

Quarter 2 2016

Quarterly Economic Indicator

Scottish Chambers of Commerce



Contents

1. **Methodology** *Page 2*
2. **Key Findings** *Pages 3–6*
3. **Construction** *Page 7*
4. **Financial &
Business Services** *Page 8*
5. **Manufacturing** *Page 9*
6. **Retail & Wholesale** *Page 10*
7. **Tourism** *Page 11*

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.

This survey was conducted between 23 May 2016 and 13 June 2016. 407 firms responded to the Q2 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 second quarter of 2016, business performance across the Scottish economy was more consistent than in the first quarter of the year, though both performance and optimism were generally lower than during the same period of 2015.

The construction sector is showing signs of a slowdown in the recent high levels of growth. Although many balances remain positive, they are lower than the same quarter of last year. Investment trends have grown more slowly and are forecast to fall next quarter for a net -4% of businesses.

The financial and business services sector has reported almost all balances down on the same quarter of last year. There remains a clear divide between the heavily negative trends of businesses directly engaged in oil and gas services and the remainder of the sector and non-oil and gas businesses, however the performance of non-oil and gas businesses has weakened since last quarter and is growing only marginally.

Although some trend balances in the manufacturing sector have improved since the first quarter of 2016, many remain lower than the same quarter last year. In addition, outturns were generally lower than the expectations reported in the previous quarter.

There were no real signs of improvement reported in the retail and wholesale distribution sector since the first quarter of 2016 and almost every key balance is lower than the same quarter of 2015. Pressure to increase prices as a result of wage costs has been high for three of the past four quarters, possibly reflecting the impact of the National Living Wage, introduced in April 2016.

The performance of the tourism sector is down overall on last quarter and is markedly below the results for the same time last year. Trends in both profitability and investment have weakened.

Key Findings

CONSTRUCTION

Sales Revenue

Sales revenues for Q2 2016 were encouraging with positive net % balances recorded for domestic and overall sales revenue. Exactly 48% of all businesses indicated that overall sales revenue had increased over the quarter, resulting in a net % balance of +22. Although this figure was higher than the net % balance of +21 recorded in Q2 2015, it was lower than the negative net % balance of +26 recorded in the first quarter of 2016. Positive trends in sales revenue are expected to continue in Q2 with 46% of businesses predicting a rise, resulting in a net % balance of +18.

Price Change

The majority of businesses in the construction sector (52%) expect to increase their prices in the third quarter of 2016, giving a net % balance of +49. **Only 4.0% of businesses in the sector anticipate a fall in prices.**

Employment

The majority of businesses (54%) stated that their employment levels remained the same over the quarter and only 10% indicated that their levels of employment decreased, giving a net % balance of +24. However, 48.6% of those businesses recruiting in the construction sector are currently facing recruitment difficulties.

FINANCIAL & BUSINESS SERVICES

Investment

Following disappointing figures for investment expenditure in the first quarter of 2016, businesses in the sector experienced another quarter of negative trends in terms of investment as more businesses reported a decline in investment than reported an increase, this resulted in the net % balance of -4 recorded for total investment. There were negative investment trends for both capital (-7) and training (-5).

Expectations

The financial and business services sector has largely experienced negative growth since the second half of 2015. These trends have continued in Q1 and Q2 of 2016 with indicators such as sales revenue, investment, profits and cash-flow all displaying negative trends. Many businesses in the sector have indicated that they expect investment to remain in negative territory in Q3 2016, represented by a net % balance of -4. **Future expectations of sales revenue and employment are positive with businesses anticipating an increase in Q3 2016 as shown by positive net % balances of +8 expect sales and +1 respectively. However these must be treated cautiously as previous expectations of growth have been unfulfilled.**

Key Findings

MANUFACTURING

Sales Revenue/Cash-flow

There were negative trend balances in Q1 of 2016 for overall sales revenue, domestic (Scottish) sales revenue, sales to rest of UK, and export sales revenue of -10, -15, -8 and -4 respectively. However, as expected, **trend balances have returned to positive territory in Q2 2016, with positive net % balances for overall sales revenue (+14) as well as sales revenue from domestic (Scotland) (+2), rest of UK (+6) and exports (+12)**. The net % balance for cash-flow remained in negative territory for the second consecutive quarter (-6).

