

# MANUFACTURING OUTLOOK

QUARTER 2 2026



With support from:



# Foreword



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Four years ago, British manufacturing suffered the worst energy market disruption seen for decades brought about by Russia's invasion of Ukraine.

At the time, soaring wholesale energy prices served to compound an already inflationary environment for British manufacturers, which saw the highest ever recorded balance figures for price-setting behaviour in Manufacturing Outlook's over thirty-year history.

To give a sense of the significance of this shock, the scale of this price-increasing activity in the industry was so severe that the economics team here at Make UK had to re-scale chart templates to accommodate the soaring data.

Now, years on, the sector finds itself in an all too familiar predicament, with energy once again a driving force of hardship. The combination of factors that brought such difficulty to the sector in 2022 are bemusingly similar to those today. A war in a country in which the UK is not a belligerent, the wholesale cost of energy rapidly rising and wider business cost increases despite little evidence of economic growth.

So what must manufacturers do? For better or for worse, the sector is now well-versed in industrial crises over the past decade, but it also means we have a stronger intuition than ever before of what will likely happen next.

We can already see in this edition of the report that the sector is cutting its investment plans. This serves to further fuel a pessimistic outlook right the way into 2027 where growth isn't even forecast to be in single digit territory.

Previously, when the sector has faced similar circumstances in the past decade, the first move has been to protect cash. This isn't limited to the curtailment of investment, it extends to hiring freezes, limited pay settlements, extraordinary price increases and production stoppages, amongst other cash-saving moves.

The data indicates that we're only seeing the start of these price increases. Despite the fastest increase in the rate of price setting behaviour since 2022, margins have moved into decline.

This is clear evidence of a situation where the cost of doing business is outpacing the sector's ability to pass through these costs, and because of that, we can expect to see continued subsequent increases in pricing as the sector looks to stabilise its faltering margins.

There are many policy levers that could be pulled to minimise the disruption to the sector and the wider UK economy, but there is no lever more immediate and critical than the one on energy. UK manufacturers already pay the highest industrial costs in the world. Global energy price shocks are exacerbating this problem. Now is the time for immediate action on industrial energy costs.

The evidence in this report reveals the incoming inflationary spiral the sector looks set to embark upon. Action to make sure UK industrial users pay a fair and commensurate price to what their peers are paying on the continent is now no longer just a question of competition, it's one of controlling inflation in the UK economy.

# Headlines

Make UK’s Q2 2026 *Manufacturing Outlook* report provides an overview of the current state of UK manufacturing.

The latest result of our quarterly survey indicates that industrial output has remained resilient despite persistent economic challenges. The previous iteration of our survey in Q1 recorded the economic activity of the manufacturing sector just prior to the beginning of the conflict in the Middle East. It was initially our expectation that industrial activity for Q2, which embeds the impact of the Middle East crisis into the survey responses, would lead to a deterioration in economic activity. Whilst there are indications of a downturn, particularly with confidence and export orders, the industry continues to demonstrate its ability to stay course regardless of the severity of market turbulence.

There are also indications of businesses boosting their stockpiles, exemplified by an output boost mirroring a decline in business optimism for the next 12 months. As economic conditions are considered tough today, if

businesses believe things could get worse it is logical to invest in security by ensuring access of critical inputs/ components. As such the balance for output increased from +21% to +26% indicating an overall acceleration in industrial production volumes in Q2. Manufacturers expect output volumes to increase further yet for the next quarter. The balance for total orders also reported at +18%, down from +21%. Despite the slowdown, the strong balance for orders indicates a strong pipeline of new work continues to flow into the sector. The marginal slowdown in orders performance is attributable to a sharp decline in export orders, in which the balance dropped from +18% to +8%. This is in effect the clearest indication of the combined impact of events in the Middle East, and US tariffs now being observed in the latest data. Though exports remain positive on balance, it has been on a slow downward trajectory since Q4 2025. In contrast, the balance for UK orders improved from +9% to +12%.

Indicator	Balance	Change	
<b>Confidence</b>	<b>6.0</b>	↓	Confidence remains positive but continues its downward trend
<b>Output</b>	<b>26%</b>	↑	Production volumes increase
<b>UK orders</b>	<b>12%</b>	↑	Domestic market activity picks up slightly
<b>Export orders</b>	<b>8%</b>	↓	Exports slow sharply
<b>Employment</b>	<b>15%</b>	↑	Recruitment activity picks up
<b>Investment</b>	<b>8%</b>	↓	Capital investment positive but slows sharply

Source: Make UK Manufacturing Outlook Survey

## Manufacturing Outlook

### Quarter 2 2026

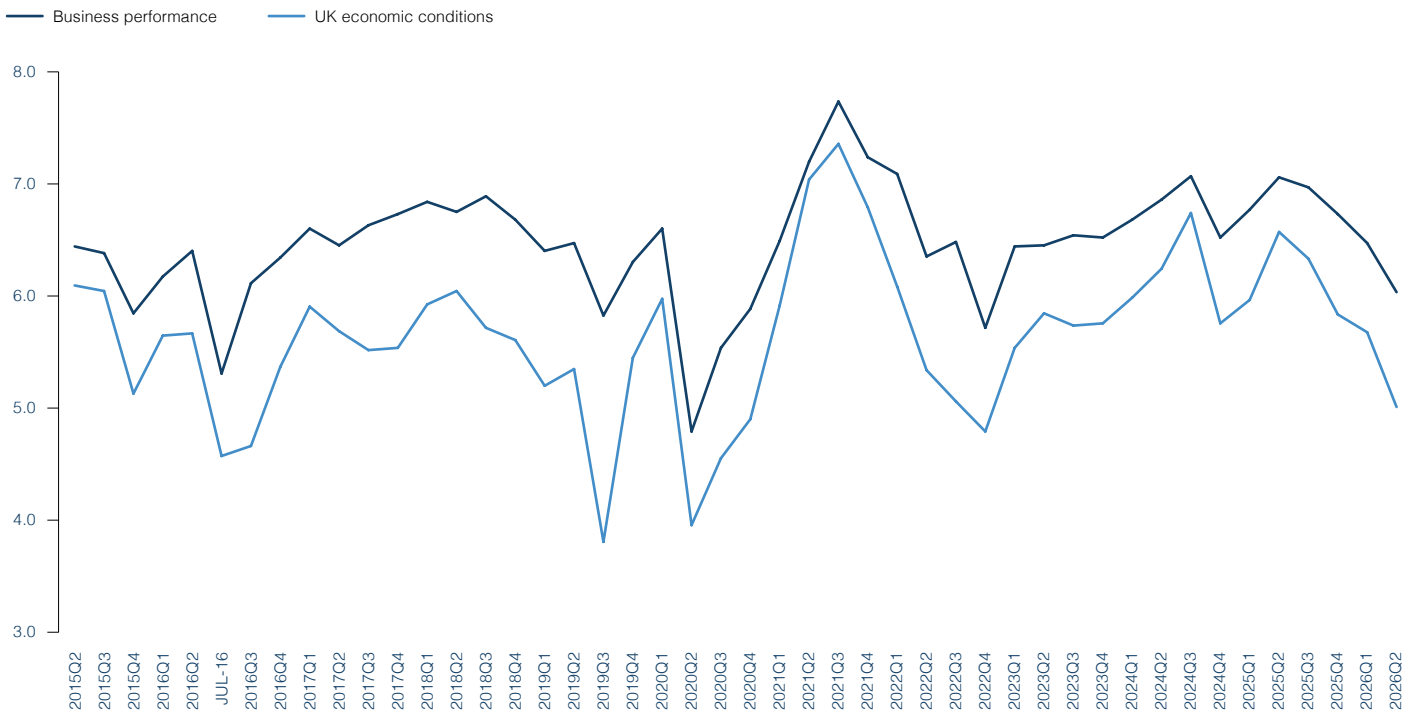
The balance for employment improved for its third successive quarter increasing from +8% to +15%. Despite wider economic data highlighting the sharp rise in unemployment in the economy, particularly amongst those that are under the age of 25, manufacturers continue to recruit. However, we cannot downplay the impact that rising labour costs from higher minimum wages, and the Employment Rights Act, is having on manufacturers. Manufacturers clearly show a strong desire to recruit but, in many cases, may be unable to do so at the levels they require. Make UK continue to receive reports that some manufacturers are also increasing redundancies to balance the total cost of labour on their balance sheets. Investment intentions remain positive as well, but has nosedived from +20%, to +8% indicating a substantial deterioration in wiliness to invest in capital.

The latest survey data indicates manufacturers are passing through cost inflation at a rate that is comparable to what was observed during the post-pandemic era, and the energy crisis of 2021/2022. At the same time, profit margins are worsening indicating that whilst businesses are passing through higher costs, they are likely not doing so at the rates they would prefer to due to competitive pressures.

