
MANUFACTURING OUTLOOK

SEPTEMBER 2011

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

Foreword

Welcome to the third edition in 2011 of Manufacturing Outlook, our quarterly report on the trends in UK manufacturing produced by EEF in partnership with BDO. The economic backdrop for our latest report has become more challenging. Data from across the UK economy has softened over the past quarter with weaker than forecast growth in the three months to June. And prospects in the UK's major markets continue to look uncertain as governments grapple to get on top sovereign challenges, repair their public finances and underpin private sector growth at the same time.

UK manufacturers have seen a solid recovery output and orders books on the back of the rebound in global growth and world trade over the past 18 months, but it is not surprising that optimism continues to be tinged with caution. However, our latest survey shows that despite any concerns about how global challenges will evolve a strong balance of manufacturers report further increases in output levels over the past three months. Over the past quarter overseas demand has continued to drive output and orders growth, while the balance of companies reporting expanding domestic orders slowed.

In a change from broad-based positive responses we've seen throughout the recovery, our survey

points to some divergence in sector performance and expectations for the next three months. Through the second half of this year and potentially into 2012, we are likely to see a more complex picture of growth and short-term prospects across the sector with, for example, investment goods continuing to benefit from global growth and sectors exposed to government spending entering a more challenging period.

That said, our survey shows that manufacturers still have an appetite to invest and recruit for new employees. Companies will need to realise these plans if the private sector is to generate new jobs and rebalance growth towards more investment and exports. However, uncertainty may be a factor for smaller companies, which are more cautious about their plans compared with larger ones over the coming quarter.

Overall our latest report shows that the recovery across the sector is set to continue through the rest of this year and the pace of manufacturing expansion will outpace that in the economy as a whole. But policy makers will need to remain vigilant for signs that international events may knock the recovery off course and maintain efforts to create a business environment that will support the competitiveness of businesses that are key to generating sustainable and balanced growth.

Lee Hopley, Chief Economist, EEF

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Introduction

- Output and orders in line with last quarter's expectations.
- Export demand remains important for growth.
- But outlook for orders becomes more mixed.
- Investment and recruitment still underway.
- Downward pressure on margins increases.
- Positive expectations for growth in the remainder of 2011.

The official statistics pointed to more difficult period for the economy and manufacturing in the second quarter of this year. Following additional bank holidays and the significant supply chain disruptions in the aftermath of the Japanese earthquake manufacturing posted a 0.5% decline in output in the three months to June, the first quarterly contraction since 2009q3.

In our latest survey positive balances of companies reported growing output and orders in the past three months, suggesting that manufacturers are shaking off the effects of these temporary factors. At 27% and 23% respectively, output and orders responses remain elevated by historical standards. But in line with the previous three surveys the gap between export and domestic orders is still evident.

In addition responses across different manufacturing sectors have also become more varied. In the past three months positive output balances have been posted across the board, but companies in the metals and electronics sectors are reporting considerably weaker orders balances compared with last quarter. In contrast motor vehicles and mechanical equipment have been buoyed by solid overseas orders in the past three months.

While sectoral differences are opening up, the overall picture on employment and investment remains positive. A balance of 18% of companies plan to increase their capital investment plans in the coming year, unchanged from last quarter and just a touch lower than the three-and-a-half year high in 2011q1. Similarly, a balance of 20% of companies recruited for new employees in the past quarter – a result significantly higher than that seen over the long term average of the series.

Less encouraging in our survey is the renewed downward pressure on manufacturers' margins. Fewer companies reported raising prices in either domestic or export markets in the past three months. And while the cost of some raw materials has fallen from the high levels seen in the first half of the year, more companies are seeing a squeeze on margins.

Looking to the remainder of this year the shape of the recovery in the UK and in our major markets continues to look extremely uncertain. Nevertheless, our survey shows some continued optimism that output and orders are set to hold up in the short term, with forward looking output and orders balances coming in at 22% and 21% respectively.

There is, however, a notable difference between expectations of large companies compared with smaller ones. Responses indicate that manufacturers further down the supply chain may have less visibility of their future order book and are more cautious in predicting continue growth in the next three months. However, if the strong positive expectations for orders materialise for larger companies, the benefits should feed down the supply chain.

Our forecasts for growth in 2011 have been revised down, in part to reflect weaker outturns in the first half of the year. Manufacturing should post growth of 2.8% this year and 2.2% in 2012. The corresponding figure for engineering are 5.4% and 3.8%.

