



MEDIA RELEASE

Embargoed until 0001 hours on Wednesday 23rd January 2013

2013: Another difficult year for much of Scottish Business

Scottish Chambers of Commerce have today (Wednesday) released their Business Survey results for the fourth quarter of 2012. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reports continued weaknesses in activity in much of the Scottish economy but with some limited signs of improvement in manufacturing and construction, although not in the service sector. The results highlight the need for Governments at a UK and Scottish level to maintain a clear focus on tackling the barriers to growth and to support business through a prolonged period of below trend growth.

Garry Clark, Head of Policy and Public Affairs at Scottish Chambers of Commerce, said:

"Our latest survey suggests that many Scottish businesses continue to experience difficult trading conditions and anticipate little change in the first half of 2013. Whilst there have been marginal improvements in performance and outlook for a number of businesses across the manufacturing and construction sectors, this is against a background of poor expectations at the end of summer 2012 and the reality is that, in most cases, expectations are little or no better than they were a year ago.

"The retail and tourism sectors continue to suffer from weak consumer demand and already in 2013 the pattern of extensive discounting and rate cutting together with outlets closing is all too clear. Tourism is looking to bounce back from a disappointing summer in 2012, where the negative impact of the Olympics and bad weather damaged trade. 2013 could be the year when the Olympic dividend is finally achieved, following last year's shop window to the world. On the other hand, many retailers are looking to government to help support the regeneration of town centres in the face of evolving shopping habits and lifestyle changes. It is therefore extremely worrying that the Scottish Government is pressing ahead with its plans to reduce empty property relief, taking £18 million per year of potential investment out of our town centres at the very time we need property owners to be preparing for changing retail requirements.

"The Scottish Government's focus on capital spending is extremely welcome, however, and the additional resources made available over the next three years as a result of the Chancellor's Autumn Statement means that it ought to be possible to get the programme of 'shovel ready projects' in place. What we cannot afford is delay in the implementation phase – let's not forget that the Aberdeen Bypass could have been termed 'shovel ready' a decade ago. In addition, the Government needs to focus on areas that will deliver long term economic benefit to Scotland, such as digital connectivity and transport infrastructure.

"Debates over the potential for a 'triple dip recession' in 2013 are unhelpful. Unfortunately for many Scottish businesses, activity in 2013 is more likely to reflect an economy bumping along the bottom of a recession rather than one in real recovery mode."

BUSINESS PERFORMANCE

Summary Points

Overall

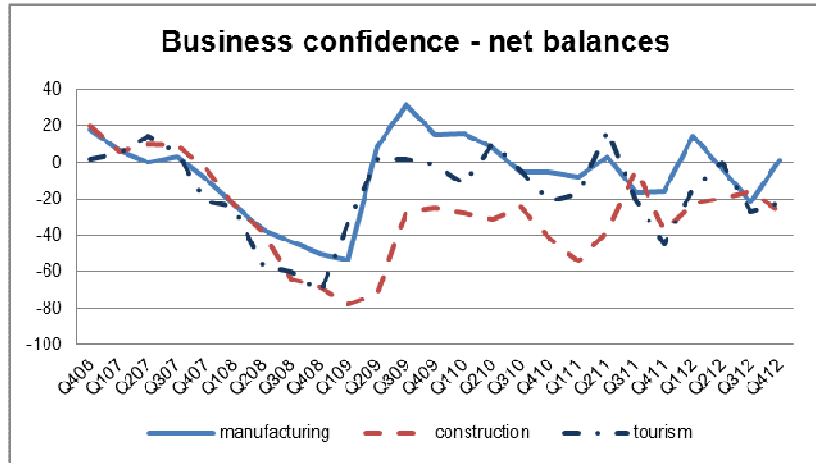
The Scottish economy essentially remained weak during the final quarter of 2012 although there was an unexpected rise in manufacturing optimism. The outturn in all sectors in Q4 remained weak and the trends, although remained negative, generally eased. Business sentiment remained historically weak with only 19% of manufacturing, 13% of tourism, 10% of construction and 6% of retail respondents reporting being more confident than in the third quarter. In contrast 18% of manufacturing, 36% of construction, 47% of retail and 36% of tourism respondents reported being less confident as to the general business situation. In all sectors the main trends in activity remain negative although the downward trends eased slightly, more so in manufacturing and construction, prolonging the sense of weak, stagnating demand and continuing negative growth continuing into 2013.

