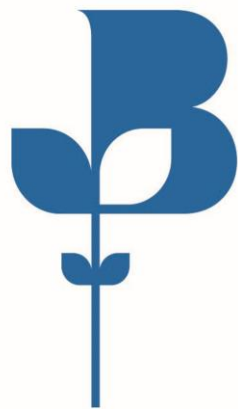


Quarterly Business Survey

Quarter 4 2014 Edition



Scottish
Chambers of
Commerce

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METHODOLOGY

- The Quarterly Business Survey (QBS) is carried out and produced by the Scottish Chambers of Commerce Research and Policy Unit, in collaboration with the Fraser of Allander Institute of the University of Strathclyde.
- 496 firms responded to the Q4 2014 edition of the QBS.
- Results are reported as the “net % balance”, calculated by deducting the % of firms reporting a decrease from the % of firms reporting an increase.
- Eg. If 50% of firms report an increase in profits over the quarter (compared with the previous quarter) and 49% report a decrease, the net % balance of firms reporting an increase in profits is $(50-49 = +1)$.
- A negative net % balance indicates contraction and a positive net % balance expansion.
- The Scottish Chambers Research and Policy Unit are available to be commissioned for a wide range of economic and business related research. For more information on the Research and Policy Unit, further information on the QBS results, or details of QBS sponsorship availability, please contact:

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SUMMARY

SUMMARY

- The results of the Quarter 4 2014 Scottish Chambers' Quarterly Business Survey (QBS) provide widespread evidence of a successful quarter for Scotland's economy, and round off a year that has seen continuous recovery from the lingering impacts of the financial crisis and recession, particularly within the Construction and Manufacturing sectors – two of the most badly affected industries. In 2014 overall employment levels in Scotland have been particularly impressive, with Scotland consistently outperforming the rest of the UK. There is recent evidence that real wage rates are also beginning to recover from a 5 year widening gap. With the UK inflation rate sitting at 0.5% (CPI) for December 2014 and evidence from the QBS that average wage increases are rising cross – sector, there are signs that consumer demand could fuel economic growth in the short run. There were extremely positive investment figures from the most recent QBS, 45.6% of firms increasing investment did so to expand capacity – significantly higher than historical averages, and a net % balance of +15.7 of all firms expect to further increase investment in Q1 2015. So there are also positive and widespread signs for longer term growth for Scotland's economy in 2015.
- The Q3 QBS highlighted the low rates of economic growth in the Eurozone as being likely to limit the exporting performance of Scotland's businesses. The Q4 results indicate that export growth did slow and the current Eurozone macroeconomic conditions show no sign of easing. Given that the Euro area countries recorded an average 0.2% decline in their overall price level for December 2014 - possibly indicating declining consumer demand in the region but also a decrease in the price competitiveness of UK exports relative to Euro area goods/services, the rate of growth of Scotland's exports could decline further in 2015. A potential €500bn quantitative easing programme by The European Central Bank may mitigate the expected negative effects of Eurozone deflation on demand for Scotland's exports.

KEY FINDINGS

- The **CONSTRUCTION** sector as a whole has reported an extremely successful Q4 2014. Work in progress was higher than at any other time since 2007, and new orders in some instances outperformed pre-recession levels. The net % balance of firms that reported an increase in housebuilding orders was higher in Q4 2014 than at any other time in the past 10 years. These positive trends are expected to continue with over half of businesses (55.6%) expecting to increase overall sales revenue in Q1 of 2015. Investment levels were also at a ten year high – a net % balance of +14.8 firms increased total investment in Q4, the highest figure since 2005.
- For **FINANCIAL & BUSINESS SERVICES** the key performance indicators of turnover, profitability, investment and employment all remained strong within the sector and indicate continued growth in the industry. Some indicators demonstrate slower growth than in previous quarters this year (net % balance of firms increasing investment was +15.6 in Q4 compared with an average of +33.6 in the previous 3 quarters) but may be explained by seasonal trends and all are firmly within positive territory. The impact of struggling international economies may explain the lower growth rate of export revenue recorded in Q4 compared with Q3 (net % balance of +3 compared with +14.2).
- Orders growth in the **MANUFACTURING** sector slowed (there was a +12.9 net % balance of firms reporting an increase in orders in Q4 compared with an average of +32.9 for the previous 3 quarters in 2014) but employment levels, capacity utilisation and expectations of future performance remained high. Again, investment levels were very strong, 88% of businesses either maintained or increased investment last quarter, with this trend expected to continue into 2015. Over 40% of those that increased investment did so to expand capacity, significantly higher than the historical average for the sector.

