

I was delighted to be asked to contribute to the Quarterly Review, and in taking on the task made sure to pore over the previous edition - the first of the 'new look' Reviews for 2017. As a lawyer, it was interesting to note that I was preceded in this column by a banker and given the current climate can only imagine that in turn I am going to be followed by a politician - which as we all know are three of our most-loved professions!

Like legal services, Scottish engineering is a diverse, wide-ranging industry. In my other role as Chairman of Highlands and Islands Enterprise (HIE) I am fortunate to be able to visit many engineering manufacturing businesses across that region, which stretches from Argyll to Shetland, and see at first hand the challenges and the opportunities before them.

One of HIE's core remits is to lead regional growth and development in line with the country's overall economic strategy. Central to this is playing our part in implementing the Scottish Government's Manufacturing Action Plan, with the goal of boosting productivity and international competitiveness through investments in capital equipment, leadership, workforce skills, energy efficiency and innovation.

From that perspective, it's all about sustaining and creating high-quality jobs and creating the conditions which provide stimulus and improve confidence among everyone in the industry.

These things are, of course, easier to say than to do but from speaking to people on the ground I see cause for optimism and it is important that we work collectively to achieve our overall ambitions.

One area in which my own firm operates is Scotland's Energy & Natural Resources sector. We recently hosted our eighth annual Renewable Energy Conference in Inverness - which strives towards the

Seeing opportunity in times of uncertainty

collaboration I spoke of by bringing together manufacturers, developers, politicians and others in the supply chain.

Among the topics of interest were the opportunities presented by developments in areas such as offshore wind and the potential of large-scale battery storage. Not only can innovations in these areas help to tackle climate change and the transition to a de-carbonised energy system, they also present opportunities for the engineering manufacturing industry.

In addition, I've seen at first hand the developments in the port and harbour infrastructure which leave them well placed to attract new business developments and have a growing involvement in oil and gas fabrication and decommissioning work - a great opportunity for the future.

As the leader of a commercial law firm, I am keenly aware of the many challenges which face engineering manufacturing businesses, as well as SMEs and larger enterprises in every sector.

While the prospects for our economy are unclear, most Scottish companies have concentrated on the business at hand, whatever that is, to ensure that they are in the best possible shape to deal with whatever comes their way.

Our property lawyers are currently assisting many businesses deal with the revaluation of business rates, an issue I know is of concern across the board.

Meanwhile employment law is ever changing, with Gender Pay Gap reporting - which affects business with more than 250 employees - and the provisions of the Trade

Union Act two of the latest in a never-ending line of legislative developments which employers must be aware of.

As a banking lawyer to trade, I am also only too aware of the financial landscape in which our businesses operate and the pressures of the past decade. However it is reassuring to hear my corporate law colleagues tell me the pipeline of deal work is strong, with trade consolidation and inward investment - perhaps fuelled by the weak pound - among the factors continuing to drive transactions in all sectors.

My own industry has itself undergone seismic changes over the past decade, with many well kent names no longer in existence. However, I have always seen times of uncertainty as times of opportunity for those businesses with a clear strategy and focus. Delivering quality of service, value and efficiency will always be rewarded, no matter what your line of work.

With the General Election upon us and Brexit to come, it is impossible to ignore the unprecedented levels of uncertainty which are threatening to become the new normal. What will happen and exactly how it will affect us all is unknown, though that hasn't stopped observers on all sides from making their best guess. However, I will gladly leave it to the politician who may or not follow me here to tackle those issues.

Professor Lorne D Crerar,

Chairman
Harper Macleod LLP



Sector's improvement encouraging

The engineering and manufacturing sector recorded a third strong quarter, with the most recent three months bettering the previous two quarters. We have seen order intake improving and output volume strengthening against last quarter. Particularly strong growth has come through in staffing levels, and despite this, levels of overtime working continue to be relatively high. Not surprisingly, against this background optimism remains high despite what the political world can throw at us.

