NATIONAL

'March of the makers' gathers pace

Long road ahead in chancellor's mission to boost manufacturing and rebalance economy, but some sectors offer hope

PEGGY HOLLINGER — INDUSTRY EDITOR

On one side of Jaguar Land Rover's 300-acre plant in Halewood, a giant mechanical press crashes down on to a sheet of steel, stamping out 200 car parts an hour. On the other side of the Merseyside factory, a press installed last year not only does this more than twice as fast but uses far less energy and can change stamping patterns in a fraction of the time.

JLR's factory is a testament to Britain's potential as a manufacturing powerhouse. During the past four years, £500m has been invested in the Halewood site, now seen as one of Europe's most efficient car plants.

"Four years ago on this site we had 1,350 people. Today we have 4,750 and, if you add in suppliers, we have 6,000 people coming here over 24 hours, five days a week," says Neil Roscoe, JLR spokesman.

It is a tale to warm the heart of George Osborne, chancellor, who in 2011 pledged to return Britain's long-neglected manufacturers to the heart of the government's strategic thinking. The aim was to reduce reliance on a volatile financial services sector, whose collapse had left a trail of economic devastation.

"We want the words 'made in Britain, created in Britain, designed in Britain and invented in Britain' to drive our nation forward — a Britain carried aloft by the march of the makers," he said in a budget speech setting out measures to encourage research and development, exports and capital investment.

Four years on and coming up to just two months before a national election, how successful has the government been in rebalancing the economy?

Despite a sharp devaluation of sterling at the start of the financial crisis, Britain still buys most of what it needs from abroad and the deficit on trade in goods reached a record high last year. National income is 3.4 per cent larger than at the pre-recession peak in 2007 but manufacturing output has shrunk 5.4 per cent.

In contrast, the services sector has expanded nearly 8 per cent. And manufacturing employment as a percentage of total jobs fell from 8.2 per cent in 2010 to 7.8 per cent in 2014.

"The details show that the long-heralded rebalancing story in the UK has completely stalled," said James Knightley, an economist at ING bank, in a research note.

To be fair, the journey from policy initiative to investment and, finally, the export success that will help to create jobs and raise the nation's wealth, can take years. But even the Office for National Statistics sees little result so far. "The dependence of recent growth on the services industry does little to rebalance the economy towards production and manufacturing," its economists wrote in February's economic review.

Yet, delve a little deeper and there are glimmers of hope. Despite all the talk of manufacturing disappearing from the landscape, Britain is making about the same absolute volume of goods it made in 1978, says the ONS. Indeed, volumes have even risen slightly in the past five years.

Numbers employed in the sector may have fallen from 5.6m in 1982 to 2.6m last year, but productivity growth in manufacturing has far outstripped that of the economy as a whole in the past five years. Certain sectors, such as aerospace and automotive, have seen rapid growth.

"Aerospace has not been an easy sector for government to support. Its development costs and product cycles are so long — often 10 to 15 years for a new aircraft — that governments have to think in longer terms than the typical five-year political cycle," says Tom Williams, operating chief at Airbus.

"The current industrial strategy has really helped take aerospace out of the shadows and put it centre stage."

Whether growth in aerospace and automotive has much to do with the coalition's policy initiatives is debatable. In his final years as Labour's business secretary, Peter Mandelson began advocating a more active industrial policy to help wean Britain off its reliance on the financial services sector.

Industries also go through cycles. Output and employment in aerospace started taking off in the year before the coalition came to power, in part because of the global boom in aircraft orders.

Finally, critics can point to some notable failures. Despite the government's efforts to promote the pharmaceutical sector as a high-value industry to drive jobs and growth, output has fallen sharply during the past five years. Yet Britain's leading industrialists say it is impossible to judge the performance in just one parliament.

"The journey has started," says Sir John Parker, the veteran industrialist and, until late last year, president of the Royal Academy of Engineering. "There was a lot of talk initially. But now we are having sectoral dialogues with government about skills needs, research needs and about 20-year strategies."

Others point to a reduction in corporation tax from 28 per cent to 20 per cent, giving the UK one of the lowest statutory rates in the Group of 20 leading economies. The annual investment allowance for plant or machinery has also been temporarily increased, from £25,000 to £500,000, and export support expanded. Finally, industry is enthusiastic about the £528m devoted to funding the so-called catapult centres, which aim to speed up the commercialisation of innovative research.

