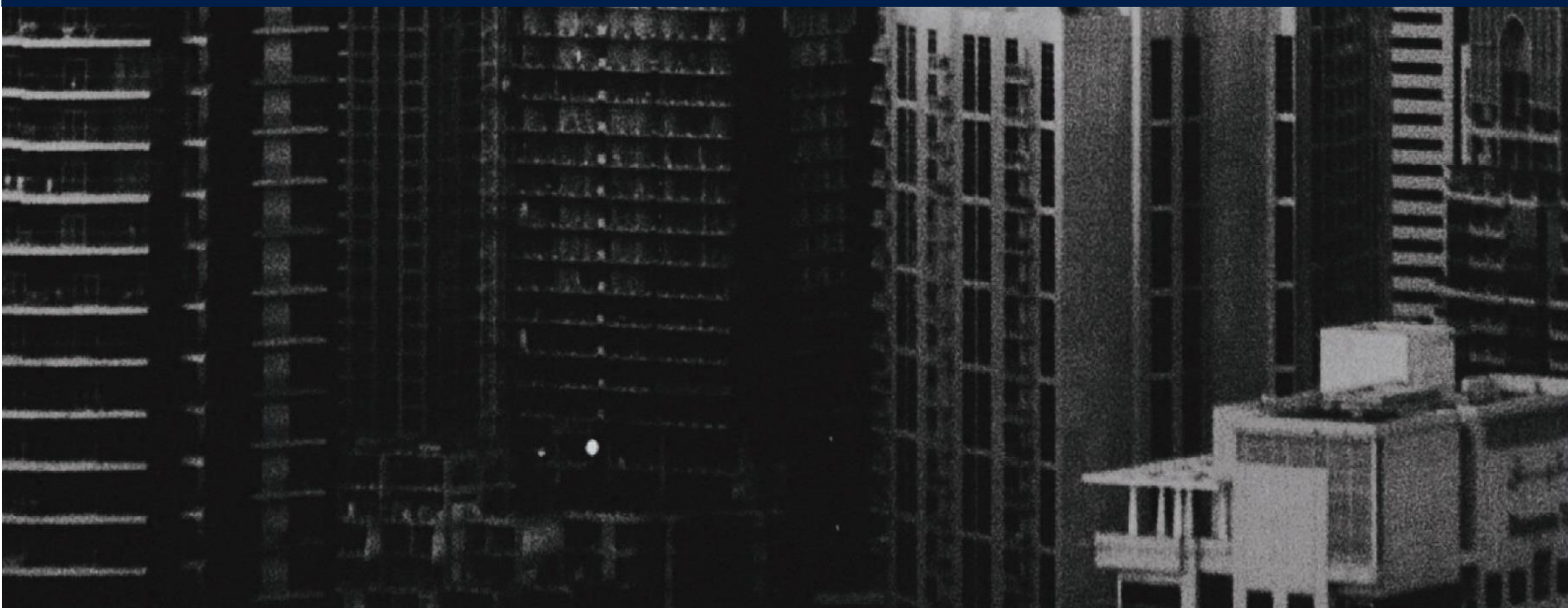




SCOTTISH CHAMBERS OF COMMERCE
QUARTERLY ECONOMIC INDICATOR
RESULTS FOR Q2 OF 2021

*IN PARTNERSHIP WITH FRASER OF
ALLANDER INSTITUTE*



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Foreword

The recovery in the Scottish Economy is definitely underway. Whilst the recent delays in the roadmap for easing restrictions are disappointing, it is important we don't forget how far we have come since the end of April, when the easing of restrictions began.

This is of course down to the incredible progress of the vaccine programme. We are now in the situation where 85% of adults have had at least the first dose of a vaccine against COVID-19: a feat which seemed almost impossible just 6-7 months ago.

With the progress of second doses being well on track, policymakers are starting to signal a change in the months to come in the way they manage any future outbreaks. Businesses who have been under the highest level of restrictions over the last 18 months will no doubt welcome this shift when it is safe to do so.

In terms of the recovery to come, consumers have demonstrated that they are ready and willing to spend. Consumer savings were at a record high at the end of 2020, and there are signs across the economy that this is starting to unwind.

While consumer facing business still face some restrictions to capacity as we move towards the end of June, there is no end to the demand for social contact and shared experiences. Whether it is credit card spend, or data on mobility for recreation purposes, the data is all pointing towards consumers supporting the recovery.

