M&C ENERGY GROUP

Scottish Engineering

Quarterly Review

DECEMBER 2011

MANUFACTURING ENGINEERING STARTS TO FEEL THE ECONOMIC CHILL

- Large companies push ahead
- Output levels maintained
- Employment numbers sustained
- Small companies feel the pain
- Overall orders stall

We stated in our last Quarterly Review that the manufacturing engineering sector was not immune from the effects of the worldwide uncertainty associated with the Eurozone and the USA.

The latest data from our members is now showing that the smaller companies are beginning to experience this downturn, particularly with regards to exports. However, our larger companies continue to report positive figures in all areas except UK sales margins.

Around the country we are receiving reports of an ever increasing demand to fill a number of engineering vacancies covering a wide range of disciplines. This augurs well for the many young people who are deciding to follow a career in engineering.

My recent visits to numerous secondary schools has shown a growing number of students who are tackling the STEM subjects (science, technology, engineering and maths) which will then allow them to undertake an engineering career.

The latest exciting educational initiative from the manufacturing engineering sector is the launch of a pilot scheme for Scotland's secondary schools sponsored by the Weir Group plc. The pilot programme for 2011-2012 will involve 16 invited schools who will each produce a report based on the title 'The importance of engineering to Scotland'.

The winning school will receive a prize of £4000 with the second and third placed schools receiving £2000 and £1000 respectively.

The new Scottish Engineering Hall of Fame, launched in conjunction with the Institution of Engineers and Shipbuilders in Scotland, will be unveiled at our Scottish Engineering headquarters shortly.

DR PETER HUGHES, OBE FREng
Chief Executive
Scottish Engineering

Scottish Engineering

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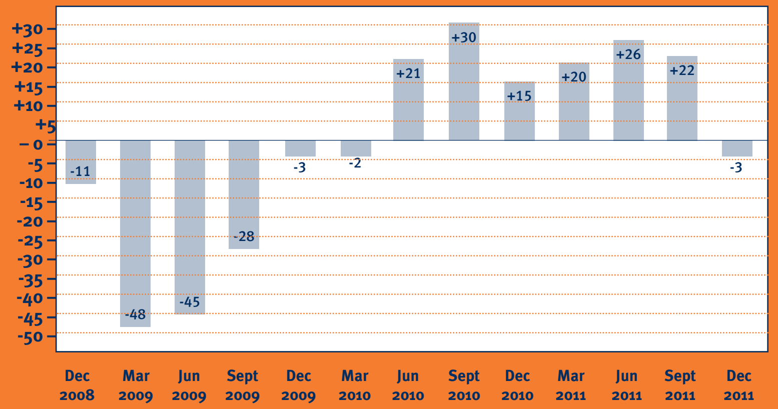
ANNUAL TRENDS

After six consecutive quarters of sustained growth, total order intake has fallen into the negative zone. Output volume, on the other hand has maintained its positive situation – for the seventh consecutive quarter - albeit at a lower level.

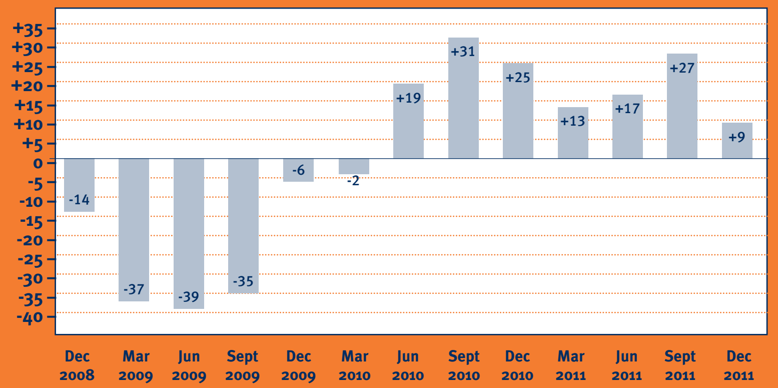
Training investment plans also continue to be positive, in this case for eight consecutive quarters. Similarly, capital investment plans are still positive though there has been a slight fall in level.

Employment levels have now been positive for seven consecutive quarters, six of these at a very acceptable standard.

