



MEDIA RELEASE

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2012: SOME SIGNS OF A RECOVERY BUT DOWNSIDE THREATS REMAIN

Scottish Chambers of Commerce (SCC) have today (Thursday) released their Business Survey results for the first quarter of 2012. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reports a slight improvement in activity in the Scottish economy in the first quarter of 2012, but widespread difficulties remain for Scottish businesses.

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

“Our survey suggests that Scottish businesses have had a better start to 2012 than to last year, led by more positive indicators in manufacturing and tourism. Across all sectors, except retail, the trends in orders and sales are stronger than at the same time last year and outturns are generally ahead of expectations at the end of 2011. Businesses are now more confident as to the year ahead, but confidence varies between sectors and Scottish regions.

“Scotland's manufacturing sector now appears to have returned to modest growth after a difficult latter half of last year, with a stronger trend in new orders and high expectations returning in terms of exporting. Importantly, our manufacturers are anticipating more positive trends in terms of both turnover and profitability. There are fewer signs of recovery in construction and clearly here more Government support is essential to stimulate demand.

“Tourism businesses reported a better than anticipated first quarter and expectations for the year ahead are at their highest levels for four years. Importantly, the return to a positive trend in daily rates means that the hospitality industry may be becoming less reliant on widespread discounting to fill accommodation. However, looking behind the tourism data reveals differences between urban and rural businesses, with concerns over the cost of transport, including ferry travel, being widely cited by rural and island businesses and this could have a material effect on their ability to attract visitors over the year ahead.

“The recovery remains tentative and uncertain and Governments at both the UK and Scottish level need to act to support and encourage the recovery and to recognise that a one size fits all approach is not always appropriate and that specific measures may be required to ensure that our rural and island businesses can grow and remain competitive. This is particularly true in terms of fuel and transport costs and, unless these are addressed, it may become more difficult for rural and island businesses to attract new customers. On a wider level, it also underlines the need for the UK Government to consider an extension of the 5% VAT rate for tourist related businesses and to devolve Air Passenger Duty, giving the Scottish Government the opportunity to reduce this tax to a level more appropriate to Scotland's airports and use the proceeds to invest in a new Air Route Marketing Fund, designed to boost Scotland's direct international connectivity, making our country a more attractive destination for tourists and inward investors and facilitating new exporting opportunities.”

BUSINESS PERFORMANCE

Summary Points

Overall

With the exception of retail, the trends in all sectors in Q1 2012 were better than those reported a year ago suggesting more signs of a modest but uncertain recovery in 2012 as demand in the Scottish economy remains weak and downside risks remain. Continuing consumer uncertainty and ongoing public sector costs and reorganizations will be important features in 2012, but recent surveys have indicated more positive trends in the service sector, although not in retail, and the outturn for manufacturing is both an improvement of previous quarters, and better than had been anticipated; manufacturing respondents now anticipate net and modest improving trends over the year. Construction respondents likewise reported better Q1 trends than in previous years, but demand remains weak and pressures on margins widespread, however, it is uncertain as to whether the changes represent 'end of financial year spend' or the first signs of a recovery which will be more evident towards the end of the year. Tourism likewise reported better trends than a year ago and expectations for Q2 are stronger than in the same quarters for the previous three years, although the pattern is varies between cities and rural regions.

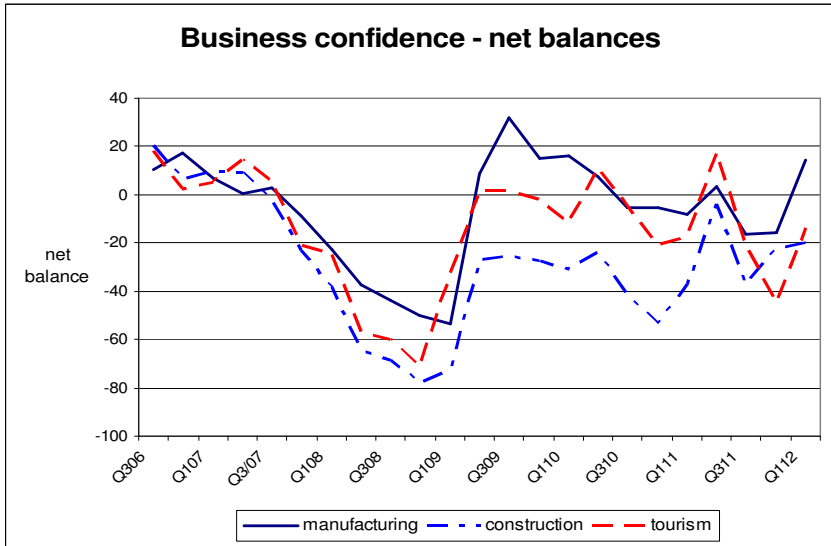
Within manufacturing modest rising trends in orders were reported and respondents are more confident that these positive trends will continue through the year, although the trends in work in progress remain subdued. Respondents are now modestly more confident as to the year ahead than compared to the start of 2011.