This is supported by today's survey results, which show optimism in the recovery to come. However, this is of course from a low base, particularly for those sectors that have been hardest hit by the restrictions.

In April, we saw growth in the Scottish economy of 2.0%. This takes us above the previous post-pandemic peak in October. However, the economy still remains 3.7% below the pre-pandemic peak.

Despite the optimism in the economy, there are risks to recovery which could provide headwinds to growth. The dislocation in global trade was significant due to the pandemic. However, we also know that the end of the EU Transition period has caused significant issues for manufacturers and others trying to rebuild these supply chains since the start of this year. This chimes with today's survey results, which show significant negative impacts on exports.

Recent announcements of the delay to the restrictions roadmap will lead to calls from some sectors that there should much more extensive business support to get them through to a position where they can properly operate.

As well-meaning as initiatives like a new Council for Economic Transformation may be, practical policy measures to help these businesses survive through the winter are likely to be needed.

Mairi Spowage

Director, Fraser of Allander Institute



UNIVERSITY of STRATHCLYDE
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Introduction

The SCC's Quarterly Economic Indicator for the second quarter of 2021 indicates more positive growth across all sectors surveyed, albeit, caution is still the watchword for many businesses.

The success of the vaccine rollout has enabled the easing of restrictions and the gradual reopening of the economy, unleashing pent-up demand in the economy. This has allowed some sectors to rebound more quickly than others, however, the route to economic recovery will be a marathon, not a sprint.

It is clear that concerns remain around the ongoing impact of Covid-19 as businesses grapple with huge uncertainties over what the economy will look like post-pandemic. Towns and city centres face new challenges as more people work from home and more flexibly, impacting on footfall and changes to consumer behaviour. The needs of employers and employees alike need to be finely balanced as we shape the recovery of our city centres which will impact on a wide range of sectors and supply chains.

Equally, sectors such as tourism and international travel, which continue to operate with severe restrictions, are having to adjust to increased domestic demand, a simultaneous fall in international travel and a tightening supply of skilled labour. The sector needs continued financial support and greater clarity on when confusing and burdensome travel regulations will end, allowing greater numbers of international visitors to return.

As we approach the end of restrictions businesses are increasingly turning their attention towards how to achieve long term growth and renew Scotland's economy. We have recorded the first shoots of growth returning to our economy, and it is essential now that both the Scottish and UK Government's do all that they can to stimulate demand and boost confidence in the coming months. Priority must be given to continuing the provision of targeted financial support where it is needed most and looking ahead, both Governments must create the right environment for businesses to get back on their feet, create jobs and trade successfully again.



Tim Allan

President of the Scottish Chambers of Commerce

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 in April, May and June 2021. 330 firms responded to the Q2 2021 edition of the Indicator.

Fieldwork took place while widespread lockdown restrictions remained in place across Scotland, but with significant lockdown easing also taking place over the quarter through the levels system.

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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Key findings

Construction sector

- Business confidence in the sector has surged to its highest level since Q2 2016, increasing by 34 percentage points compared to Q1 2021, now at +25%.
- All sales trends have returned to positive net balances, with half of constructions firms reporting an increase in total sales compared to the previous quarter. All investment trends have also returned to positive net balances.
- All contract trends remain at positive net balances for the third quarter running, with half of constructions firms reporting an increase in total contracts.
- More firms reported that they had seen staff levels rise than fall on balance, resulting in the first positive net balance (+20%) for this trend in over a year.
- Inflation, exchange rates and competition are the leading concerns for the sector, with more than half of firms citing these factors as concerns for their business.

Financial and business services

- Confidence in the sector has seen a significant rise of 23 percentage points to +31%.
- Apart from exports, all sales trends have returned to positive net balances, with domestic and total sales seeing the most significant rises compared to the previous quarter.
- All investment trends have returned to positive net balances, for the first time in over a year.
- Total employment in the sector has strengthened significantly, increasing by 24 percentage points compared to Q1 2021 and now at +16%.
- The leading concerns for firms in the sector are taxation (43%), competition (43%) and inflation (35%).

