

Quarter 2 2017

# Quarterly Economic Indicator

Scottish Chambers of Commerce



## Contents

1. **Methodology** *Page 2*
2. **Key Findings** *Pages 3–6*
3. **Construction** *Page 7*
4. **Financial &  
Business Services** *Page 8*
5. **Manufacturing** *Page 9*
6. **Retail & Wholesale** *Page 10*
7. **Tourism** *Page 11*

## Methodology

The Quarterly Economic Indicator is owned and produced by the Scottish Chambers of Commerce Economic Development Intelligence Unit, in collaboration with the Fraser of Allander Institute of the University of Strathclyde.

This survey was conducted between 23 May 2017 and 12 June 2017. 465 firms responded to the Q2 2017 edition of the Indicator.

Results are reported as the “net % balance”, calculated by deducting the % of firms reporting a decrease from the % of firms reporting an increase.

E.g. 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 generally indicates contraction and a positive net % balance expansion.

For media enquiries regarding the Quarterly Economic Indicator, please contact:

Charandeep Singh

Head of External Relations

Scottish Chambers of Commerce

Office No. 0141 204 8377

Mobile No. 07984 495871

Email address: [csingh@scottishchambers.org.uk](mailto:csingh@scottishchambers.org.uk)

## Summary

The latest results from the Scottish Chambers of Commerce Quarterly Economic Indicator show that optimism amongst Scottish businesses continued to hold up well during the 2<sup>nd</sup> quarter of 2017.

Despite ongoing uncertainties following the UK General Election and the start of the Brexit negotiations, businesses remain resilient with the balance of respondents positive about the outlook for the coming months.

Coming on the back of recent Scottish GDP and labour market data, these survey results suggest a welcome – albeit still fragile – outlook for growth in 2017.

But there are still reasons to be cautious.

The recent sharp rise in inflation continues to pose major challenges for firms working in retail and wholesale. Optimism in the sector slipped back further in the three months to end-June, falling to a net balance of -22. Moreover, nearly half of firms reported a fall in profits and in revenues. Other sectors will be watching with interest to see to what extent the challenges here could spill-over into their own areas of business.

At the same time, with unemployment rates at record lows in Scotland, recruitment difficulties are increasingly evident across all sectors. If firms do not have the right staff working in the correct roles this can dampen growth and/or increase costs.

The sectoral results reveal an interesting pattern of performance across the Scottish economy.

The construction sector reported a relatively strong set of results in Q2 with most key net balances better than both the last quarter and the same time last year. That being said, trading conditions appear to be down on where they were this time last year – with results from public sector contracts returning to negative territory this quarter.

Firms in finance and business services reported a further improvement in sales. Indeed, the net balance of firms reporting sales growth was the highest it has been in 2 years.

Manufacturing sales revenues remain relatively buoyant, driven largely by a boost in income from exports. Trading conditions within Scotland and the rest of the UK, whilst positive, appear to be more challenging.

Tourism firms reported a fairly strong set of results for Q2 with most of the key balances up on both the last quarter and last year. Visitor numbers were up – particularly from within Scotland and the UK – however, a net balance of firms reported a further small drop in visitor numbers from the EU.

**Professor Graeme Roy**  
**Fraser of Allander Institute**



## Key Findings

### **CONSTRUCTION**

#### **Profits/Cash-flow**

Negative net % balances were recorded for both profit and cash-flow levels, and although balances were only marginally negative, this suggests an overall decline in profitability and cash-flow levels in the industry. Prices charged by firms are largely expected to increase over the next three months (58.6% expect to increase to the prices they charge). A net % balance of +20 was recorded by firms in the construction sector for expected sales revenue.

#### **Capacity**

Despite negative trend balances for profit and cash-flow levels over the last three months, the average level of capacity used by firms over the quarter was 84.3%, the highest recorded capacity utilisation figure since Q4 2015. This could be attributed to a positive trend balance for total sales revenue Q2 2017.

### **FINANCIAL & BUSINESS SERVICES**

#### **Investment**

A net % balance of +2 of firms increased total investment over the quarter, with 68.6% of firms stating that their investment expenditure either increased or remained the same in Q2 2017. Investment is expected to remain largely unchanged in Q3, with 53.5% of firms anticipating no change in investment expenditure.

#### **Expected Sales Revenue**

Sales revenue was positive over the quarter across the sector with a net % balance of +18. Future expectations for sales revenue are very encouraging, with almost 50.6% of respondents expecting sales revenue to increase over the next three months.

