



## **MEDIA RELEASE**

**Embargoed until 0001 hours on Thursday 11th July 2013**

### **SUSTAINING THE FRAGILE RECOVERY**

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the second quarter of 2013. This broadly based survey, now in its 30<sup>th</sup> year and conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, indicates the worst of the recession is now over and in all sectors trends in business confidence are stronger than a year ago, but the recovery still remains frail and many firms are still experiencing difficult trading conditions.

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

“Our latest survey indicates stronger signs of an economic recovery, with more positive trends and expectations compared to a year ago. Nevertheless demand still remains weak and much continues to depend upon a return to growth in our major export markets, increased participation in exporting by Scottish businesses and on the policies of the Scottish and UK Governments.

“There are more positives to take out of this quarter's figures, particularly the improving business confidence and the generally stronger expectations as to business conditions over the next twelve months. There are signs that the construction sector is continuing to improve and that tourism is having a better season than last year, with some early indications that discounting may be becoming less prevalent.

“Policies to sustain this recovery and to promote sustainable economic growth are critical. More still needs to be done to ensure that business gets the capital it needs, especially for SMEs. The policy of the Scottish Government to maximise capital spending – now also, belatedly, being pursued by the UK Government – is extremely welcome and we believe that this investment will achieve the maximum long term benefits to the economy if priority is given to transport and affordable housing projects. It is important that these projects include a mix of both larger and smaller contracts to maximise the opportunity for small and medium sized businesses to benefit from this investment. Additionally, action is still required to help reduce business costs and the Scottish Government has an opportunity to reduce the burden of business rates for those small and mid-size firms which do not currently benefit from the Small Business Bonus.

“Businesses will build for the future and find opportunities where they can, but this is much more likely in an economy where Governments introduce sensible long term policies to encourage sustainable growth. The danger is that, in the lead up to polls in each of the next three years, politicians are tempted to focus on quick fixes rather than delivering the sustained support for growth that business needs.”

## **BUSINESS PERFORMANCE**

### **Summary Points**

#### Overall

The sense that the worst of the recession is over is more widely evident. In all sectors confidence is stronger than a year ago, and expectations for the third quarter, whilst continuing to be weak are nevertheless stronger than a year ago. However, sustaining the recovery will remain hard and difficult

Scottish manufacturing trends remain little changed over the past year, however, respondents are more confident as to improvements in orders over the next three months and to improving turnover over the next twelve months. Likewise over the past year SCBS construction respondents have reported improving trends in orders and activity and rising capacity utilisation, although again trends remain weak. For a further quarter there is some anecdotal evidence of rising activity, although not increased employment amongst smaller firms at the front end of the sector. However retail trends remain little changed with weak sales trends widely reported. However, as with other sectors the expectations for the year ahead are more positive than earlier in the year. In contrast improving trends in tourism are more widely reported with visitor numbers and occupancy rates better than a year ago.

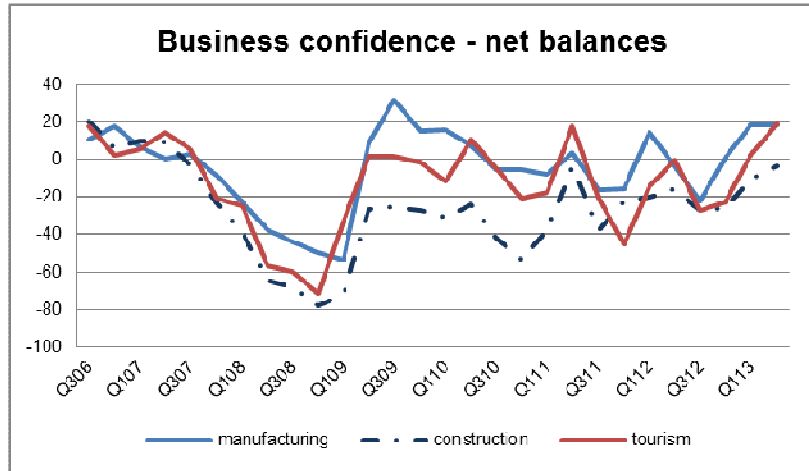
A year ago we reported that with the exception of retail, the trends in all sectors were weaker than those reported in 2011 and suggested there were more signs of a stagnating economy in 2012 as demand in the Scottish economy remains weak and downside risks remain. The outlook for manufacturing was giving rise for concern; manufacturing respondents were anticipating weaker trends for the third quarter and over the next twelve months. Construction respondents likewise reported weaker Q2 2012 trends than in 2011, but demand remains weak and pressures on margins widespread and activity appears to reflect repair and maintenance and only very limited new commercial and private new build Tourism likewise reported weaker trends than a year ago and expectations for Q3 are more modest than in Q3 2011.

