

Manufacturing: a local and regional perspective

David Bailey, Nigel Berkeley,
David Jarvis and Jason Begley

SURGE

Applied Research Centre
Sustainable Regeneration

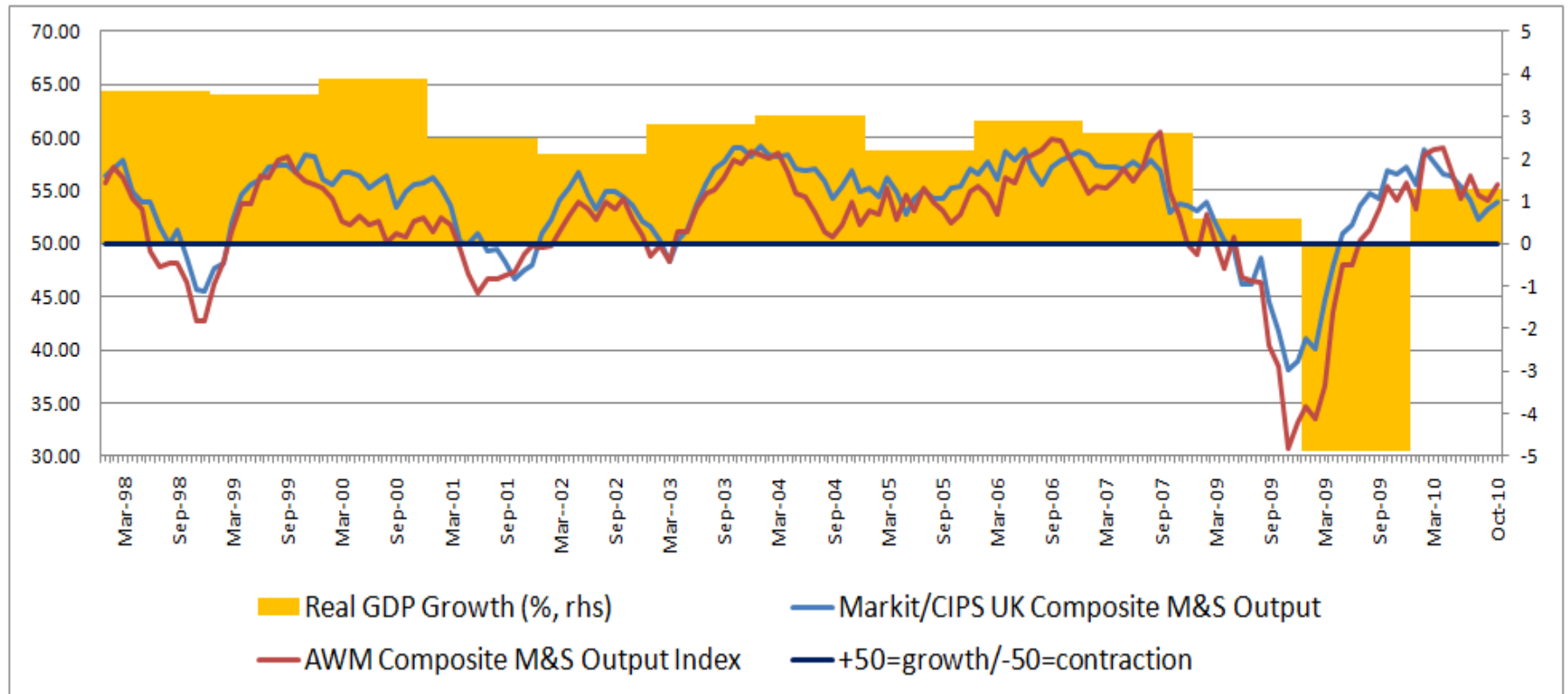


Manufacturing: a Local and Regional Perspective

- Manufacturing output contracted by 15% during the recession. Not what was forecast initially...
- Twelve months our work with Deloitte highlighted a number of important issues facing manufacturing at that time.
- **Growth in export markets, skills and credit availability** were among the top priorities for the manufacturing sector and could help trigger a mini-renaissance.
- This could help the UK rebalance its economy and export its way out of recession: **BUT** we argued what was also needed was a much more supportive economic policy framework
- **What actually happened over 2008 – 2010 ?**

