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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 December 2006.

Business performance

Summary points

Business confidence

Rising confidence was reported in all sectors, except wholesale. In manufacturing, construction, wholesale and retail distribution net confidence in the fourth quarter was higher than a year ago.

Demand/sales

Rising total, rest of UK and export demand was reported by a net of manufacturing respondents. The trends in demand have been stronger in 2006 than in 2005. Construction firms reported rising orders, but the outturn in the fourth quarter was lower than anticipated. In retail the net sales trends in 2006 have been better than those for 2005. The overall net weak sales trends in the fourth quarter reflected weak sales trends amongst independent and rurally based firms. A net level trend in visitor numbers was noted by tourism respondents.

Capacity/work in progress

Rising trends in work in progress were reported by a net of manufacturing firms. Occupancy rates in tourism were stronger than in the fourth quarter of 2005.

Investment plans

Upward trends in investment plans were reported by a net of respondents in manufacturing, construction and tourism.

Cost pressures

Concerns over raw material costs were more evident in the fourth quarter, being cited by 77% of manufacturing, 60% of wholesale and 40% of retail respondents. 84% of construction firms anticipate rising material costs over the next twelve months. Expectations of price increases in the first quarter of 2007 ranged from 52% of manufacturing, to 55% retail and 67% of wholesale respondents.

Pay

Pay increases in the fourth quarter ranged from 3.8% in wholesale to 5.35% in tourism. In all sectors, except wholesale the rate of pay increases in the fourth quarter was the highest for the year.

Table 1: Manufacturing - key results

Q4 2006

	Up	Level	Down
Business Optimism	28.3	61.0	10.7
Trends in actual orders			
Total new orders	38.4	39.1	22.5
Scottish orders	23.5	50.4	26.1
Rest of UK orders	24.5	59.0	16.5
Export orders [30.7% = N/A]	21	30.9	17.4
Trends in expected orders			
Total new orders	35.1	54.4	10.4
Scottish orders	26.6	58.7	14.7
Rest of UK orders	24.5	62.3	13.2
Export orders [31.3%= N/A]	15.1	47.5	6.2
Av Capacity used	77.3		
Invest in plant/equip.	24.7	60.1	15.2
Cash flow past 3 months	27.2	47.7	25.1
Turnover next 12 months	49.6	37.1	13.4
Profitability next 12 months	43.3	39.8	16.9
Price change next 3 months	51.6	45.8	2.6
Pressures to raise prices from			
Pay settlements	42		
Raw material costs	77		
Finance costs	12		
Other overheads	55		
Transport costs	48		
Employment trends			
Total actual employment	22.3	56.9	20.8
Total expected next 3 months	14.6	71.3	14.1
Average pay increase	4.66		

Recruitment

Recruitment activity was more subdued in the fourth quarter, ranging from 35% of respondents in retail, 50% in construction, 57% in manufacturing, and 64% in tourism. Difficulties in recruiting suitable staffs were higher in construction, but less widely reported in all other sectors, than in the third quarter.

Manufacturing

Optimism

Business confidence continued to rise in the fourth quarter,

reflecting a better than anticipated outturn in demand.

Orders and Sales

The rising trends in total, Scottish, rest of UK and export orders, a feature of the first nine months of 2006, continued. Once again these rising trends are expected to continue through the next quarter.

Average capacity eased to 77.3%, and 58% reported capacity used was below preferred levels. Expectations for turnover and profitability for the next twelve months remain strong.

Finance

Once again firms upgraded their expectations as to profitability trends over the next year, net expectations are now at their strongest for more than nine quarters.

However, expectations of price increases are likewise at their highest for more than two years.

Investment

Forty per cent reported revising investment and 31% leasing plans for the coming year, and rising trends in investment were again reported. Investment in the fourth quarter was again mainly directed towards increasing efficiency replacing equipment.

Employment

Employment continued to rise, and 49% sought to recruit staff, 38% reported difficulties in recruiting suitable staffs and 23% reported problems in retaining staffs.

Construction

Optimism

A more modest net increase in optimism was noted in the fourth quarter.

Contracts

Net rising trends in new contracts were widely reported in the three months to December and 75% expect level or rising trends in the level of work through the first half of 2007.

Fifty-five per cent (77%, 76% and 57% in the previous three quarters) reported operating at or above optimum rates in the fourth quarter, and average capacity used eased to 81.4%. Work in progress eased in the fourth quarter, but is expected to increase in 2007 without any pressure on tender margins.

For a further quarter respondents remain confident as to rising trends in turnover and 41% anticipate rising profitability over the next twelve months, but 84% expect the costs of building materials and other operating costs to increase.

The levels of contracts/new work and shortages of skilled

Table 2: Construction – key results

	Q4 2006		
	Up	Level	Down
Business Optimism	25.0	56.3	18.8
Trends in actual contracts			
Total new contracts	28.1	46.9	25.0
Public sector orders	26.1	56.5	17.4
Private commercial	20.0	64.0	16.0
Domestic/house build	21.4	57.1	21.4
Trends in expected contracts			
Total new orders	41.1	37.9	20.7
Public sector orders	26.1	69.6	4.3
Private commercial	28.0	56.0	16.0
Domestic/house build	15.4	65.4	19.2
Trends in work in progress			
Actual	25.0	46.9	28.1
Expected	43.3	40.0	16.7
Capacity used	81.4		
Invest in plant/equip	22.6	64.5	12.9
Leasing in plant/equipment	10.0	76.7	13.3
Employment trends			
Total actual employment	21.9	71.9	6.3
Total expected next 3 months	19.4	67.7	12.9
Average pay increase	5.19		
Percent recruiting staff	50.0		
Recruitment difficulties increasing	43.5		

labour and availability of sub contractors were again seen the most likely to restrict activity over the next quarter.