I have promised myself not to mention the "B" word as I am guessing that everyone has had their fill of the posturing of both sides and the endless speculation on the ultimate outcome.

Taking a parochial view, it is heartening to see our major universities including Strathclyde and Heriot-Watt getting behind the various graduate apprenticeship schemes which should do much to address the country's skills gaps and which will prove extremely beneficial to both the student apprentices and their employers.

We have to hope that, over time, graduates through this route will be afforded equivalent status to their contemporaries in continental countries such as Germany, Switzerland and France. In these countries, apprentice training attracts many of the brightest and best who on completion of their apprenticeship can often have academic qualifications or, at least, be trained to a professional standard, which is no less valuable than a conventional degree qualification.

An immediate benefit to our sector would be removal of the ridiculous legislation which prevents non-EU graduates remaining in the country into which they have been assimilated while being educated, even if they have the opportunity of a job.

Thankfully, we seem to be making some headway in addressing the gender inequality in our sector, although we are a long way from success. One area where we have achieved parity is in the entries for our Leaders Award, conducted with Primary Engineer, and we saw schools' involvement up by 65% on last year and overall entries up to nearly 12,000, half of them girls!

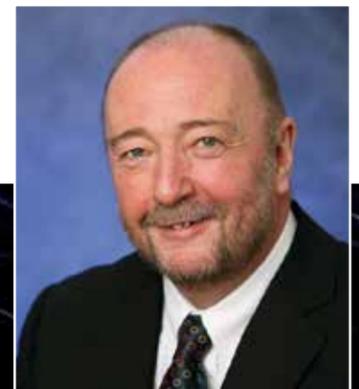
- Order intake continues to improve
- Output volume strengthens
- Staffing levels see strong growth
- Optimism remains high

This scheme which was originally intended to attract very young pupils into a future career in engineering, has now been extended to secondary schools, and the momentum is growing. This year's Hammermen Prize was won, most deservedly, by a lady for the second year in succession. Our winner is Meryl Devlin of Aggreko, who oversaw delivery of a complex project on heavy fuel oil generator design.

Dear to our hearts is our beloved Transport Scotland, who bequeathed us the Sheriffhall roundabout, recently without traffic lights for more than two days. One can only wonder at the visionary move of putting a roundabout in the middle of the Edinburgh City Bypass shunning such untried technologies as underpasses and flyovers.

The magnum opus remains the Queensferry Crossing, a magnificent structure, but delayed yet again. Who could have predicted a winter of high winds in the Firth of Forth?

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The views expressed by the Guest Writer are not necessarily those of Scottish Engineering.

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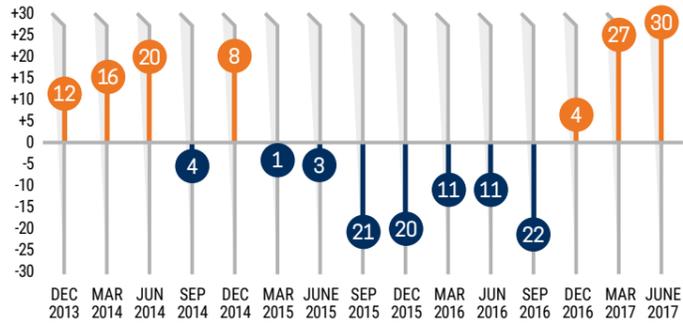
Over 150 years
OF SCOTTISH ENGINEERING

ANNUAL TRENDS

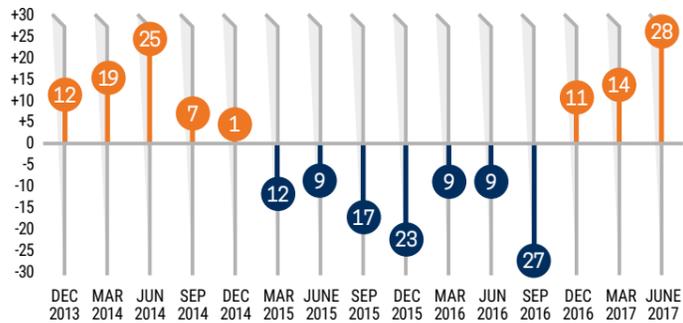
Order intake in general continues to improve for the third consecutive quarter. Output volume has also picked up greatly, on the back of significant order increases in the last quarter.