Compared to Q2 2012 we can see signs of a recovery and expectations of further improvements in the third quarter and over the next twelve months. However, demand and activity remain weak and trading conditions harsh and much will depend on the rate and extent of recovery in our major markets and on the measures the Government adopts over the medium term.

#### Business confidence

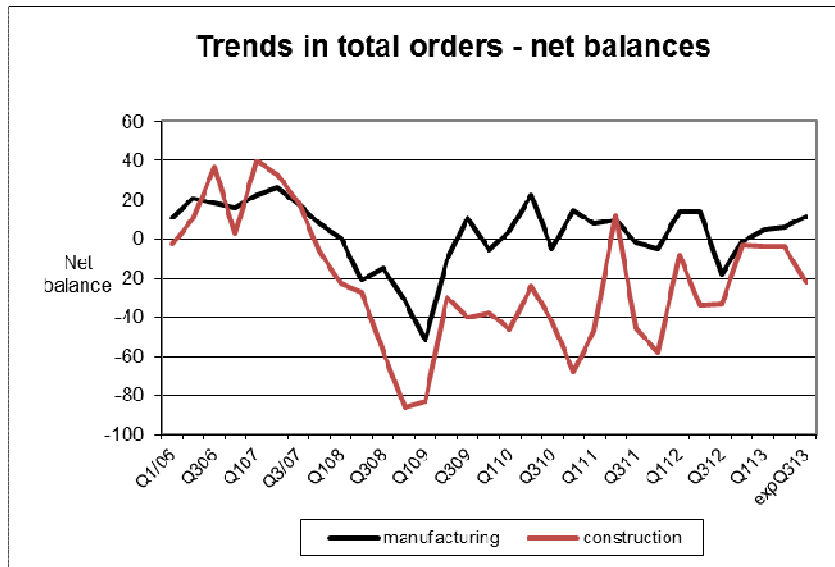
Business confidence continued to improve for a net balance of manufacturing and tourism firms in the second quarter of 2013 and encouragingly the downward trend eased for construction, wholesale and retail respondents. The net balance of optimism among tourism firms (+18.7%) is the highest net increase since the recession began.

Once again weak business confidence amongst the non-national multiple retail sector was widespread, fewer than a fifth of outlets reported a rise in confidence reflecting the continuing weak consumer confidence and spending. The long run rising trends in internet based sales together with continuing pressures on household incomes add to the problems in this sector. In tourism business confidence remained positive (+18.7) – the highest net balance since the second quarter of 2006.



**Demand/sales**

The net balance of total orders among manufacturing firms continued to improve in the second quarter, and a further rise is forecast – once again fuelled by actual and expected increases in export orders. Scottish orders continued to decline and are expected to decline again in Q3, whereas the downward trend in Rest of UK orders improved. Although not as depressed as in recent previous quarters, demand in construction remained weak (-3.6%), and the outturn was generally not as depressed as had been forecast; expectations for Q2 2013 remain low (-22%).

