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Quarter 3 2016

Quarterly Economic Indicator

Scottish Chambers of Commerce



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Methodology

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

This survey was conducted between 22 August 2016 and 12 September 2016. 394 firms responded to the Q3 2016 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.

The Economic Development Intelligence Unit is available to be commissioned for a wide range of economic and business related research. For more information on the Unit, further information on the Quarterly Economic Indicator results, or details of sponsorship availability, please contact:

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Summary

In the first Quarterly Economic Indicator to be conducted following the EU Referendum, businesses again reported generally weaker trends in both performance and optimism than in 2015. Employment trends remained positive, however recruitment difficulties continue to be widespread.

The survey found a pick-up in construction activity in Q3 compared to the previous quarter, with both housebuilding and public sector contracts returning to growth. Overall optimism is growing more slowly than in Q2 but is comparable to the levels experienced during the same period in 2015.

Levels of optimism in financial and business services have returned to positivity for the first time since Q2 of 2015. Whilst oil and gas service sector businesses continue to report declining results, the rate of decline is much more shallow than at any other time over the past year.

Manufacturers have reported a higher trend in export growth than in the second quarter and expect overseas orders to continue growing. However capital investment is slowing and cashflow is declining.

The retail sector has recorded its lowest optimism levels for three years and reports online sales as the only growing sales channel. Retailers are expecting future sales revenues to improve but there are question marks over profitability and margins.

Tourism businesses reported positive growth over the summer period but at a lower rate than they enjoyed the previous year. There were strong trends in international visitors, possibly taking advantage of the favourable exchange rates due to the decline in the value of the pound since June 2016.

Key Findings

CONSTRUCTION

Sales Revenue

Sales revenue was up over the quarter, with almost 45% of all businesses in the sector stating that total sales had increased, this was reflected in the net % balance of +23 recorded. This can largely be attributed to a positive trend balance from domestic (Scotland) of +19, with 44.2% of firms stating that they had experienced an increase over the last three months. Additionally, there was also a positive trend balance for sales from the rest of the UK of +10.

Capacity

The average level of capacity used by firms over the quarter was 82.0%, which was a marginally higher level of capacity utilisation than that experienced in the second quarter of 2016. This can be attributed to higher levels of work in progress, with 51.3% of businesses experiencing an increase over the quarter, giving a net % balance of +33. Increased levels of work in progress can be attributed to positive trend balances for both sales revenue and new contracts.

FINANCIAL & BUSINESS SERVICES

Employment

Over the third quarter of this year, the same number of businesses experienced an increase as those that experienced a decrease, giving a net % balance of 0. However, from the 44.2% of businesses that were recruiting staff over the quarter, one third (33.3%) stated that they were experiencing difficulties. Skilled/manual technical employees were cited as the most difficult to recruit by firms in the financial & business services sector.

Price Change

Generally pressure to raise prices have increased amongst businesses in the Financial & Business Services sector, with a larger percentage of firms citing that they expect to increase their prices over the next quarter, giving a net % balance of +10, the largest trend balance recorded since Q1 2015.

Expectations

The sector has largely experienced negative growth since the second half of 2015. However, despite previous expectations of growth being unfulfilled, **the third quarter of this year resulted in positive trend balances for multiple key indicators, including; business optimism (+2), sales (+3) and investments (+6).** Businesses expect these trends continue in the final quarter of 2016 with positive net % balances for sales, investment and employment of +20, +11 and +14 respectively.

Key Findings

MANUFACTURING

Sales Revenue

There were positive trend balances in Q3 of 2016 for overall sales revenue, domestic (Scottish) sales revenue and export sales revenue of +7, +2, and +16 respectively. However, the trend balance has returned to negative territory for sales revenue from the rest of UK in Q3 2016, with a negative net % balance of -2. Business expect sales revenue to remain in positive territory throughout the final quarter of 2016, with a net % balance of +28. Increased sales in Q4 2016 should ease cash-flow pressures, as approximately one third of firms experienced lower levels of cash-flow in Q3 2016, resulting in a net % balance of -17.

Investment

Despite levels of business optimism in the sector falling back into negative territory over the quarter (-9), the level of investment expenditure either increased or remained the same for majority of businesses (76.6%) in Q3 2016, giving a net % balance of +13. This was largely attributable to a positive trend balance for training investment of +9. However, more businesses expect investment expenditure to decrease over the next quarter than those that expect an increase, giving a net % balance of -6. This expected fall in investment may be a result of the outcome of the EU referendum, with 63% of respondents stating that it had either a significant or slight influence on their business's investment intentions.

