



SCOTTISH CHAMBERS  
OF COMMERCE

## **MEDIA RELEASE**

Embargoed to Friday 20<sup>th</sup> April 2007

### **POLITICIANS MUST ACT TO SUPPORT OUR MANUFACTURERS AND RETAILERS**

The Scottish Chambers of Commerce today released its Business Survey results for the first quarter of 2007. The long-established review carried out on its behalf by the Fraser of Allander Institute reveals a healthy level of business optimism but reinforces the need for a stronger governmental focus on our manufacturing sector and also the needs of smaller retailers.

Liz Cameron, Executive Director of Scottish Chambers of Commerce, said:

“Scotland’s manufacturing sector employs around 240,000 people and contributes £12 billion annually to the Scottish economy. In recent years it has undergone a significant shift in the nature of its business and we are now beginning to experience a consistent trend of rising optimism in the sector. However our latest Quarterly Business Survey reveals strong pressures on costs within the sector both from perennial sources such as raw material and transport costs, and also increasingly from wage settlements and finance costs.

“This week’s rise in both CPI and RPI inflation is likely to have a direct impact on wage settlements, adding further to cost pressures, whilst a further rise in interest rates is now inevitable when the Bank of England’s Monetary Policy Committee next meets on 10<sup>th</sup> May. This would have the dual effect of increasing finance costs and adding to the pressures on exporters through high exchange rates.

“Rising costs result in pressure on margins, and if we are to maintain the recovery of our manufacturing sector, then the next Scottish Executive must build on the successes of the Scottish Manufacturing Advisory Service and expand upon its remit, allowing more smaller firms to benefit from its services. We would also be looking for the Executive to adopt a much stronger focus on the manufacturing sectors, recognising the enormous knowledge, skills and growth potential of this business to Scotland. Innovation is the key to the ongoing success of the sector if it is to maintain a competitive position in the 21<sup>st</sup> century global marketplace. It is critical that government create the right infrastructure to support this.

“Our survey also highlighted a divergence in the fortunes of small and large retailers, with over 60% of national retailers reporting an increased value of sales but over 40% of smaller independent retailers reporting a decline. We welcome the commitments which a number of the political parties have made to investing in the prosperity of our towns and rural areas. These will need to be delivered upon after May if we are to ensure that traders in the small retail sector are to experience an upturn in fortunes and continue to play a vital role at the heart of local communities.”

## BUSINESS PERFORMANCE

### Summary Points

Business confidence	Rising confidence was reported in manufacturing, construction, and tourism, a level trend was again noted in wholesale. In retail confidence eased, although the trends were better than in the first quarter of 2006;
Demand/sales	<p>Rising trends in total, Scottish and export demand were reported by a net of manufacturing respondents. The trends in demand have been stronger in the first quarter of 2007 than in 2006. Construction firms again reported rising orders;</p> <p>In retail there were marked distinctions between multiple reporting strongly rising sales and independent retailers reporting weaker sales trends. A modestly rising trend in visitor numbers was noted by tourism respondents;</p>
Capacity/work in progress	Rising trends in work in progress and increased capacity utilisation were reported by a net of manufacturing and construction firms. Occupancy rates in tourism were stronger than in the first quarter of 2006;
Cost pressures	Concerns over raw material costs remained evident in the first quarter, being cited by 72% of manufacturing, 67% of wholesale and 46% of retail respondents. 70% of construction firms anticipate rising material costs over the next twelve months. Expectations of price increases in the second quarter of 2007 ranged from 34% of manufacturing, to 52% retail and 71% of wholesale respondents;
Pay	Pay increases in the first quarter ranged from 3.1% in tourism to 4.7% in manufacturing;
Recruitment	Recruitment activity ranged from 38% of respondents in retail, 49% in manufacturing and tourism to 67% in construction.

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 March 2007 to early April 2007, almost 300 firms responded to the questionnaire.

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## MANUFACTURING

### *Optimism*

Business confidence continued to rise in the first quarter, but at more modest rates.

### *Orders and Sales*

Rising trends in total, Scottish, and export orders were reported, and for a further quarter these rising trends are expected to continue. Rising trends in the level of work in progress were reported by 32%, and a level trend by 53%. Average capacity rose to 79.2%, and 54% reported capacity used was below preferred levels. Expectations for demand and turnover for the next twelve months remain strong; however there are more concerns as to trends in profitability through 2007.

