
MANUFACTURING OUTLOOK

DECEMBER 2011

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

Foreword

Welcome to the fourth and final edition in 2011 of Manufacturing Outlook, our quarterly report on the trends in UK manufacturing produced by EEF in partnership with BDO. 2011 started with strong positive survey results from across manufacturing, pointing to a continuation of the broad based industrial recovery that began at the end of 2009. However, economic headwinds have picked up, particularly going into the latter part of this year.

Last quarter we highlighted the deteriorating economic outlook, in both the UK and in our major markets. Despite this, manufacturing demonstrated significant resilience posting continued growth in the third quarter, according to the latest official data. However, the risks to growth in the short-term have increased with escalating concerns around eurozone sovereign debt and the potential knock on impact on the real economy.

Attention has focused on the rising cost of government borrowing that has spread through peripheral economies and the political fall out of crumbling confidence across the region. In addition, statistics from across Europe have seen a marked weakening in recent months, with activity indicators pointing to a contraction in manufacturing and business confidence falling away. These events have inevitably fed through into diminishing confidence amongst UK companies, especially export-oriented manufacturers.

Our latest survey shows that the output and orders balances have fallen short of previous quarter's expectations with balances falling back to single

digits for the first time since 2010q1. Moreover, a balance of companies expects conditions to be flat going into 2012. The latest revisions to our forecasts for 2012 reflect the heightened risks and uncertainty facing the sector over the next 12 months.

While it is easy to focus on the challenges to growth both across manufacturing and the wider economy, there are still pockets of growth. A number of sectors, including automotive and mechanical equipment are more optimistic about output and orders in the coming months. And looking across the world economy, emerging economies are continuing to post considerably stronger growth than the UK's European neighbours. In the medium-term manufacturers growing exposure to these markets will provide a boost to growth.

Clearly, there are further risks ahead that the private sector and policy makers will need to deftly navigate. The Bank of England has already embarked on a further round of quantitative easing, and additional asset purchases from February 2012 are firmly on the table. In addition, the Chancellor's Autumn Statement at the end of November 2011 introduced some measures to improve the supply and reduce the cost of credit for small companies and mitigate the cost of climate policies on energy intensive sectors. While these are small positive steps to improve the environment for investment and growth, the government will need to be agile in responding to any signs that the prospects for manufacturing and the economy are taking a turn for the worse in 2012.

Lee Hopley, Chief Economist, EEF

Tom Lawton, Head of Manufacturing, BDO LLP

Introduction

- Output and orders fall short of last quarter's expectations.
- Export balances soften in past three months.
- Sector divergence continued in q4.
- Signs that investment and recruitment postponed or scaled back.
- Further easing in price rises.
- Expectations for flat output and falling orders in 2012q1.

Manufacturing posted its eighth consecutive quarter of growth in the three months to September, according to official statistics. Despite the unforeseen disruptions to production earlier in the year, manufacturing is one of the few parts of the economy that has seen two years of uninterrupted growth. This trend mirrors the strong positive responses that we've reported in our *Business Trends Survey* since the beginning of 2010.

However, our latest survey suggests that the run of upbeat responses on output and orders over the past few years is set to run out of steam going into 2012. In the past three months some sectors, notably motor vehicles and mechanical equipment, continued to report positive output balances, but the overall output balance for manufacturing came in at 12% compared with 27% in the previous quarter.

Despite the increasingly negative news from major markets in Europe, export demand has held up in the final months of 2011 with a balance of 10% of manufacturers seeing growth in overseas orders. Anecdotal reports suggest that emerging markets continue to offer solid prospects for growth and there has been growing emphasis on identifying opportunities in these markets amongst UK manufacturers.

Nevertheless, the deteriorating external environment has fed through into weaker sentiment about overall growth prospects in the short term. In particular there are clear indications that companies are taking a much more negative outlook for new orders going into 2012. Our survey shows that a balance of 2% of companies expect export sales to contract in the next three months. But there continues to be more pessimism about prospects for the domestic market with 22% of companies forecasting an increase in UK orders compared with 31% planning for a fall.

This is amongst the factors that are causing companies to postpone or scale back investment and recruitment plans. While a balance of companies,

small ones in particular, increased employee numbers over the past quarter, the forward looking balance, at 5%, is the lowest since the beginning of 2010. In addition, a declining cashflow position is also likely to be acting as a drag on investment decisions. The balance of companies expecting to increase their capital expenditure plans in the year ahead has dropped back to 12% from 18% in the previous two quarters.

