The manufacturers' organisation

In partnership with:

REGIONAL MANUFACTURING OUTLOOK

JULY 2015

2.6 million employees

1/2 of UK exports

69% of business R&D

Average wages higher than the rest of the economy

FOREWORD

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Manufacturing is important to our national economy in terms of its contribution to the UK's productivity performance, exports, innovation capacity and employment. It also makes significant contributions to local and regional economic areas around the UK. This new publication from EEF and DLA Piper takes a closer look at the industrial make up of different UK regional economies and how this has influenced recent business trends and confidence levels across manufacturers within those regions.

This *Regional Manufacturing Outlook* report compiles the responses from our quarterly *Business Trends Survey* and brings it together with official data sources on regional employment, trade and productivity performance across regions and the devolved administrations.

Different industry clusters are clearly evident across different parts of the country and the economic drivers and challenges to growth across these clusters explain – to a large degree – the different trends in business sentiment, output and employment levels.

Our report paints a picture of moderate optimism about firm level growth prospects and the UK economy more widely across all regions. The influence of bigger trends such as flat demand in oil and gas supply chains versus more confident consumers with greater purchasing power can be seen pulling in opposite directions in different parts of the country – not just in output growth but also in their investment and recruitment plans.

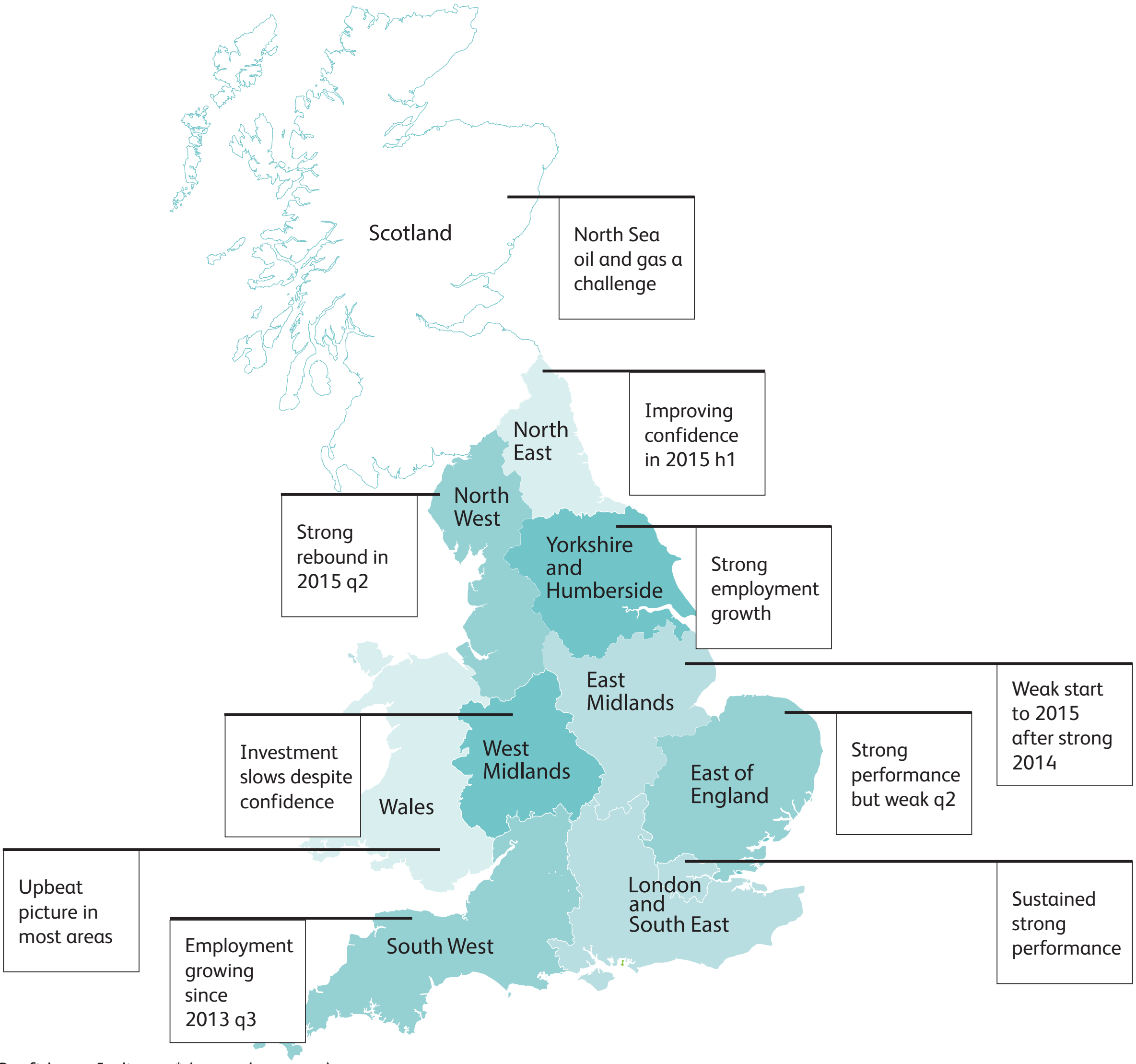
With the drive towards the devolution of greater responsibility to support growth in local areas, this report should highlight the breadth of opportunities that a strong manufacturing base can offer for local growth. It also shows some of the challenges facing UK business that will require policy makers to focus on ensuring that support for exporters, innovators and investors is targeted in the right places.

Here are our top takeaways from the report:

- Manufacturers have reasons to be confident about their business prospects over the next 12 months throughout the UK. Despite challenges facing some sectors, we see a continuing focus in improving productivity, investing in the next generation of products and services and a diverse export base as underpinning reasons for optimism.
- Employment gains have been broad based. UK manufacturing has been creating jobs on a sustained basis over the past two years – the longest period of employment growth in more than two decades. Our survey shows that this is happening right across the UK, but will inevitably bring the challenge of managing skills shortages to the fore.
- The resilience of manufacturers' investment plans in every region is an indication that the UK is regarded as a positive location for manufacturing. A continuation of this positive trend will also help to rebalance the UK economy – both geographically and in favour of productive, investment-intensive sectors.

REGIONAL SNAPSHOT

Over the last four quarters, manufacturers in all regions of the UK have reported positive sentiment about their business prospects for the year ahead. However, there has been some regional variation, mainly driven by differences in sectors. Regions with a concentration of manufacturers in the oil and gas supply chain have been facing some headwinds, while regions with a strong presence in the transport and consumer-facing sectors have been faring well.



Business Confidence Indicator* (annual average):

- 6.8 – 6.9
- 6.6 – 6.79
- 6.5 – 6.59
- 6.0 – 6.49
- No results

*1 = least confident, 10 = most confident

HOW DO THE REGIONS COMPARE

Output has been positive across most UK regions over the past year. The notable exceptions are the North West and Scotland, where slowing oil and gas activity has hurt production since 2014 q3. On the other hand, the South East and London continues to march ahead topping the table for all indicators but employment.

Employment has been growing throughout the UK, reflecting official statistics showing robust growth in manufacturing jobs over the past year. Yorkshire and Humber and the West Midlands have seen the largest gains in employment, while recruitment in the East Midlands and Scotland has all but stalled, albeit remaining positive.

Investment intentions have somewhat slowed for the majority of regions. Seven out of ten regions have reported lower investment intentions in the past four quarters compared with the previous four, with only the South East and London, the North East and Wales being more positive.

This is to be expected given that demand has tailed off for all regions but the South East and London over the past year. Still expectations for the majority of regions is for a pick-up in demand during the latter half of the year.

REGIONAL SUMMARY

% AVERAGE BALANCE OF CHANGE 2014 Q3 – 2015 Q2

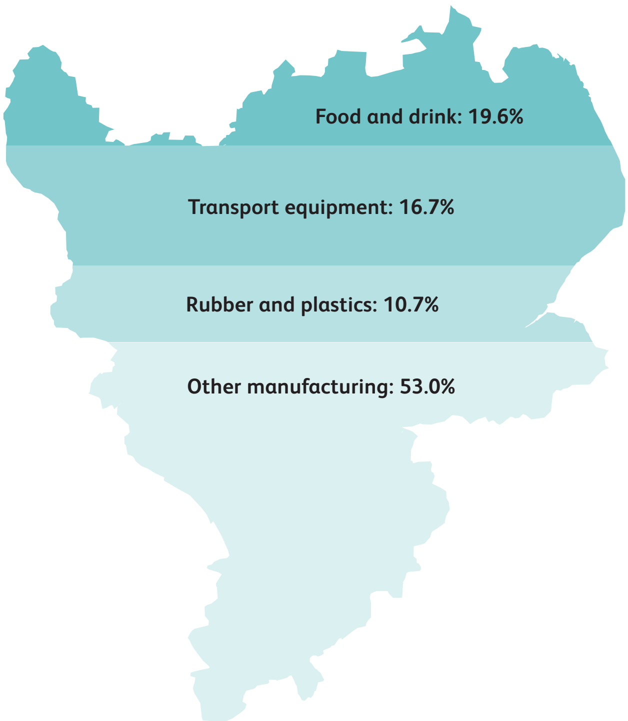
	OUTPUT	ORDERS	INVESTMENT	EMPLOYMENT
East Midlands	18	12	4 (Bottom performer)	7↓
Eastern	31	26	20	14
North East	20↑	3	12	24
North West	-1↓	8↓	17	15
South East & London	48 (Top performer)	39↑ (Top performer)	30↑ (Top performer)	23
South West	12	7	7	21
West Midlands	28	26	14↓	30↑
Yorks & Humber	26	21	23	32 (Top performer)
Scotland	-4 (Bottom performer)	-2 (Bottom performer)	13	4 (Bottom performer)
Wales	36	29	29	28

Source: EEF Business Trends Survey

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

EAST MIDLANDS

The East Midlands is the UK's eighth largest region in terms of output. Within this, manufacturing accounts for 16.3% of output, making it the region with the highest proportion of manufacturing output within the UK. There are 11,425 manufacturing businesses in the region, of which 55% are SMEs, slightly lower than the national average. The region's largest manufacturing sectors are food and drink, transport equipment and rubber and plastic products.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	6.0	–
Manufacturing	9.6	16.3
Services	5.4	72.5
Construction	6.3	6.4

Source: ONS

EMPLOYMENT: 301,700 people are employed in manufacturing in the East Midlands, accounting for 15% of the region's total workforce, the highest for any region. In contrast with the UK as a whole, where manufacturing employment has grown since the recession, **the number of manufacturing jobs in the region fell by 1% between 2010 and 2014**.

