



MEDIA RELEASE

Embargoed until 0001 hours on Wednesday 18th January 2012

2012: A FURTHER DIFFICULT YEAR IN PROSPECT FOR SCOTTISH BUSINESS

Scottish Chambers of Commerce (SCC) have today (Wednesday) released their Business Survey results for the fourth quarter of 2011. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reports a slowing down in activity in the Scottish economy in the second half of 2011 and few signs of any improvement in 2012.

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

“Scottish business faced many challenges in 2011 and these will remain and pose difficulties for Scottish firms again through 2012. We expect another difficult year for the economy, internationally the ongoing uncertainty surrounding the Eurozone impacts directly on the UK economy and especially on our major export markets.

“Domestically, demand continues to be weakened by employment insecurity and tightening household incomes. Consumers are spending less and prioritising their expenditure, with the consequences feeding through both the manufacturing and service sectors. It is important to boost domestic demand for manufacturing given the likely volatility in our established international markets.

“The decline in construction orders has not been as bad as expected, and this may reflect a late surge in demand following the stormy weather across December and early January. Adverse weather has proved to be a catalyst for improved or deferred demand in the sector across each of the past three years, but this offers little comfort for future expectations.

“In the retail sector 80% of respondents reported weakening sales and over 75% are expecting further falls in sales in the first quarter of 2012. This is a crucial period for the retail sector and for the viability of many businesses. Large multiple retailers are competing for market share and small independents continue to find the going tough. We have already seen a further wave of retail closures and the threat of more empty shops on our High Streets is real.

In tourism, domestic and UK visitor numbers continue to look good but this is underpinned by discounting, and spend in restaurants/bars and on functions is weaker.

“In the midst of the current political debate in Scotland, it is crucial that all our politicians keep their eyes on the economy as the number one priority. 2012 will be a vital year for Scottish business and our future prosperity and it is important to focus strongly on developing the economy and improving infrastructure.”

BUSINESS PERFORMANCE

Summary Points

Overall

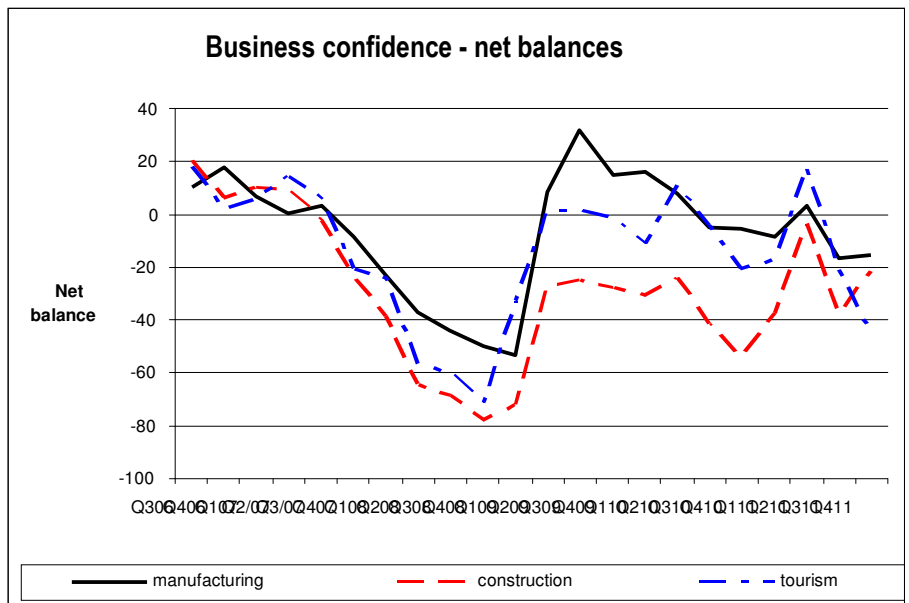
The slowing down of the weak recovery in the UK and Eurozone economies, coupled with continuing consumer insecurity and reduced domestic spending, and with the impact of government spending cuts again dampened business confidence and activity. The pickup in activity in construction in Q2 2011 appeared short lived and continuing consumer uncertainty and reduced spending contributed to weaker results in retail and the closure of a number of retail groups. For a further quarter tourism benefited from some increase in the numbers of home visitors, but these have been sustained by widespread discounting. The corrosive effects of uncertainty both in Europe and at home coupled with weak consumer confidence will combine to make 2012 a difficult year for Scotland.

