



MEDIA RELEASE

Embargoed until 0001 hours on Thursday 15th April 2010

THE SCOTTISH ECONOMY IN 2010 – A TIME OF OPPORTUNITY

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the first quarter of 2010. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, suggests that the Scottish economy had a hesitant start to the year, perhaps contributed to by the extreme weather. However as the General Election approaches, the survey highlights where good government could assist in rebuilding Scottish economic growth.

Garry Clark, Head of Policy and Public Affairs at Scottish Chambers of Commerce, said:

“This is a crucial time for the Scottish economy. The emerging positive outlook evident in Scottish business in the second half of 2009 has given way to a more cautious optimism in the early months of this year. It is likely that for many businesses, particularly in the construction, retail and tourist sectors, the cold weather and snow has had an adverse effect on business, hindering demand and also increasing energy and utility costs. Equally the re-imposition of VAT at 17.5% is likely to have impacted on sales.

“The impending General Election will remove some of the current uncertainties over the future direction of government policy, and it will also provide an opportunity to cement a ‘good government’ approach to the economy at the heart of national policy. It is evident that the recovery in manufacturing has been predominantly export led, and it is vital that this is supported and developed as part of a wider policy of rebalancing our economy to exploit and grow Scottish manufacturing expertise and excellence to the maximum.

“Construction remains in difficulties, and of particular concern is the apparent fall in the volume of public sector contracts. It underlines the need for the Scottish Futures Trust to rapidly expand its delivery of capital infrastructure projects throughout Scotland. In addition, there is a clear need for a strengthening of the programme to build more social and affordable housing to meet increasing demand.

“We need a long term credible plan to grow and re-balance the Scottish economy, a policy that supports both excellence and diversity that in our industry strengths. There is room for new partnerships between sectors and between the government and business to assist in the delivery of such a strategy. With our economy at a delicate stage, the opportunity to maximise our future success must be seized.”

BUSINESS PERFORMANCE

Summary Points

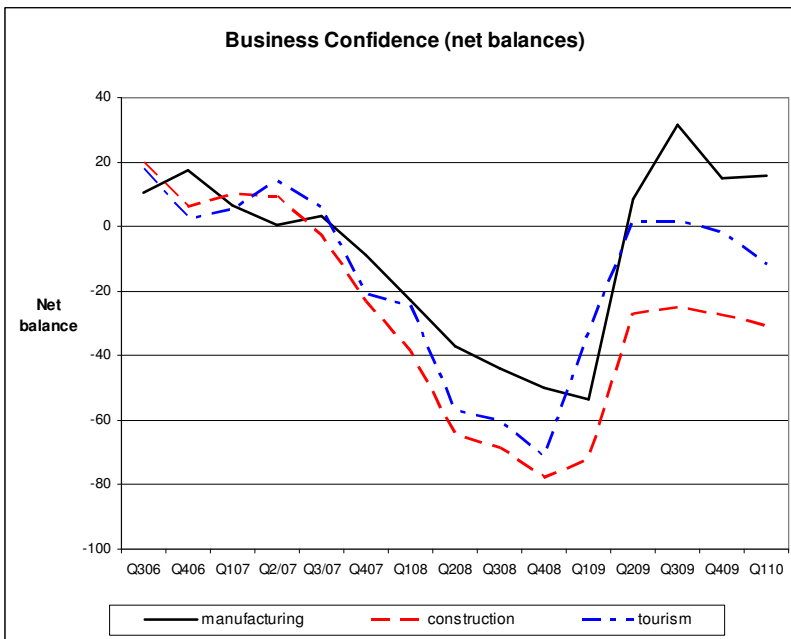
Overall

The extreme weather conditions over much of the first quarter has been a significant factor, affecting both business confidence and activity across all sectors, and this is an important factor in any consideration of trends compared to either the previous quarter or to the first quarter of 2009.

Signs of a sustained recovery in the Scottish economy remain elusive; the main business trends remain negative, but notwithstanding the poor weather conditions, better than a year ago. Once again there are more signs that cost pressures are increasing, especially transport and raw material costs.