PRODUCTIVITY: The East Midlands' productivity is 88.0% of the UK average. This makes the region the UK's second-least productive after Wales. This is because while a high presence of manufacturing tends to boost productivity, two of the region's largest manufacturing sectors – food and drink and rubber and plastics – score below the UK average for productivity.

EXPORTS: In 2014, the East Midlands accounted for 8.3% of the UK's manufactured exports. 44% of the region's goods exports go to the EU, which is below the national average. Outside of Europe, 22% of the region's exports go to Asia and 17% go to North America. **The region's exports are evenly split between European and non-European countries**.

A VIEW FROM THE REGION: DAVID BRAMWELL, MD, QFC

"The feeling of manufacturers in the East Midlands is that trade is generally flat, with the construction, transport and renewables sectors outperforming and oil and gas underperforming the market. The medium term outlook for manufacturers in the aerospace supply chain is generally good, buoyed by continuing strong orders for Boeing and Airbus. The US is generally seen as the most promising export market in most sectors.

There are two main areas of concern:

Firstly, the weakness of the Euro and continuing sluggishness in many Eurozone countries is negatively affecting export prospects for a number of manufacturers (exacerbated by the uncertainty surrounding political developments in Greece) and secondly, the lack of skilled labour is making recruitment difficult and pushing up wages. Manufacturers are committed to continuing apprenticeship training to address the skills gap and investment intentions are largely aimed at improving productivity to mitigate this threat."

MANUFACTURING PERFORMANCE IN THE EAST MIDLANDS

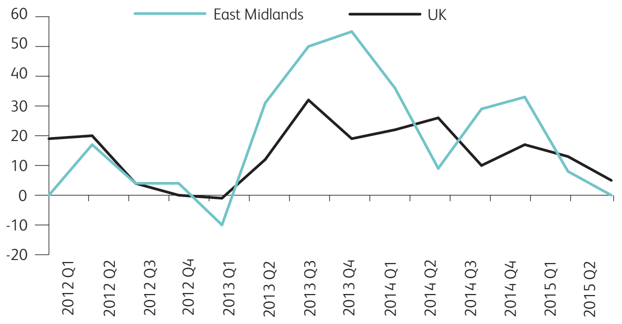
After trending above the UK average for most of 2013 and 2014, output dropped to 0 in 2015 q2
Demand has waned in 2015 after posting the 2nd highest order balances for 2013 and 2014
Investment has rebounded strongly in 2015 after a poor 2014
Recruitment has been flat for three consecutive quarters ending 2015 q2

After trending above the UK average for most of 2013 and 2014, output in the East Midlands has seen a slow start to the year. While the region is generally benefiting from a high concentration of well-performing sectors, conditions in the beginning of 2015 seem to have deteriorated slightly.

After very strong growth for both food and drink and rubber and plastics in 2014, the pace of growth in these sectors has moderated at the start of 2015. Both sectors have been affected by price volatility in the first half of the year. Overall demand has waned in the East Midlands with orders edging down in the two quarters starting 2015, after posting the second highest order balances in 2013 and 2014.

EAST MIDLANDS OUTPUT SEES SLOW START TO 2015

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)

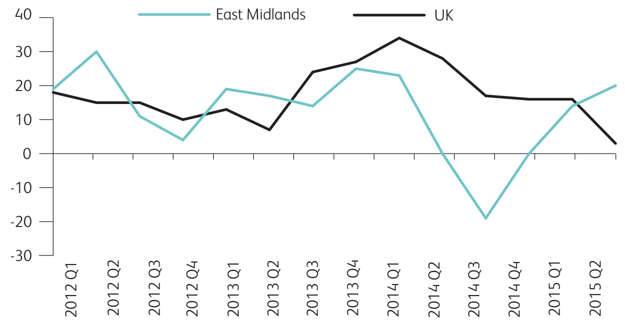


Source: EEF Business Trends Survey

On the other hand, the automotive sector has experienced sustained expansion and is set to continue to drive growth in the East Midlands. Projections for a pickup in household consumption and the construction industry should also provide a boost to the food and drink and rubber and plastics sectors for the remainder of the year.

REGION'S INVESTMENT INTENTIONS FIRM

% BALANCE OF CHANGE INVESTMENT (NEXT 12 MONTHS)

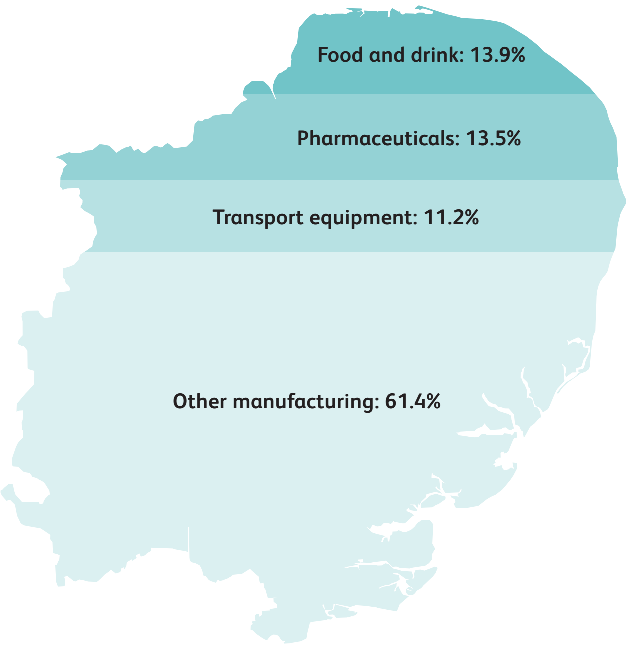


Source: EEF Business Trends Survey

This puts the prospects for the region in 2015 on a relatively strong footing. Indeed, manufacturers in the region expect output to increase and report robust investment intentions for the next twelve months. However, this is in contrast with recruitment balances – these have tended to be volatile for the region – which have dropped to zero for the third consecutive quarter.

EAST OF ENGLAND

The East of England ranks third in the UK in terms of output. Manufacturing accounts for 11.8 % of that output, which is slightly above average for the UK as a whole. Of the 13,320 manufacturing businesses in the region, 58 % are SMEs, which is equivalent to the national UK average. The region's largest manufacturing sectors are food and drink, pharmaceuticals and transport equipment.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	8.7	–
Manufacturing	10.1	11.8
Services	8.4	77.3
Construction	11.0	7.7

Source: ONS

EMPLOYMENT: 295,200 people are employed in manufacturing in the East of England, accounting for 11 % of the region's total workforce. While employment in UK manufacturing has increased in the post-crisis period, **the number of manufacturing jobs in the region has been flat between 2010 and 2014**.

PRODUCTIVITY: The East of England's productivity is 98.5 % of the UK average. This makes the region the UK's second-most productive after the South East and London. **The region benefits from the presence of two of the highest productivity sectors in the UK** – pharmaceuticals and transport – which make up a quarter of the region's manufacturing output.

EXPORTS: In 2014, the East of England accounted for 8.6 % of the UK's manufactured exports. The region's exports are mainly oriented towards the European market. 56 % of the region's goods exports go to the EU, considerably above the national average. **Exports to regions outside the EU trend below the UK average, with Eastern Europe being the only exception**.

A VIEW FROM THE REGION: ANDREA RODNEY, MD, HONE-ALL PRECISION LTD

"Manufacturing is still playing a hugely positive role in the rebalancing of the economy – particularly in the aerospace, nuclear, automotive and general engineering sectors.

However, a large number of companies in the East and elsewhere are still being adversely affected by the currently depressed oil prices and spending freezes within the oil and gas exploration and drilling sector where companies are restricting most spending to refurbishment, rather than replacement, of equipment.

The uncertainty prior and through the General Election and also the current Eurozone issues have also impacted a number of businesses throughout the first part of 2015.

The lack of excellent engineering training courses within the region and the failure of local colleges to keep up with the latest technology are also impacting our ability to recruit good quality apprentices.

Despite a number of promises made by Government, the skills shortage continues to be the major issue for the majority of manufacturers within the region."

