ramifications for how companies will do business this year. It is overwhelmingly front-of-mind for manufacturers as they set their growth strategies for 2025.

Unsurprisingly, SMEs feel most at risk of higher employment costs and the effects feel largely evenly spread across manufacturing sub-sectors. For example, metal product manufacturers were the only sub-sector expecting a decrease in employment costs, with all others expecting a growth.

Energy costs continue to be a dominant concern for manufacturers, with 70% expecting a significant or moderate increase in bills. There is an escalating burden of energy prices, across all forms of gas, electric and alternatives, and it is playing a determining role on companies' profitability. Given the sector is already grappling with a challenging business environment, characterised by heightened capital costs and inconsistent demand, the vulnerability to volatile energy market prices is exacerbated.

Chart 1: Employment costs set to rocket

% companies citing risks to their company's growth in 2025



Source: Make UK, PwC UK, Executive Survey 2025

OFFSETTING COSTS TO SURVIVE

The increase in input costs will lead to manufacturers adopting a wide range of survival strategies. It is unsurprising that over two thirds of those surveyed intend to pass on these costs to customers, leading to higher consumer prices, whilst also intending to focus on introducing productivity improvements. Companies will be approaching the next year in a pincer movement, attempting to recoup costs where they can both internally and externally. This will be painful for both their customers and for their staff, but also essential for their longer-term resilience and efficiency.

In addition to productivity gains, many companies plan to offset increased costs in other innovative ways, such as a focus on energy efficiency improvements (46%) and an increased investment in automation (31%). Companies hope to offset employment costs through increased productivity and automation, whilst simultaneously mitigating higher energy costs with efficiency measures. It will be a year of difficult choices, but manufacturers are already primed to make them.

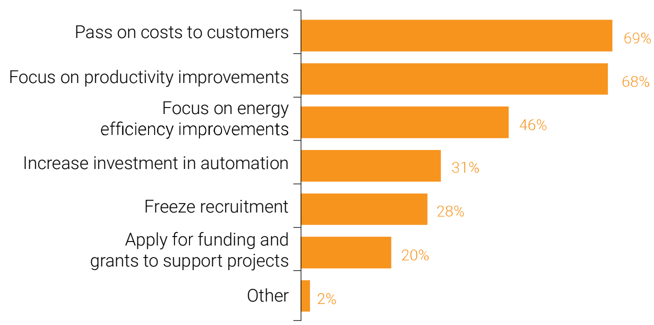
WILL THE CUSTOMER BE DETHRONED?

Rising cost pressures will filter down throughout the whole economy, domestic and global. While most UK manufacturing businesses are intermediate in the value chain, the end user is still exposed to the increasing costs that businesses will need to factor into their production costs.

As Chart 2 shows, passing on costs to customers is identified as the most prolific strategy that manufacturers expect to undertake in 2025 to mitigate the burden of extra costs, with 69% of respondents indicating that they are planning to do so. The overwhelming consistency in this response reveals the sector's vulnerabilities: there is little liquidity buffer to absorb these cost pressures internally without passing them on, even despite the potential negative effect it will have on firms' product marketability.

Chart 2: Manufacturers' strategies to offset rising input costs

% companies citing actions to offset costs



Source: Make UK, PwC UK, Executive Survey 2025

RISKS

If costs are passed to customers to such a degree, there are significant implications for inflation in the year ahead. In this case, sustained upward pressure on CPI is almost inevitable, and as a result, the Bank of England may have to return to raising its base rate again: something unfavourable for business and consumers alike as the UK has endured an extended period of high base rates over the past three years. Such a U-turn in the approach to base rates would shake confidence in the UK economy, further jeopardising investment, particularly from foreign investors.

Increased costs for consumers heighten the risk of a drop in demand, particularly for sectors where price sensitivity to demand is relatively high, which tend to be those already low margin and high volume and subject to higher degrees of international competition. Food and drink manufacturing is the UK's largest manufacturing subsector by a factor of two, accounting for just under 20% of all value generated by manufacturing activity in the UK. In other words, for every £5 of value generated by manufacturing businesses in the UK, £1 of it is a direct result of food and drink production. A reduction in demand for this subsector could significantly hit UK manufacturing output.

OPPORTUNITIES

A balance will need to be found. An emerging solution to this predicament could be seen in successfully enhancing productivity at previously unachieved rates. 68% of the sector identified enhanced productivity as a critical pathway for mitigating cost pressures, with many looking to technology, cloud and AI as key enablers of these productivity gains, alleviating the necessity to pass on increased costs to consumers.

Consumer behaviour is increasingly influenced by sustainability concerns. As public awareness increases, product selection that aligns with sustainability ideals increasingly disrupts the traditional dichotomy of price and quality. However, manufacturers have limited capital on hand to invest, which could leave businesses walking a thin rope between balancing margin preservation and the erosion of market share.

READY FOR CHANGE

Against a backdrop of high costs, there is a distinct thread of optimism as manufacturers plan for the year ahead. The majority are expecting increases in sales, with many also intending to focus on investment and digital transformation. Companies are looking to embrace opportunities arising from their greater cost obligations to innovate, and more still are looking at the productivity route to ensure growth.

48% of manufacturers are expecting increases in export sales to non-EU markets. Within this, 34% expect that growth to be from North America and 25% from Asia and Oceania. Food and drink, pharmaceuticals and paper and printing were sectors amongst those expecting the highest increases in the coming year. There could also be a future focus on those regions where the UK is involved in ongoing Free Trade Agreement negotiations, such as many of the Gulf states (for example, Saudi Arabia, the UAE and Qatar), Switzerland, Turkey and India.

As reflected in other parts of the survey, the vast majority are anticipating increased costs to hit their businesses, with 88% expecting either a significant or moderate increase in their wage bills and 71% expecting increases in the cost of energy, placing doubt on the competitiveness of the UK market.

This finding stands in contrast to the common misconception that, although the most acute peaks of the energy crisis seen just under two years ago have passed, rising energy costs are no longer a concern. Despite both domestic and global energy markets exhibiting strong signs of stabilisation following the crisis, industrial end users have continued to be concerned about the longer-term affordability and accessibility of energy.

