

# Quarterly Review

SEPTEMBER 2011

**A FURTHER** • Optimism remains high  
**POSITIVE** • Order intake sustained  
**MESSAGE FROM** • Metal manufacturing feels the pressure  
**MANUFACTURING** • Output volume up further  
**ENGINEERING** • Employee numbers strongly positive

**T**he most recent round of District Meetings confirmed that the majority of companies are continuing in a positive vein. Those working within the mechanical equipment sector continue to be particularly buoyant; no doubt helped by their determination in recent years to adopt a range of business improvement techniques to tackle extremely competitive world markets.

Our latest set of figures show that those involved in non-metal products have been having a tough time, reflecting the difficulties being experienced in the retail sector.

However, electronics, fabricators, machine shops and mechanical equipment are keeping the engineering manufacturing sector ahead of the game.

It has been particularly gratifying to note the recent positive results reported by such renowned engineering flag-bearers as Weir Group, Wood Group and Aggreko all of whom have been performing very well on the world stage.

While our level of optimism remains high, our sector realises that in the longer term we are not immune to the effects of the uncertainty associated not only with the Eurozone but also the USA.

Meantime, the excellent exam results achieved by school pupils around the country suggest that we would do well to encourage as many of these youngsters as possible into the manufacturing engineering sector where opportunities exist for a wide range of well-paid satisfying careers.

**DR PETER HUGHES, OBE FRENG**  
Chief Executive  
Scottish Engineering



## ANNUAL TRENDS

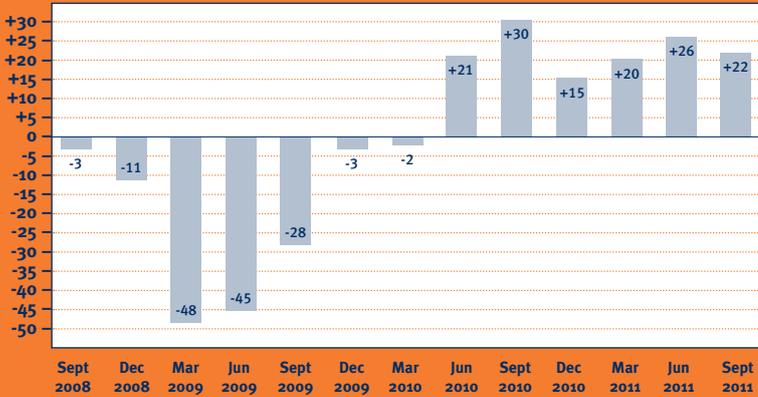
Total order intake has been strongly positive now for six consecutive quarters. Output volume has recorded a similar positive spell, with the latest quarter showing an improvement on the previous three quarters.

Training investment plans have increased quarter on quarter for the past year and have remained positive for seven quarters.

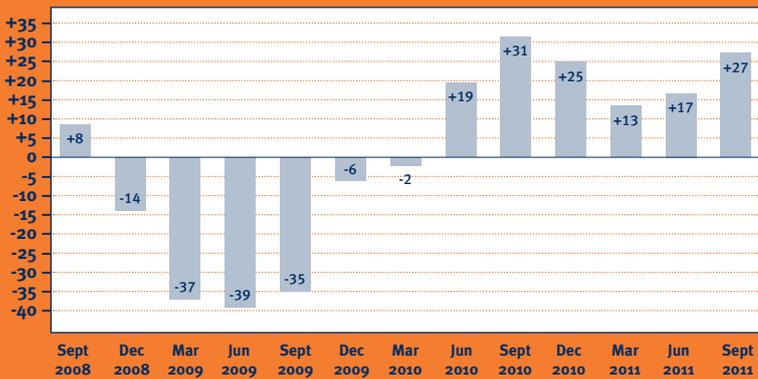
Capital investment plans continue to be positive for the fifth consecutive quarter.

Employment levels remain remarkably high, as they have been for five quarters, though they have been positive for six quarters.

