

Scottish Chambers' Business Survey

Strathclyde University's Fraser of Allander Institute in collaboration with the Scottish Chambers' of Commerce conducts the quarterly Scottish Business Survey. In the present survey, which was conducted in June 2006, around 350 firms responded to the questionnaire.

Business performance

Recent past and next three months

Business confidence rose in manufacturing, construction and tourism, and the decline eased in retail.

Rising trends in demand were reported for a net of manufacturing and construction firms. In the service sector sales trends rose in retail, and the trend in total visitor numbers was stronger than a year ago in tourism. In retail the trends in sales were stronger than anticipated; whilst in tourism the trends in rest of UK and overseas visitors were better than in the same quarter in 2005.

Manufacturing respondents reported a rise in the volume of work in progress, average capacity used rose slightly to 79.8 per cent, and employment trends strengthened, as did the trend in hours worked. Construction firms reported a rise in average capacity used, and a strengthening in the level of work in progress, and expect a further increase in the level of work in progress over the next six months.

In the service sector wholesale respondents reported a weakening trend in sales. In retail a net increase in sales was reported, due mainly to rising sales trends being reported by national and city/town centre based retailers.

Overall 71 per cent of retail respondents (compared to 50 per cent in the first quarter) reported rising or level trends in sales. Tourism respondents reported good second quarter results, with rising trends in Rest of UK, Scottish and overseas visitor numbers.

of manufacturing respondents, 82 per cent of construction months and transport costs were cited as pressures on respondents.

Pay increases in the second quarter ranged from 3.49 per cent in retail to 4.8 per cent in construction. Recruitment activity ranged from 41 per cent of respondents in retail, 48 per cent in manufacturing, 58 per cent in construction, and 86 per cent in tourism.

Expectations for the next twelve months Manufacturing and construction respondents reported being more confident, at the end of June, in their expectations as to trends in turnover and profitability over the next twelve months.

Retail respondents are likewise more confident as to the forthcoming year, and now anticipate rising trends in turnover and only marginally easing trends in profitability. Tourism respondents expect rising demand in the third quarter.

Manufacturing

Optimism

Business confidence rose strongly in the second quarter, as the rising trends in total orders and work in progress strengthened.

Orders and Sales

The rising trends in total orders continued to strengthen. Once again respondents expect a further strengthening of trends in demand in the third quarter. Average capacity used rose marginally to 79.8 per cent, nevertheless, almost 50 per cent reported capacity used was below preferred levels. For a further quarter, expectations for the next twelve months are stronger than in the preceding survey.

Finance

Firms upgraded their expectations as to turnover and profitability trends over the next year.

Investment

Forty seven per cent reported revising investment and 22 per cent leasing plans for the coming year, and rising trends in investment were again reported. Investment in the current quarter was again mainly for the replacement of equipment and to increase efficiency.

Employment

Employment again rose marginally, and 48 per cent sought to recruit staff, 45 per cent reported difficulties in recruiting suitable staff and 22 per cent reported problems in retaining staffs.

Table 1: Manufacturing – key results

	Q2 2006		
	Up	Level	Down
Business Optimism	33	57.3	9.7
Trends in actual orders			
Total new orders	42.8	35.3	22
Scottish orders	22	64.7	13.3

Rest of UK orders	28.7	48.3	22.9
Export orders [41.6% = N/A]	19.8	21.6	17.1
Trends in expected orders			
Total new orders	33.5	49.7	16.7
Scottish orders	21.1	70.5	8.4
Rest of UK orders	22.2	59.6	18.2
Export orders [41.8% = N/A]	17	30.2	11
Av Capacity used	79.8		
Invest in plant/equip.	27.1	62.8	10.1
Cash flow past 3 moths	39.6	42.1	18.3
Turnover next 12 moths	57.8	33.5	8.8
Profitability next 12 moths	39.1	39.1	21.9
Price change next 3 moths	44.8	35.9	19.3
Pressures to raise prices from			
Pay settlements	23		
Raw material costs	71		
Finance costs	9		
Other overheads	37		
Transport costs	44		
Employment trends			
Total actual employment	16.6	69.6	13.8
Total expected next 3 months	24.9	61.2	13.9
Average pay increase	3.84		

Construction

Optimism

Business confidence strengthened in the second quarter.

