

Quarter 1 2016

Quarterly Economic Indicator

Scottish Chambers of Commerce



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Methodology

The Quarterly Economic Indicator is owned and produced by the Scottish Chambers of Commerce Economic Development Intelligence Unit, in collaboration with the Fraser of Allander Institute of the University of Strathclyde.

453 firms responded to the Q1 2016 edition of the Indicator.

Results are reported as the “net % balance”, calculated by deducting the % of firms reporting a decrease from the % of firms reporting an increase.

E.g. If 50% of firms report an increase in profits over the quarter (compared with the previous quarter) and 49% report a decrease, the net % balance of firms reporting an increase in profits is $(50-49 = +1)$.

A negative net % balance generally indicates contraction and a positive net % balance expansion.

The Economic Development Intelligence Unit is available to be commissioned for a wide range of economic and business related research. For more information on the Unit, further information on the Quarterly Economic Indicator results, or details of sponsorship availability, please contact:

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Summary

Over the first quarter of 2016, performance across the Scottish economy is inconsistent throughout the five key business sectors covered by the Quarterly Economic Indicator.

For the construction sector, there was growth in total new contracts, sales revenue and profitability in the first quarter of this year. Businesses within the sector anticipate growth to continue in terms of sales revenue, employment and investment in the second quarter of 2016. However, skills shortages remain a challenge for the sector due to considerable growth following a period of recession.

Similarly, the retail & wholesale sector experienced a relatively successful first quarter of the year, with growth in sales, investment and optimism returning to positive territory. An increase in online sales gave the sector a boost in Q1 2016, and businesses expect growth in sales to continue in the second quarter of the year.

Conversely, the manufacturing sector experienced a sharp decline in order growth over the quarter following a strong quarter at the end of 2015. However, businesses in the sector expect growth to resume over the next quarter.

The tourism industry in Scotland had a strong quarter in terms of sales and investment trends, but is experiencing weaker levels of confidence on future performance as well as tightening profit margins.

The financial & business services sector has continued to perform poorly in the first quarter of 2016, as it has done since Q2 2015. There is a clear distinction between the performance of oil and gas sector businesses, which are continuing to report weak performance and non-oil and gas businesses which are reporting positive trends.

Key Findings

CONSTRUCTION

Sales Revenue

Sales revenues for Q1 2016 were encouraging with positive net % balances recorded for domestic, UK and overall sales revenue. Exactly 50% of all businesses indicated that overall sales revenue had increased over the quarter, resulting in a net % balance of +26. Although this figure was lower than the net % balance of +38 recorded in Q4 2015, it was considerably higher than the negative net % balance of -13 recorded for the same time last year. Positive trends in sales revenue are expected to continue in Q2 with 61% of businesses predicting a rise.

Price Change

Generally pressure to raise prices appears to have increased, with 39% of firms stating that wages have increased over the quarter. **49.2% of businesses expect to increase the prices they charge in Q2 and the net % balance of +46 recorded for expected price change.** Only 3.4% of businesses in the sector anticipating a fall in prices.

FINANCIAL & BUSINESS SERVICES

Sales Revenue

Following disappointing figures for sales revenue in Q4 of 2015, businesses in the sector experienced another quarter of declining growth in terms of sales revenue. 43.2% of firms reported that they had experienced a decrease in total sales revenue over the quarter, this was mirrored in the net % balance of -18 recorded. This can be attributed for negative trend balances for domestic sales (-18), sales revenue from the rest of the UK (-12), and revenue generated by exports (-22).

Expectations

The financial and business services sector has largely experienced negative growth since the second half of 2015. These trends have continued in Q1 of 2016 with indicators such as sales revenue, investment, profits and cashflow all displaying negative trends. Many businesses in the sector have indicated that they expect both investment and employment to remain in negative territory in Q2, represented by net % balances of -8 and -1 respectively. However, future expectations of sales revenue are somewhat promising, a net % balance of +7 expect sales revenue to increase in Q2. Just under 80% of firms expect their prices to increase or remain the same next quarter.

