



MEDIA RELEASE

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SIGNS OF A RECOVERY REMAIN MUTED

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the first quarter of 2013. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reports an encouraging start to the year in the manufacturing sector, with some positive signs in construction and, to a lesser extent, tourism. However low demand remains a major constraint to increased activity in most sectors and the barrier to a return to trend growth.

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

“Our latest survey paints a picture of continued fragility in the Scottish economy with weak levels of domestic and consumer demand. As we warned at the beginning of this year, there are clear signs that the economy is continuing to bump along a path of little or no growth and further action may be required by government to stimulate demand over the course 2013.

“There are some positives to take out of this quarter's figures, particularly the renewed strength of manufactured exports which has resulted in an upturn in optimism in the manufacturing sector. We also welcome a second quarter of improved results in the construction sector, although this is beginning to highlight recruitment difficulties re-emerging in this sector. More unexpected was a return to signs of positive optimism in the tourism sector, though discounting is again evident.

“The majority of businesses across all sectors, except in oil and gas identify the lack of demand as the key blockage to future growth and if Scotland is to return to trend levels of growth of 1-1.5% per year or more, then further efforts will be required by government at all levels to stimulate demand. The Scottish Government and, more recently, the UK Government have now recognised the value of focusing resources on capital spending and investment. This must be accelerated and government must also look at how it can reduce the cost base for business, including action to reduce the impact of business rates.

“Businesses will find opportunities where they can, but the muted signs of improvement in our economy as we enter the spring can only be sustained and strengthened when businesses and consumers alike have the confidence to spend and invest.”

BUSINESS PERFORMANCE

Summary Points

Overall

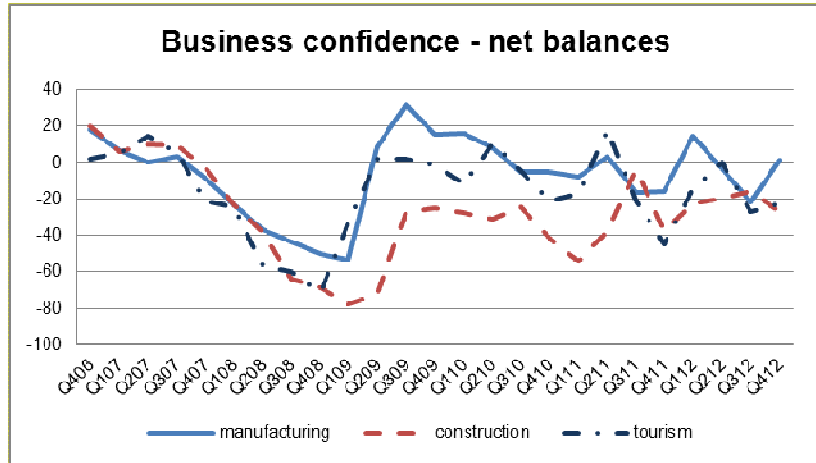
The underlying weakness in demand in the Scottish economy has been compounded by the exceptionally long and cold winter and this has arguably reduced activity for many in the service sector. This first survey of 2013 shows that, while the economy essentially remains weak, there was a further rise in manufacturing optimism. Confidence among construction firms was less downbeat than in previous quarters and there was an unexpected modest rise in tourism confidence. Business sentiment among wholesale and retail firms however failed to improve with the weakness in consumer demand threatening to delay any economic recovery. Business activity remained essentially weak although the trends in manufacturing, construction and tourism orders were not as weak as forecast; indeed there was an unexpected rise in manufacturing export orders and construction firms reported a rise in private commercial work. Wholesale and retail distribution firms on the other hand experienced steeper declines than expected by firms from the previous survey.

Most firms in most sectors are continuing to forecast that demand/orders in the three months to June 2013 will remain static – this actually represents an improvement for retailers where recently most firms have been anticipating declines in sales. 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 the previous twelve month period. Manufacturers optimistically, are forecasting a rising trend in both profitability and turnover. Over the past year 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, making difficult trading conditions for many.

