



## **MEDIA RELEASE**

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### **FEW SIGNS OF A RECOVERY IN THE THIRD QUARTER AS BUSINESS WAITS FOR THE OUTCOME OF THE SPENDING REVIEW**

Scottish Chambers of Commerce have today (Thursday) released their Business Survey results for the third quarter of 2010. The survey, conducted in conjunction with the University of Strathclyde's Fraser of Allander Institute, suggests the Scottish economy slowed in the third quarter.

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

"As business look towards next week's Comprehensive Spending Review, it is clear that Scotland's economic recovery is going through a very difficult phase. There can be little doubt that ongoing uncertainty over the pace and impact of public sector cuts is sapping business confidence. We can only hope that next week's announcement, coupled with the forthcoming Scottish Government budget, brings certainty and allows business to get on with planning for future growth.

"This latest survey of business conditions in Scotland reveals that confidence has weakened across all sectors and that the positive signs which emerged earlier in the year are now less visible. Even in manufacturing, which has performed more strongly in recent quarters, confidence, orders and expectations are falling, and export orders have eased.

"Constant talk of public sector cuts is undoubtedly damaging business confidence, and it is now time to look beyond the cuts and towards building plans for future growth. The UK and Scottish Governments have to develop strategies manage the cuts constructively, focusing on efficiency and maintaining growth in our private sector economy. Politicians of all parties must work together, providing leadership and a long term vision for growth that recognises the prime role that the private sector must play in the recovery. Scarce public resources must continue to be focused on delivering the capital infrastructure improvements that will bring long term benefits to Scotland and introduce new ways of working which minimise the burdens and barriers to growth.

"Above all, the building of business and Government partnerships at a national and local level is critical to future success and Chambers of Commerce look forward to playing a full part in providing these solutions."

## BUSINESS PERFORMANCE

### Summary Points

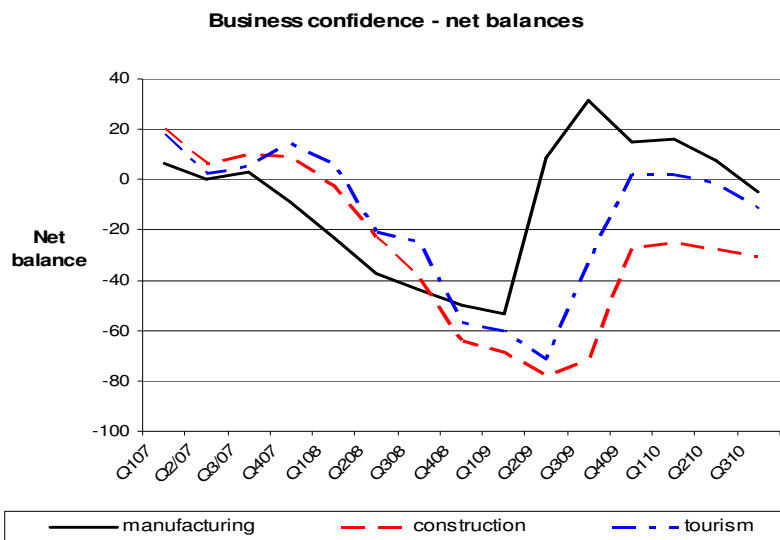
#### Overall

Confidence weakened amongst Scottish Chamber of Commerce members for the third quarter of 2010, the positive signs of recovery evident earlier in the year faded, and respondents in all sectors revised downwards their expectations for the fourth quarter and for the year ahead. Whilst it is still unclear whether or not the recovery stalled or ended in the third quarter, it is clear that firms are factoring in the forthcoming significant reductions in public sector expenditure and consequent reduced consumer demand are increasingly concerned these will adversely influence turnover, profitability and demand over the next year.

The optimism and sense of improving trading conditions evident in the first half of 2010 have been replaced with more concerns as to weakening trends in turnover and profitability over the next year.

#### Business confidence

Business optimism declined in all sectors during quarter 3. Manufacturing, construction retail and wholesale optimism were all at the lowest levels since the first quarter of 2009.

