MAKE uk
The Manufacturers' Organisation

MANUFACTURING OUTLOOK

QUARTER 4 2025

With support from:

Scottish Engineering and Manufacturing NI

In partnership with BDO

Foreword

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The Government's latest budget brought with it a much-needed calm to the industry following a period of uncertainty generated by a merry-go-round of news that seemingly revealed key aspects of the upcoming statement ahead of time. However, quelling the industry's anxiety was not a result of the Budget being better than hoped, but rather it not being as challenging as the markets had feared.

This reality mirrors the movement of manufacturing activity in the second half of this year, as industrial performance has outperformed market expectations according to our latest survey data. In addition, manufacturers' own expectations for this quarter were not met, suggesting that more growth should have been achieved. However, we should review the overconfidence of manufacturing businesses through a positive lens here. Despite the rising tax burden and incoming increases in costs, manufacturers are focused on growth.

Manufacturers across the UK tell us that their production levels remain strong, though slightly weaker than in the third quarter of this year. The bulk of this growth arose from the domestic market as order books returned following a temporary scare that shook the automotive sector and any businesses associated with its supply chain. Government intervention alleviated this challenge swiftly, demonstrating how public support can protect jobs in times of crisis.

International trade activity continues to perform as experienced exporters grapple with the impact of US tariffs on bilateral trade relations. However, we are concerned that manufacturers are telling us that export performance will be weaker at the start of the new year, when typically, it is strong. This is another example where it is likely that the reality will not be as challenging as people think, but we must be cautious in our approach to supporting businesses. The Government will need to implement its unveiled Trade Strategy, alongside the Industrial Strategy, quickly to cement the UK as a leading exporter, as well as using the funding allocated for UK Export Finance to bring innovative businesses to the front lines of trade. Just as manufacturers are working to deliver growth, the policy levers must be there to enable it.

One area we know will be a challenge in 2026 will be labour. There are over 40,000 vacancies in the manufacturing sector, costing the UK around £4bn in lost potential output. This is a crisis. The Government announced measures to tackle the NEET challenge, where over 1 million young people are not in employment, education or training. This includes over £700m for a Youth Guarantee Scheme to give young people access to work placements, as well as changes to the Apprenticeship Levy (to be renamed the Growth & Skills Levy), which will require businesses to co-fund apprenticeships for over-25s. This may reduce our skills challenges long-term, but it does not fix the problem today, where the unemployment rate has already reached its highest level since the pandemic era.

The manufacturing sector cannot grow without people. Investment in capital and automation can improve productivity only when in combination with skilled workers, a plethora of our own research shows this time and time again. It is time we recognise this and put our efforts into fixing the skills challenge, incentivising real investment in productivity and updating our infrastructure to get our energy prices down. The formula for a successful manufacturing sector is far simpler than we would like to admit, but our inability to value future rewards at today's expense means that we continuously misjudge the efforts needed to set us on a path to growth.

From next year, the countdown to 2035 will begin for the Industrial Strategy. In it, we must remember that whilst the Government sets the conditions for businesses to operate, the success of this strategy will be a partnership between the public and private sector. The kind where businesses will be the channel through which economic growth is delivered to the everyday person.

Headlines

Make UK's Q4 2025 *Manufacturing Outlook* report, published in partnership with BDO, provides an overview of the current state of UK manufacturing. The latest quarter's results highlight resilience in the sector as manufacturers report positive balances for key metrics. However, there has been a marked slowdown in recruitment activity, indicating that rising labour costs are starting to bite. International trading conditions also remain challenging as the North American region struggles to re-establish itself as the second-best market for UK business. As the latest budget brought little in the way of positive news for the sector, it is not yet known how investment intentions will be impacted as government ambitions for the Industrial Strategy are tested from 2026.

The latest output balance fell from +25% to 13%, indicating there has been a moderate decline in the share of manufacturers reporting higher production in Q4. However, overall, the result is positive, and is the second-best figure of the year. Additionally, it is great for the industry that the short-term slowdown across the automotive supply chain due to a cyber attack did not materialise as a genuine decline in activity, which suggests the sector successfully rebounded. The balance for total orders produced a similar result, and a similar slowdown, reporting at +11%, down from +16%.

The slowdown in total orders is due to a modest slowdown in the balance reporting growing exports, which fell from +23% to +20%. The performance of UK orders, however, has improved substantially from +12% to +20% indicating that the domestic market is entering a bullish period, whilst exports may be entering a bearish period. This can be seen more strongly in the future expectations set by manufacturers for order performance, with the sector forecasting the balance for export orders growth to drop to +4% in the first quarter of 2026, whilst businesses are more optimistic about the domestic market.

Indicator	Balance	Change	
Confidence	6.7	↓	Confidence remains high but has declined since last quarter
Output	13%	↓	Output volumes growth positive
UK orders	20%	↑	Domestic trade improves
Export orders	20%	↓	Export orders strong but growth slowed marginally
Employment	3%	↓	Employment growth slowed markedly
Investment	19%	↓	Investment intentions remain strong and positive

Source: Make UK Manufacturing Outlook Survey

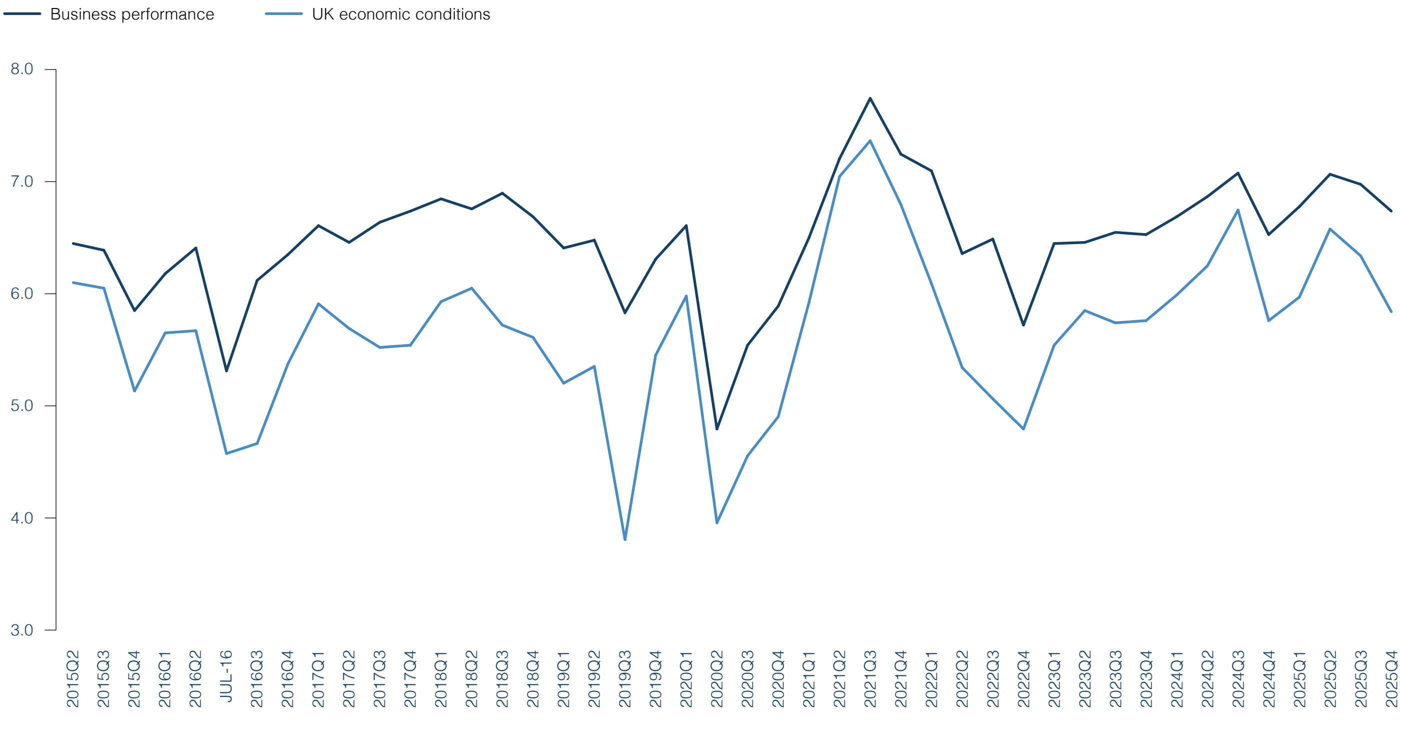
The balance for employment levels declined sharply from +15% to +3%, indicating a marked contraction in recruitment activity. Manufacturers frequently cite the increasing cost of labour as the primary cause, which has already led to the official unemployment rate reaching levels not seen since the pandemic-induced lockdowns. The upcoming increases in the minimum wage and employment rights may impact this further in 2026. Investment intentions, on the other hand, remain strong though down slightly from +24% to +19%. This suggests that manufacturers intend to continue investing, but it is unclear how potential increases to taxes, such as business rates, or changes to capital allowances, such as Writing Down Allowances, will impact total investment activity over the next 12 months.

Movement in prices and margins is somewhat surprising. The balance for UK and Export prices continues to indicate a stabilisation in material costs, enabling manufacturers to raise prices at a lower rate. However, profit margins have improved substantially, meaning that businesses are performing well within a difficult economic environment.

Manufacturers remain positive in their expectations, albeit their average optimism relative to last quarter is down slightly. Most notably, confidence in the wider economy has reached its lowest level this year, suggesting a downward trend may be around the corner. It is important to emphasise that the data collection period slightly pre-dates announcements made in the Government's latest Autumn budget, and so the only metric that will not necessarily be reflective of today's sentiment is the confidence metric, and partially the investment intentions metric. All other metrics reflect actual performance and are not impacted by recent announcements.

