

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, almost 500 firms responded to the questionnaire.

Recent past and next three months

Declining trends in business confidence were a feature for all sectors except construction. The decline in business confidence was more evident in manufacturing and tourism, unchanged in retail and slightly less widespread in wholesale distribution. However, in most sectors larger firms reported better trends in business confidence than smaller firms.

Changes in the levels of orders and sales were widespread in all sectors in the fourth quarter, and were more broadly based in manufacturing and construction, but slightly less widespread in other sectors. For a further quarter the outturn in orders and sales was weaker than anticipated in all sectors except wholesale distribution.

A further slight weakening trend in orders and sales was reported in manufacturing, although larger firms reported rising trends. The declining trends in new orders eased in construction, and once again there were marked regional variations. Trends in sales in retail continued to ease and were the weakest fourth quarter outturn since 1998. In tourism the fourth quarter trend in total demand was the strongest since 1997, although overseas and business demand remained weak.

Manufacturing respondents remain more cautious as to the trends in orders and sales over the next three months and continue to predict marginally easing trends in orders and sales, although a net of larger firms expect orders to rise. Likewise a net of retail respondents in all size bands expect a further easing of sales through the first three months of 2003. In tourism a further decline in activity is forecast.

Concerns as to interest rates and inflation remain very low, however, concerns as to the levels of orders/sales and competition were generally higher in manufacturing, wholesale and retail distribution.

Expectations of price increases over the next three months rose again in manufacturing, and were more broadly based

in both wholesale and retail. In tourism the current discounting of prices/room rates was as anticipated, and broadly at the same level as in previous fourth quarters.

Overall there was little evidence of increased pay pressures. Average pay increases in the fourth quarter ranged from 3.57% in retail to 5.31% in construction, although large firms were more concerned with the level of pay settlements than smaller firms.

Declining trends in employment were reported in all sectors except construction and wholesale distribution; nevertheless more than 50% of those recruiting in manufacturing, construction, wholesale and retail distribution reported recruitment difficulties. Recruitment difficulties were more widespread in tourism where more than 90% of tourism respondents recruitment problems.

Expectations for the next twelve months

Manufacturing respondents anticipate more modestly rising trends in turnover and slightly weaker trends in profitability over 2003.

In the service sector increased pressures on margins are expected in 2003. Retail respondents expectations of declining turnover in 2003 are now evident and have replaced the optimistic views reported in September, and anticipated declining trends in profitability in 2003 are more broadly based.

Manufacturing

Optimism

Changing levels of business confidence were more evident than in the 3rd quarter and for a further quarter the net decline in business confidence deepened. Although business confidence rose from firms employing more than 200 staff.

Orders and Sales

For a further quarter the outturn in orders and sales was weaker than anticipated, although the trend in demand was little changed from the third quarter. A net of firms employing less than 200 employees reported and expect declining trends in total orders, in contrast larger firms reported and expect rising trends in orders. Anticipations of price increases were the highest for two years.

Pressures to raise prices were mainly due to raw material costs and other overheads. Larger firms were more concerned with pay settlements and raw material costs, whilst for smaller firms pressures were more from finance costs and other overheads.

Finance

The downward trend rate in cash flow continued, although declining cash flow trends were more evident in firms employing less than 100 staff. Expectations as to rising trends in turnover and profitability over the year improved slightly in the fourth quarter and were evident for a net of firms in all size bands.

Overall the levels of orders, competition and exchange rates remained the main concerns for manufacturers. Although, with the exception of exchange rates, these were generally less of a concern for larger firms.

Investment

Less than a half of firms reported changing investment, and the downward trend strengthened. Investment in the current quarter was authorised towards reducing labour [48%], replacing equipment [40%] and increasing efficiency [24%].

Employment

The decline in employment continued at a net decrease of 95%. This declining trend is again expected to continue through the next quarter. Fifty per cent of firms attempted to hire staff in the fourth quarter. Twenty six percent reported increasing pay by an average of 3.89%, compared to an average of 3.74% in the previous quarter.

Table 1: Manufacturing - key results

	Up	Percentages	
		Level	Down
Business Optimism	17.1	50.4	31.1
Trends in actual orders			
Total new orders	27.7	36.6	36.2
Scottish orders	15.9	52.3	31.8
Rest of UK orders	19.8	44.5	35.6
Export orders [38.9% = N/A]	15.2	23.5	22.4
Trends in expected orders			
Total new orders	22.1	51.3	26.6
Scottish orders	10.6	62.9	26.6
Rest of UK orders	15.5	60.0	24.5
Export orders [38.5 = N/A]	16.8	27.4	17.3
Av Capacity used	73.06		
Invest in plant/equip.	16.9	55.2	27.6
Cash flow past 3 months	16.7	52.9	30.4
Turnover next 12 months	45.3	33.8	20.9
Profitability next 12 months	35.1	36.0	28.9
Price change next 3 months	27.6	61.6	10.8
Pressures to raise prices from			
Pay settlements	31		

Raw material costs	52		
Finance costs	17		
Other overheads	46		
Transport costs	30		
Employment trends			
Total actual employment	14.0	63.0	23.0
Total expected next 3 months	11.4	72.4	16.2
Average pay increase	3.89		
Percent recruiting staff	50.2		
Recruitment difficulties	62.4		

Construction

Optimism

Overall the rising trend in business confidence re-emerged with higher capacity utilisation and better than anticipated trends in total and private sector orders. Confidence rose for a net of firms employing more than 25 staff, but fell slightly for those employing less than 25.

