



MIDYEAR OUTLOOK

2020 manufacturing industry outlook

At the end of 2019, we produced our 2020 outlook for the manufacturing industry. Given the disruption and impact caused by COVID-19, we've evaluated the key trends, challenges, and opportunities that may affect your business and influence your strategy for the remainder of 2020. Check out our midyear trends:



US manufacturing: Is the worst over?

2020 began with manufacturing indicators, though mixed, just starting to gain some momentum when the COVID-19 pandemic hit. In January 2020, the US manufacturing purchasing manager's index (PMI) had moved into expansion for the first time in six months. By April, it had dropped to 41.5, indicating significant contraction and the lowest levels since the Great Recession.¹ US industrial production registered a month-over-month decline of 4.5 percent in March, followed by a deeper decline of 11.2 percent in April, as many factories were shut down or operating at limited capacity.² Weaker demand led to March factory orders declining by more than 10 percent.³ Deloitte projections based on the Oxford Economic Model (OEM) anticipate US manufacturing GDP to decline by 14 percent in 2020.⁴

As indicated in our previous industry outlooks,⁵ a tight labor market has been a potential constraint on the industry's momentum in recent times. Amid the pandemic, employment in manufacturing declined by 1.3 million (more than 10 percent of total manufacturing employment) in April—wiping out 10 years of manufacturing job gains. Some of this may be temporary due to decisions within certain sectors (automotive, for example) to shut down production for weeks, but longer-term implications are likely. At the same time, supply chain disruptions affected everything from availability of raw material to the movement of components, parts, and finished goods. Not surprisingly, almost 8 in 10 industrial companies surveyed anticipate a negative financial impact on their businesses from the pandemic.⁶ This outlook focuses on three trends to watch in the second half of 2020 as manufacturing companies attempt to [Recover and Thrive](#).

1

Streamlined portfolios

Manufacturing companies are likely to diversify offerings within their simplified business portfolios

The top trend in our earlier 2020 outlook was US industrial companies making inroads to streamline operations and double down on the core of their portfolios. Based on recent market factors, many are questioning if this is the right path to follow. Simplification of the business is expected to continue as manufacturers increasingly focus on streamlining businesses and realigning around key markets or customer segments. Case in point: During the first quarter of 2020, industrial manufacturing merger, acquisition, and divestiture activity has kept pace with 2019 activity.

While companies continue to become laser-focused on certain core businesses, they are also likely to diversify their offerings beyond products to offset the impact of the COVID-19 pandemic on capital asset investments. As the pandemic continues, demand for new capital equipment is likely to further decline as companies focus on preserving cash and reducing spend to manage the short- and medium-term business impacts. To address this, many companies are focused on pivoting to short-cycle, repeatable revenue streams (including digital offerings

and aftermarket services) that can likely help companies offset declining OEM businesses. Manufacturing leaders believe that over the next decade, the emerging business model will be equally split between products/equipment and services/outcomes, compared with a 75/25 percent mix in favor of products at present.⁷



2

Supplier and talent ecosystem

Manufacturers are likely to expand existing channels to access supply and talent

As industrial companies strive to Recover and Thrive in the post-pandemic era, a review of supplier and talent ecosystems is likely to emerge as a priority. In our earlier 2020 outlook, we reported how shifts in sourcing (and thus production) were already playing out on the global stage as manufacturers began decentralizing and diversifying their supply chains to seek tariff-friendly combinations. In fact, total US imports from China declined by 16 percent in 2019 versus 2018.⁸ Meanwhile, US imports from Mexico were up 3.5 percent; from Vietnam, they were up 36 percent.⁹

The COVID-19 pandemic is likely to accelerate this shift as more industrial companies rethink and transform their supply chain models. Two subtrends are likely to pick up the pace in 2020. First is the trend to diversify supply and production to build resilience in the face of recent supply disruptions due to COVID-19. This could include both reshoring—bringing back or expanding manufacturing capacity in the United States—and expanding into regions implementing their own supply chain improvements, such as Mexico, Latin America, and South Asia. It will likely also require a closer look at talent ecosystems within these locations to ensure the right skills exist to support various manufacturing activities.

Second, the trend to implement digital supply network solutions to reduce supply-side risks by increasing visibility beyond Tier 1 suppliers is increasing. Multisourcing strategic materials and components, less dependency on any one supplier, and greater transparency can likely help industrial companies build agility and increase resilience in their supply chains.



