



MANUFACTURING SPOTLIGHT 2026:

Innovation, Disruption and Resilience



Foreword

“ It's hard to overstate the importance of domestic, innovative manufacturing to a nation's pride and sense of purpose. In providing a vast range of skilled jobs, growing capital stock, and dispersing investment across the country, a strong production base is a cross-political boon. Successive macroeconomic and societal shocks have reinforced this, each a reminder, often in new ways, that security, continuity, and technological advances in manufacturing are vital.

This is a sector that faces intense challenges in the forms of rising energy and labour costs, increasingly frequent supply chain interruptions, and international competition. It's inspiring to work with businesses that are continuing to invest despite these pressures, seeking to improve profitability and rejuvenate long term competitiveness through productivity improvements, acquisitions, or R&D.

At HSBC we're excited to help businesses on this journey – providing finance, advice, and international trade support, while working to increase collaboration within supply chains. We want to build relationships early in a company's lifecycle and ensure that specialised suppliers are given the options needed to thrive.

As this report makes clear, there are plenty of opportunities ahead – and we are backing UK manufacturing firms to make the very best of them. **”**

Adnan Hamid

Head of Manufacturing & Industrials, HSBC UK



Introduction

Over the last few years, the UK manufacturing sector has been subjected to a series of “once-in-a-generation” shocks.

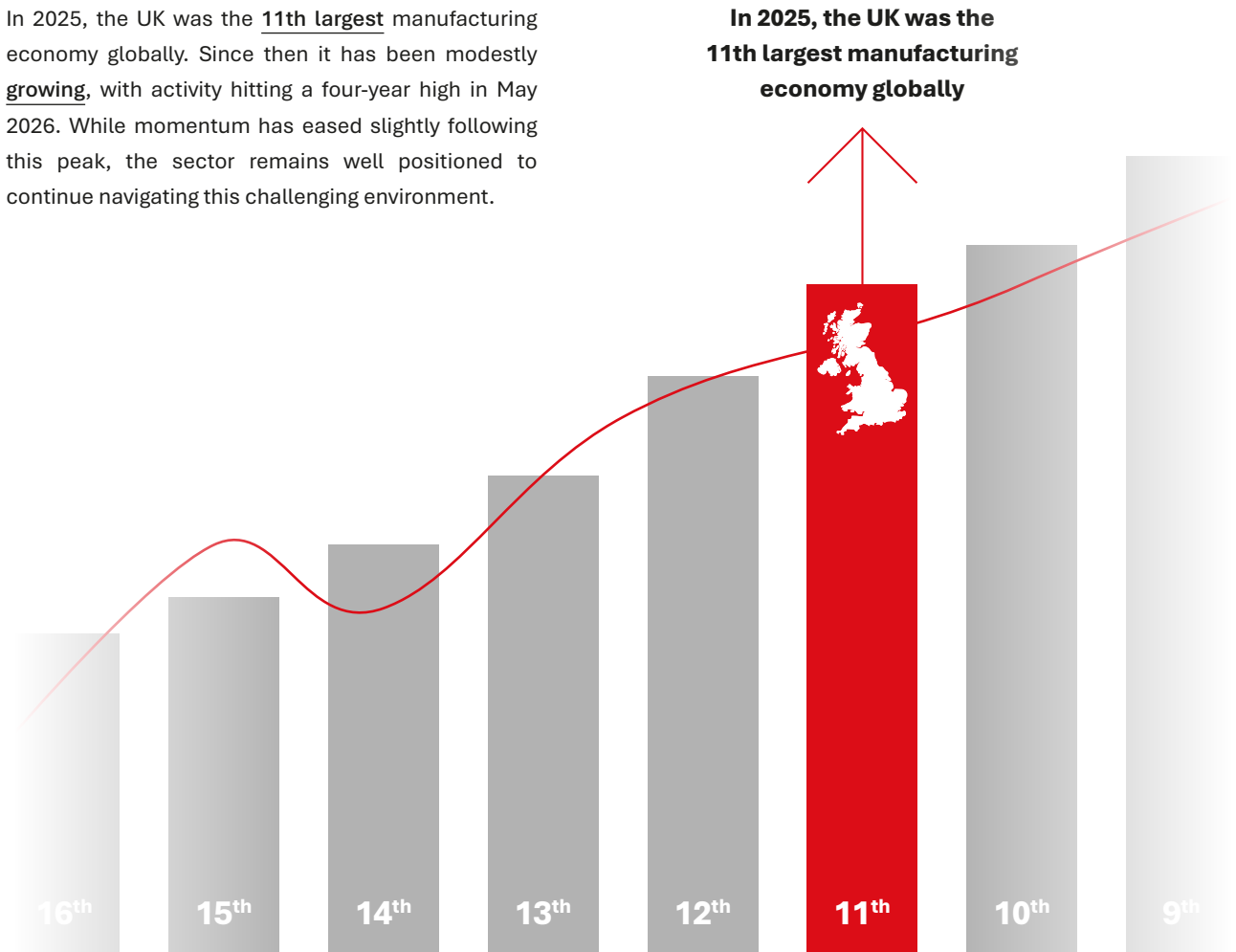
In 2021, the UK was enduring the pandemic-induced labour crisis—during which 57 percent of manufacturers reported staff taking early retirement or reducing hours—when the country formally exited the EU customs union, introducing new trade barriers. Soon after, Russia’s invasion of Ukraine led to energy price spikes plus disruption to raw material supplies, then a series of conflicts in the Middle East impacted maritime routes. The on-off US import tariffs have only compounded matters.