Key Findings

MANUFACTURING

Investment

Levels of business optimism in the sector were fragile with just over one third of firms reporting a fall in optimism over the quarter, giving a net % balance of -10. However, this was not reflected in levels of investment with over 80% of businesses indicating that total investment had either increased or remained the same over the quarter. This was mirrored in a net % balance of +21 recorded for total investment over the quarter. Just under 45% of those businesses that increased investment did so “to expand capacity”.

Employment/ Recruitment Difficulties

Last quarter manufacturing firms generally said they expected to increase employment in Q1. **These expectations of increased employment were broadly realised with the net % balance of +15 recorded for employment.** Employment levels are expected to rise or to be kept constant in Q2 by 81.3% of businesses. Additionally, this was reflected in the number of firms looking to employ new staff with 72.9% of business indicating that they were currently recruiting. From those currently recruiting, 37.1% highlighted that they were currently facing difficulties.

RETAIL & WHOLESALE

Business Optimism

Expectations of future performance are more promising, optimism is firmly in positive territory at a net % balance of +10, the highest figure recorded in just under a decade (Q4 2006). This may be somewhat attributed to an increase in total actual sales, for which there was a positive net % balance of +4, as well as a net % balance of +25 recorded for expected sales in Q2, the highest recorded figure since Q2 2015.

Capacity

The average level of capacity used by firms over the quarter was 74.4%, the highest figure recorded since Q1 2015. Although the average capacity used has increased gradually over the last four quarters, the figure recorded for Q1 2016 was slightly lower than the figure recorded for the same time last year of 81.3%.

Key Findings

TOURISM

Sales Revenue

Sales revenue was up over the quarter, with almost 50% of all businesses in the sector stating that total sales had increased, this was reflected in the net % balance of +28 recorded. This trend could be as a result of growth over the quarter in the number of guests from Scotland, which increased for 42.9% of firms in the tourism sector. Sales revenue is expected to continue to rise in Q2, with 60% of firms anticipating an increase.

Investment

Investment levels did increase overall with a net % balance of +13 recorded for Q1, but this growth level is considerably lower than the +25 net % balance reported in Q4 of 2015, and also lower than the +21 net % balance recorded for the same time last year. However, investment is expected to increase or remain unchanged in Q2 of 2016, as indicated by 80% of businesses in the sector.

Profits

Despite positive trend balances in terms of the number of total guests, sales revenue and investment, for the second consecutive quarter a negative net % balance was recorded for profits. Thus suggesting an overall decline in profitability levels in the industry, with 40% of respondents indicating a fall in profits, resulting in a net % balance of -10. This could explain why the majority of businesses in the sector (71.4%) anticipate an increase in prices over the next quarter.

Construction

CONTRACTS

Almost half of all respondents reported an increase in the volume of total new contracts, giving a net % balance of +24. This is the highest net % balance reported since Q4 2014 and is due to positive trend balances for private commercial contracts, public sector contracts and domestic contracts.

PUBLIC SECTOR CONTRACTS

Just over one quarter (26.5%) of firms reported an increase in public sector contracts, marking a return to positive territory with a net % balance of +6. This is the first quarter that public sector contracts has been positive since Q4 2014.

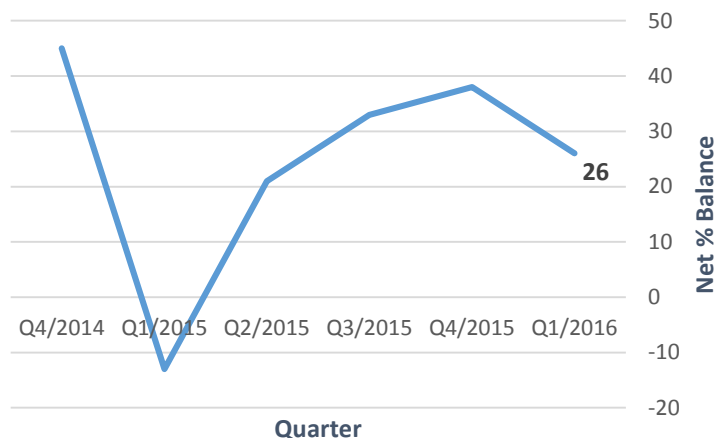
INVESTMENT

There was a positive net balance % balance of +7 recorded for expenditure on total investment. Growth in total investment can be largely attributed to growth in training investment, with 86.2% of businesses reporting that training investment increased or remained the same. Conversely, capital investment fell into negative territory with a net % balance of -3.

