

Quarter 2 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.

574 firms responded to the Q2 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:

Garry Clark

Head of Economic Development Intelligence Unit

Scottish Chambers of Commerce

Office No. 0141 204 8316

Mobile No. 07795 158 137

Email address: gclark@scottishchambers.org.uk

Key Findings

Over the second quarter of this year, the Construction and Manufacturing sectors reported a return to the very strong results recorded during 2014, after a decline in some performance variables such as new contracts and cash-flow last quarter. Results for the Retail & Wholesale and Tourism industries in Q2 were fairly typical compared with seasonal averages, but the Financial & Business Services sector experienced its poorest performing quarter since being introduced into the Indicator in Q1 2014.

Overall, these results suggest continued growth of the Scottish economy over Quarter 2 2015. However, given that the Financial & Business Services sector contributes more Gross Value Add (GVA) to the Scottish economy than any other (approximately 28%), and a significant proportion of firms in the sector reported lower capacity utilisation levels, reduced employment and stagnant sales over the quarter, there are reasons to be concerned about the subsequent impact on the Scottish economy of a relatively poor quarter for the industry.

The low global market price for Brent crude oil observed since the winter of 2014, was a commonly cited business concern of firms and was a significant business concern for oil and gas service sector companies within the Financial & Business Services. Expectations for next quarter's sales revenues, employment levels and expenditure on investment are positive among firms in the industry, but at their lowest levels since Q1 2014. The average price of Brent crude oil per barrel has remained at low levels throughout 2015 so far and long term low oil prices represent a challenge not only for the oil & gas sector and the North East of Scotland, but for every business in Scotland that makes up the supply chain of firms in the industry.

FORECAST

Last quarter we estimated that Scotland's GDP (Gross Domestic Product) growth would ease between the 0.6% increase recorded over the last quarter of 2014, and Quarter 1 of 2015. Official estimates suggest that growth may have held steady during the quarter. However the Fraser of Allander Institute of the University of Strathclyde has reduced its forecast of overall Scottish economic growth in 2015 from 2.6% to 2.5% and this is in line with our expectations.

CONSTRUCTION

Contracts

After a decline in the net % balance for total contracts in Q1, 75% of firms either maintained or increased contracts in Q2, a net % balance of +14.5, continuing the generally positive trends experienced by the sector in 2014. **A net % balance of +17.6 was recorded for commercial contracts, but results for public sector contracts and domestic house-building were very mixed with generally as many businesses reporting a fall as a rise.**

Employment

Recent positive employment trends in the industry continued, with a net % balance of +26.3 reporting an increase in staffing levels. **This is the 6th consecutive quarter employment balances have increased in the industry, after sustained declines between 2008 and 2012.** Recruitment problems appear to have lessened over the quarter as although 65% of firms actively sought to recruit, higher than at any other time since 2007, fewer firms experienced difficulties, falling from 35% to 29%.

FINANCIAL & BUSINESS SERVICES

Overall

Q1 2015 was found to be the least impressive performance for the sector since it was introduced to the Indicator in Q1 2014. That trend has continued and whereas in Q1 growth was slowing, several indicators have now moved into negative territory suggesting contraction. **By some margin, Q2 has seen the poorest results for Financial & Business Services firms. However, this is in large measure as a result of a downturn in oil and gas service sector businesses.**

Profits/Cash-flow

For the first time negative net % balances were recorded for both profits and cash-flow, and although balances were only marginally negative, **this suggests an overall decline in profitability and cash-flow levels in the industry.** Prices charged by firms are largely expected to remain unchanged (66% expect no change to the prices they charge) next quarter but almost half of firms expect sales revenue to increase, so profits may rise in Q3.

Investment

Investment levels did increase overall with a net % balance of +5 recorded, but **this growth level is much lower than the +36.1 net % balance reported the same time last year**, and investment is expected to remain largely unchanged in Q3, with 50% of firms anticipating no change in investment expenditure.

