

Quarterly Economic Indicator



Scottish
Chambers of
Commerce

Network

**RESULTS:
QUARTER 2
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 May and June of 2022, covering Q2 2022. 360 firms responded to the Q2 2022 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.

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Construction

BUSINESS OPTIMISM

Confidence in the sector has remained consistently positive over the past year.

As more firms reported an increase (29%) than a decrease (17%) in confidence, this resulted in another positive net balance of +11%. This is five percentage points higher than the previous quarter and two higher than the rolling five-year average.

CONTRACTS/SALES

Most contract trends have reported positive net balances which are similar to the previous quarter.

However, this is except for house building which saw a net fall on balance of -5%. This is the first negative net balance for this trend since Q3 2020.

INVESTMENT

Firms in the sector have reported falls on balance in capital and total investment. Training investment has remained at a positive net balance.

For all trends, over 50% of firms in each have reported no changes to investment levels.

71% of firms have indicated that they expect no changes to investment in Q3 2022.

CASHFLOW/PROFITS

For the second successive quarter, firms have reported negative net balances for both levels of cashflow and profits.

Both trends sit well below the rolling five-year average and significantly below the same results in Q2 2021.

CONCERNS/PRESSURES

The most notable cost pressures highlighted by construction firms were Utility costs (77%), raw material prices (74%) and labour costs (71%).

Concern over inflation (97%) has reached a successive record high for the survey. 8 in 10 firms indicate that they intend to raise their prices.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to M/A responses)				Q2/22	Q1/22	Q2/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	29	54	17	11	6	25
Sales Revenue						
Total	43	37	20	23	26	30
Domestic (Scotland)	42	35	23	19	23	25
Rest of UK	32	23	23	10	16	20
Contracts						
Total new contracts	50	25	25	25	24	33
Public sector orders	15	50	10	5	8	14
Private commercial	30	25	20	10	20	23
Domestic/house build	20	30	25	-5	12	23
Investment						
Total	21	55	24	-3	16	18
Capital	18	58	24	-6	-6	15
Training	27	52	21	6	13	10
Work in Progress	40	40	20	20	22	33
Cashflow	21	47	32	-12	-13	13
Profits	21	47	32	-12	-23	13
Capacity used (ave. %)				84	85	85
Employment						
Total	32	41	26	6	10	20
Recruiting Staff			(yes)	86	80	60
Recruitment Difficulties			(yes)	66	65	20
Expectations Next Quarter						
Price Change	80	20	0	80	84	50
Sales Revenue	38	38	23	15	25	44
Investment	7	71	21	-14	8	24
Employees	37	51	11	26	4	33
Cost Pressures (%)						
Labour Costs			(yes)	71	16	9
Fuel Costs			(yes)	57	0	0
Finance Costs			(yes)	14	26	17
Raw Material Prices			(yes)	74	81	66
Utility Costs			(yes)	77	0	0
Other Overheads			(yes)	51	77	69
Concerns (%)						
Interest Rates			(yes)	43	32	9
Business Rates			(yes)	31	29	23
Competition			(yes)	29	42	51
Exchange Rates			(yes)	20	23	51
Inflation			(yes)	97	94	66
Taxation			(yes)	54	71	46

Financial & Business Services

BUSINESS OPTIMISM

76% of firms reported either increased or level confidence. As only 24% reported a decrease, this resulted in a positive net balance of +14%.

While eased from the previous quarter, this remains well above the average for Q2 and just above the five-year survey average.

SALES REVENUE

All sales trends have remained at positive net balances for the third successive quarter since Q3 2021.

Domestic sales continue to be the main driver, while export sales have seen little movement in the past year.

INVESTMENT

All investment trends have remained at positive net balances for the fifth successive quarter.

Most firms (at least 50%) have reported no changes to their levels of investment. 51% of firms also reported that they don't envisage this changing in the next quarter.

LABOUR MARKET

6 in 10 firms reported no changes to staff levels. As more reported an increase (30%) than a decrease (10%), this resulted in a positive net balance of +20%.

Compared to Q2 2021, recruitment difficulties have increased by 12 percentage points to 54%. This is a record high in the survey's history.

EXPECTATIONS

A record 55% of firms report that they intend to increase their prices in the next quarter.

CONCERNS/PRESSURES

The leading cost pressures for firms come from utility costs (65%) and labour costs (60%).

Cost pressures have generally seen a significant increase since Q2 2021.

