



MEDIA RELEASE

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SURVEY DETECTS GLIMMERS OF HOPE FOR ECONOMY IN 2010

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the first quarter of 2009. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, points to a difficult year ahead for Scottish businesses with weak demand and continued pressures on profits and margins. However some positive indications exist for the future of our manufacturing and tourist sectors, along with a reminder that skills provision remains a key priority for the future.

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

"Scottish business confidence has been battered over the past year and our latest survey reveals that, on the surface, there seem to be few signs of improvement in the short term. However in the midst of the current recession, we are all looking for signs of light at the end of the tunnel and a closer examination of the figures does reveal that in some sectors the rate of decline is easing, with a small number of businesses performing well against a challenging background."

"A positive feature is that Scottish manufacturers are anticipating a modest rise in export activity by this time next year, raising hopes that our exporters may be helping lead the Scottish economy from recession and into growth. The background of a weak pound on the currency markets may be a boost for exporters in the medium term, but this will only produce results when our export markets begin to see increased business and consumer optimism, and the benefits of the weak pound have to be balanced against increased costs of imported raw materials."

"Similarly there is further potential for recovery in our tourist sector, where occupancy levels remain on a par with previous years and businesses are looking forward to increasing demand over the spring and summer in this Year of Homecoming. A dry summer would assist greatly in marketing Scotland's attractions as a tourist destination especially with globally significant events such as the Open golf championship taking place in Scotland."

"Of concern in this survey is the downward trend in investment in training. With business cash flow and margins becoming tighter and the nature of the labour market changing, training can often be a difficult area for both the private and public sectors to focus resources. However issues of skills shortages have only reduced in scale temporarily and we must redouble our efforts to establish the skills our economy will need in order to grow and prosper in the future if we are to avoid a skills crisis in two or three years' time."

BUSINESS PERFORMANCE

Summary Points

Business confidence	Three-quarters of manufacturing and construction and over 80% of wholesale and retail respondents reported being less confident than one year ago. However, the trends in business confidence in wholesale and retail distribution, and to a lesser extent in construction over the past three months, whilst remaining severely depressed, are not so depressed as the trends in the fourth quarter of 2008. Over the past year the net trend in business confidence in manufacturing has deteriorated from -22.9% in Q1 2008 to a net of -53.6%; in construction the net trend has deteriorated from -38.5% in Q4 2007 to a net of -72.2%; and in tourism confidence has weakened from a net of -24.4% in Q4 2007 to -32.8%;
Demand/sales	<p>Trading conditions remained weak in all sectors. In manufacturing the net trends in new, Scottish and rest of UK orders weakened further, however, the decline in export orders ended. In construction the trends in private commercial and domestic/house build contracts again weakened, whilst the decline in the trend in public sector orders eased marginally, however, the trends in the levels of work in progress weakened further.</p> <p>In the retail sector sales trends remained depressed, but did not deteriorate further in the first quarter. In tourism the trends in visitor numbers were weaker compared to the first quarter of 2008;</p>
Capacity/work in progress	Average capacity used in manufacturing has declined by 12.2 percentage points and in construction by 19.7 percentage points over the past year. In construction the proportion reporting working below optimum levels has increased from a net of 31% to a net of 86%. In tourism occupancy remained at the same level as in q1 2008, however, occupancy has been sustained only by widespread discounting;
Cost pressures	Cost pressures, except finance costs, continued to ease across all sectors and expectations of price decreases were reported in manufacturing. Pressures on margins were widely reported in construction, and evident in tourism. In contrast over 70% of retailers anticipate price increases over the next three months;
Pay and employment	The percentages of respondents increasing pay in the first quarter ranged from 8% of construction to 21% of manufacturing, and average pay increases ranged from 3.05% in manufacturing to 5.33% in retail. A net of firms in all sectors, reported declining net trends in employment and hours worked/overtime levels. Recruitment activity in all sectors was low ranging from 8% in construction, 9% in retail to 38% in tourism and 42% in manufacturing;
Outlook	There are some signs that the rate of decline in orders/demand may ease slightly in the second quarter. Over the next year more than 60% of manufacturing respondents anticipate declining trends in total Scottish/Rest of UK orders, nevertheless positive trends in export orders are forecast by q1 2010. In construction there are few signs of improvement, as turnover, profits and margins are widely expected to decline over the next six months. In retail weak sales trend are forecast and whilst the declining trends in turnover are expected to weaken over the year, pressures on profits are expected to remain widespread.