Firms working in energy-intensive areas such as chemicals have been hit particularly hard, but the UK manufacturing sector as a whole has demonstrated remarkable robustness.

Subsectors that service defence, for example, have benefitted from ongoing demand; the same is true for those in aerospace – that subsector as a whole has performed particularly well, with turnover growing 24 percent from 2014 to 2024, cementing the UK’s aerospace industry as the second largest in the world. Then there’s the UK net zero economy, which began growing three times faster than the wider economy in 2023, creating stronger opportunities

for manufacturing firms involved in clean energy, electrification, and low-carbon technologies.

In 2025, the UK was the 11th largest manufacturing economy globally. Since then it has been modestly growing, with activity hitting a four-year high in May 2026. While momentum has eased slightly following this peak, the sector remains well positioned to continue navigating this challenging environment.



Innovation and Resilience

The manufacturing sector continues to be of utmost importance to the UK economy. In 2025, it made up ten percent of UK GDP, accounted for 42 percent of the UK's exports and employed more than 2.6 million people. Activity was particularly high in capital goods, consumer durables, and aerospace; the latter alone generated over £13 billion in economic value and around £23bn of exports annually. Make UK's June 2026 Manufacturing Outlook indicates that the manufacturing sector is outperforming expectations.

“ **Companies are practising dual-sourcing at minimum.** ”

Jim Davison

National Membership Director, Make UK

In response to the global volatility over the past few years, supply chain strategies have shifted. There has been a move away from a “just in time” towards a “just in case” approach. “Companies are practising dual-sourcing at minimum,” according to Jim Davison, national membership director of Make UK, “as well as pulling supply chains shorter and closer to home to protect themselves from interruptions.” While onshoring is still prohibitively expensive for many firms,

nearshoring or “friendshoring” to Eastern Europe or Turkey has increased significantly. “We have a UK-centric supply chain,” says Ajay Lukha, CCO of electric motors firm Evolito, “but we work in an industry that unavoidably demands a degree of commodity supply from overseas. We’re having to adapt and nurture some of those supply chains to source from parts of the world that are less geopolitically sensitive.” In 2025, 84 percent of UK manufacturers were planning to nearshore supply chains.

Perhaps the biggest change in UK manufacturing has been its transformation into a global leader in advanced manufacturing: products or solutions that rely on the use of innovative technologies, methods, or materials, and specialised knowledge. Despite only accounting for two percent of UK employment, in 2024 the subsector contributed around six percent of the UK's total economic value. The UK is at the forefront of next-generation nuclear energy development, for instance, with domestic firms – and international companies leveraging UK expertise – playing leading roles in the advancement of fusion energy, advanced modular reactors, and small modular reactors. The UK is also a global leader in the development of advanced materials, with a composites industry worth over £5bn. Although more work is needed to help businesses scale up and commercialise these innovations, the UK's strength in developing emerging technologies gives the sector an exciting story to tell.

