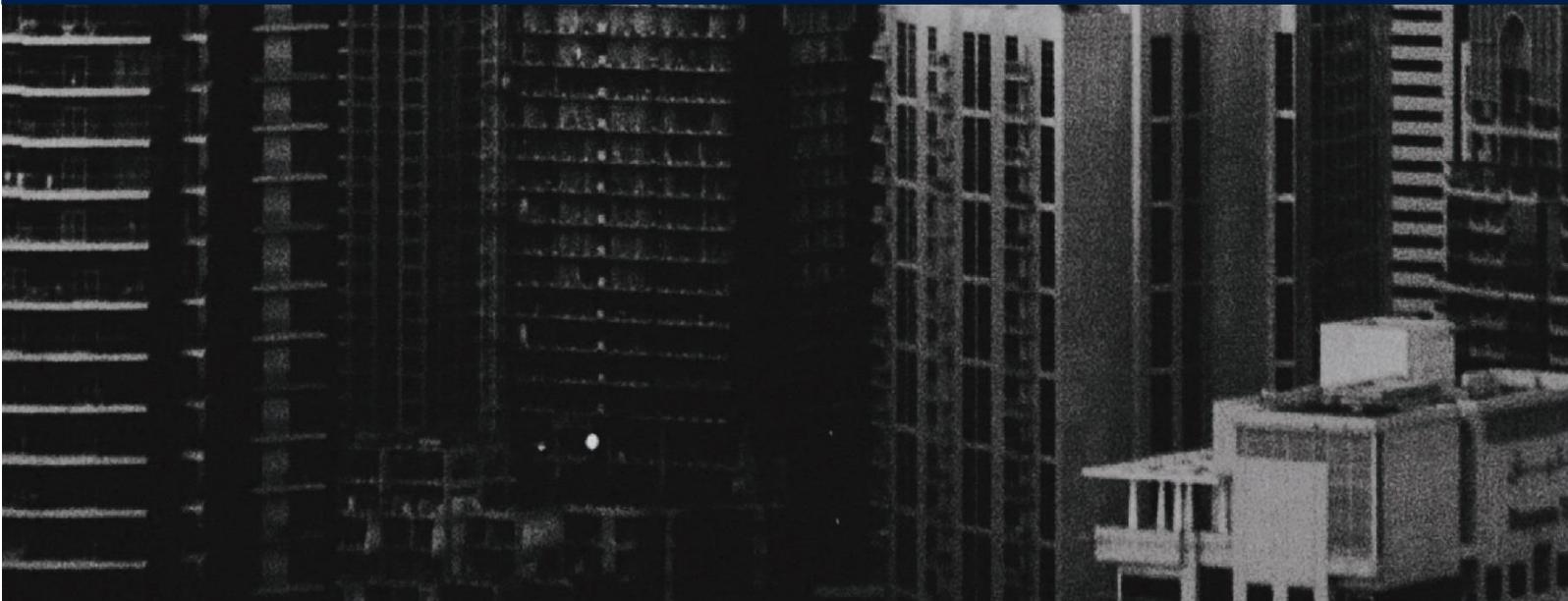




SCOTTISH CHAMBERS OF COMMERCE
QUARTERLY ECONOMIC INDICATOR
RESULTS FOR Q1 OF 2021

*IN PARTNERSHIP WITH FRASER OF
ALLANDER INSTITUTE*



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Foreword

A year on from the pandemic, we can start to see the light at the end of the tunnel.

The progress that has been made in suppressing cases due to lockdown restrictions and the incredibly successful vaccine roll-out has allowed the economy to start opening up in the last week or so.

Businesses in many sectors will be hoping that progress continues to be made in the coming weeks so that the next stage of opening up the economy can proceed. Hospitality businesses in particular, who have been hardest hit throughout the last year, will be looking towards late April and beyond with hope that they can start to generate some income.

The survey results today underline one of the key features of the economic crisis that has been created by the pandemic and associated lockdown over the last year: the very different experience of different sectors.

Sectors which have been more able to adapt to home working, such as finance and business services have fared much better through the period – whereas those that rely on social spending have faced closure and huge restrictions on their capacity.

These sectoral disparities come through strongly in the levels of confidence in the survey results. Of course, this has implications for both the types of workers in these sectors, and the parts of the country that are most affected. The fear is that many existing inequalities in our society will have been exacerbated by the pandemic.

