

EMBARGOED UNTIL 0001 WEDNESDAY 3RD JULY 2019

SCOTTISH BUSINESSES STRUGGLING TO GROW AMIDST BREXIT CHAOS

The latest Scottish Chambers of Commerce (SCC) Quarterly Economic Indicator survey for Q2 of 2019 shows businesses continuing to face difficulties due to prolonged uncertainty around the UK's position in relation to the European Union. This along with rising business costs and a global economic slowdown are factors preventing businesses from investing or expanding in Scotland.

- **On Wage Increases:** Every sector in the survey increased wages over the quarter apart from retail, showing that firms are having to pay more to retain the talent as the supply of skilled workers eases.
- **On Cost Rises:** The majority of sectors have reported rising costs pressures from raw material prices and from overheads related to Brexit preparations. 64% of manufacturing firms and 52% of construction firms listed rising raw material prices as their top cost pressure.
- **On Brexit:** Manufacturing has faced the biggest impact from Brexit uncertainty as stockpiling in Q1 means capacity utilisation was at its lowest level in ten years.

Nevertheless, Scottish companies are getting on with the day job and demonstrating resilience in the face of persistent challenges. Overall business confidence has made a slight recovery on Q1 when the UK faced a cliff-edge Brexit but is generally lower than the same period last year.

Commenting on the results, Tim Allan, Chairman of the Scottish Business Advisory Group and President of Scottish Chambers of Commerce, said:

“Businesses are weighing the costs of the chaos caused by more dithering over Brexit and the burden is severe. Our members are crying out for the return of some sanity as they undertake the important role of creating jobs and paying taxes.

“Whoever the next Prime Minister will be, they must take brisk action to unlock investment and instil confidence back into the UK economy. Scottish businesses need to see steps being taken to avoid a disorderly Brexit and a responsible consensus reached as soon as possible on the Brexit process with the European Union.”

On the UK's Exit from the European Union, Tim Allan, said:

“Since the initial cliff edge Brexit of 29th of March, the pressure on firms has lessened slightly but the underlying trends point to an economy running on fumes. The majority of firms for all sectors in the survey are putting off investment and say this trend will continue over the summer months. All are desperate for some kind of resolution to Brexit before the October 31st deadline.

“A future government must be quick out of the blocks to work with the business community in tackling some of the most pressing problems holding back investment, growth and productivity.”

On Investment, Tim Allan, said:

“Companies in Scotland are facing a barrage of challenges including rising costs and recruitment difficulties. They remain extra cautious about investment which is bedding in risk that the Scottish economy will suffer in the medium and long term.

“In the majority of sectors, we are seeing investment being put on hold and firms are saying that they expect that to continue in the next quarter. When firms are having to hold back on investment decisions, it delays major projects, growth, and limits overall productivity of the economy.”

On Recruitment, Tim Allan, said:

“Although some sectors are reporting reduced levels of recruitment difficulties relative to recent quarters, businesses continue to report persistent challenges in recruitment. Over 80% of tourism firms are attempting to recruit staff, with nearly 70% of these firms facing difficulties in doing so.

“Recent research has shown that 2018 was the first year since 2007 that the number of EU nationals in employment in Scotland fell. We would urge the UK Government to ensure that the future immigration system takes into consideration the necessity for firms in Scotland to be able to access talent as efficiently and seamlessly as possible.

“Our members also want to see public and private investment into ongoing learning and continuous professional development to ensure Scotland’s workforce is fully skilled at all levels of their career.”

On Exporting and International Business, Tim Allan, said:

“Manufacturing has faced the biggest impact from Brexit uncertainty as stockpiling in Q1 means capacity utilisation was at its lowest level in ten years in the most recent survey.

“Domestic and export sales declined and remain below trend as exchange rate volatility added to cost pressures. We must pull out all the stops to make the most of Scotland’s future exporting potential and attract investment from abroad, helping to limit any impact of Brexit and maximise Scotland’s economic output.”

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

“With unemployment at a near record low in Scotland, the survey is starting to pick up evidence of pay pressures on the rise. Many sectors also noted increasing recruitment difficulties. This seems to be a particular issue for some sectors. For example, among tourism firms, 7 out of 10 recruiting firms reported challenges, with more than half of firms in manufacturing facing similar issues.”

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NOTES TO EDITORS

- This survey was conducted between March and June of 2019. 350 firms responded to the Q2 2019 edition of the survey.
- Press Office: Colin Campbell, ccampbell@scottishchambers.org.uk/0141-444-7500
- The Quarterly Economic Indicator is Scotland's longest-running economic survey of its kind, operating since 1990.
- Scottish Chambers of Commerce is Scotland's largest business network with over 12,000 business members, across a network of 26 regional Chambers of Commerce, providing business support, business intelligence and business connections.