

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 400 firms in December and January from across the Scottish economy.

The survey examined business sentiment in the fourth quarter of 2021 and the outlook and expectations through the end of 2021 and the beginning of 2022.

Our survey results show that business sentiment remained positive in the fourth quarter of 2021, with all core indicators except export activity remaining optimistic for the entirety of 2021.

WE ALSO FOUND THAT:

- All sectors reported positive net balances for volume of business for the third consecutive quarter.
- The main concerns for businesses currently were the costs of energy and the prices of inputs.
- 1 in 5 businesses expected to reduce operations due to the increases in electricity and gas prices, the same as quarter 3 of 2021.
- More than half of all responding businesses reported that they were finding it difficult or very difficult to source available goods and services.
- Two in every three firms in the manufacturing sector reported that they were finding it difficult or very difficult to source available goods and services.
- Over half of responding businesses currently had vacancies to fill staff, of which 81% reported it being difficult or very difficult to fill, a slight increase on Q3 of 2021.
- 23% of responding firms reported that they were finding it difficult or very difficult to retain current staff.



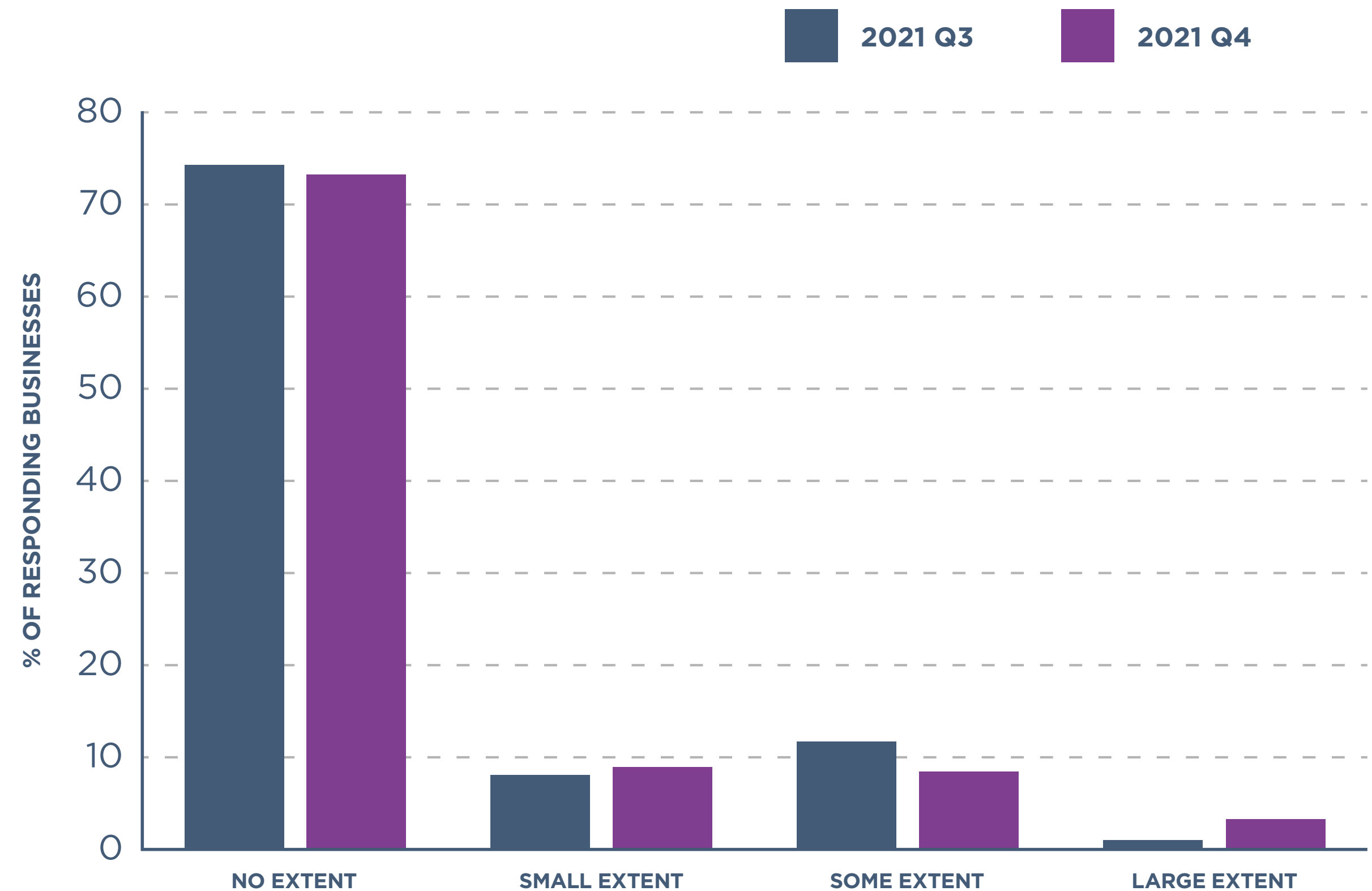
KEY RESULTS

OVER THE COMING MONTHS

- We asked businesses about the ongoing price increases in the energy sector, and how this was affecting their operations.
- **1 in 5** businesses expected to reduce their operations due to higher energy prices, with the majority reporting that the reduction would be to a small or moderate extent.
- The majority of businesses, **73%**, reported that they didn't expect to reduce operations.

Chart:

To what extent do you expect to reduce operations this year due to increases in gas and electricity prices?