Most firms in most sectors are forecasting that demand/orders in early 2013 will remain static. The exception to this is retail firms where more than half are anticipating a decline. Looking further ahead into 2013 respondents in all sectors except manufacturing, remain cautious and more concerned as to turnover and profitability than they were in 2012. Manufacturers optimistically, are forecasting a modest rising trend in profits and turnover. Throughout 2012 consumer uncertainty and the on-going public sector cuts contributed to a sense of caution and uncertainty in the business community and to weak consumer demand, and this appears to be continuing into 2013.

Business confidence

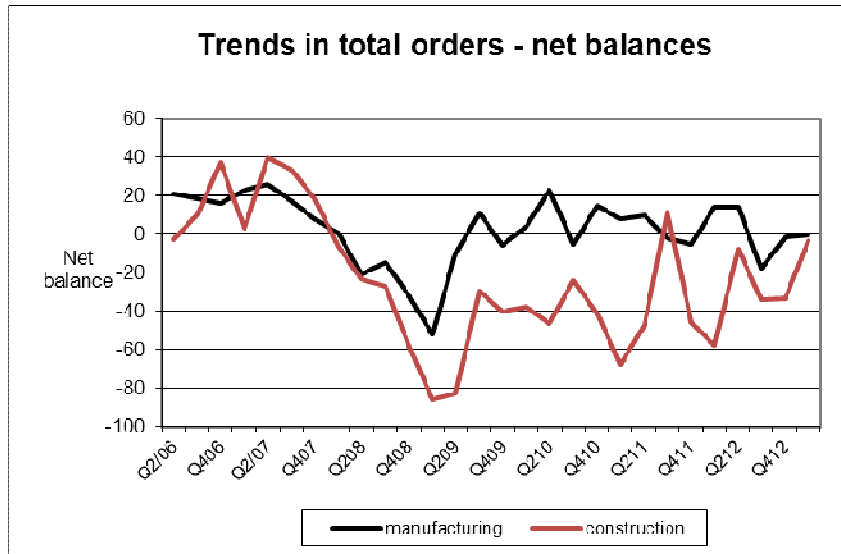
Business confidence generally remained weak, continuing to decline across most sectors. More than 90% of construction firms reported no change or a decline in confidence levels with only 9.7% reporting a rise. Conversely optimism among manufacturing firms rose from a net balance of -22% to +1% in the fourth quarter with 19% reporting an improvement and 17.9% a decline.

Once again weak business confidence amongst the non-national multiple retail sector was widespread, only 6% reported a rise in confidence reflecting the continuing weak consumer confidence and spending, as illustrated by the recent retail closures and trends in business activity over the Christmas period. In tourism most firms reported no change to confidence although -22.6% reported a net decline.



Demand/sales

A net balance of -13% of firms in the previous survey had anticipated a further weakening in manufacturing orders but the outturn was better than had been forecast with a net of only 1.2% reporting a fall, although this was weaker than the trends reported in Q1 2012. Orders from all sources continued to decline but in all cases the decline eased, although the outlook for Q1 suggests some improvement. Although not as depressed as in the previous quarter, demand in construction remained weak, although the outturn was generally not as weak as had been anticipated; the trend was not as weak as a year ago, but the expectations for Q1 2013 remain low.

