UK manufacturing

What lies behind the recovery in British manufacturing

Global growth, rather than a weaker pound, is driving UK factories

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The recovery in Britain's manufacturing sector, which is now enjoying the longest stretch of monthly expansion for two decades, has been driven by stronger global demand and rising commodity prices more than by a weak pound.

An analysis of UK manufacturing by sub-sector shows that growth is concentrated in areas benefiting from rising global capital expenditure and in the oil and gas industry in the North Sea.

Official data shows that Britain's manufacturing sector has grown more strongly than the rest of the economy since the EU referendum.

The latest monthly data, published on Wednesday, showed 0.4 per cent growth in November, the seventh month in a row that there has been expansion.

Some have credited the competitive boost of a weaker currency over the past 18 months.

While this has provided a tailwind, others have pointed to the wider recovery in the global economy, which is beginning to shake off the effects of the 2008 financial crisis, the 2011 eurozone crisis and the 2014 fall in commodity prices.

"If you think about some of the things that were weighing on manufacturing, it was what was happening in the rest of the world," said Lee Hopley, chief economist at the manufacturing trade body EEF.

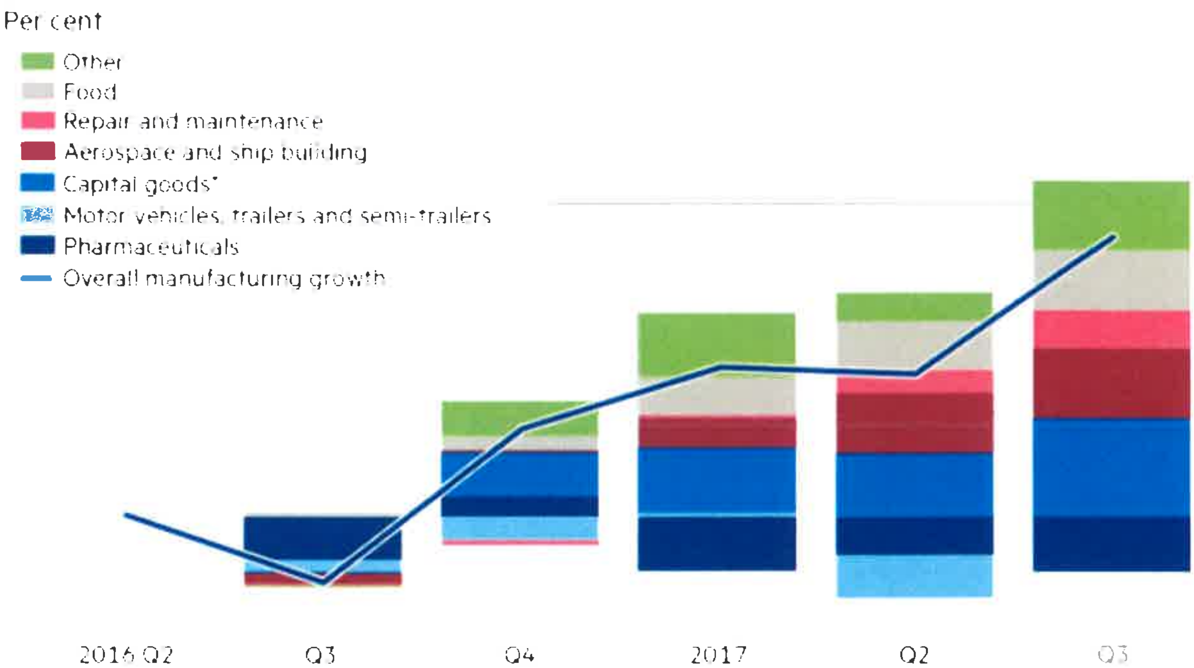
Factories across the globe in the eurozone, Japan and South Korea, alongside the UK, saw orders rise to record levels in 2017, according to surveys of purchasing managers.