The decline in balances across the major indicators in our survey has inevitably impacted on our forecasts for growth over the next year. The drop in sentiment combined with gathering headwinds in the global economy has led us to downgrade our expectations for manufacturing growth in 2012. We now expect the sector to expand by 0.9% compared with 2.2% previously. Across the economy as a whole we have nudged down our expectations for the remainder of 2011 and 2012. GDP is expected to expand by just 0.9% and 1% respectively.

Engineering – Headline survey results

% balance of change

	Past 3 months	Next 3 months
Output	12	0
Total orders	4	-1
Employment	18	5
Export prices	6	10
Export margins	-9	-5
Cashflow	-9	-14

Source: EEF Business Trends Survey

Economic data during survey period

2 Nov – 23 Nov

	Start	End
€/£	1.16	1.16
\$/£	1.60	1.55
£ index	80.23	79.91
Oil price	110.8	107.8

Source: Bank of England and Energy Information Agency

Key economic forecasts

% change except where stated

	2009	2010	2011	2012	2013
GDP	-4.4	1.8	0.9	1.0	2.6
Inflation – CPI	2.2	3.3	4.5	2.4	1.8
Inflation – RPI	-0.5	4.6	5.2	2.7	2.5
World trade	-12.8	13.0	7.4	4.4	7.6
Base rate (%)	0.7	0.5	0.5	0.5	0.8

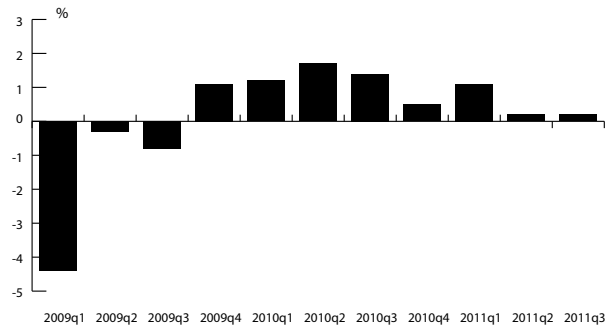
Source: Oxford Economics

Manufacturing outlook

Chart 1

Manufacturing output posts a two year run of growth

% quarter on quarter change in output



Source: National Statistics

Recent revisions to National Statistics data, including changes to the classification of industries within manufacturing (explained on page 11) show that manufacturing has now seen a solid recovery over the past two years. Previous estimates had pointed to a second quarter contraction as a result of additional bank holidays and supply disruptions following the Japanese earthquake. But UK manufacturers continued to expand production by 0.2% in both the second and third quarters of 2011. However, the performance was patchier across individual manufacturing sub-sectors. Pockets of strength in areas such as machinery and transport equipment compared with month-on-month falls in electronics and chemicals.

Chart 2

Weaker indicators across the board

% balance of change in past three months



Source: EEF Business Trends Survey

The fourth quarter of 2011 would appear to mark the end of a strong run of output, orders and employment balances. In contrast to the record high balances posted across these indicators at the beginning of the year, balances headed back towards arguably more normal levels. On the positive side, responses on output and export orders remain positive. However taken together with the forward-looking balances, the gloom engulfing the external demand outlook appears to have sapped confidence about the sustainability of the recovery. With a balance of companies expecting output and orders to contract in the next three months, 2012 looks set to get off to a more challenging start.

Summary

% balance of responses (% up minus % down)

	Past three months	Next three months
Total output	8	-3
UK new orders	-2	-13
Export new orders	6	-3
Total new orders	2	-3
Employment	14	0
Capital expenditure plans	11	
Average price of domestic orders	6	9
Average price of export orders	8	9
Margins on domestic orders	-21	-10
Margins on export orders	-9	-4
Levels of cashflow	-9	-15

