MAKE uk
The Manufacturers' Organisation

MANUFACTURING OUTLOOK

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Foreword

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William McKinley was a largely forgotten US President until Donald Trump's re-election to the White House as the biggest fan of the man he dubs the "tariff king".

Trump, who renamed North America's highest peak to Mount McKinley in honour of his predecessor, has announced a series of his own tariffs on imports from Canada, China, Mexico, and elsewhere. As this edition of Make UK/BDO *Manufacturing Outlook* shows, talk of tariffs on the UK has spooked British businesses. At the time of writing, US tariffs on UK steel and aluminium have today been introduced.

In the 1890s, McKinley pushed for protectionism to shield domestic industries from foreign competition and was instrumental in enacting massive import tariffs - 50% on average - as part of a plan to use America's "economic force" to annex Canada and turn it into a US state.

While President Trump has hailed McKinley's presidency as a model for modern US leadership, economic historians have pointed out that the 'McKinley Tariff' produced a turbulent decade for the US economy, resulting in a major recession and double-digit unemployment.

The relative obscurity of William McKinley means few observers have grasped the full implications of Trump's rejuvenation of his predecessor's policies. Yet, Trump's historiographical allusions offer instructions on what the British government's response should be now.

Like today, by the 1890s Britain had suffered two decades of stagnant growth. Concern at McKinley's aggressive power politics led to calls for constitutional and commercial reform to end Britain's Long Depression and strengthen the UK's ability to compete.

Led by the industrialist Joseph Chamberlain, Birmingham and other cities in the West Midlands came to prominence as manufacturing powerhouses on a wave of innovation. Like the Labour government today, the Liberal MP Chamberlain championed an activist government and industrial policy that included devolving greater power to cities and local authorities. He nationalised private utilities - including water and railways - and pumped the proceeds into planning reform, house construction, infrastructure, and education.

The Westminster government also sought to strengthen the UK economy through economic solidarity and mutual security. Businesses were encouraged to modernise their operations by investing in mechanisation while, instead of retaliatory tariffs, the British government persisted in its free trade policy.

Technological advances, including the increased availability of affordable energy, enhanced telecommunications and transport links sparked a manufacturing industry upsurge and a golden age for British financial services. The flow of immigrants into the country also helped to fuel an industrial boom, providing a much-needed pool of skilled labour and helping to spread ideas and innovation.

McKinley eventually concluded that trade wars were not the path to global pre-eminence after Canada and other countries began shifting away from the United States to align more with Great Britain.

If the above sounds similar to the politics of today, it is because the policy response of the 1890s was informed by economic concerns reminiscent to those we now face.

The Bank of England has warned that Trump's tariff plans threaten to shrink the UK economy and push down growth. The impact on inflation is less clear but protectionist policies could leave less money in Britons' pockets. After inheriting challenging circumstances, any further economic shock would be a blow to Prime Minister Keir Starmer and Chancellor Rachel Reeves who have made growing the economy their number one mission.

As this quarter's *Manufacturing Outlook* survey shows, manufacturers are feeling the impact of global trade turmoil in the form of declining domestic and export orders. Recruitment plans have been stopped, and some companies have started cutting staff. The silver-lining is that firms are increasing investment in automation as a means of boosting productivity.

The past, as the saying goes, is prologue. History may not repeat, but sometimes it certainly seems to rhyme. Britain is vulnerable in this rapidly evolving trade environment but a lesson from the past is that backing manufacturing can help insulate us from the risks ahead.

Headlines

Make UK's Q1 2025 *Manufacturing Outlook* report, in partnership with BDO, kicks off the year with a sombre set of results for manufacturing performance. The impact of persistently weak domestic order books, now combined with a sharp slow-down in exports and the shock of the Autumn Budget announcements, has resulted in every core metric either contracting or slowing down.

The latest balance of output reported at -1%, down from +20%, indicating that industry production contracted for a large share of businesses in the last three months. Albeit the sector wide contraction is only minor, the negative balance at the start of a year is an ominous one. The last time the manufacturing sector reported a contractionary Q1, was in the first quarter of 2016. Manufacturers currently forecast output to grow in the next quarter, though uncertainty remains a challenge to accurate predictions.

In this latest chapter, the balance for total orders reported at -6%, down from +7%. It is the first negative balance for total orders since 2023 Q3. The possibility of a contraction in orders for manufacturers has been growing due to the string of poor performances of UK orders that have teetered around the 0% balance for the last six quarters. At least until now, the strength of export orders shielded the manufacturing sector from genuine decline, despite the worry that businesses had put too many eggs into one basket. For this quarter, the balance of UK orders has fallen to -7%, down from 0% and the balance for export orders has fallen to +1%, down from +10%. Though the latter remains marginally positive, it was insufficient to uplift total orders overall.

As the possibility of global trade disruption looms, it is not currently possible to say where growth in orders will return.

Indicator	Balance	Change	
Confidence	6.8	↑	Confidence improves despite weak demand
Output	-1%	↓	Output volumes contract on balance
UK orders	-7%	↓	Domestic orders contract
Export orders	1%	↓	Export orders weakly positive amidst trade uncertainty
Employment	-3%	↓	Employment contracts as costs rise
Investment	5%	↓	Investment activity slows but remains positive

Source: Make UK Manufacturing Outlook Survey

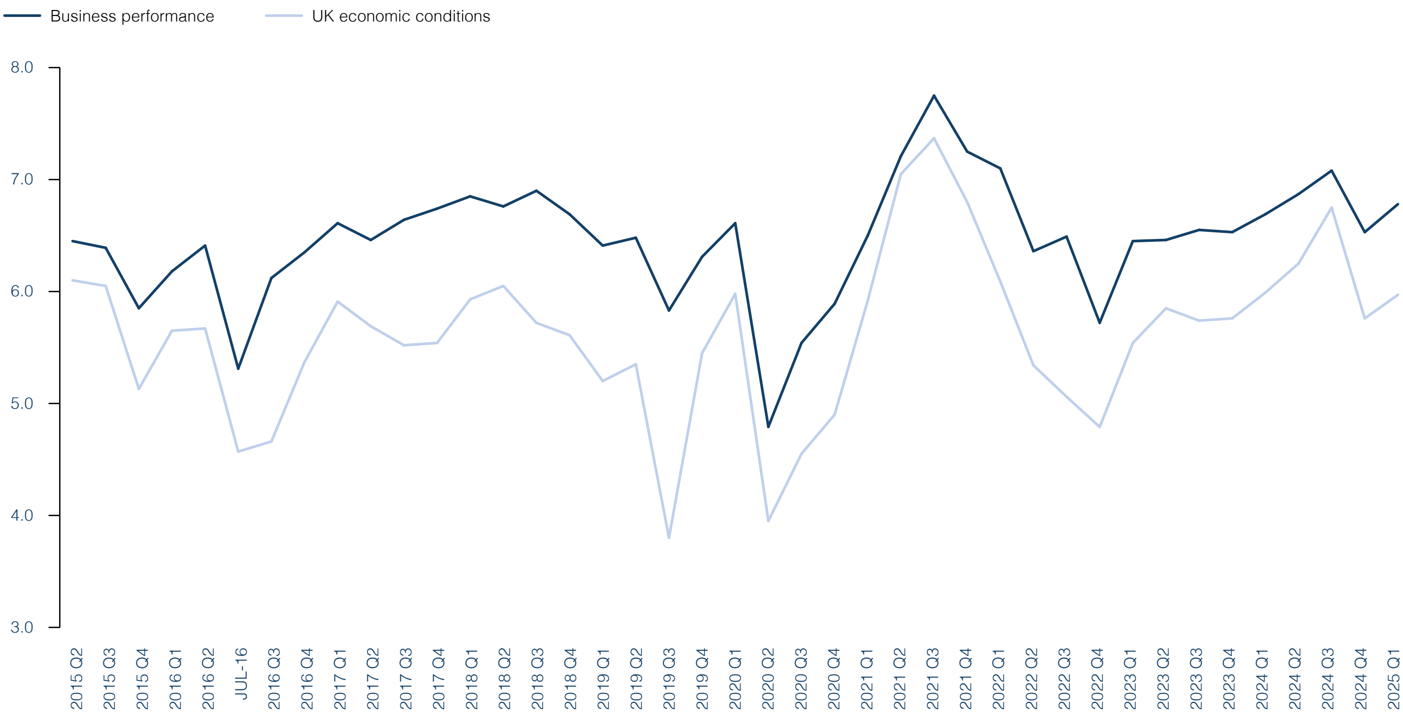
This quarter's employment and investment metrics represent the impact of stagnation as manufacturers cut back on workers and reduced their plans to expand capacity. The balance for employment dropped to -3%, the lowest level since 2021 Q1. It is unsurprising that manufacturers have attempted to reduce their labour costs, particularly since the announcement of the rise in employer National Insurance contributions, which is expected to add on average £1000 per head annually to every manufacturer's bottom line. This is a substantial cost for businesses to consider. Some manufacturers may respond by increasing investment in automation, though as the metric for investment intentions has dopped to +5%, from +10%, it is likely that manufacturers are becoming increasingly liquidity constrained in their ability to grow.

The share of businesses raising prices remains high but continues to cool in a positive direction. The balance of businesses raising UK prices reported at +20%, down from +25% and for export prices the balance reported at +17%, down from +21%. However, margins have contracted even more so than last quarter, indicating increasing cost pressures and falling demand are limiting manufacturers' market power to set efficient pricing.

The most surprising result of this latest survey, is that despite reporting one of the bleakest performances in recent years, excluding the pandemic years, manufacturers' optimism remains high. In fact, it has increased between the last quarter and today suggesting that manufacturers generally feel positive about the future. This generally reflects the higher level of resilience built into the sector, following several years of firefighting back-to-back crises, many manufacturers have grown accustomed to disruption. Nevertheless, the threat of stagnation presented by the latest survey is serious.

