

Quarterly Economic Indicator



Scottish
Chambers of
Commerce

Network

**RESULTS:
QUARTER 1
2022**

**in partnership with
Fraser of Allander Institute**

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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 February and March of 2021, covering Q1 2022. 333 firms responded to the Q1 2022 edition of the Indicator.

During Fieldwork, on the 22nd of February, the Scottish Government published an updated Strategic Framework which contained three threat levels of COVID-19, determined by evidence of the impact of the disease and the risk of infection.

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.

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Construction

BUSINESS OPTIMISM

Confidence in the sector was strong throughout 2021 and begins on a positive footing in 2022.

The positive net balance of +6%, while eased from Q4 2021, remains 5 percentage points above the Q1 average and is well above the same figure reported for Q1 2021.

CONTRACTS/SALES

Most contract trends have continued an upwards trajectory since the previous quarter, with all reporting positive net balances. The largest driver of this came from private commercial contacts.

All sales trends have continued to show encouraging signs, with 78% of firms reporting increased or level total sales, resulting in a net balance of +26%.

WORK IN PROGRESS

Work in progress remains strong within the sector. The net balance of +22% is a significant 11 percentage point increase compared to the previous quarter.

CASHFLOW/PROFITS

For the first time in a year, firms have reported negative net balances for both levels of cashflow and profits.

Although these trends have not fallen to the lows reported in Q4 2021, they still sit significantly below their Q1 average.

CONCERNS/PRESSURES

All cost pressures saw rises over the quarter, aside from raw material prices. Concern from other overheads (77%) has reached a five-year survey high.

Most business concerns have also seen reported increases since the previous quarter, apart from taxation which saw a small fall.

Concern over inflation (94%) has reached a record high for the survey. This is likely a driving factor behind a record 84% of firms saying they intend to raise their prices in the next quarter.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to M/A responses)				Q1/22	Q4/21	Q1/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	44	19	38	6	40	-9
Sales Revenue						
Total	52	23	26	26	39	-16
Domestic (Scotland)	45	26	23	23	30	-13
Rest of UK	35	13	19	16	9	-19
Contracts						
Total new contracts	48	28	24	24	10	12
Public sector orders	24	52	16	8	-20	6
Private commercial	36	40	16	20	5	9
Domestic/house build	24	56	12	12	25	7
Investment						
Total	45	19	29	16	23	-6
Capital	32	26	39	-6	14	-3
Training	39	32	26	13	14	-9
Work in Progress	48	26	26	22	11	13
Cashflow	26	32	39	-13	13	-33
Profits	23	32	45	-23	26	-41
Capacity used (ave. %)				85	83	66
Employment						
Total	26	58	16	10	4	-9
Recruiting Staff			(yes)	80	72	45
Recruitment Difficulties			(yes)	65	55	9
Expectations Next Quarter						
Price Change	84	16	0	84	73	41
Sales Revenue	54	17	29	25	32	10
Investment	29	50	21	8	9	7
Employees	21	63	17	4	14	7
Cost Pressures (%)						
Pay Settlements			(yes)	16	9	13
Finance Costs			(yes)	26	18	40
Raw Material Prices			(yes)	81	82	80
Other Overheads			(yes)	77	73	73
Concerns (%)						
Interest Rates			(yes)	32	14	13
Business Rates			(yes)	29	27	47
Competition			(yes)	42	36	47
Exchange Rates			(yes)	23	18	43
Inflation			(yes)	94	91	63
Taxation			(yes)	71	77	67

Financial & Business Services

BUSINESS OPTIMISM

Firms in the sector remain particularly confident. Over half of firms (53%) reported an increase in confidence over the quarter. As 27% reported no change and 20% a decrease in confidence, this resulted in a net balance of +33%.

This figure is over 20 percentage points higher than the Q1 average.

SALES REVENUE

Most sales trends have reported positive results. 88% of firms reported either an increase or no changes in total sales. As only 11% reported a decrease, this resulted in a net balance of +35%.

INVESTMENT

All investment trends have remained at positive net balances for the fourth successive quarter. All trends are significantly improved compared to the same quarter in 2021 and are well above their Q1 average.

LABOUR MARKET

Most firms (63%) reported no changes to staff levels. As more reported an increase (26%) than a decrease (10%), this resulted in a positive net balance of +17%.

Compared to Q1 2021, a further 23% of firms are actively recruiting staff.

EXPECTATIONS

Expectations for sales and investment remain generally positive, a notable 65% of firms expect sales to increase in Q2 2022.

On employment, firms remain cautious with most firms (65%) envisaging no changes.

CONCERNS/PRESSURES

Apart from pay settlements, firms reported increases across all cost pressures. Concern from over overheads is 20 percentage points higher than the Q1 average.

