

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 September, almost 500 firms responded to the questionnaire.

Recent past and next three months

The declining trends in business confidence continued in manufacturing and retail distribution, although eased in the latter. Confidence remained flat in construction, but rose in wholesale and rose strongly in tourism. In all sectors business confidence was weaker amongst the smallest firms.

The outturn in orders and sales was weak in manufacturing and retail but upward trends were reported in construction, wholesale and tourism. The outturn in demand was stronger than expected three months ago in all sectors except manufacturing.

The declining trends in orders and sales in manufacturing remained unchanged; the rising trends in total new orders in construction reflected rising trends in domestic and house building activity. The decline in sales in retail continued but weakened, due mainly to better sales trends being reported by medium sized establishments. In tourism the third quarter trends in total demand again reflected strong Scottish and rest of UK demand, but weak demand from abroad.

Manufacturing respondents are less confident as to the trends in orders and sales over the next three months and predict a further deterioration in demand. In contrast a net of retail respondents expect an improvement in sales in the fourth quarter. In tourism Scottish, rest of UK demand and business demand is expected to remain positive, but overseas and demand is expected to weaken.

Concerns as to the levels of orders/sales and competition remain high in all sectors, 67% of manufacturers and 54% of construction firms reported working at below optimum levels.

Expectations of price increases over the next three months rose in wholesale but eased slightly in retail. In tourism the current discounting of prices/room rates was far less broadly based than had been anticipated.

Recruitment difficulties were evident in all sectors except manufacturing, and were again most widely cited in the tourist sector.

Expectations for the next twelve months Manufacturing respondents anticipate modest rising trends in turnover but declining profitability over the next twelve months. The trend in total orders is expected to be weak over the next year. Construction respondents expect rising turnover and profitability, but at the expense of reduced tender margins.

In the service sector wholesale respondents expect rising turnover and profitability over the next year, in contrast retail firms anticipate rising turnover but at the expense of declining profitability, suggesting some pressures on margins.

Manufacturing

Optimism

The net decline in business confidence, a feature of the past year, continued and marginally deepened.

Orders and Sales

For the seventh successive quarter the outturn in orders was weaker than anticipated, and the trend in demand from all areas remained weak. Moreover, expectations for the next three months are weaker than three months earlier. Only firms employing more than 250 reported rising total orders, and are more confident of rising trends in the next three months.

Finance

The downward trend in the rate of cash flow continued and deepened. Expectations as to rising trends in turnover over the next 12 months remained unchanged, but a net of firms now expect profitability to deteriorate over the next year.

67% reported operating at below preferred capacity levels and once again the levels of orders, competition and exchange rates remained the main concerns for manufacturers.

Investment

40% reported changing investment plans and 28% leasing plans. Investment and leasing in the current quarter was mainly authorised towards replacing equipment [55%] and increasing efficiency [48%]. Only 20% reported investment for R & D into new products and processes.

Employment

The decline in employment continued at a net decrease of 3%. This declining trend is again expected to end in the fourth quarter.

42% sought to recruit staff and 26% reported increasing pay by an average of 3.49%, compared to an average of 3.7% in the previous quarter.

Table 1: Manufacturing - key results

	Percentages		
	Up	Level	Down
Business Optimism	16	50	34
Trends in actual orders			
Total new orders	25	36	39
Scottish orders	17	46	37
Rest of UK orders	16	48	36
Export orders (exporters only)	16	36	48
Trends in expected orders			
Total new orders	17	49	34
Scottish orders	13	53	34
Rest of UK orders	15	58	28
Export orders (exporters only)	11	55	34
Average Capacity used	74		
Invest in plant/equip.	18	60	22
Leasing plant/equip.	9	72	19
Cash flow past 3 months	19	41	41
Turnover next 12 months	36	36	28
Profitability next 12 months	25	31	44
Total orders next 12 months	31	37	32
Pressures to raise prices from			
Pay settlements	40		
Raw material costs	61		
Finance costs	14		
Other overheads	49		
Transport costs	44		
Employment trends			
Total actual employment	13	71	16
Total expected next 3 months	15	73	12
Average pay increase	3.49		
Percent recruiting staff	42		
Retention difficulties	14		

Construction

Optimism

Overall the decline in business confidence continued at more modest levels, notwithstanding rising confidence amongst larger firms.

