
REGIONAL MANUFACTURING OUTLOOK

JULY 2017



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



Lee Hopley
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Tom Lawton
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Welcome to our third annual *Regional Manufacturing Outlook* report in partnership with BDO LLP. This report pulls together our survey results on the health of manufacturing over the past year, comparing and contrasting performance across the eight regions of England, Scotland and Wales.

In recent years our surveys have pointed to a bumpy ride for manufacturing, with output and new orders buffeted by swings in commodity prices and concerns about growth in some part of the world at one time or another.

The past year has also seen some ups and downs, but in a turn for the better it seems most regions have seen more positive news – particularly in the last couple of quarters. Stronger growth globally is helping to lift sentiment and activity across the majority of the UK. And this trend is notable in most parts of the country north of the Watford Gap since last year's EU referendum, with confidence about business performance in the 12 months ahead mounting a healthy recovery.

As ever, the sectoral composition of individual regions in combination with the supportiveness of the local business environment are important determinants in the magnitude and durability of any improvement in activity.

In our latest report we see the two Midlands regions as top performers when it comes to the strength of improvement in output over the previous four quarters. The dominance of the transport sectors and their supply chains, as well as the recent boost to capital goods sectors will have played a part in their rise to the top of the output league table.

That said, no part of country is left behind when it comes to new order in-take over the past year as all regions covered have reported positive balances. This is translating, inevitably, into the need for more people. Employment is another indicator in which we see a clean sweep of positive average balances, a trend which should carry over into the second half of this year. If only the investment picture were the same, with the patch work of plans on capital expenditure perhaps more reflective of caution about the resilience of the demand environment, as well as the uncertainty about the UK's future deal with the EU.

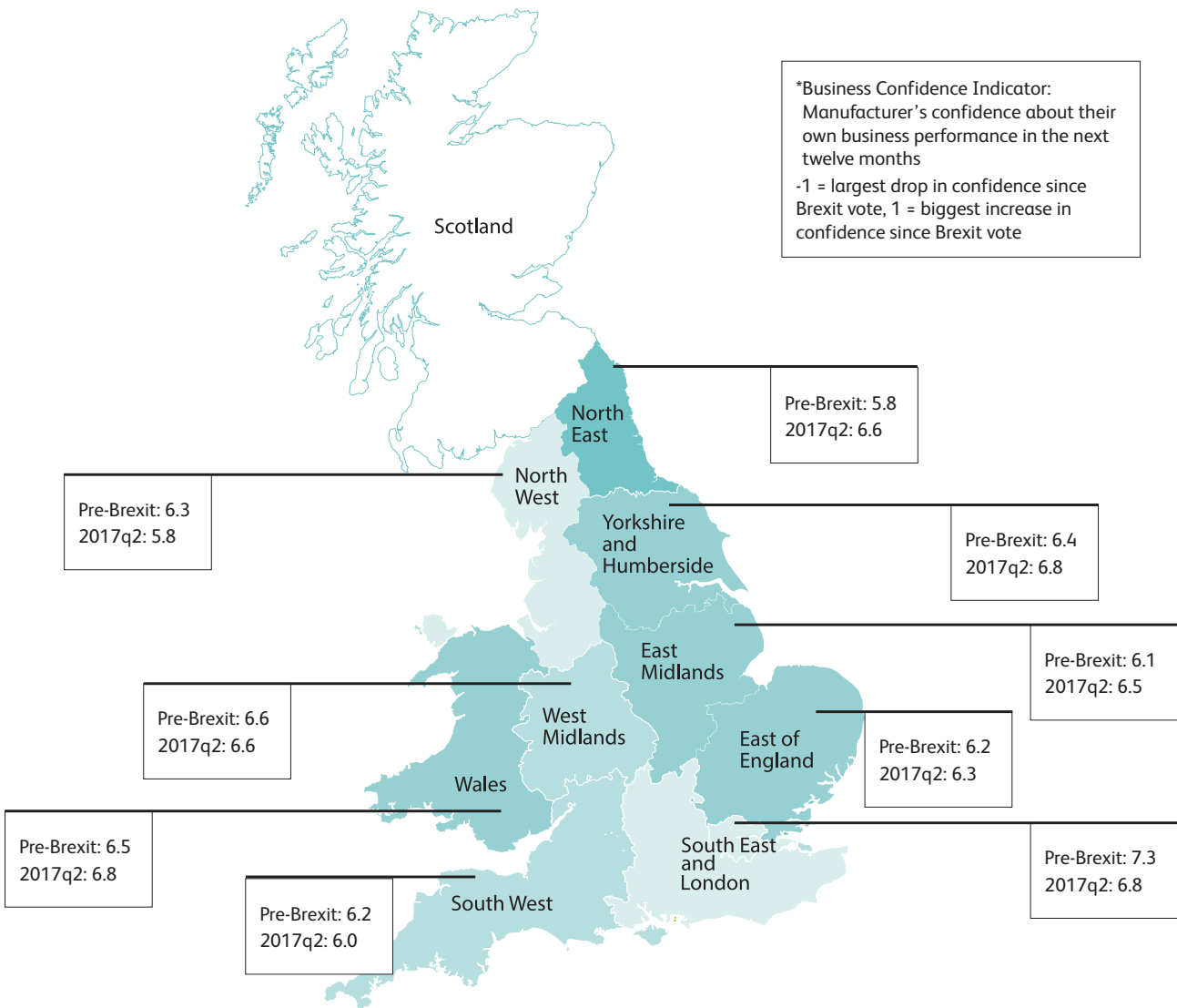
There are many reasons to be positive about how manufacturing is faring right across the country. However, our review of official statistics contained within the report continues to highlight some of the clear differences in productivity outcomes, business creation and employment dynamics.

The job is, therefore, far from done on equipping local areas to drive through the necessary upgrades to the business environment, which can help anchor more manufacturing investment and growth. What the government does next on devolution will be crucial to this. The forthcoming industrial strategy white paper will be another important piece of the policy puzzle. Driving up skills, innovation and attracting investment across the UK must be part of the vision for a more vibrant economy, with manufacturing at its heart.

REGIONAL SNAPSHOT

The past year has seen the restoration of confidence across all UK regions after the wobble in the immediate aftermath of the Brexit vote. A number of tailwinds have emerged to support confidence among manufacturers over this period. In particular, the unwinding of the drag of low commodity prices, as well as, the synchronised

pick-up in global manufacturing, have combined to rejuvenate demand in the sector. Nevertheless, uncertainty continues to dominate the economic and political landscape and as a result, confidence in some regions continues to ebb below pre-Referendum highs.



Change in Business Confidence Indicator*: pre-Brexit compared to 2017 Q2

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

HOW DO THE REGIONS/NATIONS COMPARE

Over the past year we've seen a broad-based, across the country improvement in most of our survey's key indicators*. The regional summary below is case in point; the table is dominated by positive readings in all indicators, with investment the only exception. This is not surprising given, on the one hand, the substantial upturn in market conditions from last year, and on the other, the simultaneous increase in political uncertainty.

The East of England, North West and Yorkshire and Humber look to be the regions most affected by this uncertainty, posting an average of negative balances for investment over the past four quarters, despite strong

readings on demand and output. Conversely, the North East region is pushing forward with investment despite recording the lowest balance on orders.

There are a number of notable shifts from last year's Regional Outlook. The South East and London has lost the crown as the best performing region after two consecutive wins, with the West Midlands moving in to claim the prize. What's more, Wales has gone from the most improved region in 2016 to the least improved this year, while last year's bottom performer, the North West, has seen the heftiest improvement in 2017.

REGIONAL SUMMARY

% AVERAGE BALANCE OF CHANGE 2016 Q3 – 2017 Q2

	OUTPUT	ORDERS	INVESTMENT	EMPLOYMENT
East Midlands	31	22	12	15
Eastern	21	22	-12↓	7
North East	15	8	16	11
North West	24↑	28↑	-2	15
South East & London	28	27	14	18↓
South West	24	19	3↑	17↑
West Midlands	31	25	11	19
Yorks & Humber	19	25	-2	19
Scotland	7	10	6	6
Wales	6↓	20↓	6	13

Source: EEF Business Trends 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. Within this, manufacturing accounts for 17.1% of output, making it the region with the highest proportion of manufacturing output within the UK. There were 12,090 manufacturing businesses in the region in 2016, up 3.6% from 2015. The region's largest manufacturing sectors are food and drink, transport equipment and rubber and plastics.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	5.7	–
Manufacturing	9.6	17.1
Services	5.2	71.1
Construction	6.0	6.2

Source: ONS

EMPLOYMENT:

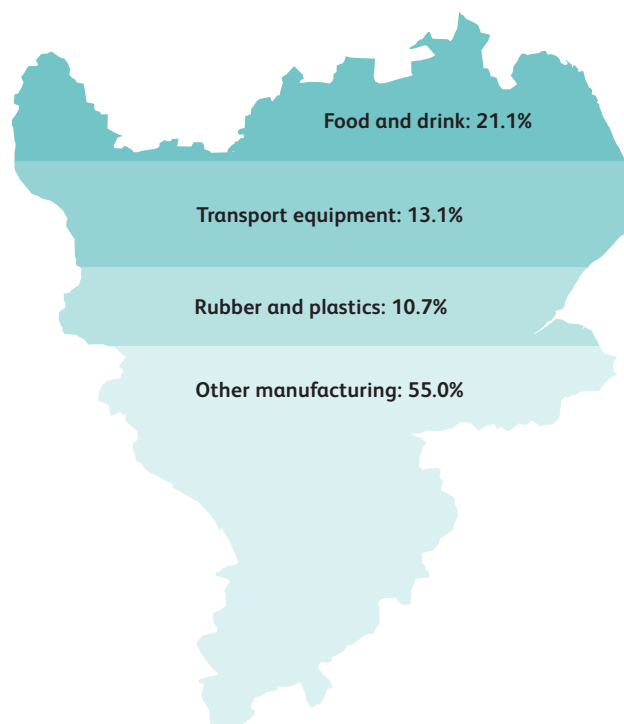
- There were 293,000 manufacturing jobs in the East Midlands in March 2017, accounting for 12.4% of the region's total workforce, the highest for any region.
- The number of manufacturing jobs in the region has increased by 7.3% since March 2010, the second highest growth rate in the UK.

