



Financial and Business Services Quarterly Business Survey

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This report details the full results of the first ever Financial and Business Services section of the Scottish Chambers of Commerce Quarterly Business Survey covering quarter 1 of 2014. From the second quarter of 2014 onwards, the Financial and Business Services sector will be included in the overall Quarterly Business Survey.

Summary

Overall, the results of the survey are in line with other economic survey results indicating a further strengthening of the Scottish economy's recovery post financial crisis. Positive results were observed in categories of turnover, employment, profitability, investment and the overall outlook for future economic conditions. Issues do still remain for Scottish businesses, especially Business rates – with 34.7% of respondents saying they were more important to their business now than in the previous quarter. However, when considering that Competition has been reported by 54.5% as being more important to their business now compared with the last quarter – more than any other reported factor - the results of the survey point to sustained increases in economic activity, profitability and confidence in the Financial & Business Services sector.

Methodology

122 responses were received in total from businesses classified as operating in the Financial & Business Services sector (based on Scottish Government sector classification), with each major geographical region of Scotland represented.

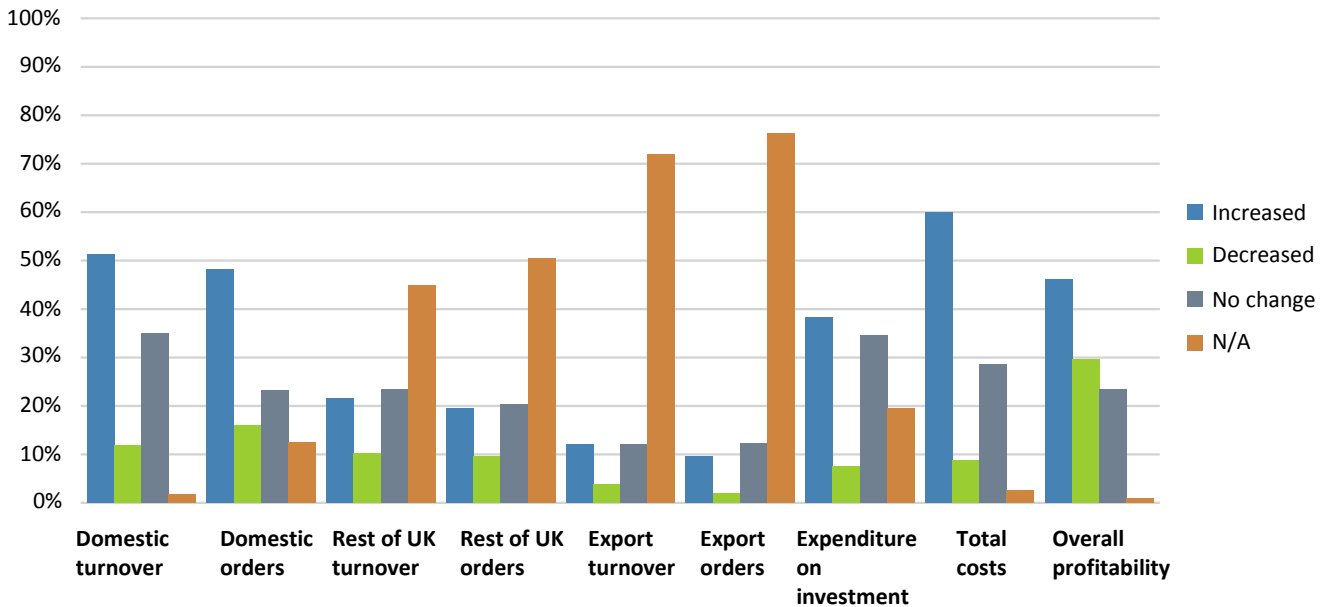
Net % balances are presented as the % of firms reporting an increase minus the % of firms reporting a decrease, with “no change” and “N/A” responses discounted.

Analysis

Turnover & Profitability

Over 50% of respondents indicated that domestic turnover (Scotland only) had increased over the past quarter, a net % balance of +39.3. The % of respondents reporting increased turnover for the rest of the UK was lower at 21.5%, with export turnover increases lower still at 12.1%. Given that 46.1% of all businesses reported an increase in overall profitability, a net % balance of +16.5, these lower figures for turnover increases outside of Scotland may not be a cause for concern, but indicative of the customer base of the industry (76.2% reported that they do not currently export). Expectations of future turnover and profitability were even higher, with 62.4% of firms expecting a further increase in turnover in the next quarter, and 54.8% of businesses anticipating increased profitability in the next quarter, rising to 64.4% expecting increased profitability over the next year - a net % balance of +46.6.

Over the past quarter how have the following changed for your business?



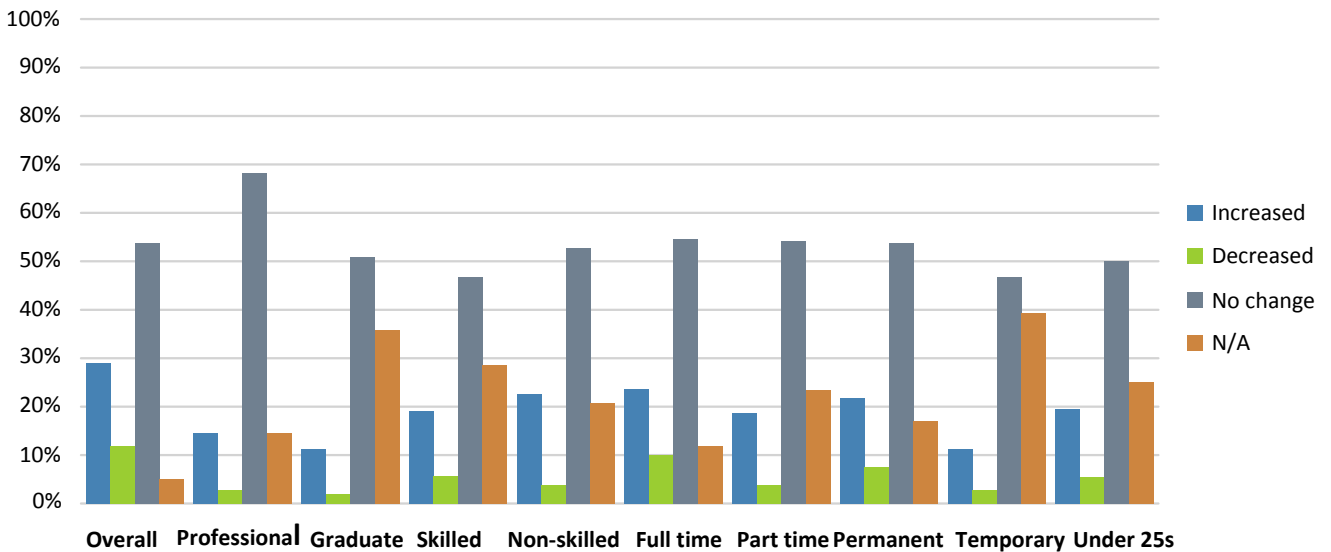
net % balance: +39.3 +32.1 +11.2 +9.7 +8.4 +7.6 +30.8 +51.3 +16.5

(orders = sales not yet realised)

Employment

29.1% of respondents reported an increase in overall employment levels over the past quarter, a net % balance of +17.1, and in line with the continued increases in employment levels reported by the Scottish Government. One area of concern might be for the relatively high level of youth unemployment nationally, given that 60.2% of firms had not tried to employ under 25s in the past quarter, and 72.2% had not tried to recruit a graduate. However, prospects for overall employment continue to look good, with only 4.2% of firms expecting to decrease employee numbers over the forthcoming year, compared with 43.2% of firms that expect to recruit, a net % balance of +39.0.

Over the past quarter how has your business' employee numbers changed?

