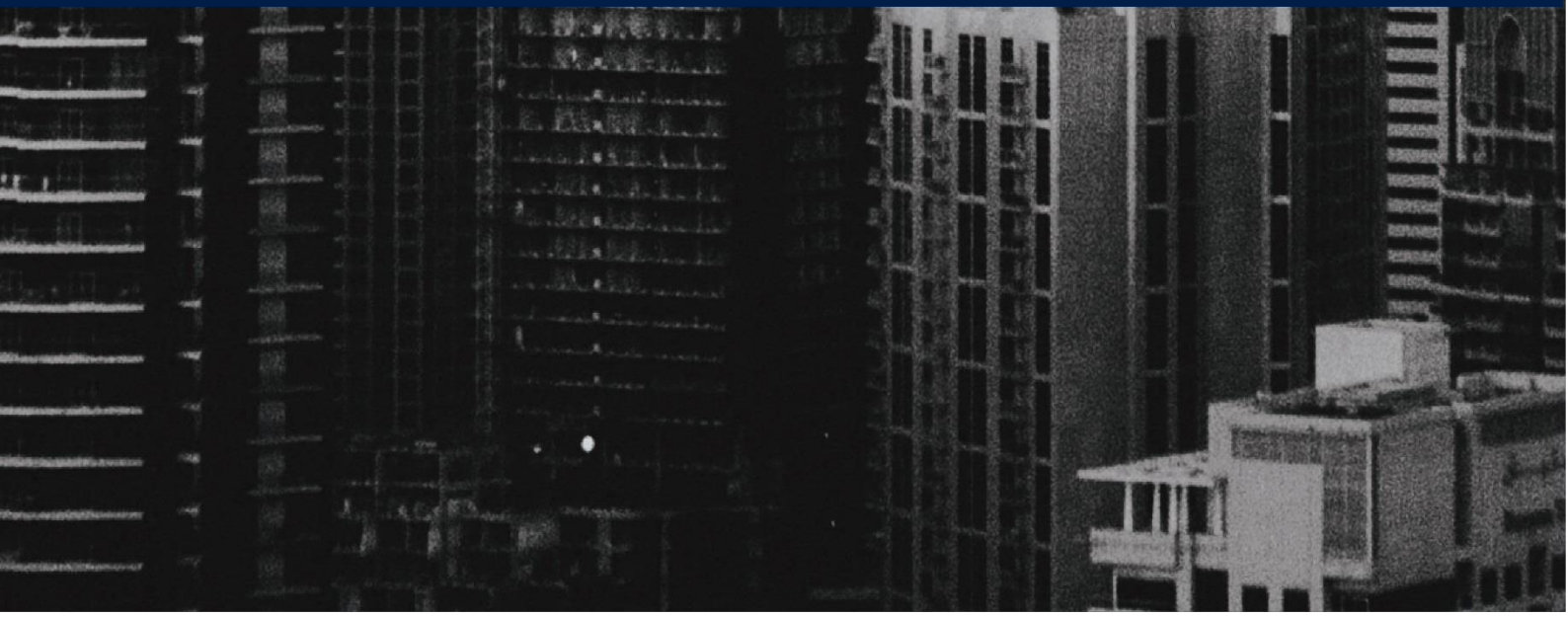




SCOTTISH CHAMBERS OF COMMERCE  
**QUARTERLY ECONOMIC INDICATOR**  
RESULTS FOR Q4 OF 2019

*IN PARTNERSHIP WITH FRASER OF  
ALLANDER INSTITUTE*



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## Methodology

The Quarterly Economic Indicator is owned and produced by the Scottish Chambers of Commerce Network, in collaboration with the Fraser of Allander Institute of the University of Strathclyde.

This survey was conducted between November & December of 2019. 330 firms responded to the Q4 2019 edition of the Indicator.

Results are reported as the “net % balance”, calculated by deducting the % of firms reporting a decrease from the % of firms reporting an increase.

E.g. If 50% of firms report an increase in profits over the quarter (compared with the previous quarter) and 49% report a decrease, the net % balance of firms reporting an increase in profits is  $(50-49 = +1)$ .

A negative net % balance generally indicates contraction and a positive net % balance expansion.

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## Foreword

These latest results from the Scottish Chambers of Commerce Quarterly Economic Indicator, suggest that the positive but challenging conditions many sectors faced in 2019 have continued into 2020. This is not that surprising.