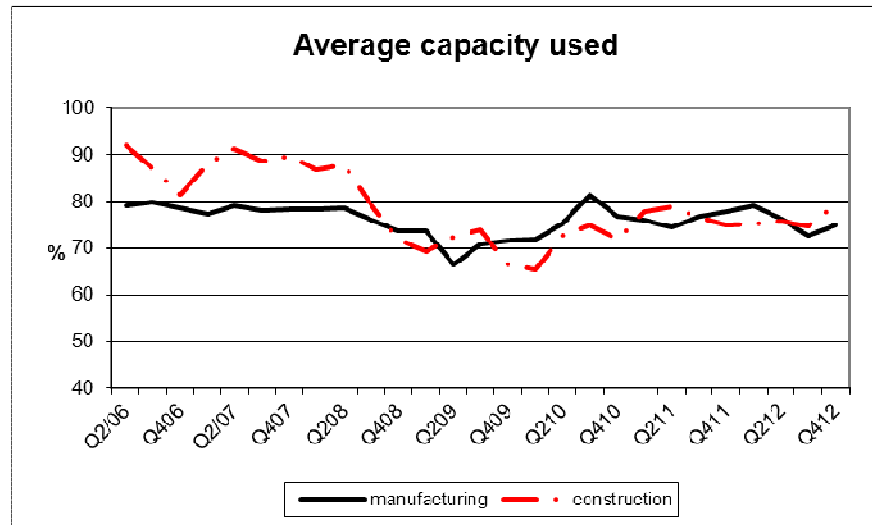


Declining trends in retail sales were again reported in the fourth quarter and discounting was again widespread. 51% reported a decline in sales (compared to 62% in the previous quarter), and 52% (53% in the previous quarter) expect a further decline. In tourism the outturn in demand for Q4 2012 was not as weak as had been forecast although the net trends in visitor numbers and demand were weaker than for the fourth quarters of recent years.

Capacity/work in progress

Average capacity used in manufacturing rose marginally from 75% in Q3 to 76.2% in the latest quarter. However this level was below that of the fourth

quarter of 2011. Almost half of manufacturing firms reported working below optimum levels and a net of firms expect an easing in the level of work in progress in Q1 2013. In construction capacity used roses marginally from 74.6% to 79.4%, better than the level reported in Quarter 4 2011 (75%).



In construction the proportion reporting working below optimum levels eased to 65.6% (from the 78.6% reported in Q3). In tourism occupancy, at 60% was better than the fourth quarter of 2011, but lower than the fourth quarters in earlier years.

Cost pressures

Once again for manufacturing firms raw material/suppliers prices (68% compared to 60% in Q3) and transport costs (42% compared to 41% in Q3) were the most widely reported cost pressures. Almost a third (26% in Q3) of manufacturing, 44% (63% in Q3) of wholesale and 59% (52% in Q3) of retail respondents reported expecting to increase prices over the next three months. The trends in cash flow remained weak further and the prospects for profitability over the next twelve months remain low. Pressures on margins were widely reported in construction and almost a third of tourism respondents reported reductions to room rates.

Pay and employment

For a further quarter labour market activity remained subdued with the majority of respondents in all sectors (ranging from 52% in wholesale to 76% in retail) reporting no change to employment levels. Nevertheless, with the exception of retail, the trends were generally better (or not as bad) as had been anticipated by firms three months ago; modestly falling trends in employment were reported in all main sectors except manufacturing where a net balance of 1.2% reported a rise. Recruitment difficulties remained subdued in all sectors.

Pay increases in the fourth quarter ranged from 2.3% in construction and retail to 3.5% in tourism. Over 2012 pay increases have averaged 2.3% in construction, 2.6% in wholesale, 2.6% in retail, 3.3% in manufacturing and 3.8% tourism – again implying for most employees continuing real declines in household income and spending.

Outlook

In our Q2 survey we noted a sense of a slowdown in economic activity across our major markets together with the adverse effects of on-going reorganisation and cutbacks in the UK public services influencing both consumer and business sentiment and activity in Scotland and in the rest of the United Kingdom. By the end of the third quarter we saw more signs of a slowdown and a wider sense of an economy stagnating with weak and inadequate performance. The results from the fourth quarter show that the downward trends are beginning to ease with fewer firms now reporting or forecasting further declines, and the majority are now reporting either no change or an increase. However, the trends, with some exceptions, most notably oil and gas related manufacturing, are largely unchanged from a year ago, and are indicative of below trend growth continuing and of an economy bumping along the bottom of a recession rather than any substantial sense of a real recovery. The 'age of austerity' seems set to continue for a further year.

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 December 2012 and early January 2013, some 200 firms responded to the questionnaire.

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For further information contact:

On the survey results	Cliff Lockyer Eleanor Malloy	0141 548 3198 (c.j.lockyer@strath.ac.uk) 0141 548 3967
On Chamber policy	Garry Clark	0141 204 8337 or 07795 158137 (gclark@scottishchambers.org.uk)

MANUFACTURING

Optimism

Business confidence improved during the final quarter of 2012 with a net balance of 1.1% of firms reporting increased confidence levels compared to -22% in the third quarter. Business optimism also improved compared to the same period of 2011.

