
MANUFACTURING OUTLOOK

SEPTEMBER 2010

*EEF's snapshot survey of business conditions in engineering
and manufacturing companies*

Foreword

Welcome to the third quarter edition of Manufacturing Outlook, our quarterly report on the trends in UK manufacturing produced by EEF in partnership with BDO. Since the beginning of the year our survey has shown manufacturing rebound strongly out of recession. Both output and orders balances have recovered from historic lows to historic highs over the course of a year and this quarter's survey shows that trading conditions remain firm across the sector and the recovery looks to be well underway.

The recovery in world trade flows have played an important role in this recovery as manufacturers have become more reliant on overseas markets and growth prospects in emerging economies remain particularly strong. This trend has continued over the past quarter and is set to hold up over the coming months.

While our survey readings have been strongly positive so far this year, this has been against the backdrop of a range of uncertainties. In the first half of the year these were largely around the strength of the global recovery, the outcome of a UK general

election and how the UK's public finance deficit would be tackled. The emergency Budget has begun to address the deficit and companies should have greater clarity over the future direction of business taxes. But the remaining detail on public spending in the coming years is yet to be established.

In the UK's largest market, the eurozone, sovereign debt fears and worries about financial market stability have come to the fore in recent months. Despite this, growth in the bigger European economies has been firm over the first half of this year. However, since our last report it has been in the US that risks to recovery have heightened. In the report we will update our assessment of the outlook for growth in key markets and how we expect the economic environment for manufacturing to evolve over the next twelve months.

Overall, the performance of manufacturing has outpaced expectations, but the climb back to pre-recession levels of output will be a long one. Companies' assessment of near term prospects remains upbeat, but this is likely to be tinged with some caution in the months ahead.

Tom Lawton, Head of Manufacturing, BDO LLP

Lee Hopley, Chief Economist, EEF

Summary

- Output and orders balances remain at record high levels
- Recovery in q3 firmer than expected
- Export markets providing an important boost
- Positive recruitment and investment intentions signal some confidence

The latest official statistics have confirmed the strong manufacturing rebound in output signalled by our survey in the first half of this year. In the six months to June growth across manufacturing has been the strongest for over 15 years, and the recovery across the industry has, thus far, been fairly broad based. Last quarter our survey reported the strongest output balance on record, although the forward looking balances suggested that companies had expected the pace of recovery to soften.

Over the past three months output and orders have held up, with balances coming in stronger than had been expected. Indeed, both indicators reached a new high in the third quarter. From a sector perspective the recovery appears to have maintained some momentum across the board with all parts of manufacturing reporting positive output and orders, although some sectors such as electrical equipment are performing better than others.

Stronger than expected growth in the eurozone, driven primarily by Germany, together with robust expansion in emerging markets has provided an important boost to export orders. And this trend is expected to be sustained over the coming quarter. Further analysis of our results shows that companies with a greater exposure to export markets have been more likely to report positive output over the past three months. While the domestic orders balance has been a touch weaker than exports over the past three months, responses are still well above their long run average.

Last quarter our survey showed the first positive employment balance since 2008q2. Furthermore, a greater number of companies were also expecting to increase employee numbers. Our latest survey bears this out as a balance of 17% of companies took on new workers in the past three months; this was the strongest survey reading on record.

Positive recruitment intentions are in line with the relatively upbeat outlook for the next three months as a balance of 27% of companies expects output to increase in the coming quarter. Once again, all sectors are optimistic that output and orders will remain in positive territory. However, concern over forthcoming public spending cuts is weighing on the

other transport sector, where expectations for domestic orders have turned negative.

With companies looking to the short term with a degree of confidence, investment intentions have turned positive for the first time since 2008q2. Official statistics indicated the first expansion in manufacturing business investment in the second quarter of this year and if this continues, as our survey suggests, we will see a much faster recovery in investment spending compared with previous recessions.

Overall the recovery across manufacturing has maintained some momentum and we expect solid growth of 3.7% and 7.2% in manufacturing and engineering respectively in 2010. But risks to recovery remain – both in the UK and in key markets – and our projections for growth in 2011 are slightly lower with manufacturing set to expand by 3.2% and engineering by 5.2%.

Engineering - Headline survey results

% balance of change

	Past 3 months	Next 3 months
Output	33	27
Total orders	35	22
Employment	17	14
Export prices	4	5
Export margins	-9	-8
Cashflow	7	9

Source: EEF Business Trends Survey

Economic data during survey period

4 August - 25 August

	Start	End
€/£	1.21	1.22
\$/£	1.59	1.54
£ index	82.9	82.6
Oil price	82.5	72.5

Source: Bank of England and Energy Information Agency

Key economic forecasts

% change except where stated

	2008	2009	2010	2011	2012
GDP	0.5	-4.9	1.5	2.1	2.8
Inflation – CPI	3.6	2.2	3.1	2.9	1.7
Inflation – RPI	4.0	-0.5	4.5	3.9	2.8
World trade	2.2	-13.1	10.0	6.4	8.3
Base rate (%)	4.7	0.6	0.5	0.8	1.9

