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# Scottish Chambers' Business Survey

The Fraser of Allander Institute at the University of Strathclyde in collaboration with the Scottish Chambers of Commerce conducts the quarterly Scottish Chambers of Commerce Business Survey. In the present survey, which was conducted in June, almost 500 firms responded to the questionnaire.

## Recent past and next three months

For a further quarter declining trends in business confidence were features for manufacturing, wholesale and retail distribution. Confidence eased in construction, but rose in tourism. In all sectors business confidence was stronger amongst larger firms.

The outturn in orders and sales was weak in all sectors except tourism, and weaker than anticipated in manufacturing, construction and retail. However, better trends were evident amongst larger firms.

More modest declining trends in orders and sales were reported in manufacturing; in contrast declining trends in total new orders in construction re-emerged, notwithstanding rising trends in private orders. The decline in sales in retail continued, due mainly to weak sales being reported by small establishments. In tourism the second quarter trends in total demand reflected strong Scottish and rest of UK demand, but weak demand from abroad.

Manufacturing respondents are more confident as to the trends in orders and sales over the next three months and predict marginally rising trends in orders. In contrast a net of retail respondents expect the current easing of sales to continue largely unchanged through the third quarter of 2003. In tourism Scottish and rest of UK demand is expected to rise, but overseas and business demand to remain weak.

Concerns as to the levels of orders/sales and competition remain high in manufacturing, wholesale and retail distribution.

Expectations of price increases over the next three months remained low in manufacturing, and eased in both wholesale and retail. In tourism the current discounting of prices/room rates was less broadly based than had been anticipated, and again more broadly based than in previous second quarters.

There was some evidence of pay pressures in the second quarter. Average pay increases in the second quarter

ranged from 3.2% in retail to 5.4% in tourism. As yet it is uncertain as to whether this reflects the increased National Insurance costs.

Recruitment activity was generally lower than a year ago and for a further quarter declining trends in employment were reported in all sectors except construction; nevertheless 55% or more of those recruiting in manufacturing, construction, and more than 60% in retail distribution reported recruitment difficulties. Recruitment difficulties were again more widespread in tourism where more than 75% of tourism respondents reported recruitment problems.

## Expectations for the next twelve months

Larger manufacturing respondents anticipate rising trends in turnover and profitability over the next twelve months; in contrast, small firms expect harsher trading conditions with flat turnover trends and declining profitability;

In the service sector the expectations of turnover and profitability over the next year remain weak. Large retail establishments anticipate rising turnover and more modestly rising profitability over the next twelve months. In contrast retailers employing less than 25 expect declining turnover and profitability.

## Manufacturing

### Optimism

The net decline in business confidence, a feature of the past year, continued but eased. The decline in business confidence decreased with firm size.

### Orders and Sales

For the sixth successive quarter the outturn in orders was weaker than anticipated, and the trend in demand from all areas weakened. However, expectations for the next three months are the strongest for a year. Larger firms reported rising total orders, and are more confident of rising trends in the next three months.

### Finance

The downward trend in the rate of cash flow continued but eased. Expectations as to rising trends in turnover and profitability over the year increased with firm size, but remained negative for firms employing less than 25 staff.

For a further quarter the levels of orders, competition and exchange rates remained the main concerns for manufacturers.

### Investment

35% reported changing investment plans. Investment in the current quarter was mainly authorised towards replacing equipment [52%], reducing labour [42%] and increasing efficiency [26%].

## Employment

The decline in employment continued at a net decrease of 11%. This declining trend is again expected to continue through the next quarter.

The percentage of firms seeking to recruit was low at 39.4%. 36% reported increasing pay by an average of 3.7%, compared to an average of 2.96% in the previous quarter.

