



SCOTTISH CHAMBERS  
OF COMMERCE

## **MEDIA RELEASE**

**Embargoed to Friday 2nd November 2007**

The Scottish Chambers of Commerce today released its Business Survey results for the third quarter of 2007. Overall there were few signs of any effects of the recent financial events, although the results, together with more recent evidence, suggest a slower rate of economic growth in 2008, and this, together with increased costs, is likely to lead to increased pressures on margins, and increased difficulties, especially for smaller firms and those more exposed to rising transport costs.

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

“The results of our latest survey are encouraging on the surface, but conceal real concerns about the pressures facing many Scottish businesses, which are having to work very hard to counter the threats posed by rising raw material costs, higher transport costs and the impact of foot and mouth restrictions on the agricultural sector.

“Indeed over the course of this year so far, one of the recurring themes of our surveys has been the apparent contrasting fortunes of larger and smaller businesses. If the Scottish economy is to match the GDP growth rates of the UK as a whole and of key European competitors, then it is essential that businesses of all sizes are able to realise their potential.

“In this context, it is worrying that our survey has revealed concerns over future demand and trading conditions among smaller firms. These concerns are evident across a range of sectors, including the construction sector, where these may reflect continuing pessimism over public sector procurement opportunities among small contractors. More generally, in manufacturing, retail and construction, smaller firms report that raw material, transport costs and price increases continue to impact on expectations of profitability.

“Recent discussions between Chambers of Commerce and the Chancellor of the Exchequer over Capital Gains Tax reforms demonstrate that there is a need for Government, both at the UK and Scottish level, to listen to businesses and work with them to create wealth and develop a more prosperous society. It is precisely this sort of partnership, between Government and business and between the public and private sectors, that we believe needs to be nurtured if we are to move forward as a nation and succeed in the global marketplace.”

## BUSINESS PERFORMANCE

### *Summary Points*

Business confidence	Rising confidence was again reported in manufacturing and tourism. Business confidence declined at more modest rates for a net of wholesale and retail respondents, although within retail confidence rose amongst nationally based retailers. In confidence in construction was reported;
Demand/sales	<p>Rising orders/sales were reported by a net of respondents in all sectors. However, there were more concerns as to future trends in demand amongst smaller manufacturers, retailers and construction firms;</p> <p>Rising trends in sales were reported among wholesale and retail respondents. In retail there were again marked distinctions between national/multiple retailers reporting strongly rising sales volumes and independent retailers reporting level sales trends. Overall in retail slightly rising trends in the volume and value of sales were reported. In the tourism sector strongly rising trends in visitor numbers/demand were again reported, with strong demand for accommodation and rising trends in the use of restaurant/bar and function/conference facilities;</p>
Capacity/work in progress	More modest rising trends in work in progress were reported by a net of manufacturing and construction firms;
Cost pressures	Concerns over raw material costs remained evident in the third quarter, being cited by 74% of manufacturing, 83% of wholesale and 52% of retail respondents. Rising building and other costs were reported by 84% of construction respondents. Expectations of price increases in the fourth quarter of 2007 ranged from a net of 43% of manufacturing, 44.6% of retail and a net of 76.5% of wholesale respondents;
Pay	Pay increases in the third quarter ranged from 3.8% in manufacturing to 5.89% in tourism. In general average pay increases rose in the service sector and remained level in manufacturing;
Outlook	In all sectors, except retail, the net trends in demand are more modest than earlier in the year. More concerns, especially amongst smaller firms, as to future demand, profitability and trading conditions in 2008. Price pressures appear more evident and widespread, with strong increases in raw material costs.

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 September 2007 to early October 2007, almost 300 firms responded to the questionnaire.

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## MANUFACTURING

### Optimism

Business confidence continued to rise in the third quarter, but the average increase in 2007 remains lower than that reported in 2006.

### Orders and Sales

The outturn in total and rest of UK demand was better than expected. Export orders continued to rise for a net of large firms, although textile, food related and timber & paper respondents commented as to overseas competition and/or raw material costs. Rising trends in the level of work in progress were reported by 19% (compared to 12%, in the previous quarter). Average capacity remained unchanged at 78%, and 59% (compared to 49% in the previous quarter) reported capacity used was below preferred levels. Expectations for turnover for the next twelve months are more modest than for the first three quarters of 2007, whereas expectations of price increases are more widespread.

Raw material costs, reported by 73%, were again the most widely reported cost pressure on prices.

