

UK AUTOMOTIVE SECTOR RESILIENT BUT CAUTIOUS AS IT LOOKS TO THE FUTURE

- *Automotive manufacturers' investment plans on track despite ongoing uncertainty*
- *EU exit still seen as biggest threat to sector*
- *Manufacturers to focus investment in R&D in low carbon or electric vehicle technology*
- *Automotive firms determined to pursue new international opportunities*

The UK automotive industry remains resilient despite ongoing uncertainty presented by the global economy and the UK's future relationship with the EU, according to new research released today by Lloyds Bank Commercial Banking.

Lloyds Bank's third annual survey of the UK automotive manufacturing sector and its supply chain analyses the state of the industry today and the opportunities and challenges it faces in the future.

Investment and growth

The research revealed average investment over the next two years is due to hold firm at 19 per cent of turnover and forecast a 15 per cent growth in turnover over the next two years, providing there are no political or economic shocks affecting demand or supply.

Almost four in ten businesses (39 per cent) expect growth to come from new product development. While some plan to support growth by investing in infrastructure (22 per cent) and pursuing mergers and acquisitions (20 per cent), this fell back significantly on last year, from 43 per cent and 35 per cent, respectively.

EU exit remains biggest threat to UK automotive firms

Almost a third of automotive manufacturers (30 per cent) consider the exit from the EU as the biggest threat to supply security over the next two years, while a similar number (29 per cent) said that leaving the EU was one of the biggest challenges facing the industry in the next two years.

The weakness of sterling is also a challenge for manufacturers with more than a quarter (26 per cent) identifying it as a potential issue. However, more than a third of businesses (34 per cent) expect to benefit from a more competitive export environment.

International Opportunities

Automotive firms appear determined to pursue new international opportunities as, over three quarters of firms (77 per cent) are investing or planning to engage with new international customers in the next two years.

The number of firms planning to engage new customers in Western Europe rose slightly to 65 per cent, from 61 per cent last year. The number of firms targeting North America grew more strongly, from 46 per cent to 53 per cent.

Job creation

The vast majority (87 per cent) of automotive manufacturers plan to create new jobs over the next two years. If their plans are replicated across the UK's automotive manufacturing firms, it would create almost 85,000 new jobs – a figure that remains unchanged year-on-year.

These job creation plans are underpinned by manufacturers' reshoring activity. The last time the research was carried out 58 per cent of firms said they planned to bring some manufacturing back to the UK within two years, growing to 64 per cent in the latest report.

Investment in R&D looks to future-proof sector

Technological innovation will continue to shape the sector over the coming years. Much of this innovation is to help cut vehicle emissions, addressing the fact that 62 per cent of firms thought the 2015 emissions issue had a negative impact on consumer confidence.

UK manufacturers' commitment to innovation has increased, with firms planning to invest an average of 24 per cent of current turnover into R&D over the next two years, up from 17 per cent.

Firms say this is due to manufacturers' reinforcing their plans to upskill their staff or change their processes to develop low carbon or electric vehicle technology. This is being pursued by 64 per cent of firms, up from 52 per cent last year.

In particular, 57 per cent of respondents said they had already made moves to develop driverless technology despite the field increasingly being occupied by new competitors such as Google, Apple and Uber.

David Atkinson, Head of Manufacturing at Lloyds Bank Commercial Banking and report co-author, said:

"The automotive industry remains the UK's largest manufacturing export sector with a national supply chain and a presence in every UK region. This report highlights an industry looking to the future, eager to put any uncertainty generated by the EU referendum behind it.

"Encouragingly, job creation is forecast to hold firm over the next two years. However, much rests on the nature of the UK's future trading relationships with some firms continuing to put plans on hold as they await the full details of Britain's exit from the EU.

"As the industry continues to experience its biggest period of transition for a generation, Lloyds Bank is well placed to support the sector's plans and investment in new technology, as part of our Helping Britain Prosper plan."

ENDS

Notes to Editors

- You can read the full report from this [link](#)

- Survey of 100 English, Scottish and Welsh businesses from across the automotive supply chain conducted by Coleman Parkes Research in November and December 2016. Breakdown of firms:
 - 50 companies with a turnover up to £25m
 - 40 companies with a turnover from £25m - £750m
 - 10 companies with a turnover of £750m+
- For more information, please contact Ed Smith or Chris Underwood in the Lloyds Banking Group press office on 020 7356 2374.
- *Job creation calculation:
 - 3,184 firms within the UK automotive manufacturing supply chain
 - % of firms that will create new jobs over the next two years = 87%
 - 87% of 3,148 = 2,739
 - Average 31 new jobs created, per firm, over next two years
 - $31 \times 2,739 = 84,909$

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