

Hawkish comments over rates rises

ECONOMY

Britain must ensure inflation does not feed into wages, but a slowing economy should help cool price pressures, Bank of England policy hawk Andrew Sentance said yesterday. Markets scaled back rate hike bets after the comments from Mr Sentance – regarded as one of the most hawkish members of the Monetary Policy Committee – suggested the central bank is in no rush to embark on rate rises. The Bank has said inflation could spike

over four per cent as commodity prices rise, encouraging investors to bet interest rates are set to rise. But many economists argue rates will eventually need to fall as the economy weakens. Mr Sentance said a weaker housing market and tougher conditions in the banking sector were adding to “economic uncertainties”. “These factors should lead to much slower economic growth and a weaker labour market over the next year or so – helping to offset the upward pressure on inflation,” he said.

“Though we face upwards pressure from rising energy and food prices, the MPC is firmly committed to bringing inflation back to the two per cent target over a reasonable time frame,” Mr Sentance added. “To achieve that, we will need to ensure that the rise in inflation injected by rising oil and commodity prices does not become broad-based. That requires that wage and price increases more generally do not pick up in response to a temporary episode of rising headline inflation.”

So far this year, however, Mr Sentance said there has been little evidence that inflation has affected wage deals. “Pay settlements have been steady at around three per cent or four per cent since the early part of this decade, even though measures of inflation have fluctuated much more than this,” he said. Official figures last week showed inflation rose to 3.3 per cent in May, the highest since the Government came to power in 1997 and the public’s perception of inflation is at record

highs, raising fears that wage demands will spike higher. Mr Sentance’s warning on wages echoed Chancellor Alistair Darling, who called on Sunday for pay awards to be kept in check to ensure they did not add to inflationary pressure. “It’s important that we don’t allow inflation to become entrenched here at home,” the Chancellor said. “Pay awards in both the private and public sector have to be consistent with our inflation target, which is two per cent.”

Saudi oil pledge fails to win over doubtful markets

ENERGY

By Santoh Menon
Special correspondent

Oil yesterday bounced off lows to stand above \$136 a barrel in choppy trading, spurred by tension between Israel and Iran and as Saudi Arabia’s promise to pump more oil failed to win over a sceptical market. Oil, which rallied at more than \$2 earlier in the session, had briefly fell on the back of gains in the US dollar amid rising expectations a worsening inflation outlook might prompt the Federal Reserve to raise interest rates.

US light crude for August delivery rose 75 cents to \$136.11 a barrel in choppy trading between \$134 and \$137.50 a barrel. London Brent crude was 63 cents up at \$135.49.

A ceasefire by rebels halting attacks on facilities in the Niger delta barely tempered the rise after two new attacks over the past week knocked out another tranche of Nigerian output. Some 340,000 bpd of Nigerian output was halted by fresh militant attacks last week, and more threats to production emerged on Monday as Nigeria’s senior oil workers union began a limited strike at Chevron. The strike has yet to affect production.

“Bellicose rhetoric between Israel and Iran and escalated militancy in Nigeria reduced what little optimism there was surrounding the Saudi’s meeting in Jeddah over the weekend,” said John Kilduff, senior vice-president at MF Global.

Oil prices hit a record near \$140 a barrel last week and have doubled from a year ago, stoking inflation and triggering protests worldwide. A meeting of top energy policy makers in Jeddah at the weekend offered little hope for a quick fix.

Top exporter Saudi Arabia confirmed it will lift production for a second time to 9.7 million barrels per day (bpd) in July, its highest in more than 30 years and pledged on Sunday to pump even more if the market demanded it. It detailed plans to boost capacity to 15 million bpd when future demand warrants the

investment, in a bid to soothe the growing fears that the world is running out of oil, but those measures failed to allay fears in an anxious market.

“With the immediate benefit of higher Saudi production seemingly already lost, and with limited visibility on capacity expansion plans, there seems to be little here to cool prices,” Citi analysts said in a note.

Analysts said the short-term supply situation was still very tight, putting tensions between Iran and Israel back in focus.

Iran said it would give a “devastating” response to any attack on the country, the latest in a war of words centred on Tehran’s nuclear programme.