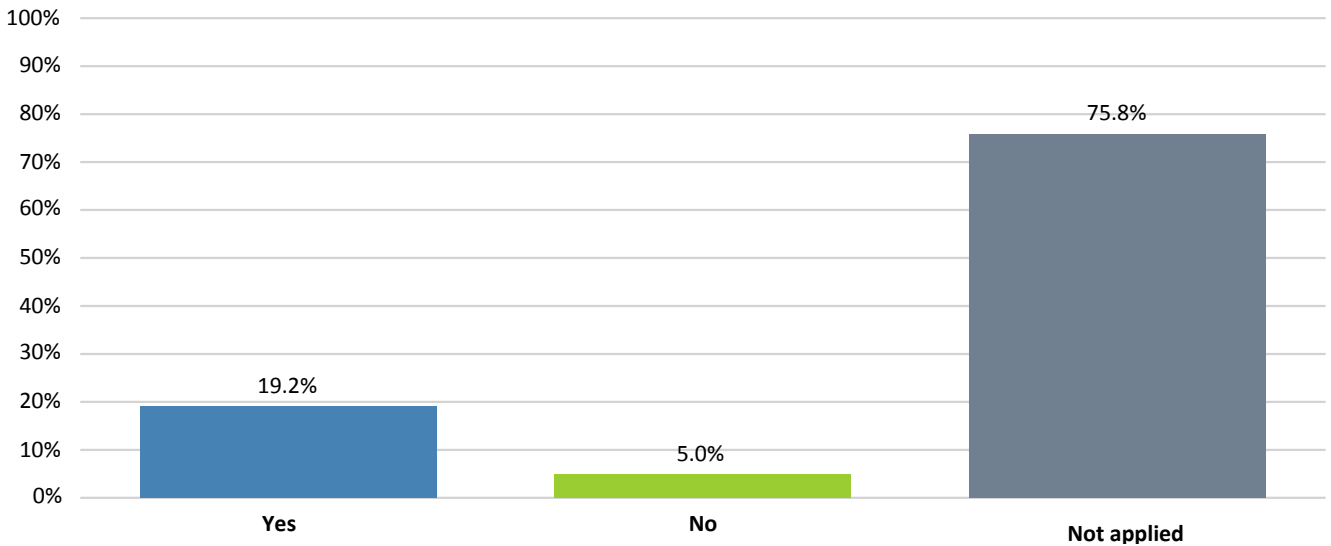


net % balance: +17.1 +11.8 +9.4 +13.3 +18.8 +22.6 +15.0 +14.2 +8.4 +13.8

Credit/Cash-flow

75.8% of respondents had not applied for credit in the previous year. Of those firms that did apply for credit (24.2% of total respondents), a relatively small number were unsuccessful - 26%. Given that 44.4% of respondents have reported an increase in cash-flow over the past quarter – a net % balance of +22.2, an increased ability to invest using retained profit could explain the lack of demand for credit rather than credit being too costly or difficult to obtain, or that businesses are not looking to invest or expand. It should be noted however, that 27.7% of businesses did say that interest rates were more important to their business this quarter compared with the last quarter, and despite the UK base interest rate remaining at 0.5%, of the firms that applied for credit, 72.7% were offered rates of 4% or above.

Over the past quarter has your business successfully applied for credit?

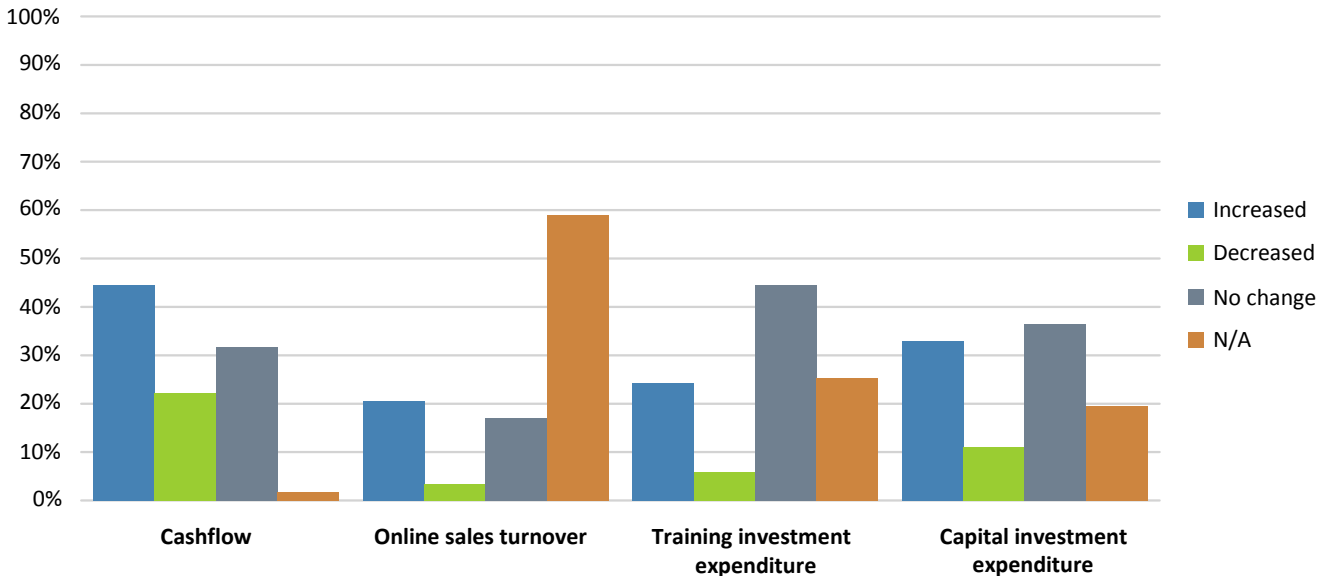


net % balance: +14.2

Investment

Investment levels in the UK economy overall are still some way off from recovering to levels seen before the financial crisis and recession. However, 24.4% of firms reported an increase in expenditure on training investment in the previous quarter and 33.1% reported an increase in capital investment expenditure, showing net % balances of +18.5 and +22.1. These results are promising for future investment levels, particularly given that 43.1% of firms expect to increase expenditure on investment in the next 12 months, a net % balance of +31.0. These figures support the UK Government's expectation that overall investment levels in the UK economy will significantly increase in 2014 and 2105.

Over the past quarter how have the following changed for your business?



net % balance: +22.2

+17.1

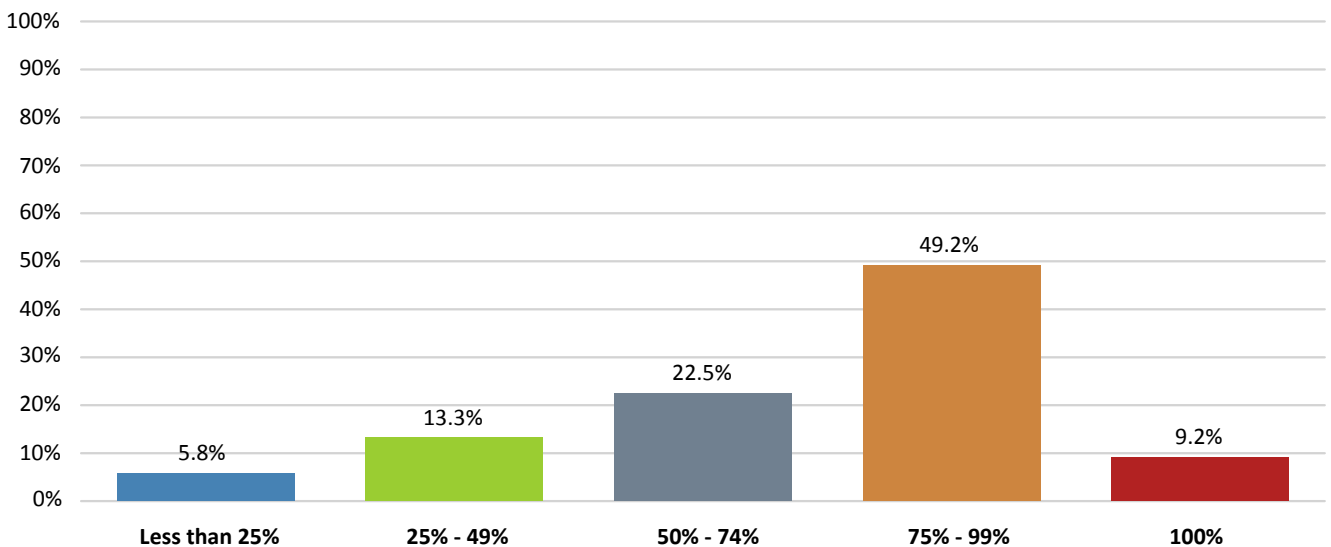
+18.5

+22.1

Inflation/Capacity

Almost 50% of firms (49.6%) said that increasing wage costs were placing pressure on them to increase their prices, a net % balance of +48.8. A smaller percentage of firms (39.2%) indicated that they plan to increase their prices next quarter. These results re-enforce the UK government's recent announcement that real wage rates in the UK economy are beginning to rise again. A significant number of firms reported upwards pressure on prices from other factors; Financial costs (37.6%), Raw material costs (30.8%) and also Demand for their goods/services (30.8%). However, the fact that 42.6% of firms have indicated they are operating below 75% of their capacity, suggests that the Bank of England's belief that spare capacity remains in the UK economy and is currently limiting inflationary pressures holds true.