Whilst the trends in demand and activity in construction are better than a year ago, demand, work in progress and prospects remain subdued with, once again pressures on margins being widely reported. In tourism the outturn was better than anticipated better than a year ago.

Business confidence

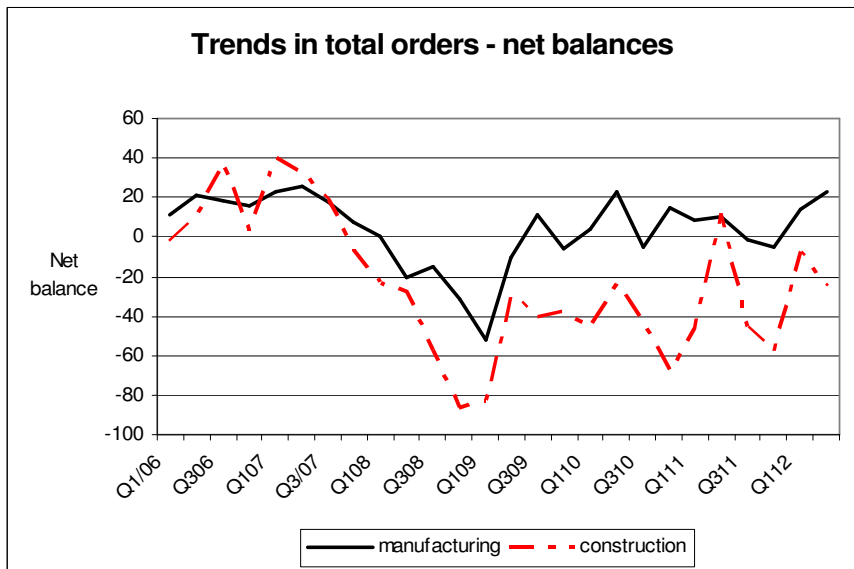
The decline in business optimism in manufacturing ended as a net of respondents reported increased orders and enquiries, and the outturn was better than anticipated. Elsewhere confidence remained weak, although less so than in Q 4 2011. In construction confidence whilst weak, reflected a better outturn than had been anticipated.

In retail declining business confidence was again widespread reflecting weak continuing consumer confidence and spending, as illustrated by the increasing number of empty high street shops. In tourism the decline in confidence eased as the outturn, although weak, was better than anticipated.



Demand/sales

In manufacturing the trend in orders improved, and the outturn was better than anticipated. Rising trends in total, Scottish and export orders were reported and a net of respondents anticipate rising trends from all areas in Q2, although the improvement remains patchy. Demand in construction remained weak, but the trend was better than the second half of 2011. Once again the figures suggest a slight pick up from end of financial year contracts, but the key question is whether or not these signs of improvement will be sustained through 2012. As in previous quarters the cuts in public spending continue to be a concern on orders and activity levels.