Business confidence

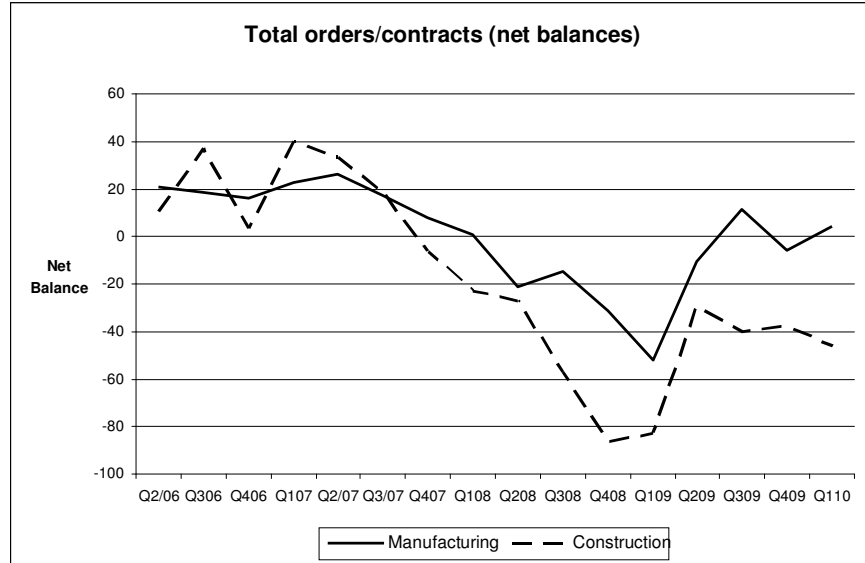
Net rising trends in business confidence were reported in manufacturing, but remain lower than that reported in the fourth quarter of 2009. Elsewhere the uncertainty until the election and effects of the bad weather appear to have affected business confidence. In construction net declining trends deepened slightly. Confidence continued to weaken in both wholesale and retail distribution but the trends are better than a year ago. In retail the ending of reduced VAT rates, and poor weather were widely cited. In tourism confidence remains weak, and whilst the first quarter trends are weak, again a reflection of the weather, they are better than a year ago.



Demand/sales

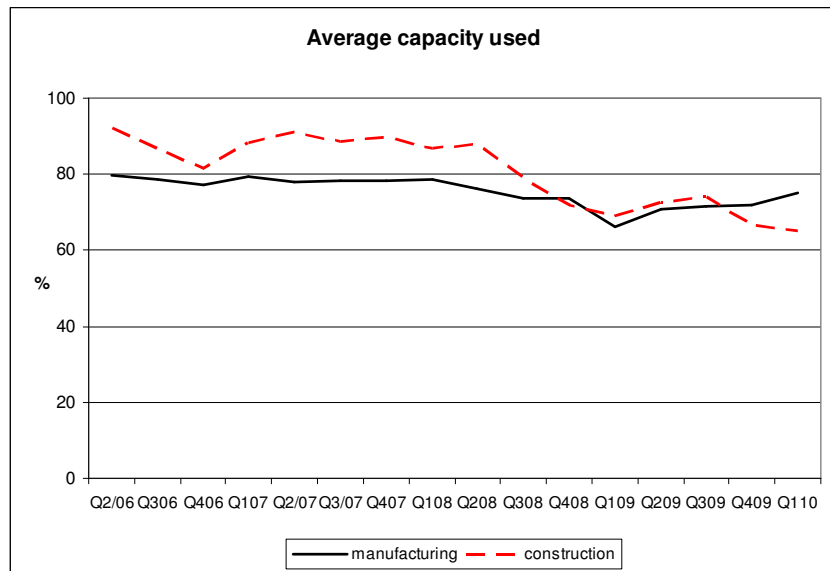
In manufacturing, where rising export trends underpinned the improvement in total orders, Scottish and rest of UK demand remained weak. Demand remained weak and was generally weaker than the previous quarter and weaker than expected by respondents from the previous survey in manufacturing, although the rising trend in export orders continued. The declining trends in the levels of work eased. In construction demand remained depressed with 50% again reporting downward trends in total new orders and 54% declining levels of domestic/house build contracts.

