

In partnership with:



IDEAS | PEOPLE | TRUST



REGIONAL MANUFACTURING OUTLOOK 2021



With support from:



makeuk.org

YOUR LOCAL MAKE UK AND BDO CONTACTS

Make UK

Midlands and East



Charlotte Horobin

Region Director

01664 484 281

CHorobin@makeuk.org

Wales



Janis Richards

Membership Director

07920 117 165

JRichards@makeuk.org

South



Jim Davison

Region Director

07739 979 599

JDavison@makeuk.org

North



June Smith

Region Director

01709 782 945

JSmith3@makeuk.org



Richard Rumbelow

**Director of International Trade
and Member Relations**

07818 512 319

rrumbelow@makeuk.org

BDO

National



Richard Austin

**Partner, National Head
of Manufacturing**

07808 246 133

richard.austin@bdo.co.uk

East Anglia



Keith Ferguson

Partner

07796 278 303

keith.ferguson@bdo.co.uk

London



Richard Willis

Partner

07943 923 542

richard.willis@bdo.co.uk

Midlands



Jon Gilpin

Partner

07970 115 322

jon.gilpin@bdo.co.uk

North East and Yorkshire and the Humber



Steve Talbot

Partner

07814 092 431

steve.talbot@bdo.co.uk

North West



Graham Ellis

Partner

07812 677 047

graham.ellis@bdo.co.uk

Reading



Chris Pooles

Partner

07831 556 938

chris.pooles@bdo.co.uk

Scotland



Martin Bell

Partner

07722 990 444

martin.bell@bdo.co.uk

South East



Mark Hutton

Director

07976 198 893

mark.hutton@bdo.co.uk

South West and Wales



Matthew Sewell

Partner

07971 761 818

matthew.sewell@bdo.co.uk

Southampton



Arbinder Chatwal

Partner

07880 794 021

arbinder.chatwal@bdo.co.uk

FOREWORD



Stephen Phipson CBE
Chief Executive
Make UK



Richard Austin
Head of Manufacturing
BDO LLP

The seventh instalment of Make UK and BDO's *Regional Manufacturing Outlook* report highlights the peaks and troughs manufacturers have experienced across the nation over the last year. In it we use our quarterly *Manufacturing Outlook* data which measures key indicators such as Output, Orders, Employment, and Investment Intentions and identify how experiences for manufacturers differed regionally in the last four quarters.

The data comes during a fascinating time where many countries remain enveloped by a pandemic, whilst others are dealing with a systemic change in the international trading environment. The turn of the decade brought with it renewed optimism and a risk-loving appetite from businesses which waned quickly once the novel coronavirus reached western shores. The result – a series of the worst figures ever reported by our *Manufacturing Outlook* survey, shadowed by memories of the last financial crisis that set an industry back ten years.

Yet manufacturers persisted anyway. The industry remained switched on and kept the gears turning. Automotive manufacturers switched production processes to produce PPE; chemical product manufacturers ramped up production of hand sanitisers and cleaning materials; and the pharmaceuticals industry delivered an effective vaccine at a pace that's never been achieved before. As difficult as the crisis has been it has shown how resilient and agile UK manufacturers are. Many are slowly adapting to the novel Trade Cooperation Agreement (TCA) too, although challenges do remain on that front.

The most recent indicators for 2021 show the manufacturing sector has once again found itself with renewed optimism as the sector bounces back with output rising to record levels. Coupled with heightened levels of employment and investment intentions rising, partially boosted by the Government's super-deduction scheme. However, when viewed over a twelve-month period it's clear the growth achieved in early 2021 is not necessarily

sufficient to recover the losses incurred during the second half of 2020. Many regions on balance still reported overall contractions, where on average the declines in industry outweighed its gains within the measured period. Notably, locations such as the East of England, South East & London, South West and Scotland reported average balances that leaves room for only cautious optimism. In fact, only the North West has produced average positive balances across the board, whereas all other regions or nations have reported an overall contraction on at least one of our metrics.

Looking at official statistics, many of which report only pre-pandemic data, they highlight some interesting developments across regional manufacturers. In many cases, the relative contributions of various sectors, whether that be manufacturing or services, remains unchanged in the latest report. A striking, yet unsurprising, change we have observed across many regions and nations are the average split of export shares, between the European Union (EU) and Rest of the World (RoW). A number of regions have reported a fall in the share of its total exports shipped to the EU, granted these changes were small in most cases, it is representative of the impact of the UK exiting the EU even before the TCA was initiated.

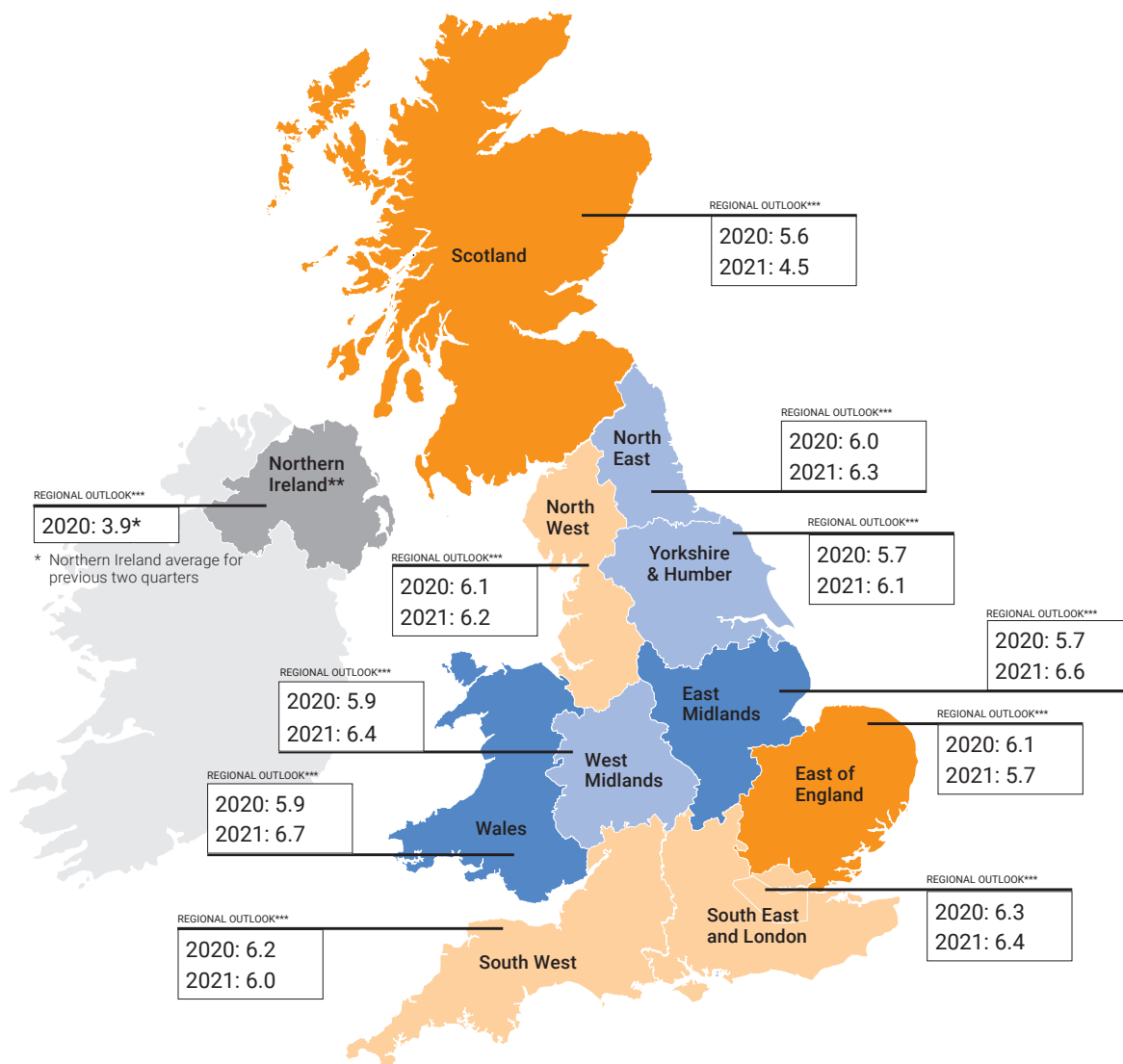
However, despite these performances looking slightly bleak, we are positive about the speed of recovery the sector has shown in recent months. Assuming the UK can return to a form of "Business-as-Usual" this year and vaccine effectiveness is high, Make UK forecasts the manufacturing industry to return to its pre-pandemic level of output by the end of 2022.

Nevertheless, as we saw last year no region or nation was exempt from the detrimental impact of the pandemic on its economy. However, mirroring those homogenous falls, this year we see most regions and nations have benefited from the rebound too and we are hopeful this trend is set to continue.

REGIONAL SNAPSHOT

Now emerging from the throes of the pandemic, most nations and regions in the UK have seen an improvement in their average business confidence when compared to Make UK and BDO's previous edition of *Regional Manufacturing Outlook*. Despite the UK's manufacturing

recovery now being underway, the speed at which this occurs between UK nations and regions has, and will, vary. In most instances, this variation will be dependent on which manufacturing subsectors are dominant in given areas.



Difference in Business Confidence Indicator*: compared to one year ago

KEY

- Positive relative change in confidence (upper quartile)
- Negative relative change in confidence (lower quartile)

* Business Confidence Indicator: Manufacturer's confidence about their own business performance in the next twelve months

** Northern Ireland excluded from comparison due to missing data

*** Map coloured to show the relative change in average confidence between 2019q3/2020q2 and 2020q3/2021q2

HOW DO THE REGIONS/NATIONS COMPARE

This edition of *Regional Manufacturing Outlook* covers a period of four quarters in which the first two saw the industry continue to struggle amongst the pandemic, one where there was a transition to growth, and finally the most recent quarter that saw explosive improvements in manufacturing performance. As a result, the majority of balance figures are a mix of single-digit positives and negatives, with the excellent results of Q2 2021 dragging up what would have been a significantly deeper negative without its influence on region's and nation's year averages.

The grouping of the balances posted this year across regions is tight, bar that of the East of England which has posted uncharacteristically negative balance figures for its year average. The manufacturing industry across the UK has endured extreme volatility in recent quarters, a testament to which is that this research has recorded its best ever, and worst ever, balance figures in only the space of five quarters despite the survey enduring a thirty year history.

Nevertheless, there have been some standout performances by regions even though the manufacturing industry has only been able to enjoy one positive quarter in the research window. The West Midlands has been the top performer at maintaining output levels on average in the second half of the pandemic, posting a positive balance of 12%. The East Midlands has not only managed to post the only double-digit balance figure for its year average in investment, but it is also the region that has improved its investment outlook the most compared to the last edition of this report. Similar can be said for the North West and its employment, posting the most positive balance figure of the pack at 7%, whilst also being the most improved compared to 2020's edition.

