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# 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 September and early October, some 400 firms responded to the questionnaire.

## Recent past and next three months

Business confidence continued to decline in manufacturing and retail distribution, and eased in tourism, notwithstanding improving trends in demand. Confidence rose further in construction and remained level in wholesale distribution.

The outturn in demand was better than anticipated in all sectors, notwithstanding widespread concerns as to the low level of orders and sales; and levels of work in progress, and expects these upward trends to continue to the end of the year. The strengthening trends in total new orders in construction again reflected rising trends in domestic and house building activity and the level of work in progress continued to rise for a net of respondents. The net trend in retail sales rose, but retailers, especially those employing less than 50 staffs, are more cautious as to improving sales trends in the fourth quarter, and remain concerned as to trends in interest rates. In tourism the third quarter trends in total demand reflected rising demand from all areas, with overseas trends the best for several years.

Concerns as to the levels of orders/sales and competition remain high in all sectors, being cited by 51% of manufacturers, 73% of construction and 58% of tourist respondents, and a net of 43% of manufacturers and 27% of construction firms reported working below optimum levels.

Expectations of price increases over the next three months remained strong in wholesale and retail, especially amongst smaller firms. Elsewhere expectations of price increases remained low.

Pay increases in the third quarter ranged from 3.64% in retail to 5.7% in construction. Difficulties in the recruitment of skilled staffs were especially evident in construction and tourism.

## Expectations for the next twelve months

Manufacturing respondents anticipate modest rising trends in orders, turnover and profitability over the next twelve months. Construction respondents expect rising turnover and profitability, but with increased pressure on tender margins.

Retail respondents expect more modestly rising turnover but declining profitability over the next year, suggesting further pressures on margins.

## Manufacturing

### Optimism

Notwithstanding rising trends in orders, sales and levels of work in progress business confidence eased further amongst manufacturers in the third quarter. This decline in confidence was evident amongst both exporters and non-exporters.

### Orders and Sales

The trend in orders improved in the third quarter for net balances of both exporters and non-exporters and these rising trends are expected to continue through the fourth quarter. Manufacturers are now more confident as to rising trends in orders over the next twelve months than at the end of July.

The rising trend in the level of work continued and is expected to continue on a rising trend to the end of the year, although this was most evident amongst firms employing more than 250 staff. Whilst 44% reported working at optimum rates 50% reported operating at below optimum levels.

### Finance

The downward trend in cash flow continued and deepened, however, this was most apparent amongst firms employing less than 50 staffs. Firms have marginally upgraded their expectations as to the trends in turnover and profitability over the next year.

Concerns as to raw material costs, other overheads and transport costs were the three most widely cited pressures, and were more widely cited by exporters than non-exporters.

### Investment

46% reported revising investment plans for 2004/5. Investment in the current quarter was mainly directed towards increasing efficiency and for the replacement of equipment. Exporters directed investment more towards R & D and to develop new products and processes than non-exporters.

### Employment

Rising trends in employment and hours worked were reported for a net of respondents.

Table 1: Manufacturing – key results

	Percentages		
	Up	Level	Down
Business Optimism	14.8	55.8	29.4

<b>Trends in actual orders</b>			
Total new orders	32.5	44.8	22.7
Scottish orders	21.5	57.9	20.6
Rest of UK orders	19.8	62.0	18.2
Export orders [33.2% = N/A]	14.3	39.8	12.8

<b>Trends in expected orders</b>			
Total new orders	24.4	63.5	12.1
Scottish orders	11.7	78.1	10.2
Rest of UK orders	24.5	62.9	12.6
Export orders [38.1% = N/A]	13.8	40.9	7.2

#### Av Capacity used

Invest in plant/equip.	22.7	54.3	23.0
Cash flow past 3 months	21.2	45.0	33.8
Turnover next 12 months	44.8	29.4	25.8
Profitability next 12 months	39.4	29.0	31.6
Price change next 3 months	28.1	65.0	5.6

#### Pressures to raise prices from

Pay settlements	14.2
Raw material costs	54.5
Finance costs	10.2
Other overheads	38.7
Transport costs	36.7

#### Employment trends

Total actual employment	25.8	56.2	17.9
Total expected next 3 months	15.5	56.2	17.9
Average pay increase	4.08		
Percent recruiting staff	46.7		
Retention difficulties	16.7		

## Construction

### Optimism

Business confidence continued to strengthen in the third quarter as 39% reported being more confident and only 14% less confident than at the end of July.

### Contracts

The rising trend in the value of new contracts continued, driven mainly by rising domestic house build activity. Some easing in the level of contracts is expected in the fourth quarter, although firms continue to report rising trends in the level of

work in progress and 32% expect the level of work in progress (48% to remain unchanged and 20% to decline) to rise over the next six months.

