Scottish Chambers’ Business Survey

Recent past and next three months
Changes in business confidence were as broadly based as in the previous quarter. Rising trends in business optimism were reported in manufacturing and construction, but declining trends were evident in the service sector. Optimism was generally stronger in the production sector in the second half of 2000, whereas it was generally stronger in the service sector the first half of 2000.

Changes in the levels of orders and sales were more broadly based in manufacturing and construction but less widely evident in wholesale distribution. Rising trends in total orders were reported in manufacturing and declining trends in all other sectors. The outturn in demand was better than anticipated in manufacturing, wholesale distribution and tourism, and as expected in construction and retail distribution.

Average capacity used rose slightly in manufacturing and construction, but was almost two percentage points lower in tourism (compared to the fourth quarter 1999);

Manufacturing respondents expect a further strengthening in orders and sales in all areas in the first quarter. In contrast, construction respondents forecast a slight weakening in the flow of new orders, although the rising trend in the level of work in progress is expected to continue. In the service sector respondents expect the current decline in demand to ease. In tourism a further improvement in the current rising trend in business demand is expected.

Expectations of price increases in the first quarter eased in manufacturing but strengthened more strongly in wholesale and retail. In tourism the current discounting of prices/room rates is anticipated to continue.

There was no evidence of increased pay pressures in the fourth quarter. Average pay increases in the fourth quarter ranged from 3.28% in wholesale to 4.54% in construction. However, respondents report a slightly increased pressure to raise prices due to pay settlements.

Methodology
The Scottish Chambers’ Business Survey is conducted by Strathclyde University’s Fraser of Allander Institute together with the Scottish Chambers’ of Commerce. In the present survey, which was conducted in December, some 630 firms responded to the questionnaire. The Scottish Chambers’ Business survey, in common with most national surveys, seeks evidence as to changing trends, and uses net balances as the key survey statistic. Most questions ask the respondent to indicate whether the trend, over the past three months, and expected for the next three months, is either ‘up’, ‘level’ or ‘down’. The net balance for such survey questions is defined as the number of ‘up’ responses minus the number of ‘down’ responses to each survey question. Hence a positive net balance indicates a rising trend, and a negative net balance a declining trend. Generally the net balance can be expected to reflect the direction of change of the variables it purports to measure. Thus, for example, a positive net balance with respect to orders indicates that orders are rising. So typically the balance statistics are assessed by comparing them with growth rates, not levels of official data series” [Treasury Bulletin Vol. 4 no. 2 Summer 1993].

Manufacturing

Optimism
The rise in business confidence strengthened, as the outturn in orders and sales, except export activity, was better than earlier in the year.

Orders and Sales
The outturn in orders and sales was stronger than anticipated, and respondents have revised upwards their expectations as to trends in orders and sales in the next quarter.

The levels of orders, exchange rates and competition remain the factors thought most likely to limit output.

Finance
The downward trend in cash flow trends eased, and expectations as to improvements in turnover over the next twelve months strengthened, and expectations as to the trends in profitability over the next year improved.

Expectations for the next twelve months
Manufacturing respondents now anticipate more strongly rising trends in turnover and profitability over the next year than they had three months earlier.

In the service sector the expectations are for rising turnover but declining profitability, although the declining trends in profitability are now anticipated to be weaker over the next twelve months than had been predicted at the end of October.
Anticipations of price increases eased in the fourth quarter, but pressures were generally higher in the second half of 2000.

**Investment**
Changes to investment plans were reported by 36% of respondents. Investment in the fourth quarter was authorised towards reducing labour [35%] and improving efficiency [21%].

**Employment**
Employment trends rose, a net increase of 2%, but this net rate of decline is expected to reverse over the next quarter.

Recruitment activity rose as 55% sought to recruit staff in the fourth quarter. 29% reported increasing pay by an average of 3.53%, compared to an average of 3.09% in the previous quarter.