Confidence dips marginally but remains very positive

Confidence in the next 12 months 1 = substantially worse, 10 = substantially better



Source: Make UK Manufacturing Outlook Survey

Output

Despite showing a reduced level compared to the previous edition of *Manufacturing Outlook*, output performance this quarter has been resilient, reporting higher than analysts expected, but more importantly, a little beneath what the sector itself expected as per its views in the previous quarter. Historically, the latest balance figure is near the long-run average.

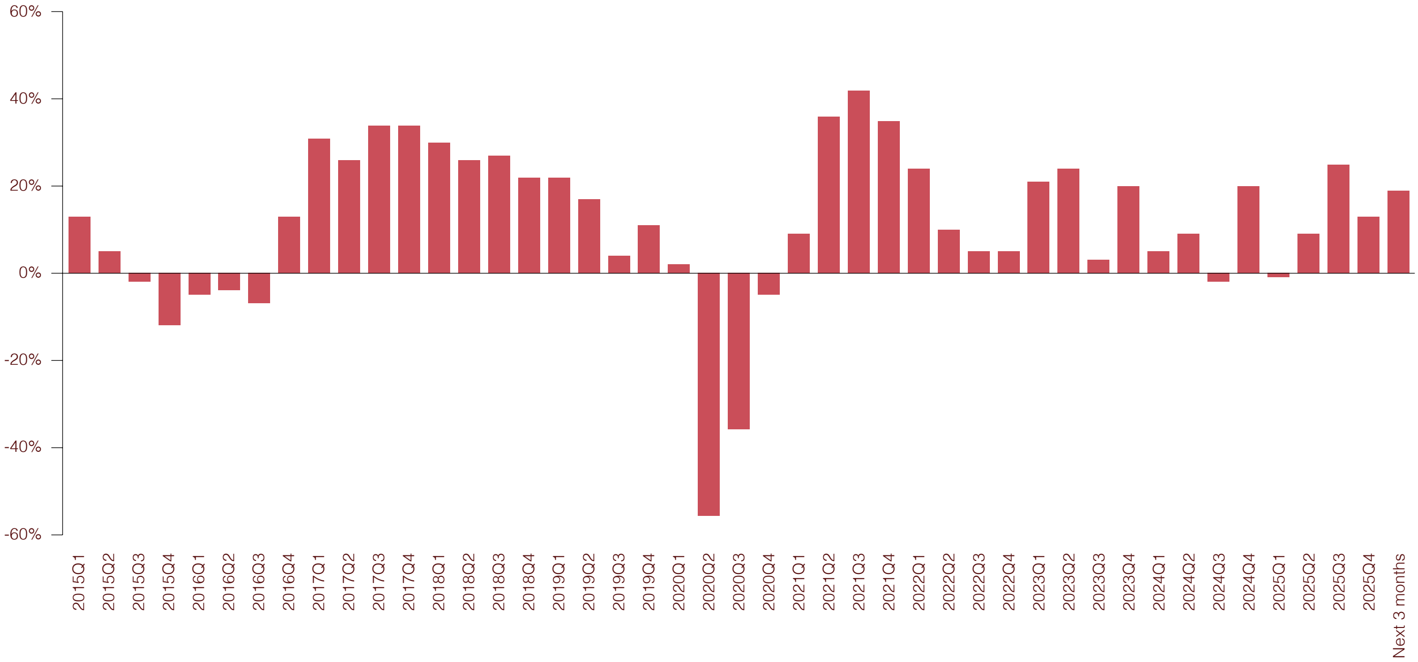
PAST 3 MONTHS	↓ 13%	NEXT 3 MONTHS	↑ 19%

The output balance for this quarter reported at +13%, approximately half as strong as last quarter's surprising +25%. The sector had expected to maintain this level of expansionary output when those ambitions were set three months ago, however, given the somewhat stationary business environment of the past quarter, it was largely expected that these ambitions would not be met. Critically, any expectations set before a fiscal event, such as the recent Autumn Budget, are likely to be subverted as businesses typically revert to a holding pattern of activity in a wait-and-see approach.

This quarter, when we analyse the data by company size, we see there is a mild skew towards smaller companies outperforming their larger counterparts as far as output performance is concerned. Those firms in the £0-£9m turnover category reported a balance figure for output of +17%, for the £10-24m category a figure of +7% and for the £25m+ category a figure of +11%. While the middle and larger categories demonstrate a roundly similar performance, it's notable that smaller companies slightly outperformed the rest of the market in this quarter.

The sector's next-quarter expectations have softened somewhat from their ambitious target last quarter, yet they remain expansionary. The sector has set Q1 2026 expectation of a balance of +19% for output, 6 percentage points above the latest performance, but well below the +26% that was expected last quarter. It's important to note that the research window for this edition was just a couple of weeks before the latest budget, and output expectations will have likely been impacted as a result, particularly in the short term. Nevertheless, if this positivity, albeit mild, is realised in the coming quarter, the sector will be making strides towards seeing what is already a diminutive growth forecast for 2026 improve.

Output volumes growth slows following last quarter's boost % balance of change in output



Source: Make UK Manufacturing Outlook Survey

Output Summary % balance of change

Sector	Past three months	Next three months
Basic Metals	33%	67%
Metal Products	-15%	-12%
Mechanical	18%	16%
Electronics	22%	56%
Electrical	32%	26%
Rubber & Plastics	60%	60%
TURNOVER		
£0-9m	17%	20%
£10-24m	7%	29%
£25m and over	11%	12%

Source: Make UK Manufacturing Outlook Survey

Orders

The latest balance for total orders growth fell from +16% to +11%, marking a general slowdown in the growth of orders between the previous and latest quarter. However, the sector remains in expansionary territory to end of the year, and this balance is the second most positive result of 2025. This suggests that the final six months of the year have been more expansionary than anticipated.

In the previous quarter, the boost in total orders was primarily attributed to a boost in exports. This was unsurprising given the disruption experienced in international trade because of US tariffs for much of this year. As it happened, the first two quarters of 2025 reported weak growth in UK exports as many countries worked to understand how the US position impacted them. In the third quarter, UK manufacturers restarted and backdated their exports where possible after new agreements were put in place to reduce the impact of tariffs and business-as-usual resumed.

Whilst export orders remain positive in the final quarter, the boost in the domestic market is relatively more interesting. The final quarter of this year experienced the aftermath and potential shock of the cyber attack on JLR, which paused the flow of orders across the automotive sector and its associated supply chain. According to the Cyber Monitoring Centre (CMC), initial estimates suggested over 5000 UK businesses were to be affected with a cost nearing £2bn. The true cost will be far lower as Government intervention in the form of a loan guarantee of up to £1.5bn helped to stabilise the sector. It is likely that the strong performance of the domestic market reflects the rebound in order books once automotive production restarted.

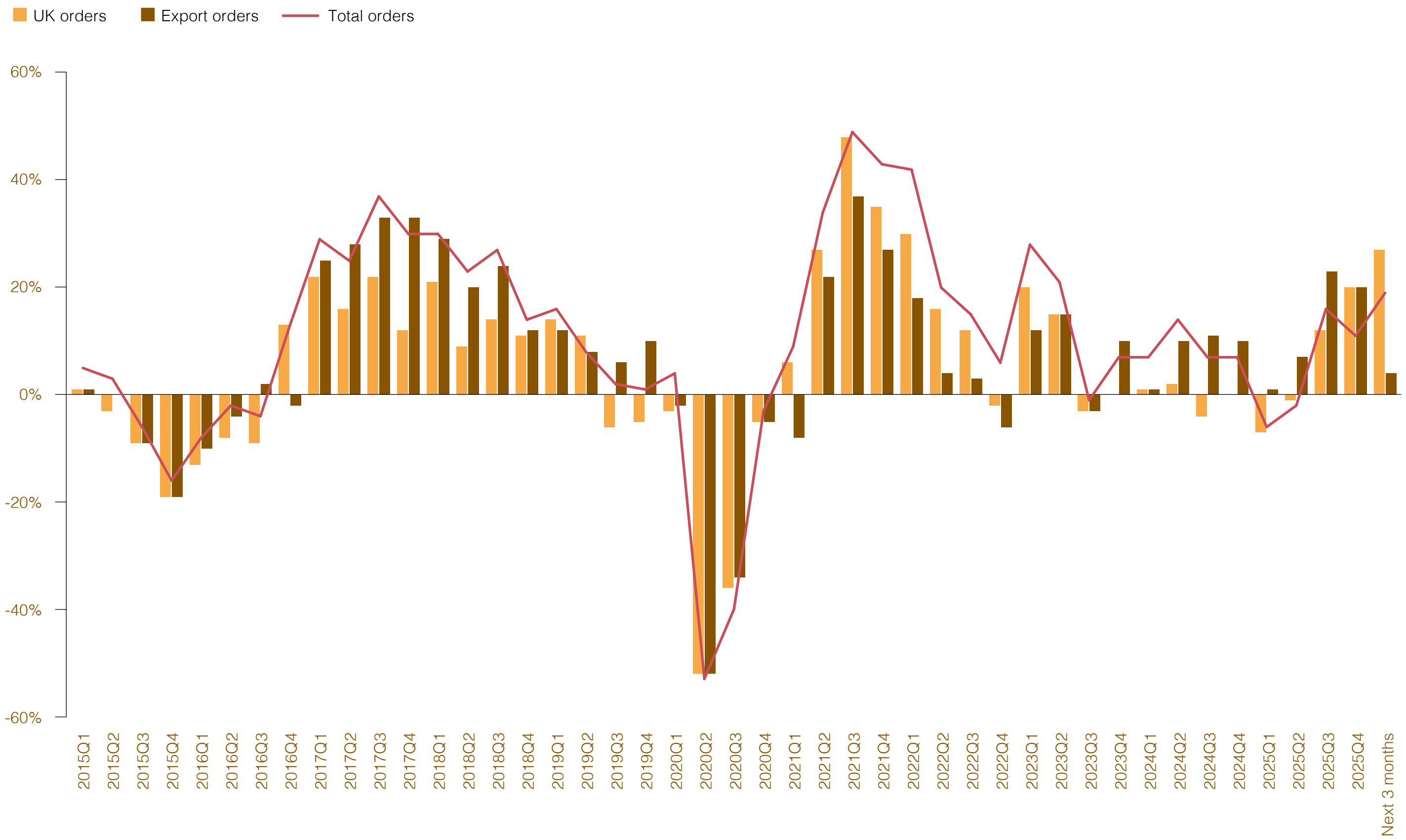
Manufacturers expect the pipeline of new projects in the domestic market to grow in the first quarter of 2026. However, surprisingly, only a balance of +4% of manufacturers expect export orders to improve next quarter. This is relatively a weak expectation for orders, as typically, manufacturing businesses take a more optimistic outlook.

