



## **MEDIA RELEASE**

**Embargoed until 0001 hours on Thursday 16th January 2014**

### **SCOTTISH ECONOMY PRIMED FOR FURTHER GROWTH IN 2014**

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the fourth quarter of 2013. This broadly based survey, now in its 30<sup>th</sup> year and conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reported that in all sectors, trends in business confidence are stronger than a year ago, indicating that the economy is still progressing towards pre-recession levels and that the worst of the recession may now be over. However the recovery still remains fragile and further action may be required to ensure that it is sustainable.

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

“This survey contains the most positive signs of growth and business activity that we have seen for many years. The good news is that businesses across a range of sectors are more confident at the start of 2014 than they were a year ago and the construction sector in particular has recovered dramatically after many years of decline.

“In manufacturing, orders from within the UK have strengthened, even though trends in export orders have proved to be less strong, and the outlook remains positive across the board. One area of potential concern is the low cashflow that some manufacturers are reporting. This makes it even more important that businesses have access to finance in order to fund investment for growth. This is particularly true for small and medium businesses, since investment levels will require to grow if the recovery is to become more broadly based and sustainable.

“At the beginning of the Year of Homecoming, optimism is also high in the Scottish tourism sector, following a strong end to 2013. Though expectations for the beginning of 2014 are modest, occupancy levels are higher than they were a year ago and bar and restaurant trade is improving. Overall, tourism optimism is at an eight year high and with iconic events such as the Ryder Cup, Commonwealth Games and MTV Europe Music Awards coming to Scotland this year, there is every opportunity to succeed and to ensure that the legacy is fully realised.

“Employment trends are mixed across the sectors, perhaps in part reflecting seasonal variations, but wage growth seems to be picking up slightly, offering some hope that the consumer led recovery can be sustained until investment levels begin to increase.

“There is a lot to be optimistic about in the Scottish economy in 2014. However, government must ensure that businesses feel confident to invest and that will mean continuing to prioritise access to finance and also committing to future mitigation of fixed costs such as business rates.”

## Key findings

- ***In all sectors business confidence is stronger than a year ago.***
- ***Manufacturing optimism at the highest level since 2006.***
- ***Manufacturing orders continued to rise for the fourth consecutive quarter.***
- ***Construction orders rose at their fastest rate for 7 years.***
- ***Retailers reported the highest rise in sales since 2006.***
- ***Confidence among hotels is at the highest point in a decade. Occupancy rates are better than previous fourth quarters.***
- ***Cashflow remains weak raising concerns of limited expansion opportunities.***
- ***Expectations rose further indicating improved prospects for investment.***
- ***Employment trends were mixed with rises in manufacturing and retail but declines in construction, wholesale and tourism sectors.***

## BUSINESS PERFORMANCE

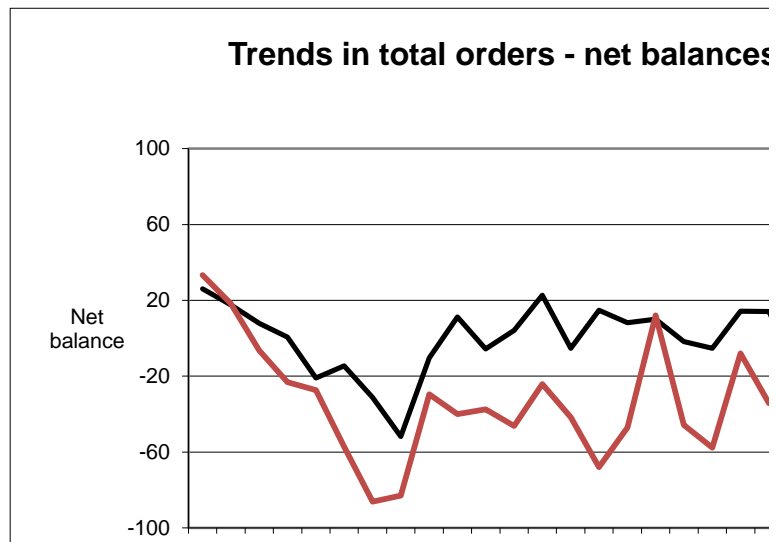
The Scottish Chambers' Business Survey, along with other main surveys, began showing an unexpected improvement in the summer of 2013 and have subsequently been upheld and endorsed by the official data. The sense is that the pace of the recovery in the Scottish economy is accelerating and becoming more broad based than previously. In all key sectors confidence is stronger than a year ago, and expectations for the first quarter are also stronger than a year ago. However, sustaining the recovery could remain problematic although there are signs that they recovery is becoming more secure with the levels of spare capacity diminishing. Compared to Q4 2012 we continue to see signs of a recovery and expectations of further improvements in the first quarter and into 2014 remain.