Business confidence

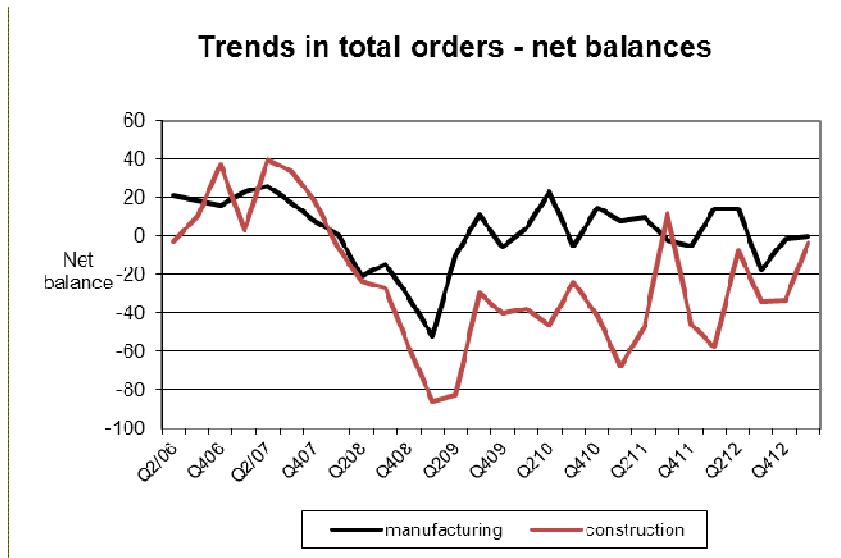
Business confidence improved for a net balance of manufacturing and tourism firms in the first three months of 2013, the downward trend eased for construction firms but confidence continued to decline for at least half of wholesale and retail respondents. The net balance of optimism among manufacturing firms (+18.6%) is the highest net increase since the third quarter of 2009.

Once again weak business confidence amongst the non-national multiple retail sector was widespread, only 4.8% reported a rise in confidence reflecting the continuing weak consumer confidence and spending. The rising trend of internet based sales and the effects of the unseasonably long and cold winter merely compound problems in this sector. In tourism business confidence was positive for the first quarter since Q2 2011.



Demand/sales

The net balance of total orders among manufacturing firms unexpectedly improved in the first quarter of 2013 and a further rise is forecast – fuelled by actual and expected increases in export orders. Scottish and rest of UK orders declined but the declines are expected to ease in the three months to the end of June. Although not as depressed as in the previous quarter, demand in construction remained weak, and the outturn was generally not as weak as had been forecast; expectations for Q2 2013 remain low.

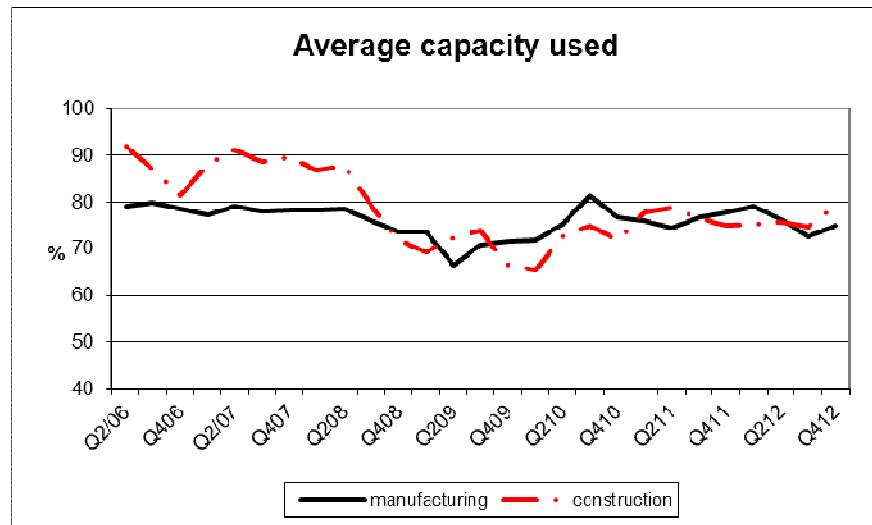


Declining trends in retail sales were widely reported in the first quarter and discounting was again widespread. 60% reported a decline in sales (compared to 51% in the previous quarter), and 41% (52% in the previous quarter) expect a further decline. In tourism the outturn in demand for Q1 2013 was not as weak as had been forecast although the net trends in visitor numbers and demand were similar to those the first quarters of recent years.

