

Second wave – Summer 2011





Executive summary

This latest survey of sentiments in the UK high tech manufacturing sector reveals that most are optimistic about current business conditions for the sector and their companies in particular, although they remain cautious about the general economic condition.

The index shows that one in three companies is operating at close to or at full capacity. Nearly half of those surveyed said they had yet to put in arrangements to step up their capabilities, often because of general economic uncertainty.

Those surveyed point to the quality of British products and Britain's strong manufacturing heritage as the most important selling points for the sector as it strives to be internationally competitive. The UK's impressive R & D capabilities and good image abroad were also seen as strong supporting factors.

High tech manufacturers are keen for the government to further develop a specific government strategy for the sector. The survey found a feeling that the UK's potential is still hindered by burdensome business regulation, a shortage of skilled workers and the business tax regime.

Competition was most feared from the emerging BRIC economies, with 50% saying they felt the UK was less competitive than these emerging markets, but more encouragingly -

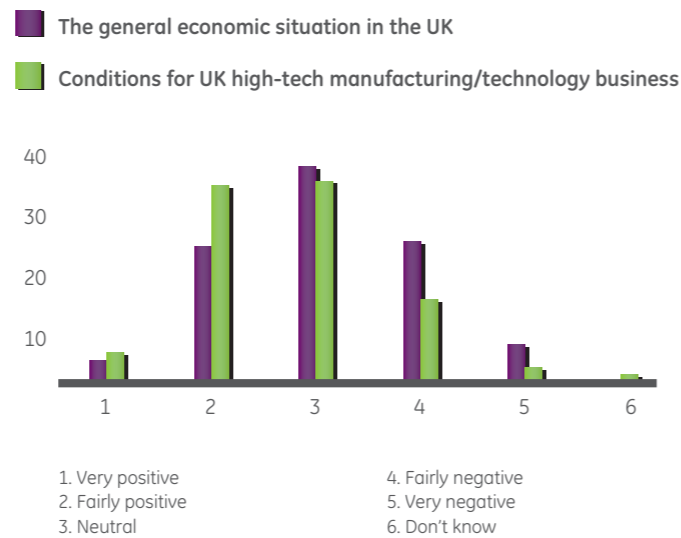
80% said they felt that the UK was now just as or more competitive than other major European economies.



Economic sentiment

Those that GE surveyed expressed a continuing lack of optimism about the general state of the UK economy with little shift in those feeling positive (30% down from 31% in January) while more than twice as many felt neutral or negative (70% up from 68%).

By comparison, there is significantly more optimism about the high tech manufacturing sector, suggesting it may be better positioned to weather current uncertainty. Positive feelings about the industry is up to 42% (from 36%), outscoring the general economy by 12 points, and only 19% feel negative about the sector.



Respondents were much more positive about the performance of their own businesses, with 77% feeling fairly or very positive (up from 75%) and only 6% feeling fairly or very negative.

Most of the changes in opinion are within the margin of error (4.9%) reflecting the fact that sentiment has not changed dramatically over the past six months. When asked about the UK economy, a majority (49%) feel that things have stayed the same over the last six months. In the sector, most people feels there has been no change (38%), although more feel things have improved rather than got worse (+25).



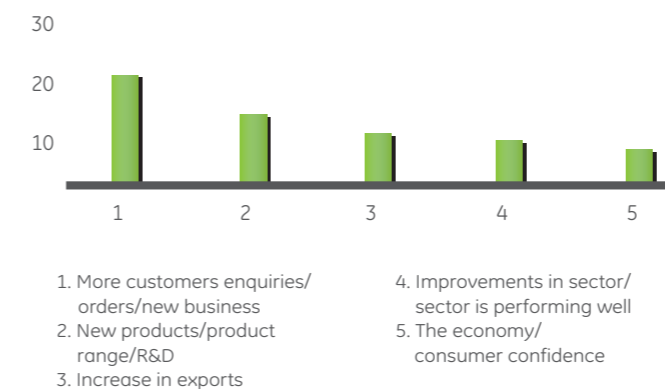
Business growth

Those surveyed are more optimistic about the future, though, even if they are cautious. Over the next 12 months, 80% (+5 points) of those questioned expected the general economic situation to improve or stay the same, compared to only 17% (-5 points) who thought it would get worse. In terms of the high tech manufacturing sector, 46% expect it to improve in the coming year, 39% expect it to stay the same while only 11% expect things to get worse. When asked about their own business, 74% said they thought things would improve, while only 4% thought things would get worse.