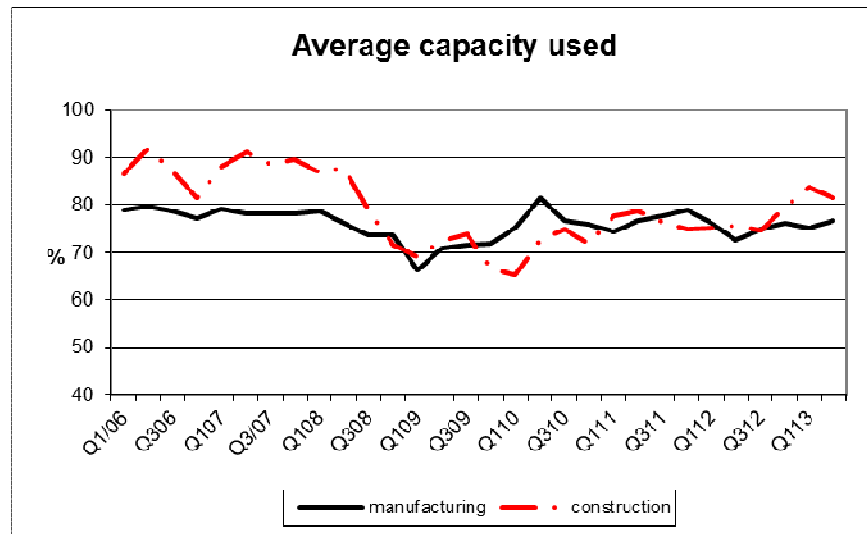


Declining trends in retail sales were widely reported in the first quarter and discounting was again widespread with, once again more than half of firms reporting a decline in sales, and 45% (41% in the previous quarter) expect a further decline in the three months to September. In tourism the outturn in demand for Q2 was better than had been forecast and also better than the levels in second quarter of last year.

**Capacity/work in progress**

Average capacity used in manufacturing improved marginally from 75.1% in Q1 to 76.6% in the latest quarter and this level is above that of the second quarter of 2012. Once again more than half of manufacturing firms reported working below optimum levels, however a small net balance of firms expects a rise in the level

of work in progress in Q3 2013. In construction capacity utilisation remained relatively high (81%), better than the level reported in previous second quarters.



In construction more than half of firms reported working below optimum levels. In tourism occupancy, at 69% was better than the previous quarter (59.6%) and also better than the second quarters of 2012 and 2011 (64% and 68%).

**Cost pressures**

Once again for manufacturing firms raw material/suppliers prices (68% compared to 65% in Q1) and transport costs (40% compared to 43% in Q4) were the most widely reported cost pressures. Prices are set to continue to rise in the coming quarter with fewer than 15% 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 although the downward trends eased slightly. Manufacturers, on the other hand, are continuing to forecast 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 61% in tourism to 79% in wholesale) reporting no change to employment levels. Nevertheless the trends remained negative with falling trends in employment were reported in all main sectors. Recruitment difficulties remained evident.

Pay increases in the three months to the end of June ranged from 2.0% in wholesale distribution to 3.6% in tourism. The average increase declined slightly in wholesale but rose in construction, tourism and retail.

**Outlook**

Our view, noted in our latest Economic Commentary is that 'despite the recent good survey evidence the recovery so far is weaker than would be expected 5 years after a recession, even a recession generated by a banking crisis'. The Institute argues that 'the reason for this stagnation and anaemic recovery, is twofold: the UK government's fiscal consolidation programme and a weak export performance reflecting both supply-side structural problems in the UK and Scottish economies as well as weak global demand'. Well thought through long term Government programmes will be critical if the recovery is to be sustained over the long term.

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 June 2013 some 260 firms responded to the questionnaire.

© University of Strathclyde, Fraser of Allander Institute 2013. Use, storage and distribution by any means is freely given provided full citation is given.

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

During the second quarter of 2013 business confidence continued to improve for a net of 18.1% of manufacturing firms compared to a net balance of +18.6% in the previous quarter and to +1.1% in Q4 2012.

### Orders and Sales

During the three months to the end of June a net balance of 6% reported a rise in total sales; better than the previous quarter (+4.6%) but down on the same quarter of 2012 (+14.1%) and the rise was not as good as had been forecast by firms in Q1. Respondents are fairly optimistic as to the trends in orders for the third quarter of 2013 (+11.5%). Average capacity utilisation rose by one percentage point and was almost four percentage points higher than the second quarter of 2012. More than half of firms reported working below optimum levels.

Turnover is expected to rise for a net balance of firms (+17.9). The net trend in profitability (+7.1%) is also expected to rise over the coming year.

### Investment

The trends in investment in plant/machinery improved during Q2 for a net balance of manufacturing respondents (+5%). New investment continues to be directed towards replacement (38.3%) or to improve efficiency (30.8%).

### Employment

During the three months to the end of June a net balance of firms reported a decline in total employment levels (-7.1%) although around two thirds continued to report no change to overall levels. A third of firms increased pay during Q2 and the average increase was unchanged from the previous quarter at 2.9%. 39% reported seeking to recruit staff compared to 42% in Q1, and slightly fewer than a third of recruiting firms reported difficulties.