Manufacturing sector

- Confidence has continued to rise since the previous quarter, increasing by 13 percentage points to +20%.
- Apart from exports, all net balances for sales & orders trends have reported positive net balances with strong domestic performance being the key driver.
- Levels of cashflow and profits both remain at negative net balances but have eased significantly since the previous quarter.
- While total and capital investment have seen positive increases over the quarter, training investment has remained flat and seen no change.
- 88% of firms reported either flat or higher staff levels, resulting in a positive net balance of +25%.
- The leading cost burdens for manufacturing firms are raw material prices (71%) and costs from other overheads (57%). The leading issues of concern are inflation (54%) and competition (51%).

Retail and wholesale

- Confidence has risen significantly, increasing by 36 percentage points from Q1 2021 to +12%.
- Apart from exports, all sales trends have reported positive net balances, with domestic sales seeing a rise of 34 percentage points from Q1 2021 to +16%.
- While firms have reported positive net balances for total and training investment, they have reported a negative net balance for capital investment for the fifth quarter in a row.
- Levels of cashflow have increased from a negative net balance last quarter, by 41 percentage points, to a net balance of +6%. However, profit levels have remained at a negative net balance at -17%.
- All cost pressures either rose or remained flat, the leading pressures being raw material prices and other overheads. The leading concerns were competition (52%), inflation (50%) and taxation (48%).

Tourism

- Confidence in the sector has significantly rose since Q1 2021 with a first positive net balance for the trend since Q3 2019.
- Nearly three quarters (74%) of firms reported level or higher levels of total sales compared to Q1 2021, as 18% reported a decrease, this resulted in a positive net balance of +31%.
- All investment trends report positive net balances although training investment has remained flat.
- 80% of firms reported level or higher staff levels, resulting in a net balance of +10%.
- Over half of firms (57%) reported level or lower levels of cashflow and profits, meaning that both trends reported negative net balances of -6% & -24% respectively.

Construction

CONTRACTS/SALES

Construction has largely remained operational through the pandemic and has been able to take advantage of pent-up demand.

Therefore, it is not surprising to see that sales trends have returned to positive net balances for the first time since Q1 2020.

All contract trends remain at positive net balances for the third successive quarter and have seen significant increases across the board.

INVESTMENT

All three trends of investment have reported positive net balances, for the first time since Q2 2019.

On balance, most firms reported no change to capital (50%) and training investment (70%), indicating that a large portion of investment remains on hold.

WORK IN PROGRESS

Over 8 in 10 firms (83%) reported either an increase or no change to their workload, resulting in a net balance of +33%.

This is 16 percentage points higher than the five-year survey average.

CASHFLOW/PROFITS

Both cashflow and profits have reported positive net balances of +13%.

Both trends have seen significant rises since Q1 2021 and sit well above their Q2 average.

CONCERNS/PRESSURES

All cost pressures generally eased, with raw material prices (66%) and overheads (69%) remaining the leading costs.

The leading concerns were inflation (63%), competition (51%) and exchange rates (51%).

Concern over inflation, competition and exchange rates have reached record highs for the survey.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to M/A responses)				Q2/21	Q1/21	Q2/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	45	35	20	25	-9	-62
Sales Revenue						
Total	50	30	20	30	-16	-56
Domestic (Scotland)	45	35	20	25	-13	-48
Rest of UK	30	30	10	20	-19	-36
Contracts						
Total new contracts	50	33	17	33	12	-55
Public sector orders	43	18	29	14	6	-43
Private commercial	43	37	20	23	9	-65
Domestic/house build	43	27	20	23	7	-43
Investment						
Total	35	48	18	18	-6	-52
Capital	30	50	15	15	-3	-60
Training	20	70	10	10	-9	-64
Work in Progress	50	33	18	33	13	-55
Cashflow	33	48	20	13	-33	-64
Applied for Credit?	8			8	23	35
Profits	40	33	27	13	-41	-76
Capacity used (ave. %)				85	66	25
Employment						
Total	30	60	10	20	-9	-10
Recruiting Staff			(yes)	60	45	25
Recruitment Difficulties			(yes)	20	9	8
Increased Wages?			(yes)	50	17	13
Average pay increase (%)				5.0	3.0	5.5
Expectations Next Quarter						
Price Change	50	50	0	50	41	-16
Sales Revenue	44	56	0	44	10	-24
Investment	24	68	0	24	7	-50
Employees	33	67	0	33	7	-40
Cost Pressures (%)						
Pay Settlements			(yes)	9	13	16
Finance Costs			(yes)	17	40	24
Raw Material Prices			(yes)	66	80	70
Other Overheads			(yes)	69	73	66
Concerns (%)						
Interest Rates			(yes)	9	13	16
Business Rates			(yes)	23	47	66
Competition			(yes)	51	47	48
Exchange Rates			(yes)	51	43	36
Inflation			(yes)	66	63	52
Taxation			(yes)	46	67	64