Orders and Sales

During the three months to the end of December a net of 1.2% reported a decline compared to -18% in Q3, the trend in total new orders declined by much less than had been forecast by firms in the previous survey. Respondents are also less cautious as to the trends in orders in the first quarter of 2013. Average capacity utilisation improved although was down on the same quarter of 2011. Around half of firms reporting working below optimum levels.

Turnover is expected to rise for a net balance of firms. The net trend in profitability is also expected to rise over the coming year.

Investment

The trends in investment in plant/machinery improved slightly during quarter four for a net balance of manufacturing. New investment continues to be directed towards replacement or to improve efficiency.

Employment

A net balance of firms reported a rise in total employment levels although around two thirds continued to report no change to overall levels. A quarter of firms increased pay during the three months to December and the average increase was 3.4%. 48% reported seeking to recruit staff, and difficulties remained limited.

	Up	Q4 2012		Net Balances		
		Level	Down	Q4/12	Q3/12	Q2/12
Business Optimism	19	63.1	17.9	1.1	-21.8	-3.2
Trends in actual orders						
Total new orders	31.3	36.1	32.5	-1.2	-18	14.1
Scottish orders	21.3	50.7	28	-6.7	-24.3	-7
Rest of UK orders	17.3	56	26.7	-9.4	-18.9	0
Export orders [40.6% = N/A]	20.7	29.3	26.8	-6.1	-17.1	7.8
Trends in expected orders						
Total new orders	23.7	52.6	23.7	0	-13.1	-3.2
Scottish orders	12.9	68.6	18.6	-5.7	-23.2	-16.4
Rest of UK orders	7.0	76.1	16.9	-9.9	-17.2	-11.5
Export orders (41.3% = N/A]	21.3	28.8	26.3	-5	-9.1	0
Av Capacity used	76.2			76.2	75.0	72.7
Invest in plant/equip.	28.4	46.9	24.7	3.7	-1.3	-13.4
Cash flow past 3 moths	23.2	48.8	28.0	-4.8	-21.1	-17.2
Turnover next 12 moths	35.7	40.5	23.8	11.9	-1.3	15.7
Profitability next 12 moths	32.1	44.0	23.8	8.3	-11.9	1.6
Price change next 3 moths	31.8	62.4	5.9	25.9	16.9	17.2
Pressures to raise prices from						
Pay settlements	30.7			30.7	23	18.8
Raw material costs	67.9			67.9	60.3	62.5
Finance costs	16.0			16	12	18.8
Other overheads	50.0			50	34.7	39.1
Transport costs	41.8			41.8	41.3	46.9
Employment trends						
Total actual employment	18.3	64.6	17.1	1.2	-2.6	3.2
Total expected next 3 months	10.5	75	14.5	-4	-9.3	-6.6
Average pay increase	3.4			3.4	3.5	3.3

CONSTRUCTION

Optimism

Business confidence remained weak further in the fourth quarter although two thirds of firms reported a rise/no change to optimism levels.

Business
Optimism

	Q4 2012			Net Balances		
	Up	Level	Down	Q4/12	Q3/12	Q2/12

	9.7	54.8	35.5	-25.8	-27.3	-15.8
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Trends in actual contracts

Total new
contracts

	31.3	34.4	34.4	-3.1	-33.3	-34.2
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Public sector
orders

	20	36	44	-24.0	-45.8	-43.3
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Private
commercial

	24.1	34.5	41.4	-17.3	-28.0	-30.0
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Domestic/house
build

	16	40	44	-28.0	-37.5	-28.2
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Trends in expected contracts

Total new orders

	12.5	56.3	31.3	-18.8	-37.0	-19.7
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Public sector
orders

	3.8	50	46.2	-42.4	-18.2	-27.6
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Private
commercial

	10.7	46.4	42.9	-32.2	-26.1	-17.2
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Domestic/house
build

	13	43.5	43.5	-30.5	-34.8	-20.0
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Trends in work in progress

Actual

	18.8	34.4	46.9	-28.1	-20.0	-15.8
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Expected

	18.8	37.5	43.8	-25.0	-25.0	-35.2
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Capacity used

	79.4			79.4	74.6	75.7
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Invest in
plant/equip.

					-26.6	
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Leasing in
plant/equipment.

					-40.0	
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Employment

The downward trend in employment continued in Q4, although the downward trend eased (again forecast to be a temporary improvement). Recruitment activity rose as did recruitment difficulties. Average pay increases rose from 2.0% in Q3 to 2.3%.