### Business confidence

Business confidence continued to improve for all main sectors in the final quarter of 2013 and the net balance of optimism among construction firms was positive for the first time since 2007. Tourism optimism remained notably buoyant, although a number of firms reported that they closed for the winter season.

### Demand/sales

As forecast by firms in the previous survey the net balance of total orders among manufacturing firms continued to improve in the fourth quarter; a further rise is forecast – Scottish, rest of UK and export orders, on balance all rose and all are expected to continue to rise in Q1 although the actual and expected trends in export orders remain fragile. Demand in construction improved in the final quarter of 2013 although the net trend in public sector work remained negative; concerns remain over public sector orders in the three months to the end of March.

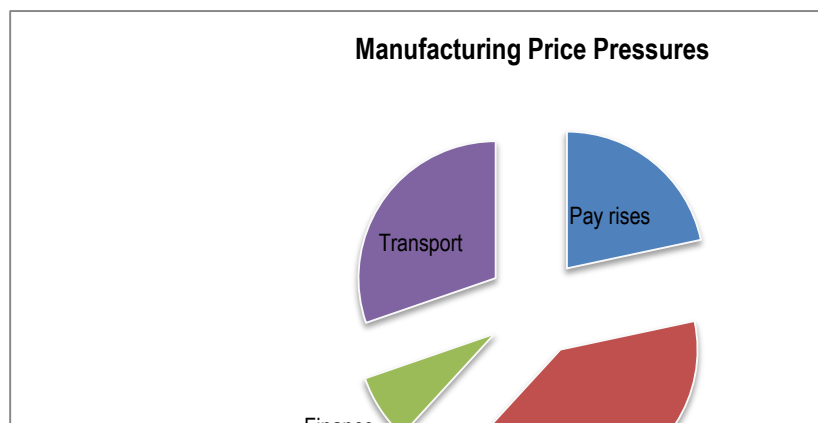


Retail sales showed a marked improvement in the crucial fourth quarter period although to what extent this was due to heavy discounting is unclear. A flat trend is forecast for Q1. Similarly tourism firms reported strong demand in Q4 but a level trend is forecast for the three months to the end of March.

#### Capacity/work in progress

Average capacity used in manufacturing improved marginally from 77.5% in Q3 to 78.1% in the latest quarter and this level is the highest level since 2010. Fewer than half of manufacturing firms reported working below optimum levels – an further improvement on previous quarters and a net balance reported and expect the level of work in progress to rise. In construction capacity utilisation rose further and was better than the level reported in previous fourth quarters.

In construction slightly more than half of firms reported working below optimum levels. In tourism occupancy, at 65% was better than the previous fourth quarters.



#### Cost pressures

Once again for manufacturing firms raw material/suppliers prices (64% compared to 72% in Q3) and transport costs (49% compared to 36% in Q3) were the most widely reported cost pressures. Prices are set to continue to rise in the coming quarter with fewer than 10% of manufacturers, wholesalers and retailers anticipating any declines in prices. The trends in cash flow generally remained weak during the fourth quarter leading to concerns that this may deter businesses from expanding to meet any increased demand. Pressures on margins are set to continue with turnover expected to rise at a faster rate than

profitability over the next twelve months. Retail and construction firms are anticipating a rise in turnover expectations although profit levels are not yet set to rise. Manufacturers, on the other hand, are continuing to forecast a rise in turnover and profitability.