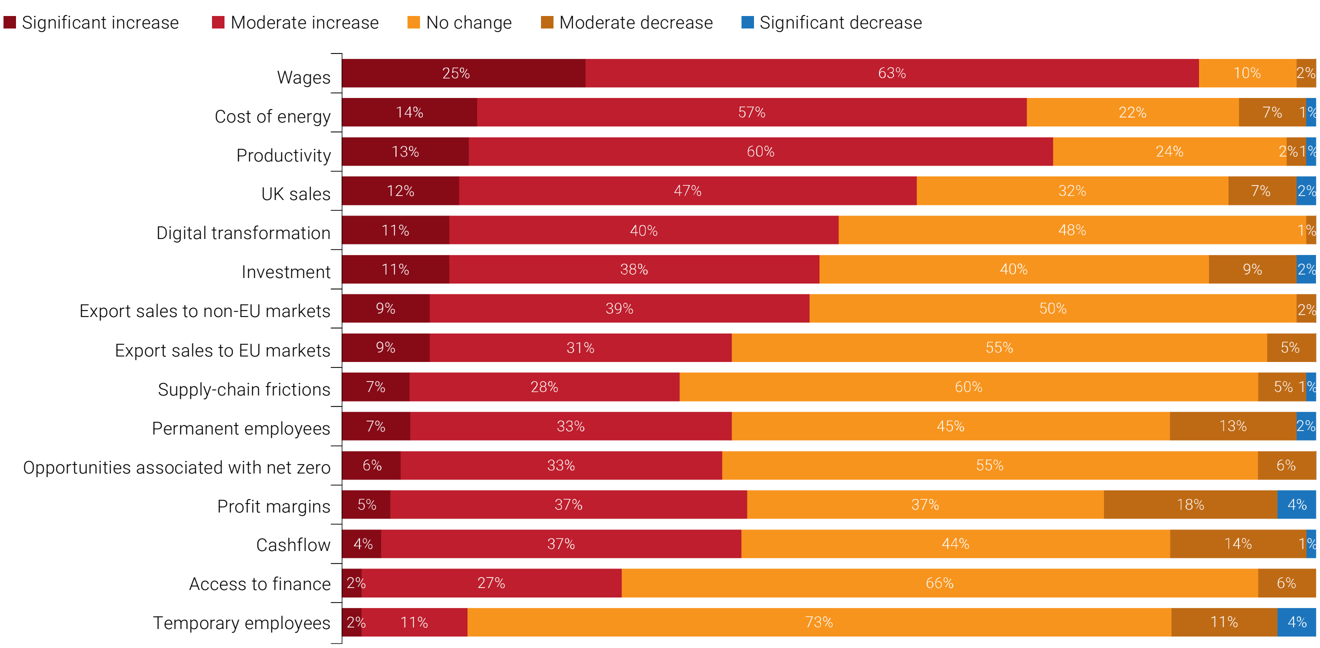
This concern is further compounded as most UK manufacturers will find their international competitiveness hampered as a result of high energy costs per unit of production relative to their foreign competitors. While there is a significant and more well-known energy competitiveness gap between manufacturers here in the UK and those based in the Far East, Industrial UK energy prices as a factor of production have long been higher than those of even our closest neighbours across the continent. Some of this differential, particularly in comparison to competitors outside of the EU and is composed of the higher costs associated with the transition to greener energy sources at the supply level.

If energy costs do continue to increase in 2025, as the findings show that the sector expects, many manufacturers will be at risk of finding themselves limited on capital reserves at the very time it would be cost-effective to make investments in on-site generation. Those businesses that have already implemented some form of on-site generation will find themselves less reliant on the grid, and subsequently less exposed to the incoming energy price rises that the majority of the sector will endure.

Interestingly, 66% expect no change to access to finance; indeed, 27% expect a moderate increase. This mirrors the 37% who anticipate a moderate increase in cash flow, with 44% expecting no change. It looks like manufacturers are relatively positive that the changes needed this year will have worthwhile outcomes for their businesses.

Chart 3: Wages and energy set to increase, but productivity improvements may offset concerns

% companies citing changes they expect in their business in 2025



Source: Make UK, PwC UK, Executive Survey 2025

2024 AUTUMN BUDGET: THE IMPACT ON MANUFACTURERS

Employer NICs

The Government has increased the headline rate of class 1 employer National Insurance contributions (NICs) from 13.8% to 15% and reduced the threshold at which employers begin paying class 1 NICs from £9,100 to £5,000 per eligible employee. This will have a significant impact on the cost of employing people in the UK for most manufacturers. While an increase in the Employment Allowance – giving businesses the ability to deduct up to £10,500 from their total annual NICs liability – will help some small manufacturers, though many will face a substantial increase in their tax bill from April this year.

However, there remain some important exemptions and reliefs to employer NICs, such as the exemption on apprentices under the age of 24, which may help some employers to further offset their increase in costs.

National Living Wage

From April, the main National Living Wage (NLW) rate will increase by 6.7% to £12.21 per hour. This means that, between 2022 and 2025, the NLW will have gone up by 28.5%, whilst the age threshold has decreased from 23 to 21.

In addition, a larger increase to the rate for 18–20-year-olds will be implemented: a 16.3% rise to £10 per hour from the current rate, reflecting the Government's intention to reduce the NLW age threshold to 18. Like previous governments, this reduction in the threshold is being staged over two years: 18–20-year-olds will become eligible for the full NLW rate from April 2026.

Finally, the largest increase is for 16–17-year-olds in the apprentice rate, which continue to be aligned with each other and will rise by 18% to £7.55 per hour.

Manufacturers continue to highlight the impact of consistently large NLW and NMW increases on their ability to maintain pay differentials and the implications for promoting staff and investing in training. As the Government seeks to set a new long-term direction for the NLW – the goal up to 2024/25 was for the main rate to reach two-thirds of median earnings, which has now been achieved – it is important that future increases are decided based on what is sustainable for employers and reflects wider economic and labour market conditions.

Employment Rights Bill

The Employment Rights Bill is the Government's flagship piece of legislation aiming to give "the biggest upgrade to workers' rights in a generation". The Bill is far-reaching and will introduce new measures over the next two years giving employees 'day one' rights to protection from unfair dismissal and flexible working, a right to guaranteed hours for those on zero or low hours contracts, a right to proportionate compensation for shifts cancelled at short notice, amongst others. There will also be new requirements for employers in areas such as workforce consultation on collective redundancy and the easing of current requirements on trade unions when proposing to take industrial action.

Although the Bill will become law in 2025, the Government has committed to not introducing the majority of measures until at least 2026, giving businesses time to consider their impact and prepare for implementation. Therefore, we expect many manufacturers in 2025 to be planning ahead, ensuring that they can comply with these new rules across employment law from 2026.

One of the key changes likely to take effect in 2025 is increased eligibility for Statutory Sick Pay (SSP). The new legislation removes the current three-day waiting period, meaning that employees will be able to claim SSP from their first day of sick leave, and also removes the lower earnings limit, entitling employees currently earning below this level to claim SSP (likely to be set at between 60-80% of their normal pay). This is one of the proposals with the most significant direct cost implications for businesses and Make UK has called for a rebate scheme for SMEs to be introduced to offset some of this impact.

Capital Gains Tax

Capital Gains Tax (CGT) rose for the lower rate from 10% to 18% and the higher rate from 20% to 24%. On top of this, the Business Asset Disposal Relief (BADR), which allowed more business owners to access the lower rate, will also be phased out by 2026, bringing the treatment of CGT for business assets in line with real estate. The impact of these changes in CGT are unlikely to have significant implications for manufacturing businesses, though it may lead to greater inefficiencies in the sector. Prior to the change, CGT only generated approximately £15 billion in tax revenue, and it is estimated that a 1% increase in CGT only results an additional £100 million in tax revenue for the Treasury.[1]

The main risk of CGT is how it may impact business behaviour long-term. It is not only the direct cost to businesses that makes an impact, but also the increased time spent on ensuring compliance. Additionally, the perceived negative impact on future quality of life for individuals or businesses that have accumulated assets can encourage inefficient decision-making, such as holding on to assets for too long before disposing of them, thus affecting investment decisions and slowing down productivity growth.

Inheritance Tax and Business Property Relief

Arguably, the changes made to Inheritance Tax (IHT) could be far more severe to manufacturing businesses in the long-term. Currently, IHT is payable on values that exceed the nil rate band (£325,000), with additional exemptions included if an individual makes use of the resident band. However, in relation to the Autumn Budget, the biggest concern to businesses will be the changes announced for Business Property Relief (BPR) and what this does for investment appetite.

