

Q1 2022



**ADDLESHAW
GODDARD**

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INTRODUCTION

THIS REPORT SUMMARISES THE KEY RESULTS FROM OUR LATEST FRASER OF ALLANDER (FAI) SCOTTISH BUSINESS MONITOR, PUBLISHED IN PARTNERSHIP WITH ADDLESHAW GODDARD.

The survey sampled 500 firms in April from across the Scottish economy.

The survey examined business sentiment in the first quarter of 2022 and the outlook and expectations for the year ahead.

Our survey results show that business sentiment remained positive in the first quarter of the year, with all core indicators, except export activity, remaining optimistic.

OUR SURVEY RESULTS ALSO SHOW THAT:

- All sectors reported large and positive net balances for the volume of business in the first quarter of 2022.
- The main concerns for businesses continued to be the cost of energy and the price and availability of inputs.
- 1 in 3 businesses expect to reduce their operations this year due to higher energy prices.
- Over half of responding businesses reported finding it difficult or very difficult to source available goods and services.
- The lack of supply in the UK and the price of goods and services were the most common factors causing supply chain difficulties.
- The main cost drivers for firms over the coming six months are expected to come from rising energy prices and total employee costs.
- Of the firms reporting they currently had vacancies to fill, 84% reported they were finding them difficult or very difficult to fill.
- 1 in 4 firms are finding it difficult or very difficult to retain current staff.



