

aerospace  
defence  
security  
space



# UK AEROSPACE OUTLOOK 2016



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# FOREWORD



**PAUL EVERITT** Chief Executive, ADS Group

The UK's Aerospace industry has delivered another year of growth. It remains a global success story, with increasing numbers of high skill, high value jobs and rising exports.

The figures in this ADS Outlook Report show an increase in turnover to £31.1bn, representing great news for the Aerospace industry's contribution to national prosperity, and reflecting the growth in global demand which is driving investment in new capabilities, productivity and skills.

The work of the Aerospace Growth Partnership (AGP) has further enhanced the strong relationship between industry and government in creating an attractive environment for domestic and international investment. The development of the Aerospace Technology Institute and its £3.9billion of joint funding through to 2025/26 is helping to keep the UK at the forefront of aerospace technology and innovation. AGP initiatives such as the Sharing in Growth Programme (SiG) and the National Aerospace Technology Exploitation Programme (NATEP) are boosting the competitiveness of SMEs and the wider UK supply chain.

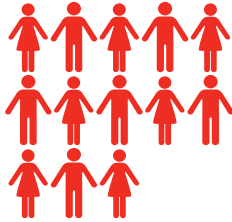
Productivity within Aerospace continues to outpace national levels and the industry is employing more apprentices and trainees, 60 per cent of aerospace companies offer apprenticeships today compared with just 15 per cent in 2009.

As global commercial delivery rates look set to increase by around eight per cent over the next five years, UK businesses are in a strong position to seize their share of international opportunities. Revenue through exports grew last year to £27bn, predominantly driven by the US and Middle East.

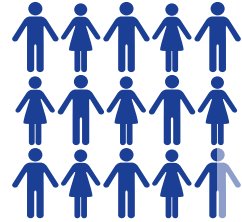
The 2016 UK Aerospace Outlook report demonstrates the strength of the sector and its ability to deliver growth and prosperity in all parts of our nation. There continue to be major challenges as pressure increases from international competitors and customers demanding continuous and sustained improvements. The work of the AGP and the strong partnership with Government is essential. It provides industry with the confidence to invest in long term innovation which delivers valuable productivity gains, enabling companies to meet growing demand.

# SUMMARY

**128,300**  
Employees



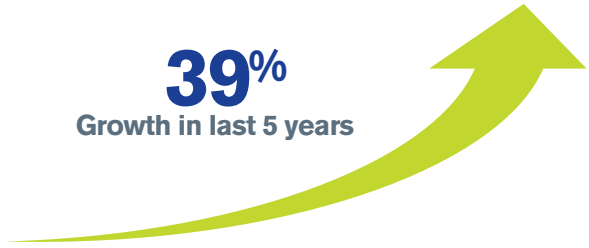
128,300  
Direct UK Aerospace  
Sector jobs



