
MANUFACTURING OUTLOOK

JUNE 2010

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

Foreword

Welcome to the second quarter edition of Manufacturing Outlook, our quarterly report on the trends in UK manufacturing produced by EEF in partnership with BDO. Last quarter's survey showed that manufacturing had turned a corner, with more companies seeing growth in output and orders return, and with a greater sense of optimism about the next three months. This has been backed by other survey evidence and the official statistics, which all point to a bit more momentum behind the recovery across the sector.

Our latest survey continues with that theme, as manufacturers report that conditions have improved further in the past quarter. While manufacturing has quietly been playing a central role in driving the overall economic recovery, attention has been focused on political developments.

The new government – the first coalition for more than half a century – faces the daunting task of addressing the significant deficit in the UK public

finances and putting the UK economy on a more sustainable path to growth. Early statements have been promising in that they have acknowledged the need to rebalance the economy and that manufacturing has a role to play. This report should reinforce the positive contribution that manufacturing can make to the economy.

However, while the economy and manufacturing have returned to growth, many of the risks that have been around in recent years have not gone away. Our commentary on the economy looks at how the international outlook could evolve over the next year, along with our new forecasts for key markets. The health of the world economy is just as important as domestic issues for manufacturers given their exposure to a growing range of export markets.

As the economic outlook and the policy framework to support it evolves, our report will continue to report the most up to date trends and outlook from across the UK.

Tom Lawton, Head of Manufacturing, BDO LLP

Lee Hopley, Chief Economist, EEF

Summary

- Continued improvement in output and orders in q2
- Domestic orders balances catch up with exports
- Employment intentions turn positive
- But investment remains flat
- Forecasts predict growth of 3.5% in manufacturing

Last quarter our survey reported the first positive balances in output and orders for 18 months. The improving prospects for manufacturing indicated by our Business Trends Survey were confirmed by the official statistics, which report a 1.2% expansion in output in the first quarter of this year. The latest survey points to a further improvement in trading conditions in the second quarter. The balance of responses on both output and orders are the strongest since 1995 at 30% and 38% respectively.

Moreover, the recovery is broad based across manufacturing with all sectors reporting strong positive balances across a range of questions over the past three months. In addition, new orders balances in the UK market were on a par with those in export markets. And continuing with the broad based theme, responses on export orders over the past three months were equally positive from both EU and non-EU markets.

On the back of improved order books and output levels, responses on employment turned positive in the second quarter and a balance of companies expects to recruit over the next three months. Feedback from manufacturers suggests that at least some of this will be increased use of agency workers, which allows companies to retain workforce flexibility should the recovery stutter later in the year.

While more optimism across the sector is translating into recruitment, it has not yet fed through to investment plans. Our survey explored some of the factors holding back investment plans with companies citing multiple barriers to investment including uncertainty about demand, lack of finance and concerns about tax changes in the forthcoming emergency Budget.

Over the past three months a balance of companies also reported increasing prices on both UK and export sales. There were the first positive price balances since 2008q4. While the weaker Sterling exchange rate is providing a competitive boost for exporters, it is also increasing the cost of imported goods, and in some cases this is on top of rising commodity prices. UK inflation has been on the rise

since the beginning of the year – partly in response to base effects from rising VAT and fuel prices, which were falling a year ago. But the MPC will nevertheless be keeping a close eye on these price movements.

Looking ahead to the next quarter, output and orders balances remain strongly positive indicating continued optimism, at least for the short term. Our forecasts predict 3.5% growth in manufacturing both this year and next as output recovers from the depths of the recession. Engineering output, which fell by 15% in 2009, is expected to grow by 6.4% in 2010. Manufacturing saw similar surges in activity following the 1980s and 1990s recessions.

Manufacturing - Headline survey results

% balance of change

	Past 3 months	Next 3 months
Output	32	21
Total orders	36	21
Employment	10	14
Export prices	5	11
Export margins	-10	-9
Cashflow	11	4

Source: EEF Business Trends Survey

Economic data during survey period

5 May - 26 May

	Start	End
€/£	1.17	1.18
\$/£	1.51	1.44
£ index	80.2	79.1
Oil price	82.3	67.2

Source: Bank of England and Energy Information Agency

Key economic forecasts

% change except where stated

	2008	2009	2010	2011	2012
GDP	0.5	-4.9	1.1	2.3	2.9
Inflation – CPI	3.6	2.2	2.9	1.4	1.6
Inflation – RPI	4.0	-0.5	3.8	2.1	2.7
World trade	2.2	-13.1	7.9	7.1	8.4
Base rate (%)	4.7	0.6	0.5	1.0	2.1