50% reported operating at optimum rates, but 39% reported operating at below optimum levels through the third quarter.

Progressively over 2004 respondents have increased their expectations as to increased pressure on margins and rising costs over the forthcoming twelve months, although cash flow trends improved slightly in the third quarter.

The level of new contracts, shortages of skilled labour and planning delays were seen as the three factors most likely to restrict activity.

### Investment

Investment in the third quarter was mainly for the replacement of equipment and less than a quarter revised their investment plans for the next year.

### Employment

A level trend in employment was reported. 64% sought to recruit staff and 66% reported increasing pay by an average of 5.7% [4.88% and 4.65% in the previous two quarters].

Table 2: Construction – key results

	Percentages		
	Up	Level	Down
Business Optimism	38.6	47.7	13.6
<b>Trends in actual orders</b>			
Total new orders	36.4	36.4	27.3
Public sector orders	22.2	36.1	41.7
Private commercial	19.4	50.0	30.6
Domestic/house build			
<b>Trends in expected orders</b>			
Total new orders	17.5	57.5	25.0
Public sector orders	11.8	67.6	20.6
Private commercial	11.4	62.9	25.7
Domestic/house build	20.0	57.1	22.9
<b>Trends in work in progress</b>			
Actual	31.8	50.0	18.2
Expected	31.8	47.7	20.5
<b>Capacity used</b>			
Invest in plant/equip.	14.0	76.7	9.3

Leasing in plant/equip. 5.9 82.4 11.8

#### Employment trends

Total actual employment 20.5 59.1 20.5  
Total expected next 3 23.8 71.4 4.8

Average pay increase 5.7%

Percent recruiting staff 63.6

Recruitment difficulties 9.4

Table 3: Wholesale distribution – key results

	Percentages		
	Up	Level	Down
Business Optimism	29.0	45.2	25.8
Trend in actual sales	29.0	41.9	29.0
Trend in expected sales	18.5	63.0	18.5
Investment plans	41.9	45.2	12.9
Cash flow past 3 months	19.4	54.8	25.8
Turnover next 12 months	45.2	29.0	25.8
Profitability next 12 months	23.3	43.3	33.3
Price change next 3	64.5	29.0	6.5

Pay settlements	32.3
Raw material costs	48.4
Finance costs	25.8
Other overheads	32.3
Transport costs	71.0

Employment trends			
Total actual employment	22.6	64.5	12.9
Expected next 3 months	6.9	79.3	13.8
Average pay increase	4.52		
Percent recruiting staff	41.9		
Recruitment difficulties	34.8		

## Wholesale distribution

### Optimism

The modest rise in business confidence continued through the third quarter, as sales trends were again better than anticipated.

### Sales

A level trend in sales was reported, and no change is forecast for the fourth quarter.

Once again the level of competition, along with cost issues (interest and business rates) were seen as the factor most likely to restrict sales over the fourth quarter.

Expectations of price increases again remain high, much higher than in the preceding five years, although the ability to pass on price increases may be restricted, and this may underpin the continued concerns as to declining profitability.

Transport costs were again the most widely cited pressure on prices, being cited by 70% of respondents.

### Investment

The rising trend in investment intentions continued during the third quarter.

### Finance

The rising trend in cash flow, noted in the second quarter ended, as 26% reported declining and only 19% rising cash flow trends. Expectations as to trends in turnover and profitability over the next twelve months remained largely unchanged.

### Employment

Rising trends in employment were reported as 42% sought to recruit staff. 29% increased pay by an average of 4.5% (compared to 3.19% in the previous quarter).

## Retail distribution

### Optimism

Once again changes in business confidence were widely based, and reported by almost 40%. The declining trends in confidence continued at the same levels as in the first half of 2004 and were evident amongst both smaller and larger firms.

### Sales

Rising trends in sales were reported, as 41% reported rising, and only 29% declining sales trends, and, as in previous

quarters, rising sales were more evident amongst larger rather than smaller firms.

A level trend in sales is forecast for the fourth quarter with a net of smaller firms anticipating declining sales, whilst larger firms expect sales to rise.

Interest rates followed by competition and business rates were seen as the three factors most likely to inhibit sales over the fourth quarter.

#### Investment

The slightly downward trend in investment intentions continued and deepened in the third quarter.

#### Finance

The rising cash flow trends continued, although rising trends were more evident amongst larger rather than smaller firms.

Respondents are now less optimistic as to profitability trends over the next twelve months and smaller firms are more concerned as to declining trends in profitability.

Cost pressures continue at a high level, with smaller firms reporting being more concerned as to overheads than larger firms, but both smaller and larger being concerned as to transport costs.

#### Employment

The outturn in employment was as expected, a slight rise was reported and this is expected to continue through the fourth quarter. 38% recruited staff, and 22% increased pay by an average of 3.64% [3.59% and 4.28% in the previous two quarters].

