

# Scottish Chambers' Business Survey

Strathclyde University's Fraser of Allander Institute in collaboration with the Scottish Chambers' of Commerce conducts the quarterly Chambers' Business Survey. In the present survey, which was conducted in June and early July, some 400 firms responded to the questionnaire.

## Recent past and next three months

Rising trends in business confidence were reported in construction, wholesale distribution and tourism, but eased in manufacturing and remained weak in retail.

Rising trends in orders/sales were again reported in manufacturing, construction and wholesale distribution, and the rising trend in visitor demand was stronger than anticipated in tourism; retail respondents are now also reporting rising sales trends. Overall the outturn in orders and sales was stronger than expected in wholesale, as anticipated in manufacturing, but weaker than expected in construction and retail distribution.

Manufacturing respondents reported the strongest trends in orders since 1999, and remain confident of rising trends in orders in 2004/5. Construction likewise reported rising trends in orders and expect this increase to continue in the third quarter of 2004. Modestly rising sales trends were evident in retail. The rising trends in total numbers of guests in tourism were the strongest second quarter figures since 1996.

Manufacturing respondents reported slightly rising trends in the level of work in progress, nevertheless a net of 46% reported operating below optimum levels and remain concerned as to the low levels of orders and sales. Orders in construction continue to be driven by private commercial and house building activities and this pattern is expected to continue through the third quarter. In the service sector the weak, but positive trends in sales are expected to continue. In contrast stronger visitor demand from all areas is expected by tourism respondents.

Investment plans in manufacturing continue to focus largely around the replacement of equipment and increasing efficiency rather than R & D or investment to introduce new products and develop new markets. Likewise in construction investment continues to be mainly for replacement.

Rising trends in raw material and transport costs were more widely evident in manufacturing, wholesale and retail distribution, and more widely based pressures on margins are evident for the next twelve months, as are the concerns as to the impact of rising interest rates.

Whilst pay increases were more widely based in the second quarter pay pressure remains subdued.

## Expectations for the next twelve months

Manufacturing respondents anticipate more modestly rising trends in turnover but easing profitability over the next twelve months and are more cautious than at the end of March as to the strength of rising trends in total, Scottish/RUK and export orders over the next year. Construction firms continue to anticipate strongly rising turnover in 2004/5.

In wholesale and retail distribution the expectations for 2004/5 are of increasing turnover but level trends in profitability.

## Manufacturing

### Optimism

The rising trend in business confidence, a feature of the past six months ended and business confidence eased to a net of -7%.

### Orders and Sales

The rising trend in orders, first noted in the fourth quarter of 2003 continued and strengthened with rising trends in total and export orders. Total sales likewise strengthened with rising trends in total, RUK and export sales. The rising trends in orders is expected to ease in the third quarter, nevertheless, a net of firms anticipate rising export orders over the next twelve months.

The rising trend in the level of work in progress is expected to ease in the third quarter and whilst 47% reported operating at preferred levels, 50% reported operating below optimum levels.

### Finance

The downward trend in the rate of cash flow continued and eased for a further quarter. Respondents are now more cautious in their assessments as to the trends in turnover and profitability over the next year than at the end of March.

Concerns as to raw material and transport costs rose and were widely reported.

### Investment

48% reported changing investment plans for 2004/5. Investment in the current quarter was again mainly authorised towards increasing efficiency [35%] and replacing equipment [32%]. 9% reported investment for R & D for new products and processes and 11% investment into new products and markets.

### Employment

As anticipated the decline in employment ended and a slight rise was reported (a net increase of 4%) and a net of 11% reported a rising trend in total hours worked.

47% recruited staff and 40% increased pay by an average of 3.45%

**Table 1 Manufacturing - key results**

	Up	Level	Percentages Down
<b>Business Optimism</b>	<b>20.6</b>	<b>52.2</b>	<b>27.2</b>
<b>Trends in actual orders</b>			
Total new orders	37.1	34.8	28.1
Scottish orders	19.1	54.0	26.8
Rest of UK orders	21.9	52.3	25.7
Export orders [32.7% = N/A]	20.8	30.2	16.3
<b>Trends in expected orders</b>			
Total new orders	26.8	52.8	20.4
Scottish orders	12.6	67.1	20.3
Rest of UK orders	19.3	60.0	20.7
Export orders [35.11 = N/A]	16.7	30.6	17.6
<b>Av Capacity used</b>	<b>75.7</b>		
<b>Invest in plant/equip.</b>	<b>29.0</b>	<b>52.3</b>	<b>18.6</b>
<b>Cash flow past 3 months</b>	<b>24.6</b>	<b>45.6</b>	<b>29.8</b>
<b>Turnover next 12 months</b>	<b>36.3</b>	<b>43.4</b>	<b>20.3</b>
<b>Profitability next 12 months</b>	<b>31.6</b>	<b>35.2</b>	<b>33.2</b>
<b>Price change next 3 months</b>	<b>27.3</b>	<b>68.8</b>	<b>4.0</b>
<b>Pressures to raise prices from</b>			
Pay settlements	27.4		
Raw material costs	62.2		
Finance costs	13.7		
Other overheads	30.6		
Transport costs	48.2		
<b>Employment trends</b>			
Total actual employment	15.3	73.7	11.0
Total expected next 3 months	15.2	74.0	10.8
Average pay increase	3.45		
Percent recruiting staff	46.7		
Retention difficulties	13.9		

## Construction

### Optimism

Business confidence strengthened through the second quarter, reflecting continued rising trends in orders and expectations of rising turnover through 2004/5.

