

# Scottish Chambers' Business Survey

The Scottish Chambers' Business Survey is conducted by Strathclyde University's Fraser of Allander Institute together with the Chambers' of Commerce of Aberdeen, Dundee, Edinburgh, Glasgow and Paisley. In the present survey, which was conducted in June/early July 2002, some 500 firms responded to the questionnaire.

## Recent past and next three months

- 7 Rising trends in business optimism were reported in tourism and construction and declining trends in wholesale and retail distribution. In manufacturing the declining trends in optimism eased for a further quarter. Optimism was stronger amongst larger firms in manufacturing and retail. Compared to a year ago optimism is stronger in manufacturing, construction and tourism, but weaker in wholesale and retail distribution;
- 7 The outturn in orders and sales was slightly weaker than anticipated in all sectors except wholesale distribution;
- 7 Weak but marginally improving trends in orders and sales were evident in manufacturing, whereas the rise in orders ended in construction. In the service sector rising sales trends were ported in wholesale, whilst in retail the rising sale trends eased considerably. In tourism the rising trend in visitor numbers continued, but at a lower rate;
- 7 Manufacturing respondents remain confident as to rising trends in orders and sales over the next three months and are now predicting marginally rising trends in orders. In contrast in construction a decline in orders is anticipated. Declining trends in the level of work in progress were reported in both manufacturing and construction. In wholesale and retail distribution respondents anticipate an easing in the rate of increase in sales;
- 7 Concerns as to inflation remain low. In all sectors concerns as to the levels of orders and sales/competition remain high, but were less evident than in previous quarters in construction and tourism. Generally concerns as to interest rates have increased;
- 7 Expectations of price increases over the next three months eased in all sectors;

- 7 There was little evidence of increased pay pressures. Average pay increases in the second quarter ranged from 3.746% in manufacturing to 4.13% in wholesale;
- 7 Declining trends in employment were reported in manufacturing, wholesale and tourism, and slightly rising trends in retail. There were signs of some movement towards the employment of temporary and part time rather than full and permanent staffs.

## Expectations for the next twelve months

- 7 Manufacturing respondents anticipate rising trends in turnover lower increases in profitability over the next year, suggesting pressures on margins;
- 7 In the service sector wholesale respondents expectations as to rising turnover over the next year are unchanged from the previous quarter. In retail the trends in turnover and profitability were more modest than three months earlier;
- 7 The three-month trend for tourism was one of rising turnover and more modestly rising costs.

## Manufacturing

### Optimism

The net decline in business confidence eased further. However, closer examination of the results gives an indication that firms with over 100 employees have become more optimistic, whilst firms with less than 25 employees are less optimistic than a year ago.

### Orders and Sales

The downward trend in orders was halted in the second quarter. However, this improvement was not as great as the sector had anticipated.

The levels of orders, competition and skilled labour were again the three factors thought most likely to limit output.

### Finance

The downward trend rate in cash flow again eased. Furthermore, expectations as to rising trends in turnover over the year once again improved in the second quarter but margins may be a concern with profits expected to rise at a lower rate. Anticipations of price increases eased slightly.

### Investment

Investment in the current quarter was authorised towards replacement of equipment [31%] reducing labour [41%], and increasing efficiency [23%]. Investment towards expanding capacity was again relatively high at 19%.

## Employment

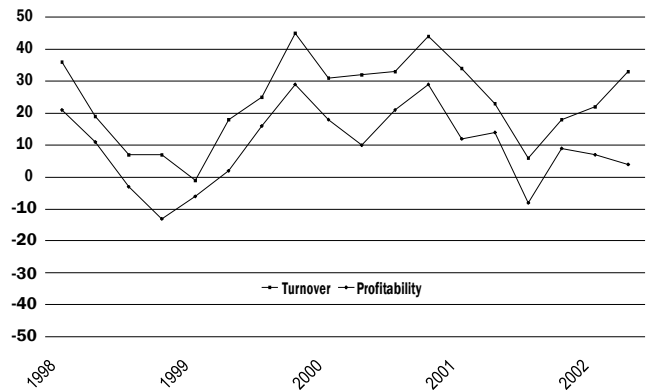
The decline in employment was the same as for quarter 1: a net decrease of 6%. Again, there is an expectation that the net rate of decline will end in the next quarter.

In terms of recruitment, 46% of firms attempted to hire staff in the second quarter. 32% reported increasing pay by an average of 3.74%, compared to an average of 3.66% in the previous quarter.