Business Optimism/ Expectations

Business optimism has returned to positive territory with a net % balance of +10, though this remains below the levels for the same period last year. Additionally, the majority of businesses in the manufacturing sector (52.1%) anticipate growth in terms of sales revenue in the third quarter of 2016. Businesses within this sector also anticipate growth in terms of export revenue, investment expenditure and employment levels, as shown by positive net % balances of +17, +12 and +22 respectively.

RETAIL & WHOLESALE

Sales Revenue

Despite overall sales revenue remaining positive in Q2 2016 with a net % balance of +2, over one third of businesses in the retail and wholesale sector (36.9%), reported that domestic (Scotland) sales revenue declined over the quarter giving a negative net % balance of -13. There was also negative net % balances for sales revenue from the rest of the UK (-7) and export revenue (-4). Businesses within the sector expect sales revenue to either remain the same or decline in Q3 2016, giving a net % balance of -6.

Price Changes/ Wages

Over one third of businesses (34.7%) in the sector stated that they expected their prices to increase in Q3 2016, and only 2% of business anticipate a fall in prices over the next quarter. This could be partly attributable to increased wages with 42.9% of firms in the retail & wholesale sector stating that they had increased wages over the quarter, with an average pay rise of 4.3%. This may reflect the introduction of the National Living Wage.

Key Findings

TOURISM

Sales Revenue

Sales revenue was up over the quarter, with almost 54.1% of all businesses in the sector stating that total sales had increased, this was reflected in the net % balance of +24 recorded. This can be attributed to positive trend balances from domestic (Scotland) and online sales of +8 and +14 respectively. Sales revenue is expected to continue to rise in Q3, with 44.7% of firms anticipating an increase, giving a net % balance of +24. However this trend is lower than in the same quarter last year.

Employment

In Q2 2016 businesses throughout the tourism sector largely expected employment levels to increase or remain the same (75.6%), giving a net % balance of +5. Future expectations in terms of employment levels indicate that 70.3% of businesses in the tourism sector expect their employment levels to remain unchanged in Q3 2016. Of those businesses that are currently recruiting, 81% highlighted that they were facing recruitment difficulties. This is the highest figure recorded since Q4 2004.

Investment

Investment levels continued to show a positive trend with a net % balance of +13 recorded for Q2 - the same level as reported in the first quarter of 2016. **However, this is lower than the +19 net % balance recorded for the same time last year, and investment is expected to decrease in Q3 of 2016, with a net balance of -16.**

Construction

CONTRACTS

40.9% of all respondents reported an increase in the volume of total new contracts, giving a net % balance of +14. This is due to a positive, though historically low, trend balance for private commercial contracts. Public sector contracts fell back into negative territory with a net % balance of -9. Additionally, Domestic/house build contracts entered into negative territory with a net % balance of -14. This is the first quarter that domestic/house building contracts have been negative since Q3 2013.

BUSINESS OPTIMISM

Just under 45% of firms reported an increase in their level of business optimism, giving a net % balance of +6. This is the highest figure recorded since the same quarter in 2015.

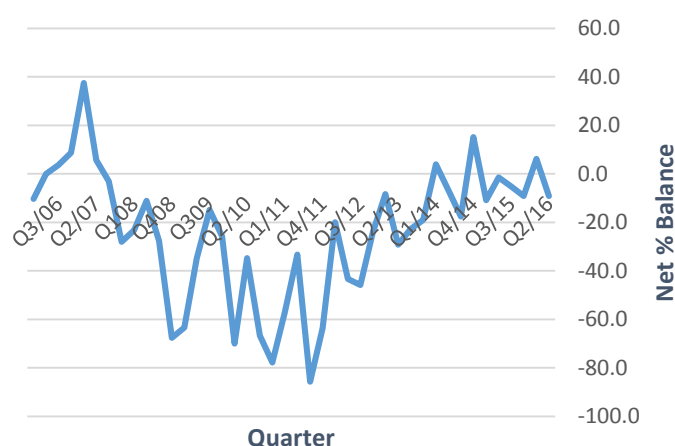
INVESTMENT

There was a positive net % balance recorded for expenditure on total investment of +4. Growth in total investment can be largely attributed to growth in training investment, with a net % balance of +18. However, the net % balance recorded for total investment in Q2 2016 was the lowest level of growth recorded since Q4 2014 and investment is forecast to fall in Q3 2016.

