
REGIONAL MANUFACTURING OUTLOOK

JULY 2018



2.6 million
employees



1/2 of UK
exports



69% of business
R&D



Average wages higher
than the rest of the
economy

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FOREWORD



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Welcome to our fourth annual *Regional Outlook* report, in partnership with BDO, in which we outline how trends in manufacturing over the past year have evolved around the UK.

Drawing data from EEF's quarterly Manufacturing Outlook survey our regional report shows that industry had fared well across all regions over the past year, with a clean sweep of positive response balances for our main indicators across all regions, reflecting the broad-based and largely export driven growth the sector as a whole has experienced over the past year. As always, the sectoral make up in each region means that the leading and lagging regions have shifted about somewhat, compared with a year ago.

In the ascendancy are regions with a dominant metals industry – which was having a better time of it following action on global capacity and rising prices. These regions include the North East, which saw the biggest improvement in orders on last year and Yorkshire and Humberside. Regions with a heavy presence of capital goods manufacturers – such as the South East and West Midlands were also among the better performing regions.

Well documented challenges in automotive and the construction supply chain are also making their presence felt in different parts of the country – weighing on investment in the West Midlands and pushing the East Midlands down the league table of regional performance.

There are a number of dynamics in the domestic, but more pertinently, the global economy that could prompt further reshaping of the table in the coming year. At

the time of writing, escalating global trade tensions – not captured in our surveys – could derail the solid performance of regions with dominant basic metals industries, for example. And it is unclear what other sectors could be brought into the orbit of on-going trade wars.

The progress of Brexit negotiations has the potential to be a factor in future regional performance, depending how the final deal on trade and customs shapes up. The automotive sector, for example, has been clear about the investment risks from a deal that creates additional trade friction, this would clearly play out negatively in regions such as the Midlands and North West.

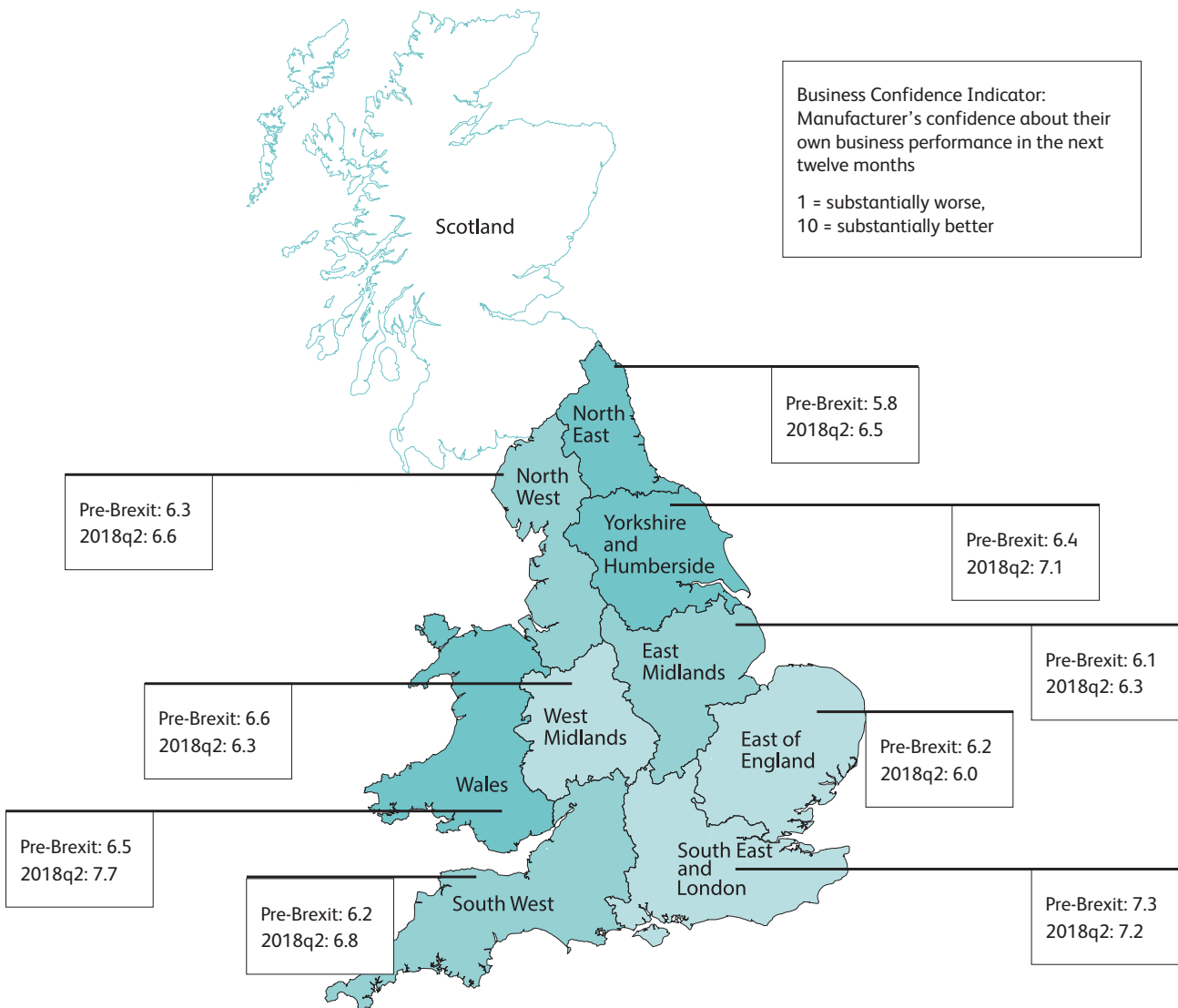
Aside from the UK's exit from the EU, the other issue preoccupying policy makers is a failure to launch any kind of productivity revival across the economy. Manufacturing productivity, as measured by output per hour, has plateaued in the past decade. But getting productivity growth back on its pre-crisis trend would do a lot to boost the overall performance of the UK economy.

Our report takes a look at how the performance of manufacturing productivity differs across the country. Something the government's industrial strategy and the development of local strategies will need to consider as part of improving the bigger picture. With progress on both fronts still under construction, we'll have to wait until next year to see how industrial strategy is driving growth and productivity across the UK.

REGIONAL SNAPSHOT

The past year has seen a pick-up in confidence across the majority of UK regions, continuing the recovery from the wobble in the immediate aftermath of the Brexit vote. Only the East of England, South East and London, and West Midlands bucked this trend, remaining below their pre-Brexit levels. The broad improvement in

confidence is not that surprising given the exceptional year manufacturing on the whole has had, with order books well stocked across the year. Nevertheless uncertainty, particularly the closer we get to the 2019 EU exit deadline, as well as rising global trade tensions, risks hindering manufacturers' outlook in the coming year.



Change in Business Confidence Indicator*: pre-Brexit compared to 2018 Q2

- 0.6+
- 0.1 to 0.5
- -0.4 to 0
- -1 to -0.5
- No results

* -1 = largest drop in confidence, 1 = biggest increase in confidence

HOW DO THE REGIONS/NATIONS COMPARE

The manufacturing sector has been riding a positive wave over the past year (2017q3 – 2018q2), with the synchronized upturn in the global economy, the weaker level of Sterling since mid-2016, and the global revival in business investment all helping to boost manufacturers across the UK.

The regional summary below is case in point; with a clean sweep of positive balances across the board and only one single digit balance recorded, a rare feat in our survey. While looking at the quarterly profile of these balances points to an easing in momentum at the start of this year, this should not detract from what has been an exceptional 12 months for manufacturers in the UK.

The South East and London, North West and Yorkshire and Humber are the star performers this year, with

exceptional output and order balances, being backed up by solid employment and investment activity. The North West in particular has seen strong demand result in its employment balance more than doubling over the last year, the most improved of any region.

If there is one downside in this year's report it is that investment balances in general remain weaker across regions, with political and economic uncertainty as a result of the UK's upcoming departure from the European Union holding back some capex spending. Manufacturers while increasing investment to satisfy current demand requirements, appear to be holding off larger scale investments until they have some clarity on the post-2019 landscape.

REGIONAL SUMMARY

% AVERAGE BALANCE OF CHANGE 2017 Q3 – 2018 Q2*

	OUTPUT	ORDERS	INVESTMENT	EMPLOYMENT
East Midlands	23↓	16↓	27	24
Eastern	29	42↑	15	15
North East	34	28↑	16	29↑
North West	34	45	24	33↑
South East & London	47	46	17	26
South West	22	20	14	16↓
West Midlands	31	22	4↓	19
Yorks & Humber	37	32	20	31
Scotland	17	22	15	13
Wales	34↑	34	49↑	13

Source: EEF Manufacturing Outlook Survey

Key:

- Top performer
- Bottom performer
- ↑ Improved most compared with last year
- ↓ Worsened most compared with last year

* The data is sourced from EEF's Quarterly Manufacturing Outlook survey. All survey data apart from the Confidence indicator is presented in balances; that is, the number of positive responses minus the number of negative responses, after discounting for neutral responses.

