



Scottish
Chambers of
Commerce

The Ultimate Business Network

MEDIA RELEASE

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AVAILABILITY OF CREDIT THE CRITICAL FACTOR FOR SCOTTISH BUSINESSES IN 2009

The Scottish Chambers of Commerce today released its Business Survey results for the fourth quarter of 2008. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, points to a very difficult year ahead for Scottish businesses unless issues over the availability of credit are addressed quickly.

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

"The results of our latest survey underline the deteriorating state of the Scottish economy across all sectors and highlight the challenges we face in the year ahead. Trading conditions worsened significantly towards the end of 2008 and it is critical that credit, on reasonable terms, is available for Scottish businesses. Without such credit, the outlook for 2009 looks very bleak indeed.

"The re-establishment of lines of credit must be the first priority of both government and the banking sector and this week's announcement of new measures to insure the banks against losses from toxic debt means that there should be no more excuses for a failure to lend.

"Once the issue of credit is resolved, attention must turn to ensuring that Scottish businesses are operating in a supportive business environment geared towards maximising competitiveness and success as we emerge from the current recession. It is vital that Scotland maintains a strong skills base and that government intervention is directed towards support for our key industries.

"The current economic downturn has demonstrated the value of a balanced economy and the need to ensure that our service sector is complimented by a dynamic, efficient and forward looking manufacturing base. Fiscal policy must be applied in order to play to our economic strengths, boost competitiveness and ensure that Scottish businesses are ready and able to take full advantage of the bountiful economic opportunities that will accompany the recovery when it comes."

Cliff Lockyer of the Fraser of Allander Institute said:

"The results for the fourth quarter 2008 are the most depressed results recorded since the survey commenced in 1984. This is the first time that negative trends have been recorded for the key indicators in all sectors."

BUSINESS PERFORMANCE

Summary Points

Business confidence	More than 60% of all respondents reported being less confident as to the business situation at the end of 2009, the highest proportion ever recorded in the history of the survey. Over the past year the net trend in business confidence in manufacturing has deteriorated from -8.7% in Q4 2007 to a net of -49.8%, in construction the net trend has deteriorated from -23.3% in Q4 2007 to a net of -77.8%, and in tourism confidence has weakened from a net of -20.9% in Q4 2007 to -71.5%. In wholesale and retail distribution the net trend in confidence has substantially weakened;
Demand/sales	<p>Trading conditions deteriorated further in all sectors. In manufacturing the net trend reporting declining trends in total orders more than doubled. In construction 86% reported declining levels of new contracts, and 62% of respondents reported declining levels of work in progress, the highest proportion ever recorded;</p> <p>In the service sector the proportion of retail respondents reporting weakening sales trends has increased each quarter since q4 2007, in the latest survey 68% reported declining sales. Likewise in tourism the trends in visitor numbers weakened through 2008, with the Q4 2008 trends being the weakest recorded;</p>
Capacity/work in progress	Average capacity used in manufacturing has declined by 4.5 percentage points over the past year. In construction average capacity used has eased by 18 percentage points over the past year and the proportion reporting working below optimum levels has increased from 30% to 81%;
Cost pressures	Cost pressures generally eased across all sectors and expectations of price increases in the next quarter were again slightly less broadly based than in previous surveys, reflecting the deteriorating trading conditions;
Pay and employment	Pay pressures remained relatively subdued. A net of firms in all sectors, reported declining net trends in employment and hours worked/overtime levels. Recruitment activity in all sectors was lower compared to third quarter of 2008. Compared to a year ago the percentages seeking to recruit staff was down from 58% to 8% in construction, from 41% to 10% in wholesale distribution and from 72% to 41% in tourism;
Outlook	The fourth quarter of 2008 has witnessed a significant slowing down in the Scottish economy, and expectations for the next quarter and for the next year remain at extremely weak levels. Activity will be affected by continuing financial concerns and recession in major markets. Declining consumer confidence is widespread. Developments in the financial sector will be the key factor over the next months.

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 2008 and early January 2009, almost 300 firms responded to the questionnaire.

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MANUFACTURING

Optimism

During the fourth quarter business confidence continued to deteriorate for a net of firms in all size bands. The proportion of firms reporting declining levels of business confidence in the fourth quarter is the highest reported in the history of the survey.

Orders and Sales

The actual and expected trends in total orders in the second half of 2008 are the weakest ever recorded. Weakening trends in orders were again reported by a net of firms in all size bands and these trends are expected to continue through the next year.