PRODUCTIVITY:

- The East Midlands' productivity is 86.9% of the UK average, which ranks it 7th out of 10 UK regions.

EXPORTS:

- In 2016, the East Midlands accounted for 5.9% of the UK's manufactured exports.
- 52% of the region's goods exports go to the EU, which is slightly above the national average.
- Outside of Europe, 20.4% of the region's exports go to Asia, the highest of any region. North America is the region's third largest market, receiving 12.5% of all East Midlands manufactured exports in 2016.



A VIEW FROM THE REGION: DAVID BRAMWELL, MD, QFC

Positive trends in UK manufacturing are being mirrored across the East Midlands. Confidence is returning and manufacturers across most sectors are reporting healthy output and order balances. The oil and gas market is beginning to grow again and aerospace continues to be buoyant. Exports are doing well, with the Middle East, North America and Europe cited as offering the best growth opportunities. Input price inflation is beginning to soften and the balance of manufacturers raising prices is beginning to drift down.

However, manufacturers facing consumer and public sectors are starting to face margin pressure because of budget cuts and the squeeze on real incomes. Also, there has been some softening of investment intentions because of the current political uncertainties. Many employers are concerned about availability of skilled labour and note a clear need to retain as much flexibility as possible on accessing skills from within the EU and beyond.

MANUFACTURING PERFORMANCE IN THE EAST MIDLANDS

Region records joint strongest output balance over the past year
Region's export order balance over past year the highest in the UK
Output and order balances tail off slightly in 2017q2, but both expected to rebound strongly next quarter
After a solid year, employment and investment intentions soften for the rest of 2017
Confidence indicator slightly above the UK average over the past two years

The East Midlands region has recorded the joint strongest average of output balances over the past year, along with its neighbour the West Midlands. A solid rebound in both domestic and export orders since 2016q3 has pushed through expansion in output, as well as, prompted solid recruitment and investment activity.

However, despite a strong year on the whole, the output balance for the East Midlands has tailed off somewhat in 2017q2 and has been overtaken by most other regions. The fall is entirely driven by softer domestic demand and likely reflects the slowdown in household consumption weighing on the dominant sector in the region, food and drink.

Food and drink, as a consumer-facing sector, has begun to feel the effects of rising inflation and the squeeze this is putting on household spending. Coupled with the sterling-induced rise in input costs, output growth has stalled, although only moderately, given the demand inelastic nature of food and drink products.

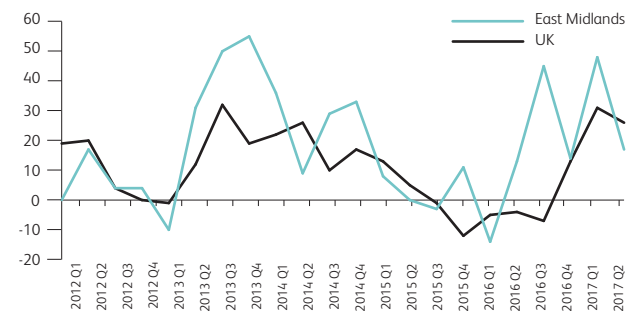
The slowdown on the domestic front however, is being at least partially offset by healthy export conditions, particularly in the transport equipment sector and the strong performing aerospace industry. The industry continues to benefit from a strong pipeline of work, which is reflected in the region's export balance, which was the joint strongest of any region in 2017q2, and has been consistently high over the last year.

As a result, the outlook for the East Midlands is more promising than the latest quarter would suggest, with manufacturers expecting output and orders to bounce back to historically high levels in the rest of 2017. Investment

and recruitment plans are however set to remain weak, partly down to strong investment and recruitment in the past few quarters and partly down to uncertainty regarding the UK's future relationship with the EU.

EAST MIDLAND'S AVERAGE OUTPUT BALANCE OVER PAST YEAR JOINT STRONGEST IN UK

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

REGION HAS SEEN AN IMPRESSIVE REBOUND IN EXPORT ORDERS SINCE 2016

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



Source: EEF Business Trends Survey

EAST OF ENGLAND

The East of England ranks third in the UK in terms of total output. Manufacturing accounts for 12.2% of that output, which is above average for the UK as a whole. There were 13,780 manufacturing businesses in the region in 2016, a modest increase of 1.7% from the year before. The region's largest manufacturing sectors are food and drink, pharmaceuticals and metals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	8.4	–
Manufacturing	10.1	12.2
Services	8.1	75.8
Construction	12.5	8.8

Source: ONS

EMPLOYMENT:

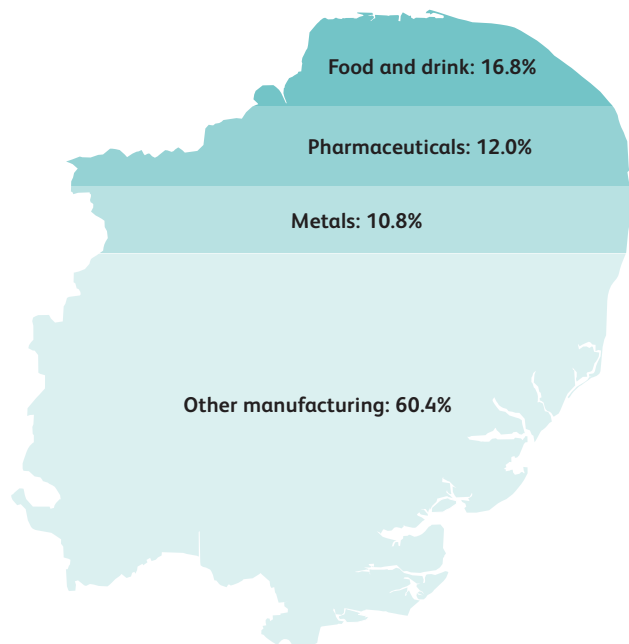
- There were 217,000 manufacturing jobs in the East of England in March 2017, accounting for 6.9% of the region's total workforce.
- At -6.9%, the East of England has seen the largest contraction in manufacturing jobs of any UK region since March 2010.

PRODUCTIVITY:

- The East of England's productivity is 99.2% of the UK average; this makes the region the UK's second-most productive after the South East and London.

EXPORTS:

- In 2016, the East of England accounted for 9.2% of the UK's manufactured exports.
- The region depends heavily on European markets for export sales; it sends 59.8% of all exports to Europe – 52.5% of which go to the EU – the second highest of any region.
- Exports to Asia, the Americas and Sub-Saharan Africa trend below the UK average but the region has the second highest share of overseas sales to the Middle East & Africa.



A VIEW FROM THE REGION: ANDREA RODNEY, DIRECTOR, HONE-ALL PRECISION LTD

Manufacturing continues to grow in strength and influence within the region with £26 billion worth of goods exports in 2016, 85% of which were manufactured products. Achieving this during these turbulent political and economic times demonstrates the resilience and focus of the industry despite still facing a number of challenges from sectors not yet fully recovered such as the oil and gas sector.

We are constantly reminded that the UK has a productivity issue and this is where our focus must be. However, for the majority of companies within the region, our biggest hurdle to overcome is still the skills shortage – a theme which has not changed in the last decade or more and yet progress to address the problem has been, and still is, limited.

We need a unified approach among regions, trade bodies and industries, to give a focused direction and a distinct set of parameters to Government for them to start addressing this issue at a national level which can filter through all sizes and sectors of business.

MANUFACTURING PERFORMANCE IN THE EAST OF ENGLAND

Output balance trends above UK average for three of the last four quarters

UK orders balance rebounds after a poor start to 2017

Investment intentions turn positive in 2017q2 after seven consecutive quarters in the red

After recording the second lowest average of employment balances over the past year, recruitment to take off in latter part of 2017

Manufacturers' confidence improves since Brexit vote and climbs slightly above last year's print

The East of England's output and order balances grew solidly over the past year, driven by a robust export order pipeline, the joint second highest in the period 2016q3-2017q2. The region also saw a particularly strong 2017q2, with the UK order balance rebounding after a weak start to the year, and investment intentions moving back into the black for the first time since 2015q1. Encouragingly, the improvement in the output balance looks set to be sustained as some of the region's key sectors see an upturn in demand.

