Scottish Engineering

Quarterly Review

MARCH 2003

NO SIGNS OF RELIEF YET FOR MANUFACTURING INDUSTRY

- Export orders severely hit
- UK orders drop back
- Optimism takes a knock
- Job losses continue
- Price pressures persist

Our latest Quarterly Review figures highlight the difficulties within the manufacturing engineering sector.

If politicians needed further proof that this important sector needs all the help they can give then these figures make the case for the industry.

The recent publication of the Scottish Manufacturing Steering Group report focuses on specific areas where politicians can become more positive towards manufacturing, a reversal of what we have seen from UK politicians over the past 18 months.

Our industry is run by hard-headed professionals who understand that whilst politicians can help at the margins, it is the effort of everyone involved in the sector which brings the results. Endeavours to improve overall productivity levels, achieve cost reductions and winning a greater share of world markets, can best be handled by those working in the sector determined to ensure that manufacturing engineering continues to provide a solid base for the Scottish economy.

It is very important for the overall well-being of 'Scotland Ltd' that engineering, the sector which provides two thirds of our total manufactured exports, is given every opportunity to maintain and develop its essential contribution.

In our determination to ensure long-term sustainability for our sector, manufacturing engineering companies are currently working extremely hard to convince youngsters that wonderful opportunities still exist for exciting, rewarding and enjoyable careers. We are conscious of a potential future skills gap, and the positive response to our Scottish Engineering Connections newspaper listing a wide variety of Modern Apprentice opportunities around the country bears testimony to our ongoing commitment to train for the future.

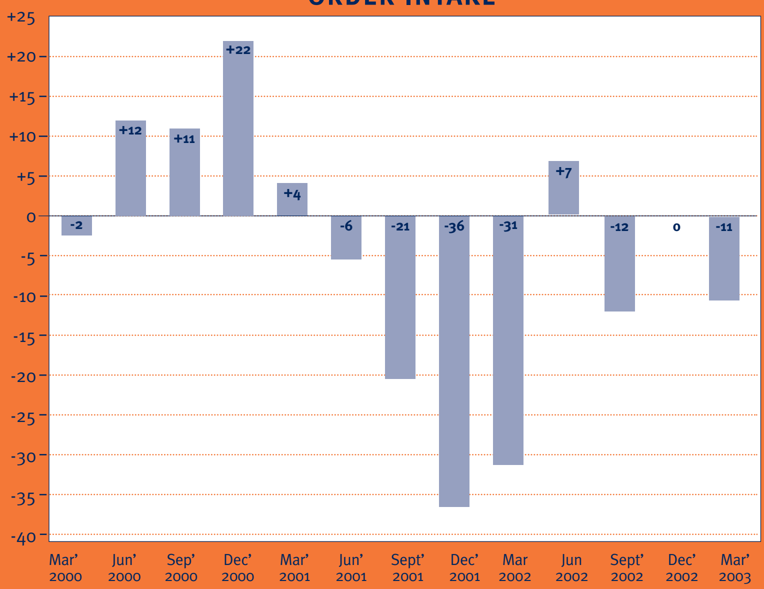
Scottish Engineering looks forward to welcoming Iain Gray, MSP, Minister for Enterprise, Lifelong Learning and Transport, when he formally launches "Connections" on Monday 17 March.

Dr PETER HUGHES, OBE FREng
Chief Executive
Scottish Engineering

ANNUAL TRENDS

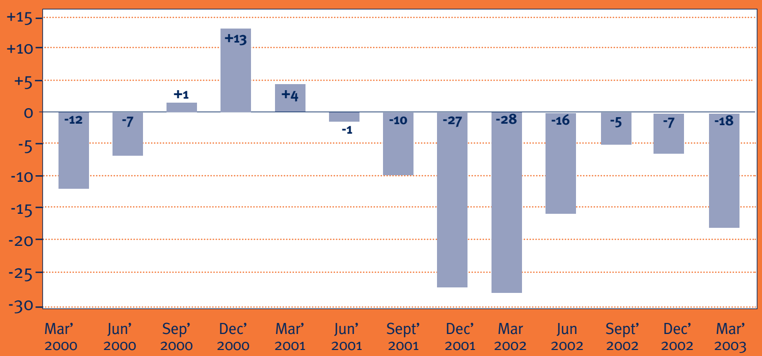
Plans for training investment remain positive for the second consecutive quarter after a spell of five negative quarters. Capital investment plans take a further downward movement after improving in the fourth quarter of last year, while still remaining negative.
Order levels for both exports and UK have fallen again after gaining some ground in the second half of 2002. Exports are still less negative than they were in this quarter last year.
There has been a falling back of staffing levels to those of June 2002 and overtime working has also taken a further negative turn.
Optimism has experienced a further drop taking it back to levels last experienced in the same quarter of 2002.

