

Scottish Chambers' Business Survey

Strathclyde University's Fraser of Allander Institute in collaboration with the Scottish Chambers' of Commerce conducts the quarterly Chambers' Business Survey. In the present survey, which was conducted in December 2005, around 350 firms responded to the questionnaire.

Business Performance

Recent past and next three months

Business confidence remained buoyant in tourism, eased in manufacturing and construction, remained level in wholesale but the pattern was mixed in retail distribution;

Visitor numbers and demand remained strong in tourism, eased in manufacturing and construction and remained weak, but mixed in retail;

Manufacturing respondents again reported a modest rise in the volume of work in progress and the increase in stocks of raw materials and finished goods was less widely based. Average capacity used rose to 79.5% and the percentage reporting working below optimum levels eased to 47%. Construction firms reported a decline in average capacity used, and modestly rising trends in work in progress, and expect these rising trends to be more broadly based through the next six months;

In the service sector wholesale respondents reported a level trend in sales. Overall the pattern was mixed in retail, with respondents in some areas reporting strong sales trends, but these were offset by weak sales trends especially amongst the smaller independent stores. Overall 62% of retail respondents (compared to 61% in the third quarter) reported rising or level trends in sales. Tourism respondents reported good fourth quarter results, with rising Scottish and rest of UK visitor numbers;

Concerns over raw material and transport costs were widely cited by manufacturing respondents, 80% of construction firms anticipate rising material costs in 2006 and transport costs were widely cited in wholesale and retail distribution;

Pay increases in the fourth quarter were frequent and were slightly lower than in the previous quarter, ranging from 3.6% in tourism to 5.5% in construction. For a further quarter recruitment activity was generally higher in the service and construction sectors than in manufacturing.

Expectations for the next twelve months

Both manufacturing and construction respondents are more cautious in their expectations as to trends in demand in 2006, and both anticipate rising turnover, but more

modestly rising profitability. Pressures on margins appear to be slightly stronger;

Retail respondents are slightly more confident as to the forthcoming year, and now expect rising trends in turnover but still with pressures on margins. In contrast the expectations amongst tourism respondents are strong for the first quarter.

Manufacturing

Optimism

The modestly rising trend in business confidence, a feature of the last nine months levelled out in the fourth quarter.

Orders and Sales

The rising trend in total orders ended, for all bar the largest firms, reflecting a downturn in Scottish and rest of UK orders. Respondents again expect a slight strengthening of trends in the next quarter. Expectations for the next twelve months, whilst positive, are at their weakest for 18 months. Nevertheless, the proportion of respondents (mainly firms employing less than 50 staffs) operating below preferred capacity levels eased in the fourth quarter, and average capacity used rose 2.5 percentage points.

Finance

The downward trend in cash flow strengthened, and firms again downgraded their expectations as to profitability tends through 2006, and pressures on margins increased slightly.

Concerns as to raw material costs, transport costs and other overheads remained high.

Investment

81% reported revising investment plans for the coming year, and rising trends in investment were again reported. Investment in the current quarter was again mainly directed towards increasing efficiency and for the replacement of equipment. Investment for R & D and to develop new markets/products was weaker in the second half of 2005.

Employment

Employment again eased, and a lower percentage (48% compared to 53% in the previous quarter) sought to recruit staff.

Table 1: Manufacturing – key results

	Q4 2005		
	Up	Level	Down
Business Optimism	22.8	54.8	22.5
Trends in actual orders			
Total new orders	28.8	41.9	29.4
Scottish orders	16.8	49.6	33.7
Rest of UK orders	15.0	54.0	30.9

Export orders [36.9% = N/A]	18.6	32.0	12.4
Trends in expected orders			
Total new orders	24.1	60.7	15.2
Scottish orders	13.0	62.5	24.6
Rest of UK orders	18.5	61.2	20.3
Export orders [37.3% = N/A]	17.8	38.4	6.5
Av Capacity used	79.5		
Invest in plant/equip.	28.7	52.2	19.1
Cash flow past 3 moths	24.1	46.7	29.3
Turnover next 12 moths	49.8	30.4	19.8
Profitability next 12 moths	33.3	32.1	27.3
Price change next 3 moths	40.7	48.1	11.2
Pressures to raise prices from			
Pay settlements	38		
Raw material costs	60		
Finance costs	8		
Other overheads	45		
Transport costs	58		
Employment trends			
Total actual employment	18.1	59.8	22.1
Total expected next 3 months	16.3	73.5	10.2
Average pay increase	3.75		

Construction

Optimism

Business confidence eased in the fourth quarter. Although rising confidence was still a feature amongst firms employing more than 100.