Regional summary

% average balance of change 2020 Q3 – 2021 Q2

	OUTPUT	ORDERS	INVESTMENT	EMPLOYMENT	OUTPUT (Next 3 months)
East Midlands	10 ↑	10 ↑	13 ↑	-8	51
Eastern	-8	-28 ↓	-27	-30 ↓	14
North East	-1	7	-19	-13	36
North West	4	10	1	7 ↑	65
South East & London	-20 ↓	-7	2	-6	58
South West	-1	-3	-9	-5	50
West Midlands	12	9	-22	-9.3	38
Yorks & Humber	3	13	-11	-17	57
Scotland	-1	-6	-9 ↓	-10	50
Wales	-6	8	-5	-8	36
Northern Ireland*	–	–	–	–	–

Source: Make UK Manufacturing Outlook Survey

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

* Northern Ireland has been excluded due to an insufficient sample over the last two quarters

EAST MIDLANDS

The East Midlands is the UK's eighth-largest region in terms of gross value add (GVA). The East Midlands economy accounts for 5.7% of the UK's total output, whilst its manufacturing sector accounts for only 0.9% of the UK's total output. However, 15.9% of the East Midlands total output is accounted for by manufacturing, which is slightly down on last year's 16.1% share of manufacturing output. Just under half of the region's manufacturing output comes from three subsectors. The largest is the Food & drink industry, with 22.6% of all manufacturing output. This is followed by Transport Equipment at 13.7%, and then the Rubber & Plastic and Non-metallic minerals subsector at 10.2%.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	5.7%	—
Manufacturing	0.9%	15.9%
Construction	0.4%	7.4%
Services	4.1%	71.4%
Other production	0.3%	5.3%

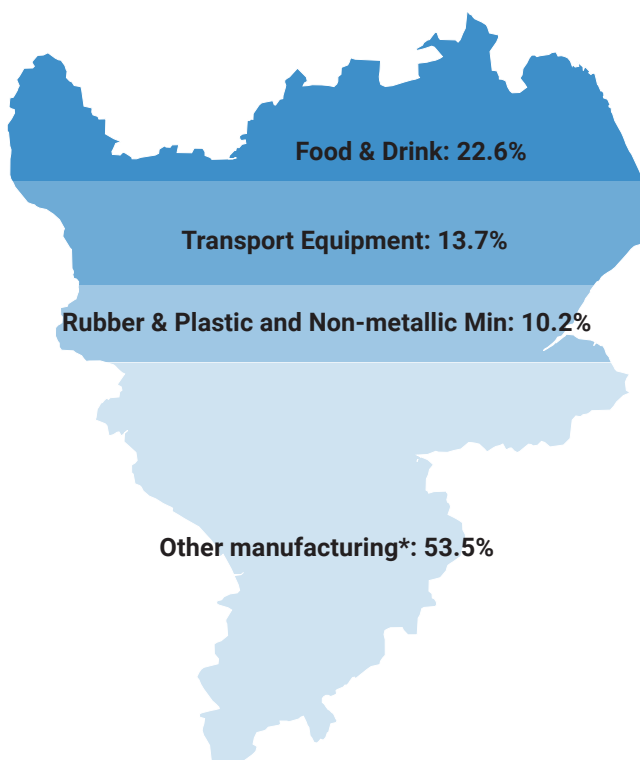
Source: ONS 2021

EMPLOYMENT

- There were 264,000 manufacturing jobs in the East Midlands in 2020, accounting for 11% of the region's total workforce and 0.8% of the UK's total workforce.
- This is a decrease of 27,000 following our previous *Regional Outlook*. The latest data is likely exasperated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, the East Midlands' accounted for 7% of the UK's total goods exports.
- The region's dependence on the EU for exports has declined marginally from 49% to just below 48% of exported goods journeying to the EU annually.
- The next largest destination for East Midlands' goods is Asia & Oceania, accounting for 24% of goods exports. Followed by North America which accounts for 14% of goods exports.

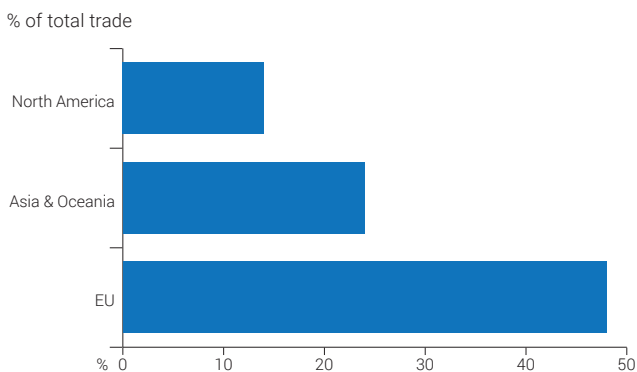


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- The East Midlands' overall productivity is the 7th best in the UK, at 85.9% (UK=100).
- Manufacturing productivity is at 91.6% of the UK average, ranking 9th across all regions and nations.

Top three export markets for East Midlands' goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN THE EAST MIDLANDS

Just as the East Midlands economy faced a turbulent journey in 2020 due to the impact of the pandemic, it has also indicated signs of recovery in line with the UK's performance over the last few quarters. As the survey data indicates, output levels fell to a very low -43% on balance at height of the pandemic, but the latest figures indicate an expansion for a balance of 27% of manufacturers here.

OUTPUT BALANCE ENDS ON A POSITIVE NOTE, JUST BELOW THE UK'S AVERAGE BALANCE

UK ORDER AND EXPORT ORDER BALANCES CONSISTENTLY ABOVE THE UK'S AVERAGE PERFORMANCE

INVESTMENT INTENTIONS BALANCES POSITIVE SINCE Q4 2020

LATEST EMPLOYMENT BALANCE POSITIVE FOR THE EAST MIDLANDS

AVERAGE BUSINESS CONFIDENCE 2ND HIGHEST IN THE UK

Our previous edition of *Regional Outlook* showed that the East Midlands was one of the worst performers in the UK. The results were unfortunate but not surprising given the impact of COVID-19 on the manufacturing sector here. In addition, the sector's relatively strong dependence on the transport equipment subsectors meant that many firms were already struggling because of UK-EU trade uncertainties. However, since the start of 2021, the East Midlands has confidently reversed its downward trajectory.

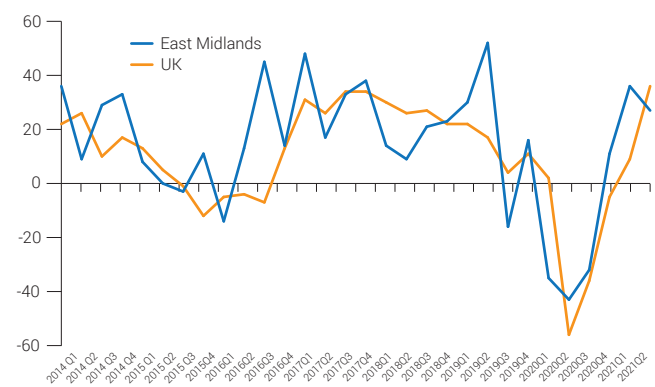
Both the average balances of output and orders reported the best improvement in the UK, compared to our report last year. Between Q3 2020 and Q2 2021 output and orders expanded for a balance of 10% of manufacturers in the region. Additionally, the investment intentions balance is not only the biggest improver in the UK, at an average 13% balance it is also the highest in the UK. The indication of positive investment intentions (that is the intentions to invest in more capital over the next 12 months) is promising for the manufacturing sector here which has faced a weak investment appetite over recent years.

Part of the strong signs of growth reported by the East Midlands is likely attributed to its largest subsector by GVA, Food & Drink. This industry faced a combination of low demand from high-value sectors such as Hospitality and Retail due to shutdowns last year, as well as a boom in consumption from households which likely outperformed the declines resulting in overall growth for the sector. Food & Drink is seen as one of the most resilient industries in the UK and region's that are dominated by this sector tend to report swifter recovery following a crisis.

Following negative confidence levels last year, the latest annual review on average indicates manufacturers are more positive about their business prospects in the East Midlands. Average business confidence here is the 2nd highest in the UK at 6.6, above the national average of 6.3.

East Midlands' output balance improved over the last three quarters

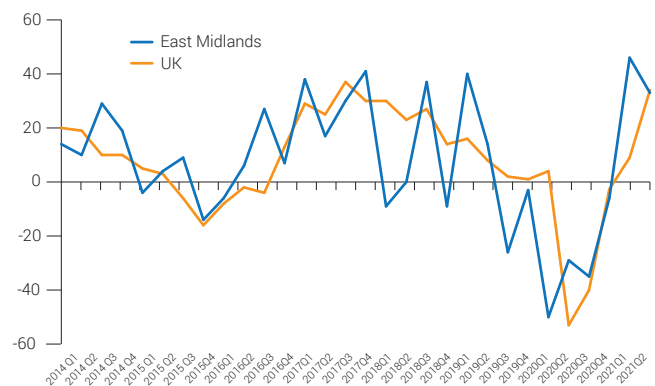
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

East Midlands' orders briefly spiked in Q1 2021 before returning close to the UK average

% balance of change in orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

EAST OF ENGLAND

The East of England is the UK's third largest region in terms of gross value add (GVA) and the fourth largest manufacturing sector. The manufacturing sector accounts for 10.9% of the region's total output, slightly lower than last year and marginally above the UK average of 9.9%. Approximately one-third of the region's manufacturing output comes from the Food & Drink industry (15%), Machinery Equipment (11.1%) and Electronics (10.1%) combined. Almost 64% of the manufacturing sector is made up of a mix of many other industries highlighting the diversity of subsectors within this region.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	8.5%	—
Manufacturing	0.9%	10.9%
Construction	0.8%	9.4%
Services	6.5%	76.3%
Other production	0.3%	3.5%

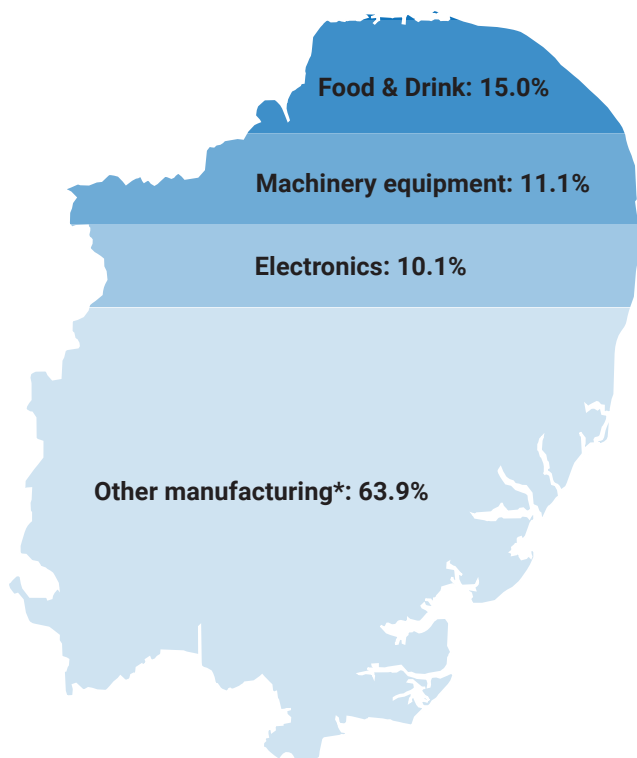
Source: ONS 2021

EMPLOYMENT

- There were 209,000 manufacturing jobs in the East of England in 2020, accounting for 7% of the regions total workforce and 0.6% of the UK's total workforce.
- This is a decrease of 25,000 following our previous *Regional Outlook*. The latest data is likely exasperated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, the East of England accounted for 9% of the UK's total goods exports.
- The region's dependence on the EU has declined from 49% of goods to 46% of goods journeying there annually. This is two percentage points below the average (48%).
- The next largest destination for East of England's goods is Asia & Oceania, accounting for 20% of goods exports. Followed by North America which accounts for 17% of goods exports.

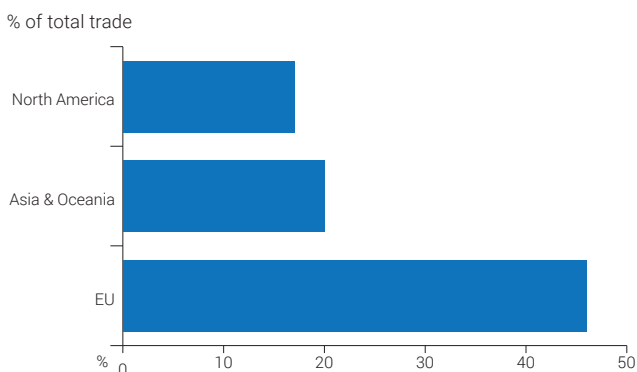


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- The East of England's overall productivity is the 3rd best in the UK, at 94.0% of average (UK=100)
- Manufacturing productivity is at 109.9% of the UK average, ranking 2nd across all regions and nations.

Top three export markets for East of England's goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN THE EAST OF ENGLAND

The East of England is one of the few regions that has failed to follow suit in the UK's return to positive growth across the manufacturing sector. A number of our quarterly metrics suggest the region is either growing at a slower rate or falling behind altogether. The reasons for this remain unclear at the time but it is worth noting that sampling bias may be involved as the region usually garners a smaller than average sample size in the quarterly report.

OUTPUT BALANCES TRAILING BEHIND THE UK AVERAGE SINCE Q2 2020

BOTH UK AND EXPORT ORDERS STRUGGLING TO RECOVER DURING THE PANDEMIC

INVESTMENT INTENTIONS BALANCE NEGATIVE SINCE Q1 2020

EMPLOYMENT LEVELS REPORTED NEGATIVE BALANCES SINCE Q2 2020, ENDING AT 0% FOR THE LATEST QUARTER

AVERAGE BUSINESS CONFIDENCE POSITIVE BUT BELOW THE UK AVERAGE

Last year the East of England reported marginally negative average balances across all key *Manufacturing Outlook* metrics, which were pressured downwards heavily by the impact of the pandemic towards the latter two quarters of the report's coverage. The last four quarters when observed as an average of balances between Q3 2020 and Q2 2021 reported that the East of England had the worst performance in the UK for orders, investment intentions and employment. These relatively sharp negative balances indicate a larger share than average of manufacturers here have reported worsening conditions than those that have reported improving conditions.