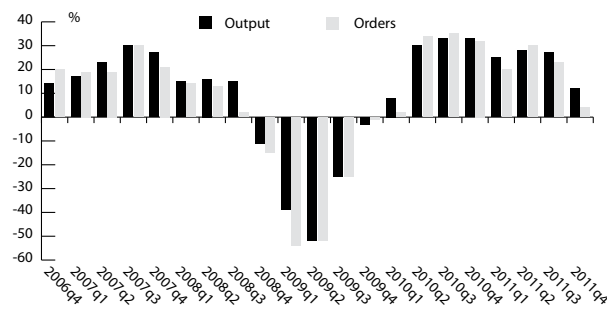
Source: EEF Business Trends Survey

Recent trends

Chart 3

Output and orders weaker in q4

% balance of change in past three months



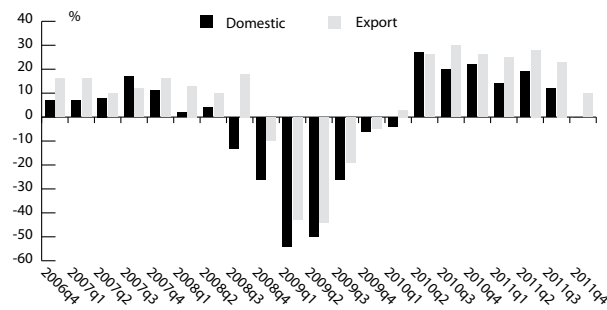
Source: EEF Business Trends Survey

After six quarters of near-record high responses, the balance of manufacturers seeing output and orders grow softened in the last three months. Though still positive, a balance of 12% of companies reported increased output, and a balance of 8% reported increased orders, this reflects recent National Statistics releases showing that the pace of growth has slowed compared with the beginning of the year. In addition, divergence between the performance of different sectors, which was noted in last quarter's survey, has become more marked in the last three months.

Chart 4

Exports bear up, but UK orders flat

% balance of change in orders in past three months



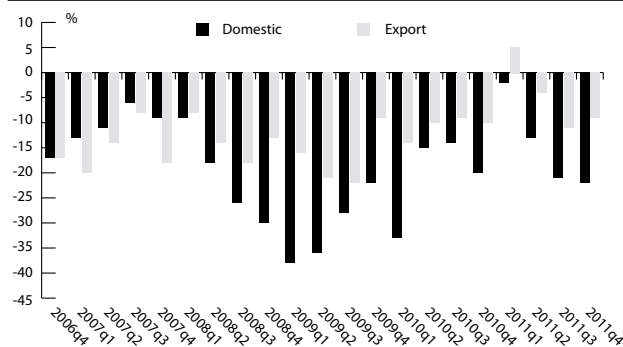
Source: EEF Business Trends Survey

Export orders have been driving much of the growth seen in manufacturing since the recession ended. Export order balances have been stronger than domestic orders in every quarter since the recovery began, except one. This quarter export orders have been the only source of growth with an overall balance of 10% of companies seeing overseas demand continue to rise against a flat domestic market. While exports remained positive this was, however, some way down from last quarter's survey, when a balance of 23% of companies reported increased orders and a significant shortfall from the balance of 19% of companies that had expected this trend to continue in the final months of 2011.

Chart 5

Pressure maintained on margins

% balance of change in margins in past three months



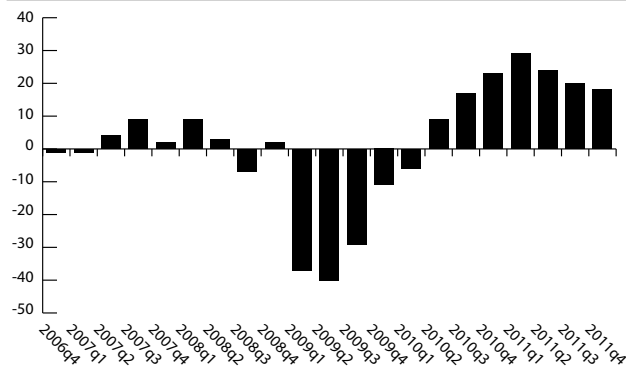
Source: EEF Business Trends Survey

Commodity price rises have started to ease off in the last few months and this is feeding through to weaker price balances in both the home and overseas markets. Price rises over the last three months were roughly in line with expectations seen in the last quarter with balances of 6% of companies increasing prices, the lowest reported in 2011. Volatile prices, some supply shortages and the lagged effect of passing through cost increases are all negatively impacting margins. A balance of 22% of companies saw domestic margins worsen in the last three months, and a balance of 9% of companies saw export margins worsen over the same period.

