

MEDIA RELEASE

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HEALTHY BUSINESS PERFORMANCE CLOUDED BY FALLING REAL INCOMES AND RECRUITMENT CHALLENGES

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.

These findings, released in collaboration with the University of Strathclyde's Fraser of Allander Institute show the position of businesses for the second quarter of 2017. The results from our latest comprehensive survey of businesses in Scotland reveals a broadly positive story in terms of business performance across most sectors but accompanied by some stark warnings about the potential challenges ahead.

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

"Performance in the construction sector has improved since the beginning of the year, but concerns remain about the persistent negative trend in contracts from the public sector. Manufacturing businesses have again reported strong results, with evidence of a sharp increase in export revenues, possibly as a result of the exchange rate. The tourism sector is also looking well set for the summer, whilst key indicators in the financial and business services sector, such as profitability and employment have returned to their best levels for over two years.

"These are all positive signs in line with other recent surveys and data. They indicate that the Scottish economy will continue to grow this year. Businesses are, however, also highlighting longer term threats to success from factors such as falling real incomes and rising recruitment problems. The retail sector is perhaps most exposed to pressures on household budgets. It is therefore worrying that almost half of retail respondents are reporting a fall in revenues and profits. Supply chain price rise pressures will compound that issue. Consumer demand drives around three quarters of Scotland's economic growth, so unless the recent falls in real earnings are reversed, there is a risk that the impact could spread to the wider economy.

"There is also evidence that the low unemployment rate may be impacting on businesses' ability to recruit the talent they need. Recruitment difficulties are growing across almost all sectors of the economy and we are seeing businesses increase their investment in staff training, possibly to improve the skills of existing staff or to bring new recruits, who may not have all the skills that the business needs, up to speed.

"Those recruitment pressures, underline the need for early agreement on the rights of existing EU workers to live and work in the UK and for the UK's future migration policy to be driven by business need. We are continuing to hear anecdotal evidence from businesses of a slow but steady drift of EU workers out of the UK. For Scotland, that has to stop if our current recruitment problems are to be reversed.

Although the survey results are positive overall, they are not wildly so. Corporate training investments are being made in the context of tight margins and uncertain times, exposing the punitive nature of the Scottish operation of the Apprenticeship Levy for those paying it. It is time for

Governments at all levels to begin planning for the kind of country we want Scotland to be, and investing in assets like world leading digital connectivity to help businesses to grow, rather than placing further cost pressures in the way of growth.”

Ends.