

- MANUFACTURING** • Order intake slides
- SECTOR** • Investment plans on hold
- RECOVERY** • Optimism remains low
- SLIPS BACK** • Output volume stalls
- SLIPS BACK** • Sales margins decline continues

Our latest Review figures reflect the current difficulties being experienced by the manufacturing engineering sector in Scotland. It is disappointing that the improvement reported in our June Quarterly Review has not been sustained.

I know from my discussions with chief executives around the country that they are determined to continue their push to be even more competitive and win more orders during these very difficult market conditions.

It is fortunate that during the past year the Monetary Policy Committee has not listened to the siren voices calling for interest rate rises. The Bank of England appears to be much closer to the realities of UK business than Gordon Brown's team at the Treasury.

As predicted in our last Quarterly Review, the Chancellor's attack on the oil and gas industry has played a key part in ensuring that this particular sector is now reporting an overall decline in activity. On a brighter note, assuming that the Scottish Engineering Quarterly Review trend graphs follow the pattern of recent years, we are hopeful that improvements in the manufacturing engineering sector will be in evidence by the second quarter of next year.

Meantime, we are pleased that our Scottish politicians seem to be waking up to the importance of the manufacturing engineering industry with the announcement that the Manufacturing Strategy Group, initially formed in 1999, is being resurrected. It is to be hoped that under the chairmanship of Dr Chris Masters the revitalised body will come forward with positive proposals which can stimulate our politicians into taking appropriate action to help manufacturing.

We look forward to playing a key role in the strategy group.

Dr **PETER HUGHES**, OBE FREng
Chief Executive
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ANNUAL TRENDS

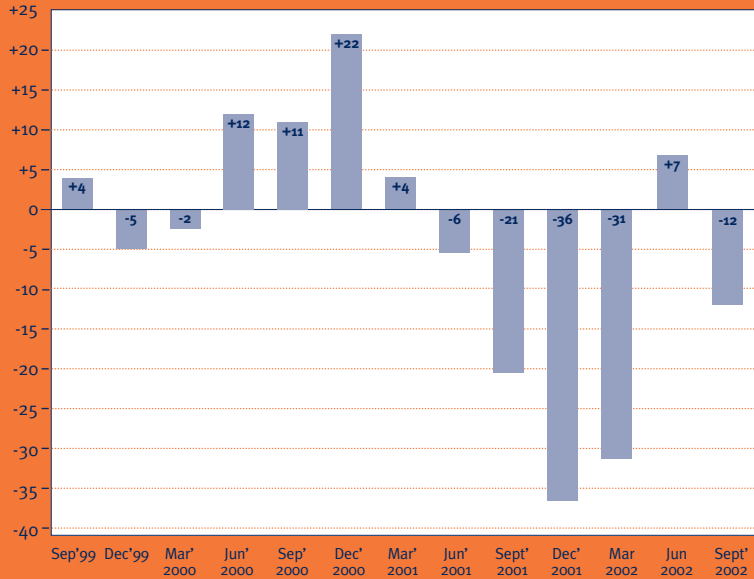
From a position of strength over a number of years, the oil and gas sector has posted negative figures for the last two quarters.

Most other sectors are reporting slight falls from June 2002 which appeared to suggest that the recession had bottomed out. None of the sectors has fallen back to the levels of March 2002 which would seem to indicate that the upturn may not be too far away.

Plans for investment in training and capital equipment have been virtually unchanged for the third consecutive quarter while remaining negative. Optimism levels have weakened slightly but are still better than the four quarters to March 2002.

Order intake of exports has turned from its positive position in June 2002 and returns to a negative situation it had previously occupied in March 2001.

