

MANUFACTURING OUTLOOK

QUARTER 1 2026



With support from:



Foreword



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The Government's recent Spring Statement highlighted the strong fiscal position the UK economy found itself in the first quarter of the year. However, as global instability grows in parallel to our fiscal health it was not surprising that the statement needed to communicate a balanced view. The Chancellor referenced stability and security in the UK almost twice as many times as there were references to insecurity and uncertainty – a reflection that was evidently intentional to avoid spooking the markets. On balance the positive messaging outweighed the negative despite the Office for Budget Responsibility downgrading our GDP growth forecast for this year.

Though, on the ground, many businesses will say the day-to-day experience of managing a business are more challenging than they seem on paper, with old anxieties returning as the probability of a brand-new energy crisis grows for each day the conflict in the Middle East continues.

Our latest *Manufacturing Outlook* survey highlights a similar situation, with the surface reporting growth but novel challenges are being masked by our stellar economic performances. Businesses reported a broadly resilient view of the UK manufacturing sector. Production volumes have expanded and international trade performance remains robust, particularly as demand from Europe remains high. Employment has improved slightly on the last quarter, and investment remains actively stable. Confidence remains high, despite a marginal decline since the last quarter, but this points to continued optimism from manufacturers.

But with global instability on the rise, economic disruptions are set to ameliorate, with an acceleration in conflicts in the Middle East reaching an eruption point and uncertainty in the Strait of Hormuz impacting access to critical materials from the east. This will destabilise trade dynamics, global supply chains, and energy prices, which all serves to underline the fragility of the international economic landscape. For a sector as exposed to global markets as manufacturing, the gap between the desire for stability and the reality of ongoing volatility remains a defining feature of the current economic moment.

Despite these pressures, the results underline the resilience that has characterised the UK manufacturing sector in recent

years. Firms have repeatedly demonstrated an ability to adapt to rapidly changing economic conditions, whether through diversifying export markets, improving operational efficiency, or investing in new technologies and skills. This adaptability has helped the sector maintain momentum even as the wider economic environment has remained uncertain. Sustaining growth in the sector will require a policy environment that encourages investment and innovation.

The direction of industrial policy is important for such a cause. A clear and consistent industrial strategy can play a crucial role in giving businesses the confidence to invest and expand. This means strengthening supply chains, improving energy competitiveness, supporting innovation and ensuring access to skilled labour for long-term growth. Progress in these areas will be essential if the UK is to translate resilience into sustained industrial expansion.

At the same time, maintaining international competitiveness is critical. The global manufacturing landscape is becoming increasingly competitive as countries across Europe, North America, and Asia implement policies aimed at strengthening their domestic industrial bases. Ensuring that the UK remains an attractive destination for manufacturing investment will require continued focus on productivity, improvements in infrastructure, and regulatory stability. The question that many UK manufacturers will now be asking is when we start to experience the change from the implementation of our own industrial strategy.

There is no doubt that we must keep an eye on a plethora of evolving situations as external economic conditions look increasingly bleak. But there should also be pride taken from our latest survey which highlights positive manufacturing growth this quarter.

For the Industrial Strategy to be successful we must recognise that supporting industry is not just about the “economics of things” but imperative for national security. Therefore, it is critical we support our strongest value-generating sectors by backing them wholly. If global instability worsens even more, those countries that prove to be the most resilient will be those with the strongest capabilities in manufacturing.

Headlines

Make UK’s Q1 2026 *Manufacturing Outlook* report provides an overview of the current state of UK manufacturing. The latest quarter’s results point to an expansion in manufacturing output for the start of the year, following a lengthy period of weak demand conditions.

This is exemplified by official GDP statistics which highlight the manufacturing sector as a negative contributor to the growth of national output. It is hoped that with this positive start, manufacturers will capitalise on new opportunities for growth, by investing in productivity – particularly with a focus on robotics and upskilling workers.

However, external market conditions remain volatile with a potential new energy price crisis on the horizon depending on how long the conflict in the Middle East persists. This is not the first time that the Strait of Hormuz created difficult conditions for sea cargo movement, but without a swift end to the latest conflict, gas prices are surely continuing to rise. Nevertheless, the latest output balance increased from +13% to +21%, indicating there is a higher share of manufacturers reporting higher production in this quarter. This also means the balances for output have now been positive for a full year in this survey.

The balance for total orders also reported at +21%, up from +11% in the last quarter. Both the balances for output and total orders marginally exceeded the expectations manufacturers set for the first quarter, suggesting economic conditions may be more positive than previously forecast. However, the order books originating from the domestic market has weakened substantially, falling from +20% to +9% this quarter. Exports on the other hand reported a strong positive balance of +18% and continues to outperform the domestic market.

Indicator	Balance	Change	
Confidence	6.5	↓	Confidence remains high but has declined since last quarter
Output	21%	↑	Production volumes expand
UK orders	9%	↓	Domestic market activity slows
Export orders	18%	↓	Export performance robust
Employment	8%	↑	Employment growth improves slightly
Investment	20%	↑	Capital investment activity stable

Source: Make UK Manufacturing Outlook Survey

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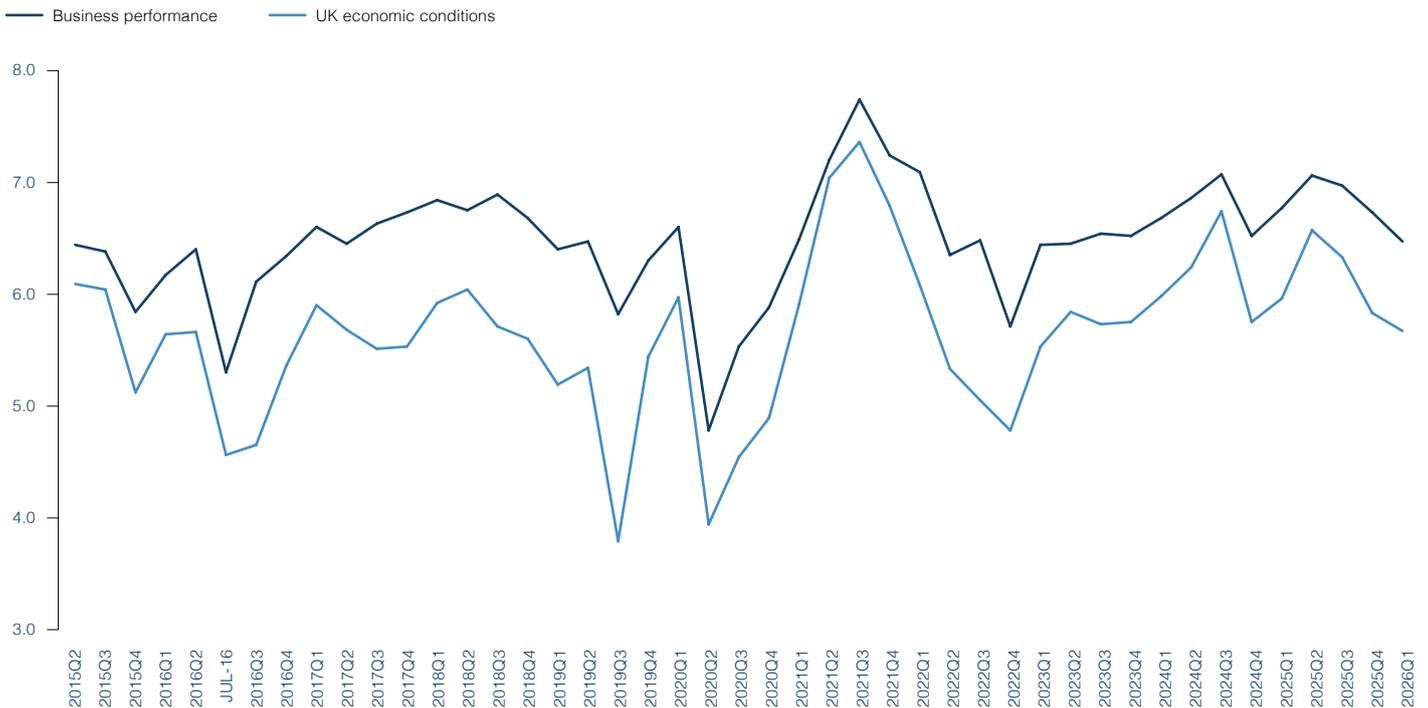
The balance for employment improved slightly, increasing from +3% to +8%. This latest figure aligns with official statistics which suggest recruitment activity within the manufacturing sector is increasing, with over 52,000 vacancies currently live. However, the unemployment rate has already exceeded 5%, driven by an increase in youth unemployment (aged below 24). The Chancellor even reiterated in the latest Spring Statement that the UK now has nearly one million young people not in employment, education, or training (NEETs). Whilst the growth in manufacturing is positive, this challenge must be addressed by encouraging young people to take on careers in STEM. Investment intentions reported a balance of +20%, and has now been consistently positive since the end of 2022. This bodes well for a sector that has been underinvesting for many years, though it is unclear whether new investment is for maintenance or capacity expansion.

