

## **MEDIA RELEASE**

**Embargoed until 0001 hours on Thursday 17th April 2014**

### **SCOTTISH ECONOMY BRIGHT AS BUSINESS CONFIDENCE RISES**

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the first quarter of 2014. This broadly based survey, now in its 30<sup>th</sup> year and conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, reported that almost all key performance measures have returned to 2007 pre-recession levels, although some fragilities remain. Liz Cameron, Chief Executive of Scottish Chambers of Commerce said:

"The hard work and determination of Scottish businesses is yielding positive outcomes for the growth of Scotland's economy. All the indicators in this survey point to sustained economic growth as key sectors increase investment to expand activity, boosted by higher levels of business optimism.

"Investment intentions of Scottish businesses are encouraging with the manufacturing industry showing superb results with higher levels of investment than at any time in the past 6 years and robust growth in export orders shown by a consistent increase over 5 consecutive quarters. Whilst investment levels in the construction sector remain low, for only the second time in 5 years investment has not declined, and over 70% of businesses in the sector have either maintained or increased commercial and domestic orders compared with the last quarter. Promisingly, almost 90% of construction businesses surveyed expect employee numbers to remain the same or increase in the next 3 months and less than 14% reduced employment in the previous quarter.

"Higher levels of business optimism in construction, wholesale, retail and tourism is a positive signal for continued growth, as all sectors reported higher levels of confidence in Q1 2014 compared with the same quarter last year.

"However, despite these positive indicators, challenges still remain. The retail industry is expecting a decrease in profitability in 2014 which may point to stalled consumer confidence and seasonal patterns, but benefit may be drawn from positive growth in the tourism sector as confidence levels among hotels remained high and a rise in the use of conference facilities was also reported.

"The issue of skills shortages is becoming more prominent as businesses look to expand and invest. Businesses in the manufacturing sector are reporting difficulties in recruiting skilled & technical staff and the tourism sector are also reporting difficulties in recruiting managerial staff and chefs. It is vital that the organisations responsible for the development of skills provision, actively work with the business community to ensure employees are provided with the skills required to succeed.

"The buoyancy and optimism of Scottish businesses is to be commended but Governments in Scotland and the UK must facilitate opportunities for businesses to access affordable finance, particularly as cash flow remains a pertinent issue for businesses in construction and manufacturing. Alongside this, efforts to export internationally must be strengthened by policy makers to enable Scottish businesses to take advantage of global trade opportunities."

ENDS

#### **Notes to Editors:**

- Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the first quarter of 2014, in conjunction with the University of Strathclyde's Fraser of Allander Institute.
- Scottish Chambers of Commerce will be publishing its inaugural findings of the Financial & Business Services sector on Thursday 8<sup>th</sup> May 2014.

## Key findings

- **Almost all key balances have now returned to 2007 pre-recession levels.**
- **Confidence among manufacturing, construction and tourism firms continues to improve, but there was a decline among retailers.**
- **Manufacturing orders continued to rise with a notable increase in export orders.**
- **Construction orders improved again with 85% reporting that new contracts have either remained constant or increased.**
- **Retailers, on balance, reported a drop in sales however 60% reported either no change or a rise.**
- **Confidence levels among hotels remained high and there was a rise in the use of conference facilities.**
- **Manufacturing investment plans were at their highest level since Q4/07 but retail and construction investment plans remained low.**
- **Expectations for most key balances remain strong.**
- **Employment trends held up with at least 80% of businesses looking at either retaining their workforce or recruiting within the next 3 months.**

