



## **MEDIA RELEASE**

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### **BUILDING THE RECOVERY**

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the third quarter of 2009. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reveals a marked upturn in both business optimism and performance across a range of sectors, but signs of recovery remain fragile and are far from universal.

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

"Our latest survey provides strong evidence that the first signs of recovery we noted in our July survey are developing into something more tangible. However this recovery remains fragile and is not evident in all sectors.

"The manufacturing sector has reported a significant increase in optimism, supported by positive trends in both new orders and expected orders. But domestic demand remains weak and it is exports that are driving the recovery. This reinforces our view that Scottish businesses must increasingly look outwards for new opportunities and the Scottish and UK Governments must ensure that our infrastructure and fiscal policies are geared towards delivering a competitive environment for our firms as they seek new international opportunities. But investment trends remain weak, and this is a longer term concern if our manufacturing sector is to remain competitive. Demand, confidence and activity remain weak in construction.

"The tourist sector appears to have had a good summer with strong trends in domestic demand, although overseas demand may be a little weak, particularly in the Year of Homecoming. Occupancy rates are similar to 2008, but many tourist businesses have had to discount room rates and further discounting is likely over the winter months. Many in the hospitality sector are having to work harder in order to achieve these results and the ongoing fragility of the recovery highlights the need for continued investment in both marketing and infrastructure in order to ensure an economic environment suited to growing our tourist sector.

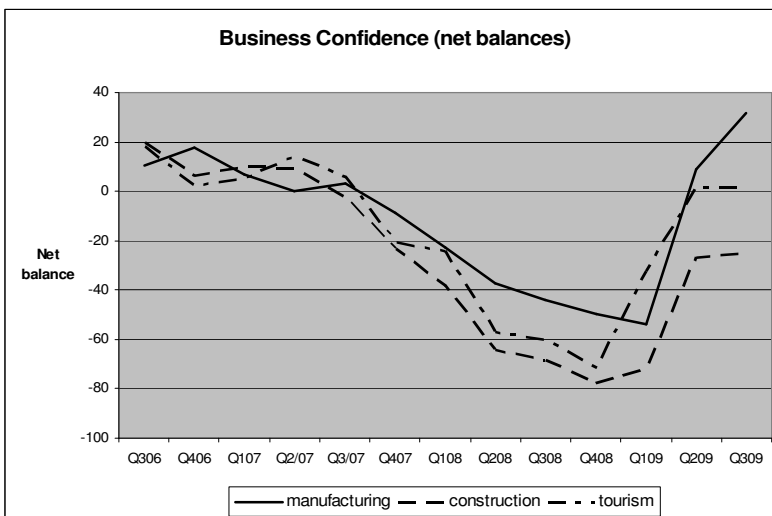
"Businesses recognise that the public finances will dictate that Governments at all levels will have to act to reduce overall spending levels, whilst at the same time tax rates are likely to increase. In order to deliver for Scottish business, Government policy must be focused on facilitating the conditions in which businesses can thrive and generate the wealth to power Scotland on the path to prosperity."

## BUSINESS PERFORMANCE

### Summary Points

Overall Clear signs of an emerging recovery in manufacturing and a 'good summer' in tourism. Rising confidence in manufacturing, wholesale distribution and tourism, together with a lessening in the decline in confidence in construction and retail;