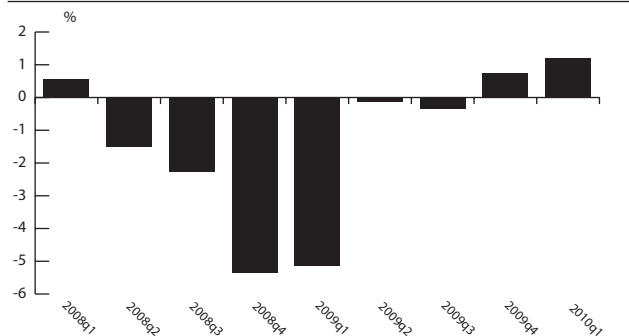
Source: Oxford Economics and EEF

Manufacturing outlook

Chart 1

Manufacturing posts further growth in q1

% quarter on quarter change in output

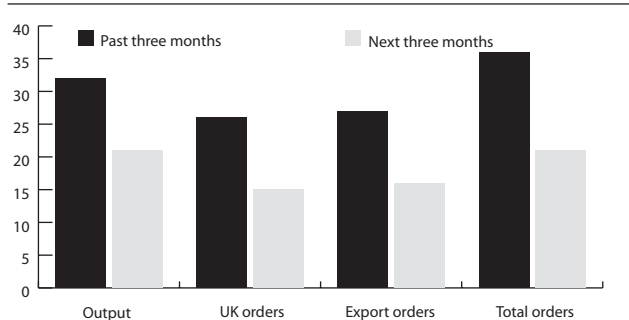


National Statistics

Chart 2

Recovery gains momentum in q2

% balance of change in past three months



Source: EEF Business Trends Survey

Manufacturing output rose by 1.2% in the first three months of this year – the strongest quarterly growth rate posted for four years. And according to the official data manufacturing production has increased in five of the past seven months. Most sectors also saw some growth in the first three months of the year, but there was a notable expansion in basic metals, motor vehicles and mechanical equipment. While the recovery appeared to gain more momentum in the first quarter, following a return to growth at the end of 2009 output levels remain 11% below their pre-recession peak in 2008q1.

Following two consecutive quarters of growth our survey suggests that the recovery in output will continue over the next six months. A balance of 32% of companies reported rising output over the past three months, up from 9% in the previous quarter. The outturn for the second quarter was also a touch better than firms had been expecting last time. Strong positive balances on new orders over the past three months should help maintain rising output levels and over 80% of manufacturers expect output levels to be the same or higher in the next three months. Similarly, while the forward looking orders balances have eased slightly, less than a fifth of companies expects to see their order intake decline.

Summary

% balance of responses (% up minus % down)

	Past three months	Next three months
Total output	32	21
UK new orders	26	15
Export new orders	27	16
Total new orders	36	21
Employment	10	14
Capital expenditure plans	1	
Average price of domestic orders	5	14
Average price of export orders	5	11
Margins on domestic orders	-18	-15
Margins on export orders	-10	-9
Levels of cashflow	11	4

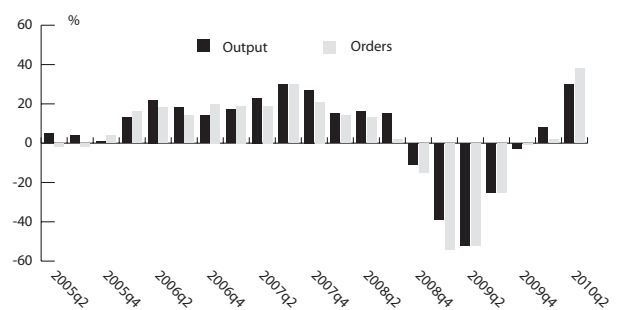
Source: EEF Business Trends Survey

Recent trends

Chart 3

Output and orders remain positive

% balance of change in past three months



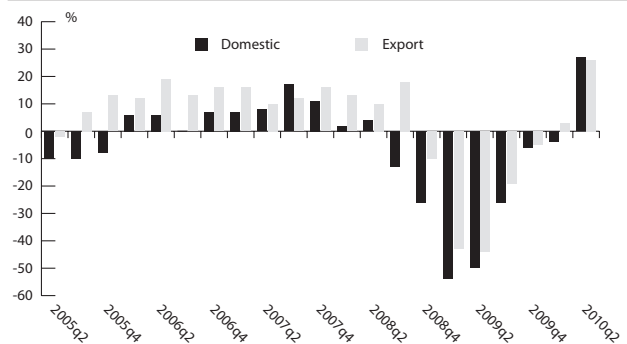
Source: EEF Business Trends Survey

Both output and new orders have picked up over the second quarter of 2010, after moving back in to positive territory at the start of the year. A balance of 30% of companies reported increased output in the last three months: this figure reflects improvements from a low base. Nevertheless anecdotal evidence suggests some companies are experiencing a substantial upswing in their order intake. A balance of 34% of companies also reported that total orders had increased. These positive trends are consistent with official data showing that industrial production increased strongly in the early months of 2010.