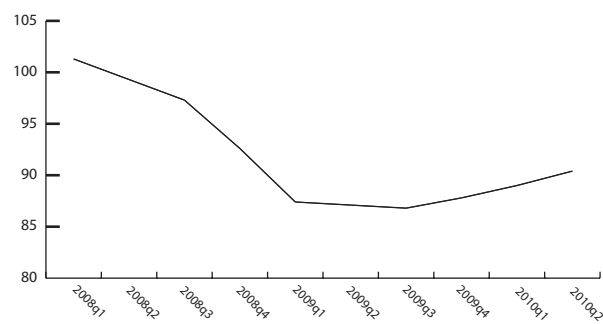
Source: Oxford Economics and EEF

Manufacturing outlook

Chart 1

Manufacturing recovery underway

manufacturing index of production 2005=100



Source: National Statistics

According to the official statistics manufacturing output has now seen three consecutive quarters of robust expansion. Growth in the first half of this year has been the strongest for over 15 years and has exceeded the expectations of most forecasters. While output is now rebounding from its low point during the recession there remains significant ground to be made up before it returns to the levels posted before the recession hit in early 2008. Over the past few quarters our survey has pointed to a broad based upturn across manufacturing and the official data confirm this with 10 out of 14 sub-sectors reporting growth in the second quarter.

Chart 2

Demand and output hold up in q3

% balance of change in past three months



Source: EEF Business Trends Survey

Across manufacturing as a whole a balance of 32% of companies saw output increase in the past three months, markedly better than the balance of 22% that had expected output to rise in the previous quarter. The gap between export and domestic orders balances has widened over the quarter, with overseas markets playing a greater role in overall orders. However, UK demand has remained firm with a balance of 19% of companies reporting an increase in UK orders in the past three months. Looking ahead, manufacturers expect the recovery to continue and signs that recruitment activity and investment are picking up suggest some confidence in the outlook for demand.

Summary

% balance of responses (% up minus % down)

	Past three months	Next three months
Total output	32	26
UK new orders	19	15
Export new orders	27	19
Total new orders	33	22
Employment	15	11
Capital expenditure plans	8	
Average price of domestic orders	6	6
Average price of export orders	5	7
Margins on domestic orders	-17	-15
Margins on export orders	-12	-10
Levels of cashflow	7	9

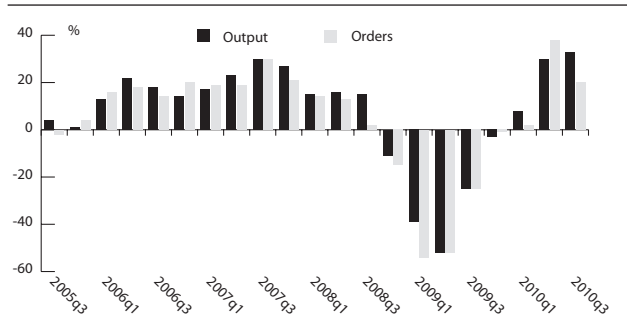
Source: EEF Business Trends Survey

Recent trends

Chart 3

Output and orders remain positive

% balance of change in past three months



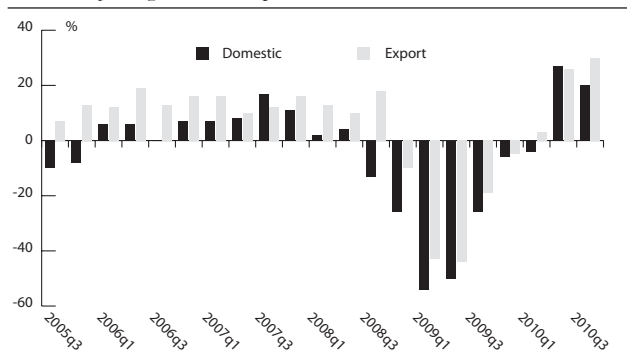
Source: EEF Business Trends Survey

The balance of responses on output and new orders remained strongly positive in the past three months. This quarter's results also represent the third consecutive quarter of positive output and orders balances and another record high for our Business Trends survey. A balance of 33% of companies reported increased output as manufacturers continue to expand their production from the low levels seen in the recession. The orders balance also increased slightly, from 34% to 35%, suggesting that growth in manufacturing output should continue into at least the next quarter.

Chart 4

Export orders strengthen

% balance of change in orders in past three months



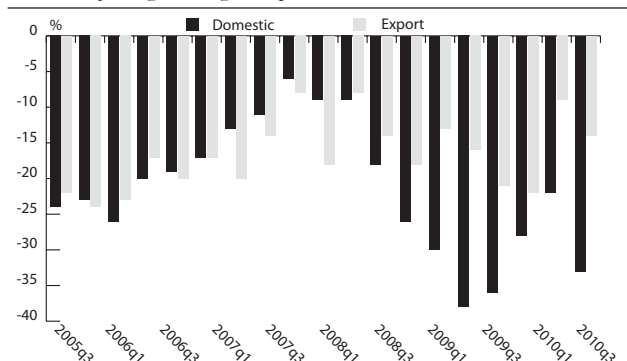
Source: EEF Business Trends Survey

Whilst our Business Trends Survey shows that export orders are continuing to strengthen it also shows that the domestic orders balance has weakened slightly, though with a balance of 20% of companies reporting growth this is still positive and above its long run average. Consumer expectations and prospects for reduced public sector spending following the budget may explain the slight softening in UK orders. A balance of 30% of companies reported increased export orders as most export markets, including Europe, are looking stronger than was expected in the previous quarter.

