



Industry Forum

Business Excellence Through Inspired People

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# UK Auto Value Added and the Global Situation

Value added is part of the productivity ratio and productivity matters because growth in productivity is the only sustainable way of increasing GDP. It is widely recognised that the UK has shown some puzzling trends in productivity since 2008. This is now seen as part of a much broader global situation.

According to the Conference Board, worldwide productivity growth weakened for the third year in succession in 2013. In 2010 global labour productivity growth was 3.9 per cent and by 2013 it had dropped to 1.7 per cent. Different factors are thought to have been operating in emerging economies and in the advanced economies. There is some hope that progress in the latter in 2014 may help stabilise the global decline.

The UK productivity puzzle has been studied extensively and certain key points have been identified. Falling productivity has been concentrated in financial services, utilities and the extractive industries which all face special circumstances.



The majority of the UK's economy is the service sector where historically productivity growth has been weaker than in manufacturing. McKinsey have just recirculated a 1992 report which examines the variation in advanced economies service sector productivity growth. For example, McKinsey found in the case of the US that service sector productivity growth did not mean lower service sector quality. The report concludes that competitive pressure is an important driver for service sector productivity growth.

This is relevant to the UK with its high share of GDP taken by the service sector. Many successful countries including Switzerland, Singapore and Germany have a much higher manufacturing value added per capita than the UK. The UK's underlying position in labour productivity means an absolute level which remains significantly behind the US and several European countries. Even before 2008 and the emergence of the productivity puzzle, the UK faced a major productivity challenge.

In the last decade UK policy analysis was mostly framed in terms of five drivers for productivity growth- competition, investment, innovation, skills and enterprise. The ONS has done a lot of analytical work within this framework.

In UK automotive manufacturing, investment in 2012 at £1.7bn was one third up on the previous peak in 2008. R&D expenditure was even higher at £2bn in 2013 - another all time record. Sector value added in 2013 at £13.6 bn up 36% on 2008. In the vehicle manufacturing sector, 2013 total value added was over 50% higher than in 2008. The automotive manufacturing gross surplus - that is total value added less labour costs - in 2013 reached £7.5bn, up nearly 80% on 2008.

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In 2013 the auto sector generated almost 10% of the UK's total manufacturing gross surplus.



There is a sharp contrast therefore between the general trend in the global economy and the specific situation of UK automotive sector. The key point is that the global economy is not homogenous. The brands that are at the heart of the UK auto sector, and the product performance and service quality that now underpin them, are in tune with the values of the consumers in the parts of the global economy that are vibrant and dynamic.

The depth of the sector's value adding capability is evident when the 80% increase in sector gross surplus between 2008 and 2013 is contrasted with only 26% increase in vehicle manufacturers' purchases over the same period. This means that even though a high proportion of vehicle manufacturers' total turnover is taken by bought in goods and services the overall business models are very effective in generating value added and gross surplus.

A high proportion of the UK automotive sector is part of global corporations headquartered outside the UK. Securing continuing large scale investment and R&D outlay means competing with other locations across the globe within the same group. A good record in the generation of gross surplus is a major plus point in this context. This surplus must in the first instance fund the depreciation charge on past years' investment and also contribute to the global financial management within the corporation in an industry where any sort of competitiveness requires large R&D and investment budgets. .

The automotive supply chain within the UK like many other UK manufacturing sectors, is a mix of global and locally owned firms. Vehicle manufactures have been encouraging the supply chain to invest and develop modern capabilities to support their programmes in this country. There is evidence of a positive response in that the segment of the supply chain that is easily identified with ONS data doubled the level of annual capital expenditure between 2008 and 2012.

Vehicle manufacturers' purchasing also involves other manufacturing sectors beyond the segment ONS specifically identifies. The business services sectors also benefits, especially the design engineering sector.

The CBI recently published an important report on the future of UK manufacturing supply chains in October. The report anticipates that potentially half a million new manufacturing jobs could be created by 2025. The work was completed in collaboration with A T Kearney. Action



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is especially needed to boost and R&D and develop the skills base. Higher quality products supported by better customer service are priorities.

Industry Forum was set up nearly 20 years ago as a national initiative based on partnership between major automotive inward investors and the Government of the day. It has brought new capability and skills into the UK industrial ecology and has worked in the automotive, aerospace and other engineering supply chains both nationally and globally. It offers approaches drawn from Japan, Germany and the United States. It is working extensively under the direction of the UK Automotive Council implementing the national sector strategy. We look forward to further deep involvement in developing the potential of UK national supply chains.

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