Contracts

Rising trends in new contracts were reported in the three months to June and 86 per cent expect level or rising trends in the level of work in the second half of 2006.

Seventy six per cent (57 per cent and 56 per cent in the previous two quarters) reported operating at or above optimum rates in the second quarter, and average capacity used rose to 92 per cent.

For a further quarter respondents remain confident as to rising trends in turnover and 37 per cent anticipate rising profitability over the next twelve months. Whilst over 80 per cent expect the costs of building materials to rise and over 90 per cent increases in other operating costs, a level

trend in tender margins is expected to be sustained through to June 2007.

The levels of contracts and new work (reported by 55 per cent) and shortages of skilled labour (reported by 58 per cent) were again seen as the two factors most likely to restrict activity over the next quarter.

Investment

Changes in investment and in the leasing plans were limited; nevertheless, a slight downward revision in investment plans was reported. Investment authorised in the second quarter was again mainly for the replacement of equipment.

Employment

A strong rising trend in employment was reported, with a net of firms increasing permanent and temporary staffs and overtime levels. Increased use of sub contractors and self-employed is anticipated over the next three months.

Table 2: Construction – key results

	Q2 2006		
	Up	Level	Down
Business Optimism	26.3	57.9	15.8
Trends in actual contracts			
Total new contracts	36.8	36.8	26.3
Public sector orders	27.6	44.8	27.6
Private commercial	25	50	25
Domestic/house build	17.9	67.9	14.3
Trends in expected contracts			
Total new orders	27.8	61.1	11.1
Public sector orders	22.2	63	14.8
Private commercial	18.8	62.5	18.8
Domestic/house build	3.7	81.5	14.8
Trends in work in progress			
Actual	39.5	31.6	28.9
Expected	38.9	47.2	13.9
Capacity used	92		
Invest in plant/equip.	10.5	65.8	23.7
Leasing in plant/equipment.	5.4	81.1	13.5
Employment trends			
Total actual employment	34.2	57.9	7.9

Total expected next 3 months	20.6	70.6	8.8
Average pay increase	4.82		
Per cent recruiting staff	57.9		
Recruitment difficulties increasing	25		

Wholesale distribution

Optimism

Business confidence dipped in the second quarter, although the trends for the first half of 2006 are not as weak as the average for 2005.

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, the levels of competition and material costs being noted as the factors most likely to restrict sales over the next quarter.

Expectations of price increases remained widespread with more than 50 per cent of respondents expecting price increases in the third quarter.

Respondents were more cautious as to rising trends in turnover over the next twelve months, and concerns as to profitability were more evident than in the first quarter. Pressures on margins remain evident, and more evident than in the first quarter.

Investment

The percentage of respondents reporting changes to investment plans was again reported by 48 per cent of respondents.

Finance

The rising trend in cash flow weakened in the second quarter.

Employment

Changes in employment levels were at the margin, affecting less than 10 per cent; nevertheless, overall a declining trend was reported. Overall 50 per cent sought to recruit staff, and 29 per cent increased pay by an average of 3.23 per cent.

Table 3: Wholesale distribution – key results

		Q2 2006	
	Up	Level	Down
Business Optimism	20.8	41.7	37.5
Trend in actual sales	20.8	45.8	33.3
Trend in expected sales	21.7	43.5	34.8
Investment plans	29.2	58.3	12.5
Cash flow past 3 months	16.7	70.8	12.5
Turnover next 12 months	37.5	29.2	33.3
Profitability next 12 months	14.3	42.9	42.9
Price change next 3 Months	54.2	33.3	12.5
Pressures to raise prices from			
Pay settlements	29		
Raw material costs	62		
Finance costs	4		
Other overheads	29		
Transport costs	75		
Employment trends			
Total actual employment	0	81	19
Expected next 3 months	15.8	68.4	15.8
Average pay increase	4.5		
Per cent recruiting staff	50		
Recruitment difficulties	33		

Retail distribution

Optimism

Business confidence again remained weak, although rising sales were reported.