Recent economic trends

Source: Forrest Research

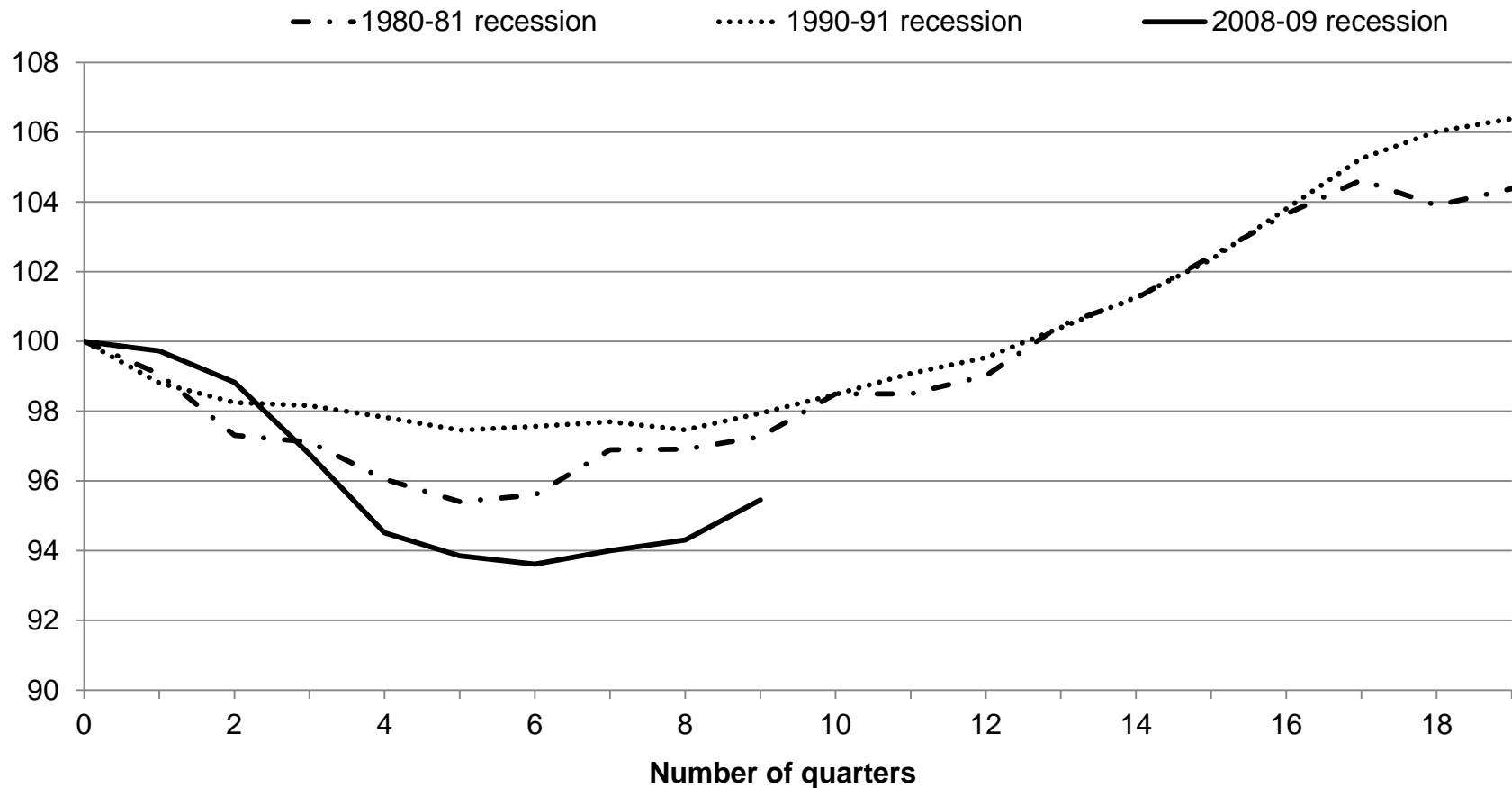


Manufacturing: a Local and Regional Perspective

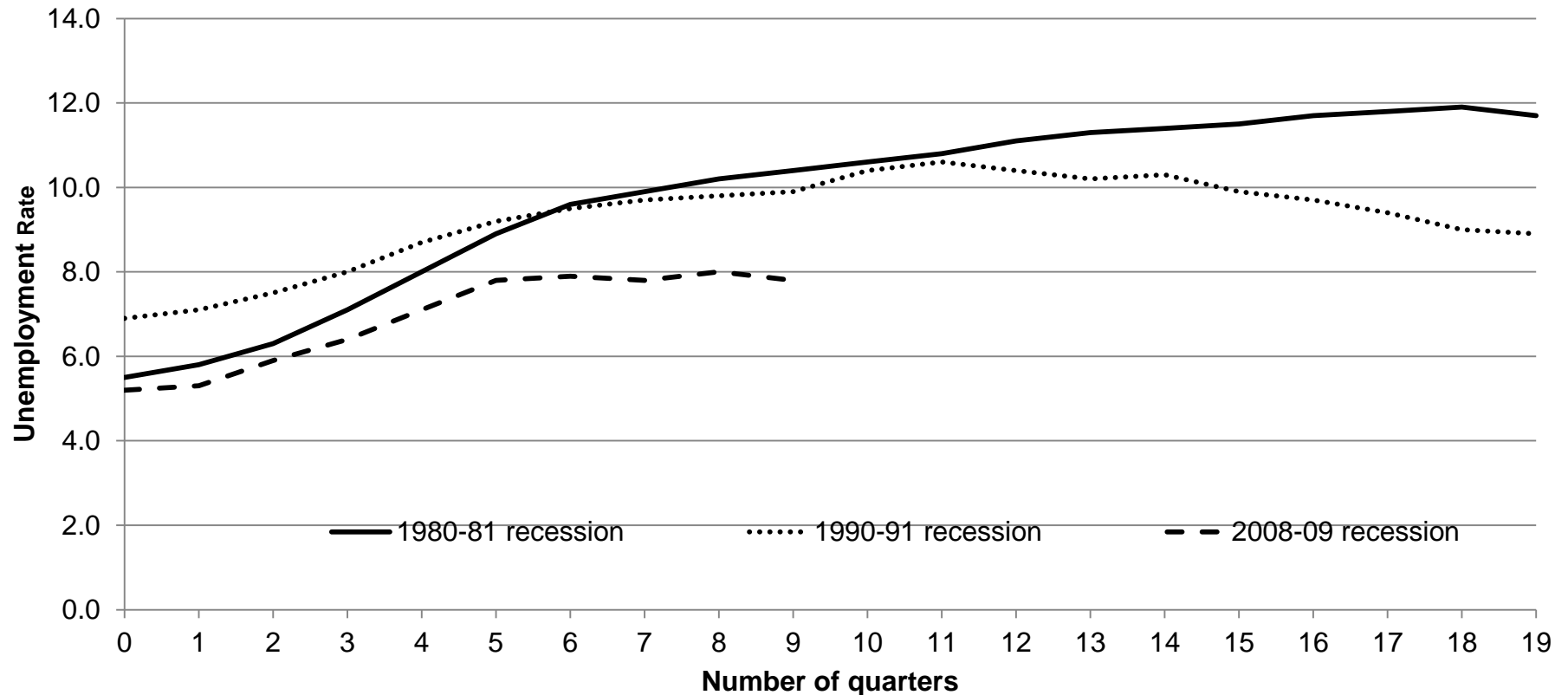
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Output falls in the last 3 recessions

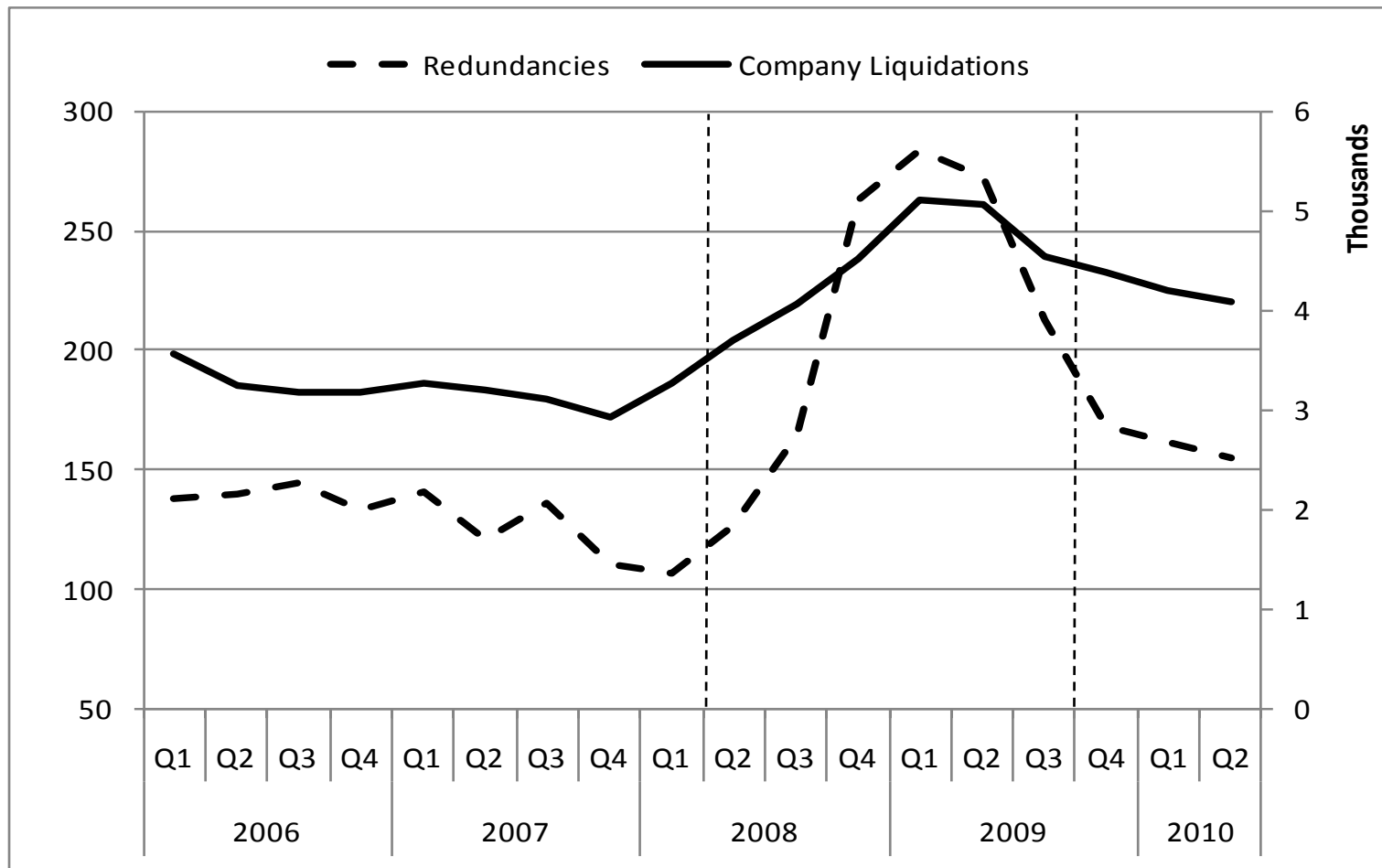
GDP Index



Unemployment rises in the last 3 recessions



Redundancies and Company Liquidations 2006-2010



What Happened?

- **Official statistics?**
- **Positive steps taken by government, businesses and employees working together to minimise impacts.**
- **Labour market flexibility: firms retained skilled staff by cutting back on hours (part-time working), imposing wage freezes or cuts → ‘labour hoarding’.**
- **Productivity: fall of 2.4 per cent over 2008 and 2009 (output per hour worked); also influenced by a bigger fall in business investment than earlier recessions – linked to credit crunch?**
- **Credit crunch also explains depth of the recession, and the relatively slow pace of recovery in productivity following the end of the recessionary period.**

Firms' Strategic Responses to Recession

- Revenue generation; cost reduction; or asset reduction.
- Cost control BUT manifested differently to past recessions:
- **Labour hoarding, pay freezes, limits on overtime, short-time working, recruitment freezes**, banking of hours, pay cuts, reduced shift-patterns, more flexible working, and use of fixed-term, temporary and agency staff, tele/remote working where possible.
- SMEs: enhanced revenue generating activities.