The *New York Times* quoted US officials last week as saying Israel had carried out a large military exercise, in an apparent rehearsal for a potential bombing of Iran’s nuclear facilities.

Energy experts are concerned any conflict in Iran could lead to a shutdown of the Strait of Hormuz, a narrow waterway separating Iran from the Arabian Peninsula through which roughly 40 per cent of the world’s traded oil is shipped.

Sunday’s emergency meeting in Jeddah infused new urgency to the ongoing dialogue of major producers and consumers, participants said, but acknowledged a lack of hard measures for taming oil’s rally could leave the market underwhelmed.

“The meeting was a bit disappointing,” said a European diplomat. “The only producer that came up with any concrete proposals was Saudi Arabia.”

OPEC president Chakib Khelil yesterday said oil producers could not pump more without demand for extra supply, and that demand did not exist.



The Birmingham Post business awards presentation at the Edgbaston Priory Tennis Club: Winner Steve Slater from Lorien (centre) with sponsors (from left) Mark Benjamin (Inter City Mobile Communications), David Smith (Churchill Vinters), Steve Slater, Ken Franklin (vice-chairman Edgbaston Priory), and Bob Malden (Edgbaston Priory)

Post Business Award winner is going global

BUSINESS AWARD

By John Cranage
Business Staff

The winner of this month’s *Birmingham Post* Business Award is looking to overseas markets.

Lorien Engineering Solutions is winning business in Belgium, Holland and Russia and tendering for contracts in China and Africa.

And overseas projects are likely to account for half of the company’s annual turnover in five years’ time compared with about 30 per cent currently.

Lorien, which is based at Fradley Park, Lichfield, provides engineering and project management services to the food, brewing, drinks, pharmaceutical and life sciences, industrial manufacturing, household and beauty and waste and recycling sectors.

It won the latest *Post* award after reporting its best ever annual performance across a range of sectors.

The award, the last in the 2007/08 year, was presented to Lorien in a ceremony hosted

by Edgbaston Priory Club and its vice-chairman, Ken Franklin.

Lorien is now competing with the eleven previous monthly award winners for the annual prize, which will be presented by the Duke of Gloucester on July 11.

David Smith, managing director of Award sponsor Churchill Vinters and chairman of the judging panel, described Lorien as “truly worthy of becoming this month’s winner”.

Lorien Engineering Solutions, part of the London-based Lorien group of companies chaired by Christopher Sawyer, was founded 23 years ago as Integrated Engineering Projects by a group of former employees of Allied Brewery Engineering Services based at Burton upon Trent.

It began by providing engineering services to the brewing industry but has steadily expanded into other areas. It now employs some 70 people.

IEP changed its name to Lorien after being taken over in 1996.

“We have hit a number of recessions along the way but over the last couple of years we have really started to grow again,” managing

director Steve Slater said. “Turnover has doubled.”

In the year to December 1, 2007, turnover hit £6 million and the company undertook projects with a gross value of £100 million.

Its clients include the brewers Scottish & Newcastle, Carlsberg, Coors, InBev and Diageo, food manufacturers Cadbury’s, Mars, Walkers, Unilever and Kraft, the pharmaceutical giant AstraZeneca and the waste disposal group Biffa.

Another growth area for Lorien is the waste and recycling sector which it moved into a couple of years ago and which is expected to grow strongly in the UK.

But in the main growth is going to come from overseas markets, Mr Sawyer said.

“We are competing against some of the world’s leading engineering companies and are winning contracts in parts of the world we have never competed in before and where we had no track record.

“We are not competing on price but on experience.” Mr Sawyer paid tribute to Lorien Engineering’s employees who are now finding themselves working abroad more and more.

“They have become airborne instead of chairborne and are climbing some personal mountains,” he said.

The move into overseas markets makes the company a more attractive employer and also means that its workforce do not have to worry too much about an economic downturn in the UK.

Mr Slater said: “In five years’ time Lorien Engineering will be double the size it is now and will be working more internationally than in the UK.”

The main sponsors of The *Birmingham Post* Business Awards are Intercity Mobile Communications and Churchill Vinters in association with Champagne Taittinger.

