

## 8. United Kingdom

Key statistics	United Kingdom	Peer average
Manufacturing GDP CAGR (2010-13)	0.2%	2.3%
Manufacturing GDP percentage of total GDP (2013)	9.7%	16.7%
Labor costs (US dollars per hour) (2015)	\$31.2	\$18.7
Manufacturing exports percentage of total exports (2014)	68.1%	60.2%
Highest corporate tax rate (2015)	20.0%	25.3%
Researchers per million population (UNESCO 2013)	4,055	2,852
Per capita personal disposable income (US dollars, 2015)	\$29,888	\$14,910
Per capita personal disposable income (US dollars) CAGR (2005-2015)	0.8%	3.8%

### Supplemental analysis United Kingdom – Competitiveness at a glance

<b>Manufacturing highlights</b>	<ul style="list-style-type: none"> <li>The largest manufacturing sectors in the United Kingdom are food and drink, chemicals, rubber, plastics, and non-metallic minerals. Food and drink, accounted for 15 percent share of the total country's manufacturing value added in 2014.</li> <li>The United Kingdom's contribution to global manufacturing output was 3.4 percent in 2005, which declined to 2.6 percent in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>UK's manufacturing exports accounted for 63 percent of the total merchandise exports over the five-year period 2010-14.</li> <li>Hi-tech manufactured goods accounted for 43 percent of total manufacturing exports in 2014.</li> <li>The United Kingdom produced 1.58 million vehicles in 2014, similar to what it produced in 2008. However, the vehicle production increased at a CAGR of 8 percent during 2009-2014 period.</li> </ul>
<b>Advantages to manufacturers</b>	<b>Availability of high-skilled labor:</b> <ul style="list-style-type: none"> <li>The country leads in deploying skills in key sectors such as aerospace, composite/nano/advanced materials, instruments and electronics, and life sciences.</li> <li>The United Kingdom accounted for 17 percent share of the global aerospace market revenues, largest in the European region and second only to the United States.</li> <li>The country produced 61,345 STEM graduates in 2012, or 973 graduates per million of inhabitants. The growth in the number of STEM graduates has been 5.9 percent per year during 2007 to 2012 period, than that in the United States, South Korea, and Japan.</li> </ul>	<b>Superior innovation potential:</b> <ul style="list-style-type: none"> <li>The United Kingdom has emerged as an innovation leader in major manufacturing sectors such as automotive, aerospace, and pharmaceuticals among others.</li> <li>The United Kingdom is ranked 2nd, next only to Switzerland among 143 nations, by INSEAD in its Global Innovation Index 2014 study.</li> <li>The country had 4,055 researchers per million population in 2013, 11<sup>th</sup> highest globally. The country accounted for 16 percent share of the top quality research published.</li> </ul>

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### Challenges

#### Declining labor productivity and manufacturing output:

- The productivity gap between the United Kingdom and other advanced nations has widened due to decreasing output per labor since 2012.
- Since 2011, the manufacturing labor productivity has been declining gradually, i.e. from US\$98,450 in 2011 to US\$95,987 in 2013.
- The manufacturing output of the country has been on a decline too since the 2008 recession period, at a rate of 0.9 percent per year, from US\$256.7 billion in 2008 to US\$244.8 billion in 2013 (constant prices 2005).

**High labor costs:** UK's manufacturing wages at US\$31.24/hour in 2015 are much higher than that in emerging countries such as China and India.

**Prevailing political risks:** Businesses in the United Kingdom fear of persistent domestic and international political risks. Debates over United Kingdom's leaving the European Union, England's relationship with Scotland, and turmoil in Greece are posing as major challenge to the businesses. Although the political risks have reduced partially post the general elections held in May 2015, yet the impact of risks on business confidence and investments is visible.

**Rising currency appreciation risks:** The appreciating value of sterling coupled with decreasing manufacturing output has resulted in a decline of manufacturing exports (a decline of 6.7 percent between 2013 and 2014, from US\$548 billion in 2013 to US\$511 billion in 2014).

### Things to watch out

#### Reshoring of production back to the country:

- Increasing wages in China are compelling many manufacturers to bring production back to the United Kingdom.
- According to a survey conducted by the Engineering Employers Federation (EEF), one in six UK manufacturers re-shored their production back from other countries including China, and Eastern Europe, during 2011 to 2013.
- Preference for high-quality products, availability of skilled workforce, and shorter delivery times emerged as the key factors driving these decisions.

#### Pending decision on UK's membership of the EU:

- A referendum of the United Kingdom's membership of EU is expected to be in late 2016 or early 2017, with the present government expected to clarify its stand on position with the EU.
- Though, the United Kingdom staying in EU is expected to be the possible outcome, leaving EU might lead to potential economic costs to the country.

#### Political leadership expected to bring changes:

The re-elected government headed by David Cameron is expected to introduce more robust policies. For instance, creation of an independent National Infrastructure Commission to access the United Kingdom's infrastructure needs in the coming years.

Source: Deloitte Touche Tohmatsu Limited analysis <sup>(XXIX)</sup>