KEY FINDINGS

- For the first time in 2014 **RETAIL & WHOLESALE** businesses reported an increase in sales (+7.7) and expectations of future sales were at their highest level since before the recession (+9.8), despite a decline in overall optimism from Q3 (net % balance of -4.4). More firms experienced a decline in cashflow than an increase (net % balance of -4.4) but this may be due to high rates of investment in the sector (35.5% of respondents increased investment expenditure in Q4) since profitability balances were also positive (78.7% either maintained or increased profits).
- Business optimism was higher in Q4 for a net % balance of +12.5 **TOURISM** firms compared with the same time last year. Guests/customers are up in all categories from last year, with the largest increase coming from guests/customers outside of the EU (net % balance of +48.5). Employment trends were less positive, with just over half of businesses (52.1%) recruiting compared with 63.3% this time last year, possibly explained by an increase in the % of firms reporting recruitment difficulties, up from 14.0% in Q4 2013 to 28.2% in Q4 2014.

CONSTRUCTION

BUSINESS OPTIMISM

Business Optimism was significantly higher in Q4 compared with Q3, with a net % balance of +22.7 firms (up from 0) reporting increased optimism.

CONTRACTS

In Q4 there were very strong results recorded for contracts obtained. The net % balance of firms reporting an increase in public sector orders was positive after 2 quarters of decline, and at its highest level (+15.2) for almost 8 years.

WORK IN PROGRESS

Work in progress continued to rise in the sector and the +47.5 net % balance of firms' experiencing an increase in work undertaken was higher than at any time since 2007.

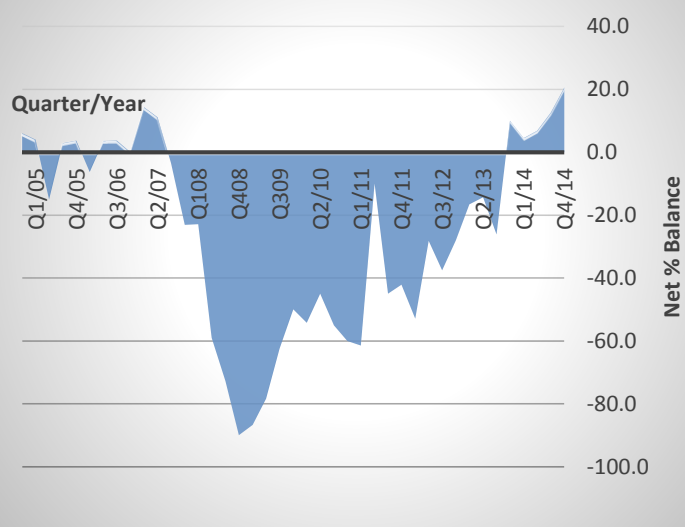
INVESTMENT

Investment levels are also at a 10 year high, the net % balance of firms that increased capital investment in Q4 was +14.8, the highest figure since 2005.

WAGES

Almost 40% of firms increased wages over the quarter and average wage increases continue to be significantly higher than inflation, at 5.5%.

