



## **MEDIA RELEASE**

**Embargoed until 0001 hours on Thursday 12<sup>th</sup> July 2012**

### **FEWER SIGNS OF ANY ECONOMIC RECOVERY IN 2012**

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the second quarter of 2012. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reports a weakening in activity in the Scottish economy in the second quarter of 2012, a more cautious outlook for the third quarter and more concerns as to any signs of real recovery in 2012.

Garry Clark, Head of Policy and Public Affairs at Scottish Chambers of Commerce, said:

“Our latest survey suggests that many Scottish businesses have had a weaker second quarter and are more cautious as to the remainder of 2012. The optimism evident at the beginning of 2012 is less evident now, and the signs, both internationally and at home, are of a slowdown and return to negative growth. With few exceptions demand, and both consumer and business confidence, remain weak and the outlook for the rest of the year is one of little or no growth.

“The manufacturing sector continues to perform well though even here outcomes remained lower than expectations and optimism has fallen back considerably. Exports remain the bright spot though some international trade may be vulnerable to continued Eurozone instability. Manufacturers are forecasting leaner times in the third quarter, with an expected negative trend in new orders.

“Construction businesses continue to perform below expectations, despite the continued and welcome efforts by the Scottish Government to maintain and extend levels of capital spending in our economy. It is clear that the additional stimulus of infrastructure spending must be backed up with action to ensure that Scottish based businesses are able to reap the maximum possible benefit from these new contracts.

“In the tourism sector the possible impact of the Olympics on tourism numbers, the recent bad weather experienced in many parts of the country, the well-publicised delays at customs at Heathrow and the relative appreciation of the pound to the euro appear to be influencing the pattern and volume of domestic and international visitors to Scotland.

“As we have consistently reported, the recovery remains tentative and uncertain and Governments at both the UK and Scottish level need to do more to support and encourage the recovery. The Scottish Government has led the way in identifying increased capital spending as an important policy in helping to address economic stagnation and it is now time for the UK Government to act boldly to stimulate demand and to reduce the focus on austerity; the evidence clearly shows that the current mix of policies of mainly austerity and limited support for growth is holding back any economic recovery. The Government's economic plan needs to move to a new phase focused on growth”

## **BUSINESS PERFORMANCE**

### ***Summary Points***

#### Overall

The continuing weakness in the Scottish economy was again evident in the results for the second quarter, with the outturn weaker than expected and weaker than those reported in Q1 2012. In all sectors the main trends are weaker than a year ago, reinforcing the sense of a weakness in demand, a slowing down and a return to negative growth. Increasing concerns as to a slowdown in the global economy, together with the continuing debt crisis in the Euro zone and continuing austerity measures by the Government and weak consumer confidence again have combined to weaken business sentiment, expectations and activity

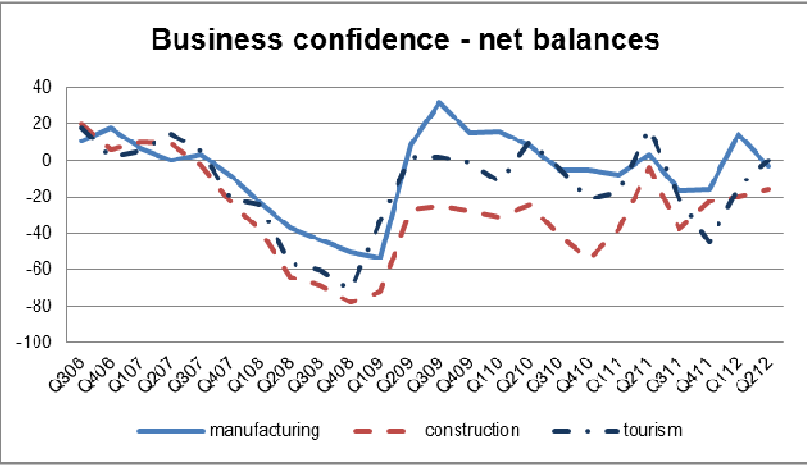
With the exception of retail, the trends in all sectors in Q2 2012 were weaker than those reported a year ago suggesting more signs of a stagnating economy in 2012 as demand in the Scottish economy remains weak and downside risks remain. The continuing consumer uncertainty and on-going public sector cuts and reorganisations will be important features in 2012/3, and whilst recent surveys have indicated slightly more positive trends the outlook for manufacturing gives rise for concern; manufacturing respondents now anticipate weaker trends for the third quarter and over the next twelve months. Construction respondents likewise reported weaker Q2 trends than in 2011, but demand remains weak and pressures on margins widespread and activity appears to reflect repair and maintenance and only very limited new commercial and private new build Tourism likewise reported weaker trends than a year ago and expectations for Q3 are more modest than in Q3 2011.