**Table 1: Manufacturing - key results**

|                                       | Percentages |             |             |
|---------------------------------------|-------------|-------------|-------------|
|                                       | Up          | Level       | Down        |
| <b>Business Optimism</b>              | <b>17.5</b> | <b>52.9</b> | <b>29.6</b> |
| <b>Trends in actual orders</b>        |             |             |             |
| Total new orders                      | 26.1        | 34.5        | 39.4        |
| Scottish orders                       | 17.0        | 47.3        | 35.7        |
| Rest of UK orders                     | 18.7        | 47.9        | 33.3        |
| Export orders [35.8% = N/A]           | 12.0        | 24.9        | 27.3        |
| <b>Trends in expected orders</b>      |             |             |             |
| Total new orders                      | 25.6        | 50.3        | 24.1        |
| Scottish orders                       | 18.8        | 60.4        | 20.8        |
| Rest of UK orders                     | 14.1        | 59.8        | 26.2        |
| Export orders [435.8 = N/A]           | 12.5        | 32.8        | 18.8        |
| <b>Av Capacity used</b>               | <b>73.5</b> |             |             |
| <b>Invest in plant/equip.</b>         | <b>16.2</b> | <b>65.2</b> | <b>18.6</b> |
| <b>Cash flow past 3 months</b>        | <b>17.0</b> | <b>55.7</b> | <b>27.3</b> |
| <b>Turnover next 12 months</b>        | <b>40.3</b> | <b>28.3</b> | <b>31.4</b> |
| <b>Profitability next 12 months</b>   | <b>33.3</b> | <b>31.3</b> | <b>35.4</b> |
| <b>Price change next 3 months</b>     | <b>20.8</b> | <b>65.0</b> | <b>14.2</b> |
| <b>Pressures to raise prices from</b> |             |             |             |
| Pay settlements                       | 34.8        |             |             |
| Raw material costs                    | 57.5        |             |             |
| Finance costs                         | 13.0        |             |             |
| Other overheads                       | 48.6        |             |             |
| Transport costs                       | 42.1        |             |             |
| <b>Employment trends</b>              |             |             |             |
| Total actual employment               | 10.9        | 67.6        | 21.5        |
| Total expected next 3 months          | 8.9         | 74.4        | 16.7        |
| Average pay increase                  | 3.7         |             |             |
| Percent recruiting staff              | 39.4        |             |             |
| Recruitment difficulties              | 57.5        |             |             |

## Construction

### Optimism

The rising trend in business confidence ended, notwithstanding better than anticipated trends in private orders. Firms employing more than 100 staff reported rising confidence.

### Orders

The easing in the trends in total orders was more than had been expected, and a net dip in total orders was reported, notwithstanding a net rise in the level of private sector work. The decline in orders was more evident amongst firms employing less than 25 staff. Respondents remain cautious and anticipate weaker trends in demand in the third quarter.

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

30% reported rising trends in the level of work in progress (compared to 45% in the previous quarter), and a net of firms expect the easing trends to continue.

The percentage citing the low level of demand as the factor most likely to restrict activity in the next quarter fell rose to 75%.

### Investment

Changes to investment were reported by 36% of respondents, and the rising trend in investment in plant/equipment ended as a net of firms reported revising downwards investment plans. Of those investing in the second quarter 63% directed investment towards the replacement of equipment, 19% towards increasing efficiency and 13% towards increasing capacity.

### Employment

The rise in employment was weaker than anticipated, and a level trend is expected through the third quarter. 34% increased pay by an average of 4.1% compared to 3.81% in the previous quarter, and 50% sought to recruit staff in the second quarter, again mainly skilled manual staffs.

**Table 2: Construction - key results**

|                                | Percentages |             |             |
|--------------------------------|-------------|-------------|-------------|
|                                | Up          | Level       | Down        |
| <b>Business Optimism</b>       | <b>18.0</b> | <b>54.0</b> | <b>28.0</b> |
| <b>Trends in actual orders</b> |             |             |             |
| Total new orders               | 31.3        | 33.3        | 35.4        |
| Central Government orders      | 3.4         | 48.3        | 48.3        |
| Other Public Sector orders     | 8.8         | 52.9        | 38.2        |
| Private orders                 | 39.6        | 29.2        | 31.3        |

|                                   |      |      |      |
|-----------------------------------|------|------|------|
| <b>Trends in expected orders</b>  |      |      |      |
| Total new orders                  | 19.1 | 42.6 | 38.3 |
| Central Government orders         | 6.9  | 55.2 | 37.9 |
| Other Public Sector orders        | 6.1  | 60.6 | 33.3 |
| Private orders                    | 23.4 | 51.1 | 25.5 |
| <b>Trends in work in progress</b> |      |      |      |
| Actual                            | 30.0 | 30.0 | 40.0 |
| Expected                          | 22.4 | 40.8 | 36.7 |
| Capacity used                     | 84.8 |      |      |
| Invest in plant/equip.            | 24.0 | 42.0 | 34.0 |
| <b>Employment trends</b>          |      |      |      |
| Total actual employment           | 14.9 | 63.8 | 21.3 |
| Total expected next 3 months      | 8.5  | 80.9 | 10.6 |
| Average pay increase              | 4.1  |      |      |
| Percent recruiting staff          | 50.0 |      |      |
| Recruitment difficulties          | 58.3 |      |      |

## Wholesale distribution

### Optimism

Changes in business confidence were again broadly based, and a more modest downward trend was reported.

