

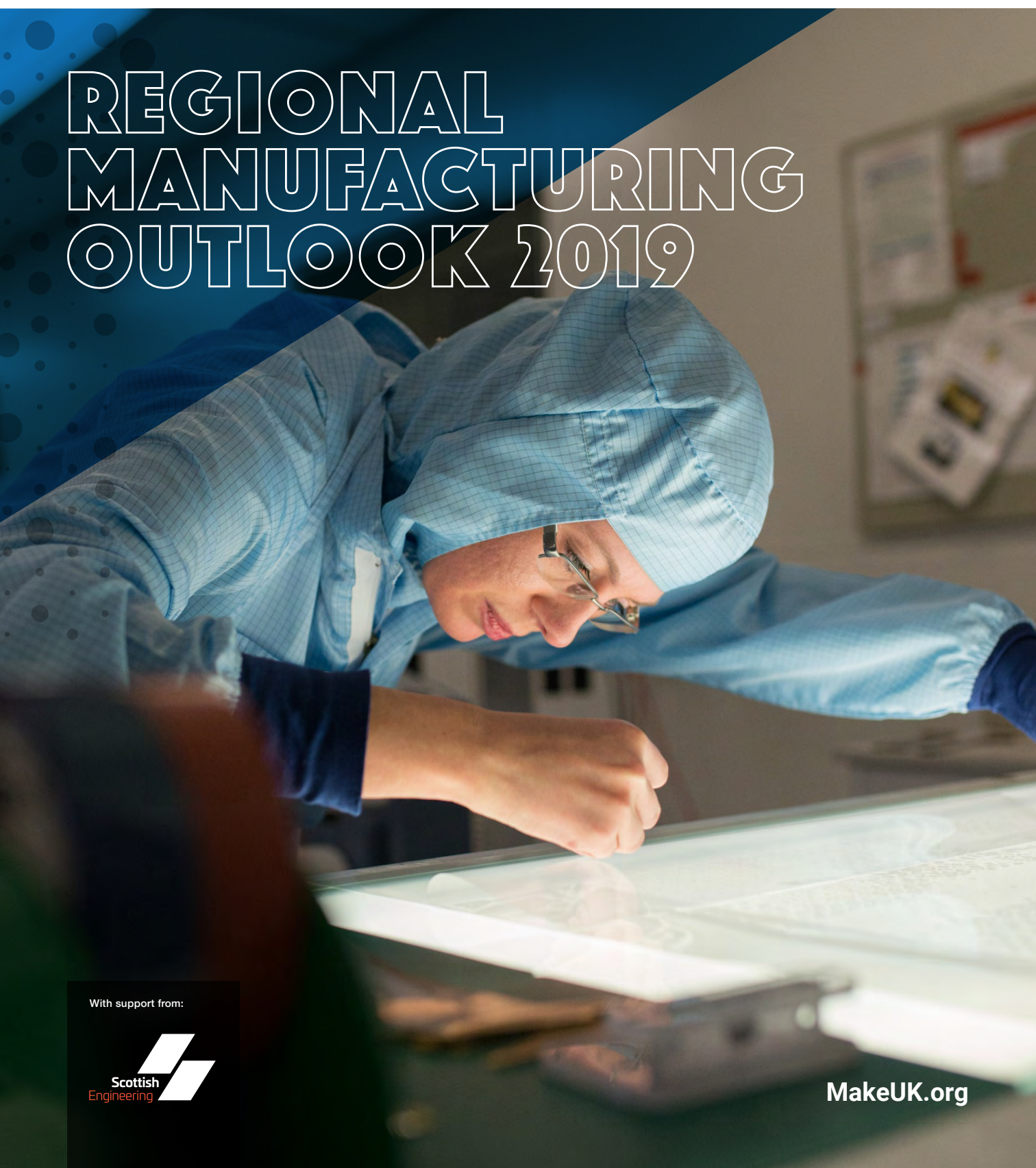
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REGIONAL MANUFACTURING OUTLOOK 2019



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This is our fifth annual Regional Outlook report, in partnership with BDO. In it Make UK outline how trends in manufacturing have evolved around the UK over the past year.

Our regional data continues to be in positive territory but there has been a clear decline over the last 12 months.

The top performer of 2019 has been the South East, thanks to the resilience of its electronics producers. This sector came out on top last year as well, on the back of customers and companies craving the latest advances in automation technologies at such a rate that some electronics companies have been facing capacity problems thanks to high demand coming from all over the globe.

However, while electronics had its best year in decades other sectors, unfortunately, cannot say the same.

The ongoing crisis in the British automotive industry is having a significant impact on the regions which depend on it most. These difficulties are not only being seen in the worrying decline of output and order levels, but even more so in collapsing investment levels. Many regions, most notably the North East, have reported ominous future investment and recruitment plans.

Moreover, the automotive sector is the main client for the metals sector, which is itself the key manufacturer in several regions. The metals sector has also faced its own perfect storm in the form of the British Steel Crisis and now the departure of Newport's Tata from the UK.

As if that wasn't enough, the mechanical equipment sector has fallen back from its strong 2017 performance to enter a deep downturn this year, consequently impacting negatively on several regions which rely on the industry.

One thing almost every sector and region has in common is that they are all clearly being hurt by Brexit and global trade uncertainties, with companies reluctant to invest in new equipment or recruitment until the fog has lifted.

In the past year a number of regions and nations have seen a contraction in average business confidence. Scotland, the East Midlands, and Yorkshire & Humber, have all contracted considerably.

Brexit stockpiling gave an unprecedented boost to the manufacturing sector in the first quarter of this year - as businesses brought their production forward in an effort to pre-empt any potential delays and trade disruptions in the event of a crash out Brexit on March 29th. Since then, however, data has trended downward almost everywhere.

The UK's impending departure from the EU is menacing the manufacturing sector and firms are now suffering the consequences of a very hard year.

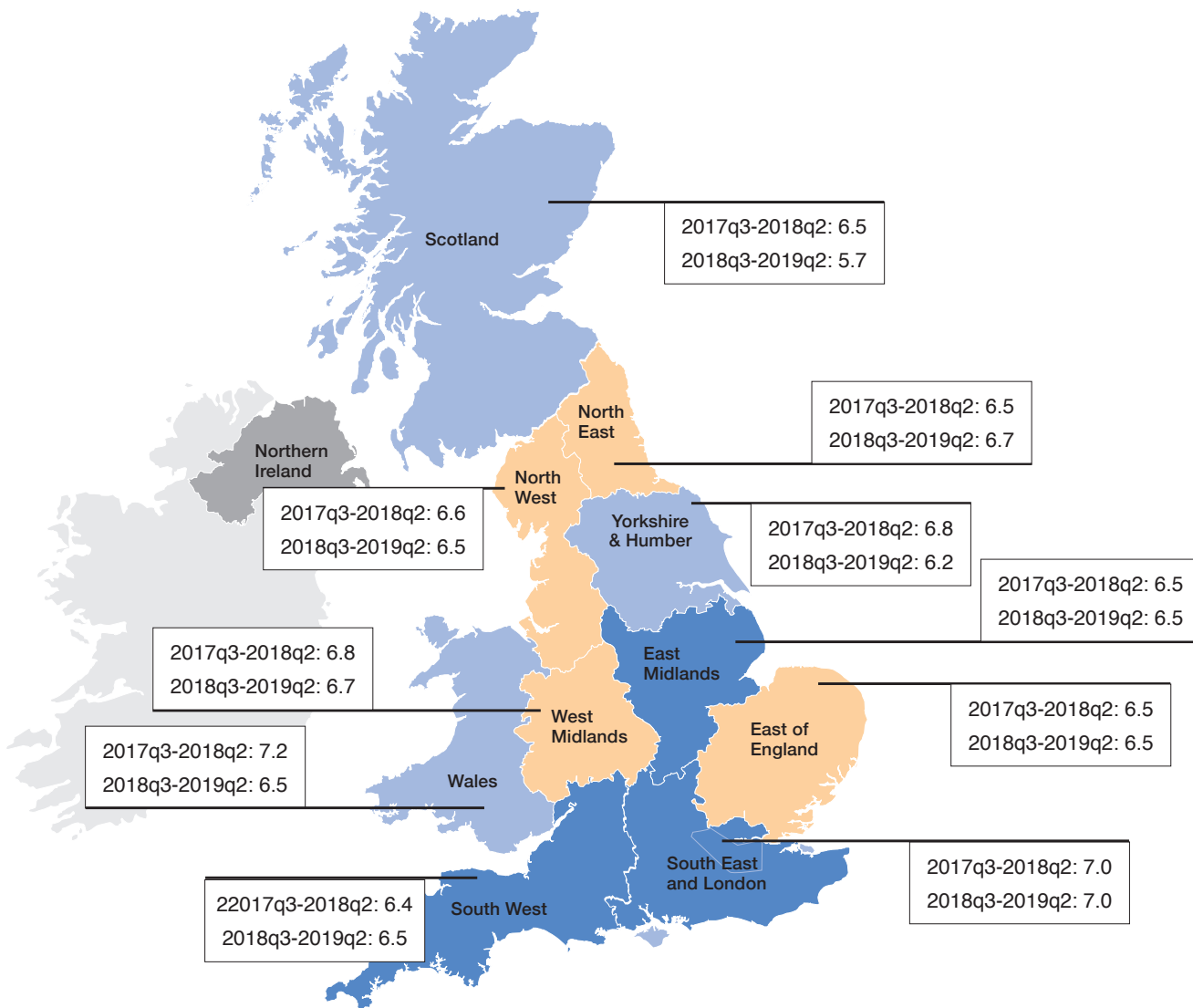
In every region, companies are cutting back on investment in transport equipment, factory machinery, and IT, just at the point in the economic cycle when spending would normally increase.

Taken together the signs are clear that a no deal Brexit is a serious concern for our sector and one our members are keen to avoid.

REGIONAL SNAPSHOT

In the past year most of the UK regions and nations have seen a contraction in business confidence when compared to the previous year. In three cases the contraction has been very strong, with Yorkshire & Humber, Wales, and Scotland contracting by more than

half a point on our business indicator. The South West and East Midlands were the only two regions where average business confidence in the last four quarters increased – albeit by just a minimal margin.



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

KEY:

- 0.1 to 0.5
- -0.4 to 0
- -1 to -0.5

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

HOW DO THE REGIONS/NATIONS COMPARE

The manufacturing sector grew again this year but at a much slower pace. This meagre growth was due to several factors, from the consequences of the ongoing Brexit uncertainty to a broader global economic slowdown, the end of another business cycle, and the growing global trade war.

The regional picture reflects this slowdown, with the majority of regions reporting results that are less positive than a year ago.

Looking at output, the excellent performance of the electronics sector has helped to maintain the South East & London region's position at the top of our output table, despite a small contraction from the 47 balance registered a year ago. Also notable is the positive performance of the East Midlands, which was the best improver of the year after being the worst performer just

a year ago. It seems likely that this boost came mainly from the food & drink sector, which experienced a period of positive results.