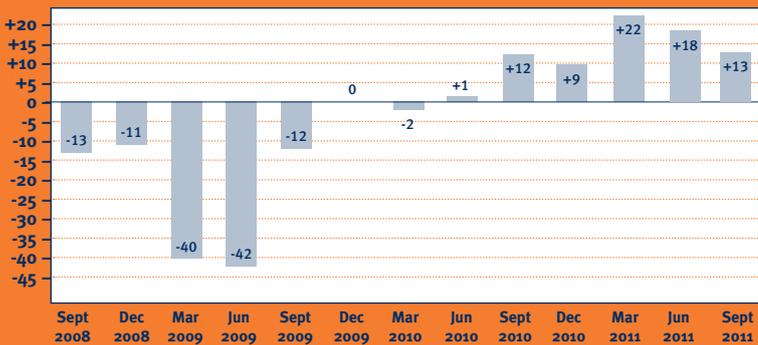
### ORDER INTAKE



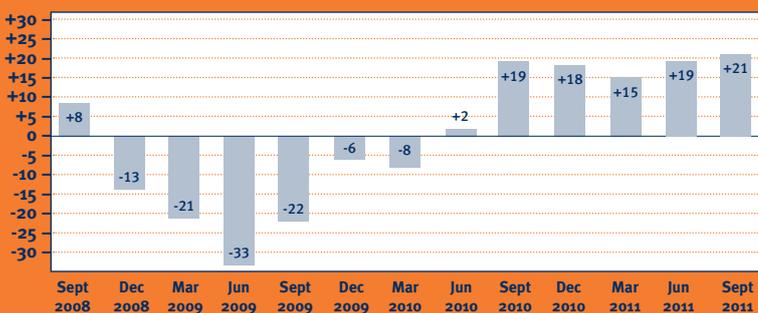
### OUTPUT VOLUME



### EXPORTS

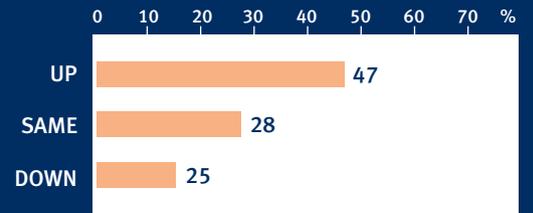


### STAFFING

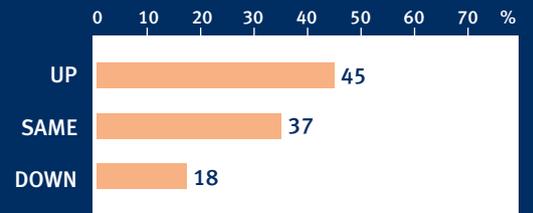


Balance between reports of increases and reports of decreases

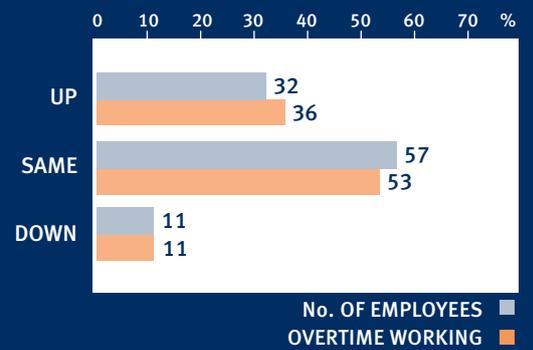
### ORDER INTAKE



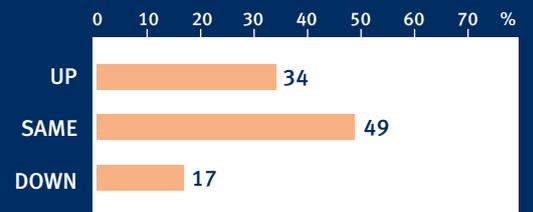
### OUTPUT VOLUME



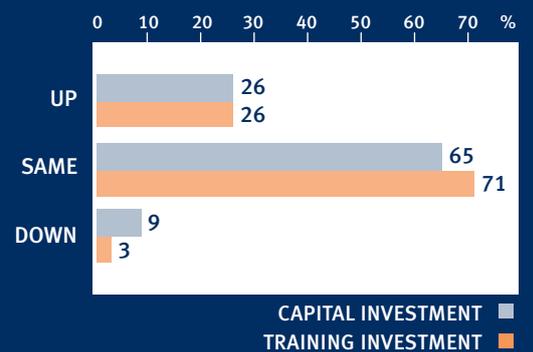
### STAFFING



### OPTIMISM



### INVESTMENT



## ORDER INTAKE

All sectors and size of company maintain their strong levels of growth except metal manufacturing which has posted negative results.

## OUTPUT VOLUME

Over all disciplines a series of good figures has been sustained except in non-metal products.

## STAFFING

The levels of staffing continue to improve except in non-metal products and services.

## OPTIMISM

Strong levels of optimism are being experienced throughout the engineering sector.

## INVESTMENT

Negative figures from electronics and metal manufacturing complete an otherwise positive set of figures for capital investment plans. Training investment plans are positive across all sectors and sizes of company.

## For the first three quarters of 2011, the manufacturing engineering sector has shown remarkable resilience in the face of global economic disruption.

In our September review the figures for orders, output volume and prices show that the majority of engineering companies which returned our questionnaire have continued to trade successfully.

### Orders

The total order intake (47%up,28%same,25%down) has maintained the high level seen for the previous five quarters. Small (45%up,25%same,30%down) and medium companies (59%up,27%same,14%down) are strongly positive while large companies (14%up,72%same,14%down) have an equal number of companies reporting increases as are reporting decreases.

Within the sectors electronics (55%up,18%same,27%down), mechanical equipment (53%up,26%same,21%down) and fabricators show positive results with only metal manufacturing (27%up,37%same,36%down) returning negative figures.

