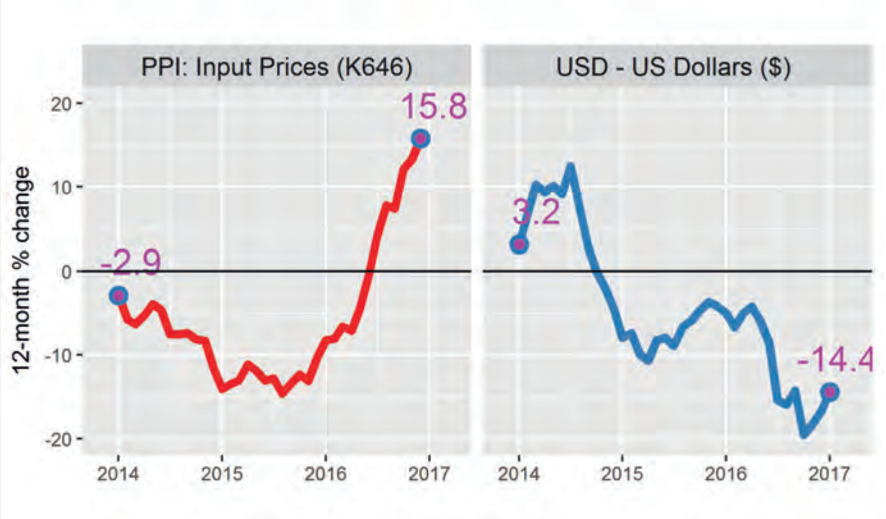
Weathering the storm

In recent years, Gambica has been working closely with Beama, the UK trade body that represents manufacturers of electrical products and systems. The organisations' members share many of the same issues and interests. Here, Gambica's director of public affairs, Steve Brambley*, and Beama's head of statistics, Emmanuel Amoakohene, explore one of those common topics.



The cost of goods bought by manufacturers rose by almost 16% during 2016 (left), while Sterling fell by almost 15% against the US dollar (right)

There are many factors that organisations must deal with that can have an impact on their business: some they can control; others are less easily influenced. A company can determine aspects such as its marketing, product design, manufacturing techniques and communications strategy. For some areas, it may need to collaborate with others in the market – through a trade association, for example – to shape regulations, standards or government policy.

Then there are elements beyond their sphere of influence, such as the weather or natural disasters. Two such elements have combined recently to create difficulties for some UK companies – input prices and Sterling exchange rate.

The price of goods bought by UK manufacturers, as calculated by the Input Price Index, rose rapidly in the year to December 2016, following two years of decline.

Input prices for manufacturing in general rose by 15.8% in the year to December 2016, the highest year-on-year increase since September 2011. Over the same period, factory gate prices (or output prices) for goods produced by UK manufacturers rose by only 2.7%. Profit margins on UK sales have therefore come under pressure as most manufacturers have delayed passing on cost increases to consumers.

In a recent trends survey conducted by Beama, most of its members predicted that the increases in unit costs will continue during the year ahead. They expect this to be reflected in output prices, which are widely expected to increase by 5–10%.

The increase in input prices is being blamed largely on the dramatic plunge in the exchange rate since the Brexit vote, combined with the recovery of oil prices. UK manufacturers rely on raw materials or semi-finished imports from overseas. With a cheaper Sterling, manufacturers are having to pay more pounds for the same quantity of goods.

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This is also reflected in wider industry. A survey by the British Chamber of Commerce (BCC) showed the depreciation in Sterling having a similar impact on businesses. It found that 68% of businesses expect the fall in the value of Sterling to increase their cost base over the coming year. In turn, more than half (54%) of companies expect to have to increase the prices of their products and services over the next 12 months.

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According to the BCC's director-general, Dr Adam Marshall, the depreciation of Sterling "has been the main tangible impact that firms have had to grapple with since the EU referendum vote. Our research shows that the falling pound has been a double-edged sword for many UK businesses. Nearly as many exporters say the low pound is damaging them as benefiting them. For firms that import, it's now more expensive, and companies may find themselves locked into contracts with suppliers and unable to be responsive to currency fluctuations."

With limited ability to change either input prices or exchange rates, many companies have had no choice but to weather the storm, trying to hold out on passing the increased costs onto their customers. However, when the economic hurricane doesn't blow over, increased prices may become a necessity for survival. ■

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