Engineering – Headline survey results

% balance of change

	Past 3 months	Next 3 months
Output	27	22
Total orders	23	21
Employment	20	12
Export prices	10	6
Export margins	-11	-13
Cashflow	7	1

Source: EEF Business Trends Survey

Economic data during survey period

3 Aug – 24 Aug

	Start	End
€/£	1.15	1.14
\$/£	1.64	1.64
£ index	79.6	79.6
Oil price	113.7	111.91

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	1.1	2.0	2.8
Inflation – CPI	2.2	3.3	4.5	2.4	1.8
Inflation – RPI	-0.5	4.6	5.3	3.3	3.1
World trade	-12.7	12.9	7.3	6.5	7.9
Base rate (%)	0.65	0.50	0.50	0.81	1.97

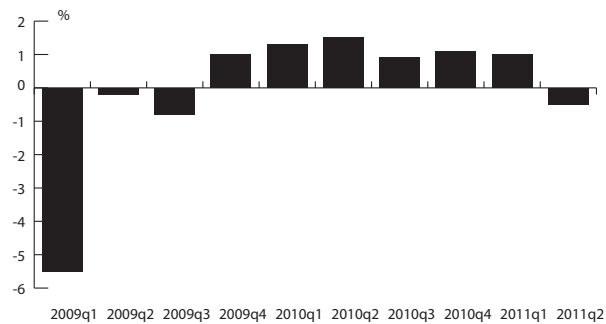
Source: Oxford Economics

Manufacturing outlook

Chart 1

Manufacturing output contracts in 2011q2

% quarter on quarter change in output



Source: National Statistics

Manufacturing output contracted in the second quarter of 2011 as a result of strong headwinds from a slowing recovery at home and abroad; supply chain disruptions following the Japanese tsunami; and volatile commodity prices. Nevertheless, manufacturing output has recovered some 6.0% since the lowest point of the recession in August 2009 and this quarter's Business Trends survey shows most manufacturers remain optimistic. Despite recent disruptions, manufacturing should return to growth in the third quarter and continue to support the UK's economic recovery.

Chart 2

Export demand remains strong

% balance of change in past three months



Source: EEF Business Trends Survey

Given the tough economic environment, output and orders balances were a little weaker in 2011q3. Nevertheless, at 21% and 19% respectively, both remained in firmly positive territory. Similarly, even amidst a slowing global recovery, export orders have continued to drive growth in the sector, as has been the case since the recession ended. However, UK manufacturing is not immune to global trends. Recent volatility in commodity prices is putting pressure on companies, many of whom are seeing increased squeeze on their margins, particularly as fewer companies have reported that they were able to put up prices in the last three months.

Summary

% balance of responses (% up minus % down)

	Past three months	Next three months
Total output	21	21
UK new orders	10	11
Export new orders	18	19
Total new orders	19	21
Employment	15	12
Capital expenditure plans	18	
Average price of domestic orders	12	9
Average price of export orders	12	7
Margins on domestic orders	-21	-12
Margins on export orders	-12	-12
Levels of cashflow	3	-1

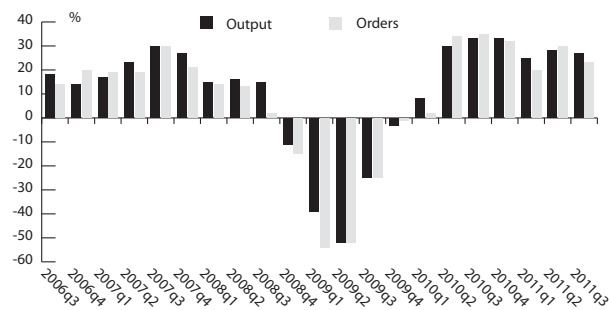
Source: EEF Business Trends Survey

Recent trends

Chart 3

Output and orders a little weaker in q3

% balance of change in past three months



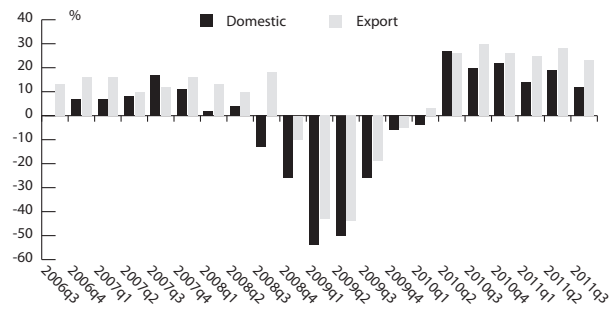
Source: EEF Business Trends Survey

The second quarter of 2011 proved challenging for manufacturers with various disruptions including those as a result of the Japanese tsunami and the additional Bank Holidays. Despite this, a balance of 27% of companies saw output increase in the last three months, little changed from last quarter’s Business Trends survey and in line with last quarter’s expectations. However, there does seem to be increased divergence between sectors and firms of difference sizes. The orders balance for the last three months has weakened somewhat, from 30% to 23% but it remains robust, and some way above the pre-recession average for the series.

