3 Review of Scottish Business Surveys

Eleanor Malloy, Fraser of Allander Institute

Abstract

Business surveys are a useful tool to provide accurate and timely data and are extremely helpful in pinpointing subtle movements in the economy. Recent Scottish business surveys paint a broadly positive picture, albeit perhaps slightly subdued compared to surveys from the start of 2014. They continue to indicate that growth in output and jobs remains robust and many trends remain broadly favourable, although early indications are that the pace of recovery may be slowing and that some vulnerability may remain. Many business surveys use net balances, determined by subtracting the percentage reporting declines from the percentages reporting increases, and a number of recent surveys show more and more businesses reporting that trends have ‘remained constant’ indicating a degree of stability, although the pace of recovery is slowing somewhat. .

Bank of Scotland Purchasing Managers’ Index (PMI)

The PMI which measures month-on-month changes in manufacturing and services output stood at 54.0 in May 2014, rose to 55.9 in June, rose further in July to 56.8 (a six month high) then eased to 54.6 in August and eased still further to 51.5 in September 2014. These latest set of surveys add weight to the view that although the economy continues to grow, the pace of growth is beginning to ease.

The PMI for July 2014 saw Business activity rise at its fastest rate for six months and also reported a robust increase in overall new business, although the weakness in manufacturers' export sales continued. In August the PMI reported that employment was rising at its fastest rate since 2007. Despite the robust headline figure however, the pace of growth in Scotland remained below the UK-wide average, and the September 2014 index pointed to the slowest rate of growth for 18 months.

Bank of Scotland Business Monitor

The Bank of Scotland Business Monitor covers the production and services sectors and the latest survey (Summer 2014) showed the Scottish economy performing at pre-recession levels. Turnover trends showed their best results for over seven years since spring 2007; and encouragingly expectations for the rest of the year remain robust.

In the three months ending August 2014, a net balance of 30% of respondents reported an increase in turnover; again this is the best result in over seven years and helped return the net balance figure to pre-recession levels. Volumes of repeat business remained at high levels and indeed improved compared to the previous quarter and to the same period in 2013. Trends in the volume of new business also continued to rise. Total volumes of business continued the positive trend showing a net balance of +31%, a rise compared to both the +27% of the previous quarter and the +24% in the same quarter one year ago. The improvement was evident across both production and services firms. The Business Monitor also reported that export activity, on balance, continued to rise.

A net balance of 21% expect turnover to continue to rise during the period to the end of February 2015. Service firms are more optimistic than production firms, with service firms showing an overall net balance for turnover for the next six months at +26% compared to only +14% of production firms.

Future expectations in the survey fell marginally but were still at pre-recession levels, suggesting that the recovery will continue throughout 2014 and into 2015.

Manufacturing

Respondents to the Fraser of Allander / Scottish Chambers of Commerce Quarterly Business Survey (QBS) reported that although business optimism continued to improve for a net balance of +11.9% of firms, the rate of increase eased in Q3/14. Respondents to the Scottish Engineering Quarterly Review for Q3/14 reported that general optimism levels remain positive, if slightly down on the previous quarter. Optimism levels were higher for fabrication and machine shop sectors than for mechanical equipment and electronics.

Total orders continued to increase in Q3 for a net balance of +30.6% QBS firms, while fewer than 20% of firms reported a decline. Orders are set to continue to improve for a net balance of firms. Order levels among Scottish Engineering firms eased in the third quarter compared to the second quarter of 2014. This was particularly evident with regard to exports; however, encouragingly companies are predicting an improvement in Q4/14. A small net balance of 4% reported a decline in their total order intake, the first negative balance since September 2013. Small companies reported more positive trends in orders than did medium-sized and large companies and within the sectors, electronics and mechanical equipment were negative while fabricators, metal manufacturing and transport firms all reported positive net balances.

Investment plans in general remain upbeat for both Chamber of Commerce members and Scottish Engineering respondents. The average capacity used eased from 79% in Q2/14 to 72% for QBS firms, while almost half of businesses (47%) reported operating at below optimum levels of capacity.

Employment improved in Q3/14 for a net balance of QBS manufacturing firms, with only 7.1% of manufacturing firms reporting that overall employment levels had reduced and only 6% expecting a fall in Q4/14. Scottish Engineering reported that staffing levels in general eased in Q3 but remained positive, and that forecasts for the next quarter in general show a further increase.

