



SCOTTISH CHAMBERS
OF COMMERCE

MEDIA RELEASE

Embargoed to Thursday 17th January 2008

A HARSH YEAR AHEAD FOR SCOTTISH BUSINESS

SCC CALLS FOR GOVERNMENT ACTION ON PLANNING AND BUSINESS RATES

Scottish Chambers of Commerce (SCC) has today published its Business Survey results for the fourth quarter of 2007. The survey showed rising trends in demand in manufacturing, work in progress rose in construction, rising sales trends were noted by larger retailing respondents, and strong trends were again reported by tourism respondents. Overall the picture was positive in 2007. However the signs of a slowing down in the economy and harsher trading conditions in 2008 are more evident and widespread in these latest survey results. Businesses are now reporting a negative trend in optimism across all sectors, for the first time since 2001.

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

“Scottish businesses performed well in 2007 against a challenging economic background, but the outlook is for even tougher conditions in 2008. Since the summer, there has been a significant deterioration in businesses’ expectations in turnover and profitability in both the manufacturing and retail sectors, whilst in construction, businesses are reporting a decline in new orders. Pressures on margins and profits will be much more of a factor for Scottish business in 2008, and it looks like conditions will be extremely challenging over the next 12 months.

“Retailers are reporting a number of contributory factors which are affecting confidence and sales, including declining growth in consumer spending, increased competition, the impact of rising online sales and the buoyant exchange rate. The Scottish Government has announced a staged reduction in Business Rates over the next three years, but we believe that the full reduction must be introduced this April if we are to ensure the maximum benefit for Scottish businesses.

“Firms in both the construction and tourism sectors are reporting problems with the planning system as a barrier to business. This is one area where the Scottish Government can act in order to reduce the burden on our businesses by introducing a nine month time limit on planning applications and creating an independent body to rule on applications of national importance.

“In the manufacturing sector, profit expectations are at their lowest level for three years and our members are reporting low levels of investment in both research and development and in new products and markets. This could adversely affect our competitiveness, and already exports have begun to fall after a long period of solid growth. The Westminster and Holyrood Governments must work together to boost the confidence of our manufacturers and create real incentives to encourage businesses to invest in Scotland.

“Evidence from our survey shows that the global credit crisis and expectations of an economic downturn are only part of the challenge facing Scottish businesses. Increased competition, planning delays and new ways of working are all affecting Scottish firms. In order to ensure the best possible prospects for future economic growth, Government could make a real difference by urgently reforming our planning system and delivering real and meaningful support to Scotland’s private sector. Another opportunity which is at the government’s behest is to ensure that future developments in public procurement are as accessible as possible to Scottish based suppliers and that the door is open for SME involvement in supplying the public sector. Excellent progress is being made here, but there remains much to be done to increase awareness of the opportunities.”

BUSINESS PERFORMANCE

Summary Points

Business confidence	Declining trends in confidence were reported in all sectors. The trends in business confidence were at their lowest for more than three years in manufacturing, construction, retail and tourism;
Demand/sales	<p>Rising orders/sales were reported by a net of respondents in all sectors except construction. However, there were more concerns as to future trends in demand amongst smaller manufacturers, retailers and construction firms;</p> <p>Rising trends in demand (but the lowest trends since q3 2005) were reported by a net of manufacturing firms and rising visitor numbers were reported by tourism respondents; and a level trend in demand (the lowest for the year) was reported by wholesale respondents. The trend in new work/contracts in construction eased to the lowest for more than three years, and in retail the net sales trends were the weakest for the year. Sales and demand fell in all other sectors. In retail there were again marked distinctions between national/multiple retailers reporting rising sales volumes and independent retailers reporting declining sales trends.</p> <p>Overall in retail declining 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	Trends in work in progress turned downwards for a net of manufacturing respondents, reflecting declining trends amongst the smaller manufacturers, but rising trends for a net of those employing more than 25 staff. Rising trends in the level of work in progress were again reported by a net of construction firms employing more than 25 staffs;
Cost pressures	Concerns over raw material costs remained evident in the fourth quarter, being cited by 80% of manufacturing, 65% of wholesale and 50% of retail respondents. Expectations of price increases in the first quarter of 2008 ranged from a net of 46% of manufacturing, 54% of retail and a net of 62% of wholesale respondents;
Pay	Pay increases in the fourth quarter ranged from 3.1% in retail to 4.1% in wholesale distribution;
Outlook	Once again in all sectors, except tourism, the net trends in demand are more modest than earlier in the year. Expectations as to the trends in turnover and profitability for the forthcoming year are at their lowest for more than three years in manufacturing. A net of firms in construction anticipate more pressures on margins in 2008 and firms employing less than 25 staff anticipate a downward trend in profitability in 2008. A net of retailers anticipate turnover and profitability trends to weaken in 2008, and the trends in profitability for the forthcoming year are at their lowest for more than three years.