Staffing levels have also improved a great deal while the amount of overtime continues to grow. Both training and capital investment plans continue on a positive note.

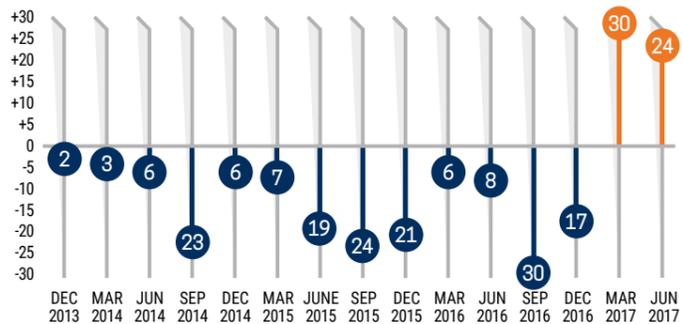
Order Intake



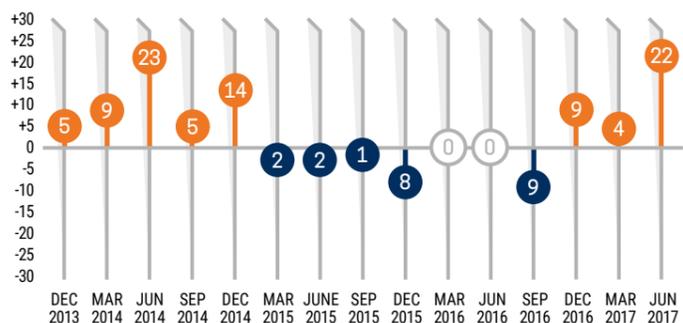
Output Volume



Exports



Staffing

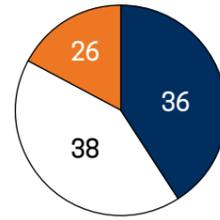


Balance between reports of increases and reports of decreases.

The engineering manufacturing sector in Scotland continues to improve in terms of orders, output and staffing levels.

These figures are a very positive continuation of those we received in the previous two quarters and reflect the fact that engineering companies throughout Scotland are gritting their teeth and successfully battling against some tough economic situations.

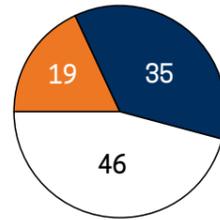
ORDER INTAKE



UK Orders

UK orders in general (36%up, 38%same, 26%down) are similar to the first quarter of 2017. Small companies (40%up, 37%same, 23%down) have seen an improvement with medium companies (30%up, 40%same, 30%down) reporting equal numbers of companies with ups and downs and large companies (0%up, 50%same, 50%down) seeing no increases. Within the sectors, fabricators (31%up, 31%same, 38%down) are negative and machine shops (57%up, 14%same, 29%down) are positive.

OPTIMISM

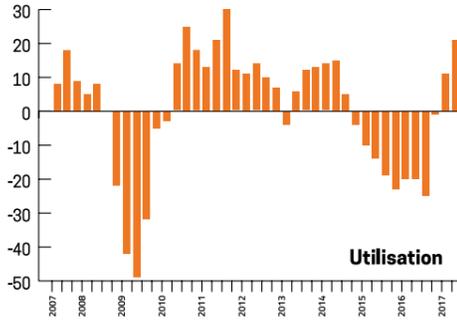


Optimism

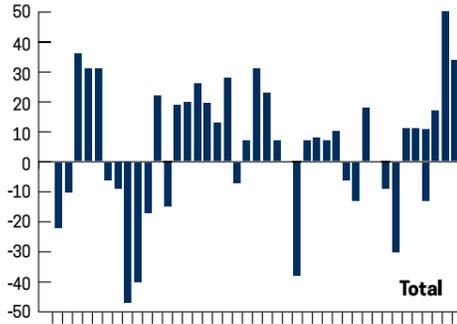
In general terms, (35%up, 46%same, 19%down) levels of optimism have remained positive. This is similar in small (37%up, 45%same, 18%down) and medium companies (32%up, 48%same, 20%down) but large companies (0%up, 50%same, 50%down) report a negative balance.

