

# 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.

## Recent past and next three months

- Changes in business confidence were less broadly based in manufacturing and construction but more broadly based in the service sector than in the previous quarter. For a further quarter declining trends in business optimism were reported in all sectors, and in all sectors the rate of decline in business optimism accelerated, notwithstanding better than anticipated trends in several sectors;
- Changes in the levels of orders and sales were more broadly based in manufacturing and the service sector than in the second quarter. The declining trends in total orders in manufacturing continued to deepen, and declining trends were reported in tourism. In contrast rising trends in orders/sales were reported in construction, wholesale and retail distribution;
- Average capacity used rose one percentage point in manufacturing and by four percentage points in construction, and was marginally lower in tourism (compared to the third quarter 2000);
- Manufacturing respondents expect the current declining trend in orders and sales in all areas to continue through the fourth quarter, although expectations are for a weaker declining trend than the outturn for the third quarter. Construction respondents expect an easing in demand in the fourth quarter, and the current rising trend in the level of work in progress is expected to continue. In both wholesale and retail distribution a *weakening in sales trends is anticipated, notwithstanding rising trends in sales in the third quarter*. In contrast the outlook for tourism remains depressed, with almost two thirds expecting declining demand in the fourth quarter;
- Expectations of price increases in the third quarter eased marginally in manufacturing and wholesale but rose fractionally in retail. In tourism the current discounting of prices/room rates was less than anticipated but is expected to be more broadly based in the fourth quarter;
- Downward trends in employment were reported in all sectors except construction, and only in construction

and retail are net rising trends in employment forecast for the fourth quarter;

- Cashflow trends improved in retail, remained unchanged in manufacturing and eased in wholesale;
- There was little evidence of increased pay pressures in the third quarter. Average pay increases in the first quarter ranged from 3.33% in manufacturing to 5.31% in retail.

## Expectations for the next twelve months

- Manufacturing respondents continue to anticipate rising trends in turnover over the next year, but the rate of increase has eased in each quarter. A net of manufacturing respondents now expect declining profitability over the next year;
- In contrast the rising trends in turnover for the next year remained unchanged in retail and the expectation of a *modest declining trend in profitability over the next year ended* and a level trend is now forecast for the next year.

## Methodology

The Scottish Chambers' Business survey is conducted by the Fraser of Allander Institute together with the Chambers of Commerce of Aberdeen, Central, Dundee, Edinburgh, Glasgow and Paisley. In the present survey, which was conducted in September, approximately 600 firms responded to the questionnaire.

## Manufacturing

### Optimism

The decline in business confidence deepened, and for a further quarter the outturn in orders and sales was worse than had been forecast.

### Orders and Sales

*Downward trends in orders and sales were reported. Whilst the outturn in orders and sales was weaker than anticipated, respondents still expect the declines to ease somewhat in the fourth quarter.*

The levels of orders, competition and skilled labour remain the factors thought most likely to limit output.

### Finance

The downward trend in cash flow trends remained unchanged, expectations as to improvements in turnover over the next twelve months eased and is now at the lowest level since q4 1999, likewise expectations as to the trends in profitability over the next year fell. Anticipations of price increases continued to fall.

### Investment

Changes to investment plans were reported by 36% of respondents. Investment in the current quarter was authorised towards replacement of equipment [29%] reducing labour [28%], and increasing efficiency [18%].

### Employment

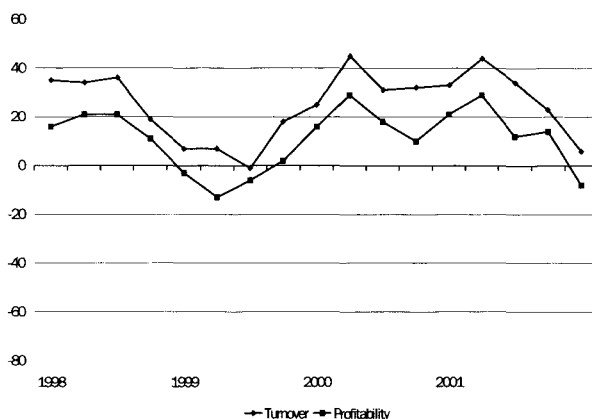
The decline in employment trends deepened, a net decrease of 13%, and this net rate of decline is expected to ease through the next quarter.