Key Findings

MANUFACTURING

Exports

Growth over the quarter for both export orders and export sales revenue has been reported by manufacturing firms. The net % balance for export orders was +36, with 70% of firms having either maintained or increased export sales revenue over the quarter. Export sales revenue expectations for next quarter are also positive with only 3% of businesses expecting a decline and almost 40% anticipating an increase.

Investment

Levels of business optimism in the sector were strong and levels of investment expenditure are often closely correlated, with fewer than 7% of firms decreasing investment over Q2 and with 47.5% reporting an increase. **Exactly half of those businesses that increased investment did so “to expand capacity”** – consistent with the observed improvement to optimism and strong expectations of future orders and sales across the sector. This trend is set to continue as 88% of businesses expect to either maintain or increase investment spend in Q3.

RETAIL & WHOLESALE

Business Optimism

A net % balance of +8 was recorded for overall optimism, the second consecutive quarter of increasing optimism in the sector after negative net % balances were reported in every quarter of 2014. This increased optimism may be explained by positive expectations for sales revenue in Q3, with the net % balance of firms expecting an increase next quarter of +30, the highest for over a decade. Yet, total sales revenue for Q2 2015 was reported as down with a net % balance of -7.

Price Change

Generally pressure to raise prices appears to have declined amongst retailers, with smaller percentages of firms citing upwards pressure from wage costs and raw materials compared with Q1. 60% of businesses expect no change to the prices they charge in Q3 and **the net % balance of +25 recorded for expected price change is the lowest reported since at least 2004.** These trends reflect lows in the UK rate of inflation over the quarter, as measured by the Consumers Price Index (CPI), at -0.1% in April and 0.1% in May.

Key Findings

TOURISM

Customers/Guests

A net % balance of +27 was recorded for total guests/customers compared with the previous year, and most of this increase appears to be as a result of increased UK guests/customers. Net % balances of 0 and +3 were reported for EU guests and non-EU guests compared with +13 and +15 for Scottish and rest of UK guests. Given that over Q3 2014 Glasgow hosted the Commonwealth games and Gleneagles the Ryder Cup, it is unlikely that positive net % balances will be observed for either category of foreign visitors in Q3 of this year, when compared with the same time in 2014.

Employment

Last quarter tourism firms generally said they expected to increase employment in Q2, reflected by a net % balance of +34 recorded for employment expectations over the next three months. **These expectations of increased employment were broadly realised with the net % balance of +23 recorded for employment the highest figure observed since Q3 2007.** Employment levels are expected to be kept constant in Q3 by 67.6% of businesses with only 4.4% expecting a decrease.

Recruitment Difficulties

Recruitment difficulties continue to be a major issue in the sector with 35% of all businesses reporting difficulties in recruiting. Chefs represent the occupation causing most difficulty and the significant increase in firms spending more on training over the quarter (net % balance of +29, up from +14 in Q1) may be explained by businesses training internally to fill positions.

Construction

BUSINESS OPTIMISM

Optimism in the construction sector grew in Q2 of 2015 for a net % balance of +28 firms, and is higher than at any other time since Q1 2005.

CAPACITY

Reported capacity levels were 85% in Q2 2015, up from 78% in Q1. This is the highest capacity reported since Q2 2008 and may be explained by firms carrying out the large increase in orders received in Q4 2014.

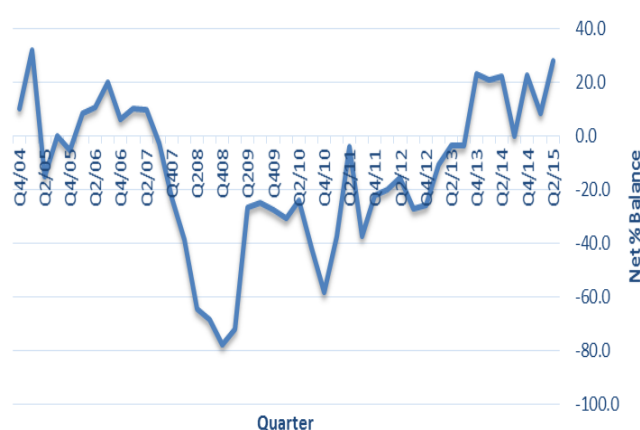
CONTRACTS

A net % balance of +14 was reported for total contracts, a return to a positive balance after a decline in Q1. This increase appears to be largely a result of an increase in private sector commercial contracts, increasing for 37% of all firms. Results for public sector contracts and domestic housebuilding were very mixed with recorded net % balances of -1 and 3 respectively.