#### **Optimism**

Expectations of future performance are promising with optimism firmly in positive territory at a net % balance of +9, the second consecutive quarter optimism has grown. It should be noted however that the net % balance of +9 is lower than that recorded in Q1 2017, at +16.

## Key Findings

### **MANUFACTURING**

#### **Employment**

Recent positive employment trends in the industry continued, with a net % balance of +16 reporting an increase in staffing levels. This is the 16th consecutive quarter employment balances have increased in the industry, after declining employment levels in the first two quarters of 2013. Recruitment problems appear to have increased slightly over the quarter with 48.1% of firms which actively sought to recruit indicated they had experienced difficulties. The most commonly cited roles that were proving difficult to recruit were for welders, engineers and production staff.

#### **Cash-flow**

Positive trend balances were recorded for both total sales revenue and profit levels over the quarter of +27 and +16 respectively, which may explain the rise in cash-flow levels for businesses within the sector.

84.1% of firms reported that cash-flow levels either increased or remained the same over the last three months, giving a positive net % balance of +16- the highest figure recorded since Q2 2015.

#### **Expectations**

Future expectations for the sector are positive in terms of sales revenue, export revenue and employment levels. Approximately 43.2% of businesses expect an increase in sales revenue over the next quarter.

Additionally, more businesses in the industry expect to see a rise in export revenue and employment levels than a decrease in Q3 2017, giving net % balances of +21 and +12 respectively.

### **RETAIL & WHOLESALE**

#### **Profit**

45.7% businesses in the retail & wholesale sector reported a decline in profit levels over the quarter, resulting in a negative net % balance of -24- the lowest level recorded since Q4 2015. However, future expectations within the industry suggest that this trend may not continue in Q3 2017 as 42.2% forecast an increase in sales revenue.

#### **Price Change**

Generally, pressure to raise prices appears to have increased amongst retailers, with the majority of businesses (54.3%) expecting to increase their prices over the next three months. However, a smaller percentage of firms cited upwards pressure compared with Q1 in which 67.5% of businesses stating that they would increase their prices.

## Key Findings

### ***TOURISM***

#### **Sales Revenue**

**A net % balance of +31 was recorded for overall sales revenue, with the majority of respondents reporting a rise over the quarter. This follows two consecutive quarters of declining sales revenue in the sector and is the highest net % balance recorded since Q3 2015.**

Positive balances were reported for domestic (Scotland), rest of UK and online sales, with a net % balances of +22, +17 and +22 respectively.

#### **Employment**

**Over the quarter tourism firms reported an increase in employment levels, reflected by a net % balance of +12.**

However, 77.3% of respondents expect employment levels to remain unchanged over the next quarter. This may be as a result of ongoing recruitment difficulties currently facing businesses in the sector as reported with the majority of businesses (59%).

#### **Expectations**

**Future expectations for the tourism sector in terms of sales revenue and investment are promising, with the majority of businesses (53.8%) expecting sales revenue to increase over the quarter, resulting in a net % balance of +38- the highest trend balance recorded since Q1 2016.** Trends for future investment are also encouraging with a positive trend balance of +1, with 68.4% of respondents expecting to either maintain or increase investment expenditure in Q3.

# Construction

## SALES REVENUE

80.0% of firms surveyed over the quarter stated that sales total sales revenue either increased or remained the same, resulting in a net % balance of +18. This can be largely attributed to a rise in domestic (Scotland) sales revenue, which saw a return to positive territory, with a net % balance of +13. Additionally, a positive trend balance was recorded for sales revenue from the rest of UK (+2).

## CONTRACTS

A net % balance of +13 was reported for total contracts. This increase appears to be largely as a result of a rise in domestic/house build contracts, with a net % balance of +9. Conversely, results from public sector contracts returned to negative territory (-11). A net % balance of 0 was recorded for private commercial contracts as the same number of businesses reported an increase as those that reported decrease.