Concerningly, the latest survey data indicates inflation could be heating up, as a large share of manufacturers raised prices on their goods and services. The balance for UK prices has increased from +14% to +31%, and export prices have increased from +18% to +34%. Unfortunately, this has not led to a measured improvement in profit margins for businesses.

Confidence, however, remains positive with manufacturers on balance believing that the next 12 months will be more positive than it is today. This is good news, though over time it is observed that the general level of optimism has been trending down.

Confidence dips marginally but remains positive

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



Source: Make UK Manufacturing Outlook Survey

This survey was carried out between 28 January and 19 February 2026, prior to the latest Middle East conflict and the resulting volatility in global energy markets and supply chains.



Output

The sector's output performance has returned to levels similar to the moderately strong position that it found itself in in the third quarter of last year, two editions previous. Compared to the previous edition of *Manufacturing Outlook*, output performance has improved considerably from its modestly positive position last quarter.

PAST THREE MONTHS

↑ 21%

NEXT THREE MONTHS

↑ 35%

The output balance figure for this quarter reported at +21%, breaking the 20% threshold for only the third time in the past two years. Output performance has been better than analysts had expected since the second half of 2025, with the first half of that year exhibiting poor performance across many metrics, including output. While some analysis has suggested that this recent bounce back in output performance for UK manufacturers is attributable to the return to operations of a large UK automotive manufacturer that suffered a production-stopping cyber-attack, our data suggests manufacturers across the subsector spectrum have seen improved prospects over the past couple of quarters.

The Chancellor's Spring Statement came a few days after the completion of our data sampling, but the fiscal event brought no new announcements pertaining to UK business policy. Therefore, we can be confident that the statement would have little-to-no impact on the sentiments shared by UK manufacturers the week prior. However, and certainly more importantly as far as output is concerned, the war in

the Middle East has accelerated since the survey data was collected and we would expect to see impacts on output in the next edition of this report, particularly in those cases where energy is a determinant input.

Interrogating the data by company size, we can see it is the larger and middle market segments of the sector that have been contributing the most to the overall aggregate output figure. Those in the £25m+ turnover category report an output balance figure of 30%, those in the £10-£24m category report a balance figure of 38%, yet those in the smallest category, the £0-9m turnover band, report an extremely modest, yet positive, balance figure of +4%. Overall, this suggests that despite positivity in output being seen across the board, the scale of that positivity is far more diminutive for smaller UK manufacturers.

This quarter, performance of output beat out the sector's own expectations that were set in the final quarter of last year, for only the third time in the past two years. The past two years have been characterised by slight industry over-

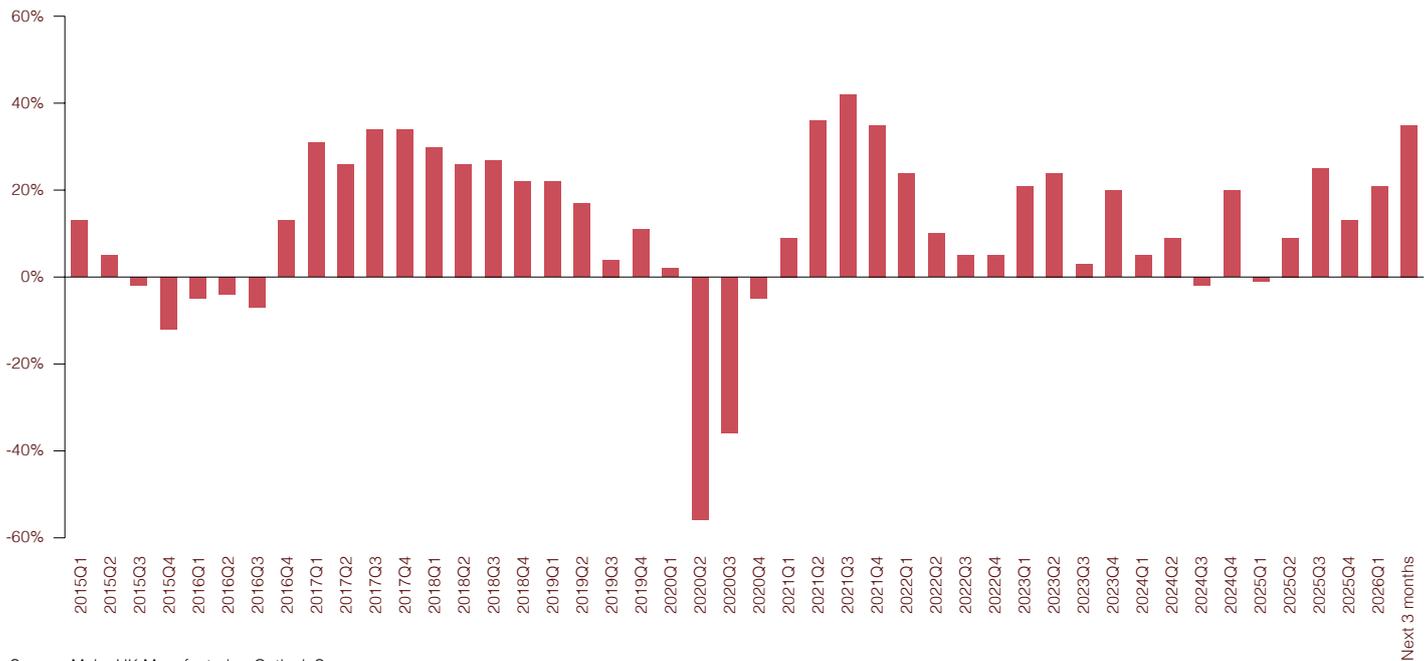
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optimism concerning future 3-month output expectations. The sector's expectation for the coming quarter builds in more positivity, with a balance figure of +35% expected.

If this ambition is realised come next quarter, this would be the largest quarterly balance figure for output since the tail end of 2021.

Output volumes growth positive for a full year % 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*	-	-
Metal Products	26%	38%
Mechanical	8%	29%
Electronics	50%	63%
Electrical	30%	26%
Rubber & Plastics	9%	18%
TURNOVER		
£0-9m	4%	25%
£10-24m	38%	37%
£25m and over	30%	48%

*insufficient sample

Source: Make UK Manufacturing Outlook Survey



Orders

The latest balance for total orders growth improved from +11% to +21%, meaning that across the sample a larger share of manufacturers reported an increase in their total orders versus those that reported a decrease. This is the most positive balance for total orders since it was matched by the same balance in Q2 2023. It is also positive that the growth in orders is similar to the acceleration in output this quarter indicating a return to normal business cycles. However, a sense of caution must be included in these positive results, as conflicts in the Middle East conflate the possibility of a novel energy crisis.

In the past several quarters, total orders activity was largely correlated to the performance of export orders. Despite turbulent trading conditions overseas, manufacturers exploited all opportunities for growth. In the latest survey, exports remains a dominant cause of strong total order books, though the threat of new global US tariffs risks further disruption to manufacturing activity. The impact of tariffs at least until now has had a limited impact on demand globally for UK-made goods, except for in specific industries such as automotives that have fared worse than the average. In addition, manufacturers have reported receiving more inquiries for orders from markets outside of the US.

There are indications that the very positive performance in the last two quarters was a result of the cyber-attack which temporarily impacted automotive production, and the wider manufacturing supply-chain, and the follow-up recovery in orders once normal production resumed. It is unclear how prominent this effect is present in the survey data as the downturn in the sector was relatively brief, it is expected that this event played a role in the positivity we are observing today.

Manufacturers expect their order books to grow even more in the next quarter of 2026. It is astonishing how positive the predicted balances are, should they come to pass they would be some of the best growth figures recorded since the recovery period began post lockdowns in 2021.