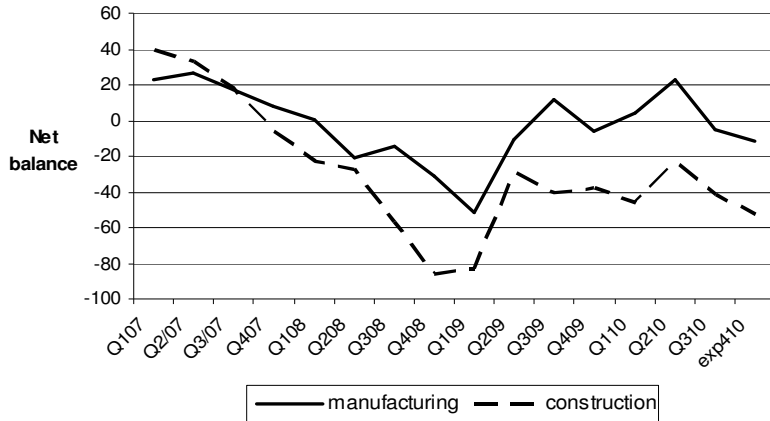


#### Demand/sales

In manufacturing, the trend in total orders declined sharply with orders from all areas declining (the net trend in exports is at the lowest level since quarter 4 2008). 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 total new orders and two thirds reported declining levels of public sector contracts.

Retail sales trends were at their weakest since the first quarter of 2009, reflecting weak consumer confidence, although the major multiple retailers continued to report rising sales. In tourism the outturn for Q3 was worse than anticipated and the declining net trends in visitor numbers were worse than in Q3 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 fell by 4.6 percentage points. Construction firms reported a small increase (2.4 percentage points) over the past quarter.

### Average capacity used



In construction the proportion reporting working below optimum levels increased from 62% in quarter 2 to 83%. In tourism occupancy declined in quarter 3, and was at a lower level than in quarter 3 2009. Discounting of room rates remained evident.

#### Cost pressures

Once again raw material/suppliers prices and transport costs were widely reported. More than 80% of manufacturing, 94% of wholesale and 78% of retail respondents reported pressures to raise prices due to rising raw material/suppliers' prices. 94% of wholesale, 42% of manufacturing and 42% of retail respondents reported rising transport costs.

#### Pay and employment

Labour market activity remained subdued, recruitment activity and recruitment difficulties likewise remained at much lower levels. Pay increases ranged from 1.5% in construction to 6.5% in retail (this figure was skewed as fewer than 10% increased wages/salaries in this sector and one large increase was reported). Generally wage increases remain at historically low levels.

## Outlook

The underlying weaknesses in demand and consumer spending are more evident now than at the end of the second quarter. The uncertainty surrounding the pace and impact of the public sector spending cuts is both sapping business confidence and leading firms to expect a further weakening in demand and activity. At present the decline in capacity utilisation and trends in work in progress is slight but respondents fear, in the current uncertain climate, a further deterioration in the fourth quarter and in 2011. Activity in construction is set to remain weak, but the expectations for the year ahead are more depressed than in previous quarters. In the service sector consumer confidence continues to remain weak and retail sales trends remain flat. Activity and occupancy in tourism was only slight down on the averages for the third quarters of previous years, but there are some signs of weakening demand for conference/function as well as bar/restaurant facilities. The trends for the fourth quarter of 2010 and for the next two to three years will be shaped by the reductions in public sector expenditure and employment, likely tax changes and the extent to the 'age of austerity and exchange rate cutting' across Europe weaken economic recovery.

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 September 2010 and early October 2010, almost 250 firms responded to the questionnaire.

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## MANUFACTURING

### Optimism

Respondents reported being less confident than a year ago and also less optimistic compared to the third quarter of last year.

### Orders and Sales

Average capacity utilisation declined by almost 5 percentage points, previous positive trends in work in progress and rising trends in orders and sales were reversed in quarter three with a net balance of firms reporting a decline (firms in the second quarter survey had expected a weakening in these trends).

Respondents anticipate some further weakening in these trends in the fourth quarter, with the net trend in total orders and sales remaining negative.

Cost pressures, especially raw material and to a lesser extent transport costs, continued to cause most concern to firms during quarter three. Nevertheless, the net trend in turnover is expected to remain positive over the coming twelve months whereas profitability is now being forecast to decline.

### Investment

Trends in investment of equipment declined with remaining investment mainly directed towards replacement. Investment for R & D and introducing new products/developing new markets remained low.

