

## Economic Forecasts

**Key economic forecasts**  
% change except where stated

	2001	2002	2003	2004	2005
<b>Economic environment</b>					
World trade	-0.1	2.4	4.8	7.6	7.9
Exchange rate - euro/£	1.61	1.59	1.45	1.50	1.50
Exchange rate - \$/£	1.44	1.50	1.64	1.81	1.72
Base rate (%)	5.0	4.0	3.7	4.6	5.1
Headline inflation	1.8	1.6	2.9	2.9	2.8
<b>Output</b>					
Engineering	-3.1	-7.1	1.1	2.9	4.2
Manufacturing	-1.3	-3.1	0.5	1.5	2.6
GDP	2.3	1.8	2.2	3.5	2.8
<b>Employment</b>					
Engineering (000s)	1,661	1,546	1,472	1,426	1,401
Manufacturing (000s)	3,693	3,498	3,363	3,268	3,193

Source: OEF

## Key Points

- Output and orders balances strengthen.
- Global upturn continues to support exports.
- Some sectors raising prices.
- Downward pressure on margins continues.
- Responses on jobs and investment more optimistic.

## Summary: Past three months

**Change over past three months**  
% balance of responses (% up minus % down)

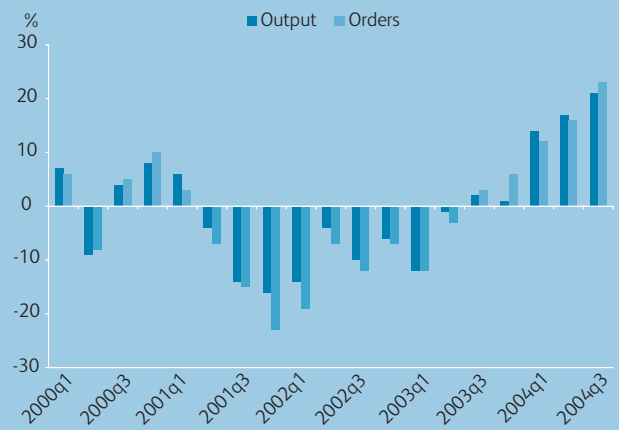
	2002		2003				2004		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total output	-10	-6	-12	-1	2	1	14	17	21
UK new orders	-17	-9	-16	-8	-6	-2	4	3	12
Export new orders	-8	-13	-14	-8	1	2	9	11	17
Total new orders	-12	-7	-12	-3	3	6	12	16	23
Employment	-22	-20	-21	-17	-15	-16	-2	0	4
Capital expenditure plans	-19	-14	-12	-14	-9	-8	0	1	5
Average price of domestic orders	-18	-18	-18	-18	-17	-12	-11	2	7
Average price export orders	-18	-21	-15	-19	-18	-15	-14	-4	1
Margin on domestic orders	-31	-29	-30	-32	-30	-28	-30	-24	-26
Margin on export orders	-28	-26	-25	-26	-24	-23	-28	-26	-28
Levels of cashflow	-16	-16	-21	-13	-10	-12	-10	4	1

Source: EEF Business Trends Survey

## Upturn in engineering output strengthens

Engineering companies reported their fifth consecutive quarter of rising output and orders in the past three months. A balance of +21% of companies said output had risen in the past three months, up from +17% in the previous quarter. The balance on total orders was the strongest for over nine years. Export orders continue to be supported by an upturn in the world recovery and there have been further signs of the recovery in the eurozone, the UK largest export market, becoming more established in recent months. While orders in the home market have yet to catch up with those from abroad, UK-based orders were again the strongest we have witnessed for some time.