Financial & Business Services

BUSINESS OPTIMISM

85% of firms reported static or higher levels of confidence, with 15% reporting a decrease. This resulted in a positive net balance of 31%, 30 percentage points higher than the Q2 average.

SALES REVENUE

All sales trends reported positive net balances - with domestic sales being the most significant driver – except for export sales which saw a fifth successive quarterly fall.

INVESTMENT

All investment trends have reported positive net balances for the first time in over a year, seeing significant rises when compared to the previous quarter and Q2 2020.

LABOUR MARKET

8 in 10 firms reported either an increase or no changes to staff levels, resulting in a net balance of +16%.

This is the highest net balance reported for this trend since Q3 2019.

In addition, over half of firms (57%) are actively looking to recruit staff, the highest for two years.

CONCERNS/PRESSURES

Cost pressures have largely remained static, with little movement since the previous quarter and Q2 2020.

Other overhead costs remain the main cost pressure, reported by 4 in 10 firms. Followed by raw material prices (25%) which has seen a 10-percentage point rise since Q1 2021.

Competition and taxation remain the leading concerns for firms, followed by inflation. Competition and inflation have seen significant increases over the quarter.

EXPECTATIONS

Employment and investment expectations are cautious, with most anticipating no change to either.

However, 75% of firms are confident of increased or at least flat levels of sales revenue in Q3 2021, with a quarter looking at increasing their prices.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/21	Q1/21	Q2/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	46	31	15	31	8	-45
Sales Revenue						
Total	38	37	25	14	-13	-63
Domestic (Scotland)	36	38	24	12	-9	-65
Rest of UK	20	28	12	8	-8	-45
Exports	4	22	13	-9	-17	-32
Online	18	20	12	6	-7	-14
Investment						
Total	35	38	15	19	-12	-40
Capital	23	46	15	8	-18	-40
Training	27	50	12	15	-5	-32
Cashflow	32	41	27	5	-18	-50
Applied for credit?	5			5	12	32
Profits	40	35	30	10	-3	-58
Capacity Used (Ave. %)				69	56	51
Employment						
Total	32	48	16	16	-8	-16
Recruiting Staff	57			57	39	20
Recruitment Difficulties	30			30	27	7
Increasing Wages	30			30	16	3
Average pay increase (%)				6	7	3
Expectations Next Quarter						
Price Change	25	73	3	23	26	-5
Sales Revenue	60	15	25	35	20	-6
Investment	25	55	10	15	4	5
Employees	28	60	4	24	8	-12
Cost Pressures (%)						
Pay Settlements			(yes)	8	11	8
Finance Costs			(yes)	10	9	16
Raw Material Prices			(yes)	25	15	22
Other Overheads			(yes)	40	44	41
Concerns (%)						
Interest Rates			(yes)	13	8	12
Business Rates			(yes)	21	21	33
Competition			(yes)	43	31	40
Exchange Rates			(yes)	15	13	13
Inflation			(yes)	35	26	21
Taxation			(yes)	43	45	43

Manufacturing

BUSINESS OPTIMISM

80% of firms reported either higher or flat levels of confidence. As 20% reported a decrease, this resulted in a net balance of +20%.

This is the highest reported for this trend since Q2 2015.

SALES REVENUE/ORDERS

Most sales trends have reported positive net balances, with domestic and r/UK sales supporting general sales growth.

However, export sales have seen a further fall on balance, compared to the previous quarter.

A similar story can be found when it comes to orders. Strong domestic sales propelled growth, but export orders saw a fall on balance.

WORK IN PROGRESS

The level of work in progress has risen for the third consecutive quarter and is the highest reported for the trend since Q2 2018.

CASHFLOW/PROFITS

On balance, more firms reported a decrease in cashflow than an increase. Therefore, this meant a negative net balance of -3%, albeit significantly eased since Q1 2021.