*6% of businesses responded N/A; therefore, percentages won't sum to 100%

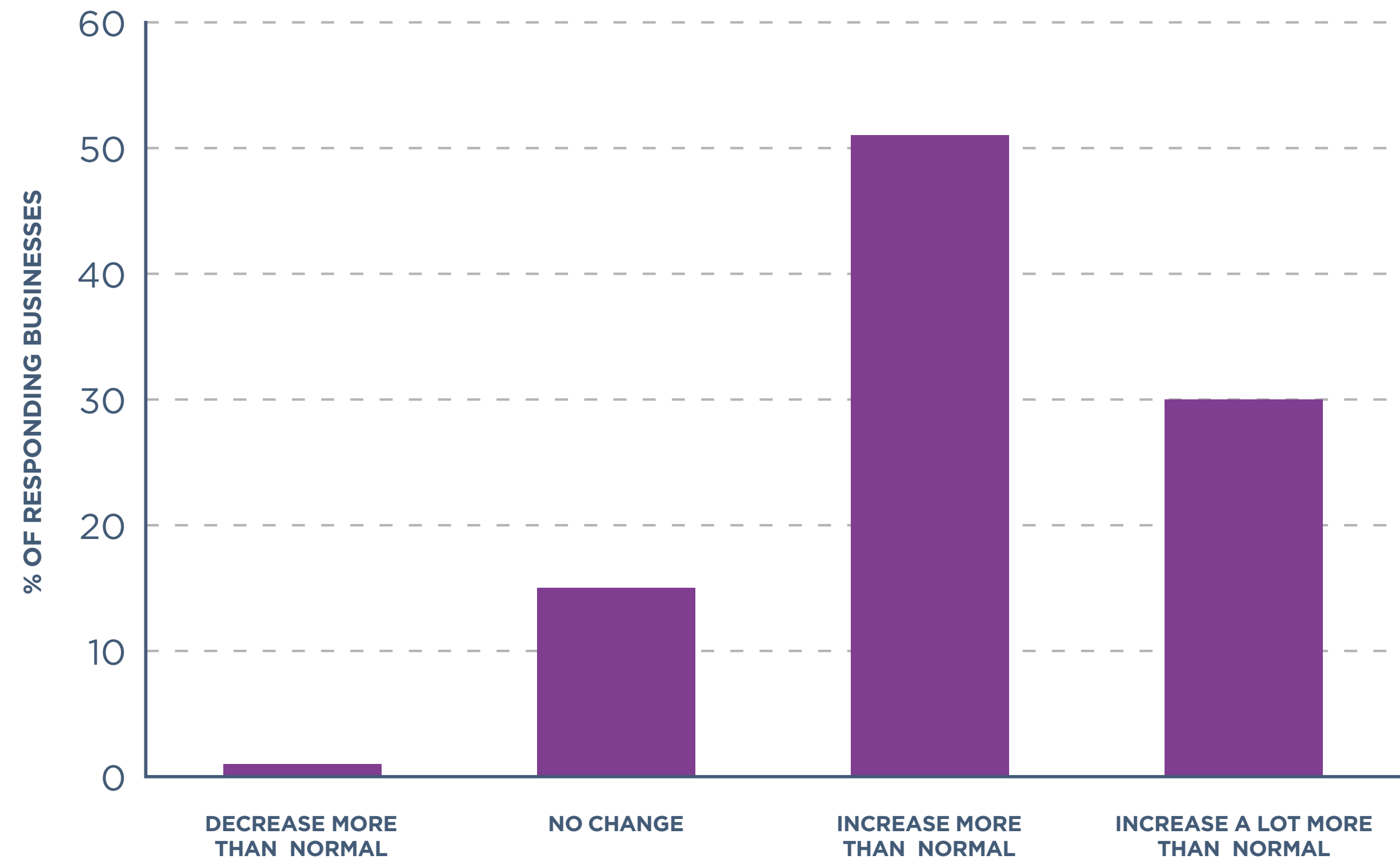
KEY RESULTS

OVER THE COMING MONTHS

- The inflationary pressures facing businesses also continue, with over **80%** of responding businesses reporting that they expect prices to increase more than normal, or a lot more than normal in the next 12 months. Only **1%** of firms expected prices to decrease in the next 12 months, with the remainder expecting no changes in prices.
- Both the construction and transport & storage sectors had the highest share of businesses expecting increased prices in the next 12 months (**91%**), followed by manufacturing (**88%**) and wholesale and retail (**84%**).

Chart:

Over the next 12 months, how do you expect the prices of your goods and services to change compared to normal?



*'Decrease a lot more than normal' was included as a response, but was excluded from analysis as no businesses responded with this.

