

# The Back Page



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**M**anufacturing matters. At 13% of Scottish GDP, output from manufacturing exceeds that of construction or financial services. It is a vital source of export activity responsible for £13.7bn of manufactured exports. It makes a major contribution to innovation in businesses in the Scottish economy maintaining our competitiveness in the world economy.

The recession was not kind to manufacturing. From a peak in output in mid-2008, output slumped by 11% over the next twelve months to hit its lowest point at the beginning of 2009. Progress since then has been generally upwards with output growing by 6% since the nadir but currently manufacturing output is still 5.3% below its 2008 peak.

In the latest quarter, Q3 of 2011, manufacturing output rose by a respectable 0.9% with metals and metal products rising by 3.0% and engineering and allied industries output rising by 1.0%. This recovery has been steeper and more robust than other parts of the economy, notably construction.

Manufacturing plays a crucial role in generating Scottish exports. Scottish manufactured exports peaked in mid-2007 and fell to their lowest point in recent years in Q2 2009, some two years after the worst of the recession. Since then some decent progress has been made with total manufactured exports from Scotland rising by 9% over the two years from the trough experienced in Q2 2009. However, this still leaves Scottish manufactured exports 9.5% below their peak in Q2 in 2007.

The rise in exports was helped by the initial devaluation of sterling against the US dollar and the Euro. Sixty-two percent or £13.7bn of Scottish international exports are attributable to manufacturing companies. The top five exporting industries are food & beverages £4.0bn, chemicals £3bn, business services £2.5bn, electrical & instrument engineering £1.9bn and mechanical engineering £1.6bn. The EU continues to take the lion's share of these exports accounting for £9.8bn out of £22.0bn.

Our top export destinations are unfortunately not located in the highest growing economies. International markets offer Scotland a vital source of opportunity for growth and jobs given that international trade is growing faster than global GDP. In 2010 global trade was estimated at almost

\$19 trillion. For 2012 the IMF predicts growth of over 8% in China, over 7% in India, 3.0% in Brazil and over 3.0% in the Middle East & North Africa. Yet Scottish exports to South America make up under 4% of total while our exports to Asia account for just under 9%. We must boost efforts to tap into these markets if we are to realise one of the key objectives of the Scottish Government to boost exports by 50% by 2017.

But prospects in markets nearer to home are also improving. The UK manufacturing PMI (where a value over 50 indicates growth) rose in January to 52.1 while in the Eurozone it became less negative and moved upwards to 48.8. In Germany the manufacturing PMI was positive at 51.0. The Euro sovereign debt crisis overhangs prospects for growth in the Eurozone, the UK and Scotland this year. But the outlook has improved significantly in the last month. The European Central Bank's (ECB's) Long Term Refinancing Operations (LTRO) have succeeded in lifting confidence and creating more sustainable financing rates for the more vulnerable sovereign nations inside the Eurozone.

At home, the Scottish manufacturing PMI was positive for 11 of the 12 months of last year only entering negative territory in December and almost returning to a positive reading in January with a figure of 49.8. After a poor reading in the last 3 months of last year with new export orders falling, there was a welcome improvement in export activity in January with the best reading in four months of 48.9.

An essential component to further recovery in manufacturing and the Scottish economy in general is a fall in both consumer and input price inflation. The rate of increase in the Consumer Prices Index (CPI) is likely to fall to near its target of 2.0% by the end of this year while input prices from the Scottish manufacturing PMI fell to 59.8 in January – the 3rd lowest rate of increase in two years suggesting a welcome slowing in the rate of increase of manufacturing input prices.

Recoveries from recessions induced by financial crises usually take longer than recessions from other causes. This has certainly been the case with the 2008/09 recession. Barring any disorderly defaults in the Eurozone, 2012 should see a gradual continuation of the recovery.

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# Quarterly Review

MARCH 2012

**ENGINEERING COMPANIES PICK UP MOMENTUM AFTER ONE SLOW QUARTER**

- UK prices improving
- Overall orders pick up
- Employment numbers maintain growth
- Output volumes remain strong
- Medium sized companies doing well

It is pleasing to note that, despite the slight blip in the last quarter of 2011 our Scottish manufacturing engineering companies are proving to be more resilient than many people expected.

Overall order intake once again shows a positive situation and output volume maintains its long running success, now stretching to two years. Overall recruitment remains strong and indeed many companies continue to report skills shortages.

