



MEDIA RELEASE

Embargoed until 0001 hours on Thursday 20th January 2011

ACTION NEEDED TO SECURE SCOTTISH BUSINESS GROWTH IN 2011

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the fourth quarter of 2010. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, shows the Scottish economy was slowing in the fourth quarter, before the onset of the harsh winter weather, and suggests that 2011 will deliver fresh challenges for the recovery in Scotland.

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

“Our survey shows that the slowdown of the economic recovery we noted in the third quarter of 2010 continued to the end of the year. Whilst the severe December weather clearly had an impact on activity, there are a number of more important issues affecting Scottish business that require to be addressed in 2011 if the recovery is to continue and strengthen.

“On the positive side, the Scottish manufacturing sector continues to perform strongly, with exports holding up particularly well. This reinforces the importance of the sector in leading an export led recovery and highlights the need to continue efforts to boost international trade links for Scottish business. However other sectors continue to experience challenging trading conditions and there remains no sign of any general economic upturn in the near future.

“Business confidence remains weak across the board and it is clear that the cuts in public spending are having an increasing impact on trade and future expectations. There is evidence that those businesses which work with the public sector are more pessimistic than those which predominantly trade with the private sector.

“2011 will be a year in which both businesses and consumers will have to manage rising inflation as a result of the VAT increase and higher energy, transport and raw material costs. Against this background, businesses and consumers are looking for the UK and Scottish Governments to do more than simply implement cuts – we need evidence of policies designed to help industry and businesses to grow. For businesses and consumers throughout Scotland, action to tackle the high levels of tax on fuel is long overdue and a solution must be found to the inordinate effect this has on the Scottish economy. A fuel duty regulator would be a fair solution.

“This is a time for burdens on business to be reduced rather than increased, if the private sector is expected to create new jobs, then legislation that damages the ability to compete and grow must be avoided. Plans to add to the raft of employment legislation and subject large retail employers to supplementary business rates will only hinder the recovery, not aid it.”

BUSINESS PERFORMANCE

Summary Points

Overall

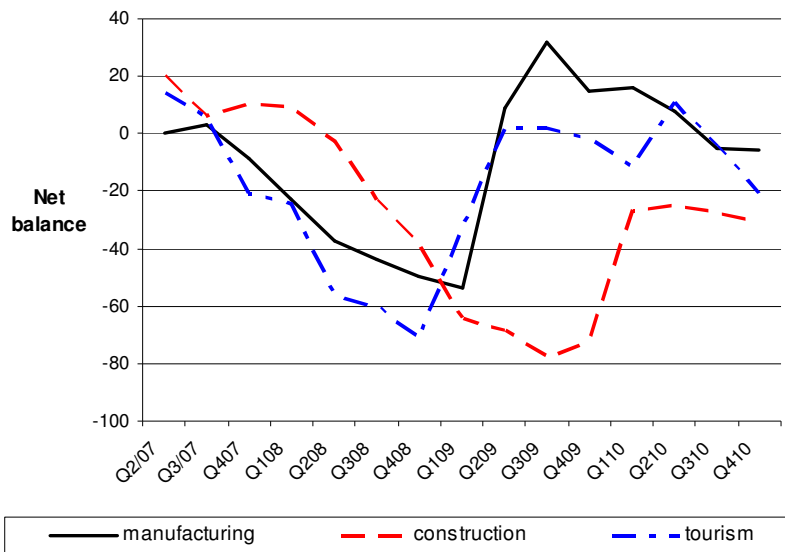
A combination of exceptionally bad weather, signs of a slowing in the economic recovery and concerns as to reductions in government spending all combined to lead to continuing weakening confidence amongst Scottish Chamber of Commerce members in the fourth quarter of 2010. Whilst the outturn over the three months to the end of 2010 was better than anticipated amongst a net of manufacturing, retail and hotel respondents, there is much to suggest that the prolonged harsh weather conditions over the final five weeks of the year had a significant impact across the economy. Average capacity used eased marginally in manufacturing and declined in construction after an improvement in the second and third quarters.

Expectations for the first quarter remain very weak, generally weaker than a year ago, and there is more evidence, in both manufacturing and construction, that those firms with more exposure to public sector orders are less optimistic as to 2011 than those with lower exposure.

Business confidence

Business optimism continued to decline in all sectors during the final quarter of 2010. Manufacturing, tourism and construction optimism remained at their lowest levels since the first quarter of 2009. Retail and wholesale optimism remained at historically low levels although recovered slightly since the third quarter, possibly in anticipation of better sales in the fourth quarter as customers seek to avoid VAT increases.