EAST MIDLANDS

The East Midlands is the UK's eighth largest region in terms of total output. Yet within this, manufacturing accounts for 16.7%, making it the region with the second highest proportion of manufacturing output within the UK, after Wales. There were 12,210 manufacturing businesses in the region in 2017, up 1% from 2016. The region's largest manufacturing sectors are food and drink, transport equipment and rubber, plastics and non-metallic minerals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	5.6	–
Manufacturing	9.3	16.7
Services	5.1	71.2
Construction	6.1	6.7

Source: ONS (2016)

EMPLOYMENT:

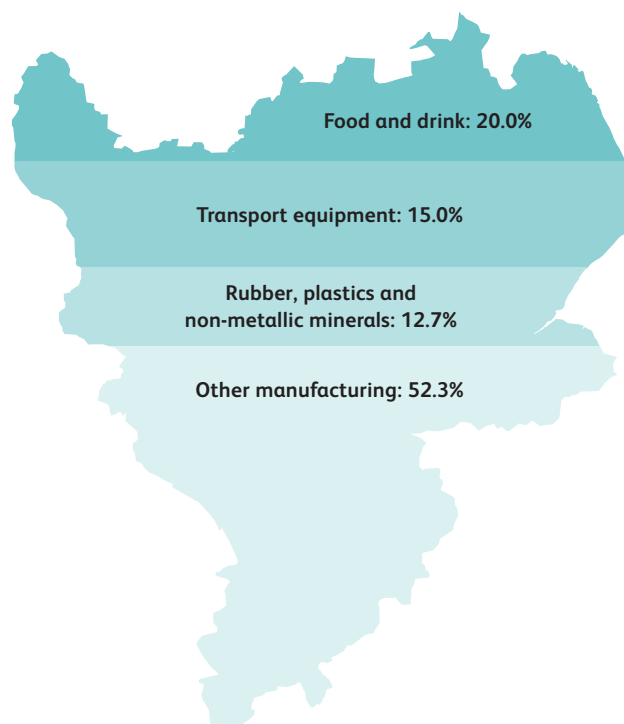
- There were 297,000 manufacturing jobs in the East Midlands in March 2018, accounting for 12.3% of the region's total workforce, the highest for any region.
- The number of manufacturing jobs in the region has increased by 8.8% since March 2010, the highest growth rate in the UK, and almost double the national growth rate.

EXPORTS:

- In 2017, the East Midlands accounted for 7.6% of the UK's manufactured exports.
- The EU is its most dominant market with 54.9% of goods exports heading to the bloc, above the national average.
- Outside of Europe, 20.7% of the region's exports go to Asia, the third highest of any region. North America is the region's third largest market, receiving 11.8% of manufactured exports in 2017.

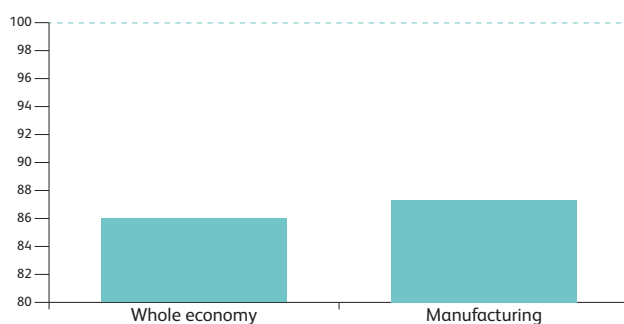
PRODUCTIVITY:

- The East Midlands' total productivity is 86.0% of the UK average. The result is the second lowest in the UK. Derby is the most productive area within the East Midlands.
- Manufacturing productivity is 87.3% of the UK average which is the lowest result in the UK.



EAST MIDLANDS' PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR. UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN THE EAST MIDLANDS

Output balances have tailed off from historic highs seen in 2017H2, trending below UK average.

Average total orders balance weakest of any region.

Despite this, both indicators remain positive and relatively healthy.

This has helped translate into strong investment and recruitment activity, with a huge spike in investment in 2017q3.

Confidence indicator slightly below the UK average over the past year.

After an exceptional end to 2017, in which the East Midlands recorded historic highs across our four main indicators, the region has slowed at the start of the year. An easing in both domestic and export demand is behind this, and as a result the East Midlands recorded the lowest average total orders balance of any region. Nevertheless despite this, average balances for the year are all still positive and in double digit territory, with investment and employment intentions in particular holding firm on the back of the strong demand seen in 2017H2.

The high concentration of food and drink manufacturers in the region is likely to have contributed to the recent softening in domestic demand, with the introduction of the sugar levy, and production disruptions due to poor weather in February/March hindering UK sales. But given the demand inelastic nature of food and drink products, this effect is only likely to be moderate, and a greater factor contributing to the softening is likely to be the challenges facing the construction industry, with the rubber and plastics sector, a key input in the supply chain, being effected.

Conversely, the other transport sector, and in particular the thriving aerospace sector, continues to boost the region's economy given the strong pipeline of work in hand, and the apparent insatiable demand for air travel. The sector's performance is likely to be behind the strong employment and in particular investment intentions recorded across 2017q3 and 2017q4, as strong demand and a robust global economy brought capital investment back online.

Overall manufacturers' confidence in the region is little changed from last year, but looking ahead it appears that performance in the region has peaked, with forward looking balances, while picking up, not reaching the same heights as before.

OUTPUT BALANCE TAKES A STEP BACK IN 2018

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

INVESTMENT INTENTIONS IN THE REGION SPIKED IN 2017Q3

% BALANCE OF CHANGE IN INVESTMENT (NEXT 12 MONTHS)



Source: EEF Manufacturing Outlook Survey

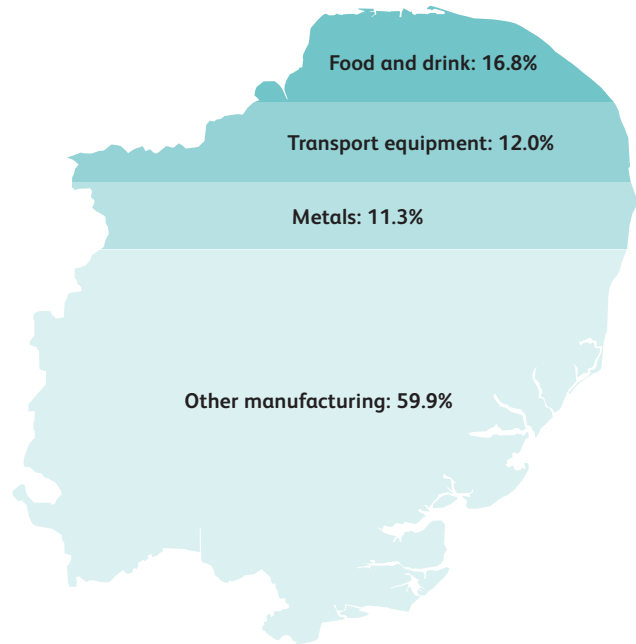
EAST OF ENGLAND

The East of England makes up 8.3% of total UK output, the third largest of any region. Manufacturing accounts for 11.6% of that output, just below the average for the UK as a whole. There were 14,040 manufacturing businesses in the region in 2017, an increase of 1.9% from last year. The region's largest manufacturing sectors are food and drink, transport equipment and metals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	8.3	–
Manufacturing	9.5	11.6
Services	7.9	75.6
Construction	12.8	9.6

Source: ONS (2016)



EMPLOYMENT:

- There were 243,000 manufacturing jobs in the East of England in March 2018, accounting for 7.7% of the region's total workforce.
- Manufacturing jobs in the region have increased by 4.3% since March 2010.

EXPORTS:

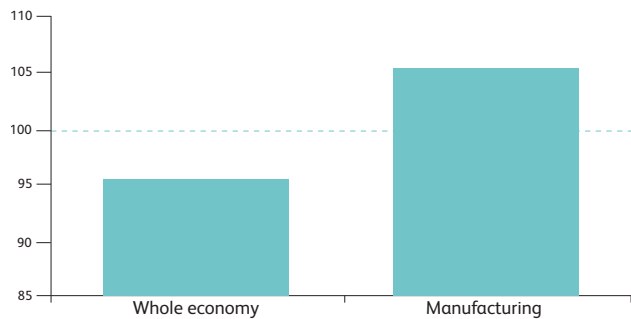
- In 2017, the East of England accounted for 9.3% of UK manufactured exports, slightly above the regional average.
- The region depends heavily on European markets for export sales; it sends 60.2% of all exports to Europe – 52.5% of which go to the EU.
- Exports to Asia account for a further 15.9% of exports, while North America is its third largest export destination with a share of 14.8%.

PRODUCTIVITY:

- The East of England's total productivity ranks in the higher echelons of the leader board table (3rd place) at 95.4% of the UK average. The most productive area is West Essex.
- Manufacturing productivity scores even better at 105.3% of the UK average.

EAST OF ENGLAND'S PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR. UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN THE EAST OF ENGLAND

Output balance falls back after trending above UK average for preceding two quarters.

Export orders continue to lead the way, outperforming domestic orders.

Investment intentions flat in latest quarter.

Employment balance positive for fifth consecutive quarter.

Manufacturers' confidence falls below pre-Brexit level as uncertainty ramps up.

The East of England's output and order balances continued to grow solidly over the past year, driven by a robust export order pipeline for some of the region's key sectors. In line with the broader manufacturing trend however, average balances were tempered by a weaker 2018q2 as momentum in the region begins to ease. Average investment and employment balances were also amongst the weakest of all regions, but remain positive, not a given for manufacturers in the East of England.

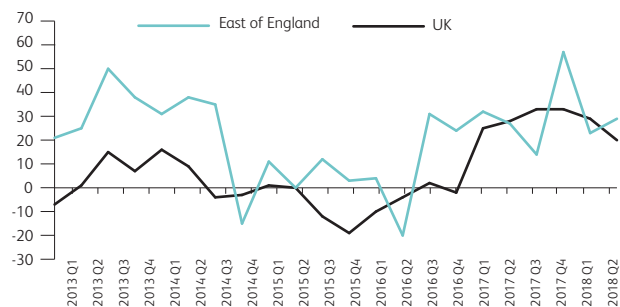
Positive global demand conditions, combined with the weaker level of Sterling, have boosted exports in the region, particularly those in the other transport and metal sectors. While the transport equipment sector has been a consistently strong performer, the turnaround in the metals sector after the weakness seen across 2015-16 has been a major boon for the region, given it is its third largest sector.

