



SCOTTISH CHAMBERS OF COMMERCE
QUARTERLY ECONOMIC INDICATOR
RESULTS FOR Q1 OF 2019

*IN PARTNERSHIP WITH FRASER OF ALLANDER
INSTITUTE*

Contents

1. Methodology *Page 2*
2. Foreword *Page 3*
3. Introduction *Page 4*
4. Key Findings *Page 5*
5. Construction *Page 6*
6. Financial and Business Services *Page 7*
7. Manufacturing *Page 8*
8. Retail and Wholesale *Page 9*
9. Tourism *Page 10*

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 January and March of 2019. 353 firms responded to the Q1 2019 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.

For further information on the Quarterly Economic Indicator, please contact:

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Foreword

This latest Scottish Chambers of Commerce Quarterly Economic Indicator shows that Scottish businesses remain relatively resilient despite uncertain trading conditions.

The lack of clarity about the UK's terms of exit from the EU continues to cast a shadow over day-to-day decision making, with businesses clearly struggling to make long-term plans in such times.

Despite this, business confidence has continued to remain positive in most sectors, albeit at a slower rate than previously. However, confidence levels in manufacturing – arguably the sector most exposed to any 'no deal' outcome – remain highly negative.

Looking in more detail at the Scottish Chambers of Commerce Quarterly Economic Indicator data, we see that while construction, finance & business services and, to a lesser extent, retail continue to show positive net balances in sales revenues, manufacturing and tourism firms reported negative trends.

Weak business investment has been a feature of recent times, and this latest survey shows that firms are becoming even more reluctant to make investment decisions at this present time. This is an unwelcome sign given the key role that investment plays in boosting productivity, and in turn improving long-term economic prosperity.

With high rates of employment across the Scottish economy, the survey also identified that for many firms pressure for pay increases remains on the up.

On the whole, these figures confirm that Scottish businesses are continuing to get on with the day job despite heightened levels of uncertainty. But they have clearly increasingly put on hold long-term plans and investments, which will inhibit our growth prospects in the long-run. Businesses across Scotland will be hoping for clarity in the coming weeks.

Professor Graeme Roy

Director, Fraser of Allander Institute



Introduction

The latest results of the SCC Quarterly Economic Indicator survey for Q1 of 2019 shows that the Scottish economy has significantly weakened in the first quarter of the year.

With the growing effects of an uncertain world economy and the fog of Brexit hanging over UK business, key Scottish industrial sectors have experienced a slowdown in investment as business costs and Brexit preparations take top priority.

The prospect of a no-deal Brexit has undoubtedly hit business confidence in the first quarter of the year. Companies in Scotland are caught in a pincer movement of business challenges. On the one hand, businesses are faced with increased cost pressures such as rising costs due to currency weakness and higher wages, and on the other they are hit by the political turmoil that is being caused by the ongoing uncertainty of our future relationship with the EU.

There is an immediate need to solve the Brexit conundrum, which is constraining Scotland's ability to compete on the world stage. We see this evidenced in the decline in business confidence, the growing difficulties in recruitment and challenges in exporting.

Furthermore, any pause on business investment will do nothing to solve Scotland's productivity challenge. This requires long-term investment in skills and training if Scotland is to see the shift the economy needs towards levels of productivity that can match that of other comparable countries.

Our survey has shown some real areas of strength that exemplifies the resilience of Scottish businesses and their resolve to stay focused on creating jobs and paying taxes to fund the vital public services that support Scotland's economy. But the pressure on firms is growing, with the prospect of increased costs due to inflation, currency volatility, Brexit preparations and the prospect of further taxation remaining as top concerns for all sectors.

Tim Allan
Chair, Scottish Business Advisory Group
President, Scottish Chambers of Commerce



Key findings

Construction sector

- The balance of firms reporting improved sales revenue rose one percentage point to +17%
- The balance of firms increasing capital investment rose in the quarter from -2% to 0, and investment in training from +7 to +21
- The percentage of firms looking to recruit rose from 47% to 68%. Of those, 42% had recruitment difficulties – up 12 points from the previous quarter
- The average pay increase rose to 10.3% from 5.0% in the previous quarter
- The sector appears fairly strong with firms expecting sales, investment and profits to rise in Q2.

