

Quarter 3 2015

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.

519 firms responded to the Q3 2015 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 third quarter of this year, there was a mixed performance throughout Scotland's key business sectors. Positive trends continued across the tourism sector with businesses in the industry reporting very strong results throughout Q3 2015 in terms of sales revenue, employment and business optimism. In addition, the construction sector generally experienced growth over the quarter despite experiencing a negative trend balance for public sector contracts. Yet, slower growth was experienced among the Manufacturing, Retail & Wholesales and Financial & Business Service sectors.

Overall, the net % balance of both capital and training investment was lower in Q3 for the majority of sectors than figures recorded for Q2. Reduced growth in investment levels could be a warning of potential declining levels of economic growth in the Scottish economy. The only sector that experienced an increase in the rate of growth in investment expenditure in Q3 was the construction sector, in which capital and training investment expenditure was greater than it was in Q2.

Results recorded for Q3 2015 show the impact that the low global market price for Brent crude oil is continuing to have on the Scottish economy, with the performance of oil and gas service businesses dampening results in the Financial and Business Services sector. The average price of Brent crude oil remaining low throughout 2015 is not only presenting challenges for businesses in the North East but also businesses which makes up the supply chain throughout Scotland. Other commonly cited business concerns include recruitment difficulties and wage costs, with both the construction sector and retail & wholesale sector experiencing pressure to raise prices due to increasing wage costs.

Key Findings

CONSTRUCTION

Overall

The construction sector experienced continued growth in Q3 2015, with the industry boasting an impressive performance as positive trend balances of total contracts (+20), total sales (+33), profits (+14) employment (+33) and total investment expenditure (+32). **Positive trends are expected to be sustained in Q4 2015 with net % balances of +33 for sales, +27 for employment and +16 for investment, being reported by firms across the sector.**

Employment/Price Change

A net % balance of +33 was recorded for total employment—the highest figure reported since Q2 2007. Employment levels are expected to be maintained or increased in Q4 with 57% of businesses expecting no change and 35% anticipating an increase. **This is mirrored in the net % balance for price changes over the next quarter of +31, with the largest upwards pressure coming from wage costs, as reported by 46.8% of firms.**

FINANCIAL & BUSINESS SERVICES

Overall

After disappointing figures in Q1 2015, which indicated slowing growth, followed by several indicators entering negative territory in Q2 2015; **results for Q3 2015 have suggested a further contraction within the Financial & Business Services sector.** For the first time a negative net % balance of -1.0 was recorded for business optimism. However, this can largely be attributed to the downturn in oil and gas service sector businesses as a direct result of continued low oil prices. This is shown when oil & gas service firms are excluded, the net % balance for optimism within the financial and business services sector is +29.

Profits/Cash-flow

Following an initial fall in Q1 2015, negative net % balances were again recorded for profits and cash-flow of -8.0 and -3.0 respectively; both of which were the lowest recorded figures since the sector was introduced to the indicator in Q1 2014. For the most part, prices are expected to remain unchanged in Q4 as reported by 59.9% of firms. Yet, 41.7% of businesses expect sales revenue to increase over the next quarter, which may be indicative of a possible increase in turnover in Q4.

Key Findings

MANUFACTURING

Scottish Orders

There was a decline in domestic Scottish orders in Q3 2015 with a net % balance of -3.4. This is the second time in 2015 that the trend balance for Scottish orders has entered negative territory, with a net % balance of -8 reported in Q1 2015. Although marginal, results could highlight the fragility of domestic demand for Scotland's manufactured goods. However, expectations for Scottish orders over next quarter are positive with a net % balance of +18.

Exports

Recent positive trends in exports continued in Q3 2015, with growth for both export orders and export sales revenue (net % balances of +18 and +16). This marks the fourth consecutive quarter that there was a positive net % balance for export sales revenue. There are also strong expectations of future export orders and export sales revenue across the sector, as highlighted by 67.3% of businesses that expect orders to remain unchanged or increase, and 61.5% expect export sales revenue to be maintained or increased.

