



Scottish
Chambers of
Commerce

The Ultimate Business Network

MEDIA RELEASE

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A GOOD SUMMER FOR SCOTTISH BUSINESS

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the second quarter of 2009. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reveals more widely based evidence that the sharp decline in business activity of recent months is coming to an end.

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

"Scottish businesses have had a tough year but our latest survey reveals clear signs that the pace of the recession is slowing down. In tourism, optimism has reached its highest level for 18 months, whilst in wholesale distribution, the results are the best since the third quarter of 2006. In manufacturing and construction the sharp declines in business confidence in the past nine months have slowed markedly. Whilst it is too early to say that the worst of the recession is over, it would certainly seem that the first stage of the recession, characterised by the effects of business pessimism, may be ending, although more general signs of recovery are still some time away

"The recent good weather has undoubtedly had a positive impact on the Scottish tourism sector. Occupancy rates are up on last summer and while discounting is still widespread, more in the hospitality industry are looking forward with greater optimism than they have been experiencing over the past 18 months. There are also welcome signs of higher levels of activity in the construction sector, with the emergence of new contracts, particularly from the public sector.

"In manufacturing there were positive trends in both the food & drink industry and in the textiles & related sectors.

"The sharp decline in the Scottish economy over the previous nine months appears to be coming to an end, and there are more encouraging signs across most sectors. However the improved trends are the result of businesses working extremely hard coping with reduced margins and pressures on profitability. Demand still remains weak and uncertain, cash flow remains particularly tight and this underlines the need for continued access to finance and credit insurance on reasonable terms. The Scottish and UK Governments' need to maintain their efforts to ensure that public sector payments to contractors and suppliers are made within 10 days."

BUSINESS PERFORMANCE

Summary Points

Overall	There is much clearer evidence in the results for the second quarter that the first stage of the recession, a period of sharp decline in confidence, orders, sales and activity, is coming to an end, and there are more signs of both an easing in the rate of decline, and signs of some pick up in orders and activity and recruitment, although pressures on margins remain at high levels;
Business confidence	Sixty-three percent of manufacturing, 80% of construction, 70% of retail and 58% of wholesale respondents reported being less confident than one year ago. However, the trends in business confidence in all sectors are not as depressed as the trends in both the first quarter of 2009 and the fourth quarter of 2008;
Demand/sales	<p>Trading conditions in the second quarter of 2009, although weak and declining in all sectors, are better than in the previous two quarters. In manufacturing the declining net trends in new, Scottish and rest of UK orders eased. In construction the trends in all areas of work again declined, but at much reduced rates and a small number of respondents reported rising trends in orders. However, the trends in the levels of work in progress remained historically weak.</p> <p>In the retail sector the outturn in sales, although weak, was better than anticipated. In tourism the trends in total visitor numbers, although not for visitor numbers from the rest of the UK, were weaker compared to the second quarter of 2008;</p>
Capacity/work in progress	Average capacity used in manufacturing rose by 4 percentage points and in construction by 3 percentage points over the past quarter. In construction the proportion reporting working below optimum levels has eased from a net of 86% in q1 2009 to a net of 70%. In tourism occupancy remained some 4 percentage points higher than in q2 2008, however, once again, occupancy has been sustained only by widespread discounting;
Cost pressures	Cost pressures continued to ease across all sectors and expectations of price decreases were reported in manufacturing. Pressures on margins were widely reported in construction and in tourism. In contrast over 45% of retailers anticipate price increases over the next three months;
Pay and employment	The percentages of respondents increasing pay in the second quarter ranged from 0% of construction to 35% of manufacturing, and average pay increases ranged from 2.5% in manufacturing to 3.89% in retail. A net of firms in all sectors, except wholesale, reported declining net trends in employment and hours worked/overtime levels. Recruitment activity in all sectors was low ranging from 15% in construction, 18% in retail to 65% in tourism and 38% in manufacturing;
Outlook	There are mixed signals as to the trends in the third and fourth quarters. A net of manufacturing, wholesale and tourism respondents expect trends, although weak and generally negative, to improve in the third quarter. In contrast in construction and retail there are fewer signs of any further easing in the weak trends in the third quarter. Across all sectors pressures on margins and 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 June 2009 and early July 2009, almost 300 firms responded to the questionnaire.