Chart 6

Recruitment continued in the last three months

% balance of change in employment in past three months



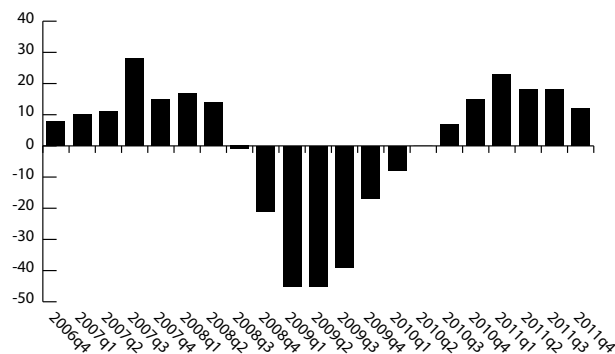
Source: EEF Business Trends Survey

Despite output and orders balances below last quarter's expectations, the balance of manufacturers taking on new employees remained elevated at 18% in 2011q4. This was some way above the intentions reported in last quarter's survey. This figure was also well above the long term average for the series for the seventh quarter running. In line with this, official statistics have shown only a slight weakening in the number of vacancies reported for manufacturing, highlighting the ongoing need for skilled workers in the sector. However, employment balances were strongest amongst the smallest companies, meaning this positive trend may not reverse the declining employment trend in the sector.

Chart 7

Investment balance softer

% balance of change in investment plans



Source: EEF Business Trends Survey

This quarter's survey marked the sixth consecutive quarter of companies reporting positive intentions to invest. Despite the highly uncertain economic outlook currently facing manufacturers, this quarter's balance remained firmly positive, at 12%. However, this is down from last quarter's balance of 18%. But we have only recently seen the sharp rebound in intentions reported in surveys translate into an increase in actual business investment according to the official statistics. Looking ahead, there are clear risks to this capital expenditure pick-up being sustained, including indications from our survey that there has been a renewed squeeze on cashflow in the past three months.

Summary: past three months

% balance of responses (% up minus % down)

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

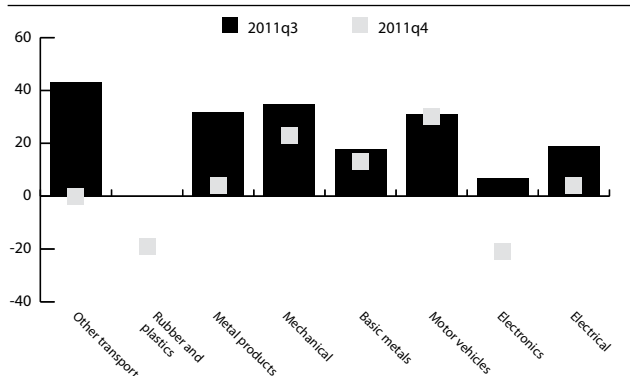
Source: EEF Business Trends Survey

Sector trends

Chart 8

Divergent performance across sectors

% balance of change in output in past three months



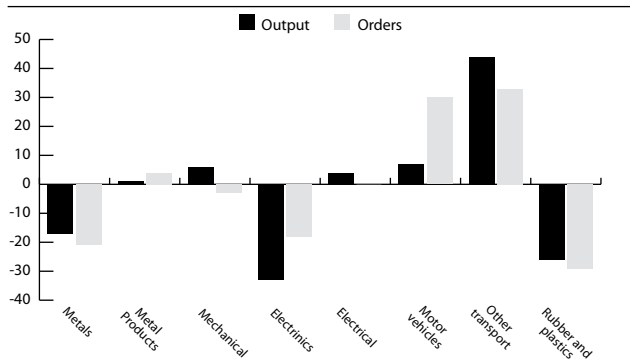
Source: EEF Business Trends Survey

The first few quarters following the recession saw strong performances across all sectors, but in last quarter's survey a degree of divergence became apparent which has increased over the last three months. The rubber and plastics sector and electronics both reported negative output and orders balances. Basic metals also reported a negative orders balance. On the other hand, sectors like motor vehicles and mechanical equipment have experienced a strong quarter. Sustained demand in emerging markets is supporting orders in these sectors, which have a higher than average exposure to markets such as China and India.

Chart 9

Transport industries likely to see strongest performance

% balance of change in next three months



Source: EEF Business Trends Survey

Looking ahead to the next three months, it is again rubber and plastics, electronics, and basic metals that are looking the weakest, exposed as they are to construction, consumers and volatile market prices respectively. In all three sectors expectations of orders and output are down. Conversely, despite flat balances for the last three months, companies in the other transport sector are strongly positive, on the back of strong orders markets. The strength in the sector is related to demand for civil aviation, in particular from the Middle East whereas companies in the defence industries are beginning to suffer from reduced government budgets in developed 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	13	7	18	-6	-23	-17	-21	-6	10	-8
Metal products	4	5	14	20	5	1	4	4	10	-16
Mechanical	23	10	31	8	-7	6	-3	10	17	-23
Electronics	-21	-6	6	-17	-22	-33	-18	0	-9	-50
Electrical	4	-7	4	7	-10	4	0	7	9	3
Motor vehicles	30	15	38	9	0	7	30	11	0	7
Other transport	0	0	33	13	-44	44	33	22	13	0
Food and drink*										
Chemicals*										
Rubber and plastics	-19	-29	-14	11	-10	-26	-29	-40	0	-45
Non-metallic mineral products*										

