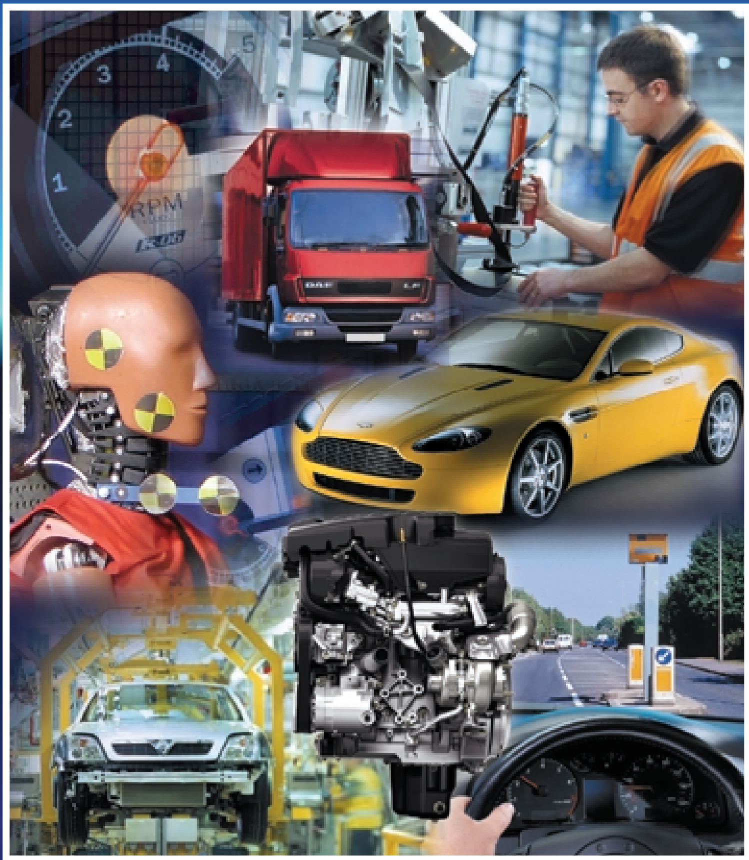
THE MOTOR INDUSTRY SMMT

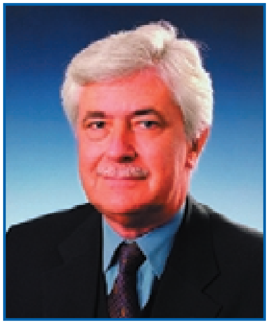
Automotive Manufacturing 2005

The Industry Perspective



SMMT's Third Annual Issues Survey

Summary



Welcome to Automotive Manufacturing 2005 – the Industry Perspective.

For the past three years, SMMT has collected the views of around 80 senior industry executives and published the findings at its annual dinner. The survey has become an important barometer for the industry and other stakeholders, bringing a sector-wide perspective to where the industry feels it is and where its prospects lie for the future.

Earlier this year, the news was dominated by MG Rover. Its collapse was a serious blow and we chose to reflect this for the first time by looking at the outlook of West Midlands-based companies, comparing them to the rest of the UK. Predictably, they tended to be more gloomy. Nevertheless, the sector as a whole remained relatively upbeat about future prospects, albeit with one eye firmly focused on more favourable business environments in other countries.

Once again,the survey revealed challenges for the Government. There is a strong sense that more support is needed for automotive manufacturing, both domestically and in terms of global trade. Transport infrastructure remains an area where the industry is united in concern. Likewise the cost burden of new regulation continues to weigh heavily on the minds of most respondents.

Perhaps most worryingly, the industry sees little attempt to address these problems. However, on regulation at least, it may be that the CARS21 initiative will have tempered responses in years to come. Time will tell.

SMMT champions productivity and improving skills as cornerstones for a successful future. So it is particularly encouraging that this year its survey points to improved productivity. For that, organisations like Industry Forum are to be praised. And while the skills shortage remains an issue, initiatives like the Automotive Academy are increasingly seen as having a real and direct impact on businesses. Again, this is good news.

We hope you find this year's report valuable. If you do have any thoughts or comments please send them to me at president@smmt.co.uk

Roger Putnam
SMMT president

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Background

The survey included views from senior management, almost exclusively Chairman, CEO or Director level. They represent the Car, CV and other vehicle manufacturers as well as component suppliers and those operating in the aftermarket.

The organisations vary in size. Almost a third employ more than 500 people and almost 80 per cent employ over 50 people.

