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The Manufacturers' Organisation

# MANUFACTURING OUTLOOK

## 2024 QUARTER 2

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# FOREWORD

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In the late nineteenth century, the Japanese company Nintendo began operations as a traditional playing card manufacturer. Over the decades, the SME evolved through various ventures, including toys and instant rice, but growth remained relatively stagnant.

The company's fortunes took a remarkable turn in the late 1960s against the backdrop of Japan's economic miracle. Underpinned by the government's commitment to a long-term industrial strategy, which provided a clear directive to businesses to channel their efforts into burgeoning sectors including the electronics industry, Japan shifted from a low growth, low technology economy to become one of the largest and most innovative advanced manufacturing economies in the world. With that signal from government, Nintendo pivoted its focus towards the emerging video game market. Led by President Hiroshi Yamauchi, the company made bold investments in research and development, nurtured talent and skills, and embraced a clear vision for the future.

Despite initial hurdles in a fiercely competitive market, confidence from the government policy's clear direction of travel instilled Yamauchi with an unwavering commitment to growth that transformed a run-of the-mill playing card company into an entertainment empire. In the process, the firm reshaped not only its fortunes but the entire video games industry.

Their success serves as a testament to the power of long-term public policy planning and a strategic vision to enable industry to generate economic growth.

Predictability is important in business. It is especially imperative in manufacturing. As recent *Manufacturing Outlook* reports have shown, a decade of economic uncertainty has created a culture of caution in the UK economy, with companies investing heavily in contingency plans to counter challenge circumstances.

That turbulence has continued this quarter with orders on the upswing, and investments increasing in the sector, but output levels have become increasingly erratic, defying conventional expectations.

Recruitment intentions paint a similarly mixed picture. While demand levels are approaching historic levels again, aspirations to expand headcount are outpacing the actual ability to hire. Skills shortages have placed a ceiling on expansion potential.

Despite these challenges, there's a palpable desire to invest in the future. Manufacturers are increasingly turning to advanced technology to digitise, decarbonise, and drive efficiency gains. However, barriers to realising these opportunities persist.

A modern, long-term, industrial strategy, underpinned by a clear understanding of the UK's offensive and defensive priorities for future trade relations, will be crucial to unlocking the manufacturing sectors productivity growth potential.

The next government must prioritise mobilising both public and private investment towards critical pathways for prosperity. This includes bolstering infrastructure, enhancing education and skills by fixing the faults of the apprenticeship system, and fostering a conducive environment for a repaired relationship with the European Union as well as forging new trade agreements with the rest of the world.

As we reflect on a lost decade of economic growth, the example of Nintendo is a reminder of the enduring power of industrial strategy, and the importance of long-term planning and strategic vision in driving economic success.

Just as the Japanese government's foresight created the right conditions for Nintendo to reshape an entire industry, so too can a robust industrial strategy shape the future of UK manufacturing.

# HEADLINES

Make UK's Q2 2024 *Manufacturing Outlook* report, in partnership with BDO, shows that the manufacturing industry, on balance, experienced growth this quarter. Although, overall, performance fell short of expectations, the sector is moving upwards as businesses secure new work providing security in the medium term.

Balance of output reported at +9% this quarter, up from +5%, suggesting industry production has accelerated to meet rising order books. The consistent trend of positive balances being reported by manufacturers is the best indication of stability in the sector. While the output balances have displayed remarkable instability in recent quarters, such as the +20% balance for output in Q4 2020, the industry has been in positive territory for 14 quarters back-to-back. Manufacturers continue to expect widespread growth in the next quarter which, though it will be difficult to fully realise, indicates that the upward trend is likely to continue into the third quarter.

Even more positive than the growth in output is the upward trend in order book growth. A balance of +14% indicates that the share of businesses that experienced an improvement in their order books has doubled in the last three months. Overall, this suggests that the sector is returning to a situation akin to normal business conditions, although the results suggest that general activity still falls short of historical trends.

Though the latest survey findings indicate good news across the board, there is a strong sign of a slowdown taking place in the domestic market, with manufacturers relying more on exports to fill their pipelines of work. The domestic market effectively saved the manufacturing sector during the recent periods of extreme supply-chain disruption and global inflation which made importing materials more difficult. However, since many of these disruptions have shown material signs of easing, the growth in the domestic market has slowed markedly, posting a balance of +2% in the latest survey. In comparison, the balance for export orders improved to +10%, matching its best performance since the festive period in the fourth quarter of last year.

Employment grew modestly in the last three months, with a balance of +8% of manufacturers reporting an increase in their headcount. Though manufacturers expect to increase headcount in the next quarter, the findings of the survey indicate that overall labour demand may be easing slightly. The current balance is 4 points below last quarter's, and official statistics highlight that vacancy rates are beginning to drop in the industry. Moreover, investment intentions continue to stand out, posting a balance of +11%, making it the 6th consecutive quarter of positive investment intentions.

The share of businesses raising prices has eased following a surprising upturn in the previous survey. A large share of manufacturers continue to raise prices on their goods, and this impact appears particularly pronounced for export goods. This is borne out by the performance in margins, with export margins doing relatively better than UK margins. Though both remain negative on balance.

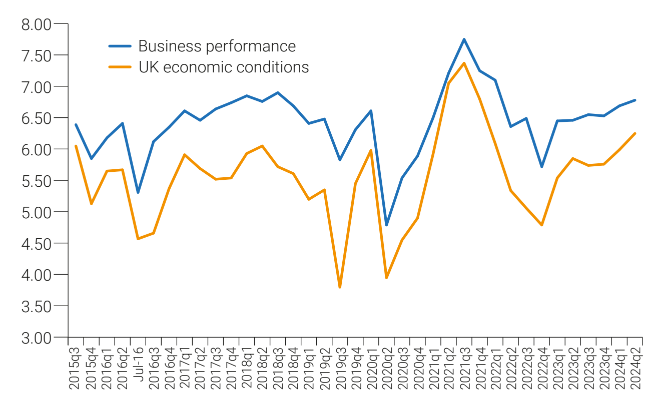
The latest result indicates respondents' confidence in their own business has risen to their highest level since Q1 2022. Back then demand for goods appeared almost limitless. Today, business activity is relatively more stable. With inflation slowing and supply-chain disruption easing, manufacturers are naturally feeling more upbeat these days.

| INDICATOR | BALANCE | CHANGE | |
|---|---|---|---|
| Confidence | 6.9 | ↑ | Business optimism improves |
| Output | 9% | ↑ | Output volumes indicate slight expansion |
| UK orders | 2% | ↑ | Domestic order books marginally positive |
| Export orders | 10% | ↑ | Export orders rebounds sharply |
| Employment | 8% | ↓ | Jobs growth remains positive but slows |
| Investment | 11% | ↓ | Positive investment activity is encouraging |

Source: Make UK Manufacturing Outlook Survey

**Manufacturers' expectations grow in positivity.**

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




Source: Make UK Manufacturing Outlook Survey

# OUTPUT

The sector's output performance has seen improvement this quarter, delivering a balance figure just under twice as strong as the one reported in the first quarter of this year. Despite this relative growth quarter-on-quarter, the scale of these figures remains mild at best, with this improved figure remaining in single-digit territory.

