

Scottish Chambers' Business Survey

The Scottish Chambers of Commerce Business Survey, conducted by Strathclyde University's 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 as broadly based as in the previous quarter. Declining trends in business optimism were reported in all sectors, although the rate of decline in business optimism eased in both wholesale and retail distribution. In contrast optimism fell steeply in tourism, reflecting current difficulties.

Changes in the levels of orders and sales were more broadly based in all sectors in the first quarter. For a further quarter rising trends in total orders were reported in manufacturing and construction with declining trends in all other sectors. The outturn in demand was better than anticipated in all sectors except manufacturing.

Average capacity used rose slightly in construction, eased *one percentage point in manufacturing (compared to the previous quarter)* and in tourism (compared to the first quarter 2000).

Manufacturing respondents expect a further strengthening in orders and sales in all areas in the second quarter, although expectations are more modest than in previous quarters and respondents anticipate a declining trend in the level of work in progress. Construction respondents are more confident as to future trends and anticipate a further strengthening in the flow of new orders, and the rising trend in the level of work in progress is expected to rise. In both wholesale and retail distribution a further improvement in sales trends is anticipated. In contrast the outlook for tourism is bleak, with steeply declining demand from all areas forecast.

Expectations of price increases in the second quarter rose marginally in manufacturing and strengthened more strongly in wholesale but eased fractionally in retail. In general expectations of price increases have been more broadly based over the past six months than in the first half of 2000. In tourism the current discounting of prices/room rates is anticipated to continue through the second quarter and to be more broadly based.

Downward trends in employment were reported in all sectors except construction, and only in construction and wholesale are net rising trends in employment forecast for the second quarter.

There was little evidence of increased pay pressures in the first quarter. Average pay increases in the first quarter ranged from 3.46% in retail to 5.25% in wholesale.

Expectations for the next twelve months

Manufacturing respondents now anticipate more modestly rising trends in turnover and profitability over the next year than they had three months earlier;

In the service sector the expectations are largely unchanged from the previous quarter, namely modestly rising turnover but declining profitability.

Methodology

The 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 March, some 630 firms responded to the questionnaire.

Manufacturing

Optimism

The rise in business confidence ended, as the outturn in orders and sales, except export activity, was worse than had been forecast.

Orders/Sales

The outturn in orders and sales was weaker than anticipated, and respondents have revised downwards their expectations as to trends in orders and sales in the second 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 deepened, expectations as to improvements in turnover over the next twelve months eased, likewise expectations as to the trends in profitability over the next year eased. Anticipations of price increases were generally unchanged in the first quarter.

Investment

Changes to investment plans were reported by 35% of respondents. Investment in the first quarter was authorised towards reducing labour [30%], replacement of equipment [24%] and expansion [21%].

Employment

Employment trends eased, a net decrease of 5%, and this net rate of decline is expected to continue through the next quarter.

Recruitment activity eased as 49% sought to recruit staff in the first quarter. 41% reported increasing pay by an average of 3.85%, compared to an average of 3.53% in the previous quarter.

Manufacturing - key results

	Percentages		
	Up	Level	Down
Business Optimism	18.3	54.9	26.7
Trends in actual orders			
Total new orders	31.3	40.0	28.7
Scottish orders	18.0	51.7	30.3
Rest of UK orders	17.7	53.3	29.1
Export orders [35.2% = N/A]	22.6	25.4	16.7
Trends in expected orders			
Total new orders	30.9	44.9	24.3
Scottish orders	18.2	57.7	24.0
Rest of UK orders	22.0	53.9	24.1
Export orders [35.3% = N/A]	18.8	31.3	14.9
Capacity used	75.89		
Invest in plant/equip.	16.0	64.6	19.4
Cash flow past 3 months	17.0	45.9	37.1
Turnover next 12 months	52.4	29.5	18.1
Profitability next 12 months	41.7	29.2	29.2
Price change next 3 months	27.1	63.9	9.1
Employment trends			
Total actual employment	16.5	62.1	21.4
Total expected next 3 months	16.7	62.8	20.5
Average pay increase	3.85		
Percent recruiting staff	48.7		
Recruitment difficulties	64.8		

Construction

Optimism

The rising trend in business optimism ended, and changes in confidence were less widely reported than in the fourth quarter.

Orders

The trend in total orders was better than anticipated, with a net of 5% 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 expected to fade in the second quarter.

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

Investment

Changes to investment again affected slightly more than a third of respondents, and the rise in plant/equipment investment strengthened. Of those investing in the first quarter 67% directed investment towards the replacement of equipment and 19% towards increasing efficiency.

Employment

A rise in construction employment was reported, and this rise is expected to continue through the second quarter. 27% increased pay by an average of 3.5% compared to 4.54% in the previous quarter, and 66% sought to recruit staff in the first quarter, again mainly skilled manual staffs.

Construction - key results

	Percentages		
	Up	Level	Down
Business Optimism	19.3	56.1	24.6
Trends in actual orders			
Total new orders	30.9	43.6	25.5
Central Government orders	2.9	71.4	25.7
Other Public Sector orders	18.6	53.5	27.9
Private orders	34.6	46.2	19.2
Trends in expected orders			
Total new orders	26.8	58.9	14.3
Central Government orders	2.7	73.0	24.3
Other Public Sector orders	8.9	66.7	24.4
Private orders	29.6	51.9	18.5
Capacity used	86.8		
Invest in plant/equip.	20.0	69.1	10.9
Employment trends			
Total actual employment	29.8	57.9	12.3
Total expected next 3 months	22.8	64.9	12.3
Average pay increase	3.5		
Percent recruiting staff	66.1		
Recruitment difficulties	73.5		

Wholesale Distribution

Optimism

The continuing decline in business optimism eased, although almost 60% reported no change.

