

EMABARGO FOR 00:01 FRIDAY 11th OCTOBER, 2019

SCOTTISH BUSINESSES CALL FOR BREXIT OUTCOME THAT DELIVERS “WALL OF CASH” ECONOMIC UPSIDE

The latest Scottish Chambers of Commerce (SCC) Quarterly Economic Indicator survey for Q3 of 2019 shows that businesses continue to struggle due to factors caused by Brexit uncertainty in the most recent quarter. Confidence remains on a downward trend in most sectors compared to the same period last year. Yet businesses, particularly in the financial and business services sector, are cautiously optimistic that a positive outcome to Brexit on 31 October could start restoring confidence in the Scottish economy.

Key highlights:

- **On recession risk:** data suggests that Scotland should avoid a ‘technical recession’ - defined as two consecutive quarters of negative growth - when the next set of official figures are released later on this year.
- **On the construction sector:** The balance of construction firms increasing investment - total, capital and training - all fell into negative territory in Q3, with the level of work in progress at the lowest level in six years.
- **On the retail sector:** Confidence dipped in the retail and wholesale sector in the quarter as revenue trends fell back. Domestic issues such as too-high business rates and competition - online and on the high street - remain key concerns.

The survey, conducted by Scottish Chambers of Commerce, in partnership with the Fraser of Allander Institute, is Scotland's longest-running economic survey of its kind.

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

“Our research shows that overall business performance has declined in the last year as companies take on board extra uncertainties caused by the tortuous progress of the Brexit process.

“The challenges businesses face are laid bare in the Scottish Chambers of Commerce Quarterly Economic Indicator for Q3. As the UK faces yet another deadline in the Brexit process, construction and manufacturing have reported severe challenges in terms of future orders, exports and investment. Meanwhile companies in sectors including retail and tourism face continued challenges in recruiting people with the right skills as the number of available workers from Europe continues to decline.

“We continue to affirm the view that a disorderly, no-deal departure from EU will have painful, long lasting consequences for the economy in Scotland and the UK. But we also believe that, if Brexit is not just done but done well, there is significant potential for an upside.

“Uncertainty has undoubtedly stymied corporate investment. We put a direct challenge to political leaders today - deliver a positive outcome to Brexit and the economy will benefit. We believe there is a wall of cash that has been pent up while the process of leaving the EU has unfolded which can and will be unleashed.

“What employers need more than ever is for Scottish and UK governments to hone their focus on the needs of the economy. Scotland in particular suffers a long-standing problem of slower economic growth relative to England and poor productivity compared to global peers. We urgently need to correct these trends if Scotland is to deliver an inclusive economy that provides the jobs, skills and prosperity for current and future generations.”

On the construction sector, Tim Allan said:

“The QEI reveals that while revenues have remained healthy so far, work-in-progress has collapsed to the lowest level since 2013.

“Of particular concern is the drop off in investment, particularly in training. If Scotland is going to meet the challenge of recruitment difficulties caused by the end to freedom of movement, upskilling the Scottish workforce is essential. But this will not happen unless employers have the confidence to invest in the skills development of the workforce.”

On the manufacturing sector, Tim Allan said:

“Perhaps unsurprisingly, the manufacturing sector continues to struggle with the difficulties presented by Brexit uncertainty. As a result, confidence has tanked in the latest quarter as sales and exports fell and profits shrank. The sector has been hit by rising costs due to foreign exchange volatility and the ‘do we, don’t we’ stockpiling issue forced upon them by various Brexit deadlines. Manufacturers are a vital part of the Scottish economy and they are calling out for clarity.”

On retail and wholesale, Tim Allan said:

“Retailers are not feeling optimistic in Q3 and there is concern that the all-important pre-Christmas trading period could disappoint. Nevertheless, companies in this sector are gearing up for at least some investment and recruitment in the fourth quarter. However, more employers in the sector have reported recruitment difficulties which will continue to provide challenges. Domestic issues such as too-high business rates and competition - online and on the high street - remain key concerns.”

On tourism, Tim Allan said:

“Optimism in Scotland’s key tourism sector has remained in positive territory but has shown a significant decline from the same time last year. Interestingly, businesses reported a slight increase in visitors from the EU compared to Q2. But this has not translated into easier recruitment, with employers reporting difficulties in finding staff.”

On financial and business services, Tim Allan said:

“This sector has demonstrated the most resilience in Q3, with increases in revenues and investment underpinning confidence. There is some cautious optimism for the fourth quarter which suggests there is expectation that a positive Brexit outcome will, after three very challenging years since the vote, see some much-needed renewal of vigour return to markets.”

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

“Scottish businesses appear to be treading water as they await clarity on the terms of the UK’s exit from the EU.

“The data suggests that Scotland should avoid a ‘technical recession’ - defined as two consecutive quarters of negative growth - when the next set of official figures are released later on this year. However, growth remains fragile and investment levels remain weak.

“A ‘no deal’ Brexit remains the greatest immediate risk to the Scottish economy. It is misguided to argue that ‘no deal’ is better than further delay. A ‘no deal’ would not only act as a major economic shock but will do little to curb uncertainty, with the UK’s future relationship with the EU still needing resolved.”

ENDS

NOTES TO EDITORS

- The full Q3 Quarterly Economic Indicator report is attached to this email.
- This survey was conducted between August and September of 2019. 350 firms responded to the Q3 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 27 regional Chambers of Commerce, providing business support, business intelligence and business connections