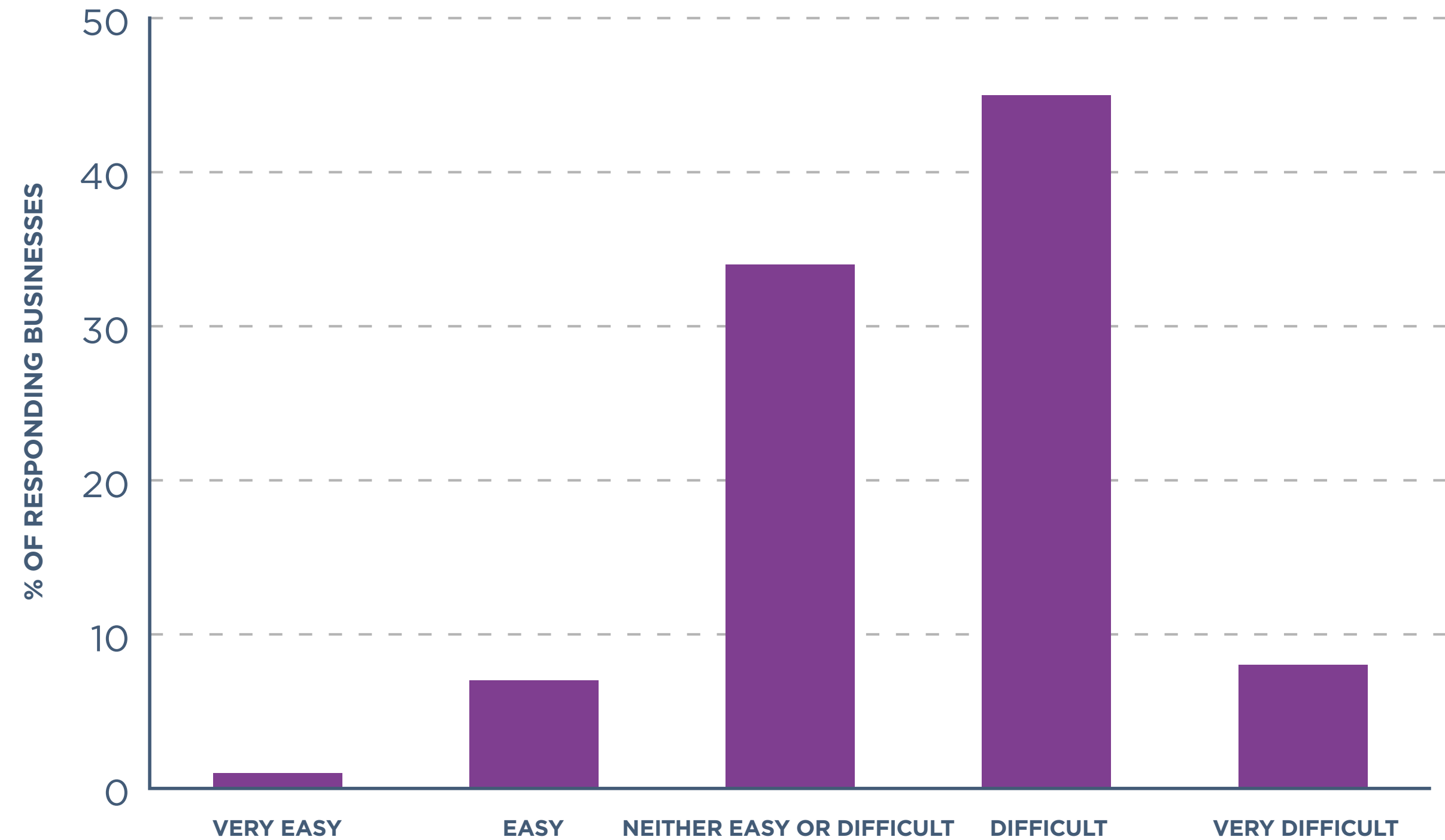
KEY RESULTS

OVER THE COMING MONTHS

- Given the uncertainty surrounding supply chains, we asked businesses about their experience in sourcing the goods and services that they purchase.
- More than half of all responding businesses reported that they were finding it difficult or very difficult to source available goods and services, with only 8% of businesses reporting that they were finding it easy to source available goods and services.
- The manufacturing sector had the highest share of business reporting that it was difficult to source available goods and services **(67%)**.
- More than half of responding businesses in the accommodation and food **(50%)**, construction **(54%)**, professional, scientific and technical **(59%)** and the wholesale & retail sector **(55%)** also reported difficulties.

Chart:

How easy or difficult are you finding it to source available goods and services in your business purchases?



