



JIM WALLACE
Deputy First Minister and
Minister for Enterprise and
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"A successful economy is key to our future prosperity and a pre-requisite for building first class public services, social justice and a Scotland of opportunity."
[A Partnership for a Better Scotland]

This was our commitment in the Partnership Agreement, making growing the economy our top priority. I was delighted to take the Enterprise and Lifelong Learning portfolio to help drive that forward. These are challenging times for manufacturers. As with other major industrialised economies, the overall proportion of output and employment accounted for by manufacturing has fallen over the past 30 years.

Yet manufacturing remains vital to the Scottish economy, contributing to around one fifth of our GDP and employing around 272,000 people, about 12% of the total workforce in Scotland. Manufacturing also underpins jobs elsewhere, a further 91,000 jobs in non-manufacturing are estimated to relate to the manufacturing sector's purchases.

Opportunities also exist. I am particularly keen to work with business in harnessing the potential which Scotland has for generating wealth and jobs from the so-called 'green industries'. Recycling and renewable energy offer considerable opportunities for manufacturing, opportunities which would continue to reap rewards into the medium and long term. It is clear that being green certainly does not have to mean being in the red!

By taking these opportunities we can create real jobs for our people and real profits for our companies, at a time when profits are under extreme pressure.

Areas of Scotland, which are often seen as peripheral and reliant on primary industries, are particularly well placed to benefit from renewable technologies – something which, it will not surprise you, gives me particular satisfaction.

Encouraging and supporting our key manufacturing industries will therefore be vital to delivering sustainable economic development.

Both Scottish Enterprise and Highlands and Islands Enterprise, our major economic development delivery agents in Scotland, have reviewed the range of support provided to business to ensure better consistency in availability and delivery, whilst also providing support to meet local circumstances.

Within the Scottish Enterprise area, we are building on the success of the Small Business Gateway. I was delighted to be able to launch back in July an expanded single Business Gateway (www.bgateway.com) for all businesses. This will further streamline access to business support services, and provide a range of core products and a consistent level of services to businesses, complemented by services at a local level to reflect local needs.

Businesses in the Highlands and Islands area will also be given a first-stop entry mechanism through the establishment of a single access point to all local and national business support services which will be

accessible by contacting directly individual Local Enterprise Companies in the HIE area.

I am also committed to the work of the reconvened Scottish Manufacturing Steering Group which, under the leadership of Dr Chris Masters, produced their report, Nurturing Wealth Creation: A Report by the Scottish Manufacturing Steering Group. I know that Scottish Engineering participated actively and made a positive contribution to the work of the SMSG.

In responding, the Scottish Executive accepted 21 of the 23 recommendations and we are taking these forward. I recently had the opportunity to meet Dr Masters and was pleased to be able to affirm our commitment to seeing these through.

Can we list some of these actions we are now taking?

Nurturing Wealth Creation recognised the need to develop our people at all levels. As part of our initial response to the report and to encourage further learning and business growth in small businesses, we have undertaken to pilot Business Learning Accounts (BLAs) in Scotland.

We plan to establish pilots of at least 300 BLAs over the next 2 years, and for a number of these to be targeted at the manufacturing sector. The focus will be on encouraging a culture of learning in small businesses at all levels needed to support business growth.

I also recognise that manufacturers and business more generally have concerns which go beyond their direct interests. For example, we recognise the close links between transport, business and the wider economy.

The Transport Delivery Report, published in March 2002 identified 10 priority projects, the majority of which focused on what business really wants and needs; Building Better Transport (March 2003) gave an update on progress with transport and major infrastructure projects, including missing links to the motorway network and the commitment to funding a proportion of the costs of an Aberdeen Western Peripheral Route. A Partnership for a Better Scotland reaffirms key commitments and adds new ones.

Other major schemes include the completion of the M74 extension by 2008, improvements to the M77 in Ayrshire, a new Eastern Link road at Kincardine, a second Kincardine Bridge and rail links to Glasgow and Edinburgh airports will provide ease of access for air travellers to anywhere on the rail network. We must continue to press on with delivery in this vital area.

It is clear then that there are a number of challenges ahead of us. Alongside industry, however, we have begun to take steps to address these. I am conscious that it is business and not government that creates wealth. But government has a crucial role in helping to create a positive environment for wealth creation. I am delighted therefore to have become Minister for Enterprise and Lifelong Learning at this time, in a partnership that has made growing the economy our top priority.