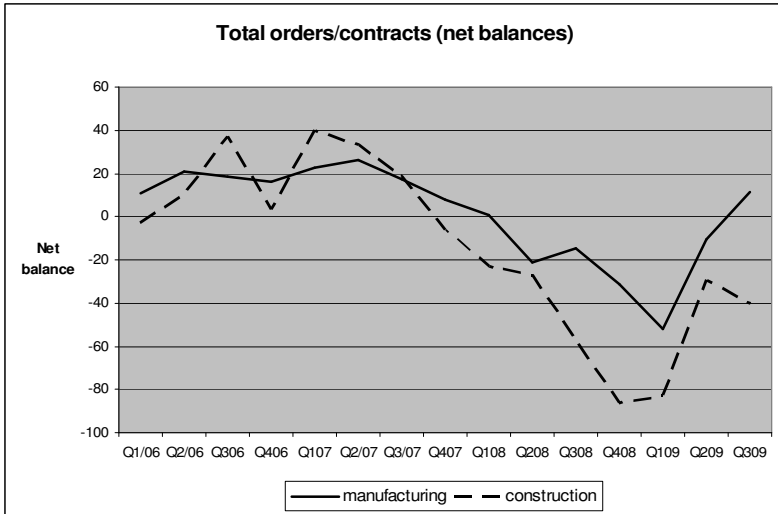
Business confidence Across most sectors rising net trends in business confidence were reported in the first half of 2007. These were followed by sharp and ferocious declines in 2008 and the first quarter of 2009, with net trends of over 60% of manufacturing and 70% of construction, wholesale, retail and tourism respondents reporting declining confidence. Rising net trends re emerged in manufacturing in Q2 2009 and strengthened significantly in Q3 2009. In wholesale distribution and tourism the return to positive trends in business confidence were modest and marginal. In contrast confidence remained negative in construction and tourism;



Demand/sales

Orders and sales strengthened in manufacturing, and although domestic demand remained weak export orders strengthened. Nevertheless, the trends in the levels of work in progress remained weak. In construction demand remained depressed with 50% reporting downward trends in total new orders and 72% declining levels of domestic/house build contracts.

In the retail sector the outturn in sales, although again weak, was better than anticipated. Underlying these results were the weakening net trends reported by independent stores. In tourism the outturn for Q3 was better than anticipated and rising net trends in the numbers of guests were reported, although the trend in business demand remained weak;



Capacity/work in progress

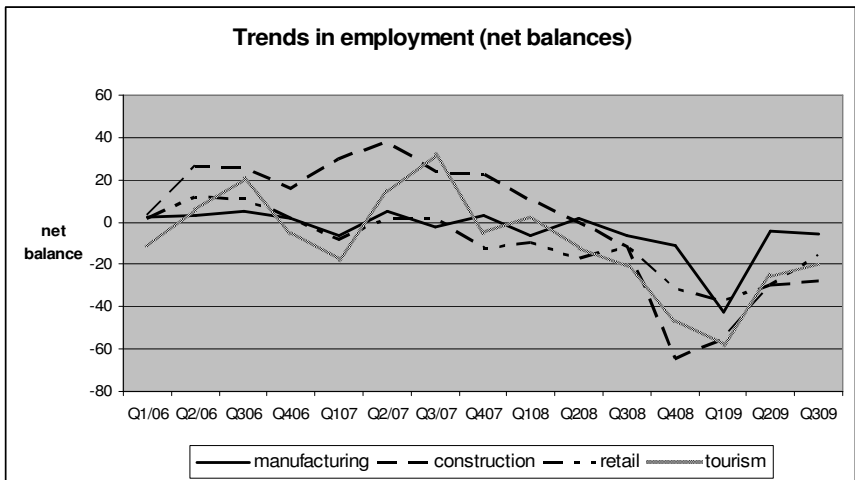
Average capacity used in manufacturing rose by 0.8percentage points and in construction by 1.5 percentage points over the past quarter. In construction the proportion reporting working below optimum levels rose slightly to a net of 75%. In tourism occupancy in Q3 remained a little lower than in Q3 in 2006 and 2007, and once again, occupancy has been sustained only by widespread discounting;

Cost pressures

Cost pressures remained subdued, although there are some signs of increasing raw material cost pressures. The effects of rising transport costs have yet to be reported. Whilst the expectations of price decreases ended in manufacturing, they remain evident in tourism. Pressures to raise prices continued to be subdued by weak demand;