Business confidence - net balances

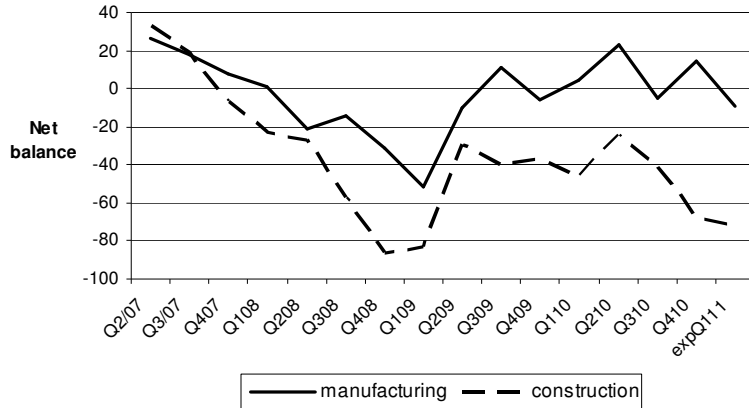


Demand/sales

In manufacturing, the trend in total orders improved fuelled by a further rise in export orders. The declining trends in the levels of work in progress continued. In construction demand became more depressed with more than two-thirds of firms reporting downward trends in total new orders and more than three-quarters reported declining levels of public sector contracts.

Retail sales trends remained predominately weak although the rate of decline eased in quarter four 2010, the sales trends were still however weaker than at the same period of 2009. In tourism the outturn for Q3 was "less bad" than anticipated although the declining net trends in visitor numbers were worse than in Q4 2009; once again the trend in demand for accommodation and conference facilities remained weak.

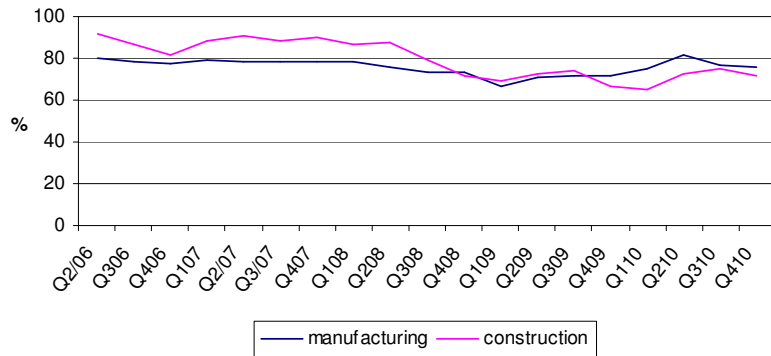
Trends in total orders - net balances



Capacity/work in progress

Average capacity used in manufacturing fell by 1.8 percentage points. Construction firms reported a small decrease (3.2 percentage points) over the past quarter.

Average capacity used



Cost pressures

In construction the proportion reporting working below optimum levels increased from 62% in quarter 2 to 83% in quarter 3 and further declined to 88% in quarter 4. In tourism occupancy declined during quarter four, and was at a lower level compared to quarter 4 2009. The discounting of room rates remained evident.

Once again raw material/suppliers prices (77%) and transport costs (42%) were widely reported as cost pressures. More than three quarters of manufacturing, 92% of wholesale and 67% of retail respondents reported pressures to raise prices due to rising raw material/suppliers' prices. 92% of wholesale, 42% of manufacturing and 38% of retail respondents reported rising transport costs.

Pay and employment Once again labour market activity remained subdued, recruitment activity and recruitment difficulties likewise remained at much lower levels. Pay increases ranged from 2.2% in retail to 4.1% in wholesale. Generally wage increases remain at historically low levels.

Outlook The underlying weaknesses in demand and consumer spending were more evident in the second half of 2010, before the harsh winter, increase of VAT to 20% and rising fuel and energy costs. The onset of public sector spending cuts is sapping business confidence and leading those firms with higher exposure to public sector orders to expect a further weakening in demand and activity. At present the decline in capacity utilisation and trends in work in progress is slight but respondents fear, in the current uncertain climate, a further deterioration in 2011.

Manufacturing respondents expect a modest net rise in total orders over the year, but Scottish and rest of UK orders are expected to decline. Activity in construction is set to remain flat. In the service sector consumer confidence continues to weaken and retail sales trends will be affected by rising costs. Activity and occupancy in hotels was down on the averages for the fourth quarters of previous years, and demand for bar/restaurant facilities was weaker than a year ago.

