

Quarter 1 2015

Quarterly Economic Indicator

Scottish Chambers of Commerce



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Methodology

The Quarterly Economic Indicator is carried out 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.

643 firms responded to the Q1 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.

Eg. 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 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 Q1 2015, there was significant easing in the growth levels of most performance indicators, for each of the 5 sectors covered by the Quarterly Economic Indicator.

For the Construction sector there was a decline in new business, sales revenue and profitability compared with last quarter, but this must be considered in the context of Q4 2014 proving to be an exceptional one for the industry.

An easing of sales revenue growth and a decline in rest of UK sales revenue was indicative of the Financial & Business Services sector experiencing its least impressive performance since its introduction to the Indicator in Q1 2014.

Manufacturing firms experienced a deceleration in order growth over Q4 2014, a trend that has continued into 2015. High levels of capacity utilisation and work in progress reported for Q1 2015 may reflect the significant increase in orders experienced during previous high performing quarters.

The Retail & Wholesale sector experienced a relatively successful first quarter of the year in what is often a difficult time of year for the industry. Growth of sales revenue and profits were slower than the previous quarter but significantly up compared with the same time last year.

The Tourism industry in Scotland understandably had an excellent 2014 and few expected the same level of performance over the first quarter of 2015. Sales revenue, profitability and cash-flow were all down in Q1 2015, but for most indicators expectations for Q2 are very strong.

Despite deceleration in the growth levels of many indicators, most remain above pre-recession levels and long term averages. Investment activity, both capital and training investment, was surprisingly positive across all sectors throughout the quarter. Strong investment figures were generally matched by healthy levels of optimism, positive expectations of future sales revenue and profits, and for future investment expenditure.

FORECAST

GDP (Gross Domestic Product) grew across the Scottish economy by 0.6% in Q3 2014, preceded by 1.1% growth in Q2 and 1.0% in Q1 (based upon revised figures). The results of the 2014 editions of the Scottish Chambers' Quarterly Economic Indicator largely mirrored Scotland's economic performance over these quarters and correctly predicted an easing of growth between Q2 and Q3. These latest results would suggest further easing of GDP growth in Q1 2015 from the yet to be released Q4 2014 GDP figure.

Key Findings

CONSTRUCTION

Contracts

The results indicate that during Q1 2015 **the construction sector has experienced a significant decline in performance** since the exceptional results of Q4 2014. Overall contracts are reported as down (net % balance of -2), with a noticeable drop in public sector contracts (net % balance of -11). Such declines in contracts are not unusual due to seasonal trends, but when compared with Q1 of last year, net % balances are lower for all contract categories.

Sales Revenue

Sales revenue figures were disappointing with negative net % balances recorded for domestic, UK and overall sales revenue. Although only 7.4% of construction firms surveyed last quarter expected a decline in total sales in Q1 2015, 34.2% reported that total sales revenue decreased over the quarter.

Optimism

Expectations of future performance are more promising, optimism is firmly in positive territory at a net % balance of +8, the 6th consecutive quarter optimism has either maintained or grown, after 6 years of declining optimism in the industry. It should be noted however that the net % balance of +8 is significantly lower than that recorded in Q1 2014, at +21.

FINANCIAL & BUSINESS SERVICES

Overall

Since trends began being recorded in Q1 2014, results from the financial & business services sector have been the strongest of all sectors and this remained the case in Q1 2015, with total sales revenue and profits increasing over the quarter. **Where comparisons are available all growth levels were lower compared with Q1 2014.**

Employment

Financial & business services firms employ around 15% of Scotland's workforce and most firms did not change staffing levels over the quarter, with 64.9% reporting no change to employment and 62.3% expecting no change in the coming quarter. For businesses that did increase wages (24% of respondents), average wage increases were significantly higher than inflation at 7.2%, **suggesting real wage rates could be rising in the industry.**

Key Findings

MANUFACTURING

Domestic Sales Revenue

There was a decline in domestic (Scotland) sales revenue and orders in Q1 2015 (net % balances of -7 and -8) after 6 consecutive quarters of growth in domestic orders. These results could indicate fragile domestic demand for Scotland's manufactured goods, but it should be noted that a net % balance of +14 expect domestic revenue to increase next quarter.