WORK IN PROGRESS

Just over one third (34.1%) respondents indicated that they experienced a rise in terms of work in progress throughout Q2 2016. Therefore, giving a net % balance of +2, the lowest level of growth reported since Q4 2013.

Public Sector Contracts



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/16	Q1/16	Q2/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	44.0	38.0	18.0	26	20	28
Sales Revenue						
Total	48.0	26.0	26.0	22	26	21
Domestic (Scotland)	38.8	28.6	26.5	12	21	22
Rest of UK	8.3	16.7	12.5	-4	9	8
Contracts						
Total	40.9	27.3	27.3	14	24	14
Public Sector	18.2	34.1	27.3	-9	6	-1
Private Commercial	30.2	32.6	27.9	2	6	18
House Building	13.6	22.7	27.3	-14	2	3
Work In Progress	34.1	34.1	31.8	2	43	23
Investment						
Total	18.0	62.0	14.0	4	7	16
Capital	16.0	60.0	16.0	0	-3	14
Training	30.6	49.0	12.2	18	24	23
Cashflow	32.0	42.0	26.0	6	-2	11
Applied for Credit?				24	27	30
Profits	34.7	34.7	28.6	6	11	12
Capacity Used (Ave. %)				81	83	85
Employment						
Total	34.0	54.0	10.0	24	19	26
Recruiting Staff			(yes)	70	68	64
Recruitment Difficulties			(yes)	49	58	29
Increased Wages?			(yes)	36	39	38
Average Pay Increase (%)				5.5	5	5
Expectations Next Quarter						
Price Change	52.0	44.0	4.0	48	46	39
Sales Revenue	46.0	26.0	28.0	18	53	39
Investment	20.8	50.0	25.0	-4	10	25
Employees	44.0	44.0	12.0	32	39	33

Financial & Business Services

PROFIT

Profits declined over the quarter for 45% of all businesses in the Financial & Business Services sector, giving a net % balance of -18. This marks the fifth consecutive quarter in which the net % balance for profits has been in negative territory. However, the decline in growth is at a slower rate than the first quarter of 2016.

SALES

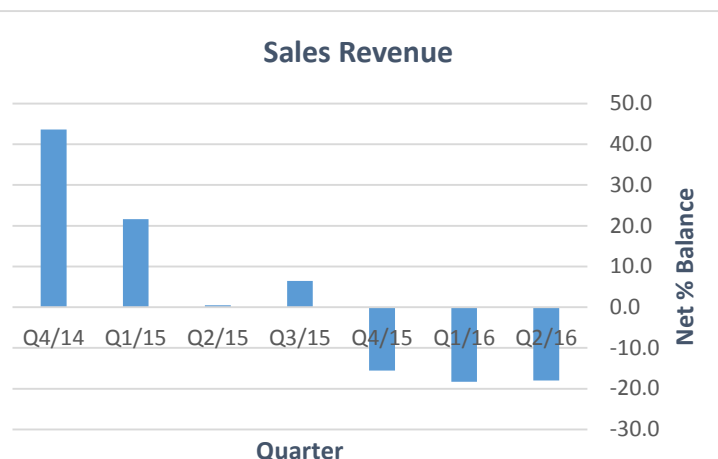
A net % balance of -18 was also recorded as more businesses reported a decline in total sales (43.8%) over the quarter. This marks the third consecutive quarter in which the net % balance for total sales has been in negative territory. There was a negative net % balance of -23 recorded for sales from the rest of the UK. This is the lowest net % balance recorded since the sector was introduced to the Indicator in Q1 2014.

WAGES

One quarter of businesses that responded indicated that they had increased wages over the quarter. Of those business that increased wages in Q2 2016, the average wage increase was 5.3%, significantly above the rate of inflation.

EMPLOYMENT

Almost one quarter of respondents (24.9%) indicated that there was a decrease in employment over the quarter, giving a net % balance of -11. However, the majority of firms (60.2%) stated that employment remained the same in the second quarter of 2016 and only 13.8% highlighted that there was an increase in employment levels.