The changes have sparked concern amongst manufacturers, particularly those within the SME category. SMEs represent over 90% of the sector in terms of the number of registered manufacturing businesses in the UK, and this is where the majority of family-held businesses will reside – an important point in relation to changes in IHT. At its highest level, the sector is concerned that the revised tax framework is at risk of creating disincentives for entrepreneurs, investors and family-run businesses, ultimately reducing the total amount of capital committed to the sector.

The most prominent concern is the potential impact on the behaviour of family business owners, as the changes to IHT are likely to dissuade family-owned businesses from reinvesting profits into modernisation or expansions as the owners consider the higher potential tax liabilities on intergenerational transfers. Any potential policy lever that could further snub investment in a sector which has seen systemic under-investment relative to its internal peers must be carefully considered, as a decrease in net capital investment into the sector will inevitably lead to erosion in productivity growth, and subsequently, market competitiveness.

From April 2026, only the first £1 million worth of privately owned assets can continue to receive 100% of BPR with the remaining receiving relief at only 50%. Similarly, if ownership of assets includes shares not listed on a recognised stock exchange, then the relief will be reduced from 100% to 50%. Effectively, this will create a two-tier system for manufacturers who could face a higher tax bill on assets that they wish to pass on, whilst those who hold their cash in publicly traded shares on stock exchanges can continue to receive a 100% relief from BPR.

From the Government's perspective, this may be seen as an opportunity to increase investment in growth companies by encouraging investment in firms that are listed on mid-market exchanges, as the flow of money moves away from private assets. However, the changes to IHT will disproportionately impact family-owned businesses, a sector which is estimated to account for 85% of all private sector businesses, who may feel they are being taxed for the wrong reasons.[2] This could result in businesses favouring selling off their assets to third parties as opposed to passing their accumulated assets down to relatives.

Business Rates

Manufacturers face another revaluation of their rateable values in 2026, whilst the Government has also committed to overhauling the business rates system as a whole. There will be great concern that businesses may need to prepare for the second wave of the tsunami of cost rises, on top of other rising costs across the board.

The current system disproportionately impacts investment-heavy industries, like manufacturing. In 2023 when the Valuation Office Agency reviewed commercial property values, the industry sector saw their rateable values go up by on average 27.1%, nearly 4 times the national average. As business rates are a pre-profit tax, they are accounted for as part of the total cost base of a business, therefore directly impacting investment and recruitment decisions.

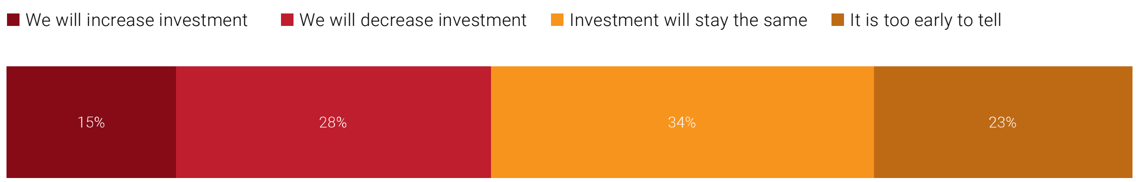
[1] Institute of Fiscal Studies (2024)
[2] Oxford Economics/IFB Federation, The State of the nation, 2021/2022

THE SHOCK OF THE AUTUMN BUDGET MAY HOLD INVESTMENT BACK

While the industrial strategy is a driver for long-term investment, the taxation announcements at the 2024 Autumn Budget means nearly three in ten (28%) firms will now decrease investment. This decline will be a consequence of two factors in play after the announcement that business costs will increase. The first is that the direct absolute cost of investment today may no longer be feasible for some businesses who are hastily redrafting their cashflow forecasts to ensure they will be able to pay their bills, with some projects inevitably falling off the table or delayed. The second is an increase in policy uncertainty, given the circumstances in which the Budget announcements included little insight or consultation on potential tax rises, which will negatively impact investor confidence.

Chart 4: The Budget has had an impact on investment plans

% companies citing whether they will increase or decrease investment following the Budget announcements



Source: Make UK, PwC UK, Executive Survey 2025

PART 2: RISK AND REWARD

As manufacturers navigate the challenges of rising costs, balancing risk and reward becomes critical. While cost pressures threaten profitability and consumer accessibility, they also drive innovation and efficiency. For manufacturers, the year ahead presents an opportunity to reimagine strategies, embrace technology and turn obstacles into competitive advantages. Success lies in mitigating risks while unlocking potential rewards through agility and foresight.

THE CHALLENGE OF COST CREEP

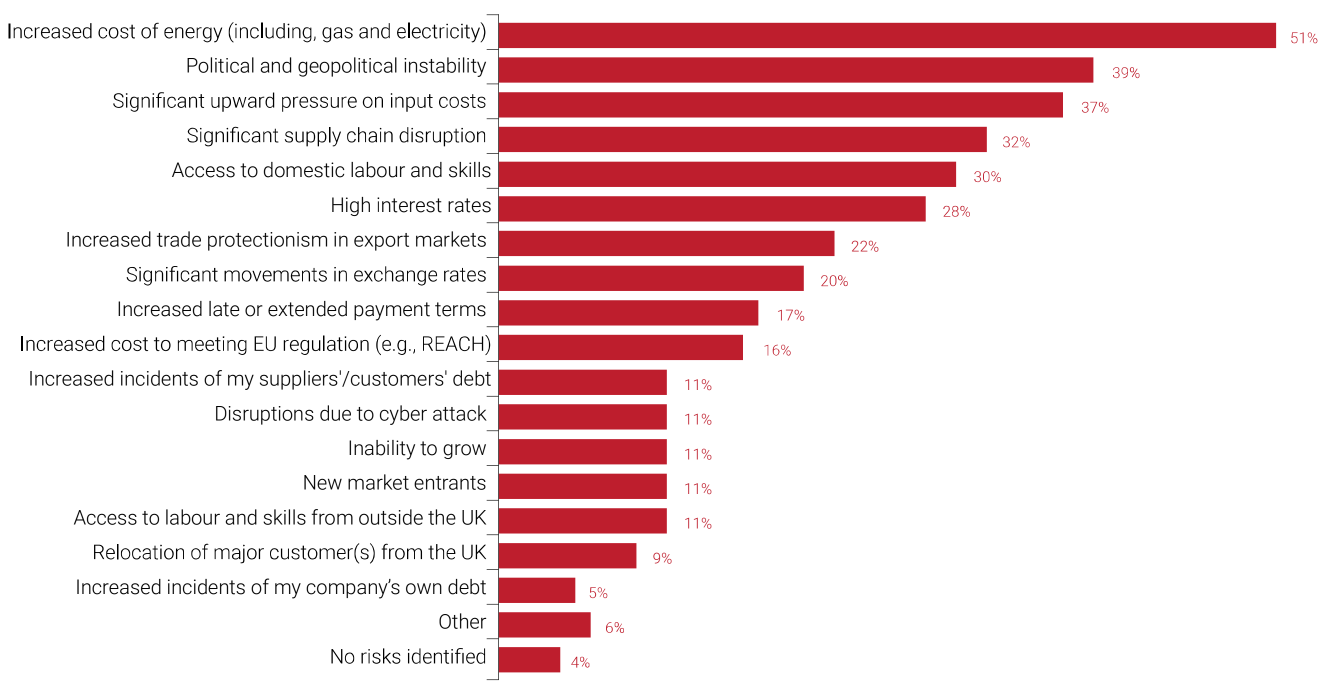
Whilst manufacturers are attempting to manage the known challenges in the year ahead, more uncertain risks are on the horizon too, notably cost creep. Findings show that over half of companies fear the increased cost of energy the most (51%), with 37% citing concerns about further significant upward pressure on input costs. Manufacturers will be incorporating coping methods to deal with these into their business strategies, likely a combination of productivity and savings gains and increased pricing models.