The global outlook continues to remain fragile. Here at home, last month's data showed economic growth tracking at less than 1% over the 12 months to September, marking another year of below par performance for the Scottish economy.

And whilst December's decisive General Election result removed any immediate threat of crashing out of the EU with 'no deal', it is important to remember that this was just the end of the phase 1 negotiations, and the decisive end-point for agreeing an all-important trade deal is less than 12 months away.

This survey shows that – in general – confidence levels remain weak relative to their long-term norms, with investment levels remaining subdued. On balance, 2020 is therefore on track to look remarkably similar to 2019.

But as businesses look forward it is important to focus upon the positives. Despite over a decade of uncertainty, Scotland's business community remains remarkably resilient. And whatever the next few months have in store, we must not lose sight of our key strengths that will serve Scotland's businesses well this year and into the future.

2020 also promises to be a big year for policymakers. We have two crucial Budget announcements over the next couple of months which will set the economic and fiscal policy context for years to come. 2020 will also be the year that plans for a post-Brexit UK economy will need to be set out.

Recent reports that the UK Government will seek to pro-actively diverge from EU rules and regulations are worrying – firstly, because such alignment is crucial for so many firms; and secondly, because it reiterates that the politics of Brexit appears to still drive decision-making rather than what is best for business or the wider economy.

**Professor Graeme Roy**

**Director, Fraser of Allander Institute**





## Introduction

The latest Scottish Chambers of Commerce (SCC) Quarterly Economic Indicator (QEI) survey for Q4 of 2019 shows that businesses are in a period of stasis with global and domestic factors all contributing to subdued levels of confidence and investment.

The quarterly survey, was carried out between November to December 2019, during the UK general election period and political considerations will certainly have had some influence in how businesses responded to the survey.

Given recent prolonged uncertainty and trading conditions, these flat results are not surprising. The business challenges prevalent in 2019 are showing signs of continuing into 2020 with business confidence at worryingly low levels.

The decisive election result at Westminster is yet to provide the clear direction that business communities are looking for. Of particular concern to businesses will be the extent of divergence the UK Government plans to adopt between UK and EU regulation. This continued uncertainty, coupled with a continued sense of “election-style” policy making, has the potential to disrupt business planning, supply chains, as well as negatively impacting on job creation.

Business sustainability, economic certainty and a healthy planet are the watchwords for 2020. The role of business to leverage private sector innovation and solutions to the big economic and societal challenges should not be underestimated by either Holyrood or Westminster. Our message to government is clear: work with business to build a fair and thriving economy that provides jobs, stability and valued public services.



**Tim Allan, Chair, Scottish Business Advisory Group**

CEO of Unicorn Property Group

## Key findings

### Construction sector

- The balance of firms reporting improved sales revenue eased by 1 percentage point to +2%
- The balance of firms increasing investment – total and capital – both fell into slightly negative territory, however training investment saw a rise of 15 percentage points to +12%.
- The percentage of firms looking to recruit eased from 63% to 54%. Of those, 38% voiced recruitment difficulties – down 12 percentage points from the previous quarter.
- The percentage of firms increasing wages rose by 16 percentage points to 36%.
- The sector appears fairly reserved with the majority of firms reporting that levels of investment (52%) and employee numbers (67%) will stay the same for Q4.

### Financial and business services

- Firms in the sector reported a positive balance for business confidence – +11% – although this figure has eased 11 percentage points from Q3.
- The balance of firms reporting an increase in sales eased by 21 percentage points to +11%
- The balance of firms reporting total investment increases also eased, 7 percentage points from +18% to +11%. All other forms of investment – capital and training – also saw a slight slowdown.
- The percentage of firms seeking to recruit rose from 45% to 53%. Of those, 43% reported recruitment difficulties which is a slight increase from the previous quarter.
- The leading concerns for firms in the sector are competition (34%), taxation (32%) and business rates (31%).

### Manufacturing sector

- Business confidence fell once again, with the net balance still negative at -13%.
- With respect to sales, the net balances for all measurements eased slightly but still all remain at a negative net balance.
- On balance, capital investment rose into a positive – from -6% to +2% – but other forms of investment remained at a negative balance albeit with slight improvement.
- The percentage of firms reporting recruitment difficulties rose by 8 percentage points to 63%, and the percentage of firms increasing wages also rose – a 10 percentage point increase to 39%.
- Firms in the sector are relatively downbeat about Q1 2020, with a balance of firms predicting falling sales (-4%) and investment (-9%).