### Investment

28% reported revising investment upward and 10% leasing plans for the coming year. Investment in the third quarter continued to be directed towards increasing efficiency, and replacing equipment, and 14% reported investment in new products/new markets and 10% in R&D.

### Employment

Employment eased for a net of firms, and 28% reported a reduced trend in hours worked. 40% sought to recruit mainly technical and skilled staffs.

	Q3.2007			Net Balances		
	Up	Level	Down	Q3/07	Q2/07	Q1/07
<b>Business Optimism</b>	29.1	44.9	26.0	3.1	0.3	6.6
<b>Trends in actual orders</b>						
Total new orders	39.3	39.0	21.7	17.6	26.1	22.8
Scottish orders	13.7	51.8	34.4	-20.7	11.4	9.5
Rest of UK orders	36.6	37.7	25.8	10.8	11.8	-4.9
Export orders [37.4% = N/A]	17.6	22.7	22.4	-4.8	1.7	12.4
<b>Trends in expected orders</b>						
Total new orders	29.5	43.8	26.7	2.8	14.8	22.7
Scottish orders	11.9	54.9	33.2	-21.3	9.3	15.1
Rest of UK orders	30.3	46.3	23.4	6.9	8.2	3.7
Export orders [38.0% = N/A]	13.5	25.7	22.8	-9.3	1.3	13
Av Capacity used	78.2			78.2	78.1	79.2
Invest in plant/equip.	28.1	44.8	27.1	1.0	15.5	13.2
Cash flow past 3 moths	27.3	47.1	25.5	1.8	18.8	-19.3
Turnover next 12 moths	44.2	40.8	15.0	29.2	37.5	44.7
Profitability next 12 moths	38.8	38.9	22.3	16.4	8.1	6.3
Price change next 3 moths	46.5	50.3	3.2	43.3	20.8	30.4
<b>Pressures to raise prices from</b>						
Pay settlements	36.5			36.5	24.6	42.9
Raw material costs	73.7			73.7	72.1	72.5
Finance costs	21.6			21.6	11.8	18.5
Other overheads	40.4			40.4	35.2	37.1
Transport costs	54.8			54.8	32.8	51.5
<b>Employment trends</b>						
Total actual employment	15.1	67.7	17.1	-2.0	5.2	-6
Total expected next 3 months	6.8	75.7	17.5	-10.7	6.3	9.5
Average pay increase	3.8			3.8	3.83	4.7

## CONSTRUCTION

### *Optimism*

Business confidence eased, reflecting recent financial events and notwithstanding the continuing rising trends in orders and work in progress.

### *Contracts*

Rising trends in new contracts were widely reported in the three months to September and 86% expect level or rising trends in the level of work through the next six months.

Average capacity used eased to 88.7%. Work in progress rose for larger firms in the third quarter, although the trends were again more modest than in the previous quarter, and larger, but not smaller firms expected the rising trend in work in progress to continue.

For a further quarter respondents remain confident (a net of 29%) as to rising trends in turnover and a net of 5% anticipate rising profitability over the next twelve months. Expectations as to turnover and profitability were stronger amongst larger construction firms.

Two thirds reported no change to investment plans, but 21.6% reported reducing investment plans. Investment authorised in the third quarter was mainly for replacement, improving efficiency, although 29% reported investment to expand.

### *Employment*

The rising trend in employment continued and eased, 50% reported increasing pay by an average of 4.4%.

	Q2.2007			Net Balances		
	Up	Level	Down	Q3/07	Q2/07	Q1/07
<b>Business Optimism</b>	10.5	76.3	13.2	-2.6	9.5	0
<b>Trends in actual contracts</b>						
Total new contracts	42.1	34.2	23.7	18.4	33.4	40
Public sector orders	28.1	40.6	31.3	-3.1	5.7	37.5
Private commercial	29	54.8	16.1	12.9	20.6	23
Domestic/house build	20.7	55.2	24.1	-3.4	11.2	14.3
<b>Trends in expected contracts</b>						
Total new orders	33.3	52.8	13.9	19.4	2.4	55.6
Public sector orders	20.7	51.7	27.6	-6.9	-6.1	42.9
Private commercial	25.8	58.1	16.1	9.7	9.4	28.6
Domestic/house build	25.9	63	11.1	14.8	-2.9	57
<b>Trends in work in progress</b>						
Actual	39.5	39.5	21.1	18.4	38.1	50
Expected	27.0	51.4	21.6	5.4	21.4	40
<b>Capacity used</b>	88.7			88.7	91.14	88.2
<b>Invest in plant/equip.</b>	10.8	67.6	21.6	-10.8		0
<b>Leasing in plant/equipment.</b>	11.8	64.7	23.5	-11.7		-11.1
<b>Employment trends</b>						
Total actual employment	34.2	555.3	10.5	23.7	38.1	30
Total expected next 3 months	31.4	62.9	5.7	25.7	32.5	20
<b>Average pay increase</b>	4.4			4.4	6.24	na
Percent recruiting staff	71.7			71.7	66.7	66.7
Recruitment difficulties increasing	25			25	23.5	12.5

## WHOLESALE DISTRIBUTION

### Optimism

Confidence continued to ease, but at more modest levels than in the previous quarter.

