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REGIONAL MANUFACTURING OUTLOOK 2020



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YOUR LOCAL MAKE UK AND BDO CONTACTS

Make UK



Ben Fletcher
Executive Director
bfletcher@makeuk.org

Midlands and the East



Charlotte Horobin
Region Director
01664 484 281
chorobin@makeuk.org

North



June Smith
Region Director
01709 782 945
jsmith3@makeuk.org

South



Jim Davison
Region Director
01256 741 032
jdvason@makeuk.org

Wales



Janis Richards
Membership Director - Wales
07920 117165
jrichards@makeuk.org

BDO

National



Tom Lawton
Head, BDO
Manufacturing
07778 343 346
tom.lawton@bdo.co.uk

East Anglia



Keith Ferguson
Partner
07796 278 303
keith.ferguson@bdo.co.uk

London



Richard Willis
Partner
07943 923 542
richard.willis@bdo.co.uk

Midlands



Jon Gilpin
Partner
07970 115 322
jon.gilpin@bdo.co.uk

North East and Yorkshire and the Humber



Steve Talbot
Partner
07814 092 431
steve.talbot@bdo.co.uk

North West



Graham Ellis
Director
07812 677 047
graham.ellis@bdo.co.uk

Reading



Chris Pooles
Partner
07831 556 938
chris.pooles@bdo.co.uk

Scotland



Martin Bell
Partner
07722 990 444
martin.bell@bdo.co.uk

South East



Mark Hutton
Director
07976 198 893
mark.hutton@bdo.co.uk

South West and Wales



Matthew Sewell
Partner
07971 761 818
matthew.sewell@bdo.co.uk

Southampton



Arbinder Chatwal
Partner
07880 794 021
arbinder.chatwal@bdo.co.uk

FOREWORD



Seamus Nevin
Chief Economist
Make UK



Tom Lawton
Head, BDO Manufacturing
BDO LLP

This is the sixth annual Regional Manufacturing Outlook report, in partnership with BDO. In it Make UK outline how trends in manufacturing have evolved around the UK over the past year, with insight from four quarters of research.

The dawn of a new decade came with a renewed optimism from manufacturers about a fresh start for the UK. Following a turbulent 2019, political certainty was restored for manufacturers when the topsy-turvy 'Will they? Wont they?' of the EU exit drama was finally settled with the UK's departure on January 31st. A decisive General Election result for the Conservative Party late last year combined with the tenable promise of pro-business policy action blew a sturdy tailwind behind an industry that had been yearning for the opportunity of healthy growth.

Confidence grew, investment rose, and expectations for both output and orders also spiked. Manufacturers were making clear that the new decade was going to spring fresh buds of industrial activity in the UK.

Then, almost without warning, the global economy came to an abrupt halt. In a manner unlike any other economic crash that has occurred in recent history the way that orders were cancelled, capital expenditure plans ditched, and factories shuttered was as wide as it was swift. For many in the industry business survival became a sole concern.

As a consequence, a number of regions have produced surprising results in recent surveys. Both the South West and Wales reported high levels of volatility for output and total orders this year. Their respective manufacturing sectors are weighted towards the aerospace subsector,

which was one of the first hit as a result of reduced air travel. Other regions in the UK that specialise in transport equipment have suffered too, particularly the North West and West Midlands which are both home to a large number of Motor Vehicles firms. The motor industry had been struggling even before the current crisis but the global pandemic has exacerbated its challenges.

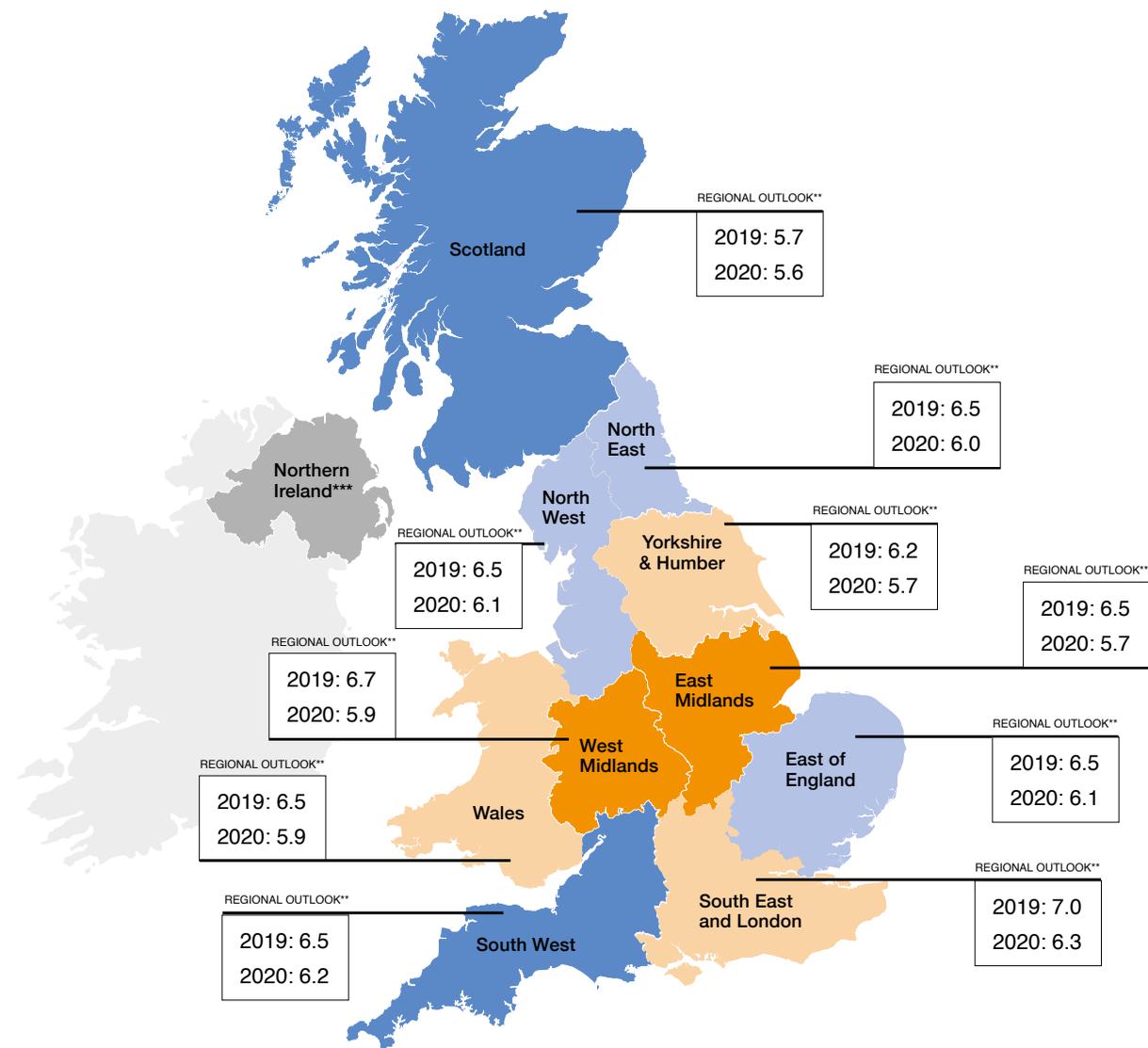
By contrast, the nations and regions that are weighted most towards Food & Drink have fared relatively better in recent months. The East of England, Yorkshire & the Humberside and Scotland, will no doubt benefit from the increase in household consumption as a result of the COVID-19 lockdown.

Nevertheless, as this year's Regional Manufacturing Outlook makes clear, no subsector of UK manufacturing is immune to the impacts of COVID-19. Yet the sector has shown its strength in responding to the national need for medicines, PPE equipment, ventilators and vitals to help us get through these difficult times. While the results of this report might be disappointing, the resilience of UK manufacturers is unquestioned and the importance of maintaining a robust and innovative manufacturing base has been made clear for all to see.

REGIONAL SNAPSHOT

As a result of a particularly challenging year, all of the UK's nations and regions have seen a contraction in business confidence when compared with Make UK and BDO's previous Regional Manufacturing Outlook. This is partly due to very negative results from our most

recent Q2 Manufacturing Outlook survey. Regardless, the regions that have reported the biggest negative change in confidence include both the East and West Midlands – both of which are home to a large number of automotive and aerospace firms.



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

KEY****
 ■ Small relative change in confidence
 ■ Large relative change in confidence

*Business Confidence Indicator: Manufacturer's confidence about their own business performance in the next twelve months.
 **Regional Outlook 2019 data based on 2018 Q3 - 2019 Q2, Regional Outlook 2020 data based on 2019 Q3 - 2020 Q2.
 ***Northern Ireland excluded from comparison due to missing data due to the nation's debut in this edition of Regional Outlook.
 ****While all regions and nations reported negativity in their confidence, the map has been coloured to show the relative differences between these confidence levels.

HOW DO THE REGIONS/NATIONS COMPARE

The first Regional Manufacturing Outlook of the decade shows a very negative picture of the individual performance of all regions and nations in the UK between Q3 2019 and Q2 2020. In comparison to our previous review almost a year ago, the average % balance of change has declined across the board, with less than a handful of improvements in the sample. To name the only two, Wales' investment intentions, although it remains negative, improved from -6% to -0.3% this year. The North East's employment balance similarly increased from 2% to 7%.

Although unfortunate, the negative scores can be explained by a number of factors. Firstly, this latest edition covers the worst period of uncertainty faced by manufacturers shortly before the two previous EU exit deadlines, whilst in contrast, our last Regional Manufacturing Outlook incorporated the astronomical boost manufacturers achieved as a result of stockpiling,

which temporarily and artificially inflated our indicators. Secondly, this year's edition includes the results from our Q2 2020 Manufacturing Outlook which reported record-breaking declines as a result of COVID-19's impact on UK and international trade.

Nevertheless, the South East & London remains a strong region with average positive balances for output, orders and investment. However, the region has conceded the top spot on output and orders to the North East. This edition is also the first to include Northern Ireland (NI), and if compared to other regions and nations like for like it would be the worst performer for output and orders. Compared to last year, Scotland again retains the top place in the investment intentions league table, indicating that manufacturers there are more willing to invest in new machinery or IT equipment than manufacturers anywhere else in Britain.

Regional summary

% AVERAGE BALANCE OF CHANGE 2019 Q3 - 2020 Q2**

| | OUTPUT | ORDERS | INVESTMENT | EMPLOYMENT | OUTPUT (Next 3 Months) |
|---------------------|--------|--------|------------|------------|------------------------|
| East Midlands | -19 ↓ | -26 ↓ | -7 | -8 | -65 |
| East of England | -4 | -2 | -3 | 2 | -35 |
| North East | 14 | 11 | -2 | 7 ↑ | -30 |
| North West | -11 | -7 | -9 | -3 | -40 |
| South East & London | 3 | 8 | 5 | -1 | -11 |
| South West | -4 | -11 | -15 ↓ | -4 | -21 |
| West Midlands | -9 | -8 | -13 | -9 ↓ | -30 |
| Yorkshire & Humber | 0 | -4 | 10 | 10.9 | -75 |
| Scotland | -12 | -15 | 15 | 0.4 | -50 |
| Wales | 5 | -4 | -0.3 ↑ | 11 | -50 |
| Northern Ireland* | -61 | -48 | 26 | -9 | -100 |

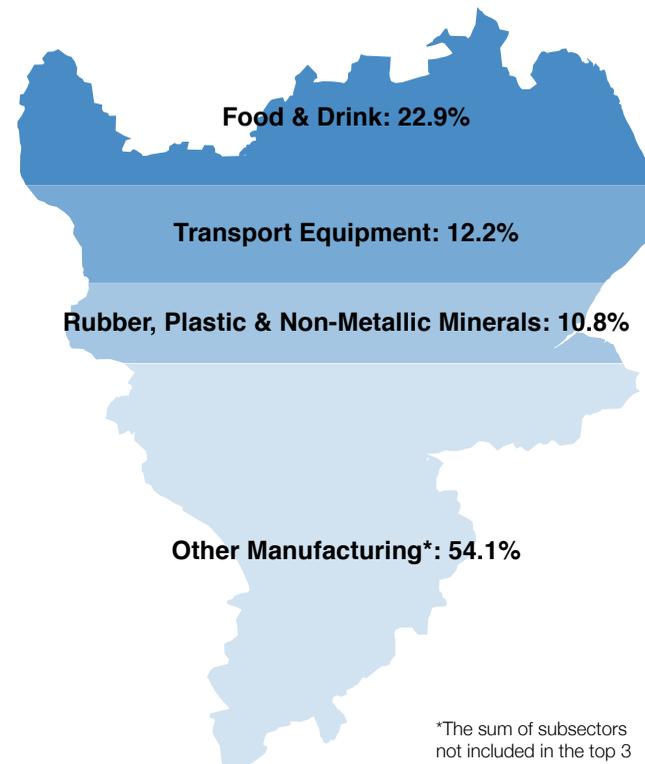
Source: Make UK Manufacturing Outlook Survey

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

* Northern Ireland has been excluded from the annual and regional comparison due to an incomplete series
 ** Output (next 3 months) figure is the average balance of output manufacturers in each region are expecting to achieve in the quarter following 2020 Q2. These figures originate from research undertaken for Manufacturing Outlook 2020 Q2.