"There is some evidence to show that policy makers are taking manufacturing more seriously," says Lord Bamford, chairman of JCB, the heavy equipment maker.

Although the UK's share of global goods exports fell slightly during 2010-14, exports to Brics countries increased almost 13 per cent in the same period, although Britain lags behind countries such as France and Germany in these faster-growing markets. "We moved 52 per cent of our exports to Europe in 2008 and today that is 43 per cent," says John Cridland, director-general of the CBI employers' group. "For the first time we have 57 per cent of our exports outside Europe."

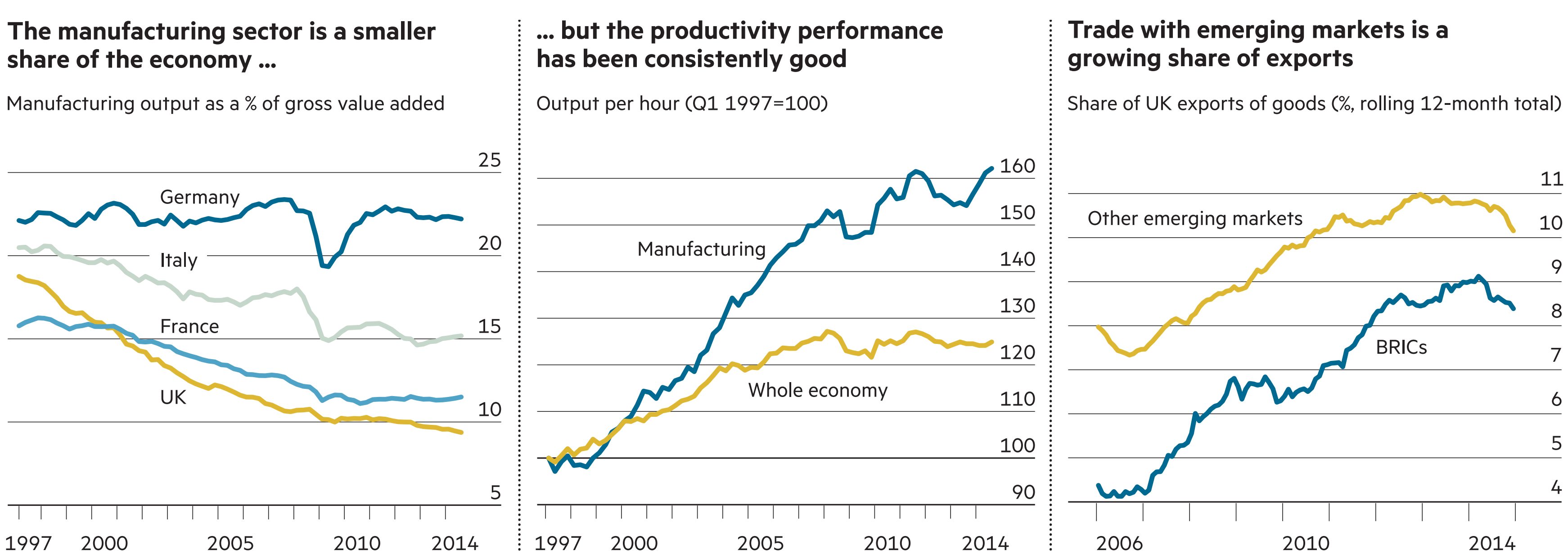
The UK's ability to offer a reliable supply chain — crucial if manufacturers are to reshore their sourcing — is also undermined by the decline in net financing to small and medium-sized companies and a relative lack of investment in innovation. "The economy became unbalanced over a long period of time," says David Landsman, executive director of Tata, owner of JLR. "We must keep plugging away for years and years to rebuild the supply chain."