### Sales

The outturn in sales was again more modest than had been anticipated, but firms are more confident as to trading conditions in the fourth quarter of 2007, and 43.8% expect rising, and only 18.8% declining sales.

Expectations of price increases in the next quarter strengthened to their highest for the past three years, as 76.5%, compared to 38% and 67% in the previous two quarters, anticipate price increases. Respondents reported a strong rise in raw material costs and two thirds reported increased transport costs.

Nevertheless, more than half anticipate rising turnover, and 22.2% rising profitability over the next year.

### Finance

Changes to investment plans were limited, being reported by 50% and a modest rising trend in investment intentions was reported.

### Employment

Changes in employment levels were again limited, affecting a third of respondents; nevertheless, the modestly rising trend in employment continued for a further quarter, and is expected to continue through to the end of the year. Rising trends in full time offset declines in part time employment, and actual and expected overtime levels eased. 50% sought to recruit staff, and 28% increased pay by an average of 3.92%.

	Q2.2007			Net Balances		
	Up	Level	Down	Q3/07	Q2/07	Q1/07
<b>Business Optimism</b>	16.7	61.1	22.2	-5.6	-12.5	0.0
<b>Trend in actual sales</b>	44.4	27.8	27.8	16.7	12.5	19.0
<b>Trend in expected sales</b>	43.8	37.5	18.8	25	0.0	33.3
<b>Investment plans</b>	27.8	50	22.2	5.6	-12.5	-9.6
<b>Cash flow past 3 months</b>	11.1	83.3	5.6	5.6	0.0	-4.8
Turnover next 12 months	55.6	27.8	16.7	38.9	-12.5	38.1
Profitability next 12 months	38.9	38.9	22.2	16.7	-6.3	-5
Price change next 3 months	76.5	23.5	0	76.5	37.5	66.7
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	11.1			11.1	25.0	33.3
<b>Raw material costs</b>	83.3			83.3	43.8	66.7
<b>Finance costs</b>	16.7			16.7	18.8	23.8
<b>Other overheads</b>	38.9			38.9	31.3	42.9
<b>Transport costs</b>	66.7			66.7	75.0	81
<b>Employment trends</b>						
Total actual employment	22.2	66.7	11.1		13.3	9.5
Expected next 3 months	16.7	72.2	11.1		15.4	10.0
<b>Average pay increase</b>	3.92			3.92	3.5	4.55
Percent recruiting staff	22.2	66.7	11.1	11.1	37.5	52.4
Recruitment difficulties inc	7.7	92.3	0	7	25.0	20.0

## RETAIL DISTRIBUTION

### Optimism

For a further quarter optimism remained strong and rising amongst national retailers but continued to decline, although more modestly, for a net of independent shops. A number of independent retailers raised concerns as to rising costs and competition.

### Sales

A net level trend in sales was reported by independent retailers who also reported a decline in the actual value of sales in the third quarter, and a net of 9% anticipate rising sales in the fourth quarter. In contrast, a net of 60% of national retailers reported increased sales in the third quarter and expect increased value in sales in the final quarter of 2007.

Cost pressures were more evident in the third quarter. Overall raw material costs (51.8%) utility and interest rates (both 39.3%) were the three main cost pressures. Cost pressures were again more widely reported by independent retailers.

### Finance

A net of 8% of independent retailers anticipate rising turnover, and a net of 10% anticipate declining profitability over the next year, suggesting increased pressures on margins in 2008. In contrast a net of 60% of the national retailers anticipate rising turnover and a net of 56% rising profitability over the next year.

### Employment

Changes in employment levels were reported by 14%. The overall trends in employment concealed stronger increases in temporary and part time staffs. 47% reported recruitment and 26% retention difficulties.

