

SCC QUARTERLY ECONOMIC INDICATOR: Q4 2023 REPORT & PRESS RELEASE

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SCOTTISH ECONOMY STUCK IN SHADOW OF LOW GROWTH

- **INFLATIONARY CONCERNS EASE BUT REMAIN HIGH:** Concern over inflation has fallen to 52% for this quarter - compared to 75% in the last quarter - and this is the lowest that concern from inflation has been in all of 2023. 52% is still 20 percentage points higher than the 32% recorded pre-inflation crisis in Q1 2021.
- **INVESTMENT IS STILL FLATLINING:** While on balance, more firms continue to report increases in investment than falls, over half of firms continue to report no changes to both total (55%) and training (54%) investment.
- **INTEREST RATES RISES REMAIN A CONCERN:** Concern over interest rates was reported by half of firms in the last quarter, that has now fallen by 10 percentage points to 40% for this quarter but is still significantly higher than the 15% recorded in Q1 2021 pre-inflation crisis.
- **PRICE RISES HAVE STABILISED:** Less firms are indicating that they will raise prices this quarter compared to last, following the trend over 2023. Four in 10 now indicate they will raise prices in the next quarter compared to 48% in the last quarter.
- **LABOUR MARKET REMAINS TIGHT:** Recruitment difficulties remain challenging, impacting 40% of firms this quarter, with associated labour costs still affecting seven in 10 firms.

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

“These latest survey results paint a clear picture: Scotland’s economy is stuck in a low growth cycle. Persistently high inflation, higher borrowing costs, frozen investment and ongoing global uncertainty are placing businesses under significant pressure.

“These issues must be addressed by all parties at the next General Election with businesses expecting clear plans which will boost economic growth and investment. Parties of all colours will be tested on whether they are listening to business and taking real action to back business growth.”

On the labour market, Stephen Leckie said:

“Skills shortages and availability of talent continue to act as a major barrier for business expansion. The Scottish Government’s £2.4 billion investment into colleges, universities and the wider skills system must remain agile to align with future economic demand to ensure we have a talent pool ready to contribute to the economy.

“Businesses are rightly asking why practical existing schemes such as the Flexible Workforce Development Fund have been scrapped, considering the challenges firms face regarding training and upskilling talent. The news of a reduction in funded University places is also a major concern for the business community when we need as many highly skilled graduates to enter the workforce as possible.

“On top of these concerns, companies are now grappling with the increasing tax burden of working in Scotland, making it more challenging to retain and attract talent. The introduction of a new income tax band is impacting on our competitiveness and depleting the spending power of individuals in the economy. Anyone in Scotland who makes more than £28,850 will now pay higher taxes than workers elsewhere in the UK.

“Looking further afield, a coherent policy approach from the UK Government is urgently needed to attract and secure international talent. Recent announcements have caused confusion and impacts on our global reputation, which risks deterring skilled workers from choosing to live and work in Scotland.”

On inflation and interest rates, Stephen Leckie said:

“While concern from high inflation and interest rates remains high, the levels of concern have slightly eased compared to the previous quarter. However, this should not be interpreted as an improvement as these figures are still too high and contributing to low business confidence.

“Clarity on the future direction of interest rates policy will be critical to help unlock suppressed growth and investment in the economy.

“If as currently generally forecast, inflation continues to ease, we expect corresponding action on interest rates to stimulate much needed investment.”

On investment, Stephen Leckie said:

“Over half of Scottish firms continue to report no changes to investment which has exacerbated the low growth cycle the economy is now in.

“New and increasing regulations are adding extra costs onto businesses, squeezing our ability to invest and leading many sectors into legislation fatigue.

“The decision by the Chancellor to make full expensing permanent in the Autumn Statement was welcome but more must be done to shift the dial and incentivise firms to invest.”

Commenting on the survey results, João Sousa, Deputy Director of the Fraser of Allander Institute, said:

“The final quarter of 2023 was full of policy events and economic news at both UK and Scottish level setting out the context for the year ahead.

“Scotland might not be in a technical recession, but growth has remained subdued, in a stop-start pattern since the beginning of 2022. The latest figures show the Scottish economy just above pre-pandemic levels in October, following a monthly contraction of 0.5%.

“Prospects for 2024 are a little more positive than what transpired in 2023. This is reflected in the survey results being published today. Confidence has proved resilient; sales growth has continued and some of the cost pressures are starting to ease. These factors give us some confidence that there might be an uptick into more sustained economic growth in the year ahead.”

ENDS

NOTES TO EDITORS:

- This survey was conducted from 6th November – 4th December 2023. 420 firms responded to the Q4 2023 edition of the survey.
- 95% of respondents to the survey were SMEs: these are businesses with less than 250 employees.
- The Quarterly Economic Indicator is Scotland's longest-running business survey, operating since 1990.
- Scottish Chambers of Commerce is Scotland's largest business network with over 12,500 business members, across a network of 30 regional Chambers of Commerce.

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