UK ORDERS	PAST THREE MONTHS	↑ 20%	NEXT THREE MONTHS	↑ 27%
EXPORT ORDERS	PAST THREE MONTHS	↓ 20%	NEXT THREE MONTHS	↓ 4%
TOTAL ORDERS	PAST THREE MONTHS	↓ 11%	NEXT THREE MONTHS	↑ 19%

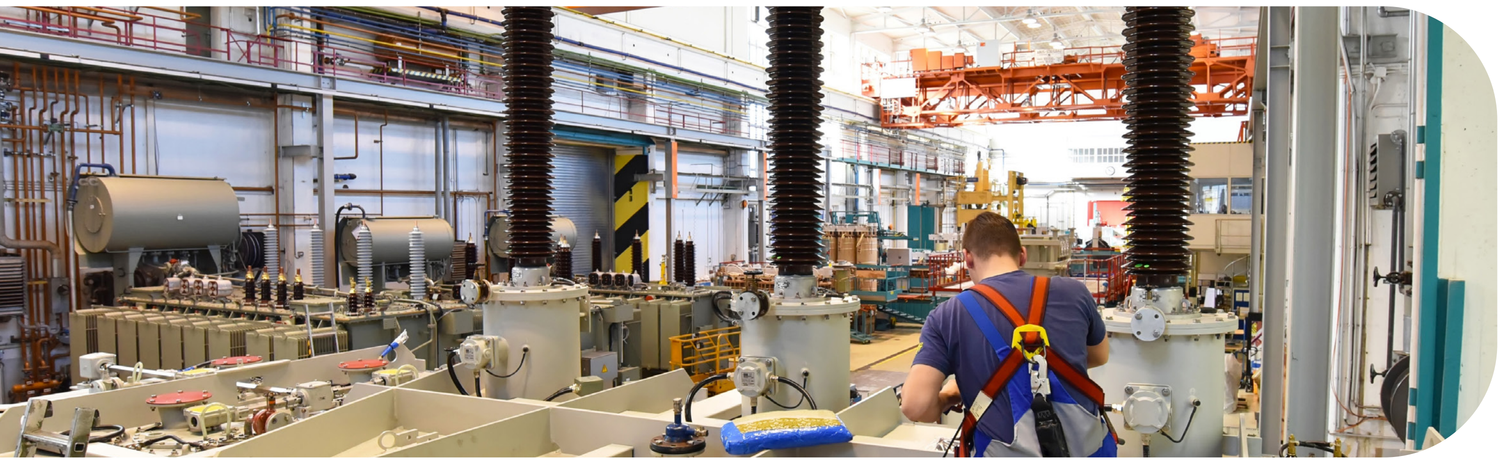
UK Orders

The balance for UK orders improved on last quarter's result, reporting at +20%, up from +12%. This is the highest balance for UK orders since 2023 Q1, where it also reported at +20%. The domestic market has performed poorly relative to its international counterpart for approximately two years before showing material signs of recovery that only began last quarter. The timing of this recovery is fortunate for the sector, given that it coincides with an increasingly challenging global climate for cross-border trade.

Expectations for exports weak for early 2026 % balance of change in orders



Source: Make UK Manufacturing Outlook Survey



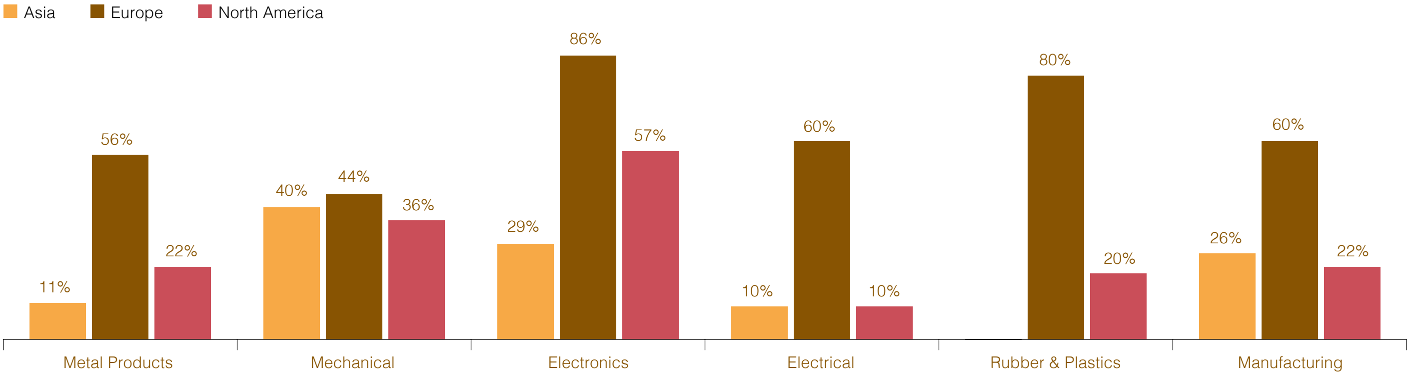
Export Orders

Export orders reported a balance of +20%, down from +23%. This marks a marginal reduction in the share of manufacturers reporting improved export orders. Whilst the slowdown is disappointing, exports remain strong in the UK. What is more concerning is the weak future expectations for exports, suggesting that manufacturers believe that growth in exports is due to end.

Currently, it is not yet known what the factors are impacting manufacturers' expectations for reduced exports, though our survey data suggests that the North America region remains a challenge to engage with since the introduction of global tariffs implemented by the current US administration. In 2025 Q2, the North America region dropped from the top three markets for demand for UK-made goods to fourth for the first time in the *Manufacturing Outlook* survey's history. Since then, it briefly returned to second place behind the EU last quarter, and now has dropped to third, suggesting its place is no longer as cemented as it used to be.

Asian markets are capturing US market share for UK demand

% of companies reporting positive demand conditions by market



Source: Make UK Manufacturing Outlook Survey

Orders Summary % balance of change

	UK ORDERS		EXPORT ORDERS		TOTAL ORDERS	
Sector	Past three months	Next three months	Past three months	Next three months	Past three months	Next three months
Basic Metal	33%	67%	50%	0%	33%	67%
Metal Products	5%	12%	0%	-28%	-5%	-8%
Mechanical	19%	25%	24%	2%	8%	12%
Electronics	78%	67%	63%	63%	33%	67%
Electrical	6%	32%	6%	5%	18%	17%
Rubber & Plastics	40%	100%	0%	100%	80%	100%
TURNOVER						
£0-9m	3%	27%	18%	36%	20%	32%
£10-24m	10%	21%	-9%	9%	2%	24%
£25m and over	11%	28%	24%	1%	7%	14%

Source: Make UK Manufacturing Outlook Survey

Employment & Investment

Contrary to the headline metrics of output and orders that have remained somewhat resilient following last quarter's surprising boom performance, employment activity this quarter has taken a sudden drop, now almost reporting a no-change figure, indicating that the sector has taken a hiatus from hiring activity over the past three months. Investment intentions have enjoyed less of a downgrade as they have remained robust in comparison.

The employment balance figure this quarter reported at +3%, a significant drop from the +15% reported last quarter. Despite the scale of this decline, it does remain in positivity, albeit marginally. Even though employment activity has dropped, on aggregate, it does not indicate a trend of job losses in the sector, and when considered by itself, drops in short-term employment activity aren't necessarily a harbinger or worrying performance.

In this instance, it has likely been driven by the uncertainty induced by the run-up to the budget, and in particular, the expectation of changes to employment law and minimum wage changes. Employment activity is historically very sensitive to uncertainty, as temporarily pausing hiring plans is a relatively accessible lever for businesses to use.

Perhaps this was already known to the sector, as the future three-month expectation for employment rises sharply to +22% for the next quarter. If this is to be realised, any cessation in hiring activity measured this quarter will be more than offset.