153,900  
Indirect UK Aerospace  
Sector jobs

**£31.1bn**  
Turnover

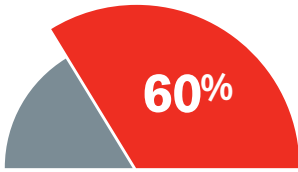
**39%**  
Growth in last 5 years



**£27bn**  
Exports

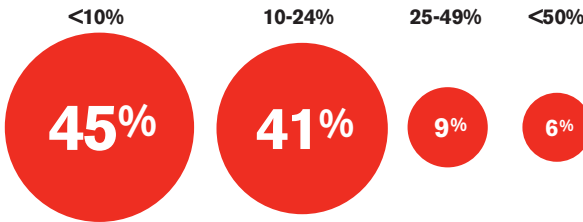


Nearly 90% of final demand in Aerospace comes from exports



of UK Aerospace Companies employ Apprentices and Trainees

**4,100**  
Apprentices



**56%**  
Expect >10% growth

Productivity growth, 2010 – 2015



UK Aerospace



UK Economy

**30%**  
Productivity growth

# 01 A GROWING INDUSTRY

**£31.1bn**

Turnover

**£27bn**

Exports

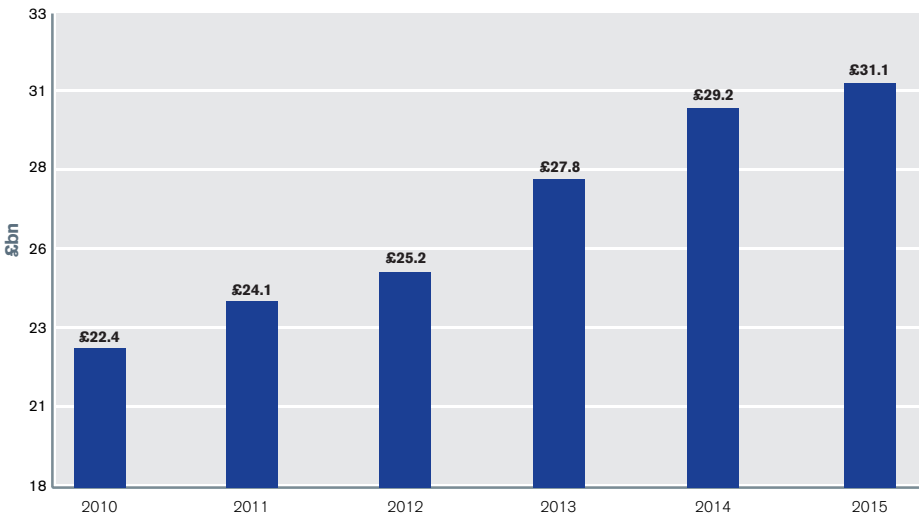
**6.5%**

Annual Growth

- UK Aerospace sector grew by 6.5% in 2015.
- Aerospace exports grew by £700m to £27bn.
- Over half of UK Aerospace companies expecting to growth greater than 10%
- Growth driven by export opportunities in North America and Middle East
- Global Civil Aerospace backlog worth up to £195bn and 9 years work in hand for UK.

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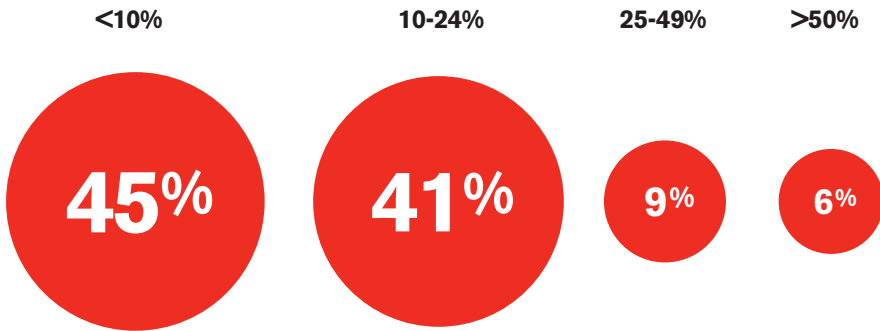
## UK Aerospace output has grown 39% since 2010 (turnover, £bn)