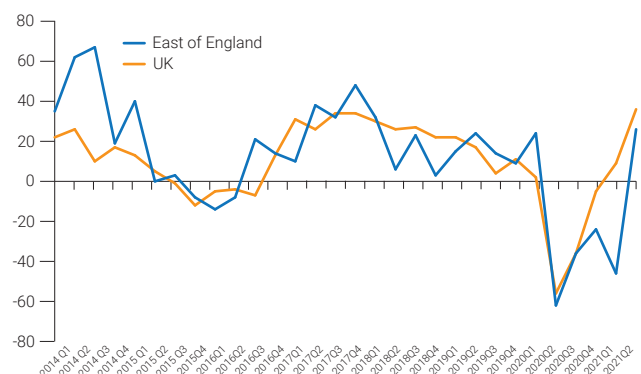
A particularly noticeable feature is the export order balances that have failed to keep up with the UK's balances since Q3 2020 which highlights the impact trade frictions with the EU have had on businesses here and explains why the region's dependency on the EU has also fallen over 2020. However, on a positive note, when looking forward to the next quarter manufacturers in the East of England do expect output levels to expand on balance for a majority of manufacturers here.

Though the top three subsectors in the East of England are accounted for by Food & Drink, Machinery Equipment and Electronics, the real strength in the region is its manufacturing diversity which makes up almost two-thirds of the region's output. This includes subsectors such as Transport Equipment, worth over £1.8bn, and Basic & Fabricated Metals, worth over £1.7bn.

Despite the contrasting experience of the East of England region, manufacturers here indicate they are very confident about the future suggesting that growth is still to come. Manufacturers here reported an average business confidence (between Q3 2020 and Q2 2021) of 5.7, below the UK's average business confidence of 6.3.

East of England's output performance consistently worse than the UK average

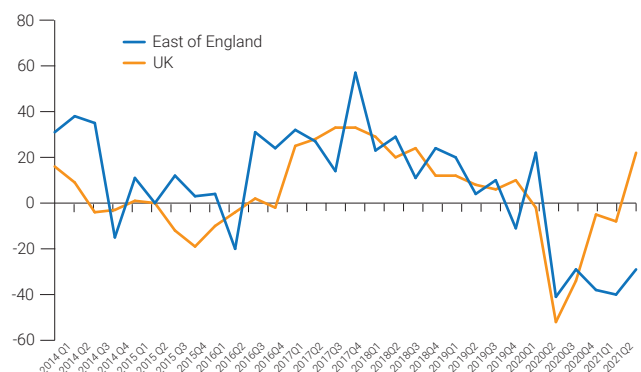
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Export orders balance has failed to recover in line with the rest of the UK

% balance of change in export orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

NORTH EAST

The North East is the UK's tenth largest region in terms of gross value add (GVA). The region's manufacturing sector is relatively small accounting for 0.4% of the UK's total output. However, the manufacturing sector is of great importance to the North East, accounting for 14.3% of its own economic output, above the UK average of 10%. The top three subsectors in the region are accounted for by Transport Equipment (13.6%), Pharmaceuticals (13%) and Machinery Equipment (12.2%).

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	2.8%	—
Manufacturing	0.4%	14.3%
Construction	0.2%	6.4%
Services	2.1%	74.6%
Other production	0.1%	4.7%

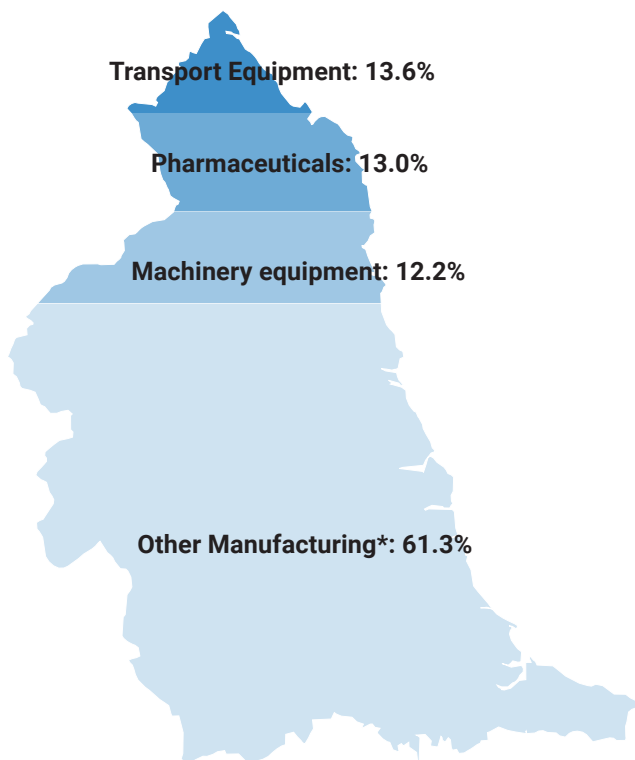
Source: ONS 2021

EMPLOYMENT

- There were 105,000 manufacturing jobs in the North East in 2020, accounting for 9% of the region's total workforce and 0.3% of the UK's total workforce.
- This is a decrease of 11,000 following our previous *Regional Outlook*. The latest data is likely exasperated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, the North East accounted for 4% of the UK's total goods exports.
- The region maintains one of the highest dependences on the EU for exports amongst other regions and nations, with 56% of exported goods journeying to the EU. However, this has declined on last year's 59% share.
- The next largest destination for North East goods is Asia & Oceania, accounting for 17% of goods exports (an increase from 14%). Followed by North America which accounts for 11% of goods exports.

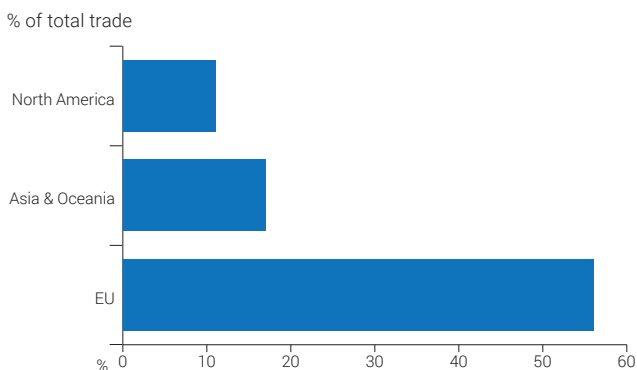


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- The North East's overall productivity is the 8th best in the UK, at 85.9% (UK=100).
- Manufacturing productivity is at 97.3% of the UK average, ranking 6th across all regions and nations.

Top three export markets for North East's goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN THE NORTH EAST

According to the average % balances of change, the North East faced a challenging year despite the growth achieved over the last two quarters. On average, output, investment intentions and employment maintained indications of “declines” dominating “growth” across the sector between Q3 2020 and Q2 2021. However, the average of new order balances reported at 7% suggests levels of new work expanded for manufacturers here. As a result, manufacturers in the North East forecast output in Q3 2021 to grow to a positive balance of 36%.

OUTPUT BALANCE BELOW THE UK AVERAGE FOR THE FIRST TIME SINCE Q1 2019

ORDERS BALANCE GROWTH OUTPACING THE UK AVERAGE SINCE Q4 2020

INVESTMENT INTENTIONS POSITIVE IN THE LATEST QUARTERLY DATA

RECENT EMPLOYMENT BALANCES INDICATE GROWTH IN THE NORTH EAST

HIGH AVERAGE BUSINESS CONFIDENCE EQUAL TO THE UK

The latest edition of *Regional Outlook* for the North East highlights that until the latest quarter, output in this region had been outperforming the UK average since Q1 2019. It's likely given subsectors such as Pharmaceuticals holds a significant share of output in the region that resulted in a pandemic induced growth for North East manufacturing.

However, the sudden fall in that growth is closely attributed to the UK's exit from the EU at the start of this year. The North East is heavily dependent on the EU as a destination for exports, seeing almost 56% of goods produced there headed for the bloc. Therefore, manufacturers here almost certainly lost a greater share of their sales than average due to the substantial increase in frictions when sending (or receiving) goods to (from) the EU. Certain industries such as Chemicals even reported a drop in GVA between 2018 and 2019.

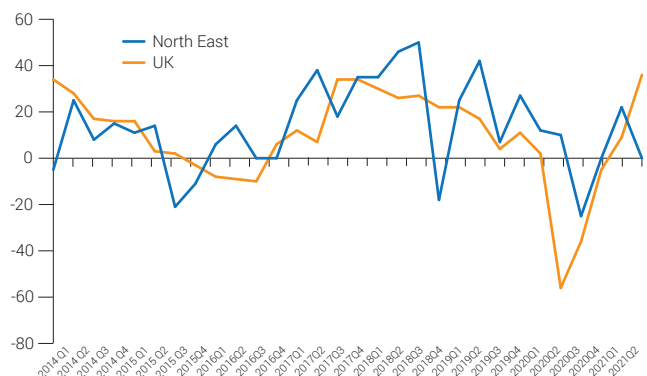
The fall in output for the North East Chemicals subsector equated to approximately £110m, and as a result, it fell out of the top three dominant subsectors in the regions, whilst Transport Equipment rose in rankings to the top spot. However, given the latest data available for the region by industry GVA does not yet include the 2020 year, it is highly likely the Chemical sector has expanded here (given it includes manufacturers that produce sanitation goods) whilst Transport Equipment likely declined due to the pandemic hitting those manufacturers particularly hard.

Though the number of manufacturing workers declined by 11,000 in the North East in 2020, the *Manufacturing Outlook* Q2 2021 metric for employment balance reported at 14% indicating the workforce will be expected to grow over the coming months.

The North East's average business confidence over the last year reported at 6.3, which is very high and indicates manufacturers are positive about their prospects. This confidence figure is equal to the UK average.

North East activity outperforming UK until recently

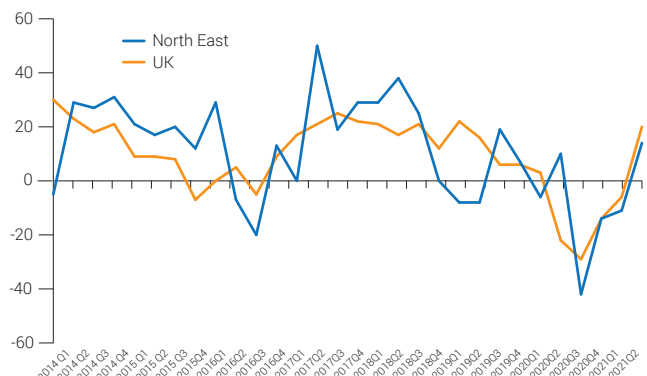
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

North East employment trends tracked more closely with the UK average than normal

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

NORTH WEST

The North West is the UK's second largest region in terms of gross value add (GVA). The entire region makes up almost a tenth of the UK economy. The manufacturing sector here accounts for only 1.4% of the total UK output, but 14.6% of the region's total output, above the UK average of 9.9%. The three subsectors that dominate North West manufacturing include, Transport Equipment (18.7%), Pharmaceuticals (14.3%), and Food & Drink (12.7%) – the latter which has replaced Chemicals in third place.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	9.5%	–
Manufacturing	1.4%	14.6%
Construction	0.6%	6.3%
Services	7.3%	76.3%
Other production	0.3%	2.8%

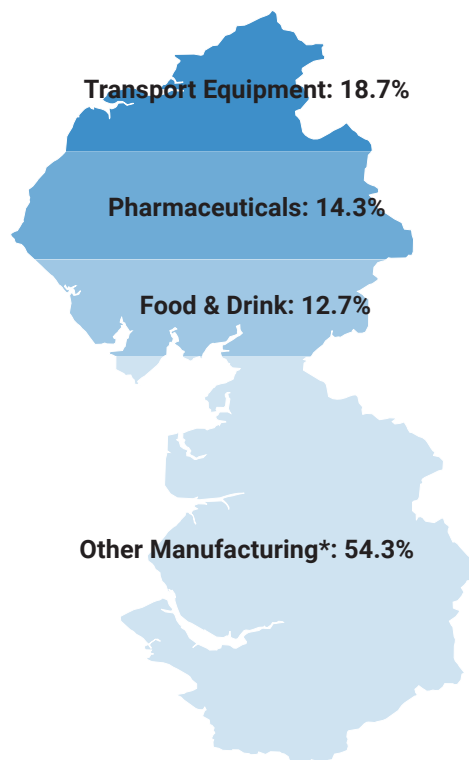
Source: ONS 2021

EMPLOYMENT

- There were 319,000 manufacturing jobs in the North West in 2020, accounting for 9% of the region's total workforce and 1% of the UK's total workforce.
- This is a decrease of 23,000 following our previous *Regional Outlook*. The latest data is likely exasperated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, the North West accounted for 8% of the UK's total goods exports.
- The region has an above-average dependence on the EU for exports, with 52% of exported goods journeying to the EU, four percentage points above the average. This share is also unchanged from the previous year.
- The next largest destination for the North West's goods is Asia & Oceania, accounting for 18% of goods exports, followed by North America at 15%. This represents a change from last year which reported North America in 2nd place.