3

Work, workplace, workforce

Manufacturers will likely need to retool their workplaces and plan for work and workforce changes

As manufacturing enters the Recover phase, some industrial companies plan to ramp up production, while others, like automotive, are set to restart production altogether. In both cases, manufacturing companies likely need to make decisions about the work itself, the workforce, and the workplace. A priority during this phase is to make employees feel safe and protected from a risk of virus spread, requiring new physical distancing constraints across factory floors and production and warehouse environments. Solutions typically include crew scheduling and balancing programs, deploying adequate personal protective equipment (PPE), and developing PPE standard operating procedures.

Industrial companies are also likely to leverage advanced technologies and solutions to create a safer workplace across plants and facilities—and hopefully safeguard themselves from similar risks in the future. This likely includes supporting virtual workplaces for nonproduction departments, such as finance, and providing IT with critical resources to enable higher-capacity communications platforms. Fortunately, some of the smart factory technologies that many manufacturers have already been piloting, such as analytics, sensors, and wearables, could help both in mitigating risks and accelerating recovery.

Digital use cases like digital twins can help production leaders perform a virtual factory tour with rapid remote collaboration among leaders to gain critical context into the working nature of the operations without having to physically “walk the line.” Augmented worker efficiency and safety technologies like wearables emerge as another promising use case to enforce sanitation and physical distancing; support transparent communications with the workforce; and manage, detect, reduce, and react to virus outbreaks. Industrial companies that focus on a holistic strategy that includes both immediate ramp-up needs while also planning for longer-term technological changes are likely to be in a better position.



Helping manufacturers build a growth story in the second half of 2020

The second half of 2020 is where industrial companies are expected to launch their Recover and Thrive strategies in the wake of the pandemic to emerge stronger and prepare for the next normal. New short-cycle revenue streams focused on digital and aftermarket services can help offset the pressures of declining equipment sales. Examining current talent and supply networks and finding ways to build resilience by leveraging digital technologies can help increase visibility and transparency, driving the ability to flex production and resources as necessary. Finally, a focus on the ever-changing dimensions of work, workplace, and workforce could be paramount, including building trust with the on-site workforce and finding ways to support virtual workers.



Let's talk



Paul Wellener

Vice Chairman

US Industrial Products &
Construction Leader

Deloitte LLP

pwellener@deloitte.com

+1 216 830 6609

Paul is a vice chairman, Deloitte LLP, and the leader of the US Industrial Products & Construction practice. He has more than three decades of experience in the industrial products and automotive sectors and has focused on helping organizations address major transformations. Paul drives key sector industry initiatives to help companies adapt to an environment of rapid change and uncertainty—globalization, exponential technologies, the skills gap, and the evolution of Industry 4.0. Based in Cleveland, Paul also serves as the managing principal of Northeast Ohio.

Endnotes

1. Deloitte analysis based on data from Bloomberg Intelligence.
2. Ibid.
3. Ibid.
4. Deloitte analysis based on data from the Global Oxford Economic Model.
5. Deloitte, [2020 manufacturing industry outlook](#), November 2019.
6. National Association of Manufacturers, [Coronavirus Outbreak Special Survey](#), February/March 2020, accessed May 19, 2020.
7. Paul Wellener et al., [Aftermarket services - Transforming manufacturing in the wake of the COVID-19 pandemic](#), Deloitte, May 14, 2020.
8. United States Census Bureau, "[Trade in Goods with China](#)," accessed May 19, 2020.
9. United States Census Bureau, "[Trade in Goods with Mexico](#)," accessed May 19, 2020; United States Census Bureau, "[Trade in Goods with Vietnam](#)," accessed May 19, 2020.



About this publication

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. This publication is solely for educational purposes. This publication should not be deemed or construed to be for the purpose of soliciting business for any of the companies or organizations included in this publication, nor does Deloitte advocate or endorse the services or products provided by these companies or organizations. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About the Deloitte Research Center for Energy & Industrials

Deloitte's Research Center for Energy & Industrials combines rigorous research with industry-specific knowledge and practice-led experience to deliver compelling insights that can drive business impact. The Energy, Resources, and Industrials industry is the nexus for building, powering, and securing the smart, connected world of tomorrow. To excel, leaders need actionable insights on the latest technologies and trends shaping the future. Through curated research delivered through a variety of mediums, we uncover the opportunities that can help businesses move ahead of their peers.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2020 Deloitte Development LLC. All rights reserved.