MEDIA RELEASE

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WEAKENING BUSINESS AND CONSUMER CONFIDENCE TOGETHER WITH FEWER SIGNS OF AN ECONOMIC RECOVERY UNDERLINE THE NEED FOR A NEW PLAN FOR GROWTH

Scottish Chambers of Commerce (SCC) have today (Thursday) released their Business Survey results for the third quarter of 2011. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, suggests a stalling of the fragile recovery, weakening business confidence as growth slows in our major export markets and consumer confidence remains depressed. SCC propose a three point plan to stimulate the recovery and promote future growth.

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

"The world economy has suffered a series of serious shocks over the past few months and it is evident that domestic growth has been stagnant for much of the year. Whilst it is understandable that much of Scottish businesses are increasingly pessimistic about future prospects it is important to recognise that the Scottish tourist industry has had a good summer, despite the weather, and that exports continue to bolster our manufacturing sector.

"The priority for the Edinburgh and London Governments must be to act to secure the best possible prospects for higher long term rates of growth in our economy and to support those businesses which have the capacity to succeed. Action to reduce the deficit is necessary, but we must still invest for future growth of our businesses and our economy. We believe that there are three areas where government can make a big difference with relatively small investment.

"Firstly we must continue to support our exporters and increase the number of businesses trading internationally. The value of sterling has given us a key advantage in international markets over the past few years and this is something we must develop further. Secondly we must invest in affordable housing. This is necessary to support our construction sector, meet social needs and contribute to the redevelopment and revival of our town centres across Scotland.

"Finally we must invest in our transport infrastructure. This year, many of our tourist members have highlighted our transport system as a constraint to growth and it is time we heeded this warning for the sake of our wider economy. We recognise that the Scottish Government have acted to boost available resources for capital investment and we urge them to prioritise key transport projects that will help unblock the clogged arteries of our road and rail networks. There are numerous examples of these across the country and the return on investment would be significant. In addition, we urge the UK Government to devolve Air Passenger Duty to allow the Scottish Government to develop a coherent policy to connect Scotland to our international markets."

BUSINESS PERFORMANCE

Summary Points

Overall

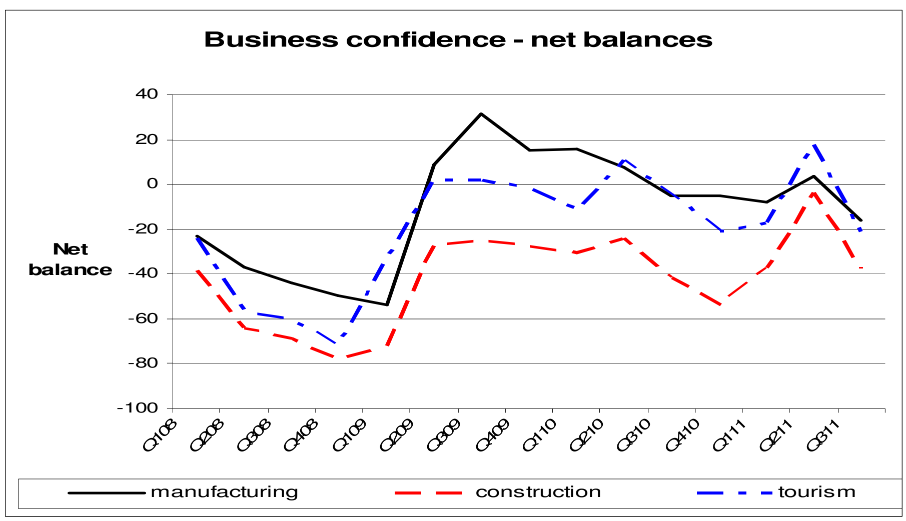
Once again the absence of any real signs of economic recovery, consumer insecurity, and deepening concerns as the Eurozone debt crisis and its potential impact on Scotland's major export markets dampened business confidence and activity. The pickup in activity in construction appeared short lived and continuing consumer uncertainty contributed to weaker results and expectations in retail. Tourism again benefited from increased numbers of home visitors. Uncertainty both in Europe and at home, weak consumer confidence, job insecurity and rising costs and price pressures once again seem set to be the main features affecting the Scottish economy for the remainder of this year.

