Scottish Engineering

Quarterly Review

December 2010

SCOTTISH ENGINEERING MANUFACTURING SECTOR RESULTS REMAIN POSITIVE

- Staffing levels buoyant
- Output volume is sustained
- Optimism still encouraging
- Pressure increases on margins
- Investment plans are upbeat

Following the record high results we reported in our September Review, it is heartening to see that the overall message from the manufacturing engineering sector remains extremely positive.

Reports on employment numbers remain buoyant while output volumes are holding up remarkably well. With all sizes of company and the vast majority of sub sectors providing encouraging figures, the only negative sounds are emanating from fabricators. This would appear to be on the back of reduced seasonal demand.

My recent round of seven district meetings throughout Scotland highlighted a significant level of optimism across the sector with relatively few companies having a negative outlook for 2011 and beyond, confirming what our latest figures reveal.

It is not surprising that our member companies have a real concern about our politicians who seem more concerned with their preparations for the forthcoming election in May than coming up with meaningful policies to assist us in tackling the current world economic difficulties.

The recent Scottish Budget statement appears to be lacking in purpose; postponing any real positive action to benefit the economy. Once again politicians seem to be more concerned about re-election than they are about tackling the real problems with our Scottish economy.

Meanwhile, having heard his outstanding speech at our annual awards dinner in May it was encouraging to hear Aggreko's Chief Executive Rupert Soames re-affirm his concerns that there is a very real danger of the lights going out unless we have a more appropriate approach to achieving a balanced, sustainable, affordable and secure electricity supply.

It is certainly important that we maximise the potential benefits which will arise from a wide range of renewables, but not at the expense of other available technologies. We also need more honesty and transparency in the energy debate.

For those who would prefer to get the real facts as opposed to the political rhetoric, I would recommend the excellent book *Sustainable Energy – Without the Hot Air* written by Professor David Mackay, the government's chief scientific adviser on climate change. It is available free on-line.

Dr Peter Hughes, OBE FREng
Chief Executive
Scottish Engineering

ANNUAL TRENDS

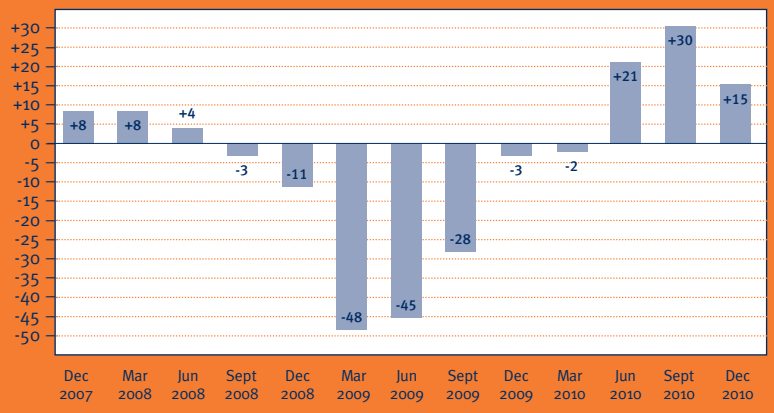
The level of order intake has slipped slightly from the high of the third quarter but still remains better than it has been for the past three years.

Output volumes, while not quite as high as the previous quarter, continue to show high levels that match the best figures since 2006. Capacity utilisation maintains a level as good as any in the last ten years apart from the last quarter.

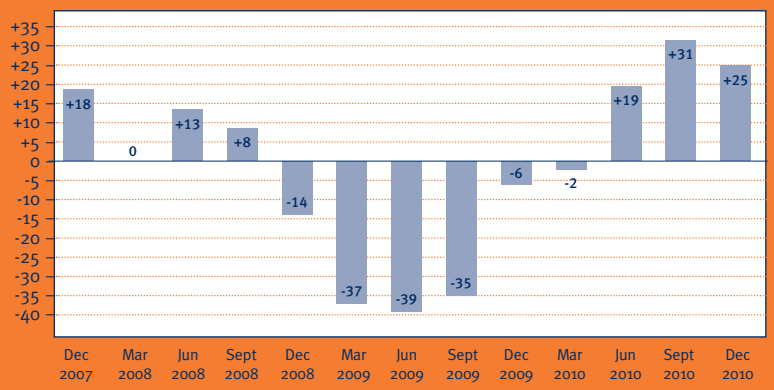
Both training investment plans and capital investment plans have dropped marginally from last quarter's high, but both still remain positive.