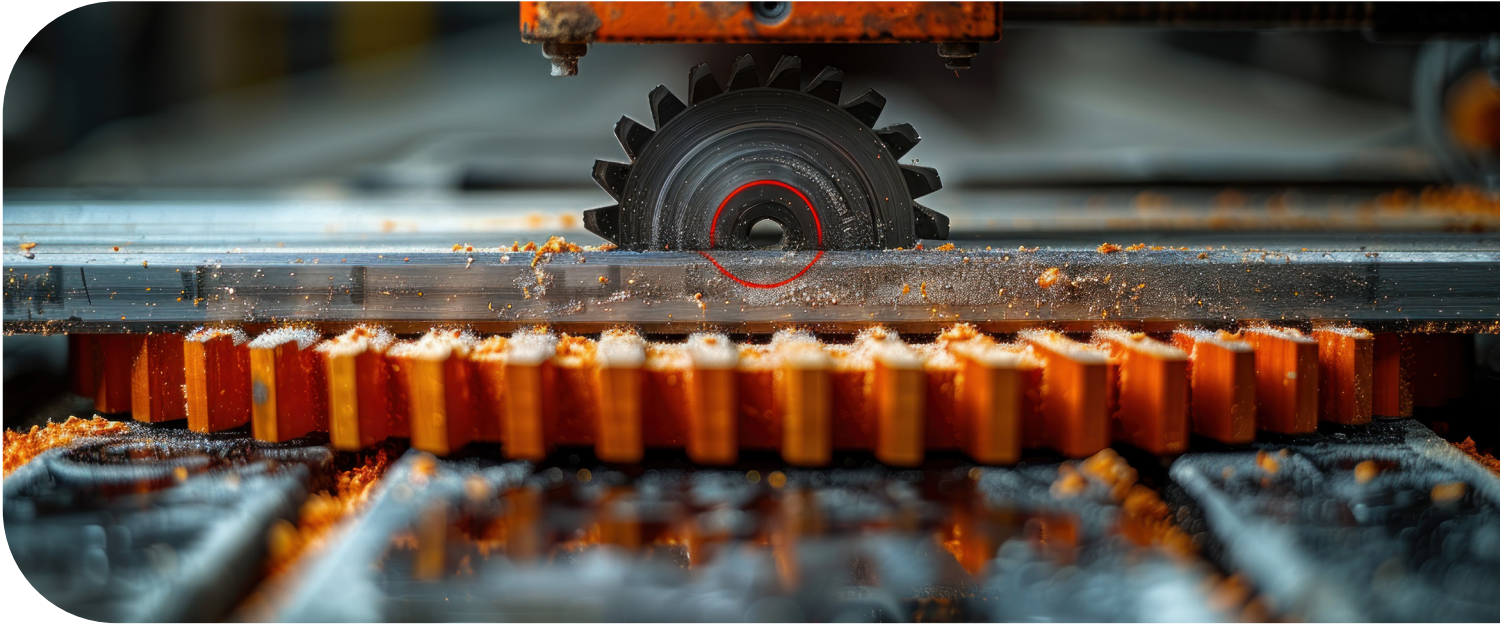
Business confidence remains positive; however, it has been moving in a negative direction since mid-2025 and is now at its lowest level since the end of 2022. The freefall of business optimism will likely impact investment and recruitment decisions going forward.

### Business confidence reaches lowest level since the end of 2022

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



Source: Make UK Manufacturing Outlook Survey



# Output

This quarter marks the third consecutive quarter of improvement in output growth for the sector, which is remarkable when set against the current mood music of the wider UK economy.

**PAST THREE MONTHS**

**↑ 26%**

**NEXT THREE MONTHS**

**↑ 38%**

There is much debate whether this is sector stockpiling in anticipation of further disruptions being brought about by ongoing geopolitical turmoil, but nevertheless, even if this were to be the case, the data remains robust for the time being. So far, output in 2026 editions of *Manufacturing Outlook* is significantly improved compared to its performance over the same period in 2025.

The output balance figure for this quarter reported at +26%, a five-point improvement from the +21% figure that was reported in the first quarter of the year. This quarter marks the first time since early 2023 that we have observed two consecutive quarters of output balance figure performance that has exceeded the +20% mark.

Despite an inflationary backdrop and a manufacturing business environment that sees receding confidence, all company size categories have reported positive output balance figures, albeit the smallest turnover band saw the smallest degree of output positivity, with a balance figure for this band of a lesser +17%.

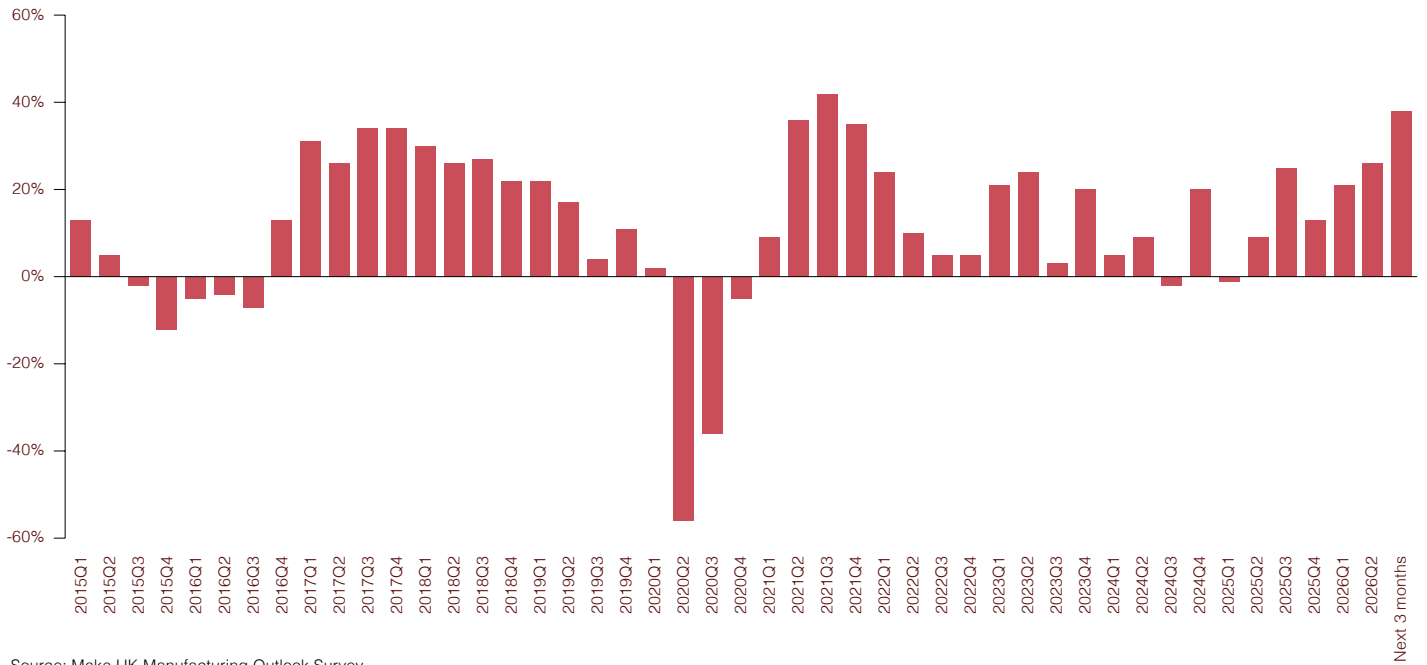
Even though costs have been steadily increasing, in no small part due to the knock-on effects of the conflict in Iran, output, and orders, have remained resilient to its effects. As of the previous edition of this report, we had expected to see the impacts of disruption in the Middle East weigh more heavily on these core metrics in this quarter. While their effects have emerged quite strongly in other metrics, such as is seen in prices and investment, they have yet to overtly dent the trajectories of output and orders.

Performance this quarter for output, as positive as it is, actually came in under the optimistic expectations that the industry set in the previous quarter, which were as lofty as ~+36%. The optimism in future output performance is here again, with the sector setting a future 3-month output balance figure expectation of +38%, even higher than the previous quarter's already elevated figure. For reference, the highest quarterly balance figure seen for output was in the third quarter of 2021, at which time it was +42%, observed during the post-pandemic bounce back period.

## Manufacturing Outlook

Quarter 2 2026

### Output volumes continue to improve despite weakening confidence % 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%	75%
Metal Products	18%	38%
Mechanical	29%	46%
Electronics	100%	67%
Electrical	42%	32%
Rubber & Plastics	-13%	25%
<b>TURNOVER</b>		
£0-9m	17%	30%
£10-24m	37%	31%
£25m and over	21%	36%

\*insufficient sample

Source: Make UK Manufacturing Outlook Survey



# Orders

The latest balance for total orders growth reduced from +21% to +18%, meaning that across the survey sample there has been a slight decrease in the share of companies reporting an increase in total orders.

However, as the balance remains largely positive, it also indicates that demand conditions remain strong in the UK for manufacturers. This is surprising given this survey period captures the full weight of the impact of supply-chain disruption due to events in the Middle East, particularly the spike in oil and gas prices, which many expected would lead to a deterioration in economic activity. As we reach the halfway point of the year, our survey demonstrates that the manufacturing sector continues to show resilience in difficult times.

The newest reporting of order books performance confirms four back-to-back quarters of growth for total orders. Despite a plethora of challenges including the impact

of US tariffs on specific industries, higher energy prices due to a reduction in oil & gas supplies, and higher taxes domestically, manufacturers continue to grow. However, as other surveys suggest it is also possible that the strong balances for output and orders may be an anxiety driven behaviour with some businesses boosting their stockpiles to get ahead of future disruption. This can lead to an aggregate experience that appears like growth but can often be followed by a period of low growth.

