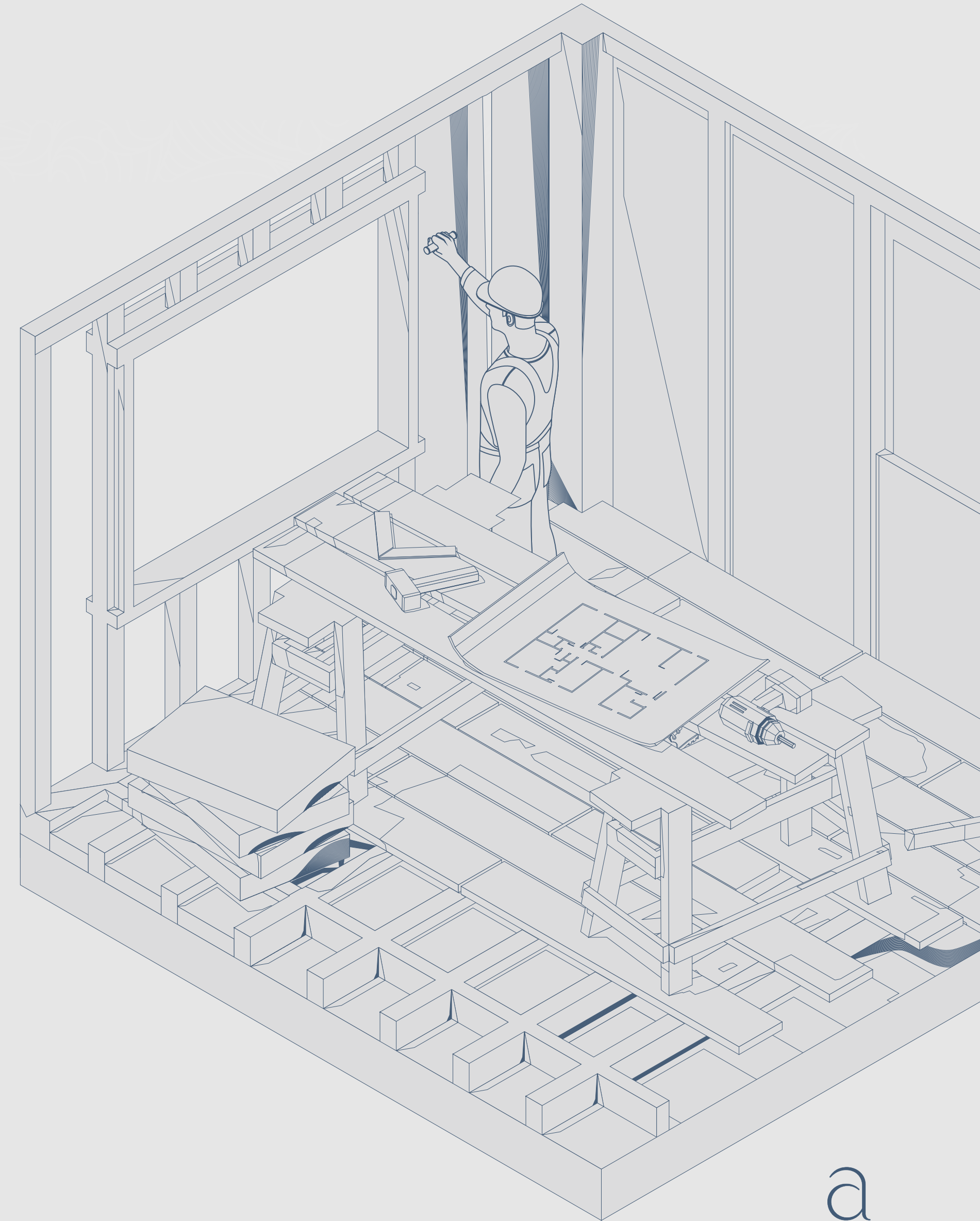


INTRODUCTION

This report summarises the key results from our latest Fraser of Allander (FAI) Scottish Business Monitor, published in partnership with Addleshaw Goddard. The survey sampled over 500 firms in January from across the Scottish economy. The results examined business sentiment in the final quarter of 2020, and their outlook and expectations through 2021. Our survey results show that business sentiment remained poor in the fourth quarter, with the majority of net balances across metrics such as volume of business, employment and turnover, negative for the entirety of 2020.

We also found that:

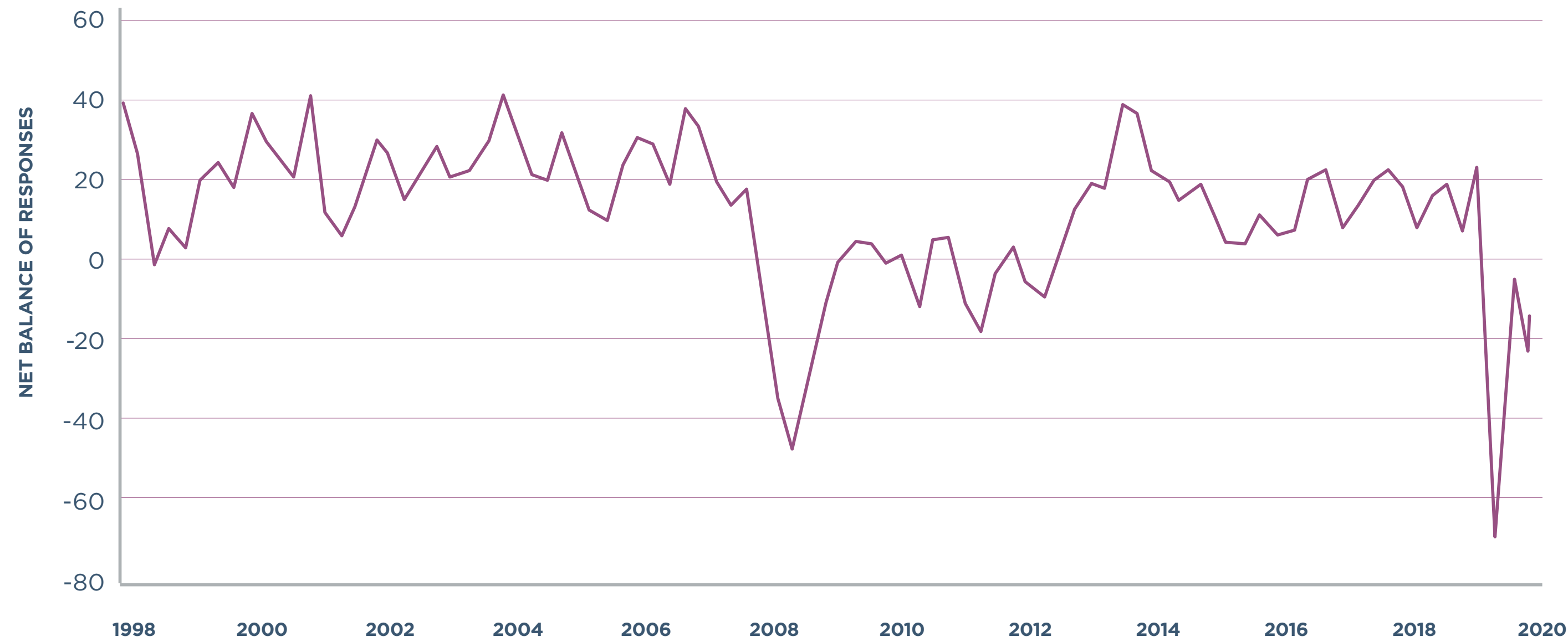
- More than one in every ten food & accommodation services businesses reported that their chance of survival over the next six months was unlikely or very unlikely, almost double that of the Scotland average.
- The construction industry continued its recovery, going from the sector with the lowest sentiment in the spring to the highest sentiment in the fourth quarter of the year.
- Since the last quarter, more businesses are reporting that home working has negatively affected performance management of staff and productivity levels, but a larger number are also expecting to permanently reduce their office footprint.
- Business ratings of how the Scottish and UK Government have handled the public health crisis have remained unchanged over the quarter. However, ratings on understanding the challenges that businesses face and supporting businesses through the pandemic have fallen slightly for both Governments.
- 38% of businesses say the level of government support has been sufficient or very sufficient, while 40% of businesses say it has been insufficient or very insufficient.
- In particular, more than half of all Strategic Framework Business Fund applicants said that the level of support was insufficient.
- Of the businesses who trade with the EU, 57% reported negative or very negative impacts on their trade, while 1% reported positive impacts.



