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# MANUFACTURING OUTLOOK

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DECEMBER 2010

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

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## Foreword

Welcome to the fourth quarter edition of Manufacturing Outlook, our quarterly report on the trends in UK manufacturing produced by EEF in partnership with BDO. For much of this year the news from across UK manufacturing has surpassed expectations. A broad-based recovery has continued to build momentum over the past 12 months with output rebounding strongly on the back of a stronger world economy.

Growth in export orders has been a consistent theme of manufacturing surveys this year with demand from emerging markets making a particularly strong contribution to the increase in trade. Official data for the third quarter showed that a positive contribution from trade to growth across the economy has finally kicked in.

Our latest survey shows that buoyant conditions have continued in the final months of the year, with positive expectations holding up for the early part of 2011. But as we have pointed to before, we cannot take growth for granted. Last quarter we highlighted concerns about the short-term prospects in the eurozone as risks around sovereign default and financial market stability were growing. Since our last report those concerns have escalated with the

IMF and EU agreeing a bail out package for Ireland and attention shifting to other peripheral eurozone economies, such as Portugal. Ongoing efforts to restore confidence in Europe's financial stability are likely to weigh on sentiment, at least in the near term.

Closer to home there have been a number of events which should provide a bit more certainty about the UK business environment. The first was the much-anticipated Spending Review. The Chancellor did not deviate from the deficit reduction path set out earlier in the year, but the statement provided clarity over the future of important business support programmes, such as skills funding and export promotion. The government has also set in train a process to identify barriers to private sector growth with initial action plans to be published alongside next year's Budget. This should provide a welcome framework for future government policy.

UK manufacturers have had a better than expected year in 2010, but many of the risks that were with us at the beginning of the year have not disappeared and new ones have emerged. While growth will continue, this is against a backdrop of a still challenging global environment.

*Lee Hopley, Chief Economist, EEF*

*Tom Lawton, Head of Manufacturing, BDO LLP*

## Summary

- Strong positive output and order balances for third quarter running.
- Order balances remain firm across all parts of manufacturing.
- Investment and employment intentions remain positive.
- Optimism holds for next three months.

Official figures pointed to a further quarter of strong expansion in manufacturing output in the three months to September. These echoed our own survey findings from the previous quarter, in which responses on output and orders came in at record levels for the second consecutive quarter. Our latest survey shows a continuation of this trend with the output balance unchanged at +33%. As has been the case for much of this year the outturn for both output and orders was stronger than companies had been expecting.

Also maintained from our previous report is the broad-based nature of the recovery this year with all sectors recording positive output and orders balances for the third consecutive quarter. In most industry sectors the balance of responses on export orders was higher than domestic orders intake and this trend is expected to continue into the first quarter on 2011. We have continued to see stronger than expected growth in parts of Europe, particularly Germany, and emerging economies such as China and India are becoming increasingly important markets for UK exporters. Further analysis of our survey shows that expectations about short term growth in exports remains positive across both EU and non-EU markets.

With our survey indicating that demand has held steady, more companies are reporting that this has translated into plans to recruit and invest in new equipment. We noted last time that the response balances for investment and employment had moved into positive territory much earlier in the recovery compared with previous downturns. However, feedback from manufacturers raises questions around what type of recruitment and investment is being undertaken. There are a range of uncertainties around demand prospects in 2011: from trade tensions and currency wars, to hikes in commodity prices, and persistent credit constraints. Manufacturers are still somewhat cautious about making significant investments in new machinery or taking on permanent employees for the time being.

The most significant change we've seen in this quarter's survey is with respect to price increases. The response balances of companies planning to raise prices in export markets and the domestic market have risen

to their highest levels in more than two years. In previous surveys price increases have been limited to a small number of sectors, however in the next three months a broader range of sectors is expecting to raise prices. This appears to be driven by a combination of greater pass through of rising raw materials costs and, in some cases, capacity constraints.

Looking ahead to 2011, a balance of companies expects to see output and orders maintain their upward trend. Responses are a touch weaker compared with the past three months, but remain above the average for the series. However, our survey shows a more notable weakening in the outlook for domestic orders, where the balance has slipped from +15% to +7%. This is likely to reflect some concerns about what the outcome of the recent Spending Review might mean in practice and potential loss of orders through the supply chain. We are, nevertheless, forecasting growth in manufacturing output of 3.2% in 2011, following an expansion of 3.8% in 2010 faster than the forecast pace for the wider economy in both years.