Nevertheless, manufacturers positively expect their order books to improve in the next quarter. If manufacturers expectations come to pass, it would mean the industry will spend most of its time this year in growth.

<b>UK ORDERS</b>	<b>PAST THREE MONTHS</b> ↑ 12%	<b>NEXT THREE MONTHS</b> ↑ 25%
<b>EXPORT ORDERS</b>	<b>PAST THREE MONTHS</b> ↓ 8%	<b>NEXT THREE MONTHS</b> ↑ 20%
<b>TOTAL ORDERS</b>	<b>PAST THREE MONTHS</b> ↓ 18%	<b>NEXT THREE MONTHS</b> ↑ 31%

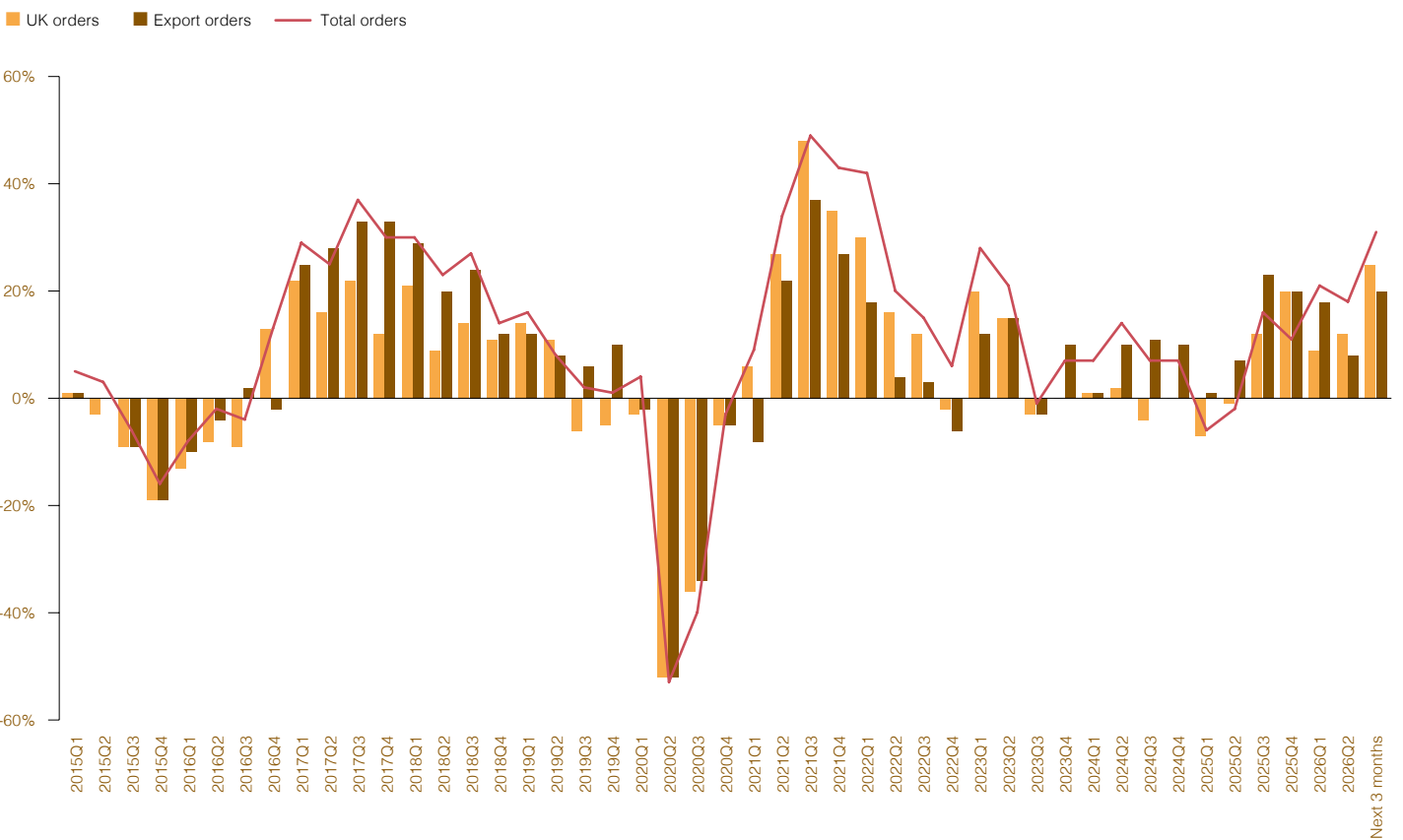
**UK Orders**

The balance for UK orders improved on last quarter, reporting at +12%, up from +9%. This boost to domestic pipelines for new work is somewhat surprising given for much of 2024 and 2025 UK orders struggled to match the performance of its counterpart, export orders.

The improvement in UK is primarily led by industries such as Electronics, which may also reflect the shortage of semi-

conductor chips following the massive increase in demand for modern technologies. Across many of the subsectors that represent production of intermediate goods, the balance for UK orders is very positive, except for Electrical Equipment which reported a balance of 0%. Looking ahead, the only industry of the intermediate goods subsectors that expects to receive fewer domestic orders is Rubber & Plastics, which is an industry that is closely linked to construction.

**Export weakness impacts total orders % balance of change in orders**



Source: Make UK Manufacturing Outlook Survey



## Manufacturing Outlook

Quarter 2 2026

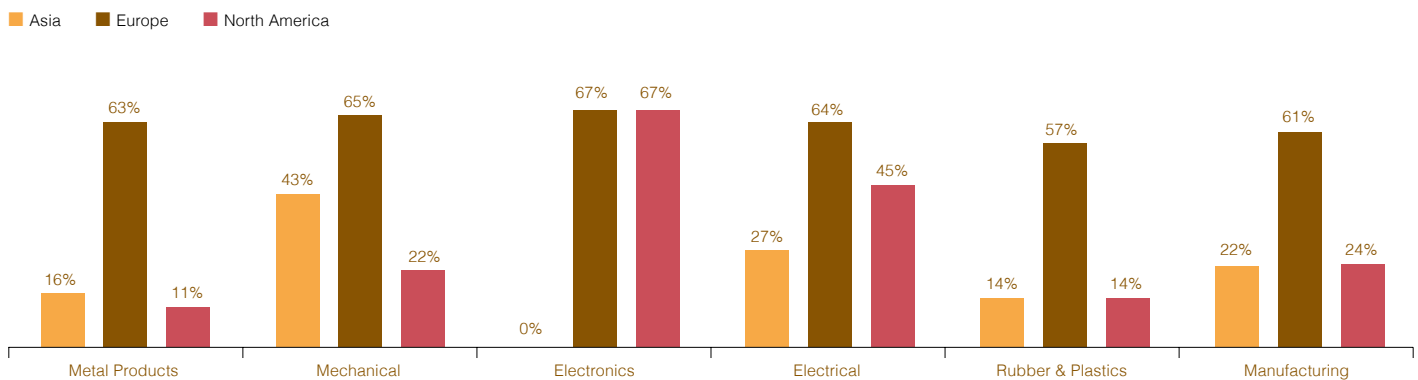
### Export Orders

Export orders reported a balance of +8%, down from +18%. This is a sharp slowdown in the balance of businesses reporting better international trading conditions. It is worrying that export performance has been deteriorating slowly since the third quarter of 2025, with positive balances getting smaller with each iteration of our quarterly survey. This may indicate a delayed impact of international trade disruption, with the main one caused by US tariffs. In addition, the recent impact of the conflict in the Middle East may have exacerbated the slowdown in export orders. For the time being, the survey indicates on balance exports improved, however caution is advised when considering the future trajectory of export performance.

The regions of the world where manufacturers are reporting the strongest demand conditions maintain their typical hierarchy. Europe remains dominant with 61% of manufacturers reporting positive demand conditions, whilst North American and Asia place in their usual second and third spots. Though we normally only report the top three regions, the Middle East usually falls close behind Asia as a major source of demand for UK manufacturers. Whilst that remains the case even now, the percentage share of manufacturers reporting positive demand from the region dropped from 17% in 2026 Q1 to 11% in Q2. This is a sharp drop from the typical level.

### Demand from Europe increases as trade with the Middle East slows

% of companies reporting positive demand conditions by market



Source: Make UK Manufacturing Outlook Survey

### Orders Summary % balance of change

Sector	UK ORDERS		EXPORT ORDERS		TOTAL ORDERS	
	Past three months	Next three months	Past three months	Next three months	Past three months	Next three months
Basic Metal*	75%	50%	-25%	50%	25%	25%
Metal Products	15%	29%	11%	7%	6%	29%
Mechanical	22%	29%	28%	35%	43%	40%
Electronics	100%	67%	100%	67%	100%	67%
Electrical	0%	0%	7%	21%	0%	16%
Rubber & Plastics	13%	-25%	14%	-14%	13%	-13%
<b>TURNOVER</b>						
£0-9m	11%	22%	17%	28%	13%	24%
£10-24m	25%	25%	0%	15%	31%	35%
£25m and over	0%	13%	16%	13%	15%	16%

\*insufficient sample

Source: Make UK Manufacturing Outlook Survey



# Employment & Investment

Following single-digit quarterly performance for the past two quarters, this edition of Manufacturing Outlook reports a boost in employment activity in the sector. It is only the second time since the start of 2024 that the sector has reported a positive double digit balance figure for employment.

