

Scottish Chambers' Business Survey

The Fraser of Allander Institute at the University of Strathclyde in collaboration with the Scottish Chambers of Commerce conducts the Scottish Chambers' of Commerce Business Survey. In the present survey, which was conducted in March 2005, almost 400 firms responded to the questionnaire.

Recent past and next three months

Business confidence rose more strongly in manufacturing, construction and tourism, and continued to decline more modestly in wholesale distribution, however the decline in confidence was more widely evident amongst retail respondents.

The outturn in demand in all sectors, except retail, was better than had been expected. Demand strengthened in manufacturing, construction and tourism, the rising trends in wholesale levelled out and declining sales trends were more widely reported in retail distribution.

Manufacturing respondents reported an increase in the volume of work in progress and some increase in stocks. Average capacity used rose to 80.5% and the percentage reporting working below optimum levels fell to 45%. Construction firms reported an increase in average capacity used and more modest rising trends in work in progress, but expect these to strengthen over the first half of 2005.

In the service sector wholesale respondents reported a level trend in sales. In contrast declining sales were more widely reported by retail respondents, and a further decline is anticipated for the second quarter. Tourism respondents reported good first quarter results, and expect rising visitor numbers from all areas in the second quarter.

The likelihood of price increases remained unchanged in manufacturing and retail, but eased in wholesale. There was less evidence of discounting of room rates in the tourism sector than in previous first quarters.

Concerns as to the levels of orders/sales and competition eased slightly in the first quarter, being cited by 41% of manufacturers, 39% of construction and 44% of tourist respondents.

Pay increases in the first quarter were slightly less than in the previous quarter, and ranged from 3.44% in manufacturing to 5.5% in tourism. Recruitment activity was generally higher than in the previous quarter and difficulties in the recruitment of suitable staffs were again especially evident in construction, retail and tourism.

Expectations for the next twelve months

Manufacturing respondents anticipate more strongly rising trends in orders, turnover and profitability over the next twelve months. Construction respondents expect strongly rising turnover and profitability.

Retail respondents are less confident as to the year ahead, and now expect declining turnover and profitability. In contrast rising turnover, and profitability are more widely expected amongst tourism respondents.

Manufacturing

Optimism

The decline in business confidence, a feature of the last nine months ended, and a net increase in confidence was reported.

Orders and Sales

The trend in total orders strengthened in the first quarter, and respondents expect some modest strengthening of trends in the second quarter. Rising trends in orders from all areas were reported in the first quarter. Expectations for the next twelve months are again stronger than three months ago.

A rising trend in the level of work in progress re emerged and the current rise is expected to continue with some increases in stocks of raw materials and finished goods. A lower proportion (35%) reported operating at below optimum levels compared to quarter four (53%).

Finance

The downward trend in cash flow continued but eased substantially, and firms again upgraded their expectations as to the trends in turnover and profitability over the next year. However, there continue to be some signs of pressures on profit margins.

Price pressures again increased and concerns as to raw material costs remained widespread and concerns as to pay costs rose in the first quarter.

Investment

43% reported revising investment plans for 2005. Investment in the current quarter was again mainly directed towards increasing efficiency and for the replacement of equipment. Investment for R & D and to develop new markets/products, whilst low, improved marginally.

Employment

Employment rose slightly, and a higher percentage (54%) sought to recruit staff.

Table 1: Manufacturing – key results

	Percentages			
		Up	Level	Down
Business Optimism	29.4	47.7	22.9	
Trends in actual orders				
Total new orders	45.8	29.4	24.7	
Scottish orders	26.4	54.6	19.0	
Rest of UK orders	30.8	46.4	22.8	
Export orders [37.2% = N/A]	23.4	24.2	15.3	
Trends in expected orders				
Total new orders		36.2	51.6	12.2
Scottish orders		22.9	69.4	7.7
Rest of UK orders		26.8	61.1	12.1
Export orders [37.2% = N/A]		20.3	31.8	10.3
Av Capacity used	80.5			
Invest in plant/equip.	28.1	57.1	14.8	
Cash flow past 3 mths	26.3	48.8	24.8	
Turnover next 12 mths	54.2	30.4	15.3	
Profitability next 12 mths	40.3	34.0	25.7	
Price change next 3 mths	39.8	56.4	3.8	
Pressures to raise prices from				
Pay settlements	37.1			
Raw material costs	70.9			
Finance costs	13.3			
Other overheads	42.0			
Transport costs	43.4			
Employment trends				
Total actual employment	20.9	62.6	16.5	
Total expected next 3	32.3	50.0	17.7	

months

Average pay increase 3.44

Construction

Optimism

The rate of increase in business confidence strengthened in the first quarter, as the outturn in orders was better than anticipated.