Chart 5

Price rises muted whilst margins balances improve slightly

% balance of change in margins in past three months



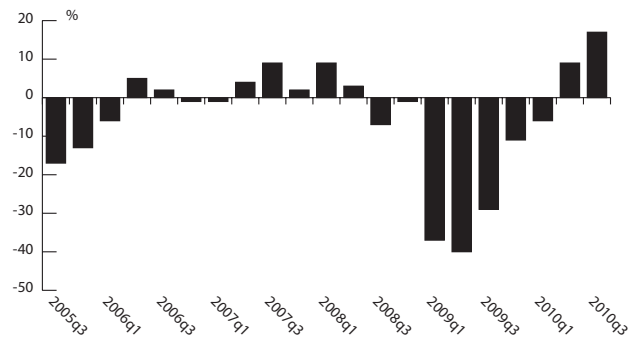
Source: EEF Business Trends Survey

Price balances have remained positive for the second quarter running, but our survey suggests that price pressures are relatively muted. A balance of 5% of companies had increased their domestic prices and a balance of 4% of companies had increased export prices in the last three months. However, positive price balances are still limited to a small number of sectors such as metals, and rubber and plastics. In line with this, margins for domestic and export orders both improved slightly – a balance of 14% of firms reported deterioration in domestic margins down from 15% last quarter.

Chart 6

Companies keen to take on new workers

% balance of change in employment in past three months



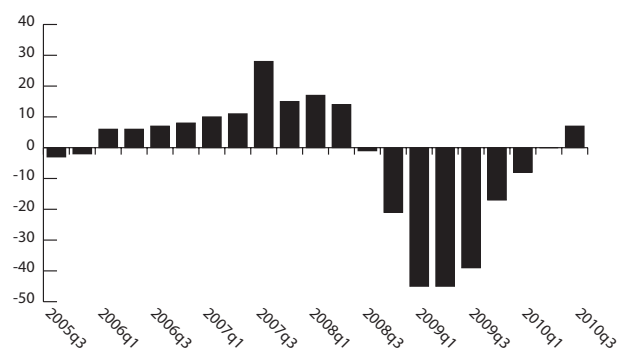
Source: EEF Business Trends Survey

A balance of 17% of manufacturers increased employment in the last three months, compared with a balance of 9% of companies in the previous quarter. The employment balance over the past three months is the strongest in our survey's history. Balances were positive across most sectors but recruitment was strongest amongst electronics and metal products companies on the back of strong growth in output. However, anecdotal evidence suggests that at least some of this recruitment will be taking advantage of the flexibility offered by agency workers or temporary contracts as firms are still uncertain about the strength and longevity of the recovery.

Chart 7

Investment balance turns positive

% balance of change in investment plans



Source: EEF Business Trends Survey

The investment balance turned positive this quarter for the first time since 2008q2. A balance of 7% of companies expects to increase investment. Compared with previous recessions, where investment balances have tended to lag behind increases in output by over a year, this is a somewhat faster recovery in capital expenditure intentions. One of the most significant constraints on investment has been uncertainty about future demand, and with order books more positive companies are shifting from maintaining plant and equipment to investing in new machinery and extra capacity.

Summary: past three months

% balance of responses (% up minus % down)

	2008	2009				2010		
	q4	q1	q2	q3	q4	q1	q2	q3
Total output	-11	-39	-52	-25	-3	8	30	33
UK new orders	-26	-54	-50	-26	-6	-4	24	20
Export new orders	-10	-43	-44	-19	-5	3	23	30
Total new orders	-15	-54	-52	-25	-1	2	34	35
Employment	-13	-37	-40	-29	-11	-6	9	17
Capital expenditure plans	-21	-45	-45	-39	-17	-8	0	7
Average price of domestic orders	6	-7	-16	-15	-15	-8	5	5
Average price of export orders	1	-6	-18	-17	-13	0	2	4
Margins on domestic orders	-30	-38	-36	-28	-22	-33	-15	-14
Margins on export orders	-13	-16	-21	-22	-9	-14	-10	-9
Levels of cashflow	-17	-36	-29	-8	-8	-7	10	7

