

Quarterly Review

September 2019

Our focus this quarter is the threat to industry of a No-Deal Brexit, which seems unfortunately ever more likely given the stance of the new UK government. Orders, output and confidence have been adversely affected in the last quarter, with export orders in concerning decline.

On the current UK government immigration policy white paper respondents reported:

- › 28% are reliant on EU nationals in the workforce
- › 62% see the potential salary cap of £30k as unacceptable
- › 69% believe policy should allow regional variation to UK immigration policy to address Scotland's unique population needs
- › 33% do not agree that the current sponsorship is efficient and cost effective to business

Halloween Horrors Await



Paul Sheerin
Chief Executive,
Scottish Engineering

At our last quarterly briefing I talked of the joys of spring, the range of excellence we had just celebrated in our annual award winners, and the remarkable resilience of our sector despite never ending uncertainty. Clearly that was before our 'summer' arrived. In between wondering if a boat might be best for the daily commute, a new UK government was finally installed, and whilst the political pantomime shows no sign of abating, the mood music playing as an accompaniment has significantly changed.

Under our newest Prime Minister, the entry requirement to join the Cabinet of Government seems to require exclusively a firm belief in the values, aims and impact of Brexit, combined with a promise not to blink or think of the children if called to push through on a no-deal disorderly exit. Businesses of all sizes up and down the country recognise the danger of forming a management team that lacks diversity of thought, or the conviction to challenge internally, and yet this

is what we will have leading UK plc at a time of unprecedented difficulty, representing an electorate that is deeply divided.

The stated policy of this Government at least publicly is that we aim to secure a deal with the EU. And how have they taken steps to achieve that? At the time of writing, this has publicly amounted to writing a four-page letter stating the UK Government's position and expectations for change from the current backstop. Again, consider the response of any smart business leader, supervisor or employee across the country when asking how a dispute is to be resolved? Imagine receiving the answer of "Good News! - I have written a four page, possibly sarcastic, definitely patronising, email explaining where they have got it wrong". Excellent, that ought to solve it then.

Except it doesn't. There is no evidence of softer unseen diplomacy at work, only a statement that the UK will withdraw from EU meetings that they don't see as essential, another example

of brinkmanship negotiation, which even if successful, will ensure any future partnership maintains the trust level exhibited in the manner by which it was secured. Companies already have remarked on the drastically deteriorated relations with European trading partners as a result of this approach.

Meanwhile many businesses continue to outline that despite detailed planning for a no-deal outcome, including contingencies and alternate arrangements, the stark reality is that no-deal means wasted resource to secure work arounds, added costs for zero value and material uncertainty in business sustainability. On the same theme, this report includes responses on the importance of non-UK nationals to businesses to quantify concern around the UK government's immigration white paper. Three in ten companies reported reliance on availability of this resource, and six in ten reject the proposed salary threshold of £30k for eligible roles. Our feedback to UK government is that we are deeply disappointed that the feedback given prior to the white paper seems to have been ignored, and this is underlined in 70% of our respondents voicing the need for flexibility in immigration policy which addresses Scotland's unique needs.

It should come as no surprise then that this deeply concerning situation is reflected in the reported results from our sector looking at the last quarter. Orders are down, significantly for export, as are confidence and output, and our metal manufacturing sector unfortunately looks to have endured the toughest of quarters. Brighter points to note are a continued commitment to training and investment plans which is both welcomed and essential to future recovery.

For our back-page guest this edition, our contribution is from Scotland's Bravest Manufacturing Company, an organisation that many members who make up a part of the supply chain to the UK's Armed Forces I am sure will feel a connection to. I had the pleasure of visiting their manufacturing site with their Operations Manager Andy Russell, I hope you are as impressed to hear about it as I was.✚

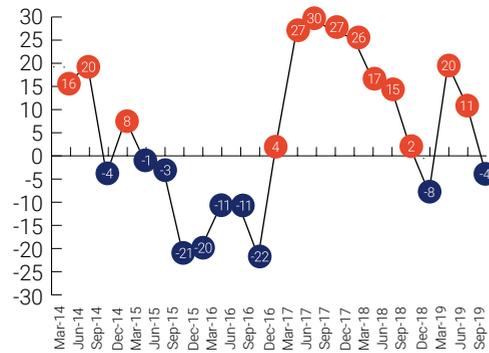
Annual Trends

Most indicators have dipped since last quarter. Order intake has fallen after two positive quarters, and output volume is negative for the first time since September 2016.