Source: Oxford Economics, ADS and ONS

## 56% OF FIRMS EXPECT >10% GROWTH

### Aerospace company growth expectations

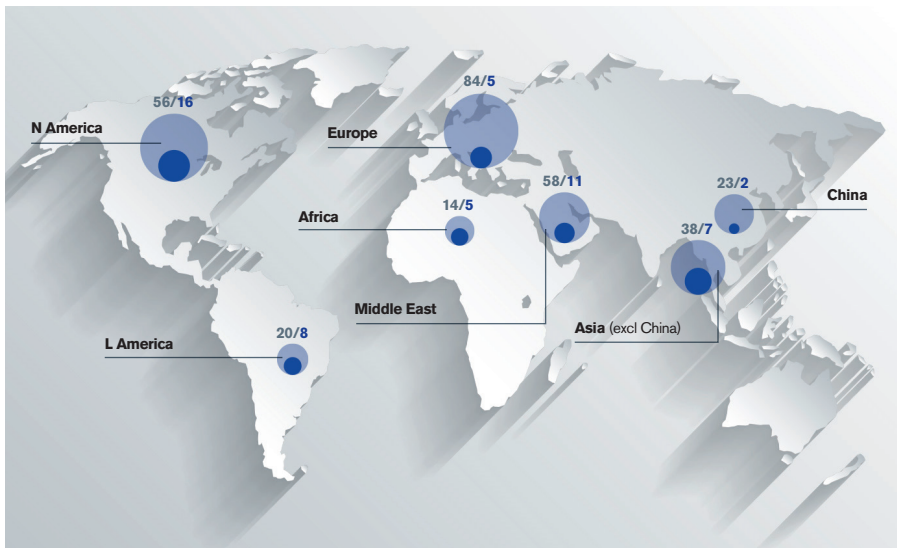


Source: ADS/GfK NOP Industry Intelligence Survey 2016

- Over half of UK Aerospace companies are expecting to grow by 10% or more in the next 12 months
- UK Aerospace sector grew by 6.5% in 2015, and by 6.8% on average each year (compound annual growth rate) over the last 5 years
- Key drivers of growth in the next 12 months include:
  - Growth of existing business (73%)
  - Growth of new business opportunities globally (63%)
  - Growth of UK opportunities (49%).

## 63% SAY GROWTH IS DRIVEN BY NEW EXPORTS

% exporting to location / % entering new market



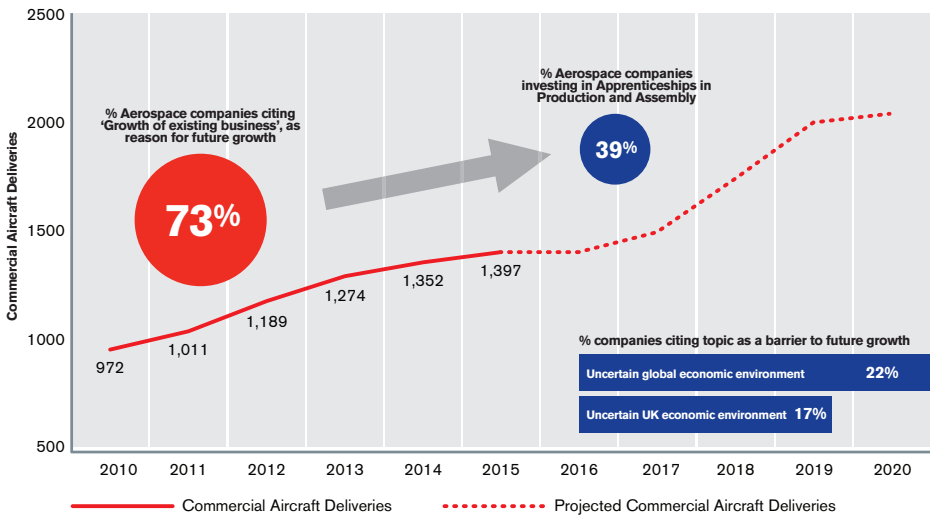
Source: ADS/GfK NOP Industry Intelligence Survey 2016

- Nearly 90% of Aerospace turnover is generated by exports
- Locations where companies have cited growing export levels include North America and the Middle East
- As production levels for commercial aircraft continue increase, more and more businesses are looking at opportunities for growth from new export markets



# INVESTING IN CAPACITY TO MEET DEMAND

## UK companies responding to future increase in production rates



Source: ADS/GfK NOP Industry Intelligence Survey 2016, ADS Commercial Aerospace Market Information

- With global commercial aircraft delivery rates set to increase by around 8% over the next five years, companies are investing in capacity to meet demand
- 73% of companies cited existing business as a main driver for future growth, as larger manufacturers increase production demand from their supply chain
- Companies are responding by investing more in Apprenticeships for Production
- However, around 1 in 5 companies have concerns over impact of uncertain economic environment on future growth, both globally and domestically