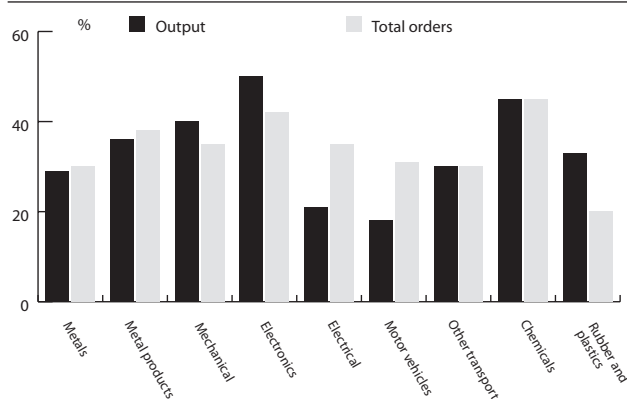
Source: EEF Business Trends Survey

Sector trends

Chart 8

All sectors report positive output balances

% balance of responses in past three months



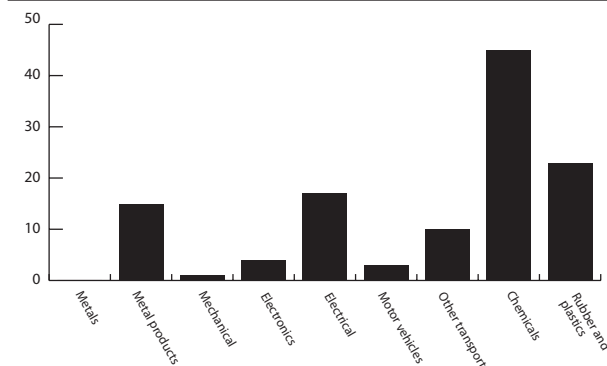
Source: EEF Business Trends Survey

Although uncertainty about the economic outlook remains, all sectors reported positive balances for both output and orders placed in the past three months and the next three months. Electronics in particular had a strong quarter, with a balance of 50% of companies reporting an increase in output, and a balance of 42% of companies in the sector seeing orders increase. Motor vehicles reported a weaker output balance, but even in this sector orders placed in the past three months remained strong, though the outlook for orders in the next three months is more muted. Orders for metal products and electrical equipment were boosted by export demand.

Chart 9

Capital expenditure increases limited to certain sectors

% balance of change in capital expenditure plans, next 12 months



Source: EEF Business Trends Survey

The overall balance for capital expenditure moved into positive territory this quarter for the first time since the recession began. No individual sector reported a negative balance on this measure. Nevertheless there is considerable variation between sectors. The strongest investment intentions were reported in sectors with a stronger order outlook including chemicals, where a balance of 45% of companies planned to increase capital expenditure; rubber and plastics, where the balance was 23%; and electrical equipment where the balance was 17%. Despite strong growth, investment intentions in basic metals had a zero balance.

Sector Summary

% balance of responses (% up minus % down)

	Past three months					Next three months				
	Output	Total orders	Employment	Export price	Cashflow	Output	Total orders	Employment	Export price	Cashflow
Metals	29	30	19	8	12	26	21	14	4	0
Metal products	36	38	35	10	4	26	13	19	7	7
Mechanical	40	35	7	-2	7	23	20	12	6	0
Electronics	50	42	35	4	15	22	30	0	8	22
Electrical	21	35	20	3	23	51	48	32	-3	41
Motor vehicles	18	31	18	4	-4	27	32	9	4	16
Other transport	30	30	20	0	-10	10	0	-20	0	10
Food and drink*	-	-	-	-	-	-	-	-	-	-
Chemicals	45	45	0	20	27	40	45	9	20	36
Rubber and plastics	33	20	0	15	7	7	10	0	16	-4
Non-metallic mineral products*	-	-	-	-	-	-	-	-	-	-

