

CETOP Market Outlook web conference

Market Outlook Presentation

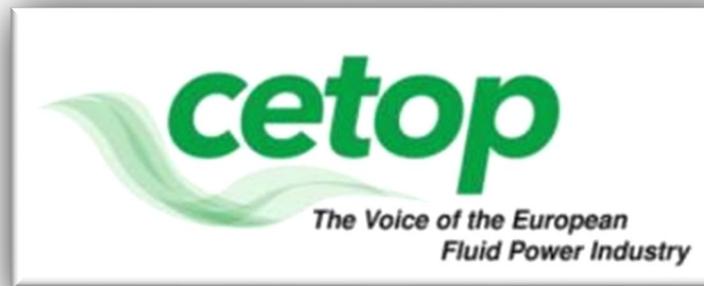
United Kingdom – BFPA

Chris Buxton

BFPA UK Market Overview

Chris Buxton – BFPA Director & CEO

10th February 2021



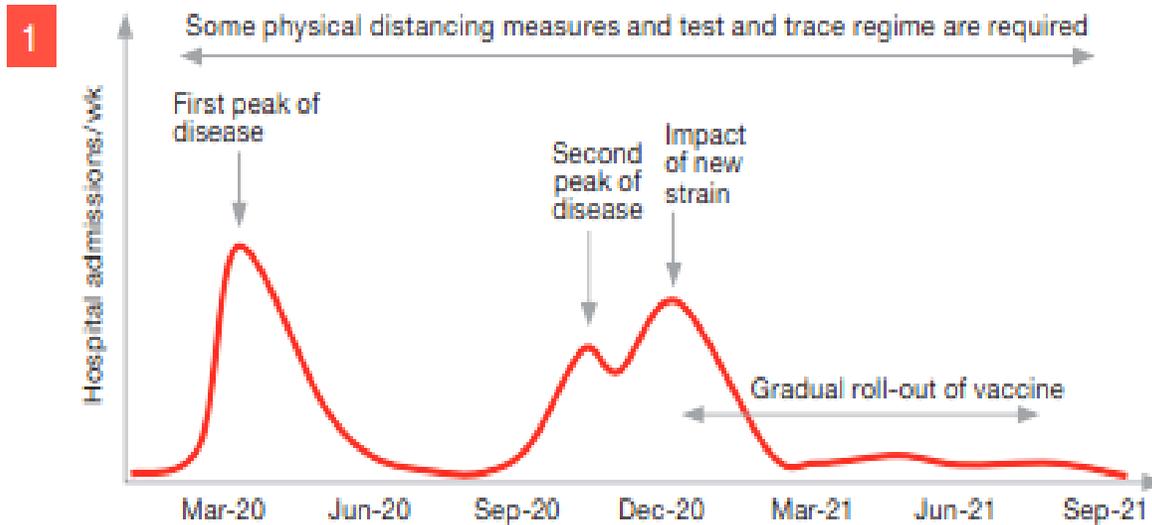
CETOP – Market Outlook Web Conference

1. Macroeconomic data

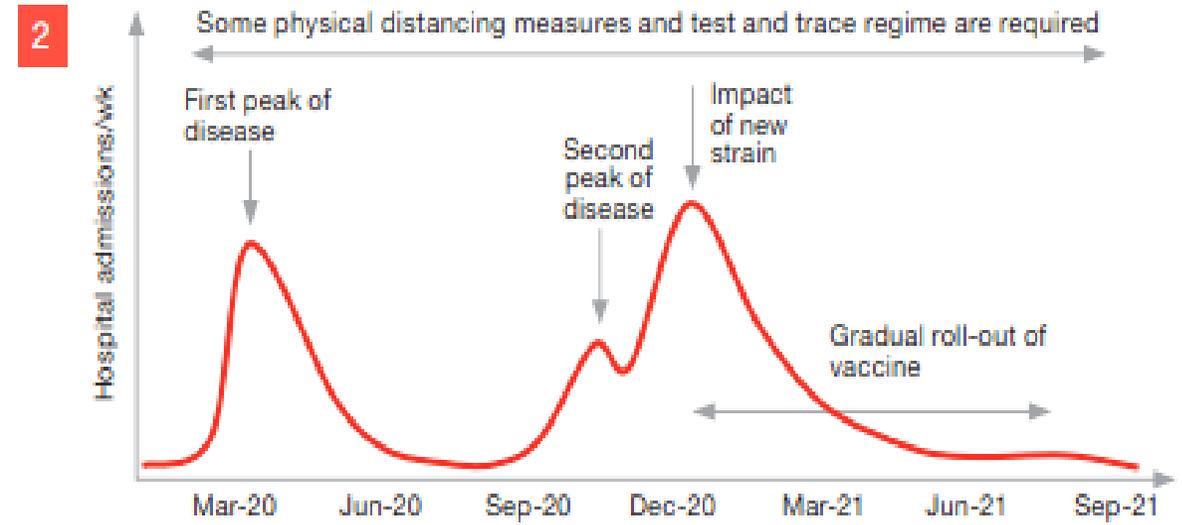
GDP Growth

Real GDP growth	2020	2021	2022	2023
Quick recovery scenario	-11.0%	4.8%	6.3%	2.0%
Slow recovery scenario	-11.0%	2.2%	5.1%	1.7%
Oxford Economics	-10.0	5.0	6.1	2.2