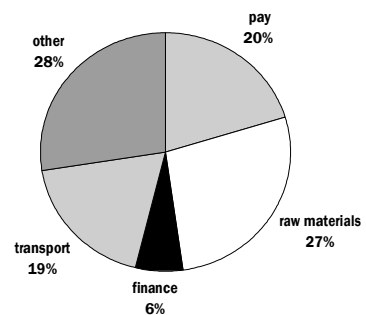
**Table 1: Manufacturing key results**

	Up	Percentages	
		Level	Down
<b>Business Optimism</b>	<b>21.6</b>	<b>56.2</b>	<b>22.2</b>
<b>Trends in actual orders</b>			
Total new orders	32.5	36.1	31.4
Scottish orders	21.9	50.5	27.6
Rest of UK orders	23.7	48.0	28.4
Export orders [35.7% = N/A]	17.0	26.9	20.4
<b>Trends in expected orders</b>			
Total new orders	29.2	50.4	20.4
Scottish orders	18.0	62.4	19.7
Rest of UK orders	21.3	59.5	19.3
Export orders [39.7% = N/A]	15.0	32.3	13.0
<b>Av Capacity used</b>	<b>73.34</b>		
<b>Invest in plant/equip.</b>	<b>19.1</b>	<b>61.2</b>	<b>19.7</b>
<b>Cash flow past 3 months</b>	<b>21.5</b>	<b>54.4</b>	<b>24.1</b>
<b>Turnover next 12 months</b>	<b>48.6</b>	<b>35.6</b>	<b>15.9</b>
<b>Profitability next 12 months</b>	<b>34.2</b>	<b>35.6</b>	<b>30.1</b>
<b>Price change next 3 months</b>	<b>18.9</b>	<b>68.5</b>	<b>12.5</b>
<b>Employment trends</b>			
Total actual employment	15.4	63.3	21.2
Total expected next 3 months	16.0	69.8	14.2
<b>Average pay increase</b>	<b>3.74</b>		
<b>Percent recruiting staff</b>	<b>45.9</b>		
<b>Recruitment difficulties</b>	<b>49.0</b>		

**Figure 1: Manufacturing - turnover and profitability**



**Figure 2: Manufacturing - price pressures**



## Construction

### Optimism

The rising trend in business continued, notwithstanding weaker than anticipated trends.

### Orders

The trend in total orders was better than the previous quarter, but again weaker than anticipated, although changes in the volume of new orders affected less than 50% of respondents.

The slight downward trend in private sector orders continued, and little change is expected for the third quarter.

The percentage citing the low level of demand as the factor most likely to restrict activity in the next quarter fell to 41%, the lowest figure recorded for five years.

### Investment

Changes to investment again affected slightly less than a third of respondents, and the rise in plant/equipment investment eased. Of those investing in the second quarter 41% directed investment towards the replacement of equipment, 29% towards increasing efficiency and 18% towards increasing capacity.

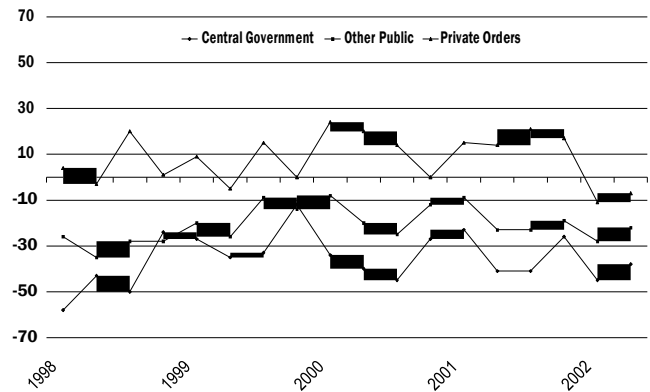
## Employment

A level trend in construction employment was reported, and a slight decline is expected through the third quarter. 36% increased pay by an average of 4.68% compared to 5.0% in the previous quarter, and 48% sought to recruit staff in the second quarter, again mainly skilled manual staffs.

