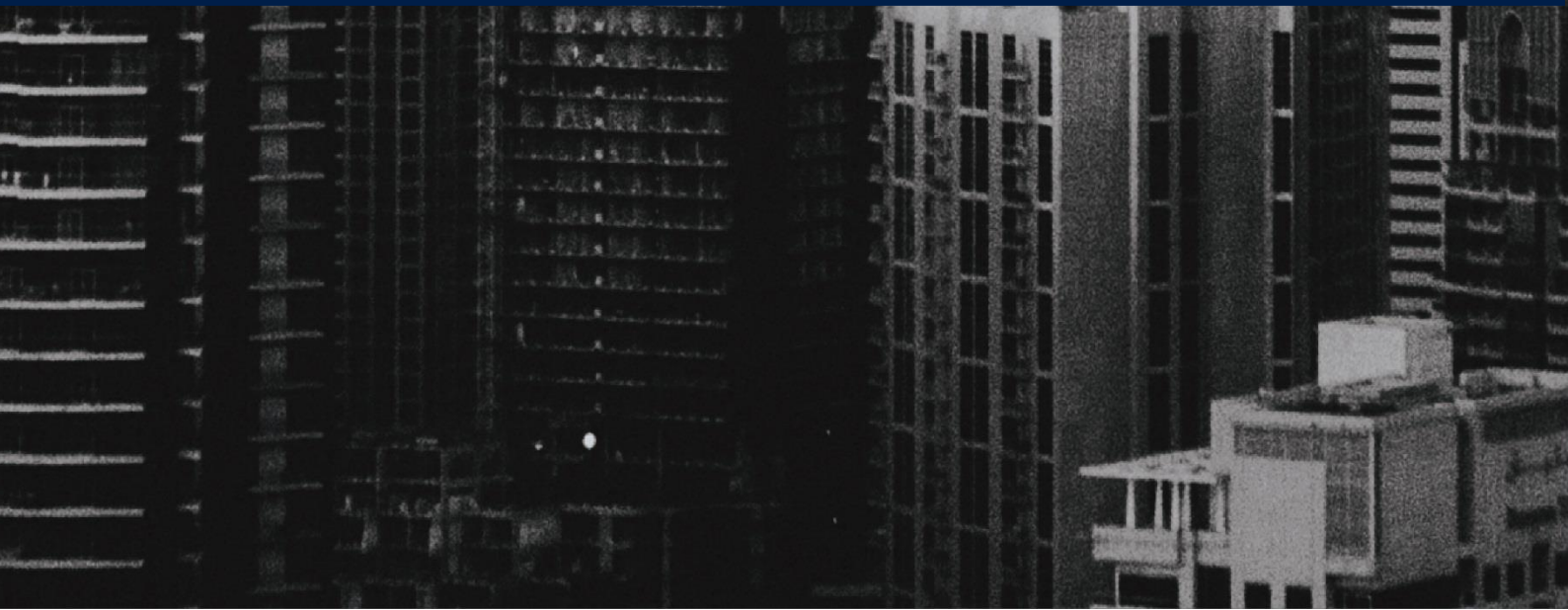




SCOTTISH CHAMBERS OF COMMERCE
QUARTERLY ECONOMIC INDICATOR
RESULTS FOR Q2 OF 2019

*IN PARTNERSHIP WITH FRASER OF ALLANDER
INSTITUTE*



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Foreword

The latest Scottish Chambers of Commerce Quarterly Economic Indicator once again shows that Scottish businesses continue to show resilience in the face of continued uncertain trading conditions.

Positive trends in optimism were reported across all the main sectors.

Looking beyond these headline indicators, we see that all sectors showed positive net balances in sales revenues, and encouragingly all sectors anticipate further improvements through to quarter three.

The continued uncertainty does appear to still be feeding through to investment with many firms remaining hesitant over future capital decisions. There does not however, appear to be a significant pull back of investment at this stage.

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.

