

Quarterly Review

JUNE 2012

MORE POSITIVE NEWS FROM SCOTTISH ENGINEERING MANUFACTURING

- Order Intake improves further
- Output Volume rises yet again
- Employment demand extremely positive
- Margins remain tight despite improved prices
- Electronics Order Intake soars

Our Scottish Engineering Manufacturing Sector once again shows its resilience against a background of worldwide economic uncertainty.

The latest figures from across the sector paint a picture of optimism with improved order intake, output volumes, recruitment and a commitment to further investment in capital expenditure and in training. My ongoing Scotland wide visits to member companies confirms this positive outlook despite a few pockets of difficulty which are invariably outnumbered by the significant majority who are doing well.

Last month our 2012 Scottish Engineering Awards Dinner enjoyed its best ever attendance with more than 450 engineers and guests enjoying a celebration of all that is good with the engineering manufacturing sector across Scotland.

The top award of the evening went to John Wood Group plc for their outstanding performance on the world stage. They have confirmed their position as a leading international energy services company, providing a range of engineering, production support, maintenance and industrial gas turbine overhaul and repair services to the oil and gas and power generation industries worldwide.

Seven companies were hailed by the assembled audience with Alexander Dennis, Bridge of Weir Leather, Clansman Dynamics, Howden Compressors, Peak Scientific Instruments, Penman Engineering and Weir Group all receiving Scottish Engineering President's Awards for Outstanding Achievement.

Young engineer, Graham Smyth, from McDonald Engineers in Fife, received the Scottish Engineering/Incorporation of Hammermen of Glasgow Award for his fantastic contribution to his company, getting them into new markets with the introduction of stainless steel hot water cylinders.

Meantime, we continue to pursue our political leaders in our quest for answers to the many outstanding questions in relation to the forthcoming independence referendum, the energy debate and the confusion which surrounds the changes to our education sector.

In a poll of our Scottish Engineering member companies, more than 70% of respondents stated that they would prefer a speedy resolution to the question of independence rather than wait until 2014.

Despite our repeated representations, we still await a meaningful response in relation to the many questions linked to our energy policy.

In similar fashion, we await clarification on the implications of the curriculum for excellence and the new National 4 and National 5 qualifications which are replacing the Standard Grades. With many in the teaching profession still expressing their concerns with the changes being introduced, it is not surprising that employers remain confused.

It is reassuring to know that whilst our politicians fiddle, our engineering manufacturing sector is getting on with the job of winning business across world markets and in so doing is making a great contribution to our nation's wellbeing.

DR PETER HUGHES, OBE FREng
Chief Executive
Scottish Engineering



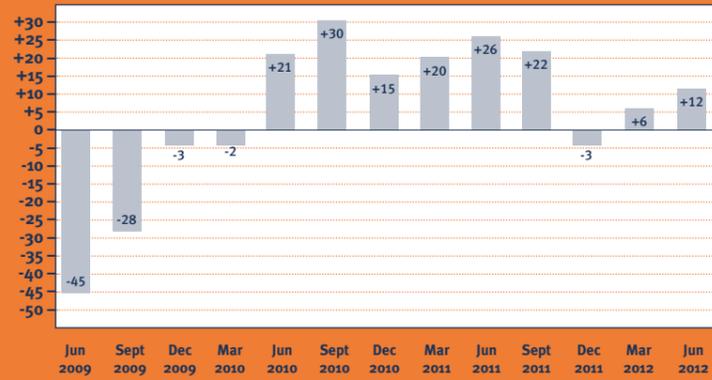
ANNUAL TRENDS

Total order intake remains positive which is how eight out of the last nine quarters have been. Output volumes, however, have now been positive for eight consecutive quarters, a position that gives hope to our engineering sector.

