



SCOTTISH CHAMBERS
OF COMMERCE

MEDIA RELEASE

Embargoed until 00.01 hours on Thursday 17th April 2008

NEW SOLUTIONS NEEDED FOR NEW SCOTTISH ECONOMY

SCC DEMANDS LONG TERM ENERGY STRATEGY FOR SCOTLAND

Scottish Chambers of Commerce (SCC) has today published its Business Survey results for the first quarter of 2008. The survey shows declining confidence across the manufacturing, construction, retail and tourism sectors, but reveals a very complex economic environment in Scotland with some businesses benefitting from emerging opportunities, whilst others face increasing pressures on margins as a result of rising costs in raw materials, utilities and transport. This paints a picture of a Scotland in 2008 where new challenges will require imaginative solutions from both business and Government. Although business confidence is low, results demonstrate that the economic downturn may not be as severe as is perceived.

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

“It would be wrong to ignore the clear signs of increasing cost pressures and pressures on margins evidenced by this survey, but nevertheless it is vital that we avoid talking ourselves into a recession. This analysis of the state of the economy in the early part of 2008 reveals a complex, challenging but growing Scottish economy set against a background of global credit realignment and a sea change in the market for energy.

“What is evident is that a number of businesses in Scotland are able to adapt to meet the challenges we are faced with. The weak US Dollar may be affecting the North American export market and inward transatlantic tourism, but the strength of the Euro against Sterling, taken together with Scotland’s burgeoning direct European air services, opens up massive potential for marketing Scotland to the Eurozone nations, and businesses together with public sector bodies such as VisitScotland must be agile enough to grasp this opportunity.

“Scotland is not sitting on the verge of a traditional recession. Instead we are facing a new economic environment – we are leaving behind the era of cheap energy and entering an era of higher cost pressures and greater pressures on margins. This is creating new challenges but also new opportunities for prosperity if businesses are able to develop to their strengths both in the domestic and international marketplace. Businesses need to be outward looking, well informed and effectively supported if they are to seize these opportunities.

“This is a time for Government to develop new economic policies to deal with the new business environment and to help sustain growth at a time of higher costs. It is clear that the manipulation of interest rates by the Bank of England alone is not an effective means of achieving this. Additionally, we need to take a long term strategic view on areas such as energy – how this is supplied, where and by whom – if we are to get to the root of the issues that affect the way in which we do business in the 21st century. The Scottish Government could lead the way for the rest of the UK in this regard, by shifting away from the narrow, outdated and sterile nuclear versus renewable debate of the 1970s and 80s and embracing a balanced strategic energy policy fit for the economic needs of tomorrow’s Scotland.”

BUSINESS PERFORMANCE

Summary Points

Business confidence	Business confidence declined sharply in manufacturing, declined further in construction, retail and tourism, but rose modestly in wholesale distribution. Declining trends in confidence were reported in all sectors. The trends in business confidence were at their lowest for more than thirteen quarters in manufacturing, construction, retail and tourism;
Demand/sales	<p>The rising trends in orders/sales in manufacturing weakened, and the outturn was weaker than expected. The trend in construction orders weakened further, although this was mainly reported by smaller firms. In retail rising net sales trends were reported by national retailers, whilst independents reported declining sales trends.</p> <p>Rising trends in demand (but the lowest trends since q3 2005) were reported by a net of manufacturing firms and rising trend in sales was reported by wholesale respondents. The trend in new work/contracts in construction eased to the lowest for more than four years, and in retail the net sales trends were the weakest for two years. In construction there were marked differences in the levels of orders between larger and smaller firms.</p> <p>In retail rising trends in the volume and value of sales were reported by national/multiple retailers, but declining trends amongst independents. In the tourism sector strongly declining trends in visitor numbers/demand were reported, with demand easing for accommodation and in the use of restaurant/bar and function/conference facilities;</p>
Capacity/work in progress	Trends in work in progress continued to weaken for a net of manufacturing respondents. Rising trends in the level of work in progress were again reported by a net of construction firms employing more than 25 staffs, but declining trends were widely reported amongst smaller construction firms;
Cost pressures	Concerns over raw material costs remained evident in the first quarter, being cited by 85% of manufacturing and 65% retail respondents. Expectations of price increases in the first quarter of 2008 ranged from a net of 52% of manufacturing, a net of 58% of wholesale and a net of 67% of retail respondents;
Pay	Pay increases in the first quarter ranged from 3.53% in retail to 5.38% in tourism;
Outlook	Signs of a slowdown in the economy are more evident than at the end of December, with demand weakening and cost pressures increasing. The trends in expected orders, levels of work in progress and turnover are at their lowest for more than three years in manufacturing and construction. National/multiple retailers anticipate the rising sales trends to continue, but at more modest levels, whereas a net of independent retailers anticipate sales, turnover and profitability trends to weaken further in 2008.

