

Scottish Chambers' Business Survey

The Scottish Chambers' of Commerce Business Survey, conducted by Strathclyde University's Fraser of Allander Institute is the largest and most comprehensive regular survey of the Scottish Business Community.

Almost 400 firms responded to the present survey, which was conducted during September 2006.

Business performance

Summary points

Rising confidence was reported in all sectors. In all sectors the rise in business confidence has been stronger in 2006 than in 2005;

Rising total, Scottish, rest of UK and export demand was reported by a net of manufacturing respondents. The trends in demand are stronger in 2006 than in 2005. Construction firms reported rising orders, but the average for 2006 is slightly lower than for 2005.

In the service sector wholesale firms reported rising sales and the trends for 2006 are stronger than last year, and rising trends in the value of sales were reported by retail respondents. Rising visitor numbers were reported by tourism respondents and the third quarter trends in visitor numbers from rest of the UK and from abroad are stronger than a year ago.

Average capacity used in manufacturing is higher than a year ago, but slightly lower in construction, in both sectors the trends in work in progress strengthened. Occupancy rates in tourism were stronger than in the third quarter of 2005.

Upward trends in investment plans were reported by a net of respondents in all sectors.

Concerns over raw material costs were cited by 71% of manufacturing, 64% of wholesale and 36% of retail respondents. 97% of construction firms anticipate rising material costs over the next twelve months and transport costs were cited as pressures on prices by 72% of wholesale, 58% of manufacturing and 47% of retail respondents. Expectations of prices increases in quarter four ranged from 33% of manufacturing, to 51% retail and 68% of wholesale respondents.

Pay increases in the third quarter ranged from 3.92% in retail to 5.07% in wholesale.

Recruitment activity was more widespread in all sectors except tourism, ranging from 42% of respondents in retail,

57% in manufacturing, 71% in construction, and 81% in tourism. Difficulties in recruiting suitable staffs were

higher in all sectors, being reported by 31% of construction, 38% of retail and manufacturing and 70% of tourism respondents.

Manufacturing

Optimism

Business confidence continued to strengthen in the third quarter, as the rising trends in total orders and work in progress continued.

Orders and Sales

The rising trends in total, Scottish, rest of UK and export orders continued. These rising trends are expected to continue through to the end of the year. Average capacity eased marginally to 78.6%, nevertheless, 46% reported capacity used was below preferred levels. In 2006 the expectations for turnover and profitability for the next twelve months have consistently been stronger than in 2005.

Finance

For a further quarter firms upgraded their expectations as to profitability trends over the next year, expectations are now at their strongest for more than 8 quarters.

Investment

51% reported revising investment and 31% leasing plans for the coming year, and rising trends in investment were again reported. Investment in the current quarter was again mainly for the replacement of equipment and to increase efficiency.

Employment

Employment continued to rise, and 57% sought to recruit staff, 38% reported difficulties in recruiting suitable staffs and 27% reported problems in retaining staffs.

Table 1: Manufacturing – key results

	Q3 2006		
	Up	Level	Down
Business Optimism	28.5	53.5	18
Trends in actual orders			
Total new orders	36.4	45.8	17.8
Scottish orders	28	57.9	14.0
Rest of UK orders	26.7	53.9	19.4
Export orders [41.7% = N/A]	19.3	20.2	18.8
Trends in expected orders			

Total new orders	28.2	57.3	14.5
Scottish orders	15.2	70.2	14.7
Rest of UK orders	29.6	56.6	13.8
Export orders [44.9% = N/A]	17.6	29.8	7.7
Av Capacity used	78.6		
Invest in plant/equip.	33.8	49.1	17.1
Cash flow past 3 moths	26.8	51.5	21.7
Turnover next 12 moths	50.6	36.9	12.5
Profitability next 12 moths	40.9	38.7	20.4
Price change next 3 moths	32.8	63.0	4.2

Pressures to raise prices from

Pay settlements	38
Raw material costs	71
Finance costs	12
Other overheads	50
Transport costs	58

Employment trends

Total actual employment	24.7	55.8	19.5
Total expected next 3 months	17.4	68.8	13.8
Average pay increase	4.15		

Construction

Optimism

Business confidence continued to strengthen in the current quarter.

Contracts

Rising trends in new contracts were widely reported in the three months to October and 85% expect level or rising trends in the level of work over the next six months.

77% (76% and 57% in the previous two quarters) reported operating at or above optimum rates in the third quarter, but average capacity used eased slightly to 86.9%.