**Construction**

**Optimism**
The rising trend in business continued, although changes in confidence were more widely reported.

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<th>Orders</th>
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<td>The trend in total orders was weaker than anticipated, with a net of 5% of respondents reporting an decrease. Although the trend in work in progress remained positive.</td>
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<td>The strong upward trend in private sector orders eased, and the current level trend is expected to fade in the first quarter.</td>
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<td>The percentage citing the low level of demand as the factor most likely to restrict activity in the next quarter fell to 58%, the lowest figure ever recorded.</td>
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<td>Changes to investment again affected slightly less than a third of respondents, and the rise in plant/equipment investment weakened. Of those investing in the fourth quarter 64% directed investment towards the replacement of equipment and 13% towards increasing efficiency.</td>
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<td>The rise in construction employment ended, but this fall is not expected to continue. 17% increased pay by an average of 4.54% compared to 4.2% in the previous quarter, and 55% sought to recruit staff in the fourth quarter, again mainly skilled manual staffs.</td>
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Wholesale distribution

Optimism
The continuing decline in business optimism eased, although almost 50% reported no change.

Sales
Respondents had forecast a decline in sales for the fourth quarter, and the net decline of 12% was less than anticipated. This decline is forecast to continue through the first quarter at a reduced rate. Concerns as to competition were cited by 61%, as the factor thought most likely to limit activity in the first quarter.

Pressures to raise prices were slightly higher than in the previous quarter, and transport costs were again the most widely cited factor.

Investment
Changes in investment plans were reported by 39%, and the declining trend in investment eased.

Finance
The declining cash flow trend eased significantly to a net decline of 7%. Expectations of turnover and profitability over the next year improved, but the improvement in turnover is expected to be at the expense of profitability.

The net of firms expecting to increase prices over the next quarter rose slightly to 34%, the highest figure recorded.

Employment
Changes to employment levels again affected less than 30%, and the decline was less than anticipated. Respondents continue to anticipate a decline in employment in the next quarter. 17% reported increasing pay by an average of 3.28% compared to an average increase of 3.57% in the previous quarter.

Average pay increase 3.28%
Percent recruiting staff 46.7
Recruitment difficulties 56.7

Retail distribution

Optimism
Changes in business confidence were reported by 51%, and the declining trend in business confidence accelerated to a net of 18%.

Sales
The decline in sales was as anticipated, although the decline is forecast to ease through the first quarter. There was some evidence of increased pressures to raise prices in the fourth quarter, most notably in terms of other overheads and transport costs. Concerns as to the level of competition and business rates remain the factors thought most likely to restrict sales.

Investment
The marginal downward trend in investment plans continued.

Finance
Cash flow trends deteriorated in the fourth quarter, and the trends remained negative. Expectations as to the trend in turnover over the next year improved, however expectations as to profitability remained weak, suggesting respondents anticipate that turnover growth will impose pressure on profitability levels.

For a further quarter competitive pressures continued and expectations of price increases were at the highest since the first quarter of 1998.

Employment
The outturn in employment was weaker than had been anticipated. The marginal decrease in employment continued (a net decrease of 8%), and is now forecast to accelerate through the first quarter. Recruitment activity was unchanged with 47% seeking staff, and 15% increased pay by an average of 3.94% compared to an average increase of 3.73% in the previous quarter.
Tourism

Optimism
Changes in business confidence were reported by 49%, and the decline in confidence eased slightly.

Demand
The outturn in demand was marginally better than anticipated, although demand from all areas, except business trade fell. Average capacity used was slightly lower than in the fourth quarter of 1999.

Investment
Investment continued to rise, although for more than 86% the main reason for authorising investment was to replace/renew facilities or to improve facilities.

Finance
Increased pressures on margins were again evident. Discounting of prices was more evident, and more than had been anticipated. However, turnover trends were positive and better than predicted.

Employment
38% reported no change to overall employment levels. The outturn, whilst weak, was less severe than had been expected.

Recruitment activity increased with 75% seeking staff (compared to 91% in the previous quarter). More than 80% of those recruiting staff reported difficulties in attracting suitable staffs, most notably skilled and other manual staffs. 42% reported increasing pay by an average of 3.99%, compared to an average increase of 3.5% in the previous quarter.

Cliff Lockyer
15th January 2001