### Retail and wholesale

- Sales revenue trends have generally risen, but confidence remained negative for a balance of respondents (-5%).
- The balance of firms increasing capital investment fell into negative territory (-6%). This is 6 percentage points lower than Q3 and 23 percentage points lower than Q4 2018.
- The percentage of firms looking to recruit eased to 54%. Of those, 41% noted recruitment difficulties – up 4 percentage points from the previous quarter.
- The outlook for firms is fairly positive with a balance of firms expecting increased sales, investment and prices for Q1 2020.

### Tourism

- At a net balance of -7%, businesses reported a fall in business confidence representing a 13 percentage point drop into negative territory from the previous quarter.
- The net balance for total investment has fallen by 14 percentage points, resulting in a net balance of -10%. Both capital and training investment have seen rises, both at a positive net balance with +2% and +12% respectively.
- More than three quarters of firms are actively attempting to recruit staff and more than two-thirds of these (72%) have reported recruitment difficulties. This is 25 percentage points higher than the recruitment difficulties recorded for the same quarter in 2018.
- The outlook for the tourism sector is fairly cautious with sales and investment set to decrease for a balance of firms during the first three months of 2020, the seasonal nature of the sector should be taken into account when considering this.

## Construction

### **CONTRACTS/SALES**

Sales for the sector saw slight increases, most evidently the rise in the net balance for total sales at +12%.

Many of the trends in contracts have eased compared to the previous quarter. Furthermore, all trends have eased compared to Q4 2018.

### **INVESTMENT**

Fewer than a quarter of firms reported rising investment plans in Q4 2019, resulting in a negative balance for capital investment.

However, training investment has seen a net balance increase from the previous quarter. The +12% recorded is 15 percentage points higher than the -3% seen last quarter.

### **WORK IN PROGRESS**

Levels of work in progress have risen in comparison to the previous quarter, which saw the lowest reported figure for six years.

### **CASHFLOW/PROFITS**

Nearly half of firms (48%) reported no change in the level of cashflow.

Profits sit below their five-year average for the survey. Both net balance figures have eased in comparison to last year but remain positive.

### **CONCERNS/PRESSURES**

Cost pressures remain significant with some intensifying over Q4. Just over two-fifths are reporting cost pressures arising from raw material prices and more than a third of firms are coming under pressure from rising other overhead costs.

There have also been significant rises in concerns over business rates, exchange rates & taxation.

### **EXPECTATIONS**

The construction sector appears to be cautious with firms still expecting sales, investment and profits to rise in Q1 2020 but with consideration of seasonal factors that can affect the sector significantly.

(blank space indicates data not available) (balances may not add up to 100% due to M/A responses)	(rounded up to nearest %)					
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
<b>Business Optimism</b>	29	45	26	2	3	18
<b>Sales Revenue</b>						
Total	45	21	33	12	5	16
Domestic (Scotland)	38	31	31	7	3	10
Rest of UK	14	29	12	2	5	2
<b>Contracts</b>						
Total new contracts	40	29	31	10	23	19
Public sector orders	24	38	26	-2	10	9
Private commercial	29	33	24	5	10	6
Domestic/house build	24	33	19	5	5	6
<b>Investment</b>						
Total	24	48	29	-5	-5	-2
Capital	17	50	21	-5	-3	-2
Training	29	36	17	12	-3	7
<b>Work in Progress</b>	41	38	22	19	-3	22
<b>Cashflow</b>	31	48	26	5	0	14
Applied for Credit?	24			24	15	26
Profits	33	36	31	2	0	10
Capacity used (ave. %)				74	72	74
<b>Employment</b>						
Total	24	57	19	5	10	-2
Recruiting Staff			(yes)	54	63	47
Recruitment Difficulties			(yes)	38	50	30
Increased Wages?			(yes)	36	20	27
Average pay increase (%)				3.6	6.0	5.0
<b>Expectations Next Quarter</b>						
Price Change	29	71	0	29	35	34
Sales Revenue	43	29	29	14	3	24
Investment	29	52	19	10	0	10
Employees	26	67	7	19	3	16
<b>Cost Pressures (%)</b>						
Pay Settlements			(yes)	12	8	10
Finance Costs			(yes)	19	10	8
Raw Material Prices			(yes)	43	48	40
Other Overheads			(yes)	38	38	21
<b>Concerns (%)</b>						
Interest Rates			(yes)	14	10	17
Business Rates			(yes)	40	23	17
Competition			(yes)	21	33	21
Exchange Rates			(yes)	24	13	4
Inflation			(yes)	33	25	23
Taxation			(yes)	31	18	15

## Financial & Business Services

### **BUSINESS OPTIMISM**

Three-quarters of firms in the sector are reporting either an increase or no change in the levels of optimism, resulting in a net balance of +11%.

