

EMBARGOED UNTIL 0001 HOURS ON THURSDAY 19 JANUARY 2017

Quarter 4 2016

Quarterly Economic Indicator

Scottish Chambers of Commerce



Contents

1. **Methodology** *Page 2*
2. **Key Findings** *Pages 3–6*
3. **Construction** *Page 7*
4. **Financial &
Business Services** *Page 8*
5. **Manufacturing** *Page 9*
6. **Retail & Wholesale** *Page 10*
7. **Tourism** *Page 11*

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 07 November 2016 and 28 November 2016. 511 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:

Garry Clark

Head of Economic Development Intelligence Unit

Scottish Chambers of Commerce

Office No. 0141 204 8316

Mobile No. 07795 158 137

Email address: gclark@scottishchambers.org.uk

Summary

In the fourth quarter of 2016, business optimism was finely balanced across all sectors and was marginally positive in all sectors other than Financial and Business Services. Broadly positive trends in recruitment remained but cash flow was tightening across most sectors.

The Construction sector reported a positive trend in both total contracts and sales revenue in Q4, led by growth in private commercial contracts. Employment continues to grow in the sector but there are expectations of a dip in investment.

Financial and Business Services saw a marginal growth in sales in Q4, whilst the pace of the increase in investment slowed. Expectations of a growth in employment in the sector in Q4 did not materialise.

Optimism returned to Manufacturing in Q4 as the sector reported its strongest trend in new orders since the second quarter of 2014. Export orders remained strong in Q4 but the trend was lower than expected.

The Retail sector also saw a return in optimism in Q4 as the growth in sales met expectations. Both export and online sales increased but a decline in sales is expected in Q1 2017. The majority of businesses expect price increases in 2017.

Tourism businesses reported higher optimism than in the same quarter of 2015. Visitor numbers were up, particularly from outside of the EU. Recruitment difficulties remain widespread in the sector but expectations in employment and sales are better than for the same period last year.

Key Findings

CONSTRUCTION

Sales Revenue

Sales revenue was positive over the quarter across the sector with 35.8% of businesses reporting an increase in total sales revenue, giving a net % balance of +8.

This increase can largely be attributed to domestic (Scotland) sales with just under one third (32.1%) of firms reporting an increase in Q4 2016. Future expectations for sales revenue are encouraging, with 75.9% of respondents indicating that sales revenue will either be maintained or increased. Despite positive results for total sales revenue, sales from the rest of the UK returned to negative territory with a net % balance of -2.

Investment

Investment expenditure was positive during Q4 2016, with 83.3% of businesses reporting that total investment expenditure increased or remained the same, giving a net % balance of +22. Growth was recorded for both capital and training investment with a net % balances of +20 recorded for both. However, investment expectations for Q1 of 2017 were negative, potentially as a result of Brexit uncertainty.

FINANCIAL & BUSINESS SERVICES

Employment

Over the fourth quarter of last year financial & business services firms reported a decline in employment levels, reflected by a net % balance of -7. However, with 37.6% of businesses in the sector recruiting and a positive net % balance of +12 in terms of expected employment, employment levels may increase in Q1 2017.

Investment

Investment levels did increase overall with a net % balance of +7 recorded, this growth level is much higher than the negative net % balance of -10 reported at the same time in 2015 and investment is expected to remain largely unchanged in Q1 2017, with 50% of firms anticipating no change in investment expenditure.

Overall

Results for the financial & business services sector were mixed over the final quarter of 2016. However, in comparison to the same quarter a year earlier, the decline in growth has eased. Additionally, expectations for future performance are more promising with positive trend balances for sales revenue (+16).

Key Findings

MANUFACTURING

Business Optimism

A net % balance of +2 was recorded overall for optimism, this marks a return to positive territory after a negative net % balance of -9 was reported in Q3 2016. This increased optimism may be explained by positive trend balances reported for total sales revenue (+22), total new orders (+24) and total investment expenditure (+16). Trend balances for sales revenue and investment expenditure were the highest recorded net % balances in 2016.

Expectations

The sector has largely experienced growth in the final quarter of 2016. Expectations for next quarter's sales revenue, employment levels and expenditure on investment are positive among firms in the manufacturing industry. Positive net % balances were recorded for expected sales revenue (+15), investment (+13), export revenue (+21) and employment (+18).