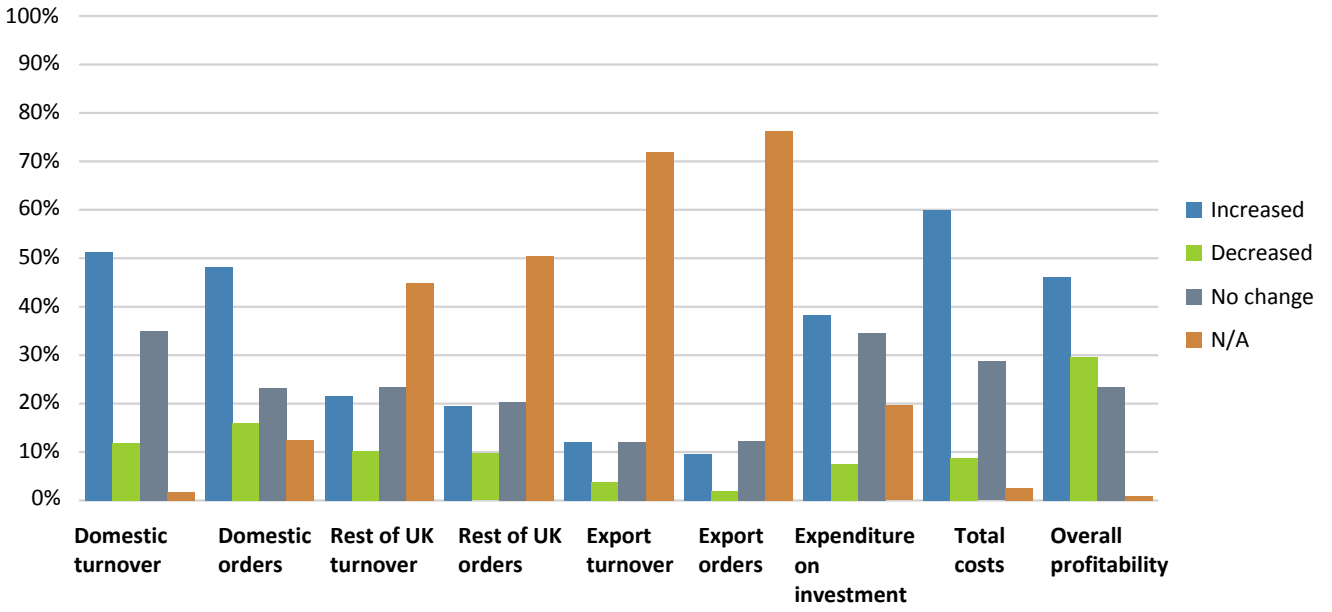
What percentage of capacity is your business currently operating at?



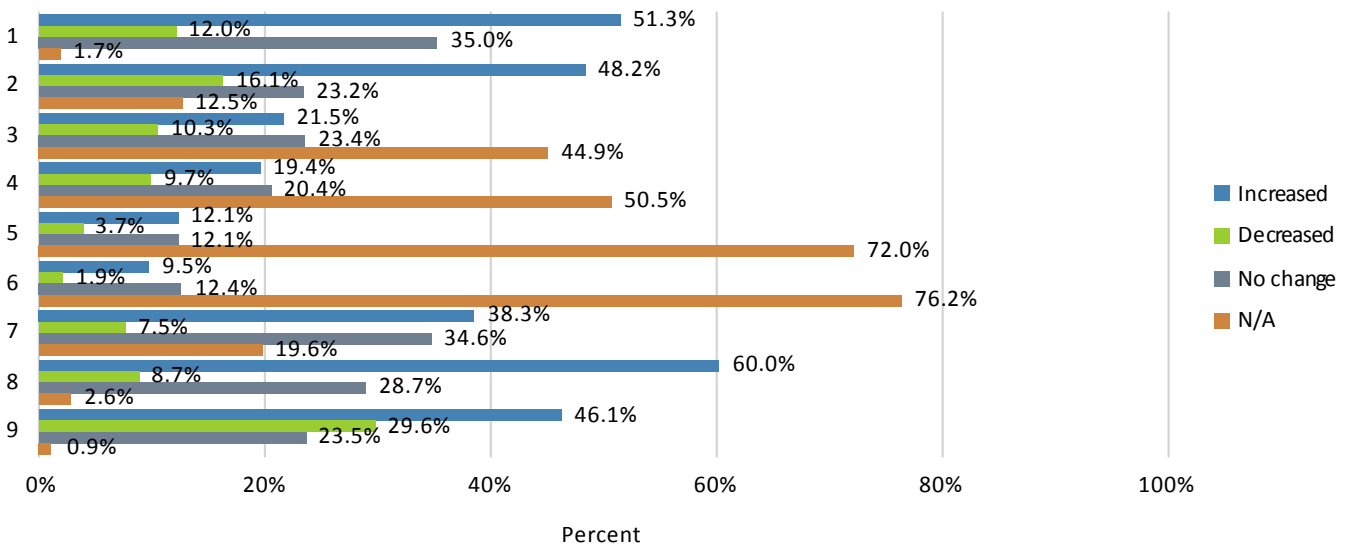
FULL RESULTS

1. Over the past quarter how have the following changed for your business?

(orders = sales not yet realised)