Contracts

The rising trends in the value of new contracts continued, again driven by both public and private sector work. The level of domestic build work contracts continues to ease, but public, commercial and domestic house build orders are expected to increase. Firms continue to report rising trends in the level of work in progress and 28% expect the level of work in progress to rise over the next six months.

74% reported operating at or above optimum rates in the first quarter, and average capacity used rose to 90%.

Respondents expect an improvement in tender margins through 2005, and over 80% expect building and other costs to rise in 2005. Nevertheless, both turnover and profitability is expected to strengthen over the next twelve months.

The shortages of skilled labour and to a lesser extent the level of new contracts, availability of contractors and business capacity were seen as the four factors most likely to restrict activity.

Investment

Rising trends in investment and leasing were again reported, and once again investment in the first quarter was mainly for the replacement of equipment and to increase efficiency.

Employment

A rising trend in employment was reported. 76% sought to recruit staff (56% in the previous quarter) and 34% reported increasing pay by an average of 4.4% (3.8%, 5.7% and 4.88% in the previous three quarters).

Table 2: Construction – key results

	Percentages			
		Up	Level	Down
Business Optimism	36.6	58.5	4.9	

QUARTERLY ECONOMIC COMMENTARY

Trends in actual orders

Total new orders	40.0	50.0	10.0
Public sector orders	46.4	39.3	14.3
Private commercial	29.4	50.0	20.6
Domestic/house build	17.9	67.9	14.3

Trends in expected orders

Total new orders	34.2	60.5	5.3
Public sector orders	23.1	69.2	7.7
Private commercial	31.3	56.3	12.5
Domestic/house build	26.9	65.4	7.7

Trends in work in progress

Actual	25.0	57.5	17.5
Expected	35.0	57.5	7.5

Capacity used

90.3

Invest in plant/equip.	25.6	66.7	7.7
Leasing in plant/equipt.	25.0	72.2	2.8

Employment trends

Total actual employment	26.8	58.5	14.6
Total expected next 3 months	31.6	68.4	0.0

Average pay increase 4.39

Percent recruiting staff 75.6

Recruitment difficulties inc. 36.4

Wholesale distribution

Optimism

The decline in business confidence eased in the first quarter, reflecting weak, but better than anticipated sales.

Sales

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

For a further quarter the level of competition, along with business rates were seen as the factors most likely to restrict sales over the second quarter.

Expectations of price increases eased slightly, but remain widespread. This may explain the level trend in expectations as to profitability over the next twelve months.

Concerns as to transport costs are now at their highest for five years and together with raw material costs were the most widely cited pressure on prices.

Investment

For a further quarter 27% reported rising trends in investment intentions, although the majority reported no change.

Finance

A rising trend in cash flow was reported, expectations as to trends in turnover improved, and respondents now expect a level trend in profitability over the next twelve months.

Employment

Rising trends in employment were reported as 38% sought to recruit staff. 52% increased pay by an average of 4.45% (compared to 3.2%, 4.15% and 3.19% in the previous three quarters).

Table 3: Wholesale distribution – key results

	Percentages		
	Up	Level	Down
Business Optimism	17.2	58.6	24.1
Trend in actual sales	27.6	44.8	27.6
Trend in expected sales	28.0	44.0	28.0
Investment plans	27.6	65.5	6.9
Cash flow past 3 months	28.6	64.3	7.1
Turnover next 12 months	44.8	31.0	24.1
Profitability next 12 months	31.0	37.9	31.0
Price change next 3 Months	50.0	46.4	3.6
Pressures to raise prices from			
Pay settlements	34.5		
Raw material costs	51.7		

Finance costs	17.2
Other overheads	34.5
Transport costs	75.9

Employment trends

Total actual employment	15.4	73.1	11.5
Expected next 3 months	12.0	80.0	8.0

Average pay increase 4.45

Percent recruiting staff 37.9

Recruitment difficulties 62.5

Retail distribution

Optimism

The declining trends in confidence continued and deepened, as sales trends were weaker than anticipated.