### Engineering – Headline survey results

% balance of change

	Past 3 months	Next 3 months
Output	33	17
Total orders	32	15
Employment	23	16
Export prices	-1	12
Export margins	-9	-5
Cashflow	7	1

Source: EEF Business Trends Survey

### Economic data during survey period

3 November – 24 November

	Start	End
€/£	1.15	1.18
\$/£	1.61	1.58
£ index	80.2	81
Oil price	82.6	82.4

Source: Bank of England and Energy Information Agency

### Key economic forecasts

% change except where stated

	2008	2009	2010	2011	2012
GDP	0.5	-5.0	1.8	2.1	2.6
Inflation – CPI	3.6	2.2	3.1	2.7	1.8
Inflation – RPI	4.0	-0.5	4.5	3.5	2.9
World trade	2.2	-13.2	14.6	7.5	8.3
Base rate (%)	4.7	0.7	0.5	0.6	1.6

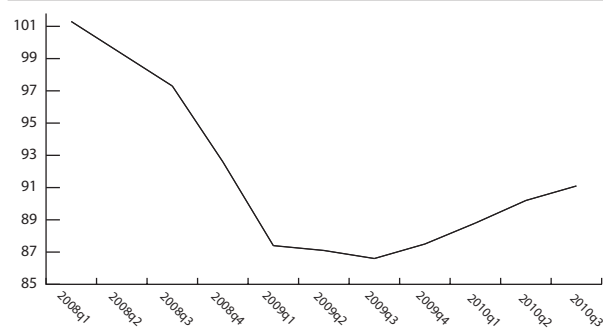
Source: Oxford Economics

## Manufacturing outlook

Chart 1

### Strong growth continues in q3

manufacturing index of production 2005=100



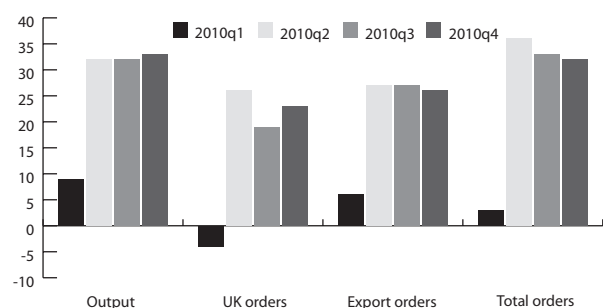
Source: National Statistics

Manufacturing recorded another quarter of solid growth in the three months to September. An expansion in output of 1% on the quarter follows growth of 1.5% and 1.6% in 2010q1 and 2010q2 respectively. This put manufacturing output nearly 5% higher than the same period a year ago. The majority of sectors saw some growth, and amongst the strongest performing sectors were metals and mechanical equipment.

Chart 2

### Good prospects for continued growth in q4

% balance of change in past three months



Source: EEF Business Trends Survey

For the past three consecutive quarters our survey has reported strong positive balances for manufacturing across most of our survey indicators. Over the past three months a balance of +33% of companies saw output increase with a similar balance recording an increased order intake. These balances were broadly unchanged from last quarter. This should translate into an increase in the official output statistics for the final months of 2010. However, expectations for the next three months have come in slightly weaker, with more companies expecting output and orders to remain the same rather than improve further in the first quarter of next year.

## Summary

% balance of responses (% up minus % down)

	Past three months	Next three months
Total output	33	12
UK new orders	23	3
Export new orders	26	15
Total new orders	32	11
Employment	20	12
Capital expenditure plans	15	
Average price of domestic orders	2	21
Average price of export orders	2	16
Margins on domestic orders	-21	-7
Margins on export orders	-9	-5
Levels of cashflow	13	0

