UK Manufacturing Sector Analysis

A comprehensive review and analytical perspective

Contents

Executive summary

AXA Manufacturing Sector Report

The risk landscape facing UK manufacturers has become more volatile and complex than at any point in recent memory. Once dominated by predictable, cyclical threats such as input price fluctuations or seasonal demand shifts, today's risks are multi-dimensional, interconnected, and far more difficult to control.

From persistent labour shortages and global supply chain shocks, to rising cyber threats and the soaring cost of energy, manufacturers must now build resilience into every layer of their operations. What sets the current era apart is not just the number of risks but the speed at which they emerge and their ability to disrupt multiple business functions simultaneously.

A cyberattack might not just put data and intellectual property at risk, but could also shut down connected equipment or even halt production. Labour shortages don't just delay output, they can increase the risks on the shop floor, reduce product quality, and erode institutional knowledge as experienced workers retire without adequate succession.

This is just the tip of the iceberg – geopolitical volatility continues to challenge manufacturer's ability to plan long term, regulatory pressures are building and energy costs in the UK are still putting manufacturers at a competitive disadvantage compared to their European and North American peers.

Despite all this, the sector remains positive. The old heavy industry that had once been the backbone of the UK economy continues to fight in the face of global challenges, but it represents just a fraction of what is being produced in this country.

Other sectors, such as aerospace, food and drink, electrical goods and pharmaceutical are all growing and new, more sustainable manufacturers are emerging in the SME space. And despite the doom and gloom that pervades the wider sector, organisations remain confident about the future.

This confidence can easily be undermined by unmanaged risk so for manufacturers, the key challenge is no longer just identifying these risks but building the agility to adapt before, when and after they strike. This means investing in digital tools, upskilling employees, diversifying suppliers, and embracing AI - not just to optimise efficiency but to strengthen resilience. As this report shows, many firms are already making this transition, working hard to ensure a long and strong future lies ahead for manufacturing in the UK.

Industry overview

Highlights

- The UK remains the 12th largest manufacturing country globally and is poised to grow by as much as 12% out to 2033.
- Manufacturing contributes £217bn to the UK economy, accounting for 8.8% of the UK's Gross Value Added (GVA) and employing just over 8% of the country's workforce.
- UK manufacturing PMI stood at 47.7 in June, the highest level in five months with 46% of manufacturers expecting production to increase by next year.
- 53% of manufacturers are already using machine learning or artificial intelligence on the factory floor, outpacing many peers globally.
- Supply chain disruption is encouraging manufacturers to source materials closer to home with 57% having suppliers in or near the UK, and 69% with plans to source all or most of their goods from the UK or neighbouring countries.
- Health and safety incidents remain a major risk with 2.3 million working days lost and £1.4bn in lost productivity hitting the wider sector every year due to accidents.

Industry Overview

The UK's manufacturing sector has long laboured under persistent pessimism about its future. The media, business leaders and the economic indicators all point to a sector in terminal decline, hampered by comparatively high energy, employment and tax costs, ongoing supply chain disruptions, Brexit-related trade frictions and the lasting trauma of deindustrialisation.

Despite this negativity, the UK remains the 12th largest manufacturing country globally and, [1] according to Oxford Economics, it is poised to grow by as much as 12% out to 2033, a significant increase on the 8.6% growth experienced between 2014-25.

According to trade body Make UK, [2] manufacturers are positive about the immediate future after years of firefighting, and that confidence is crucial as the sector continues to play a crucial role in meeting the UK's productivity, export and employment needs.

It is estimated [3] the sector contributes £217bn to the UK economy, accounting for 8.8% of the UK's GVA and employing just over 8% of the country's workforce. Those headline figures miss the sector's full contribution however, estimated to be £518bn or 23% of UK Gross Domestic Product when the complex network of businesses that make up the sector's supply chains are taken into account.

Manufacturing also plays an important role in exports, accounting for nearly 35% of all UK goods and services exports and [4] ranks 2nd for service trade, 6th for the import of goods and 15th for the export of goods.

The sector directly employs approximately 2.6 million people, a significant decline on the 7 million employed in the 1970s. However, [5] when indirect employment is considered – suppliers, logistics, maintenance, equipment providers and related services – employment rises to 7.3 million, indicating that for every direct manufacturing job, 1.8 additional jobs are created elsewhere in the economy.

Salaries in the sector remain 10% higher than the average across the economy, coming in at £38,769, compared to the UK average of £35, 404, and despite slipping from 5th largest manufacturing nation in 2000 to 12th today, confidence in the future of the sector is evidenced by the [6] approximately £40bn that manufacturers invest annually.

Economic output

Despite the confidence noted above, the immediate prognosis for the sector is far from certain. [7] Output for the three months to April 2025 rose by 1.2%, in line with figures for the same period in 2024. However, a downward trend is hidden in those figures. Between February and March, output decreased by 0.9% and decreased further, by the same amount, between March and April.

The [8] Q1 2025 Manufacturing Outlook report from Make UK indicates that a significant fall in business confidence observed during Q4 2024 – the steepest since the pandemic – led to a decline in output and orders in the first quarter of 2025. This marks the first time in a decade where output has declined in the first quarter, with both domestic and export orders experiencing a slowdown.

Companies have responded by pulling back on employment with Make UK reporting that the employment balance fell to -3%, meaning more firms reported cutting jobs than hiring, the weakest jobs outlook since early 2021. The increase in employer National Insurance contributions, expected to cost an extra £1,000 per employee,is thought to be a strong contributor to this trend.

Indeed, the vast majority (92%) of manufacturing executives cite employment costs as their primary concern and in response, half have put a recruitment freeze in place, more than a quarter are considering making redundancies and a third have postponed investment plans.

Consequently, Make UK has revised its growth forecast for the manufacturing sector. It predicts a contraction of -0.5% in 2025, a downgrade from the previous forecast of -0.2% in the last quarter but anticipates growth will rebound to 1% in 2026.

The short-term outlook for UK manufacturing presents significant challenges, primarily driven by economic uncertainty and escalating cost pressures driven by soaring energy prices, supply chain disruptions, raw material inflation, labour shortages, and rising regulatory costs.

Despite this, [9] there is a prevailing sense of optimism in the sector. Just over half (52%) of manufacturers are confident about their business' prospects through to the end of 2026. And looking further ahead, 75% of manufacturers believe they have sufficient plans in place to offset expected market challenges by early 2027, with almost two thirds (64%) planning to invest in technology and data and just under half (45%) planning significant cost reduction activities.

The trading environment

Global economic challenges continue to shape the manufacturing landscape. Trade tensions between major economies, particularly the US and China, have introduced increased tariffs and regulatory complexities that are complicating international trade. According to [10] a survey from S&P Global, April saw the fastest slump in UK export orders in five years, with tariffs being blamed for a sharp decline in demand from the US, Europe and China.