Contracts

The rising trends in the level of work continued, although at more modest rates, and the level of work in progress is expected to increase over the first six months of 2006. Domestic and house building work continued to be the main growth area. Rising trends in work in all areas were more evident amongst larger firms.

56% (74% in the previous quarter) reported operating at or above optimum rates in the fourth quarter, and average capacity used eased to 84.5%.

For a further quarter respondents remain confident as to rising trends in turnover and profitability over the next twelve months, but anticipate the increase in turnover to be more modest.

The levels of contracts and new work and shortages of skilled labour were seen as the two factors most likely to restrict activity over the next quarter.

Investment

Rising trends in investment and easing trends in the leasing of plant and equipment were reported. Investment authorised in the fourth quarter was mainly for the replacement of equipment.

Employment

The rising trend in employment continued. 67% sought to recruit staff and difficulties in reporting suitable skilled staff were evident. 39%, a lower percentage than in previous quarters, reported increasing pay by an average of 5.5%.

Table 2 Construction – key results

	Q4 2005		
	Up	Level	Down
Business Optimism	13.9	66.7	19.4
Trends in actual orders			
Total new orders	22.2	52.8	25.0
Public sector orders	25.0	50.0	25.0
Private commercial	16.7	58.3	25.0
Domestic/house build	29.6	44.4	25.9
Trends in expected orders			
Total new orders	17.1	57.1	25.7
Public sector orders	15.4	69.2	15.4
Private commercial	4.5	81.8	13.6
Domestic/house build	23.1	5.0	26.9
Trends in work in progress			
Actual	28.6	45.7	25.7
Expected	27.3	57.6	15.2
Capacity used	84.5		
Invest in plant/equip.	16.7	69.4	13.9
Leasing in plant/equipment.	5.7	77.1	17.1
Employment trends			
Total actual employment	22.2	66.7	11.1
Total expected next 3 months	17.1	77.1	5.7
Average pay increase	5.5		
Percent recruiting staff	66.7		
Recruitment difficulties increasing	19.2		

Wholesale distribution

Optimism

The decline in business confidence continued in the fourth quarter, despite better than anticipated sales trends.

Sales

A level trend in sales was reported; but once again respondents were cautious as to sales trends in the forthcoming quarter. The proportion reporting rising or level sales trends (70.3%) was lower than the average for the first half of 2005 (72.5%)

Once again the levels of competition, along with business rates were seen as the factors most likely to restrict sales over the first quarter of 2006.

Expectations of price increases remained widespread but were slightly lower than in the previous two quarters. Whilst the concerns as to turnover trends over the next year were slightly less widespread, the concerns as to profitability in 2006 were more evident. Increased pressures on profitability may underpin the continuing weak business confidence.

Concerns as to transport costs together with raw material costs were again the most widely cited pressure on prices.

Investment

Investment changes were limited, affecting only 22% of respondents.

Finance

The modest rising trend in cash flow ended.

Employment

Declining trends in employment were reported as 42% sought to recruit staff. 19% increased pay by an average of 3.12%.

Table 3 Wholesale distribution – key results

	Q4 2005		
	Up	Level	Down
Business Optimism	7.4	48.1	44.4
Trend in actual sales	29.6	40.7	29.6
Trend in expected sales	10.0	65.0	25.0
Investment plans	15.4	57.7	26.9
Cash flow past 3 months	11.1	77.8	11.1
Turnover next 12 months	25.9	44.4	29.6
Profitability next 12 months	20.0	28.0	52.0
Price change next 3 Months	48.1	44.4	7.4

Pressures to raise prices from	
Pay settlements	41
Raw material costs	52
Finance costs	15
Other overheads	33
Transport costs	65

Employment trends			
Total actual employment	7.7	76.9	15.4
Expected next 3 months	13.6	81.8	4.5

Average pay increase	3.12
Percent recruiting staff	42.3
Recruitment difficulties	47.6

Retail distribution

Optimism

Overall business confidence remained weak, although the pattern was mixed.

