



Scottish  
Chambers of  
Commerce

The Ultimate Business Network

## **MEDIA RELEASE**

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# **SCOTTISH BUSINESS NOW FACING A RECESSION AND HARSH TRADING CONDITIONS**

The Scottish Chambers of Commerce today released its Business Survey results for the third quarter of 2008. There is now clear evidence of a looming recession and the challenge is to ensure that the downturn is as brief and shallow as possible.

Commenting on today's survey, Liz Cameron, Chief Executive of Scottish Chambers of Commerce, said:

"The continuing problems in the global financial sector, general slowdown in the international economy and continued price inflation are real problems for Scottish business. This is a time for international action and we call on all parties, both in Scotland and the rest of the UK to support the current UK Government policies and to support international rather than narrow national action. If the current UK initiatives are successful then there is more chance of the recession being shorter and shallower.

"Despite this week's inflation figures, there are some signs that inflationary pressures are weakening and it is to be hoped that the current sharp declines in oil prices are rapidly translated into reduced fuel, electricity and gas prices for both business and domestic consumers.

"Chambers of Commerce across Scotland are working hard with our member businesses to chart the way forward and we are lobbying hard to maintain confidence.

"However trading conditions will be difficult over the next year, and easing the issues in the financial sector is critical to enable credit to be available for Scottish businesses. Equally all Government departments need to act sensitively to the problems confronting Scottish and UK businesses. Tax and revenue raising departments need to recognise the increased financial issues confronting businesses, spending departments need to consider how they can programme their spending to provide the maximum support for Scottish business.

"These low cost or no-cost measures by the Scottish and UK Governments could make a real difference for businesses. Public sector action must not become a barrier to a business's growth or indeed survival."

## BUSINESS PERFORMANCE

This survey was conducted in September, and as such the results do not reflect the most recent events in the financial sectors.

### **Summary Points**

Business confidence	Business confidence continued at record weak levels with 52% of manufacturing, 62% of tourist, 65% of retail and 74% of construction respondents reporting being less confident than at the end of June 2008;
Demand/sales	Trading conditions have been difficult for several quarters in manufacturing, construction, retail and tourism. In manufacturing and construction the proportions reporting weakening trends in total orders has risen each quarter since q4 2007. In construction the declining levels of domestic and private commercial activity have contributed to the proportions reporting declining trends in the levels of new contracts. The net trends in work in progress are the weakest recorded in the history of the survey;  In the service sector the proportion of retail respondents reporting weakening sales trends has increased each quarter since q4 2007. Likewise in tourism the trends in visitor numbers weakened in q1 2008 and have weakened further in each quarter in 2008;
Capacity/work in progress	Average capacity used in manufacturing has declined by 4.5 percentage points over the past year and the proportions reporting declining levels of work in progress has risen from 17% in q 3 2007 to 31% in q3 2008. In construction average capacity used has eased by 9.7 percentage points over the past year and the proportion reporting working below optimum levels has increased from 30% to 70%;
Cost pressures	Concerns over raw material costs were again evident in the third quarter, being cited by 82% of manufacturing and 73% retail respondents. Expectations of price increases in the next quarter were slightly less broadly based than in previous surveys, and range from a net of 44% of manufacturing, to nets of 67% of wholesale and retail respondents;
Pay and employment	Pay pressures remained relatively subdued. A net of firms in all sectors, except wholesale distribution, reported declining net trends in employment and hours worked/overtime levels. Recruitment activity compared to a year ago was lower in all sectors, except manufacturing;
Outlook	2008 has witnessed a slowing down in the Scottish economy, and expectations for the next quarter and for the next year remain weak. Activity will be affected by continuing credit concerns, weakening demand and recession in major markets. Declining consumer confidence is widespread. Developments in the international economy will be the key factor over the next months.

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 and early October 2008, almost 300 firms responded to the questionnaire.

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## MANUFACTURING

### *Optimism*

During the third quarter business confidence continued to deteriorate for a net of firms in all size bands. The net trend of firms reporting declining levels of business confidence in the third quarter is the lowest reported.

### *Orders and Sales*

The actual and expected trends in total orders in the second and third quarters are the weakest since 1998. Weakening trends in orders were again reported by a net of firms in all size bands and these trends are expected to continue through the next year, with only large firms (those employing more than 100) anticipating a level trend in total orders over the forthcoming year.

A net of small, medium and larger firms reported declining trends in the level of work in progress. Average capacity eased further to 73.6%, some 5 percentage points lower than a year ago, and 65% reported capacity used was below preferred levels. In the 2<sup>nd</sup> and 3<sup>rd</sup> quarter the expectations as to the trends in orders, turnover and profitability for the next twelve months are the weakest reported. Pressures to raise prices remain widespread.