EAST MIDLANDS

The East Midlands is the UK's eighth-largest region in terms of gross value add (GVA). 16.1% of the region's total output is generated from manufacturing, significantly above the UK average of 10%. Approximately half of the region's manufacturing output comes from just three subsectors. The largest subsector in this region in terms of output is the Food & Drink industry, with 22.9% of all manufacturing output. This is followed by Transport Equipment at 12.2%, and then the Rubber & Plastic and Non-Metallic Minerals subsector at 10.8%.



REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 5.7% | - |
| Manufacturing | 0.9% | 16.1% |
| Construction | 0.4% | 6.9% |
| Services | 4.1% | 71.5% |
| Other production | 0.3% | 5.5% |

Source: ONS (2019)

EMPLOYMENT

- There were 291,000 manufacturing jobs in the East Midlands in 2019, accounting for 12% of the region's total workforce and 0.8% of the UK total workforce.
- This is a decrease of 14,000 following our previous Regional Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

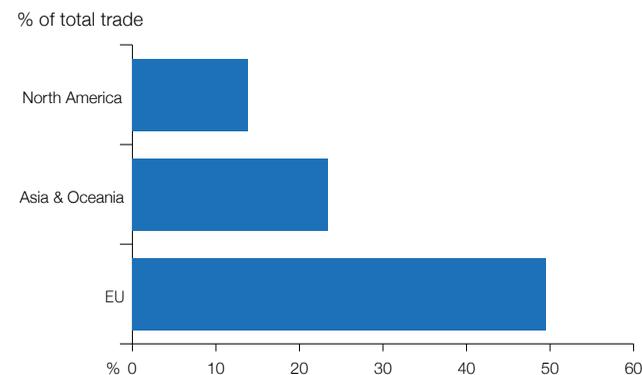
EXPORTS

- In 2019, the East Midlands accounted for 7% of the UK's total goods exports.
- The region maintains a marginally higher dependence on the EU for exports than other regions and nations, with 49% of exported goods journeying to the EU, one percentage point above the average.
- The next largest destination for East Midlands' goods is Asia & Oceania, accounting for 23% of goods exports. Followed by North America which accounts for 14% of goods exports.

PRODUCTIVITY

- The East Midlands' overall productivity is the 8th best in the UK, up one place from last year at 85.7% (UK=100).
- Manufacturing productivity is at 82.4% of the UK average, ranking 10th across all regions and nations.

Top three export markets for East Midlands' goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN THE EAST MIDLANDS

Not unlike other regions and nations in the UK, the East Midlands manufacturing economy has been severely impacted by the coronavirus pandemic. Output has fallen the furthest out of any UK region on average this year. The East Midlands expects output to contract further over the next three months, with a forecast balance of -65%.

OUTPUT FALLS FURTHEST THIS YEAR OUT OF ALL UK REGIONS AND NATIONS

UK ORDERS OUTPERFORM EXPORT ORDERS

INVESTMENT INTENTIONS NEGATIVE OVER YEAR AVERAGE

EMPLOYMENT INTENTIONS NEGATIVE, 3RD LOWEST INTENTIONS OVER THE YEAR ACROSS THE UK

BUSINESS CONFIDENCE SLIGHTLY BENEATH THE UK AVERAGE

In last year's edition of Regional Manufacturing Outlook we showed that the East Midlands had been the largest improver year on year. Now in 2020 the tables have turned, with the region turning in the worst result over the year across the entire UK. Orders performance was more negative than that of output, but they were the worst results for these metrics out of any region. The decline in orders outpacing output casts a troubling cloud over the region's potential recovery, as demand will need to recover before output can be raised to match.

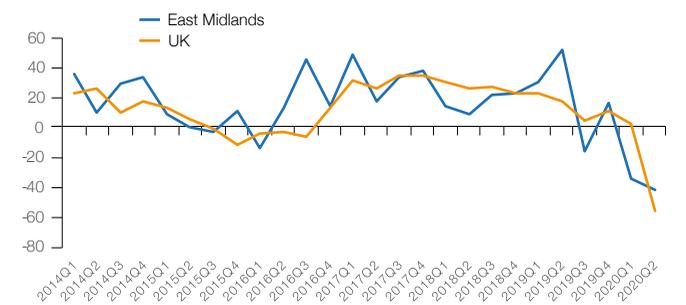
Following positive investment intentions last year, we now see a negative result for 2020. Not only has the massive negative shock of the coronavirus pandemic dragged down the region's result for the year significantly, but investment intentions had been weak throughout 2019 due to both political uncertainty and a lack of clarity around the future UK trading relationship with the EU.

Being the East Midlands' largest manufacturing subsector, one might have expected the recent boom in domestic consumer demand for products from the Food & Drink industry to increase the region's overall output, but any positive output effects were offset but by the sudden cessation of almost all demand from the hospitality and service sector between the end of the first quarter and the second quarter due to the national lockdown. However, this subsector has proved itself to be resilient, and benefits from consistent domestic demand, so it will be an important subsector to drive the region's manufacturing industry to recovery over the coming year.

As is consistent with enduring the worst-performing output and orders performance in the UK, business confidence here is 4.24, below the UK average of 4.79.

East Midlands' output balance declines sharply

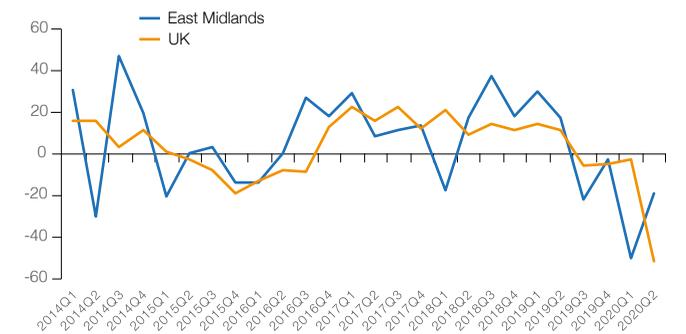
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

East Midlands' domestic orders are highly volatile

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



Source: Make UK Manufacturing Outlook Survey

EAST OF ENGLAND

The East of England is the UK's third largest region in terms of gross value add (GVA). 12% of the region's total output is generated from manufacturing, only slightly above the UK average of 10%. Just over a third of the region's manufacturing output comes from three subsectors. The largest subsector in this region in terms of output is the Food & Drink industry, with 14.4% of all manufacturing output. This is followed by Machinery Equipment at 12.2%, and then the Electronics subsector at 11%.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 8.7% | - |
| Manufacturing | 1.0% | 12% |
| Construction | 0.8% | 9% |
| Services | 6.6% | 76% |
| Other production | 0.3% | 3% |

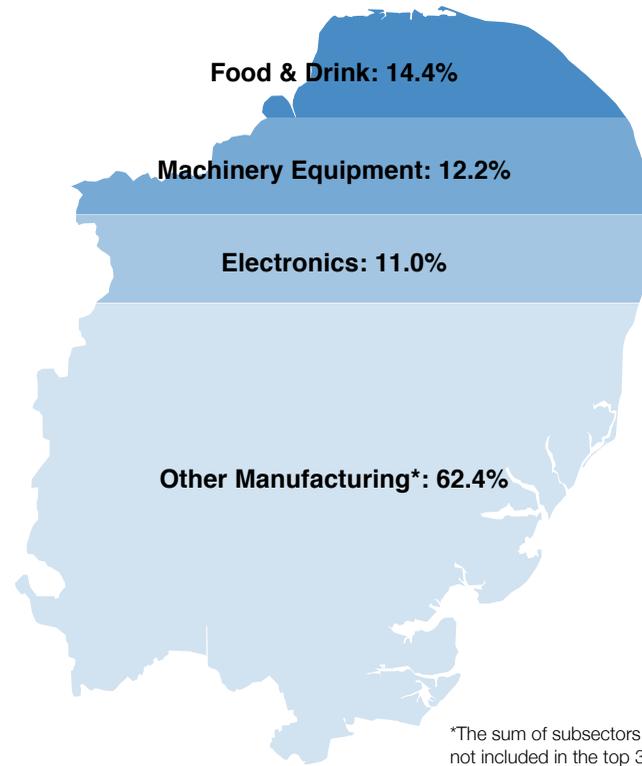
Source: ONS (2019)

EMPLOYMENT

- There were 234,000 manufacturing jobs in the East of England in 2019, accounting for 7% of the region's total workforce and 0.7% of the UK total workforce.
- This is a decrease of 10,000 following our previous Regional Manufacturing Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

EXPORTS

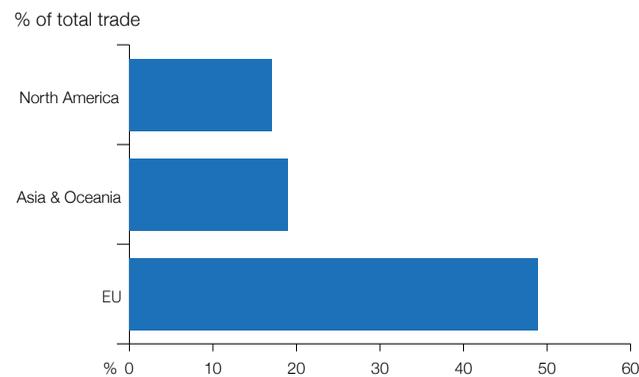
- In 2019, the East of England accounted for 7% of the UK's total goods exports.
- The region maintains a marginally higher dependence on the EU for exports than other regions and nations, with 49% of exported goods journeying to the EU, one percentage point above the average.
- The next largest destination for East of England's goods is Asia & Oceania, accounting for 19% of goods exports. Followed by North America which accounts for 17% of goods exports.



PRODUCTIVITY

- The East of England's overall productivity is the 3rd best in the UK, holding the same place as last year, at 94.5% (UK=100).
- Manufacturing productivity is at 110.8% of the UK average, ranking 2nd across all regions and nations.

Top three export markets for East of England's goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN THE EAST OF ENGLAND

Compared with other regions in the UK, the average balance of change over the year for the region's metrics has only been a moderately negative result, although it has failed to buck the negative trend in both output and orders seen right across the UK in Q2 2020. The East of England expects output to contract further over the next three months, with a forecast balance of -35%.

OUTPUT FALLS TO MODERATELY NEGATIVE LEVELS

ORDERS MARGINALLY NEGATIVE OVER THE YEAR

INVESTMENT INTENTIONS ALSO NEGATIVE OVER YEAR AVERAGE

EMPLOYMENT INTENTIONS MARGINALLY POSITIVE, THE ONLY POSITIVE METRIC FOR THE REGION'S YEARLY AVERAGE

BUSINESS CONFIDENCE ABOVE THE UK AVERAGE, AND JUST POSITIVE

Having posted positive results for both output and orders for every quarter since the end of 2016, it's disappointing to see that the sudden economic shock of the pandemic was severe enough to see the East of England's yearly average drop into negative territory. Furthermore, the last three quarters of results had been firmly above the UK average in each period.