### Employment

Declining trends in employment and hours worked were reported, and expenditure on training continued to ease. Recruitment activity remained subdued and few recruitment difficulties were reported.

	Up	Q3 2010		Net Balances		
		Level	Down	Q3/10	Q2/10	Q1/10
<b>Business Optimism</b>	16.9	61.0	22.1	-5.2	7.7	15.9
<b>Trends in actual orders</b>						
Total new orders	23.4	48.1	28.6	-5.2	22.7	4.3
Scottish orders	16.4	56.2	27.4	-11.0	-3.3	-7.5
Rest of UK orders	13.6	62.1	24.2	-10.6	7.0	-8.3
Export orders [35% = N/A]	13.2	31.6	14.5	-1.3	18.2	8.7
<b>Trends in expected orders</b>						
Total new orders	15.8	56.6	27.6	-11.8	-3.1	20.9
Scottish orders	14.1	54.9	31.0	-16.9	-16.9	7.8
Rest of UK orders	15.6	54.7	29.7	-14.1	-5.5	6.9
Export orders (36% = N/A]	11.8	34.2	13.2	-1.3	1.6	19.1
Av Capacity used	76.8			76.8	81.4	75.1
Invest in plant/equip.	17.8	58.9	23.3	-5.5	4.9	-6.3
Cash flow past 3 moths	19.5	58.4	22.1	-2.6	15.2	0
Turnover next 12 moths	32.5	46.8	20.8	-11.7	22.7	22.9
Profitability next 12 moths	24.7	40.3	35.1	-10.4	7.6	-5.8
Price change next 3 moths	33.8	59.7	6.5	27.3	37.9	28.6
<b>Pressures to raise prices from</b>						
Pay settlements	28.6			28.6	22.7	27.1
Raw material costs	84.4			84.4	80.3	64.3
Finance costs	11.7			11.7	12.1	14.3
Other overheads	28.6			28.6	39.4	41.4
Transport costs	41.6			41.6	51.5	37.1
<b>Employment trends</b>						
Total actual employment	10.5	69.7	19.7	-9.2	4.5	-8.6
Total expected next 3 months	8.1	68.9	23.0	-14.9	0	-6.1
Average pay increase	3.2			3.2	2.7	2.9

## CONSTRUCTION

### Optimism

Business confidence declined sharply among chamber of commerce construction respondents in the three months to the end of September (the lowest net balance since Q1 2009).

### Contracts

Demand remained weak among construction firms with orders from all areas declining further during the third quarter. 83% of firms reported working below optimum levels.

Expectations as to contracts over the next three months and turnover, tender margins and profitability over the next twelve months remain weak. There is much to suggest that expectations continue to be influenced by continued speculation concerning announcements as to reductions in public sector capital projects expected in the Comprehensive Spending Review.

Average capacity rose marginally to 75%, similar to levels one year ago, but remains some 14 percentage points lower than in 2007.

### Employment

Employment levels continued to decline and further declines are anticipated during quarter four. Recruitment activity and average pay increases remain at historically low levels, few recruitment difficulties are reported.

	Q3 2010			Net Balances		
	Up	Level	Down	Q3/10	Q2/10	Q1/10
<b>Business Optimism</b>	12.5	33.3	54.2	-41.7	-24.1	-30.8
<b>Trends in actual contracts</b>						
Total new contracts	12.5	33.3	54.2	-41.7	-24.1	-46.2
Public sector orders	0.0	33.3	66.7	-66.7	-34.8	-70.0
Private commercial	9.5	47.6	42.9	-33.3	-33.3	-47.8
Domestic/house build	10.0	25.0	65.0	-55	-45.0	-54.2
<b>Trends in expected contracts</b>						
Total new orders	8.7	30.4	60.9	-52.2	-31.0	-38.5
Public sector orders	7.1	21.4	71.4	-64.3	-56.5	-38.1
Private commercial	10.0	40.0	50.0	-40	-29.2	-47.8
Domestic/house build	5.3	36.8	57.9	-52.6	-45.0	-37.5
<b>Trends in work in progress</b>						
Actual	16.7	62.5	20.8	-4.2	-29.6	-20.0
Expected	8.7	17.4	73.9	-65.2	-42.9	-41.6
<b>Capacity used</b>	75.0			75	72.6	65.3
<b>Invest in plant/equip.</b>	0.0	29.2	70.8	-70.8		-41.7
<b>Leasing in plant/equipment.</b>	0.0	41.7	58.3	-58.3		-33.3
<b>Employment trends</b>						
Total actual employment	8.3	62.5	29.2	-20.8	-31	-44.0
Total expected next 3 months	0.0	50.0	50.0	-50	-27.6	-32.0
<b>Average pay increase</b>	1.5			1.5	2.7	4.0
Percent recruiting staff	20.8			20.8	17.9	20.0
Recruitment difficulties increasing	11.1			11.1	6.3	0.0