ORDER INTAKE



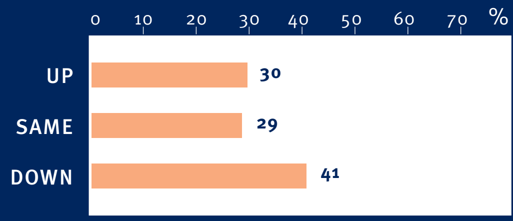
EXPORTS

STAFFING

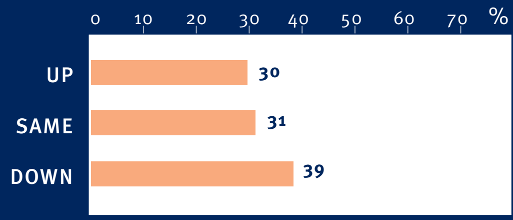


Balance between reports of increases and reports of decreases

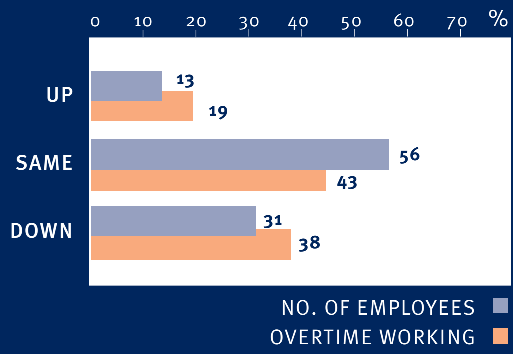
ORDER INTAKE



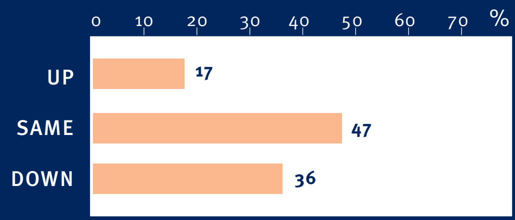
OUTPUT VOLUME



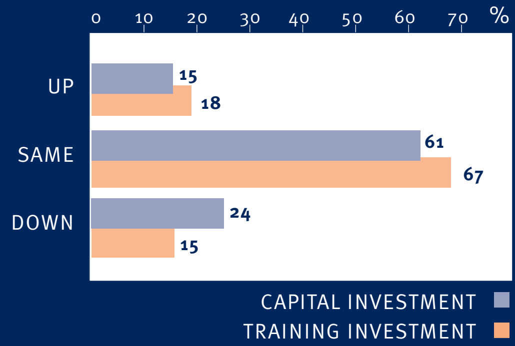
STAFFING



OPTIMISM



INVESTMENT



ORDER INTAKE

Order intake levels are negative in all sectors except metal manufacturing, transport and non-metal products.

OUTPUT VOLUME

Only the electronic sector is reporting a positive level of output volume with a further fall in the electrical goods sector.

STAFFING

The numbers of employees continues to decline at a greater rate and overtime working sees no improvement except in the electronic sector.

OPTIMISM

Levels of optimism remain consistently low except in the transport sector.

INVESTMENT

Metal manufacturing, transport and non-metal products report positive levels for training investment but only transport and non-metal products have positive returns for capital investment.

Falls in both UK and export orders are reported for the first quarter of 2003 which have resulted in staffing reductions and have brought down the levels of optimism throughout the industry. Add to that the continuing pressure on prices and the picture being painted by the latest Review is less than rosy.

Orders

The general total for orders has dipped once again into a negative situation (30%up,29%same,41%down) though metal manufacturing (35%up,40%same, 25%down) and transport (58%up,25%same, 17%down) are positive and non-metal products (36%up,28%same,36%down) report an equal number of companies losing orders as gaining them.