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 2009 and early April 2009, almost 300 firms responded to the questionnaire.

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MANUFACTURING

Optimism

The net trends in business confidence deteriorated further in the first quarter, although the rate of deterioration eased slightly.

Orders and Sales

The outturn in orders was again worse than expected and the actual trends in total, Scottish and rest of UK orders remain extremely depressed. Weakening and worsening trends in orders were again reported by a net of firms and these weak trends are expected to continue over the next twelve months. However, the declining trend in export orders weakened and a net of firms now anticipate a rising trend in export orders by early 2009.

The trend in the level of work in progress deteriorated further in the first quarter, but some alleviation in the decline is expected over the three months to June 2009. Average capacity eased to 66.4%, some 6 percentage points lower than in the previous quarter and 12 percentage points lower than a year ago, and over three quarters reported capacity used was below preferred levels. Pressures to raise prices, with the exception of finance costs, continued to ease.

Investment

Overall investment trends eased and only 9% expect to increase investment however 18.6% anticipate increasing their leasing of equipment over the coming year. Cash flow trends deteriorated further, and the anticipated trends in turnover and profitability over the next 12 months are the weakest recorded.

Employment

The proportion of firms reducing staff increased significantly and declining trends in hours worked and expenditure on training were reported.

	Q4.2008			Net Balances		
	Up	Level	Down	Q1/09	Q4/08	Q3/08
Business Optimism	5.0	36.4	58.6	-53.6	-49.8	-43.8
Trends in actual orders						
Total new orders	11.7	24.8	63.5	-51.8	-31.2	-14.6
Scottish orders	7.3	27.3	65.4	-58.1	-26.5	-34.9
Rest of UK orders	10.4	30.0	59.6	-49.2	-29.1	-14.1
Export orders [29.7% = N/A]	23.4	25.3	23.0	0.4	-13.6	-0.4
Trends in expected orders						
Total new orders	14.1	35.3	50.5	-36.4	-45.7	-21.7
Scottish orders	6.1	28.5	55.4	-49.3	-39.3	-33.4
Rest of UK orders	11.6	37.9	50.5	-38.9	-39.3	-3
Export orders 30[% = N/A]	14.1	32.7	24.2	-10.1	-22.8	-0.4
Av Capacity used	66.37			66.37	73.62	73.6
Invest in plant/equip.	9.1	52.4	38.5	-29.4	-15.0	-7.4
Cash flow past 3 moths	8.6	34.6	56.8	-48.2	-25.8	-21.1
Turnover next 12 moths	20.3	21.9	57.8	-37.5	-18.9	-13.2
Profitability next 12 moths	13.3	22.6	64.1	-50.8	-25.0	-32.4
Price change next 3 moths	11.7	72.2	16.1	-4.4	18.9	43.9
Pressures to raise prices from						
Pay settlements	15.7			15.7	34.3	31.8
Raw material costs	63.3			63.3	68.4	81.9
Finance costs	21.8			21.8	15.6	21.7
Other overheads	30.0			30.0	44.6	58.2
Transport costs	28.9			28.9	42.9	71.2
Employment trends						
Total actual employment	8.1	41.0	50.9	-42.8	-10.9	-6.6
Total expected next 3 months	11.9	62.8	25.3	-13.4	-22.4	-25.6
Average pay increase	3.05			3.05	4.22	3.67

CONSTRUCTION

Optimism

Over 97% of respondents reported being less confident than a year ago and 75% less confident than at the end of December.

Contracts

The steeply declining trend in new contracts eased marginally in the first quarter, although the trends in the private commercial and domestic/house build contracts remained very depressed. Now only 22% (28%, 41%, 52%, and 69% in the previous four quarters) expect level or rising trends in the level of work through the next six months.