Rapidly-shifting trade policies are disrupting supply chains, prompting manufacturers to rethink traditional sourcing and logistics strategies, and according to a survey of business executives [11] conducted by Capgemini, 28% of UK firms are investing in nearshoring, more than double the 13% recorded in 2024. Friendshoring – establishing supply chain partnerships with allied nations – is a growing trend with 74% of UK executives highlighting its strategic importance with projections that it will account for 38% of total manufacturing capacity in the next three years.

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Red Sea Crisis

The Red Sea crisis, beginning in late 2023, brought significant volatility to one of the world's most critical maritime corridors, with Houthi attacks on shipping having an immediate and far-reaching impact on global trade.

Delays in receiving essential raw materials disrupted production schedules, strained supplier relationships, and triggered a series of declines in new business for manufacturers. Uncertainty prompted many clients to destock, further dampening demand. Coupled with subdued market confidence and mounting financial pressures, this led to notable contractions in both domestic and international orders.

By early 2024, [12] 80% of manufacturing firms reported slower deliveries explicitly linked to Red Sea disruptions with shipping companies increasingly rerouting goods from Asia to Europe around the Cape of Good Hope, instead of using the Suez Canal. The IMF reported that in the first two months of 2024, [13] trade through the Canal had dropped by 50% in comparison to the previous year.

By mid-2024, the situation began to improve – enhanced international naval coordination and strengthened security measures helped partially restore shipping activity. Since August 2024, [14] maritime traffic through the Red Sea has increased by approximately 60%, now averaging 36 to 37 vessels per day. While this marks a significant rebound, volumes remain below pre-crisis levels. According to the commander of the EU's Aspides naval mission, the region remains under close surveillance [15] amid a resurgence in attacks on shipping by Houthis.

Looking ahead, [16] the planned expansion of the Suez Canal from 72 to 82 kilometres offers a promising prospect for UK manufacturers. Though the full impact remains to be seen, the expansion is expected to increase daily vessel capacity, reduce transit delays, and enhance supply chain reliability – especially for goods sourced from Asia.

Economic Landscape

The seasonally adjusted [17] S&P Global UK Manufacturing Purchasing Managers' Index (PMI) dropped to a 17-month low of 44.9 in March 2025, down from 46.9 in February, marking the sixth consecutive month of deteriorating operating conditions. March also saw manufacturing production decline for the fifth straight month, with small-scale producers experiencing the steepest output decreases. The downturn was broad-based, impacting all sub-sectors and company sizes.

A key driver behind the contraction was a sharp slump in new business, with new order intakes falling at the fastest rate since August 2023 and at one of the steepest rates recorded since 2020. The 6.9-point drop in the New Orders Index since February 2025 was the joint-sharpest fall since 2020, highlighting the severity of the decline.

The weaker economic backdrop, combined with rising uncertainty about the future, severely impacted business confidence among manufacturers during March 2025. Optimism slumped to a near two-and-a-half-year low, with only 44% of companies expecting activity to rise over the coming year, down sharply from 56% in February 2025.

Manufacturers expressed concerns about Government policy, rising global and trade tensions, cost increases, economic slowdown, recession fears, and gloomy client confidence.

By June 2025 however, [18] the UK manufacturing PMI stood at 47.7, the highest level in five months, up from May's 46.6. While activity indicators like output, new orders, employment, and stock purchases continued to decline, the pace of this decline eased compared to previous months. Manufacturers noted that weak market conditions and uncertainty, both domestically and internationally, were impacting performance, but S&P highlighted that optimism remains, with 46% of manufacturers expecting production to increase by next year.

"The outlook in manufacturing really depends upon the sector you are operating in," says Karen. "We are seeing new manufacturers emerging,such as sustainable clothing firms, and manufacturers linked to the building trade are pretty buoyant at the moment as there is a big Governmental push to build homes and the cost of building materials are high, so they benefit from that."

However, she adds that traditional heavy industry, such as steel manufacturing, faces a more challenging future: "Many of them are struggling due to high energy costs and competition from abroad."

For UK manufacturers, expanding trade beyond traditional partners in Europe and North America will be critical to diversifying risk and capturing new growth markets. While challenges remain, particularly around regulatory alignment and tariffs, countries such as India could emerge as strategic long-term partners for the UK's motor trade sector.

Technology

In common with most sectors, manufacturers are turning to technology in all its forms to meet the demands of an increasingly complex, fast-moving, and data-driven global economy. The latest figures reveal a clear and deliberate shift toward high-impact technologies aimed at improving operational efficiency, agility, and resilience.

According to the [19] 2024 Supply Chain Plans Survey, manufacturers are prioritising investments in:

- Artificial intelligence (AI) - 47%
- Advanced cybersecurity - 42%
- Advanced data analytics - 41%

Over [20] half (55%) of UK manufacturers have already implemented solutions like automation, AI, data analytics, and cloud computing while 35% are in the process of doing so. Manufacturers are no longer adopting digital tools to handle individual tasks in isolation but are now integrating them across the production lifecycle, from the shop floor to the supply chain, taking digital tools from the periphery of operations into a central, operational role.

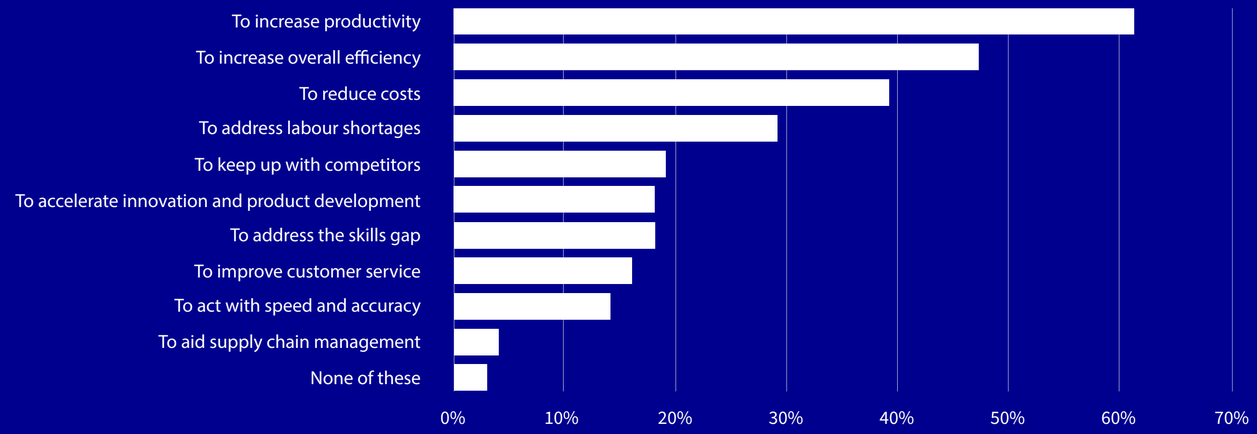


Figure 2. Impact of Automation in UK Manufacturing

Technology (cont).