Employment levels are virtually at the same level as last quarter's where they equalled the level attained in the second quarter of 1998.

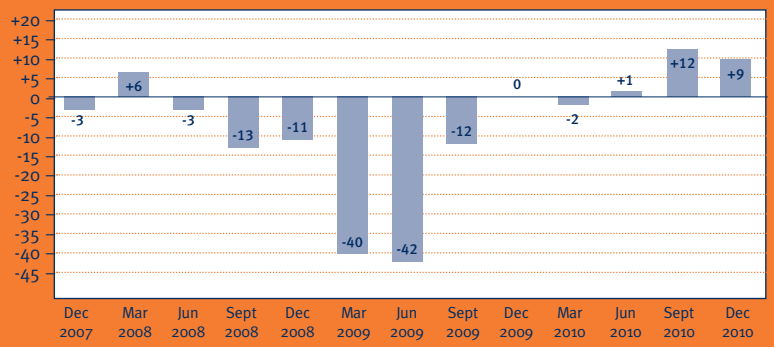
ORDER INTAKE



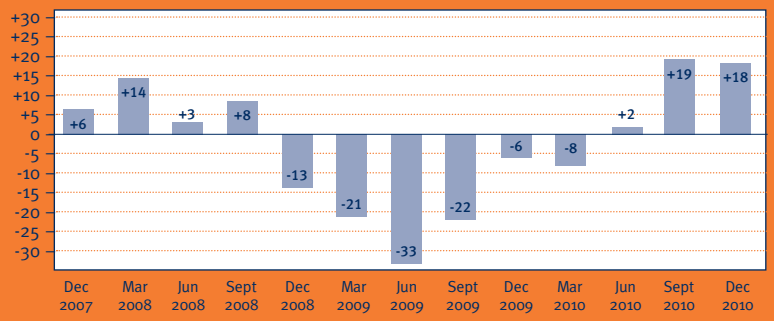
OUTPUT VOLUME



EXPORTS

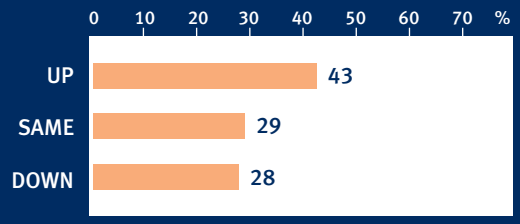


STAFFING

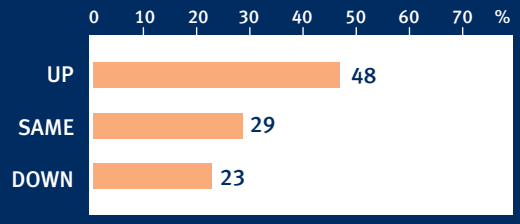


Balance between reports of increases and reports of decreases

ORDER INTAKE



OUTPUT VOLUME



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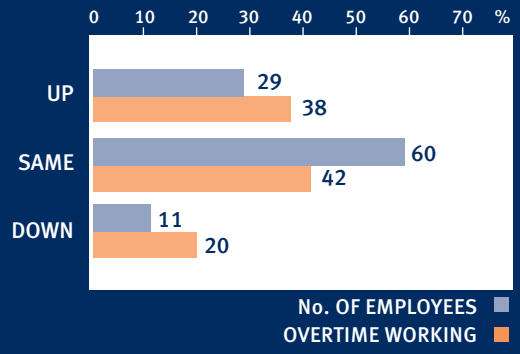
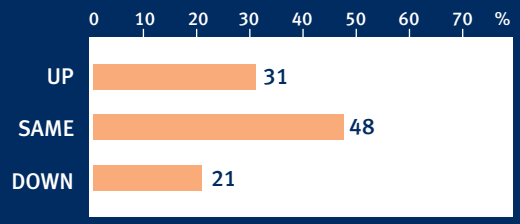
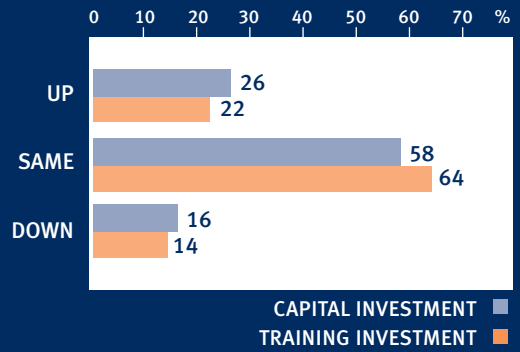


OPTIMISM



INVESTMENT



ORDER INTAKE

There is a slight dip from last quarter's high, but all sizes of company remain positive.

