







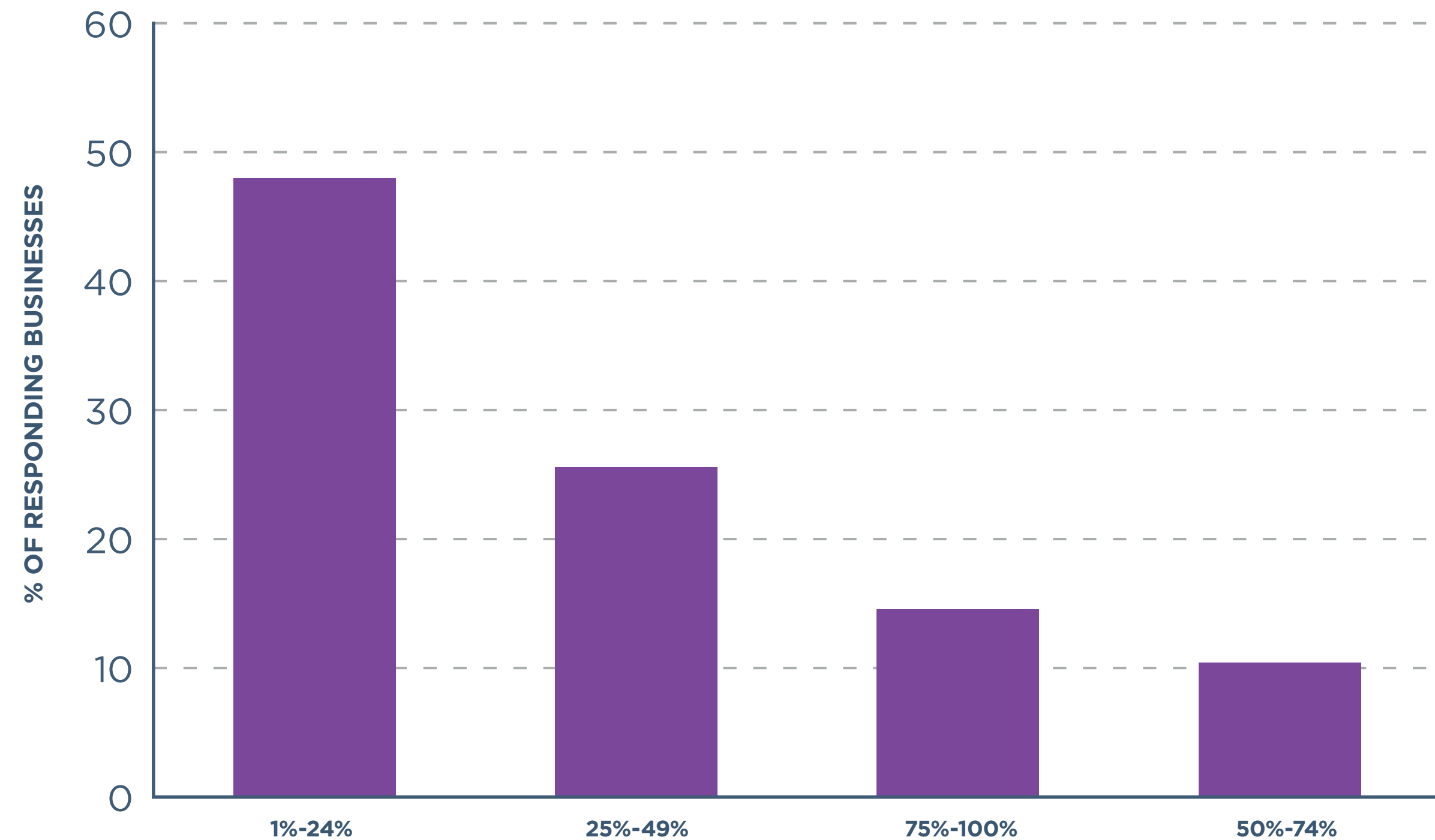
# KEY RESULTS

## BUSINESS COSTS

- This quarter we continued to ask businesses across Scotland how their costs have changed over the past year.
- **83%** of firms in Scotland have seen their costs increase, with **71%** experiencing increased costs of up to **50%**.
- This was higher in certain sectors: **87%** of construction firms, **78%** of manufacturing firms, and **76%** of wholesale and retail firms reported business costs rising by up to **50%**.
- **67%** of Scottish firms facing increased costs have absorbed these costs to avoid passing them on to their consumers. **74%** of these firms absorbed up to **50%** of their increased costs.
- The construction, wholesale and retail and manufacturing sectors have absorbed the greatest proportion of rising costs, with **71%** of construction firms, **67%** of wholesale and retail, and **66%** of manufacturing firms absorbing costs.
- However, many firms have reported that absorbing costs is unsustainable: **35%** of firms cannot absorb costs anymore, **36%** of firms expect to only be able to absorb costs for the next year, and **14%** of firms are unsure how much longer they can absorb costs for.

**Chart 1:**

Roughly, what percent of increased costs incurred over the past 12 months has your business absorbed?