Orders

The trend in total orders was better than the previous quarter, and improvement was as had been anticipated, for a further quarter changes in the volume of new orders were more broadly based than in previous quarters.

Rising trends in total new orders were a feature of firms employing between 25 and 100, a net of smaller and larger firms reported an easing in the level of new orders. However, larger firms expect some improvement in the first quarter of 2003.

A slight upward trend in private sector orders was reported, but again respondents are cautious as to whether this upward trend will continue.

Medium sized firms reported and expect rising trends in the level of work in progress, smaller firms expect a level trend, whilst larger firms expect the level of work in progress to slow in the first quarter.

The percentage citing the low level of demand as the factor most likely to restrict activity in the next quarter rose further from 69% in the second quarter to 77% at the end of the third quarter.

Investment

Changes to investment were more broadly based than in previous quarters, affecting 38% of respondents, however, a slight increase in plant/equipment investment was reported. Of those investing in the fourth quarter 70%

directed investment towards the replacement of equipment, 9% towards increasing efficiency and 9% towards increasing capacity.

Employment

The rise in employment was stronger than anticipated, although a slight rise is expected through the first quarter. Thirty three per cent increased pay by an average of 5.31% compared to 5.99% in the previous quarter, and 51% sought to recruit staff in the fourth quarter, again mainly skilled manual staffs.

Table 2: Construction - key results

	Up	Percentages	
		Level	Down
Business Optimism	24.5	60.4	15.1
Trends in actual orders			
Total new orders	29.1	38.2	32.7
Central Government orders	2.7	67.6	29.7
Other Public Sector orders	6.7	60.0	33.3
Private orders	28.8	44.2	26.9
Trends in expected orders			
Total new orders	27.3	47.3	35.5
Central Government orders	5.7	65.7	28.6
Other Public Sector orders	14.0	58.1	27.9
Private orders	25.5	49.0	25.5
Trends in work in progress			
Actual	27.8	38.9	33.3
Expected	28.3	43.4	28.3
Capacity used	86.32		
Invest in plant/equip.	20.8	62.3	17.0
Employment trends			
Total actual employment	27.8	51.9	20.4
Total expected next 3 months	16.4	69.1	14.5
Average pay increase	5.31		
Percent recruiting staff	50.9		
Recruitment difficulties	71.4		

Wholesale distribution

Optimism

Changes in business confidence were more evident than in the third quarter. The downward trend in business optimism continued, although at more modest levels. Trading patterns resembled those of the fourth quarter 2001. Optimism rose for a net of medium sized firms (those employing between 25 and 75) but eased for smaller and larger firms.

Sales

The outturn in sales was better than anticipated and a modest growth in sales trends was reported. A further slight improvement is expected in the first quarter. Concerns as to competition eased, but remained the factor thought most likely to limit activity in the next quarter.

Smaller firms anticipate declining sales in the first quarter, in contrast a net of medium and larger firms anticipate sales will increase.

Expectations of increasing prices in the next quarter were the strongest for more than four years. Transport costs and other overheads were again the most widely cited pressures on prices. Larger firms reported more pressures from pay settlements, material costs and transport costs. For smaller firms the main concerns were other overheads and transport costs.

Investment

Changes in investment plans were reported by 36%, and a slight declining trend in investment intentions was reported.

Finance

The declining cash flow trend continued. Expectations as to the trends in turnover and profitability suggest continuing pressures on margins. A net of 13% expect turnover to rise over the net year, however, a net of 14% expect profitability to decline over the next year. Expectations of declining trends in profitability and turnover in 2003 were mainly evident amongst smaller firms (those employing less than 25 staff).

Employment

Changes to employment levels were limited, affecting 33%. The outturn in employment was better than anticipated and rising trends in part time and permanent staffs were reported. Thirteen per cent reported increasing pay by an average of 4.4% compared to an average increase of 3.57% in the previous quarter.