A recent tour of member companies suggests that overall optimism remains strong and it is to be hoped that the difficulties being experienced in the Eurozone don't seriously undermine the excellent work which our companies are doing in export markets.

Meantime, a survey of our members has indicated that the vast majority are keen to see a speedy resolution with regard to the independence referendum. As we all know, uncertainty can seriously undermine the confidence of companies growing and developing their business both at home and abroad.

As yet we have not seriously entered the well-informed debate phase on the question of independence. It is important that our politicians start to answer the key questions which we have been asking rather than indulge in political rhetoric which does nothing to advance our understanding of the key elements involved.

The importance of the Scottish engineering manufacturing sector has once again been highlighted by a request from the Bank of England Deputy Governor, Charles Bean to meet with our member companies at a recent breakfast discussion. It proved to be a very worthwhile exercise, appreciated by all of those involved.

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



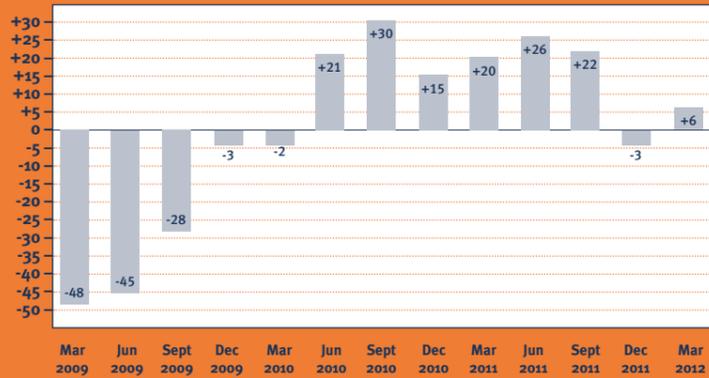
## ANNUAL TRENDS

Total order intake has returned to a positive situation after just one quarter in negative figures. That means seven out of the last eight quarters have been positive. Output volumes, however, have now been positive for eight consecutive quarters, a position that gives hope to our engineering sector.

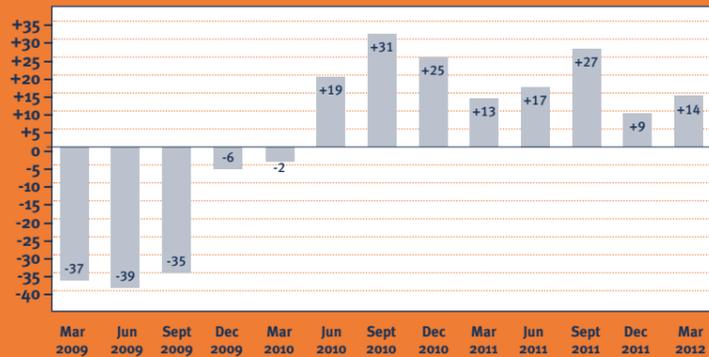
Both training investment plans and capital investment plans remain positive, training for nine consecutive quarters and capital investment for seven.

Employment levels remain positive as they have done for the last eight quarters, seven of these being of a very acceptable standard.

