The manufacturers' organisation

EU Referendum Survey – July 2016

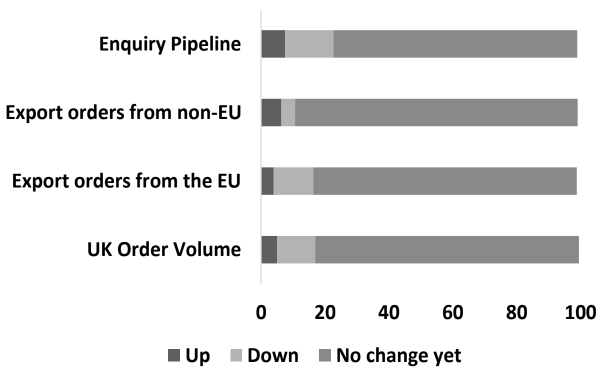
EEF EU Referendum Survey: round up

- Current trading conditions largely unchanged since the referendum.
- But a weaker UK and/or European economy is expected to lead to lower orders in the next six months.
- Manufacturers identify multiple risks in the next 12 months, knocking confidence.
- Still there are opportunities from a weaker exchange rate and beneficial policy changes.
- Our central forecast sees manufacturing output contracting by 0.3% in 2016 and 1.1% in 2017.

Keep calm: no immediate impact on trading conditions

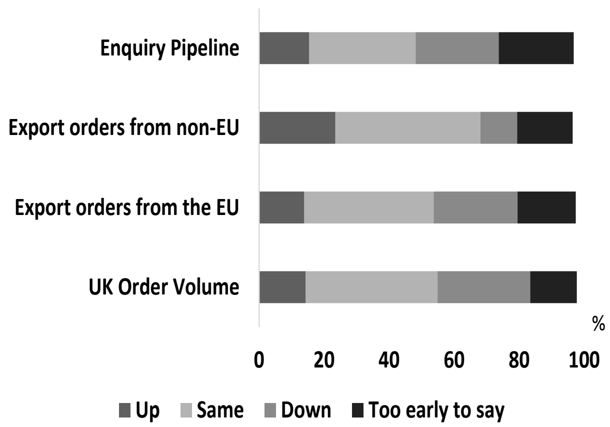
- EEF's 2016q2 *Manufacturing Outlook survey* indicated that UK orders were set to improve in H2 and export demand had stabilised.
- Most companies have not seen these trends in trading conditions knocked off track since the referendum outcome.
- Over 80% of manufacturers say order intake is unchanged or it is too early to say if there has been an impact from the vote.
- A small negative balance (-8%) note a drop in enquiry volumes.

% of companies citing change following referendum



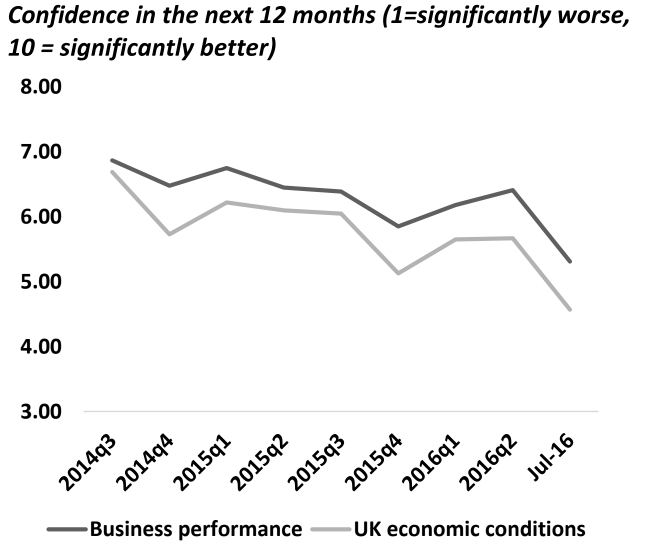
But weaker expectations for the next six months

% of companies citing expected change in the next six months



- Expectations about future demand conditions in the next six months are weaker.
- Manufacturers appear more concerned about demand from UK customers with 14% planning for an increase in UK orders versus 29% planning for a decline.
- EU order volumes are also a risk with a balance of 12% of companies predicting a decline. This is potentially linked to weaker growth in the region.
- The outlook is better for non-EU orders, with expectations these will increase, on balance. Engineering and transport sectors are most optimistic on this measure.

Confidence has taken a knock

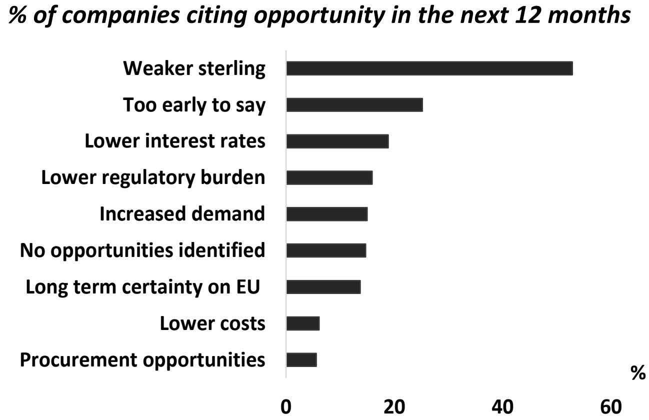


- Confidence about firm level performance and the UK economy in the next 12 months deteriorates.
- All sectors across all regions have seen a marked drop in confidence about business performance. The biggest sector losses are the UK consumer focussed food & drink sector and construction exposed rubber & plastics manufacturers.
- There has been a similar drop in confidence about the UK economic outlook. With reports that growth is likely to suffer – at least short term – all regions are now expecting a weaker outturn for the UK over the next year.