Pay and employment

The percentages of respondents increasing pay in the third quarter ranged from 2.8% of construction to 21% of manufacturing, and average pay increases ranged from 2.1% in manufacturing to 4.5% in retail. Average pay increases in manufacturing and construction remain at historically low levels. A net of firms in all sectors reported declining net trends in employment and for a further quarter in hours worked/overtime levels. Recruitment activity in all sectors remained low ranging from 19% in construction, 23% in retail to 37% in manufacturing and 59% in tourism;



## Outlook

Manufacturing trends in the third quarter offer the clearest signs of an emerging recovery, tourism has benefitted from a good summer, but pressures on margins may cause problems in the fourth quarter. Generally working levels remain well below optimum levels in manufacturing and construction, and competition for demand/sales remains widespread in retail and tourism leading to widespread discounting of prices. Pressures on margins and likely pressures on raw material and other costs highlight the fragility of the recovery. The labour market remains weak with few signs of an improvement for the fourth quarter.

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 2009 and early October 2009, almost 300 firms responded to the questionnaire.

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## MANUFACTURING

### Optimism

Business confidence improved further in the third quarter rising strongly from a net balance of 9% in Q2 to 32%. Declining confidence was only reported by 10% of respondents.

### Orders and Sales

The outturn in total new orders and export orders was marginally better than expected and the actual trends in total, Scottish and rest of UK orders, whilst remain weak, are better than in previous quarters. There was a further improvement in export orders.

A declining trend in the level of work in progress was again reported, but the rate of decline was slower than in the second quarter. Average capacity used rose marginally by 0.8 percentage points to 71.6%, although 57% (71% in quarter 2) reported capacity used was below preferred levels. Pressures to raise prices continued to moderate.

### Investment

Overall investment trends eased and only 16% expect to increase investment and 5% anticipate increasing their leasing of equipment over the coming year. Cash flow trends continued to ease, but at a more modest rate than in the past four quarters. The anticipated trends in turnover and profitability improved with 40% and 34% of respondents respectively reporting an increase.

### Employment

Two thirds of firms reported and expect no change in total employment levels with a small net balance reporting a decline. Thirty-seven percent of firms attempted to recruit with more than a third of these firms reporting recruitment problems.

	Up	Q3 2009		Net Balances		
		Level	Down	Q3/09	Q2/09	Q1/09
<b>Business Optimism</b>	41.8	48.0	10.2	31.6	8.7	-53.6
<b>Trends in actual orders</b>						
Total new orders	42.2	26.8	31.0	11.2	-10.3	-51.8
Scottish orders	30.3	39.2	30.5	-0.2	-12.3	-58.1
Rest of UK orders	30.7	42.8	26.5	4.2	-18.0	-49.2
Export orders [28% = N/A]	32.1	24.6	15.5	16.6	1.6	0.4
<b>Trends in expected orders</b>						
Total new orders	34.3	41.2	24.5	9.8	7.1	-36.4
Scottish orders	26.2	48.9	24.9	1.3	6.0	-49.3
Rest of UK orders	30.4	48.6	21.0	9.4	5.5	-38.9
Export orders (28.3x%= N/A)	33.1	25.1	13.5	19.6	12.2	-10.1
Av Capacity used	71.6			71.6	70.79	66.37
Invest in plant/equip.	16.5	50.8	32.7	-16.3	-23.5	-29.4
Cash flow past 3 moths	18.4	51.7	29.9	-11.5	-16.7	-48.2
Turnover next 12 moths	40.5	30.6	28.9	11.5	-0.7	-37.5
Profitability next 12 moths	33.9	36.9	29.2	4.7	-19.2	-50.8
Price change next 3 moths	14.4	78.3	7.3	7.1	-10.0	-4.4
<b>Pressures to raise prices from</b>						
Pay settlements	28.2			28.2	22.9	15.7
Raw material costs	63.8			63.8	52.5	63.3
Finance costs	18.1			18.1	17.5	21.8
Other overheads	31.1			31.1	27.0	30.0
Transport costs	34.2			34.2	22.6	28.9
<b>Employment trends</b>						
Total actual employment	14.5	65.3	20.2	-5.7	-4.4	-42.8
Total expected next 3 months	8.0	68.7	23.2	-15.2	-9.5	-13.4
Average pay increase	2.1			2.1	2.52	3.05