*5% of businesses responded N/A; therefore, percentages won't sum to 100%

KEY RESULTS

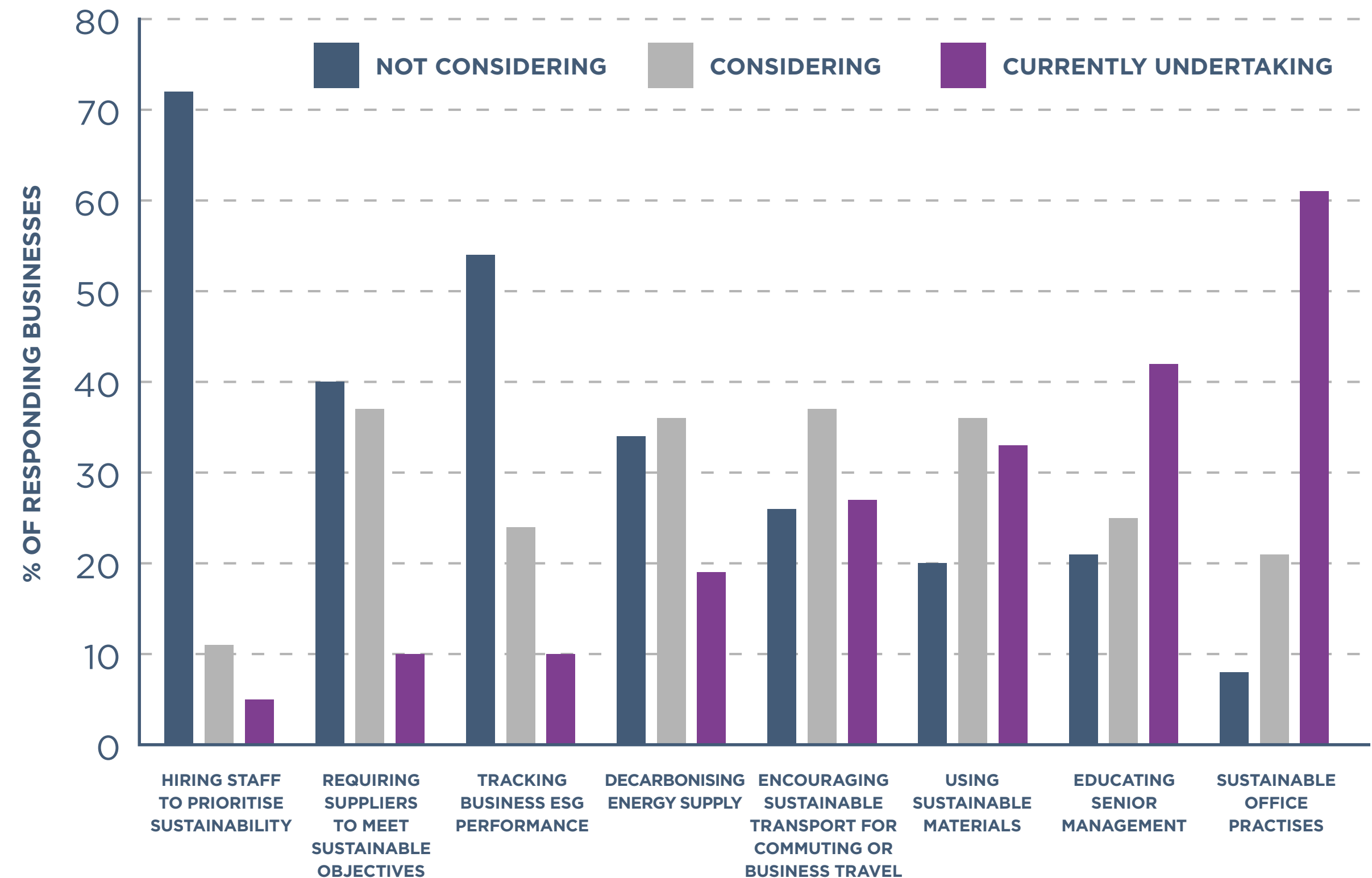
NET ZERO AMBITIONS

- The majority of businesses continued to be committed to achieving net zero. **16%** of responding firms had committed to achieving net zero by 2030, with **28%** of businesses committed but without setting a target deadline.
- **36%** of firms had not set a net zero target.
- We also asked firms what sustainable initiatives they were currently undertaking or considering.
- The most common initiative businesses were currently undertaking was adopting sustainable office practise such as recycling or reducing single-use plastics (**61%**).
- Other common practises being undertaken included educating senior management (**42%**) and using sustainable materials (**33%**).
- Around **1 in 3** businesses reported that they are considering decarbonising their energy supply, encouraging sustainable transport measures, requiring suppliers to meet sustainable objectives, and using sustainable materials.
- More than **70%** of responding businesses also reported that they were not currently considering employing staff to prioritise sustainability.
- We also asked businesses what factors have made it difficult to transition to a more sustainable business.
- The most common factor was the high costs associated with sustainable practises, with 91% of businesses responding this made the transition difficult.

- Business also reported that prioritising their covid recovery (**84%**) and the lack of government funding (**65%**) made it difficult.

Chart:

Which of these sustainable initiatives is your business currently undertaking or considering?