The Government's narrative of stabilised energy markets and the benefits of expanding renewable energy production infrastructure do not quite align with the on-the-ground reality of manufacturers. Unlike the domestic user segment, the UK's industrial energy market is unregulated, subsequently exposing manufacturers to the full force of wholesale market price fluctuations, depending on their procurement strategy. With limited support, apart from the small segment of businesses that fall into an official energy-intensive user classification, manufacturers will be mitigating incoming energy cost impacts themselves. In the first instance, efficiency on the production line and plant-wide energy optimisation will take the fore. However, many businesses have already rigorously undertaken this step as a result of the 2022 energy crisis.

To realise a step-change in exposure to rising energy costs, manufacturers will need to source capital, financed or otherwise, to invest in capital equipment, falling into two main categories. The first is efficient machinery and technologies, and the second relates to on-site generation. The common thread between both investment areas is the requirement for funding, a requirement that comes at a time of elevated Bank

Chart 5: Cost creep remains a key challenge in the year ahead

% companies citing risks to their business in 2025



Source: Make UK, PwC UK, Executive Survey 2025

base rates and a relatively high cost of money. By the end of 2024, inflationary concerns already returned, meaning that the cost of capital as determined by the central bank rate will remain elevated for longer than anticipated. Subsequently, this makes access to capital more challenging, costly or both for manufacturers.

Aside from cost, 39% of manufacturers cite political and geopolitical instability as a key challenge of 2025. Despite the UK's likely stability at a national government level for some years, there is significant uncertainty around potential policy change, as well as challenges that may be posed by increasing instability around the globe. This may go some way to explaining why nearly a third of those surveyed are concerned about supply chain disruptions and access to the domestic labour market.

A GOOD GROWTH STRATEGY CAN OFFSET THE RISKS

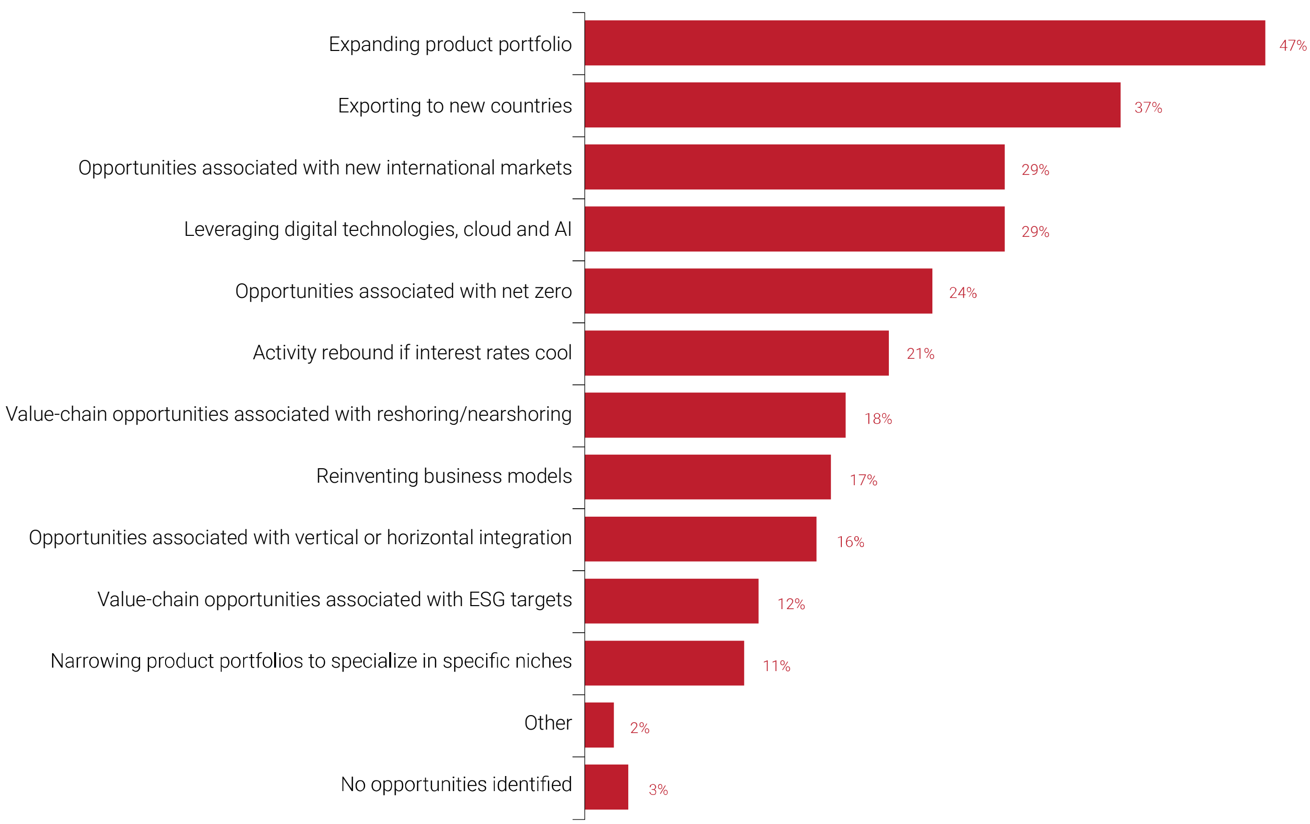
The wide-ranging challenges of the coming year have not dampened manufacturers' drive for growth. Companies will be taking an ambitious yet pragmatic approach to the coming year, seeking both to control their costs and innovate into new areas.

Over a third (36%) of those surveyed intend to make cost control a key growth strategy, reflecting the increasing cost burdens businesses face. Productivity and efficiency will be core solutions here. Another 36% of respondents, however, view launching new products and services as a key vehicle of growth. Innovation will be a critical component for growth in 2025, as companies attempt to walk the tightrope of efficiency and investment.

There is also notable interest in exploring new avenues of expansion, whether that be exporting into new markets, investing in capital equipment, or discovering the possibilities around AI. Companies are preparing to be more inventive in their approach to growth, a strategy which also serves to mitigate the risks that they are bearing.

Chart 6: Strategies for growth in 2025

% companies selecting up to three growth strategies



Source: Make UK, PwC UK, Executive Survey 2025

NEW MARKETS, NEW OPPORTUNITIES

When considering their opportunities for growth, manufacturers are looking at new products and new markets to capitalise on. Almost half (47%) see expanding their existing product portfolio as key to their growth trajectory, with significant numbers also planning for international expansion as 37% are considering exporting to new countries and 29% exploring new international markets. Metal product manufacturers is the sub-sector most likely to invest in new products (with 23% planning to). It will also be a popular move with smaller businesses, with 57% of those under 250 employees intending to invest. On new international markets, again, metal product manufacturers are the most ambitious, with 19% planning to export; however, pharmaceutical manufacturers are the least ambitious with 0% planning any international activity.

Again, manufacturers have reinforced that central to their growth plans are the opportunities around digital technologies, including AI, and those associated with the transition to net zero.

One of the most striking insights is the emphasis on AI. One in five (20%) firms identified investment in AI as a top priority, signalling its transition to a central pillar of operational strategy.