Investment

A net % balance of +30 firms increased total investment over the quarter, with 37% of firms that increased investment doing so to expand capacity. Higher levels of credit application and reduced cash-flow over the quarter may be explained by these positive investment expenditure trends.

Capacity

The average level of capacity used by firms over the quarter was 83%, the highest recorded capacity utilisation figure for 10 years, and could be attributed to the consistent positive trends in orders and sales growth during 2014. Given the lower levels of orders growth in Q1 2015 however, **it is unlikely that levels of work in progress and average capacity used will be maintained in Q2.**

RETAIL & WHOLESALE

Sales Revenue

The first quarter of the year normally results in a decline in sales revenue for retailers compared with the festive period, however, **marginally more firms reported an increase in sales revenue over Q1 than a decrease** (net % balance of +3). In Q1 2014, a net % balance of -19 was recorded for sales revenue.

Expectations

Future expectations of sales revenue and profits are promising, a net % balance of +24 expect revenue to increase in Q2. Fewer than 5% of firms expect to decrease their prices next quarter and this is mirrored by a net % balance of +37 that expect profitability to increase. Trends for future investment are also encouraging, with 1 in 5 businesses applying for credit over the quarter and fewer than 5% decreasing total investment expenditure.

Key Findings

TOURISM

Customers/Guests

Total customers/guests grew over the quarter by a net % balance of +9, which was the lowest rate reported since Q4 2013. Guests from the EU and outside of the EU increased from Q4 2014 but both at lower rates than the previous quarter. Rest of UK visitors declined by a net % balance of -4.

Sales Revenue/Profits

Sales revenue and profits were down over the quarter despite an overall increase in customers & guests. This trend could be explained by lower prices charged & lower profit margins for firms, with almost half (45.8%) of hotels decreasing average room rates charged over the quarter.

Investment

Investment expenditure was positive during Q1 2015, with a net % balance of +22 reporting increased investment expenditure, and 40% of tourism businesses that increased investment stating they did so to expand capacity.

Expectations

Future expectations for the industry are very positive, for employment, investment, profits and sales revenue. Only 3.2% of firms expect to decrease employee numbers over the next quarter. 44% of firms plan to increase their prices in Q2 leading to improved expectations of profit increases (net % balance of +35).

Construction

OPTIMISM

Optimism in the construction sector grew in Q1 of 2015 for a net % balance of +8 firms, but to a lesser extent than in the previous quarter (+23) and the same quarter last year (+21).

SALES REVENUE & CONTRACTS

7.4% of firms surveyed last quarter expected a decline in total sales revenue in Q1 2015, but 34.2% of businesses reported a fall in sales over the period. Contracts were also down compared with the same time last year, particularly public sector contracts, with 26.1% of firms experiencing a decline in Q1 2015.

INVESTMENT

Reported investment levels were healthy overall, with only 11% of businesses decreasing investment expenditure over the quarter. Investment is expected to continue to grow in Q2 2015 by 22.2% of construction firms.

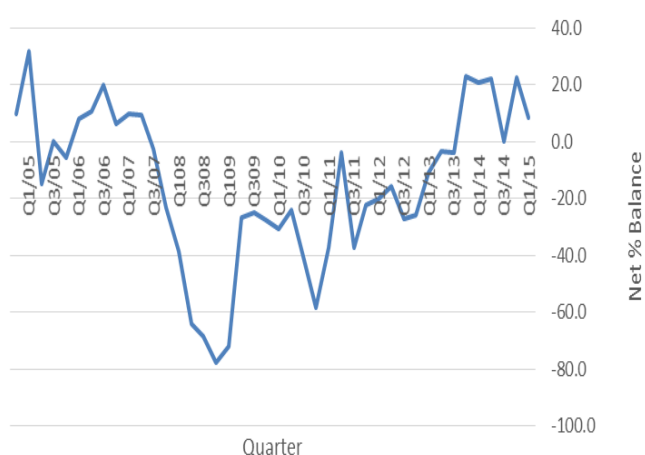
PROFITS

Almost half (48.6%) of all firms experienced a decline in profits over Q1 2015 but less than a quarter (22.2%) expect profits to decline in Q2 2015.