# 02 RAPID PRODUCTIVITY GROWTH

**£10bn**

Gross Value Added

**68%**

Increasing investment

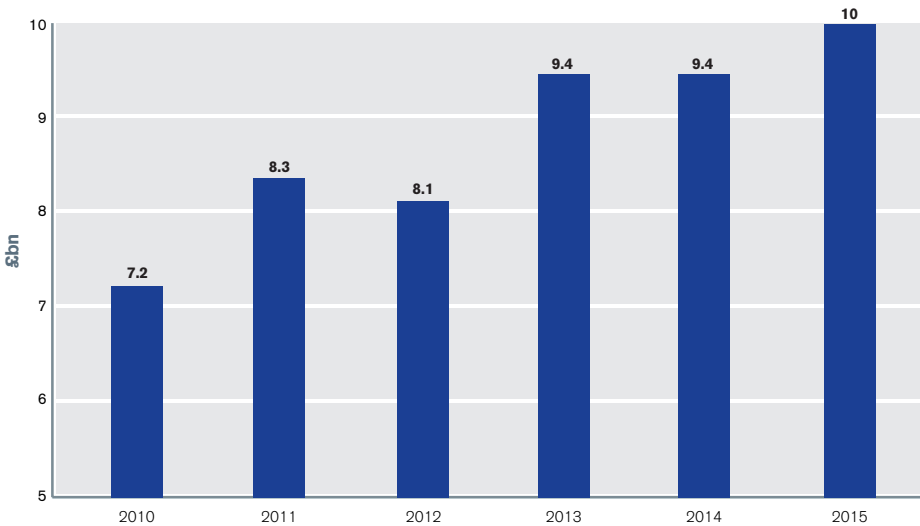
**30%**

Productivity growth since 2010

- UK Aerospace sector grew by 6.5% in 2015
- Companies focused on investing in business development, R&D and production capacity
- Investment driven by the desire to find new opportunities in new export markets
- Aerospace productivity has grown by 30% since 2010, versus just 2% in the rest of the economy

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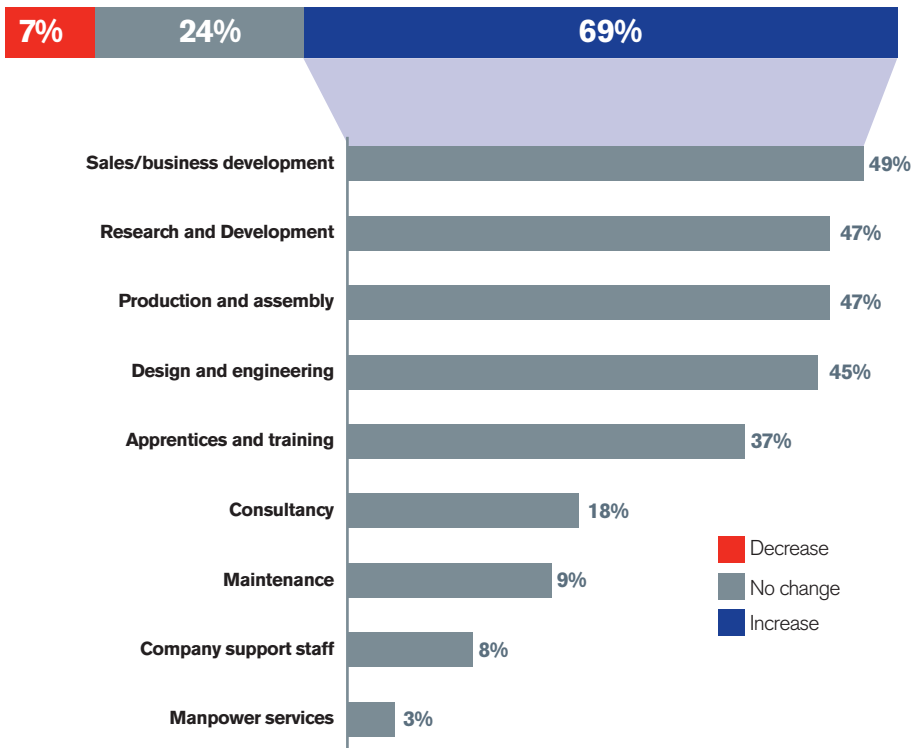
UK Aerospace GVA is contributing to UK growth, £bn