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For further information contact:

On the survey results	Cliff Lockyer Eleanor Malloy	0141 548 3198 (c.j.lockyer@strath.ac.uk) 0141 548 3967
On Chamber policy	Liz Cameron Garry Clark	07801 500 589 (lcameron@scottishchambers.org.uk) 0141 204 8337 or 07795 158137 (gclark@scottishchambers.org.uk)

MANUFACTURING

Optimism

Business confidence improved in the second quarter after six quarters of decline. Underpinning the improvement was a rise in food and textile related sectors.

Orders and Sales

The outturn in orders was better than expected and the actual trends in total, Scottish and rest of UK orders, whilst weak, are markedly better than in previous quarters.

A declining trend in the level of work in progress was again reported, but the rate of decline was significantly less than in the first quarter. Average capacity used rose to 70.8%, some 4 percentage points higher than in the previous quarter and 6 percentage points lower than a year ago, nevertheless, 68% reported capacity used was below preferred levels. Pressures to raise prices continued to moderate.

Investment

Overall investment trends eased and only 11% expect to increase investment and 3% anticipate increasing their leasing of equipment over the coming year. Cash flow trends moderated from the strongly declining trends of the past two quarters, and the anticipated trends in turnover and profitability whilst weak, represent a significant improvement over the trends reported in quarter 1 and in the fourth quarter of 2008.

Employment

The proportion of firms reducing staff and reporting declining trends in hours worked eased in the second quarter. The decline in expenditure on training eased and recruitment activity increased.

	Q2 2009			Net Balances		
	Up	Level	Down	Q2/09	Q1/09	Q4/08
Business Optimism	29.3	50.2	20.6	8.7	-53.6	-49.8
Trends in actual orders						
Total new orders	29.9	29.9	40.2	-10.3	-51.8	-31.2
Scottish orders	24.2	39.3	36.5	-12.3	-58.1	-26.5
Rest of UK orders	26.8	28.5	44.8	-18.0	-49.2	-29.1
Export orders [27% = N/A]	23.8	27.0	22.2	1.6	0.4	-13.6
Trends in expected orders						
Total new orders	31.4	44.3	24.3	7.1	-36.4	-45.7
Scottish orders	26.4	53.2	20.4	6.0	-49.3	-39.3
Rest of UK orders	31.8	41.9	26.3	5.5	-38.9	-39.3
Export orders (26.4% = N/A]	26.3	33.3	14.1	12.2	-10.1	-22.8
Av Capacity used	70.79			70.79	66.37	73.62
Invest in plant/equip.	11.8	52.9	35.3	-23.5	-29.4	-15.0
Cash flow past 3 moths	18.9	45.5	35.6	-16.7	-48.2	-25.8
Turnover next 12 moths	32.5	34.3	33.2	-0.7	-37.5	-18.9
Profitability next 12 moths	25.6	29.6	44.8	-19.2	-50.8	-25.0
Price change next 3 moths	7.3	75.5	17.3	-10.0	-4.4	18.9
Pressures to raise prices from						
Pay settlements	22.9			22.9	15.7	34.3
Raw material costs	52.5			52.5	63.3	68.4
Finance costs	17.5			17.5	21.8	15.6
Other overheads	27.0			27.0	30.0	44.6
Transport costs	22.6			22.6	28.9	42.9
Employment trends						
Total actual employment	18.9	57.8	23.3	-4.4	-42.8	-10.9
Total expected next 3 months	10.5	69.4	20.0	-9.5	-13.4	-22.4
Average pay increase	2.52			2.52	3.05	4.22

CONSTRUCTION

Optimism

Forty-two per cent compared to over 97% of respondents in quarter one reported being less confident than a year ago. The balance of optimism eased from -72% to -27%.