### Sales

The outturn in sales remained weak, and whilst better than anticipated, was little changed from the previous quarter. However, firms continued to expect poor trading conditions. Concerns as to competition eased again, but remained the factor thought most likely to limit activity in the next quarter.

Expectations of increasing prices in the next quarter eased sharply. Other overheads, transport costs, and raw material costs were again the most widely cited pressures on prices.

### Investment

Changes in investment plans were reported by 18%, and a slight declining trend in investment intentions was reported.

### Finance

For a further quarter the declining cash flow trend continued and deepened. Expectations as to the trends in turnover and profitability suggest continuing pressures on margins. The expectations for the year in terms of turnover and profitability are poor. A net of 7% expect turnover to fall over the net year, and a net of 14% expect profitability to decline over the next year.

## Employment

Changes to employment levels were limited, affecting 25%. The outturn in employment was better than anticipated. 46% reported increasing pay by an average of 4.5% compared to an average increase of 3.2% in the previous quarter.

Table 3: Wholesale distribution - key results

|                              | Percentages |       |      |
|------------------------------|-------------|-------|------|
|                              | Up          | Level | Down |
| Business Optimism            | 10.7        | 50.0  | 39.3 |
| Trend in actual sales        | 28.6        | 28.6  | 42.9 |
| Trend in expected sales      | 17.9        | 39.3  | 42.9 |
| Investment plans             | 7.1         | 82.1  | 10.7 |
| Cash flow past 3 months      | 10.7        | 60.7  | 28.6 |
| Turnover next 12 months      | 32.1        | 28.6  | 39.3 |
| Profitability next 12 months | 28.6        | 28.6  | 42.9 |
| Price change next 3 months   | 21.4        | 71.4  | 7.1  |

### Pressures to raise prices from

|                    |      |
|--------------------|------|
| Pay settlements    | 34.6 |
| Raw material costs | 42.3 |
| Finance costs      | 15.4 |
| Other overheads    | 50.0 |
| Transport costs    | 46.2 |

### Employment trends

|                         |      |      |      |
|-------------------------|------|------|------|
| Total actual employment | 14.3 | 75.0 | 10.7 |
| Expected next 3 months  | 7.1  | 85.7 | 7.1  |

Average pay increase 4.5

Percent recruiting staff 25.0

Recruitment difficulties 21.4

## Retail distribution

### Optimism

Changes in business confidence were broadly based, and reported by 54%; the decline in business confidence continued, although was more evident amongst smaller firms.

### Sales

The declining trends in sales continued, and the rate was a little deeper than in the previous quarter. The outturn was weaker than anticipated. Little change to the sales trends is forecast for the third quarter. However, both the poor

outturn and weak expected sales trends were mainly the consequence of weak trading conditions being reported and expected by small retail establishments.

Change in market trends was widespread with 77% reporting changes in sales trends; market stability was greatest in the large firm sector, where rising sales trends were reported.

37% of respondents expect to increase prices in the current quarter, but there were marked variations across size bands. Pressures to raise prices are slightly more modest than in the previous six months. 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 again largely unchanged, although the modest decline ended.

#### Finance

The downward cash flow trends again deepened, although rising trends were reported in firms employing more than 200. For a further quarter a net of respondents anticipate declining trends in turnover over the next twelve months, but this is only a feature for a net of retailers employing less than 25 staff.

#### Employment

The outturn in employment was weaker than anticipated, although the decline in employment eased. Recruitment activity remained at a lower level than in previous years. 41% increased pay by an average of 3.28% compared to an average increase of 4.7% in the previous quarter.