Table 3: Wholesale distribution - key results

	Up	Percentages	
		Level	Down
Business Optimism	18.2	40.9	40.9
Trend in actual sales	40.0	26.7	33.3
Trend in expected sales	36.4	36.4	27.3
Investment plans	15.6	64.4	20.0
Cash flow past 3 months	17.8	51.1	31.1
Turnover next 12 months	44.4	24.4	31.1
Profitability next 12 months	29.5	27.3	43.2
Price change next 3 months	58.1	39.5	2.3

Pressures to raise prices from			
Pay settlements	29		
Raw material costs	36		
Finance costs	14		
Other overheads	55		
Transport costs	52		
Employment trends			
Total actual employment	20.0	66.7	13.3
Total expected next 3 months	11.9	78.6	9.5
Average pay increase	4.4		
Percent recruiting staff	28.9		
Recruitment difficulties	75.0		

Retail distribution

Optimism

Changes in business confidence were again reported by 50% of respondents and the decline in business confidence continued. Retailers employing between 100 and 200 were more optimistic than either smaller or larger retailers.

Sales

The declining trends in sales continued and deepened. For a further quarter the outturn was weaker than anticipated, and a further deterioration in sales trends is forecast for the first quarter.

Rising sales trends were reported by a net of firms employing between 100 and 200 staff, but eased for both smaller and larger firms.

More than a third of respondents expect to increase prices in the current quarter. Pressures to raise prices remain strong and were evident for firms in all size bands. For a further quarter concerns as to the level of competition and business rates remain the factors thought most likely to restrict sales.

Investment

Investment plans were largely unchanged, and the modest decline continued.

Finance

The downward cash flow trends deepened. Respondents are more concerned as to trading conditions in 2002 and the net expectations for retailers employing less than 100 are for declining trends in turnover and declining levels of profitability through 2003.

Employment

For a further quarter the outturn in employment was weaker than had been anticipated. A marginal decrease in employment was reported. Forty six per cent reported seeking staff, and 23% increased pay by an average of 3.57% compared to an average increase of 4.93% in the previous quarter.

Table 4: Retail distribution - key results

		Percentages		
		Up	Level	Down
Business Optimism	13.9	49.5	36.6	
Trend in actual sales	28.7	28.7	42.6	
Trend in expected sales	19.4	39.8	40.8	
Investment plans	15.0	68.0	17.0	
Cash flow past 3 months	18.8	47.5	33.7	
Turnover next 12 months	29.7	36.6	33.7	
Profitability next 12 months	26.0	35.0	39.0	
Price change next 3 months	43.0	50.0	7.0	
Employment trends				
Total actual employment	10.3	75.3	14.4	
Total expected next 3 months	4.3	79.3	16.3	
Pressures to raise prices from				
Pay settlements	37			
Raw material costs	29			
Finance costs	22			
Other overheads	48			
Transport costs	43			
Average pay increase	3.57			
Percent recruiting staff	46.0			
Recruitment difficulties	68.2			

Tourism

Optimism

The weakening trends in business confidence continued and deepened. Whilst the fourth quarter trends are better than those for the past four years, wider concerns would seem to be affecting confidence.

Demand

The outturn in demand was marginally weaker than had been anticipated, although the fourth quarter trends were the best trends reported since the fourth quarter of 1997. Average capacity used in the fourth quarter was better than for the past five years. However, the forecast for the first quarter remains weak.

Rising trends in Scottish and rest of UK visitors were reported, but demand from business and overseas remained weak.

Investment

The rise in investment ended and for 89% the main reason for authorising investment was to replace/renew facilities or to improve facilities.

Finance

Turnover continued to strengthen, but costs rose at a faster rate. The discounting of room rates was again evident, but the trends were as predicted.

Employment

Seventy per cent reported no change to overall employment levels and the outturn was weaker than had been expected.

Recruitment

Recruitment remained at high levels with 79% seeking to recruit staff. 71% of those recruiting staff reported difficulties in attracting suitable staffs, most notably skilled and part time staffs. Thirty three per cent reported increasing pay by an average of 5.00%, compared to an average increase of 5.43% in the previous quarter.

Table 5: Tourism - key results

		Percentages	
	Up	Level	Down
Business Optimism	10.0	63.3	26.7
Trends in demand/visitors			
Total demand/visitors	33.3	23.3	43.3
Demand from Scotland	26.7	53.3	20.0
Demand from Rest of UK	37.9	41.4	20.7
Demand from abroad	16.7	33.3	50.0
Business Trade	25.0	37.5	37.5
Trends in expected demand			
Total demand/visitors	6.7	53.3	40.0
Demand from Scotland	13.3	53.3	33.3
Demand from Rest of UK	13.3	50.0	36.7
Demand from abroad	3.3	43.3	53.3
Business Trade	12.5	41.7	45.8
Capacity used	63.27		
Investment	26.7	43.3	30.0
Turnover past 3 months	50.0	12.5	37.5
Costs past 3 months	56.7	30.0	13.3
Average daily rate	20.8	45.8	33.3
Expected average daily rate	12.5	58.3	29.2
Employment trends			
Total actual employment	13.3	70.0	16.7
Total expected next 3 months	10.0	56.7	33.3
Average pay increase	5.0		
Percent recruiting staff	79.2		
Recruitment difficulties	71.4		

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