## BUSINESS PERFORMANCE

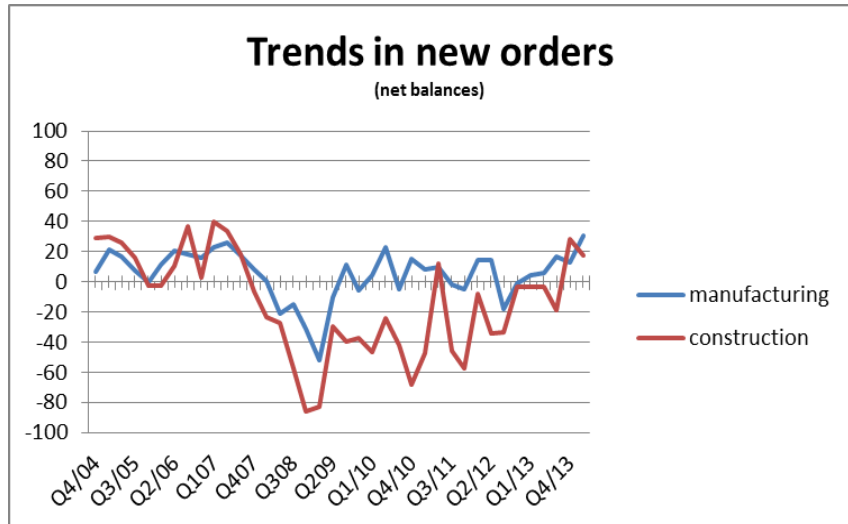
This latest snapshot of the economy suggest that although the recovery has had its ups and downs this most recent Scottish Chambers' Business Survey shows that the distinct improvements evident from the previous survey have been maintained with many of the trends in key indicators stronger than a year ago and also than the long-term averages. Net balance figures are now returning to the prerecession levels of late 2007, perhaps indicating that the worst of the recession may now be over. However some warn that the recovery still remains fragile and further action may be required to ensure that it is sustainable.

### Business confidence

Business confidence continued to improve for the manufacturing, construction and tourism sectors but there was a net decline in retail optimism. Firms in all sectors were, on balance, more confident compared to Q1/13.

### Demand/sales

As forecast by firms in the previous survey the net balance of total orders among manufacturing firms continued to improve in the first quarter; a further rise is forecast – Scottish, rest of UK and export orders, on balance all rose and all are expected to continue to rise in Q2 and there was a notable pick up in export orders. Orders in construction continued to improve in the first quarter of 2014 and the previously negative trend in public sector orders also improved.

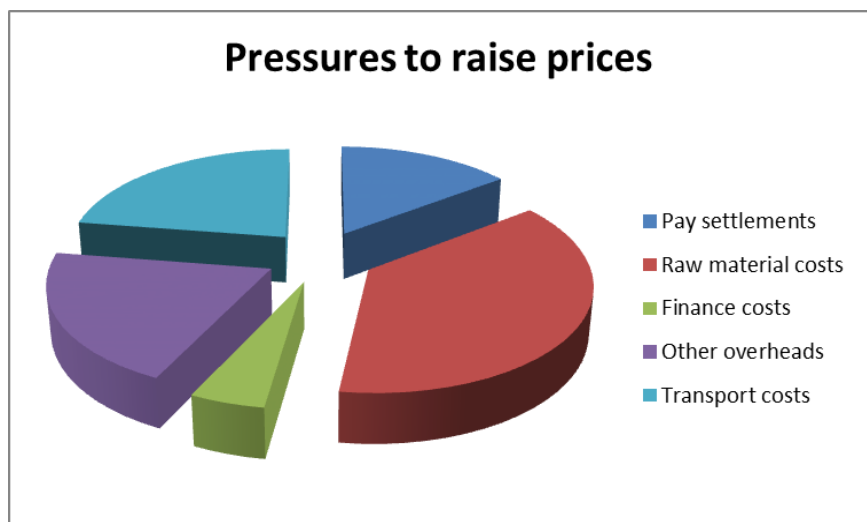


Following the marked rise in retail sales in the final quarter of 2013 (+18.8%) a net of -18% reported a decline; although this balance is higher than previous Q1 figures. A rise is forecast for Q2. A net balance of tourism firms (+20.7%) reported a rise in demand and a further increase (+26.5%) is anticipated.

#### Capacity/work in progress

Average capacity used in manufacturing eased marginally from 78.1% in Q4/13 to 77% in the latest quarter and this level is higher than previous first quarters. Fewer than half of manufacturing firms reported working below optimum levels – a further improvement on previous quarters and net balances reported and expect the level of work in progress to rise. In construction capacity utilisation also eased but remained better than the levels reported in previous fourth quarters.

In construction more than half of firms reported working below optimum levels. In tourism occupancy levels eased to an average of 56%.