**Upturn in engineering output strengthens**  
% balance of change in past three months

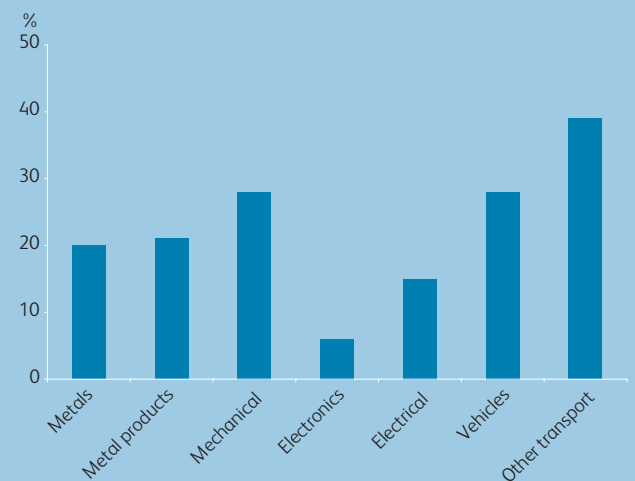


Source: EEF Business Trends Survey

## All sectors continue to report growth

For the second consecutive quarter all sectors saw an increase in output over the past three months. The most significant turnaround came in the transport equipment sectors. The balances on output increased from +2% to +28% in motor vehicles and to +39% in other transport. Metals companies also reported an improvement in trading conditions over the past quarter, with both domestic and export orders picking up. Moving in the other direction were output balances in electronics and electrical equipment - both of which reported strong output growth in the previous quarter. These two sectors recorded the weakest output growth in the past three months. Electronics also saw a decline in orders from UK-based customers.

**All sectors continue to report growth**  
% balance of change in output in past three months

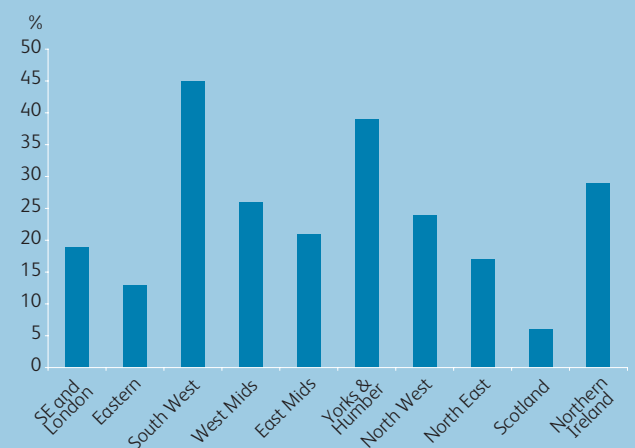


Source: EEF Business Trends Survey

## Transport sector supports output in South West

All UK regions also reported growth in the past three months. Companies in the South West experienced the strongest growth, with 49% of firms pointing to an increase in output. The pick-up in output in the transport sectors is likely to have supported growth in this region. The second consecutive quarter of output and orders growth in the metals sectors has buoyed growth in the North West and Yorkshire and Humberside. Both regions have now reported robust output growth in the past six months. Scotland, on the other hand, saw the upturn in output and orders slow, largely on the back of weaker electronics output.

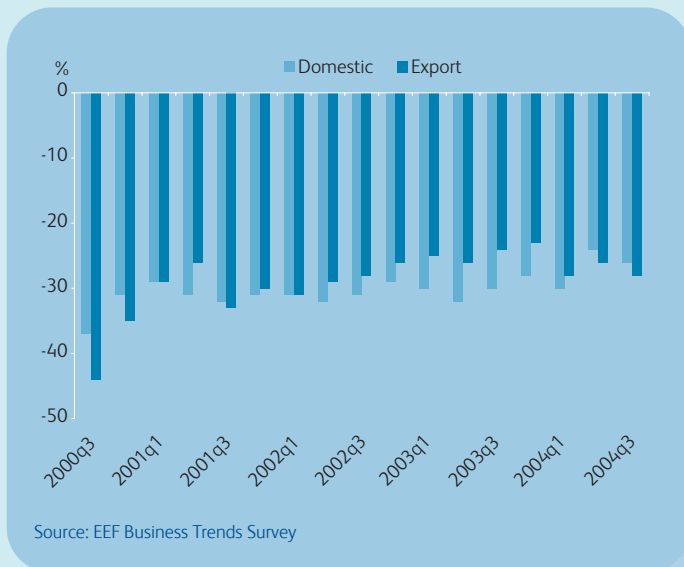
**Transport sector supports output in South West**  
% balance of change in output in past three months