MANUFACTURING PERFORMANCE IN THE EAST OF ENGLAND

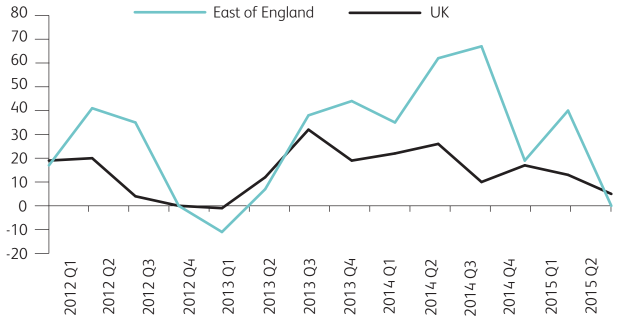
- Output balances fell below the UK average in 2015 q2 for the first time in more than two years
- Order balances turned negative in 2015 q2 for the first time in two years
- Investment flat in 2015 q2 after 7 consecutive quarters of growth
- Recruitment balances have seen a sharp drop since their 2.5 year high in 2014 q3

The East of England posted the strongest output balances on average in the UK over 2014. The region looked to be off to a flying start in 2015 as well, with manufacturers reporting solid output balances in q1. However, output flattened in q2 and there was a sharp downturn in demand.

While the region has not been as badly affected as others by the drop in demand from oil and gas – as its largest sectors are not in this supply chain – it has not escaped unscathed. The East of England has a higher than average concentration of manufacturers in the mechanical equipment sector. This is visible in domestic orders which have been softening since a peak in 2014 q3 and turned negative in q2 for the first time in two years.

AFTER STRONG PERFORMANCE OUTPUT SLOWS IN Q2

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)

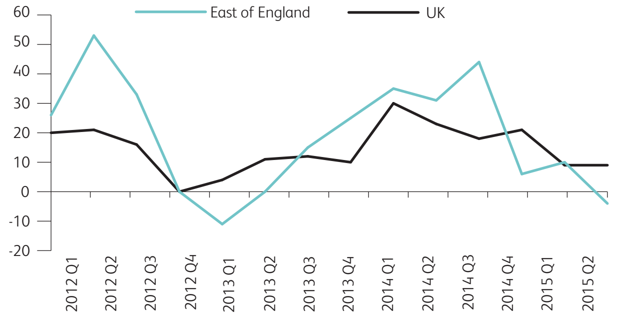


Source: EEF Business Trends Survey

Despite the subdued picture in q2 we expect conditions in the region to improve in the second half of the year as domestic demand picks up and growth in the transport sector – the region's third largest sector – continues. Forward looking balances for output and orders seem to reflect that optimism.

RECRUITMENT BALANCES SOFTEN

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)

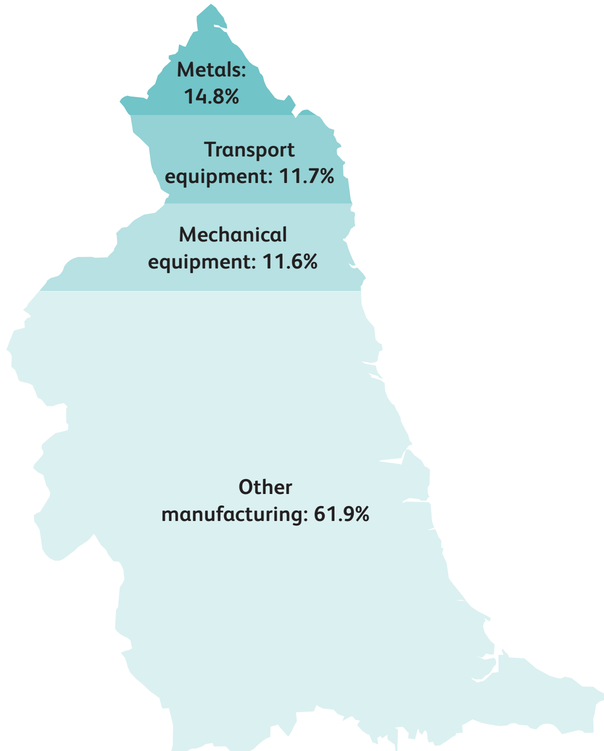


Source: EEF Business Trends Survey

On the other hand, recruitment and investment intentions look to be coming off the boil. The employment balance turned negative for the first time since 2013 q1, while investment intentions for the next 12 months have levelled off after seven consecutive quarters of growth. Robust growth in employment and investment in the preceding months could mean that the productive capacity to cope with increased demand is already in place, removing the urgency for further recruitment and capital expenditure.

NORTH EAST

The North East is the UK's smallest region in terms of output. Manufacturing accounts for 14.0% of the region's output, which is above average for the UK as a whole. About 56% of the 3,940 manufacturing businesses in the region are SMEs, slightly below the national UK average. The region's largest manufacturing sectors are metals, transport and machinery.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	3.0	–
Manufacturing	4.2	14.0
Services	2.8	74.8
Construction	3.1	6.2

Source: ONS

EMPLOYMENT: 125,200 people are employed in manufacturing in the North East, accounting for 11% of the region's total workforce. **Manufacturing employment has grown slightly since 2010, but slower than in the UK as a whole**.

PRODUCTIVITY: The North East's productivity is 88.7% of the UK average. This puts the region in the bottom half of regional productivity rankings. Productivity in the North East is brought down by a high presence of the public sector and low presence of financial and professional services. **While a large manufacturing sector tends to boost productivity, the high concentration of the metals sector – the second-least productive manufacturing sector – is weighing on that contribution**.

EXPORTS: In 2014, the North East accounted for 5.5% of the UK's manufactured exports. **The region is particularly Europe-centric in its exporting; this is mainly down to Europe being a key market for metals and automobiles**. 69% of the region's goods exports go to Europe, significantly above the national average. The regions' exports are well below the UK average for North America and Asia.

A VIEW FROM THE REGION: ANDREW ESSON, MD, QUICK HYDRAULICS

"Quick Hydraulics is a hydraulic engineering specialist which works with customers in all industry sectors. Over the last few months we have seen mixed activity levels across the North East industrial base, with buoyant paper and process and automotive sectors sitting alongside a slowing oil and gas OEM sector. Enquiry levels are still good, but increasingly with delays in order placement.

Companies who are predominantly oil and gas focussed are bracing themselves for a challenging year ahead. Within Quick Hydraulics we are focussed on keep overheads in balance, while recruiting strategically to enable us to aggressively seek new business opportunities."

MANUFACTURING PERFORMANCE IN THE NORTH EAST

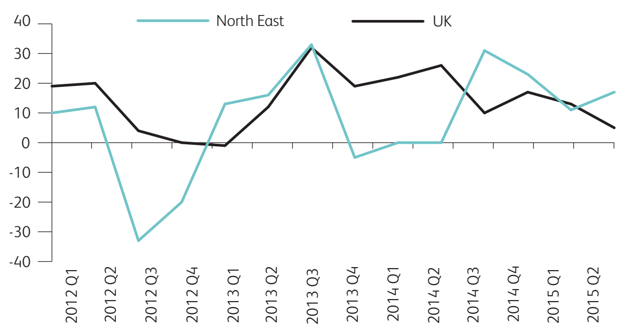
- Region has been outperforming the UK average for output over the past year
- Recruitment balances have been above average for the last 5 quarters
- Domestic demand has tailed off since its 7-year high in 2014 q3
- Investment intentions have been broadly in line with the UK average over the past year

The North East has been trending above the UK average for output since 2014 q3, after trailing for most of 2013 and 2014. We consider the rebound over the last year to be mostly down to a large and highly productive automotive sector in the region.

However, the region's performance is moderated by the presence of oil and gas supply chain sectors such as metals and mechanical equipment. Domestic orders over the past three months have been the most negative out of all UK regions. This indicates strong linkages between manufacturing companies in the North East and the oil and gas industry in the North Sea.

NORTH EAST TRENDED ABOVE UK AVERAGE IN LATE 2014

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

The picture is more positive when it comes to recruitment intentions. The region has posted some of the strongest recruitment balances, pointing to diminishing spare capacity necessitating additional staff. This is mostly concentrated in the transport sectors where we expect further strong growth in 2015.

POSITIVE PICTURE ON RECRUITMENT

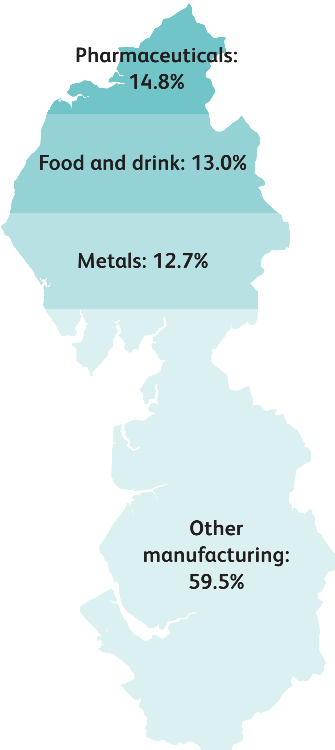
% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)

Source: EEF Business Trends Survey

Investment intentions for the next 12 months are also positive, broadly in line with the UK average for the past year. Robust investment plans in the automotive sector are being partly offset by a collapse in capital spending in metals and mechanical equipment.

NORTH WEST

The North West is the UK's second biggest region in terms of output with manufacturing accounting for 13.0% of that output. There are 13,855 manufacturing businesses in the region, of which 56% are SMEs, a little lower than the national average. The region's largest manufacturing sectors are pharmaceuticals, food and drink and metals.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	9.4	–
Manufacturing	13.0	14.0
Services	9.0	76.7
Construction	9.8	6.3

Source: ONS

EMPLOYMENT: 338,200 people are employed in manufacturing in the North West, accounting for 11% of the region's total workforce. **The North West is the region that has seen the largest reduction in manufacturing employment since 2010.** The fall is largely linked to declining employment in the pharmaceuticals sector over that period.