House Building Orders



(Balances may not add up to 100% due to N/A responses) (figures given as % of respondents)	Up	Level	Down	Q4/14 Net % Balance	Q3/14 Last Quarter	Q4/13 Last Year
Business Optimism	34.1	54.5	11.4	22.7	0.0	23.1
Sales						
Total	57.9	28.9	13.2	44.7		
Domestic (Scotland)	57.7	23.1	11.5	46.2		
Rest of UK	15.4	19.2	7.7	7.7		
Expected Next Quarter (Total)	55.6	37.0	7.4	48.2		
Contracts						
Total	43.2	51.4	5.4	37.8	17.7	28.0
Public Sector	27.3	45.5	12.1	15.2	-17.6	-19.0
Private Commercial	50.0	35.3	14.7	35.3	14.3	34.8
House Building	26.5	41.2	5.9	20.6	12.5	10.0
Work in Progress	57.5	32.5	10	47.5	38.7	0.0
Investment						
Total	32.0	44.0	4.0	28.0		
Capital	25.9	44.4	11.1	14.8		
Training	33.3	40.7	11.1	22.2		
Cashflow	43.2	40.9	13.6	29.6		
Profits	51.9	29.6	18.5	33.4		
Capacity Used (Ave. %)				82.3	83.0	82.3
Expecting Price Rise Next Quarter				53.8		
Employment						
Total	32.6	55.8	11.6	21.0	26.2	-3.9
Recruiting Staff				54.8	51.6	46.2
Recruitment Difficulties				19.0	46.9	6.3
Expected Next Year (Total)	51.9	44.4	3.8	48.1		
Average pay increase				5.5	5.7	2.9

FINANCIAL & BUSINESS SERVICES

INVESTMENT

There was a slowing in the growth of investment expenditure shown by a net % balance of +15.6 firms increasing investment in Q4 compared with +34.0 in Q3 and +36.1 in Q2.

PROFITS

Profits continue to rise, over half of respondents (51.4%) experienced an increase in profits over Q4, and fewer than 10% (9.2%) expect a decrease next quarter.

EMPLOYMENT

Of those firms that tried to recruit, 38% had difficulties (19.7% of all businesses). Accountants, software developers and solicitors were the positions posing most problems for employers to fill.

PRICES

A net % balance of +35.9 firms expect to increase their prices next quarter, up again from +31.1 in Q3 and +27.4 in Q2.

CONCERNS

28.3% of firms are more concerned this quarter than last about a potential referendum on the UK's membership of the EU.

Increasing employment (net % balance)



	Up	Level	Down	Q4/14 Net % Balance	Q3/14 Last Quarter	Q4/13 Last Year
(Balances may not add up to 100% due to N/A responses)						
(figures given as % of respondents)						
Business Optimism	38.7	47.4	13.9	24.8		
Sales						
Total	57.9	27.1	14.3	43.6		
Expected Next Quarter (Total)	58.6	31.4	8.6	50.0		
Expected Next Year (Total)	66.7	16.7	14.5	52.2	73.5	
Domestic (Scotland)	52.6	26.7	15.6	37.0	46.7	
Rest of UK	19.5	38.3	8.3	11.2	11.9	
Exports	8.3	18.0	5.3	3.0	14.2	
Expected Next Year (Exports)	13.9	16.8	2.2	11.7	17.6	
Online	15.2	23.9	2.9	12.3	11.9	
Investment						
Total	25.2	40.7	9.6	15.6	34.0	
Expected Next Quarter (Total)	21.7	49.3	8.7	13.0	15.3	
Expected Next Year (Total)	39.6	41.0	9.4	30.2	31.7	
Capital	20.7	46.4	5.0	15.7	27.0	
Training	27.0	48.2	5.7	21.3	28.0	
Cashflow						
Total	47.2	39.4	12.0	35.2	35.3	
Profits						
This Quarter	51.1	30.9	15.1	36.0	28.6	
Expected Next Quarter	53.6	34.3	9.3	44.3	44.1	
Expected Next Year	62.4	24.1	12.1	50.3	67.0	
Applied for credit?				9.2	8.7	
Expected Price Change Next Quarter						
Total	38.0	59.9	2.1	35.9	31.1	
Employment						
Total	34.5	55.6	5.6	28.9	23.6	
Expected Next Year (Total)	46.8	40.3	3.6	43.2	48.6	
Recruiting Staff				52.1		
Recruitment Difficulties				19.7		
Increasing Wages				28.9		
Average pay increase				4.5		

MANUFACTURING

BUSINESS OPTIMISM

Business Optimism increased in Q4 for a net % balance of +5.2 firms, the 9th consecutive quarter that optimism has increased on balance in the industry.