#### Cost pressures

Once again for manufacturing firms raw material/suppliers prices (71% compared to 64% in Q4) and transport costs (43% compared to 49% in Q4) were the most widely reported cost pressures. Prices are set to continue to rise in the coming quarter with fewer than 10% of manufacturers, wholesalers and retailers anticipating any declines in prices. The trends in cash flow generally remained weak during the first quarter furthering concerns that this may deter

businesses from expanding to meet any increased demand. Pressures on margins are set to ease among manufacturing and construction firms with both turnover and profitability expected to rise over the next twelve months. Retail and wholesale firms, although expecting turnover to rise, are not yet anticipating a rise in profits.

#### Pay and employment

Once again labour market activity remained fairly subdued with the majority of respondents in all sectors (ranging from 58% in manufacturing and construction to 80% in retail) reporting no change to employment levels. Trends in employment levels for manufacturing, construction and retail remain upward however tourism firms reported a small net fall in total employment levels.

Pay increases in the three months to the end of 2013 ranged from 2.4% in construction to 4.7% in wholesale.

#### Outlook

Since the start of 2014 businesses in Scotland have maintained the positive confidence levels evident from the last survey. Key benchmarks are stronger than their long-term averages and many are now higher than their pre-recession levels.

Overall, the pace of the recovery in the Scottish economy is accelerating and is becoming more broadly based. However, for some sectors trading conditions are still harsh suggesting that the recovery remains fragile and policy action may be required to ensure that it is sustainable. Growth is still, to an extent, reliant on household spending and in order to sustain growth over the longer term, an increase in investment and net exports as well as manufacturing and construction activity is needed.

We are witnessing a stronger recovery, albeit a weaker recovery than almost all previous recoveries from recession. There is room for considerable optimism but there are also reasons to be cautious about the future path of the recovery. Weaknesses in both the Scottish and UK economies and the threat of external shocks could still threaten future growth

Strathclyde University's Fraser of Allander Institute in collaboration with the Scottish Chambers' of Commerce conducts the quarterly Chambers' Business Survey. In the present survey, which was conducted in March 2014 some 260 firms responded to the questionnaire.

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## MANUFACTURING

### Optimism

During the first three months of 2014 business confidence remained positive, with a net balance of 18.1% reporting an increase in confidence levels. Only 11.1% of firms reported being less confident compared with Q4 2013.

### Orders and Sales

During Q1/14 the trend in total new orders improved markedly (from a net balance of 13.1% to 30.5%) with 44% of all firms reporting a rise. Respondents continue to remain optimistic as to the trends in future orders during Q2/14 (+17.8%) with orders from all areas set to rise. Average capacity utilisation eased from 78.1% to 77% although was almost two percentage points higher than the Q1/13 figure.

Once again turnover and profitability are expected to rise for a net balance of firms over the coming 12 month period. Both net balances are at their highest levels since 2007.

### Investment

The positive trends in investment in plant/machinery improved during Q1/14 for a net balance of manufacturing respondents(+15.7%). New investment continues to be directed towards replacement (29%) or to improve efficiency (36%) although a significant number are also reporting expansion as a reason (29%).

### Employment

A net balance of firms reported a rise in total employment levels (+21%). Almost a third of firms increased pay during Q1 and the average increase remained at 3.3%. 52% (compared to 48% in the previous quarter) reported seeking to recruit staff, and almost half of these firms reported increased recruitment difficulties.