Output performance over the past four quarters has been diminutive, with the notable exception of the 4th quarter of 2023 where the sector saw a brief burst in output performance that was unlikely to be sustained, and ultimately wasn't, as order book performance did not grow in step.

Now, as we move into the second half of 2024, the prospects for output growth in the rest of the year are much stronger. Even though the total scale of the balance figure for output, standing at +9%, is not much to celebrate on its own, it's the growing orders metric that bodes well for its future short-term performance. With the relative lead that the orders metric has on output this quarter, by +5%, it's quite likely we'll see these orders support increased output come the third quarter of the year. Nevertheless, this sort of comparison is only revelatory for the short term and does not give too much indication as to how the sector's output prospects will fare towards the end of the year and into the start of the next.

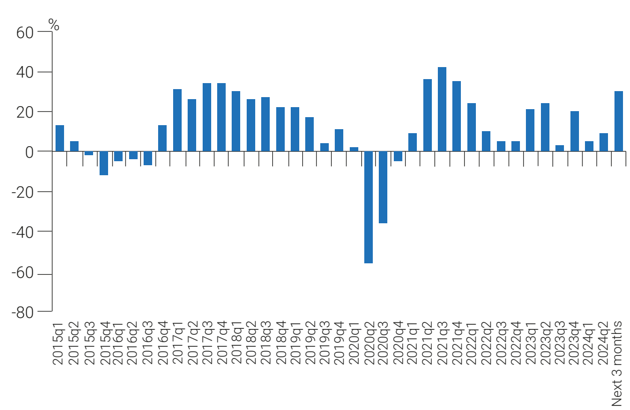
A lack of demand for the sector's goods over the past year has stifled the industry's ability to grow output balances, but with these early signals that demand may be returning, albeit slowly, the sector may finally be able to consistently gear up production to a level it hasn't be able to for over a year.

Curiously, significant confidence exists in the sector's future three-month expectation for output performance, in other words, how the sector thinks output will perform in the third quarter of the year. An expected balance figure of +30% seems quite the climb from the +9% reported this quarter. If we also reflect that this overestimation of output performance has been a consistent trend for the previous four quarters, it leaves economists sceptical that we will see that level of output performance growth rendered in only three months' time. However, even if industry-expected figures aren't met in scale, they are being met in trend, which is far more important to the growth of the sector in the short term.

| | | | | | |
|---|---|---|---|---|---|
| PAST THREE MONTHS | ↑ | 9% | NEXT THREE MONTHS | ↑ | 30% |

### Output volumes expand slightly in the second quarter

% balance of change in output




Source: Make UK Manufacturing Outlook Survey

### Output summary

% balance of change

| SECTOR | PAST 3 MONTHS | NEXT 3 MONTHS |
|---|---|---|
| Basic Metals | 0% | 0% |
| Metal Products | 16% | 39% |
| Mechanical | 31% | 35% |
| Electronics | 8% | 25% |
| Electrical | 24% | 24% |
| Rubber & Plastics | 0% | 20% |
| **TURNOVER** | | |
| £0-9m | 9% | 24% |
| £10-24m | 7% | 28% |
| £25m and over | 30% | 38% |

Source: Make UK Manufacturing Outlook Survey

# ORDERS

Modest is the word many would use to describe the economic performances of both the UK and the manufacturing sector in recent quarters. However, since the bounce back from the pandemic in early 2021, remarkably, order books on balance have contracted only one time in that period. This was in Q3 2023 when the balance for total orders reported at -1%, which with the benefit of hindsight indicates that manufacturers have been doing quite well overall.

Since then, growth in demand for UK manufactured goods has ticked on slowly with a balance of +7% of manufacturers reporting better pipelines in the last two quarters.

sceptical, suggests industry will continue to move upwards in the next three months.

## UK ORDERS

UK orders showed a marginally improved balance of +2%, following last quarter's flat +1% balance. This marks two consecutive quarters of weak growth for the domestic market, which only reported a balance of 0% in the fourth quarter of last year. The latest sequence of balances for UK orders is concerning given that the strength of the domestic market had compensated manufacturers over the last few years for their losses in a challenging international trade environment.

| | | | | | | |
|---|---|---|---|---|---|---|
| **UK ORDERS** | PAST THREE MONTHS | ↑ | 2% | NEXT THREE MONTHS | ↑ | 25% |
| **EXPORT ORDERS** | PAST THREE MONTHS | ↑ | 10% | NEXT THREE MONTHS | ↑ | 24% |
| **TOTAL ORDERS** | PAST THREE MONTHS | ↑ | 14% | NEXT THREE MONTHS | ↑ | 32% |

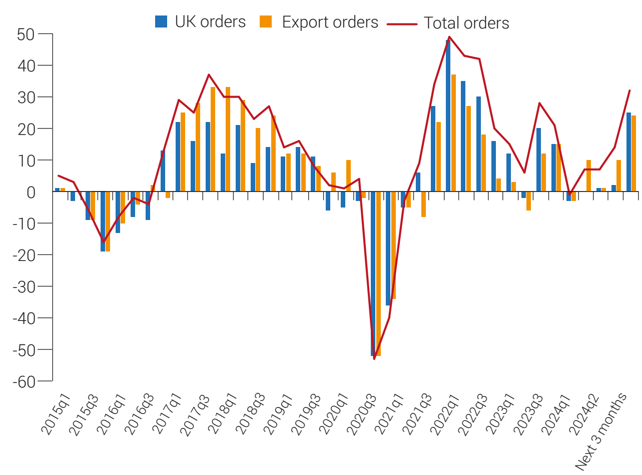
Orders are growing more quickly now, according to manufacturers. The latest balance of +14% for total orders is a marked improvement indicating that growth in order books has accelerated between the first two quarters of the year. Though the balance itself is not outstanding, suggesting that a large portion of the industry may continue to face mediocre demand, it does highlight that the sector has moved in a more positive direction in the last three months, with the balance of businesses doing better effectively doubling. Much of this resurgence is surprisingly attributed to a boost in export orders.

Despite this positive movement, the reality of performances continues to fall short of industry expectations. Manufacturers had initially forecast a stronger second quarter suggesting that businesses may be overestimating wider economic conditions which has also translated into persistent positive optimism levels in the survey. This latest underperformance marks the fourth quarter in a row where order book growth reported balances below pre-determined expectations. Now, manufacturers once again predict a very positive next quarter which, whilst it is important to remain somewhat

The results for the sub-sectoral breakdown are mixed. Metal products, mechanical equipment, and electronics all show positive balances for domestic orders that exceed the national average.

