

HIE BUSINESS PANEL SURVEY

SUMMARY FINDINGS

APRIL 2017

BUSINESS PERFORMANCE

- Overall confidence in the Scottish economy remains low amongst businesses in the region at a net negative of -24 points. While similar to the levels seen in the July and October 2016 surveys, it is a significant decline on the net positive of +7 in 2014.
- Almost two fifths of businesses (37%) reported a decline in their confidence in Scotland's economic outlook over the last six months. Levels of confidence remained the same for 49% of businesses and increased for 13%.

ECONOMIC OPTIMISM

- In line with previous surveys, businesses generally reported that they had performed well (42%) or remained steady (37%) over the last six months. Around a fifth (20%) struggled.
- Larger businesses (25+ staff) and those in the Tourism sector were more likely to have performed well, while smaller businesses (0-4 staff) were more likely to report that performance has been steady. This reflects previous survey waves.
- On specific aspects of performance, businesses generally experienced stability in employment, working hours, staff training, and exports. Performance of sales / turnover and profit margins were more mixed. Similarly, views varied in terms of expectations for profit margins, sales / turnover and exports over the next six months.
- On average, businesses were more positive across the six aspects of future performance overall than in the previous survey (undertaken in October 2016), particularly larger businesses and those in the Tourism sector. For the latter, this is likely to reflect current optimism as a result of the low value of the pound making the UK and Scotland a more attractive visitor destination, and the onset of the spring/summer season.
- Businesses with 25+ staff were more likely than average to anticipate an increase in employment. This differs to the previous two surveys where they were more likely than average to expect a decrease in employment.

	PERFORMANCE IN LAST SIX MONTHS		EXPECTATIONS FOR THE NEXT SIX MONTHS	
	INCREASE %	STAY THE SAME %	INCREASE %	STAY THE SAME %
EMPLOYMENT	17	73	25	69
STAFF TRAINING	24	71	30	66
WORKING HOURS	25	67	24	69
EXPORTS	30	56	37	49
PROFIT MARGINS	24	43	31	48
SALES OR TURNOVER	40	37	43	40

*Businesses were only asked about the aspects that apply to them

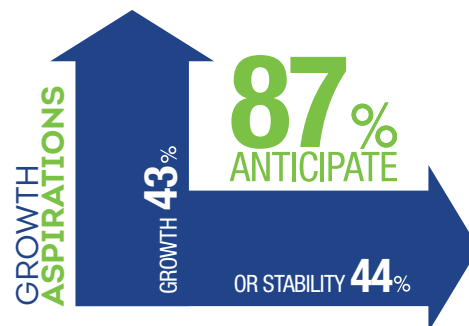
BUSINESS PROSPECTS OVER THE NEXT 12 MONTHS

- Despite lack of confidence around the general economic outlook, levels of optimism for the future continue to be high with 76% of businesses very or fairly optimistic for their own business prospects over the next 12 months.
- Tourism businesses were more likely than average to be very optimistic, and optimism was also higher among larger businesses (25+ staff) than smaller businesses.

76% OF BUSINESSES
VERY OR FAIRLY
OPTIMISTIC
FOR THEIR BUSINESS PROSPECTS

GROWTH ASPIRATIONS

- The vast majority (87%) of businesses in the Highlands and Islands anticipate growth (43%) or stability (44%) in the next year or two.
- Around one in 10 anticipate contraction (11%). These levels are consistent with the previous three surveys.
- Small businesses (0-4 employees) were less likely to expect growth than those with five or more staff, and more likely to anticipate a period of consolidation (50%).



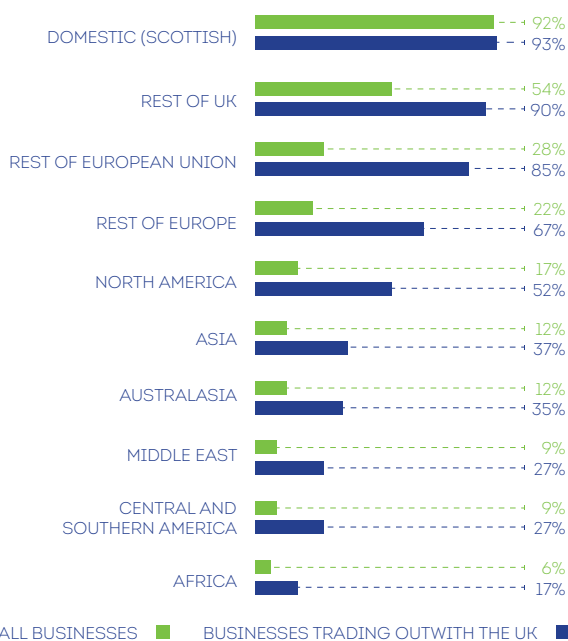
EUROPEAN SINGLE MARKET AND FREE MOVEMENT OF PEOPLE

- In line with the findings of the previous survey, access to the European Single Market and free movement of people across the European Union (EU) were seen as important to 48% and 35% of businesses in the region overall. More than half (58%) recognise the importance of one or both of these aspects to their business.
- Access to the European single market was seen as being of particular importance to Food and Drink businesses (65%) and exporters in the region (67%). Free movement of people was significantly more important to larger businesses with 11-24 or 25+ staff (46% and 53% respectively) and those in the Tourism sector (56%).