Capacity/work in progress

Average capacity used in manufacturing declined marginally from 76.2% in Q4 to 75.1% in the latest quarter and this level is below that of the first quarter of 2012. More than half of manufacturing firms reported working below optimum levels; a rise from the previous quarter. However a net of firms expect a rise in

the level of work in progress in Q2 2013. In construction capacity used rose from 79.4% to 83.7%, better than the level reported in previous first quarters.



In construction the proportion reporting working below optimum levels eased further to 42.3% compared to 65.6% in the final quarter of 2012 and 78.6% in Q3 2012. In tourism occupancy, at 59.6% was marginally worse than the previous quarter (60.4%) but better than the first quarter of 2012 (52.9%).

Cost pressures

Once again for manufacturing firms raw material/suppliers prices (65% compared to 68% in Q4) and transport costs (43% compared to 42% in Q4) 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, wholesale and retail firms. Manufacturers, on the other hand, are forecasting a rise in turnover and profitability.

Pay and employment

Once again labour market activity remained subdued with the majority of respondents in all sectors (ranging from 54% in construction to 83% in retail) reporting no change to employment levels. Nevertheless, with the exception of manufacturing, the trends were generally better (or not as bad) than had been anticipated by firms three months ago; modestly falling trends in employment were reported in all main sectors except construction where a net balance of 10.7% reported a rise. Recruitment difficulties have become more evident, notably among construction and wholesale firms.

Pay increases in the first three months of 2013 ranged from 2.4% in retail distribution to 3.0% in wholesale. The average increase declined slightly in manufacturing, wholesale and tourism but rose in construction and retail.

Outlook

In our Q3 2012 survey we reported more signs of a slowdown and a wider sense of an economy stagnating with weak and inadequate performance. By the fourth quarter the results showed that the downward trends were beginning to ease with fewer firms reporting or forecasting further declines, and the majority reported either no change or an increase. Results from this first quarter survey show a further 'reduction in the weakening' and a few signs of improvement.

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 latest Fraser of Allander Economic Commentary noted ' Forecasters expect to see some modest growth in the Scottish economy this year although, growth should be stronger than it is given we are now five years on from the start of the Great Recession. Household demand, net trade and investment demand remain weak while fiscal austerity continues with 68% of planned benefit cuts and 78% of current departmental spending cuts still to come after April this 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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MANUFACTURING

Optimism

During the first quarter of 2013 business confidence continued to improve for a net of 18.6% of manufacturing firms compared to a net balance of +1.1% in the previous quarter and to +14.3% in Q1 2012.

Orders and Sales

During the first three months of 2013 a net balance of 4.6% reported a rise in total sales; better than the previous quarter (-1.2%) but down on the same quarter of 2012 (+14.3%). Respondents are fairly optimistic as to the trends in orders for the second quarter of 2013 (+16.7%). Average capacity utilisation declined by one percentage point and was also down on the same quarter of 2012. More than half of firms reported working below optimum levels.

Turnover is expected to rise for a net balance of firms (+18.8%). The net trend in profitability (+5.9%) is also expected to rise over the coming year.

Investment

The trends in investment in plant/machinery declined during quarter four for a net balance of manufacturing respondents (-3.6%). New investment continues to be directed towards replacement (32.5%) or to improve efficiency (39%).

Employment

During the first quarter of 2013 a net balance of firms reported a decline in total employment levels (-8.3%) although around two thirds continued to report no change to overall levels. A third of firms increased pay during the three months to March and the average increase was 2.9%. 42% reported seeking to recruit staff compared to 48% in Q4 2012, and a third of recruiting firms reported difficulties.