**Manufacturers experienced a boost in demand from overseas**

% balance of change in orders




Source: Make UK Manufacturing Outlook Survey

This may reflect the more encouraging policy environment that has prioritised investment incentives, such as 100% tax reliefs for capital investment and temporary exemptions to business rate changes, that have directly benefited order books for producers of capital equipment and digital technologies.

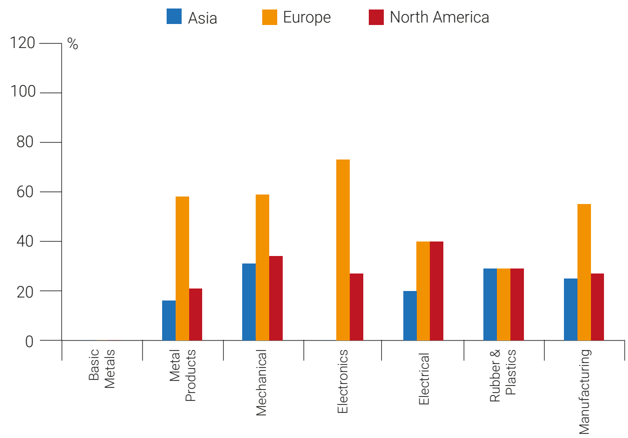
## EXPORT ORDERS

The boost in total orders in this quarter was due to a recovery in export orders. The reported +10% balance is a relatively sharp bounce back following last quarter's +1% balance and is the same as the figure that was reported in the final quarter of last year too. The cause of the surge in exports is not clear but official data from the ONS suggests that exports to the EU may have increased slightly in recent months which represents a large proportion of the businesses in the survey sample. However, a +10% balance, similar to other metrics in the survey, is not a particularly high figure and so in totality may not represent a significant improvement in trade. The critical learnings from the latest data indicate that manufacturers may have to rely more on exports for their margins given the clear slowdown in the domestic market.

Finally, survey results find that activity remains strong from the EU, with 55% of UK manufacturers reporting positive demand conditions from the region, though this is down slightly from 61% last quarter. This is followed by the North America region with 27% reporting positive demand conditions. The top three are completed by Asia, with 25% of businesses indicating positive conditions.

### Demand conditions strong in Europe and North America

% 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 3 MONTHS | NEXT 3 MONTHS | PAST 3 MONTHS | NEXT 3 MONTHS | PAST 3 MONTHS | NEXT 3 MONTHS |
| Basic Metals* | 0% | 0% | - | - | 0% | 0% |
| Metal Products | 4% | 38% | 6% | 13% | 22% | 42% |
| Mechanical | 14% | 25% | 28% | 46% | 38% | 40% |
| Electronics | 17% | 25% | 10% | 40% | 0% | 33% |
| Electrical | -5% | 14% | 15% | 15% | 0% | 14% |
| Rubber & Plastics | -10% | 20% | 22% | 22% | 30% | 20% |
| TURNOVER | | | | | | |
| £0-9m | 1% | 25% | 6% | 15% | 11% | 26% |
| £10-24m | 11% | 17% | 9% | 23% | 24% | 28% |
| £25m and over | 4% | 29% | 25% | 38% | 28% | 34% |

Source: Make UK Manufacturing Outlook Survey

* Insufficient sample for export orders

# EMPLOYMENT & INVESTMENT

This quarter sees both *Manufacturing Outlook's* Employment and Investment Intentions metrics post positive balance figures, signalling growth in both, albeit at a lower level than in the previous quarter. The sector has long suffered from a labour shortage, exacerbated by the enduring social and health impacts of the pandemic, although the picture has been improving slowly when interrogated through the lens of industry vacancies. Economists have not been very expectant of growing investment intentions given the sustained elevated Bank rate, as of the time of publication, which increased the relative cost of manufacturers' capital.

The sector has reported a balance figure for employment of +8% this quarter, which is four percentage points beneath what was reported last quarter. Nevertheless, this positive balance figure does present growth in the sector's employment, albeit modest. Employment balance figures have hovered around this mark for the past three quarters, following a -1% figure that was reported in the third quarter of 2023, at the time representing a hiring freeze in the sector. With these mild yet somewhat consistent positive balance figures for employment over the last three quarters, it would follow that live vacancies would see some reduction in that time, as positions in the industry are filled.

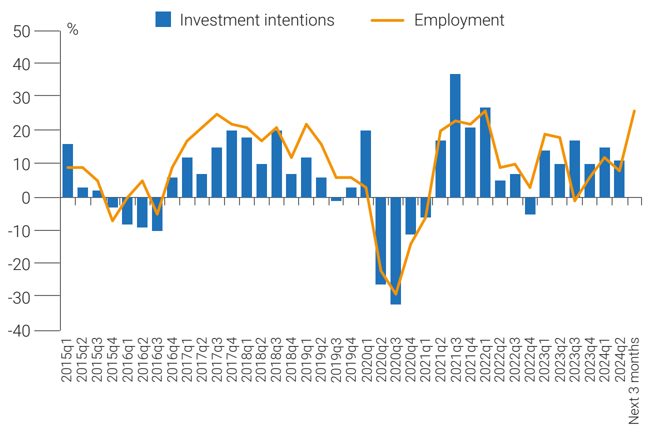
As of April 2024, there are 61,000 live vacancies in the UK's manufacturing sector, down from 68,000 in the first quarter edition of this report. This represents a decline in live manufacturing vacancies by 10% in only the period of one quarter, which is a notable change. As a ratio, that is for every hundred jobs in the sector, 2.5 are vacant, down from 2.8 last quarter. In the twenty years prior to 2020, the long-run average of this ratio for the manufacturing sector is approximately 2.0, so this data adds evidence to the suggestion that the increase in the latent vacancy rate in UK manufacturing observed since the pandemic may be starting to settle, finally.

The investment intentions metric measures the sector's intentions to invest in the coming 12 months. While the reported balance figure is positive, standing at +11%, this is a relative decline compared to the previous quarter when the balance figure stood at +15%. In any case, this is a relatively small shift and perhaps an unsurprising one at that, given the double effects of a sustained bank rate and political uncertainty, which is soon to become more certain in July of this year.

This report has suggested in previous editions, and continues to do so, that when the Bank begins the process of lowering the base rate, we would expect to see investment intentions begin to move out of the oscillating (yet positive) holding pattern they have been in for the past year and begin to see some consistent growth as the sector can act on its elevated confidence with more affordable access to capital.

