



Scottish
Chambers of
Commerce

The Ultimate Business Network

MEDIA RELEASE

ECONOMIC PENDULUM SWINGING IN RIGHT DIRECTION BUT EXTERNAL SHOCKS COULD REVERSE THIS COURSE

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the third quarter of 2013. This broadly based survey, now in its 30th year and conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reported that in all sectors trends in business confidence are stronger than a year ago, indicating that the economy is still progressing towards pre-recession levels. But the recovery remains frail and it is apparent that its sustainability is by no means yet certain.

Liz Cameron, Chief Executive, Scottish Chambers of Commerce, said:

"The Scottish Chambers of Commerce Quarterly Business Survey shows welcome signs of growth for Scotland's economy. The hard work of Scotland's businesses is to be commended. These results show that we are on the right track. We now need to ensure that this renewed confidence continues to follow an upward trend.

"Compared to a year ago, business confidence has increased and all business trends in all sectors are stronger, showing positive steps towards sustained economic growth. There are encouraging signs of increased consumer activity with improving retail sales and stronger tourism trends. This is good news for Scotland and for Scotland's businesses.

"The manufacturing sector has seen orders rise at the highest rate since 2007, construction respondents reported a rise in investment intentions and the long-term decline in retail sales ended with retailers reporting increased optimism for the first time since 2006.

"However, economic vulnerability remains. Much depends on continuing positive trends in our major export markets and on speedy resolution of any remaining US fiscal issues. Importantly, prices and wages remain disconnected and so household incomes continue to be squeezed; this creates risk in reliance on a consumer driven economy, which is why Government rhetoric about investment and sustainability needs to become a reality to enable continued growth and confidence.

"Business confidence and future optimism is on the right course and governments must align their policies with businesses to continue this journey of a sustainable recovery. Now is the time for a comprehensive review across the Scottish Government of all business support provided by the public sector in Scotland, to make certain that Scotland's EU funding allocation and other public spending is being invested effectively to catalyse and ensure solid Scottish economic growth.

“The survey results demonstrate that there is a need for Scottish international exports to accelerate. Increasing international export income is an important element of strengthening economic recovery. Scottish Government must increase and improve support to Scottish businesses to compete globally.

“The UK Government needs to look hard at where it is presenting barriers to business growth, in particular the taxation system. For example, the abolition of Air Passenger Duty would contribute to growing our export market opportunities and attract increased investment to create and sustain Scottish jobs across all sectors; the UK Government should act on this.

“Both the UK and Scottish Governments need to look at their policy and spending priorities to make sure that they are supporting businesses to grow and invest sustainably; without business growth built on strong foundations, this recovery will falter.”

ENDS

BUSINESS PERFORMANCE

Overall	The sense that the Scottish economy is moving in the right direction, and that the worst of the recession is over is more widely evident. In all sectors confidence is stronger than a year ago, and expectations for the fourth are also stronger than a year ago. However, sustaining the recovery will remain hard and difficult. Compared to Q3 2012 we continue to see signs of a recovery and expectations of further improvements in the fourth quarter and into 2014 remain. However for some sectors trading conditions are still harsh and much will depend on the rate and extent of recovery in our major markets and on the measures the Government adopts over the medium term.
Business confidence	Business confidence continued to improve for a net balance of manufacturing and tourism firms in the third quarter of 2013 and the net balance of optimism among retail firms was positive for the first time since Q4 2006. Encouragingly the downward trend eased for wholesale respondents and was broadly unchanged for construction firms. The net balance of optimism among tourism firms (+27.8%) is the highest net increase since 2006.
Demand/sales	<p>As forecast by firms in the previous survey the net balance of total orders among manufacturing firms continued to improve in the third quarter; a further rise is forecast – Scottish, rest of UK and export orders, on balance all rose and all are expected to continue to rise in Q4 although the actual and expected trends in export orders remain fragile. Demand in construction weakened in the third quarter although the net trend in private commercial work remained positive; despite the weak trends most respondents from the construction sector continued to report no change to order levels.</p> <p>The recent pattern of declining trends in retail sales ended in Q3 and encouragingly a net balance of retailers expect a further rise in the three months to December. In tourism the good summer weather ensured that outturn in demand for Q3 was better than had been forecast and also better than the levels in third quarter of last year (the net balance of orders was the highest since 2006).</p>

Capacity/work in progress Average capacity used in manufacturing improved marginally from 76.6% in Q2 to 77.5% in the latest quarter and this level is above that of the third quarter of 2012 (75%). Almost half of manufacturing firms reported working below optimum levels – an improvement on the previous quarter and a small net balance of firms expects a rise in the level of work in progress in the final quarter of 2013. In construction capacity utilisation remained relatively high (81%), better than the level reported in previous third quarters.