The electronic sector (35%up,25%same,40%down) once again has more companies reporting a drop in orders than those seeing an increase. Electrical goods (27%up,18%same,55%down) sees a further drop in orders but not so drastic as the oil and gas (17%up,0%same,83%down).

Still reporting negative figures are mechanical equipment (19%up,34%same,47%down), machine shops (0%up,80%same,20%down) and, though not to the same extent, fabricators (36%up,21%same, 43%down).

Looking at the different sizes of company, small (30%up,29%same,41%down) are doing better than medium sized (25%up,30%same,45%down) with large companies (43%up,36%same,21%down) reporting a positive balance.

Within the engineering sector UK orders only electronics (40%up,25%same,35%down), metal manufacturing (32%up,42%same,26%down) and transport (42%up,50%same,8%down) report positive figures. Of the others, oil and gas (17%up,16%same,67%down) and electrical goods (10%up,40%same,50%down) have increased their negative figures.

Export orders are healthy with fabricators (20%up,80%same,0%down), metal manufacturing (33%up,50%same,17%down) and transport (36%up,37%same,27%down) but not so for electrical goods (30%up,10%same,60%down) or oil and gas (17%up,16%same,67%down).

Forecasts for UK orders in the next three months are mixed being positive for the electronics sector (25%up,55%same,20%down) and machine shops (50%up,25%same,25%down) yet negative for oil and gas (0%up,33%same,67%down) and mechanical equipment (15%up,45%same,40%down).

Export order predictions follow similar lines with machine shops (67%up,33%same,0%down) and electronics (26%up,63%same,11%down) hoping for a positive spell and electrical goods (10%up,10%same,80%down) and mechanical equipment (8%up,60%same,32%down) preparing for a negative quarter.

Prices and margins

Across all sectors more companies have reported that prices are still falling compared to those which have seen a rise in both the export and home markets.

Looking at the UK market, neither the electronic sector (0%up,65%same,35%down), the electrical goods sector (0%up,55%same,45%down), oil and gas (0%up,86%same,14%down), fabricators (0%up, 79%same,21%down) nor machine shops (0%up, 80%same,20%down) has any company reporting an increase in prices over the last three months.

The picture for prices in the export market is very similar except for metal manufacturing (15%up,77%same,8%down) which is the only sector to report a positive balance with more companies seeing prices increasing than those seeing prices fall. One of the hardest hit sectors has been electrical goods (0%up,18%same,82%down) along with the transport (0%up,64%same,36%down) sector.

Sales margins both for UK and export markets make depressing reading across all sectors, but particularly in the electronic sector UK (5%up,45%same, 50%down) and export (0%up,47%same,53%down) markets and electrical goods UK (9%up,36%same, 55%down) and export (9%up,18%same,73%down).

These sectors are also the least hopeful in their forecasts for the next three months as the electronic sector sees UK markets (5%up,60%same,35%down) and exports (0%up,58%same,42%down) as being very negative.

Optimism

Throughout the industry optimism continues to be negative except in the transport sector (33%up, 50%same,17%down). It is particularly lacking in electrical goods (9%up,46%same,45%down), mechanical equipment (17%up,43%same,40%down) and fabricators (20%up,40%same,40%down).

Investment

Plans for investing in capital equipment are positive in only two sectors, transport (25%up,67%same, 8%down) and non-metal products (21%up,65%same, 14%down). The mechanical equipment sector (8%up,62%same,30%down), electronics (15%up, 60%same,25%down) and the electrical goods sector (18%up,55%same,27%down) have the least positive figures.

Training plans are healthy in metal manufacturing (30%up,60%same,10%down) transport (33%up, 59%same,8%down) and non-metal products (29%up,64%same,7%down) though not so in electronics (0%up,85%same,15%down) and electrical goods (0%up,73%same,27%down).

Staffing

In general terms more companies have reported that they are shedding staff than are taking on (13%up, 56%same,31%down).

Those with the most companies losing staff are in electrical goods (9%up,46%same,45%down) fabricators (7%up,53%same,40%down) and machine shops (0%up,60%same,40%down).

Predictions for the next three months vary as machine shops (20%up,80%same,0%down), metal manufacturing (20%up,75%same,5%down) and transport (30%up,50%same,20%down) all have more companies looking to take on staff than to lose them. On the other hand, electronics (5%up,75%same, 20%down) and electrical goods (0%up,55%same, 45%down) are looking to continue to shed staff.