Employment trends

Total actual
employment

	15.6	56.3	28.1	-12.5	-23.4	-26.3
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Total expected
next 3 months

	6.3	56.3	37.5	-31.2	-18.5	-26.5
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Average pay
increase

	2.3			2.3	2.0	2.3
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Percent recruiting
staff

	37.5			37.5	31.0	21.1
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Recruitment
difficulties
increasing

	15			15.0	9.1	0
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WHOLESALE DISTRIBUTION

Optimism

Once again, business optimism amongst Scottish wholesalers continued to decline with slightly fewer than 12% of firms reporting an increase in business confidence. Business confidence also remained more depressed compared to one year ago.

Sales

The downward trend in sales was worse than expected from the previous survey with fewer than a fifth reporting an increase in sales; a net balance expect the decline to continue, though ease, in the first quarter of 2013.

Around 80% of wholesalers continued to report increased pressures from transport costs. More firms are now under pressure from raw material costs compared to previous quarters. Pay settlements were cited as a pressure for almost 30% of firms. Fewer than half of firms expect to increase prices over the next three months. A net balance of 5% of firms expect an improvement in turnover.

Finance

Once again most firms reported no change to investment plans; nevertheless the decline continued.

Employment

Wholesale respondents, as expected, reported a net decrease in overall employment levels during the fourth quarter of 2012 and a net balance expected to shed staff in the first three months of 2013. Over a third sought to recruit staff; largely for replacement. The average pay increase in Q4 was 3.1% compared to 2.2% in Q3.

	Q4 2012			Net Balances		
	Up	Level	Down	Q4/12	Q3/12	Q2/12
Business Optimism	11.8	41.2	47.1	-35.3	-31.6	-27.3
Trend in actual sales	16.7	44.4	38.9	-22.2	-26.3	-27.3
Trend in expected sales	28.6	35.7	35.7	-7.1	-10.5	-31.9
Investment plans	22.2	44.4	33.3	-11.1	-16.7	-22.7
Cash flow past 3 months	22.2	55.6	22.2	0	0	-27.3
Turnover next 12 months	33.3	38.9	27.8	5.5	-10.5	-13.6
Profitability next 12 months	22.2	33.3	44.4	-22.2	-26.3	-38.1
Price change next 3 months	44.1	44.4	11.1	33	57.9	50
Pressures to raise prices from						
Pay settlements	27.8			27.8	15.8	9.1
Raw material costs	72.2			72.2	52.6	59.1
Finance costs	27.8			27.8	15.8	18.2
Other overheads	38.9			38.9	31.6	36.4
Transport costs	77.8			77.8	83.3	81
Employment trends						
Total actual employment	17.6	52.9	29.4	-11.8	5.9	0
Expected next 3 months	0	88.2	11.8	-11.8	-30.4	-35
Average pay increase	3.1			3.1	2.2	1.8
Percent recruiting staff	38.9			38.9	35.3	33.3
Recruitment difficulties inc	0			0	0	3.2

RETAIL DISTRIBUTION

Optimism

The low levels of business confidence continued through the final quarter of 2012 (-41%) but although the net balance remains negative it is better than compared to Q4 2011 (-69%).

Sales

The negative trend in sales continued although eased from -51% in Q3 to -37%, however more than half of retailers reported a decline in the total value of sales in the three months to the end of December. Only 14% reported and only 13% expect increased sales, as continuing concerns over consumer confidence remain evident.

Finance

Cost pressures remain historically high and generally increased in the final quarter of 2012. Transport costs and utility costs continued to be of particular concern. Pressures on margins remain widespread with around half of firms forecasting declining profitability and turnover during 2013.

Employment

Labour market activity continued to decline with only 4% reporting or expecting an increase in overall employment levels.

A quarter of firms reported increasing pay, and the average increase declined from 3.4% to 2.3%.