The trends for the first quarter of 2011 will reflect adjustments to higher levels of VAT, increased fuel and utility charges. Over the year the pace and scale of public sector job cuts and reductions in expenditure will contribute to weak levels of demand coupled with increased cost pressures. Recruitment activity remains at historically low levels and signs of rising private sector employment remain elusive.

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 2010 and early January 2011, almost 200 firms responded to the questionnaire.

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MANUFACTURING

Optimism

Respondents continued to report a downward trend in business confidence and remained, on balance, less confident than a year ago.

Orders and Sales

Rising trends in orders and sales resumed in quarter four following a temporary decline in quarter three. Average capacity utilisation declined by one percentage point, although was up by 5 percentage points on the year.

Respondents anticipate some further weakening in these trends in the first three months of 2011, with the net trends in total orders and sales expected to be negative.

Cost pressures, especially raw material and to a lesser extent transport costs, continued to cause most concern to firms during quarter four. Nevertheless, the net trend in turnover is expected to remain positive over the coming twelve months and a small net balance of firms expect profitability to increase (1.8%).

Investment

The downward trends in investment of equipment eased with new investment mainly directed towards replacement. Investment for R & D and expansion remained low.

Employment

Declining trends in employment eased, and expenditure on training continued to ease. Recruitment activity increased with manufacturing firms reporting difficulties in attracting suitable technical staff.

	Up	Q3 2010		Net Balances		
		Level	Down	Q4/10	Q3/10	Q2/10
Business Optimism	17.9	58.9	23.2	-5.4	-5.2	7.7
Trends in actual orders						
Total new orders	33.3	48.1	18.5	14.8	-5.2	22.7
Scottish orders	17.6	60.8	21.6	-3.9	-11.0	-3.3
Rest of UK orders	16.0	68.0	16.0	0.0	-10.6	7.0
Export orders [35% = N/A]	19.6	35.7	7.1	12.5	-1.3	18.2
Trends in expected orders						
Total new orders	14.3	62.5	23.2	-8.9	-11.8	-3.1
Scottish orders	9.6	69.2	21.2	11.5	-16.9	-16.9
Rest of UK orders	10.0	66.0	24.0	-14.0	-14.1	-5.5
Export orders (36% = N/A]	15.8	38.6	8.8	7.0	-1.3	1.6
Av Capacity used	76.04			76.04	76.8	81.4
Invest in plant/equip.	23.6	52.7	23.6	0.0	-5.5	4.9
Cash flow past 3 moths	18.2	63.6	18.2	0.0	-2.6	15.2
Turnover next 12 moths	35.7	42.9	21.4	14.3	-11.7	22.7
Profitability next 12 moths	25.9	50.0	24.1	1.9	-10.4	7.6
Price change next 3 moths	44.6	48.2	7.1	37.5	27.3	37.9
Pressures to raise prices from						
Pay settlements	22.8				28.6	22.7
Raw material costs	77.2				84.4	80.3
Finance costs	7.0				11.7	12.1
Other overheads	50.0				28.6	39.4
Transport costs	42.1				41.6	51.5
Employment trends						
Total actual employment	8.9	82.2	8.9	0.0	-9.2	4.5
Total expected next 3 months	9.3	67.4	23.2	-14.0	-14.9	0
Average pay increase	3.1			3.1	3.2	2.7

CONSTRUCTION

Optimism

Business confidence continued on its downward trend among chamber of commerce construction respondents in the three months to the end of December (the lowest net balance since Q4 2008). Almost two thirds reported a decline in business confidence.

Contracts

Once again the trends in demand weakened among construction firms with orders from all areas declining further during the fourth quarter. 88% of firms reported working below optimum levels.

Expectations as to contracts over the next three months and turnover, tender margins and profitability over the next twelve months weakened further during the final quarter of 2010. There is much to suggest that expectations continue to be influenced by continued speculation concerning reductions in public spending.

Average capacity declined from 75% to 72%, an improvement over levels one year ago (66%), and similar to the level of the same quarter two years ago.

Employment

Employment levels continued to decline, and further declines are anticipated during the first quarter of 2011. Recruitment activity and average pay increases remain at historically low levels, few recruitment difficulties are reported.

