

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 March, almost 500 firms responded to the questionnaire.

Recent past and next three months

For a further quarter declining trends in business confidence were features for all sectors except construction. The decline in business confidence was more evident in all sectors.

The outturn in orders and sales was weak in all sectors except construction, and weaker than anticipated in manufacturing and wholesale distribution.

Steeper declining trends in orders and sales were reported in manufacturing; in contrast the declining trends in new orders in construction were reversed. Trends in sales in wholesale fell, whilst the decline in sales in retail remained unchanged from the previous quarter. In tourism the first quarter trend in total demand was the weakest for several years, reflecting the impact of international events on overseas and business demand.

Manufacturing respondents continue to remain more cautious as to the trends in orders and sales over the next three months and continue to predict marginally easing trends in orders and sales. Likewise a net of retail respondents expect the current easing of sales to continue largely unchanged through the second quarter of 2003. In tourism Scottish and rest of UK demand is expected to rise, but overseas and business demand to remain depressed.

Concerns as to interest rates and inflation continue to remain very low, however, concerns as to the levels of orders/sales and competition were higher in manufacturing and retail, whilst wholesale respondents were more concerned as to business rates.

Expectations of price increases over the next three months eased in manufacturing, and remained more broadly based in both wholesale and retail. In tourism the current discounting of prices/room rates is more broadly based than had been anticipated, and more broadly based than in previous first quarters.

For a further quarter there was little evidence of increased pay pressures. Average pay increases in the first quarter ranged from 2.96% in manufacturing to 4.7% in retail and

to 5.0% in tourism. As yet it is uncertain as to whether the increased National Insurance costs will impact on the level of pay increases.

For a further quarter declining trends in employment were reported in all sectors except construction; nevertheless 60% or more of those recruiting in manufacturing, construction, and retail distribution reported recruitment difficulties. Recruitment difficulties were more widespread in tourism where more than 80% of tourism respondents reported recruitment problems.

Expectations for the next twelve months

Manufacturing respondents anticipate more modestly rising trends in turnover and more weakly rising trends in profitability over the next twelve months.

In the service sector the expectations as to increased pressures on margins over the next year remain. Retail respondents continue to expect declining turnover over the year and anticipate declining trends in profitability.

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Manufacturing

Optimism

For a further quarter the net decline in business confidence deepened.

Orders and Sales

For the fifth successive quarter the outturn in orders was weaker than anticipated, and the trend in demand from all areas weakened.

Pressures to raise prices were more evident than in the previous quarter, with concerns as to pay settlements and raw material costs higher than in previous quarters.

Finance

For a further quarter the downward trend in the rate of cash flow continued and deepened. Expectations as to rising trends in turnover and profitability over the year weakened slightly in the first quarter.

For a further quarter the levels of orders, competition and exchange rates remained the main concerns for manufacturers.

Investment

Less than 40% reported changing investment plans, but the downward trend eased. Investment in the current quarter

was mainly authorised towards reducing labour [48%], replacing equipment [47%] and increasing efficiency [28%].

Employment

The decline in employment continued and deepened at a net decrease of 11%. This declining trend is again expected to continue through the next quarter.

The percentage of firms seeking to recruit remained unchanged at 50%. 34% reported increasing pay by an average of 2.96%, compared to an average of 3.89% in the previous quarter.

Table 1: Manufacturing - key results

	Up	Percentages	
		Level	Down
Business Optimism	19.4	41.9	38.7
Trends in actual orders			
Total new orders	23.4	36.9	39.7
Scottish orders	14.1	49.5	36.4
Rest of UK orders	15.3	48.8	35.9
Export orders [40.2% = N/A]	10.3	30.5	19.0
Trends in expected orders			
Total new orders	22.4	48.4	29.1
Scottish orders	15.0	57.5	27.5
Rest of UK orders	16.2	56.5	27.3
Export orders [40.4 = N/A]	11.1	35.3	13.2
Av Capacity used	74.1		
Invest in plant/equip.	18.3	62.0	19.7
Cash flow past 3 months	19.7	44.8	35.5
Turnover next 12 months	39.6	33.1	27.3
Profitability next 12 months	35.8	32.7	31.5
Price change next 3 months	23.0	59.6	17.4
Pressures to raise prices from			
Pay settlements	36.6		
Raw material costs	59.9		
Finance costs	9.8		
Other overheads	44.5		
Transport costs	42.1		
Employment trends			
Total actual employment	12.2	64.5	23.3
Total expected next 3 months	11.5	67.6	20.9
Average pay increase	2.98		
Percent recruiting staff	50.1		
Recruitment difficulties	59.8		

Construction

Optimism

The rising trend in business confidence continued, but at slightly lower rates, as once again the trends in total and private sectors orders were stronger than anticipated.