Positive demand conditions, both domestic and foreign, have helped turn around the fortunes of mechanical equipment manufacturers, of which the East of England has a higher than average concentration. As the chief investment good in UK manufacturing, these manufacturers are benefiting from the pick-up in investment intentions seen across the UK since the end of 2016, following a year of negative balances. The rebound in the region's third largest sector – metals – from the trough of 2015-2016 has also helped to prop up demand in the region.

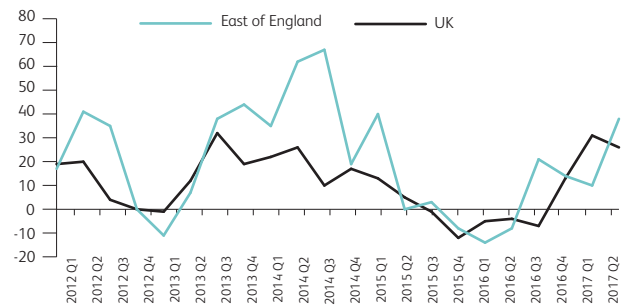
These sectors' performance have helped to offset the poor start pharmaceuticals had to the year, as well as, the pressure some food and drink manufacturers – the region's largest sector – may be facing from inflation and wage growth dynamics. Neither sector is expected to see growth decline substantially however, given the resilience of these products to demand fluctuations, and hence the outlook remains bright.

This is reflected in the positive forward looking balances in output and orders, and most notably employment, where the recruitment balance in the East of England for the rest of 2017 is the second highest of all regions. This

follows a period of subdued recruitment in the region, with the average of employment balances over the past year the second lowest in the UK. Optimism among manufacturers about the rest of the year is supporting confidence in the region which has climbed above pre-Brexit vote levels.

EAST OF ENGLAND'S OUTPUT BALANCE HAS BROADLY OUTPERFORMED UK AVERAGE OVER THE LAST YEAR

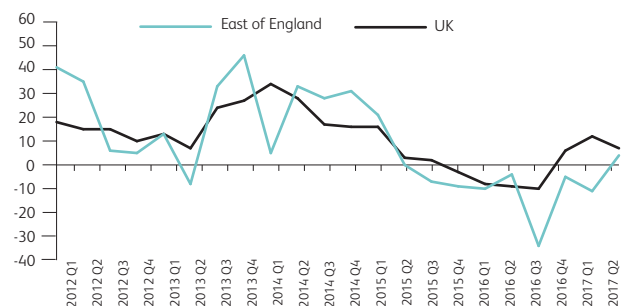
% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

AVERAGE INVESTMENT BALANCE WAS LOWEST OF ANY REGION LAST YEAR BUT THERE ARE SIGNS OF IMPROVEMENT

% BALANCE OF CHANGE IN INVESTMENT (NEXT 12 MONTHS)



Source: EEF Business Trends Survey

NORTH EAST

The North East is the UK's smallest region in terms of total output. Manufacturing accounts for 14.8% of the region's output, which is well above average for the UK as a whole. There were 4,235 manufacturing businesses in the North East in 2016, an increase of 3.9% from the year before, the fastest growth in enterprises for any region. The region's largest manufacturing sectors are metals, mechanical equipment and pharmaceuticals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	3.0	–
Manufacturing	4.3	14.8
Services	2.8	74.5
Construction	2.9	5.9

Source: ONS

EMPLOYMENT:

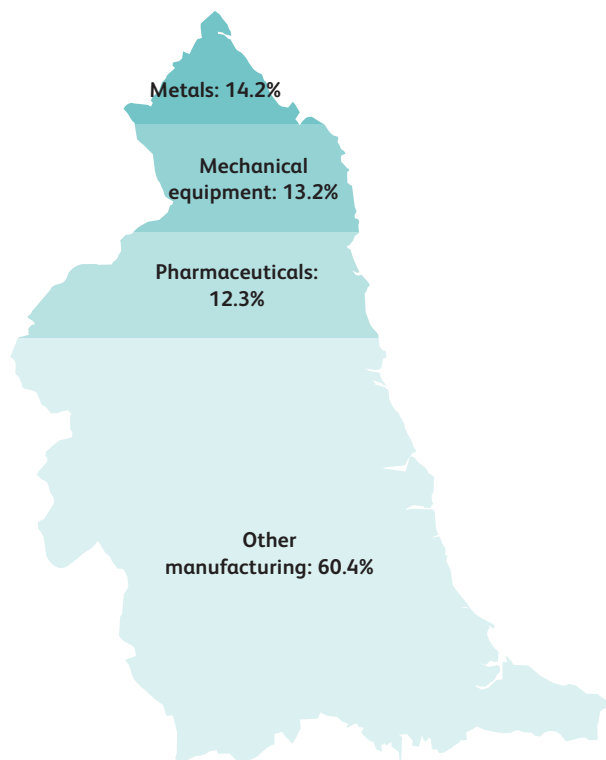
- The number of jobs in manufacturing in the North East in March 2017 was 115,000, accounting for 9.6% of the region's total workforce.
- The number of manufacturing jobs has been flat since March 2010.

PRODUCTIVITY:

- The North East's productivity is 87.6% of the UK average, ranking the region 6th out of 10 UK regions.

EXPORTS:

- In 2016, the North East accounted for 4.2% of the UK's manufactured exports, the joint lowest of any region.
- The region relies heavily on the EU market, which was the destination for 62% of all exports from the North East in 2016.
- As a result of the region's exposure to the EU market, the North East has the lowest proportion of exports to North America and the second lowest exposure to Asia & Oceania.



CRAIG BURTON, PARTNER AND HEAD OF MANUFACTURING AT BDO LLP IN THE NORTH EAST:

Though performance in the North East manufacturing sector looks bright with increased levels of output, investment and employment, there is still some need to be cautious over the future challenges and opportunities for the sector. Along with many other regions, the North East faces a skills shortage which is leading businesses to invest in automation technologies to streamline and accelerate production lines.

Given the continued political and economic uncertainty over the UK's exit from the EU, potential new markets and exporting opportunities – key for the future success of the sector – are still to be defined as negotiations rumble on.

MANUFACTURING PERFORMANCE IN THE NORTH EAST

- Output balance overtakes UK average in 2017q2, following a relatively subdued year
- UK orders progressively pick up over the year to post joint highest balance in 2017q2
- Employment balance surges to highest ever level in 2017q2, but the yearly average has gradually tailed off from 2014
- Investment balance over the past year the strongest in the UK
- Manufacturers' confidence sees the largest improvement in any region since the Brexit vote

The North East has seen a considerable turnaround since the lows of late 2015 and better part of 2016. The second quarter of 2017 saw a welcome surge in the North East's balances, with output and orders rising to historically high levels, and investment and recruitment plans the strongest of any region.

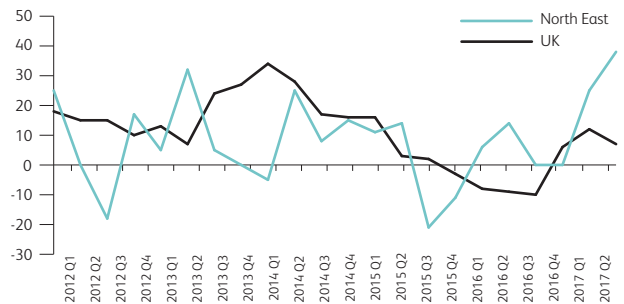
Much of this growth, and improvement in confidence, is due to the pick-up, after a number of quarters of subdued activity, in the mechanical equipment and metals industries. These sectors, the two largest in the region, are benefiting from the upturn in global demand conditions, as manufacturers look to invest and expand capacity to meet growing demand, despite the uncertain outlook.

Moreover the recent pick-up in global steel prices is providing further support to the metals sector, which should post moderate growth this year after a difficult period in which it acted as a drag on the region.

Manufacturers' investment and recruitment intentions have therefore surged on the back of the pick-up in these sectors, as well as in the oil and gas industry where – despite still challenging conditions – signs of improvement are also likely to be adding to the optimism mechanical equipment and metals manufacturers in North Sea supply chains are feeling. As such, local manufacturers' expectations are positive, with output, orders and recruitment plans all expected to come in strong in the coming three months.