WORK IN PROGRESS

More than half (56.9%) of respondents indicated that they experienced a rise in terms of work in progress throughout Q1 2016. Therefore giving a net % balance of +43, the highest figure reported since Q4 2014.

Sales Revenue



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/16	Q4/15	Q1/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	42.4	35.6	22.0	20	4	8
Sales Revenue						
Total	50.0	24.1	24.1	26	38	-13
Domestic (Scotland)	43.9	28.1	22.8	21	33	-3
Rest of UK	14.5	23.6	5.5	9	5	-14
Contracts						
Total	47.1	29.4	23.5	24	7	-2
Public Sector	26.5	36.7	20.4	6	-9	-11
Private Commercial	32.0	36.0	26.0	6	7	4
House Building	18.0	26.0	16.0	2	2	0
Work In Progress	56.9	29.4	13.7	43	5	6
Investment						
Total	24.1	51.7	17.2	7	30	8
Capital	15.5	58.6	19.0	-3	22	0
Training	32.8	53.4	8.6	24	40	14
Cashflow	27.1	44.1	28.8	-2	20	-5
Applied for Credit?			(yes)	27	28	14
Profits	36.8	36.8	26.3	11	24	-30
Capacity Used (Ave. %)				83	86	78
Employment						
Total	36.2	46.6	17.2	19	34	12
Recruiting Staff			(yes)	68	69	53
Recruitment Difficulties			(yes)	58	65	35
Increased Wages?			(yes)	39	46	32
Average Pay Increase (%)				4.6	6	4
Expectations Next Quarter						
Price Change	49.2	47.5	3.4	46	34	41
Sales Revenue	61.0	28.8	8.5	53	17	27
Investment	24.1	55.2	13.8	10	23	3
Employees	44.1	50.8	5.1	39	34	33

Financial & Business Services

PROFIT

Profits declined over the quarter for 45.1% of all businesses, giving a net % balance of -26. This marks the fourth consecutive quarter in which the net % balance for profits has been in negative territory, and is also the lowest recorded figure since the sector was introduced to the Indicator in Q1 2014.

CASH-FLOW

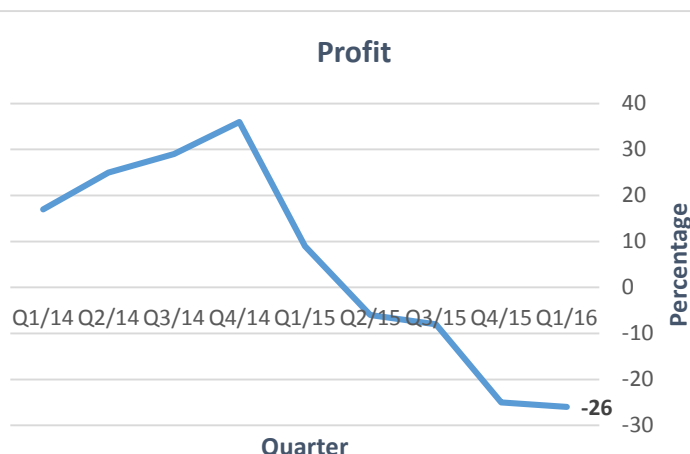
A net % balance of -23 was recorded as more businesses reported a decline in cash-flow (39.7%) over the quarter. Again, this is the lowest figure recorded since Q1 2014. The same time last year, financial & business services firm reported a net % balance of +13.

CAPACITY

The average level of capacity used by firms over the quarter was 60%. This is the lowest recorded capacity utilisation figure since Q4 2014. This could be attributed to the negative trends in sales growth in the sector over the last two quarters.