RETAIL & WHOLESALE

Profits/ Price Changes

Over half of respondents experienced a fall in profitability in Q3 2016, giving a negative net % balance of -23 and marking the fourth consecutive quarter that the trend balance for profit was in negative territory. Lower levels of profitability over the last 12 months may have exasperated business's cash-flow levels, with 45.7% experiencing a fall over the last three months, giving a net % balance of -20. A fall in both profitability and cash-flow over the quarter may explain why over one third (37.1%) of businesses in the sector expect to raise their prices in Q4.

Expectations

Expectations of future performance in terms of sales are more promising, with 40% of businesses expecting sales revenue to increase over the fourth quarter, giving a net % balance of +14. Additionally, more businesses expect their employee numbers to increase over the next three months than those that anticipate a decrease, resulting in a positive net % balance of +3.

Key Findings

TOURISM

Sales Revenue

Sales revenue was up over the quarter, with 45.9% of all businesses in the sector indicating that total sales revenue had increased, this was reflected in the net % balance of +11 recorded. This can be attributed to positive trend balances from domestic (Scotland), sales from the rest of the UK and online sales of +11, +8 and +11 respectively. Sales revenue is largely expected to remain the same in Q3, as stated by 45.9% of firms.

Recruitment Difficulties

A positive net % balance of +8 was recorded in Q3 2016, with 73% of businesses in the tourism sector stating that they recruited over the quarter. Recruitment difficulties continue to be a major issue in the sector with 59% of businesses reporting difficulties in recruiting. Chefs represent the occupation causing the most difficulty to firms in the sector.

Investment

Investment expenditure was positive during Q3 2015, with a net % balance of +11 reporting increased investment expenditure. This can be attributed to a positive trend balances for both capital and training investments of +8 and +27 recorded respectively.

Construction

CONTRACTS

41.0% of all respondents reported an increase in the volume of total new contracts, giving a net % balance of +21. Public sector contracts returned to positive territory with a net % balance of +5, however, this was lower than the net % balance recorded in Q1 2016. Additionally, Domestic/house build contracts also returned to positive territory with a net % balance of +11- this is the highest net % balance recorded since Q2 2015.

INVESTMENT

Despite businesses stating in Q2 2016 that they anticipated a fall in investment over the next three months, a net % balance of +13 was recorded for investment expenditure during Q3 2016- this is the highest figure reported for investment in 2016. Additionally, 84.7% of respondents expect to maintain or increase investment expenditure in the final quarter of 2016.

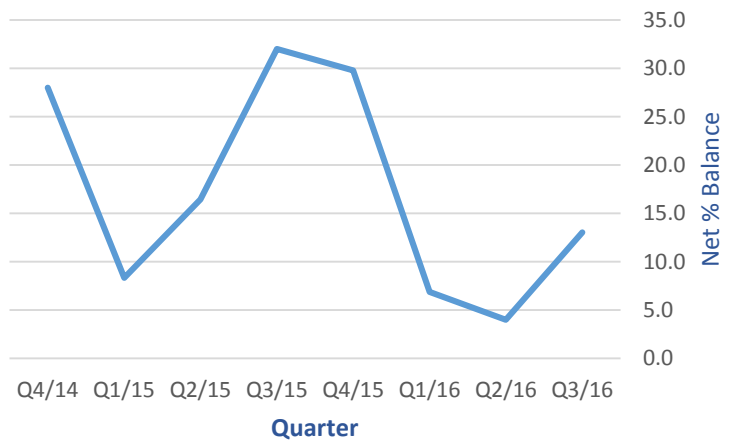
EMPLOYMENT

The majority of businesses (58.7%) indicated that they had recruited staff over Q3 of 2015- this is lowest level since Q1 2015. However, 78.3% of respondents stated that the EU referendum result on 23 June has had no influence on their business's recruitment decisions. 40.1% of businesses faced recruitment difficulties over Q3 2016. Skilled tradesmen were the most commonly cited occupation firms had difficulty recruiting.

PRICE CHANGE

Fewer than one fifth (19.6%) of businesses expect to increase their prices next quarter. This is the lowest figure recorded since Q4 2014.