RETAIL & WHOLESALE

Profits

Over one third of respondents experienced a fall in profitability in Q4 2016, giving a negative net % balance of -2 and marking the fifth consecutive quarter that the trend balance for profit was in negative territory. Although the balance over the quarter was only marginally negative it suggests an overall decline in the industry, and may explain the negative net % balance of -6 reported for cash-flow.

Employment

The majority of businesses (62%) in the retail & wholesale sector indicated that their employment levels remained unchanged over the quarter. This trend is expected to continue as 62% of businesses in the industry to do not expect their employment levels to change in the first quarter of 2017.

Optimism

Optimism in the sector grew in Q4 of 2016 as more than one third of businesses reported an increase in their level of business optimism- giving a net % balance of +2. Although the balance is only marginally positive, it is encouraging when compared to the net % balance of -17 in the same quarter of 2015.

Key Findings

TOURISM

Sales Revenue

Despite tourism firms reporting a positive trend balance of +24 for total guest/customers versus the same period of the previous year, sales revenue was down over the quarter, with more businesses in the sector indicating that total sales revenue had decreased, which was reflected in the net % balance of -4 recorded. This can be attributed to negative trend balances from domestic (Scotland), sales from the rest of the UK and online sales of -4, -1 and -7 respectively. Declining levels of sales revenue is expected to continue in Q1 2017 for a net % balance of -12 firms.

Recruitment Difficulties

55% of businesses stated that they were currently recruiting. Of these, 58% indicated that they were currently facing difficulties recruiting. More specifically, chefs and trained waiting/bar staff were the most commonly cited by respondents as difficult to recruit. These difficulties in recruiting certain occupations may explain why a negative net % balance of -3 was recorded for employment over the last three months.

Expectations

Expectations for the first quarter of 2017 are largely negative as more businesses in the tourism sector expect a fall in sales revenue and investment expenditure in Q1 2017 than those that expect a rise. Negative net % balances of -12 and -1 were recorded for expected sales revenue and investment expenditure respectively. These figures highlight the possibility of a decline in growth over the next three months, though this may be seasonal in nature.

Construction

BUSINESS OPTIMISM

Business optimism remained in positive territory with a net % balance of +4. Despite remaining positive, this remains the lowest level of optimism recorded for firms in the construction sector since Q3 2014.

CONTRACTS

33.3% of all respondents reported an increase in total new contracts, giving a net % balance of +9. This was largely driven by an increase in private commercial contracts for which a net % balance of +9 was recorded- the highest net % balance recorded since Q3 2015. Conversely, public sector contracts and domestic/house build contracts returned to negative territory with net % balances of -7 and -2 respectively.

INVESTMENT

Last quarter construction firms generally said they expected investment to remain the same or increase in Q4 2016. These expectations were broadly realised with a net % balance of +22 recorded for total investment expenditure.

CASH-FLOW

A negative net % balance of -4 was recorded as more businesses reported a decline in cash-flow over the quarter than an increase- this is the lowest net % balance recorded since Q1 2015.

PRICE CHANGE

The majority (63.0%) of businesses in the construction sector expect their prices to remain the same in the first quarter of 2017. However just over one third of firms (35.2%) anticipate an increase in their prices resulting in a net % balance of +33.

Total New Contracts



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/16	Q3/16	Q4/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	25.9	51.9	22.2	4	4	4
Sales Revenue						
Total	35.8	34.0	28.3	8	23	38
Domestic (Scotland)	32.1	37.7	26.4	6	19	33
Rest of UK	7.5	17.0	9.4	-2	10	5
Contracts						
Total	33.3	37.8	24.4	9	21	7
Public Sector	15.6	40.0	22.2	-7	5	-9
Private Commercial	28.3	45.7	19.6	9	3	7
House Building	11.1	35.6	13.3	-2	11	2
Work In Progress	33.3	37.8	28.9	4	33	5
Investment						
Total	38.9	44.4	16.7	22	13	30
Capital	35.2	46.3	14.8	20	16	22
Training	31.5	51.9	11.1	20	27	40
Cashflow	24.1	48.1	27.8	-4	11	20
Applied for Credit?				24	24	28
Profits	29.6	44.4	24.1	6	13	24
Capacity Used (Ave. %)				83	82	86
Employment						
Total	24.5	67.9	7.5	17	20	34
Recruiting Staff			(yes)	56	59	69
Recruitment Difficulties			(yes)	43	48	65
Increased Wages?			(yes)	31	22	46
Average Pay Increase (%)				7.0	4	6
Expectations Next Quarter						
Price Change	35.2	63.0	1.9	33	20	34
Sales Revenue	29.6	46.3	24.1	6	24	17
Investment	24.1	50.0	25.9	-2	11	23
Employees	24.1	59.3	16.7	7	11	34

Financial & Business Services

BUSINESS OPTIMISM

In Q3 2016, financial & business services firms reported a positive trend balance for business optimism for the first time since Q2 2015. However, business optimism levels in the sector returned to negative territory in Q4 with a net % balance of -4. This was largely a result of the high number of firms in the oil & gas sector reporting a fall in business optimism.