\*2% of businesses responded N/A; therefore, percentages will not sum to 100%

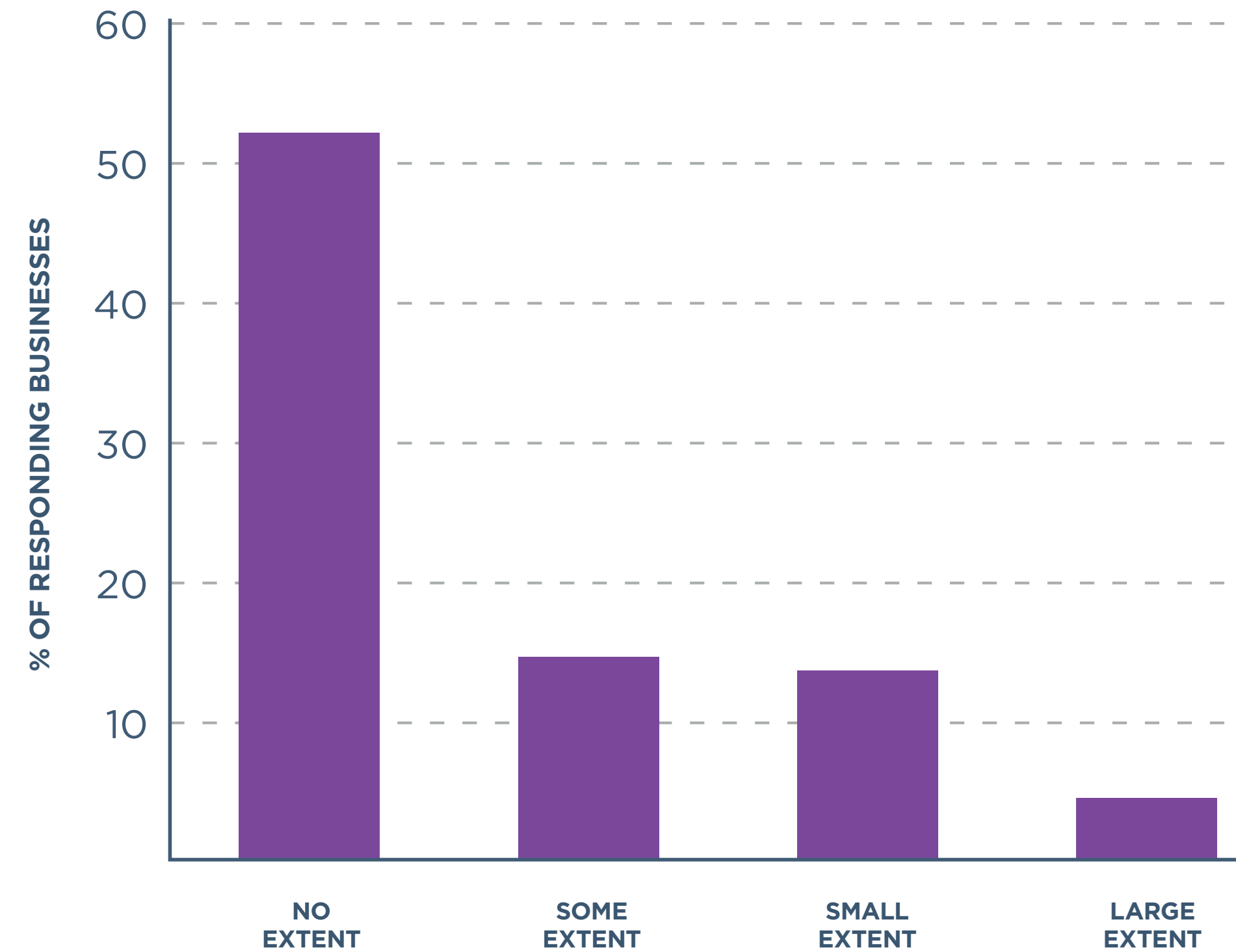
# KEY RESULTS

## ENERGY COSTS

- We continued to ask firms about energy costs and how this is expected to impact their operations.
- **33%** of firms surveyed expect to reduce their operations this year due to higher energy prices, continuing the downward trend seen over the last two quarters.
- However, energy cost pressures are still being felt more strongly in certain sectors, as **43%** of firms in the wholesale and retail sector and **39%** of manufacturing firms expect to reduce their operations this year due to higher energy prices.