Despite this recent positive performance, the outlook for continued employment growth remains albeit softened. More notable, however, is the significant drop in investment intentions for the coming year, following almost a full year of strong investment sentiment.

The employment balance figure this quarter reported at +15%, just shy of doubling the previous quarter's +8%. For the past two quarters, the scale of the balance figure has approximately doubled to where it is now, leaving it at similar levels to what was observed in the third quarter of 2025. Given other findings in this edition of Manufacturing Outlook, namely those seen in prices and margins, it is thought that employment activity may retreat in the coming months if further pressure is placed on cashflow.

The positivity seen in employment comes against a backdrop of an increasingly difficult environment for hiring, both across costs, through the increases to employer NICs, and through compliance, through enhanced labour protections coming from the Employment Rights Act. Despite these drags on employment, the sector is, on balance, growing its workforce, yet just how long this trajectory will continue becomes increasingly uncertain.

The industry's own future 3-month expectation is for an employment balance figure of +11%, which is quite possibly optimistic given the aforementioned combination of challenges. Nevertheless, this labour market confidence is a sign of resilience for the sector where other areas of business confidence are markedly less rosy.

As of April 2026, there were 51,000 live vacancies in the UK's manufacturing sector, a decrease from the 52,000 that were reported in the previous quarter's edition of this report. As a ratio, that is for every hundred jobs in the sector, 2.2 are vacant, up from 2.1 in last quarter's report.

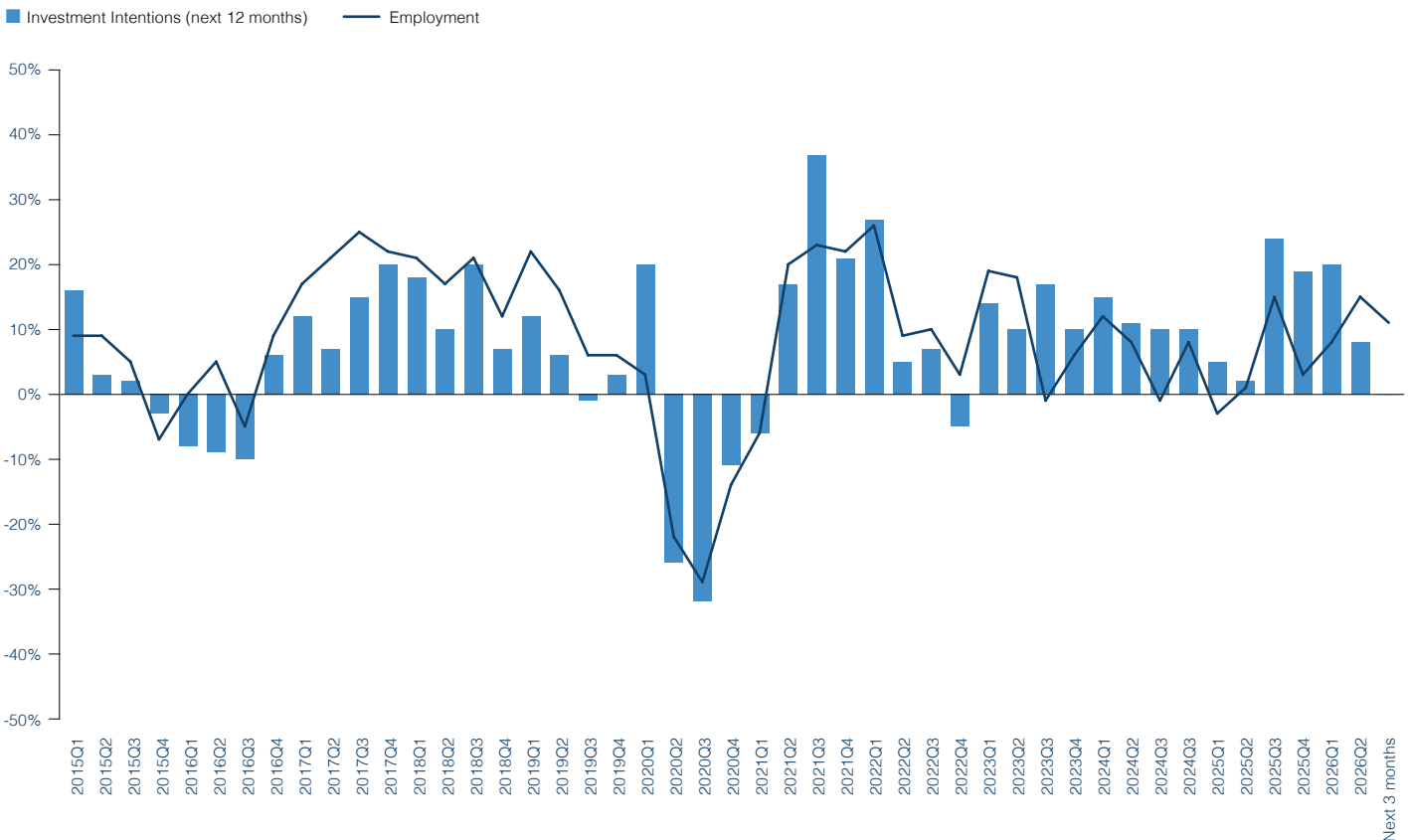
The vacancy ratio data for the sector dates back to 2001, and the long-run average for the ratio, pre-pandemic (i.e. 2021), stands at approximately 1.8. Since the peak of 4.0 in late 2022, this ratio has been steadily reducing, albeit over a long period of time. We had previously reported at the end of last year that the vacancy ratio had fallen as low as 1.9, almost returning to its long run average position. However, revisions to ONS statistics now show that the lowest it has fallen over the same period is now 2.0. There is now a slight trend upwards away from that long-term baseline.

<b>EMPLOYMENT</b>	<b>PAST THREE MONTHS</b>	<b>↑ 15%</b>	<b>NEXT THREE MONTHS</b>	<b>↓ 11%</b>
<b>INVESTMENT</b>	<b>NEXT TWELVE MONTHS</b>	<b>↓ 8%</b>		

The Investment intentions metric, which measures the sector's intention to invest over the coming 12 months, has suffered a significant decline. Having been perhaps the most heartening metric emerging from this research over the past year due to its elevated level, it would seem the challenges of the business environment have now come to bear on the sector's investment prospects for the year ahead. Even during the positivity observed in the metric over the past year, it had surprised analysts given the wider mood music of the sector and the UK economy that investment sentiment had remained so resilient.

This sudden drop in investment intentions will be predominately ascribable to the significant shifts in the prices and margins dichotomy, which show that the sector is struggling to pass through input cost increases at a rate sufficient to preserve margins, ultimately eroding the sector's aggregate liquidity. There is little doubt that this vulnerable cash position is hampering investment expenditure plans for the future. That, combined with the likely increase in the cost of borrowing over the coming year will weigh on any potential recovery of these intentions over the coming quarters.

**Businesses pull back on investment whilst accelerating recruitment** % balance of change



Source: Make UK Manufacturing Outlook survey

**Employment and Investment summary** % balance of change

Sector	EMPLOYMENT		INVESTMENT
	Past three months	Next three months	Next twelve months
Basic Metals*	0%	50%	0%
Metal Products	9%	13%	18%
Mechanical	24%	20%	8%
Electronics	33%	33%	0%
Electrical	0%	-11%	5%
Rubber & Plastics	13%	-13%	13%
<b>TURNOVER</b>			
£0-9m	6%	13%	7%
£10-24m	12%	19%	12%
£25m and over	-5%	3%	7%

\*insufficient sample

Source: Make UK Manufacturing Outlook Survey





# Prices & Margins

This is the second consecutive quarter of increased price setting behaviour against a cooling trend for the three years prior. The changes in pricing expectations are perhaps the most consequential finding of this quarter's edition of *Manufacturing Outlook*. Not only has price setting behaviour been elevated this quarter, but margins have seen decline over the same period, creating worrying conditions for the sector's liquidity.

A greater proportion of the industry have increased domestic prices this quarter when compared to the previous. The latest UK prices balance figure reported at +36%, an increase on the +31% reported last quarter. As was the case last quarter, this is the highest balance figure for UK prices since the middle of 2023, seen during the combined effects of the post-pandemic recovery period and the first energy crisis associated with the invasion of Ukraine.

The export price setting balance figure reported at +29%, which is a slight reduction on the previous quarter's figure of +34%. Despite a small relative slowdown, a brief look at Chart 6 will show that the relative intensity of this figure is still significant.

It's the interaction between prices and margins in this quarter which brings the greatest cause for concern for the sector. UK margins reported at -15% this quarter, and export margins at -6%. This is a drop compared to last quarter, where they reported at -6% and +4% respectively. This notable drop in margins, while at the same time the prices

balance figure remains elevated and is growing, points to a situation where the sector is not sufficiently passing on the increases in their costs of production to their customers at a rate sufficient to protect margins. In turn, this will inevitably erode manufacturer's liquidity.

Future 3-month expectations see price setting behaviour continue to increase, with the UK prices balance figure expected to report at +39%, and export prices at +42%. UK margins are expected to report at -11% and export margins at -8%. The small slice of reassuring news here is that even though prices are set to increase again, the sector does not think margins will continue to decline at a commensurate rate.