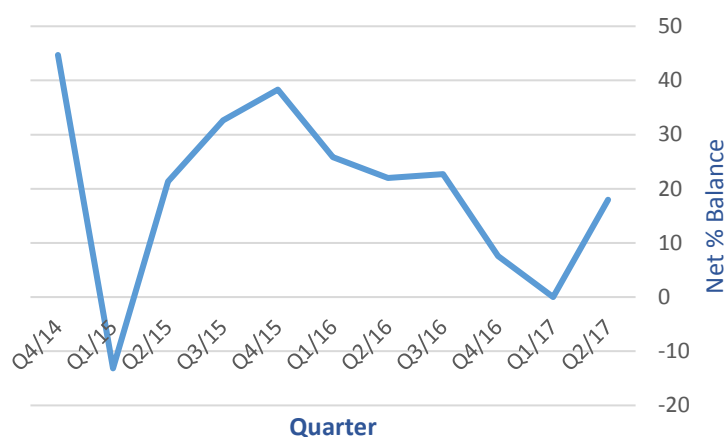
## PRICE CHANGE

96.1% of respondents expect their prices to either increase or remain the same in Q3, resulting in a net % balance of +43.

## EMPLOYMENT

80.4% of respondents indicated that employment levels either increased or remained the same over the quarter, giving a net % balance of +6. This trend is expected to continue in Q3 2017 with a net % balance of +31- the highest trend balance recorded since the same quarter last year.

Total Sales Revenue



| (blank space indicates data not available)             |      |       |       | (rounded up to nearest %) |              |           |
|--|------|-------|-------|---------------------------|--------------|-----------|
| (balances may not add up to 100% due to N/A responses) |      |       |       | Q2/17                     | Q1/17        | Q2/16     |
| (figures given as % of respondents)                    | Up   | Level | Down  | Net % Balance             | Last Quarter | Last Year |
| <b>Business Optimism</b>                               | 37.3 | 39.2  | 23.5  | <b>14</b>                 | 2            | 26        |
| <b>Sales Revenue</b>                                   |      |       |       |                           |              |           |
| Total  | 38.0 | 42.0  | 20.0  | <b>18</b>                 | 0            | 22        |
| Domestic (Scotland)                                    | 36.2 | 38.3  | 23.4  | <b>13</b>                 | -5           | 12        |
| Rest of UK   | 10.6 | 6.4   | 8.5   | <b>2</b>                  | 3            | -4        |
| <b>Contracts</b>                                       |      |       |       |                           |              |           |
| Total  | 37.0 | 30.4  | 23.9  | <b>13</b>                 | 8            | 14        |
| Public Sector  | 20.5 | 29.5  | 31.8  | <b>-11</b>                | 0            | -9        |
| Private Commercial                                     | 27.3 | 36.4  | 27.3  | <b>0</b>                  | -3           | 2         |
| House Building   | 26.7 | 22.2  | 17.8  | <b>9</b>                  | -8           | -14       |
| <b>Work In Progress</b>                                | 36.2 | 38.3  | 25.5  | <b>11</b>                 | 11           | 2         |
| <b>Investment</b>                                      |      |       |       |                           |              |           |
| Total  | 30.0 | 46.0  | 18.0  | <b>12</b>                 | 7            | 4         |
| Capital  | 28.6 | 49.0  | 18.4  | <b>10</b>                 | 5            | 0         |
| Training   | 22.4 | 49.0  | 16.3  | <b>6</b>                  | 29           | 18        |
| <b>Cashflow</b>  | 27.5 | 43.1  | 29.4  | <b>-2</b>                 | -24          | 6         |
| Applied for Credit?                                    |      |       |       | <b>20</b>                 | 27           | 24        |
| Profits  | 24.0 | 46.0  | 30.0  | <b>-6</b>                 | -24          | 6         |
| Capacity Used ( Ave. %)                                |      |       |       | <b>84</b>                 | 79           | 81        |
| <b>Employment</b>                                      |      |       |       |                           |              |           |
| Total  | 23.5 | 56.9  | 17.6  | <b>6</b>                  | 0            | 24        |
| Recruiting Staff                                       |      |       | (yes) | <b>59</b>                 | 63           | 70        |
| Recruitment Difficulties                               |      |       | (yes) | <b>59</b>                 | 62           | 49        |
| Increased Wages?                                       |      |       | (yes) | <b>33</b>                 | 39           | 36        |
| Average Pay Increase (%)                               |      |       |       | <b>4.5</b>                | 4            | 6         |
| <b>Expectations Next Quarter</b>                       |      |       |       |                           |              |           |
| Price Change   | 47.1 | 49.0  | 3.9   | <b>43</b>                 | 43           | 48        |
| Sales Revenue  | 38.0 | 44.0  | 18.0  | <b>20</b>                 | 22           | 18        |
| Investment   | 32.0 | 46.0  | 22.0  | <b>10</b>                 | 0            | -4        |
| Employees  | 39.2 | 52.9  | 7.8   | <b>31</b>                 | 22           | 32        |



## Financial & Business Services

### SALES REVENUE

43.7% of businesses in the financial & business services sector stated that they experienced an increase in total sales revenue over the last three months, giving a net % balance of +18- the highest net % balance recorded since Q1 2015. There was growth in domestic (Scotland) sales also, a net % balance of +13, marking a return to positive territory following six consecutive quarters in which the trend balance was negative. Positive trend balances were also recorded for sales revenue from rest of UK (+1), exports (+3) and online sales (+2) over the last three months.