KEY RESULTS

The experience of firms

- The net number of firms reporting an increase in their volume of business fell on the previous quarter and remained negative. Our headline indicator was therefore negative for all four quarters of 2020, the first time since the financial crisis.
- On average, firms were more optimistic about their volume of business and level of employment over the next six months, with both of these indicators improving since last quarter. However, many firms highlighted large amounts of uncertainty, and a large minority continue to expect a reduction in volume of business.



KEY RESULTS

- The accommodation and food services sector saw the largest negative net balance in volume of business over the fourth quarter of 2020, and its lowest figure since our survey began in 1998. Expectations for volume of business and employment over the next six months also remain at low levels.
- More than one in every ten food & accommodation services businesses reported that their chance of survival over the next six months was unlikely or very unlikely.
- This compares to around 6% of all respondents reporting that business survival over the next 6 months was unlikely or very unlikely.
- The construction industry continued its recovery, going from the sector with the lowest sentiment in the spring to the highest sentiment in the fourth quarter of the year.

| | 2019 | | 2020 | | |
|--|------|-----|------|-----|-----|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| Manufacturing | -5 | -35 | -58 | -47 | -26 |
| Construction | -11 | -23 | -93 | -32 | -8 |
| Retail & Wholesale | 4 | -14 | -62 | -37 | -33 |
| Transport, information & comms | 24 | -24 | -49 | -41 | -45 |
| Accommodation & Food Services | -17 | -20 | -78 | -67 | -91 |
| Finance, business admin and other services | 15 | -28 | -64 | -56 | -35 |

- Over the last three months of 2020, a much larger proportion of small businesses reported falls in volume of business than medium or large firms. However, all three groups reported a similarly negative net balance in employment.

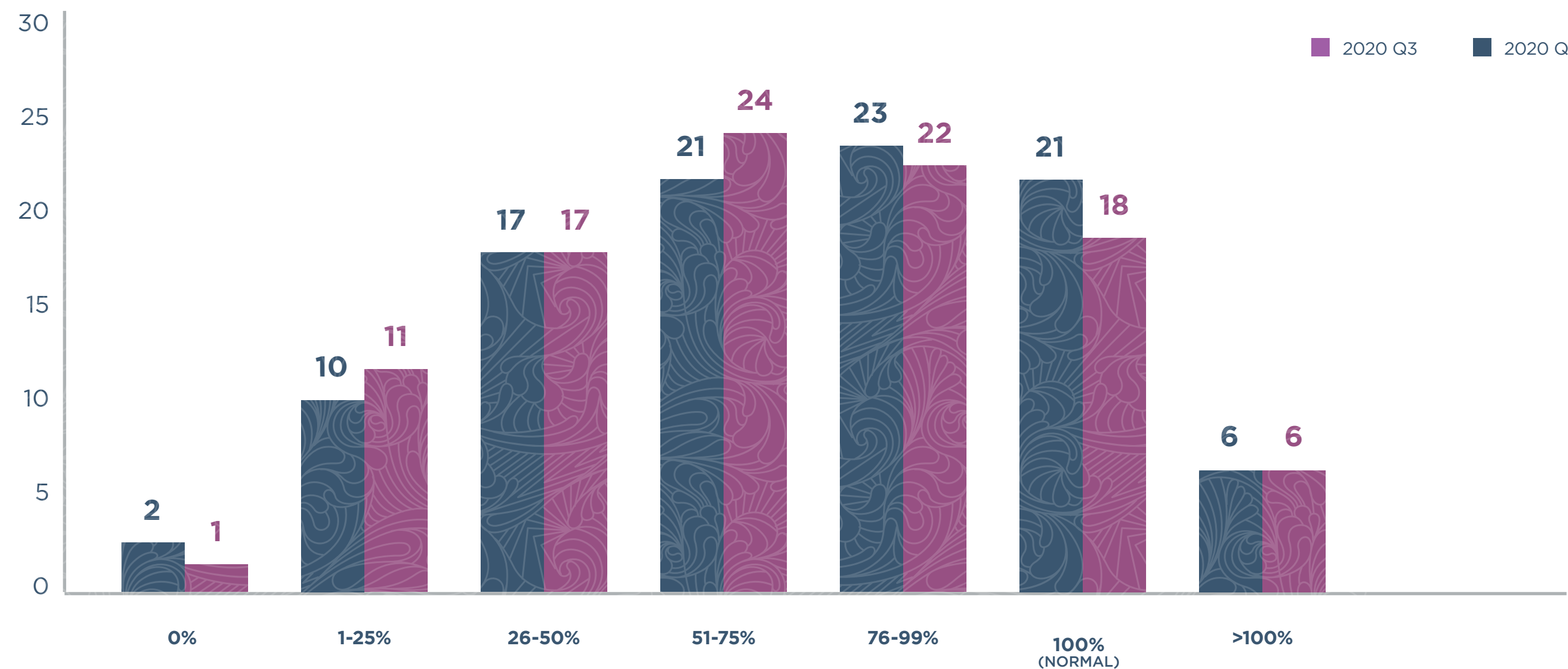


KEY RESULTS

Over the coming months

- Expected levels of capacity over the next six months, compared to normal levels of operation, changed little between the third and fourth quarter of 2020.
- On average, firms expect to operate between 51-75% of normal capacity, with 29% of firms operating at below half of their normal levels of operation over this period.
- Economic uncertainty continues to be the most important issue affecting businesses over the coming three months. 98% of responding firms reported economic/business uncertainty as 'important' or 'very important', with 94% also reporting policy uncertainty as an important issue.
- Nearly 40% of businesses reported feeling 'insecure' or 'very insecure' about their levels of cashflow over the next 6 months, with over 60% of businesses reporting secure levels of cashflow.