	Q3 2010			Net Balances		
	Up	Level	Down	Q4/10	Q3/10	Q2/10
Business Optimism	4.2	33.3	62.5	-58.3	-41.7	-24.1
Trends in actual contracts						
Total new contracts	4.0	24.0	72.0	-68.0	-41.7	-24.1
Public sector orders	0.0	22.2	77.8	-77.8	-66.7	-34.8
Private commercial	4.5	27.3	68.2	-63.6	-33.3	-33.3
Domestic/house build	5.0	30.0	65.0	-60.0	-55	-45.0
Trends in expected contracts						
Total new orders	4.0	20.0	76.0	-72.0	-52.2	-31.0
Public sector orders	5.6	22.2	72.2	-66.7	-64.3	-56.5
Private commercial	9.1	27.3	63.6	-54.5	-40	-29.2
Domestic/house build	0.0	35.0	65.0	-65.0	-52.6	-45.0
Trends in work in progress						
Actual	12.0	32.0	56.0	-44.0	-4.2	-29.6
Expected	4.0	36.0	60.0	-56.0	-65.2	-42.9
Capacity used	71.8			71.8	75	72.6
Invest in plant/equip.					-70.8	-41.7
Leasing in plant/equipment.					-58.3	-33.3
Employment trends						
Total actual employment	12.0	52.0	36.0	-24.0	-20.8	-31
Total expected next 3 months	4.2	25.0	70.8	-66.7	-50	-27.6
Average pay increase	2.8			2.8	1.5	2.7
Percent recruiting staff	8.0			8.0	20.8	17.9
Recruitment difficulties increasing	0.0			0.0	11.1	6.3

WHOLESALE DISTRIBUTION

Optimism

Once again business confidence amongst Scottish wholesale respondents remained weak, with few respondents reporting a rise in business confidence.

Sales

Sales trends weakened during the three months to December although more than half of firms reported increasing or level sales; however fewer respondents are now forecasting a decline in sales in the coming quarter.

Almost all firms reported pressures to raise prices, as respondents report rising transport costs and supplier prices.

Wholesalers are no longer revising their expectations downwards for both turnover and profitability over the coming year though are not yet forecasting a rise.

Finance

Once again most firms reported that their investment intentions remained unchanged; nevertheless there was a net decline.

Employment

A quarter of wholesale firms sought to recruit staff, mainly for replacement as no firms reported that actual total employment levels had increased. Firms increasing pay during quarter four did so by an average of 4.1%.

	Q4 2010			Net Balances		
	Up	Level	Down	Q4/10	Q3/10	Q2/10
Business Optimism	8.3	50.0	41.7	-33.3	-37.5	-12.5
Trend in actual sales	8.3	50.0	41.7	-33.3	-18.8	-6.8
Trend in expected sales	9.1	63.6	27.3	-18.2	-23.1	0.0
Investment plans	8.3	58.3	33.3	-25.0	-25	18.75
Cash flow past 3 months	8.3	75.0	16.7	-8.3	-18.8	-12.5
Turnover next 12 months	25.0	50.0	25.0	0.0	-50	0
Profitability next 12 months	33.3	33.3	33.3	0.0	-37.5	6.2
Price change next 3 months	83.3	16.7	0.0	83.3	75	75
Pressures to raise prices from						
Pay settlements	16.7			16.7	12.5	32.0
Raw material costs	91.7			91.7	93.8	68.8
Finance costs	16.7			16.7	25	25
Other overheads	50.0			50.0	12.5	56.3
Transport costs	91.7			91.7	93.8	75.0
Employment trends						
Total actual employment	0.0	75.0	25.0	-25.0	-12.5	0.0
Expected next 3 months	0.0	72.7	27.3	-27.3	-42.9	-31.3
Average pay increase	4.1			4.1	0	3.62
Percent recruiting staff	25.0			25.0	18.8	56.3
Recruitment difficulties inc	30.0			30.0	0	7.7

RETAIL DISTRIBUTION

Optimism

The net trends in retail confidence in the fourth remained weak and also remained weaker than during the same quarter one year ago. Harsh weather, weak consumer demand, consumer uncertainty, rising costs and increased competition amongst the major multiples and rising price pressures underpin the weak trends in business optimism.

Sales

The trend in sales remained weak with almost 60% reporting and more than 60% expecting a decline in the total value of sales. Only 11% reported increased sales during the final quarter of 2010, and once again continued concerns over consumer confidence are moderating sales expectations for the coming quarter.

Finance

Cost pressures, especially suppliers' prices remain significant and pressures to increase prices remain high. More than half of firms reported that utility costs were also putting pressure on prices. Pressures on margins look set to continue (though ease marginally) with almost two-thirds of firms anticipating weakening trends in both turnover and profitability over the next year.

Employment

Labour market activity remains at low levels with almost 70% of retailers reporting and expecting no change to overall employment levels. Recruitment activity in the third quarter, whilst just as strong as a year ago, remains at historically low levels.