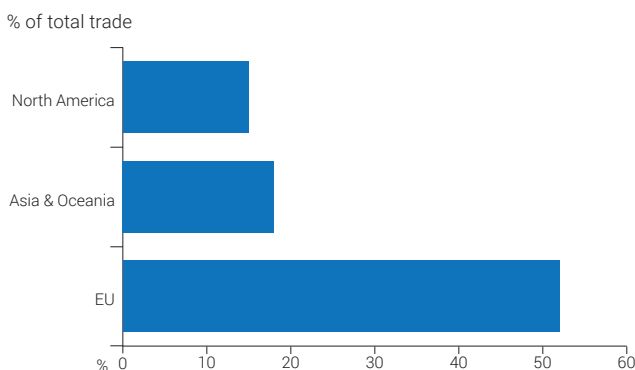


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- The North West's overall productivity is the 6th best in the UK, at 88.0% (UK=100).
- Manufacturing productivity is at 109.8% of the UK average, ranking 3rd across all regions and nations.

Top three export markets for North West's goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN THE NORTH WEST

This year's research indicates the North West's average performance between Q3 2020 and Q2 2021 was generally more positive than most other regions and nations. After a challenging year that impacted all sectors across the UK, the signs of growth achieved by the North West place it in good stead for the remainder of the year.

OUTPUT BALANCE EQUAL TO THE UK AVERAGE IN Q2 2021

ORDERS GROWTH OUTPACING THE NATIONAL AVERAGE SINCE Q3 2020

INVESTMENT INTENTIONS CURRENTLY FLAT AT 0%

EMPLOYMENT GROWTH CURRENTLY OUTPACING THE UK AVERAGE

POSITIVE AVERAGE BUSINESS CONFIDENCE

In this edition of *Regional Outlook*, the North West's most notable highlight includes its employment balance, which is not only the best performer in the UK but also the most improved on our previous annual report. As official statistics indicate, the manufacturing workforce declined by 23,000 between 2019 and 2020 in this region, therefore the size of the workforce is returning from a lower base here. In that essence, the region's that lost the greatest number of workers during the height of the pandemic are also those that are likely to see the sharpest returns once the economy fully reopens. Nevertheless, the data offers much to be optimistic about in this region, given how large the North East economy is, only second to the South East and London.

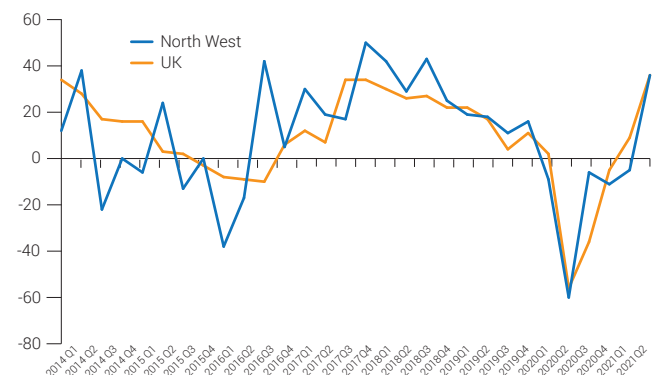
An interesting development within the official statistics indicates there has been a slight shift in dominance between subsectors. A similar change has also been reported for the North East region which saw the Chemicals industry decline in 2019. However, given these figures pre-date the pandemic it's more likely the uncertainty around the trading environment played a more meaningful role in this change (which only accounts for a £1m difference between the 3rd and 4th largest subsectors). Yet, given the pandemic has also benefitted the Chemicals industry (which produces sanitation and cleaning products) it's likely this shift in dominance is not reflective of the region's current circumstance.

Another large manufacturing subsector that will positively impact the North West manufacturing sector is Pharmaceuticals, worth over £3.9bn. This industry has been front and centre during the pandemic which saw an increase in demand for medicine and medical technologies, as well as the creation of the COVID-19 vaccines. Regions that support a large pharmaceuticals base are especially likely to experience greater economic growth. But, on the flip side, the North West also houses a large Transport Equipment subsector dominated by Aerospace that has been hit particularly hard by the impact of the pandemic on air travel.

Average business confidence here reported just below the national average at 6.2, where the UK's currently stands at 6.3. Both are very optimistic indicators about manufacturers' current perspective of the coming months.

UK and North West output continue to move together

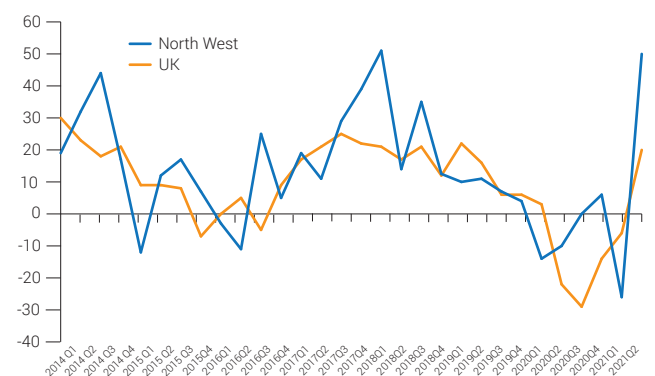
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

North West employment growth outpaced the UK average by Q1 2021

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

SOUTH EAST AND LONDON

The South East and London is the UK's largest region in terms of gross value add (GVA). The region makes a significant share of the UK economy, accounting for 38.4% of the nation's output. Due to the service-dominated nature of the region, the manufacturing sector here accounts for only 4.3% of the region's total output, well below the UK average of 9.9%. The top three manufacturing subsectors here include Food & Drink (15%), Electronics (13%) and Transport Equipment (9.1%). The remaining 62.9% of the manufacturing sector here account for all other subsectors.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	38.4%	—
Manufacturing	1.6%	4.3%
Construction	2.2%	5.9%
Services	33.8%	87.9%
Other production	0.8%	2.0%

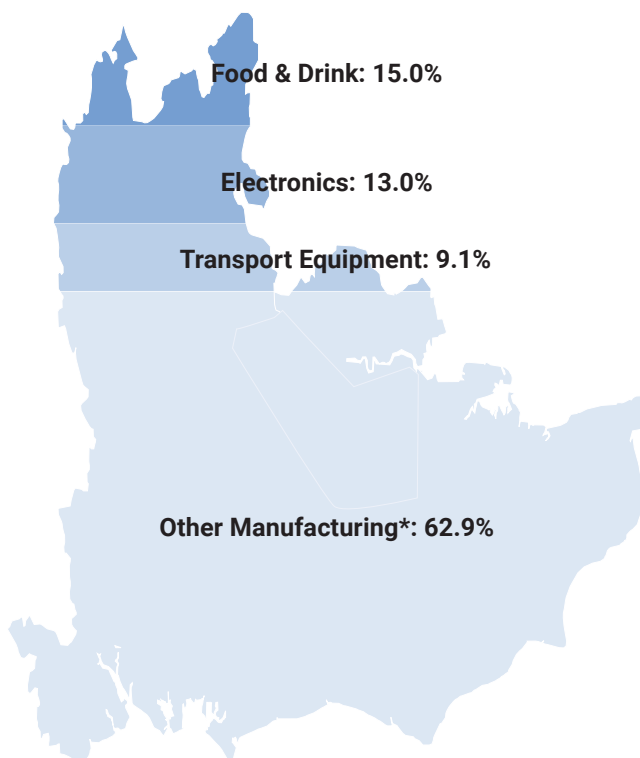
Source: ONS 2021

EMPLOYMENT

- There were 428,000 manufacturing jobs in the South East and London in 2020, accounting for 4% of the region's total workforce and 1.2% of the UK's total workforce.
- This is a decrease of 2,000 following our previous *Regional Outlook*. The latest data is likely exasperated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, the South East and London accounted for 26% of the UK's total goods exports.
- The region maintains below average dependence on the EU for exports amongst other regions and nations, with 47% of exported goods journeying to the EU, one percentage point below the average.
- The next largest destination for South East and London's goods is North America, accounting for 18% of goods exports. Followed by Asia & Oceania which accounts for 18% of goods exports, where the difference between 2nd and 3rd is separated by small 0.2% gap.

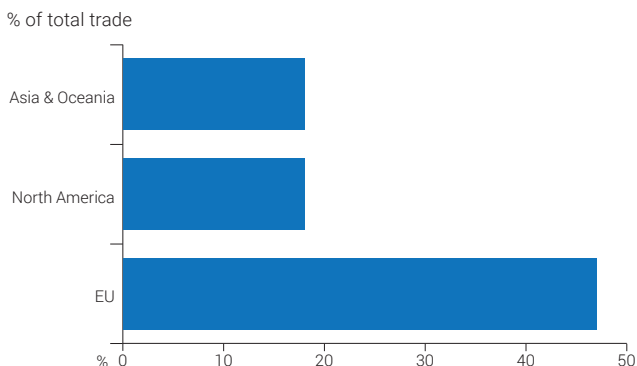


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- The South East and London's overall productivity is the best in the UK, at 119.4% (UK=100).
- Manufacturing productivity is at 100.1% of the UK average, ranking 5th across all regions and nations.

Top three export markets for South East and London's goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN THE SOUTH EAST AND LONDON

Despite the low dependence on manufacturing in the South East and London, the sector remains a significant employer and generator of value in this region. The average balances between Q3 2020 and Q2 2021 for this region indicate a poor overall performance for the manufacturing sector here. Traditionally, the South East & London is one of the best performing regions in our quarterly *Manufacturing Outlooks*.

OUTPUT BALANCE POSITIVE BUT TRENDING BELOW THE UK AVERAGE

EXPORT ORDERS REPORTED A SHARP RECOVERY FOLLOWING FOUR QUARTERS OF NEGATIVITY

INVESTMENT INTENTIONS VASTLY AHEAD OF THE UK AVERAGE CURRENTLY

EMPLOYMENT GROWTH POSITIVE BUT TRAILING BEHIND THE UK AVERAGE IN 2021

AVERAGE BUSINESS CONFIDENCE VERY POSITIVE AND ABOVE THE NATIONAL AVERAGE

The latest edition of *Regional Outlook* reports a below average performance for several key metrics suggesting the declines experienced during the height of the pandemic were greater than the growth this region has reported in our most recent quarterly survey. In particular, the average output balance reported at -20% – the worst in the UK. This is explained by the severe impact the COVID-19 pandemic had on manufacturers in this region, which mainly includes Food & Drink, Electronics, and Transport firms, all of whom depend on demand from the downstream retailers and households that were required to shut down in this region. Moreover, average balances for both new orders and employment also reported negativity, corroborated by the official statistics that reported overall manufacturing jobs declined in this region.

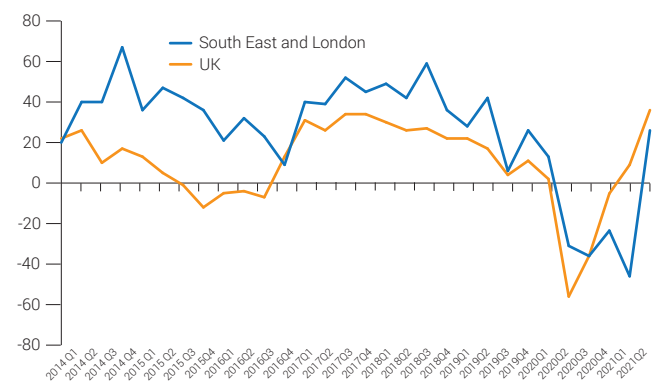
On a positive note, the region has reported more positive balances for Q2 2021, indicating the region has experienced growth alongside much of the UK. Now a balance of 58% of manufacturers expect output levels to expand further for Q3 2021 here.