Sales

Declining trends in sales were widespread amongst both smaller and larger firms, and a decline, at more modest levels, is forecast for the second quarter. Retailers employing more than 50 staff generally reported and expect more modest declines in sales than smaller firms.

Competition, business and interest rates were again identified as the three factors most likely to inhibit sales over the first quarter.

Investment

A level trend in investment intentions was reported in the first quarter.

Finance

The rising cash flow trends continued, although at more modest levels than in previous quarters.

Overall, respondents are again less optimistic as to profitability and turnover trends over the next twelve months. For a further quarter larger firms anticipate rising trends in turnover and profitability, whereas a net of smaller firms anticipate level trends in turnover and declining profitability.

Cost pressures continued at a high level, with larger firms being more concerned as to the costs of pay settlements and finance costs, whilst smaller retailers

were more concerned as to transport costs. Price pressures remain high, but are again most strongly anticipated by smaller firms.

Employment

The slight decline in employment ended, but the increase is not expected to continue through the second quarter. 36% recruited staff, and 49% reported difficulties in recruiting suitable staffs. 23% increased pay by an average of 3.88%.

Table 4: Retail distribution – key results

	Percentages		
	Up	Level	Up
Business Optimism	9.9	50.7	39.4
Trend in actual sales	18.3	39.4	42.3
Trend in expected sales	13.2	51.5	35.3
Investment plans	18.8	62.3	18.8
Cash flow past 3 months	14.3	72.9	12.9
Turnover next 12 months	26.8	40.8	32.4
Profitability next 12 months	25.0	33.8	41.2
Price change next 3 months	47.9	39.4	12.7
Pressures to raise prices from			
Pay settlements	32.4		
Raw material costs	22.5		
Finance costs	15.5		
Other overheads	52.1		
Transport costs	46.5		
Employment trends			
Total actual employment	11.6	78.3	10.1
Expected next 3 months	8.2	80.3	11.5
Average pay increase	3.88		
Percent recruiting staff	35.7		
Recruitment difficulties inc	21.6		

TOURISM

Optimism

A rising trend in business confidence was reported.

Demand

The outturn in demand was stronger than anticipated, and for a further quarter rising trends in demand were reported for total and Scottish demand.

Overall 32% of business was local trade [26%, 17%, 22% and 31% in previous quarters], 34% tourist trade [39%, 58%, 51% and 46% in the previous three quarters] and 34% business trade [35%, 24%, 31% and 33% in the previous quarters].

Finance

57% reported rising turnover and 47% rising profitability over the past three months. The reduction in room rates, a feature of past first quarters was less in evidence.

Concerns as to the lack of demand were little different from previous first quarters.

Employment

Changes in employment were again at the margin, affecting 24% of respondents, and the decrease was slightly less than had been anticipated.

Recruitment

82% sought to recruit staff, and 18% reported that difficulties in recruiting staff had increased, overall 55% of those recruiting reported difficulties in recruiting suitable staffs. 31% increased pay by an average of 5.5% [6%, 4.95% and 4.91% in the previous quarters].

Capacity used	55.6		
Investment	26.6	60.8	12.7
Turnover past 3 months	57.1	20.4	22.4
Profitability past 3 months	46.7	34.7	18.7
Average daily rate	35.1	48.6	16.2
Expected average daily rate	37.8	55.4	6.8
Employment trends			
Total actual employment	6.7	76.0	17.3
Expected next 3 months	26.0	65.8	8.2
Average pay increase	5.5		
Percent recruiting staff	82.4		
Recruitment difficulties	55.3		

Table 5: Tourism – key results

	Percentages		
	Up	Level	Up
Business Optimism	34.2	50.6	15.2
Trends in demand/visitors			
Total demand/visitors	40.0	29.3	30.7
Demand from Scotland	28.2	47.9	23.9
Demand from Rest of UK	30.6	36.1	33.3
Demand from abroad	14.1	50.7	35.2
Business Trade	37.5	37.5	25.0
Trends in expected demand			
Total demand/visitors	32.0	56.0	12.0
Demand from Scotland	27.4	64.4	8.2
Demand from Rest of UK	31.5	58.9	9.6
Demand from abroad	22.5	60.6	16.9
Business Trade	25.0	61.1	13.9