	Q3.2007			Net Balances		
	Level	Up	Down	Q3/07	Q2/07	Q1/07
<b>Business Optimism</b>	24.1	50.0	25.9	-1.9	-9.8	-22
<b>Trend in actual sales</b>	33.9	39.3	26.8	7.1	-1.7	-4
<b>Trend in expected sales</b>	33.3	45.1	21.6	11.8	3.7	-8.9
<b>Investment plans</b>					1.6	2
<b>Cash flow past 3 months</b>	32.1	51.8	16.1	16.1	3.3	4.2
Turnover next 12 months	37.5	35.7	26.8	10.7	16.7	6.1
Profitability next 12 months	31.5	35.2	33.3	-1.9	21.7	-4.1
Price change next 3 months	51.8	41.1	7.1	44.6	45.9	50.0
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	25			25	32.8	40
<b>Raw material costs</b>	52			52	44.3	46
<b>Finance costs</b>	27			27	26.2	24
<b>Other overheads</b>	16			16	18.0	14
<b>Transport costs</b>	39			39	39.3	44
<b>Utility costs</b>	39			39	47.5	54
<b>Regulation costs</b>	38			38	34.3	40
<b>Employment trends</b>						
Total actual employment	16.1	69.6	14.3	1.8	1.7	-8.2
Expected next 3 months	17.0	72.3	10.6	6.4	2.0	4.5
<b>Average pay increase</b>	4.7			4.7	3.97	3.34
Percent recruiting staff	42.9			42.9	33.3	38.0
Recruitment difficulties inc	26.0			26.0	17.2	32.1

## TOURISM

### **Optimism**

Business confidence continued to rise, although at more modest rates than in 2006.

### **Demand**

Notwithstanding concerns as to the poor summer weather 52.7% reported rising numbers of guests, with rising demand from Scotland, the rest of UK and abroad. 61% reported increased demand for accommodation, 43% increased numbers in restaurants and 31% increased demand for function/conference facilities. Average occupancy remained at 77.4%, slightly higher than for the third quarters in the past three years.

Overall 40.8% of business in the third quarter was tourist trade, 34.4% local trade, and 24.8% business trade. A net of 55% reported rising turnover and a net of 17% rising trends in margins.

### **Business constraints**

74% (45% and 60% in the two previous quarters) reported the lack of demand as the main business constraint in the third quarter, 26% the high exchange rates, 32% poor transport infrastructure and 35% the weak marketing of their area. Concerns as to the impact agricultural problems on tourism levels were noted.

### **Employment**

Changes in employment levels were again limited, being reported by 35%. As in previous third quarters the expectations are for reduced employment levels in the fourth quarter.

### **Recruitment**

76.5% sought to recruit staff, and 42% reported difficulties in recruiting suitable staffs, most notably in the recruitment of chefs and 27% reported difficulties in retaining staffs.

	Q2.2007			Net Balances		
	Up	Level	Down	Q3/07	Q2/07	Q1/07
<b>Business Optimism</b>	24.1	57.4	18.5	5.6	14.2	5.4
<b>Trends in demand/visitors</b>						
Total demand/visitors	53.7	27.8	18.5	35.2	50.9	5.6
Demand from Scotland	46.2	40.4	13.5	32.7	33.3	-2.9
Demand from Rest of UK	42.3	32.7	25.0	17.3	40.0	0.0
Demand from abroad	51.9	21.2	26.9	25.0	18.1	-39.4
Business Trade	41.2	41.2	17.6	23.5	34.0	11.8
<b>Trends in expected demand</b>						
Total demand/visitors	9.8	48.8	41.5	-31.7	38.4	41.2
Demand from Scotland	4.9	63.4	31.7	-26.8	18.8	18.8
Demand from Rest of UK	2.6	56.4	41.0	-38.5	27.1	18.8
Demand from abroad	4.9	51.2	43.9	-39.0	14.3	9.4
Business Trade	12.8	56.4	30.8	-17.9	22.2	6.7
<b>Occupancy</b>	77.4			77.4	77.43	60.1
Average daily rate	46.2	48.1	5.8	40.4	32.1	11.1
Expected average daily rate	14.6	43.8	41.7	-27.1	26.9	30.6
<b>Employment trends</b>						
Total actual employment	33.3	64.7	2.0	31.3	13.8	-17.6
Expected next 3 months	6.5	63.0	30.4	-23.9	24.0	31.4
<b>Average pay increase</b>	5.89			5.59	5.17	3.1
Percent recruiting staff	76.5			76.5	82.1	48.6
Recruitment difficulties	21.0			21.0	49.0	37.5

**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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