Chart: What level of capacity, compared to normal levels of operation over this period, do you expect your business will operate at over the next six months?

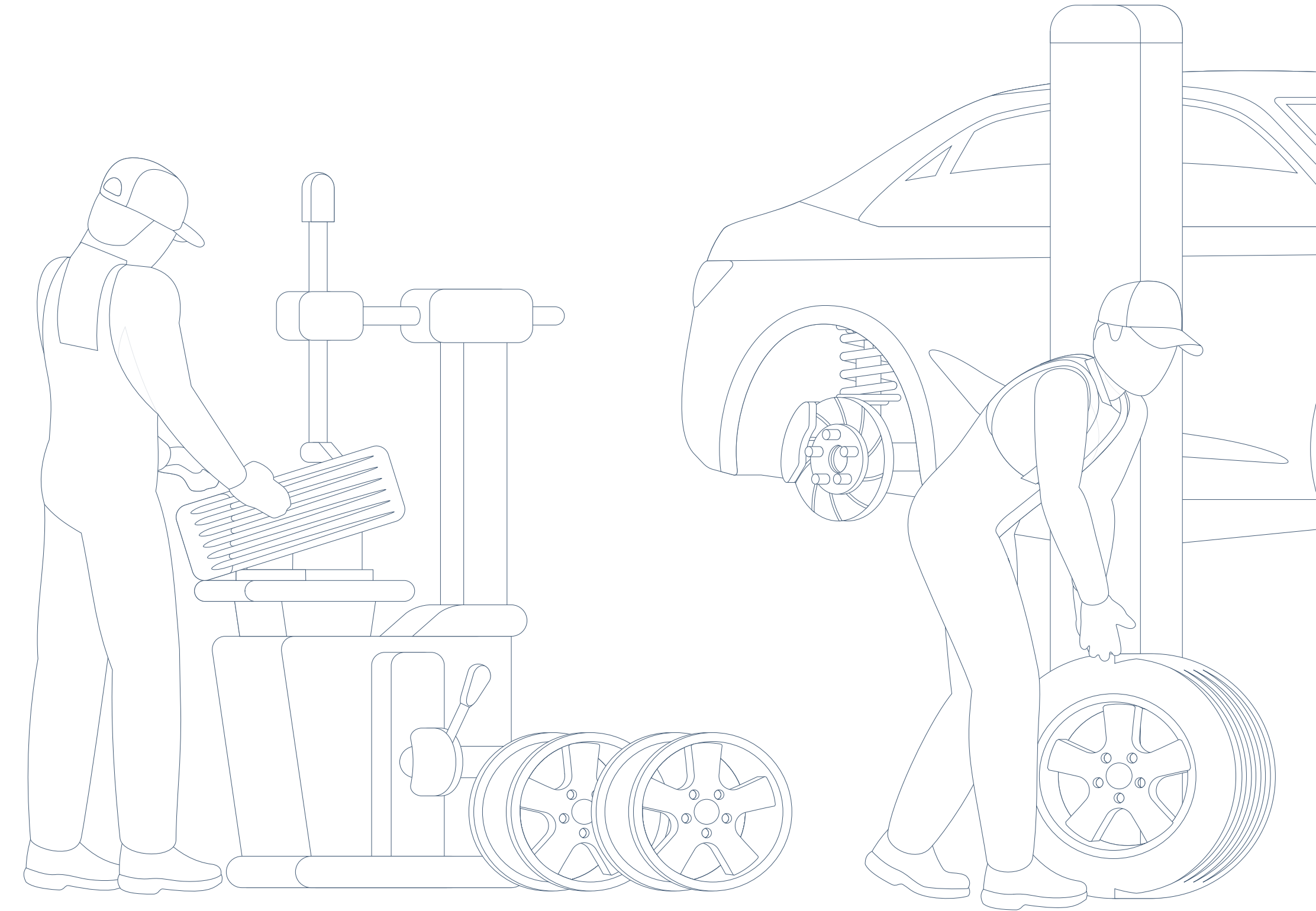
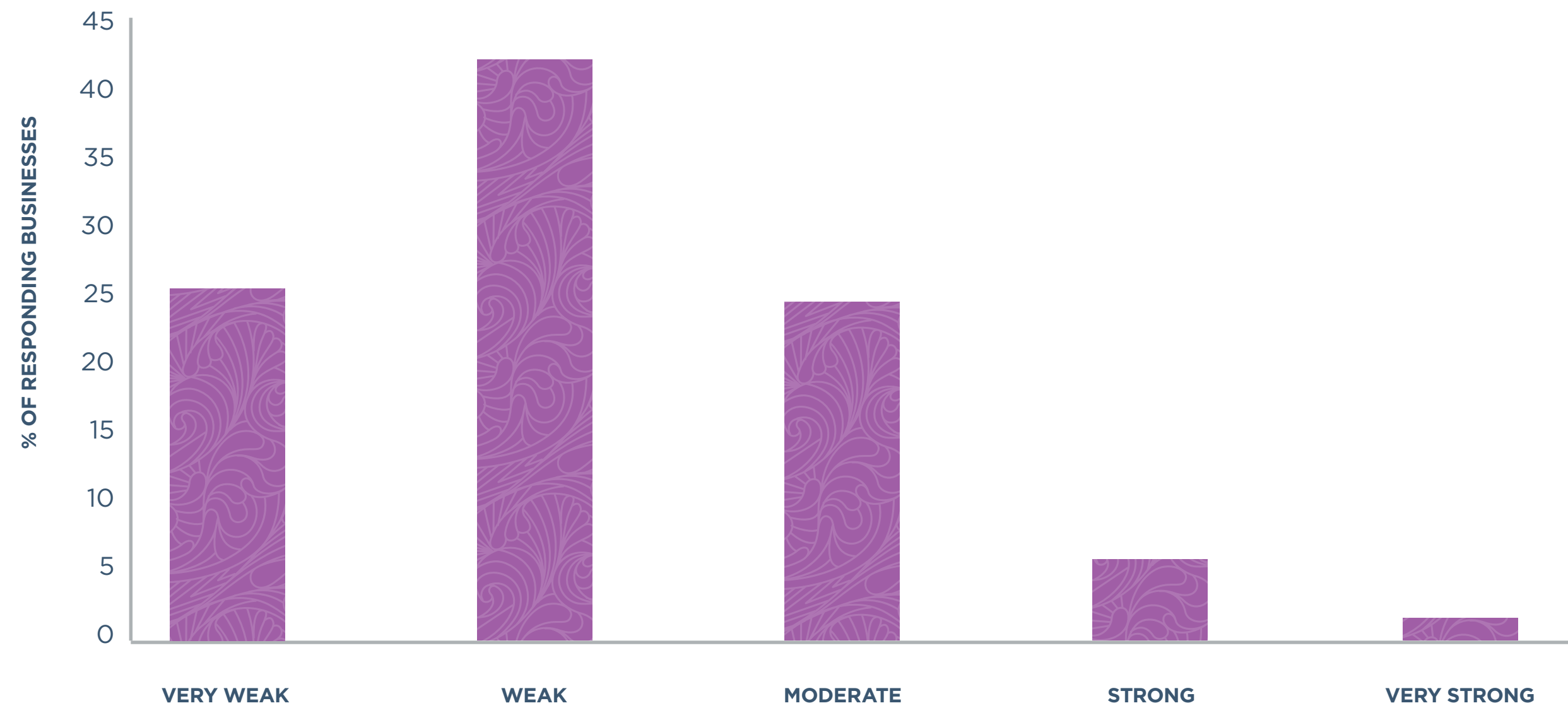