MANUFACTURING ENGINEERING RECOVERY STALLS

- Order Intake suffers reversal
- Output Volume under strain
- Price pressure continues to depress margins
- Electronic orders back in doldrums
- Training plans encouraging

The caution we expressed over the perceived business upturn in June has proved to be correct as the manufacturing engineering sector continues the fight in difficult trading conditions. In particular, the optimistic June order intake figures for electronics has been shown to be a false dawn with the sector showing a negative order intake for the eighth quarter in the last two and a half years.

From my latest trips around the country I have encountered few signs of sustained optimism from the majority of companies. What is being seen is that, despite the current difficulties, companies are fighting hard to retain a skilled workforce and are recognising the need to invest in training for the future.

We would caution against the siren voices seeking to raise interest rates by reminding them that the manufacturing engineering sector is still not out of recession. In order to win the global productivity battle we need to be able to commit more finances to capital investment and R&D. With current pressure on prices and margins our finances are already severely stretched without having to cope with any additional burden.

Our concerns regarding dramatic increases in employers liability insurance combined with high business rates and ever increasing water rates begs the question of our politicians – "What are you doing to help such a vital area of the economy which generates more than 20 per cent of the GDP?"

Dr PETER HUGHES, OBE FREng
Chief Executive
Scottish Engineering



ANNUAL TRENDS

The level of overall orders has once again fallen into negative figures, despite having shown a recovery in June above the line. The trend over the past year has shown a slow improvement with September 02 at -12, March 03 at -11 and September 03 at -9.

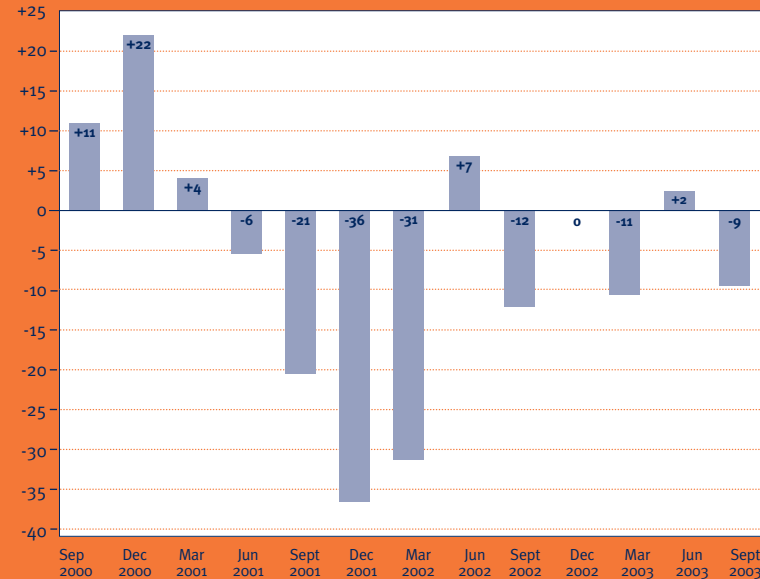
The electronic sector order intake has also fallen following the improvement shown last quarter. This is the eighth quarter out of the last 10 when electronics has been negative.

Capital investment plans remain negative, with only one positive quarter having been recorded since March 98.

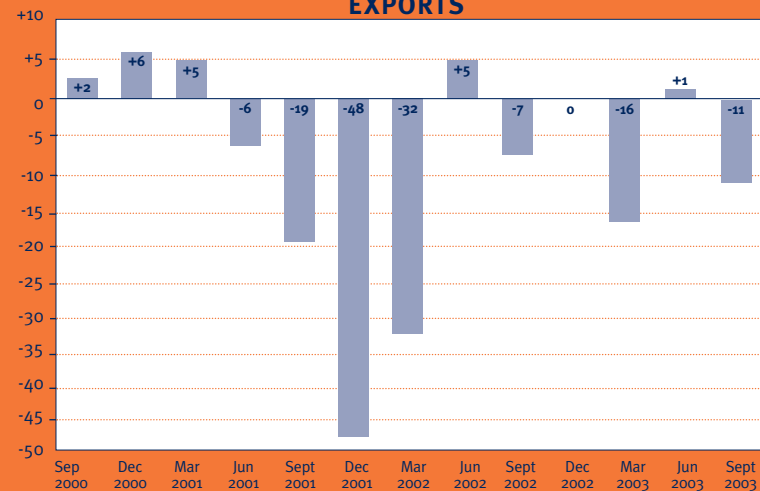
Employee numbers continue to fall, albeit at a relatively slower rate.

Output volume continues to fluctuate from positive to negative but shows upward trend from the exceptional low of March 02.