Predicting what the business environment will look like in a few months' time remains fraught with difficulties. At the Fraser of Allander, our central forecast – which assumes an orderly departure from the EU – is for growth to continue throughout 2019 at a steady, if unspectacular, pace. Of course, other scenarios are possible. A 'no deal' outcome is likely to act as a major shock to the Scottish economy, even if policymakers try to 'manage' the greatest challenges. On the other hand, should a deal be reached, then there is the possibility that this will support a more positive outlook as investment and spending picks-up.

What is clear however, is that businesses must continue to prepare for an uncertain environment.

Professor Graeme Roy

Director, Fraser of Allander Institute



Introduction

Businesses in Scotland are resilient and demonstrating their underlying strength as revealed in the Scottish Chambers of Commerce Quarterly Economic Indicator for the second quarter. They are getting on with the day job.

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.

Since the initial cliff edge Brexit of 29th of March, the pressure on firms has eased 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.

Many businesses have had to put investment on hold in the face of rising costs, due to skills shortages and exchange rate volatility. This compounded by sluggish global growth has put the economy on the back foot.

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.

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.



Tim Allan, Chairman, Scottish Business Advisory Group
President, Scottish Chambers of Commerce

Key findings

Construction

- The balance of firms reporting improved sales revenue rose five percentage points to +23%
- The balance of firms increasing capital investment rose in the quarter from 0 to +8%, however investment in training eased from +21% to +11%.
- The percentage of firms looking to recruit fell from 68% to 40%. Of those, 33% noted recruitment difficulties – down 12 percentage points from the previous quarter.
- The average pay increase rose to 11.7% from 10.3% in the previous quarter.
- The sector appears fairly strong with firms expecting sales, investment and profits to rise in Q3.

Financial and business services

- 42% of firms reported no change to business optimism with 40% reporting a rise and 17% reporting a fall. The net balance of +23% is a 17 point increase from the Q1 2019 figure of +6%.
- The balance of firms reporting increased sales increased by 11 points to +28%
- The balance of firms reporting rising investment rose 6 points from +5% to +11% although this has eased by 11 points compared to Q2 2018.
- A net balance of firms reported a rise in profits - the net balance of +14% is above average.
- The percentage of firms seeking to recruit fell from 70% to 55%. Of those, 41% had recruitment difficulties which is a slight increase over the previous quarter.
- The outlook for the sector remains positive with sales, investment and employment all expected to rise in Q3 2019.

Manufacturing

- Business confidence recovered from a net balance of -20% in Q1 to +12% for this latest quarter.
- The balance of firms reporting increased export sales remained at +5%; export orders remained negative although eased from -20% to -12%. Rest of UK and export sales also remained negative.
- The balance of firms reporting increased capital investment fell further from -3% to -7%.
- Almost 80% of firms attempted to recruit and of those, 53% reported recruitment difficulties – a 6 point increase since the previous quarter.
- Sales, investment and prices are all expected to rise in Q3.

Retail and wholesale

- Sales revenue trends generally improved. Export and online sales, on balance, increased.
- The balance of firms increasing capital investment remained at +7%, and investment in training fell flat (0) from +7% for last quarter.
- The percentage of firms looking to recruit fell slightly to 50%. Of those, 21% had recruitment difficulties – down 17 points from the previous quarter.
- The outlook for firms is fairly positive with a balance of firms reporting increased sales, investment and prices for the next quarter.

Tourism

- All sales trends and customer/guests trends have increased, as to be expected due to the seasonal element of the sector, although the majority are less buoyant compared to Q2 2018.
- The balance of firms reporting rising capital and training investment remains in negative territory with both at -4%.
- More than three quarters of firms are actively attempting to recruit staff and more than half of these have reported recruitment difficulties.
- The outlook for the tourism sector is fairly strong with sales, investment and employment set to increase for a balance of firms during the three months to September.