UK orders in general (27%up,61%same,12%down) maintain high positive returns which is also how small (40%up,33%same,27%down) and medium companies (40%up,46%same,14%down) have performed.

Within the sectors, mechanical equipment (33%up,51%same,16%down), fabricators (64%up,15%same,21%down) and transport (44%up,45%same,11%down) have performed well, but non-metal products (17%up,58%same,25%down) have negative results.

Forecasts for the next three months of UK orders in general (32%up,54%same,14%down) remain positive as do small (25%up,61%same,14%down), medium (31%up,61%same,8%down) and large companies (43%up,43%same,14%down).

Export orders general totals (38%up,37%same,25%down) have continued positive as have small (32%up,42%same,26%down) and medium companies (51%up,26%same,23%down), while large companies (0%up,75%same,25%down) reveal a negative balance for the second consecutive quarter.

In the sectors, electronics (56%up,11%same,33%down), mechanical equipment (47%up,28%same,25%down) and fabricators (29%up,71%same,0%down) are all positive but metal manufacturing (12%up,38%same,50%down) and non-metal products (18%up,55%same,27%down) are not.

Predictions for export orders in the next quarter in general (32%up,54%same,14%down) continue to be positive which is reflected in both small (23%up,62%same,15%down) and medium sized companies (46%up,45%same,9%down).

### Prices

UK prices in general (22%up,70%same,8%down) continue to be positive as they are in small (23%up,69%same,8%down), medium (17%up,75%same,8%down) and large companies (43%up,57%same,0%down). In the sectors, machine shops (33%up,67%same,0%down) and metal manufacturing (30%up,60%same,10%down) are reporting positive figures while fabricators (7%up,80%same,13%down) have more companies who have seen prices drop than have seen prices rise.

Forecasts for the next three months in general (15%up,80%same,5%down) remain positive. Small (16%up,78%same,6%down), medium (8%up,86%same,6%down) and large companies (29%up,71%same,0%down) all continue in positive mode.

