The Manufacturers' Organisation

MANUFACTURING OUTLOOK

QUARTER 2 2025

With support from:

Scottish Engineering
and Manufacturing NI

In partnership with

Foreword

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In 1904, Oxford University Professor of Geography, Halford Mackinder, delivered a lecture on *The Geographical Pivot of History*. According to Mackinder, the central location and natural resources of Afro-Eurasia makes this tri-continental landmass the "heartland" of the globe. Whoever controls the "heartland" rules the world.

Mackinder's talk was one of the first formal articulations of what is today known as geopolitics. His theory gained exceptional influence by providing a framework for understanding international rivalries, such as the Great Game between Britain and other imperial powers vying for control of Central Asia — Afghanistan, Persia (Iran), and Tibet — the corridor controlling economic access to the Indian subcontinent and China.

More recently it inspired the "Belt and Road Initiative", an economic and political strategy launched by the Chinese government during the 2008 financial crisis, which aims to expand Beijing's sphere of influence by using its "Made in China 2025" industrial strategy to redirect global trade routes through a network of "New Silk Roads". China's vast technological and infrastructure projects now extend from undersea cables to outer space, from African mega ports to European high-speed rail.

In response, the US and other powers are pushing back. Starting around 2010, President Barack Obama began his country's Pacific turn, refocusing US military, economic, and diplomatic targets towards the region. America's Mackinder inspired "Pivot to Asia" escalated dramatically earlier this year when President Donald Trump unleashed trade tariffs on a wide range of countries, including the UK. The President's objective is to jolt Afro-Eurasian "heartland" economies into negotiating trade deals with the US. As this quarter's *Make UK/BDO Manufacturing Outlook* survey shows, that plan has partly backfired because even in its closest ally, Britain, businesses' views of the United States as a trusted growth market have fallen sharply.

Trump's shock therapy sent tremors through global markets, signalling the rise of a new Great Game where trade relations and geographic leverage are once again becoming tools of global power competition. It took over a month — the time East Asian cargo ships take to reach the US West Coast — for the impact of April's announcement to hit home before Pacific ports saw a sharp drop in container traffic and warehouses began to empty. The reverberations for supply chains have since shifted eastward, such that despite the British government's welcome economic agreement with the White House, some ripples are still being felt here.

Domestic demand declined slightly this quarter over fears exports to the US will be hit. Thankfully, the positive news of new agreements with the EU, India, and likely soon the Gulf states, has coincided with a slight increase in export orders elsewhere, prompting expectations among many UK manufacturers of improved output next quarter. The result is that the US, traditionally a top destination for British made goods has, for the first time on record, slipped behind Europe, Asia/Oceania and the Middle East.

Increased input costs owing to trade turmoil — especially in intermediate goods, freight transport and logistics — are pinching profit margins. Consequently, consumer prices are being pushed up. That is prompting expectations inflation will also inch up over the coming months, although Trump's trade war may offset this somewhat by triggering weaker global growth.

More concerning is that planned capital expenditure has been paused. Trade disruptions have undermined UK manufacturers' plans to invest in innovation and automation. China currently controls many of the rare earth metals needed to manufacture the digital technologies essential to future economic growth. Increasing interest in Greenland highlights the Arctic's importance as one alternative source. The US, along with many other countries, is staking its claim to these critical minerals as well as other strategic assets. Caught between shifting supply chains and rising competition, the British government is seeking to balance our national interests with international cooperation and a commitment to open free trade.

In this renewed era of Great Power politics, major economies are reshaping trade flows to reflect their own interests. The implications for the world economy are profound. At a time when economic power is increasingly wielded as a geopolitical tool, national development no longer depends on obeying trade patterns, but on shaping them through industrial policy. That's why the British Government is right to seek to secure market access, build alliances, and negotiate new trade agreements. Cooperation with like-minded economies is not just essential to cushion the impact of trade tensions, but to ensuring that British industry can act decisively to deliver long-term prosperity in a shifting global order.

Headlines

Make UK's Q2 2025 *Manufacturing Outlook* report, published in partnership with BDO, provides an overview of the current state of UK manufacturing. Over the past three months, manufacturers have faced rising tax burdens and continued to navigate highly volatile international trading conditions. Despite these challenges, the sector has seen a modest uptick in production. However, the pipeline of new orders remains weak, largely due to subdued demand in the domestic market.

The latest output balance rose to +9% from -1%, indicating that industry production has increased over the past three months. This balance should be considered relatively impressive given the tough economic environment manufacturers are operating in, including the activation of higher national insurance contributions, the increase in global trade costs due to US tariffs, and exorbitantly high domestic energy prices.

However, the performance of orders, domestic and export, is more mixed. Total order books reported a balance of -2%, a slight improvement on last quarter's -6%. The weakness in orders is primarily driven by a slow UK market, which reported a balance of -1%. Though this also improved on the first quarter's performance the domestic market has shown poor levels of growth for almost two years. Fortunately, the balance for export orders has rebounded following a slowdown in the first quarter despite major global trade disruption due to the US's tariffs.

Indicator	Balance	Change	
Confidence	7.1	↑	Confidence improves due to improving geopolitical conditions
Output	9%	↑	Output volumes rebound
UK orders	-1%	↑	Domestic orders remain negative on balance
Export orders	7%	↑	Export orders recover following trade war stabalisation
Employment	1%	↑	Employment grows marginally
Investment	2%	↓	Investment activity subdued due to uncertainty

Source: Make UK Manufacturing Outlook Survey

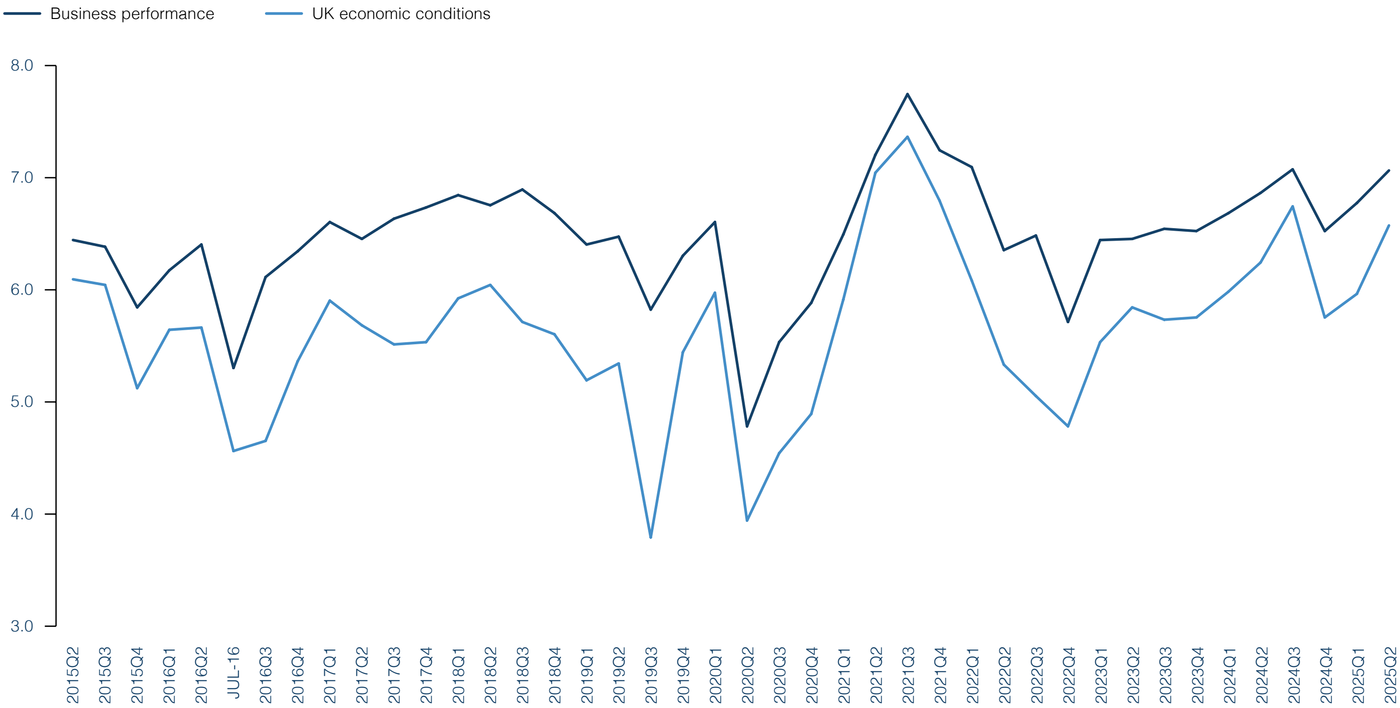
This quarter's employment and investment figures show marginally positive balances, suggesting that the industry is making modest hires but has limited plans for expanding the workforce or for productivity-enhancing technological investments. Following a small decline in the employment balance last quarter in response to the impending rise in employer national insurance contributions, a balance of +1% of manufacturers increased their headcount in Q2. However, official statistics suggest the number of live vacancies in the sector continues to drop at an alarming rate indicating that the appetite for growth is waning overall. This concern is compounded when also reviewing the figures for manufacturers intentions to invest in capital equipment over the next 12 months, the balance for which has dropped to +2%. The lowest since the end of 2022.

The share of businesses raising prices remains high and has increased slightly for export goods. The balance of businesses raising UK prices reported at +20%, no change from Q1. For Export prices the balance reported at +24%, up from +17%. However, far more concerning is that profit margins have remained in negative territory for 14 consecutive quarters over the last three years.

Despite persistent economic disruption, manufacturers remain buoyant in their optimism about the future. Business confidence is a subjective metric, and the improvement to a 7.1 score, up from 6.8, may reflect news stories about the UK's progress to securing trade deals with India, as well as the EU, our closest trading partner.