* Insufficient data

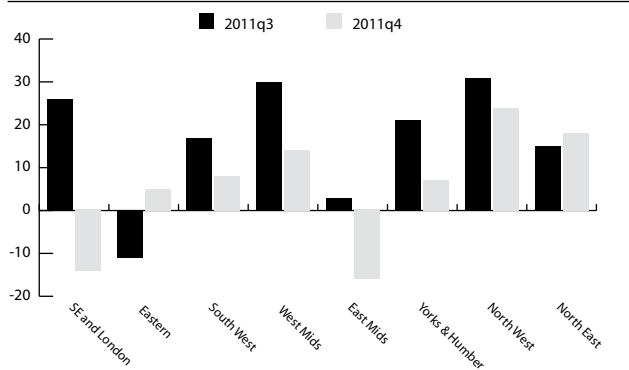
Source: EEF Business Trends Survey

Regional trends

Chart 10

Output balances weaker in most regions

% balance of change in output in past three months



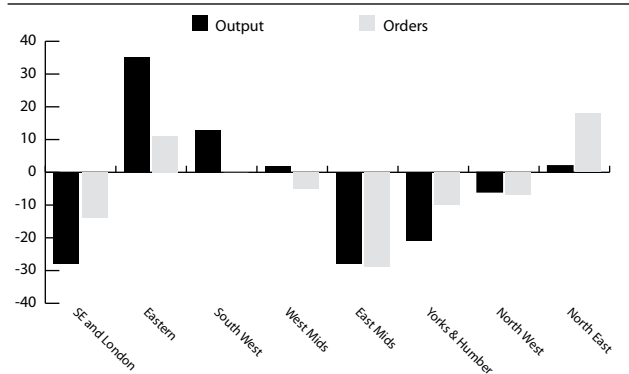
Source: EEF Business Trends Survey

Last quarter output balances were positive in all regions with the exception of the East of England. In the last three months the picture has deteriorated across the board, with every region (except the East of England) seeing lower output balances over the quarter. The worst performing region was the East Midlands, where a balance of 16% of companies saw output contract. The South East and London region also saw a significant contraction. Regions in the north of the country performed better, however, with balances of 24% and 12% of companies reporting increased output in the North West and North East respectively.

Chart 11

Regions more pessimistic about the next quarter

% balance of change in next three months



Source: EEF Business Trends Survey

Looking ahead to the next three months there is a broad-based loss of confidence around predicting continued growth across the regions compared with last quarter. Companies in the North East are the most optimistic, expecting increased output and orders at home and in export markets. While several regions reported positive expectations about export orders, the South West and the West Midlands are the only other regions expecting any increase in output, reflecting the higher levels of optimism in motor vehicles and other transport sectors respectively.

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	-14	-14	-14	-8	-28	-28	-14	-7	0	-25
Eastern	5	11	30	35	11	35	11	11	35	11
South West	8	4	25	5	-21	13	0	0	32	0
West Mids	14	5	21	20	4	2	-5	9	17	-4
East Mids	-16	-19	-3	16	-16	-28	-29	-19	-13	-20
Yorks & Humber	7	7	2	14	5	-21	-10	-18	14	-24
North West	24	13	28	8	-2	-6	-7	7	6	-23
North East	18	5	32	9	-26	2	18	3	-3	-31
Scotland	5	-7	16	0		4	0	2	2	

Source: EEF Business Trends Survey

Economic environment

- UK GDP up by 0.5% in 2011q3;
- Monetary policy loosens again even as inflation remains well above target;
- Eurozone debt crisis claims its first scalps;
- United States growth remains sluggish with government mired in dissent;
- Forecast growth for emerging economies weakens on export outlook.

The UK’s recovery appears to be sliding into weaker territory with a modest 0.5% expansion in the third quarter and lead indicators suggesting 2011q4 is likely to be weaker still. Business investment, which had been expected by the Office for Budget Responsibility in March to underpin UK growth in 2011, fell by 1.4% in 2011q3 compared with the previous quarter.