Now that the pioneers have shown what's possible, the fast followers are getting in on the act with [21] one report from 2024 highlighting that 29% of manufacturers planned to introduce automation for the first time to streamline repetitive tasks, raising the total number of manufacturers using such technologies from 64% to 93%. The potential long-term impact of these technologies is substantial with the [22] Department for Business, Energy & Industrial Strategy predicting that robotics and autonomous systems could increase the value of UK manufacturing by 21% between 2021 and 2031.

Securing those benefits requires practical application and manufacturers are doing just that by focusing their digital capabilities on areas that directly affect output, quality, and customer experience. The [23] four most common applications of digital technologies are:

- 38% are using vision systems and AI to reduce defects and maintain standards.
- 37% are investing in cybersecurity measures to protect increasingly digital factories from ransomware and breaches.
- 34% are digitising their logistics, improving traceability and real-time visibility across supply chains.
- And 32% are using automation and data to deliver faster, more personalised responses to their customers.

While to date much of the investment has been made by larger organisations, as automation, AI, and robotics become more accessible and affordable, smaller and mid-sized manufacturers are starting to see and secure the same benefits. And as adoption becomes near universal, the competitive edge will lie not in the use of digital tools, but how effectively they are integrated, scaled, and optimised.

> "We know from working with manufacturing clients that increasing automation enhances efficiency, safety and operational resilience but also introduces specific risks like cyber threats, enhanced maintenance requirements and system failures," says Douglas Barnett, Director of Risk Management and Sustainability.
>
> "Many manufacturing lines can still run on outdated systems like Windows XP, which no longer receives security updates from Microsoft. This makes them highly vulnerable to malware, cyberattacks, ransomware, and 'silent' attacks which can act as a pivot point to attack the wider industrial plant network. We've seen instances of silent cyber attacks that occurred without obvious signs of a breach and went unnoticed for an extended period. These attacks can disrupt production, cause quality issues, and result in large volumes of unusable or rejected products - jeopardising clients reputation and profitability"

Robotics and automation

Despite having automated many processes for decades, manufacturing in the UK is struggling to make inroads with modern robotics and automation.According to Make UK,[24] significant obstacles to adoption remain, with key challenges including:

- Lack of technical skills (46%).
- Integration and data management issues (41%).
- High implementation costs (38%).
- Resistance to change and negative workplace culture (36%).

These barriers aren't theoretical, they are contributing to a growing gap between the adoption of automation in UK manufacturing and its global peers:

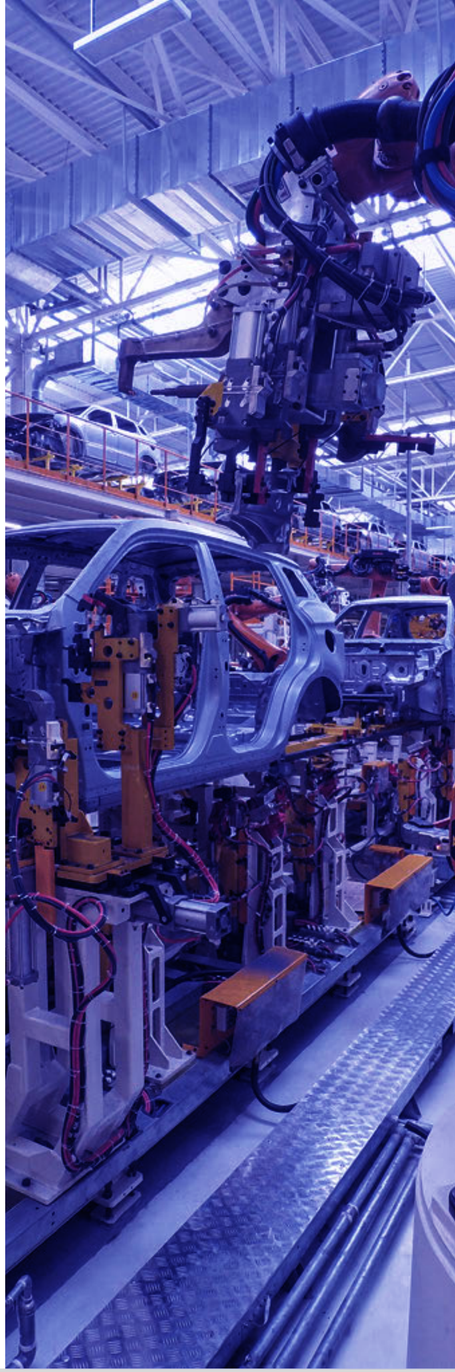
- In 2022,[25] the UK had just 98 industrial robots per 10,000 manufacturing workers, well below the global average of 151.
- This figure rose modestly to 111 in 2023 and[26] reached 119 in 2024, yet still lags significantly behind leading nations.

For context, countries like South Korea, Singapore, Japan, Germany, and Sweden are far ahead, and even emerging economies such as Mexico and Turkey have surpassed the UK in robot density.

Asia leads the charge, accounting for 73% of new industrial robot installations globally. In contrast, the UK's slow adoption rate, just 3% growth year-on-year according to the [27] International Federation of Robotic, raises concerns about its future competitiveness in global manufacturing. Within the G7, [28] the UK has the lowest rate of robotics adoption.

The UK's lag in automation presents not just a challenge but a missed opportunity. Research shows that if the UK matched automation levels seen in the world's most advanced countries,[29] manufacturing productivity could increase by 22%. In addition, it has been estimated that[30] machine tools alone could improve operational efficiency from 70% to 90%, unlocking significant gains in output and reliability.

Looking longer-term, robotics and automation are projected to contribute up to £184bn to the UK economy over the next decade, demonstrating the high stakes and potential payoff of getting adoption right, something that still seems to elude UK manufacturers. But there are other benefits to be gained from the widespread introduction of robotics and automation to manufacturing processes.



Internet of Things (IoT)

The Internet of Things (IoT) is playing a crucial role in the digitisation of manufacturing by connecting machines, sensors, and systems to optimise processes, reduce waste, and improve responsiveness at every stage of production.