Investment

Changes in investment and in leasing plans were again limited; nevertheless, an upward revision in investment plans was reported. Investment authorised in the fourth quarter was again mainly for the replacement of equipment.

Employment

The rising trend in employment continued although eased, with a net of firms increasing permanent staffs. However a

net of firms reported a decline in overtime levels. Increased use of sub contractors is again anticipated over the next three months.

Wholesale distribution

Optimism

Business confidence declined in the fourth quarter.

Sales

The outturn in sales was weaker than had been anticipated, and no 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. A significant percentage now also cites pay settlements as a factor.

Expectations of price increases remain widespread. Two thirds of respondents expect price increases in the first quarter of 2007.

Respondents remain confident as to rising trends in turnover over the next twelve months although the rate of increase eased. Concerns as to profitability were more evident than in the previous quarter.

Investment

A net balance of 40% reported revising investment intentions downwards.

Finance

The rising trend in cash flow ended in the fourth quarter with a net balance of 7% reporting a decline.

Employment

Changes in employment levels were less widespread, affecting a third of firms; nevertheless, the net decline continued. Overall slightly fewer than half sought to recruit staff, and 33% increased pay by an average of 3.8%.

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 were also cited.

Investment

Investment trends in vehicles and equipment continued to decline for a net balance of responding firms.

Table 3: Wholesale distribution – key results

	Q4 2006		
	Level	Up	Down
Business Optimism	20.0	53.3	26.7
Trend in actual sales	26.7	46.7	26.7
Trend in expected sales	21.4	57.1	21.4
Investment plans	20.0	20.0	60.0
Cash flow past 3 months	13.3	66.7	20.0
Turnover next 12 months	40.0	46.7	13.3
Profitability next 12 months	20.0	53.3	26.7
Price change next 3 months	66.7	33.3	0.0
Pressures to raise prices from			
Pay settlements	46.7		
Raw material costs	60.0		
Finance costs	13.3		
Other overheads	46.7		
Transport costs	66.7		
Employment trends			
Total actual employment	13.3	66.7	20.0
Expected next 3 months	13.3	73.3	13.3
Average pay increase	3.8		
Percent recruiting staff	46.7		
Recruitment difficulties inc	18.2		

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 continue to increase. Almost 40% of firms expect prices to increase over quarter one.

Employment

A net balance of firms reported a rise in employment levels and a further rise is anticipated in quarter one. 65% sought to recruit staff, and 32% increased pay by an average of 3.85%.

Retail distribution

Optimism

Business confidence improved over the fourth quarter, although the trend in sales decreased.

Table 4: Logistics – key results

	Q4 2006		
	Up	Level	Down
Business Optimism	26	58	16
Trend in actual business	37	47	16
Trend in expected business	24	59	18
Trend in long distance	13	56	31
Trend in local deliveries	40	47	13
Trend in storage	17	58	25
Trend in couriering	22	33	44
Trend in other work	33	44	22
Cash flow past 3 months	37	42	21
Turnover next 12 months	58	32	11
Profitability next 12 months	53	42	5
Price change next 3 months	37	58	5
Pressures to raise prices from			
Pay settlements	32		
Fuel costs	79		
Finance costs	21		
Utility costs	53		
Road charging etc	32		
Regulation costs	47		
Employment trends			
Total actual employment	26	63	11
Expected next 3 months	33	50	17
Average pay increase	3.85		

Investment

Changes in investment plans were less evident, being reported by 25% of respondents and a slight decrease in investment plans was reported.

Table 5: Retail distribution – key results

	Q4 2006		
	Level	Up	Down
Business Optimism	16.7	45.0	38.3
Trend in actual sales	25.0	38.3	36.7
Trend in expected sales	13.7	49.0	37.3
Investment plans	11.9	74.3	13.6
Cash flow past 3 months	15.3	61.0	23.7
Turnover next 12 months	30.0	40.0	30.0
Profitability next 12 months	25.9	32.8	41.4
Price change next 3 months	55.0	40.0	5.0
Pressures to raise prices from			
Pay settlements	23.3		
Raw material costs	40.0		
Finance costs	25.0		
Other overheads	8.3		
Transport costs	46.7		
Utility costs	63.3		
Regulation costs	30.0		
Employment trends			
Total actual employment	11.7	78.3	10.0
Expected next 3 months	7.7	82.7	9.6
Average pay increase	4.18		
Percent recruiting staff	35.0		
Recruitment difficulties inc	50.0		

Sales

Changes in the levels of sales were again widespread, being reported by 62% of respondents. The outturn was weaker than anticipated, with a declining trend in the volume of sales, and a falling trend in the value of sales was also reported.

Once again competition (reported by 52%), legislation/ regulation (reported by 31%) were identified as the factors likely to inhibit sales. Interest rates were reported by 42% compared to only 25% in quarter three. Sixty -three reported utility and 47% transport as to the two main cost pressures.

Finance

Cash flow trends were weaker than in the third quarter, and expectations as to turnover and profitability over the next twelve months weakened.

Employment

The net rise in employment continued although eased. 25% increased pay by an average of 4.18%. 35% reported problems in recruiting suitable staffs and 50% difficulties in retaining staffs.