KEY RESULTS

The outlook for the year

- Most firms are expecting Scottish economic growth to be weak in 2021. 8% of firms expected strong or very strong growth in the coming 12 months, while nearly 70% of firms reporting expectations of weak or very weak growth in the economy.

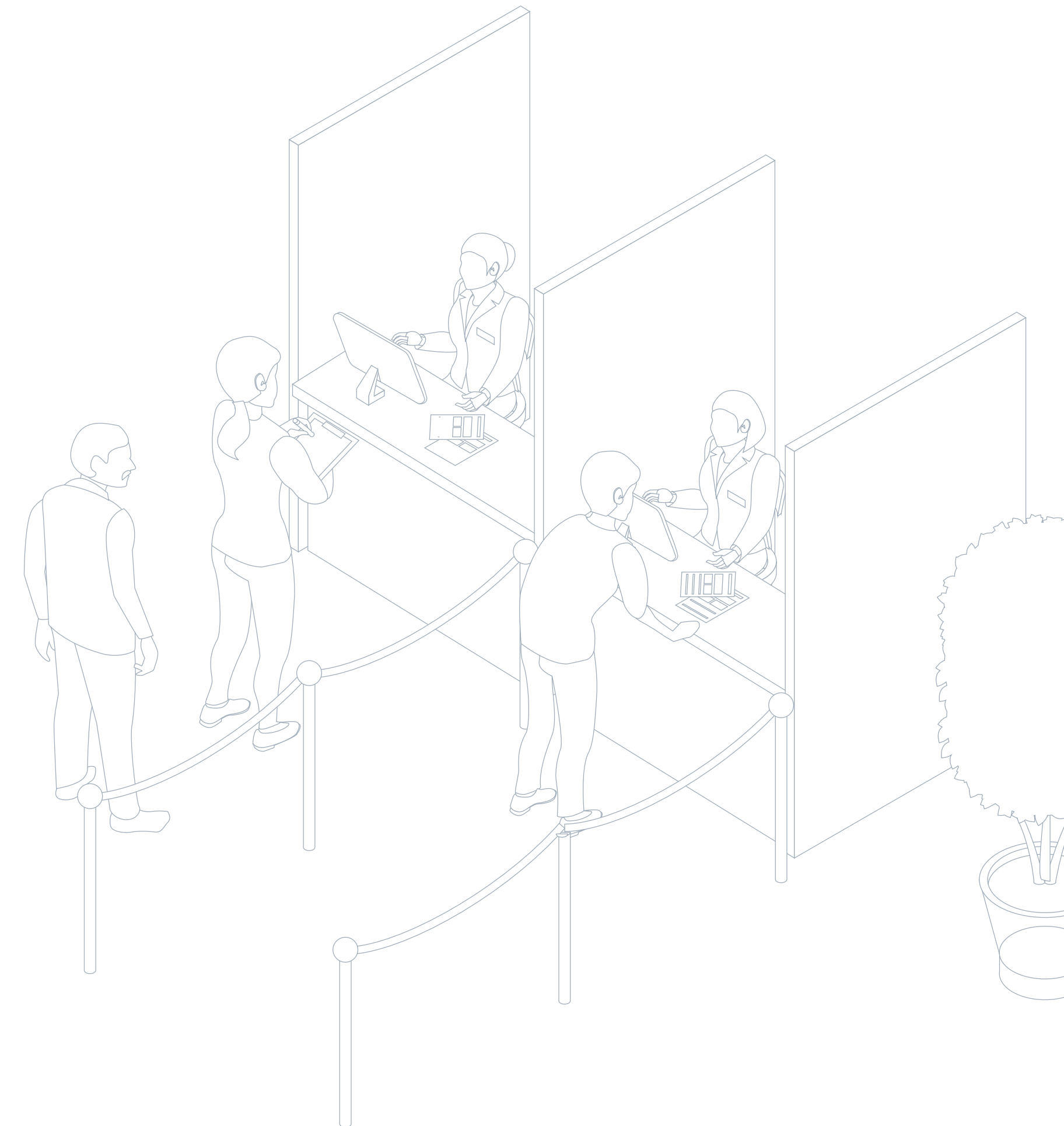
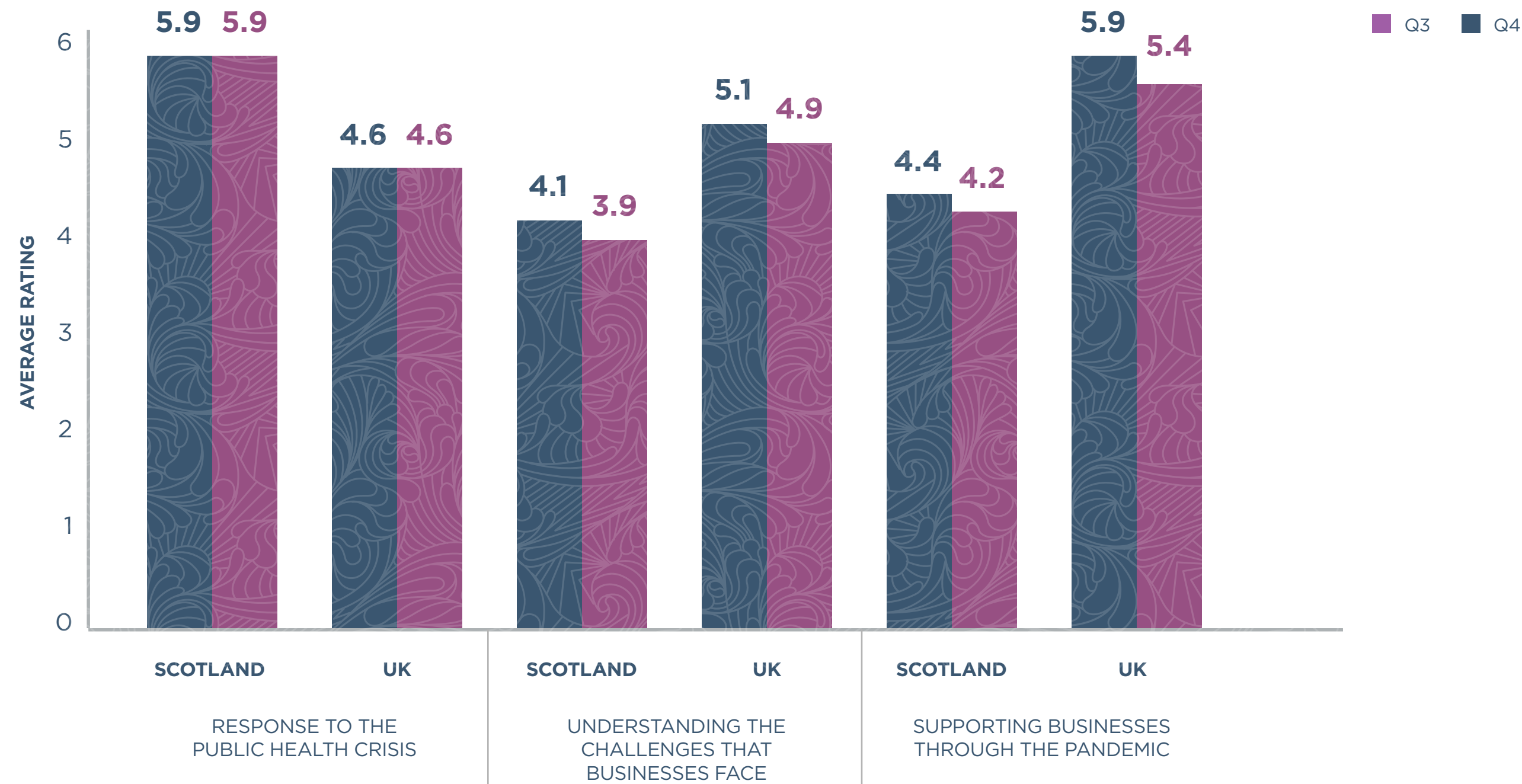
Chart: Thinking about the growth in the Scottish economy over the next 12 months compared to the previous 12 months, how do you think it will perform?