Overall, although trending downward, output was quite stable, but orders and investments have contracted in a much sharper way, with the North East and Wales reporting a negative balance for planned investment in the next twelve months. As has consistently been the case since the Brexit referendum period, employment intentions are still higher than investment intentions, with companies more willing to spend their money recruiting new staff than on other, less fungible, assets such as new factory machinery or office IT equipment. This is a clear sign of a lack of confidence affecting the sector. Firms are avoiding spending much needed cash on costs that cannot be easily recouped if needed.

Regional summary

% average balance of change 2018 Q3 - 2019 Q2

| | OUTPUT | ORDERS | INVESTMENT | EMPLOYMENT |
|---------------------|--------|--------|------------|------------|
| East Midlands | 31 ↑ | 21 | 12 | 18 |
| East of England | 16 ↓ | 20 ↓ | 9 | 6 |
| North East | 25 | 27 | -22 | 2 ↓ |
| North West | 26 | 28 | 11 | 17 |
| South East & London | 41 | 35 | 14 | 22 |
| South West | 25 | 17 | 13 | 25 ↑ |
| West Midlands | 21 | 16 | 12 ↑ | 24 |
| Yorkshire & Humber | 37 | 24 | 11 | 24 |
| Scotland | 13 | 6 | 16 | 13 |
| Wales | 30 | 41 ↑ | -6 ↓ | 13 |

Source: Make UK Manufacturing Outlook Survey

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

* The data are sourced from Make UK'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

As mentioned previously, the East Midlands is the region that improved the most this year. Its output has improved from a balance of 23 to 31 over the last 12 months. The size of the manufacturing sector means it remains crucially important to the region, with almost 17% of total economic output coming directly from manufacturing companies, way above the 10% national average. The food & drink sector remains the main manufacturing sector here, accounting for more than a fifth of the output, followed by rubber, plastics, and non-metallic minerals, which has overtaken transport equipment since our last report.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|----------------|----------------------|
| Total GVA | 5.7% | – |
| Manufacturing | 9.4% | 16.7% |
| Construction | 6.6% | 7.1% |
| Services | 5.1% | 70.7% |
| Other production | 6.8% | 5.5% |

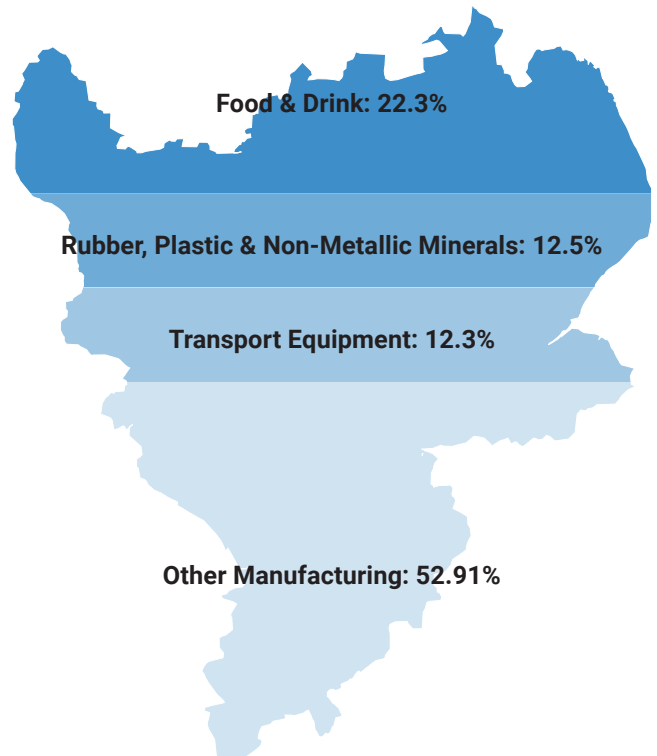
Source: ONS (2017)

EMPLOYMENT

- There were an average 305,000 manufacturing jobs in the East Midlands in 2018, accounting for 13.0% of the region's total workforce and continuing to be the highest for any region.
- The number of manufacturing jobs in the region increased by 8,000 jobs in the last year and it is at its highest since 2005.

EXPORTS

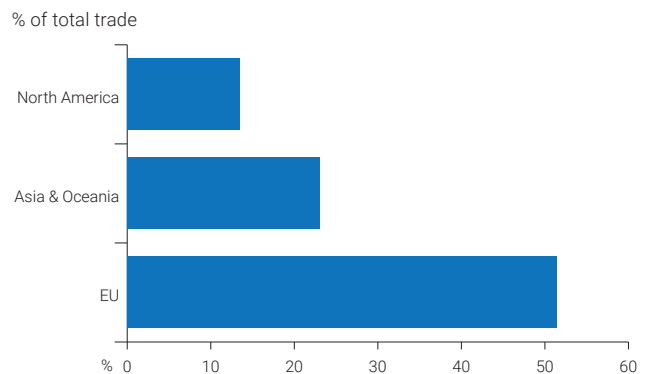
- In 2018, the East Midlands accounted for 6.5% of the UK's manufactured exports.
- The EU remains its most dominant market with 51.4% of goods exports heading to the bloc.
- The remainder of the top three main export markets is completed by Asia which accounted for 23.0% of the exports coming from the region, and North America with a further 13.5%.



PRODUCTIVITY

- The East Midlands' whole economy productivity was 84.5% of the UK average. The result is the third lowest in the UK and the lowest in England.
- Manufacturing productivity is 84.7% of the UK average and it is confirmed as the lowest result in the UK.

Top 3 Export Markets for East Midlands' Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN THE EAST MIDLANDS

After a very positive 2017 and a declining 2018, East Midlands output has recovered strongly in the last four quarters, showing the best improvement amongst UK regions. This positive outcome was the result of a good performance in terms of orders – in particular those coming from the domestic market. However, some concerns are coming from the latest data which were extremely positive for output at 52 – the highest since 2013 – but orders showing a meagre 14, pointing to a growth rate that was artificially boosted by stockpiling activities.

OUTPUT BALANCES STRONGLY RECOVERED AND WELL ABOVE UK AVERAGE

ORDERS ALSO RISING AND SLIGHTLY OVER THE LEVEL REGISTERED IN THE WHOLE COUNTRY

DOMESTIC ORDERS PUSHED UP OVERALL NUMBERS

DESPITE OUTPUT AND ORDERS GROWTH, INVESTMENT IS DOWN COMPARED TO A YEAR AGO

CONFIDENCE INDICATOR SLIGHTLY UP, BUT BELOW UK AVERAGE

The output performance did not, however, push investment intentions up. Instead, the investment index was down compared to the last edition of *Regional Outlook*.

Employment intentions were also down compared to a year ago, but more positive than investment intentions. This confirms how in the East Midlands, as in the general manufacturing landscape, manufacturers are more willing to hire workers rather than invest in capital equipment.

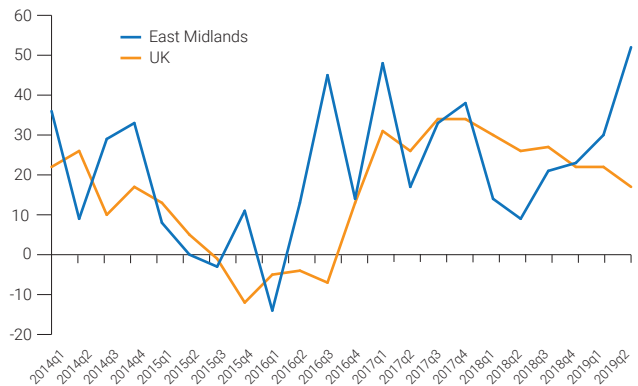
The high concentration of food and drink manufacturers in the region – more than a fifth of manufacturing output – is likely to have contributed to the recent boost in overall output activities with high domestic demand for goods to be stockpiled. This is rather unusual for a sector where demand is not too elastic and production and growth rate that is artificially stable.

The two next biggest sectors have a different story. Rubber, plastics and non-metallic minerals is driven partly by the influence of the construction sector. Amid political uncertainty – which serves to block new projects – and the natural end of another construction cycle, the sector is in decline which, as a result, is affecting rubber, plastics and non-metallic minerals. Moreover, transport equipment is instead facing a period of instability as it plays amongst the automotive industry, a sector in big trouble, along with aerospace, which continues to maintain stable growth.

Overall, manufacturers’ confidence in the region is slightly up from last year, but still a little lower than the UK average.

East Midlands' output balance doing better than the UK Average

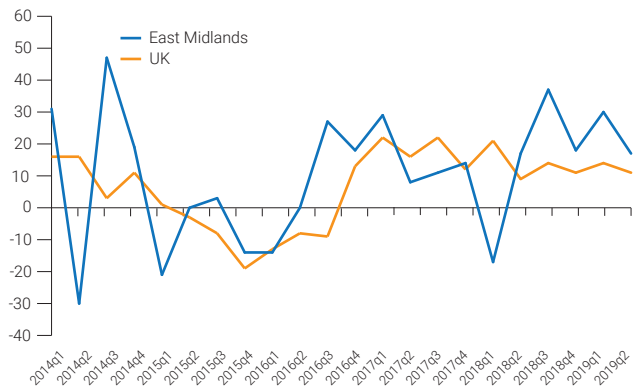
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Domestic orders performed pushed production high

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



Source: Make UK Manufacturing Outlook Survey

EAST OF ENGLAND

The East of England is the fourth largest of any region in terms of manufacturing production and accounts for 8.2% of the UK total. Manufacturing accounts for almost 12% of regional output, slightly higher than the UK average. The region's largest manufacturing sector remains food & drink which, despite its positive performance elsewhere, shrank since our last report. Metal products and mechanical equipment complete the top three with transport failing to make this year's podium.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 8.2% | - |
| Manufacturing | 9.7% | 11.9% |
| Construction | 12.3% | 9.2% |
| Services | 7.8% | 75.2% |
| Other production | 6.5% | 3.7% |

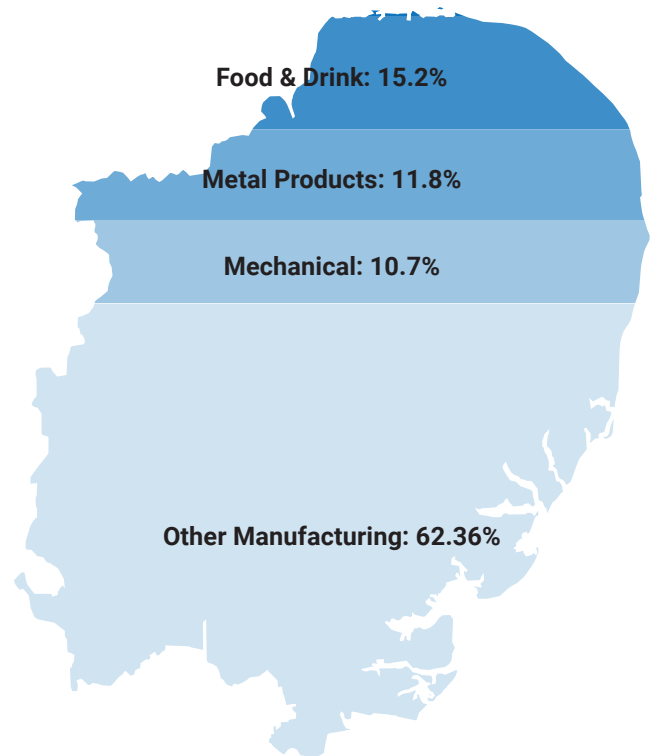
Source: ONS (2017)

EMPLOYMENT

- There were an average of 244,000 manufacturing jobs in the East of England in 2018, accounting for 7.5% of the region's total workforce.
- Manufacturing jobs increased by 4,000 since 2017 but were lower than the peak of 251,000 registered in Q4 2017.