These sectors' strong export performance have helped to offset weaker domestic demand, with UK sales dropping considerably in the latest quarter. Food and drink manufacturers – the region's largest sector – faced some difficulties from poor weather and the sugar levy at the start of the year, and this is likely to have contributed to the poor balances in 2018. The sector is not expected to see growth decline substantially however, given the resilience of food and drink products to demand fluctuations. This is reflected in the positive forward looking balances in UK orders.

The strong demand emanating from abroad has not been enough to encourage manufacturers to invest significantly however, either in capital or personnel. And given that uncertainty is likely to be ramped up in the coming year, we do not expect the investment and employment outlook to improve materially.

EAST OF ENGLAND'S EXPORTS PEAKED AT HISTORIC HIGH IN 2017Q4

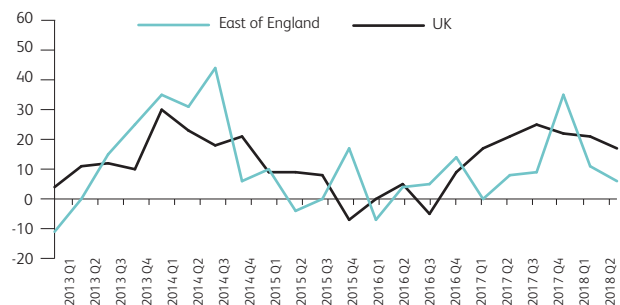
% BALANCE OF CHANGE IN EXPORT ORDERS (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

EMPLOYMENT BALANCE HAS TRENDED BELOW UK AVERAGE IN 2018

% BALANCE OF CHANGE IN EMPLOYMENT (NEXT 12 MONTHS)



Source: EEF Manufacturing Outlook Survey

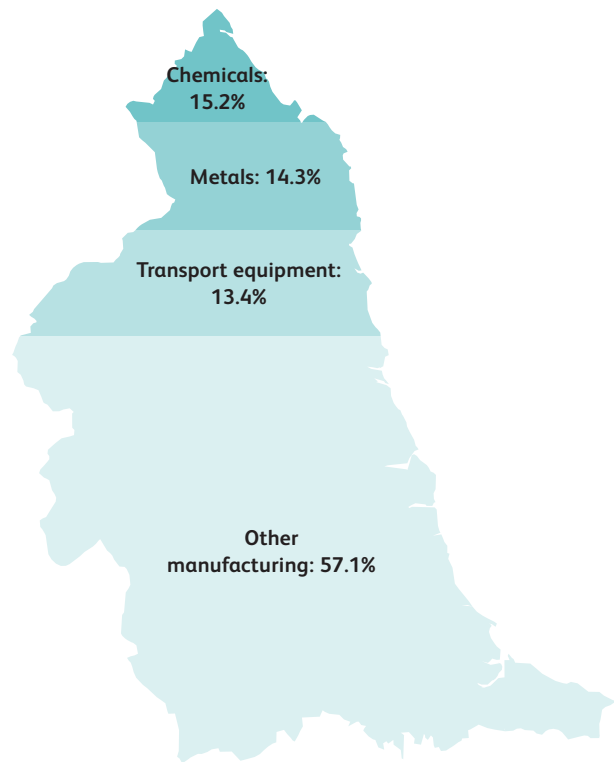
NORTH EAST

The North East remains the UK's smallest region in terms of total output, contributing 2.9% of total GVA. Nevertheless manufacturing is an important pillar in the region, accounting for 14.2% of this output, which is above average for the UK as a whole. There were 4,365 manufacturing businesses in the North East in 2017, a healthy increase of 3.1% from the previous year. The region's largest manufacturing sectors are chemicals, metals and transport equipment.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	2.9	–
Manufacturing	4.0	14.2
Services	2.7	75.7
Construction	2.7	5.9

Source: ONS (2016)



EMPLOYMENT:

- There were 123,000 manufacturing jobs in the North East in March 2018, accounting for 10.2% of the region's total workforce, the second highest for any region.
- Manufacturing employment has grown by 7.0% since March 2010, the second strongest growth rate of any region.

EXPORTS:

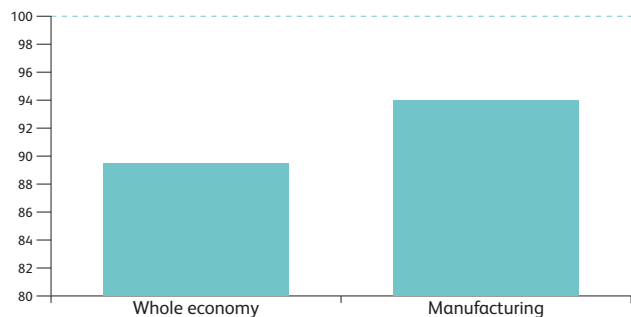
- In 2017, the North East accounted for 4.7% of the UK's manufactured exports, the lowest of any region.
- The region continues to rely heavily on the EU market, with 59.0% of exports heading to the bloc, the second highest of any region.
- As a result of the region's significant exposure to the EU market, the North East has the lowest proportion of exports heading to North America and the third lowest to Asia & Oceania.

PRODUCTIVITY:

- The North East's total productivity is 89.5% of the UK average, ranking the region sixth out of ten UK regions. The most productive area in the region is Darlington.
- North East manufacturing productivity is lower at 94.0% of the UK average.

NORTH EAST'S PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR. UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN THE NORTH EAST

- In contrast to other regions, the North East’s output balance continues to build momentum in 2018.
- Average total orders balance most improved of any region.
- Employment balance picks-up across the year as manufacturers recruit to meet growing demand.
- Investment balance trails employment balance but remains positive.
- Manufacturers’ confidence falls back at the start of 2018 in line with overall UK trend.

The North East, against the wider manufacturing trend, has seen momentum continue to build throughout the past year, culminating in one of its strongest ever output balances, and the strongest of any region, in 2018q2. This impressive activity has been underpinned by strong demand, with order books looking healthy across the past 12 months, illustrating the region’s impressive turnaround from the lows of late 2015.

Much of this growth is the result of the recovery in commodity markets. Chemicals (including coke and refined petroleum) is the region’s largest sector and will have been boosted by the oil price’s recovery back up to around the \$70/barrel mark. Meanwhile the pick-up in the metals sector, on the back of rising steel prices and efforts to limit global production will have boosted manufacturers in the region. While this is good news, looking ahead significant downside risks remain to both, in particular with regards to President Trump’s trade and geopolitical policy.

The region’s healthy performance has unsurprisingly led to impressive recruitment activity. The North East’s average employment balance over the past four quarters is the most improved of any region as manufacturers look to increase headcount to satisfy growing demand.

Unfortunately the same cannot be said for investment intentions, which while remaining positive, trail significantly. It appears therefore that despite the upturn in activity, the longer term uncertainties have not escaped manufacturers’ minds. This in turn is reflected in the region’s confidence indicator, which has fallen back since the turn of the year.

NORTH EAST’S ACTIVITY CONTINUES TO GAIN MOMENTUM

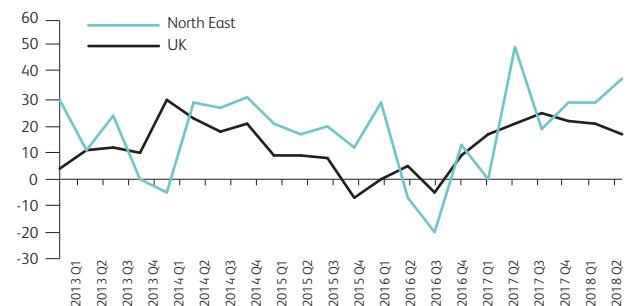
% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

EMPLOYMENT INTENTIONS TREND ABOVE UK AVERAGE

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

NORTH WEST

The North West is the UK's second biggest region in terms of both manufacturing and total output. Within the region, manufacturing accounts for 16.3% of that output, the third highest of any region, illustrating the importance of the sector to the North West. There were 14,590 manufacturing businesses in the region in 2017, broadly unchanged from the level last year. The region's largest manufacturing sectors are pharmaceuticals, chemicals and transport equipment.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	9.6	—
Manufacturing	15.4	16.3
Services	9.1	75.4
Construction	8.5	5.5

Source: ONS (2016)

EMPLOYMENT:

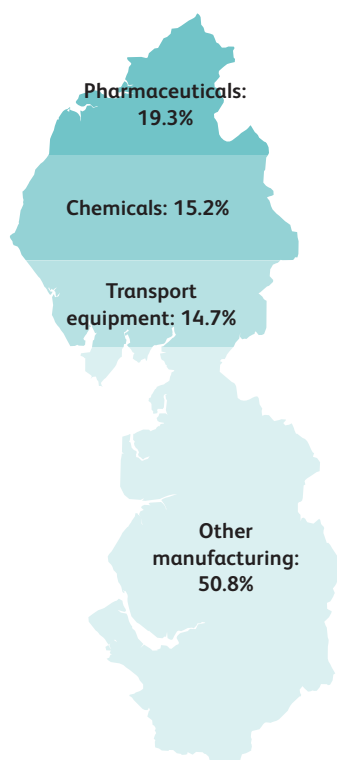
- There were 350,000 manufacturing jobs in the North West in March 2018 or 9.5% of the region's total workforce.
- The North West has seen manufacturing jobs increase by 4.5% since March 2010.