Quick recovery



Slow recovery

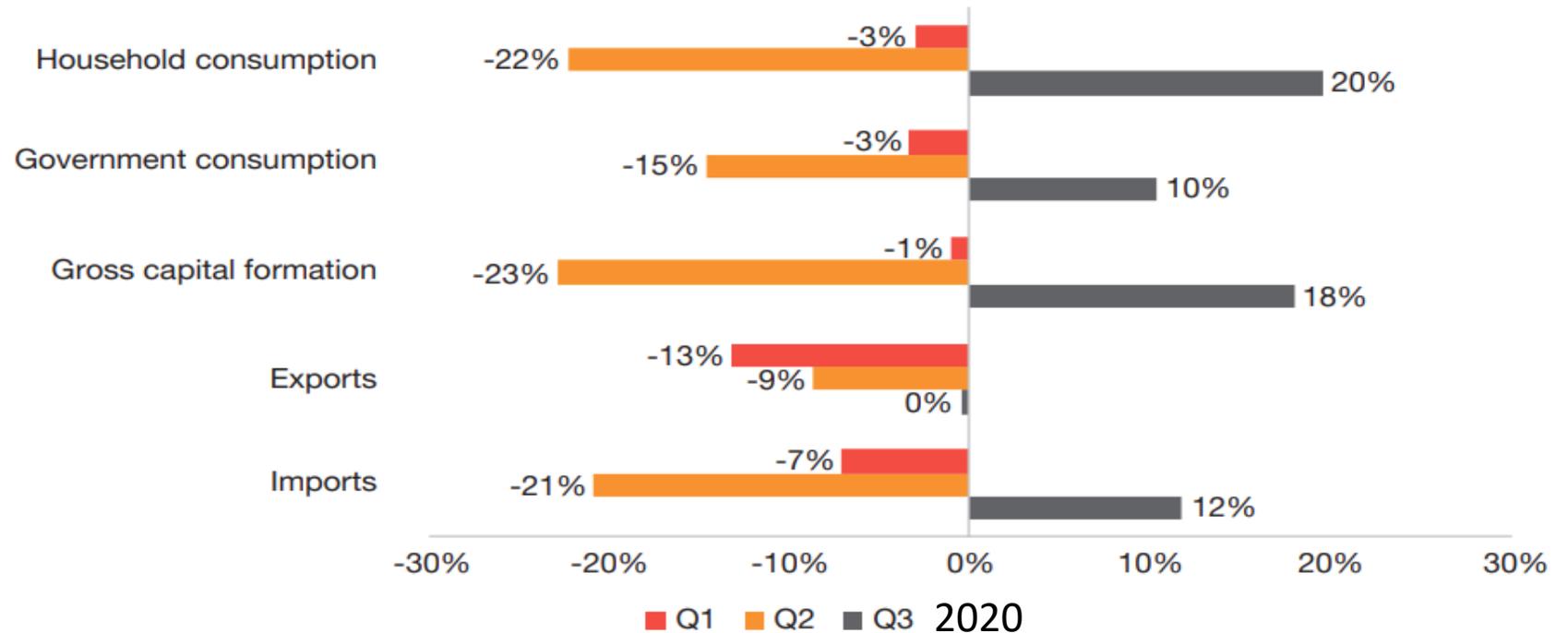


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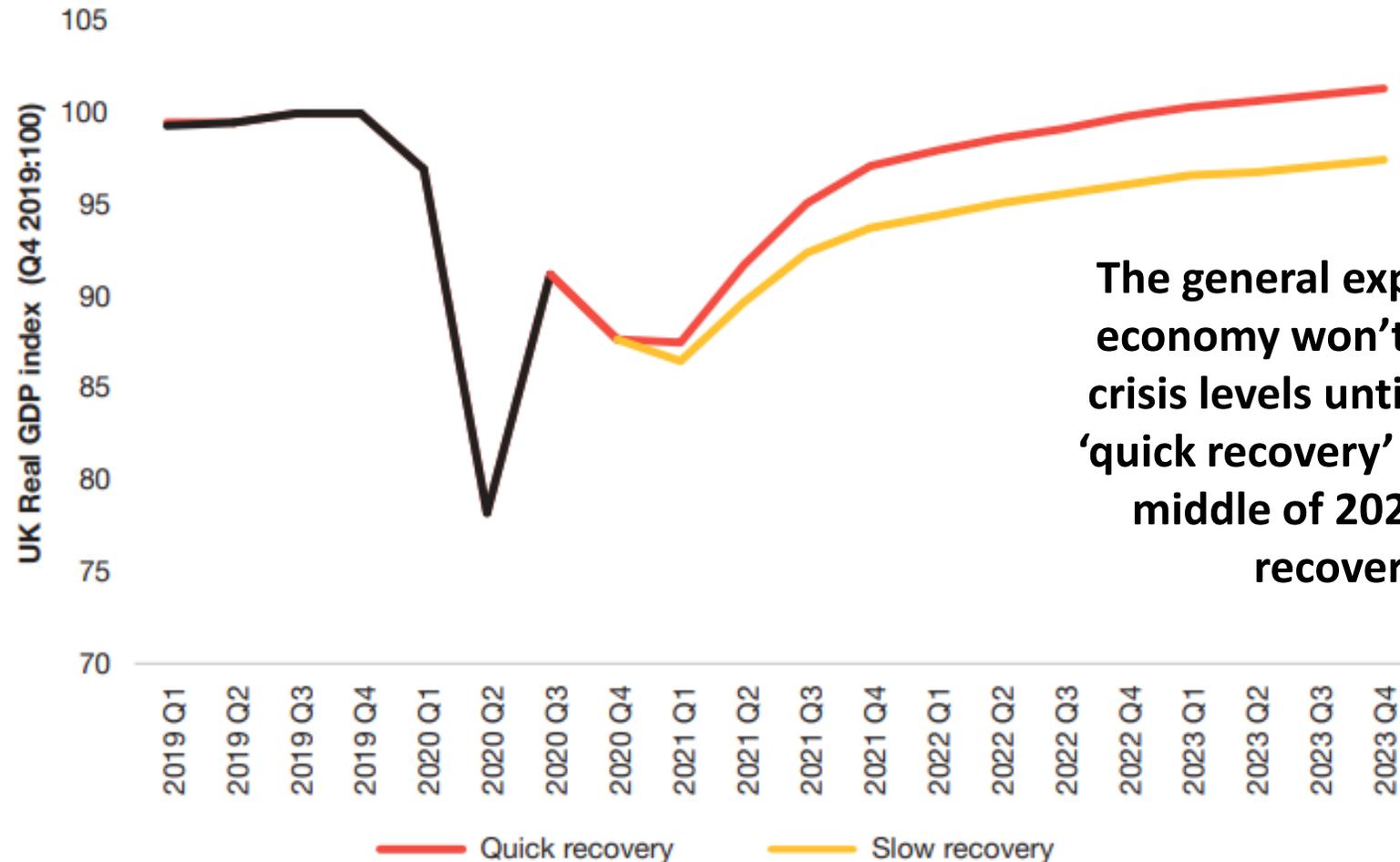
In 2020 there was a limited reopening of the economy in May, which accelerated in June and through to July and August. Growth was strongest in manufacturing and construction, where