**Chart 2:**

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



\*15% of businesses responded N/A; therefore, percentages will not sum to 100%

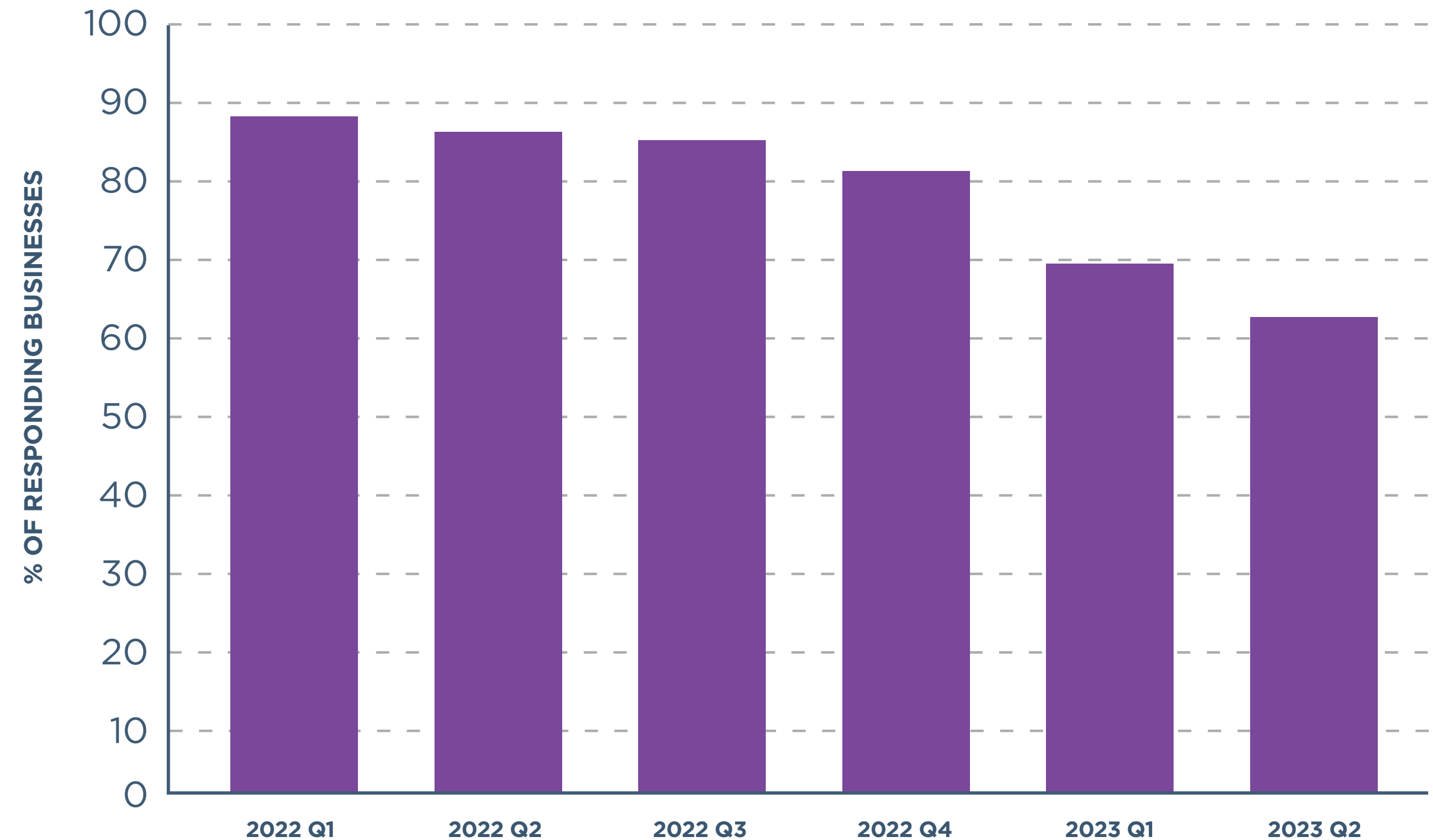
# KEY RESULTS

## INFLATIONARY PRESSURES

- Inflationary pressures show continued signs of easing.
- **62%** of firms surveyed said that they expect to increase their prices by more than, or a lot more than normal, over the next 12 months. This is down from **69%** in 2023 Q1 and has been falling gradually from **88%** in 2022 Q1.
- Inflationary pressures have also been felt differently across sectors, as **70%** of businesses in the professional services and wholesale and retail sectors, **63%** of construction firms and **59%** of manufacturing firms expect to increase their prices by more than, or a lot more than normal, over the next 12 months.

**Chart 3:**

Over the next 12 months, how do you expect the prices of your goods and services to change compared to normal? 2022 Q1 – 2023 Q2