Why were firms more resilient in *this* recession?

- **A supportive macro-economic environment, including depreciation of sterling.**
- **The relative health of UK firms prior to the downturn.**
- **The inherent flexibility of the UK labour market.**
- **The collective approach to addressing the impacts of recession taken by government, businesses, unions and employees.**

Manufacturing in 2010

- Various reports → manufacturing sector has delivered the goods, has exported its way out of trouble, and helped rebalanced the economy.
- Growth in 2010: forecast to be **3.7**. Some regions: two-speed recovery.
- But: from a very low base. Restocking – not going to last forever.
- Sterling depreciation; export growth but not as much as hoped for. **Why?**

Manufacturing in 2010

- **A more competitive manufacturing sector has expanded output and taken on new workers at an earlier stage of the recovery.**
- **Confidence? PMI holding up above 50 after falling since May. But fears of a slowdown.**
- **Rapid bounce back: around a half of the manufacturing output fall has been recovered.**

2011 and Beyond?

- **Manufacturing growth: holding up so far, but slower next year as dark clouds on the horizon?...**
- **Externally: Slower growth in the US and the World economy.**
- **Volatility in the Eurozone – our major export market. Can exports be sustained? Need for an export push to new emerging markets further afield.**
- **AND will sterling remain low? Or appreciate against the euro as further weaknesses in Eurozone play out?**
- **AND: How will the fiscal cuts impact on the economy? Monetary policy? Maybe still in the new year.**
- **Cuts in support for business – RDAs. LEPs?**

Spare Capacity?

- **Spare capacity so manufacturers able to increase output rather than prices, but for how long?**
- **How much capacity was lost or will be lost for good? If capacity loss significant then capacity limit will be hit sooner rather than later.**
- **At that point prices go up unless there is longer-term investment in capacity and productivity growth: getting the banks to lend to firms (and firms to borrow from banks) is key (Project Merlin?).**
- **Risk that prolonged weak demand will make temporary losses in output structural and permanent.**
- **GROWTH and INVESTMENT is critical → BCRS Report**

Need for future flexibility...

- **Mucking-in' by all stakeholders during downturns.**
- **Consumer goods manufacturers: high-value end of the market – prestige autos or even whisky producers in Scotland.**
- **UK Manufacturing plc also does well in certain manufacturing sectors that are anyway more cyclical.**
- **Cycles at the luxury-end of manufacturing are generally more pronounced - high 'income elasticity of demand'**
- **Do more to support such highly cyclical industries during the 'downs': put a floor under capacity + retain the skills base.**
- **Contrast with Germany for example.**

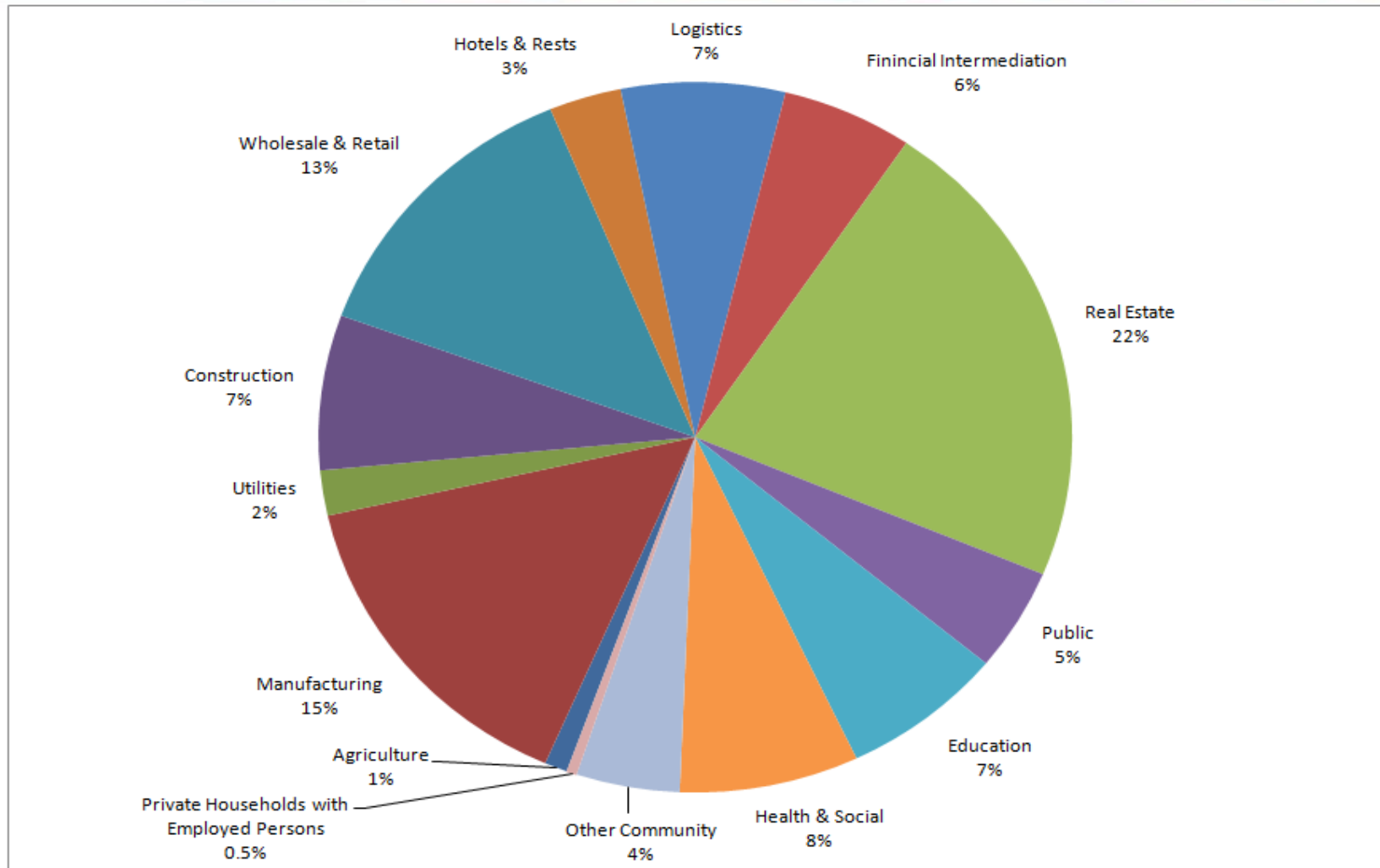
Broader Economic Issues

- **Level of demand in the UK economy – impact of fiscal tightening.**
- **‘Balance Sheet’ recession? Japanese experience.**
- **Money Supply – further ‘QE’??**
- **Bank lending and investment – QE bypass the banks if need be?**
- **The level of sterling.**
- **Supporting exporters in new markets.**
- **Training and education for an increasingly high-skill and high-tech industry needs.**
- **Industrial Policy? Despite the language of localism, being recentralised.**