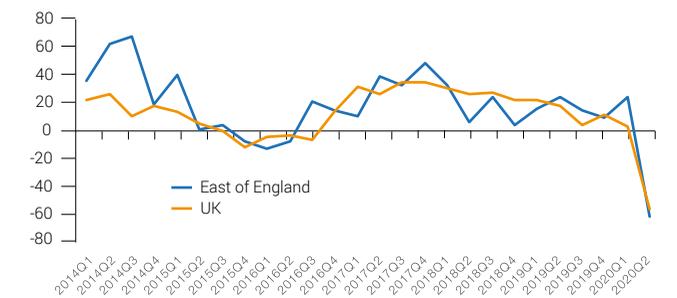
A particularly bad showing for output in the final quarter of this Regional Manufacturing Outlook's research has solely driven the year's performance into the negative, with a result 6 points lower than the UK average in the quarter. Employment also suffered in the final quarter of the research period (Q2 2020) following three preceding quarters of positivity. However, in contrast to output, the employment average balance of change remained marginally positive, even though the final quarter's result was below the UK average.

No individual subsector dominates manufacturing in the East of England, but the lion's share of output is generated by Food & Drink (14.4%), Machinery equipment (12.2%) and Electronics (11%). Just under half of all exports from the region are destined for EU shores, so not unlike many other regions in the UK, the future performance of the East of England's exports will be heavily influenced by the future trading relationship with the bloc.

Maintaining marginally positive business confidence at 5.05, the East of England bucks the UK average for business confidence. On the other hand, however, the East of England's confidence in the UK economy is 3.52, which is the joint-second lowest UK economy confidence value out of all regions and nations.

East of England's output worse than UK average during pandemic

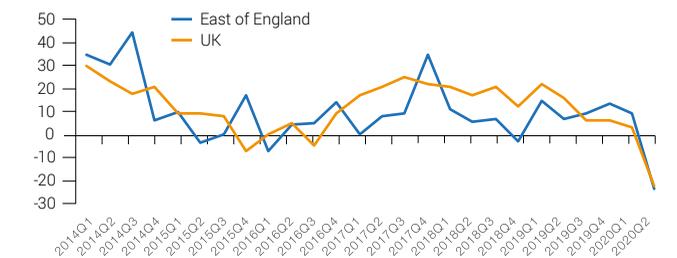
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Employment balance outperformed UK average prior to latest crisis

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

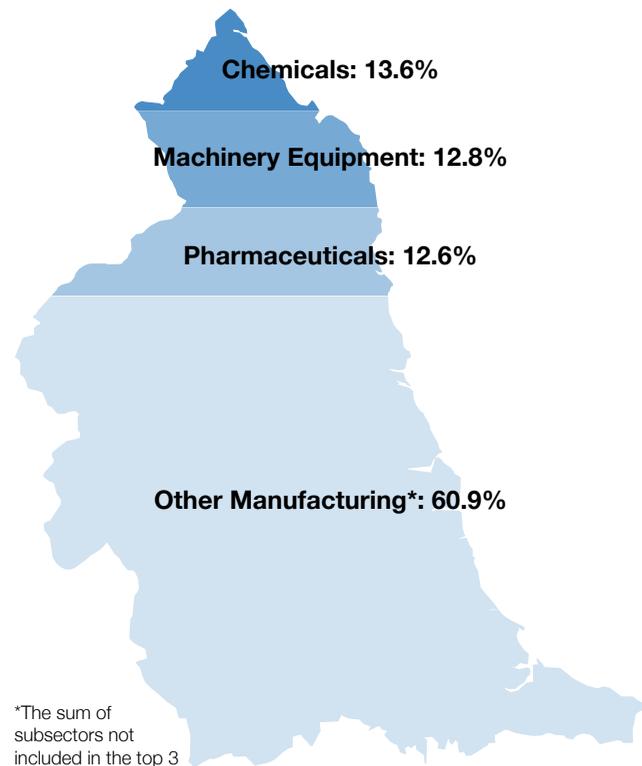
NORTH EAST

The North East is the UK's tenth largest region in terms of gross value add (GVA). 15% of the region's total output is generated from manufacturing, quite above the UK average of 10%. Approximately 40% of the region's manufacturing output comes from just three subsectors. The largest subsector in this region is Chemicals at 13.6%. This is followed by Machinery Equipment at 12.8%, and then the Pharmaceuticals subsector at 12.6%.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 2.9% | - |
| Manufacturing | 0.4% | 15% |
| Construction | 0.2% | 6% |
| Services | 2.1% | 75% |
| Other production | 0.1% | 5% |

Source: ONS (2019)



EMPLOYMENT

- There were 116,000 manufacturing jobs in the North East in 2019, accounting for 10% of the region's total workforce and 0.3% of the UK's total workforce.
- This is a decrease of 10,000 following our previous Regional Manufacturing Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

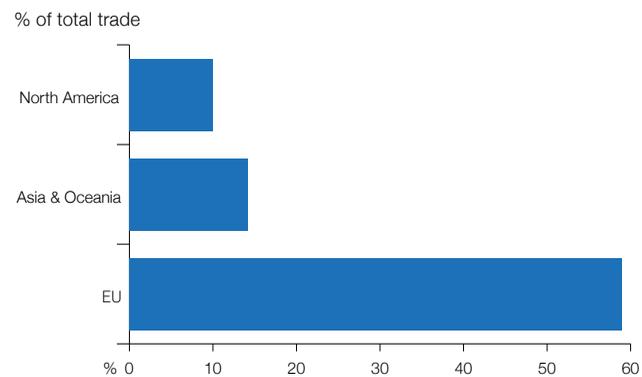
EXPORTS

- In 2019, the North East accounted for 4% of the UK's total goods exports.
- The region maintains the second-highest dependence on the EU for exports amongst other regions and nations, with 59.5% of exported goods journeying to the EU, approximately ten percentage points above the average.
- The next largest destination for the North East's goods is Asia & Oceania, accounting for 14% of goods exports. Followed by North America which accounts for 10% of goods exports.

PRODUCTIVITY

- The North East's overall productivity is the 7th best in the UK, at 85.7% (UK=100).
- Manufacturing productivity is at 92.8% of the UK average, ranking 8th across all regions and nations.

Top three export markets for North East's goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN THE NORTH EAST

This year's report places the North East as the top performer for both output and orders, and it is one of the only two regions that enjoy a positive balance for the year in both output and orders. Two of the largest manufacturing subsectors in the region are Chemicals and Pharmaceuticals, two industries which have seen sudden and anomalous spikes in demand due to the coronavirus pandemic. The North East region expects output to contract further over the next three months, with a forecast balance of -30%.

OUTPUT POSITIVE FOR THE YEAR, BUT TRENDING DOWNWARD THROUGH 2020

ORDERS BUCK THE TREND AND STAND POSITIVE

INVESTMENT INTENTIONS DO NOT FOLLOW SUIT, WITH MARGINAL NEGATIVITY

EMPLOYMENT INTENTIONS POSITIVE, AND THE BEST IMPROVEMENT YEAR-ON-YEAR OUT OF UK

HIGH BUSINESS CONFIDENCE, MOST CONFIDENT REGION IN THE UK

Given the current national circumstance, it is unexpected that a positive output figure would be reported, although the data does show output trending downwards since the end of 2019.

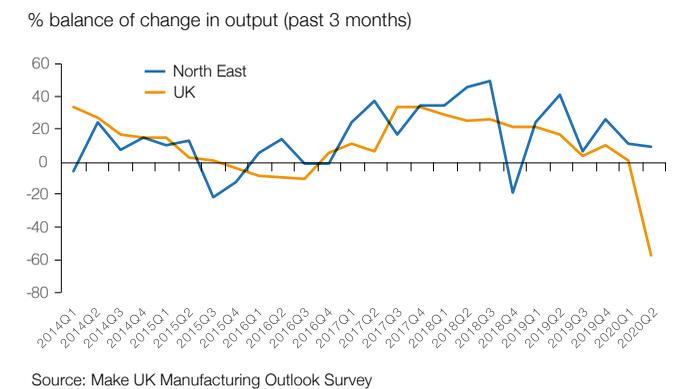
Due to the North East's manufacturing industry composition, weighted heavily towards the Chemicals and Pharmaceuticals subsectors, the region has likely benefitted from a significant demand buffer that has absorbed the negative impact that has undoubtedly hit other sectors in the region. While it is good news that the North East can report a positive year average, the duration of this positivity will be at the behest of what is assumed to be a short term spike in demand for products related to coronavirus interventions.

Investment intentions over the year, on average, are reported as negative, in contrast to positive employment expectations. Compared to last year's edition of Regional Outlook, employment expectations have risen the most out of all UK regions and nations.

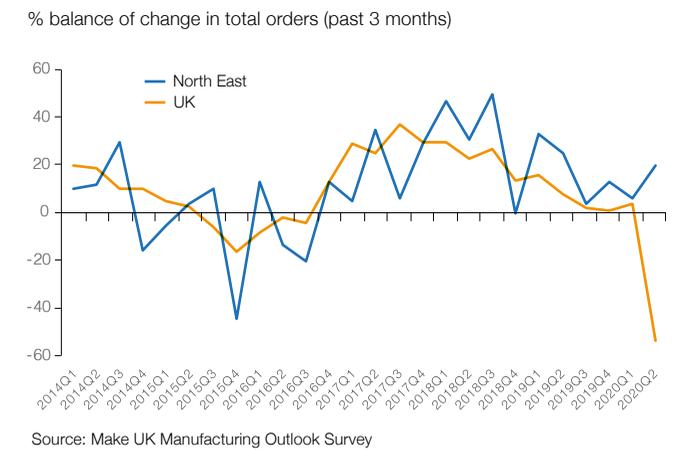
As the manufacturing sector in the North East is not only dependent on the Chemicals and Pharmaceuticals subsectors, but also one of the most dependent on EU exports, future trade and product regulation will be very important to the international trading future of manufacturing in the North East.

Positivity in orders and output has also translated into positive business confidence. The North East's business confidence of 6.22 is the highest confidence level in the UK in this edition. The same cannot be said for UK economy confidence at 4.3, however, this is still slightly above the average confidence in the UK economy.

North East activity outperforming UK

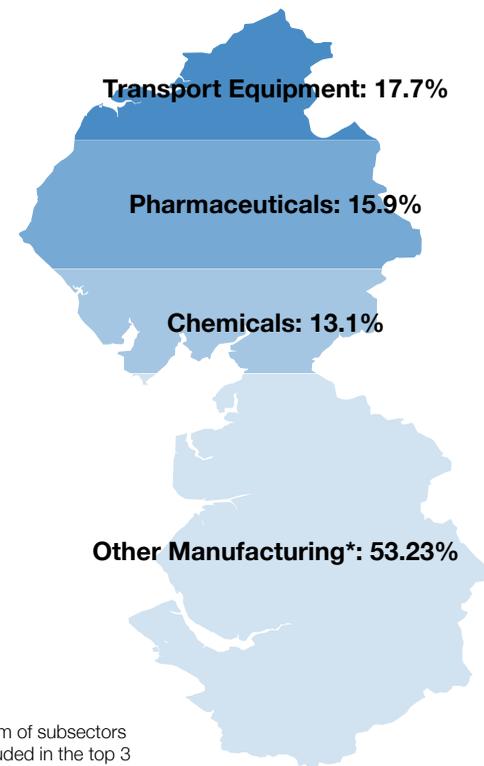


North East orders also outperform UK average



NORTH WEST

The North West is the UK's second largest region in terms of gross value add (GVA). 15% of the region's total output is generated from manufacturing, above the UK average of 10%. Just under half of the region's manufacturing output comes from three subsectors. The largest subsector in this region in terms of output is the Transport Equipment industry, with 17.7% of all manufacturing output. This is followed by Pharmaceuticals at 15.9%, and then the Chemicals subsector at 13.1%.