Confidence rebounds following a de-escalation of trade tensions

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



Source: Make UK Manufacturing Outlook Survey

Output

This quarter's output figure brings some longed-for positivity amidst the less positive results from the *Manufacturing Outlook* survey's other data points. The previous quarter's output balance was negative, only the second time the balance figure for output has been negative since the end of the COVID-19 pandemic period at the close of 2020.

PAST 3 MONTHS	↑ 9%	NEXT 3 MONTHS	↑ 11%

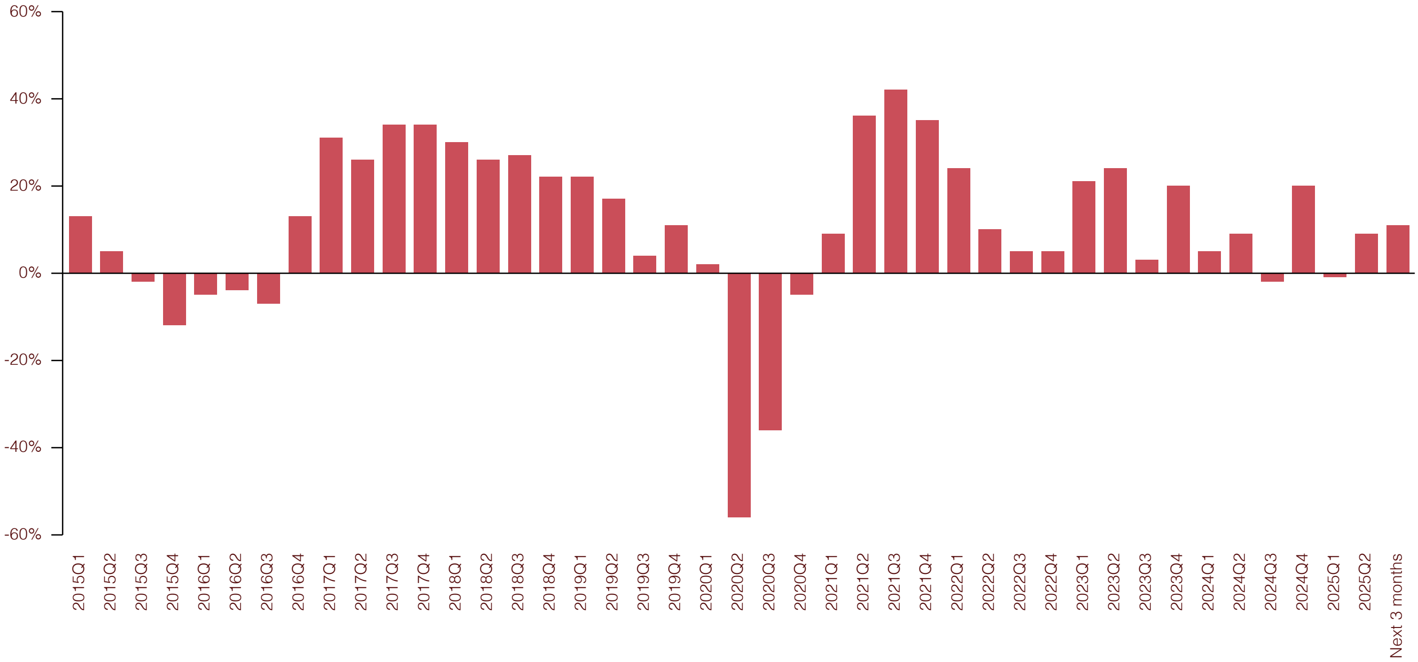
The output balance figure for this quarter is +9%, a much-needed improvement over the previous quarter's -1%. This quarter's output performance stands in contrast to orders, which came in at -2%. This dichotomy of positive output and negative orders does not bode as well for the sector's short-term prospects in comparison to if it was the other way around. Firms may be producing more goods than market conditions demand.

Historically, in *Manufacturing Outlook* survey data, we can have greater confidence for future output performance if the preceding quarter's order levels were strong because those orders will typically translate into increased output in either the immediate next or the subsequent few quarters. As we are seeing in this quarter's data, output exceeding orders does not afford us the same confidence. While a short-term boost in quarterly output will be welcomed by the sector, it will likely prove transient as order demand for future quarters appears absent.

This quarter's output figure reflects the sudden drop in business confidence observed during the quarter when US President Donald Trump announced sweeping tariffs on global goods. 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.

Confidence, measured by manufacturers' expected production levels over the next three months, remains strong — maybe even surprisingly strong — considering that recent orders have been low. The future 3-month balance figure for output stands at +11%, meaning the sector expects output performance to continue to grow next quarter as well. While we might typically expect this to be a difficult challenge given the suppressed order performance this quarter, it is important to note that the sector's previous forecasts for this quarter's output performance was more accurate than at any time since the end of 2023, perhaps suggesting that some predictability in output performance may be returning to the sector, although we would like to observe multiple instances of this predictive accuracy before drawing any robust conclusions.

Output volumes grow following last quarter's contraction % 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	**-67%**	**33%**
Metal Products	**6%**	**-8%**
Mechanical	**20%**	**18%**
Electronics	**40%**	**20%**
Electrical	**18%**	**29%**
Rubber & Plastics	**8%**	**55%**
TURNOVER		
£0-9m	**4%**	**0%**
£10-24m	**27%**	**4%**
£25m and over	**13%**	**42%**

Source: Make UK Manufacturing Outlook Survey

Orders

The latest balance for total orders came in at -2%, up from -6%. This represents an improvement in the overall performance of orders, though it remains negative on balance. However, a strong upward movement in exports helped push total orders in a positive direction despite the current uncertainty around international trade. Across the first two quarters of the year, anxiety stemming from US trade policy has dominated conversations, and manufacturers were impacted particularly heavily.

Though the US applied a lower tariff on most UK goods than that imposed on other economies, the higher tariffs on the European Union, Asia, and elsewhere in the UK's supply chain still presents major challenges to UK businesses, who are heavily integrated into the global economy.

Though these policies were marketed as an attempt to rebalance the trade deficit for goods in favour of the US, its primary intention was to encourage the decoupling of supply-chains away from Chinese-made goods. It is difficult to say whether this strategy will be a sufficient one to negate the manufacturing powerhouse that is China, which currently produces over $5trn worth of manufactured goods annually. To put that into perspective, the US, the second largest manufacturing nation by value, only produces approximately half of this amount annually ($2.6trn).

Consequently, to constrict China's economy through trade tariffs will no doubt have ramifications for manufacturers in all other countries, including the UK. For now, UK manufacturers have been spared some of the direct disruptions from facing relatively lower US tariffs, and our access to other markets has helped us observe an increase in exports this quarter.

A feature that has become a recurring trend amongst manufacturers is the consistent overestimation of future order book performances. For nine quarters in a row, manufacturers have failed to meet their own set expectations for "next quarter" order books growth. This suggests that market uncertainty continues to negatively impact business activity. Manufacturers have previously highlighted that market volatility has impacted contract negotiations between businesses which have had the impact of stalling opportunities. The positive forecasts are likely made in good faith and suggest that there are opportunities for growth.

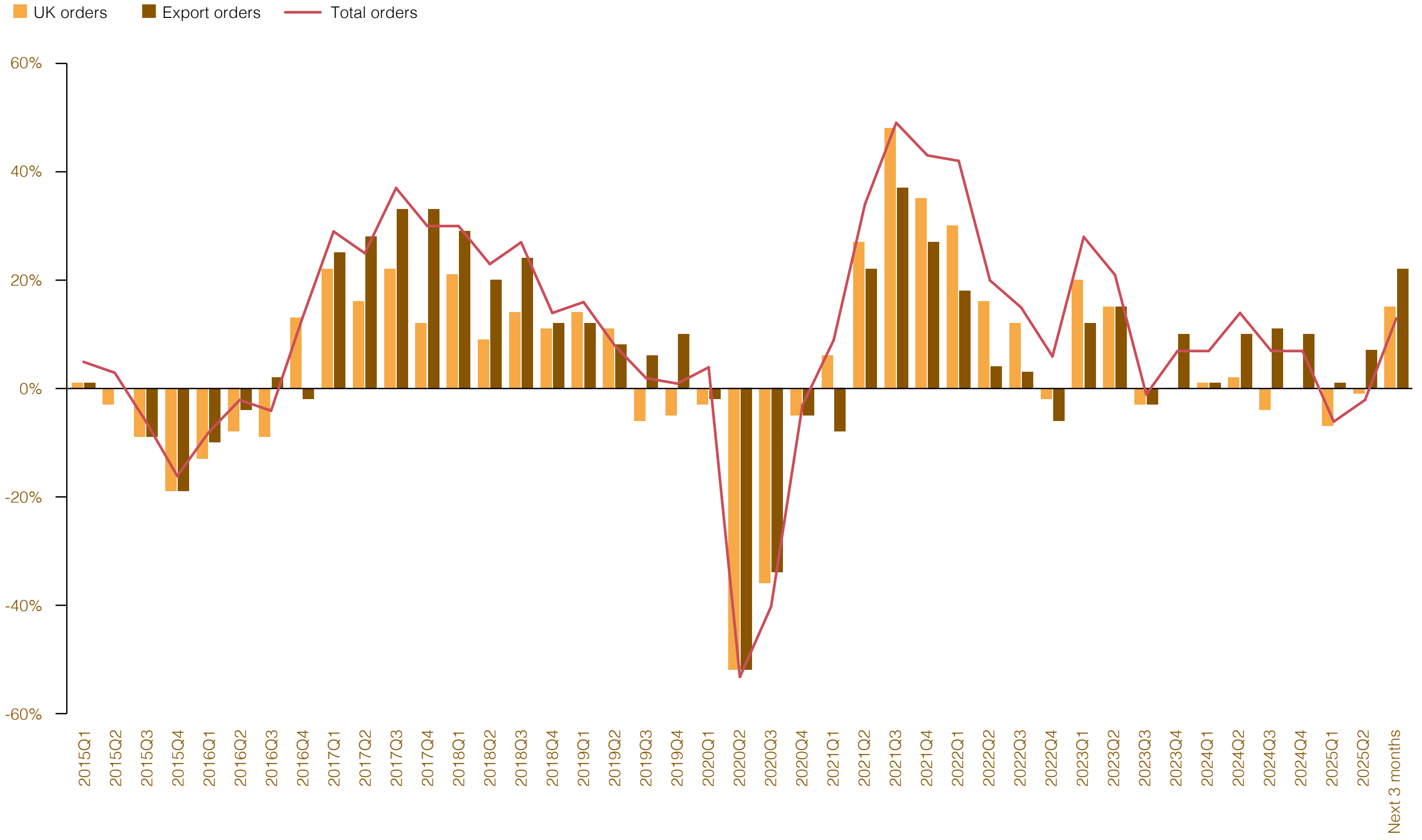
UK ORDERS	PAST THREE MONTHS	↑ -1%	NEXT THREE MONTHS	↑ 15%
EXPORT ORDERS	PAST THREE MONTHS	↑ 7%	NEXT THREE MONTHS	↑ 22%
TOTAL ORDERS	PAST THREE MONTHS	↑ -2%	NEXT THREE MONTHS	↑ 13%