Pay and employment

Once again labour market activity remained fairly subdued with the majority of respondents in all sectors (ranging from 57% in wholesale to 66% in manufacturing) reporting no change to employment levels. Trends in employment levels for manufacturing and retail remain upward although construction and tourism firms reported a small net fall in total employment levels. Recruitment difficulties remained although there is some evidence of a slight easing.

Pay increases in the three months to the end of 2013 ranged from 2.5% in wholesale distribution to 6.6% in tourism.

Outlook

Respondents to this fourth quarter survey generally have a positive outlook in the short term. The rise in business confidence in this latest survey is welcome, but significant challenges and concerns remain. Cashflow continues to be an underlying concern in key sectors, and this may have the effect of delaying business expansion to meet the growing levels of demand. Growth up to this point has been slow but encouragingly looks set to continue with orders, profits and turnover set to rise. Previous surveys have indicated a stagnating economy but these latest results further indicate a return to pre-recession levels. However for some sectors trading conditions are still harsh and much will continue to depend on the rate and extent of recovery in our major markets and on Government measures adopted over the medium term.

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 2013 some 230 firms responded to the questionnaire.

© University of Strathclyde, Fraser of Allander Institute 2013. Use, storage and distribution by any means is freely given provided full citation is given.

For further information contact:

On the survey results      Eleanor Malloy      0141 548 3967  
   Grant Allan              0141 548 3838

On Chamber policy              Garry Clark              0141 204 8337 or 07795 158137 (gclark@scottishchambers.org.uk)

## MANUFACTURING

### Optimism

During the final quarter of 2013 business confidence continued to improve for a net of 22%, a significant improvement from the 1.1% for Q4 2012. Only 13% of firms reported being less confident compared to Q3 2013.

### Orders and Sales

During the fourth quarter the trend in orders remained buoyant with a net balance of 13.1% reporting; more than a third of firms reported a rise in total new orders and only a fifth reported a decline. Respondents continue to remain optimistic as to the trends in future orders during Q1/14 (+13.5%). Average capacity utilisation rose again (from 77.5% to 78.1%) and was almost two percentage points higher than the fourth quarter of 2012.

Turnover and profitability are expected to rise further for a net balance of firms over the coming 12 month period.

### Investment

The trends in investment in plant/machinery improved during Q4 for a net balance of manufacturing respondents (+11%). New investment continues to be directed towards replacement (38%) or to improve efficiency (31%) although a significant number are now reporting expansion as a reason (22%).

### Employment

During the three months to the end of December a net balance of firms reported a rise in total employment levels (+16%) the highest net balance in five years. A quarter of firms increased pay during Q4 and the average increase was marginally up from the previous quarter at 3.3%. 47.9% (compared to 33% in the previous quarter) reported seeking to recruit staff, and more than a third of these firms reported recruitment difficulties.