## WHOLESALE DISTRIBUTION

### Optimism

Business confidence amongst Scottish wholesale respondents remained weak, with no respondents reporting a rise in business confidence.

### Sales

Sales trends weakened during the three months to September although more than half of firms reported increasing or level sales; however almost two thirds anticipated a decline during quarter four.

Almost all firms reported pressures to raise prices, as respondents report rising transport costs and supplier prices.

Wholesalers have revised their expectations downwards for both turnover and profitability over the coming year; more than half of respondents now expect both to decline.

### Finance

Most firms reported that their investment intentions remained unchanged, nevertheless there was a net decline.

### Employment

Fewer than 20% sought to recruit staff, compared to more than 50% in the previous quarter. No responding firms increased pay during quarter three.

	Q2 2010			Net Balances		
	Up	Level	Down	Q3/10	Q2/10	Q1/10
<b>Business Optimism</b>	0	62.5	37.5	-37.5	-12.5	-7.7
<b>Trend in actual sales</b>	18.8	43.8	37.5	-18.8	-6.8	7.7
<b>Trend in expected sales</b>	15.4	46.2	38.5	-23.1	0.0	12.5
<b>Investment plans</b>	6.3	62.5	31.3	-25	18.75	-42
<b>Cash flow past 3 months</b>	18.8	43.8	37.5	-18.8	-12.5	0.0
Turnover next 12 months	12.5	25.0	62.5	-50	0	0.0
Profitability next 12 months	18.8	25.0	56.3	-37.5	6.2	-7.7
Price change next 3 months	75.0	25.0	0.0	75	75	38.5
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	12.5			12.5	32.0	30.8
<b>Raw material costs</b>	93.8			93.8	68.8	61.5
<b>Finance costs</b>	25.0			25	25	7.7
<b>Other overheads</b>	12.5			12.5	56.3	38.5
<b>Transport costs</b>	93.8			93.8	75.0	76.9
<b>Employment trends</b>						
Total actual employment	12.5	62.5	25.0	-12.5	0.0	-9.1
Expected next 3 months	0.0	57.1	42.9	-42.9	-31.3	-9.1
<b>Average pay increase</b>	0			0	3.62	3.5
Percent recruiting staff	18.8			18.8	56.3	36.4
Recruitment difficulties inc	0			0	7.7	9.1

## RETAIL DISTRIBUTION

### Optimism

The net trends in retail confidence in the third quarter were the weakest since the onset of the recession. Weak consumer demand, consumer uncertainty, the continued growth of the major multiples and rising price pressures underpin the weak trends in business optimism.

### Sales

The trend in sales remained weak with more than 60% reporting and expecting a decline in the total value of sales. Only 12% reported increased sales, and once again continued concerns over consumer confidence are moderating sales expectations for the fourth quarter.

### Finance

Cost pressures, especially suppliers' prices remain significant and pressures to increase prices remain high. Pressures on margins look set to increase with two-thirds of firms anticipating weakening trends in both turnover and profitability over the next year.

### Employment

Labour market activity remains at low levels with 70% of retailers reporting and almost 90% expecting no change to overall employment levels. Recruitment activity in the third quarter, whilst just as strong as a year ago, remains at historically low levels.

Fewer than 10% reported increasing pay, and the average increase in for quarter 3 2010 was 6.5%.