UK Orders

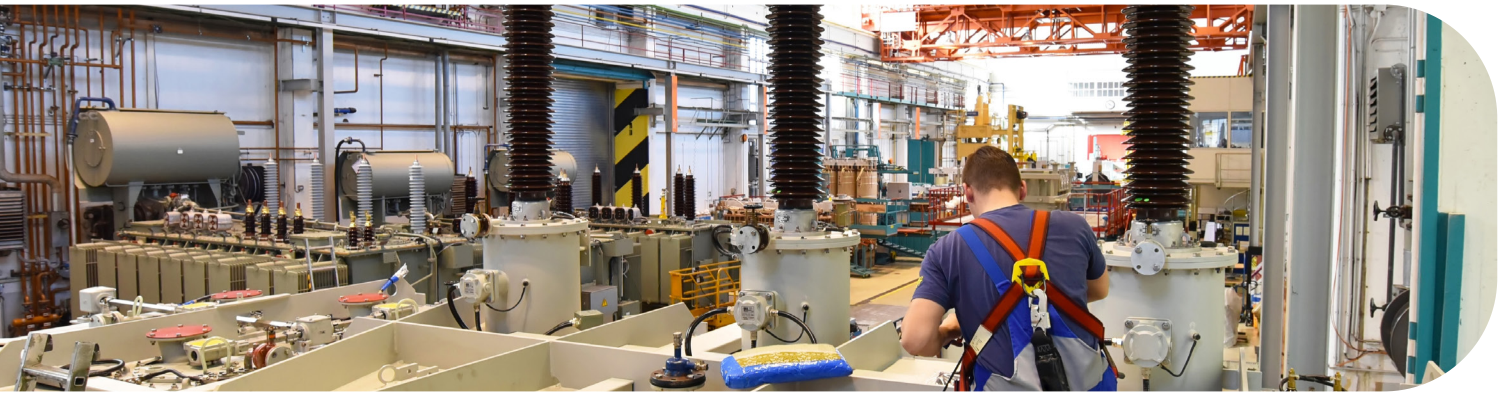
The balance for UK orders improved on last quarter's result, reporting at -1% (up from -7%). Unfortunately, it remains negative and suggests that the domestic market continues to be a bottleneck for UK manufacturers' pipelines. The industry witnessed a short-term panic last quarter as both domestic and international orders collapsed, whereas, prior to this, the manufacturing industry could consistently rely upon overseas orders to boost the sector's performance. Fortunately, this quarter the industry has returned to its normal performance as export orders improved to balance out the declines in the domestic market.

Subsector-wise, results are far more mixed relative to the national picture. For example, despite overall UK orders posting a negative balance, several producers of intermediate goods (Metal Products, Mechanical Equipment, Electronics, Electrical Equipment and Rubber & Plastics) reported positive balances indicating that manufacturers in certain subsectors are doing quite well.

Export performance returns to positivity % balance of change in orders



Source: Make UK Manufacturing Outlook Survey

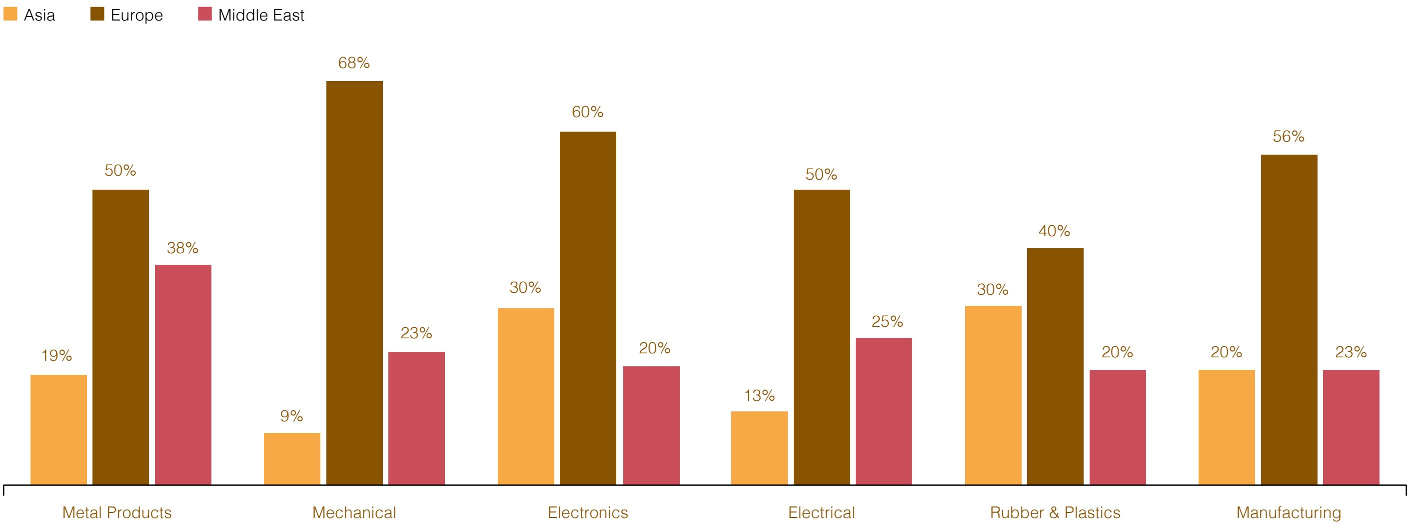


Export Orders

Export orders reported a balance of +7%, following a slowdown to +1% last quarter. It is a delicate time for exports as the impact of global trade disruption will be mixed depending on the subsector a manufacturer operates in. Manufacturers in the automotive sector and producers of metals may find greater difficulties in their export strategies given US tariffs are currently more substantial on their supply-chains, whereas other industries will face relatively less of a tariff challenge. The positive news is the UK Government have produced encouraging results to improve trade relations with India and the EU. These deals could enhance UK manufacturers' opportunity to trade more long-term.

A final point on manufacturers' experience for demand across different international regions. Until now, the top three sources of UK manufacturers' customers have almost always exclusively been the EU, North America and Asia, in that order. In a surprising turn of events, North America is no longer the second strongest source for demand for a typical UK manufacturing business and have been replaced by Asia and the Middle East to complete the top three. It is possible that the actions of the current US administration has encouraged more businesses in Asia and the Middle East to seek opportunities elsewhere, like in the UK.

North America drops out of the top three regions for orders % 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	-67%	33%	-50%	100%	-67%	33%
Metal Products	3%	3%	16%	20%	-3%	-3%
Mechanical	10%	20%	3%	15%	8%	22%
Electronics	10%	27%	11%	-10%	18%	-33%
Electrical	12%	12%	19%	31%	18%	35%
Rubber & Plastics	25%	42%	25%	55%	0%	42%
TURNOVER						
£0-9m	-13%	2%	-6%	2%	-4%	4%
£10-24m	7%	4%	15%	7%	7%	0%
£25m and over	6%	50%	7%	51%	2%	42%

Source: Make UK Manufacturing Outlook Survey

Employment & Investment

This quarter's publication of *Manufacturing Outlook* shows a small improvement in employment prospects for the sector, but a continuation of the slow downturn in investment intentions that will prove concerning for a sector that has long underinvested relative to its international competitors.

The employment balance figure reported at +1% this quarter, a small figure but one that has improved from the -3% observed last quarter. While the figure moving into positive territory is a welcome sign, the scale of increase in employment in the sector is, in practice, akin to no change on aggregate over the past quarter, given the marginal scale of the balance figure.

Nevertheless, any degree of positivity in the employment figure for the sector comes somewhat as a surprise because it was expected that recent changes to employers' National Insurance Contributions (NICs) would see employer costs increase by approximately £1,000 extra per head per year in, acting as a disincentive to hire more staff. Given this, seeing growth, however slight, in the sector's aggregate employment position is unexpected, good news.

What is even more encouraging is the sector's future expectation for employment over the next 3-months, for which the balance figure stands at a whopping +21%. It is important to note, however, that particularly in the case of employment compared to any other *Manufacturing Outlook* metrics, the future employment metric often represents the sector's intention to employ and is not necessarily representative of the amount the sector will recruit in the next quarter. In practice, this future metric for employment more accurately represents the level of demand for skills and staff.

As of April 2025, there were 49,000 live vacancies in the UK's manufacturing sector, a decrease from the 58,000 reported in the previous edition of this report. As a ratio, for every hundred jobs in the sector, 2.0 are vacant, down from 2.4 in last quarter's report.