Cost pressures were widely reported, with 73% reporting concerns as to increased raw material prices, 52% as to transport costs and 43% the costs of pay settlements.

### *Finance*

Firms were more cautious in their expectations as to profitability trends over the next year, net expectations weakened in the first quarter.

### *Investment*

27% reported revising upward investment and 7% leasing plans for the coming year. Investment in the first quarter was again mainly directed towards increasing efficiency and replacing equipment.

### *Employment*

Employment eased for a net of firms, although 21% reported increased hours worked. 49% sought to recruit mainly skilled staffs.

	Q1.2007			Net Balances		
	Up	Level	Down	Q1/07	Q4/06	Q3/06
<b>Business Optimism</b>	27.1	52.3	20.6	6.6	17.6	10.5
<b>Trends in actual orders</b>						
Total new orders	44.9	33	22.1	22.8	15.9	18.6
Scottish orders	32.8	43.9	23.3	9.5	-2.6	14.0
Rest of UK orders	19.8	55.5	24.7	-4.9	8.1	7.3
Export orders [36.7% = N/A]	21.9	31.9	9.5	12.4	3.6	0.5
<b>Trends in expected orders</b>						
Total new orders	37.4	47.9	14.7	22.7	24.7	13.6
Scottish orders	29.4	56.3	14.3	15.1	11.9	0.6
Rest of UK orders	16.2	71.3	12.5	3.7	11.3	18.9
Export orders [36.7% = N/A]	19.5	37.2	6.5	13	8.9	9.9
Av Capacity used	79.2			79.2	77.3	78.6
Invest in plant/equip.	27	59.2	13.8	13.2	9.6	16.6
Cash flow past 3 moths	19.2	42.3	38.5	-19.3	2.1	5.0
Turnover next 12 moths	56.7	31.3	12	44.7	36.2	38.1
Profitability next 12 moths	28.9	48.4	22.6	6.3	26.4	20.6
Price change next 3 moths	34.1	62.2	3.7	30.4	49.0	28.6
<b>Pressures to raise prices from</b>						
Pay settlements	42.9			42.9	42	38
Raw material costs	72.5			72.5	77	71
Finance costs	18.5			18.5	12	12
Other overheads	37.1			37.1	55	50
Transport costs	51.5			51.5	48	58
<b>Employment trends</b>						
Total actual employment	17.8	58.3	23.8	-6	1.6	5.1
Total expected next 3 months	21	67.5	11.5	9.5	0.5	3.7
Average pay increase	4.7			4.7	4.66	4.15

## CONSTRUCTION

### *Optimism*

Business confidence remained level, despite rising trends in orders and work in progress.

### *Contracts*

Strongly rising trends were widely reported in the three months to March and 90% expect level or rising trends in the level of work through the next six months.

Average capacity used rose to 88.2%. Work in progress rose in the first quarter, and this trend is expected to continue.

For a further quarter respondents remain confident as to rising trends in turnover and 60% anticipate rising profitability over the next twelve months, but 70% expect the costs of building materials and 57% other operating costs to increase.

Shortages of skilled labour and the level of contracts and new work were again seen the most likely to restrict activity over the next quarter.

### *Investment*

Level trends in investment plans were reported. Investment authorised in the first quarter was again mainly for the replacement of equipment.

### *Employment*

The rising trend in employment continued and strengthened, and 40% reported a rise in overtime levels. Increased use of sub contractors is again anticipated over the next three months.

	Q1.2007			Net Balances		
	Up	Level	Down	Q1/07	Q4/06	Q3/06
<b>Business Optimism</b>	10	80	10	0	6.2	20.0
<b>Trends in actual contracts</b>						
Total new contracts	50	40	10	40	3.1	37.1
Public sector orders	37.5	62.5	0	37.5	8.7	3.7
Private commercial	37.5	62.5	0	23	4.0	20.7
Domestic/house build	28.6	57.1	14.3	14.3	0.0	3.7
<b>Trends in expected contracts</b>						
Total new orders	55.6	44.4	0.0	55.6	20.4	12.5
Public sector orders	42.9	57.1	0.0	42.9	21.8	4.2
Private commercial	42.9	42.9	14.3	28.6	12.0	3.7
Domestic/house build	57.1	42.9	0	57	-3.8	0.0
<b>Trends in work in progress</b>						
Actual	50	50	0	50	-3.1	20.0
Expected	50	40	10	40	26.6	21.2
<b>Capacity used</b>	88.2			88.2	81.4	86.9
<b>Invest in plant/equip.</b>	11.1	77.8	11.1	0	9.7	11.8
<b>Leasing in plant/equipment.</b>	0	88.9	11.1	-11.1	-3.3	-3.0
<b>Employment trends</b>						
Total actual employment	40	50	10	30	15.6	25.7
Total expected next 3 months	30	60	10	20	6.5	20.6
<b>Average pay increase</b>	na			na	5.19	4.67
Percent recruiting staff	66.7			66.7	50.0	71.4
Recruitment difficulties increasing	12.5			12.5	43.5	31.3