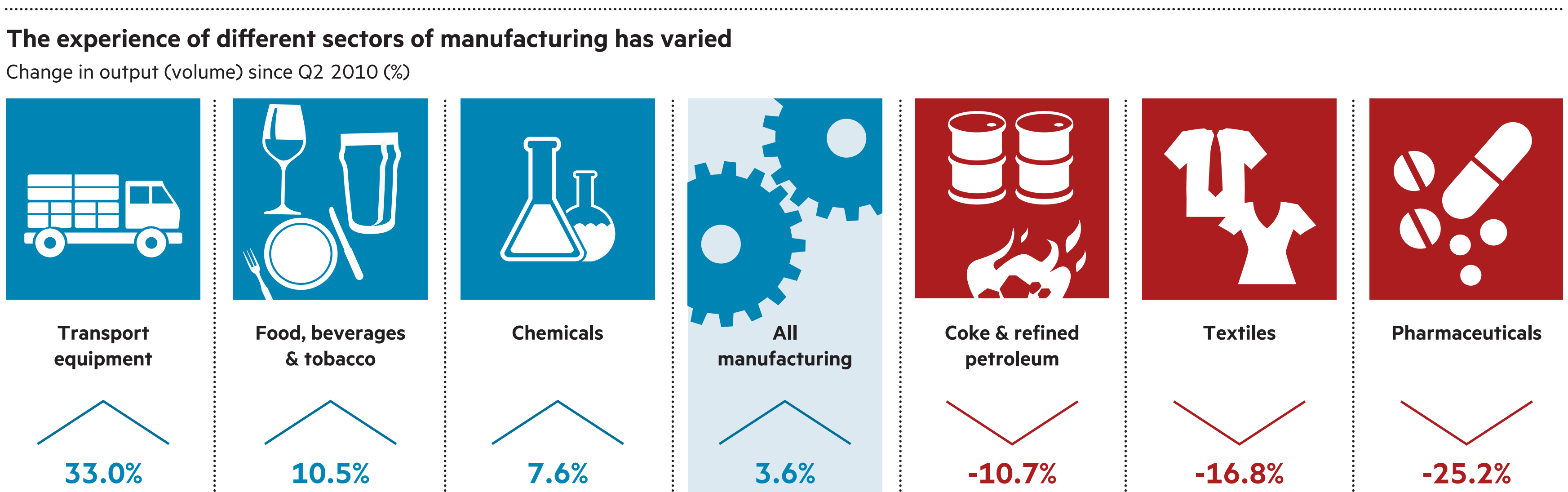
Additional reporting by Ferdinando Giugliano and Keith Fray

'We must keep plugging away for years and years to rebuild the supply chain'

David Landsman, Tata executive director

Made in Britain How the factory figures compare





FT graphic Source: Thomson Reuters Datastream

Exports

Trade and finance drive lifts smaller companies

Small companies say they have felt the effect of the government's proposals on exports, from David Cameron's demand that embassies be more proactive in promoting trade to simplifying the assistance given to businesses looking for new markets.

David Gadsby is director and co-founder of Spirotech SRD, a small Cambridgeshire-based maker of pressure vessels and bulk-handling equipment for the oil and chemical industries that last year won its biggest export order on the back of a government export credit guarantee.

"Previously, we had looked at export finance and it was so hard to get we just gave up," he says.

"Now it is relatively straightforward to find finance and help from the trade department and embassies in the markets we are looking at."

The latest available data show that rebalancing has not yet translated to the regions, however. In nine out of the 12, manufacturing as a percentage of overall output has fallen in the three years to 2012. The UK's ability to offer a reliable supply chain — crucial if manufacturers are to reshore sourcing — is undermined by the decline in net financing to small and medium-sized companies and a relative lack of investment in innovation.

"The economy became unbalanced over a long period of time," says David Landsman, executive director of Tata, owner of JLR. "We must keep plugging away for years and years to rebuild the supply chain."

George Osborne: pledge to rebalance the economy

FT Slideshow

A look at the change in output of different sectors of manufacturing

ft.com/uknews

Trade

Industry says export orders to Europe picking up

EMILY CADMAN

British manufacturers are starting to see the first signs of a pickup in European export orders, raising hopes that the long-awaited improvement in trade is on the horizon.

But in a reminder there will be losers as well as winners from the collapse in the oil price, they report domestic demand is falling as sectors exposed to the North Sea oil industry lose out because of delayed or cancelled investments.

A quarterly survey from the EEF manufacturers' organisation and DLA Piper, the law firm, found that the balance of companies reporting that export orders were growing had nudged back into positive territory for the first time in nine months.

Lee Hopley, chief economist at the EEF, said concerns that manufacturing activity was wobbling were "squashed" by the survey, which showed that all of the main output, orders and employment indicators remained above their long-term average.

She said signs of a return to growth in exports were "particularly promising", but added that it was "clearly not plain sailing for all, with the drop in the oil price feeding through to weaker demand in the oil and gas supply chain.

"While confidence levels overall are holding firm in manufacturing, policies to sustain positive investment plans, encourage exporters and improve access to skills remain the order of the day," Ms Hopley said.