Construction

BUSINESS OPTIMISM

The majority of construction firms (58%) reported no change to their levels of business confidence during Q2 2019 and more firms reported a rise (24%) than reported a fall (18%).

CONTRACTS/SALES

Sales for the sector showed positive movement, rising to a net balance of +22% for total sales. Domestic sales also showed improvement, rising from a net balance of 0 to +11%.

Many of the trends in contracts lessened compared to both the previous quarter and to the same quarter of last year with all trends easing compared to Q1. Most still remain within a positive net balance except public sector orders which fell into a negative net balance.

INVESTMENT

Most firms reported no changes to plans with the majority of firms appearing to have investment on hold.

There has been a small net increase in terms of total and capital investment but a slowdown in training, which fell 10 percentage points to a net balance of +11%.

WORK IN PROGRESS

Levels of work in progress have fallen by just over half from the Q1 net balance figure of +50% – but remain positive – to a net balance of +24%.

CONCERNS/PRESSURES

Cost pressures remain significant with some intensifying over Q2. More than half of firms are reporting cost pressures arising from raw material prices and more than a quarter of firms are coming under pressure from rising other overhead costs.

Similarly, business concerns remain significant, most notably concerns over competition and business rates.

EXPECTATIONS

The Scottish construction sector appears to be fairly confident with firms expecting sales, investment and profits to rise in Q3.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/19	Q1/19	Q2/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	24	58	18	5	13	14
Sales Revenue						
Total	38	46	16	22	17	23
Domestic (Scotland)	30	51	19	11	0	11
Rest of UK	14	39	6	8	7	9
Contracts						
Total new contracts	44	36	16	28	32	23
Public sector orders	13	50	17	-4	14	4
Private commercial	24	56	12	12	27	30
Domestic/house build	28	36	12	16	18	0
Investment						
Total	24	51	14	11	10	9
Capital	19	62	11	8	0	3
Training	22	51	11	11	21	20
Work in Progress	42	39	18	24	50	32
Cashflow	27	54	19	8	13	17
Applied for Credit?	9			9	21	17
Profits	27	52	21	6	11	-6
Capacity used (ave. %)				77	79	82
Employment						
Total	24	63	11	13	3	21
Recruiting Staff			(yes)	40	68	58
Recruitment Difficulties			(yes)	33	42	68
Increased Wages?			(yes)	41	37	32
Average pay increase (%)				11.7	10.3	3.8
Expectations Next Quarter						
Price Change	25	75	0	25	40	33
Sales Revenue	39	42	18	21	15	39
Investment	18	58	12	6	4	9
Employees	31	59	9	22	30	24
Cost Pressures (%)						
Pay Settlements			(yes)	12	25	29
Finance Costs			(yes)	9	22	14
Raw Material Prices			(yes)	52	53	43
Other Overheads			(yes)	30	19	57
Concerns (%)						
Interest Rates			(yes)	6	13	23
Business Rates			(yes)	30	28	23
Competition			(yes)	33	28	26
Exchange Rates			(yes)	12	28	6
Inflation			(yes)	24	31	20
Taxation			(yes)	21	19	49

Financial & Business Services

BUSINESS OPTIMISM

The majority of firms (82%) are reporting either increased or no change in the levels of optimism, resulting in a net balance of +23%. This is up from the net balance figure of +6% in Q1, but slightly lower than the net balance of +27% for Q2 2018.

SALES REVENUE

Sales across all measurements saw an increase though export and online sales reported a minor slowdown. Total sales rose to a net balance of +28% from the +17% for the previous quarter. However, all net balance figures are somewhat lower than they were a year ago in Q2 2018.

INVESTMENT

In terms of investment, all trends remain positive, but around half of firms are reporting no change for all these trends, suggesting that investment decisions are on hold at the moment. Total and capital investment saw net balance increases, but training investment experienced a slowdown.

LABOUR MARKET

Half of firms are reporting no change in the number of staff they have, but more than half are actively recruiting and around 40% of these recruiting firms reported difficulties in attracting suitable staff. The proportion of firms increasing wages rose considerably from the previous quarter to 49%, this is a historic high for the survey.