Recruitment activity eased as 47% sought to recruit staff in the first quarter. 29% reported increasing pay by an average of 3.33%, compared to an average of 6.85% in the previous quarter.

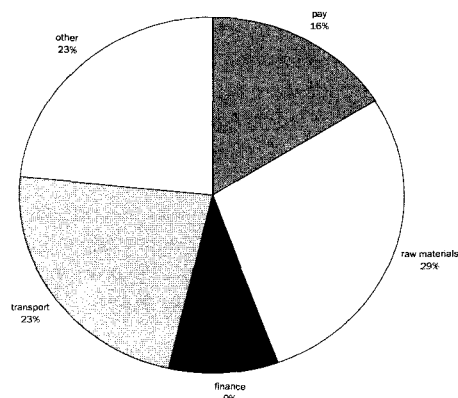
**Table 1: Manufacturing - key results**

	Up	Percentages	
		Level	Down
Business Optimism	12.5	53.9	33.7
Trends in actual orders			
Total new orders	22.6	34.8	42.6
Scottish orders	17.8	43.6	38.6
Rest of UK orders	17.2	42.1	40.7
Export orders [39.5% = N/A]	11.9	22.8	25.8
Trends in expected orders			
Total new orders	24.6	45.7	29.7
Scottish orders	19.0	52.2	28.8
Rest of UK orders	16.5	57.9	25.6
Export orders [39.6% = N/A]	13.1	29.2	18.2
Capacity used	73.3		
Invest in plant/equip.	18.2	63.3	18.5
Cash flow past 3 months	21.5	49.8	28.7
Turnover next 12 months	33.4	39.1	27.5
Profitability next 12 months	28.1	36.1	35.8
Price change next 3 months	20.8	65.5	13.7
Employment trends			
Total actual employment	13.5	59.7	26.8
Total expected next 3 months	11.5	67.8	20.7
Average pay increase	3.33		
Percent recruiting staff	47.1		
Recruitment difficulties	60.5	39.5	

**Figure 1: Manufacturing - turnover and profitability**



**Figure 2: Manufacturing - price pressures**



## Construction

### Optimism

The level trend in business optimism ended, and changes in confidence were less widely reported than in the second quarter.

### Orders

The trend in total orders was better than anticipated, with a net of 11% of respondents reporting an increase, and the trend in work in progress remained positive.

The strong upward trend in private sector orders continued, well above expectations, but once again the current level trend is expected to ease in the fourth quarter.

The percentage citing the low level of demand as the factor most likely to restrict activity in the next quarter rose to 68%.

**Investment**

Changes to investment again affected slightly more than a third of respondents, and the rise in plant/equipment investment strengthened. Of those investing in the third quarter 50% directed investment towards the replacement of equipment, 25% towards increasing efficiency and 20% towards increasing capacity.

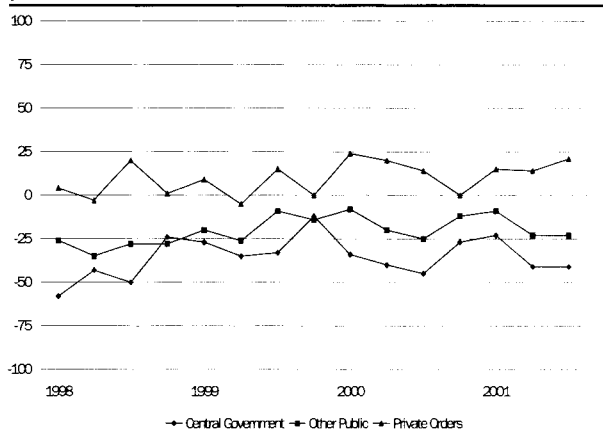
**Employment**

The rise in construction employment continued, and this rise is expected to continue through, albeit at lower levels, the fourth quarter. 51% increased pay by an average of 4.6% compared to 4.58% in the previous quarter, and 68% sought to recruit staff in the third quarter, again mainly skilled manual staffs.