MANUFACTURING	Up	Level	Down	Q4/13	Q3/13	Q2/13
<b>Business Optimism</b>	35.5	51.3	13.2	22.3	18	18.1
Trends in actual orders						
Total new orders	34.2	44.7	21.1	13.1	16.7	6
Scottish orders	27.9	58.8	13.2	14.7	13	-6.6
Rest of UK orders	35.3	50	14.7	20.6	11.6	5.6
Export orders [31.3% = N/A]	17.6	35.1	16.2	1.4	2.6	6.2
Trends in expected orders						
Total new orders	28.4	56.8	14.9	13.5	19.1	11.5
Scottish orders	20.3	66.7	13	7.3	7.7	-4.2
Rest of UK orders	21.2	66.7	12.1	9.1	9.3	0
Export orders [31.1% = N/A]	17.6	40.5	10.8	6.8	1.3	6.3
Av Capacity used	78.1			78.1	77.5	76.6
Invest in plant/equip.	29.2	52.8	18.1	11.1	7.9	5
Cash flow past 3 moths	20	54.3	25.7	-5.7	-4.1	-12
Turnover next 12 moths	45.3	38.7	16	29.3	22.4	17.9
Profitability next 12 moths	35.6	43.2	20.3	15.3	10.5	7.1
Price change next 3 moths	26.7	66.7	6.7	20	26	22.9
Pressure to raise prices from						
Pay settlements	34.7			34.7	27.8	27.3
Raw material costs	64.4			64.4	72	65.1
Finance costs	12.7			12.7	12.7	15.4
Other overheads	43.1			43.1	38.9	52.4
Transport costs	48.6			48.6	35.7	42.7
Employment trends						
Total actual employment	25	65.8	9.2	15.8	13	-7.1
Total expected next 3 months	21.9	67.1	11	10.9	5.4	1.3
Average pay increase	3.3			3.3	3	2.9

## CONSTRUCTION

### Optimism

The long term decline in business optimism ended with respondents reporting the first positive net balance of optimism since 2007; only 11.5% reported a decline in business optimism.

### Contracts

Unexpectedly the trend in total new orders/contracts improved and the net balance was the highest recorded level since 2007. Orders generally improved although concerns remain over public sector orders. More than half of firms reported an increase in private commercial orders. A net of respondents expect a further rise in Q1 2014. Capacity utilisation improved marginally from 80.8% to 82.3%, higher than previous fourth quarters. During the first three months of 2014 orders from all areas, except public sector orders are set to continue to rise.

Cash flow trends continued to deteriorate for a net balance of construction firms (-11.5%) although the decline eased from the previous quarter (-22.2%). Turnover (+23.1%) is now expected to improve although profitability (-7.7%) is still expected to be weak over the next 12 months together suggesting continued pressure on margins. In the previous quarter more than half of responding firms expected tender margins to worsen during the coming year in this fourth quarter survey concerns had eased with fewer than a third expecting margins to decline.

### Employment

There was an unexpected net fall in total employment levels in Q4 although most firms reported no changes; a net balance (12%) expect a further rise in Q1. Recruitment activity strengthened (from 38% to 46%) although recruitment problems eased. Average pay increases decreased marginally from 3.2% in Q3 to 2.9%.

	Up	Level	Down	Q4/13	Q3/13	Q2/13
<b>Business Optimism</b>	34.6	53.8	11.5	23.1	-3.7	-3.5
<b>Trend in actual orders</b>						
Total new contracts	48	32	20	28	-18.5	-3.6
Public sector orders	4.8	71.4	23.8	-19	-22.8	-29.2
Private commercial	52.2	30.4	17.4	34.8	8.3	8.3
Domestic/house build	35	40	25	10	-26.1	-14.3
<b>Trends in expected orders</b>						
Total new orders	28	52	20	8	-14.8	-22.2
Public sector orders	10.5	73.7	15.8	-5.3	-9.5	-22.8
Private commercial	40.9	40.9	18.2	22.7	0	4.5
Domestic/house build	31.6	47.4	21.1	10.5	-22.8	-9.5
<b>Trends in work in progress</b>						
Actual	23.1	61.5	15.4	7.7	-22.2	0
Expected	42.3	34.6	23.1	19.2	-22.2	-14.8
<b>Capacity used</b>	82.3			82.3	80.8	81.4
<b>Invest in plant/equip.*</b>					5.2	
<b>Leasing in plant/equipment.*</b>					0	
<b>Employment trends</b>						
Total actual employment	19.2	57.7	23.1	-3.9	14.8	0
Total expected next 3 months	32	48	20	12	7.7	-12
<b>Average pay increase</b>	2.9			2.9	3.2	3.3
Percent recruiting staff	46.2			46.2	38.5	28.6
Recruitment difficulties increasing	6.3			6.3	23.1	18.8

## WHOLESALE DISTRIBUTION

### **Optimism**

The downward trend in business optimism amongst Scottish wholesalers continued although two thirds reported no change.