*Some businesses responded N/A; therefore, percentages may not sum to 100%

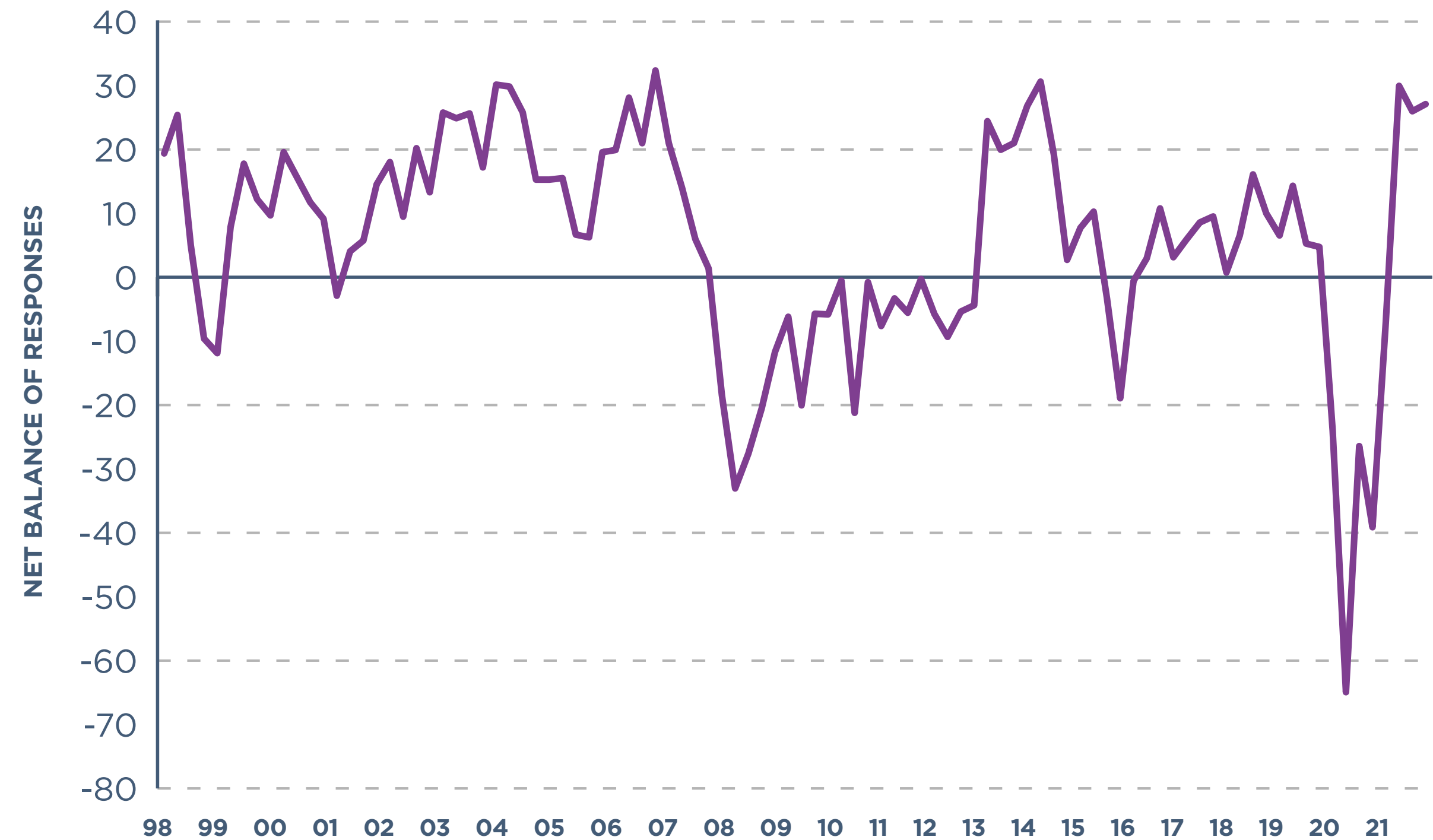
KEY RESULTS

THE EXPERIENCE OF FIRMS

- The net balance of firms reporting an increase in their volume of business over the fourth quarter of 2021 continued to be large and positive.
- Expectations for the first two quarters of 2022 were also positive, but had fallen slightly on previous quarters. There was also large and positive net balances in expectations for level of employment and turnover in the coming 6 months.

Chart:

Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 - Q4 2021



KEY RESULTS

THE EXPERIENCE OF FIRMS

- Most sectors continued to report a positive net balance for the third consecutive quarter, with only admin & support services experiencing no change in the net balance of firms experiencing an increase in the volume of business.
- **1 in 3** businesses reported higher volumes of business in the IT & comms sector, with high shares of business in the retail and wholesale (**39%**) and transport & storage (**25%**) also experiencing higher net balances.

Table:

- Net balance (%) of firms experiencing an increase in their volume of business over the past three months, Q4 2020 - Q4 2021

	2020	2021			
	Q4	Q1	Q2	Q3	Q4
MANUFACTURING	-24	5	45	36	4
CONSTRUCTION	-8	14	55	40	3
RETAIL & WHOLESALE	-33	-11	18	17	39
TRANSPORT & STORAGE	-53	-36	32	15	25
ACCOMMODATION & FOOD SERVICES	-92	-77	46	31	18
FINANCE & INSURANCE	-19	47	23	33	14
IT & COMMS	-38	3	44	29	33
ADMIN & SUPPORT SERVICES	-49	-13	26	7	0
PROFESSIONAL, SCIENTIFIC & TECHNICAL	-16	15	24	32	14