UK ORDERS	PAST THREE MONTHS ↓ 9%	NEXT THREE MONTHS ↑ 26%
EXPORT ORDERS	PAST THREE MONTHS ↓ 18%	NEXT THREE MONTHS ↑ 33%
TOTAL ORDERS	PAST THREE MONTHS ↑ 21%	NEXT THREE MONTHS ↑ 37%

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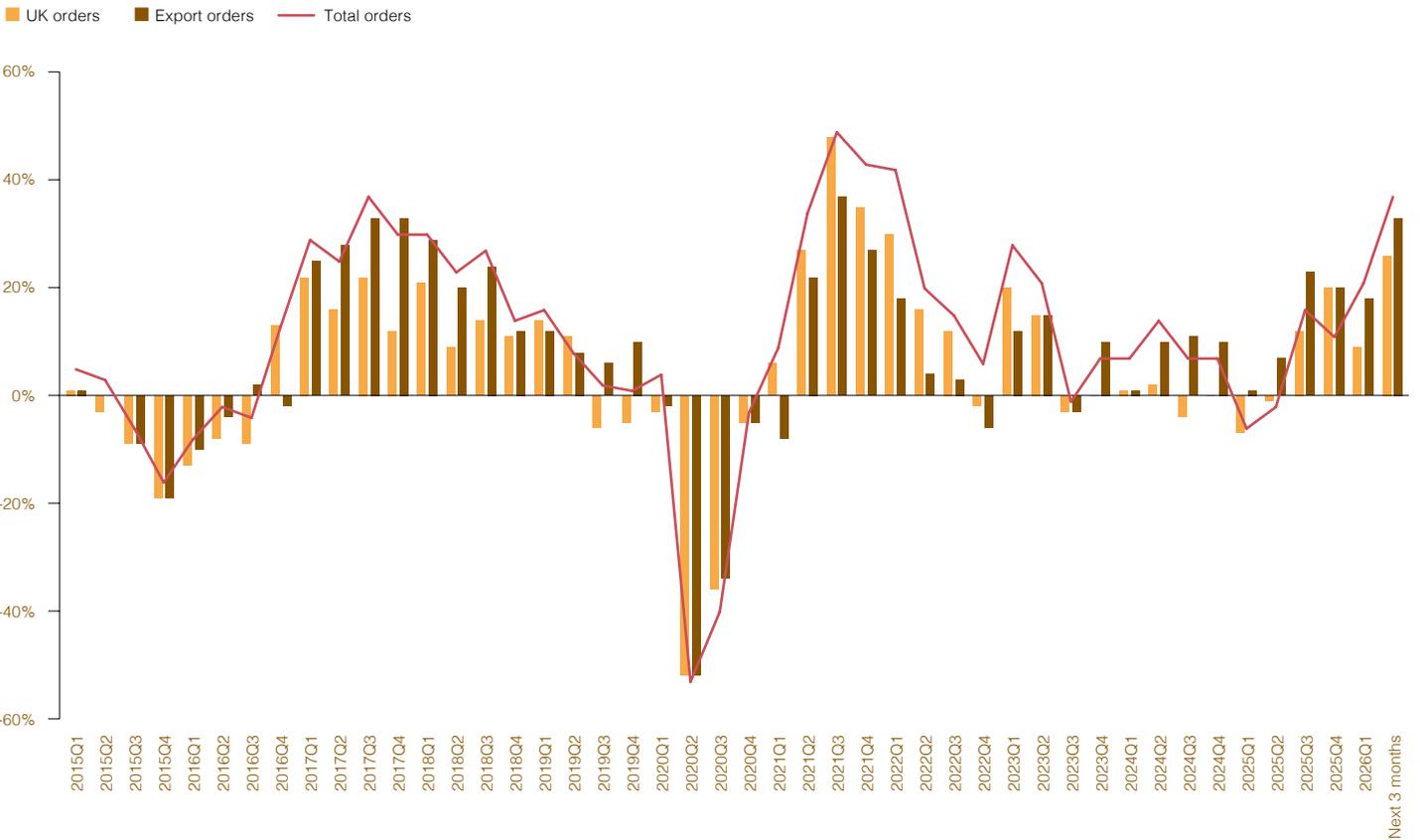
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UK Orders

The balance for UK orders declined since last quarter, reporting at +9%, down from +20%. This is a sharp drop between two quarters and suggests a weakening of demand conditions from UK businesses, hence the sector prioritising its export orders to achieve growth. The current assumption is that this latest balance is not an indication

of a return to the weaknesses observed in the domestic market across the majority of 2024 and early 2025. However, subsequent survey results will be largely dependent on how external market conditions evolve, including the conflict in the Middle East, as well as other factors such as shortages in semi-conductors.

Total order books improve on balance % balance of change in orders



Source: Make UK Manufacturing Outlook Survey



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Export Orders

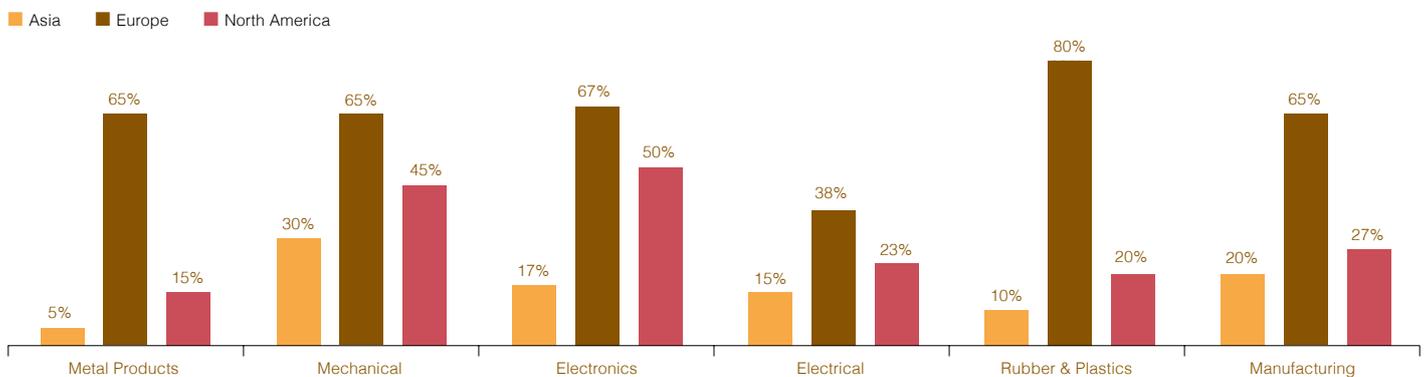
Export orders reported a balance of +18%, down from +20%. This indicates a slight slowdown in export activity, though it remains strong enough to boost total orders. The potential impact of more stringent tariffs applied by the world's largest economy should not be underestimated. Regardless of the actual policy, the main cost to businesses comes from the effort required to understand and respond to the unpredictable nature of the US administration. In response to the US Supreme Court strike down, the US President has increased global baseline tariffs to 15%. Now, Make UK is

simply seeking greater clarity on how tariffs will continue to be implemented, and where possible exemptions may exist.

The hierarchy of market importance for where demand is originating has returned to a consistent normality. Europe remains the most important market, with 65% of companies indicating positive demand conditions from the region. In uncertain times, it is critical the Government prioritises alleviating barriers to UK-EU trade as a means to strengthening our own economic security.

Demand from Europe dominates opportunities for manufacturers

% 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*	-	-	-	-	-	-
Metal Products	9%	38%	8%	16%	11%	40%
Mechanical	-3%	24%	26%	35%	21%	34%
Electronics	25%	38%	50%	63%	50%	63%
Electrical	15%	16%	0%	35%	15%	16%
Rubber & Plastics	9%	9%	20%	10%	27%	9%
TURNOVER						
£0-9m	-7%	14%	6%	22%	6%	16%
£10-24m	36%	46%	18%	38%	46%	49%
£25m and over	30%	36%	32%	33%	27%	42%

*insufficient sample

Source: Make UK Manufacturing Outlook Survey



Employment & Investment

Following near-flat performance last quarter, employment prospects have improved this quarter, if only by a little. Manufacturers are evidently still cautious of growing headcount against a backdrop of rising costs and incoming enhancements to employment regulations. However, investment intentions have seen sustained performance, a particularly welcome observation for an industry that continues to find itself embattled with rising costs and the frictions of increasingly complicated geo-politics.

The employment figure for this quarter reported at +8%, a modest increase over the +3% that was reported last quarter. Despite only a small change, it's the direction of travel that is encouraging for the sector as it looks to loosen its attitude to hiring, not to retreat further into hiring freeze territory. Often, as previous editions of *Manufacturing Outlook* have shown, in times of heightened uncertainty one of the first observable symptoms from a distressed sector is a retrenchment to ceasing almost all hiring activity, at least temporarily.

Seeing growth, albeit minor, in the employment balance figure relative to last quarter is encouraging for the sector's overall labour position. Currently, there have been and will be disincentives to hire, such as last year's increase to National Insurance contributions by employers, and to come in the form of measures from the Employment Rights Act. Therefore, even a small improvement in the sector's employment activity, despite these detractors, indicates a degree of resilience in the industry's employment market.

The future three-month employment expectation performance grows further still, with the sector expecting to report an employment balance figure of +18% in the second quarter of this year.

As of January 2026, there were 52,000 live vacancies in the UK's manufacturing sector, an increase from the 48,000 that were reported in the previous quarter's edition of this report. As a ratio, that is for every hundred jobs in the sector, 2.1 are vacant, up from 2.0 in last quarter's report.