Retail sales trends remained weak in the first quarter, depressed by a combination of weather and weaker net trends reported by independent stores. In tourism the outturn for Q1 was weaker than anticipated and declining net trends in visitor numbers were reported, and the trend in demand for accommodation and conference facilities remained weak.



Capacity/work in progress

Average capacity used in manufacturing rose by 3.2 percentage points and in construction fell by 1.2 percentage points over the past quarter, although in the latter adverse weather may well be a factor.



In construction the proportion reporting working below optimum levels eased slightly to a net of 80%. In tourism occupancy in Q1, outside the winter sports sector, was lower than in the first quarters of the past five years, and once again, occupancy has been sustained only by discounting.

Cost pressures	Rising transport costs were evident in wholesale distribution, and utility and transport costs in retail. Discounting of room rates was widespread in tourism and margins were under increased pressures.
Pay and employment	The percentages of respondents increasing pay in the first quarter ranged between 8% and 9% in construction, wholesale, retail and tourism. In contrast 20% of manufacturing respondents reported increasing pay. Average pay increases remained at low levels.
Outlook	For a further quarter manufacturing trends continue to offer the clearest signs of an emerging, but possibly weaker recovery. For all other sectors the impact of the harsh winter has clearly affected results. The trends for 2010 remain uncertain; any recovery will have to contend with weak consumer spending, rising transport and energy costs and uncertainties as to Government fiscal and monetary policies after the May election.

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 2010 and early April 2010, almost 300 firms responded to the questionnaire.

© University of Strathclyde, Fraser of Allander Institute 2010. Use, storage and distribution by any means is freely given provided full citation is given.

For further information contact:

On the survey results	Cliff Lockyer Eleanor Malloy	0141 548 3198 (c.j.lockyer@strath.ac.uk) 0141 548 3967
On Chamber policy	Garry Clark	0141 204 8337 or 07795 158137 (gclark@scottishchambers.org.uk)

MANUFACTURING

Optimism

Business confidence continued to increase through the first quarter, although still at more modest levels than in q 3 2009.

Orders and Sales

Once again the outturn in total new orders and export orders was weaker than expected. Trends in total orders rose due to improving export trends; however, respondents remain more optimistic as to an improvement in the second quarter.

A declining trend in the level of work in progress was again reported, but at more modest levels. Average capacity used rose marginally by 3.4 percentage points to 75.1%, although 46% (61% in Q4, 57% in Q3 and 71% in Q2) reported capacity used was below preferred levels. Pressures to raise prices due to transport costs and raw material costs were evident.

Investment

Trends in investment and leasing of equipment eased marginally. Cash flow trends remained stable and better than those reported earlier in 2009 and through 2008. Respondents are again more confident as to rising turnover over 2010, and the net trends are the most positive for nine quarters, but again expectations as to rising profitability eased.

Employment

Recruitment was at a lower level in Q4 with only 26% attempting to recruit mainly to replace staffs – as overall employment levels, although not hours worked, eased.