	Q4 2012			Net Balances		
	Q4/12	Q3/12	Q2/12	Q4/12	Q3/12	Q2/12
Business Optimism	5.9	47.1	47.1	-41.2	-42.4	-46.5
Trend in actual sales	13.7	35.3	51	-37.3	-51.5	-39.3
Trend in expected sales	13	34.8	52.2	-39.2	-45.3	-44.5
Cash flow past 3 months	14.3	57.1	28.6	-14.3	-20.3	-22.2
Turnover next 12 months	9.8	41.2	49	-39.2	-40.0	-38.2
Profitability next 12 months	10.2	30.6	59.2	-49.0	-45.3	-53.7
Price change next 3 months	58.8	31.4	9.8	49.0	47.0	57.1
Pressures to raise prices from						
Pay settlements	28.6			28.6	22.7	28.6
Raw material costs	68			68.0	56.1	60.7
Finance costs	26.5			26.5	24.2	16.1
Other overheads	18			18.0	19.7	12.5
Transport costs	50			50.0	43.9	48.2
Utility costs	55.1			55.1	42.4	50.0
Regulation costs	28.6			28.6	30.3	37.5
Employment trends						
Total actual employment	3.9	76.5	19.6	-15.7	-21.2	-14.8
Expected next 3 months	4.3	68.1	27.7	-23.4	-9.7	-16.7
Average pay increase	2.3			2.3	3.4	2.4
Percent recruiting staff	33.3			33.3	37.5	33.3
Recruitment difficulties inc	32.1			32.1	20.9	26.7

TOURISM

Optimism

The decline in business confidence continued to decline during the final quarter of 2012 (-23%) although optimism levels were not as depressed compared to Q4 2011 (-45%).

Demand

Slightly fewer than half of hotels reported a fall in visitors during the three months to the end of December; and a similar number anticipate a further decline in the first quarter of 2013. The trend was not as depressed as had been expected by respondents from the previous survey.

Average occupancy declined from 68% to 60% although was slightly up on the same quarters of 2011 (57%) and 2010 (56%). During the final quarter of 2012 trends in bar/restaurant trade and conference/function facilities continued to decline.

In the three months to the end of December the pattern was one of continued discounts and seasonal closures. These 'special offers' seem set to continue with a net balance of 22% expecting to decrease room rates in Q1 2013.

Business constraints

More than 80% reported that the lack of tourist demand remained the primary business constraint. Competition, poor transport infrastructure, high fuel costs and weak marketing of the area also remained a concern to hotels.

Employment

Only 12% of hotels sought to recruit staff and employment trends, as forecast, continued to decline. A net balance of 26% expect a fall in total employment levels in the first quarter of 2013.

	Q4 2012			Net Balances		
	Up	Level	Down	Q4/12	Q3/12	Q2/12
Business Optimism	12.9	51.6	35.5	-22.6	-27.3	0.0
Trends in demand/visitors						
Total demand/visitors	19.7	32.8	47.5	-27.8	-36.5	0.0
Demand from Scotland	14.8	49.2	36.1	-21.3	-20.3	-1.8
Demand from Rest of UK	16.4	45.9	37.7	-21.3	-24.6	-8.8
Demand from abroad	18	32.8	49.2	-31.2	-32.9	-8.9
Business Trade	14.3	50	35.7	-21.4	-30.7	-21.8
Trends in expected demand						
Total demand/visitors	14	40.4	45.6	-31.6	-41	5.7
Demand from Scotland	10.5	47.4	42.1	-31.6	-21	1.9
Demand from Rest of UK	14	47.4	38.6	-24.6	-30.6	-3.7
Demand from abroad	10.5	45.6	43.9	-33.4	-38.7	-11.1
Business Trade	11.3	47.2	41.5	-30.2	-35.6	-19.3
Occupancy	60.4			60.4	68.0	64.4
Average daily rate	15.5	51.7	31	-15.5	-11.1	-8.9
Expected average daily rate	14.5	49.1	36.3	-21.8	-22.6	1.8
Employment trends						
Total actual employment	12.1	60.3	27.6	-15.5	-8.1	-5.4
Expected next 3 months	5.7	62.3	32.1	-26.4	-28.8	-3.6
Average pay increase	3.5			3.5	4.0	3.8
Percent recruiting staff	62.7			62.7	56.9	65.5
Recruitment difficulties	26.8			26.8	31.1	31.5

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.

Please contact

Cliff Lockyer 0141 548 3198 or c.j.lockyer@strath.ac.uk
Eleanor Malloy 0141 548 3967 or e.malloy@strath.ac.uk

The Fraser of Allander Institute,
Sir William Duncan Building,
130 Rottenrow
Glasgow,
G4 0GE