Within manufacturing modest rising trends in orders were reported and respondents are less confident that these positive trends will continue through the year, and the anticipated trends in work in progress remain subdued. Respondents are now slightly less confident as to the year ahead.

#### Business confidence

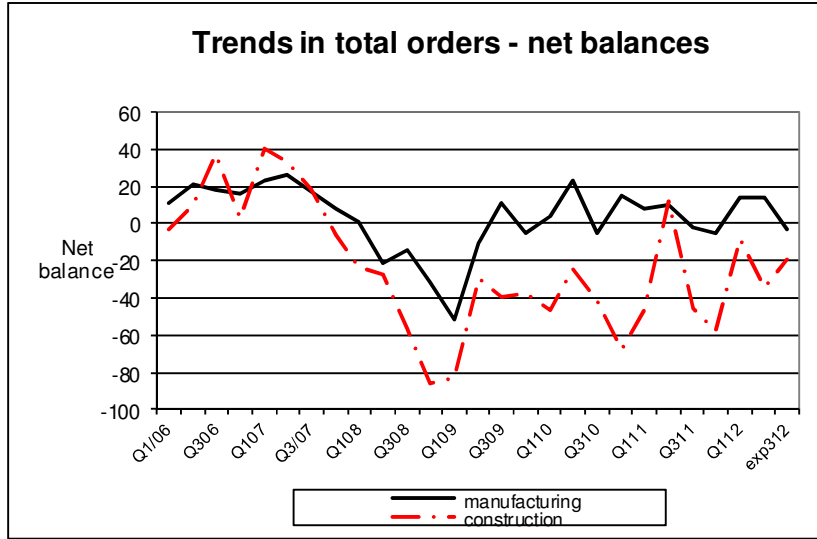
Business confidence was weak across all sectors. Confidence turned downwards for a net of manufacturing firms, remained negative in construction and retail, although in both sectors the downwards trends were less than in Q1. A level trend in confidence was reported by tourism respondents, but this was weaker than in Q2 2011.

For a further quarter weak business confidence amongst the non-national multiple retail sector was widespread, reflecting the continuing weak consumer confidence and spending, as illustrated by the increasing number of empty high street shops. In tourism the decline in confidence ended although the outturn was worse than anticipated.



Demand/sales

In manufacturing the rising trend in orders continued at the same rate as in Q1, although the outturn was weaker than anticipated. Rising trends in total and export orders were reported but, unlike previous quarters, a net of respondents anticipate declining total, Scottish and rest of UK demand and flat export demand in Q3. Demand in construction remained weak, the outturn was weaker than anticipated and the trend is weaker than a year ago. The signs of improvement noted in the first quarter appear to have evaporated. As in previous quarters the weakness in demand and pressures on margins appear to be the key factors.