As reflects the geographic structure of the industry, the largest single concentration of respondents is in the West Midlands. However, many have multiple locations.

Over half of respondents (60 per cent) consider their business to be international.

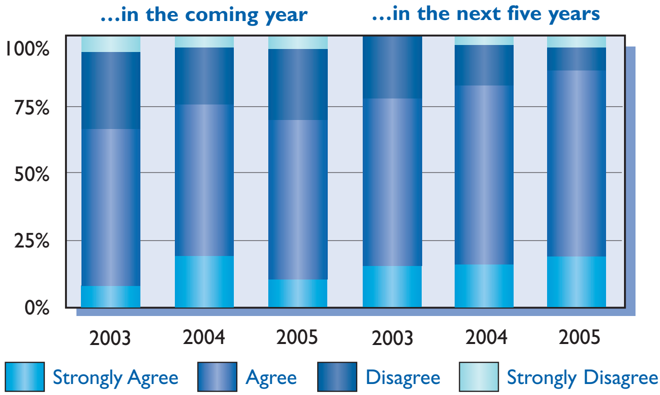
Business Prospects

As in 2003 and 2004, most respondents are positive about the growth prospects for their business in the coming year and in the next five years.

The proportion that is positive about production in the UK in their sector of the industry in the next five years has risen from 48% in 2004 to 55% this year.

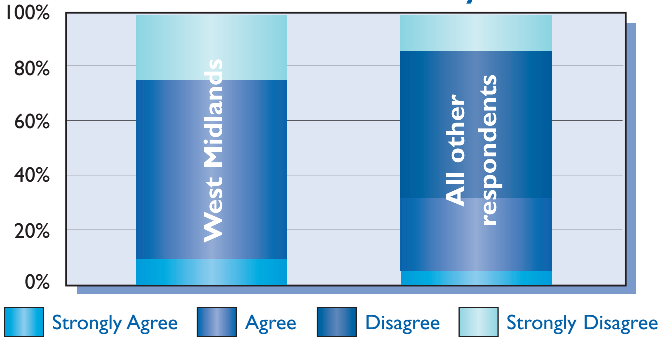
However, it is far less positive in terms of regional production. Almost two thirds (62%) of respondents do not expect production to increase in their region of the UK in the next five years.

The growth prospects are good for our business in the...



Respondents have remained positive about growth, despite the challenges facing the industry.

Production in our region of the UK will increase in the next five years

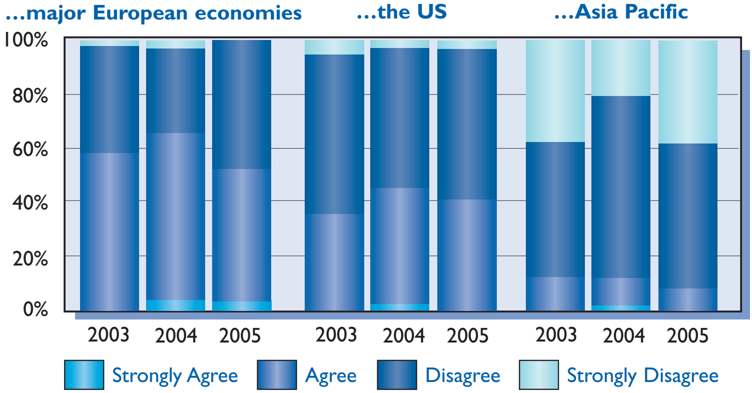


Perhaps understandably, respondents from the West Midlands were the most negative about future prospects.

The International Perspective

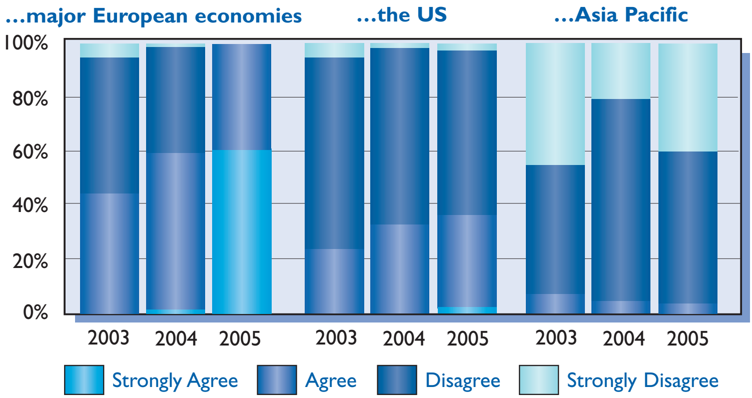
Respondents remain particularly negative about improvement in the UK business environment when compared with the Asia Pacific region. Just 7% feel it will improve in the next year and 4% in the next five years. Worryingly, there has been a noticeable decline in the bullishness of respondents when compared with Europe, in the short term, although they still feel that the business environment in the UK will improve compared with Europe over a five year period. Compared to the environment in the US, while the majority of respondents were negative, improvement over five years is expected by 30%. That figure has risen from 19% of those surveyed in 2003 and 28% in 2004.