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 2008 to early April 2008, almost 300 firms responded to the questionnaire.

© University of Strathclyde, Fraser of Allander Institute 2008. 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	0141 548 3198
	Eleanor Malloy	0141 548 3967
Scottish Chambers	Liz Cameron	07801 500 589
	Garry Clark	0141 204 8337 or 07795 158137

MANUFACTURING

Optimism

Business confidence fell for a net of firms in all size bands in the first quarter. The net trend for the first quarter, and expected trend in total orders for the second quarter are the lowest reported since q1 2003.

Orders and Sales

Weakening trends in orders were reported by a net of firms and these trends are expected to continue through to June. However, firms employing more than 100 reported rising total and export orders. Rising trends in the level of work in progress were reported by a net of firms employing less than 100 and level trends amongst those employing over 100 staff. A net of firms in all size bands expect declining levels of work in progress in the second quarter. Average capacity remained unchanged at 78%, and 60% (compared to an average of 50% over the past three quarters) reported capacity used was below preferred levels. Expectations as to the trends in orders, turnover and profitability for the next twelve months are stronger than in the previous quarter, suggesting firms expect some benefits from the declining value of the pound. However firms report more extensive price pressures (the highest figures recorded since 1997), and pressures to raise prices due to raw material costs are at their highest since the question was introduced in 1997.

Investment

25% reported revising investment upward and 5% reported an increase in leasing plans for the coming year.

Employment

A net decline in employment and in total hours worked was reported and 39% sought to recruit staffs.

	Q1.2008			Net Balances		
	Up	Level	Down	Q1/08	Q4/07	Q3/07
Business Optimism	11.4	54.7	33.9	-22.9	-8.7	3.1
Trends in actual orders						
Total new orders	26.9	46.9	26.2	0.7	7.9	17.6
Scottish orders	14.4	47.9	37.8	-23.4	-16.2	-20.7
Rest of UK orders	18.2	44.2	37.6	-19.4	0.7	10.8
Export orders [30.3% = N/A]	14.0	30.7	25.0	-10.9	9.0	-4.8
Trends in expected orders						
Total new orders	22.1	49.1	28.9	-6.8	3.8	2.8
Scottish orders	7.5	60.6	32.0	-24.5	-6.5	-21.3
Rest of UK orders	16.7	53.3	30.0	-13.3	-4.2	6.9
Export orders [31.5% = N/A]	16.8	34.0	17.7	-1	13.2	-9.3
Av Capacity used	78.6			78.6	78.3	78.2
Invest in plant/equip.	24.8	52.0	23.2	1.6	20.1	1
Cash flow past 3 moths	17.1	59.9	23.0	-5.9	-18.9	1.8
Turnover next 12 moths	36.8	50.3	12.9	23.9	5.3	29.2
Profitability next 12 moths	34.1	37.1	28.8	5.3	-7.4	16.4
Price change next 3 moths	51.8	43.4	4.9	46.9	43.3	43.3
Pressures to raise prices from						
Pay settlements	45.4				38.3	36.5
Raw material costs	84.8				80.0	73.7
Finance costs	14.3				19.4	21.6
Other overheads	45.2				44	40.4
Transport costs	50.3				41.8	54.8
Employment trends						
Total actual employment	12.2	68.9	18.9	-6.6	3.3	-2.0
Total expected next 3 months	14.1	71.2	14.7	-0.6	-3.8	-10.7
Average pay increase	3.66			3.66	4.05	3.8