EXPORTS

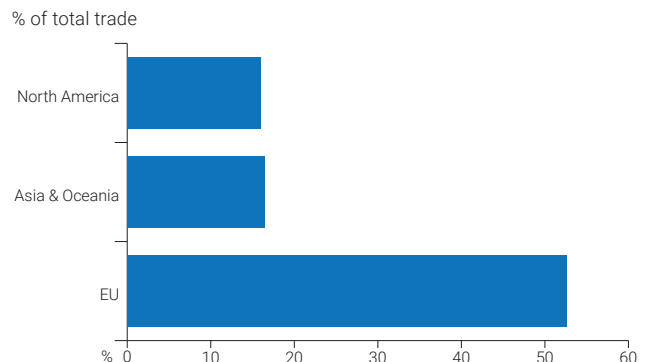
- In 2018, the East of England exported £7.3 billion worth of goods accounting for 8.3% of UK goods exports.
- The main market for East of England goods is the EU which accounts for 52.6% of total exports with a further 6.9% going to European countries not part of the bloc.
- Exports to Asia and North America are very close to each other in this special ranking, with those going eastward accounting for 16.4% and those crossing the Atlantic at 16.0% of the total.



PRODUCTIVITY

- The East of England's total productivity remains at the high end of the ranking as the third most productive region with productivity at 94.1% the total for the UK.
- Manufacturing productivity scores are very close to the UK average at 100.8%.

Top 3 Export Markets for East of England's Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN THE EAST OF ENGLAND

After being one of the most positive regions in our previous *Regional Manufacturing Outlook*, the East of England's output and order balances sharply contracted in the last year, despite the upward trend seen in Q1 and Q2 2019. Indeed, this year the East of England was the region that worsened the most in terms of both output and orders. The region had been the top improver in terms of orders in our previous edition, but its balance contracted from 42 to 20 due, in particular, to weaker order demand from export markets.

OUTPUT BALANCE FALLS BACK AND REMAINS AT A LEVEL LOWER THAN THE UK AVERAGE

AFTER A GREAT PERFORMANCE A YEAR AGO, ORDERS CONTRACTED SHARPLY

EXPORT BALANCE WAS BEHIND THE FALL IN ORDERS

BOTH EMPLOYMENT AND INVESTMENT WERE DOWN AND VERY CLOSE TO NEGATIVE TERRITORY

MANUFACTURERS' CONFIDENCE REMAINS BROADLY UNTOUCHED AND SLIGHTLY LOWER THAN UK AVERAGE

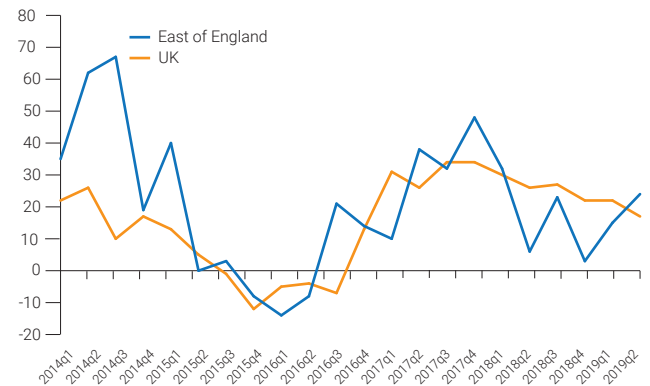
The drop in output and orders is clearly reflected in both investment and employment. Indeed, despite average balances continuing to be positive they are now very low and close to entering negative territory. The East of England is one of the few regions where employment intentions were reported as negative.

The manufacturing sector in the region is not dominated by a single sector and the top sector – food & drink – only represents 15% of manufacturing output. The declining performance of the region appears to be related to the sectors further down the size ranking. Metal products and mechanical equipment experienced some difficulties in the last few quarters due to both the drop in investment in the UK and the slowdown around the globe. Moreover the pharmaceutical sector – which accounts for a further 9% of output, has continued its usual erratic behaviour.

The weak demand and the weak employment and investment intentions have not pushed confidence down by much, with a level lower than the UK average, but almost untouched from a year ago.

East of England's output grew slower compared to the 2017 peak

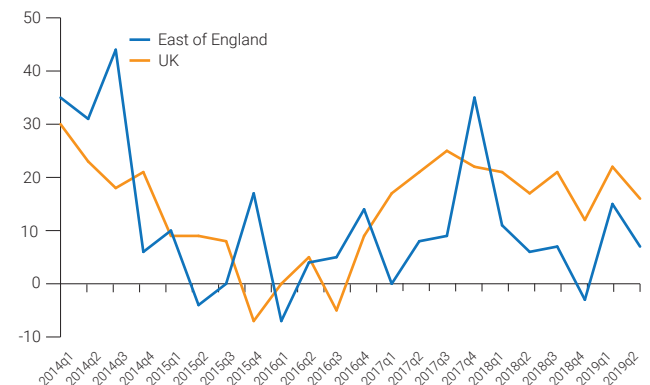
% balance of change in output orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Employment balance constantly below UK average in the last 6 quarters

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

NORTH EAST

The North East is Great Britain's smallest region in terms of total manufacturing output, contributing 2.9% of total GVA. However, manufacturing remains crucial in the region, accounting for 15.2% of output, well above the UK average. The largest manufacturing subsector regionally is the transport sector thanks to the cluster in the Sunderland area, followed by chemicals and metal products.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 2.9% | – |
| Manufacturing | 4.4% | 15.2% |
| Construction | 3.0% | 6.3% |
| Services | 2.7% | 73.7% |
| Other production | 3.1% | 4.9% |

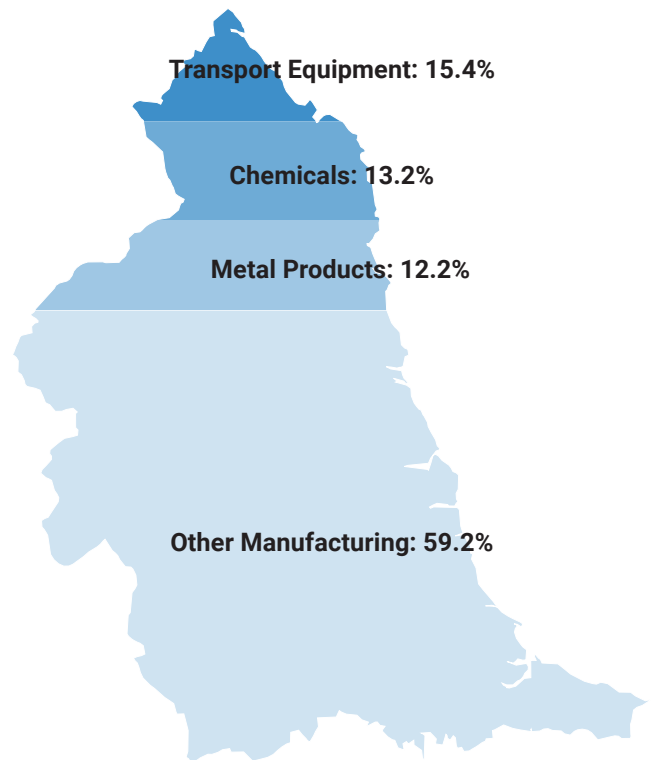
Source: ONS (2017)

EMPLOYMENT

- There were 126,000 manufacturing jobs in the North East in 2018, accounting for 10.5% of the region's total workforce.
- Manufacturing employment has grown by 2,000 jobs since 2017 and by 24,000 since the lowest level registered in 2011.

EXPORTS

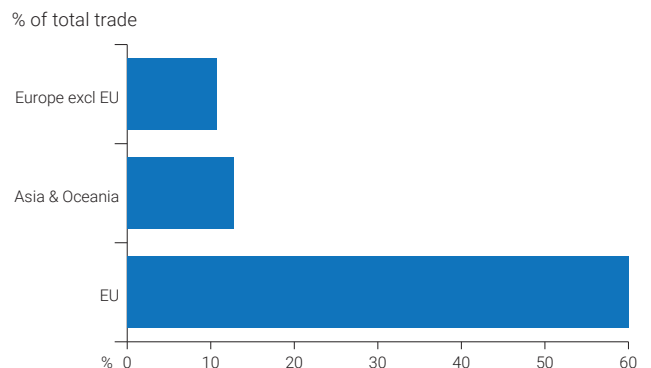
- In 2018, the North East accounted for 3.9% of the UK's manufactured exports, the lowest of any region.
- The region relies heavily on EU exports, which accounts for 60.0% of its exports, a level higher than the UK average.
- On top of the 60% going to the EU, a further 10.7% headed to non-EU Europe accounting for the third largest market just after Asia which is at 12.7%.



PRODUCTIVITY

- The North East's total productivity is 88.3% of the UK average, ranking the region sixth out of ten UK regions.
- North East manufacturing productivity continues to be lower than the UK average at 93.9% and close to bottom of the ranking.

Top 3 Export Markets for North East's Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN THE NORTH EAST

After the rapid momentum seen in the last edition, the North East contracted in terms of output and was also down in terms of orders. Despite remaining positive, balances for domestic orders were down throughout the year, moving from 21 to 12. To a lesser extent, non-domestic orders also contracted from a 24 balance to 18.

In contrast, output had a rollercoaster ride in the past four quarters moving from an amazing balance of 50 in q3 2018, collapsing to -18 in the next quarter, before recording an impressive 42 in the second quarter of 2019 possibly thanks to stockpiling activities.

- OUTPUT SUFFERED DRAMATIC SPIKES IN THE LAST YEAR
- ORDERS SLIGHTLY DOWN COMPARED TO A YEAR AGO
- EMPLOYMENT BALANCE DOWN VERY SHARPLY
- INVESTMENT BALANCE IS RECORDED AS THE MOST NEGATIVE IN THE UK
- MANUFACTURERS' CONFIDENCE DOWN IN THE YEAR DESPITE A PICK-UP IN THE LAST QUARTER

Although the situation in terms of output and orders has been fairly positive, both investment and employment intentions plunged in the last year, with the North East being the worst performer in both categories. Investment was in deep red with a balance contracting almost continuously since the last quarter of 2017 as a reflection of the uncertainties affecting the automotive sector. The latest figures show an investment balance at -33, the worst in any region.