RETAIL & WHOLESALE

Employment

Over the quarter retail and wholesale firms reported a decline in employment levels, reflected by a net % balance of -8. However, in the run up to the festive season no respondents expected employment levels to decrease over the next quarter with over a quarter of respondents indicating that employment levels were likely to increase in Q4.

Expectations

Future expectations for the retail and wholesale sector in terms of sales revenue and investment are promising, with 46.3% of businesses expecting sales revenue to increase over the quarter, resulting in a net % balance of +20. Trends for future investment are also encouraging with a positive trend balance of +7.5, with 65% of respondents either maintaining or increasing investment expenditure in Q4.

Key Findings

TOURISM

Business Optimism

A net % balance of +31 was recorded for overall optimism, with positive balances for optimism being recorded each consecutive quarter since Q1 2013. This increased optimism can be explained by examining the positive trends in sales revenue, with the net % balance of +52 recorded for Q3 and 60% of businesses reporting an increase in sales revenue over the quarter. Additionally, 63.2% of businesses reported an increase in the total guests/customers compared with the previous year.

Profit

52.6% businesses in the tourism sector reported an increase in profits over the quarter, resulting in a positive net % balance of +39- the highest level recorded in 2015. However, future expectations within the industry suggest that this trend may not continue in Q4 2015 as 42.1% forecast a decrease in sales and 57.9% expecting no change to the prices they charge. This could result in lower profits over the next quarter. It is important to note that this is in line with seasonal expectations.

Employment

In Q2 2015 businesses throughout the tourism sector largely expected to experience a rise in employment levels in Q3 2015. This predicted increase was reflected in most recent figures with a net % balance of +16 recorded for Q3 2015. **Future expectations in terms of employment levels are less promising with over one third of businesses (39.2%) anticipating a decrease in employment in Q4 2015, giving a negative net % balance of -30 (again, this can be attributed to seasonal variations).**

Construction

CONTRACTS

A net % balance of +20 was reported for total contracts. This increase appears to be largely attributed to a rise in private sector commercial contracts, which increased for 40% of all firms. Conversely, results from public sector contracts remained in negative territory with a net % balance of -5.1.

INVESTMENT

There was a positive net balance % balance of +32 recorded for expenditure on investment, with growth recorded for both training and capital investment with net % balances of +34 and +23 respectively. Investment expenditure is expected to continue to grow in Q4, shown by a net % balance of +16.

EMPLOYMENT

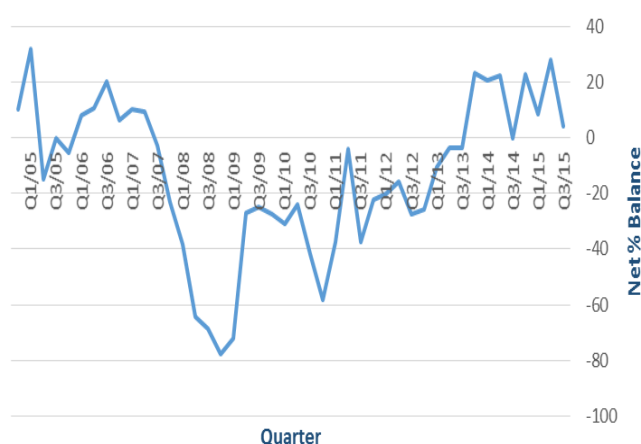
Fewer than 9% of firms reduced employment over the quarter and the net % balance of +33 reported is higher than at any other time since Q2 2007. Employment levels are expected to be maintained in Q4 with 57% of businesses expecting no change and 35% anticipating an increase.

RECRUITMENT

DIFFICULTIES

The number of firms actively recruiting staff over the quarter was at 63%. From this 48.4% are experiencing recruitment difficulties. Difficulty in recruiting staff also appears to be driving up wage costs.