### **SALES REVENUE**

The rising trends in sales generally eased during the final quarter of 2019, though there was a slight increase in online sales.

Total sales eased to a net balance of +11% from the +32% for the previous quarter. Export sales also eased, 3 percentage points to +7% from the previous quarter.

### **INVESTMENT**

In terms of investment, all trends remain positive, although all have seen some easing from the previous quarter. Overall, 81% of firms are reporting either increasing or static investment.

### **LABOUR MARKET**

More than three-quarters of firms (77%) are reporting either an increase or no change in the number of staff.

53% are actively recruiting and 43% of those recruiting firms reported difficulties in attracting suitable staff.

### **CONCERNS/PRESSURES**

Competition remains the major concern for FBS firms, followed by taxation and business rates.

All cost pressures have seen some upward movement, barring other overheads which has eased.

### **EXPECTATIONS**

The outlook for the sector is upbeat with sales, investment and employment all expected to rise in Q1 2020.

However, around half of firms expect to see no changes in levels of investment suggesting that these decisions will continue to be kept on hold for the time being.

(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q4/19	Q3/19	Q4/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
<b>Business Optimism</b>	37	38	25	11	22	11
<b>Sales Revenue</b>						
Total	38	35	27	11	32	17
Domestic (Scotland)	36	37	25	11	29	10
Rest of UK	23	37	11	12	14	1
Exports	18	30	11	7	10	8
Online	31	35	23	8	6	15
<b>Investment</b>						
Total	31	50	20	11	18	9
Capital	27	53	17	11	14	9
Training	31	53	16	15	16	15
<b>Cashflow</b>	40	34	25	15	12	11
Applied for credit?	15			15	9	25
Profits	38	34	27	11	25	4
Capacity Used (Ave. %)				71	64	74
<b>Employment</b>						
Total	34	43	23	11	26	4
Recruiting Staff	53			53	45	71
Recruitment Difficulties	43			43	39	31
Increasing Wages	26			26	24	32
Average pay increase (%)				9	8	12
<b>Expectations Next Quarter</b>						
Price Change	36	64	0	36	29	33
Sales Revenue	40	34	27	13	40	18
Investment	32	50	18	14	6	11
Employees	43	42	15	27	23	17
<b>Cost Pressures (%)</b>						
Pay Settlements			(yes)	19	14	-
Finance Costs			(yes)	20	15	-
Raw Material Prices			(yes)	23	11	-
Other Overheads			(yes)	16	30	-
<b>Concerns (%)</b>						
Interest Rates			(yes)	23	14	-
Business Rates			(yes)	31	24	-
Competition			(yes)	34	41	-
Exchange Rates			(yes)	15	18	-
Inflation			(yes)	28	29	-
Taxation			(yes)	32	25	-



## Manufacturing

### **BUSINESS OPTIMISM**

Optimism for the sector has fallen slightly amongst firms - from an already shaky Q3 figure of -11%, down to -13% for Q4 2019.

This figure is 5 percentage points lower than for Q4 2018 and 10 percentage points lower than the Q4 average.

### **SALES REVENUE/ORDERS**

Total sales revenue remains in a negative net balance, following on from Q3, but has seen some easing from -12% to -6%.

Domestic and rUK sales have also both seen slight increases over the quarter, albeit with both trends still in negative balance territory.

Export sales have seen a small improvement since the previous quarter, but with a balance of -4%, it is 20 percentage points lower than recorded for Q4 2018.

All trends in orders, on balance, continued to fall and remain negative, though the downward trend in total orders eased slightly.

### **WORK IN PROGRESS**

The level of work in progress has recovered slightly from Q3 which had the lowest net balance in the past two years, from -10% to -4% for Q4.

### **CASHFLOW/CREDIT**

The cashflow trend has eased slightly although is still negative at -6%.

For the sixth consecutive quarter a net balance of firms have reported a fall in profits.