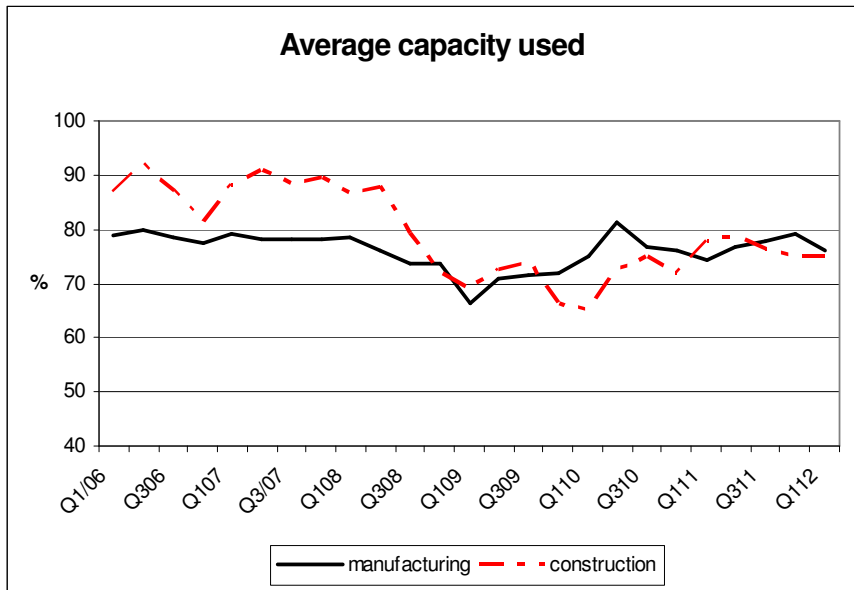
Declining trends in retail sales were again widely reported in the first quarter and discounting was widespread, although there are some signs of an easing in the decline. 64% reported a decline in sales (compared to more than 80% in the previous quarter, and 53% (75% in the previous quarter) expect a further decline. In tourism the outturn in demand for Q1 2012 was better than had been

forecast and the net trends visitor numbers and demand were stronger than for the first quarters of 2011, 2010 and 2009, although respondents continued to report the adverse effects of high fuel and transport costs deterring visitors. The trends in demand for conference/function facilities were weaker than the trends in demand for accommodation.

Capacity/work in progress

Average capacity used in manufacturing eased marginally from 79.1% in Q4 2011 to 76.2% in the latest quarter. However 45% (51% in the previous quarter) reported working below optimum levels and level trend in work in progress is expected for Q2 2012. In construction capacity used rose to 75.2%, an increase of 2.5 percentage points over the year, but eased from the peak of 78.8% in Q2 2011.

In construction the proportion reporting working below optimum levels eased to 76% (a decline from the 82% reported in Q4 2011). In tourism occupancy was higher than the first quarters of 2011 and 2010, but a little lower than in the first quarters of 2009 and earlier.



Cost pressures

Once again for manufacturing firms raw material/suppliers prices (84%) and transport costs (44%) were the most widely reported cost pressures, although cost pressures were slightly less in wholesale and retail distribution. More than 36% of manufacturing, 76% of wholesale and 58% of retail respondents reported expecting to increase prices over the next three months, but once again continuing weak demand will limit the ability to increase prices, leading to adverse effects on cash flow, profitability and survival. Pressures on margins were widely reported in construction and tourism respondents reported reductions to room rates.

Pay and employment

Once again labour market activity remained subdued with the majority of respondents in all sectors reporting no change to employment levels. Nevertheless, the trends in all sectors, except tourism, were better than anticipated three months ago, rising trends in employment were reported in manufacturing and in construction and retail the declining trends eased in the first quarter. Once again recruitment difficulties remained subdued in all sectors.

Pay increases in the first quarter ranged from 2.5% in construction and retail to 3.8% in tourism. Over the past year pay increases have averaged 2.6% in construction, 2.95% in manufacturing and 3.3% in retail and tourism – well below the rate of inflation and implying real declines in household income.

Outlook

The signs of the fragile recovery in the first quarter of 2012 are more evident than at the end of 2011. On the one hand demand remains weak as a combination of uncertainty; limited access to capital, continuing public sector cuts, reduced household income limits business activity all restrict plans for the future. However, the concerns as to the future of the Euro zone appear to have abated for the time being, but reorganisation of public services continues to influence both activity and sentiment in Scotland and in the rest of the United Kingdom. However, the results for the first quarter of 2012 are stronger than those for the second half of 2011. The extent of the downside risks and changes to government policies will be critical features shaping the nascent recovery in 2012.

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 March and early April 2012, some 200 firms responded to the questionnaire.

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MANUFACTURING

Optimism

Business confidence improved in quarter one with more than 80% of firms reporting no change/improved confidence levels.

