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What can we expect from the energy review?

he debate over the UK's energy supply has been simmering for a number of years but the Prime Minister's recent announcement that 'nuclear power stations are back on the agenda with a vengeance' has well and truly turned up the heat. Add to the volatile mix the fact that in less then 20 years we could be 80-90 per cent reliant on foreign imports of gas and you will appreciate that a balanced energy policy for Scotland and the UK is highly desirable and is required as soon as is physically possible.

In Scotland we are reliant on nuclear power for around 50 per cent of our electricity compared with approximately 20 per cent in England and Wales. The balance of our electricity supply comes from conventional fossil fuel generators including oil, gas and coal and of course hydropower. We are also developing renewables and while this currently supplies a relatively small proportion of our total electricity it is expected to grow quite significantly over the next 20 years.

The Scottish Executive has set itself some very ambitious targets with regard to the use of renewables in Scotland, with 20% by 2010 and 40 per cent by 2020. There is much work to be done in developing and extending the technology if we are to make serious moves towards achieving these figures set by the Executive.

So what can we expect in the future and how far away is the future. Over the next 10 to 15 years most of the current generation of nuclear power stations are due to be phased out. It is generally accepted that construction of a new nuclear power station can take around 12-15 years for building and commissioning and if

such a timescale is correct then the decision on nuclear has to be made fairly quickly and the work to replace the current ageing reactors has to be started soon.

Meantime the U.K. government is committed to significantly reduce the CO2 emissions and continues to tax electricity usage with climate change charges. The development of clean coal technology, which would help to make dramatic reductions in CO2 emissions from fossil fuelled power stations, opens up the possibility that Scottish coal could be considered as a viable fuel source for a number of generator stations. As we see our North Sea gas supplies on the wane making us more dependent on foreign gas supply which can be switched off or priced to suit the supplier then Scottish coal certainly should not be discounted.

In visiting our Scottish Engineering member companies I am very conscious that our sector has a keen interest in all aspects of the energy debate whether it is from the point of being an energy supplier or an energy user or a manufacturing company producing component parts and the new technologies for nuclear, fossil fuels and renewables. It is therefore important that our politicians do not prevaricate in establishing a credible sustainable long-term energy policy.

Scottish companies are well placed to take advantage of the skills and qualifications which already exist here whether it be for wave power generators, tidal power, hydropower, clean coal technology or nuclear the U.K. has a huge market for sustainable electricity supply and provides Scotland with an ideal opportunity to make a very significant contribution in providing that power.

The Scottish engineering manufacturing sector is keen to work with our politicians both north and south of the border to ensure that we achieve an appropriate energy balance and in so doing make a significant contribution to the Scottish economy.

Dr PETER HUGHES, OBE FREng

Chief Executive Scottish Engineering



Quarterly Review

IUNE 2006

SCOTTISH
MANUFACTURING
ENGINEERING
SECTOR
SOARS AHEAD

- UK, export and total orders surge ahead
- Recruitment levels soar
- Electronics orders remain high
- Optimism continues to grow
- Training and capital investment plans remain extremely positive

he appearance of Scotland's First Minster the Rt Hon Jack McConnell MSP heralded the most successful Scottish Engineering Awards Dinner for a number of years.

Jack joined the Scottish Engineering President Ian McCreery in his support for the work of Scottish Enterprise and made a very positive contribution to the event by highlighting the importance of making best use of our indigenous engineering skills.

He presented the top engineering award of 2006 to Mark Selway CEO of The Weir Group PLC. In winning the award it was noted that The Weir Group had improved its overall operating and financial performance throughout the year with the company once again being seen at the forefront of Scottish engineering excellence.

A particular feature of the evening was the breadth and diversity of the companies which received the Scottish Engineering President's Award for outstanding achievement in 2006. These were Babcock Engineering Services, BAE Systems Naval Ships, Diamond Power Specialty, Raytheon Services and Rolls-Royce plc Inchinnan.