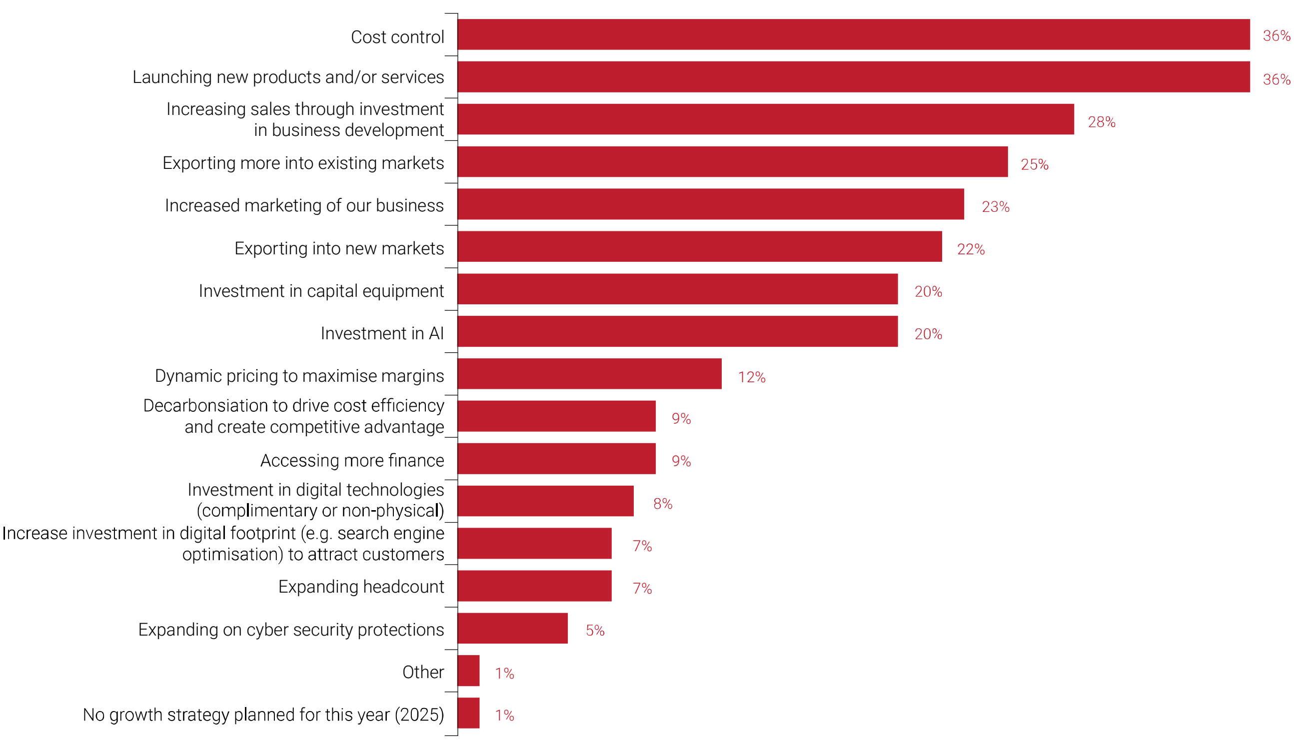
For manufacturers, AI holds transformative potential across multiple areas. Applications such as predictive maintenance, process optimisation, and supply chain automation are being leveraged to enhance efficiency, reduce costs and improve overall output quality. The data suggests that businesses are no longer experimenting with AI but are integrating it deeply into their operations to unlock competitive advantages. In doing so, it is critical for manufacturers to embed AI within their enterprise resource planning (ERP) data to unlock the full value of AI capabilities.

Beyond operational improvements, AI also plays a critical role in enhancing customer experiences. Manufacturers are increasingly using AI to tailor solutions to customer needs, whether through customised product offerings or optimised delivery schedules. In an industry that thrives on precision and efficiency, AI offers the tools to stay ahead in a fast-paced, highly competitive environment.

In light of the likely risks ahead in 2025, businesses plan to be flexible in their approach to securing growth. 21% are planning an activity rebound if interest rates cool and 17% are preparing to reinvent their business models. Companies are standing ready to act fleet-of-foot to survive and thrive.

Chart 7: New products and new markets are areas for growth

% companies citing opportunities in 2025



Source: Make UK, PwC UK, Executive Survey 2025

DEPLOYMENT OF NEW TECHNOLOGY

Despite the mixed expectations for this year's economic outlook, the opportunities around digitalisation and new technologies are seen as a key vehicle for positive change.

When looking at technology more broadly, over half (52%) of manufacturers expect an improvement in its deployment in 2025. As organisations prepare for the year ahead and beyond, technology is dominating strategic agendas, reflecting an evolving mindset where it is seen as both a necessity and an opportunity.

Economic pressures are also accelerating the need to adapt to changing consumer behaviours. Manufacturers are deploying technologies to meet demand for greater customisation, faster delivery, and more sustainable practices. Dynamic pricing models, for example, enable businesses to respond in real-time to market fluctuations, maximising profitability while remaining competitive.

As manufacturers continue to navigate economic pressures and technological change, their ability to adopt and integrate these technologies will define their success. The future of manufacturing is undoubtedly digital, and the sector's growing appetite for investment signals its readiness to lead in the new industrial age.

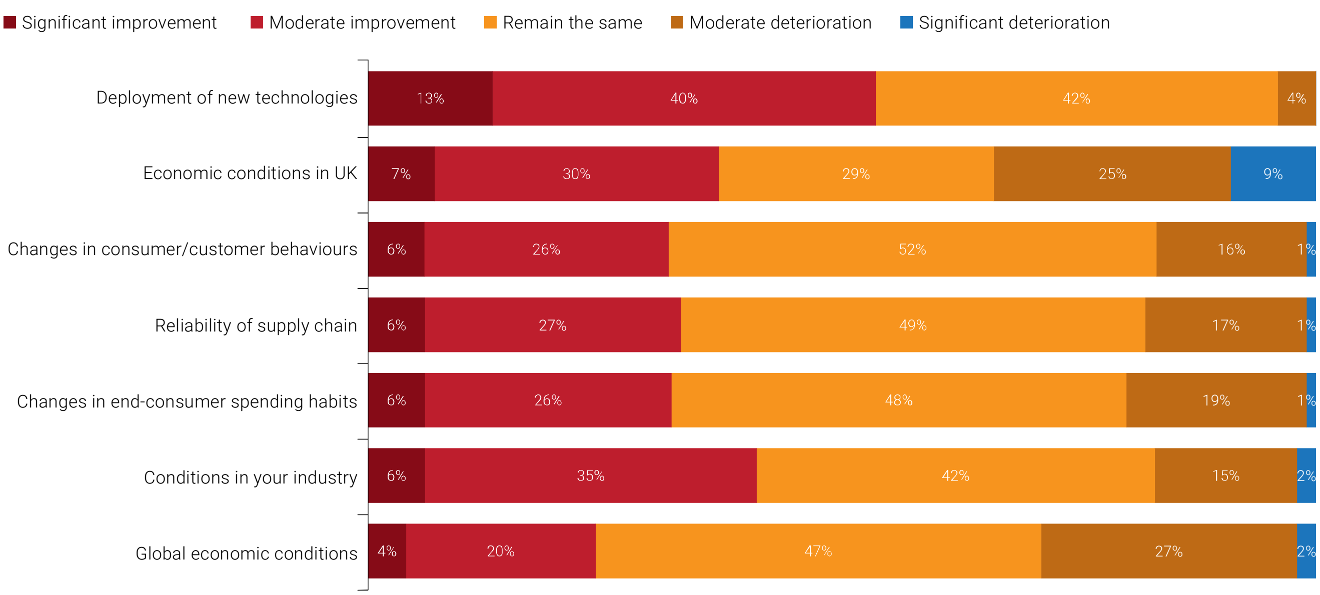
THE END OF SUPPLY CHAIN SHOCKS?

