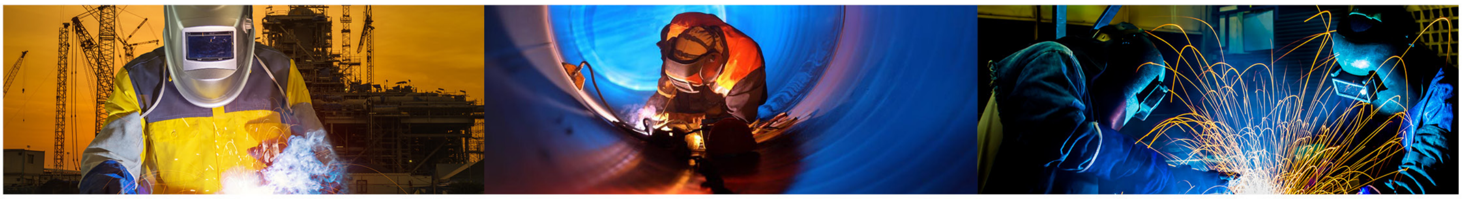

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Manufacturing business optimism improves at best pace since 2014

A survey of 300 manufacturing firms reported that business optimism improved significantly in the quarter to January, at the fastest pace since April 2014. Meanwhile, export sentiment continued to fall, but was noticeably less gloomy compared to last quarter.

Investment intentions also improved following particularly glum expectations in October, with a record proportion of firms expecting to authorise capital expenditure in order to expand capacity. But a record proportion of manufacturers were concerned that a shortage of labour could constrain investment spending over the year ahead.

The improvement in manufacturers' sentiment belied poor activity over the quarter. Output volumes in the three months to January fell at a similarly quick pace to last month, largely reflecting a sharp fall in motor vehicles output. This marked the eighth month in a row of flat or falling output volumes. Total new orders fell at the quickest rate since the financial crisis, reflected by a similarly fast fall in domestic orders. However, orders and output are expected to recover slightly in the quarter ahead.

Moreover, headcount fell in the quarter to January at their fastest pace since the financial crisis, but firms expect the rate of decline to slow next quarter.

Key findings:

Output

• 19% of businesses said that the volume of output rose in the three months to January, while 33% said it was down, giving a rounded balance of -15%.

• Output only expanded in five out of 17 sub-sectors. The headline drop in volumes largely reflected a sharp fall in motor vehicles output. Meanwhile, the main positive contributors to output volumes were the mechanical engineering and food, drink & tobacco sub-sectors.

• Manufacturers expect output to stabilise next quarter (+4%) – the strongest expectations in 7 months.

Orders

• Total new orders dropped in the quarter to January (-21%) at the fastest pace since the financial crisis, with 24% of firms reporting up and 45% reporting down.

• The fall in new orders was reflected in the quickest drop in domestic orders (-21%) since the financial crisis, while export orders fell at a slower pace than last quarter (-10% from -24% in October).

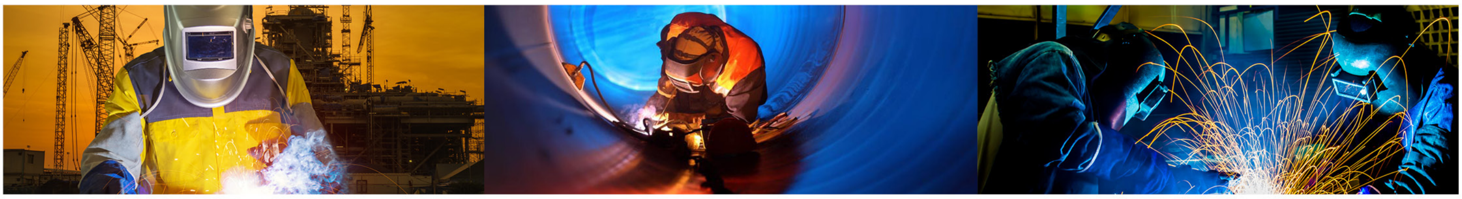
• Manufacturers expect total new orders to grow next quarter (+9%), with domestic orders broadly flat (-2%) and export orders growing slightly (+5%).

Headcounts

• Headcount fell in the quarter to January (-16%) at the fastest pace since the financial crisis.

• Firms expect employment to decrease at a slower pace in the three months to March (-8%).

Costs



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• Average costs in the quarter to January (+20%) grew at a slightly faster pace than October (+16%).

• Manufacturers expect average cost growth to remain roughly steady next quarter (+19%).

Business optimism

• Business optimism improved significantly in the three months to January (+23% from -44% in October), which is the strongest it's been since April 2014. This also constituted the largest swing in sentiment (67% points) in a single quarter on record (since 1958).

• Meanwhile, export sentiment was noticeably less gloomy compared to last quarter (-8% from -46% in October).

Investment intentions

• Firms expect to invest a little more in plant & machinery (+5%) following five quarters in a row of falling investment intentions, while they expect capital expenditure on product & process innovation (-1%) and training & retraining (-3%) to be roughly the same as they planned in October.

• Expectations for investment in buildings remained negative despite improving noticeably from last quarter (from -44% in October to -11%).

Expected constraints on activity

• The share of manufacturers citing political/economic conditions abroad as a factor to limit export orders in the next three months declined from 66% in October to 48% in January.

• Additionally, the share of firms citing quota/import restrictions as a factor to limit export orders fell from 20% in October to 5% in January.

Business prospects and plans

• The share of manufacturers citing expanding capacity as a driver of planned capital expenditure was at a survey record high (57%).

• The share of firms citing labour shortages as a factor likely to limit investment was at its highest on record (33%).