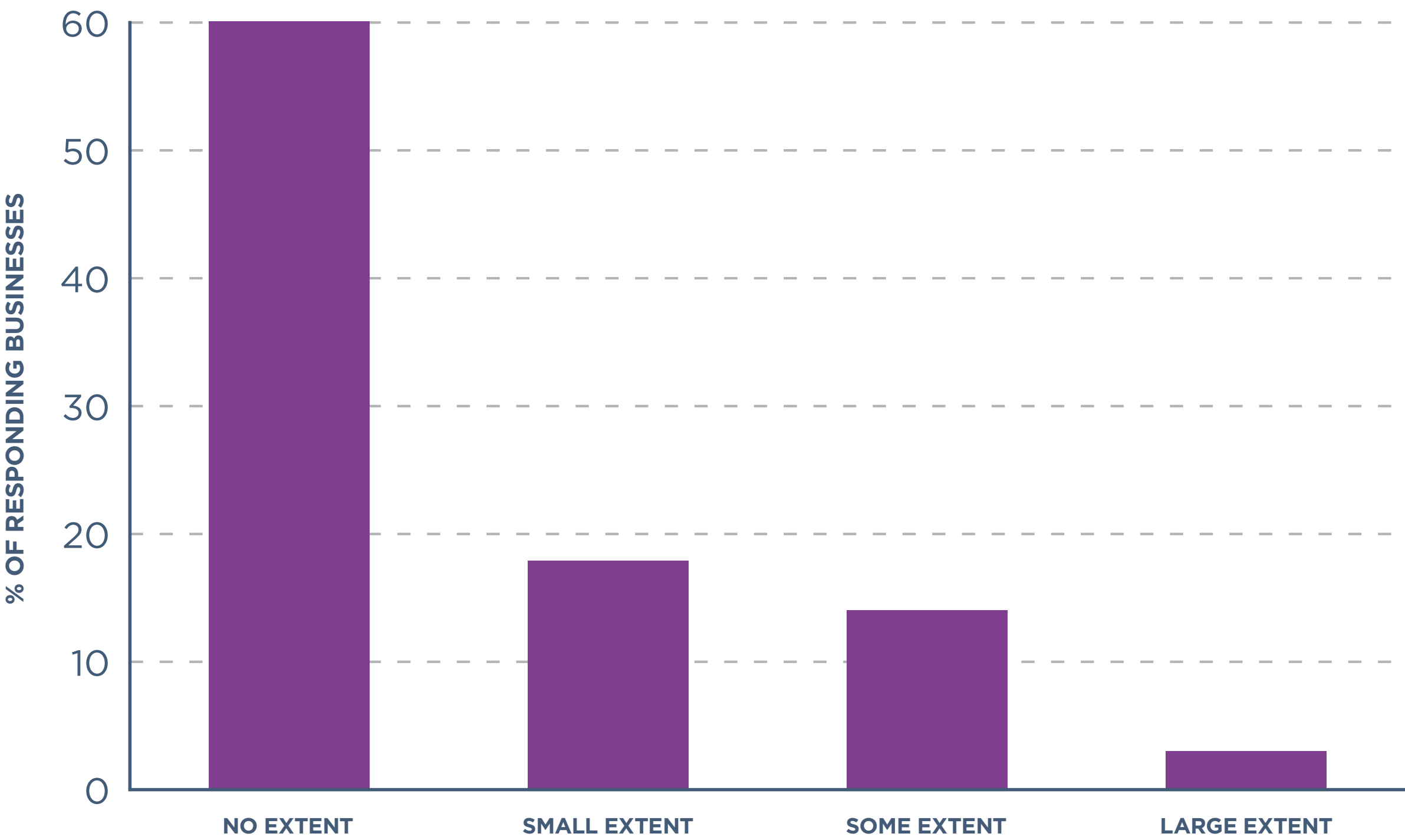
KEY RESULTS

INFLATIONARY PRESSURES AND SUPPLY CHAIN ISSUES

- We continued to ask businesses about the ongoing price increases in the energy sector and how this was affecting their operations.
- More than **1 in 3** firms expect to reduce their operations due to higher energy prices, with the majority reporting that the reduction would be to a small or moderate extent.
- This was an increase on the previous quarter when **1 in 5** firms expected to reduce their operations.
- The majority of businesses, **60%**, reported that they do not expect to reduce operations.
- The wholesale and retail (**48%**) and transport and storage (**47%**) sectors had the highest share of firms expecting to reduce operations due to rising energy prices.

Chart 1

To what extent do you expect to reduce operations this year due to increases in energy (electricity, gas or fuel) prices?