Source: Oxford Economics, ADS

## INVESTMENT IN SALES, INNOVATION & CAPACITY

% of companies with plans for investment, overall & by function

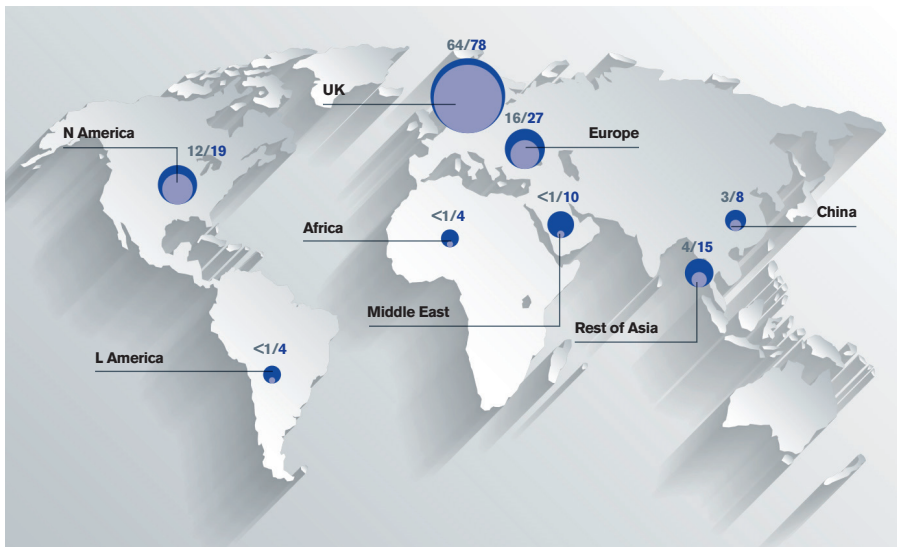


Source: ADS, ADS/GfK NOP Industry Intelligence Survey 2016

- Over a third of companies focused on investment in developing new business opportunities, R&D and means of production to meet growing demand
- Investment in research and development has moved to the second highest area for investment, from fifth highest in the 2015 outlook report

## UK VITAL FOR SUPPLY CHAIN AND INVESTMENT

% of supply chain in location / % investing in location



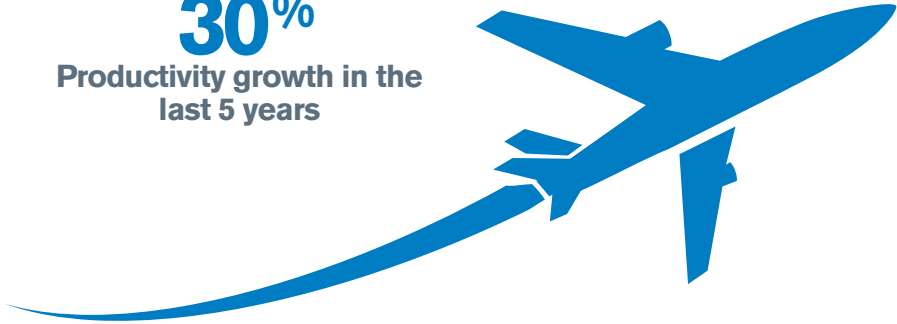
Source: ADS/GfK NOP Industry Intelligence Survey 2016

- UK, Europe and North America remain the focal point for global aerospace supply chain investment
- Minimal supply chain presence in Latin America, Africa and the Middle East
- However, growing supply chain located in China and Rest of Asia from figures in 2015 ADS Aerospace Outlook

## DRIVING PRODUCTIVITY GROWTH

**30%**

Productivity growth in the  
last 5 years



*Source: Oxford Economics, ADS and ONS*

- Over the past five years, productivity in UK Aerospace grew by around 30%
- Productivity growth across the economy was up only 2%
- As demand in civil aerospace continues, further investment will be required to meet production capacity, and stimulate productivity enhancements by funding new R&D projects and programmes