* Insufficient data

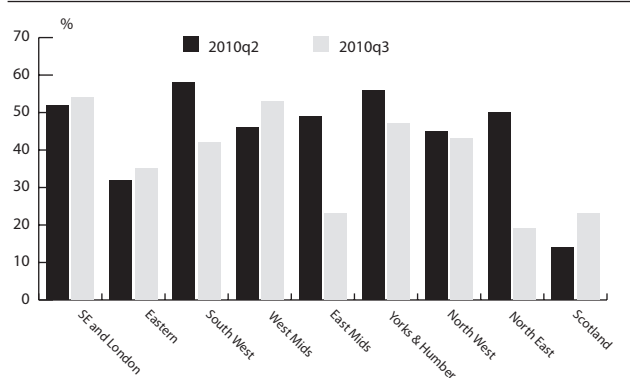
Source: EEF Business Trends Survey

Regional trends

Chart 10

All regions report increased orders

% balance of change in orders in past three months



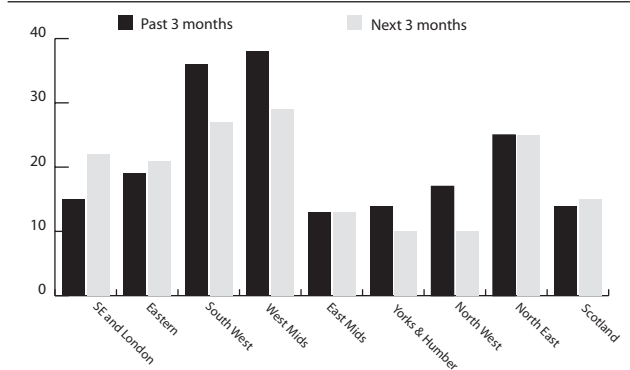
Source: EEF Business Trends Survey

As with the previous quarter there was a positive orders balance in every region. The South East and London was the most positive region – 54% of companies reported an increase in orders – and the North East the least positive, though even here the balance was 19%. In addition, for the first time since the recession ended, all regions had positive expectations for output in the next three months, most notably, the North East. Where last quarter the region had a 0% balance for output in the next three months, this balance is now 40%, suggesting the North East’s recovery is now gaining momentum in line with the rest of the UK.

Chart 11

Manufacturers recruiting in all regions

% balance of change in employment



Source: EEF Business Trends Survey

In line with the strong positive national result a balance of companies in every region took on new workers. In the West Midlands this balance was 29%, with Yorkshire and Humber and the North West having the lowest balances (both 10%). Similarly all parts of the country expected to be taking on workers in the next three months. However, in the East Midlands, Yorkshire and Humber and the North West these forward-looking employment expectations were notably lower than in the last quarter, reflecting more muted employment expectations in basic metals and mechanical equipment.

Regional Summary

% balance of responses (% up minus % down)

	Past three months					Next three months				
	Output	Total orders	Employment	Export price	Cashflow	Output	Total orders	Employment	Export price	Cashflow
SE and London	39	54	15	-7	18	46	54	22	-3	22
Eastern	26	35	19	8	-4	28	34	21	10	0
South West	44	42	36	-5	20	30	31	27	-9	10
West Mids	53	53	38	23	3	45	45	29	18	4
East Mids	29	23	13	-4	-7	33	21	13	3	5
Yorks & Humber	31	47	14	4	8	32	43	10	6	7
North West	37	43	17	0	0	35	37	10	0	-2
North East	43	19	25	10	30	38	21	25	11	18
Scotland	27	23	14	-1		30	27	15	1	

Source: EEF Business Trends Survey

Economic environment

- UK GDP expands by 1.2% in q2
- Inventories and consumption main contributors to growth
- Investment expands for manufacturing but contracts overall
- European outlook strengthens but U.S. weakens as confidence wavers.

UK GDP growth in the second quarter was surprisingly strong at 1.2%; noticeably higher than 0.3% in q1 and 0.4% in 2009q4 and above most expectations of roughly half this level. Industrial production grew 1.0%, but within that only manufacturing grew, recording another strong quarter with growth of 1.6%.

The overall result was supported by several temporary factors. The strong spike in construction (8.5% growth) was likely influenced by some displacing of activity from the first quarter by the bad weather. Both construction and government production will also be impacted negatively by the Spending Review to be published in October. Most commentators suggest q2 will be a peak in growth for 2010.

On the expenditure side the main drivers of q2 growth were a 0.7% increase in household consumption, a 0.3% rise in government expenditure, and a £1 billion increase in inventories. The weather likely impacted on consumption for q2 and weakening confidence means consumption growth is likely to be subdued for the rest of 2010. Inventories are unlikely to continue to boost growth to the end of 2010 as firms anticipate slower demand, at least domestically.

For manufacturing in particular, q2 saw the first increase in investment for 18 months, with a 9.6% rise q/q, though still down 7.9% compared with the same quarter a year ago. This was in the context of overall investment, which had increased sharply in q1, falling back by 2.4% in q2. Our Business Trends Survey suggests that capital expenditure plans for manufacturers for the 12 months ahead have also picked up. This is a much earlier recovery for investment in manufacturing compared with other manufacturing recessions.

The unemployment rate remains fairly static at 7.8%, a 0.2% decrease from the first quarter. Part of the explanation for this is the muted rise in unemployment compared with previous recessions, as firms held on to labour by implementing short-time measures like four-day weeks. The outlook for the labour market is clouded by impending public sector job cuts.

The Coalition Government's emergency budget in June had the primary aim of setting out a clear plan for eliminating the UK's structural deficit by increasing VAT from 1 January 2011; introducing a levy on banks; increasing capital gains tax; and cutting spending further than set out by the previous government. The growth impact of the VAT change and slow-down in spending is likely to be negative in the short term, though both HMT and the Bank of England noted the likely positive effect on borrowing costs from having a clear deficit reduction plan.

Risks to recovery in the global economy have not gone away. The outlook for the US economy in 2010 has weakened, culminating in a slower annualised growth rate of 1.6% in q2 down from 3.7% in q1. The Federal Reserve has become progressively more cautious in its statements about prospects for future growth noting 'unusual uncertainty'. Tellingly the balance of debate on the next move on monetary policy has moved from how to withdraw stimulus to how to expand it. The main drivers of the weaker US performance have been a weakening housing market, weakening consumer confidence, and stubbornly high unemployment.