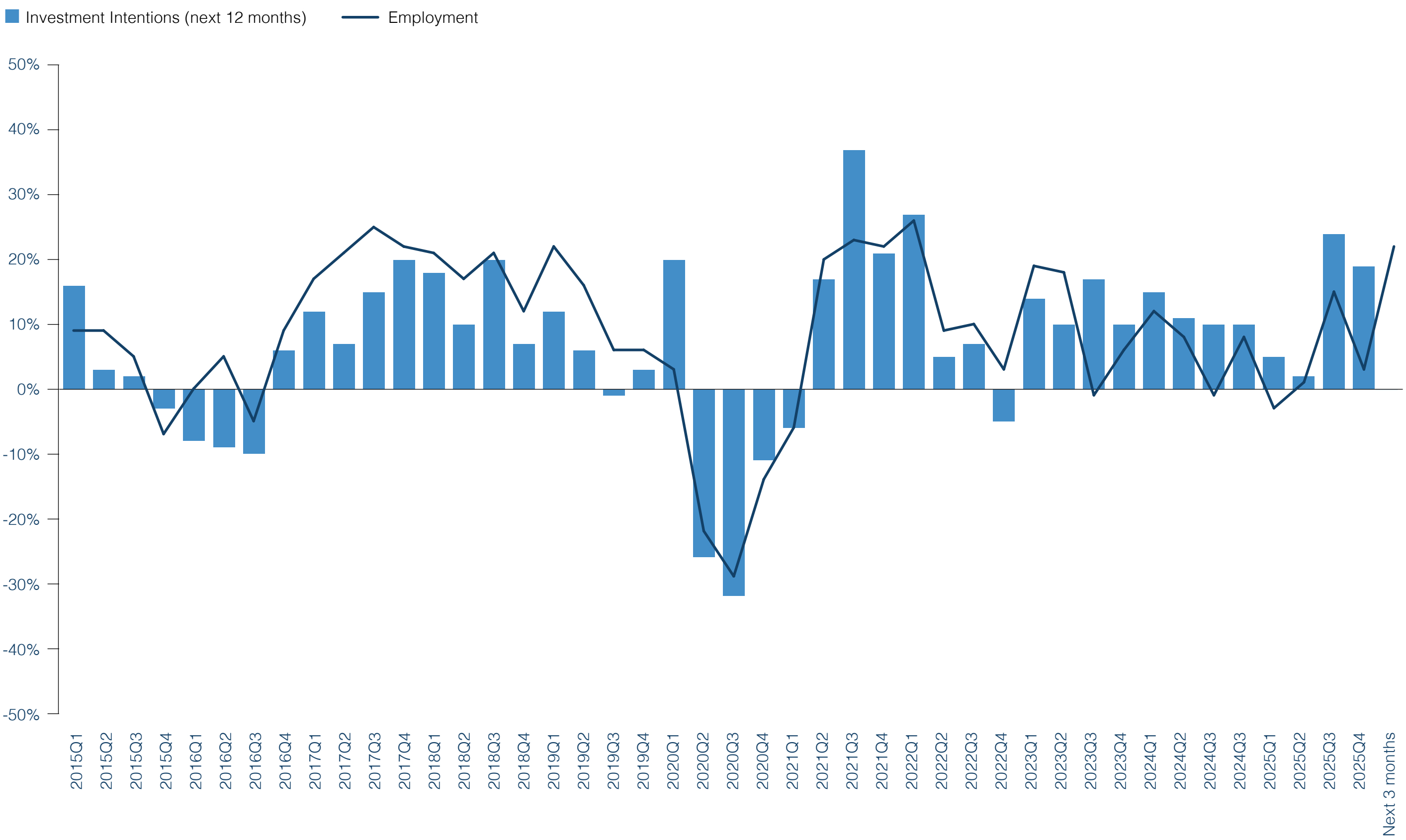
As of October 2025, there were 48,000 live vacancies in the UK's manufacturing sector, an increase from the 46,000 that were reported in the previous quarter's edition of this report. As a ratio, that is for every hundred jobs in the sector, 2.0 are vacant, up from 1.9 in last quarter's report.

The vacancy ratio data for the sector dates back to 2001, and the long-run average for the ratio, pre-pandemic (i.e. 2021), stands at approximately 1.8. Since the peak of 4.0 in late 2022, this ratio has been steadily reducing, albeit over a long period of time. Last quarter, we reported that when the ratio hit 1.9, it was the closest it has been since before the pandemic to reaching the long-run average historical level of 1.8. Now, conversely, this represents a possible inflexion point, with the ratio increasing away from that baseline, if only ever so slightly.

EMPLOYMENT	PAST THREE MONTHS	↓ 3%	NEXT THREE MONTHS	↑ 22%
INVESTMENT	NEXT TWELVE MONTHS	↓ 19%		

The investment intentions metric measures the sector's intentions to invest in the coming 12 months. It had been a concern that the investment sentiment, while very positive last quarter, would not endure. This is in particular due to the proximity of the Budget announcements that inevitably weigh significantly on future investment plans for British businesses. Given that, it is interesting that these investment intentions have remained as robust as they did. The balance figure for investment intentions reported at +19%, a five percentage point decline from the previous quarter. Despite this drop, this remains an elevated position for investment sentiment, being the highest balance figure reported since the start of 2022, the tail end of the post-pandemic 'bounce-back' period. Although high by recent standards, it is still a metric of future sentiment and not rendered investment, therefore, two consecutive quarters of heightened investment intentions do not necessitate actual capital expenditure yet.

Recruitment activity slows but investment intentions remain strong % balance of change



Source: Make UK Manufacturing Outlook survey

Employment and Investment summary % balance of change

	EMPLOYMENT		INVESTMENT
Sector	Past three months	Next three months	Next twelve months
Basic Metals	33%	33%	33%
Metal Products	-15%	-12%	4%
Mechanical	14%	28%	20%
Electronics	22%	56%	56%
Electrical	-11%	18%	11%
Rubber & Plastics	0%	40%	75%
TURNOVER			
£0-9m	3%	12%	16%
£10-24m	-5%	21%	17%
£25m and over	5%	17%	19%

Source: Make UK Manufacturing Outlook Survey

Prices & Margins

Following an interesting phenomenon in the prices data last quarter, which saw export price behaviour surge ahead of domestic pricing, a result likely driven by the trade disruptions associated with US tariffs, the relationship between export price setting behaviour and domestic pricing behaviour has settled back together, while overall seeing the net balance figures for these price increases cool.

Domestic price setting has come down to a balance figure that is the lowest since 2021, although only dropping marginally from what was reported last quarter. The larger change is seen in export price setting behaviour, which has cooled significantly when compared to last quarter.

The UK prices balance figure reported at +14%, down from the +15% reported last quarter. The export prices balance figure reported at +18%, which has fallen significantly by 11 percentage points from 29%. More importantly, the balance between UK pricing behaviour and export pricing behaviour has returned to a regular kilter, which can be readily observed in Chart 6.

Even though the balance figures for prices have cooled to levels, gradually, not seen since the pandemic, the sector expects price-setting behaviour to return to the stove in the coming quarter. UK prices and Export prices balance figures are expected to be +24% and +32% respectively, indicating that this lull in pricing behaviour is to be short-lived.

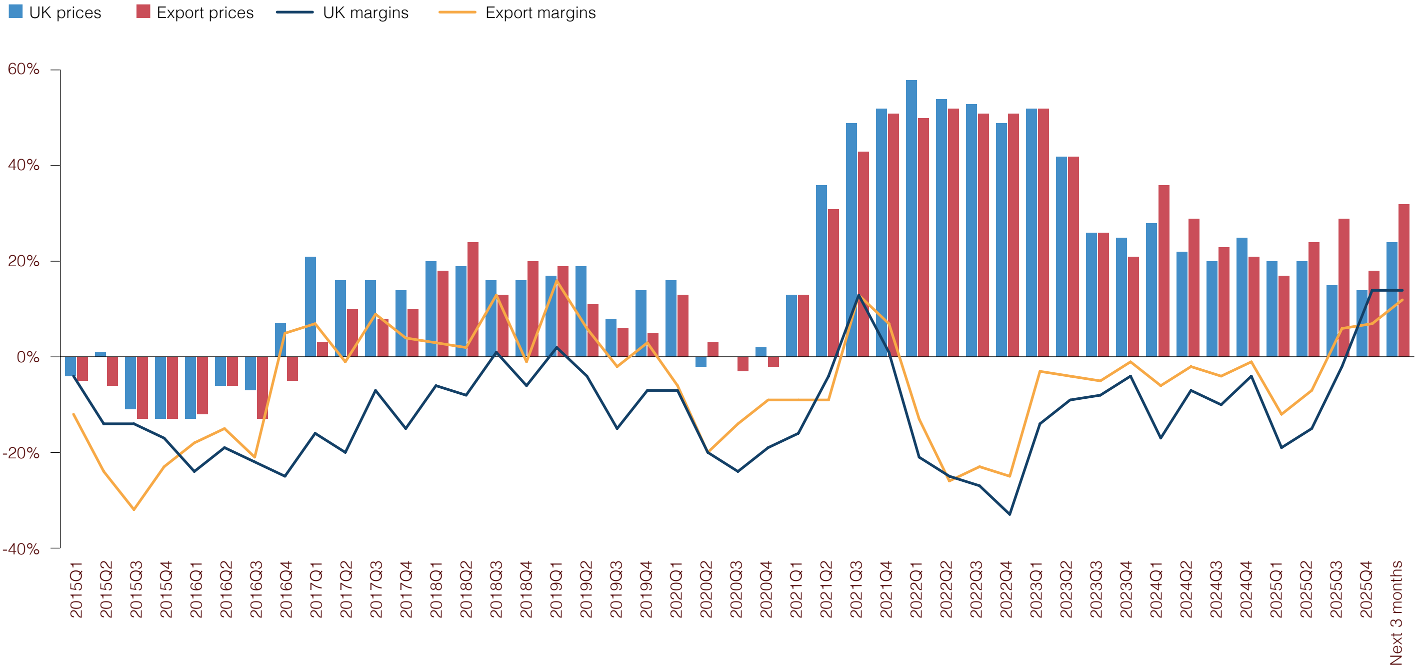
Margins, perhaps the main attraction in this data, have performed well. They have, at least in the short term, risen into positivity, whereas they are so often marginally negative or close to zero. The UK margins balance figure reported at +14% and the export figure at +7%. While not very high figures, it is quite unusual for margins performance to fare so well, particularly where the data suggests it has not been driven by aggressive price rising.