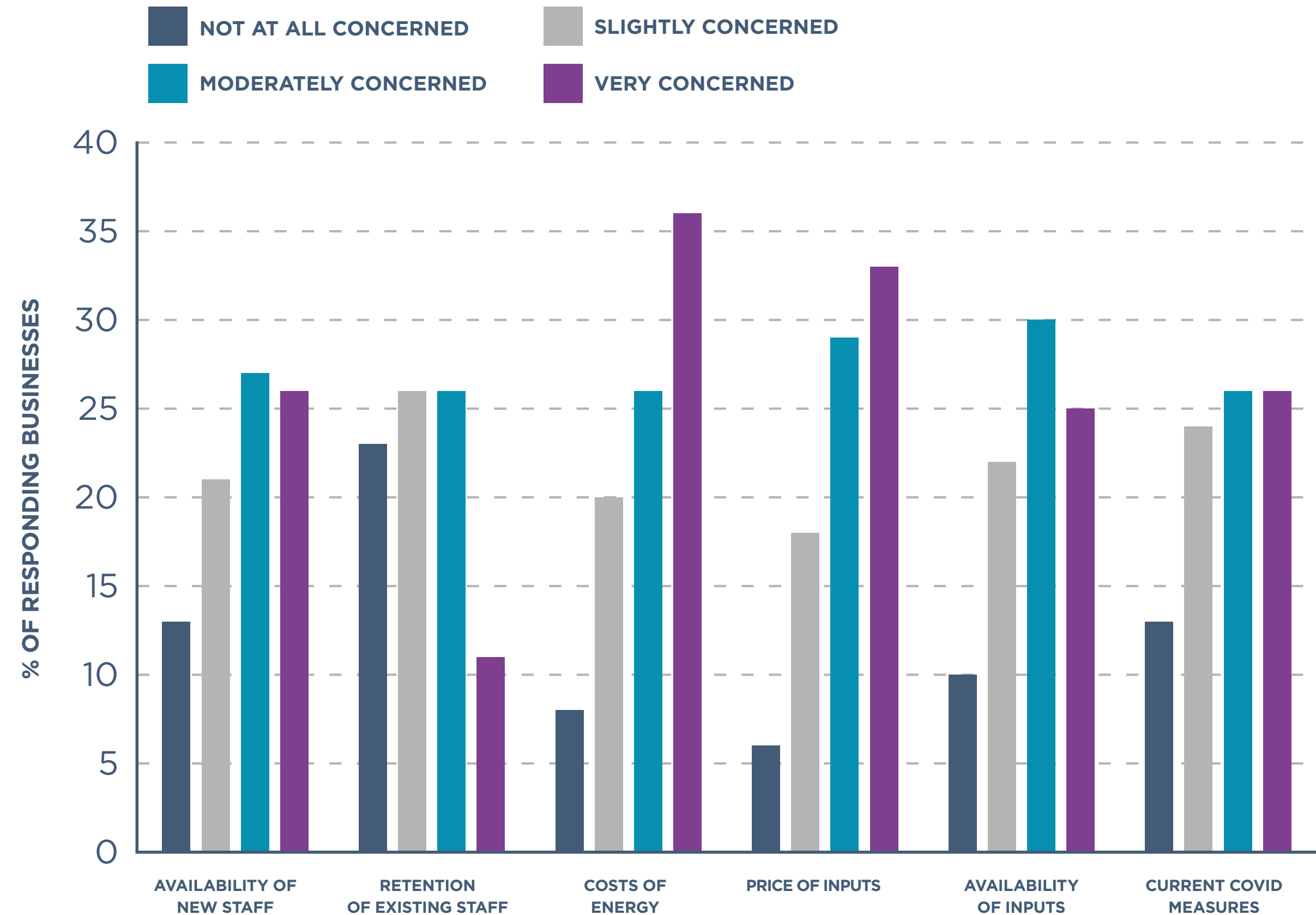
KEY RESULTS

THE OUTLOOK FOR THE YEAR

- The outlook on growth in the Scottish economy continues to moderate in the latest quarter. Only **7%** of businesses expected strong or very strong growth in the coming 12 months, compared to **10%** in the last quarter, and **17%** in quarter 2 of 2021.
- 1 in 3 firms expected moderate growth in the coming 12 months, with the share of firms expecting weak or very weak growth rising from **40%** in quarter 3 to **48%** in the latest quarter.
- Firms were asked what the biggest concerns for their business were.
- The most common concern among responding businesses was the cost of energy (**82%**), the price of inputs (**80%**) and the current covid measures (**77%**).

Chart:

Compared to normal, how concerned is your business about the following factors?