Similarly, profit levels also remain at a negative net balance but also with some easing since Q1.

LABOUR MARKET

88% of firms reported an increase or no change in staff levels, this resulted in a positive net balance of +25%.

This is 15 percentage points higher than Q2 2021 and the Q2 average.

CONCERNS/PRESSURES

The leading pressures came from raw material prices (71%) and other overheads (57%).

The leading concerns for firms were inflation (54%), competition and taxation (49%).

Competition and inflation saw the most significant rises since Q1 2021.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/21	Q1/21	Q2/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	40	40	20	20	7	-51
Sales Revenue						
Total	40	40	20	20	-20	-44
Domestic (Scotland)	35	38	20	15	-18	-41
Rest of UK	36	26	26	10	-11	-40
Exports	21	13	46	-26	-9	-38
Orders						
Total	48	30	23	25	-11	-40
Domestic (Scotland)	35	30	23	13	-11	-41
Rest of UK	30	30	28	3	-7	-33
Exports	25	13	38	-13	-4	-43
Work in Progress	53	27	20	33	6	-42
Investment						
Total	31	51	13	18	5	-35
Capital	31	49	15	15	7	-25
Training	15	64	15	0	5	-41
Cashflow	28	41	31	-3	-40	-41
Applied for Credit?	5			5	17	18
Profits	24	35	41	-16	-29	-46
Capacity Used (Ave. %)				71	65	43
Employment						
Total	38	50	13	25	10	-19
Recruiting Staff			(yes)	63	48	15
Recruitment Difficulties			(yes)	34	17	8
Increased Wages			(yes)	51	20	8
Average pay increase				6	7	3
Expectations (next quarter)						
Price Change	53	47	0	53	53	4
Sales	59	35	5	54	3	-6
Investment	27	59	11	16	-7	-12
Employees	26	67	8	18	23	-35
Cost Pressures (%)						
Pay Settlements			(yes)	20	10	20
Finance Costs			(yes)	11	10	28
Raw Material Prices			(yes)	71	80	80
Other Overheads			(yes)	57	55	63
Concerns (%)						
Interest Rates			(yes)	11	13	13
Business Rates			(yes)	34	45	45
Competition			(yes)	51	38	40
Exchange Rates			(yes)	46	65	70
Inflation			(yes)	54	35	43
Taxation			(yes)	49	50	60

Retail & Wholesale

BUSINESS OPTIMISM

For the first quarter in two years, a positive net balance has been recorded for business confidence. The balance of +12% is 28 percentage points higher than the average for Q2.

SALES REVENUE

Over the quarter, more 'non-essential' outlets have been able to open as per the easing of lockdown restrictions. This has resulted in strong domestic sales, with the net balance of +32% being the highest recorded for this trend since Q4 2014.

However, export sales have seen a fall on balance for the sixth successive quarter.

INVESTMENT

Positive net balances have been reported for total and training investment, with both trends being slightly above the Q2 average.

On the other hand, capital investment saw a fall on balance although has seen some easing since Q1 2021.

CASHFLOW/PROFITS

Cashflow has seen some significant recovery since the previous quarter, recording a positive net balance of +6%: 19 percentage points higher than the Q2 average.

While profit levels have also showed some signs of recovery since Q1, they have remained at a negative net balance of -17%.

LABOUR MARKET

Most firms reported no change to staff levels (68%). As the same number reported an increase and a decrease (13%), this meant that the trend was flat for the quarter.

CONCERNS/PRESSURES

Aside from finance costs, all cost pressures have increased since Q1 2021. The 55% reported for raw material prices is the highest recorded since Q2 2018.