Contracts

There was a marked easing in the rate of decline in new contracts (from -83% in the first quarter to -30% in the second) although the trends in the private commercial and domestic/house build contracts remain very depressed, there are now signs of new orders. Now 39% (22%, 28%, 41%, and 52% in the previous four quarters) reported level or rising trends in the level of work, although the overall net balance remains negative.

Expectations as to turnover trends over the next year remained depressed, although did not deteriorate further in the first quarter. A net of 37% (64%, 65%, 37% and 25% in the previous four quarters) anticipate declining turnover trends over the next year. A net of -59% (-78%, -78%, -54%, and -49% 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 rose by three percentage points to 72.5%, 59% (78% in the previous survey) reported and 44% (67% in the previous survey) expect a declining trend in the level of work in progress.

Employment

Reductions in employment were less widespread and recruitment again remained at very low levels. No respondent reported increasing pay in the second quarter.

	Q2 2009			Net Balances		
	Up	Level	Down	Q2/09	Q1/09	Q4/08
Business Optimism	15.4	42.3	42.3	-26.9	-72.2	-77.8
Trends in actual contracts						
Total new contracts	18.5	33.3	48.1	-29.6	-82.9	-86.1
Public sector orders	17.4	30.4	52.2	-38.4	-63.4	-67.7
Private commercial	8.0	24.0	68.0	-60.0	-87.5	-82.4
Domestic/house build	4.3	13.0	82.6	-78.3	-86.7	-90.0
Trends in expected contracts						
Total new orders	11.1	40.7	48.1	-37.0	-63.4	-66.6
Public sector orders	16.7	29.2	54.2	-37.5	-43.3	-48.4
Private commercial	8.0	32.0	60.0	-52.0	-62.5	-63.7
Domestic/house build	8.7	34.8	56.5	-47.8	-63.3	-80.0
Trends in work in progress						
Actual	7.4	33.3	59.3	-51.9	-75.0	-62.2
Expected	11.1	44.4	44.4	-33.3	-61.1	-69.4
Capacity used	72.5			72.5	69.2	71.74
Invest in plant/equip.	n/a				-71.4	
Leasing in plant/equipment.	n/a				-68.6	
Employment trends						
Total actual employment	7.4	55.6	37.0	-29.6	-55.5	-64.9
Total expected next 3 months	8.0	56.0	36.0	-28.0	-48.6	-51.4
Average pay increase	N/a			N/a	4.17	3.75
Percent recruiting staff	14.8			14.8	8.3	8.1
Recruitment difficulties increasing	0.0			0.0	0.0	0.0

WHOLESALE DISTRIBUTION

Optimism

Business optimism amongst Scottish wholesale respondents improved during quarter two, although more than half of firms were less confident compared to the same period a year ago.

Sales

The declining trend in sales continued though eased during the three months to the end of June (-42.8% compared to -75%) and is expected to ease further in quarter three (-21.4%).

More than a third of responding firms expect price increases in the three months to the end of September, mainly under pressures from other overheads and transport costs.

Over the next twelve months wholesale firms continue to expect turnover to decline and more than half of firms expect profitability to continue to decline.

Finance

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

Employment

Changes in employment levels were reported by 30% of respondents and the downward trend ended although a net of 15% expect a decline in total employment levels in quarter three.

	Q2 2009			Net Balances		
	Up	Level	Down	Q2/09	Q1/09	Q4/08
Business Optimism	28.6	50.0	21.4	7.2	-55.0	-75.0
Trend in actual sales	28.6	0.0	71.4	-42.8	-75.0	-60.0
Trend in expected sales	28.6	21.4	50.0	-21.4	-47.4	-72.2
Investment plans	7.1	57.1	35.7	-28.6	-45.0	-35.0
Cash flow past 3 months	28.6	50.0	21.4	7.2	-15.0	-20.0
Turnover next 12 months	21.4	21.4	57.1	-35.7	-55.0	-47.4
Profitability next 12 months	21.4	21.4	57.1	-35.7	-15.0	-57.9
Price change next 3 months	35.7	50.0	14.3	21.4	35.0	30.0
Pressures to raise prices from						
Pay settlements	7.1			7.1	10.0	25.0
Raw material costs	28.6			28.6	45.0	55.0
Finance costs	7.1			7.1	25.0	15.0
Other overheads	42.9			42.9	20.0	45.0
Transport costs	42.9			42.9	45.0	65.0
Employment trends						
Total actual employment	15.4	69.2	15.4	0.0	-15.0	-21.1
Expected next 3 months	7.7	69.2	23.1	-15.4	-5.3	-17.6
Average pay increase	10.0				2.75	3.5
Percent recruiting staff	21.4				25.0	10.0
Recruitment difficulties inc	0.0				8.3	27.8