Within the sectors, electronics (67%up, 16%same, 17%down) has seen significant improvement while machine shops have also submitted a positive reply. Metal manufacturing (14%up, 43%same, 43%down) on the other hand have negative figures.

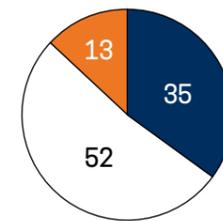
CAPACITY UTILISATION



ELECTRONICS (ORDER INTAKE TOTAL)



STAFFING

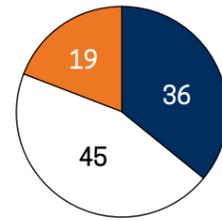


Employees

Staffing

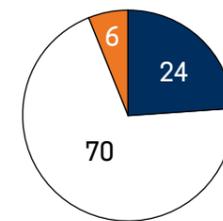
Employee numbers in general (35%up, 52%same, 13%down) have shown a marked improvement over the previous quarter. This is also seen in small (33%up, 57%same, 10%down), medium (40%up, 40%same, 20%down) and large companies (50%up, 50%same, 0%down). In the sectors, fabricators (31%up, 54%same, 15%down) and machine shops (43%up, 57%same, 0%down) are also positive.

Overtime working in general (36%up, 45%same, 19%down) is positive as it is in small (37%up, 43%same, 20%down), medium (29%up, 54%same, 17%down) and large companies (0%up, 0%same, 100%down).



Overtime

INVESTMENT

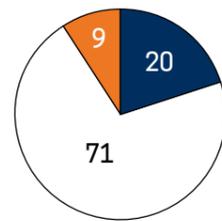


Training

Investment

Training investment plans in general (24%up, 70%same, 6%down) continue to be positive. Similarly in small (23%up, 69%same, 8%down) and medium companies (28%up, 72%same, 0%down) the trend is towards increasing training investment. Large companies, however, (0%up, 100%same, 0%down) are reporting the same figures as last quarter.

Capital investment plans in general (20%up, 71%same, 9%down) are as positive as they were last quarter which is reflected in both small (20%up, 70%same, 10%down) and medium companies (20%up, 72%same, 8%down). Large companies (0%up, 100%same, 0%down) are all the same as last quarter.



Capital

FORECASTS

Forecasts

Certain sections of the engineering industry are looking to improve on the last quarter's predictions.

UK orders in general for the next quarter (28%up, 55%same, 17%down) are pretty similar though small companies (31%up, 53%same, 16%down) are looking at an improving situation in their UK orders.

Fabricators have high hopes for UK orders in the next quarter (38%up, 47%same, 15%down), though they see exports declining (33%up, 50%same, 17%down) compared to the last quarter.

Balance of Change %	Order Intake UK	Orders Export	Prices UK	Prices Export	Output Volume	Employees
Small	15	21	13	9	23	21
Medium	4	32	-22	-6	12	4
Large	-50	100	0	0	50	0
Metal Manufacturing	0	0	0	17	0	0
Transport	50	50	50	50	50	0
Electronics	-33	0	0	0	33	50
Fabricators	23	16	-31	-17	23	23
Machine Shops	0	0	15	0	-15	0
Mechanical Equipment	-6	26	0	4	31	9

The facts in this Review were acquired by a survey of Scottish Engineering's members and certain other manufacturing companies.

The survey was conducted with 320 companies.

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