NORTH EAST'S AVERAGE INVESTMENT BALANCE STRONGEST OF ANY REGION LAST YEAR

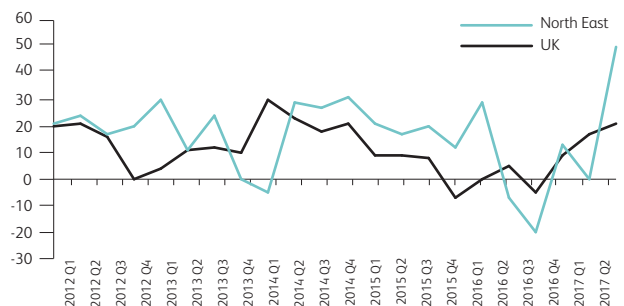
% BALANCE OF CHANGE IN INVESTMENT (NEXT 12 MONTHS)



Source: EEF Business Trends Survey

EMPLOYMENT INTENTIONS END THE YEAR AT THEIR HIGHEST EVER LEVEL

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)



Source: EEF Business Trends 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 15.5% of that output, the third highest of any region. There were 14,560 manufacturing businesses in the region in 2016, an increase of 1.6% since 2010, which is below the UK average of 2.4%. The region's largest manufacturing sectors are pharmaceuticals, transport and food and drink.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	9.6	–
Manufacturing	14.7	15.5
Services	9.2	76.0
Construction	9.0	5.5

Source: ONS

EMPLOYMENT:

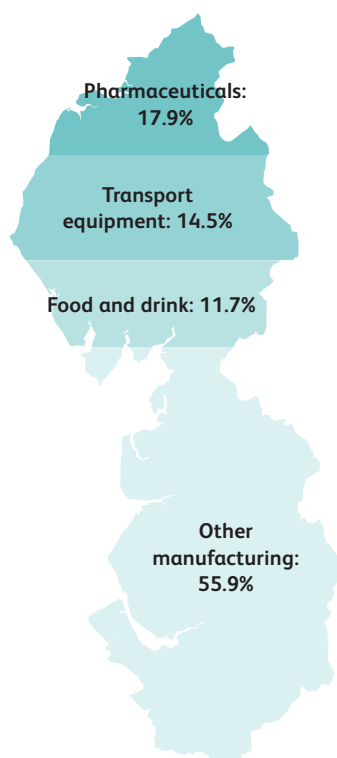
- There were 318,000 manufacturing jobs in the North West in March 2017 or 8.8% of the region's total workforce.
- The North West has seen the largest drop in the number of manufacturing jobs since March 2010, with the region shedding 17,000 jobs over this period.

PRODUCTIVITY:

- The North West's productivity is 90.1% of the UK average, putting the region at the middle range of regional productivity rankings.

EXPORTS:

- In 2016, the North West accounted for 10.4% of the UK's manufactured exports, the third highest of any region.
- At 52% of total exports, the region has the lowest exposure to the European market.
- The region's share of exports that travel to Asia & Oceania, the Middle East & North Africa, and North America are above the UK average.



A VIEW FROM THE REGION: ANDREA HOUGH, MD, ENGINE CONTROLS

Theresa May pledged in her manifesto to keep the Northern Powerhouse project going and to build a Northern Powerhouse Rail line across the region and we hope that she follows this through. Like the rest of the UK, the North West needs the Government to push forward with a bold industrial strategy which will give us long term growth in the area throughout manufacturing.

Many local manufacturers have been able to capitalise on the competitive pound and the growing world economy but we must still do more to attract the right skills to the region. This means continuing to recruit freely from EU and non-EU countries but also maintaining the right free trade deals in place so that the region's manufacturers are not unduly penalised when trading with other EU countries.

MANUFACTURING PERFORMANCE IN THE NORTH WEST

- Biggest improvement in the output and total orders balance from last year's Regional Outlook
- Domestic orders balance softens over the course of 2017 but export orders follow the opposite trajectory
- Investment intentions have had a weak year and in 2017q2 were the lowest of any region
- Annual average of employment balances trends above UK average over the past three years
- Manufacturers' confidence over the past year the joint lowest of any region

The North West, following a period of weak activity in the opening quarters of 2016, has seen an across the board improvement since 2016q3. In fact, the region has seen the largest uptick of any region in the output and order balances, as an average of the past four quarters, from last year's Regional Outlook.

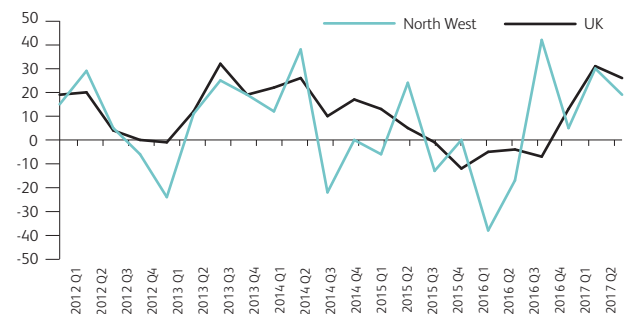
However, despite a strong year on the whole, the region's performance has been tempered somewhat by a subdued second quarter to 2017. This has seen the North West drop below the UK average in all key indicators in 2017q2, with investment intentions particularly soft.

The overall recovery in the region's balances over the last year had coincided with rising oil and steel prices and the improved demand flowing to the metals sector – the region's fourth largest sector. This upturn has however been weakened in recent months as the pharmaceuticals sector, which makes up almost a fifth of manufacturing in the North West has had a poor start to the year, while food and drink manufacturers are expected to continue to feel the drag from rising inflation on consumer spending in the second half of the year.

The soft 2017q2 has somewhat dampened confidence among manufacturers in the region, with the confidence indicator dropping to the lowest in the UK in the second quarter of the year. However, positive forward-looking expectations for both domestic and export orders indicate that we're likely to see a rebound in confidence in the latter part of 2017. This is also reflected in the employment balance, where companies on balance expect to increase recruitment in the rest of the year.

OUTPUT BALANCES HAVE PICKED UP CONSIDERABLY IN THE NORTH WEST SINCE END-2016

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

INVESTMENT BALANCE BACK IN THE RED IN 2017Q2 AFTER STRONG START TO THE YEAR

% BALANCE OF CHANGE IN INVESTMENT (NEXT 12 MONTHS)



Source: EEF Business Trends Survey

SOUTH EAST AND LONDON

The South East and London is the UK's biggest regional economy in terms of total output. Despite being the largest manufacturing region by value, the proportion of manufacturing in the region's economy is the smallest in the UK. There were 31,555 manufacturing enterprises in the South East and London in 2016, a growth of 2.9% since 2015. The region's largest manufacturing sectors are food and drink, transport and electronics.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	37.6	–
Manufacturing	16.5	4.5
Services	41.7	87.8
Construction	35.9	5.7

Source: ONS

EMPLOYMENT:

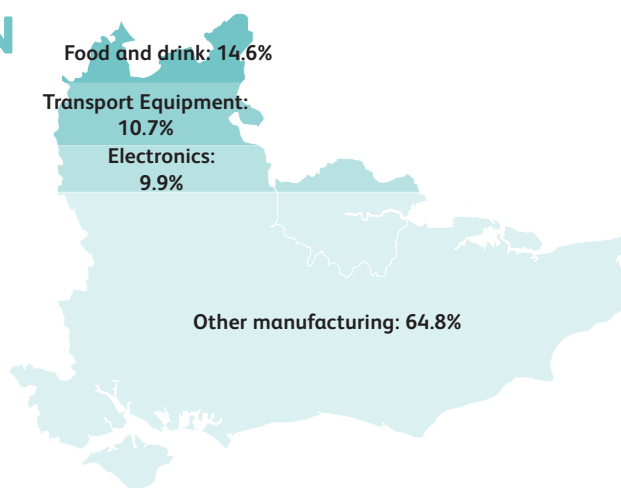
- There were 406,000 manufacturing jobs in the South East and London in March 2017, accounting for 3.8% of the region's total workforce.
- The region has seen a 2.9% decrease in manufacturing jobs since March 2010.

PRODUCTIVITY:

- Productivity in the South East and London is 122.7% of the UK average, making it the most productive region in the UK by some distance.

EXPORTS:

- The South East and London accounted for 26.9% of the UK's manufactured exports in 2016, the largest for any region.
- 46.2% of all exports travel to the EU, which is slightly less than the national average.
- The region sends 20.3% of exports to North America, the highest of any region, and its share of exports to Asia & Oceania and Western Europe (excl. EU) is above the UK average.



A VIEW FROM THE REGION: NIGEL WHITTINGHAM, MANUFACTURING DIRECTOR, BUHLER SORTEX LTD

Manufacturing performance in the South East and London region has been buoyant with sales better than expected over the post-EU referendum period. Some organisations have experienced cost increases on imported materials but this is countered by strong exports in general and to Asia in particular and, positive signs of recovery in the oil and gas industry.

The short term outlook is one of stability and modest growth, whilst adapting to the uncertainties of hard/soft Brexit and the possibility of further elections/referendums. London construction and infrastructure projects continue to offer opportunities.

The risks/opportunities facing the sector are mostly Brexit-related uncertainties surrounding EU and non-EU trade agreements, exchange rates, inflation and fuel costs, plus the availability of EU citizen skills and competitive labour. The possibility that the government's attention will be diverted away from industrial strategy is also a big concern for manufacturing businesses.

MANUFACTURING PERFORMANCE IN THE SOUTH EAST AND LONDON

- The region has posted positive output balances for the past seventeen quarters
- The total orders balance has picked up considerably since the turn of the year
- Investment intentions, although above UK average, have tailed off from their 2014q4 peak
- Recruitment the softest indicator in the region for 2017q2, but expected to rebound next quarter
- Confidence in the region over the past year is the joint highest in the UK

The South East and London has consistently been one of the best performing regions in the UK, outpacing the UK average in all key indicators on a regular basis. Its output balance has been particularly impressive, with 2017q2 marking the 17th consecutive quarter it has been rooted in positive territory, a feat matched by no other region.