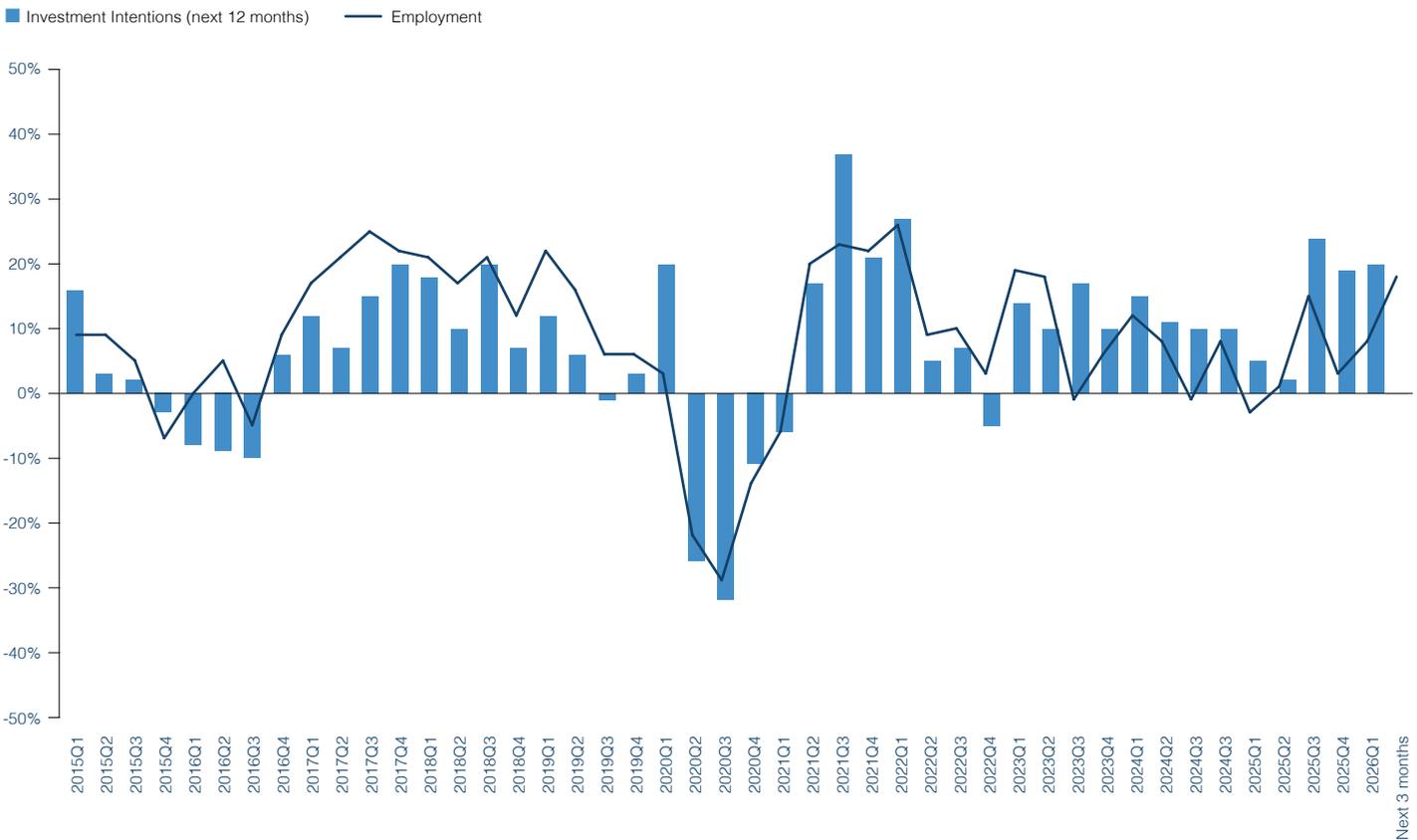
The vacancy ratio data for the sector dates back to 2001, and the long-run average for the ratio, pre-pandemic (i.e. 2021), stands at approximately 1.8. Since the peak of 4.0 in late 2022, this ratio has been steadily reducing, albeit over a long period of time. Two quarters ago, we reported that when the ratio hit 1.9, it was the closest it has been since before the pandemic of reaching the long-run average historical level of 1.8. Now, conversely, this represents a moving away from the inflexion point, with the vacancy ratio now steadily increasing again away from that baseline.

EMPLOYMENT	PAST THREE MONTHS	↑ 8%	NEXT THREE MONTHS	↑ 18%
INVESTMENT	NEXT TWELVE MONTHS	↑ 20%		

The investment intentions metric, which measures the sector's intention to invest over the coming 12 months, has been perhaps the most encouraging figure in the entirety of this edition's research. Having spiked to an elevated level in the third quarter of last year, a level not seen since the start of 2022, it was feared at the time that this positivity would not be sustained beyond a single quarter. Yet, it has. For the third quarter in a row now the sector's investment intentions have remained near to the +20% balance figure, with this quarter's figure reporting at exactly +20%.

The reason why it wasn't roundly expected that investment intentions would be sustained as they have done, is the elevated battery of costs that manufacturers continue to face, which have not shown much sign of abating over the same three-quarter period. Nevertheless, given these intentions are measured as a future 12-month metric, if we observe continued investment balance figures in the coming quarters we can certainly expect to measure rendered investment improvements.

Recruitment activity weak, but recovers slightly. Investment growth stable % 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*	-	-	-
Metal Products	0%	9%	40%
Mechanical	3%	13%	-5%
Electronics	38%	38%	38%
Electrical	5%	30%	10%
Rubber & Plastics	-18%	0%	-11%
TURNOVER			
£0-9m	-2%	12%	8%
£10-24m	8%	21%	26%
£25m and over	5%	19%	28%

*insufficient sample

Source: Make UK Manufacturing Outlook Survey





Prices & Margins

This quarter's pricing data marks the end of a two-year period where price-setting behaviour has been cooling. The sector reports that prices have continued to increase over this period, but the rate at which these prices are increasing has been steadily declining.

The latest data shows that price setting behaviour across both UK prices and Export prices has increased significantly, and in relatively equal measure. This follows on from the data last quarter which showed that the rate of increase of prices was its lowest since early 2021.

The balance figure for UK prices reported at +31%, and for export prices at +34%. This is approximately twice as large a balance figure for both UK and export prices compared to the previous quarter, where the figure was reported at +14% and +18% respectively.

What had been of particular note last quarter was the significant improvement in the sector's margins, both in the UK and for exports, with both metrics moving into positivity together for the first time since 2021. It had been hoped by the sector that this margins recovery would be sustained, however the latest data shows that this has not been the case.

The balance figure for UK margins reported at -6%, and for export margins at +4%. This is a notable drop, particularly in the case of UK margins, compared to last quarter's +14% and +7% respectively.

This dichotomy of heightened pricing yet lowered margins indicates, at least in the short term, that costs are

accelerating for manufacturers at a rate greater than which they are passing them on to their customers. If this phenomenon is sustained into the next quarter, we could unfortunately expect this gap to widen, with margins coming under further attack. This is of particular concern as the effects of the accelerating war in the Middle East are not yet included, as the data was collected before it had gained momentum. The implications on energy pricing in the UK market are now severe.

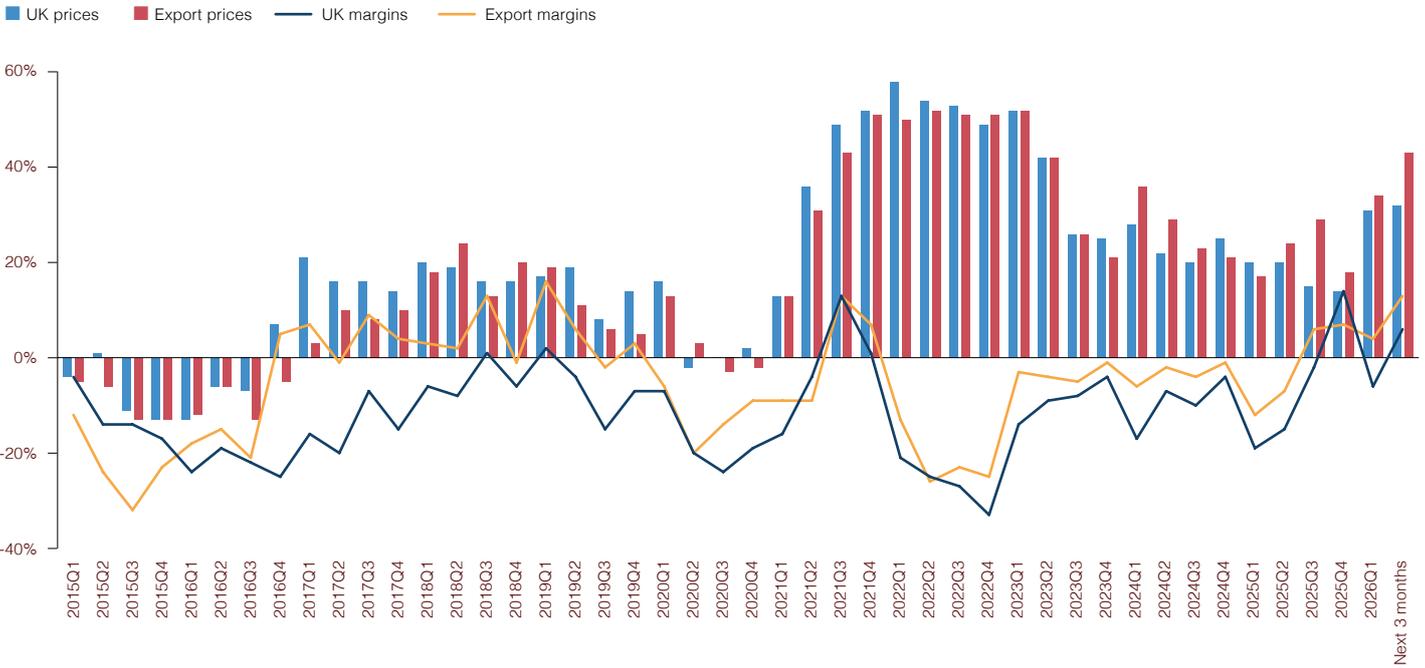
Future three-month expectations expect this increased price setting behaviour to continue, with the sector expecting to report next quarter a balance figure of +32% for UK prices and +43% for export prices. Even though this sentiment doesn't include the likely inflationary effects of the latest geopolitical developments, we can already see that the sector, on aggregate, is expecting to price higher for the export market than it is for the UK market, despite prices already being elevated.