Within manufacturing the rising trends in exports ended as confidence and demand generally eased in the second half of 2011. Expectations for total orders in 2012 are weaker than a year ago, with weak UK demand undercutting any modest rise in export orders and with the expectations for turnover and profitability weaker than a year ago.

At the end of 2011 the trends in demand and activity in construction were largely unchanged from a year ago, with widespread declining trends and pressures on margins being widely reported, once again the exceptional weather conditions are likely to impact on trends, especially in the first quarter given the need for repair and renewal following the winter storms. In tourism the outturn was weaker than anticipated and little changed from a year ago.

Business confidence

Business optimism again declined across all sectors during Q4, and in manufacturing and construction confidence was generally weaker in the second half of 2011.

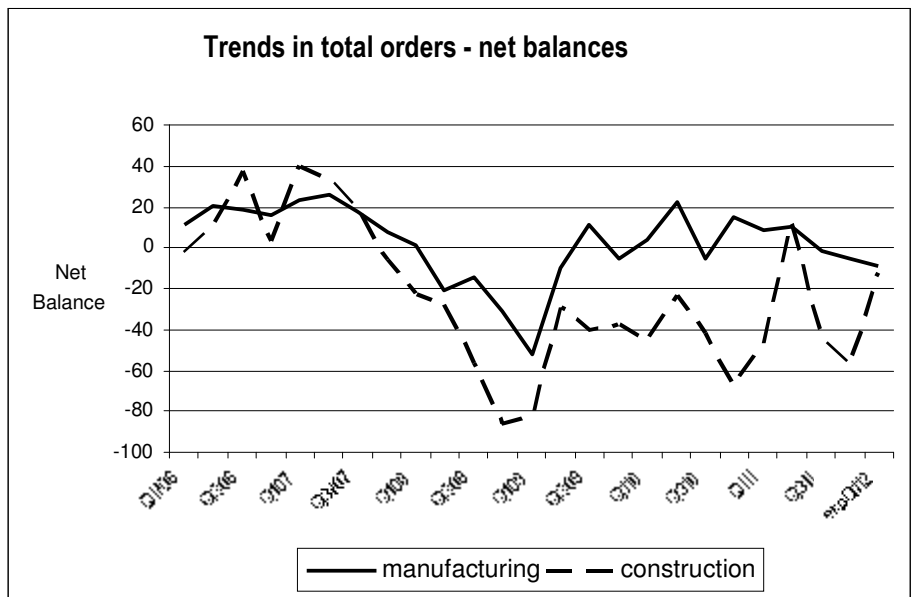


In both retail and tourism declining business confidence was widespread reflecting weak consumer confidence and spending. In retail the percentage reporting declining business confidence was the highest since Q4 2008 and in tourism the highest recorded.

Demand/sales

In manufacturing the rising trends in orders in the first half of 2011 were replaced by declining trends in the second half of the year. Once again the outturn in demand was worse than had been anticipated by firms in the previous survey. The long running rising trends in export orders/sales ended and the net decline in rest of UK demand was worse than in previous quarters. Demand in construction again declined compared to earlier in the year to broadly the same as in Q4 2010. The cuts in public spending continue to be a concern on orders and activity levels.

