
MANUFACTURING OUTLOOK

MARCH 2011

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

Foreword

Welcome to the first edition in 2011 of Manufacturing Outlook, our quarterly report on the trends in UK manufacturing produced by EEF in partnership with BDO. 2010 ended on a high with official figures posting the strongest manufacturing growth in 16 years. And we begin 2011 on a similarly positive note with our survey again pointing to buoyant growth across manufacturing.

For the fourth quarter running the balance of responses on output and orders remained in double-digits and activity continued to come in stronger than manufacturers' had been anticipating. For over a year a number of surveys and official statistics has shown exports to have been behind the manufacturing recovery. Our survey shows that this very much remained the case over the past three months, but with domestic demand also holding reasonably firm.

Responses to the forward looking questions in our survey are still at or close to historic highs, with expectations balances on exports orders particularly strong. These results support the sense of optimism that we have picked up during a number of conversations with manufacturers, but the caution that manufacturers were reporting through much of last year is still with us.

Lee Hopley, Chief Economist, EEF

While companies are currently busy and new orders in take is holding up, there is still some uncertainty around forthcoming government spending cuts and the impact on the UK economy and domestic demand. Additionally, there are still some question marks over the sustainability of the recovery in external demand.

However, the strong pick up in global demand seen so far – especially emerging economies – is also providing some challenges. The price of some raw materials has been on the increase since the latter part of 2010 and more companies have begun to report extended delivery times on some inputs. The current tensions in the Middle East are also putting upward pressure on oil prices, and it is yet to be seen whether this will be temporary.

This adds another level of uncertainty to our forecasts for this year. Overall we continue to expect good growth from manufacturing this year and the rate of expansion should again outpace that across the economy as a whole in 2011. The question will be whether this translates into higher levels of investment. Along with continued growth in exports, a pick up in investment will be crucial for wider economic growth.

Tom Lawton, Head of Manufacturing, BDO LLP

Summary

- Q1 brings another better than expected quarter of activity.
- Exports still behind strong order intake.
- Companies still planning to invest and recruit.
- Price pressures continue to build.
- Output and orders expected to hold up in Q2.

At the end of 2010 National Statistics unexpectedly reported that the UK economy had contracted for the first time since mid-2009. While this was, to a large degree, attributed to extreme weather conditions in December, the fall in output was widespread across most sectors. Manufacturing, however, was one of the few exceptions, with output growing for the fifth quarter running.

Our latest survey suggests buoyant trading conditions continued into the beginning of this year. The balance of responses on output and orders over the past three months were a touch down on 2010q4, but better than manufacturers had been expecting three months ago. There have now been four consecutive quarters where the output balance has exceeded +20%, making this one of the strongest four quarter periods on record. However, the gap between export and domestic orders balances has widened in the past few quarters. Last quarter companies were cautious about prospects for domestic demand in the first quarter, but the outturn was better than expected.

In line with the previous quarter all parts of manufacturing reported positive output balances with the motor vehicles and other transport sectors seeing a notable improvement compared with the previous three months. Similarly there was a consistently positive regional picture for both output and orders balances.

On the back of the positive orders picture companies increased the number of employees last quarter, and the balance of 29% of companies reporting recruitment is another survey high. This is expected to hold up over the next three months. Discussions with manufacturers suggest that companies, with a few exceptions, are not recruiting in large numbers and some are coming up against skills shortages.

The investment intentions balance also picked up in the past three months, with strong positive responses across all sectors. However, the balances are considerably stronger for larger companies than those with fewer than 100 employees. However, other evidence from our survey points to a number of factors that are continuing to hold back investment, chiefly uncertainty about the recovery in demand being sustained. In addition around one in six manufacturers also said they would accelerate their investment plans

over the next 12 months if they saw improvements in the cost and conditions around external finance arrangements.

In line with a number of other surveys price increases stand out. Balances of 16% and 12% of companies had been expecting to raise prices in the domestic market and export market, respectively. The outturn over the past three months was even higher than expected, with both export and UK price balances posting the highest readings on record. In the next three months a positive balance of companies expect this to translate into improved margins as companies plan to pass more of their cost increases on to customers.

The forward looking balances in our survey remain positive. On export orders, the balance reached a new survey high, but the outlook for domestic orders also looks firm. Our forecast for manufacturing growth is 3.5% this year.