(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q2/16	Q1/16	Q2/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	24.0	43.6	32.4	-8	-14	8
Sales Revenue						
Total	25.8	29.8	43.8	-18	-18	1
Domestic (Scotland)	20.8	30.3	40.4	-20	-18	-4
Rest of UK	5.8	32.6	29.1	-23	-12	-10
Exports	8.8	15.8	26.9	-18	-22	-10
Online	8.5	20.5	15.9	-7	-11	-1
Investment						
Total	20.2	41.0	24.2	-4	-5	5
Capital	17.7	42.3	24.6	-7	-8	3
Training	21.3	37.9	25.9	-5	-2	17
Cashflow	23.9	36.4	39.2	-15	-23	-2
Applied for credit?			(yes)	10	9	10
Profits	25.4	28.8	43.5	-18	-26	-6
Capacity Used (Ave. %)				66	60	71
Employment						
Total	13.8	60.2	24.9	-11	-6	-4
Recruiting Staff			(yes)	36	46	45
Recruitment Difficulties			(yes)	31	33	14
Increased Wages?			(yes)	25	19	23
Average Pay Increase (%)				5.3	5.3	4
Expectations Next Quarter						
Price Change	18.2	65.7	16.0	2	1	4
Sales Revenue	33.3	41.2	25.4	8	7	24
Investment	15.3	54.8	19.2	-4	-8	2
Employees	18.8	63.0	18.2	1	-1	14

Manufacturing

BUSINESS OPTIMISM

Just over one third (36.7%) of businesses in the manufacturing sector reported an increase in business optimism in Q2 2016, giving a net % balance of +10, marking a return to positive territory following negative growth in the first quarter of 2016.

ORDERS

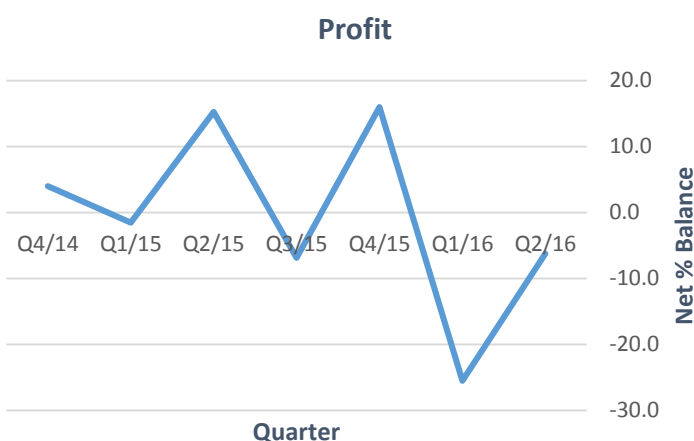
A net % balance of +13 was reported for total orders, with 43.8% of businesses experiencing an increase over the quarter. This marks a return to positive growth following a decline in the level of total orders in Q1 2016. This can be attributed to positive net % balances for Scottish orders (+6) and orders from the rest of UK orders (+8). Conversely, export orders declined over the quarter as shown by a negative net % balance of -6.

EXPECTED ORDERS

As well as growth in total orders in Q2 2016, the majority of businesses (57.1%) expected orders to increase in the third quarter of 2016, as indicated by positive net % balances for Scottish orders (+10), rest of UK orders (+30) and export orders (+23).

PROFIT

Despite positive net % balances for total orders in Q2 2016 and expected orders in Q3 2016, over one third (35.4%) of businesses indicated that profits were down in Q2 2016, resulting in a net % balance of -6. This is the second consecutive quarter that profit was in negative territory.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/16	Q1/16	Q2/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	36.7	36.7	26.5	10	-10	26
Sales Revenue						
Total	40.8	30.6	26.5	14	-10	40
Domestic (Scotland)	16.3	57.1	14.3	2	-15	13
Rest of UK	24.5	40.8	18.4	6	-8	19
Exports	30.6	30.6	18.4	12	-4	33
Orders						
Total	43.8	25.0	31.3	13	-17	39
Domestic (Scotland)	22.4	46.9	16.3	6	-19	22
Rest of UK	32.7	26.5	24.5	8	-13	17
Exports	22.4	28.6	28.6	-6	-15	36
Work in Progress	37.5	33.3	29.2	8	-8	22
Investment						
Total	22.4	55.1	20.4	2	21	41
Capital	27.1	45.8	20.8	6	15	32
Training	37.5	50.0	6.3	31	17	21
Cashflow	26.5	38.8	32.7	-6	-2	19
Applied for Credit?			(yes)	8	15	15
Profits	29.2	33.3	35.4	-6	-26	15
Capacity Used (Ave. %)				73	73	78
Employment						
Total	31.3	52.1	14.6	17	15	31
Recruiting Staff			(yes)	71	73	68
Recruitment Difficulties			(yes)	29	37	24
Increased Wages?			(yes)	42	94	36
Average Pay Increase (%)				4.6	3	4
Expectations Next Quarter						
Price Change	44.9	53.1	2.0	43	17	28
Sales Revenue	52.1	27.1	20.8	31	21	47
Investment	24.5	63.3	12.2	12	2	32
Employees	36.7	49.0	14.3	22	6	17