For a further quarter respondents remain confident as to rising trends in turnover and 51% anticipate rising profitability over the next twelve months. Whilst over 97% expect the costs of building materials to rise and over 90% increases in other operating costs, 40% expect a rising trend in tender margins to be sustained through to September 2007.

The levels of contracts/new work and shortages of skilled labour (reported by 57%), planning delays and availability of sub contractors were again seen as the factors most likely to restrict activity over the next quarter.

Investment

Changes in investment and in the leasing plans were again limited; nevertheless, an upward revision in investment plans was reported. Investment authorised in the third

quarter was again mainly for the replacement of equipment.

Employment

The strong rising trend in employment continued, with a net of firms increasing permanent staffs and overtime levels. Increased use of sub contractors is again anticipated over the next three months.

Table 2: Construction – key results

	Q3 2006		
	Up	Level	Down
Business Optimism	28.6	62.9	8.6
Trends in actual contracts			
Total new contracts	40.0	57.1	2.9
Public sector orders	18.5	66.7	14.8
Private commercial	31.0	58.6	10.3
Domestic/house build	25.9	51.9	22.2
Trends in expected contracts			
Total new orders	31.3	50.0	18.8
Public sector orders	16.7	70.8	12.5
Private commercial	25.9	51.9	22.2
Domestic/house build	20.7	58.6	20.7
Trends in work in progress			
Actual	25.7	68.6	5.7
Expected	36.4	48.5	15.2
Capacity used	86.9		
Invest in plant/equip.	20.6	70.6	8.8
Leasing in plant/equipment.	15.2	66.7	18.2
Employment trends			
Total actual employment	31.4	62.9	5.7
Total expected next 3 months	29.4	61.8	8.8
Average pay increase	4.67		
Percent recruiting staff	71.4		
Recruitment difficulties increasing	31.3		

Wholesale distribution

Optimism

Business confidence rose in the third quarter and the trends in optimism for 2006 remain stronger than for 2005.

Sales

The outturn in sales was stronger than had been anticipated, and a further improvement is anticipated in the forthcoming quarter.

Price pressures remain strong with transport costs, material costs and other overheads being noted as the factors most likely to restrict sales over the next quarter.

Expectations of price increases are even more widespread. More than 68% of respondents expecting price increases in the fourth quarter.

Respondents were more confident as to rising trends in turnover over the next twelve months, and concerns as to profitability were less evident than in the last quarter. Pressures on margins were also less evident.

Investment

40% reported revising investment intentions, and the rising trend in investment strengthened further.

Finance

The rising trend in cash flow strengthened in the third quarter.

Employment

Changes in employment levels were widespread, affecting more than 50%; nevertheless, the net decline continued. Overall 60% sought to recruit staff, and 36% increased pay by an average of 5.07%.

Table 3: Wholesale distribution – key results

	Q3 2006		
	Level	Up	Down
Business Optimism	32.0	52.0	16.0
Trend in actual sales	40.0	40.0	20.0
Trend in expected sales	47.8	39.1	13.0
Investment plans	40.0	52.0	8.0
Cash flow past 3 months	24.0	60.0	16.0
Turnover next 12 months	64.0	24.0	12.0

Profitability next 12 months	52.0	20.0	28.0
Price change next 3 months	68.0	32.0	0.0

Pressures to raise prices from

Pay settlements	16
Raw material costs	64
Finance costs	12
Other overheads	48
Transport costs	72

Employment trends

Total actual employment	20.8	45.8	33.3
Expected next 3 months	29.2	66.7	4.2

Average pay increase	5.07
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Percent recruiting staff	60.0
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Recruitment difficulties increased	37.5
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Logistics

Optimism

Business confidence rose amongst logistics firms, although remained weak.

Business trends

Rising business trends were evident across the range of logistics work.

Fuel, utility and regulation costs were most widely cited cost pressures; and legislation, driver shortages and interest rates.

Investment

Investment trends in vehicles and equipment declined for a net balance of responding firms.

Finance

A rising trend in cash flow was reported. Over the next twelve months a net balance of firms expect both turnover and profitability to increase. Almost 80% of firms expect prices to increase over quarter four.

Employment

A net balance of firms reported a rise in employment levels and a further rise is anticipated in quarter four. 74% sought to recruit staff, and 26% increased pay by an average of 4%.