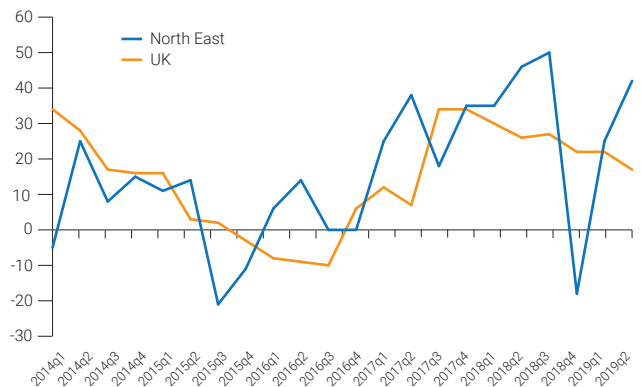
Employment has also sharply contracted, moving in negative territory in the first two quarters of 2019. The average index was 27 points down from last year. This was the worst contraction reported in any region.

The region is heavily reliant on the automotive sector with 15% of direct output related to transport equipment and a further 12% working in the metal products – a key input for car production. The top three is then completed by the chemicals sector which, in fact, occupies the second position with 13% of manufacturing production.

The bleak employment and investment outlook is also reflected in the confidence indicator, which is down by 0.2 points compared to a year ago and it is lower than the UK average.

North East's activity faced dramatic spikes in the last year

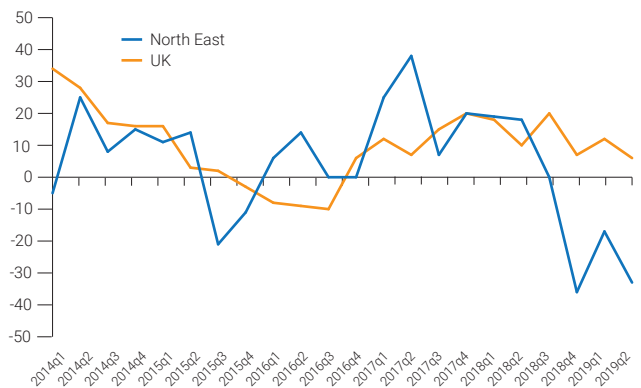
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Investment intentions dropped sharply to the lowest level recorded in the UK

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



Source: Make UK Manufacturing Outlook Survey

NORTH WEST

The North West is the UK’s biggest region in terms of manufacturing, accounting for 15.5% of the UK total. Within the region, manufacturing accounts for 16.3% of total output and, underlining the industry’s importance, this is the third highest share of any English region. The region’s largest manufacturing sector is transport equipment, which accounts for 17%, closely followed by and deeply linked to the pharmaceuticals and chemicals sectors respectively.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 9.6% | – |
| Manufacturing | 15.5% | 16.3% |
| Construction | 9.4% | 6.0% |
| Services | 9.1% | 74.7% |
| Other production | 6.2% | 3.0% |

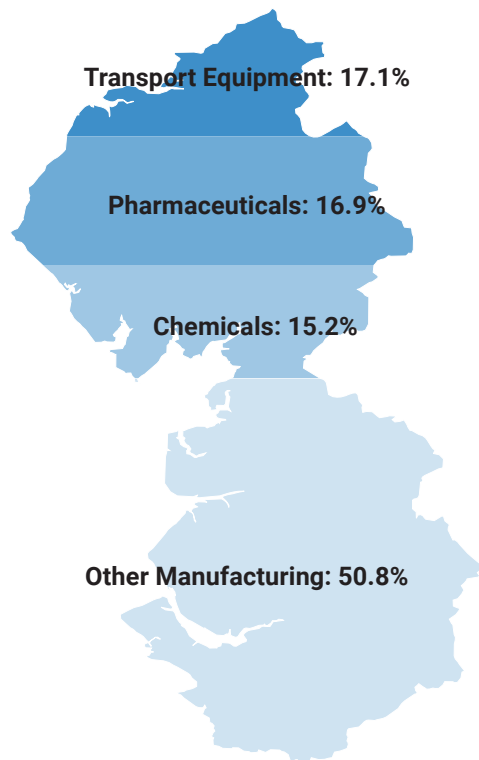
Source: ONS (2017)

EMPLOYMENT

- There were 350,000 manufacturing jobs in the North West in 2018 or 9.3% of the region’s total workforce.
- The North West has seen manufacturing jobs increase by 9,000 units in the last year.

EXPORTS

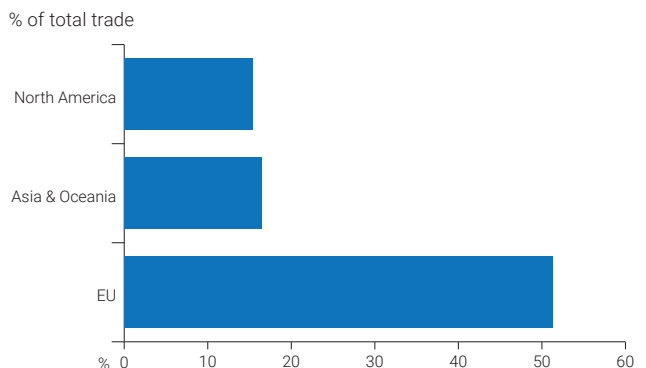
- In 2018, the North West accounted for 8.2% of the UK’s manufactured exports.
- The North West’s top market is the EU with 51.3% of goods exports crossing the Channel.
- Second and third place are occupied by the usual Asian and North American markets but also notable is the Middle East which accounts of 9.2% of the total North West’s exports.



PRODUCTIVITY

- The North West’s total productivity is ranked fifth in the UK at 89.9% of the national average.
- Thanks to the Cheshire area, and in particular the pharmaceutical manufacturing hub in the region, the North West was confirmed as the best manufacturing productivity in the UK at 114.5% of the national average.

Top 3 Export Markets for North West’s Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN THE NORTH WEST

After the strong performance of a year ago, the North West lost momentum in this year's *Regional Outlook*, recording positive but declining output and order balances across the year. However, despite the decline, both the indicators are still above the UK average.

In terms of orders, the foreign market continues to show the best balances but both domestic and non-domestic are 10 percentage points down compared to a year ago. Export orders have declined the most in the last quarter and their balance turned negative for the first time since Q2 2016.

OUTPUT BALANCE POSITIVE BUT LOWER THAN A YEAR AGO

ORDERS DOWN IN THE YEAR DUE TO CONTRACTION IN DOMESTIC AND FOREIGN MARKETS

AVERAGE INVESTMENT INTENTIONS HALVED FROM 24 TO 11 IN A YEAR

EMPLOYMENT BALANCE MOVED FROM STRONGEST TO AVERAGE COMPARED TO A YEAR AGO

MANUFACTURERS' CONFIDENCE DOWN AND BELOW THE UK AVERAGE

As a reflection of their weaker orders and output results, investment and employment balances contracted during the year too. Employment balances were weaker than the UK average for almost the entire year, having been positive for a fairly long time previously. Investment picked up a little in the last two quarters, but the decline in orders from abroad are putting a clear brake on future investments.

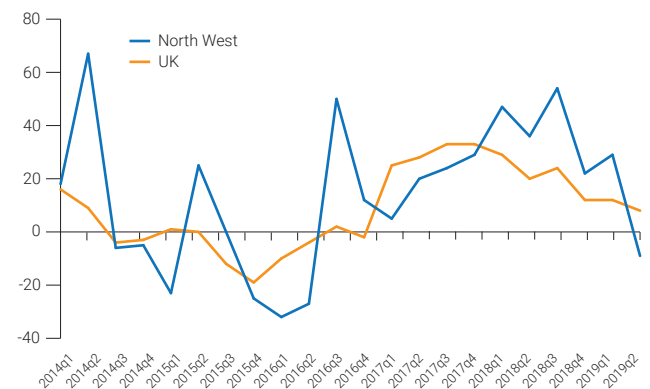
Looking at the manufacturing structure of the North West, there are also concerns that the decline that will follow after the boost that stockpiling activities brought, might hit the region hard. Indeed, more than 30% of North West manufacturing output is related to pharmaceutical and chemical products, which had an incredibly good performance in the first quarter of the year, with companies' stockpiling activities ahead of a potential crash out Brexit artificially boosting results.

The region is also a crucial hub for transport equipment. The transport sector is actually the top manufacturer in the region, comprising more than 17% of local output. As pointed out in other regions, the transport sector is experiencing a divergence between the motor vehicles sector which is struggling amidst its worst crisis since the Great Recession, and the aerospace industry which is enjoying a full and healthy order book.

Concerns over future trade for chemical and pharmaceuticals, as well as the worries in the automotive sector have pushed confidence slightly down in the year to a level that is lower than the UK average.

Export orders were constantly above the UK average but contracted sharply in the last quarter

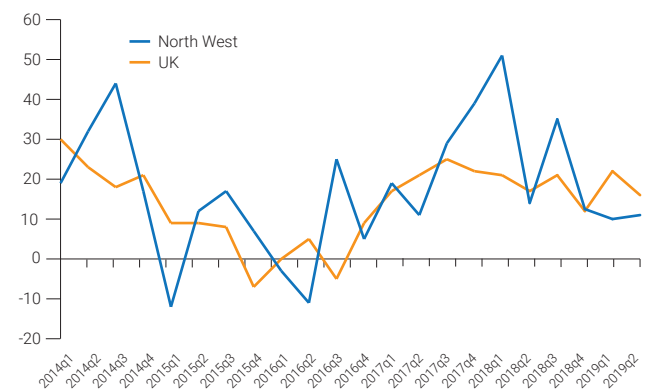
% balance of change in export orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

North West's employment balance trended down since the start of 2018

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

SOUTH EAST AND LONDON

With 39% of total UK output, the South East and London remains by far the UK's biggest region in terms of total output. Moreover, it is the second largest manufacturing region in the UK. However, despite the absolute size, manufacturing accounts only for 4% of the total regional output, due to the importance of London as a financial and services hub. The region's largest manufacturing sectors are food & drink, followed by the electronics sector which is nevertheless catching up quickly.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 38.0% | – |
| Manufacturing | 15.3% | 4.0% |
| Construction | 34.6% | 5.4% |
| Services | 43.6% | 88.5% |
| Other production | 17.8% | 2.1% |

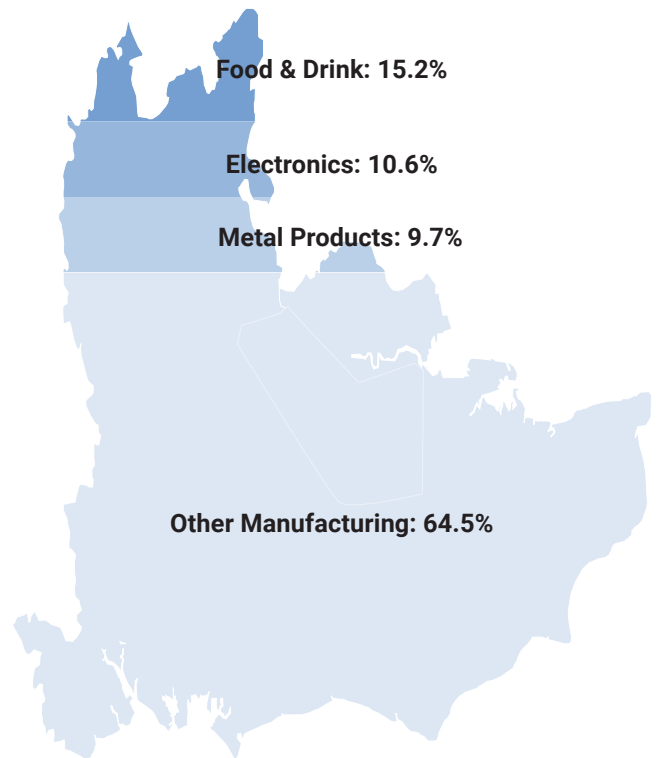
Source: ONS (2017)

EMPLOYMENT

- There were an average of 412,000 manufacturing jobs in the South East and London in 2018, accounting for 3.8% of the region's total workforce, the lowest of any region.
- The number of jobs in manufacturing contracted by 7,000 units in the last year.