Construction

While business optimism among QBS construction firms eased, only a quarter of firms reported a decline in business confidence. The latest Scottish Construction Monitor (SCB) quarterly survey for Q3/14 also showed that construction firms remained positive but that confidence had eased somewhat.

Orders continued to improve for QBS respondents albeit at a slower pace than in Q2/14 and a net balance of 20% expect a further rise in Q4/14. Public sector orders declined in Q3/14 and a net balance expect a further decline in Q4/14.

On average QBS construction firms were utilising 83% of available capacity and work-in-progress increased from +33.3 to +38.7.

Recruitment difficulties are becoming more apparent with more than 45% of QBS construction firms that had attempted to recruit reporting increased difficulties. The average wage increase among QBS firms rose from 4% in Q2/14 to 5.7% in Q3/14, the highest figure for 7 years.

Retail

A net balance of -12.3% of QBS firms reported a decline in retail optimism. A net of firms also reported a decline in sales although a small net balance are forecasting a rise in Q4/14. Employment trends remained strong in Q3/13 with a net balance of 17% reporting a rise and only 7% reporting a reduction in total employment levels. Prices are stabilising with net balance of firms expecting to raise prices.

The Scottish Retail Consortium reported that sales September declined by 2.9% compared to the same period last year when they rose by 1/8% and like-for-like sales decreased by 4.2%.

Tourism

Optimism levels among Scottish hotels continued to improve in the three months to the end of September 2014, and Visit Scotland also recorded a rise in confidence.

As forecast by firms in the Q2/14 QBS survey, the net trends in visitors continued to increase during Q3/14 with both domestic and overseas trends continuing to improve.

Visit Scotland reported a 12% decline in domestic overnight tourism to Scotland (GB residents) in June 2014 compared to June 2013. International tourism in Q2/14, on the other hand, was at its highest level since 2007 and 13% up on the same period in 2013. The number of day trips for the year to August 2014 was up 5.2% and spend was up 7.8%. Hotel occupancy rates for July were fairly flat but rises were reported in Forth Valley, Ayrshire and Arran and Glasgow and the Clyde Valley.

A net balance of +21.3% of QBS tourism firms reported an increase in employment during Q3/14 and not unexpectedly employment is expected to decrease in Q4/14 given the seasonality of the industry. Of the more than half of hotels to the QBS that had attempted to recruit in the 3 months to the end of September 2014 a quarter of them reported an increase in recruitment difficulties.

Outlook

A common theme permeating many of the latest set of business surveys in Scotland is that the rate of economic growth will continue though at slower rate of increase heading into 2015. Expectations for 2015 are generally at historically high levels although they are beginning to ease from the recent record highs of 2014, suggesting that the recovery will continue and will become increasingly rooted. Many of the surveys show that employment levels have improved and are expected to continue to rise.

However, for some manufacturing sectors trading conditions remain more challenging than those experienced by service firms, most probably due to the situation internationally with signs of only a weak recovery in the Eurozone. Growth remains, to a large extent, reliant on household spending and in order to sustain growth over the longer term, an increase in investment is required. The recovery in Europe, which account for half of Scotland’s exports, remains fairly subdued. This poses a challenge to exporters to widen their export markets and remain competitive to ensure that the recovery is sustainable in the longer term.

In conclusion, recent Scottish business surveys paint a broadly positive picture, albeit perhaps slightly subdued compared to surveys from the start of 2014. They continue to indicate that growth in output and jobs remains fairly robust and many trends remain broadly favourable, although early indications are that the pace of recovery may be slowing and that some vulnerability may remain.

Current trends in Scottish Business are regularly reported by a number of business surveys. This report draws on:

Lloyds TSB Business Monitor Issue 67 June 2014 – August 2014;
Scottish Chambers' Business Survey Q3 2014
Scottish Engineering Quarterly Review Q3 2014;
The Bank of Scotland Markit Economics Regional Monthly Purchasing Managers' Indices (PMI) for July 2014 – September 2014;
The Scottish Retail Consortium's KPMG Monthly Scottish Retail Sales Monitor for September 2014
Visit Scotland Occupancy surveys for Q1 2014.