# 03 SUPPORTING HIGH-SKILL JOBS

**128,300**

Employees

**4,100**

Apprentices & Trainees

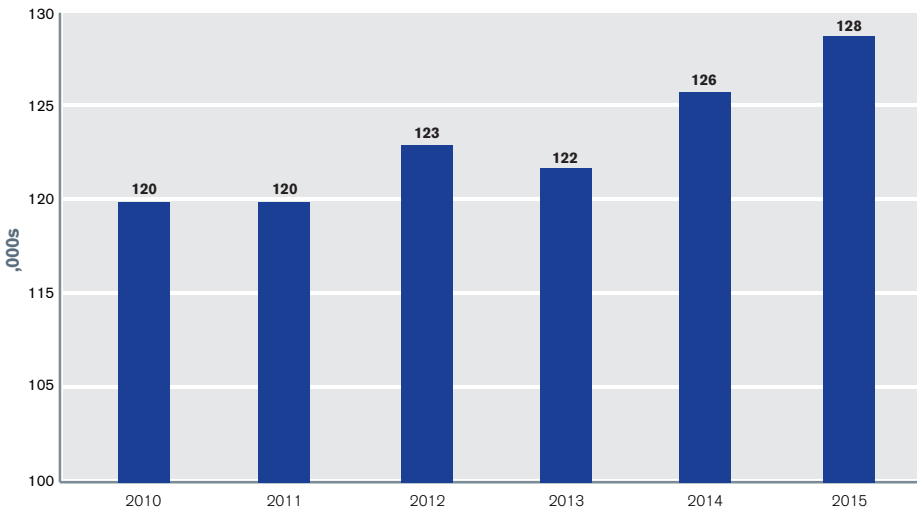
**25,000**

British R&D jobs depend on the UK Aerospace Sector

- 128,300 directly employed by UK Aerospace industry
- UK Aerospace industry provides high skilled jobs across in every region of the UK
- 60% of companies employ apprentices or trainees
- £41,400 average salary in UK Aerospace industry
- 1 in 6 businesses concerned over access to design, R&D and future skills for innovation

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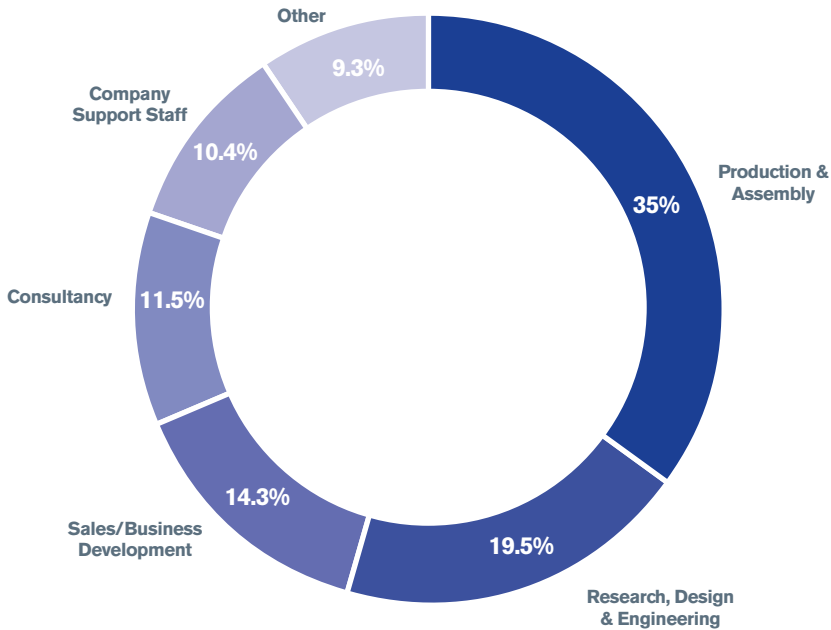
## UK direct Aerospace employment, (000s)



Source: Oxford Economics, ADS

# INCREASE IN RESEARCH, DESIGN AND ENGINEERING SKILLS

% of employees in UK Aerospace companies, by job function

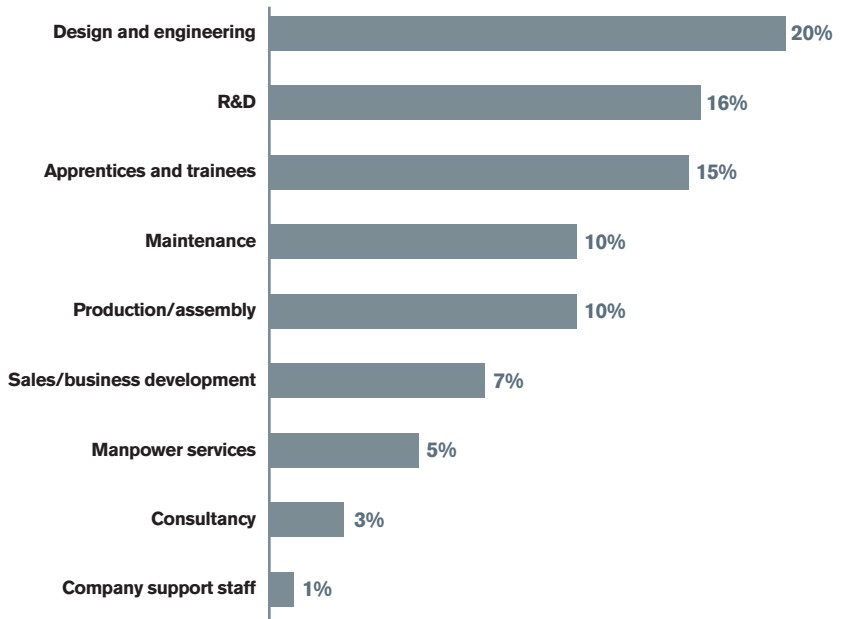


Source: ADS/GfK NOP Industry Intelligence Survey 2015

- Over 25,000 R&D, Design & Engineering jobs directly in the UK Aerospace sector
- £41,400 average salary in the UK Aerospace industry, over 50% more than the UK Average (approx. £27,000)