Business Optimism



(balances may not add up to 100% due to N/A responses)				Q3/15	Q2/15	Q3/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	26.0	52.0	22.0	4	28	0
Sales Revenue						
Total	55.1	20.4	22.4	33	21	
Domestic (Scotland)	46.9	24.5	22.4	24	22	
Rest of UK	10.9	13.0	2.2	9	8	
Contracts						
Total	37.5	40.0	17.5	20	14	18
Public Sector	15.4	48.7	20.5	-5	-1	-18
Private Commercial	40.0	30.0	20.0	20	18	14
House Building	30.0	25.0	15.0	15	3	13
Work in Progress	36.6	34.1	29.3	7	23	39
Investment						
Total	44.0	34.0	12.0	32	16	
Capital	36.2	42.6	12.8	23	14	
Training	38.3	38.3	4.3	34	23	
Cashflow	34.7	32.7	30.6	4	11	
Applied for Credit?			(yes)	24	30	
Profits	40.8	28.6	26.5	14	12	
Capacity Used (Ave. %)				78	85	83
Employment						
Total	40.8	51.0	8.2	33	26	26
Recruiting Staff			(yes)	63	64	52
Recruitment Difficulties			(yes)	48	29	
Increased Wages?			(yes)	36	38	
Average Pay Increase (%)				4.6		
Expectations Next Quarter						
Price Change	38.8	53.1	8.2	31	39	
Sales Revenue	49.0	34.7	16.3	33	39	
Investment	28.6	53.1	12.2	16	25	
Employees	34.7	57.1	8.2	27	33	

Financial & Business Services

BUSINESS OPTIMISM

Optimism in the Financial & Business Services Sector was down in Q3 of 2015, with a net % balance of -1 reporting decrease. This is the first time that the trend balance for optimism has been negative since before Q3 2014.

SALES REVENUE

Although there was a positive net % balance of +6 recorded for total sales revenue, sales to the rest of UK were down over the quarter with a net % balance of -8. Additionally, exports and online sales were down with net % balances of -3 and -1 respectively.

PROFIT

Profits declined over the quarter for approximately 40% of all businesses, giving a net % balance of -8. The lowest recorded figure since the sector was introduced to the Indicator in Q1 2014.

INVESTMENT

The same number of businesses reported a decrease in total investment expenditure over the quarter as those that reported an increase, a net % balance of 0. Yet with a net % balance of -5, businesses across the sector do not expect investment expenditure to increase in Q4.

“My business continues to gain momentum. One of the reasons for this, could be due to an increase in demand for the type of service I provide, as businesses realise that in order to compete, they need to embrace technology.

Jackie Hitchen IT Tutor, IT FACT Ltd, Ayr.



(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q3/15	Q2/15	Q3/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	27.9	43.3	28.9	-1	8	0
Sales Revenue						
Total	40.8	23.4	34.3	6	0	
Domestic (Scotland)	33.8	27.7	31.8	2	-4	47
Rest of UK	13.7	27.4	21.6	-8	-10	12
Exports	11.7	18.1	14.4	-3	-10	14
Online	10.1	17.6	11.1	-1	-1	12
Investment						
Total	21.8	43.1	21.8	0	5	34
Capital	20.5	42.0	22.0	-2	3	27
Training	22.6	45.2	18.1	5	17	28
Cashflow	29.4	35.8	32.3	-3	-2	35
Applied for credit?			(yes)	8	10	9
Profits	31.7	25.1	39.7	-8	-6	28.6
Capacity Used (Ave. %)						
Employment						
Total	21.8	49.5	25.7	-4	-4	24
Recruiting Staff			(yes)	47	45	
Recruitment Difficulties			(yes)	18	14	
Increased Wages?			(yes)	21	23	
Average Pay Increase (%)				4.7	4	
Concerns						
Business Rates			(yes)	20	24	
Expectations Next Quarter						
Price Change	22.8	59.9	17.3	5	4	31
Sales Revenue	27.1	29.1	2.0	25	24	
Investment	17.9	48.8	23.4	-5	2	15
Employees	23.6	58.6	17.7	6	14	25

Manufacturing

ORDERS/SALES

A net % balance of +11 was reported for total orders, with 40% of businesses experiencing an increase in orders/sales. While growth in orders from the rest of UK and exports was experienced, with net % balances of +17 and +18 respectively; growth has eased over the quarter. Additionally, net domestic (Scotland) orders fell back into negative balance with -3 net % balance.