The region’s performance over the past few years has been helped by the high concentration of manufacturing sectors serving the domestic market, as well as, the presence of aerospace manufacturers who have been benefiting from a persistently robust order pipeline.

The South East and London also has a significant export exposure, with the recent upturn in key export markets and the sterling depreciation helping to support export-intensive sectors such as electronics. This trend chimes with what we are seeing across the wider UK economy, with manufacturing currently enjoying a sweet spot on the export front.

On the back of these positive demand conditions both from home and abroad, manufacturers are the joint most confident of any region about their business prospects over the next 12 months, which is likely helping to push through solid investment plans after a soft start to the year. Optimism about business performance for the rest of 2017 is also prompting manufacturers to take on more workers in the coming months, which if materialises will put an end to a downward trajectory in the recruitment balance lasting from 2016q2 to 2017q2.

THE SOUTH EAST AND LONDON HAS RECORDED POSITIVE OUTPUT BALANCES FOR THE PAST SEVENTEEN QUARTERS

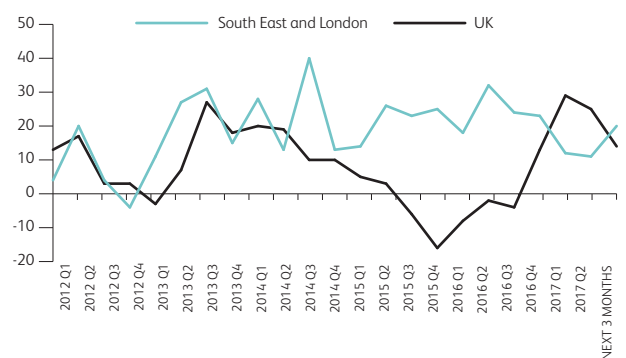
% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

EMPLOYMENT IN NEXT THREE MONTHS EXPECTED TO HALT DOWNWARD TREND SINCE 2016Q2

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

SOUTH WEST

The South West is the UK's fifth largest region in terms of total output. About 10.5% of the region's output is produced by the manufacturing sector, which is in line with the UK as a whole. There were 12,095 manufacturing businesses in the South West in 2016, an annual growth of 1.6%. The region's largest manufacturing sectors are transport, food and drink and metals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.3	–
Manufacturing	7.6	10.5
Services	7.3	78.5
Construction	7.4	6.0

Source: ONS

EMPLOYMENT:

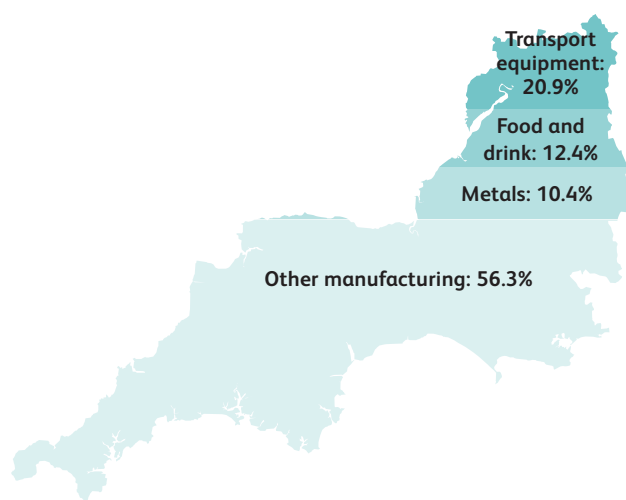
- There were 236,000 manufacturing jobs in the South West in March 2017 or 7.9% of the region's total workforce.
- The number of manufacturing jobs in the region has increased only slightly – by 0.4% – since March 2010.

PRODUCTIVITY:

- The region's productivity is 92.8% of the UK average, which ranks the South West 4th in the UK.

EXPORTS:

- In 2016, the South West accounted for 8.3% of the UK's manufactured exports.
- The region has the lowest exposure to the EU in the UK, with only 41.5% of exports travelling across the English Channel or Irish border.
- The South West has the highest proportion of regional exports going to the Middle East & North Africa and second highest to Asia & Oceania.



A VIEW FROM THE REGION: STEVE HILL, MD, SEA

Within the South West we benefit from a very wide range of manufacturing businesses, ranging from food production to aerospace design and manufacture. In general the view of most is that they are seeing continued strong demand for their products and services, with the majority being optimistic about the future outlook. For those exporting, it is clear they are benefiting from the weak pound and the impact this is having on their competitive position.

The main concerns of local business leaders are their ability to access the people they need both skilled and unskilled, as well as, for those reliant on importing raw materials, the increased costs mainly driven by the weak pound.

MANUFACTURING PERFORMANCE IN THE SOUTH WEST

Output balance builds on gains over past year to record highest level since 2011 in 2017q2

After strong demand conditions in the past year, UK orders expected to soften in 2nd half of 2017

Investment intentions climb above the UK average for first time in a year

Recruitment balance has improved the most over the last year compared to other regions

Confidence indicator drops slightly from last year and is yet to recover to pre-Brexit levels

The South West has seen solid growth in its output balance over the past year, culminating in the second highest output balance of all regions in 2017q2. This was the sixth consecutive quarter the output balance has been positive, with the South West broadly outperforming the wider UK since the start of 2016. Encouragingly, investment intentions over the next 12 months also rose for the third consecutive quarter, climbing above the UK average in the latest quarter, and have improved the most compared to any other region over the last year.

Growth in the region has been driven by the large presence of manufacturers in the aerospace supply chain, one of the best-performing manufacturing sectors over the past few years. Steady demand for products have ensured a healthy pipeline of domestic and export orders over the last year which looks set to continue.

Nevertheless, similar to the overarching picture across the UK, manufacturers expect domestic orders to unwind in the coming quarters as inflationary pressures start to bite on household demand for food and drink and electronics – the regions second and fourth largest sectors respectively. This is likely to have weighed on confidence in the region in 2017q2, which came in at the second lowest of any region.

Still, a positive balance of companies are projecting solid output growth in the rest of 2017, underpinned by expectations for a healthy intake of export orders. Manufacturers in the region are responding to this period of sustained growth by stepping up recruitment, with the employment balance firmly rooted in positive territory over the past four quarters. Recruitment expectations over the latter half of 2017 are also positive, albeit slightly below the UK average.

OUTPUT BALANCE POSITIVE FOR SIXTH STRAIGHT QUARTER IN 2017Q2

% BALANCE OF CHANGE IN OUTPUT (PAST THREE MONTHS)



Source: EEF Business Trends Survey

INVESTMENT INTENTIONS IN SOUTH WEST PICK UP IN LINE WITH REST OF UK

% BALANCE OF CHANGE IN INVESTMENT (NEXT 12 MONTHS)



Source: EEF Business Trends Survey

WEST MIDLANDS

The West Midlands is the UK's sixth largest region in terms of total output. Manufacturing accounts for 14.8% of the region's output, well above the national UK average. There were 14,670 manufacturing businesses in the region, an increase of 3.1% since 2015, also above the UK average. The region's largest manufacturing sectors are transport, metals, and mechanical equipment.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.3	–
Manufacturing	10.6	14.8
Services	6.9	75.1
Construction	7.1	5.8

Source: ONS

EMPLOYMENT:

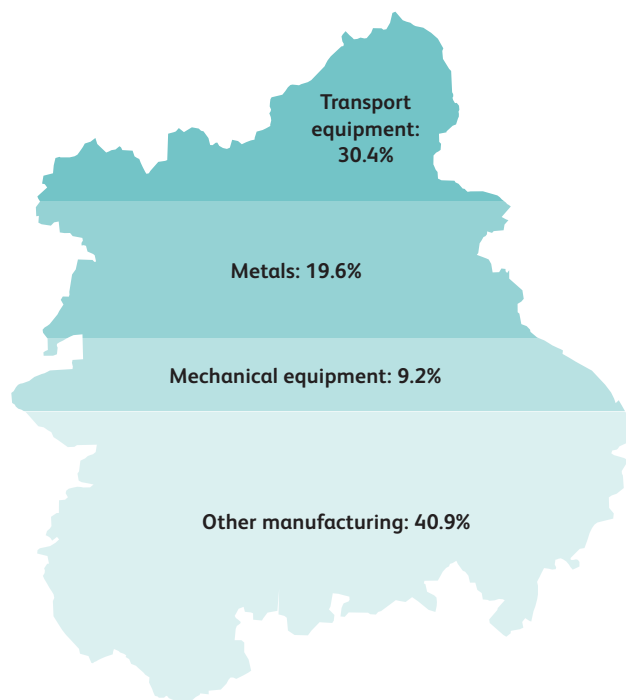
- There were 323,000 manufacturing jobs in the region in March 2017, accounting for 11.0% of the region's total workforce, the second highest after the East Midlands.
- Since March 2010, manufacturing jobs in the West Midlands have increased by 9.9%, more than four times the national growth rate.

PRODUCTIVITY:

- The West Midlands' productivity is 85.3% of the UK average, the second lowest of any UK region.

EXPORTS:

- The West Midlands accounted for 10.9% of all UK manufactured exports in 2016, the second highest of any region.
- The EU receives 46.9% of the region's exports, which is below the UK average.
- The West Midlands sends 19.7% of exports to both Asia & Oceania and North America, the second highest for any UK region.