Manufacturing Outlook vacancy ratio data dates back to 2001, and the long-run average from then until the high-point of the COVID-19 pandemic stands at approximately 1.8. Since a peak of 4.0 in late 2022, this ratio has been steadily reducing. This latest data for manufacturing vacancies, in terms of the vacancy ratio, is the closest the figure has come to return to that 'normal' floor of 1.8 since before the pandemic, since January 2021 to be precise. Nevertheless, it is 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.

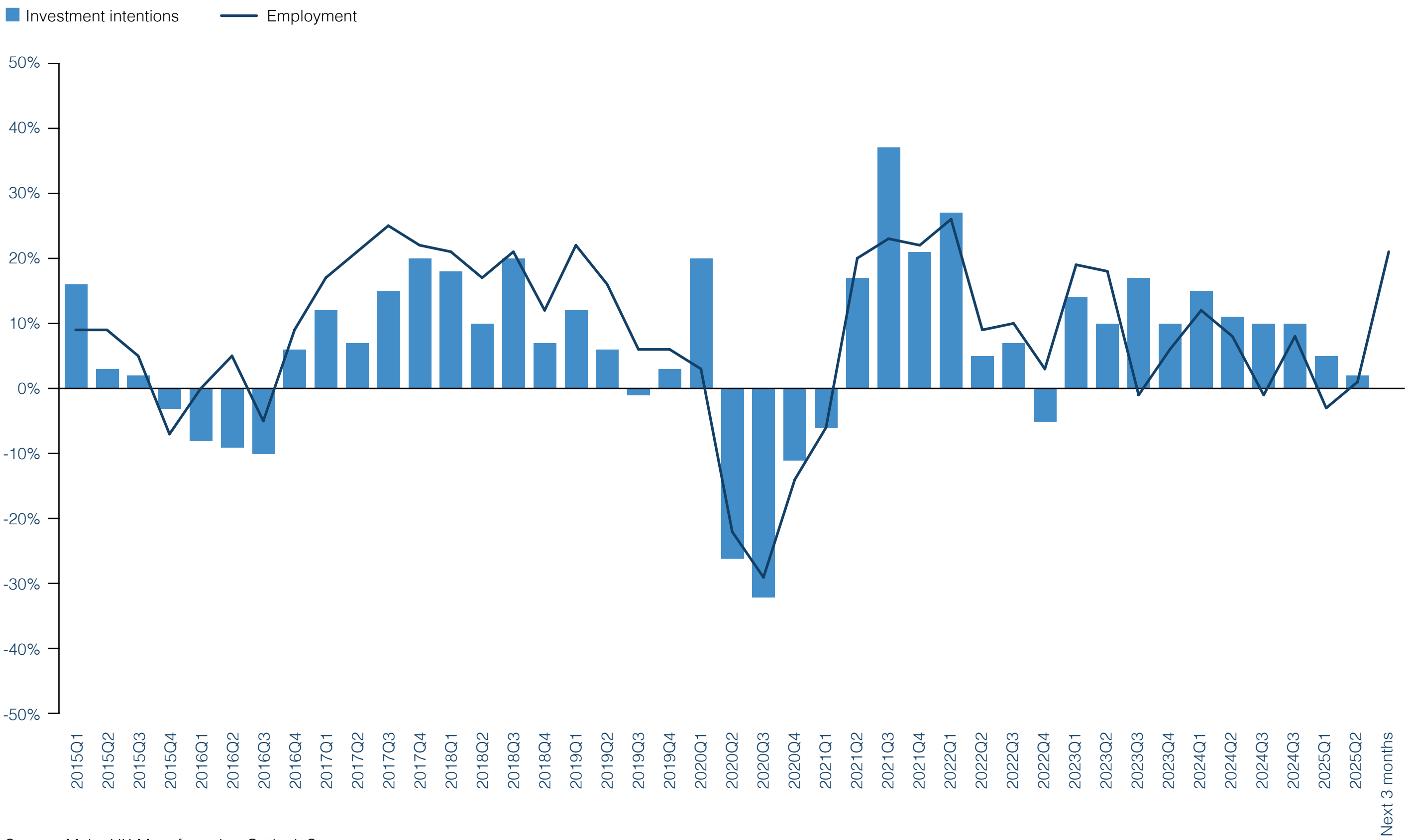
EMPLOYMENT	**PAST THREE MONTHS**	**↑ 1%**	**NEXT THREE MONTHS**	**↑ 21%**
INVESTMENT	**NEXT TWELVE MONTHS**	**↓ 2%**		

The investment intentions metric measures the sector's intentions to invest in the coming 12 months. Worryingly, between this last quarter and this one, investment intentions have begun to dwindle. Since the end of 2022, the investment intentions metric has hovered in low-to-middle double digits. While it did not signify massive growth in the sector's planned capital expenditures, it did show that at the very least the sector was remaining in a holding pattern with ultimate intentions to invest.

However, as the balance figure dropped from +10% to just +5% last quarter, that decline has now continued, down to just +2% for Q2. This is a major concern for the sector as such a marginal balance figure for longer-term investment intentions is almost akin to flat, which as an aside, fuels the downside assumptions in our overall manufacturing GVA forecast in the longer term (2026).

This quarter's figure for investment intentions is the lowest recorded since the middle of 2022. Back then, it transpired to be a blip as intentions improved in the following quarter. There is little doubt that the sector will hope that history will repeat itself this time around too and we will see a turnaround next quarter.

Employment recovers slightly, but investment intentions remain subdued % 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	0%	67%	33%
Metal Products	8%	17%	11%
Mechanical	-4%	22%	-10%
Electronics	0%	-9%	18%
Electrical	0%	29%	12%
Rubber & Plastics	33%	33%	50%
TURNOVER			
£0-9m	-9%	11%	-8%
£10-24m	9%	9%	-4%
£25m and over	10%	40%	31%

Source: Make UK Manufacturing Outlook Survey

Prices & Margins

The prices metric within *Manufacturing Outlook's* research has drawn extra attention over the past couple of years. In the first instance this is because it gives a unique insight into future short-term pricing intentions from the sector. More significantly, the latest report has shown that the proportion of manufacturers continuing to raise their prices quarter to quarter remains higher than the longer-term average.

This indicates that the economy has a longer-term challenge with supply-side inflation that has not abated in tandem with the end of the pandemic.

Most economists would agree that central bank base rates, and in this instance the Bank of England's, have fallen more slowly than would have been anticipated two to three years ago. This is relevant because the rate of price-rising behaviour on the supply side has remained relatively hot, even though the drivers of this initial inflation - supply-chain shocks, energy crisis, trade frictions and so on - have largely abated from their peak.

This latest data shows us that this price-setting behaviour remains at its elevated level compared to the historical data. The balance figure for UK prices reported at +20% and the figure for export prices at +24%. The balance figure for UK prices remains identical to that of the previous quarter, and the figure for export prices has risen by 7 percentage points. This suggests that a greater proportion of the sector raised prices for international markets this quarter but the proportion of the sector raising their domestic prices remained unchanged.

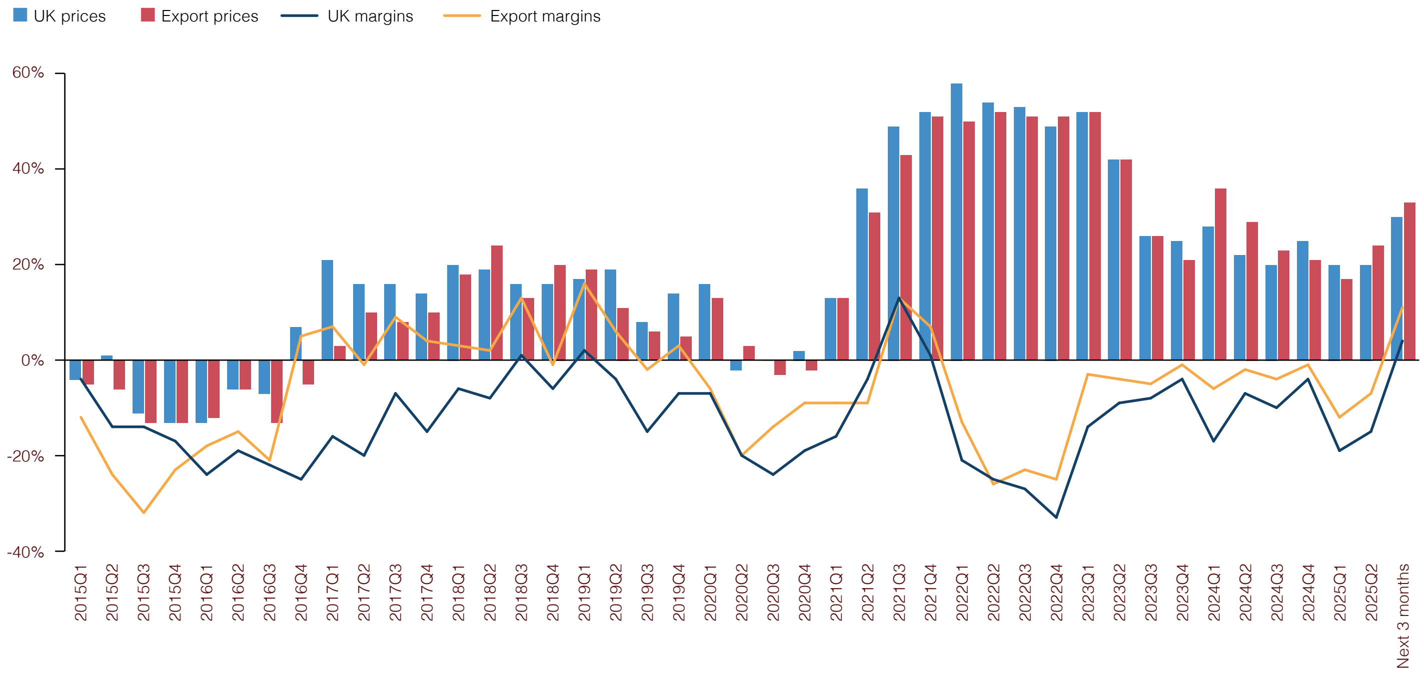
As an important aside, this publication would often compare its own metrics to the ONS Producer Price Inflation (PPI) metrics[1], however, as of March 2025 the ONS has suspended publication of the PPI data due to the discovery of a methodological error which may have been inaccurately estimating this index since 2008. While the details of the errors uncovered have not been divulged, the ONS has suggested that this problem ultimately may lead to an upward revision in past and future PPI scores. In other words, it is their view that PPI has possibly been underestimating supply-side inflation for some time. Nevertheless, the severity of this discrepancy is yet to be seen. This caught our attention over the past year as *Manufacturing Outlook* data would suggest over consecutive quarters that inflation, as determined by price-setting behaviour in the sector, was increasing despite the PPI metric suggesting it was either flat or decreasing. We will be keeping abreast of developments in this space and will provide an update in the third quarter of the year.