EXPORTS:

- In 2017, the North West accounted for 9.3% of the UK's manufactured exports, joint third of any region.
- The North West is not as reliant on the EU market compared to other regions, with 49.4% of exports destined for the market. This is slightly below the UK average.
- The region's share of exports that travel to the Middle East & North Africa is 11.3%, the highest of any region.

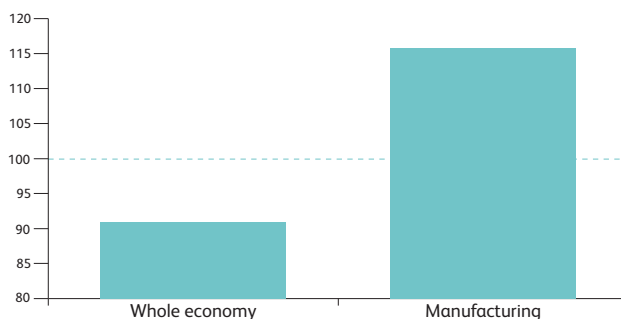
PRODUCTIVITY:

- The North West's total productivity is ranked fifth in the UK at 90.9% of the national average. Cheshire East is the most productive area.
- Thanks to the Cheshire area, and in particular the pharmaceutical manufacturing hub in the region, the North West has the best manufacturing productivity in the UK at 115.8% of the national average.



NORTH WEST'S PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR, UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN THE NORTH WEST

Healthy output balances recorded across the year, peaking in 2017q4.

Export order balances consistently strong over the year, outperforming domestic orders marginally.

Average investment intentions surge, from -2% last year to +24%.

Employment balances trend above UK average over three of past four quarters and is most improved from last *Regional Outlook*.

Manufacturers' confidence dips back in 2017q2 and average for the year is below UK average.

The North West built on the momentum seen in our last *Regional Outlook*, recording healthy output and order balances across the year. Indeed the region has trended above the UK average for both indicators in each of the last three quarters. This is in stark contrast to the opening quarters of 2016 when both were firmly rooted in negative territory.

The North West's impressive performance has come about as a result of healthy demand emanating from both home and foreign markets, with domestic and export order balances, while easing in the latest quarter, printing at healthy levels. The region, as ever, is influenced by the dominant pharmaceutical industry, given that it makes up almost a fifth of manufacturing in the North West. Its volatile nature once again meant it had an up and down year, but tempering this volatility was the chemicals sector, and its upturn, boosted in particular by the pick-up in the oil and gas industry.

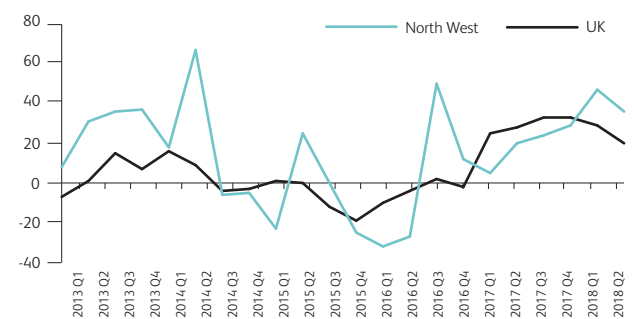
This healthy activity has in turn translated into robust investment and recruitment activity in the region, with the latter seeing the joint biggest improvement over the year. Moreover manufacturers' investment intentions, in comparison to other regions have been remarkably consistent, as companies look to expand capacity and meet growing demand requirements.

Looking ahead manufacturers in the region expect this recent upturn to ease significantly next quarter, with forward looking balances all down on their current levels. The ongoing difficulties for the large concentration of automotive manufacturers in the region, as the sector grapples with policy changes, as well as a general saturation effect, is likely to be a contributing factor to the subdued outlook. This concern is reflected in the region's confidence over the next 12 months, which fell

back in the latest quarter and trailed the UK average across the year.

EXPORT ORDERS HAVE THRIVED OVER THE LAST YEAR

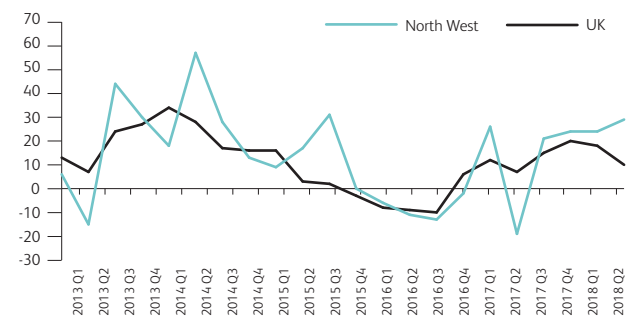
% BALANCE OF CHANGE IN EXPORT ORDERS (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

NORTH WEST'S INVESTMENT BALANCE HAS BEEN CONSISTENTLY STRONG ALL YEAR

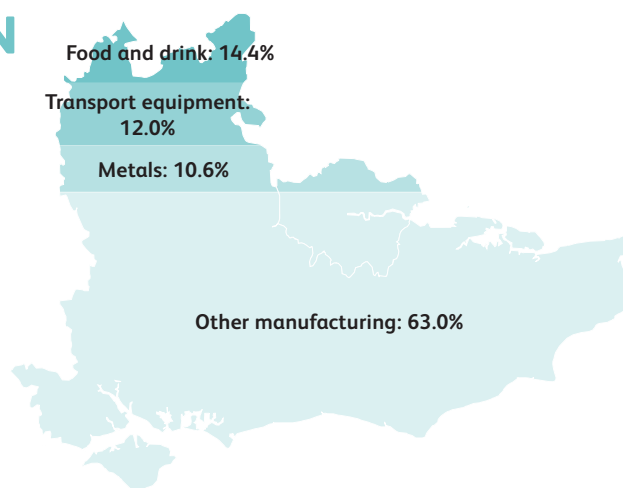
% BALANCE OF CHANGE IN INVESTMENT (NEXT 12 MONTHS)



Source: EEF Manufacturing Outlook Survey

SOUTH EAST AND LONDON

The South East and London remains by far the UK's biggest region in terms of total output. It is also the largest manufacturing regional economy. Despite this, the proportion of manufacturing output in the region is the smallest in the UK, illustrating the dominance of service related sectors. There were 32,190 manufacturing enterprises in the South East and London in 2017, up 2% from their level in 2016. The region's largest manufacturing sectors are food and drink, transport and metals.



REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	38.9	–
Manufacturing	16.2	4.2
Services	43.2	88.0
Construction	36.5	5.8

Source: ONS (2016)

EMPLOYMENT:

- There were 431,000 manufacturing jobs in the South East and London in March 2018, accounting for 4.0% of the region's total workforce, the lowest of any region.
- The region has seen a modest 3.1% increase in manufacturing jobs since March 2010.

EXPORTS:

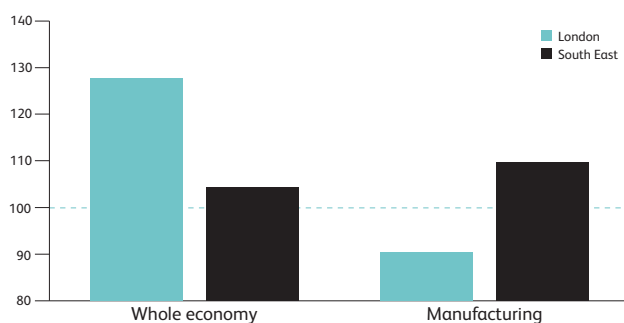
- The South East and London accounted for just under a quarter (24.8%) of all UK manufactured exports in 2017, the largest of any region.
- 45.9% of all exports travel to the EU, which is less than the national average of 49.6%.
- The remaining share of exports are concentrated in Asia and Oceania, and North America, with a fairly even split – 19.1% and 17.2% respectively. Both are above the average for the UK.

PRODUCTIVITY:

- The South East and London is the most productive region in the UK with London's productivity at 127.8% of the UK average, and the South East's at 104.3%. The two most productive local areas are Tower Hamlets and Berkshire respectively.
- With regards to manufacturing, the South East has a productivity higher than the national average at 109.7%, while London is lower at 90.5%.

SOUTH EAST AND LONDON'S PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR. UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN THE SOUTH EAST AND LONDON

The region records strongest average output and order balances of any region over the last year.

Output balance has been rooted in positive territory since 2013q2.

Recruitment activity dips back in 2018q2 but remains healthy.

Average investment intentions only slightly above average for UK.

Confidence in the region over the past year is second highest in the UK.

Over the past five years the South East and London has consistently been one of the best performing UK regions, outperforming the UK average in all key indicators regularly. The latest 12 months has seen a continuation in this trend with the region arguably the star performer, recording the highest average output and orders balance across the UK, and backing this up with solid recruitment activity. Investment intentions however, while positive, are not as great as one would expect given the strength in activity.

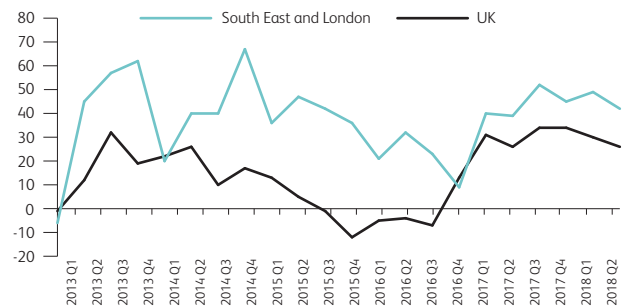
The region’s strong activity in recent times has been underpinned by the high degree of manufacturers who serve the domestic and consumer orientated food and drink sector. The demand inelastic nature of food and drink products means demand from the sector is relatively stable, despite recent difficulties, and this has provided a solid footing for the region’s outlook.

