

ECONOMIC STIMULUS NEEDED TO REJUVENATE THE SCOTTISH ECONOMY

The latest Scottish Chambers of Commerce (SCC) Quarterly Economic Indicator (QEI) survey for Q2 of 2020 confirms the economic pain that has been felt by Scottish businesses across sectors in all parts of the country due to the Coronavirus (COVID-19) outbreak and the subsequent lockdown. The survey, conducted by Scottish Chambers of Commerce in partnership with the Fraser of Allander Institute, is Scotland's longest-running economic survey of its kind.

Key highlights:

- **On business confidence:** Levels of confidence have fallen to historic lows in many of the sectors, with construction, retail & tourism most affected by the crisis.
- **On employment levels:** Employment trends suggest the UK Government furlough scheme has been successful in limiting the scale of job losses. However, negative employment expectation levels highlight the long-term challenge for businesses to retain employees and protect jobs.
- **On cashflow levels:** Cashflow - a key economic indicator of how a business is able to cover costs and report profits - has fallen to record lows for many sectors. In every sector, with the exception of manufacturing, the proportion of firms applying for credit is at the highest level since the question was introduced in 2014.
- **On business concerns and cost pressures:** Many businesses will have had to rely on cash reserves and government support schemes to meet fixed costs, with overhead costs rising across all sectors.

Commenting on the results, Tim Allan, President of the Scottish Chambers of Commerce, said:

“In many instances, these results are among the worst over the 30-year history of the survey. However, the circumstances of which they have arisen means that they should come as little surprise. COVID-19 has drastically halted or limited activity across all sectors of the Scottish and global economy.

“Our message to government is this: work productively with businesses in our shared aim of protecting jobs and local economies that may be lost forever if action is not taken now. Businesses are eager to do whatever they can to adapt to what will be a testing business environment; which will include changing workplace practises, dramatically evolving business models and re-skilling the workforce which will be critical across all sectors.

“It is critical that governments in Holyrood & Westminster continue to provide business support for companies during and beyond the easing of lockdown restrictions. A sudden end to these vital financial support measures would not be welcome by anyone and a tsunami of jobs would disappear overnight.

“Looking towards the future, governments must accelerate investment plans to fuel economic demand and activity as well as providing support for sectors to adapt to the new economy. This must go hand in hand with job guarantee and training schemes that ensure that we do not see a lost generation of talent.”

On the construction sector, Tim Allan said:

“The construction sector has been in shutdown - aside from essential projects - for the majority of the lockdown period and the re-opening plan for the sector has just come into

play. More than half of firms are reporting and expecting declining investment for the next quarter. Perhaps the greatest challenge for the sector has been managing increased costs while demand has been either very low or zero. This has led to a significant decrease in workload and enquires for future work which will be of concern to those in the sector. The Scottish Government must take action to unlock a pipeline of future work to safeguard skills, experience and jobs in the building sector.”

On the manufacturing sector, Tim Allan said:

“Some manufacturing businesses and outlets will likely have continued to operate in the lockdown period by contributing significantly to the public health response or supporting an essential service. Around half of firms in the survey have reported falls in orders and only around a quarter expect these trends to rise in Q3 with levels of increases and profits also at very low levels. The sector is being impacted by high cost pressures from raw material prices and other overhead costs, it will need support for these as it attempts to drive future demand.”

On retail and wholesale, Tim Allan said:

“The retail sector has reported some of the lowest ever net balances recorded for the survey. Profit levels have plummeted and investment levels have collapsed with fewer than 10% of firms expected to increase investment and 70% expect levels to remain unchanged or fall in the next quarter. The major challenge for many of Scotland’s high streets and town centres is determining if the costs occurred to re-open safely will be supported by increased demand to make these businesses sustainable.

“The sector needs measures that will boost confidence and a temporary VAT cut by the Treasury will stimulate consumer demand.”

On tourism, Tim Allan said:

“The tourism and wider hospitality sector has suffered heavily, placing the sector into hibernation throughout the lockdown period. These issues as well as the increased costs firms will face to re-open safely, and reduced customers in any scenario, places the sector firmly in the danger zone.

“The UK Government must immediately reduce the rate of VAT on hospitality and tourism services including accommodation, food, beverages and visits to attractions to boost activity and consumer confidence.

“The current physical distancing guideline of 2 metres is having major implications on businesses to restart viably therefore an urgent decision from Scottish Government to reduce physical distancing from 2 metres to 1 metre is essential to support recovery.”

On financial and business services, Tim Allan said:

“The sector is among the least depressed of the sectors, perhaps due to being the most equipped to operate remotely. However, at least half of respondents have reported falls in confidence, sales, investment, cashflow and profits. Like in other sectors, firms are reporting a sudden increase in overhead cost pressures and are fearful of rises in taxation.”

Commenting on the results, Professor Graeme Roy, Director at the University of Strathclyde's Fraser of Allander Institute, said:

“This latest survey from the Scottish Chambers of Commerce presents a sombre picture of the scale of the challenge now facing the Scottish economy.

“Across the board, confidence has plummeted, with a sharp fall in sales, turnover and investment across the business base. Chief amongst these was the unprecedented response from the tourism community, where a staggering - albeit not unsurprisingly - 95% of firms reported a fall in business confidence.

“What is particularly worrying is the employment outlook. The survey shows a clear warning of what is to come, with a sharp rise in unemployment now inevitable as businesses adjust to a new normal.

“The immediate priority for many businesses is survival.”