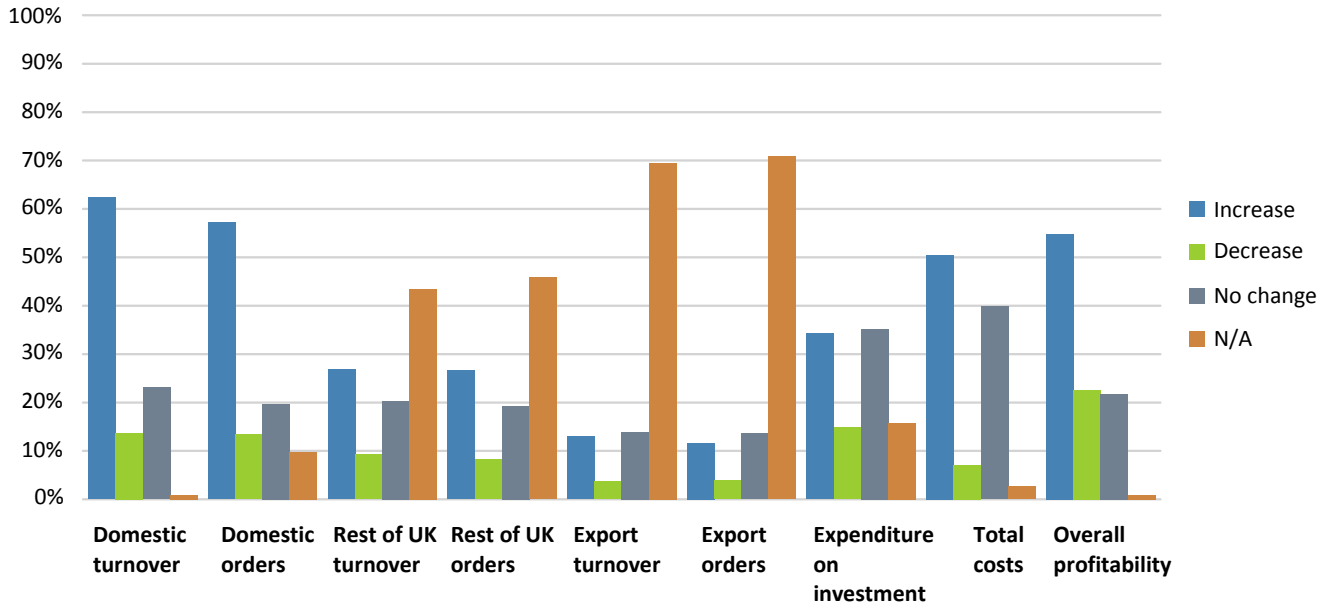


net % balance: +39.3 +32.1 +11.2 +9.7 +8.4 +7.6 +30.8 +51.3 +16.5

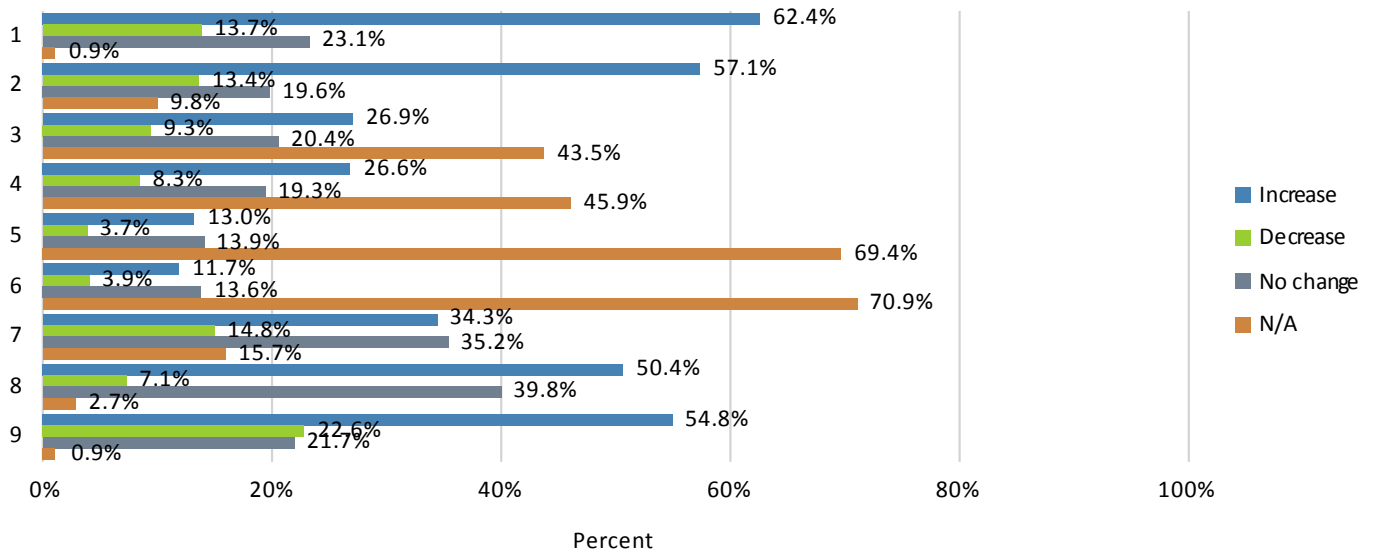


2. How do you expect the following to change for your business in the next quarter?

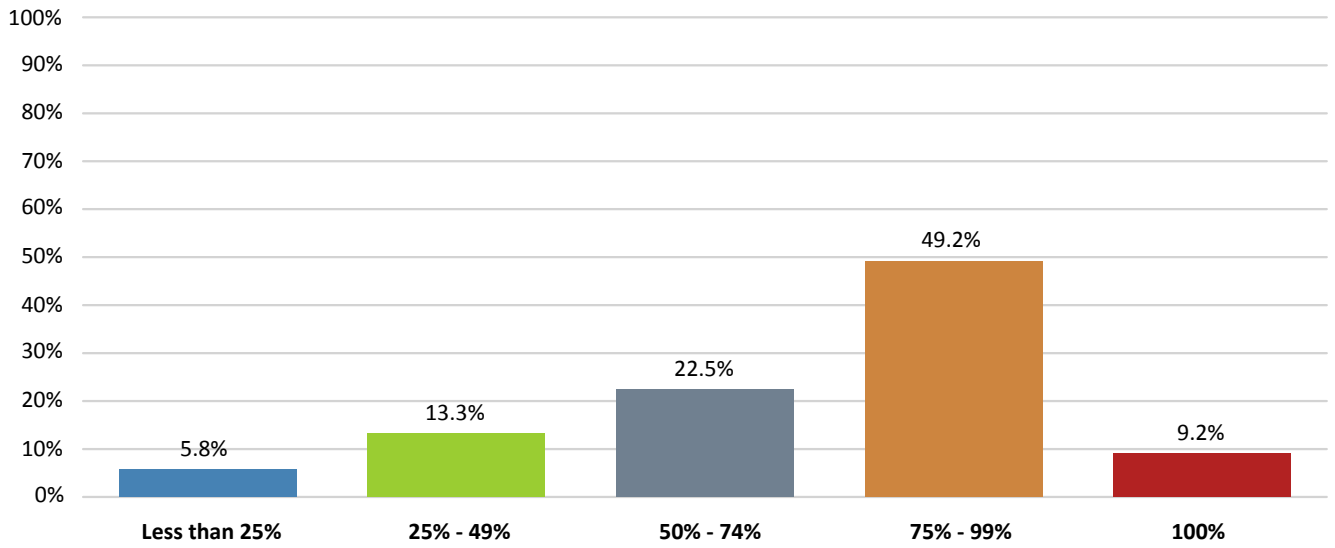
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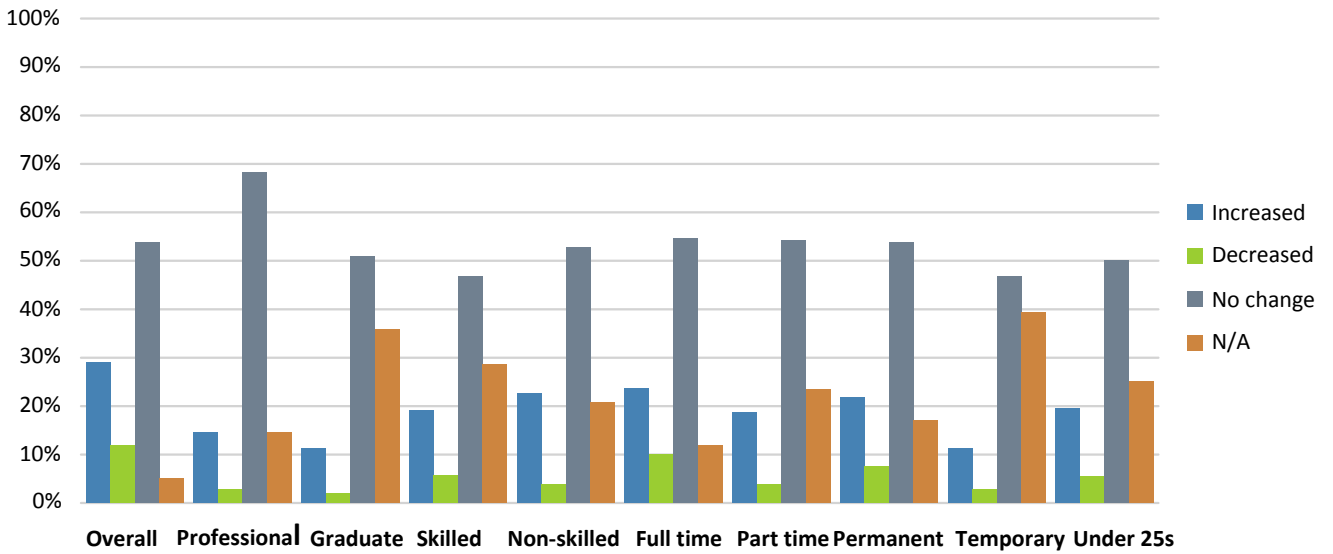
net % balance: +48.7 +43.7 +17.6 +18.3 +9.3 +7.8 +19.5 +43.3 +32.2