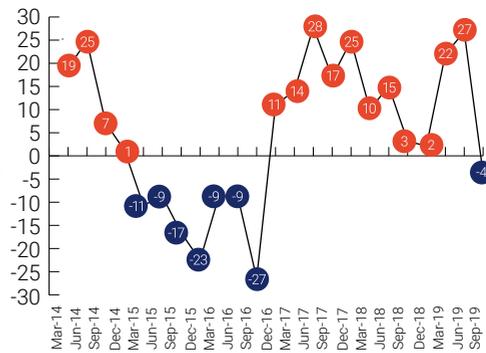
Export levels are negative for the first time this year.

Contrary to these trends, staffing levels still show a positive intention and have risen slightly this quarter, and this is felt to be due to open vacancies intended to be filled.

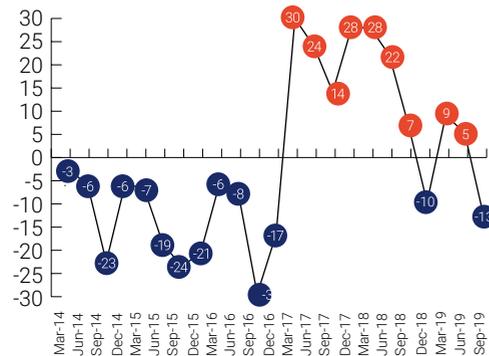
Order intake



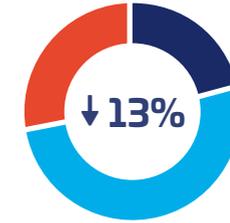
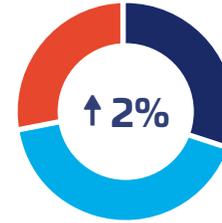
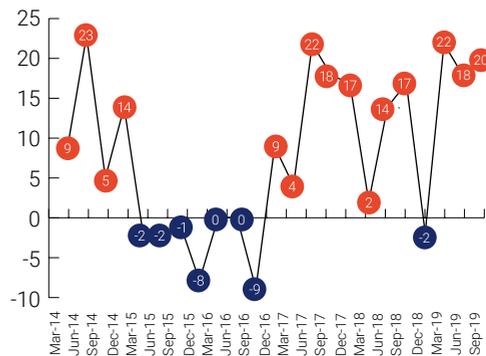
Output volume



Exports



Staffing



UK Orders

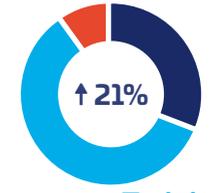
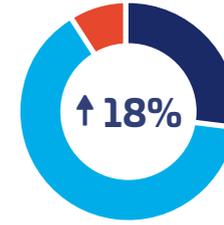
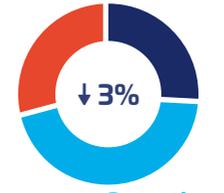
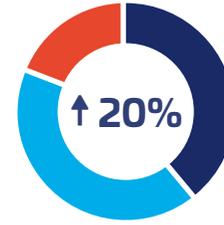
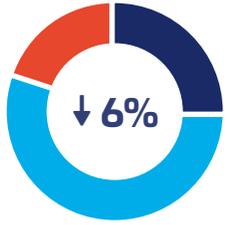
	2%	30%	42%	28%
	Net	Up	Same	Down
Small companies	5%	35%	35%	30%
Medium companies	8%	25%	58%	17%
Large companies	-33%	17%	33%	50%
Machine shops	0%	33%	34%	33%
Mechanical equipment	9%	36%	37%	27%
Metal manufacturing	-60%	0%	40%	60%
Non-metal products	-14%	14%	57%	29%
Fabricators	17%	42%	33%	25%
Electronics	16%	33%	50%	17%