PROFIT

A modest trend balance of +17 of firms expect prices to rise in Q4. However, with firms reporting a net % balance of -7 for profits, this could be a potential indicator that businesses may be absorbing costs rather than passing costs onto consumers.

INVESTMENT

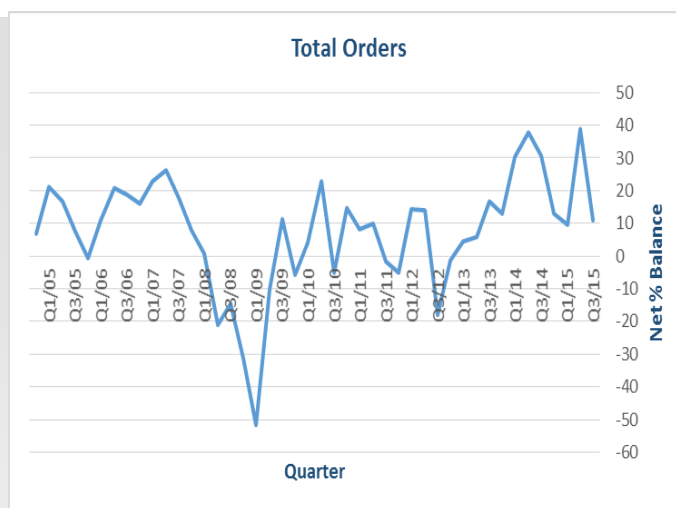
Fewer than 9% of businesses reduced total investment expenditure over the quarter, giving a net % balance of +20. Firms in the manufacturing sector expect growth to continue in Q4, reflected by a net % balance of +23.

EMPLOYMENT

Employment levels increased on balance across the sector with a net % balance of +12 recorded. The net % balance of firms that expect to increase employment in Q4 was +34, the highest figure reported for at least 10 years.

“Our business is up around 11% year on year and 20% versus Q3 2014, however, this is driven by new product innovation and improved sales and marketing rather than market conditions, which are generally flat. Looking forward, we intend to continue investing in this to allow us to grow further.”

*Keith Gordon, Ten 47 Ltd,
Kirkcaldy.*



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/15	Q2/15	Q3/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	28.1	56.1	15.8	12	26	12
Sales Revenue						
Total	38.6	31.6	29.8	9	40	
Domestic (Scotland)	21.4	50.0	19.6	2	13	
Rest of UK	31.5	31.5	25.9	6	19	
Exports	34.5	21.8	18.2	16	33	
Orders						
Total	40.4	29.8	29.8	11	39	31
Domestic (Scotland)	17.2	51.7	20.7	-3	22	10
Rest of UK	28.1	38.6	21.1	7	17	3
Exports	33.3	24.6	15.8	18	36	18
Work in Progress	36.2	46.6	17.2	19	22	
Investment						
Total	28.6	60.7	8.9	20	41	
Capital	30.9	58.2	9.1	22	32	
Training	24.6	63.2	8.8	16	21	
Cashflow	22.4	58.6	17.2	5	19	10
Applied for Credit?			(yes)			
Profits	27.6	34.5	34.5	-7	15	
Capacity Used (Ave. %)				78	78	72
Employment						
Total	36.8	38.6	24.6	12	31	26
Recruiting Staff			(yes)	81	68	
Recruitment Difficulties			(yes)	30	24	
Increased Wages?			(yes)	22	36	
Average Pay Increase (%)				2.8	4	2
Expectations Next Quarter						
Price Change	25.9	65.5	8.6	17	28	17
Sales Revenue	45.5	32.7	21.8	24	48	
Investment	32.1	55.4	8.9	23	32	
Employees	37.9	58.6	3.4	34	17	19

Retail & Wholesale

SALES REVENUE

Growth in total sales revenue over the quarter was reported by 44% of businesses, giving a net % balance of +15, the highest balance since Q4 2013. This can largely be attributed to growth in domestic sales (Scotland) and online sales, with recorded net % balances of +18 and +20 respectively.