Financial and business services

- Half of firms reported no change to business optimism with 29% reporting a rise and 23% reporting a fall. The net balance of +6% remains positive but has eased since Q4 2018 (+11%)
- The balance of firms reporting increased sales remained at +17%
- The balance of firms reporting rising investment fell 4 points from +9% to +5%
- A net balance of firms reported a rise in profits - the net balance of +15% is above average
- The percentage of firms seeking to recruit fell slightly to 70%. Of those, 36% had recruitment difficulties
- The outlook for the sector remains positive with sales, investment and employment all expected to rise in Q2 2019.

Manufacturing sector

- Business confidence remained in negative territory falling 2 points to -20%
- The balance of firms reporting increased export sales fell from +16% to +5%; export orders remained negative falling further from -14% to -20%. Rest of UK and export sales also remained negative
- The balance of firms reporting increased capital investment fell from +2% to -3%
- The percentage of firms looking to recruit rose from 68% to 77%. Of those, 47% had recruitment difficulties – broadly unchanged since the previous quarter
- Sales, investment and exports are all expected to fall in Q2.

Retail and wholesale

- Sales revenue trends largely unchanged. Rest of UK and export sales, on balance, declined. Online sales, although remaining positive saw a 19 percentage point fall compared to the previous quarter
- The balance of firms increasing capital investment fell in the quarter from +17% to +7%, and investment in training from +13% to +7%
- The percentage of firms looking to recruit rose slightly to 52%. Of those, 38% had recruitment difficulties – up from the previous quarter
- The average pay increase rose to 10.8% - highest level in 15 years
- The balance of firms confident that sales revenue will increase in the current quarter is rose to +25%.

Tourism

- Confidence declined during Q1 2019
- A balance of -32% reported a drop in sales revenue from rest of UK guests. A net balance of firms reported a fall in the number of guests/customers compared to the same period one year ago
- The balance of firms reporting rising capital investment fell into negative territory from 0 to -11%, and investment in training from +16% to -18%
- More than two thirds of firms are actively attempting to recruit staff and around half of these have reported recruitment difficulties
- The outlook for the tourism sector is fairly strong with sales and employment set to increase for a balance of firms. Investment on the other hand is expected to fall again.

Construction

BUSINESS OPTIMISM

The majority of construction firms saw no change to their levels of business confidence during Q1 2019 although more firms reported a rise (29%) than reported a fall (16%).

CONTRACTS/SALES

Firms generally saw sales improve during the 3 months to the end of March although domestic sales were, on balance, flat.

The trends in contracts showed improvements compared to both the previous quarter and also compared to the same quarter of last year with all trends rising. For each of the categories fewer than one in five firms reported a decline in contracts.

INVESTMENT

Investment improved over Q1 though most firms reported no change with the majority of firms appearing to have investment on hold.

WORK IN PROGRESS

Levels of work in progress rose to their highest level since 2007 with almost two thirds reporting rising levels and only 14% reporting a fall in levels.

CONCERN/PRESSURES

A net balance of +40% of construction firms are expecting price increases over the course of the next quarter. Cost pressures remain significant across the board and intensified over Q1. More than half of firms are reporting cost pressures arising from raw material prices and a quarter of firms are coming under pressure from rising pay settlements.

Similarly business concerns remain significant and are generally increasing, most notably concerns over competition, exchange rates and business rates.

EXPECTATIONS

The Scottish construction sector appears to be fairly strong with firms expecting sales, investment and profits to rise in Q2.

(blank space indicates data not available)		(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)							
(figures given as % of respondents)		Up	Level	Down	Net % Balance	Last Quarter	Q1/18
Business Optimism	29	55	16	13	18	16	16
Sales Revenue							
Total	28	62	10	17	16	-7	
Domestic (Scotland)	19	58	19	0	10	-5	
Rest of UK	17	28	10	7	2	5	
Contracts							
Total new contracts	45	41	14	32	19	10	
Public sector orders	27	27	14	14	9	-11	
Private commercial	41	36	14	27	6	18	
Domestic/house build	36	36	18	18	6	13	
Investment							
Total	17	59	7	10	-2	7	
Capital	17	48	17	0	-2	0	
Training	34	38	14	21	7	2	
Work in Progress	64	23	14	50	22	18	
Cashflow	32	48	19	13	14	2	
Applied for Credit?	21			21	26	20	
Profits	36	39	25	11	10	9	
Capacity used (ave. %)				79	74	81	
Employment							
Total	17	70	13	3	-2	-5	
Recruiting Staff		(yes)	68	47	52		
Recruitment Difficulties		(yes)	42	30	52		
Increased Wages?		(yes)	37	27	27		
Average pay increase (%)			10.3	5.0	3.5		
Expectations Next Quarter							
Price Change	40	60	0	40	34	33	
Sales Revenue	41	33	26	15	24	25	
Investment	22	48	19	4	10	14	
Employees	30	70	0	30	16	11	
Cost Pressures (%)							
Pay Settlements		(yes)	25	10	29		
Finance Costs		(yes)	22	8	7		
Raw Material Prices		(yes)	53	40	61		
Other Overheads		(yes)	19	21	49		
Concerns (%)							
Interest Rates		(yes)	13	17	32		
Business Rates		(yes)	28	17	22		
Competition		(yes)	28	21	46		
Exchange Rates		(yes)	28	4	2		
Inflation		(yes)	31	23	32		
Taxation		(yes)	19	15	29		