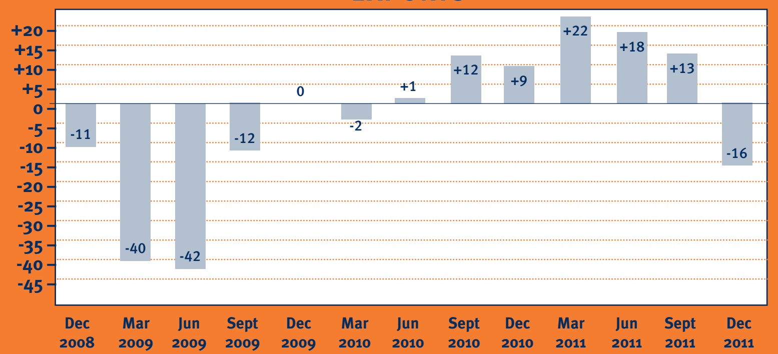
ORDER INTAKE



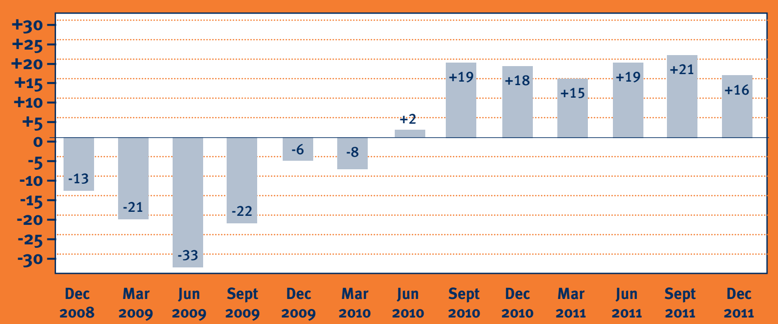
OUTPUT VOLUME



EXPORTS

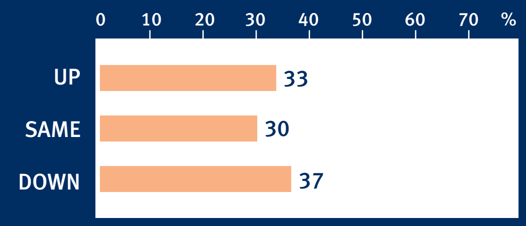


STAFFING



Balance between reports of increases and reports of decreases

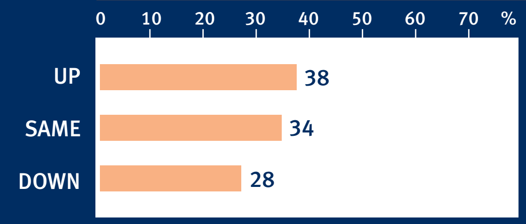
ORDER INTAKE



ORDER INTAKE

Small companies show the hardest fall this quarter but in the sectors, machine shops and metal manufacturing maintain their positive levels.

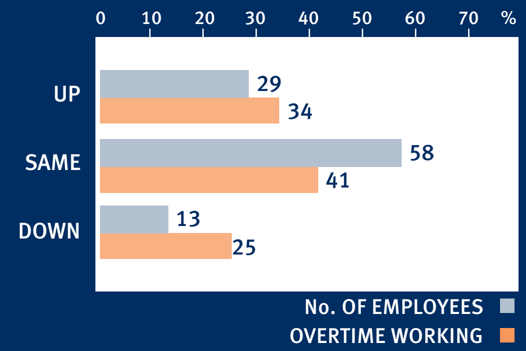
OUTPUT VOLUME



OUTPUT VOLUME

Growth continues across all disciplines except non-metal products.

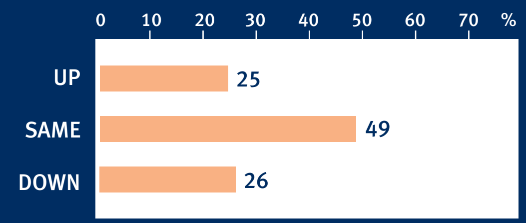
STAFFING



STAFFING

The number of employees continues to grow in all disciplines and all sizes of company.

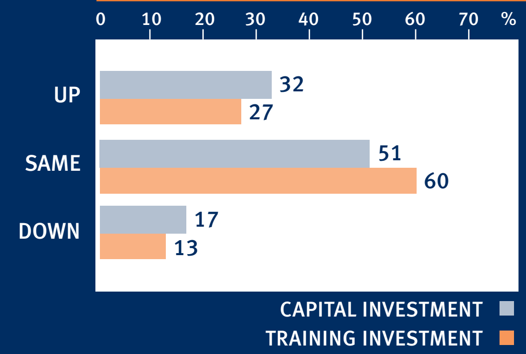
OPTIMISM



OPTIMISM

The optimism that has been felt over the last seven quarters has finally diminished, except in transport, oil & gas and machine shops.

INVESTMENT



INVESTMENT

Capital investment plans have dipped in fabricators, but apart from that all other disciplines are positive. Training plans are similar with only fabricators cutting back.

The economic chill which was affected both the Eurozone and the USA in recent months is finally affecting the temperature within the engineering manufacturing industry in Scotland. Having said that, large companies are continuing to operate at a very acceptable level while small companies are the ones that are being more affected.

