

RISK INSIGHTS

Manufacturing



Manufacturing Industry Trends to Watch

The manufacturing sector consists of businesses that utilize raw materials to generate finished products. Due to the range of items this industry plays a role in producing (e.g., food and beverages, textiles, apparel, wood products, chemicals, plastics, metals, electronics, machinery and furniture), it contributes significantly to the overall economy. Further, this sector has experienced considerable growth in recent years, largely brought on by rising production demand for various items amid the COVID-19 pandemic.

Looking ahead, certain factors indicate the manufacturing industry is poised for continued growth in the future. Professional services firm Deloitte projects the sector's gross domestic product (a monetary calculation of the market value of goods and services generated and sold during a set time period) will increase by 2.5% in 2023. Additionally, several federal initiatives that debuted in 2022—namely, the CHIPS and Science Act and the Inflation Reduction Act—have the potential to help keep costs under control and boost resiliency across the manufacturing sector, therefore fueling long-term industry growth.

Yet, some sector developments could pose challenges in the coming months and years, including labor shortages, supply chain struggles, economic issues, technology shifts and environmental concerns. This article provides more details on manufacturing industry trends to watch.

Labor Shortages

The past few years have been met with labor shortages across industry lines. Furthermore, the pandemic motivated many employees to reevaluate their job expectations and priorities, thus prompting additional

workforce shifts and compounding such shortages. The manufacturing sector is no exception to this trend. According to the U.S. Bureau of Labor Statistics (BLS), job openings in the industry remained near record-highs in 2022, fluctuating between 750,000 and 850,000.

In light of these labor shortages, businesses within the manufacturing sector have implemented various strategies to help attract and retain talent, such as:

- **Promoting a diverse workforce**—The latest BLS data shows women make up less than one-third of the manufacturing workforce, whereas Black, Asian and Latinx employees account for an even smaller proportion. As such, some manufacturing businesses have made an effort to attract these untapped demographics and expand their available talent pools by bolstering their diversity, equity and inclusion (DEI) measures. Common DEI measures include creating workplace policies that foster an inclusive culture and offering mentorship and career-advancing programs for diverse employees.
- **Leveraging upskilling initiatives**—Upskilling refers to the process of enhancing employees' skills and promoting continuous learning by providing ongoing education, training and professional development opportunities. Especially as manufacturing businesses hire a greater proportion of new or inexperienced employees to fill labor gaps, upskilling can make all the difference in motivating these employees to keep improving upon their abilities.
- **Offering greater flexibility, pay and benefits**—In response to employees' shifting job expectations, some manufacturing businesses have adopted more

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competitive workplace offerings. These offerings may include flexible hours, remote or hybrid arrangements (if possible), higher pay, improved benefits and additional well-being resources.

Supply Chain Struggles

Apart from exacerbating labor shortages, the pandemic has also contributed to supply chain struggles over the last few years. This trend has made it increasingly difficult for manufacturing businesses to secure the raw materials necessary to conduct their operations, often resulting in production delays. To combat these concerns and ensure supply chain resiliency, manufacturing businesses have utilized a number of tactics, including:

- **Strengthening relationships**—By building strong connections with their suppliers, manufacturing businesses are more likely to receive additional support when navigating supply chain issues. Specifically, businesses with solid supplier relationships may benefit from solutions such as modified shipment routes and prioritized access to high-demand materials as they become available.
- **Diversifying suppliers**—Instead of relying on a small selection of primary suppliers, some manufacturing businesses have added redundancies to their supply chains by investing in multiple suppliers for the same materials. With these diversifying strategies in place, businesses can increase the likelihood of maintaining access to essential production materials even if their primary suppliers are experiencing disruptions.
- **Forming local partnerships**—In addition to diversifying their supply chains, some manufacturing businesses have also begun engaging in nearshoring, which entails selecting local or domestic suppliers rather than international alternatives. This way, businesses can minimize their risk of being impacted by global shipment delays and associated supply chain disruptions.
- **Leveraging technology**—To enhance supply chain visibility, some manufacturing businesses have

implemented additional workplace technology. Examples of this technology include work instruction software and digital ecosystems, which are capable of actions such as streamlining supply chain workflows, ensuring frequent communication with suppliers, providing status updates on material shipment processes and delivering notifications regarding possible disruptions.