More than 20% reported increasing pay, and the average increase in for quarter 4 2010 was 2.3%.

	Q4 2010			Net Balances		
	Up	Level	Down	Q4/10	Q3/10	Q2/10
Business Optimism	5.4	37.8	56.8	-51.4	-56.1	-46.5
Trend in actual sales	10.8	32.4	56.8	-45.9	-53.7	-46.5
Trend in expected sales	5.7	25.7	68.6	-62.9	-50	-43.9
Cash flow past 3 months	8.1	62.2	29.7	-21.6	-19.5	-14.3
Turnover next 12 months	10.8	27.0	62.2	-51.4	-58.3	-37.2
Profitability next 12 months	14.3	25.7	60.0	-45.7	-55	-46.5
Price change next 3 months	78.4	13.5	8.1	70.3	70.7	67.4
Pressures to raise prices from						
Pay settlements	27.0			27.0	24.4	20.9
Raw material costs	67.6			67.6	78	65.1
Finance costs	21.6			21.6	26.8	25.6
Other overheads	35.1			35.1	19.5	16.3
Transport costs	37.8			37.8	41.5	46.5
Utility costs	51.4			51.4	36.6	32.6
Regulation costs	27.0			27.0	34.1	37.2
Employment trends						
Total actual employment	8.3	69.4	22.2	-13.9	-17.9	-11.6
Expected next 3 months	0.0	68.8	31.3	-31.3	0	-20.0
Average pay increase	2.3			2.3	6.5	2.56
Percent recruiting staff	22.2			22.2	23.1	23.3
Recruitment difficulties inc	25.0			25.0	35.3	14.3

TOURISM

Optimism

Overall business confidence and occupancy weakened, whilst overall demand remained flat.

Demand

Average occupancy declined from 70.3% to 56.4%, slightly lower than a year ago (61.7%). The trend in visitors from Scotland improved for a small net balance of hotels during quarter four 2010. Demand from the rest of the UK, abroad and business trade all continued to decline. Demand from all areas is expected to decline during the first quarter of 2011. Trends in bar/restaurant trade and in conference/function facilities remained weak, and weaker than a year ago. Overall local and business demand accounted for 54% of total demand and tourist demand accounted for 46% of total demand in the fourth quarter.

More than a third reported reducing average room rates and the discounting of rates is set to continue for a third of hotels in the three months to the end of March 2011.

Business constraints

70%, compared to more than 80% in the previous quarter, reported that the lack of tourist demand remained the primary business constraint but once again around a third felt that their area had suffered due to poor marketing.

Employment

54% (compared to 45% in quarter three) sought to recruit staff. Net declining trends in employment continued and are expected to accelerate in quarter one. Once again, notwithstanding the weak demand for staff difficulties in recruiting suitable chefs were evident.

	Q4 2010			Net Balances		
	Up	Level	Down	Q4/10	Q3/10	Q2/10
Business Optimism	14.0	51.2	34.9	-20.9	-4.5	10.7
Trends in demand/visitors						
Total demand/visitors	32.6	34.9	32.6	0.0	-25	-10.5
Demand from Scotland	23.3	55.8	20.9	2.3	-13.6	-10.7
Demand from Rest of UK	20.9	46.5	32.6	-11.6	-15.6	-7.3
Demand from abroad	18.6	23.3	58.1	-39.5	-22.2	-17.9
Business Trade	23.8	31.0	45.2	-21.4	-15.9	-18.5
Trends in expected demand						
Total demand/visitors	14.6	48.8	36.6	-22.0	-39	9.6
Demand from Scotland	10.0	62.5	27.5	-17.5	-32.5	20.0
Demand from Rest of UK	9.8	51.2	39.0	-29.3	-39	13.7
Demand from abroad	7.3	34.1	58.5	-51.2	-56.1	-2.0
Business Trade	12.8	41.0	46.2	-33.3	-42.5	-16.3
Occupancy	56.4			56.4	70.3	71.4
Average daily rate	15.8	47.4	36.8	-21.1	-15.9	-21.4
Expected average daily rate	10.8	54.1	35.1	-24.3	-23.3	-5.8
Employment trends						
Total actual employment	7.9	63.2	28.9	-21.1	-11.9	-14.8
Expected next 3 months	5.4	56.8	37.8	-32.4	-35.7	-2.0
Average pay increase	2.7			2.7	6.3	3.0
Percent recruiting staff	53.7			53.7	48.9	66.1
Recruitment difficulties	11.4			11.4	11.8	29.4

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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