Scottish Engineering was also pleased to be associated with Envirowise and the Carbon Trust who honoured a number of companies for their considerable contributions over the previous 12 months.

All of the foregoing is indicative of the well-being of our Scottish manufacturing engineering sector which is developing significant strength in depth as more and more companies sharpen up their operations to ensure that they continue to make significant inroads in the global marketplace and this is reflected in this latest set of Quarterly Review figures.

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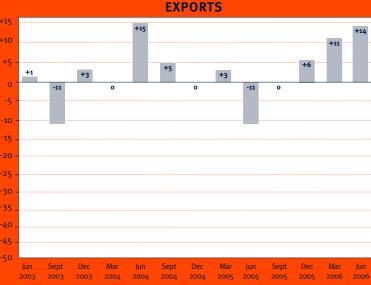
Overall order intake figures are at their highest level for eight years, as are the UK order figures.

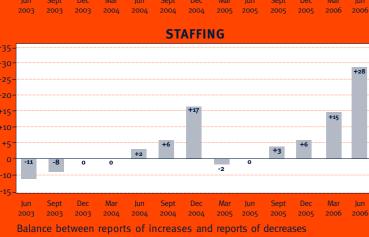
Staffing levels have remained positive for a year and are at their highest level since quarter 3 in 1995.

Both capital and training investment plans continue to be positive for the ninth and 11th quarters consecutively. Output volume, reflecting the orders situation has now been positive for 11 consecutive quarters.

Optimism continues its upward trend for the fourth consecutive quarter.







ORDER INTAKE



ORDER INTAKE

Every size and sector shows very positive order intake figures with the only exception being metal manufacturing

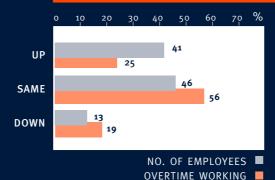
OUTPUT VOLUME



OUTPUT VOLUME

Output is positive across all sizes and sectors irrespective of size.

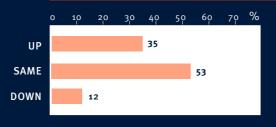
STAFFING



STAFFING

Levels are up in all areas except large companies. Overtime has been counterbalanced by the increases in staffing levels.

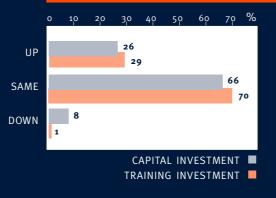
OPTIMISM



OPTIMISM

The vast majority of companies are optimistic; the only exception being fabricators who are finding life tough.

INVESTMENT



INVESTMENT

Throughout the industry all sizes and sectors are positive except for fabricators

In one of the most positive Reviews of the manufacturing engineering industry, orders, output and recruitment continue to improve. For the first time in many years we also have a number of sectors which have reported positive sales margins, namely oil & gas, metal manufacturing and machine shops.

Orders

Now into the second year of consecutive positive figures, order intake general totals (47%up, 36%same,17%down) continue to rise. All three size sectors follow this trend, small (47%up,35%same, 18%down), medium (50%up,35%same,15%down) and large (36%up,46%same,18%down).

General UK orders, taking in all sectors and size of company (38%up,44%same,18%down) are indicative of small (40%up,38%same,22%down), medium (35%up,52%same,13%down) and large (36%up,55%same,9%down).

Within sectors only metal manufacturing (25%up, 44%same,31%down) has a negative figure. All the others are positive with particular emphasis on electronics (50%up,42%same,8%down), oil & gas (57%up,43%same,0%down) and mechanical equipment (38%up,43%same,19%down).

Forecasts for UK orders in the next three months held up in general terms (32%up,53%same, 15%down), and for small (32%up,49%same, 19%down) and medium (36%yp,57%same,7%down) companies with large companies (18%up,64%same, 18%down) having an equal number of companies predicting increases as are expecting falls.