Retail & Wholesale

SALES REVENUE

A net % balance of +2 was reported over the quarter for sales, a lower level of growth than that experienced in the first quarter of the year. More than one third (39.6%) of businesses in the Retail & Wholesale reported a decrease in domestic sales over the quarter, giving a net % balance of -13- the lowest net % balance recorded since Q4 2014.

EXPORTS

The net % balance of firms that reported an increase in exports was -4. This is the lowest figure recorded since Q4 2014 and the first time the net % balance for export sales entered negative territory over this period.

INVESTMENT

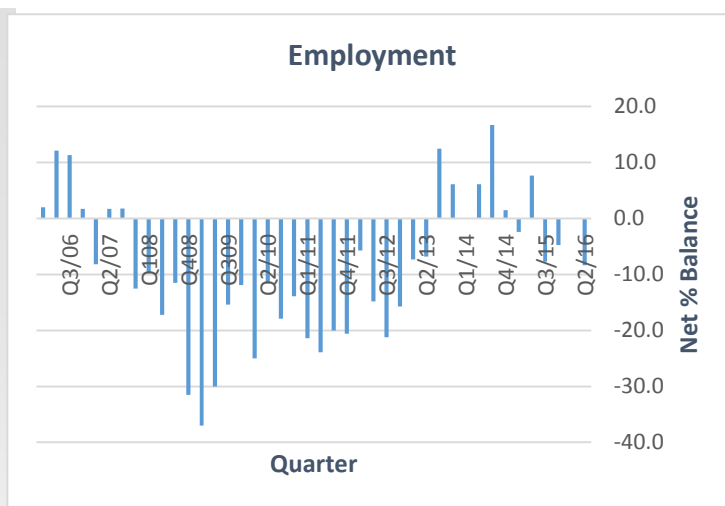
Total investment expenditure was up over the quarter with a net % balance of +10. This is the highest figure recorded since the same quarter last year. Growth was recorded for capital investment with net % balance of +6. However, training investment fell over the quarter as shown by a net % balance of -9. This is the lowest net % balance recorded since Q4 2014. The majority (51%) of respondents expect no change to their investment expenditure in Q3 2016.

PROFITS

44.9% of all firms experienced a decline in profits over Q2 2016, giving a net % balance of -22. This marks the third 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 Q2 2016 (66.7%). However, almost 20% of businesses indicated that employment levels decreased over the quarter giving a negative net % balance of -8, marking a return to negative territory.



(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q2/16	Q1/16	Q2/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	27.7	40.4	31.9	-4	10	7
Sales Revenue						
Total	37.5	27.1	35.4	2	4	-7
Domestic (Scotland)	27.1	25.0	39.6	-13	0	2
Rest of UK	11.1	24.4	17.8	-7	-7	0
Exports	2.2	13.0	6.5	-4	4	2
Online	12.8	23.4	12.8	0	19	14
Investment						
Total	22.4	49.0	12.2	10	8	23
Capital	21.3	40.4	14.9	6	2	17
Training	12.8	40.4	21.3	-9	2	9
Cashflow	22.4	46.9	28.6	-6	-4	0
Applied for Credit?			(yes)	10	10	9
Profits	22.4	26.5	44.9	-22	-4	-4
Capacity Used (Ave. %)				71	74	72
Employment						
Total	10.4	66.7	18.8	-8	0	8
Recruiting Staff			(yes)	43	54	44
Recruitment Difficulties			(yes)	43	19	12
Increased Wages?			(yes)	43	35	25
Average Pay Increase (%)				4	5	4
Pressure to Raise Prices						
Wage Costs			(yes)	43	48	32
Raw Material Costs			(yes)	37	47	38
Expectations Next Quarter						
Price Change	34.7	63.3	2.0	33	38	25
Sales Revenue	24.5	44.9	30.6	-6	25	30
Investment	24.5	51.0	12.2	12	11	21
Employees	22.4	71.4	6.1	16	6	15