*4% of businesses responded N/A; therefore, percentages will not sum to 100%

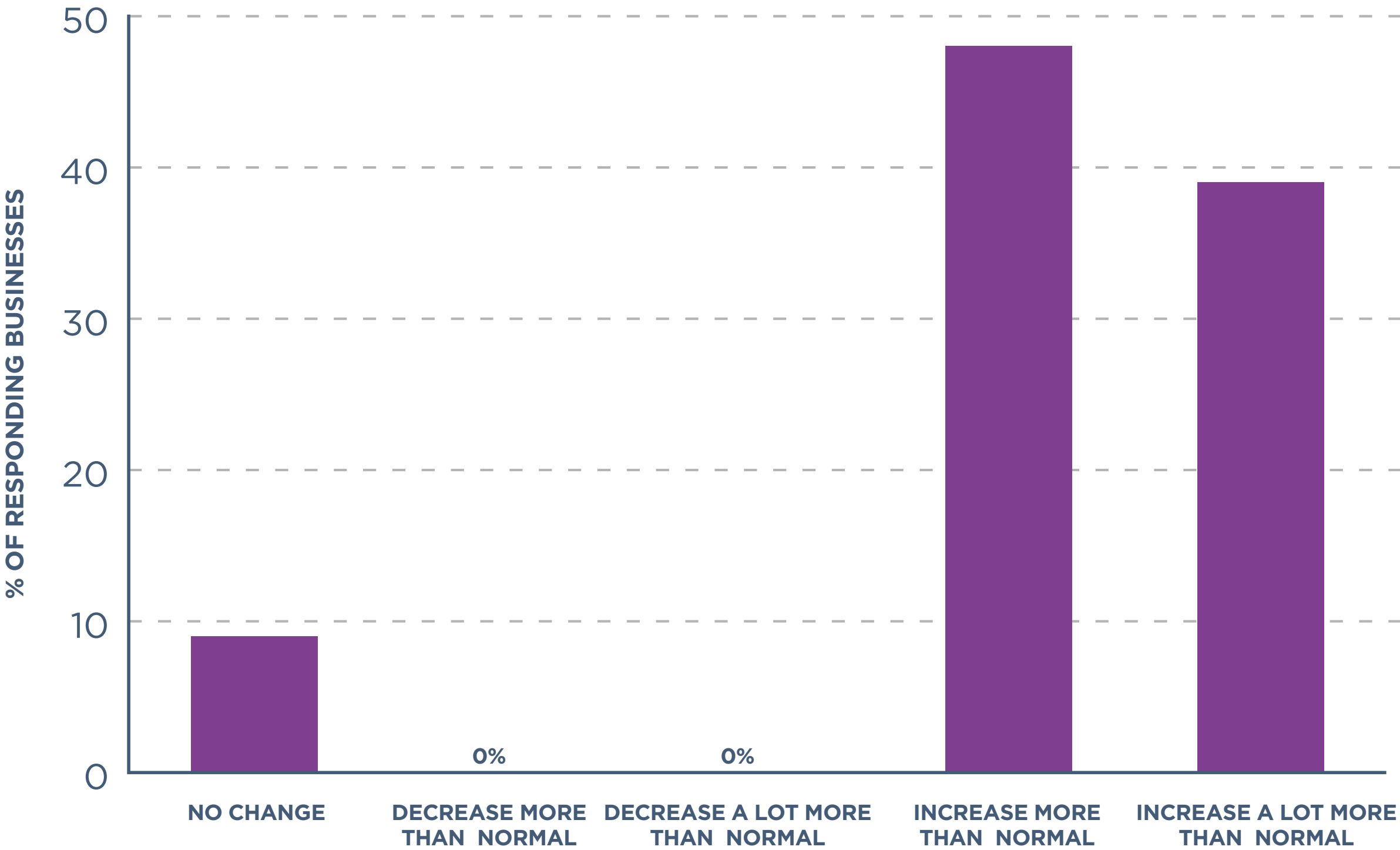
KEY RESULTS

INFLATIONARY PRESSURES AND SUPPLY CHAIN ISSUES

- General inflationary pressures also continued to affect firms, with **88%** of responding businesses reporting that they expect their prices to increase by more than normal, or a lot more than normal, in the next 12 months.
- Only **1%** of firms expect their prices to decrease in the next 12 months, with the remainder (9% of firms) expecting no changes in prices.
- **All** accommodation and food services firms expect to increase prices in the coming 12 months.
- **95%** of firms in the construction sector also expect their prices to increase, followed by **90%** of firms in the professional, scientific and technical sector.

Chart 2

Over the next 12 months, how do you expect the prices of your goods and services to change compared to normal?