Capacity

Utilisation of capacity overall is negative (22%up,36%same,42%down) but there are areas where utilisation is positive. These are metal manufacturing (37%up,37%same,26%down), transport (25%up,58%same,17%down and non-metal products (54%up,23%same,23%down).

Total output volumes have only two positive sectors which are electronics (40%up,25%same,35%down) and transport (42%up,41%same,17%down). Of the others, electrical goods (18%up,27%same,55%down) and machine shops (0%up,80%same,20%down) reported the largest negative trend.

Forecasts for the next three months show the electronic sector (27%up,9%same,64%down) in a negative mode as is machine shops (25%up, 25%same,50%down). Non-metal products (38%up,39%same,23%down) and metal manufacturing (30%up,65%same,5%down) show a more positive balance.

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 43.2 per cent of members.
Companies are described as:
Small (less than 100 employees), Medium (100-500) and Large (over 500).

Scottish Engineering

The Back Page

Frank Pignatelli,
Chief Executive,
learndirect scotland

More than £4 billion is spent on adult education and training provision by the private and public sector in Scotland every year, but many businesses, particularly SMEs, don't always get the best value out of what's available.

Scotland has developed a wide ranging education system but for most employers who can't afford the luxury of a specialist in-house HR function, finding the right training for their business, at the right place and time, can be confusing, time-consuming and ultimately very off-putting.

Late last year Futureskills Scotland revealed that more than 40 per cent of Scots employers find it difficult to ensure their staff have the right mix of skills. Of most concern are issues like customer care, team working and problem solving, along with communication and IT skills.

The Scottish University for Industry (SUfI) has the task of curing this problem. We are no longer a new organisation and are now building the foundations of our learndirect scotland services and growing roots in the learning sector, and are an established force for the development of lifelong learning throughout Scotland.

We have built the foundations of our learndirect scotland services through more than 300 centres as far apart as Lerwick, Stornoway, Gretna and Arbroath.

There have been more than 300,000 calls to our free phone helpline, and over five million hits to our website have used our National Learning Database search engine. This database now contains over 70,000 learning opportunities across the country in learning centres, private training providers, colleges and universities to name but a few.

Despite this, we are all too aware that we cannot afford to stand still. In a rapidly changing learning market, with styles of learning moving from traditional to flexible and e-learning based, we know we must develop new services to support business skills learning. Our key aim is simply to do the legwork so that employers can get on with running their companies.

In an effort to do this we have just launched a new learndirect scotland for business service, targeted directly at SMEs.

The new service, which has £1m a year Scottish Executive backing, helps employers minimise down-time by using new technology to develop skills in the workplace through a network of online trainers.

In a typical small firm, the finance department is one admin person, who sends the invoices, pays the bills and keeps the books. Using spreadsheets effectively could save loads of time and help cash-flow, but having that person away for even a couple of days on a course, only adds to the backlog they already have on the desk.

The key advantage of an online solution is that you can fit the training in at work, over a few weeks, lessening the impact in terms of downtime and helping your employees to learn at a pace that they can cope with.

Our core training search and advice service is totally free, and the online options also mean substantial potential savings, in both money and time. So there is no excuse.

We also offer face-to-face support from a team of field workers known as Training Partners, who make appropriate recommendations on what type of training will best support a company's aims.

We also believe that training should, where possible, be part of a structured plan. At the very least, it should be directly related to the company's business goals.

We have also found in our research that the key issue of this new service is similar to the challenge in consumer markets: most people agree that business training and professional development is a 'good thing' but they don't get around to doing it. Furthermore, if they do decide to train their employees, it can be time-consuming and expensive to locate the right training. learndirect scotland for business exists to try and allay some of these fears and help business find the training solution that suits them best.

Our learndirect scotland for business service is in its very early stages and we certainly don't pretend to have all the answers. However I am convinced that, by understanding the needs of SMEs and working closely with partners like Local Enterprise Companies, Chambers of Commerce and Scottish Engineering, we really can help work towards a better skilled, qualified and more adaptable workforce in Scotland.

It is vital that Scottish SMEs, 99 per cent of which are too small to develop an independent, in-house training system, don't miss out on this opportunity.

learndirect scotland for business – phone 08456 000 111 or visit www.lds4b.com

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