Of the dominant subsectors in the region, the ones that raise cause for concern include both Electronics and Transport Equipment. The largest subsector Food & Drink is often considered a very resilient industry and therefore gives fewer warning signs during a crisis. However, the Electronics sector is facing significant supply shortages for key components, specifically for semiconductors and chips that are key inputs for production. Even if demand for goods is robust, there is little value for the industry if it cannot meet that demand with supply. Conversely, the transport sectors, including both automotive and aerospace, have been some of the biggest losers of the pandemic and still face challenges ahead should social restrictions persist.

Average business confidence in the South East and London came in at 6.4, slightly above the UK average between Q3 2020 and Q2 2021 of 6.3. The figure highlights that the South East & London region is in very positive alignment with the rest of the nation.

UK output growth outpaces South East & London which contrasts with the region's normal above average performance

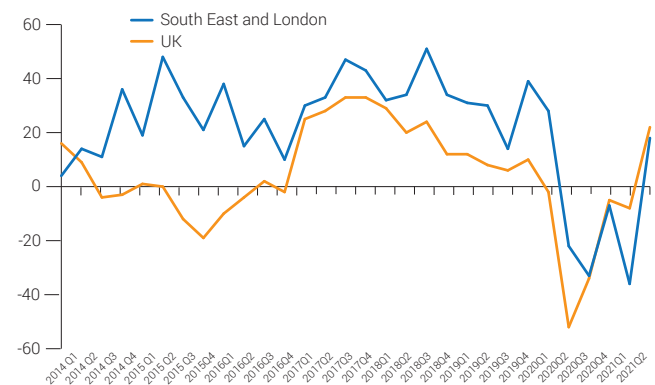
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

South East & London export order activity behind the UK's since Q4 2020

% balance of change in export orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

SOUTH WEST

The South West is the UK's sixth-largest region in terms of gross value add (GVA). The region accounts for 7.3% of the UK's total output, with the manufacturing industry here contributing to 0.8% of the UK's total output. The South West generates 10.8% of its regional output from manufacturing activity, which is similar to the UK average of 9.9%. Three major subsectors account for just under half of the South West's manufacturing output. The largest is the Transport Equipment industry, with 22.4% of all manufacturing output. This is followed by Food & Drink at 13.3%, and then the Electronics subsector at 9.4%.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.3%	—
Manufacturing	0.8%	10.8%
Construction	0.5%	7.3%
Services	5.6%	76.9%
Other production	0.4%	5.0%

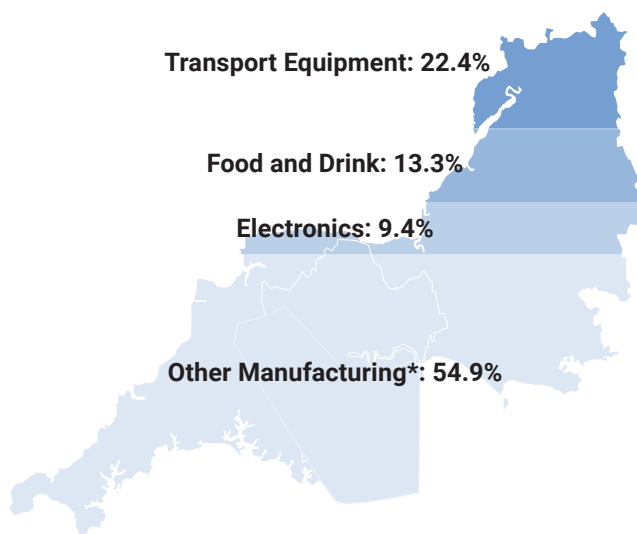
Source: ONS 2021

EMPLOYMENT

- There were 227,000 manufacturing jobs in the South West in 2020, accounting for 8% of the region's total workforce and 0.7% of the UK's total workforce.
- This is a decrease of 18,000 following our previous *Regional Outlook*. The latest data is likely exacerbated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, the South West accounted for 6% of the UK's total goods exports.
- The region's dependence on the EU for exports has declined marginally from 44% to 40% of exported goods journeying to the EU annually. This is significantly below the UK average of 48% and also makes the South West the UK region the least dependent on EU exports.
- The next largest destination for South West's goods is North America, accounting for 23% of goods exports. Followed by Asia & Oceania which accounts for 19% of goods exports.

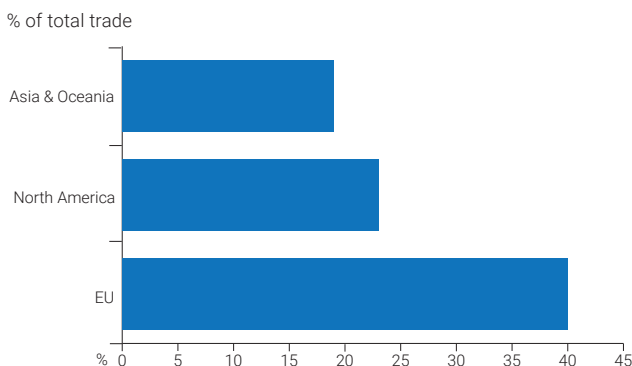


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- The South West's overall productivity is the 4th best in the UK, at 89.5% (UK=100).
- Manufacturing productivity is at 94.2% of the UK average, ranking 8th across all regions and nations.

Top three export markets for South West's goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN THE SOUTH WEST

The South West suffered less severe lows in output compared to the UK average performance during the peak of the pandemic, posting its worst quarterly balance figure of the year of -31% in the third quarter of 2020. Interestingly, this is a quarter lagged behind when the UK average endured its lowest output performance, which was in the second quarter of 2020. However, manufacturing output performance in the South West is now recovering slower than the UK average, posting a positive balance figure in Q2 2021 of only 18%, compared with the UK's 36%.

OUTPUT OUTPERFORMED THE UK DURING THE PANDEMIC, BUT NOW SLOWER TO RECOVER

UK ORDER AND EXPORT ORDER BALANCES JUST TRAILING UK AVERAGE BUT ENDURED THE SAME TROUGH

INVESTMENT INTENTIONS MILDLY NEGATIVE ON AVERAGE THROUGHOUT THE YEAR

NEGATIVE YEAR AVERAGE FOR EMPLOYMENT, LATEST QUARTERLY FIGURES LOOKING UP

AVERAGE BUSINESS CONFIDENCE 8TH HIGHEST IN THE UK

The previous edition of *Regional Outlook* saw the South West's yearly performance figures dragged down in the latter half of the research window due to the devastating effects of COVID-19 on what were already just marginally positive metrics. Although now, as we move into the second half of 2021, the outlook for the South West is improving along with the rest of the UK, the region's dependence on the Transport Equipment subsector, the largest manufacturing subsector in the region, will limit the speed of its recovery.

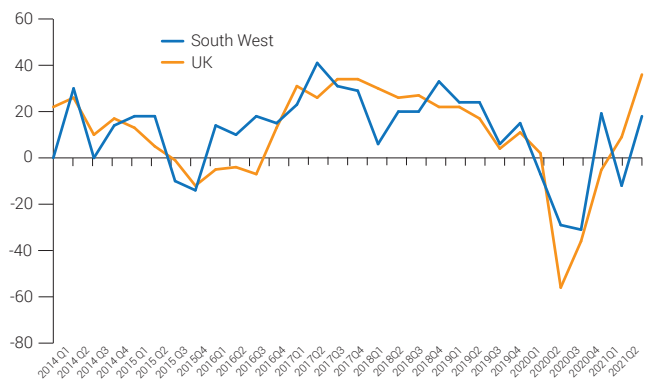
The average balance of change figure for output for the region over the year is -1%. As with many other regions, this close-to-zero figure is a result of this edition's research window capturing both the second stage of the pandemic's dampening effects, whilst also catching the start of the wider industry recovery. While this figure seems rather pedestrian, it does not reflect the tumultuous yo-yo that has been witnessed in the South West's performance metrics over the past year.

The latest balance figures for output in the South West suggest that output recovery in the second quarter in 2021 is significantly below the UK average output recovery pace. The chief factor behind this slower recovery is the region's dependence on the Transport Equipment subsector, within which the Aerospace industry lies, the only industry that is forecast this year to continue to see declines in its output. The challenges stem from limits on international travel which have tanked demand for the subsector's products. Although the wider economy is opening at pace, it is not expected that international travel will return at the same pace this year.

Likely arising from these uncertain sentiments in the Transport Equipment industry, manufacturing business confidence is towards the bottom of the pack, coming in at 8th position with a value of 6.0. While this is still above the negative/positive inflexion point of '5', it is below the UK average of 6.3, having declined a little from last year's average business confidence of 6.2.

Output performance became more volatile since the start of the pandemic

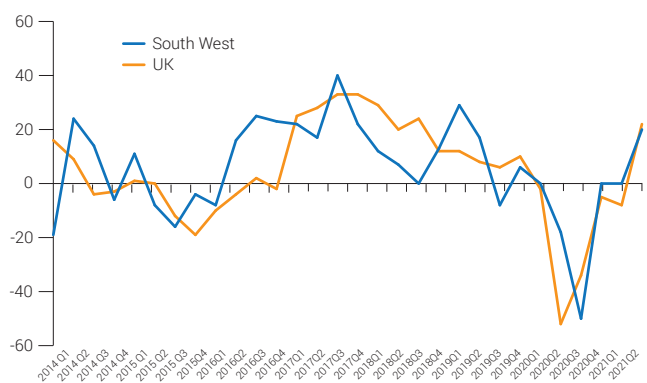
% balance of change in output (past three months)



Source: Make UK Manufacturing Outlook Survey

Following a sharp dip in Q3 2020, export orders appear to have recovered

% balance of change in export orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

WEST MIDLANDS

The West Midlands is the UK's fifth largest region in terms of gross value add (GVA). The region accounts for 7.3% of the UK's total output, with the manufacturing industry here contributing to 1.1% of the UK's total output. The West Midlands generates 15.4% of its regional output from manufacturing, which is well above the UK average of 9.9%. Three major subsectors account for just over 60% of the West Midlands' manufacturing output. The largest is the Transport Equipment industry, with 35.2% of all manufacturing output. This is followed by Metal Products at 14.9%, and then the Machinery Equipment subsector at 11%.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.3%	—
Manufacturing	1.1%	15.4%
Construction	0.5%	6.5%
Services	5.4%	73.8%
Other production	0.3%	4.3%

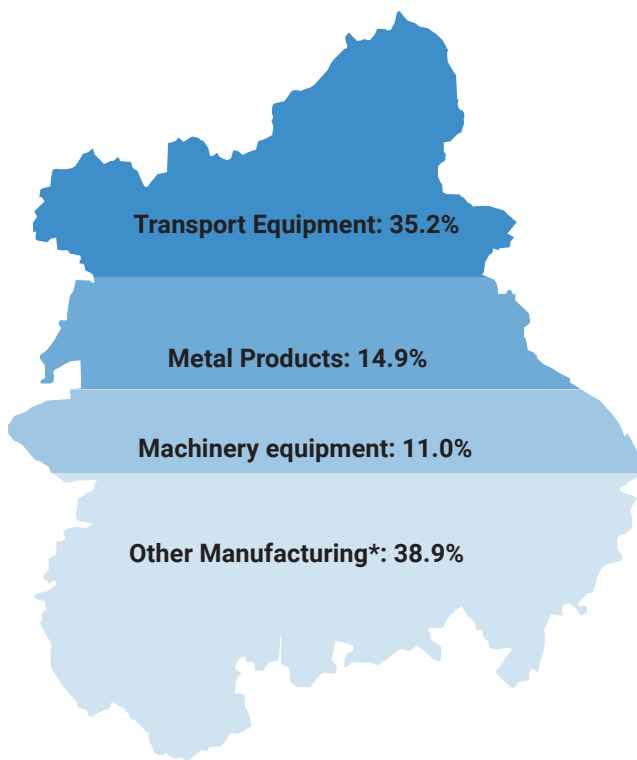
Source: ONS 2021

EMPLOYMENT

- There were 292,000 manufacturing jobs in the West Midlands in 2020, accounting for 10% of the region's total workforce and 0.8% of the UK's total workforce.
- This is a decrease of 12,000 following our previous *Regional Outlook*. The latest data is likely exacerbated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, the West Midlands accounted for 8% of the UK's total goods exports.
- The region's dependence on the EU for exports has increased from 44% to 46% of exported goods journeying to the EU annually. This is still just below the UK average of 48%.
- The next largest destination for West Midlands' goods is North America, accounting for 24% of goods exports. Followed by Asia & Oceania which accounts for 17% of goods exports.