Chart 4

UK orders catch up with exports

% balance of change in orders in past three months



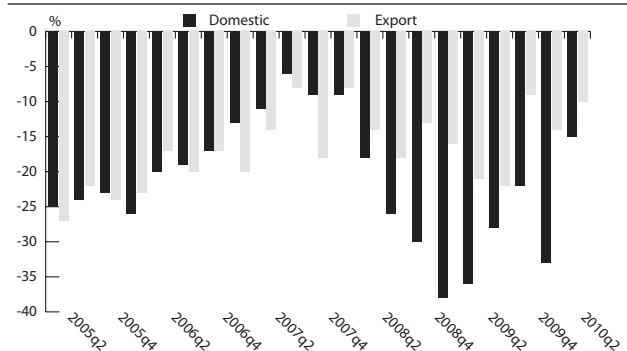
Source: EEF Business Trends Survey

Export orders turned positive at the beginning of 2010, and a balance of 23% of companies saw an increase in export sales in the past three months. This is the highest recorded balance for the survey, and compares with a pre-recession peak of 18% in 2008q3. Responses indicate increased demand from both EU and non-EU markets. Export volumes have been boosted by the weaker Sterling and a recovery in global demand. The balance of domestic orders in the past three months was also up to 24%, following negative balances since early 2008. This is also the highest positive balance on record for this measure.

Chart 5

Prices positive, but margins remain negative

% balance of change in margins in past three months



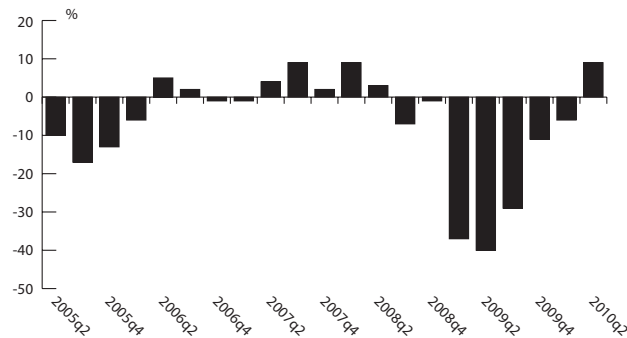
Source: EEF Business Trends Survey

Prices balances nudged into the positive this quarter, with a balance of 5% of companies increasing UK prices. A balance of 2% of exporters raised their prices in the last quarter too. Downward pressure on margins has eased over the past quarter, but balances remain negative, particularly for domestic orders where a balance of -15% was reported. Margins have been affected by increasing commodity prices – exacerbated by the weak Sterling – and continued pressures from customers to keep prices down in what remains a very competitive environment for manufacturers.

Chart 6

Companies begin to take on new workers

% balance of change in employment in past three months



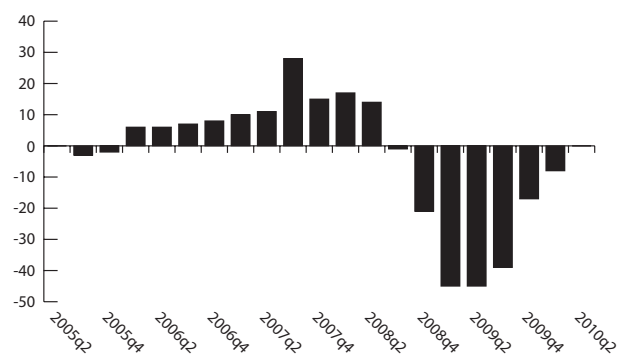
Source: EEF Business Trends Survey

Employment responses show that a balance of 9% of companies began to take people on in the last three months – a notable turnaround from the negative balances reported over the last two years. This increase is linked to the recent growth in orders as companies have to hire new people to meet demand. However, anecdotal evidence suggests that, rather than hiring permanent employees, many employers are taking on agency and temporary workers to provide flexibility if the recovery falters. This use of agency workers may also reflect the fact that many companies retained skilled workers during the recession.

Chart 7

Investment plans on hold

% balance of change in investment plans



Source: EEF Business Trends Survey

Investment balances remain low. A 0% balance showed companies were wary about plans for capital expenditure after seven consecutive quarters of reduced investment. High levels of uncertainty are reducing companies' willingness to invest. In particular, 65% of companies cited uncertainty about domestic demand as limiting capital expenditure, whilst uncertainty about future business tax changes was limiting investment amongst 46% of companies. A lack of internal finance and decisions made by parent companies also reduced planned capital expenditure for over half of the companies surveyed. In the previous recession increases in investment lagged behind increases in output by nearly a year.