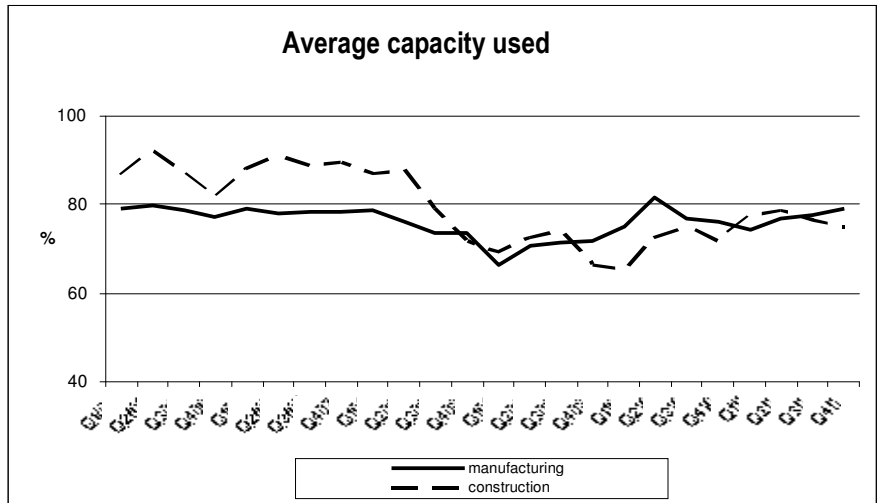
Declining trends in retail sales were widely reported in the fourth quarter and discounting was widespread. The cocktail of declining demand, rising internet based sales, price cutting and rising cost pressures contributed to a number of national groups either closing or entering administration. More than 80% reported a decline in sales and more than 75% expect a further decline. In tourism the outturn in demand for Q4 2011 was marginally better than had been forecast and the net trends visitor numbers and demand was a little stronger than a year ago, but demand for conference/function and bar/restaurant remained weak.



Capacity/work in progress

Average capacity used in manufacturing rose marginally in 2011 from 76.0% in Q4 2010 to 79.1% in the latest quarter. However 51% reported working below optimum levels and a slightly negative trend in work in progress is expected for Q1 2012. In construction capacity rose to 75%, an increase of 3.2 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 rose to 82% in Q4 2011. In tourism occupancy was a little changed than in previous fourth quarters.



Cost pressures

Once again for manufacturing firms raw material/suppliers prices (71%) and transport costs (48%) were the most widely reported cost pressures. More than 25% of manufacturing, 64% of wholesale and 56% of retail respondents reported expecting to increase prices over the next three months. However, continuing weak demand will limit the ability to increase prices leading to adverse effects on cash flow, profitability and survival.

Pay and employment

Labour market activity remained limited with the majority of respondents not varying overall employment levels, nevertheless, declining employment trends were reported in all sectors, and all sectors expect these weak employment trends to continue. Recruitment difficulties remained at low levels in all sectors.

Pay increases in 2011 were at historically low levels and well below the rate of inflation, implying real declines in household income. In Q4 2011 pay increases ranged from 1.8% in manufacturing and construction, to 2.5% in retail and 3.5% in tourism.

Outlook

The signs of the fragile recovery in the first half of 2011 were less evident by the end of 2011. Demand remains weak as a combination of uncertainty; limited access to capital, reduced household income limits business activity and restricts plans for the future. The continuing concerns as to the future of the Euro zone, the impact of government spending cuts and reorganisation of public services continue to adversely influence both activity and sentiment in Scotland and in the rest of the United Kingdom.

At the beginning of 2011 we noted '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' at the end of 2011 we see little evidence in the results to change this view, if anything, our concerns for 2012 are greater and threat of recession more apparent.

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

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MANUFACTURING

Optimism

Business confidence remained low and weakened in the second half of 2011.

Orders and Sales

The trend in total new orders again eased in quarter four and the upward trend in total new sales ended. Once again the outturn in total orders was worse than had been expected, the rising trend in export orders, a feature of the past four quarters, ended and respondents now anticipate a slight easing in export orders over quarter one 2012. Average capacity utilisation rose marginally to 79.1%, some three percentage points higher than a year ago, but again expectations as to the trends in work in progress for the next three months are more cautious, and 50% reported working below optimum capacity.

Cost pressures again eased marginally. Once again the net trend in turnover is expected to remain positive over the coming twelve months and profitability, on balance, is again expected to decline.

Investment

The rising trends in investment in plant/machinery remained weak during quarter four for a net balance of manufacturing firms. New investment was again mainly directed towards replacement or to improve.