Margins, both domestic and international, have seen a relative improvement in the rate of decline recently. The balance figure for UK margins reported at -15% and for Export margins at -7%. The slightly larger upswing in export margins is possibly attributable to the aforementioned heightened export price activity observed this quarter.

The sector expects prices to continue to rise more aggressively in the coming quarter but for margins to recover as a result. The future three-month expectation balance figures for UK prices and Export prices stand at +30% and +33% respectively, and for UK margins and Export margins at +4% and +11% respectively. While this would indicate that the sector is hopeful that through a jump in pricing, margins can be brought back into positivity, that ambition is one this publication has seen fail to be fulfilled for a couple of quarters now.

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

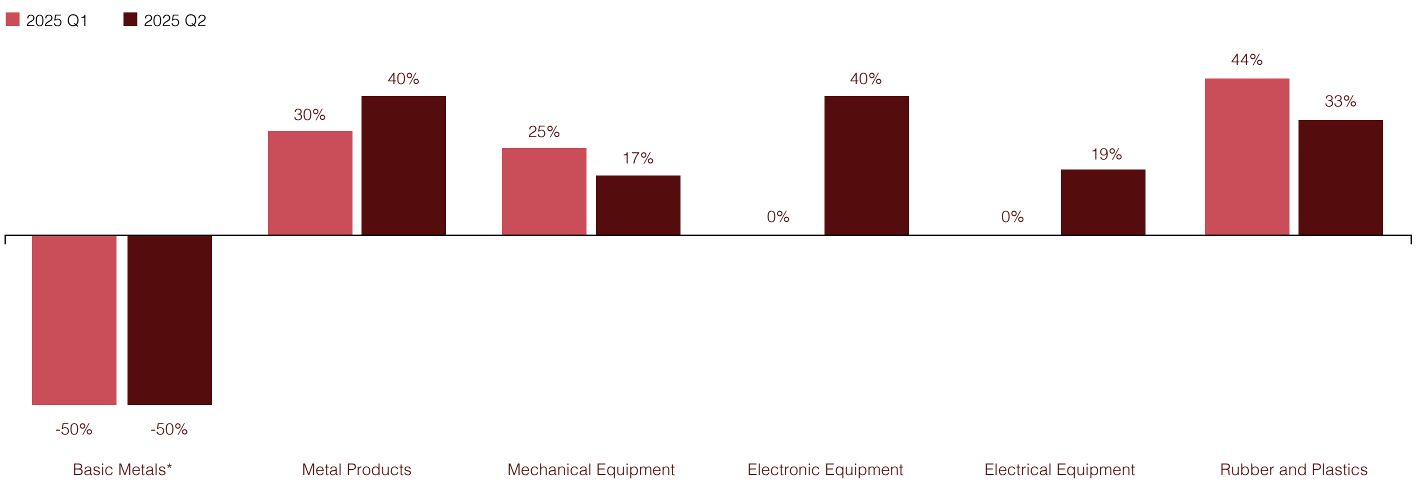
Margins remain negative despite export prices increasing % balance of change



Source: Make UK Manufacturing Outlook Survey

UK PRICES	**PAST THREE MONTHS**	**↔ 20%**	**NEXT THREE MONTHS**	**↑ 30%**
EXPORT PRICES	**PAST THREE MONTHS**	**↑ 24%**	**NEXT THREE MONTHS**	**↑ 33%**
UK MARGINS	**PAST THREE MONTHS**	**↑ -15%**	**NEXT THREE MONTHS**	**↑ 4%**
EXPORT MARGINS	**PAST THREE MONTHS**	**↑ -7%**	**NEXT THREE MONTHS**	**↑ 11%**

Export prices increased for processed metals and electronics % balance of change in export prices in the past three months



Source: Make UK Manufacturing Outlook Survey
*insufficient sample for this quarter

National & Regional

The sector's confidence across the UK has remained remarkably robust despite all the challenges faced in recent times. This has been the case for the past few quarters and is most likely a result of the relative stability in the manufacturing environment in recent quarters relative to the five years prior. Despite tariff disruptions, UK manufacturers have learned a lot in recent years and embedded resilience into their processes.

The sector's confidence across the UK has remained remarkably robust despite all the challenges faced in that time. This has been the case for the past few quarters and is most likely a result of the relative stability in the manufacturing environment in recent quarters relative to the five years prior. Manufacturing firms have learned a lot in recent years and embedded resilience into their processes.

In any case, robust business confidence from the sector may offer a silver lining, particularly in a period where orders and investment appetites seem to be dwindling, at least for now. Following a relatively sudden decline observed two quarters ago, business confidence in both the sector's own trading conditions and in the wider UK economy continues to slowly climb. Ignoring this small change observed then, confidence will have consistently been climbing since the tail end of 2022.

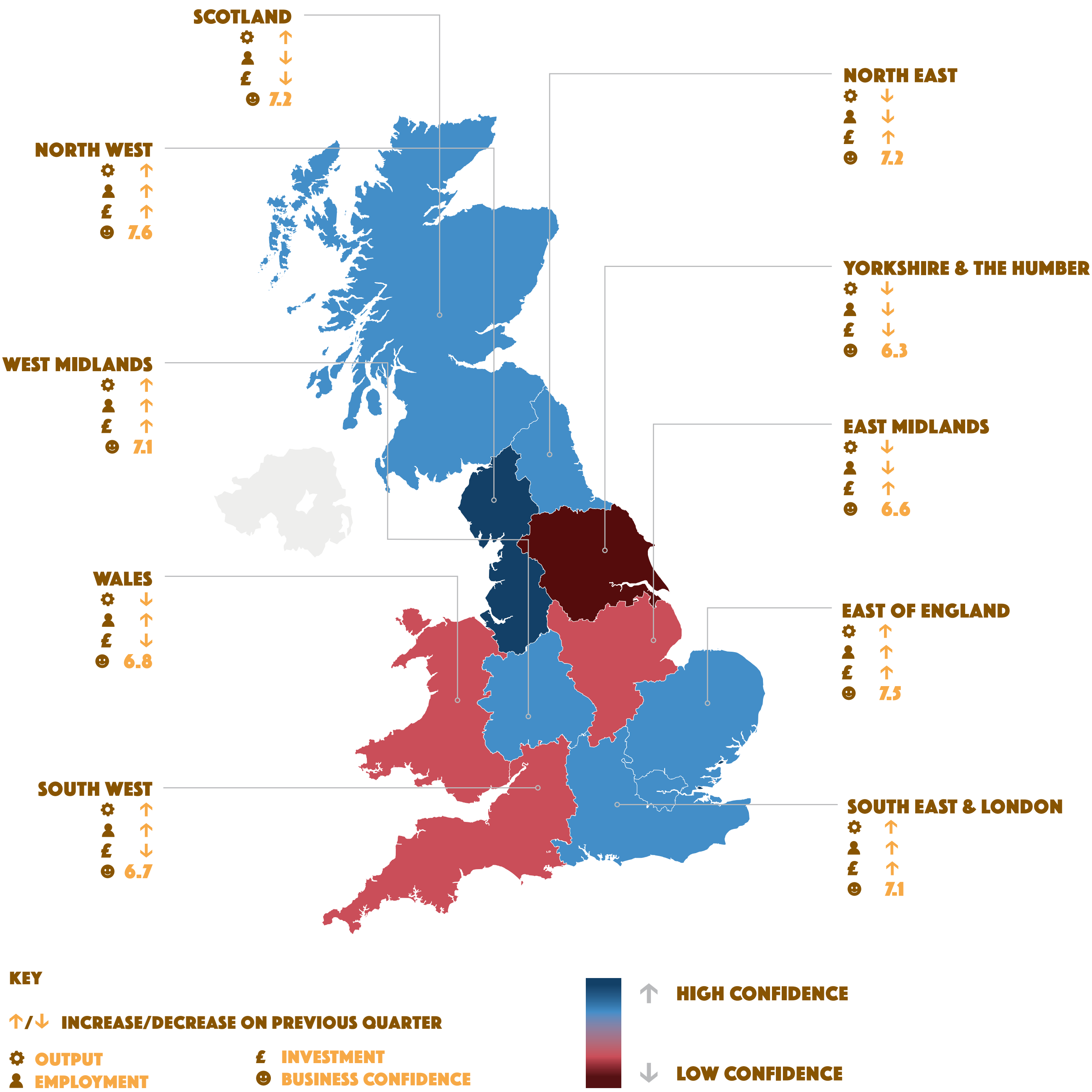
Headline business confidence reported at 7.1, which is up on last quarter's level of 6.8.

