

3 Review of Scottish Business Surveys

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Abstract

Business surveys are a useful tool and provide accurate and timely data that are extremely helpful in pinpointing subtle movements in the economy. Business surveys collect information on a wide range of topics such as business confidence, orders, turnover, exports, investment, employment etc. and when analysed provide a view of the overall economy. They are also useful for short term forecasting and pinpointing turning points. Many business surveys use net balances, determined by subtracting the percentage reporting declines from the percentages reporting increases. A number of recent surveys continue to show that more and more businesses report that net trends, although remaining positive, have eased somewhat (with a growing number of respondents reporting 'no change') and despite many of the trends reported not being quite as high as recent quarters, most remain positive and more importantly for many of the respondents to recent Business Surveys, expectations remain strong and at pre-recession levels.

Bank of Scotland Purchasing Managers' Index (PMI)

The Purchasing Managers Index (PMI) for Scotland (a single-figure measure of the month-on-month change in combined manufacturing and services output) saw activity levels dip marginally lower during March 2105 (49.4) compared to 50.2 in the previous month. Growth in the manufacturing sector was offset by a decline in services. January 2015 saw output fall for the first time in 28 months from 52.8 in December 2014 to 47.7; this was the first sub-50 reading since September 2012, indicating a contraction, with output declines recorded for both manufacturing and service firms. The December PMI showed that Scotland's private sector economy ended 2014 in a fairly strong position with the index unchanged in December from November's 52.8. The November index indicated weakening growth, with the index easing from 54.2 in October to 52.8.

Bank of Scotland Business Monitor

The latest Bank of Scotland Business Monitor, December 2014, January and February 2015 (with expectations to August 2015) shows that despite the economy slowing significantly in the survey period, that expectations remain high.

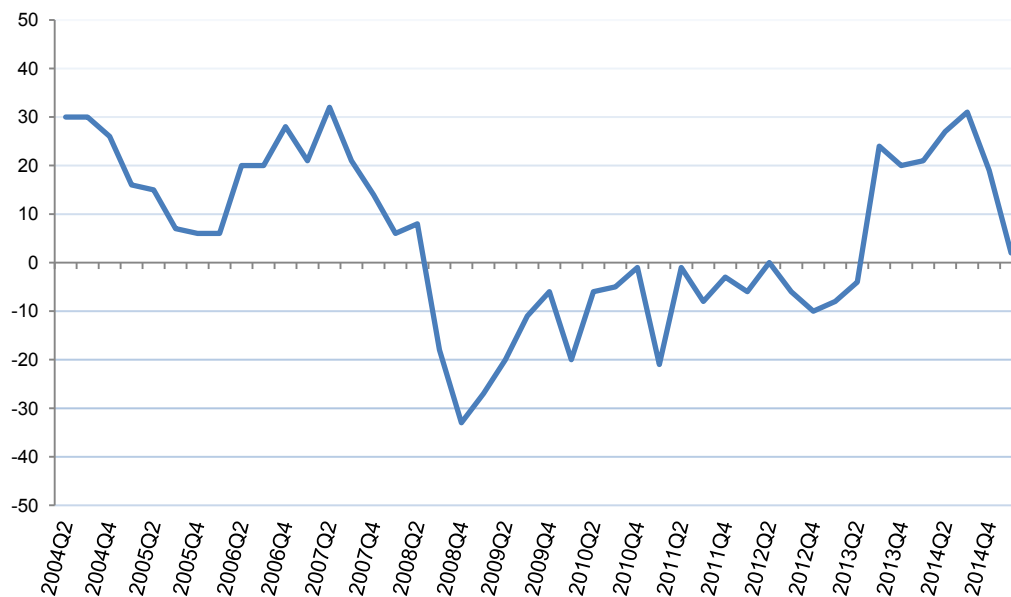
In the three months ending February 2015, turnover, on balance, remained static with a third of firms each reporting an increase, a decrease and no change resulting a zero net balance, down somewhat on the +16% reported in the previous survey and the worst result for seven quarters. Firms in both the production and service sectors reported sharp declines with service firms reporting +19% in the previous quarter and +4% in the current quarter and production firms declining from +12% to -4%. A net of 14% expect an increase in turnover in the 6 months to the end of August, slightly down from the +19% of the previous quarter and significantly lower than the net balance of +37% in the same quarter a year ago.