### **Sales**

The downward trend in sales eased further from -6.7% in Q3 to -5.6% and once again the net balance in sales was better than expected. A net balance of -6.7% expect a decline in the first quarter of 2014.

Three-quarters of wholesalers continued to report increased pressures from transport costs and to a lesser extent, firms also remain under pressure from raw material costs (67%). More than half of firms (61.1%) expect to increase prices over the next three months. The downward trends in both turnover and profitability continued in Q4.

### **Finance**

Two thirds of firms continued to report no change to investment plans.

### **Employment**

Wholesale respondents unexpectedly continued to report a net decrease in overall employment levels during Q4. More than half sought to recruit staff (55.5%) and 47% of these firms reported recruitment difficulties. The average pay increase in Q4 was 2.5% compared to 2.3% in Q3.

	Up	Level	Down	Q4/13	Q3/13	Q2/13
<b>Business Optimism</b>	5.6	66.7	27.8	-22.2	-13.3	-21.4
<b>Trend in actual sales</b>	33.3	27.8	38.9	-5.6	-6.7	-42.9
<b>Trend in expected sales</b>	20	53.3	26.7	-6.7	-15.4	-15.4
Investment plans	16.7	66.7	16.7	0	6.7	-21.4
Cash flow past 3 months	16.7	55.6	27.8	-11.1	6.7	7.2
Turnover next 12 months	16.7	44.4	38.9	-22.2	-13.3	-7.1
Profitability next 12 months	16.7	38.9	44.4	-27.7	-33.3	-35.7
Price change next 3 months	61.1	33.3	5.6	55.5	23.3	42.8
<b>Pressures to raise prices from</b>						
Pay settlements	27.8			27.8	40	21.4
Raw material costs	66.7			66.7	40	64.3
Finance costs	27.8			27.8	33.3	21.4
Other overheads	44.4			44.4	46.7	57.1
Transport costs	75			75	78.6	78.6
<b>Employment trends</b>						
Total actual employment	11.1	55.6	33.3	-22.2	-13.3	-21.4
Expected next 3 months	5.9	82.4	11.8	-5.9	0	-33.3
Average pay increase	2.5			2.5	2.3	2
Percent recruiting staff	55.5			55.5	60	35
Recruitment difficulties	46.7			46.7	41.7	16.7

## RETAIL DISTRIBUTION

### **Optimism**

Business confidence among retailers improved further in Q4 for a net balance of 4.2%; in stark contrast to the -41.2% of Q4 2012.

### **Sales**

The trend in overall sales once again improved, with a net of 18.8% of firms reporting an increase; the highest net balance since 2006. No net change is forecast for Q1 2014.

### **Finance**

Cost pressures remain historically high and continued to increase in the three months to the end of June. Utility costs, transport costs and raw material prices continued to be of particular concern and firms also reported pressures from pay settlements. Pressures on margins continued to ease in Q4. A net balance of 16% expect a rise in turnover and a net of -2.1% expect a decline in profitability (compared to -10.4% previously) – the highest net balances since Q3 2007.

### **Employment**

The trend in total employment levels continued to rise in Q4 although a net balance expect to shed staff in Q1.

Fewer than a third of firms reported increasing pay, and the average increase rose from 5.3% to 6.5%.