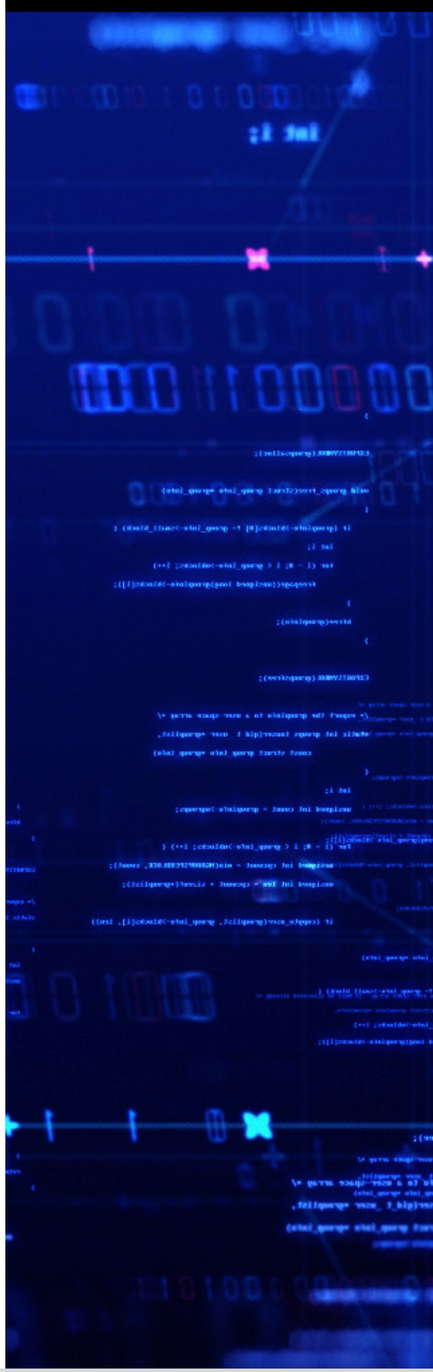
According to a study from McKinsey,[31] the economic impact of IoT in industrial settings could reach as much as $3.7 trillion globally by the end of 2025 – a reflection of its immense potential to reshape productivity and efficiency across the sector.

In UK manufacturing, IoT technologies are playing a pivotal role in improving resource efficiency and reducing waste. Embedded sensors continuously monitor machine performance, allowing firms to take a far more predictive rather than reactive approach to maintenance, minimising unplanned downtime and extending equipment lifespan. These same systems also optimise energy usage and reduce unnecessary consumption by identifying inefficiencies in real time.

One of the most significant benefits of IoT is enhanced supply chain organisation. IoT-enabled sensors provide real-time visibility into supplier performance, shipment status, and inventory levels, allowing manufacturers to improve demand forecasting, streamline logistics, and reduce overhead costs.

In addition, by integrating connected monitoring devices directly into the production line, manufacturers can identify defects or deviations as they occur rather than at the end of the process. This reduces material waste, avoids rework, and ensures that only high-quality products proceed through the supply chain, boosting customer satisfaction and cost efficiency.

> “We work with our manufacturing clients through every stage of IoT integration, from initial risk assessment to implementation, helping them identify vulnerabilities and develop business resilience strategies and mitigate operational risks. But we also need to help clients understand the wider risk management benefits that can be derived through their IoT infrastructure and connected machinery. This includes tailored coverage for potential system failures and physical damage, ensuring that their investments in digitalisation are protected against unexpected disruptions and losses.”



AI

A recent[32] study by Rockwell Automation showed the UK is taking a leading role in some aspects of digital transformation with 53% of manufacturers already using machine learning (ML) or AI on the factory floor, outpacing many peers globally.

AI is being applied in diverse, practical ways to improve operational performance:

- 44% are automating repetitive or complex tasks like assembly, quality control, and equipment monitoring.
- 43% are using AI to predict equipment failures and proactively schedule maintenance, cutting downtime and reducing maintenance costs.
- 37% are integrating new technologies with existing machinery through AI-driven data integration and analytics.
- 31% are using intelligent forecasting and process automation to improve inventory management while 30% are doing the same in their supply chain management.
- And 28% are using AI-powered chatbots and virtual assistants to offer 24/7 customer engagement and support.

Real-World Innovation

PepsiCo provides a good, real world example of[33] how UK manufacturers are deploying AI on the shop floor. Their factories are equipped with AI-enabled sensors to monitor conveyor belts and bearings and to analyse vibrations to detect defects early. This system acts as an early warning mechanism, alerting maintenance teams before breakdowns occur, thereby reducing unplanned downtime and maintenance costs.

They're not alone in trying to secure the benefits AI brings. Nearly[34] three quarters (73%) of UK manufacturers dedicate 21-50% of their operating budget to technology investments, revealing in financial terms the strategic role that digital transformation now occupies in the sector. And the UK is moving ahead of its global peers in this field with 94% of manufacturers expecting to integrate AI and ML into advanced analytics, compared to 91% globally.

By 2025, over[35] half (52%) of manufacturers expected to see significant advancements in technology deployment, signifying a clear shift in mindset - technology is no longer seen as just a support function, but as a core driver of strategic growth and competitive advantage.

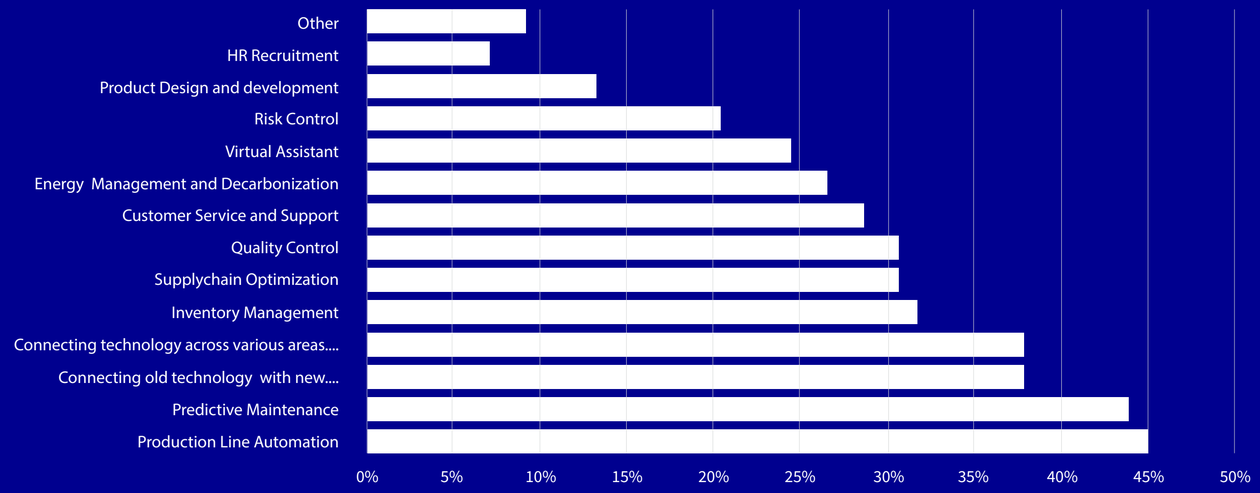


Figure 3. AI Usage in Manufacturing Companies

Role of Gen AI in UK Manufacturing

As manufacturers continue to explore advanced technologies, generative AI (GenAI) has emerged as a potential game-changer, offering new ways to streamline operations, drive innovation, and enhancecustomer engagement.