Export Orders

	-13%	26%	35%	39%
	Net	Up	Same	Down
Small companies	-5%	30%	35%	35%
Medium companies	-29%	17%	37%	46%
Large companies	17%	50%	17%	33%
Machine shops	0%	25%	50%	25%
Mechanical equipment	14%	43%	28%	29%
Metal manufacturing	-75%	0%	25%	75%
Non-metal products	-50%	0%	50%	50%
Fabricators	-50%	0%	50%	50%
Electronics	0%	40%	20%	40%

UK orders remain positive, with the balance of change at 2% (8% lower than last quarter). Small and medium sized companies are positive, but large companies have fallen into negative territory. Within the sectors mechanical equipment, fabricators and electronics are all reporting positive returns. Machine shops have equal numbers of companies reporting increases and decreases; and metal manufacturing and non-metal products are reporting negative figures.

Export orders are negative for small and medium companies, and positive for large companies. The balance of change is -5% for small companies, -29% for medium companies, and 17% for large companies. In the sectors, mechanical equipment is positive; metal manufacturing, non-metal products and fabricators are negative; and machine shops and electronics have a similar number of companies reporting increases and decreases.



Optimism

	-6%	21%	51%	28%
	Net	Up	Same	Down
Small companies	-6%	23%	48%	29%
Medium companies	-8%	19%	54%	27%
Large companies	0%	17%	66%	17%
Machine shops	33%	50%	33%	17%
Mechanical equipment	0%	20%	60%	20%
Metal manufacturing	-60%	0%	40%	60%
Non-metal products	-29%	14%	43%	43%
Fabricators	-8%	25%	42%	33%
Electronics	-16%	17%	50%	33%

Optimism is negative for the first time since September 2016. Small and medium companies are reporting decreases and large companies are reporting equal numbers of increases and decreases. In the various sectors machine shops are positive; mechanical equipment is reporting equal numbers of increases and decreases; metal manufacturing, non-metal products, fabricators and electronics are reporting decreases in optimism.

Output volume

	-4%	33%	31%	36%
	Net	Up	Same	Down
Small companies	-9%	31%	27%	42%
Medium companies	12%	38%	35%	27%
Large companies	-16%	17%	50%	33%
Machine shops	-17%	33%	17%	50%
Mechanical equipment	-12%	28%	32%	40%
Metal manufacturing	-40%	20%	20%	60%
Non-metal products	-28%	29%	14%	57%
Fabricators	0%	33%	34%	33%
Electronics	16%	33%	50%	17%

Output volume is negative after 11 positive quarters, with small and large companies reporting decreases, and medium companies reporting an increase. Across the sectors electronics are positive; machine shops, mechanical equipment, metal manufacturing and non-metal products are negative; and fabricators are reporting equal numbers of increases and decreases.

Staffing

	20%	39%	42%	19%
	Net	Up	Same	Down
Small companies	19%	35%	48%	17%
Medium companies	27%	42%	43%	15%
Large companies	0%	50%	0%	50%
Machine shops	0%	83%	17%	0%
Mechanical equipment	28%	44%	40%	16%
Metal manufacturing	-20%	0%	80%	20%
Non-metal products	0%	29%	42%	29%
Fabricators	8%	25%	58%	17%
Electronics	-33%	0%	67%	33%

Overtime

	Net	Up	Same	Down
Small companies	4%	26%	52%	22%
Medium companies	-16%	24%	36%	40%
Large companies	0%	40%	20%	40%

Employees

Employee numbers are positive for small and medium companies, and large companies are reporting equal numbers of increases and decreases. Mechanical equipment and fabricators have increased; metal manufacturing and electronics companies have reported decreases, and machine shops and non-metal products have reported equal numbers of increases and decreases.