### Employment and investment growth hold steady despite slowdown

% balance of change




Source: Make UK Manufacturing Outlook survey

| | | | | | | |
|---|---|---|---|---|---|---|
| EMPLOYMENT | PAST THREE MONTHS | ↓ | 8% | NEXT THREE MONTHS | ↑ | 26% |
| INVESTMENT | NEXT TWELVE MONTHS | ↓ | 11% | | | |

### Employment and investment growth hold steady despite slowdown

% balance of change

| | EMPLOYMENT | | INVESTMENT |
|---|---|---|---|
| SECTOR | PAST THREE MONTHS | NEXT THREE MONTHS | NEXT TWELVE MONTHS |
| Basic Metals | 0% | 0% | 0% |
| Metal Products | 11% | 29% | 9% |
| Mechanical | 10% | 29% | 16% |
| Electronics | 8% | 25% | 25% |
| Electrical | 24% | 33% | 5% |
| Rubber & Plastics | 10% | -10% | -10% |
| TURNOVER | | | |
| £0-9m | 11% | 24% | 3% |
| £10-24m | 0% | 24% | 27% |
| £25m and over | 12% | 23% | 22% |

Source: Make UK Manufacturing Outlook Survey

# PRICES & MARGINS

*Manufacturing Outlook's* first publication of 2024 revealed an early warning of growing supply-side price inflation, as illustrated by our prices metric, which details manufacturers' price-setting behaviour for both the domestic and export markets. The first quarter of this year marked the first edition for four quarters that had seen price-setting behaviour balance figures increase, as opposed to decrease in scale. For clarity, at no point had negative price-setting behaviour, that is, price reductions, been observed, but rather the rate at which the sector had suggested it was increasing its prices had been steadily declining.

This sudden return to increased price-setting served as an ominous hint that the Bank of England's interest rate strategy may not be sufficient to curb inflation, at least in the manufacturing sector, and had significant implications for rate-setters' decisions if the increasing price activity were to be sustained.

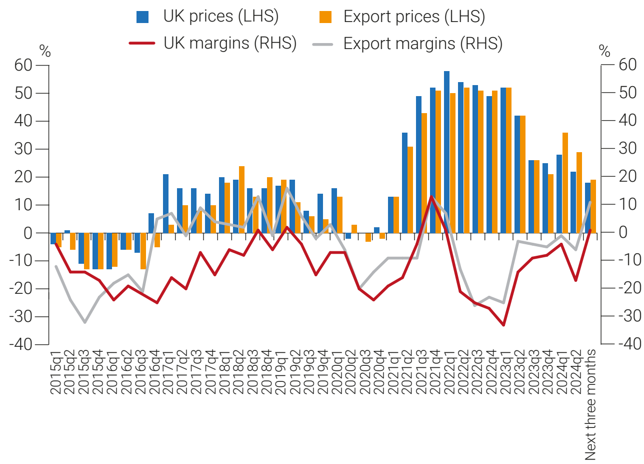
It's with some relief that we can report that the prices metrics, for both UK prices and export prices have returned to balance figures in keeping with those seen two quarters ago, at the end of 2023. Nevertheless, if one looks closely, you will observe that the latest export prices balance figure exceeds that of the one reported in 2023 Q4, but the UK prices balance figure is beneath that of 2023 Q4. In both cases this is slight, so the implications are equally as mild, but it does suggest that the sector is pricing more aggressively for the export market on average over the past six months than it has for the domestic market.

Perhaps this more aggressive pricing strategy is having its desired effect, as when we look at the margins metrics, we see that the balance figures for export margins stand at -2%, while the same for UK margins stand at -7%. Margins balance figures have been skirting close to positivity for some time, yet have failed to break over the '0' inflection point since the end of 2021.

Looking at the future expectations for these metrics, the aggregate view of the manufacturing sector expects to see this trend continue, with Q3 balance figures for margins expected to be +7% for export, and +1% for domestic. Positive for both cases indeed, with more evidence that this heightened export market pricing strategy is translating into better margins. Nevertheless, the sector has struggled to accurately predict business conditions 3 months ahead on a rolling basis over the past year, so a lot remains to be seen come the third quarter of the year when the data can be retrospectively analysed.

## The rate of price growth slows as businesses struggle to pass through costs

% balance of change

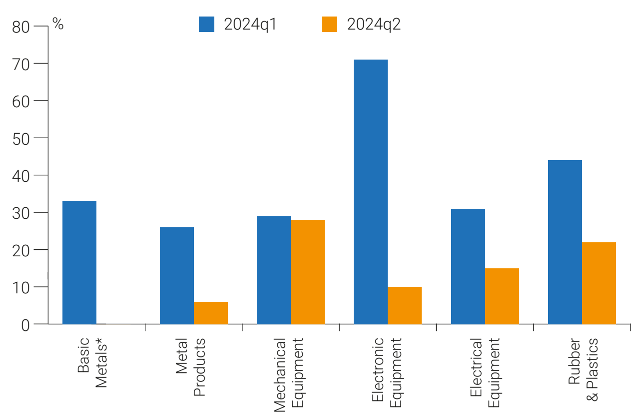



Source: Make UK Manufacturing Outlook Survey

| | | | | | | |
|---|---|---|---|---|---|---|
| **UK PRICES** | PAST THREE MONTHS | ↓ | 22% | NEXT THREE MONTHS | ↓ | 18% |
| **EXPORT PRICES** | PAST THREE MONTHS | ↓ | 29% | NEXT THREE MONTHS | ↓ | 19% |
| **UK MARGINS** | PAST THREE MONTHS | ↑ | -7% | NEXT THREE MONTHS | ↑ | 1% |
| **EXPORT MARGINS** | PAST THREE MONTHS | ↑ | -2% | NEXT THREE MONTHS | ↑ | 7% |