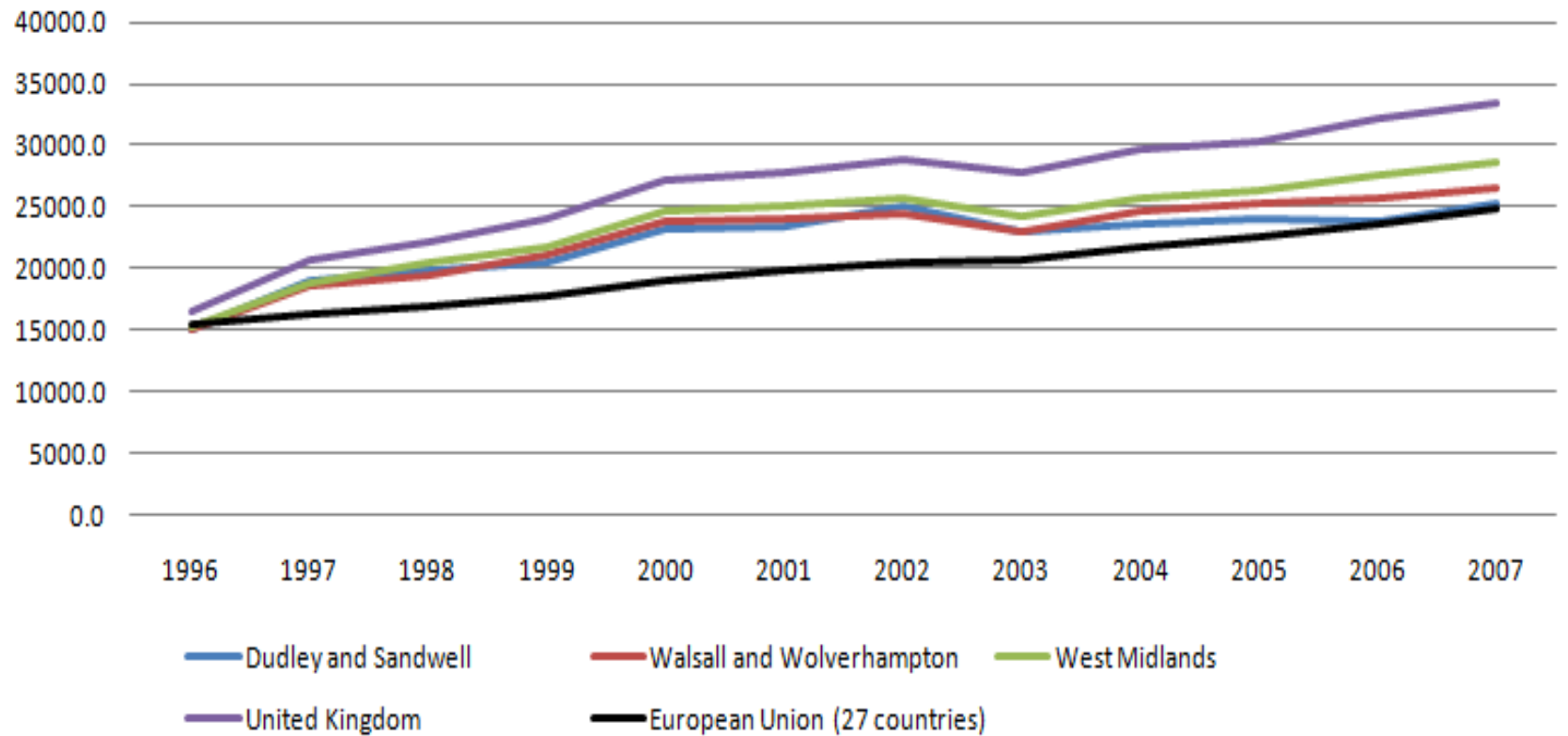
West Midlands: Long Term Poor Performance

- **long-term underinvestment in infrastructure**
- **an ongoing process of deindustrialisation and a wider economic structure reliant on low growth sectors**
- **a relatively poor business and employment performance in the private sector**
- **a relatively poor education and skills record**
- **relatively poor performance in developing 'knowledge economy' sectors and in R&D spend**
- **pockets of high levels of unemployment and worklessness**

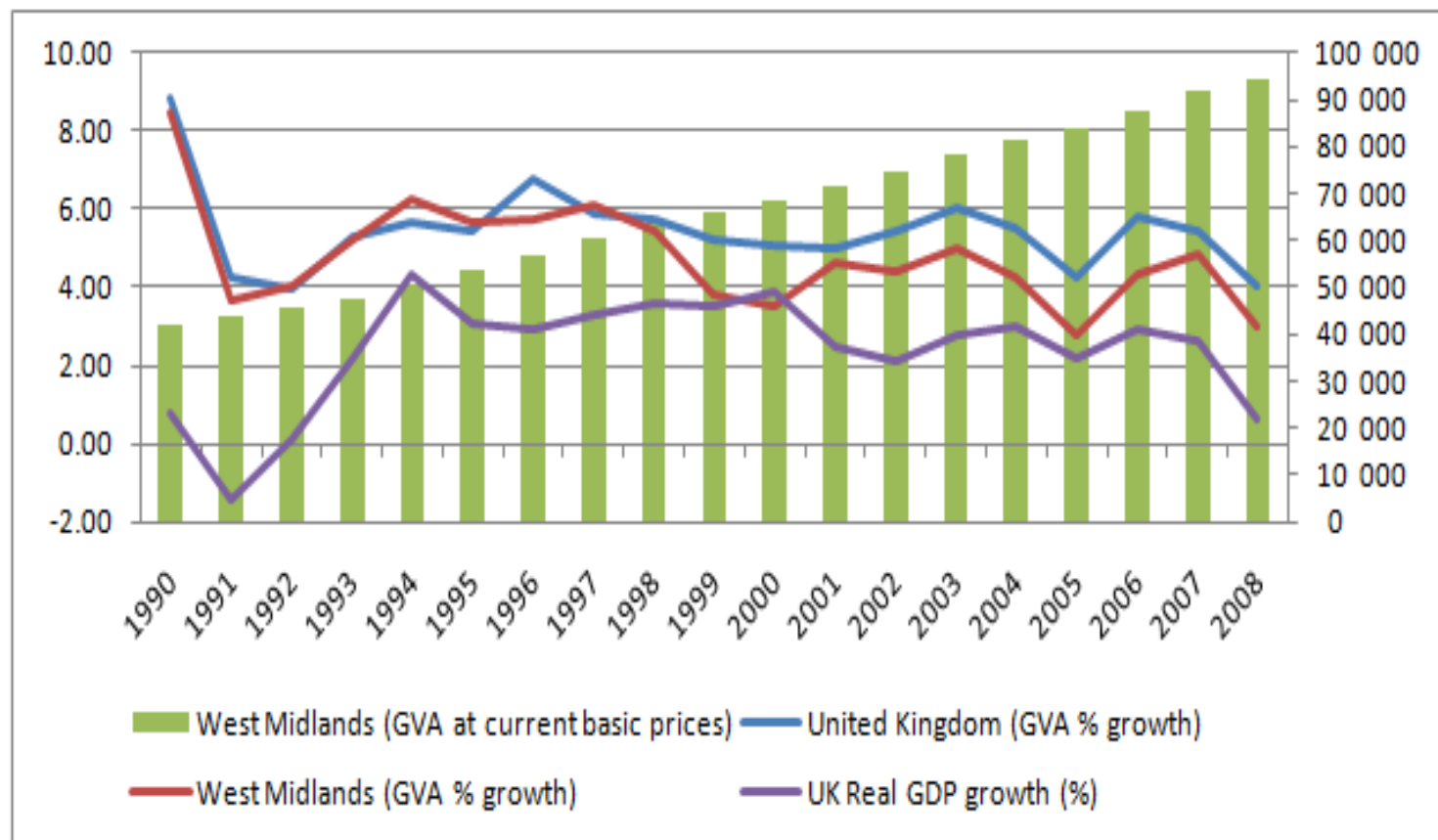
West Midlands Economic Structure (GVA, 2008)



Regional per capita GDP (Euro)



GVA trends





Thanks for listening!