Sales

Changes in the levels of sales in the second quarter were widespread, being reported by over 60 per cent of

respondents. The outturn was stronger than anticipated, with a net rise in sales being reported.

Once again competition (reported by 56 per cent), legislation/regulation (reported by 39 per cent) and business rates (noted by 22 per cent) were identified as the three factors most likely to inhibit sales.

Fifty nine per cent reported utility costs, 52 per cent transport costs 38 per cent the costs of goods as the three main cost pressures.

Investment

Changes in investment plans were more widely evident, being reported by 35 per cent of respondents (compared to 25 per cent in the previous quarter); and a slight increase in investment plans was noted.

Finance

Overall cash flow trends were weaker than in the first quarter, however, expectations as to turnover and profitability over the next twelve months strengthened in the three months to June.

Employment

The net rise in employment strengthened, although a net decline in overtime working was reported. 36 per cent increased pay by an average of 3.49 per cent. Thirty per cent reported problems in recruiting suitable staffs and 20 per cent difficulties in retaining staffs.

Table 4: Logistics – key results

	Level	Q2 2006	
		Up	Down
Business Optimism	15.3	61	23.7
Trend in actual sales	35.6	35.6	28.8
Trend in expected sales	33.9	44.6	21.4
Investment plans	19	62.1	19
Cash flow past 3 months	19	62.1	19
Turnover next 12 months	39	32.2	28.8
Profitability next 12 months	31	36.2	32.8
Price change next 3 months	37.3	55.9	6.8
Pressures to raise prices from			

Pay settlements	36
Raw material costs	37
Finance costs	8
Other overheads	12
Transport costs	52
Utility costs	59
Regulation costs	34

Employment trends

Total actual employment	19	74.1	6.9
Expected next 3 months	10.2	83.7	6.1

Average pay increase	3.49
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Per cent recruiting staff	40.7
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Recruitment difficulties inc	30
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Tourism

Optimism

For a further quarter the rising trend in business confidence continued, again reflecting rising trends in visitor numbers.

Demand

The outturn in visitor numbers was stronger than anticipated, and stronger than in the second quarter of 2005. Rising trends in total, rest of UK, Scottish and overseas visitor numbers were reported. Average occupancy, at 77 per cent, was higher than in the second quarter of 2005.

Overall 22 per cent of business was local trade, 38 per cent tourist trade and 40 per cent business trade.

Finance

Almost two fifths reported increasing room rates in the second quarter and a third anticipate some increase in room rates in the third quarter of the year.

Employment

Changes in employment levels were again limited, being reported by 28 per cent nevertheless, the net increase in employment (mainly part time) was stronger than in the second quarter of 2005.

Recruitment

Eighty five per cent sought to recruit staff, and 64 per cent of those recruiting reported difficulties in recruiting suitable staffs, most notably in the recruitment of chefs/cooks. Fifty per cent increased pay by an average of 3.66 per cent.

Table 5 Tourism – key results

		Q2 2006	
	Up	Level	Down
Business Optimism	41.8	41.8	16.4
Trends in demand/visitors			
Total demand/visitors	40.7	38.9	20.4
Demand from Scotland	19.6	69.2	11.5
Demand from Rest of UK	30.8	53.8	15.4
Demand from abroad	35.3	37.3	27.5
Business Trade	24.5	55.1	20.4
Trends in expected demand			
Total demand/visitors	35.4	47.9	16.7
Demand from Scotland	23.3	69.8	7
Demand from Rest of UK	23.8	61.9	14.3
Demand from abroad	31	47.6	21.4
Business Trade	30	57.5	22.5
Capacity used	76.7		
Investment	37	50	13
Turnover past 3 months			
Average daily rate	39.6	41.5	18.9
Expected average daily rate	32.7	53.8	13.5
Employment trends			
Total actual employment	16.7	72.2	11.1
Expected next 3 months	13.7	76.5	9.8
Average pay increase	3.66		
Per cent recruiting staff	85.5		
Recruitment difficulties	64		