OUTPUT VOLUME

The high levels are being sustained in all areas except fabricators.

STAFFING

All sizes of company and all sectors except fabricators are maintaining their staffing levels. Overtime working has dropped slightly.

OPTIMISM

Overall there is an acceptable level of optimism in all size of company and across the majority of sectors.

INVESTMENT

Plans for capital and training investment are being upheld across all size of company and in all disciplines

Following an exceptional set of results in the third quarter, the Scottish manufacturing engineering sector has managed to maintain a lot of the positive features in this final Review of 2010. While order intake, staffing levels and output have slipped slightly, they still remain positive.

Orders

The overall total order intake (43%up,29%same, 28%down) has declined slightly from the peak of quarter three. Small (40%up,25%same,35%down), medium (49%up,35%same,16%down) and large companies (40%up,50%Same,10%down) all report positive figures. Within the sectors electronics (53%up,14%Same,33%down), mechanical equipment (52%up,19%same,29%down) and non metal products (50%up,33%same,17%down) all maintain their levels, but fabricators (20%up, 47%same,33%down) is the only sector with a negative return.

UK orders in general (34%up,38%same, 28%down) have slipped from their peak, but remain positive as do medium (39%up, 47%Same,14%down) and large companies (40%up,50%Same,10%down) while small companies (31%up,31%Same,38%down) have fallen back a little.

Within the sectors, electronics (43%up,43%same, 14%down) and mechanical equipment (40%up,28%same,32%down) were the only two with positive results. Fabricators (20%up,47%same,33%down), machine shops (33%up,23%Same,44%down) and transport (17%up,41%same,42%down) all proved negative.

Forecasts for the next three months in general terms (24%up,57%same,19%down) are much in line with this quarter's figures. Small (25%up, 57%same,18%down) and large companies (30%up,60%same,10%down) are predicting more companies will be increasing orders while medium companies (21%up,58%same,21%down) are forecasting that the same number of companies will improve order levels as will see orders fall.

Export orders general totals (32%up,45%same, 23%down) remain positive as do medium (35%up,53%same,12%down) and large companies (50%up,33%same,17%down) while small companies (29%up,41%same,30%down) are negative.

In the sectors non-metal products (45%up, 37%same,18%down) mechanical equipment (44%up,37%same19%down) and transport (18%up,73%same,9%down) are all positive but electronics (40%up, 10%same,50%down) and fabricators (17%up, 50%same,33%down) produced negative results.

Predictions for export orders for the next three months in general (26%up,60%same,14%down) remain positive as they do in small (25%up, 59%same,16%down), medium (26%up,61%same, 13%down) and large companies (33%up, 67%same, 0%down).

Prices

UK prices in general (13%up,74%sme,13%down) had the same number of companies which were able to increase prices as had to cut their prices.This was the same for medium companies (11%up,78%same,11%down). Small companies (15%up,71%same,14%down) were able to post positive figures but large companies (0%up,80%same,20%down) were not.

For the next quarter UK forecasts in general (22%up,71%same,7%down) are looking to improve as are small (22%up,70%same,8%down), medium (20%up,73%same,7%down) and large companies (30%up,70%same,0%down).

Export prices for the last three months in general (12%up,79%same,9%down) are positive as are small companies (18%up,77%same,5%down). Medium (5%up,83%same,12%down) and large companies (0%up,83%same,17%down) both have negative returns.

Predictions for the next quarter in general (16%up,75%same,9%down) are once again positive as they are in small companies (23%up, 71%same,6%down). Within the sectors only non-metal products (60%up, 40%same,0%down) and mechanical equipment (12%up,82%same,6%down) are looking towards positive figures the rest, including electronics (0%up,78%same,22%down), and metal manufacturing (0%up,71%same, 29%down) are negative.

