

Scottish Chambers' Business Survey

The Scottish Chambers of Commerce Business Survey, conducted by the Fraser of Allander Institute is the largest and most comprehensive regular survey of the Scottish business community.

Recent past and next three months

- Changes in business confidence were more broadly based in manufacturing, construction and wholesale distribution, but less broadly based in retail and tourism. Rising trends in business optimism were reported only in wholesale distribution, level trends were reported in construction and declining trends in manufacturing, retail and tourism. In manufacturing optimism has been weaker in 2001 than in 2000, whereas confidence, whilst low is stronger in retail in 2001 than it was in 2000;
- Changes in the levels of orders and sales were more broadly based in manufacturing and construction but less widely evident in wholesale, retail distribution and tourism. The outturn in orders and sales was weaker than anticipated in manufacturing, but better than anticipated in construction and distribution. The outturn was slightly better in tourism, but the trends remain very depressed;
- Weakening and declining trends in orders and sales were evident in manufacturing. Orders rose and strengthened in construction. In the service sector the trends in sales were the strongest since the fourth quarter of 1997. In contrast a strong decline in demand in tourism was reported;
- Average capacity used eased three percentage points in manufacturing and five percentage points in construction, although the rising trend in the level of work in progress continued. Average occupancy was some eight percentage lower in tourism (compared to the second quarter 2000);
- Manufacturing respondents are more cautious as to the trends in orders and sales over the next three months and are now predicting declining trends. In contrast wholesale and retail respondents expect, for the first time in two years, rising sales. In tourism a strong decline in demand is forecast;
- Expectations of price increases in the third quarter eased in manufacturing, wholesale and retail. In tourism the current discounting of prices/room rates was more broadly based than anticipated, more

widespread than a year ago, and again is anticipated to continue;

- There was little evidence of increased pay pressures in the second quarter. Average pay increases in the second quarter ranged from 3.93% in wholesale to 6.85% in manufacturing;
- Declining trends in employment were reported in tourism and to a lesser extent in manufacturing, a marginal rise in employment in retail is expected in the third quarter.

Expectations for the next twelve months

Manufacturing respondents anticipate rising trends in turnover and profitability over the next year, but at more modest rates than in recent quarters;

In the service sector wholesale respondents expectations as to rising turnover over the next year are the highest reported and rising trends in profitability are anticipated. In retail the trends in turnover and profitability were unchanged from the previous quarter, with rising turnover but declining profitability expected over the next year;

The three-month trend for tourism was one of declining turnover and rising costs.

Methodology

The Scottish Chambers' Business Survey is conducted by Strathclyde University's Fraser of Allander Institute together with the Chambers of Commerce of Aberdeen, Central, Dundee, Edinburgh, Glasgow and Paisley. In the present survey, which was conducted in June, over 600 firms responded to the questionnaire.

Manufacturing

Optimism

The decline in business confidence continued, and the outturn in orders and sales was worse than had been forecast.

Orders and Sales

The trends in orders and sales deteriorated and were the weakest since the second quarter of 1991, once again respondents have revised downwards their expectations as to trends in orders and sales in the third 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, for a further quarter expectations as to improvements in turnover over the next twelve months eased, in contrast expectations as

to the trends in profitability over the next year marginally increased. Anticipations of price increases were less in the second quarter.

Investment

Changes to investment plans were reported by 46% of respondents. Investment in the second quarter was authorised towards reducing labour [36%], replacement of equipment [28%] and expansion [17%].

Employment

The shedding of staff continued, a net decrease of 3%, and this net rate of decline is expected to continue through the next quarter.

Recruitment activity increased as 59% sought to recruit staff in the second quarter. 39% reported increasing pay by an average of 6.85%, compared to an average of 3.85% in the previous quarter.