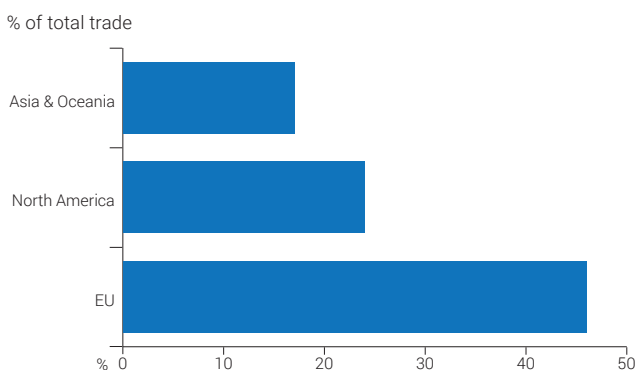


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- The West Midlands' overall productivity is the 5th best in the UK, at 88.1% (UK=100).
- Manufacturing productivity is at 96.7% of the UK average, ranking 7th across all regions and nations.

Top three export markets for West Midlands' goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN THE WEST MIDLANDS

The West Midlands is the year's top performer out of all UK regions and nations in terms of its output average balance change over the previous four quarters, with an average positive balance of 12%. The region never suffered the same depths of negativity endured by the UK overall, nevertheless, output decline was still significant during the height of the pandemic. The outlook for the manufacturing performance of the West Midlands is now above that of the UK manufacturing average.

OUTPUT DECLINE DIDN'T SEE THE DEPTHS OF DECLINE OF THE UK AVERAGE

ORDERS PERFORMANCE MAINTAINED A POSITIVE AVERAGE BALANCE OVER THE YEAR

INVESTMENT INTENTIONS NEGATIVE, 2ND MOST NEGATIVE AVERAGE OUT OF ALL REGIONS

EMPLOYMENT DECLINE TROUGHED DEEPER THAN THE UK AVERAGE BUT RECENT QUARTER OUTPACING

AVERAGE BUSINESS CONFIDENCE 4TH HIGHEST IN THE UK

In this edition of *Regional Outlook*, the West Midlands is granted the accolade of having the most positive average output figures over the past four quarters. While this figure is still only a marginally positive balance of change figure at 12%, it stands significantly above other UK regions and nations which only posted negative or close-to-zero results.

Since the second quarter of 2020, output performance in the West Midlands has generally outperformed that of the wider UK manufacturing industry. Of particular note is the short spike in positivity observed in the final quarter of 2020, where regions saw a mixed bag of performance depending on what degree their products were part of the stockpiling rush just before the UK entered into its new relationship with the EU at the start of the year.

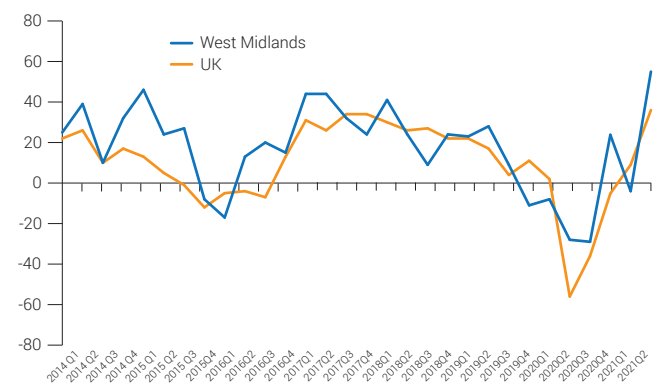
The outlook for the region for the rest of the year is encouraging. Having both posted a positive output balance figure of 55% in the second quarter of 2021, and strong positive expectations for the third quarter of the year, the West Midlands appears set to deliver a better than average recovery for the duration of 2021 compared to the already positive trajectory of the overall UK manufacturing industry.

What is driving this positivity for the region in 2021 is the improving performance of the Automotive subsector, which accounts for a significant share of the manufacturing industry in the West Midlands, with Transport Equipment being the largest manufacturing sector here accounting for 35.2% of the region's manufacturing output. The Automotive sector saw large declines in its output in 2020, but now with the production lines restarting with a much higher degree of confidence and consistency, the subsector is forecast to make up that lost value from last year at pace.

Following from this trend beating performance, it's unsurprising that confidence in the West Midlands has increased, with this year's average confidence standing at 6.4. This is both above the UK average of 6.3, and is an improvement on the West Midlands' confidence value in the last edition of *Regional Outlook* which was 5.9. This places the West Midlands as the 4th most confident region in terms of business performance.

West Midlands output balances move closely with the UK's average

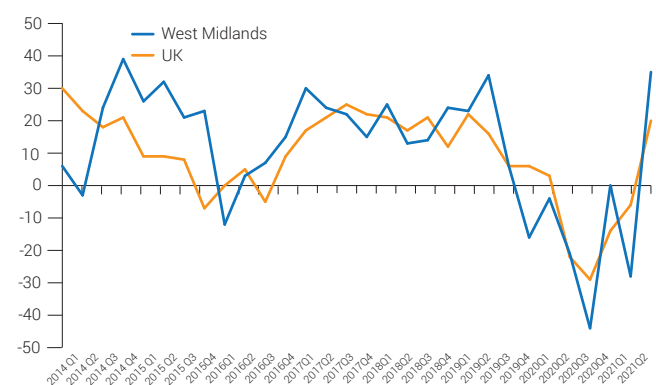
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

West Midlands employment balance currently exceeds the UK average

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

YORKSHIRE & the HUMBER

Yorkshire & the Humber is the UK's seventh largest region in terms of gross value add (GVA). The region accounts for 6.5% of the UK's total output, with the manufacturing industry here contributing to 0.9% of the UK's total output. Yorkshire & the Humber generates 14.2% of its regional output from manufacturing, which is significantly above the UK average of 9.9%. Three major subsectors account for just under half of Yorkshire & the Humber's manufacturing output. The largest is the Food & Drink industry, with 19.7% of all manufacturing output. This is followed by Metal Products at 15.1%, and then the Chemicals subsector at 10.6%.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	6.5%	—
Manufacturing	0.9%	14.2%
Construction	0.4%	6.7%
Services	4.9%	75.0%
Other production	0.3%	4.0%

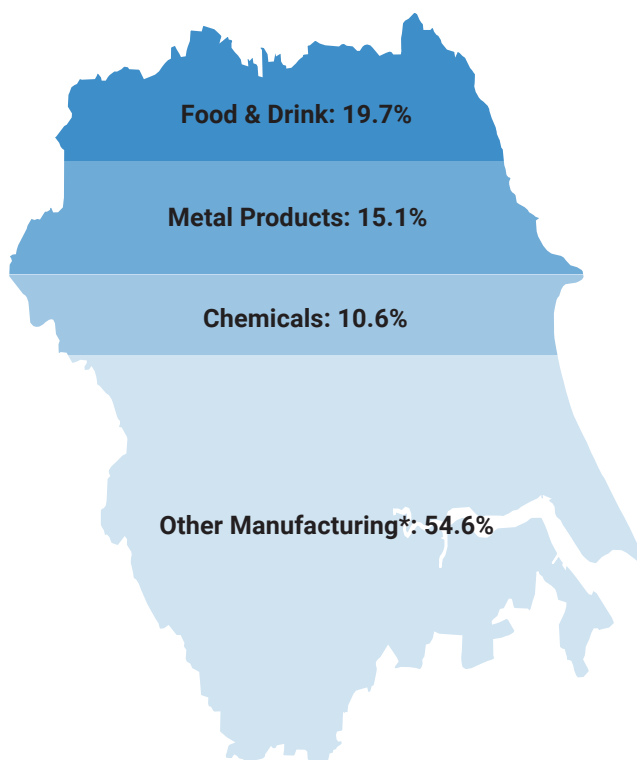
Source: ONS 2021

EMPLOYMENT

- There were 293,000 manufacturing jobs in Yorkshire & the Humber in 2020, accounting for 11% of the region's total workforce and 0.9% of the UK's total workforce.
- This is a decline of 6,000 following our previous *Regional Outlook*. The latest data is likely exacerbated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, Yorkshire & the Humber accounted for 5% of the UK's total goods exports.
- The region's dependence on the EU for exports has decreased slightly from 58% to 57% of exported goods journeying to the EU annually. However, this is well above the UK average of 48%, making Yorkshire & the Humber the 2nd most dependent region on EU exports.
- The next largest destination for Yorkshire & the Humber's goods is North America, accounting for 14% of goods exports. Followed by Asia & Oceania which accounts for 13% of goods exports.

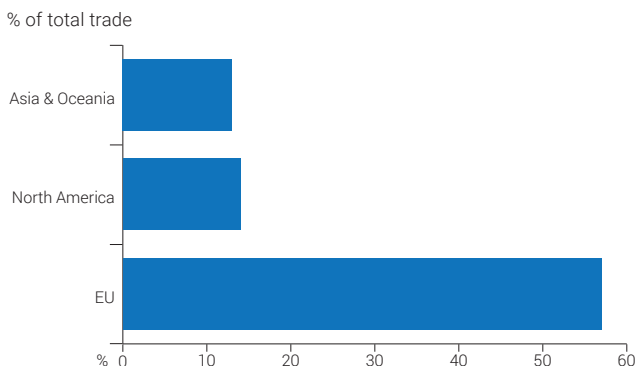


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- Yorkshire & the Humber's overall productivity is the 9th best in the UK, at 84.8% (UK=100).
- Manufacturing productivity is at 88.6% of the UK average, ranking 10th (bottom) across all regions and nations.

Top three export markets for Yorkshire & the Humber's goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN YORKSHIRE & the HUMBER

Yorkshire & the Humber has posted the year's top performance out of all UK regions and nations in terms of its orders average balance change over the previous four quarters, with an average positive balance of 13%. The region has almost perfectly matched the quarterly output performance of the overall UK average during the past four quarters. However, the immediate outlook for the manufacturing performance of Yorkshire & the Humber looks set to outperform that of the industry average in the coming quarter.

OUTPUT PERFORMANCE ON UPWARD TRAJECTORY IN LINE WITH WIDER INDUSTRY

ORDERS PERFORMANCE MAINTAINED A POSITIVE AVERAGE BALANCE, BEST ORDERS PERFORMANCE IN UK ON AVERAGE

INVESTMENT INTENTIONS REMAIN NEGATIVE, DRAGGED DOWN BY UNCERTAINTY OVER THE PAST YEAR

EMPLOYMENT PERFORMANCE THE 2ND MOST NEGATIVE, ALTHOUGH OPTIMISM FOR THE FUTURE

AVERAGE BUSINESS CONFIDENCE 7TH HIGHEST IN THE UK

In this 2021 edition of *Regional Outlook*, Yorkshire & the Humber has posted the highest average orders performance over the past year, although output performance has been less noteworthy, albeit remaining marginally positive. A positive balance in orders over the year average of 13% is encouraging given the challenging circumstances manufacturers in Yorkshire & the Humber have had to endure over the course of the year. The better than expected positivity in the first and second quarters of 2021 have been enough to drag the past four quarters' average up into positivity following a rocky performance in the second half of 2020.

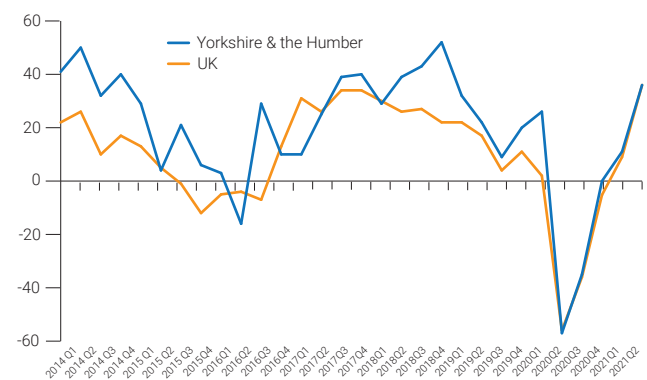
Since the first quarter of 2020, Yorkshire & the Humber's manufacturing output performance has almost perfectly tracked that of the UK manufacturing average, experiencing the worst output performance, along with the rest of the UK industry, in the second quarter of 2020. Now, in the second quarter of 2021, performance is picking up at pace, and short term forecasts suggest that Yorkshire & the Humber will outpace the wider UK manufacturing industry in terms of its output performance by the third quarter of this year.