Summary: past three months

% balance of responses (% up minus % down)

	2008		2009				2010	
	q3	q4	q1	q2	q3	q4	q1	q2
Total output	15	-11	-39	-52	-25	-3	8	30
UK new orders	-13	-26	-54	-50	-26	-6	-4	24
Export new orders	18	-10	-43	-44	-19	-5	3	23
Total new orders	2	-15	-54	-52	-25	-1	2	34
Employment	-7	-13	-37	-40	-29	-11	-6	9
Capital expenditure plans	-1	-21	-45	-45	-39	-17	-8	0
Average price of domestic orders	27	6	-7	-16	-15	-15	-8	5
Average price of export orders	18	1	-6	-18	-17	-13	0	2
Margins on domestic orders	-26	-30	-38	-36	-28	-22	-33	-15
Margins on export orders	-18	-13	-16	-21	-22	-9	-14	-10
Levels of cashflow	-1	-17	-36	-29	-8	-8	-7	10

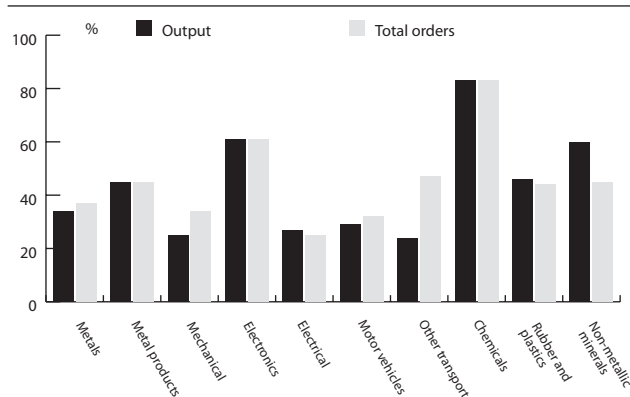
Source: EEF Business Trends Survey

Sector trends

Chart 8

Output turns positive across manufacturing

% balance of responses in past three months



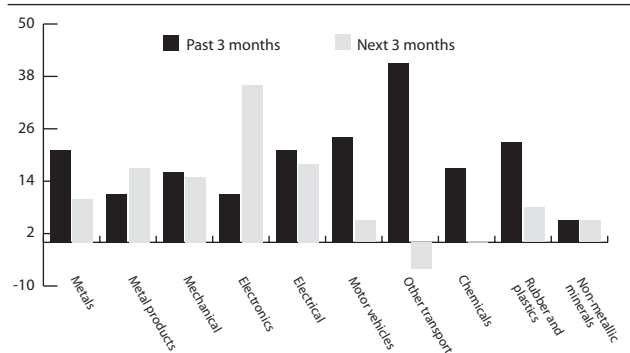
Source: EEF Business Trends Survey

Output balances have now turned positive for all sectors compared with a more mixed picture in q1. Particularly strong results were notable for electronics (with a balance of 61% of companies reporting increased orders) and chemicals (83%). Strong output has been buoyed by strong order books: both domestic orders and export orders balances were positive for most sectors, suggesting that the recovery is fairly broad based. Total orders were positive for every sector. This is the first time no sector has reported a negative balance for total orders since 2007q4.

Chart 9

Signs of recruitment in most sectors

% balance of change in employment



Source: EEF Business Trends Survey

Most sectors reported a positive balance for employment in the last three months, which is reflected in statistics from Job Centre Plus which show that the number of vacancies notified for manufacturing jobs is higher this quarter than in the last. Looking to the next three months, there were negative balances for food and drink and other transport of -17% and -6% respectively. Anecdotal evidence suggests that other transport, which includes defence manufacturers, is suffering from uncertainty in the market due to the upcoming Strategic Defence Review. Any good news about employment is dependent on stable demand, continued orders and output growth.

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	34	37	21	20	29	20	20	10	18	-9
Metal products	45	45	11	0	23	19	15	17	16	3
Mechanical	25	34	16	-1	13	26	19	15	4	7
Electronics	61	61	11	-8	22	21	18	36	0	11
Electrical	27	25	21	-2	26	34	39	18	6	0
Motor vehicles	29	32	24	6	7	11	8	5	3	-23
Other transport	24	47	41	-6	12	0	25	-6	-7	6
Chemicals	83	83	17	0	17	50	33	0	0	-33
Rubber and plastics	46	44	23	13	35	23	32	8	48	4
Non-metallic mineral products	60	45	5	47	30	20	15	5	38	40