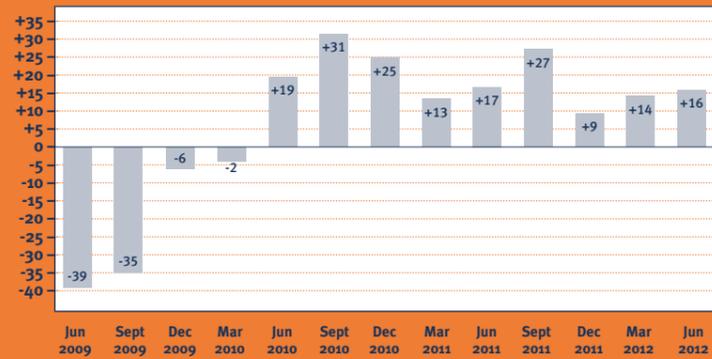
Both training investment plans and capital investment plans remain positive, putting training on ten consecutive quarters and capital investment positive for eight.

Employment levels remain positive as they have done for the last nine quarters, eight of these showing that employment levels are remaining strong.

ORDER INTAKE



OUTPUT VOLUME



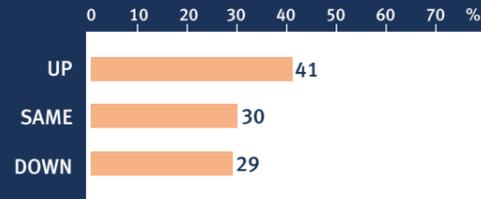
EXPORTS



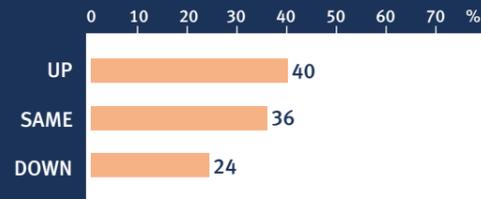
STAFFING



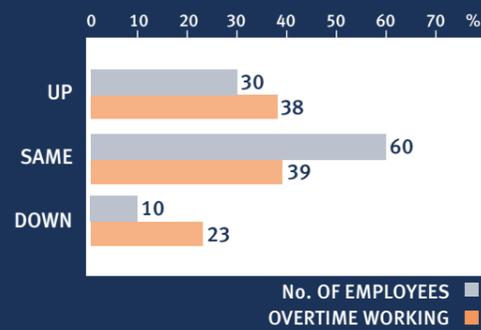
ORDER INTAKE



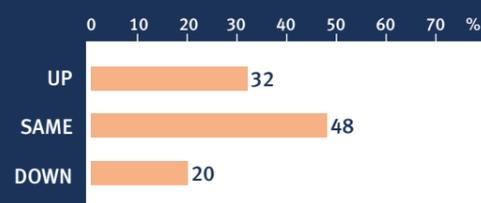
OUTPUT VOLUME



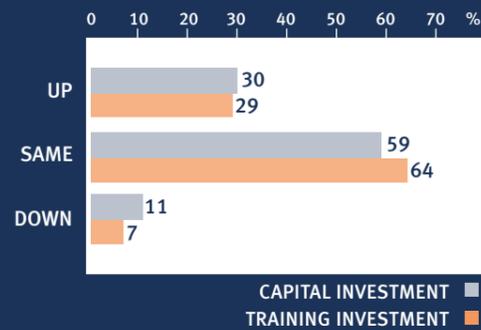
STAFFING



OPTIMISM



INVESTMENT



ORDER INTAKE

There has been a change in emphasis in the last quarter with small and medium sized companies having a positive response while large companies have become negative. Machine shops, fabricators and metal manufacturing are positive but mechanical equipment and non-metal products are negative.

OUTPUT VOLUME

Small and medium sized companies continue to be positive and have been joined by large companies. In the sectors, only non-metal products are negative.

STAFFING

The number of employees continues to grow in all sizes of company and all disciplines except for non-metal products where overtime is being cut back.

OPTIMISM

Optimism is high in the electronics sector but not in non-metal products.

INVESTMENT

Capital investment is positive in most sectors, except electronics, and oil and gas. Training plans are similar with only electronics being negative.

The engineering sector has continued to grow after just one quarter when figures became negative. Both small and medium sized companies have returned positive figures while large companies are reporting negative order intake. Across the various engineering disciplines the figures are refreshing within the current global economic circumstances.

Orders

Once again the total order intake (41%up, 30%same,29%down) is positive. Small (45%up, 26%same,29%down) and medium companies (38%up,34%Same,28%down) have pulled themselves back into positive figures but large companies (0%up,71%same,29%down) have moved into a negative mode.