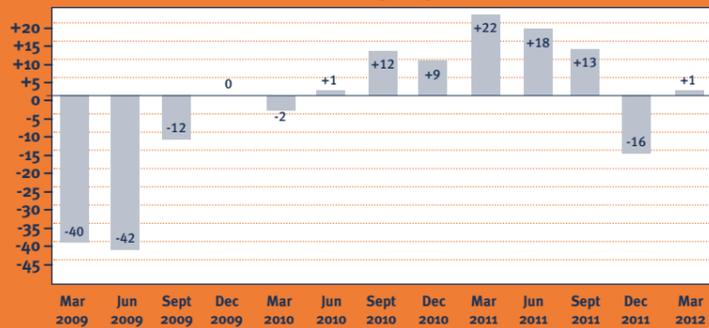
### ORDER INTAKE



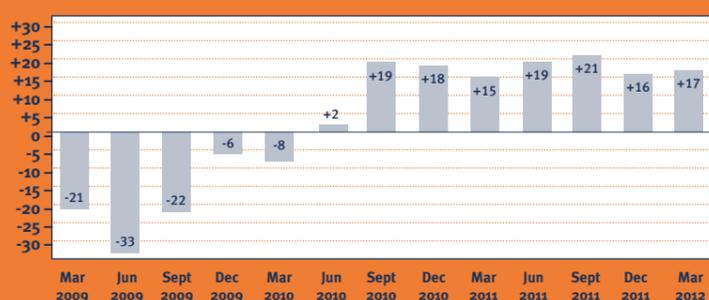
### OUTPUT VOLUME



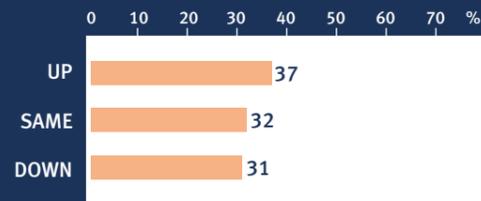
### EXPORTS



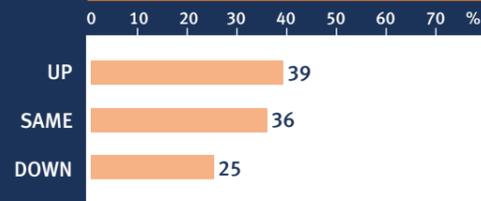
### STAFFING



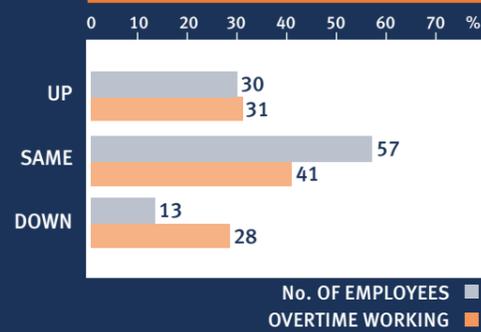
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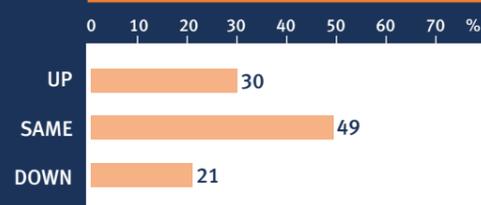
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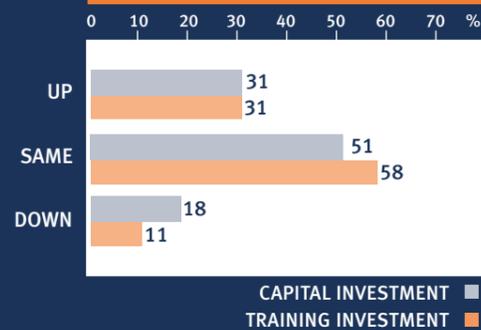
### STAFFING



### OPTIMISM



### INVESTMENT



### ORDER INTAKE

While medium and large companies remain positive, small companies continue to be negative. 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 while large companies have slipped into a negative mode. In the sectors, only non-metal products are negative.

### STAFFING

The number of employees continues to grow but overtime is being cut back in electronics, mechanical equipment and fabricators.

### OPTIMISM

Optimism remains fairly low across most sectors except in machine shops and transport.

### INVESTMENT

Capital investment is positive in most sectors, except electronics, fabricators and metal manufacturing. Training plans are similar with only fabricators negative.

**The engineering sector has bounced back after just one quarter when figures became negative. Both small and medium sized companies have returned positive figures with small companies marginally negative. Overall the figures are refreshing within the current global economic circumstances.**

#### Orders

Once again the total order intake (37%up, 32%same,31%down) is positive. Medium (41%up, 40%same, 19%down) and large companies (33%up,45%Same, 22%down) have pulled themselves back into positive figures but small companies (35%up, 27%same,38%down) remain negative.

Within the sectors electronics (36%up,35%same, 29%down), fabricators (47%up,13%same, 40%down) and metal manufacturing (33%up, 42%same, 25%down) are positive while mechanical equipment (28%up,35%same, 37%down) and non-metal products (29%up, 14%same,57%down) are negative.

UK orders in general (28%up,39%same,33%down) remain negative as are small (28%up,31%same, 41%down) and large companies (22up,45%same, 33%down) with medium companies (30%up, 54%same,16%down) showing improvement.

In the sectors electronics (14%up,50%same, 36%down), mechanical equipment (21%up, 49%same,30%down), machine shops (20%up, 40%same,40%down) and non-metal products (0%up,14%same,86%down) are all negative but oil and gas (100%up,0%same,0%down) and fabricators (47%up,20%same,33%down) stay positive.