In construction slightly fewer than half of firms reported working below optimum levels (an improvement since Q2). In tourism occupancy, at 75% was better than the previous quarter (69%) and also better than the third quarter of 2012 (68%).

Cost pressures Once again for manufacturing firms raw material/suppliers prices (72% compared to 68% in Q2) and transport costs (36% compared to 40% in Q2) were the most widely reported cost pressures. Prices are set to continue to rise in the coming quarter with fewer than 10% of manufacturers, wholesalers and retailers anticipating any declines in prices. The trends in cash flow generally remained weak and the prospects for profitability and turnover over the next twelve months remain low for construction and wholesale although the downward trends eased slightly. Retail firms reported a rise in turnover expectations although profit levels are not yet set to rise in line with turnover. Manufacturers, on the other hand, are continuing to forecast a rise in turnover and profitability.

Pay and employment Once again labour market activity remained fairly subdued with the majority of respondents in all sectors (ranging from 61% in manufacturing to 73% in wholesale) reporting no change to employment levels. Despite this, trends in employment levels were generally upward with rising trends in employment reported in all main sectors. Recruitment difficulties remained evident.

Pay increases in the three months to the end of June ranged from 2.3% in wholesale distribution to 5.3% in retail. The average increase declined slightly in construction and tourism but rose in manufacturing, wholesale and retail.

Outlook The rise in business confidence in this latest survey is welcome, but significant challenges and concerns remain. Growth up to this point has been slow but it could be sustained unless there are major setbacks from external shocks such as the possible debt default in the US or internal problems such as low consumer demand cause a drag on growth. Previous surveys have pointed to a stagnating economy but these latest results indicate a return to pre-recession results.

Strathclyde University's Fraser of Allander Institute in collaboration with the Scottish Chambers' of Commerce conducts the quarterly Chambers' Business Survey. In the present survey, which was conducted in September 2013 some 260 firms responded to the questionnaire.

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MANUFACTURING

Optimism

During the third quarter of 2013 business confidence continued to improve for a net of 18%, a significant improvement from the -21.8% of the same quarter in 2012. Only 12% of firms were less confident compared to Q2 2013.

Orders and Sales

During the three months to the end of September a net balance of 16.7% reported a rise in total orders (the highest net balance since the third quarter of 2007); more than a third of firms reported a rise in total new orders and fewer than a fifth reported a decline. Respondents remain optimistic as to the trends in orders for Q4/13 (+19.1%). Average capacity utilisation rose by one percentage point and was more than two percentage points higher than the third quarter of 2012. The number of firms reporting working below optimum levels continued to decline.

Turnover and profitability are still expected to rise for a net balance of firms over the coming 12 month period.

Investment

The trends in investment in plant/machinery improved during Q2 for a net balance of manufacturing respondents (+8%). New investment continues to be directed towards replacement (53%) or to improve efficiency (33%).

Employment

During the three months to the end of September a net balance of firms reported a rise in total employment levels (+13%) the highest net balance in two years. A fifth of firms increased pay during Q3 and the average increase was marginally up from the previous quarter at 3%. 33% reported seeking to recruit staff compared to 39% in Q2, and slightly fewer than a third of recruiting firms reported difficulties.