RETAIL DISTRIBUTION

Optimism

Business confidence remained low although the rate of decline eased further from -58.7% to -27.4% amongst retail respondents in the second quarter of 2009. More than 70% 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 first and second quarters remains historically high. Nevertheless the rate of decline in actual and expected sales has begun to ease. Almost half of respondents reported declining sales trends and two-thirds expect sales to decline further in the third quarter of 2009.

The value of total new sales declined for 64% of firms and 68% expect further a decline during the three months to the end of September 2009.

Finance

A net of -49% of retailers anticipate declining turnover (compared to -52% in the previous quarter), and a net of -51% (-73% in the previous quarter) anticipate declining profitability over the next year, suggesting continued pressures on margins.

Employment

No responding retail firms increased employment levels and only a small number expect to increase total employment levels during the three months to the end of September. Only 18% of firms attempted to recruit, although historically low it was an improvement compared to quarter one (9%). Firms increased wages by 3.39%.

	Q2 2009			Net Balances		
	Up	Level	Down	Q2/09	Q1/09	Q4/08
Business Optimism	11.8	49.0	39.2	-27.4	-58.7	-90.7
Trend in actual sales	13.7	37.3	49.0	-35.3	-55.5	-56.6
Trend in expected sales	8.3	25.0	66.7	-58.4	-69.7	-77.3
Cash flow past 3 months	7.8	60.8	31.4	-23.6	-15.9	-31.4
Turnover next 12 months	11.8	27.5	60.8	-49.2	-52.2	-68.5
Profitability next 12 months	9.8	29.4	60.8	-51.0	-73.4	-72.2
Price change next 3 months	52.9	39.2	7.8	45.1	63.0	40.8
Pressures to raise prices from						
Pay settlements	17.6			17.6	13.0	14.8
Raw material costs	72.5			72.5	80.4	61.1
Finance costs	19.6			19.6	26.1	33.3
Other overheads	19.6			19.6	15.2	18.5
Transport costs	37.3			37.3	30.4	44.4
Utility costs	45.1			45.1	43.5	63.0
Regulation costs	21.6			21.6	23.9	33.3
Employment trends						
Total actual employment	0.0	70.0	30.0	-30.0	-37.0	-31.5
Expected next 3 months	2.2	71.1	26.7	-24.5	-39.5	-42.0
Average pay increase	3.39			3.39	5.33	4.0
Percent recruiting staff	18.0			18.0	8.7	31.5
Recruitment difficulties inc	7.1			7.1	0.0	23.3

TOURISM

Optimism

For the first time since the third quarter of 2007 more firms reported being more confident than reported being less. A net balance of firms also reported being more confident compared to one year ago.

Demand

The net trends in demand were weaker than in previous second quarters. Twenty-one per cent, compared to only 10% in quarter one reported increased demand for accommodation. The trends in demand from Scotland, RUK, abroad and business trade all continued to decline but with the rates of decline easing. Average occupancy rose from 54% to 74.5%.

A net of -21% reported declining turnover trends (compared to a decline of -44% in the previous quarter) and a net of -10% (-39% in the previous quarter) reported falling trends in margins. During quarter three the declines in turnover and margins are expected to continue but ease further.

Business constraints

An overall lack of demand remained the primary business constraint. Discounting of room rates remained widespread although the trend in discounting is expected to ease during the third quarter.

Employment

Changes in employment levels were reported by slightly fewer than half of firms. Net declining trends in full time (-23%), part time (-23%), seasonal (-20%) and overtime working (-41%) were reported.