BUSINESS VIEWS ON GOVERNMENT POLICY RESPONSE

- As well as the poor outlook for growth in the economy, support of the UK and Scottish Governments' response to the public health crisis remained unchanged between the third and fourth quarter of 2020.
- However, business ratings on understanding the challenges that businesses face and supporting businesses through the pandemic have fallen slightly for both the Scottish and UK Government.

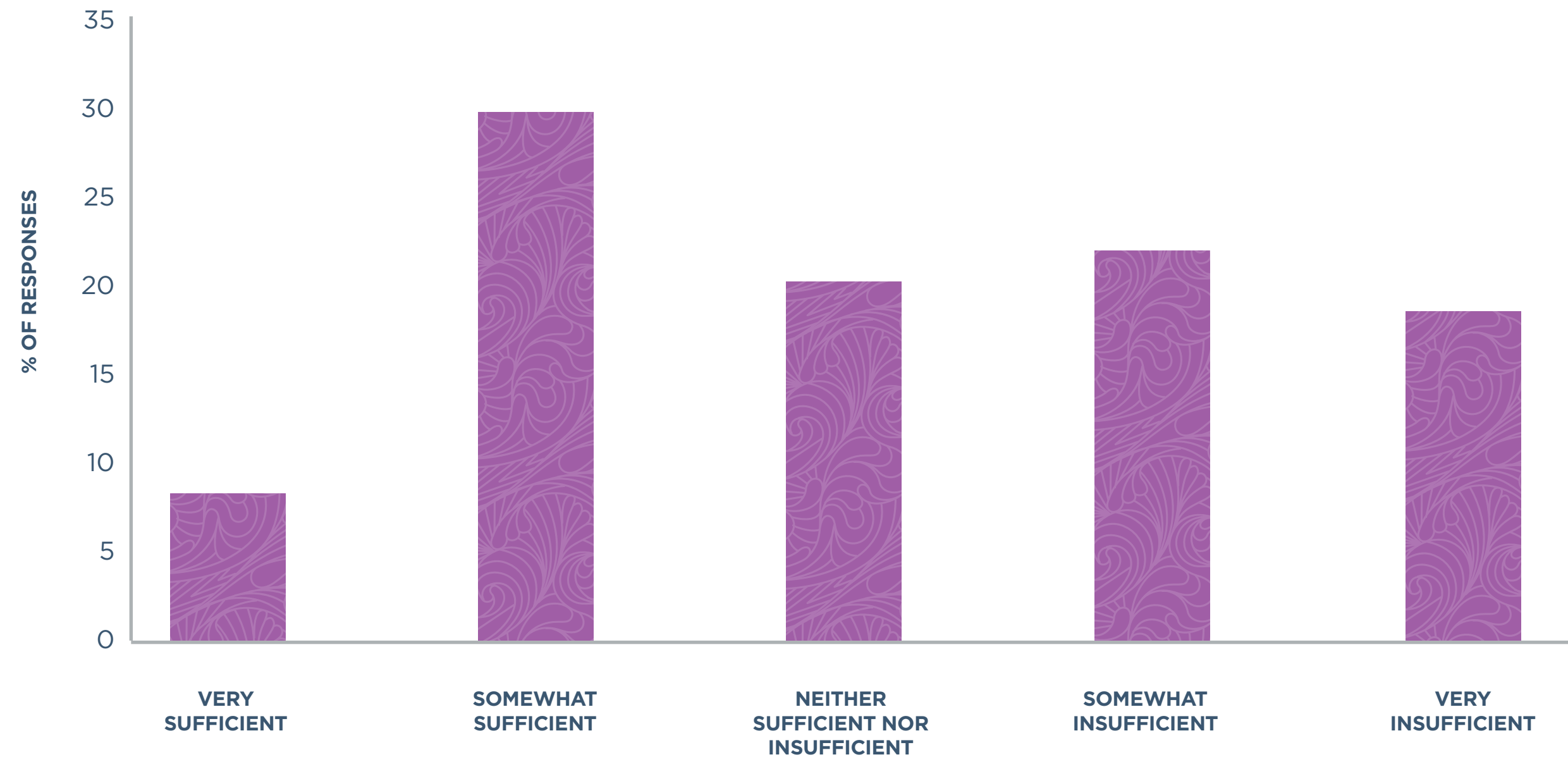
Chart: How would you rate the Scottish/UK Government's response to the following?
0 is very poor and 10 is excellent.