	Up	Q1 2013		Net Balances		
		Level	Down	Q1/13	Q4/12	Q3/12
Business Optimism	29.1	60.5	10.5	18.6	1.1	-21.8
Trends in actual orders						
Total new orders	36	32.6	31.4	4.6	-1.2	-18
Scottish orders	12.3	54.3	33.3	-21	-6.7	-24.3
Rest of UK orders	18.2	55.8	26	-7.8	-9.4	-18.9
Export orders [40.6% = N/A]	28.2	32.9	14.1	14.1	-6.1	-17.1
Trends in expected orders						
Total new orders	29.8	57.1	13.1	16.7	0	-13.1
Scottish orders	18.8	61.3	20	-1.2	-5.7	-23.2
Rest of UK orders	13.3	73.3	13.3	0	-9.9	-17.2
Export orders (41.3% = N/A]	22.6	40.5	11.9	10.7	-5	-9.1
Av Capacity used	75.1			75.1	76.2	75.0
Invest in plant /equip.	18.8	58.8	22.4	-3.6	3.7	-1.3
Cash flow past 3 moths	18.8	54.1	27.1	-8.3	-4.8	-21.1
Turnover next 12 moths	43.5	31.8	24.7	18.8	11.9	-1.3
Profitability next 12 moths	34.1	37.1	28.2	5.9	8.3	-11.9
Price change next 3 moths	26.7	64.0	9.3	17.4	25.9	16.9
Pressures to raise prices from						
Pay settlements	27.3			27.3	30.7	23
Raw material costs	65.1			65.1	67.9	60.3
Finance costs	15.4			15.4	16	12
Other overheads	52.4			52.4	50	34.7
Transport costs	42.7			42.7	41.8	41.3
Employment trends						
Total actual employment	14.3	63.1	22.6	-8.3	1.2	-2.6
Total expected next 3 months	13.3	73.5	13.3	0	-4	-9.3
Average pay increase	2.9			2.9	3.4	3.5

CONSTRUCTION

Optimism

The decline in business optimism eased further during the first quarter of 2013 (-10.7%) compared to the previous quarter (-25.8%) although around two thirds of firms continued to reported a rise/no change to optimism levels.

Contracts

The trend in total new orders/contracts continued to ease for a net balance of -3.5% in the first quarter of 2013. No net change is forecast for Q2. Capacity utilisation rose from 79.4% to 83.7%, the highest average level since the second quarter of 2008. Public sector (-8.3%) and domestic/house build orders (-16.6%) continued to decline however there was an unexpected rise in private commercial orders (+7.4%).

Cash flow trends continued to decline (-28.6%). Turnover (-7.1%) and profitability (-21.5%) are still expected to be weak over the next 12 months together with continued pressure on margins. Half of responding firms expect tender margins to worsen during the coming year.

Employment

The downward trend in employment unexpectedly ended with a net of 10.7% reporting a rise in total employment levels in Q1, although the upward trend is expected to be a temporary one with a net of 4.5% forecasting a decline in Q2 2013. Recruitment activity rose (from 38% to 44%) as did recruitment difficulties (from 15% to 27%). Average pay increases rose from 2.3% in Q4 2012 to 2.6%.

	Q1 2013			Net Balances		
	Up	Level	Down	Q1/13	Q4/12	Q3/12
Business Optimism	21.4	46.4	32.1	-10.7	-25.8	-27.3
Trends in actual contracts						
Total new contracts	28.6	39.3	32.1	-3.5	-3.1	-33.3
Public sector orders	25	41.7	33.3	-8.3	-24.0	-45.8
Private commercial	29.6	48.1	22.2	7.4	-17.3	-28.0
Domestic/house build	16.7	50	33.3	-16.6	-28.0	-37.5
Trends in expected contracts						
Total new orders	24	52	24	0.0	-18.8	-37.0
Public sector orders	19	42.9	38.1	-19.1	-42.4	-18.2
Private commercial	16.7	54.2	29.2	-12.5	-32.2	-26.1
Domestic/house build	19	57.1	23.8	-4.8	-30.5	-34.8
Trends in work in progress						
Actual	21.4	53.6	25.0	-3.6	-28.1	-20.0
Expected	22.2	48.1	29.6	-7.4	-25.0	-25.0
Capacity used	83.7			83.7	79.4	74.6
Invest in plant/equip.	9.1	50.0	40.9	-31.8		-26.6
Leasing in plant/equipment.	9.1	59.1	31.8	-22.7		-40.0
Employment trends						
Total actual employment	28.6	53.6	17.9	10.7	-12.5	-23.4
Total expected next 3 months	18.2	59.1	22.7	-4.5	-31.2	-18.5
Average pay increase	2.6			2.6	2.3	2.0
Percent recruiting staff	44.4			44.4	37.5	31.0
Recruitment difficulties increasing	26.7			26.7	15.0	9.1

