



Focus On: Engineering

September 2011

Welcome

Welcome to Banks & Co's latest Focus On...bulletin looking at news and information relevant to specific business and industry sectors.

This Focus On Engineering bulletin takes a look at some of the issues currently affecting the industry, including continuing difficulties in sourcing bank finance and new trade opportunities in China.

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Positive trends but access to finance weakens, survey finds

Engineering and manufacturing businesses appear to be using in-house resources for investment to avoid working with the banks, according to the latest monthly report from a leading industry organisation.

The Monthly Business Monitor for May from the Engineering and Machinery Alliance (EAMA), published on 23 June, found that UK order intake improved significantly on April, although inquiry levels dipped and exports remained at similar levels to those seen over the last three months.

The majority of firms were still upbeat on jobs, with 28 per cent signalling increased numbers compared to last month, when the balance was particularly high, and continuing a positive trend that began in February. Martin Walder, EAMA chairman, said: "The monitor seems to be indicating that underlying business is good."

But he said that encouraging developments regarding access to finance had "melted

away", adding: "It is worrying to see what looked like a positive trend emerging disappear as this move back into negative territory coincides with anecdotal reports of banks renegotiating stiffer overdraft terms.

"Our sense is that companies are still trying to limit their exposure to banks, preferring to use their own resources for investment because confidence remains fragile. Not only is the memory of the banks' ability to change terms at extremely short notice raw, there are also many other factors affecting business prospects, from the reduction in public expenditure to the impact of the Japanese tsunami on supply chains."

The monitor found that 63 per cent of

companies said they were investing in one way or another in May, with 36 per cent saying they were investing in all areas.

Martin Herring said: "It is disappointing that more evidence appears to be emerging of businesses having difficulty in accessing finance, or having been so scarred by their previous experiences that they are choosing to go it alone.

"In sourcing finance, the team at Banks & Co can review your position and give you objective, realistic advice. Our expertise and contacts will help you open doors that may otherwise have remained closed for you and we can also assist in negotiating on your behalf to secure the most appropriate package and terms.

Wage settlements suggest growing strength

Manufacturing wage settlements have continued to show a continued gradual increase as pay bargaining returns to normal levels, according to new figures published in June.

Data for the three months to the end of May 2011 from EEF, the manufacturers' organisation, and JAM Recruitment showed that the average pay settlement for the period rose to 2.6 per cent, up from 2.5 per cent for the three months to the end of April 2011. The figure is in line with the average for the whole economy, reported in June as 2.5 per cent in the three months to March by research group Incomes Data Services.

Continuing the trend seen through much of the year so far, manufacturing settlements of between two per cent and three per cent remained the most common. The proportion agreed at more than 3 per cent continued to drift upwards in the quarter

but one in seven deals involved pay freezes.

John Morris, chief executive of JAM Recruitment, said: "The average pay settlement is now three times what it was in March 2009 and is slowly but steadily climbing towards the three per cent mark, suggesting growing strength in the sector. It seems the future is looking rather brighter.

"This picture is borne out by current recruitment trends. Almost a third of manufacturing companies recruited new employees in the first quarter and we're expecting this figure to rise as the sector continues to grow".

Lee Hopley, EEF chief economist, added:

"Despite the continued upward curve of pay settlements, we are only continuing a return to levels we would expect to see in relatively normal economic conditions."

Banks & Co partner Martin Herring said: "The evidence of improvements in the sector is encouraging but the overall modest trend in wage settlements underlines the fact the majority of employers are working to keep a tight rein on internal costs, which is a sensible approach for any business at any time."

The EEF and JAM Recruitment June 2011 Pay Bulletin contained information on 233 settlements covering almost 40,000 employees.

Workplace deaths increase

Manufacturing continues to have one of the highest rates of fatal injuries, according to new figures from the Health and Safety Executive (HSE).

Provisional figures for the year from April 2010-March 2011, published on 28 June, showed that the total number of workers killed was 171, an increase on the previous year, when 147 died - the lowest number on record. The rate of fatal injury is now 0.6 per 100,000 workers, up from 0.5 per 100,000 workers the previous year.

In manufacturing there were 27 fatal injuries, with a rate of 1.1 deaths per 100,000 workers, the same as for the previous five years. There were 50 fatal injuries in construction, 47 in the

services sector and 34 in agriculture.

The HSE said while the increase was disappointing, the UK still had one of the lowest rates of fatal injury in Europe. Based on the available data, Britain continues to have the lowest rate of fatal injuries to workers among the five leading industrial nations in Europe - the others are Germany, France, Spain and Italy - for a six-year period.

Martin Herring said: "These figures are very clear reminder that no business can afford

to let its attention to health and safety slip at any time. The consequences of an accident causing an injury or death can be devastating, for the individuals involved and their families, for the reputation of the company and even for its survival, if it suffers a substantial fine that could have severe implications for its financial health.

"Although it makes sound business sense to always operate as cost-effectively as possible, this is one area that must remain a priority."

China trade deal opens new doors

Engineering and manufacturing businesses are among those set to benefit from a new trade relationship between the UK and China.

Prime Minister David Cameron and Chinese Premier Wen Jiabao witnessed the signing of trade deals worth £1.4 billion on 27 June.

Mr Cameron said: "China's economic progress is creating huge opportunities for the UK. As our economies become increasingly complementary, the UK has the goods and services, experience and skills to match China's ambition to move up the value chain.

"Since my visit last November, UK exports of goods to China have increased by more than a fifth and I'm delighted that today's summit has seen new deals signed worth another £1.4 billion. Building on this trade and investment will mean jobs, growth and prosperity for us all."

The two leaders also witnessed the signing of a number of significant government-to-government agreements which will improve the business environment for both UK and Chinese companies, including a double taxation agreement.

Speaking earlier in June, Minister for Trade and Investment Lord Green highlighted opportunities for smaller businesses in China.

He said "China's staggering pace of growth is creating a wealth of opportunities for UK firms. From high-value infrastructure projects, to the growth in demand for low carbon goods and services, UK firms, especially SMEs, are well placed to provide cutting edge expertise.

"Over 99 per cent of the UK's 4.8 million businesses are SMEs, yet at present, only 20 per cent are exporters. We believe there is scope to increase that figure considerably and that is why UKTI is committed to supporting SMEs in key markets such as China."

Martin Herring said: "It is exciting to see these new overseas opportunities opening up. For enterprises that want to explore and make the most of such opportunities,

it makes sense to work with professional advisers, like Banks & Co, who can help them to ensure that their business and their plans are in the best possible shape to take this step and provide ongoing support."