This has then been built on over the past year by the positive global environment, with the region’s second largest sector – other transport – and in particular the export focussed aerospace sector, excelling on the back of strong global demand and a supportive, but volatile currency. This dynamic will have also boosted the predominantly outward looking metal and electronics sectors over the last year, both of which have a large presence in the region.

These positive trends, both at home and abroad, mean manufacturers’ average confidence was the second highest of any region, and this is likely to have prompted increased hiring in the past year. As is the case with the wider manufacturing trend however, investment intentions while positive, remain weaker. Therefore despite the strong year, uncertainty in the year ahead remains at the forefront of manufacturers’ minds, holding back some investments.

THE SOUTH EAST AND LONDON'S OUTPUT BALANCE CONSISTENTLY OUTPERFORMS UK AVERAGE

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

MANUFACTURERS IN THE SOUTH EAST AND LONDON ARE MORE CONFIDENT THAN THE REST OF THE UK

CONFIDENCE IN THE NEXT 12 MONTHS 1 = SUBSTANTIALLY WORSE, 10 = SUBSTANTIALLY BETTER



Source: EEF Manufacturing Outlook Survey

SOUTH WEST

The South West is the UK's fifth largest region in terms of total output. Within this, 11.0% is produced by the manufacturing sector, slightly above the UK average. There were 12,180 manufacturing businesses in the South West in 2017, an annual growth of 0.7%. The region's largest manufacturing sectors are transport, food and drink and metals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.2	–
Manufacturing	7.8	11.0
Services	7.0	77.7
Construction	7.7	6.7

Source: ONS (2016)

EMPLOYMENT:

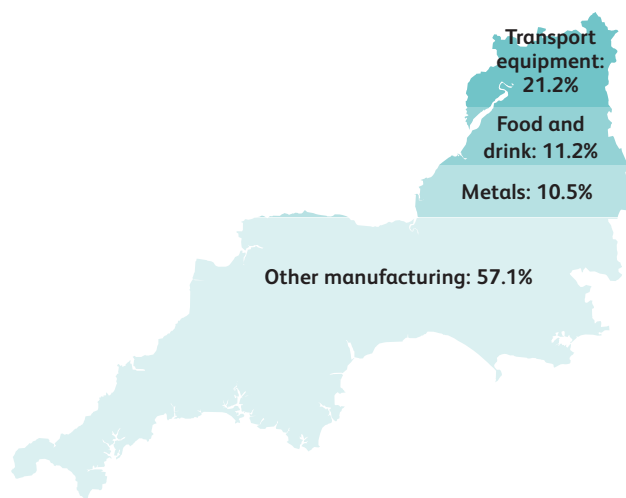
- There were 247,000 manufacturing jobs in the South West in March 2018 or 8.4% of the region's total workforce.
- The number of manufacturing jobs in the region has increased by 5.1% since March 2010, above the national average.

EXPORTS:

- In 2017, the South West accounted for 7.2% of the UK's manufactured exports.
- The region has one of the lowest exposures to the EU market amongst all regions, with only 45.6% of exports destined for the bloc.
- As a result the South West's exports have a greater distribution across the globe. Indeed the sector has the second highest proportion of exports heading to the Middle East and North America, and an above average proportion destined for Asia and Oceania.

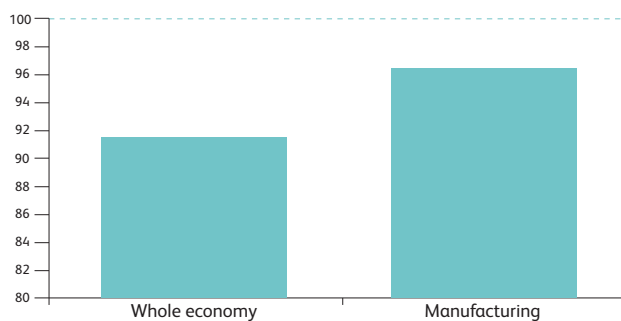
PRODUCTIVITY:

- The South West's total productivity is the fourth best in the UK at 91.5% of the national average. The most productive areas are Bath and North East Somerset, North Somerset and South Gloucestershire.
- The South West's manufacturing productivity is 96.4% of the UK average.



SOUTH WEST'S PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR. UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN THE SOUTH WEST

Average balances across all indicators trend below UK average.

Export orders outperform domestic orders in last year.

Investment intentions turn negative in latest quarter for first time since 2016q3.

Recruitment plans have deteriorated the most over the last year compared to other regions.

Average confidence indicator weakest of any region.

The South West, while recording solid growth in its output and order balances over the last year, has had a subdued year in comparison to other UK regions. Indeed the region trends below the UK average across all of our survey's indicators, with a significant tailing off in order balances in the latest quarter in particular. This helps to explain why confidence amongst manufacturers is the weakest of any region.

Export demand continues to provide the bulk of growth in the region with the large presence of manufacturers in the high performing aerospace sector driving expansion. An insatiable demand for air travel means healthy pipelines of work in hand should provide further support, albeit less than in previous years.

Countering this is weaker domestic demand, effecting domestic oriented sectors such as food and drink. The combination of higher prices and weak wage growth last year, as well as the introduction of the sugar levy at the start of 2018 is likely to have weighed on the sector. More pertinent however is the weakness in the construction industry over the past 12 months, with Brexit induced uncertainty, poor weather and the liquidation of Carillion all having negative effects on metal manufacturers in the region.

These factors mean that the South West was the only region where the average employment balance fell across the year. Perhaps more concerning are manufacturers' investment intentions which turned negative in the latest quarter for the first time since 2016q3, and were weak for the year overall. With output and order balances set to fall in the coming three months, we are unlikely to see the region returning to the heights it saw in the second half of 2017.

TOTAL ORDERS BALANCE TAILED OFF IN 2018Q2

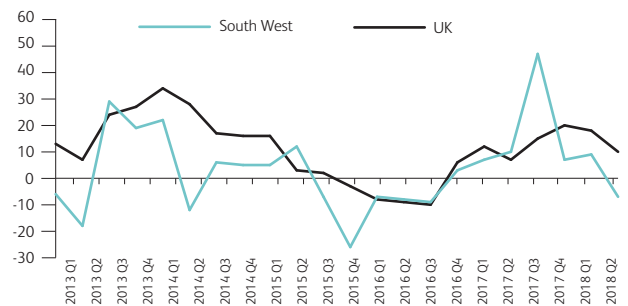
% BALANCE OF CHANGE IN TOTAL ORDERS (PAST THREE MONTHS)



Source: EEF Manufacturing Outlook Survey

INVESTMENT INTENTIONS IN SOUTH WEST TURN NEGATIVE

% BALANCE OF CHANGE IN INVESTMENT (NEXT 12 MONTHS)



Source: EEF Manufacturing Outlook Survey

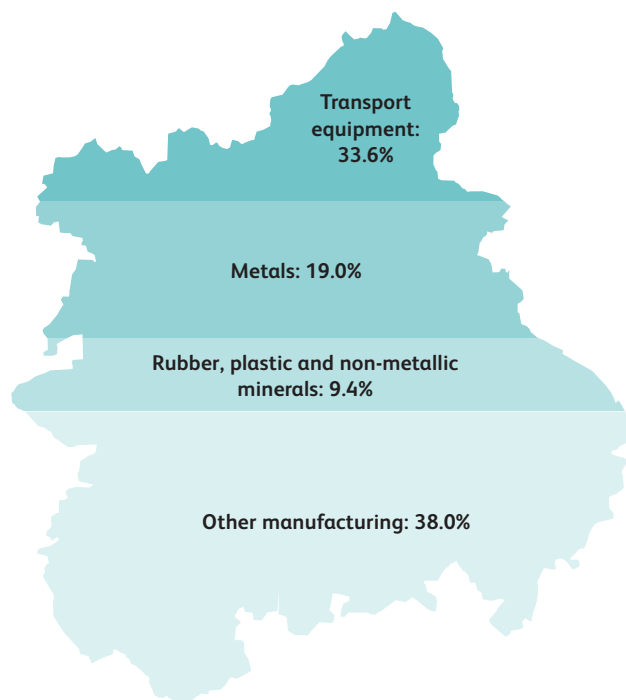
WEST MIDLANDS

The West Midlands makes up 7.1% of total UK output - the sixth largest of any region. Manufacturing accounts for 15.9% of this output, the fourth greatest share of any region. There were 14,745 manufacturing businesses in the West Midlands in 2017, the second highest of all regions. The region's largest manufacturing sectors are transport, metals, and rubber, plastics and non-metallic minerals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.1	—
Manufacturing	11.2	15.9
Services	6.7	73.9
Construction	6.7	5.8

Source: ONS (2016)



EMPLOYMENT:

- There were 305,000 manufacturing jobs in the region in March 2018, accounting for 10.0% of the region's total workforce, the third highest after the East Midlands and North East.
- Since March 2010, manufacturing jobs in the West Midlands have increased by 3.7%.

EXPORTS:

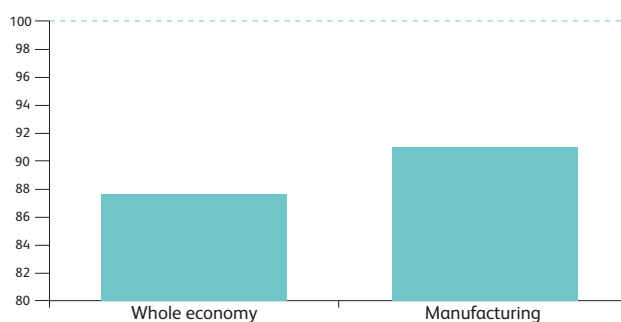
- The West Midlands accounted for 11.9% of all UK manufactured exports in 2017, the second highest of any region.
- The region has the lowest exposure to the EU market of any region, with only 44.1% of exports heading across the Channel or Irish border.
- Conversely the region has the highest proportion of exports heading to Asia and Oceania (22.7%) and North America (19.9%).