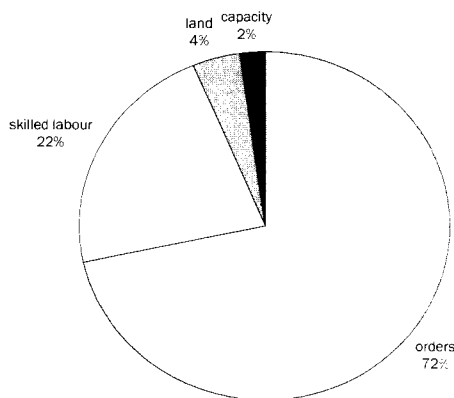
**Table 2: Construction - key results**

	Up	Percentages	
		Level	Down
Business Optimism	15.9	55.6	28.6
<b>Trends in actual orders</b>			
Total new orders	39.7	31.7	28.6
Central Government orders	10.0	37.5	52.5
Other Public Sector orders	6.7	57.8	35.6
Private orders	43.5	33.9	22.6
<b>Trends in expected orders</b>			
Total new orders	14.5	61.3	24.2
Central Government orders	2.5	52.5	45.0
Other Public Sector orders	11.1	55.6	33.3
Private orders	27.4	51.6	21.0
Capacity used	86.3		
Invest in plant/equip.	18.6	62.7	18.6
<b>Employment trends</b>			
Total actual employment	30.2	47.6	22.2
Total expected next 3 months	19.0	65.1	15.9
Average pay increase	4.63		
Percent recruiting staff	68.3		
Recruitment difficulties	76.2	23.8	

**Figure 3: Construction - central government, other public and private orders**



**Figure 4: Construction- limits to output**



**Wholesale distribution**

**Optimism**

The rise in business optimism proved short-lived and a decline was reported, although 50% reported no change.

**Sales**

The rise in sales trends continued, but eased slightly. However, a downturn is expected for the fourth quarter. Concerns as to competition were cited by 57%, as the factor thought most likely to limit activity in the fourth quarter.

Pressures to raise prices were slightly less than in the previous quarter, and transport costs were again the most widely cited factor.

**Investment**

Changes in investment plans were reported by 26%, and the rising trend in investment ended.

**Finance**

The declining cash flow trend re-emerged as a net decline of 6% was reported. Expectations of turnover and profitability over the next year fell, with a sharp deterioration in profitability expected.

The net of firms expecting to increase prices over the next quarter eased further to 21%.

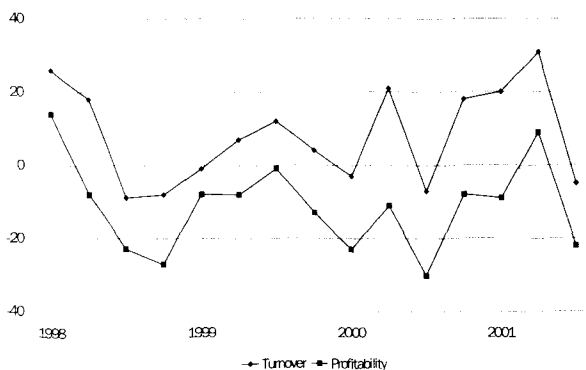
**Employment**

Changes to employment levels again affected less than 25%, and the decline had not been anticipated, and a further decline is forecast for the fourth quarter. 19% reported increasing pay by an average of 4.13% compared to an average increase of 3.93% in the previous quarter.