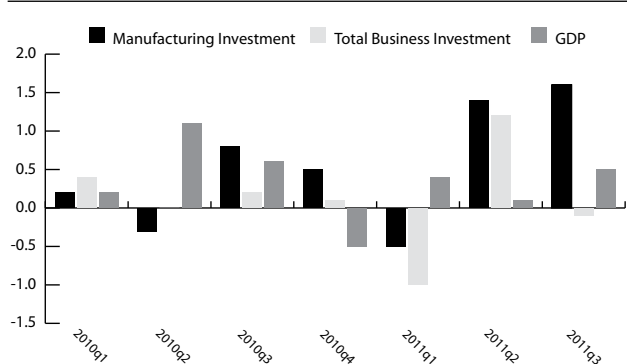
Within the overall output figures, manufacturing growth of 0.2% was recorded in 2011q3 meaning there have been eight consecutive quarters of growth in the sector since the end of the recession. More positively, manufacturing investment grew by a strong 15.7% quarter-on-quarter in 2011q3.

In its October meeting the MPC decided to expand the UK’s programme of asset purchases (QE) by a further £75 billion. This was even as CPI continued to exceed the Bank of England’s medium term target of 2% at 5.2% in September, moderating to 5.0% in October. Most forecasters now consider inflation to be at the top of the cycle with the impact of VAT increases dropping out of the annual measure from January and spare capacity expected to bear down on the headline rate.

Chart 12

Business investment yet to support overall growth

Contributions to GDP growth



Source: National Statistics

Unemployment has received a lot of attention recently as unemployment among 16–24 year olds increased to over one million people. Overall unemployment in the three months to September rose by 129,000 as the private sector struggles to absorb reductions in public sector headcount. The higher rate is coupling with inflation to act as a drag on UK consumption.

However, it is still the eurozone crisis that remains at the top of the news agenda. The lack of a decisive resolution continued through the third quarter and into the fourth and has led to a sharp downwards revision to our forecasts for European growth. The crisis now threatens to engulf even so-called core eurozone countries. For example France, which has seen its borrowing costs relative to German bunds, start to rise.

Attempts at bringing in a ‘big bazooka’ solution to the crisis, bolstering stabilisation funds to ensure liquidity lines for stressed eurozone countries could be maintained, founded almost immediately in late October. Greece’s now ex-Prime Minister, George Papandreou, precipitated an immediate slide in market confidence when he announced an intention to hold a public referendum on the latest stabilisation package for Greece. The immediate crisis was resolved when Papandreou stood down.

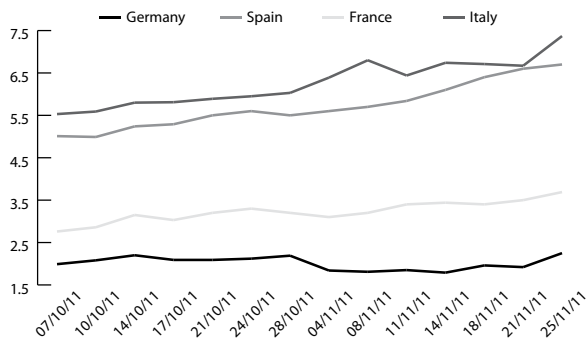
Since then however, focus has swivelled to Italy where the prime minister has also been replaced. The abrasive Silvio Berlusconi has stood down and been replaced by former European Commissioner Mario Monti who is charged with finding a programme of reforms for Italy that not only brings its large debt under control but also tackles its decades-long struggle with poor productivity growth.

Markets so far seem underwhelmed. Equities have fallen across and beyond Europe with one estimate on the decline in global equities for November set at \$4.6 trillion. Borrowing rates for the governments of the most imperilled eurozone countries, especially Italy, remain close to unsustainable levels. Nervousness in financial markets is returning to levels last seen immediately prior to the collapse of the Lehmann Brothers investment bank in September 2008.

Chart 13

Contagion fears spreading in eurozone to larger countries

Bid yield on ten year government bonds (%)



Source: FT and Thompson Reuters

Eurozone fears have also spilled into the US where Wall Street remains nervous that a possible sovereign default in Europe could spread via the banking system. This acts as a confidence drag in the US which, similar to the UK, is relying on investment to support overall growth in the face of weak consumer demand. The latest estimate for growth in the third quarter of 2011 for the US is the same as the UK at an annualised rate of 2%.