CONCERNS/PRESSURES

Competition remains the major concern for FBS firms, followed by over overheads and exchange rates.

This current quarter saw many firms slightly less concerned over cost pressures and concerns in general, compared to the previous quarter.

EXPECTATIONS

The outlook for the sector remains positive with sales, investment and employment all expected to rise in Q2 2019. These have risen from the previous quarters' levels and the majority of trends are higher than they were for the same period last year.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/19	Q1/19	Q2/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	40	42	17	23	6	27
Sales Revenue						
Total	42	42	14	28	17	38
Domestic (Scotland)	32	49	13	20	12	26
Rest of UK	20	36	15	5	4	17
Exports	13	24	12	1	4	9
Online	17	26	12	6	7	13
Investment						
Total	25	45	14	11	5	22
Capital	23	46	15	9	2	15
Training	23	52	11	12	16	19
Cashflow	30	49	21	9	9	15
Applied for credit?	24			24	15	9
Profits	36	42	22	14	15	23
Capacity Used (Ave. %)				73	75	75
Employment						
Total	37	50	11	25	19	12
Recruiting Staff	55			55	70	47
Recruitment Difficulties	41			41	36	37
Increasing Wages	49			49	26	33
Average pay increase (%)				7	7	5
Expectations Next Quarter						
Price Change	33	62	5	28	27	17
Sales Revenue	45	38	17	29	20	32
Investment	27	49	15	12	10	8
Employees	31	62	7	24	16	16
Cost Pressures (%)						
Pay Settlements			(yes)	17	16	-
Finance Costs			(yes)	8	12	-
Raw Material Prices			(yes)	9	10	-
Other Overheads			(yes)	24	25	-
Concerns (%)						
Interest Rates			(yes)	10	16	-
Business Rates			(yes)	14	21	-
Competition			(yes)	30	31	-
Exchange Rates			(yes)	20	20	-
Inflation			(yes)	17	21	-
Taxation			(yes)	17	29	-

Manufacturing

BUSINESS OPTIMISM

Optimism for the sector has stabilised amongst firms - from a worrying Q1 that saw confidence drop to its lowest level since Q3 of 2012 – back up into a positive net balance figure of +12%.

SALES REVENUE/ORDERS

Total sales revenue rose back into a positive net balance (+5%) after a flat Q1 (0), but domestic sales did fall into a negative net balance (-2%) with rUK sales remaining at a negative net balance as well (-9%). Export sales were unchanged over the quarter, all sales trends were lower than recorded for the same quarter in 2018.

Total orders remain weak in this current quarter with just as many firms reporting a rise as reporting a fall (37%) meaning the trend was flat. The declining trends in Scottish, rUK and export orders all continued though the negative trend in export orders eased compared to Q1.

WORK IN PROGRESS

Work in progress has recovered from the lowest net balance of the past two years of the survey, from -11% in the previous quarter to +16% for this quarter.

The average capacity used by manufacturing firms has eased to its lowest level since 2009, at 68%.

CASHFLOW/CREDIT

The cashflow trend has fallen to its lowest reported net balance in just over two years, at -14%. Applications for credit in this current quarter also rose to a net balance figure of +28%, the highest recorded amount for the sector since Q4 of 2016. There was a slight net balance decrease in profits for the quarter too.