In the next year, the business environment in the UK will improve compared with…



Respondents feel they are disadvantaged by the UK business environment against centres of low-cost production overseas.

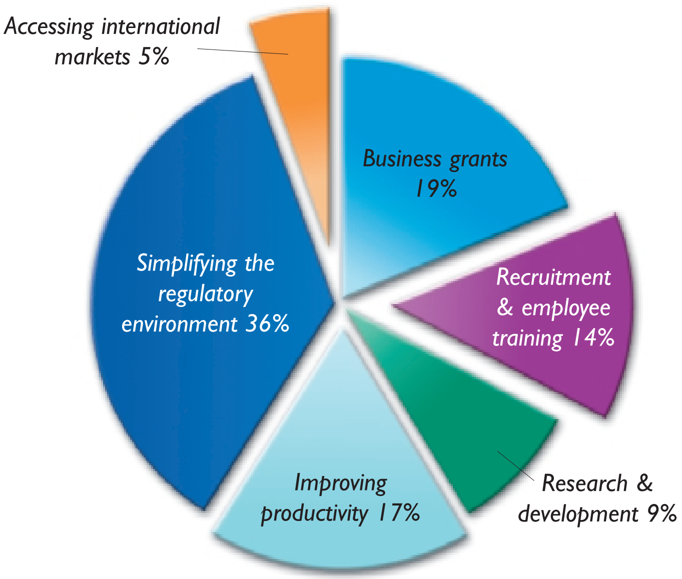
In the next five years, the business environment in the UK will improve compared with…

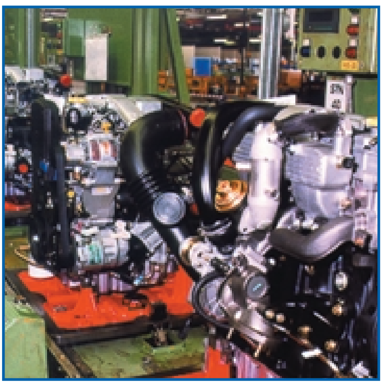


The Business Environment in the UK

As in previous years, the almost unanimous belief is that the Government is not as committed as it should be to manufacturing, as a fundamental part of the UK's economy. 97% of respondents felt this way, compared to 95% in 2004 and 96% in 2003.

In what area could the Government offer greater support to industry?





The Burden of Legislation

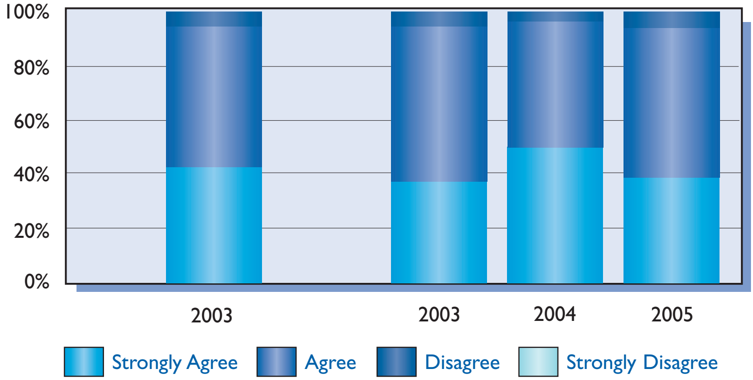
Simplifying the regulatory environment should be a key action for the Government. Businesses emphatically believe that they have suffered significantly increased costs due to legislation in the last five years (95%) and almost as strongly believe that this burden is set to increase in the next five years (93%). The CARS21 initiative may address this Europe-wide concern. It aims to review pending and future legislation, apply better regulation principles and conduct more rigorous impact assessments.