PRODUCTIVITY: The North West's productivity is 90.4% of the UK average. This puts the North West at the middle range of regional productivity rankings. **The region benefits from the presence of a high productivity pharmaceuticals sector,** which has one of the highest levels of output per hour for any sector. However, this is partly offset by the large presence of the low-productivity metals sector.

EXPORTS: In 2014, the North West accounted for 8.9% of the UK's manufactured exports. 52% of the region's goods exports go to the EU, a little above the national average. Outside of Europe, 16% of the region's exports go to Asia and 13% go to North America. Compared with the UK as a whole, **the region sends a higher than average proportion of exports to the Middle East and North Africa**.

A VIEW FROM THE REGION: ANDREA HOUGH, MD, AT ENGINE CONTROLS

"The outlook for North West manufacturing is still positive although recent surveys suggested weaker growth in orders in the sector than originally expected. Exports are expected to grow in the second half of the year especially in Europe which will maintain output levels rather than grow them. Sales in the domestic oil and gas sector are in decline although the refit and legacy supply business has seen a slight increase due to delay or cancellation of large scale projects.

Attracting the right people with the right skills into the industry is still a problem for the area and this is partly responsible for the increase in apprenticeships being offered by smaller businesses.

The Government's commitment to creating a Northern Powerhouse by improving the infrastructure, backing science and skills and the transfer of some powers to the region can only help to improve the overall picture going forward."

MANUFACTURING PERFORMANCE IN THE NORTH WEST

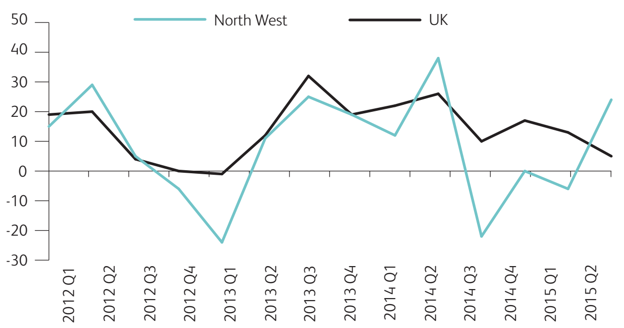
- After a weak end to 2014 and start to 2015, the region outperformed the UK in 2015 q2
- The region's strength in chemicals and pharmaceuticals has countered weakness elsewhere
- The region was one of only two places where employment fell in q1, but this has since reversed
- Region's manufacturers have buoyant investment intentions and forward-looking expectations

Between 2013 and mid-2014 output growth in the North West was in line with growth around the UK. However, this changed for the worse in the second half of 2014. Output dipped markedly in 2014 q3 as the region's metals manufacturers in particular were hit by falling demand from the oil and gas sector following the collapse of the oil price in late 2014.

Along with Scotland, the North West was one of the worst-hit places in the UK by this downturn in demand. However, the fall in the oil price has not been all bad news for manufacturers in the region; a weaker oil price has supported growth in the region's large chemicals and pharmaceuticals sectors.

OUTPUT DIPPED IN H2 2014 BUT NOW IMPROVING

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)

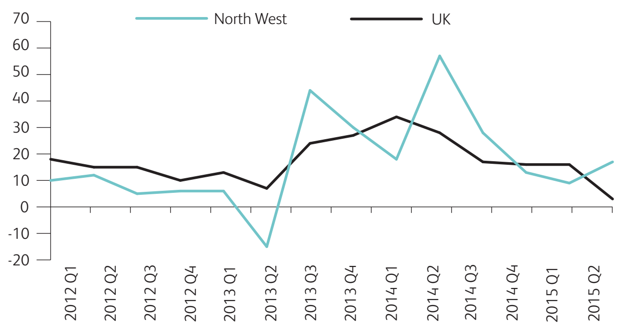


Source: EEF Business Trends Survey

Despite the challenging start to the year, the region's manufacturing sector should perform better in the second half of 2015. While growth in the basic metals sector is not expected to be strong, the worst of the impact of the low oil price is now likely to dissipate. In addition, the chemicals and pharmaceuticals sector is likely to post strong growth in the year ahead, which should boost the picture for the region.

POSITIVE OUTLOOK ON INVESTMENT

% BALANCE OF CHANGE (NEXT 12 MONTHS)

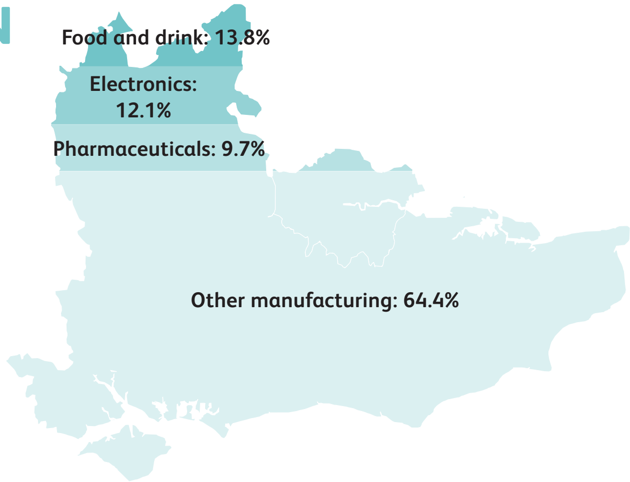


Source: EEF Business Trends Survey

This is reflected in manufacturers' views. North West manufacturers expect both output and demand to improve in 2015 q3, while investment and employment intentions are firm.

SOUTH EAST AND LONDON

The South East and London is the UK's largest region in terms of output. Manufacturing has the smallest presence in the region as a proportion of total output, at 4.8%. On the other hand, 62% of the 30,010 manufacturing businesses in the region are SMEs, the highest share in the UK. The region's largest manufacturing sectors are food and drink, electronics and pharmaceuticals.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	37.6	–
Manufacturing	18.0	4.8
Services	41.1	87.4
Construction	33.2	5.4

Source: ONS

EMPLOYMENT: 522,600 people are employed in manufacturing in the South East and London, accounting for 6% of the region's total workforce. **Manufacturing employment in both the South East and London has increased between 2010 and 2014**, by 5% and 6% respectively.

PRODUCTIVITY: Productivity in the South East and London is 121.0% of the UK average, **making it the most productive region in the UK**. The region benefits from the presence of high-productivity manufacturing sectors like electronics and pharmaceuticals, as well as a high concentration of financial and professional services.

EXPORTS: In 2014, London and South East accounted for 25.4% of the UK's manufactured exports, the largest for any region. 47% of the region's goods exports go to Europe, slightly less than the national average. While the **region exports less than the UK average to the EU, it exports more to Eastern and Western Europe (excl. EU)**. Outside of Europe, 17% of the region's exports go to Asia and 16% go to North America.

A VIEW FROM THE REGION: JAMES HENSLOWE, GROUP HR DIRECTOR, STANNAH

"The outlook is largely positive for manufacturing in the South East and London, with transport industries including automotive and aviation doing particularly well. London construction and infrastructure projects are also offering opportunities for companies in those supply chains. Growth is largely being driven by the private sector, and the impact of cuts in public spending by councils is now being seen.

A more negative picture comes from those who supply to oil and gas producers, where demand has dropped. In addition, uncertainty about the Euro, exacerbated by the current Greek crisis, is affecting the region's manufacturers' investment and longer term planning in export markets.

Competition for engineering and specialist skills continues to be a challenge in the South East region and many expect recruitment to be confined to maintaining rather than increasing, workforce numbers."

MANUFACTURING PERFORMANCE IN THE SOUTH EAST AND LONDON

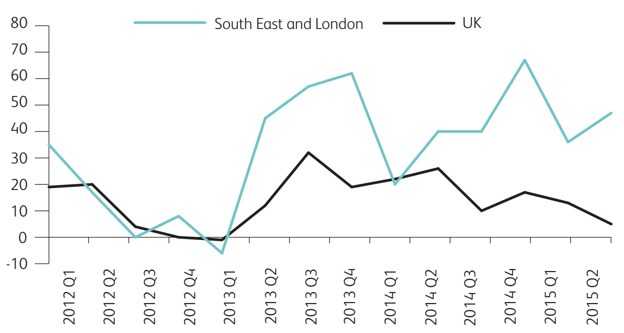
- The region has been posting the strongest output balances in the UK over the past year
- Total orders have been positive for 11 consecutive quarters, the longest for any region
- Investment intentions are solid but have tailed off from their all-time high in 2014 q4
- Recruitment has been positive for 10 consecutive quarters

The South East and London has been consistently outpacing the UK average in all key indicators. A concentration of manufacturing sectors serving the domestic market and low exposure to the North Sea oil and gas industry have insulated the region from some of the headwinds facing UK manufacturing.

Output in the region has been expanding at a fast pace for nine consecutive quarters. Both domestic and export orders have been positive over the past year although demand from the UK has been stronger than export demand. This is broadly in line with the picture for manufacturing as a whole, although exacerbated by weak demand in the electronics sector's key export markets – such as the US and Germany – in the beginning of 2015.