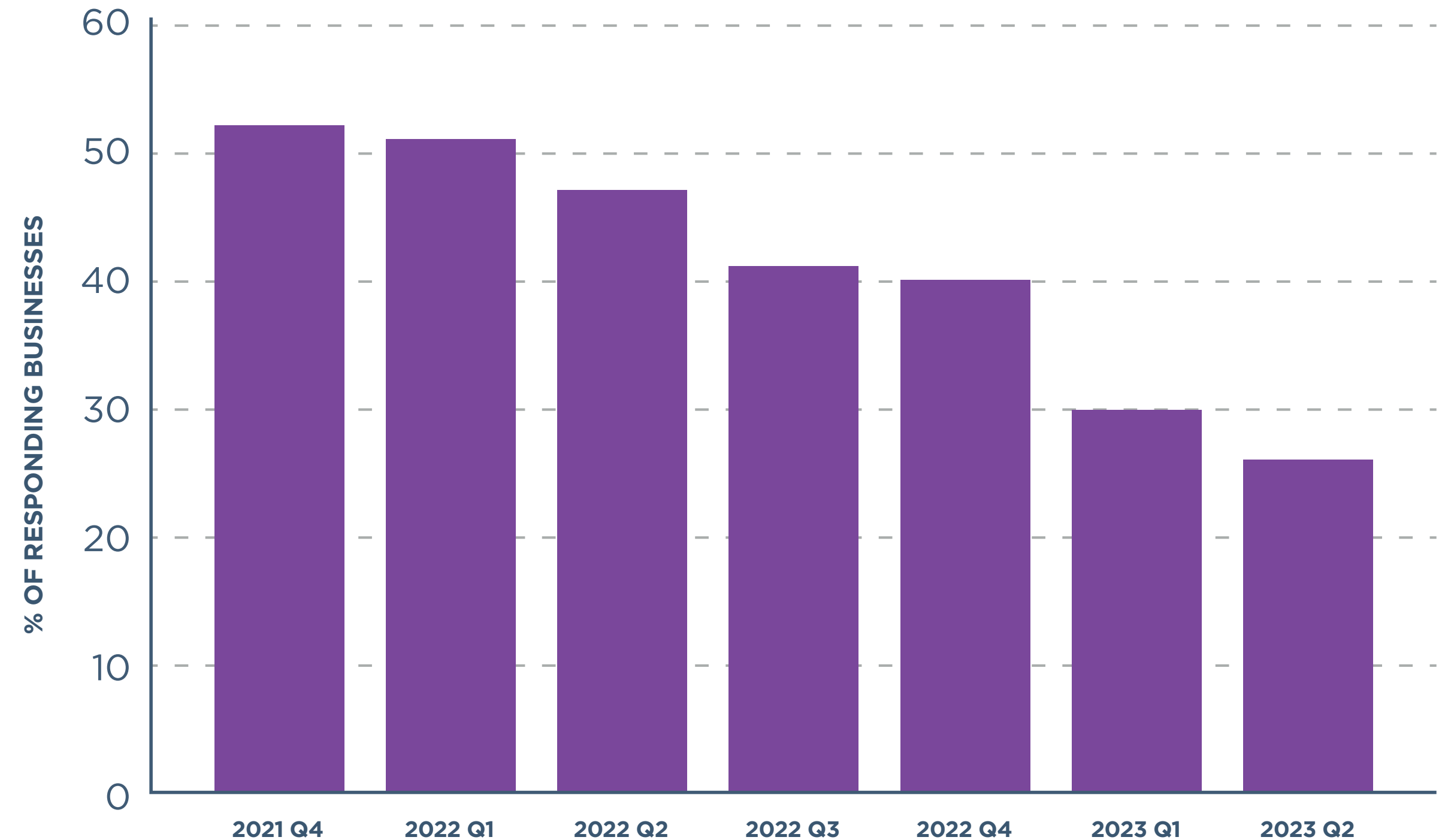
# KEY RESULTS

## SUPPLY CHAIN ISSUES

- We continued to ask businesses about their experience sourcing goods and services.
- Supply chain issues appear to be continuing to ease for businesses in Scotland. **26%** of firms report finding it difficult or very difficult to source goods and services, down from **30%** in Q1.
- This is a continued downward trend since 2021 Q4, where **52%** of firms reported difficulty.
- A lack of UK supply continued to be the most common factor affecting firms' ability to source goods and services, with **78%** of firms reporting this, up slightly from last quarter.
- The price of goods and services is the second most common issue, with **66%** of firms reporting that price was a factor in sourcing goods and services, compared to **64%** last quarter.
- However, freight costs and availability and delays, lack of international supply, and administrative burden in trading with the EU have all eased since last quarter.

**Chart 4:**

How easy or difficult are you finding it to source available goods and services your business purchases? (Business responding 'difficult or very difficult' between 2021 Q4 - 2023 Q2)



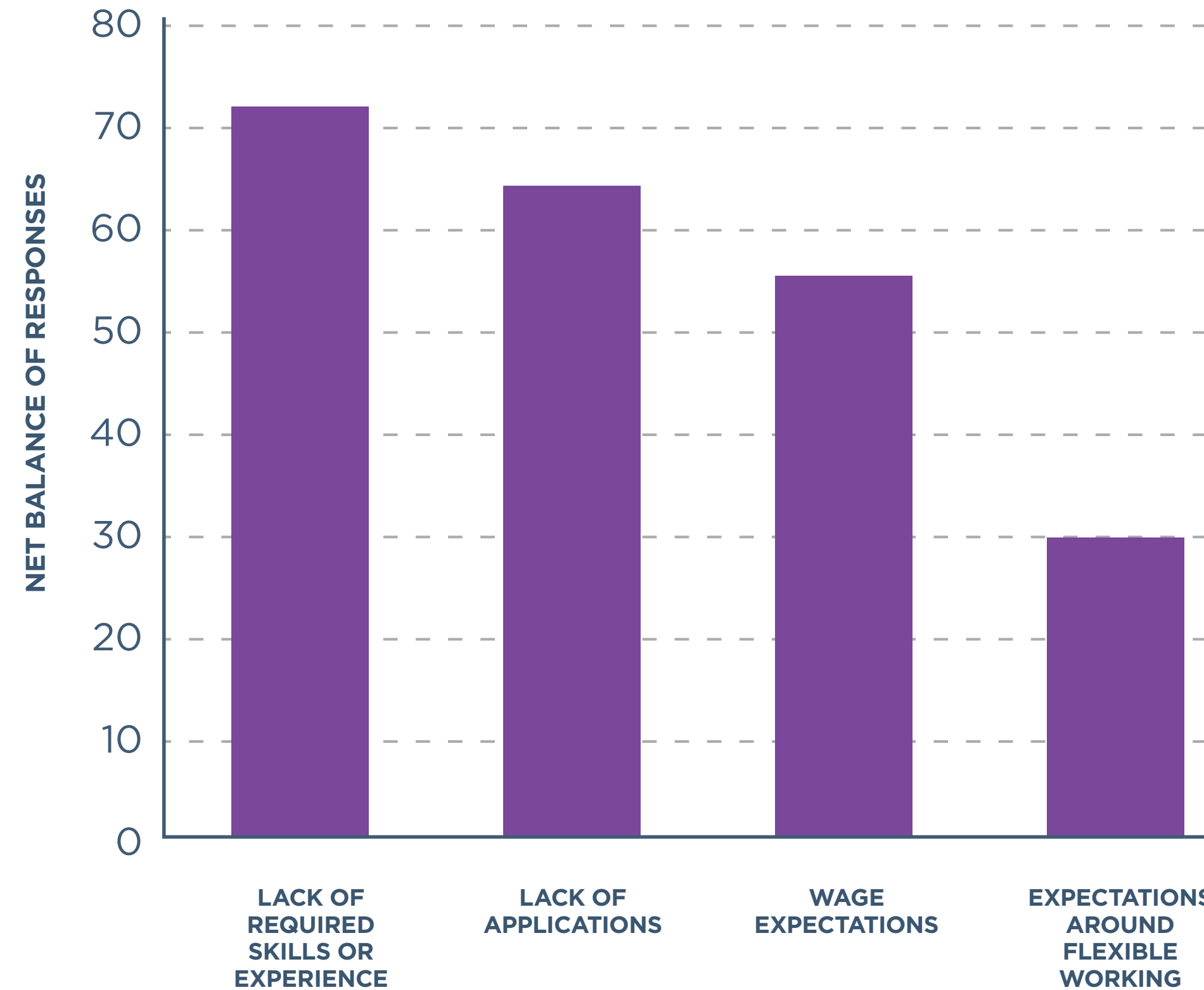
# KEY RESULTS

## VACANCIES

- **49%** of businesses have current vacancies, down marginally from **50%** in 2023 Q1.
- **84%** of these firms report they have found it difficult or very difficult to fill these vacancies, which is slightly higher from last quarter.
- **72%** of these firms say this is due to a lack of required skills or experience (down from **76%** in Q1), **64%** report a lack of applications (up from **62%**), and **55%** cite wage expectations (down from **58%**).
- **25%** of businesses report difficulties in retaining current staff, which is **3 percentage points** higher than last quarter.
- Only **13%** of firms found that it was easier than normal to retain workers in the current climate, falling from **25%** in 2023 Q1.