On the other hand, margins are expected to see little improvement, with the sector expecting the next quarter for UK margins to be pulled out of negativity to a +6% balance figure, and up to +13% for export margins. Note that perhaps it is this expected elevated export pricing strategy next quarter that is enabling the expectation of relatively higher margin growth for the export market next quarter.

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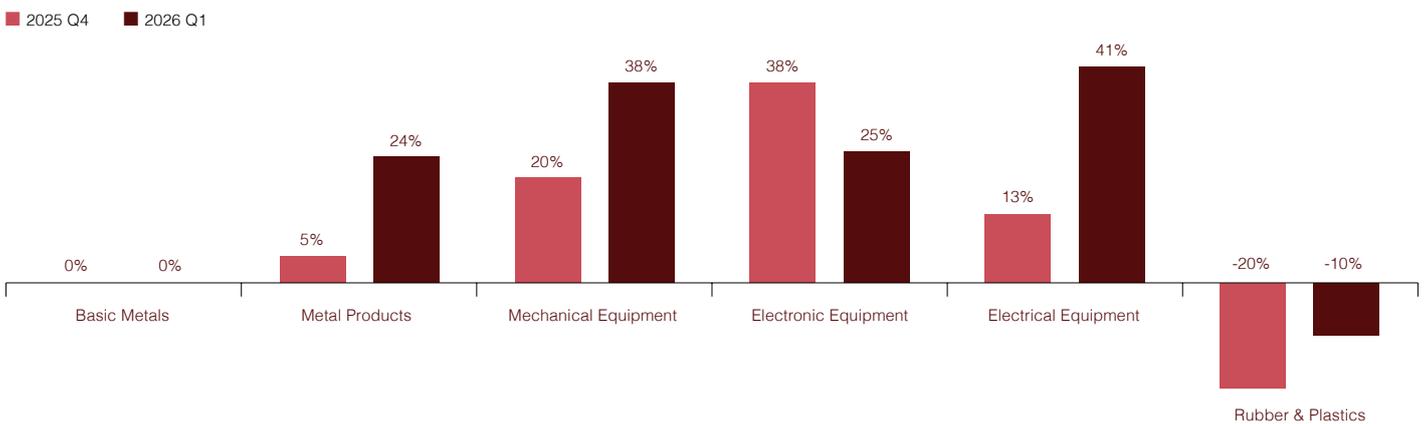
A sharp spike in prices indicate businesses are passing through costs % balance of change



Source: Make UK Manufacturing Outlook Survey

UK PRICES	PAST THREE MONTHS	↑ 31%	NEXT THREE MONTHS	↑ 32%
EXPORT PRICES	PAST THREE MONTHS	↑ 34%	NEXT THREE MONTHS	↑ 43%
UK MARGINS	PAST THREE MONTHS	↓ -6%	NEXT THREE MONTHS	↑ 6%
EXPORT MARGINS	PAST THREE MONTHS	↑ 4%	NEXT THREE MONTHS	↑ 13%

Export prices increased for capital and electronic goods % balance of change in export prices in the past three months



Source: Make UK Manufacturing Outlook Survey



National & Regional

Confidence across the UK manufacturing sector remains positive, albeit headline optimism has been on a slow-moving downward trend since the second quarter of last year. This is despite actual manufacturing performance being stronger than anticipated in many of these quarters, which further strengthens the view that subjective optimism no longer strongly correlates to the realities of business growth. This is because, even if manufacturers are performing well in the short-term, the level of uncertainty in current economic conditions makes long-term planning more challenging.

Confidence can still help us understand the mood of businesses today, which may in turn impact investment choices or risk-taking behaviours. Make UK's Investment Monitor survey points to confidence being the main factor that determines whether a senior decision maker will increase or decrease their investment¹.

Across the UK, confidence is positive in all regions and nations. Except for in the North East, all parts of the UK reported a confidence figure of more than 6 points (where '5' determines the inflection point between positive and negative confidence). It is welcome that so many manufacturers across the nation continue to maintain a positive view of business conditions, though the latest sentiment does not include recent geopolitical shocks.

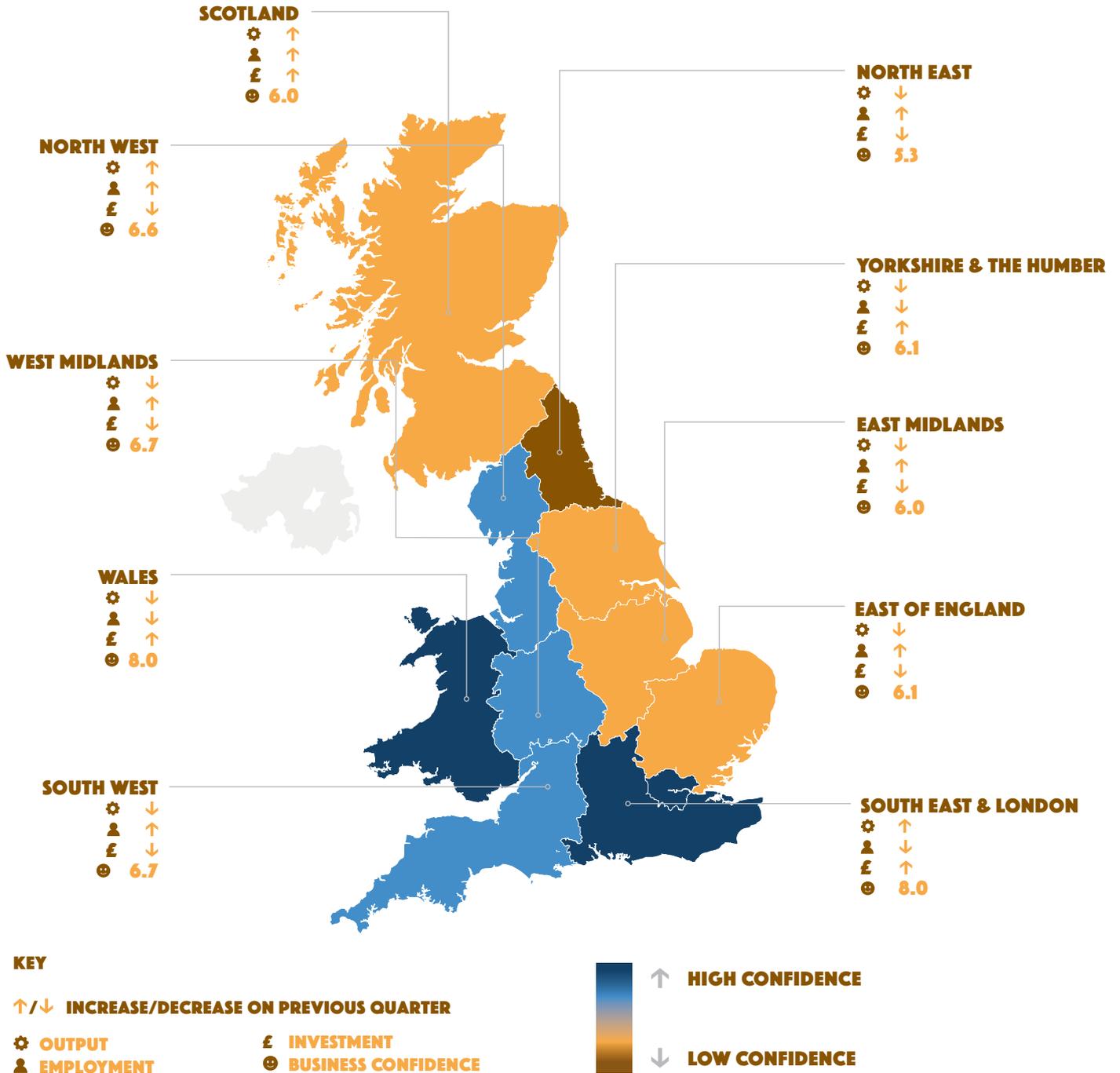
All regions and nations reported above the '5' inflection point. The variation between regions and nations is relatively tight but there are several standout areas worth highlighting.