UK Economic forecasts

% change except where stated

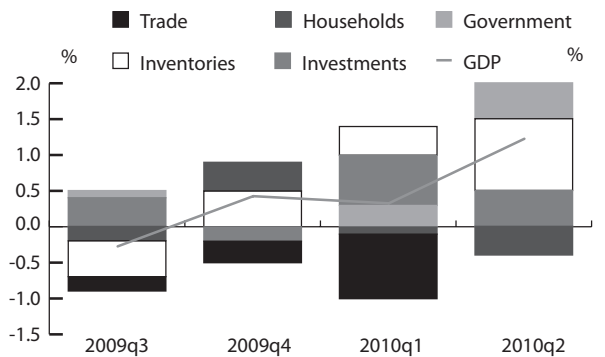
	2009	2010	2011
Trading environment			
Exchange rate (€/£)	1.12	1.19	1.32
Exchange rate (\$/£)	1.57	1.54	1.49
Exports	-10.6	2.8	6.3
Imports	-12.4	5.9	2.2
Current account (£bn)	-23.8	-60.1	-49.8
Output			
Engineering	-15.2	7.2	5.2
Manufacturing	-10.6	3.7	3.2
Rest of economy	-4.1	1.2	1.9
GDP	-4.9	1.5	2.1
Costs and prices			
Average earnings	2.4	2.8	1.8
Oil price (Brent Oil \$/bl)	61.6	77.3	79.5
Employment			
Engineering (000s)	1,257	1,149	1,135
Manufacturing (000s)	2,611	2,510	2,477
Rest of economy (000s)	28,360	28,234	28,190
Unemployment rate (%)	7.7	7.9	8.1

Source: Oxford Economics and EEF

Chart 12

Components of strong q2 growth results likely to be temporary

contributions to GDP growth



Source: National Statistics

In contrast the EU's growth outlook has strengthened over q2. This has been on the back of a strong performance from Germany (which had record high post-unification quarter on quarter growth of 2.2%), a reasonable performance from France, and no nasty surprises from the EU bank stress tests.

Germany's higher than expected consumption strength has led to increasingly favourable assessments of current conditions by businesses, particularly in retailing, as measured by the Ifo Business Climate Index. France has also surprised on the upside, although to a far more modest extent. Both Germany and France are forecasting greater progress than previously in reducing their fiscal deficits.

Public deficits and debt are important in the assessment of sovereign credit risk – a major concern in Europe during q2. Another key part is the health of the banking system, which was subjected to a series of stress tests by European central banking authorities in July. The tests 'failed' seven out of 91 EU banks, meaning in the most adverse scenario tested, these banks may have had insufficient capital to manage their losses. The banks identified as failing were largely anticipated and were fairly small within the overall European banking sector.

Relief over the low number of failed results has been tempered by cynicism about how tough the tests really were. Still, the overall impact appears to have been mildly positive for confidence in the European banking sector with the big gains being the increased transparency and no unexpected failures from large banks.

The periphery of Europe however still remains weak. Higher than expected bad debts in the Irish banking sector have recently led to a downgrade in the Irish Government's credit rating. While in Spain and Greece, further weaker growth or contraction is expected before any real recovery takes hold.

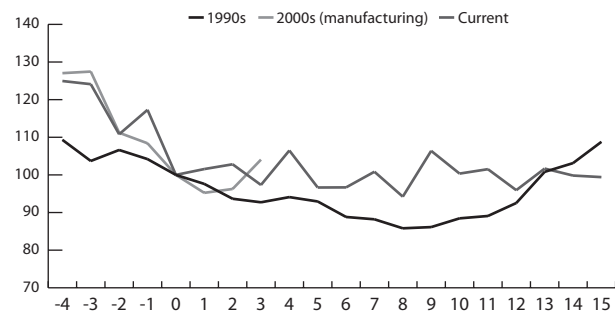
The relative improvement in Europe is also supported by our Business Trends Survey with a shift towards stronger exports within overall new orders, particularly for the last three months but also for the next three months.

In emerging markets, China's growth slowed down in q2 relative to q1 but at an annualised rate of 10.3% is still well above the Chinese Government's target of 8% for 2010. The main concern that China's authorities are trying to manage is an unsustainable rise in house prices. In the medium term continuing pressure on China to appreciate its currency and internal demands for higher wages are likely to be good news for UK exporters.