> *"Europe already has the most stringent and costly regulations worldwide. CARS21 seeks to redress the balance with an agenda that works towards better regulation, a coherent 10 year road map for the industry and an integrated approach to both the environment and safety agendas. The work of CARS21 is critical to the future of the automotive sector in Europe. I see this as a unique opportunity for both the industry and the EU and one which we should all work hard to make a success."*
>
> *Roger Putnam, SMMT President*

Legislation...

...has increased costs significantly in our business in the last five years

...will increase costs in our business significantly in the next five years

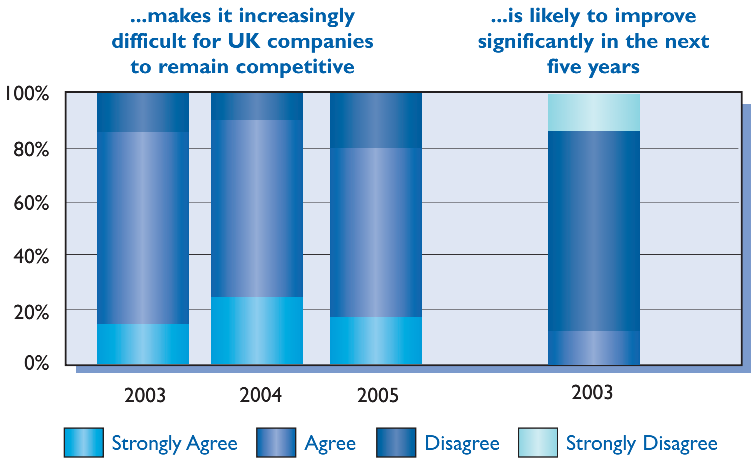


Respondents feel they have been disadvantaged by the burden of legislation and do not believe the situation is likely to improve.

Transport Infrastructure

Over three-quarters of respondents (78%) believe that the transport infrastructure in the UK makes it increasingly difficult for UK companies to remain competitive and that this is unlikely to improve significantly over the next few years (87%).

The state of the transport infrastructure in the UK…



Respondents feel they are disadvantaged by the UK's transport infrastructure and do not believe the situation is likely to improve.

Approaches to Competitiveness

SMMT members believe their businesses are competitive compared with European competitors (76%), but many believe that they fail to match the competitiveness of direct competitors globally.

Well over half of respondents (59%) believe that the industry is improving productivity. However, over half (57%) believe that more needs to be done to address the issues of recruitment and training and almost half (45%) believe that more investment needs to be made in research and development.

"SMMT Foresight Vehicle has built a reputation as the prime resource for knowledge, advice and comment on R&D and automotive technology in the UK. We now need to build on this, co-ordinating our approach and taking a clear message to government: this is an industry with a bright future and a rich seam of engineering talent. Help us to exploit it."

Dr Nick Barter,
Director SMMT Foresight Vehicle

Prospects for Employment

Automotive manufacturing offers varied career opportunities.

However, there is no widespread belief that the industry will be recruiting in the next year, only 34% believe employment will grow in their sector. Respondents are more optimistic when asked to look ahead five years (46%).

48% of respondents are unable to recruit appropriately skilled employees. Employers believe that Level 3 skills are key to bridging the skills gap. However, while 29% report that vacancies for Level 3 skills are the most difficult to fill, this has fallen from 35% in 2004 and 46% in 2003.

Awareness of the Automotive Academy has soared in the last year and its role is highly valued. Of those who are aware of it, 89% believe it is key to addressing the skills gap in automotive manufacturing. Two-thirds believe the Academy will have a direct impact on their business.

The Sector Skills Council has also made progress in terms of awareness, and is equally positively viewed by the industry.

> *"It's encouraging that the Academy is widely recognised by the industry. Manufacturers and suppliers must now start to engage with us so we can all benefit from the globally competitive training we have identified, and keep our place as world-leaders in automotive manufacturing."*
>
> *Dr Alan Begg,*
> *Chief executive, Automotive Academy*

The Impact of Globalisation

Businesses continue to believe that globalisation poses more of a threat than an opportunity. Noticeably, they increasingly believe that a combination of sourcing cheap product from abroad (82%) and moving manufacturing to low-cost markets (57%) will be crucial to their future strategies, alongside improving manufacturing practices.

Technology continues to play a role, increasing the ability for global purchasing and supplying customers globally. Future growth will come from creating world-beating products, at the same time as increasing the penetration of traditional international markets.

Respondents are unimpressed with the Government's support for international business development. 86% feel it has not improved in the last year.

Survey notes:
All graphs based on those expressing an opinion. Results shown as 2003 &2004 relate to results from SMMT Issues Survey of those years.

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