Export orders for the last three months show large positive returns for the electronic sector (64%up, 27%same,9%down) but not so for mechanical equipment (29%up,39%same,32%down) and fabricators (0%up,71%same,29%down).

Predictions for the next three months have electronics (45%up,37%same,18%down), electrical goods (50%up,50%same,0%down) and non-metal products (33%up,67%same,0%down) looking extremely positive whereas fabricators (0%up,71%same,29%down) and machine shops (0%up,83%same,17%down) are less so.

Prices and margins

UK orders saw factory gate prices rise in both small (29%up,66%same,5%down) and medium (27%up,69%same,4%down) companies but not so in large (9%up,73%same,18%down) companies. Though UK prices dropped in the electronic (8%up, 75%same,17%down) and electrical goods (0%up, 75%same,25%down) sectors they improved in all other sectors including fabricators (24%up, 76%same,0%down), machine shops (33%up, 67%same,0%down) and metal manufacturing (59%up,41%same,0%down).

Forecasts for the next three months show the electronic (27%up,37%same,36%down) sector remaining negative while most others maintain their positive stance. The exception is non-metal products (14%up,72%same,14%down) where as many companies predict price drops as predict rises.

Only three sectors have reported export prices dropping, these being electronics (o%up,73%same, 27%down), electrical goods (o%up,75%same, 25%down) and non-metal products (14%up, 57%same,29%down).

All other sectors are positive including oil & gas (57%up,43%same,0%down) metal manufacturing (40%up,60%same,0%down) and fabricators (14%up,86%same,0%down).

Prices for the next three months in all sectors are predicted to follow the last three with the exception being non-metal products (17%up,83%same,0%down) which is hoping for a positive quarter following the last one which was negative.

Margins incorporating all sizes and sectors of company showed that both UK margins (12%up, 61%same,27%down) and export margins (12%up, 63%same,25%down) remained negative.

However, while small (11%up,59%same,30%down) and medium (11%up,65%same, 24%down) sized companies followed this trend for UK margins, large companies (18%up,73%same,9%down) showed a remarkable positive return.

Similarly with export margins small (10%up,63% same,27%down) and medium (13%up,61%same, 26%down) companies were negative but large (22%up,67%same,11%down) companies were positive.

Optimism

In general the level of optimism (35%up,53%same, 12%down) remains positive as it is in all size of company and in all sectors except fabricators (24%up,47%same,29%down). Large companies (55%up,27%same,18%down) show the highest level of optimism for some time.

nvestment

Plans for capital investment continue to be positive in small (27%up,65%same,8%down), medium (24%up 69%same,7%down) and large (27%up, 64%same,9%down) companies and throughout the sectors except fabricators (12%up,70%same, 18%down) who seem to be going through a rough patch.

Similarly training investment plans remain positive throughout all sizes of company and all sectors.

Staffing

The general figures for staffing (41%up,46%same, 13%down) are positive as the industry recruits to service the growing order books.

Only in large companies (27%up,28%same, 45%down) are the reports negative.

Predictions for the next three months follow a similar pattern though large companies (18%up,55%same, 27%down) are still looking at negative figures.

Overtime worked has held up in a number of sectors despite the increase in staffing numbers. Only electronics (8%up,77%same,15%down), mechanical equipment (21%up,53%same,26%down) and nonmetal products (25%up,37%same,38%down) have seen the levels of overtime drop.

Output volume

All sectors and size of company have seen their total output volume grow over the last three months. In general (46%up,39%same,15%down) the industry is showing very positive returns and this is confirmed in small (47%up,35%same,18%down) medium (47%up,46%same,7%down) and large (36%up,37%same,27%down) companies.

Forecasts for the next three months show very similar figures except for the transport (22%up, 45%same,33%down) sector which has more companies looking to decrease their output volume.

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 33.5 per cent of members.

Companies are described as:

Small (less than 100 employees), Medium (100-500) and Large (over 500).