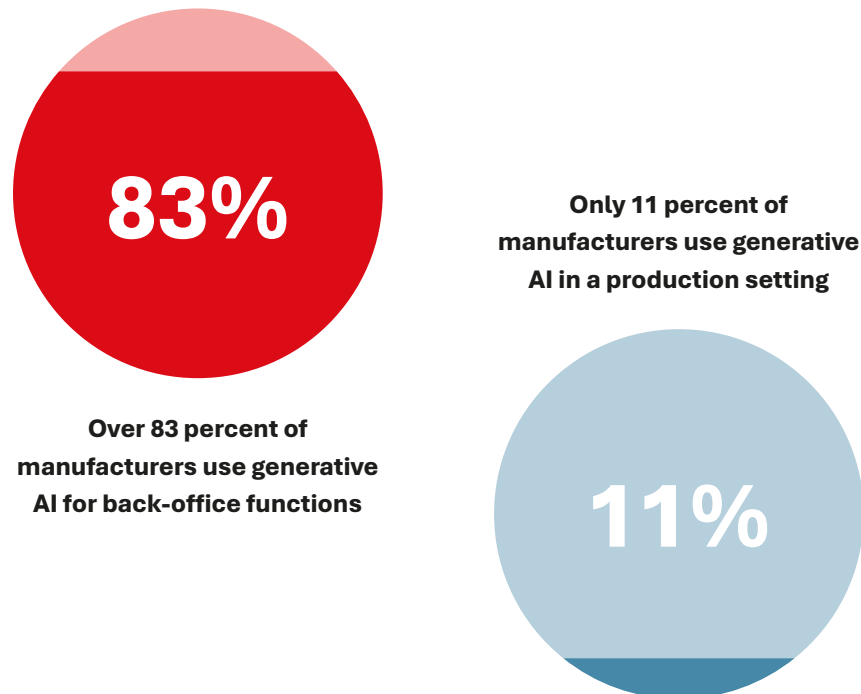
Developing in tandem with that story is the UK's emergence as a European leader in “digital manufacturing”: technology that can help offset rising costs through efficiency gains. This includes ideas such as additive manufacturing, which dramatically shortens lead times for new products, and simulation-driven development, which helps firms design and test prototypes in virtual environments. The use of predictive maintenance among UK manufacturers more than doubled between 2024 and 2025; this can help firms reduce unplanned downtime by as much as 30 percent.



As of 2026, over 80 percent of UK manufacturers claim to have incorporated some form of AI

When it comes to AI, however, sector usage is somewhat uneven. As of 2026, over **80 percent** of UK manufacturers claim to have incorporated some form of AI, but adoption is very much “two speed”, says Adnan Hamid, head of manufacturing and industrials at HSBC, noting that larger firms lean on AI and robotics to a greater degree than smaller firms. He says that this is to be expected, particularly for smaller firms in mature subsectors where there is less scope to make wholesale changes to production and processes. However, he is starting to see wider prioritisation of AI and robotics investment now that margin gains and productivity improvements aren’t just growth levers but imperatives to maintain competitiveness.

Data from 2026 shows the use of LLMs also appears to be widespread but **shallow**: while these are helping with back-office functions such as marketing and administration for as many as 83 percent of companies, only 11 percent are using generative AI in production settings.



How HSBC helps the UK manufacturing sector to grow

Evolito

Oxfordshire-headquartered **Evolito**, spun out of electric motor company YASA Limited in 2021, is at the forefront of an emerging new form of travel. The company develops and manufactures electric power generation and propulsion systems for aerospace.

Evolito recently submitted its first Type Certificate application for its E800 Electric Engine, which is based on the company’s proprietary axial-flux technology and intended to power a nine-passenger, hybrid-electric aircraft. “That was the key part of the journey for us,” says Lukha, “and now we’re preparing to scale up, HSBC’s support is more important than ever.” HSBC’s cash management and transactional banking facilities provide Evolito with the operational capability to manage payment flows efficiently across multiple supply chains, supported via systems that will allow for increased scale and complexity as the business evolves.



Future Outlook

Manufacturers continue to contend with a variety of challenges. Skills shortages are being felt keenly – there were 55,000 unfilled manufacturing vacancies in 2025 – while cyber risks are increasing. The Make UK June 2026 [Manufacturing Outlook](#) indicates that future investment planning is down, primarily due to energy prices and the cost of borrowing – factors to which manufacturing firms are especially vulnerable due to high energy usage and capex requirements. What's more, while the short-term output figures may be robust, breathing room has been reduced, and predictions are that performance will soon be more subdued due to macroeconomic headwinds.

Nevertheless, there are reasons for optimism...

Catalysts for Growth

Robust demand in a number of key areas presents an opportunity for manufacturers.

The UK remains legally committed to reaching net zero by 2050. As a hard-to-abate industry, much of the manufacturing sector will see this as a profound challenge, but it is also a [business opportunity](#). Examples include the need for clean steel, made using hydrogen instead of traditional fossil fuels, or carbon capture, utilisation, and storage (CCUS) solutions.

The UK's [Defence Investment Plan](#) emphasises a

commitment to sovereign capability and domestic procurement, opening up opportunities for companies beyond the traditional defence sector. There is a potential market for “dual-use” technologies – products with both military and civilian relevance – in energy, communications hardware, and autonomous systems in particular.