**Chart 5:**

What factors have made filling vacancies difficult?



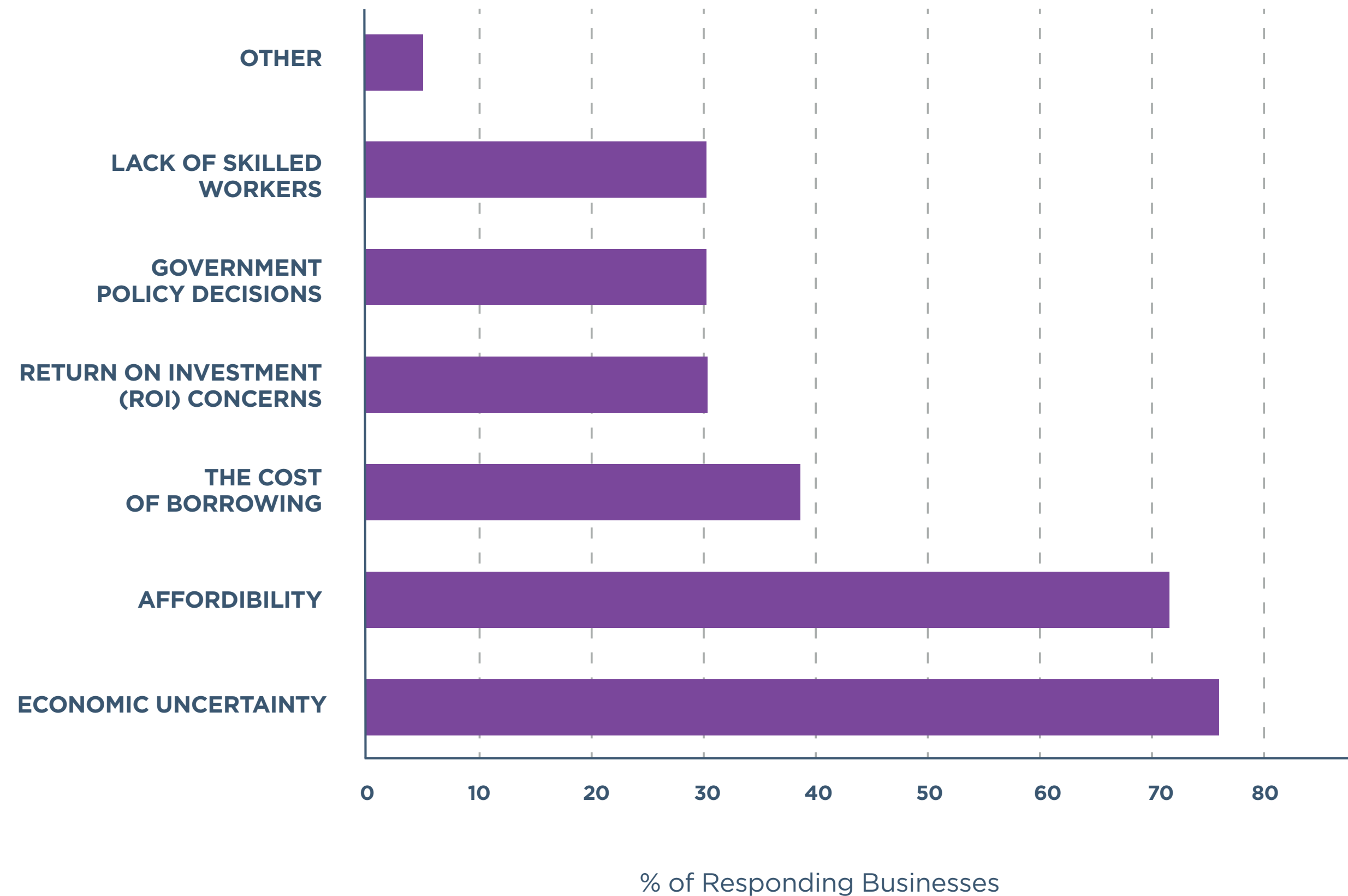
# KEY RESULTS

## BUSINESS INVESTMENT

- This quarter we also asked Scottish firms about their planned business investment.
- **40%** of firms report having cancelled or delayed planned investments in the past 12 months.
- The majority of this delayed or cancelled investment has been in physical assets (**73%**) but has also included investment in the workforce (**36%**) and environmental initiatives (**26%**).
- The most common reasons for cancellation or delay of investment have been economic uncertainty (**75%**), affordability (**71%**), and the cost of borrowing (**38%**).
- Of those businesses delaying investment, **13%** of firms anticipate initiating investment in 2023, **37%** in 2024, **27%** in 2025 or beyond, and **22%** are unsure.

**Chart 6:**

What factors have contributed to the cancellations or delays in your investment plans?





# CURRENT AND EXPECTED SCOTTISH BUSINESS ACTIVITY

## CURRENT BUSINESS ACTIVITY

- The net balance of firms reporting an increase in volume of business activity has fallen to **3%**, which is a drop from **9.1%** in 2023 Q1, but still higher than **-2.2%** in 2022 Q4.
- The level of employment in business is now positive at **2.2%**, following negative values in the previous two quarters.
- However, turnover has fallen this quarter, and new capital investment and export activity have fallen further into the red, following relative improvements last quarter.