Orders and Sales

The trend in total new orders improved to the highest net balance since Q4 2010 and the trend in total new sales also improved. The outturn in total orders was significantly better than had been expected, the rising trend in export orders, which until a declined last quarter, had been a feature of the past four quarters, resumed and respondents now anticipate an increase. Average capacity utilisation eased marginally to 76.2%, but expectations as to the trends in work in progress for the next three months are more optimistic, and fewer than half reported working below optimum capacity.

Turnover is expected to improve for almost half of firms (to the highest net balance since the second quarter of 2007). Profitability, on balance, is expected to rise for the first time since Q4 2010.

Investment

The rising trends in investment in plant/machinery remained weak during quarter one for a net balance of manufacturing firms with most firms expecting no overall change. New investment was again mainly directed towards replacement or to improve efficiency.

Employment

Employment trends improved with a net of 5% increasing total employment levels, although more than two thirds reported no change. Slightly fewer than 30% of firms increased pay during the three months to January and the average increase was 3.1%. Recruitment activity eased from 46% to 39% of respondents attempting to recruit.

	Up	Q1 2012		Net Balances		
		Level	Down	Q1/12	Q4/11	Q3/11
Business Optimism	30.2	54	15.9	14.3	-15.5	-16.4
Trends in actual orders						
Total new orders	36.5	41.3	22.2	14.3	-5.2	-1.8
Scottish orders	25.4	54.2	20.3	5.1	-13.2	-13.7
Rest of UK orders	14.5	63.6	21.8	-7.3	-27.4	-8.3
Export orders [29% = N/A]	22.6	32.3	12.9	9.7	-6.7	9.1
Trends in expected orders						
Total new orders	35	53.3	11.7	23.3	-8.9	7.7
Scottish orders	21.4	67.9	10.7	10.7	-19.7	-13.0
Rest of UK orders	16.7	74.1	9.3	7.4	-22.5	-2.1
Export orders (29% = N/A)	24.2	37.1	6.5	17.7	-7	20
Av Capacity used	76.2			76.2	79.1	77.7
Invest in plant/equip.	21.7	63.3	15	6.7	5.5	13.5
Cash flow past 3 moths	11.1	65.1	23.8	-12.7	-20.7	-16.1
Turnover next 12 moths	47.6	34.9	17.5	30.1	11.9	14.3
Profitability next 12 moths	33.3	38.1	28.6	4.7	-3.4	-5.3
Price change next 3 moths	38.1	63.3	1.6	36.5	27.1	31.6
Pressures to raise prices from						
Pay settlements	17.5			17.5	30.5	17.5
Raw material costs	84.1			84.1	71.2	84.2
Finance costs	6.3			6.3	15.3	10.5
Other overheads	39.7			39.7	28.8	33.3
Transport costs	44.4			44.4	47.5	50.9
Employment trends						
Total actual employment	15.9	71.4	12.7	3.2	-5.3	8.8
Total expected next 3 months	16.1	69.4	14.5	1.6	-20.4	-14.8
Average pay increase	3.1			3.1	1.8	3.3

CONSTRUCTION

Optimism

Business confidence remained weak in the first quarter, with only 8% of firms reporting a rise. Firms, on balance, were less pessimistic than in recent first quarters.

Contracts

As anticipated the rate of decline in orders slowed in Q1 with 40% of firms reporting an increase in new orders. Private commercial orders showed the most improvement (although the net balance remained negative). All trends are expected to decline further in Q2. More than three-quarters, compared to over 80% of respondents in the previous survey, reported working below capacity.

Cash flow trends are expected to level out, whereas turnover and profitability are expected to be weak over the next 12 months together with continued pressure on margins. Average capacity used, remained at 75%.

Employment

The downward trend in employment eased in Q1. Once again few recruitment difficulties were evident. Average pay increases rose from 1.8% in Q4 to 2.5%.