CONSTRUCTION

Optimism

Business confidence continued to decline for a net of smaller and larger construction firms, again reflecting concerns as to credit issues, declining levels of enquiries were more widely reported by smaller contractors.

Contracts

The declining trend in new contracts strengthened in the first quarter and 69% (71% and 86% in the previous two quarters) expect level or rising trends in the level of work through the next six months.

Average capacity used eased to 86.9%. The rising trends in work in progress were more modest for larger, but fell quite sharply for smaller firms in the first quarter. Over the next six months a net of larger firms anticipate a rising trend in work in progress, whilst a net of smaller firms anticipate a declining trend.

Respondents remain confident (a net of 3% compared to 10% and 29% in the previous two quarters) as to rising trends in turnover, and a net of -3% anticipate declining profitability over the next twelve months. Expectations as to turnover and profitability remained positive amongst larger construction firms, but were negative for smaller construction firms. 53% of smaller and 46% of larger construction firms anticipate declining tender margins over the next twelve months.

Investment over the previous six months was mainly for replacement and to increase efficiency. Investment to compete for new work or to enter new areas was limited.

Employment

The rising trend in employment continued but eased further, 26% reported increasing pay by an average of 4.0%.

	Q1.2008			Net Balances		
	Up	Level	Down	Q1/08	Q4/07	Q3/07
Business Optimism	10.3	41.0	48.7	-38.5	-23.3	-2.6
Trends in actual contracts						
Total new contracts	23.1	30.8	46.2	-23.1	-6.5	18.4
Public sector orders	16.7	43.3	40.0	-23.3	-28.0	-3.1
Private commercial	28.6	34.3	37.1	-8.6	0.0	12.9
Domestic/house build	17.1	42.9	40.0	-22.9	-23.1	-3.4
Trends in expected contracts						
Total new orders	21.1	55.3	23.7	-2.6	-10.7	19.4
Public sector orders	17.2	62.1	20.7	-3.4	-17.4	-6.9
Private commercial	17.7	55.9	29.4	-14.9	8.3	9.7
Domestic/house build	11.8	55.9	32.4	-20.6	-37.5	14.8
Trends in work in progress						
Actual	20.5	43.6	35.9	-15.4	16.1	18.4
Expected	28.2	41.0	30.8	-2.6	-3.3	5.4
Capacity used	86.9			86.9	89.6	88.7
Invest in plant/equip.	27.0	54.1	18.9	8.1		-10.8
Leasing in plant/equipment.	8.1	67.6	24.3	-16.2		-11.7
Employment trends						
Total actual employment	23.1	64.1	12.8	10.3	22.5	23.7
Total expected next 3 months	20.5	76.9	2.6	17.9	13.3	25.7
Average pay increase	4.00			4.00	4.04	4.4
Percent recruiting staff	48.7			48.7	58.1	71.7
Recruitment difficulties increasing	17.9			17.9	27.3	25

WHOLESALE DISTRIBUTION

Optimism

A slight upturn in business confidence was reported.

Sales

The outturn in sales was slightly stronger than had been anticipated, and, in contrast to the retail sector, firms are anticipating a slight strengthening in sales trends in the second quarter of 2008.

Expectations of price increases in the next quarter remained widespread, although slightly lower than the average for 2007. Respondents again reported pressures to raise prices due to raw material and transport costs remained widespread.