Confidence rebounds despite weakening market conditions

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



Source: Make UK Manufacturing Outlook Survey

Output

This quarter's output figure reflects the sudden drop in business confidence observed during the previous quarter. Even though, in the final quarter of last year, output performance was quite strong, business confidence dived. Now, three months on, that drop in sentiment has filtered through into the hard performance data.

The output balance figure for this quarter reported at -1%. While this suggests only a slight contraction in output performance on aggregate across the industry, it's a fair decline relative to the output balance figure posted last quarter, which then stood at +20%. Output performance has been particularly cyclical over the past four quarters as balance figures have oscillated between highs and lows consecutively.

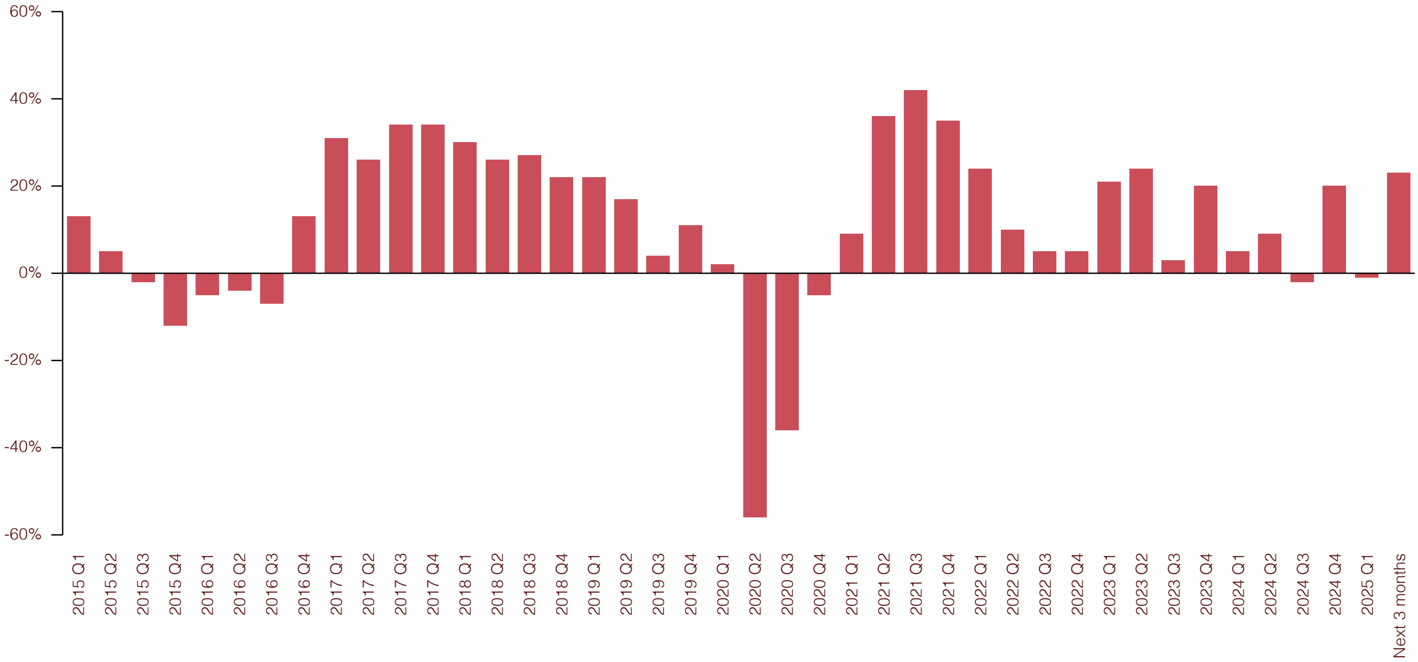
A weak order performance, particularly within the domestic market last quarter was also a harbinger of this latest output performance. A lack of demand for the sector's products over the last three months has filtered quickly through. What will be of greater concern is that order performance is once again poor this quarter, considerably poorer than last quarter, and as such, it's likely this will drag on output performance next quarter as well.

However, the sector itself thinks that will not be the case. The future three-month expectation from the sector for output performance stands at +23%. This is a remarkably high expectation, especially given the relative weakness observed in orders performance this quarter. The sector had been consistently over-estimating future three-month performance throughout 2024, although this looked to have come to an end as of the close of 2024, perhaps it would appear that this overconfidence has returned.

Even with this stark contrast between the past three months' performance and expected future performance, overall business confidence remains in positivity. That, combined with the recent cyclical nature of output performance indicates there may be a surprise upswing in output performance come the second quarter of 2025.

PAST 3 MONTHS	↓ -1%	**NEXT 3 MONTHS**	↑ 23%

Output volumes contract unexpectedly % balance of change in output



Source: Make UK Manufacturing Outlook Survey

Output Summary % balance of change

Sector	Past three months	Next three months
Basic Metals	**-50%**	**0%**
Metal Products	**-12%**	**0%**
Mechanical	**-11%**	**30%**
Electronics	**30%**	**56%**
Electrical	**-12%**	**36%**
Rubber & Plastics	**27%**	**64%**
TURNOVER		
£0-9m	**-18%**	**17%**
£10-24m	**-7%**	**29%**
£25m and over	**32%**	**50%**

Source: Make UK Manufacturing Outlook Survey

Orders

The pipeline of orders both domestically and internationally has slowed down this quarter, highlighting wider concerns of a material deterioration in economic activity for the sector. This performance stands in stark contrast to the previous quarter where order books expanded, especially for exports despite a substantial fall in business optimism following the 2024 Autumn Budget.

For the majority of last year, the manufacturing sector manoeuvred through uncertain terrain for demand conditions. The domestic market has been protruding signs of weakness since the third quarter of 2023, when the balance of UK orders dropped from +15% to -3%, marking the end of the post-pandemic boom. So, it is hardly surprising that the latest showing for the domestic market was another lacklustre one. Until now, the sector's growth was shielded by exports which had the effect of rebalancing total orders, ensuring its tenure in positivity.

However, the latest balance for total orders reported at -6%, down from +7%. This is the first negative balance for total orders since 2023 Q3, which reported at -1%, and the most negative balance since 2020 Q3, which reported at -40% during the lockdown. The biggest factors explaining this freeze in sales is likely the Government's recent budget.

However, manufacturers continue to overestimate their future total orders performance, though in this case it is not unreasonable to have predicted a strong start to the year. Historically, the first quarter of the calendar is generally a positive one for manufacturers, with the last time businesses reporting a first quarter contraction coming in 2016 Q1. In this case, unexpected announcements, such as the rise in employer NICs, Capital Gains Tax and Inheritance Tax, have effectively frozen decision-makers where they stand. Therefore, it is still possible for business activity to rebound later this year.

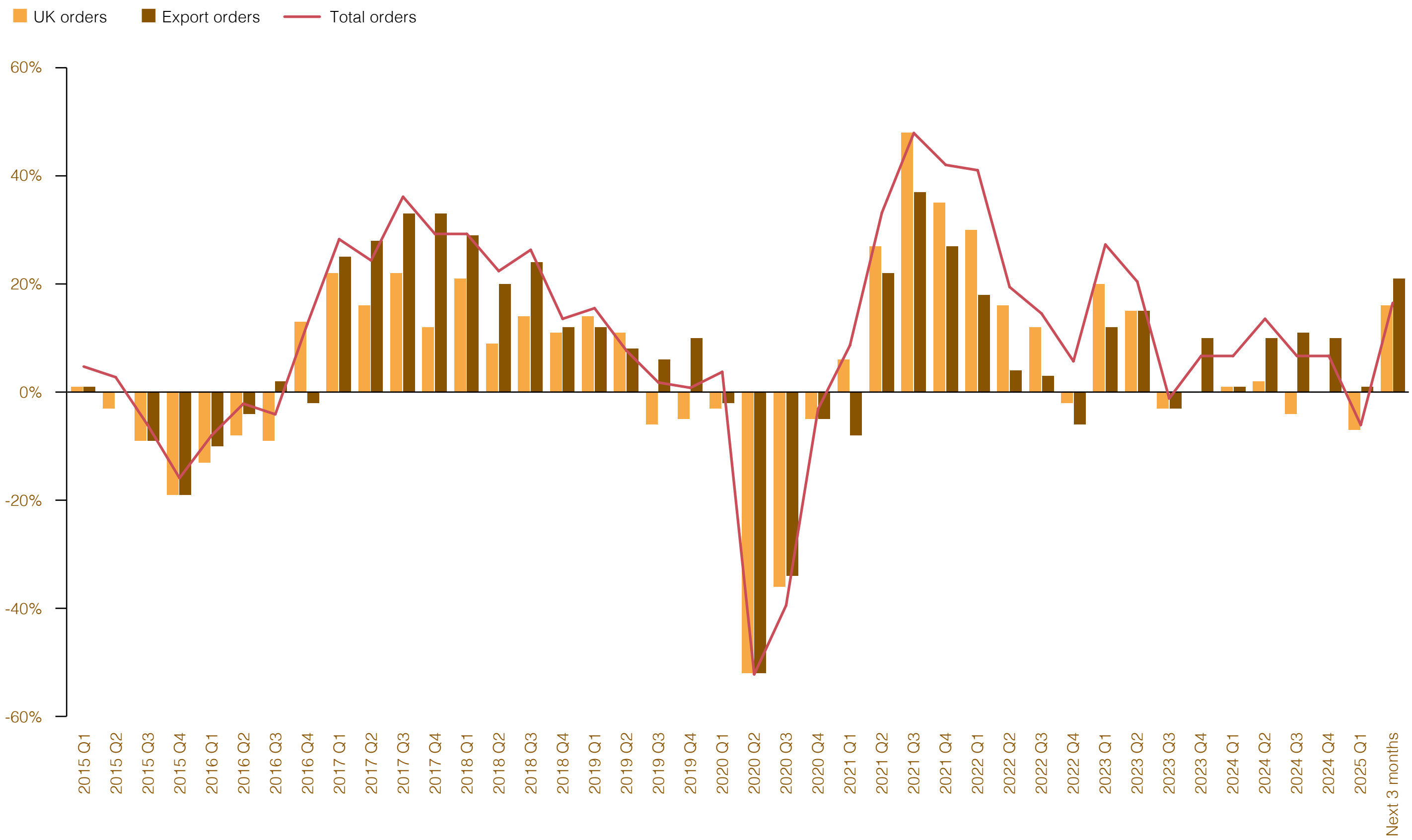
UK ORDERS	PAST THREE MONTHS	↓ -7%	NEXT THREE MONTHS	↑ 16%
EXPORT ORDERS	PAST THREE MONTHS	↓ 1%	NEXT THREE MONTHS	↑ 21%
TOTAL ORDERS	PAST THREE MONTHS	↓ -6%	NEXT THREE MONTHS	↑ 17%