“In March we won a Forth Valley Chamber Award, we’ve seen steady growth in our client levels over the past quarter, and we’ve also taken on more staff.”

Ray Young, Owner of Astute Facilities Management, Grangemouth.

Business Optimism



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/15	Q4/14	Q1/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	25.0	56.7	16.7	8	23	21
Sales Revenue						
Total	21.1	39.5	34.2	-13	45	
Domestic (Scotland)	25.0	41.7	27.8	-3	46	
Rest of UK	2.9	28.6	17.1	-14	8	
Contracts						
Total	31.4	29.4	33.3	-2	38	18
Public Sector	15.2	43.5	26.1	-11	15	4
Private Commercial	31.9	34.0	27.7	4	35	8
House Building	22.7	31.8	22.7	0	21	5
Work In Progress	32.7	40.4	26.9	6	48	7
Investment						
Total	19.4	44.4	11.1	8	28	
Capital	10.8	54.1	10.8	0	15	
Training	25.0	58.3	11.1	14	22	
Cashflow	20.3	52.5	25.4	-5	30	
Applied for Credit?			(yes)	14	28	
Profits	18.9	29.7	48.6	-30	33	
Capacity Used (Ave. %)				78	82	78
Employment						
Total	32.2	47.5	20.3	12	21	10
Recruiting Staff			(yes)	53	55	31
Recruitment Difficulties			(yes)	35	19	33
Increased Wages?			(yes)	32	40	
Average Pay Increase (%)				4.0	5.5	2.4
Expectations Next Quarter						
Price Change	43.2	54.1	2.7	41	54	
Sales Revenue	43.2	37.8	16.2	27	48	
Profits	33.3	41.7	22.2	11	31	
Investment	22.2	38.9	19.4	3	15	
Employees	41.7	50.0	8.3	33		

Financial & Business Services

SALES REVENUE

Over Q1 2015 total sales revenue increased for just under half of all businesses (47.9%). There was growth in domestic (Scotland) sales also, a net % balance of +16 reporting an increase, compared with an increase of +39 the same time last year. Rest of UK sales fell on balance (net % balance of -3).

EMPLOYMENT

Most businesses did not make changes to their staffing levels in Q1 2015 (64.9%). Little change to employment is expected in Q2, shown by 62.3% of firms expecting no change to their staff numbers. 42% of firms recruited staff compared with 52% in Q4 2014.

WAGES

Of those firms that increased wages over the quarter, the average wage increase was 7.2%, significantly above the rate of inflation. Just under a quarter of firms (24%) increased wages, down from 29% the previous quarter.

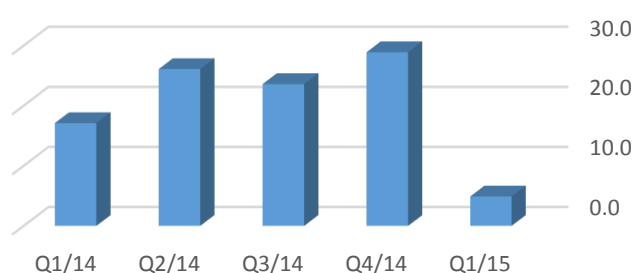
CONCERNS

More businesses are concerned about Business Rates than last quarter, increasing from 12% to 23%.

“We have recently invested heavily in staff and IT, the company’s turnover is increasing and we plan to recruit further new advisers into the firm.”

Andy Kerr, Managing Director, McHardy Financial Ltd., Aberdeen.