*The sum of subsectors not included in the top 3

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 10% | - |
| Manufacturing | 1.5% | 15% |
| Construction | 0.6% | 6% |
| Services | 7.3% | 76% |
| Other production | 0.3% | 3% |

Source: ONS (2019)

EMPLOYMENT

- There were 342,000 manufacturing jobs in the North West in 2019, accounting for 9% of the region's total workforce and 1% of the UK's total workforce.
- This is a decrease of 8,000 following our previous Regional Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

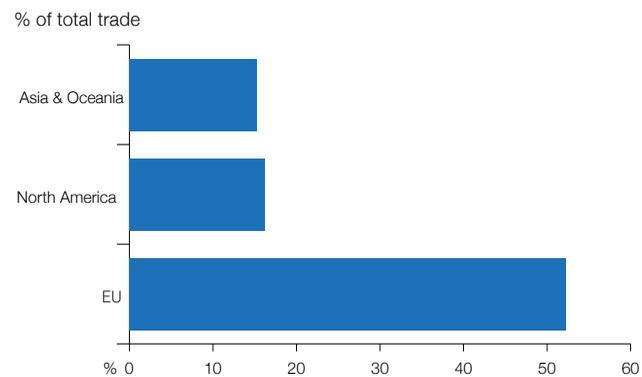
EXPORTS

- In 2019, the North West accounted for 8% of the UK's total goods exports.
- The region maintains an above-average dependence on the EU for exports amongst other regions and nations, with 52% of exported goods journeying to the EU, four percentage points above the average.
- The next largest destination for the North West's goods is North America, accounting for 17% of goods exports. Followed by Asia & Oceania which accounts for 16% of goods exports.

PRODUCTIVITY

- The North West's overall productivity is the 4th best in the UK, at 90.8% (UK=100).
- Manufacturing productivity is at 118.2% of the UK average, ranking 1st across all regions and nations.

Top three export markets for North West's goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN THE NORTH WEST

This year's research has placed the North West roughly in the middle of the pack in terms of the negativity in output and orders. Following an already tumultuous year for the North West, the coronavirus pandemic came at a time when the region needed a boost the most. The North West region expects output to contract further over the next three months, with a forecast balance of -40%.

OUTPUT NEGATIVE AS THE Q2 2020 RESULTS PULL THE YEARLY AVERAGE DOWN

ORDERS NEGATIVE BUT LESS SO THAT OUTPUT

INVESTMENT INTENTIONS FIRMLY NEGATIVE

EMPLOYMENT INTENTIONS NEGATIVE, BUT ONLY SLIGHTLY

MARGINALLY POSITIVE BUSINESS CONFIDENCE, ABOVE THE UK AVERAGE

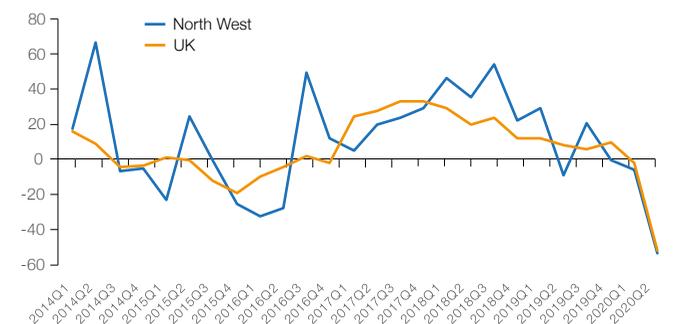
In this edition of Regional Outlook, the North West's data shows a typical result representative of the manufacturing industry as a whole. A troubled year of performance has now been compounded by the extraordinary shock of the coronavirus pandemic and subsequent national lockdown. With negative yearly balances measured for output, orders, investment and employment, the region, along with others in the UK, will have an uphill battle ahead of it before trading normality resumes.

The largest manufacturing sector in the North West is the Transport Equipment subsector. This subsector is historically robust, but reliance on long lead order books has created significant problems for the subsector during the coronavirus crisis. Beyond the struggling OEMs, many highly specialised intermediate companies rely on troubled up-stream customers such as Boeing and Airbus which are, in turn, struggling to find customers for their respective products. For intermediate firms in this highly specialised subsector often the majority of their order book comes from a small number, or in some cases just one, customer. As such, sudden drops in demand are likely in the current climate, and this is reflected in the extreme negativity seen in output in Q2 2020, which in turn has dragged the region's year average down significantly.

Nonetheless, business confidence here has remained just slightly positive at 5.47, and UK economy confidence just negative at 4.74, both of which are above the UK average.

Export orders generally outperformed the UK prior to the pandemic

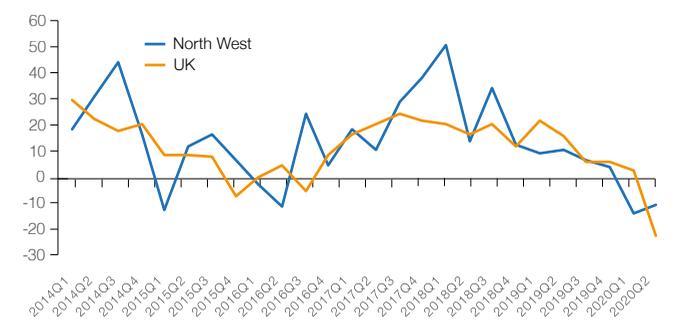
% balance of change in export orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Employment balance on average worse than the UK since late 2018

% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

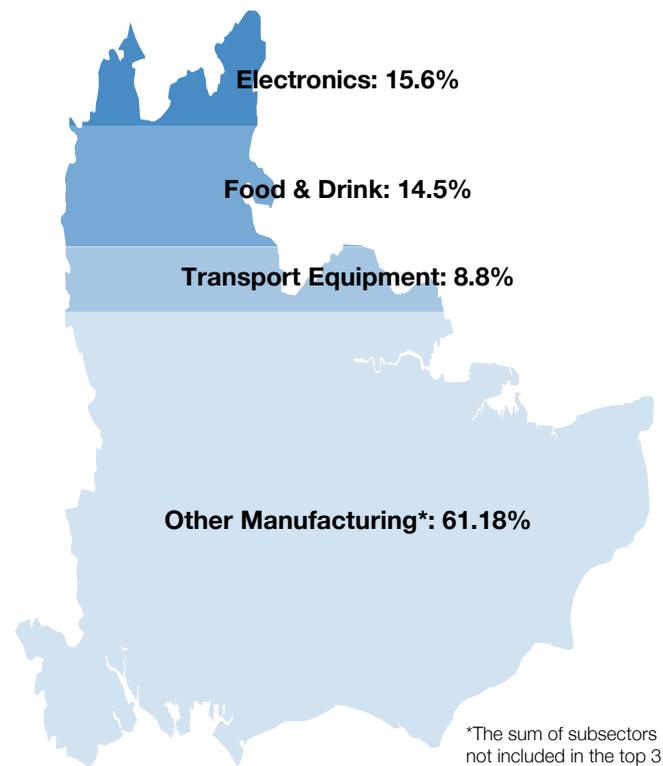
SOUTH EAST AND LONDON

The South East and London is the UK's largest region in terms of gross value add (GVA). 4% of the region's total output is generated from manufacturing, below the UK average of 10%. Approximately 40% of the region's manufacturing output comes from three subsectors. The largest subsector in this region in terms of output is the Electronics industry, with 15.6% of all manufacturing output. This is followed by Food & Drink at 14.5%, and then the Transport Equipment subsector at 8.8%.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 38% | - |
| Manufacturing | 2% | 4% |
| Construction | 2% | 5% |
| Services | 34% | 88% |
| Other production | 1% | 2% |

Source: ONS (2019)



EMPLOYMENT

- There were 430,000 manufacturing jobs in the South East and London in 2019, accounting for 3% of the region's total workforce and 1% of the UK's total workforce.
- This is an increase of 18,000 following our previous Regional Manufacturing Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

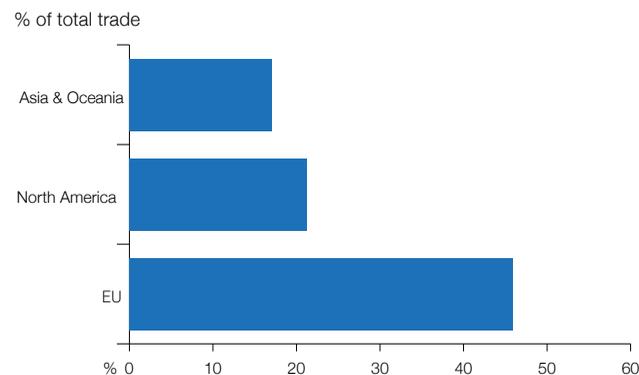
EXPORTS

- In 2019, the South East and London accounted for 26% of the UK's total goods exports.
- The region maintains below average dependence on the EU for exports amongst other regions and nations, with 46% of exported goods journeying to the EU, two percentage points below the average.
- The next largest destination for the South East and London's goods is North America, accounting for 21% of goods exports. Followed by Asia & Oceania which accounts for 17% of goods exports.

PRODUCTIVITY

- The South East and London's overall productivity is the best in the UK, at 119.3% (UK=100).
- Manufacturing productivity is at 102.3% of the UK average, ranking 4th across all regions and nations.

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



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN THE SOUTH EAST AND LONDON

The South East and London was one of only two regions to experience positive output and orders over the yearly average in this edition of Regional Manufacturing Outlook. Marginally positive investment intentions also paint a positive picture for the region over the past year. The South East and London region expects output to contract further over the next three months, with a forecast balance of -11%.

- OUTPUT REMAINS JUST POSITIVE DESPITE PANDEMIC
- ORDERS POSITIVE, OUTPACING OUTPUT
- INVESTMENT INTENTIONS POSITIVE
- EMPLOYMENT JUST MARGINALLY NEGATIVE
- POSITIVE BUSINESS CONFIDENCE, ALTHOUGH RELATIVELY LOW HISTORICALLY

The South East and London is the UK's largest source of manufacturing output by GVA. While output has remained positive on a quarterly basis, it has been trending downward since mid-2018. The decline in output we witnessed amongst the coronavirus pandemic in Q2 of this year was notably less than the UK average, by 25 percentage points. This same result can be observed in the South East and London's export performance too, where export orders saw an extraordinary downward turn, but nowhere near as severe as the UK average, with 30 percentage points difference between the UK average decline in export orders and the region's own.

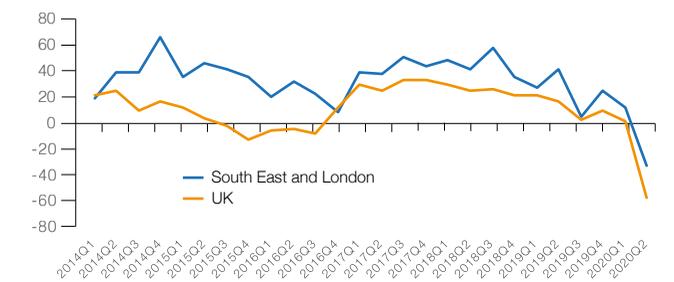
Partially responsible for this less-than-average decline will be the prominence of the Electronics subsector in the region. This subsector not only fuels consistent export performance, but it also benefits from being a subsector that generates demand from other industries, both domestically and globally.

Another contributing factor to the subdued impact the pandemic has had on output compared to the UK average is the renewed, albeit short-term, domestic demand for Food & Drink products. While the temporary shuttering of the hospitality industry has hampered orders significantly, there has been a sudden surge of demand for domestically produced food products that has dampened the negative effects on output in the region.

Business confidence in the South East & London is by convention one of the highest, and that trend continues with the region reporting a positive score of 5.54, although, this figure is substantially lower than in previous editions of Regional Manufacturing Outlook. UK economy confidence in this region is just negative at 4.91, but a whole point above the UK average.