Will all this in mind, the forthcoming economic recovery could take many shapes. Government at all levels will have a role in shaping the recovery.

Of course, the economic backdrop sets the scene for a very different election campaign in the next month or so in the run up to 6th May.

The next five years holds a lot in store. Economic fortunes in the next year will be influenced heavily by Covid (again) and there could be considerable pain still to come once government support starts to be removed. This could see GDP falling again over the course of the year and expectations are that unemployment will rise.

There is little doubt that getting the private sector back on its feet is an important cog in the wheel that will move us forward. Any future government activity in this area will need to be flexible and responsive and credibility and focus will be required in helping the private sector navigate its way out of this crisis with as many good quality jobs intact as possible.

In terms of supporting businesses, the Scottish Government has more limited powers than the UK Government, but there will be an expectation for the next Scottish Government to have a clear strategy on how it helps business recover.

Mairi Spowage

Director, Fraser of Allander Institute



Introduction

Businesses in Scotland are at a crossroads as they take stock of the damage caused by the pandemic and face significant hurdles on the way to economic recovery, according to a leading quarterly survey led by the Scottish Chambers of Commerce (SCC).

The SCC's Quarterly Economic Indicator (QEI) for the first quarter of 2021 completes a full year of measuring the effects of lockdown on businesses and the damages it has inflicted on all aspects of business including employment and investment and identifies continued fears for the future.

The lockdowns have had different effects depending on sectors. The worst performing sector in the survey was retail, which spent most of the quarter in lockdown with optimism and sales having collapsed. Tourism businesses were feeling a bit more positive about the potential for the removal of lockdown conditions and welcoming the prospect of return of domestic visitors. However, significant numbers of businesses in the sector continued to report cash flow declines in the quarter while recruitment remained at some of the lowest levels in the history of the survey.

Businesses in Scotland are close to exhaustion as they continue the slog through some of the most challenging trading conditions in modern history. As the easing of restrictions come, albeit slowly, serious questions over how long trading will continue to be limited remain while businesses trading with the EU have faced fresh difficulties at the border. Rising costs is also a significant issue.

At the end of a full 12 months of trading restrictions, there were a few signs of optimism as businesses looked forward to the effectiveness of the vaccination program, highlighting the resilience of those that have survived the pandemic. However now is not the time to drop the ball – ensuring businesses remains on solid ground will be critical. Governments new and not so new must commit to this and give them the best possible deal if we are to create jobs and return to sustainable growth.

Ahead of the elections, SCC has called on Scottish Ministers to pass a Business Growth Act within the first 100 days of the government to address the most urgent issues facing businesses right now, including reducing upfront business costs, boosting international trade and upskilling our workforce. Fundamentally, we need Scottish Government to reset its relationship with business so that Ministers are speaking the same language of growth, jobs and economic prosperity.



Tim Allan

President of the Scottish Chambers of Commerce

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 from February to March of 2021. 370 firms responded to the Q1 2021 edition of the Indicator.

Fieldwork took place while widespread lockdown restrictions remained in place across Scotland. On February 23rd 2021, the Scottish Government published an updated COVID-19 Strategic Framework.

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.

For further information on the Quarterly Economic Indicator, please contact:

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Key findings

Construction sector

- Business confidence in the sector remains subdued at -9% and is down by 9 percentage points, compared to Q1 2020.
- All sales trends remain at negative net balances, with half of construction firms reporting a further fall in total sales compared to the previous quarter. All investment trends now also have negative net balances.
- All contract trends remain at positive net balances, with growth of private commercial projects being the most significant driver.
- More firms reported that they had seen staff levels fall than increase, on balance, resulting in a net balance of -9%.
- Raw materials prices and other overheads remain significant cost pressures for the sector, as does concern over taxation. All cost pressures rose over the quarter.

Financial and business services

- Confidence in the sector remains positive and has seen a small rise of 2 percentage points to +8%.
- All sales trends have fallen to negative net balances, with export and total sales seeing the most significant falls compared to the previous quarter.
- Investment trends all remain at negative net balances, albeit there has been some easing particularly with training investment.
- Total employment in the sector has weakened slightly, falling by 3 percentage points compared to Q4 2020 and now at -8%.
- The leading concerns for firms in the sector are taxation (45%), competition (31%) and inflation (26%). All cost pressures rose over the quarter.

