

SCC QUARTERLY ECONOMIC INDICATOR: Q2 2022 REPORT & PRESS RELEASE

EMBARGO UNTIL 00:01 TUESDAY 5TH JULY 2022

MUST ACT NOW AS TOXIC COMBINATION OF COSTS CRISIS GRINDS SCOTTISH ECONOMY TO A HALT

The cost of doing business is in crisis mode and is undermining Scottish business recovery and growth, according to the latest findings from a leading Scottish business survey by the Scottish Chambers of Commerce (SCC).

Rising prices of energy, food and raw materials, coupled with labour market insecurity and a tightening of consumer purse strings have shrouded the economy with weaker growth prospects.

The perfect storm of the costs crisis, exacerbated by the conflict in Europe, has led to a cashflow crunch which has frozen investment, led to price increases for consumers and squeezed profit margins.

KEY FINDINGS:

- **INFLATIONARY CONCERNS DOMINATE:** UK inflation has reached 9.1%, the highest in 40 years. Since April 2022, inflation has doubled and 9 in 10 Scottish firms across all sectors surveyed are continuing to report major inflationary pressures.
- **COST PRESSURES PILE ON:** Businesses continue to be impacted by rising energy bills, 7 in 10 firms report that it is the largest contributor to their cost pressures. Fuel and labour costs, alongside raw material prices, are also significant concerns.
- **FIRMS TO RAISE PRICES:** Over three quarters of all firms (77%) have indicated that they intend to raise prices next quarter. The sectors that reported the largest increases from the previous quarter were the financial & business services and tourism sectors.
- **LABOUR MARKET UNCERTAINTY:** Recruitment difficulties have seen a 10% increase from the previous quarter, with half of all firms reporting increased challenges hiring staff. The sectors that saw the largest increases from Q1 2022 were the financial and business services, manufacturing and retail sectors.
- **INVESTMENT FROZEN:** Decisions on investment have been held back with 50% of all firms reporting no changes to levels of investment in the next quarter. The construction, retail and tourism sectors have reported significant cuts to investment over the last quarter.

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

“The latest Scottish Chambers of Commerce business survey reveals that cost and inflationary pressures are deterring investment and forcing businesses with little choice but to make difficult decisions for business survivability. These include holding back or in some cases pulling back investment, putting projects on hold due to supply chain disruption, and in extreme situations considering whether or not to have the heating and lights on or off.

“Urgent action is needed now from the Scottish and UK Government if we are to reverse the tide of economic decline, restore confidence and put the economy back on the road to growth.”

On cashflow, Stephen Leckie said:

“Cashflow and profit margins are taking heavy hits as cost burdens rise and businesses

adjust to manage spiralling costs. As government loan repayments kick in and business insurances increase, firms are dealing with a whammy of surging cost burdens. To alleviate upfront costs, the UK Government should immediately apply flexibility for repayment terms on government backed loan schemes (e.g. CBILS) to reduce the increasing risk of a debt crisis.”

On investment, Stephen Leckie said:

“Firms are telling us that this crisis is leading them to pull back or withhold investment decisions. The construction, retail and tourism sectors have reported significant cuts to investment over the last quarter, contributing to a slowdown in economic activity and any meaningful prospects for recovery.

“Investment incentives are needed now. The Chancellor should announce a permanent successor to the super-deduction scheme sooner rather than later to provide businesses with certainty and confidence to invest. In addition, a similar tax reduction for firms that invest in training and upskilling of the workforce should be introduced immediately.”

On business support, Stephen Leckie said:

“The UK Government must act now and work with Scottish business ahead of the Autumn Budget to help firms weather this perfect storm. The immediate costs crisis is on energy prices and the UK Government must act on the calls from businesses to introduce an SME energy price cap and cut VAT on energy bills from 20% to 5%. This immediate support would shield businesses in a similar way to households.

“Labour shortages and recruitment difficulties continue to hold back businesses who are struggling to find and or retain the talent that they need. The UK Government must alleviate this burden by immediately rolling back the increase in National Insurance contributions.

“Supporting specific sectors affected by labour shortages is paramount to solving the labour market conundrum. An immediate commitment by the Home Office to review and expand the Shortage Occupation List will help sectors fill the workforce gaps that are holding back recovery and growth.

“Finally, the Autumn Budget must present solutions to the current economic challenges. But it must not stop there. The Chancellor must present a long-term economic plan developed in partnership between business and government focused on restoring business and consumer confidence, investment, and growth to the Scottish and UK economy.”

On Non-Domestic Rates, Stephen Leckie said:

“The recovery of Scotland’s flagship retail and tourism sectors continues to lag behind, with reduced footfall and reserved consumer spending hitting firms hard.

“This is being amplified by rising cost pressures, faltering cashflow and profits, resulting in falling investment and drained confidence.

“The Scottish government must extend the 50% business rates reliefs available for the retail, hospitality, and leisure sectors, from the first three months of 2022-23 to the first six months. This should be done in conjunction with fundamental reform of the business rates system, to ensure that the system is fair and non-regressive. This should not involve burdening businesses with a higher poundage rate, as was suggested in the latest spending review.

“Consumer footfall and spending must also be incentivised in order to support households and the recovery of our town and city centres.”

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

“The consequences of rising inflation are being felt across the economy, with clear signs that consumer confidence is being dented and that people are cutting back on both essential and non-essential spending.

“Alongside this, there is an increasing fear that high inflation will be more persistent than was first thought, with expectations now that it may be 2024 before we get back to more normal levels of inflation.

“This survey published today highlights concerns that businesses have about rising costs. Current data suggests that the experience of input price rises for businesses is running at 22%: still more than double the consumer inflation rate.

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

“Given this environment, it is not surprising in this latest set of results that we have seen a dip in confidence across sectors.”

ENDS

NOTES TO EDITORS:

- This survey was conducted in May & June of 2022. 360 firms responded to the Q2 2022 edition of the survey.
- 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 30 regional Chambers of Commerce, providing business support, business intelligence and business connections.

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