All regions and nations reported above the '5' inflexion point, which is a change compared to last quarter when Wales reported negative business confidence, i.e. a score below '5'. All regions and nations' manufacturing sector confidence scores are tightly grouped, with the largest variance only being a score of 6.3, as reported by Yorkshire & the Humber. This indicates that on average, most manufacturers are relatively in line in terms of their optimism levels for the next 12 months.

Among the English regions, the largest improvement in business confidence was reported by the North West, which increased by 1.1 points to 7.6. This makes it also the most confident region in the UK this quarter. All other UK regions reported an increase in business confidence relative to last quarter, with the one exception being that of Yorkshire & the Humber which saw a decline of -1.6 down to 6.3 when compared to last quarter. This means that this region has the lowest business confidence this quarter, although a score of 6.3 remains positive.

Despite almost all regions and nations seeing an increase in their business confidence this quarter, the scale of increase was minor for most, with the modal increase being only by 0.1 points. The largest increases in confidence were seen across Wales and Scotland, with the latter seeing a confidence increase of 1.2 points and the former seeing a massive jump by 2.5.

Declines in activity dominate most regions/nations



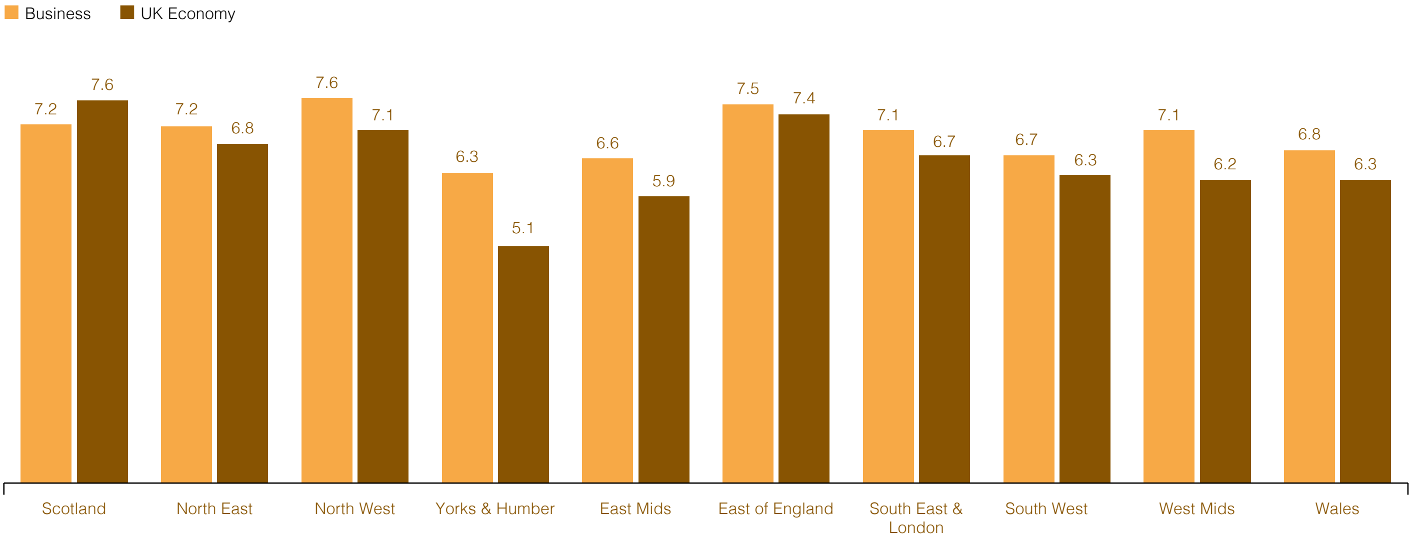
UK economy confidence

Manufacturers' confidence in the overall UK economy reported at 6.6, this is a 0.6 point increase on the previous quarter's level (reporting at 6.0). This is consistent with the continued improvement in confidence metrics this publication has observed over the past two quarters.

The positivity in these confidence metrics would suggest that the mood music within the sector is still well and truly playing in a major key, subverting the sentiment conclusion one would assume based on the core performance metrics alone.

All UK regions and nations report positive business confidence

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



Source: Make UK Manufacturing Outlook Survey

Regional summary % balance of change

	OUTPUT		TOTAL ORDERS		EMPLOYMENT	
Region	Past three months	Next three months	Past three months	Next three months	Past three months	Next three months
Scotland	-5	14	-6	10	-10	23
North East	0	33	0	50	-33	50
North West	23	31	8	31	15	54
Yorks & Humber	-33	-22	-56	-11	-22	22
East Mids	0	22	-5	26	-5	26
East of England	44	0	0	12	29	63
South East & London	23	52	4	52	12	35
South West	60	20	47	27	27	33
West Mids	32	42	16	24	24	44
Wales	0	25	0	25	0	0

Source: Make UK Manufacturing Outlook Survey

Economic Environment

To say the last three months have been topsy turvy for business would be an understatement. Whilst there are plenty of challenges that have burdened manufacturers in the last quarter, none has registered its impact on the Richter scale quite as severely as US President Trump's war on free trade. Since the Global Financial Crisis, many countries have become sceptical about the positive effects of globalisation with protectionist measures increasingly popular in political debate.

While the majority of UK manufacturers have so far avoided much - though not all - of the impact from the wide array of tariffs applied to US imports, the complexity and interconnectedness of global value chains mean we will not remain untouched if key trade partners suffer as a result of current US trade policy. The biggest challenge is the uncertainty which makes it more difficult to plan for the immediate future. Contract negotiations have stalled, orders were delayed and even hiring has frozen as a consequence of that uncertainty. The announcements were so high in frequency, speed, and complexity, that few businesses have had a chance to perform critical risk management on their operations. Nevertheless, many manufacturers are indicating their likely mitigation response will be to raise prices on their goods.

Recently there has been a de-escalation in trade tensions between the US and several countries including the UK, albeit many of the promised alleviations to trade barriers are yet to be detailed or implemented. This means that there is likely going to be some negative impact on UK GDP performance, which is currently forecast to grow by 1.2% this year. That growth is nevertheless good news and means the UK looks set to outperform many other G7 economies, including Germany and France, this year. Until now, the real month to month GDP performance of the UK has been slightly better than expected according to the Office for National Statistics (ONS). In the three months up to March 2025, GDP expanded primarily due to robust activity in the services sector. However, across the same period, manufacturing output reported declines in both January and March indicating that businesses have fared worse than the whole economy average.

The impact of tariffs does not even take into account recent changes to domestic policy. Although not yet reflected in official data, the rise in employer National Insurance contributions introduced at the start of April has added roughly £1,000 per employee to the average manufacturer's costs. The full implications of this change remain to be seen, but many manufacturers have previously indicated they would respond by raising prices, cutting jobs or limiting wage increases. According to the ONS, the UK unemployment rate has risen to 4.5%, its highest level since the peak of the 2020 lockdown.

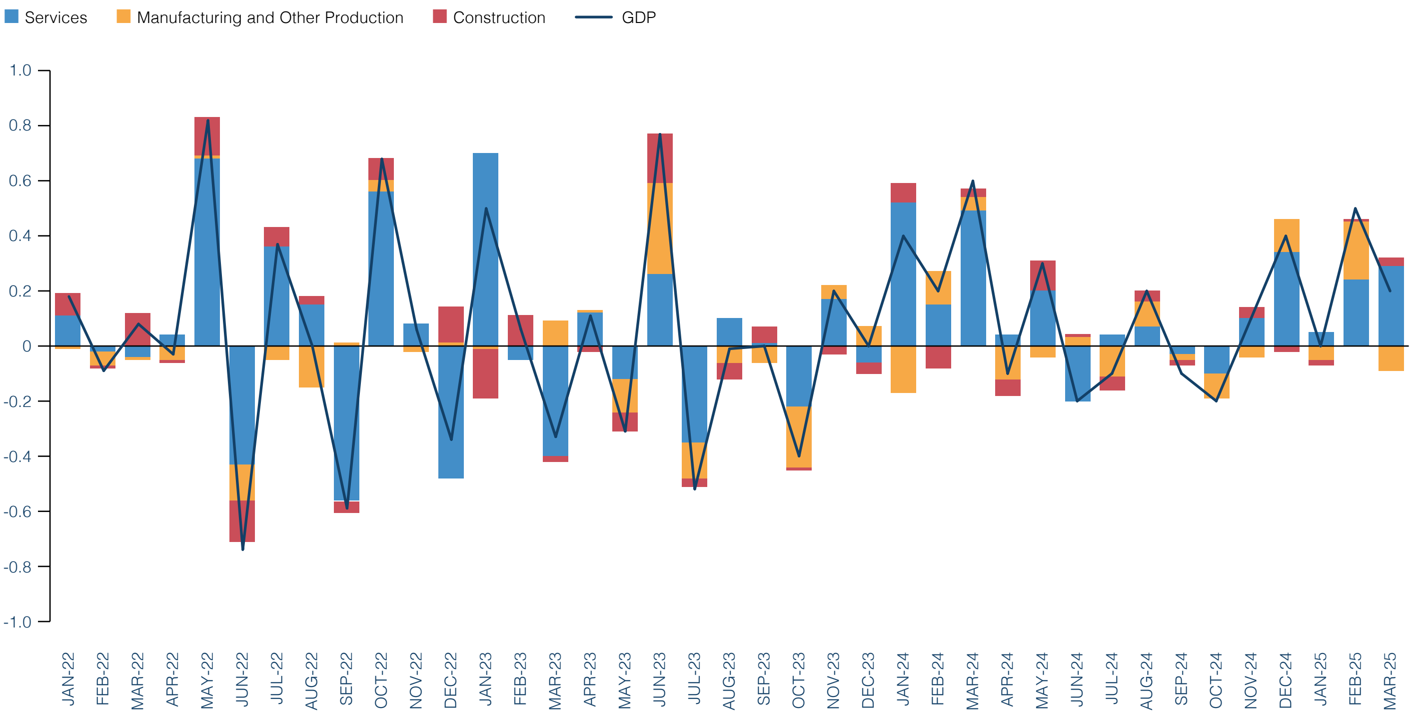
The indication that business will mitigate many of these challenges by raising prices increases the likelihood that inflationary pressures could make a comeback. The latest report for consumer prices put inflation at 3.5%, up from 2.6%, which is a sharp jump in an unfortunate direction, though it was not entirely unexpected. The rise in consumer costs is largely driven by household services, particularly from energy following the April increase in the energy price cap, and from telecommunications, where price hikes also occurred at the start of the financial year. As such, the latest inflation figure is unlikely to substantially alter the Bank of England's view of the broader economic picture. However, it may temper expectations for the number of base rate cuts anticipated this year.