UK Orders

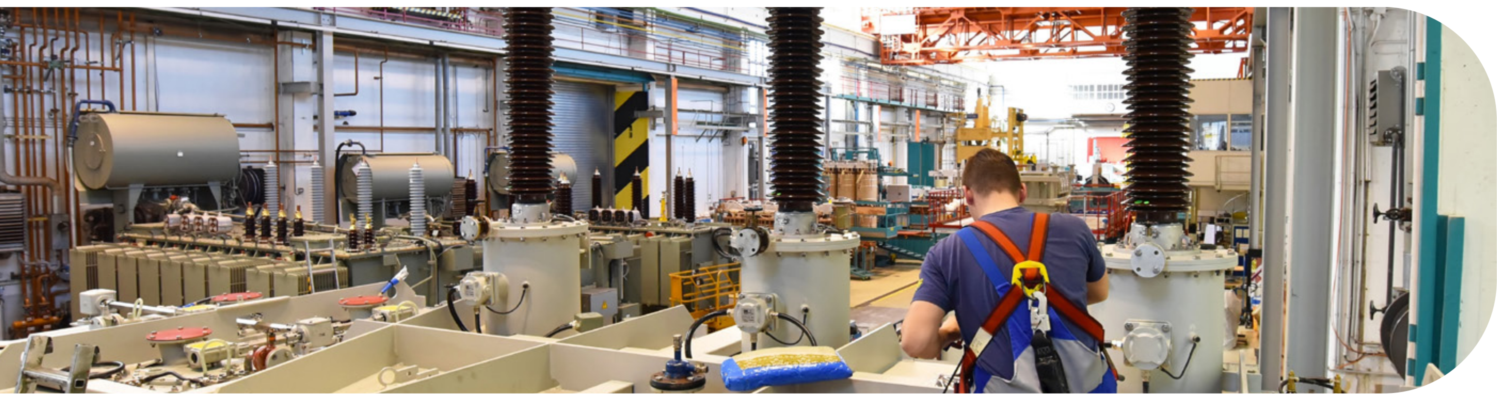
The balance of businesses reporting poor performances for domestic orders has now persisted for seven quarters. Despite only producing negative balances in only three of those occasions, the best quarter achieved by UK manufacturers on domestic trade was in 2024 Q2, when the balance reported at a measly +2%. Evidently, market conditions have yet to signal any believable sign of recovery.

The results for the sub-sectoral breakdown for UK orders were largely negative, except for a few stand outs, such as the electronics subsector, reporting at +20%. This may reflect the increasing interest in automation and digital technologies to mitigate the rising cost of employment in the UK, as businesses seek out alternative forms of productivity growth. Producers of metals (Basic Metals and Metal Products) reported very negative balances for domestic orders as business investment slows down. The impact of global US tariffs on steel and aluminium are yet to feature in the live data, but it is expected to result in a slowdown in activity for many manufacturers.

Domestic demand falls to its lowest balance since 2020 Q3 % balance of change in orders



Source: Make UK Manufacturing Outlook Survey

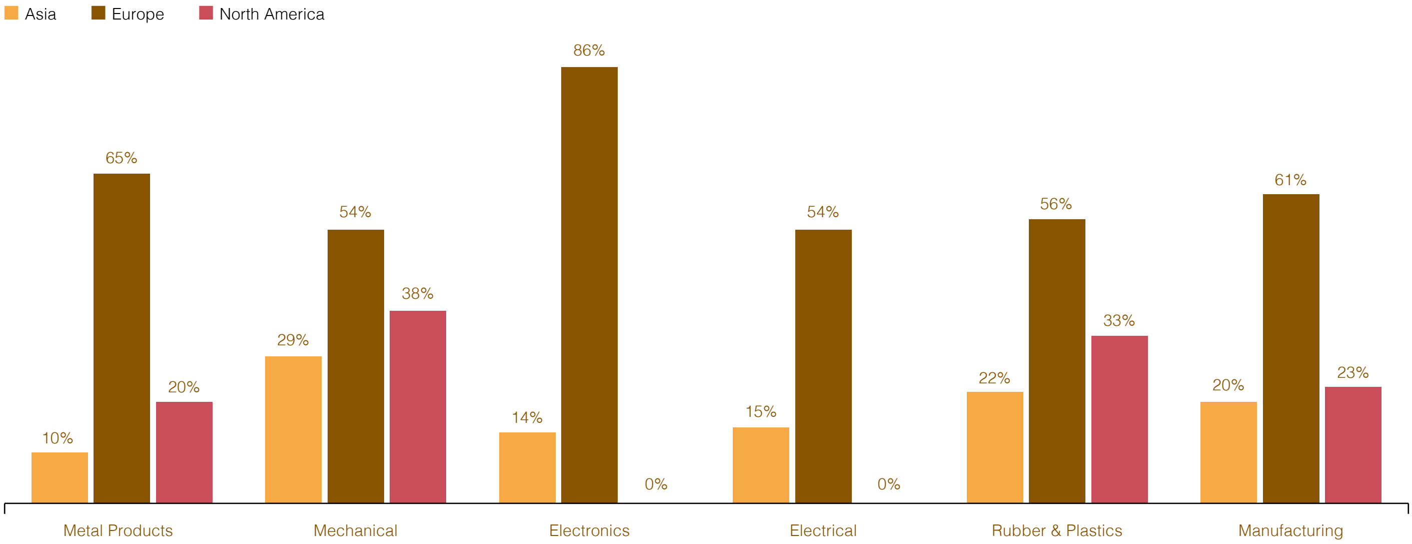


Export Orders

Since the end of 2023, export orders supported growth in the UK manufacturing sector, with most of the demand originating from North America and the European Union. However, in the latest quarter, only a balance of +1% of manufacturers reported growing export orders, a sharp drop from the previous quarter's +10%. This is worrying, particularly as the slowdown predates any global trade wars, which are currently a possibility given the US's insistence in decoupling its supply-chains, as well the supply-chains of its allies, from the Asian markets.

Finally, the survey finds that demand conditions for orders are strong in the EU, with 61% of UK manufactures reporting positive demand conditions from the bloc, an increase on last quarter's 52%. In all cases, demand conditions are strong in Europe, whilst they have essentially evaporated for intermediate goods like electronics and electrical equipment in North America, which may reflect businesses responding to the expectation of global trade instability.

Demand conditions strongest in Europe % of companies reporting positive demand conditions by market



Source: Make UK Manufacturing Outlook Survey

Orders Summary % balance of change

	UK ORDERS		EXPORT ORDERS		TOTAL ORDERS	
Sector	Past three months	Next three months	Past three months	Next three months	Past three months	Next three months
Basic Metals	-50%	-50%	-50%	0%	-50%	0%
Metal Products	-24%	-8%	-13%	17%	-14%	-15%
Mechanical	-10%	25%	0%	14%	-15%	25%
Electronics	20%	50%	50%	75%	-10%	20%
Electrical	8%	25%	5%	14%	8%	44%
Rubber & Plastics	27%	55%	33%	22%	55%	55%
TURNOVER						
£0-9m	-17%	12%	-7%	11%	-13%	14%
£10-24m	-7%	31%	-5%	28%	-2%	33%
£25m and over	15%	38%	26%	40%	22%	37%

Source: Make UK Manufacturing Outlook Survey

Employment & Investment

The first quarterly data in this year's run of *Manufacturing Outlook* sees downgrades in performance for both the employment and investment intentions metrics. The suppression seen in employment is not surprising at this juncture, especially given this is the first round of survey data following the announcement of the controversial change to National Insurance contributions. In both cases, for employment and investment, the balance figures have dropped to lows not seen since 2021 and 2022 respectively.

The employment balance figure reported at -3% this quarter, eleven percentage points down from the +8% seen in the final quarter of last year. While the scale of a -3% employment balance isn't massive, it is important to note that even despite its modest scale, the employment balance figure hasn't been this negative since the first quarter of 2021, where employment balance figures were just improving in the midst of the pandemic.

This balance figure for employment indicates that on aggregate a large portion of the sector reduced headcount in the period between the last quarter of last year and now. We expected this performance, particularly given the industry backlash to government announcements made at the last Budget that would see employer national insurance contributions increase – costing an approximate £1,000 extra per year in liabilities per employee for a business. We expected this to have dampening effects on employment performance, but perhaps to a stronger degree than what the modestly negative balance figure here has shown. The sector operates with a relatively high demand for labour, as can often be observed by looking at vacancy statistics, so it's likely that the suppressive effects on employment that the National Insurance contribution change has brought about will be softer for the manufacturing sector than for other sectors in the economy that don't have the same relative shortage of labour.