Employment

Employment trends eased, although two thirds reported no change. Fewer than 24% of firms increased pay during the three months to December and the average increase was 1.8%, the lowest figure recorded. Recruitment activity increased further with 46% attempting to recruit compared to 40% in Q3.

	Up	Q4 2011		Net Balances		
		Level	Down	Q4/11	Q3/11	Q2/11
Business Optimism	19	46.6	34.5	-15.5	-16.4	3.3
Trends in actual orders						
Total new orders	31	32.8	36.2	-5.2	-1.8	10.0
Scottish orders	18.9	49.1	32.1	-13.2	-13.7	-3.5
Rest of UK orders	11.8	49	39.2	-27.4	-8.3	-1.8
Export orders [29% = N/A]	15.3	30.5	22	-6.7	9.1	4.9
Trends in expected orders						
Total new orders	17.9	55.4	26.8	-8.9	7.7	10.0
Scottish orders	7.8	64.7	27.5	-19.7	-13.0	-5.2
Rest of UK orders	10.2	57.1	32.7	-22.5	-2.1	3.7
Export orders (29%= N/A)	10.5	38.6	17.5	-7	20	11.7
Av Capacity used	79.1			79.1	77.7	76.8
Invest in plant/equip.	25.5	54.5	20	5.5	13.5	-3.6
Cash flow past 3 moths	17.2	44.8	37.9	-20.7	-16.1	-5.0
Turnover next 12 moths	28.8	54.2	16.9	11.9	14.3	14.8
Profitability next 12 moths	27.1	42.4	30.5	-3.4	-5.3	-9.8
Price change next 3 moths	33.9	59.3	6.8	27.1	31.6	42.6
Pressures to raise prices from						
Pay settlements	30.5			30.5	17.5	21.3
Raw material costs	71.2			71.2	84.2	83.6
Finance costs	15.3			15.3	10.5	14.8
Other overheads	28.8			28.8	33.3	50.8
Transport costs	47.5			47.5	50.9	57.4
Employment trends						
Total actual employment	14	66.7	19.3	-5.3	8.8	13.1
Total expected next 3 months	5.6	68.5	25.9	-20.4	-14.8	12.3
Average pay increase	1.8			1.8	3.3	3.6

CONSTRUCTION

Optimism

Business confidence remained weak in the fourth quarter, although, given the harsh weather conditions at the ends of both 2010 and 2011, make comparisons are difficult.

Contracts

Strong downward trends in orders had been anticipated for the fourth quarter, but worryingly the outturn was worse than had been expected, with more than 50% of respondents reporting declining trends in total, public and private commercial orders. The decline in new contracts is expected to ease in Q1 2012, but it is unclear as to whether this is a pick up of work emanating from the series of winter storms or the beginnings of a recovery in activity. Over 80% of respondents reported working below capacity, and cash flow trends, turnover and profitability are all expected to be weak over the next 12 months together with continued pressure on margins.

Average capacity used, at 75% was marginally lower than Q3 although was higher compared to a year ago, when activity was disrupted due to the adverse weather.

Employment

The downward trend in employment accelerated in Q4; Once again no recruitment difficulties were evident. Average pay increases declined from 2.1% in Q3 to 1.8%.

	Q4 2011			Net Balances		
	Up	Level	Down	Q4/11	Q3/11	Q2/11
Business Optimism	18.5	40.7	40.7	-22.2	-37.5	-4
Trends in actual contracts						
Total new contracts	7.7	26.9	65.4	-57.7	-45.8	12.0
Public sector orders	4.5	27.3	68.2	-63.7	-85.7	-33.3
Private commercial	9.5	23.8	66.7	-57.2	-41.2	15.7
Domestic/house build	5.3	47.4	47.4	-42.1	-45.0	-10.0
Trends in expected contracts						
Total new orders	32	24	44.4	-12.4	-45.5	-21.8
Public sector orders	22.7	27.3	50	-27.3	-72.7	-26.7
Private commercial	19	47.6	33.3	-14.3	-46.2	0.0
Domestic/house build	26.3	36.8	36.8	-10.5	-50.0	-16.6
Trends in work in progress						
Actual	11.5	42.3	46.2	-34.7	-20.8	16.0
Expected	23.1	26.9	50	-26.9	-22.7	4.0
Capacity used	75			75	76.4	78.8
Invest in plant/equip.					-27.3	
Leasing in plant/equipment.					-30.4	
Employment trends						
Total actual employment	0	63	37	-37	-4.2	12.0
Total expected next 3 months	7.7	50	42.3	-34.6	-66.7	0.0
Average pay increase	1.8			1.8	2.1	3.9
Percent recruiting staff	11.1			11.1	33.3	40.0
Recruitment difficulties increasing	0			0	0.0	0.0