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 December 2007 to early January 2008, almost 300 firms responded to the questionnaire.

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MANUFACTURING

Optimism

Business confidence turned downwards for a net of small, medium and large firms in the fourth quarter. The net trend for the fourth quarter, and expected trend in total orders for the next quarter are lower than those reported in the fourth quarters of the previous three years.

Orders and Sales

The outturn in total and rest of UK demand was again better than expected. Export orders continued to rise for a net of large firms. Declining trends in the level of work in progress were reported by 6% (compared to a net rising trend of 2% in the previous quarter), and a net of 13% expect declining trends in work in progress in the first quarter of 2008. Average capacity remained unchanged at 78%, and 41% (compared to 59% and 49% in the previous two quarters) reported capacity used was below preferred levels. Expectations as to the trends in turnover and profitability for the next twelve months are at their lowest for three years; whereas pressures to raise prices due to raw material costs are at their highest for more than three years.

Investment

30% reported revising investment upward and 9% reported an increase in leasing plans for the coming year. Investment in the fourth quarter continued to be directed towards replacing equipment, and 10% (14% in the previous quarter) reported investment in new products/new markets and 5% (10% in the previous quarter) in R&D.

Employment

Employment rose for a net of firms, and 25% reported a reduced trend in hours worked. 44% sought to recruit mainly managerial, technical and skilled staffs.

	Q4.2007			Net Balances		
	Up	Level	Down	Q4/07	Q3/07	Q2/07
Business Optimism	19.2	52.9	27.9	-8.7	3.1	0.3
Trends in actual orders						
Total new orders	30.5	46.8	22.6	7.9	17.6	26.1
Scottish orders	15.3	53.1	31.6	-16.2	-20.7	11.4
Rest of UK orders	20.2	60.3	19.5	0.7	10.8	11.8
Export orders [37.8% = N/A]	21.2	28.8	12.1	9.0	-4.8	1.7
Trends in expected orders						
Total new orders	25.1	53.6	21.3	3.8	2.8	14.8
Scottish orders	12.9	67.6	19.4	-6.5	-21.3	9.3
Rest of UK orders	15.1	65.6	19.3	-4.2	6.9	8.2
Export orders [37.8% = N/A]	22.5	30.4	9.3	13.2	-9.3	1.3
Av Capacity used	78.3			78.3	78.2	78.1
Invest in plant/equip.	29.7	60.7	9.6	20.1	1.0	15.5
Cash flow past 3 moths	19.6	41.9	38.5	-18.9	1.8	18.8
Turnover next 12 moths	38.4	28.5	33.1	5.3	29.2	37.5
Profitability next 12 moths	31.6	29.3	39.0	-7.4	16.4	8.1
Price change next 3 moths	46.6	50.1	3.3	43.3	43.3	20.8
Pressures to raise prices from						
Pay settlements	38.3			38.3	36.5	24.6
Raw material costs	80.0			80.0	73.7	72.1
Finance costs	19.4			19.4	21.6	11.8
Other overheads	44			44	40.4	35.2
Transport costs	41.8			41.8	54.8	32.8
Employment trends						
Total actual employment	18.5	66.3	15.2	3.3	-2.0	5.2
Total expected next 3 months	10.4	75.3	14.2	-3.8	-10.7	6.3
Average pay increase	4.05			4.05	3.8	3.83

CONSTRUCTION

Optimism

Business confidence continued to decline reflecting concerns as to credit issues, declining levels of enquiries reported by smaller contractors. Others reported a continued 'good order book'.

Contracts

Marginally easing trends in new contracts were reported in the fourth quarter and 71% (86% in the previous quarter) expect level or rising trends in the level of work through the next six months.

Average capacity used rose to 89.6%. The trends in work in progress rose for larger, but were level for smaller firms in the fourth quarter. Over the next six months a net of larger firms anticipate a level trend in work in progress, whilst a net of smaller firms anticipate marginally declining trends in work in progress.

Respondents remain confident (a net of 10% compared to 29% in the previous quarter) as to rising trends in turnover, but a net of 7% anticipate declining profitability over the next twelve months (compared to a net of 5% anticipating rising profitability in the previous quarter). Expectations as to turnover and profitability were positive amongst larger construction firms, but a net of smaller and larger firms anticipate increased pressures on margins in 2008.

The level of new work, shortages of skilled labour and the quality/availability of sub contractors were the three main problems reported.

Employment

For a further quarter the rising trend in employment continued albeit more modestly, 32% reported increasing pay by an average of 4.04%.

