

SCC QUARTERLY ECONOMIC INDICATOR: Q4 2017 REPORT

EMBARGOED UNTIL 0001 THURSDAY 18 JANUARY

SCC SURVEY SHOWS GROWING BUSINESS OPTIMISM, BUT CONTINUES TO WARN OF RECRUITMENT PRESSURES

The latest Scottish Chambers of Commerce's Quarterly Economic Indicator survey shows Scottish firms continuing to display resilience in the face of economic uncertainty.

The survey, produced by the Scottish Chambers of Commerce Network in collaboration with the University of Strathclyde's Fraser of Allander Institute, found growing optimism within manufacturing and financial & business services firms. However, concerns around investment levels and recruitment challenges suggest that growth may remain fragile in the months ahead.

In a positive development, the retail sector has displayed some evidence of an encouraging fourth quarter, with key financial indicators such as sales and cash flow reported as improved over Q3 2017. However, this follows a particularly challenging number of years for the sector, and it should be noted that these improvements are coming from a particularly low base relative to our other surveyed sectors.

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

"The results of the fourth quarter Quarterly Economic Indicator are broadly positive, and suggest that Scottish businesses are continuing to display positivity in an uncertain economic environment.

"Firms remain concerned about a range of issues however, with over 87% of manufacturers anxious around the rising costs of raw materials and its effect on their prices.

"Further, the fact that over half of Tourism respondents indicating business rates as their primary concern, in addition to 40% of Business Services firms citing taxation, suggests that the debate on Income Tax and the wider tax mix in Scotland will continue to be of interest beyond the Scottish budget's parliamentary approval process.

"Recruitment difficulties have continued to worsen for a number of sectors, particularly manufacturing, tourism and financial and business services, with the latter two sectors close to the highest levels ever measured in the survey.

"Many sectors are continuing to invest in training in an attempt to retain and upskill their existing staff, but it is clear that businesses are finding it challenging to fill vacancies. This continues to emphasise the need for Government to continue investing in our talent and skills base through initiatives including Developing the Young Workforce and Foundation Apprenticeships. In addition the need for a practical immigration policy to arise from the Brexit negotiations, which puts business first, is made even more critical by these conditions."

In his foreword to the report, Professor Graeme Roy of the Fraser of Allander Institute writes:

“With heightened levels of uncertainty, it is unsurprising that investment intentions remain modest, whilst the tight labour market means that many firms continue to report difficulties in recruiting staff. Encouragingly training investment is holding up a little better.”

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 6 November 2017 and 6 December 2017. 405 firms responded to the Q4 2017 edition of the Indicator.

KEY FINDINGS:

General / Overall

- Raw material prices a significant concern
- Inflation feeding in to price rises / cost pressures
- Expectations and overall investment slowing in some sectors, suggesting rising uncertainty.
- Recruitment difficulties persist at record highs for a number of sectors, with training investment maintained at above trend levels.

Construction

- Optimism eased, however this is common in the 4th Quarter.
- Orders and sales relatively strong in comparison with Q3 2017.
- Raw materials an issue for 75% of firms, with evidence of pressure on margins with reduced profits.

Financial and Business Services

- Optimism, profits, sales and expectations all strong.
- Signs of easing investment.
- Highest level of recruitment difficulties ever recorded for this sector (47% of businesses).
- Taxation highlighted as the main concern by 41% of firms.

Manufacturing

- Trends in new orders have eased, but remain positive.
- Firms appear to be adjusting expectations downwards, which is a slight cause for concern.
- Capital investment negative for the first time in a number of years, although investment intent high for next quarter.
- 87% of manufacturers are concerned about raw material prices, with a net % balance of 68% indicating that they will raise prices in Q1 2018.

Retail

- Strong Q4 with more positive results than much of 2017.
- Cashflow and Profit returned to positive levels for first time this year.
- Employment increase, but expectation that this is mainly seasonal.
- Caveat that retail has experienced a sustained period of change / challenging conditions for a number of years, so although Q4 may have surpassed expectations, remains to be seen if this positivity will persist in 2018.

Tourism

- More negative set of results that outlined in prior Q4s, even taking into account that Q4 is generally negative for tourism.
- Significant rise in training investment, perhaps driven by recruitment difficulties.
- Business Rates the main concern for 57% of respondents.

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