workers were able to return to factories and building sites.



Source: ONS

1. Macroeconomic data

GDP Growth



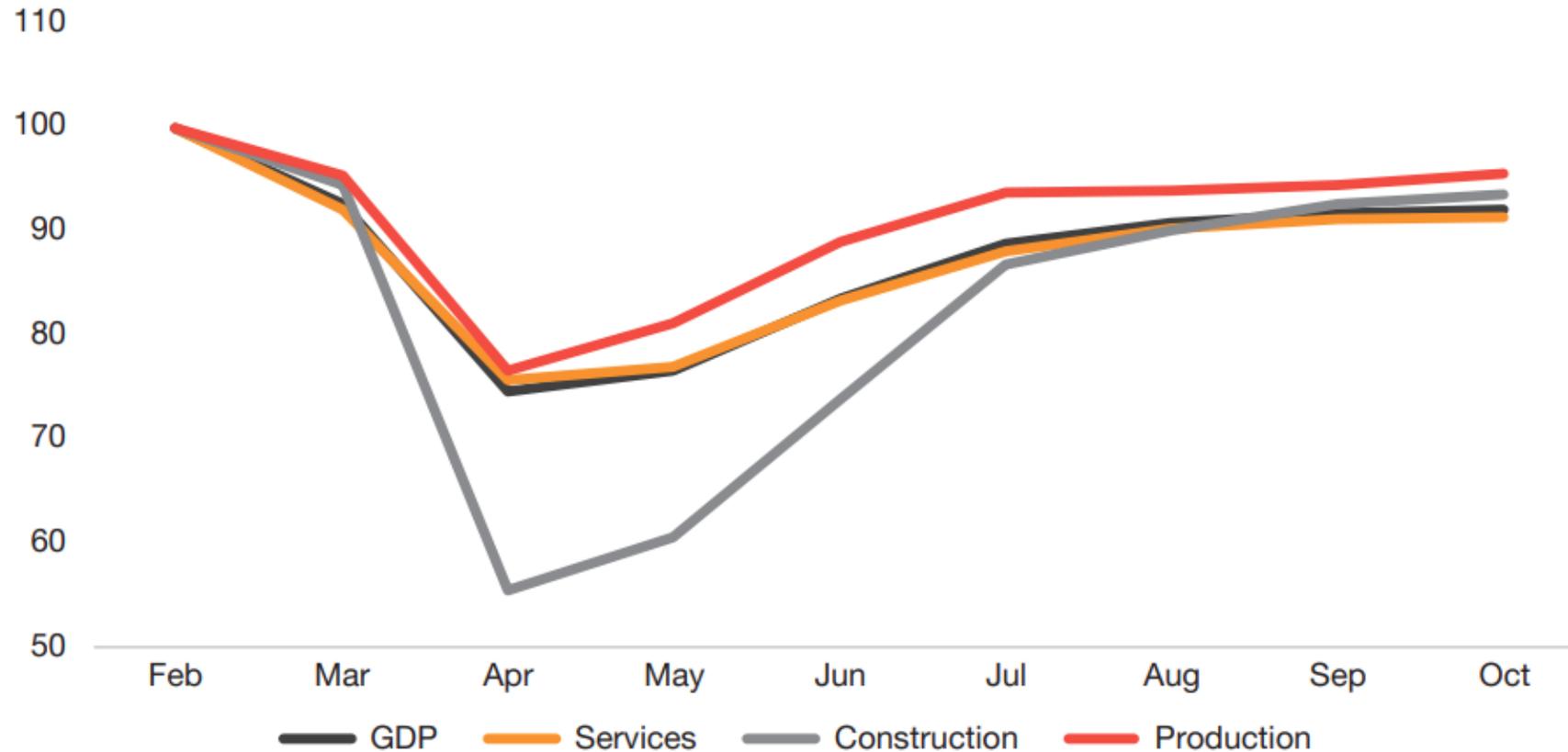
The general expectation is that the economy won't recover to the pre-crisis levels until Q1 2023 under the 'quick recovery' scenario, and by the middle of 2024 under the 'slow recovery' scenario.