	Q1 2012			Net Balances		
	Up	Level	Down	Q1/12	Q4/11	Q3/11
Business Optimism	8	64	28	-20	-22.2	-37.5
Trends in actual contracts						
Total new contracts	40	12	48	-8	-57.7	-45.8
Public sector orders	25	30	45	-20	-63.7	-85.7
Private commercial	36.4	22.7	40.9	-4.5	-57.2	-41.2
Domestic/house build	5.9	35.3	58.8	-52.9	-42.1	-45.0
Trends in expected contracts						
Total new orders	8.3	58.3	33.3	-25	-12.4	-45.5
Public sector orders	9.5	66.7	23.8	-14.3	-27.3	-72.7
Private commercial	4.8	66.7	28.6	-23.8	-14.3	-46.2
Domestic/house build	0	68.8	31.3	-31.3	-10.5	-50.0
Trends in work in progress						
Actual	32	20	48	-16	-34.7	-20.8
Expected	12	52	36	-24	-26.9	-22.7
Capacity used	75.2			75.2	75	76.4
Invest in plant/equip.	4	48	48	-44		-27.3
Leasing in plant/equipment.	4.2	54.2	41.7	-37.5		-30.4
Employment trends						
Total actual employment	12.5	54.2	33.3	-20.8	-37	-4.2
Total expected next 3 months	4.5	54.5	40.9	-36.4	-34.6	-66.7
Average pay increase	2.5			2.5	1.8	2.1
Percent recruiting staff	25			25	11.1	33.3
Recruitment difficulties increasing	0			0	0	0.0

WHOLESALE DISTRIBUTION

Optimism

Business confidence amongst Scottish wholesale respondents eased further with fewer than half of firms reporting a decline in business confidence. Business confidence was once again considerably lower compared to one year ago.

Sales

A net balance of almost 40% of firms in the previous survey had expected a decline in sales however the outturn was -12%; a net balance expect a further decline in the second quarter of 2012.

More than 90% of wholesalers continued to report increased pressures from transport costs. Cost pressures generally eased during the three months to the end of March. More than three-quarters of firms expect to increase prices over the next three months, and cash flow trends remain weak. Once again concerns over turnover and profitability remained.

Finance

Once again most firms reported no change to investment plans; nevertheless there appears to have been a marginal decline.

Employment

Wholesale respondents on balance recruited staff during the first three months of 2012 although a net balance expected to shed staff in Q2. Fewer than a third sought to recruit staff; largely for replacement. The average pay increase in Q4 was 3.4% compared to 3% in Q4.

	Q1 2012			Net Balances		
	Up	Level	Down	Q1/12	Q4/11	Q3/11
Business Optimism	17.6	41.2	41.2	-23.6	-57.1	-62.5
Trend in actual sales	29.4	29.4	41.2	-11.8	0	-37.5
Trend in expected sales	35.3	23.5	41.2	-5.9	-38.5	-53.3
Investment plans	11.8	70.6	17.6	-5.8	7.2	-18.8
Cash flow past 3 months	17.6	47.1	35.3	-17.7	-14.3	-12.5
Turnover next 12 months	35.3	17.6	47.1	-11.8	-7.1	-25.0
Profitability next 12 months	25	25	50	-25	-28.6	-37.5
Price change next 3 months	76.5	23.5	0	76.5	64.3	62.5
Pressures to raise prices from						
Pay settlements	11.8			11.8	35.7	18.8
Raw material costs	82.4			82.4	64.3	62.5
Finance costs	5.9			5.9	28.6	25.0
Other overheads	35.3			35.3	64.3	50.0
Transport costs	81.3			81.3	92.9	75.0
Employment trends						
Total actual employment	17.6	76.5	5.9	11.7	-7.2	-25.0
Expected next 3 months	0	86.7	13.3	-13.3	-7.7	-23.1
Average pay increase	3.4			3.4	3	3.5
Percent recruiting staff	31.3			31.3	28.6	31.3
Recruitment difficulties inc	0			0	0	9.1

RETAIL DISTRIBUTION

Optimism

The very low levels of business confidence eased marginally in the first quarter of 2012, but remained historically low with two thirds of firms reporting a decline.

Sales

Although easing, the trend in sales continued to weaken with almost two-thirds reporting, and more than half expecting a decline in the total value of sales. Only 11% reported and only 6% expect increased sales, as continuing concerns over consumer confidence remain evident.

Finance

Cost pressures remain severe, although those concerned with increasing suppliers costs eased from 69% to 66%. Transport costs and utility costs continued to be of concern. Pressures on margins remain widespread with over half expecting declining profitability and turnover over the next year.

Employment

Labour market activity continued to decline but the rate of decline was the slowest since 2007; however a third of firms expect a decline during the second quarter. Recruitment problems eased.

Only 6% of firms reported increasing pay, and the average increase remained at 2.5%.