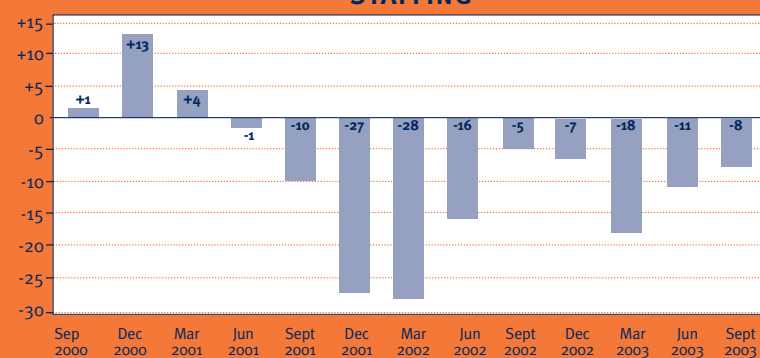
ORDER INTAKE



EXPORTS

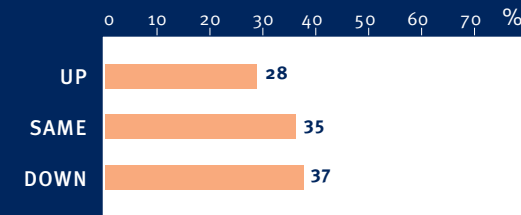


STAFFING



Balance between reports of increases and reports of decreases

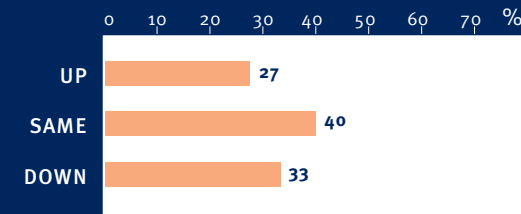
ORDER INTAKE



ORDER INTAKE

Medium sized companies are hardest hit while small and large companies are weathering the storm.

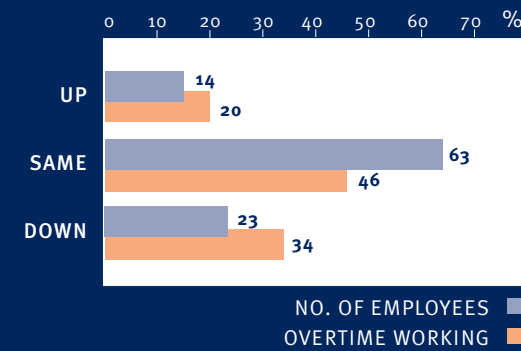
OUTPUT VOLUME



OUTPUT VOLUME

There is a wide variation in output volume across all sectors and size of company.

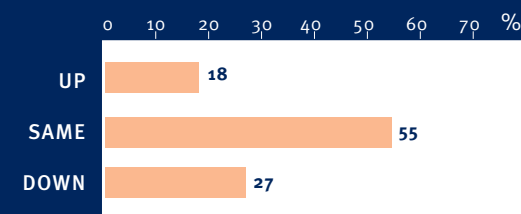
STAFFING



STAFFING

The rate of decline in staffing numbers is slowing.

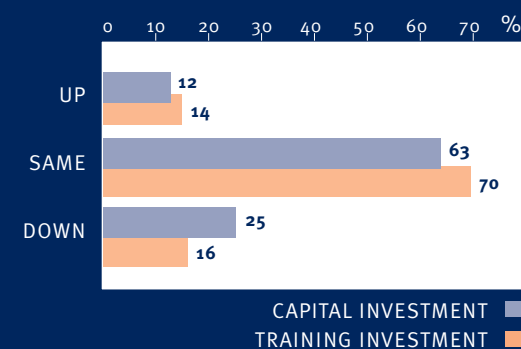
OPTIMISM



OPTIMISM

No improvement in the levels of optimism.

INVESTMENT



INVESTMENT

There is no sign of improvement in plans for capital investment but the need for training investment is recognised.

The improvement in the sector which was seen in the last quarter has proved to be short-lived with most indicators reverting to the depressed state they have been in for the last two years.

The most significant change has been reported by the electronic sector which has turned round a very positive second quarter order intake into a negative third quarter.

Orders

The general total for order intake (28%up,35%same,37%down) shows that more companies have had a drop in orders over the last three months than those reporting increases. UK orders (22%up,38%same,40%down) remain negative but export orders (18%up,53%same,29%down) have taken a backward step.

Orders by size of company show a change from the last quarter with small companies (32%up,37%same,31%down) moving into a positive mode while medium sized companies (12%up,29%same,59%down) report a large turnaround. Large companies (36%up,43%same,21%down) continue to report more companies increasing orders than those decreasing.