Orders

Over 50% of respondents reported rising trends in total orders, and the net trends were the strongest for more than three years. Once again, respondents are cautious as to whether these strongly rising trends will continue, and anticipate more modest increases in demand in the second quarter.

A strong upward trend in private sector orders was reported, but for a further quarter respondents are cautious as to whether this upward trend will continue.

Over 45% reported rising trends in the level of work in progress, and a net of firms expect the rising trends to continue.

The percentage citing the low level of demand as the factor most likely to restrict activity in the next quarter fell from 70% at the end of 2002 to 52%, the lowest figure for six quarters.

Investment

Changes to investment were slightly less broadly based than in previous quarters, affecting 32% of respondents, and the rising trend in investment in plant/equipment strengthened. Of those investing in the first quarter 52% directed investment towards the replacement of equipment, 24% towards increasing efficiency and 7% towards increasing capacity.

Employment

Once again the rise in employment was stronger than anticipated, and a stronger rise is expected through the first quarter. 31% increased pay by an average of 3.81% compared to 5.31% in the previous quarter, and 63% sought to recruit staff in the first quarter, again mainly skilled manual staffs.

Table 2: Construction - key results

	Up	Percentages	
		Level	Down
Business Optimism	20.4	65.3	14.3
Trends in actual orders			
Total new orders	51.0	24.5	24.5
Central Government orders	18.5	55.6	25.9
Other Public Sector orders	15.2	48.5	36.4
Private orders	44.9	38.8	16.3
Trends in expected orders			
Total new orders	27.1	52.1	20.8
Central Government orders	11.1	63.0	25.9
Other Public Sector orders	15.2	54.5	30.3
Private orders	26.5	49.0	24.5
Trends in work in progress			
Actual	46.8	29.8	23.4
Expected	34.8	52.2	13.0
Capacity used	87.74		
Invest in plant/equip.	24.4	68.3	7.3
Employment trends			
Total actual employment	28.6	61.2	10.2
Total expected next 3 months	20.4	73.5	6.1
Average pay increase	3.81		
Percent recruiting staff	63.3		
Recruitment difficulties	68.8		

Wholesale distribution

Optimism

Changes in business confidence were again broadly based, and a stronger downward trend was reported.

Sales

The outturn in sales was far weaker than anticipated and a further deterioration in sales trends is forecast. Concerns as to competition eased further, but remained the factor thought most likely to limit activity in the next quarter.

Expectations of increasing prices in the next quarter remained at the highest level for four years. Transport costs, raw material costs and other overheads were again the most widely cited pressures on prices.

Investment

Changes in investment plans were reported by 31%, and a slight rising trend in investment intentions was reported.

Finance

The declining cash flow trend continued and deepened. Expectations as to the trends in turnover and profitability suggest increasing pressures on margins. The expectations for the year in terms of turnover and profitability are bleak. A net of 8% expect turnover to fall over the net year, and a net of 26% expect profitability to decline over the next year.

Employment

Changes to employment levels were limited, affecting 28%. The outturn in employment was worse than anticipated and rising trends in temporary staffs were reported. 28% reported increasing pay by an average of 3.2% compared to an average increase of 4.4% in the previous quarter.

Table 3: Wholesale distribution - key results

	Up	Percentages	
		Level	Down
Business Optimism	10.3	38.5	51.3
Trend in actual sales	25.6	33.3	41.0
Trend in expected sales	15.4	43.6	41.0
Investment plans	17.9	69.2	12.8
Cash flow past 3 months	12.8	59.0	28.2
Turnover next 12 months	28.2	35.9	35.9
Profitability next 12 months	25.6	23.1	51.3
Price change next 3 months	59.0	38.5	2.6
Pressures to raise prices from			
Pay settlements	29.7		
Raw material costs	54.1		
Finance costs	21.6		
Other overheads	54.1		
Transport costs	56.8		
Employment trends			
Total actual employment	2.6	79.5	17.9
Expected next 3 months	13.2	73.7	13.2
Average pay increase	3.21		
Percent recruiting staff	23.1		
Recruitment difficulties	50.0		

Retail distribution

Optimism

Changes in business confidence were broadly based, and reported by 64%; the decline in business confidence continued and deepened.

Sales

The declining trends in sales continued, although the rate was little changed from the previous quarter. The outturn was better than anticipated. Little change to the sales trends is forecast for the second quarter.

Two fifths of respondents expect to increase prices in the current quarter. Pressures to raise prices are stronger than in the previous quarter. For a further quarter concerns as to the level of competition and business rates remain the factors thought most likely to restrict sales.