PRODUCTIVITY:

- The West Midlands' total productivity is 87.6% of the UK average, ranking seventh out of 10 regions. Solihull is the most productive area in the region.
- Manufacturing productivity for the West Midlands is 91% of the national average.

WEST MIDLANDS' PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR. UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN THE WEST MIDLANDS

Average output balance across the year in line with UK average.

Export orders remain healthy across the year, but domestic demand falls significantly in 2018q2.

Average investment intentions weakest of any region.

Average recruitment intentions remain stable at same level from last year.

Confidence over the past year the third highest in the UK.

Manufacturers in the West Midlands, in line with the broader manufacturing trend, have seen a tailing off in activity and demand from the lofty heights recorded in the second half of 2017. That said, average output, total orders and employment balances for the past year all remain healthy, and a pick-up is expected in the coming months. The same cannot be said of investment intentions, however.

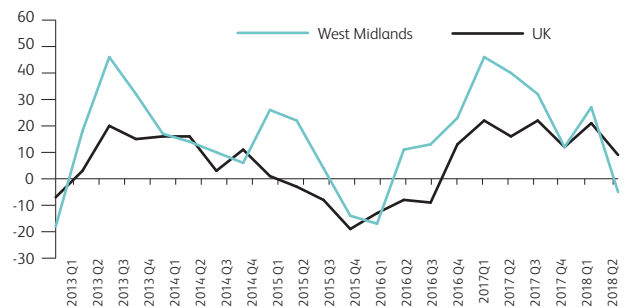
The recent loss of momentum in the region is driven primarily on the domestic side, with the UK orders balance dropping to -5%, its lowest level in over two years. Behind this performance is the weakness in the construction industry, particularly since the turn of the year. Poor weather, Brexit induced uncertainty and the liquidation of key contractor Carillion means the industry had a poor first quarter, weighing on key manufacturing sectors in the region including metals, rubber and plastics, and non-metallic minerals. Motor vehicle manufacturers, of which there is a high concentration in the West Midlands, are also facing subdued demand after a period of healthy expansion.

It should be remembered however that local manufacturers in the region have - despite the recent slowing - had a strong year. Mechanical equipment manufacturers in particular have benefited from the global upturn and the supportive boost Sterling's depreciation is having, while metals, despite construction's poor performance have been boosted by rises in steel prices and measures to reduce global supply. Furthermore the recent weakness on the domestic side is expected to be temporary, with manufacturers optimistic about their forward looking balances. This has led to some robust recruitment activity in the region, and a level of confidence that exceeds the UK average.

The downside for the region, as it is generally with the whole of manufacturing, are investment intentions, which are the weakest of any region. Manufacturers appear more inclined to increase headcount, rather than invest in large and expensive capital equipment, as uncertainty continues to take hold the closer we get to the Brexit deadline.

DOMESTIC DEMAND FALLS BACK IN 2018Q2

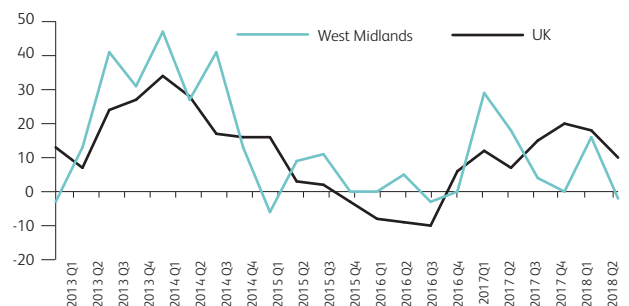
% BALANCE OF CHANGE IN TOTAL UK ORDERS (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

AVERAGE INVESTMENT INTENTIONS WEAKEST OF ANY REGION DESPITE SPIKE IN 2018Q1

% BALANCE OF CHANGE IN INVESTMENT INTENTIONS (NEXT 12 MONTHS)



Source: EEF Manufacturing Outlook Survey

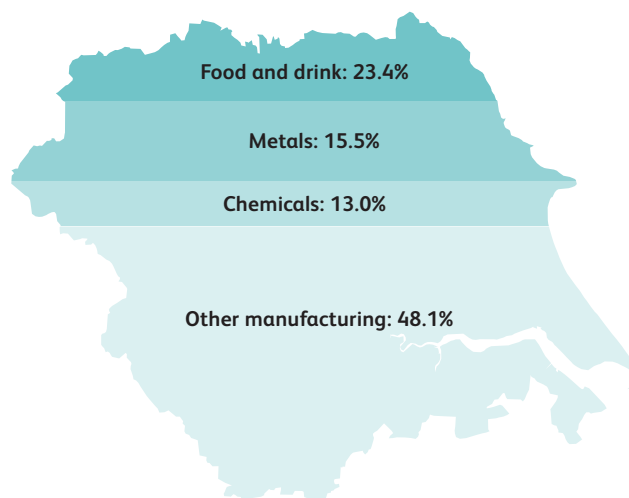
YORKSHIRE AND HUMBER

Yorkshire and Humber is the UK's seventh largest region in terms of total output. Manufacturing accounts for 13.6% of the region's output, firmly above the UK average. There were 12,165 manufacturing businesses in the region; a growth rate of 2% following a number of years of flat/no growth. The region's largest manufacturing sectors are food and drink, metals and chemicals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	6.2	—
Manufacturing	8.4	13.6
Services	5.9	74.8
Construction	6.1	6.0

Source: ONS (2016)



EMPLOYMENT:

- In March 2018, there were 267,000 manufacturing jobs in Yorkshire and Humber, accounting for 9.9% of the region's workforce.
- Yorkshire and Humber has seen the second slowest growth in manufacturing jobs since March 2010, increasing by only 2.3%.

EXPORTS:

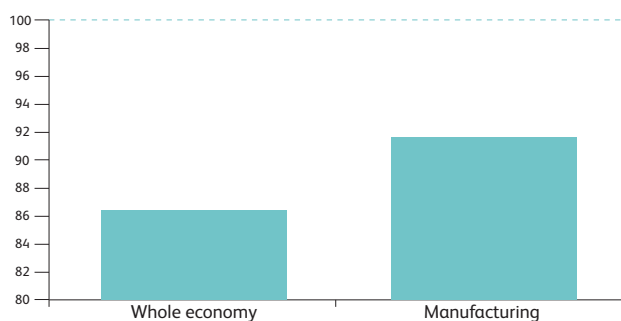
- In 2017, Yorkshire and Humber accounted for 4.8% of the UK's manufactured exports, the lowest of any region and unchanged from 2016.
- The EU accounts for 57.5% of the region's exports, the third highest in the UK after Wales and the North East.
- Yorkshire and Humber trails the UK average for exports to Asia and Oceania, and North America.

PRODUCTIVITY:

- Yorkshire and Humber's total productivity is 86.4% of the UK average and is ranked eighth amongst UK regions. The most productive areas are North and North East Lincolnshire.
- The manufacturing productivity gap against the UK average is narrower at 91.6% of the national average.

YORKSHIRE AND HUMBER'S PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR, UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN YORKSHIRE AND HUMBER

Output balance well above the UK average with a significant acceleration in the last quarter.

Orders expanded in the year thanks to non-domestic markets.

Recruitment activities above the UK average in the last 9 quarters.

Investment balance strongly expanded after the trough of 2017q2.

Confidence indicator picks up in 2018, just piping UK average across the year.

The manufacturing sector in Yorkshire and Humber grew strongly over the past year with average balances across our four main indicators consistently exceeding the UK average. Impressively the region has not seen a negative output balance since 2016q3 and in the last quarter of 2017 registered its best performance in three years.

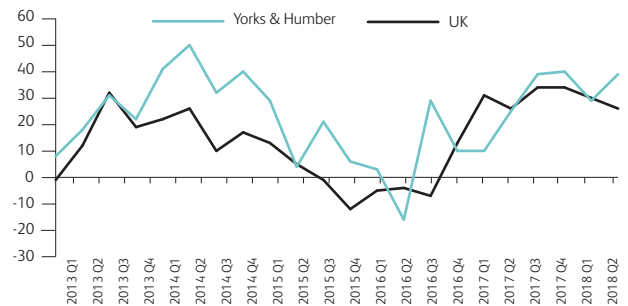
Order books in the region reported another good year, however the good performance was driven by non-domestic markets rather than domestic ones. In our previous *Regional Outlook* the situation appeared to be the opposite. The recovery in the export intensive metals sector – the region’s second largest sector – is likely to have provided much of this support.

The positive orders and output activity was also reflected in high levels of employment and investment activity. Recruiters in Yorkshire and Humber were extremely active with balances exceeding those reported in the rest of the UK in every quarter of the last year. The investment balance peaked in the last quarter after a negative balance reported in the second quarter of 2017.

Food and drink remains the main manufacturing sub-sector in the region with a share of 23.4% up from 20.1% reported a year ago. The second largest industry is again the metals sector with a share almost untouched compared to last year. On the other hand, coke, refined petroleum and chemicals is now the third largest sector replacing rubber & plastics on the lowest step of the podium.