Source: PwC analysis

1. Macroeconomic data

Monthly output index over 2020

The latest official data for October revealed a further slowdown in growth of 0.4%, as the introduction of the tiered local lockdown system in England restricted economic activity.



Source: ONS

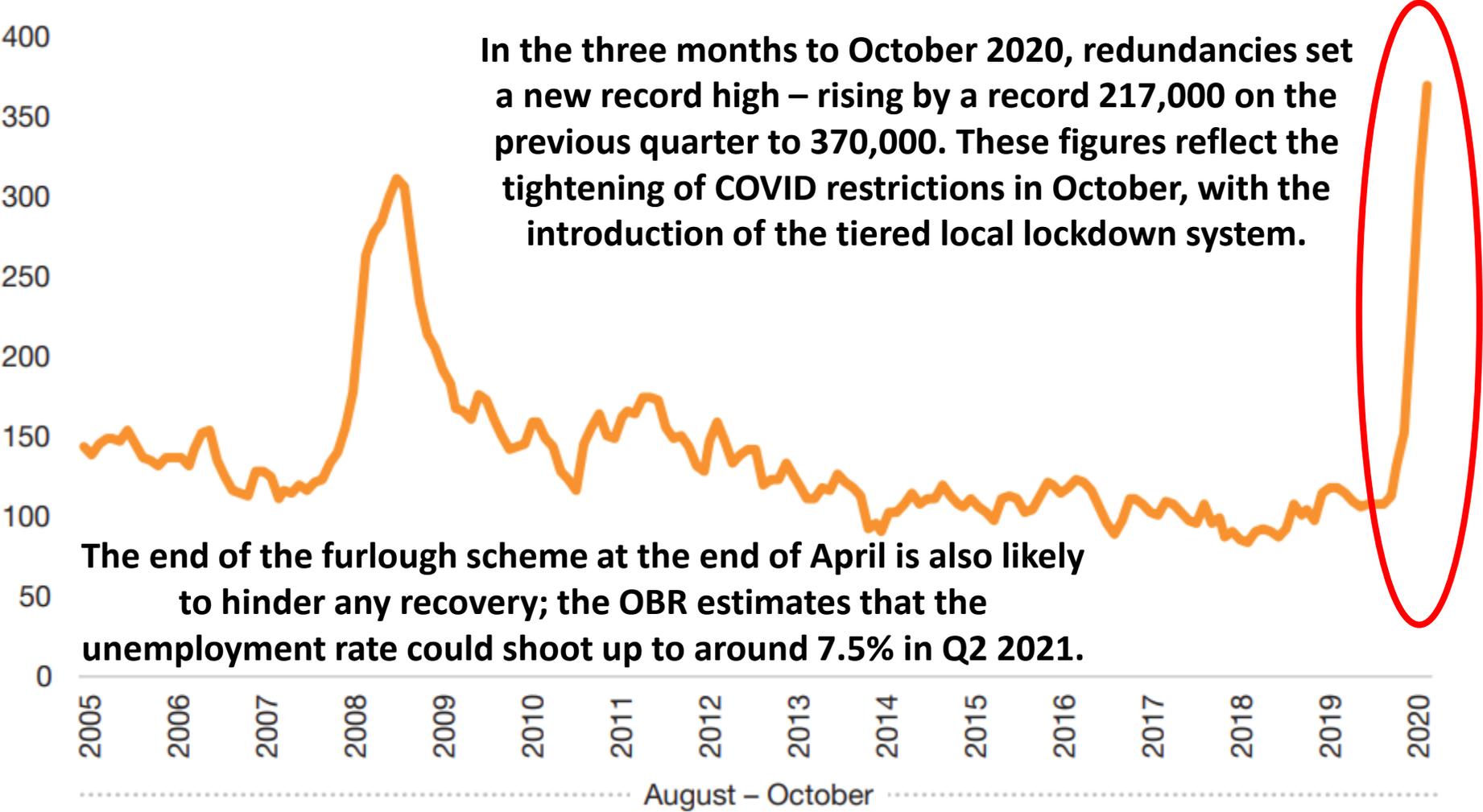