Manufacturing - key results

	Percentages		
	Up	Level	Down
Business Optimism	20.6	49.6	29.8
Trends in actual orders			
Total new orders	23.9	38.8	37.3
Scottish orders	17.3	46.8	36.0
Rest of UK orders	19.0	45.8	35.1
Export orders [30.1% = N/A]	18.8	26.2	25.0
Trends in expected orders			
Total new orders	24.1	50.2	25.7
Scottish orders	18.5	59.3	22.2
Rest of UK orders	20.8	54.8	24.4
Export orders [30.6% = N/A]	15.9	35.3	18.2
Capacity used	72.47		
Invest in plant/equip.	23.1	53.8	23.1
Cash flow past 3 months	17.7	57.3	25.0
Turnover next 12 months	45.9	31.6	22.5
Profitability next 12 months	44.6	24.7	30.7
Price change next 3 months	23.9	60.8	15.3
Employment trends			
Total actual employment	19.0	58.6	22.3
Total expected next 3 months	14.6	66.3	19.1
Average pay increase	6.85		
Percent recruiting staff	53.8		
Recruitment difficulties	58.7		

Construction

Optimism

A level trend in business optimism was reported.

Orders

The trend in total orders was again better than anticipated, with a net of 15% of respondents reporting an increase, and the trend in work in progress remained positive.

The strong upward trend in private sector orders continued, well above expectations, but once again the current level trend is again expected to fade in the next quarter.

The percentage citing the low level of demand as the factor most likely to restrict activity in the next quarter remained at 63%, the second lowest figure ever recorded.

Investment

Changes to investment again affected slightly more than 40% of respondents, and the rise in plant/equipment investment eased fractionally. Of those investing in the second quarter 50% directed investment towards the replacement of equipment and 19% towards expanding capacity.

Employment

A rise in construction employment was reported, and this rise is expected to ease through the third quarter. 26% increased pay by an average of 4.58% compared to 3.5% in the previous quarter, and 56% sought to recruit staff in the second quarter, again mainly skilled manual staffs.

Construction - key results

	Percentages		
	Up	Level	Down
Business Optimism	24.0	52.0	24.0
Trends in actual orders			
Total new orders	45.8	22.9	31.3
Central Government orders	0	59.4	40.6
Other Public Sector orders	15.4	46.2	38.5
Private orders	44.0	26.0	30.0
Trends in expected orders			
Total new orders	22.9	52.1	25.0
Central Government orders	0	68.8	31.3
Other Public Sector orders	7.7	59.0	33.3
Private orders	24.5	51.0	24.5
Capacity used	81.82		
Invest in plant/equip.	25.5	57.4	17.0
Employment trends			
Total actual employment	28.0	50.0	22.0
Total expected next 3 months	18.0	66.0	16.0
Average pay increase	4.58		
Percent recruiting staff	56.0		
Recruitment difficulties	62.1		

Wholesale distribution

Optimism

The long running decline in business optimism ended, although almost 55% reported no change.

Sales

The decline in sales trends ended. Respondents had forecast a rise in sales for the second quarter and the net rise of 15% was stronger than anticipated. This rise is forecast to strengthen in the third. Concerns as to competition were cited by 59%, as the factor thought most likely to limit activity in the next quarter.

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

Investment

Changes in investment plans were reported by 34% of respondents and the rising trend in investment strengthened.

Finance

The declining cash flow trend ended as a net of 6% reported rising trends. Expectations of turnover and profitability over the next year improved for a further quarter, but again the improvement in turnover is expected to be stronger than the rise in profitability.

The net of firms expecting to increase prices over the next quarter eased to 23%.

Employment

Changes to employment levels again affected less than 40%, and the rise was more than anticipated, this rate of increase is expected to continue through the next quarter. 40% reported increasing pay by an average of 3.93% compared to an average increase of 5.25% in the previous quarter.

Wholesale distribution - key results

	Percentages		
	Up	Level	Down
Business Optimism	26.5	54.4	19.1
Trend in actual sales	35.3	44.1	20.6
Trend in expected sales	37.5	42.2	20.3
Investment plans	22.1	66.2	11.8
Cash flow past 3 months	20.6	64.7	14.7
Turnover next 12 months	50.0	30.9	19.1
Profitability next 12 months	40.9	27.3	31.8
Price change next 3 months	33.8	55.9	10.3

Employment trends

Total actual employment	22.4	62.7	14.9
Total expected next 3 months	14.3	79.4	6.3
Average pay increase	3.93		
Percent recruiting staff	53.7		
Recruitment difficulties	56.4		

Retail distribution

Optimism

Changes in business confidence were reported by 54% of respondents and the long running declining trend in business confidence continued and deepened to a net decline of 6%.