### *Investment*

Overall investment trends eased and only 16% reported an increase in investment and 2% anticipate an increase in leasing equipment over the coming year.

### *Employment*

Changes to employment levels were reported by 30% and slightly declining trends in employment and total hours worked were reported.

	Q3.2008			Net Balances		
	Up	Level	Down	Q3/08	Q2/08	Q1/08
<b>Business Optimism</b>	8.7	38.8	52.5	-43.8	-37.2	-22.9
<i>Trends in actual orders</i>						
Total new orders	20.7	43.9	35.5	-14.6	-20.9	0.7
Scottish orders	12.9	39.4	47.7	-34.9	-27.9	-23.4
Rest of UK orders	16.0	54.0	30.0	-14.1	-29.6	-19.4
Export orders [31.7% = N/A]	10.8	46.4	11.2	-0.4	-5.7	-10.9
<i>Trends in expected orders</i>						
Total new orders	19.7	38.9	41.4	-21.7	-23.7	-6.8
Scottish orders	11.3	44.1	44.7	-33.4	-35.3	-24.5
Rest of UK orders	20.3	56.3	23.3	-3	-35.6	-13.3
Export orders [31.7% = N/A]	10.8	46.4	11.2	-0.4	-1	-1
Av Capacity used	73.6			73.6	76.1	78.6
Invest in plant/equip.	16.2	60.1	23.6	-7.4	-7.1	1.6
Cash flow past 3 moths	12.8	53.2	34.0	-21.1	-3.5	-5.9
Turnover next 12 moths	27.6	31.6	40.8	-13.2	-14	23.9
Profitability next 12 moths	22.9	21.7	55.4	-32.4	-39.4	5.3
Price change next 3 moths	49.4	45.0	5.6	43.9	52.7	46.9
<i>Pressures to raise prices from</i>						
Pay settlements	31.8			31.8	40.4	45.4
Raw material costs	81.9			81.9	77.1	84.8
Finance costs	21.7			21.7	11.4	14.3
Other overheads	58.2			58.2	54.4	45.2
Transport costs	71.2			71.2	78.2	50.3
<i>Employment trends</i>						
Total actual employment	11.4	70.6	18.0	-6.6	1.4	-6.6
Total expected next 3 months	8.9	56.5	34.5	-25.6	0.9	-0.6
Average pay increase	3.67			3.67	3.7	3.66

## CONSTRUCTION

### Optimism

The percentage of firms reporting declining business confidence was the highest ever reported. 80% reported being less confident than a year ago, again reflecting concerns as to credit issues and the sharply declining trends in domestic/house build contracts.

### Contracts

The declining trend in new contracts strengthened in the third quarter, with a sharp downturn in the trends in private commercial and domestic/house build contracts, and more modestly declining trends in public sector work. Now only 41% (52%, 69%, 71% and 86% in the previous four quarters) expect level or rising trends in the level of work through the next six months.

Expectations as to turnover trends over the next year have weakened significantly over the past two quarters. In the third quarter a net of 37% (25% in quarter two) anticipate declining turnover trends over the next year (in contrast rising net trends of 3%, 10% and 29% in the preceding three quarters). A net of -54% (-49% and -3% in the previous two quarters) anticipate declining profitability over the next twelve months. 74% of construction firms anticipate declining tender margins over the next twelve months.

Average capacity declined to 79%, the lowest figure recorded and 43% reported and 59% expect a declining trend in the level of work in progress, again the weakest trends in the history of the survey.

### Employment

The level trend in employment weakened, 43% reported increasing pay by an average of 4.11%.

	Q3.2008			Net Balances		
	Up	Level	Down	Q3/08	Q2/08	Q1/08
<b>Business Optimism</b>	5.7	20.0	74.3	-68.6	-64.3	-38.5
<b>Trends in actual contracts</b>						
Total new contracts	11.4	20.0	68.6	-57.2	-27.3	-23.1
Public sector orders	13.8	44.8	41.4	-27.6	-11.1	-23.3
Private commercial	6.5	29.0	64.5	-58.0	-30.8	-8.6
Domestic/house build	0.0	27.3	72.7	-72.7	-59	-22.9
<b>Trends in expected contracts</b>						
Total new orders	11.8	23.5	64.7	-52.9	-46.5	-2.6
Public sector orders	25.0	17.9	57.1	-32.1	-36.1	-3.4
Private commercial	10.0	23.3	66.7	-67.6	-48.7	-14.9
Domestic/house build	0.0	18.8	81.3	-81.3	-66.7	-20.6
<b>Trends in work in progress</b>						
Actual	5.7	51.4	42.9	-37.2	-18.2	-15.4
Expected	8.8	32.4	58.8	-50.0	-36.4	-2.6
<b>Capacity used</b>	79.03			79.03	87.8	86.9
<b>Invest in plant/equip.</b>	8.8	38.2	52.9	-44.1		8.1
<b>Leasing in plant/equipment.</b>	5.9	32.4	61.8	-55.9		-16.2
<b>Employment trends</b>						
Total actual employment	11.4	65.7	22.9	-11.5	0	10.3
Total expected next 3 months	15.2	33.3	51.5	-36.3	-19	17.9
<b>Average pay increase</b>	4.11			4.11	4.6	4.00
Percent recruiting staff	25.7			25.7	47.7	48.7
Recruitment difficulties increasing	5.9			5.9	17.2	17.9