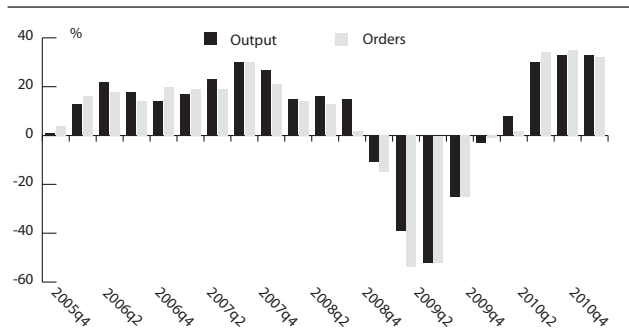
Source: EEF Business Trends Survey

## Recent trends

Chart 3

### Output and orders reflect strong growth

% balance of change in past three months



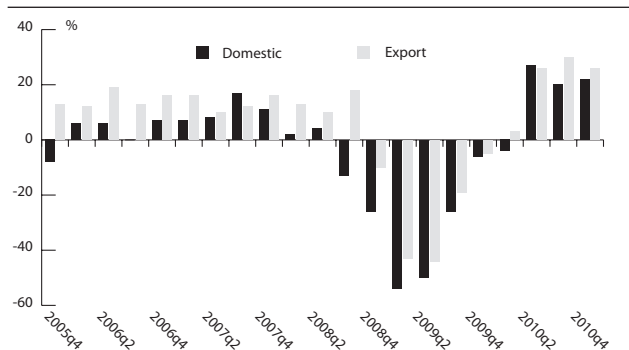
Source: EEF Business Trends Survey

Continued strong positive balances for output and orders were reported in the last three months, with the output balance remaining at last quarter's record high of 33%. Both indicators have now been in positive territory for an entire year, in line with the robust expansion noted in the official statistics for the sector since the end of the recession. Although the orders balance edged down slightly compared with the last quarter, a balance of 32% of companies saw orders improve, which is still strongly positive and indicates that output growth should continue in the next quarter.

Chart 4

### Domestic and export orders are strong

% balance of change in orders in past three months



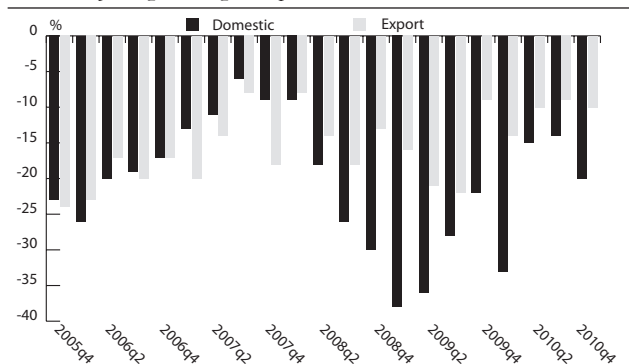
Source: EEF Business Trends Survey

A balance of companies continued to report a healthy order intake from both domestic and export markets in the past three months. UK orders are holding up as companies have not yet seen the impact of public spending cuts, and consumer spending has remained buoyant. Despite having dipped a little in 2010q3, the balance of companies seeing an increase in domestic orders, at 22%, is close to the record high of 24% seen in 2010q2. Responses on export orders were also strong with a balance of 26% of companies having seen demand in overseas markets remaining firm in the last three months.

Chart 5

### Companies hold back on price rises and margins weaken

% balance of change in margins in past three months



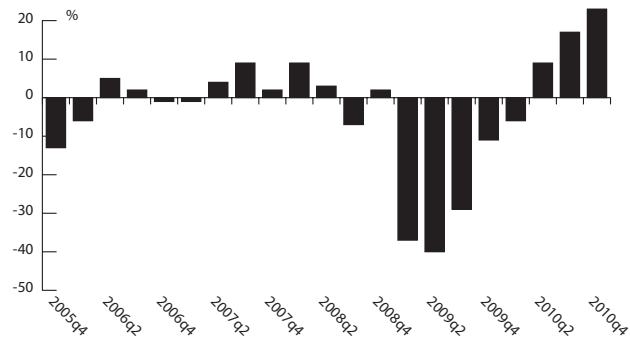
Source: EEF Business Trends Survey

After two quarters of positive price balances, manufacturers held back on price rises in 2010q3. A balance of 0% of manufacturers increased prices, with a majority of companies holding prices steady in the domestic market. In export markets a balance of 1% of companies reduced their prices. This price restraint has been accompanied by a deterioration in margins: a balance of 20% of companies saw their domestic margins weaken, and 10% saw reduced export margins compared with 14% and 9% respectively in the previous quarter.

Chart 6

*Companies continue to take on workers*

% balance of change in employment in past three months



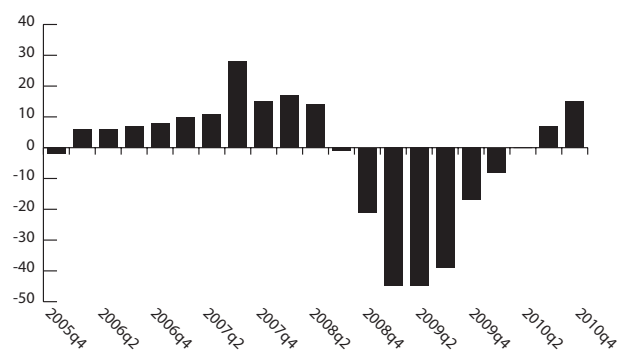
Source: EEF Business Trends Survey

A record-high balance of 23% of companies took on new workers in the last three months. This is now the third quarter of positive employment figures, with balances positive across all sectors and all regions. Continued strong output has meant that manufacturers have had to recruit. In addition our survey shows that a greater proportion of larger companies increased headcount over the past quarter. However, anecdotal evidence suggests firms are still taking advantage of temporary and agency employment amid concerns about the longevity of demand.