	Up	Q1 2010		Net Balances		
		Level	Down	Q1/10	Q409	Q3/09
Business Optimism	27.5	60.9	11.6	15.9	14.9	31.6
Trends in actual orders						
Total new orders	37.1	30.0	32.9	4.3	-5.6	11.2
Scottish orders	20.9	50.7	28.4	-7.5	-2.1	-0.2
Rest of UK orders	21.7	48.3	30.0	-8.3	-6.5	4.2
Export orders [42% = N/A]	23.2	20.3	14.5	8.7	3.6	16.6
Trends in expected orders						
Total new orders	37.3	46.3	16.4	20.9	8.3	9.8
Scottish orders	25.0	57.8	17.2	7.8	0.8	1.3
Rest of UK orders	22.4	62.1	15.5	6.9	-2.1	9.4
Export orders (42.6% = N/A)	26.5	23.5	7.4	19.1	10.2	19.6
Av Capacity used	75.1			75.1	71.9	71.6
Invest in plant/equip.	17.5	58.7	23.8	-6.3	4.2	-16.3
Cash flow past 3 moths	23.2	53.6	23.2	0	0.5	-11.5
Turnover next 12 moths	42.9	37.1	20.0	22.9	16.8	11.5
Profitability next 12 moths	29.0	36.2	34.8	-5.8	2.9	4.7
Price change next 3 moths	32.9	62.9	4.3	28.6	33.1	7.1
Pressures to raise prices from						
Pay settlements	27.1			27.1	29.8	28.2
Raw material costs	64.3			64.3	72.9	63.8
Finance costs	14.3			14.3	10.5	18.1
Other overheads	41.4			41.4	46.6	31.1
Transport costs	37.1			37.1	27.9	34.2
Employment trends						
Total actual employment	10.0	71.4	18.6	-8.6	14.6	-5.7
Total expected next 3 months	9.1	75.8	15.2	-6.1	-0.7	-15.2
Average pay increase	2.9			2.9	2.8	2.1

CONSTRUCTION

Optimism

As with other sectors the results for construction reflect the adverse weather conditions during much of the first quarter, and business confidence remained weak with only 8% reporting being more confident compared to a year ago. Nevertheless, the net balance of optimism at -31% was less depressed compared to Q1 2009 at -72%.

Contracts

The net trend in new contracts remained weak, but the rate of decline was almost half that of a year ago. The trends in orders from all sectors continued to decline although the rate of decline in private commercial and domestic/house building orders is significantly less than a year ago.

Expectations as to turnover trends over the next year remain depressed and show few signs of improvement. For a further quarter a net of -48% anticipate declining turnover trends. A net of -64% (-60%, -44%, -59% -78% in the previous four quarters) anticipate declining profitability over the next twelve months. A net of 75% of construction firms anticipate declining tender margins over the next twelve months.

Average capacity declined by one percentage point to 66%, four percentage points lower than a year ago. However, whilst the actual and expected trends in work in progress remain weak they are less depressed than a year ago.

Employment

Almost half of firms reduced total employment levels and no respondent reported an increase in employment, and recruitment again remained at very low levels. Only 8% of respondents reported increasing pay in the first quarter by an average of 4%.

	Q1 2010			Net Balances		
	Up	Level	Down	Q1/10	Q4/09	Q3/09
Business Optimism	3.8	61.5	34.6	-30.8	-27.5	-25.0
Trends in actual contracts						
Total new contracts	3.8	46.2	50.0	-46.2	-37.5	-40.0
Public sector orders	5.0	20.0	75.0	-70.0	-25.8	-14.8
Private commercial	4.3	43.5	52.2	-47.8	-61.8	-57.1
Domestic/house build	0.0	45.8	54.2	-54.2	-50.0	-62.5
Trends in expected contracts						
Total new orders	3.8	53.8	42.3	-38.5	-39.5	-37.1
Public sector orders	4.8	52.4	42.9	-38.1	-43.3	-37.0
Private commercial	0.0	52.2	47.8	-47.8	-61.3	-50.0
Domestic/house build	4.2	58.3	37.5	-37.5	-45.5	-33.3
Trends in work in progress						
Actual	8.0	64.0	28.0	-20.0	-55.0	-42.9
Expected	4.2	50.0	45.8	-41.6	-30.0	-41.2
Capacity used	65.3			65.3	66.5	74.0
Invest in plant/equip.	0.0	58.3	41.7	-41.7		-36.4
Leasing in plant/equipment.	0.0	66.7	33.3	-33.3		-34.4
Employment trends						
Total actual employment	0.0	56.0	44.0	-44.0	-41.0	-27.8
Total expected next 3 months	4.0	60.0	36.0	-32.0	-42.1	-11.8
Average pay increase	4.0			4.0	2.0	3.5
Percent recruiting staff	20.0			20.0	15.0	19.4
Recruitment difficulties increasing	0.0			0.0	0.0	0.0

WHOLESALE DISTRIBUTION

Optimism

Business optimism amongst Scottish wholesale respondents continued to decline during quarter one although the rate of decline eased from -24% to -8%.