CONCERNS/PRESSURES

Cost pressures increased in a few areas – pay settlements and raw material prices, but decreased in others – finance costs and other overheads. All of the business concerns trends have eased for the sector, with the major concern being exchange rates with a net balance of firms (+55%) reporting this as a concern.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/19	Q1/19	Q2/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	38	35	27	12	-20	10
Sales Revenue						
Total	31	44	25	5	0	24
Domestic (Scotland)	21	49	23	-2	0	12
Rest of UK	21	37	30	-9	-8	4
Exports	30	37	26	5	5	10
Orders						
Total	37	26	37	0	-6	17
Domestic (Scotland)	21	35	37	-16	-15	8
Rest of UK	26	28	35	-9	-11	21
Exports	26	26	37	-12	-20	15
Work in Progress	47	23	30	16	-11	33
Investment						
Total	26	49	26	0	-5	28
Capital	26	40	33	-7	-3	27
Training	24	55	19	5	-3	22
Cashflow	19	47	33	-14	12	14
Applied for Credit?	29			29	14	12
Profits	31	33	36	-5	-3	10
Capacity Used (Ave. %)				68	72	77
Employment						
Total	42	41	15	27	10	27
Recruiting Staff			(yes)	79	77	87
Recruitment Difficulties			(yes)	53	47	49
Increased Wages			(yes)	49	36	40
Average pay increase				5	5	3
Expectations (next quarter)						
Price Change	32	60	8	25	43	41
Sales	40	36	24	17	-6	36
Investment	32	41	27	5	-6	31
Employees	33	56	11	22	28	36
Cost Pressures (%)						
Pay Settlements			(yes)	34	29	18
Finance Costs			(yes)	16	15	8
Raw Material Prices			(yes)	64	56	62
Other Overheads			(yes)	32	39	40
Concerns (%)						
Interest Rates			(yes)	14	20	6
Business Rates			(yes)	25	39	14
Competition			(yes)	18	17	34
Exchange Rates			(yes)	55	56	40
Inflation			(yes)	20	32	24
Taxation			(yes)	25	34	20

Retail & Wholesale

BUSINESS OPTIMISM

Business optimism for retail saw the majority of firms (61%) reporting no change, resulting a net balance figure of +4%. Although this is lower than the +7% for the previous quarter, this is still higher than the average optimism for Q2.

SALES REVENUE

In general, all sales trends have increased from negative or flat levels barring rUK sales which are now flat. Total sales have increased to a net balance of +14%, which is 9 percentage points higher than recorded for Q1 2019 but 15 percentage points lower than the same figure recorded for Q2 2018.

Sales in both exports and online saw significant increases with +10% and +18% net balances respectively.

INVESTMENT

Investment trends remained positive for both total and capital investment, but training investment fell flat with the same number (12%) of firms reporting both an increase and a decrease in investment. As in other sectors, it appears that retail firms are holding off from making investment decisions at this point in time.

PROFIT

40% of firms reported a rise in the level of profits over the quarter. The net balance of +8% is five percentage points higher than the last quarter and eight percentage points higher than for Q2 of 2018.

LABOUR MARKET

The majority of firms (68%) did not change total employment numbers nonetheless the net balance remained positive although eased from the previous quarter. The average pay increase of 9.2% remains high for the sector.

CONCERNS/PRESSURES

The main cost pressures for the sector remain raw material prices and other overheads which saw a slight increase. Business concerns have eased generally, barring competition which has increased slightly.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/19	Q1/19	Q2/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	21	61	18	4	7	16
Sales Revenue						
Total	28	56	14	14	3	29
Domestic (Scotland)	24	54	20	5	0	25
Rest of UK	13	53	13	0	-3	11
Exports	20	23	10	10	-2	0
Online	33	28	15	18	5	-3
Investment						
Total	20	41	12	7	5	3
Capital	15	54	7	7	7	-3
Training	12	44	12	0	7	11
Cashflow	30	45	23	8	2	3
Applied for Credit?			(yes)	18	17	14
Profits	40	25	33	8	3	0
Capacity Used (Ave %)				1	1	1
Employment						
Total	11	68	8	3	13	17
Recruiting Staff			(yes)	50	52	48
Recruitment Difficulties			(yes)	21	38	71
Increased Wages?			(yes)	20	26	54
Average Pay Increase				9.2%	10.8%	5.0%
Expectations Next Quarter						
Price Change	38	59	3	36	50	41
Sales Revenue	38	46	16	22	25	45
Investment	24	57	5	19	9	28
Employees	13	85	3	10	20	21
Cost Pressures (%)						
Pay Settlements			(yes)	7	17	-
Finance Costs			(yes)	10	16	-
Raw Material Prices			(yes)	24	35	-
Other Overheads			(yes)	37	33	-
Concerns (%)						
Interest Rates			(yes)	7	16	-
Business Rates			(yes)	20	33	-
Competition			(yes)	32	26	-
Exchange Rates			(yes)	20	36	-
Inflation			(yes)	22	32	-
Taxation			(yes)	22	29	-