PRICE CHANGE

Most businesses do not expect their prices to change in Q4 (58%) and the net % balance of +22,

PROFITS

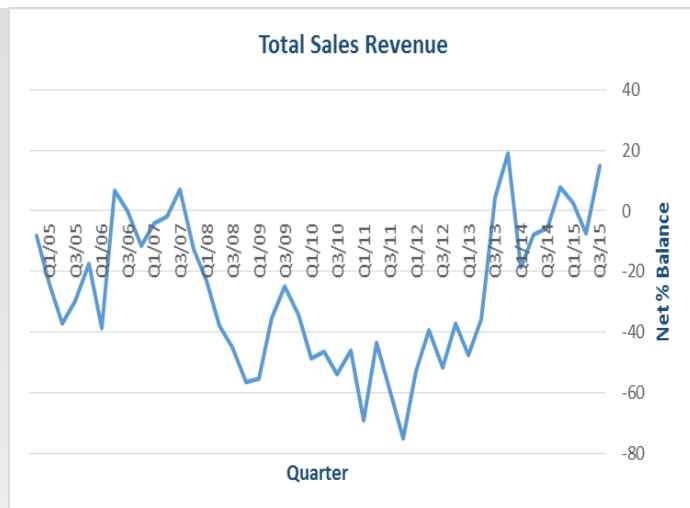
Growth in profits was experienced over the quarter with the net % balance of +5. This marks a return to positive balance from Q2 (net % balance -5).

EMPLOYMENT

Employment levels returned to negative territory with a net % balance of -7.7. However, the net % balance of firms that expect to increase employment in Q4 was +27, the highest figure reported in the past 10 years.

"New car registrations continue to be healthy (up by 8.6% in September and used car prime stock is still achieving premium money. The new and used finance market is experiencing robust growth and we would expect this trend to continue into the fourth quarter."

John McGuire, CEO, Phoenix Car Company, Paisley.



(figures given as % of respondents)	Up	Level	Down	(rounded up to nearest %)		
				Q3/15 Net % Balance	Q2/15 Last Quarter	Q3/14 Last Year
Business Optimism	27.5	45.0	27.5	0	8	-12
Sales Revenue						
Total	43.9	26.8	29.3	15	-8	-6
Domestic (Scotland)	39.5	26.3	21.1	18	2	
Rest of UK	5.1	25.6	10.3	-5	0	
Exports	7.9	15.8	2.6	5	2	
Online	26.8	24.4	7.3	20	14	
Investment						
Total	24.4	41.5	14.6	10	23	
Capital	25.6	33.3	12.8	13	17	
Training	21.1	47.4	5.3	16	9	
Cashflow				0		
Applied for Credit?			(yes)			
Profits	32.5	35.0	27.5	5	-5	
Capacity Used (Ave. %)				72		
Employment						
Total	12.8	66.7	20.5	-8	8	17
Recruiting Staff			(yes)	56	44	28
Recruitment Difficulties			(yes)	22	12	38
Increased Wages?			(yes)	22	25	
Average Pay Increase (%)				4	4	3
Pressure to Raise Prices						
Wage Costs			(yes)	48	32	24
Raw Material Costs			(yes)	31	38	44
Expectations Next Quarter						
Price Change	31.7	58.5	9.8	22	25	30
Sales Revenue	46.3	26.8	26.8	20	30	3
Investment	25.0	40.0	17.5	8	21	
Employees	26.8	73.2	0.0	27	15	2

Tourism

GUESTS

The total number of Guests/Customers grew in comparison with the same time last year for 63% of firms, with fewer than 15% reporting a decrease. This can be attributable to positive net % balance for guests coming from Scotland (+32), rest of UK (+35), rest of EU (+20), and outside of the EU (+31).