Orders

The rise in total orders was reported, as medium sized firms reported strongly rising trends. Medium and larger firms reported rising trends in the volume of private commercial and domestic/house building work.

Respondents remain cautious and anticipate weaker trends in demand in the fourth quarter.

Medium and larger firms reported rising trends in the actual and expected volume of work in progress.

Notwithstanding these trends 54% of respondents reported working below optimum levels

69% cited the low level of contracts and new work as the factor most likely to restrict activity in the next quarter.

44% expect turnover to improve and 34% profitability to improve over the next 12 months, although this growth is expected to be achieved by some decrease in tender margins.

Investment

Investment in the third quarter was mainly to replace equipment.

Employment

The rise in employment was stronger than anticipated, and this increase is expected to continue through the fourth quarter. 58% increased pay by an average of 4.84% compared to 4.1% in the previous quarter, and 60% sought to recruit staff in the third quarter, mainly skilled manual staffs.

Table 2: Construction - key results

	Percentages		
	Up	Level	Down
Business Optimism	14	65	21
Trends in actual orders			
Total new orders	27	52	21
Public sector orders	18	50	32
Private commercial	24	51	24
Domestic/house build	21	64	14
Trends in expected orders			
Total new orders	22	56	22
Public sector orders	12	46	42
Private commercial	21	64	14
Domestic/house build	19	60	21
Trends in work in progress			
Actual	25	52	23
Expected	38	34	28
Capacity used	85		
Invest in plant/equip.	21	67	12
Leasing in plant/equip.	11	75	14

Employment trends			
Total actual employment	23	63	14
Total expected next 3 months	23	66	11
Average pay increase	4.84		
Percent recruiting staff	60		
Trend in recruitment difficulties	13	84	3

Wholesale distribution

Optimism

Changes in business confidence were limited, and a rising trend; the first since 2001 was reported.

Sales

The outturn in sales was positive and much better than anticipated. Firms anticipate modestly rising trends in the fourth quarter. Concerns over costs and competition remained the factors thought most likely to limit activity in the next quarter.

Expectations of increasing prices in the next quarter rose slightly. Other overheads, transport costs, pay settlements and raw material costs were again the most widely cited pressures on prices.

Investment

Changes in investment plans were reported by 34%, and a modest rising trend in investment intentions was reported.

Finance

The declining cash flow trend continued. Expectations as to the trends in turnover and profitability were more positive than in previous quarters and suggest slightly lower pressures on margins. A net of 26% expect turnover to rise over the net year, and a net of 6% expect profitability to increase over the next year.

Employment

Changes to employment levels were at the margin, affecting 14%. The outturn in employment was weaker than anticipated, although the overall decline concealed an increase in part time employment. 19% reported increasing pay by an average of 4.51%, virtually unchanged from the previous quarter.

Table 3: Wholesale distribution - key results

	Up	Percentages	
		Level	Down
Business Optimism	16	74	10
Trend in actual sales	42	26	32
Trend in expected sales	32	41	28
Investment plans	21	66	13
Cash flow past 3 months	18	45	37
Turnover next 12 months	42	42	16
Profitability next 12 months	32	42	26
Price change next 3 months	29	68	3
Pressures to raise prices from			
Pay settlements	38		
Raw material costs	38		
Finance costs	15		
Other overheads	53		
Transport costs	41		
Employment trends			
Total actual employment	5	81	14
Expected next 3 months	6	86	8
Average pay increase	4.51		
Percent recruiting staff	60		
Recruitment difficulties	48		

Retail distribution

Optimism

The decline in business confidence continued, but at much reduced levels.

