

Scottish Chambers' Business Survey

Strathclyde University's Fraser of Allander Institute in collaboration with the Scottish Chambers of Commerce conducts the quarterly Chambers' Business Survey. In the present survey, which was conducted in December, some 450 firms responded to the questionnaire.

Recent past and next three months

Rising trends in business confidence were reported in manufacturing, construction and wholesale distribution, level trends were reported in tourism and declining confidence in retail.

The outturn in orders and sales was better than anticipated in manufacturing, construction and tourism, but weaker than expected in wholesale and retail distribution.

Manufacturing respondents reported the strongest trends in orders and sales since 2000, and are now more confident of rising trends in orders in 2004. Construction likewise reported rising trends in orders and expect this increase to continue in the first quarter of 2004. In contrast weaker sales trends were evident in retail. However, the trends in total numbers of guests in tourism were the strongest fourth quarter figures for several years.

Manufacturing respondents are more confident as to the trends in orders and sales over the next twelve months and predict rising trends in orders through 2004. In contrast a net of retail respondents expect the current weak trends in sales to continue through the first quarter of 2004. In tourism demand is expected to be weak.

Expectations of price increases over the next three months rose in manufacturing and in wholesale and retail distribution. In tourism the current discounting of prices/room rates was more broadly based than had been anticipated, and again more broadly based than in previous fourth quarters.

There was little evidence of pay pressures in the fourth quarter.

Expectations for the next twelve months

Manufacturing respondents anticipate rising more strongly rising trends in turnover and profitability over the next

twelve months with rising trends in total, Scottish/RUK and export orders. However, investment plans in 2004 for R & D and to introduce new products and processes remain limited. Construction firms anticipate strongly rising turnover in 2004, but with some pressures on margins.

In the service sector the expectations to turnover and profitability over the next year remain weak. And there are signs of some pressures on margins.

Manufacturing

Optimism

The net decline in business confidence, a feature of since 2000 ended and a net increase of 6% in business confidence was reported.

Orders and Sales

For the first time since the fourth quarter of 2000 the outturn in orders was stronger than anticipated, with rising trends in total, rest of UK and export orders. These trends are expected to continue, at more modest levels through the first quarter. However, 47% reported operating at below optimum levels.

41% expect orders to rise in 2004, and exporters expect a strong rise in 2004.

Finance

The downward trend in the rate of cash flow continued but eased. Expectations as to rising trends in turnover and profitability over the year improved significantly over the fourth quarter.

For a further quarter the levels of orders, competition and exchange rates remained the main concerns for manufacturers.

Investment

37% reported changing investment plans for 2004. Investment in the current quarter was mainly authorised towards increasing efficiency [34%] and replacing equipment [33%]. 9% reported investment for R & D for new products and processes and 15% investment into new products and markets.

Employment

The decline in employment continued at a net decrease of 4%, although a net of 11% reported a rising trend in total hours worked.

The percentage of firms seeking to recruit was low at 34%.

Table 1: Manufacturing - key results

	Up	Percentages	
		Level	Down
Business Optimism	24.1	57.4	18.6
Trends in actual orders			
Total new orders	33.6	43.8	22.7
Scottish orders	14.0	60.3	25.8
Rest of UK orders	20.9	60.1	19.1
Export orders [27.6% = N/A]	25.5	33.8	13.0
Trends in expected orders			
Total new orders	28.9	49.3	21.8
Scottish orders	15.4	60.7	23.9
Rest of UK orders	15.9	68.2	15.9
Export orders [32.1 = N/A]	19.6	35.0	13.3
Av Capacity used			
Invest in plant/equip.	19.6	63.3	17.1
Cash flow past 3 months	17.5	52.0	30.5
Turnover next 12 months	46.3	40.4	13.3
Profitability next 12 months	37.5	39.4	23.1
Price change next 3 months	23.2	69.3	7.4
Pressures to raise prices from			
Pay settlements	34.1		
Raw material costs	52.7		
Finance costs	11.0		
Other overheads	34.1		
Transport costs	25.4		
Employment trends			
Total actual employment	10.5	74.9	14.6
Total expected next 3 months	12.5	74.3	13.2
Average pay increase			
Percent recruiting staff	34.1		
Retention difficulties	6.8		

Construction

Optimism

Business confidence rose sharply in the fourth quarter, as the outturn in orders was better than expected.

