



QUARTERLY ECONOMIC INDICATOR

Results for Q4 2018

Not for onward distribution

Scottish Chambers of Commerce in collaboration with
Fraser of Allander Institute

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Methodology

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 October and December of 2018. 385 firms responded to the Q4 2018 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.

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Construction

BUSINESS OPTIMISM

Construction firms have seen steady optimism across the sector, with **27%** of firms anticipating improving business conditions to come.

Although the net balance figure of **+18%** points is a minor decrease from the previous quarter, it is a substantial increase from Q4 in 2017 as typically the sector sees a dip in business confidence in the fourth quarter.

CONTRACTS

A net balance of **+19%** was reported for total contracts. This fall from the previous quarter figure is typical in Q4, although it is higher than the same figure in 2017, and also higher than the balance of **+9%** recorded in Q4 of 2016.

INVESTMENT

Levels of total investment in the construction sector have experienced a slowdown, which has dropped to a negative (**-2%**) compared to the previous quarter. This is significantly lower than the net balance of **+15%** recorded for Q4 last year as well as the **+14%** on average.

WORK IN PROGRESS

87% of businesses reported that their level of work in progress either increased or remained the same in Q4, giving a net balance of **+22%**.

While lower than the **+33%** observed in the third quarter of 2018, it remains higher than Q4 2017, and slightly above the average for Q4 over the past three years.

CONCERNS + PRESSURES

Raw material prices remain a concern with continued political uncertainty and wider use of tariffs, acting as key cost pressures. Whilst the overall taxation and cost concerns have softened, competition concerns increased.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/18	Q3/18	Q4/17
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	27	64	9	18	20	4
Sales Revenue						
Total	25	66	9	16	31	17
Domestic (Scotland)	19	69	10	10	23	9
Rest of UK	10	46	7	2	3	2
Contracts						
Total new contracts	31	50	13	19	48	14
Public sector orders	19	56	9	9	24	5
Private commercial	22	53	16	6	5	9
Domestic/house build	22	44	16	6	24	17
Investment						
Total	7	67	10	-2	0	15
Capital	9	67	11	-2	-6	17
Training	13	51	7	7	9	21
Work in Progress	34	53	13	22	33	18
Cashflow	23	68	9	14	15	-17
Applied for Credit?	26			26	10	19
Profits	20	71	10	10	15	-4
Capacity used (ave. %)				74	76	80
Employment						
Total	11	75	14	-2	26	9
Recruiting Staff			(yes)	47	65	53
Recruitment Difficulties			(yes)	30	45	50
Increased Wages?			(yes)	27	26	21
Average pay increase (%)				5.0	5.6	7.3
Expectations Next Quarter						
Price Change	39	57	5	34	50	46
Sales Revenue	32	61	7	24	38	19
Investment	17	68	7	10	11	11
Employees	18	80	2	16	33	2
Cost Pressures (%)						
Pay Settlements			(yes)	10	14	-
Finance Costs			(yes)	8	17	-
Raw Material Prices			(yes)	40	44	-
Other Overheads			(yes)	21	31	-
Concerns (%)						
Interest Rates			(yes)	17	22	-
Business Rates			(yes)	17	28	-
Competition			(yes)	21	14	-
Exchange Rates			(yes)	4	8	-
Inflation			(yes)	23	28	-
Taxation			(yes)	15	19	-

Financial & Business Services

BUSINESS OPTIMISM / SALES REVENUE

Fourth quarter results present mixed picture for the Financial and Business Services sector, observing both easing confidence and revenue.

Optimism has seen an 18 percentage point drop from the previous quarter as well as a 7 percentage point decrease compared to Q4 in 2017.

Total sales have also seen a significant easing to a net balance of **+17%**, down 14 percentage points from the previous quarter and a sizable 25 percentage points from the same quarter in 2017.