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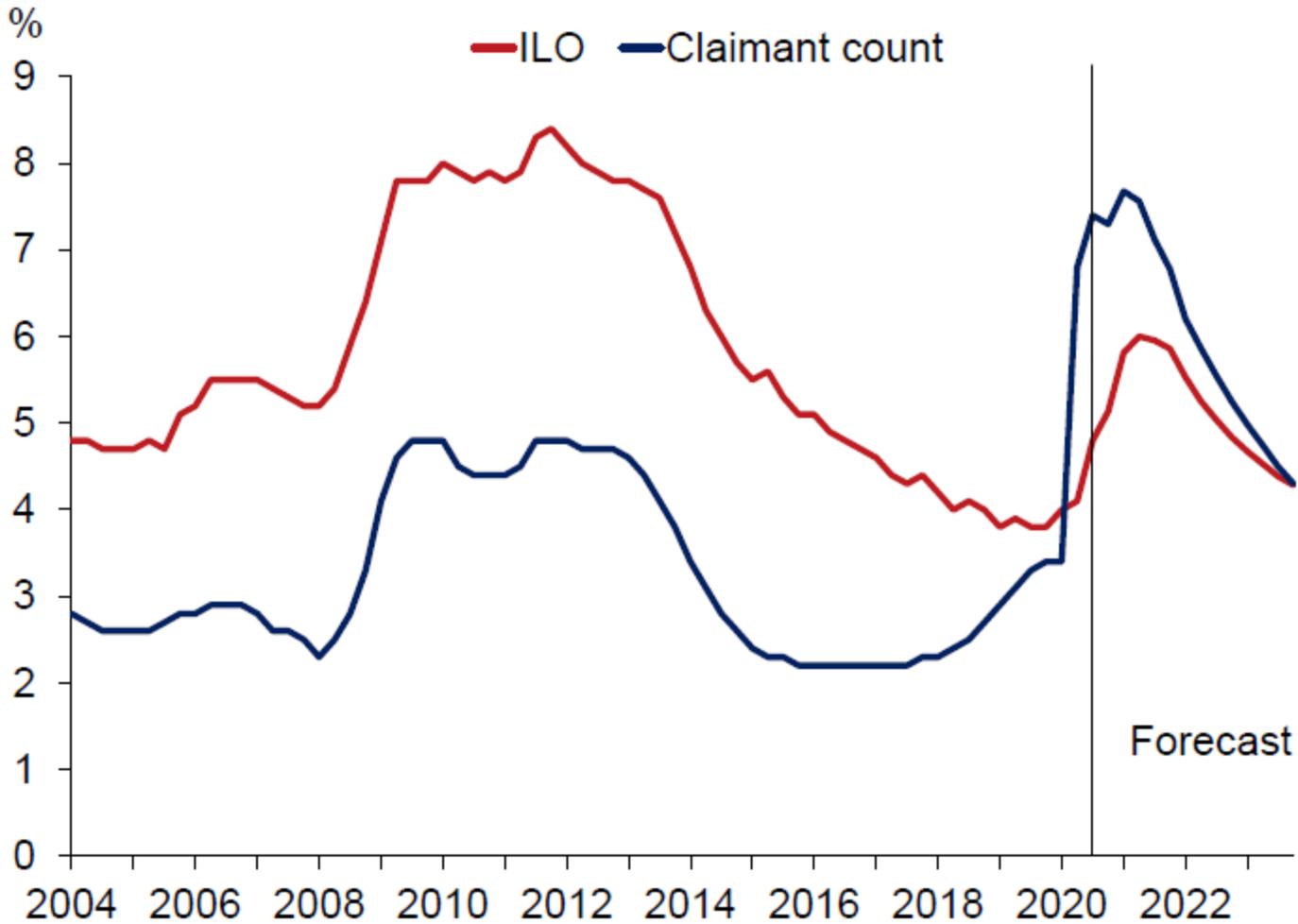
The latest official data for October revealed a further slowdown in growth of 0.4%, as the introduction of the tiered local lockdown system in England restricted economic activity.

