

Quarterly Review

DECEMBER 2008

SCOTTISH • Optimism is severely hit
ENGINEERING • Output volume declines
MANUFACTURING • Order intake drops further
FEELS THE • Recruitment stalls
CRUNCH • Capital investment levels fall

The Scottish engineering manufacturing sector has learned that it is not immune to the current global financial crisis. Our latest data reveals that the vast majority of manufacturing engineering employers are seeing a significant downturn in order intake and output volumes.

Optimism is at a seven-year low and while some companies continue to report skill shortages a large number have either stopped recruiting or are making cuts in employee numbers.

My latest round of District Meetings has confirmed that companies have had a severe jolt to their confidence and our SMEs in particular are finding that their bankers are proving to be far from helpful. I detect a growing sense of anger from many of our manufacturing companies who are being hit by ever increasing bank charges as a result of the global credit crunch. It is galling to find that manufacturing companies are having to pick up the tab following the dramatic failure of our banking system and the bodies which should have been there to regulate it more appropriately.

In October I was called to give evidence to the Holyrood Economy, Energy and Tourism Committee who were keen to hear about the ramifications arising from the global financial problems. I took the opportunity to inquire where the various politicians had been hiding when our manufacturing sector and in particular electronics was suffering significant job losses.

We recently hosted an Executive Dinner with Alf Young of The Herald as our guest speaker. It was a very fruitful exchange with Alf at his incisive best. I am therefore happy to quote verbatim from a subsequent article he wrote in The Herald:

“Here’s one perspective that’s been absent from all the recession talk so far. We know Scotland is now a services-dominated economy. Services account for nearly 74% of our national output on the latest government weightings. Manufacturing just 14%. Yet within that dominant share, financial services account for just 8.3%. And just over half of that, 4.3% is down to banking.

“It may surprise you to know that engineering’s equivalent share, even today after all it’s been through, is 4.2%. If some of those billions that are now being thrown at banks had been thrown at manufacturing in recessions past, might we all have been in a more reassuring place today?”

Dr PETER HUGHES, OBE FREng
Chief Executive
Scottish Engineering



ANNUAL TRENDS

For the second consecutive quarter order intake levels are in negative figures. This quarter has actually fallen below quarter three.

Output volume, for the first time in five years has fallen into negative figures as has capacity utilisation.

Both training and capital investment plans leave 18 consecutive positive quarters and both report negative figures.

Recruitment levels move just into the negative area for the first time in five years.

ORDER INTAKE



OUTPUT VOLUME



EXPORTS

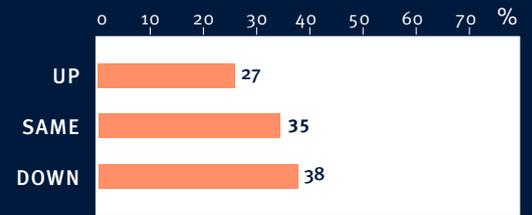


STAFFING

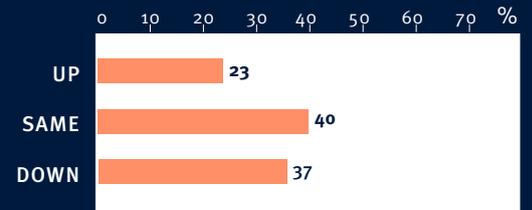


Balance between reports of increases and reports of decreases

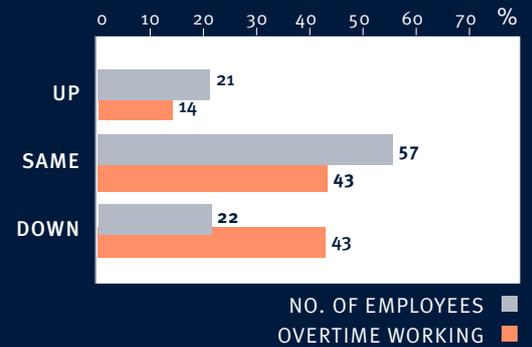
ORDER INTAKE



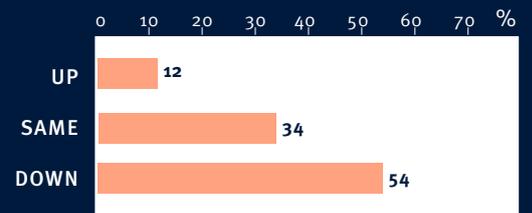
OUTPUT VOLUME



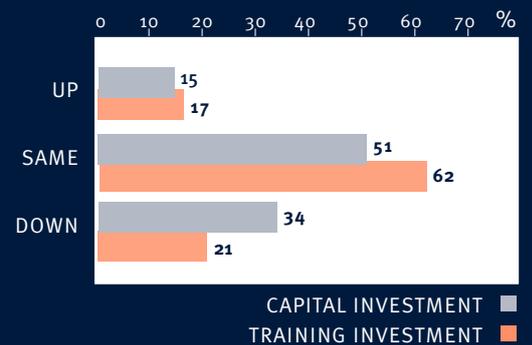
STAFFING



OPTIMISM



INVESTMENT



ORDER INTAKE

Small companies, fabricators and metal manufacturing are hardest hit.