RECRUITMENT

The percentage of firms actively recruiting staff over the quarter, at 65%, was the highest % since before the recession (Q3 2007). Employment levels are expected to be maintained in Q3 with only 4% of businesses expecting to decrease staffing levels.

Business optimism



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/15	Q1/15	Q2/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	42.7	42.7	14.7	28	8	22
Sales Revenue						
Total	45.3	30.7	24.0	21	-13	
Domestic (Scotland)	40.3	31.9	18.1	22	-3	
Rest of UK	10.8	24.6	3.1	8	-14	
Contracts						
Total	39.1	36.2	24.6	14	-2	41
Public Sector	19.1	32.4	20.6	-1	-11	-7
Private Commercial	36.8	38.2	19.1	18	4	23
House Building	17.6	27.9	14.7	3	0	7
Work In Progress	43.5	36.2	20.3	23	6	33
Investment						
Total	32.9	43.8	16.4	16	8	
Capital	29.7	47.3	16.2	14	0	
Training	33.3	45.3	10.7	23	14	
Cashflow	34.2	42.1	23.7	11	-5	
Applied for Credit?			(yes)	30	14	
Profits	37.3	36.0	25.3	12	-30	
Capacity Used (Ave. %)				85	78	78
Employment						
Total	38.2	48.7	11.8	26	12	21
Recruiting Staff			(yes)	65	53	48
Recruitment Difficulties			(yes)	29	35	
Increased Wages?			(yes)	38	32	
Average Pay Increase (%)				4.6	4.0	4.0
Expectations Next Quarter						
Price Change	40.8	57.9	1.3	39	41	
Sales Revenue	53.3	30.7	14.7	39	27	
Investment	38.7	41.3	13.3	25	3	
Employees	36.8	59.2	3.9	33	33	

Financial & Business Services

SALES REVENUE

Almost the same number of businesses reported a decrease in total sales revenue over the quarter as those that reported an increase, a net % balance of 0. This is a much lower net % balance than the +22 and +44 figures recorded over the past two quarters.

EXPORTS

Exports declined for 19% of all firms and for a net % balance of -10, the first time since Q1 2014 that exports fell on balance across the sector.

INVESTMENT

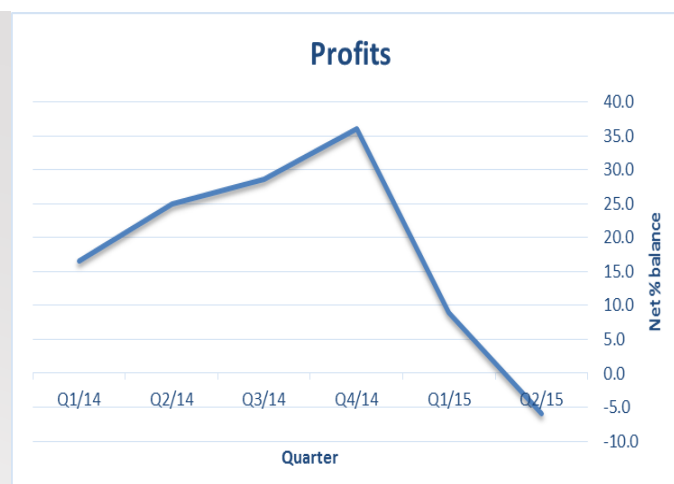
There was a positive net % balance of +5 recorded for expenditure on investment, but this was the lowest net % balance recorded since the sector was introduced to the Indicator in Q1 2014. Investment is expected to grow marginally in Q3, shown by a net % balance of +2, but again this is the lowest figure recorded for expected investment spend since the first quarter of last year.