According to[36] Rockwell Automation, 56% of UK manufacturers have already invested in generative or causal AI tools, reflecting growing confidence in the potential for these emerging technologies to bring real and lasting change to the way the sector operates.

And as the[37] 2024 Make UK survey reveals, manufacturers are applying GenAI across various functions:

- 47% use it in marketing and content creation.
- 46% for process optimisation.
- 37% in research and development.
- 33% for product design and development.
- 27% for customisation and personalisation.

Wherever it is being applied, it appears to be delivering results with[38] 15% of UK firms reporting that GenAI delivered the highest ROI of any technology adopted in 2024. Rather than replacing workers, UK manufacturers have been leveraging AI to enhance job roles and address persistent labour shortages. Notably, 38% of UK companies had planned to upskill their existing workforce, an increase on the 30% recorded in 2024 and significantly ahead of the European average of 30%.

However, the adoption of AI is not without its challenges. While manufacturing is making significant strides in digital transformation, several barriers continue to hinder widespread adoption. The most pressing challenges include the complexity of integrating new technologies with existing systems and the high costs of implementation.

Technical limitations, a shortage of specialised skills, and rising training and recruitment costs, further complicate progress. Additionally, cybersecurity concerns remain a critical obstacle, with over a third of firms being cautious of AI adoption due to potential cyber risks.

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Sustainability

Manufacturing is[39] the third highest greenhouse gas-emitting industrial sector in the UK, following domestic transport and buildings, accounting for 18% of total emissions in 2021, making the manufacturing sector a critical focus for achieving the UK's net zero ambitions.

A 2023 survey from Make UK revealed that[40] 92% of manufacturers view the UK's transition to net zero as a business priority. Additionally, 68% have already invested in initiatives aimed at shifting their operations towards net zero, while another 22% planned to make such investments by the end of 2024. Although up-to-date data on the scale of these investments is limited, the trend toward sustainable manufacturing is expected to accelerate beyond 2025.

Notably,[41] 24% of manufacturers see opportunities linked to net zero as vital for their growth trajectory in the coming year.

Manufacturers are increasingly embracing sustainability through initiatives such as renewable energy adoption, waste reduction, improved resource efficiency, sustainable supply chain management, digital technology adoption, green product development and, increasingly, circular economy practices.

> "Manufacturers are interested in the circular economy as they know they need to move away from the mindset of using new materials every time, for a variety of reasons," says Caroline Organer, Liability Technical Risk Manager at AXA Commercial.

The circular economy is an economic model that aims to eliminate waste and keep resources in use for as long as possible. In contrast to the traditional model of take, make and dispose, the circular approach focuses on designing out waste, reusing materials, repairing, remanufacturing, and recycling.

Caroline points to examples such as[42] IKEA's first second hand store in Eskilstuna, Sweden where used furniture is repaired or brushed up to be sold again at a reduced price and[43] Thousand Fell, a shoe manufacturer that uses sustainable materials such as coconut husk, sugar cane and recycled plastic bottles to make its trainers.

> "Supply chain pressures could push more manufacturers towards the circular economy but it's not without risks. If a business moves to a new process or uses different materials in those processes, it could unknowingly change the risk profile of the business," says Caroline. "We work with clients to evaluate these circular models and material changes, analysing the potential operational, supply chain, and product risks associated with sustainability initiatives. This helps clients identify and mitigate new or increased exposures, ensuring their transition to sustainability is both innovative and risk-aware."

The Role of AI in Industrial Decarbonisation

Many manufacturers are turning to AI to optimise energy use, reduce waste, and improve supply chain efficiency, helping to reduce carbon emissions, enhance resource efficiency, and make data-driven decisions that accelerate decarbonisation. Currently,[44] 26% of manufacturers use AI specifically to decarbonise their factories, with some notable applications and benefits:

- **Energy Optimisation (93%)**: AI systems use real-time data from smart meters and sensors to monitor and control energy consumption, identifying peak usage times, driving significant energy savings and emission reductions.
- **Waste and Emissions Reduction (64%)**: AI-powered predictive maintenance prevents equipment failures, cutting waste and emissions, while process optimisation ensures efficient operations and a reduction in environmental impact.
- **Resource Efficiency Improvement (57%)**: By analysing operational data, AI identifies inefficiencies in resource use, while optimising production schedules and workflows reduces raw material consumption and waste.
- **Environmental Monitoring and Reporting (43%)**: AI automates data collection and analysis for energy, emissions, and waste, providing real-time insights and supporting transparent regulatory reporting.
- **Sustainable Product Design (21%)**: AI simulates environmental impacts during design, helping manufacturers select eco-friendly materials and processes.

Despite the growing momentum,[45] **manufacturers face several barriers to fully leveraging digital technologies** for decarbonisation:

71% highlighted the upfront cost associated with adopting **digital sustainability solutions**

Approximately **70%** of **SME manufacturers** experience difficulties accessing capital for **digital adoption**, compared to only **10%** of large **manufacturers**

And **61%** are cautious about **investing** due to **challenges** in accurately predicting **financial returns** in advance

Regulation

UK manufacturers are required to comply with essential health and safety regulations to safeguard the well-being of employees and the public and whilst this can be considered regulatory compliance high quality and business focused procedures will enhance the operation and efficiency of a business. Key legislation includes the Health and Safety at Work Act 1974, which outlines general duties for employers to ensure the health, safety, and welfare of their staff.

Other important regulations include the Control of Substances Hazardous to Health (COSHH) Regulations, which govern the handling of hazardous substances in the workplace. Additionally, the Provision and Use of Work Equipment Regulations (PUWER), the Supply of Machinery (Safety) Regulations, and the Management of Health and Safety at Work Regulations, among others, also apply within manufacturing settings.

"Manufacturers have a host of regulations to manage. There will always be the health and safety aspect which can assist in reducing absence and associated costs but there is also a drive to improve the quality of products managing the likelihood of product recall and manufacturers have to manage that quality right through the supply chain," says Karen.

"And it's the same for their ESG commitments, by applying ESG strategies and engagement across their supply chain in can improve risk management and supply chain resilience, enhance brand value and customer trust and deliver cost effective, innovative opportunities."