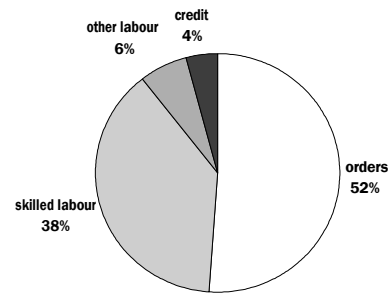
**Table 2: Construction - key results**

	Up	Percentages	
		Level	Down
<b>Business Optimism</b>	<b>28.6</b>	<b>53.6</b>	<b>17.9</b>
<b>Trends in actual orders</b>			
Total new orders	25.9	48.1	25.9
Central Government orders	4.2	54.2	41.7
Other Public Sector orders	12.5	53.1	34.4
Private orders	19.5	53.7	26.8
<b>Trends in expected orders</b>			
Total new orders	15.1	58.5	26.4
Central Government orders	4.2	62.5	33.3
Other Public Sector orders	3.1	68.8	28.1
Private orders	15.0	62.5	22.5
<b>Capacity used</b>	<b>84.7%</b>		
<b>Invest in plant/equip.</b>	<b>16.0</b>	<b>70.0</b>	<b>14.0</b>
<b>Employment trends</b>			
Total actual employment	26.2	47.6	26.2
Total expected next 3 months	15.4	65.4	19.2
<b>Average pay increase</b>	<b>4.68%</b>		
<b>Percent recruiting staff</b>	<b>48.2%</b>		
<b>Recruitment difficulties</b>	<b>55.2%</b>		

**Figure 3: Construction - trends in orders**



**Figure 4: Construction - limits to output**



## Wholesale Distribution

### Optimism

The decline in business optimism continued at modest levels, although 70% reported no change.

### Sales

The outturn in sales was again better than anticipated and a rise in sales trends was reported. Once again respondents remain cautious as to the rate of increase in sales in the third quarter. Concerns as to competition remained widespread, being cited by 64% as the factor thought most likely to limit activity in the next quarter.

Expectations of increasing prices in the next quarter eased slightly. Transport costs and other overheads were the most widely cited pressures on prices.

### Investment

Changes in investment plans were reported by 24%, and a slight declining trend in investment intentions was reported.

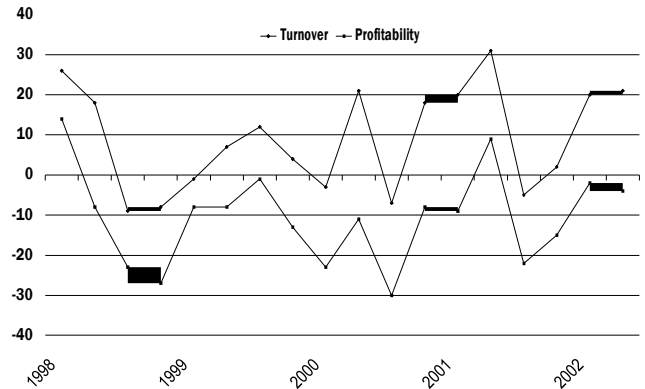
The declining cash flow trend ended, and the rising trend, a net of 6%, was the strongest for a year. A net of 21% expect turnover to rise over the net year, however, expectations of deteriorating profitability trends over the next year continued, suggesting continuing pressures on margins.

**Employment**

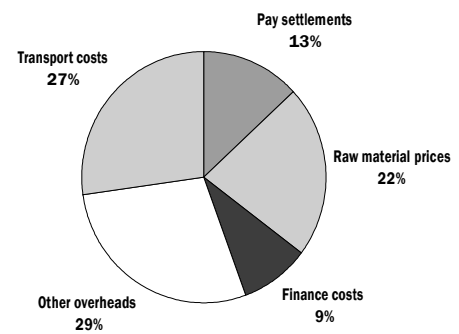
Changes to employment levels were at the margin, affecting less than 16%. Notwithstanding the slight decline increase in the employment of part time and temporary staffs were reported. 33% reported increasing pay by an average of 4.13% compared to an average increase of 3.71% in the previous quarter.