EMPLOYMENT

Employment levels decreased on balance across the sector with a net % balance of -6. However, the majority of businesses (52.1%) reported that employment levels remained the same during Q1. Similarly, 59.5% of businesses in the sector expect employment over the next quarter to remain the same.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/16	Q4/15	Q1/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	20.6	44.4	35.0	-14	-12	16
Sales Revenue						
Total	24.9	30.5	43.2	-18	-16	22
Domestic (Scotland)	21.3	30.9	39.6	-18	-22	16
Rest of UK	13.7	24.0	25.5	-12	-19	-3
Exports	4.4	14.6	26.8	-22	-13	2
Online	5.7	20.9	16.6	-11	-8	2
Investment						
Total	20.8	40.7	25.5	-5	-10	18
Capital	16.4	44.1	24.9	-8	-7	8
Training	21.2	43.9	23.6	-2	1	14
Cashflow	16.8	41.1	39.7	-23	-23	13
Applied for credit?			(yes)	9	12	12
Profits	19.2	32.9	45.1	-26	-25	9
Capacity Used (Ave. %)				60	70	74
Employment						
Total	20.2	52.1	26.3	-6	-12	5
Recruiting Staff			(yes)	46	41	42
Recruitment Difficulties			(yes)	33	29	20
Increased Wages?			(yes)	19	22	24
Average Pay Increase (%)				5.3	5.1	7
Expectations Next Quarter						
Price Change	22.8	55.3	21.9	1	6	17
Sales Revenue	34.6	36.9	28.0	7	1	32
Investment	16.4	49.8	23.9	-8	-3	6
Employees	20.0	59.5	20.5	-1	7	15

Manufacturing

BUSINESS OPTIMISM

Just over one third (35.4%) of businesses in the manufacturing sector reported a decrease in business optimism in Q1 2016, giving a net % balance of -10, which was the lowest recorded since Q3 2012.

ACTUAL ORDERS

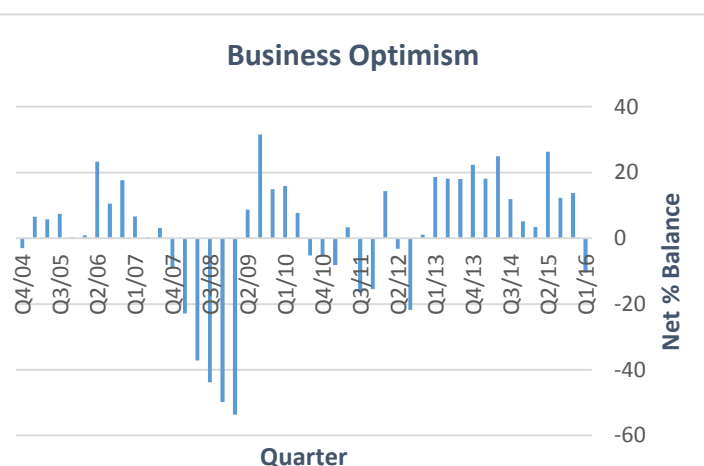
A net % balance of -17 was reported for total orders, with 45.8% of businesses experiencing a decrease in orders. This is the lowest figure recorded since Q3 2012. This can be attributed to negative net % balances for Scottish orders (-19), rest of UK orders (-13) and export orders (-15).

EXPECTED ORDERS

Despite the net % balance for total actual orders falling into negative territory, more than half (54.3%) of businesses expected total new orders to increase in Q2 of 2016. The majority of businesses expected orders to increase or remain level in Q2, as indicated by positive net % balances for Scottish orders (+21), rest of UK orders (+10) and export orders (+8).