The sector is optimistic that this suppression in employment will be short-lived, as the future three-month balance figure employment is markedly positive in contrast, standing at +9%. If this is realised next quarter, it's likely any of the contractionary effects seen in headcount within the sector will be undone on aggregate.

As of January 2025, there were 58,000 live vacancies in the UK's manufacturing sector, an increase on the 56,000 that were reported in the previous quarter's edition of this report. However if we factor in ONS revisions in the intervening period, the revised figure for July is 57,000, indicating an increase in vacancies over the new year by approximately 1,000. As a ratio, that is for every hundred jobs in the sector, 2.4 are vacant, up from 2.3 in last quarter's report.

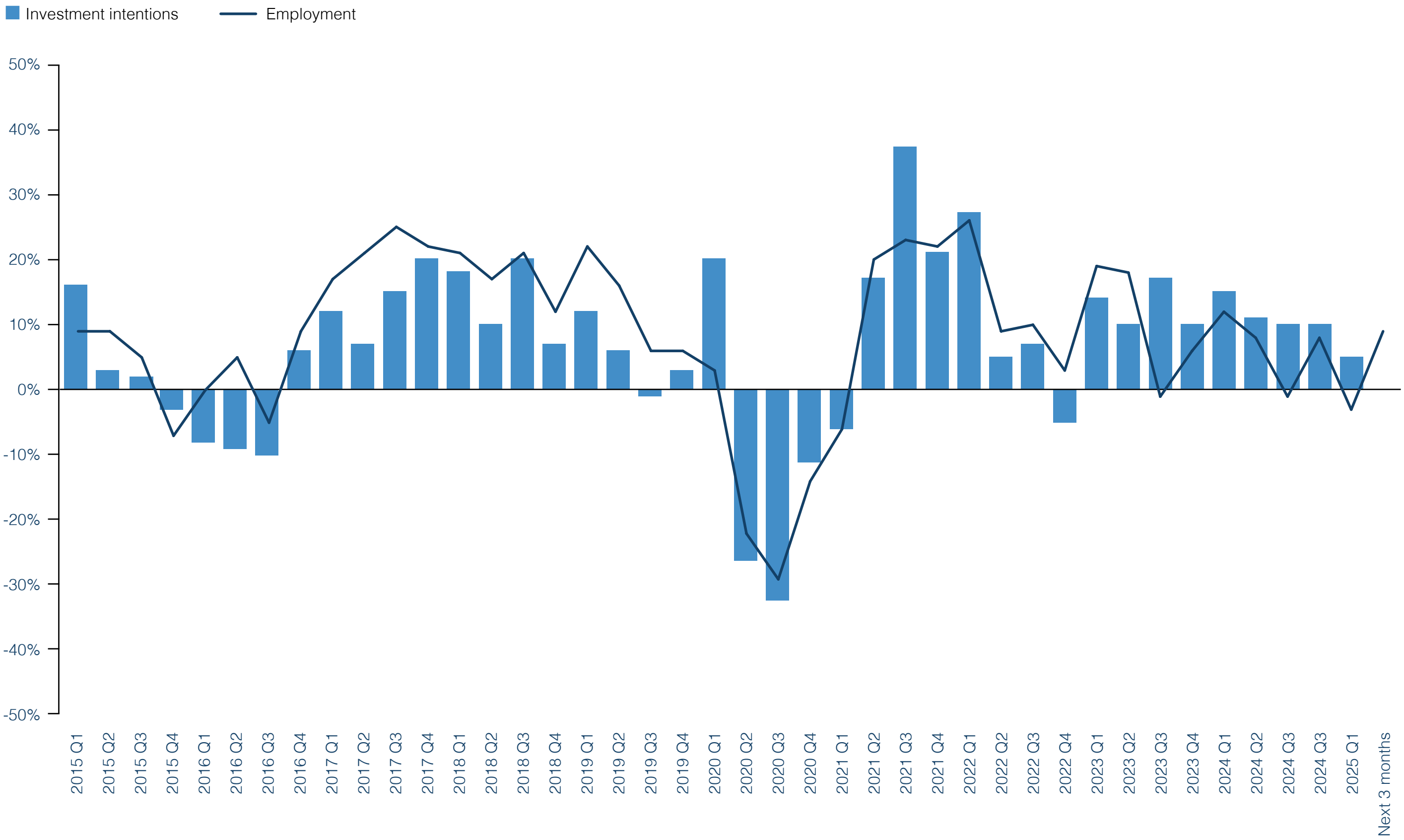
The vacancy ratio data for the sector dates back to 2001, and the long-run average for the ratio, pre-pandemic (i.e. 2021), stands at approximately 1.8. Since the peak of 4.0 in late 2022, this ratio has been steadily reducing, albeit over a long period of time. Nevertheless, it's important to acknowledge that this easing in the acute labour shortage exacerbated by the pandemic should not be conflated with the ongoing systemic challenge of skills shortages within the sector.

EMPLOYMENT	**PAST THREE MONTHS**	**↓ -3%**	**NEXT THREE MONTHS**	**↑ 9%**
INVESTMENT	**NEXT TWELVE MONTHS**	**↓ 5%**		

The investment intentions metric measures the sector's intentions to invest in the coming 12 months. The latest figure shows that the balance figure for these intentions, while remaining positive, has halved in scale relative to last quarter, now standing at +5%. This is the first time that the investment metric balance figure has dropped from double digits since the first quarter of 2023.

Having remained in a relatively consistent holding pattern for the past two years, this marks the first notable downgrade in investment appetite by the sector for the year ahead. Sustained comodity costs compounded with increasing employment costs has likely steered the sector into being more liquidity-aware and thus decreased investment aspirations for the coming year.

Employment falls and investment activity slows % balance of change



Source: Make UK Manufacturing Outlook Survey

Employment and Investment summary % balance of change

	EMPLOYMENT		INVESTMENT
Sector	Past three months	Next three months	Next twelve months
Basic Metals	-50%	-50%	100%
Metal Products	-12%	-14%	2%
Mechanical	-2%	20%	-2%
Electronics	10%	30%	33%
Electrical	-16%	4%	-8%
Rubber & Plastics	0%	9%	0%
TURNOVER			
£0-9m	-7%	6%	-3%
£10-24m	-11%	16%	22%
£25m and over	19%	22%	25%

Source: Make UK Manufacturing Outlook Survey

Prices & Margins

The pattern of price-setting behaviour across the industry has been arguably the most important side-show of the *Manufacturing Outlook* work, especially given the backdrop of ‘sticky’ inflation in the wider economy which has caused central banks to lower base rates at a slower pace than many would have hoped for.

The knock-on impact of this has been witnessed within the sector too, with prices not continuing to settle back to pre-pandemic levels and now most of the industry has reluctantly accepted the reality that they likely never will. The data over the past year has shown that price-setting behaviour has found somewhat of a new ‘floor’ in terms of the proportion of the sector that is suggesting it is increasing its prices in any given quarter.

The headline balance figure for price-setting behaviour this quarter comes in beneath that of last quarter’s, representing the lowest balance figures for both UK price-setting behaviour and export price-setting behaviour seen since before the start of the pandemic. However, it’s important to understand that this is not synonymous with prices themselves having returned to pre-pandemic levels, rather, it illustrates that the proportion of the sector that suggests that they have raised their prices this quarter is the lowest it has been since before the pandemic.

The balance figure for UK prices reported at +20% and the figure for export prices at +17%. This represents only a slight decline on the scale seen for both metrics when compared to the previous quarter at the tail end of 2024. This suggests that there is a declining proportion, quarter to quarter, of UK manufacturers who are raising their prices. This notion is supported by the ONS’ producer price inflation data too which suggests that input prices fell by 0.1% in the year to January 2025[1].

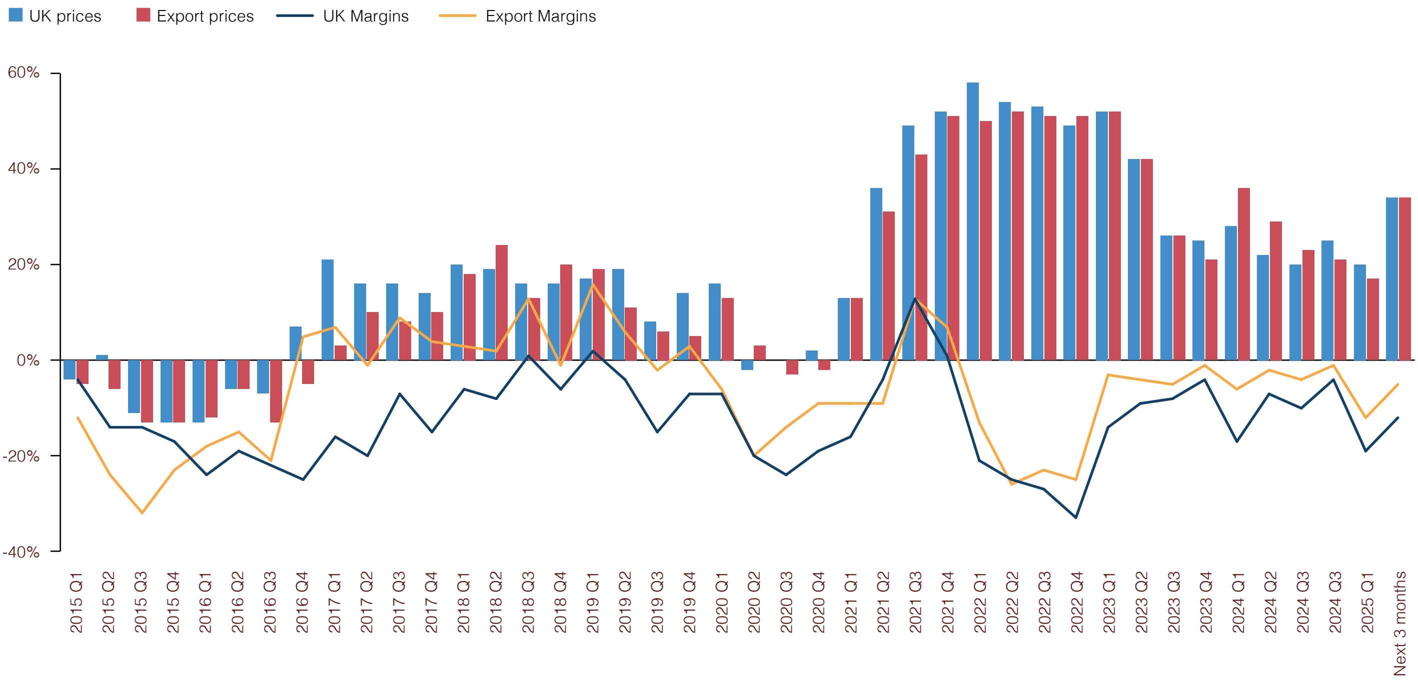
However, despite the lowest prices balances for some time, future 3-month expectations don’t foresee this trend to continue. The sector has relatively high expectations for price-setting balance figures in the second quarter of 2025, with +34% expected to be reported next quarter across both the UK prices metric and the export prices metric. If this increase does indeed transpire, it will be quite the contrast as the lowest and highest balance figures for some time for price-setting behaviour, adding to price volatility and uncertainty in the sector.