Chart 7

*Investment balance strengthens*

% balance of change in investment plans



Source: EEF Business Trends Survey

After turning positive last quarter, the balance of companies intending to increase their capital expenditure in the next twelve months rose to 15% reflecting a much faster recovery in investment balances than in the previous manufacturing recession. Despite more positive intentions in the second half of the year, official statistics showed total investment in manufacturing falling in the third quarter; firms are still uncertain about how well orders will hold up in the face of upcoming cuts to public expenditure and employment. A significant proportion of new capital expenditure is small, and being made as a short-term necessity, rather than for major long-term investment.

*Summary: past three months*

% balance of responses (% up minus % down)

	2009				2010			
	q1	q2	q3	q4	q1	q2	q3	q4
Total output	-39	-52	-25	-3	8	30	33	33
UK new orders	-54	-50	-26	-6	-4	24	20	22
Export new orders	-43	-44	-19	-5	3	23	30	26
Total new orders	-54	-52	-25	-1	2	34	35	32
Employment	-37	-40	-29	-11	-6	9	17	23
Capital expenditure plans	-45	-45	-39	-17	-8	0	7	15
Average price of domestic orders	-7	-16	-15	-15	-8	5	5	0
Average price of export orders	-6	-18	-17	-13	0	2	4	-1
Margins on domestic orders	-38	-36	-28	-22	-33	-15	-14	-20
Margins on export orders	-16	-21	-22	-9	-14	-10	-9	-10
Levels of cashflow	-36	-29	-8	-8	-7	10	7	14

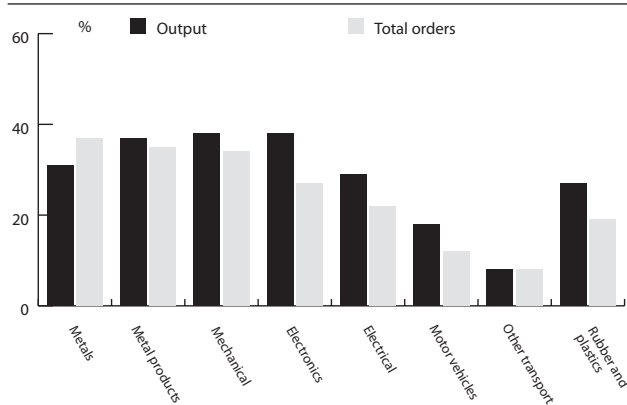
Source: EEF Business Trends Survey

## Sector trends

Chart 8

### All sectors report positive output and orders balances

% balance of responses in past three months



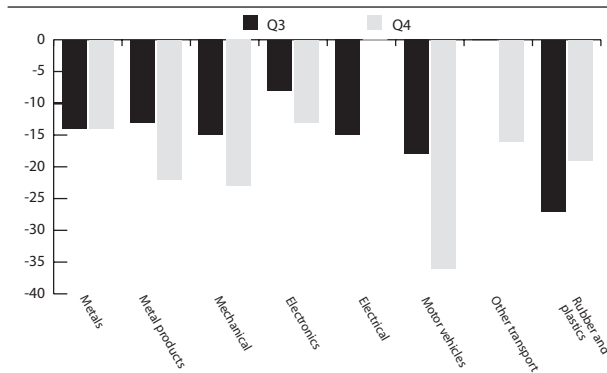
Source: EEF Business Trends Survey

For the second quarter all manufacturing sectors reported positive balances for both output and orders. In particular, overseas orders continued to provide a boost to metal products, with a balance of 40% of companies seeing increased export demand. In contrast, responses from across other transport were notably weaker where both output and orders balances (at 8%) were lower than in any other sector, potentially reflecting some uncertainty ahead of the outcome of the Strategic Defence and Security Review. Motor vehicles also saw a weak orders balance, particularly in the domestic market, which may be connected to January's upcoming VAT rise.

Chart 9

### UK margins under pressure in most sectors

% balance of change in margins in the past three months



Source: EEF Business Trends Survey

Almost every sector saw the balance of responses on domestic margins worsen in the last three months. The only exceptions were electrical equipment and rubber and plastics. The majority of sectors also saw a balance of companies reducing prices on UK sales as they try to remain competitive in the domestic market. The picture for exports is slightly better, however, reflecting continued weakness of sterling. In fact, despite a balance of manufacturers reducing the prices of exported goods, the balances for export margins improved in several sectors.