Services firms (+19% expect a rise in turnover) remain more confident than production firms (+8% expect a rise in turnover).

Volumes of total business generally eased compared to the previous quarter and the same quarter of previous year with the downward trends again more apparent in production rather than service firms. The trend in the volumes of repeat business eased to +1%, down from the +15% of the previous quarter and the +10% of the same quarter one year ago. Expectations for the volume of repeat business also eased, dropping to +10% compared to +13% for the previous quarter +27% for the same quarter one year ago.

Similarly trends in the volume of new business eased to +2% compared to +18% of the previous quarter and the +22% of the same quarter one year ago. Also expectations for new business volumes during next six months to the end of August were optimistic but again slightly down compared to last quarter's +14% and as compared to +19% in the previous quarter and down on the +34% of the same quarter one year ago.

Figure 1: Total volume of business Scotland, 2004-2015 (net balance of SBM respondents)



Source: Bank of Scotland Business Monitor

Export activity improved in this latest survey rising from a net balance of -4% in the previous survey to a net of +6%, although it remains below the +12% recorded in the same quarter one year ago. A net balance of 2% expect a rise in exports, down on the +5% last quarter and the +42% a year earlier.

Cost pressures eased in the latest quarter falling to +23% from +35% in the previous net of 26 expect pressures to increase in the three months to May. Concerns over credit availability increased slightly for production firms while easing for services firms. The importance of the sterling exchange rate increased for production businesses but eased for services. The importance of late payment eased for both production and services firms in the three months to the end of February 2015, whereas concerns

over cash flow increased. The importance of staff availability in the three months to the end of May declined for production firms but increased for services firms.

Capital investment appears to be declining as in the three months to the end of February a net balance of 1% reported a decline in the levels of capital investment compared to a net rise of +7% in the previous quarter.

In the recent past the Business Monitor indicated that the economy began to slow around the second half of 2008 and slowed significantly at the end of 2008 before steadily improving until 2010. During the following 2 years, respondents to the SBM showed no real change in the economy until the middle of 2014 when respondents indicated some growth. This continued until the current survey where firms reported no overall change, however expectations remain buoyant. Professor Donald MacRae of the Bank of Scotland noted that “These expectation levels suggest the private sector of the Scottish economy will show trend level growth in the second quarter of 2015 recovering from a slowdown at the start of the year.”

Manufacturing

Sales revenue among rest of UK and export business improved during Q1 for a net balance of Scottish Chamber of Commerce members responding to the latest QEI survey whereas domestic sales revenue, on balance, declined. Domestic sales and orders both declined over the quarter (net balances of -7% and -8% respectively). A net balance of 30% of firms increased total investment during Q1 2015 and 37% of these firms did so in order to expand capacity. Average capacity utilisation was at the highest point in 10 years at 83%. Almost two thirds of firms reported no change to total employment nevertheless a net balance reported a rise (+10%).

Respondents to the Q1 2015 Scottish Engineering Review reported that for the first time in 10 years firms of all sizes reported a negative balance of optimism with only firms in the electronics sector reporting a positive net balance. Following seven consecutive positive quarters the trend in output volumes contracted in the first quarter of this year, however small and medium firms are forecasting a rise in Q2 although large firms continue to expect a negative trend. Most firms reported that prices were unchanged from the previous quarter however small firms reported that UK prices continued to improve. Small and medium companies continued to report upward trends in both capital and training investment during Q1 2015. For the first time since Q2 2010 a net balance of engineering firms reported a decline in total employee numbers. Medium and large companies reported a decline although small firms continued to report employment growth. Nevertheless, the outlook for manufacturing employment is generally positive.

