



MEDIA RELEASE

Embargoed until 0001 hours on Thursday 14th April 2011

RISING COST PRESSURES THREATEN THE FRAGILE ECONOMIC RECOVERY IN 2011

Scottish Chambers of Commerce (SCC) have today (Thursday) released their Business Survey results for the first quarter of 2011. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, raises concerns as to the effects of rising costs pressures on Scottish business. In the midst of a Scottish Parliamentary election campaign, SCC has also called for a responsible approach by government towards business in the post-election period.

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

“Our survey of firms across Scotland shows clearly the impact of rising material, transport and other costs on both current activity and for the year ahead and these will undoubtedly threaten the fragile economic recovery in 2011. Despite the welcome news this week that CPI and RPI inflation have dropped back slightly, it is clear that there is an increasing pressure on margins and prices from rising raw material, energy and transportation costs. It is increasingly likely that costs will have to be passed on to customers and consumers, adding to inflationary pressures in the second half of 2011.

“Exports continue to support manufacturing activity, and this again underlines the importance of utilising Scotland's international reach to the best advantage for our businesses. The decline in construction activity appears to have bottomed out, but it is far too early to speak of any recovery in the sector. Similarly, tourism now expects a better second quarter than last year. The retail sector appears particularly gloomy and under pressure, with trends in sales at their lowest levels for more than six years.

“The current climate of uncertainty is a barrier to economic growth. We are still uncertain as to the extent and pace of public sector spending cuts, public sector employees are uncertain as to their job security and consumers are uncertain to the future and how to best plan to cope with inflation. Scotland needs our politicians to take some hard decisions once the shape of our next Scottish Government has been determined, to reduce this uncertainty and enable business and consumers to plan for the future. They must cast aside party political blinkers and put the growth of Scotland's economy first in terms of every action taken over the next five years. Politicians cannot create jobs; that is the role of business. With the right environment in terms of taxes, infrastructure, regulation and skills provision, our members are ready to grow, creating revenue and employment.

“The recovery is down to business, but the environment for growth will be aided by less uncertainty and more responsible stewardship.”

BUSINESS PERFORMANCE

Summary Points

Overall

The effects of the harsh winter weather were again evident in the results for the first quarter of this year, slowing activity in January but potentially contributing some improvement in activity in February and March as firms sought to complete delayed work. However, there is much evidence in the results to suggest the Scottish economy, to all intents stalled in the first quarter, with a combination of weak demand, low consumer confidence and rising costs and price pressures.

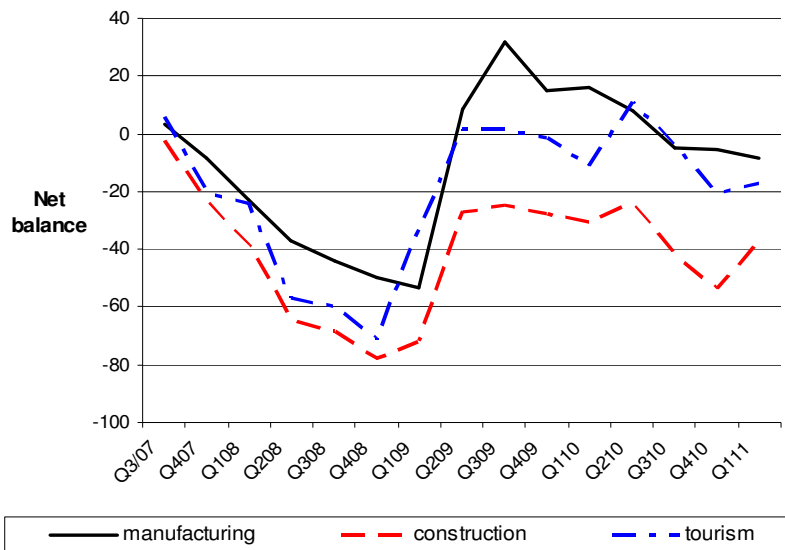
Within manufacturing export led demand continued to improve, but in common with other sectors confidence eased and generally expectations for the year ahead were weaker at the end of Q1 2011 than in 2010. Concerns as to rising raw material and transport costs are more widespread and pressures to raise prices in manufacturing are at their highest for more than two years and the highest recorded in retail.