Some forecasters see 2012 as being a struggle for the US with many in the financial sector expecting yet more quantitative easing from the Fed. The inability of a so-called 'Super Committee' of both parties in Congress to agree a package of measures to stabilise the US deficit raises the spectre of another crippling government showdown in 2012 by setting in train a series of spending cuts and tax increases of over \$1.2 trillion. The OECD recently downgraded its forecast for the US in 2012 to 2% and commented further that the automatic government cuts could bring the U.S. to the edge of a recession.

In Japan and other trade-heavy Asian economies weaker European demand is likely to weigh on 2012 growth. Expectations of a strong rebound in Japan following this year's major earthquake have moderated somewhat as the weaker demand has coupled with a strong yen to hold back projected export growth.

Slower-than-potential growth in China, underlined by its strongest contraction in manufacturing output in 32 months in October, will help Chinese authorities in their struggle to moderate inflation. Chinese imports are still growing strongly and weaker external demand can to some extent be replaced by looser fiscal policy and stronger home consumption. Our central forecast is for emerging Asia (excluding Japan) to post a still respectable 6.7% growth in 2012.

UK Economic forecasts

% change except where stated

	2010	2011	2012
Trading environment			
Exchange rate (€/\$)	1.17	1.16	1.18
Exchange rate (\$/£)	1.55	1.60	1.55
Exports	6.2	4.9	3.4
Imports	8.5	0.2	2.6
Current account (£bn)	-36.7	-14.5	-17.5
Output			
Manufacturing	3.8	2.8	0.9
Rest of economy	1.6	0.8	1.1
GDP	1.8	0.9	1.0
Costs and prices			
Average earnings	79.5	110.2	96.0
Oil price (Brent Oil \$/bbl)			
Employment			
Manufacturing (000s)	2359	2342	2317
Rest of economy (000s)	28855	28804	28782
Unemployment rate (%)	7.9	8.0	8.5

Source: Oxford Economics and EEF

International Economic forecasts

% change except where stated

	GDP			Inflation		
	2010	2011	2012	2010	2011	2012
France	1.4	1.6	0.3	1.5	2.0	1.6
Germany	3.6	2.9	0.9	1.1	2.3	1.6
Japan	4.0	-0.7	2.0	-0.7	-0.2	0.3
US	3.0	1.8	2.3	1.6	3.3	2.5
Eurozone	1.8	1.6	0.2	1.6	2.6	1.8
China	10.4	9.1	8.2	3.3	5.6	3.5
India	8.9	7.1	7.4	12.0	8.9	6.4
Emerging Asia	9.1	6.9	6.7	5.9	6.9	5.3
World	3.8	2.8	2.8	3.4	4.4	2.4

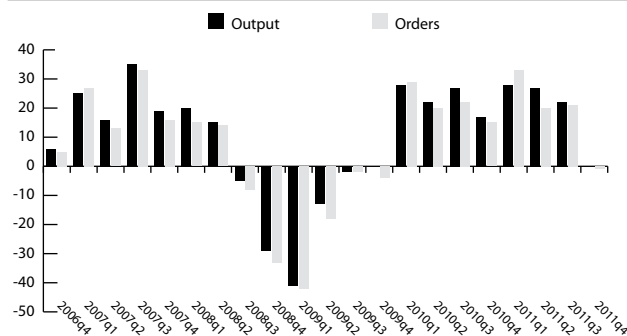
Source: Oxford Economics

Future trends

Chart 14

Expectations considerably weaker

% balance of change expected in next three months



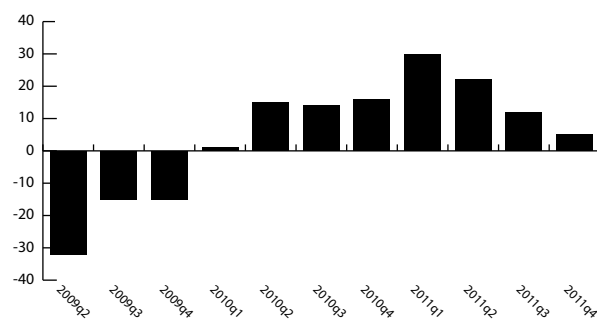
Source: EEF Business Trends Survey

The volatility that has hit the global economy in the last few months has begun to feed through to manufacturers' expectations. In the next three months output is expected to be broadly flat, while a small balance of 1% of manufacturers are anticipating a drop in new orders. Domestic orders are expected to fall more markedly, with a balance of 9% of companies expecting UK demand to weaken, but export orders – which have provided a major boost to the sector's recovery – are also expected to fall back. A balance of 2% of companies said they anticipated weaker demand from overseas in the next three months. This is the lowest export balance posted since 2009q3.