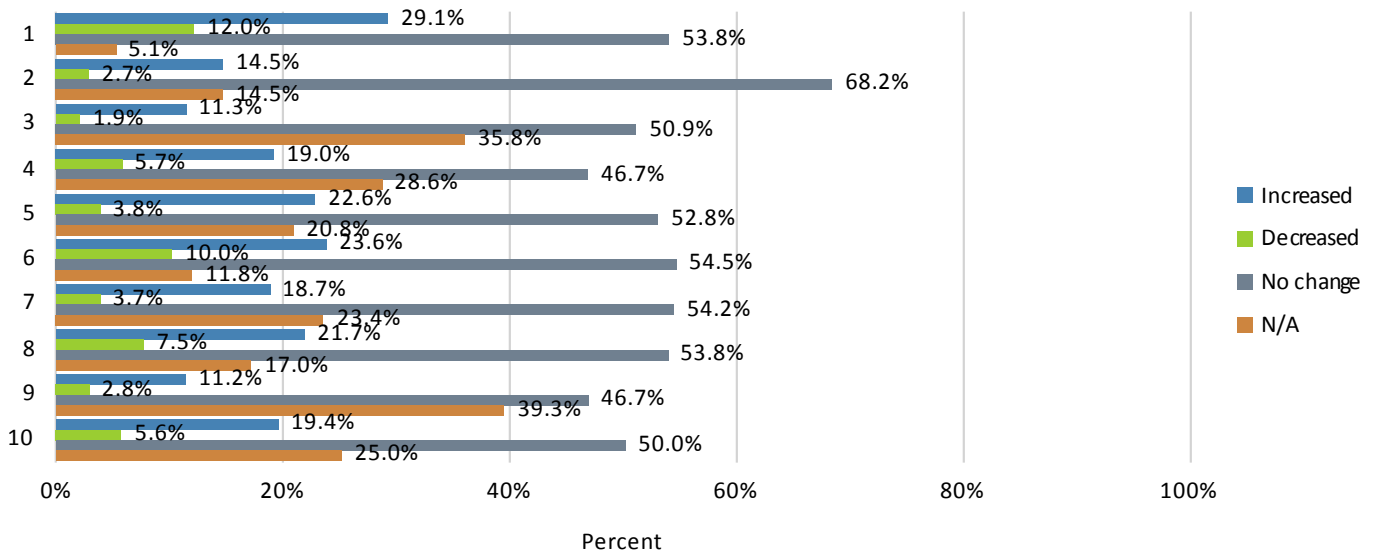
3. What percentage of capacity is your business currently operating at?



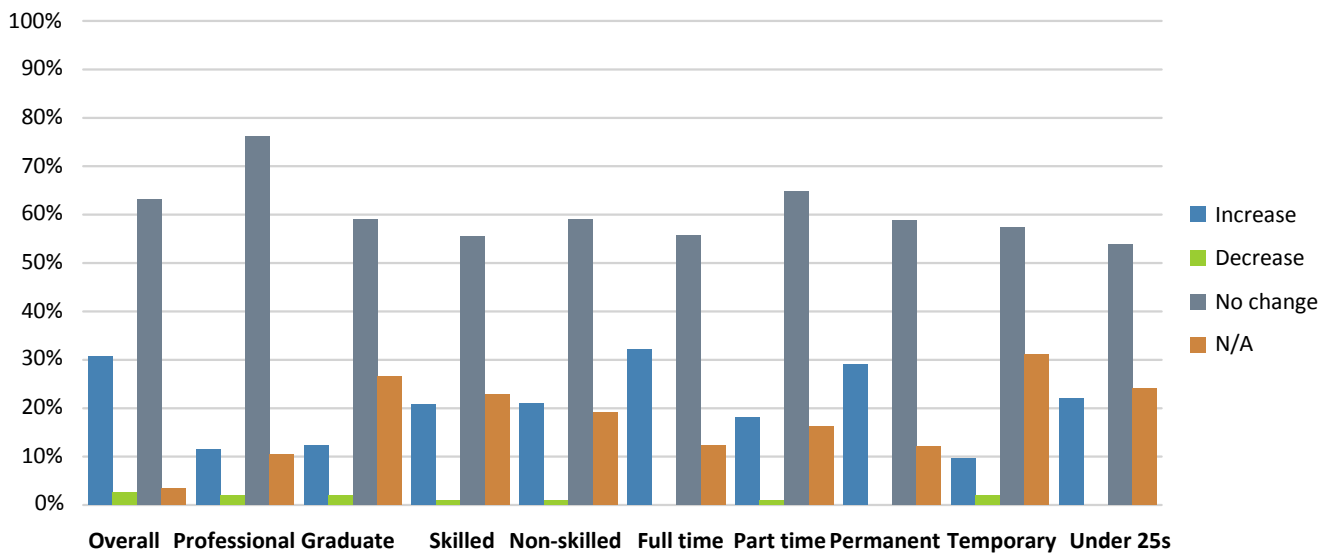
4. Over the past quarter how has your business' employee numbers changed?



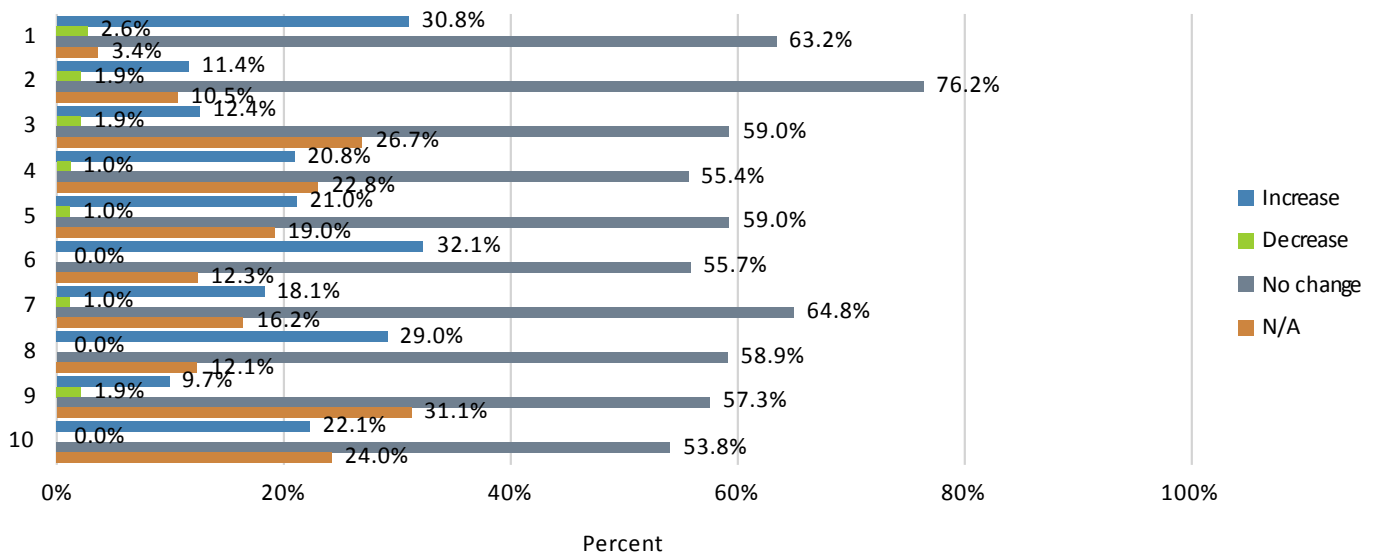
net % balance: +17.1 +11.8 +9.4 +13.3 +18.8 +22.6 +15.0 +14.2 +8.4 +13.8