*Some businesses responded N/A; therefore, percentages may not sum to 100%

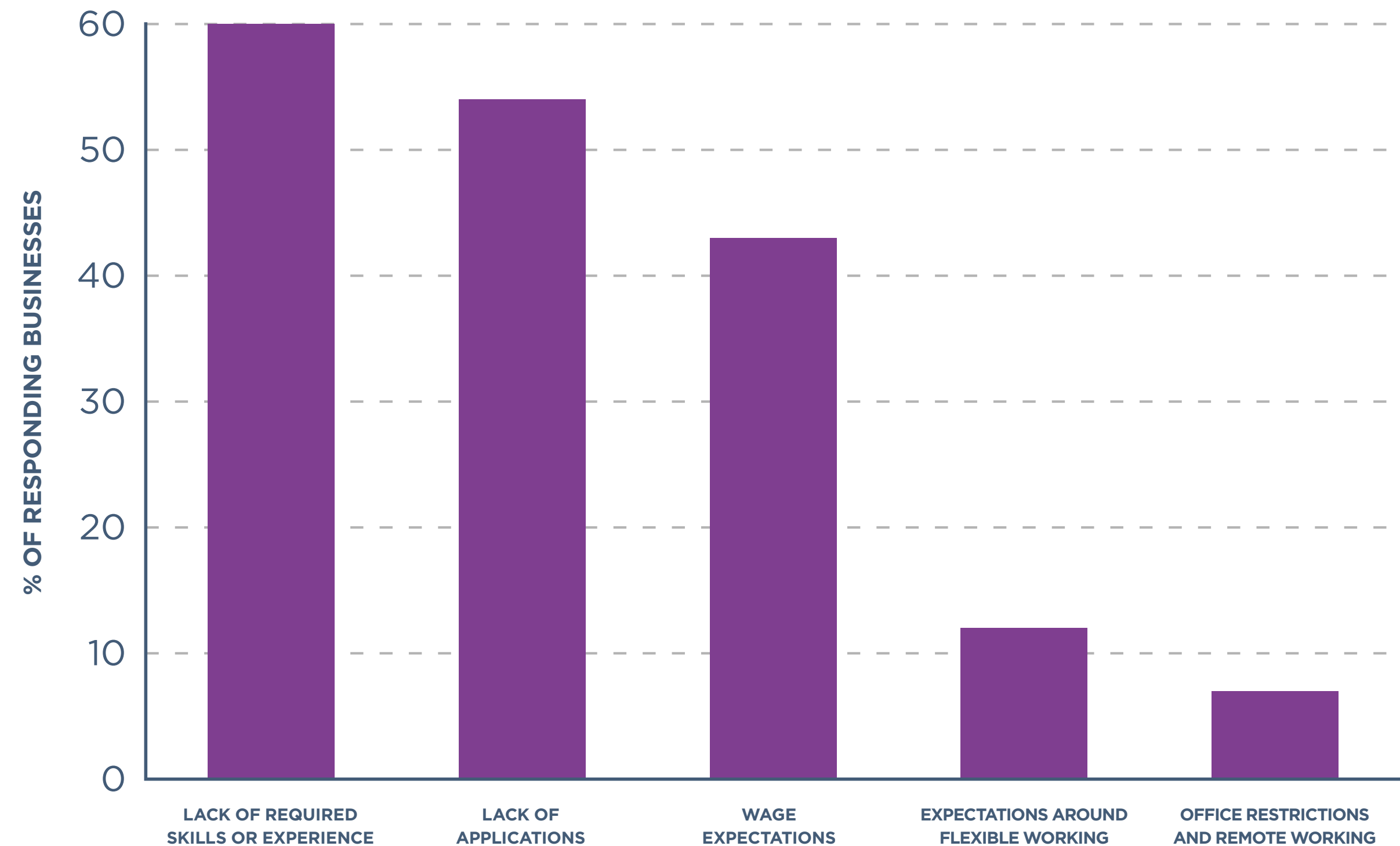
KEY RESULTS

VACANCIES

- More than half of responding businesses currently had vacancies to hire new members of staff.
- **1 in 5** business reported that they were finding it difficult or very difficult to retain current levels of staff, with **16%** reporting that it was easy or very easy.
- Lack of required skills and experience was the most common factor making filling vacancies difficult for firms (**60%**). **54%** of firms also reported that lack of applications had made filling vacancies hard, with wage expectations also making it difficult (**43%**).

Chart:

What factors have made filling vacancies difficult?



MORE IMAGINATION MORE IMPACT

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