Export prices for the last three months in general (20%up,74%same,6%down) continue to be positive, reflecting the situation in small (21%up,72%same,7%down), medium (17%up,77%same,6%down) and large companies (25%up,75%same,0%down).

Predictions for export prices in the next quarter in general (16%up,77%same,7%down) maintain their positive position. All sizes of company, small (16%up,79%same,5%down), medium (15%up,73%same,12%down) and large companies (25%up,75%same,0%down) are also looking ahead to positive returns.

### Optimism

In general terms, optimism (34%up,49%same,17%down) records its eighth consecutive positive quarter. Small (34%up,47%same,19%down), medium (37%up,50%same,13%down) and large companies (29%up,57%same,14%down) report positive figures.

Within the sectors, mechanical equipment (40%up,51%same,9%down), machine shops (44%up,23%same,33%down) and fabricators (33%up,60%same,7%down) are all positive while metal manufacturing (18%up,55%same,27%down) shows a negative return.

### Investment

Capital investment plans in general terms (26%up,65%same,9%down) are now in their fifth consecutive positive quarter. Small (22%up,67%same,11%down), medium (32%up,60%same,8%down) and large companies (29%up,71%same,0%down) are all positive. In the sectors, mechanical equipment (37%up,58%same,5%down) machine shops (44%up,45%same,11%down) and fabricators have plans to make capital investments while electronics (10%up,70%same,20%down) have provided a negative response.

Overall training plans (26%up,71%same,3%down) stay positive as do small (27%up,70%same,3%down), medium (24%up,73%same,3%down) and large companies (29%up,71%same,0%down).

### Staffing

Staffing levels in general (32%up,57%same,11%down) reveal six consecutive positive quarters. Levels in small (30%up,56%same,14%down), medium (41%up,51%same,8%down) and large companies (14%up,86%same,0%down) also remain positive.

General predictions for the next quarter (30%up,59%same,11%down) are very similar which is the same story for small (23%up,65%same,12%down), medium (42%up,50%same,8%down) and large companies (43%up,43%same,14%down).

Overtime levels overall (36%up,53%same,11%down) remain positive which is also true for small (39%up,48%same,13%down), medium (34%up,58%same,8%down) and large companies (14%up,86%same,0%down).

### Output volumes

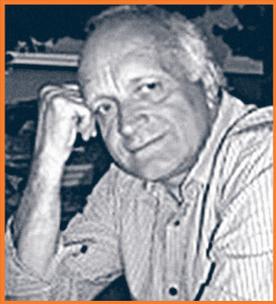
Overall output volumes (45%up,37%same,18%down) maintain a very positive situation for the sixth consecutive quarter. This is reflected in small (43%up,38%same,19%down), medium (51%up,33%same,16%down) and large companies (29%up,57%same,14%down).

In the sectors, all disciplines are positive, including electronics (45%up,28%same,27%down), mechanical equipment (49%up,42%same,9%down) and machine shops (44%up,45%same,11%down).

The forecast for the next three months in general (40%up,50%same,10%down) sees a continuation of the positive figures which is reflected in small (29%up,59%same,12%down), medium (63%up,32%same,5%down) and large companies (57%up,29%same,14%down).

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 39.5% of members. Companies are described as:  
Small (less than 100 employees),  
Medium (100-500) and Large (over 500).

# The Back Page



**ALF YOUNG**  
Journalist and Commentator

**The post-crash rhetoric about the urgent need to rebalance the UK's economy away from consumption and financial services and towards investment and a revitalised export effort was accompanied by some very grandiose language. In his March budget, the Chancellor George Osborne even conjured up a "march of the makers", as the centre piece of his new plan for growth.**

At the time, that image of engineers and manufacturers, rather than bankers and hedge fund managers, leading the UK economy to salvation struck a resonant chord. There are towns and cities all over these islands which still lament, decades on, the loss of whole industries that generated the wealth and jobs that made the nations and regions of the United Kingdom what they had become.