Declining trends in the level of work in progress continued and are expected to deepen further in the first quarter of 2009. Average capacity remained at 73.6%, some 5 percentage points lower than a year ago, and once again 65% reported capacity used was below preferred levels. In both the 3rd and 4th quarters of 2008 the expectations as to the trends in orders and turnover for the next twelve months are the weakest reported in the history of the survey. Pressures to raise prices eased significantly.

Investment

Overall investment trends eased and only 13% expect to increase in investment and 0.5% anticipate an increase in leasing equipment over the coming year.

Employment

Changes to employment levels were reported by 33% and 23% reported declining employment and 23.3% reported reductions in total hours worked.

	Q4.2008			Net Balances		
	Up	Level	Down	Q4/08	Q3/08	Q2/08
Business Optimism	9.9	30.3	59.7	-49.8	-43.8	-37.2
Trends in actual orders						
Total new orders	17.1	34.6	48.3	-31.2	-14.6	-20.9
Scottish orders	12.2	49.1	38.7	-26.5	-34.9	-27.9
Rest of UK orders	15.0	40.9	44.1	-29.1	-14.1	-29.6
Export orders [29.7% = N/A]	13.7	29.3	27.3	-13.6	-0.4	-5.7
Trends in expected orders						
Total new orders	9.1	36.0	54.8	-45.7	-21.7	-23.7
Scottish orders	3.2	54.3	42.5	-39.3	-33.4	-35.3
Rest of UK orders	6.4	47.9	45.7	-39.3	-3	-35.6
Export orders 30[% = N/A]	10.3	26.5	33.1	-22.8	-0.4	-1
Av Capacity used	73.62			73.62	73.6	76.1
Invest in plant/equip.	13.9	57.2	28.9	-15.0	-7.4	-7.1
Cash flow past 3 moths	12.4	49.4	38.2	-25.8	-21.1	-3.5
Turnover next 12 moths	25.5	30.1	44.4	-18.9	-13.2	-14
Profitability next 12 moths	28.4	18.2	53.4	-25.0	-32.4	-39.4
Price change next 3 moths	29.0	61.0	10.1	18.9	43.9	52.7
Pressures to raise prices from						
Pay settlements	34.3			34.3	31.8	40.4
Raw material costs	68.4			68.4	81.9	77.1
Finance costs	15.6			15.6	21.7	11.4
Other overheads	44.6			44.6	58.2	54.4
Transport costs	42.9			42.9	71.2	78.2
Employment trends						
Total actual employment	12.1	64.9	23.0	-10.9	-6.6	1.4
Total expected next 3 months	9.1	59.4	31.5	-22.4	-25.6	0.9
Average pay increase	4.22			4.22	3.67	3.7

CONSTRUCTION

Optimism

For a further quarter 80% reported being less confident than a year ago, and the net trend in business confidence was the lowest recorded in the history of the survey.

Contracts

The declining trend in new contracts accelerated further in the fourth quarter, with a sharp downturn in the trends public sector, in private commercial and domestic/house build contracts. Now only 28% (41%, (52%, 69%, and 71% 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 have weakened significantly over the past three quarters. In the fourth quarter a net of 65% (37% and 25% in the previous two quarters two) anticipate declining turnover trends over the next year (in contrast rising net trends of 3%, 10% and 29% in the preceding three quarters). A net of -78% (-54%, -49% and -3% in the previous three quarters) anticipate declining profitability over the next twelve months. 83% of construction firms anticipate declining tender margins over the next twelve months.

Average capacity declined to 72%, the lowest figure recorded, a decline of 18 percentage points over the year. 43% reported and 59% expect a declining trend in the level of work in progress, again the weakest trends in the history of the survey.

Employment

Almost two thirds reported reducing employment and 73% reducing overtime in the fourth quarter. Recruitment was at the lowest level since the start of the survey.