Expectations as to turnover trends over the next year remained depressed, although did not deteriorate further in the first quarter. A net of 64% (65%, 37% and 25% in the previous three quarters) anticipate declining turnover trends over the next year. A net of -78% (-78%, -54%, -49% and -3% in the previous four quarters) anticipate declining profitability over the next twelve months. And a net of 81% of construction firms anticipate declining tender margins over the next twelve months.

Average capacity declined by three percentage points to 69%, the lowest figure recorded, a decline of 19.7 percentage points over the year. 78% reported and 67% expect a declining trend in the level of work in progress, again the weakest trends in the history of the survey.

Employment

Reductions in employment were widespread, although not to the extent of the previous quarter and 71% of firms reported reducing overtime in the first quarter. Recruitment remained at very low levels.

	Up	Q1.2009		Net Balances		
		Level	Down	Q1/09	Q4/08	Q3/08
Business Optimism	2.8	22.2	75.0	-72.2	-77.8	-68.6
Trends in actual contracts						
Total new contracts	0.0	17.1	82.9	-82.9	-86.1	-57.2
Public sector orders	3.3	30.0	66.7	-63.4	-67.7	-27.6
Private commercial	0.0	12.5	87.5	-87.5	-82.4	-58.0
Domestic/house build	0.0	13.3	86.7	-86.7	-90.0	-72.7
Trends in expected contracts						
Total new orders	2.9	40.0	57.1	-63.4	-66.6	-52.9
Public sector orders	6.7	43.3	50.0	-43.3	-48.4	-32.1
Private commercial	0.0	37.5	62.5	-62.5	-63.7	-67.6
Domestic/house build	0.0	36.7	63.3	-63.3	-80.0	-81.3
Trends in work in progress						
Actual	2.8	19.4	77.8	-75.0	-62.2	-37.2
Expected	5.6	27.8	66.7	-61.1	-69.4	-50.0
Capacity used	69.2			69.2	71.74	79.03
Invest in plant/equip.	0.0	28.6	71.4	-71.4		-44.1
Leasing in plant/equipment.	5.7	20.0	74.3	-68.6		-55.9
Employment trends						
Total actual employment	2.8	38.9	58.3	-55.5	-64.9	-11.5
Total expected next 3 months	0.0	51.4	48.6	-48.6	-51.4	-36.3
Average pay increase	4.17			4.17	3.75	4.11
Percent recruiting staff	8.3			8.3	8.1	25.7
Recruitment difficulties increasing	0.0			0.0	0.0	5.9

WHOLESALE DISTRIBUTION

Optimism

Concerns as to the business situation remained high amongst wholesale respondents in the first quarter and 60% reported being less confident as to the general business situation.

Sales

The declining trend in sales remained broadly based as 80% reported declining sales in the first quarter, 58% expect these weak trends to continue through the second quarter of 2009.

More than half of responding firms expect price increases in the three months to the end of June, mainly under pressures from raw material prices and transport costs.

Wholesale firms continue to expect turnover to decline sharply but most firms revised their gloomy profitability predictions from the previous survey and two thirds now expect no change.

Finance

Changes to investment plans were widespread and the declining trend in investment intentions continued.

Employment

Changes in employment levels were reported by 35% of respondents and the downward trend continued; the decline is expected to ease slightly in quarter two. 40% of firms reported recruitment difficulties and almost 20% reported retention problems.

	Q1.2009			Net Balances		
	Up	Level	Down	Q1/09	Q4/08	Q3/08
Business Optimism	5.0	35.0	60.0	-55.0	-75.0	-11.8
Trend in actual sales	5.0	15.0	80.0	-75.0	-60.0	-16.6
Trend in expected sales	10.5	31.6	57.9	-47.4	-72.2	-25.0
Investment plans	10.0	55.0	35.0	-45.0	-35.0	5.5
Cash flow past 3 months	10.0	65.0	25.0	-15.0	-20.0	-11.1
Turnover next 12 months	10.0	25.0	65.0	-55.0	-47.4	5.6
Profitability next 12 months	10.0	65.0	25.0	-15.0	-57.9	0.0
Price change next 3 months	60.0	35.0	25.0	35.0	30.0	66.7
Pressures to raise prices from						
Pay settlements	10.0			10.0	25.0	16.7
Raw material costs	45.0			45.0	55.0	77.8
Finance costs	25.0			25.0	15.0	27.8
Other overheads	20.0			20.0	45.0	27.8
Transport costs	45.0			45.0	65.0	72.2
Employment trends						
Total actual employment	10.0	65.0	25.0	-15.0	-21.1	11.1
Expected next 3 months	10.5	73.7	15.8	-5.3	-17.6	0.0
Average pay increase	2.75			2.75	3.5	3.03
Percent recruiting staff	25.0			25.0	10.0	44.4
Recruitment difficulties inc	8.3			8.3	27.8	13.3