Expectations for the second quarter remain weak, generally weaker than a year ago in manufacturing and retail, and whilst weak in construction and tourism are nevertheless slightly better than a year ago.

Business confidence

Business optimism continued to decline in all sectors during the first quarter of 2010. Manufacturing, tourism and construction optimism remained at least as negative as the same quarter of 2010. More than half of retail firms reported a decline in confidence whereas wholesale firms reported a marginal improvement in business optimism.

Business confidence - net balances

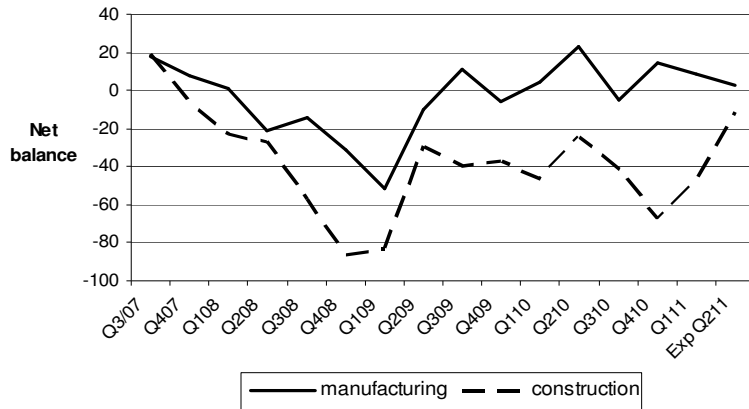


Demand/sales

For manufacturing firms export orders/sales remained the only positive aspect of demand in the first quarter of 2011. The declining trends in the levels of work in progress continued. In construction demand remained depressed with more than half of firms reporting downward trends in domestic/house building orders and more than two-thirds reported declining levels of public sector contracts.

Retail sales trends remained weak, and the combination of weak consumer confidence, price inflation and rising costs contributing to more than three quarters of firms reporting a decline. In tourism the outturn in demand for Q1 2011 was the lowest figure since the first quarter of 2009; once again the trend in demand for accommodation and conference facilities remained weak.

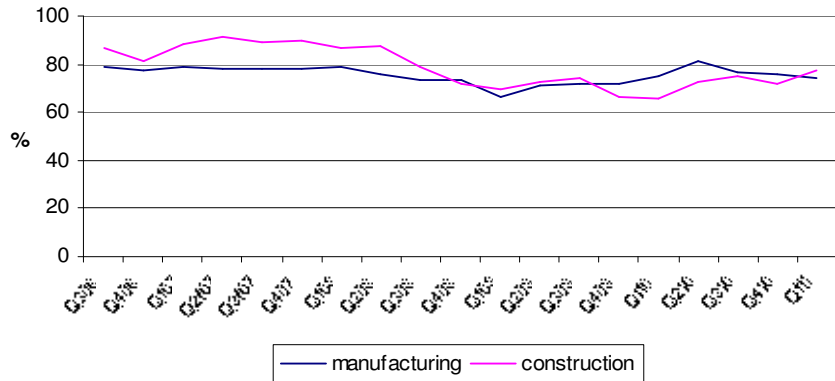
Trends in total orders - net balances



Capacity/work in progress

Average capacity used in manufacturing rose by 1.5 percentage points. Construction firms reported a decrease (5.92 percentage points) over the past quarter.

Average capacity used



In construction the proportion reporting working below optimum levels decreased from 88% in quarter 4 to 71% in the first quarter of 2011. In tourism occupancy declined during quarter one, and was at a similar level compared to quarter 1 of 2010. The discounting of room rates remained evident.