MANUFACTURING	Up	Level	Down	Q2/13	Q1/13	Q4/12
<b>Business Optimism</b>	30.1	57.8	12	18.1	18.6	1.1
<b>Trends in actual orders</b>						
Total new orders	30.1	45.8	24.1	6	4.6	-1.2
Scottish orders	17.1	59.2	23.7	-6.6	-21	-6.7
Rest of UK orders	26.4	52.8	20.8	5.6	-7.8	-9.4
Export orders [29.6% = N/A]	24.7	27.2	18.5	6.2	14.1	-6.1
<b>Trends in expected orders</b>						
Total new orders	25.6	60.3	14.1	11.5	16.7	0
Scottish orders	16.9	62	21.1	-4.2	-1.2	-5.7
Rest of UK orders	17.4	65.2	17.4	0	0	-9.9
Export orders [31.6% = N/A]	19.0	36.7	12.7	6.3	10.7	-5
Av Capacity used	76.6			76.6	75.1	76.2
Invest in plant/equip.	25.0	55.0	20.0	5	-3.6	3.7
Cash flow past 3 moths	18.1	51.8	30.1	-12	-8.3	-4.8
Turnover next 12 moths	40.5	39.6	22.6	17.9	18.8	11.9
Profitability next 12 moths	34.5	38.1	27.4	7.1	5.9	8.3
Price change next 3 moths	27.7	67.5	4.8	22.9	17.4	25.9
<b>Pressures to raise prices from</b>						
Pay settlements	29.9			29.9	27.3	30.7
Raw material costs	67.5			67.5	65.1	67.9
Finance costs	14.1			14.1	15.4	16
Other overheads	42.5			42.5	52.4	50
Transport costs	40.0			40	42.7	41.8
<b>Employment trends</b>						
Total actual employment	14.3	64.3	21.4	-7.1	-8.3	1.2
Total expected next 3 months	15.2	70.9	13.9	1.3	0	-4
Average pay increase	2.9			2.9	2.9	3.4

## CONSTRUCTION

### **Optimism**

Once again the decline in business optimism eased (-3.5%) compared to the previous quarter (-10.7%) and almost 80% of firms reported a rise/no change to optimism levels.

### **Contracts**

The trend in total new orders/contracts continued to ease for a net balance of -3.6% in Q2, better than the net balance on Q2 2012 (-34.2%). A net of 22% expect a decline in Q3. Capacity utilisation eased marginally from 83.7% to 81.4% and despite the marginal decline the average remains higher than that of Q2 2012. Public sector orders (-29.2%) declined sharply from Q1 (-8.3) and domestic/house build orders (-14.3%) continued to decline. The upward trend in private commercial orders (+8.3%) continued.

Cash flow trends continued to decline (-3.6%) although the decline eased from the previous quarter (-28.6%). Turnover (-7.2%) and profitability (-35.7%) are still expected to be weak over the next 12 months together with continued pressure on margins. More than half of responding firms expect tender margins to worsen during the coming year.

### **Employment**

There was no net change in total employment levels in Q2 although a net balance (-12%) expect a decline in Q3. Recruitment activity eased (from 44% to 29%) as did recruitment difficulties (from 27% to 19%). Average pay increases rose from 2.6% in Q1 to 3.3%.

	Up	Level	Down	Q2/13	Q1/13	Q4/12
<b>Business Optimism</b>	17.9	60.7	21.4	-3.5	-10.7	-25.8
<b>Trends in actual contracts</b>						
Total new contracts	25	46.4	28.6	-3.6	-3.5	-3.1
Public sector orders	8.3	54.2	37.5	-29.2	-8.3	-24.0
Private commercial	25.0	58.3	16.7	8.3	7.4	-17.3
Domestic/house build	14.3	57.1	28.6	-14.3	-16.6	-28.0
<b>Trends in expected contracts</b>						
Total new orders	14.8	48.1	37	-22.2	0.0	-18.8
Public sector orders	13.6	50	36.4	-22.8	-19.1	-42.4
Private commercial	22.7	59.1	18.2	4.5	-12.5	-32.2
Domestic/house build	14.3	61.9	23.8	-9.5	-4.8	-30.5
<b>Trends in work in progress</b>						
Actual	17.9	64.3	17.9	0.0	-3.6	-28.1
Expected	14.8	55.6	29.6	-14.8	-7.4	-25.0
<b>Capacity used</b>	81.4			81.4	83.7	79.4
<b>Invest in plant/equip.*</b>					-31.8	
<b>Leasing in plant/equipment.*</b>					-22.7	
<b>Employment trends</b>						
Total actual employment	17.9	64.3	17.9	0.0	10.7	-12.5
Total expected next 3 months	16	56	28	-12.0	-4.5	-31.2
<b>Average pay increase</b>	3.3			3.3	2.6	2.3
Percent recruiting staff	28.6			28.6	44.4	37.5
Recruitment difficulties increasing	18.8			18.8	26.7	15.0

## WHOLESALE DISTRIBUTION

### **Optimism**

The downward trend in business optimism amongst Scottish wholesalers eased from -43.7% in Q1 to -21.4%. This net balance was better than those of previous second quarters.