RETAIL DISTRIBUTION

Optimism

Business confidence remained low although the rate of decline eased from -91% to -60% amongst retail respondents in the first quarter of 2009. More than 85% of firms were less confident compared to the same quarter one year ago.

Sales

The proportion of respondents reporting and expecting declining sales in the fourth and first quarters remains historically high. Two thirds of respondents reported declining sales trends and three-quarters expect sales to decline further in the second quarter of 2009.

The value of total new sales declined for 74% of firms and 72% expect further a decline during the three months to the end of June 2009.

Finance

A net of -52% of retailers anticipate declining turnover (compared to -69% in the previous quarter), and a net of -73% (-72% in the previous quarter) anticipate declining profitability over the next year, suggesting further pressures on margins during 2009.

Employment

No responding retail firms either increased or expect to increase total employment levels. Only 9% of firms attempted to recruit, the lowest level in the history of the survey. Firms increased wages by 5.33% - although the proportion increasing pay during quarter one was relatively low at fewer than 10%.

	Q1.2009			Net Balances		
	Up	Level	Down	Q1/09	Q4/08	Q3/08
Business Optimism	4.3	32.6	63.0	-58.7	-90.7	-59.6
Trend in actual sales	8.9	26.7	64.4	-55.5	-56.6	-45.1
Trend in expected sales	4.7	20.9	74.4	-69.7	-77.3	-55.1
Cash flow past 3 months	11.4	61.4	27.3	-15.9	-31.4	-28.8
Turnover next 12 months	8.7	30.4	60.9	-52.2	-68.5	-38.4
Profitability next 12 months	4.4	17.8	77.8	-73.4	-72.2	-49.0
Price change next 3 months	71.7	19.6	8.7	63.0	40.8	67.4
Pressures to raise prices from						
Pay settlements	13.0			13.0	14.8	25.0
Raw material costs	80.4			80.4	61.1	73.1
Finance costs	26.1			26.1	33.3	25.0
Other overheads	15.2			15.2	18.5	19.2
Transport costs	30.4			30.4	44.4	67.3
Utility costs	43.5			43.5	63.0	75.0
Regulation costs	23.9			23.9	33.3	25.0
Employment trends						
Total actual employment	0.0	63.0	37.0	-37.0	-31.5	-11.5
Expected next 3 months	0.0	60.5	39.5	-39.5	-42.0	-12.5
Average pay increase	5.33			5.33	4.0	4.32
Percent recruiting staff	8.7			8.7	31.5	33.3
Recruitment difficulties inc	0.0			0.0	23.3	12.5

TOURISM

Optimism

For a further quarter concerns as to the business situation were widely reported. In the previous survey over 70% reported lower levels of business confidence, the most widely reported figure since 2001 whereas during quarter one 47% reported a decline in confidence. Nevertheless despite the easing in the rate of decline the balance of optimism (-32.8%) remains lower than during the first quarter of 2008 (-24.4%).

Demand

The net trends in demand were weaker than in previous first quarters. Only 10% reported increased demand for accommodation, 17% increased numbers in restaurants and 16% increased demand for function and conference facilities. Average occupancy at 54% was similar to previous first quarters.

A net of -44% reported declining turnover trends (compared to a decline of -37% in the previous quarter) and a net of -39% (-48% in the previous quarter) reported falling trends in margins. During quarter two the declines in turnover and margins are expected to continue but ease slightly.

Business constraints

An overall lack of demand remained the primary business constraint. Discounting of room rates was more widespread than expected and 45% expect to discount room rates in the second quarter.