Cost pressures

Once again for manufacturing firms raw material/suppliers prices (86%) and transport costs (65%) were the most widely reported cost pressures and for firms these pressures are now more evident than in previous quarters. More than three quarters of manufacturing, 93% of wholesale and 76% of retail respondents reported pressures to raise prices due to

rising raw material/suppliers' prices. Firms are coming under increasing transport costs with 86% of wholesale, 65% of manufacturing and 67% of retail respondents reported rising costs.

Pay and employment

Once again labour market activity remained largely subdued, although recruitment activity in construction improved. Recruitment difficulties remained at low levels. Pay increases ranged from 2.13% in wholesale to 5.4% in tourism, no construction firms reported increasing wages in the first three months of 2011.

Outlook

The underlying weaknesses in demand and consumer spending were again evident. Cost pressures rose faster than anticipated and together with rising fuel and energy costs will be of increasing concern in 2011.

Manufacturing respondents expect little change in total orders over the year, with export orders less able to offset a decline in Scottish and rest of UK orders. Activity in construction is set to remain weak, and much will depend on Government action to stimulate activity. In the service sector weak consumer confidence and inflation will continue to adversely impact on retail sales trends. Activity and occupancy in hotels was little changed from first quarters of previous years, and demand for bar/restaurant facilities remains weak.

Rising price pressures and weak demand seem set to continue in the service sector, for many Scottish businesses the combination of limited improvements in turnover, rising costs, pressures on margins and declining trends in profitability will pose real problems in 2011.

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 December 2010 and early January 2011, almost 200 firms responded to the questionnaire.

© University of Strathclyde, Fraser of Allander Institute 2011. 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 Liz Cameron	0141 204 8337 or 07795 158137 (gclark@scottishchambers.org.uk) 0141 204 8316

MANUFACTURING

Optimism

Manufacturing firms continued to report a downward trend in business confidence in Q1 2011 and the net balance of -8.2% was the lowest net balance since the first quarter of 2009.

Orders and Sales

Rising trends in orders and sales continued in quarter one, fuelled by rises in export orders/sales. Average capacity utilisation declined marginally from 76.04% to 74.5% and was similar to the level one year ago.

Respondents anticipate an improvement in demand in the second quarter of 2011, with the net trends in total orders and sales expected to be positive, again fuelled by export demand.

Cost pressures increased further in quarter one, raw material and to a lesser extent transport costs, continued to cause most concern to firms. Nevertheless, the net trend in turnover is expected to remain positive over the coming twelve months however a net balance of 21% expect profitability to decline.

Investment

The downward trends in investment of equipment resumed with any new investment mainly directed towards replacement. Investment for R & D and expansion remained low.

Employment

Declining trends in employment ended, and expenditure on training continued to ease. Recruitment activity increased with manufacturing firms reporting difficulties in attracting suitable technical staff.

	Up	Q1 2011		Net Balances		
		Level	Down	Q1/11	Q4/10	Q3/10
Business Optimism	20.5	50.7	28.8	-8.2	-5.4	-5.2
Trends in actual orders						
Total new orders	37.0	34.2	28.8	8.2	14.8	-5.2
Scottish orders	21.4	48.6	30.0	-8.6	-3.9	-11.0
Rest of UK orders	15.6	53.1	31.3	-15.6	0.0	-10.6
Export orders [32% = N/A]	26.0	30.1	12.3	13.7	12.5	-1.3
Trends in expected orders						
Total new orders	20.8	61.1	18.1	2.8	-8.9	-11.8
Scottish orders	10.1	68.1	21.7	-11.6	11.5	-16.9
Rest of UK orders	11.1	66.7	22.2	-11.1	-14.0	-14.1
Export orders (32% = N/A)	24.7	37.0	6.8	17.8	7.0	-1.3
Av Capacity used	74.5			74.5	76.04	76.8
Invest in plant/equip.	15.7	60.0	24.3	-8.6	0.0	-5.5
Cash flow past 3 moths	23.6	47.2	29.2	-5.6	0.0	-2.6
Turnover next 12 moths	34.7	37.5	27.8	6.9	14.3	-11.7
Profitability next 12 moths	20.8	37.5	41.7	-2.08	1.9	-10.4
Price change next 3 moths	29.6	40.8	29.6	0.0	37.5	27.3
Pressures to raise prices from						
Pay settlements	26.4			26.4	22.8	28.6
Raw material costs	86.1			86.1	77.2	84.4
Finance costs	12.5			12.5	7.0	11.7
Other overheads	44.4			44.4	50.0	28.6
Transport costs	65.3			65.3	42.1	41.6
Employment trends						
Total actual employment	20.8	63.9	15.3	5.6	0.0	-9.2
Total expected next 3 months	11.1	80.6	8.3	2.8	-14.0	-14.9
Average pay increase	3.3			3.3	3.1	3.2