OUTPUT IN THE REGION HAS HAD ANOTHER STRONG YEAR

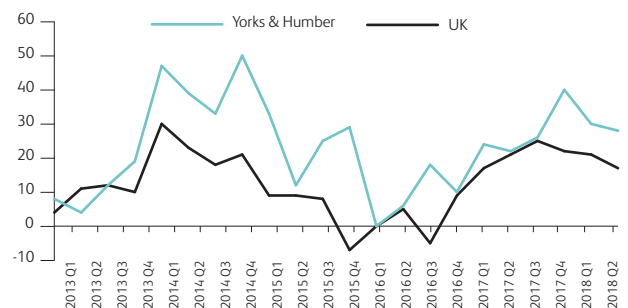
% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

EMPLOYMENT IN YORKSHIRE & HUMBER HAS BEEN RESILIENT OVER THE PAST FIVE YEARS

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

SCOTLAND

Scotland is the UK's fourth largest area in terms of total output. Manufacturing is responsible for 10.8% of that output, the second lowest of any region and only slightly above the UK average. The number of manufacturing enterprises in the country has grown by 2.7% since 2016 to 8,995 in 2017. Scotland's largest manufacturing sectors are food and drink, metals and chemicals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.7	–
Manufacturing	8.1	10.8
Services	7.3	75.8
Construction	7.0	5.6

Source: ONS (2016)

EMPLOYMENT:

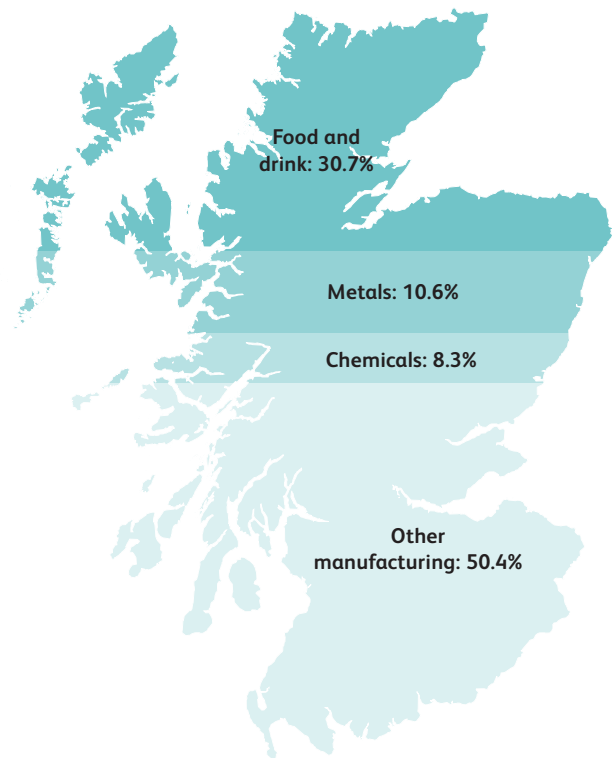
- There were 189,000 manufacturing jobs in Scotland in March 2018, accounting for 6.9% of the region's total workforce.
- The number of manufacturing jobs in the region has shrunk by 0.5% since March 2010, the only contraction in the UK.

EXPORTS:

- In 2017, Scotland was responsible for 5.1% of total UK manufactured exports.
- 48.9% of exports travel to the EU, below the national average at 49.6%.
- Outside of Europe, 21.1% of Scottish exports go to Asia and Oceania, the second highest of any region, while the region's proportion of exports going to Latin American and Sub-Saharan Africa also exceed the national average.

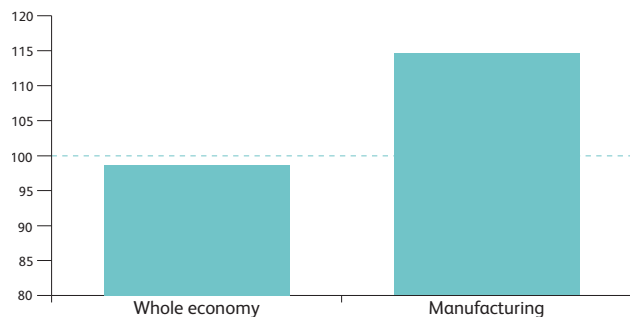
PRODUCTIVITY:

- Scotland is the second most productive UK region at 98.6% of the national average. The most productive area is the capital, the City of Edinburgh.
- The region is also second in terms of manufacturing productivity with a score well above the national average at 114.6%.



SCOTLAND'S PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR, UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN SCOTLAND

- Positive output balance but trending downwards after the peak reached a year ago.
- Export orders are contributing positively whereas domestic orders struggle to pick-up.
- Employment balance improved since last outlook but lingers at the bottom of the regional ranking.
- Investment intentions picked up in the last year but have weakened since 2017q3.
- Average confidence levels over the year second weakest of any region.

After the peak reached in the second quarter of 2017, Scotland’s performance has cooled over the year with output balances, while still positive, downward trending. Indeed the general slowing is reflected in the country consistently trending below the UK average across our main indicators in the last year.

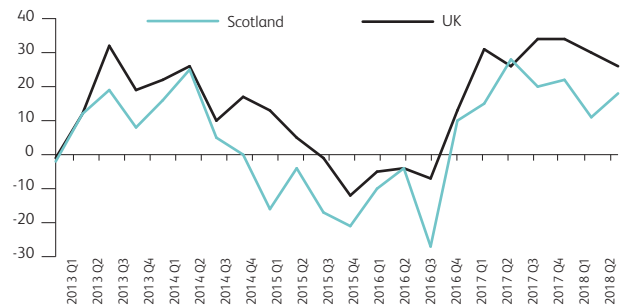
The country’s fortunes remain well attached to the oil and gas industry with rising oil prices providing a boost to the region with seven quarters of output expansion in a row. This was also reflected in positive balances for employment and investment, even if these remain below the UK average and showed some volatility quarter to quarter. Employment in particular suffered in the period between the end of 2017 and the beginning of 2018 when the North Sea oil pipeline was forced to close for a short period due to a fracture.

The pick-up in oil prices also boosted the chemicals (and in particular the coke & petroleum) sector, helping it to overtake mechanical equipment as the third largest manufacturing sector in the country. However what should have been good news for a country and manufacturing sector so linked to the oil price, did not translate into a significant increase in orders. This was particularly true for domestic orders which rose from last year but remain close to the bottom of the regional ranking. More positive news was found in the export picture, with the average export balance growing from 2% to 23%, yet still lower than the UK average.

Despite the importance of oil, Scottish manufacturing also has a significant focus in other sectors. Indeed the major manufacturing sector remains the food and drink industry which increased its importance in the last year moving from 28.9% to 30.7% of total Scottish manufacturing.

OUTPUT BALANCE POSITIVE BUT LOWER THAN THE UK AVERAGE

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

EMPLOYMENT BALANCE HAS PICKED-UP AFTER THE DROP IN Q1

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

WALES

Wales is the second smallest area in the UK in terms of total output. However manufacturing has a strong presence in the region, accounting for 18.7% of the region's output, the largest of any other region. There were 5,650 manufacturing enterprises in Wales in 2017, a small decrease from the year before. The region's largest manufacturing sectors are transport, food & drink and metals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	3.4	–
Manufacturing	6.2	18.7
Services	3.0	71.1
Construction	3.1	5.6

Source: ONS (2016)

EMPLOYMENT:

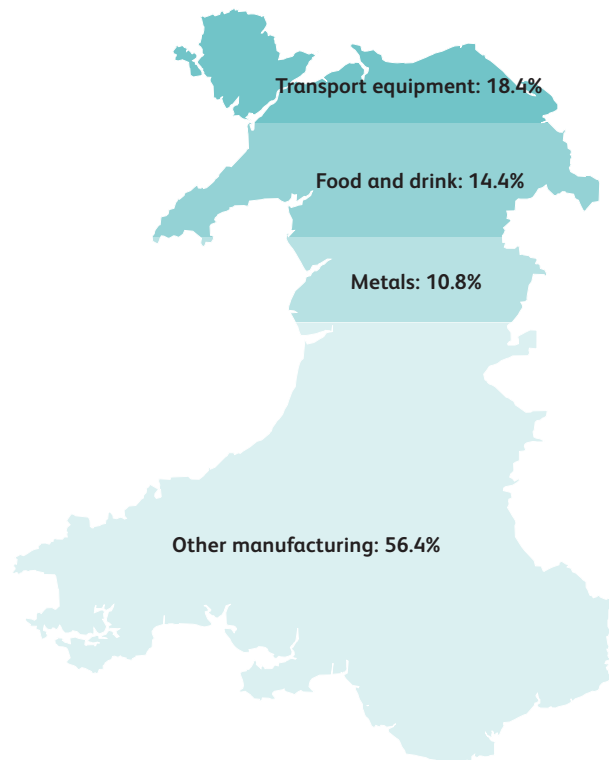
- In March 2018, there were 147,000 manufacturing jobs in Wales, accounting for 9.5% of the country's total workforce.
- Wales has seen modest growth in manufacturing jobs since March 2010, with an increase of 4.3%, just above the national average.

EXPORTS:

- Wales was responsible for 5.2% of total manufactured exports, the fourth lowest in the UK.
- Wales is the most reliant area in the UK on trade with Europe. The EU accounts for 60.3% of all Welsh exports and Europe overall is the destination for almost two thirds of the country's overseas sales.
- Away from Europe, 16.5% of exports head across the Atlantic to North America. The remaining exports are distributed across the world in small proportions.