EMPLOYMENT

Employment levels increased on balance across the sector with a net % balance of +15 recorded. The net % balance of firms that expect to increase employment in Q2 was +6 with 81.3% of firms expecting employment levels to increase or remain the same.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/16	Q4/15	Q1/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	25.0	39.6	35.4	-10	14	3
Sales Revenue						
Total	31.3	27.1	41.7	-10	14	12
Domestic (Scotland)	17.0	38.3	31.9	-15	8	-7
Rest of UK	27.1	22.9	35.4	-8	16	5
Exports	23.4	27.7	27.7	-4	8	12
Orders						
Total	29.2	25.0	45.8	-17	18	9
Domestic (Scotland)	17.0	36.2	36.2	-19	6	-8
Rest of UK	25.0	27.1	37.5	-13	14	1
Exports	19.1	25.5	34.0	-15	12	
Work in Progress	27.1	37.5	35.4	-8	29	11
Investment						
Total	33.3	45.8	12.5	21	33	29
Capital	28.3	52.2	13.0	15	18	30
Training	26.1	58.7	8.7	17	25	14
Cashflow	29.2	37.5	31.3	-2	0	-11
Applied for Credit?			(yes)	15	18	21
Profits	23.4	25.5	48.9	-26	16	-2
Capacity Used (Ave. %)				73	80	83
Employment						
Total	35.4	43.8	20.8	15	24	10
Recruiting Staff			(yes)	73	67	49
Recruitment Difficulties			(yes)	37	30	21
Increased Wages?			(yes)	94	22	34
Average Pay Increase (%)				2.6	3	4
Expectations Next Quarter						
Price Change	35.4	45.8	18.8	17	33	17
Sales Revenue	50.0	20.8	29.2	21	14	41
Investment	19.1	59.6	17.0	2	10	28
Employees	25.0	56.3	18.8	6	24	22

Retail & Wholesale

SALES REVENUE

A net % balance of +10 was reported over the quarter for sales, marking a return to positive territory. This can be attributed to growth in export and online sales with net % balances of +4 and +19 respectively. However, results for domestic and rest of UK sales were mixed with recorded net % balances of 0 and -7 respectively. Yet, 45.8% of businesses in the sector expect sales to grow in Q2 2016.

INVESTMENT

Total investment expenditure was up over the quarter with a net % balance of +8. Growth was recorded for both capital and training investment with net % balances of +2 for each. Investment is expected to continue to grow in Q2 2016 for 22.2% of retail and wholesale firms.

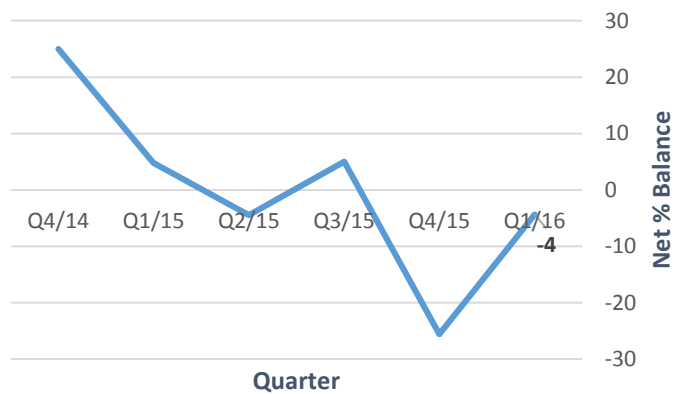
PROFITS

Almost one third (32.6%) of all firms experiences a decline in profits over Q1 2016, giving a net % balance of -4. This marks the second consecutive quarter that profits in the retail and wholesale sector have been negative.

EMPLOYMENT

Most businesses did not make changes to their staffing levels in Q1 2016 (57.4%). Little change to employment is expected in Q2, shown by 72.9% of firms expecting no change to their staff numbers. 54.2% of firms recruited staff compared with 41.9% in Q4 2015.

Profit



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/16	Q4/15	Q1/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	29.2	52.1	18.8	10	-17	2
Sales Revenue						
Total	34.0	34.0	29.8	4	-23	3
Domestic (Scotland)	27.1	35.4	27.1	0	-12	12
Rest of UK	8.9	26.7	15.6	-7	5	17
Exports	10.9	2.2	6.5	4	0	14
Online	22.9	25.0	4.2	19	5	23
Investment						
Total	25.0	50.0	16.7	8	-2	26
Capital	23.4	44.7	21.3	2	0	16
Training	17.8	51.1	15.6	2	0	17
Cashflow	27.1	39.6	31.3	-4	-30	-4
Applied for Credit?			(yes)	10	23	20
Profits	28.3	30.4	32.6	-4	-26	5
Capacity Used (Ave. %)				74	73	81
Employment						
Total	21.3	57.4	21.3	0	-5	-2
Recruiting Staff			(yes)	54	42	39
Recruitment Difficulties			(yes)	19	33	14
Increased Wages?			(yes)	35	19	25
Average Pay Increase (%)				5	3	3
Pressure to Raise Prices						
Wage Costs			(yes)	48	28	41
Raw Material Costs			(yes)	47	29	49
Expectations Next Quarter						
Price Change	43.8	50.0	6.3	38	30	32
Sales Revenue	45.8	31.3	20.8	25	19	23
Investment	32.6	39.1	21.7	11	12	10
Employees	16.7	72.9	10.4	6	9	5