Engineering – Headline survey results

% balance of change

	Past 3 months	Next 3 months
Output	25	28
Total orders	20	33
Employment	29	30
Export prices	26	35
Export margins	5	13
Cashflow	6	-4

Source: EEF Business Trends Survey

Economic data during survey period

2 February – 23 February

	Start	End
€/£	1.17	1.18
\$/£	1.62	1.62
£ index	81.2	81.6
Oil price	101.3	109.8

Source: Bank of England and Energy Information Agency

Key economic forecasts

% change except where stated

	2009	2010	2011	2012	2013
GDP	-4.9	1.4	1.9	2.6	3.0
Inflation – CPI	2.2	3.3	3.8	1.7	1.6
Inflation – RPI	-0.5	4.6	4.4	2.9	2.4
World trade	-12.8	12.6	7.1	7.8	8.2
Base rate (%)	0.7	0.5	0.8	1.7	2.7

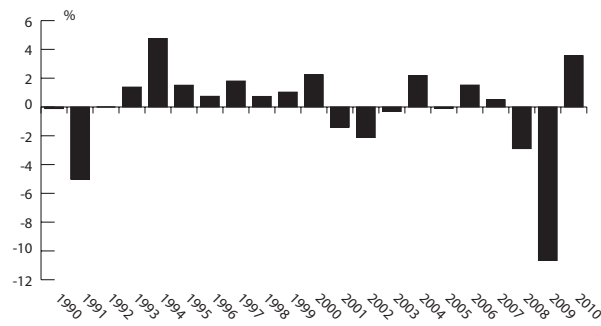
Source: Oxford Economics

Manufacturing outlook

Chart 1

Manufacturing growth posts 16-year high

% annual change in output



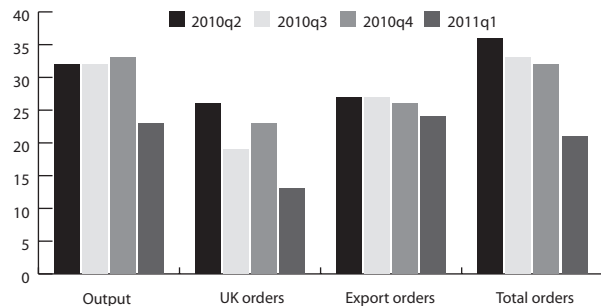
Source: National Statistics

Manufacturing was one of the brighter spots in the UK economy last year and particularly in the final quarter, when GDP contracted. With growth of 3.6% of 2010 as a whole the sector posted the fastest rate of expansion since 1994. This was a considerably stronger rebound than we were expecting a year ago. Over the past 12 months the recovery has been as broad based across industry as our survey suggested. However there remains quite a bit of ground to be made up following the recession as 2010q4 output was still 9% lower than its peak at the beginning of 2008.

Chart 2

Momentum set to be maintained in q1

% balance of change in past three months



Source: EEF Business Trends Survey

Our 2011q1 survey pointed to continued momentum behind the recovery over the past three months. Response balances on output and orders remained firmly in positive territory, although at +23% and +21% respectively they were a touch down on the outturns in previous quarters. There has been a trend of consistently stronger exports balances compared with domestic ones over the past year and this looks set to persist into at least the first half of 2011. Overall the survey continued to indicate that manufacturing continues to play an important role in the wider economic recovery.

Summary

% balance of responses (% up minus % down)

	Past three months	Next three months
Total output	23	29
UK new orders	13	25
Export new orders	24	28
Total new orders	21	32
Employment	28	27
Capital expenditure plans	25	
Average price of domestic orders	25	39
Average price of export orders	26	36
Margins on domestic orders	-5	6
Margins on export orders	3	11
Levels of cashflow	2	0

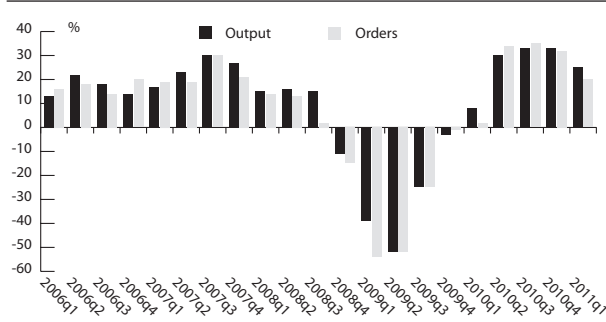
Source: EEF Business Trends Survey

Recent trends

Chart 3

Output and orders strong at the start of 2011

% balance of change in past three months



Source: EEF Business Trends Survey

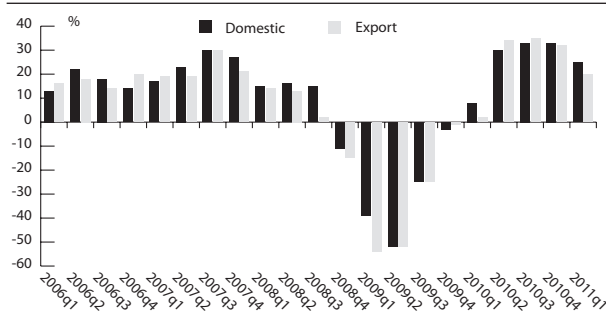
This quarter's survey showed that 2011 has started strongly for manufacturers. Despite falling back a little from the record-high balances recorded in 2010 both output and orders in the past three months were strong. In 2011q1 a balance of 25% of companies reported increased output and a balance of 20% reported increased orders.