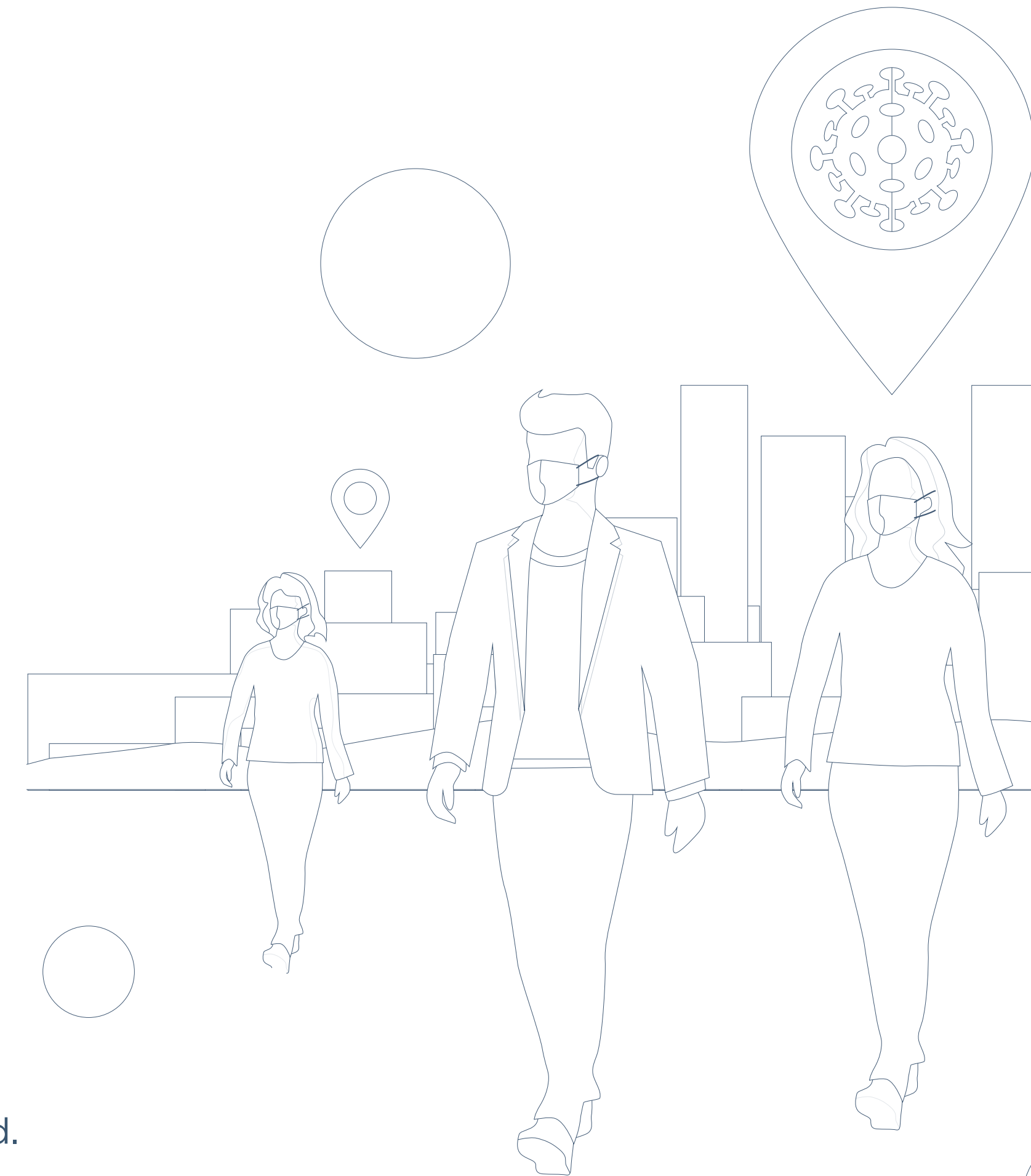
BUSINESS VIEWS ON GOVERNMENT POLICY RESPONSE

- 38% of businesses say the level of government support has been sufficient or very sufficient, while 40% of businesses say that it has been insufficient or very insufficient.

Chart: To what extent is government support sufficient for the survival of your business?