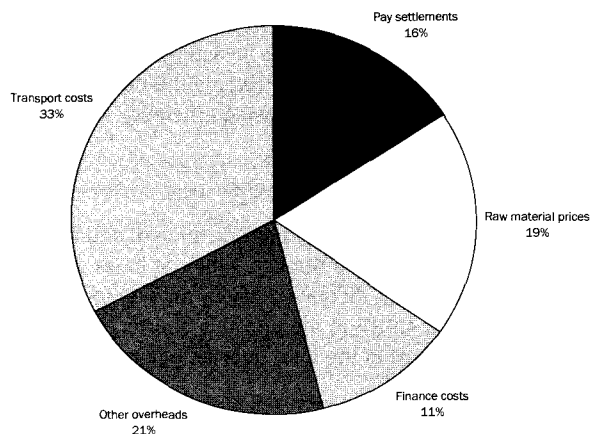
**Table 3: Wholesale distribution - key results**

	Percentages		
	Up	Level	Down
Business Optimism	7.9	50.8	41.3
Trend in actual sales	38.1	36.5	25.4
Trend in expected sales	25.0	41.7	33.3
Investment plans	13.1	73.8	13.1
Cash flow past 3 months	22.2	49.2	28.6
Turnover next 12 months	33.3	28.6	38.1
Profitability next 12 months	27.0	23.8	49.2
Price change next 3 months	33.3	54.0	12.7
<b>Employment trends</b>			
Total actual employment	11.1	76.2	12.7
Total expected next 3 months	5.6	79.6	14.8
Average pay increase	4.13		
Percent recruiting staff	52.4		
Recruitment difficulties	59.4		

**Figure 5: Wholesale distribution - turnover and profitability**



**Figure 6: Wholesale distribution - price pressures**



**Retail Distribution**

**Optimism**

Changes in business confidence were reported by 63%, and the current declining trend in business confidence deepened significantly to a net decline of 31%, despite increased sales.

**Sales**

The rise in sales was stronger than anticipated, but a decline is forecast for the fourth quarter.

Once again there was some evidence of increased pressures to raise prices in the third quarter. Concerns as to the level of competition and business rates remain the factors thought most likely to restrict sales.

**Investment**

The marginal downward trend in investment plans ended and a slight rise was reported.

**Finance**

The declining cash flow trends ended and a net increase of 5% was reported. Expectations as to the trend in turnover over the next year marginally improved, however expectations as to profitability remained weak, once again suggesting respondents anticipate that turnover growth will impose pressure on profitability levels.

For a further quarter competitive pressures continued and expectations of price increases remained higher than in the previous year.

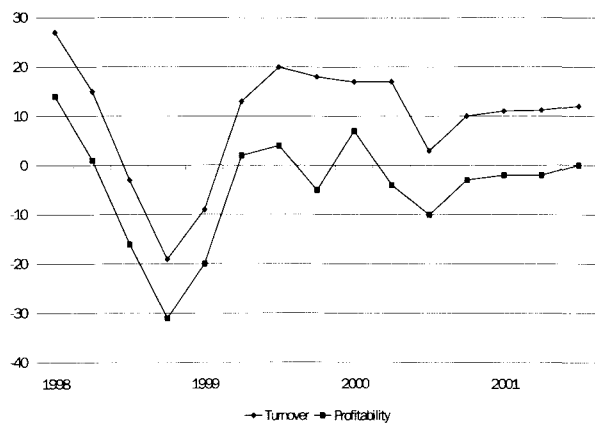
**Employment**

The outturn in employment was weaker than had been anticipated. The marginal decrease in employment moved to a net decrease of 2%. Recruitment activity eased with 50% seeking staff, and 31% increased pay by an average of 5.31% compared to an increase of 4.02% in the previous quarter.

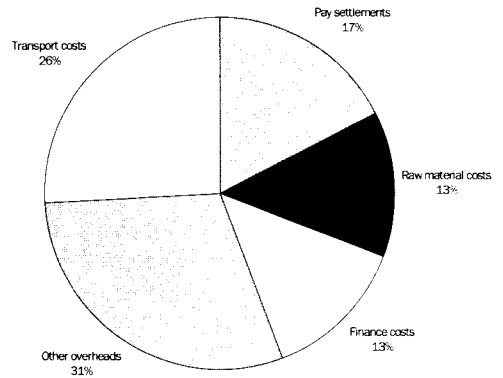
**Table 4: Retail distribution - key results**