## Some subsectors aren't seeing growth in export pricing

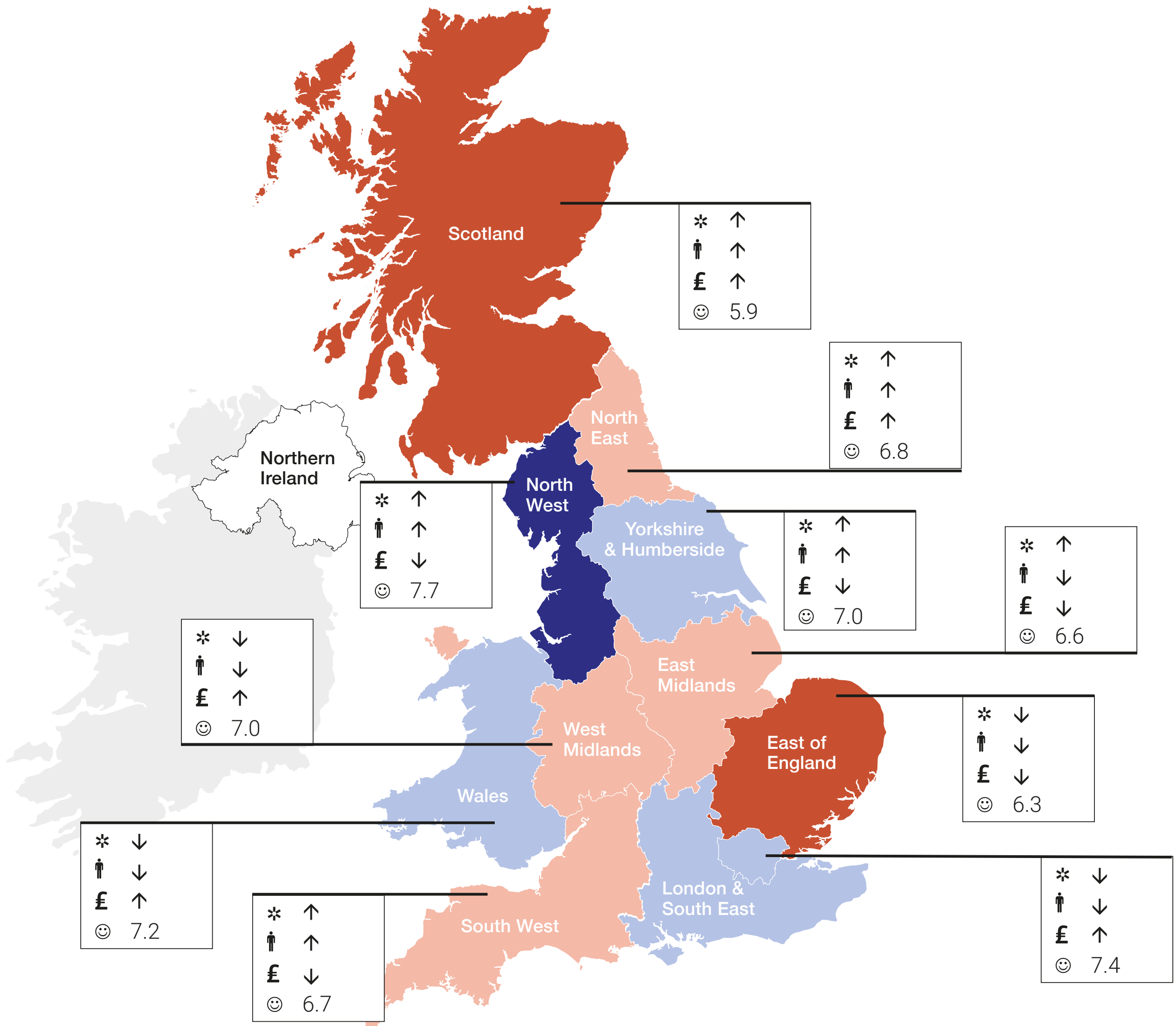
% balance of change in export prices in the past three months




Source: Make UK Manufacturing Outlook Survey
* insufficient sample for Q4 2023

# NATIONAL & REGIONAL

This series of results monitoring confidence levels amongst manufacturers has made one thing abundantly clear lately. Regardless of the economic performance of the wider economy, or even the industry itself, businesses are much more prone to positivity than they have been in the past.




KEY:

↑/↓ INCREASE/DECREASE ON PREVIOUS QUARTER

✲ OUTPUT

EMPLOYMENT

£ INVESTMENT

☺ BUSINESS CONFIDENCE

The map is coloured according to the business confidence levels difference from average UK business confidence

HIGH CONFIDENCE

LOW CONFIDENCE

Source: Make UK Manufacturing Outlook Survey

This can lead to a degree of overconfidence in some cases, as already observed in the survey data with persistent overestimations for forecasts, and yet is not necessarily a bad thing for industry. Confidence plays a prominent role in decision-making and can impact investment choices, R&D projects and even recruitment, with more confident businesses often taking greater risks. We see that the trend of optimism continues in the survey's newest findings.

Though our metrics for confidence currently indicate strong positivity, it is important to highlight that the survey responses were collected prior to the announcement of the General Election in the UK. The impact of this on confidence levels is difficult to predict, as on the one hand, generally speaking, the time taken until the election results are announced can bring substantial uncertainty for business and investment. On the other hand, an election can bring stability meaning businesses will now know when to expect a result and plan accordingly. These forces could impact confidence levels in either direction though current polling suggests a clear election outcome is likely which, if correct, will help businesses to plan accordingly.

However, given the resilience demonstrated by manufacturers recently, with average business confidence remaining above the '5' inflexion point for 16 quarters in a row now, this indicates that new events that bring uncertainty may indeed have little to no impact on confidence too.

Headline business confidence reported at 6.9, which is an improvement on last quarter's level (reporting at 6.7).

All regions and nations reported above the '5' inflexion point that separates positive and negative confidence. This indicates that on average, most manufacturers are relatively in line in terms of their optimism levels for the next 12 months. However, there are some differences between several regions and nations. For example, compared to the national average, Scotland reported the lowest business confidence amongst all regions and nations at 5.9.

Within the English regions, the largest improvement in business confidence was reported by the North West, which increased by 0.9 points to 7.7. Businesses in this region are also the most confident in the UK. The next two most confident regions are the South East and London and Yorkshire & Humber. Wales also reported a high confidence level too.

However, not all parts of the UK reported an improved business confidence level. Though, surprisingly, in this edition only one region reported a relative decline, the East of England. Manufacturers here reported a confidence level of 6.3, a decline of 0.7 points and comparatively the least confident English region. Though it remains in positive territory which is testimony to the high levels of confidence observed in all parts of the UK.

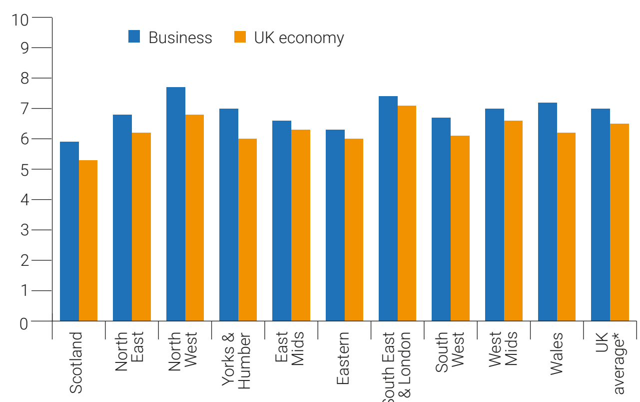
## UK ECONOMY CONFIDENCE

Manufacturers' confidence in the overall UK economy came in at 6.3 this quarter, an improvement on the previous quarter's level of 6.0.

Following one of the shortest recessions on record, UK GDP growth rebounded sharply, relatively speaking, by 0.6% in the first quarter of 2024. This confirmed that the economic downturn would be short-lived and has, as expected, impacted manufacturers' views of the wider economy who are more confident about the nation's prospects in the short term. Nevertheless, as the uncertainty of an election is not yet built into our confidence metrics it is not possible to say how this might impact confidence in economic conditions.

### All UK regions and nations report positive business confidence

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




* Average =/= component parts due to instances of undeclared regionality

Source: Make UK Manufacturing Outlook Survey.