Source: EEF Business Trends Survey

### Margins squeeze persists

% balance of change in margins in past three months

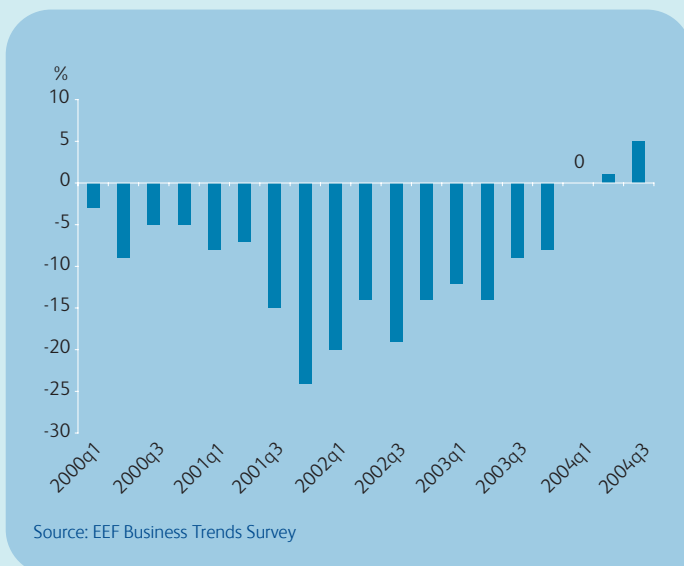


## Margins squeeze persists

While the results from this quarter's business trends survey have been the most positive for some time, companies are still suffering a decline in profit margins. In the past three months firms have reported a further squeeze in both UK and export margins despite an improvement in prices. The official figures have also pointed to a steady improvement in output prices in the first half of this year, but this has been more than offset by rises in input costs. Large increases in oil, fuel and metals prices have been largely responsible for the overall increase in costs. Companies in the metals sectors have felt these price increases most acutely.

### Further signs of investment revival

% balance of change in investment plans in past three months

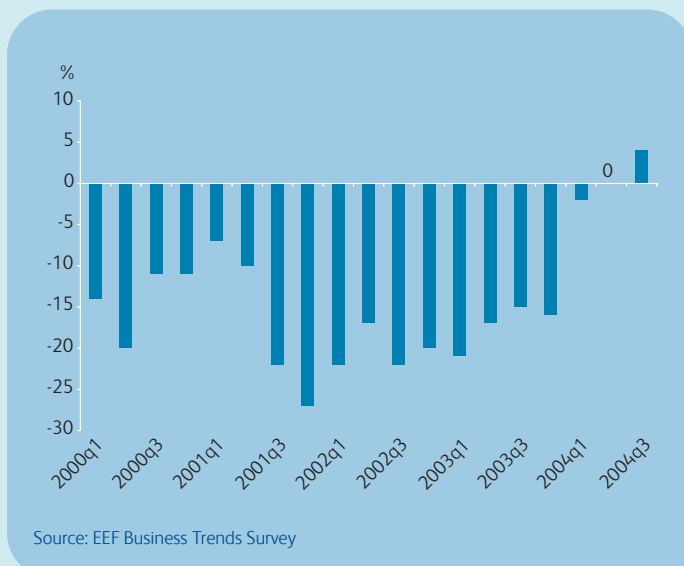


## Further signs of investment revival

The balance of companies planning to increase investment in the next twelve months increased again this quarter to +5% from +3% in the previous quarter. The official data pointed to a 25% increase in engineering investment spending in the three months to June, but investment levels are still well down on their peak at the end of 1998. Our survey evidence suggests that investment intentions appear somewhat firmer and we should expect the upturn in capital spending to continue over the coming year. By sector, companies in electrical equipment and other transport are planning to cutback their investment plans over the coming year, but even here the negative balances are small.