### **Sales**

Despite the easing in the downward trend in business optimism sales declined sharply from a net balance of -18.7% to -42.9%. Once again the downward trend in sales was worse than expected from the previous survey, with fewer than a quarter of wholesalers reporting an increase in sales; a net balance expect the decline to continue (-15.4%) in the third quarter.

More than three-quarters of wholesalers (78.6%) continued to report increased pressures from transport costs. Firms also remain under pressure from raw material costs (64.3%), pay settlements were cited as a pressure for 21% of firms. More than half of firms (57.1%) expect to increase prices over the next three months. The downward trends in both turnover and profitability continued but eased in Q2.

### **Finance**

Half of firms reported no change to investment plans; nevertheless the decline continued (-21.4%).

### **Employment**

Wholesale respondents, as expected, reported a net decrease in overall employment levels during the second quarter of 2013 (-21.4%) and a net balance expected to shed staff in the third quarter (-33.3%). Over a third sought to recruit staff (35%); largely for replacement. The average pay increase in Q2 was 2.0% compared to 3.0% in Q1.

	Up	Level	Down	Q2/13	Q1/13	Q4/12
<b>Business Optimism</b>	14.3	50	35.7	-21.4	-43.7	-35.3
<b>Trend in actual sales</b>	7.1	42.9	50	-42.9	-18.7	-22.2
<b>Trend in expected sales</b>	23.1	38.5	38.5	-15.4	-14.3	-7.1
Investment plans	14.3	50.0	35.7	-21.4	-18.7	-11.1
Cash flow past 3 months	28.6	50	21.4	7.2	-6.2	0
Turnover next 12 months	28.6	35.7	35.7	-7.1	-31.3	5.5
Profitability next 12 months	21.4	21.4	57.1	-35.7	-31.2	-22.2
Price change next 3 months	57.1	28.6	14.3	42.8	56.2	33
<b>Pressures to raise prices from</b>						
Pay settlements	21.4			21.4	25	27.8
Raw material costs	64.3			64.3	62.5	72.2
Finance costs	21.4			21.4	18.8	27.8
Other overheads	57.1			57.1	50	38.9
Transport costs	78.6			78.6	75	77.8
<b>Employment trends</b>						
Total actual employment	0	78.6	21.4	-21.4	-6.3	-11.8
Expected next 3 months	0	66.7	33.3	-33.3	-12.5	-11.8
Average pay increase	2.0			2.0	3	3.1
Percent recruiting staff	35			35	37.5	38.9
Recruitment difficulties	16.7			16.7	28.6	0



## RETAIL DISTRIBUTION

### **Optimism**

The low levels of business confidence among retailers continued through the second quarter (-24.5%); although the net balance remains negative it was less severe than the decline reported in Q1 (-45.2%).

### **Sales**

The negative trend in overall sales continued, although eased marginally from -47.6% in Q1 to -35.5%, however more than half of retailers continued to report a decline in the total value of sales. Only 15.6% reported and only 4.8% expect increased sales, as continuing concerns over consumer confidence remain evident.

### **Finance**

Cost pressures remain historically high and continued to increase in the three months to the end of June. Utility costs and raw material prices continued to be of particular concern. Pressures on margins continued though eased slightly during Q2. A net balance of -15.5% expect a decline in turnover (compared to -30.9% in the previous quarter) and a net of -17.8% expect a decline in profitability (compared to -48.7% previously).

### **Employment**

Labour market activity continued to decline although more than 70% reported no overall change to employment levels.

A quarter of firms reported increasing pay, and the average increase rose marginally from 2.4% to 2.8%.