Consistent with official data, which showed manufacturing growing strongly throughout 2010, both output and orders balances have now been positive for over a year.

Chart 4

Export orders lead the way

% balance of change in orders in past three months



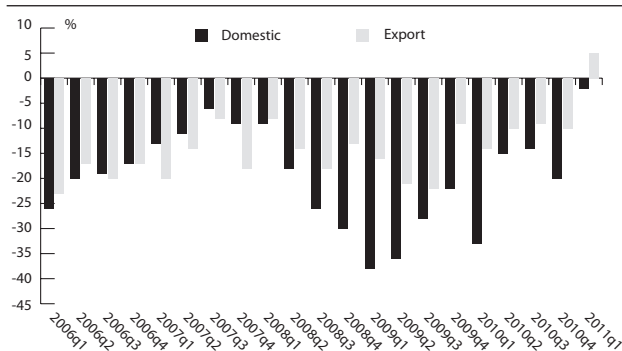
Source: EEF Business Trends Survey

Manufacturers have now been reporting improving domestic and export orders for over a year. While both balances fell back slightly this quarter, they remain strong. A balance of 25% of companies saw their export orders increase and a balance of 14% saw UK orders increase. On the domestic orders side responses last quarter suggested that more firms were expecting demand to remain flat or fall back, but the actual outturn was better than expected. Export orders do seem to be driving the growth in demand for manufacturing output, which is good news for rebalancing the economy. Both UK and export orders balances were markedly above the series average.

Chart 5

Companies see reduced pressure on margins

% balance of change in margins in past three months



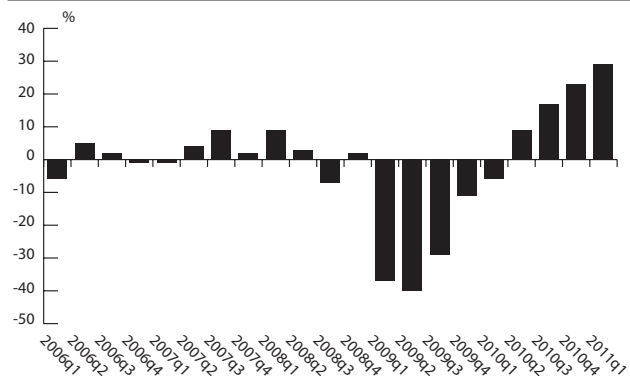
Source: EEF Business Trends Survey

Energy and commodity prices continued to rise over the past three months, impacting on transport, input and production costs for firms. But through 2010 the balance of companies raising prices was relatively low and stable. In the past three months more companies reported increasing prices. In both domestic and export markets a balance of 26% of companies increased prices. As more companies are in position to pass on more of their cost increases, there has been a corresponding improvement in the margins balance.

Chart 6

Employment balance at record high

% balance of change in employment in past three months



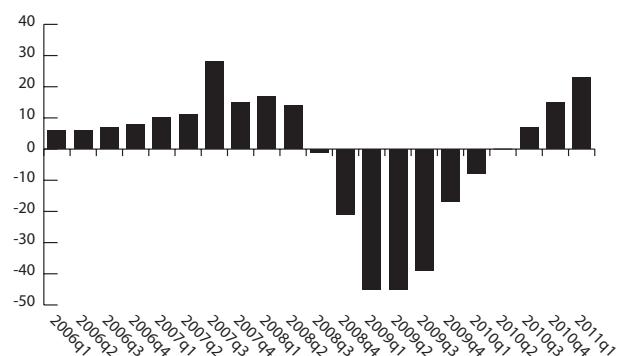
Source: EEF Business Trends Survey

The balance of companies that increased the number of employees hit another record high in 2011q1, with a balance of 29% of companies saying that they took on new workers in the past three months. The employment balance has now been positive for a year, reflecting a much faster upswing than followed the last manufacturing recession. Anecdotal evidence on the nature of new employment is mixed. While some companies are taking on permanent staff, especially at the higher-skilled end, many firms are continuing to take advantage of the flexibility offered by temporary and agency hires.