Chart 15

Employment expectations remain positive

% balance of change in next three months



Source: EEF Business Trends Survey

Although output and orders expectations have weakened markedly, companies are still intending to take on new employees. A balance of 5% of manufacturers said that they expected to expand their workforces in the next three months. Although this is some way below the balance of 12% reported in last quarter's survey it is still above the long-term average. Recruitment intentions seem strongly tied to output expectations, with motor vehicles and other transport among the sectors with the strongest intentions to recruit while the workforce is likely to be cut back in basic metals and rubber and plastics.

Summary: next three months

% balance of responses (% up minus % down)

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

Source: EEF Business Trends Survey

Sector forecasts

Since the recession ended, manufacturing output has rebounded more strongly than the overall economy buoyed by a strong recovery in global trade. Revisions to data in October and the latest output figure for manufacturing in 2011q3 show that we have now had eight consecutive quarters of output expansion.

In the last few months, however, economic headwinds have picked up considerably. The eurozone crisis has progressively worsened to the point where major European economies such as Italy and Spain and even France are being sucked into the spiral of increasing interest rates on their borrowing.

Manufacturing cannot escape the impact of this crisis. Over half the sector's exports are destined for European markets. Customers in these markets are becoming increasingly nervous about their short term prospects and this is spilling into orders.

Exports to other destinations are growing fast but off a relatively low base. And even markets outside Europe are becoming more cautious as the potential for contagion from the eurozone crisis chastens investment intentions.

As a result we now expect almost all sectors to grow more slowly in 2012 than we had in our last edition of *Manufacturing Outlook*. However, this generalised adjustment hides considerable diversity between sectors. Exposure to different markets and price pressures provides part of the explanation.

Announcements of investment programmes from several major motor vehicle manufacturers in the UK are indicative of relatively robust confidence in the medium term for the sector. Much of this is driven by very strong demand coming from emerging markets, particularly China. Our forecasts have come back somewhat for both 2011 and 2012 but we still expect growth of 11.0% and 4.4% respectively.

The mechanical equipment sector also benefits from having strong growth feeding through from emerging markets. The sector consistently appears robust and in fact our 2011 forecast has now been revised up to 8.0% before growth falls back to 2.2% in 2012.

The other transport sector contains military vehicle manufacturers, rail stock manufacturers, and aerospace manufacturers. Aerospace orders continue to come through very strongly, especially from the Middle East and other non-traditional markets, and appear to be offsetting weakness coming through from defence order cuts. We expect over 6% growth in both 2011 and 2012.

The electronics and electrical equipment sectors suffer compared with other areas of manufacturing by having a relatively higher exposure to consumer demand. The drain in consumer confidence as well as higher unemployment is weighing down on these

sectors. Our forecast for electronics has been scaled back and we now expect contraction in 2012 of 2.0%. Electrical equipment is expected to grow only very modestly at 0.7%.

Basic metals also expected to contract by more than previously thought and this is already reflected in falling global prices. Major weakness is coming from Europe with steel mills across the continent scaling back production. Some of this weakness will be offset by demand from China but we expect this to be insufficient to prevent contraction of 2.1% in 2012, though we are still far from the plummets in production seen in the 2008/09 recession.

Sector forecasts

	2010	2011	2012
Output (% change)			
Basic metals	11.5	1.5	-2.1
Metal products	2.9	4.2	1.7
Mechanical equipment	16.4	8.4	2.2
Electronics	1.6	4.5	-2.0
Electrical equipment	10.0	-0.5	0.7
Motor vehicles	18.6	11.0	4.4
Other transport	29.1	6.3	6.4
Food and drink	3.4	5.7	-0.5
Chemicals	-4.8	-1.9	2.1
Rubber and plastics	-2.8	0.0	1.9
Non-metallic mineral products	4.0	0.1	1.4
Manufacturing	3.8	2.8	0.9

Source: Oxford Economics

ONS Revisions

In October National Statistics published its annual set of revisions to output and GDP data. This was also accompanied by changes to the way in which industry sectors are classified.

Standard Industrial Classification (SIC) codes are used to classify businesses by their main area of activity. These were subject to some significant changes in 2007 to reflect the emergence of new products and industries in the economy and all economic data is now based on this new classification.

We want to make sure that our survey data reads across to official statistics and in the coming quarters we will also be moving across to the new SIC codes. From this quarter, our forecasts are based on the revised data from ONS. Previous growth and projections for future performance will, therefore, look different for some sectors compared with previous publications.



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

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

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