Optimism

In general the levels of optimism (31%up, 48%same,21%down) show a slight decrease on last quarter's figures. Small (27%up,47%same,26%down), medium (36%up, 51%same,13%down) and large companies (50%up,40%same,10%down) are all positive.

Investment

Capital investment plans in general (26%up, 58%same,16%down) are virtually the same as in the previous quarter. All sizes of company, small (23%up,58%same,19%down), medium (32%up,57%same,11%down) and large (20%up, 70%same,10%down) all remain positive. Within the sectors only metal manufacturing (20%up,50%same,30%down) and fabricators (20%up,53%same,27%down) are negative, all the rest maintaining their positive levels.

Overall training plans (22%up,64%same, 14%down) continue in a positive vein as do small (21%up,63%same,16%down), medium (23%up,66%same,11%down) and large companies (30%up,70%same,0%down).

Staffing

Staffing levels in general (29%up,60%same, 11%down) remain positive. They are similar in small (20%up,64%same,16%down) medium (49%up,49%same,2%down) and large companies (20%up,70%same,10%down).

General predictions for the next three months (23%up,62%same,15%down) compare favourably with this quarter as they do in small companies (20%up,65%same,15%down). Medium companies (26%up,60%same,14%down) and large companies (40%up,50%same,10%down) both expect increases in staffing levels.

Output volumes

Overall output volumes (48%up,29%same, 23%down) maintain a high positive level as they do in small (44%up,28%same,28%down) and medium companies (60%up,27%same, 13%down), while large companies (30%up, 40%same,30%down) have equal numbers of companies increasing output as have output decreasing.

In the sectors, only fabricators (20%up, 53%same,27%down) are negative. Non-metal products (67%up,8%same,25%down) and electronics (60%up,13%same,27%down) show particularly positive results.

The forecast for the next three months in general (34%up,42%same,24%down) remains positive which is how small (33%up,44%same,23%down), medium (37%up,37%same,26%down) and large companies (40%up,30%same,30%down) also view the situation.

The facts in this Review were acquired by a survey of Scottish Engineering's members and certain other electronic companies and foundries. The membership covers all sectors of the industry. The response rate was 41.5% of members. Companies are described as: Small (less than 100 employees), Medium (100-500) and Large (over 500).

Scottish Engineering

The Back Page

Scottish Engineering is the major support and lobbying organisation for the manufacturing engineering industry in Scotland. We have been in existence in one form or another since 1865, looking after the affairs of the manufacturing engineering industry.

Scottish Engineering is a non-profit making organisation which is wholly owned by its member companies.

The present membership of Scottish Engineering includes almost 400 companies from throughout Scotland covering all sectors of the manufacturing industry.

Membership ranges from some of the country's largest companies to many of the successful and innovative small to medium enterprises.

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WHAT WE DO

We maintain an excellent grasp of what is happening within the manufacturing industry through an extensive series of District Meetings and our Quarterly Review which is a trends survey of the industry.

We offer practical support to the engineering industry in a number of related areas.

We ensure that interested and relevant bodies outwith the industry are kept abreast of relevant manufacturing matters.

In terms of practical support, we maintain a professional staff who can provide immediate advice on Industrial Relations, Employment Policies and Practices and support, Employment Tribunal Management, Lifelong Learning, Health Safety and Environment and Public Relations.

We raise the awareness of the industry to those outwith the industry including MSPs, MPs, MEPs, Civil Servants, Scottish Enterprise, Education Establishments and Local Authorities.

A Quarterly Review of the industry is produced and distributed widely to provide up-to-date information on the state of the industry in Scotland.

Representatives of member companies consider relevant matters while sitting on a number of committees covering a wide range of issues.

Throughout the year we organise and run a series of training seminars and conferences, information on which is distributed to all member companies.

We provide a Business Improvement Club. The purpose of the club is to bring together and share real-life experiences in implementation of Lean, Six Sigma and similar business best practices. The club is fee-free and open to any organisation in Scotland. Meetings are held several times a year in Scottish Engineering offices. Previous meeting topics and presentations can be found on our website.

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