Chart 4

Exports still driving demand

% balance of change in orders in past three months



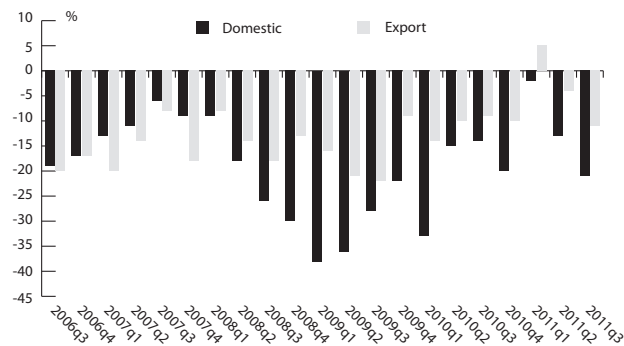
Source: EEF Business Trends Survey

Domestic and overseas orders balances have now been positive for seven consecutive quarters, though both balances softened in the last three months. These are now at their lowest levels since the first quarter of 2010, at 12% and 23% respectively. Despite this, both balances are more than double the pre-recession average for the series, suggesting there is still strong demand for UK manufactured goods. Although the global market has become markedly more volatile, exports remain the driver of total demand. Official statistics suggest that exports to emerging markets, where UK manufacturers have an increasing presence, have been growing more quickly than in traditional markets.

Chart 5

Pressure on margins increases

% balance of change in margins in past three months



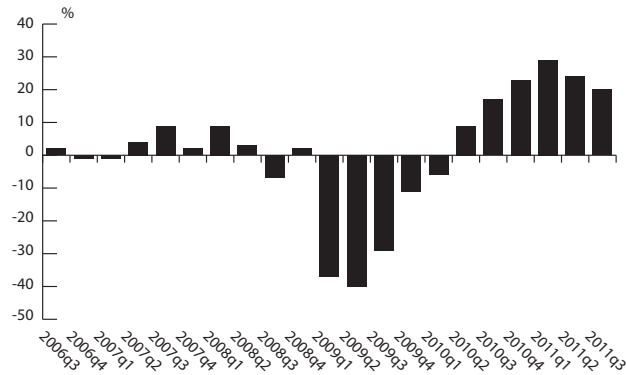
Source: EEF Business Trends Survey

Although recent weeks have seen oil and commodity prices ease, the combination of a lag in the ability to pass on prices, a highly competitive global marketplace, and shortages of certain inputs, means that manufacturers are still facing a squeeze on margins. Despite putting up prices – balances of 9% and 10% of companies raised UK and export prices respectively – margins balances worsened in both cases for the second consecutive quarter. Margins on domestic orders are particularly stretched, with a balance of 21% of companies reporting increased pressure.

Chart 6

Manufacturers have continued to recruit

% balance of change in employment in past three months



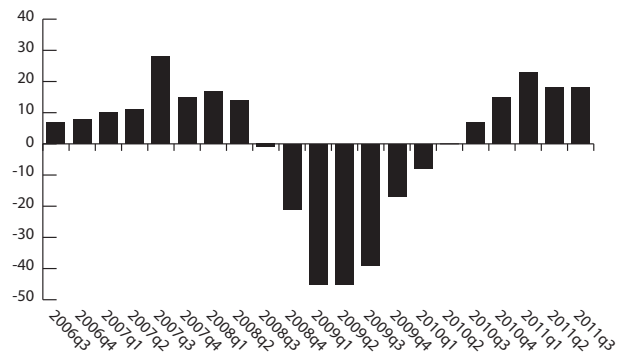
Source: EEF Business Trends Survey

Manufacturers have now reported taking on new workers for six consecutive quarters. Although the employment balance has softened a little in the last couple of quarters, after hitting a record-high at the beginning of the year, at 20%, it is in stark contrast to the pre-recession average, which was -2%. Increasing recruitment is proving problematic for some companies, with anecdotal evidence continuing to point to skills shortages reducing manufacturers' ability to take on as many new workers as they would like.