Orders

For the first time since March 2010 the total order intake (34%up,29%same,37%down) is negative. Small companies (34%up,24%same,42%down) in particular are feeling the pressure while medium companies (32%up,36%same,32%down) have the same number of companies reporting order increases as are reporting that orders have fallen. Large companies on the other hand (36%up,55%same,9%down) remain very positive.

Within the sectors, electronics (31%up,31%same, 38%down) have dipped below the line as has mechanical equipment (36%up,15%same, 9%down) and fabricators (25%up,44%same, 31%down) while oil & gas (75%up,25%same, 0%down) remains very upbeat.

UK orders in general (20%up,54%same,26%down) have slipped into a negative position as have small (29%up,31%same,40%down) and medium companies (25%up,37%same,38%down) with large companies (36%up,46%same,18%down) remaining positive.

In the sectors, electronics (23%up,31%same, 46%down) have taken quite a tumble along with mechanical equipment (23%up,20%same,57%down) and non-metal products (0%up,55%same, 45%down). Machine shops (80%up,20%same, 0%down) and metal manufacturing (43%up, 36%same,21%down) continue to be positive.

Forecasts for the next three months of UK orders in general (28%up,45%same,27%down) return to a positive position as do small companies (30%up, 42%same,28%down). Large companies (9%up, 73%same,18%down) are predicting negative order levels and medium companies (28%up,44%same, 28%down) have an equal number of companies forecasting that orders will go up as predict they will go down.

Export orders general totals (21%up,42%same, 37%down) have dropped in the last quarter as have small (14%up,44%same,42%down) and medium companies (31%up,36%same,33%down) but large companies (43%up,43%same,14%down) maintain their positive position.

Export orders in the sectors are negative in electronics (30%up,30%same,40%down), metal manufacturing (10%up,40%same,50%down) and mechanical equipment (22%up,29%same,49%down) while transport (18%up,73%same,9%down) and oil & gas (67%up,33%same,0%down) are both positive.

Predictions for export orders in the next three months in general (22%up,51%same,27%down) remain negative as they are in small (17%up, 55%same,28%down) and large companies (0%up,71%same,29%down) while medium companies (36%up,39%same,25%down) predict that they are moving into a positive position.

Prices

UK prices in general (17%up,74%same,9%down) continue to be positive as they are in small (17%up, 72%same,11%down), medium (12%up,83%same, 5%down) and large companies (36%up,64%same, 0%down). In the sectors, mechanical equipment (11%up,83%same,6%down) and machine shops (40%up,60%same,0%down) are positive but metal manufacturing (7%up,73%same,20%down) is negative.

Forecasts for the next three months in general (17%up,76%same,7%down) remain positive. All three sizes of company, small (13%up,78%same, 9%down), medium (20%up,75%same,5%down) and large (36%up,64%same,0%down) follow this trend.

Export prices for the last three months in general (12%up,81%same,7%down) are positive which is mirrored in small (14%up,77%same,9%down), medium (8%up,86%same,6%down) and large companies (14%up,86%same,0%down).

Predictions for export prices in the next quarter in general (12%up,82%same,6%down) remain positive and that situation is the same in small (8%up,89%same,3%down), medium (19%up, 70%same,11%down) and large companies (14%up,86%same,0%down).

Optimism

In general terms, optimism (25%up,49%same, 26%down) has become negative since last quarter as have small companies (26%up,46%same,28%down). Large companies (25%up,58%same,17%down), however are positive and medium companies (22%up,56%same,22%down) have the same number of companies being positive as are not.

Within the sectors, electronics (15%up,54%same, 31%down) and mechanical equipment (17%up, 49%same,34%down) are also negative but transport (25%up,67%same,8%down) remains positive.

Investment

Capital investment plans in general (32%up, 52%same,16%down) move into their sixth consecutive positive quarter. Small (30%up, 50%same,20%down) and medium companies (40%up,52%same,8%down) are also positive but large companies (17%up,66%same,17%down) have the same number of companies increasing their investment as plan to cut it.

In the sectors, electronics (33%up,42%same, 25%down), mechanical equipment and metal manufacturing (33%up,40%same,27%down) are all positive but fabricators (12%up,69%same,19%down) have more companies that plan to cut back on capital investment than plan to increase their commitment.

Training plans in general (26%up,62%same, 12%down) remain positive in small (24%up, 61%same,15%down), medium (30%up,60%same, 10%down) and large companies (33%up,67%same, 0%down) and only fabricators (0%up,81%same, 19%down) within the sectors are not positive.

Staffing

Staffing levels in general (30%up,56%same, 14%down) remain upbeat which is reflected in small (26%up,59%same,15%down), medium (37%up,52%same,11%down) and large companies (36%up,46%same,18%down).

General predictions for the next three months (22%up,63%same,15%down) are similar. Within the sectors, fabricators (12%up,69%same,19%down) and metal manufacturing (0%up,77%same, 23%down) are forecasting they will have fewer employees.