WHOLESALE DISTRIBUTION

Optimism

Business optimism amongst Scottish wholesalers declined (-43.7%) to the lowest level since the final quarter of 2011. Only 6% of firms reported an increase in business confidence.

Sales

Once again the downward trend in sales (-18.7%) 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 (-14.3%) in the second quarter of 2013.

Three-quarters, compared to 80% in the previous survey, of wholesalers continued to report increased pressures from transport costs. Firms remain under pressure from raw material costs (62.5%), pay settlements were cited as a pressure for 25% of firms. More than half of firms (62.5%) expect to increase prices over the next three months. A net balance of firms expect a fall in both turnover (-31.3%) and profitability (-31.2%) over 2013.

Finance

Slightly fewer than half (43.8%) of firms reported no change to investment plans; nevertheless the decline continued (-18.7%).

Employment

Wholesale respondents, as expected, reported a net decrease in overall employment levels during the first quarter of 2013 (-6.3%) and a net balance expected to shed staff in the second quarter (-12.5%). Over a third sought to recruit staff (37.5%); largely for replacement. The average pay increase in Q1 was 3% compared to 3.1% in Q4 2012.

	Q1 2013			Net Balances		
	Up	Level	Down	Q1/13	Q4/12	Q3/12
Business Optimism	6.3	43.8	50	-43.7	-35.3	-31.6
Trend in actual sales	18.8	43.8	37.5	-18.7	-22.2	-26.3
Trend in expected sales	14.3	57.1	28.6	-14.3	-7.1	-10.5
Investment plans	18.8	43.8	37.5	-18.7	-11.1	-16.7
Cash flow past 3 months	18.8	56.3	25	-6.2	0	0
Turnover next 12 months	12.5	43.8	43.8	-31.3	5.5	-10.5
Profitability next 12 months	18.8	31.3	50	-31.2	-22.2	-26.3
Price change next 3 months	62.5	31.3	6.3	56.2	33	57.9
Pressures to raise prices from						
Pay settlements	25			25	27.8	15.8
Raw material costs	62.5			62.5	72.2	52.6
Finance costs	18.8			18.8	27.8	15.8
Other overheads	50			50	38.9	31.6
Transport costs	75			75	77.8	83.3
Employment trends						
Total actual employment	12.5	68.8	18.8	-6.3	-11.8	5.9
Expected next 3 months	6.3	75	18.8	-12.5	-11.8	-30.4
Average pay increase	3			3	3.1	2.2
Percent recruiting staff	37.5			37.5	38.9	35.3
Recruitment difficulties inc	28.6			28.6	0	0

RETAIL DISTRIBUTION

Optimism

The low levels of business confidence among retailers continued through the first quarter of 2013 (-45.2%) but although the net balance remains negative it was less severe than the decline reported in Q1 2012 (-62.8%).

Sales

The negative trend in overall sales continued, although eased marginally from -37.3% in Q4 2012 to -35.9%, however 60% of retailers reported a decline in the total value of sales during the first three months of 2013. Only 11.9% reported and only 5.1% expect increased sales, as continuing concerns over consumer confidence remain evident.

Finance

Cost pressures remain historically high and continued to increase in the first quarter of 2013. Utility costs and raw material prices continued to be of particular concern. Pressures on margins remain widespread with more than half of firms forecasting declining profitability (59%) and slightly fewer than half (47.6%) expect a decline in turnover during the coming year.

Employment

Labour market activity continued to decline with only 4.9% reporting an increase and none expecting an increase in overall employment levels.

A fifth of firms reported increasing pay, and the average increase rose marginally from 2.3% to 2.4%.