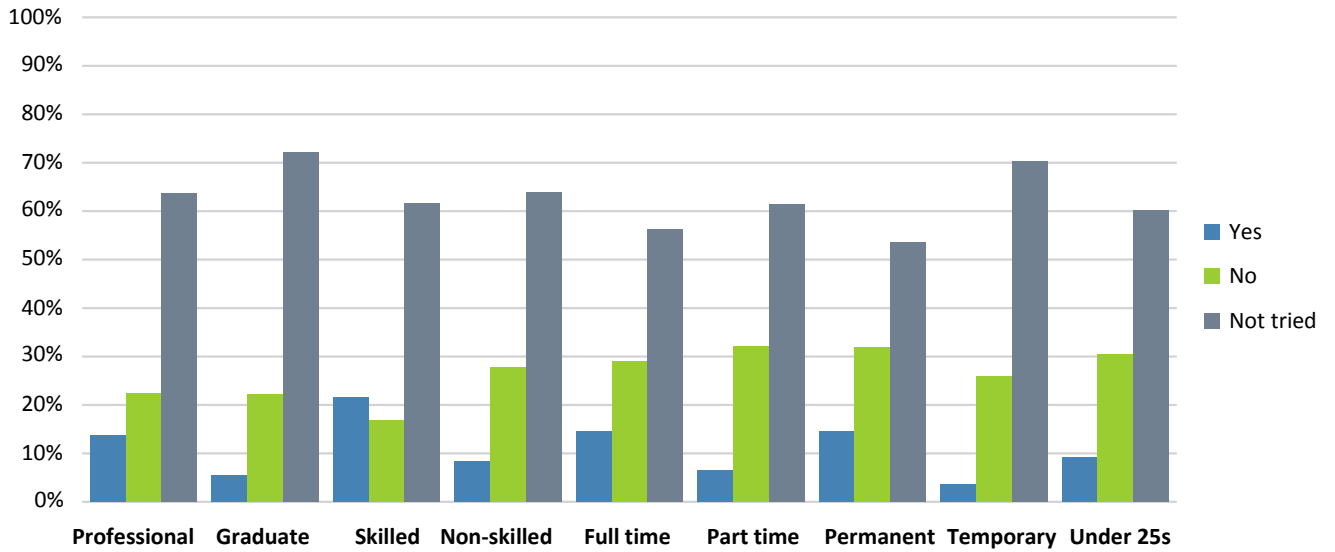
5. How do you expect your business' employee numbers to change in the next quarter?



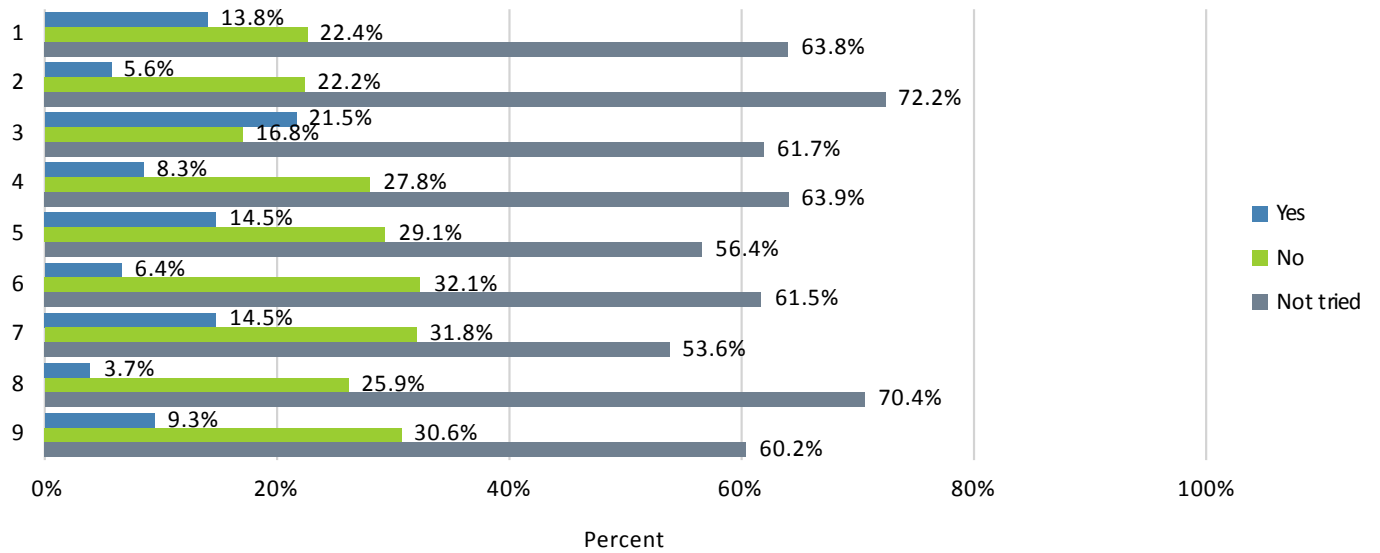
net % balance: +28.2 +9.5 +10.5 +19.8 +20.0 +32.1 +17.1 +29.0 +7.8 +22.1



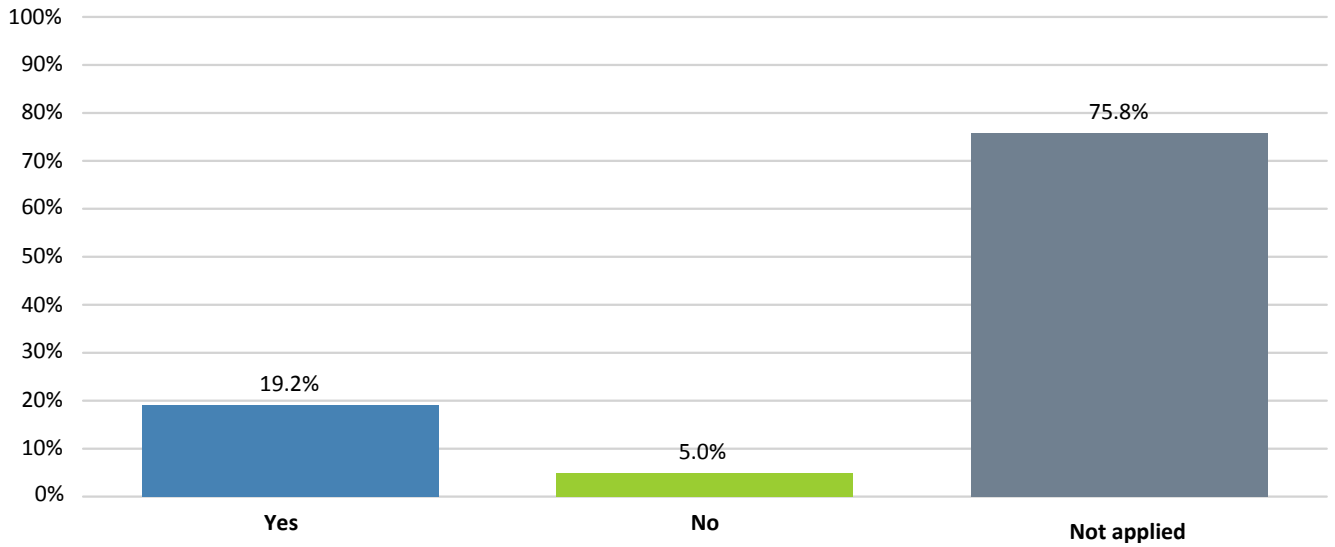
6. Over the past quarter has your business had difficulty recruiting staff?