	Level	Up	Down	Q4/13	Q3/13	Q2/13
	Up	Level	Down	Q4/13	Q3/13	Q2/13
<b>Business Optimism</b>	31.3	41.7	27.1	4.2	2.1	-24.5
<b>Trend in actual sales</b>	41.7	35.4	22.9	18.8	4.3	-35.5
<b>Trend in expected sales</b>	30.2	39.5	30.2	0.0	2.3	-40.4
<b>Cash flow past 3 months</b>	29.2	47.9	22.9	6.3	0.0	-13.6
Turnover next 12 months	46.9	22.4	30.6	16.3	14.6	-15.5
Profitability next 12 months	35.4	27.1	37.5	-2.1	-10.4	-17.8
Price change next 3 months	44.9	53.1	2	42.9	54.1	60.0
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	34.1			34.1	35.7	25.6
<b>Raw material costs</b>	57.1			57.1	59.1	68.2
<b>Finance costs</b>	24.4			24.4	27.9	37.5
<b>Other overheads</b>	14.3			14.3	9.3	15.9
<b>Transport costs</b>	51.2			51.2	41.9	45.2
<b>Utility costs</b>	55.8			55.8	63.6	61.4
<b>Regulation costs</b>	36.6			36.6	35.7	36.4
<b>Employment trends</b>						
Total actual employment	20.4	63.3	14.3	6.1	12.5	-6.8
Expected next 3 months	10	75	15	-5.0	-2.3	-14.7
<b>Average pay increase</b>	6.5			6.5	5.3	2.8
Percent recruiting staff	28.6			28.6	31.9	20.5
Recruitment difficulties	19.2			19.2	28.0	22.7



## TOURISM

### **Optimism**

The tourism results should be viewed with an element of caution as a number of hotels indicated that they were closed for the winter season. Slightly more than a third of hotels reported an increase in optimism. This is the fourth consecutive increase and the highest balance of optimism since 2006.

### **Demand**

The outturn in demand exceed expectations with more than half of firms reporting an increase total new orders in the fourth quarter. More than two thirds expect no change to demand levels in Q1 2014. Demand from all areas improved and only demand from abroad is expected to decline in Q1 2014.

Average occupancy eased from 75% to 65%, despite the decline this is a higher level than previous fourth quarters. During the fourth quarter of 2013 trends in bar/restaurant trade improved although the use of conference/ function facilities continued to decline.

A net balance (+30.6%) unexpectedly reported a rise in the average daily room rate, although no net change is expected in the three months to the end of March.

### **Business constraints**

71% (compared to 63% previously) reported the lack of tourist demand as the primary business constraint. Competition, poor transport infrastructure, high fuel costs and weak marketing of the area also remained a concern to hotels.

### **Employment**

Almost two thirds of hotels sought to recruit staff and recruitment problems remained low with only 15% of these hotels reporting recruitment difficulties. As forecast, employment trends declined and are set to decline further in Q1.

	Up	Level	Down	Q4/13	Q3/13	Q2/13
<b>Business Optimism</b>	37.3	56.9	5.9	31.4	27.8	18.7
<b>Trends in demand/visitors</b>						
Total demand/visitors	59.4	33.3	11.8	47.6	30	13.6
Demand from Scotland	36.7	55.1	8.2	28.5	20.3	19.6
Demand from Rest of UK	38.8	49	12.2	26.6	20.4	7.3
Demand from abroad	46.9	42.9	10.2	36.7	25.5	-5.3
Business Trade	38.3	46.8	14.9	23.4	-7.3	9.3
<b>Trends in expected demand</b>						
Total demand/visitors	18.4	65.8	15.8	2.6	15.4	13.5
Demand from Scotland	16.7	66.7	16.7	0	5.8	8.2
Demand from Rest of UK	19.4	63.9	16.7	2.7	2	0
Demand from abroad	16.7	61.1	22.2	-5.5	-3.8	0.2
Business Trade	23.5	58.8	17.6	5.9	2.1	-2.2
<b>Occupancy</b>						
	65			65	74.8	69
<b>Average daily rate</b>						
Average daily rate	40.8	49	10.2	30.6	20.4	3.7
Expected average daily rate	13.6	63.6	22.7	-9.1	-3.6	12
<b>Employment trends</b>						
Total actual employment	18	60	22	-4	5.2	-3.6
Expected next 3 months	2.2	63	34.8	-32.6	-17.9	7.5
<b>Average pay increase</b>						
Percent recruiting staff	6.6			6.6	3.2	3.6
Recruitment difficulties	64.7			64.7	63.3	63.2
	14.9			14.9	14	19.6

## **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

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