South East & London output balance consistently outperformed UK average

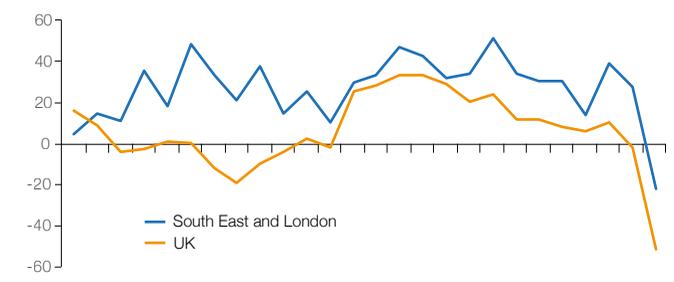
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Exports play a strong role in regions success

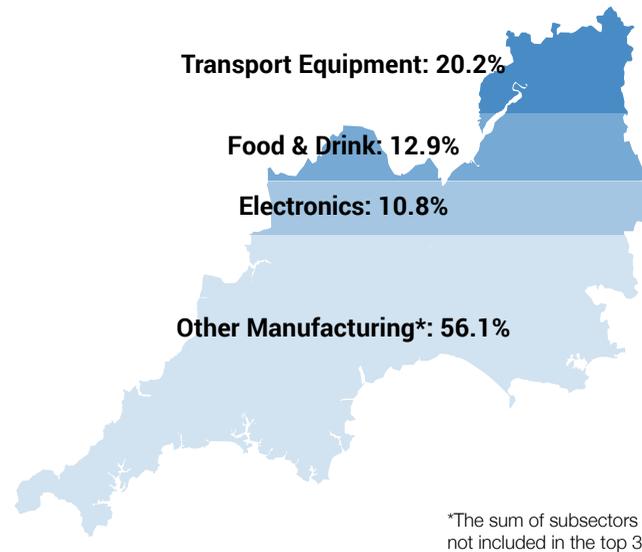
% balance of change in export orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

SOUTH WEST

The South West is the UK's sixth largest region in terms of gross value add (GVA). Similar to last year, the South West generates approximately 11% of its output from manufacturing, slightly above the UK average of 10%. The region's largest subsector is Transport Equipment, comprising just over one-fifth of South West manufacturing GVA. This is followed by the Food & Drink subsector, and then Electronics, accounting for a tenth of the total. The Metal Products subsector has dropped from the top 3 but remains crucial to the region as the 4th largest manufacturing subsector.



REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 7.3% | - |
| Manufacturing | 0.8% | 11% |
| Construction | 0.5% | 7% |
| Services | 5.6% | 77% |
| Other production | 0.4% | 5% |

Source: ONS (2019)

EMPLOYMENT

- There were 245,000 manufacturing jobs in the South West in 2019, accounting for 8% of the region's total workforce and 0.7% of the UK's total workforce.
- This is an increase of 18,000 following our previous Regional Manufacturing Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

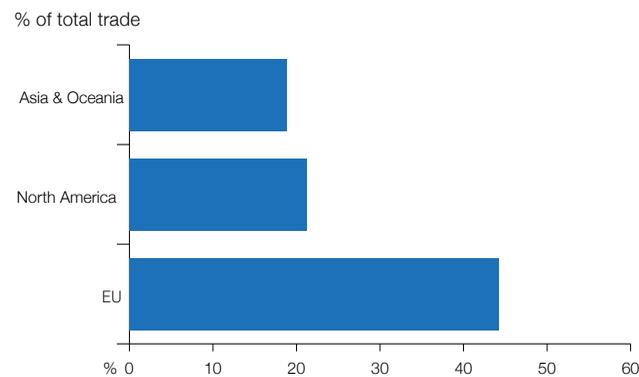
EXPORTS

- In 2019, the South West accounted for 6% of the UK's total goods exports.
- The region maintains a marginally lower dependence on the EU for exports compared to other regions and nations of the UK. Yet, a still significant 44% of South West exports journeyed to the EU last year.
- The next largest destination for South West goods is North America, accounting for 21% of goods exports. Followed by Asia which accounts for 19% of goods exports.

PRODUCTIVITY

- The South West's overall productivity is the 5th best in the UK, down one place from last year at 89.4% (UK=100).
- Manufacturing productivity is at 92.9% of the UK average, ranking 7th across all regions and nations.

Top three export markets for South West's goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN THE SOUTH WEST

Over the last year, like many regions, manufacturers were victim to unprecedented levels of uncertainty even before the latest pandemic. Nevertheless, since mid-2019, output levels have performed generally above the UK average and continue to do so during the COVID-19 crisis, primarily thanks to a growing Food & Drink subsector. The South West region expects output to contract further over the next three months, with a forecast balance of -21%.

VOLATILITY IN OUTPUT AND ORDERS REDUCED OVER THE LAST YEAR INDICATING A REDUCTION IN UNCERTAINTY

AVERAGE PERFORMANCE OF EXPORT ORDERS BETTER THAN DOMESTIC MARKET

INVESTMENT INTENTIONS ON AVERAGE MORE NEGATIVE THAN LAST YEAR

AVERAGE EMPLOYMENT BALANCE ALSO WORSE THAN LAST YEAR

BUSINESS CONFIDENCE CURRENTLY SLIGHTLY ABOVE UK AVERAGE

Our previous edition indicated during a topsy-turvy 2019, like many other regions and nations, South West manufacturers opted to hire more staff than invest in productivity-enhancing machinery. This was, of course, a result of the uncertainty associated with multiple EU exit deadlines. However, that trend looked set to reverse at the start of the decade following the election and implementation of the transition period which provided the confidence the region had been longing for.

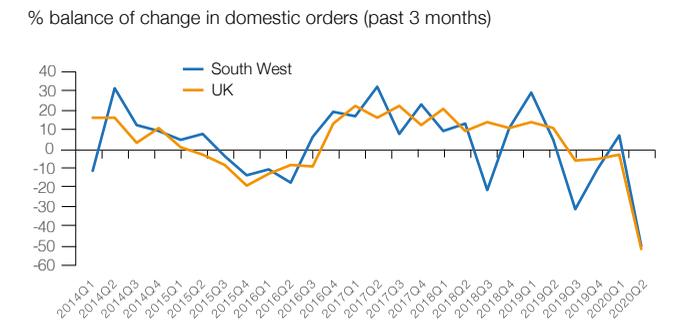
As expected the latest pandemic has not only reduced investment intentions but also pushed businesses into making workers redundant.

In relatively more positive news, export orders generally performed better than the domestic market, and the region may do better to increase its access to international markets in order to recover following the latest crisis.

Nevertheless, the region's largest subsector is Transport Equipment, over 65% of which is accounted for by the "Other Transport" segment, namely aerospace. This sector traditionally benefitted from robust order books and historically remained relatively recession proof, until recently of course. Although, the most recent survey data is yet to clearly indicate the extent of the subsector's demise following a significant drop in demand for air travel it will surely place downward pressure on the South West's performance in the near future. On the other hand, Food & Drink also accounts for a growing share of the South West's manufacturing industry which, in the short-term, may have a boosting effect on the region's performance.

As a consequence of the above, the region's business confidence stands at 5.62, almost a full point higher than the UK average (4.79), but is still much lower than exactly this time last year.

Domestic orders more volatile than nation average



Source: Make UK Manufacturing Outlook Survey

Employment balance tends to vary above and below UK average



Source: Make UK Manufacturing Outlook Survey

WEST MIDLANDS

The West Midlands is the UK's fifth-largest region in terms of gross value add (GVA). The region generates approximately 16% of its output from manufacturing, significantly higher than the UK average of 10%. Overall, the West Midlands manufacturing GVA accounts for 1.2% of the UK's total output. The region's largest subsector is Transport Equipment, accounting for over a third of the regions manufacturing GVA. This is followed by the Metal Products subsector, and then Mechanical Equipment subsector, both of which include intermediate suppliers to the regions Transport Equipment subsector.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 7.4% | - |
| Manufacturing | 1.2% | 16% |
| Construction | 0.5% | 6% |
| Services | 5.4% | 73% |
| Other production | 0.3% | 4% |

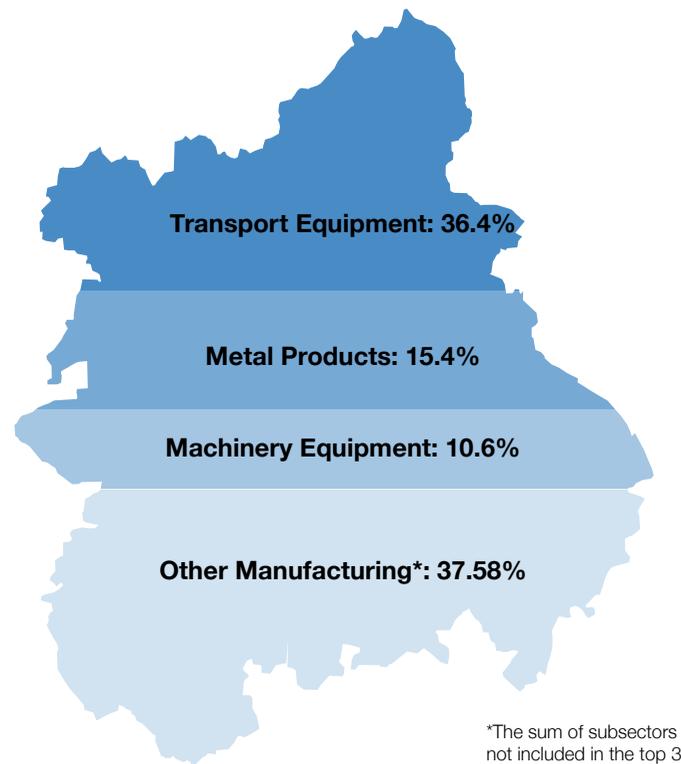
Source: ONS (2019)

EMPLOYMENT

- There were 304,000 manufacturing jobs in the West Midlands in 2019, accounting for 10% of the region's total workforce and 0.8% of the UK's total workforce.
- This is a decrease of 13,000 workers following our previous Regional Manufacturing Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

EXPORTS

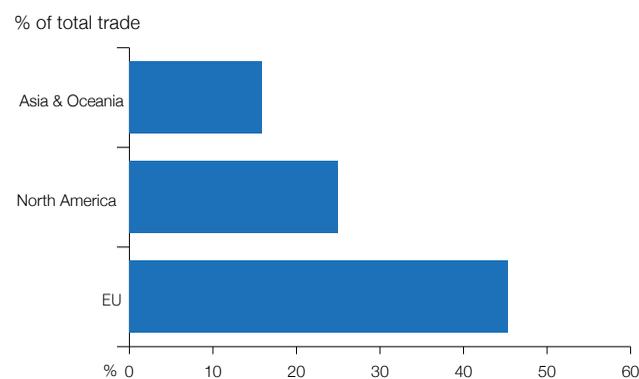
- In 2019, the West Midlands accounted for 9% of the UK's total goods exports.
- The region has seen its exposure to EU dependency for exports increase slightly since our previous edition. The latest share stands at 44% of total West Midlands' exports.
- The next largest destination for West Midlands' goods is North America, accounting for 1/4 of goods exports. Followed by Asia which accounts for 16% of goods exports.



PRODUCTIVITY

- The West Midlands' overall productivity is the 6th best in the UK, up one place from last year at 88.9% (UK=100).
- Manufacturing productivity is marginally above the UK average at 100.9%, ranking 6th across all regions and nations.

Top three export markets for West Midlands' goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN THE WEST MIDLANDS

Both output and orders reported a high level of variance over the last few quarters, however the average long-term trend did follow the UK, albeit the region performed worse than average in most cases. Nevertheless, since the start of the latest crisis output levels have been relatively better than the UK's but, like most regions and nations, are still negative. The West Midlands expects output to contract further over the next three months, with a forecast balance of -30%.

BOTH OUTPUT AND TOTAL ORDERS PERFORMED WORSE THAN UK AVERAGE FOR THE FINAL QUARTERS OF 2019

AVERAGE PERFORMANCE OF BOTH EXPORT AND DOMESTIC ORDERS, SIGNIFICANTLY WORSE THAN LAST YEAR

INVESTMENT INTENTIONS CONSISTENTLY BELOW THE UK AVERAGE OVER THE LAST YEAR

AVERAGE EMPLOYMENT BALANCE ALSO PERFORMED WORSE THAN UK AVERAGE OVER THE LAST YEAR

BUSINESS CONFIDENCE ABOVE UK AVERAGE

Our previous edition indicated there was a sharp divergence between recruitment and investment intentions, as under the illusions of uncertainty manufacturers in the West Midlands opted to prioritise low-risk short-term hirings over high-risk investing. The latest edition reports an end to this divergence as both investment and recruitment intentions became negative.