Quantitative easing by the European Central Bank has helped lead to a sustainable recovery taking hold in the eurozone, Ms Hopley added, increasing demand for British-made goods.

The recovery in crude prices have helped many UK companies which supply equipment like valves, sensors and pipes for the North Sea oil and gasfields.

Alloy Wire International, based in the West Midlands, supplies small quantities of exotic alloy wire that go into springs for valves, among other uses.

Contribution to manufacturing growth



*Including machinery and equipment, electrical equipment and computer, electronic and optical products
Source: ONS
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Mark Venables, managing director, says returning demand from the oil and gas industry over the past year will help push its annual turnover to £10.5m, an increase of about one-fifth over the past two years.

Though he adds that the company also got a boost from a fall in the value of the pound. "Our exports are growing all around the world," he said.

A rise in investment spending explains much of the growth in the UK: production of machinery and equipment rose by 8 per cent between the end of June 2016 and the third quarter of 2017, the latest period for which a complete breakdown by sector is available in the data.

Similarly production of computer, electronic and optical products has risen by 8 per cent and electrical goods output has risen by 4 per cent.

Ms Hopley said that the UK's computer and electronics industry tended to make specialist goods, such as sensors, rather than the cost-competitive consumer electronics that were mostly produced where labour was cheaper.

Investment by train companies and airlines on new models has also helped, with the production of ships, aircraft and trains rising by 10 per cent since the UK's vote to leave the EU.

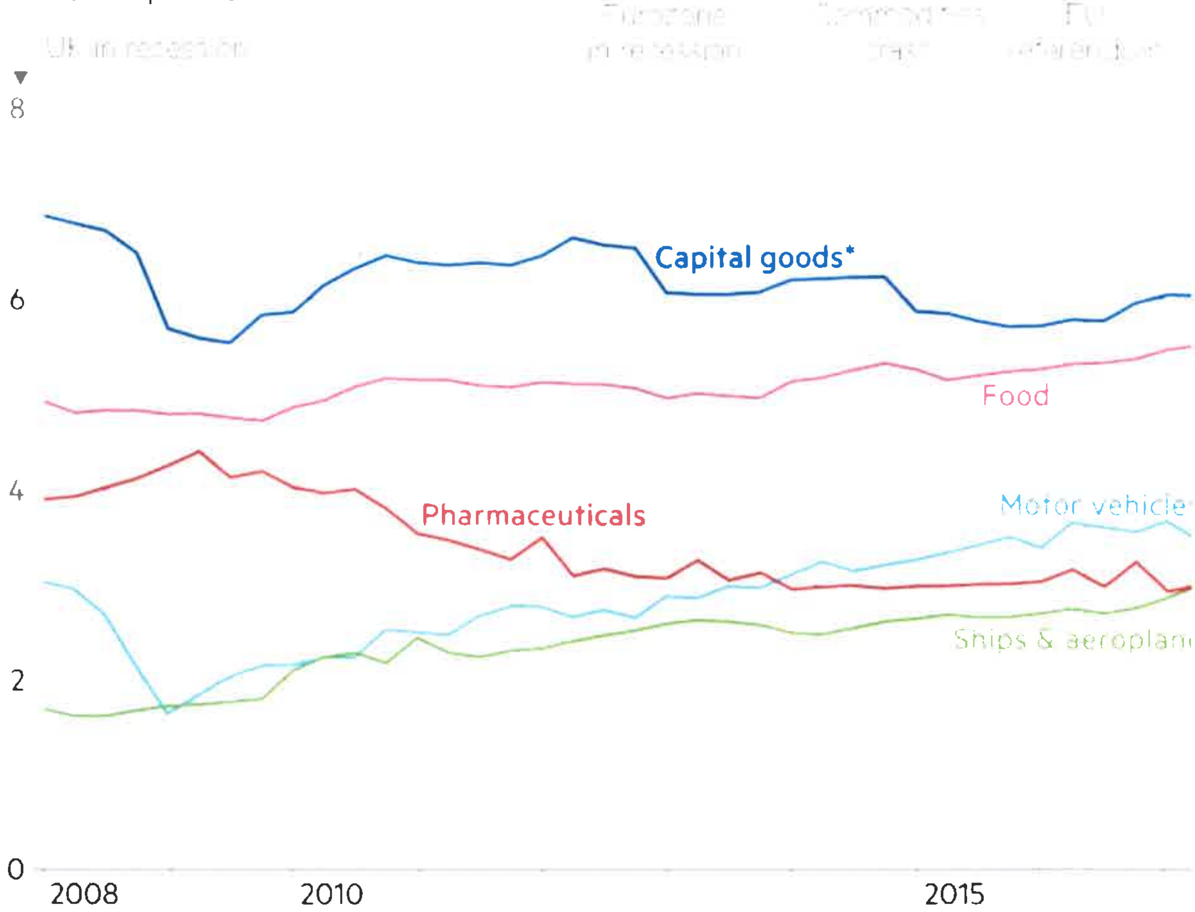
A decade-long boom in aircraft orders has benefited the aerospace sector and resulted in a record backlog, with companies such as engine maker Rolls-Royce and aircraft manufacturer Airbus now needing to accelerate production in order to deliver on time.