Financial & Business Services

BUSINESS OPTIMISM

Half of firms reported no change to business optimism with 29% reporting a rise and 23% reporting a fall. The net balance of +6% remains positive but has eased since Q4 2018 (+11%).

SALES REVENUE

The trend in total sales was broadly unchanged from the previous quarter with a net balance of +17%, once again, reporting a rise.

INVESTMENT

Investment trends remained positive though capital investment spending eased from a net balance of +9% previously to a net balance of +2%.

LABOUR MARKET

Two thirds of firm reported no overall change to total employment levels and fewer than 10% reported reducing levels. The net balance of +19% is 15 percentage points higher than Q4 2018.

Recruitment activity remained high with recruitment also rising with 36% of recruiting firms reporting difficulties in attracting suitable staff. A quarter of firms increased wages by an average of 7%.

CONCERNS/PRESSURES

Concerns around taxation, competition and exchange rates increased throughout Q1.

Cost pressures in the FBS sector are generally lower than in other sectors, nonetheless firms are coming under some pressure from pay settlements and other overheads.

EXPECTATIONS

The outlook for the sector remains positive with sales, investment and employment all expected to rise in Q2 2019.

(blank space indicates data not available)					(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)					Q1/19	Q4/18	Q1/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year	
Business Optimism	29	49	23	6	11	9	
Sales Revenue							
Total	33	50	16	17	17	25	
Domestic (Scotland)	29	52	16	12	10	17	
Rest of UK	15	41	11	4	1	7	
Exports	13	32	9	4	8	7	
Online	14	37	8	7	15	3	
Investment							
Total	22	43	17	5	9	14	
Capital	16	51	14	2	9	8	
Training	27	44	11	16	15	16	
Cashflow	27	52	18	9	11	6	
Applied for credit?	15			15	25	9	
Profits	35	43	20	15	4	6	
Capacity Used (Ave. %)				75	74	72	
Employment							
Total	26	64	7	19	4	15	
Recruiting Staff	70			70	71	43	
Recruitment Difficulties	36			36	31	37	
Increasing Wages	26			26	32	24	
Average pay increase (%)				7	12	4	
Expectations Next Quarter							
Price Change	31	64	5	27	33	23	
Sales Revenue	37	46	17	20	18	41	
Investment	22	59	12	10	11	22	
Employees	20	75	5	16	17	29	
Cost Pressures (%)							
Pay Settlements			(yes)	16	15	27	
Finance Costs			(yes)	12	23	9	
Raw Material Prices			(yes)	10	17	11	
Other Overheads			(yes)	25	22	46	
Concerns (%)							
Interest Rates			(yes)	16	23	19	
Business Rates			(yes)	21	27	20	
Competition			(yes)	31	21	42	
Exchange Rates			(yes)	20	18	27	
Inflation			(yes)	21	26	28	
Taxation			(yes)	29	20	38	

Manufacturing

BUSINESS OPTIMISM

Optimism among Scottish manufacturing firms remained low and is broadly unchanged from the previous quarter a net balance of -19.5% compared to -18.2%. It's the lowest level of confidence that the survey has seen since 2012 for the sector.

SALES REVENUE/ORDERS

The previously declining sales trends generally improved over last quarter though in this current quarter just as many firms reported a rise as reported a fall (41%) meaning the trend was flat. The net balance of zero was nonetheless 7 percentage points higher than Q4 2018. Sales to the rest of the UK continued to decline.

Orders on the other hand continued to decline. Orders from all areas declined and although the declining trends in orders from Scotland and the rest of the UK eased compared to Q4 2018 the downward trend in export orders accelerated.