MANUFACTURING	Up	Level	Down	Q1/14	Q4/13	Q3/13
<b>Business Optimism</b>	29.2	59.4	11.1	18.1	22.3	18
Trends in actual orders						
Total new orders	44.4	41.7	13.9	30.5	13.1	16.7
Scottish orders	27.4	57.9	14.7	12.7	14.7	13
Rest of UK orders	36.5	52.1	11.5	25	20.6	11.6
Export orders [31.3% = N/A]	24.3	36.9	8.9	15.4	1.4	2.6
Trends in expected orders						
Total new orders	29.7	58.4	11.9	17.8	13.5	19.1
Scottish orders	27.8	60	12.2	15.6	7.3	7.7
Rest of UK orders	23.3	67.8	8.9	14.4	9.1	9.3
Export orders [31.1%= N/A]	23.2	40.4	9.1	14.1	6.8	1.3
Av Capacity used	77.0			77	78.1	77.5
Invest in plant/equip.	29.4	56.9	13.7	15.7	11.1	7.9
Cash flow past 3 moths	19.8	59.4	20.8	-1	-5.7	-4.1
Turnover next 12 moths	55	32.1	12.8	42.2	29.3	22.4
Profitability next 12 moths	42.1	38.3	19.6	22.5	15.3	10.5
Price change next 3 moths	28.6	63.8	7.6	21	20	26
Pressure to raise prices from						
Pay settlements	28			28	34.7	27.8
Raw material costs	71.3			71.3	64.4	72
Finance costs	9.1			9.1	12.7	12.7
Other overheads	38.6			38.6	43.1	38.9
Transport costs	42.9			42.9	48.6	35.7
Employment trends						
Total actual employment	31.2	58.7	10.1	21.1	15.8	13
Total expected next 3 months	26.2	66.4	7.5	18.7	10.9	5.4
Average pay increase	3.3			3.3	3.3	3

## CONSTRUCTION

### Optimism

The rising trend in business optimism continued into Q1/14 with a net balance of respondents reporting a positive net balance of optimism (+20.7%); only 13.8% reported a decline in business optimism.

### Contracts

Following the rapid increase in Q4/13 the trend in total new orders dropped back but remained positive in Q1/14 and is expected to remain positive through Q2. Orders from all areas generally improved and all are expected to rise again in the three months to the end of June. Capacity utilisation eased from 82.3% to 77.6%.

Cash flow trends continued to deteriorate for a net balance of construction firms (-6.9%) although the decline eased from the previous quarter (-11.5%). Turnover is expected to increase for more than half of firms and a net balance now anticipate an increase in profits suggesting that the long term trend in pressure on margins may be beginning to ease. Indeed a net balance of firms reported that tender margins, in the next 12 months, are set to rise.

### Employment

As forecast there was a net rise in total employment levels in Q1 although most firms continued to reported no change; a net balance (+7.7%) expect a further rise in Q2. Recruitment activity eased (from 46% to 31%) although recruitment problems increased with firms specifying problems attracting suitable professional and technical staff. Average pay increases decreased marginally from 2.9% in Q4/13 to 2.4%.

	Up	Level	Down	Q1/14	Q4/13	Q3/13
<b>Business Optimism</b>	34.5	51.7	13.8	20.7	23.1	-3.7
<b>Trend in actual orders</b>						
Total new contracts	32.1	53.6	14.3	17.8	28	-18.5
Public sector orders	28	48	24	4.0	-19	-22.8
Private commercial	33.3	41.7	25.0	8.3	34.8	8.3
Domestic/house build	31.8	40.9	27.3	4.5	10	-26.1
<b>Trends in expected orders</b>						
Total new orders	30.8	61.5	7.7	23.1	8	-14.8
Public sector orders	22.7	59.1	18.2	4.5	-5.3	-9.5
Private commercial	42.9	47.6	9.5	33.4	22.7	0
Domestic/house build	40	40	20	20.0	10.5	-22.8
<b>Trends in work in progress</b>						
Actual	31.0	44.8	24.1	6.9	7.7	-22.2
Expected	35.7	46.4	17.9	17.8	19.2	-22.2
<b>Capacity used</b>	77.6			77.6	82.3	80.8
<b>Invest in plant/equip.*</b>	14.3	71.4	14.3	0.0		5.2
<b>Leasing in plant/equipment.*</b>	15.4	65.4	19.2	-3.8		0
<b>Employment trends</b>						
Total actual employment	24.1	58.6	13.8	10.3	-3.9	14.8
Total expected next 3 months	23.1	61.5	15.4	7.7	12	7.7
<b>Average pay increase</b>	2.4			2.4	2.9	3.2
Percent recruiting staff	31.0			31.0	46.2	38.5
Recruitment difficulties increasing	33			33.0	6.3	23.1

## WHOLESALE DISTRIBUTION

### **Optimism**

The downward trend in business optimism amongst Scottish wholesalers continued, though eased, and more than two thirds continued to report no change.

### **Sales**

The downward trend in sales eased further from -5.6% in Q4 to 0%. Once again the net balance in sales was better than had been expected by respondents in the previous survey, and a net balance of +6.6% expect a rise in the first quarter of 2014.