**Table 1:**

Net balance (%) of firms experiencing an increase in activities over the past three months, Q1 2021 – Q2 2023

	2021				2022				2023	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>VOLUME OF BUSINESS ACTIVITY (I.E., SALES)</b>	-7.1	30	26	27.1	30.1	15.3	4	-2.2	9.1	3.0
<b>VOLUME OF NEW BUSINESS ACTIVITY</b>	-1.9	20.8	21.9	10.4	24.9	8.8	0	-4.9	5.7	0.0
<b>VALUE OF BUSINESS ACTIVITY (I.E., TURNOVER)</b>	-8.8	23.7	18.7	12.8	32.3	15	6.4	-0.7	8.1	3.7
<b>LEVEL OF EMPLOYMENT IN YOUR BUSINESS</b>	-13	6.4	5.7	10.8	15.5	10.2	8.5	-5.4	-0.5	2.2
<b>LEVEL OF NEW CAPITAL INVESTMENT</b>	-9.9	4.2	3	7.6	6.3	1.2	-5.9	-14.7	-4.4	-12.1
<b>EXPORT ACTIVITY</b>	-21.6	-19.5	-18.1	-11.8	-8	-9	-9.2	-11.5	-8.4	-11.4

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

# CURRENT AND EXPECTED SCOTTISH BUSINESS ACTIVITY

## CURRENT BUSINESS ACTIVITY – SECTORAL ANALYSIS

- Sectors reported mixed changes in net balance for the volume of business compared to the first quarter of the year.
- Manufacturing, construction, and transport and storage all reported improvements in their net balance. However, all other sectors reported a contraction in business volume.
- Construction, retail and wholesale, and admin and support services all remain negative for this indicator.

**Table 2:**

Net balance (%) of firms experiencing an increase in their volume of business over the past three months by sector, Q1 2021 – Q2 2023

	2021				2022				2023	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>MANUFACTURING</b>	5	45	36	-6	22	2	24	-21	2	15
<b>ACCOMMODATION &amp; FOOD SERVICES</b>	-77	46	31	0	14	17	17	-11	33	0
<b>CONSTRUCTION</b>	14	55	40	5	29	26	16	-25	-7	-3
<b>TRANSPORT &amp; STORAGE</b>	-36	32	15	9	41	21	9	25	0	15
<b>INFORMATION &amp; COMMS</b>	3	44	29	7	27	14	7	7	29	19
<b>RETAIL &amp; WHOLESALE</b>	-11	18	17	4	30	17	-1	-4	18	-4
<b>PROFESSIONAL, SCIENTIFIC, AND TECHNICAL</b>	15	24	32	14	31	14	-5	9	17	6
<b>ADMIN &amp; SUPPORT SERVICES</b>	-13	26	7	0	31	3	-14	-6	22	-9

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

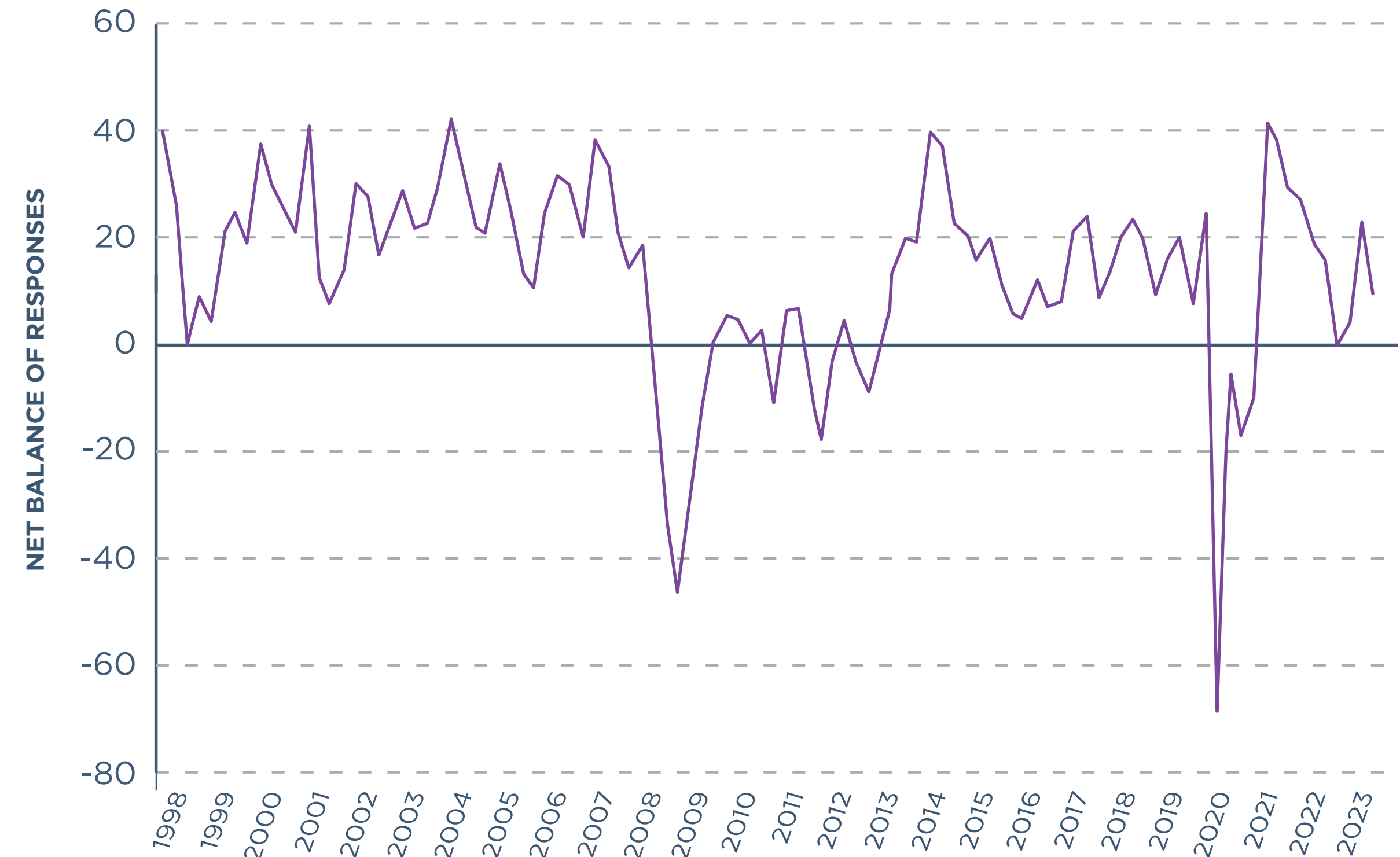
# CURRENT AND EXPECTED SCOTTISH BUSINESS ACTIVITY