	Q2 2009			Net Balances		
	Up	Level	Down	Q2/09	Q1/09	Q4/08
Business Optimism	29.3	43.1	27.6	1.7	-32.8	-71.5
Trends in demand/visitors						
Total demand/visitors	20.7	27.6	51.7	-31.0	-54.4	-50.0
Demand from Scotland	22.4	43.1	34.5	-12.1	-39.3	-36.2
Demand from Rest of UK	28.1	31.6	40.4	-12.3	-44.7	-48.9
Demand from abroad	14.3	37.5	48.2	-33.9	-50.0	-66.6
Business Trade	12.7	25.5	61.8	-49.1	-57.4	-53.1
Trends in expected demand						
Total demand/visitors	17.0	49.1	34.0	-17.0	-33.4	-73.9
Demand from Scotland	24.5	47.2	28.3	-3.8	-23.1	-56.5
Demand from Rest of UK	28.8	42.3	28.8	0.0	-19.2	-68.9
Demand from abroad	15.4	42.3	42.3	-26.9	-30.8	-78.2
Business Trade	12.0	36.0	52.0	-40.0	-59.2	-67.4
Occupancy	71.45			71.45	54.5	55.8
Average daily rate	19.0	27.6	53.4	-34.4	-36.9	-21.3
Expected average daily rate	22.4	37.9	39.7	-17.3	-30.0	-47.1
Employment trends						
Total actual employment	13.0	48.1	38.9	-25.9	-58.2	-45.7
Expected next 3 months	13.0	64.8	22.2	-9.2	-28.6	-52.3
Average pay increase	3.83			3.83	4.71	5.0
Percent recruiting staff	64.9			64.9	37.9	40.8
Recruitment difficulties	26.4			26.4	15.7	16.2

LOGISTICS

Optimism

Business confidence improved amongst Scottish logistics firms during the three months to the end of June 2009 although a third of firms remained pessimistic. The balance of optimism rose from -66.7% in quarter one to +16.7%.

Business trends

Two thirds of firms in the Logistics Survey reported no change to the trend in actual business with the net balance easing from -75% to -33%. Falling business trends remained evident in all activities amongst firms during the second quarter but respondents reported an easing the downward trend in long distance, couriering and in other work.

Investment

A net balance of firms reported a decrease in investment in equipment and storage during the three months to the end of June.

Finance

A further fall in the trend in cash flow was reported although the net balance eased from -41.7% to -16.7%. Over the next twelve months a net balance of firms continue to expect both turnover and profitability to decline, however the rate of decline is expected to ease. More than 80% of firms expect prices to remain unchanged in quarter three with the remainder expecting prices to fall.

Employment

Half of firms reported a decline in total employment during quarter two and half no change. Most firms expect no change to employment levels in quarter three.

	Q2 2009			Net Balances		
	Up	Level	Down	Q1/09	Q4 /08	
Business Optimism	50	16.7	33.3	16.7	-66.7	-40
Trend in actual business	0.0	66.7	33.3	-33.3	-75.0	-10
Trend in expected business	16.7	33.3	50.0	-33.3	-41.6	20
Trend in long distance	0.0	50.0	50.0	-50.0	-75.0	0
Trend in local deliveries	0.0	60.0	40.0	-40.0	-40.0	10
Trend in storage	0.0	40.0	60.0	-60.0	-62.5	0
Trend in couriering	0.0	80.0	20.0	-20.0	-83.3	-40
Trend in other work	0.0	40.0	60.0	-60.0	-71.4	-26
Cash flow past 3 months	0.0	83.3	16.7	-16.7	-41.7	-30
Turnover next 12 months	16.7	33.3	50.0	-33.3	-50.0	30
Profitability next 12 months	33.3	16.7	50.0	-16.7	-75.0	-10
Price change next 3 Months	0.0	83.3	16.7	-16.7	-16.7	60
Employment trends						
Total actual employment	0.0	50.0	50.0	-50.0	-75.0	-10
Expected next 3 months	16.7	66.7	16.7	0.0	-36.4	0
Average pay increase	N/a			N/a	5.0	2.75

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