Overall cost pressures appear to be easing, although more than half of respondents reported increased pressures from transport costs and other overheads and to a lesser extent, firms also remain under pressure from raw material costs (47%). More than half of firms (52.9%) expect to increase prices over the next three months. The long running downward trend in turnover ended with a net balance of 5.9% expecting a rise in the coming year whereas the downward trend in profitability continued, though eased in Q1.

### **Finance**

More than 80% of firms reported no change to investment plans although the remaining firms reported an increase.

### **Employment**

Wholesale respondents unexpectedly report a net increase in overall employment levels during Q1/14. Recruitment activity eased as did recruitment difficulties. The average pay increase in Q1/14 was 4.7% compared to 2.5% in Q4/13 (few than 20% reported an increase).

	Up	Level	Down	Q1/14	Q4/13	Q3/13
<b>Business Optimism</b>	11.8	70.6	17.6	-5.8	-22.2	-13.3
<b>Trend in actual sales</b>	37.5	25	37.5	0	-5.6	-6.7
<b>Trend in expected sales</b>	33.3	40	26.7	6.6	-6.7	-15.4
Investment plans	17.6	82.4	0	17.6	0	6.7
Cash flow past 3 months	29.4	64.7	5.9	23.5	-11.1	6.7
Turnover next 12 months	35.3	35.3	29.4	5.9	-22.2	-13.3
Profitability next 12 months	25	37.5	37.5	-12.5	-27.7	-33.3
Price change next 3 months	52.9	41.2	5.9	47	55.5	23.3
<b>Pressures to raise prices from</b>						
Pay settlements	17.6			17.6	27.8	40
Raw material costs	47.1			47.1	66.7	40
Finance costs	23.5			23.5	27.8	33.3
Other overheads	58.8			58.8	44.4	46.7
Transport costs	64.7			64.7	75	78.6
<b>Employment trends</b>						
Total actual employment	17.6	70.6	11.8	5.8	-22.2	-13.3
Expected next 3 months	0	93.3	6.7	-6.7	-5.9	0
Average pay increase	4.7			4.7	2.5	2.3
Percent recruiting staff	41.2			41.2	55.5	60
Recruitment difficulties	33			33	46.7	41.7

## RETAIL DISTRIBUTION

### **Optimism**

Compared with the previous quarter business confidence decreased in Q1/14 for a net balance of -5.5% of firms; despite the decline the net balance remained significantly higher than the balance in Q1/13 (-45.2%).

### **Sales**

Overall sales unexpectedly declined as a net balance of 18.5% reported a drop in sales in Q1, however a net balance of 4.4% expects a rise in Q2. This remains an improvement over the same period of 2013 when a net of 47.6% reported a decline in sales.

### **Finance**

Cost pressures remain historically high and firms continued to cite raw material prices and utility costs. Pressures on margins appear to have increased slightly in Q1. A net balance of 12.5% expect a rise in turnover although a net of -14.6% expect a decline in profitability (compared to -2.1% in the previous quarter).

### **Employment**

The trend in total employment remained flat with more than 80% reporting no net change to total levels.

A third of firms reported increasing pay, and the average increase eased from 6.5% to 4.4%.

	Up	Level	Down	Q1/14	Q4/13	Q3/13
<b>Business Optimism</b>	21.8	50.9	27.3	-5.5	4.2	2.1
<b>Trend in actual sales</b>	22.2	37	40.7	-18.5	18.8	4.3
<b>Trend in expected sales</b>	22.2	60	17.8	4.4	0.0	2.3
<b>Cash flow past 3 months</b>	18.5	61.1	20.4	-1.9	6.3	0.0
Turnover next 12 months	35.7	41.1	23.2	12.5	16.3	14.6
Profitability next 12 months	21.8	41.8	36.4	-14.6	-2.1	-10.4
Price change next 3 months	43.6	50.9	5.5	38.1	42.9	54.1
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	34.1			34.1	34.1	35.7
<b>Raw material costs</b>	63.8			63.8	57.1	59.1
<b>Finance costs</b>	27.3			27.3	24.4	27.9
<b>Other overheads</b>	22.9			22.9	14.3	9.3
<b>Transport costs</b>	37			37.0	51.2	41.9
<b>Utility costs</b>	45.7			45.7	55.8	63.6
<b>Regulation costs</b>	38.6			38.6	36.6	35.7
<b>Employment trends</b>						
Total actual employment	9.6	80.8	9.6	0.0	6.1	12.5
Expected next 3 months	7.5	85	7.5	0.0	-5.0	-2.3
<b>Average pay increase</b>	4.4			4.4	6.5	5.3
Percent recruiting staff	23.2			23.2	28.6	31.9
Recruitment difficulties	30			30.0	19.2	28.0