## 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	31	37	29	9	20	10	0	14	5	18
Metal products	37	35	27	3	20	14	8	15	24	-3
Mechanical	38	34	26	-1	13	20	15	13	17	-4
Electronics	38	27	16	-10	6	3	27	16	7	3
Electrical	29	22	15	-6	8	17	20	24	3	8
Motor vehicles	18	12	22	-6	-9	32	38	19	-7	0
Other transport	8	8	31	-9	31	33	27	8	10	0
Food and drink*	-	-	-	-	-	-	-	-	-	-
Chemicals*	-	-	-	-	-	-	-	-	-	-
Rubber and plastics	27	19	8	9	8	-28	-25	-12	30	-12
Non-metallic mineral products*	-	-	-	-	-	-	-	-	-	-

\* Insufficient data

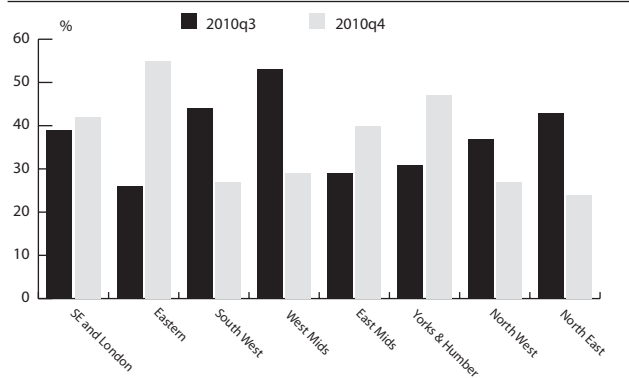
Source: EEF Business Trends Survey

## Regional trends

Chart 10

### All regions see increased output

% balance of change in output in past three months



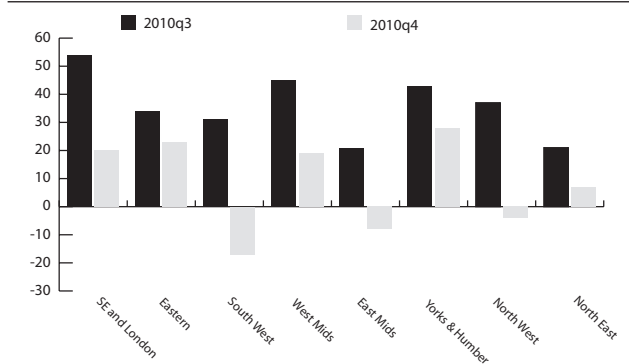
Source: EEF Business Trends Survey

This is now the third quarter since the recession ended when output balances have been positive in all regions. Particularly strong balances were reported in the East of England, where a balance of 55% of companies saw output increase in the last three months; and in Yorkshire and the Humber, where the balance was 47%. The North East was once again the least positive region, although a balance of 24% of firms saw output increase. These results are, nevertheless, healthy compared with the long run average. Companies in this region also reported the lowest orders balance for any English region.

Chart 11

### Mixed picture for next three months

% balance of change in orders in next three months



Source: EEF Business Trends Survey

While regional responses have been consistently positive for most of this year our survey suggests that regional performance could diverge in 2011. In the South West and the West Midlands the balance of companies expects both output and new orders to fall. In both regions this reflects companies expecting falls in domestic demand; however, companies in the South West are expecting falls in export demand too. The South West is the only region where a balance of companies expects export demand to fall: across the country a balance of 18% of companies expects increased demand from overseas.

## 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	42	35	24	0	21	9	20	3	17	22
Eastern	55	48	21	9	24	25	23	19	26	3
South West	27	37	13	-8	24	-3	-17	7	20	-14
West Mids	29	30	23	8	18	21	19	21	18	-1
East Mids	40	29	29	-3	10	-17	-8	2	26	0
Yorks & Humber	47	60	18	8	13	13	28	2	25	2
North West	27	33	20	-3	6	6	-4	27	22	-6
North East	24	16	15	-19	12	19	7	17	-4	-13
Scotland	28	14	20	5	-	16	14	9	6	-

Source: EEF Business Trends Survey

## Economic environment

- UK growth surprises again with another robust expansion in q3.
- Net trade finally makes a positive contribution to growth.
- Private and government consumption growth slows; investment shrinks.
- US - China tensions on currency threaten to spill into commodity prices.
- European sovereign crises emerge again.

The continued strength of the UK recovery has defied downbeat predictions with robust 0.8% quarter-on-quarter growth in GDP recorded for q3. Like q2, this was roughly twice as strong as most forecasters were predicting. Manufacturing recorded a 1% quarter-on-quarter expansion, still strong but down from the 1.6% seen in the second quarter.

Half the growth seen in q3 GDP can be attributed to net trade, with exports growing markedly more strongly than imports. This is the first time net trade has made a positive contribution to growth since 2009q2. It may be that the major depreciation in sterling since the onset of the financial crisis is finally starting to feed through into higher export growth.