Table 4: Retail distribution – key results

	Percentages		
	Up	Level	Down
Business Optimism	14.3	60.7	25.0
Trend in actual sales	41.0	30.1	28.9
Trend in expected sales	21.5	57.0	21.5
Investment plans	13.3	63.9	22.9
Cash flow past 3 months	19.8	66.7	13.6
Turnover next 12 months	28.6	57.1	14.3
Profitability next 12 months	26.3	42.5	31.3
Price change next 3 months	41.7	53.6	4.8
Pressures to raise prices from Pay settlements	24.1		

Raw material costs	24.1
Finance costs	26.5
Other overheads	38.6
Transport costs	45.8

#### Employment trends

Total actual employment	9.6	81.9	8.4
Expected next 3 months	9.2	84.2	6.6

Average pay increase	3.64
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Percent recruiting staff	37.8
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Recruitment difficulties	40.7
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## Tourism

#### Optimism

The rising trend in business confidence, a feature of 2004, ended as a level trend in confidence was reported.

#### Demand

Rising trends in demand, better than anticipated, from all areas was reported, with increased numbers of visitors from the rest of the UK and from abroad.

As in previous years demand is expected to weaken in the fourth quarter. Average occupancy was reported at 74%, the highest third quarter figure since 1997, although there were increased concerns as to the weather.

Overall 17% of business was local trade [22% and 31% in previous quarters], 58% tourist trade [51% and 46% in the previous two quarters] and 24% business trade [31% and 33% in the previous quarters].

#### Investment

More than 90% of those reporting investing in the third quarter invested to replace and/or improve facilities, few reported investment to expand or to develop new facilities.

#### Finance

Strongly rising trends in turnover and more modest increases in profitability were reported. Increases in room rates were more modest than had been anticipated, and, as in previous years discounting of rates is expected in the fourth quarter.

#### Employment

Changes in employment were at the margin, affecting only 25% of respondents, and the increase was less than had been anticipated.

#### Recruitment

65% sought to recruit staff, and 38% reported difficulties in recruiting staff had increased, overall 73% of those recruiting

**reported difficulties in recruiting suitable staffs. 32% increased pay by an average of 4.95% [4.91% and 5.6% in the previous quarters.**

**Table 5: Tourism – key results**

	Percentages		
	Up	Level	Down
<b>Business Optimism</b>	<b>19.0</b>	<b>62.0</b>	<b>19.0</b>
<b>Trends in demand/visitors</b>			
<b>Total demand/visitors</b>	<b>49.2</b>	<b>40.7</b>	<b>10.2</b>
<b>Demand from Scotland</b>	<b>25.9</b>	<b>63.8</b>	<b>10.3</b>
<b>Demand from Rest of UK</b>	<b>36.2</b>	<b>55.2</b>	<b>8.6</b>
<b>Demand from abroad</b>	<b>39.7</b>	<b>36.2</b>	<b>24.1</b>
<b>Business Trade</b>	<b>29.1</b>	<b>54.5</b>	<b>16.4</b>
<b>Trends in expected demand</b>			
<b>Total demand/visitors</b>	<b>18.5</b>	<b>53.7</b>	<b>27.8</b>
<b>Demand from Scotland</b>	<b>9.8</b>	<b>70.6</b>	<b>19.6</b>
<b>Demand from Rest of UK</b>	<b>11.8</b>	<b>64.7</b>	<b>23.5</b>
<b>Demand from abroad</b>	<b>8.2</b>	<b>55.1</b>	<b>36.7</b>
<b>Business Trade</b>	<b>29.1</b>	<b>54.5</b>	<b>16.4</b>
<b>Capacity used</b>	<b>74</b>		
<b>Investment</b>	<b>27.1</b>	<b>62.7</b>	<b>10.2</b>
<b>Turnover past 3 months</b>	<b>52.9</b>	<b>41.2</b>	<b>5.9</b>
<b>Profitability past 3 months</b>	<b>46.6</b>	<b>39.7</b>	<b>13.8</b>
<b>Average daily rate</b>	<b>21.1</b>	<b>59.6</b>	<b>19.3</b>
<b>Expected average daily rate</b>	<b>12.7</b>	<b>50.9</b>	<b>36.4</b>
<b>Employment trends</b>			
<b>Total actual employment</b>	<b>15.5</b>	<b>75.9</b>	<b>8.6</b>
<b>Expected next 3 months</b>	<b>36.</b>	<b>65.5</b>	<b>30.9</b>
<b>Average pay increase</b>	<b>4.95</b>		
<b>Percent recruiting staff</b>	<b>64.7</b>		
<b>Recruitment difficulties</b>	<b>72.7</b>		

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2 February 2005