Further analysis ONS producer price inflation[1] (PPI) lends evidence to what is driving this breathing room for the sector. Since the middle of the year, output PPI has been outpacing input PPI, in other words, the ratio of price increases between industrial inputs and their outputs has been widening. This has left the latest output PPI figure standing at 3.6%, whereas the latest input PPI figure stands at 0.5%. Both figures are for October 2025. In other words, this indicates that input prices are rising at a rate beneath already moderate industry output price increases, which in turn will generate some breathing room for margins to recover, as the survey data here suggests.

Future three-month expectations for margins are quite consistent with what is observed with the latest data, with the UK margins balance figure expected to report at +14% and the export figure to report at +12%.

[1]Producer price inflation, UK - Office for National Statistics

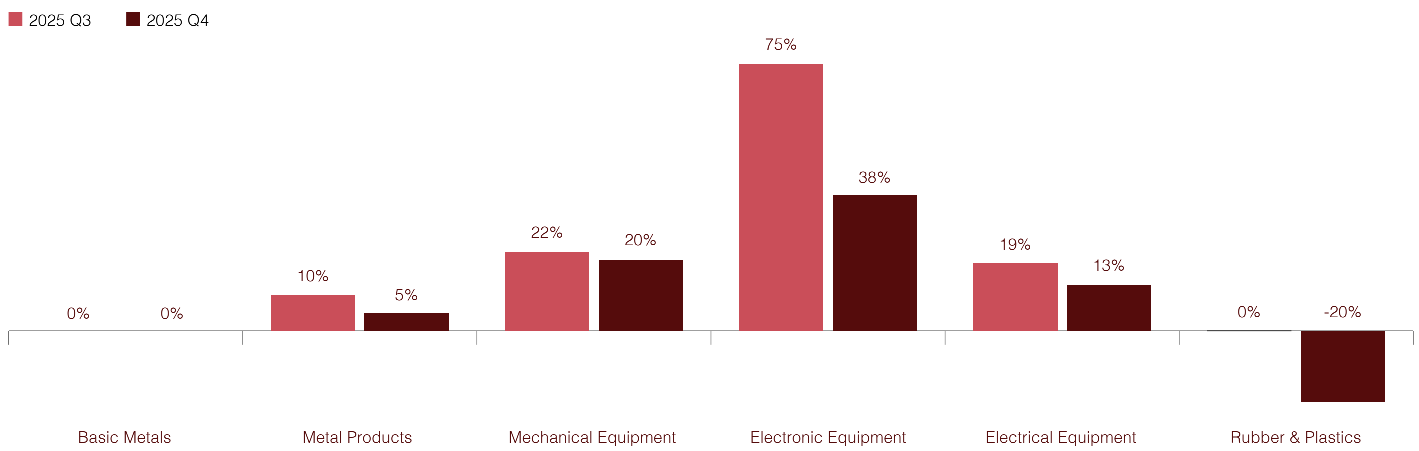
Positive margins suggest businesses are finding some space to breathe % balance of change



Source: Make UK Manufacturing Outlook Survey

UK PRICES	PAST THREE MONTHS	↓ 14%	NEXT THREE MONTHS	↑ 24%
EXPORT PRICES	PAST THREE MONTHS	↓ 18%	NEXT THREE MONTHS	↑ 32%
UK MARGINS	PAST THREE MONTHS	↑ 14%	NEXT THREE MONTHS	↔ 14%
EXPORT MARGINS	PAST THREE MONTHS	↑ 7%	NEXT THREE MONTHS	↑ 12%

Export prices increased for capital and electronic goods % balance of change in export prices in the past three months



Source: Make UK Manufacturing Outlook Survey

National & Regional

Confidence across the UK manufacturing sector remains strong relative to its history. Though the relationship, or correlation, between business optimism and actual quarterly performance in manufacturing has weakened over recent years. The metric is still a useful indicator of resilience in the sector.

Whilst the overall performance for output, orders and employment was mixed for this year, confidence on average has consistently exceeded the 6-point mark every quarter (where '5' determines the inflexion point between positive and negative confidence). This strongly indicates that, despite the plethora of uncertainty surrounding the economic and political climate, manufacturers remain steadfast in their belief that they can weather most storms.

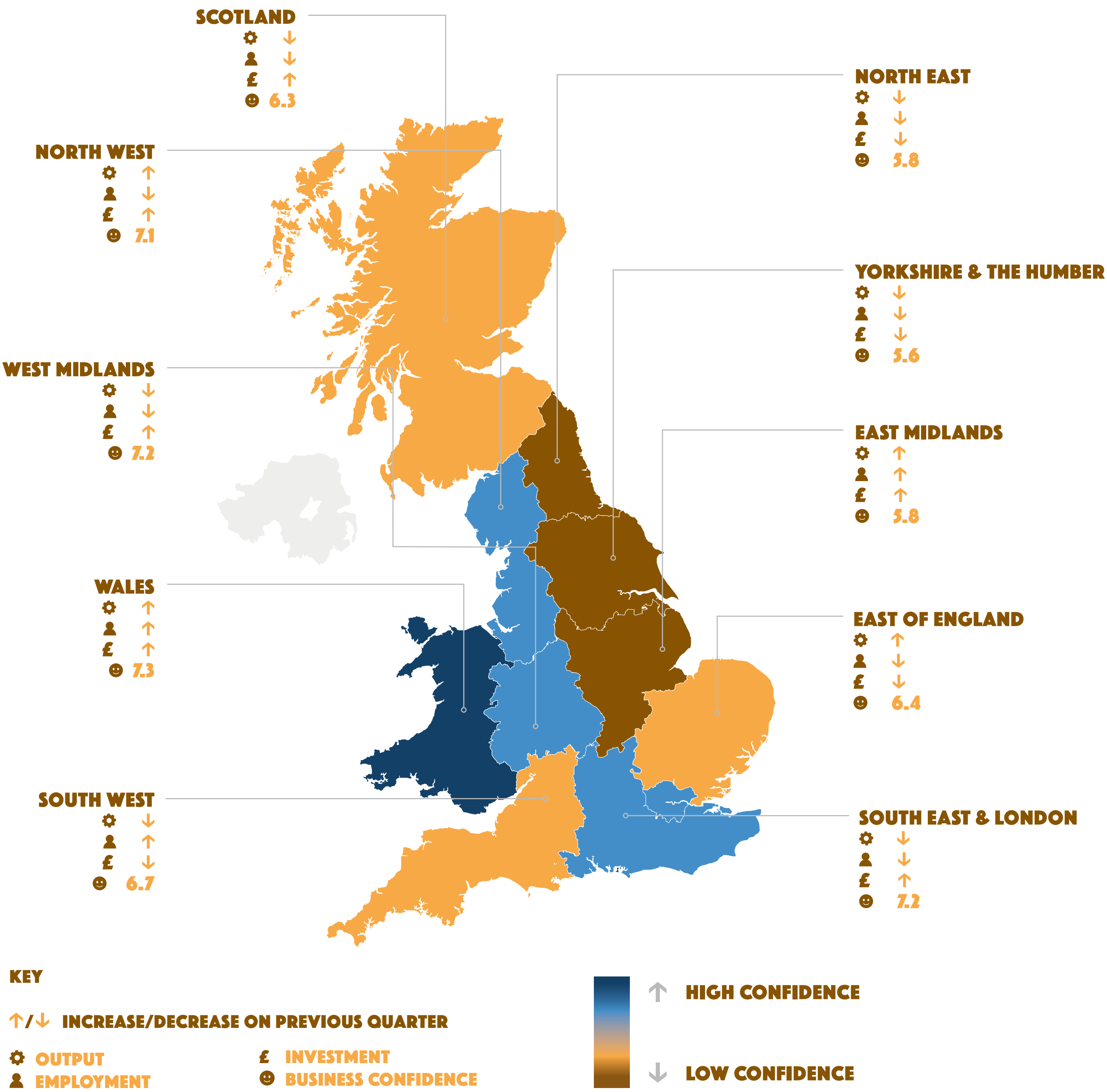
However, despite the positivity in the confidence metric, businesses frequently cite anecdotally that the rising cost of employment, energy prices and overall tax burden is a growing hindrance to positive investment decisions. Although our survey suggests that manufacturers continue to invest, it is more challenging to dissect whether the majority of UK investment is being channelled towards the growth or maintenance of productivity.

All regions and nations reported above the '5' inflexion point, including Scotland in this instance. The variation between regions is minimal, though manufacturers in certain locales report higher levels of confidence than others. For this quarter, Wales reported the highest confidence level in the UK at 7.3, followed by the South East & London and the West Midlands tied for second place, reporting at 7.2. The North West also reported a high confidence level at 7.1. These are the only locations to report confidence levels above 7, which is astonishing given the current economic climate.

The regions that reported the lowest levels of confidence include the Yorkshire & the Humber region (5.6) and both the East Midlands and North East, tied at 5.8. These were the only regions to report confidence levels close to the '5' inflexion point. Additionally, Scotland's confidence level was the most improved, increasing by 1.5 points, whilst the East of England reported the largest decline in business confidence, falling by 1.5 points. The Yorkshire & the Humber region also reported a notably large decline in confidence, falling by 1.1 points. All other regions reported minor changes in confidence that were less than a 1-point change overall.