	Level	Up	Down	Q2/13	Q1/13	Q4/12
<b>Business Optimism</b>	13.3	48.9	37.8	-24.5	-45.2	-41.2
<b>Trend in actual sales</b>	15.6	33.3	51.1	-35.5	-47.6	-37.3
<b>Trend in expected sales</b>	4.8	50	45.2	-40.4	-35.9	-39.2
<b>Cash flow past 3 months</b>	15.9	54.5	29.5	-13.6	-31.6	-14.3
Turnover next 12 months	26.7	31.1	42.2	-15.5	-30.9	-39.2
Profitability next 12 months	24.4	33.3	42.2	-17.8	-48.7	-49.0
Price change next 3 months	62.2	35.6	2.2	60.0	52.3	49.0
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	25.6			25.6	29.3	28.6
<b>Raw material costs</b>	68.2			68.2	68.3	68.0
<b>Finance costs</b>	37.5			37.5	33.3	26.5
<b>Other overheads</b>	15.9			15.9	19.5	18.0
<b>Transport costs</b>	45.2			45.2	58.5	50.0
<b>Utility costs</b>	61.4			61.4	70.7	55.1
<b>Regulation costs</b>	36.4			36.4	36.6	28.6
<b>Employment trends</b>						
Total actual employment	11.4	70.5	18.2	-6.8	-7.3	-15.7
Expected next 3 months	7.3	70.7	22	-14.7	-22.2	-23.4
<b>Average pay increase</b>	2.8			2.8	2.4	2.3
Percent recruiting staff	20.5			20.5	30.0	33.3
Recruitment difficulties	22.7			22.7	26.3	32.1

## TOURISM

### **Optimism**

Business confidence rose for a net balance of firms (+18.7%) in the second quarter of 2013 (better than Q2 2012 and comparable to Q2 2011).

### **Demand**

A net balance of 13.6% of hotels unexpectedly reported a rise in visitors during the three months to the end of June; and a net balance of 13.5% anticipate a further rise in Q3.

Average occupancy improved from 59.6% to 69% although this average was up compared to Q2 2012 (64.4%). During the second quarter of 2013 trends in bar/restaurant trade and conference/function facilities declined although firms are expected a small net rise in bar/restaurant use.

A net balance (+3.7%) reported a rise in the average daily room rate, and a further rise is expected (+12%) in the three months to the end of September.

### **Business constraints**

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

### **Employment**

Over 60%, compared to 56.3% in the first quarter, of hotels sought to recruit staff. Employment trends continued to decline, and the decline was marginally steeper than had been forecast. A net balance of 7.5% expect a rise in total employment levels in the third quarter of 2013.

	Up	Level	Down	Q2/13	Q1/13	Q4/12
<b>Business Optimism</b>	39	40.7	20.3	18.7	2	-22.6
<b>Trends in demand/visitors</b>						
Total demand/visitors	42.4	28.8	28.8	13.6	-14	-27.8
Demand from Scotland	35.7	48.2	16.1	19.6	-2	-21.3
Demand from Rest of UK	27.3	52.7	20	7.3	-12.2	-21.3
Demand from abroad	28.6	37.5	33.9	-5.3	-31.2	-31.2
Business Trade	38.9	31.5	29.6	9.3	-10.4	-21.4
<b>Trends in expected demand</b>						
Total demand/visitors	38.5	36.5	25	13.5	-6.7	-31.6
Demand from Scotland	28.6	51	20.4	8.2	-4.6	-31.6
Demand from Rest of UK	25	50	25	0	-2.3	-24.6
Demand from abroad	29.4	41.7	29.2	0.2	-14.3	-33.4
Business Trade	23.9	50	26.1	-2.2	-14	-30.2
<b>Occupancy</b>						
	69.0			69	59.6	60.4
<b>Average daily rate</b>						
Average daily rate	27.8	48.1	24.1	3.7	-39.2	-15.5
Expected average daily rate	30	52	18	12	-8.9	-21.8
<b>Employment trends</b>						
Total actual employment	17.5	61.4	21.1	-3.6	-12.7	-15.5
Expected next 3 months	26.4	54.7	18.9	7.5	8.7	-26.4
<b>Average pay increase</b>						
Average pay increase	3.6			3.6	2.8	3.5
Percent recruiting staff	63.2			63.2	56.3	62.7
Recruitment difficulties	19.6			19.6	22	26.8

## 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](mailto:c.j.lockyer@strath.ac.uk)  
Eleanor Malloy                0141 548 3967 or [e.malloy@strath.ac.uk](mailto:e.malloy@strath.ac.uk)

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