### **CONCERNS/PRESSURES**

Cost pressures have slightly increased across all trends, with raw material prices and other overheads being of particular concern for firms.

Some business concerns have also seen some increases of note; particularly business rates, exchange rates, and inflation.

All trends, apart from competition, have risen over the quarter.

(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q4/19	Q3/19	Q4/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
<b>Business Optimism</b>	29	29	42	-13	-11	-18
<b>Sales Revenue</b>						
Total	33	29	38	-6	-12	-7
Domestic (Scotland)	27	40	33	-6	-8	-25
Rest of UK	31	31	33	-2	-10	-17
Exports	27	23	31	-4	-8	16
<b>Orders</b>						
Total	31	31	38	-8	-21	-2
Domestic (Scotland)	25	38	37	-12	-11	-28
Rest of UK	21	31	38	-17	-13	-28
Exports	21	29	29	-8	-15	-14
<b>Work in Progress</b>	43	9	48	-4	-10	0
<b>Investment</b>						
Total	31	37	33	-2	-4	-11
Capital	31	35	29	2	-8	2
Training	23	44	27	-4	-6	11
<b>Cashflow</b>	35	25	40	-6	-10	-7
<b>Applied for Credit?</b>	17			17	14	6
<b>Profits</b>	35	24	41	-7	-10	-17
<b>Capacity Used (Ave. %)</b>				74	72	78
<b>Employment</b>						
Total	33	31	37	-4	-8	-7
Recruiting Staff			(yes)	67	71	68
Recruitment Difficulties			(yes)	61	53	50
Increased Wages			(yes)	39	29	34
Average pay increase				4	2	4
<b>Expectations (next quarter)</b>						
Price Change	42	58	0	42	33	44
Sales	30	35	35	-4	-12	-19
Investment	17	57	26	-9	-2	-17
Employees	29	52	19	10	8	7
<b>Cost Pressures (%)</b>						
Pay Settlements			(yes)	29	25	20
Finance Costs			(yes)	19	15	20
Raw Material Prices			(yes)	79	74	61
Other Overheads			(yes)	46	42	45
<b>Concerns (%)</b>						
Interest Rates			(yes)	19	15	16
Business Rates			(yes)	31	13	32
Competition			(yes)	21	25	32
Exchange Rates			(yes)	69	64	68
Inflation			(yes)	31	26	43
Taxation			(yes)	29	19	30

## Retail & Wholesale

### **BUSINESS OPTIMISM**

Business optimism for retail saw nearly three-quarters of firms (74%) reporting no change or falling confidence, resulting in a net balance figure of -5%. This is lower than the average for the quarter, and for the survey overall.

### **SALES REVENUE**

In general, all sales trends have seen small increases in comparison to the previous quarter barring total sales which have seen a slight reduction from Q3.

### **INVESTMENT**

Investment trends are positive for both total and training investment, although capital investment has fallen to a negative balance of -6%. All trends are down on Q4 2018.

### **PROFIT**

68% of firms reported no change or an increase in their profits, resulting in a net balance figure of +5%.

This is nine percentage points lower than for the last quarter and two points lower than recorded for Q4 2018.

### **LABOUR MARKET**

The majority of firms (58%) did not change total employment numbers. However, the net balance remained positive albeit eased from the previous quarter. 41% of firms attempting to recruit are reporting recruitment difficulties, five percentage points above the average for the quarter.

### **CONCERNS/PRESSURES**

The main cost pressures for the sector remain raw material prices, which saw a significant increase, and other overheads which remained broadly unchanged.