Despite this cooling in price-setting behaviour, margins too have taken quite the decline. Again, at least in the case of UK margins, a decline at a scale not seen since the pandemic. The UK margins balance figure reported at -19% and the Export margins balance figure reported at -12%. These figures represent a failure of the sector to fulfil its expectations that margins would turn positive this quarter, an expectation that was set in the final quarter of 2024. In any case, this decline in margins is likely less representative of pricing fluctuations, and more likely the result of balance sheet adjustments in the wake of the much-criticised changes to employer National Insurance contributions, which has seen manufacturers scrabble to stump up extra cash in time for the new financial year.

There isn’t too much of a silver-lining here either, as expectations for margins next quarter are also negative, albeit to a lesser degree.

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

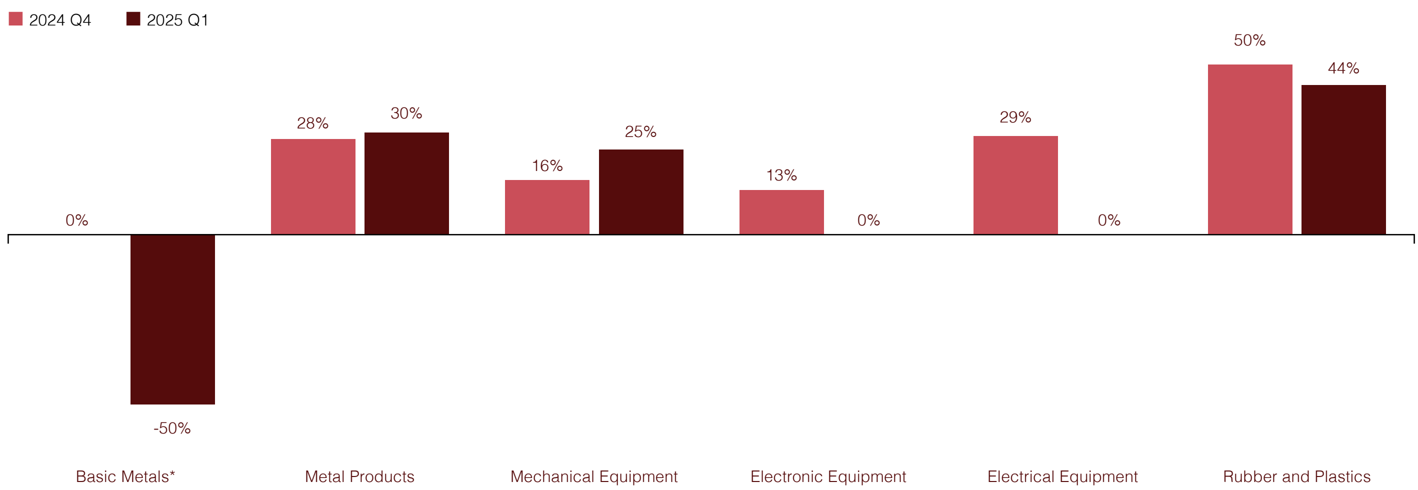
Margins decline as slowing demand limits price-setting power % balance of change



Source: Make UK Manufacturing Outlook Survey

UK PRICES	PAST THREE MONTHS	↓ 20%	NEXT THREE MONTHS	↑ 34%
EXPORT PRICES	PAST THREE MONTHS	↓ 17%	NEXT THREE MONTHS	↑ 34%
UK MARGINS	PAST THREE MONTHS	↓ -19%	NEXT THREE MONTHS	↑ -12%
EXPORT MARGINS	PAST THREE MONTHS	↓ -12%	NEXT THREE MONTHS	↑ -5%

A mixed bag for export price growth % balance of change in export prices in the past three months



Source: Make UK Manufacturing Outlook Survey
*insufficient sample for Q4 2024

National & Regional

Confidence in the sector across the UK has been a testament to the sector's resilience. Even though the core metric performance, such as the performance of orders and output, has been inconsistent and oftentimes poor over the past year, confidence has remained remarkably robust and positive throughout.

It's this consistent positivity that has allowed us to temper our outlook in the short term as the sector is more upbeat about its prospects than what the performance figures would otherwise indicate. This upbeat sentiment is more important than just the notion alone, as confidence in both the performance of manufacturing businesses and the wider UK economy is a key driver in making business decisions for the future, chief among these being investment decisions. Manufacturing confidence positivity has remained quite consistent across the UK regions and nations, with most trending closely around the average.

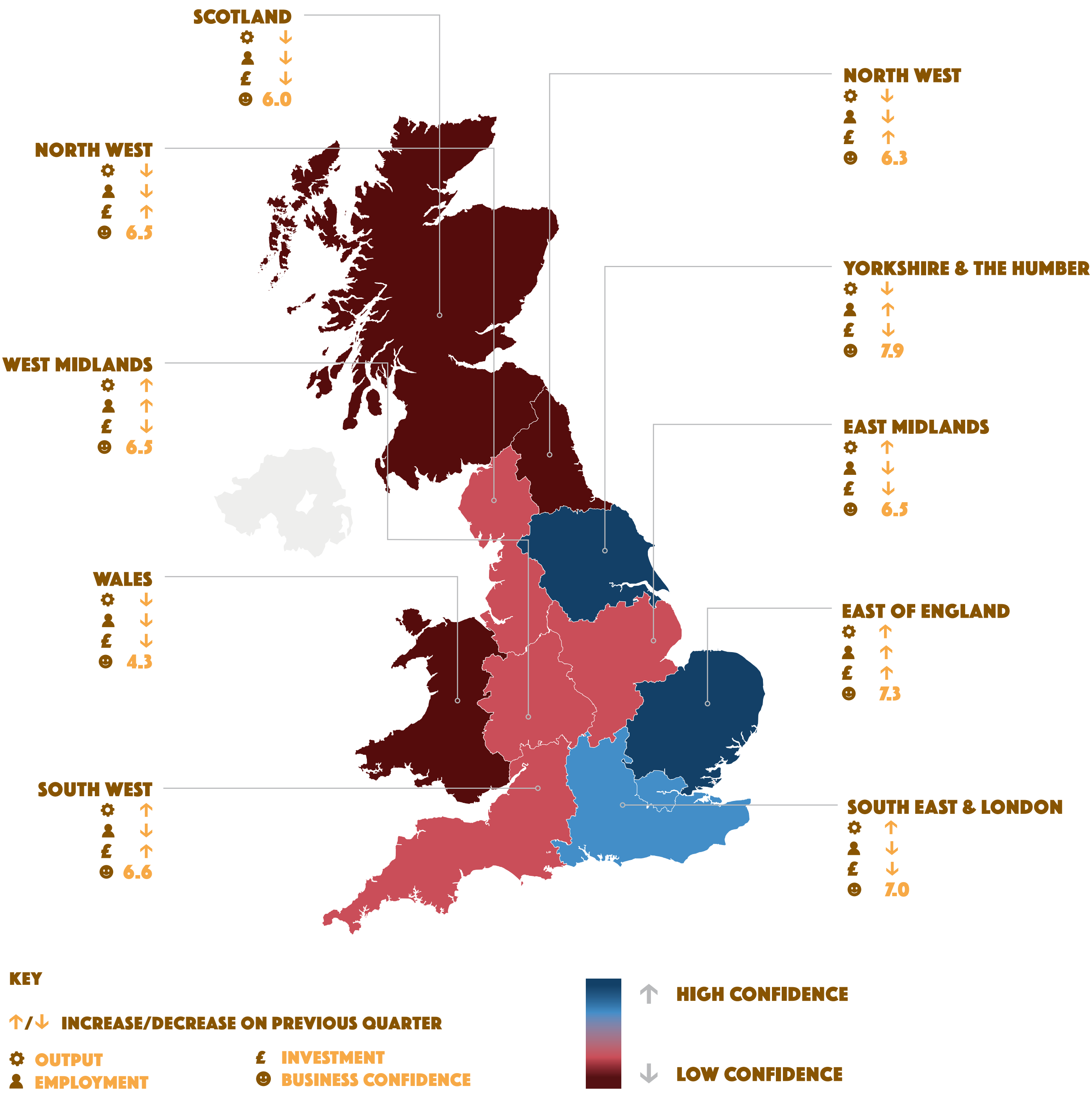
Headline business confidence reported at 6.8, which is up on last quarter's level of 6.5.