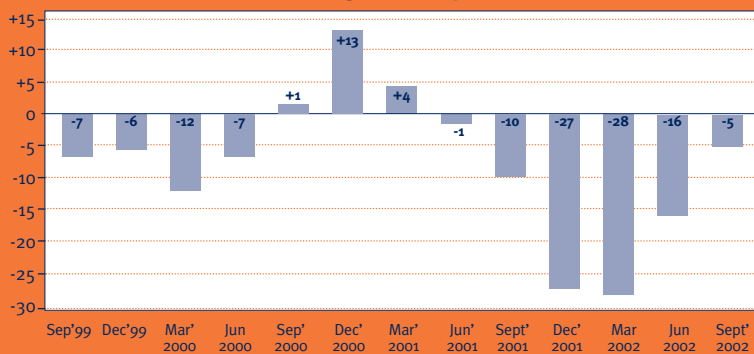
ORDER INTAKE



EXPORTS

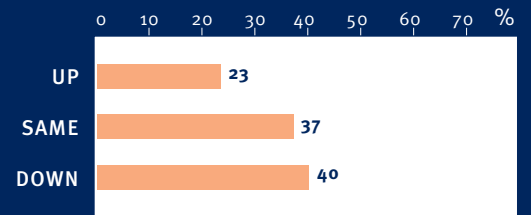


STAFFING

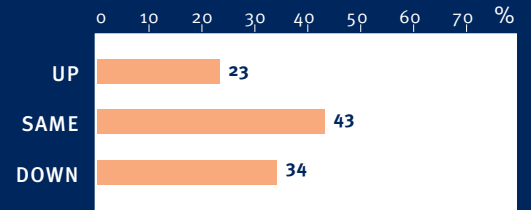


Balance between reports of increases and reports of decreases

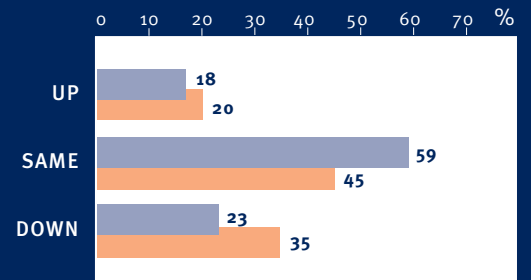
ORDER INTAKE



OUTPUT VOLUME

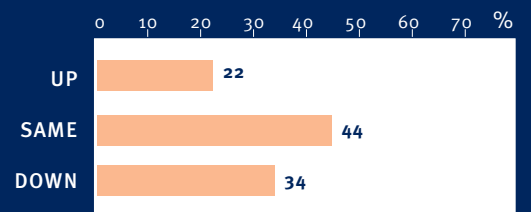


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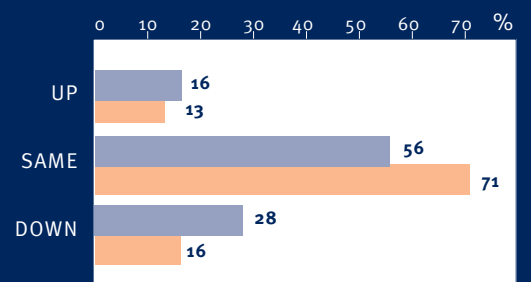


NO. OF EMPLOYEES (Grey)
OVERTIME WORKING (Orange)

OPTIMISM



INVESTMENT



CAPITAL INVESTMENT (Grey)
TRAINING INVESTMENT (Orange)

ORDER INTAKE

There has been a decline in most sectors with only machine shops and non-metal products remaining positive.

OUTPUT VOLUME

Output volume has dropped back with the worst hit being oil and gas.

STAFFING

Ongoing job losses are still being felt across all sectors and size of company.

OPTIMISM

Optimism remains negative overall.

INVESTMENT

Investment in both capital equipment and training continues to be held back.

The brief interlude which saw the manufacturing engineering industry record positive results for order intake appears to be over. The false dawn has given way to another set of negative figures which, to be fair, are more encouraging than those from March 2002.

Orders

Showing that last quarter's total order level was a one-off, companies report that the total order level (26%up,36%same,38%down) is still down. The electronic sector (20%up,48%same,32%down) remains negative with more companies reporting a drop in orders than those reporting increases. The other sector which until recently had been a manufacturing engineering stalwart, oil and gas (33%up,11%same,56%down) is also remaining in a negative situation.