Chart 7

Investment balance continues to strengthen

% balance of change in investment plans



Source: EEF Business Trends Survey

Investment intentions responses remained strong, with a balance of 23% of companies expecting to increase their capital expenditure in the next 12 months. This is the third quarter of positive balances and, as with employment balances, reflects a much faster and stronger turnaround than followed the last manufacturing recession. However, there was a significant difference by company size. Larger companies are most likely to increase their investment with over half of companies with over 200 employees planned to increase capital spending, with only 8% cutting back in the next year.

Summary: past three months

% balance of responses (% up minus % down)

	2009				2010			2011
	q2	q3	q4	q1	q2	q3	q4	q1
Total output	-52	-25	-3	8	30	33	33	25
UK new orders	-50	-26	-6	-4	24	20	22	14
Export new orders	-44	-19	-5	3	23	30	26	25
Total new orders	-52	-25	-1	2	34	35	32	20
Employment	-40	-29	-11	-6	9	17	23	29
Capital expenditure plans	-45	-39	-17	-8	0	7	15	23
Average price of domestic orders	-16	-15	-15	-8	5	5	0	26
Average price of export orders	-18	-17	-13	0	2	4	-1	26
Margins on domestic orders	-36	-28	-22	-33	-15	-14	-20	-2
Margins on export orders	-21	-22	-9	-14	-10	-9	-10	5
Levels of cashflow	-29	-8	-8	-7	10	7	14	6

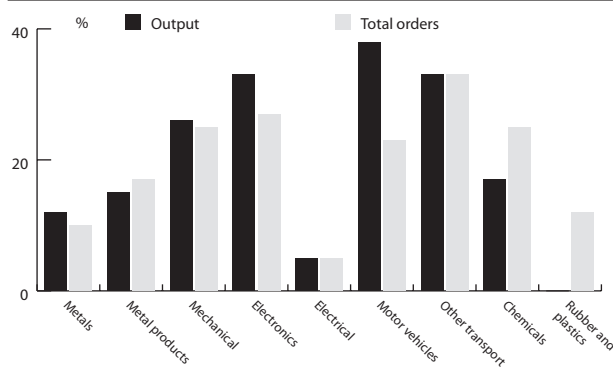
Source: EEF Business Trends Survey

Sector trends

Chart 8

Positive conditions continue across all sectors

% balance of responses in past three months



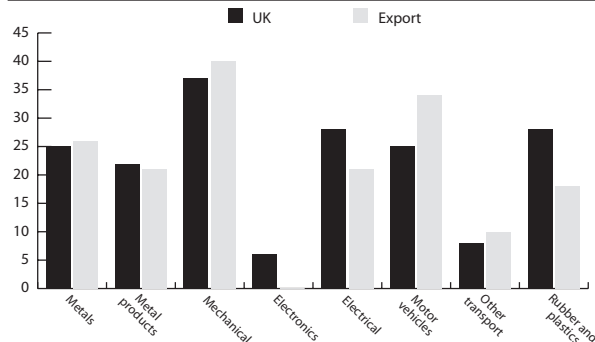
Source: EEF Business Trends Survey

Output balances were in general strong, with the motor vehicles and other transport sectors leading the way despite having the weakest total orders balances in 2010q4. The motor vehicles sector is showing growth in sales, especially commercial vehicles and luxury cars. The other transport sector is also showing strong growth, with total orders recording the highest balance as civilian aircraft orders continue to strengthen. Both output and order balances were strong for the electronics sector on the back of strong demand for electrical components and telecommunications equipment. The mechanical equipment sector again showed another strong output balance with production of heavy tools, light tools, and components all up.

Chart 9

Price balances turn positive across all sectors

% balance of change in prices in the past three months



Source: EEF Business Trends Survey

This quarter showed very strong price rises – with UK and export price balances higher for every sector compared with 2010q4 – and now positive for every sector. Commodity price rises have impacted on most sectors and recent unrest in North Africa and the Middle East is set to impact further through higher oil prices. The mechanical equipment sector has the highest balance for export prices and is experiencing high demand, especially from Germany and China. Price balances are weakest for the electronics sector, which also showed the smallest increase from 2010q4 balances. Both rising input costs and stronger demand are driving higher prices in the metals and metal products sectors across both UK and export markets.