Whilst net of respondents expecting turnover to increase over the next year continued to strengthen, the net expecting rising profitability continued to weaken, suggesting some pressures on margins in 2008.

Finance

Changes to investment plans were reported by 42% and the rising trend in investment intentions continued.

Employment

Changes in employment levels were reported by a third of respondents; nevertheless, the modestly rising trend in employment continued for a further quarter, and again is expected to strengthen through the second quarter of 2008. 53% sought to recruit staff, and 32% increased pay by an average of 4.9%.

	Q1.2008			Net Balances		
	Up	Level	Down	Q1/08	Q4/07	Q3/07
Business Optimism	38.6	21.6	31.6	5.3	-23.5	-5.6
Trend in actual sales	42.1	21.1	36.8	5.3	0.0	16.7
Trend in expected sales	41.2	29.4	29.4	11.8	0.0	25
Investment plans	36.8	57.9	5.3	31.5	29.4	5.6
Cash flow past 3 months	10.5	68.4	21.1	-10.5	0.0	5.6
Turnover next 12 months	47.4	36.8	15.8	31.6	29.4	38.9
Profitability next 12 months	36.8	31.6	31.6	5.3	11.8	16.7
Price change next 3 months	57.9	36.8	5.3	52.6	62.5	76.5
Pressures to raise prices from						
Pay settlements	31.6			31.6	41.2	11.1
Raw material costs	57.9			57.9	64.7	83.3
Finance costs	15.8			15.8	17.6	16.7
Other overheads	31.8			31.8	29.4	38.9
Transport costs	78.9			78.9	70.6	66.7
Employment trends						
Total actual employment	22.2	66.7	11.1	11.1	11.7	11.1
Expected next 3 months	29.4	64.7	5.9	23.5	12.5	5.6
Average pay increase	4.9			4.9	4.1	3.92
Percent recruiting staff	52.6			52.6	47.1	11.1
Recruitment difficulties inc	33.3			33.3	33.3	7

RETAIL DISTRIBUTION

Optimism

The sharp deterioration in business confidence continued, reflecting heightened concerns as to declining consumer confidence and spending.

Sales

For a further quarter a net declining trend in sales was reported by independent retailers who also again reported a decline in the actual value of sales in the first quarter. A net of -29% anticipate declining sales in the second quarter. In contrast, a net of 12.5% of national retailers (12.5% in the previous quarter) reported increased sales in the first quarter. Nevertheless, 28% (43% in the last quarter) of national retailers expect increased value in sales in the first quarter of 2008.

Cost pressures were again more evident in the first quarter with the percentages citing raw material costs and energy costs at the highest recorded in the survey. Cost pressures were again more widely reported by independent retailers.

Finance

A net of 26% of independent retailers anticipate declining turnover, and a net of -49% (-50% in the previous quarter) anticipate declining profitability over the next year, suggesting significantly increased pressures on margins in 2008. In contrast a net of 12.5% (12.5% in the previous quarter) of the national retailers anticipate rising turnover and a net of 38% (38% in the previous quarter) rising profitability over the next year.

Employment

Changes in employment levels were reported by 14%. The overall trends in employment indicated continuing declining trends in full time, temporary and permanent employment.