### CASH-FLOW

A net % balance of +4 was recorded as more businesses reported an increase in cash-flow over the quarter than a decrease- this is the highest net % balance since Q1 2015. The same time last year, financial & business services firms reported a net % balance of -15.

### EMPLOYMENT

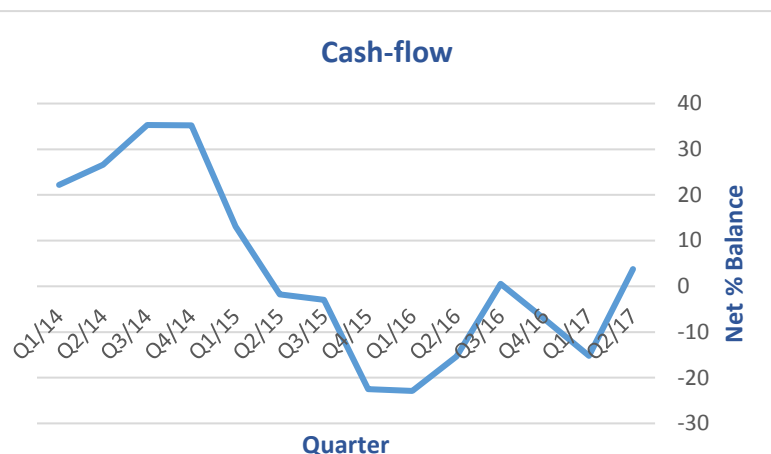
The net % balance returned to positive territory (+8). This is the highest net % balance recorded since Q4 2014.

### RECRUITMENT DIFFICULTIES

Recruitment problems are a major issue in the industry, with 43.5% of all firms indicating that they experienced problems when recruiting over the quarter. Accounting staff were the most commonly cited occupation firms had difficulty recruiting.

### WAGES

30.6% of respondents indicated that they increased wages over the quarter. Of those firms that increased over the last three months, the average wage increase was 6.5%.



| (blank space indicates data not available)             |      |       |       | (rounded up to nearest %) |              |           |
|--|------|-------|-------|---------------------------|--------------|-----------|
| (balances may not add up to 100% due to N/A responses) |      |       |       | Q2/17                     | Q1/17        | Q2/16     |
| (figures given as % of respondents)                    | Up   | Level | Down  | Net % Balance             | Last Quarter | Last Year |
| <b>Business Optimism</b>                               | 34.4 | 40.0  | 25.6  | <b>9</b>                  | 16           | -8        |
| <b>Sales Revenue</b>                                   |      |       |       |                           |              |           |
| Total  | 43.7 | 29.1  | 25.9  | <b>18</b>                 | 9            | -18       |
| Domestic (Scotland)                                    | 38.6 | 29.7  | 25.9  | <b>13</b>                 | -1           | -20       |
| Rest of UK   | 13.4 | 38.2  | 12.1  | <b>1</b>                  | 0            | -23       |
| Exports  | 15.3 | 21.0  | 12.7  | <b>3</b>                  | 10           | -18       |
| Online   | 10.1 | 17.7  | 8.2   | <b>2</b>                  | 2            | -7        |
| <b>Investment</b>                                      |      |       |       |                           |              |           |
| Total  | 18.9 | 49.7  | 17.0  | <b>2</b>                  | 6            | -4        |
| Capital  | 18.5 | 49.7  | 15.3  | <b>3</b>                  | -1           | -7        |
| Training   | 28.5 | 38.6  | 14.6  | <b>14</b>                 | 14           | -5        |
| <b>Cashflow</b>  | 31.4 | 40.3  | 27.7  | <b>4</b>                  | -15          | -15       |
| <b>Applied for credit?</b>                             |      |       | (yes) | <b>7</b>                  | 7            | 10        |
| <b>Profits</b>   | 31.4 | 34.0  | 32.1  | <b>-1</b>                 | -6           | -18       |
| <b>Capacity Used (Ave. %)</b>                          |      |       |       | <b>70</b>                 | 70           | 66        |
| <b>Employment</b>                                      |      |       |       |                           |              |           |
| Total  | 21.5 | 62.0  | 13.9  | <b>8</b>                  | -8           | -11       |
| Recruiting Staff                                       |      |       | (yes) | <b>30</b>                 | 34           | 36        |
| Recruitment Difficulties                               |      |       | (yes) | <b>43</b>                 | 29           | 31        |
| Increased Wages?                                       |      |       | (yes) | <b>31</b>                 | 20           | 25        |
| Average Pay Increase (%)                               |      |       |       | <b>6.5</b>                | 6            | 5         |
| <b>Expectations Next Quarter</b>                       |      |       |       |                           |              |           |
| Price Change   | 27.5 | 63.8  | 8.8   | <b>19</b>                 | 30           | 2         |
| Sales Revenue  | 50.6 | 34.2  | 14.6  | <b>36</b>                 | 32           | 8         |
| Investment   | 26.1 | 53.5  | 7.6   | <b>18</b>                 | 10           | -4        |
| Employees  | 24.5 | 69.8  | 5.7   | <b>19</b>                 | 18           | 1         |