Table 3: Logistics – key results

	Q3 2006		
	Up	Level	Down
Business Optimism	27.8	50.0	22.2
Trend in actual business	44.4	44.4	11.2
Trend in expected business	50.0	44.4	5.6
Trend in long distance	46.7	33.3	20.0
Trend in local deliveries	46.7	53.3	0.0
Trend in storage	42.9	35.7	21.4
Trend in couriering	33.3	55.6	11.1
Trend in other work	33.3	66.7	0.0
Cash flow past 3 months	26.3	63.2	10.5
Turnover next 12 months	57.9	36.8	5.3
Profitability next 12 months	47.4	52.6	0.0
Price change next 3 Months	78.9	21.1	0.0
Pressures to raise prices from			
Pay settlements	36.8		
Fuel costs	89.5		
Finance costs	10.5		
Utility costs	47.4		
Road charging etc	15.8		
Regulation costs	47.4		
Employment trends			
Total actual employment	52.6	36.8	10.0
Expected next 3 months	44.4	55.6	0.0
Average pay increase	4.0		

Retail distribution

Optimism

Business confidence improved over the third quarter, although the rising trend in sales eased.

Sales

Changes in the levels of sales were again widespread, being reported by almost 70% of respondents. The outturn was weaker than anticipated, with a level trend in the

volume of sales, but a rising trend in the value of sales being reported.

Once again competition (reported by 40%), material costs (reported by 38%), legislation/regulation (reported by 33%) and business rates (noted by 25%) were identified as the factors most likely to inhibit sales.

59% reported utility and 48% transport as to the two main cost pressures.

Investment

Changes in investment plans were again widely evident, being reported by 33% of respondents and a slight increase in investment plans continued.

Finance

Cash flow trends were stronger than in the second quarter, and expectations as to turnover and profitability over the next twelve months strengthened to their highest levels for more than two years.

Employment

The net rise in employment continued. 24% increased pay by an average of 3.92%. 38% reported problems in recruiting suitable staffs and 20% difficulties in retaining staffs.

Table 4: Retail distribution – key results

	Q3 2006		
	Level	Up	Down
Business Optimism	24.2	54.8	21.0
Trend in actual sales	34.9	30.2	34.9
Trend in expected sales	31.6	40.4	28.1
Investment plans	22.2	63.5	14.3
Cash flow past 3 months	25.8	56.5	17.7
Turnover next 12 months	43.5	32.3	24.2
Profitability next 12 months	32.8	36.1	31.1
Price change next 3 months	50.8	47.6	1.6
Pressures to raise prices from			
Pay settlements	27		
Raw material costs	38		
Finance costs	19		
Other overheads	16		
Transport costs	48		
Utility costs	59		
Regulation costs	30		

Employment trends

Total actual employment	19.4	72.8	8.1
Expected next 3 months	14.8	75.9	9.3

Average pay increase 3.92

Percent recruiting staff 41.9

Recruitment difficulties inc 37.5

Tourism

Optimism

For a further quarter the net trend in business confidence was higher than a year ago and the rising trend in visitor numbers was the highest recorded in the survey's history.

Demand

The outturn in visitor numbers was again stronger than anticipated and strongest third quarter trends. Rising trends in total, rest of UK, Scottish and overseas visitor numbers were reported. Average occupancy, at 75%, was highest third quarter figures since 1997.

Overall 22% of business was local trade, 55% tourist trade and 23% business trade.

Finance

Demand from Rest of UK	42.6	44.7	12.8
Demand from abroad	39.6	37.5	22.9
Business Trade	20.0	57.8	22.2

Trends in expected demand

Total demand/visitors	18.2	54.5	27.3
Demand from Scotland	10.3	66.7	23.1
Demand from Rest of UK	20.5	53.8	25.6
Demand from abroad	15.8	52.6	31.6
Business Trade	17.9	51.3	30.8

Occupancy 75.1

Investment 42.6 46.8 10.6

Average daily rate 38.8 44.9 16.3

Expected average daily rate 18.8 58.3 22.9

Employment trends

Total actual employment	28.9	62.2	8.9
Expected next 3 months	7.1	71.4	21.4

Average pay increase 3.97

Percent recruiting staff 80.8

Recruitment difficulties 69.6

Once again almost two fifths reported increasing room rates in the third quarter and 18% anticipate some increase in room rates in the fourth quarter of the year.

Employment

Changes in employment levels were more widespread, being reported by 38% and with rising trends in full time, part time and temporary staffs. Rising levels of overtime working were reported by 32%.

Recruitment

81% sought to recruit staff, and 69% of those recruiting reported difficulties in recruiting suitable staffs, most notably in the recruitment of chefs/cooks. 26% increased pay by an average of 3.97%.

Table 5: Tourism – key results

	Q3 2006	Level	Down
Up			
Business Optimism	32.0	54.0	14.0
Trends in demand/visitors			
Total demand/visitors	49.0	36.7	14.3
Demand from Scotland	31.9	59.6	8.5