*3% of businesses responded N/A; therefore, percentages will not sum to 100%

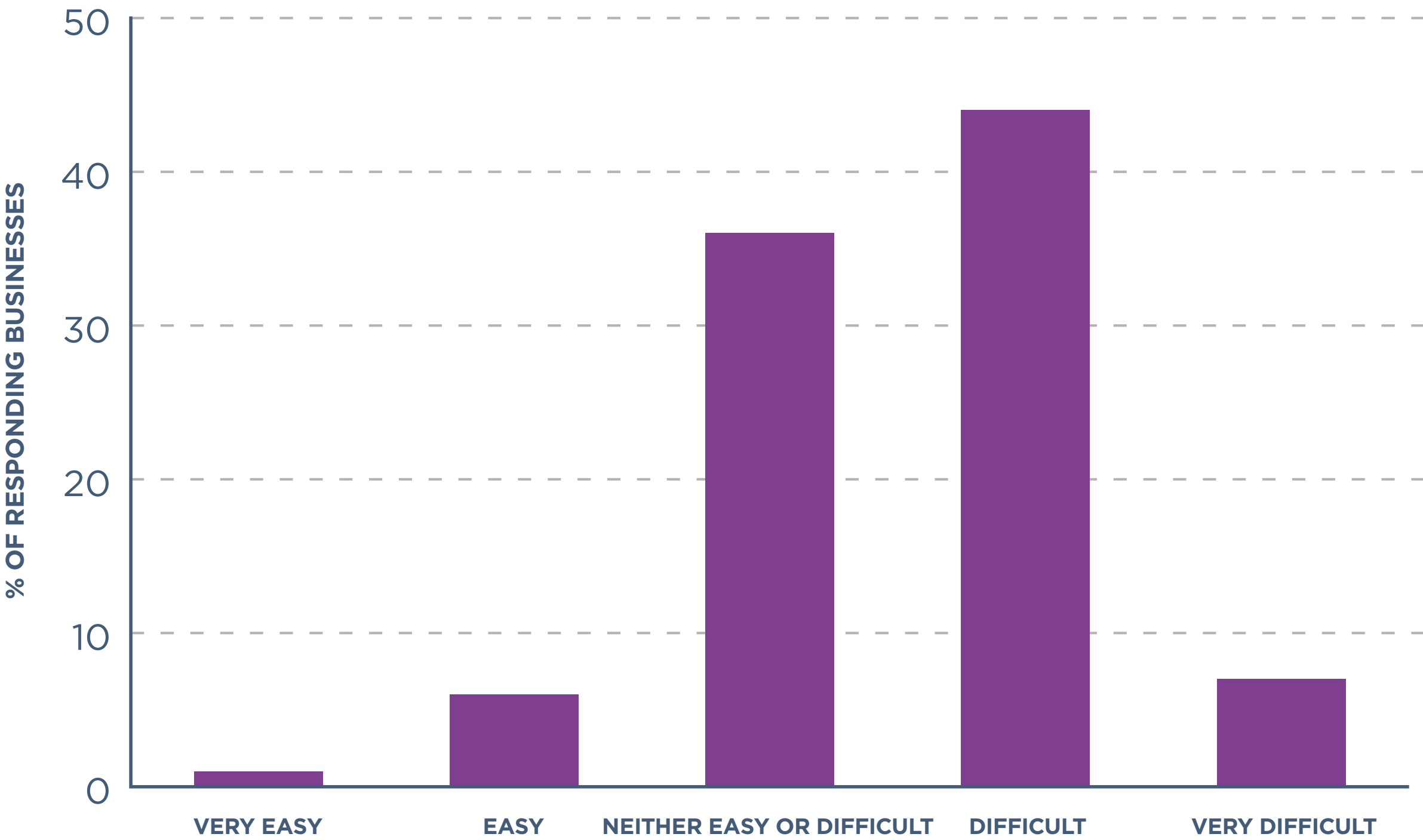
KEY RESULTS

INFLATIONARY PRESSURES AND SUPPLY CHAIN ISSUES

- Given the uncertainty surrounding supply chains, we also asked firms about their experience sourcing the goods and services they purchase.
- Over half of responding businesses reported finding it difficult or very difficult to source available goods and services. Only **7%** of businesses said they were finding it easy to source available goods and services.
- The transport and storage sector had the highest share of businesses reporting that it was difficult to source available goods and services (**77%**). 2 in 3 firms in the accommodation and food services sector also reported difficulties sourcing available goods and services.
- The most common factors affecting firms' ability to source goods and services were the lack of supply in the U.K. (**39%**) and the price of goods and services (**36%**).
- Other common factors included freight availability and delays (**28%**) and a lack of supply internationally (**22%**).

Chart 3

How easy or difficult are you finding it to source available goods and services your business purchases?



