

SCC QUARTERLY ECONOMIC INDICATOR: Q2 2018 REPORT

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ECONOMY RESILIENT BUT RECRUITMENT DIFFICULTIES AND PAY SETTLEMENTS SUGGEST WORKFORCE SKILLS REMAIN ON TOP OF BUSINESS AGENDA

The latest Scottish Chambers of Commerce's Quarterly Economic Indicator survey sees Scottish businesses displaying continued resilience, however, in an uncertain policy and business environment, the results show that expectations are weakening in some sectors.

Recruitment challenges have also been brought to the fore once again, as firms struggle to find the right skills. This links to recent ONS data released this week, which seen vacancies rise to 824,000 across the UK, the highest level recorded since equivalent records began in 2001.

The survey, produced by the Scottish Chambers of Commerce Network in collaboration with the University of Strathclyde's Fraser of Allander Institute, found broadly improving business confidence and revenue indicators across most sectors. Despite this positivity, investment levels have softened in sectors which had a challenging first quarter, such as retail and tourism.

Perhaps linked to persistent recruitment difficulties, all sectors are being driven to increase pay levels for staff. Linked to inflationary pressures and broader, global competition for key raw materials, it is possible that future activity may be constrained. However, expectations are relatively stable across sectors for a positive third quarter.

KEY FINDINGS / OVERALL NATIONAL RESULTS:

- 2018 off to a strong and positive start with confidence and investment rising as firms seek to increase productivity
- Only 15% of firms across the sample report declining optimism, suggesting resilient business confidence.
- 48% of firms reporting increased overall revenue, with only 18% reporting a decrease.
- 89% of firms have increased or maintained levels of investment relative to the previous quarter.
- Roughly a fifth of firms reported declines in both cashflow and profitability, with the vast majority of businesses observing stability in these areas.
- Recruitment difficulties rising across sectors, in addition to the proportion of businesses seeking to increase wages.

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

"The results for the second quarter of 2018 continue to illustrate, that whilst Scottish firms may be cautious, the economy, particularly in Financial and Business Services, is maintaining levels of resilience in an uncertain policy environment."

“Business optimism remains strong, with positive sentiment for the future growing across the majority of key sectors. However, we recognise the UK’s exit from the European Union will create a mix of opportunities and challenges. For the minority of surveyed firms that reported lower optimism, the UK’s future relationship with the European Union continues to be cited as one of the key drivers of concern.

“Furthermore, although investment levels have remained broadly positive across many sectors, a softening of growth in sectors such as retail and tourism has been observed. Both sectors reported rising levels of investment in the first quarter of the year, so Q3 figures will help to understand if this represents more restrained levels of investment in the quarters ahead. Compliance costs such as those linked to the new GDPR legislation could have acted as a driver of some of the higher investment in the first quarter of the year.

“Recruitment difficulties have also returned to the fore once again, as the labour market continues to tighten. The most recent ONS data has illustrated that both the employment rate, and the number of vacancies in the UK jobs market is at record levels. With every sector in this report anticipating increasing pay levels, it is clear the challenging labour market is creating heightened competition for those with the right skills. Sectors such as retail which have cut back on broader investment, are also continuing to focus on training, perhaps with staff retention as a key outcome.

“The survey results continue to demonstrate that that finding skilled workers is undoubtedly going to act as one of the key challenges for the rest of the trading year. Firms can play a part in this by continuing to invest in their own staff, as our data suggests that they are.

“It is also crucial that government creates an environment in which the private sector can thrive to create jobs and prosperity in our communities. Domestically, we must invest in digital and physical infrastructure to ensure that Scottish businesses are exploiting new technologies to improve productivity. Internationally, we must ensure that firms are able to seamlessly attract talent to the UK, especially for our developing sectors such as FinTech. Maintaining the effective and efficient cross-border supply chains which enable many of our manufacturing businesses to thrive is also key to ensuring future trade prosperity. The UK and Scottish Governments must also continue their active support in enabling the private sector to capitalise on our global business connections to help improve Scotland’s exporting performance.”

In his foreword to the report, Professor Graeme Roy of the Fraser of Allander Institute comments on the outlook for the Scottish Economy:

“The outlook for the Scottish economy for 2018 is still one of cautious optimism. We expect, reinforced by the findings of this survey, that the Scottish economy will pick up through 2018 and record faster growth than 2017. However, uncertainty about the terms

of the UK exit from the EU continue to make business planning and investment decisions difficult, and acts as a general headwind on growth.”

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 May and July of 2018. 375 firms responded to the Q2 2018 edition of the Indicator.

SECTORAL RESULTS

CONSTRUCTION

- Orders, sales and work in progress remain relatively high.
- Investment still fairly flat with more than half of firms not changing investment plans, however lower expectations for investment in Q3.
- Profitability once again returning to negative levels.
- Cost pressures easing slightly as raw material prices ease.
- Taxation the only rising business concern.
- Recruitment difficulties continuing to rise.

FINANCIAL AND BUSINESS SERVICES

- A positive set of results with improving levels of business optimism, sales and investment.
- Recruitment difficulties remain high, but no increase on Q1.
- Increasing percentage of firms driven to increase wages
- Cost pressures and business concerns easing across the board

MANUFACTURING

- Optimism and orders improved - rest of UK orders a particularly high level.
- Work in progress high
- Actual and expected investment strong.
- Recruitment, recruitment difficulties, and wages increasing.
- Concerns over taxation, exchange rates and competition increased. Cost pressures eased though remained high - notably for raw material and other overheads.

RETAIL

- Optimism increased, with commentary suggesting that challenging Q1 has shifted expectations.

- Investment eased and the balance of capital investment declined, firms continuing to invest in training.
- Recruitment difficulties increased
- Broadly improved financial KPIs such as revenue, cashflow and profit.

TOURISM

- Increasing optimism, guest numbers and profits.
- Recruitment and recruitment difficulties increased - though not entirely out of step with summer results.
- Pay settlements rising as a cost pressure on tourism firms.
- Business rates easing as a concern though still remains relevant to a third of firms. Inflationary concerns rising.

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