Currently it is not known how producer prices may be affected given the impact of tariffs, though previously it was on a downward trend due to falling fuel prices[2]. However, high energy costs remain a significant barrier to progress in the manufacturing sector and one the biggest issues to growth, alongside the access of skills and finance. Industrial energy prices in the UK are the highest among western economies, with electricity costs being four times more than in the US. Until this issue is solved, the manufacturing sector in the UK will be uncompetitive on the world stage.

At the time of writing, the Comprehensive Spending Review (CSR) has passed with little in terms of announcements for industry. There is an expectation that details of the Government's industrial strategy will be revealed in the next few weeks. Manufacturers will hope that the Government's industrial strategy and language will be one that highlights the importance of our sector to the UK and sets the foundation for the UK economy thrive in the long-term.

GDP growth was positive in March due to a strong performing services sector

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



Source: ONS

[2]ONS data for PPI is currently being revised due to a methodology error.

UK Economic Forecasts % change except where stated

	2024	2025	2026
Trading environment			
Exchange rate (€/£)	1.21	1.17	1.17
Exchange rate ($/£)	1.25	1.32	1.32
Exports	-1.2	0.9	-1.3
Imports	2.7	1.5	-1
Current account (% GDP)	-2.7	-2.7	-2.7
Output			
Manufacturing	0.0	-0.2	-0.5
GDP	1.1	1.2	0.9
Costs and prices			
Average earnings	5.3	4.8	2.8
Oil price (Brent Oil $/bl)	81	68	68
Employment			
Manufacturing (000s)	2,583	2,555	2,513
Rest of economy (000s)	36,794	37,006	37,255
Unemployment rate (%)	4.3	4.6	4.9

Source: Oxford Economics and Make UK

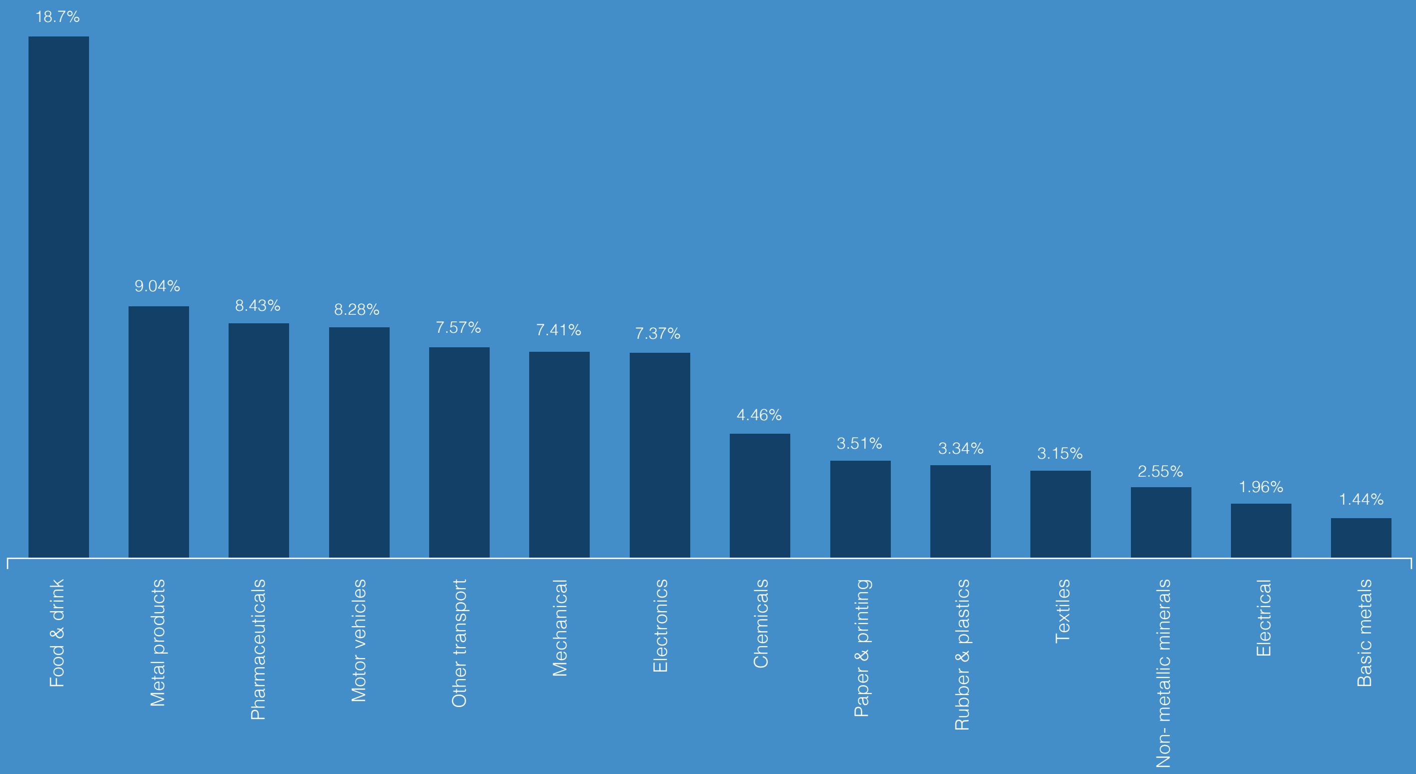
International Economic Forecasts % change

	GDP			INFLATION		
	2024	2025	2026	2024	2025	2026
US	2.8	1.3	1.7	3.0	3.0	2.8
Eurozone	0.8	0.9	0.9	2.4	2	1.7
France	1.1	0.5	0.7	2.0	1.2	1.8
Germany	-0.2	0.0	0.9	2.3	2.2	1.8
Japan	0.1	0.8	0.2	2.7	2.8	1.6
China	5.0	4.1	3.9	0.2	0.2	0.8
India	6.6	6.4	6.4	4.9	3.8	4.4
World (US$ weighted)	2.8	2.3	2.3	4.5	3.6	3.2

Source: Oxford Economics

Sector Forecasting 2025 Q2

Q2 2025 Manufacturing Sector composition by GVA
% share of Manufacturing Gross Value Added



Source: Oxford Economics

Food & Drink

The **Food & Drink** subsector is the UK's largest manufacturing subsector by just over a factor of 2, accounting for 18.7% of all manufacturing gross value added. This is a slight increase in the subsector's estimated sector share from last quarter, representing an increase of 0.4% since then. Output growth for 2025 is forecasted to subvert the overall manufacturing average, which is set to marginally decline, by growing by an estimated 1.6%. However, 2026's forecast expects the sector to have effectively zero growth, with a decline of -0.1% forecasted for output next year. Employment is forecast to decline across this year and the next, with headcount reductions in the subsector of -2.8% in 2025 and a further -1.8% in 2026.

Electronics

The **Electronics** subsector has seen a flattening of its growth forecast compared to only last quarter. Expectations in the previous round of forecasting saw the subsector receive a mildly positive growth forecast for both this year and the next. The latest forecast shows the subsector is expected to contract in output by -0.5% in 2025, and continue to marginally contract in 2026 by -0.4%. Greater reductions in employment in this subsector are expected in this round of forecasting too, with the expected contraction in headcount increasing compared to the last edition of this report. Employment is forecast to contract in the subsector by -6.6% in 2025, with a softer contraction of -0.8% in 2026. This forecasted contraction in employment in 2025 is the most contractionary out of all manufacturing subsectors in this edition of the report.

Basic Metals and Metal Products

The **Basic Metals** continues to hold one of the most contractionary forecasts for output, and to a lesser degree, employment. Despite again retaining the title for holding the most contractionary output forecast for 2025, it has softened a little compared to the previous quarter. The latest forecast for the subsector's output this year stands at -9.5%, which remains deeply negative, but a relative improvement on last quarter's -10.5%. However, 2026's outlook has worsened with the forecasted contraction in output now deepening to -11.3%. Employment is also forecasted to fall across this year and the next, by -5.5% in 2025 and by -3.4% in 2026.

The **Fabricated Metals** subsector, despite inherent linkages with the former subsector, receives far more optimism in its output and employment prospects over the next year and beyond. Its 2025 output forecast this quarter is effectively flat, standing at -0.6%, and so too in 2026, where the forecast stands at -0.5%. The employment forecast is particularly interesting, standing at 14% for 2025 before returning to a flat -0.3% in 2026. This large 2025 forecasted employment growth for the subsector is the largest out of all manufacturing subsectors this quarter.

Mechanical Equipment

The **Mechanical Equipment** subsector remains consistent with its flat trajectory that it too was forecasted to follow as of the previous round of forecasting, in the case of output. The same cannot be said for employment, which is expected to decline. In 2025, output is forecasted to contract in this subsector by -0.5% and grow by 0.2% in 2026. Typically, this subsector can be seen as a key indicator of domestic capital investment trends, so the forecast follows in line with the continued suppression of the wider sector's investment intentions. Employment is expected to decline across both 2025 and 2026, well beneath the wider industry average. It is forecasted to contract by -5.0% this year and -2.7% next year.