Chart 7

Investment balance unchanged

% balance of change in investment plans



Source: EEF Business Trends Survey

The balance of companies intending to increase capital expenditure in the next twelve months remains strong. It is unchanged from the second quarter, at 18%. Official statistics, on the other hand, suggest that the recovery in investment has faltered. Although material investment does tend to lag an improvement in investment intentions, this balance has now been strongly positive for over a year, and the continued lag illustrates the lack of visibility companies have about the continued path of the recovery. While some – particularly large companies – are investing, others may be holding back to see if the strong demand they have seen so far continues.

Summary: past three months

% balance of responses (% up minus % down)

	2009	2010				2011		
	q4	q1	q2	q3	q4	q1	q2	q3
Total output	-3	8	30	33	33	25	28	27
UK new orders	-6	-4	24	20	22	14	19	12
Export new orders	-5	3	23	30	26	25	28	23
Total new orders	-1	2	34	35	32	20	30	23
Employment	-11	-6	9	17	23	29	24	20
Capital expenditure plans	-17	-8	0	7	15	23	18	18
Average price of domestic orders	-15	-8	5	5	0	26	16	9
Average price of export orders	-13	0	2	4	-1	26	16	10
Margins on domestic orders	-22	-33	-15	-14	-20	-2	-13	-21
Margins on export orders	-9	-14	-10	-9	-10	5	-4	-11
Levels of cashflow	-8	-7	10	7	14	6	0	7

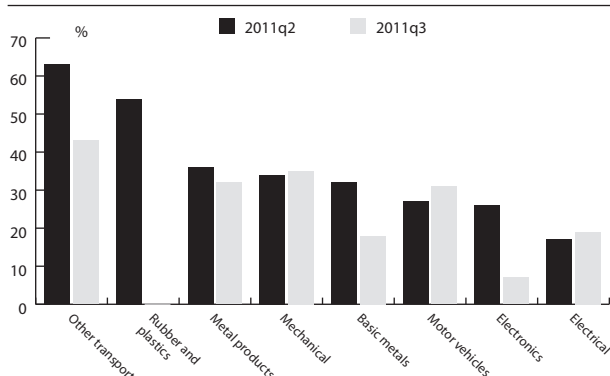
Source: EEF Business Trends Survey

Sector trends

Chart 8

Fortunes begin to diverge across sectors

% balance of change in output in past three months



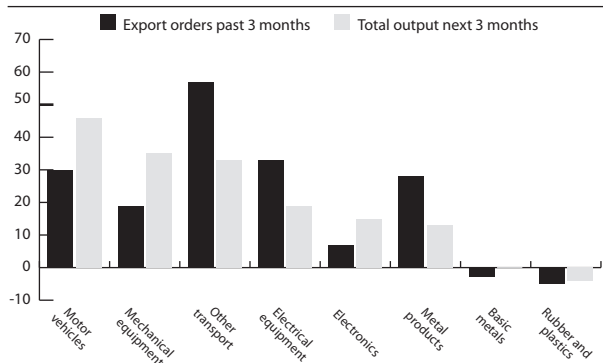
Source: EEF Business Trends Survey

In contrast to 2011q2, output balances for the past three months showed considerable divergences this quarter across sectors. Strongest again was the other transport sector, though notably down from last quarter the balance of 43% of companies seeing increased output is still strong. The balance of companies reporting output growth in the metals sector is down for the past three months on softening demand and looks set to fall further with a balance of zero for expected output in the next three months. Price rises in raw materials seem to continue to exert a volatile impact on the rubber and plastics sector, with the past three months output balance down sharply to zero following last quarter's strong rise.

Chart 9

Sectors with strongest export orders have highest expectations for next quarter

% balance of change



Source: EEF Business Trends Survey

The motor vehicles sector is showing the highest balance of companies expecting total output volumes to increase over the next three months with a net 46% of companies surveyed expecting a rise. This strength seems to be on the back of strong export orders avoiding the weakness in UK domestic demand. This more general point seems to hold for other sectors too with three of the top four sectors in terms of past three months exports order balances also amongst the top four sectors in terms of balance of companies expecting next three months output to increase.