Supply-chains have always been a critical ingredient in the way manufacturers operate their business models. Efficiency is often achieved by minimising the delivery times and processing of inputs, through matching them to the speed of production, ensuring that an entire industry can focus on their own productivity growth. This concept of efficiency is well-known amongst manufacturers as running just-in-time (JIT) supply-chains: the maintenance of which has driven much of manufacturing investment over the last several decades.

However, since 2020, the reliability of supply-chains has been tested rigorously. The closing of ports in parts of east Asia during the early days of the COVID-19 pandemic or the Suez Canal blockage that cost $400 million an hour in global trade value exposed the bottlenecks in the system.[3] Suddenly, commonly accessible materials including different plastics and natural metals became scarce, and competition resulted in price rises. Whilst investment had been geared towards maintaining traditional process efficiency, not enough attention had been given to resilience and security of supply-chains.

Manufacturing industry behaviour had to change to respond and grow. Many manufacturers now continue to deliver JIT whilst also applying a cautionary approach to supplies,

Chart 8: Companies' views on areas of improvement affecting the sector (%)



Source: Make UK, PwC UK, Executive Survey 2025

[3]Lloyds List (2021)

such as building safety stocks. Some may refer to this adaptation of JIT to JIC (or just-in-case), which remains relevant this year as global supply-chain disruptions persist.

Resilience is one of the top areas for investment in global supply-chains today. Indeed, one in three manufacturers highlighted that they have an advanced supply-chain strategy in place, and between 2021 and 2023, two-fifths of companies said they had increased the proportion of suppliers based in the UK for supply security.[4]

EXAMPLES OF STRATEGIES IMPLEMENTED BY BUSINESSES INCLUDE:

Dual or multi-sourcing: This involves procuring the same goods and services needed for manufacturing from multiple suppliers in different markets. This creates stability in supply-chains, especially if one market closes or faces severe delays due to unforeseen circumstances.

Near-shoring/Friend-shoring: This includes manufacturers moving supply-chains closer to home by reducing geographical proximity to critical goods.

Digitalising the monitoring of suppliers/customers: Many businesses now use data extensively to improve their supply-chain management with ERP and Material Requirements Planning (MRP) systems. 54% of manufacturers have already applied the use of data analytics to some of their processes in supply-chain management.[5] The contribution of technology to supply-chain management will continue to grow as manufacturers embed AI into the manufacturing process.

Stock building: Overbuying inputs and components to ensure security of supply in case of economic uncertainty.

When asked about the reliability of supply chains, 33% of manufacturers expect a significant or moderate improvement, a slight increase from last year's 30%. Meanwhile, only 18% expect a deterioration. This indicates that investment in resilience is paying off. There is an opportunity this year for manufacturers to improve the visibility of their upstream supply chains, therefore enabling further resilience. Where appropriate, cloud technologies could accelerate the development of this capability.

33% OF MANUFACTURERS

EXPECT IMPROVEMENTS IN THE RELIABILITY OF SUPPLY CHAINS

[4] Make UK, Building Resilient Global Supply-chains: Efficiency and Volatility (2023)
[5] Make UK/RSM, Investment Monitor (2024)

PART 3:
THE STRENGTH OF THE STRATEGY

PUBLIC POLICY IS GOING IN THE RIGHT DIRECTION, BUT MORE DETAIL IS NEEDED

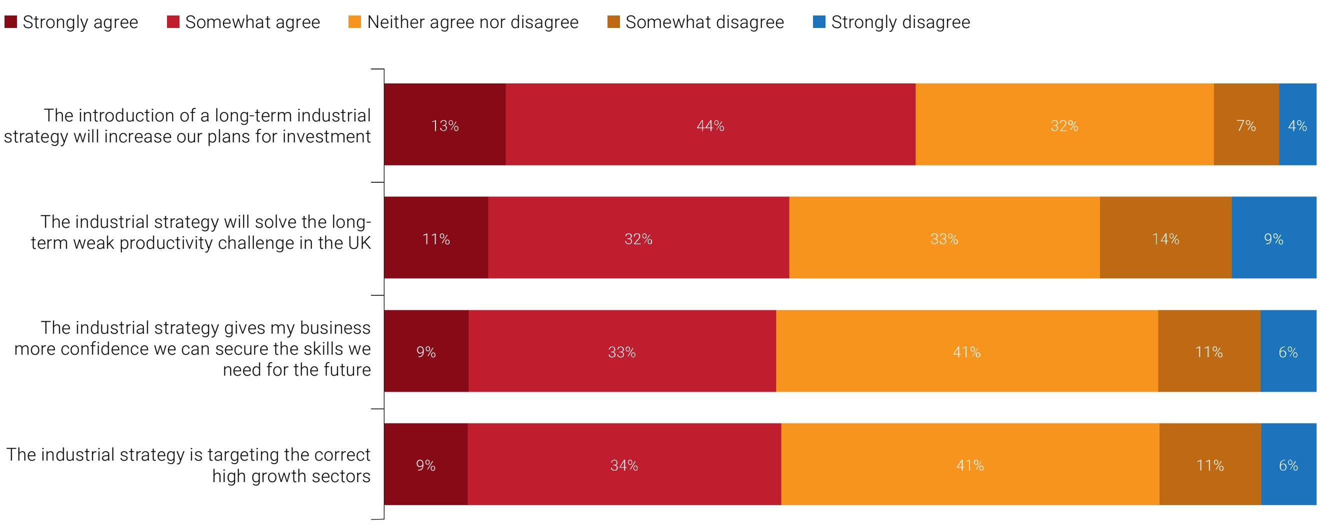
The UK's new Industrial Strategy Green Paper, *Invest 2035*, sets out the UK's pitch to investors and a roadmap detailing how the industrial strategy will help kickstart economic growth across the country.[6] The Prime Minister has vowed by the end of Labour's first term to make the UK the fastest-growing major economy by securing the "highest sustained growth" in the G7 group. He has spoken about a "decade of renewal", demonstrating that his government's problems cannot be fixed in five years alone.

Manufacturing is not just the catalyst of economic change, but an engine for social advancement, providing highly skilled, highly paid, jobs in every region and nation of the UK. Manufacturing is therefore at the heart of the new industrial strategy.

To deliver the Government's vision, the strategy prioritises eight high-potential sectors, including advanced manufacturing, clean energy, and digital technologies. The aim of this targeted approach is to allow for tailored policy interventions and resource allocation. However, many manufacturers remain to be convinced that the industrial strategy is targeting the correct high growth sectors. When surveyed, 41% of respondents neither agreed nor disagreed with the sectors identified, with 43% either somewhat or strongly agreeing. Clearly, there is a significant amount of scepticism that the Government has identified the right sectors to deliver economic growth.