	Q1 2012			Net Balances		
	Up	Level	Down	Q1/12	Q4/11	Q3/11
Business Optimism	2.9	31.4	65.7	-62.8	-69.4	-51.2
Trend in actual sales	11.1	25	63.9	-52.8	-75	-58.5
Trend in expected sales	5.9	41.2	52.9	-47	-67.7	-62.5
Cash flow past 3 months	6.1	48.5	45.5	-39.4	-41.2	-39.0
Turnover next 12 months	8.6	40	51.4	-42.8	-66.7	-58.5
Profitability next 12 months	8.6	22.9	68.6	-60	-72.2	-55.0
Price change next 3 months	63.9	30.6	5.6	58.3	55.9	67.5
Pressures to raise prices from						
Pay settlements	25			25	41.7	26.8
Raw material costs	66.7			66.7	69.4	82.9
Finance costs	22.2			22.2	33.3	29.3
Other overheads	8.3			8.3	5.6	17.1
Transport costs	63.9			63.9	63.9	58.5
Utility costs	55.6			55.6	72.2	73.2
Regulation costs	36.1			36.1	38.9	39.0
Employment trends						
Total actual employment	8.6	77.1	14.3	-5.7	-20.6	-20.0
Expected next 3 months	6.3	62.5	31.3	-25	-24.1	-32.4
Average pay increase	2.5			2.5	2.5	5.2
Percent recruiting staff	25.7			25.7	17.6	15.0
Recruitment difficulties inc	12.5			12.5	25	11.8

TOURISM

Optimism

The decline in business confidence eased during the first quarter of 2012 although was significantly lower compared to Q1 2011.

Demand

The rising trend in total demand ended during Q1 although a rise is expected in the second quarter. The decline was not as severe as had been forecast by respondents from the previous survey.

Average occupancy declined (from 56.8% to 53%) although was marginally better compared to the same quarter a year ago. During the three months to the end of March 2012, trends in bar/restaurant trade and for conference/ function facilities continued to decline.

Almost half reported reducing average room rates and the widespread pattern of 'special offers' seems set to abate with a net balance of 9% expecting to increase room rates in Q2 2012.

Business constraints

Two thirds reported that the lack of tourist demand remained the primary business constraint. Poor transport infrastructure, high fuel costs and weak marketing of the area also remained a concern to hotels.

Employment

43% (compared to 48% in the fourth quarter) sought to recruit staff. Employment trends, as forecast declined in quarter one and the declines were loosely as had been expected. A net balance of 2.3% expect a rise in total employment levels in Q2 2012.

	Q1 2012			Net Balances		
	Up	Level	Down	Q1/12	Q4/11	Q3/11
Business Optimism	22.4	40.8	36.7	-14.3	-45.0	-21.1
Trends in demand/visitors						
Total demand/visitors	33.3	22.9	43.8	-10.5	2.5	7.9
Demand from Scotland	30.4	34.8	34.8	-4.4	-7.5	-7.9
Demand from Rest of UK	22.4	38.8	38.8	-16.4	-12.8	7.9
Demand from abroad	18.8	39.6	41.7	-22.9	-15.4	10.5
Business Trade	23.4	27.7	48.9	-25.5	-21.0	-5.6
Trends in expected demand						
Total demand/visitors	31.1	42.2	26.7	4.4	-34.3	-30.3
Demand from Scotland	26.7	48.9	24.4	2.3	-34.3	-33.3
Demand from Rest of UK	22.2	53.3	24.4	-2.2	-35.3	-39.4
Demand from abroad	20	46.7	33.3	-13.3	-38.2	-42.4
Business Trade	20.9	48.8	30.2	-9.3	-42.4	-31.3
Occupancy	52.98			52.98	56.8	75.4
Average daily rate	22.2	28.9	48.9	-26.7	-38.9	-8.8
Expected average daily rate	34.9	39.5	25.6	9.3	-42.9	-40.6
Employment trends						
Total actual employment	6.5	63	30.4	-23.9	-16.7	5.8
Expected next 3 months	20.5	61.4	18.2	2.3	-20.6	-43.3
Average pay increase	3.8			3.8	3.3	3.3
Percent recruiting staff	42.9			42.9	47.5	55.6
Recruitment difficulties	19.5			19.5	23.5	27.3

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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