Manufacturing sector

- Confidence has risen since the previous quarter, the +7% reported is the highest for this trend in the survey since Q2 2018.
- All net balances for sales & orders trends have fallen to negative net balances, with significant falls in export sales / orders being a key factor.
- Levels of cashflow and profits both remain at negative net balances and have fallen significantly since the previous quarter. On the other hand, all investment trends have returned to positive net balances.
- 85% of firms reported either flat or higher staff levels, resulting in a positive net balance of +10%.
- The leading cost burdens for manufacturing firms are raw material prices (80%) and costs from other overheads (55%). The leading issues of concern are exchange rates (65%) and taxation (50%).

Retail and wholesale

- Confidence has weakened significantly, falling by 14 percentage points from Q4 2020 to -24%.
- All sales trends remain at negative net balances, with domestic sales seeing a significant drop of 34 percentage points from Q4 2020 to -48%.
- All investment trends also remain at negative net balances, with total investment down by 31 percentage points when compared to Q1 2020.
- Both levels of cashflow and profits have fallen sizably since the previous quarter, profits are down by 51 percentage points since Q1 2020.
- Over half of firms (64%) reported no changes in staff levels. As more reported a decrease (21%) than an increase (8%), this resulted in a negative net balance of -13%.

Tourism

- Confidence in the sector remains weak but has seen some easing since the previous quarter at -32%.
- Over seven in ten firms (71%) reported a fall in sales compared to Q4 2020, as only 4% reported an increase, this resulted in a negative net balance of -71%.
- All investment trends report negative net balances although with some easing from Q4 2020.
- 98% of firms reported level or lower staff levels, resulting in a net balance of -40%.
- Over three quarters of firms reported falls in levels of cashflow and profits, meaning that both trends reported negative net balances of -78% & -66% respectively.

Construction

CONTRACTS/SALES

Total sales remains at a negative net balance and has fallen by 5 percentage points since Q4 2020, down to -16%.

For the fourth consecutive quarter, all sales trends report negative net balances with all significantly lower than their Q1 average.

On the other hand, all contract trends remain at positive net balances for the second successive quarter.

INVESTMENT

Three quarters of firms report level or lower levels of investment, resulting in a net balance of -6%.

Training investment has seen a fall of 9 percentage points to -9%, 19 percentage points lower than Q1 2020.

WORK IN PROGRESS

The sector has been able to operate while other sectors have had to close again, demonstrated by the positive net balance of +13%.

CASHFLOW/PROFITS

Three quarters of firms reported level or lower levels of profits, resulting in a negative net balance of -41%.

Nearly three quarters of firms (73%) reported static or weaker cashflow levels. This resulted in a negative net balance of -33%.

Both trends have seen significant weakening since Q4 2020, both also sit sizably lower than what was reported for Q1 2020.

CONCERNS/PRESSURES

All cost pressures have risen, with raw material prices (80%), costs from other overheads (73%) and finance costs (40%) all rising to record highs.

The leading concerns were taxation (67%) and inflation (63%).

Concern over inflation and exchange rates have reached record highs for the survey.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to M/A responses)				Q1/21	Q4/20	Q1/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	35	21	44	-9	-6	0
Sales Revenue						
Total	34	16	50	-16	-11	10
Domestic (Scotland)	25	38	38	-13	-6	7
Rest of UK	6	13	25	-19	-17	3
Contracts						
Total new contracts	41	29	29	12	17	13
Public sector orders	30	30	24	6	3	3
Private commercial	39	18	30	9	3	7
Domestic/house build	33	27	27	7	10	10
Investment						
Total	25	31	31	-6	-11	7
Capital	28	28	31	-3	-9	-3
Training	22	28	31	-9	0	10
Work in Progress	37	40	23	13	7	17
Cashflow	27	12	61	-33	-20	3
Applied for Credit?	23			23	13	30
Profits	25	9	66	-41	-13	7
Capacity used (ave. %)				66	80	70
Employment						
Total	28	34	38	-9	-6	3
Recruiting Staff			(yes)	45	46	53
Recruitment Difficulties			(yes)	9	17	40
Increased Wages?			(yes)	17	9	33
Average pay increase (%)				3.0	4.0	5.5
Expectations Next Quarter						
Price Change	47	47	6	41	9	13
Sales Revenue	43	23	33	10	3	10
Investment	27	40	20	7	-10	10
Employees	23	47	17	7	7	20
Cost Pressures (%)						
Pay Settlements			(yes)	13	9	17
Finance Costs			(yes)	40	14	20
Raw Material Prices			(yes)	80	74	50
Other Overheads			(yes)	73	71	57
Concerns (%)						
Interest Rates			(yes)	13	9	13
Business Rates			(yes)	47	51	33
Competition			(yes)	47	46	27
Exchange Rates			(yes)	43	31	33
Inflation			(yes)	63	57	33
Taxation			(yes)	67	71	37