Within the sectors electronics (50%up,31%same, 19%down), metal manufacturing (50%up,8%same, 42%down) and machine shops (56%up,33%same, 11%down) are positive while mechanical equipment (31%up,36%same,33%down) and non-metal products (12%up,38%same,50%down) are negative. UK orders in general (33%up,39%same,28%down) have returned to positive as have small (38%up, 33%same,29%down) and medium companies (28%up,46%same,26%down) with large companies (0%up,71%same,29%down) having negative returns.

In the sectors electronics (31%up,44%same, 25%down), machine shops (56%up,33%same, 11%down) and fabricators (50%up,25%same, 25%down) stay positive. Metal manufacturing (30%up,30%same,40%down) and non-metal products (12%up,63%same,25%down) are negative.

Forecasts for the next three months of UK orders in general (28%up,56%same,16%down) remain positive as they are in small (27%up,57%same, 16%down) and medium sized companies (31%up, 56%same,13%down). Large companies (29%up, 28%same,43%down) are still negative; but less so than for this quarter.

Export orders general totals (31%up,37%same, 32%down) have slipped into a negative position as have small companies (27%up,35%same, 38%down) with medium companies (39%up, 39%same,22%down) showing positive figures while large companies (20%up,60%same, 20%down) have equal numbers of companies reporting increases as report decreases.

Within the sectors, export orders for electronics (55%up,27%same,18%down) remain in positive figures. Other sectors like metal manufacturing (20%up,30%same,50%down) machine shops (0%up,75%same,25%down) remain negative.

Predictions for the next quarter of export orders in general are more positive (31%up,55%same, 14%down) as they are for small (28%up,63%same, 9%down), medium companies (31%up,50%same, 19%down) and large companies (60%up, 0%same,40%down).

Prices

UK prices in general (13%up,80%same,7%down) continue to be positive as they are in small (12%up, 80%same,8%down) and medium (19%up,76%same, 5%down) companies while large companies (0%up, 86%same,14%down) are negative. In the sectors, only electronics (0%up,94%same,6%down) are negative. The rest of the sectors remain positive.

Forecasts for the next three months in general (15%up,81%same,4%down) continue in a positive vein which is the same for small (16%up, 79%same,5%down) and medium companies (16%up,84%same,0%down).

Export prices for the last quarter in general (9%up, 83%same,8%down) are just positive. This is the reflected in small (9%up,84%same,7%down) and medium companies (11%up,80%same,9%down). Large companies (0%up,80%same,20%down) have dropped into negative territory.

Forecasts for export prices in the next three months in general (17%up,75%same,8%down) are positive as they are in small (20%up,71%same,9%down) and medium companies (14%up,80%same, 6%down). Large companies (0%up,80%same, 20%down) remain negative.

Optimism

In general terms (32%up,48%same,20%down) the levels of optimism have remained positive as have small (31%up,47%same,22%down) and medium companies (35%up,50%same,15%down) while large companies (29%up,42%same,29%down) have equal numbers being optimistic as those which are not so optimistic.

Within the sectors there is optimism in electronics (38%up,43%same,19%down) and mechanical equipment (24%up,54%same,22%down) but not in non-metal products (12%up,63%same,25%down).

Investment

Capital investment plans in general (30%up, 59%same,11%down) remain positive which is the same in small (28%up,60%same,12%down) medium (33%up,59%same,8%down) and large companies (33%up,50%same,17%down).

Within the sectors metal manufacturing (27%up, 64%same,9%down) and machine shops (56%up, 44%same,0%down) are positive while electronics (7%up,73%same,20%down), remains negative.

Training plans in general (29%up,64%same, 7%down) continue to be positive as they are in small (27%up,64%same,9%down), medium (35%up,63%same,2%down) and large companies (29%up,57%same,14%down).

Staffing

Staffing levels in general (30%up,60%same, 10%down) have remained positive. The figures for small (31%up,60%same,9%down), and medium companies (31%up,56%same,13%down) are similar while large companies (14%up, 72%same,14%down) show similar numbers of companies taking on staff as losing them.