Technology itself is acting as a catalyst for growth. Take the need to build data centres, for instance, which creates demand for the relevant hardware. The UK-based carbon capture company Carbon Clean has benefitted from this trend. “From initially targeting heavy industry, we’ve now moved our focus to data centres, and working out how we can help them decarbonise,” says its CEO Aniruddha Sharma. “Every two years, the data centre industry in the US is adding power demand comparable in scale to the total power demand of the UK, so the challenge – and the target market – is immense.”

Actions by the UK government have also been received well by the sector. The long-awaited Modern Industrial Strategy has given companies clear direction – [63](#) percent of manufacturing executives surveyed in 2026 believe it will increase their investment plans. Then there's the British Industrial Competitiveness Scheme, which reduces the electricity price per MWh by approximately 20 percent for around 10,000 British firms [from 2027](#), while news of the nationalisation of

[British Steel](#) in July 2026 is also being seen as a sign that the government is serious about investing in sovereign manufacturing capability.

Removing Barriers

What else could be done to improve the outlook for manufacturers? HSBC's Adnan Hamid says that if you talk to those in the sector, there are some recurring themes. One is the need to reduce the friction between related disciplines and improve the interdependence of their wider support systems – for example, integrating assurance and certification requirements, or combining training and skills pathways. This would ease the cross-pollination of hiring between different fields and reduce the time and cost burden of operating across related sectors. “People are also calling for frameworks to better bring together buyers and sellers,” says Hamid, “especially to help promote new products and services, or help expand into new markets.”

Support is most urgently needed by mid-market businesses aiming to scale beyond the innovation stage, says Evolito's Ajay Lukha. “The government should be working hand-in-hand with the most promising companies – either loaning capital on fair terms or providing grants where there's a clear evidence path to creating future jobs and investment, with the associated benefit to the UK taxpayer. The UK is a hotbed of amazing innovation; we just need a bit of help to turn that into economic advantage at a national level.”

Three Recommendations for Firms Building Resilience

In a world that's changing fast, resilience is a top priority for manufacturers. We asked industry leaders for their takes on three essential strategies...

1. De-Risking Supply Chains

The challenges of the past five years have demonstrated how interconnected and fragile the manufacturing ecosystem is. De-risking supply chains is one of the most important steps a business can take. This might include:

Greater collaboration

The whole manufacturing ecosystem can make more of a concerted effort to ensure every stakeholder throughout the supply chain is supported. For larger firms, this might mean nurturing some of the smaller, specialist firms among their own suppliers.

"We've been extremely deliberate in helping suppliers develop their own businesses," says Carbon Clean's Aniruddha Sharma. "Not just through financial support, but also by discussing how they can scale up production or recruitment, and by introducing them to new international markets and potential supply routes. The suppliers become more resilient and robust because they've diversified, and their costs come down because they're continuously producing, all of which benefits us."

Blended sourcing

To hedge against interruptions or shortages, firms can combine a mix of tactics such as long-term agreements, local partnerships, and even vertical integration.

"Our biggest concern has always been the supply of hydrogen," says Matt Barney, chief hydrogen business officer at hydrogen generator company GeoPura. "Is it going to be resilient and grow at a pace that matches our need? To de-risk that, we

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Founded in 2019 and based in Newcastle, GeoPura's innovative technology delivers reliable, scalable, and low-carbon energy through its Hydrogen Power Unit (HPU) – a self-charging battery system powered by green hydrogen for off-grid applications and peak demand support.

HSBC's support has been crucial in the latest phase of GeoPura's growth, says CFO Derek Bulmer, especially when it comes to the delivery of its breakthrough HPU2 unit: "HSBC has been an important asset funder for GeoPura since the first drawdown in September 2024. They have helped us fund over £10m in HPUs, including more recent funding of our higher power HPU2s."



became a producer ourselves. But we're also working collaboratively with other producers, being transparent in our need for hydrogen, and looking to build long-term contract relationships so they can have that confidence to invest in their own infrastructure."

AI for improved performance and reduced risk

Technology can help monitor supplier performance, enabling firms to identify weak links and undertake mitigating actions. It can also be used to enhance efficiency throughout the supply chain.

"We buy from 24 suppliers in the UK who procure raw materials from many different countries," says Sharma, "and one of the key pieces of work is using AI to determine what changes we could make to our construction materials so that we reduce costs, reduce weight, and improve the resilience of the supply chain."

2. Adapting Business Models

Competing on a traditional, single-product business model and narrow client base creates operational risk. To mitigate that, manufacturers are adapting their commercial models. Two common strategies are:

Servitisation

Research from Aston University provides compelling evidence that servitisation – the wrapping around

or combining of services with a core product – can increase competitiveness and deliver financial gains. The report states that for every one percent increase in the share of revenue earned from services rather than products, firms enjoy total revenue growth of more than two percent.