### UK Economic forecasts

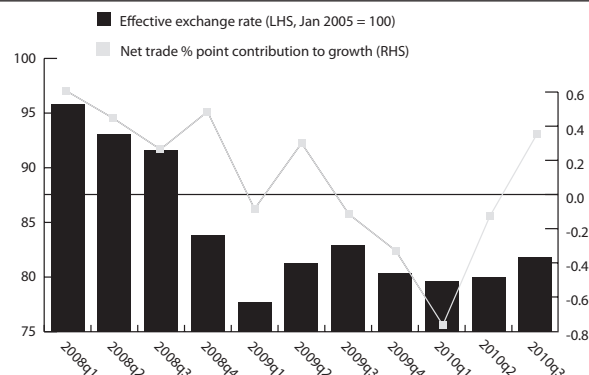
% change except where stated

	2009	2010	2011
<b>Trading environment</b>			
Exchange rate (€/£)	1.12	1.16	1.21
Exchange rate (\$/£)	1.56	1.55	1.59
Exports	-11.1	4.6	6.4
Imports	-12.3	7.7	2.8
Current account (£bn)	-27.1	-65.3	-65.0
<b>Output</b>			
Engineering	-15.5	6.7	4.8
Manufacturing	-10.7	3.8	3.2
Rest of economy	-4.5	1.5	1.9
GDP	-5.0	1.8	2.1
<b>Costs and prices</b>			
Average earnings	2.7	3.2	2.0
Oil price (Brent Oil \$/bl)	61.6	79.2	84.0
<b>Employment</b>			
Manufacturing (000s)	2,611	2,512	2,478
Rest of economy (000s)	28,360	28,250	28,230
Unemployment rate (%)	7.7	7.8	8.1

Source: Oxford Economics and EEF

Chart 12

*Contribution of net trade to growth finally turns positive again following depreciation*



Source: National Statistics and Bank of England

Private and government consumption again made positive contributions to growth but less so than in q2. For government consumption this trend is likely to continue as fiscal consolidation starts to bite from April when spending reductions begin in earnest with the new fiscal year. Consumer spending has held up reasonably well but signs are that growth will be more subdued in 2011. Consumer confidence, however, has dropped during 2010 as caution about the impact of government cuts on jobs and a weakening housing market persists.

Investment fell on a quarter on quarter basis but was higher compared with a year ago for both overall business investment and manufacturing investment in particular. For manufacturing this represents a slip from the very strong 9.6% investment growth seen in q2. Our *Business Trends Survey* suggests manufacturing firms still have positive investment intentions but with so much uncertainty over the next year, much of this is likely to be short term as opposed to investing in new machinery and facilities for the long term.

The Chancellor's Spending Review on 20 October was relatively benign for businesses as the heaviest cuts fell on benefits and funding for higher education. However, the deep cuts in capital budgets set by the previous government and maintained by the Coalition will reduce spending on infrastructure beneficial to economic growth. Overall, cuts are likely to have an impact on consumer demand as more public sector workers become unemployed and recipients of government benefits see their incomes

reduce. The extent to which the private sector can offset these impacts through creating additional jobs and income growth is highly uncertain.

Slowing growth and high unemployment led to heavy losses for Congressional Democrats in the US mid term elections in early November. The opposition of many Republicans to the President's spending plans and views on reducing the fiscal deficit increases the prospect of policy deadlock in Washington, DC. The US Federal Reserve embarked on a fresh round of quantitative easing (QE) in October, worried by a looming threat of US deflation. However, other countries including China and Germany viewed the QE as an attempt to devalue the dollar and thus improve the competitiveness of US exports. The dispute scuppered efforts by US negotiators to meaningfully advance G20 discussions on easing trade imbalances, with many commentators fearing escalating tensions may lead to a currency war. The war could push up commodity prices denominated in US dollars in response to depreciation.

Our forecast for US growth in 2010 overall is lower than in September, though growth has picked up recently from its slump in the middle of the year. While the housing market remains a drag on consumer confidence and much needed flexibility in the labour market, both consumer spending and manufacturing output have been stronger.

The EU was plunged into a fresh sovereign crisis in November as yields on Irish bonds soared on doubts that the Government would be able to deliver on its guarantee of Irish banks' debts. Despite denials of the need for assistance, Dublin eventually succumbed to pressure from the IMF and Brussels to accept a bail out estimated at €85 billion. The major concern from the Europeans is a spread of market fears to other heavily indebted countries such as Portugal and Spain. The UK's interest in these issues is underlined by the heavy reliance of exports, and UK banks' exposure to these countries.