Within manufacturing only export trends improved as confidence and demand generally declined. Expectations for the year ahead remained largely unchanged from the previous quarter – reinforcing the sense of a of slow, uncertain and only gradual improvement, with continuing concerns as to rising raw material and transport costs.

The rising trends seen in both construction and tourism during the previous quarter proved to be temporary seasonal adjustments and were not sustained into Q3.

Business confidence

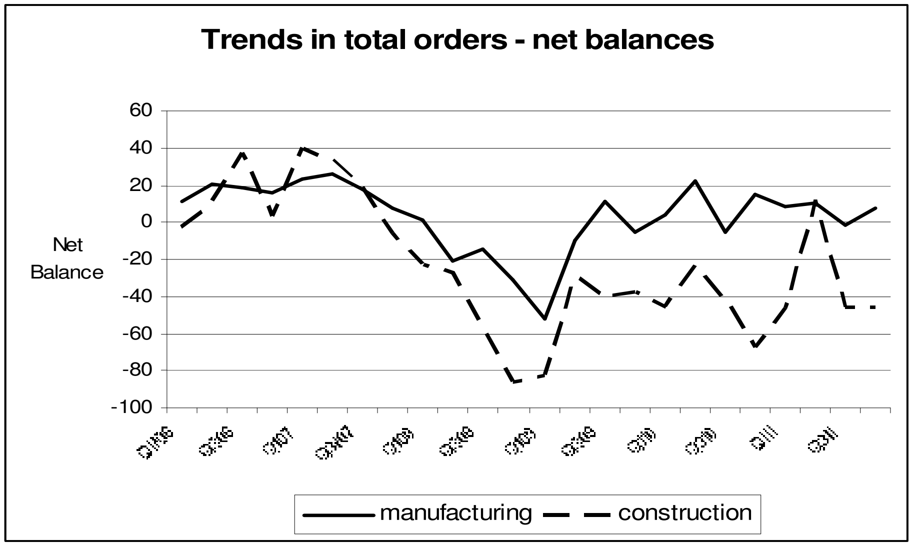
Business optimism declined across all sectors during Q3, reflecting growing uncertainties as to the economic recovery; most notable was the fact that the majority of wholesalers and retailers reported pessimism concerning trading conditions. The positive rising trends reported in construction and tourism in the second quarter proved short lived and both sectors reported declining confidence.



Demand/sales

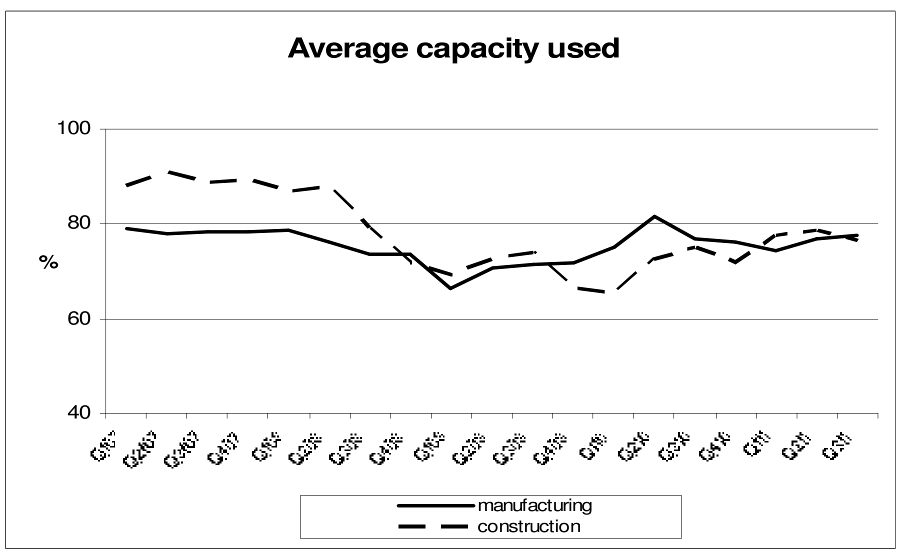
For manufacturing firms the reported trends in demand were worse than had been anticipated by firms in the previous survey. Once again export orders/sales remained somewhat resilient however, the net decline in Scottish and rest of UK demand was worse than in previous quarters. In construction demand declined from all areas, and the cuts in public spending now appear to be impacting on the construction sector. The expectations for Q4 remain bleak.