	Q1.2008			Net Balances		
	Up	Level	Down	Q1/08	Q4/07	Q3/07
Business Optimism	5.8	34.6	59.6	-53.8	-41.6	-1.9
Trend in actual sales	21.2	34.6	44.2	-23.1	-12.8	7.1
Trend in expected sales	14.3	38.8	46.9	-32.7	-20.9	11.8
Cash flow past 3 months	11.8	64.7	23.5	-11.8	-2.0	16.1
Turnover next 12 months	7.7	51.9	40.4	-32.7	-20.8	10.7
Profitability next 12 months	7.8	43.1	49	-41.2	-33.6	-1.9
Price change next 3 months	67.3	26.9	5.8	61.5	54.2	44.6
Pressures to raise prices from						
Pay settlements	32.7			32.7	25.0	25
Raw material costs	65.4			65.4	50.0	52
Finance costs	28.8			28.8	33.3	27
Other overheads	13.5			13.5	12.5	16
Transport costs	48.1			48.1	50.0	39
Utility costs	67.3			67.3	47.9	39
Regulation costs	34.6			34.6	37.5	38
Employment trends						
Total actual employment	2	86.3	11.8	-9.8	-12.5	1.8
Expected next 3 months	2.2	78.3	19.6	-17.4	-4.5	6.4
Average pay increase	3.53			3.53	3.11	4.7
Percent recruiting staff	21.6			21.6	39.6	42.9
Recruitment difficulties inc	19.2			19.2	40.0	26.0

TOURISM

Optimism

Business confidence weakened in the first quarter, again reflecting a combination of rising costs, poor weather and lack of consumer confidence. Compared to a year ago expectations for visitor numbers from all areas for the second quarter are weaker.

Demand

The net trends in demand were weaker than in the previous first quarters of 2004 - 2007. Whilst 24% reported increased demand for accommodation, 25% increased numbers in restaurants and 21% increased demand for function/conference facilities the net trends were weak. Average occupancy at 54.6% was lower than in the first quarter of 2007, but broadly similar to that of q1 2006 and 2005.

Overall 34% of business in the first quarter was tourist trade, 36% local trade, and 31% business trade. A net of 10% (compared to a 38% in the previous quarter) reported rising turnover and a net of -34% (-5% in the previous quarter) reported falling trends in margins.

Business constraints

64% (60% in 2007 q1) reported the lack of demand as the main business constraint in the first quarter, 33% the high exchange rates, 26% poor transport infrastructure and 29% the weak marketing of their area.

Employment

Changes in employment levels were again limited, being reported by 30%.

Recruitment

64% sought to recruit staff; difficulties in recruiting chefs and temporary staffs and front of house staff were widely reported.

	Q1.2008			Net Balances		
	Up	Level	Down	Q1/08	Q4/07	Q3/07
Business Optimism	29.3	41.5	41.5	-24.4	-20.9	5.6
Trends in demand/visitors						
Total demand/visitors	29.3	31.7	39	-9.8	30.9	35.2
Demand from Scotland	25	45	30	-5	23.8	32.7
Demand from Rest of UK	22	43.9	34.1	-12.2	12.5	17.3
Demand from abroad	7.5	47.5	45	-37.5	4.8	25.0
Business Trade	25	42.5	32.5	-7.5	25.0	23.5
Trends in expected demand						
Total demand/visitors	28.2	51.3	20.5	7.7	2.6	-31.7
Demand from Scotland	16.2	62.2	21.6	-5.4	-7.9	-26.8
Demand from Rest of UK	17.9	61.5	20.5	-2.6	-10.6	-38.5
Demand from abroad	25.6	46.2	28.2	-2.6	-23.7	-39.0
Business Trade	29.7	51.4	18.9	10.8	5.5	-17.9
Occupancy	54.6				63.1	77.4
Average daily rate	41	43.6	15.4	25.6	21.9	40.4
Expected average daily rate	22	61	17.1	4.9	5.3	-27.1
Employment trends						
Total actual employment	15.8	71.1	13.2	2.6	-5.1	31.3
Expected next 3 months	13.2	78.9	7.9	5.3	-5.6	-23.9
Average pay increase	5.38			5.38	4.01	5.59
Percent recruiting staff	64.3			64.3	72.1	76.5
Recruitment difficulties	30			30	29.7	21.0

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.

Please contact

Cliff Lockyer 0141 548 3198 or c.j.lockyer@strath.ac.uk
Eleanor Malloy 0141 548 3967 or e.malloy@strath.ac.uk

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