Financial & Business Services

BUSINESS OPTIMISM

71% of firms reported static or higher levels of confidence, with 29% reporting a decrease. This resulted in a positive net balance of +8%.

SALES REVENUE

All sales trends reported negative net balances, with domestic and export sales seeing the most significant falls compared to the previous quarter.

When compared to the same time last year, all sales trends have seen substantial falls and are also well below their Q1 average.

INVESTMENT

All investment trends have reported negative net balances for the fourth successive quarter.

While they have seen some easing compared to Q4 2020, they remain significantly lower than their Q1 average.

LABOUR MARKET

Just over 1 in 10 firms (12%) reported an increase in staff levels. As 88% reported lower or static levels, this resulted in a net balance of -8%.

This net balance is 23 percentage points lower than the Q1 average.

CONCERNS/PRESSURES

All cost pressures saw slight increases across the board.

Other overhead costs remains the predominant cost pressure, reported by 44% of firms. 44% is the highest recorded for this trend since Q1 2018.

Taxation remains the main concern for firms, followed by competition and inflation. Taxation has seen a 17 percentage point increase since Q1 2020.

EXPECTATIONS

The outlook for the sector has become slightly more positive since Q4 2020.

While employment expectations remain cautious, over three quarters of firms (78%) anticipate higher or at least static levels of sales revenue in Q2 2021.

(blank space indicates data not available) (balances may not add up to 100% due to N/A responses)	(rounded up to nearest %)					
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	37	34	29	8	6	8
Sales Revenue						
Total	25	37	38	-13	8	17
Domestic (Scotland)	28	36	37	-9	6	4
Rest of UK	21	19	29	-8	3	10
Exports	7	13	23	-17	-4	8
Online	11	14	19	-7	0	5
Investment						
Total	22	32	34	-12	-17	13
Capital	14	33	32	-18	-21	3
Training	22	35	27	-5	-15	11
Cashflow	23	36	41	-18	-11	8
Applied for credit?	12			12	19	11
Profits	35	25	38	-3	-3	6
Capacity Used (Ave. %)				56	72	77
Employment						
Total	12	63	20	-8	-5	11
Recruiting Staff	39			39	35	54
Recruitment Difficulties	27			27	13	48
Increasing Wages	16			16	16	26
Average pay increase (%)				7	9	10
Expectations Next Quarter						
Price Change	34	59	8	26	12	38
Sales Revenue	42	36	22	20	10	21
Investment	20	45	16	4	0	8
Employees	18	72	10	8	3	8
Cost Pressures (%)						
Pay Settlements			(yes)	11	3	17
Finance Costs			(yes)	9	8	21
Raw Material Prices			(yes)	15	14	18
Other Overheads			(yes)	44	42	18
Concerns (%)						
Interest Rates			(yes)	8	6	15
Business Rates			(yes)	21	37	29
Competition			(yes)	31	35	35
Exchange Rates			(yes)	13	15	21
Inflation			(yes)	26	17	24
Taxation			(yes)	45	44	28

Manufacturing

BUSINESS OPTIMISM

Confidence in the sector remained at a positive net balance for the second successive quarter and is 19 percentage points higher than the Q1 average.

SALES REVENUE/ORDERS

In Q4 2020, export sales drove total revenue to a positive net balance. However, all sales trends have now fallen to negative net balances, with exports seeing a significant fall of 27 percentage points to -9%.

A similar story can be seen when it comes to orders, with all trends reporting negative net balances, largely driven by falls in export orders.

WORK IN PROGRESS

The level of work in progress has risen slightly for the second successive quarter and is the highest reported for the trend since Q2 2019.

CASHFLOW/PROFITS

Only 12% of firms reported an increase in cashflow. With over half (52%) reporting a decrease and 36% reporting static levels, this resulted in a negative net balance of -40%.