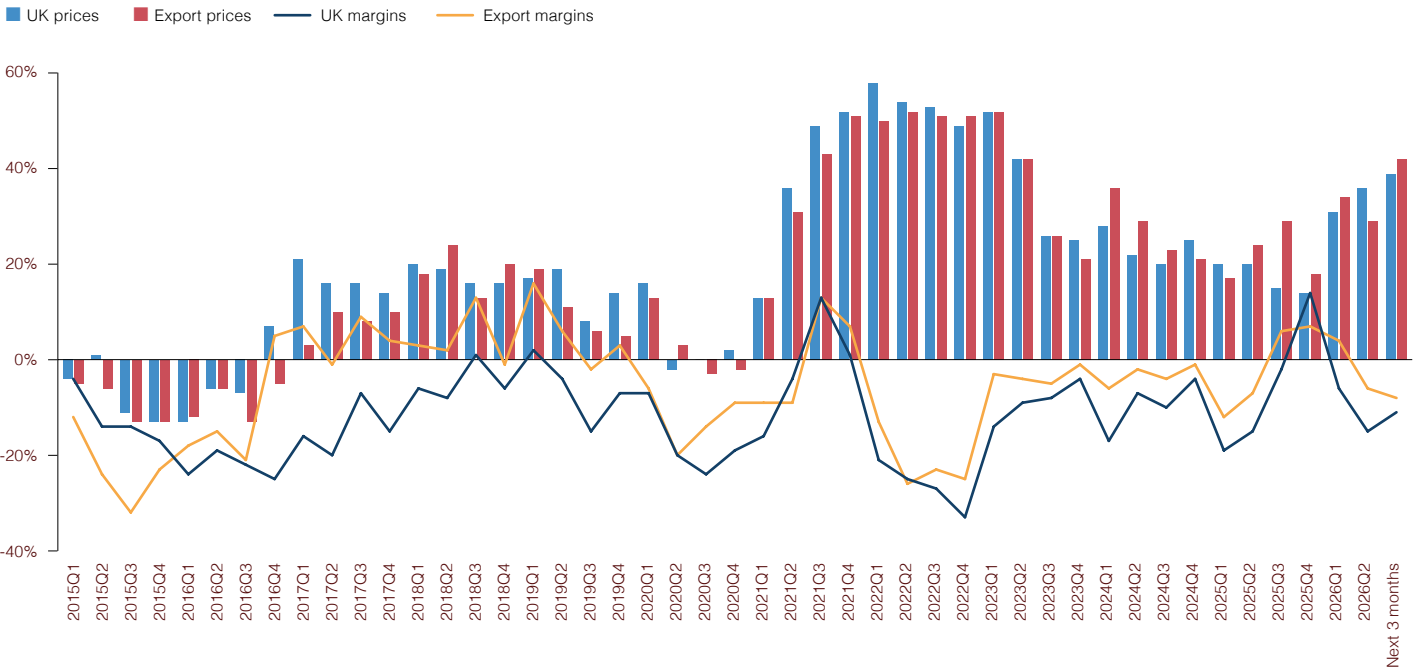
The latest ONS Producer Price Inflation<sup>1</sup> (PPI) rose by 7.7% in the year to April, up from 5.3% reported in March. This, combined with our Manufacturing Outlook data, indicates that there is a swift and significant build-up of supply-side inflation happening within the UK production industry.

<sup>1</sup>Producer price inflation, UK - Office for National Statistics

# Manufacturing Outlook

## Quarter 2 2026

### Manufacturers are passing through cost inflation, but margins are getting worse % balance of change

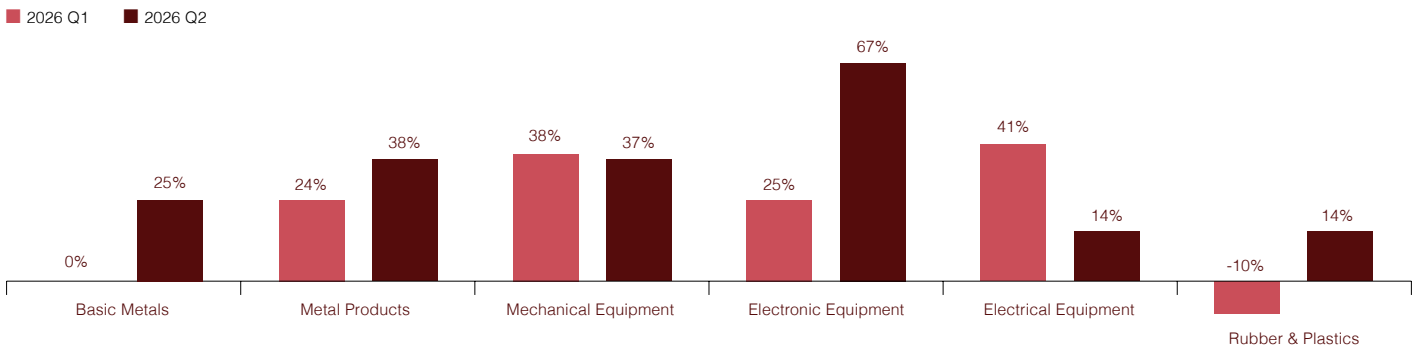


Source: Make UK Manufacturing Outlook Survey

<b>UK PRICES</b>	<b>PAST THREE MONTHS</b>	<b>↑ 36%</b>	<b>NEXT THREE MONTHS</b>	<b>↑ 39%</b>
<b>EXPORT PRICES</b>	<b>PAST THREE MONTHS</b>	<b>↑ 29%</b>	<b>NEXT THREE MONTHS</b>	<b>↑ 42%</b>
<b>UK MARGINS</b>	<b>PAST THREE MONTHS</b>	<b>↓ -15%</b>	<b>NEXT THREE MONTHS</b>	<b>↓ -6%</b>
<b>EXPORT MARGINS</b>	<b>PAST THREE MONTHS</b>	<b>↓ -11%</b>	<b>NEXT THREE MONTHS</b>	<b>↓ -8%</b>

### Export prices continue to rise for electronics amidst chip shortages

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



Source: Make UK Manufacturing Outlook Survey



# National & Regional

Manufacturers across the UK remain largely optimistic about their prospects, with most regions and nations reporting above the inflection point (i.e. 5) on the scale. However, it is also evident that over time, some parts of the UK have been slowly downgrading their expectations, indicating that business sentiment is snowballing on a downhill path.

This is certainly the case for the national metrics, which has been declining every quarter since Q3 2024. Though it remains within positive territory, both business confidence and UK economy confidence has reached their lowest levels in two years. If this path continues then it is feasible that confidence will eventually turn negative unless external forces markedly change the outlook for businesses. However, many manufacturers are worried about the challenges of rising energy and labour costs in the UK, whilst geopolitical instability is adding to supply-chain disruptions and the cost of inputs.

It is relatively surprising that many regions and nations, except for the East of England, have maintained a positive outlook on the business environment. This is a meaningful sign of the resilience in the industry which has grown accustomed to economic chaos, and the optimistic nature of owner/managers in manufacturing businesses.

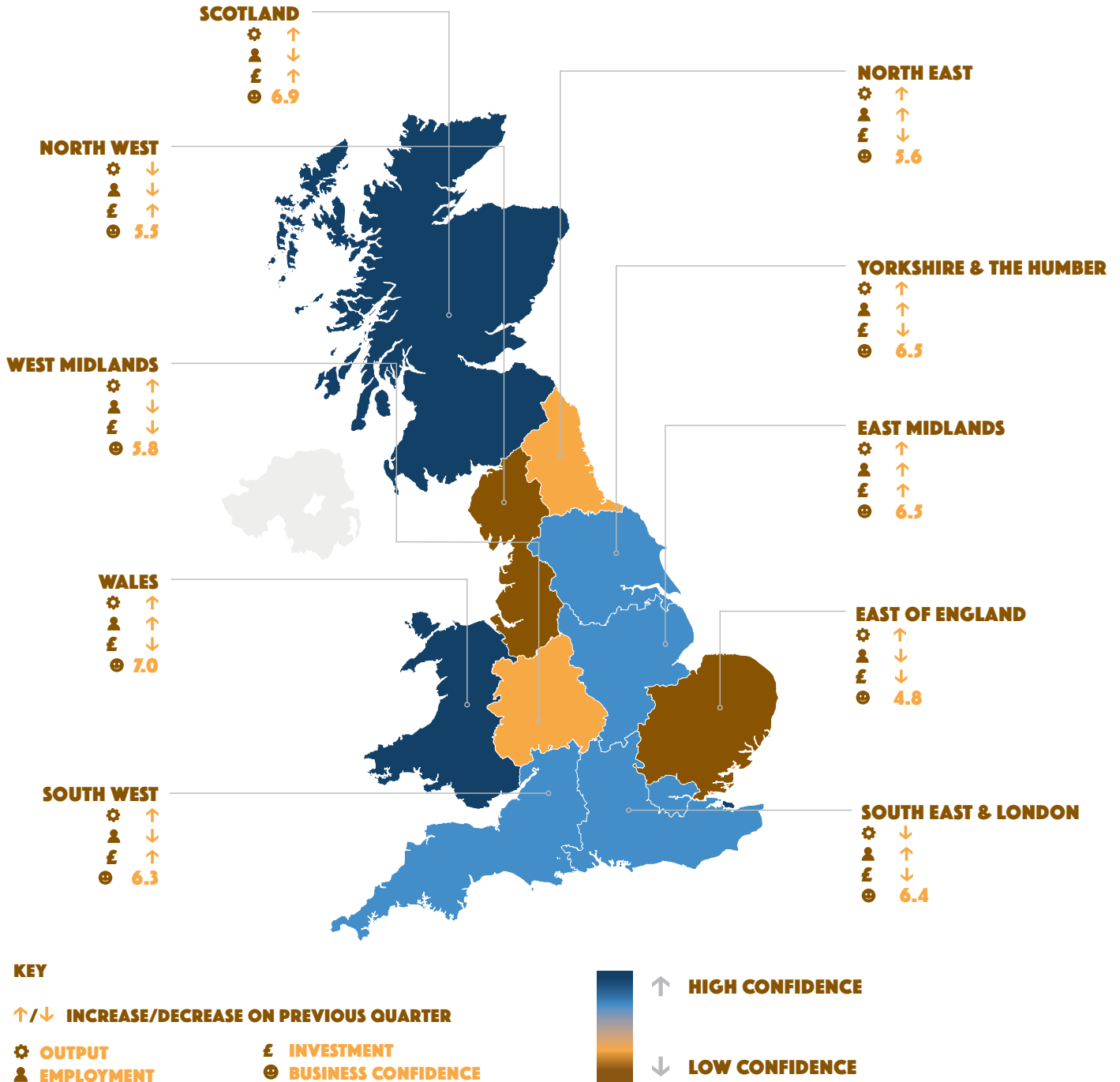
Headline business confidence reported at 6.0, down from 6.5.