Construction

Optimism in the construction sector increased during Q1 for a net balance of Scottish Chamber of Commerce members responding to the latest QEI survey (a net balance of +8%), lower than in the previous quarter (+23%) and also lower than the same quarter of last year (+21%). Total sales unexpectedly declined for a net of 13% of construction respondents. Contracts were also down

compared to the same time last year, particularly public sector contracts, which declined for a net balance of 11% of respondents. Investment trends remained broadly positive although most firms reported no change to overall levels. Investment is expected to continue to grow in Q2 2015 for 22.2% of construction firms. Almost half of all firms experienced a decline in profits during Q1 2015 but fewer than a quarter expect profits to decline in Q2 2015.

The latest Scottish Construction Monitor, a quarterly survey of the membership of the leading trade body, the Scottish Building Federation reported that business confidence rose to a record high to +29% in Q1 2015. The Scottish Construction Monitor survey asked a number of questions focusing on how the 2015 Construction Design and Management regulations would impact on Scottish Construction. More than half of the respondents reported that they would face additional costs associated with the health and safety changes and more than 90% reported that although they were aware of the new changes they were unprepared for their implementation.

Retail

The Scottish Retail Sales Monitor conducted by The Scottish Retail Consortium and KPMG reported that total Scottish sales decreased by -3.1% in May 2015 compared to May 2014 when they had decreased by -1.6%. Additionally footfall in May was -1.8% lower than May 2014 and also down on the 1.1% increase in April this year. The report indicated that like-for-like sales decreased by -2.1% in May 2015 compared to May 2014 with food sales declining by -2.1 and non-food sales by -3.9%.

The Scottish Chambers Quarterly Business Survey reported that business optimism in the wholesale/retail sector returned to positive territory following a spell of negative balances in 2014. A net balance of 3% of firms reported a rise in sales, a significant improvement over the same quarter of 2014 (-19%). Investment figures were fairly strong with fewer than 10 reporting downward trends in either capital or training investment. Employment trends, on balance, declined for a net balance of 3% however most firms (71.1%) reported no change. 39% of firms actively sought to recruit compared to 23% last year. Future expectations of sales revenue and profits remain strong.

Tourism

QEI firms reported that net balances in the tourism sector generally remain in positive territory although the rate of increase has slowed since last year. A net balance of 7% of hotels reported an increase in optimism in Q1; lower than the +21% of the previous quarter and the +28% in Q1 2014. A net balance of 9% of Scottish hotels reported a rise in the total number of customers/guests during Q1 (the lowest rate Q4 2013 and also lower than the +21% reported in the same quarter of the previous year). Overseas visitors increased on balance whereas rest-of-UK visitors declined by a net % balance of -4. Investment expenditure increased during Q1 2015, with a net % balance of +22% reporting increased investment expenditure, and 40% of businesses increasing investment did so in order to expand capacity. Almost half of hotels decreased their average room rate, therefore despite the overall increase in customers & guests, a net balance of hotels reported a decline in both sales revenue and profits.

Outlook

This latest set of Scottish business surveys continue to show a more cautious outlook, with many trends being well below the recent near record highs; but they still remain positive. Many expectations suggest that economic activity will increase, albeit at a more modest pace in 2015. Expectations for 2015 are generally higher than their pre-recession levels but more and more firms are expressing a degree of caution reflecting an increasing uncertainty caused by a slowing in the world economy.

Fewer businesses are as confident about their prospects as they were last quarter. Inevitably the UK General Election caused a degree of uncertainty in the economy with many of the surveys conducted during the pre-election period. Another reason for the easing of trends could be because the euro has only appreciated slightly despite the uncertainty (and potential impact) of the current situation in Greece. However notwithstanding this, overall expectations remained at a very good level. Slow growth in the Eurozone, rising sterling prices plus restrained growth in the global economy, has clearly affected Scottish exporters. However on a more positive note, the fall in oil and other commodity prices should help ease businesses' cost pressures and, by boosting consumer incomes, help boost economic growth.

In conclusion, recent Scottish business surveys show that firms remain broadly upbeat about recent and near future business prospects with many trends still rising albeit more slowly than in recent quarters. . Though the pace of recovery may be slowing and the degree of uncertainty in both the UK and the rest of the global economy is having an effect on Scottish businesses, expectations remain at or above pre-recession levels

References

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