Sales

The outturn in sales, although weak was better than anticipated. The net decline in volume of sales was less than the decline in the value of sales, suggesting volume was being obtained by discounting. Discounting is expected to be more widespread through the first quarter.

Competition, legislation/regulation and business rates were again identified as the three factors most likely to inhibit sales over the next quarter.

Investment

Changes in investment plans were limited, being reported by 26% of respondents; nevertheless, a slight increase in investment plans was noted.

Finance

The declining trend in cash flow continued, although at slightly more modest rates.

Respondents now anticipate slightly better turnover trends over the next 12 months; although 41.3% still anticipate declining profitability over the next twelve months.

Price pressures remained widespread, with raw material and transport, utility and raw material costs being the most frequently cited concerns.

Employment

The decline in employment accelerated, although a slight increase in temporary staffs was reported. 25% increased pay by an average of 4.2%.

Table 4 Retail distribution – key results

	Q4 2005		
	Up	Level	Down
Business Optimism	19.1	42.6	38.2
Trend in actual sales	26.5	29.4	44.1
Trend in expected sales	16.4	50.8	32.8
Investment plans	22.1	63.2	14.7
Cash flow past 3 months	14.9	67.2	17.9
Turnover next 12 months	31.3	38.8	29.9
Profitability next 12 months	27.0	31.7	41.3
Price change next 3 months	41.8	52.2	6.0
Pressures to raise prices from			
Pay settlements	25		
Raw material costs	40		
Finance costs	10		
Other overheads	22		
Transport costs	43		
Employment trends			
Total actual employment	5.9	69.1	25.0
Expected next 3 months	7.3	74.5	18.2
Average pay increase	4.2		
Percent recruiting staff	36.8		
Recruitment difficulties inc	35.3		

Tourism

Optimism

The rising trend in business confidence continued through the fourth quarter, reflecting good fourth quarter trends.

Demand

The outturn in demand was again stronger than anticipated, and rising trends in total, rest of UK and Scottish demand were reported. Average occupancy, at 57.5%, was higher than for the fourth quarters of the previous two years.

Overall 27.5% of business was local trade, 41.5% tourist trade and 31% business trade.

Finance

Discounting of room rates in the fourth quarter was less evident than in previous years; nevertheless, some discounting is anticipated for the first quarter of the year.

Employment

Changes in employment levels were again limited, being reported by 28% of respondents.

Recruitment

67% sought to recruit staff, and 18% reported that difficulties in recruiting staff had increased, overall 60% of those recruiting reported difficulties in recruiting suitable staffs, most notably in the recruitment of chefs/cooks. 48% increased pay by an average of 3.59%.

Table 5: Tourism – key results

	Q4 2005		
Business Optimism	20.5	63.6	15.9
Trends in demand/visitors			
Total demand/visitors	48.8	34.9	16.3
Demand from Scotland	23.8	66.7	9.5
Demand from Rest of UK	38.1	50.0	11.9
Demand from abroad	19.0	54.8	26.2
Business Trade	29.3	48.8	22.0
Trends in expected demand			
Total demand/visitors	24.4	48.8	26.8
Demand from Scotland	17.5	65.0	17.5
Demand from Rest of UK	27.5	57.5	15.0
Demand from abroad	17.9	56.4	25.6
Business Trade	28.9	50.0	21.1
Capacity used	57.5		
Investment	34.1	56.8	9.1
Turnover past 3 months	41.7	45.8	12.5
Average daily rate	27.9	48.8	23.3
Expected average daily rate	29.3	43.9	26.8
Employment trends			
Total actual employment	7.1	71.4	21.4
Expected next 3 months	9.8	75.6	14.6
Average pay increase	3.59		
Percent recruiting staff	66.7		
Recruitment difficulties	60.0		