WHOLESALE DISTRIBUTION

Optimism

Business confidence amongst Scottish wholesale respondents eased marginally although more than half of firms reported a decline in business confidence. Business confidence was once again considerably lower compared to one year ago.

Sales

Firms in the previous survey had expected a decline in sales however the downward trend in sales trends eased in Q4. Despite this, a net balance expect a further decline in the first quarter of 2012.

More than 90% of wholesalers reported increased pressures from transport costs. Cost pressures generally increased during the three months to the end of December and remained historically high. More than 70% expect to increase prices over the next three months, and cash flow trends remain weak. Once again concerns over turnover eased slightly however profitability remains low.

Finance

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

Employment

Wholesale respondents continued to shed staff during Q3 although the rate of decline eased further. Fewer than a third sought to recruit staff; largely for replacement. The average pay increase in Q4 was 3.0% compared to 3.5% in Q3.

	Q4 2011			Net Balances		
	Up	Level	Down	Q4/11	Q3/11	Q2/11
Business Optimism	0	42.9	57.1	-57.1	-62.5	-44.4
Trend in actual sales	35.7	28.6	35.7	0	-37.5	-38.9
Trend in expected sales	7.7	46.2	46.2	-38.5	-53.3	-31.3
Investment plans	14.3	78.6	7.1	7.2	-18.8	-17.6
Cash flow past 3 months	7.1	71.4	21.4	-14.3	-12.5	-16.6
Turnover next 12 months	28.6	35.7	35.7	-7.1	-25.0	-38.8
Profitability next 12 months	21.4	28.6	50	-28.6	-37.5	-27.7
Price change next 3 months	71.4	21.4	7.1	64.3	62.5	72.2
Pressures to raise prices from						
Pay settlements	35.7			35.7	18.8	11.1
Raw material costs	64.3			64.3	62.5	83.3
Finance costs	28.6			28.6	25.0	27.8
Other overheads	64.3			64.3	50.0	50.0
Transport costs	92.9			92.9	75.0	94.4
Employment trends						
Total actual employment	21.4	50	28.6	-7.2	-25.0	-41.2
Expected next 3 months	7.7	76.9	15.4	-7.7	-23.1	-31.3
Average pay increase	3			3	3.5	3.3
Percent recruiting staff	28.6			28.6	31.3	35.3
Recruitment difficulties inc	0			0	9.1	7.7

RETAIL DISTRIBUTION

Optimism

Conditions in the retail sector did not improve during the crucial fourth quarter with declining consumer confidence and sales trends, increasing competition, rising costs and declining margins. The low levels of business confidence worsened with almost three quarters of firms reporting a decline.

Sales

The trend in sales weakened further with more than 80% reporting, and more than three quarters expecting a decline in the total value of sales. Fewer than 10% reported or expect increased sales, as continuing concerns over consumer confidence remain evident.

Finance

Cost pressures remain intense although those concerned with increasing suppliers costs eased from 80% to 69%. Transport costs and pay settlements became more of a concern. Pressures on margins remain widespread with over two thirds expecting declining profitability and turnover over the next year.

Employment

Labour market activity continues to remain at historically low levels with no firms reporting or expecting to increase overall staff levels. Recruitment problems however increased as firms struggle to replace staff.

A quarter of firms reported increasing pay, and the average increase declined from 5.2% in Q3 to 2.5%.