MANUFACTURING	Up	Level	Down	Q3/13	Q2/13	Q1/13
Business Optimism	29.5	59	11.5	18	18.1	18.6
Trends in actual orders						
Total new orders	34.6	47.4	17.9	16.7	6	4.6
Scottish orders	21.7	69.6	8.7	13	-6.6	-21
Rest of UK orders	24.6	62.3	13	11.6	5.6	-7.8
Export orders [29.6% = N/A]	18.4	35.5	15.8	2.6	6.2	14.1
Trends in expected orders						
Total new orders	30.1	58.9	11	19.1	11.5	16.7
Scottish orders	20	67.7	12.3	7.7	-4.2	-1.2
Rest of UK orders	23.1	63.1	13.8	9.3	0	0
Export orders [31.6% = N/A]	13.3	44.0	12.0	1.3	6.3	10.7
Av Capacity used	77.5			77.5	76.6	75.1
Invest in plant/equip.	25.0	57.9	17.1	7.9	5	-3.6
Cash flow past 3 moths	19.2	57.5	23.3	-4.1	-12	-8.3
Turnover next 12 moths	40.8	40.8	18.4	22.4	17.9	18.8
Profitability next 12 moths	31.6	47.4	21.1	10.5	7.1	5.9
Price change next 3 moths	31.5	63.0	5.5	26	22.9	17.4
Pressures to raise prices from						
Pay settlements	27.8			27.8	27.3	29.9
Raw material costs	72.0			72	65.1	67.5
Finance costs	12.7			12.7	15.4	14.1
Other overheads	38.9			38.9	52.4	42.5
Transport costs	35.7			35.7	42.7	40
Employment trends						
Total actual employment	26	61	13	13	-7.1	-8.3
Total expected next 3 months	16.2	73	10.8	5.4	1.3	0
Average pay increase	3			3	2.9	2.9

CONSTRUCTION

Optimism

The decline in business optimism continued (-3.7%) compared to the previous quarter although once again, at least 80% of firms reported a rise/no change to optimism levels.

Contracts

As forecast, the trend in total new orders/contracts declined for a net balance of firms in Q3, although the balance (-18.5%) was better than in Q3 2012 (-33.3%). A net of 14.8% expect a further decline in Q4. Capacity utilisation eased marginally from 81.4% to 80.8% and despite the marginal decline this was higher compared to the same period a year ago (74.6%). Public sector orders continued to decline (although the decline is expected to ease marginally towards the end of the year) and domestic/house build orders (-26.1%) also continued to decline. The upward trend in in private commercial orders (+8.3%) continued.

Cash flow trends deteriorated for construction (-22.2%) and the decline worsened from the previous quarter (-3.6%). Turnover (-7.4%) and profitability (-18.5%) are still expected to be weak over the next 12 months together with continued pressure on margins. More than half of responding firms continue to expect tender margins to worsen during the coming year.

Employment

There was a net rise in total employment levels in Q3 and a net balance (-7.7%) expect a further rise in Q4. Recruitment activity strengthened (from 29% to 38%) as did recruitment difficulties (from 19% to 23%). Average pay increases decreased marginally from 3.3% in Q2 to 3.2%.

	Up	Level	Down	Q3/13	Q2/13	Q1/13
Business Optimism	14.8	66.7	18.5	-3.7	-3.5	-10.7
Trends in actual contracts						
Total new contracts	14.8	51.9	33.3	-18.5	-3.6	-3.5
Public sector orders	4.5	68.2	27.3	-22.8	-29.2	-8.3
Private commercial	37.5	33.3	29.2	8.3	8.3	7.4
Domestic/house build	13	47.8	39.1	-26.1	-14.3	-16.6
Trends in expected contracts						
Total new orders	11.1	63	25.9	-14.8	-22.2	0.0
Public sector orders	14.3	61.9	23.8	-9.5	-22.8	-19.1
Private commercial	20.8	58.3	20.8	0.0	4.5	-12.5
Domestic/house build	13.6	50	36.4	-22.8	-9.5	-4.8
Trends in work in progress						
Actual	18.5	59.3	22.2	-22.2	0.0	-3.6
Expected	18.5	40.7	40.7	-22.2	-14.8	-7.4
Capacity used	80.8			80.8	81.4	83.7
Invest in plant/equip.*	26.3	52.6	21.1	5.2		-31.8
Leasing in plant/equipment.*	21.1	57.9	21.1	0.0		-22.7
Employment trends						
Total actual employment	22.2	70.4	7.4	14.8	0.0	10.7
Total expected next 3 months	23.1	61.5	15.4	7.7	-12.0	-4.5
Average pay increase	3.2			3.2	3.3	2.6
Percent recruiting staff	38.5			38.5	28.6	44.4
Recruitment difficulties increasing	23.1			23.1	18.8	26.7

WHOLESALE DISTRIBUTION

Optimism

The long-term downward trend in business optimism amongst Scottish wholesalers eased further from -43.7% in Q1, -21.4% in Q2 to -13.3% in Q3.