Retail sales trends weakened further in Q3 against a backdrop of most firms reporting having to increase prices to cover increased costs from suppliers and utility costs. More than two thirds reported a decline in sales and more than 70% expect a further decline. In tourism the outturn in demand for Q3 2011 was generally worse than had been forecast. However the net balance of overall demand was better compared to that in Q3 2010. Business demand remained weak but was marginally better than had been expected.



Capacity/work in progress

Average capacity used in manufacturing again rose marginally from 77.7% (up slightly from 76% compared to a year ago) whereas in construction capacity fell by 2.4 percentage points over the past quarter (although was up 1.4 points compared to a year ago).



In construction the proportion reporting working below optimum levels remained at 60% during Q3 2011. In tourism occupancy was somewhat higher than during the third quarters of 2010 and 2009.

Cost pressures

Once again for manufacturing firms raw material/suppliers prices (84%) and transport costs (51%) were the most widely reported cost pressures. More than 40% of manufacturing, 62% of wholesale and 83% of retail respondents reported pressures to raise prices due to rising raw material/suppliers' prices. Firms are coming under increasing energy related costs with the impact of the recent announced price rises now starting to come into effect.

Pay and employment

Labour market activity was largely stable with the majority of responding firms not varying overall employment levels. Previous improvements in recruitment activity among construction firms proved to be a temporary blip. Whilst net rising trends in employment were reported by manufacturers in Q2 a net balance of respondents now expect a decline. Employment trends among wholesale and retail distribution respondents remain stubbornly weak. Recruitment difficulties remained at low levels. Pay increases ranged from 2.1% in construction to 3.3% in manufacturing/tourism, to 3.5 in wholesale and 5.2% in retail.

Outlook

There are now fewer signs of the current fragile recovery continuing, demand remains weak and consumer uncertainty and reduced living standards are evident in the trends in retail and tourism. Concerns as to both the Eurozone and American economies continue to adversely influence both activity and sentiment in Scotland and in the rest of the United Kingdom.

Manufacturing respondents continued to report and expect positive export trends, although these trends may be undercut if consumer spending and demand in the Eurozone and the USA continue to weaken or remain fragile. The outlook for the construction sector and associated service activities remains bleak and once again much will depend on Government action to stimulate activity. In the service sector, as we noted in our report for Q2 2011, weak consumer confidence, reduced living standards and inflation will continue to adversely impact on retail sales trends. In contrast demand in hotels has improved compared to the third quarters in 2010, but the outturn was weaker and weak trends in demand are anticipated for the remainder of 2011

As we noted in report for Q1 2011 'Rising price pressures and weak demand seem set to continue in the service sector, for many Scottish businesses the combination of limited improvements in turnover, rising costs, pressures on margins and declining trends in profitability will pose real problems in 2011' we see little evidence in the results for the third quarter to change this view, if anything, our concerns are greater.

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 and early October 2011, some 200 firms responded to the questionnaire.

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MANUFACTURING

Optimism

Manufacturing firms are, on balance, more pessimistic compared to three months ago. 31% reported being less optimistic compared to the second quarter.

Orders and Sales

The rising trend in total new orders ended in quarter three although the upward trend in total new sales continued. The outturn in total orders was worse than had been expected however export orders continued to improve. Average capacity utilisation rose marginally to 77.7%, a little higher than a year ago. The rising trend in orders is expected to resume during the fourth quarter.

Cost pressures eased marginally with half of respondents expect prices to stabilize. Once again the net trend in turnover is expected to remain positive over the coming twelve months. Profitability, on balance, is expected to decline although the decline is set to ease with a net balance of 5% (compared to 10% in Q2) expecting a decline over the year.

Investment

Plans to invest in plant/machinery improved during quarter three for a net balance of manufacturing firms. New investment mainly directed towards replacement or to improve efficiency whereas R&D/expansion investment intentions remained low.

Employment

Employment trends continued to rise modestly. Fewer than 15% of firms increased pay during the three months to October and the average increase was 3.3%. Recruitment activity increased further with 40% attempting to recruit compared to 23% in Q2.