## WHOLESALE DISTRIBUTION

### Optimism

Unlike other service sectors the declining trend in business confidence was less widely reported among wholesale distribution firms.

### Sales

The declining trend in sales was slightly more broadly based than anticipated, and, following the retail sector, more firms are anticipating a deterioration in sales trends in the fourth quarter of 2008.

Expectations of price increases in the next quarter continued and the percentages of respondents reporting pressures to raise prices due to raw material and transport costs remained widespread.

A slightly rising trend in turnover is expected for the forthcoming year as, somewhat surprisingly, 39% (a net trend of +5.6%) are expecting turnover to increase. Overall a level trend in profitability is now anticipated for the forthcoming year.

### Finance

Changes to investment plans were reported by 17% and a declining trend in investment intentions emerged.

### Employment

Changes in employment levels were again reported by 11% of respondents and the modestly rising trend in employment continued for a further quarter, but is now expected to level off through the fourth quarter of 2008. 44% sought to recruit staff, and 17% increased pay by an average of 3.03%.

	Q3.2008			Net Balances		
	Up	Level	Down	Q3/08	Q2/08	Q1/08
<b>Business Optimism</b>	17.6	52.9	29.4	-11.8	-41.2	5.3
<b>Trend in actual sales</b>	27.8	27.8	44.4	-16.6	11.1	5.3
<b>Trend in expected sales</b>	18.8	37.5	43.8	-25.0	-12.5	11.8
<b>Investment plans</b>	11.1	83.3	5.6	5.5	22.2	31.5
<b>Cash flow past 3 months</b>	22.2	44.4	33.3	-11.1	-22.2	-10.5
Turnover next 12 months	38.9	27.8	33.3	5.6	0	31.6
Profitability next 12 months	35.3	29.4	35.3	0.0	-22.2	5.3
Price change next 3 months	66.7	33.0	0.0	66.7	77.8	52.6
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	16.7			16.7	22.2	31.6
<b>Raw material costs</b>	77.8			77.8	61.1	57.9
<b>Finance costs</b>	27.8			27.8	5.6	15.8
<b>Other overheads</b>	27.8			27.8	33.3	31.8
<b>Transport costs</b>	72.2			72.2	88.9	78.9
<b>Employment trends</b>						
Total actual employment	11.1	88.9	0.0	11.1	5.9	11.1
Expected next 3 months	5.6	88.9	5.6	0.0	6.3	23.5
<b>Average pay increase</b>	3.03			3.03	3.94	4.9
Percent recruiting staff	44.4			44.4	44	52.6
Recruitment difficulties inc	13.3			13.3	0	33.3

## RETAIL DISTRIBUTION

### **Optimism**

For a further quarter the widespread deterioration in business confidence continued, reflecting continued concerns as to declining consumer confidence, credit restrictions and spending. Declining business confidence in 2008 has consistently been the most broadly based ever recorded by the survey.

### **Sales**

The proportion reporting and expecting declining sales was the highest ever reported in the history of the survey.

Cost pressures were again more evident in the third quarter with the percentages citing raw material, utility costs at the highest recorded in the survey. Cost pressures were again more widely reported by independent retailers. The percentage anticipating price increases is the second highest recorded in the survey.

### **Finance**

A net of -38% of retailers anticipate declining turnover, and a net of -49% (-47% in the previous quarter) anticipate declining profitability over the next year, suggesting continuing pressures on margins in 2008/2009.

### **Employment**

Changes in employment levels were reported by 13%. The overall trends in employment indicated continuing declining trends in full time, temporary and permanent employment, overtime working also continued to decline.