The leading concerns for retail firms are competition, inflation and taxation. Aside from taxation, all concerns have seen a rise over the quarter.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/21	Q1/21	Q2/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	40	32	28	12	-24	-67
Sales Revenue						
Total	32	52	16	16	-48	-72
Domestic (Scotland)	50	29	18	32	-43	-72
Rest of UK	26	26	18	9	-18	-53
Exports	12	21	18	-6	-23	-24
Online	24	41	15	9	-12	-22
Investment						
Total	23	33	21	3	-24	-47
Capital	18	31	26	-8	-20	-40
Training	24	41	19	5	-24	-44
Cashflow	30	46	24	6	-35	-51
Applied for Credit?			(yes)	6	3	27
Profits	33	17	50	-17	-46	-76
Capacity Used (Ave %)				67	39	30
Employment						
Total	13	68	13	0	-13	-56
Recruiting Staff			(yes)	40	31	13
Recruitment Difficulties			(yes)	31	18	3
Increased Wages?			(yes)	33	13	7
Average Pay Increase				5.0%	3.0%	2.5%
Expectations Next Quarter						
Price Change	40	60	0	40	48	-16
Sales Revenue	33	55	13	20	24	-20
Investment	20	50	17	3	-27	-45
Employees	35	63	3	33	-8	-31
Cost Pressures (%)						
Pay Settlements			(yes)	11	10	19
Finance Costs			(yes)	16	17	31
Raw Material Prices			(yes)	45	40	24
Other Overheads			(yes)	55	45	44
Concerns (%)						
Interest Rates			(yes)	11	10	13
Business Rates			(yes)	34	33	53
Competition			(yes)	52	43	56
Exchange Rates			(yes)	32	24	47
Inflation			(yes)	50	31	52
Taxation			(yes)	48	52	57

Tourism

BUSINESS OPTIMISM

After over a year of record low levels of optimism, the sector has reported a rise in confidence, on balance.

The positive net balance of +14% is 23 percentage points higher than the Q2 average.

INVESTMENT

Most trends have seen some recovery, with total and capital investment reporting positive net balances both noticeably higher than their Q2 averages.

However, movement on training investment has remained static and has seen no change over the quarter.

CASHFLOW/PROFITS

As more firms reported a decrease (42%) than an increase (35%) in cashflow, this resulted in a net balance of -6%.

Profit levels have also reported a negative net balance of -24%, but both trends have significantly eased from immensely negative results in Q1 2021 and Q2 2020.

LABOUR MARKET

8 in 10 firms reported an increase or static staff levels, resulting in a net balance of +10%: the first positive net balance in over a year and 17 percentage points higher than the five-year survey average.

CONCERNS/PRESSURES

Aside from raw material prices, all cost pressures have slightly increased over the quarter with other overheads remaining the leading concern.

The leading business concerns for tourism firms are competition, inflation and taxation. Concern over competition has risen by 11 percentage points over the quarter.

EXPECTATIONS

The sector remains cautious when it comes to investment and employment levels, but is positive on balance. With 67% of firms projecting sales to rise in Q3, the sector looks to take advantage of summer trade and the easing of travel restrictions.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/21	Q1/21	Q2/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	43	29	29	14	-32	-94
Sales Revenue						
Total	49	25	18	31	-71	-98
Domestic (Scotland)	43	18	20	23	-79	-98
Rest of UK	26	23	23	3	-54	-85
Online	27	18	18	9	-20	-74
Investment						
Total	40	19	29	11	-37	-55
Capital	37	29	24	13	-36	-52
Training	29	26	29	0	-37	-48
Cashflow	35	15	42	-6	-78	-95
Applied for credit			(yes)	8	15	35
Profits	24	20	47	-24	-66	-97
Employment						
Total	30	50	20	10	-40	-70
Recruiting Staff			(yes)	58	26	12
Recruitment difficulties			(yes)	50	3	1
Increased wages?			(yes)	44	6	5
Average pay increase (%)				3	3	5
Guests/Customers vs last year						
Total	45	9	33	13	-88	-98
From Scotland	45	18	24	22	-89	-97
From Rest of UK	44	9	33	11	-73	-94
From Rest of EU	5	4	62	-56	-73	-88
From Outside the EU	4	0	67	-64	-73	-86
Expectations Next Quarter						
Price Change	22	78	0	22	46	13
Sales	67	18	15	53	19	-48
Investment	25	45	20	5	-19	-21
Employees	33	52	15	18	8	-40
Cost Pressures (%)						
Pay Settlements			(yes)	22	9	11
Finance Costs			(yes)	32	31	30
Raw Material Prices			(yes)	35	37	50
Other Overheads			(yes)	56	52	68
Concerns (%)						
Interest Rates			(yes)	11	16	21
Business Rates			(yes)	25	35	52
Competition			(yes)	41	29	40
Exchange Rates			(yes)	16	13	18
Inflation			(yes)	40	36	46
Taxation			(yes)	37	53	56