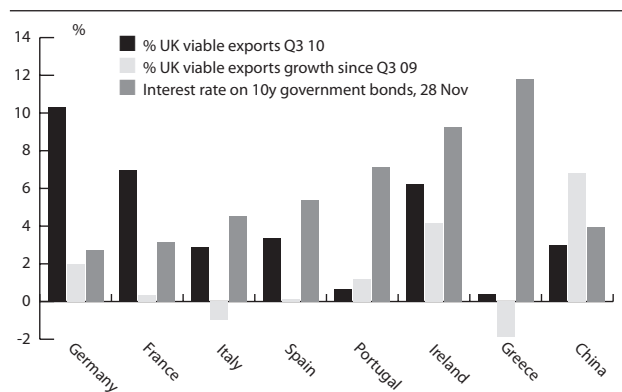
In terms of growth, the crisis seemed to underline even more starkly the difference between the core and the periphery of the EU. In the midst of bond market turmoil business and consumer confidence in Germany hit record post-unification highs, surpassing most forecasters' predictions. Importantly, German officials believe the strong growth performance can be carried through to 2011 with a higher reliance on domestic consumption – this will in turn support exports from other EU countries.

Concerns in China of rising domestic price pressures have led to a tightening in monetary policy from the People's Bank. Any plans for a timetable for a gradual appreciation of the renminbi have been put on ice following the G20 fallout. However growing consumption aspirations of the emerging middle class are likely to lead to some appreciation in 2011. Japan is also concerned about currency competitiveness and the possibility of continuing deflation, with its government intervening in currency markets for the first time in six years as the yen reached record highs against the dollar. Growth forecasts for the Japanese economy have been reduced for 2011.

We are forecasting India to grow at over 8% in both 2010 and 2011, coming closer to growth rates of its near neighbour China. This strength is largely on the back of domestic demand, which is flowing into significant inflation pressures.

Chart 13

*UK exports and export growth to countries struggling with sovereign debt*



Source: HMRC, Financial Times, Bloomberg, Trading Economics

*International Economic forecasts*

% change except where stated

	GDP			Inflation		
	2009	2010	2011	2009	2010	2011
France	-2.6	1.6	1.8	0.1	1.5	1.8
Germany	-4.7	3.5	2.1	0.3	1.1	1.5
Japan	-5.3	3.4	0.9	-1.4	-0.8	0.1
US	-2.6	2.7	2.5	-0.3	1.6	1.2
Eurozone	-4.0	1.7	1.5	0.3	1.5	1.6
China	9.1	10.1	9.2	-0.7	3.1	2.9
India	6.7	8.2	8.3	10.9	11.6	5.4
Emerging Asia	5.3	8.7	7.3	3.1	5.8	4.7
World	-2.0	3.6	3.2	2.2	3.4	3.1

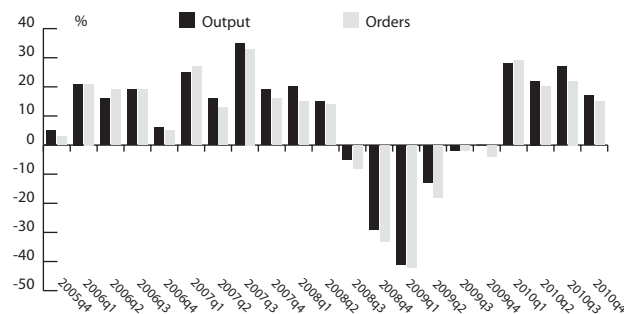
Source: Oxford Economics

## Future trends

Chart 14

### Expectations remain strong

% balance of change expected in next three months



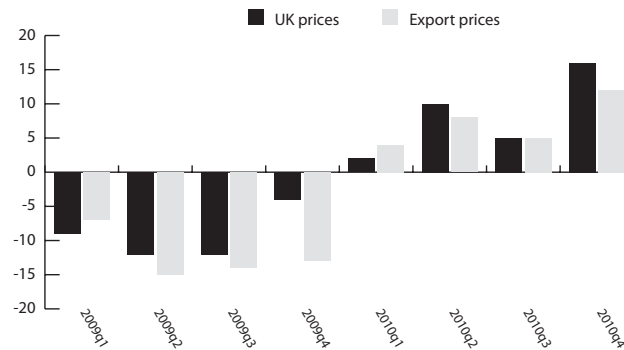
Source: EEF Business Trends Survey

The forward-looking output and orders balances are softer than those for the past three months, though still strong and above the long-run average for the series. A balance of 17% of companies expects output to increase and 15% expect increased orders in the first quarter of 2011. These balances are down from 27% and 22% in 2010q3 respectively. The drop in the UK order balance was particularly marked as companies expect the cuts announced in the Spending Review to have either a direct impact on orders or on consumer confidence and demand. With the exception of electrical equipment all sectors reported weaker forward looking balances than in the previous quarter.