Chart 9: Impact of the industrial strategy

% companies agreeing to below statements



Source: Make UK, PwC UK, Executive Survey 2025

[6] Invest 2035: the UK's Modern Industrial Strategy, https://www.pwc.co.uk/industries/framework-for-growth.html

The Government's strategy aims to create a conducive environment for businesses, including streamlining regulations, improving access to finance and enhancing skills development. It also places long-term policy stability at its centre; an acknowledgement that constant chopping-and-changing of public policy does more to hinder than help business investment. Yet, manufacturers remain sceptical of government plans and are waiting to see more detail. When asked if the industrial strategy would give their business more confidence to secure the skills for the future, the same results emerged.

Manufacturers are, nevertheless, more optimistic that the industrial strategy will solve the long-term weak productivity challenge in the UK. 43% either strongly or somewhat agreed with this vision for the industrial strategy. Basic metals and food and drink were the most enthusiastic sub-sectors, whereas half of all motor vehicle manufacturers disagreed.

Firms were more optimistic about plans for investment, with 57% agreeing that a long-term industrial strategy would increase their plans for investment. The subsectors that were most enthusiastic were chemicals (36%), non-metallic minerals (33%), and electrical equipment (22.2%). Somewhat ominously, some of the UK's traditionally biggest subsectors, motor vehicles, aerospace/other transport, and food and drink were among the most negative, with not a single firm offering the strong support.

The pressure on the incoming industrial strategy will now be even greater to set investor confidence on a path to growth. Nevertheless, almost one in four (23%) manufacturers highlight that it is too early to tell for investment decision-making, likely indicating they are waiting for further details before diverting course on any plans. Positively, nearly half (49%) will either keep their investment the same or even increase it, suggesting that the overall rebalancing of higher costs may not necessarily come from a reduction in investment. Currently, it is difficult to determine the type of investments that may reduce. 43% of businesses invest to upgrade or maintain existing capital equipment to ensure consistent levels of productivity, and this is expected to continue, but the impact on productivity-enhancing investments is more ambiguous.[7]

In this context, several tax relief mechanisms could support investment in businesses, including:

- **Capital allowances (e.g. AIA and Full expensing):** Capital allowances can reduce the corporate tax owed by a business by allowing a 100% write-off of the value of capital expenditure against taxable profits. The introduction of full expensing for capital allowances makes the UK one of only four countries in the OECD to offer a 100% allowance for investment in machinery.[8]
- **R&D tax credits:** One of the most valuable and well-known tax reliefs available for innovation can support even loss-making organisations under certain circumstances. SMEs with under 500 employees can deduct 86% on qualifying expenditure and the rate for claims for surrendered losses is set at 10%. It is also feasible to claim for the cost of NICs for staff who have worked on any R&D projects claimed. For larger businesses, the R&D Expenditure Credit is also available to support innovation across the industry.
- **Patent box scheme:** Available to any UK business, this scheme can reduce the taxable profit from 25% to 10% for any activity that is attributable to a qualifying IP (Patent holding). It is a highly underused scheme for a vibrant and innovative manufacturing sector.

GETTING BACK ON TRACK

While manufacturers continue to digest the impact of recent public policy interventions, they remain acutely aware of what they need from the Government going forward and are proactively thinking ahead to the multi-year Comprehensive Spending Review in late Spring.

Business rates

Reforming the business rates system tops the charts. Unlike other sectors, manufacturing was not given any business rates relief in this Budget.

Manufacturers can take advantage of some relief with regards to building improvements and green technologies, but these are limited. It remains the case that when a manufacturing firm purchases new productivity-improving production equipment or installs a carbon footprint-reducing wind turbine in their factory, those investments will result in the company paying higher business rates. This is not the case with international competitors, such as Germany, where tax reductions are offered to firms that make investments in the national interest.

Industrial strategy

A close second was the need for further detail on the industrial strategy. While the Government's Green Paper has provided the beginning of a framework for the Government's modern industrial strategy, there are areas where there is a lack of detail. For example, despite skills being one of the sector's biggest challenges, there is little insight into what a skills strategy would look like. Other gaps include how to support commercialisation and secure regional growth in areas where there is not a devolution model already in place. Companies are therefore looking for further detail which will hopefully come from the conclusion of the Green Paper.

[7] Make UK/RSM, Investment Monitor (2024)
[8] Tax Foundation, Capital Allowances | Capital Cost Recovery across the OECD, 2024

Infrastructure

A fundamental pillar of industrial strategy is infrastructure, and 43% of manufacturers want to see firm commitments to long-term infrastructure projects. Indeed, if the new government's mission is to promote growth, there is no better place to start than with infrastructure. Although the Chancellor has a heavy task of ensuring the nation's books are balanced, a firm commitment to long-term infrastructure projects going forward will not only support sectors such as manufacturing but will also attract much needed foreign direct investment.

Net zero

Over two-fifths (43%) of firms want to see greater support to help them transition to net zero. The work of manufacturers will be vital to achieving the UK's sustainability ambitions. The sector has potential to become a leader in net zero technologies and expertise, attracting billions of pounds in investment, creating more well-paid jobs and moving the dial on productivity and growth. For that to happen, the right incentives must be in place.

Digitalisation

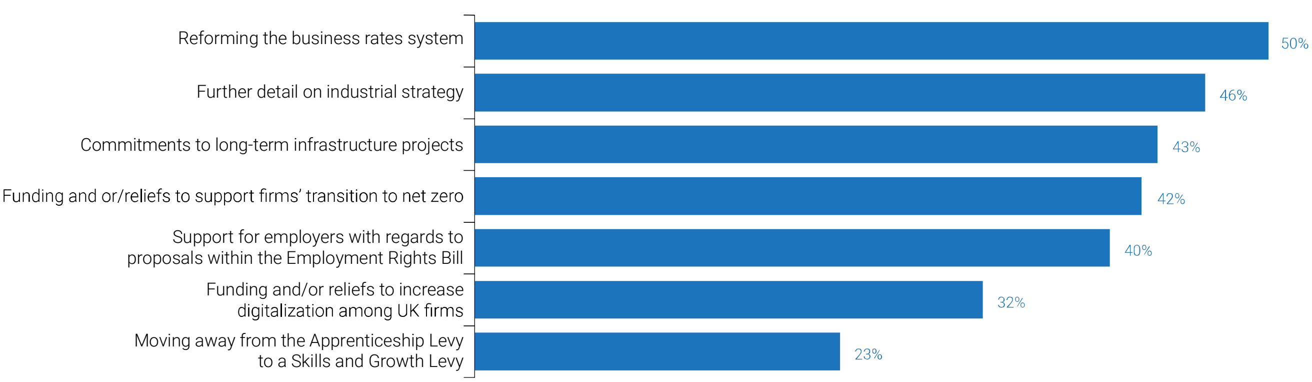
Similarly, just under a third (32%) of companies want to see funding or reliefs to increase digitalisation. Make UK research shows that manufacturers are accelerating digital adoption and looking at the benefits of AI in their business, but cost and access to skills is holding them back. Offering direct funding or more generous reliefs than what is currently on offer is likely to accelerate digital adoption further.

Manufacturers also want support on some of the challenges that lie ahead, including the provisions within the Employment Rights Bill. While these changes won't come into force until Autumn 2026, companies need to start planning now and are looking to Government to help them do so. This could be fairly light touch, such as clear guidance, but equally, with the accumulation of employment-related costs, companies may be looking for something more concrete in this space.