Together, equipment, transport investment and the repair, maintenance and installation of existing machinery accounts for 74 per cent of the growth in the UK's manufacturing sector since the Brexit vote, indicating the role that an increase in investment spending has played in the sector's fortune.

But growth has not only been because of rising investment worldwide: production of food, the largest category of manufacturing in the UK, has risen by 5 per cent, making it responsible for 22 per cent of the growth in manufacturing.

UK manufacturing output in selected industries

£bn (2015 prices)



*includes computers, electrical and optical equipment, and the "other machinery and equipment" category
Source: ONS
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According to the Food and Drink Federation, the fall in the value of the pound helped lift the sector to a record export performance. Exports of salmon have done particularly well, increasing in volume terms by 21.2 per cent in the year up to the end of the third quarter of 2017.

Andy Bing, sales director of Loch Duart Salmon in Scotland, said: "There are bigger macro issues than just changes in currency." While a fall in the pound has made his company's premium offering a little bit more affordable relative to the competition, it is long-term trends that are more important to his business.

"The demand for seafood is growing," he said. "The wild catch is not." Growing appetites for aspirational foodstuffs and a move away from red meat means he expects the market to grow for premium salmon.

Two major areas of the UK's manufacturing sector, however, have missed out on the recovery: cars and pharmaceuticals.

Despite being a UK manufacturing turnround story over the past decade, car production has not grown at all since the EU referendum.

Some of this is because of a slowdown in domestic car sales, but roughly 80 per cent of UK car production is destined for export, and figures from the Society of Motor Manufacturers and Traders show that production for export fell by 0.7 per cent in the year to the end of September.

This is reflected at Liberty House's £60m aluminium components business, which makes die-cast car engine and vehicle components for Ford and Jaguar Land Rover.

"We've seen a flattening of volumes," said Douglas Dawson, chief executive of Liberty Industries. "We haven't seen any drastic reduction but haven't seen the expected growth."

This was partly because of falling sales of diesel cars offsetting any increase in petrol models, he added.

However, the weaker pound has given Liberty a boost in other areas. Its sales of bi-metallic strips for saw blades, largely for export, are up 10 per cent.

"We have seen some increase in volumes, and we put that down to parts and products being more expensive to import for UK customers, and [our] parts and products being more competitive when they land in Europe."

The UK's pharmaceutical sector has also continued to decline since the referendum.

Production of basic pharmaceuticals and pharmaceutical preparations is still 25 per cent below its pre-crisis peak and the highly volatile sector contracted by 7 per cent in the 15 months following the Brexit vote.

Britain's pharmaceutical sector has struggled to replace a number of 'blockbuster' patents with new drugs in recent years.