Investment

Investment plans were again largely unchanged, and the modest decline continued.

Finance

For a further quarter the downward cash flow trends deepened. For a further quarter a net of respondents anticipate declining trends in turnover over the next twelve months, however, the anticipated decline in profitability has eased.

Employment

The outturn in employment was as had been anticipated, and a steeper decline in employment was reported. Recruitment activity was at a lower level, and this may suggest firms losing staff by non-replacement. 40% reported seeking staff, and 21% increased pay by an average of 4.7% compared to an average increase of 3.57% in the previous quarter.

Average pay increase	4.7
Percent recruiting staff	40.0
Recruitment difficulties	63.4

Tourism

Optimism

Once again the weakening trends business confidence continued and deepened. The first quarter trends were weaker than in previous years as international concerns continue to affect confidence and demand.

Demand

The outturn in demand, although weak, was marginally better than had been anticipated. Average capacity used in the first quarter was weaker than for several years. The forecast for the second quarter remains weak.

Declining trends in Scottish and rest of UK visitors were reported, and demand from overseas remained very depressed with little improvement anticipated for the second quarter.

Investment

A modest rise in investment was reported, although for 82% the main reason for authorising investment was to replace/renew facilities or to improve facilities.

Finance

Turnover fell and costs rose. Widespread discounting of room rates was again evident, and more broadly based than had been predicted.

Employment

74% reported no change to overall employment levels and the outturn, a broadly based decline, was as had been expected.

Recruitment

Recruitment remained at high levels with 79% seeking to recruit staff. 82% of those recruiting staff reported difficulties in attracting suitable staffs, most notably skilled staffs. 24% reported increasing pay by an average of 5.00%, the same as in the previous quarter.

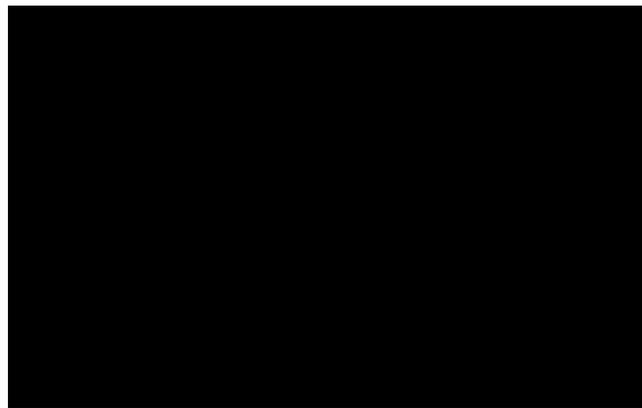
Table 4: Retail distribution - key results

	Percentages		
	Up	Level	Down
Business Optimism	15.2	36.2	48.6
Trend in actual sales	27.9	28.8	43.3
Trend in expected sales	27.5	32.4	40.2
Investment plans	15.4	66.3	18.3
Cash flow past 3 months	18.3	44.2	37.5
Turnover next 12 months	30.5	34.3	35.2
Profitability next 12 months	32.4	30.4	37.3
Price change next 3 months	40.0	55.2	4.8
Pressures to raise prices from			
Pay settlements	37.1		
Raw material costs	37.1		
Finance costs	16.9		
Other overheads	59.6		
Transport costs	44.9		
Employment trends			
Total actual employment	8.7	69.9	21.4
Expected next 3 months	7.4	78.9	13.7

Table 5: Tourism - key results

	Up	Percentages	
		Level	Down
Business Optimism	9.3	37.2	53.5
Trends in demand/visitors			
Total demand/visitors	18.6	32.6	48.8
Demand from Scotland	19.5	56.1	24.4
Demand from Rest of UK	19.5	51.2	29.3
Demand from abroad	2.5	30.0	67.5
Business Trade	16.1	38.7	45.2
Trends in expected demand			
Total demand/visitors	20.9	46.5	32.6
Demand from Scotland	23.8	64.3	11.9
Demand from Rest of UK	28.6	59.5	11.9
Demand from abroad	4.9	26.8	68.3
Business Trade	15.6	34.4	50.0
Capacity used	50.96		
Investment	26.2	50.0	23.8
Turnover past 3 months	21.2	27.3	51.5
Costs past 3 months	50.0	40.5	9.5
Average daily rate	6.3	56.3	37.5
Expected average daily rate	9.4	56.3	34.4
Employment trends			
Total actual employment	2.4	73.8	23.8
Expected next 3 months	9.8	68.3	22.0
Average pay increase	5.00		
Percent recruiting staff	78.8		
Recruitment difficulties	81.5		

Cliff Lockyer/Eleanor Malloy
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