8 in 10 firms have reported increased concern from inflation. This is a record survey high and almost double the concern from Q2 2021.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/22	Q1/22	Q2/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	38	38	24	14	33	31
Sales Revenue						
Total	38	44	18	20	35	14
Domestic (Scotland)	39	41	17	21	24	12
Rest of UK	21	34	10	12	15	8
Exports	7	20	6	1	3	-9
Online	19	17	12	7	7	6
Investment						
Total	26	50	15	10	27	19
Capital	21	50	16	6	12	8
Training	26	52	11	16	14	15
Cashflow	31	43	26	5	21	5
Profits	25	44	27	-2	8	10
Capacity Used (Ave. %)				85	78	69
Employment						
Total	30	60	10	20	17	16
Recruiting Staff	69			69	62	57
Recruitment Difficulties	54			54	42	30
Expectations Next Quarter						
Price Change	55	45	0	55	30	23
Sales Revenue	55	27	18	37	41	35
Investment	28	51	14	13	22	15
Employees	33	60	7	26	15	24
Cost Pressures (%)						
Labour Costs			(yes)	60	25	8
Fuel Costs			(yes)	45	0	0
Finance Costs			(yes)	15	19	10
Raw Material Prices			(yes)	30	35	25
Utility Costs			(yes)	65	0	0
Other Overheads			(yes)	35	50	40
Concerns (%)						
Interest Rates			(yes)	33	30	13
Business Rates			(yes)	20	23	21
Competition			(yes)	20	25	43
Exchange Rates			(yes)	10	15	15
Inflation			(yes)	80	75	35
Taxation			(yes)	45	43	43

Manufacturing

BUSINESS OPTIMISM

Firms in the sector have reported a positive net balance for the seventh successive quarter. The net balance of +20% is significantly higher than the rolling five-survey average.

SALES REVENUE/ORDERS

All sales trends saw increases to their already positive net balances from the previous quarter, with domestic sales (+20%) being the greatest contributor to overall revenue.

Most order trends also saw growth from the previous quarter, particular domestic orders, except for export orders which reported a negative net balance for the second successive quarter.

CASHFLOW/PROFITS

Firms have reported positive levels of cashflow for the second successive quarter, the net balance of +12% is 15 percentage points higher than Q2 2021 and is well above the Q2 average.

After two successive quarters of reporting falls on balance in profit levels, firms have reported an increase in profits. The net balance of +5% is 9 percentage points higher than the five-year survey average.

LABOUR MARKET

With more firms reporting an increase to their staff levels (36%) than a decrease (20%), this resulted in a net balance of +16%.

Recruitment difficulties have increased by 14 percentage points to 55% of firms. This is around 15 percentage points higher than the Q2 average.

CONCERNS/PRESSURES

Over 8 in 10 firms have reported raw material prices and utility costs as their leading cost pressures.

Concern from labour costs, fuel costs and other overheads remain significant for at least 6 in 10 firms.

All business concerns saw slight increases over the quarter, with inflation and taxation still the leading concerns.

(blank space indicates data not available) (balances may not add up to 100% due to N/A responses)	(rounded up to nearest %)					
(figures given as % of respondents)	Up	Level	Down	Q2/22 Net % Balance	Q1/22 Last Quarter	Q2/21 Last Year
Business Optimism	46	27	26	20	33	20
Sales Revenue						
Total	45	33	22	23	18	20
Domestic (Scotland)	40	35	20	20	7	15
Rest of UK	32	42	21	11	11	10
Exports	28	37	21	7	5	-26
Orders						
Total	42	32	26	16	15	25
Domestic (Scotland)	41	35	16	25	9	13
Rest of UK	31	41	19	12	13	3
Exports	23	39	26	-3	-5	-13
Work in Progress	34	38	28	6	9	33
Investment						
Total	24	56	20	4	22	18
Capital	23	56	21	2	20	15
Training	26	57	18	8	11	0
Cashflow	38	37	26	12	7	-3
Profits	36	32	32	5	-9	-16
Capacity Used (Ave. %)				72	75	71
Employment						
Total	36	44	20	16	16	25
Recruiting Staff			(yes)	78	82	63
Recruitment Difficulties			(yes)	56	42	34
Expectations (next quarter)						
Price Change	73	27	0	73	64	53
Sales	66	15	20	46	43	54
Investment	23	65	13	10	26	16
Employees	38	49	13	24	27	18
Cost Pressures (%)						
Labour Costs			(yes)	67	22	20
Fuel Costs			(yes)	63	0	0
Finance Costs			(yes)	8	11	11
Raw Material Prices			(yes)	83	95	71
Utility Costs			(yes)	81	0	0
Other Overheads			(yes)	60	73	57
Concerns (%)						
Interest Rates			(yes)	39	33	11
Business Rates			(yes)	33	31	34
Competition			(yes)	22	18	51
Exchange Rates			(yes)	36	33	46
Inflation			(yes)	89	91	54
Taxation			(yes)	56	44	49

Retail

BUSINESS OPTIMISM

Retail firms have reported their lowest levels of confidence in two years.

The negative net balance of -40% is the lowest reported since Q2 2020.

SALES REVENUE

Negative net balances have been reported across all sales trends, for the third quarter in a row.

As 76% of firms reported either static or lower total sales and only 24% an increase, this resulted in a negative net balance of -14%.

INVESTMENT

For the fifth quarter in a row, firms have reported negative net balances for all investment trends.

The biggest drop off since the previous quarter was in capital investment, which has seen a drop of 16 percentage points.

Firms have also indicated that they expect investment to fall in the next quarter, on balance.

CASHFLOW/PROFITS

Most retail firms have reported falls in cashflow and profit levels, resulting in significant negative balances of -44% for both trends.

The results for both trends sit well below the five-year survey average.