## Regional summary

% balance of change

| | OUTPUT | | TOTAL ORDERS | | EMPLOYMENT | |
|---|---|---|---|---|---|---|
| REGION | PAST 3 MONTHS | NEXT 3 MONTHS | PAST 3 MONTHS | NEXT 3 MONTHS | PAST 3 MONTHS | NEXT 3 MONTHS |
| Scotland | 11 | 20 | 9 | 28 | 14 | 32 |
| North East | 42 | 17 | 17 | 8 | 25 | 8 |
| North West | 42 | 21 | 58 | 21 | 16 | 11 |
| Yorks & Humber | 29 | 41 | 32 | 27 | 5 | 27 |
| East Mids | 11 | 16 | 32 | 0 | -11 | 16 |
| Eastern | -39 | 50 | -33 | 17 | -6 | 6 |
| South East & London | 24 | 42 | 29 | 45 | 8 | 32 |
| South West | -11 | 6 | -17 | 11 | -6 | 33 |
| West Mids | -8 | 54 | 23 | 62 | -8 | 8 |
| Wales | -18 | 27 | 18 | 45 | 9 | -27 |

Source: Make UK Manufacturing Outlook Survey

# ECONOMIC ENVIRONMENT

The UK is officially no longer considered to be in a recession, according to the most recent GDP update from the Office of National Statistics (ONS). Despite contracting marginally in back-to-back quarters toward the second half of 2023, output bounced back with a 0.6% growth in the first quarter of this year. Though many analysts are eagerly reading into this technical recovery as a sign that this is a turning point for the UK, experiences on the ground often reflect a more pessimistic sentiment with slowing demand and high costs continuing to drag on business activity.

Nevertheless, business conditions are starting to look up, relatively speaking, with order books indicated to be growing in the latest survey results. However, economic performance amongst major international competitors is mixed. According to forecasts produced by Oxford Economics, the US is expected to grow by 2.6% in 2024 (in line with the world average) as they maintain a trend-bucking trajectory compared to the experience of other Western nations. In contrast, the GDP forecast for Germany is expected to be flat before returning to modest growth in 2025. The Eurozone as a whole, however, is expected to perform slightly better on average and grow by 0.8% this year.

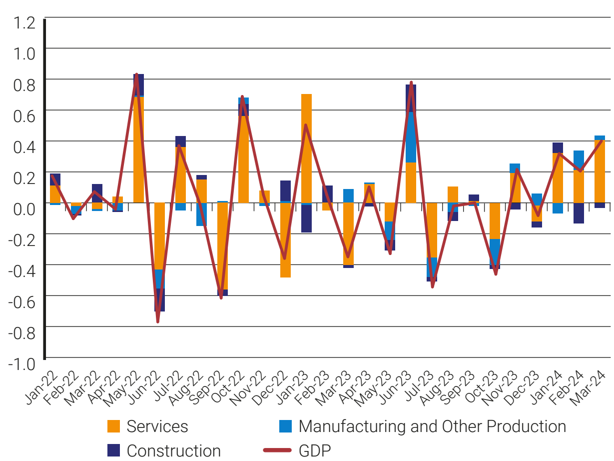
Furthermore, major economies in Asia, such as China and India, expect to perform well this year on output. It is important to keep account of the activities of these nations as the UK's own performance will be partially interlinked to the economic performances of other nations too. This is particularly the case for countries the UK trades heavily with, like the US and Germany and countries where there is a strong desire to settle free trade agreements (FTA), like with India.

Nevertheless, the recent string of GDP results for the UK have been surprisingly unrepresentative of daily life for both businesses and households. This is exemplified more when measuring the cost crisis. Though headline consumer price inflation, reported as a change in a 12-month rolling average for prices, has dropped to 2.3%, much of this slowdown in price growth is down to falling energy prices. The cost of food, fuels and other materials remain elevated, and still significantly higher than the average price of goods only just a few years ago. As a result, wages have had to adapt to preserve quality of life and the cost of labour has increased substantially, impacting businesses, particularly manufacturers who already face difficulties filling vacant roles.

The impact of rising costs is multiplied further when facing the highest interest rate set by the central bank since the global financial crisis. This would certainly have a greater impact on smaller manufacturers who are likely to be deterred from accessing finance and face limited potential from investment projects if they are not able to scale. The added concern to this is that investment will play a key factor in solving the productivity challenge, especially at a critical time when innovation in AI and energy efficiency technologies are accelerating and adoption is becoming mainstream for larger organisations. Manufacturers cannot afford to fall behind and must diversify their cost management strategies to focus more on enabling greater investment in productivity-enhancing technologies.

**UK recession confirmed to have ended in Q1 2024**

Contributions to monthly GDP, percentage points, January 2022 to March 2024




Source: ONS

At the time of writing the general election has been called, with potentially an imminent change in power on the horizon. Regardless of the outcome, the direction of policy will change with potential new legislations that will impact worker rights, reforms to the tax system and stronger calls for greater investment in infrastructure. In the interim, the uncertainty may deter some business activity as manufacturers wait-and-see the results before acting upon any major investment projects. However, it is expected, whatever the outcome, that industry will experience some welcome stability, assuming consistency in the policy landscape.

Finally, the UK continues to engage with international parties on negotiating new FTAs with countries post-Brexit. Few treaties have materialised and further collaborative work is needed with the European Union to iron out challenges in the Trade Cooperation Agreement (TCA) related to the increased administrative burden placed on businesses, the application of worker permits and any risks to regulatory divergence that may occur in the future.

## UK Economic Forecasts

% change except where stated

| | 2023 | 2024 | 2025 |
|---|---|---|---|
| **TRADING ENVIRONMENT** | | | |
| Exchange rate (€/£) | 1.15 | 1.17 | 1.17 |
| Exchange rate ($/£) | 1.27 | 1.26 | 1.27 |
| Exports | -0.3 | -0.9 | 2.7 |
| Imports | -1.3 | 0.2 | 4.7 |
| Current account (% GDP) | -2.6 | -2.7 | -3.1 |
| **OUTPUT** | | | |
| Manufacturing | 1.1 | 1.2 | 0.8 |
| GDP | 0.3 | 0.9 | 2.0 |
| **COSTS AND PRICES** | | | |
| Average earnings | 7.4 | 4.2 | 2.7 |
| Oil price (Brent Oil $/bl) | 82 | 84 | 78 |
| **EMPLOYMENT** | | | |
| Manufacturing (000s) | 2,603 | 2,586 | 2,562 |
| Rest of economy (000s) | 36,689 | 36,987 | 37,494 |
| Unemployment rate (%) | 4.1 | 4.3 | 4.0 |

Source: Oxford Economics and Make UK

[1] Consumer price inflation, ONS (February 2023).