Despite politicians of all parties talking about the need to rebalance the economy towards exports, the UK last ran a trade surplus in 1998 and its current account remains firmly in the red. In the third quarter of last year, the external deficit hit 6 per cent, a joint peacetime record.

The CBI employers' organisation is calling on the government to boost the availability of long-term growth capital and trade finance as medium-sized companies are held back from expanding. The CBI is concerned about the market for private debt placements and warns that the UK trails its international competitors, raising only £4bn a year compared with £12.5bn in Germany.

John Cridland, CBI director-general, said the UK was "still missing a trick" on finance. "In the same way that the profile of alternative finance has increased, we want to see politicians getting behind a UK market for privately placed debt and backing the use of equity finance, to stimulate investment and long-term business growth," he said.

"If firms can't get the trade finance they need to explore new markets, the UK has no way of meeting its ambitious exports target of £1tn by 2020."

Paul Hollingsworth, UK economist at Capital Economics, said while export growth was likely to remain subdued because of sluggish demand in the eurozone and the strength of sterling, he remained "cautiously optimistic" about the outlook for this year.

He noted many of the most closely watched surveys concentrated solely on manufacturing, meaning they "miss a good chunk of the picture" considering the strength of the service sector.

Official data last week offered some glimmers of improvement, with exports of goods and services rising faster than imports.

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Conservatives

PM pledges 200,000 starter homes for buyers under 40

ELIZABETH RIGBY — DEPUTY POLITICAL EDITOR

David Cameron will try to woo younger voters today by pledging that a future Conservative government would expand a programme giving first-time buyers under the age of 40 hefty discounts on starter homes.

The prime minister, delivering the last of six speeches identifying manifesto themes, wants to build 200,000 cut-price homes by 2020. This is double the number planned to help the young generation, which has been nicknamed Generation Rent because of its difficulty in finding affordable homes to buy.

Labour accused the Tories of rushing out "uncosted and unfunded proposals" after Grant Shapps, the Tory chairman, was unable to tell Sky's *Murnaghan* show how the scheme would be funded, despite being asked seven times.

The construction sector greeted the pledge with scepticism, one industry figure describing it as "very ambitious".

"We have only been building 115,000 homes a year full stop, and even with a massive push that figure has only risen to 125,000 to 130,000 a year.

"It will take a long while to get back to the 170,000 a year we were building before the crash, so 200,000 through just one scheme alone looks very ambitious."

Housing is rising up the list of voter priorities, with 19 per cent of respondents listing it as one of their three concerns in a YouGov poll in January, behind immigration and the economy (both listed in their top three by 52 per cent of respondents), health (46 per cent) and welfare (28 per cent).

Labour has promised to increase the number of homes built every year to 200,000 by 2020 by tackling land banking, building more garden cities and beginning a big council housebuilding programme to address a shortage in supply.

Mr Miliband has also promised to make rents fairer by introducing laws for three-year tenancies and capping rises for their duration.

Liberal Democrats

Cable to head battle against third runway at Heathrow

JIM PICKARD AND PEGGY HOLLINGER

Vince Cable, the business secretary, is to become the figurehead of opposition to building a third runway at Heathrow airport.

The decision, which Mr Cable will announce in a speech tomorrow, raises questions about whether the Liberal Democrats may end up performing a U-turn on their switch over university tuition fees if they form part of the next government. The party's reputation has not recovered since Nick Clegg and Mr Cable broke a pre-election promise by putting up student fees.

Some MPs fear their aviation policy could turn into a similar hostage to fortune after the May election.

Party aides will not say whether opposition to Heathrow is a "red line" that could not be breached if the Lib Dems form part of the next government. Neither Labour nor the Tories have yet said if they will back expansion at Heathrow.

The Lib Dem policy group drew up plans last autumn to oppose in the manifesto any net increase in runways on environmental grounds. In theory, that would veto expansion at any airport.

Mr Clegg sought to overturn that position — favouring a Gatwick runway — because he was worried that any such stance could be jettisoned when in power. But he was defeated by party members at the annual conference.

"It will look really awkward for us if we have to carry out another big U-turn. That's why Mr Clegg fought so hard to change the policy last autumn," one insider said.

Some party strategists do not think the policy is the next "tuition fees moment". They say aviation is not a big part of their campaign and Heathrow is more of a local issue than a national one.

But Mr Cable's plan to appear as the main speaker at a rally opposing the runway will raise the profile of the Lib Dems' anti-Heathrow policy. He will appear as MP for Twickenham, where the third runway is unpopular with voters, rather than in a ministerial role.