Employment Rights Bill

The Employment Rights Bill, the Government's flagship initiative, has been described as the 'most significant enhancement to workers' rights in a generation'. This comprehensive legislation will introduce a range of new measures over the next two years, granting employees immediate rights such as protection against unfair dismissal, flexible working arrangements, guaranteed hours for those on zero or low-hour contracts, and proportional compensation for shifts cancelled on short notice.

While the bill is expected to become law, the Government has pledged to postpone the implementation of most measures until at least 2026, giving manufacturers time to evaluate the implications and prepare for compliance.

Supply Chain Vulnerabilities

In recent years, supply chains have emerged as a critical vulnerability for UK manufacturers, exposing them to the fallout from geopolitical shifts, trade barriers, and global crises. These risks have prompted a strategic shift toward building more resilient and adaptable supply networks, with manufacturers re-evaluating sourcing strategies, increasing local procurement, and investing in technologies to enhance visibility and control.

There's a growing trend toward reshoring and nearshoring to reduce reliance on distant suppliers and improve responsiveness. Additionally, firms are consolidating and diversifying supplier bases to mitigate single points of failure.

Risks

Amid all these competing pressures, costs and opportunities to pursue, manufacturers must contend with a host of operational risks, some of which are well understood and others which are emerging from new technologies, changing process and a volatile geopolitical landscape.

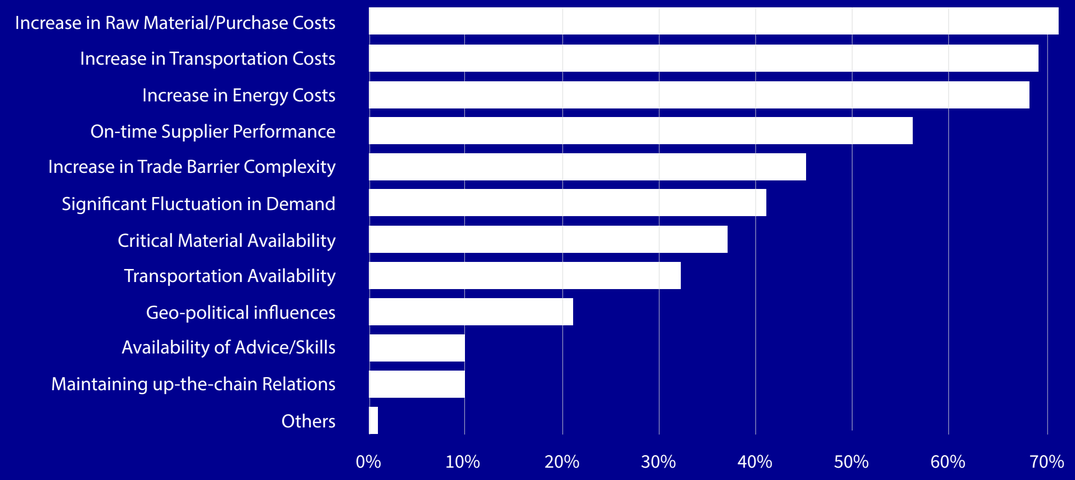


Figure 6. Major Supply Chain Challenges for Manufacturers

Supply Chain Vulnerabilities (cont)

According to[46] a 2023 survey from NexSys, nearly half (48.2%) of manufacturers have made changes to their supply chains as a result of Brexit and wider geopolitical issues such as the war in Ukraine. Having felt the pain of disrupted supply chains for several years, many are taking steps to insulate themselves from future disruptions with two-thirds revealing they were diversifying their suppliers, while 61% reported they were reviewing their procedures and 52% were investing in new technology.

To avoid the complexities that come with global supply chains, many manufacturers are pivoting to local suppliers with[47] a survey from Software Advice UK finding that 57% have suppliers in, or near, the UK while 69% have plans to source all or most of their goods from the UK or neighbouring countries.

This strategic shift is underscored by a 3.6% decrease in national imports between March 2023 and 2024, indicating a growing preference for regional suppliers and a move towards reducing dependency on distant sources. According to recent industry observations, in 2025, 28% of UK firms invested in nearshoring – more than double the 13% in 2024 – highlighting a growing regionalisation trend.

Manufacturers are also leveraging various technologies to build supplier networks more efficiently and effectively with[49] 40% having introduced digital technologies to manage their supply chain, and further 40% still considering investment.

> "Business continuity planning (BCP) is vital for manufacturers and there's a lot to consider. Through our BCP work with clients, we are seeing that many suppliers have downsized or consolidated their operations, reducing the number of locations and increasing dependency on fewer sources," says Douglas Barnett, Director Commercial Customer Risk Management and Sustainability.
>
> "Many clients are also battling with the impact of labour shortages across Europe, which can lead to longer lead times, higher costs, and increased vulnerability to disruptions including more extreme weather such as devastating floods and extreme heat—ultimately affecting their ability to maintain supply chain resilience and flexibility."

Size of Manufacturer	Diversification of Suppliers		
	Explored	Implemented	No Change
0-9 employees	0%	67%	33%
10-249 employees	38%	43%	19%
250-499 employees	32%	47%	21%
500-999 employees	50%	50%	0%
1,000-3,000 employees	67%	27%	7%
3,000+ employees	0%	60%	40%

Figure 7. Diversification Strategies of UK Manufacturers

Size of Manufacturer	Consolidation of Suppliers		
	Explored	Implemented	No Change
0-9 employees	0%	0%	100%
10-249 employees	19%	40%	41%
250-499 employees	21%	47%	32%
500-999 employees	33%	50%	17%
1,000-3,000 employees	73%	27%	0%
3,000+ employees	0%	40%	60%

Figure 8. Consolidation Strategies of UK Manufacturers

Health and Safety

Health & Safety incidents remain one of the key hazards facing manufacturing firms. According to[50] statistics from the Health and Safety Executive, the UK manufacturing industry experienced 16 fatal injuries between 2023 and 2024. An estimated 51,000 workers sustained non-fatal injuries at work over a three-year period from 2021-24, with over a quarter of these leading to absence from work for over seven days. Over the same period, 94,000 employees suffered from work-related illnesses.

Fatal Injuries by Accident Type in UK Manufacturing

- Struck by falling or flying object – 21%
- Falls from height – 21%
- Contact with moving machinery – 16%

Non-fatal Injuries by Accident Type in UK Manufacturing

- Slips, trips or falls on same level – 24%
- Injured while handling, lifting or carrying – 20%
- Struck by falling or flying object – 14%
- Contact with moving machinery – 12%

Aside from the physical and emotional impact on individuals and their families that these statistics represent, the outcome is 2.3 million working days lost every year and a £1.4bn productivity hit to the wider sector.