**Table 3: Wholesale distribution - key results**

	Up	Percentages	
		Level	Down
<b>Business Optimism</b>	<b>10.9</b>	<b>69.6</b>	<b>19.6</b>
<b>Trend in actual sales</b>	<b>38.3</b>	<b>36.2</b>	<b>25.5</b>
<b>Trend in expected sales</b>	<b>24.4</b>	<b>55.6</b>	<b>20.0</b>
<b>Investment plans</b>	<b>10.6</b>	<b>76.6</b>	<b>12.8</b>
<b>Cash flow past 3 months</b>	<b>21.3</b>	<b>63.8</b>	<b>14.9</b>
<b>Turnover next 12 months</b>	<b>40.4</b>	<b>40.4</b>	<b>19.1</b>
<b>Profitability next 12 months</b>	<b>28.9</b>	<b>37.8</b>	<b>33.3</b>
<b>Price change next 3 months</b>	<b>23.9</b>	<b>71.7</b>	<b>4.3</b>
<b>Employment trends</b>			
<b>Total actual employment</b>	<b>6.7</b>	<b>84.4</b>	<b>8.9</b>
<b>Total expected next 3 months</b>	<b>11.6</b>	<b>86.0</b>	<b>2.3</b>
<b>Average pay increase</b>	<b>4.135</b>		
<b>Percent recruiting staff</b>	<b>46.75</b>		
<b>Recruitment difficulties</b>	<b>70.0%</b>		



**Figure 6: Wholesale distribution - price pressures**



**Retail Distribution**

**Optimism**

Changes in business confidence were reported by 44%, and the rise in business confidence ended, although only retail establishments employing less than 100 staff reported declining confidence. Overall a net of 13% reported being less confident.

**Sales**

The rising trends in sales continued, but eased considerably as the outturn for the second quarter was weaker than anticipated, a more modest rise is forecast for the third quarter. Smaller establishments reported weaker sales trends.

Almost a third of respondents expect to increase prices in the third quarter, although overall the net trend eased slightly. Concerns as to the level of competition and business rates remain the factors thought most likely to restrict sales. Concerns as to interest rates have increased in the first half of 2002.

**Investment**

The slightly rising trends in investment plans strengthened.

**Finance**

The slightly rising cashflow trends continued. Expectations as to the rising trends in turnover and profitability over the next year eased.

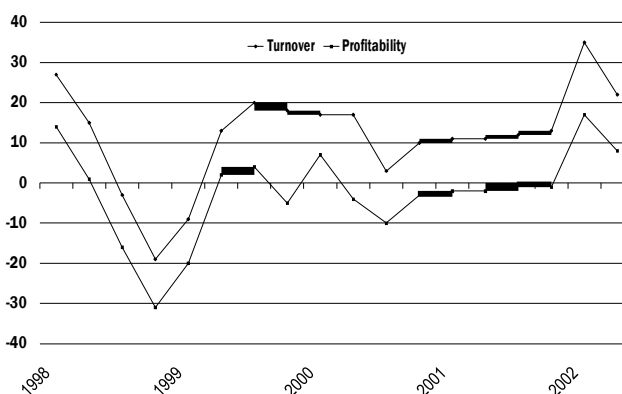
**Employment**

For a further quarter the outturn in employment was weaker than had been anticipated. A marginal increase in employment was reported, most evident in the employment of part time and temporary staffs. 54% reported seeking staff, and 49% increased pay by an average of 4.08% compared to an average increase of 6.95% in the previous quarter.

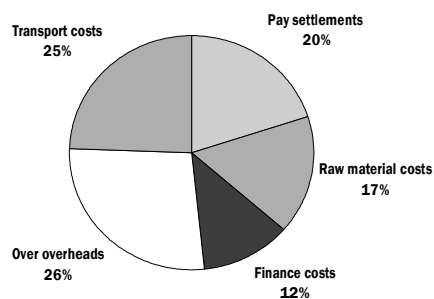
**Table 4: Retail distribution - key results**

	Percentages		
	Up	Level	Down
<b>Business Optimism</b>	<b>17.0</b>	<b>53.6</b>	<b>29.5</b>
<b>Trend in actual sales</b>	<b>36.6</b>	<b>27.7</b>	<b>35.7</b>
<b>Trend in expected sales</b>	<b>30.0</b>	<b>46.4</b>	<b>23.6</b>
<b>Investment plans</b>	<b>24.6</b>	<b>65.8</b>	<b>9.6</b>
<b>Cash flow past 3 months</b>	<b>23.4</b>	<b>55.9</b>	<b>20.7</b>
<b>Turnover next 12 months</b>	<b>39.8</b>	<b>42.5</b>	<b>17.7</b>
<b>Profitability next 12 months</b>	<b>35.1</b>	<b>37.8</b>	<b>27.0</b>
<b>Price change next 3 months</b>	<b>31.5</b>	<b>63.1</b>	<b>5.4</b>
<b>Employment trends</b>			
<b>Total actual employment</b>	<b>17.1</b>	<b>68.5</b>	<b>14.4</b>
<b>Total expected next 3 months</b>	<b>15.4</b>	<b>74.0</b>	<b>10.6</b>
<b>Average pay increase</b>	<b>4.08%</b>		
<b>Percent recruiting staff</b>	<b>54.4%</b>		
<b>Recruitment difficulties</b>	<b>48.3%</b>		

**Figure 7: Retail distribution - turnover and profitability**



**Figure 8: Retail distribution - price pressures**



**Tourism**

**Optimism**

The rise in business confidence continued at more modest levels through the second quarter.