EMPLOYMENT

Recruitment activity increased although recruitment difficulties eased, with wages increasing on average. The percentage of firms looking to recruit has followed a continuing increasing pattern. It was **+41%** in Q1, **+58%** in Q3 and has now risen to **+71%** for Q4.

Reassuringly, recruitment difficulties have lessened from the highs of **44%** for Q3 and **47%** for Q4 in 2017, down to **+31%** which is just above average for the quarter.

INVESTMENT

Training investment is slowing from the previous quarter, with only capital investment seeing an increase of 2 percentage points from the Q3 of 2018.

Investment in general remains at an above average level overall with **73%** of firms reporting either heightened or maintained investment.

CONCERNS

The leading concern for FBS firms is business rates, with **27%** of firms worried about the effects on their businesses. Inflation and interest rates were also indicated as significant issues. Concerns over taxation have softened but will remain in the minds of firms in the run-up to the UK's departure from the European Union.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/18	Q3/18	Q4/17
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	35	41	24	11	29	18
Sales Revenue						
Total	35	45	18	17	31	42
Domestic (Scotland)	27	54	16	10	29	34
Rest of UK	18	49	17	1	15	11
Exports	16	36	9	8	-2	10
Online	24	39	9	15	8	4
Investment						
Total	23	50	15	9	15	13
Capital	23	52	14	9	7	2
Training	23	57	7	15	20	14
Cashflow	30	50	19	11	6	16
Applied for credit?	25			25	14	11
Profits	31	40	27	4	19	23
Capacity Used (Ave. %)				74	73	73
Employment						
Total	23	57	19	4	18	16
Recruiting Staff	71			71	58	50
Recruitment Difficulties	31			31	44	47
Increasing Wages	32			32	28	20
Average pay increase (%)				12	8	6
Expectations Next Quarter						
Price Change	35	63	2	33	24	36
Sales Revenue	37	43	19	18	38	31
Investment	26	50	15	11	20	21
Employees	26	65	9	17	19	21
Cost Pressures (%)						
Pay Settlements			(yes)	15	13	-
Finance Costs			(yes)	23	10	-
Raw Material Prices			(yes)	17	17	-
Other Overheads			(yes)	22	24	-
Concerns (%)						
Interest Rates			(yes)	23	23	-
Business Rates			(yes)	27	25	-
Competition			(yes)	21	33	-
Exchange Rates			(yes)	18	17	-
Inflation			(yes)	26	27	-
Taxation			(yes)	20	29	-

Manufacturing

SALES REVENUE / BUSINESS CONFIDENCE

Optimism declined to **-18%**, which is down 14 percentage points from the previous quarter and down by 20 percentage points from Q4 of 2017.

Although the response rate for this sector was slightly lower, business confidence was reported at its lowest level for manufacturing since 2012.

Sales have also fallen to lows of **-7%** in total sales and **-25%** for domestic sales.

CASHFLOW + PROFITS

Cashflow has seen a further decline from the previous quarter, down 3 percentage points to **-7%** which is a significant fall when compared to Q4 in 2017.

Profits have also taken a sizable hit, with a fall of 14 percentage points from Q3 to **-17%**. This is a 27 percentage point decrease from the same period in 2017.

EXPECTATIONS

The majority of firms expect lowered sales and investment in 2019, with net balance figures of **-19%** and **-17%** points respectively.

These declining expectations are met with increased concerns across all matters asked – except for competition which remained the same - with a 20 percentage point increase in concern over exchange rates which is also 20 points higher than average for the sector.

CONCERNS + COST PRESSURES

Raw materials have once again been highlighted by manufacturing firms as the leading cost pressure affecting raising prices. This has remained at a consistently high level over the course of 2018, between **61%** and **63%**, after the high of **86%** in Q1 2018.