- The manufacturing sector contributed the most to October's monthly growth, with the healthcare sector being the second largest contributor due to a step-up in the volume of activity. Conversely, accommodation and food grew by -0.4%, as a result of heightened COVID measures in place from late September.
- Sectors such as air and rail transport, arts and entertainment, and travel agencies have recovered less than half of their pre-February levels of output. Construction has made one of the strongest recoveries; its change in GDP between the trough (April 2020) and October is almost 70%. This compares to just 21% for services.
- Much of the growth in the economy is coming from larger businesses, with smaller businesses the most adversely affected – particularly those that are customer facing and based in the service sector.
- As of October, around 23.4% of the lost output caused by the first national lockdown has now been clawed back, but economic output remains 7.9% below pre-COVID levels.

UK redundancies (people aged 16 and over), not seasonally adjusted, thousands

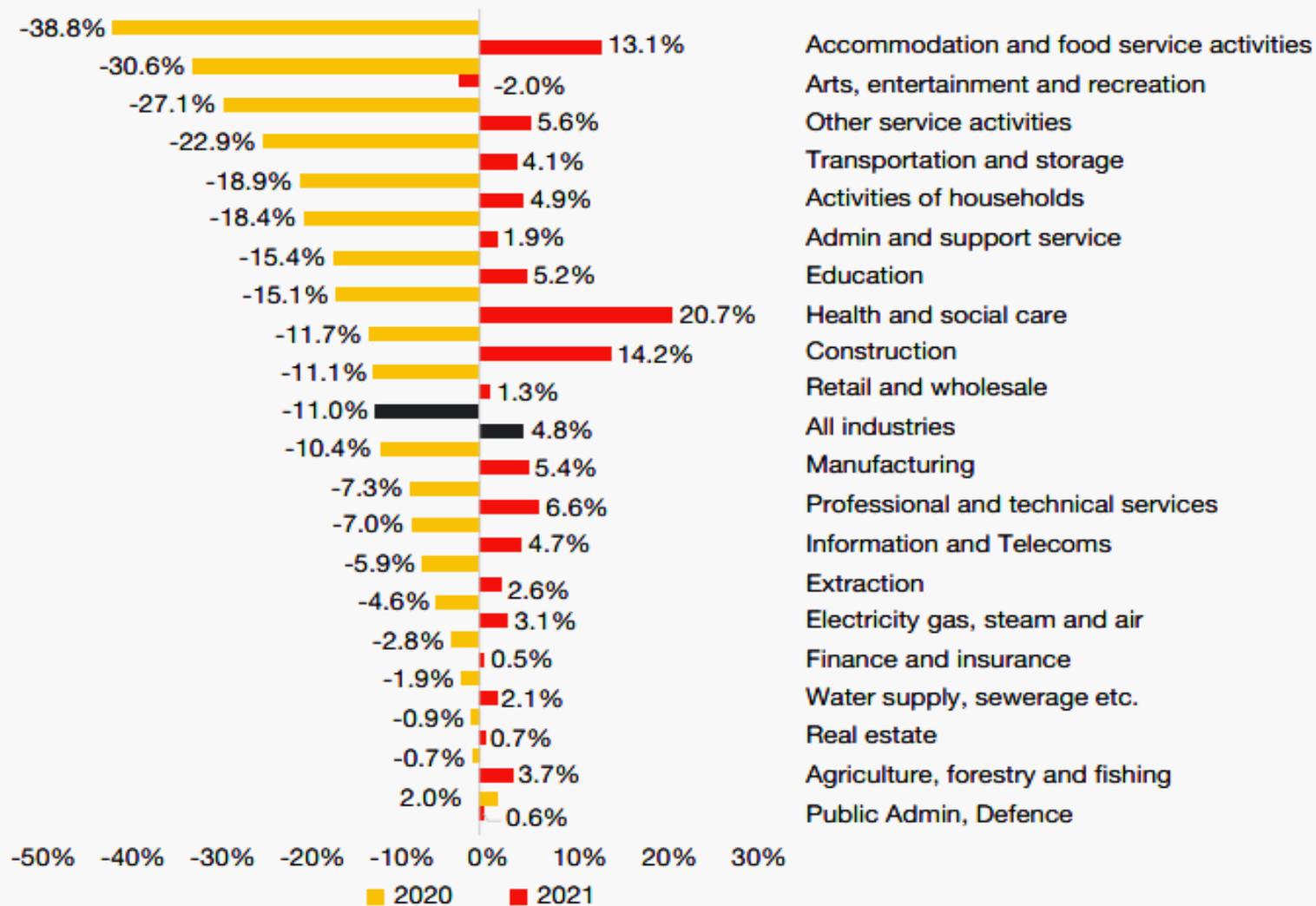


Unemployment forecast



Recovery by sector

Quick recovery scenario



Major industries driving Fluid Power

Sectors that are predicted to grow	Sectors that are predicted to remain static or decline.
Marine	Steel & Metals
Maintenance	Manufacturing in general
Food	Oil and off-shore
Pharma	Agriculture - Static
Medical	Construction
Life sciences	Plant hire
Packaging	Water static
Health & Safety	Industrial
Laboratory automation	Mobile
	Automotive
	Aviation
	General Transport
	OEM
	Off-highway construction