	Q4 2011			Net Balances		
	Up	Level	Down	Q4/11	Q3/11	Q2/11
Business Optimism	2.8	25	72.2	-69.4	-51.2	-55.6
Trend in actual sales	8.3	8.3	83.3	-75	-58.5	-43.5
Trend in expected sales	8.8	14.7	76.5	-67.7	-62.5	-50.0
Cash flow past 3 months	5.9	47.1	47.1	-41.2	-39.0	-33.3
Turnover next 12 months	8.3	16.7	75	-66.7	-58.5	-48.9
Profitability next 12 months	5.6	16.7	77.8	-72.2	-55.0	-57.8
Price change next 3 months	63.9	27.8	8	55.9	67.5	58.7
Pressures to raise prices from						
Pay settlements	41.7			41.7	26.8	19.6
Raw material costs	69.4			69.4	82.9	73.3
Finance costs	33.3			33.3	29.3	30.4
Other overheads	5.6			5.6	17.1	21.7
Transport costs	63.9			63.9	58.5	56.5
Utility costs	72.2			72.2	73.2	50.0
Regulation costs	38.9			38.9	39.0	23.9
Employment trends						
Total actual employment	0	79.4	20.6	-20.6	-20.0	-23.9
Expected next 3 months	0	75.9	24.1	-24.1	-32.4	-26.2
Average pay increase	2.5			2.5	5.2	3.08
Percent recruiting staff	17.6			17.6	15.0	15.6
Recruitment difficulties inc	25			25	11.8	20.0

TOURISM

Optimism

Business confidence declined further in Q4 and was significantly lower compared to Q4 2010. The net balance is the lowest recorded since Q4 2008.

Demand

The rising trend in total demand continued although weakened further, although was better than had been anticipated

Average occupancy declined (from 75.4% to 56.8%) although was marginally better compared to the same quarter a year ago. During the three months to the end of December, trends in bar/restaurant trade and for conference/function facilities continued to decline.

Half reported reducing average room rates and the widespread pattern of 'special offers' seems set to continue with more than half expecting to reduce room rates in Q1 2012.

Business constraints

Three-quarters compared to 84% in the previous quarter reported that the lack of tourist demand remained the primary business constraint and almost a third noted competition. Poor transport infrastructure also remained a concern to hotels.

Employment

48% (compared to 56% in the third quarter) sought to recruit staff. Employment trends, as forecast declined in quarter four but the declines were not as steep as had been expected. A net balance of 201% expect a further decline in quarter one 2012.

	Q4 2011			Net Balances		
	Up	Level	Down	Q4/11	Q3/11	Q2/11
Business Optimism	5.0	45.0	50.0	-45.0	-21.1	17.6
Trends in demand/visitors						
Total demand/visitors	35.0	32.5	32.5	2.5	7.9	26.5
Demand from Scotland	25.0	42.5	32.5	-7.5	-7.9	11.8
Demand from Rest of UK	15.4	56.4	28.2	-12.8	7.9	21.2
Demand from abroad	20.5	43.6	35.9	-15.4	10.5	12.1
Business Trade	13.2	52.6	34.2	-21.0	-5.6	-4.5
Trends in expected demand						
Total demand/visitors	11.4	42.9	45.7	-34.3	-30.3	27.6
Demand from Scotland	14.3	37.1	48.6	-34.3	-33.3	13.8
Demand from Rest of UK	11.8	41.2	47.1	-35.3	-39.4	25.0
Demand from abroad	5.9	50.0	44.1	-38.2	-42.4	10.7
Business Trade	6.1	45.5	48.5	-42.4	-31.3	-13.8
Occupancy	56.8			56.8	75.4	68.0
Average daily rate	11.1	38.9	50.0	-38.9	-8.8	3.1
Expected average daily rate	11.4	34.3	54.3	-42.9	-40.6	6.7
Employment trends						
Total actual employment	8.3	66.7	25.0	-16.7	5.8	-9.1
Expected next 3 months	8.8	61.8	29.4	-20.6	-43.3	0.0
Average pay increase	3.3			3.3	3.3	2.9
Percent recruiting staff	47.5			47.5	55.6	70.6
Recruitment difficulties	23.5			23.5	27.3	20.0

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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