Sales

The easing in the decline in sales trends continued. Respondents had forecast a decline in sales for the first quarter, and the net decline of 2% was less than anticipated. This decline is forecast to end in the second quarter and modest net increase is forecast. Concerns as to competition were cited by 50%, as the factor thought most likely to limit activity in the second 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 19%, and the declining trend in investment ended.

Finance

The declining cash flow trend worsened to a net decline of 17%. Expectations of turnover and profitability over the next year marginally improved, but again any 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 further to 39%, the highest figure recorded.

Employment

Changes to employment levels again affected less than 30%, and the decline was more than anticipated, however, a rise is forecast for the second quarter. 30% reported increasing pay by an average of 5.25% compared to an average increase of 3.28% in the previous quarter.

Wholesale distribution - key results

	Percentages		
	Up	Level	Down
Business Optimism	18.5	57.4	24.1
Trend in actual sales	37.0	24.1	38.9
Trend in expected sales	24.1	57.4	18.5
Investment plans	11.1	81.5	7.4
Cash flow past 3 months	9.3	65.8	25.9
Turnover next 12 months	38.9	42.6	18.5
Profitability next 12 months	25.9	38.9	35.2
Price change next 3 months	46.3	46.3	7.4
Employment trends			
Total actual employment	7.4	72.2	20.4
Total expected next 3 months	13.5	76.9	9.6
Average pay increase	5.25		
Percent recruiting staff	40.7		
Recruitment difficulties	66.7		

Retail distribution

Optimism

Changes in business confidence were reported by 55%, and the long running declining trend in business confidence eased to a net decline of 0.7%.

Sales

The decline in sales was less than anticipated, and the decline is forecast to ease in the second quarter.

Once again there was some evidence of increased pressures to raise prices in the first quarter, most notably in terms of pay and raw material 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 ended and a slight rise was reported.

Finance

The declining cash flow trends continued, but eased in the first quarter. Expectations as to the trend in turnover over the next year marginally improved, however expectations as to profitability remained weak, suggesting respondents again 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 second highest since the first quarter of 1998.

Employment

The outturn in employment was weaker than had been anticipated. The marginal decrease in employment was unchanged at a net decrease of 8%. Recruitment activity eased with 43% seeking staff and 21% increased pay by an average of 3.46% compared to an average increase of 3.94% in the previous quarter.

Retail distribution - key results

	Percentages		
	Up	Level	Down
Business Optimism	27.2	44.9	27.9
Trend in actual sales	34.9	25.3	39.7
Trend in expected sales	30.6	36.8	32.6
Investment plans	22.2	56.9	20.8
Cash flow past 3 months	20.4	46.9	32.7
Turnover next 12 months	40.1	30.6	29.3
Profitability next 12 months	32.4	33.1	34.5
Price change next 3 months	33.8	60.0	6.2
Employment trends			
Total actual employment	9.9	72.5	17.6
Total expected next 3 months	8.6	77.1	14.3
Average pay increase	3.46		
Percent recruiting staff	42.8		
Recruitment difficulties	55.4		

Tourism

Optimism

Changes in business confidence were reported by 89%, and confidence slumped reflecting the current concerns in the industry.

Demand

The outturn in demand was again better than anticipated, although demand from all areas, except business trade fell. Average capacity used in the first quarter of 2001 was lower than in previous years. The forecast for the second quarter is bleak.

Investment

Investment continued to rise, although for more than 81% 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 less evident, and lower than had been anticipated. Turnover trends were positive. However, a net of 28% expect turnover to fall in the second quarter and almost a third expect to reduce prices.

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 83% seeking staff (compared to 75% in the previous quarter). 79% of those recruiting staff reported difficulties in attracting suitable staffs, most notably skilled and other manual staffs. 31% reported increasing pay by an average of 4.9%, compared to an average increase of 3.99% in the previous quarter.

Tourism - key results

	Up	Percentages	
		Level	Down
Business Optimism	7.6	11.4	81.0
Trends in demand/visitors			
Total demand/visitors	34.6	23.1	42.3
Demand from Scotland	26.7	38.7	34.7
Demand from Rest of UK	17.3	33.3	49.3
Demand from abroad	8.2	24.7	67.1
Business Trade	40.8	40.8	18.4
Trends in expected demand			
Total demand/visitors	16.2	17.6	66.2
Demand from Scotland	9.9	35.2	54.9
Demand from Rest of UK	8.5	36.8	64.8
Demand from abroad	6.9	13.9	79.2
Business Trade	20.0	35.6	44.4
Capacity used	51.8		
Investment	25.3	45.6	29.1
Turnover past 3 months	38.9	31.5	29.6
Costs past 3 months	56.4	35.9	7.7
Average daily rate	34.6	44.2	21.2
Expected average daily rate	21.2	46.2	32.7
Employment trends			
Total actual employment	15.2	62.0	22.8
Total expected next 3 months	15.2	55.7	29.1
Average pay increase	4.9		
Percent recruiting staff	82.7		
Recruitment difficulties	79.1		

Cliff Lockyer/Eleanor Malloy
14th May 2001