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	18	2	18	15	-3	0	-3	3	9	-10
Metal products	32	26	28	13	0	13	18	11	7	3
Mechanical	35	27	26	16	27	35	27	16	12	14
Electronics	7	7	21	-7	7	15	11	-7	-11	-17
Electrical	19	27	3	0	4	19	35	16	-6	8
Motor vehicles	31	44	15	13	0	46	32	26	17	6
Other transport	43	43	86	-14	17	33	50	33	0	-17
Food and drink*										
Chemicals*										
Rubber and plastics	0	-4	0	43	-13	-4	4	-13	19	-13
Non-metallic mineral products*										

* Insufficient data

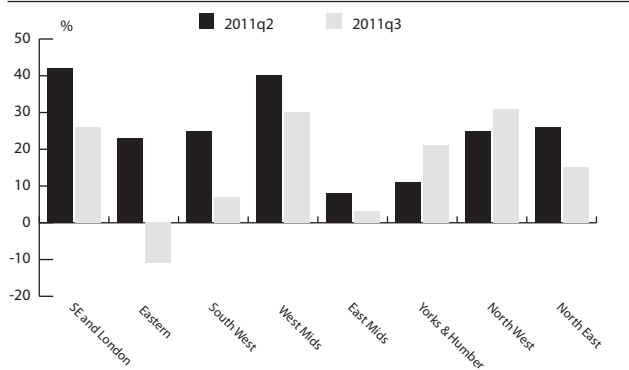
Source: EEF Business Trends Survey

Regional trends

Chart 10

Output balances softer in most regions

% balance of change in output in past three months

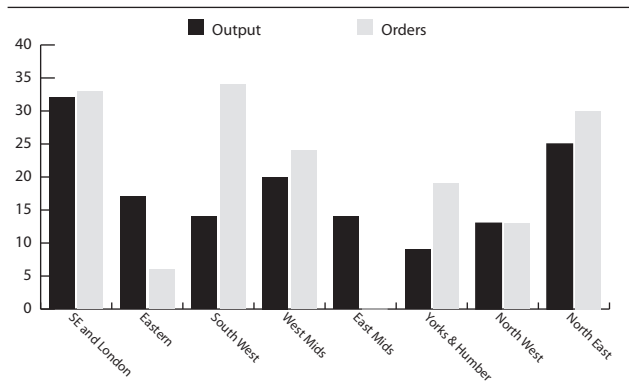


Source: EEF Business Trends Survey

Chart 11

All regions remain positive about the next quarter

% balance of change in orders in next three months



Source: EEF Business Trends Survey

Regional output balances remained broadly positive this quarter, though most were softer than the balances seen in 2011q2. The North West and the West Midlands were the most positive regions, with balances of 31% and 30% of manufacturers reporting increased output respectively. Orders balances were also softer across all regions, though they remained positive. The South West saw the biggest fall in the balance of companies reporting new orders in the last three months, from 43% in the last quarter, to 3% this quarter.

Looking ahead to the next three months, expectations for output are positive across all regions. The same is true for orders balances with the exception of the East Midlands, where the balance was zero. Expectations for domestic orders are generally weaker than those for export orders, but remain broadly positive. In some regions, most notably the North East – where the domestic orders balance was 26% – there remains greater optimism about the domestic market.

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	26	10	10	-4	23	32	33	4	0	4
Eastern	-11	35	-12	19	17	17	35	-24	13	-6
South West	17	3	14	-8	-3	14	17	14	-8	3
West Mids	30	20	11	19	0	20	22	11	19	-2
East Mids	3	6	6	4	-34	14	0	-7	0	-17
Yorks & Humber	21	23	29	18	4	9	19	5	7	-4
North West	31	27	23	23	19	13	13	15	15	-2
North East	15	12	31	13	-4	25	30	29	-9	17
Scotland	26	22	22	16		30	24	19	8	

Source: EEF Business Trends Survey

Economic environment

- UK GDP up by 0.2% in 2011q2 as one-off factors cap growth;
- Sluggish US and Eurozone economies raises concerns for global recovery;
- European sovereign debt crisis hits Italy and Spain;
- China and India growth to slow because of weak western demand.

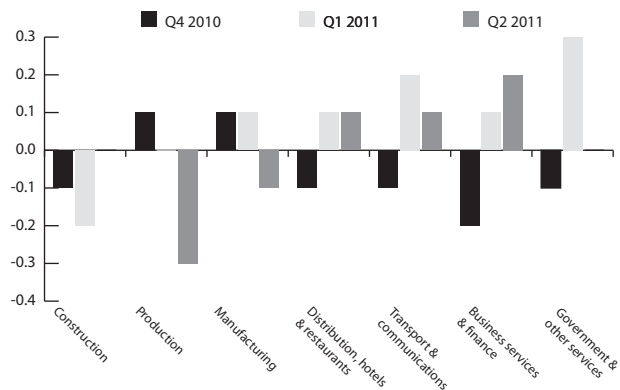
The economic recovery in the UK continues to be choppy, with GDP up by a modest 0.2% in q2 2011 and by 0.8% in the past twelve months. Following on from last winter's snow, however, the Office of National Statistics believes a series of one-off factors affected the q2 outturn. According to ONS, the late Easter, the royal wedding and additional bank holiday, the Japanese tsunami and the sale of Olympics tickets, chopped up to 0.5 percentage points off of growth in the quarter.