A VIEW FROM THE REGION: MATTHEW SNELSON, MD OF MARCHES CENTRE FOR MANUFACTURING AND TECHNOLOGY CIC & SYSTEMS DIRECTOR FOR GRAINGER AND WORRALL LTD:

It feels like our manufacturing businesses just need to be brave at the moment – central government has created unnecessary uncertainty with Brexit and the recent election. Still, through manufacturers' own actions, the sector is powering through the uncertainty to post solid growth.

The industrial strategy green paper started to understand our needs, but with lack of explicit continuity, it's our role as employers to ensure that policies continue to support manufacturing. Productivity remains a key issue within the UK – with the uptake of robotics slow – and government incentives to support high value jobs will be key in addressing this.

Through contributing to the establishment of the Marches Centre of Manufacturing and Technology, Grainger and Worrall is doing its part to ensure the region develops the workforce skills needed to nurture the competitive advantage of the SME base in the West Midlands. We are taking a lead with actions to address our sector's needs, and hopefully this will reflect into government "necessary certainty" of policy.

MANUFACTURING PERFORMANCE IN THE WEST MIDLANDS

Output balance the joint strongest of any region over the last year

Export balance in 2017q2 highest of any region for second successive quarter

Investment intentions positive and well above UK average over past two quarters

Recruitment balance the joint strongest of any region over last year

Confidence over the past year the joint highest in the UK and the most improved from last year

Local manufacturers in the West Midlands are, in line with the broader UK manufacturing picture, enjoying a period of healthy activity and demand. Output and order balances were the highest of any region in 2017q2, building on the impressive momentum seen throughout the year. What's more, recruitment and investment intentions, although not quite hitting the heights of the other balances remain positive and above the UK average.

Key to the West Midland's impressive performance has been its concentration of the transport sector – the highest of any region – and in particular, automotive manufacturers. The automotive industry continues to benefit from improving global demand, in what is a heavily export-intensive sector. This manifested itself in the region's export balance, which rose to the highest level of any region in 2017q2.

The strong performance in the transport sector is providing a boost to metal and mechanical equipment manufacturers in its supply chain, with domestic demand also at historically high levels. Mechanical equipment manufacturers are more generally benefiting from the upturn in global demand conditions, as manufacturing investment comes back online after a period of subdued activity. Metal manufacturers are also feeling the boost from the pick-up in steel prices, as well as, some improvement in the oil and gas industry.

All of which has made the West Midlands the star performer so far this year. The region's manufacturers are expecting a slight unwinding next quarter, with recruitment intentions notably dropping below the UK average. However, both output and order balances are expected to remain strong, while the drop in the employment balance follows the joint strongest performance of any region in

the past year. As such, manufacturers' confidence in the region has improved the most from last year to climb to the joint highest in the UK over the past four quarters.

WEST MIDLAND'S AVERAGE OUTPUT BALANCE OVER THE LAST YEAR THE JOINT STRONGEST IN THE UK

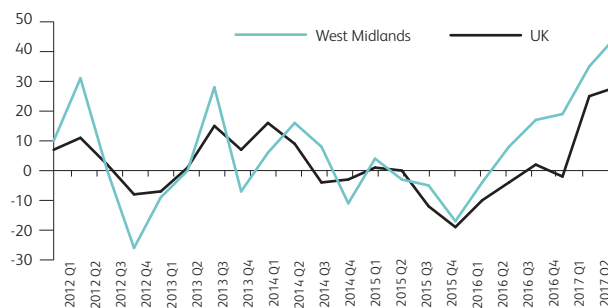
% BALANCE OF CHANGE IN TOTAL OUTPUT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

EXPORT ORDERS HAVE SURGED SINCE 2016Q2

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



Source: EEF Business Trends Survey

YORKSHIRE AND HUMBER

Yorkshire and Humber is the UK's seventh largest region in terms of total output. Manufacturing accounts for 15.0% of the region's output, firmly above the UK average. There were 11,930 manufacturing businesses in the region; the number has been flat since 2010. The region's largest manufacturing sectors are food and drink, metals and rubber and plastics.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	6.4	–
Manufacturing	9.4	15.0
Services	6.1	75.2
Construction	6.3	5.8

Source: ONS

EMPLOYMENT:

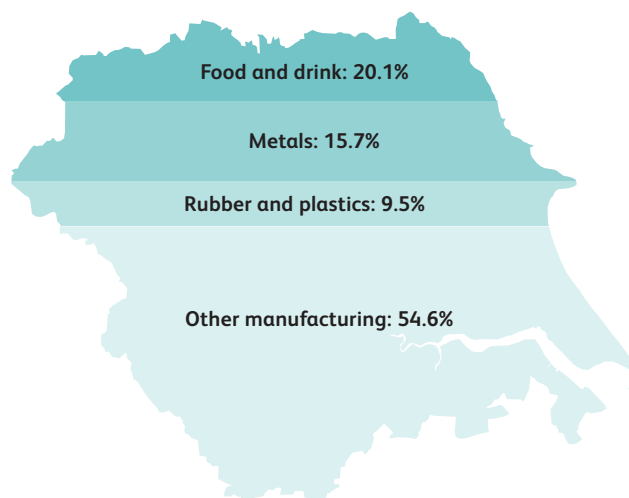
- In March 2017, there were 293,000 manufacturing jobs in Yorkshire and Humber, accounting for 10.6% of the region's workforce.
- At +12.3%, Yorkshire and Humber has seen the fastest growth in manufacturing jobs since March 2010.

PRODUCTIVITY:

- The region's productivity is 87.6% of the UK average, the third lowest in the UK.

EXPORTS:

- In 2016, Yorkshire and Humber accounted for 4.8% of the UK's manufactured exports, the third lowest in the UK.
- The EU accounts for 54.9% of the region's exports, the third highest in the UK.
- The region has the highest proportion of exports going to Sub-Saharan Africa and exports above the UK average to Latin America & the Caribbean.



A VIEW FROM THE REGION: DAVID GOATER, MD, TRANS-TRONIC

Following the referendum result last year the engineering sector in Yorkshire and Humber has seen an unpredicted increase in demand. Optimism continues to be high amongst most companies despite the uncertainty of Brexit.

The value of the pound has given exporters a competitive boost but has driven price increases due to higher costs of some imported materials. We have benefited from some big names coming to our region and the steel industry seems to be reversing recent performance with new investment in specialist materials which has brought a renewed confidence.

Our main concerns are lack of skilled labour and lack of infrastructure with rail and road links needing major investment.

MANUFACTURING PERFORMANCE IN YORKSHIRE AND HUMBER

- Output balance positive for all but one quarter since 2012
- Domestic orders balance the second highest in the UK over the past year
- Recruitment plans joint strongest of any region over the last year
- Investment balance flat or negative for six of the past seven quarters
- Confidence improves progressively over the past year to reach joint highest of any region in 2017q2

Manufacturers in Yorkshire and Humber have seen their output and order balances perform reasonably well over the past year. The region has been among the most resilient in the UK, with the output balance turning negative only once since 2012, in 2016q2. It's steady as she goes for the next three months too, with output and orders expected to remain positive in 2017q3.

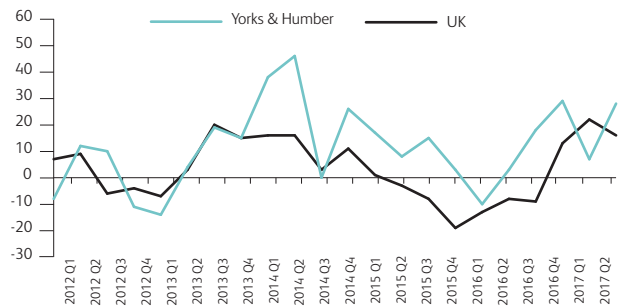
The region's capacity to persistently push through output gains is likely the result of the large presence of food and drink manufacturers, who are mostly shielded from volatility in demand conditions. The rebound in the metals sector – the region's second largest sector – has also provided further support to output growth over the past year.

Still, uncertainty about the performance of the construction industry, affecting the region's second and third largest sectors, as well as, the anticipated squeeze on household incomes weighing on demand for food and drink, has seen a slight softening of the orders balances in the rest of the year.

These trends, along with uncertainty around Brexit, are likely to be holding back capital expenditure, with investment intentions flat or negative for six of the past seven quarters. The region's manufacturers appear to be choosing to recruit more staff to boost production rather than make significant capital investments, with the region posting the highest employment balance of any region for the second half of 2017.

