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CASHFLOW & PROFITABILITY DECLINE AS HIGH COSTS HAMMER BUSINESSES

- **CASHFLOW & PROFITS DECLINE:** Q1 has seen a significant downturn in cashflow and profits, with sizeable contractions recorded across four of the five sectors.
- **RECRUITMENT CHALLENGES:** More businesses are reporting challenges in recruiting staff, increasing to 47% for the quarter compared to 40% in the last quarter. However, recruitment intentions remain stable for the next quarter.
- **MORE PRICE RISES ON THE HORIZON:** More firms are indicating that they will raise prices this quarter compared to last, rising by 10 percentage points to 50% of all firms.
- **COST PRESSURES RISING:** The leading cost pressures remain labour costs (76%), energy costs (60%) and raw material prices (44%), with more companies raising concerns specifically on labour and energy costs.
- **INVESTMENT STILL FROZEN:** Over half of firms have reported investment freezes and do not expect this to change next quarter due to economic uncertainty.

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

“The latest insights from Scottish business underscores the extreme cost pressures facing companies in all sectors. The persistently high cost of doing business is hammering cashflow and profitability which will hit the economy in the long-term.

“The operating environment – nationally and globally – is exceptionally challenging.

“Geopolitics has moved up the agenda in boardrooms underlining the critical role governments will continue to play to ensure smooth trading conditions. Red Sea disruption, unresolved global conflicts and emerging concerns on data sovereignty are live issues businesses and communities require clarity on.

“Despite this, Scottish businesses are showing signs of resilience with business confidence and recruitment intentions remaining stable for the next quarter.”

On Tax, Stephen Leckie, said:

“Closer to home, businesses continue to express major dissatisfaction with tax policy direction from Scottish and UK Governments. Businesses are concerned about the impact of income tax divergence between Scotland and rest of UK in attracting and retaining talent. Scotland’s additional regulations such as the tourism tax is also a cause for concern which is increasing the cost of doing business.

“The message from businesses is clear: we need Governments north and south of the border to reduce the tax burden.”

On the Labour Market, Stephen Leckie said:

“More businesses are struggling to find and secure the skills and talent they need with recruitment difficulties significantly increasing over the quarter.

“The planned increase in the national minimum wage, whilst welcome for workers, will heap extra costs on the most vulnerable sectors such as hospitality and leisure explaining why labour costs is the number one cost pressure this quarter.

“Changes to the UK immigration system also threaten to harm Scotland’s attractiveness, with a planned 50% rise in the minimum salary threshold for a Skilled Worker visa from April.

“This policy alone will make it impossible for many Scottish businesses to hire international staff as the salary threshold is far higher than Scotland’s average wage. The UK Government must adopt a business-friendly approach which aligns with Scotland’s economic needs.”

On Investment, Stephen Leckie said:

“Investment remains a significant cause for concern. Over half of firms have reported investment freezes and do not expect this to change next quarter due to economic uncertainty.

“The challenges highlighted in the survey are a perfect storm impacting investment decisions: recruitment challenges, tax burdens, weak cashflow and declining profits.

“Firms need a clear framework to attract capital investment in areas such as housing. This should also include reducing regulatory burdens, quicker planning decisions and targeted incentives.”

Commenting on the survey results, Professor Mairi Spowage, Director of the Fraser of Allander Institute, said:

“Economic data in early 2024 is showing that the economy is likely to be recovering hesitantly as expected, following the contractions in growth in the final part of 2023.

“Some of this positivity is reflected in the survey published today. Despite some of the headwinds reported by businesses – including increasing employment costs – business confidence is still in positive territory. There are clear sectoral differences, as might be expected, with the retail and hospitality sector in particular having a subdued set of results. The increase in the national minimum wage coming in April, while positive for workers, is likely to impact particularly on these sectors.

“The verdict of our assessment chimes really well with the results from the survey today: that things are difficult, but that there are both signs of and hope of improvement.”

ENDS

NOTES TO EDITORS:

- This survey was conducted from 12th February – 11th March 2024. 400 firms responded to the Q1 2024 edition of the survey.
- 97% 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.
- The survey results are released on the same day as the Fraser of Allander Economic Commentary, which assesses all the main data on the Scottish and UK economies and presents FoAI's latest forecasts for the Scottish economy.
- This can be found here: <https://fraserofallander.org/>

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