After a run of six quarters of strong quarterly growth, manufacturing output fell by 0.5% in q2. Services output grew by 0.5%, led by business services, real estate and transport and storage. Construction output was also up by 0.5% in the second quarter, following on from two quarters of declines. Data on business investment due out in early October will provide a guide as to whether business sentiment held up in an otherwise weak quarter.

Chart 12

Unsteady contributions to growth leads to rocky recovery

Contributions to GDP growth



Source: National Statistics

Although employment numbers are slowly ticking up, the vacancy levels have been falling throughout 2011 and fewer people are leaving claimant count rolls. This in turn is propping up levels of unemployment. Inflation also remains high, as higher utility bills in the autumn are likely to push CPI rates up to over 5.2% in the coming months, before falling in the new year as the VAT rise falls out of the inflation data. The subdued labour market and rising prices is squeezing real wage growth. Consequently, the outlook from households also remains downbeat, as retail sales remain weak and lending to individuals remains steady, albeit at low levels.

This weaker domestic outlook has raised concerns about the prospects for growth in the second half 2011 and in to 2012. Despite persistent inflation, lingering worries about growth are likely to discourage the Bank of England's Monetary Policy Committee from raising rates anytime soon. Having spent much of the year split, with a small hawkish camp voting for rate rises, the MPC voted on unanimously to keep rates on hold. Yet the MPC is likely to have a hurdle for pursuing another round of quantitative easing. Internationally, the global slowdown is weighing on the prospects of an export-led recovery in the UK, as sluggish growth in the Eurozone and the US is not only affecting the UK economy, but also the outlook in emerging markets.

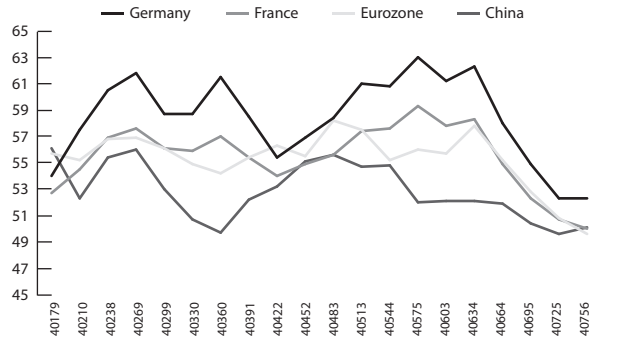
In Europe, disappointing q2 GDP data, in particular in Germany and France, raises questions about the ability of core countries to drive growth in the face of rising European Central Bank rates, high commodity prices and a new round of sovereign debt fears. A range of business activity and confidence indicators suggest a broad-based slowdown in manufacturing output across the Eurozone. Meanwhile domestic demand in Germany and France slowed in q2, albeit driven by potentially temporary factors.

Against this backdrop of wider economic stress, the sovereign debt pressures in Greece, Ireland and Portugal were eased by new terms for loans from the EU and the IMF.

Chart 13

Manufacturing PMIs in Europe and China in contraction territory

Above 50=expansion, below 50=contraction



Source: Markit Economics

Yet during the summer, the contagion spread to Italy and Spain, forcing the ECB to step in to buy Spanish and Italian debt. Yet this intervention is only likely to prove a temporary stop-gap, Spanish and Italian debt is larger than the ECB balance sheet. The price of expanding the European Financial Stability Fund, however, would be greater fiscal austerity, which would weigh on already sluggish Eurozone growth. Yet the longer Eurozone leaders take to find a sustainable solution to the crisis, the greater the damage to the wider economy.

In the US, the political fight over extending the debt ceiling and bringing down long-term debt has knocked consumer and business sentiment. Although corporate balance sheets are strong, businesses have become increasingly pessimistic and cautious, meaning that investment and hiring will be more subdued than previously thought. Weak employment growth will further dampen consumer demand. The US economy appears to be trapped in a holding pattern: unless consumer spending picks up, firms won't expand investment and create jobs, and spending won't rise unless firms start creating more jobs.

In Japan, the question is whether the new Prime Minister can provide the political stability needed to rebuild the economy. Although Japan is likely to see a V-shape recovery after the earthquake, the path to recovery is far from smooth. A strong yen is making the job of rebuilding supply chains after the tsunami more difficult. And although a cool summer has helped ease electricity demand-supply tensions, longer term capacity constraints are likely to hamper growth.