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

|                                | Up   | Percentages |      |
|--------------------------------|------|-------------|------|
|                                |      | Level       | Down |
| Business Optimism              | 10.6 | 46.2        | 43.3 |
| Trend in actual sales          | 28.6 | 22.9        | 48.6 |
| Trend in expected sales        | 14.6 | 48.5        | 36.9 |
| Investment plans               | 15.2 | 69.5        | 15.2 |
| Cash flow past 3 months        | 20.6 | 50.0        | 29.4 |
| Turnover next 12 months        | 25.7 | 40.0        | 34.3 |
| Profitability next 12 months   | 22.1 | 32.7        | 45.2 |
| Price change next 3 months     | 36.5 | 55.8        | 7.7  |
| Pressures to raise prices from |      |             |      |
| Pay settlements                | 37.6 |             |      |
| Raw material costs             | 29.4 |             |      |
| Finance costs                  | 21.2 |             |      |
| Other overheads                | 51.8 |             |      |

|                          |      |      |      |
|--------------------------|------|------|------|
| Transport costs          | 41.2 |      |      |
| Employment trends        |      |      |      |
| Total actual employment  | 8.6  | 73.3 | 18.1 |
| Expected next 3 months   | 9.2  | 79.6 | 11.2 |
| Average pay increase     | 3.28 |      |      |
| Percent recruiting staff | 41.0 |      |      |
| Recruitment difficulties | 62.8 |      |      |

#### Tourism

##### Optimism

Business confidence rose sharply in the second quarter, as trends were better than anticipated.

##### Demand

The outturn in demand, although weak, was much better than had been anticipated, although this was due to strong demand from Scotland and the rest of UK rather than from abroad. Average capacity used in the second quarter was better than for several years. The forecast for the third quarter remains strong.

Rising trends thus reflected domestic tourist demand and the better summer. In contrast demand from overseas remained very depressed with more modest declining trends forecast for the third quarter.

##### Investment

A level trend in investment was reported, and the only reasons for authorising investment was to replace/renew facilities or to improve facilities.

##### Finance

Turnover and costs rose. Discounting of room rates was again evident, but less broadly based than had been predicted.

##### Employment

59% reported no change to overall employment levels and the declining trend continued.

##### Recruitment

Recruitment remained at high levels with 79% seeking to recruit staff. 87% of those recruiting staff reported difficulties in attracting suitable staffs. 32% reported increasing pay by an average of 5.4%, compared to 5.0% in the previous quarter.

**Table 5: Tourism - key results**

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|                                  | <i>Percentages</i> |              |             |
|----------------------------------|--------------------|--------------|-------------|
|                                  | <i>Up</i>          | <i>Level</i> | <i>Down</i> |
| <b>Business Optimism</b>         | <b>41.5</b>        | <b>39.0</b>  | <b>19.5</b> |
| <b>Trends in demand/visitors</b> |                    |              |             |
| Total demand/visitors            | 42.5               | 27.5         | 30.0        |
| Demand from Scotland             | 35.9               | 48.7         | 15.4        |
| Demand from Rest of UK           | 41.0               | 41.0         | 17.9        |
| Demand from abroad               | 10.5               | 34.2         | 55.3        |
| Business Trade                   | 30.8               | 38.5         | 30.8        |
| <b>Trends in expected demand</b> |                    |              |             |
| Total demand/visitors            | 37.5               | 42.5         | 20.0        |
| Demand from Scotland             | 30.8               | 56.4         | 12.8        |
| Demand from Rest of UK           | 34.2               | 52.6         | 13.2        |
| Demand from abroad               | 25.6               | 38.5         | 35.9        |
| Business Trade                   | 19.5               | 61.5         | 19.2        |
| <b>Capacity used</b>             | <b>67.7</b>        |              |             |
| <b>Investment</b>                | <b>17.9</b>        | <b>64.1</b>  | <b>17.9</b> |
| Turnover past 3 months           | 42.9               | 32.1         | 25.0        |
| Costs past 3 months              | 57.5               | 32.5         | 10.0        |
| Average daily rate               | 18.5               | 48.1         | 33.3        |
| Expected average daily rate      | 22.2               | 44.4         | 33.3        |
| <b>Employment trends</b>         |                    |              |             |
| Total actual employment          | 10.3               | 59.0         | 30.8        |
| Expected next 3 months           | 12.8               | 69.2         | 17.9        |
| Average pay increase             | 5.4                |              |             |
| Percent recruiting staff         | 78.6               |              |             |
| Recruitment difficulties         | 87.5               |              |             |

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