> “These kind of risks will never really go away,” says Caroline. “The HSE has become much more targeted in its visits to use their resources more effectively which means many companies haven’t had a visit for some time.

> “But our risk managers help fill that gap as we can come in and verify their processes, highlighting potential hazards and risks they may not be aware of. If you don’t know you are doing something wrong, you will continue operating in ignorance of the risk, which is why clients are increasingly keen to get our risk managers’ support.”

The Role of AI in Enhancing Safety in Factories

AI is playing a transformative role in enhancing workplace safety, particularly in manufacturing and industrial environments. According to [51] a survey conducted by Make UK:

- 73% of companies use AI for personal protective equipment (PPE) compliance monitoring: AI-powered image recognition systems can automatically verify whether workers are wearing proper personal PPE, such as helmets, gloves, or masks.
- 64% of firms employ AI to detect unsafe behaviours: AI analyses worker actions to identify risky practices, such as failing to follow protocols or misusing equipment, with alerts triggered, and corrective measures suggested.
- 64% of manufacturers leverage AI for restricted area monitoring: Using technologies like facial recognition and geofencing (via GPS or RFID), AI tracks the movement of workers and vehicles to ensure they stay within authorised zones and alerts are issued if unauthorised access occurs.

"The role of AI in improving workplace safety is really exciting and companies are using it in various ways," says Caroline. "There is a tool being used today that monitors the way employees are manually handling things and provides a report on whether they are likely to be injured from the way they behave, and provide advice to correct it.

"Another replaces the proximity sensors on vehicles in the workplace which, in a busy and noisy factory environment, are pretty useless as they would always be going off if they could be heard. This tool alerts the driver if it detects a human in the vicinity," she adds.

As exciting as these developments are, Caroline is clear they aren't a silver bullet for workplace safety.

"No matter how much technology is used, machinery risk will always be there. We are still getting people injured by machinery, working at height or from handling hazardous chemicals," she says. "Traditional risks are still going to exist – technology hasn't wiped those out."

Cyber Security

According to[52] data from ISP Beaming, 2024 was the worst year on record for cyberattacks on UK commercial organisations. On average, UK firms faced over 753,000 malicious attempts to breach their IT systems, with a new threat emerging every 42 seconds. The most frequent targets were remotely controlled IoT devices, including building control systems, security cameras, and industrial automation platforms.

Manufacturing is one of the most attractive sectors for cyber criminals to target, accounting for[53] 20% of all cyber extortion attacks globally in 2023. This represents a 42% increase on the 2022 rate and places manufacturing 17% ahead of the next most targeted sector, professional, scientific, and technical services.

These statistics underscore the appeal of manufacturing to cybercriminals and its vulnerability to their attacks. As a critical pillar of the economy and a key contributor to the production of essential goods and services, the threat is a potent one.

On 28 January 2025, UK engineering multinational Smiths Group disclosed to the London Stock Exchange that it had detected “unauthorised access” within its systems, while IMI, another FTSE 100 engineering firm based in Birmingham, reported a similar cyber incident involving unauthorised system access.

The threat is likely to increase as will the vulnerability of manufacturing firms to attacks. As noted above, the challenges facing manufacturing have driven many to ramp up the adoption of digital tools to improve efficiency. However, the greater the adoption of technology, the greater the risk with[54] disruptions caused by cyber-attacks identified as a major risk by 18% of manufacturers.

A survey conducted by[55] **cyber security firm e2e-assure found that an impressive** 76% of manufacturers believed they were well protected from cyber-attacks but when the survey dug a little deeper, concerning vulnerabilities emerged:

77% of employees had observed colleagues **violating cyber security** protocols.

Only **24%** of firms provide **cyber security training** for their employees.

And only **23%** of **employees** reported **cyber incidents.**

Labour crisis

Manufacturers continue to grapple with a long running labour crisis. Currently,[56] there are 64,000 vacancies in the sector, translating to an estimated £6 billion in lost output, and despite the economic imperative to solve the issue, it shows no signs of easing. In 2024,[57] 35% of manufacturers identified access to domestic skills, and 34% cited access to domestic labour, as key risks to their operations.

Europe faces three main challenges. First, there is a shortage of skilled labour, largely due to an aging workforce and the retirement of experienced technicians. Second, wage pressure and inflation are increasing as a result of rising wages driven by union negotiations, inflation itself, and reforms to minimum wages. Lastly, labour regulations pose difficulties, with restrictions on working hours, the use of temporary contracts, and employment protection measures affecting how businesses can manage their workforce.

A significant 75% of manufacturing professionals view the lack of skills as the primary obstacle to growth – recruitment challenges were cited by 36%, while 32% highlighted difficulties in retaining talent. An overwhelming 97.5% of manufacturers agreed that hiring and retaining skilled labour remains a major challenge.

> "The more specific the product the manufacturer is producing, the more difficult it is to find the specialist engineers to manage, maintain and repair business critical equipment. That obviously creates a risk, so companies work hard to plug the gaps with contractors but do they understand the site and its processes well enough? Tackling one risk, often throws up another," adds Caroline.

The digital transformation of the sector adds another layer of complexity. While it promises to ease some of the recruitment pressures, around[58] 80% of manufacturers report difficulty in acquiring digital skills due to competition from other sectors. Notably, 44% say the skills shortage has accelerated their shift toward smart manufacturing.

Labour crisis (cont)

And a 2025[59] report from employee communication app, Flip, indicates that the labour crisis may get worse before it gets better. It reveals that 87% of UK manufacturing managers believe the majority of technical expertise resides with older employees, and as these workers approach retirement, there is growing concern that essential knowledge and skills will be lost, leaving businesses vulnerable to operational disruptions.

Four in five managers (81%) report that their teams lack critical technical capabilities, while 69% express low confidence in their organisation's ability to prepare workers for future demands. Furthermore, 71% doubt their capacity to close existing skills gaps, highlighting a systemic issue in workforce development.

The ability to transfer knowledge to younger workers remains a major concern, with 94% of managers stating that employees under 25 lack the necessary technical skills, and 73% reporting that new hires take up to six months to reach full productivity. This delay places additional strain on senior staff, with 82% of experienced workers compensating for the shortcomings of less experienced colleagues, an unsustainable model that threatens long-term efficiency.

A lack of structured onboarding is exacerbating the problem. More than half (57%) of managers say their organisations do not invest adequately in onboarding tools, and 75% believe this deficiency is directly impacting productivity levels.

Finally, the skills gap is also creating serious safety concerns with 76% of managers warning that inadequate onboarding is increasing health and safety risks on the factory floor, further elevating the urgency for action.

Employment Cost

The[60] Autumn Budget 2024 emerged as a complex and multifaceted response to the ongoing economic turbulence, yet it raises significant concerns for many manufacturers.