## Manufacturing

### SALES REVENUE

A net % balance of +27 was reported for total sales revenue, the highest figure since Q2 2015, with 43.2% of businesses indicating that they experienced an increase. This can largely be attributed to a rise in export orders over the quarter as 45.2% of firms reported an increase, giving a net % balance of +3- the highest trend balance recorded since records began in Q4 2014. A positive net % balance was also recorded for domestic (Scotland) sales (+5) and rest of UK sales (+2).

### INVESTMENT

Total investment expenditure was up over the quarter with a net % balance of +9. Only 6.8% of businesses reduced training investment expenditure over the quarter, giving a net % balance of +23. A positive trend balance of +5 was also recorded for capital investment expenditure.

### PROFITS

Profits were up over the quarter, with approximately 45.5% of businesses indicating an increase, giving a net % balance of +32. This is the highest net % balance recorded since Q4 2014 when records began and marks a return to positive territory following a negative net % balance of -4 in the first quarter of 2017.

### WORK IN PROGRESS

90.7% of businesses reported that their level of work in progress either increased or remained the same in Q2, giving a net % balance of +21. This is the highest net % balance recorded since Q4 2015. This may explain the average capacity utilisation figure of 78.5%.



| (blank space indicates data not available)             |      |       |       | (rounded up to nearest %) |              |           |
|--|------|-------|-------|---------------------------|--------------|-----------|
| (balances may not add up to 100% due to N/A responses) |      |       |       | Q2/17                     | Q1/17        | Q2/16     |
| (figures given as % of respondents)                    | Up   | Level | Down  | Net % Balance             | Last Quarter | Last Year |
| <b>Business Optimism</b>                               | 27.3 | 50.0  | 22.7  | <b>5</b>                  | 11           | 10        |
| <b>Sales Revenue</b>                                   |      |       |       |                           |              |           |
| Total  | 43.2 | 40.9  | 15.9  | <b>27</b>                 | 13           | 14        |
| Domestic (Scotland)                                    | 27.9 | 39.5  | 23.3  | <b>5</b>                  | -2           | 2         |
| Rest of UK   | 25.6 | 37.2  | 23.3  | <b>2</b>                  | 7            | 6         |
| Exports  | 45.2 | 23.8  | 11.9  | <b>33</b>                 | 24           | 12        |
| <b>Orders</b>  |      |       |       |                           |              |           |
| Total  | 40.9 | 40.9  | 18.2  | <b>23</b>                 | 11           | 13        |
| Domestic (Scotland)                                    | 27.9 | 37.2  | 25.6  | <b>2</b>                  | 0            | 6         |
| Rest of UK   | 16.7 | 42.9  | 28.6  | <b>-12</b>                | 2            | 8         |
| Exports  | 16.7 | 28.6  | 11.9  | <b>5</b>                  | 13           | -6        |
| <b>Work in Progress</b>                                | 30.2 | 60.5  | 9.3   | <b>21</b>                 | 18           | 8         |
| <b>Investment</b>                                      |      |       |       |                           |              |           |
| Total  | 25.0 | 59.1  | 15.9  | <b>9</b>                  | 0            | 2         |
| Capital  | 25.0 | 52.3  | 20.5  | <b>5</b>                  | 6            | 6         |
| Training   | 29.5 | 61.4  | 6.8   | <b>23</b>                 | 4            | 31        |
| <b>Cashflow</b>  | 31.8 | 52.3  | 15.9  | <b>16</b>                 | 6            | -6        |
| <b>Applied for Credit?</b>                             |      |       | (yes) | <b>16</b>                 | 17           | 8         |
| <b>Profits</b>   | 45.5 | 38.6  | 13.6  | <b>32</b>                 | -4           | -6        |
| <b>Capacity Used ( Ave. %)</b>                         |      |       |       | <b>78</b>                 | 76           | 73        |
| <b>Employment</b>                                      |      |       |       |                           |              |           |
| Total  | 29.5 | 54.5  | 13.6  | <b>16</b>                 | 15           | 17        |
| Recruiting Staff                                       |      |       | (yes) | <b>63</b>                 | 70           | 71        |
| Recruitment Difficulties                               |      |       | (yes) | <b>48</b>                 | 45           | 29        |
| Increased Wages?                                       |      |       | (yes) | <b>37</b>                 | 14           | 42        |
| Average Pay Increase (%)                               |      |       |       | <b>4.9</b>                | 5            | 5         |
| <b>Expectations Next Quarter</b>                       |      |       |       |                           |              |           |
| Price Change   | 41.9 | 55.8  | 2.3   | <b>40</b>                 | 49           | 43        |
| Sales Revenue  | 43.2 | 43.2  | 13.6  | <b>30</b>                 | 23           | 31        |
| Investment   | 31.0 | 50.0  | 19.0  | <b>12</b>                 | 2            | 12        |
| Employees  | 38.6 | 56.8  | 4.5   | <b>34</b>                 | 24           | 22        |