Employment (Net % Balance)



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/15	Q4/14	Q1/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	37.8	39.9	21.8	16	25	
Sales Revenue						
Total	47.9	25.3	26.3	22	44	
Domestic (Scotland)	41.6	25.3	25.8	16	37	39
Rest of UK	12.3	32.6	15.0	-3	11	11
Exports	10.1	13.3	8.5	2	3	8
Online	12.6	20.5	11.1	2	12	17
Investment						
Total	27.7	31.9	10.1	18	16	
Capital	21.1	40.5	13.2	8	16	22
Training	25.9	43.4	11.6	14	21	19
Cashflow	34.0	43.5	20.9	13	35	22
Applied for credit?			(yes)	12	9	24
Profits	37.4	32.1	28.4	9	36	17
Capacity Used (Ave. %)				74	79	
Employment						
Total	17.8	64.9	13.1	5	29	17
Recruiting Staff			(yes)	42	52	
Recruitment Difficulties			(yes)	20	20	
Increased Wages?			(yes)	24	29	
Average Pay Increase (%)				7.2	4.5	
Concerns						
Business Rates			(yes)	23	12	29
Competition			(yes)	39	38	45
EU Referendum			(yes)	29	28	
Expectations Next Quarter						
Price Change	25.1	66.5	8.4	17	36	33
Sales Revenue	51.9	27.0	19.6	32	50	
Profits	49.5	28.2	20.7	29	44	32
Investment	20.2	39.4	13.8	6	13	20
Employees	26.2	62.3	11.5	15		28

Manufacturing

OPTIMISM

There were slightly more businesses reporting increased optimism than decreased optimism in Q1 2015, a net % balance of +3 firms, and the 10th consecutive quarter of on balance increasing optimism. This net % balance was however the lowest recorded for optimism since Q4 2012.

SALES REVENUE/ORDERS

Sales revenue either maintained or grew for most businesses (74.8%) with export sales growth performing particularly well. 25.4% of businesses reported an increase in exports during Q1 2015. Domestic sales and orders both declined over the quarter (net % balances of -7 and -8).

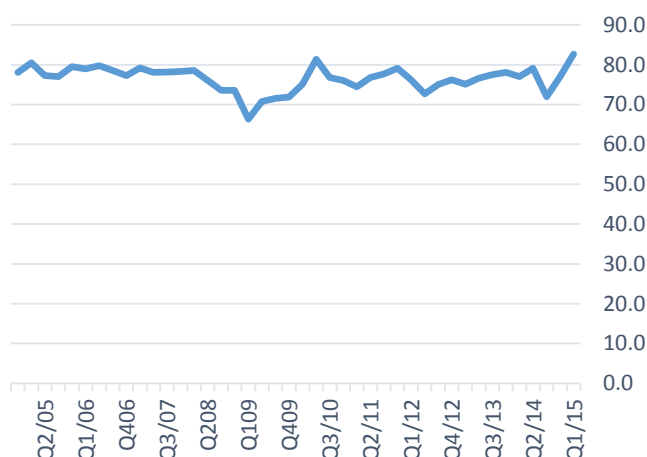
INVESTMENT

Positive investment trends continued from the previous quarter, shown by 86.4% of businesses either maintaining or increasing investment in Q1 2015, a trend expected to continue into Q2. Expectations of further increases in investment expenditure may explain increased credit applications, with 21% of all firms applying for credit over the quarter, up from 15% in Q4 2014.

“Business has grown a little as the year has gone on. We’ve not made any changes to staffing but we’ve picked up a few additional customers.”

Allan McLaughlin, Chairman of Smith & McLaurin, Kilbarchan.

Average Capacity Used (%)