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	12	10	20	26	6	33	36	27	47	-6
Metal products	15	17	19	21	6	32	36	28	23	-10
Mechanical	26	25	34	40	10	22	28	36	43	0
Electronics	33	27	18	0	-6	29	34	12	10	-13
Electrical	5	5	28	21	23	30	41	26	39	13
Motor vehicles	38	23	30	34	-28	23	30	38	48	6
Other transport	33	33	33	10	36	33	25	50	30	9
Food and drink*	-	-	-	-	-	-	-	-	-	-
Chemicals*	-	-	-	-	-	-	-	-	-	-
Rubber and plastics	0	12	8	18	-16	36	42	0	36	16
Non-metallic mineral products*	-	-	-	-	-	-	-	-	-	-

* Insufficient data

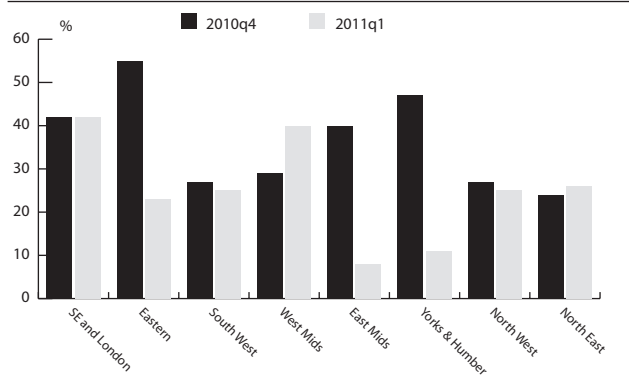
Source: EEF Business Trends Survey

Regional trends

Chart 10

All regions see increased output

% balance of change in output in past three months



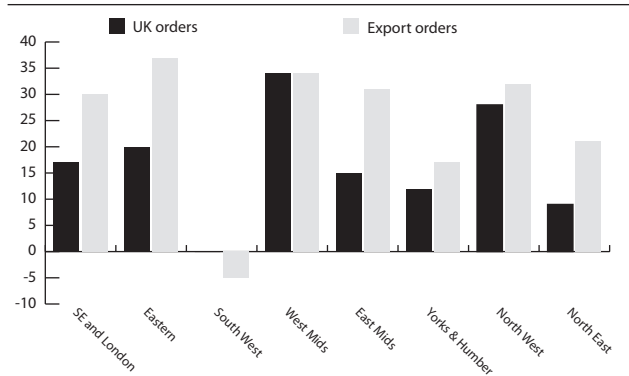
Source: EEF Business Trends Survey

Once again all regions reported increased output in the last three months. At 8% and 11% balances for the East Midlands and Yorkshire and Humber were somewhat lower than in the last quarter, but they remain positive, and were stronger than the long-term average for the series. Orders balances across all regions were also strong, and in most cases this is true of domestic and export orders. However – in line with last quarter’s expectations – domestic orders fell in the South West and East Midlands. This may reflect weaker orders in other transport and electronics, which are key sectors in these regions.

Chart 11

Strong picture on orders expectations

% balance of change in orders in next three months



Source: EEF Business Trends Survey

Looking ahead to the next three months there was some divergence between regions in terms of orders expectations. In line with the general trends, UK orders were expected to be weaker than export orders. Nonetheless, most regions anticipate growth in UK orders. This was not the case in the South West where UK demand is expected to be flat. Expectations for export demand are generally more positive, with the exception of the South West where a balance of 5% of companies expects orders to fall.

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	42	19	29	21	25	20	13	22	21
Eastern	23	42	19	5	19	28	36	19	32	12
South West	25	17	42	10	5	21	8	26	30	-5
West Mids	40	46	19	21	14	43	44	20	25	-3
East Mids	8	8	17	22	0	26	35	7	31	-4
Yorks & Humber	11	11	11	11	-16	17	24	-5	43	0
North West	25	23	15	15	-2	34	35	34	25	-16
North East	26	21	9	-6	-18	26	31	12	0	16
Scotland	2	1	44	61		23	29	54	68	

Source: EEF Business Trends Survey

Economic environment

- UK GDP contracts by 0.6% in Q4 2010;
- Public sector spending the only positive contribution to growth;
- Manufacturing investment up in Q4, but down in 2010;
- European outlook strengthens.

Official statistics for the final three months of 2010 produced a surprising quarter on quarter contraction of 0.6% for the UK, noticeably lower than the consensus forecast of 0.5% growth and the 0.8% outturn in 2010q3. On the output side, manufacturing grew 1.1% on the quarter, with industrial production up by 0.7%. After sharp rises in the second and third quarters, construction output fell by 2.5% in the fourth quarter. Total services output, accounting for 76% of the economy, fell by 0.7%.

