

PRESS RELEASE

SCC QUARTERLY ECONOMIC INDICATOR: Q4 2018 REPORT & PRESS RELEASE

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POLITICAL UNCERTAINTY AND COST PRESSURES TAKING TOLL ON SCOTTISH ECONOMY

The latest SCC Quarterly Economic Indicator survey for Q4 of 2018 shows Brexit uncertainty and rising cost pressures take toll on the Scottish economy as investment slows down.

Raw material prices are cited as a leading cost pressure for Construction, Manufacturing, Retail/Wholesale and Tourism, with Financial & Business Services citing finance costs as a top concern.

Commenting on the results, Neil Amner, Chair of the SCC Economic Advisory Group, who is also the Brexit Lead at law firm Anderson Strathern, commented:

"The results of the SCC's latest survey reflect a challenging trading environment. It is clear from the survey results that many companies have pressed the 'pause button' as political uncertainty and increasing cost pressures take their toll on business investment and confidence.

"We are seeing future expectations dipping. Recruitment difficulties remain a persistent challenge and in any investment slowdown, businesses need practical and measured policy decisions that will enable economic growth. The survey results show the recruitment challenge is particularly pronounced in manufacturing and tourism. It is a priority for business that the UK Government ensures immigration rules make it straightforward for companies to access skills at all levels, without prohibitive costs and additional bureaucracy."

Professor Graeme Roy, Director at the University of Strathclyde's Fraser of Allander Institute, said:

"The latest results from the Scottish Chambers of Commerce Quarterly Economic Indicator show Brexit uncertainty is increasingly casting a shadow over business activity in Scotland.

"Whilst many businesses remain relatively resilient in terms of their day-to-day activities, levels of optimism have slipped across the board. Unsurprisingly, manufacturers have become more pessimistic in their outlook as the prospects of a 'no deal' Brexit have risen. Indeed, confidence in the sector is at its lowest level since 2012. The festive season did not provide Scottish retailers with much of a boost with optimism falling and cost pressures increasing.

"Across the economy, investment intentions remain subdued, with many businesses appearing to be in 'wait and see' mode."

On UK's Exit from the European Union, Neil Amner, said:

"The survey shows that the ongoing political uncertainty over Brexit has translated into business uncertainty, even having an impact on those who do not directly trade with other EU states.

"Businesses of all sizes are incurring costs they wouldn't otherwise have done, including but not limited to creating stockpiles. There are practical as well as financial repercussions of this, including in a 'no deal scenario'. It is becoming clear there will ultimately be costs to be borne or passed on, and in the interim the preparations businesses are having to make are a distraction from other priorities. The effect of the need to deal with those distractions, combined with a scenario of investment decisions being put on hold, represents a real concern for the Scottish economy.

"With so much of our economy intertwined directly or indirectly with the EU and with many, in particular small and medium sized businesses, struggling with how to prepare, the SCC can see that business will not welcome a 'no deal Brexit'."

On Manufacturing, Neil Amner, said:

"The manufacturing sector has posted a downbeat set of results, with business confidence at the lowest level since 2012. The unexpected fall in orders from Scotland, rest of the UK and internationally shows the direction of travel for the sector which appears likely to persist throughout 2019. Investment also showed signs of easing and profitability declined as raw material prices act as a significant cost pressure. Looking ahead, sales, investment, exports and profits are set to follow a downward trajectory with exchange rates cited as the leading concern for the quarters ahead. Whilst Brexit is a factor for manufacturing there are global economic trends at play too."

On Construction, Neil Amner said:

"Whilst orders and sales remain positive, overall investment levels have slowed for the construction sector. On the surface the sector remains resilient, however, business confidence is easing and investment is declining. The total employment levels from Q3 2018 to Q4 shows a big swing from positive to negative territory and future employment expectations are also down. The sector is very much in a 'wait and see' mode as the domestic economic outlook and Brexit weigh on decision making."

On Retail & Wholesale, Neil Amner, said:

"These results show the retail sector did not enjoy the hoped for upsurge in sales during the Christmas period, with levels of sales much lower than anticipated from the previous quarter. Although overall investment eased, it remains in positive territory and is expected to remain so throughout 2019. Retailers are expecting to have to increase prices as firms navigate a challenging retail environment and balance a range of cost pressures."

On Tourism, Neil Amner, said:

"Whilst a drop in business confidence for the tourism sector is not unusual for the final quarter of the year, the sector reporting a decline in investment and forecasting a further slowdown in investment is cause for concern. This indicates the toll of business costs on tourism firms. Raw material prices remain a significant pressure for the industry and business rates continue to rank highly as a key business concern. The industry will be remaining alert to the ongoing Transient Visitor Levy discussions and politicians must avoid adding yet more cost burdens to one of Scotland's critical industries."

On Financial & Business Services, Neil Amner, said:

"Whilst revenue is still in positive territory, the sector reported a decline for the final quarter of 2018, and is also expecting a softening in sales revenue and investment expectations for Q1 2019. Despite this softening, firms are still looking to hire with recruitment activity reported as increasing. Recruitment difficulties still persist for the sector, but they seem to have eased slightly from previous quarters."

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