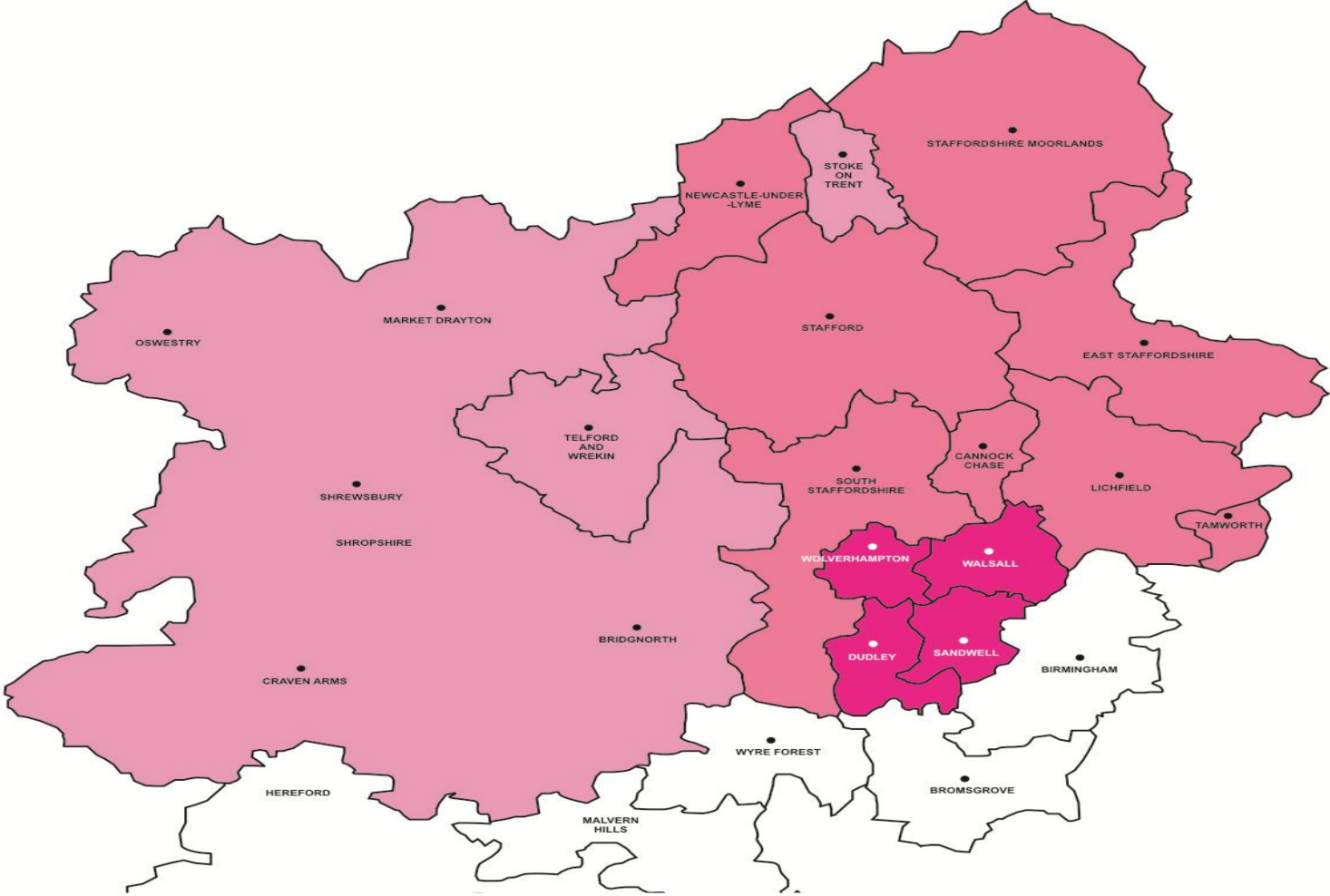
David.Bailey@coventry.ac.uk

A Co-operative Approach to Small Business Lending

**Paul Kalinauckas
Chief Executive**

Black Country Reinvestment Society

BCRS Operational Area: Current & Projected



Our Environment

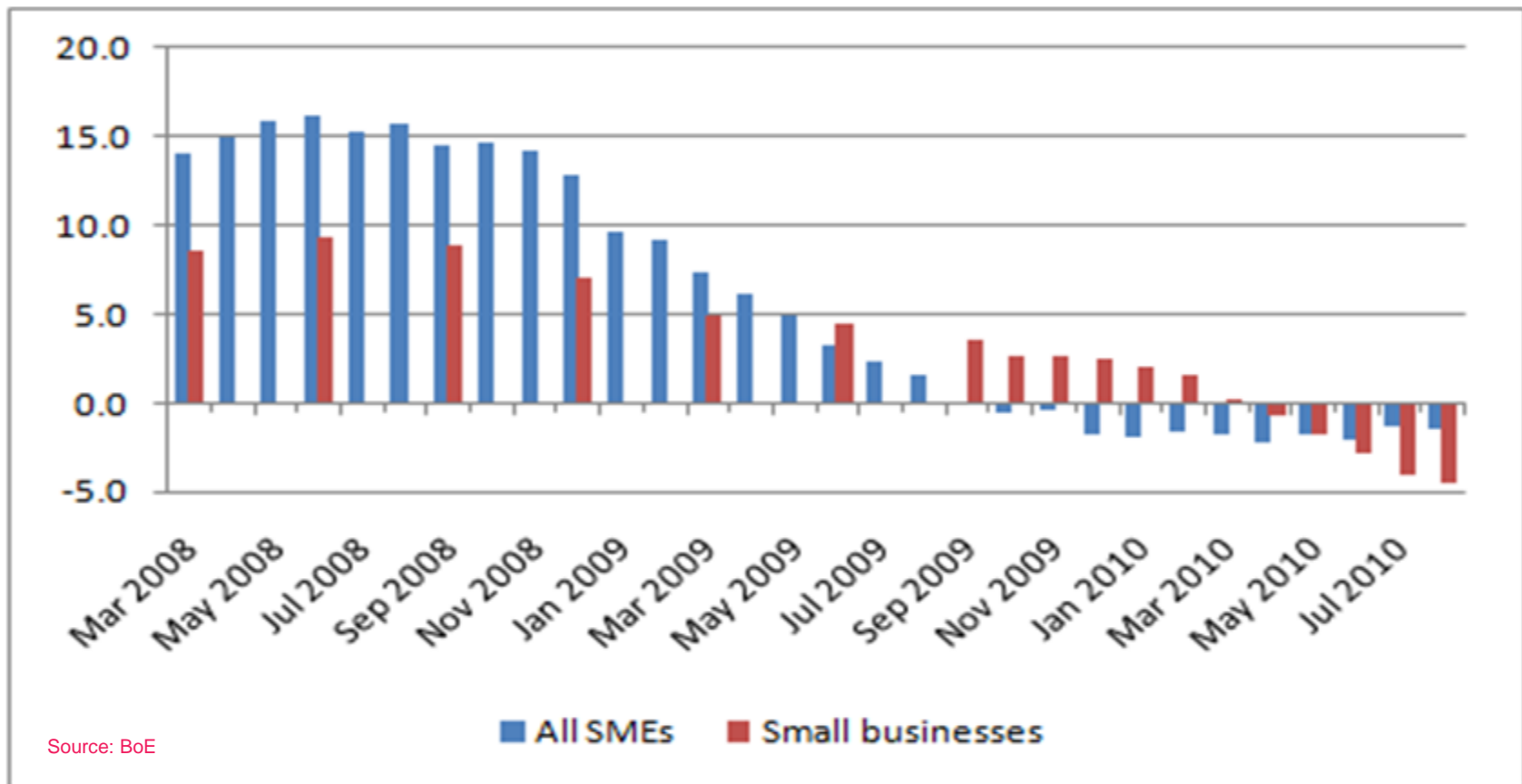
Est. in 2002 as Community Development Finance Institution
issuing loans up to £25,000 – now £50,000

Migrating to become Small Business Loan Fund
prospect of increasing loan range up £250,000

Current Loan Book to Q3 2010 a *cumulative £6 million*

Forecast by 2016 *£18 million*

*Ethos to provide a co-operative lending framework to enable
Small Businesses to expand and realise growth potential*