SOUTH EAST AND LONDON CONSISTENTLY OUTPERFORMS UK

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)

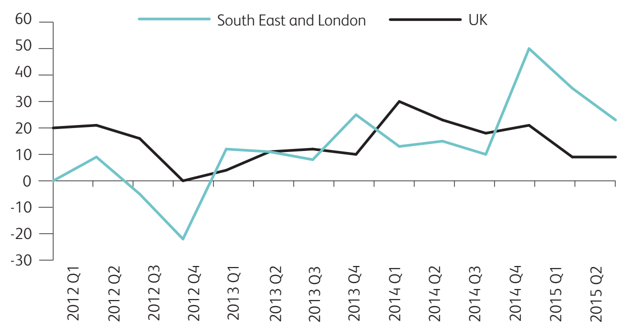


Source: EEF Business Trends Survey

Recruitment intentions in the region are also firmly in place; employment balances have been positive for 10 consecutive quarters and gained further momentum in 2015 q2. Looking forward to the next three months manufacturers in the region are expected to continue recruiting staff, albeit at a slightly slower pace.

TEN QUARTERS OF POSITIVE RECRUITMENT BALANCES

% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)

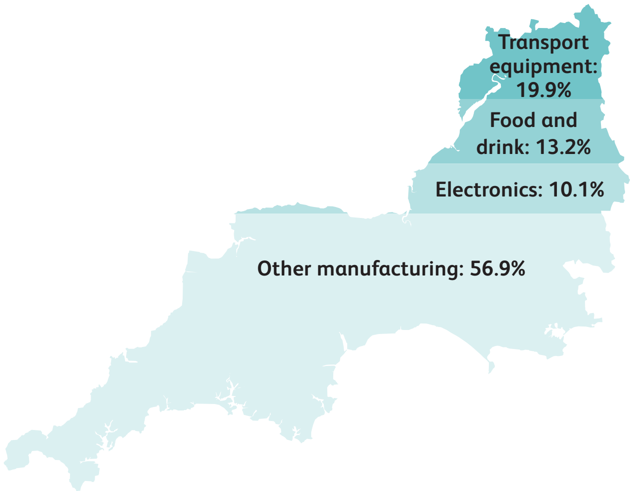


Source: EEF Business Trends Survey

Investment intentions for the next 12 months are also robust, the strongest of any UK region. Positive conditions in the region are propping up strong expectations for the next three months, although most key balances are a touch weaker.

SOUTH WEST

The South West is the UK's fifth largest region in terms of output. About 11.7% of the regions output is produced by the manufacturing sector, which is above average for the UK as a whole. The region's manufacturing sector is dominated by SMEs, accounting for 62% of all manufacturing businesses, the second highest share in the UK. The region's largest manufacturing sectors are transport, food and drink and computing/electronics.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	7.6	–
Manufacturing	8.8	11.7
Services	7.3	77.1
Construction	8.2	6.6

Source: ONS

EMPLOYMENT: 267,000 people are employed in manufacturing in the South West, accounting for 10% of the region's total workforce. **The number of manufacturing jobs in the region dropped by 3% between 2010 and 2014**, in contrast with the UK as a whole.

PRODUCTIVITY: The region's productivity is 91.4% of the UK average, which is the second highest for any English region outside of London and the South East. In part, this is because **the South West benefits from a high concentration of two high productivity manufacturing sectors: transport and electronics**.

EXPORTS: In 2014, the South West accounted for 5.8% of the UK's manufactured exports. **The EU receives 59% of the region's exports, which is the highest proportion for anywhere in the UK.** In contrast, the proportion of the region's exports going to its next largest markets – Asia and North America – falls below the national average.

A VIEW FROM THE REGION: STEVE HILL, MD, SEA

"While in the South West we are in general seeing an increase in manufacturing output the picture is not consistent across the sectors within the region.

The most challenging environment at present is being seen in the businesses which are reliant on the oil and gas sector and in particular those supporting the development and build of new fields. In all these businesses we are seeing a contraction in output and plans to reduce manufacturing capacity.

In contrast the strongest performance is being reported within the aerospace and defence sectors where demand for the products and services offered is growing steadily."

MANUFACTURING PERFORMANCE IN THE SOUTH WEST

- Manufacturers in the South West have reported growing output since 2014 q4
- Employment in the South West set to grow
- All of the regions key sectors set to grow in 2015
- Investment intentions have been below the UK average since 2013 q4 but rebounded in 2015 q1

The South West's manufacturers have reported positive output balances for three consecutive quarters, notably less than the nine straight quarters for the UK as a whole. However, this belies a relatively strong underlying performance in the region. The South West has a high proportion of other transport manufacturers and response balances tend to be quite volatile for this sector, in comparison with generally stronger output data reported in official statistics.

Indeed, other indicators point to a more sustained positive picture over the last couple of years with employment balances positive since 2013 q4, and outpacing the wider UK since the second half of 2014.

OUTPUT POSITIVE FOR THREE QUARTERS

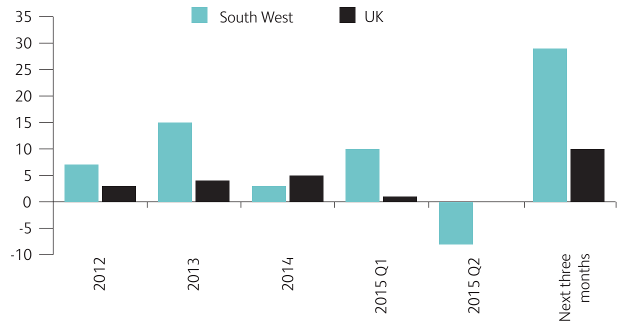
% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)

Source: EEF Business Trends Survey

The region's key sectors are all forecast to grow in 2015. Other transport will be the star performer, which should provide a key boost as the region's largest sector. While food and drink and electronics will also grow, these sectors are set to see a slower picture this year, after a strong 2014.

EXPORT ORDERS EXPECTED TO IMPROVE

% BALANCE OF CHANGE IN EXPORT ORDERS (PAST 3 MONTHS)

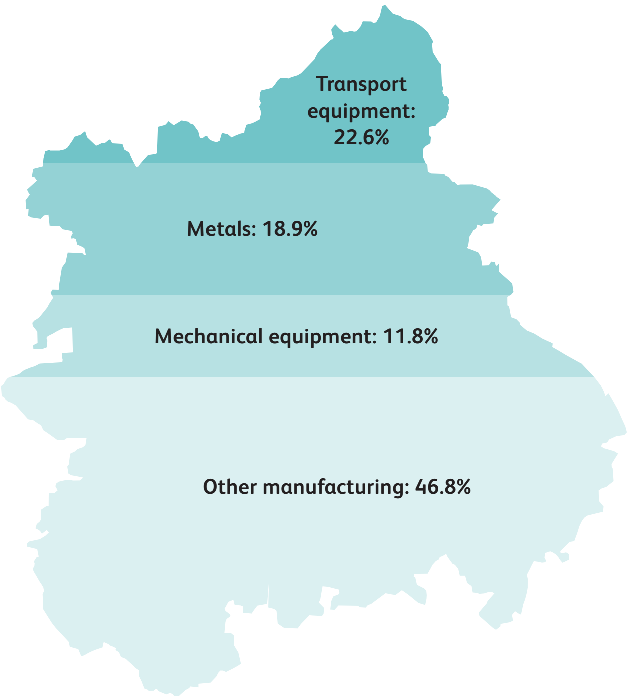


Source: EEF Business Trends Survey

This is reflected in forward looking balances. On balance, manufacturers in the South West expect a flat third quarter of the year, with regards to output, though other indicators point to a positive underlying picture. A balance of 24% of the region's companies expect orders to increase in q3, while a balance of 29% expect export orders to increase – both more optimistic than the UK as a whole.

WEST MIDLANDS

The West Midlands is the UK's sixth largest region in terms of output. Manufacturing accounts for 13.9 % of the region's output, firmly above the national UK average. There are 13,920 manufacturing businesses in the region, of which 53 % are SMEs, slightly below the UK average. The region's largest manufacturing sectors are transport, metal, and machinery equipment.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	7.3	–
Manufacturing	10.1	13.9
Services	6.9	75.5
Construction	7.4	6.1

Source: ONS

EMPLOYMENT: 335,700 people are employed in manufacturing in the West Midlands, accounting for 13 % of the region's total workforce. Since the recession, **the West Midlands has seen strong manufacturing employment growth, with the number of jobs in the sector increasing by 7%** between 2010 and 2014.

PRODUCTIVITY: despite the presence of a large manufacturing sector with high productivity transport and mechanical equipment sectors, the **West Midlands' productivity is 88.2% of the UK average, which is relatively low compared with other regions**. This is partly because the region has a small financial sector relative to the rest of the UK.

EXPORTS: In 2014, the West Midlands accounted for 12.1 % of the UK's manufactured exports, the most of any region excluding the South East and London. Only 40 % of the region's exports go to the EU, which is the lowest proportion for any region. The flipside of this is that **the region sends 27% of its exports to Asia compared with just 16% for the UK as a whole**. The West Midlands' third largest export market is North America, which receives 17 % of its exports.

A VIEW FROM THE REGION: MATTHEW SNELSON, EXECUTIVE MANAGER, GRAINGER AND WORRALL LTD

"Following the economic downturn around 2008, engineering businesses in the West Midlands shed jobs. With the strong recovery in our region's manufacturing base, employers immediately looked to increase headcount, decreasing unemployment levels but also holding down productivity levels. As the skilled engineering labour pool has dried up, a skills gap has emerged, and regional employers are now looking at production technologies to reduce labour content and increase value added.