	Q4.2007			Net Balances		
	Up	Level	Down	Q4/07	Q3/07	Q2/07
Business Optimism	16.7	43.3	40.0	-23.3	-2.6	9.5
Trends in actual contracts						
Total new contracts	25.8	41.9	32.3	-6.5	18.4	33.4
Public sector orders	8.0	56.0	36.0	-28.0	-3.1	5.7
Private commercial	33.3	33.3	33.3	0.0	12.9	20.6
Domestic/house build	15.4	46.2	38.5	-23.1	-3.4	11.2
Trends in expected contracts						
Total new orders	17.9	53.6	28.6	-10.7	19.4	2.4
Public sector orders	8.7	65.2	26.1	-17.4	-6.9	-6.1
Private commercial	33.3	41.7	25.0	8.3	9.7	9.4
Domestic/house build	4.2	54.2	41.7	-37.5	14.8	-2.9
Trends in work in progress						
Actual	41.9	32.3	25.8	16.1	18.4	38.1
Expected	29.0	38.7	32.3	-3.3	5.4	21.4
Capacity used	89.61			89.6	88.7	91.14
Invest in plant/equip.					-10.8	
Leasing in plant/equipment.					-11.7	
Employment trends						
Total actual employment	29.0	64.5	6.5	22.5	23.7	38.1
Total expected next 3 months	23.3	66.7	10.0	13.3	25.7	32.5
Average pay increase	4.04			4.04	4.4	6.24
Percent recruiting staff	58.1			58.1	71.7	66.7
Recruitment difficulties increasing	27.3			27.3	25	23.5

WHOLESALE DISTRIBUTION

Optimism

Confidence continued to ease.

Sales

For a further quarter the outturn in sales was again more modest than had been anticipated, and firms are more cautious as to trading conditions in the first quarter of 2008, with a level trend in sales forecast (in the previous quarter 43.8% expected rising, and only 18.8% declining sales).

Expectations of price increases in the next quarter remained high. Respondents again reported a strong rise in raw material and transport costs.

Nevertheless, again more than half anticipate rising turnover, and 35% rising profitability over the next year.

Finance

Changes to investment plans were limited, being reported by 29% and a modest rising trend in investment intentions continued.

Employment

Changes in employment levels remained limited, affecting a quarter of respondents; nevertheless, the modestly rising trend in employment continued for a further quarter, and again is expected to continue through the first quarter of 2008. 47% sought to recruit staff, and 29% increased pay by an average of 4.1%.

	Q4.2007			Net Balances		
	Up	Level	Down	Q4/07	Q3/07	Q2/07
Business Optimism	5.9	64.7	29.4	-23.5	-5.6	-12.5
Trend in actual sales	29.4	41.2	29.4	0.0	16.7	12.5
Trend in expected sales	28.6	42.9	28.6	0.0	25	0.0
Investment plans	29.4	70.6	0.0	29.4	5.6	-12.5
Cash flow past 3 months	11.8	76.5	11.8	0.0	5.6	0.0
Turnover next 12 months	52.9	23.5	23.5	29.4	38.9	-12.5
Profitability next 12 months	35.3	41.2	23.5	11.8	16.7	-6.3
Price change next 3 months	68.8	25.0	6.3	62.5	76.5	37.5
Pressures to raise prices from						
Pay settlements	41.2			41.2	11.1	25.0
Raw material costs	64.7			64.7	83.3	43.8
Finance costs	17.6			17.6	16.7	18.8
Other overheads	29.4			29.4	38.9	31.3
Transport costs	70.6			70.6	66.7	75.0
Employment trends						
Total actual employment	17.6	76.5	5.9	11.7	11.1	13.3
Expected next 3 months	12.5	87.5	0.0	12.5	5.6	15.4
Average pay increase	4.1			4.1	3.92	3.5
Percent recruiting staff	47.1			47.1	11.1	37.5
Recruitment difficulties inc	33.3			33.3	7	25.0

RETAIL DISTRIBUTION

Optimism

A sharp deterioration in business confidence, reflecting concerns as to declining consumer confidence and spending, was widely reported by both national and independent retailers in the fourth quarter.

Sales

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 fourth quarter and a net of -20% anticipate declining sales in the first quarter. In contrast, a net of 12.5% of national retailers (60% in the previous quarter) reported increased sales in the fourth quarter. Nevertheless, 43% of national retailers expect increased value in sales in the first quarter of 2008.

Cost pressures were again more evident in the fourth quarter. Overall raw material and transport costs (both 50%) utilities (48%) were the three main cost pressures. 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 50% (10% 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% (60% in the previous quarter) of the national retailers anticipate rising turnover and a net of 38% (56% in the previous quarter) rising profitability over the next year.