*7% of businesses responded N/A; therefore, percentages will not sum to 100%

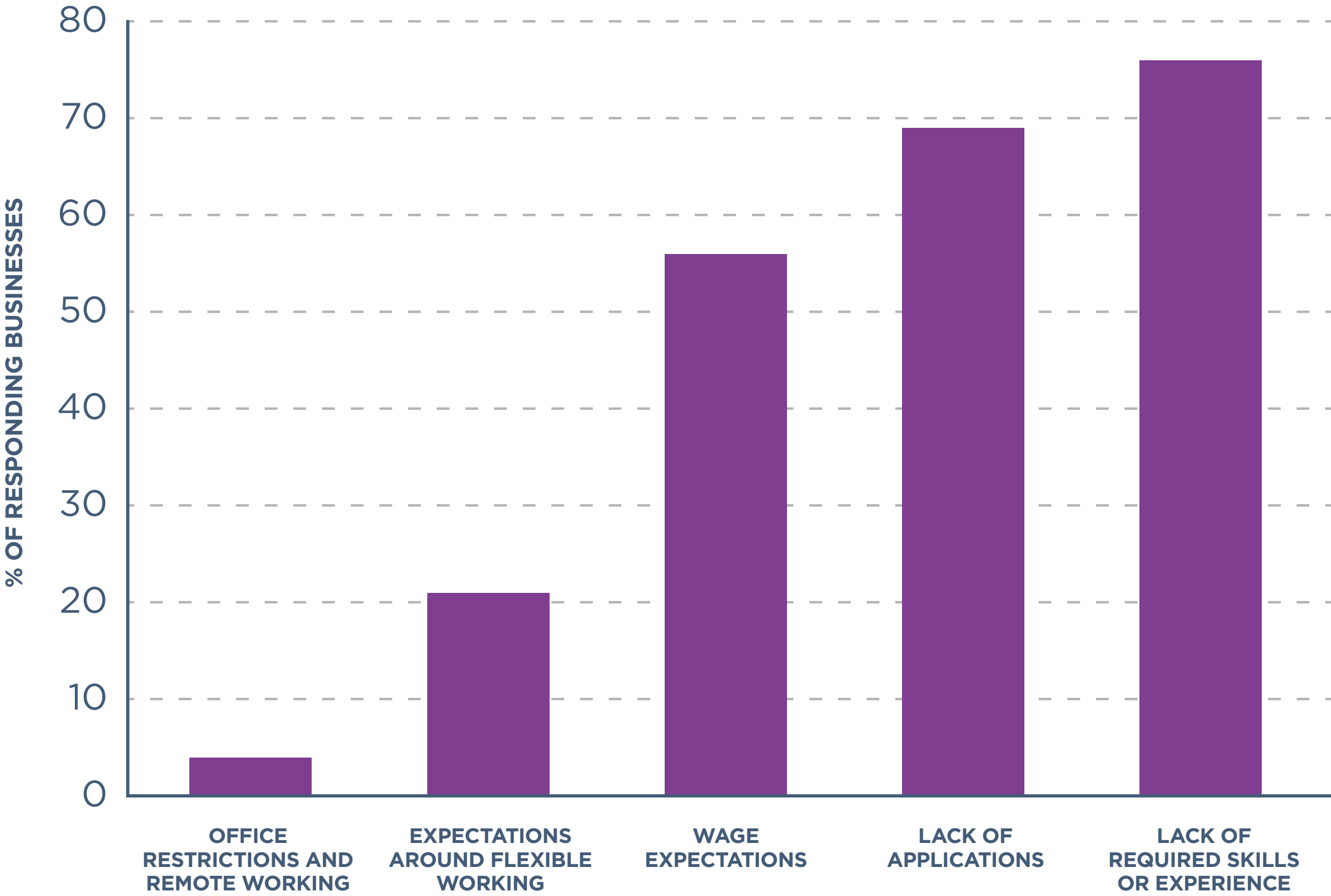
KEY RESULTS

VACANCIES

- More than half of responding businesses currently had vacancies to hire new staff members.
- Of the firms reporting they currently had vacancies to fill, **84%** reported they were finding them difficult or very difficult to fill, with **1%** reporting that filling the vacancies was easy or very easy.
- Firms in the accommodation and food services sector are facing the greatest staffing challenges, with 2 in 3 firms reporting difficulties filling vacancies.
- Across the Scottish economy, a lack of required skills and experience was the most common factor making filling vacancies difficult for firms (**76%**).
- A lack of applications was also making it difficult (**69%**), as well as wage expectations (**56%**)
- Firms are not just struggling to attract talent; 1 in 4 firms were finding it difficult or very difficult to retain current staff.

Chart 4

What factors have made filling vacancies difficult?