Total Investment



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/16	Q2/16	Q3/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	30.4	43.5	26.1	4	26	4
Sales Revenue						
Total	43.2	36.4	20.5	23	22	33
Domestic (Scotland)	44.2	25.6	25.6	19	12	24
Rest of UK	14.3	16.7	4.8	10	-4	9
Contracts						
Total	41.0	33.3	20.5	21	14	20
Public Sector	18.9	40.5	13.5	5	-9	-5
Private Commercial	32.4	27.0	29.7	3	2	20
House Building	21.1	21.1	10.5	11	-14	15
Work In Progress	51.3	30.8	17.9	33	2	7
Investment						
Total	23.9	58.7	10.9	13	4	32
Capital	25.0	54.5	9.1	16	0	23
Training	29.5	47.7	2.3	27	18	34
Cashflow	32.6	45.7	21.7	11	6	4
Applied for Credit?				24	24	24
Profits	33.3	46.7	20.0	13	6	14
Capacity Used (Ave. %)				82	81	74
Employment						
Total	30.4	58.7	10.9	20	24	33
Recruiting Staff			(yes)	59	70	63
Recruitment Difficulties			(yes)	48	49	48
Increased Wages?			(yes)	22	36	36
Average Pay Increase (%)				4.2	6	5
Expectations Next Quarter						
Price Change	26.1	67.4	6.5	20	48	31
Sales Revenue	42.2	40.0	17.8	24	18	33
Investment	21.7	63.0	10.9	11	-4	16
Employees	21.7	67.4	10.9	11	32	27

Financial & Business Services

SALES

A net % balance of +3 was recorded as more businesses reported a rise in total sales (30.3%). This is the first quarter that the net % balance for sales has been positive since Q3 2015.

BUSINESS OPTIMISM

A net % balance of +2 was recorded for business optimism, this is the first time optimism levels in the sector have been positive since Q2 2015. This increase in optimism may be explained by positive expectations for sales revenue in Q3, with 40.4% anticipating an increase in sales, giving a net % balance of +20- the highest figure recorded since Q2 2015.

CASH-FLOW

A net % balance of +1 was recorded as 72.6% of businesses stated that cash-flow either increased or remained the same over the quarter. The same time last year, financial & business services firms reported a net % balance of -3.

PROFITS

Despite business optimism, sales and cash-flow returning to positive territory over the quarter, 43.5% of respondents experienced a decline in profits over the quarter.

INVESTMENT

Investment figures were encouraging over the quarter, with almost 72% of respondents indicating that investment had either been maintained or increased. This trend is expected to continue with 80% of businesses expecting investment expenditure to either increase or remain the same in the final quarter of 2016.



(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q3/16	Q2/16	Q3/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	28.2	46.3	25.5	3	-8	-1
Sales Revenue						
Total	30.3	39.4	27.7	3	-18	7
Domestic (Scotland)	23.8	38.9	29.7	-6	-20	2
Rest of UK	11.5	33.5	19.2	-8	-23	-8
Exports	8.5	14.8	13.1	-5	-18	-3
Online	9.5	24.2	7.4	2	-7	-1
Investment						
Total	21.2	50.3	15.3	6	-4	0
Capital	17.6	53.2	14.4	3	-7	-2
Training	21.6	53.0	11.9	10	-5	5
Cashflow	25.8	46.8	25.3	1	-15	-3
Applied for credit?			(yes)	10	10	8
Profits	25.4	28.8	43.5	-18	-18	-8
Capacity Used (Ave. %)				68	66	70
Employment						
Total	18.0	60.8	18.0	0	-11	-4
Recruiting Staff			(yes)	44	36	47
Recruitment Difficulties			(yes)	33	31	18
Increased Wages?			(yes)	17	25	21
Average Pay Increase (%)				4.5	5.3	5
Expectations Next Quarter						
Price Change	19.7	70.2	10.1	10	2	5
Sales Revenue	40.4	37.2	20.2	20	8	13
Investment	22.1	57.9	11.1	11	-4	-6
Employees	23.2	67.9	8.9	14	1	-4

Manufacturing

ORDERS

A net % balance of +6 was reported for total orders, with over one third (36.2%) of businesses experiencing an increase over the quarter. This is the second consecutive quarter that positive growth has been reported for total orders following a decline in the level of total orders in the first quarter of 2016. This can be attributed to positive net % balance for export orders of +13. Conversely, Scottish orders and orders from the rest of UK declined over the quarter as shown by a negative net % balances of -4 and -11 respectively.

EXPECTATIONS

43.5% of businesses expect sales revenues to increase in Q4 2016, giving a net % balance of +28. Additionally, 40% of respondents anticipate a rise in exports over the next three months, giving a net % balance of +37.