	Q1 2013			Net Balances		
	Q1/13	Q4/12	Q3/12	Q1/13	Q4/12	Q3/12
Business Optimism	4.8	45.2	50	-45.2	-41.2	-42.4
Trend in actual sales	11.9	28.5	59.5	-47.6	-37.3	-51.5
Trend in expected sales	5.1	53.8	41	-35.9	-39.2	-45.3
Cash flow past 3 months	7.9	52.6	39.5	-31.6	-14.3	-20.3
Turnover next 12 months	16.7	35.7	47.6	-30.9	-39.2	-40.0
Profitability next 12 months	10.3	30.8	59	-48.7	-49.0	-45.3
Price change next 3 months	57.1	38.1	4.8	52.3	49.0	47.0
Pressures to raise prices from						
Pay settlements	29.3			29.3	28.6	22.7
Raw material costs	68.3			68.3	68.0	56.1
Finance costs	33.3			33.3	26.5	24.2
Other overheads	19.5			19.5	18.0	19.7
Transport costs	58.5			58.5	50.0	43.9
Utility costs	70.7			70.7	55.1	42.4
Regulation costs	36.6			36.6	28.6	30.3
Employment trends						
Total actual employment	4.9	82.9	12.2	-7.3	-15.7	-21.2
Expected next 3 months	0	77.8	22.2	-22.2	-23.4	-9.7
Average pay increase	2.4			2.4	2.3	3.4
Percent recruiting staff	30			30.0	33.3	37.5
Recruitment difficulties inc	26.3			26.3	32.1	20.9

TOURISM

Optimism

Business confidence rose for a net balance of firms (+2%) in the first quarter of 2013 (the first rise for six quarters). Slightly fewer than half of firms reported no change (42%).

Demand

A net balance of 14% of hotels reported a fall in visitors during the three months to the end of March; and a net balance of 6.7% anticipate a decline in the second quarter of 2013. The trend was not as depressed as had been expected by respondents from the previous survey.

Average occupancy declined from 60.4% to 59.6% although this average was up compared to Q1 2012 (53.0%). During the first quarter of 2013 trends in bar/restaurant trade and conference/function facilities declined and are expected to continue to decline.

A net balance (-39.2%) reported a decline in the average daily room rate, although the downward trend is expected to ease with -8.9% expecting a further decrease in room rates in Q2 2013.

Business constraints

63% 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

More than half (56.3%), compared to only 12% in the previous quarter, of hotels sought to recruit staff. Although employment trends continued to decline, the decline was less steep than had been forecast. A net balance of 8.7% expect a rise in total employment levels in the second quarter of 2013.

	Q1 2013			Net Balances		
	Up	Level	Down	Q1/13	Q4/12	Q3/12
Business Optimism	30	42	28	2	-22.6	-27.3
Trends in demand/visitors						
Total demand/visitors	24	38	38	-14	-27.8	-36.5
Demand from Scotland	24	50	26	-2	-21.3	-20.3
Demand from Rest of UK	18.4	51	30.6	-12.2	-21.3	-24.6
Demand from abroad	14.6	39.6	45.8	-31.2	-31.2	-32.9
Business Trade	25	39.6	35.4	-10.4	-21.4	-30.7
Trends in expected demand						
Total demand/visitors	22.2	48.9	28.9	-6.7	-31.6	-41
Demand from Scotland	22.7	50	27.3	-4.6	-31.6	-21
Demand from Rest of UK	25.6	46.5	27.9	-2.3	-24.6	-30.6
Demand from abroad	19	47.6	33.3	-14.3	-33.4	-38.7
Business Trade	20.9	44.2	34.9	-14	-30.2	-35.6
Occupancy	59.6			59.6	60.4	68.0
Average daily rate	6.5	47.8	45.7	-39.2	-15.5	-11.1
Expected average daily rate	20	51.1	28.9	-8.9	-21.8	-22.6
Employment trends						
Total actual employment	12.8	61.7	25.5	-12.7	-15.5	-8.1
Expected next 3 months	21.7	65.2	13	8.7	-26.4	-28.8
Average pay increase	2.8			2.8	3.5	4.0
Percent recruiting staff	56.3			56.3	62.7	56.9
Recruitment difficulties	22			22	26.8	31.1

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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