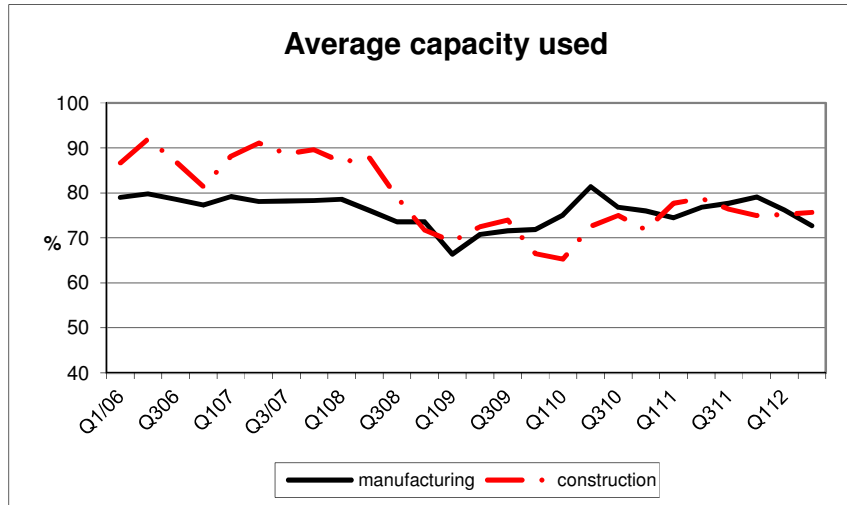


Declining trends in retail sales were again widely reported in the second quarter and discounting was again widespread, although there are some signs of an easing in the decline. 54% reported a decline in sales (compared to more than 64% in the previous quarter), and 45% (53% in the previous quarter) expect a further decline. In tourism the outturn in demand for Q2 2012 was weaker than had been forecast and the net trends visitor numbers and demand were weaker than for the second quarter of 2011, although better than in 2010 and 2009. As with other sectors the general underlying weaknesses in demand, both consumer and commercial underpin the weak trends.

## Capacity/work in progress

Average capacity used in manufacturing eased marginally from 76.2% in Q1 to 72.7% in the latest quarter. However a net balance of 47.6% reported working below optimum levels and a net of firms expect an easing in the level of work in progress in Q3 2012. In construction capacity used rose to 75.7%, but this was a decrease of 3.1 percentage points over the year.

In construction the proportion reporting working below optimum levels eased to 70% (a decline from the 76% reported in Q1). In tourism occupancy, at 64% was marginally lower than the second quarters of 2011 and 2010.



## Cost pressures

Once again for manufacturing firms raw material/suppliers prices (63% down from 84% in Q1) and transport costs (47% compared to 44% in Q1) were the most widely reported cost pressures, and generally cost pressures were slightly less widely reported in Q2 across all sectors. More than 17% (36% in Q1) of manufacturing, 50% (76% in Q1) of wholesale and 57% (58% in Q1) of retail respondents reported expecting to increase prices over the next three months. The trends in cash flow remained weak and the prospects for profitability over the next twelve months remained weak and uncertain. Pressures on margins were widely reported in construction and almost 40% of tourism respondents reported reductions to room rates.

## Pay and employment

For a further quarter labour market activity remained subdued with the majority of respondents in all sectors (ranging from 55% in tourism to over 70% in construction) reporting no change to employment levels. Nevertheless, the trends were generally slightly better than anticipated three months ago; modestly rising trends in employment were again reported in manufacturing but declining net trends in other sectors. Recruitment difficulties remained subdued in all sectors.

Pay increases in the second quarter ranged from 1.8% in wholesale distribution construction to 2.2% in construction, 2.4% in retail, 3.3% in manufacturing and 3.8% in tourism. Over the past year pay increases have averaged 2.2% in construction, 2.85% in manufacturing and 3.2% in retail and 3.4% tourism – again implying declines in household income and spending.

## Outlook

The signs of the fragile recovery evident in the first quarter of 2012 are now less evident and the sense of an emerging slowdown more evident in manufacturing. Demand in construction continues to be weak as are pressures on margins. Continuing consumer uncertainty impacts on both the retail and tourism sectors. The sense of a slowdown in economic activity across our major markets, continued reorganisation and cutbacks in the public services again influences both activity and sentiment locally and nationally in Scotland and in the rest of the United Kingdom. Internationally the extent of these downside risks and, within the UK, changes to government policies will be the critical features in driving any muted, but sustained, recovery in the remainder of 2012 and more so in 2013.

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 May and early June 2012, some 200 firms responded to the questionnaire.

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## MANUFACTURING

### Optimism

Business confidence weakened in quarter two with 50% of firms reporting changed confidence levels. Confidence is now weaker than a year ago, reflecting concerns as to the continuing Euro zone weaknesses.

### Orders and Sales

The rising trend in total new orders remained unchanged and the rising trend in total new sales continued. The outturn in total orders was weaker than had been expected and respondents are more cautious as to the trends in orders in the third quarter. Average capacity utilisation eased further to 72.7% and expectations as to the trends in work in progress for the next three months are slightly less optimistic, the underlying weaknesses in demand remains evident with 48% reporting working below optimum levels.

Turnover is expected to improve for 40% firms (but the net trend is weaker than in the first quarter). The net trends in profitability are weaker than in the first quarter, but better than the average for the past four quarters.

### Investment

The trends in investment in plant/machinery weakened during quarter two for a net balance of manufacturing firms with 60% expecting no overall change. New investment was again mainly directed towards replacement or to improve efficiency.