net % balance: -8.6 -16.6 +4.7 -19.5 -14.6 -25.7 -17.3 -22.2 -21.3

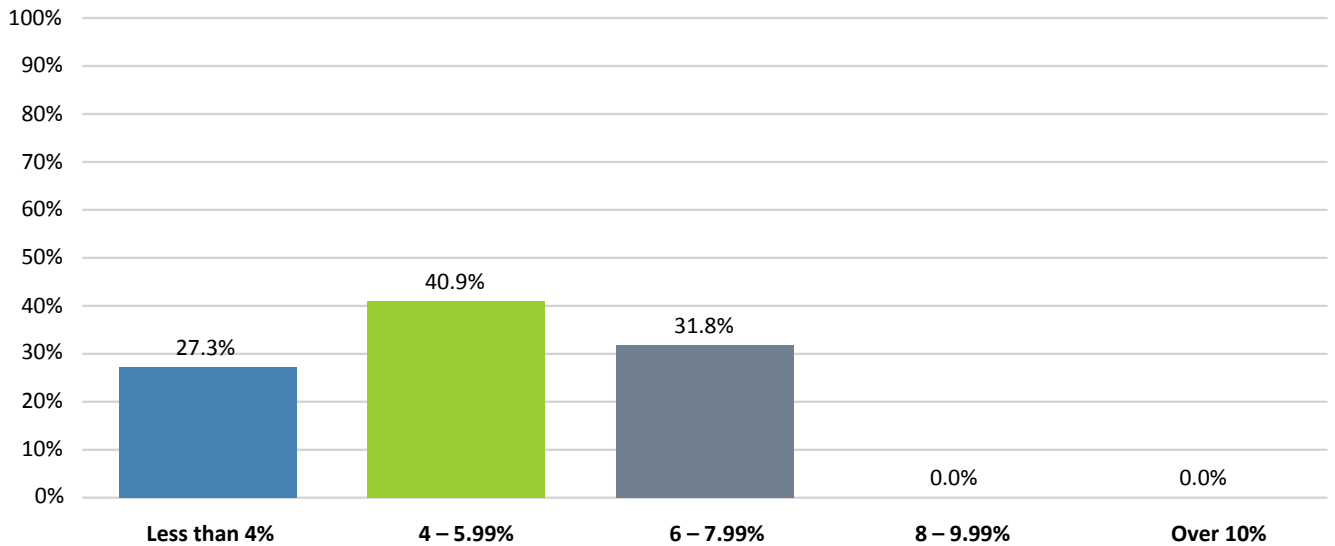


7. Over the past quarter has your business successfully applied for credit?

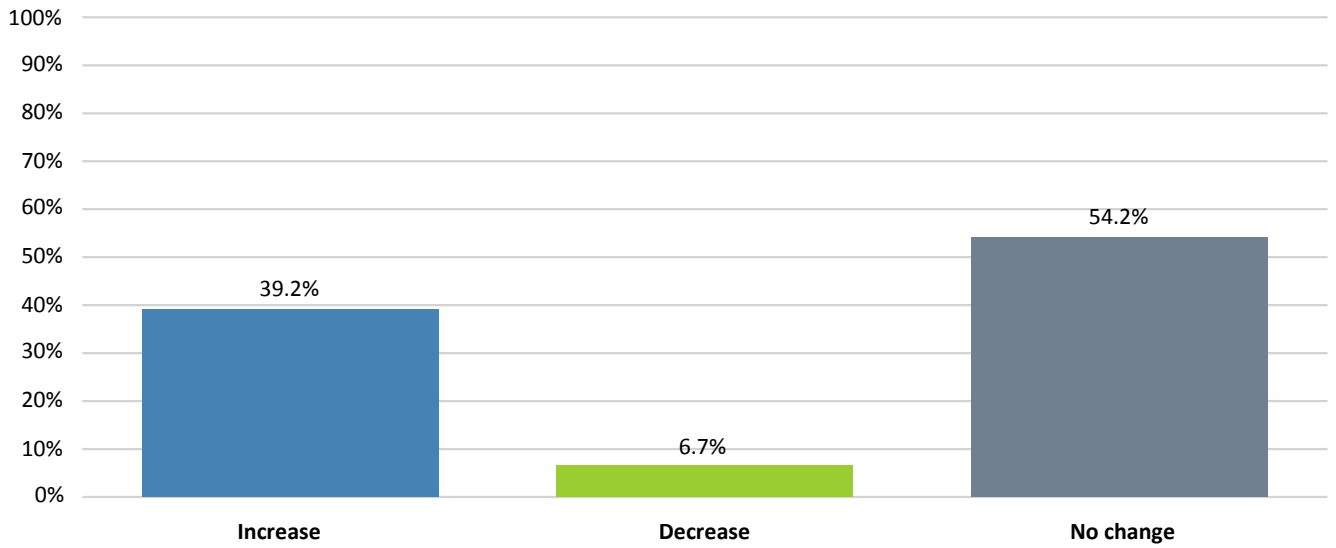


net % balance: +14.2

8. What credit rate was offered?

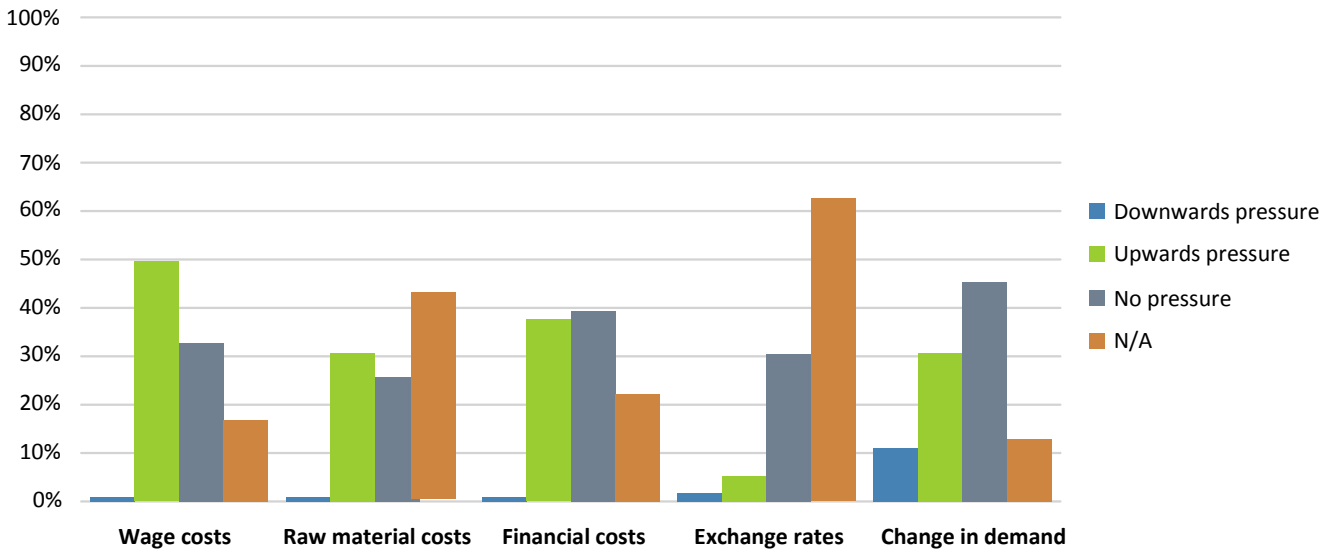


10. How do you expect the prices your business charges for its products/services to change in the next quarter?

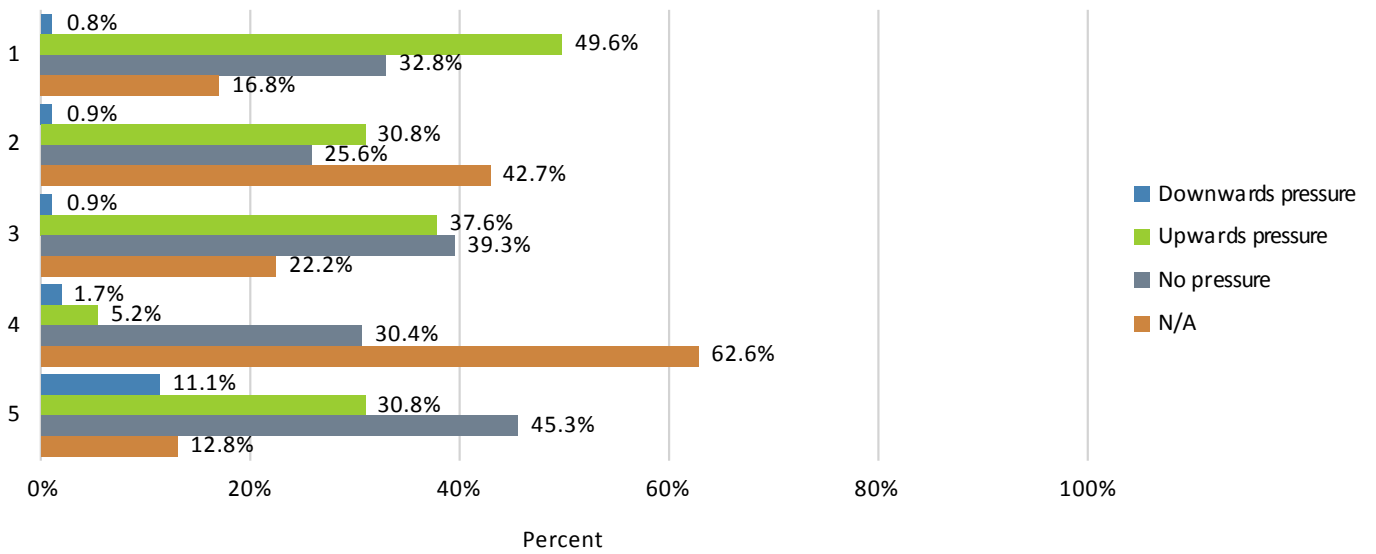


net % balance: +32.5

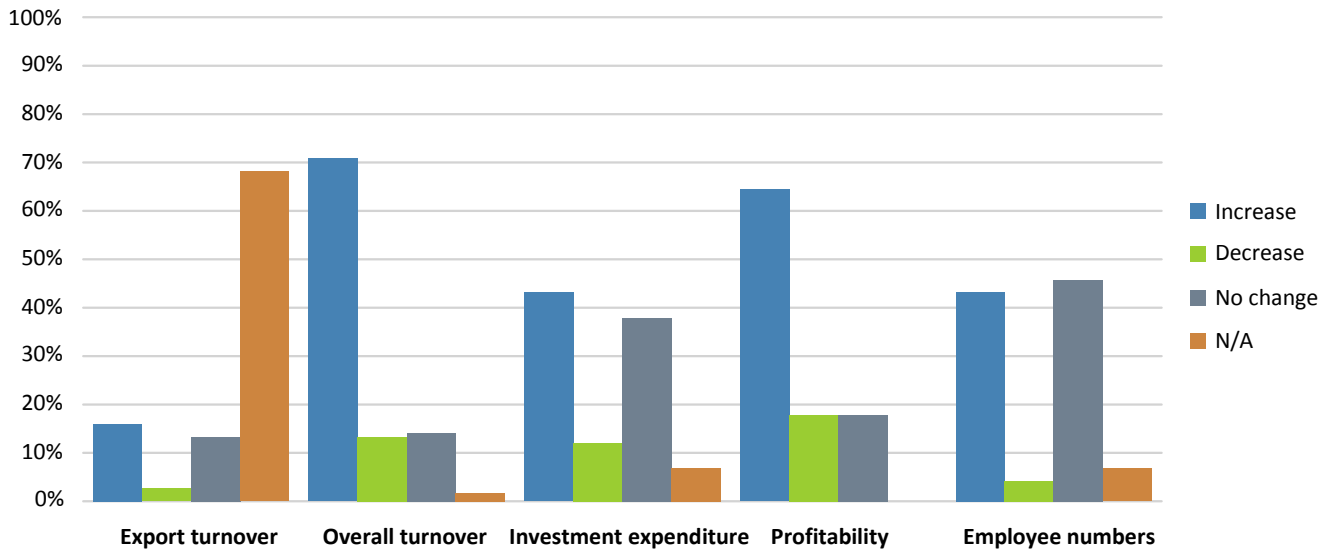