SME's in the region have good access to support from local and central government initiatives, however mid-sized businesses are facing restrictions to similar support. Growth and export opportunities are being tempered by the high value of sterling against the Euro, again driving the requirement for increased productivity and competitiveness levels.

High quality apprenticeships, production engineering and technical provision remains a priority."

MANUFACTURING PERFORMANCE IN THE WEST MIDLANDS

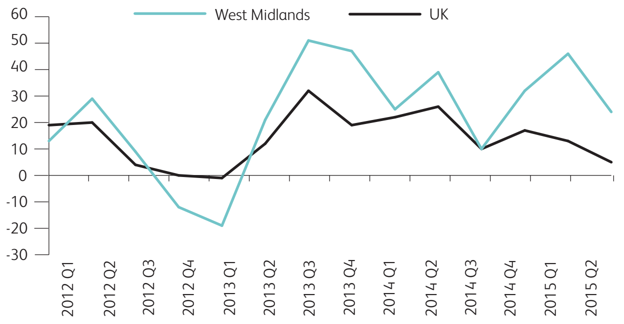
- Since the second half of 2013, output in the region has outperformed the UK
- The concentration of automotive in the region has provided a key support to growth
- Domestic orders have remained positive in the region
- West Midlands' manufacturers reported the strongest employment balance of any region in q2

As with the broader UK picture, manufacturers in the West Midlands have now reported nine consecutive quarters of output growth. However, in almost every one of these quarters the region's manufacturers have reported stronger balances than the rest of the UK. The region continued its positive run at the start of 2015.

The strength of the region's motor vehicles sector has played an important role in boosting growth in the region. The West Midlands' metals and machinery manufacturers will also have been less affected by the impact of a lower oil price on investment and demand as many sell directly into automotive supply chains. Indeed, West Midlands manufacturers reported strong domestic orders in q1 and q2 this year, in contrast with the national picture.

NINE CONSECUTIVE QUARTERS OF OUTPUT GROWTH

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



Source: EEF Business Trends Survey

Prospects for the region remain strong. While growth in basic metals and mechanical equipment will be limited this year, the region's manufacturers are well placed to take advantage of growth in the automotive sector. What is more, emerging signs of improvements in European consumer demand should sustain further growth in car sales.

SLOWDOWN IN EMPLOYMENT GROWTH LIKELY

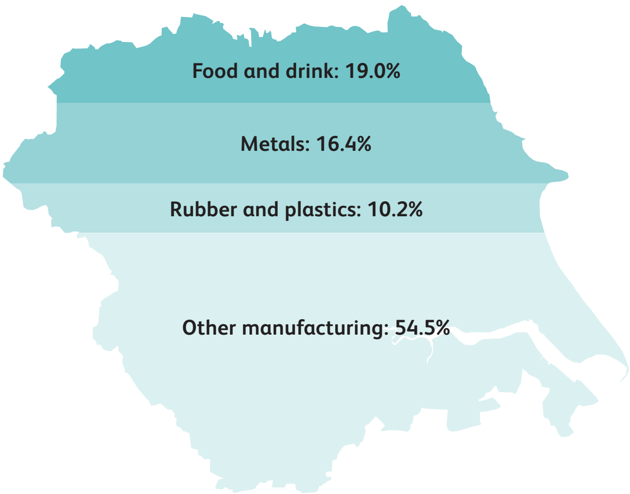
% BALANCE OF CHANGE IN EMPLOYMENT (PAST 3 MONTHS)

Source: EEF Business Trends Survey

The region's companies remain positive about the outlook, however, there are some signs that growth may not continue at the same pace. For example, while large balances of manufacturers in the region have been increasing employment over the last few quarters, the three month forward looking balance has dropped to just 3% in 2015 q2.

YORKSHIRE AND HUMBER

Yorkshire and Humber is the UK's seventh largest region in terms of output. The manufacturing sector in the region is larger than the UK average at 13.9% of regional output. There are 11,450 manufacturing businesses in the region, of which 54% are SMEs, considerably below the UK average. The region's largest manufacturing sectors are food and drink, metals and rubber and plastics.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	6.8	–
Manufacturing	9.4	13.9
Services	6.4	75.2
Construction	7.3	6.5

Source: ONS

EMPLOYMENT: 315,000 people are employed in manufacturing in Yorkshire and Humber, accounting for 13% of the region's total workforce. The region has been a key driver of manufacturing employment growth. **The number of jobs in the sector increased by 12% between 2010 and 2014, the fastest employment growth for any English region**.

PRODUCTIVITY: The region's productivity is 88.5% of the UK average. While a higher than average proportion of manufacturing is good for productivity, the region's key manufacturing sectors tend to have lower productivity than the average for manufacturing. In addition, the region's productivity is brought down by a higher than average-sized public sector.

EXPORTS: In 2014, Yorkshire and Humber accounted for 5.5% of the UK's manufactured exports. Less than half of exports – 49% – go to the EU, which is slightly below the UK average. However, **22% of Yorkshire and Humber exports travel to North America, the highest for any region in England**. The region also has a higher proportion of exports than the UK average to Latin America and the Caribbean and Sub-Saharan Africa.

A VIEW FROM THE REGION: STEPHEN WRIGHT, MD, THORITE

"The view in the region is generally one of optimism tempered with realism that manufacturing growth isn't going to be as strong as in 2014. Yorkshire and Humber has a very broad based economy with many parts of it not having an over-dominant sector. This is both a strength and a weakness, it gives us resilience against shocks in specific sectors but does not allow the region to shout in one voice or have a magnet for policymakers' focus. The slowdown in oil and gas has definitely had an impact, as has the continuing strength of the pound against the euro which threatens our region's exports. However, in the mid-term the new wind facilities in the Humber and the proposed potash mine in North Yorkshire make the region an exciting place to do business."

MANUFACTURING PERFORMANCE IN YORKSHIRE AND HUMBER

After outperforming the UK in 2014, the region has had a closer-to-average performance in 2015
The region's UK-focused sectors benefited from strong demand in 2014, this has softened in 2015
The region's manufacturers have reported employment balances above the UK average since 2013 q4
The region's investment intentions are positive in 2015, despite the prevalence of metals manufacturers

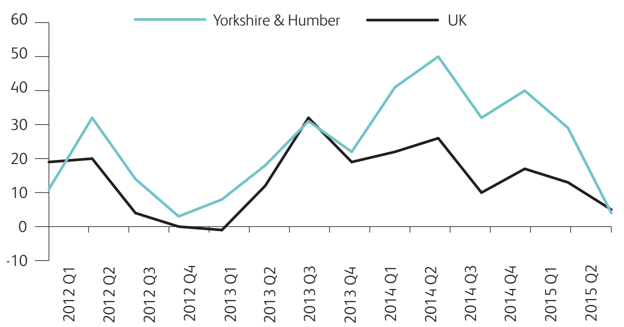
Source: EEF Business Trends Survey

Yorkshire and Humber had a good 2014, with manufacturers in the region consistently reporting output balances stronger than the UK average. A key driver of this was the strength of two of the region's key sectors – rubber and plastics and food and drink – posting strong growth rates over the course of the year.

The region had a more challenging start to 2015, however, as weak demand from the oil and gas industry hit the metals sector. This is reflected in the weakness of UK orders for the region in 2015 q2, which dipped to a balance of 8% compared with 17% the quarter before, and 26% in 2014 q4.

OUTPUT IN THE REGION OUTPERFORMED UK IN 2014

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



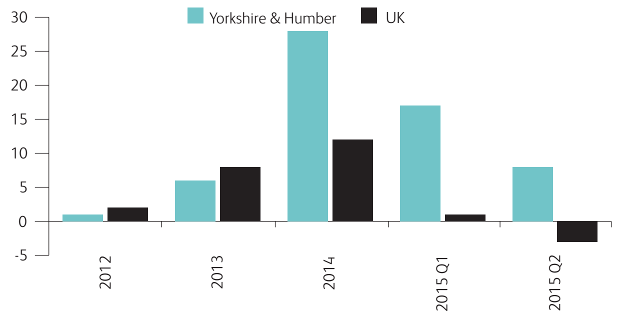
Source: EEF Business Trends Survey

The worst of the impacts from the oil and gas industry may now have bottomed out, though some time lag can be expected before demand improves markedly.

That said, the consumer remains a resilient source of UK domestic demand. The region therefore stands to benefit from the prevalence of heavily consumer-facing sectors like food and drink and rubber and plastics as we move through 2015.

DOMESTIC ORDERS SOFTER IN 2015, THOUGH STILL POSITIVE

% BALANCE OF CHANGE IN UK ORDERS (PAST 3 MONTHS)

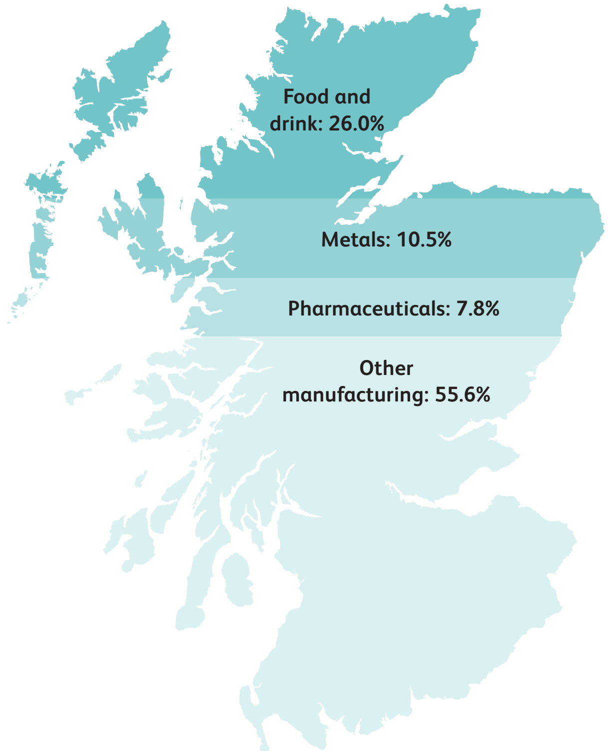


Source: EEF Business Trends Survey

Indeed, the region's manufacturers are relatively upbeat about UK demand, with a balance of 8% expecting an increase in domestic orders in q3 compared with a flat balance nationally.