The largest manufacturing subsector in Yorkshire & the Humber is Food & Drink, accounting for 19.7% of manufacturing value generated in the region. This subsector has had significant adjustments in its demand structure throughout the pandemic. The sudden uptick in demand for domestic foodstuffs during the shortages led by consumer stockpiling provided a short term boon to those manufacturers who supplied to both the consumer and grocery markets. However, the almost complete cessation of the hospitality industry during this same time meant that those demand streams originating from the hospitality sector dried up almost overnight. This was of particular challenge to those Food & Drink manufacturers who exclusively provided to the hospitality and service sector.

Yorkshire & the Humber has posted an improved business confidence value in this 2021 edition, of 6.1, which is up from 5.7 last year. Nonetheless, this is still below the UK average of 6.3, reflecting the tempered optimism held by the region's largest manufacturing subsector.

Y&H output performance tracked the UK average more closely during the pandemic

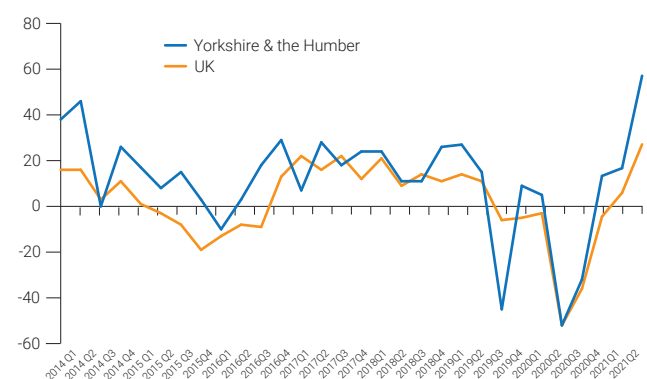
% balance of change in output balance (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Y&H domestic orders growth outpacing UK average since Q3 2020

% balance of change in UK orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

SCOTLAND

Scotland is the UK's fourth largest nation/region in terms of gross value add (GVA). The nation accounts for 7.5% of the UK's total output, with the manufacturing industry here contributing to 0.8% of the UK's total output. Scotland generates 10.6% of its regional output from manufacturing, which is just above the UK average of 9.9%. Three major subsectors account for just under half of Scotland's manufacturing output. The largest is the Food & Drink industry, with 30.7% of all manufacturing output. This is followed by Electronics at 8.9%, and then the Metal Products subsector at 8.4%.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	7.5%	—
Manufacturing	0.8%	10.6%
Construction	0.5%	6.3%
Services	5.7%	76.4%
Other production	0.5%	6.7%

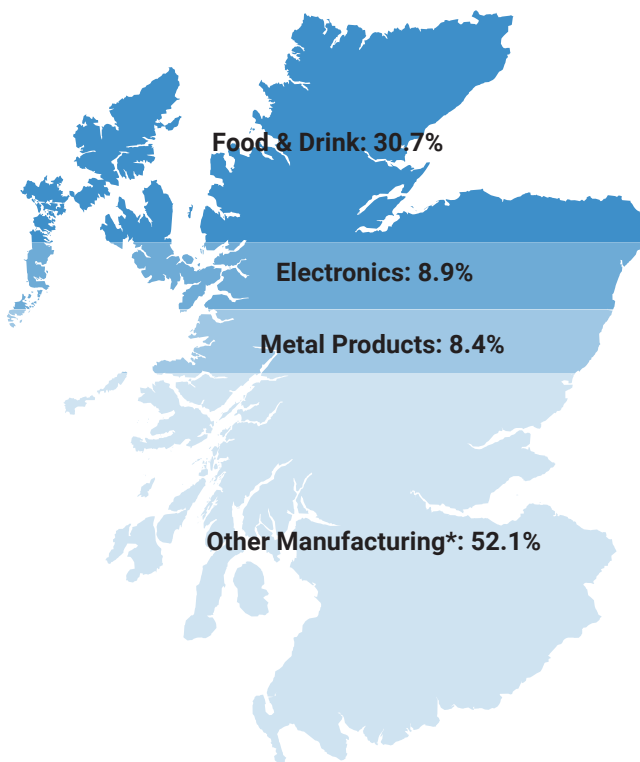
Source: ONS 2021

EMPLOYMENT

- There were 177,000 manufacturing jobs in Scotland in 2020, accounting for 7% of the region's total workforce and 0.5% of the UK's total workforce.
- This is a decline of 18,000 compared to the previous edition of *Regional Outlook*. The latest data is likely exacerbated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

- In 2020, Scotland accounted for 9% of the UK's total goods exports.
- The region's dependence on the EU for exports has increased from 49% to 51% of the nation's exported goods journeying to the EU annually. This is above the UK average of 48%.
- The next largest destination for Scotland's goods is Asia & Oceania, accounting for 18% of goods exports. Followed by North America which accounts for 13% of goods exports.

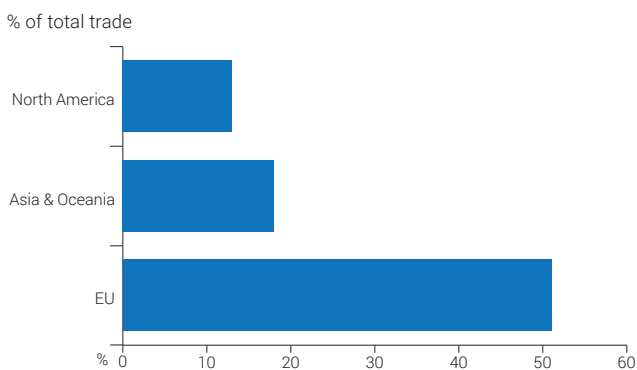


* The sum of subsectors not included in the top 3

PRODUCTIVITY

- Scotland's overall productivity is the 2nd best in the UK, at 97.8% (UK=100).
- Manufacturing productivity is at 117.3% of the UK average, the best across the nation.

Top three export markets for Scotland's goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN SCOTLAND

Scotland has posted single-digit negativity on average across output, orders and investment, with a double digit negative (-10%) balance figure for employment. While there is only one other area in the UK that has posted negativity across all metrics over the past four-quarter average, Scotland's results are only marginally negative, and do not exhibit the more extreme negativity seen in some regions in certain metrics. Output performance over the past year has been largely in line with that of the UK, only faltering in the first quarter of this year as it posted a below average, but still positive output balance figure. Nevertheless, as is the general trend across the entirety of UK manufacturing, expectations are positive for the sector's performance in Scotland for the rest of the year.

AFTER FALTERING IN Q1, OUTPUT GROWTH NOW SLIGHTLY OUTPACING AVERAGE

ORDERS PERFORMANCE MAINTAINED A POSITIVE AVERAGE BALANCE, BEST ORDERS PERFORMANCE IN UK ON AVERAGE

INVESTMENT INTENTIONS WORSENE THE MOST OUT OF UK COMPARED TO LAST YEAR, BUT NOW RETURNING WITH PACE

EMPLOYMENT PERFORMANCE NEGATIVE, BUT LARGELY IN LINE WITH WIDER UK MANUFACTURING EXPERIENCE

AVERAGE BUSINESS CONFIDENCE AT 4.5*

* The confidence measurement in Scotland follows a different survey elicitation method from our partners at Scottish Engineering, which means Scottish confidence values should be compared with other Scottish confidence values only, and not with other confidence figures from other regions.

While Scotland's year average performance in this edition of *Regional Outlook* has been negative, it is only marginally so. Considering this edition's research window captured three quarters of the pandemic-induced decline and only one of recovery, the year average certainly could have been worse. Scotland's metric performance has been more consistent and exhibited less volatility than other regions and nations in the UK.

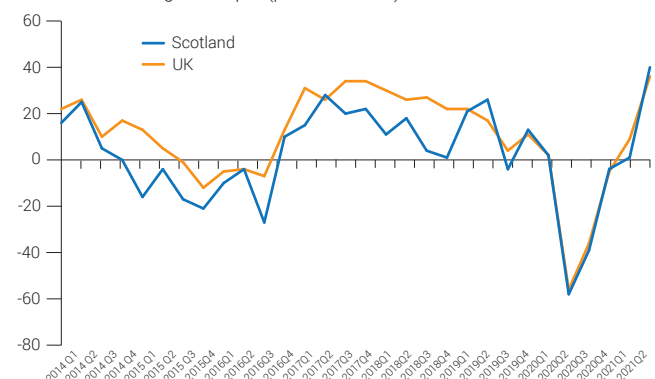
Bucking the trend seen in most areas in the UK, the latest data for Scottish exports shows that the percentage of exports leaving Scottish shores to the EU has increased, while for so many other areas they have declined. In the previous year, Scotland already had a higher than average percentage of its exports go to the EU, but now this has increased further still, with 51% of all Scottish exports destined for EU shores.

Scotland's largest manufacturing subsector, Food & Drink, accounts for just under a third (30.7%) of all manufacturing output in the nation, which is a staggering size, especially when the next largest subsectors only account for single-digit percentage output. However, this indicates that future Scottish manufacturing performance will benefit from the steady growth that is forecast for the Food & Drink sector at a UK level, which stands at 3.1% for 2021 and 5.2% for 2022. However, this growth rate is below the average UK manufacturing growth forecast for 2021 of 7.8%.

Scottish business confidence has declined since our last edition, where most regions have seen at least marginal improvements. However, the Scottish manufacturing industry is exposed to a unique political uncertainty to which the wider UK is not.

After a challenging year, Scotland's output balance reported slightly above the UK's average

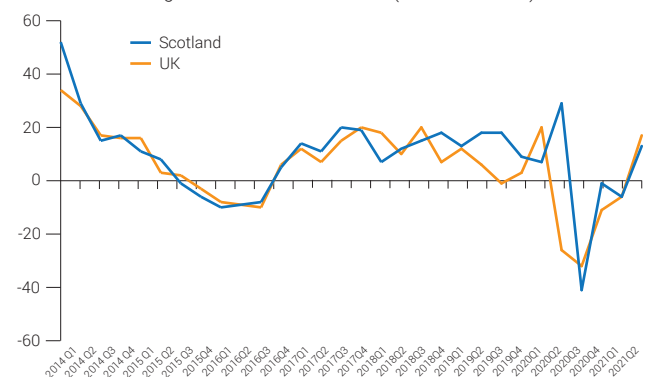
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Investment intentions tracked more closely with the UK's average in 2021

% balance of change in investment intentions (next 12 months)



Source: Make UK Manufacturing Outlook Survey

WALES

Wales is the UK's ninth largest region in terms of gross value add (GVA). The region accounts for 3.4% of the UK's total output, with the manufacturing industry here contributing to 0.6% of the UK's total output. Wales generates 16.8% of its regional output from manufacturing, which is well above the UK average of 9.9%. Three major subsectors account for just under half of Wales' manufacturing output. The largest is the Transport Equipment industry, with 17.6% of all manufacturing output. This is followed by Food & Drink at 15.5%, and then the Metal Products subsector at 10%.

REGIONAL SUMMARY

	% UK OUTPUT	% REGIONAL OUTPUT
Total GVA	3.4%	—
Manufacturing	0.6%	16.8%
Construction	0.2%	6.7%
Services	2.4%	71.2%
Other production	0.2%	5.4%

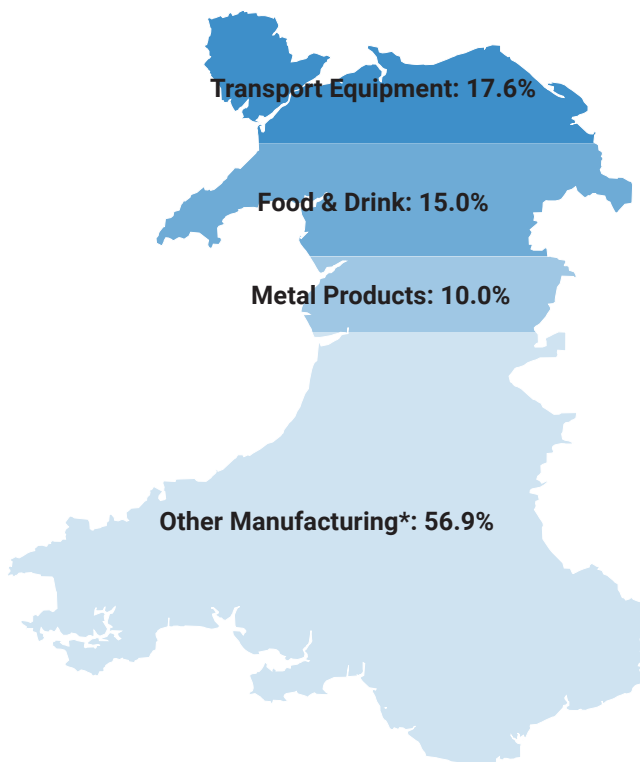
Source: ONS 2021

EMPLOYMENT

- There were 147,000 manufacturing jobs in Wales in 2020, accounting for 10% of the region's total workforce and 0.4% of the UK's total workforce.
- This latest figure is a decline of 6,000 jobs from the previous edition of *Regional Outlook*. The latest data is likely exacerbated by the impact of COVID-19 on employment which is expected to improve in 2021.