Employment

Changes in employment levels were reported by more than 60%. Net declining trends in full time (-51%), part time (-56%), seasonal (-56.4%) and overtime working (-83%) were reported, and the proportions recruiting remained historically low.

	Q1.2009			Net Balances		
	Up	Level	Down	Q1/09	Q4/08	Q3/08
Business Optimism	13.8	39.7	46.6	-32.8	-71.5	-60.0
Trends in demand/visitors						
Total demand/visitors	12.3	21.1	66.7	-54.4	-50.0	-52.0
Demand from Scotland	16.1	28.6	55.4	-39.3	-36.2	-25.0
Demand from Rest of UK	8.9	37.5	53.6	-44.7	-48.9	-40.8
Demand from abroad	9.3	31.5	59.3	-50.0	-66.6	-50.0
Business Trade	7.4	27.8	64.8	-57.4	-53.1	-26.5
Trends in expected demand						
Total demand/visitors	18.5	29.6	51.9	-33.4	-73.9	-64.6
Demand from Scotland	19.2	38.5	42.3	-23.1	-56.5	-57.8
Demand from Rest of UK	21.2	38.5	40.4	-19.2	-68.9	-65.2
Demand from abroad	19.2	30.8	50.0	-30.8	-78.2	-70.2
Business Trade	6.1	28.6	65.3	-59.2	-67.4	-54.3
Occupancy	54.5			54.5	55.8	72.2
Average daily rate	14.0	35.1	50.9	-36.9	-21.3	-12.2
Expected average daily rate	14.3	41.1	44.6	-30.0	-47.1	-31.3
Employment trends						
Total actual employment	1.8	38.2	60.0	-58.2	-45.7	-21.3
Expected next 3 months	16.1	41.1	42.9	-28.6	-52.3	-53.3
Average pay increase	4.71			4.71	5.0	7.33
Percent recruiting staff	37.9			37.9	40.8	64.0
Recruitment difficulties	15.7			15.7	16.2	34.8

LOGISTICS

Optimism

Business confidence declined further amongst Scottish logistics firms during the three months to the end of March 2009. The rate of decline accelerated from -40% in quarter four to -66.7%.

Business trends

For the first time in the Logistics Survey falling business trends were evident in all activities amongst firms during the first quarter.

Investment

A net balance of firms reported a decrease in investment in vehicles and all other investment trends also declined during the three months to the end of March.

Finance

A further fall in the trend in cash flow was reported. Over the next twelve months a net balance of firms expect both turnover and, more notably, profitability to decline. Fewer than 10% of firms expect prices to rise in quarter two with a quarter expecting prices to fall.

Employment

Most firms reported a decline in total employment during quarter one with no responding firms reporting an overall increase. Fewer firms than in previous quarters sought to recruit staff, and 8% of respondents increased pay by an average of 5%.

	Quarter 4 2008			Net Balances		
	Up	Level	Down	Q1/09	Q4 /08	Q3/08
Business Optimism	8.3	16.7	75.0	-66.7	-40	-70
Trend in actual business	0.0	25.0	75.0	-75.0	-10	-40
Trend in expected business	16.7	25.0	58.3	-41.6	20	-30
Trend in long distance	0.0	25.0	75.0	-75.0	0	-67
Trend in local deliveries	10.0	40.0	50.0	-40.0	10	0
Trend in storage	0.0	37.5	62.5	-62.5	0	-11
Trend in couriering	0.0	16.7	83.3	-83.3	-40	-29
Trend in other work	0.0	28.6	71.4	-71.4	-26	-50
Cash flow past 3 months	0.0	58.3	41.7	-41.7	-30	-50
Turnover next 12 months	8.3	33.3	58.3	-50.0	30	-30
Profitability next 12 months	8.3	8.3	83.3	-75.0	-10	-40
Price change next 3 Months	8.3	66.7	25.0	-16.7	60	45
Employment trends						
Total actual employment	0.0	25.0	75.0	-75.0	-10	-40
Expected next 3 months	9.1	45.5	45.5	-36.4	0	-40
Average pay increase	5.0			5.0	2.75	3.02

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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