	Q4.2008			Net Balances		
	Up	Level	Down	Q4/08	Q3/08	Q2/08
Business Optimism	2.8	16.7	80.6	-77.8	-68.6	-64.3
Trends in actual contracts						
Total new contracts	0.0	13.9	86.1	-86.1	-57.2	-27.3
Public sector orders	0.0	32.3	67.7	-67.7	-27.6	-11.1
Private commercial	2.9	11.8	85.3	-82.4	-58.0	-30.8
Domestic/house build	0.0	10.0	90.0	-90.0	-72.7	-59
Trends in expected contracts						
Total new orders	5.6	22.2	72.2	-66.6	-52.9	-46.5
Public sector orders	9.7	32.3	58.1	-48.4	-32.1	-36.1
Private commercial	3.0	30.3	66.7	-63.7	-67.6	-48.7
Domestic/house build	0.0	20.0	80.0	-80.0	-81.3	-66.7
Trends in work in progress						
Actual	0.0	37.8	62.2	-62.2	-37.2	-18.2
Expected	2.8	25.0	72.2	-69.4	-50.0	-36.4
Capacity used	71.74			71.74	79.03	87.8
Invest in plant/equip.					-44.1	
Leasing in plant/equipment.					-55.9	
Employment trends						
Total actual employment	0.0	35.1	64.9	-64.9	-11.5	0
Total expected next 3 months	2.7	43.2	54.1	-51.4	-36.3	-19
Average pay increase	3.75			3.75	4.11	4.6
Percent recruiting staff	8.1			8.1	25.7	47.7
Recruitment difficulties increasing	0.0			0.0	5.9	17.2

WHOLESALE DISTRIBUTION

Optimism

Concerns as to the business situation spread widely amongst wholesale respondents in the fourth quarter and 80% reported being less confident as to the general business situation as the outturn in the fourth quarter was generally weaker than anticipated.

Sales

The declining trend in sales was far more broadly based than anticipated and 70% reported declining sales in the fourth quarter, 72% expect these weak trends to continue through the first quarter of 2009.

Expectations of price increases in the next quarter were less widely based and the percentages of respondents reporting pressures to raise prices due to raw material and transport costs eased slightly.

Expectations as to the trends in turnover and profitability over the next year slumped in the fourth quarter as 63% (a net of -47%) expect turnover to weaken and 68% (a net of -58%) expect profitability to weaken in 2009.

Finance

Changes to investment plans were reported by 10% and the declining trend in investment intentions continued.

Employment

Changes in employment levels were reported by 21% of respondents and the modestly rising trend in employment was reversed in the fourth quarter, and a net of respondents now expect declining trends in the first quarter. The percentages seeking to recruit was the weakest recorded.

	Q4.2008			Net Balances		
	Up	Level	Down	Q4/08	Q3/08	Q2/08
Business Optimism	5.0	15.0	80.0	-75.0	-11.8	-41.2
Trend in actual sales	15.0	15.0	70.0	-60.0	-16.6	11.1
Trend in expected sales	0.0	27.8	72.2	-72.2	-25.0	-12.5
Investment plans	10.0	45.0	45.0	-35.0	5.5	22.2
Cash flow past 3 months	10.0	60.0	30.0	-20.0	-11.1	-22.2
Turnover next 12 months	15.8	21.1	63.2	-47.4	5.6	0
Profitability next 12 months	10.5	21.1	68.4	-57.9	0.0	-22.2
Price change next 3 months	50.0	30.0	20.0	30.0	66.7	77.8
Pressures to raise prices from						
Pay settlements	25.0			25.0	16.7	22.2
Raw material costs	55.0			55.0	77.8	61.1
Finance costs	15.0			15.0	27.8	5.6
Other overheads	45.0			45.0	27.8	33.3
Transport costs	65.0			65.0	72.2	88.9
Employment trends						
Total actual employment	0.0	78.9	21.1	-21.1	11.1	5.9
Expected next 3 months	0.0	82.4	17.6	-17.6	0.0	6.3
Average pay increase	3.5			3.5	3.03	3.94
Percent recruiting staff	10.0			10.0	44.4	44
Recruitment difficulties inc	27.8			27.8	13.3	0

RETAIL DISTRIBUTION

Optimism

Business confidence fell to unprecedented levels amongst retail respondents in the fourth quarter.

Sales

The proportion reporting and expecting declining sales in the third and fourth quarters was the highest ever reported in the history of the survey. Over two thirds of respondents reported declining sales trends and over 80% expect sales to ease in the first quarter of 2009.

Cost pressures were less evident in the fourth quarter;

Finance

A net of -69% of retailers anticipate declining turnover, and a net of -72% (-49% in the previous quarter) anticipate declining profitability over the next year, suggesting rising pressures on margins in 2009.

Employment

Changes in employment levels were reported by 44% (13% in the previous quarter) and the proportion reducing employment was the highest recorded. The trends in employment indicated continuing declining trends in full time, temporary and permanent employment, overtime working was sharply down.