Three quarters of firms have reported increased concern over inflation. This is 15 percentage points higher than the previous quarter and almost triple the level of concern in Q1 2021.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/22	Q4/21	Q1/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	53	27	20	33	16	8
Sales Revenue						
Total	46	42	11	35	30	-13
Domestic (Scotland)	44	32	20	24	17	-9
Rest of UK	30	25	14	15	13	-8
Exports	13	35	10	3	2	-17
Online	21	26	14	7	1	-7
Investment						
Total	37	41	10	27	16	-12
Capital	23	54	11	12	13	-18
Training	30	45	15	14	26	-5
Cashflow	32	56	11	21	8	-18
Profits	36	29	28	8	6	-3
Capacity Used (Ave. %)				78	75	56
Employment						
Total	26	63	10	17	21	-8
Recruiting Staff	62			62	65	39
Recruitment Difficulties	42			42	50	27
Expectations Next Quarter						
Price Change	37	56	7	30	46	26
Sales Revenue	65	12	24	41	33	20
Investment	36	35	14	22	20	4
Employees	24	65	10	15	27	8
Cost Pressures (%)						
Pay Settlements			(yes)	25	26	11
Finance Costs			(yes)	19	11	9
Raw Material Prices			(yes)	35	32	15
Other Overheads			(yes)	50	45	44
Concerns (%)						
Interest Rates			(yes)	30	23	8
Business Rates			(yes)	23	17	21
Competition			(yes)	25	21	31
Exchange Rates			(yes)	15	13	13
Inflation			(yes)	75	60	26
Taxation			(yes)	43	41	45

Manufacturing

BUSINESS OPTIMISM

Over half of firms reported an increase in confidence (55%) over the quarter. As only 22% reported a decrease, this resulted in a net balance of +33%. This is 16 percentage points higher than the previous quarter.

SALES REVENUE/ORDERS

Apart from export orders, all sales and order trends reported positive net balances for the quarter.

Domestic and Rest of UK sales/orders were the most significant areas of growth.

WORK IN PROGRESS

After the blip in Q4 2021, the level of work in progress has returned to a positive net balance.

The net balance of +9% is 14 percentage points higher than the Q1 average.

CASHFLOW/PROFITS

Levels of cashflow have returned to a positive net balance after Q4 2021, exceeding the Q1 average.

However, profits have remained at a negative net balance for the second successive quarter.

LABOUR MARKET

With more firms reporting an increase to their staff levels (35%) than a decrease (18%), this resulted in a net balance of +16%.

Recruitment difficulties have eased slightly, down from 55% in Q4 2021 to 42% for this quarter.

CONCERNS/PRESSURES

As was the trend in 2021, raw material prices and other overheads continue to be the leading cost pressures for firms in the sector.

Both trends have reached five-survey highs in this quarter.

Most business concerns saw slight increases over the quarter, with inflation and taxation still the leading concerns. Concern over inflation is once again at a record survey high.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/22	Q4/21	Q1/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	55	24	22	33	17	7
Sales Revenue						
Total	38	42	20	18	33	-20
Domestic (Scotland)	25	51	18	7	5	-18
Rest of UK	31	42	20	11	27	-11
Exports	29	33	24	5	0	-9
Orders						
Total	40	35	25	15	16	-11
Domestic (Scotland)	27	45	18	9	-5	-11
Rest of UK	27	49	15	13	18	-7
Exports	25	31	31	-5	5	-4
Work in Progress	31	46	23	9	-8	6
Investment						
Total	40	42	18	22	18	5
Capital	35	51	15	20	16	7
Training	24	55	13	11	15	5
Cashflow	42	24	35	7	-12	-40
Profits	29	34	37	-9	-15	-29
Capacity Used (Ave. %)				75	81	65
Employment						
Total	35	47	18	16	7	10
Recruiting Staff			(yes)	82	78	48
Recruitment Difficulties			(yes)	42	55	17
Expectations (next quarter)						
Price Change	73	18	9	64	70	53
Sales	63	17	20	43	36	3
Investment	46	34	20	26	24	-7
Employees	42	44	15	27	30	23
Cost Pressures (%)						
Pay Settlements			(yes)	22	31	10
Finance Costs			(yes)	11	15	10
Raw Material Prices			(yes)	95	92	80
Other Overheads			(yes)	73	65	55
Concerns (%)						
Interest Rates			(yes)	33	15	13
Business Rates			(yes)	31	23	45
Competition			(yes)	18	31	38
Exchange Rates			(yes)	33	38	65
Inflation			(yes)	91	85	35
Taxation			(yes)	44	51	50

Retail

BUSINESS OPTIMISM

Confidence in the sector remains stable, with 7 in 10 firms reporting either an increase or no change to their levels of confidence.

The net balance of +8% is around 10 percentage points higher than the Q1 average and is significantly improved from the same quarter in 2021.

SALES REVENUE

For the second successive quarter, negative net balances have been reported across all sales trends.

Over half of firms (51%) reported a fall in total sales. As just 29% reported an increase, this resulted in a net balance of -23%.

INVESTMENT

Investment continues to be a challenge for retail firms, as all trends have reported negative net balances for the third successive quarter.

The most significant drop-off, compared to the previous quarter, was in training investment.

CASHFLOW/PROFITS

Like with other sectors in this quarter's survey, most firms have reported falls in cashflow and profits.