Sales

The downward trend in sales eased from 42.9% in Q2 to -6.7% and the net balance in sales was better than expected. A net balance expect the decline to worsen (-15.4%) in the fourth quarter.

More than three-quarters of wholesalers (78.6%) continued to report increased pressures from transport costs and to a lesser extent, firms also remain under pressure from raw material costs (40%) and pay settlements (40%). More than half of firms (60%) expect to increase prices over the next three months. The downward trends in both turnover and profitability continued in Q3.

Finance

Two thirds of firms reported no change to investment plans; and for the first time since 2011 the trend was upward (+6.7%).

Employment

Wholesale respondents, as expected, continued to report a net decrease in overall employment levels during Q3 although the decline was not as steep as forecast. More than half sought to recruit staff (60%) and 42% of these firms reported recruitment difficulties. The average pay increase in Q3 was 2.3% compared to 2.0% in Q2.

	Up	Level	Down	Q3/13	Q2/13	Q1/13
Business Optimism	20	46.7	33.3	-13.3	-21.4	-43.7
Trend in actual sales	20	53.3	26.7	-6.7	-42.9	-18.7
Trend in expected sales	15.4	53.8	30.8	-15.4	-15.4	-14.3
Investment plans	20	66.7	13.3	6.7	-21.4	-18.7
Cash flow past 3 months	20	66.7	13.3	6.7	7.2	-6.2
Turnover next 12 months	20	46.7	33.3	-13.3	-7.1	-31.3
Profitability next 12 months	20	26.7	53.3	-33.3	-35.7	-31.2
Price change next 3 months	30	33.3	6.7	23.3	42.8	56.2
Pressures to raise prices from						
Pay settlements	40			40	21.4	25
Raw material costs	40			40	64.3	62.5
Finance costs	33.3			33.3	21.4	18.8
Other overheads	46.7			46.7	57.1	50
Transport costs	78.6			78.6	78.6	75
Employment trends						
Total actual employment	6.7	73.3	20	-13.3	-21.4	-6.3
Expected next 3 months	15.4	69.2	15.4	0	-33.3	-12.5
Average pay increase	2.3			2.3	2.0	3
Percent recruiting staff	60			60	35	37.5
Recruitment difficulties	41.7			41.7	16.7	28.6

RETAIL DISTRIBUTION

Optimism

Business confidence among retailers improved from -24.5% to +2.1% - the first positive net balance since Q4 2006. This is a marked improvement compared to Q3 2012 (-42.4%).

Sales

The recent negative trend in overall sales ended, with a net of 4.3% of firms reporting an increase compared to a net of -36% reporting a decline in Q2. Encouragingly, a further rise is anticipated for Q4 (+2.3%).

Finance

Cost pressures remain historically high and continued to increase in the three months to the end of June. Utility costs and raw material prices continued to be of particular concern. Pressures on margins eased considerably in Q3. A net balance of 15% expect a rise in turnover (compared to -13.6% in the previous quarter) and a net of -10.4% expect a decline in profitability (compared to -17.8% previously) – the highest net balances since Q3 2007.

Employment

The trend in total employment levels unexpectedly rose in Q3 and almost 80% expect no change in Q4.

Fewer than a quarter of firms reported increasing pay, and the average increase rose from 2.8% to 5.3%.