EXPORTS

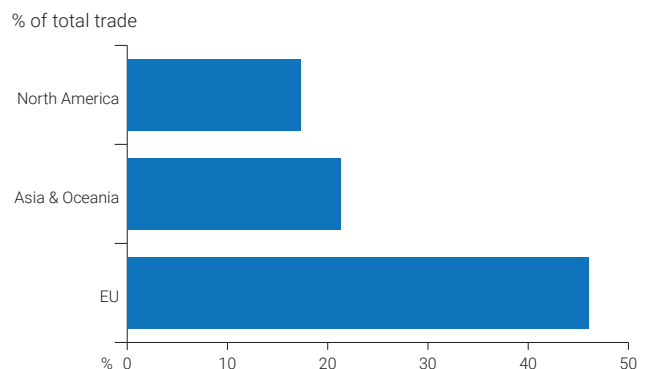
- The South East and London accounted for just under a quarter (24.9%) of all UK manufactured exports in 2018, the largest of any region.
- 46.0% of all exports of goods reached the EU, less than the national average.
- Asia is the second largest export market, accounting for 21.3% and North America is the third at 17.3%.



PRODUCTIVITY

- The South East and London is by far the most productive region in the UK with London's productivity at 128.6% of the UK average, and the South East's at 105.6%.
- Looking at manufacturing productivity, London has a productivity of 102.9% the UK average and the South East is higher at 111.0%.

Top 3 Export Markets for South East & London's Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN THE SOUTH EAST AND LONDON

The South East and London has consistently been on top of the chart for best performing UK regions, regularly outperforming the UK average in all key indicators. The trend has also continued in this last year, despite a small contraction from a balance of 47 to 41 in terms of output – which was the strongest result in all the UK.

Looking at orders, the balance remains healthy but down by 11 points from a year ago, with exports still performing well, in relative terms, compared to a retracting domestic order balance. Exports in the South East and London haven't been lower than the UK average since 2014.

- THE REGION CONFIRMED TO BE THE STRONGEST REGION IN TERMS OF OUTPUT
- EXPORT ORDERS CONTINUES TO BE VERY POSITIVE WITH THE BEST BALANCE IN THE UK
- RECRUITMENT ACTIVITY REMAINS OVER UK AVERAGE BUT SLIGHTLY DOWN FROM A YEAR AGO
- AVERAGE INVESTMENT INTENTIONS ARE STILL SOLID
- CONFIDENCE IN THE REGION OVER THE PAST YEAR IS THE HIGHEST IN THE UK

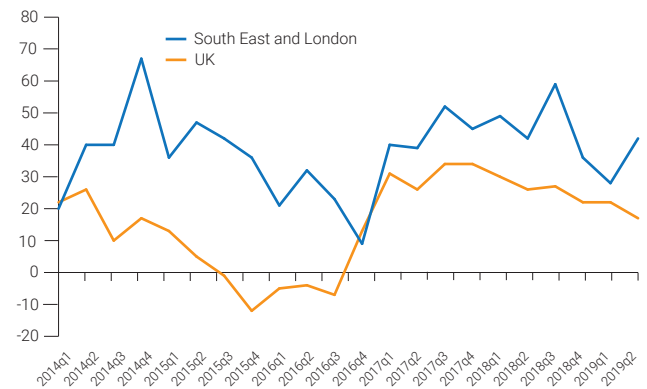
Strong activity is also reflected in a resilient employment balance, which only contracted slightly compared to a year ago. It is also reflected in investment intentions, which are higher than the UK average, despite the drop recorded in the second quarter of 2019 when the balance touched zero for the first time since the third quarter of 2016.

The recent good performance is strongly linked to the structure of the manufacturing sector. The region is the main UK hub for electronics products, which accounts for more than 10% of South East and London manufacturing, and growing in terms of importance and size. The sector had a spectacular growth spurt in the last few years thanks to the global rush towards automation and new technologies. Electronics occupies the second spot of this year's top three manufacturer's chart, with the top being claimed once again by food & drink and metals being third.

Positivity is also recorded in business confidence, with South East and London being on top of the chart as the most positive UK region. The region broadly matched last year's result despite a slight negative trend.

The South East and London's output balance consistently outperforms UK average

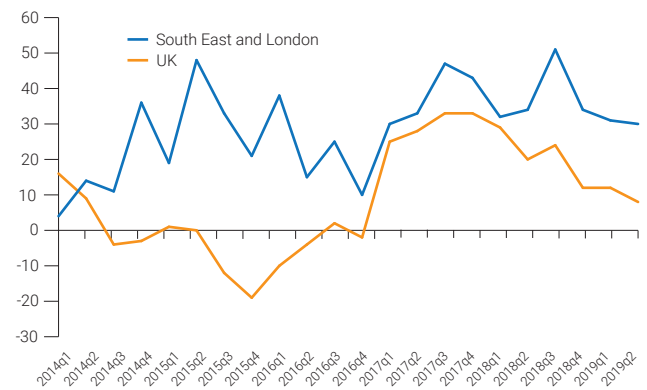
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Export balance was the key factor for the region's recent success

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



Source: Make UK Manufacturing Outlook Survey

SOUTH WEST

The South West is the UK’s seventh largest region in terms of total output. 11.0% of South West output is produced by the manufacturing sector, slightly above the UK average. The region’s largest manufacturing sector is transport equipment comprising almost a quarter of the total, followed by one of its main suppliers – the metal sector. The top three is completed by food & drink, accounting for a tenth of the total.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 7.0% | – |
| Manufacturing | 7.8% | 11.2% |
| Construction | 7.8% | 6.8% |
| Services | 6.8% | 76.9% |
| Other production | 7.8% | 5.1% |

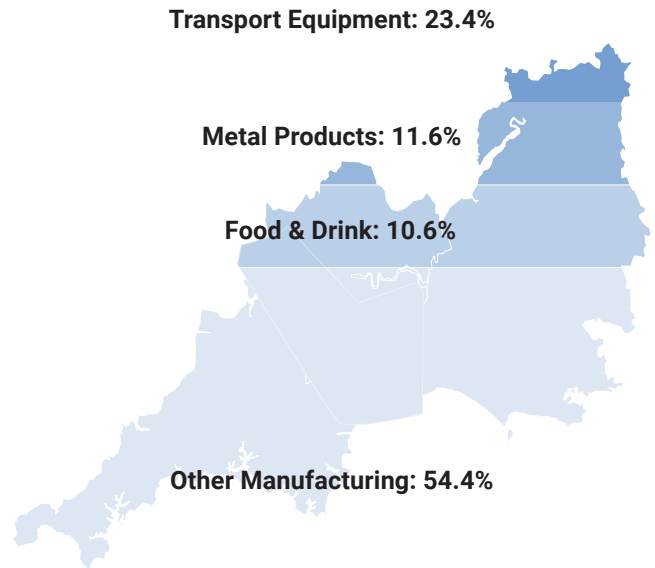
Source: ONS (2017)

EMPLOYMENT

- There were 227,000 manufacturing jobs in the South West in 2018 or 7.6% of the region’s total workforce.
- The number of manufacturing jobs in the region has declined by 6,000 units in the last year.

EXPORTS

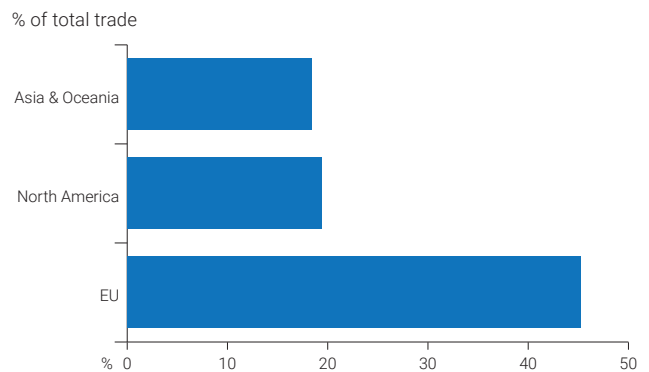
- In 2018, the South West accounted for 6.3% of the UK’s manufactured exports.
- The region has a low exposure to the EU market compared to the other regions, with only 45.2% of exports destined for the bloc.
- North America is the second largest market, with a little less than a fifth of the exports, followed by Asia with 18.4%. Middle East and North Africa is also an important market with exports at 9.9%.



PRODUCTIVITY

- The South West’s total productivity is the fourth best in the UK at 90.5% the national average.
- Manufacturing productivity in the region is at 94.4% the UK average.

Top 3 Export Markets for South West’s Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN THE SOUTH WEST

Last year the South West's performance was the best proxy for the whole country. Indeed, almost all of the average balances were in line with the UK average. The only two true outliers were those of domestic orders, where the South West's performance fell and was far below the UK average, as opposed to employment which, at the time, was the most positive amongst all other regions in terms of both growth and overall balance.

OUTPUT AND ORDERS BROADLY IN LINE WITH LAST YEAR'S PERFORMANCE

EXPORT ORDERS PERFORMED BETTER THAN DOMESTIC ORDERS IN LAST YEAR

INVESTMENT INTENTIONS BALANCE VERY SIMILAR TO THE ONE RECORDED LAST YEAR

RECRUITMENT PLANS IMPROVED TO THE HIGHEST UK LEVEL

AVERAGE CONFIDENCE UP BUT STILL LOWER THAN UK AVERAGE

As was the case in almost every region, South West companies say they intend to hire more employees but are not investing in machinery. The strong growth in employment intentions – which peaked at the end of 2018 – did not correspond to a healthy growth in investment which remained stable from last year – a sign that uncertainty is putting businesses off spending money that can't easily be recouped in a downturn.