Overtime

-3% 26% 45% 29%

Overtime working continues in an increasing direction for small companies, whilst medium companies have fallen to a negative position, and large companies are even.

Investment

	18%	27%	64%	9%
	Net	Up	Same	Down
Small companies	8%	23%	62%	15%
Medium companies	31%	31%	69%	0%
Large companies	50%	50%	50%	0%
Machine shops	50%	67%	16%	17%
Mechanical equipment	30%	30%	70%	0%
Metal manufacturing	-20%	0%	80%	20%
Non-metal products	14%	43%	28%	29%
Fabricators	9%	17%	75%	8%
Electronics	17%	17%	83%	0%

Training

	Net	Up	Same	Down
Small companies	14%	27%	60%	13%
Medium companies	34%	38%	58%	4%
Large companies	16%	33%	50%	17%

Investment

Capital investment plans have maintained similar positive levels to last quarter – all sizes of companies are positive. Within the sectors machine shops, mechanical equipment, non-metal products, fabricators and electronics are positive; and metal manufacturing is negative.

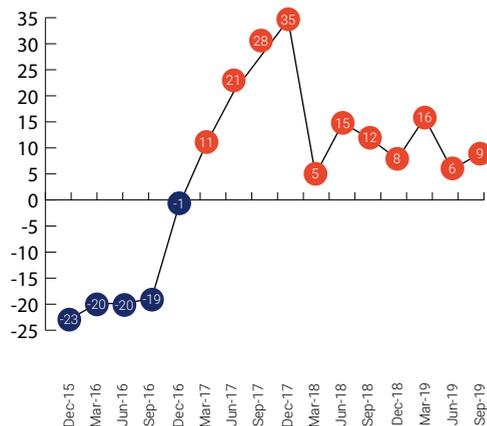
Training investment

21% 31% 59% 10%

Training investment plans have fallen slightly since last quarter, but all sizes of company are continuing to report positive figures.

Capacity utilisation

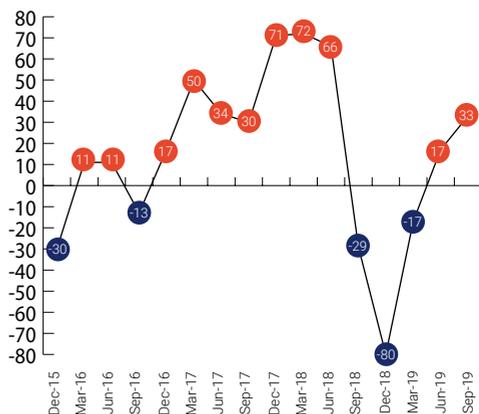
Remains positive, at an improved level, for the eleventh consecutive quarter.



Electronics

Order intake total

Electronics order intake has strengthened on last quarter, hopefully indicating a return to levels last seen in early 2018.



Forecasts

Forecasts for the next three months are more positive than last quarter. In general, UK orders, export orders and output volume are forecast to pick up. Small and medium companies are forecasting positive figures for most measurements. Large companies are forecasting decreases in UK order intake and employee numbers.

Non-metal products, fabricators, machine shops and mechanical equipment are forecasting that the next quarter will be better than the previous. Metal manufacturing are expecting decreases in UK order intake, exports and output volume; and electronics are forecasting a decrease in exports orders and prices.

	Net	Up	Same	Down
Orders	7%	30%	47%	23%
UK Orders	5%	28%	49%	23%
Export Orders	5%	24%	57%	19%
Output Volume	12%	36%	40%	24%

Balance of Change %

	Order Intake UK	Orders Export	Prices UK	Prices Export	Output Volume	Employees
Small	4	3	17	18	13	21
Medium	13	0	13	12	12	8
Large	-17	33	33	17	17	-17
Metal Manufacturing	-40	-75	20	25	-40	0
Non-Metal Products	29	0	14	17	14	0
Electronics	0	-40	0	-20	0	0
Fabricators	25	17	17	0	25	25
Machine Shops	17	0	17	0	17	33
Mechanical Equipment	18	23	27	27	24	20

The data in this Review were acquired by a survey of Scottish Engineering's members and certain other manufacturing companies. The response rate was 33% of members.