SCOTLAND

Scotland is the UK's fourth largest area in terms of output. Manufacturing is responsible for 10.8% of that output, which is only slightly above the UK average. The proportion of SMEs to the region's 7,910 manufacturing businesses is also slightly above average at 59%. Scotland's largest manufacturing sectors are food and drink, metals and pharmaceuticals.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	7.8	–
Manufacturing	8.4	10.8
Services	7.3	74.5
Construction	8.2	6.4

Source: ONS

EMPLOYMENT: 212,400 people are employed in manufacturing in Scotland, accounting for 8% of the region's total workforce. **The number of manufacturing jobs in the region increased by 4% between 2010 and 2014,** slightly above the UK average.

PRODUCTIVITY: The country's productivity is broadly equal to the UK average, making **Scotland the third most productive part of the UK**. In part, this is because Scotland benefits from the concentration of two high productivity manufacturing sectors: transport and electronics. The presence of a large oil and gas sector also boosts Scottish productivity.

EXPORTS: In 2014, Scotland accounted for 5.2% of the UK's manufactured exports, the least of any region. The country exports below the UK average to the EU and North America, while exports to Asia are in line with UK average levels. However, **Scotland exports are almost double the UK average to non-traditional markets** like Latin America and Sub-Saharan Africa.

A VIEW FROM SCOTLAND: BRYAN BUCHAN, CEO, SCOTTISH ENGINEERING

"The first half of 2015 has seen a global fall in crude oil price which has made itself felt throughout our sector with significant drops in both production and staffing levels. Machine shops and engineering works in the central belt which form an essential part of the supply chain for major extractors have reacted positively with fabricators diversifying and seeking further export opportunities.

The renewables industry has also seen a contraction, due to the Westminster government's decision to prematurely cut subsidies, with the withdrawal of several major players, notably Samsung.

Scotland's engineering industry has shown remarkable resilience in coming through a protracted recession however and we have every confidence in recovery."

MANUFACTURING PERFORMANCE IN SCOTLAND

Scotland trended below the UK average for two years, and this gap has widened since 2014 q3
The region has seen domestic demand collapse since 2014 q3
Investment balances have cooled since 2014 q3, but remain positive for 5 consecutive years
The region's employment balance turned negative in 2015 q1 for the first time since 2010 q2

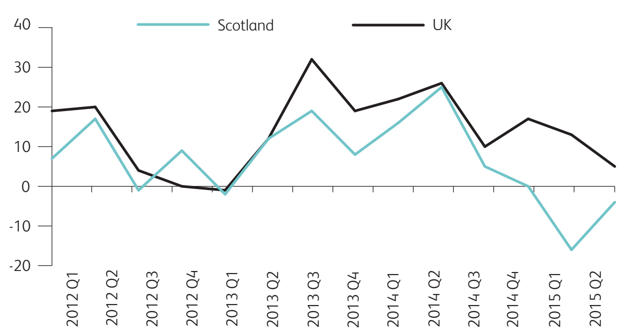
Source: EEF Business Trends Survey

After edging up close to the UK average in the beginning of last year, output balances in the country fell into negative territory at the start of 2015. Scotland has a high concentration of the oil and gas industry, meaning that the slump in the oil price since June 2014 has acted as a significant drag on Scottish output.

The negative effects have been quick to trickle down the manufacturing supply chain. Manufacturing sectors supplying to the North Sea, like metals and mechanical equipment, saw orders dry up as investment plans were postponed. This is most evident in domestic orders which dropped from a balance of 17% of manufacturers reporting increased UK demand in 2014 q2 to -9% in 2015 q1. However, there were some signs of a modest pick-up in q1.

SCOTTISH MANUFACTURERS HIT BY WEAKNESS IN OIL AND GAS

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)



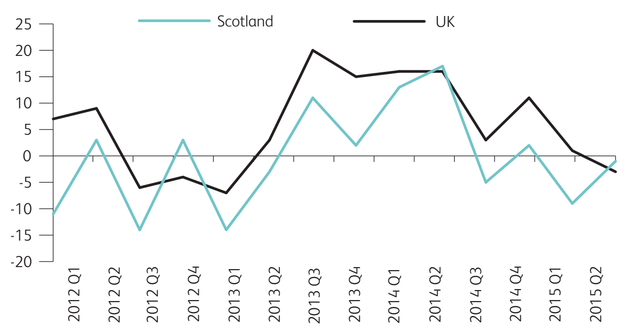
Source: EEF Business Trends Survey

While the oil price appears to have bottomed out and is steadily on the up, investment balances for the next 12 months remain subdued, albeit positive. This is consistent with our view that capital expenditure in the North Sea will resume with a time lag once the oil price has stabilised.

Forward-looking balances are also positive for recruitment in the next three months despite turning negative in q1 and q2. This could be another indicator that manufacturers in Scotland expect activity in the oil and gas sector to come off its trough at the end of 2015.

DOMESTIC ORDERS WEAK DESPITE IMPROVEMENT IN Q2

% BALANCE OF CHANGE IN UK ORDERS (PAST 3 MONTHS)

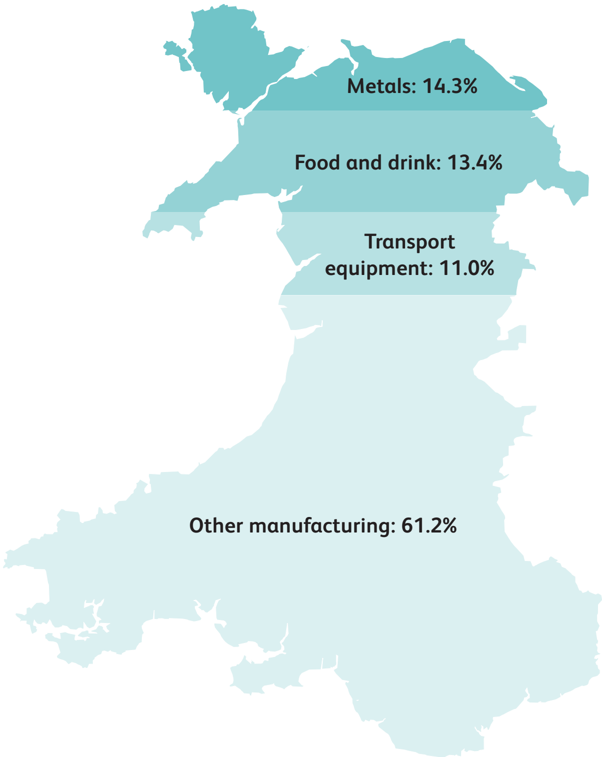


Source: EEF Business Trends Survey

One bright spot is the region's strong presence in the food and drink and pharmaceutical sectors. The food and drink sector should benefit from strong consumer demand while the pharmaceuticals industry is moving off the patent cliff and prospects in the sector are set to improve.

WALES

Wales is the second smallest area in the UK in terms of output. The manufacturing sector is over-represented in the region, accounting for 15.8% of total output, well above the national average. The proportion of SMEs to the 5,185 manufacturing businesses in the region is also above average at 60%. The region's largest manufacturing sectors are food and drink, transport and metal.



REGIONAL SUMMARY

	% UK SECTOR OUTPUT	% REGIONAL OUTPUT
Total GVA	3.5	–
Manufacturing	5.4	15.8
Services	3.2	73.1
Construction	3.6	6.4

Source: ONS

EMPLOYMENT: 157,100 people are employed in manufacturing in Wales, accounting for 12% of the country's total workforce. Since the recession, **Wales has seen stronger manufacturing employment growth than anywhere else in the UK**. The number of jobs in the sector increased by 15% between 2010 and 2014.

PRODUCTIVITY: Wales' productivity is 83.4% of the UK average, one of the lowest levels in the UK. While the country has an above than average concentration of manufacturers in the high productivity transport sectors, it also has a high presence of public sector employment, which has lower levels of productivity.

EXPORTS: In 2014, Wales accounted for 4.6% of the UK's manufactured exports. While – as with everywhere in the UK – Europe is Wales' largest market, only 43% of its exports go to the EU compared with 51% for the UK as a whole. In contrast, **24% of the region's exports go to North America, well above the national average** of 15%. Wales' third largest export market is the Middle East and North Africa, which accounts for 14% of the country's exports, also well above the UK average.

A VIEW FROM WALES: GARETH JENKINGS, MD, FSG TOOL & DIE

"The Welsh manufacturing economy continues to reflect the overall UK performance. The position is one of company growth overall but concerns about longer term productivity growth and the skills gap. EEF in Wales have identified that in a sector that employs 160,000 people we will have a predicted shortfall of 8,000 people by 2018. There is a growing need to future proof our sector to remain globally competitive.