All is not doom and gloom, however, with more positive results from machine shops (50%up,33%same,17%down), transport (33%up,59%same,8%down) and non metal products (40%up,60%same,0%down).

Sizes of company show quite marked differences with small companies (22%up,38%same,40%down) negative, medium sized companies (33%up,34%same,33%down) showing a balance of ups and downs and large companies (30%up,50%same,20%down) actually positive.

UK orders reveal little or no consistency with the electronic sector (17%up,50%same,33%down) and oil and gas (22%up,34%same,44%down) posting negative returns though not as negative as mechanical equipment (15%up,31%same,54%down) and electrical goods (12%up,50%same,38%down).

In the export market electrical goods (14%up,43%same,43%down) and fabricators (0%up,67%same,33%down) did not perform well while machine shops (33%up,67%same,0%down) and non-metal products (33%up,56%same,11%down) produced positive figures.

Orders predictions for the next three months for all sizes of company are promising. In the UK market, small companies (25%up,52%same,23%down), medium sized companies (33%up,53%same,14%down) and large companies (10%up,90%same,0%down) predict growth and it is similar for exports with small companies (16%up,70%same,14%down), medium sized companies (25%up,55%same,20%down) and large companies (20%up,60%same,20%down).

The electronic sector is looking at a positive order situation in both the UK (30%up,66%same,4%down) and export markets (20%up,70%same,10%down) while the oil and gas sector sees a further drop in orders for the UK market (11%up,33%same,56%down) but an improvement in exports (43%up,28%same,29%down).

Prices and margins

Prices and sales margins continue their unrelenting movement downwards. In the last three months sectors which have seen large numbers of companies dropping their UK prices include electronic (8%up,34%same,58%down) electrical goods (0%up,43%same,57%down) and non-metal products (0%up,78%same,22%down).

In the export markets electronics (14%up,45%same,41%down), electrical goods (0%up,43%same,57%down) and non-metal products (12%up,50%same,38%down) all showed considerable numbers of companies whose prices were dropping.

The movement of sales margins has been universally down. In UK markets, electronics (9%up,39%same,52%down),mechanical equipment (2%up,49%same,49%down) and

metal manufacturing (4%up,56%same,40%down) have fallen substantially.

Sales margins in the export markets have been equally severe, predominantly in electrical goods (0%up,29%same,71%down) and the electronic sector (5%up,43%same,52%down).

Predictions for the next three months are negative with a few exceptions. These are export sales margins in oil and gas (17%up,83%same,0%down) and metal manufacturing (8%up,92%same,0%down) which also forecasts improvements in UK prices (23%up,63%same,14%down) and export prices (15%up,85%same,0%down).

Optimism

Levels of optimism are generally low throughout all sectors with the exceptions being non-metal products (55%up,36%same,9%down), machine shops (50%up,17%same,33%down) and transport (25%up,67%same,8%down).

Investment

Only non-metal products (27%up,55%same,18%down) and transport (33%up,50%same,17%down) are reporting they have a majority of companies which are planning to invest in capital equipment. Electronics (8%up,59%same,33%down), traditionally a sector with high levels of capital investment is seriously negative as is the electrical goods sector (0%up,62%same,38%down).

Plans for investment in training are more positive with the electronic sector (17%up,71%same,12%down), oil and gas (33%up,45%same,22%down)metal manufacturing (16%up,76%same,8%down) and non-metal products (27%up,73%same,0%down) all planning to increase training.

Staffing

Apart from non-metal products (36%up,55%same,9%down) most sectors have more companies reducing employment than increasing though electronics (24%up,52%same,24%down) and fabricators (14%up,72%same,14%down) are reporting a balance of ups and downs.

Forecasts for the next three months show that only metal manufacturing (23%up,63%same,14%down) plans to increase staff. All the others either have a balance of those shedding and those recruiting or have more companies losing staff.

Capacity

Utilisation of capacity is, on the whole showing negative returns. The exceptions are medium sized companies (36%up,43%same,21%down), electronics (33%up,42%same,25%down)machine shops (33%up,50%same,17%down) and non-metal products (45%up,46%same,9%down).