WORK IN PROGRESS

Work in progress has been declining throughout 2018 and has now declined to its lowest level in 2 years.

INVESTMENT

Investment declined though the majority of firms appear to have put investment on hold.

CONCERNS/PRESSURES

Cost pressures remain significant across the board though eased with the exception of the pressure to settle pay increases where pressure increased.

Similarly business concerns remain significant, most notably concerns over exchange rates, business rates and taxation.

EXPECTATIONS

Sales, investment and exports are all expected to fall in Q2 for a net balance of manufacturing firms.

(blank space indicates data not available)					(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)					Q1/19	Q4/18	Q1/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year	
Business Optimism	29	22	49	-20	-18	3	
Sales Revenue							
Total	41	19	41	0	-7	14	
Domestic (Scotland)	32	29	32	0	-25	2	
Rest of UK	24	38	32	-8	-17	-7	
Exports	32	29	27	5	16	17	
Orders							
Total	39	17	44	-6	-2	14	
Domestic (Scotland)	25	30	40	-15	-28	0	
Rest of UK	17	50	28	-11	-28	-7	
Exports	15	20	35	-20	-14	-4	
Work in Progress	31	28	42	-11	0	23	
Investment							
Total	19	49	24	-5	-11	16	
Capital	19	54	22	-3	2	16	
Training	19	53	22	-3	11	11	
Cashflow	44	24	32	12	-7	-7	
Applied for Credit?	14			14	6	10	
Profits	41	16	43	-3	-17	-4	
Capacity Used (Ave. %)				72	78	76	
Employment							
Total	30	50	20	10	-7	8	
Recruiting Staff			(yes)	77	68	64	
Recruitment Difficulties			(yes)	47	50	39	
Increased Wages			(yes)	36	34	24	
Average pay increase				5	4	3	
Expectations (next quarter)							
Price Change	45	53	3	43	44	41	
Sales	36	22	42	-6	-19	36	
Investment	25	42	31	-6	-17	12	
Employees	38	53	10	28	7	29	
Cost Pressures (%)							
Pay Settlements			(yes)	29	20	28	
Finance Costs			(yes)	15	20	9	
Raw Material Prices			(yes)	56	61	86	
Other Overheads			(yes)	39	45	35	
Concerns (%)							
Interest Rates			(yes)	20	16	14	
Business Rates			(yes)	39	32	18	
Competition			(yes)	17	32	26	
Exchange Rates			(yes)	56	68	51	
Inflation			(yes)	32	43	37	
Taxation			(yes)	34	30	16	

Retail & Wholesale

BUSINESS OPTIMISM

Optimism improved from a net balance of -5% of firms in Q4 2018 reporting a fall to a net of +7% reporting a rise.

SALES REVENUE

Trends in sales revenues are largely unchanged from Q4 2018 with total sales remaining at a net of +3%. Rest of UK and export sales however declined for a net balance of -3% and -2% of firms respectively.

Online sales, though remaining positive (a balance of +5%) saw a 19 percentage point fall compared to the previous quarter.

INVESTMENT

Net investment trends remained positive though eased marginally since the previous quarter. As in other sectors, many firms appear to be holding back from making investment decisions at this point in time.

PROFIT

A third of firms reported a rise in profitability and 29% recorded a fall. The net balance of +3% is four percentage points lower than last quarter but 11 percentage points higher than the same quarter of last year.

LABOUR MARKET

The majority of firms did not change total employment numbers nonetheless the net balance remained positive and improved marginally over Q4 2018. More than half of firms are actively attempting to recruit staff and around a third of these have reported recruitment difficulties. The average pay increase of 10.8% is at its highest level in more than 15 years.

CONCERN/PRESSURES

Cost pressures remain significant across though broadly unchanged since Q4 2018.

Similarly business concerns remain significant, most notably concerns over exchange rates, business rates and inflation.