Domestic demand indicators in China, including retail sales, industrial production and fixed asset investment have all shown signs of moderating in recent months. Although headline retail sales have

held up, real retail sales have fallen as high inflation is beginning to erode consumers' purchasing power. Industrial production has also slowed because of labour shortages and rolling blackouts. With exports continuing to drive growth, weaker demand from developed economies is likely to weigh on Chinese economic growth in 2012.

As the global economy begins to weaken significantly, the outlook for the UK economy – and UK manufacturing in particular – will be determined, in part, by the policy response in key markets, in particular the US and the EU. To date, however, the UK recovery though weak, is roughly in line with what should be expected following a financial crisis and deep recession. Economic and policy uncertainty abroad is likely to mean the UK growth will remain choppy for the time being.

UK Economic forecasts

% change except where stated

	2010	2011	2012
Trading environment			
Exchange rate (€/£)	1.17	1.15	1.16
Exchange rate (\$/£)	1.55	1.62	1.61
Exports	5.2	5.9	6.4
Imports	8.8	1.9	3.8
Current account (£bn)	-46.3	-34.9	-31.7
Output			
Engineering	8.1	5.4	3.8
Manufacturing	3.6	2.8	2.2
Rest of economy	0.5	0.5	1.9
GDP	1.4	1.1	2.0
Costs and prices			
Average earnings	3.0	2.5	3.0
Oil price (Brent Oil \$/bl)	79.5	119.2	104.5
Employment			
Manufacturing (000s)	2554	2534	2511
Rest of economy (000s)	28661	28754	28795
Unemployment rate (%)	7.9	7.8	8.1

Source: Oxford Economics and EEF

International Economic forecasts

% change except where stated

	GDP			Inflation		
	2010	2011	2012	2010	2011	2012
France	1.4	1.9	1.6	1.5	2.0	1.8
Germany	3.5	3.3	1.6	1.1	2.2	1.8
Japan	4.0	-0.4	3.0	-0.7	0.1	0.3
US	3.0	1.7	2.4	1.6	3.0	2.2
Eurozone	1.7	1.8	1.3	1.6	2.5	1.9
China	10.3	8.8	8.2	3.3	5.4	3.3
India	9.0	7.4	8.1	12.0	8.4	5.6
Emerging Asia	9.0	7.0	7.0	5.9	6.6	5.0
World	3.8	2.9	3.3	3.5	4.2	2.2

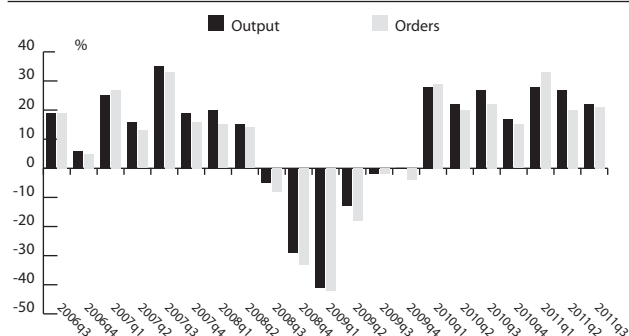
Source: Oxford Economics

Future trends

Chart 14

Expectations remain firm

% balance of change expected in next three months



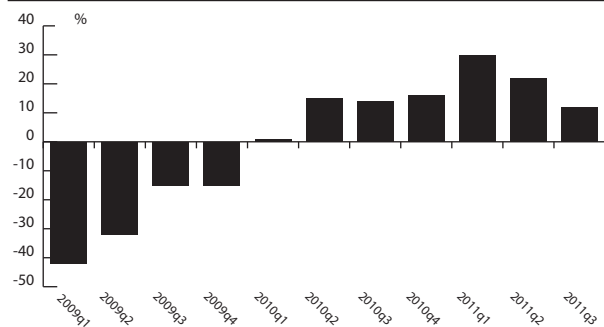
Source: EEF Business Trends Survey

Despite increased volatility in the global economy, UK manufacturers' expectations for the next three months remain robust. While the output balance softened, from 27% to 22%, the expectations for new orders balance strengthened to 21%. As has tended to be the case since the recovery began, expectations for export orders have been more positive than those for domestic orders, but even so a balance of 12% of manufacturers expects increased orders from the UK in the next three months.