There are a number of reasons for this guarded optimism about the coming year. The top five reasons cited by respondents for improved business performance in the next twelve months was:

- More customer enquiries/orders/new business (21%);
- New products/product range/R&D (15%);
- Increase in exports (11%);
- Improvements in sector/sector is performing well (9%);
- the economy/consumer confidence (7%).

You said that you expect improved business performance over the next 12 months? What is the main factor behind this optimism? And what else is a cause for encouragement about your performance over the next 12 months?



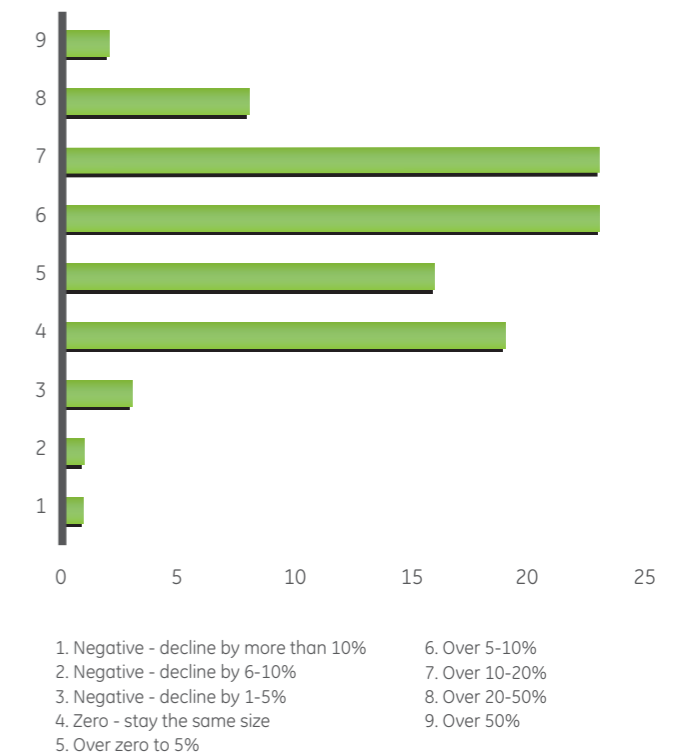
High tech manufacturers are expecting growth this year: six in ten (59%) of the companies surveyed saw their business grow in 2010 while seven (72%) in ten expect 2011 to be a year of growth.



Now only one in twenty (5%) expects to 'contract' in 2011 –

as compared to one in seven (14%) who saw business decline in 2010. This underlines the generally positive sentiment surrounding the sector and prospects for individual businesses.

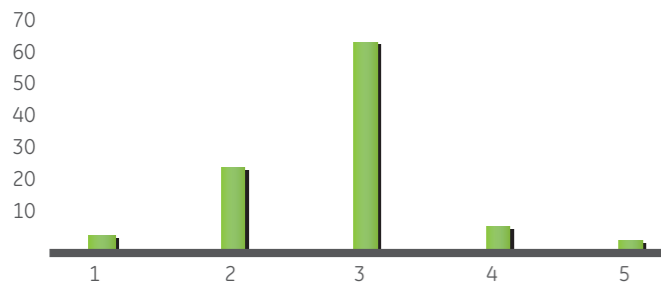
By how much, if at all, do you expect your business to grow in 2011 as compared to 2010?





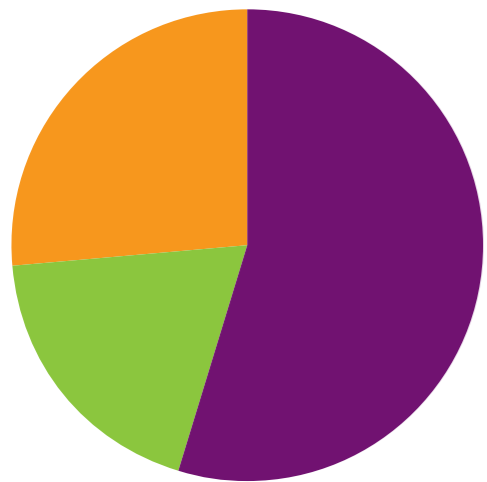
Capacity

Almost a third of those businesses surveyed (29%) said that they were operating at or close to full capacity. This is nearly four times greater than the proportion that is “not busy” (8%).



1. No capacity at all - having to turn work away
2. Just about full capacity - can only take on a little more
3. Busy but able to take on new orders
4. Not very busy but have some orders
5. Not busy at all - urgent need for more orders

However, a quarter of those at or close to full capacity have no plans to address the situation – presumably not confident that this will continue to be the case or preferring to ‘muddle through’. Nearly half (46%) said they had yet to put arrangements in place to step up their capabilities.