For the first time in several years, not all parts of the UK have reported above the '5' inflection point. Somewhat

unexpectedly, the East of England reported a 4.8 on the scale, which means on average the manufacturing business population in this region is slightly more negative about future business conditions. In comparison to last quarter, this region also reported the largest decline in business confidence (by -1.2). Six parts of the UK reported higher confidence levels than the national average, these are Wales (7.0), Scotland (6.9), Yorkshire & the Humber (6.5), East Midlands (6.5), South East and London (6.4) and the South West (6.3).

The remaining four regions (not including Northern Ireland) reported below the national average. This also indicates a larger disparity in confidence levels between regions than previously observed. In the last several quarters the variation between the national average and region-specific confidence levels were historically low. The higher variation in confidence between regions and nations may reflect the disproportionate impact on dominant industries in regions, for example the West Midlands reported the largest decline in UK economy confidence this quarter. This region is home to many manufacturers in the automotive, machinery, and metals sectors, which have faced the most significant disruption from US tariffs and higher energy prices.

Boosts in activity in most regions



UK economy confidence

Manufacturers' confidence in the overall UK economy reported at 5.0, a sharp drop from 5.7. This suggests that manufacturer's general opinion on the strength of the UK economy has deteriorated substantially since Q1. This is not unexpected given major bodies such as the IMF have publicly downgraded expectations for

UK GDP considering recent geopolitical disruption. Within the UK, six different regions or nations have reported their UK economy confidence at below '5' indicating that manufacturers in these areas expect economic conditions to get worse in the next 12 months.

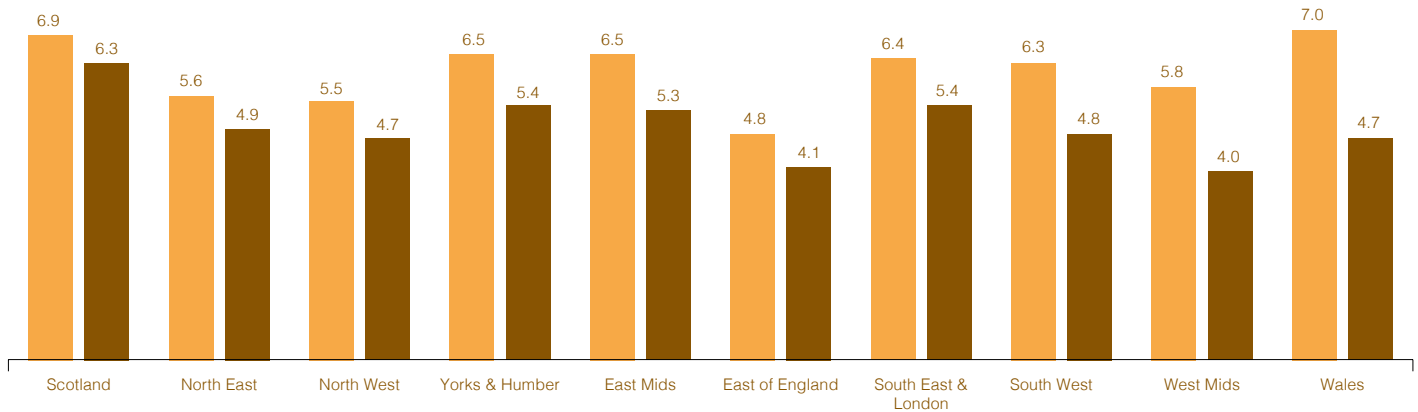
## Manufacturing Outlook

Quarter 2 2026

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

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

Business UK Economy



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	15	39	10	28	-2	18
North East	14	29	29	29	29	14
North West	17	29	0	-6	0	-6
Yorks & Humber	11	24	11	28	-6	33
East Mids	20	27	0	7	20	0
East of England	7	15	7	7	-7	0
South East & London	44	34	34	31	19	13
South West	33	20	27	33	27	20
West Mids	33	26	29	25	-11	-7
Wales	33	33	100	67	33	0

Source: Make UK Manufacturing Outlook Survey



# Economic Environment

The first half of 2026 has certainly been defined by surprise and volatility. Economic growth has remained modest, inflationary pressures have proven more persistent than expected, and geopolitical developments have once again become a significant consideration for manufacturers.

The US-Iran war began at the end of February, which has meant significant upheavals for manufacturers, mainly impacting energy prices and global shipping times. While the UK economy has managed to avoid a more pronounced slowdown, businesses continue to operate in an environment where cost pressures remain elevated and confidence remains fragile.

The UK economy entered the second quarter of 2026 with a stronger-than-expected performance. GDP growth has been steadily increasing since the end of 2025, and has continued despite major conflict in the Middle East. Despite this, the IMF have adjusted their forecasts for the UK's GDP growth through 2026, as the pre-war expected growth of 1.3% has been downgraded to 0.8%<sup>2</sup>.

Inflation remains an important consideration for both policymakers and manufacturers. Headline inflation of 3% has eased significantly from the highs of 2022 but remains above the Bank of England's long-term target of 2%. Additionally, upstream inflation has increased by 2.4%, slowing down from previous expectations but surpassing market expectations. This will take some time to filter into consumer prices, but will be felt if not managed through appropriate fiscal interventions. Businesses continue to report challenges associated with labour costs, energy prices and imported inputs.

For manufacturers, the economic picture remains mixed. The manufacturing sector output has modestly grown month on month since December 2025. Output expectations continue to vary significantly across subsectors, reflecting differing exposure to energy costs, consumer demand, investment cycles and global trade conditions. Technology-focused sectors continue to demonstrate resilience, supported by long-term investment trends and demand for advanced products. By contrast, energy-intensive industries remain under pressure from elevated operating costs and challenging international market conditions.

One of the most significant themes emerging across manufacturing is the divergence between output and employment growth. While output is expected to increase modestly across the sector overall, employment continues to contract. This pattern is evident across a number of subsectors and may suggest increased investment in automation, digitalisation and process improvements to substitute for expensive labour. Rising labour costs following increases to employer National Insurance Contributions and National Living Wage rates have further reinforced these trends.

Energy costs remain a key concern across all manufacturing subsectors. The Iran war has increased uncertainty surrounding global energy markets and supply chains,

<sup>2</sup>World Economic Outlook (April 2026) - Real GDP growth

contributing to renewed concerns regarding industrial competitiveness.

Policy developments continue to provide some support for longer-term manufacturing investment. For example, AstraZeneca's £300m investment across its Cambridge and Cheshire sites is a promising development, propelled by the pharmaceutical deal struck between the UK and US in December 2025, increasing investment for new medicines<sup>3</sup>. The CAM Pathfinder programme is investing £150m into the UK's connected and automated mobility (CAM) industry and is being delivered by DBT in collaboration with Innovate UK and Zenic<sup>4</sup>. The Transport Secretary has promised to end the "era of neglect" clouding HS2 plans and has convened with the team that delivered the Elizabeth Line to set out new costs and timeframes for the project<sup>5</sup>.