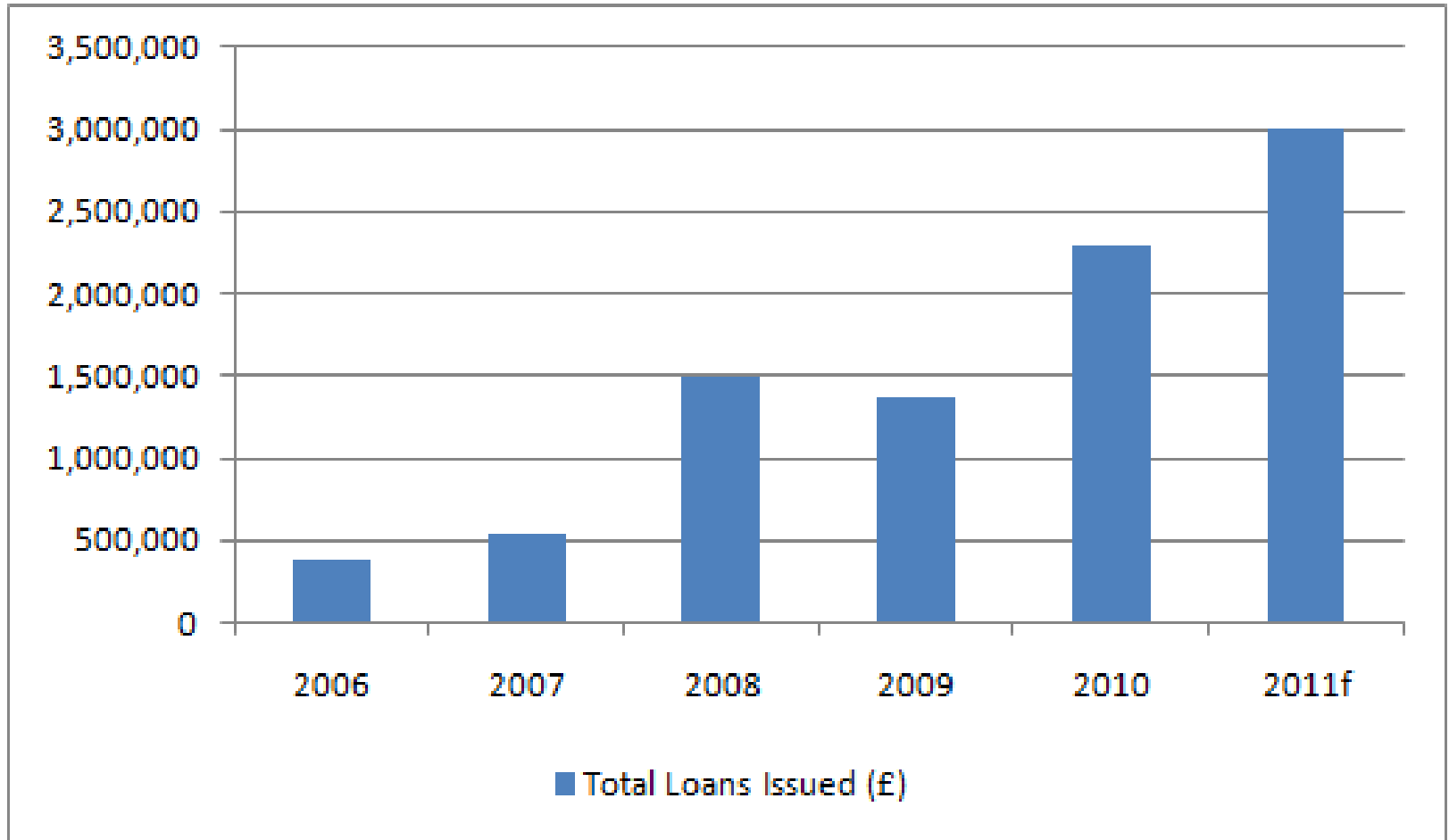


Lending to SMEs & Smaller Businesses continues to contract

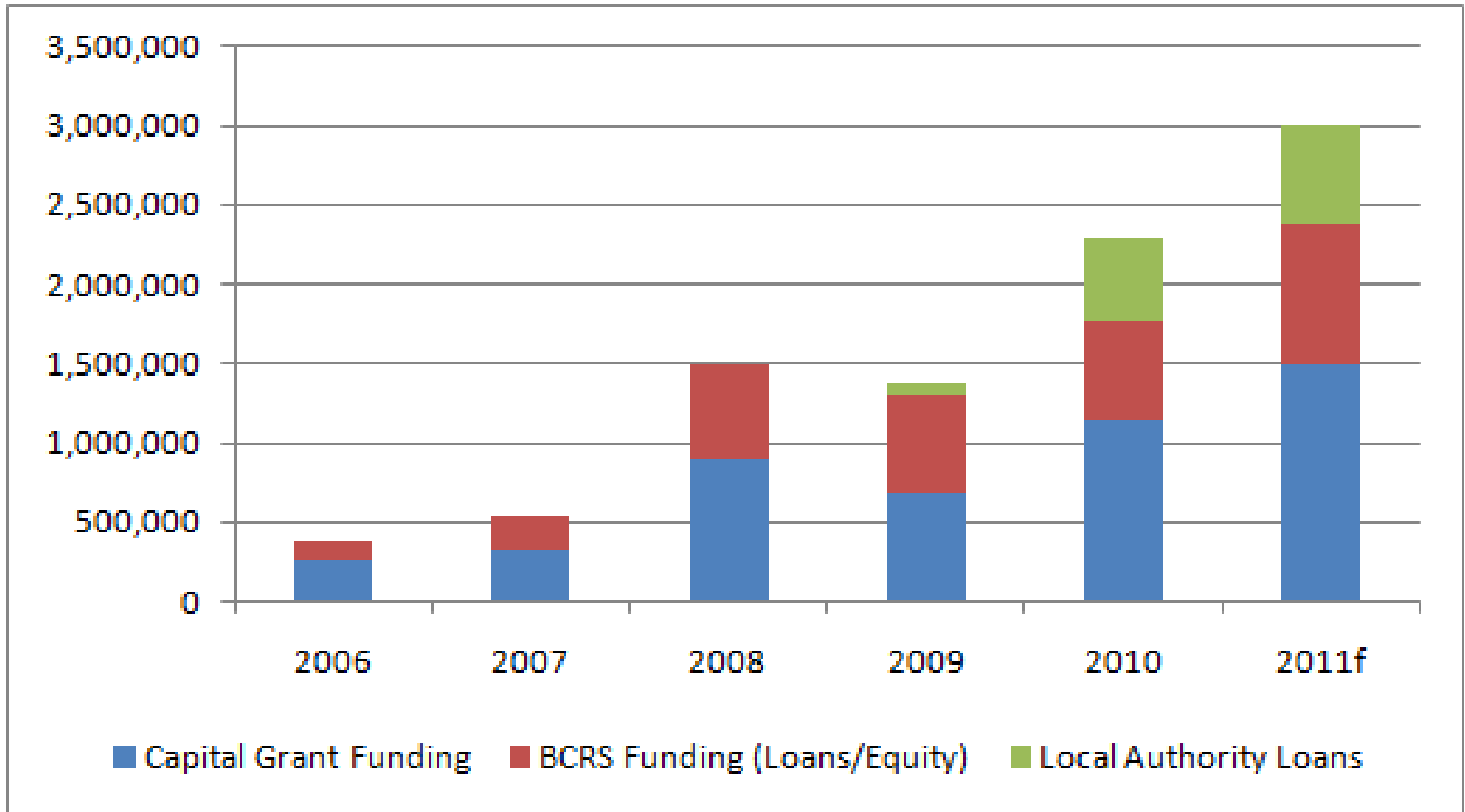
Data scarce – BoE monthly data series only started in Q3 2009, covering 65% of lenders

Use of business finance across different sized firms					
	Turnover	Broad Characteristics	Use of regular finance	Use of specialist finance	Typical Providers
Smallest Micro Businesses	Below £50,000	Cash-based firms, often part-time business; few tangible assets; local operations	Limited mainly to overdraft, loans, & credit cards or personal finance products	Limited. Some asset-backed lending (ABL) – mainly vendor finance	Banks, credit card providers & point of sale (vendor finance).
Micro Business	£50,000 to £1 mln	Increasingly fulltime firms with staff, premises, & assets; local activity normally limited to single region; occasional exporting.	Overdraft, loans & credit card	Increasing use of structured ABL. Occasional use of trade finance products	Banks, credit card providers, specialised providers for ABL & trade products
SMEs	£1 mln to £25 mln		Overdraft, loans	Still some use of ABL, factoring & invoice discounting, export finance & some equity funding.	Banks, credit card providers, specialised providers, business angels , private equity
Mid-sized companies	£25 mln to £500 mln	Larger national & international firms, often multinational operations	Full-time, larger multi-regional & national firms; increasing export/import activity.	Export finance, invoice finance, & equity funding	Banks, venture funds, equity funds & stock market listing
<i>Source: Supporting UK business: the Report of the Business Finance Taskforce, October 2010</i>					