Business concerns have generally increased, with business rates and competition being the leading concerns.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/19	Q3/19	Q4/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
<b>Business Optimism</b>	27	42	31	-5	-4	-5
<b>Sales Revenue</b>						
Total	30	47	23	6	9	3
Domestic (Scotland)	43	21	36	7	4	4
Rest of UK	32	36	27	5	4	1
Exports	36	27	29	7	5	11
Online	43	18	34	9	4	24
<b>Investment</b>						
Total	41	23	36	5	4	10
Capital	36	22	42	-6	3	17
Training	41	25	34	6	1	13
<b>Cashflow</b>	34	31	34	0	7	3
<b>Applied for Credit?</b>			(yes)	18	16	17
<b>Profits</b>	38	30	32	5	14	7
<b>Capacity Used (Ave %)</b>				1	1	1
<b>Employment</b>						
Total	23	58	19	5	9	8
Recruiting Staff			(yes)	54	61	44
Recruitment Difficulties			(yes)	41	37	27
Increased Wages?			(yes)	36	25	26
Average Pay Increase				7.0%	2.0%	10.1%
<b>Expectations Next Quarter</b>						
Price Change	47	50	3	44	33	42
Sales Revenue	31	50	19	13	20	15
Investment	32	45	23	9	11	14
Employees	16	72	13	3	14	16
<b>Cost Pressures (%)</b>						
Pay Settlements			(yes)	14	16	-
Finance Costs			(yes)	25	23	-
Raw Material Prices			(yes)	36	23	-
Other Overheads			(yes)	39	39	-
<b>Concerns (%)</b>						
Interest Rates			(yes)	16	11	-
Business Rates			(yes)	41	39	-
Competition			(yes)	36	37	-
Exchange Rates			(yes)	21	23	-
Inflation			(yes)	25	28	-
Taxation			(yes)	32	32	-

## Tourism

### **BUSINESS OPTIMISM**

Tourism firms reported a negative balance in optimism easing from a balance of +6% in Q3 to -7% for Q4. Furthermore, firms were on balance less confident than in Q4 of last year.

### **GUESTS/CUSTOMERS**

The seasonal elements of the tourism sector will have had an influence on the negative balance reported by firms for the total customers/guests, which was -6%.

On the one hand, the number of people coming from the EU was flat. On the other hand, the balance of those coming from outside the EU saw an increase on both the previous quarter and over Q4 2018.

### **INVESTMENT**

Total investment has fallen to a negative net balance, at -10%.

Capital and training investment have seen some increases from Q3, but all trends sit below the average figure for this quarter.

### **LABOUR MARKET**

More than three-quarters of firms are actively attempting to recruit staff with more than two-thirds of these reporting recruitment difficulties. The proportion of firms increasing wages has risen from 41% for Q3 up to 64%. This is 32 percentage points higher than the average for the quarter.

### **CONCERNS/PRESSURES**

Cost pressures remain significant for tourism firms, most notably in raw material costs (48%) and other overheads (62%). All trends have seen an increase too.

Similarly, business concerns remain significant with the top three being business rates, inflation and competition.

### **EXPECTATIONS**

The outlook for the tourism sector is cautious with negative net balances recorded for sales and investment. It is important to note the seasonal dependency of the sector, when examining such results.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/19	Q3/19	Q4/18
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
<b>Business Optimism</b>	33	26	40	-7	6	8
<b>Sales Revenue</b>						
Total	33	19	48	-14	15	-13
Domestic (Scotland)	31	19	50	-19	10	-23
Rest of UK	36	21	43	-7	2	-5
Online	36	17	24	12	6	5
<b>Investment</b>						
Total	36	19	45	-10	4	-9
Capital	31	40	29	2	0	0
Training	45	17	33	12	4	16
<b>Cashflow</b>	33	19	48	-14	4	-8
Applied for credit			(yes)	19	19	14
<b>Profits</b>	33	17	50	-17	19	0
<b>Employment</b>						
Total	43	19	38	5	2	8
Recruiting Staff			(yes)	78	81	56
Recruitment difficulties			(yes)	72	70	57
Increased wages?			(yes)	64	41	32
Average pay increase (%)				11	4	11
<b>Guests/Customers vs last year</b>						
Total	28	39	33	-6	14	-5
From Scotland	22	44	33	-11	3	-18
From Rest of UK	39	28	33	6	8	9
From Rest of EU	33	33	33	0	3	5
From Outside the EU	44	22	33	11	8	5
<b>Expectations Next Quarter</b>						
Price Change	36	64	0	36	27	40
Sales	29	33	38	-10	-13	0
Investment	28	33	39	-11	-8	-14
Employees	33	36	31	2	-4	4
<b>Cost Pressures (%)</b>						
Pay Settlements			(yes)	29	25	-
Finance Costs			(yes)	33	25	-
Raw Material Prices			(yes)	48	46	-
Other Overheads			(yes)	62	58	-
<b>Concerns (%)</b>						
Interest Rates			(yes)	7	10	-
Business Rates			(yes)	52	42	-
Competition			(yes)	43	40	-
Exchange Rates			(yes)	17	25	-
Inflation			(yes)	48	48	-
Taxation			(yes)	36	50	-