## TOURISM

### **Optimism**

The upward trend in tourism optimism continued with only 10% indicating that they were feeling less confident during Q1/14.

### **Demand**

Demand generally continued to improve and exceeded expectations with a net balance of 20.7% reporting a rise. There was however a net decline in demand from the rest of UK although this decline is expected to be temporary. More than half expect no change to demand levels in Q2. Demand from all areas is expected to improve in Q2.

Average occupancy eased from 65% to 56%, Q1 occupancy levels are normally low. During Q1 trends in bar/restaurant trade improved as did the demand for the use of conference/function facilities.

A net balance (+7.7%) reported a rise in the average daily room rate and a net of 28.3% expect a rise in Q2.

### **Business constraints**

Only 58% (compared to 71% previously) reported the lack of tourist demand as the primary business constraint. Poor transport infrastructure and high fuel costs are becoming of increasing concern.

### **Employment**

Around half of hotels sought to recruit staff and recruitment problems are becoming more evident with a number of hotels reporting difficulties attracting suitable chefs/cooks, bar/waiting staff and managerial staff. Total employment trends declined although a rise is forecast for Q2.

	Up	Level	Down	Q1/14	Q4/13	Q3/13
<b>Business Optimism</b>	37.9	51.7	10.3	27.6	31.4	27.8
<b>Trends in demand/visitors</b>						
Total demand/visitors	43.1	34.5	22.4	20.7	47.6	30
Demand from Scotland	26.3	57.9	15.8	10.5	28.5	20.3
Demand from Rest of UK	17.5	56.1	26.3	-8.8	26.6	20.4
Demand from abroad	28.6	48.2	23.2	5.4	36.7	25.5
Business Trade	37	40.7	22.2	14.8	23.4	-7.3
<b>Trends in expected demand</b>						
Total demand/visitors	40.8	44.9	14.3	26.5	2.6	15.4
Demand from Scotland	28.3	58.7	13	15.3	0	5.8
Demand from Rest of UK	31.3	56.3	12.5	18.8	2.7	2
Demand from abroad	38.3	53.2	8.5	29.8	-5.5	-3.8
Business Trade	36.4	47.7	15.9	20.5	5.9	2.1
<b>Occupancy</b>						
Average daily rate	32.7	42.3	25	7.7	30.6	20.4
Expected average daily rate	43.5	41.3	15.2	28.3	0	-3.6
<b>Employment trends</b>						
Total actual employment	14.8	63	22.2	-7.4	-4	5.2
Expected next 3 months	23.5	60.8	15.7	7.8	-32.6	-17.9
<b>Average pay increase</b>						
Percent recruiting staff	57.9			57.9	64.7	63.3
Recruitment difficulties	25			25	14.9	14

## Methodology

The Scottish Chambers' Business survey, in common with most national surveys, seeks evidence as to changing trends, and uses net balances as the key survey statistic. Most questions ask the respondent to indicate whether the trend, over the past three months, and expected for the next three months, is either 'up', 'level' or 'down'. The net balance for such survey questions is defined as the number of 'up' responses minus the number of 'down' responses to each survey question. Hence a positive net balance indicates a rising trend, and a negative net balance a declining trend. Net balances for the current quarter, together with those for the previous quarter and the quarter a year ago have been added to the usual results.

Size band analysis is based on the number of employees in manufacturing, construction and wholesale, on the number of rooms in tourism and on ownership and location patterns together with number of full time equivalents in retail.

This information is part of the data collected by the quarterly surveys, further information can be provided, but a charge will be made, depending on the time to organise and present the data.

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