For example, surprisingly manufacturers in Wales scored their business confidence at 8, which is the joint highest level of optimism in the UK. This was matched by manufacturers in the South East & London which is heavily dominated by Food & Drink manufacturing. However, it is worth noting the sample size for Wales is relatively smaller than other regions which may lead to some bias in the data.

The lowest business confidence reported was from the North East of England, at 5.3. This is still an optimistic view from manufacturers in this region, though this region is host to a large cluster of Chemical manufacturers – a sector that has faced significant challenges in recent months. All other regions have averaged closer to the headline business level for the UK, with the most positive regions, excluding the top two, being the South West (6.7), West Midlands (6.7), and North West of England (6.6). Only five parts of the UK reported a confidence level that was below the national average (Scotland, Yorkshire & the Humber, East Midlands, and the East of England).

¹Make UK/ RSM, Investment Monitor, 2026

Headline business confidence reported at 6.5, down from 6.7



UK economy confidence

Manufacturers' confidence in the overall UK economy reported at 5.7, negligibly down from 5.8. This suggests that manufacturers across the nation on average have not changed their views on how the economy will be performing over the next 12 months. However, given that recent turmoil has not been accounted for in the

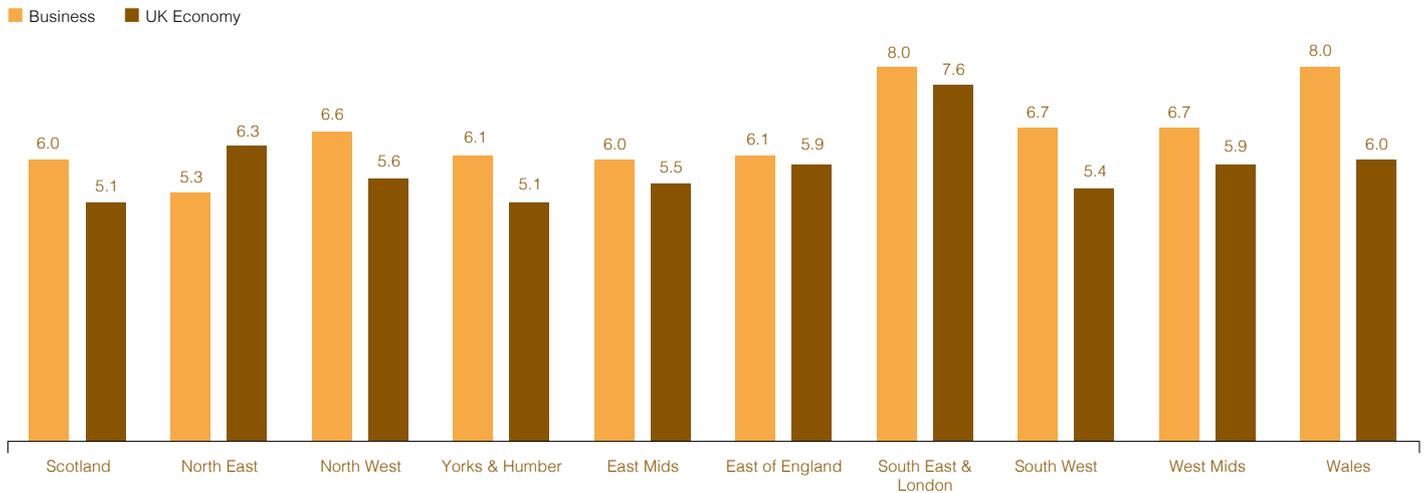
latest survey data, it is possible that expectations for the economy have already been downgraded by manufacturers. As is historically the case, manufacturers remain relatively more optimistic about their own business conditions than they do about the wider economy.

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Most 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

Region	OUTPUT		TOTAL ORDERS		EMPLOYMENT	
	Past three months	Next three months	Past three months	Next three months	Past three months	Next three months
Scotland	14	40	10	27	0	13
North East	-25	-50	0	-25	-25	25
North West	29	6	18	24	0	13
Yorks & Humber	10	70	22	67	20	10
East Mids	0	25	0	0	-25	-25
East of England	0	0	0	0	0	0
South East & London	59	68	77	68	14	43
South West	-22	56	11	56	0	38
West Mids	14	24	33	33	-10	5
Wales	0	100	100	100	100	100

Source: Make UK Manufacturing Outlook Survey



Economic Environment

The last several months of 2025 felt like there was something missing in the economy. In most months GDP grew slightly, though the manufacturing sector was rarely credited as the year presented numerous challenges, from global trade shocks to cyberattacks. It's no surprise many economists' and analysts' anticipation prior to the publication of monthly GDP figures from the Office of National Statistics (ONS) mirrored the same behaviours one might expect when waiting for their lottery numbers to be drawn on live television. Every month there was a question about where we won more growth, or lost ground to our international peers.

As expected, the UK economy entered the final quarter of 2025 in a subdued position. The ONS reported that GDP contracted by -0.1% in both October and November before returning to marginal growth of 0.1% in December. This pattern suggests a period of stagnation rather than outright recession, with activity stabilising toward year-end, likely due to the holiday period and optimism for 2026. Fortunately, growth is forecast to recover gradually through 2026 and 2027, with projections of around 1.3% annual GDP growth by 2027. On top of this, manufacturing production is expected to be a positive contributor to overall growth, exemplified by our latest survey data as well as recent reports from the Purchasing Managers Index (PMI) for manufacturing.

Manufacturing output growth in late 2025 was uneven. Output contributions remained negative through much of Q4 before turning marginally positive in December (0.16%), suggesting tentative stabilisation heading into 2026. Performance diverges across subsectors. Energy-intensive industries and investment-sensitive sectors continue to face pressure from cost bases, regulatory requirements, and

subdued business confidence. The chemicals sector, for example, has experienced insolvencies and significant strain linked to high energy costs, regulatory burdens, and export challenges.

By contrast, defence-linked industries and transition-focused sectors such as advanced manufacturing and clean energy demonstrate relative resilience. Recent policy developments include the expansion of the Drive35 programme to £4bn through 2035, supporting zero-emission vehicle manufacturing through grants and R&D projects². Investment commitments such as Nissan's £450m³ investment in Sunderland to produce the next generation LEAF, and Associated British Ports' sustainable automotive terminal in Southampton, reinforce longer-term capability.

In clean energy, the selection of Wylfa as the UK's first small modular reactor site, backed by £2.5bn in funding⁴, signals sustained public investment in energy infrastructure. The Clean Energy Jobs Plan⁵ identifies 400,000 potential new jobs by 2030 and the creation of technical excellence

²DRIVE35 Funding Programme - GOV.UK

³Nissan launches £450m next-generation LEAF in major vote of confidence in UK's Industrial Strategy - GOV.UK

⁴Wylfa announced as the site for the UK's first Small Modular Reactor - GOV.WALES

⁵Clean energy jobs boom to bring thousands of new jobs - GOV.UK

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colleges, supporting workforce transition and skills development. These initiatives indicate a strategic shift toward long-term industrial capacity, although businesses report that implementation pace remains a concern.

Internationally, global growth remains moderate at around 3%, with inflation easing to approximately 3.3%. The US economy continues to demonstrate relative resilience compared to other economies. The Eurozone has experienced weaker momentum but is expected to stabilise. Germany and France show tentative recovery after earlier softness, while Japan experiences continued stagnation. China's growth trajectory continues to moderate compared to previous years, and India remains comparatively strong but will fall below its recent peak rates. Overall, the global environment is characterised by modest expansion, ongoing geopolitical uncertainty, and uneven regional performance.

Headline inflation is expected to settle closer to 2% this year, though our survey data suggests upstream inflation could be accelerating as business costs rise. Currently the official data for Producer Price Inflation (PPI) indicates easing pressures but this will need to be carefully watched. Although inflation remains above the Bank of England's 2% target, central bankers may face increasing pressure to cut rates further in 2026.