All regions and nations reported above the '5' inflexion point, barring Wales, that separates positive and negative confidence. This indicates that on average, most manufacturers are relatively in line in terms of their optimism levels for the next 12 months. With this drop in confidence from the Welsh region, confidence across the UK is no longer unanimously positive as it was in the previous quarter.

Amongst the English regions, the largest improvement in business confidence was reported by the East of England, which increased by 1.1 points to 7.3. However, the most confident region in the UK is Yorkshire & the Humber reporting a business confidence level of 7.9, up by a whole point compared to last quarter. The only other regions to report improved business confidence levels include the West Midlands (up by 0.3), The South East & London (0.2) and the North West (0.3).

All other English regions reported declines in business confidence, apart from the South West which remained stationary, the biggest contraction was reported by the North East region (down 0.6). This is followed by the East Midlands which declined by 0.1. Outside of the English regions, however, Wales's business confidence dropped by a more significant 1.8 points. As a result, Wales also has relatively the lowest business confidence in the UK at 4.3.

Declines in activity dominate most regions/nations



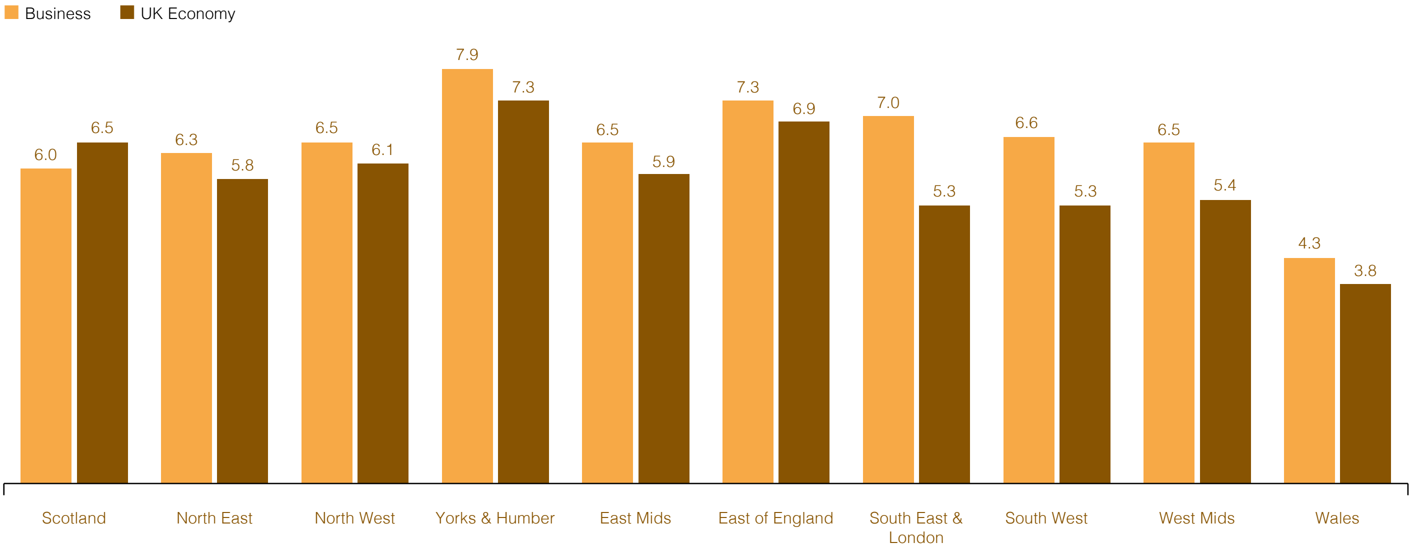
UK economy confidence

Manufacturers' confidence in the overall UK economy reported at 6.0, this is a 0.2 point increase on the previous quarter's level (reporting at 5.8). This marks a welcome improvement following the steep and sudden reduction in positivity seen last quarter.

Following a year of over-confidence in the future performance of core *Manufacturing Outlook* metrics by the sector, the headline confidence metrics finally saw some reduction after consistently growing in optimism for just over two years, despite seeing little commensurate growth in metric performance. While confidence has improved this quarter, it still remains below the peak of the two-year growth in sentiment seen in the third quarter of 2024.

Majority of UK regions and nations report positive business confidence

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



Source: Make UK Manufacturing Outlook Survey

Regional summary % balance of change

Region	OUTPUT		TOTAL ORDERS		EMPLOYMENT	
	Past three months	Next three months	Past three months	Next three months	Past three months	Next three months
Scotland	-20	24	-18	15	-5	9
North East	0	73	-9	45	-18	9
North West	-15	23	-8	15	-14	14
Yorks & Humber	26	11	32	6	37	0
East Mids	13	38	19	25	0	13
East of England	28	64	20	44	20	40
South East & London	12	41	6	53	-12	35
South West	32	47	39	50	5	21
West Mids	22	22	13	35	17	26
Wales	13	0	25	13	-13	-25

Source: Make UK Manufacturing Outlook Survey

Economic Environment

So far, progress on the UK's "growth mission" has been modest, with the nation's GDP increasing by only 0.8% in 2024, according to the Office of National Statistics (ONS). This is not a great start, particularly as the initial response to the Government's recent Autumn Budget suggests we are far from achieving the private sector-led resurgence in investment and innovation, ingredients critical for growing an economy, that many had hoped.

Now, the anticipation of the Government's several long-term strategies, such as the infrastructure plan, the trade strategy and *Invest 2035* industrial strategy, could still turn the tables in the UK's favour if those plans are designed with bold intent, and communicated to businesses in a believable way.

Manufacturers will be keen to learn how the *Invest 2035* plan will support the advanced manufacturing sector, a category of businesses yet to be fully defined. More specifically, businesses will want to know what technologies the Government will prioritise to ensure the UK builds its long-term competitive advantages in the global community, whether it be in AI, green technologies, semi-conductors or a bit of everything. There are many possibilities.

Regardless of the mild growth rate achieved in UK GDP last year, the experience of key sectors such as production, construction and services were mixed. The production industry reported back-to-back months of negative GDP growth between September and October 2024, though not all these negative growths were a result of manufacturing (which ended the year with a 0.07 percentage point growth in output). The services sector, however, finished far more strongly growing by 0.3 percentage points.

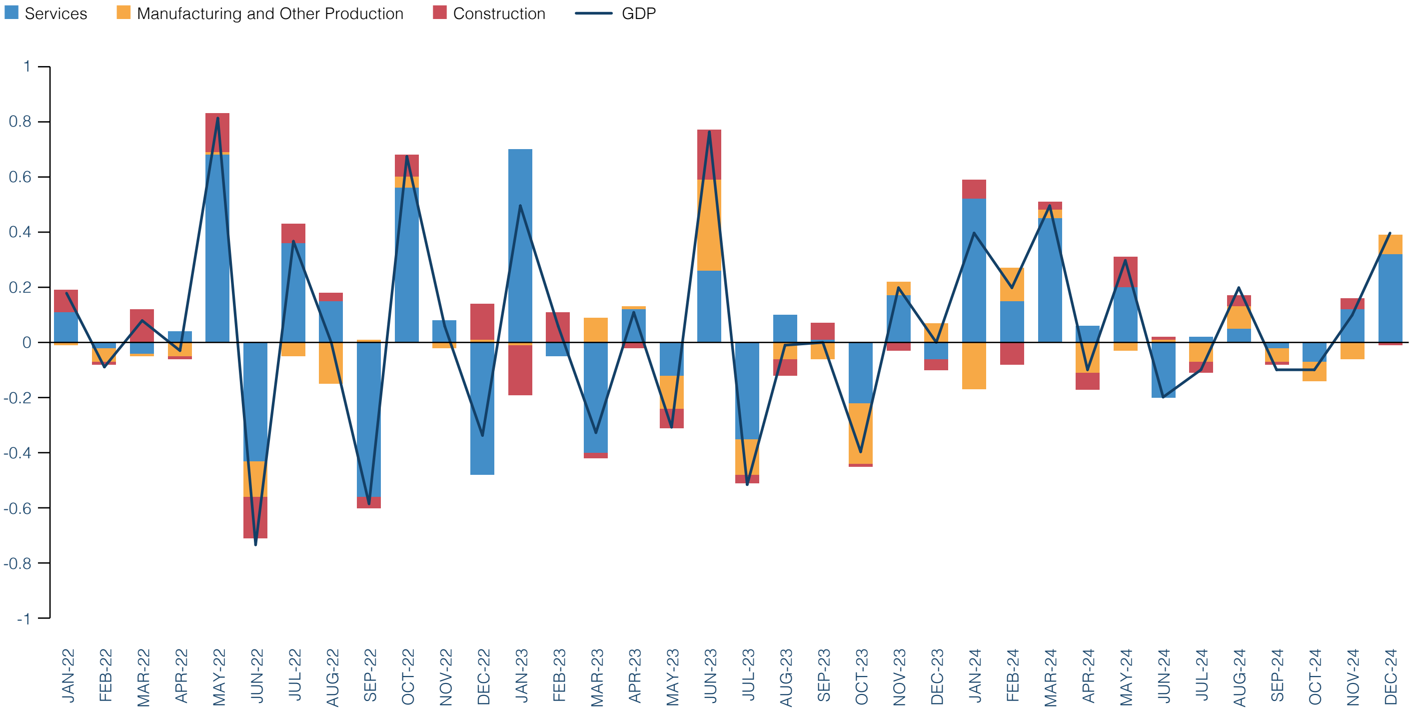
International forecasts highlight that the Eurozone, including Germany and France, expects to achieve less than 1% growth in GDP in 2025. This compares starkly to the US which forecast a growth rate of 2.4% for this year, exceeding the world average forecast of 1.8%. So, excluding the expected performance of the US, China and India, the UK's growth expectations are largely in line with its European neighbours.