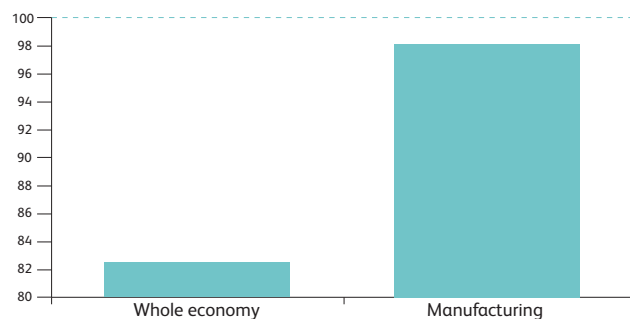
PRODUCTIVITY:

- Wales is the least productive region in the UK, with productivity at 82.5% of the national average. The most productive area is the Central Valleys.
- The situation is better in terms of manufacturing productivity, indeed the score is close to the UK average at 98.1%.



WALES' PRODUCTIVITY RELATIVE TO UK AVERAGE

OUTPUT PER HOUR, UK = 100



Source: ONS (2016)

MANUFACTURING PERFORMANCE IN WALES

- Total orders expanded in the last four quarters, particularly those from non-domestic markets.
- After a negative 2017q2, output has seen a steady expansion.
- Employment continues its stable expansion, despite a blip in 2018q1.
- Investment intentions in 2018q2 are the highest ever registered in the region.
- Business confidence is the highest amongst all UK regions.

Manufacturers in Wales have experienced a positive year since our last *Regional Outlook* with the country’s output balance outperforming that of the UK average in three of the past four quarters. This, in turn, has resulted in stable employment activity, but perhaps most encouragingly a significant upturn in investment intentions.

The recent expansion is related to busy order books, particularly those from non-domestic markets, with an export balance moving from -2% to +25% across the year. Domestic order books also remain positive with a UK order balance larger than the UK figure.

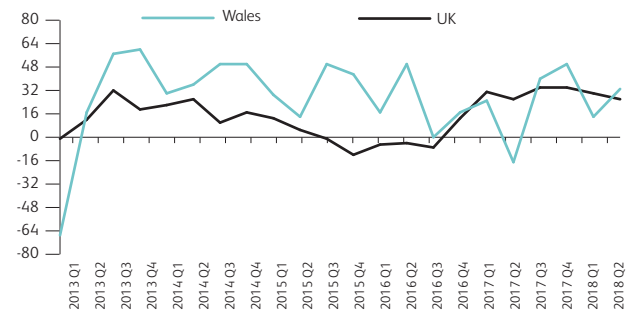
Thanks to these results, Welsh manufacturers are optimistic about their business and their confidence is the highest recorded amongst all UK regions. Optimism is also reflected in their capital expenditure intentions, which were consistently strong across the year. On the other hand, recruitment intentions have remained stable, recording the same average employment balance as last year, broadly thanks to a large surge in the latest quarter.

Transport equipment continues to be the country’s largest sector with a share of 18.4%, up from 17.1% last year. The well-developed transport supply chain and the presence of aerospace manufacturing helped to boost the Welsh economy over the last year and contributed positively to the third largest sector in the region - metals.

The second largest sector remains food and drink which slightly reduced its share from 15.1% to 14.4%. The sector expanded by 2% on a national level showing signs of resilience despite a difficult year for consumers constrained by high inflation and negative real wage growth.

OUTPUT BALANCE PEAKED IN 2017Q4

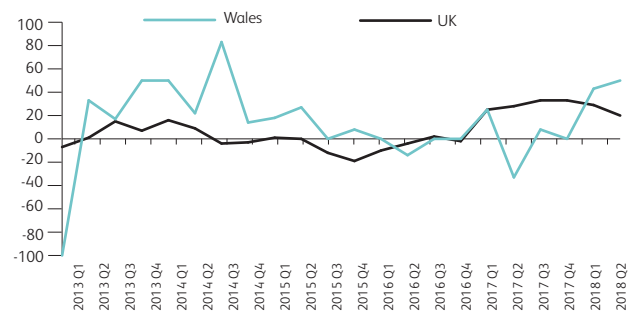
% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Manufacturing Outlook Survey

EXPORT ORDERS SURGED AFTER THE DROP IN 2017Q2

% BALANCE OF CHANGE IN EXPORT ORDERS (PAST 3 MONTHS)



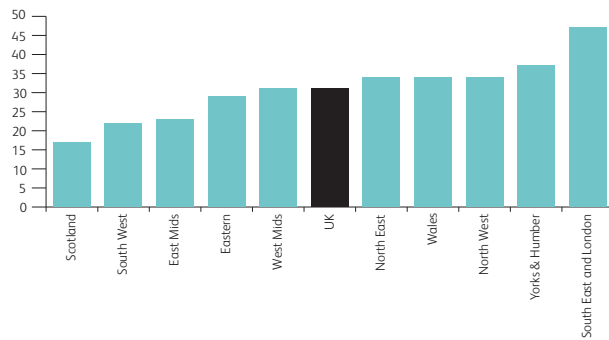
Source: EEF Manufacturing Outlook Survey

DATA SUMMARY

PRESENTED IN ASCENDING ORDER

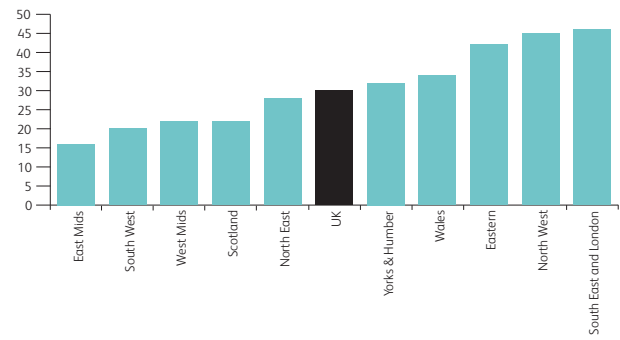
OUTPUT: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



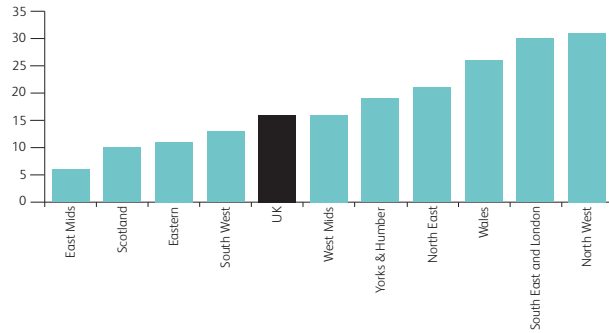
TOTAL ORDERS: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



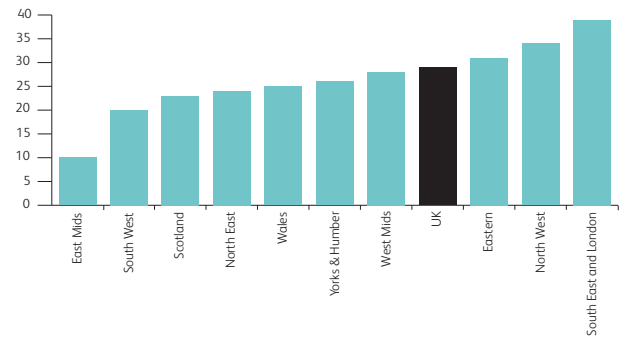
UK ORDERS: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



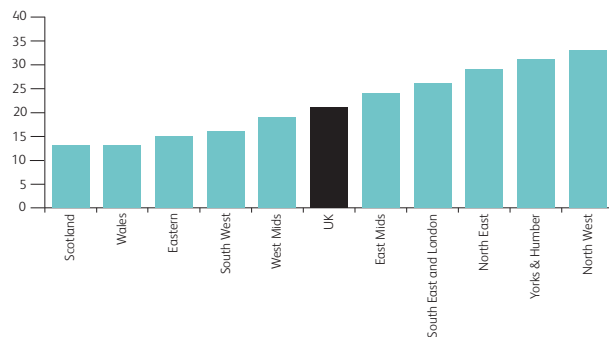
EXPORT ORDERS: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



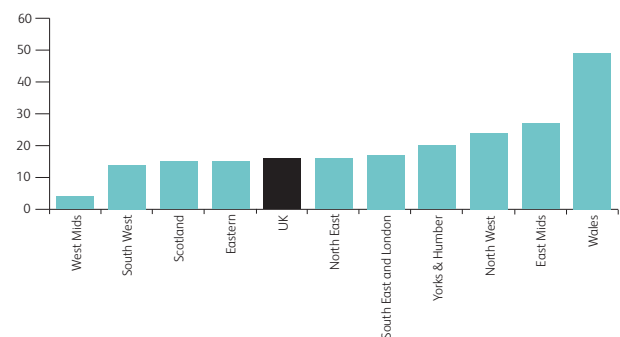
EMPLOYMENT: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



INVESTMENT: NEXT 12 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)





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.



Accountancy and business advisory firm BDO LLP is the UK member firm of BDO International, which has more than 1,500 offices in 162 countries. We operate from 18 offices across the UK, employing 3,600 people offering tax, audit and assurance, and a range of advisory services.

Manufacturing is a priority sector for BDO and this focus enables us to tailor the wide range of services we offer and apply our skills and knowledge to help clients achieve their objectives.

We provide real solutions to industry issues, utilising our capabilities in everything from sector-specific tax, audit and business advice to patent box, research and development claims and acquisition opportunities to help our clients grow in the UK and overseas.

We have an excellent understanding of the issues affecting UK manufacturers as an industry sector, but we also focus on specific sub-sectors to improve our knowledge and our service to clients. These include: aerospace, automotive, building products, chemicals, food and drink, industrials, marine, test and measurement and technology.

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.

For further information about our business and services, please visit our website: www.bdo.co.uk

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The data used in this survey has been provided by EEF members. Contributing to our surveys helps to accurately reflect trends and behaviours that shape the UK manufacturing sector.

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