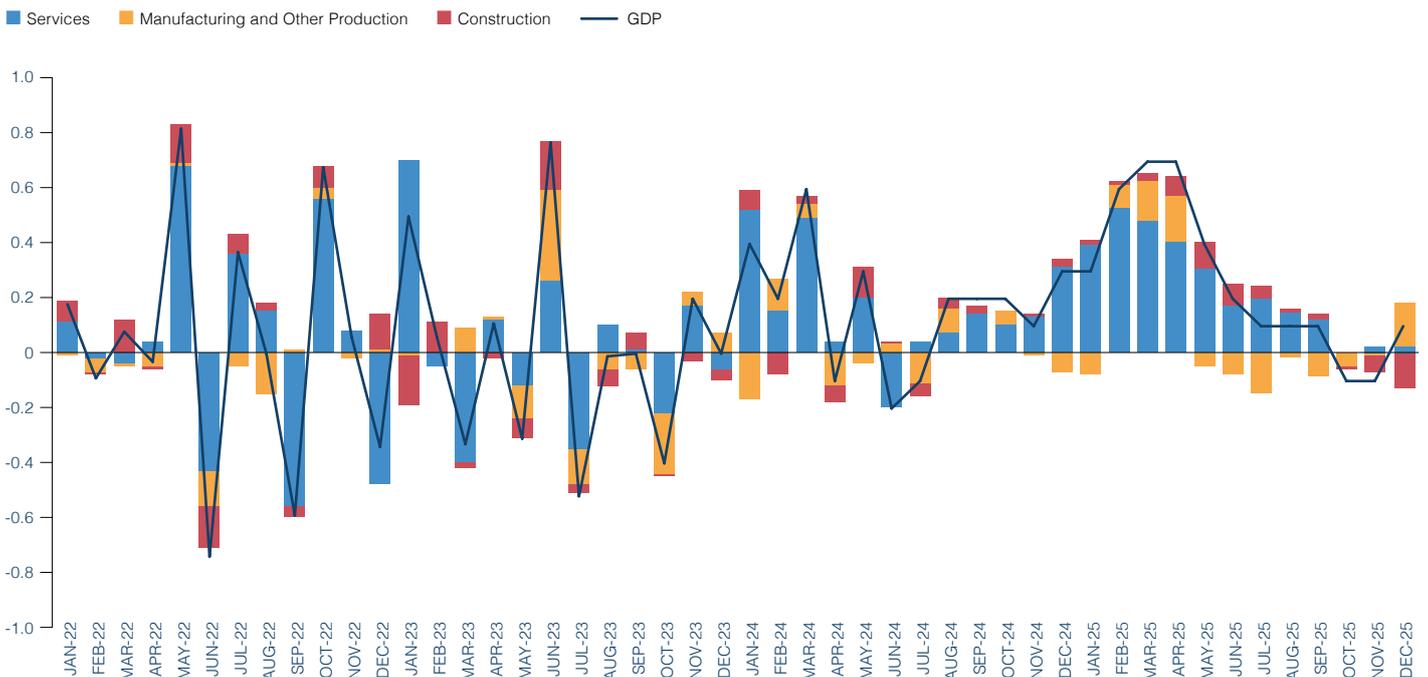
Despite both CPI and PPI indicating a gradual normalisation of price conditions, cost pressures remain elevated due to a series of policy driven increases. Employers face higher labour costs following the rise in National Insurance Contributions (NICs) that took effect in April 2025, alongside persistent energy cost challenges. These pressures will intensify further from April 2026, with increases in minimum wage rates, including a 6% uplift for apprentices and a 4.1% increase in the National Living Wage.

Global trade conditions remain fragile and geopolitical tensions and trade policy uncertainty continue to weigh on business confidence. For UK manufacturers, export conditions remain mixed. Regulatory and compliance burdens affecting EU trade continues to create headwinds for certain subsectors, such as Chemicals, Pharmaceuticals and Food.

Overall, the economic environment is characterised by gradual stabilisation rather than strong expansion. Inflationary pressures are easing, global growth remains moderate, and manufacturing is showing early signs of recovery, albeit with uneven sectoral performance and persistent structural cost pressures.

A recovery in production activity fuelled recent economic growth

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



Source: ONS



Conflict in the Middle East risks a novel energy crisis and disruption to global supply-chains

Rising tensions across the Middle East are driving sharp volatility in global energy and commodity markets, with oil prices fluctuating between \$118 and \$100 per barrel, briefly peaking at \$119.

Qatar's shutdown of the world's largest LNG facility and ongoing uncertainty around the Strait of Hormuz are constraining global gas and fertiliser supplies, raising concerns around future food price volatility. There is a risk that the UK could experience an energy crisis that is worse than during the invasion of Ukraine.

Manufacturers across the UK have already started reporting immediate impacts as a result of this situation, which are immediate and significant. At the time of writing, gas prices have surged more than 50%, with some firms reporting an increase of more than 80%, feeding into higher electricity costs and increased prices for petrochemicals, metals, and glass inputs.

Logistics challenges are compounding too, as port closures are leading to reduced capacity in shipping, higher prices as well as longer lead times to send and receive goods.

It is still quite early for any business to produce a response to this challenge, though based on past experience it is likely that manufacturers will aim to bring forward orders where possible, hold higher inventories, and start revising budgets which could impact employment and investment decisions. The next *Manufacturing Outlook* Survey for Q2 2026 will explore this impact more closely.

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UK Economic Forecasts % change except where stated

	2025	2026	2027
Trading environment			
Exchange rate (€/£)	1.15	1.11	1.1
Exchange rate (\$/£)	1.35	1.31	1.3
Exports	2.1	0.9	1.1
Imports	4.2	0.4	1.2
Current account (% GDP)	-2.9	-3.0	-2.8
Output			
Manufacturing	-0.2	0.9	0.9
GDP	1.3	0.9	1.3
Costs and prices			
Average earnings	4.8	3.6	3.09
Oil price (Brent Oil \$/bl)	69	62	56
Employment			
Manufacturing (000s)	2,525	2,475	2,437
Rest of economy (000s)	36,702	36,804	37,129
Unemployment rate (%)	4.8	5.2	5.0

Source: Oxford Economics and Make UK

International Economic Forecasts % change

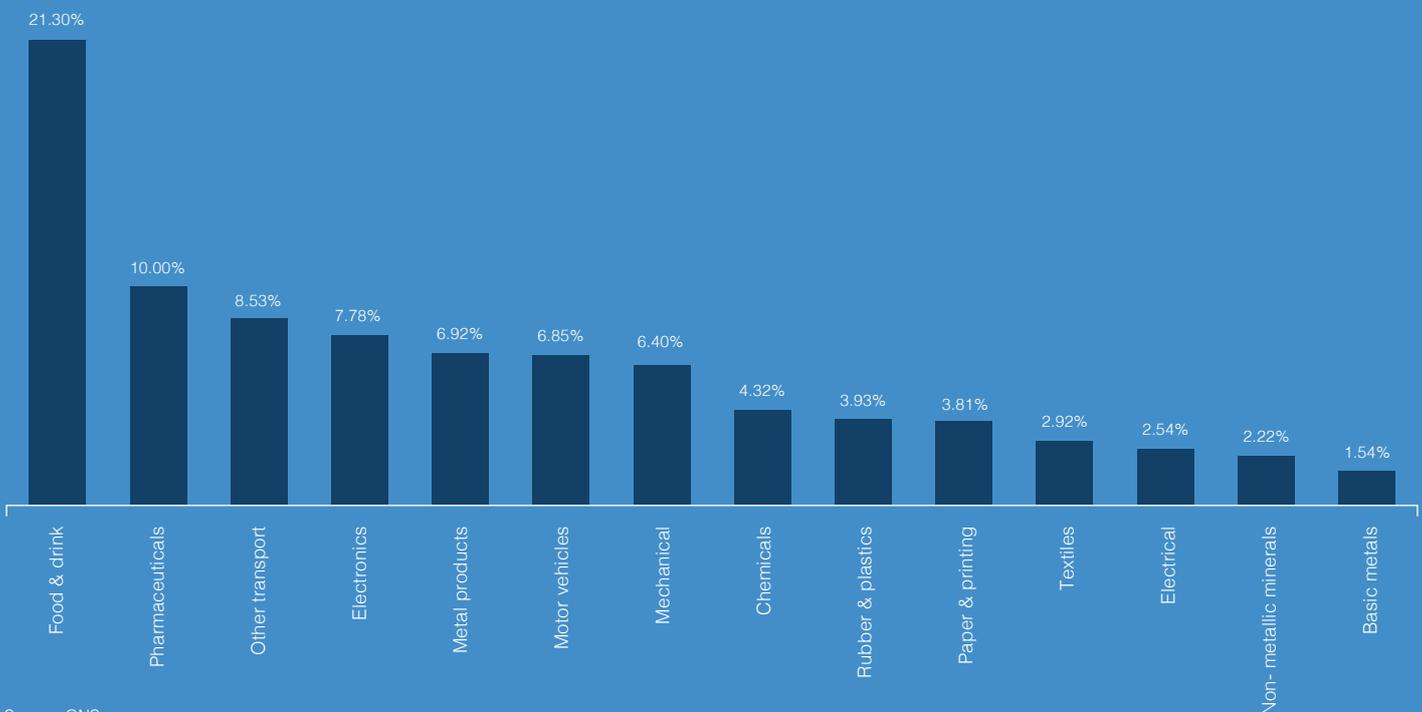
	GDP			INFLATION		
	2025	2026	2027	2025	2026	2027
US	2.3	2.8	2.4	2.7	2.5	2.1
Eurozone	1.5	1.1	1.6	2.1	1.7	1.9
France	0.8	0.9	1.1	1.0	1.1	1.7
Germany	0.2	0.7	2.0	2.2	1.7	2.1
Japan	1.2	0.7	0.6	3.2	2.5	2.0
China	5.0	4.7	4.4	0.0	0.9	1.4
India	7.6	6.7	6.9	2.0	3.9	4.4
World (US\$ weighted)	3.0	3.0	2.9	3.4	3.3	3.0

Source: Oxford Economics

Sector Forecasting 2026 Q1

Q1 2026 Manufacturing Sector composition by GVA

Subsector share of Manufacturing Gross Value Added



Source: ONS

Food & Drink

The **Food & Drink** subsector is the UK's largest manufacturing subsector by a factor of over 2, accounting for 21.3% of total manufacturing gross value added, an increase of three percentage points since our last report. Despite this, output growth in the sector is expected to be weak at 0.2%, lower than the sector average of 0.9%. As a consumer-facing and margin-sensitive sector, performance reflects continued caution in household spending alongside ongoing cost pressures across energy and agricultural inputs. Employment is forecast to contract by -3.6%, compared to the sector average contraction of -1.2%. This is likely due to the rising cost of employment. However, despite output and employment contractions, the rise in GVA share suggests productivity gains rather than output-based expansion. Conditions are likely to stabilise throughout 2026, with output edging up slightly, and the employment contraction rate is likely to slow down.