11. Are the following factors placing pressure on the prices your business charges?



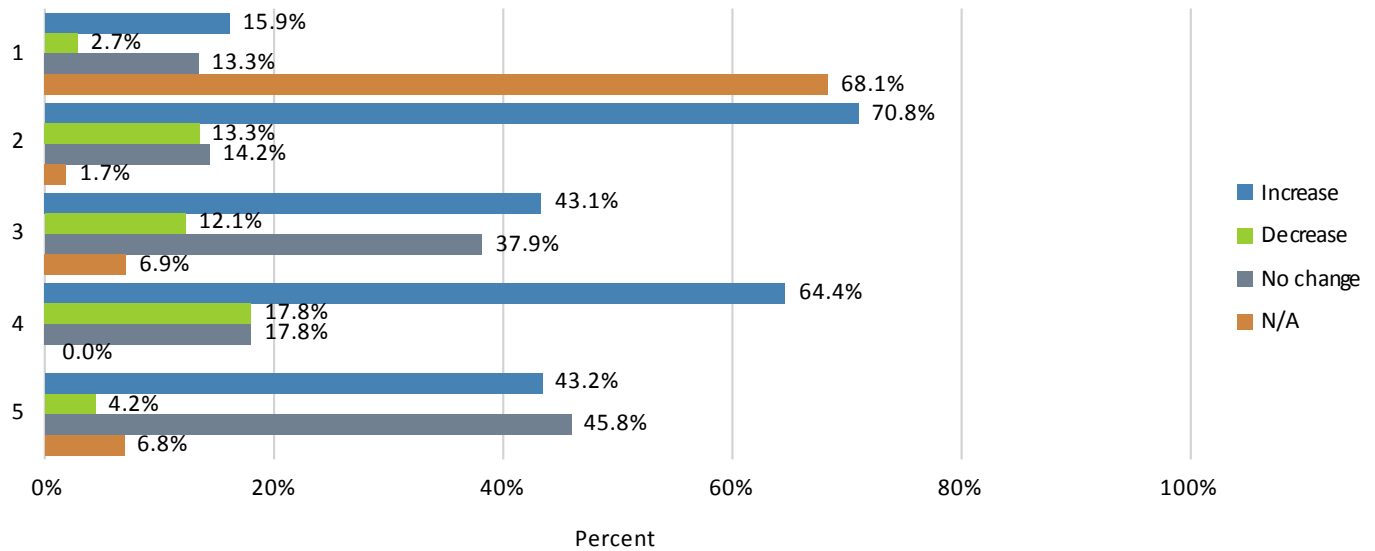
net % balance: +48.8 +29.9 +36.7 +3.5% +19.7



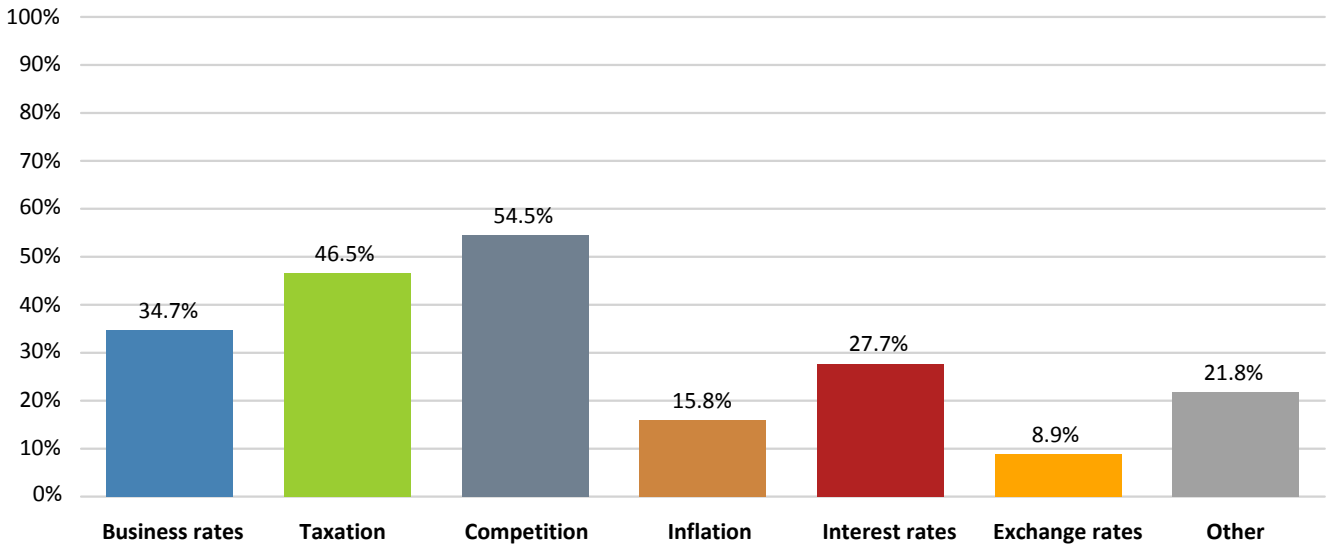
12. In the next 12 months how do you expect the following to change for your business?



net % balance: +13.2 +57.5 +31.0 +46.6 +39.0



13. Which of the following are more important to your business now compared with the last quarter? (please tick all that apply)



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