Employment

Changes in employment levels were reported by 25%. The overall trends in employment indicated declining trends in full time, temporary and permanent employment.

	Q4.2007			Net Balances		
	Level	Up	Down	Q4/07	Q3/07	Q2/07
Business Optimism	6.3	45.8	47.9	-41.6	-1.9	-9.8
Trend in actual sales	25.5	36.2	38.3	-12.8	7.1	-1.7
Trend in expected sales	18.6	41.9	39.5	-20.9	11.8	3.7
Investment plans	10.6	61.7	27.7	-17.1		1.6
Cash flow past 3 months	18.8	60.4	20.8	-2.0	16.1	3.3
Turnover next 12 months	14.6	50.0	35.4	-20.8	10.7	16.7
Profitability next 12 months	12.8	40.4	46.8	-33.6	-1.9	21.7
Price change next 3 months	62.5	29.2	8.3	54.2	44.6	45.9
Pressures to raise prices from						
Pay settlements	25.0			25.0	25	32.8
Raw material costs	50.0			50.0	52	44.3
Finance costs	33.3			33.3	27	26.2
Other overheads	12.5			12.5	16	18.0
Transport costs	50.0			50.0	39	39.3
Utility costs	47.9			47.9	39	47.5
Regulation costs	37.5			37.5	38	34.3
Employment trends						
Total actual employment	6.3	75.0	18.8	-12.5	1.8	1.7
Expected next 3 months	11.4	72.7	15.9	-4.5	6.4	2.0
Average pay increase	3.11			3.11	4.7	3.97
Percent recruiting staff	39.6			39.6	42.9	33.3
Recruitment difficulties inc	40.0			40.0	26.0	17.2

TOURISM

Optimism

Business confidence weakened in the fourth quarter, reflecting a combination of rising costs, adverse exchange rates, poor weather and lack of consumer confidence.

Demand

Notwithstanding these concerns 45.2% reported rising numbers of guests, with rising demand from all areas, and the net trends in demand were stronger than in the previous fourth quarters of 2004 - 2006. 52% reported increased demand for accommodation, 34% increased numbers in restaurants and 38% increased demand for function/conference facilities. Average occupancy at 63% was the same as for the fourth quarter of 2006.

Overall 37% of business in the fourth quarter was tourist trade, 32% local trade, and 31% business trade. A net of 38% reported rising turnover and a net of 5% falling trends in margins.

Business constraints

80% (74%, 45% and 60% in the three previous quarters) reported the lack of demand as the main business constraint in the fourth quarter, 36% the high exchange rates, 21% poor transport infrastructure and 27% the weak marketing of their area. Concerns as to the impact agricultural problems on tourism levels were again noted.

Employment

Changes in employment levels were again limited, being reported by 20%.

Recruitment

72% sought to recruit staff, and 30% reported difficulties in recruiting suitable staffs, most notably in the recruitment of managerial staffs, chefs and temporary staffs.

	Q4.2007			Net Balances		
	Up	Level	Down	Q4/07	Q3/07	Q2/07
Business Optimism	14.0	51.2	34.9	-20.9	5.6	14.2
Trends in demand/visitors						
Total demand/visitors	45.2	40.5	14.3	30.9	35.2	50.9
Demand from Scotland	38.1	47.6	14.3	23.8	32.7	33.3
Demand from Rest of UK	26.8	58.5	14.6	12.5	17.3	40.0
Demand from abroad	31.0	42.9	26.2	4.8	25.0	18.1
Business Trade	42.5	40.0	17.5	25.0	23.5	34.0
Trends in expected demand						
Total demand/visitors	23.7	55.3	21.1	2.6	-31.7	38.4
Demand from Scotland	13.2	65.8	21.1	-7.9	-26.8	18.8
Demand from Rest of UK	10.5	68.4	21.1	-10.6	-38.5	27.1
Demand from abroad	7.9	60.5	31.6	-23.7	-39.0	14.3
Business Trade	22.2	61.1	16.7	5.5	-17.9	22.2
Occupancy	63.1			63.1	77.4	77.43
Average daily rate	34.1	53.7	12.2	21.9	40.4	32.1
Expected average daily rate	15.8	73.7	10.5	5.3	-27.1	26.9
Employment trends						
Total actual employment	7.7	79.5	12.8	-5.1	31.3	13.8
Expected next 3 months	8.3	77.8	13.9	-5.6	-23.9	24.0
Average pay increase	4.01			4.01	5.59	5.17
Percent recruiting staff	72.1			72.1	76.5	82.1
Recruitment difficulties	29.7			29.7	21.0	49.0

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.

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