Tourism

GUESTS

The total number of Guests/ Customers grew in comparison with the same time last year for 46.7% of firms, giving a net % balance of +17. This can be attributable to positive net % balance for guests coming from Scotland (+23). Whilst a net % balance of 0 was reported for guests coming from the rest of the UK, more business experienced a fall in the number of guests from the rest of EU (-10) and outside the EU (-3).

PRICE CHANGE

Most businesses in the tourism sector expect their prices to increase in Q2 of 2016 as reported by 71.4% of respondents, giving a net % balance of +64, the highest recorded figure since Q4 2014. Only 7.1% expected their prices to fall in Q2.

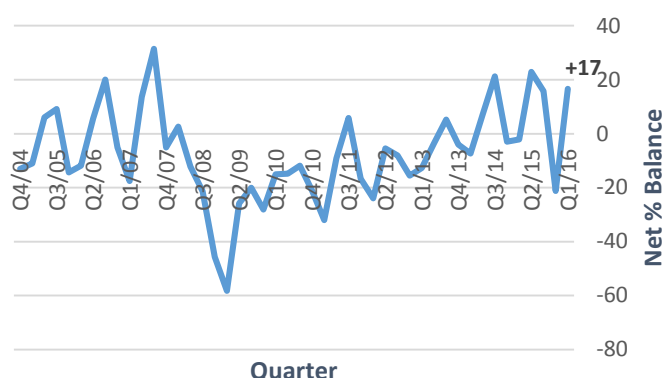
EMPLOYMENT

Employment levels increased across the sector with a net % balance of +17 reported, marking a return to positive territory following a negative trend balance in Q4 2014 of -21. Firms expect positive trends in employment to continue in Q2 with 93.1% of firms stating that they expect employment levels to rise or remain the same.

RECRUITMENT DIFFICULTIES

Recruitment problems are still a considerable issue throughout the sector, with 41% of firms facing difficulties recruiting in the past quarter.

Employment



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/16	Q4/15	Q1/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	23.3	43.3	33.3	-10	-25	7
Sales Revenue						
Total	48.3	31.0	20.7	28	0	-9
Domestic (Scotland)	42.9	39.3	17.9	25	9	-3
Rest of UK	25.0	32.1	21.4	4	-11	-1
Online	30.0	26.7	13.3	17	2	9
Investment						
Total	33.3	46.7	20.0	13	25	21
Capital	34.5	41.4	20.7	14	29	18
Training	27.6	51.7	17.2	10	17	14
Cashflow	16.7	46.7	30.0	-13	-4	-3
Applied for credit?			(yes)	27	29	11
Profits	30.0	30.0	40.0	-10	-15	-13
Employment						
Total	30.0	56.7	13.3	17	-21	-2
Recruiting Staff			(yes)	73	81	55
Recruitment Difficulties			(yes)	41	53	29
Increased Wages?			(yes)	28	55	27
Average Pay Increase (%)				6.2	4	3
Guests/Customers (vs last year)						
Total	46.7	23.3	30.0	17	26	9
From Scotland	46.7	30.0	23.3	23	15	2
From Rest of UK	26.7	36.7	26.7	0	15	-4
From Rest of EU	20.0	26.7	30.0	-10	-4	17
From Outside the EU	16.7	30.0	20.0	-3	-11	14
Expectations Next Quarter						
Price Change	71.4	21.4	7.1	64	45	27
Sales Revenue	60.0	20.0	20.0	40	-21	44
Investment	40.0	40.0	20.0	20	17	3
Employees	41.4	51.7	6.9	34	-9	24