The electronic sector (20%up,33%same,47%down) has seen a substantial downturn in orders but within the electrical goods sector (40%up,30%same,30%down) there has been an improvement.

Positive reports have been received from the oil and gas (40%up,40%same,20%down), fabricators (33%up,34%same,33%down) and machine shops (43%up,57%same,0%down) but not in metal manufacturing (36%up,21%same,43%down) or mechanical equipment (18%up,38%same,44%down).

Within the sectors, UK orders are all negative except machine shops (40%up,60%same,0%down) though oil and gas (20%up,60%same,20%down) has a similar number of companies reporting a drop in orders as are reporting an increase. Electronics (13%up,40%same,47%down) has been hit hard in the last quarter as has the mechanical equipment sector (19%up,32%same,49%down).

Looking at sizes of company, there is quite a considerable range of results from medium sized companies (6%up,35%same,59%down) to large companies (21%up,65%same,14%down).

Export orders are positive for electrical goods (40%up,40%same,20%down), oil and gas (50%up,25%same,25%down) and metal manufacturing (12%up,88%same,0%down) but not so for the electronic sector (21%up,43%same,36%down) and mechanical equipment (6%up,59%same,35%down).

Forecasts for UK orders for the next three months are positive only in the electronic sector (13%up,80%same,7%down), machine shops (20%up,80%same,0%down) and metal manufacturing (23%up,69%same,8%down). The others are either negative or show a balance of companies forecasting an increase with those predicting a decrease.

Export orders predicted for the next three months show substantially positive figures from the electronic sector (36%up,50%same,14%down) and non-metal products (40%up,40%same,20%down).

Prices and margins

UK Prices continue to fall in all sizes of company, small (6%up,76%same,18%down), medium (0%up,74%same,26%down) and large (7%up,72%same,21%down). Similarly with export prices, all were down in small (1%up,83%same,16%down), medium (0%up,71%same,29%down) and large (0%up,55%same,45%down) companies.

No sector reported increases in sales margins in either the UK or export markets. In the UK markets, fabricators (6%up,53%same,41%down) recorded the most serious negative figure and in exports that

position was taken by the electronic sector (15%up,23%same,62%down).

Forecasts for prices and margins in the next three months show positive returns for only two. Oil and gas (20%up,80%same,0%down) predict a positive response for UK prices in the next three months and metal manufacturing (12%up,88%same,0%down) are looking for an increase in export prices over the same period.

Optimism

Levels of optimism remain much as in the previous quarter. Only one sector, machine shops (43%up,43%same,14%down) and large companies (29%up,64%same,7%down) have a positive balance between companies with increased levels and those falling.

Investment

Plans for capital investment are positive in only two sectors, transport (33%up,45%same,22%down), and non-metal products (25%up,67%same,8%down). Large companies (14%up,79%same,7%down) are still looking to invest on capital projects but small (15%up,59%same,26%down) and medium (6%up,68%same,26%down) companies have negative returns.

Similarly, three sectors plan to invest in training; non-metal products (17%up,83%same,0%down), transport (33%up,56%same,11%down) and machine shops (29%up,57%same,14%down) with large companies (43%up,57%same,0%down) being the only size with a positive balance.

Staffing

Throughout the sectors only transport (62%up,26%same,12%down) and machine shops (29%up,71%same,0%down) have more companies increasing staff than are cutting their workforce. Large companies (29%up,57%same,14%down) is the only size grouping with a positive return.

Jobs prospects for the next three months look more healthy within machine shops (14%up,86%same,0%down), metal manufacturing (31%up,61%same,8%down) and transport (25%up,63%same,12%down) where there is a positive balance of companies looking to increase staffing levels.

The number of companies reporting that more overtime is being worked has increased in two sectors, machine shops (29%up,57%same,14%down) and metal manufacturing (29%up,50%same,21%down). All other sectors are cutting back, particularly oil and gas (0%up,40%same,60%down).

Capacity

Output volumes are in the main negative, except in machine shops (57%up,43%same,0%down) and transport (56%up,33%same,11%down) and large companies (29%up,57%same,14%down).

In general, looking at all sectors and size of company the output volume is (27%up,40%same,33%down).

Forecasting the output volume for the next three months, the sectors are equally split with half predicting improvement and half a worsening of the situation. The most enthusiastic forecast is from metal manufacturing (46%up,46%same,8%down) with electronics (27%up,60%same,13%down) looking to turn round this quarter's negative returns.

Utilisation of capacity is negative in all sectors except machine shops (29%up,57%same,14%down) and transport (25%up,63%same,12%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 42.3 per cent of members. Companies are described as: Small (less than 100 employees), Medium (100-500) and Large (over 500).