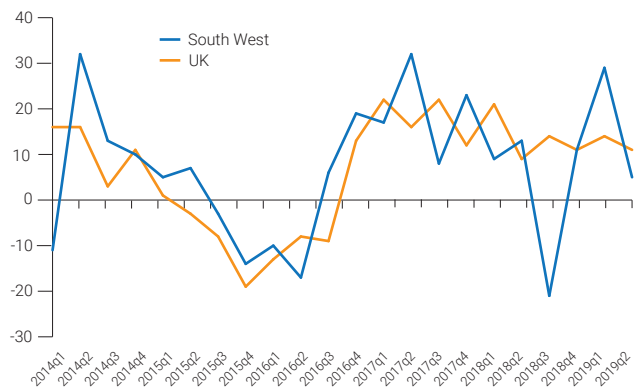
Developments in employment and investment were the reflection of a positive but stable output and of orders remaining in line with the UK average, despite the aforementioned weakness in the domestic market.

Looking at the structure of the manufacturing sector in the South West, transport equipment remains at the top, accounting for almost one quarter of total manufacturing production. The region's economy continues to benefit from a strong aerospace sector, which is also crucial for the region's second most important manufacturing sector – metal products. The top three is completed by food & drink, which accounts for a tenth of total production.

Thanks to the stable output picture the region's business confidence is catching up compared to what was reported at the overall UK level. The index at 6.47 is still lower than the UK average (6.62) but it was the top improver of the year, and in the second quarter of 2019 was the third highest in the entire country.

UK orders in the South West showed signs of volatility

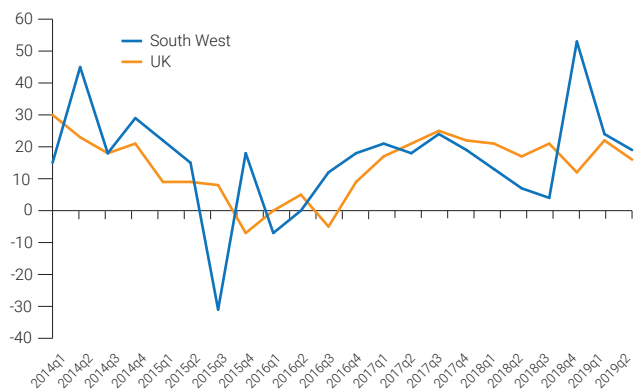
% balance of change in domestic orders (past three months)



Source: Make UK Manufacturing Outlook Survey

Employment balances in the South West were higher than the UK average

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



Source: Make UK Manufacturing Outlook Survey

WEST MIDLANDS

The West Midlands makes up 7.2% of total UK output with manufacturing accounting for 16.5% – the third largest share of any region. Thanks to the important automotive cluster, the region’s largest manufacturing sector is transport, accounting for over a third of the manufacturing output, followed by sectors in its supply chain – metal products and rubber & plastics.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 7.2% | – |
| Manufacturing | 11.8% | 16.5% |
| Construction | 7.3% | 6.2% |
| Services | 6.6% | 72.8% |
| Other production | 7.1% | 4.5% |

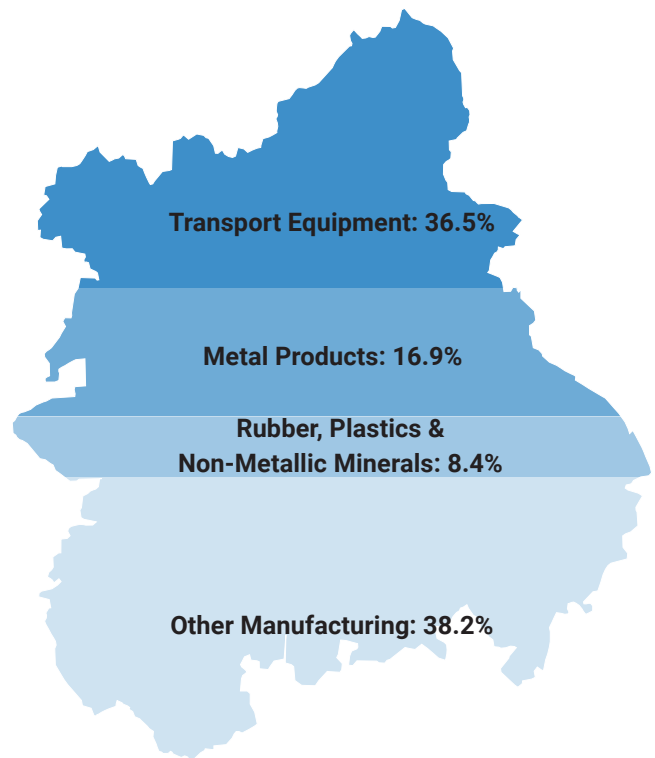
Source: ONS (2017)

EMPLOYMENT

- There were an average of 317,000 manufacturing jobs in the region in 2018, accounting for 10.7% of the region’s total workforce.
- Since last year, manufacturing jobs were almost untouched with only a minimal difference compared to the 318,000 reported in 2017.

EXPORTS

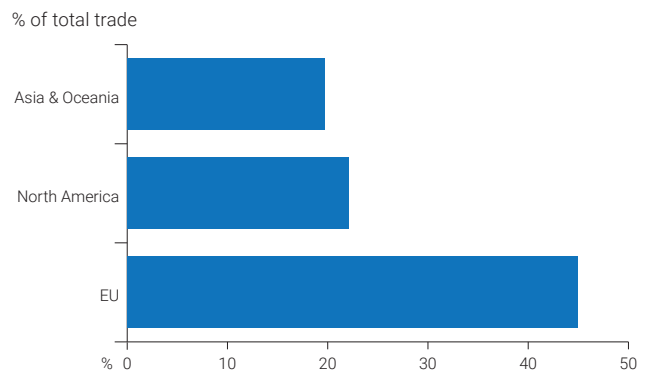
- The West Midlands accounted for 9.9% of all UK manufactured exports in 2018, the second highest of any region.
- The region has one of the lowest exposures to the EU market of any region, with only 44.9% of exports heading across the Channel or Irish border.
- The region has one of the highest exposures to both the North American and Asian markets.



PRODUCTIVITY

- The West Midlands’ total productivity is 87.7% of the UK average, ranking seventh out of 10 regions.
- Manufacturing productivity for the West Midlands is 93.3% of the national average.

Top 3 Export Markets for West Midland’s Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN THE WEST MIDLANDS

Output performance in the West Midlands was volatile over the last few quarters but still followed a trend similar to the whole UK. Orders were also in line with the UK average, however, these are bi-furcating in terms of what is happening on the domestic and export front. The former saw a slight acceleration, in particular in the second quarter of 2019. The latter, export orders, instead hit the brakes pretty hard despite also reporting a good balance in Q2 2019.

OUTPUT WAS VERY VOLATILE BUT FOLLOWING THE UK TREND

ORDERS WERE IN LINE WITH THE UK AVERAGE BUT EXPORTS WENT DOWN SHARPLY

AVERAGE INVESTMENT INTENTIONS IMPROVED SINCE LAST YEAR'S DROP

AVERAGE RECRUITMENT INTENTIONS HIGHER THAN UK AVERAGE

BUSINESS CONFIDENCE DOWN BUT STILL HIGHER THAN MOST OF THE REGIONS

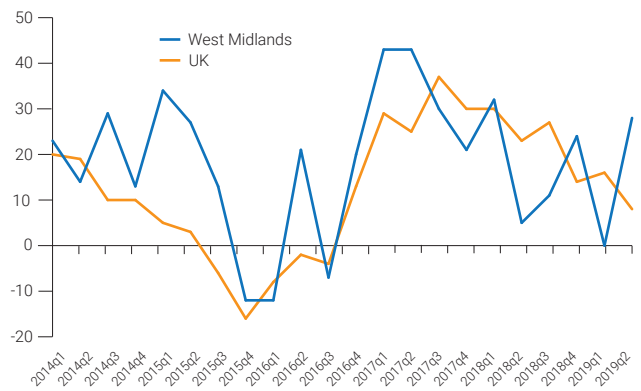
The bifurcation between investment and recruitment intentions is very clear in the West Midlands. Employment balance was indeed the second highest in the UK hovering around a solid 24 balance, whereas investment was at 12 with very volatile behaviour.

Manufacturers are currently preferring to hire employees instead of investing in equipment and this appears to be a very strong pattern in the West Midlands because its structure is skewed towards a sector facing a lot of uncertainties related to Brexit, the European slowdown and the end of a long business cycle. Indeed, the region's top manufacturing sector is transport equipment which accounts for more than 36% of the total. The region is the UK hub for automotive and the difficult time the sector is facing right now has impacted on the decision making of important suppliers such as those who make metal products (17% of West Midlands manufacturing output) and rubber and plastic (8% of manufacturing output). Official numbers show a very steep decline in automotive production started in the second half of 2018 and the sector is expected to contract the most amongst manufacturing subsectors according to our latest *Manufacturing Outlook*.

Despite the strong uncertainty and a downward trend, business confidence has not collapsed in the last four quarters with the index still slightly over the UK average.

West Midlands orders volatile but following UK average

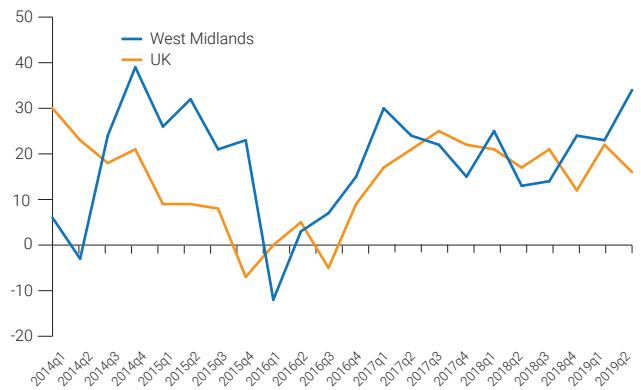
% balance of change in total orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Employment balance growing since the beginning of 2018

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

YORKSHIRE & HUMBER

Yorkshire & Humber is the UK's fifth largest region in terms of total output. Manufacturing accounts for 15.6% of the region's output, firmly above the UK average. The region's largest manufacturing sector continues to be food & drink which accounts for almost one quarter of the total, followed by metals, and then the chemicals sector.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 6.3% | – |
| Manufacturing | 9.6% | 15.3% |
| Construction | 6.1% | 5.9% |
| Services | 5.9% | 74.7% |
| Other production | 5.5% | 4.0% |

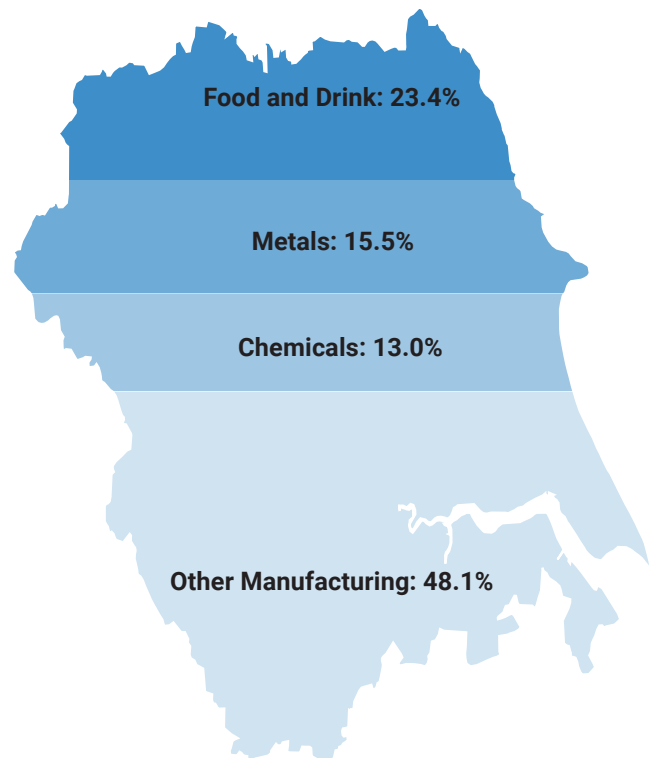
Source: ONS (2017)

EMPLOYMENT

- In 2018, there was an average of 308,000 manufacturing jobs in Yorkshire & Humber, accounting for 11.1% of the region's workforce.
- The number of jobs in manufacturing in Yorkshire & Humber grew by 20,000 units between 2017 and 2018.