**Demand**

The outturn in demand was again better than a year ago, but weaker than anticipated, with a rise in Scottish and rest of UK demand being reported, although demand from abroad remained weak. Average capacity used in the second quarter was one percentage point higher than in 2001, but weaker than in previous years. The forecast for the third quarter is modestly positive.

**Investment**

The slight rise in investment continued and for 92% the main reason for authorising investment was to replace/renew facilities or to improve facilities.

**Finance**

Turnover continued to strengthen, although discounting of prices was more extensive than anticipated

**Employment**

28% reported no change to overall employment levels and the outturn was weaker than had been expected.

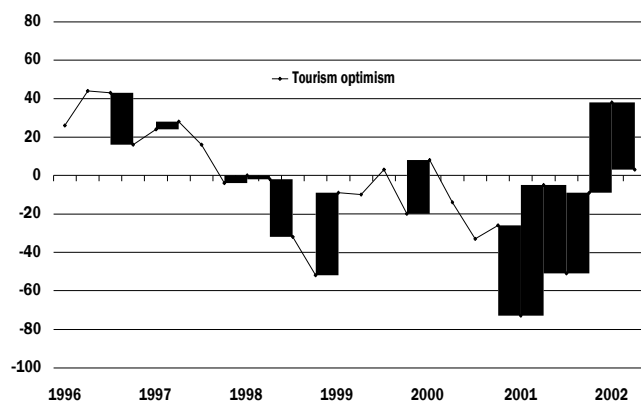
**Recruitment**

Recruitment activity eased for a further quarter with 78% seeking to recruit. 96% of those recruiting staff reported difficulties in attracting suitable staffs, most notably skilled and part time staffs. 59% reported increasing pay by an average of 3.88%, compared to an average increase of 6.3% in the previous quarter.

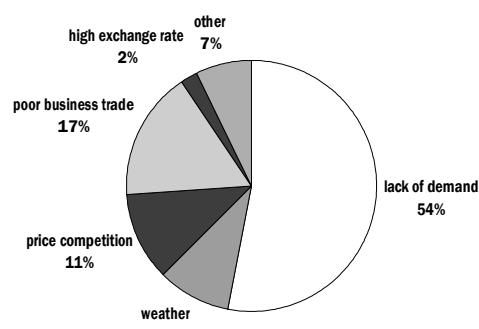
**Table 5: Tourism - key results**

	Percentages		
	Up	Level	Down
<b>Business Optimism</b>	<b>25.0</b>	<b>52.8</b>	<b>22.2</b>
<b>Trends in demand/visitors</b>			
Total demand/visitors	38.9	27.8	33.3
Demand from Scotland	37.5	50.0	12.5
Demand from Rest of UK	42.9	45.7	11.4
Demand from abroad	24.2	35.4	39.4
Business Trade	20.0	44.0	36.0
<b>Trends in expected demand</b>			
Total demand/visitors	30.3	51.5	18.2
Demand from Scotland	23.2	63.3	13.3
Demand from Rest of UK	36.4	54.5	9.1
Demand from abroad	18.8	40.6	40.6
Business Trade	13.0	65.2	21.7
Capacity used	65.5%		
<b>Investment</b>			
Turnover past 3 months	48.1	25.9	25.9
Costs past 3 months	38.9	38.9	22.2
Average daily rate	18.5	55.6	25.9
Expected average daily rate	11.1	70.4	18.5
<b>Employment trends</b>			
Total actual employment	13.9	63.9	22.2
Total expected next 3 months	3.0	81.8	15.2
Average pay increase	3.88%		
Percent recruiting staff	77.8%		
Recruitment difficulties	95.8%		

**Figure 9: Tourism - optimism**



**Figure 10: Tourism - limiting factors**



Cliff Lockyer/Eleanor Malloy  
20 September 2002