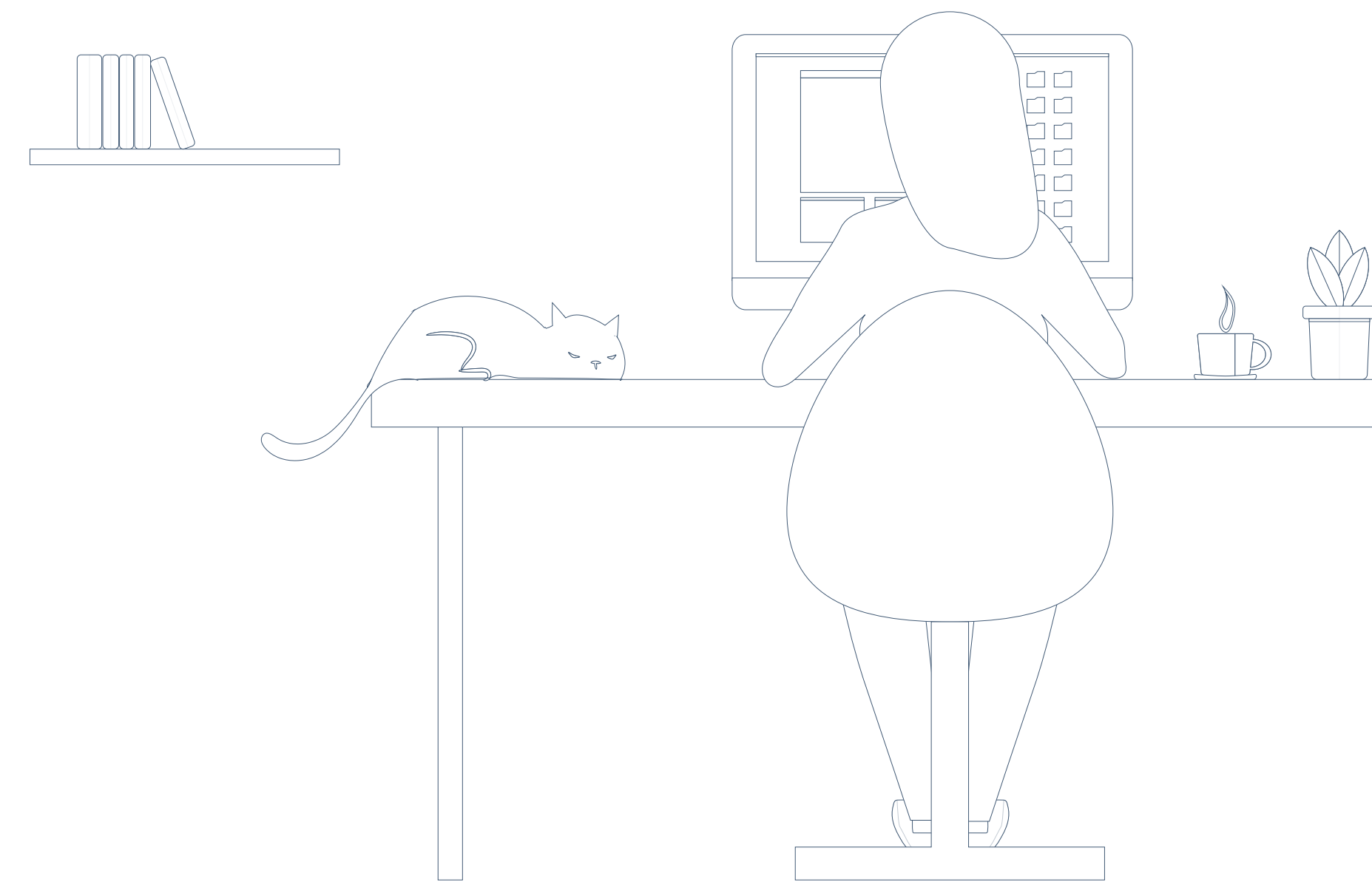
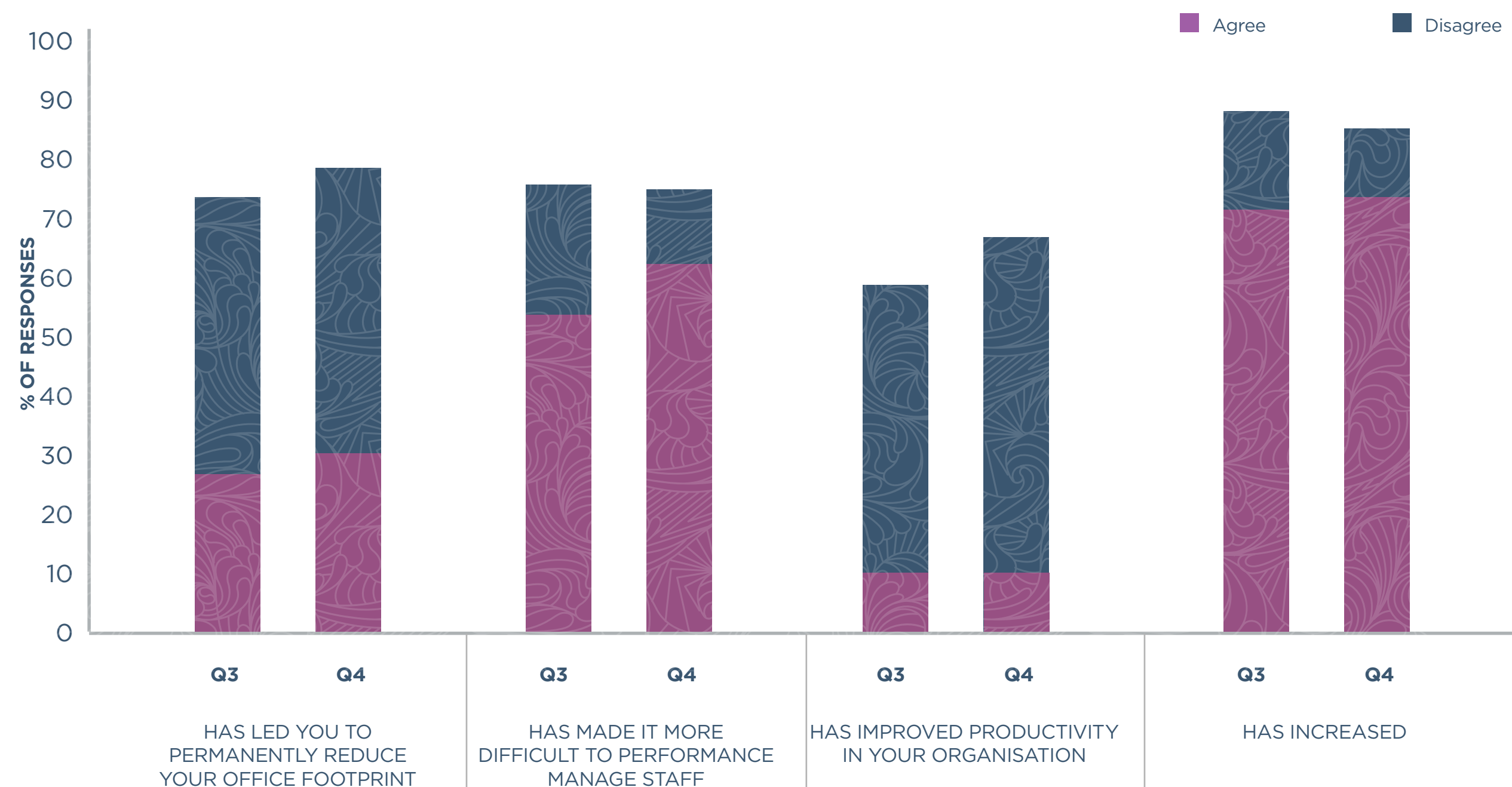
- We also asked businesses about their experiences with the Government's Strategic Framework Business Fund.
- 22% of responding businesses had applied for the Strategic Framework Business Fund. The majority said that the application was easy (55%) and funds provided quickly (56%), with 11% stating that the application was difficult and 22% said it was slow.
- 56% of Strategic Framework Business Fund applicants expressed that the level of support through the fund was insufficient while 35% said it was sufficient.



HOMWORKING

- We asked businesses about their transition to home-working practises and what this might mean for their use of office space in the future.
- Businesses reported that home working had made performance managing staff more difficult (63%) and had negatively impacted on productivity (58%). These have both increased since the third quarter of 2020. Around 13% and 10% of businesses had seen improvements in these factors, respectively.
- More businesses (31%) are now expecting to permanently reduce their office footprint than in last quarter.
- Of those expecting reduce their office footprint, the average office footprint reduction is 27% while around 13% expect to reduce their office footprint by more than half.