Chart 13

Manufacturing investment is recovering faster

End of recession=100



Source: National Statistics

International Economic forecasts

% change except where stated

	GDP			Inflation		
	2009	2010	2011	2009	2010	2011
France	-2.6	1.3	1.7	0.1	1.6	1.7
Germany	-4.9	1.8	1.8	0.3	1.1	1.4
Japan	-5.2	2.5	1.4	-1.4	-0.8	0.1
US	-2.6	2.9	3.0	-0.3	1.5	1.5
Eurozone	-4.1	1.0	1.4	0.3	1.5	1.5
China	9.1	9.7	9.0	-0.7	3.6	4.4
India	6.7	8.2	8.3	10.9	11.3	5.0
Emerging Asia	5.3	8.4	7.3	3.1	4.9	3.9
World	-2.0	3.5	3.5	2.2	3.5	3.1

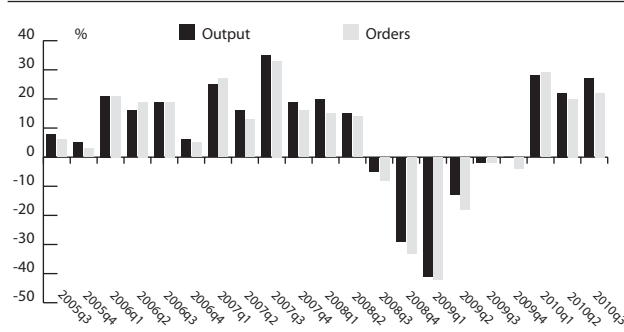
Source: Oxford Economics and EEF

Future trends

Chart 14

Expectations remain strong

% balance of change expected in next three months



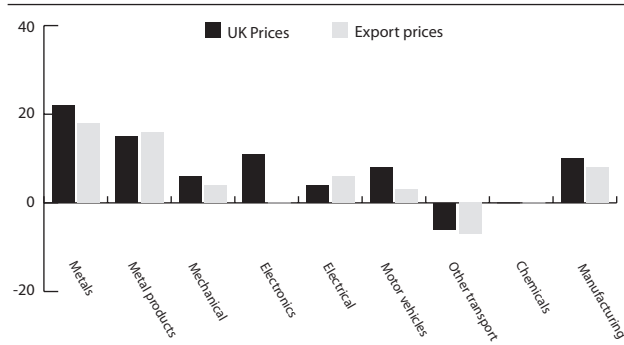
Source: EEF Business Trends Survey

Expectations about future prospects remain strong, with a balance of 27% of companies expecting output to increase in the next three months, and 22% expecting orders to expand. Both of these balances are higher than the previous quarter's figures suggesting there is confidence that the recovery will continue into the next quarter. Export markets are expected to offer more opportunities than the domestic market and it is likely UK orders will soften further once the government's spending plans are announced. Some sectors, such as other transport may see a direct impact; a balance of 22% of firms expects orders from the UK to fall back in the next three months, compared with a balance of 25% companies in the same sector expecting export orders to rise.

Chart 15

Price rises will be limited to a few sectors

% balance of change expected in prices in the next three months



Source: EEF Business Trends Survey

Manufacturers have been facing some cost pressures as demand has recovered. According to the producer price index input prices for manufacturers rose by nearly 11% in the year to July 2010. However, price rises are only expected within a few sectors, particularly basic metals and metal products. This is not surprising as cost increases have been predominantly linked to increases in the prices of commodities, including imported metals, where prices rose by 23% over the past 12 months. Despite limited price rises across manufacturing some downward pressure on margins is expected continue.

Summary: next three months

% balance of responses (% up minus % down)

	2008		2009				2010		
	q3	q4	q1	q2	q3	q4	q1	q2	q4
Total output	-5	-29	-41	-13	-2	0	28	22	27
UK new orders	-14	-40	-44	-19	-6	-9	21	12	15
Export new orders	2	-19	-32	-14	-4	6	24	15	19
Total new orders	-8	-33	-42	-18	-2	-4	29	20	22
Employment	-10	-33	-42	-32	-15	-15	1	15	14
Average price of domestic orders	25	3	-9	-12	-12	-4	2	10	5
Average price of export orders	18	0	-7	-15	-14	-13	4	8	5
Margins on domestic orders	-18	-28	-34	-27	-21	-24	-15	-15	-14
Margins on export orders	-11	-12	-17	-15	-21	-21	-11	-8	-8
Levels of cashflow	-6	-26	-38	-23	-5	-14	-13	0	9

Source: EEF Business Trends Survey

Sector forecasts

Over the past three quarters manufacturing output has rebounded strongly – growing at 1.1%, 1.4% and 1.6%. The official statistics have been in line with our own survey data which have shown the sector going from strength to strength following a deep recession through 2008 and 2009.

A particularly solid showing in the second quarter of this year and the buoyant order books reported in the third quarter has led us to adjust our forecast for 2010 from the 3.5% projection at the time of our last report to 3.7%. That said, the range of risks to growth – particularly those that could impact on key markets and also the direct impact of public spending cuts – have not materially altered over the past quarter. While a reasonably strong quarterly profile for growth across manufacturing is likely to be sustained in the latter part of this year. There is likely to be some easing in the pace of growth in the early part of 2011, leading to manufacturing growth of 3.2% for the year as a whole.

One of the fastest growing sectors will be mechanical equipment, which is forecast to expand by 11% and 7.2% in 2010 and 2011 respectively. Exports remain a strong source of demand as global investment continues to recover. Our assessment of the outlook for basic metals and metal products remains upbeat with growth for this year forecast at 9.9% and 7.5% respectively. Basic metals put in a strong start to the year, but more uncertainty about the outlook for construction and motor vehicles production in the remainder of the year is likely to translate into a more modest performance in the second half of the year.