## International Economic Forecasts

% change

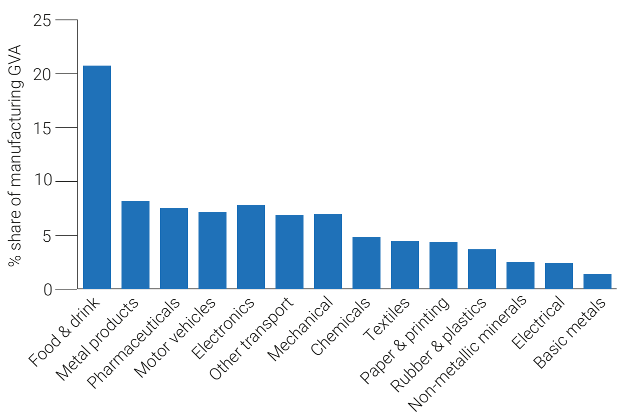
| | GDP | | | INFLATION | | |
|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2023 | 2024 | 2025 |
| US | 2.5 | 2.6 | 1.9 | 4.1 | 3.3 | 2.5 |
| Eurozone | 0.5 | 0.8 | 1.8 | 1.9 | 2.2 | 1.3 |
| France | 0.9 | 0.9 | 1.9 | 4.9 | 2.3 | 1.2 |
| Germany | -0.2 | 0.0 | 1.3 | 5.9 | 1.6 | 0.5 |
| Japan | 2.0 | 0.5 | 0.9 | 3.3 | 2.2 | 1.5 |
| China | 5.2 | 4.7 | 4.1 | 0.2 | 0.4 | 1.5 |
| India | 7.0 | 6.3 | 7.4 | 5.7 | 4.7 | 4.5 |
| World (US$ weighted) | 2.7 | 2.6 | 2.8 | 6.0 | 4.5 | 3.3 |

Source: Oxford Economics

# SECTOR FORECASTING 24Q2

### Q2 2024 Manufacturing Sector composition by GVA (% share)

Subsector share of Manufacturing Gross Value Added




Source: Oxford Economics

## FOOD & DRINK

The **Food & Drink** subsector is the largest UK manufacturing subsector, accounting for 21.3% of manufacturing Gross Value Added (GVA), holding steady in share compared to last quarter's data. In keeping with the improvement seen across the wider sector's prospects for 2024, the subsector sees its output growth forecast for 2024 rise to a projected 2.2% growth, with further mild growth of 0.5% expected in 2025. Employment is expected to hold steady in 2024, with a decrease of only -0.1% forecast for 2024, but a more meaningful decrease of -1.3% in 2025 is expected.

## ELECTRONICS

The **Electronics** subsector has just come shy of shrugging off its marginally negative forecast for output growth in 2024, receiving a slightly worse forecast last quarter. In the latest round, the subsector is expected to see its output shrink by -0.2% in 2024, but follow in 2025 with 1.3% growth. Employment, on the other hand, is expected to see contractions across both years, by -1.2% in 2024 and then by a lesser 0.7% in 2025. Nevertheless, these forecasted declines still do not bite below the growth the subsector saw across both output and employment in 2023.

## BASIC METALS AND METAL PRODUCTS

The **Basic Metals** subsector has seen a significant downward revision to its forecast. It had held a slightly negative forecast last quarter, but the latest round shows that it is forecast to see a decline in output by -10.2%, over twice the scale that had been suggested last quarter. 2025's expectation bodes similarly poorly, with a further commensurate -10% contraction in output expected. Employment is set to follow a similar path, with a -6.6% reduction forecast in 2024, and a similar -6.3% reduction in 2025. This subsector holds the most negative growth forecasts for both output and employment this quarter, across both 2024 and 2025.

The **Fabricated Metals** subsector has now seen its prospects almost entirely unshackled from the Basic Metals subsector, as historically they had been linked in performance. This subsector enjoys one of the more positive output forecasts for 2024, with a growth of 4.0% expected. This is well above, and more than triple the expected rate of output growth of all subsectors, which stands at 1.2%. 2025 is expected to see this growth cool, with a more modest 0.7% growth in output expected. Employment is set to expand in 2024 by 1.2%, but decline a little in 2025 by -0.4%.

## MECHANICAL EQUIPMENT

Typically, the **Mechanical Equipment** subsector's forecast is tied to the domestic investment intentions of the wider sector, as it is so often a direct recipient of that capital expenditure. However, this latest forecast suggests that the subsector will see a decline in output in 2024 by -6.1%, one of the more negative forecasts for 2024 this quarter. Nevertheless, this negativity is set to be short-lived, with expectations for 2025 much more expansionary, with growth in output by 8.5% expected. Employment will decline across both years, however, by -1.1% in 2024 and by -2.0% in 2025.

## TEXTILES

The **Textiles** subsector has seen its forecasted output growth for 2024 decline following last quarter's already negative expectations. The latest figures show that the subsector is expected to contract in output this year by -4.5%. This expected decline comes following a significant decline in output in 2023 by -8.7% also. Neither prospects for 2025 are positive, with a continued output decline next year of -3.4%. The subsector holds the most negative expected contraction in employment for 2024, standing at -10.6%, which is expected to continue into 2025, albeit at a lesser rate, by contracting by -4.3%.

### PAPER & PRINTING

The **Paper & Printing** subsector has seen its prospects falter after receiving a positive revision to its forecast for output growth last quarter. The latest data expects this subsector to now see a small contraction in its output in 2024, by -1.3%. Expectations remain contractionary for 2025, albeit slight, with a further reduction in output by -0.4% next year. Employment is forecast to see far more severe contractions, particularly in 2025. In 2024, the subsector is forecast to see a contraction in headcount by -3.1%, but a far more significant -7.7% in 2025. This is the most contractionary employment forecast for 2025 out of all manufacturing subsectors.

### ELECTRICAL EQUIPMENT

The **Electrical Equipment** subsector has seen a downward revision in its forecast. Negatively bucking the overall positive trend seen across the wider sector. Having previously held an expansionary forecast for output in the first quarter of the year, this has now been revised down to expect a contraction. The subsector is forecast to see a decline in output by -1.1% in 2024, but recover the majority of that reduction in 2025 with growth expected by 1.0%. However, employment is forecast to increase over the coming year and a half, by 1.1% in 2024 and then by a further 1.5% in 2025.

### NON-METALLIC MINERALS

The **Non-metallic Minerals** subsector is known as the subsector that supplies the construction market, providing products such as bricks, mortar, glass and other related products. Given this, the sectors' prospects are often tied to the ebb and flow of construction activity in the UK, and to a lesser degree, in the EU and other countries. With the suppression in construction activity in 2023, it followed that this subsector saw one of the more significant negative contractions in output in 2023. That suppression continues to have a knock-on effect on the subsectors' output levels, as the latest forecast for its output in 2024 stands at -7.5%, although this is expected to ease come 2025, where output is expected to grow 3.7%. Employment is forecast to decline in 2024, by -1.1%, and then grow by 0.8% in 2025.

### PHARMACEUTICALS

The **Pharmaceuticals** subsector has seen consistent output growth over the past years. Initially, this burst of growth stemmed from the pandemic-related interventions it manufactured. However, years on from the peak of this demand, output growth remains robust for the subsector, surpassing the wider manufacturing sector growth trend in each instance. The latest forecast shows that the Pharmaceuticals subsector is expected to grow in output by 4.4% in 2024, with further growth by 1.6% in 2025. Total employment is expected to decline in the same period, by -2.7% in 2024 and by -0.5% in 2025.