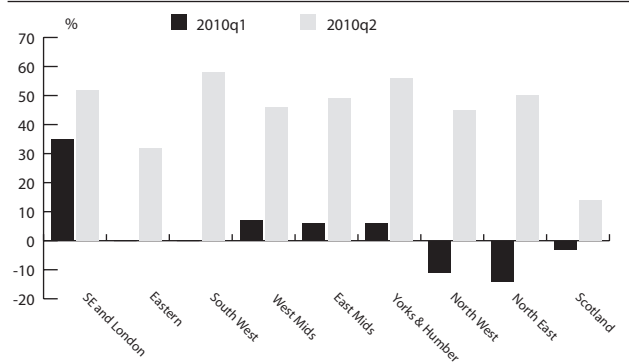
Source: EEF Business Trends Survey

Regional trends

Chart 10

All regions report increased orders

% balance of change in orders in past three months



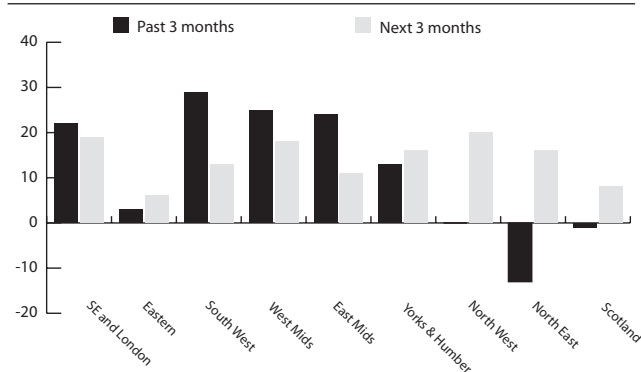
Source: EEF Business Trends Survey

All regions have reported increased orders in the last three months; a positive story given that the last time every region experienced positive growth in total orders was the second quarter of 2008. The North East and the North West have exhibited a particularly strong turnaround from negative balances in the first three months of the year, in part due to the substantial pick up in domestic and export orders for motor vehicles. The South West appears to be the best performing region, with a balance of 58% of companies reporting increased orders, spurred on by the ongoing rebound in electronics.

Chart 11

Recruitment expected in all regions

% balance of change in employment



Source: EEF Business Trends Survey

In the past three months negative employment balances were reported in only the North East (where a balance of -13% of businesses reported taking on new workers) and Scotland (-1%), with a 0% employment balance in the North West. The lower employment balances reflect lower levels of orders in these regions in 2010q1. Given more buoyant levels of orders in the second quarter companies in all regions have reported a positive balance for employment expectations in the next three months. Companies in the North West in particular were likely to be considering taking on workers, with a balance of 20% companies planning on increasing employment.

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	52	52	22	-3	13	25	41	19	-7	0
Eastern	35	32	3	17	9	15	15	6	21	15
South West	61	58	29	0	23	23	23	13	8	10
West Mids	51	46	25	6	16	19	23	18	17	-5
East Mids	53	49	24	6	16	22	22	11	14	20
Yorks & Humber	48	56	13	11	9	36	32	16	17	9
North West	33	45	0	-4	-3	33	30	20	2	-7
North East	31	50	-13	-4	13	0	19	16	8	-6
Scotland	12	14	-1	3		15	6	8	10	

Source: EEF Business Trends Survey

Economic environment

- UK GDP expands by 0.3% in q1
- Households and trade yet to contribute to growth
- Investment recovery uncertain
- Global recovery on track, but risks remain

The UK economy grew by 0.3% in the first three months of this year, a touch weaker than the 0.4% expansion recorded in the final quarter of 2009. A second consecutive quarter of growth indicates that the UK economy managed to navigate some of the risks around a double dip recession in the first quarter – such as the impact of higher VAT, ongoing credit constraints and uncertainty about the strength of the recovery elsewhere in the world. While the UK economy has now appeared to have turned a corner, closer inspection of the contributors to growth shows the recovery is not yet built on firm foundations.

The biggest contributions to growth came from further inventory adjustments; an increase in government spending and a small boost from investment. However, consumer spending remained flat and net trade continued to provide a drag on growth as imports again rose more quickly than exports. The weakness in consumer spending in the first quarter of the year can be attributed to a number of factors; including the increase in VAT to 17.5% in January pulled some spending forward to the end of 2009; colder than average weather conditions and fragile consumer confidence.

While the labour market appears to have stabilised and unemployment did not rise by as much as many had expected during the recession, a jobless recovery looks likely. In addition, the extent of public sector job cuts – a likely consequence of future public spending cuts – is another unknown. Pay growth has been very muted over the past year and households are unlikely to see much growth in disposable income over the coming year, despite interest rates remaining low. Overall there is little to suggest that the prospects for the consumer or household spending are likely to significantly improve in the remainder of the year.

While government spending made a small positive contribution to growth in the first quarter, this will again peter out as the new coalition government sets to work on repairing the public finances. Ahead of an emergency Budget, planned for the end of June, the Chancellor has set out initial cuts to government spending of just over £6 billion, with the bulk of the cuts coming from the cost of government.

Despite this early start to fiscal consolidation, £6 billion represents only a small fraction of the cuts that need to be made over the coming Spending Review period.

The emergency Budget will provide more of the detail – most likely on the tax raising side of the equation. Uncertainty about what shape these will take and the extent to which business will shoulder the burden has been one of the factors holding back business investment by manufacturers. While investment across the economy as a whole picked up in the first three months of the year, with some help from the temporary increase in first capital allowances, which expired in April, our survey shows that investment plans remain flat. The main factor holding capital expenditure plans back is uncertainty about demand, but around half of companies cited uncertainty about future business tax changes – as shown in chart 12. Our central forecast is for manufacturing investment to rise through the second half of 2010, before growing by 5.1% in 2011.