CASHFLOW

More firms experienced a decline in cashflow than an increase in Q4 (net % balance of -6.1), possibly explained by the significant number of firms increasing investment expenditure (36%).

CAPACITY

In Q3 average capacity utilisation was at its lowest level in the industry for 5 years, in Q4 this rose significantly up to 77%. This figure compares well with the average capacity reported by businesses over the past 10 years, 76.4%.

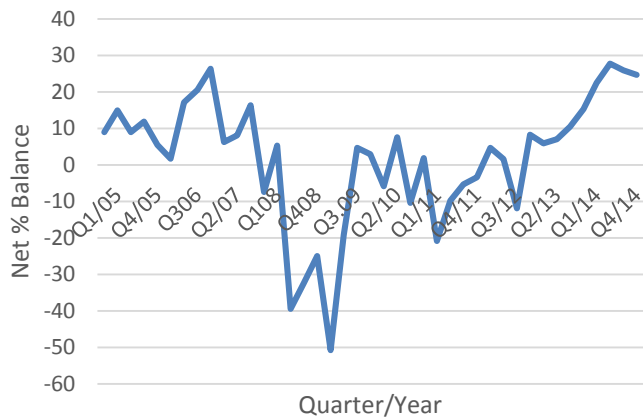
EXPORTS

Export orders from within the EU were more muted than outside of the EU in Q4, shown by a net % balance of +4.3 of firms achieving increased EU orders compared with +13.1 for non - EU export orders. A net % balance of +14.3 firms expect export revenue overall to increase further in Q1 2015.

“As part of our growth plans we’ve recently invested in a new on site state of the art workshop and storage facility. We’re also looking to take on another 2 apprentices.”

Mark Robbie, Managing Director of Robbie Fluid Engineering Ltd., Livingston.

Expecting increased profits



(Balances may not add up to 100% due to N/A responses) (figures given as % of respondents)	Up	Level	Down	Q4/14 Net % Balance	Q3/14 Last Quarter	Q4/13 Last Year
Business Optimism	27.1	51.0	21.9	5.2	11.9	22.3
Sales						
Total	37.4	37.4	24.2	13.2		
Expected Next Quarter (Total)	42.9	39.8	16.3	26.6		
Domestic (Scotland)	17.5	55.7	18.6	-1.1		
Rest of UK	25.8	49.5	16.5	9.3		
Exports	22.0	36.0	12.0	10.0		
Expected Next Quarter (Exports)	25.5	34.7	11.2	14.3		
Online	24.0	36.0	8.0	16.0		
Orders						
Total	38.7	35.5	25.8	12.9	30.6	13.1
Domestic (Scotland)	24.2	51.6	18.7	5.5	9.9	14.7
Rest of UK	24.2	52.7	17.6	6.6	2.6	20.6
Rest of EU	21.3	27.7	17.0	4.3		
Outside of EU	26.1	28.3	13.0	13.1		
Exports					17.9	1.4
Work in Progress	34.4	50.0	15.6	18.8		
Investment						
Total	36.0	52.0	6.0	30.0		
Expected Next Quarter (Total)	36.0	48.0	8.0	28.0		
Capital	25.5	57.1	13.3	12.2		11.1
Training	27.1	64.6	6.3	20.8		
Cashflow	16.3	59.2	22.4	-6.1	9.6	-5.7
Profits	36.0	28.0	32.0	4.0		
Capacity Used (Ave. %)				77.0	72.0	78.1
Price change Next Quarter	41.6	50.5	7.9	33.7	16.7	20.0
Employment						
Total	34.7	56.4	8.9	25.8	26.2	15.8
Expected Next Year (Total)	59.2	36.7	4.1	55.1		
Recruitment Difficulties				23.8		
Increased Wages?				30.7		
Average pay increase				3.7	2.3	3.3

RETAIL/WHOLESALE

BUSINESS OPTIMISM

There was a 4th consecutive quarter of declining optimism in the sector, with fewer firms reporting increased optimism (net % balance of -4.4).