"RISING EMPLOYMENT, ENERGY AND TAX COSTS ARE A HINDERENCE FOR BUSINESS INVESTMENT"

Headline business confidence reported at 6.7, down slightly from 7.0

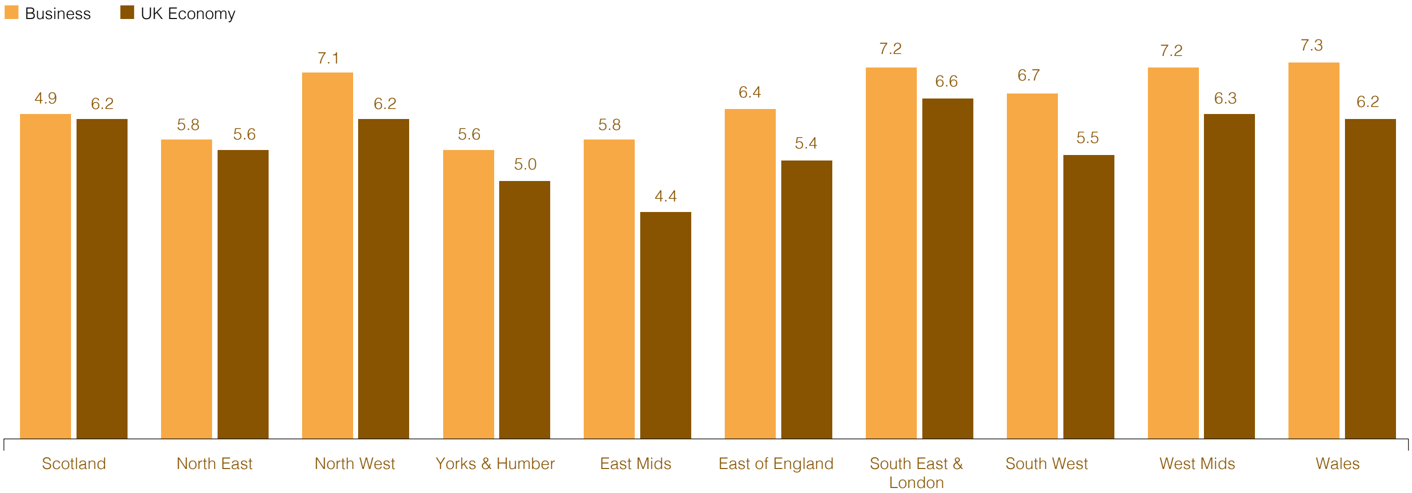


UK economy confidence

Manufacturers' confidence in the overall UK economy reported at 5.8, down from 6.3. This means on average there is a greater share of manufacturers who believe that the next 12 months will see economic conditions improve rather than deteriorate. However, this score is the lowest confidence mark for economic conditions in 2025, indicating that there has been a noteworthy decline in business expectations for the wider economy. It is worth adding that recent positive revisions to forecasts for the UK economy may sway business sentiment to recalculate their own expectations in a more positive direction too.

Most UK regions and nations report positive business confidence

Confidence in the next 12 months 1 = substantially worse, 10 = substantially better



Source: Make UK Manufacturing Outlook Survey

Regional summary % balance of change

	OUTPUT		TOTAL ORDERS		EMPLOYMENT	
Region	Past three months	Next three months	Past three months	Next three months	Past three months	Next three months
Scotland	-9	-12	-15	-9	2	1
North East	-20	60	-20	60	0	20
North West	29	47	59	65	6	35
Yorks & Humber	27	-27	0	9	-27	9
East Mids	25	19	40	13	6	6
East of England	40	50	10	56	11	22
South East & London	28	56	34	59	13	28
South West	22	30	17	30	30	26
West Mids	41	50	36	50	0	41
Wales	22	78	44	56	0	22

Source: Make UK Manufacturing Outlook Survey

Economic Environment

The autumn months of 2025 were rounded up with a relatively measured Budget announcement in November, navigating a delicate balance between fiscal tightening and the easing of inflationary pressures. Our survey results show some signs of stabilisation amongst UK manufacturers, with positive growth in output and orders. Nonetheless, negative GDP growth in the sector continues, and with high energy and employment costs continuing into the new year, the outlook for manufacturing in 2026 is increasingly cautious.

UK manufacturers are producing and exporting at an increased rate, but imports remain high, particularly ahead of Christmas demand. Even so, the trade deficit forecast for 2025 has worsened slightly since June, with import trade growth expected to be 0.9% ahead of export growth.

Growth in UK GDP slowed markedly through the late summer (just 0.1% growth in the third quarter of 2025), where manufacturing acted as a headwind to this figure. Production contributions remained negative for five consecutive months from May through September.

In October of this year, Make UK found that the proportion of turnover that manufacturers were reinvesting into business growth was at the lowest rate since 2017. With the budget announcing measures such as the 40% First-Year Allowance (FYA) for plant and machinery from January 2026, and expansion of Enterprise Management Incentive (EMI) schemes to mid-sized firms, manufacturers will need to weigh short-term cost pressures against long-term incentives for investment. The sector's long-term competitiveness may hinge on investment in supply chain resilience and green technologies.

An uncertain economic environment will likely continue into the new year. Oxford Economics forecasts overall UK GDP growth at 1.5% for 2025, up from 1.1% in 2024, but momentum is expected to fade, with growth slowing to 0.9% in 2026. For manufacturers, it is not only known cost increases that dampen growth, but a deep uncertainty about future costs. Taking energy as an example: electricity bills are seeing frequent additions such as the Nuclear Regulated Asset Base (RAB) Levy, which came into effect on November 1st and adds around £3.50 per MWh to industrial bills. There are planned electricity cost reductions through the British Industrial Competitiveness Scheme, but these are not due for implementation until 2027, and businesses do not yet have clarity on who will benefit.

On the other hand, inflationary pressures have begun to ease. The 12-month rate for CPI inflation fell to 3.6% in October, down from 3.8% in September, driven by smaller increases in domestic energy costs following Ofgem's October price cap adjustment. Core inflation is also moderated, though food prices remain high. The Bank of England held the base rate at 4% in November, with growing expectations of a cut to 3.75% in December as disinflation gains traction. Wage growth remains high at 4.7%, sustaining cost pressures for manufacturers, which will continue in the new year with a confirmed National Minimum Wage increase to £12.71 from April 2026.

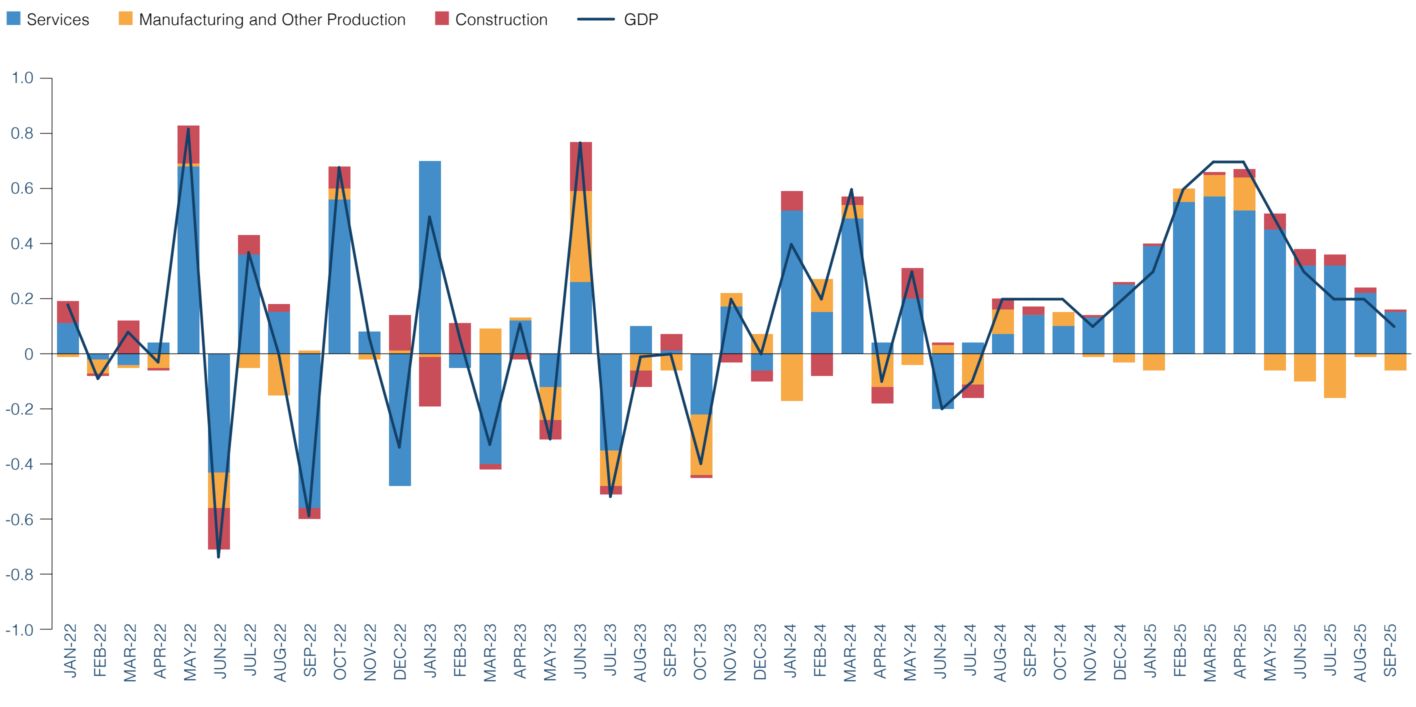
Global growth remains uneven. The US economy is now forecast to expand by 2% in 2025, with the Eurozone increasing to 1.4%, up from 1.2% in June. China's growth has slowed to 4.8%, reflecting property sector strains and tariff headwinds, while India remains a high-growth region at 7%, underpinning global demand for capital goods. Except for the US, there are slowing growth forecasts across all the largest economies for 2026.

