

# Return of Manufacturing to the UK

**A recent report, written by Lloyds Bank, suggested that there will be 50,000 manufacturing jobs created in the UK manufacturing sector over the next two years as a consequence of manufacturing being moved back to this country. This estimate is echoed by the accountants, PWC, that suggest that 100,000 to 200,000 additional jobs will be created over the next decade and that annual national output will be enhanced by £6-12 billion at today's prices by the mid-2020's.**

PWC also suggest that although the focus will be on the manufacturing sector, the process of "reshoring" will also impact upon the service sector too.

In previous decades, there has been a movement of manufacturing from high cost bases, such as the United Kingdom, to lower cost bases in developing and emerging markets overseas. This trend has begun to be reversed in the last three years. One in six British companies has "reshored" some of its manufacturing in the last three years.

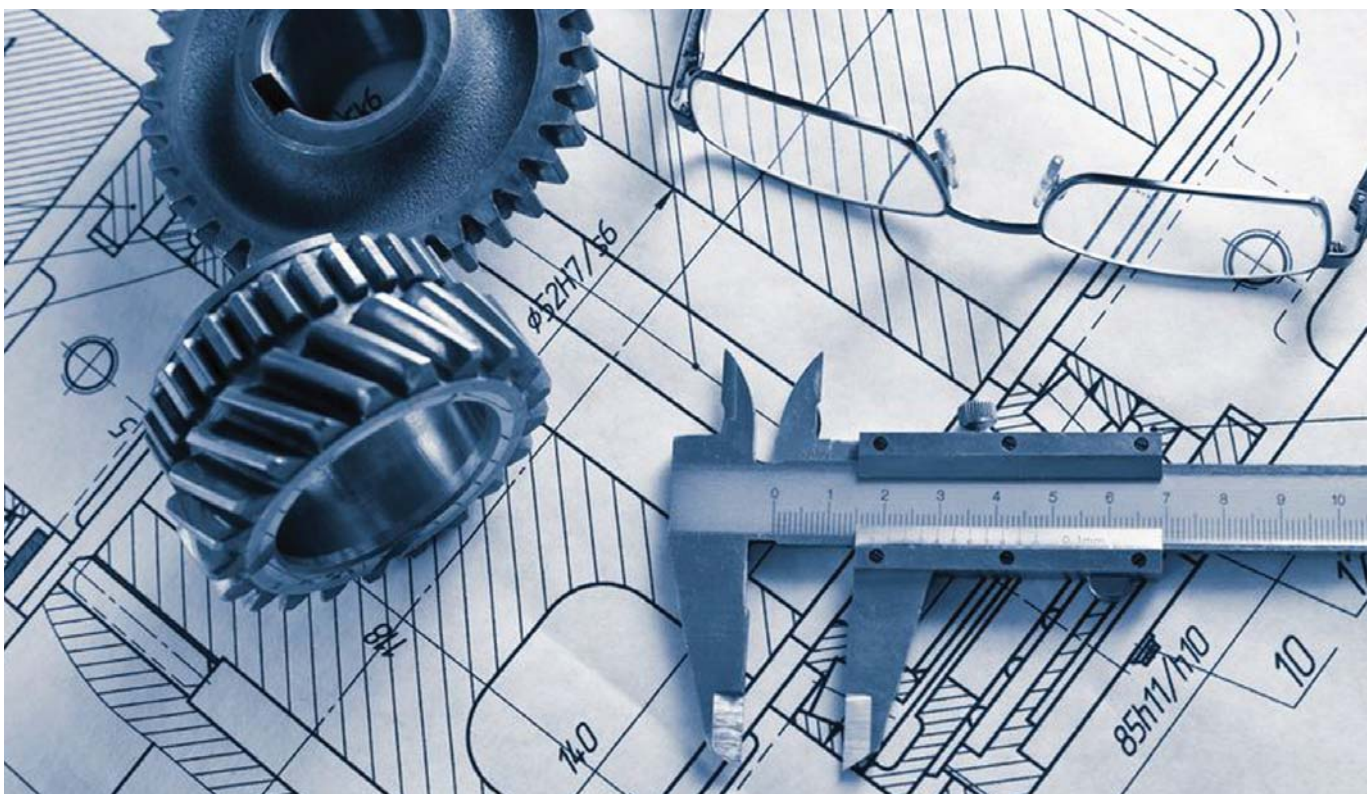
## **So, what is causing this movement of manufacturing back to the United Kingdom?**

The answer is that several factors are causing it. One reason is that firms increasingly want to concentrate on quality – something that the

trained UK workforce can provide. There is also a concern about the reliability of transport links and the speed of delivery.

One company surveyed by Lloyds Bank was Jaguar Land Rover, which has already returned 20% of its manufacturing to the UK. The company plans to continue this process so that 30% of its production will be back in the UK within the next two years.

Another reason for rebasing manufacturing at home is the reduction in the cost disparity between the high cost developed nations and the lower cost developing and emerging markets. For example, the reduction in energy prices across Europe and in the United States, driven by the falling price of oil and the increased supply of shale gas in the States, has reduced costs of production. This has been



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coupled by an increase in costs of production in overseas markets in recent years. An example of this is wage growth in nations such as China, where annual wage inflation has been in the region of 15% until 2014. However, the wage gap is still significant, with manufacturing wage costs per hour being 15 times as high in Western Europe compared to China.

A report by the Warwick Business School in October 2014 also suggested that additional reasons for reshoring business activity back to the UK included rising productivity growth within the UK workforce and a more advantageous business culture. The latest labour productivity figures were released by the Office for National Statistics (ONS) on Christmas Eve, suggesting that UK workers increased their output per hour by 0.6% in the period from July to September 2014.

## Sources

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**Increases in the minimum wage in China 2011-2014**