Output volumes

Overall output volumes (38%up,33%same, 29%down) maintain their levels for the seventh consecutive quarter. Similarly in small (35%up, 33%same,32%down), medium (45%up,30%same, 25%down) and large companies (45%up,37%same, 18%down) the outcome is positive. Within the sectors only non-metal products (9%up,36%same, 55%down) have seen a dip in levels.

The forecast for the next quarter in general (34%up,38%same,28%down) sees a continuation of the positive results which is also reflected in small (35%up,35%same,30%down), medium (32%up,38%same,30%down) and large companies (36%up,55%same,9%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 41% of members. Companies are described as: Small (less than 100 employees), Medium (100-500) and Large (over 500).

Scottish Engineering

The Back Page

Rt Hon Michael Moore MP
Secretary of State for Scotland

One of the aspects that I most enjoy in my role as Secretary of State for Scotland is the opportunity to get out to meet people and visit firms across the country. I've done a fair bit of this over the past eighteen month.

The people I meet see challenges ahead of them. But they are also ambitious and optimistic. Like me, they believe that Scotland's best days are ahead of us.

We learned at school about Scotland's rich manufacturing and engineering heritage. However, we have an exciting future too. Advanced manufacturing and high-tech engineering will be at the forefront. Your businesses nail the myth that Scotland doesn't make things anymore.

Scottish engineering is innovative and world-leading. It is setting new standards in numerous fields as I've seen in recent weeks at Clyde Union Pumps and the Centre of Engineering Excellence for Renewable Energy in Glasgow, Ampcontrol Allenwest in Irvine and Burntisland Fabrications in Stornoway. Alongside this, we appreciate the significance of the UK defence footprint in Scotland. The work being done on the two super carriers for the Royal Navy underlines that Scotland can still build huge complex ships.

Given what is happening in the world, these are challenging times for the economy. The UK Government, which retains responsibility for macroeconomic policy, is helping alleviate these challenges. Government has a crucial role to play in enhancing the environment for business growth. Scotland's two governments must work together to unlock Scotland's full potential and show the world we are open for business.

The Coalition's first priority was to get the public finances back under control. It was essential to re-establish the stability to build confidence in our economy. With this confidence comes the impetus for companies to expand, invest and hire new staff.

We are planning for the future too. The Plan for Growth outlines practical measures geared to creating a better environment for firms to flourish. We are committed to a simpler tax system and creating the most competitive tax system in the G20. The phased reductions in Corporation Tax – to 23% by 2014 – will mean we will have the lowest rate in the G7 and one of the lowest rates in the G20.

We have tasked the banks, covered by the Project Merlin agreement, with giving better access to finance for SMEs. Other schemes are also promoting access to credit. These include the Enterprise Finance Guarantee, the Export Enterprise Finance Guarantee, the Enterprise Investment Scheme and Enterprise Capital Funds, while we are also increasing tax credits for research and development for SMEs.

The UK Government is also pledged to lighten the regulatory load on business by scrapping burdensome regulation on small firms. We want better regulation, not more regulation. Similarly, the National Insurance and regulatory breaks in the Budget are helping fledgling firms find their feet.

Alongside our determination to be one of the best places to start, finance and grow a business, we are committed to creating a new model of economic growth which is driven by investment and exports. Only by achieving this sustainable growth across sectors will we be able to rebalance our economy.

Scottish Engineering's membership is in the vanguard of Scottish exporting. Your trends over recent quarters have been positive and we want to see more Scottish firms trading overseas. It is vital to our economic prospects that this happens.

Through the new Scottish Business Board we are giving Scottish businesses a greater opportunity to have their say on UK Government trade and economic policy. We are pledged to increase our exports to the fast growing markets of the future. I am delighted to be leading the largest ever Scottish Trade delegation to Brazil, under the auspices of the SCDI, at the end of November. One of the highlights will be visiting the Weir Group at their main facility in Sao Paulo.

Making the most of new export markets in the growing mass economies is a key factor in securing the recovery. Scotland is best placed to do this as part of the UK and its trade networks. One of the many economic benefits to Scotland from being part of the UK is our access to world class consular and trade support across the globe.

As we tackle the economic challenges, we are also delivering our pledge to strengthen the devolution settlement.

The Scotland Bill signifies the largest transfer of financial powers from London since the creation of the UK. It gives the Scottish Parliament new levers over the Scottish economy and strengthens its accountability to the people of Scotland.

I believe Scotland and Scottish businesses are better in the UK. We benefit from the advantages of scale, shared services, a unified tax system and seats at the top European and international tables. I look forward to promoting Scottish engineering excellence in the UK and beyond.

The views expressed on 'The Back Page' are not necessarily those of Scottish Engineering.