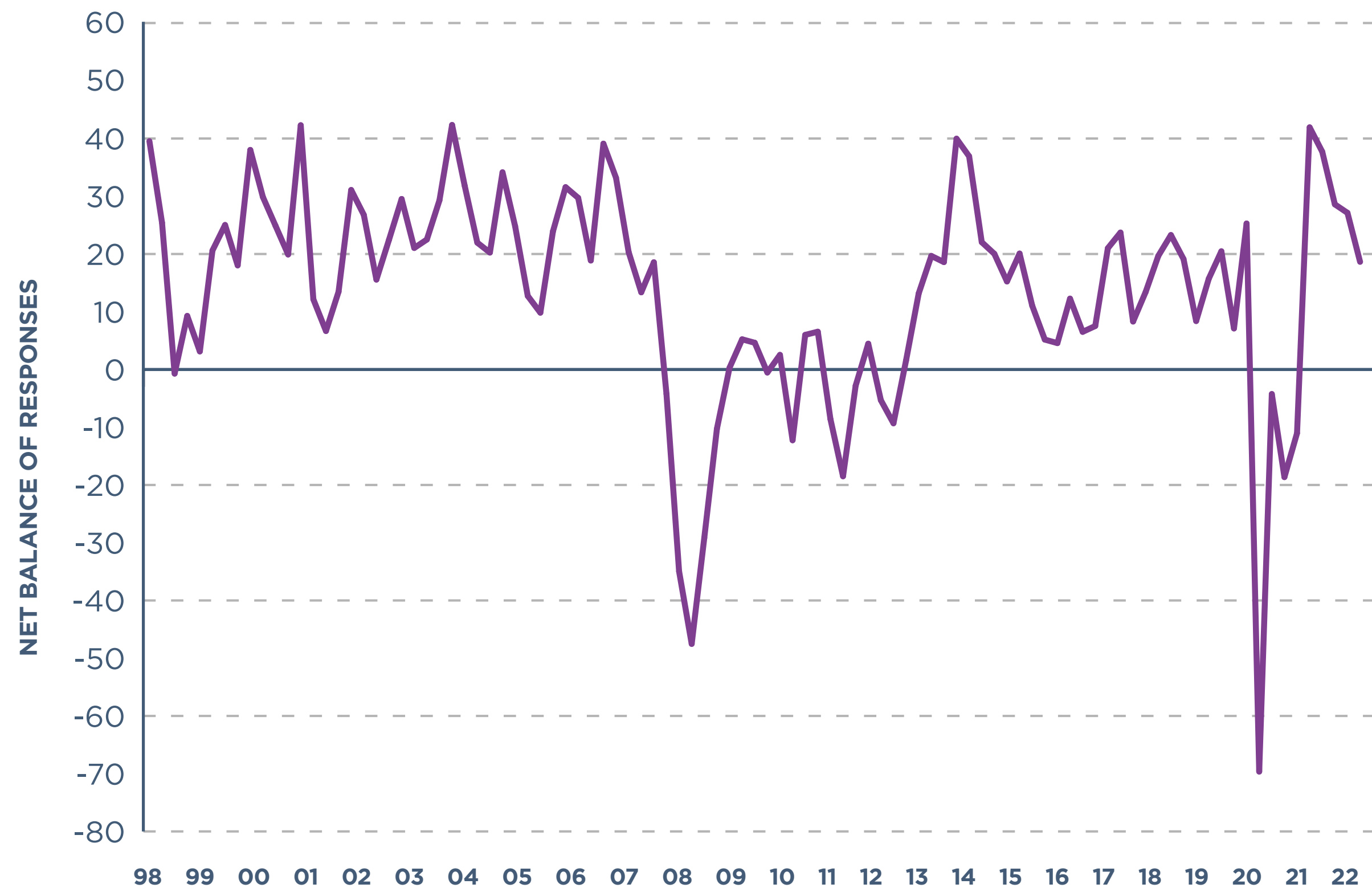


KEY RESULTS

THE EXPERIENCE OF FIRMS

- The net balance of firms reporting an increase in their volume of business over the first quarter of 2022 was large and positive.
- Expectations for the next two quarters of 2022 were also positive but had fallen slightly from previous quarters. There were also large and positive net balances in expectations for the level of employment and turnover in the coming six months.

Chart 5
Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 - Q1 2022



KEY RESULTS

THE EXPERIENCE OF FIRMS

- All sectors reported a large and positive net balance for the volume of business in the first quarter of 2022.
- There were also positive net balances for all sectors for the level of employment and the value of business activity (turnover).

Table 1
Net balance (%) of firms experiencing an increase in their volume of business over the past three months, Q1 2021 – Q1 2022

	2021				2022
	Q1	Q2	Q3	Q4	Q1
TRANSPORT & STORAGE	-36	32	15	25	41
ADMIN & SUPPORT SERVICES	-13	26	7	0	31
PROFESSIONAL, SCIENTIFIC, & TECHNICAL	15	24	32	14	31
RETAIL & WHOLESALE	-11	18	17	39	30
CONSTRUCTION	14	55	40	3	29
IT & COMMS	3	44	29	33	27
MANUFACTURING	5	45	36	4	22
FINANCE & INSURANCE	47	23	33	14	17
ACCOMMODATION & FOOD SERVICES	-77	46	31	18	14

