

SCC QUARTERLY ECONOMIC INDICATOR: Q1 2022 REPORT & PRESS RELEASE

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SCOTTISH ECONOMY FALTERING AS BUSINESSES REPORT RECORD HIGH CONCERNS OVER INFLATION AND RISING COSTS

Increasing pressure is mounting on Scottish businesses as the cost-of-doing-business crisis hits the bottom line, according to the latest findings from a leading Scottish business survey from the Scottish Chambers of Commerce (SCC).

Firms have reported record levels of concern over inflation and rising cost pressures as the economy restructures following the impact of the Covid-19 pandemic, creating complex challenges for Scottish businesses.

Adding to the pre-existing obstacles facing businesses, linked to persistent labour market shortages, international supply chain disruption, soaring energy prices and an increasing tax burden, Scotland's economy is entering into a period of increased uncertainty.

Businesses are starting to feel the impact of reduced spending as consumers tighten their belts and disposable income drops, hitting many firms cashflow and profits, particularly in the tourism and retail sectors where recovery remains lethargic.

With inflation reaching a 30-year-high, the rapid return to economic growth seen following the removal of Covid-19 restrictions is now plateauing with firms being forced to make tough decisions around investment, recruitment, and price rises.

The situation in Ukraine is also deepening business concern with many continuing to seek advice, information and support to make decisions, adapt to rapidly changing circumstances and navigate the challenging times ahead with further international trade disruption likely.

KEY FINDINGS:

- **Record Concern Over Inflation:** With UK inflation reaching 5.5% earlier this year, the negative impact on businesses is becoming increasingly clear with all sectors of the economy reporting record high levels of concern. The financial and business services sector (FBS) reported a 15% increase and the tourism sector a 14% increase from Q4 2021 respectively.
- **Cashflow Crunch and Profits Plummet:** Businesses continue to report significant cashflow and profit challenges, with high inflation a key driving factor. The construction, retail and tourism sectors all reported decreases in both cashflow and profits, highlighting the impact of rising cost pressures, leaving businesses at increased risk from economic shocks.
- **Growing Cost Pressures:** Across all sectors, business cost pressures have increased. Raw material prices, rising energy costs, increased tax burdens and other overheads are leading pressures. Energy price rises and the ongoing global supply chain disruption are cited to be the primary contributing factors to these increases.
- **Consumer Price Rise:** In response to rising cost pressures, a record 7 in 10 firms have indicated that they intend to raise the prices that they charge for their goods and services. This is likely to deepen inflationary challenges and further increase the cost-of-living.

- **Retail and Tourism Remain Vulnerable:** Despite the continued easing of COVID-19 restrictions over the first quarter of 2022, firms in these sectors have still reported concerning figures for both sales and investment. Retail footfall remains considerably below pre-pandemic levels due to changes in office work patterns and the removal of international travel restrictions have cooled the staycation market.

Stephen Leckie, President of the Scottish Chambers of Commerce said:

“Despite a period of relatively strong growth, the latest Scottish Chambers of Commerce business survey reveals that growth is now levelling off as the complexity of the challenges facing Scotland’s businesses start to take hold.

“Firms are becoming increasingly anxious about rising inflation, energy prices and cost pressures. For too many businesses, the focus is still simply on survival.

“Businesses who have weathered the pandemic over the past two years are now seeing problems pile up, one on top of another, as they struggle with longstanding challenges linked to recruitment, planning and managing change and are now being hammered by surging energy prices, inflation and falling consumer spending.

“Consequently, Scotland’s businesses are making serious adjustments to operating models and grappling with difficult decisions on whether to absorb price rises or pass them onto the consumer. Business finances are also being squeezed by Coronavirus Business Interruption Loan Scheme repayments, rising interest rates and significant business insurance cost rises.

“The prospect of impending additional tax burdens such as the Workplace Parking Levy, Transient Visitor Levy (Tourist Tax) and the Deposit Return Scheme are further cause for concern amongst already hard-pressed businesses.

“Economic growth is now plateauing because of these rising inflationary and cost pressures creating an increasingly uncertain outlook for businesses, with international trade and the global economy remaining volatile.

“With continued disruption to international trade due to the war in Ukraine, energy prices expected to rise again later in the year and inflation likely to remain resurgent, businesses will be forced to increase prices further, cut back on investment and protect their cashflow and profits to enable them to cope with any additional economic shocks.

“Scotland is approaching a critical point in recovery. Businesses are struggling now.

“That is why the Scottish and UK Government’s need to urgently rethink the impact of new and increased taxes on business if the economy is to be given the headroom it needs to survive this crisis and grow.”

On business support:

“Businesses are still grateful for the financial support and assistance provided by both the Scottish and UK Government’s over the course of the pandemic, however, now is not the time to pull the rug out from under the business community.

“Business support needs to be reset and realigned with the economic reality. Businesses need support now and Government intervention must protect the recovery that businesses have worked hard to secure.

“As a priority, the UK Government should seriously consider the introduction of an SME energy price cap to protect smaller firms from some of the major energy price increases, in the same way that households have been supported.

“The Chancellor missed an opportunity in the Spring Statement to deliver for businesses and the subsequent National Insurance increase has been yet another hammer blow for Scottish businesses adding millions to an already heavy tax burden.

“Without meaningful support, businesses will have little option but to raise prices, increasing pressure even further on business and household finances.”

On retail and tourism:

“Scotland’s retail and tourism sectors desperately need additional support from government as their recovery is lagging other parts of Scotland’s economy.

“Both sectors have been amongst the worst hit by the pandemic and the subsequent changes in consumer behaviours. They are also the most likely sectors to operate to tight cashflow and profit margins, and that’s why urgent support is needed now.

“Sustained business support and rethinking the removal of Covid-19 business rates and VAT relief by both Scottish and UK Governments is necessary to facilitate recovery and avoid businesses going to the wall at this critical point in Scotland’s economic recovery.”

Commenting on the results, Mairi Spowage, Director at the University of Strathclyde's Fraser of Allander Institute, said:

“Two years on from the first lockdown, it would be great to be optimistic about the economic prospects for 2022. Unfortunately, global uncertainties and the cost-of-living crisis, which are not unrelated to each other, have doused that enthusiasm with a bucket of cold water.

“Despite the impact of Omicron in December, the economy is now (as of data in January) back above pre-pandemic levels of growth. This milestone in the recovery is of course important: but seems less heartening than it might have done a few months ago given the wider economic conditions.

“Current data suggests that the experience of input price rises for businesses is running at more than double the consumer inflation rate. And as much as many businesses are trying to avoid passing price rises onto customers, something may have to give for tight margin businesses.

“This may mean that these cost pressures may continue to feed through to prices experienced by consumers as more businesses face difficult choices.

“In the face of all these headwinds, it can be difficult not to be gloomy about the prospects for growth in 2022. The Scottish business base has shown incredible resilience through the last couple of years, and was looking forward to a strong Spring and Summer as we look to operate without COVID-related restrictions.

“In line with this resilience, it is important to highlight that these results today show positivity for 2022 despite all these challenges. It will be interesting to see how this positivity evolves as we progress through 2022.”

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