## EXPECTED BUSINESS ACTIVITY

- The expected volume of business over the next six months has fallen this quarter, suggesting relative optimism driving the better-than-expected results in Q1.
- Positive net balances have continued this quarter for expectations of new business activity, turnover and employment in the coming six months.
- However, negative net balances have also continued and worsened for expected capital investment (**-13 percentage points** from **-1%** in Q1) and export activity (**-7 percentage points** from **-3%** in Q1).

**Chart 7:**

Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 - Q2 2023



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

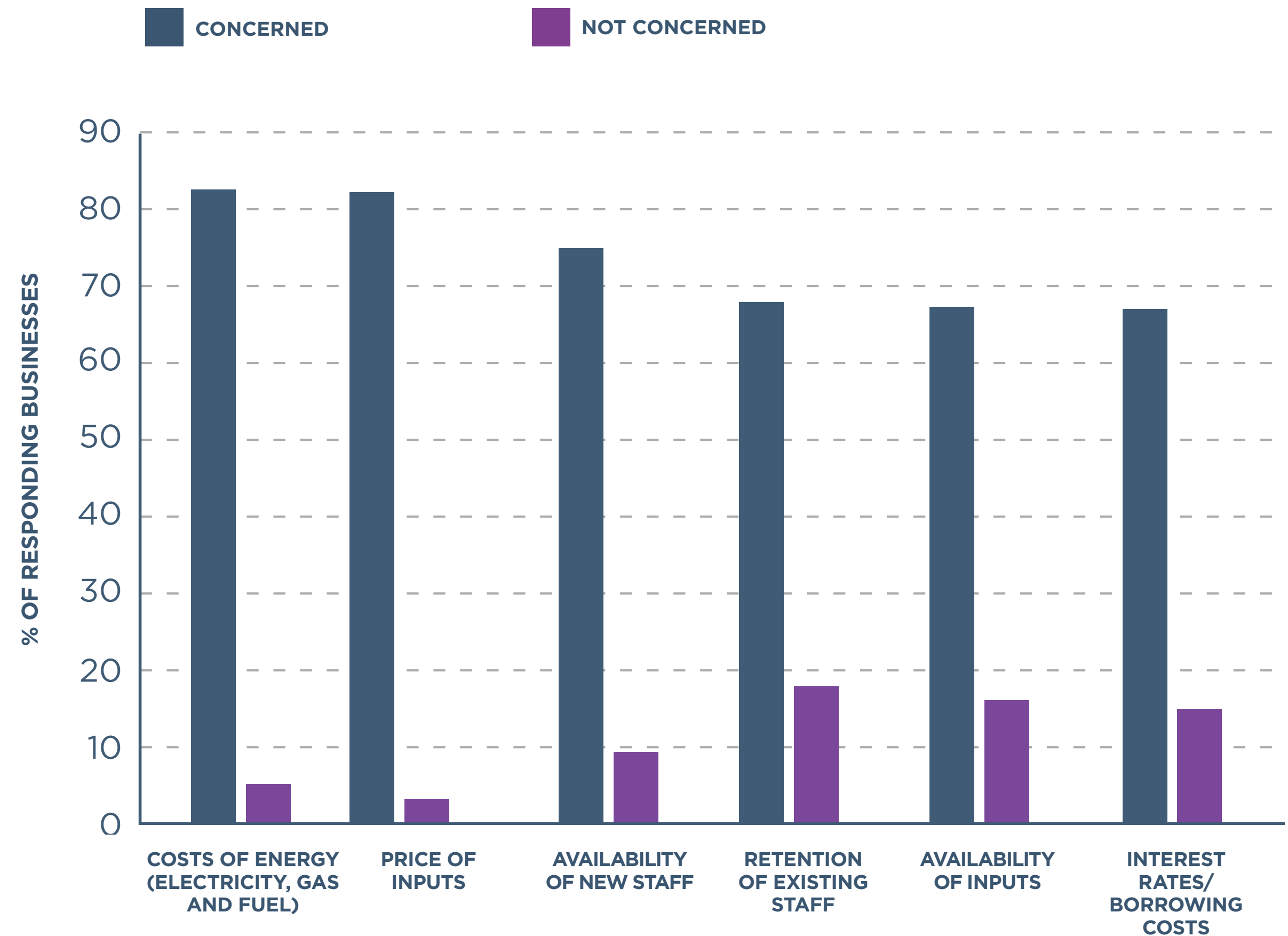


# BUSINESS CONCERNS

- We asked Scottish firms what they expect to be important to their business over the coming quarter.
- Most businesses expect economic/ business uncertainty (**83%**), staff availability (**77%**), and political uncertainty (**69%**) to be important or very important over the next three months.
- As reported last quarter, the cost of energy (**82%**) and price of inputs (**82%**) are the biggest cost concerns for businesses. While concerns over fuel bills have fallen slightly since Q1, concerns over input prices have increased from **78%**.
- Firms reporting concerns about interest rates and borrowing costs have increased **3 percentage points** from last quarter (**67%**).