Companies are described as:
Small (<100 employees)
Medium (100-500)
and Large (>500)

Guest writer

Scotland's Bravest Manufacturing Company



Andy Russell

Operations Manager,
Scotland's Bravest Manufacturing Company

The idea of creating Scotland's Bravest Manufacturing Company (SBMC) was born after the release of a 2016 report, *The Veterans Community Employability, Skills & Learning*, by Eric Fraser – the previous Scottish Veterans Commissioner. It outlined the wealth of skills our veterans' community has to offer and how it was a priority for the country to ensure there was specialised services in place that could nurture these skills, and help Armed Forces personnel into civilian workplaces.

Having spent my entire working life in Scottish manufacturing, I understood the values that ex-military personnel can bring to an organisation, the undoubted skills and experiences they own, the outlook they have on life and a work ethic second to none. However, the few % that had mental and physical scars of service, were often overlooked, for a whole number of reasons, or maybe just put in the "too difficult" pile during the normal recruitment processes. To do that though, would be missing out on what

is such a valuable resource, when we are struggling to get talented people into the industry.

SBMC, as a social enterprise employs, as well as offers training and volunteering opportunities to, veterans and others, with disabilities, who have found themselves in a period of long-term unemployment. We aim to align ourselves with local companies who potentially can offer sustainable, real, long term employment. To do that we offer skills, over an 18 month period that can prove, not only to the employers, but to the operatives themselves, that they have the skills and aptitude to make it in their next career. We can tailor training ahead of employment, so they are as ready as possible to hit the ground running. My personal goal was to give anyone who comes through our door an appetite for "making things (better)", and a desire to believe engineering can be a career of choice. I was privileged to work for a number of wonderful and thriving Scottish companies, and to see people, who have never even been

in a factory before, produce quality product, create excellent print works or sign designs, operate a waterjet, produce cutting programs gives me a real sense of selfish pleasure.

Having recently secured national contracts from bodies including BEAR Scotland and Amey Scotland, as well as a number of local authorities, and with support from organisations such as AFRC, and Hubbell, and of course the huge support and facilities offered from Erskine, SBMC aims to support 150 veterans – including their partners and family – over the next three years. This will allow the factory to expand, and provide more diverse work types, to increase opportunities across the industry.

As part of the Royal British Legion Industries (RBLI), the UK's leading charity helping ex-Armed Forces personnel into employment, we're able to offer employment and volunteering roles, as well as training, in manufacturing, fulfilment and printing disciplines. What's crucial when working with veterans is building a sense of worth and helping the individuals understand that their military skills are transferable – and they are incredibly versatile.

Of-course it's our goal to get these veterans into employment after completing our programme, but we want to ensure that the workplace that they end up in is enjoyable and ultimately a career they can progress in. It's important to remember that as well providing new skills and employment opportunities, SBMC



aims to grow the confidence of its service users. We understand that returning to civilian life can be daunting and even taking that one step in trying to find a job is difficult, so we've designed the 18-month employment programme to ensure we're consistently up-skilling the workforce and helping build their confidence.

We have been overwhelmed by the support of the Armed Forces community, charities, and of course manufacturing companies. It's safe to say we are pleased that our social enterprise has been welcomed with open arms, as this has been fundamental to our growth.

If you want to find more about SBMC, and how your company, and the veterans, can benefit from our works, please call **0141 471 0830**, email enquiries@scotlandsbravest.org.uk, or find our website at www.scotlandsbravest.org.uk

The views expressed by the guest writer are not necessarily those of Scottish Engineering

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We facilitate connections and knowledge transfer across sectors, champion STEM education, represent Scottish industry's interests at every level of government, and deliver industry leading employment law representation, HR and health and safety support that allow members to focus on what they do best – delivering world class products and services.

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