### Further signs of recruitment activity

% balance of change in numbers employed in past three months



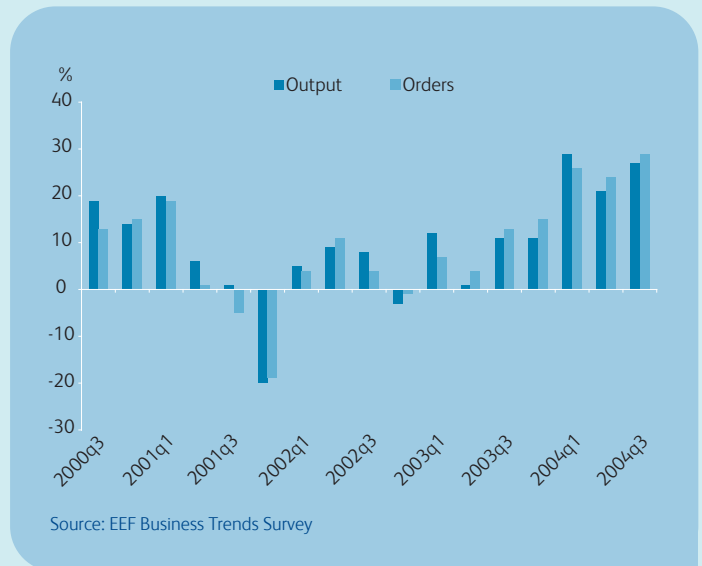
## Further signs of recruitment activity

The balance of companies reporting an increase in numbers employed over the past three months turned positive for the first time since the beginning of 1998. Only a balance of companies in electrical equipment cut back jobs this quarter. Weaker output than expected may have contributed to this. Recruitment activity was strongest in basic metals and mechanical equipment, where the balances were +18% and +14% respectively. This follows job losses of some 5,000 in basic metals and 8,500 in machinery over the past year. Correspondingly, we should see an increase in job numbers across most regions, particularly in the South West and Northern Ireland.

## Output and orders set to improve further

The recovery in engineering output and orders is expected to continue in the next three months. Optimism amongst companies was stronger than in the previous quarter with the balance on output rising to +27% from +21%. All sectors are expecting the upturn to continue, with the strongest growth expected in the transport sectors. Electronics, which reported a slightly weaker performance in the past three months is expecting output and orders to bounce back strongly in the next three months. The balance of change in domestic orders has improved from the previous quarter as the upturn has gained momentum and the strength of export orders is expected to be maintained in the coming months.

### Output and orders set to improve further % balance of change in next three months



## Summary: Next three months

	Change over next three months % balance of responses (% up minus % down)								
	2002		2003				2004		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total output	8	-3	12	1	11	11	29	21	27
UK new orders	-1	-5	2	-1	7	5	21	12	20
Export orders	3	-3	5	2	8	9	21	19	21
Total new orders	4	-1	7	4	13	15	26	24	29
Numbers employed	-10	-18	-13	-14	-10	-13	0	2	11
Average price of domestic orders	-12	-14	-12	-12	-12	-7	-3	6	5
Average price export orders	-12	-18	-11	-14	-17	-9	-7	2	1
Margin on domestic orders	-21	-25	-20	-18	-20	-22	-15	-12	-13
Margin on export orders	-18	-21	-21	-15	-22	-19	-18	-18	-13
Levels of cashflow	-12	-12	-14	-2	2	-2	3	10	4

Source: EEF Business Trends Survey

## About EEF

EEF, the manufacturers' organisation, has a membership of 6,000 manufacturing, engineering and technology-based businesses and represents the interests of manufacturing at all levels of government. Comprising 11 regional Associations, the Engineering Construction Industries Association (ECIA) and UK Steel, EEF is one of the UK's leading providers of business services in employment relations and employment law, health, safety and environment, manufacturing performance, education and skills, and information and research.

## About this survey

The survey was conducted between August 6 and August 26, with 1,201 companies responding. The results presented cover the full range of engineering sectors – metals, metal products, mechanical engineering, electronics, electrical engineering, motor vehicles and other transport equipment.

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