Orders

The rise in the trends in total orders was more than had been expected, fuelled by rising orders for firms employing more than 50 employees, and the rising trend is expected to continue through the first quarter of 2004. A net of firms in all size bands expect rising trends in orders in the three months to the end of March 2004.

42.5% reported rising trends in the level of work in progress, and this strong increase is expected to continue, at more modest rates, in the first quarter. However, a net of 40% reported working at below optimum levels, and the weakness in demand continues to be identified as the main factor inhibiting activity.

A net of 40% expect turnover, and a net of 18% expect profitability to rise in 2004. Over two thirds of respondents expect material and other building costs to rise leading to some pressure on margins.

Investment

Anticipated changes to investment plans over 2004 were reported by 33%, Investment in 2004 is planned mainly for the replacement of equipment (58%), increasing efficiency (28%), increasing capacity (15%) and to compete in new areas of work (12%).

Employment

The rise in employment was as anticipated, and a rising trend is expected through the first quarter. 20% increased pay by an average of 4.43%, and 55% sought to recruit staff in the fourth quarter, again mainly skilled manual staffs.

Table 2: Construction - key results

	Percentages		
	Up	Level	Down
Business Optimism	40.0	52.5	7.5
Trends in actual orders			
Total new orders	37.5	40.0	22.5
Public sector orders	30.8	38.5	30.8
Private commercial	21.9	50.0	28.1
Domestic/house build	16.7	60.0	23.3
Trends in expected orders			
Total new orders	27.8	61.1	11.1
Public sector orders	20.0	56.0	24.0
Private commercial	27.6	55.2	17.2
Domestic/house build	21.4	64.3	14.3
Trends in work in progress			
Actual	42.5	32.5	25.0
Expected	28.2	59.0	12.8
Capacity used	85.1		
Invest in plant/equip.	25.6	66.7	7.7
Leasing in plant/equipment	11.4	74.3	14.3
Employment trends			
Total actual employment	28.2	56.4	15.4

Total expected next 3 months	24.3	64.9	10.8
Average pay increase	4.43		
Percent recruiting staff	55.0		
Recruitment difficulties	14.3	82.1	3.6

Wholesale distribution

Optimism

Changes in business confidence were again broadly based, and a stronger rising trend was reported, notwithstanding weaker than anticipated trends in sales.

Sales

The outturn in sales remained weak, and weaker than anticipated, although the percentage expecting declining sales in the first quarter is significantly less than those reporting declining sales in the fourth quarter. Concerns as to competition eased again, but remained the factor thought most likely to limit activity in the next quarter, being cited by almost three quarters of respondents.

Expectations of increasing prices remain high. Other overheads, transport costs, and raw material costs were again the most widely cited pressures on prices.

Investment

Changes in investment plans were reported by 27%, and the slightly rising trend in investment intentions strengthened.

Finance

For a further quarter the declining cash flow trend continued. Expectations as to the trends in turnover and profitability were little changed from the previous quarter. Nevertheless, expectations for the forthcoming year in the second half of 2003 were far stronger than in the first six months.

Employment

Changes to employment levels were limited, affecting a third, and the unexpected increase in total employment reflected increased numbers of part time and temporary staffs. 40% reported increasing pay by an average of 4.08%.

Table 3: Wholesale distribution - key results

		Percentages		
		Up	Level	Down
Business Optimism	31.4	51.4	17.1	
Trend in actual sales	37.1	17.1	45.1	
Trend in expected sales	16.1	61.3	22.6	
Investment plans	24.2	72.7	3.0	
Cash flow past 3 months	14.3	54.3	31.4	
Turnover next 12 months	42.9	45.7	11.4	
Profitability next 12 months	40.0	31.4	28.6	
Price change next 3 months	42.9	48.6	8.6	
Pressures to raise prices from				
Pay settlements	40.0			
Raw material costs	34.3			
Finance costs	22.9			
Other overheads	42.9			
Transport costs	45.7			
Employment trends				
Total actual employment	23.5	64.7	11.8	
Expected next 3 months	15.2	75.8	9.1	
Average pay increase	4.08			
Percent recruiting staff	35.3			
Recruitment difficulties	66.7			

Retail distribution

Optimism

Changes in business confidence were again broadly based, and reported by 44%; the decline in business confidence continued and deepened as the outturn in sales was weaker than anticipated.