Chart 15

### Price rises expected in the next three months

% balance of change expected in the next three months



Source: EEF Business Trends Survey

After two quarters of price restraint and low price balances, a significant proportion of manufacturers are intending to increase prices in the next quarter. A balance of 16% of companies now expects to put up domestic prices, and a balance of 12% expects to increase export prices. These price rises are a reflection of rising input prices for a range of commodities, especially metals. In addition anecdotal evidence suggests that some firms are trying to rebuild margins from low levels during the recession. Our survey shows that fewer companies are expecting lower margins in the next three months than in the previous three months.

### Summary: next three months

% balance of responses (% up minus % down)

	2008	2009				2010			
	q4	q1	q2	q3	q4	q1	q2	q3	q4
Total output	-29	-41	-13	-2	0	28	22	27	17
UK new orders	-40	-44	-19	-6	-9	21	12	15	7
Export new orders	-19	-32	-14	-4	6	24	15	19	18
Total new orders	-33	-42	-18	-2	-4	29	20	22	15
Employment	-33	-42	-32	-15	-15	1	15	14	16
Average price of domestic orders	3	-9	-12	-12	-4	2	10	5	16
Average price of export orders	0	-7	-15	-14	-13	4	8	5	12
Margins on domestic orders	-28	-34	-27	-21	-24	-15	-15	-14	-7
Margins on export orders	-12	-17	-15	-21	-21	-11	-8	-8	-5
Levels of cashflow	-26	-38	-23	-5	-14	-13	0	9	1

Source: EEF Business Trends Survey

## Sector forecasts

Quarter three saw another strong result for manufacturing with 1% growth quarter-on-quarter. This followed earlier strong results in 2010 of 1.5% and 1.6% growth in the first two quarters. Our survey has produced similarly upbeat readings with output and orders reaching and sustaining record levels.

For 2010 overall this means manufacturing is forecast to post 3.8% growth, a marginal upward revision from the September *Manufacturing Outlook*. The Spending Review on 20 October did not contain any major surprises for manufacturing overall. The main impact is likely to be through UK orders as cuts dampen domestic demand through their impact on jobs and consumer confidence. In addition for some manufacturers that count government as a customer there will be a direct impact from reduced orders, including through the supply chain. This is not a change from what was previously expected.

Additional material downside risks have gathered pace in the fourth quarter, especially regarding the international environment. However, the scale of these impacts is far from certain; for example the Greek sovereign debt problems earlier in the year do not appear to have dampened exports to the EU. These risks are also offset by continued strong growth in key trading partners, including in the EU, where German growth has been strong in 2010. Our 2011 forecast for manufacturing as a whole remains unchanged at 3.2%.

Projected growth for basic metals has been revised up strongly to 12.7% in 2010 and 6.7% in 2011. This was driven particularly by strong demand from India and Japan in 2010 as European demand slowed in the summer. Strong growth in 2011 is likely to continue even as demand from China cools somewhat.

The more modest production performance in the motor vehicle sector we anticipated in September has come to pass. Weak quarter on quarter growth is projected into 2011 as demand starts to find a sustainable floor following the removal of scrappage schemes and industry-initiated discounts. The major drop in production during 2009 means 2010 will still record a substantial annual increase, forecast at 11.3%.

In rubber and plastics, our forecasts have reduced somewhat from September. Rubber production is adjusting back towards more normal levels following the spike in demand from China and supply problems from South East Asia at the end of 2009 and early 2010.

Our forecasts for the other transport sector have declined; this follows a weak third quarter, according to the official data. Output in this sector, dominated by the manufacture of aircraft, can be volatile. Output held up well during the recession but order growth was weak. Consequently output has now fallen back somewhat, though overall growth since the recession still compares favourably with other manufacturing sectors.

### Sector forecasts

	2009	2010	2011
<b>Output (% change)</b>			
Basic metals	-25.0	12.7	6.7
Metal products	-18.0	7.5	8.3
Mechanical equipment	-19.7	12.0	8.1
Electronics	-5.5	2.7	2.4
Electrical equipment	-21.1	2.0	6.8
Motor vehicles	-29.5	11.3	3.7
Other transport	1.8	1.4	0.2
Food and drink	-2.1	5.0	2.7
Chemicals	-4.6	-2.8	3.7
Rubber and plastics	-13.2	-1.4	0.5
Non-metallic mineral products	-14.2	8.0	5.2
Engineering	-15.5	6.7	4.8
Manufacturing	-10.7	3.8	3.2

Source: EEF



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## 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](mailto: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.

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