	Q3.2008			Net Balances		
	Up	Level	Down	Q3/08	Q2/08	Q1/08
<b>Business Optimism</b>	5.8	28.8	65.4	-59.6	-56.9	-53.8
<b>Trend in actual sales</b>	13.7	27.5	58.8	-45.1	-37.9	-23.1
<b>Trend in expected sales</b>	4.1	36.7	59.2	-55.1	-41.1	-32.7
<b>Cash flow past 3 months</b>	7.7	55.8	36.5	-28.8	-26.8	-11.8
Turnover next 12 months	13.5	34.6	51.9	-38.4	-41.4	-32.7
Profitability next 12 months	9.8	31.4	58.8	-49.0	-47.4	-41.2
Price change next 3 months	71.2	25.0	3.8	67.4	81.1	61.5
<b>Pressures to raise prices from</b>						
<b>Pay settlements</b>	25.0			25.0	24.1	32.7
<b>Raw material costs</b>	73.1			73.1	72.4	65.4
<b>Finance costs</b>	25.0			25.0	34.5	28.8
<b>Other overheads</b>	19.2			19.2	13.8	13.5
<b>Transport costs</b>	67.3			67.3	69	48.1
<b>Utility costs</b>	75.0			75.0	69	67.3
<b>Regulation costs</b>	25.0			25.0	25.9	34.6
<b>Employment trends</b>						
Total actual employment	5.8	76.9	17.3	-11.5	-17.2	-9.8
Expected next 3 months	8.3	70.8	20.8	-12.5	-11.8	-17.4
<b>Average pay increase</b>	4.32			4.32	3.77	3.53
Percent recruiting staff	33.3			33.3	39.7	21.6
Recruitment difficulties inc	12.5			12.5	35.1	19.2

## TOURISM

### **Optimism**

For a further quarter over 60% reported lower levels of business confidence, the most widely reported figure since 2001. The current declining trend in business confidence emerged in 2007 q4, and the proportions reporting declining trends more than doubled in the second quarter. The percentage of respondents reporting declining visitor demand is the highest recorded in the history of the survey.

### **Demand**

The net trends in demand were weaker than in the previous third quarters of 1997 - 2007. Only 14% reported increased demand for accommodation, 10% increased numbers in restaurants and 8% increased demand for function/conference facilities. Average occupancy at 72% was lower than in the third quarters of 2006 - 2007, but broadly similar to that of q3 2001, 2002 and 2005.

A net of -33% reported declining turnover trends (compared to a decline of -8% and increases of 10% and 38% in the previous quarters) and a net of -43.5% (-22.4%, -34% and -5% in the previous three quarters) reported falling trends in margins.

### **Business constraints**

90% (the highest figure ever reported) reported the lack of demand as the main business constraint in the third quarter, 50% the high exchange rates, 22% poor transport infrastructure and 28% the weak marketing of their area.

### **Employment**

Changes in employment levels were reported by 38%, net declining trends in full time, part time, seasonal and overtime working were reported.

	Q3.2008			Net Balances		
	Up	Level	Down	Q3/08	Q2/08	Q1/08
<b>Business Optimism</b>	2.0	36.0	62.0	-60.0	-56.9	-24.4
<b>Trends in demand/visitors</b>						
Total demand/visitors	14.0	20.0	66.0	-52.0	-16	-9.8
Demand from Scotland	14.6	45.8	39.6	-25.0	-10.4	-5
Demand from Rest of UK	14.3	30.6	55.1	-40.8	-19.1	-12.2
Demand from abroad	14.0	22.0	64.0	-50.0	-25.5	-37.5
Business Trade	20.4	32.7	46.9	-26.5	-20.8	-7.5
<b>Trends in expected demand</b>						
Total demand/visitors	2.1	31.3	66.7	-64.6	-31.9	7.7
Demand from Scotland	0.0	42.2	57.8	-57.8	-36.4	-5.4
Demand from Rest of UK	2.2	30.4	67.4	-65.2	-26.7	-2.6
Demand from abroad	4.3	21.3	74.5	-70.2	-37	-2.6
Business Trade	8.7	28.3	63.0	-54.3	-29.5	10.8
<b>Occupancy</b>	72.2			72.2	67	54.6
Average daily rate	18.4	51.0	30.6	-12.2	12	25.6
Expected average daily rate	8.3	52.1	39.6	-31.3	-4	4.9
<b>Employment trends</b>						
Total actual employment	8.5	61.7	29.8	-21.3	-12.2	2.6
Expected next 3 months	0.0	46.7	53.3	-53.3	-12.2	5.3
<b>Average pay increase</b>	7.33			7.33	5.58	5.38
Percent recruiting staff	64.0			64.0	77.6	64.3
Recruitment difficulties	34.8			34.8	24	30

**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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