## CONSTRUCTION

### Optimism

Business confidence remained weak with only 11% reporting being more confident compared to the previous quarter. Thirty-six per cent, compared to over 42% of respondents in quarter two, reported being less confident. The net trend in business optimism remained negative, improving marginally from -27% in quarter 2 to -25%.

### Contracts

The rate of decline in the net trend in new contracts increased from -30% in the second quarter to -40%. The trends in orders from all sectors continued to decline although the rate of decline in public sector orders eased.

Expectations as to turnover trends over the next year remained depressed, although did not deteriorate further in the third quarter. A net of 31% (37%, 64%, 65%, and 37% in the previous four quarters) anticipate declining turnover trends over the next year. A net of -44% (-59% -78%, -78% and -54% in the previous four quarters) anticipate declining profitability over the next twelve months. And a net of 64% of construction firms anticipate declining tender margins over the next twelve months.

Average capacity rose by two percentage points to 74% and 50% (44% in the previous survey) expect a declining trend in the level of work in progress.

### Employment

A third of firms reduced total employment levels with only 6% reporting an increase in employment and recruitment again remained at very low levels. Only 2.8% of respondents reported increasing pay in the third quarter by an average of 3.5%.

	Q3 2009			Net Balances		
	Up	Level	Down		Q2/09	Q1/09
<b>Business Optimism</b>	11.1	52.8	36.1	-25.0	-26.9	-72.2
<b>Trends in actual contracts</b>						
Total new contracts	14.3	31.4	54.3	-40.0	-29.6	-82.9
Public sector orders	25.9	33.3	40.7	-14.8	-38.4	-63.4
Private commercial	7.1	28.6	64.3	-57.1	-60.0	-87.5
Domestic/house build	9.4	18.8	71.9	-62.5	-78.3	-86.7
<b>Trends in expected contracts</b>						
Total new orders	8.6	45.7	45.7	-37.1	-37.0	-63.4
Public sector orders	7.4	48.1	44.4	-37.0	-37.5	-43.3
Private commercial	7.1	35.7	57.1	-50.0	-52.0	-62.5
Domestic/house build	9.1	48.5	42.4	-33.3	-47.8	-63.3
<b>Trends in work in progress</b>						
Actual	14.3	28.6	57.1	-42.9	-51.9	-75.0
Expected	8.8	41.2	50.0	-41.2	-33.3	-61.1
<b>Capacity used</b>	74.0			74.0	72.5	69.2
<b>Invest in plant/equip.</b>	12.1	39.4	48.5	-36.4		-71.4
<b>Leasing in plant/equipment.</b>	12.5	40.6	46.9	-34.4		-68.6
<b>Employment trends</b>						
Total actual employment	5.6	61.1	33.3	-27.8	-29.6	-55.5
Total expected next 3 months	11.8	64.7	23.5	-11.8	-28.0	-48.6
<b>Average pay increase</b>	3.5			3.5	N/a	4.17
Percent recruiting staff	19.4			19.4	14.8	8.3
Recruitment difficulties increasing	0.0			0.0	0.0	0.0

## WHOLESALE DISTRIBUTION

### Optimism

Business optimism amongst Scottish wholesale respondents continued, on balance, to rise during quarter three, although almost half of firms were less confident compared to the same period a year ago.

### Sales

The declining trend in sales continued though eased during the three months to the end of September (-32% compared to -43%) and is expected to ease further in quarter three (-22%).

More than a half of responding firms expect price increases in the three months to the end of December, mainly under pressures from raw material prices and transport costs.