Forecasts for the next three months in general (33%up,57%same,10%down) show the situation remaining strong as they are in small (32%up,58%same,10%down) and medium companies (35%up,57%same,8%down) with large companies (29%up,42%same,29%down) remaining the same.

Output volumes

Overall output volumes (40%up,36%same, 24%down) maintain their levels for the eighth consecutive quarter. Small (33%up,49%same, 18%down) and medium companies (49%up, 28%same,23%down) are also positive but large companies (0%up,100%same,0%down) have all companies registering no change.

The forecast for the next three months in general (36%up,49%same,15%down) remains positive as are small (33%up,49%same,18%down) medium (45%up,47%same,8%down) and large companies (29%up,57%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



THE HON RUPERT SOAMES OBE
Chief Executive
Aggreko

I am very grateful for the opportunity to set out some thoughts about our industrial world today.

Along with the belated recognition that man shall not live by financial services alone, has come calls to “rebalance the economy”, by which people seem to mean that our nation needs to have a greater proportion of its GDP coming from manufacturing. Quite right. However, I have not detected the same emphasis on the concomitant need to recommit ourselves to the improvement of our indigenous engineering capabilities.

Unless we think that the manufacturing of lavatory paper is going to be our salvation (and my apologies here to the no-doubt highly-skilled lavatory paper production engineers) all manufacturing jobs are dependent on some or all types of engineering disciplines.

Many leaders of industry are happy to lay the blame for the decline in the quantity – if not the quality – of our engineering skills-base on government. This is a clear case of pots calling kettles black. In my view, many of the industrial companies who complain about lack of engineering skills are the principal authors of their own misfortune. In the face of intense competitive pressure, too many companies over the last 20 years have cut their apprenticeships and engineering training schemes.

A vicious circle developed whereby a few companies took the view that they didn’t need to train young people, because they could always hire them when another company had borne the cost of their training. This made companies who did invest in training sceptical about its value as rampant poaching of people by companies that didn’t invest led to the argument “why bother?” If we in industry wish to be able to make constructive comment about Government policy, it is incumbent on us to recognize our own culpability in many of the sins of the past, and to be willing to take the actions required to ensure that we are not merely condemned to repeating previous errors. And that means investing in the training and career development of engineers.

A second theme I would like to draw on relates to the debate on Scottish independence. Frequently, I am asked if I think this would be – in the words of “1066 and All That” – A Good Thing, or not. I have to reply that I cannot make a reasoned judgement because I don’t have enough information about how things would work in a post independence world.

How would the national debt be apportioned?; how would the liabilities for the financial services crisis be shared?; what would happen to the currency?; what would be the arrangements for the continued employment of the 40,000 or so public sector employees in Scotland administering English & Welsh government policy?; what would the arrangements be for paying the subsidies required if Scotland’s energy is to come mainly from renewable sources? It strikes me that these and other important questions need to be answered, convincingly, before reasonable people can make a reasonable judgement.

When the British Government was considering recommending entry into the Euro - which was a significant constitutional change - the Treasury was commissioned to examine the Five Economic Tests. With the resources and information that only Government has, a huge amount of diligent and fact-based work was undertaken, with the result that the economic balance of advantage was not to enter the Euro at that time. That there was a proper examination of the facts before making such an enormous change, allowed the people of United Kingdom to avoid what would have been a huge error with grave implications for their welfare.

So my position on the Independence debate is that everybody should have an interest in defining, at least in broad terms, what the consequences of economic independence are likely to be in a non bi-partisan and cool-headed way, and have access to all the various sources of information that only governments have, to be able at least to lay before the people of Scotland how government and the economy would work following independence. This is not to minimise the constitutional and aspirational arguments for independence: clearly some will believe that, whatever the economic price, independence is something worth having. But, survey after survey suggests that economics weigh heavily in this debate, and if people believe there is a significant risk over the long term that they will be poorer as a result of independence or, in the alternative, an opportunity to be richer, these arguments will bear heavily on their minds. It seems to me, therefore, to make sense to set up a process whereby the major issues can be defined and an assessment made of the economic implications for the country.

M&C ENERGY GROUP

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