Concerns are generally increasing notably for exchange rates, inflationary concerns, business rates, competition and taxation.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/18	Q3/18	Q4/17
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	25	32	43	-18	-4	8
Sales Revenue						
Total	25	43	32	-7	22	36
Domestic (Scotland)	11	42	36	-25	21	12
Rest of UK	14	42	31	-17	11	27
Exports	37	26	21	16	4	34
Orders						
Total	28	42	30	-2	18	19
Domestic (Scotland)	14	33	42	-28	16	3
Rest of UK	8	42	36	-28	0	9
Exports	7	30	21	-14	15	9
Work in Progress	25	50	25	0	8	20
Investment						
Total	14	54	26	-11	5	2
Capital	25	45	23	2	13	-2
Training	27	50	16	11	16	12
Cashflow	16	59	23	-7	-4	7
Applied for Credit?	6			6	8	16
Profits	22	36	39	-17	-3	10
Capacity Used (Ave. %)				78	80	77
Employment						
Total	24	45	31	-7	27	17
Recruiting Staff			(yes)	68	78	67
Recruitment Difficulties			(yes)	50	55	58
Increased Wages			(yes)	34	28	20
Average pay increase				4	3	5
Expectations (next quarter)						
Price Change	44	56	0	44	41	66
Sales	19	39	39	-19	13	19
Investment	11	56	28	-17	8	14
Employees	26	56	19	7	-13	25
Cost Pressures (%)						
Pay Settlements			(yes)	20	23	-
Finance Costs			(yes)	20	9	-
Raw Material Prices			(yes)	61	63	-
Other Overheads			(yes)	45	36	-
Concerns (%)						
Interest Rates			(yes)	16	14	-
Business Rates			(yes)	32	23	-
Competition			(yes)	32	32	-
Exchange Rates			(yes)	68	48	-
Inflation			(yes)	43	36	-
Taxation			(yes)	30	13	-

Retail & Wholesale

OPTIMISM

A significant decrease in business optimism to a net balance of **-5%** has been observed by the sector. This observation is reflective of the sector which has experienced difficulties in trading and challenging competition against online retailers.

SALES REVENUE

Sales revenue in the fourth quarter were reported as declining, with total sales falling to a net of **+3%** after the **+20%** and **+23%** highs for Q3 and Q2 respectively.

Online sales saw an increase of 8 percentage points to **+24%** for the quarter. 2018 has continued a year-on-year steady increase in average overall online sales as retailers place more resources towards online commerce.

PROFIT & CASHFLOW

Retail firms saw a slight increase in cashflow, but the figure for this quarter (**+3%**) still lags behind the **+14%** recorded for Q4 of 2017.

Profitability experienced a 7 percentage point decrease from the previous quarter, but still remains 12 points above the Q4 quarter net balance average.

CONCERNS

The retail sector judged competition and exchange rates as its highest areas of concern. These, along with taxation, were all at higher levels than in the last quarter.

Raw material prices was cited as the top cost pressure, increasing by 10 percentage points from the previous quarter.

Exchange rates saw the biggest increase across the board, with a 16 percentage point rise to **35%**.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/18	Q3/18	Q4/17
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	26	43	31	-5	29	2
Sales Revenue						
Total	29	44	26	3	20	29
Domestic (Scotland)	23	47	19	4	8	20
Rest of UK	21	37	19	1	2	21
Exports	20	24	9	11	8	8
Online	38	32	14	24	16	26
Investment						
Total	18	45	8	10	23	-5
Capital	22	43	5	17	12	2
Training	19	40	6	13	16	5
Cashflow	24	53	21	3	0	14
Applied for Credit?			(yes)	17	20	7
Profits	32	40	25	7	14	12
Capacity Used (Ave %)				1	1	1
Employment						
Total	17	62	9	8	18	13
Recruiting Staff			(yes)	44	65	56
Recruitment Difficulties			(yes)	27	31	39
Increased Wages?			(yes)	26	29	33
Average Pay Increase				10.1%	9.5%	7.6%
Expectations Next Quarter						
Price Change	42	58	0	42	39	53
Sales Revenue	40	35	25	15	40	8
Investment	26	46	13	14	7	-5
Employees	25	66	9	16	2	-5
Cost Pressures (%)						
Pay Settlements			(yes)	16	9	-
Finance Costs			(yes)	18	15	-
Raw Material Prices			(yes)	35	25	-
Other Overheads			(yes)	25	32	-
Concerns (%)						
Interest Rates			(yes)	16	21	-
Business Rates			(yes)	14	25	-
Competition			(yes)	37	30	-
Exchange Rates			(yes)	35	19	-
Inflation			(yes)	20	25	-
Taxation			(yes)	25	15	-