	Q3 2010			Net Balances		
	Up	Level	Down		Q2/10	Q1/10
<b>Business Optimism</b>	4.9	34.1	61.0	-56.1	-46.5	-54.5
<b>Trend in actual sales</b>	12.2	22.0	65.9	-53.7	-46.5	-48.5
<b>Trend in expected sales</b>	10.5	28.9	60.5	-50	-43.9	-45.5
<b>Cash flow past 3 months</b>	7.3	65.9	26.8	-19.5	-14.3	-9.1
Turnover next 12 months	7.3	26.8	65.9	-58.3	-37.2	-15.2
Profitability next 12 months	10.0	25.0	65.0	-55	-46.5	-40.6
Price change next 3 months	73.2	24.4	2.4	70.7	67.4	69.7
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	24.4			24.4	20.9	18.2
<b>Raw material costs</b>	78.0			78	65.1	63.6
<b>Finance costs</b>	26.8			26.8	25.6	24.2
<b>Other overheads</b>	19.5			19.5	16.3	33.3
<b>Transport costs</b>	41.5			41.5	46.5	45.5
<b>Utility costs</b>	36.6			36.6	32.6	48.5
<b>Regulation costs</b>	34.1			34.1	37.2	39.4
<b>Employment trends</b>						
Total actual employment	5.1	71.8	23.1	-17.9	-11.6	-25.0
Expected next 3 months	5.4	89.2	5.4	0	-20.0	-13.3
<b>Average pay increase</b>	6.5			6.5	2.56	2.5
Percent recruiting staff	23.1			23.1	23.3	28.1
Recruitment difficulties inc	35.3			35.3	14.3	23.1



## TOURISM

### **Optimism**

Overall business confidence weakened, whilst occupancy figures remained little changed from previous years average daily spend eased and demand from abroad remained flat.

### **Demand**

Average occupancy declined marginally to 70.3%, slightly lower than a year ago. Visitors from all areas declined and are expected to decline further in quarter four. Trends in bar/restaurant trade and most notably in conference/function facilities remained weak. The trends in visitor numbers were significantly worse than in q3 2009. Overall local and business demand accounted for 47% of total demand and tourist demand accounted for 53% of total demand in the third quarter.

More than a third reported reducing average room rates and the discounting of rates is set to continue for 40% of hotels in the three months to the end of December.

### **Business constraints**

More than 80% reported that the lack of tourist demand remained the primary business constraint but once again almost a third felt that their area had suffered due to poor marketing.

### **Employment**

Fewer than half (compared to two thirds in quarter two) sought to recruit staff. Net declining trends in employment continued and are expected to accelerate in quarter four. Once again, notwithstanding the weak demand for staff difficulties in recruiting suitable chefs were evident.

	Q3 2010			Net Balances		
	Up	Level	Down	Q3/10	Q2/10	Q1/10
<b>Business Optimism</b>	22.7	50.0	27.3	-4.5	10.7	-11.6
<b>Trends in demand/visitors</b>						
Total demand/visitors	18.2	38.6	43.2	-25	-10.5	-39.5
Demand from Scotland	18.2	50.0	31.8	-13.6	-10.7	-34.9
Demand from Rest of UK	22.2	40.0	37.8	-15.6	-7.3	-34.9
Demand from abroad	24.4	28.9	46.7	-22.2	-17.9	-58.1
Business Trade	20.5	43.2	36.4	-15.9	-18.5	-46.5
<b>Trends in expected demand</b>						
Total demand/visitors	12.2	36.6	51.2	-39	9.6	-13.2
Demand from Scotland	10.0	47.5	42.5	-32.5	20.0	-13.5
Demand from Rest of UK	7.3	46.3	46.3	-39	13.7	-8.1
Demand from abroad	7.3	29.3	63.4	-56.1	-2.0	-19.4
Business Trade	10.0	37.5	52.5	-42.5	-16.3	-25.0
<b>Occupancy</b>	70.3			70.3	71.4	46.6
Average daily rate	20.5	43.2	36.4	-15.9	-21.4	-48.8
Expected average daily rate	16.3	44.2	39.5	-23.3	-5.8	-9.7
<b>Employment trends</b>						
Total actual employment	16.7	54.8	28.6	-11.9	-14.8	-15.0
Expected next 3 months	7.1	50.0	42.9	-35.7	-2.0	5.0
<b>Average pay increase</b>	6.3			6.3	3.0	5.5
Percent recruiting staff	48.9			48.9	66.1	50.0
Recruitment difficulties	11.8			11.8	29.4	15.4

**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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