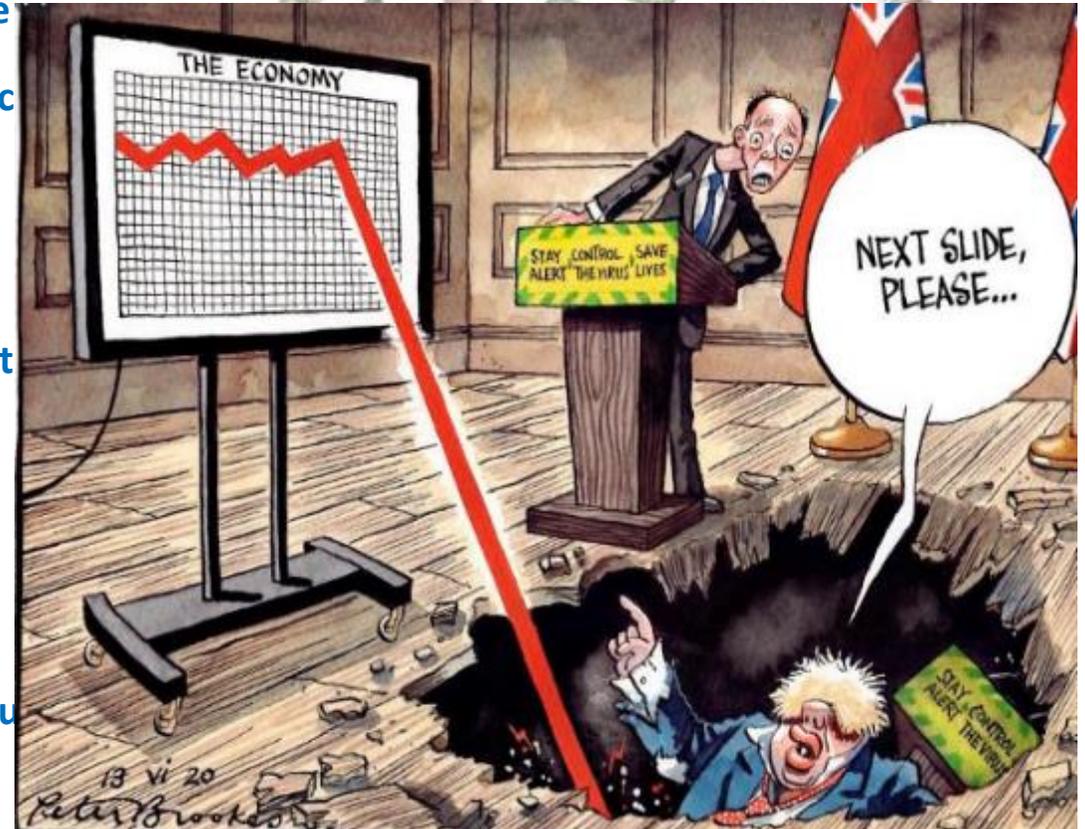
Immediate Impact of Brexit

- Christmas Eve present from the Prime Minister – Trade Cooperation Agreement – (TCA)
- Claimed to be tariff free for goods trading with the EU
- Soon became apparent that this was misleading and created a high expectation that couldn't be met
- Rules of Origin & VAT have become a major issue – Complex, Unexpected
- Companies were concentrating upon COVID-19 – not Brexit and didn't even expect a TCA
- Government has introduced a suite of web based advice, guidance and training
- Government recommendations to use Expert Carriers – led to some opportunism & Over subscription
- Regulatory Divergencenow a major concern – no means of tracking it. E.g. UKCA & UKNI
- NI Protocol creating problems
- TCA does not mention Technical standards and is silent on the Financial Services sector
- Transition measures (6 months) helping but not two way.
- Commonly held view that Brexit will place price increases on UK goods of between 5% and 8%

Government Support to the Economy

- 1) Coronavirus Job Retention Scheme
- 2) The Coronavirus Business Interruption Loan Scheme
- 3) The Coronavirus Large Business Interruption Loan Scheme
- 4) The Coronavirus Bounce Back Loan
- 5) The Coronavirus Small Business Grant Fund
- 6) The Coronavirus Local Authorities Discretionary Grant
- 7) The Business Rate Relief Scheme
- 8) The COVID-19 Corporate Financing Facility
- 9) Coronavirus Future Fund
- 10) Claim back Statutory Sick Pay paid to employees due to Coronavirus
- 11) Deferral of VAT payments due to Coronavirus
- 12) Deferral of Self Assessment Tax payments on account due to Coronavirus