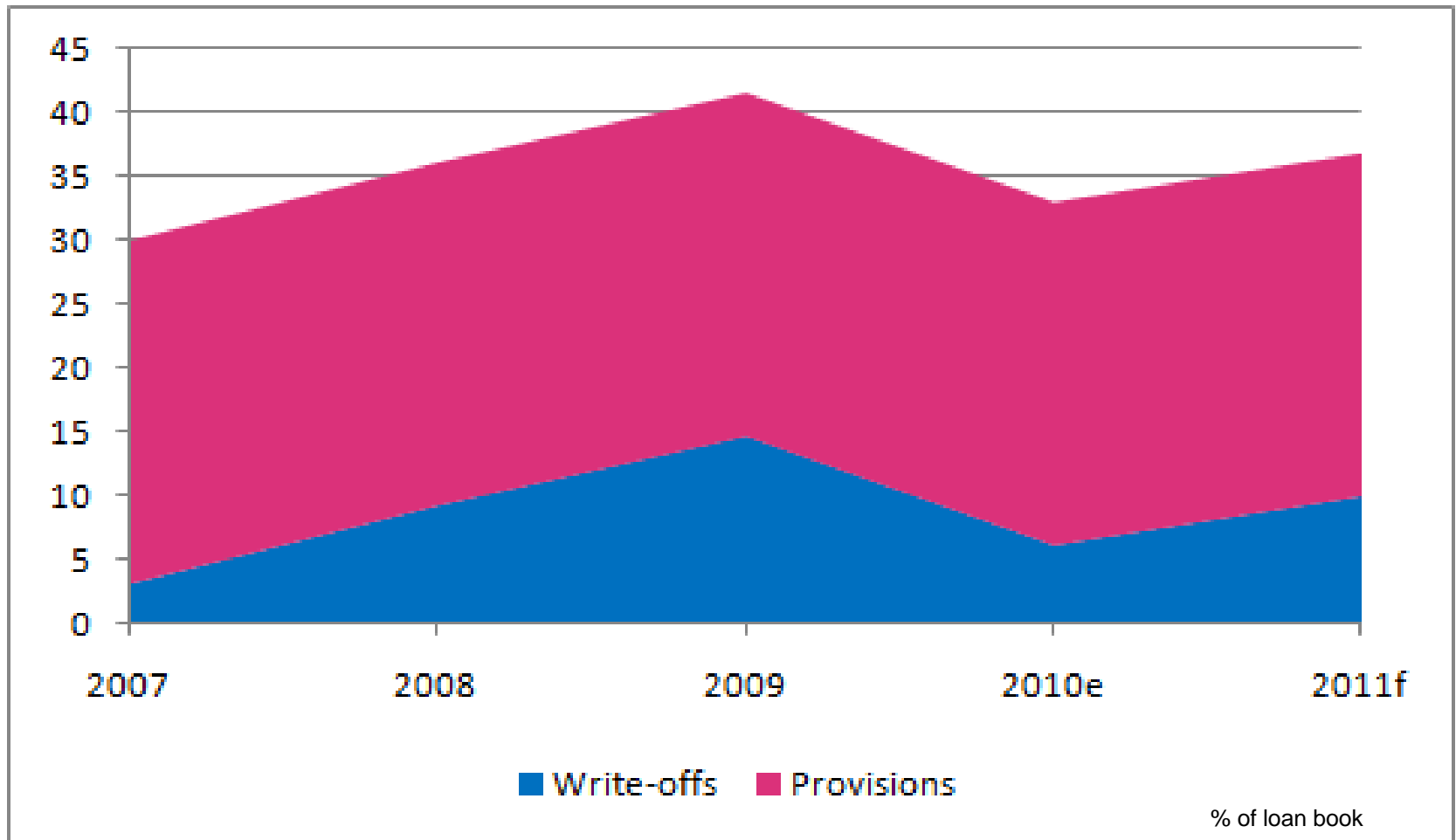
BBA Taskforce covered everything apart from CDFIs & SBLFs



BCRS lending growth has been robust.....

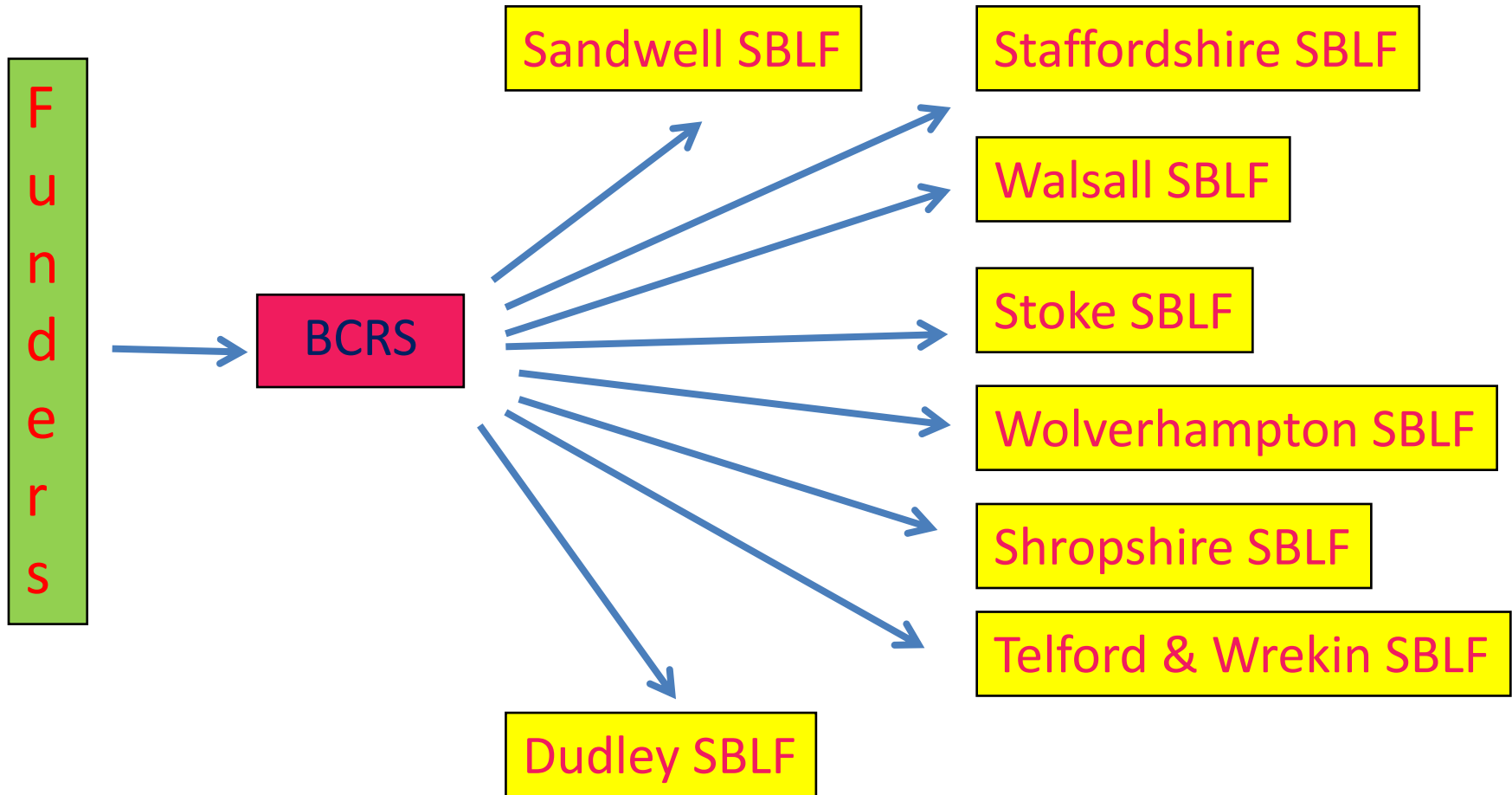


.....and matched by capacity to raise funding.....