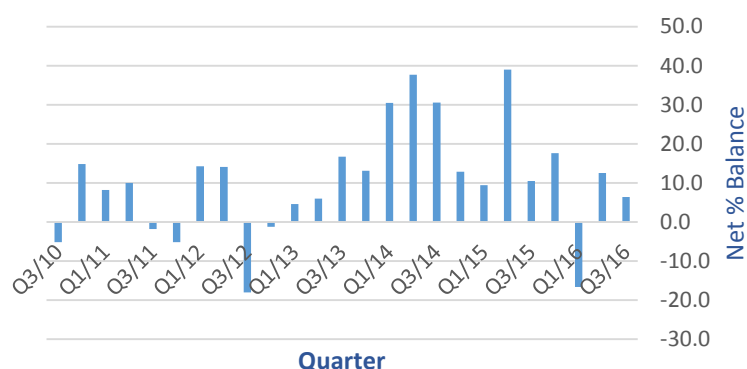
PROFIT

Despite positive net % balances for total orders in Q3 2016 and expected orders in Q4 2016, only 25.5% of businesses reported an increase in profits in Q3 2016. However, 42.6% indicated that profits remained the same over the last three months.

WORK IN PROGRESS

Just under one third (331.9%) of respondents indicated that they experienced a fall in terms of work in progress throughout Q3 2016. Therefore, giving a net % balance of -1, the lowest level of work in progress recorded in 2016.

Total New Orders



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/16	Q2/16	Q3/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	27.7	36.2	36.2	-9	10	12
Sales Revenue						
Total	37.8	31.1	31.1	7	14	9
Domestic (Scotland)	30.4	37.0	28.3	2	2	2
Rest of UK	23.9	43.5	26.1	-2	6	6
Exports	26.7	31.1	11.1	16	12	16
Orders						
Total	36.2	31.9	29.8	6	13	11
Domestic (Scotland)	19.1	51.1	23.4	-4	6	-3
Rest of UK	19.1	40.4	29.8	-11	8	7
Exports	21.7	41.3	8.7	13	-6	18
Work in Progress	21.3	46.8	31.9	-11	8	19
Investment						
Total	27.7	48.9	14.9	13	2	20
Capital	25.5	42.6	25.5	0	6	22
Training	19.1	63.8	10.6	9	31	16
Cashflow	19.1	42.6	36.2	-17	-6	5
Applied for Credit?			(yes)	18	8	14
Profits	25.5	42.6	31.9	-6	-6	-7
Capacity Used (Ave. %)				73	73	78
Employment						
Total	25.5	61.7	12.8	13	17	12
Recruiting Staff			(yes)	55	71	81
Recruitment Difficulties			(yes)	42	29	30
Increased Wages?			(yes)	30	42	22
Average Pay Increase (%)				2.9	5	3
Expectations Next Quarter						
Price Change	34.0	51.1	14.9	19	43	17
Sales Revenue	43.5	41.3	15.2	28	31	24
Investment	17.0	55.3	23.4	-6	12	23
Employees	14.9	83.0	2.1	13	22	34

Retail & Wholesale

SALES REVENUE

A net % balance of -12 was reported over the quarter for sales revenue, a lower level of growth than that experienced in the first two quarters of the year and the first time the growth has been negative since Q4 2015. 50% of businesses in the Retail & Wholesale reported a decrease in domestic (Scottish) sales over the quarter, giving a net % balance of -24- the lowest net % balance recorded since Q4 2014. However, 40% of business expect sales to increase over the next quarter

BUSINESS OPTIMISM

42.9% of businesses in the retail & wholesale industry stated that their level of optimism decreased over the quarter, giving a net % balance of -23 and marking the second consecutive quarter that business optimism was in negative territory. Additionally, this was the lowest net % balance recorded since Q2 2013.

INVESTMENT

Total investment expenditure was down over the quarter with a net % balance of -9. This is the lowest figure recorded since Q4 2014. Growth was negative for capital investment with net % balance of -6, also the lowest figure reported since Q4 2014. Training investment expenditure was also down over the quarter, with a net % balance of -6. The majority (54.3%) of respondents expect no change to their investment expenditure in Q4 2016.

EMPLOYMENT

Most businesses did not make changes to their staffing levels in Q3 2016 (64.7%). However, 20.6% of businesses indicated that employment levels increased over the quarter giving a positive net % balance of +6, marking a return to positive territory.