Sales

The declining trend in sales ended during quarter one with a net balance of firms reporting (8%) and expecting (12%) an increase in sales.

Almost half of responding firms expect price increases in the three months to the end of June 2010, mainly under pressures from transport costs (77%) and raw material prices (62%).

Over the next twelve months wholesale firms, on balance, expect turnover to remain unchanged. A net balance of wholesale respondents continue to expect profitability to decline although the rate of decline is set to ease.

Finance

Changes to investment plans were widespread and the declining trend in investment intentions continued with more than half of firms reporting a decline.

Employment

Changes in employment levels were reported by a quarter of firms with a net of 9% reporting a downward trend in employment compared to -35% in the previous quarter. A net of 9% anticipate a further decline in quarter two. 18% of firms increased pay during quarter one by an average of 3.5%.

	Q1 2010			Net Balances		
	Up	Level	Down	Q1/10	Q4/09	Q3/09
Business Optimism	23.1	46.2	30.8	-7.7	-23.5	5.3
Trend in actual sales	30.8	46.2	23.1	7.7	-35.3	-31.6
Trend in expected sales	37.5	37.5	25.0	12.5	-37.5	-22.2
Investment plans	0.0	41.7	58.3	-58.3	-35.3	-31.6
Cash flow past 3 months	15.4	69.2	15.4	0.0	-35.3	-5.3
Turnover next 12 months	38.5	23.1	38.5	0.0	11.8	-21.1
Profitability next 12 months	46.2	0.0	53.8	-7.7	-11.8	-26.3
Price change next 3 months	46.2	46.2	7.7	38.5	58.8	57.9
Pressures to raise prices from						
Pay settlements	30.8			30.8	11.8	5.3
Raw material costs	61.5			61.5	64.7	68.4
Finance costs	7.7			7.7	35.3	21.1
Other overheads	38.5			38.5	41.2	36.8
Transport costs	76.9			76.9	64.7	63.2
Employment trends						
Total actual employment	9.1	72.7	18.2	-9.1	-35.3	-16.7
Expected next 3 months	9.1	72.7	18.2	-9.1	-13.3	-23.5
Average pay increase	3.5			3.5	1.5	3.1
Percent recruiting staff	36.4			36.4	29.4	21.1
Recruitment difficulties inc	9.1			9.1	0.0	13.3

RETAIL DISTRIBUTION

Optimism

Many retail respondents reported being adversely affected by the severe weather conditions during quarter one 2010. The trend in business confidence declined during the first quarter falling from -35% to -54%. Despite the decline the overall trend was less depressed than Q1 2009 (-59%) and the same as Q1 2008 (-54%).

Sales

More than half of retailers reported and expect declining sales in the first and second quarters. The rate of decline in actual and expected sales accelerated during quarter one although remained less depressed compared to Q1 2009.

The value of total new sales continued to decline and is expected to decline further for more than half of firms.

Finance

Both turnover and profitability are expected to decline further for a net of retailers over 2010. Almost three quarters of retail respondents expect price increases during Q2 2010.

Employment

Most firms reported and expect no change to overall employment levels although almost a third of retailers anticipated reducing total employment levels. During the three months to the end of March the percentage of firms actively recruiting fell from 33% to 23%. Nine percent of firms increased wages by 2.5%.