Electronics

The **Electronics** subsector share increased marginally from 7.4% to 7.8%, which follow expectations from the previous quarter. Output is expected to experience a decrease of -0.2%. This is partly due to the rising cost of chips, fuelled by competition for AI based technologies. However, the electronics subsector is forecast to be more robust than the manufacturing average, pointing to positive demand. The outlook on employment rates has been revised, as employment is expected to contract by -2.7%, due to the sustained increase in employment costs. Looking to 2027, output is forecast to increase and employment contraction rates to slow down.

Basic Metals and Metal Products

The **Basic Metals** subsector experienced mild growth in its GVA share, rising from 1.2% to 1.5%. Continuing analysis from the previous quarter, output is forecast to

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contract significantly faster than the sector average (-8.4%). Uncertainty over energy prices, critical minerals, and geopolitical tensions are likely to account for this. Employment is forecast to contract by -4.1% in 2026, worse than the manufacturing average. This aligns with expectations from the previous quarter and follows high employment costs for businesses. However, output and employment is expected to stabilise in the long term, suggesting an optimistic outlook from businesses.

The **Metal products** subsector's total GVA share now only accounts for 6.9% of the manufacturing industry, compared to its 8.6% share at the end of 2025. Similarly to Basic Metals, this is due to known unstable economic conditions. Output is forecast to decline by -0.4%, which is more positive than expectations at the end of 2025. The forecast for employment growth is positive, predicted to jump by a whopping 11.5%. This follows previous analysis that businesses are anticipating stronger demand and increasing headcount. Therefore, despite a GVA share decrease, business confidence remains stable and recruitment intentions suggests an expectation in impending growth and stability.

Mechanical Equipment

The **Mechanical Equipment** subsector's output growth is expected to grow by 0.3% in 2026. The weak projection for growth this year sets a negative precedent for capital investment in the economy, given this industry is the producer of plant & machinery. Employment is expected to contract by -3.1%, which is nearly double the sector average (-1.2%). This suggests the sector has taken a hit from rising employment and tax costs, which are a significant hindrance for business investment. Efforts towards automation may also account for this. Looking towards 2027, output is expected to increase, while employment is expected to continue to contract. This suggests positive expectations regarding continuing gains in automation.

Textiles

The **Textiles** subsector remains a volatile sector to follow. In 2025, the industry contracted by -4.5%, coupled with a substantial fall in employment by -13%. However, forecasts are less negative for 2026, with output to contract by -2.9% and employment to increase by 0.9%. While output growth is much lower than the manufacturing sector average, minimal gains in employment suggest that businesses have some confidence that demand will rise, and that this is being reflected in workforce expansion. Though, looking toward 2027, as employment is expected to contract again the industry is likely expecting limited opportunities for growth. This may be due to the impact of higher employment costs and employment legislations beginning to take effect.

Paper & Printing

The **Paper and printing** sector is likely to experience marginal growth in 2026. Output is forecast to decline by -0.7%, worse than the manufacturing average. Employment is forecast to fall significantly by -7.1%, the most negative forecast of all manufacturing sectors for 2026. This suggests that while there may be mild productivity gains, declines in output and employment may weigh heavily on regional labour markets where this activity is concentrated.

Electrical Equipment

The **Electrical Equipment** subsector grew by 2.8% in 2025 but is forecast to slow down slightly throughout the rest of 2026. As it stands output is forecast to decrease by -0.3%. Towards 2027, output is expected to grow by 2.1% which will be partially supported by investments in infrastructure. Employment is forecast to decrease, by -2.7%, which follows expectations of a decline in headcount at the end of 2025, but this is slightly more than expected. However, it will stabilise in 2027, with employment forecast to rise by 0.7%. This suggests a positive outlook for 2027, with gains expected in both output and employment.

Non-Metallic Minerals

The **Non-Metallic Minerals** is closely tied to construction and infrastructure activity through the supply of bricks, glass, aggregates and related products. Output is projected to increase by 0.2% this year. This is a less optimistic forecast than the previous quarter, but suggests the sector is still performing well. This outcome of the forecasts will depend highly on the Government's commitment to kickstart infrastructure projects around the nation. The employment forecast is expected to increase by 0.7%, which is in line with previous expectations. Headcount is forecast to continue to rise going into 2027.

Pharmaceuticals

The **Pharmaceuticals** sector is likely to perform positively. Output is forecast to see no change, which is better than the report's previous forecast. As this sector was unveiled as part of the Government's Industrial Strategy to be included within the life sciences group rather than advanced manufacturing indicates that support for the industry will increase over time. As the forecasts indicate, output and employment are faring better than the manufacturing sector averages (0.9% and -1.2% respectively) and the industry is stronger than was expected at the end of 2025.

Chemicals

The **Chemicals** subsector continue to face contraction in both output and employment, following earlier forecasts. Output is expected to fare less well than expected, decreasing by -1.1%. Employment is expected to decrease by -2%. Despite

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these contractions, the outlook is more positive than the previous year, as employment numbers were expected to be much worse. This suggests that despite continuing challenges relating to exports and tariffs, the industry is resilient. Looking towards 2027, output is expected to increase marginally, while employment contractions will stabilise, pointing to strong global demand.

Rubber & Plastics

The **Rubber and Plastics** sector continued its modest growth despite output and employment contracting. Output is forecast to decrease by -0.5%, underperforming the manufacturing average, and is likely to experience gains towards 2027. Employment is forecast to contract significantly by -6.4%, far higher than the sector average, a reflection of higher employment costs and interest in automation. Employment is forecast to stabilise in 2027, suggesting that the sharp decline in headcount may be a blip.

Motor Vehicles (Automotive)

The **Motor Vehicles** subsector output forecasts follow expectations from the previous quarter, demonstrating a rebound growth. This suggests a successful bounce back from

2025 production stoppages due to cyber-attacks. Output is forecast to increase by 4.1% in 2026 and then increase by 1% in 2027. Employment is forecast to contract by -1.8%, in 2026, and again by -0.3% in 2027. This is likely due to uncertainties about the market and demand, as well as uncertainty coming from U.S. tariff policy. However, a strong backing from the public sector will ensure this industry has ample opportunities to invest and grow. The main concern is whether the industry can keep up with the advancements in automotive supply-chains overseas in countries like Poland or the Czech Republic where substantial investment is currently flowing.

Other Transport

The **Other Transport** subsector, which includes aerospace, defence, ship building, and rail, increased its sector share to 8.53%. Output is forecast to increase by 1.2%, which is better than expectations from the previous quarter, and is likely following commitments from the government to increase defence spending. Employment is forecast to contract by -0.7%, which follows expectations of a modest decline, and is expected to continue contracting into 2027. This points to gains in automation and productivity, though it may also reflect the rising cost of labour.

Sector growth rates and forecasts % change

	OUTPUT			EMPLOYMENT		
	2025	2026	2027	2025	2026	2027
Basic metals	-11.4	-8.4	-1.2	-8.6	-4.1	0.4
Metal products	-6.1	-0.4	2.3	5.8	11.5	-0.4
Mechanical	4.5	0.3	2.5	-0.8	-3.1	-3.1
Electronics	2.8	-0.2	0.8	1.3	-2.7	-1.1
Electrical	2.8	-0.3	2.1	5.9	-2.7	0.7
Motor vehicles	-7.0	4.1	1.0	-2.8	-1.8	-0.3
Other transport	6.3	1.2	2.0	4.9	-0.7	-2.5
Food & drink	0.1	0.2	0.4	-0.1	-3.6	-2.3
Chemicals	-3.0	-1.1	1.3	-7.3	-2.0	-0.5
Pharmaceuticals	5.8	0.0	1.4	5.3	-0.3	0.8
Rubber & plastics	1.1	-0.5	1.0	-4.1	-6.4	0.2
Non-metallic minerals	-3.9	0.2	0.2	-8.1	0.7	1.2
Paper & printing	-1.5	-0.7	-0.4	-0.7	-7.1	-4.6
Textiles	-4.5	-2.9	-2.8	-13.0	0.9	-3.3
Manufacturing	-0.2	0.9	0.9	-0.7	-1.2	-1.4

Source: Make UK and Oxford Economics

Manufacturing Outlook

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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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