**Chart 8:**

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

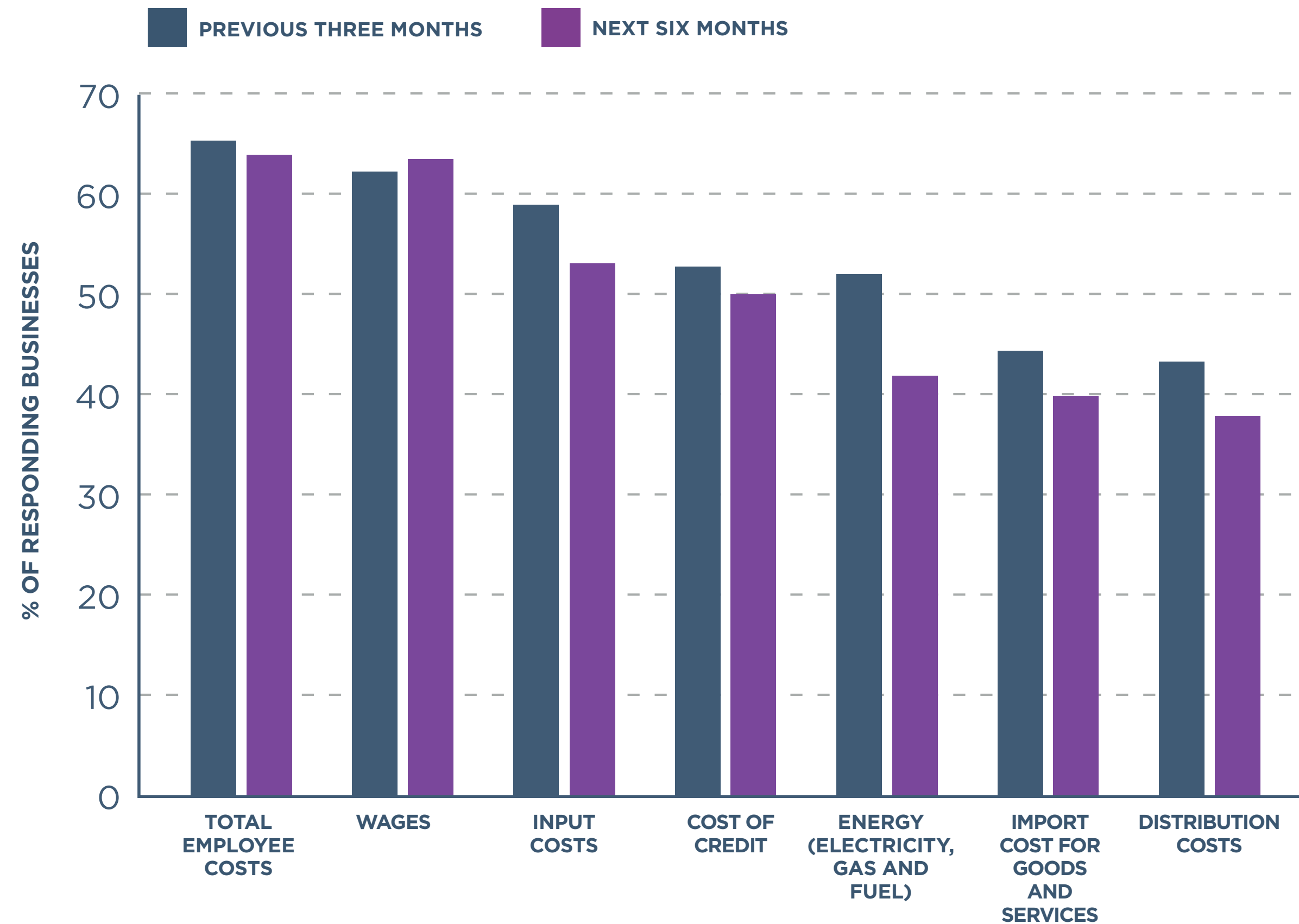


# THE OUTLOOK FOR THE NEXT YEAR

- We also asked businesses what the main cost drivers have been over the past quarter and what effect they might have over the next 6 months.
- Energy costs continued to fall this quarter as a key cost driver for businesses. **52%** of firms reported energy bills as their key cost driver over the past 3 months (down from **65%** last quarter). **42%** of firms expect energy costs to continue to be a key cost pressure in the coming six months (down from **54%** last quarter).
- Since 2023, Q1 total employee costs and wages have remained the most common cost pressure for businesses both in the previous 3 months and in the coming 6 months.
- Overall, with the exception of wages, Scottish firms expect cost pressures to lessen in the second half of 2023.
- Despite cost pressures easing, inflation remains stubbornly high therefore, we asked firms for their thoughts on the Bank of England’s monetary policy decisions.
- Just **over a fifth** of firms surveyed think the Bank of England should continue to raise rates this year to bring down inflation while **18%** were unsure and **almost half** were against further rate rises .
- Looking forward, businesses continue to be pessimistic about the outlook for the economy, with **71%** expecting that growth in the Scottish economy over the next 12 months will be weak or very weak. This pessimism has grown since Q1, when **62%** of firms reported weak or very weak growth expectations.

**Chart 9:**

Thinking about the key cost drivers for businesses, what is your business’ assessment of the following cost pressures over the past 3 months and the next 6 months?



<sup>2</sup> This survey closed before the Bank of England raised the base rate of interest by 0.25-percentage points to 5.25% on the 3rd August.

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