	Q1 2010			Net Balances		
	Up	Level	Down	Q1/10	Q4/09	Q3/09
Business Optimism	3.0	39.4	57.6	-54.5	-34.9	-7.7
Trend in actual sales	9.1	33.3	57.6	-48.5	-34.1	-25.0
Trend in expected sales	9.1	36.4	54.5	-45.5	-35.7	-22.9
Cash flow past 3 months	21.2	48.5	30.3	-9.1	-2.4	-7.5
Turnover next 12 months	21.2	42.4	36.4	-15.2	-18.6	-15.1
Profitability next 12 months	18.8	21.9	59.4	-40.6	-47.6	-36.5
Price change next 3 months	72.7	24.2	3.0	69.7	62.8	37.7
Pressures to raise prices from						
Pay settlements	18.2			18.2	22.7	18.9
Raw material costs	63.6			63.6	72.7	47.2
Finance costs	24.2			24.2	29.5	22.6
Other overheads	33.3			33.3	13.6	17.0
Transport costs	45.5			45.5	36.4	47.2
Utility costs	48.5			48.5	31.8	41.5
Regulation costs	39.4			39.4	31.8	47.2
Employment trends						
Total actual employment	6.3	62.5	31.3	-25.0	-11.9	-15.4
Expected next 3 months	10.0	66.7	23.3	-13.3	-2.9	-16.3
Average pay increase	2.5			2.5	2.43	4.51
Percent recruiting staff	28.1			28.1	32.6	22.6
Recruitment difficulties inc	23.1			23.1	33.3	23.1

TOURISM

Optimism

The overall level of business confidence remained negative for a net balance of responding firms, although was significantly less depressed than in the first quarters of 2009 and 2008.

Demand

The net trend in total demand declined markedly during the three months to the end of March; the decline was more than had been expected by hotels in the fourth quarter survey. The trends in demand from all sources declined and all are expected to continue to decline in quarter two. Average occupancy declined from 62% to 47% (the lowest level for a decade).

Hotels continued to reduce room rates and the discounting of prices is more marked than during the same quarter a year ago and is set to continue, though ease, in the three months to the end of June.

Business constraints

An overall lack of demand remained the primary business constraint for more than four fifths of hotels although there were also concerns with competition and exchange rates. A third of hotels felt that their area had suffered due to poor marketing.

Employment

Changes in employment levels were reported by around half of firms. Net declining trends in full time (-15%), part time (-32%), seasonal (-49%) and overtime working (-50%) were reported.

	Q1 2010			Net Balances		
	Up	Level	Down	Q1/10	Q4/09	Q3/09
Business Optimism	23.3	41.9	34.9	-11.6	-1.6	1.7
Trends in demand/visitors						
Total demand/visitors	20.9	18.6	60.5	-39.5	8.3	11.9
Demand from Scotland	18.6	27.9	53.5	-34.9	8.6	23.7
Demand from Rest of UK	11.6	41.9	46.5	-34.9	8.5	27.6
Demand from abroad	7.0	27.9	65.1	-58.1	-15.8	-5.2
Business Trade	9.3	34.9	55.8	-46.5	-31.0	-32.7
Trends in expected demand						
Total demand/visitors	23.7	39.5	36.8	-13.2	-18.8	-29.6
Demand from Scotland	21.6	43.2	35.1	-13.5	-8.3	-13.5
Demand from Rest of UK	24.3	43.2	32.4	-8.1	-13.0	-9.8
Demand from abroad	13.9	52.8	33.3	-19.4	-30.4	-35.3
Business Trade	16.7	41.7	41.7	-25.0	-23.4	-44.9
Occupancy						
Average daily rate	7.3	36.6	56.1	-48.8	-33.3	-21.1
Expected average daily rate	29.3	31.7	39.0	-9.7	-23.6	-42.3
Employment trends						
Total actual employment	7.5	70.0	22.5	-15.0	-28.1	-20.0
Expected next 3 months	15.0	75.0	10.0	5.0	-27.3	-41.5
Average pay increase						
Percent recruiting staff	5.5			5.5		4.3
Recruitment difficulties	50.0			50.0		58.6
	15.4			15.4		27.3

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.

Please contact

Cliff Lockyer 0141 548 3198 or c.j.lockyer@strath.ac.uk
Eleanor Malloy 0141 548 3967 or e.malloy@strath.ac.uk

The Fraser of Allander Institute,
Sir William Duncan Building,
130 Rottenrow
Glasgow,
G4 0GE