The -40% reported is the second lowest figure reported for this trend in the survey, only behind Q2 2020, and is 38 percentage points lower than the Q1 average.

LABOUR MARKET

The majority of firms (60%) reported no change in staff levels. As more reported an increase (25%) than a decrease (15%), this resulted in a positive net balance of +10%.

This is the first positive net balance for this trend since Q2 2019.

EXPECTATIONS

On balance, firms expect to see sales and employment levels increase in Q2. The positive net balance of +23% for employment is the highest recorded for the survey in two years.

However, on balance, a majority of firms report that they expect investment to be scaled back or put on hold in Q2: resulting in a negative net balance of -7%.

(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q1/21	Q4/20	Q1/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	40	27	33	7	2	-20
Sales Revenue						
Total	29	22	49	-20	8	-15
Domestic (Scotland)	27	29	44	-18	-10	-8
Rest of UK	22	29	33	-11	-6	-5
Exports	22	20	31	-9	18	-5
Orders						
Total	33	22	44	-11	8	-10
Domestic (Scotland)	33	22	44	-11	-8	-5
Rest of UK	29	22	36	-7	-4	-5
Exports	29	16	33	-4	10	0
Work in Progress	41	25	34	6	3	-10
Investment						
Total	29	40	24	5	-20	-3
Capital	33	36	26	7	-24	8
Training	24	52	19	5	-18	-8
Cashflow	12	36	52	-40	-12	-13
Applied for Credit?	17			17	8	17
Profits	24	24	52	-29	-8	-10
Capacity Used (Ave. %)				65	74	76
Employment						
Total	25	60	15	10	-16	-10
Recruiting Staff			(yes)	48	44	60
Recruitment Difficulties			(yes)	17	20	55
Increased Wages			(yes)	20	14	45
Average pay increase				7	3	4
Expectations (next quarter)						
Price Change	53	47	0	53	20	43
Sales	33	37	30	3	-5	-5
Investment	20	47	27	-7	0	-5
Employees	33	58	10	23	-4	15
Cost Pressures (%)						
Pay Settlements			(yes)	10	16	30
Finance Costs			(yes)	10	8	25
Raw Material Prices			(yes)	80	72	75
Other Overheads			(yes)	55	54	60
Concerns (%)						
Interest Rates			(yes)	13	6	20
Business Rates			(yes)	45	44	33
Competition			(yes)	38	40	25
Exchange Rates			(yes)	65	60	63
Inflation			(yes)	35	36	35
Taxation			(yes)	50	56	30

Retail & Wholesale

BUSINESS OPTIMISM

For the seventh successive quarter, a negative net balance has been recorded for business confidence,

The balance of -24% is 29 percentage points lower than the average for Q1.

SALES REVENUE

At the start of the year, 'non-essential' retail was compelled to close once more under lockdown restrictions.

Therefore, it is not surprising that this has a significant effect on sales revenue. All trends have reported negative net balances, mainly driven by weakened domestic sales.

The net balance of -48% for total sales is the second worst figure recorded for this trend, only behind Q2 2020.

INVESTMENT

For the fourth successive quarter, all investment trends remain at negative net balances.

Total investment at -24% sits 30 percentage points lower than what it was a year ago, and all trends sit well below their Q1 average.

CASHFLOW/PROFITS

Both cashflow and profit levels have seen significant weakening since Q4 2020. The negative net balances reported for both trends are significantly lower than their Q1 averages.

LABOUR MARKET

Only 8% of firms reported increased staff levels. As 85% reported level or lower levels, this resulted in a net balance of -13%.

This figure of -13% is 25 percentage points lower than the Q1 average.

CONCERNS/PRESSURES

Aside from other overheads, all cost pressures have increased since Q4 2020. The 40% reported for raw material prices is the highest recorded since Q1 2018.