7 **£1.5 Trillion!!**



Latest Trends in UK Hydraulics and Pneumatics

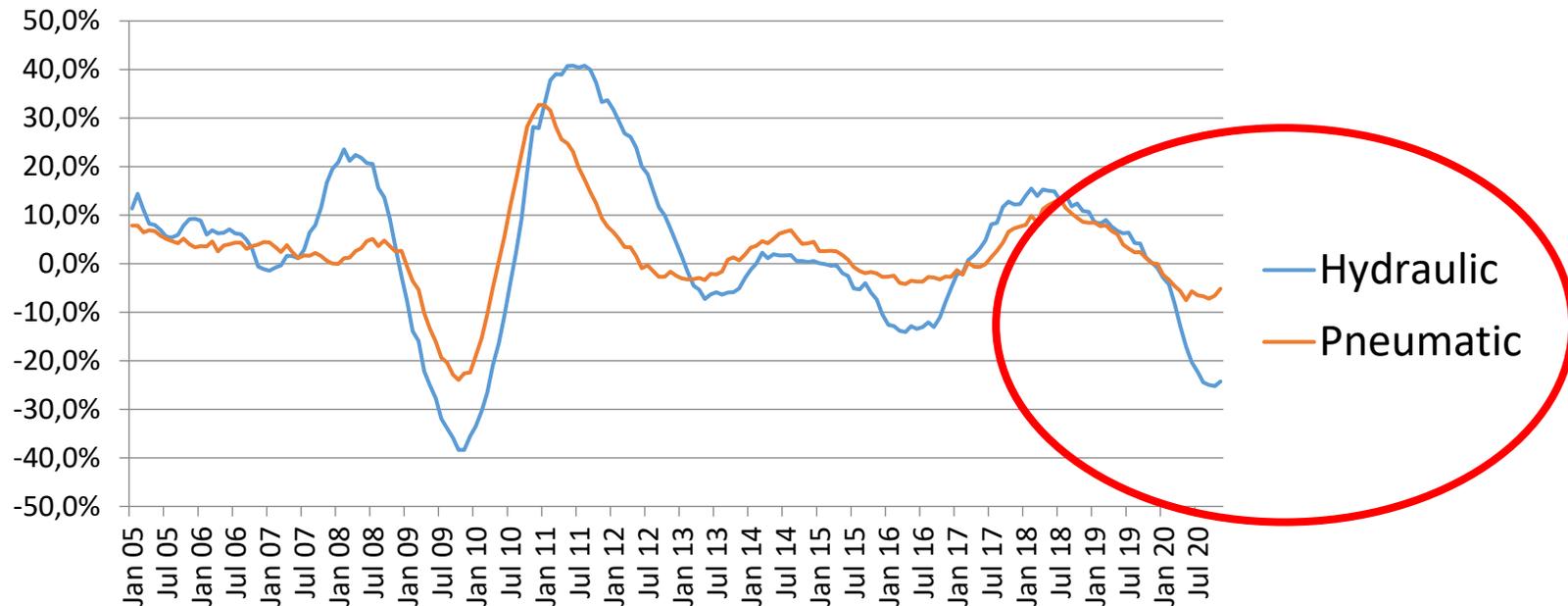
12 Month % Change in Shipments to November 2020

Hydraulics

Sales: January – November 2020/2019: -28%

Pneumatics

Sales: January – November 2020/2019: -5%



Source: BFPA Monthly Surveys 2010=100

Hydraulic trends:-

- **The fourth quarter 2020 showed much improvement, with 40% of members reporting increased UK sales.**
- **Particularly welcome upswing from the construction equipment industry.**
- **Challenges for many currently include:
post-Brexit administrative burdens,
logistic / supply chain problems and
the ongoing COVID pandemic lockdown.**
- **Looking ahead, business sentiment has improved since the Q3 2020 and there should be some growth at the start of 2021 with end user markets likely to continue to recover.**

The first few months of 2021 are unlikely to be as strong as quarter four, and much uncertainty remains in the short term.

Source: BFPA Monthly Surveys 2010=100

Pneumatic trends:-

- **Despite COVID and the impending Brexit, the fourth quarter of 2020 proved to be a fairly strong one for pneumatic companies, with increased UK sales reported by 80% of BFPA Pneumatics members.**
- **End user markets performing best were food and drink, packaging, process industries and other specialist machinery.**
- **The outlook for quarter one 2021 is less certain. Growth is expected across most industrial markets in the first quarter which is good, but optimism has fallen slightly and some members expect cost increases in early 2021 which may impact negatively on profit margins.**
- **Post-Brexit issues and extended COVID lockdowns could continue to be a drag on business in the early months of 2021.**

Source: BFPA Monthly Surveys 2010=100

Events and Fairs

- All face-to-face events cancelled for 2020 in the UK – and most in 2021.
- UK Fluid Power Systems Show deferred to 2022
- Hanover now digital.

FLUID POWER SYSTEMS
2022
The Exhibition
for Hydraulics &
Pneumatics Industries

CANCELLED