OUTPUT VOLUME

This has been held up in medium companies but not in small and large companies.

STAFFING

Overall demand for staff has fallen slightly but not in large companies.

OPTIMISM

Only large companies are positive with most sectors reporting a fall in optimism levels.

INVESTMENT

Overall plans for training and capital investment have fallen with very few sectors reporting positive figures.

The current global financial crisis has finally caught up with the Scottish manufacturing engineering sector. Order intake has fallen for the second consecutive quarter and output volumes are down for the first time in five years.

Forecasts for the next three months show no let up, so the industry is preparing itself for a bleak winter.

Orders

The general total order intake (27%up,35%same,38%down) has fallen slightly on last quarter's negative figure, turning around five years of positive returns. Small companies (22%up,36%same,42%down) represent the only negative figure as medium companies (36%up,31%same,33%down) are positive and large companies (17%up,66%same,17%down) have an equal number of companies reporting a drop in orders as are reporting an increase.

UK orders in general (23%up,36%same,41%down) continue downwards and are joined by small (22%up,32%same,46%down), medium (26%up,41%same,33%down) and large companies (17%up,50%same,33%down).

Within the sectors electrical goods (40%up,40%same,20%down) reports a surprisingly positive return as does transport (80%up,20%same,0%down). The others including fabricators (8%up,23%same,69%down) and metal manufacturing (10%up,50%same,40%down) are universally negative.

Forecasts for UK orders in the next three months in general (13%up,41%same,46%down) continue downwards and there is a similar trend in small (12%up,38%same,50%down), medium (12%up,46%same,42%down) and large companies (14%up,57%same,29%down). Electronics (0%up,36%same,64%down) and machine shops (0%up,38%same,62%down) are looking to further drops in order levels.

Export order levels generally for the last three months (24%up,41%same,35%down) are negative as they are in small (19%up,43%same,38%down) and medium companies (30%up,35%same,35%down) but not in large companies (25%up,75%same,0%down).

In the export market electronics (30%up,40%same,30%down) and oil and gas (40%up,20%same,40%down) both had an equal number of companies reporting a decrease and an increase in orders. Transport (50%up,25%same,25%down) was the only sector which had a positive order return.

Predictions for exports for the next three months in general (19%up,44%same,37%down) remain negative as they are for small (13%up,44%same,43%down), medium (26%up,45%same,29%down) and large companies (20%up,40%same,40%down).

Prices and margins

UK prices in general (20%up,72%same,8%down) remain positive for a further quarter as they do in small (22%up,69%same,9%down) and medium companies (18%up,77%same,5%down) but large companies (0%up,86%same,14%down) have reported a negative situation. Oil and gas (20%up,40%same,40%down) is the only sector which has negative figures. All other sectors are positive including machine shops (44%up,34%same,22%down) and non-metal products (11%up,89%same,0%down).

In the next three months UK price forecasts in general (23%up,61%same,16%down) are holding up as they are in small (23%up,61%same,16%down) and medium companies (26%up,59%same,15%down) while large companies (14%up,57%same,29%down) report a drop in the majority of prices.

Export prices for the last three months in general (10%up,79%same,11%down) are slightly down as they are in small companies (9%up,78%same,13%down) but medium companies (14%up,75%same,11%down) report positive figures and large companies (0%up,100%same,0%down) report the same situation as last quarter.

Mechanical equipment (7%up,89%same,4%down), machine shops (17%up,83%same,0%down) and transport (40%up,60%same,0%down) have all presented positive figures.

The forecast for the next three months in general (17%up,64%same,19%down) is negative which is similar to small (13%up,65%same,22%down) and large companies (0%up,80%same,20%down) while medium companies (24%up,60%same,16%down) are positive.

UK sales margins are negative in all sectors and size of company. The general figures (6%up,65%same,29%down) give an indication of the state of the manufacturing engineering industry. The forecast for the next three months (10%up,59%same,31%down) is marginally better.

Export sales margins are similar to the UK figures in general (7%up,65%same,28%down) though surprisingly transport (40%up,60%same,0%down) has a positive figure.

Predictions for the next three months are similarly negative in general (8%up,66%same,26%down) and in small (9%up,58%same,33%down) and medium companies (8%up,71%same,21%down) while large companies (0%up,100%same,0%down) are the same as the last quarter.

Optimism

The level of optimism in general (12%up,34%same,54%down) has experienced a considerable fall. This is the same in small (9%up,28%same,63%down) and medium companies (15%up,40%same,45%down) but not so in large companies (29%up,57%same,14%down). All sectors have returned negative figures.