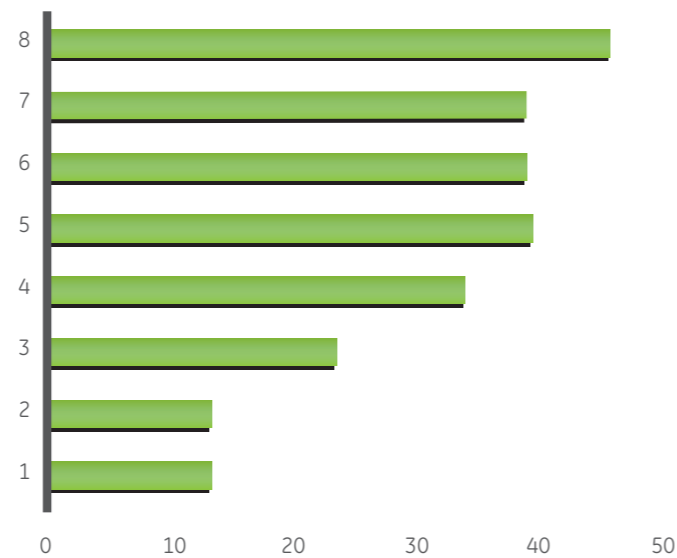


- Yes - already made arrangement
- Yes - but haven't yet
- No

Uncertainty – over whether the situation will continue or economic conditions – are two of the main reasons why business have not sought to increase capacity. A large proportion (of what is a small base) ‘complain’ about the pool of talent and a reluctance to look outside the UK for partners.

Taking on more staff is the primary means of increasing capacity, although at least three-quarters will invest in equipment or look to make efficiency gains. Approximately one in five may outsource to overseas suppliers.

Despite being optimistic for their own performance – and many working at or close to capacity – intentions to increase employee numbers are little changed since Q210. Still half (48%) are expecting to increase their headcount in 2011.



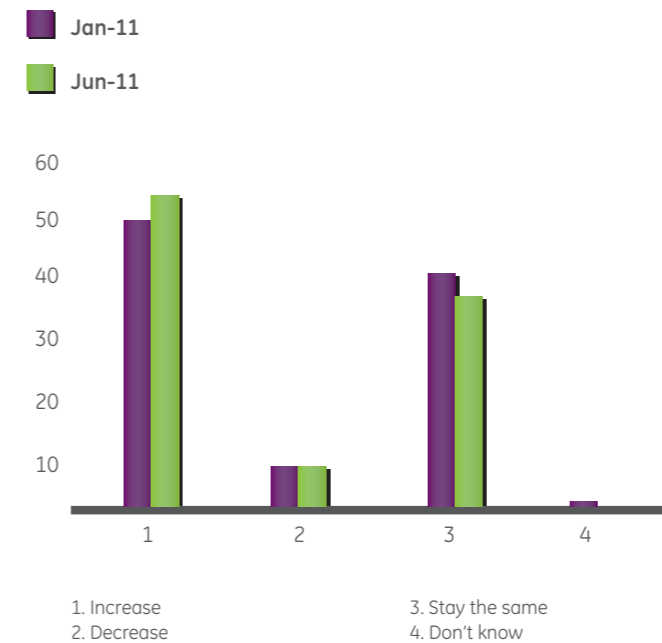
1. Short-term situation/not certain demand...
2. Can't find or attract qualified staff...
3. Happy with current situation/accept that...
4. Reluctant to outsource to or find partners...
5. Access to finance
6. Nobody to outsource to in the UK
7. Other
8. Difficulty of getting planning permission...



Orders

Over half (54%) of the businesses GE spoke to now expect to see domestic orders increase over the next 12 months, the balance expecting an increase is slightly greater than in January 2011 (+45 as compared to +42).

Over the next 12 months do you expect the total value of orders for your products/services from UK customers to increase, decrease or remain at about the same level?



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Competitiveness

While high tech manufacturers feel that we have ‘little to fear’ from other European countries they believe that those in other regions, especially the BRICs, are more competitive. By two to one (51%:26%) the BRICs are considered to be more competitive than the UK.

There is a wide scope of suggestions from respondents on how the UK can become more competitive, with ideas ranging from government support for apprenticeships, to businesses working more on innovation and quality and efficiency improvements.

How do you think high tech manufacturers in the UK can become more competitive? What, if anything, can they do for themselves so as to better compete with international rivals?