UK Economic forecasts

% change except where stated

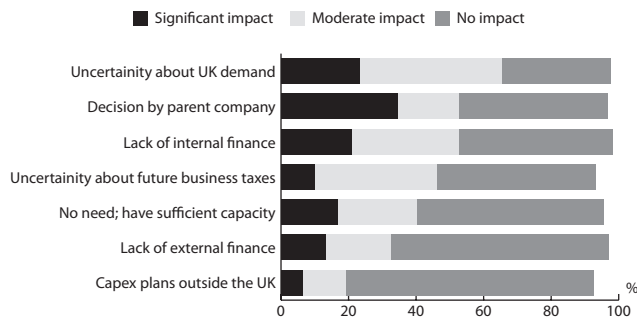
	2009	2010	2011
Trading environment			
Exchange rate (€/£)	1.12	1.15	1.20
Exchange rate (\$/£)	1.57	1.49	1.41
Exports	-10.5	4.0	6.3
Imports	-11.8	5.5	1.3
Current account (£bn)	-28.8	-42.0	-31.7
Output			
Engineering	-15.2	6.4	5.0
Manufacturing	-10.5	3.5	3.5
Rest of economy	-4.1	0.8	2.1
GDP	-4.9	1.1	2.3
Costs and prices			
Average earnings	1.4	2.0	2.2
Oil price (\$/barrel)	61.6	81.3	86.2
Employment			
Engineering (000s)	1,126	1,086	1,075
Manufacturing (000s)	2,570	2,487	2,452
Rest of economy (000s)	28,373	28,193	28,249
Unemployment rate (%)	7.7	8.1	8.1

Source: Oxford Economics and EEF

Chart 12

Investment held back by multiple factors

% of companies citing barrier to investment



Source: EEF Business Trends Survey

We had been expecting net trade to be making a greater contribution to growth at this point. Most survey evidence, including our own Business Trends Survey, points to companies feeling the benefits of a recovery in global trade and the weak, albeit volatile, Sterling exchange rate. However this has not yet translated into a strong increase in exports in the official statistics. Feedback from manufacturers suggests that exports to traditional developed markets are up slightly, but those with exposure to emerging markets in the Middle East and Far East have been reporting more buoyant sales.

While the eurozone Purchasing Managers' Indices have pointed to an expansion in both manufacturing and service activity since the turn of the year the region has posted only modest growth over the past two quarters. Fears of sovereign debt default in Greece and growing concerns about contagion to other peripheral eurozone economies has led to significant financial and currency market volatility in recent weeks. A substantial €720 billion stabilisation package has been agreed by EU governments, but uncertainty remains in global markets.

Given the need for fiscal consolidation across much of Europe, weak domestic demand and rising unemployment, net trade will have to take up the slack for the recovery to gather any pace. And given the downside risks facing the eurozone economy, our forecasts for growth this year have been revised down to 0.7%. In contrast we've seen more balanced growth in the US. GDP expanded at an annualised rate of 3% in the first quarter of this year, on the back of 5.6% growth in 2009q4. Households spending and investment made positive contributions to growth, but the boost from net trade

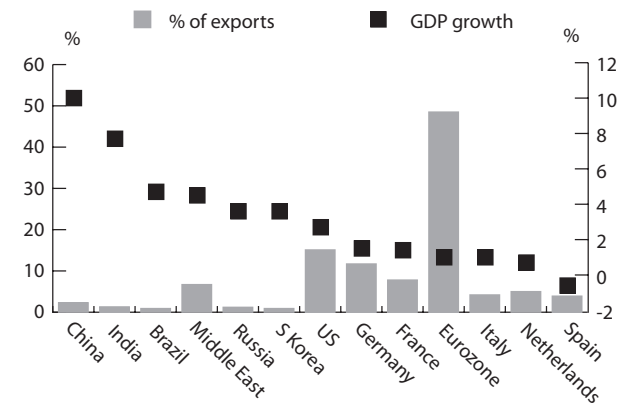
in the final months of 2009 eased as imports rose more rapidly than exports.

While our forecast for the US has been nudged higher to 3.5% this year, the best prospects for growth are to be found in emerging economies. The BRIC economies, along with the Middle East region are all expected to post growth of between 5-10% this year. However, as chart 13 shows, these markets make up a relatively small proportion of manufactured exports, with the majority of exports destined for slower growing developed economies. While UK companies have made progress in tapping into new export markets over the past decade, growth in exports to these markets is starting from a relatively low base. If the eurozone economy stutters in the remainder of this year, demand for UK exports from the BRIC economies will not be sufficient to pick up the baton from the eurozone and cement an export led recovery in the UK.