DOMESTIC DEMAND IN THE REGION HAS HAD ANOTHER STRONG YEAR

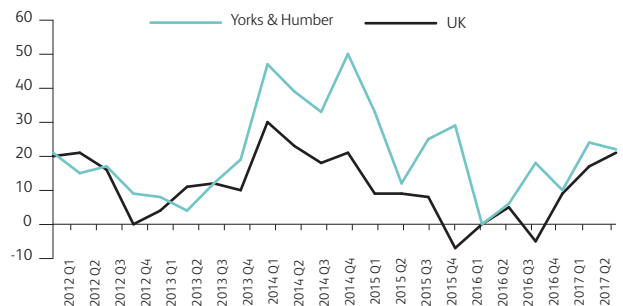
% BALANCE OF CHANGE IN UK ORDERS (PAST 3 MONTHS)



Source: EEF Business Trends Survey

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

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

SCOTLAND

Scotland is the UK's fourth largest area in terms of total output. Manufacturing is responsible for 11.0% of that output, which is only slightly above the UK average. The number of manufacturing enterprises in the country has grown by 3.1% since 2010 to 8,755 in 2016. Scotland's largest manufacturing sectors are food and drink, metals and mechanical equipment.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.8	–
Manufacturing	8.5	11.0
Services	7.5	75.4
Construction	7.4	5.7

Source: ONS

EMPLOYMENT:

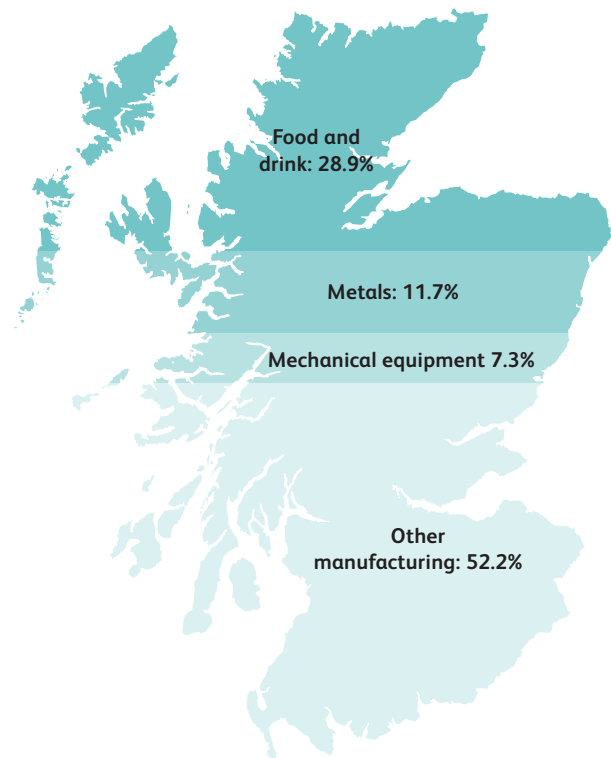
- There were 180,000 manufacturing jobs in Scotland in March 2017, accounting for 6.5% of the region's total workforce.
- The number of manufacturing jobs in the region has shrunk by 5.3% since March 2010, the second largest contraction in the UK.

PRODUCTIVITY:

- Scotland's productivity is 98.3% of the UK average, making the country the third most productive in the UK.

EXPORTS:

- In 2016, Scotland was responsible for 6.1% of total UK manufactured exports.
- Only 45.7% of exports travel to the EU, the second lowest in the UK, but Scotland exports above the UK average to Western Europe (excl. EU) and Eastern Europe.
- Scotland exports above the UK average to Asia & Oceania, Latin America & the Caribbean and the Middle East & North Africa.



VIEW FROM THE REGION: BRYAN BUCHAN, CEO, SCOTTISH ENGINEERING

In stark contrast to the gloomy first quarter after the Brexit vote, the manufacturing sector in Scotland has recorded three strong sequential quarters in terms of order intake, output volume, staffing and investment.

In terms of market importance, the rest of the UK is some 4.2 times more significant to our engineering sector than the combined EU countries, with companies relying on sales to OEMs based in the rest of the UK. Evidence of de-stocking across this customer base post-Brexit and the immediate impact of the sterling devaluation on raw material prices compared to a delayed boost to exports, weighed heavily on the sector.

Since the turn of the year, however, we have seen something of a recovery, with cautious optimism even in the oil and gas sector, as well as, the remarkable success of Scottish manufacturers in terms of diversification. Uncertainty still reigns over the trade arrangements to come out of Brexit, but there is a definite mood of optimism.

MANUFACTURING PERFORMANCE IN SCOTLAND

The output balance climbed above UK average for the first time since 2012q4

Demand in the region has picked up since the start of 2017, following a soft period stretching to almost two years

After a poor run from 2015q1 to 2016q1, investment balance overtakes UK average for three of the past four quarters

Employment balance trails behind UK average for the best part of the last 3 years but catches up in 2017q2

Manufacturing prospects in Scotland over the past few years have broadly tracked developments in the oil and gas industry, given the high concentration of manufacturers in North Sea-related supply chains. As such, the collapse in the global oil price towards the end of 2014 saw both output and order balances for the region plunge into negative territory, where they remained rooted for almost two years.

Since then however, the pick-up in the oil and gas industry towards the back end of 2016, as well as, efforts by manufacturers to diversify their demand base, has seen activity improve in the region, with output and order balances both rising above the UK average in 2017q2. The country has also been supported by its dominant food and drink industry – accounting for almost a third of all manufacturing output in Scotland – which unlike the sector overall, manufactures a range of products destined for export markets.

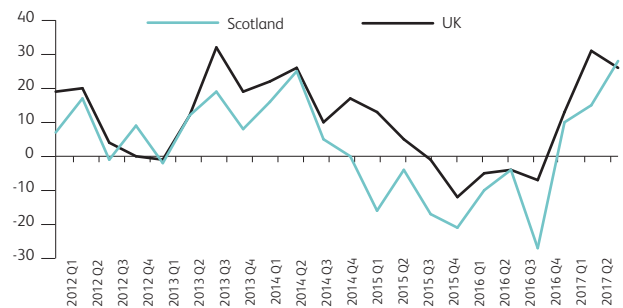
The rebound in the oil and gas industry, on the back of rising oil prices, has resulted in the return of some investment and recruitment activity. As a result, manufacturers who supply mechanical equipment and metal products into the North Sea have seen demand for their products rise, illustrated by the total orders balance overtaking the UK average for the first time since 2012q4. This upturn in activity has resulted in manufacturers’ recruitment and investment intentions rising in line with the UK average, having broadly trailed behind for the last 3 years.

Looking ahead, growth is expected to temper slightly. While the slowdown in domestic demand is expected to be offset by higher exports, a renewed plunge in the oil

price could put the lid on output growth and investment in the country. Still the recruitment drive is expected to be sustained over the rest of the year, with the employment balance firmly in positive territory and above the UK average.

OUTPUT BALANCE POSITIVE FOR THIRD STRAIGHT QUARTER AFTER TWO YEARS IN THE RED

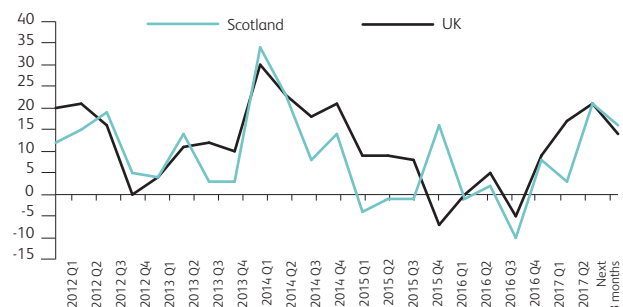
% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

EMPLOYMENT BALANCE HAS PICKED UP SINCE 2016Q4

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

WALES

Wales is the second smallest area in the UK in terms of total output. Manufacturing is responsible for 16.8% of the country's output, the second highest in the UK. There were 5,680 manufacturing enterprises in Wales in 2016, an increase of 3.1% from the year before. The region's largest manufacturing sectors are transport, food and drink and metals.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	3.4	–
Manufacturing	5.7	16.8
Services	3.2	73.2
Construction	3.2	5.5

Source: ONS

EMPLOYMENT:

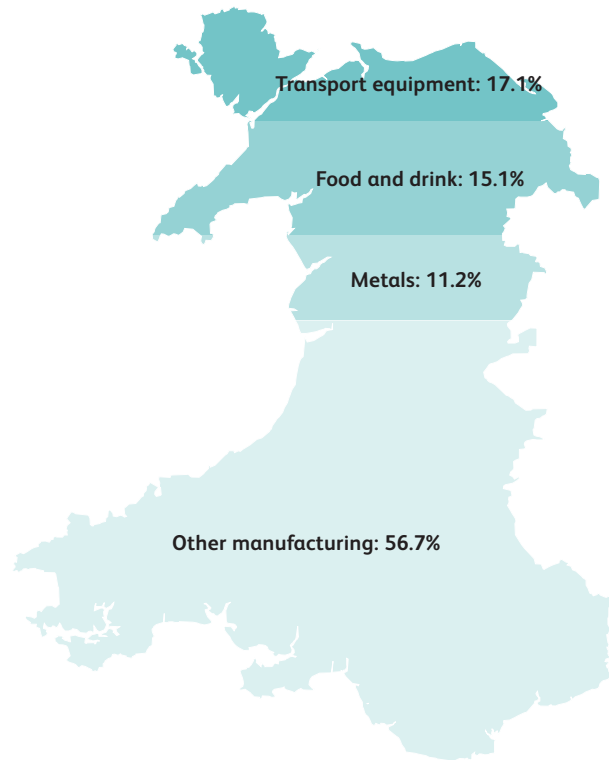
- In March 2017, there were 156,000 manufacturing jobs in Wales, accounting for 10.7% of the country's total workforce.
- Wales has seen robust growth in manufacturing jobs since March 2010, with an increase of 10.6%, the second highest in the UK.