PROFITS

Lower levels of business optimism may be because of declining profit as more than one third (35.4%) of respondents reported a fall in profit levels over the quarter. Despite business optimism falling, sales and cash-flow returning to positive territory over the quarter, 43.5% of respondents experienced a decline in profits over the quarter.

SALES REVENUE

Although negative net % balances in sales revenue from Scotland (-3), rest of UK (-7) and exports (-1), total sales revenue was marginally positive with a net % balance of +1.

EXPECTATIONS

Future expectations in the financial and business services sector are promising, a net % balance of +16 expect sales revenue to increase in the first quarter of 2017. Trends for future investment are also encouraging with a net % balance of +4 expecting investment expenditure to increase. Additionally, employment levels are expected to remain the same or increase in Q1 2017 as reported by 87.9%. However, a note of caution may be needed as many expectations from the previous quarter were not realised in Q4.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/16	Q3/16	Q4/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	23.6	48.9	27.5	-4	3	-12
Sales Revenue						
Total	34.1	30.8	33.5	1	3	-16
Domestic (Scotland)	30.2	31.8	33.5	-3	-6	-22
Rest of UK	13.6	28.2	20.9	-7	-8	-19
Exports	11.9	17.6	13.1	-1	-5	-13
Online	10.8	18.8	9.1	2	2	-8
Investment						
Total	27.6	38.1	21.0	7	6	-10
Capital	22.1	39.2	22.7	-1	3	-7
Training	23.3	44.4	18.3	5	10	1
Cashflow	23.9	44.4	31.1	-7	1	-23
Applied for credit?			(yes)	9	10	12
Profits	29.3	33.7	35.4	-6	-18	-25
Capacity Used (Ave. %)				68	68	70
Employment						
Total	11.0	68.7	17.6	-7	0	-12
Recruiting Staff			(yes)	38	44	41
Recruitment Difficulties			(yes)	28	33	29
Increased Wages?			(yes)	16	17	22
Average Pay Increase (%)				5.2	5	5
Expectations Next Quarter						
Price Change	30.7	57.0	12.3	18	10	6
Sales Revenue	39.2	37.6	23.2	16	20	1
Investment	21.9	50.0	18.0	4	11	-3
Employees	23.6	64.3	12.1	12	14	7

Manufacturing

ORDERS

43.6% of manufacturing firms experienced an increase in total new orders, giving a net % balance of +24- the highest trend balance recorded since Q2 2015. While there was growth in orders from the rest of the UK and exports over the quarter, with net % balances of +6 and +15 respectively; orders from Scotland have declined further over the fourth quarter of 2016 with a negative net % balance of -7.

WORK IN PROGRESS

An increased number of orders within the manufacturing sector is reflected in higher levels of capacity utilisation and work in progress. 39.6% of firms reported an increase in their level of work in progress, giving a net % balance of +19- the highest net % balance recorded since Q4 2015. Additionally, the average capacity used by respondents was 76% in Q4 2016, the highest level of capacity utilisation in 2016.

PROFIT

The same number of businesses reported a decrease in profit levels over the quarter as those that reported an increase: a net % balance of 0. However, this is not as low as the net % balances recorded in each of the previous quarters in 2016, which were all negative.

EMPLOYMENT

Employment levels have increased on balance across the sector with a net % balance of +15 recorded. Employment levels are expected to either increase or remain the same over the next three months with fewer than 8% of firms anticipating a fall in employment.