CONSTRUCTION

Optimism

Business confidence continued on its downward trend for a net of -38% of chamber of commerce construction respondents in the three months to the end of March. This was an improvement compared to the previous quarter but was lower compared to the same quarter one year ago.

	Q3 2010			Net Balances		
	Up	Level	Down	Q1/11	Q4/10	Q3/10
Business confidence	6.3	50.0	43.8	-37.5	-58.3	-41.7

Trends in actual contracts

Total new contracts	11.8	29.4	58.8	-47.1	-68.0	-41.7
Public sector	14.3	14.3	71.4	-57.1	-77.8	-66.7
Private commercial	6.3	56.3	37.5	-31.3	-63.6	-33.3
Domestic house build	0.0	38.5	61.5	-61.5	-60.0	-55

Contracts

Once again the trends in demand weakened among construction firms with orders from all areas declining further during the first quarter. More than 70% of firms reported work below optimum levels.

Trends in expected contracts

Total new orders	5.9	76.5	17.6	-11.8	-72.0	-52.2
Public sector orders	0.0	50.0	50.0	-50.0	-66.7	-64.3
Private commercial	6.3	81.3	12.5	-6.3	-54.5	-40
Domestic house build	0.0	84.6	15.4	-15.4	-65.0	-52.6

With the exception of orders from the public sector, expectations as to contracts over the next three months are still expected to continue, though ease. Turnover, tender margins and profitability over the next twelve months are expected to decline for more than half of responding firms. There is much to suggest that expectations continue to be influenced by continued speculation concerning reductions in public spending.

Trends in work in progress

Actual	17.6	47.1	35.3	-17.6	-44.0	-4.2
Expected	0.0	70.6	29.4	-29.4	-56.0	-65.2

Capacity used

Capacity used	77.7			77.7	71.8	75
Invest in plant/equip.	0.0	47.1	52.9	-52.9		-70.8
Leasing in plant/equipment	0.0	56.3	43.8	-43.8		-58.3

Average capacity improved from 72% to 77%, an improvement over levels one year ago (65%).

Employment trends

Total actual employment	11.8	52.9	35.3	-23.5	-24.0	-20.8
Total expected next 3 months	17.6	47.1	35.3	-17.6	-66.7	-50

Employment

Employment levels continued to decline although the downward trend eased marginally, and further declines are anticipated during the second quarter of 2011 however the downward trend is expected to ease further. Recruitment activity increased during quarter one and recruitment difficulties were reported. No firms reported increasing wages during quarter one 2011.

Average pay increase	n/a			n/a	2.8	1.5
Percent recruiting	29.4			29.4	8.0	20.8
Recruitment difficulties increasing	0.0			0	0.0	11.1

WHOLESALE DISTRIBUTION

Optimism

Once again business confidence amongst Scottish wholesale respondents remained weak. 71% reported no change and 14.3% each reported a rise and a fall resulting in no overall change.