	Q4.2008			Net Balances		
	Up	Level	Down	Q4/08	Q3/08	Q2/08
Business Optimism	1.9	5.6	92.6	-90.7	-59.6	-56.9
Trend in actual sales	11.3	20.8	67.9	-56.6	-45.1	-37.9
Trend in expected sales	3.8	15.1	81.1	-77.3	-55.1	-41.1
Cash flow past 3 months	5.6	57.4	37.0	-31.4	-28.8	-26.8
Turnover next 12 months	7.4	16.7	75.9	-68.5	-38.4	-41.4
Profitability next 12 months	7.4	13.0	79.6	-72.2	-49.0	-47.4
Price change next 3 months	59.3	22.2	18.5	40.8	67.4	81.1
Pressures to raise prices from						
Pay settlements	14.8			14.8	25.0	24.1
Raw material costs	61.1			61.1	73.1	72.4
Finance costs	33.3			33.3	25.0	34.5
Other overheads	18.5			18.5	19.2	13.8
Transport costs	44.4			44.4	67.3	69
Utility costs	63.0			63.0	75.0	69
Regulation costs	33.3			33.3	25.0	25.9
Employment trends						
Total actual employment	7.4	53.7	38.9	-31.5	-11.5	-17.2
Expected next 3 months	0.0	58.0	42.0	-42.0	-12.5	-11.8
Average pay increase	4.0			4.0	4.32	3.77
Percent recruiting staff	31.5			31.5	33.3	39.7
Recruitment difficulties inc	23.3			23.3	12.5	35.1

TOURISM

Optimism

For a further quarter concerns as to the business situation were widely reported. Over 70% reported lower levels of business confidence, the most widely reported figure since 2001. The current declining trend in business confidence emerged in 2007 q4, and the proportions reporting declining trends more than doubled in the second quarter.

Demand

The net trends in demand were weaker than in the previous fourth quarters of 1997 - 2007. Only 12.5% reported increased demand for accommodation, 7% increased numbers in restaurants and 9% increased demand for function/conference facilities. Average occupancy at 58% was lower than in the fourth quarters of 2006 - 2007, but broadly similar to that of q4 2005 and above that for q4 2001.

A net of -37% reported declining turnover trends (compared to a decline of -33%, -8% and increases of 10% and 38% in the previous quarters) and a net of -48% (-43.5%, -22.4%, -34% and -5% in the previous four quarters) reported falling trends in margins.

Business constraints

Discounting of room rates was more widespread than expected and 47% expect to discount room rates in the first quarter

Employment

Changes in employment levels were reported by 52%. Net declining trends in full time, part time, seasonal and overtime working were reported, and the proportions recruiting staff was lower than for the past ten years.

	Q4.2008			Net Balances		
	Up	Level	Down	Q4/08	Q3/08	Q2/08
Business Optimism	2.0	24.5	73.5	-71.5	-60.0	-56.9
Trends in demand/visitors						
Total demand/visitors	12.5	25.0	62.5	-50.0	-52.0	-16
Demand from Scotland	8.5	46.8	44.7	-36.2	-25.0	-10.4
Demand from Rest of UK	6.4	38.3	55.3	-48.9	-40.8	-19.1
Demand from abroad	4.2	25.0	70.8	-66.6	-50.0	-25.5
Business Trade	4.3	38.3	57.4	-53.1	-26.5	-20.8
Trends in expected demand						
Total demand/visitors	2.2	21.7	76.1	-73.9	-64.6	-31.9
Demand from Scotland	2.2	39.1	58.7	-56.5	-57.8	-36.4
Demand from Rest of UK	2.2	26.7	71.1	-68.9	-65.2	-26.7
Demand from abroad	2.2	17.4	80.4	-78.2	-70.2	-37
Business Trade	4.3	23.9	71.7	-67.4	-54.3	-29.5
Occupancy	55.8			55.8	72.2	67
Average daily rate	19.1	40.4	40.4	-21.3	-12.2	12
Expected average daily rate	4.4	44.4	51.1	-47.1	-31.3	-4
Employment trends						
Total actual employment	6.5	41.3	52.2	-45.7	-21.3	-12.2
Expected next 3 months	0.0	47.7	52.3	-52.3	-53.3	-12.2
Average pay increase	5.0			5.0	7.33	5.58
Percent recruiting staff	40.8			40.8	64.0	77.6
Recruitment difficulties	16.2			16.2	34.8	24

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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