The COVID-19 crisis has inevitably hit orders significantly as manufacturers are having to deal with cancellations as well as falls in new orders. In fact, both UK and export orders were already negative in Q1 2020 indicating the region was on a downward trend even before this silent tsunami hit its engineering sectors.

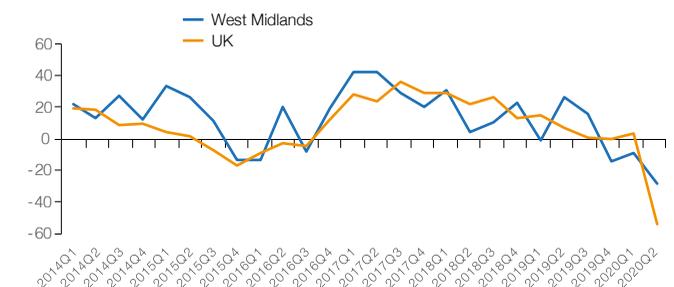
This region's largest subsector is Transport Equipment. In this case the overwhelming majority of the subsector is accounted for by Motor Vehicles, which is worth over £7bn in GVA. This subsector has been hit particularly hard by international trade uncertainties as well as complete shut-downs that have reduced vehicle registrations by 99.7% across the UK (SMMT).

As a consequence of the falls in Transport Equipment firms, the other two giant subsectors in the West Midlands include Metal Products and Mechanical Equipment which rely not only on demand from downstream original equipment manufacturers (OEMs) but also on exports to the EU. Although, our latest survey does not yet cover the full extent of the damage caused by the COVID-19 crisis we expect the region's reliance on vulnerable subsectors will create further challenges down the road.

The region's business confidence stands at 5.04, higher than the UK average (4.79), but is still much lower than this time last year.

West Midlands orders vulnerable to cyclicity

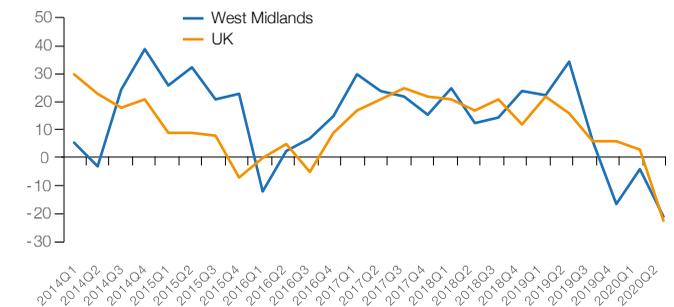
% balance of change in total orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Average employment balance declines greater than UK in 2019

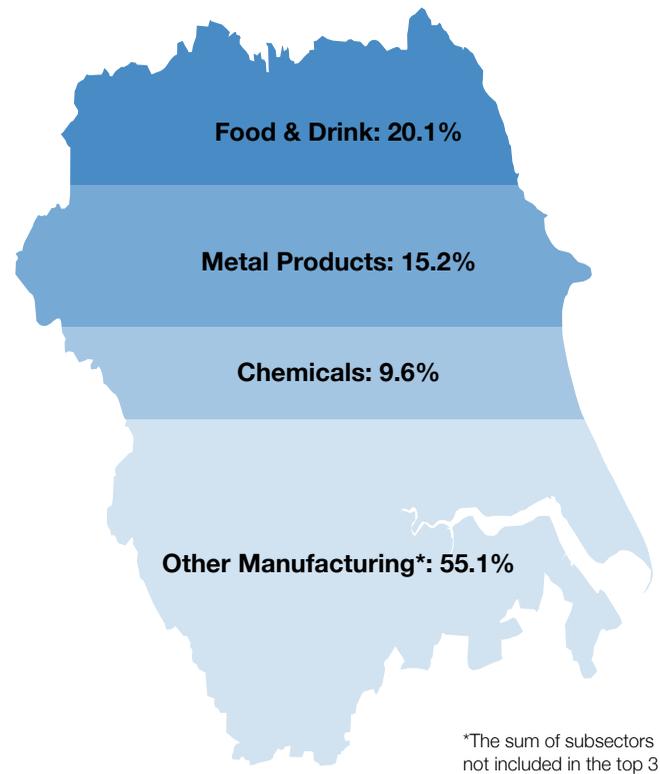
% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

YORKSHIRE & THE HUMBER

Yorkshire & the Humber is the UK's seventh largest region in terms of gross value add (GVA). The region generates approximately 14% of its output from manufacturing, significantly higher than the UK average of 10%. Overall, the region's manufacturing GVA accounts for 0.9% of the UK's total output. The region's largest subsector is Food & Drink, accounting for over one-fifth of the region's manufacturing GVA. This is followed by the Metal Products subsector, and then the Chemicals subsector. Although not included in the top three the Mechanical Equipment subsector is the 4th biggest generating over £1.6bn in GVA.



REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 6.5% | - |
| Manufacturing | 0.9% | 14% |
| Construction | 0.4% | 6% |
| Services | 4.9% | 75% |
| Other production | 0.3% | 4% |

Source: ONS (2019)

EMPLOYMENT

- There were 299,000 manufacturing jobs in the Yorkshire & the Humber region in 2019, accounting for 11% of the region's total workforce and 0.8% of the UK's total workforce.
- This is a decrease of 9,000 manufacturing workers compared to our previous Regional Manufacturing Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

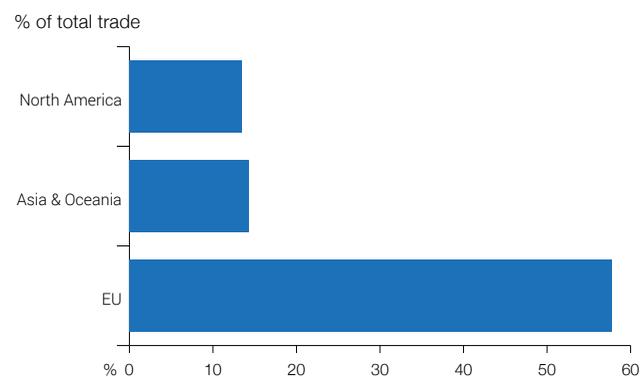
EXPORTS

- In 2019, the Yorkshire and the Humber region accounted for 5% of the UK's total goods exports.
- The region has the 5th highest dependency on the EU for its exports with 58% of total goods going there.
- The next largest destination for this region's goods is Asia, accounting for 14% of goods exports. This is followed by North America which accounts for 13% of goods exports.

PRODUCTIVITY

- Yorkshire and the Humber's overall productivity is the 2nd worst in the UK, down two places from last year at 82.8% (UK=100).
- Manufacturing productivity is the worst in the UK at 82.2% of the average.

Top three export markets for Yorkshire & Humber's goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN YORKSHIRE & THE HUMBER

From the start of 2019 output and orders consistently outperformed the UK average, partly thanks to reliable order books from the Food & Drink subsector. However, the disparity between the UK and the Yorkshire & the Humber region faded as we approached present days. The long-run trend followed the UK closely, and although performance was strong for the majority of last year, the COVID-19 pandemic impacted this region as much as it did the rest of the UK. The Yorkshire & the Humber region expects output to contract further over the next three months, with a forecast balance of -75%.

- UNTIL THE LATEST RESULTS, BOTH OUTPUT AND TOTAL ORDERS WAS CONSISTENTLY ABOVE THE UK AVERAGE
- AVERAGE EXPORT ORDERS GENERALLY POSITIVE, WHILST UK ORDERS WERE NEGATIVE
- INVESTMENT INTENTIONS BEAT UK AVERAGE BY A LARGE MARGIN UNTIL THE LATEST CRISIS
- AVERAGE EMPLOYMENT BALANCE ALSO BEAT THE UK AVERAGE OVER THE LAST YEAR, UNTIL THE LATEST CRISIS
- BUSINESS CONFIDENCE 2ND LOWEST IN THE UK

Our previous edition identified that, although the performance of orders was strong in this region, it weakened over time due to a fall in export orders. As the region remains highly exposed to the EU for its export orders, uncertainties associated with the future trading relationship with the bloc impacted sales. Many manufacturers take on orders with long lead times and given the future UK-EU relationship at the time of writing remains unclear, it is unlikely exports will increase regardless of whether the actual trading relationship has changed or not at the end of the current transition period. This is a significant problem even when excluding the impacts of COVID-19.

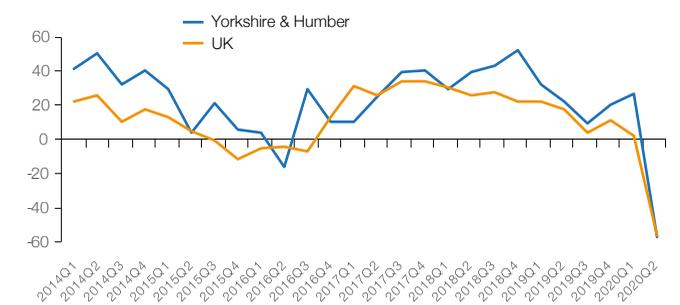
Excluding the latest results, the last year was strong in terms of investment intentions and employment. Indeed, excluding Q2 2020 the average investment balance between Q3 2019 and Q1 2020 was 25%, whilst for the employment balance it was 24%.

As stated earlier this region's largest subsector in terms of GVA is Food & Drink, which generates over £3.4bn for the region and has been a rare source of growth during the early stages of the pandemic. However, the decrease in the value of other important subsectors as well as increased job losses, such as from Metals Products will also negatively impact the Food & Drink subsector as incomes fall and households switch to purchasing cheaper foods to weather the storm.

The region's business confidence stands at 4.00, the 2nd lowest in our latest survey, and below the UK average (4.79).

Output was generally strong until the recent pandemic

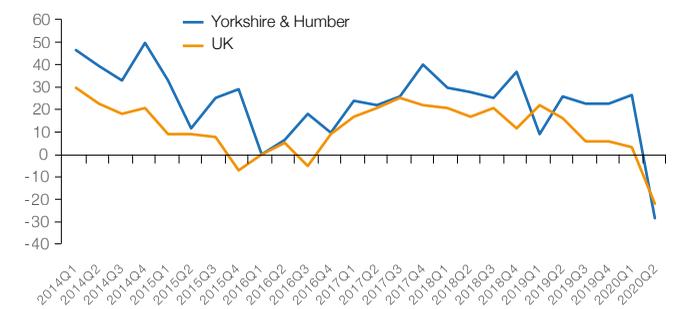
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Employment balance on average above UK until now

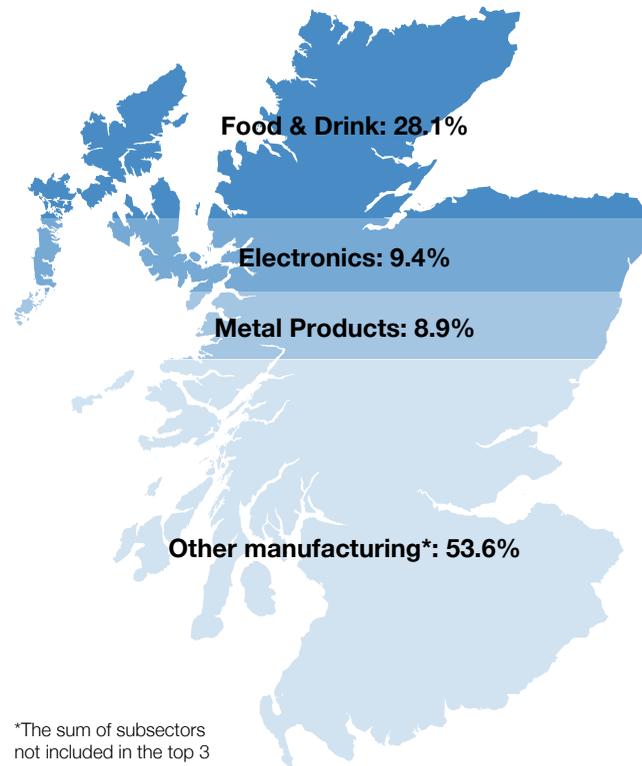
% balance of change in employment (past 3 months)



Source: Make UK Manufacturing Outlook Survey

SCOTLAND

Scotland is the UK's fourth largest contributor to gross value add (GVA) relative to other regions and nations. The nation generates approximately 11% of its output from manufacturing, marginally higher than the UK average of 10%. Overall, the nation's manufacturing GVA accounts for 0.8% of the UK's total output. Scotland's largest subsector is Food & Drink, accounting for over 28.1% of manufacturing GVA. This is followed by the Electronics subsector, and then the Metal Products subsector. However, the nation also has a strong Wood, Paper and Printing subsector too, which is worth £1.1bn in GVA.



REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 7% | - |
| Manufacturing | 0.8% | 11% |
| Construction | 0.5% | 6% |
| Services | 6% | 77% |
| Other production | 0.5% | 7% |

Source: ONS (2019)

EMPLOYMENT

- There were 195,000 manufacturing jobs in Scotland in 2019, accounting for 7% of the nation's total workforce and 0.5% of the UK's total workforce.
- This is an increase of 6,000 manufacturing workers following our previous Regional Manufacturing Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

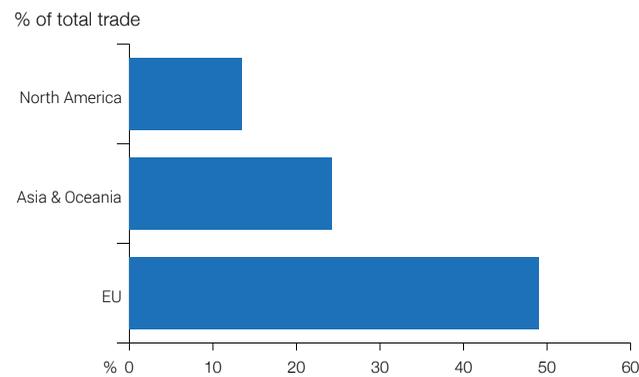
EXPORTS

- In 2019, Scotland accounted for 10% of the UK's total goods exports, only the second most after the South East & London.
- The nation has a high dependency on the EU for its exports, with 49% of goods journeying there in 2019.
- The next largest destination for Scotland's goods is Asia, accounting for 24% of exports – the largest share in the UK. This is followed by North America which accounts for 13% of goods exports.

PRODUCTIVITY

- Scotland's overall productivity is the 2nd best in the UK at 96.8% of the average (UK=100).
- Manufacturing productivity is the 3rd best in the UK at 108.5% of the national average.

Top three export markets for Scotland's goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN SCOTLAND

Historically, Scotland's output balance largely reflected the UK average results revealed in each of our Manufacturing Outlook reports. Although, the same is partly true for orders, its performance has consistently been marginally lower for a number of years now too. The latest edition of Regional Manufacturing Outlook highlights Scotland's output and orders performance as 3rd worst when compared to a year ago, with an average balance of -12% and -15% respectively. However, the average investment intentions balance was at 15%, the most positive balance in Britain. Scotland expects output to contract further over the next three months, with a forecast balance of -50%.

- OUTPUT AND TOTAL ORDERS ALIGNED WITH LONG-RUN AVERAGE UK TREND
- EXPORT ORDERS PERFORMANCE RELATIVELY WORSE THAN DOMESTIC ORDERS OVER THE LAST YEAR
- INVESTMENT INTENTIONS GENERALLY ABOVE UK AVERAGE, PARTICULARLY FOR Q2 2020
- EMPLOYMENT BALANCE LARGELY MIRRORED UK AVERAGES
- BUSINESS CONFIDENCE BELOW UK AVERAGE

As reported last time, investment intentions in Scotland have not reported negative balances since the aftermath of the EU referendum. This remains true even during the COVID-19 crisis. On the other hand, besides Q3 2019 where the recruitment level was substantially higher than the UK average, employment trends largely imitated the UK's.

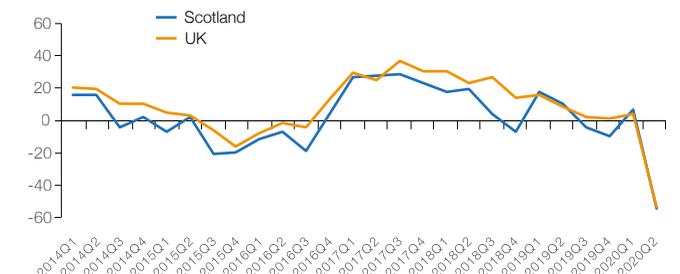
In terms of GVA, Scotland's largest subsector is Food & Drink, which generates approximately £4bn annually, only second to the South East & London region. This partly explains the reasons for Scotland's above average output performance historically as this particular manufacturing subsector is highly resistant to economic downturns. Although the latest available data does not include the impact of COVID-19, it's expected the nation will suffer relatively less than other UK regions. Overall, however, it is equally unlikely the subsector will be completely spared from the pandemic.

From the perspective of trade, Scotland's dependence on exports to the EU for its own revenue is similar to other regions and nations. However, interestingly, a quarter of Scottish goods journey to the Asia & Oceania region too, which is a significant share relatively speaking. The current crisis has impacted various countries across Asia differently, whether Scotland will be able to take advantage of recovering Asian countries really depends on whether the majority of its exports are to those countries, or whether the dependence is on those that are still in the middle of their own COVID-19 crisis.

The region's business confidence stands at 4.30, below the UK average (4.79).

Orders historically worse than UK average

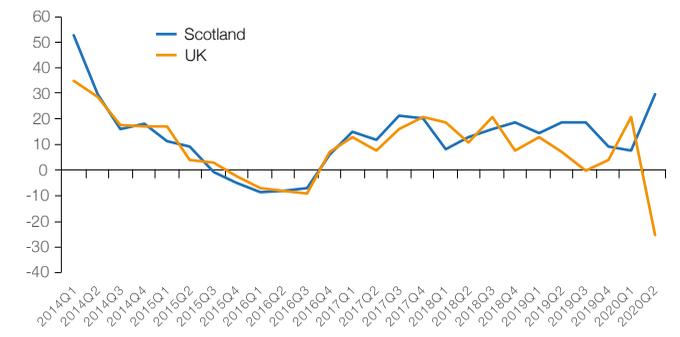
% balance of change in total orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Investment intentions outperformed national average in recent times

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



Source: Make UK Manufacturing Outlook Survey

WALES

Wales is the UK's ninth largest in terms of gross value add (GVA). The nation generates approximately 17% of its output from manufacturing, significantly higher than the UK average of 10%. It's largest subsector is Transport Equipment, accounting for over 14.7% of manufacturing GVA. This is followed by the Food & Drink subsector, and then the Metal Products subsector. The top three subsectors combined generate approximately £4.3bn in GVA for the Welsh economy. However, 59% of manufacturers in Wales are categorised across many different subsectors, highlighting the manufacturing diversity in this nation.

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 3.4% | - |
| Manufacturing | 0.6% | 17% |
| Construction | 0.2% | 6% |
| Services | 2.4% | 71% |
| Other production | 0.2% | 5% |

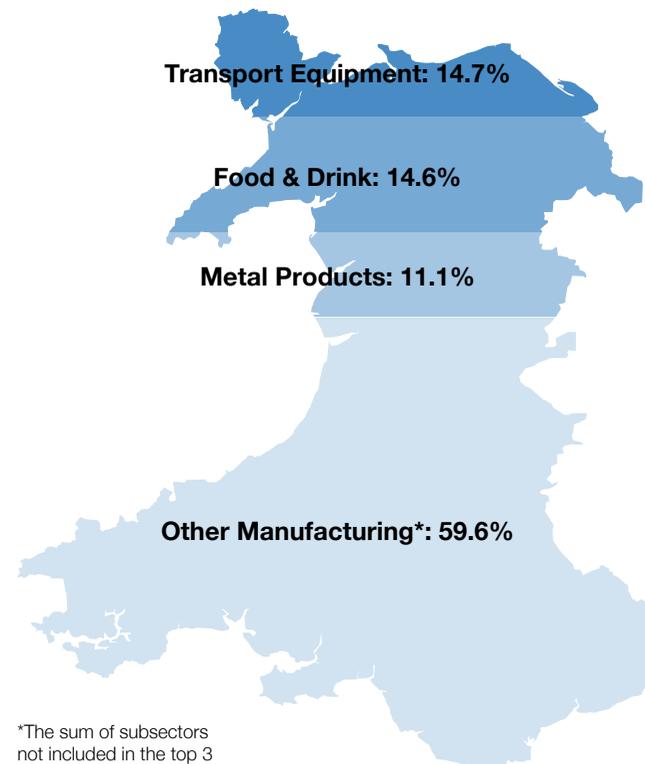
Source: ONS (2019)

EMPLOYMENT

- There were 153,000 manufacturing jobs in Wales in 2019, accounting for 10% of the nation's total workforce and 0.4% of the UK's total workforce.
- This is an increase of 2,000 manufacturing workers following our previous Regional Manufacturing Outlook. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

EXPORTS

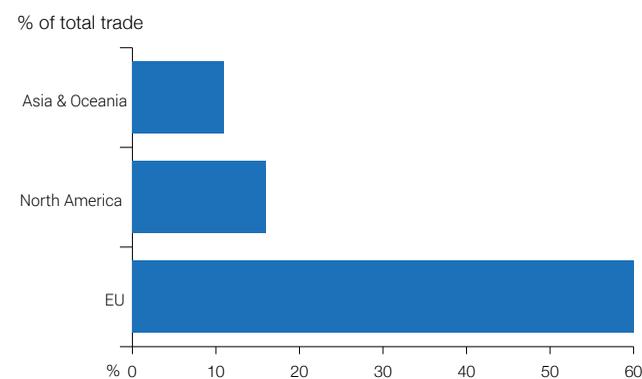
- In 2019, Wales accounted for 5% of the UK's total goods exports.
- The nation has a very high dependency on the EU for its exports, with 60% of goods going there annually.
- The next largest destination for Welsh goods is North America, accounting for 17% of exports. This is followed by Asia which accounts for 11% of goods exports.



PRODUCTIVITY

- Wales is the least productive nation relative to other regions and nations, at 82% of the UK average (UK=100).
- However, manufacturing productivity is the 5th best in the UK at 101.5% above the UK average.

Top three export markets for Wales' goods



Source: ONS (2019)

MANUFACTURING PERFORMANCE IN WALES

This year's Regional Manufacturing Outlook reports that on average Wales was the top performer in terms of employment balances. However, this does not necessitate positive news as the sample period includes a time many manufacturers faced an uncertain trading environment with the EU, resulting in firms increasing their short-term hiring as opposed to taking a risk on long-term investments. This is further supported by the nation's investment intention balances over the last year, which have been largely flat before collapsing in the most recent survey. Wales expects output to contract further over the next three months, with a forecast balance of -50%.

OUTPUT AND TOTAL ORDERS WERE HIGHLY VOLATILE RELATIVE TO THE UK AVERAGE

DOMESTIC ORDERS CLOSELY FOLLOWED UK TRENDS, WHILST EXPORT ORDERS WERE MORE VOLATILE

INVESTMENT INTENTIONS BELOW UK AVERAGE FROM Q4 2019 ONWARDS

EMPLOYMENT BALANCE POSITIVE IN LATEST SURVEY

BUSINESS CONFIDENCE APPROXIMATELY EQUAL TO UK AVERAGE

The performance of output and orders in Wales emits a high level of volatility, a feature that has persisted for a while. Our previous Regional Manufacturing Outlook reported Wales as the best performer in regards to orders, but the performance was not repeated this year. This is partly due to the latest COVID-19 results being so negative that it has depressed almost all our indicators, not just for Wales.