.....with management of NPLs and Write-offs key to sustainability

Managing Targeted Loan Funds in a High Risk Sector

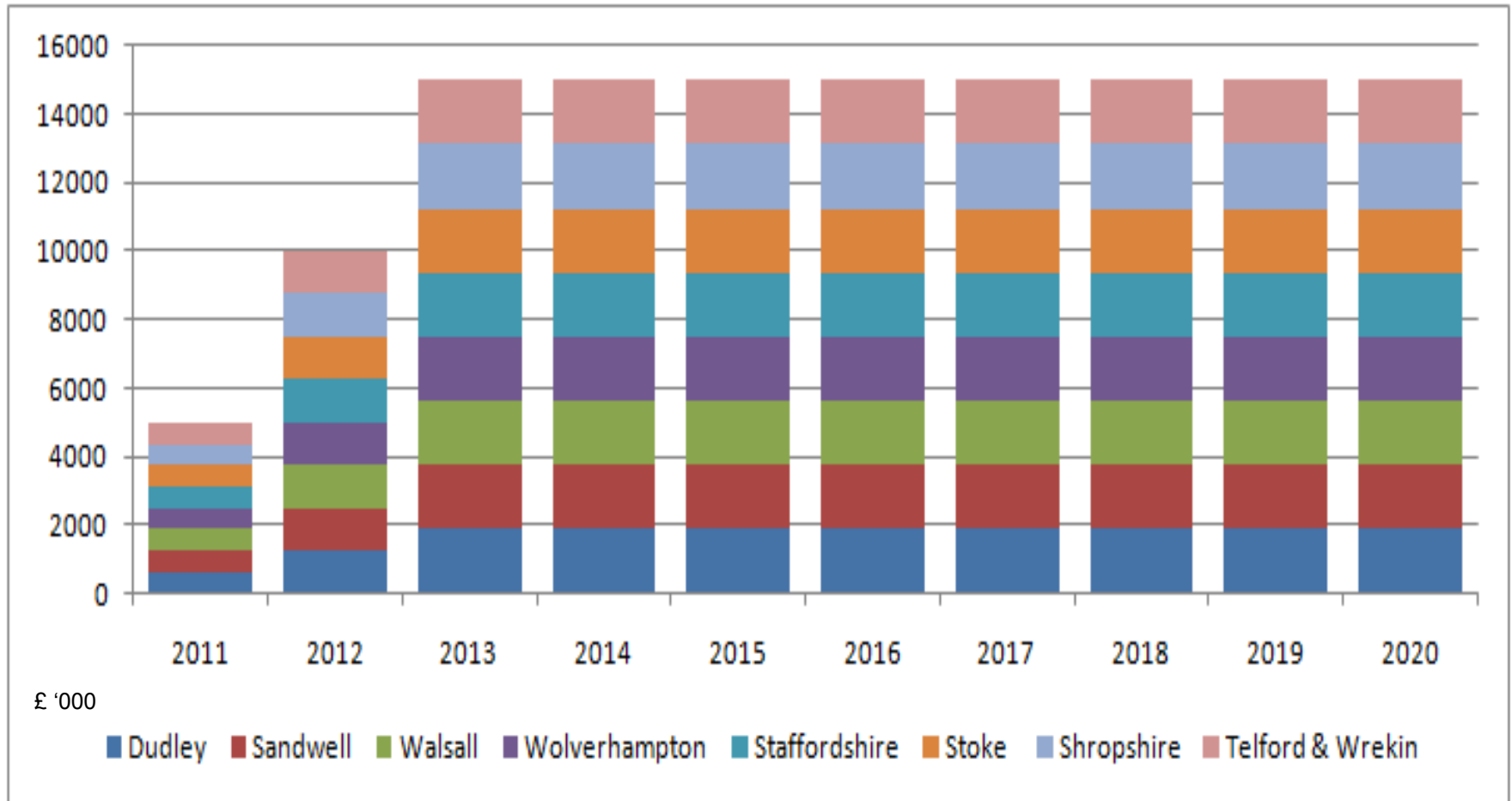


.....disaggregating risk,

....absorbing provisions

...achieving medium-term sustainability

Growth via geographic and ultimately sectoral diversity



*Assumes £ 625,000 new lending per SBLF p.a.
& average loan term of 3 years with 37.5% provision
achieving total lending of £ 25 million by year 5
& £ 35.5 million by year 8*

Fund Raising Sources

- English Public Sector
 - National
 - RGF
 - Local
- EU
- Commercial Banks
- Co-operative Funds
- Corporates
- High Net Worth Individuals

Increasing leverage capacity

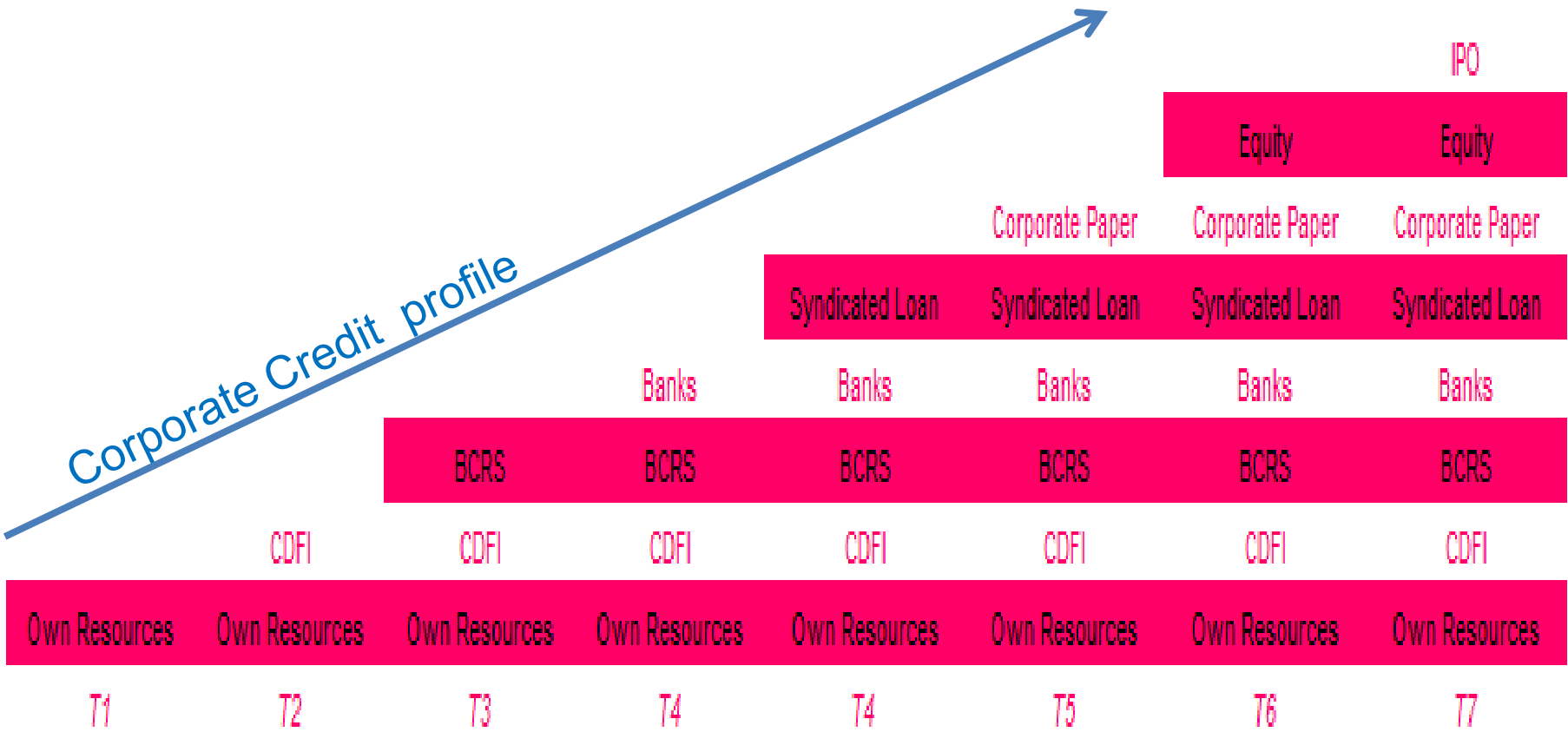
Post Loan Support

- Improving credit performance of small businesses
- 2-5 days of specialised support from our own panel of mentors
- Different areas of assistance to include:
 - Financial remodelling
 - Marketing Strategy
 - IT
 - Financial systems
 - Management accounting

Post Loan Support

- Cost: Up to 2 days free of charge with remainder either subsidised or at fully commercial rates based on ability to pay.
- Funded from Interest Rate Margin & Recoveries
- Programme to be self financing in year three
- Pilot phase commenced in January 2011 moving to full programme by April
- Post Loan Support will signpost to other available help, including Government Mentoring Scheme, Local Authorities, Manufacturing Advisory Service.....

The BCRS role.....



Corporate Credit profile →

....providing a critical link in the Finance Continuum

..providing working capital

..supporting Small Business innovation

..& developing Corporate Credit profiles



Financing a Private Sector Recovery



Financing a Private Sector Recovery