What could be a concern to rate setters is that wages in the services sector continues to climb at an alarming rate, which exceeded 6% growth in 2024. To the surprise of many, growth in consumer prices is still on the rise too. The consumer price index (CPI) rose to 3% by January 2025, up from 2.5% in the previous month, suggesting that the cost-of-living crisis remains a challenge. Though the headline signals of fast wage growth may give the Monetary Policy Committee reason to pause further cuts to the base rate, many of the variables that make up core inflation, such as food, transport and household goods have indicated that prices are still on the way down, and it is other factors resulting in the uptick in overall prices. Such as Ofgem raising the price cap for energy tariffs.

The trajectory of producer price inflation supports the belief that consumer price will slow further, as input costs declined by 1.3% overall in 2024. The decline in input prices has continued even at the start of this year, declining by 0.1% in January. Albeit factory gate prices grew slightly by 0.3%. The main contributors to slowing inflation upstream are a result of mainly fuel and food prices, as well as the cost of parts and equipment.

UK growth driven mainly by services

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



Source: ONS

Despite the incoming rise in business costs, such as the rise in employer NICs, Capital Gains Tax, Inheritance Tax and potentially business rates as well, many manufacturers remain buoyant in their expectation for the year ahead as plans to increase investment in product diversification, brand marketing and sales take priority. This is a strong indication that business strategies are aimed at outgrowing incoming cost rises which will result in more efficient investment.

Though, on the international trade front, many manufacturers are concerned about the potential impact of US tariffs on critical goods, such as blanket tariffs on steel and aluminium, which may directly or indirectly impact the nation's growth prospects. The National Institute of Economic Research (NIESR) estimates that UK GDP growth could slow down by 0.7% more than it would otherwise have in the absence of any tariffs. Though it is unlikely that any US protectionist measures will directly target the UK, the country is the UK's single largest trading partner worth over £60bn in goods exports, and £126bn in service exports. But any decisions could still impact UK manufacturers by way of supply-chain disruptions. The biggest concern to businesses stems from the anxiety associated with the lack of predictability in US trade policy.

UK Economic Forecasts % change except where stated

	2024	2025	2026
Trading environment			
Exchange rate (€/£)	1.21	1.21	1.21
Exchange rate ($/£)	1.25	1.22	1.24
Exports	-2.5	-0.8	1.2
Imports	1.6	0.4	1.6
Current account (% GDP)	-2.8	-3	-2.9
Output			
Manufacturing	-0.7	-0.5	1.0
GDP	0.9	1.0	1.5
Costs and prices			
Average earnings	5.2	4.7	3.0
Oil price (Brent Oil $/bl)	81	75	73
Employment			
Manufacturing (000s)	2,578	2,557	2,531
Rest of economy (000s)	36,809	37,119	37,524
Unemployment rate (%)	4.3	4.5	4.5

Source: Oxford Economics and Make UK

International Economic Forecasts % change

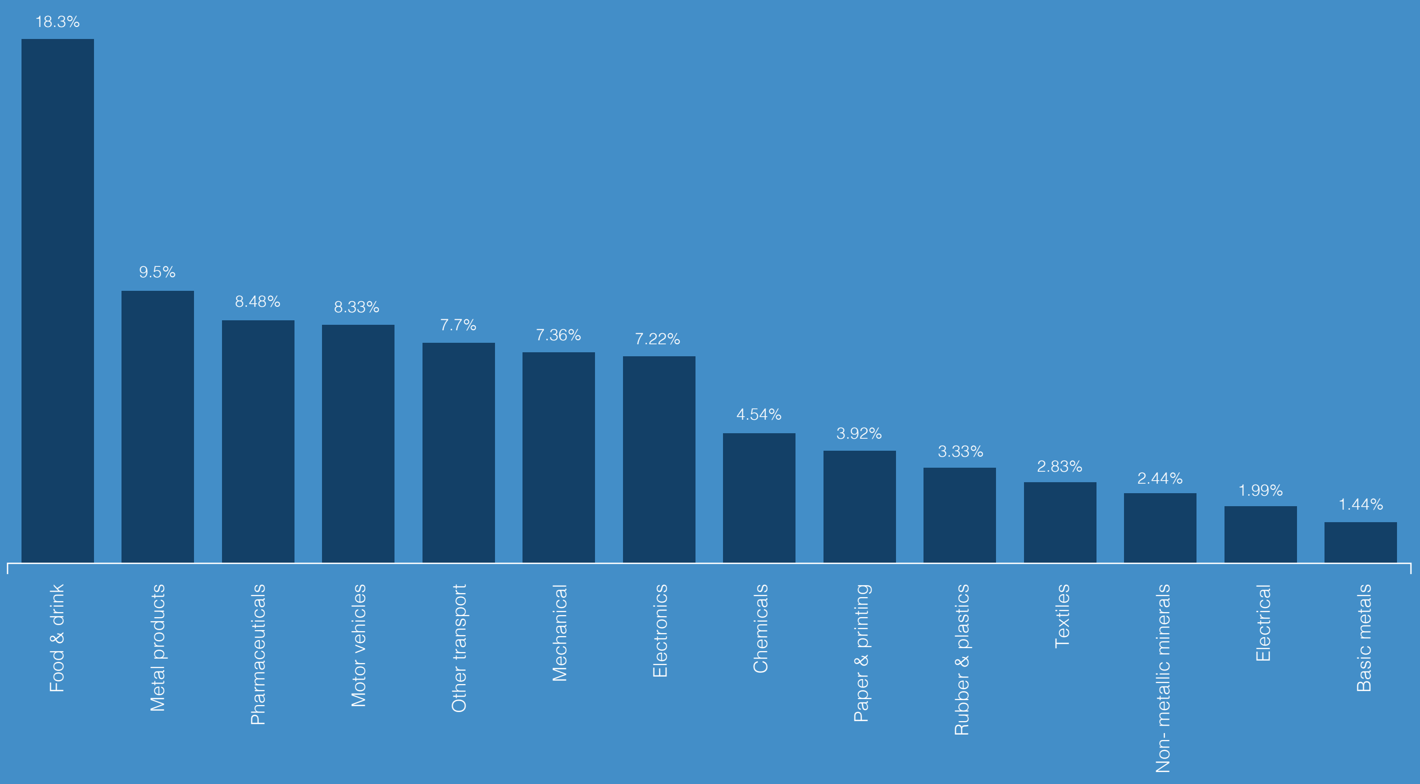
	GDP			INFLATION		
	2024	2025	2026	2024	2025	2026
US	2.8	2.4	2.5	3.0	2.7	2.2
Eurozone	0.7	0.9	1.2	2.4	2.1	1.8
France	1.1	0.6	1.0	2.0	1.4	1.9
Germany	-0.2	0.1	0.8	2.3	2.2	1.8
Japan	-0.2	1.1	0.8	2.7	1.9	1.6
China	5.0	4.6	4.2	0.2	0.4	1.0
India	6.4	6.5	6.5	4.9	4.6	4.5
World (US$ weighted)	3.3	1.8	0.5	4.5	3.6	3.1

Source: Oxford Economics

Sector Forecasting 2025 Q1

Q1 2025 Manufacturing Sector composition by GVA (% share)

Subsector share of Manufacturing Gross Value Added



Source: ONS

Food & Drink

The **Food & Drink** subsector is the UK's largest manufacturing subsector by just under a factor of 2, accounting for 18.3% of all manufacturing gross value added. However, this is a decline of 3 percentage points in terms of the relative size of the sector compared to the previous quarter. Output growth is forecast to be steady in 2025, above the sector average, with growth of 1.8% expected this year. Expectations for 2026 are for growth to continue, albeit to a slightly lesser degree, by 1.3%. Employment is set to contract across this year and the next, by -1.2% in 2025 and by -1.5% in 2026.

Electronics

The **Electronics** subsector receives a mild growth forecast this quarter. Following a -4.9% contraction in output in 2024, the subsector is forecast to grow by 1.2% in 2025. 2026 is expected to see this mild rate of growth double to 2.3%. However, employment isn't expected to see positive growth as is the case with output. Headcount within the subsector is set to contract by -2.3% this year, a drop when compared to the only slight contraction of -0.5% in headcount realised in 2024. The employment forecast softens to only a slight contraction of -0.3% in 2026.

Basic Metals and Metal Products

The **Basic Metals** subsector sees a return to severely negative output forecasts following a year of some respite following consistently contractionary forecasts in recent history. Having declined in output by -2.2% in 2024, it seemed that the output growth bleed had slowed. However, the latest forecast shows that the subsector's prospects for this year are negative, with a contraction in output of -10.5% expected this year and a further contraction in output of -9.2% forecast for 2026. This is the most negative output forecast for both 2025 and 2026 out of all manufacturing subsectors. Employment is also expected to decline significantly this year, by -12.6% and by -2.2% in 2026. Similar to output, the scale of employment decline forecast for 2025 is the largest out of all manufacturing subsectors.

The **Fabricated Metals** subsector is expected to fare much better than that of the Basic Metals subsector. Following quite an expansionary year in 2024 with growth in output of 7.7%, output for 2025 is now forecast to be only 2.2% by comparison. The 2026 forecast softens even further, with growth of 1.0% expected next year. Employment is set to expand a little this year, by 1.7%, but contract a modest amount in 2026 by -0.3%.