The leading concerns for retail firms are taxation, competition and business rates.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/21	Q4/20	Q1/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	26	24	50	-24	-9	-7
Sales Revenue						
Total	10	33	57	-48	-14	6
Domestic (Scotland)	13	25	55	-43	-10	7
Rest of UK	15	18	33	-18	-17	8
Exports	5	8	28	-23	-12	-5
Online	15	33	27	-12	-13	3
Investment						
Total	20	7	44	-24	-20	6
Capital	20	5	40	-20	-24	3
Training	10	15	34	-24	-14	3
Cashflow	15	35	50	-35	-7	-9
Applied for Credit?			(yes)	3	13	12
Profits	15	23	62	-46	-13	5
Capacity Used (Ave %)				39	54	75
Employment						
Total	8	64	21	-13	-19	7
Recruiting Staff			(yes)	31	33	53
Recruitment Difficulties			(yes)	18	4	50
Increased Wages?			(yes)	13	8	28
Average Pay Increase				3.0%	3.0%	5.0%
Expectations Next Quarter						
Price Change	48	53	0	48	21	43
Sales Revenue	52	21	27	24	-7	9
Investment	15	21	42	-27	-22	14
Employees	10	64	18	-8	-6	6
Cost Pressures (%)						
Pay Settlements			(yes)	10	8	17
Finance Costs			(yes)	17	11	29
Raw Material Prices			(yes)	40	28	33
Other Overheads			(yes)	45	51	37
Concerns (%)						
Interest Rates			(yes)	10	6	14
Business Rates			(yes)	33	52	43
Competition			(yes)	43	48	37
Exchange Rates			(yes)	24	26	29
Inflation			(yes)	31	23	31
Taxation			(yes)	52	51	34

Tourism

BUSINESS OPTIMISM

Over three quarters of firms (76%) reported a fall or static levels of confidence. As 24% reported an increase, this resulted in a net balance of -32%.

INVESTMENT

For the fifth successive quarter, all investment trends have reported negative net balances.

While there has been some easing compared to the last quarter, these trends are significantly down compared to last year and their Q1 averages.

CASHFLOW/PROFITS

Over 9 in 10 firms reported either lower or static levels of cashflow.

As only 5% reported an increase, this resulted in a negative net balance of -78%: the second lowest recorded in the history of the survey.

A similarly weak result has been reported for profit levels: the net balance of -66% is 56 percentage points lower than the Q1 average.

LABOUR MARKET

Only 2% of firms reported an increase in employment levels. As 94% reported either lower or static levels, this meant a net balance of -40%.

This net balance of -40% is significantly below the five-year average for the survey.

CONCERNS/PRESSURES

The leading cost pressures for the sector continue to come from other overheads and raw material prices.

The leading concerns are taxation, business rates and inflation.

Most cost pressures and concerns have seen some slight easing compared to the previous quarter.

EXPECTATIONS

Generally, the outlook for the sector has become more positive since the previous quarter. While investment is still expected to fall, on balance, sales and employment are projected to rise.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q1/21	Q4/20	Q1/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	24	20	56	-32	-62	-15
Sales Revenue						
Total	4	8	75	-71	-86	-15
Domestic (Scotland)	0	9	79	-79	-86	-5
Rest of UK	4	9	58	-54	-80	-10
Online	3	3	23	-20	-52	15
Investment						
Total	15	12	52	-37	-52	-15
Capital	15	16	51	-36	-60	-5
Training	9	22	46	-37	-49	-5
Cashflow	5	13	83	-78	-74	-8
Applied for credit			(yes)	15	23	24
Profits	9	13	75	-66	-84	-12
Employment						
Total	2	52	42	-40	-54	-8
Recruiting Staff			(yes)	26	14	82
Recruitment difficulties			(yes)	3	4	76
Increased wages?			(yes)	6	4	48
Average pay increase (%)				3	5	8
Guests/Customers vs last year						
Total	4	4	92	-88	-94	-6
From Scotland	0	11	89	-89	-81	9
From Rest of UK	4	4	78	-73	-86	-15
From Rest of EU	0	0	73	-73	-92	-12
From Outside the EU	0	0	73	-73	-91	-3
Expectations Next Quarter						
Price Change	49	48	3	46	5	25
Sales	53	13	34	19	-68	13
Investment	17	35	37	-19	-57	-5
Employees	25	59	16	8	-44	10
Cost Pressures (%)						
Pay Settlements			(yes)	9	14	38
Finance Costs			(yes)	31	26	45
Raw Material Prices			(yes)	37	51	55
Other Overheads			(yes)	52	60	60
Concerns (%)						
Interest Rates			(yes)	16	23	13
Business Rates			(yes)	35	41	50
Competition			(yes)	29	33	30
Exchange Rates			(yes)	13	10	30
Inflation			(yes)	36	34	40
Taxation			(yes)	53	56	45