(figures given as % of respondents)	Up	Level	Down	(rounded up to nearest %)		
				Q1/15 Net % Balance	Q4/14 Last Quarter	Q1/14 Last Year
Business Optimism	27.1	49.2	23.7	3	5	18
Sales Revenue						
Total	37.0	37.8	25.2	12	13	
Domestic (Scotland)	19.6	49.1	26.8	-7	-1	
Rest of UK	21.8	53.6	17.3	5	9	
Exports	25.4	31.4	13.6	12	10	
Orders						
Total	37.7	34.0	28.3	9	13	31
Domestic (Scotland)	19.6	50.0	27.5	-8	6	13
Rest of UK	21.2	50.5	20.2	1	7	25
Work in Progress	30.2	50.9	18.9	11	19	
Investment						
Total	36.4	50.0	7.6	29	30	
Capital	36.4	47.0	6.1	30	12	
Training	20.9	66.4	7.3	14	21	
Cashflow	16.4	54.3	27.6	-11	-6	-1
Applied for Credit?			(yes)	21	15	
Profits	26.2	46.2	27.7	-2	4	
Capacity Used (Ave. %)				83	77	77
Employment						
Total	23.5	62.2	13.4	10	26	21
Recruiting Staff			(yes)	49	56	
Recruitment Difficulties			(yes)	21	24	
Increased Wages?			(yes)	34	31	
Average Pay Increase (%)				3.8	4.1	3.3
Expectations Next Quarter						
Price Change	25.0	67.2	7.8	17	34	21
Sales Revenue	53.4	33.6	12.9	41	27	
Profits	53.0	31.8	15.2	38	33	
Investment	35.3	48.5	7.4	28	28	
Employees	28.7	64.3	7.0	22		19

Retail & Wholesale

OPTIMISM

Business optimism was negative on balance in each quarter of 2014 but returned to positive territory in Q1 2015, with a net % balance of +2.

SALES REVENUE

During what can be a difficult period for retailers, slightly more businesses reported an increase in sales revenue than a decrease (net % balance of +3).

EMPLOYMENT

Consistent with historical seasonal trends, most businesses did not change overall staffing levels over the quarter (71.1%). 39% of firms actively sought to recruit, this compares well with the same time last year (23%).

INVESTMENT

Investment figures were very encouraging over the quarter, with almost 73% of respondents indicating that investment had either been maintained or increased.

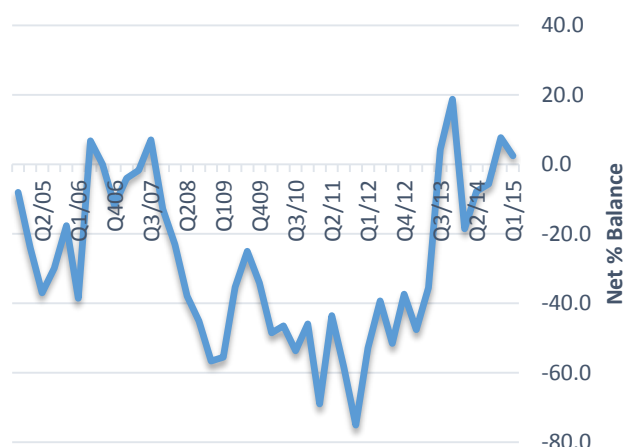
CREDIT

20% of businesses applied for credit in Q1 2015, significantly more than the previous quarter (3%) and potentially explained by positive investment expenditure trends.

“The season started slowly but now the good weather has started everything is looking rosy! We’re already seeing sales start to pick up.”

Robin Nicolson, Owner of Nicolson Maps, Largs.

Sales Revenue



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/15	Q4/14	Q1/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	31.0	41.7	28.6	2	-4	-6
Sales Revenue						
Total	34.2	35.4	31.6	3	8	-19
Domestic (Scotland)	33.3	35.7	21.4	12	39	
Rest of UK	24.4	22.0	7.3	17	13	
Exports	14.3	9.5	0.0	14	17	
Online	34.9	27.9	11.6	23	25	
Investment						
Total	31.0	42.9	4.8	26	29	
Capital	25.6	51.2	9.3	16	6	
Training	26.2	57.1	9.5	17	13	
Cashflow	19.3	57.8	22.9	-4	-4	-2
Applied for Credit?			(yes)	20	3	
Profits	33.3	35.7	28.6	5	25	
Capacity Used (Ave. %)				81		
Employment						
Total	12.0	71.1	14.5	-3	2	0
Recruiting Staff			(yes)	39	47	23
Recruitment Difficulties			(yes)	14	26	30
Increased Wages?			(yes)	25	29	
Average Pay Increase (%)				3.1	4.6	4.4
Pressure to Raise Prices						
Wage Costs			(yes)	41	37	34
Energy Costs			(yes)	34	43	46
Finance Costs			(yes)	25	18	27
Expectations Next Quarter						
Price Change	36.5	58.8	4.7	32	28	38
Sales Revenue	45.3	32.0	22.7	23	10	4
Profits	53.7	26.8	17.1	37	41	
Investment	19.0	54.8	9.5	10	6	
Employees	15.4	74.4	10.3	5		0