	Q3 2011			Net Balances		
	Up	**Level**	**Down**	**Q3/11**	**Q2/11**	**Q1/11**
Business Optimism	14.5	54.5	30.9	-16.4	3.3	-8.2
Trends in actual orders						
Total new orders	28.6	41.1	30.4	-1.8	10.0	8.2
Scottish orders	11.8	62.7	25.5	-13.7	-3.5	-8.6
Rest of UK orders	16.7	58.3	25.0	-8.3	-1.8	-15.6
Export orders [29% = N/A]	25.5	29.1	16.4	9.1	4.9	13.7
Trends in expected orders						
Total new orders	25.0	57.7	17.3	7.7	10.0	2.8
Scottish orders	6.5	73.9	19.6	-13.0	-5.2	-11.6
Rest of UK orders	12.8	72.3	14.9	-2.1	3.7	-11.1
Export orders (29%= N/A]	27.3	36.4	7.3	20	11.7	17.8
Av Capacity used	77.7			77.7	76.8	74.5
Invest in plant/equip.	26.9	59.6	13.5	13.5	-3.6	-8.6
Cash flow past 3 moths	10.7	62.5	26.8	-16.1	-5.0	-5.6
Turnover next 12 moths	35.7	42.9	21.4	14.3	14.8	6.9
Profitability next 12 moths	26.3	42.1	31.6	-5.3	-9.8	-20.8
Price change next 3 moths	40.4	50.9	8.8	31.6	42.6	0.0
Pressures to raise prices from						
Pay settlements	17.5			17.5	21.3	26.4
Raw material costs	84.2			84.2	83.6	86.1
Finance costs	10.5			10.5	14.8	12.5
Other overheads	33.3			33.3	50.8	44.4
Transport costs	50.9			50.9	57.4	65.3
Employment trends						
Total actual employment	17.5	73.7	8.8	8.8	13.1	5.6
Total expected next 3 months	7.4	70.4	22.2	-14.8	12.3	2.8
Average pay increase	3.3			3.3	3.6	3.3

CONSTRUCTION

Optimism

The strong downward trend in business confidence resumed in Q3 with business optimism as low as in Q3 2010; suggesting that the easing in the downward trend during Q2 was a seasonal improvement.

Contracts

The outturn, in terms of new contracts, was significantly worse than had been anticipated by respondents in the previous survey. Trends in contracts from all areas declined with the most significant reduction being for public sector contracts. A net balance of firms from the previous survey had expected a rise in work in progress however the outturn was a net balance of -21%. 60% of firms reported working below optimum levels.

Average capacity used, at 76.4% was two percentage points lower than Q2 although was marginally higher compared to a year ago.

Turnover, tender margins and profitability over the next twelve months are expected to decline for more than half of respondents.

Employment

The long-term downward trend in employment resumed in Q3, suggesting that the rise in Q2 was seasonal. Once again no recruitment difficulties were evident. Average pay increases declined from 3.9% in Q2 to 2.1%.

	Q3 2011			Net Balances		
	Up	Level	Down	Q3/11	Q2/11	Q1/11
Business Optimism	8.3	45.8	45.8	-37.5	-4	-37.5
Trends in actual contracts						
Total new contracts	12.5	29.2	58.3	-45.8	12.0	-47.1
Public sector orders	0.0	14.3	85.7	-85.7	-33.3	-57.1
Private commercial	11.8	35.3	52.9	-41.2	15.7	-31.3
Domestic/house build	10.0	35.0	55.0	-45.0	-10.0	-61.5
Trends in expected contracts						
Total new orders	4.5	45.5	50.0	-45.5	-21.8	-11.8
Public sector orders	0.0	27.3	72.7	-72.7	-26.7	-50.0
Private commercial	15.4	23.1	61.5	-46.2	0.0	-6.3
Domestic/house build	11.1	27.8	61.1	-50.0	-16.6	-15.4
Trends in work in progress						
Actual	20.8	37.5	41.7	-20.8	16.0	-17.6
Expected	22.7	31.8	45.5	-22.7	4.0	-29.4
Capacity used	76.4			76.4	78.8	77.7
Invest in plant/equip.	9.1	54.5	36.4	-27.3		-52.9
Leasing in plant/equipment.	8.7	52.2	39.1	-30.4		-43.8
Employment trends						
Total actual employment	12.5	70.8	16.7	-4.2	12.0	-23.5
Total expected next 3 months	4.8	23.8	71.4	-66.7	0.0	-17.6
Average pay increase	2.1			2.1	3.9	n/a
Percent recruiting staff	33.3			33.3	40.0	29.4
Recruitment difficulties increasing	0.0			0.0	0.0	0