PRODUCTIVITY:

- Wales is the least productive region in the UK, with productivity only 80.5% of the UK average.

EXPORTS:

- Wales was responsible for 4.2% of total manufactured exports, the joint lowest in the UK.
- Wales is the most dependent area in the UK to trade with Europe; the EU accounts for 66.9% of all Welsh exports and Europe overall buys in 71.3% of the country's overseas sales, both the highest proportions in the UK.
- As a result of the country's reliance to the European market, Wales has the smallest proportion of exports going to all other markets, apart from North America, where it's the second lowest.



A VIEW FROM WALES: ROGER WHITEHOUSE, MD, TEAM PRECISION

Throughout the recessionary years Wales maintained its workforce through many Government initiatives and has slowly built capacity and capability in the sector. Therefore the ability to meet demand and consider the many opportunities for reshoring and indigenous/inward investments are key to restoring business confidence. Great examples are Aston Martin, TVR and TATA investments in Wales.

Whilst there is business growth, the impact on investment and future skill needs remain. Driving forward the industrial strategy to aid competitiveness whilst we travel through this period of uncertainty is key. The industrial strategy must provide a framework for investment in capital and skills to address the many systemic issues we have in Wales, namely productivity and to future proof the sector.

MANUFACTURING PERFORMANCE IN WALES

- Up to the start of 2017, the country’s output balance had outperformed the UK average in every quarter since 2013q2
- The last time the total orders balance was in the red was 2013q1
- After three quarters of employment growth, recruitment to flatten in the coming months
- Investment intentions in 2017q2 rise to their highest balance since 2014q4
- Despite a soft start to the year, manufacturers remain upbeat with confidence the joint highest in the UK

Manufacturers in Wales have not seen the ups and downs experienced by manufacturers in most other UK regions over the last 4 years, with the country’s output balance consistently outperforming that of the UK average. The country has seen a relatively softer first half to 2017, but there is no indication that this will persist with forward looking expectations overwhelmingly positive.

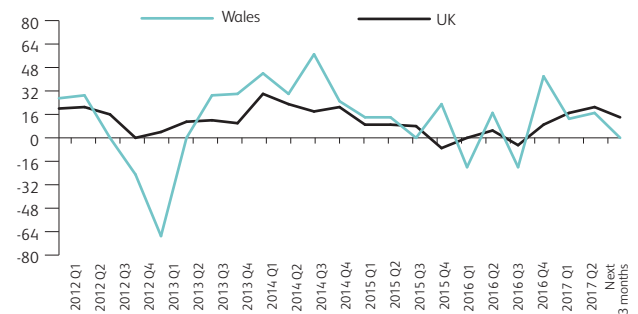
The country has seen robust growth over the past few years, supported by a well-developed supply chain for transport equipment – the country’s largest sector – and specifically the significant presence of aerospace manufacturers. The aerospace sector is expected to have another strong year, also pushing through demand for metals, the country’s third largest sector.

There were some signs of softening at the start of the year, likely the result of slowing demand for the food and drink sector, as households respond to the squeeze in real incomes by cutting spending. Nevertheless, long order books in the aerospace sector and the turnaround in the metals sector should ensure healthy demand conditions for the country going forward. Indeed, forward looking balances for output and orders are strong, while the confidence indicator climbed to the joint highest of any region in 2017q2.

Optimism about business prospects in the rest of the year is also reflected in the investment intentions balance, which rose to its highest in more than two years and the second highest in the UK for 2017q2. On the other hand, recruitment is expected to flatten after three consecutive quarters of strong prints.

EMPLOYMENT BALANCE EXPECTED TO FLATTEN AFTER STRONG GROWTH OVER PAST YEAR

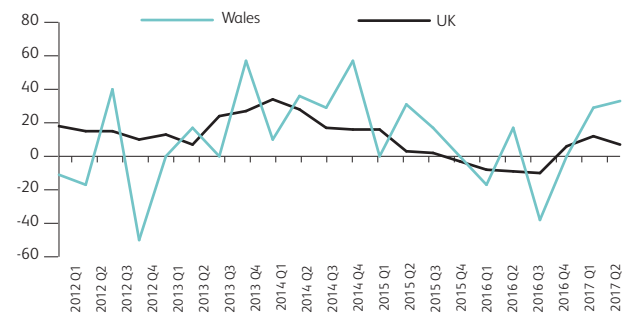
% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

INVESTMENT SURGES IN 2017Q2 TO ITS HIGHEST BALANCE SINCE 2014

% BALANCE OF CHANGE IN INVESTMENT (NEXT 12 MONTHS)



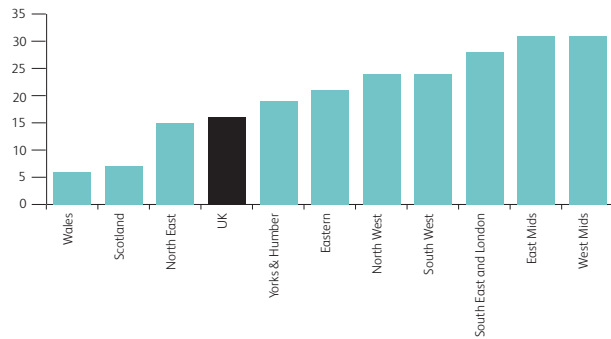
Source: EEF Business Trends Survey

DATA SUMMARY

PRESENTED IN ASCENDING ORDER

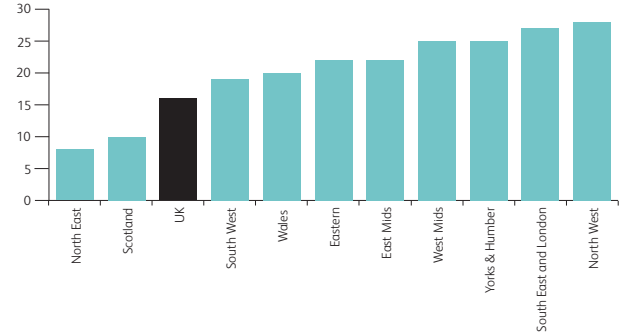
OUTPUT: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



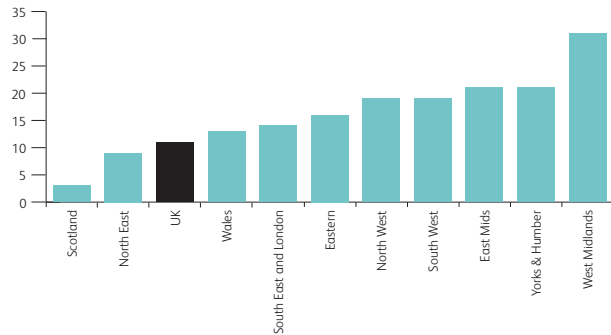
TOTAL ORDERS: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



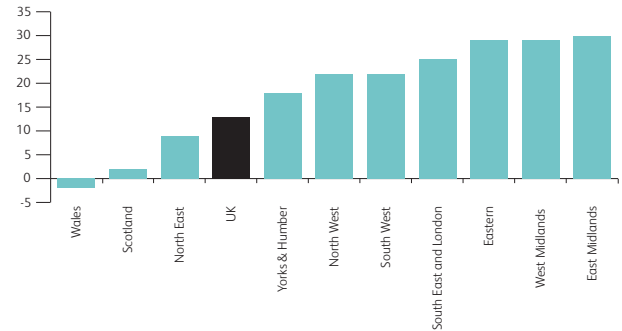
UK ORDERS: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



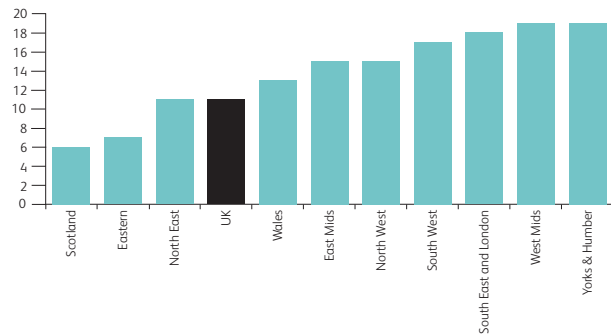
EXPORT ORDERS: PAST 3 MONTHS

ANNUAL AVERAGE (% BALANCE OF CHANGE)



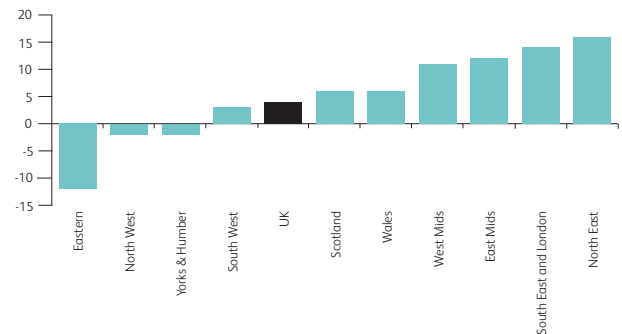
EMPLOYMENT: PAST 3 MONTHS

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 1,400 offices in 154 countries. We operate from 18 offices across the UK, employing 3,500 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.

If you would like to participate in future surveys, please contact Amanda Norris in our Information and Research team anorris@eef.org.uk

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