The respective net balances of -39% and -30% sit well below the Q1 average for these trends.

LABOUR MARKET

Retail firms continue to be cautious when it comes to employment.

Over 6 in 10 firms (63%) reported no change to staff levels over the quarter and 66% anticipate that not to change in the next quarter.

CONCERNS/PRESSURES

Apart from raw material prices, all cost pressures increased over the quarter. Nearly 7 in 10 firms (69%) reported concern from other overheads, an increase of 24 percentage points from Q1 2021.

Three quarters of firms have reported increased concern from inflation, a five-year survey high.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/22	Q4/21	Q1/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	39	31	31	8	3	-24
Sales Revenue						
Total	29	20	51	-23	-11	-48
Domestic (Scotland)	26	35	29	-3	-23	-43
Rest of UK	12	32	29	-18	-19	-18
Exports	3	16	19	-16	-12	-23
Online	20	20	27	-7	-21	-12
Investment						
Total	14	26	37	-23	-19	-24
Capital	17	34	23	-6	-15	-20
Training	11	34	29	-17	-4	-24
Cashflow	11	39	50	-39	-15	-35
Profits	23	13	53	-30	-24	-46
Capacity Used (Ave %)				67	39	30
Employment						
Total	19	63	19	0	4	-13
Recruiting Staff			(yes)	56	50	31
Recruitment Difficulties			(yes)	31	46	18
Expectations Next Quarter						
Price Change	72	25	3	69	65	48
Sales Revenue	57	21	21	36	0	24
Investment	11	54	11	0	-19	-27
Employees	25	66	9	16	0	-8
Cost Pressures (%)						
Pay Settlements			(yes)	28	20	10
Finance Costs			(yes)	19	10	17
Raw Material Prices			(yes)	50	53	40
Other Overheads			(yes)	69	67	45
Concerns (%)						
Interest Rates			(yes)	19	13	10
Business Rates			(yes)	39	33	33
Competition			(yes)	22	40	43
Exchange Rates			(yes)	14	10	24
Inflation			(yes)	75	63	31
Taxation			(yes)	44	43	52

Tourism

BUSINESS OPTIMISM

Confidence among tourism firms has remained fragile over the quarter. As 70% reported a decrease or no change in confidence, this resulted in a net balance of -10%.

This does remain above the Q1 average and is an improvement on the same quarter last year.

The sector largely operates according to seasonal demand, this is likely to have had an impact in the first few months of 2022.

SALES/INVESTMENT

Tourism firms have reported falls across all sales trends on balance.

Over half of firms (52%) reported a fall in sales overall. As only 17% reported an increase, this meant a net balance of -34%.

This still compares favourably when compared to Q1 2021 and is in line with the Q1 average.

CASHFLOW/PROFITS

Over half of firms reported falls in cashflow (52%) and profits (67%).

This resulted in both trends reporting negative net balances for the second successive quarter.

For a sector that typically operates on tight margins, this is a significant challenge.

EXPECTATIONS

Tourism firms are looking towards the late spring and early summer with general optimism.

On balance, they anticipate sales and staff levels to increase in Q2 2022, although they do expect to cut back on investment.

CONCERNS/PRESSURES

All cost pressures rose over the quarter, with raw material prices and other overheads raising to five-year survey highs.

All business concerns rose too, with inflation also reaching a five-year for the survey.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/22	Q4/21	Q1/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	30	30	40	-10	-27	-32
Sales Revenue						
Total	17	31	52	-34	22	-71
Domestic (Scotland)	23	27	46	-23	17	-79
Rest of UK	15	28	34	-19	11	-54
Online	6	13	19	-13	-3	-20
Investment						
Total	21	38	28	-7	-5	-37
Capital	23	36	26	-4	-8	-36
Training	26	30	23	4	-6	-37
Cashflow	10	34	52	-41	-14	-78
Profits	7	22	67	-60	-15	-66
Employment						
Total	19	44	37	-19	-17	-40
Recruiting Staff			(yes)	68	64	26
Recruitment difficulties			(yes)	51	61	3
Guests/Customers vs last year						
Total	30	23	40	-10	23	-88
From Scotland	26	31	36	-10	31	-89
From Rest of UK	21	26	38	-18	27	-73
From Rest of EU	11	14	43	-32	-50	-73
From Outside the EU	11	8	46	-35	-58	-73
Expectations Next Quarter						
Price Change	62	38	0	62	56	46
Sales	54	27	20	34	-44	19
Investment	17	41	32	-15	-13	-19
Employees	34	48	18	16	-6	8
Cost Pressures (%)						
Pay Settlements			(yes)	37	27	9
Finance Costs			(yes)	35	22	31
Raw Material Prices			(yes)	65	60	37
Other Overheads			(yes)	73	67	52
Concerns (%)						
Interest Rates			(yes)	33	27	16
Business Rates			(yes)	45	31	35
Competition			(yes)	25	18	29
Exchange Rates			(yes)	17	11	13
Inflation			(yes)	83	69	36
Taxation			(yes)	57	56	53

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