SALES

A net % balance of +7.7 firms experienced an increase in sales in Q4, the first time in 2014 a positive net % balance has been reported. This is expected to continue into next year, with a net % balance of +9.8 businesses anticipating sales to increase further in Q1 2015.

CASHFLOW

More firms reported a decrease in cashflow than an increase in Q4, a negative net % balance of -4.4, compared with +15 in Q3. Low levels of credit application (3.1%) and high levels of investment (74.2% either maintaining or increasing) could explain this trend.

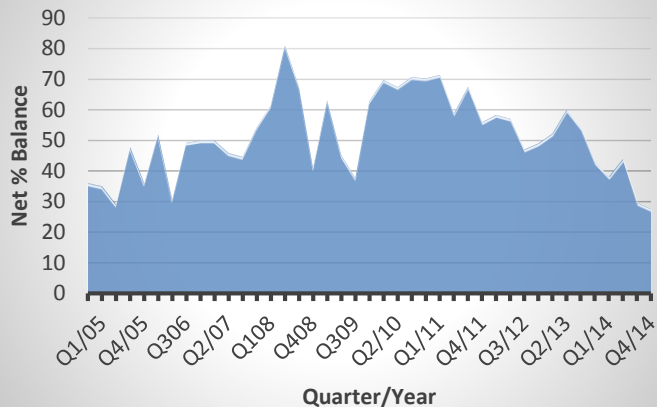
EXPECTATIONS

Longer term expectations are positive, with a net % balance of +19.1 businesses expecting sales revenue to increase over the next year. However, almost as many businesses expect profits to decrease (33.8%) as increase (35.3%) during this time.

“Despite the unseasonably warm weather across November and December sales held up very well in Bon Accord and St Nicholas, with real growth in Technology, Jewellery and Toys & Games.”

Craig Stevenson, Centre Manager of Bon Accord & St. Nicholas, Aberdeen.

Firms expecting to raise prices



(Balances may not add up to 100% due to N/A responses)				Q4/14	Q3/14	Q4/13
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	21.7	52.2	26.1	-4.4	-12.3	4.2
Sales						
Total	38.5	29.2	30.8	7.7	-5.6	4.3
Expected Next Quarter (Total)	31.1	47.5	21.3	9.8	3.1	0.0
Expected Next Year (Total)	45.6	26.5	26.5	19.1	15.3	14.6
Domestic (Scotland)	54.8	22.6	16.1	38.7		
Rest of UK	16.7	16.7	3.3	13.4		
Exports	16.7	6.7	0.0	16.7		
Expected Next Year (Exports)	9.7	16.1	3.2	6.5		
Online	28.1	31.3	3.1	25.0		
Investment						
Total	35.5	38.7	6.5	29.0		
Expected Next Quarter (Total)	15.6	53.1	9.4	6.2		
Expected Next Year (Total)	31.3	53.1	9.4	21.9		
Capital	12.5	62.5	6.3	6.2		
Training	12.5	68.8	0.0	12.5		
Cashflow	21.7	50.7	26.1	-4.4	15.0	6.3
Profits						
This Quarter	46.9	31.3	21.9	25.0		
Expected Next Quarter	59.4	21.9	18.8	40.6		
Expected Next Year	35.3	29.4	33.8	1.5	12.5	-2.1
Applied for credit?				3.1		
Price Change Next Quarter	34.8	58.0	7.2	27.6	29.7	42.9
Employment						
Total	17.4	63.8	15.9	1.5	16.7	6.1
Expected Next Year (Total)	25.0	62.5	3.1	21.9	48.6	
Recruiting Staff				47.3	28.4	28.6
Recruitment Difficulties				26.1	38.1	19.2
Increasing Wages				29.0		
Average pay increase				3.6	3.0	6.5

TOURISM

BUSINESS OPTIMISM

For 2 years now the Tourism sector has reported increasing optimism, with a net % balance of +12.5 firms feeling more optimistic in Q4 compared with the same time last year.