Tourism

BUSINESS OPTIMISM

On balance, tourism firms reported an increase in optimism rising from a negative balance of -6% in Q1 to +10% for Q2.

GUESTS/CUSTOMERS

A net balance of firms reported an increase (+26%) in the number of total guests/customers for the second quarter.

Most trends are lower when compared with the same period a year ago. Whilst the trend in guests from the rest of the EU was flat, there was a sizable increase in the number of guests coming from rUK and from outside the EU compared to last quarter: both reporting a net balance figure of +14%.

INVESTMENT

Whilst total investment saw its net balance figure bounce back into positive territory for the sector at +4%, both capital and training experienced a decline both coming in with a net balance of -4%. The figure for total investment is 20 percentage points lower than for the same quarter in 2018.

LABOUR MARKET

More than two thirds of firms are actively attempting to recruit staff with more than half of these reporting recruitment difficulties. Over two thirds of firms reported increased wages – (70%) - which is a historical high for the survey.

CONCERNS/PRESSURES

Cost pressures remain significant, most notably for raw material costs (46%) and other overheads (64%).

Similarly, business concerns remain significant with the top 3 being business rates, taxation and inflation.

EXPECTATIONS

The outlook for the tourism sector is fairly strong as sales are expected to rise for more than half of firms in Q3, a net balance of firms expect to increase their prices. Investment is also expected to increase, but a majority of firms (70%) expect their employee numbers to not change.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/19	Q1/19	Q2/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	33	44	23	10	-6	32
Sales Revenue						
Total	55	21	24	32	-11	42
Domestic (Scotland)	39	32	14	25	-6	38
Rest of UK	32	32	11	21	-32	33
Online	41	30	4	37	32	35
Investment						
Total	32	32	29	4	-11	24
Capital	26	37	30	-4	-11	11
Training	19	42	23	-4	-18	14
Cashflow	36	33	31	5	-15	34
Applied for credit			(yes)	19	14	18
Profits	54	25	21	32	-4	16
Employment						
Total	43	43	14	30	-3	30
Recruiting Staff			(yes)	81	71	76
Recruitment difficulties			(yes)	69	45	60
Increased wages?			(yes)	70	38	64
Average pay increase (%)				6	7	5
Guests/Customers vs last year						
Total	41	44	15	26	-4	31
From Scotland	25	57	18	7	7	14
From Rest of UK	32	43	18	14	0	17
From Rest of EU	25	43	25	0	-25	22
From Outside the EU	39	29	25	14	-11	28
Expectations Next Quarter						
Price Change	60	40	0	60	41	31
Sales	63	26	11	52	35	50
Investment	33	44	11	22	-7	9
Employees	22	70	7	15	38	12
Cost Pressures (%)						
Pay Settlements			(yes)	36	30	-
Finance Costs			(yes)	14	15	-
Raw Material Prices			(yes)	46	45	-
Other Overheads			(yes)	64	58	-
Concerns (%)						
Interest Rates			(yes)	18	15	-
Business Rates			(yes)	50	45	-
Competition			(yes)	14	27	-
Exchange Rates			(yes)	14	15	-
Inflation			(yes)	39	36	-
Taxation			(yes)	39	48	-

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 April and June of 2019. 350 firms responded to the Q2 2019 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.

For further information on the Quarterly Economic Indicator, please contact:

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