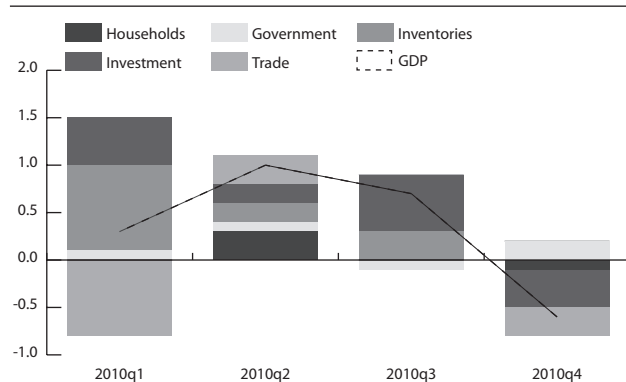
On the expenditure side, only government spending provided a positive contribution to growth in 2010q4, as household spending, investment and net exports proved to be a drag on growth in the quarter. The extreme weather conditions in December accounted for 0.5 percentage points of the decline in fourth quarter GDP growth. Planned cuts to government spending should mean its contribution to overall growth will be negative through 2011. This will raise questions about whether business investment and net trade can drive growth through 2011 as the government and the independent Office of Budget Responsibility both assume.

For manufacturing in particular, 2010q4 saw a 4.6% rise in investment, an improvement from the 1.9% decline in q3. Compared with 2009, however, manufacturing investment overall in 2010 was down 6.5% year-on-year. The outlook for 2011 may be better as our Business Trends Survey suggests that capital expenditure plans for manufacturers for the 12 months ahead have picked up substantially over the past three months. However our survey also showed that greater confidence about the durability of the recovery, stronger demand for products and improvements in the cost and conditions of external finance would accelerate companies' investment plans this year.

Chart 12

Public sector spending only source of growth in Q4

Contributions to growth



Source: National Statistics

UK Economic forecasts

% change except where stated

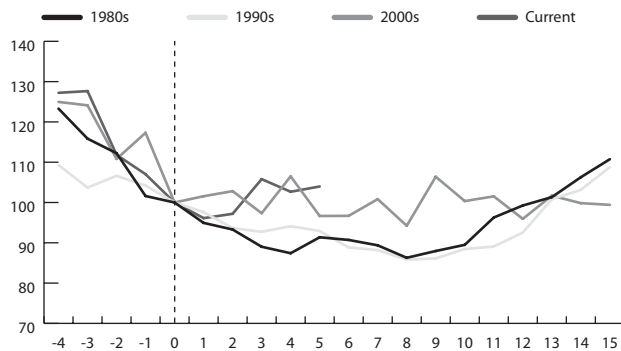
	2010	2011	2012
Trading environment			
Exchange rate (€/£)	1.17	1.19	1.22
Exchange rate (\$/£)	1.55	1.59	1.56
Exports	5.3	6.6	7.6
Imports	8.1	4.1	3.9
Current account (£bn)	-35.7	-43.4	-40.0
Output			
Engineering	7.9	7.2	4.9
Manufacturing	3.6	3.5	3.0
Rest of economy	1.0	1.7	2.6
GDP	1.4	1.9	2.64
Costs and prices			
Average earnings	2.9	1.8	3.0
Oil price (Brent Oil \$/bl)	79.8	98.4	95.4
Employment			
Manufacturing (000s)	2507	2471	2446
Rest of economy (000s)	28203	28228	28388
Unemployment rate (%)	7.9	8.1	8.0

Source: Oxford Economics and EEF

Chart 13

Recovery in investment ahead of previous manufacturing recessions

End of recession = 100



Source: National Statistics

International Economic forecasts

% change except where stated

	GDP			Inflation		
	2010	2011	2012	2010	2011	2012
France	1.5	1.8	2.0	1.5	2.2	1.9
Germany	3.5	2.3	1.8	1.1	2.0	1.8
Japan	4.1	1.4	2.0	-0.7	0.3	0.5
US	2.9	3.3	3.5	1.6	2.1	2.2
Eurozone	1.7	1.5	1.7	1.6	2.2	1.8
China	10.3	9.8	9.0	3.3	4.7	2.9
India	8.8	8.2	9.0	12.0	7.1	4.8
Emerging Asia	9.1	7.7	7.7	5.9	6.1	4.6
World	3.8	3.6	3.9	3.4	3.8	3.7

Source: Oxford Economics

The unemployment rate stood at 7.9% at the end of 2010, and from 2010q3. Private sector employers – including many manufacturers – remain wary of taking on permanent full time staff, with temporary and part-time workers accounting for the bulk of the rise in employment since the recession ended. The outlook for the labour market is not especially positive for 2011, as public sector job cuts begin to gather pace.