Sales

Sales trends continued to weaken during the three months to March. More than half of firms reported increasing or level sales and the rate of decline is expected to ease in Q2.

Almost all firms reported pressures to raise prices, and more than 80% of respondents report rising transport costs and supplier prices.

Wholesalers are no longer revising their expectations downwards for profitability and a net balance are expecting a rise in turnover over the coming year.

Finance

Once again most firms reported that their investment intentions remained unchanged; nevertheless there was a net decline although the rate of decline eased.

Employment

Half of wholesale firms sought to recruit staff, mainly for replacement as no firms reported that actual total employment levels had increased. Firms increasing pay during quarter four did so by an average of 2.13% compared to 4.1% in quarter four.

	Q4 2010			Net Balances		
	Up	Level	Down	Q1/11	Q4/10	Q3/10
Business Optimism	14.3	71.4	14.3	0.0	-33.3	-37.5
Trend in actual sales	14.3	50.0	35.7	-21.4	-33.3	-18.8
Trend in expected sales	28.6	42.9	28.6	0.0	-18.2	-23.1
Investment plans	7.1	78.6	14.3	-7.2	-25.0	-25
Cash flow past 3 months	7.1	57.1	35.7	-28.6	-8.3	-18.8
Turnover next 12 months	42.9	35.7	21.4	21.4	0.0	-50
Profitability next 12 months	35.7	28.6	35.7	0.0	0.0	-37.5
Price change next 3 months	85.7	14.3	0.0	85.7	83.3	75
Pressures to raise prices from						
Pay settlements	21.4			21.4	16.7	12.5
Raw material costs	92.9			92.9	91.7	93.8
Finance costs	21.4			21.4	16.7	25
Other overheads	21.4			21.4	50.0	12.5
Transport costs	85.7			85.7	91.7	93.8
Employment trends						
Total actual employment	0.0	71.4	28.6	-28.6	-25.0	-12.5
Expected next 3 months	0.0	85.7	14.3	-14.3	-27.3	-42.9
Average pay increase	2.13			2.13	4.1	0
Percent recruiting staff	50.0			50	25.0	18.8
Recruitment difficulties inc	10.0			10	30.0	0

RETAIL DISTRIBUTION

Optimism

The net trends in retail confidence in the first quarter remained weak and also remained generally weaker than during the same quarter one year ago. Shops are still feeling the effects of the harsh weather, and also remain subject to weak consumer demand, consumer uncertainty, rising costs and increased competition from the major multiples.

Sales

The trend in sales remained weak with more than three-quarters reporting and 60% expecting a decline in the total value of sales. Only 7% reported increased sales during the first quarter of 2011, and once again continued concerns over consumer confidence are moderating sales expectations for the coming quarter with no firms expecting an overall increase in total sales.

Finance

Once again, cost pressures, especially suppliers' prices were significant and pressures to increase prices remain high. Firms are coming under more pressure from transport costs and regulation costs than in the previous quarter. Pressures on margins look set to continue with a net of 62% of firms anticipating a weakening trend in turnover and a net of 73% expect profitability to decline over the next year.

Employment

Labour market activity remains at low levels with more than 70% of retailers reporting and expecting no change to overall employment levels. Recruitment activity eased for the seventh consecutive quarter.

Fewer than 5% reported increasing pay, and the average increase in for quarter 1 2011 was 3.05% compared to 2.3% in quarter four 2011.