### Employment

The rising trend in employment continued unchanged through the second quarter, although again two thirds reported no change. Slightly fewer than 16% of firms increased pay during the three months to June and the average increase was 3.3%. 38% reported seeking to recruit staff, and difficulties remained limited.

	Up	Q1 2012	Down	Net Balances		
		Level		Q1/12	Q4/11	
<b>Business Optimism</b>	23.4	50.0	26.6	-3.2	14.3	-15.5
<b>Trends in actual orders</b>						
Total new orders	37.5	39.1	23.4	14.1	14.3	-5.2
Scottish orders	19.3	54.4	26.3	-7	5.1	-13.2
Rest of UK orders	25.0	50.0	25.0	0	-7.3	-27.4
Export orders [40.6% = N/A]	20.3	26.6	12.5	7.8	9.7	-6.7
<b>Trends in expected orders</b>						
Total new orders	24.2	48.4	27.4	-3.2	23.3	-8.9
Scottish orders	12.7	58.2	29.1	-16.4	10.7	-19.7
Rest of UK orders	13.5	61.5	25.0	-11.5	7.4	-22.5
Export orders (41.3% = N/A]	14.3	30.2	14.3	0	17.7	-7
Av Capacity used	72.7			72.7	76.2	79.1
Invest in plant/equip.	13.3	60.0	26.7	-13.4	6.7	5.5
Cash flow past 3 moths	14.1	54.7	31.3	-17.2	-12.7	-20.7
Turnover next 12 moths	39.1	37.5	23.4	15.7	30.1	11.9
Profitability next 12 moths	26.6	48.4	25.0	1.6	4.7	-3.4
Price change next 3 moths	25.0	65.6	7.8	17.2	36.5	27.1
<b>Pressures to raise prices from</b>						
Pay settlements	18.8			18.8	17.5	30.5
Raw material costs	62.5			62.5	84.1	71.2
Finance costs	18.8			18.8	6.3	15.3
Other overheads	39.1			39.1	39.7	28.8
Transport costs	46.9			46.9	44.4	47.5
<b>Employment trends</b>						
Total actual employment	17.7	67.7	14.5	3.2	3.2	-5.3
Total expected next 3 months	9.8	73.8	16.4	-6.6	1.6	-20.4
Average pay increase	3.3			3.3	3.1	1.8

## CONSTRUCTION

### Optimism

Business confidence remained weak in the second quarter, and although the rate of decline eased compared to Q1 it was worse when compared to Q2 2011.

### Contracts

The slowing down of the decline in orders evident in Q1 reversed in Q2 as half of construction respondents reported a decline (a net balance of -34%). With very few new contracts evident construction firms appear to be relying on repair and maintenance work. Over 90% of respondents cited the weakness in demand as the main factor restricting activity. The decline in public sector orders steepened. All trends are expected to continue to decline in Q3. 70%, compared over three quarters of respondents in the previous survey, reported working below capacity.

Cash flow trends had been expected to level out, whereas the outturn was a continued decline. Turnover over profitability are still expected to weak over the next 12 months together with continued pressure on margins. Average capacity used rose marginally from 75.2% to 75.7% although was below the Q2 2011 level of 78.8%.

### Employment

The downward trend in employment continued in Q2 with no firms reporting a rise. Once again recruitment difficulties were evident. Average pay increases fell from 2.5% in Q1 to 2.3%.

	Q2 2012			Net Balances		
	Up	Level	Down	Q2/12	Q1/12	Q4/11
Business confidence	15.8	52.6	31.6	-15.8	-20	-22.2
<b>Trends in actual contracts</b>						
Total new contracts	15.8	34.2	50	-34.2	-8	-57.7
Public sector orders	10	36.7	53.3	-43.3	-20	-63.7
Private commercial	20	30	50	-30.0	-4.5	-57.2
Domestic/household	15.6	40.6	43.8	-28.2	-52.9	-42.1
<b>Trends in expected contracts</b>						
Total new orders	22	36.1	41.7	-19.7	-25	-12.4
Public sector orders	20.7	31	48.3	-27.6	-14.3	-27.3
Private commercial	13.8	55.2	31	-17.2	-23.8	-14.3
Domestic/household build	20	20	40	-20.0	-31.3	-10.5
<b>Trends in work in progress</b>						
Actual	18.4	47.4	34.2	-15.8	-16	-34.7
Expected	16.2	32.4	51.4	-35.2	-24	-26.9
Capacity used	75.7			75.7	75.2	75
Invest in plant/equip.					-44	
Leasing in plant/equipment.					-37.5	
<b>Employment trends</b>						
Total actual employment	0	73.7	26.3	-26.3	-20.8	-37
Total expected next 3 months	8.8	55.9	35.3	-26.5	-36.4	-34.6
Average pay increase	2.3			2.3	2.5	1.8
Percent recruiting staff	21.1			21.1	25	11.1
Recruitment difficulties increasing	0			0	0	0