Employment



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/16	Q3/16	Q4/15
(figures given as % of respondents)				Net % Balance	Last Quarter	Last Year
	Up	Level	Down			
Business Optimism	25.5	50.9	23.6	2	-9	14
Sales Revenue						
Total	38.9	44.4	16.7	22	7	14
Domestic (Scotland)	21.8	52.7	20.0	2	2	8
Rest of UK	18.5	50.0	18.5	0	-2	16
Exports	37.0	31.5	9.3	28	16	8
Orders						
Total	43.6	34.5	20.0	24	6	18
Domestic (Scotland)	20.4	44.4	27.8	-7	-4	6
Rest of UK	24.1	48.1	18.5	6	-11	14
Exports	23.6	34.5	9.1	15	13	12
Work in Progress	39.6	39.6	20.8	19	-11	29
Investment						
Total	30.9	50.9	14.5	16	13	33
Capital	29.6	53.7	14.8	15	0	18
Training	18.2	69.1	5.5	13	9	25
Cashflow	18.2	49.1	32.7	-15	-17	0
Applied for Credit?			(yes)	22	18	18
Profits	31.5	37.0	31.5	0	-6	16
Capacity Used (Ave. %)				76	73	80
Employment						
Total	27.8	59.3	13.0	15	13	24
Recruiting Staff			(yes)	62	55	67
Recruitment Difficulties			(yes)	38	42	30
Increased Wages?			(yes)	24	30	22
Average Pay Increase (%)				4.5	3	3
Expectations Next Quarter						
Price Change	53.8	44.2	1.9	52	19	33
Sales Revenue	38.9	35.2	24.1	15	28	14
Investment	27.3	54.5	14.5	13	-6	10
Employees	25.5	67.3	7.3	18	13	24

Retail & Wholesale

SALES REVENUE

Total sales revenue was up over the quarter with 44.4% of businesses experiencing an increase, giving a net % balance of 14. This is the highest net % balance reported for sales revenue in the retail & wholesale sector since Q3 2015. However, slightly more businesses anticipate a fall in sales revenue in Q1 2017 than those that expect an increase, resulting in a net % balance of -2.

CASH-FLOW

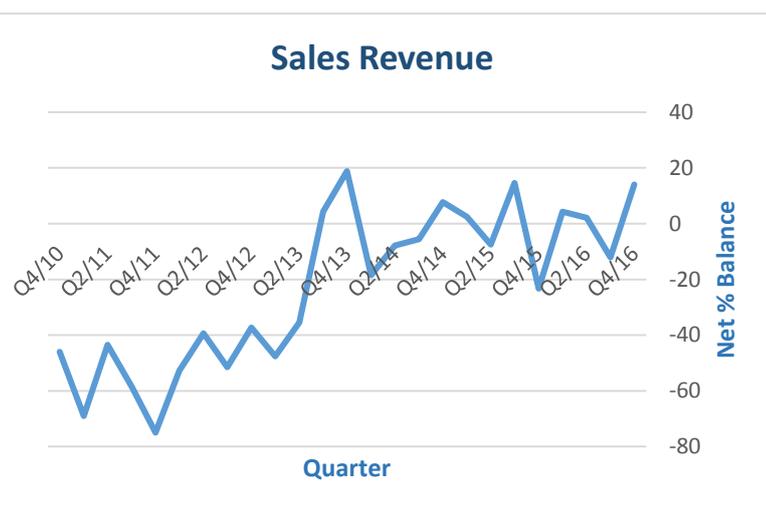
Despite a positive net % balance recorded for sales revenue, more business reported a decrease in cash-flow than those reporting an increase, resulting in a net % balance of -6. This marks the fifth consecutive quarter that respondents in the retail & wholesale sector reported a negative trend balance.

PRICE CHANGE

A decline in cash-flow levels over the quarter may explain why no respondents plan to decrease their price levels over the next three months resulting in a net % balance of +56. This is the highest net % balance recorded since Q2 2013.