International trade conditions remain volatile. The US extended Section 301 tariff exclusions on Chinese goods until November, but reciprocal tariffs introduced in August continue to disrupt supply chains. EU and UK trade measures are gradually beginning to move in step with the protectionist trend set by the US this last year – albeit at a gentler pace. The Autumn Budget explains that duty exemptions for low-value imports to the UK (under £150) will be removed, following an agreement in the EU to abolish their equivalent duty exemption for parcels valued at €150 or less. These figures are a far cry from the exemption threshold of around £600 that the US removed in August, which has meant many small UK businesses have since had to retract from operating in the US market.

The year closes with cautious optimism. Inflation is easing, monetary policy is poised to loosen, and fiscal incentives aim to support investment. Yet structural challenges such as energy costs, wage pressures, and global trade volatility all persist. Overall, manufacturers will continue to plan for increased uncertainty, as has become customary over the last 5 years. Strategic investment and operational efficiency will be critical as manufacturers navigate fiscal tightening and prepare for a slower growth outlook in 2026.

Slowdown in GDP growth a result of a decline in manufacturing activity

Contributions to monthly GDP, percentage points, January 2022 to September 2025



Source: ONS

UK Economic Forecasts % change except where stated

	2024	2025	2026
Trading environment			
Exchange rate (€/£)	1.21	1.11	1.11
Exchange rate ($/£)	1.25	1.29	1.29
Exports	-1.2	3	0.2
Imports	2.7	3.9	-0.5
Current account (% GDP)	-2.7	-3.1	-2.6
Output			
Manufacturing	0.0	0.5	-0.5
GDP	1.1	1.5	0.9
Costs and prices			
Average earnings	5.3	4.7	3.1
Oil price (Brent Oil $/bl)	81	69	64
Employment			
Manufacturing (000s)	2,588	2,571	2,538
Rest of economy (000s)	36,793	36,922	37,062
Unemployment rate (%)	4.3	4.7	4.9

Source: Oxford Economics and Make UK

International Economic Forecasts % change

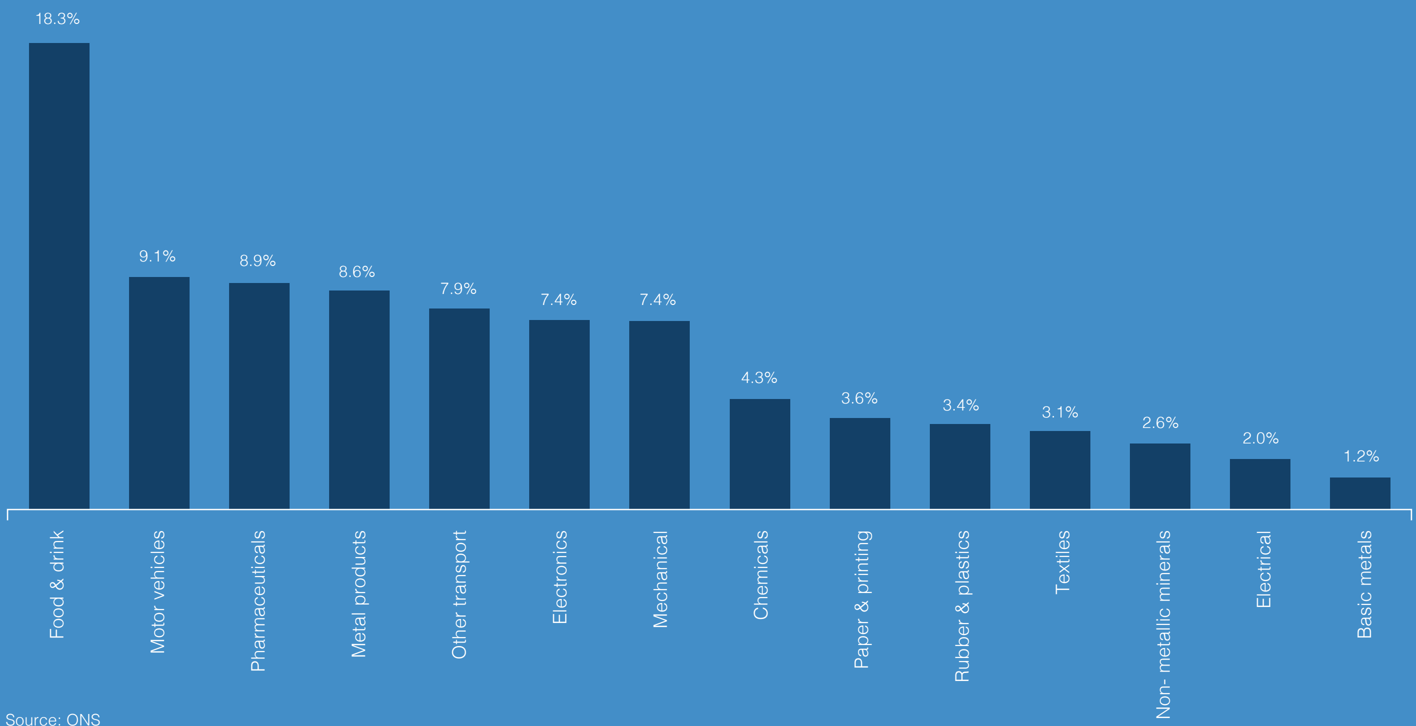
	GDP			INFLATION		
	2024	2025	2026	2024	2025	2026
US	2.8	2.0	2.4	3.0	2.8	2.7
Eurozone	0.9	1.4	0.9	2.4	1.4	0.9
France	1.1	0.8	0.6	2.0	1.0	1.3
Germany	-0.2	0.2	0.7	2.3	2.2	1.5
Japan	0.2	1.0	0.6	2.7	3.1	2.0
China	5.0	4.8	4.5	0.2	-0.1	0.5
India	6.7	7.0	6.3	4.9	2.0	3.5
World (US$ weighted)	2.8	2.8	2.7	4.5	3.4	3.1

Source: Oxford Economics

Sector Forecasting 2025 Q4

Q4 2025 Manufacturing Sector composition by GVA

% share of Manufacturing Gross Value Added



Source: ONS

Food & Drink

The **Food & Drink** subsector remains the UK's largest manufacturing subsector, maintaining the same 18.3% value share of the sector it did in the previous quarter. Output growth is forecast at 0.5% in 2025 and 0.4% in 2026, broadly in line with, and slightly ahead of, the manufacturing average of 0.5% and -0.5% respectively. This suggests the subsector will continue to provide a modest anchor to overall sector performance rather than a major driver of growth. Employment, in contrast, is expected to contract, with headcount forecast to fall by -1.7% in 2025 and by a further -3.4% in 2026. Both years are weaker than the manufacturing average (-0.5% and -1.7%), indicating an ongoing process of cost control as firms adjust to higher input and labour costs.

Electronics

The **Electronics** subsector continues to outperform the wider industry on output, with growth of 1.7% forecast for 2025 compared to a 0.5% manufacturing average. This expected performance likely reflects the sector's core role in the supply chain and its exposure to structurally growing demand in areas such as semiconductors and digitalisation. However, the outlook softens in 2026, when output is expected to contract by -1.2%, a steeper decline than the manufacturing average, indicating that a lot of this year's expansion may be lost. Employment is forecast to decline by -2.3% in 2025 and by -4.3% in 2026, both of which beneath the industry average.

Basic Metals and Metal Products

The **Basic Metals** subsector continues to carry one of the most contractionary outlooks across the sector. Output is forecast to fall by -11.0% in 2025 and by a further -8.6% in 2026, reinforcing the impression of a prolonged downturn for primary metals producers. These declines are substantially worse than the manufacturing average and remain heavily shaped by the impact of US tariffs and broader global trade frictions, which continue to erode export opportunities and compress margins in energy-intensive production. Employment is expected to adjust accordingly, with headcount forecast to shrink by -12.1% in 2025 and by -4.2% in 2026. This underlines the scale of the systemic change in the basic metals subsector and the risk of capacity being permanently withdrawn from the domestic production base if market conditions fail to improve or policy support dwindles.

The **Fabricated Metals** subsector is again expected to fare relatively better than primary metals, but its outlook has softened. Output is forecast to contract by -4.7% in 2025 and by -0.9% in 2026. While these declines are significantly less severe than seen for Basic Metals, they still point to a challenging trading environment as higher costs weigh on demand. In contrast, employment is notably more positive, the workforce is expected to expand by 12.6% in 2025 and by 4.7% in 2026. This divergence between output and employment suggests businesses are anticipating stronger future demand to offset the current meagre outlook, and are building out headcount to prepare.

Mechanical Equipment

The **Mechanical Equipment** subsector receives a comparatively positive output expectation for 2025, with growth of 3.1% forecast, well above the manufacturing average of 0.5%. This demonstrates the subsector's role as an indicator for capital expenditure, benefitting from businesses' efforts to upgrade plant, machinery and automation in response to higher labour costs and competition pressures. In 2026, however, output is expected to decline by -2.4%, a sharper contraction than the sector as a whole (-0.5%), signalling a potential cooling of investment once the current replacement and upgrading cycle has passed. Employment is forecast to grow by 1.1% in 2025 before falling by -2.5% in 2026. Despite short-term expected growth in headcount, by the end of 2026 the net volume of employment is expected to be lower.

Textiles

The **Textiles** subsector again exhibits one of the more volatile forecasts. Output is projected to grow strongly by 6.8% in 2025, substantially outperforming the manufacturing average and representing the strongest forecast expansion amongst the subsectors covered. This likely reflects a combination of cyclical recovery and reshoring of some niche production lines. However, much of this gain is expected to be undone in 2026, when output is forecast to contract by -5.5%, signalling that some of the 2025 strength may be temporary or driven by one-off factors. Employment is expected to fall sharply across both years, by -11.9% in 2025 and by -5.7% in 2026. This suggests that the subsector is growing output through productivity improvements rather than workforce expansion.