## WHOLESALE DISTRIBUTION

### Optimism

Business confidence amongst Scottish wholesale respondents continued to decline with slightly fewer than half of firms reporting a decline in business confidence. Business confidence however, was less depressed compared to one year ago.

### Sales

A net balance of almost 6% of firms in the previous survey had expected a decline in sales however the outturn was worse at -27%; a net balance expect a further decline in the third quarter of 2012.

More than 80% of wholesalers continued to report increased pressures from transport costs. Cost pressures eased slightly during the three months to the end of June. Almost 60% of firms expect to increase prices over the next three months, and cash flow trends weakened. Once again concerns over turnover and profitability remained high.

### Finance

Once again most firms reported no change to investment plans; nevertheless there was a decline.

### Employment

Wholesale respondents on balance, reported no change to overall employment levels during the second quarter of 2012 although a net balance expected to shed staff in Q3. A third sought to recruit staff; largely for replacement. The average pay increase in Q2 was 1.8% compared to 3.4% in Q1.

	Q2 2012			Net Balances		
	Up	Level	Down	Q2/12	Q1/12	Q4/11
<b>Business Optimism</b>	18.2	36.4	45.5	-27.3	-23.6	-57.1
<b>Trend in actual sales</b>	22.7	27.3	50	-27.3	-11.8	0
<b>Trend in expected sales</b>	13.6	40.9	45.5	-31.9	-5.9	-38.5
<b>Investment plans</b>	9.1	59.1	31.8	-22.7	-5.8	7.2
<b>Cash flow past 3 months</b>	13.6	45.5	40.9	-27.3	-17.7	-14.3
Turnover next 12 months	27.3	31.8	40.9	-13.6	-11.8	-7.1
Profitability next 12 months	14.3	33.3	52.4	-38.1	-25	-28.6
Price change next 3 months	59.1	31.8	9.1	50	76.5	64.3
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	9.1			9.1	11.8	35.7
<b>Raw material costs</b>	59.1			59.1	82.4	64.3
<b>Finance costs</b>	18.2			18.2	5.9	28.6
<b>Other overheads</b>	36.4			36.4	35.3	64.3
<b>Transport costs</b>	81			81	81.3	92.9
<b>Employment trends</b>						
Total actual employment	14.3	71.4	14.3	0	11.7	-7.2
Expected next 3 months	0	65	35	-35	-13.3	-7.7
<b>Average pay increase</b>	1.8			1.8	3.4	3
Percent recruiting staff	33.3			33.3	31.3	28.6
Recruitment difficulties inc	3.2			3.2	0	0



## RETAIL DISTRIBUTION

### Optimism

The very low levels of business confidence eased marginally in the first quarter of 2012, and although remain low were marginally better compared to Q2 2011.

### Sales

Although easing, the trend in sales continued to weaken with more than half reporting and expecting a decline in the total value of sales. Only 14% reported and only 11% expect increased sales, as continuing concerns over consumer confidence remain evident.

### Finance

Cost pressures remain severe, although those concerned with increasing suppliers costs eased from 66% to 61%. Transport costs and utility costs continued to be of concern. Pressures on margins remain widespread with over half expecting declining profitability and turnover over the next year.

### Employment

Labour market activity continued to decline with only 9% reporting and 7% expecting an increase in overall employment levels. Despite the poor employment figures recruitment problems increased.

20% of firms reported increasing pay, and the average increase was 2.4%.