## Retail & Wholesale

### OPTIMISM

Business optimism was negative on balance over the second quarter of 2017 with a net % balance of -22. 43.5% of businesses reported a decrease over the quarter, resulting in the lowest net % balance recorded since Q3 2016.

### SALES REVENUE

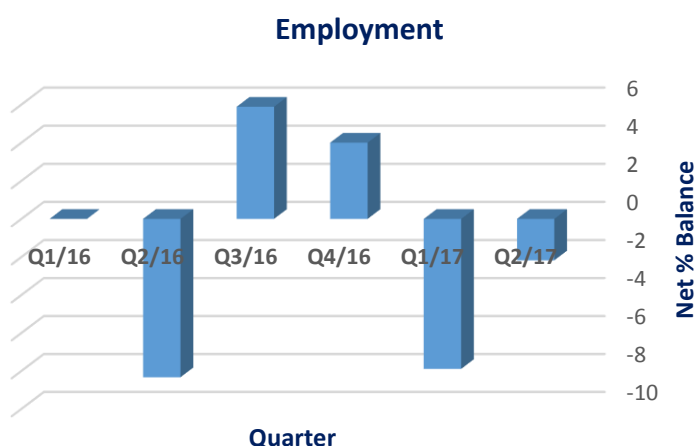
A net % balance of -28 was reported over the quarter for sales, with 47.8% of firms experiencing a fall in sales. This is the lowest figure reported by the sector since Q2 2013. Additionally, domestic (Scotland) and rest of UK sales were down over the quarter with net % balances of -17 and -12 respectively. Yet, many businesses in the sector expect sales to grow in Q3 2017 with a net % balance of +18 forecasting a rise in sales revenue.

### CAPACITY

The average level of capacity used by firms over the quarter was 69.8%, the lowest recorded capacity utilisation figure for since we begun measuring this in Q4 2014, and could be attributed to the consistent negative trends in sales growth during 2017.

### EMPLOYMENT

More businesses reported a decline in employment levels over the quarter than those that reported an increase, giving a net % balance of -2. This marks the second consecutive quarter in which a negative balance was recorded. Yet, businesses in the retail & wholesale sector expect an increase in employment over the next three months.