## WHOLESALE DISTRIBUTION

### *Optimism*

The decline in business confidence ended and level trend was reported.

### *Sales*

The outturn in sales was stronger than had been anticipated, and firms are more confident as to trading conditions in the second quarter of 2007.

Price pressures strengthened and over 70% anticipate price increases in the second quarter. 81% reported pressures to raise prices due to transport costs, 67% pressures from material costs and 33% pressures from pay settlements.

More than 50% anticipate rising turnover but only a quarter anticipate rising profitability over the next 12 months, suggesting pressures on margins will be evident.

### *Finance*

The declining trend in cash flow continued with 24% reporting a decline.

### *Employment*

Changes in employment levels were limited, affecting almost 40% of firms; nevertheless, a slight increase in employment, mainly part time employment, was reported. Overall slightly more than half sought to recruit staff, and 43% increased pay by an average of 4.55%.

	Q1.2007			Net Balances		
	Level	Up	Down	Q1/07	Q4/06	Q3/06
<b>Business Optimism</b>	10.0	80.0	10.0	0.0	-6.7	16.0
<b>Trend in actual sales</b>	42.9	33.3	23.8	19.0	0.0	20.0
<b>Trend in expected sales</b>	50.0	33.3	16.7	33.3	0.0	34.8
<b>Investment plans</b>	19.0	52.4	28.6	-9.6	0	32.0
<b>Cash flow past 3 months</b>	19.0	57.1	23.8	-4.8	-6.7	8.0
Turnover next 12 months	52.4	33.3	14.3	38.1	26.7	52.0
Profitability next 12 months	25.0	45.0	30.0	-5	-6.7	24.0
Price change next 3 months	71.4	23.8	4.8	66.7	66.7	68.0
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	33.3			33.3	46.7	16
<b>Raw material costs</b>	66.7			66.7	60.0	64
<b>Finance costs</b>	23.8			23.8	13.3	12
<b>Other overheads</b>	42.9			42.9	46.7	48
<b>Transport costs</b>	81			81	66.7	72
<b>Employment trends</b>						
Total actual employment	23.8	61.9	14.3	9.5	-6.7	-12.5
Expected next 3 months	30.0	50.0	20.0	10.0	0.0	25.0
<b>Average pay increase</b>	4.55			4.55	3.8	5.07
Percent recruiting staff	52.4			52.4	46.7	60.0
Recruitment difficulties inc	20.0			20.0	18.2	37.5

## RETAIL DISTRIBUTION

### Optimism

Amongst national retailers optimism rose strongly, whereas amongst independent retailers optimism was weak with 50% reporting being less optimistic as to the business situation.

### Sales

Over 40% of independent retailers reported a decline in the actual value of sales in the first quarter, and almost 40% anticipate declining sales in the second quarter. In contrast, over 60% of national retailers reported and expect increased value in sales.

Amongst all retailers competition (reported by 50%), legislation/regulation (reported by 40%) were identified as the factors likely to inhibit sales.

54% reported utility and 46% material costs as to the two main cost pressures.

### Investment

Changes in investment plans were less evident, being reported by 25% of respondents and a slight decrease in investment plans was reported.

### Finance

More than 50% of independent retailers anticipate no changes to turnover, and 46% no change to profitability over the next year, however, 30% anticipate declining turnover and 40% declining profitability over the next year. In contrast all the national retailers anticipate rising turnover and 88% rising profitability over the next year.

### Employment

Changes in employment levels were reported by 28%. 38% sought to recruit staff.