### Orders

The rise in the trend in total orders was less than forecast, and continued to be driven by rising private commercial and domestic/house building work. This rising trend is expected to continue through the third quarter of 2004.

24% reported and 26% expect rising trends in the level of work in progress in the third quarter. Nevertheless, a net of 31% [36% in the previous quarter] reported working at below optimum levels, and the weakness in demand, together with shortages of skilled labour, continues to be identified as the main factors inhibiting activity.

A net of 25% [23% in the previous quarter] expect turnover, and a net of 10% [17% in the previous quarter] expect profitability to rise during the next twelve months. 73% of respondents expect material and 69% other building costs to rise leading to some pressure on margins over the next year.

### Investment

Anticipated changes to investment plans over 2004/5 were reported by 40%, Investment in 2004/5 is planned mainly for the replacement of equipment [56%], increasing efficiency [25%], increasing capacity [14%] and to complete new contracts [12%].

### Employment

For a further quarter the rise in employment was as anticipated, and a rising trend is expected through the third quarter. 35% increased pay by an average of 4.88% [4.65% in the previous quarter], and 62% sought to recruit staff in the second quarter, again mainly manual staffs.

**Table 2 Construction - key results**

	Up	Level	Percentages Down
<b>Business Optimism</b>	<b>23.5</b>	<b>60.8</b>	<b>15.7</b>
<b>Trends in actual orders</b>			
Total new orders	32.7	40.4	26.9
Public sector orders	17.5	50.0	32.5
Private commercial	28.6	50.0	21.4
Domestic/house build	26.2	59.5	14.3
<b>Trends in expected orders</b>			
Total new orders	25.0	54.2	20.8
Public sector orders	20.0	57.1	22.9
Private commercial	34.2	55.3	10.5
Domestic/house build	29.7	51.4	18.9
<b>Trends in work in progress</b>			
Actual	23.5	52.9	23.5
Expected	26.0	58.0	16.0

Capacity used	86.7		
Invest in plant/equip.	22.0	60.0	18.0
Leasing in plant/equipment	8.3	70.8	20.8
Employment trends			
Total actual employment	27.5	56.9	15.7
Total expected next 3 months	19.1	70.2	10.6
Average pay increase	4.88		
Percent recruiting staff	61.5		
Recruitment difficulties inc.	28.9		

## Wholesales distribution

### Optimism

Changes in business confidence were less broadly based, and the rising trend in business confidence re-emerged.

### Sales

The outturn in sales whilst largely unchanged was far better than anticipated. Nevertheless, firms remain uncertain as to whether these rising trends will continue through the next quarter. Concerns as to competition remained the factor thought most likely to limit activity in the next quarter, being cited by over 50% of respondents.

Expectations of increasing prices remain high with 59% expecting an increase, the highest figure for more than five years. Transport costs and raw material costs were again the most widely cited pressures on prices, and were more widely cited than in previous quarters.

### Investment

Changes in investment plans were reported by 37%, and the slightly rising trend in investment intentions continued.

### Finance

A modestly rising trend in cash flow was reported in the three months to July, however 71% reported no change. Turnover is still expected to rise and profitability is again expected to decline over the next year, suggesting increased expectations of pressures on margins.

### Employment

Changes to employment levels were again limited; affecting a third, nevertheless, a rise in employment and overtime levels was reported. 25% reported increasing pay by an average of 3.19%.

## Table 3 Wholesale distribution - key results

	Up	Level	Percentages Down
Business Optimism	18.8	65.6	15.6
Trend in actual sales	43.8	37.5	18.8
Trend in expected sales	22.6	45.2	32.3
Investment plans	25	62.5	12.5
Cash flow past 3 months	16.1	71.0	12.9
Turnover next 12 months	43.8	31.3	25.0
Profitability next 12 months	28.1	34.4	37.5
Price change next 3 months	65.6	28.1	6.3

Pay settlements	31.3
Raw material costs	62.5
Finance costs	21.9
Other overheads	25.0
Transport costs	68.8

Employment trends			
Total actual employment	25.0	65.6	9.4
Expected next 3 months	16.7	80.0	3.3

Average pay increase	3.19
Percent recruiting staff	40.6
Recruitment difficulties	52.6

## Retail distribution

### Optimism

For a further quarter changes in business confidence were again broadly based, and reported by 43%; and the decline in business confidence continued notwithstanding modestly rising sales trends.