Rolls-Royce's pioneering "power by the hour" model for jet engines is perhaps the most high-profile example of the strategy, but we're likely to see more smaller firms become service manufacturers. "I think it's almost inevitable that if you're manufacturing in Britain you need to adopt some broader value," says Make UK's Jim Davison, "because if you're just producing widgets at price, somebody else is always going to be cheaper."

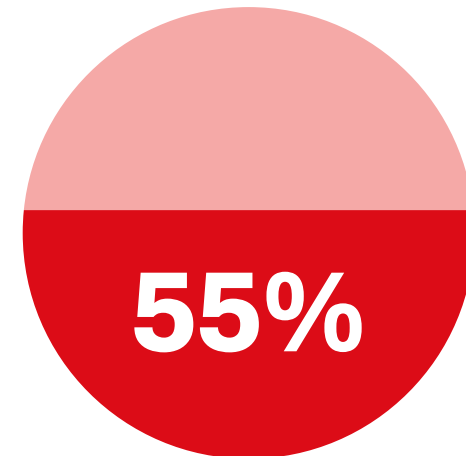
Carbon Clean is an example of a firm making this shift. "About 80 percent of our business model is to sell the technology inside a box and service it periodically," says Sharma, "but we're now moving towards a service offering that we call 'carbon management as a service'. Most of our customers, whether they're a steel producer or a data centre, don't want to know anything about carbon emissions – they just want it managed for them."

Diversification

High-profile cyber-attacks on manufacturers have demonstrated the risk to suppliers who are too reliant on creating parts for a single product or customer. On

the flipside, 55 percent of businesses surveyed in 2026 identify diversifying their product and sector portfolios as their leading opportunity for growth.

This includes those defence sector opportunities. "Our whole business model is based around targeting areas with weak grid supply, where we can compete with diesel generators," says Barney. "We didn't set out to serve defence, but it's been a natural pivot."



55 percent of businesses surveyed in 2026 identify diversifying their product and sector portfolios as their leading opportunity for growth

3. Investing in Skills

The skills shortage is one of the biggest limiters to growth. In 2025, around 76 percent of employers of engineering and technology staff reported difficulties recruiting personnel with required competencies, particularly in sustainability and complex problem solving – areas that will be essential to long-term competitiveness. Alongside traditional training and upskilling programmes, two tactics manufacturers may wish to explore for addressing this issue are:

Tapping into skills ecosystems

“A key success factor in our partnership with Siemens in Newcastle has been the workforce,” says Barney. “It’s quite remarkable the passion that there is from the local employees in Newcastle. In turn, Siemens is very committed to seeing growth in the area, and this has led to an apprenticeship programme that we’ve developed together.”

Cross-sector talent acquisition

It may also be possible to tap into talent pools in adjacent industries. “There’s a huge opportunity for the UK with the transition away from oil and gas,” says Sharma. “People from that sector could be retrained to work in net zero industries – they have a lot of synergistic, transferable skills and experience, like process engineering, electrical and mechanical engineering, and rotating equipment.”

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Founded in 2009, London-based **Carbon Clean** provides hard-to-abate industries with point-source carbon capture solutions using its modular and scalable CycloneCC technology.

In 2023, the firm secured a deal to provide its technology to a major eMethanol project in Europe, capturing 70,000 tonnes of CO₂ per year. “As a growing business, we needed performance guarantees and warranties to complete the deal, but struggled to find a bank willing to extend them to us,” explains CEO Aniruddha Sharma. “HSBC took the time to understand our proposition and provided that backing via their Green Guarantee Facility. This saved us from locking up a significant amount of funds, ensuring that we maintained enough working capital.”



Towards Industry 5.0

The sector is alive with talk about “Industry 5.0”. It’s a vision of manufacturing where advances in AI and robotics allow humans to work ever more closely with smart technology, making operations more agile, innovative, and robust.

Repeated external pressures have accelerated the UK’s journey towards this future, driving investment in advanced manufacturing and accelerating digital adoption. This has positioned the UK as a potential global leader in Industry 5.0 – provided it can address structural challenges around technical talent and energy costs.

“ It is an exciting time to be working with UK manufacturing businesses. This is only possible with the dedication, entrepreneurialism, and talent for innovation that permeates the sector, not only evident in the passion of founders and leaders but throughout the workforces they inspire. ”

Adnan Hamid

Head of Manufacturing & Industrials, HSBC UK

GET IN TOUCH