CASH-FLOW

A net % balance of -2 was recorded as more businesses reported a decline in cash-flow over the quarter than an increase. The same time last year, financial & business services firms reported a net % balance of +27.

“After a difficult start to the year, I secured, within days of each other, two strategic projects with Toshiba and Edinburgh Napier University. My optimism is definitely returning.”

Lorna McCallum, Owner of Elephant Intelligent Communications, Edinburgh.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/15	Q1/15	Q2/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	33.3	41.0	25.7	8	16	
Sales Revenue						
Total	35.9	28.2	35.5	0	22	
Domestic (Scotland)	30.8	29.0	34.6	-4	16	46
Rest of UK	12.6	24.8	22.9	-10	-3	9
Exports	9.3	15.7	19.0	-10	2	14
Online	12.2	18.0	13.1	-1	2	5
Investment						
Total	27.6	40.3	22.6	5	18	36
Capital	24.0	43.9	20.8	3	8	29
Training	32.6	41.7	15.1	17	14	28
Cashflow	28.1	41.5	29.9	-2	13	27
Applied for credit?			(yes)	10	12	17
Profits	29.4	33.0	35.3	-6	9	25
Capacity Used (Ave. %)				71	74	
Employment						
Total	21.0	50.4	25.4	-4	5	26
Recruiting Staff			(yes)	45	42	
Recruitment Difficulties			(yes)	14	20	
Increased Wages?			(yes)	23	24	
Average Pay Increase (%)				4.3	7.2	
Concerns						
Business Rates			(yes)	24	23	
Competition			(yes)	43	39	
EU Referendum			(yes)	38	29	
Expectations Next Quarter						
Price Change	19.2	65.6	15.2	4	17	27
Sales Revenue	46.6	30.8	22.6	24	32	
Investment	21.4	50.0	19.5	2	6	15
Employees	27.0	59.5	13.5	14	15	26

Manufacturing

ORDERS/SALES

A net % balance of +39 was reported for total orders, the highest figure for more than a decade. Domestic (Scotland) orders and sales returned to positive territory after a decline in Q1 and a +33 net % balance of firms said they increased export revenue in Q2.

EXPORTS

The net % balance of firms that reported an increase in export orders was +36.

INVESTMENT

Almost half of all businesses increased investment over the quarter (47.5%), with 42.4% expecting to increase investment in Q3. This is higher than last quarter's expectations.

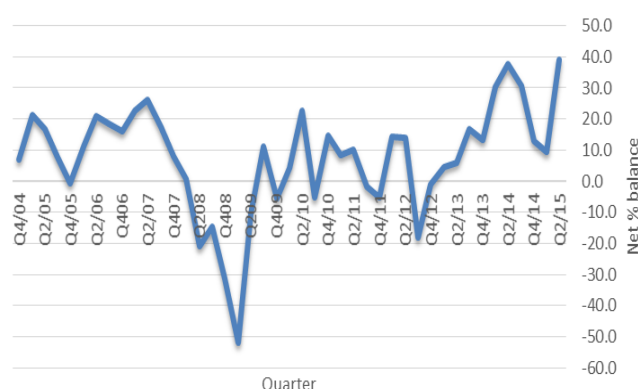
EMPLOYMENT

Fewer than 7% of firms reduced employment over the quarter and the net % balance of +31 reported is higher than at any other time in the last 10 years. Employment levels are expected to be maintained in Q3 with 62.7% of businesses anticipating no change and 27.1% expecting an increase.

“Our sales are buoyant and orders are being maintained at a high level - including exports. We're looking to employ a trainee and have employed student cover to cope with orders until our annual summer closure in mid-August.”

Angela Carr, Director, Body & Face St. Cyrus Ltd, Laurencekirk.