	Percentages		
	Up	Level	Down
Business Optimism	16.1	36.5	47.4
Trend in actual sales	41.2	30.1	28.7
Trend in expected sales	27.8	42.1	30.1
Investment plans	16.4	67.9	15.7
Cash flow past 3 months	31.1	43.0	25.9
Turnover next 12 months	41.9	27.9	30.1
Profitability next 12 months	36.3	27.4	36.3
Price change next 3 months	33.3	60.0	6.7
<b>Employment trends</b>			
Total actual employment	14.8	68.1	17.0
Total expected next 3 months	22.0	67.7	10.2
Average pay increase	5.31		
Percent recruiting staff	50.4		
Recruitment difficulties	67.7		

**Figure 7: Retail distribution - Turnover and profitability**



**Figure 8: Retail distribution - price pressures**



**Tourism**

**Optimism**  
Changes in business confidence were reported by 69%, and confidence again slumped reflecting the current concerns in the industry.

**Demand**

The outturn in demand was better than anticipated, with a slight rise in Scottish trade being reported, although demand from abroad continued to fall sharply. Average capacity used in the third quarter of 2001 was lower than in previous years. The forecast for the fourth quarter is depressed.

**Investment**

The decline in investment deepened, and for more than 82% the main reason for authorising investment was to replace/renew facilities or to improve facilities.

**Finance**

Increased pressures on margins were again evident. Discounting of prices was less evident, and lower than had been anticipated. Turnover trends were negative. However, a net of 41% expect turnover to fall in the fourth quarter and almost a third expect to reduce prices.

**Employment**

38% reported no change to overall employment levels, the outturn, whilst weak, was again less severe than had been expected.

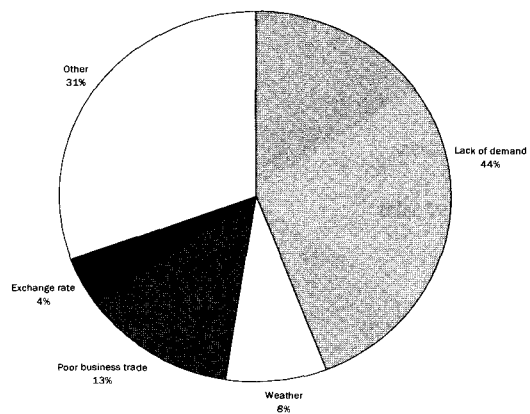
**Recruitment**

Recruitment activity increased with 93% seeking. 81% of those recruiting staff reported difficulties in attracting suitable staffs, most notably skilled and other manual staffs. 44% reported increasing pay by an average of 4.0%, compared to an average increase of 4.02% in the previous quarter.

**Table 5: Tourism - key results**

	Percentages		
	Up	Level	Down
<b>Business Optimism</b>	8.6	31.4	60.0
<b>Trends in demand/visitors</b>			
Total demand/visitors	21.9	37.5	40.6
Demand from Scotland	21.2	60.6	18.2
Demand from Rest of UK	25.0	46.9	28.1
Demand from abroad	18.8	18.8	62.5
Business Trade	29.2	45.8	25.0
<b>Trends in expected demand</b>			
Total demand/visitors	5.9	29.4	64.7
Demand from Scotland	6.1	66.7	27.3
Demand from Rest of UK	12.5	50.0	37.5
Demand from abroad	0	12.5	87.5
Business Trade	20.0	44.0	36.0
Capacity used	71.5		
Investment	16.1	38.7	45.2
Turnover past 3 months	29.6	37.0	33.3
Costs past 3 months	47.1	44.1	8.8
Average daily rate	19.2	57.7	23.1
Expected average daily rate	8.0	48.0	44.0
<b>Employment trends</b>			
Total actual employment	14.7	64.7	20.6
Total expected next 3 months	0	55.9	44.1
Average pay increase	4.0		
Percent recruiting staff	92.6		
Recruitment difficulties	87		

**Figure 10: Tourism - limiting factors**



Cliff Lockyer/Eleanor Malloy  
5 November 2001

**Figure 9: Tourism - optimism**