	Q1 2011			Net Balances		
	Up	Level	Down	Q1/11	Q4/10	Q3/10
Business Optimism	4.8	38.1	57.1	-52.3	-51.4	-56.1
Trend in actual sales	7.1	16.7	76.2	-69.1	-45.9	-53.7
Trend in expected sales	0.0	40.0	60.0	-60	-62.9	-50
Cash flow past 3 months	2.4	63.4	34.1	-31.7	-21.6	-19.5
Turnover next 12 months	14.3	23.8	61.9	-47.6	-51.4	-58.3
Profitability next 12 months	4.9	22.0	73.2	-68.3	-45.7	-55
Price change next 3 months	78.6	14.3	7.1	-71.5	70.3	70.7
Pressures to raise prices from						
Pay settlements	23.8			23.8	27.0	24.4
Raw material costs	76.2			76.2	67.6	78
Finance costs	23.8			23.8	21.6	26.8
Other overheads	16.7			16.7	35.1	19.5
Transport costs	66.7			66.7	37.8	41.5
Utility costs	52.4			52.4	51.4	36.6
Regulation costs	42.9			42.9	27.0	34.1
Employment trends						
Total actual employment	2.4	73.8	23.8	-21.4	-13.9	-17.9
Expected next 3 months	0.0	79.5	20.5	-20.5	-31.3	0
Average pay increase	3.05			3.05	2.3	6.5
Percent recruiting staff	19.0			19.0	22.2	23.1
Recruitment difficulties inc	25.0			25.0	25.0	35.3

TOURISM

Optimism

Business confidence remained weak among Scottish hotels in Q1 2011. Occupancy weakened and demand declined sharply.

Demand

Average occupancy declined from 56.4% to 46.2%, marginally better than a year ago (46.6%). Demand from Scotland, the rest of the UK, abroad and business trade all continued to decline, and the declines were greater than had been anticipated by respondents from the fourth quarter survey. Total demand and demand from the rest of the UK was lower compared to Q1 2010. Demand from all areas is expected to decline during the second quarter although the rate of decline is expected to ease. Trends in bar/restaurant trade and in conference/function facilities remained weak. Overall local and business demand accounted for 62% of total demand and tourist demand accounted for 38% of total demand in the fourth quarter.

Half reported reducing average room rates and the discounting of rates is set to continue for almost a third of hotels in the three months to the end of June 2011.

Business constraints

Once again, 70% reported that the lack of tourist demand remained the primary business constraint and once again around a third felt that their area had suffered due to poor marketing.

Employment

54% sought to recruit staff. Net declining trends in employment continued although a small net balance expect to increase total employment levels in Q2. Difficulties in recruiting suitable managerial and bar/waiting staff were evident.

	Q1 2011			Net Balances		
	Up	Level	Down	Q1/11	Q4/10	Q3/10
Business Optimism	17.3	48.1	34.6	-17.3	-20.9	-4.5
Trends in demand/visitors						
Total demand/visitors	15.4	23.1	61.5	-46.2	0.0	-25
Demand from Scotland	17.3	34.6	48.1	-30.8	2.3	-13.6
Demand from Rest of UK	15.4	32.7	51.9	-36.5	-11.6	-15.6
Demand from abroad	9.6	30.8	59.6	-50.0	-39.5	-22.2
Business Trade	13.7	37.3	49.0	-35.3	-21.4	-15.9
Trends in expected demand						
Total demand/visitors	19.6	54.3	26.1	-6.5	-22.0	-39
Demand from Scotland	21.7	52.2	26.1	-4.3	-17.5	-32.5
Demand from Rest of UK	21.7	54.3	23.9	-2.0	-29.3	-39
Demand from abroad	17.4	52.2	30.4	-13.0	-51.2	-56.1
Business Trade	17.8	51.1	31.1	-13.3	-33.3	-42.5
Occupancy	49.8			49.8	56.4	70.3
Average daily rate	12.0	38.0	50.0	-38.0	-21.1	-15.9
Expected average daily rate	14.9	57.4	27.7	-12.8	-24.3	-23.3
Employment trends						
Total actual employment	10.0	48.0	42.0	-32.0	-21.1	-11.9
Expected next 3 months	24.0	54.0	22.0	2.0	-32.4	-35.7
Average pay increase	5.4			5.4	2.7	6.3
Percent recruiting staff	53.8			53.8	53.7	48.9
Recruitment difficulties	11.4			11.4	11.4	11.8

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