Chart 13

Weaker growth forecast for biggest markets

% of UK exports and % annual GDP growth, 2010



Source: National Statistics and Oxford Economics

International Economic forecasts

% change except where stated

	GDP			Inflation		
	2009	2010	2011	2009	2010	2011
France	-2.5	1.2	1.7	0.1	1.9	1.9
Germany	-4.9	1.5	1.7	0.3	1.3	1.5
Japan	-5.2	1.6	1.6	-1.4	-0.7	0.3
US	-2.4	3.5	3.8	-0.3	2.1	2.0
Eurozone	-4.0	0.7	1.3	0.3	1.5	1.6
China	8.7	9.0	8.8	-0.7	3.5	4.3
India	6.4	7.8	9.0	10.9	11.5	4.8
Emerging Asia	5.1	7.6	7.5	2.8	4.6	3.8
World	0.8	3.9	4.5	2.2	3.2	3.3

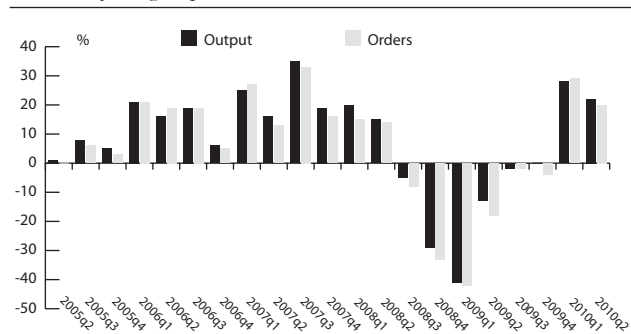
Source: Oxford Economics and EEF

Future trends

Chart 14

Rebound in expectations continues

% balance of change expected in next three months



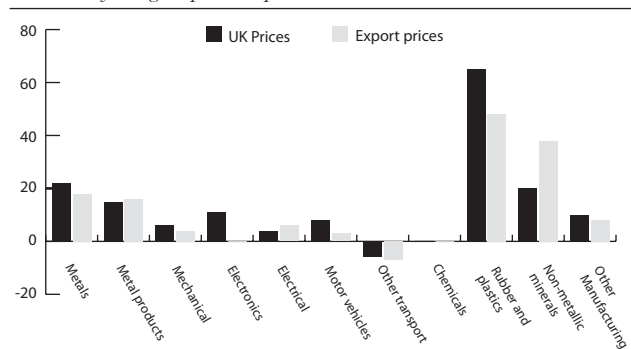
Source: EEF Business Trends Survey

After moving into positive territory last quarter, expectations for output and orders in the next three months remain positive, with a balance of 22% of firms expecting increased output and 20% expecting increased orders. The balances have fallen but for many companies levels of output and orders in the second quarter are set to be maintained over the coming quarter. All sectors reported a positive balance for expectations total orders. In addition positive balances were reported for both expectations of domestic orders (12%) and export orders (15%). However, while positive balances are broad based, for some there is slightly more scepticism about long-term prospects in key markets.

Chart 15

Price rises limited to a few sectors

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



Source: EEF Business Trends Survey

Over the past quarter the balance of companies raising prices on both domestic and export sales moved into positive territory for the first time since 2008q4. Price rises are expected to continue over the next three months, but with some clear sectoral differences. The official producer price series shows that rising input price inflation has been limited to petroleum products, rubber and plastics and metals on the back of a pick up in commodity prices. Our survey suggests that price increases are not set to be widespread across manufacturing in the short term, with the balance of companies increasing prices to any great extent again confined to a limited number of sectors.

Summary: next three months

% balance of responses (% up minus % down)

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

Source: EEF Business Trends Survey

Sector forecasts

Almost one year on since the end of the recession, manufacturing and engineering are recovering strongly. The latest official data estimate that manufacturing output grew by 1.2% quarter-on-quarter in q1, far outpacing the modest 0.3% growth across the whole economy. However, the foundations for economic growth remain weak, with minimal contribution to first quarter growth coming from household and government spending.

Having contracted by almost 10.5% in 2009, we expect manufacturing output to rise by 3.5% in 2010 and 2011. Engineering, having lost 15.2% of output in 2009, should rise by 6.2% this year and 5.0% in 2011. The upgrade to our forecasts for annual growth is due, in part, to strong growth in q4 2009 and q1 2010. But it also reflects rebounds from extremely low levels, as double-digit declines in output were commonplace across manufacturing sub-sectors in 2009. We do expect the pace of growth to slow as activity returns to pre-recession levels. Indeed, firms are cautious about the momentum behind the recovery and we believe this uncertainty reflects downside risks to our forecasts, including Eurozone sovereign debt troubles and fiscal consolidation in the UK.