Lots of factors driving the drop, some economic, some not

- Broad range of risks identified in the year ahead, contributing to lower levels of business confidence.
- Sterling volatility tops the list and is most cited as a risk by all sectors except food and drink – which is more worried about increasing costs.
- Political uncertainty and what happens next with Brexit negotiations is also front of mind for manufacturers.
- The status of EU funded grants and research projects is also prevalent amongst companies in the transport sector.

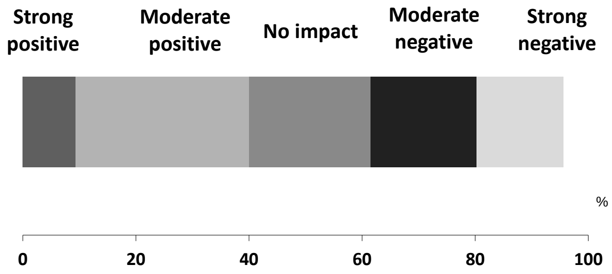
Do all clouds have a silver lining?



- Change always brings opportunities as well as challenges.
- While volatility is a risk, around half of manufacturers are set to take advantage of a weaker Sterling.
- Other advantages come from potential policy changes to interest rates or the regulatory burden.
- Although, not everyone has identified an upside, with just under two-fifths of respondents seeing no opportunities or commenting that it's too soon to say.

Exchange rate benefit more balanced than people think

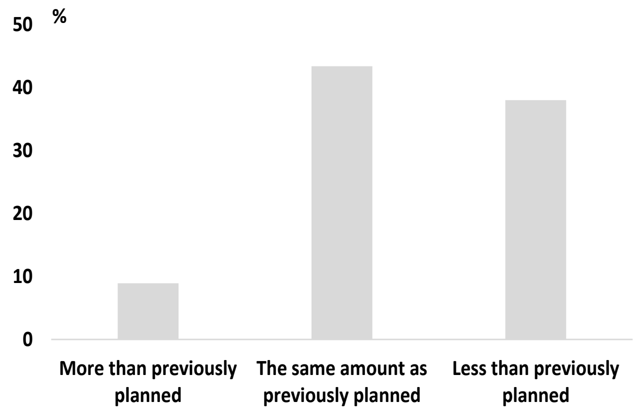
% of companies citing impact from £/$ exchange rate remaining at current levels for next 12 months



- The ups and downs of Sterling is evident in companies' responses to a scenario where the $ exchange rate remains persistently low. A net balance of 6% of companies' say this would be a net positive for their business.
- The balance increases with export intensity.
- The flip side is the impact on the price of imported goods. Over 30% of companies have already seen input prices rise, with half expecting this to be the case over the next six months.

Balancing risks and opportunities

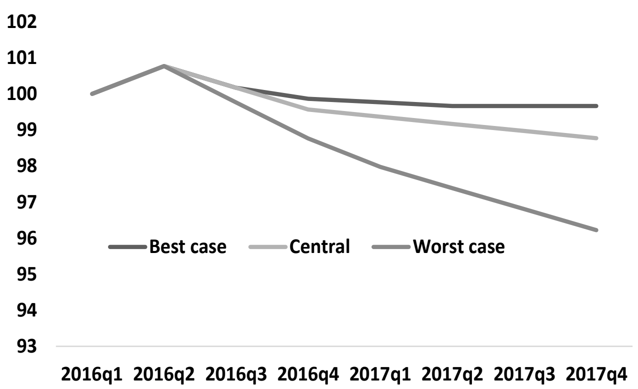
% of companies expecting change in investment plans following review of business plans



- Taking all of the risks, opportunities and uncertainties together, 58% of manufacturers will be reviewing recruitment plans immediately or as part of their normal planning cycle.
- A similar proportion (56%) will do the same with their investment plans in the UK, in light of the referendum outcome.
- Their best judgment is that, for 43% of companies investment plans will proceed unchanged, 38% expect to invest less and 9% to spend more.
- Mid-size and large companies appear more cautious, and more likely to expect cuts.

Manufacturing growth scenarios

Manufacturing output, 2016q1 = 100



- Manufacturing indicators had been improving since the start of the year. Our forecasts for manufacturing were flat output in 2016 and growth of 1.2% in 2017.
- The future path of output growth is more uncertain. Our central scenario sees the sector supported by a weak exchange rate, but with risks to EU demand and subdued investment. This would result in output falling 0.3% in 2016 and by 1.1% in 2017.
- There are up and downside risks, the worst case would see output fall by 2.7% in 2017.

Want to know more?

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