LABOUR MARKET

The labour market has seen little movement in the sector, with most firms (60%) seeing no staff changes.

Recruitment difficulties have seen a sizable jump of 26 percentage points from Q1 2021, up to 57% of firms.

This is the highest recorded in the past five years, since Q1 2022.

CONCERNS/PRESSURES

Most cost pressures rose over the quarter, with utility costs (75%), labour costs (62%) and fuel costs (55%) the leading pressures.

Over 8 in 10 firms (83%) have reported increased concern from inflation, a successive 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	Q2/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	17	27	57	-40	8	12
Sales Revenue						
Total	24	38	38	-14	-23	16
Domestic (Scotland)	25	47	27	-2	-3	32
Rest of UK	11	35	24	-13	-18	9
Exports	9	22	15	-7	-16	-6
Online	13	15	36	-23	-7	9
Investment						
Total	20	40	40	-20	-23	3
Capital	18	38	40	-22	-6	-8
Training	14	38	30	-16	-17	5
Cashflow	12	32	56	-44	-39	6
Profits	19	19	63	-44	-30	-17
Capacity Used (Ave %)				67	39	30
Employment						
Total	21	60	19	2	0	0
Recruiting Staff			(yes)	62	56	40
Recruitment Difficulties			(yes)	57	31	31
Expectations Next Quarter						
Price Change	72	28	0	72	69	40
Sales Revenue	45	23	33	13	36	20
Investment	22	41	38	-16	0	3
Employees	28	58	13	15	16	33
Cost Pressures (%)						
Labour Costs			(yes)	62	28	11
Fuel Costs			(yes)	55	0	0
Finance Costs			(yes)	17	19	16
Raw Material Prices			(yes)	57	50	45
Utility Costs			(yes)	75	0	0
Other Overheads			(yes)	45	69	55
Concerns (%)						
Interest Rates			(yes)	33	19	11
Business Rates			(yes)	30	39	34
Competition			(yes)	20	22	52
Exchange Rates			(yes)	12	14	32
Inflation			(yes)	83	75	50
Taxation			(yes)	42	44	48

Tourism

BUSINESS OPTIMISM

8 in 10 firms reported either static or lower levels of confidence. As 20% reported an increase, this resulted in a negative net balance of -22%.

This compares unfavourably with the +14% reported in the same quarter last year and sits well below the running five-year survey average.

SALES/INVESTMENT

Firms have reported negative net balances across most sales trends, except for online which was flat for the quarter.

These trends are significantly lower than those reported for Q2 2021.

It is a similar story when it comes to investment, with falls on balance being reported across all trends.

CASHFLOW/PROFITS

For the third quarter in a row, tourism firms have reported falls in cashflow and profit levels on balance.

Both trends sit well below their results from the same quarter in 2021 as well as the running five-year survey average.

EXPECTATIONS

Tourism firms are bullish when it comes to employment and sales increasing in the next quarter, both are projected to rise.

On the other hand, they are more cautious when it comes to investment intentions, which is projected to fall over the next quarter.

A record 77% of tourism firms report that they intend to raise their prices in Q3 2022.

CONCERNS/PRESSURES

The leading cost pressures are utility costs (72%), labour costs (54%) and fuel costs (51%).

Except for taxation, all business concerns rose over the quarter. Concern from inflation saw the largest rise: 16 percentage points to 85% of firms, a successive survey record high.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/22	Q1/22	Q2/21
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	20	38	42	-22	-27	14
Sales Revenue						
Total	37	25	38	-2	22	31
Domestic (Scotland)	30	35	32	-2	17	23
Rest of UK	21	34	26	-5	11	3
Online	19	23	19	0	-3	9
Investment						
Total	21	34	28	-7	-5	11
Capital	20	37	27	-7	-8	13
Training	22	33	25	-3	-6	0
Cashflow	31	21	48	-17	-14	-6
Profits	18	26	48	-31	-15	-24
Employment						
Total	37	44	19	19	-17	10
Recruiting Staff			(yes)	80	64	58
Recruitment difficulties			(yes)	60	61	50
Guests/Customers vs last year						
Total	47	13	36	11	23	13
From Scotland	40	24	31	9	31	22
From Rest of UK	29	29	36	-7	27	11
From the EU	20	20	44	-24	-50	-56
From Outside the EU	27	13	44	-18	-58	-64
Expectations Next Quarter						
Price Change	77	23	0	77	56	22
Sales	52	26	22	30	-44	53
Investment	13	53	28	-15	-13	5
Employees	46	43	11	36	-6	18
Cost Pressures (%)						
Labour Costs			(yes)	54	27	22
Fuel Costs			(yes)	51	0	0
Finance Costs			(yes)	31	22	32
Raw Material Prices			(yes)	43	60	35
Utility Costs			(yes)	72	0	0
Other Overheads			(yes)	51	67	56
Concerns (%)						
Interest Rates			(yes)	35	27	11
Business Rates			(yes)	34	31	25
Competition			(yes)	26	18	41
Exchange Rates			(yes)	18	11	16
Inflation			(yes)	85	69	40
Taxation			(yes)	54	56	37

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