Tourism

GUESTS/CUSTOMERS

Tourism businesses reported a more negative fourth quarter than observed in 2017. The net balance of **-5%** is significantly lower than the **+18%** average for the fourth quarter.

This was mainly caused by an 18 percentage point decrease in the number of guests/customers from Scotland, down by almost 20 percentage points from the previous quarter.

INVESTMENT & EMPLOYMENT

Amidst somewhat challenging conditions, there was a downturn in investment by tourism businesses. The figure of **-9%** contrasts unfavourably with the **+20%** recorded for Q4 of 2017.

Despite somewhat challenging conditions, tourism businesses continued to invest in their future. **32%** of businesses increased investment in training this quarter, leading to a net balance of **+16%**, substantially higher than Q3 2018 albeit not as high as the figure for Q4 of 2017.

This is potentially influenced by the levels of recruitment difficulties experienced by tourism businesses, with **57%** having issues filling vacancies. It should be noted that this figure is much closer to the overall average figure of **53%** than the **79%** recorded for Q3 2018.

EXPECTATIONS AND CONCERNS

Firms were notably concerned with the investment outlook for 2019, with the figure dropping considerably from a net balance of **+18%** for Q3 to **-14%**. This is 21 percentage points lower than the average figure for the fourth quarter.

A significant number of firms (**40%**) are also looking to increase prices in 2019.

At **41%**, business rates was indicated as the most significant concern for tourism firms.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/18	Q3/18	Q4/17
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	36	36	28	8	26	-16
Sales Revenue						
Total	25	38	38	-13	39	-20
Domestic (Scotland)	18	32	41	-23	37	-15
Rest of UK	18	27	23	-5	7	-21
Online	23	32	18	5	40	-13
Investment						
Total	23	32	32	-9	3	20
Capital	28	28	28	0	15	6
Training	32	40	16	16	8	27
Cashflow	20	44	28	-8	38	-21
Applied for credit			(yes)	14	23	13
Profits	32	32	32	0	43	-29
Employment						
Total	28	44	20	8	15	-19
Recruiting Staff			(yes)	56	85	67
Recruitment difficulties			(yes)	57	79	67
Increased wages?			(yes)	32	38	37
Average pay increase (%)				11	4	5
Guests/Customers vs last year						
Total	27	41	32	-5	43	4
From Scotland	18	41	36	-18	17	2
From Rest of UK	32	23	23	9	13	-8
From Rest of EU	23	36	18	5	27	-2
From Outside the EU	27	18	23	5	33	4
Expectations Next Quarter						
Price Change	40	60	0	40	22	44
Sales	27	41	27	0	3	-2
Investment	18	41	32	-14	18	4
Employees	20	64	16	4	0	4
Cost Pressures (%)						
Pay Settlements			(yes)	30	33	-
Finance Costs			(yes)	22	28	-
Raw Material Prices			(yes)	52	54	-
Other Overheads			(yes)	37	46	-
Concerns (%)						
Interest Rates			(yes)	15	18	-
Business Rates			(yes)	41	44	-
Competition			(yes)	33	46	-
Exchange Rates			(yes)	26	18	-
Inflation			(yes)	33	38	-
Taxation			(yes)	19	46	-

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