Other transport output should hold up on the back of stronger demand in export markets, but UK public spending cuts are likely to see domestic orders ease over the coming years. We expect growth of 4.4% this year and 4.1% in 2011. Motor vehicles output is set to rebound by over 13% this year following last year's contraction of nearly 30%.

While our survey shows another quarter of positive employment balances we are not expecting this to translate into an increase in manufacturing employment overall. The pace of job cuts though 2011 is set to slow significantly with the proportion of job losses the lowest since 2007 and some sectors, including metal products and mechanical equipment should see employment levels remain broadly stable in 2011.

Sector forecasts

	2009	2010	2011
Output (% change)			
Basic metals	-25.0	9.9	3.1
Metal products	-17.7	7.5	9.1
Mechanical equipment	-19.7	11.0	7.2
Electronics	-5.0	2.9	3.3
Electrical equipment	-21.1	0.6	7.3
Motor vehicles	-29.3	13.6	4.4
Other transport	3.1	4.4	4.1
Food and drink	-2.0	3.0	1.2
Chemicals	-4.8	-2.4	3.0
Rubber and plastics	-13.4	-0.8	1.3
Non-metallic mineral products	-14.1	7.6	6.6
Other manufacturing	-8.0	3.8	1.1
Engineering	-15.2	7.2	5.2
Manufacturing	-10.6	3.7	3.2

Source: EEF

BDO viewpoint

Another quarterly survey and another positive set of results for the manufacturing sector.

The sector has seen a significant upturn since the dark days of the recession and this quarter's results show continued growth in output and orders and more expected for the next quarter, driven by the restocking across most sectors of industry and exports. This quarter's results show more optimism around two key indicators which have been lagging behind the general good news of the sector in recent surveys – employment and investment. This is excellent news but much more will be needed to enable manufacturing to compete in the space where we have a competitive advantage – innovation, research and development, excellent customer service and fast response to emerging trends.

Manufacturing seems to be one of the success stories of the UK economy but seems to be doing it pretty much on its own at the moment. We still hear stories about the difficulties of access to credit – particularly for mid-sized manufacturers. We do, however, await the government's Manufacturing Framework, which is due to be published later this year. It is to be hoped that the Coalition maintains focus on policies which support productivity and investment in the UK, such as support for skills development and innovation; And comes up with new innovative and supportive ideas for the sector.

The spending review to be announced in October will undoubtedly have a major impact on the economy and will affect all sectors including manufacturing. But if we are to rebalance the economy and position manufacturing and its exports at the centre of our economic strategy for the foreseeable future – the Coalition must not lose sight of the importance of providing the right framework. It's not all about funding support – the government is important in terms of providing the right framework for taxation, education, skills, research, the positioning of the sector as a key part of the economy and our focus on identified strategic sectors.

The Spending Review continues to cast a big shadow on all sectors of the UK economy, including manufacturing. But for now, manufacturing is on the up and looks like it will continue in that direction. This is great news for the sector and for the economy.

Tom Lawton, Head of Manufacturing, BDO LLP

About us

EEF is dedicated to the future of manufacturing. Everything we do is designed to help manufacturing businesses evolve, innovate and compete in a fast-changing world. With our unique combination of business services, government representation and industry intelligence, no other organisation is better placed to provide the skills, knowledge and networks they need to thrive.

Around a quarter of the UK's manufacturing businesses are our members and many more use our services to help them work better, compete harder and innovate faster. Because we understand manufacturers so well, policy makers trust our advice and welcome our involvement in their deliberations. We work with them

to create policies that are in the best interests of manufacturing, that encourage a high growth industry and boost its ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving us a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of services; services that unlock business potential by creating highly productive workplaces in which innovation, creativity and competitiveness can thrive.

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About BDO LLP

BDO LLP is the award-winning UK Member Firm of BDO International, the world's fifth largest accountancy network, with more than 1,000 offices in over 100 countries*. We operate from 14 offices in the UK with some 3000 partners and staff. We believe that clients want an adviser they can trust, one who understands them and their objectives. One way we do this is by continually building our sector related expertise, and applying this to the way we do business.

Most manufacturing clients are now active internationally. So are we and in regions that are important to manufacturing. Most are involved in acquisitions, public offerings and major capital projects. We have great experience in these areas. Our manufacturing clients have regulatory, reporting and legislative issues. We bring sector expertise and a proactive approach to assist. Our clients want to mitigate and manage tax liabilities globally. Our international specialist teams have the skills to assist. Manufacturing remains one of the key industries of the UK economy. We are delighted to be able to play an active role in supporting the businesses that operate in this vibrant, changing and challenging sector.

To talk about any issues your manufacturing business may be facing please contact Tom Lawton, Head of Manufacturing at BDO LLP, on 0121 352 6200 or 07778 343346 or email tom.lawton@bdo.co.uk

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The business trends data used in this survey has been provided by members of EEF and Scottish Engineering.

If you would like to participate please contact anorris@eef.org.uk

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