One of the most pressing issues is the increase in employers' National Insurance Contributions with the rate surging from 13.8% to 15%, while the threshold at which payments start has fallen to £5,000 from £9,100. Although the budget has increased the Employment Allowance to £10,500 to alleviate some of these costs for eligible businesses, it is unlikely to provide sufficient relief to offset the overall rise in payroll costs. Additionally, the National Living Wage paid to those over 21 years of age, rose to £12.21 an hour, representing an increase of 6.7%. The National Minimum Wage also rose, from £8.60 an hour to £10 for those aged between 18-20.

Energy Cost

Every business and every household has been affected by rising energy costs but the effect has arguably been more profound in the manufacturing sector. According to[61] Make UK, industrial energy costs in the UK are currently four times higher than in the US and 46% above the global average. More than half (53%) of manufacturers identified energy costs as their primary risk for 2024.

With the Government's Energy Bill Discount Scheme having come to an end in March 2024, manufacturers are vulnerable to potential spikes in energy costs and[62] 25% expect significant increases with a further 43% expected a moderate increase during 2024.

Managing the risks

The manufacturing sector presents a diverse range of risks that vary in frequency and impact, depending upon a range of factors such as the sector, the location of the production sites, the machinery being used, the processes they complete and of course, supply chain which is often global and the people managing it all.

No business can completely eliminate risk but there is a range of advice and support available for those looking to keep their people and business safe and resilient.

AXA Commercial has[63] a long-standing team of business resilience managers and risk engineers and a library of support that manufacturing firms, from the smallest SME to the largest multinational, can access to understand the scope of their risks and crucially, how to prioritise and manage them.

> "With larger clients who have a wider range of risks to manage, we work with them from a strategic risk management point of view, partnering with them and offering best practice advice and specialist thought leadership and solutions on areas that, in our experience, can drive focus."

Support is available across property, motor and workplace transport and liability risks where clients can take advantage of risk surveys that highlight how well current risks are being managed and recommendations on how to improve those risks whilst preparing for emerging challenges.

AXA provide a host of information available to manufacturers of all shapes and sizes, with guides providing actionable, operational advice on everything from metalworking and plastics to precision engineering and workplace transport. These guides,[64] available on AXA Connect, explain how processes, equipment and people should be managed to reduce a business' risk profile and reduce the likelihood of experiencing a material damage or business interruption claim. Each guide provides specific advice on preventing hazards from having a real impact, but also explain how and why these hazards emerge, giving businesses greater insight into, and control over, their risks.

AXA also has a third-party supplier panel, selected based on their quality and reliability across a wide range of challenges. These suppliers include slip safety services and fire suppression contractors for industrial plants, who provide solutions on pre-agreed, competitive terms. AXA ensures that the services provided are appropriate and robustly managed.

> "Depending on the size and needs of the client, we provide bespoke claims support with a dedicated claims relationship manager who works with the client from the outset to help manage their risks and any claims that occur."

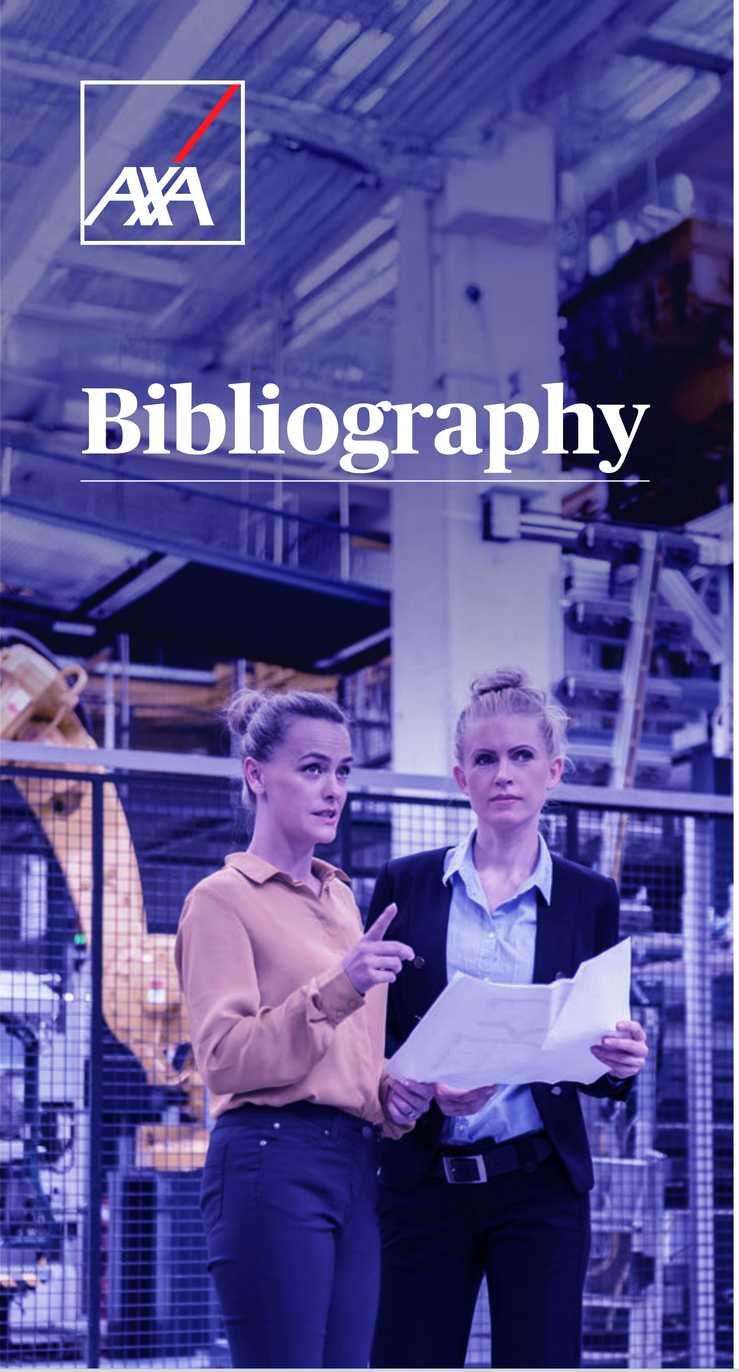
The risk landscape for the manufacturing sector is broad, complex and shifting all the time. But with the right investment, approach and partners, these risks – whatever they are and however they manifest – can be managed effectively and their potential impact significantly reduced.

Further information

Click here for further information on AXA's Mid-Corporate Manufacturing proposition

Meet the team and hear about the how AXA approached Mid-Corporate Manufacturing risks in this video

Or contact your local **AXA branch**



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UK Manufacturing Sector Analysis

A comprehensive review and analytical perspective