| (blank space indicates data not available)             |      |       |       | (rounded up to nearest %) |              |           |
|--|------|-------|-------|---------------------------|--------------|-----------|
| (balances may not add up to 100% due to N/A responses) |      |       |       | Q2/17                     | Q1/17        | Q2/16     |
| (figures given as % of respondents)                    | Up   | Level | Down  | Net % Balance             | Last Quarter | Last Year |
| <b>Business Optimism</b>                               | 21.7 | 34.8  | 43.5  | <b>-22</b>                | -8           | -4        |
| <b>Sales Revenue</b>                                   |      |       |       |                           |              |           |
| Total  | 19.6 | 28.3  | 47.8  | <b>-28</b>                | -20          | 2         |
| Domestic (Scotland)                                    | 22.0 | 34.1  | 39.0  | <b>-17</b>                | -3           | -13       |
| Rest of UK   | 7.3  | 14.6  | 19.5  | <b>-12</b>                | -11          | -7        |
| Exports  | 12.2 | 7.3   | 0.0   | <b>12</b>                 | 5            | -4        |
| Online   | 21.7 | 17.4  | 26.1  | <b>-4</b>                 | -3           | 0         |
| <b>Investment</b>                                      |      |       |       |                           |              |           |
| Total  | 21.7 | 43.5  | 19.6  | <b>2</b>                  | 0            | 10        |
| Capital  | 18.2 | 47.7  | 20.5  | <b>-2</b>                 | 0            | 6         |
| Training   | 15.6 | 46.7  | 15.6  | <b>0</b>                  | 15           | -9        |
| <b>Cashflow</b>  | 19.6 | 39.1  | 37.0  | <b>-17</b>                | -27          | -6        |
| <b>Applied for Credit?</b>                             |      |       | (yes) | <b>18</b>                 | 3            | 10        |
| <b>Profits</b>   | 21.7 | 28.3  | 45.7  | <b>-24</b>                | -16          | -22       |
| <b>Capacity Used (Ave. %)</b>                          |      |       |       | <b>70</b>                 | 72           | 71        |
| <b>Employment</b>                                      |      |       |       |                           |              |           |
| Total  | 17.4 | 58.7  | 19.6  | <b>-2</b>                 | -8           | -8        |
| Recruiting Staff                                       |      |       | (yes) | <b>51</b>                 | 41           | 43        |
| Recruitment Difficulties                               |      |       | (yes) | <b>57</b>                 | 44           | 43        |
| Increased Wages?                                       |      |       | (yes) | <b>37</b>                 | 36           | 43        |
| Average Pay Increase (%)                               |      |       |       | <b>4</b>                  | 4            | 4         |
| <b>Expectations Next Quarter</b>                       |      |       |       |                           |              |           |
| Price Change   | 54.3 | 45.7  | 0.0   | <b>54</b>                 | 68           | 33        |
| Sales Revenue  | 42.2 | 28.9  | 24.4  | <b>18</b>                 | 20           | -6        |
| Investment   | 24.4 | 44.4  | 15.6  | <b>9</b>                  | 13           | 12        |
| Employees  | 22.2 | 66.7  | 11.1  | <b>11</b>                 | 5            | 16        |

## Tourism

### GUESTS/CUSTOMERS

The total number of Guests/Customers grew in comparison with the same time last year for 43.8% of firms, with fewer than a quarter of businesses reporting a decrease. This can be attributable to positive net % balance for guests coming from Scotland (+13), rest of UK (+8) and outside of the EU (+5). Conversely, more businesses reported a decrease in the number of guests/customers from the rest of the EU than those that reported an increase, giving a net % balance of -1, marking the second consecutive quarter a negative balance was recorded.

### PROFITS

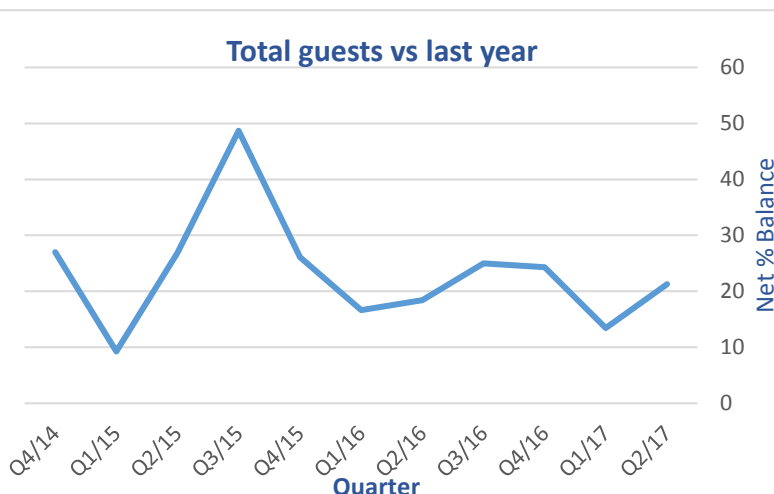
Profits increased over the quarter for approximately 39.0% of all businesses, giving a net % balance of +10. This follows two consecutive quarters in which businesses in the tourism sector experienced declining profit levels.