WHOLESALE DISTRIBUTION

Optimism

Business confidence amongst Scottish wholesale respondents deteriorated further in Q3 with no firms reporting an improvement in optimism. Business confidence was considerably lower compared to one year ago.

Sales

Sales trends remained very weak during Q3 with the outturn worse than had been predicted by firms in Q2. Almost half of firms reported declining sales and more than half expect a further decrease.

Cost pressures eased slightly during the three months to the end of September although remained historically high. Three quarters of respondents cited transport costs and 62% cited increased suppliers costs and. Over 60% expect to increase prices over the next three months, but cash flow trends remain weak Concerns over turnover eased slightly however profitability remains low.

Finance

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

Employment

Wholesale respondents continued to shed staff during Q3 although the rate of decline eased. Slightly fewer than a third sought to recruit staff; largely for replacement. The average pay increase in Q3 was 3.5% compared to 3.3% in Q2.

	Q3 2011			Net Balances		
	Up	**Level**	**Down**	**Q3/11**	**Q2/11**	**Q1/11**
Business Optimism	0.0	37.5	62.5	-62.5	-44.4	0.0
Trend in actual sales	6.3	50.0	43.8	-37.5	-38.9	-21.4
Trend in expected sales	0.0	46.7	53.3	-53.3	-31.3	0.0
Investment plans	12.5	56.3	31.3	-18.8	-17.6	-7.2
Cash flow past 3 months	12.5	62.5	25.0	-12.5	-16.6	-28.6
Turnover next 12 months	12.5	50.0	37.5	-25.0	-38.8	21.4
Profitability next 12 months	18.8	25.0	56.3	-37.5	-27.7	0.0
Price change next 3 months	68.8	25.0	6.3	62.5	72.2	85.7
Pressures to raise prices from						
Pay settlements	18.8			18.8	11.1	21.4
Raw material costs	62.5			62.5	83.3	92.9
Finance costs	25.0			25.0	27.8	21.4
Other overheads	50.0			50.0	50.0	21.4
Transport costs	75.0			75.0	94.4	85.7
Employment trends						
Total actual employment	6.3	62.5	31.3	-25.0	-41.2	-28.6
Expected next 3 months	0.0	76.9	23.1	-23.1	-31.3	-14.3
Average pay increase	3.5			3.5	3.3	2.13
Percent recruiting staff	31.3			31.3	35.3	50
Recruitment difficulties inc	9.1			9.1	7.7	10

RETAIL DISTRIBUTION

Optimism

Conditions in the retail sector have not improved over recent quarters with weak/declining consumer confidence, flat sales trends, increasing competition, rising costs and declining margins all continuing in this present survey. The low levels of business confidence remained with more than half of firms reporting a decline.

Sales

The trend in sales weakened further with 68% reporting and 72% expecting some decline in the total value of sales. Only 10% reported increased sales during Q3 2011, and once again continuing concerns over consumer confidence are moderating sales expectations for the coming quarter with only 10% of retailers expecting an overall increase.

Finance

Cost pressures remain intense with over 80% reporting increased suppliers costs, 58% reporting increased transport costs. Pressure from utility costs increased from 50% increased utility costs to 73% of firms (reflecting recently announced price increases). Inflationary pressures remain widespread. Pressures on margins remain widespread with two thirds expecting declining profitability and turnover over the next year.

Employment

Labour market activity continues to remain at low levels with three quarters of retailers reporting no change to overall employment levels. Recruitment activity eased for the ninth consecutive quarter.

Only a tenth reported increasing pay, and the average increase was 5.2% - up from previous quarters but probably due to the small numbers reporting increases.