EXPORTS

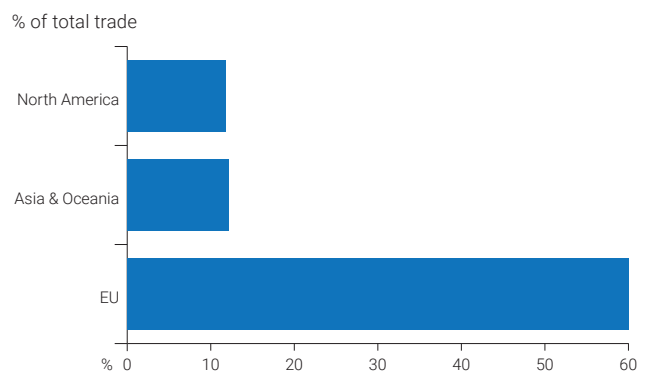
- In 2018, Yorkshire & Humber accounted for 5.4% of the UK's goods exports.
- The EU accounts for 60.0% of the region's exports, the highest in England and second only to Wales and Northern Ireland in the UK.
- The Yorkshire & Humber top 3, in terms of exports markets, is completed by Asia and North America both accounting for about 12% of the total exports.



PRODUCTIVITY

- Yorkshire & Humber's total productivity is 85.7% of the UK average and is ranked eighth amongst UK regions.
- The manufacturing productivity gap against the UK average is at 88.4%, the second lowest in the UK.

Top 3 Export Markets for Yorkshire & Humber's Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN YORKSHIRE & HUMBER

The manufacturing sector output in Yorkshire & Humber remained strong in the past year with a balance second only to the one recorded in the South East & London region. Impressive is the Yorkshire & the Humber record of not a single quarter of negative balances since mid-2016. Despite the strong result, output balance has started to trend down since the peak registered at the end of 2018.

OUTPUT BALANCE WAY OVER THE UK AVERAGE BUT TRENDING DOWN

ORDERS REMAINED STRONG BUT LOWER THAN A YEAR AGO

RECRUITMENT ACTIVITIES REMAINED ABOVE THE UK AVERAGE

INVESTMENT BALANCE DOWN FROM A YEAR AGO

CONFIDENCE INDICATOR SHARPLY CONTRACTING AND BELOW UK AVERAGE

The very good performance reported a year ago in terms of orders slowed down a little, moving from 32 to 24 due to a decline in export demand. The region is very exposed to EU trade with 60% of goods exports heading to the European mainland or Ireland and it is likely that the uncertainty over the UK's future trade landscape with the EU might be behind this slowdown.

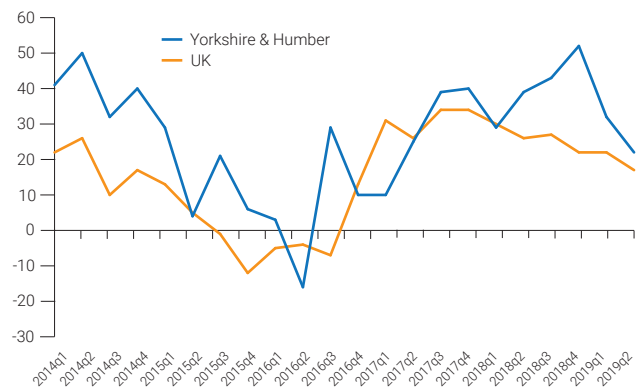
Employment and investment intentions also decelerated with the balance still positive but downward trending. Not surprisingly, average recruitment activities were way higher than investment intentions with a balance second only to the South West.

Almost a quarter of the regional manufacturing output is related to the largest UK manufacturing sector - food & drink – with second and third place confirmed, as per a year ago, as metal products in second and chemicals completing the podium.

Despite the positive results in terms of output and orders, the slowdown which came from the end of stockpiling activities, together with the uncertainty over the trade situation with the EU, both pushed down business confidence. Confidence moved from a level slightly over the UK average to one significantly below the one reported in the other regions, with only Scotland being more pessimistic about the future.

Output in the region had a strong year but it is now trending down

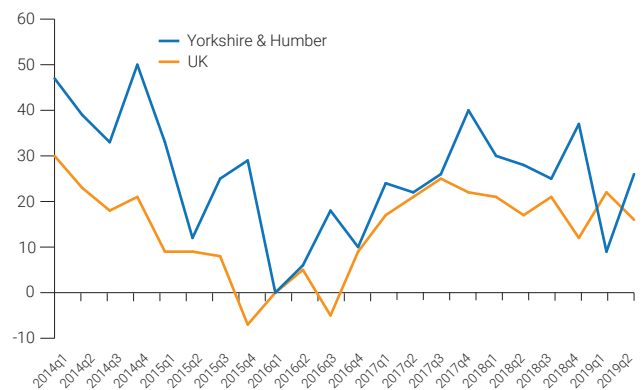
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Employment in Yorkshire & Humber continues to be over UK average

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

SCOTLAND

If taken as a region (rather than a nation), Scotland comes in yet again as the fourth largest output area in the UK. Manufacturing is responsible for 10.5% of that output, only slightly above the UK average. Scotland's largest manufacturing sector is by far food & drink which accounts for more than a quarter of the total sector output. It is then followed by metal products and by wood, paper and printing manufacturing activities.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 7.5% | - |
| Manufacturing | 7.9% | 10.5% |
| Construction | 7.0% | 5.7% |
| Services | 7.1% | 75.1% |
| Other production | 14.2% | 8.7% |

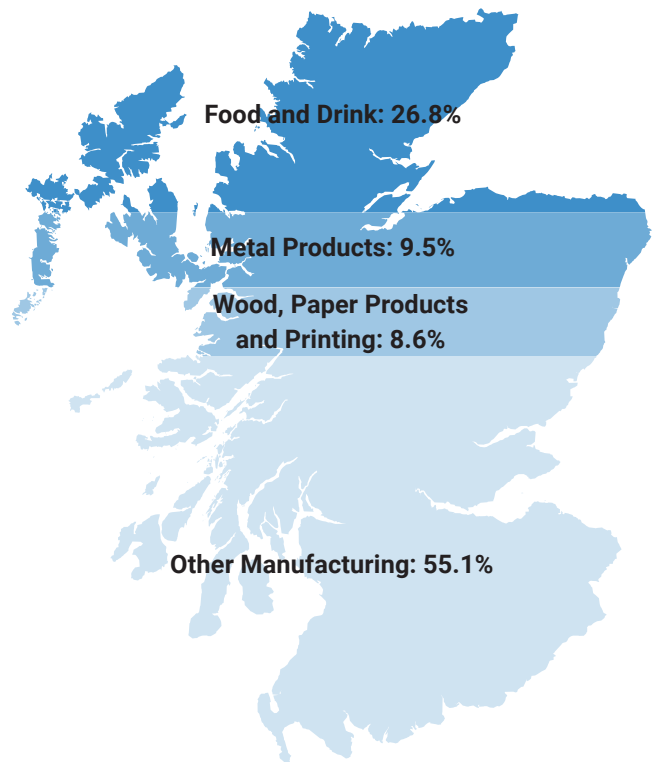
Source: ONS (2017)

EMPLOYMENT

- There were 182,000 manufacturing jobs in Scotland on average in 2018, accounting for 6.7% of the region's total workforce.
- The number of manufacturing jobs in the region has slightly contracted since 2017 when the sector was able to provide an average of 189,000 jobs.

EXPORTS

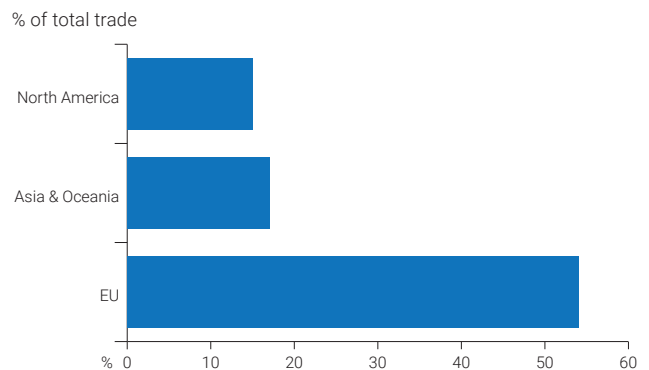
- In 2018, Scotland was responsible for 9.4% of total UK exports of goods.
- 54.1% of exports travel to the EU, above the national UK average
- Outside of Europe, 17% of the Scotland's exports go to Asia & Oceania, and 15% head towards North America.



PRODUCTIVITY

- Scotland is confirmed as the second most productive UK region at 97.4% of the national average.
- The region is also second in terms of manufacturing productivity with a score well above the national average at 114.3%.

Top 3 Export Markets for Scotland's Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN SCOTLAND

This edition of *Regional Manufacturing Outlook* sees Scotland as the bottom performer in both output and orders. Output balance was already the weakest in the UK a year ago, however, despite a further decline, it is still in positive territory with a balance of 13. The positive number is also a reflection of balances picking up in the first two quarters of the year thanks to a boost from Brexit related stockpiling activities.

SCOTLAND'S OUTPUT CONFIRMED AS THE WEAKEST IN THE UK

ORDERS DOWN SHARPLY HITTING THE LOWEST LEVEL REGISTERED IN THE COUNTRY

THE WEAK ORDER POSITION WAS RELATED TO A DROP IN BOTH DOMESTIC AND EXPORT MARKETS

DESPITE OUTPUT AND ORDERS, EMPLOYMENT AND INVESTMENT REMAIN FAIRLY POSITIVE

AVERAGE CONFIDENCE LEVEL WAS THE LOWEST IN THE UK

The last four quarters saw orders hitting negative territory a few times in both foreign and domestic markets. However, total orders in the first two quarters have aligned with the UK average trending up after a period of sharp falling.