Paper & Printing

Output from the **Paper & Printing** subsector sees mildly negative forecasts overall. Output is forecast to decline by -0.7% in 2025 and -1.1% in 2026, both weaker than the overall manufacturing average. With the subsector accounting for a relatively modest share of total manufacturing output, these declines are unlikely to weigh heavily on wider sector performance but will continue to weigh on regional labour markets where this activity is concentrated. Employment is forecast to fall by -3.1% in 2025 and by -5.0% in 2026, signalling an acceleration in headcount reductions.

Electrical Equipment

The **Electrical Equipment** subsector's output outlook has stabilised somewhat in this round of forecasting. Output is projected to edge up by 0.4% in 2025, broadly in line with the manufacturing average, before posting a marginal decline of -0.4% in 2026. These forecasts suggest subdued but relatively steady conditions, with a net zero change expected in output growth by the end of 2026. Employment is forecast to increase by 5.3% in 2025 before falling by -1.5% in 2026.

Non-Metallic Minerals

The **Non-Metallic Minerals** subsector, closely tied to construction and infrastructure activity through the supply of bricks, glass, aggregates and related products, retains a positive output trajectory. Output is forecast to grow by 3.8% in 2025 and 2.5% in 2026, comfortably outperforming the manufacturing average in both years. This is the result of expectations of continued demand from housing and infrastructure programmes, even if timetables for delivery remain uncertain. The employment forecast is, however, more nuanced. Headcount is forecast to decline by -3.4% in 2025 before returning to growth with a 2.2% increase in 2026.

Pharmaceuticals

The **Pharmaceuticals** subsector is now expected to return to stronger growth in the short term, following the post-pandemic normalisation seen in earlier forecasts. Output is forecast to rise by 3.8% in 2025, significantly outperforming the manufacturing average, before contracting by -3.4% in 2026. If the forecast is realised, most of the gains seen this year are expected to be eroded in 2026. Employment is expected to grow by 1.2% in 2025, ahead of the manufacturing average, before easing by -1.2% in 2026.

Chemicals

The **Chemicals** subsector continues to face contraction, with output forecast to decline by -1.8% in 2025 before stabilising at flat growth (0.0%) in 2026. This is a weaker outlook than the manufacturing average in 2025, but suggests a cessation of this change by 2026. Competitive pressures remain, particularly for energy-intensive producers and those heavily exposed to commodity chemicals. Employment is forecast to fall sharply by -7.6% in 2025 and by a further -1.7% in

2026, mirroring the manufacturing-wide decline in 2026 but significantly worse in 2025.

Rubber & Plastics

Following a decline in output in 2024, the **Rubber & Plastics** subsector is expected to return to modest growth in 2025. Output is forecast to expand by 2.0% in 2025, outperforming the manufacturing average, before slipping back slightly by -0.3% in 2026. The subsector remains closely linked to construction and a wide range of downstream industries that use plastics as an input, while the rubber segment, largely tyre production, continues to benefit from investment in the electric vehicle transition and fleet renewal. Employment is forecast to contract by -4.0% in 2025 and -4.7% in 2026, implying that output gains are expected to be delivered through productivity improvements.

Motor Vehicles (Automotive)

The **Motor Vehicles** subsector's output profile has become more uneven in this forecast round. Output is expected to decline marginally by -0.6% in 2025, underperforming the manufacturing average, before rebounding strongly with growth of 3.9% in 2026. The weak 2025 outturn reflects continued constraints on export sales into the US market as a result of tariff and quota arrangements, as well as major production stoppages in the second half of 2025 due to cyber-attacks. The stronger 2026 outlook suggests that catch-up production will occur, provided global demand holds up. Employment is forecast to contract by -3.3% in 2025 and by -1.0% in 2026, both weaker than the manufacturing average.

Other Transport

The **Other Transport** subsector, which includes aerospace, defence, shipbuilding and rail, receives one of the strongest growth expectations in the forecast. Output is projected to increase by 5.2% in 2025 and by a further 0.7% in 2026, outpacing the manufacturing average in both years. The new commitments from the UK, along with many other Western nations, to increase defence spending will contribute to this increase in output. Employment is also expected to grow strongly in the short term, with headcount forecast to rise by 5.5% in 2025, before a modest decline of -1.3% in 2026. This is one of the few subsectors that sees forecasts consistently above the manufacturing average, a result of a systemic increase in spending into the sector.

Sector growth rates and forecasts % change

	OUTPUT			EMPLOYMENT		
	2024	2025	2026	2024	2025	2026
Basic metals	-7.0	-11.0	-8.6	5.7	-12.1	-4.2
Metal products	5.2	-4.7	-0.9	-5.4	12.6	4.7
Mechanical	-7.6	3.1	-2.4	-4.4	1.1	-2.5
Electronics	-2.5	1.7	-1.2	0.9	-2.3	-4.3
Electrical	-7.6	0.4	-0.4	-1.6	5.3	-1.5
Motor vehicles	9.7	-0.6	3.9	-7.0	-3.3	-1.0
Other transport	-0.7	5.2	0.7	2.4	5.5	-1.3
Food & drink	2.4	0.5	0.4	2.0	-1.7	-3.4
Chemicals	-0.8	-1.8	0.0	2.5	-7.6	-1.7
Pharmaceuticals	2.6	3.8	-3.4	-1.6	1.2	-1.2
Rubber & plastics	-1.6	2.0	-0.3	8.7	-4.0	-4.7
Non-metallic minerals	-6.8	3.8	2.5	1.2	-3.4	2.2
Paper & printing	-4.6	-0.7	-1.1	-1.2	-3.1	-5.0
Textiles	-7.1	6.8	-5.5	6.5	-11.9	-5.7
Manufacturing	0.0	0.5	-0.5	-0.2	-0.5	-1.7

Source: Make UK and Oxford Economics

BDO Viewpoint

To Build Resilience, Manufacturers Must Turn Optimism into Action

Although 2025 has been marked by a series of headline-grabbing cyber incidents, manufacturers are reassuringly optimistic about their cyber security – buoyed, perhaps, by increasing security budgets and a growing prevalence in disaster recovery strategies.

In fact, in our recent survey, 86% of manufacturers reported feeling confident in their ability to quickly and effectively respond to a serious cyber incident in the moment, while 78% felt they could confidently recover from the subsequent fallout.

Looking on the Bright Side
This optimism isn't surprising, and the interest in cyber security is far from new. While 50% of respondents felt recent headlines had influenced their investment in security, 72% indicated that assessing the security posture was already part of their overall strategic planning.

Underpinning the sector's confidence is financial and operational investment. 70% of manufacturers reported an increase in cyber security spend over the last twelve months, with the same number expecting a further increase in the next twelve months. Meanwhile, we're seeing a strong rate of adoption for MFA and single sign-on (present in 87% of manufacturing organisations), disaster recovery plans (83%), annual cyber security audits (78%), and mandated training (69%).

Though it's positive to see this level of strategic investment within the sector, complacency is dangerous – especially given the growing reliance on connected technologies and the far-reaching implications of a breach.

Making Resilience Matter
Manufacturers have a long-standing relationship with resilience, frequently adapting to new trends, efficiency requirements, bloated costs, and fluctuating resource availability.

Now, resilience must also include keeping pace with new technologies and minimising disruption, with a focus on being able to prepare for, respond to, and recover from cyber incidents.

For manufacturers, the stakes are high. Given their role in the larger supply chain and the sprawling attack surfaces created by legacy operational technology and digital transformation programmes, the industry is an ideal target for disruption.

None of this should shake the industry's confidence.

Rather, this is an opportunity to approach cyber resilience proactively – or, as the old saying goes, to 'fix the roof while the sun is shining'.

Here are some steps manufacturers can start with:

- **Prove Security:** All security measures are theoretical until tested. Instead of waiting for the worst to happen, manufacturers can benefit from simulated attacks. Penetration testing, for example, stress tests both physical and digital security, putting resilience into action without any risk.
- **Protect Legacy Systems:** When paired with incompatible security solutions, legacy operational technology can put manufacturers at risk of major disruptions. The cloud, however, is rarely a viable option; migrating associated production lines can cost millions. Even so, manufacturers can still secure their existing systems by overlaying the right security solutions – minimising disruption in a cost-effective manner.
- **Enhance Transformation:** In keeping pace with the modern world, manufacturers are driving widespread transformation, exploring AI's possibilities and evolving the relationship between operational technology, the cloud, and ERP systems. To ensure long-term success, however, these digital transformation programmes must be 'secure by design', embedding security from day one to minimise future threats, limitations, and costs.

Building a Secure Future
With the combined weight of supply chains, customers, and stakeholders resting on their shoulders, manufacturers are under immense pressure to fend off – and minimise the impact of evolving security threats. Their optimism in the face of these challenges is both reassuring and indicative of an industry well-versed at putting resilience front of mind.

BDO Digital's cyber security services are designed to support manufacturers on the road to becoming cyber resilient. We focus on testing, transforming, and managing security across a large range of activities, ensuring clients are ready for what comes their way.

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The Manufacturers' Organisation

Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK's economic engine and the world's workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

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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 accountancy, tax and business advice to patent box and research and development claims and M&A opportunities to help our clients grow in the UK and overseas. We also provide manufacturing businesses and organisations with robust, independent audits.

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: advanced manufacturing, aerospace and defence, automotive, building products, chemicals and pharmaceuticals, food and drink, electronics, industrials, test and measurement and technology.

Manufacturing remains one of the key industries of the UK economy. We are delighted to be able to play an active role in supporting the businesses that operate in this vibrant, changing and challenging sector. For further information about our business and services, please visit our website: **www.bdo.co.uk**

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