Economic Issues

The combination of labor shortages and supply chain struggles have significantly driven up the cost of goods and services in recent years, posing widespread inflation issues across all sectors of the economy. As it pertains to the manufacturing industry, inflation issues have resulted in rising costs for many raw materials, as well as their associated shipment expenses (e.g., labor and transportation costs). Consequently, most manufacturing businesses have encountered price hikes throughout their supply chains, thus exacerbating overall production expenses and forcing them to raise the costs of their finished products to ensure profitability.

As inflation issues press on within the sector, it's important for manufacturing businesses to curb consumer frustration regarding rising product costs by being transparent about the reasons behind these price hikes. Maintaining open communication about the impact of inflation on production expenses and providing frequent updates on how their price tags will continue to fluctuate can help businesses maintain customer trust and loyalty during these difficult times.

To help minimize overall inflation concerns, the Federal Reserve (Fed) has steadily been hiking up interest rates. Economic analysts predict that the Fed's efforts will eventually pay off during 2023, with inflation slowly subsiding throughout the year. However, some economic experts have forecasted that rising interest rates and prolonged labor market challenges could lead to a potential recession—a prolonged and pervasive reduction in economic activity—throughout the United States in the near future.

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To prepare for a potential recession, it's best for manufacturing businesses to consider practices such as establishing concrete financial plans, scaling back certain operations, promoting steady cash flow, ensuring proper debt management, fostering strong connections with stakeholders and leveraging effective marketing strategies. Above all, it's crucial for businesses to maintain ample insurance in a recession and secure financial protection against possible losses.

Technology Shifts

To help offset increased expenses and productivity concerns brought on by current sector trends, a growing number of manufacturing businesses have begun utilizing smart factory initiatives. These initiatives focus on improving operational efficiencies and mitigating production costs with various technology solutions.

Common technology solutions introduced by smart factory initiatives include 5G, the cloud and edge computing systems. These solutions are intended to help increase network capacity, reduce delays in network communication and enable greater volumes of data to be processed at higher speeds. Such solutions often permit manufacturing businesses to minimize downtime on the production floor and elevate operational performance.

In addition to implementing smart factory initiatives, some manufacturing businesses have also started leveraging disruptive technology offerings, such as augmented reality (AR), artificial intelligence (AI), the Internet of Things (IoT) and blockchain. Both AR and AI can be used to automate production processes, enhance customer service capabilities and make data-driven decisions. On the other hand, IoT and blockchain can help manufacturing businesses closely monitor their supply chains, record essential transactions, conduct predictive maintenance on production equipment, utilize advanced analytics, track inventory and assets, and detect potential safety concerns.

In any case, both smart factory initiatives and disruptive technology can pose additional cybersecurity risks. With

this in mind, manufacturing businesses that leverage such technology should review their digital exposures and make adjustments as needed to mitigate possible cyber losses.

Environmental Concerns

The environmental, social and governance (ESG) landscape continues to evolve, with both consumers and regulators placing additional pressure on manufacturing businesses to ensure eco-friendly and sustainable practices. Specifically, current ESG trends in the manufacturing industry center around:

- **Decreasing carbon emissions**—According to the latest industry research, the manufacturing sector accounts for nearly one-third of total greenhouse gas emissions. As such, it has become increasingly important for manufacturing businesses to aim for carbon neutrality. Some government agencies have even started requiring businesses to disclose information regarding their carbon emissions. Common emission-reducing measures include electrifying fleets, using clean power sources (e.g., wind and solar) and implementing energy-efficient smart devices on the production floor.
- **Reducing operational waste**—Many manufacturing processes generate substantial waste, thus damaging the environment. Fortunately, proper waste management practices and certain types of production technology can help mitigate these concerns, promoting eco-friendly operations.

Conclusion

Overall, there are several trends currently impacting the manufacturing sector. By staying on top of these developments and taking steps to mitigate their associated exposures, manufacturing businesses can effectively position themselves to maintain long-term growth and operational success.

Contact us today for additional risk management guidance.