

EMBARGO FOR 00:01 THURSDAY 14TH OCTOBER 2021

ECONOMIC RECOVERY UNDERWAY BUT THREATS LOOMING FOR BUSINESS

Businesses in Scotland have continued to benefit from the easing of COVID-19 restrictions and a strong economic rebound over the summer months, according to a leading quarterly survey led by the Scottish Chambers of Commerce (SCC).

The SCC's Quarterly Economic Indicator (QEI) for the third quarter of 2021 indicates strong growth across most sectors. However, Q3 has also seen mounting concern from businesses over rising cost pressures and external factors such as inflation and taxation rises.

Key Findings:

- **Summer bounce back:** The gradual removal of economic restrictions on businesses over the summer months saw most sectors enjoy a boost in confidence and domestic sales. Much of this growth was generated from the construction, financial & business services (FBS) and manufacturing sectors. Whilst retail and tourism also saw growth from Q2, this was subdued in comparison to other sectors.
- **Rising cost pressures:** All sectors have reported significantly increased concerns over inflation and taxation. Across all sectors, levels of concern over inflation have now reached record highs. Surges in the cost of raw materials and shipping, global supply chain disruption and the UK Government's decision to raise National Insurance contributions, are all being cited by firms as key factors.
- **Emerging energy crisis:** Reported rises in business confidence are now being undermined by energy concerns with gas supply shortfalls and an over-reliance on volatile imports putting additional cost pressures on businesses.
- **Exports remain weak:** For the second successive quarter, all export order and sales trends reported in the survey have continued to fall. The slow pace of reopening up international travel, continuing COVID-19 disruption and adjustment to post Brexit trade, are all contributing factors cited by businesses.
- **Access to labour:** The Construction, Manufacturing and Tourism sectors have all reported significantly increased recruitment difficulties due to a lack of skilled labour in the UK workforce and lack of access to previously available EU labour. Added to the rising cost burden, this will impact on business capacity and in the long-term, force firms to curb investment.

Tim Allan, President of the Scottish Chambers of Commerce said:

“The latest Scottish Chambers of Commerce Quarterly Economic Indicator shows the resilience of the Scottish economy and businesses shaking off the cobwebs to deliver a strong start to economic recovery over the summer months, in line with the easing of COVID-19 restrictions.

“The survey results indicate that confidence and domestic sales are generally strong across all sectors surveyed, with expectations in line with improving economic forecasts that the Scottish economy should return to pre-pandemic levels in the spring of 2022. After what has been an extremely challenging past 18 months for Scottish businesses, many are now looking and working towards building back to a new normality.

“However, that progress is under significant threat with increasing concern over the emerging energy crisis driving up business costs, inflation and taxation, the cost of raw materials and shipping, all of which are fuelling uncertainty at a time when businesses urgently need confidence and certainty to continue their recovery from the pandemic.

“An additional growing challenge for business is instability in the labour market and persistent skills shortages. All sectors in the survey are reporting increased recruitment difficulties, in line with official statistics recently reporting record high vacancies for the Scottish and UK economy. If Scottish businesses cannot get the talent that they need, they risk falling dangerously behind the curve on recovery and growth.

“There is no time for timidity when it comes to action to support businesses and that’s why the Scottish and UK Government must urgently back business with a clear economic plan and budgets focused on business recovery.

“It is business which is driving the rapid return to economic growth and Governments must stop adding upfront business costs and instead focus on supercharging recovery by creating the right environment for businesses to trade, invest and grow.”

Commenting on the results, Mairi Spowage, Director at the University of Strathclyde's Fraser of Allander Institute, said:

“These results today signal an important boost in optimism across the Scottish economy, driven by the removal of most of the pandemic related restrictions over the summer months.

“Despite this positivity, there are still a number of risks to the fragile economic recovery that we have seen to date. It is unknown how many of the workers who were on furlough at the end of September will become unemployed or unable to secure the type and level of work they want.

“This uncertainty coincides with the cancellation of the Universal Credit uplift which will bring additional financial hardship to around half a million families in Scotland. As well as the risk of joblessness, labour shortages are becoming clear in many sectors, threatening goods shortages and adding to wider inflationary risks.

“As the economy moves, however uncertainly, into this new phase, policy focus turns towards dealing with the climate emergency. As all eyes turn towards Scotland, COP26 in Glasgow in November is seen as the last chance for world leaders to make the step change needed to halt the most harmful form of climate change.

“Businesses will be analysing at the risks and opportunities that come with decarbonising our economy, as they find their place in the green recovery that the Government wants to build.”

ENDS

NOTES TO EDITORS:

- The full Q3 Quarterly Economic Indicator report is attached to this email.
- This survey was conducted between August & September 2021. 300 firms responded to the Q3 2021 edition of the survey.
- Press Office: Colin Campbell, ccampbell@scottishchambers.org.uk / 07921 041 344
- The Quarterly Economic Indicator is Scotland's longest-running economic survey of its kind, operating since 1990.
- Scottish Chambers of Commerce is Scotland's largest business network with over 12,000 business members, across a network of 30 regional Chambers of Commerce, providing business support, business intelligence and business connections.