Internationally, economic growth remains uneven. Across major international economies, GDP growth forecasts have been revised to show slightly slower growth than expected. The United States continues to outperform many advanced

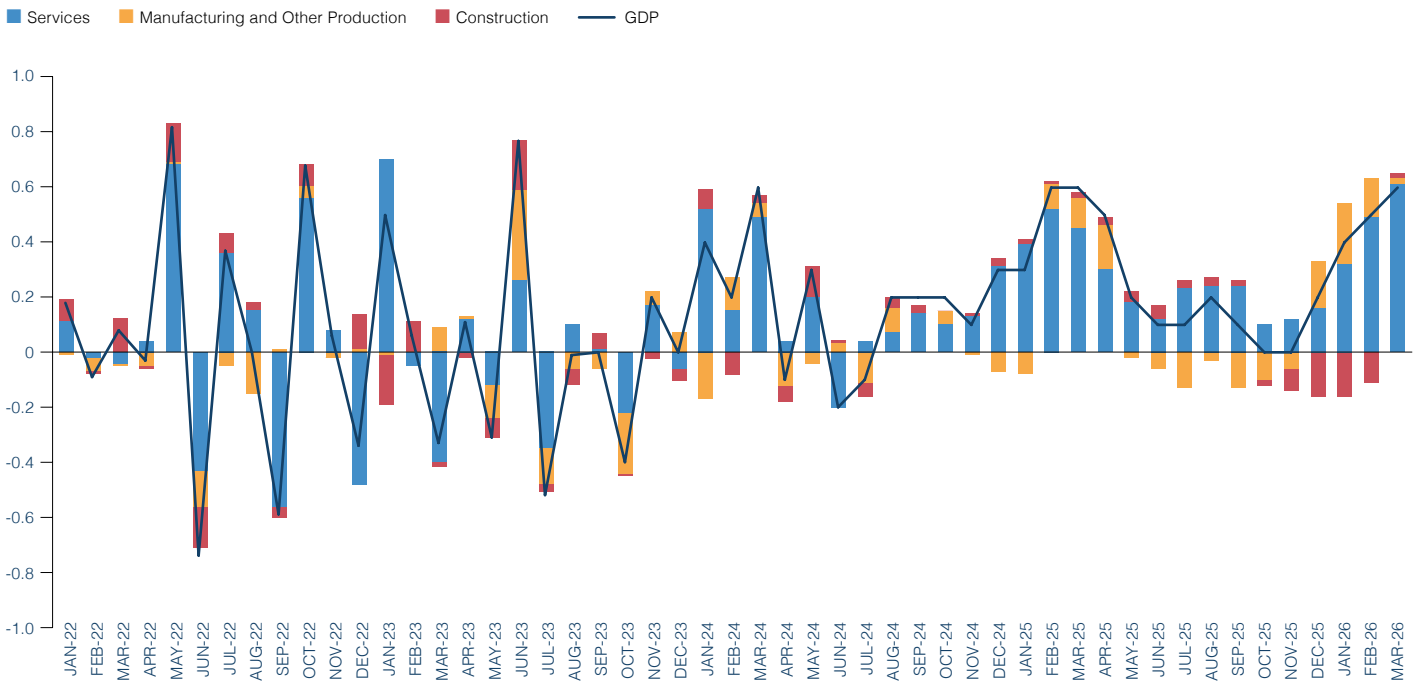
economies, supported by resilient domestic demand and ongoing investment in technology and advanced manufacturing. Growth across the Eurozone remains weaker, while China's economy continues its upward trend as expected, and India remains one of the fastest-growing major economies globally.

International trade between the UK and other economies is signalling new opportunities following the Free Trade Agreement (FTA) with the Gulf Cooperation Council, which is estimated to boost the UK economy by £3.7 billion<sup>6</sup>. In addition to this, the Joint Statement and Common Understanding between the UK and EU points towards new commitments to cooperating across a range of policy areas<sup>7</sup>.

Overall, the economic environment remains one of gradual expansion rather than strong growth. The outlook for the remainder of 2026 remains cautiously positive, though growth is expected to remain uneven across sectors and heavily dependent on developments in the global economy.

### GDP growth led by services and production activity mainly since the start of the year

Contributions to monthly GDP, percentage points, January 2022 to March 2026



Source: ONS

<sup>3</sup>What does AstraZeneca's £300m pledge for UK mean for Cambridge? - BBC News

<sup>4</sup>CAM Pathfinder - Zenic

<sup>5</sup>Transport Secretary ends 'era of neglect' on HS2 with thorough reset - GOV.UK

<sup>6</sup>UK-Gulf Cooperation Council (GCC) trade deal: conclusion summary - GOV.UK

<sup>7</sup>The UK-EU reset: Next steps after the May 2025 summit - House of Commons Library

## Manufacturing Outlook

Quarter 2 2026

### UK Economic Forecasts % change except where stated

	2025	2026	2027
<b>Trading environment</b>			
Exchange rate (€/£)	1.2	1.3	1.3
Exchange rate (\$/£)	1.4	1.1	1.1
Exports	2.1	0.4	0.5
Imports	4.2	0.1	-0.3
Current account (% GDP)	-2.9	-3.8	-3.2
<b>Output</b>			
Manufacturing	-0.2	0.4	0.1
GDP	1.3	0.7	0.7
<b>Costs and prices</b>			
Average earnings	4.8	3.8	3.5
Oil price (Brent Oil \$/bl)	69.1	91.6	70.2
<b>Employment</b>			
Manufacturing (000s)	2525	2475	2423
Rest of economy (000s)	36702	34179	34330
Unemployment rate (%)	4.8	4.7	5.0

Source: Oxford Economics and Make UK

### International Economic Forecasts % change

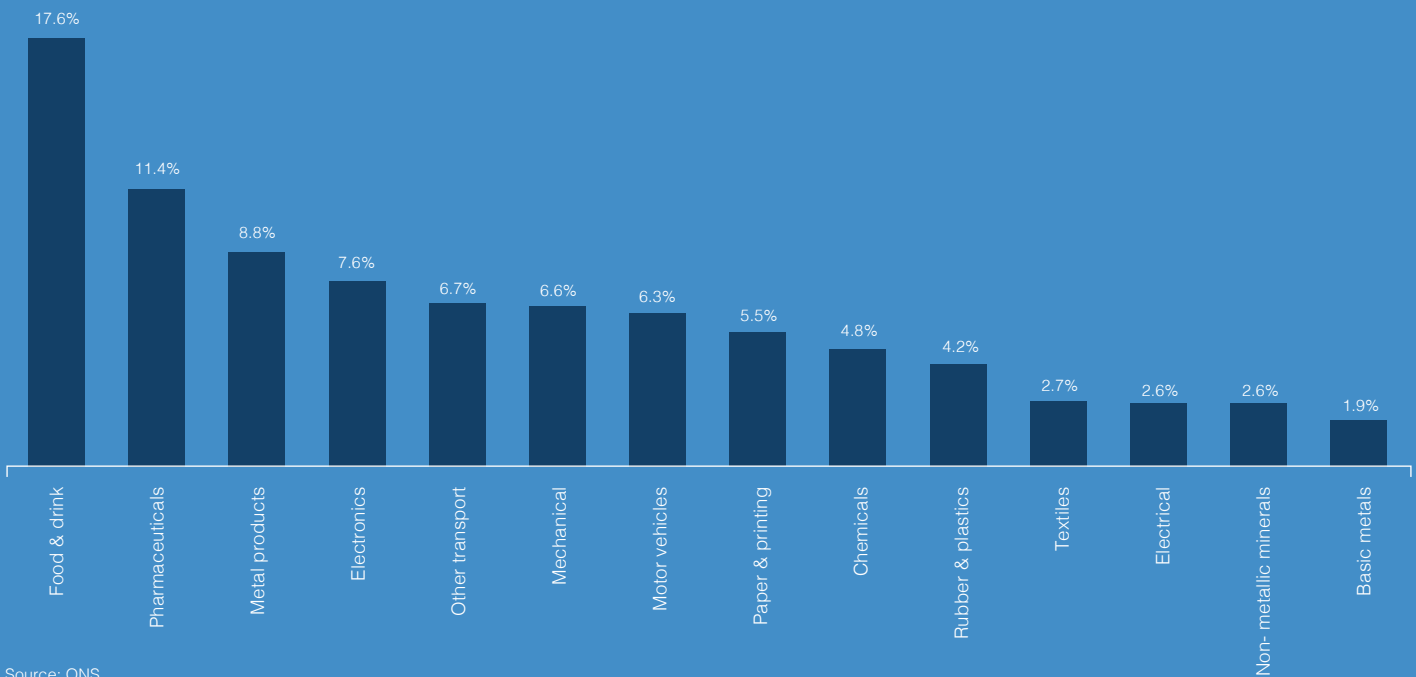
	GDP			INFLATION		
	2025	2026	2027	2025	2026	2027
US	2.1	2.2	2.6	2.7	3.4	2.5
Eurozone	1.5	0.7	1.4	2.1	3.0	2.1
France	0.9	0.6	0.8	0.9	2.5	1.9
Germany	0.3	0.4	1.6	2.2	2.9	2.4
Japan	1.2	0.3	0.6	3.2	2.6	2.6
China	5.0	4.7	4.1	0.0	1.6	1.5
India	7.5	6.2	6.8	2.2	5.1	5.1
World (US\$ weighted)	3.0	2.5	3.0	3.8	4.0	3.3

Source: Oxford Economics

# Sector Forecasting 2026 Q2

## Q1 2026 Manufacturing Sector composition by GVA

Subsector share of Manufacturing Gross Value Added



Source: ONS

The **manufacturing sector average** output is expected to increase modestly by 0.4%, albeit this is a downgrade from our previous forecast, while employment is forecast to decline by -2.1%. The outlook remains mixed across subsectors, as energy-intensive industries face ongoing cost pressures. A common theme across subsectors is the divergence between output and employment, suggesting that firms continue to prioritise productivity improvements, automation and operational efficiency in response to higher labour and operating costs.