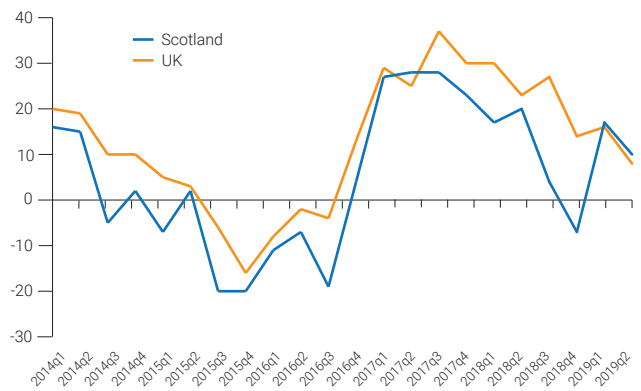
Despite the lowest output and orders balance recorded in any UK area, employment and investment balances remain fairly positive. Recruitment activities were at the same balance level as a year ago with only a quarter in negative territory since mid-2016. If employment balance was more positive than expected but still under the UK average, investment intentions remained stable and – thanks to the decline reported in the other regions – was reported at the top of this special chart. Investment has not shown a negative sign since the aftermath of the EU-referendum in 2016.

Despite the importance of oil and the regional fortunes attached to it, Scottish manufacturing also has a significant focus in other sectors. The major manufacturing industry remains food & drink, accounting for 27% of the total followed by metals in second, and wood, paper & printing in third place.

The mixed messages coming from the various indicators and the general atmosphere of uncertainty had a large impact on our business confidence indicator with Scotland dropping to last place with an index moving from 6.5 to 5.7.

Orders picking up after being constantly lower than UK average

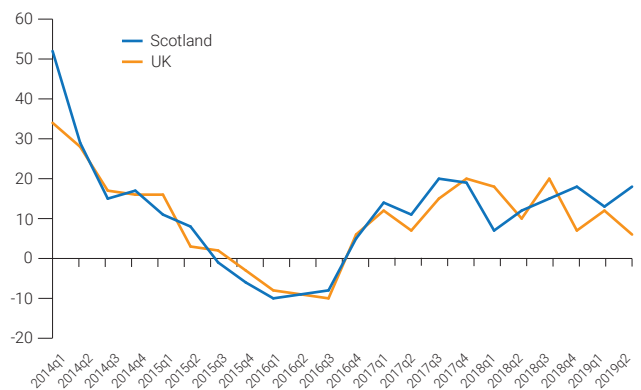
% balance of change in total orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Investment intentions in Scotland were more positive than the UK average in the last 3 quarters

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



Source: Make UK Manufacturing Outlook Survey

WALES

Wales is the second smallest area in Great Britain in terms of total output. Manufacturing has a very strong presence in the region and it accounts for 17.5% of the region’s output, the largest of any region. Transport equipment is the largest manufacturer in Wales with 15.9% of total output and it is closely followed by food & drink at 15.0%. The top 3 is completed by chemicals which accounts for a little less than 11%.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 3.4% | – |
| Manufacturing | 5.9% | 17.5% |
| Construction | 3.2% | 5.7% |
| Services | 3.1% | 71.1% |
| Other production | 4.2% | 5.6% |

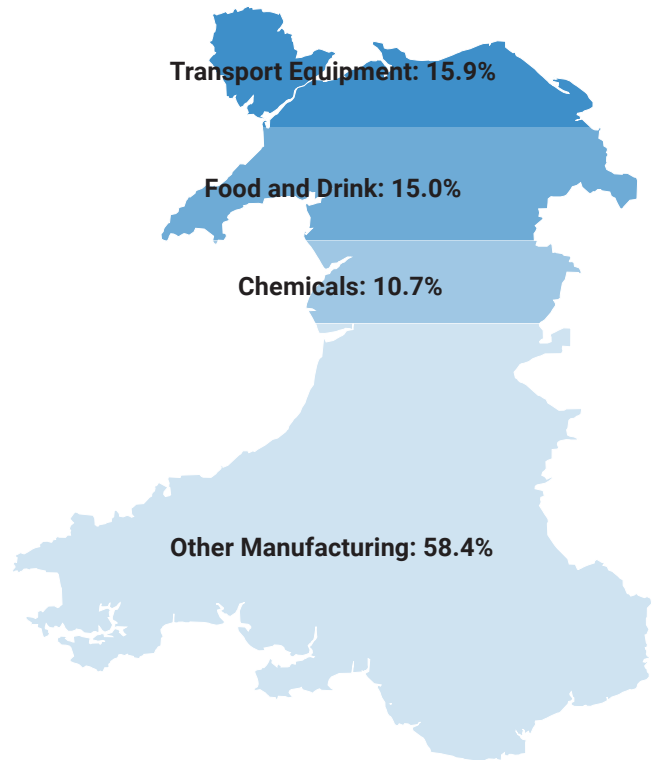
Source: ONS (2017)

EMPLOYMENT

- In 2018, there was an average of 151,000 manufacturing jobs in Wales, accounting for 10.3% of the country’s total workforce.
- The number of jobs in 2018 grew by 5,000 compared to the previous year, but still slightly lower than the 154,000 units recorded in 2016.

EXPORTS

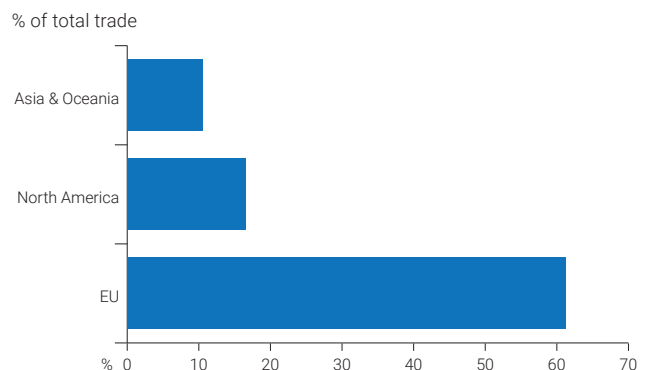
- Wales accounted for 5.1% of total goods exports. This is the third lowest performance in the UK.
- Wales is confirmed to be the most reliant area in the UK on trade with Europe. The EU is the main Welsh market with almost two thirds of its exports headed to the bloc.
- North America follows as the next top export destination with 16.6% of goods travelling across the Atlantic Ocean. Asia completes the top 3 with a share of 10.5%.



PRODUCTIVITY

- As was the case in our previous *Regional Manufacturing Outlook*, Wales is the least productive region in the UK, with productivity at 82.6% of the national average.
- The situation is much better in terms of manufacturing productivity. Here Welsh productivity is in line with UK average scoring 100.3%.

Top 3 Export Markets for Wales’ Goods



Source: ONS (2018)

MANUFACTURING PERFORMANCE IN WALES

Manufacturing in Wales continued to register positive output balances in this year's *Regional Outlook*. The country's output balance outperformed that of the UK average but showed marked signs of volatility with several peaks and troughs. Orders were also very positive with a balance growing from an already strong position giving Wales the title of best performer and best improver of the year in terms of orders. In this case, domestic orders made the difference having doubled in size since last year. On the other hand, export orders contracted, but nevertheless remained over the national average.

OUTPUT CONTINUED TO BE AMONGST THE MOST POSITIVE IN THE UK

ORDERS SPIKED UP THANKS TO FAST GROWING DOMESTIC ORDERS

EMPLOYMENT BALANCE REMAINED STABLE AND LOWER THAN THE UK AVERAGE

AFTER THE EXTREME GROWTH REPORTED A YEAR AGO, INVESTMENT INTENTIONS COLLAPSED TO NEGATIVE TERRITORY

BUSINESS CONFIDENCE SHARPLY DOWN AND LOWER THAN UK AVERAGE

We are not living in normal times, and a clear sign of this is that the recent boom in orders is not reflected where it should most obviously be seen – in employment and investment. The employment balance has remained at the same level as a year ago but it has followed a very peculiar path to get there. Indeed, after a spike at 50 in the third quarter of 2018, employment hit the zero bar for three quarters in a row.

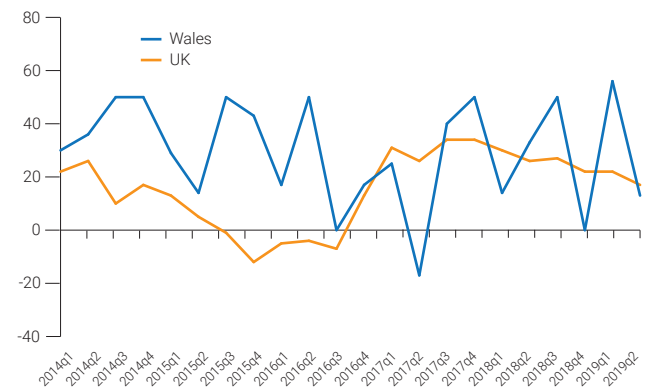
The situation in investment is even worse with the yearly balance in negative territory at -6 after being the most positive region or nation just one year ago with a score of 49. It is clear that uncertainty is stopping manufacturers from investing and this seems to be confirmed from the sharp drop in business confidence which, similarly to investment, dropped from the top of the table to below the UK average.

Transport equipment continues to be the country's largest sector with a share of 15.9%, down from 18.4% last year. The presence of aerospace manufacturing helped boost the Welsh economy in the recent period and contributed positively to the fourth largest sector in the region – metals – which accounts for 10% of Welsh manufacturing.

The second largest sector remains food and drink, which increased its share from 14.4% to 15.0%, with third place claimed by chemicals accounting for 10.7%.

Output balance continues its volatile path

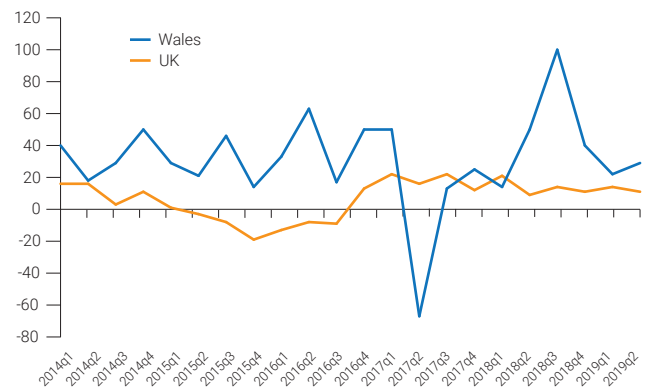
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Domestic orders were much stronger than UK average

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



Source: Make UK Manufacturing Outlook Survey



Learning while earning – Marshall Apprentice

Marshalls-080513-434, taken by Alan Davidson in Cambridge. Commissioned by Marshall Aerospace and Defence Group. Winner in the Professional Next Generation category of the Make UK Photography Competition 2018.



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The data used in this survey have been provided by UK manufacturers including members of Scottish Engineering 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



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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

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