Sales

The declining trends in sales continued for a net of firms in all size bands, and the rate was deeper than in the previous quarter. Sales trends are expected to remain weak through the first quarter of 2004. Only medium sized firms (those employing between 50 and 150 staff) expect level sales trends in the first quarter.

Changes in market trends were widespread with over 70% reporting changes in sales trends; market volatility was evident in all size bands, suggesting varied sales trends in the fourth quarter.

41.7% of respondents expect to increase prices in the current quarter, but this percentage tended to decrease with firm size. Pressures to raise prices were slightly more modest than in the previous six months. For a further quarter concerns as to the level of competition and business rates remain the factors thought most likely to restrict sales.

Investment

Investment plans were slightly higher than in the first nine months of 2003.

Finance

The decline in cash flow trends eased, but remained positive for a net of firms employing more than 50 staff. Respondents are now more cautious as to turnover and profitability trends over the next twelve months, than they were at the end of September. A net of respondents anticipate declining trends in turnover and profitability over the next twelve months, but this is more for a net of retailers employing less than 25 staff.

Employment

The outturn in employment was weaker than anticipated, although the decline in employment ended. Recruitment activity remained at a lower level than in previous fourth quarters. 29% increased pay by an average of 4.34%.

Table 4: Retail distribution - key results

	Up	Percentages	
		Level	Down
Business Optimism	9.6	56.2	34.2
Trend in actual sales	29.2	29.2	41.7
Trend in expected sales	12.9	55.7	31.4
Investment plans	21.1	66.2	21.1
Cash flow past 3 months	21.1	50.7	28.2
Turnover next 12 months	25.0	44.4	30.6
Profitability next 12 months	26.5	36.8	36.8
Price change next 3 months	41.7	58.3	0
Pressures to raise prices from			
Pay settlements	28.2		
Raw material costs	28.2		
Finance costs	22.5		
Other overheads	57.7		
Transport costs	39.4		
Employment trends			
Total actual employment	9.7	80.6	9.7
Expected next 3 months	1.5	83.3	15.2

Average pay increase	4.34
Percent recruiting staff	39.7
Recruitment difficulties	48.5

Tourism

Optimism

Business confidence eased in the fourth quarter, but was the strongest fourth quarter level for the past six years.

Demand

The outturn in demand, although weak, was better than had been anticipated, and this was due to strong demand from Scotland and more modest demand from the rest of UK rather than from abroad. However, average occupancy in the fourth quarter was weaker than in previous years.

Rising trends thus reflected domestic tourist demand and the better autumn. In contrast demand from overseas remained depressed with continuing declining trends forecast for the first quarter.

Overall 31% of business was local trade, 46% tourist trade and 33% business trade.

Investment

A slightly declining trend in investment was reported, and the main reasons for authorising investment were again to replace/renew facilities or to improve facilities.

Finance

Level turnover trends were reported and the discounting of room rates was again evident, and was more broadly based than had been predicted.

Employment

58% reported no change to overall employment levels and a declining trend was reported.

Recruitment

Recruitment was at more modest levels with 56% seeking to recruit staff. 81% of those recruiting staff reported difficulties in attracting suitable staffs. 41% reported increasing pay by an average of 4.8%.

Table 5: Tourism - key results

	<i>Up</i>	<i>Percentages</i>	
		<i>Level</i>	<i>Down</i>
Business Optimism	15.0	70.0	15.0
Trends in demand/visitors			
Total demand/visitors	32.9	31.6	35.4
Demand from Scotland	35.6	47.9	16.4
Demand from Rest of UK	29.3	45.3	25.3
Demand from abroad	8.2	41.1	50.7
Business Trade	18.9	48.6	32.4
Trends in expected demand			
Total demand/visitors	12.2	62.2	25.7
Demand from Scotland	15.9	63.8	20.3
Demand from Rest of UK	11.4	70.0	18.6
Demand from abroad	1.5	57.4	41.2
Business Trade	2.9	70.6	26.5
Capacity used	42.0		
Investment	23.4	51.9	24.7
Turnover past 3 months	30.8	38.5	30.8
Costs past 3 months	55.8	37.7	6.5
Average daily rate	10.5	57.9	31.6
Expected average daily rate	20.5	61.5	17.9
Employment trends			
Total actual employment	14.9	58.1	27.0
Expected next 3 months	1.4	73.6	25.0
Average pay increase	4.8		
Percent recruiting staff	56.4		
Recruitment difficulties	80.6		

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