Sales

The rise in sales was better than anticipated, and this rise is forecast to continue at more modest rates in the third quarter.

Once again there was some evidence of increased pressures to raise prices in the second quarter, most notably in terms of transport and other overhead costs. Concerns as to the level of competition and business rates remained the factors thought most likely to restrict sales.

Investment

The marginal downward trend in investment plans re-emerged.

Finance

The declining cash flow trends continued, but eased further in the second quarter. Expectations as to the trend in turnover over the next year remained unchanged, and expectations as to profitability remained weak, once again suggesting respondents anticipate that turnover growth will impose pressure on profitability levels.

For a further quarter competitive pressures continued and expectations of price increases only eased slightly.

Employment

The outturn in employment was better than had been anticipated. The marginal decrease in employment eased to a net decrease of 1%. Recruitment activity increased with 52% seeking staff, and 46% increased pay by an average of 4.02% compared to an average increase of 3.46% in the previous quarter.

Retail distribution - key results

	Percentages		
	Up	Level	Down
Business Optimism	23.9	46.3	29.9
Trend in actual sales	37.3	31.3	31.3
Trend in expected sales	29.1	44.9	26.0
Investment plans	17.9	61.9	20.1
Cash flow past 3 months	23.3	45.9	30.8
Turnover next 12 months	35.3	40.6	24.1
Profitability next 12 months	34.1	30.3	35.6
Price change next 3 months	33.3	58.3	8.3
Employment trends			
Total actual employment	9.3	70.5	20.2
Total expected next 3 months	11.3	76.6	12.1
Average pay increase	4.02		
Percent recruiting staff	52.3		
Recruitment difficulties	28.6		

Tourism**Optimism**

Changes in business confidence were reported by 53%, and confidence, whilst weak, improved in the second quarter.

Demand

The outturn in demand, except Scottish demand, was almost as bad as had been expected, and little improvement is forecast for the third quarter. Demand from all areas fell. Average occupancy in the second quarter of 2001 was some 8-percentage points lower than in previous years. The forecast for the third quarter is bleak.

Investment

Investment fell, and although for more than 90% 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 widespread than had been anticipated. Turnover trends were negative but this decline is expected to level out in the third quarter.

Employment

56% reported no change to overall employment levels and the outturn, whilst weak, was as had been expected.

Recruitment

Recruitment activity increased with 93% seeking staff (compared to 83% in the previous quarter). 81% of those recruiting staff reported difficulties in attracting suitable staffs, most notably skilled, other manual and part time staffs. 42% reported increasing pay by an average of 4.02%, compared to an average increase of 4.9% in the previous quarter.

Tourism - key results

	Percentages		
	Up	Level	Down
Business Optimism	23.6	47.3	29.1
Trends in demand/visitors			
Total demand/visitors	20.8	17.0	62.3
Demand from Scotland	20.8	47.2	32.1
Demand from Rest of UK	24.5	28.3	47.2
Demand from abroad	7.7	17.3	75.0
Business Trade	21.6	43.2	35.1
Trends in expected demand			
Total demand/visitors	13.0	38.9	48.1
Demand from Scotland	14.8	53.7	31.5
Demand from Rest of UK	13.0	44.4	42.6
Demand from abroad	5.7	20.8	73.6
Business Trade	18.4	50.0	31.6
Capacity used	64.4		
Investment	16.4	54.5	29.1
Turnover past 3 months	26.7	28.9	44.4
Costs past 3 months	49.1	32.1	18.9
Average daily rate	22.0	36.6	41.5
Expected average daily rate	12.8	46.2	41.0
Employment trends			
Total actual employment	21.8	43.6	34.5
Total expected next 3 months	0	67.3	32.7
Average pay increase	4.02		
Percent recruiting staff	92.7		
Recruitment difficulties	81.1		

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14 September 2001