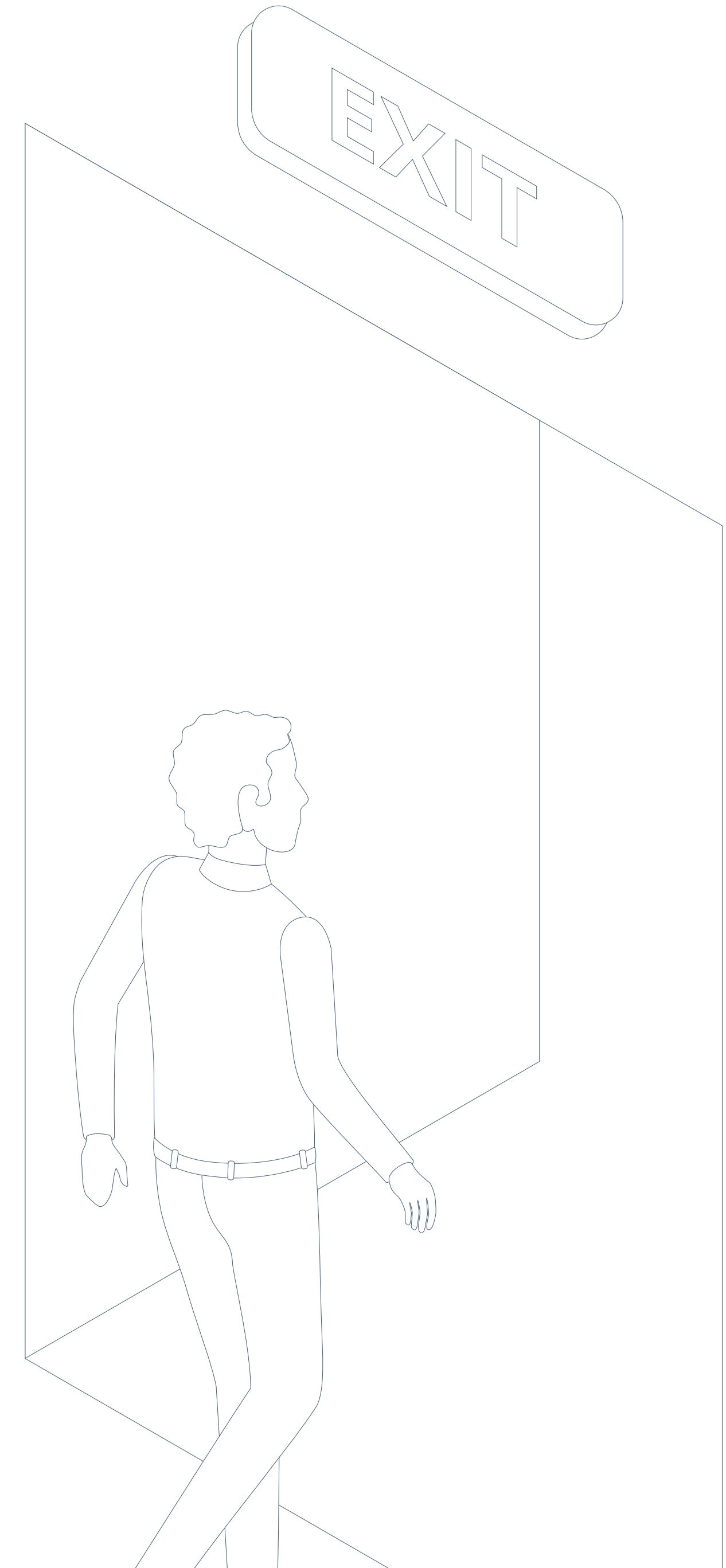
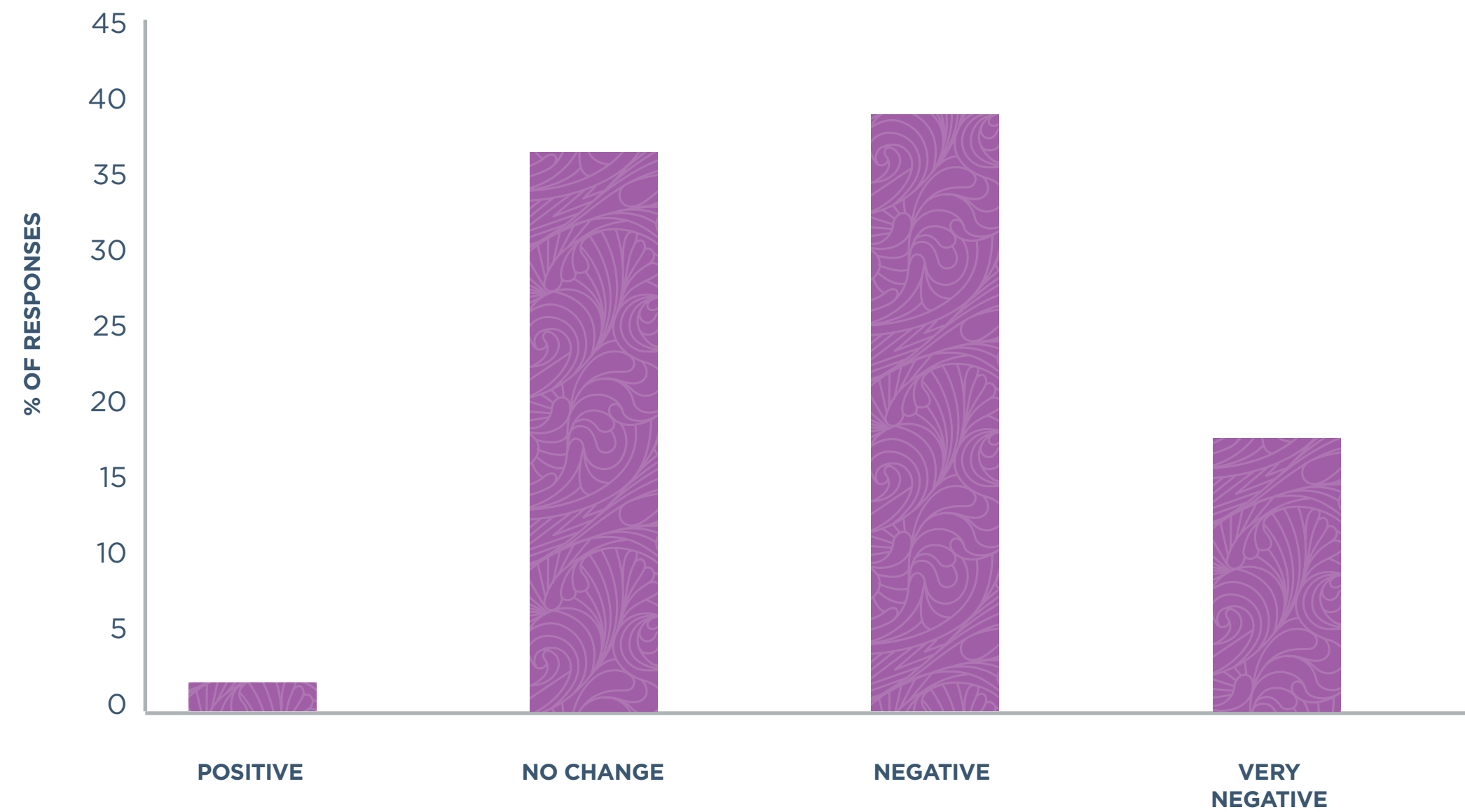
Chart: To what extent do you agree that staff home working in your organisation:



THE END OF THE UK'S TRANSITION PERIOD WITH THE EU

- We asked Scottish businesses about their experience in trading with the EU after the transition period ended on the 31st of December.
- Of the businesses who trade with the EU, 57% reported negative or very negative impacts on their trade, while 1% reported positive impacts.

Chart: Since the end of the transition period on the 31st December, are you experiencing any positive or negative impacts on your trade with the EU? Including firms which trade with the EU only.



**PROBLEMS. POSSIBILITIES.
COMPLEXITY. CLARITY.
OBSTACLES. OPPORTUNITIES.
THE DIFFERENCE IS IMAGINATION.**



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