Mechanical Equipment

The **Mechanical Equipment** subsector has currently a perfectly flat forecast for output this year. Typically, this subsector can be seen as a key indicator of domestic capital investment trends. Output is expected to grow by 0% this year, in other words, see no change. 2024 saw a significant contraction of -7.6% so 2025 holds little promise to gain the lost ground back. 2026 adds little promise to the mix, with only growth of 2.6% forecast. Employment is forecast to decline across both this year and the next, by -1.6% in 2025 and by -2.6% in 2026.

Textiles

The **Textiles** subsector suffered the steepest contraction in output in 2024 out of all manufacturing subsectors, with a decline of -10.2%. Even though the latest forecasts suggest a continued contraction in output this year, it is much milder by comparison, standing at -2.3% for 2025. 2026 expects a steeper contraction of -3.4%. Employment is expected to remain relatively steady this year, with a mild contraction of -0.9% forecast, but will deepen in 2026, with a forecasted contraction in employment by -5.1%.

Paper & Printing

The **Paper & Printing** subsector has received a mildly positive output forecast for this year, having seen similar mild growth in output in 2024. The latest forecast suggests the subsector will grow by 1.4% this year, but contract by a similar -0.9% in 2026, thereby with current estimates there is little net growth expected over the next two years. Employment is less stable, following a -5.7% decline in headcount in the subsector in 2024, it is expected to continue to contract in 2025 by -3.9% and by -4.2% in 2026.

Electrical Equipment

The **Electrical Equipment** subsector is set to see little change in its output growth this year following the third most severe decline in output last year, contracting by -7.4%. The latest output forecast for this year expects the sector to contract again, but only by a slight degree by -0.5%. Some of this contraction over this year and last year is expected to be recouped in 2026, however, with growth of 3.9% forecast. Employment prospects for the subsector are set to follow a similar pattern to that of output, with contraction in 2025 and growth in 2026. Employment is forecast to expand to contract by -1.2% this year and grow by 3.7% next year.

Non-Metallic Minerals

The **Non-Metallic Minerals** subsector is known as the subsector that supplies the construction market, providing products such as bricks, mortar, glass and other related products. This ties the subsector to the performance and appetite of the construction sector in the UK, which is finally beginning to see some softening in its outlook. Following the second most contractionary output performance in 2024, a decline of -9.7%, the sector is on course to grow in both this year and the next. The 2025 output forecast stands at 2.9% and the 2026 forecast at 3.5%. Employment growth will remain roundly flat this year, with only a marginal contraction of -0.2% forecast for 2025, but a return to growth is expected in 2026 with an increase in headcount within the subsector by 0.9%.

Pharmaceuticals

The **Pharmaceuticals** subsector is continuing its period of stabilisation following extraordinary growth in the three years prior to 2024. The subsector saw effectively no change to the size of its output in 2024, growing by only 0.5%. 2025's forecast expects output growth to grow marginally, by 1.2% and by a further 1.6%, highlighting a slowdown following the sector's massive growth related to pandemic interventions. Employment is forecast to decline in 2025 by -1.2% but regain ground in 2026 with a commensurate growth of 1% expected.

Chemicals

The **Chemicals** subsector has seen improvements to its forecast for both 2025, and an improvement in realised output growth for 2024. The subsector has just narrowly contracted in output last year by -0.2%, against expectations that it would decline by around -2%. Prospects for this year have also improved, with growth in output by 1.7% expected. Output growth is expected to continue into 2026, where a further expansion of 1.2% in output is forecast. Employment, on the other hand, is forecast to decline across both this year and the next, by -2.5% in 2025 and by -1.1% in 2026.

Rubber & Plastics

The **Rubber & Plastics** subsector contracted by -2.2% in 2024. The latest forecasts expect that the subsector will make up for this contraction in 2025, with growth of 2.6%

expected in output, with this growth continuing into 2026 where further growth of 1.3% is forecast. Employment is also expected to grow across both years. The latest forecast expects employment to expand by 2.3% in 2025 and by a lesser 0.8% in 2026.

Motor Vehicles (Automotive)

The outcome of 2024 didn't quite meet the ambitions the **Motor Vehicles** subsector had hoped for towards the end of the year. The last round of forecasting for the subsector in 2024 expected that the sector could grow in output by double digits. While such growth did not transpire, the subsector finished 2024 off with growth in output by 8.5%, which was the most expansionary output growth out of all manufacturing subsectors. However, that growth isn't expected to be sustained into 2025, with a contraction of -4.1% forecasted for this year. 2026 is expected to see output growth return somewhat, by 2.5%. Employment is set to modestly decline across both years, by -0.8% in 2025 and by -1.6% in 2026.

Other Transport

The **Other Transport** subsector which is comprised of aerospace, defence, shipping and rail industries, saw mild growth last year in 2024, growing in output by 1.3%. This trend of mild growth in output for the subsector is forecasted to continue in both 2025 and 2026. The output forecast for this year is set at 1.7%, and a further 2.2% for 2026. Employment is expected to see no change in 2025 with a perfectly flat expectation for employment growth of 0%. However, 2026 expects to see headcount within the subsector contract a little, by -1.4%.

Sector growth rates and forecasts % change

	OUTPUT			EMPLOYMENT		
	2024	2025	2026	2024	2025	2026
Basic metals	-2.2	-10.5	-9.2	-3.4	-12.6	-2.2
Metal products	7.7	2.2	1.0	-0.7	1.7	-0.3
Mechanical	-7.6	0.0	2.6	-1.2	-1.6	-2.6
Electronics	-4.9	1.2	2.3	-0.5	-2.3	-0.3
Electrical	-7.4	-0.5	3.9	-2.4	-1.2	3.7
Motor vehicles	8.5	-4.1	2.5	-7.3	-0.8	-1.6
Other transport	1.3	1.7	2.2	2.0	0.0	-1.4
Food & drink	2.1	1.8	1.3	1.7	-1.2	-1.5
Chemicals	-0.2	1.7	1.2	-1.8	-2.5	-1.1
Pharmaceuticals	0.5	1.2	1.6	-4.7	-1.2	1.0
Rubber and plastics	-2.2	2.6	1.3	4.8	2.3	0.8
Non-metallic minerals	-9.7	2.9	3.5	3.7	-0.2	0.9
Paper and printing	1.1	1.4	-0.9	-5.7	-3.9	-4.2
Textiles	-10.2	-2.3	-3.4	1.6	-0.9	-5.1
Manufacturing	-0.7	-0.5	1.0	-0.7	-0.9	-1.0

Source: Make UK and Oxford Economics

BDO Viewpoint

How are you ensuring your manufacturing business stays financially resilient?
Despite positive expectations for 2025, the manufacturing sector faces challenges. Output and orders have declined, with employment and investment intentions following suit. Inflationary pressures are easing, yet profit margins remain tight due to high raw material and energy costs, alongside rising labour costs.

It is essential that manufacturers build financial resilience across their operations and cash flow, to be able to either absorb these costs or pass them on to customers without losing market share.

Manufacturers are uncertain about the future
Our recent survey of the financial resilience of UK manufacturers shows that some confidence is returning to the sector. Just over half (52%) of manufacturers are confident about their business' prospects over the next 12 months. However, 38% of businesses are concerned about their medium-term viability, a significant increase of 18% since 2020.

Despite this, 75% of manufacturers believe they have sufficient plans in place to offset expected market challenges over the next couple of years, with almost two thirds (64%) planning to invest in technology/data and just under half (45%) planning significant cost reduction activities.

Effective working capital management is crucial to stay competitive
The manufacturing sector in particular needs to regularly invest to adapt to market challenges and stay competitive. Increased interest rates have made borrowing more expensive, impacting manufacturers' abilities to finance operations and invest in new technologies or expanded capacity.

More than half (56%) of the respondents expect a further squeeze in working capital over the next 12 months, with 28% expecting to borrow additional bank debt to provide funds.

With just over half (56%) expecting increased pressure from customers to provide more credit and just under half (47%) expecting further pressure from suppliers to expedite payments, the pressure is on. One highlight is that only 30% of manufacturers expect significant supply chain issues over the next 12 months, and only 36% expect resulting stock increases.

These results underline the need to focus on projects that release internal working capital to provide much needed cash to fund improvements and financial resilience. Recent BDO benchmarking has identified that at least £41bn of cash is tied up within working capital in the sector, an increase of £13bn over the last 5 years. This is effectively a huge pile of interest-free cash that can be used to power growth and competitive advantage. Our analysis underlines this, showing a strong correlation between those manufacturers with good working capital management, and those with higher returns and a positive outlook.

What should manufacturers focus on to stay financially resilient:
1. Cost control: Regularly reviewing and controlling costs is essential. This includes everything from raw materials to overheads. Identifying areas where costs can be reduced without compromising quality is key.
2. Supplier optimisation: Building strong relationships with suppliers can lead to better payment terms and more reliable supply chains.
3. Contract negotiation: Finding the right balance between price and cash for each supplier and customer can help enhance financial resilience. Entering discussions with a full scorecard of performance data is crucial.
4. Inventory optimisation: Regularly reviewing target stock levels using up-to-date data will ensure inventory levels are kept at an optimal level. Applying tailored strategies for different types and ages of stock can also help reduce inventory levels.
5. Accurate S&OP: Accurate demand forecasting helps manufacturers plan production and inventory levels more effectively, reducing the risk of overproduction and excess inventory.
6. Technology: Automation and digitalisation can improve efficiency and reduce costs. Investing in technologies such as ERP systems can provide better visibility into operations and help optimise working capital.

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

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Accountancy and business advisory firm BDO LLP is the UK member firm of BDO International, which has more than 1,800 offices in 166 countries. We operate from 18 offices across the UK, employing 7,400 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 accountancy, tax and business advice to patent box and research and development claims and M&A opportunities to help our clients grow in the UK and overseas. We also provide manufacturing businesses and organisations with robust, independent audits.

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

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

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