	Q2 2012			Net Balances		
	Q2/12	Q1/12	Q4/11	Q2/12	Q1/12	Q4/11
<b>Business Optimism</b>	7.1	39.3	53.6	-46.5	-62.8	-69.4
<b>Trend in actual sales</b>	14.3	32.1	53.6	-39.3	-52.8	-75
<b>Trend in expected sales</b>	11.1	33.3	55.6	-44.5	-47	-67.7
<b>Cash flow past 3 months</b>	11.1	55.6	33.3	-22.2	-39.4	-41.2
Turnover next 12 months	14.5	32.7	52.7	-38.2	-42.8	-66.7
Profitability next 12 months	11.1	24.1	64.8	-53.7	-60	-72.2
Price change next 3 months	58.9	39.3	1.8	57.1	58.3	55.9
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	28.6			28.6	25	41.7
<b>Raw material costs</b>	60.7			60.7	66.7	69.4
<b>Finance costs</b>	16.1			16.1	22.2	33.3
<b>Other overheads</b>	12.5			12.5	8.3	5.6
<b>Transport costs</b>	48.2			48.2	63.9	63.9
<b>Utility costs</b>	50			50.0	55.6	72.2
<b>Regulation costs</b>	37.5			37.5	36.1	38.9
<b>Employment trends</b>						
Total actual employment	9.3	66.7	24.1	-14.8	-5.7	-20.6
Expected next 3 months	7.4	68.5	24.1	-16.7	-25	-24.1
<b>Average pay increase</b>	2.4			2.4	2.5	2.5
Percent recruiting staff	33.3			33.3	25.7	17.6
Recruitment difficulties inc	26.7			26.7	12.5	25

## TOURISM

### **Optimism**

The decline in business confidence eased during the second quarter of 2012 although remained lower compared to Q2 2011.

### **Demand**

Just as many hotels reported a rise in visitors as reported a fall. The trend was not as positive as had been forecast by respondents from the previous survey.

Average occupancy rose from 53% to 64% although was down on the same quarters of 2011 and 2010. During the three months to the end of June 2012, trends in bar/restaurant trade and for conference/ function facilities continued to decline.

Fewer respondents than previously reported reducing average daily room rates, although the net balance unexpectedly remained negative (-8.9% compared to +3.1% in Q2 2011). The widespread pattern of 'special offers' seems set to abate with a net balance of 2% expecting to increase room rates in Q3 2012.

### **Business constraints**

Almost two thirds reported that the lack of tourist demand remained the primary business constraint. Poor transport infrastructure, high fuel costs and weak marketing of the area also remained a concern to hotels.

### **Employment**

66% (compared to 43% in the first quarter and to 70% in Q2 2011) sought to recruit staff. Employment trends had been forecast to rise for a small net balance of firms but the outturn was one of an easing in the decline (from -23.9% to -5.4%). A net balance of 3.6% expect a fall in total employment levels in Q3 2012.

	Q2 2012			Net Balances		
	Up	Level	Down	Q2/12	Q1/12	Q4/11
<b>Business Optimism</b>	27.6	44.8	27.6	0.0	-14.3	-45.0
<b>Trends in demand/visitors</b>						
Total demand/visitors	40	20	40	0.0	-10.5	2.5
Demand from Scotland	21.4	55.4	23.2	-1.8	-4.4	-7.5
Demand from Rest of UK	22.8	45.6	31.6	-8.8	-16.4	-12.8
Demand from abroad	28.6	33.9	37.5	-8.9	-22.9	-15.4
Business Trade	20	38.2	41.8	-21.8	-25.5	-21.0
<b>Trends in expected demand</b>						
Total demand/visitors	34	37.7	28.3	5.7	4.4	-34.3
Demand from Scotland	24.1	53.7	22.2	1.9	2.3	-34.3
Demand from Rest of UK	25.9	44.4	29.6	-3.7	-2.2	-35.3
Demand from abroad	29.6	29.6	40.7	-11.1	-13.3	-38.2
Business Trade	21.1	38.5	40.4	-19.3	-9.3	-42.4
<b>Occupancy</b>	64.4			64.4	52.98	56.8
Average daily rate	30.4	30.4	39.3	-8.9	-26.7	-38.9
Expected average daily rate	26.8	48.2	25	1.8	9.3	-42.9
<b>Employment trends</b>						
Total actual employment	19.6	55.4	25	-5.4	-23.9	-16.7
Expected next 3 months	20	56.4	23.6	-3.6	2.3	-20.6
<b>Average pay increase</b>	3.8			3.8	3.8	3.3
Percent recruiting staff	65.5			65.5	42.9	47.5
Recruitment difficulties	31.5			31.5	19.5	23.5

**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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