### Food & Drink

The **Food & Drink** subsector is the UK's largest manufacturing subsector. Despite this, output is expected to decrease slightly compared to the last quarter, by -0.5%. This performance is weaker than the sector average. Across the manufacturing sector, output is expected to increase slightly by 0.4%. As a consumer-facing sector, this performance may reflect continued caution in household spending, as well as the rising cost of energy for manufacturers. Employment is forecast to contract by

-3%, which is higher than the sector average of -2.1%. This is likely to be due to the continued rising cost of employment. Conditions are likely to remain fragile throughout 2026, as the high cost of energy and the high cost of fertilisers has knock-effects on the food supply chain.

### Electronics

The **Electronics** subsector is expected to outperform the wider manufacturing sector, with output forecast to increase by 2%, far outperforming the sector average of 0.4%. This is likely due to an increase in demand, fuelled by competition for AI and new technologies. It is also possible that the increase in output is also reflecting price inflation resulting from chip shortages. The outlook on employment rates has been revised, as employment is expected to contract by -3.1%, an increase from the last quarter. This suggests that firms are continuing to expand production through productivity improvements and capital investment rather than workforce growth. Looking to 2027, this trend is expected to carry on as employment contraction continues.

## Manufacturing Outlook

Quarter 2 2026

### Basic Metals and Metal Products

The **Basic Metals** sector is expected to experience the sharpest decline in output across manufacturing, with production forecast to fall by -9.6%. As one of the most energy intensive industries in the sector, businesses remain exposed to high energy prices. The conflict in the Middle east and disruptions to global commodity markets have contributed to a more difficult operating environment. Employment is forecast to contract by -1.1%, a less severe contraction than the manufacturing average. This represents an improvement compared with expectations from the previous quarter and suggests that firms may be seeking to retain skilled workers despite weaker demand. Looking ahead, the sector is expected to stabilise gradually into 2027.

The **Metal products** sector forecast is more positive than expected, as both output and employment have improved. Output has increased by 3.3% as demand remains robust for British metal products. Employment has improved marginally by 0.5%, which demonstrates a continued increase in headcount. This is encouraging, as last quarter employment growth was expected to slow down, but this quarter's data is showing continued growth. This continues previous analysis that businesses are being met with strong demand, and increasing output and headcount in turn.

### Mechanical Equipment

The **Mechanical Equipment** subsector is expecting to experience a slowdown in output and employment this quarter. Output is due to contract by -4.4%. This is likely due to weakened business optimism causing businesses to delay major investments in equipment. The conflict in the Middle East and global shipping delays have triggered longer supplier lead times and high energy costs, which has also had an impact on production times. Employment is expected to contract by -0.1%, which continues the slowdown in headcount from the previous quarter. This is likely due to the continuing impact of rising employment and tax costs, which are significant hurdles for businesses, particularly SMEs. Looking towards 2027, output is expected to resume growth, while employment is expected to contract further.

### Textiles

The **Textiles** subsector is expected to experience a very positive quarter, one of the strongest performances across manufacturing this quarter. Both output and employment are due to jump. Expectations for output indicate growth by 2.8%, which follows the forecast from the previous quarter and is in fact more positive than expected. Employment is also expected to jump by 6%, which indicates that business confidence is high and demand will remain high. Looking toward 2027, employment is expected to contract in order to stabilise. This may be due to the continuing impact of high employment costs.

### Paper & Printing

The **Paper and printing** sector is likely to experience a continuing decline in output, by -2.2%. Following trends from the previous quarter, this is worse than the manufacturing average. Employment is expected to rise however, by 4.3%. This suggests some business confidence and expectations of increased demand, which is more optimistic than expectations from the previous quarter. This suggests that negative forecasts from the previous quarter were more pessimistic than necessary, and that the sector is expecting a more positive economic environment through to 2027.

### Electrical Equipment

The **Electrical Equipment** subsector is expected to see no change in its output from the previous quarter. This is more pessimistic than expectations from the previous quarter, and is likely due to expensive energy prices and geopolitical conflict in the Middle East. Employment is forecast to contract significantly by -5.7%, following expectations from the previous two quarters. This is one of the largest declines across manufacturing. This contraction is expected to continue into 2027, revising expectations for a positive outlook for 2027 and instead pointing to a decrease in growth in both output and employment.

### Non-Metallic Minerals

The **Non-Metallic Minerals** subsector is closely tied to construction and infrastructure activity through the supply of bricks, glass aggregated and related products. Output is expected to decrease significantly by -6.6%. The sector remains closely tied to construction and infrastructure activity, and weaker demand from these markets is likely to be weighing on production levels. Employment is due to expand slightly by 1.1%, following forecasts from the previous quarter and outperforming the manufacturing sector average. This suggests that businesses remain cautiously optimistic about future activity despite current weakness in output. Looking to 2027, the sector is expected to see slight growth in terms of both output and employment, suggesting anticipated business confidence.

### Pharmaceuticals

The **Pharmaceuticals** subsector will continue performing positively in terms of output, with a marginal growth of 1.9%. This follows continued Government support for the sector, following life sciences' inclusion in the Industrial Strategy. Demonstrating its confidence in the industry in the UK, industry leader AstraZeneca has committed to a £300m investment into UK drugs development, split across its sites in Cambridge and Cheshire. Employment has contracted slightly by -0.5%. However, seen with the growth in output this suggests possible gains in automation, and business optimism. Looking to 2027, the sector is expected to see continuing output growth and employment contractions.

## Manufacturing Outlook

Quarter 2 2026

### Chemicals

The **Chemicals** subsector continues to come under strain as it faces contractions in both output and employment, following the forecast from the previous quarter and more long-term downward trends. Output is likely to decrease by -2.1%, while employment is to decrease by -0.5%. This is likely due to high energy costs for the sector and escalating input and import costs due to geopolitical disruptions, including compliance with EU regulations to continue trade. Looking forwards to 2027, this downward trend is expected to continue with marginal contracts in both output and employment.

### Rubber & Plastics

The **Rubber and Plastics** subsector continue its modest growth, with an increase in output by 0.2%. This follows expectations for small gains from the previous quarter. As expected, employment has contracted significantly, by -5.1%, far higher than the sector average. This is likely a reflection of high employment costs due to recent legislation and possibly interest in automation. Looking forward to 2027, employment is forecast to stabilise by slowing down the headcount contractions. Output is also expected to continue its slow growth.

### Motor Vehicles (Automotive)

The **Motor Vehicles** subsector output forecasts signal a successful bounce back from 2025, following trends from the previous quarter. Output has increased by 3.5% continuing the trend from the previous quarter, suggesting a recovery from key bottlenecks. Employment is forecast to contract significantly by -6.7%, similarly following trends from the previous quarter. Looking to 2027, the sector is expected to continue with moderate growth, as well as continuing reductions in headcount. This is likely reflecting the industry's commitment to innovation through automation and new technologies. The sector is also receiving a boost from Government-backed initiatives exploring commercially viable connected and automated mobility vehicles, through the CAM Pathfinder programme.

### Other Transport

The **Other Transport** subsector, which includes aerospace, defence, shipbuilding and rail, is expected to increase its output by 2.6%, which is a positive revision to last quarter's forecast for 2026. Employment is likely to contract by -2.7%, following expectations of a continuing contraction. Looking to 2027, this trend is expected to continue. As with the Motor Vehicles sector, this is likely due to progress in innovation through automation and new technologies.

### Sector growth rates and forecasts % change

	OUTPUT			EMPLOYMENT		
	2025	2026	2027	2025	2026	2027
<b>Basic metals</b>	-13.7	-9.6	-2.2	-12.4	-1.1	-0.5
<b>Metal products</b>	-6.6	3.3	1.7	-7.3	0.5	0.7
<b>Mechanical</b>	4.2	-4.4	0.7	0.2	-0.1	-2.3
<b>Electronics</b>	2.4	2.0	-2.6	1.2	-3.1	-5.4
<b>Electrical</b>	2.7	0.0	-0.2	2.8	-5.7	-1.5
<b>Motor vehicles</b>	-11.1	3.5	0.7	-0.6	-6.7	-3.0
<b>Other transport</b>	3.1	2.6	1.7	5.1	-2.7	-2.0
<b>Food &amp; drink</b>	-0.2	-0.5	-0.2	0.8	-3.0	-3.0
<b>Chemicals</b>	-3.6	-2.1	-0.1	-6.6	-0.5	-1.4
<b>Pharmaceuticals</b>	7.8	1.9	0.8	6.0	-0.5	-1.9
<b>Rubber and plastics</b>	-1.3	0.2	0.1	-6.1	-5.1	-0.7
<b>Non-metallic minerals</b>	-6.3	-6.6	0.6	-5.4	1.1	0.7
<b>Paper and printing</b>	-2.2	-2.2	-1.8	10.3	4.3	-6.1
<b>Textiles</b>	-3.4	2.8	-3.2	-3.9	6.0	-5.6
<b>Manufacturing</b>	-0.9	0.4	0.1	-1.3	-2.1	-2.0

Source: Make UK and Oxford Economics

## Manufacturing Outlook

Quarter 2 2026



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.

**[www.makeuk.org](http://www.makeuk.org)**  
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**#BackingManufacturing**

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