Chart 15

Fewer firms expect to take on new workers

% balance of change in next three months



Source: EEF Business Trends Survey

While expectations for orders and output in the next three months remain firm, there is some softening in the other expectations indicators as the recovery enters a more uncertain phase. For example, a balance of 12% of companies said they expected to take on new workers in the next three months, down from a balance of 22% in the last quarter's survey. Although this balance remains well above the pre-recession average it does suggest that firms are more wary about taking on new workers now than they were three months ago. Similarly, manufacturers continue to expect increased pressure on margins, and reduced ability to put up prices.

Summary: next three months

% balance of responses (% up minus % down)

	2009	2010				2011		
	q4	q1	q2	q3	q4	q1	q2	q3
Total output	0	28	22	27	17	28	27	22
UK new orders	-9	21	12	15	7	25	13	12
Export new orders	6	24	15	19	18	29	20	19
Total new orders	-4	29	20	22	15	33	20	21
Employment	-15	1	15	14	16	30	22	12
Average price of domestic orders	-4	2	10	5	16	39	14	9
Average price of export orders	-13	4	8	5	12	35	15	6
Margins on domestic orders	-24	-15	-15	-14	-7	7	-7	-12
Margins on export orders	-21	-11	-8	-8	-5	13	-1	-13
Levels of cashflow	-14	-13	0	9	1	-4	-3	1

Source: EEF Business Trends Survey

Sector forecasts

As expected, the official statistics indicated that manufacturing contracted in 2011q2. This was mostly a result of one-off factors including the Japanese earthquake and tsunami and the additional bank holiday in April.

However, the economy has certainly entered a more challenging period of the recovery and this has included manufacturing. Rising global uncertainty across a variety of markets is buffeting the UK.

Recent monthly PMI surveys have continued to soften and the monthly production figure for June, showed a contraction against expectations of a small rise. Despite this, manufacturers do still continue to report increasing output but caution is clearly rising with many looking hard at proposed investment plans over the next few months.

Our overall forecast for manufacturing for 2011 has been revised down to 2.8%. This is the result of already existing challenges posed by high input prices and disruptions from the Japanese earthquake being exacerbated by a slowdown in demand from emerging markets that had previously held firm.

This downward revision of prospects across manufacturing as a whole however, does mask considerable divergence between sectors. Exposure to different markets and price pressures provides part of the explanation.

The interruption to supply chains from the Japanese earthquake and tsunami seems to have done little to curb strong demand growth in the motor vehicle sector, particularly for commercial vehicles and luxury markets from emerging markets. Although the second quarter saw a contraction in output, very strong growth is expected in the second half of the year before quarter-on-quarter production comes back a little in 2012. Forecast growth for 2011 has been revised up to 15.9%.

The other transport sector continues to have a strong outlook for both 2011 and 2012. Within the sector though there are differences. The civil aerospace market looks very strong with good orders coming out of the Paris Air Show in June. Companies reliant on defence contracts however are facing a tougher environment with the MoD cutting back on spending and companies looking to diversify into other markets.

The mechanical equipment sector remains strong with only modest downward revisions to forecast growth since 2011q2's Manufacturing Outlook.

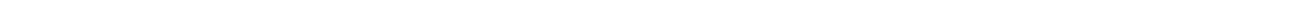
By contrast the basic metals sector has had its outlook revised down sharply and is now forecast to contract in output in both 2011 and 2012. Prices for metals fell between the first and second quarters and weakening emerging market demand may take them lower again. A relative supply glut for basic metals including steel in China is exacerbating the downward pressure on production.

Non-metallic minerals is suffering from the ongoing weak demand for construction products from the domestic construction sector. Forecasts have been revised down for 2011 to 1.9% growth. Forecasts for the metal products sector are down too with 1.4% growth in 2011 and 3.6% growth in 2012 expected compared with last quarter's forecasts of 2.4% and 4.3%.

Sector forecasts

	2010	2011	2012
Output (% change)			
Basic metals	12.6	-3.7	-1.5
Metal products	8.3	1.4	3.6
Mechanical equipment	12.9	5.2	3.0
Electronics	1.6	5.7	0.7
Electrical equipment	3.9	3.6	2.3
Motor vehicles	18.2	15.9	7.5
Other transport	2.9	5.6	6.9
Food and drink	4.4	2.8	0.8
Chemicals	-6.3	-2.2	1.9
Rubber and plastics	-1.3	1.4	2.4
Non-metallic mineral products	4.2	1.9	1.0
Engineering	8.1	5.4	3.8
Manufacturing	3.6	2.8	2.2

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.

We work with the UK's manufacturers, from the largest to the smallest, 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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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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