

SCC QUARTERLY ECONOMIC INDICATOR: Q1 2018 REPORT

EMBARGOED UNTIL 0001 THURSDAY 19 APRIL

SCC SURVEY SHOWS SCOTTISH BUSINESSES INVESTING TO MEET RISING EXPECTATIONS FOR THE FUTURE

The latest Scottish Chambers of Commerce's Quarterly Economic Indicator survey has shown rising levels of investment across Scottish businesses, as expectations grow amongst firms for a strong 2018.

The survey, produced by the Scottish Chambers of Commerce Network in collaboration with the University of Strathclyde's Fraser of Allander Institute, found that while some sectors remain fragile in terms of overall business confidence, firms are looking to invest in capital and training to improve their prospects in an uncertain economic environment.

Linked to recent GDP figures, Construction remains an area of concern, with overall sales revenue down, alongside public-sector orders. However, there are some encouraging signs for the sector, with private commercial orders up significantly, and key financial indicators such as cash flow and profitability returning to positive levels. The retail and tourism sectors also continue to face challenging domestic conditions.

Reacting to the results, Neil Amner of Anderson Strathern, Chair of the Scottish Chambers of Commerce Economic Advisory Group, said:

"The results of SCC's first quarterly economic indicator of 2018 show that while the economy has not been without challenges, most sectors are reporting increasing levels of investment across capital and training.

"A number of factors will underlie this. Legislative change, whether through industry wide regulations such as the GDPR, or through reforms to the Business Rates system via initiatives such as the Business Growth Accelerator, is encouraging firms to upskill their staff and push forward on capital investments.

"This upswing in investment trends does not come without expectation however. Every sector in our report, from Construction to Tourism, expect to see sales revenues increase in the second quarter, with firms anticipating that this investment will gain rapid returns.

"Although some sectors are reporting lessened levels of recruitment difficulties in comparison to previous quarters, such as financial services firms recording a drop of ten percentage points, these still remain relatively high in areas like construction.

"In terms of wider business concerns and cost pressures, certain areas remain stubbornly challenging particularly in manufacturing as the cost of raw materials reflects rising global competition. Given the limited ability of firms to pass on these costs to customers, this may also be a further reason for rising investment, as businesses look to compete on customer experience and efficiency."

"It is clear that businesses are adapting to the changing economic environment and have positive expectations for the quarter ahead. To achieve the gains that companies are anticipating, we look to policymakers to mirror the agility and adaptability shown by the private sector, particularly on areas such as increasing Scotland's exporting performance,

creating a favourable tax environment and an attractive migration policy, which meets the needs of Scotland's economy."

In his foreword to the report, Professor Graeme Roy of the Fraser of Allander Institute comments on the changes to business investment:

"...whilst weak business investment has been a feature of Scotland's economy in recent times, the survey suggests that levels of investment have increased significantly over the last year.

As we have previously highlighted, in times of uncertainty, it is important that businesses focus on the drivers of growth that they can control such as investing in their own productivity and efficiency, and in developing the skills of their workforce."

Notes to editors:

Scottish Chambers of Commerce's Quarterly Economic Indicator engages with five of Scotland's key business sectors: Construction, Financial and Business Services, Manufacturing, Retail & Wholesale, and Tourism.

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

This survey was conducted between March and April of 2018. 385 firms responded to the Q1 2018 edition of the Indicator.

A high resolution version of the report can be located at:

<https://www.dropbox.com/s/2gsdyggdp7ujr6a/QEI%20Report%20Q1%202018%20-%20High%20Res.pdf?dl=0>

KEY FINDINGS:

General / Overall

- With the exception of Construction, broadly rising levels of investment overall, and across capital and training.
- Alongside rising levels of investment, expectations, particularly for sales for Q2 2018 are at high levels.
- Overall sentiment is mixed, but businesses in challenging areas such as construction and retail are remaining positive for the future.

Construction

- Declining sales overall and domestically, emphasising contraction in the sector shown through GDP figures.
- Weakening orders in most areas relative to Q4 2017, but strong relative to the same time last year. Private commercial builds are the exception, with strong growth over Q4.

- The only sector to have experienced a decline across the board in investment, however investment expectations have risen for next quarter.

Financial and Business Services

- Optimism and sales softened relative to Q4 2017, but remain in positive territory overall.
- Rising investment across all areas, including capital and training.
- Recruitment difficulties remain higher than last year (Q1 2017), but have declined significantly from the record high levels observed last quarter.
- Firms have shifted towards their competition as a key area of concern (42%), alongside taxation (38%), which was the largest area of concern last quarter.

Manufacturing

- Sales remain positive in most areas, with the exception of rest of UK sales which has entered negative territory. As with Financial and Business services firms, growth has softened somewhat.
- Orders have also slowed relative to Q4 2017, with Rest of UK and Export orders now in negative territory.
- Investment has risen sharply for the first quarter, particularly with regards to capital investment. Capital investment had dropped to negative territory in the fourth quarter, which was unprecedented for manufacturers.
- Raw material prices remain a significant concern for manufacturers, with 86% of firms indicating this as an issue. Intentions to raise prices have softened however, suggesting that firms are seeking to increase sales in other way.

Retail & Wholesale

- Optimism has risen, perhaps following on from a strong Q4 for retail sales.
- Sales for Q1 have observed slowing growth in many areas in comparison to Q4 2017. There are particular concerns with Domestic Sales which have declined into negative territory, and are weaker than the same time last year.
- Linked to this, cashflow and profitability have returned to negative territory, but in a slightly stronger positive than the same time last year.
- As with many other sectors, strong investment this quarter in capital and training (although training slightly below last year). Similarly strong expectations for Q2 sales revenue.

Tourism

- Only sector to report negative optimism / business confidence
- Weakening sales, profitability and cashflow metrics. Mainly driven by lower sales and guest numbers in the domestic market (Scotland and Rest of UK).
- Despite increasing reform, Business Rates remains the primary concern for majority of tourism firms (56%).
- Strong investment, with substantial increases in capital investment and training. Sales expectations for next quarter very high - from -2 net % balance in the last survey to +49 for the second quarter of 2018.

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