The government-backed scrappage schemes in the UK and in key European markets helped put a floor under the 2009 downturn, but there already signs of payback with sales falling after the public subsidy was withdrawn. Long order books should help the civil aerospace industry withstand the short-term fall in orders as airlines' profits recover from the harsh winter and the volcanic-ash cloud delays. The defence industry, faced with a Strategic Defence Review and budget cuts is already starting to cut costs, including wages and staff levels.

The chemicals industry is set to benefit from restocking, but prospects will be limited by overall economic growth and a greater reliance on generic drugs. Fortunately, the sector faces limited competition from new plants in China, India and the Middle East and so should see quarter-on-quarter growth between 0.9%–1.3% for the remainder of the year.

The electrical equipment sector – which includes chip makers and power generation and distribution equipment – is expected to grow by 3.2% in 2010 as the demand for handheld electronic devices surges and investment in green energy supplies increases. The electronics sector rebounded from recession in q2 2009 and should grow by 3.5% this year. The rubber and plastics sector is likely to grow by 2.3%

in 2010, while the food and drink industry will see slightly higher output growth of 2.8%.

Mechanical equipment is set to benefit from the pick up in exports to grow by 8.2% in 2010. This rebound should feed through to the metal products industry which should grow by 5.2% this year. The basic metals sector has struggled so far in 2010 from weaker metals prices and a permanent loss in capacity.

The employment outlook continues to improve, reflecting improved prospects for activity. The pace of job losses is expected to slow further through 2010 and 2011, however, rising inflation and a return to normal working hours are starting to lead to wage pressures for many manufacturers.

Sector forecasts

	2009	2010	2011
Output (% change)			
Basic metals	-24.8	8.5	3.1
Metal products	-17.4	5.2	6.2
Mechanical equipment	-20.5	8.2	5.9
Electronics	-5.0	3.5	4.6
Electrical equipment	-21.6	3.2	6.9
Motor vehicles	-27.9	16.4	5.1
Other transport	2.7	3.2	4.1
Food and drink	-2.1	2.8	1.3
Chemicals	-4.6	-1.4	3.6
Rubber and plastics	-13.2	2.3	6.0
Non-metallic mineral products	-13.2	8.4	7.7
Other manufacturing	-8.0	3.8	1.1
Engineering	-15.2	6.4	5.0
Manufacturing	-10.5	3.5	3.5
Employment (% change)			
Basic metals	-9.2	-7.6	-4.0
Metal products	-7.5	-3.3	-0.4
Mechanical equipment	-7.6	-4.1	-1.1
Electronics	-5.7	-2.5	0.0
Electrical equipment	-9.9	-4.1	-1.4
Motor vehicles	-14.2	-3.0	-2.4
Other transport	-2.4	-2.8	-0.3
Food and drink	-2.1	-1.2	-1.1
Chemicals	-4.9	-2.6	-1.9
Rubber and plastics	-9.0	-3.0	-1.7
Non-metallic mineral products	-14.0	-4.5	-2.0
Other manufacturing	-7.6	-3.3	-0.6
Engineering	-7.8	-3.6	-1.0
Manufacturing	-7.0	-3.2	-1.4

Source: EEF

BDO viewpoint

This quarter's survey results are extremely positive and very pleasing for all supporters of manufacturing.

Whilst it is important to note that risks remain to growth both in the UK and global economy, manufacturing has had another good quarter with expectations that growth will continue. Although not easy for the "national psyche" we hope that sterling remains stable, allowing manufacturers to gain export market share and perhaps rethink some of their offshoring strategies to bring more manufacturing back into the UK.

At a macro level manufacturers now need to get used to the implications of the new coalition government as it wrestles with the deficit in the public finances and continues to deal with the ups, downs, challenges and opportunities of the global economy.

The new coalition government is talking very positively about the importance of manufacturing to the UK economy. At this early stage we hope that the coalition actions for manufacturing actually do align with the rhetoric. Our discussions with manufacturers indicate that they want the new government to focus on five priority areas: setting out how the public finances will be brought into balance; creating a business environment (including tax reform and regulation) that allows manufacturing to be competitive, providing specific

support to mid-market manufacturers, supporting investment in emerging technologies and finally understanding how all parts of government impact on the needs of modern manufacturing.

But manufacturers have never waited for, or relied on, politicians and regulators to initiate change. We think that the rapidly growing emerging economies (what we are calling the New Economic World Order) provide a huge opportunity for UK manufacturing. We believe that growth could be achieved on an unprecedented scale for manufacturers who can identify the opportunities, understand their core capabilities, work hard to nurture them, who are able to adapt to and fully understand the rapidly evolving international market place.

We have one question to ask all manufacturers: Are the threats and opportunities generated from the New Economic World Order considered at a strategic level at each Board meeting?

Tom Lawton, Head of Manufacturing, BDO LLP

About us

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

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

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

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

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About BDO LLP

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

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

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

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

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

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