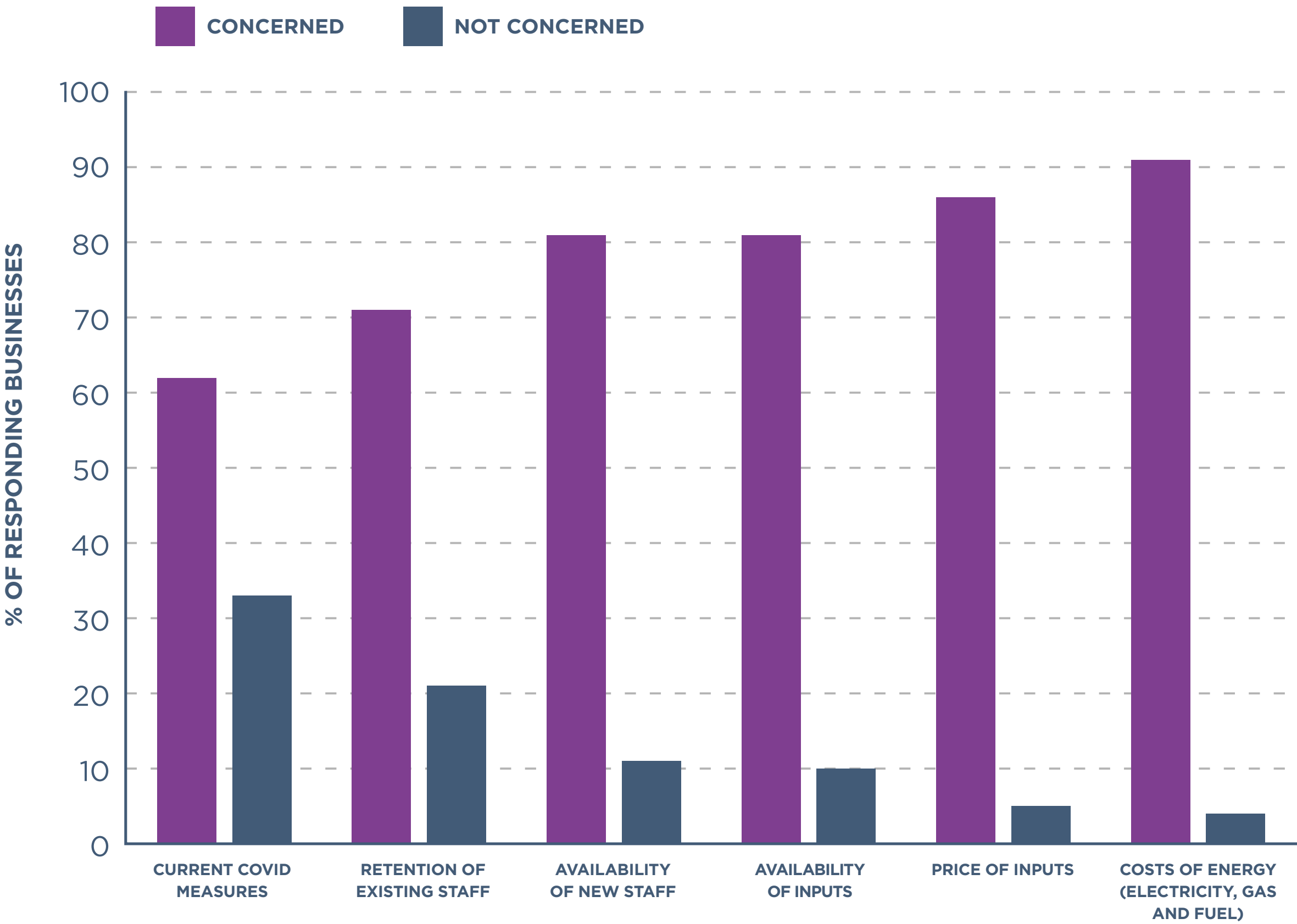
KEY RESULTS

THE OUTLOOK FOR 2022

- Firms were asked what the biggest concerns for their business were for the coming months.
- The most common concern among responding businesses was the costs of energy (**91%**), the price of inputs (**86%**), and the availability of inputs (**81%**) and new staff (**81%**).

Chart 6

Compared to normal, how concerned is your business about the following factors?