INVESTMENT

Investment expenditure was negative during Q4 2016 for the second consecutive quarter with a net % balance of -2 reporting a decrease in total investment expenditure.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/16	Q3/16	Q4/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	34.0	34.0	32.0	2	-23	-17
Sales Revenue						
Total	44.0	26.0	30.0	14	-12	-23
Domestic (Scotland)	39.6	25.0	27.1	13	-24	-12
Rest of UK	16.7	27.1	16.7	0	-3	5
Exports	13.0	6.5	2.2	11	0	0
Online	16.3	26.5	12.2	4	11	5
Investment						
Total	22.4	40.8	24.5	-2	-9	-2
Capital	20.4	46.9	20.4	0	-6	0
Training	22.4	53.1	14.3	8	-6	0
Cashflow	24.0	40.0	30.0	-6	-20	-30
Applied for Credit?			(yes)	21	17	23
Profits	34.7	24.5	36.7	-2	-23	-26
Capacity Used (Ave. %)				75	73	73
Employment						
Total	20.0	62.0	16.0	4	6	-5
Recruiting Staff			(yes)	65	54	42
Recruitment Difficulties			(yes)	41	21	33
Increased Wages?			(yes)	30	17	19
Average Pay Increase (%)				4	5	3
Expectations Next Quarter						
Price Change	56.0	44.0	0.0	56	34	30
Sales Revenue	38.8	20.4	40.8	-2	14	19
Investment	26.0	40.0	24.0	2	-11	12
Employees	24.0	62.0	14.0	10	3	9

Tourism

GUESTS

45.9% 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 +24. The highest net % balances were recorded for customers from outside of the EU (+18) and from Scotland (+8). Positive trend balances were also recorded for guests/customers from the UK and the rest of the EU of +4 and +1 respectively.

PROFIT

39.4% of firms reported a decrease in profit levels over the quarter, resulting in a negative net % balance of -18. This is the lowest net % balance recorded since Q4/2014. Falling profit levels may explain why almost half (49.3%) of businesses expect to increase their prices over the next quarter.

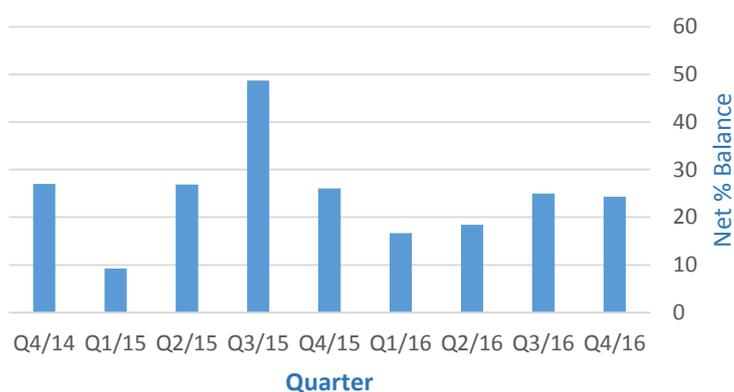
CASH-FLOW

A net % balance of -15 was recorded as more businesses reported a fall in cash-flow over the quarter than a rise. This marks a return to negative territory, therefore making Q3 the only quarter in 2016 in which a positive net % balance was reported.

EMPLOYMENT

Last quarter tourism firms generally stated that they expected employment to remain the same or decrease in Q4. This is reflected in a negative trend balance of -3 recorded in Q4 2016. Recruitment difficulties continue to be an issue for many firms (58%) currently recruiting.

Total Guests/Customers vs Last Year



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/16	Q3/16	Q4/15
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	30.1	42.5	27.4	3	5	-25
Sales Revenue						
Total	33.8	23.0	37.8	-4	11	0
Domestic (Scotland)	25.4	25.4	29.6	-4	11	9
Rest of UK	21.7	20.3	23.2	-1	8	-11
Online	14.9	21.6	21.6	-7	11	2
Investment						
Total	28.0	44.0	12.0	16	11	25
Capital	22.5	46.5	8.5	14	8	29
Training	23.9	39.4	7.0	17	27	17
Cashflow	17.6	41.9	32.4	-15	16	-4
Applied for credit?			(yes)	8	3	29
Profits	21.1	35.2	39.4	-18	16	-15
Employment						
Total	17.6	50.0	20.3	-3	8	-21
Recruiting Staff			(yes)	55	73	81
Recruitment Difficulties			(yes)	58	59	53
Increased Wages?			(yes)	29	35	55
Average Pay Increase (%)				4.3	8	4
Guests/Customers (vs last year)						
Total	45.9	28.4	21.6	24	25	26
From Scotland	29.7	39.2	21.6	8	8	15
From Rest of UK	26.0	38.4	21.9	4	8	15
From Rest of EU	23.3	32.9	21.9	1	16	-4
From Outside the EU	32.4	27.0	14.9	18	24	-11
Expectations Next Quarter						
Price Change	49.3	46.7	4.0	45	22	45
Sales Revenue	24.0	33.3	36.0	-12	0	-21
Investment	17.6	51.4	18.9	-1	-5	17
Employees	16.2	74.3	9.5	7	-5	-9