And for a time, as the crash and subsequent recession receded, the UK's manufacturing sector responded robustly. Survey evidence was upbeat. Order books were improving. Firms were hiring. And, while some banks still languished in state control, manufacturing's contribution was leading the way in rebuilding the UK's battered GDP.

However, since the chancellor called for that march of the makers signs of growth have petered out again. Our two biggest markets - the Eurozone and the United States - are in disarray. The sovereign debt crisis across much of Europe and the AAA rating downgrade in the US have contributed to flagging demand and rising talk of a double recession or worse.

Exporting our way out of recession makes plenty of sense. The trouble this time around is that so many economies in the west and north of this planet have been in trouble, finding enough markets with buoyant demand to export to is proving difficult. As I write, even the container traffic through the Suez canal, much of it coming our way from China, is down 10% year-on-year.

So if politicians are really serious about backing a manufacturing revival they are going to have to come up with a lot more than frothy rhetoric. Especially here in the UK where, since the 1980s, the lure of ready growth, investment and jobs and fat tax receipts from an almighty City, left the UK's remaining manufacturers at the soup kitchen end of Whitehall's largesse.

If significant rebalancing really is to be our salvation, that march of the makers faces a long

and challenging journey. The last time the UK had a trade surplus in goods and services was in 1997. Last year the trade deficit hit a record £49.3bn. The deficit on goods last year was a whopping £98.8bn.

If that tide is to be turned, government needs to do much more to stimulate research and innovation. And, as a growing chorus of prominent voices has been advocating, it needs to do much more to encourage take-up of engineering education too. Dyson, BAE Systems, Rolls Royce, Scottish Power and others have all called for more investment in producing the engineers of the future.

The other day Sir James Dyson predicted a desperate shortage unless something drastic is done. Currently about 22,000 engineering students graduate across the UK. "But there are 37,000 vacancies this year and that will go up to 200,000," he warns. The Scottish engineering entrepreneur, Jim McColl, points to the demographic challenge of replacing all the older engineering talent that is coming close to retirement age.

In the immediate wake of the banking crash, there were signs that many of the UK's most talented graduates were shunning careers in the City and were applying in burgeoning numbers for jobs in the civil service and elsewhere. But that early instinct, shaped by the bashing bankers were then taking, doesn't appear to have lasted.

Nearly four years on, this June, the UK coalition's business secretary, Vince Cable, called for a cultural revolution to persuade more school-leavers and high-flying graduates to choose manufacturing as their vocation, not the City. He drew on the experience of a member of his own family.

"My younger son was a very bright Cambridge mathematician and a heavy percentage of his peer group ended up in the City instead of in science or manufacturing," he said. Well Cable and his coalition colleagues, like their counterparts at Holyrood, are in a position to do something about this.

Even in tough times like now a concerted programme to turn more of the younger generation on to careers in engineering and science will pay massive dividends. Manufacturing already contributes more to UK GDP than financial services. It could contribute so much more.

## ENERGY GROUP

Headquartered in Dunfermline, M&C Energy Group has 35 years' experience in energy procurement and price risk management, legislation compliance services and water consultancy – helping our clients save money and improve energy efficiency.

With 20 offices across 13 countries, M&C serves more than 3,500 clients with a combined energy spend under management of over £6.25bn. Our award winning approach to controlling commodity price risk ensures our clients stay within budget and benefit from market falls.

The world of energy charges is complex and all suppliers make mistakes. The surprise is just how big those mistakes can be. M&C Energy Group is a proven market leader in recovering historical overpayments and correcting on-going charging arrangements, which in some cases can equate to more than 100% of the annual energy budget.

If you would like to speak with us, please telephone **01383 745 165** or visit our website [www.mcenergygroup.co.uk](http://www.mcenergygroup.co.uk)