However, the uplift in VAT to 20% from 4 January 2011 and the relentless rise in food, energy and commodity prices are squeezing household finances and could weigh on consumer spending through the year. These inflationary tensions, however, are also putting the Bank of England’s Monetary Policy Committee (MPC) under pressure to raise interest rates as early as May 2011. The MPC, however, is split on the best course of action, with one group of

inflation hawks calling for a rate rise, a middle ground concerned about the stability of the recovery and yet a third camp voting to expand its programme of quantitative easing to pump money into the flagging economy.

In the US, the unemployment rate has fallen to 9.0%, with broad-based GDP growth of 0.7% in 2010q4. Other recent data releases also point to an improving economic picture, with consumer confidence and consumer spending on the rise and business surveys indicating continued strength in output and orders. However, the housing sector remains weak and payroll growth sluggish. Looming battles over how to cut federal- and state-level budget deficits could lead to weaker growth and undermine confidence through the course of 2011.

The ECB is likely to raise interest rates soon suggesting “strong vigilance” is needed to contain price pressure. Meanwhile, the risks to the growth outlook are viewed as “still being slightly tilted to the downside”. A change in the ECB’s assessment could spark fresh concerns in the bond market, but as long as inflation expectations remain well anchored, the ECB is unlikely to raise rates in the coming months in response to higher commodity price. While German growth remains strong, recent PMI indicators suggest growth in the periphery has picked up in the first couple months of 2011. The eurozone sovereign debt crisis in the periphery, however, is unlikely to be over, as recent reforms are unlikely to be a silver bullet to contain the crisis once and for all.

Despite the continued rises in oil and other commodity prices at the start of 2011, generally positive PMI surveys suggest that GDP growth remains fairly healthy across most emerging markets. As in developed economies, there is a risk that an initial rise in inflation driven by commodity prices leads to a ratcheting up of general inflation expectations. But most governments and central banks appear to be aware of the danger and are gradually tightening monetary policy. Specifically, China, Brazil, India and Korea have all raised interest rates this year.

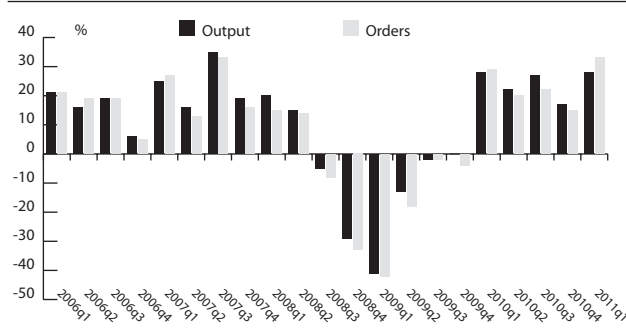
In China in particular, GDP picked up by 10.3% in 2010 as inflation rates hit 5.1% in November and 4.6% in December. With its 12th five-year plan now underway, growth is likely to reach 9.8% this year. In the medium term continuing pressure on China to appreciate its currency and internal demands for higher wages are likely to be good news for UK exporters.

Future trends

Chart 14

Rising output and orders expected

% balance of change expected in next three months



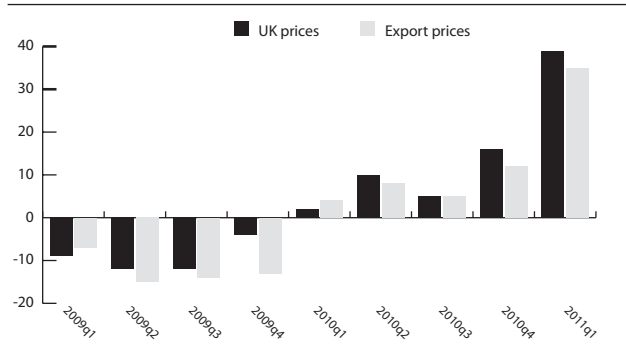
Source: EEF Business Trends Survey

Expectations dipped a little in the last quarter of 2010, but they have rebounded this quarter. A strong balance of 28% of companies expects output to increase in the next three months. Expectations for new orders hit a record high, with a balance of 33% of companies anticipating strengthening orders books in the next quarter. What is more, expectations for both UK and export orders are both strong, which bodes well for manufacturing growth over the next three to six months, though this may belie some of the caution companies have about the economic outlook beyond that point.

Chart 15

More price rises expected in the next three months

% balance of change expected in the next three months



Source: EEF Business Trends Survey

Manufacturers have begun to put up their prices this quarter, and this is likely to continue over the next three months. In fact, the balances of companies looking to increase prices in both domestic and export markets have hit record highs of 39% and 35% respectively. This reflects the continued rapid rises in commodity and energy prices, and affects most sectors, though intentions to increase prices are more muted in the less-energy intensive electronics sector. Expectations of improving margins – unprecedented on this survey – suggest that stronger demand is enabling companies to put up prices and regain some of the ground lost on margins during the recession.