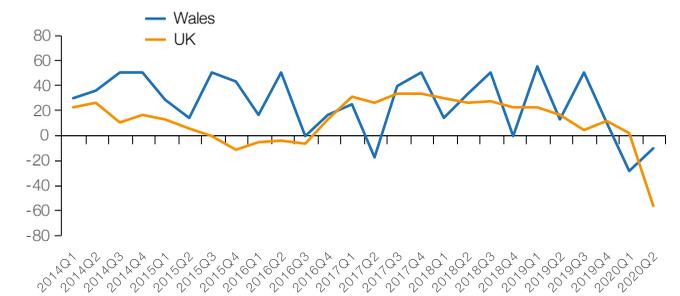
According to the latest available exports data, 60% of goods made in Wales go to the EU indicating that manufacturers here have more to lose should the UK fail to negotiate an acceptable agreement with the bloc. From this perspective the volatile movement of output and orders is understandable.

As stated above, Wales' largest subsector is Transport Equipment, over 68% of which is the "Other Transport" subsector, or in other words primarily aerospace manufacturing. The subsector generates approximately £1.5bn for the Welsh economy. It is now well known that aerospace manufacturers across all tiers of the supply chain are some of the worst affected by this pandemic. In the short-term this presents significant challenges for the Welsh economy's aerospace subsector, which relies on orders with long lead times, and the current situation indicates a prolonged recovery ahead for the subsector.

Wales' business confidence stands at 4.80, approximately equal to the UK average (4.79).

Output balance continues to be volatile

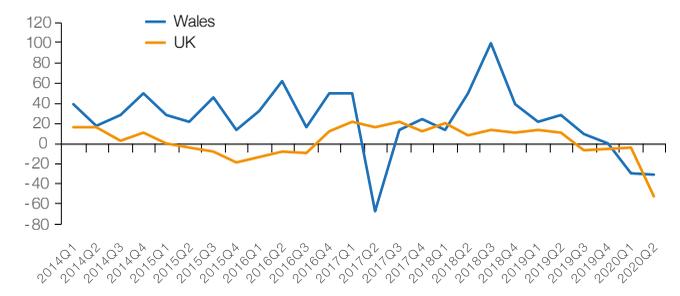
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Wales historically had a very strong domestic market

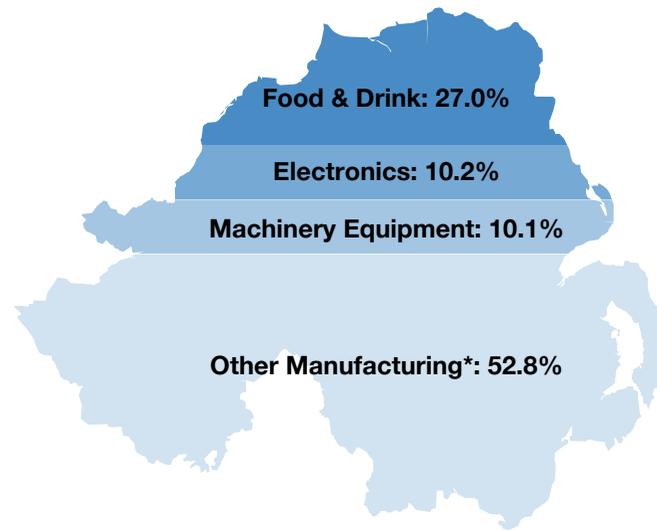
% balance of change in domestic orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey

NORTHERN IRELAND

Northern Ireland is the UK's smallest in terms of gross value add (GVA), contributing 2% of total UK GVA. It generates approximately 14% of its output from manufacturing, greater than the UK average of 10%. Additionally, Northern Ireland's manufacturing GVA accounts for 0.3% of the UK's total output. The country's largest subsector by far is Food & Drink, accounting for 27% of Northern Ireland's manufacturing GVA. This is followed by the Electronics subsector, and then the Machinery Equipment subsector, which together generates over £1bn in GVA for Northern Ireland.



*The sum of subsectors not included in the top 3

REGIONAL SUMMARY

| | % UK OUTPUT | % REGIONAL OUTPUT |
|------------------|-------------|-------------------|
| Total GVA | 2.2% | - |
| Manufacturing | 0.3% | 14% |
| Construction | 0.2% | 7% |
| Services | 1.6% | 74% |
| Other production | 0.1% | 5% |

Source: ONS (2019)

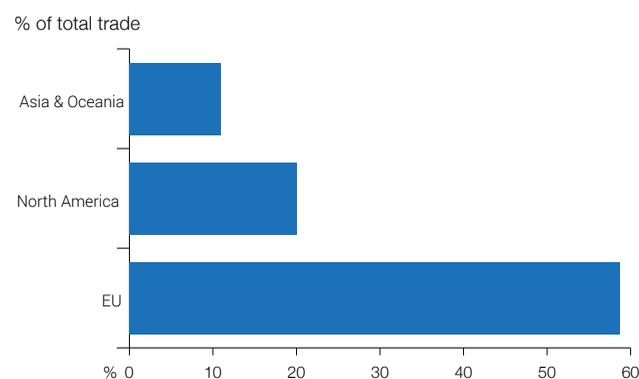
EMPLOYMENT

- There were 94,000 manufacturing jobs in Northern Ireland in 2019, accounting for 10% of the country's total workforce and 0.3% of the UK's total workforce.
- This is unchanged from the 2018 ONS figure. However, the latest available data do not yet account for the recent impact of COVID-19 on unemployment.

EXPORTS

- In 2019, Northern Ireland accounted for 3% of the UK's total goods exports.
- Northern Ireland has the 2nd highest dependency on the EU for its exports after Wales, with 59% of goods exported there annually.
- The next largest destination for Northern Ireland goods is North America, accounting for 20% of exports. Followed by Asia which accounts for 11% of goods exports.

Top three export markets for Northern Ireland's goods



Source: ONS (2019)

PRODUCTIVITY

MANUFACTURING PERFORMANCE IN NORTHERN IRELAND

This year's Regional Manufacturing Outlook is the first to include an overview of Northern Ireland's performance. However, given a full year's data has not been collected for Northern Ireland, readers are advised to take caution when making comparisons with the rest of the UK. Northern Ireland expects output to contract further over the next three months, with a forecast balance of -100%.

- OUTPUT AND TOTAL ORDERS CONSISTENTLY WORSE THAN THE UK AVERAGE
- DOMESTIC ORDERS BALANCE SIGNIFICANTLY WORSE THAN UK AVERAGE IN LATEST SURVEY
- EXPORT ORDER BALANCE NEGATIVE, BUT RELATIVELY BETTER THAN THE UK AVERAGE FOR Q2 2020
- EMPLOYMENT BALANCE IS CONSISTENTLY NEGATIVE, WHILE INVESTMENT INTENTIONS ARE POSITIVE
- BUSINESS CONFIDENCE CONSISTENTLY LOWEST IN THE UK

Output and orders in Northern Ireland have reported balances that are worse than the UK average for two quarters in a row. Although data was not recorded for 2019, the poor performance of both indicators is a feature of Northern Ireland's high dependence on the EU for its exports. Since the EU exit referendum, Northern Ireland has been the centre of concerns about future trade arrangements. As a result, manufacturers there face a higher degree of uncertainty than their colleagues elsewhere in the UK and this is accurately reflected in its business confidence value for Q1 2020, which was the lowest in the UK. Indeed, our Q1 Manufacturing Outlook report showed Northern Ireland to have the 3rd worst export order performance (-24%) in the UK, even before the COVID-19 crisis.

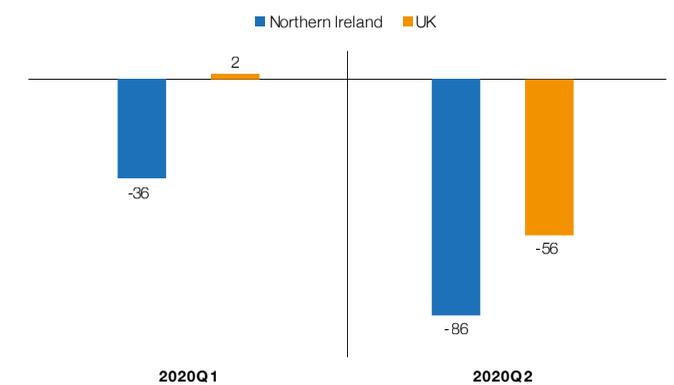
Interestingly, however, Northern Ireland's investment intentions balance have been consistently positive for the last two quarters.

Northern Ireland's largest domestic subsector is Food & Drink, worth over £1.5bn to its economy and significantly more than the next two biggest subsectors combined. From a health perspective, Northern Ireland has been spared from the worst of COVID-19 compared to Great Britain and an increase in demand for food will be expected to benefit manufacturers there. However, similar to other parts of the UK this will depend on whether the increase in demand for food can outweigh the decrease in demand for drinks (particularly alcoholic beverages due to pub and restaurant closures) which has seen significant falls as a result of the retail sector being shut down.

Northern Ireland's business confidence stands at 2.43, significantly lower than the UK average (4.79), and the lowest across all regions and nations of the UK.

Output performance significantly worse the UK average

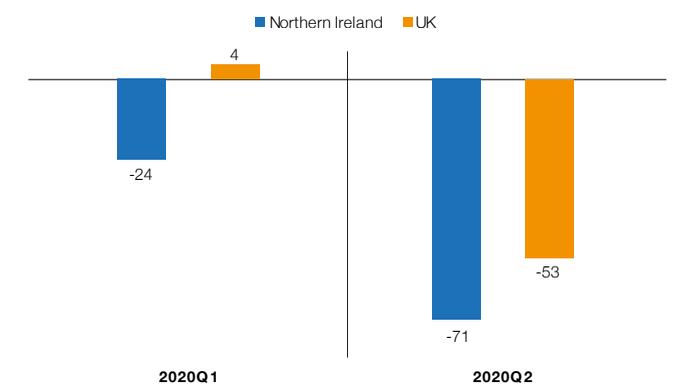
% balance of change in output (past 3 months)



Source: Make UK Manufacturing Outlook Survey

Orders follow the same path as output for Northern Ireland

% balance of change in orders (past 3 months)



Source: Make UK Manufacturing Outlook Survey



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

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

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

Our extensive knowledge of manufacturing that means 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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To find out more about this report, contact:

Fhaheen Khan
Economist
fkhan@makeuk.org

James Brougham
Economist
jbrougham@makeuk.org

Seamus Nevin
Chief Economist
snevin@makeuk.org

Make UK Information Line
0808 168 5874
research@makeuk.org

The data used in this survey have been provided by UK manufacturers including members of Scottish Engineering, Manufacturing NI, and Make UK. Contributing to our surveys helps to accurately reflect trends and behaviours that shape the UK manufacturing sector.

If you would like to participate in future surveys, please contact our Information and Research team research@Makeuk.org



Accountancy and business advisory firm BDO LLP is the UK member firm of BDO International, which has more than 1,600 offices in 162 countries. We operate from 17 offices across the UK, employing 5,000 people offering tax, audit and assurance, and a range of advisory services.

Manufacturing is a priority sector for BDO and this focus enables us to tailor the wide range of services we offer and apply our skills and knowledge to help clients achieve their objectives.

We provide real solutions to industry issues, utilising our capabilities in everything from sector-specific tax, audit and business advice to patent box, research and development claims and acquisition opportunities to help our clients grow in the UK and overseas.

We have an excellent understanding of the issues affecting UK manufacturers as an industry sector, but we also focus on specific sub-sectors to improve our knowledge and our service to clients. These include: aerospace, automotive, building products, chemicals and pharmaceuticals, electrical, food and drink, industrials, technology and test and measurement.

Manufacturing remains one of the key industries of the UK economy. We are delighted to be able to play an active role in supporting the businesses that operate in this vibrant, changing and challenging sector.

For further information about our business and services, please visit our website: www.bdo.co.uk

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

Tom Lawton
Head, BDO Manufacturing
0121 352 6372
tom.lawton@bdo.co.uk

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