Tourism

OPTIMISM

Optimism continued to grow in the industry with a net % balance of +7 reporting increased optimism compared with the previous quarter and +14 compared with the same time last year. This increase in optimism was however the lowest net % balance reported since Q4 2012.

PROFITS

As would be expected due to seasonal patterns, more firms reported a decline in profits over Q1 2015 than an increase (net % balance of -13). 45.8% of hotels decreased their average room rates, the first time in two years that room rates declined on balance.

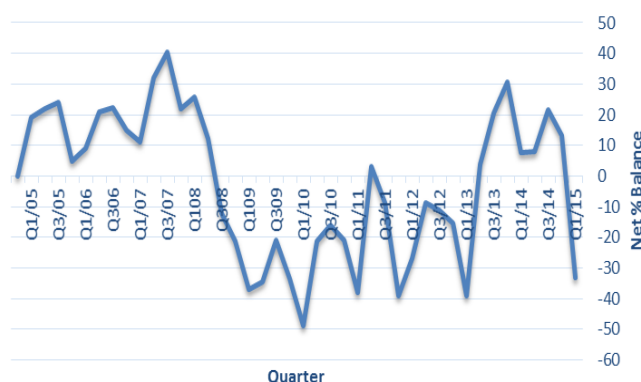
INVESTMENT

A net % balance of +22 was recorded for investment expenditure during Q1 2015. This trend, alongside a lower level of credit application compared with Q4 2014 and a decline in overall sales revenue over the quarter, may explain the worsening cashflow situation of firms (net % balance of -3). 40% of those firms increasing investment did so to expand capacity, mirroring future expectations of increased profits.

“January to March is not really a tourist time for us, but we’re fortunate enough to have a very supportive year round local trade, and so far it has been business as usual.”

Rankin Bell, Owner of Kingswood Hotel, Burntisland.

Average Room Rates



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/15	Q4/14	Q1/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	31.3	44.8	24.0	7	21	28
Business Optimism (vs last year)	38.5	36.5	25.0	14	13	
Sales Revenue						
Total	34.0	20.2	42.6	-9	24	
Domestic (Scotland)	23.5	30.9	26.5	-3	6	
Rest of UK	16.2	27.9	17.6	-1	-13	
Online	27.1	32.9	18.6	9	15	
Investment						
Total	32.9	25.7	11.4	22	19	
Capital	26.8	43.7	8.5	18	21	
Training	22.5	49.3	8.5	14	18	
Cashflow	25.0	43.1	27.8	-3	3	
Applied for credit?			(yes)	11	20	
Profits	26.4	29.7	39.6	-13	18	
Capacity Used (Ave. %)				57	62	
Employment						
Total	17.2	53.8	19.4	-2	-3	-7
Recruiting Staff			(yes)	55	52	58
Recruitment Difficulties			(yes)	29	28	25
Increased Wages?			(yes)	27	31	
Average Pay Increase (%)				3.4	3.3	3.9
Hotels						
Average Hotel Room Rate	12.5	41.7	45.8	-33	13	8
Guests/Customers (vs last year)						
Total	42.6	22.2	33.3	9	27	21
From Scotland	30.2	37.7	28.3	2	28	11
From Rest of UK	24.1	37.0	27.8	-4	18	-9
From Rest of EU	27.6	34.5	10.3	17	46	
From Outside the EU	20.7	37.9	6.9	14	33	
Expectations Next Quarter						
Price Change	44.0	47.3	8.8	35	6	
Sales Revenue	61.5	23.1	15.4	46	20	
Profits	51.2	30.2	16.3	35	12	
Investment	36.4	33.3	9.1	27	23	
Employees	37.2	59.6	3.2	34		