	Q1.2007			Net Balances		
	Level	Up	Down	Q1/07	Q4/06	Q3/06
<b>Business Optimism</b>	16.0	46.0	38.0	-22	21.6	3.2
<b>Trend in actual sales</b>	26.0	44.0	30.0	-4	-11.7	0.0
<b>Trend in expected sales</b>	20.0	51.1	28.9	-8.9	-23.6	3.5
<b>Investment plans</b>	24.0	54.0	22.0	2	-1.7	7.9
<b>Cash flow past 3 months</b>	22.9	58.3	18.8	4.2	-8.4	8.1
Turnover next 12 months	30.6	44.9	24.5	6.1	0.0	19.4
Profitability next 12 months	26.5	42.9	30.6	-4.1	-15.5	1.6
Price change next 3 months	52.0	46.0	2.0	50.0	50.0	49.2
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	40			40	23	27
<b>Raw material costs</b>	46			46	40	38
<b>Finance costs</b>	24			24	25	19
<b>Other overheads</b>	14			14	8	16
<b>Transport costs</b>	44			44	47	48
<b>Utility costs</b>	54			54	63	59
<b>Regulation costs</b>	40			40	30	30
<b>Employment trends</b>						
Total actual employment	10.2	71.4	18.4	-8.2	1.7	11.3
Expected next 3 months	8.9	86.7	4.4	4.5	-1.9	5.5
<b>Average pay increase</b>	3.34			3.34	4.18	3.92
Percent recruiting staff	38.0			38.0	35.0	41.9
Recruitment difficulties inc	32.1			32.1	50.0	37.5

## TOURISM

### **Optimism**

The net trend in business confidence was again marginally lower than a year ago.

### **Demand**

A rising trend in demand was reported, with a net of respondents reporting increased demand for accommodation, but slightly weaker demand for bar/restaurant and function/conference facilities. The weak business and conference trade were noted by some respondents. Nevertheless, average occupancy, at 60%, was higher than in the first quarter for 2006 and 2005.

Overall 35% of business in the first quarter was local trade, 28% tourist trade and 36% business trade.

### **Business constraints**

60% reported the lack of demand as the main business constraint in the second quarter, 38% the weak marketing of their area, 24% the high exchange rate and 24% poor transport infrastructure.

### **Employment**

Changes in employment levels were limited, being reported by 30% and with falling trends in full time, part time, seasonal and temporary staffs. Falling levels of overtime working were reported by 32%.

### **Recruitment**

49% sought to recruit staff, and half of those recruiting reported difficulties in recruiting suitable staffs, most notably in the recruitment of chefs/cooks and bar/restaurant staff. 49% increased pay by an average of 3.1%.

	Q1.2007			Net Balances		
	Up	Level	Down	Q1/07	Q4/06	Q3/06
<b>Business Optimism</b>	24.3	56.8	18.9	5.4	2.3	18.0
<b>Trends in demand/visitors</b>						
Total demand/visitors	36.1	33.3	30.6	5.6	0.0	34.7
Demand from Scotland	25.7	45.7	28.6	-2.9	-7.3	23.4
Demand from Rest of UK	28.6	42.9	28.6	0.0	-2.4	29.8
Demand from abroad	15.2	30.3	54.5	-39.4	-20.0	16.7
Business Trade	38.2	35.3	26.5	11.8	7.5	-2.2
<b>Trends in expected demand</b>						
Total demand/visitors	55.9	29.4	14.7	41.2	7.5	-9.1
Demand from Scotland	31.3	56.3	12.5	18.8	10.8	-12.8
Demand from Rest of UK	31.3	56.3	12.5	18.8	0.0	-5.1
Demand from abroad	28.1	53.1	18.8	9.4	-13.5	-15.8
Business Trade	26.7	53.3	20.0	6.7	2.7	-12.8
<b>Occupancy</b>	60.1				63.3	75.1
<b>Average daily rate</b>						
Average daily rate	27.8	55.6	16.7	11.1	15.0	22.4
Expected average daily rate	38.9	52.8	8.3	30.6	8.4	-4.2
<b>Employment trends</b>						
Total actual employment	5.9	70.6	23.5	-17.6	-5.1	20.0
Expected next 3 months	34.3	62.9	2.9	31.4	-14.2	-14.3
<b>Average pay increase</b>						
Average pay increase	3.1			3.1	5.35	3.97
Percent recruiting staff	48.6			48.6	64.3	80.8
Recruitment difficulties	37.5			37.5	50.0	69.6

**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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