Sales Revenue



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/16	Q2/16	Q3/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	20.0	37.1	42.9	-23	-4	0
Sales Revenue						
Total	33.3	18.2	45.5	-12	2	15
Domestic (Scotland)	26.5	17.6	50.0	-24	-13	18
Rest of UK	18.2	15.2	21.2	-3	-7	-5
Ex ports	12.1	15.2	12.1	0	-4	5
Online	25.7	31.4	14.3	11	0	20
Investment						
Total	22.9	42.9	31.4	-9	10	10
Capital	22.9	34.3	28.6	-6	6	13
Training	15.2	45.5	21.2	-6	-9	16
Cashflow	25.7	28.6	45.7	-20	-6	7
Applied for Credit?			(yes)	17	10	10
Profits	28.6	20.0	51.4	-23	-22	5
Capacity Used (Ave. %)				73	71	72
Employment						
Total	20.6	64.7	14.7	6	-8	-8
Recruiting Staff			(yes)	54	43	56
Recruitment Difficulties			(yes)	21	43	22
Increased Wages?			(yes)	17	43	22
Average Pay Increase (%)				5	4	4
Expectations Next Quarter						
Price Change	37.1	60.0	2.9	34	33	22
Sales Revenue	40.0	34.3	25.7	14	-6	20
Investment	14.3	54.3	25.7	-11	12	8
Employees	20.0	62.9	17.1	3	16	27

Tourism

GUESTS

50% of respondents in the tourism sector experienced growth in the total number of Guests/ Customers in comparison with the same time last year, giving a net % balance of +25. The highest net % balances were recorded for customers from the rest of EU (+16) and from outside the EU (+24). The majority of businesses (67.5%) reported that the number of Guests/Customers from the rest of EU either increased or remained the same as the previous year. Additionally, fewer than 10% of businesses stated the number of Guests/Customers from outside the EU fell over the quarter.

PROFIT

45.9% of firms reported an increase in profit levels over the quarter, resulting in a positive net % balance of +16. This is the first time profit levels have been in positive territory since the same quarter last year.

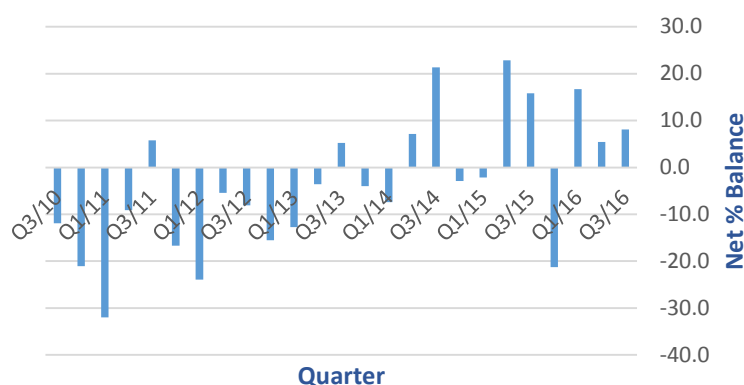
CASH-FLOW

A net % balance of +16 was recorded as more businesses reported a rise in cash-flow over the quarter than a fall. This is the highest figure recorded since the same time last year, in which firms in the tourism sector reported a net % balance of +35.

EMPLOYMENT

The majority of firms (75.6%) throughout the tourism sector stated that employment levels either increased or remained the same over the quarter, giving a net % balance of +8. More businesses in the sector expect employment levels to decrease over the final quarter of the year than those that anticipate an increase, resulting in a negative net % balance of -5.

Employment



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/16	Q2/16	Q3/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	32.4	40.5	27.0	5	5	31
Sales Revenue						
Total	45.9	16.2	35.1	11	24	52
Domestic (Scotland)	41.7	22.2	30.6	11	8	32
Rest of UK	22.2	22.2	13.9	8	-3	30
Online	18.9	24.3	8.1	11	14	31
Investment						
Total	27.8	47.2	16.7	11	13	8
Capital	27.0	40.5	18.9	8	3	12
Training	32.4	43.2	5.4	27	0	15
Cashflow	40.5	35.1	24.3	16	-16	35
Applied for credit?			(yes)	3	11	5
Profits	45.9	21.6	29.7	16	-16	39
Employment						
Total	29.7	45.9	21.6	8	5	16
Recruiting Staff			(yes)	73	68	71
Recruitment Difficulties			(yes)	59	81	33
Increased Wages?			(yes)	35	61	39
Average Pay Increase (%)				8.0	7	5
Guests/Customers (vs last year)						
Total	50.0	22.2	25.0	25	18	49
From Scotland	37.8	32.4	29.7	8	5	32
From Rest of UK	24.3	45.9	16.2	8	0	35
From Rest of EU	29.7	37.8	13.5	16	5	20
From Outside the EU	32.4	32.4	8.1	24	0	31
Expectations Next Quarter						
Price Change	33.3	55.6	11.1	22	39	24
Sales Revenue	27.0	45.9	27.0	0	24	-18
Investment	16.2	56.8	21.6	-5	-16	9
Employees	21.6	51.4	27.0	-5	8	-30