Sales

The outturn in sales was better than had been forecast, nevertheless, the declining trend in sales continued, albeit at reduced levels. A slight rise in sales is forecast for the fourth quarter. Medium sized retailers reported rising sales trends, whereas smaller firms once again reported weak conditions. Medium and larger firms anticipate rising sales trends in the fourth quarter.

33% of respondents expect to increase prices in the current quarter. Smaller firms reported pressures to raise prices from other overheads, whilst for larger firms pay pressures were more significant.

Investment

Investment plans remained unchanged in the third quarter.

Finance

The downward cash flow trends continued, although rising trends were reported by medium sized firms. Respondents are now more confident as to turnover and profitability trends over the next year. A net of firms in all size bands anticipate rising turnover, and a net of firms employing more than 50 anticipate rising profitability over the next twelve months.

Employment

The outturn in employment was again weaker than anticipated, and an increase in employment is forecast for the fourth quarter. 27% increased pay by an average of 4.18% compared to an average increase of 3.28% in the previous quarter.

Table 4: Retail distribution - key results

	Percentages		
	Up	Level	Down
Business Optimism	22	42	36
Trend in actual sales	31	30	39
Trend in expected sales	31	39	30
Investment plans	16	66	18
Cash flow past 3 months	18	49	33
Turnover next 12 months	40	69	21
Profitability next 12 months	33	29	38
Price change next 3 months	33	60	7
Pressures to raise prices from			
Pay settlements	32		
Raw material costs	29		
Finance costs	23		
Other overheads	59		
Transport costs	39		
Employment trends			
Total actual employment	12	71	17
Expected next 3 months	14	81	5
Average pay increase	4.18		
Percent recruiting staff	46		
Recruitment difficulties	56		

Tourism

Optimism

Business confidence again rose strongly in the third quarter, as trends were again better than anticipated.

Demand

A strong outturn in demand was reported with strongly rising Scottish and rest of UK demand; however, demand from abroad remained weak. Average capacity used in the third quarter was three percentage points higher than in the same quarter a year ago.

Respondents in all size bands reported strongly rising Scottish and rest of UK demand. In contrast demand from overseas remained weak with only some indications of rising demand amongst medium sized hotels.

Investment

A rising trend in investment was reported, although for 91% the only reasons for authorising investment was to replace/renew facilities or to improve facilities.

Finance

Turnover and costs rose strongly, although there was less evidence of pressures on costs. In contrast to previous quarters a net of hotels reported increasing room rates, although some discounting is forecast for the fourth quarter.

Employment

65% reported no change to overall employment levels and a net of hotels, mainly medium sized, reported increasing employment.

Recruitment

Recruitment again remained at high levels with 79% seeking to recruit staff. 72% of those recruiting staff reported difficulties in attracting suitable staffs. 32% reported increasing pay by an average of 6.13%, compared to 5.4% in the previous quarter.

Table 5: Tourism - key results

	Up	Percentages	
		Level	Down
Business Optimism	39	55	6
Trends in demand/visitors			
Total demand/visitors	64	27	9
Demand from Scotland	53	38	10
Demand from Rest of UK	61	34	5
Demand from abroad	28	39	33
Business Trade	24	53	23
Trends in expected demand			
Total demand/visitors	20	55	25
Demand from Scotland	22	59	19
Demand from Rest of UK	24	58	18
Demand from abroad	5	49	46
Business Trade	21	60	19
Average occupancy	72		
Investment	34	55	11
Turnover past 3 months	65	25	10
Costs past 3 months	55	39	6
Average daily rate	36	50	14
Expected average daily rate	21	47	32
Employment trends			
Total actual employment	24	65	11
Expected next 3 months	7	60	33
Average pay increase	6.13		
Percent recruiting staff	79		
Recruitment difficulties	72		

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