The region requires long term investment in capital equipment and a competitive energy landscape. The tidal lagoon is an exciting project that needs to proceed quickly to provide renewable energy and jobs. A strong national and devolved Government commitment to rebalancing the economy is key; we cannot allow a drift "back to the future" of an unbalanced economy."

MANUFACTURING PERFORMANCE IN WALES

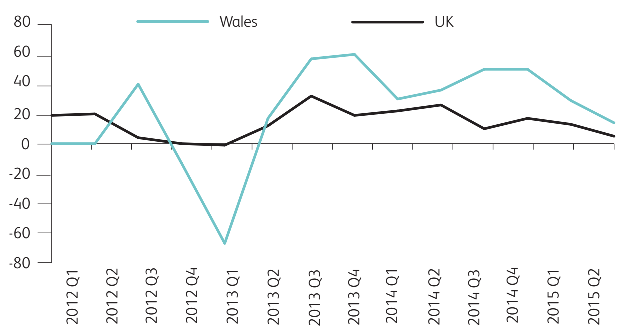
- On output and employment, Wales has outpaced the UK as a whole since early 2013
- Domestic demand has outpaced the UK, but export orders have been closer to average
- The picture on investment has been more mixed, with a flat balance in 2015 q1
- Weakness in metals counterbalanced by strong food and transport sectors

Manufacturers in Wales have reported positive output balances since 2013 q2, and growth in the country has outpaced the wider UK since then. In particular, the strength of transport and food and drink manufacturing over this period has supported growth and meant that demand has been sustained into 2015.

That said, despite continued positive balances, the momentum behind Welsh manufacturing has softened – along with the rest of the UK – since the latter half of 2014. Whereas a balance of 50% of Welsh manufacturers were reporting growth in 2014 q4, this had fallen to 14% in 2015 q2. As with the rest of the UK, Wales' basic metals manufacturers were hit by the fall in demand from the oil and gas sector and challenging demand conditions in some export markets.

WELSH MANUFACTURING OUTPUT TRENDS ABOVE UK AVERAGE

% BALANCE OF CHANGE IN OUTPUT (PAST 3 MONTHS)

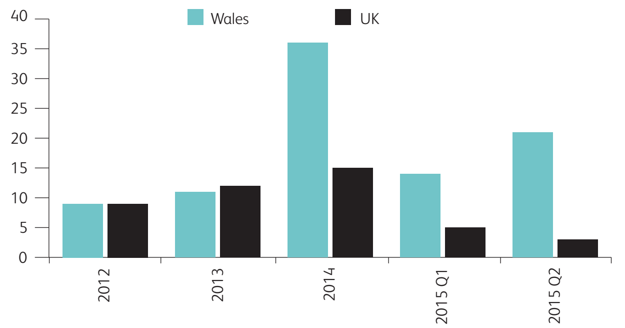


Source: EEF Business Trends Survey

The prospects for growth in Wales are positive. The transport sectors should continue to grow strongly, as demand remains buoyant, and could yet be boosted if the economy in Europe improves. Similarly, the consumer-focused food and drink sector will benefit from growing household spending in the UK. Weaker prospects for the basic metals sector remain a risk for Wales, though a reversal in recent oil price falls, and growing output across the broader manufacturing sector, should see demand improve.

TOTAL ORDERS POINT TO POSITIVE TRENDS CONTINUING

% BALANCE OF CHANGE IN EXPORT ORDERS (PAST 3 MONTHS)



Source: EEF Business Trends Survey

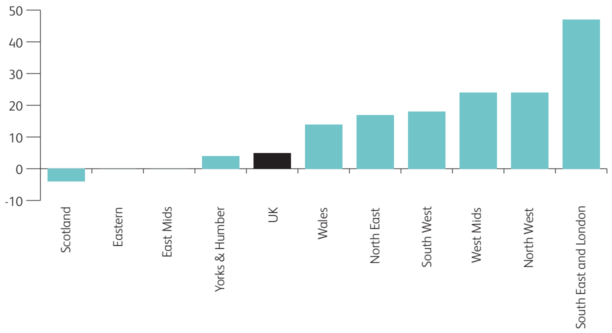
Welsh manufacturers share this upbeat prognosis, with a balance of 54% expecting output to increase in q3 compared with 12% for the UK as a whole.

DATA SUMMARY

PRESENTED IN ASCENDING ORDER

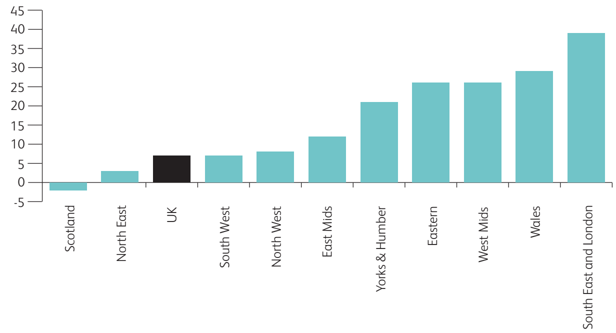
OUTPUT: PAST 3 MONTHS

% AVERAGE BALANCE OF CHANGE 2014 Q3 – 2015 Q2



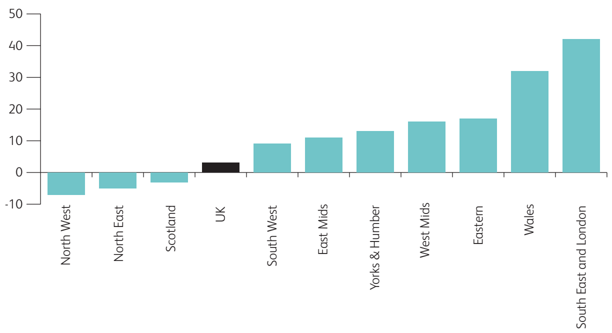
TOTAL ORDERS: PAST 3 MONTHS

% AVERAGE BALANCE OF CHANGE 2014 Q3 – 2015 Q2



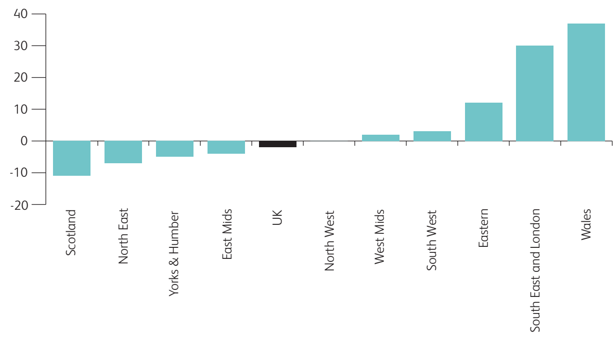
UK ORDERS: PAST 3 MONTHS

% AVERAGE BALANCE OF CHANGE 2014 Q3 – 2015 Q2



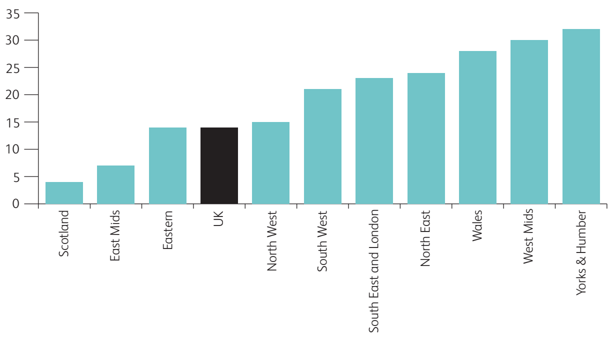
EXPORT ORDERS: PAST 3 MONTHS

% AVERAGE BALANCE OF CHANGE 2014 Q3 – 2015 Q2



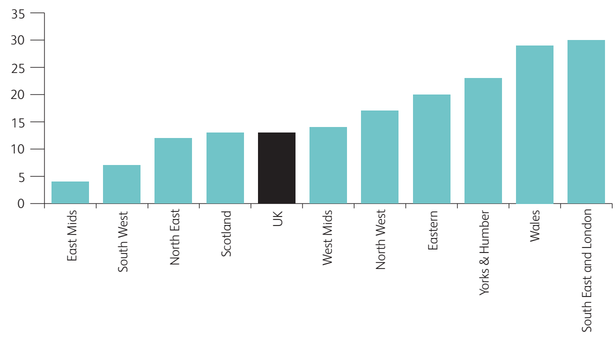
EMPLOYMENT: PAST 3 MONTHS

% AVERAGE BALANCE OF CHANGE 2014 Q3 – 2015 Q2



INVESTMENT: NEXT 12 MONTHS

% AVERAGE BALANCE OF CHANGE 2014 Q3 – 2015 Q2



ABOUT EEF

We are the voice of UK manufacturing and engineering and a leading provider of business support. We want manufacturing industry, and your business, to be able to thrive, innovate and compete, both locally and on a global scale.

We work with the UK's manufacturers from the largest to the smallest and because we understand manufacturing so well, policy makers trust our advice and welcome our involvement. We work with them to create policies that are in the best interests of the sector, that encourage a high growth industry and boost the manufacturing sector's ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving them a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of business support services which include HR & employment law, health, safety and the environment and productivity improvement. We also provide a wide range of training, from engineering apprenticeships to management and leadership development.

To find out more about becoming an EEF member, contact us on 0808 168 5874 or email us at enquiries@eef.org.uk

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The data used in this survey has been provided by EEF members. 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 Amanda Norris in our Information and Research team anorris@eef.org.uk

ABOUT DLA PIPER

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