Output volumes in non-metal products (55%up,45%same,0%down) and machine shops (33%up,50%same,17%down) are the only positive sectors. Predictions for the next three months, however, show a number of sectors which are looking to improve their outputs including electronics (38%up,50%same,12%down), machine shops (80%up,0%same,20%up) and non-metal products (27%up,73%same,0%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 per cent of members. Companies are described as: Small (less than 100 employees), Medium (100-500) and Large (over 500).

The Back Page



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For more than a year now the manufacturing engineering industry has been in recession. This was disguised nationally for a time because the growth in the housing, retail and service sectors presented a false impression of the economy.

The recent recognition of the situation in a number of surveys will hopefully mean that a concerted effort by Westminster, Holyrood and the industry itself will result in our being able to take advantage when there is an upturn in the world economy.

The causes for our manufacturing engineering industry being in decline are many and varied, but include a worldwide downturn in demand, exacerbated by the slump in the US in the wake of the September 11 disaster.

Once again, we in Scotland suffered most significantly because our economy continues to be particularly affected by the activities of the electronic sector. It would appear that the clearances have hit significant parts of Silicon Glen and at Scottish Engineering we have just seen the worst year on record for the electronic sector since our data collection began in 1990.

We would probably not have suffered so badly in Scotland and the UK if we had received a modicum of support from the Chancellor whose attitude towards manufacturing engineering has been typified by a refusal to ease the burdens which he has loaded on to the sector.

He steadfastly refuses to consider adapting the Energy Tax/Climate Change Levy which is bleeding the manufacturing sector of much needed investment capital. He has created an additional tax on the oil and gas sector which has seen major cutbacks in activity in our last two reviews.

We await with trepidation the effects of the forthcoming National Insurance increases, knowing full well that it will be to the detriment of manufacturing.

Gordon Brown is not alone in causing financial problems within our industry. The Scottish Parliament has done little to help. We are experiencing a massive increase in our water costs following the travails of Scottish Water. Our members in the East of Scotland have seen charges go up by 31 per cent with those in the West having to cope with a massive 47 per cent rise. Companies in the North of Scotland, which hosts the majority of oil and gas activity, are looking at a ridiculous 50 per cent on their water costs.

The manufacturing engineering industry relies heavily upon energy and water and the extra burdens

being applied via the politicians are becoming extremely onerous and adversely affect the overall economy.

SEPA (Scottish Environmental Protection Agency) has created numerous concerns with apparently arbitrary decisions regarding the registration of companies in relation to the PPC Regulations. Serious problems are being experienced by a variety of companies, with one member company seeing its proposed annual registration fee rise from £800 to £25,000!

Companies are reporting problems with dramatic increases in insurance premiums as 50 per cent to 500 per cent rises are being reported and in some cases, insurance companies are declining to quote for Employer Liability Insurance.

Despite this litany of doom and gloom, there are positive moves which can be made. The Scottish Parliament can put pressure on Westminster to ease the pain being suffered by the manufacturing engineering sector. It could also revisit the various proposals made by the Pathfinder groups prior to the start of the Parliament, consider them and act upon them. These Pathfinders from various sectors of the Scottish business community studied their own industries and produced a number of positive suggestions aimed at improving the Scottish economy.

While the face of manufacturing has changed significantly in the last 10 years indications are that the survivors will be well placed to take advantage of any upturn in the world economy. There are a number of initiatives within the sector as it continues to work hard to win productivity improvements and a greater share of the constrained world market.

We hope that the Scottish Parliament's newly formed Manufacturing Strategy Group under the chairmanship of Dr Chris Masters will produce more positive outcomes than some of the initiatives in the past.

Scottish Engineering is looking forward to actively participating with the Strategy Group, particularly as we have a wealth of information gained through our practical involvement in the original Pathfinders.

The new Scottish Parliament has a dual role to play in the future well-being of manufacturing in Scotland. Firstly by ensuring that their Westminster colleagues react more favourably towards manufacturing and secondly by working on their own direct input to give the maximum encouragement to all sectors of our industry.