Total orders



(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q2/15	Q1/15	Q2/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	40.4	45.6	14.0	26	3	25
Sales Revenue						
Total	55.2	29.3	15.5	40	12	
Domestic (Scotland)	28.6	50.0	16.1	13	-7	
Rest of UK	36.8	36.8	17.5	19	5	
Exports	43.9	26.3	10.5	33	12	
Orders						
Total	57.6	23.7	18.6	39	9	38
Domestic (Scotland)	33.9	45.8	11.9	22	-8	17
Rest of UK	35.6	35.6	18.6	17	1	9
Exports	40.7	32.2	5.1	36		17
Work in Progress	37.3	47.5	15.3	22	11	
Investment						
Total	47.5	40.7	6.8	41	29	
Capital	39.0	47.5	6.8	32	30	
Training	31.0	55.2	10.3	21	14	
Cashflow	29.3	56.9	10.3	19	-11	
Applied for Credit?			(yes)	15	21	
Profits	42.4	28.8	27.1	15	-2	
Capacity Used (Ave. %)				78	83	79
Employment						
Total	37.3	55.9	6.8	31	10	21
Recruiting Staff			(yes)	68	49	
Recruitment Difficulties			(yes)	24	21	
Increased Wages?			(yes)	36	34	
Average Pay Increase (%)				4.3	3.8	3.1
Expectations Next Quarter						
Price Change	31.0	65.5	3.4	28	17	25
Sales Revenue	55.9	35.6	8.5	47	41	
Investment	42.4	45.8	10.2	32	28	
Employees	27.1	62.7	10.2	17	22	19

Retail & Wholesale

BUSINESS OPTIMISM

Just over 40% of retail & wholesale firms reported an increase in business optimism between Q1 and Q2 and the net % balance of +7 was the highest since Q4 2004.

SALES

Sales were reported as down over the quarter at a net % balance of -7, but the +30 net % balance recorded for expected sales in Q3 was the highest recorded figure in the past 10 years.

PRICE CHANGE

Most businesses do not expect their prices to change in Q3 (60%) and the net % balance of +25 was the lowest since before 2004.

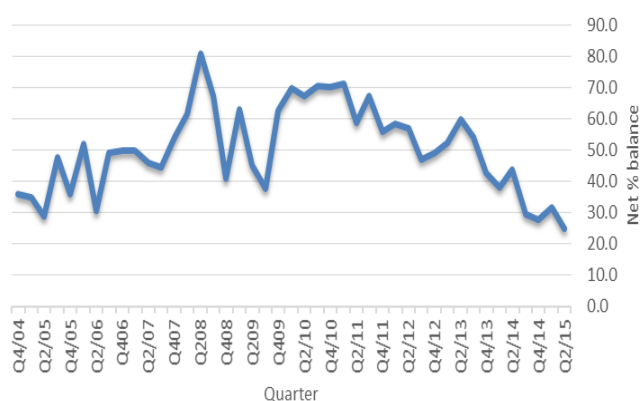
EMPLOYMENT

Employment levels increased on balance across the sector with a net % balance of +8 recorded. The net % balance of firms that expect to increase employment in Q3 was +15, the highest figure reported in the past 10 years. 12% of firms had difficulties in recruiting, significantly lower than the same time last year (40%).

" J H Donald have been in business over 60 years. We have survived as Ayrshire's largest electrical retailer because of good value plus excellent after sales service and membership of Euronics. We have in the last 3 months invested in two new service vehicles to maintain our high level of after sales service to our customers."

Reg Donald, Managing Director, J H Donald, Ayrshire.

Expected price change



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/15	Q1/15	Q2/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	40.3	26.9	32.8	7	2	-9
Sales Revenue						
Total	32.8	25.4	40.3	-7	3	-8
Domestic (Scotland)	32.3	23.1	30.8	2	12	
Rest of UK	15.6	23.4	15.6	0	17	
Exports	9.5	12.7	7.9	2	14	
Online	22.7	25.8	9.1	14	23	
Investment						
Total	33.3	40.9	10.6	23	26	
Capital	25.8	40.9	9.1	17	16	
Training	18.8	45.3	9.4	9	17	
Cashflow	30.9	38.2	30.9	0	-4	-5
Applied for Credit?			(yes)	9	20	
Profits	31.3	31.3	35.8	-4	5	
Capacity Used (Ave. %)				72	81	
Employment						
Total	21.5	55.4	13.8	8	-2	6
Recruiting Staff			(yes)	44	39	41
Recruitment Difficulties			(yes)	12	14	40
Increased Wages?			(yes)	25	25	
Average Pay Increase (%)				3.6	3.1	2.8
Pressure to Raise Prices						
Wage Costs			(yes)	32	41	19
Energy Costs			(yes)	45	34	29
Expectations Next Quarter						
Price Change	32.4	60.3	7.4	25	32	44
Sales Revenue	49.3	31.3	19.4	30	23	4
Investment	30.2	44.4	9.5	21	10	
Employees	23.5	67.6	8.8	15	5	3