	Q3 2011			Net Balances		
	Up	Level	Down	Q3/11	Q2/11	Q1/11
Business Optimism	4.9	39.0	56.1	-51.2	-55.6	-52.3
Trend in actual sales	9.8	22.0	68.3	-58.5	-43.5	-69.1
Trend in expected sales	10.0	17.5	72.5	-62.5	-50.0	-60
Cash flow past 3 months	4.9	51.2	43.9	-39.0	-33.3	-31.7
Turnover next 12 months	9.8	22.0	68.3	-58.5	-48.9	-47.6
Profitability next 12 months	12.5	20.0	67.5	-55.0	-57.8	-68.3
Price change next 3 months	72.5	22.5	5.0	67.5	58.7	71.5
Pressures to raise prices from						
Pay settlements	26.8			26.8	19.6	23.8
Raw material costs	82.9			82.9	73.3	76.2
Finance costs	29.3			29.3	30.4	23.8
Other overheads	17.1			17.1	21.7	16.7
Transport costs	58.5			58.5	56.5	66.7
Utility costs	73.2			73.2	50.0	52.4
Regulation costs	39.0			39.0	23.9	42.9
Employment trends						
Total actual employment	2.5	75.0	22.5	-20.0	-23.9	-21.4
Expected next 3 months	2.7	62.2	35.1	-32.4	-26.2	-20.5
Average pay increase	5.2			5.2	3.08	3.05
Percent recruiting staff	15.0			15.0	15.6	19.0
Recruitment difficulties inc	11.8			11.8	20.0	25.0

TOURISM

Optimism

Business confidence declined significantly in Q3 suggesting that the improvement in Q2 was seasonal. The net trend in business confidence was weaker than in the same quarter in 2010.

Demand

The rising trend in total demand continued although weakened, and was not as positive as had been anticipated. Rising trends were only evident in respect to overseas and rest of UK visitors, but in contrast business demand remained weak. Encouragingly, the trends in demand were not as weak as Q3 2010.

Average occupancy improved (75.4%) and was better compared to the same quarter a year ago. During the three months to the end of September, trends in bar/restaurant trade and for conference/function facilities declined.

A third reported reducing average room rates and the widespread pattern of 'special offers' seems set to continue with almost half expecting to reduce room rates in Q4.

Business constraints

84% reported that the lack of tourist demand remained the primary business constraint and almost a quarter noted competition and poor transport infrastructure.

Employment

56% sought to recruit staff; employment trends improved over the summer months but are expected to fall again in Q4, with net declining trends in employment resuming.

	Q3 2011			Net Balances		
	Up	Level	Down	Q3/11	Q2/11	Q1/11
Business Optimism	10.5	57.9	31.6	-21.1	17.6	-17.3
Trends in demand/visitors						
Total demand/visitors	39.5	28.9	31.6	7.9	26.5	-46.2
Demand from Scotland	28.9	34.2	36.8	-7.9	11.8	-30.8
Demand from Rest of UK	42.1	23.7	34.2	7.9	21.2	-36.5
Demand from abroad	42.1	26.3	31.6	10.5	12.1	-50.0
Business Trade	25.0	44.4	30.6	-5.6	-4.5	-35.3
Trends in expected demand						
Total demand/visitors	15.2	39.4	45.5	-30.3	27.6	-6.5
Demand from Scotland	15.2	36.4	48.5	-33.3	13.8	-4.3
Demand from Rest of UK	9.1	42.4	48.5	-39.4	25.0	-2.0
Demand from abroad	6.1	45.5	48.5	-42.4	10.7	-13.0
Business Trade	9.4	50.0	40.6	-31.3	-13.8	-13.3
Occupancy	75.4			75.4	68.0	49.8
Average daily rate	23.5	44.1	32.4	-8.8	3.1	-38.0
Expected average daily rate	3.1	53.1	43.8	-40.6	6.7	-12.8
Employment trends						
Total actual employment	17.6	70.6	11.8	5.8	-9.1	-32.0
Expected next 3 months	3.3	50.0	46.7	-43.3	0.0	2.0
Average pay increase	3.3			3.3	2.9	5.4
Percent recruiting staff	55.6			55.6	70.6	53.8
Recruitment difficulties	27.3			27.3	20.0	11.4

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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