EXPORTS

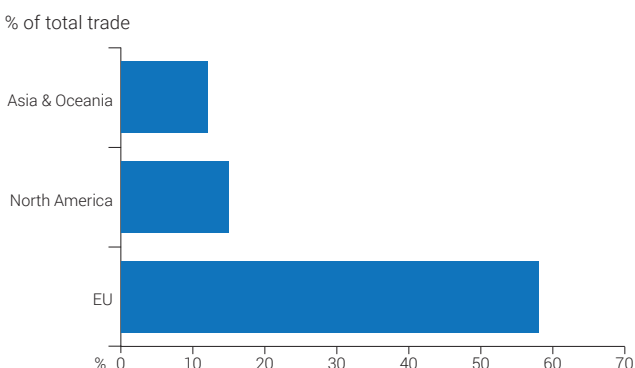
- In 2020, Wales accounted for 5% of the UK's total goods exports.
- The region's dependence on the EU for exports has declined slightly from 60% to 58% of exported goods journeying to the EU annually. However, this is still well above the UK average of 48%. In this report, Wales has the highest percentage of its exported goods journeying to the EU.
- The next largest destination for Wales' goods is North America, accounting for 15% of goods exports. Followed by Asia & Oceania which accounts for 12% of goods exports.



PRODUCTIVITY

- Wales' overall productivity is the lowest (10th) in the UK, at 84.2% (UK=100).
- Manufacturing productivity is at 101.7% of the UK average, ranking 4th across all regions and nations.

Top three export markets for Wales' goods



Source: ONS 2021

MANUFACTURING PERFORMANCE IN WALES

Wales has posted moderately negative results for its year average performance across key metrics. The exception to this is that of orders performance, which has managed to remain just positive over the past four quarters' average. While the wider UK enjoyed a very performant second quarter of 2021, Wales reported a no-change result for the quarter, which in turn has fed the expectation that the Welsh manufacturing recovery over the rest of the year will be at a slower pace than that of the wider UK industry.

OUTPUT PERFORMANCE FOLLOWS UK TRAJECTORY UNTIL UNDERWHELMING Q2 2021

ORDERS PERFORMANCE OVER THE YEAR MANAGES TO RETAIN POSITIVITY, ONLY WELSH METRIC TO HAVE YEAR-POSITIVE

INVESTMENT NEGATIVE ON AVERAGE, ALTHOUGH ONLY marginally so

EMPLOYMENT AVERAGE NEGATIVE, ALTHOUGH PICK UP EXPECTED IN LINE WITH WIDER UK EMPLOYMENT PICKUP

BUSINESS CONFIDENCE AT 6.7, THE HIGHEST CONFIDENCE VALUE FROM ALL REGIONS AND NATIONS IN THE UK

Welsh manufacturing performance, in terms of output, had been on a consistent upward trend along with the wider industry's trajectory since the third quarter of 2020. Output performance in the fourth quarter of 2020 and the first quarter of 2021 actually outpaced that of the UK average. This signalled that Wales was set for a trend-beating recovery, although the latest data from the second quarter of this year has applied the brakes to those hopes. Having posted a somewhat surprising neutral balance of change for the quarter, the nation now falls behind the pace of the UK manufacturing average.

Nonetheless, expectations from Welsh manufacturers for output growth in the third quarter to come of this year remain staunchly positive, so it is certainly the manufacturing industry's view in Wales that this underwhelming blip in quarterly performance during the 'recovery' phase will remain just that, a blip.

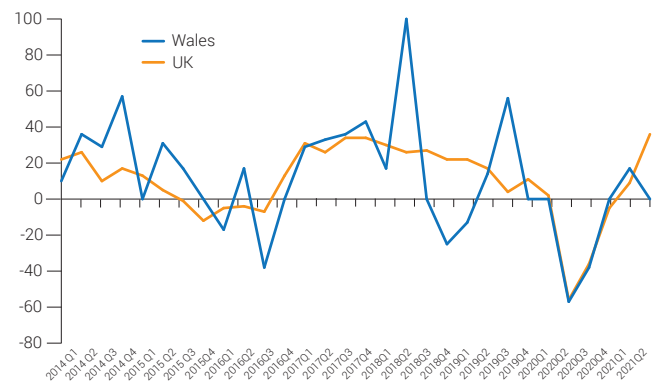
In contrast to output performance, domestic orders performance for Wales has consistently outpaced the UK average, doing so in every quarter since 2020 Q4. The latest quarterly balance figure for orders in Wales is over twice that of the UK average.

The sectoral outlook in the coming year of Wales will be mixed. Given that the Transport Equipment industry is the largest manufacturing subsector in Wales, future performance here will be at the behest of that of the Aerospace and Automotive sectors. These two industries have opposed growth prospects for 2021, with the Automotive sector set for a strong recovery this year following substantial declines in 2020. However, despite the Aerospace industry suffering similar declines in the previous year, current forecasts have it set to remain in moderate decline throughout 2021 and for its recovery not to materialise in this year.

Manufacturing business confidence in Wales is both higher than the average at 6.7, but it is also the highest regional business confidence reported in this edition of *Regional Outlook*. Although, the grouping of confidence figures across all UK nations and regions is tight in this edition, with the majority posting figures in the 6-7 bracket.

Despite experiencing significant volatility, Wales' output balance trends alongside the UK average

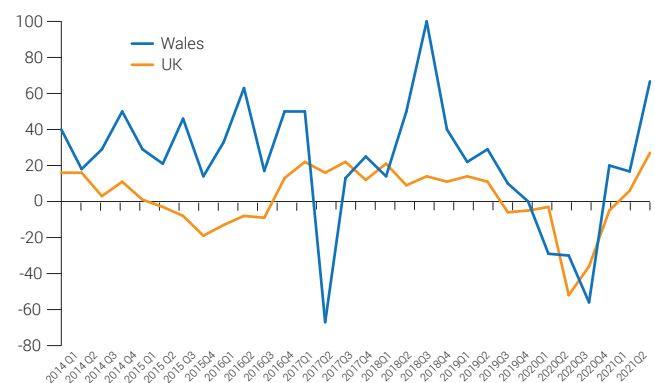
% balance of change in output (past 3 months)



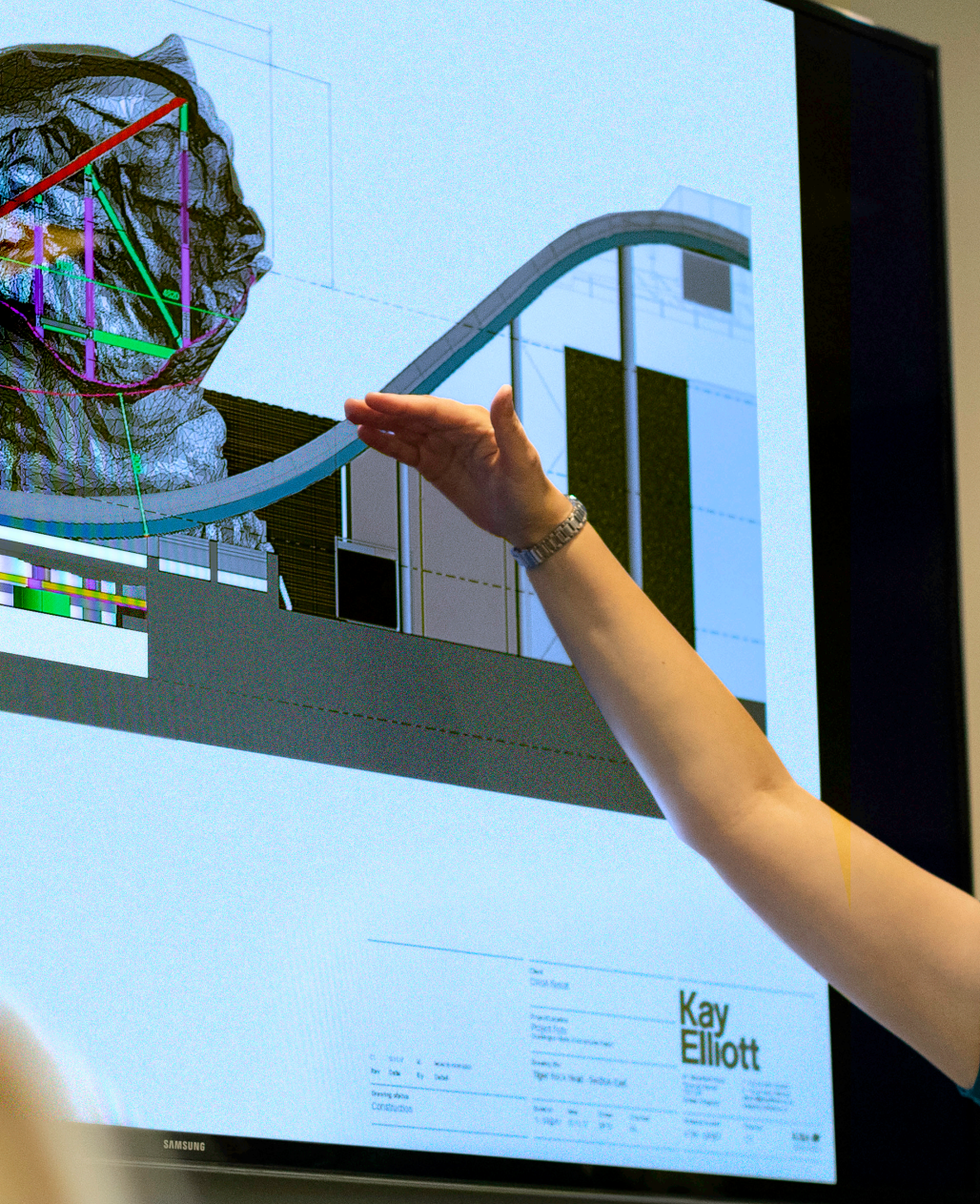
Source: Make UK Manufacturing Outlook Survey

Wales' domestic market growth outpacing the UK average since Q4 2020

% balance of change in domestic orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey





Make UK works for the success of more than 2.7 million men and women employed in UK manufacturing. Representing member companies – from small businesses to multinationals – across every industrial sector, we are the most influential voice of manufacturing, enabling our members to connect, share and create opportunities together.

We stimulate success for manufacturing and technology related businesses, enabling them to meet their objectives and goals. We empower individuals and inspire the next generation.

We create the most supportive environment for UK manufacturing growth and success and we represent the issues that are most important to our members, working hard to ensure UK manufacturing remains in the government and media spotlight.

Our extensive knowledge of manufacturing means that we're able to influence policy-making at local, national and international levels. We push for the policy changes that our members want to see. We are the voice of manufacturing.

makeuk.org

To find out more about this report, contact:

Fhaheen Khan
Senior Economist
fkhan@Makeuk.org

James Brougham
Senior Economist
jbrougham@Makeuk.org

Make UK Information Line
0800 168 5874
research@Makeuk.org

The data used in this survey have been provided by UK manufacturers including members of Scottish Engineering, Manufacturing NI, and Make UK. 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 our Information and Research team research@Makeuk.org



Accountancy and business advisory firm BDO LLP is the UK member firm of BDO International, which has more than 1,600 offices in 167 countries. We operate from 18 offices across the UK, employing 5,650 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 and pharmaceuticals, electrical, food and drink, industrials, technology and test and measurement.

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**

To talk about any issues your manufacturing business may be facing please contact:

Richard Austin
Head of Manufacturing, BDO LLP
07808 24613
richard.austin@bdo.co.uk

Baljit Bhamra
Marketing and Business Development
Manager, BDO LLP
0121 352 6296
baljit.bhamra@bdo.co.uk