(blank space indicates data not available)					(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)					Q1/19	Q4/19	Q1/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year	
Business Optimism	33	42	25	7	-5	14	
Sales Revenue							
Total	32	38	28	3	3	9	
Domestic (Scotland)	27	42	27	0	4	-15	
Rest of UK	13	35	17	-3	1	10	
Exports	8	22	10	-2	11	13	
Online	26	31	21	5	24	6	
Investment							
Total	20	45	15	5	10	23	
Capital	20	41	14	7	17	21	
Training	17	37	10	7	13	12	
Cashflow	28	40	26	2	3	-11	
Applied for Credit?			(yes)	17	17	14	
Profits	33	31	29	3	7	-8	
Capacity Used (Ave %)				62	68	70	
Employment							
Total	24	60	11	13	8	17	
Recruiting Staff			(yes)	52	44	64	
Recruitment Difficulties			(yes)	38	27	26	
Increased Wages?			(yes)	26	26	31	
Average Pay Increase				10.8%	10.1%	7.1%	
Expectations Next Quarter							
Price Change	53	44	3	50	42	57	
Sales Revenue	49	25	25	25	15	36	
Investment	26	44	17	9	14	25	
Employees	25	70	5	20	16	14	
Cost Pressures (%)							
Pay Settlements			(yes)	17	16	41	
Finance Costs			(yes)	16	18	9	
Raw Material Prices			(yes)	35	35	47	
Other Overheads			(yes)	33	25	68	
Concerns (%)							
Interest Rates			(yes)	16	16	9	
Business Rates			(yes)	33	14	44	
Competition			(yes)	26	37	47	
Exchange Rates			(yes)	36	35	29	
Inflation			(yes)	32	20	50	
Taxation			(yes)	29	25	38	

Tourism

BUSINESS OPTIMISM

Optimism, on balance, declined however this is not unusual for the first quarter of the year due to seasonal factors.

GUESTS/CUSTOMERS

A net balance of tourism firms reported a fall in the number of guests/customers compared to the same period one year ago. Guests from the EU and from the rest of the world declined for a net of -25% and -11% respectively. The only positive trend was with respect to guests from Scotland (+7%).

INVESTMENT

Amidst somewhat challenging conditions, there was a further downturn in investment by tourism businesses (-11%).

Capital and training investment declined during Q1 2019.

LABOUR MARKET

More than three quarters of firms did not change their overall employment numbers nonetheless a net balance reported a decline (-3%).

More than two thirds of firms are actively attempting to recruit staff and around half of these have reported recruitment difficulties.

More than a third increased pay and the average increase eased from 11% to 7%.

CONCERN/PRESSURES

Cost pressures remain significant across though broadly unchanged since Q4 2018.

Similarly business concerns remain significant, notably concerns over business rates, taxation and inflation.

EXPECTATIONS

The outlook for the tourism sector is fairly strong as sales are expected to rise for more than half of firms in Q2, also a net balance of firms expect to increase total employment levels. Investment on the other hand is expected to fall again though the downward trend is expected to ease slightly.

(blank space indicates data not available)				(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)									
(figures given as % of respondents)				Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	30	33	36	-6			8		-4
Sales Revenue									
Total	29	32	39	-11			-13		-15
Domestic (Scotland)	30	33	36	-6			-23		-4
Rest of UK	11	29	43	-32			-5		-11
Online	46	21	14	32			5		13
Investment									
Total	21	43	32	-11			-9		22
Capital	21	43	32	-11			0		32
Training	21	29	39	-18			16		27
Cashflow	21	33	36	-15			-8		-11
Applied for credit			(yes)	14			14		16
Profits	25	39	29	-4			0		-13
Employment									
Total	10	77	13	-3			8		16
Recruiting Staff			(yes)	71			56		68
Recruitment difficulties			(yes)	45			57		53
Increased wages?			(yes)	38			32		49
Average pay increase (%)							7		5
Guests/Customers vs last year									
Total	36	25	39	-4			-5		0
From Scotland	36	29	29	7			-18		0
From Rest of UK	29	32	29	0			9		-13
From Rest of EU	25	14	50	-25			5		-2
From Outside the EU	21	25	32	-11			5		4
Expectations Next Quarter									
Price Change	47	47	6	41			40		40
Sales	54	27	19	35			0		49
Investment	19	52	26	-7			-14		11
Employees	41	56	3	38			4		22
Cost Pressures (%)									
Pay Settlements			(yes)	30			30		26
Finance Costs			(yes)	15			22		14
Raw Material Prices			(yes)	45			52		51
Other Overheads			(yes)	58			37		65
Concerns (%)									
Interest Rates			(yes)	15			15		14
Business Rates			(yes)	45			41		56
Competition			(yes)	27			33		26
Exchange Rates			(yes)	15			26		30
Inflation			(yes)	36			33		44
Taxation			(yes)	48			19		53



MAG 2

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