Flybe and Aston Business School provide further support, along with Biz-tv, part of Aston Media at Aston University, which produces a business video of each monthly winner worth £2,500. And Warwickshire County Cricket Club provides a private box for one of their day/night games.

Yorkshire Bank sponsors the end of series presentation event and also provides its city centre meeting facilities as a prize for the overall winner.

West Midlands firms change approach to lenders

BUSINESS FINANCE

West Midlands businesses may need to take steps to manage lender relationships more effectively to secure a safe and profitable path through the economic downturn, according to experts at Pricewaterhouse Coopers.

Lender behaviour has changed significantly over six months, since the onset of the credit crunch, and according to the firm’s corporate finance team some local companies are only now coming to terms with the extent to which this affects them.

Matt Waddell, head of corporate finance at Pricewaterhouse Coopers said: “In the early months of the crunch, it was not unusual for small and medium-sized businesses to feel that lenders were making them pay for a crisis that began as a problem affecting the sub-prime

market in the US. However, they quickly learned that this was getting them nowhere.

“Since then businesses in the region have re-examined lender behaviour and have become more resourceful in a bid to secure the necessary financial investment to fund their business strategy.

“One of the most significant changes in lender behaviour is the tighter lending criteria – many lenders are no longer happy to test a company’s ability to pay back a loan based on cash flow projections. For businesses, this means they may need to approach their bank manager differently and be prepared to back up financial bids with hard evidence of business value.”

According to Pricewaterhouse Coopers, businesses that are likely to do best during the current economic downturn are those that can

demonstrate robust business performance and win the confidence of lenders. For businesses considering a corporate transaction, this may mean taking a more lender-friendly approach to deal structuring.

Mr Waddell added: “We are seeing a flight to quality among lenders, as they select the most defensible investment opportunities. As a result, businesses and their private equity backers may need to consider asset-backed means of deal structuring such as asset-backing or invoice-discounting.

“For those that succeed in securing the required bank finance, the potential rewards are great. History shows that deals done in a sliding market often prove to be the most rewarding and while a slowdown in activity is likely, we are expecting the private equity market to remain active in the Midlands.”

BREW centre’s new team

MANAGEMENT DEAL

By John Sedgwick

Birmingham-based International Synergies Limited (ISL) is to take over management of the BREW Centre for Local Authorities.

The move will see businesses and local councils working more closely to improve the economic and environmental performance of companies across local authority boundaries.

ISL manages pioneering projects such as the National Industrial Symbiosis Programme (NISP), the UK element of the European Energy Trophy, and Sustainable Development Dialogue projects in China and Mexico.

ISL projects provide platforms that enable governments and industries to re-evaluate how they view business, to create business opportunities that focus on sustainability.

The BREW Centre, at the County Council offices in Oxfordshire, is the only organisation of its kind in the UK. One such project is assisting authorities in diverting residual waste from landfill. In the two years since its launch the centre has diverted 75,000 tonnes of waste from landfill.

Combining the resources and expertise of Centre staff with NISP practitioners will help to further improve the links between local authorities and business.

Chief executive of ISL Peter Laybourn said: “I am delighted that Defra has given the go-ahead for ISL to manage the BREW Centre and look forward to working with the team.”

Christie Group bracing itself for trading figures hit

SOFTWARE

Business services and software company Christie Group warned yesterday that harsher trading conditions and steps to cut costs will significantly reduce its trading profit for the year.

The company, which has offices in Hagley Road in Birmingham, said trading has defied the usual seasonal pattern after a strong April and that its Business Agency volumes have reduced.

deals are taking longer where purchasers have existing property to dispose of and new finance facilities to arrange,” chairman Philip Gwyn told the company’s annual general meeting.

Christie said it is seeking a strategic partner for its software division to relieve the unit of development funding requirements for new software.

It added that its consultancy and valuation operations remain busy and that its stocktaking and inventory services division continues to grow.

The company said in light of the more challenging business landscape, it is difficult to forecast the outcome for the year as a whole.

Therefore, Christie said it is taking steps to reduce its cost base in both the agency and its associated finance business.

The finance business will start to benefit trading results in the second-half.

“This is a challenging period, but we have previous experience of such downturns and intend to emerge strongly when our markets recover.” Mr Gwyn added.