Over the next twelve months wholesale firms continue to expect both turnover and profitability to decline although the rates of decline are set to ease.

### Finance

Changes to investment plans were widespread and the declining trend in investment intentions continued.

### Employment

Changes in employment levels were reported by 40% with a net of 17% reporting a downward trend in employment. A net of 24% anticipate a further decline in quarter four. Ten percent increased pay by an average of 3.1%.

	Q3 2009			Net Balances		
	Up	Level	Down	Q3/09	Q2/09	Q1/09
<b>Business Optimism</b>	21.1	63.2	15.8	5.3	7.2	-55.0
<b>Trend in actual sales</b>	15.8	36.8	47.4	-31.6	-42.8	-75.0
<b>Trend in expected sales</b>	16.7	44.4	38.9	-22.2	-21.4	-47.4
<b>Investment plans</b>	15.8	36.8	47.4	-31.6	-28.6	-45.0
<b>Cash flow past 3 months</b>	15.8	63.2	21.1	-5.3	7.2	-15.0
Turnover next 12 months	21.1	36.8	42.1	-21.1	-38.7	-55.0
Profitability next 12 months	21.1	31.6	47.4	-26.3	-35.7	-15.0
Price change next 3 months	57.9	42.1		57.9	21.4	35.0
<b>Pressures to raise prices from</b>						
Pay settlements	5.3			5.3	7.1	10.0
Raw material costs	68.4			68.4	28.6	45.0
Finance costs	21.1			21.1	7.1	25.0
Other overheads	36.8			36.8	42.9	20.0
Transport costs	63.2			63.2	42.9	45.0
<b>Employment trends</b>						
Total actual employment	11.1	61.1	27.8	-16.7	0.0	-15.0
Expected next 3 months	17.6	41.2	41.2	-23.5	-15.4	-5.3
<b>Average pay increase</b>	3.1			3.1	10.0	2.75
Percent recruiting staff	21.1			21.1	21.4	25.0
Recruitment difficulties inc	13.3			13.3	0.0	8.3

## RETAIL DISTRIBUTION

### Optimism

The negative trend in business confidence eased further from -27% to -8% (the least depressed figure since quarter 4 2007). However, more than half of firms were less confident compared to the same quarter one year ago.

### Sales

The proportion of respondents reporting and expecting declining sales in the third and fourth quarters remains historically high. Nevertheless the rate of decline in actual and expected sales has continued to ease. Almost half of respondents reported and expect declining sales trends.

The value of total new sales declined for 45% (64% in quarter two) of firms and 41% (68% in quarter two) expect further a decline during the three months to the end of December 2009.

### Finance

A net of -15% of retailers anticipate declining turnover (compared to -49% in the previous quarter), and a net of -36% (-51% in the previous quarter) anticipate declining profitability over the next year, suggesting continued pressures on margins although perhaps beginning to ease.

### Employment

For a further quarter no responding retail firms increased total employment levels and only a small number expect to increase total employment levels during the three months to the end of December. Only 23% of firms attempted to recruit, although historically low it was an improvement compared to quarter two (18%). Nineteen percent of firms increased wages by 4.51%.