### Sales

The declining trends in sales ended and a slight rise in sales was reported. Sales trends are expected to rise further through the third quarter of 2004.

Changes in market trends were less widespread than in previous quarters and suggesting less market volatility than in the first quarter.

A net of 30% [25% in the previous quarter] anticipate rising prices in the third quarter, concerns as to transport costs, and to a lesser extent raw material costs were identified as

the main pressures on prices. For a further quarter concerns as to the level of competition, and increasingly interest rates, were identified as the factors most likely to restrict sales.

#### Investment

Investment plans eased for a small net balance of firms.

#### Finance

A modestly rising trend in cash flow patterns was reported. Respondents are now more optimistic with respect to turnover but less optimistic as to profitability trends over the next twelve months, than they were at the end of March, suggesting increased pressures on margins.

#### Employment

The outturn in employment was weaker than anticipated, and the decline in employment resumed, although once again a slight rise is forecast for the next quarter. 44% recruited staff in the second quarter and 44% increased pay by an average of 3.59% [4.28% in the previous quarter].

**Table 4 Retail distribution - key results**

	Up	Level	Percentages Down
Business Optimism	16.7	56.7	26.7
Trend in actual sales	27.0	48.3	24.7
Trend in expected sales	23.8	58.3	17.9
Investment plans	13.3	67.8	17.8
Cash flow past 3 months	18.4	70.1	11.5
Turnover next 12 months	33.3	50.0	16.7
Profitability next 12 months	33.3	34.5	32.2
Price change next 3 months	34.4	61.1	4.4
Pressures to raise prices from			
Pay settlements	23.3		
Raw material costs	26.7		
Finance costs	23.3		
Other overheads	32.2		
Transport costs	44.4		
Employment trends			
Total actual employment	9.1	78.4	12.5
Expected next 3 months	6.1	89.0	4.9
Average pay increase	3.59		
Percent recruiting staff	44.4		
Recruitment difficulties	33.9		

## Tourism

#### Optimism

The rising trend in business confidence continued through the second quarter, and was at the same level as in the second quarter of 2003.

#### Demand

The outturn in demand improved and was again better than anticipated. Modestly rising trends in demand from Scotland and stronger business demand and demand from the rest of UK coupled with rising and better than forecast trends in overseas numbers underpinned the overall rising demand. Average occupancy in the second quarter was higher than in the previous three years.

Overall 22.5% of business was local trade [31% in the previous quarter], 51% tourist trade [46% in the previous quarter], and 31% business trade [33% in the previous quarter].

95% of respondents reported having an email address and 81% a web site, 64% using these to take bookings.

#### Investment

The rising trend in investment continued, although at more modest levels, and the once again the main reasons for authorising investment were again to replace/renew facilities or to improve facilities.

#### Finance

Strongly rising turnover trends were reported and, as forecast a net of 25% reported increased the average daily room rates.

#### Employment

63% reported no change to overall employment levels and a widespread rise in employment was reported, reflecting the seasonal nature of the sector.

#### Recruitment

Recruitment activity increased with 69% seeking to recruit staff. 66% of those recruiting staff reported difficulties in attracting suitable staffs. 63% reported increasing pay by an average of 4.91% (compared to 5.6% in the previous quarter).

**Table 5 Tourism - key results**

	Up	Level	Percentages Down
<b>Business Optimism</b>	<b>29.9</b>	<b>59.7</b>	<b>10.4</b>
<b>Trends in demand/visitors</b>			
Total demand/visitors	53.7	28.4	17.9
Demand from Scotland	27.7	56.9	15.4
Demand from Rest of UK	38.5	47.7	13.8
Demand from abroad	39.1	35.9	25.0
Business Trade	51.5	27.3	21.2
<b>Trends in expected demand</b>			
Total demand/visitors	39.1	45.3	15.6
Demand from Scotland	22.4	67.2	10.3
Demand from Rest of UK	34.5	53.4	12.1
Demand from abroad	29.3	44.8	25.9
Business Trade	29.0	51.6	19.4
<b>Capacity used</b>	<b>70.1</b>		
<b>Investment</b>	<b>25.8</b>	<b>57.6</b>	<b>16.7</b>
Turnover past 3 months	56.8	27.0	16.2
Costs past 3 months	55.6	41.3	3.2
Average daily rate	33.3	58.3	8.3
Expected average daily rate	40.0	51.4	8.6
<b>Employment trends</b>			
Total actual employment	24.2	69.4	6.5
Expected next 3 months	8.1	87.1	4.8
Average pay increase	4.91		
Percent recruiting staff	69.4		
Recruitment difficulties	65.7		

**Cliff Lockyer/Eleanor Malloy**  
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