	Level	Up	Down	Q3/13	Q2/13	Q1/13
Business Optimism	27.1	47.9	25	2.1	-24.5	-45.2
Trend in actual sales	35.4	33.3	31.1	4.3	-35.5	-47.6
Trend in expected sales	27.9	45.5	25.6	2.3	-40.4	-35.9
Cash flow past 3 months	25	50	25	0.0	-13.6	-31.6
Turnover next 12 months	39.6	35.4	25	14.6	-15.5	-30.9
Profitability next 12 months	27.1	35.4	37.5	-10.4	-17.8	-48.7
Price change next 3 months	58.3	37.5	4.2	54.1	60.0	52.3
Pressures to raise prices from						
Pay settlements	35.7			35.7	25.6	29.3
Raw material costs	59.1			59.1	68.2	68.3
Finance costs	27.9			27.9	37.5	33.3
Other overheads	9.3			9.3	15.9	19.5
Transport costs	41.9			41.9	45.2	58.5
Utility costs	63.6			63.6	61.4	70.7
Regulation costs	35.7			35.7	36.4	36.6
Employment trends						
Total actual employment	20.8	70.8	8.3	12.5	-6.8	-7.3
Expected next 3 months	9.3	79.1	11.6	-2.3	-14.7	-22.2
Average pay increase	5.3			5.3	2.8	2.4
Percent recruiting staff	31.9			31.9	20.5	30.0
Recruitment difficulties	28			28.0	22.7	26.3

TOURISM

Optimism

The good summer weather had a positive impact on Scottish hotels as business confidence rose for a net balance of firms (+27.8%) in the three months to September 2013. This is the highest balance of optimism since 2006.

Demand

As expected a net balance of hotels reported a rise in visitors and a net balance of 15% anticipate a further rise in Q4.

Average occupancy improved from 69% to 75%, up compared to Q3 2012 (59.6%). During the third quarter of 2013 trends in bar/restaurant trade and conference/function facilities declined although firms expect a small net rise in bar/restaurant use.

A net balance (+20.4%) reported a rise in the average daily room rate, although a fall is expected (-3.6%) in the three months to the end of December.

Business constraints

63% (compared to 74% previously) reported the lack of tourist demand as the primary business constraint. Competition, poor transport infrastructure, high fuel costs and weak marketing of the area also remained a concern to hotels.

Employment

Over 60% of hotels sought to recruit staff and only 14% of these hotels reported recruitment difficulties. Employment trends improved, although the decline is set to resume in Q4.

	Up	Level	Down	Q3/13	Q2/13	Q1/13
Business Optimism	39.3	49.2	11.5	27.8	18.7	2
Trends in demand/visitors						
Total demand/visitors	51.7	26.7	21.7	30	13.6	-14
Demand from Scotland	33.9	52.5	13.6	20.3	19.6	-2
Demand from Rest of UK	37.3	45.8	16.9	20.4	7.3	-12.2
Demand from abroad	47.5	30.5	22	25.5	-5.3	-31.2
Business Trade	21.8	49.1	29.1	-7.3	9.3	-10.4
Trends in expected demand						
Total demand/visitors	32.7	50	17.3	15.4	13.5	-6.7
Demand from Scotland	21.2	63.5	15.4	5.8	8.2	-4.6
Demand from Rest of UK	21.2	59.6	19.2	2	0	-2.3
Demand from abroad	23.1	50	26.9	-3.8	0.2	-14.3
Business Trade	22.9	56.3	20.8	2.1	-2.2	-14
Occupancy						
Average daily rate	37.3	45.8	16.9	20.4	3.7	-39.2
Expected average daily rate	21.4	53.6	25	-3.6	12	-8.9
Employment trends						
Total actual employment	22.1	61	16.9	5.2	-3.6	-12.7
Expected next 3 months	10.7	60.7	28.6	-17.9	7.5	8.7
Average pay increase						
Percent recruiting staff	63.3			63.3	63.2	56.3
Recruitment difficulties	14			14	19.6	22

Methodology

The Scottish Chambers' Business survey, in common with most national surveys, seeks evidence as to changing trends, and uses net balances as the key survey statistic. Most questions ask the respondent to indicate whether the trend, over the past three months, and expected for the next three months, is either 'up', 'level' or 'down'. The net balance for such survey questions is defined as the number of 'up' responses minus the number of 'down' responses to each survey question. Hence a positive net balance indicates a rising trend, and a negative net balance a declining trend. Net balances for the current quarter, together with those for the previous quarter and the quarter a year ago have been added to the usual results.

Size band analysis is based on the number of employees in manufacturing, construction and wholesale, on the number of rooms in tourism and on ownership and location patterns together with number of full time equivalents in retail.

This information is part of the data collected by the quarterly surveys, further information can be provided, but a charge will be made, depending on the time to organise and present the data.

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