Forecasts for the next three months of UK orders in general (26%up,57%same,17%down) remain positive as they are in medium sized companies (37%up,60%same,3%down). Large companies (11%up,78%same,11%down) have equal numbers of companies reporting improvements as report falls, while small companies (22%up,54%same, 24%down) are still negative; but less so than for this quarter.

Export orders general totals (32%up,37%same, 31%down) have pulled themselves into a positive position as have medium sized companies (43%up, 34%same,23%down) with both small (25%up, 42%same,33%down) and large companies (33%up,17%same,50%down) remaining negative.

Within the sectors, export orders for electronics (50%up,20%same,30%down) have been turned around into positive figures. Other sectors like mechanical equipment (26%up,37%same, 37%down) and metal manufacturing (12%up, 50%same, 38%down) remain negative.

Predictions for the next quarter of export orders in general are more positive (33%up,57%same, 10%down) as they are for small and medium companies (19%up,70%same,11%down). Large companies (0%up,100%same,0%down), on the other hand see all companies orders remaining the same.

#### Prices

UK prices in general (15%up,78%same,7%down) continue to be positive as they are in small (12%up,81%same,7%down). medium (16%up, 79%same,5%down) and large companies (33%up, 56%same,11%down). In the sectors, only electronics (7%up,79%same,14%down) and fabricators (0%up, 80%same,20%down) are negative. The rest of the sectors remain positive.

Forecasts for the next three months in general (18%up,74%same,8%down) continue in a positive vein which is the same for small (18%up,72%same, 10%down) and medium companies (19%up, 78%same,3%down).

Export prices for the last quarter in general (12%up,76%same,12%down) have the same number of companies forecasting that prices will

go up as are predicting that they will go down. This is the same result for large companies (14%up, 72%same, 14%down). Small companies (7%up, 81%same, 12%down) have dropped into negative territory but medium sized companies (20%up, 69%same,11%down) remain positive.

Forecasts for export prices in the next three months in general (19%up,68%same,13%down) are positive as they are in small companies (19%up, 70%same, 11%down). Both medium (18%up, 64%same, 18%down) and large companies (17%up, 66%same, 17%down) have the same number of companies predicting prices will go up as those predicting they will go down.

#### Optimism

In general terms (30%up,49%same,21%down) the levels of optimism have returned to positive as have small (28%up,45%same,27%down) and medium companies (36%up,56%same,8%down) while large companies (22%up,56%same,22%down) have equal numbers being optimistic as those which are not so optimistic.

Within the sectors there is little optimism in electronics (23%up,46%same,31%down), mechanical equipment (21%up,56%same, 23%down), metal manufacturing (25%up,42%same, 33%down) and non-metal products (12%up, 50%same, 38%down).

#### Investment

Capital investment plans in general (31%up, 51%same,18%down) remain positive which is the same in small (25%up,55%same,20%down) and medium companies (44%up,46%same,10%down).

Within the sectors only electronics (8%up, 69%same, 23%down), fabricators (13%up, 67%same,20%down) and metal manufacturing (17%up,50%same, 33%down) are negative.

Training plans in general (31%up,58%same, 11%down) continue to be positive as they are in small (26%up,62%same,12%down), medium (41%up,54%same,5%down) and large companies (33%up,45%ame,22%down) .

#### Staffing

Staffing levels in general (30%up,57%same, 13%down) have maintained their positive position. The figures for small (28%up,58%same, 14%down) and medium sized companies (38%up, 54%same,8%down) are equally good, but large companies (11%up, 67%same,22%down) are now negative.

Forecasts for the next three months in general (29%up,58%same,13%down) remain upbeat as they do in both small (26%up, 60%same, 14%down) and medium sized companies (38%up,54%same,8%down) whereas large companies (11%up,67%sem,22%down) remain in negative territory.

#### Output volumes

Overall output volumes (39%up,36%same, 25%down) maintain their levels for the eighth consecutive quarter. Small (37%up,32%same, 31%down) and medium companies (49%up, 40%same,11%down) are also positive but large companies (22%up,45%same, 33%down) have reversed their previous quarter's results and are negative.

The forecast for the next three months in general (40%up,43%same,17%down) remains positive as are small (39%up,40%same,21%down) and medium companies (47%up,45%same,8%down) while large companies (22%up,56%same, 22%down) forecast an equal number of companies increasing output as forecast a decrease.

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).