Tourism

GUESTS

Guests/customers arriving from the rest of the EU was unchanged compared with the same time last year for 40% of firms, with fewer than 20% reporting an increase.

EMPLOYMENT

Employment levels increased across the sector with a net % balance of +23 recorded, this is the highest balance reported since 2007. Employment levels are expected to at least be maintained next quarter, with only 4.4% expecting to reduce staffing numbers.

RECRUITMENT DIFFICULTIES

Recruitment problems are still a major issue in the industry, 35% of all firms had problems recruiting in the past quarter. Chefs were the most commonly cited occupation firms had difficulty recruiting.

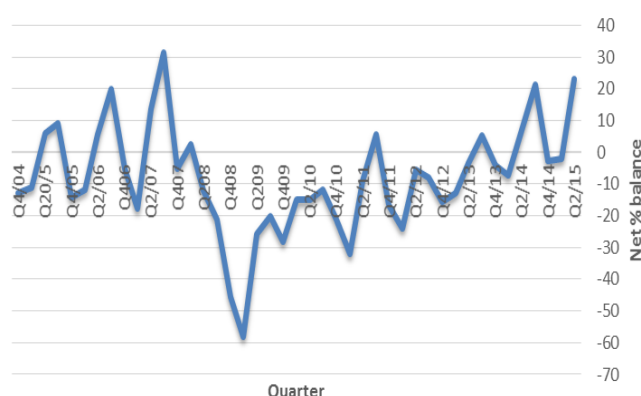
WAGES

39% of tourism businesses increased wages over the quarter and the average wage increase was significantly above the rate of inflation, at 4.7%.

“We are mainly a seasonal business but we’ve had an increased number of event enquiries in the last 3 months and the business is getting stronger all the time. The sale of our advertising space has also increased which is very encouraging.”

Elaine Stewart, Director,
LocalMotion Land Trains,
Broughty Ferry.

Employment



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/15	Q1/15	Q2/14
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	41.8	44.8	13.4	28	7	25
Sales Revenue						
Total	58.8	25.0	16.2	43	-9	
Domestic (Scotland)	37.9	36.4	15.2	23	-3	
Rest of UK	26.2	38.5	10.8	15	-1	
Online	27.7	27.7	13.8	14	9	
Investment						
Total	32.8	40.3	13.4	19	21	
Capital	31.3	40.3	10.4	21	18	
Training	33.3	39.4	4.5	29	14	
Cashflow	39.1	44.9	14.5	25	-3	
Applied for credit?			(yes)	12	11	
Profits	31.3	46.3	19.4	12	-13	
Employment						
Total	35.7	45.7	12.9	23	-2	7
Recruiting Staff			(yes)	71	55	66
Recruitment Difficulties			(yes)	35	29	32
Increased Wages?			(yes)	39	27	
Average Pay Increase (%)				4.7	3.4	3.4
Guests/Customers (vs last year)						
Total	50.7	25.4	23.9	27	9	27
From Scotland	37.3	38.8	23.9	13	2	19
From Rest of UK	32.8	41.8	17.9	15	-4	12
From Rest of EU	19.4	40.3	19.4	0	17	
From Outside the EU	20.0	38.5	16.9	3	14	
Expectations Next Quarter						
Price Change	30.0	67.1	2.9	27	35	
Sales Revenue	57.4	27.9	13.2	44	46	
Investment	16.9	58.5	13.8	3	27	
Employees	27.9	67.6	4.4	24	34	