GUESTS/CUSTOMERS

78.9% of respondents said the number of customers they had was equal to or higher than the same time last year. Almost half of firms' (48.5%) saw an increase in customers from within the EU compared with Q3, and only 3% saw a decline in visitors from outside the UK over the same period.

PROFITS

A net % balance of +18.2 reported an increase in profits over the past quarter. Over one third of businesses (36.4%) expect profits to rise in Q1 2015, and 55.9% expect an increase in profits over the coming year.

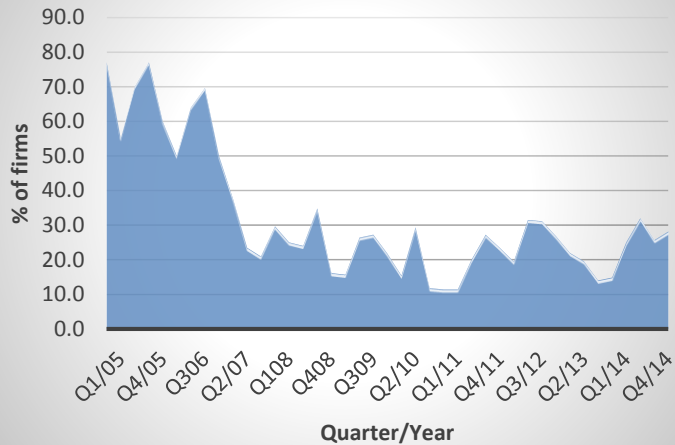
RECRUITMENT

Fewer firms are recruiting compared with the same time last year (52.1% compared with 63.3%) but only 3% expect to reduce overall employment over the coming year.

“Over the Christmas period we saw a real increase in customers from Australia and Asia, particularly guests from India and Singapore.”

Liz Sutherland, owner of Pentland Lodge House, Thurso.

Recruitment Difficulties



	Up	Level	Down	Net % Balance	Last Quarter	Last Year
(Balances may not add up to 100% due to N/A responses)				Q4/14	Q3/14	Q4/13
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last year)	30.6	51.4	18.1	12.5		
Sales						
Total	44.3	35.7	20.0	24.3		
Expected Next Quarter (Total)	40.0	37.1	20.0	20.0		
Expected Next Year (Total)	60.6	33.3	6.1	54.5		
Domestic (Scotland)	32.4	35.3	26.5	5.9		
Online	26.5	20.6	11.8	14.7		
Guests/Customers (vs last year)						
Total	46.5	32.4	19.7	26.8	38.3	47.6
From Scotland	37.7	50.7	10.1	27.6	17.7	28.5
From Rest of UK	29.4	48.5	11.8	17.6	26.6	26.6
From Rest of EU	48.5	15.2	3.0	45.5		
From Outside the EU	36.4	27.3	3.0	33.4		
From Abroad					35.8	36.7
Cashflow	30.3	36.4	27.3	3.0		
Investment	34.4	28.1	15.6	18.8		
Profits						
This Quarter	39.4	36.4	21.2	18.2		
Expected Next Quarter	36.4	33.3	24.2	12.2		
Expected Next Year	55.9	35.3	8.8	47.1		
Average Hotel Room Rate	34.8	43.5	21.7	13.1	21.5	30.6
Applied for credit?				20.0		
Price Change Next Quarter	27.4	51.6	21.0	6.4		
Employment						
Total	11.8	66.2	14.7	-2.9	21.3	-4.0
Expected Next Year (Total)	33.3	51.5	3.0	30.3		
Recruiting Staff				52.1	58.0	63.3
Recruitment Difficulties				28.2	25.7	14.0
Increasing Wages				31.4		
Average pay increase				3.3	5.0	6.6