	Q3 2009			Net Balances		
	Up	Level	Down	Q3/09	Q2/09	Q1/09
<b>Business Optimism</b>	23.1	46.2	30.8	-7.7	-27.4	-58.7
<b>Trend in actual sales</b>	23.1	28.8	48.1	-25.0	-35.3	-55.5
<b>Trend in expected sales</b>	18.8	39.6	41.7	-22.9	-58.4	-69.7
<b>Cash flow past 3 months</b>	20.8	50.9	28.3	-7.5	-23.6	-15.9
Turnover next 12 months	22.6	39.6	37.7	-15.1	-49.2	-52.2
Profitability next 12 months	17.3	28.8	53.8	-36.5	-51.0	-73.4
Price change next 3 months	45.3	47.2	7.5	37.7	-54.1	63.0
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	18.9			18.9	17.6	13.0
<b>Raw material costs</b>	47.2			47.2	72.5	80.4
<b>Finance costs</b>	22.6			22.6	19.6	26.1
<b>Other overheads</b>	17.0			17.0	19.6	15.2
<b>Transport costs</b>	47.2			47.2	37.3	30.4
<b>Utility costs</b>	41.5			41.5	45.1	43.5
<b>Regulation costs</b>	47.2			47.2	21.6	23.9
<b>Employment trends</b>						
Total actual employment	0.0	84.6	15.4	-15.4	-30.0	-37.0
Expected next 3 months	8.2	67.3	24.5	-16.3	-24.5	-39.5
<b>Average pay increase</b>	4.51			4.51	3.39	5.33
Percent recruiting staff	22.6			22.6	18.0	8.7
Recruitment difficulties inc	23.1			23.1	7.1	0.0



## TOURISM

### **Optimism**

The overall level of business confidence remained positive and unchanged from the previous quarter, and stronger than in the same quarter in 2008. A net balance of firms also reported being more confident compared to one year ago.

### **Demand**

The positive net trends in confidence have now materialised in the trends for demand/quests, and the outturn in the third quarter was better than anticipated. Forty-four percent, compared to 21% in quarter two reported increased demand for accommodation. The trends in demand from Scotland and RUK improved for the first time since quarter four 2007. Demand from abroad and business trade continued to decline but the rates of decline eased. Average occupancy rose from 54% to 72.7% (marginally higher than in Q3 2008, but lower than in Q3 2007).

Respondents report continuing to reduce room rates and the discounting of prices is set to be widespread in the fourth quarter.

### **Business constraints**

An overall lack of demand remained the primary business constraint although hotels were also concerned with competition, exchange rates and poor marketing of their area.

### **Employment**

Changes in employment levels were reported by fewer than half of firms. Net declining trends in full time (-21%), part time (-18%), seasonal (-51%) and overtime working (-56%) were reported.

	Q3 2009			Net Balances		
	Up	Level	Down	Q3/09	Q2/09	Q1/09
<b>Business Optimism</b>	27.1	47.5	25.4	1.7	1.7	-32.8
<b>Trends in demand/visitors</b>						
Total demand/visitors	44.1	23.7	32.2	11.9	-31.0	-54.4
Demand from Scotland	35.6	52.5	11.9	23.7	-12.1	-39.3
Demand from Rest of UK	48.3	31.0	20.7	27.6	-12.3	-44.7
Demand from abroad	31.0	32.8	36.2	-5.2	-33.9	-50.0
Business Trade	14.5	38.2	47.3	-32.7	-49.1	-57.4
<b>Trends in expected demand</b>						
Total demand/visitors	3.7	63.0	33.3	-29.6	-17.0	-33.4
Demand from Scotland	9.6	67.3	23.1	-13.5	-3.8	-23.1
Demand from Rest of UK	15.7	58.8	25.5	-9.8	0.0	-19.2
Demand from abroad	5.9	52.9	41.2	-35.3	-26.9	-30.8
Business Trade	4.1	46.9	49.0	-44.9	-40.0	-59.2
<b>Occupancy</b>	72.7			72.7	71.45	54.5
Average daily rate	19.3	40.4	40.4	-21.1	-34.4	-36.9
Expected average daily rate	5.8	46.2	48.1	-42.3	-17.3	-30.0
<b>Employment trends</b>						
Total actual employment	5.5	69.1	25.5	-20.0	-25.9	-58.2
Expected next 3 months	0.0	58.5	41.5	-41.5	-9.2	-28.6
<b>Average pay increase</b>	4.3			4.3	3.83	4.71
Percent recruiting staff	58.6			58.6	64.9	37.9
Recruitment difficulties	27.3			27.3	26.4	15.7

**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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