Textiles

The **Textiles** subsector has seen somewhat of a turnaround in its prospects this quarter. Following a negative forecast for output in the first quarter of the year, its 2025 output prospects have now moved into positivity, and so too with employment. Output growth in 2025 is forecasted to stand at 3.5%. However, despite this short-term improvement in optimism, it does not persist into 2026, where output is subsequently forecast to decline by a great -6.6%. Employment is set to grow by 3.8% in 2025, and not dissimilarly to the output forecast, contract by a greater -5.1% in 2026.

Paper & Printing

The **Paper & Printing** subsector has seen a downward revision in its prospects this quarter, following an expansionary expectation set last quarter. The latest forecast for output for the subsector now stands at -3.4% for 2025, with a further decline of -1.7% in 2026. This follows mildly positive forecasts that were set for output this year last quarter, highlighting the relative uncertainty seen in this subsector. Employment is forecast to contract in equal measure across both this year and the next, with a contraction in the workforce by -4.2% in 2025 and by -4.1% in 2026.

Electrical Equipment

The **Electrical Equipment** subsector has received a downward revision to its forecasts this quarter. It has been the recipient of oscillating forecasts for the past couple of quarters. The latest forecast for the subsector's output growth in 2025 stands at -1.9%, but it is expected to grow in a commensurate fashion in 2026 by 1.6%. The subsector holds the second most negative forecast for employment growth in 2025, with a contraction in headcount by -6.3% forecast for 2025. 2026 is set to see some of this contraction undone, with a subsequent growth of 3.8% forecast.

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. The subsector's forecast has remained relatively consistent compared to the previous round of forecasting. The latest figures show that the sector is forecasted to grow in output by 3.4% in 2025, and by a further 2.2% in 2026. Longer-term forecasts for this subsector's output are particularly volatile as they are beholden to the amount of construction activity that is yet to be rendered in the UK next year, which can be due to unexpected changes. Employment is forecast to grow modestly across both years, by 1.3% in 2025 and by 1.2% in 2026.

Pharmaceuticals

The **Pharmaceuticals** subsector's prospects are now starting to consistently draw closer to the wider manufacturing average, following a multi-year period where the subsector experienced extraordinary output growth associated with interventions related to the pandemic. Following a mild contraction in output last year, in 2024, by -1.9%, the subsector is forecast to contract again in 2025 by -1.6%, and by a further but more modest -0.6% in 2026. Employment is also expected to contract Iin 2025 by -2.0% in 2025, but see some mild growth in 2026 by 0.8%.

Chemicals

The **Chemicals** subsector has seen both its past output performance and its forecast teeter around the zero mark, and this round of forecasting shows no difference. Following effectively flat forecasts given to the sector in the first quarter of the year, the latest figures show that the sector is expected to contract in output in 2025 by -0.1% and again by -0.1% in 2026. Employment does not share the same 'no-change' prognosis, as it is set to contract by -4.8% in 2025 but see a flatter contraction of -0.6% in 2026.

Rubber & Plastics

The **Rubber & Plastics** subsector contracted more in 2024 than previously estimated due to revisions in methodology. That revision sees that the sector contracted by -3.8% in terms of output in 2024. 2025 expects to see some of that lost output recovered in 2025, where growth is forecast to be 2.2%. However, that trend isn't expected to continue into 2026 where the output growth forecast is a flat -0.3% growth. Employment is forecast to decline significantly this year, and less so in the next. A decline in the subsector's workforce of -5.5% is forecast for this quarter, with a marginal growth of 0.1% in 2026.

Motor Vehicles (Automotive)

The **Motor Vehicles** subsector has seen its prospects for 2025 revised downwards, almost a doubling in the contraction in output expected for 2025 compared to last quarter's forecasting. A combination of tariffs and suppressed demand has led to uncertainty in production for the sector[3]. Following large output growth in 2024, by 9.3%, a lot of that ground is set to be conceded as output is forecasted to contract in 2025 by -7.1%. This is the second most negative output forecast out of all manufacturing subsectors this quarter. 2026's picture is softer, with only a further contraction in output by -1.1% forecast. Employment by comparison is forecast to be relatively stable, with only a reduction in the workforce by -1.4% in 2025 and marginal growth of 0.4% in 2026.

Other Transport

The **Other Transport** subsector which is comprised of aerospace, defence, shipping and rail industries sees flat prospects for its output trajectory but is set to grow its workforce. The latest forecasting shows that the subsector is expected to contract marginally by -0.2% this year, but grow in the next by 0.7% - a flat forecast when considered together. Employment, on the other hand, is set to grow significantly this year, by 4.4% in 2025 but contract by a lesser degree of -1.4% in 2026.

Sector growth rates and forecasts % change

	OUTPUT			EMPLOYMENT		
	2024	2025	2026	2024	2025	2026
Basic metals	-1.5	-9.5	-11.3	6.5	-5.5	-3.4
Metal products	3.8	-0.6	-0.5	-2.0	14.0	-0.3
Mechanical	-7.8	-0.5	0.2	-5.8	-5.0	-2.7
Electronics	-2.9	-0.5	-0.4	0.4	-6.6	-0.8
Electrical	-8.1	-1.9	1.6	-4.0	-6.3	3.8
Motor vehicles	9.3	-7.1	-1.1	-7.9	-1.4	0.4
Other transport	0.0	-0.2	0.7	3.4	4.4	-1.4
Food & drink	2.5	1.6	-0.1	1.7	-2.8	-1.8
Chemicals	-1.8	-0.1	-0.14	2.3	-4.8	-0.6
Pharmaceuticals	-1.9	-1.6	-0.6	-2.9	-2.0	0.8
Rubber and plastics	-3.8	2.2	-0.3	5.6	-5.5	0.1
Non-metallic minerals	-7.3	3.4	2.2	0.5	1.3	1.2
Paper and printing	-5.9	-3.4	-1.7	-3.1	-4.2	-4.1
Textiles	-6.6	3.5	-6.6	13.8	3.8	-5.1
Manufacturing	0.0	-0.2	-0.5	-0.3	-0.5	-1.1

Source: Make UK and Oxford Economics

[3] UK car making plunges to lowest for more than 70 years - BBC News

BDO Viewpoint

Net zero is driving an economy-wide transition

The UK's net zero transition is underway. Having already reduced territorial emissions by almost a half compared to 1990 levels, the UK government has committed to reduce emissions by 81% by 2035[1] and achieve net zero by 2050[2].

In parallel the country needs to accommodate a significant increase in demand for renewable energy – to enable the decarbonisation of transport, heating, and the manufacture of traditionally carbon-intensive products like steel, concrete and hydrogen. And the growth of AI, which the International Energy Agency forecasts could drive a doubling of global data centre energy demand by 2030[3].

For manufacturing businesses the net zero transition means two things:

- Decarbonising in line with national trends in order to remain competitive
- Managing climate and net-zero-related risks and opportunities.

The decarbonisation challenge

Understanding the optimal path to net zero requires a solid understanding of the carbon baseline, clear targets, and an evaluation of the options via forecast modelling.

Many business-to-business supply contracts now mandate a published commitment to net zero and/or a decarbonisation plan. But the wide range of activities, uncertain costs, and varying external dependencies can make it difficult to see a clear path. Modelling the potential costs and impacts can bring clarity.

Decarbonisation activities can be grouped into those which are:

- No/low-cost (do now)
- Invest-to-save (plan for), and
- Not yet commercially viable (monitor and engage).

Setting these out in a clear roadmap can create immediate value, signalling your ability to deliver and providing boards with the information they need to enact strategic investment or change programmes.

Managing risks and opportunities

This means taking a longer-term view, reflecting on how your strategy helps protect value in the context of climate-related risk, and being open to change direction. This could include, for example, taking measures to reduce exposure to flood-prone infrastructure, adapting product design or entering new markets.

The manufacturing sector is key to the net zero transition. The world needs green technology and the size of the market for these products is growing. By contrast products that are associated with conventional fossil fuel combustion may face decline. This will create winners and losers in manufacturing, but for some the opportunities for pivoting towards green products could be transformational.

Survey insights

Only half of respondents to our survey said they are confident in their ability to transition to net zero. That's perhaps not surprising – the shift to net zero requires a huge and complex set of changes. No organisation can achieve net zero alone; there are significant dependencies on infrastructure, government policy and supply chains. But respondents to our survey are attuned to the commercial imperative, with almost two-thirds reporting that they have reduced emissions in the last 2 years, 60% planning to invest in greenhouse gas reduction in the next 2 years, and almost 70% planning to reduce energy costs.

What should manufacturers do to respond to net zero?

1. Continually improve the quality of greenhouse gas emissions data
2. Develop decarbonisation targets and an action plan
3. Publish a commitment to net zero and a roadmap
4. Review climate-related risks and opportunities
5. Model the costs and impacts of decarbonisation activities in order to develop an optimised strategy.

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[1] https://www.gov.uk/government/publications/uks-2035-nationally-determined-contribution-ndc-emissions-reduction-target-under-the-paris-agreement/united-kingdom-of-great-britain-and-northern-irelands-2035-nationally-determined-contribution#:~:text=The%20target%20of%20net%20zero,that%20report%20in%20the%20Senedd
[2] https://www.theccc.org.uk/publication/the-seventh-carbon-budget/#:~:text=The%20UK%20has%20committed%20to,by%202050%20(Figure%201)
[3] https://www.iea.org/news/ai-is-set-to-drive-surging-electricity-demand-from-data-centres-while-offering-the-potential-to-transform-how-the-energy-sector-works

The Manufacturers' Organisation

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

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

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

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SN.FK.JB.16.06.2025