## ACCESS TO SKILLS FOR INNOVATION A CONCERN

% of companies not confident of accessing specific skills



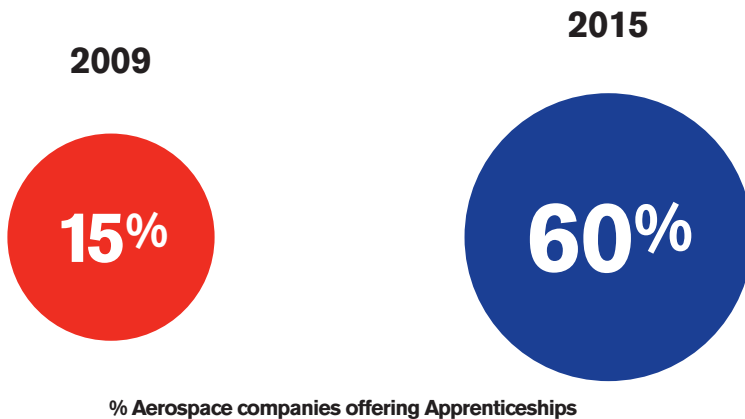
Source: ADS/GfK NOP Industry Intelligence Survey 2016

- 1 in 6 companies are not confident they will be able to access the necessary design and engineering or R&D skills to drive innovation
- Businesses also concerned over the ability to access next generation of skilled workers through apprenticeships and trainees
- 57% of companies are confident in accessing sales & business development skills in order to access new business opportunities and exports



## GROWING INVESTMENT IN APPRENTICESHIPS

Companies investing for the future



*Source: ADS/GfK NOP Industry Intelligence Survey 2016, 'Lifting Off' – Implementing the Strategic Vision for UK Aerospace, 2013*

- Only 15% of companies employed apprentices in 2009 – compared to 60% of Aerospace companies in 2015
- 46% of businesses have more than 5% of their workforce made up of apprentices or trainees
- Key areas where companies are investing in apprenticeships:
  - Production & Assembly: 39%
  - Design & Engineering: 28%
  - Research & Design: 16%

# ABOUT ADS

**ADS Group is the UK trade organisation representing the Aerospace, Defence, Security and Space sectors. ADS is focused on representing the interests of these valuable wealth producing industries in the UK and overseas to key stakeholders, government, and the media**

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**ADS plays an instrumental role in bringing industry and government together, working closely and collaboratively to maintain and grow the UK's world leading position in these industries. In doing so, these sectors will support and facilitate a sustainable UK economic recovery, securing future sector prosperity through a strong strategy and united approach.**

**Farnborough International Limited is a wholly owned subsidiary of ADS Group. The Farnborough International Airshow 2016 will run from 11-17 July 2016. In 2014, the Farnborough International Airshow saw over \$200bn worth of confirmed orders.**



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# ABOUT THE SURVEY

In 2016, ADS Group commissioned two different research strands to assess the size, shape and priorities for the UK's Aerospace, Defence, Security and Space sectors.

- **ADS/GfK NOP Survey:** GfK interviewed 234 ADS members online between 22nd February 2016 and 23rd March 2016. The respondent list was provided to GfK by ADS. The database provided by ADS contained 915 eligible respondents and 234 completed interviews were achieved, representing a response rate of 24%.
- **Oxford Economics:** ADS commissioned Oxford Economics to assess the turnover, employment and gross value added levels for each of ADS's four sectors. Their research draws on data from Office National Statistics, Dept for Business, Innovation and Skills, Ministry of Defence, Business Register Employment Survey (BRES), Workforce Jobs (WFJ) bulletin, ADS Group and the ADS/GfK NOP Survey data.