Summary: next three months

% balance of responses (% up minus % down)

	2009				2010				2011				
	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3	q4	q1
Total output	-41	-13	-2	0	28	22	27	17	28	22	27	17	28
UK new orders	-44	-19	-6	-9	21	12	15	7	25	12	15	7	25
Export new orders	-32	-14	-4	6	24	15	19	18	29	15	19	18	29
Total new orders	-42	-18	-2	-4	29	20	22	15	33	20	22	15	33
Employment	-42	-32	-15	-15	1	15	14	16	30	15	14	16	30
Average price of domestic orders	-9	-12	-12	-4	2	10	5	16	39	10	5	16	39
Average price of export orders	-7	-15	-14	-13	4	8	5	12	35	8	5	12	35
Margins on domestic orders	-34	-27	-21	-24	-15	-15	-14	-7	7	-15	-14	-7	7
Margins on export orders	-17	-15	-21	-21	-11	-8	-8	-5	13	-8	-8	-5	13
Levels of cashflow	-38	-23	-5	-14	-13	0	9	1	-4	0	9	1	-4

Source: EEF Business Trends Survey

Sector forecasts

Manufacturing posted another solid quarter in 2010q4 despite the 0.6% contraction in the economy overall. For the 2010 calendar year as a whole, this means manufacturing expanded by 3.6%. Since then PMI numbers in both January and February 2011 have respectively hit and maintained record levels. Similarly, our survey indicates that manufacturing's strong performance has continued throughout the first quarter.

The surprising contraction in overall 2010q4 GDP led most forecasters to downgrade their expectations for the economy over 2011. However, the outlook for manufacturing is still strong and we have in fact revised up our expectation from the December Manufacturing Outlook to growth of 3.5% for the year. Export growth again appears to be the main driver but domestic order strength so far seems to be holding up better than expected.

Weakness in construction is bearing down on the non-metallic minerals sector. Weather-related impacts at the end of last year do not seem to have been offset by positive impacts at the start of 2011 and though quarterly growth is likely to return later in year, a contraction of 1.1% is forecast for the sector over 2011.

The motor vehicle sector has showed a much stronger performance than we were anticipating at the end of 2010 on the back of exports and this looks set to continue somewhat over 2011. With car registrations in the UK and Western Europe declining, strength is coming from emerging markets further afield and commercial vehicles. Our forecast has been strengthened to 8.7% for the year before falling back to 3.3% in 2012.

Likewise our expectations for annual growth in the other transport sector have improved and are now 6.1%. Civilian aircraft orders are strengthening and anticipated demand in rolling stock should help offset the weakness in shipbuilding in 2011. In 2012, aerospace production is likely to be the dominant force as growth rises further to 7.5%.

Similarly the very strong recent performance of the mechanical equipment sector is set to be driven further by exports in 2011. China and increasingly India are key destinations as is Germany, where demand for final goods is likely feeding through from emerging markets. Mechanical equipment is forecast to expand by 7.7% in 2011 and 5.7% in 2012.

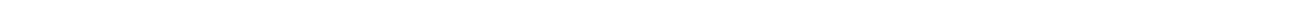
Steel production in the UK started 2011 strongly with January's weekly output 35.4% up on December 2010, linked to the strength in the motor vehicle sector where much steel is used. The rebound in global demand has boosted the basic metals sector and 2011 looks like being another strong year with growth of 8.3%.

In comparison with other sectors, rubber and plastics has a weaker outlook for 2011 though still stronger than what we expected in December. Plastics manufacturers are looking to invest in 2011 as demand from manufacturers who use their products strengthens. Rubber prices have been strong early in 2011 and are spurring on further production as supply capacity in South East Asia is still subdued by weather.

Sector forecasts

	2010	2011	2012
Output (% change)			
Basic metals	11.7	8.3	4.2
Metal products	8.2	10.3	4.4
Mechanical equipment	12.4	7.7	5.7
Electronics	1.6	2.1	3.5
Electrical equipment	3.2	8.7	5.2
Motor vehicles	18.4	8.7	3.3
Other transport	3.2	6.1	7.5
Food and drink	4.8	3.1	0.9
Chemicals	-6.6	-1.1	3.4
Rubber and plastics	-0.8	2.8	3.3
Non-metallic mineral products	5.2	-1.1	3.2
Engineering	7.9	7.2	4.9
Manufacturing	3.6	3.5	3.0

Source: Oxford Economics



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.

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