Tourism

GUESTS

The total number of Guests/ Customers grew in comparison with the same time last year for 44.7% of firms, giving a net % balance of +18. This can be attributable to positive net % balance for guests coming from Scotland (+5) and from the rest of the EU (+5). Whilst a net % balance of 0 was reported for guests coming from the rest of the UK and from outside the EU.

BUSINESS OPTIMISM

73.7% of businesses in the tourism industry stated that their level of optimism either increased or remained the same, giving a net % balance of +5 and marking a return to positive territory. However, this was considerably lower than the net % balance of +28 recorded for the same time last year.

PROFIT

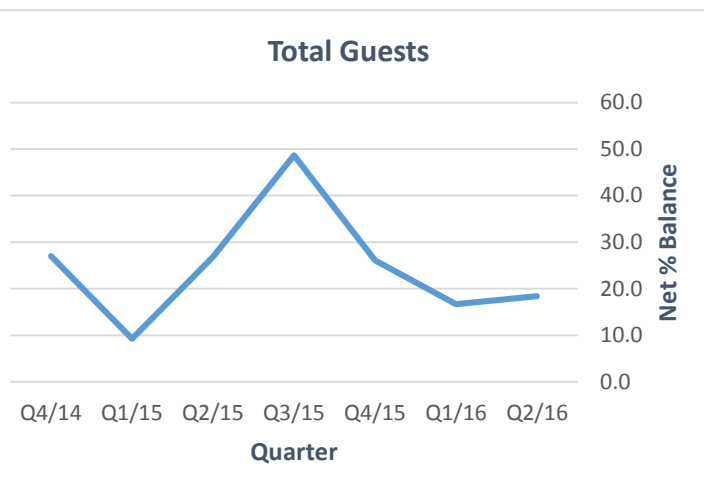
More than one third of firms reported a decrease in profit level over the quarter resulting in a negative net % balance of -16. This is the lowest net % balance recorded since Q4 2014.

CASH-FLOW

A net % balance of -16 was recorded as more businesses reported a decline in cash-flow over the quarter than an increase. This is the lowest figure recorded since Q4 2014. The same time last year, firms in the tourism sector reported a net % balance of +25.

PRICE CHANGE

42% of businesses expect their prices to increase over Q3 2016 giving a net % balance of +39.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/16	Q1/16	Q2/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	31.6	42.1	26.3	5	-10	28
Sales Revenue						
Total	54.1	16.2	29.7	24	28	43
Domestic (Scotland)	37.8	32.4	29.7	8	25	23
Rest of UK	20.0	34.3	22.9	-3	4	15
Online	34.5	44.8	20.7	14	17	14
Investment						
Total	31.6	39.5	18.4	13	13	19
Capital	29.7	32.4	27.0	3	14	21
Training	16.2	45.9	16.2	0	10	29
Cashflow	27.0	29.7	43.2	-16	-13	25
Applied for credit?			(yes)	11	27	12
Profits	32.4	16.2	48.6	-16	-10	12
Employment						
Total	27.0	48.6	21.6	5	17	23
Recruiting Staff			(yes)	68	73	71
Recruitment Difficulties			(yes)	81	41	35
Increased Wages?			(yes)	61	28	39
Average Pay Increase (%)				6.6	6	5
Guests/Customers (vs last year)						
Total	44.7	28.9	26.3	18	17	27
From Scotland	31.6	42.1	26.3	5	23	13
From Rest of UK	24.3	35.1	24.3	0	0	15
From Rest of EU	21.6	37.8	16.2	5	-10	0
From Outside the EU	16.7	30.6	16.7	0	-3	3
Expectations Next Quarter						
Price Change	42.1	55.3	2.6	39	64	27
Sales Revenue	44.7	34.2	21.1	24	40	44
Investment	13.5	56.8	29.7	-16	20	3
Employees	18.9	70.3	10.8	8	34	24