

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.

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.

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 variable 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.

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.

	Percentages		
	Up	Level	Down
Business optimism	27.4	52.4	20.2
Trends in actual orders			
Total new orders	38.9	29.7	31.4
Scottish orders	24.3	49.0	26.6
Rest of UK orders	29.5	46.9	23.5
Export orders [32.3% = N/A]	17.4	32.6	17.7
Trends in expected orders			
Total new orders	34.3	48.0	17.7
Scottish orders	22.1	62.5	15.4
Rest of UK orders	26.7	58.3	15.1
Export orders [33.0% = N/A]	19.0	35.2	12.7
Capacity used	76.75		
Invest in plant/equip.	20.1	63.4	16.5
Cash flow past 3 months	24.4	48.8	26.8
Turnover next 12 months	59.1	25.9	15.0
Profitability next 12 months	49.6	29.4	21.0
Price change next 3 months	25.3	66.6	8.0
Employment trends			
Total actual employment	22.5	57.1	20.4
Total expected next 3 months	16.3	65.8	17.9
Average pay increase	3.53		
Percent recruiting staff	55.1		
Recruitment difficulties	64.3		

Construction

Optimism

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

Orders

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.

The strong upward trend in private sector orders eased, and the current level trend is expected to fade in the first quarter.

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.

Investment

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.

Employment

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.

	Percentages		
	Up	Level	Down
Business optimism	29.7	46.9	23.4
Trends in actual orders			
Total new orders	33.3	28.6	38.1
Central Government orders	7.3	58.5	34.1
Other Public Sector orders	14.3	59.2	26.5
Private orders	35.5	29.0	35.5
Trends in expected orders			
Total new orders	19.0	47.6	33.3
Central Government orders	2.5	70.0	27.5
Other Public Sector orders	2.1	70.2	27.7
Private orders	24.6	44.3	31.1
Capacity used	86.3		
Invest in plant/equip.	18.0	65.6	16.4
Employment trends			
Total actual employment	20.3	57.8	21.9
Total expected next 3 months	22.2	55.6	22.2
Average pay increase	4.54		
Percent recruiting staff	54.7		
Recruitment difficulties	80.6		

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.

	Percentages		
	Up	Level	Down
Business Optimism	23.3	45.0	31.7
Trend in actual sales	28.3	31.7	40.0
Trend in expected sales	18.6	59.3	22.0
Investment plans	18.0	60.7	21.3
Cash flow past 3 months	21.3	50.8	27.9
Turnover next 12 months	37.7	42.6	19.7
Profitability next 12 months	26.2	39.3	34.4
Price change next 3 months	44.3	45.9	9.8
Employment trends			
Total actual employment	11.9	71.2	16.9
Total expected next 3 months	13.6	71.2	15.3

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.

	Up	Percentages	
		Level	Down
Business Optimism	16.9	48.6	34.5
Trend in actual sales	30.6	27.2	42.2
Trend in expected sales	25.0	41.7	33.3
Investment plans	19.7	58.5	21.8
Cash flow past 3 months	21.1	41.5	37.4
Turnover next 12 months	37.4	35.4	27.2
Profitability next 12 months	30.3	35.9	33.8
Price change next 3 months	37.4	54.4	8.2
Employment trends			
Total actual employment	12.0	68.3	19.7
Total expected next 3 months	5.8	74.8	19.4
Average pay increase	3.94		
Percent recruiting staff	47.3		
Recruitment difficulties	60.0		

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

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.

	Percentages		
	Up	Level	Down
Business Optimism	11.3	51.3	37.5
Trends in demand/visitors			
Total demand/visitors	26.9	15.4	57.7
Demand from Scotland	18.2	41.6	40.3
Demand from Rest of UK	19.5	33.8	46.8
Demand from abroad	16.4	26.0	57.5
Business Trade	39.6	29.2	31.3
Trends in expected demand			
Total demand/visitors	31.1	17.6	51.4
Demand from Scotland	18.6	41.4	40.0
Demand from Rest of UK	20.0	32.9	47.1
Demand from abroad	13.6	31.8	54.5
Business Trade	38.6	38.6	22.7
Capacity used	54		
Investment	30.8	47.4	21.8
Turnover past 3 months	38.5	26.9	34.6
Costs past 3 months	44.3	43.0	12.7
Average daily rate	28.0	34.0	38.0
Expected average daily rate	23.5	45.1	31.4
Employment trends			
Total actual employment	20.8	37.7	41.6
Total expected next 3 months	9.0	43.6	47.4
Average pay increase	3.99		
Percent recruiting staff	75		
Recruitment difficulties	86.8		

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