SALES REVENUE

A net % balance of +52 was reported for total sales revenue, with only 8% of firms experiencing a decrease over the quarter.

RECRUITMENT DIFFICULTIES

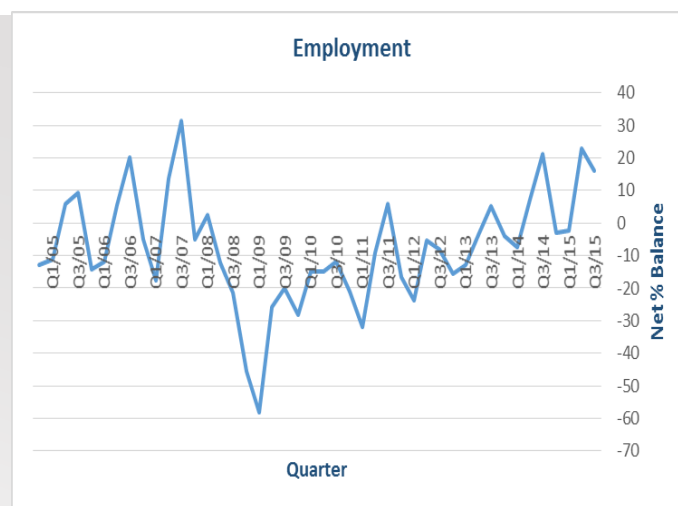
With 33% of all firms recruiting in the past quarter having experienced recruitment difficulties, skill shortages within this sector remain a significant challenge for businesses. More specifically, Chefs and front of house staff were the most frequently cited occupations firms struggled to recruit.

EMPLOYMENT

Employment levels increased across the sector with a net % balance of +16 reported. However, nearly 40% of businesses expect employment levels to decline in the next 3 months as we enter the autumn and winter.

“Business has developed consistently since setting up The Travel Architect 11 years ago. Matching exactly the personalised service I offer to the niche market I’ve identified, has seen my client base returning year on year and bringing with them further business through recommendations. This has resulted in annual sales this year increasing by 55% against last.

Fiona Bibby, The Travel Architect, Falkirk.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/15	Q2/15	Q3/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	45.5	40.3	14.3	31	28	16
Sales Revenue						
Total	60.0	30.7	8.0	52	43	
Domestic (Scotland)	41.1	31.5	9.6	32	23	
Rest of UK	35.2	21.1	5.6	30	15	
Online	40.5	32.4	9.5	31	14	
Investment						
Total	25.0	46.1	17.1	8	19	
Capital	27.6	42.1	15.8	12	21	
Training	24.0	45.3	9.3	15	29	
Cashflow	48.6	33.8	13.5	35	25	
Applied for credit?			(yes)	5	12	
Profits	52.6	28.9	13.2	39	12	
Employment						
Total	27.6	51.3	11.8	16	23	21
Recruiting Staff			(yes)	71	71	58
Recruitment Difficulties			(yes)	33	35	26
Increased Wages?			(yes)	39	39	
Average Pay Increase (%)				4.7	5	5
Guests/Customers (vs last year)						
Total	63.2	22.4	14.5	49	27	
From Scotland	46.1	35.5	14.5	32	13	
From Rest of UK	45.3	33.3	10.7	35	15	
From Rest of EU	33.8	39.2	13.5	20	0	
From Outside the EU	38.7	30.7	8.0	31	3	
Expectations Next Quarter						
Sales Revenue	23.7	31.6	42.1	-18	44	
Price Change	32.9	57.9	9.2	24	27	
Investment	26.0	48.1	16.9	9	3	
Employees	9.5	51.4	39.2	-30	24	