UK high tech manufacturers believe that the quality of products produced provide the greatest advantage over our competitors, together with our ‘industrial heritage,’ R&D capabilities and reputation. It is the overall sense of ‘quality’ that provides British high tech manufacturing with its USP. The general infrastructure and education system could be strengthened, while access to finance and skilled workers are also thought to be holding back high tech manufacturers. Above all, it is the approach of government that is thought to be the greatest hindrance. The data suggests that (along with most other businesses) respondents want to be less burdened by regulation and they are calling out for government to devise a specific strategy for high tech manufacturing.



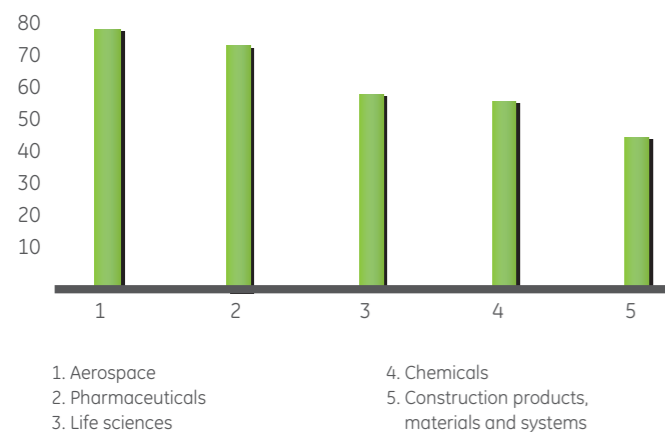
Finance & investment

There is recognition that high tech manufacturers could do more for themselves. Primarily it is about the mind-set of the sector, rather than technical ability. Trade barriers do exist but a more positive and ambitious outlook, allied to improved marketing will see high tech manufacturers achieving more. The lack of a 'can do' attitude is seen as equally problematic as the absence of a specific government strategy.

Specialisms/Green Tech

Although pharmaceuticals and life sciences are regarded as star sectors, industrial biotechnology is only a 'mid table' specialism. It is precision engineering and customisation where the UK is thought to have the most expertise.

Within UK High Tech manufacturing what do you see as specific 'star sectors?'



Green tech is definitely seen as an area of opportunity for High Tech as a whole, while for individual respondents the opportunity is less obvious/relevant. However, four in ten (39%) believe that green tech could be a 'large' opportunity for them.

The UK tax regime is considered a significantly bigger hindrance to business growth than access to/cost of capital.

Data suggests that perceptions on credit availability are easing; the proportion saying terms are unacceptably strict or impossible to obtain has dropped nine points to 20%. Many more though saying they haven't tried to or need to obtain capital. The question is whether they have given up trying or have now got through the tough times.



Three in ten have sought external investment

overwhelmingly from banks from who one in five (22%) have sought funds.



In seven in ten cases the 'application' was successful,

but one in five applications has been turned down.



Survey details

403 interviews conducted by ORB (The Opinion Research Business) among senior executives of High Tech businesses. Interviews conducted by telephone in June 2011.

All businesses had at least 10 employees and were characterised as high tech manufacturers on the basis that they.

A:

To at least some degree "use a high level of design or scientific skills to produce technologically complex products and processes - usually of a high value."

B:

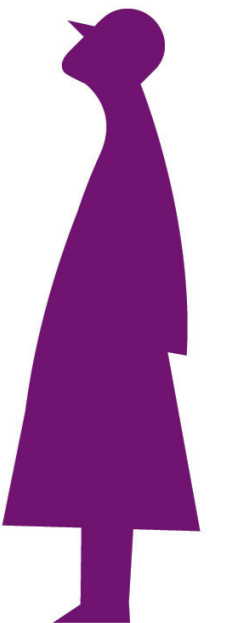
Are a primary manufacturer of components, equipment or products rather than an assembler of components that are sourced entirely from external suppliers.

C:

Are characterised by at least three of the following attributes:

- Has a highly skilled workforce;
- Produces technically complex (Hi-Tech) products;
- Uses advanced, innovative or cutting-edge technology to produce its products;
- Produces products with a high added-value;
- Utilises a high level of design, innovation or creativity;
- Makes extensive use of computer, high-precision and information technologies;
- Engages in a large amount of Research & Development (R&D);
- Has high levels of productivity i.e. not necessarily high volume but efficient production processes/high value of output per employee etc;
- Provides consultancy and/or advisory services in relation to its products.

Companies questioned manufactured a wide range of high tech components and products - for example, medical instruments and devices, laser optics, industrial sensing equipment, specialist telecoms equipment, industrial ceramics, precision components, aviation controls and components, engineering cutting tools, industrial and specialist gases.





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