*Some businesses responded N/A; therefore, percentages may not sum to 100%

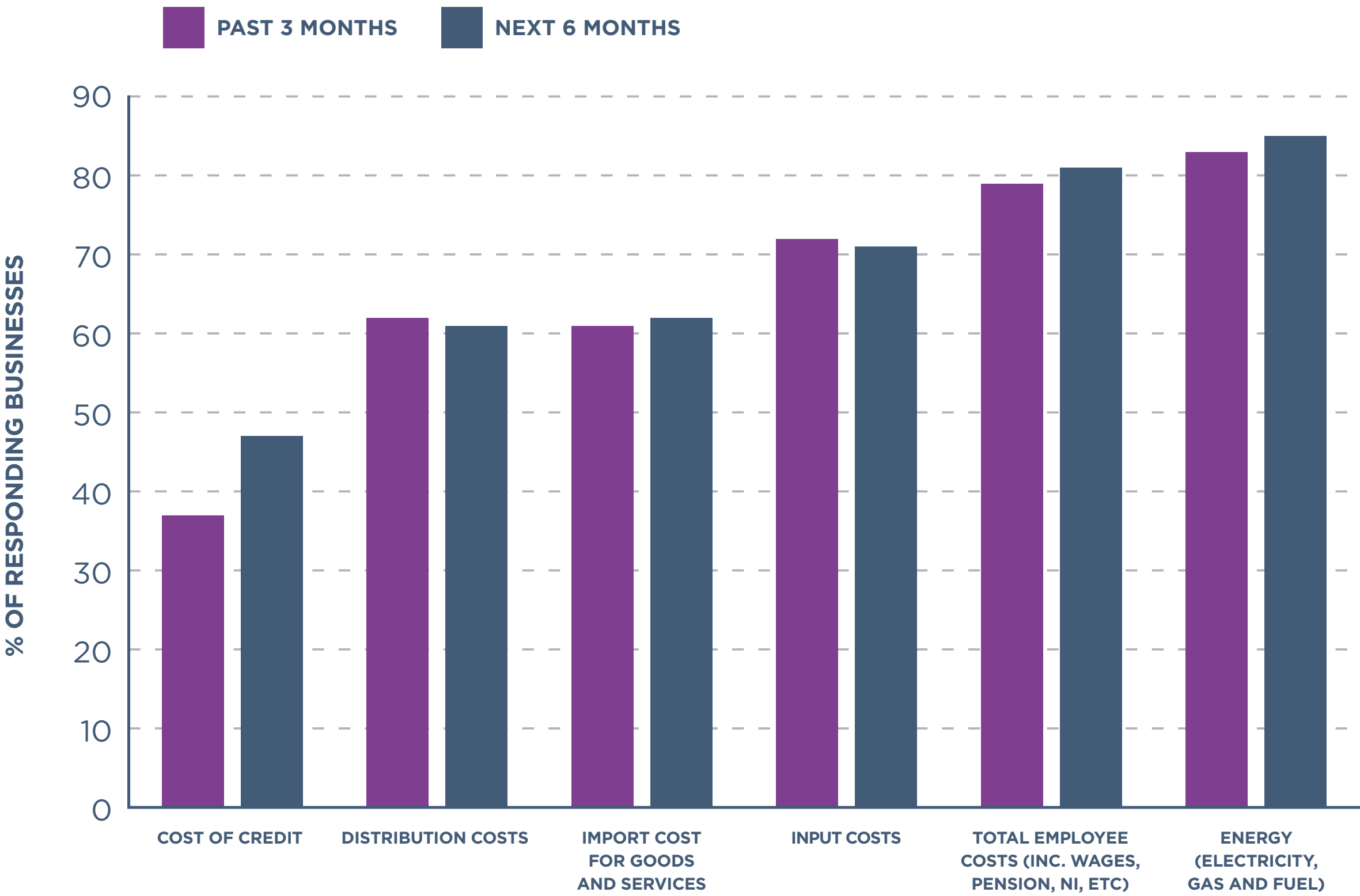
KEY RESULTS

THE OUTLOOK FOR 2022

- Energy prices came out as the most common cost over the past quarter for businesses (**83%**), followed by total employee costs (**79%**).
- Firms also expect these costs to increase the most in the next six months.

Chart 7

Thinking about the key cost drivers for businesses, what is your business’ assessment of the following cost pressures over the...



*net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower

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