Investment

Plans for both capital investment (15%up,51%same,34%down) and training investment (17%up,62%same,21%down) are negative, turning around five-year periods of positive figures. Small companies report negative plans for capital (9%up,52%same,39%down) and training (11%up,62%same,27%down) investment but large companies are positive for both capital (43%up,57%same,0%down) and training (29%up,71%same,0%down) investment plans.

Staffing

Levels of staffing in general (21%up,57%same,22%down) have slipped into the negative which is the same as small companies (14%up,66%same,20%down) but large companies (43%up,57%same,0%down) remain positive and medium companies (31%up,38%same,31%down) have equal numbers of companies taking on and laying off staff.

Forecasts for the next quarter in general (16%up,55%same,29%down) remain negative and this is reflected in both small (11%up,63%same,26%down) and medium companies (20%up,42%same,38%down) while large companies (43%up,43%same,14%down) continue to be positive.

Output volumes

In general terms (25%up,30%same,45%down) output volumes have become negative for the first time in five years. They are also negative in small (17%up,39%same,44%down) and large companies (14%up,57%same,29%down) but have held up in medium companies (37%up,37%same,26%down).

The forecast for the next three months in general (25%up,30%same,45%down) remains negative as it is for small (22%up,27%same,51%down) and medium companies (28%up,34%same,38%down) while large companies (33%up,50%same,17%down) continue to maintain their positive 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 30.5% of members. Companies are described as: Small (less than 100 employees), Medium (100-500) and Large (over 500).

The Back Page



GILLIAN STOBO
Principal
Craigholme School, Glasgow
The Scottish Council of
Independent Schools (SCIS)

The certainty of which we can be assured is the increasing uncertainty that the 21st century brings and the rapidity of change that requires greater flexibility, creativity and innovation in response. Education is currently in a state of flux as it responds to the challenge of providing for the needs of today's learners and the future needs of society.

The Curriculum for Excellence looks at the provision from age three to 18 and is designed to be a transformational change in Scottish education impinging on learning, teaching and leadership. It focuses on experiences and outcomes for learners that will improve attainment, broaden achievement and develop skills for learning, work and life.

The age range from three – 18 is divided into a number of levels:

- Early – Nursery and P1
- First – to the end of P4 but earlier for some children
- Second – to the end of P7 but earlier for some children
- Third and Fourth – S1 - S3 but earlier for some children
- Senior Phase – S4 - S6

Numeracy and literacy are delivered across the curriculum and it is proposed to have a qualification in these areas by the end of the third and fourth level. It is important to note the vital role of literacy, as it is the vehicle through which higher order learning in all areas becomes accessible.

The numeracy outcomes are designed to stimulate children's interest and promote creativity and innovation through active learning; development of problem-solving capabilities; development of mathematical thinking skills; use of relevant contexts familiar to young people's experiences; appropriate, effective use of technology; collaborative and independent learning; making links across the curriculum.

The combined experiences learners will have through mathematics, sciences and technologies are intended to lead to outcomes where mathematical and scientific principles can be applied to practical ends. There is also the focus on the individual's responsibility for learning and which leads to far greater retention and adaptation of skills.

Within the context of technologies, an early level experience would be to develop practical skills within real and imaginary settings and to select and work with a range of materials, tools and software.

This should lead progressively to fourth level experiences in which an understanding of the basic principles of control technology can be developed by

solving practical problems using applied electronic and pneumatic control systems.

Having gained knowledge of how formulae may be used in the context of energy transfer and mechanical systems, these can be applied in a practical way to solve problems.

This approach of using previous learning to increase the knowledge and skills base to solve problems is seen again in mathematics and science. The ability to recognise similarities between new problems and ones seen before and to explore how real life situations can be modelled by number patterns from which general formulae can be generated, gives powerful and creative problem solving skills.

This integrated approach to the school curriculum intends to develop four fundamental capacities in pupils namely, successful learners, confident individuals, effective contributors and responsible citizens.

Historically, this is an area in which the independent sector has excelled and has considerable expertise. The present educational climate enables the sharing of good practice across the sectors and this can only be to the nation's benefit.

Towards the end of the senior phase, the Scottish Government has announced the introduction of a Scottish Science Baccalaureate and a Scottish Language Baccalaureate to build on the success of the Scottish Qualifications Authority's Advanced Higher programme. These new qualifications are to contribute to the Government's principle purpose of creating a more successful Scotland with opportunities for all to flourish through increasing sustainable economic growth.

A key feature of these awards is the interdisciplinary project which aspires to encourage collaborative work between schools, further and higher education and the workplace.

It has long been stressed that young people should have good quality skills in mathematics, science and engineering to help boost Scotland's economy, particularly in fast-developing areas such as hi-tech manufacturing, renewable energy and carbon capture technologies. The new curricular experiences in mathematics, sciences and technologies are key to improved outcomes.

This educational climate creates fantastic opportunities for old partnerships between schools, colleges, universities and companies to be strengthened and new ones to be created. Each has a responsibility to the others to be open, creative and determined to succeed, for in that collaboration a brighter future is certain.