### CHEMICALS

The **Chemicals** subsector sees a much flatter forecast than that of its proximal neighbour the Pharmaceuticals subsector. It saw significant declines in output in 2023, but 2024's forecast suggests that that bleed has stopped. The subsector is forecast to contract by only -0.2% this year, effectively a no-change forecast, and a return to growth in 2025 by 2.6%. Employment is forecasted to contract in 2024 by -2.8%, but then stabilise in 2025 with a slight expansion of 0.6%.

### RUBBER & PLASTICS

The **Rubber & Plastics** subsector saw one of the largest contractions in output in 2023, by -7.8%. The contraction is forecast to continue in 2024, but to a lesser extent, with a reduction in output of -2.1% expected. 2025's output prospects flatten to 0% change expected. For employment in the subsector, very little change is expected over the next year and a half. A 0% change in employment is expected in 2024 and a very slight growth of 0.2% in 2025.

### MOTOR VEHICLES (AUTOMOTIVE)

By far the largest growth subsector in 2023, the **Motor Vehicles** subsector saw an increase in its output during this time by 18.9%. This average exceeding growth is set to continue in 2024, with more output growth by 6.6% expected. However, this is expected to cool into a contraction in 2025, with a reduction in output by -5.1% over that time. Despite this output growth, employment is forecast to contract across both years, by -1.0% in 2024 and by -2.6% in 2025.

### OTHER TRANSPORT

The **Other Transport** subsector which is comprised of aerospace, defence, shipping and rail industries, enjoyed its long-awaited return to growth in 2023 after suffering consecutive years of contraction following a period where the subsector didn't render growth in the same fashion other subsectors did during the post-pandemic recovery period. Now the subsector has consistent and positive expectations for its growth over the coming two years. 3.3% growth in output is forecast for the subsector in 2024, and a further 3.3% is forecast for 2025. Employment is expected to grow in 2024 by 1.3%, but contract a little in 2025 by -0.5%.

## Sector growth rates and forecasts

% change

| | OUTPUT | | | EMPLOYMENT | | |
|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2023 | 2024 | 2025 |
| Basic metals | 5.2 | -10.2 | -10.0 | -8.5 | -6.6 | -6.3 |
| Metal products | 3.5 | 4.0 | 0.7 | 8.1 | 1.2 | -0.4 |
| Mechanical | -3.9 | -6.1 | 8.5 | -1.2 | -1.1 | -2.0 |
| Electronics | 4.3 | -0.2 | 1.3 | 2.6 | -1.2 | -0.7 |
| Electrical | 0.1 | -1.1 | 1.0 | -0.1 | 1.1 | 1.5 |
| Motor vehicles | 18.9 | 6.6 | -5.1 | 0.6 | -1.0 | -2.6 |
| Other transport | 6.8 | 3.3 | 3.3 | 4.0 | 1.3 | -0.5 |
| Food & drink | -0.2 | 2.2 | 0.5 | -1.7 | -0.1 | -1.3 |
| Chemicals | -9.1 | -0.2 | 2.6 | -6.7 | -2.8 | 0.6 |
| Pharmaceuticals | 9.9 | 4.4 | 1.6 | 2.9 | -2.7 | -0.5 |
| Rubber and plastics | -7.8 | -2.1 | 0.0 | -4.8 | 0.0 | 0.2 |
| Non-metallic minerals | -10.2 | -7.5 | 3.7 | -2.5 | -1.1 | 0.8 |
| Paper and printing | -5.4 | -1.3 | -0.4 | -3.1 | -7.7 | -3.5 |
| Textiles | -8.7 | -4.5 | -3.4 | -10.6 | -4.3 | -1.5 |
| **Manufacturing** | **1.1** | **1.2** | **0.8** | **-0.9** | **-1.1** | **-1.0** |

Source: Oxford Economics

Source: Oxford Economics

# BDO VIEWPOINT

## DIGITAL TRANSFORMATION IN THE MANUFACTURING SECTOR

Manufacturers have maintained a steady pace this quarter with an uptick in export orders, a tempering of price setting behaviours and confidence levels soaring at the most rapid rate since the close of 2022.

However, investment figures have plateaued since the last quarter. As the sector grapples with the relentless pace of technological change, the importance of investment in digital infrastructure cannot be overstated. Without robust funding, the foundations of digitalisation risk being too fragile to support the weight of genuine transformation.

## THE PACE OF CHANGE

Many manufacturers considering digital transformation are doing so because they are wrestling with outdated systems that are 10-20 years old. In the time that has passed since implementing those systems, the pace of external change has drastically increased. We are now in a world where cloud computing constantly upgrades systems, cyber threats evolve daily, customer journeys are increasingly online and integrated, and regulations change at speed.

It is no longer enough to buy a quality IT system that will last for 10 years. UK manufacturers need to buy both the right solution for now and the right solution to grow into the unknown future. Change is the new constant. The platform, people and processes that can support constant change are the new normal.

## A PLATFORM FOR GROWTH

With this is mind, manufacturers need to see the implementation of new IT systems not as a finish line, but as the start of a much longer journey. Digital transformation is about evolving your organisation into one that can support swift changes to export regulations, alter product types to quickly respond to customer trends, guard against the latest international cyber threats and prepare itself for the advent of AI.

This means not only buying a product that has a 'roadmap' and lots of application programming interfaces, but thinking about how your whole organisation is set up to foster continuous improvement and development. Your IT system needs a continuous improvement strategy. It needs people to identify and develop the opportunities, and a pipeline process to safely and efficiently manage these changes. Not only that, it also needs feedback loops to analyse the impacts and benefits of change and react accordingly.

Key considerations:

- Is the software vendor committed to providing upgrades to support key changes to health and safety and export regulations?
- Will my IT platform allow me to efficiently collate and analyse data from multiple production systems?
- When creating my IT architecture, am I thinking holistically about designing a system that can eventually allow, for example, sales and pipeline data to support demand planning, production scheduling, recruitment, etc?

## THE TORTOISE AND THE HARE

When looking to implement a large-scale digital transformation, don't bite off more than you can chew and try to deliver the entirety of your vision in one fell swoop. The end goal of revolutionary change and 100% growth might be achievable, but only if you take it a step at a time and create the framework for the next steps after that. A nice, safe implementation of a minimum viable product, alongside a clear and immediate plan for continuous improvement, will not only get you what you know you need now, but what you didn't yet realise you need for the future.

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

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

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

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

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The data used in this survey have been provided by UK manufacturers including members of Scottish Engineering, Manufacturing NI, and Make UK. Contributing to our surveys helps to accurately reflect trends and behaviours that shape the UK manufacturing sector. If you would like to participate in future surveys, please contact our Information and Research team research@Makeuk.org

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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, automotive, building products, chemicals and pharmaceuticals, food and drink, electronics, industrials, test and measurement and technology.

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