Finally, just under a quarter (23%) of companies want to see how the Government will revolutionise the Apprenticeship Levy and change it into a Skills and Growth Levy. Given that manufacturing apprenticeships have fallen by 42% since the introduction of the Levy, there is a need for urgent reform to the system. Make UK is playing its part, having recently launched its Industrial Strategy Skills Commission, which will explore how we reverse this downward trend and create a skills system fit for the future.

Chart 10: Certainty and support needed

% companies citing what they need from Government



Source: Make UK, PwC UK, Executive Survey 2025

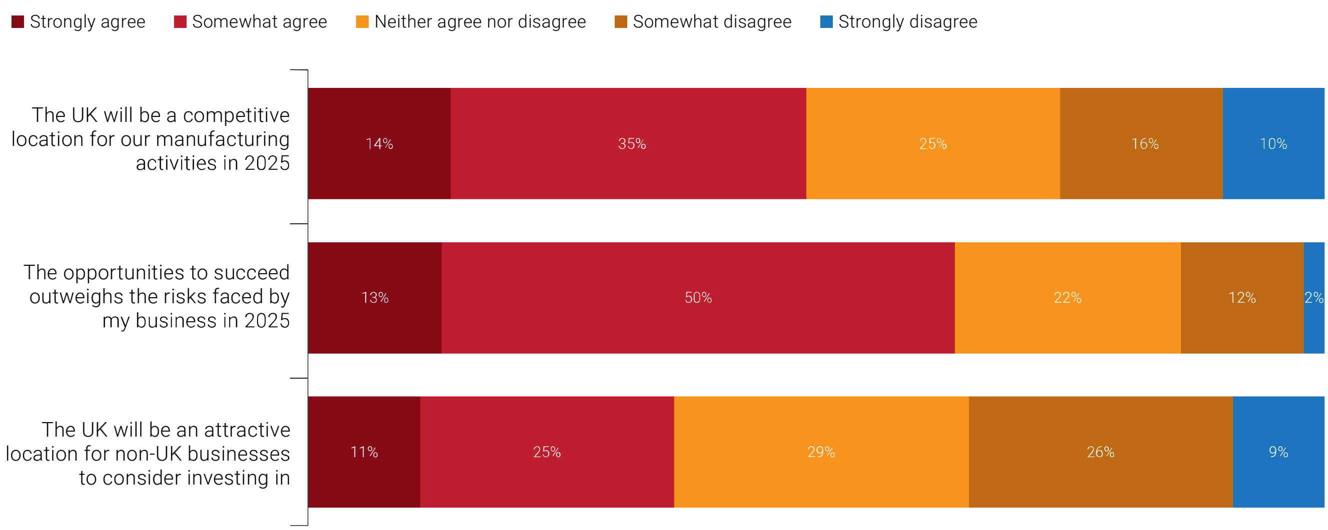
PART 4: 2025 – THE YEAR FOR OPPORTUNITIES AND IMPROVEMENTS?

It would be easy to interpret the current economic landscape as one that is too pressurising for manufacturers to be truly globally competitive. However, our survey demonstrates otherwise. Despite a year of increasingly hefty cost pressures and difficult business management, manufacturers still feel that the opportunities for success outweigh the risks of potential failure.

Just under half of respondents (47%) either strongly or somewhat agree that the UK will be a competitive place for manufacturing activities in the UK, even within the challenging landscape, and almost two-thirds (63%) either strongly or somewhat agree that the opportunities to succeed outweigh the risks. Optimism over the UK's attractiveness as a location for non-UK business to consider investing in is slightly lower, with only 36% either strongly or somewhat agreeing. Almost the same percentage (35%) either strongly or somewhat disagree.

It is especially notable that more businesses are confident about the competitiveness of manufacturing in the UK than they are about the attractiveness of the country as a whole. Difficult economic headwinds are seen as a potential blocker to growth in 2025 and global economic conditions are also a significant concern. 35% either somewhat or strongly disagree that the UK will be an attractive location for non-UK businesses, and yet, only 26% somewhat or strongly disagree that the UK will be a competitive location for manufacturing. There is steady confidence in the UK manufacturing sector prevailing, despite the continuing challenge of economic circumstances both at home and abroad.

Chart 11: Companies' views on the competitiveness of manufacturing and the UK (%)



Source: Make UK, PwC UK, Executive Survey 2025

Companies are likely to view the geopolitical landscape as one of continuing risk and uncertainty, with many seeking to diversify their supply chains and reducing their reliance on a single country or region. However, it is not all negative; by reducing the distance goods need to travel, businesses can mitigate supply chain risks, improve delivery times and reduce carbon emissions. There will be room to innovate, as well as mitigate.

On domestic soil, there are several factors at play that will impact manufacturers' competitiveness. The UK's skills shortage is acute, with the sector losing approximately £7 billion every year owing to unfilled vacancies. Moreover, the UK's transport and digital infrastructure is lacking, suppressing the competitiveness of manufacturing and overall economic growth. Nevertheless, the development of advanced materials, AI, additive manufacturing and revolutionary technologies are a key opportunity to shape the future of the sector, including to enhance its global footprint.

THE CHANCE TO FLOURISH IN TRICKY ECONOMIC CONDITIONS

Despite the challenges ahead, the UK manufacturing sector has significant opportunities for growth and innovation. The nation has a strong tradition of innovation and R&D, with world-renowned universities and research institutions. However, to maintain our global competitiveness, the UK needs to increase R&D spending and improve the commercialisation of scientific and engineering discoveries. We currently spend just 1.5% of GDP on R&D, whereas the US spends 3%. By boosting our R&D spend as a percentage of GDP, the UK could develop cutting-edge technologies, attract skilled talent, and create more high-value manufacturing jobs and companies. Effective commercialisation of research findings could lead to the creation of new products and services, boosting economic growth and improving the UK's manufacturing sector. To further foster innovation and commercialisation, increased collaboration between academia, industry, and organisations, such as Innovate UK and the Catapult Centres will be needed, along with supportive policies that encourage innovation and risk-taking.

The UK has the potential to position itself as a global leader in green manufacturing, capitalising on its strengths in renewable energy, low-carbon technologies and circular economy solutions, and delivering the Government's mission to boost UK energy independence. The UK's offshore wind industry is a global leader, with significant manufacturing capabilities in turbine components, foundations and cables. By investing in R&D, the UK could further strengthen its position in this sector and develop innovative technologies, such as floating offshore wind. Additionally, the UK has a strong track record in low-carbon technologies, such as electric vehicles and hydrogen fuel cells. By leveraging its automotive industry and research institutions, the UK could become a global hub for electric vehicle manufacturing and battery technology. By investing in hydrogen production and distribution infrastructure, the UK could create new opportunities for clean energy applications in transportation, heating, and industry.

Only by working together can industry and Government turn risk into opportunity and innovation into genuine sector growth in 2025.

Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK's economic engine and the world's workshop.

The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges.

Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

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With a network spanning 155 countries and a diverse workforce of 364,000, we understand the challenges and opportunities facing both the UK and global manufacturing industries as market dynamics continue to evolve.

Our intelligent platform for manufacturing offers opportunities to transform productivity into profitability. Through Industry Cloud Solutions, including Collaborative Supply Chain, we help clients enhance their resilience and efficiency. Our Factory Intelligence combines AI with Cloud technology to provide greater operational control, and our Product Design Hub creates digital versions of physical products to optimise design, cost, and carbon footprint. Through these solutions, we can reimagine the future together.

Get in touch to learn how you can advance the transformation of your manufacturing business:

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