### CASH-FLOW

More firms experienced a rise in cash-flow levels than those that reported a decrease in Q2 (net % balance of +20)- the highest figure recorded since the third quarter in 2015. A rise in cash-flow levels may be explained by the number of firms experiencing an increase in total guests/customers vs the same quarter last year.

### OPTIMISM

40.0% of businesses reported an increase in their level of business optimism over the quarter, giving a net % balance of +18. This marks a return to positive territory following a negative trend balance in the first quarter of 2017.



| (blank space indicates data not available)             |      |       |       | (rounded up to nearest %) |              |           |
|--|------|-------|-------|---------------------------|--------------|-----------|
| (balances may not add up to 100% due to N/A responses) |      |       |       | Q2/17                     | Q1/17        | Q2/16     |
| (figures given as % of respondents)                    | Up   | Level | Down  | Net % Balance             | Last Quarter | Last Year |
| <b>Business Optimism (vs last quarter)</b>             | 40.0 | 37.5  | 22.5  | <b>18</b>                 | -6           | 5         |
| <b>Sales Revenue</b>                                   |      |       |       |                           |              |           |
| Total  | 54.3 | 22.2  | 23.5  | <b>31</b>                 | -13          | 24        |
| Domestic (Scotland)                                    | 43.2 | 28.4  | 21.6  | <b>22</b>                 | -13          | 8         |
| Rest of UK   | 31.4 | 28.6  | 14.3  | <b>17</b>                 | -10          | -3        |
| Online   | 33.8 | 27.3  | 11.7  | <b>22</b>                 | -4           | 14        |
| <b>Investment</b>                                      |      |       |       |                           |              |           |
| Total  | 23.1 | 41.0  | 17.9  | <b>5</b>                  | -2           | 13        |
| Capital  | 25.0 | 39.5  | 13.2  | <b>12</b>                 | 6            | 3         |
| Training   | 13.7 | 47.9  | 6.8   | <b>7</b>                  | 10           | 0         |
| <b>Cashflow</b>  | 40.5 | 35.4  | 20.3  | <b>20</b>                 | -21          | -16       |
| <b>Applied for credit?</b>                             |      |       | (yes) | <b>11</b>                 | 19           | 11        |
| <b>Profits</b>   | 39.0 | 26.0  | 28.6  | <b>10</b>                 | -26          | -16       |
| <b>Employment</b>                                      |      |       |       |                           |              |           |
| Total  | 24.7 | 54.5  | 13.0  | <b>12</b>                 | -14          | 5         |
| Recruiting Staff                                       |      |       | (yes) | <b>64</b>                 | 61           | 68        |
| Recruitment Difficulties                               |      |       | (yes) | <b>59</b>                 | 41           | 81        |
| Increased Wages?                                       |      |       | (yes) | <b>58</b>                 | 28           | 61        |
| Average Pay Increase (%)                               |      |       |       | <b>5.4</b>                | 4            | 7         |
| <b>Guests/Customers (vs last year)</b>                 |      |       |       |                           |              |           |
| Total  | 43.8 | 32.5  | 22.5  | <b>21</b>                 | 13           | 18        |
| From Scotland  | 32.9 | 43.0  | 20.3  | <b>13</b>                 | 2            | 5         |
| From Rest of UK  | 27.5 | 43.8  | 20.0  | <b>8</b>                  | 6            | 0         |
| From Rest of EU  | 26.6 | 31.6  | 27.8  | <b>-1</b>                 | -10          | 5         |
| From Outside the EU                                    | 25.6 | 35.9  | 20.5  | <b>5</b>                  | -5           | 0         |
| <b>Expectations Next Quarter</b>                       |      |       |       |                           |              |           |
| Price Change   | 39.7 | 57.7  | 2.6   | <b>37</b>                 | 51           | 39        |
| Sales Revenue  | 53.8 | 30.8  | 15.4  | <b>38</b>                 | 32           | 24        |
| Investment   | 11.8 | 56.6  | 10.5  | <b>1</b>                  | -7           | -16       |
| Employees  | 17.3 | 77.3  | 5.3   | <b>12</b>                 | 18           | 8         |