TRADE

- The vast majority of businesses in the Highlands and Islands (92%) reported that they trade within Scotland, while the rest of the UK is a key trading market for more than half (54%).
- A third of businesses in the region (33%) trade with countries outside of the UK, 28% specifically with the EU. This is higher amongst larger businesses (25+ staff) (58% and 52% respectively) and those in the Tourism sector (56% and 50% respectively).
- For those trading internationally, key markets include the EU (85%), the Rest of Europe (67%) and North America (52%).

Which of the following markets does your business currently trade in?



TRADE WITH THE REST OF THE EU

- The vast majority (85%) of businesses who trade with the EU sold to customers located there, with two fifths (40%) reporting that this accounted for more than 15% of their total sales.
- More than half (57%) of businesses trading with the EU sourced equipment and materials from suppliers there. Large businesses (25+ staff) and those in the Food and Drink sector were more likely than average to do so.
- More than a third (36%) of businesses who import from suppliers in the EU reported that these types of purchases make up more than 15% of their total spending on equipment and materials.
- In terms of the wider supply chain, around two fifths of businesses in the region (41%) bought raw materials or other inputs from suppliers or wholesalers in the UK, that are originally produced in another EU country. Around a fifth (20%) had sold outputs to a UK wholesaler where the ultimate destination was likely to be another EU country.

NOTES

Fieldwork was a mix of online and telephone survey, conducted between 11 January and 14 February 2017. A total of 1,002 businesses and social enterprises across the Highlands and Islands participated.

Findings are weighted to ensure a representative sample of the regional business base in terms of geographical location, organisation size and sector.

Previous HIE Business Panel Surveys were undertaken in October 2014, September 2015, July 2016 and October 2016.

FOR MORE DETAIL ON OUR PANEL OR TO BECOME A MEMBER VISIT

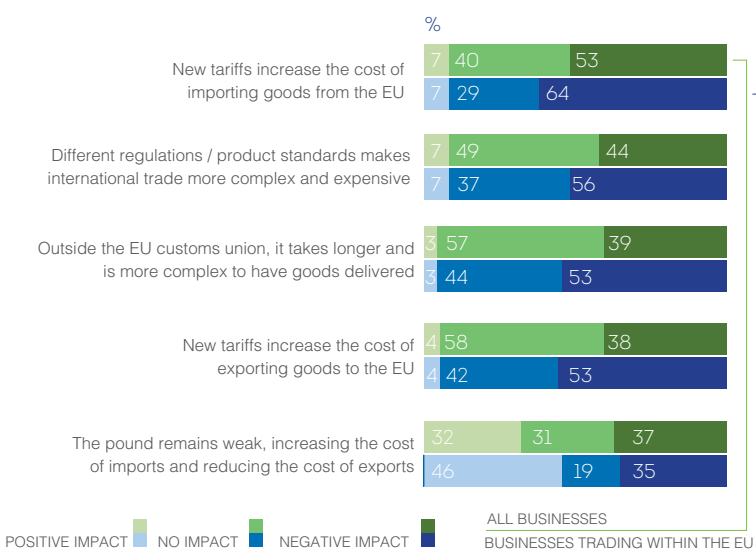
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IMPACT OF CHANGES TO TRADE CONDITIONS

- Respondents were presented with five statements about changes in the conditions of trade that may come about as a result of the UK leaving the EU. More businesses were negative than positive about the impact each scenario would have on their business.
- The Food and drink sector was the sector most likely to anticipate a negative impact from new tariffs increasing the cost of imports or exports, and from different regulations/product standards. In contrast, along with large companies (25+ staff) and Tourism businesses, they were more positive about the value of the pound staying low.
- Views on the impact of potential changes in trade conditions were more pronounced among businesses that currently trade with the EU. More than half felt that new tariffs increasing the cost of imports (64%) or exports (53%), different regulations/product standards (56%), or the time and complexity to have goods delivered outside of the EU customs union (53%) would have a negative impact on their business.
- Opinion was most mixed in relation to the impact of the value of the pound remaining low. For those trading with the EU, more businesses expect a positive (46%) than negative (35%) impact on their business. This was generally dependent on the type of trade, with those who sell to the EU more likely to have positive views, while opinion was more negative among those who source products from the EU.

What impact do you think the following would be likely to have on your business?



QUALITATIVE RESEARCH FINDINGS

Depth interviews undertaken with a cohort of panel members revealed that:

- Businesses who sourced products from the EU had either already seen, or were anticipating, an increase in the cost of imports due to the low value of the pound. These costs are being absorbed by the businesses or passed on to customers.
- Exporters and Tourism businesses felt that the weak pound had helped them to become more competitive, as reflected in the survey findings.
- Businesses anticipated that any changes to tariffs between the UK and EU would add complexity, making it more difficult and expensive to do business. However, some believed that this may provide opportunities to source goods from domestic industries, helping to support their growth.
- Businesses in the Agricultural, Energy, and Life Sciences sectors expressed concerns about what would replace EU funding, noting that any change in funding may impact on the level of business they are able to do.
- While the predominant sense of feeling among those interviewed was one of uncertainty, overall businesses in the region are demonstrating a sense of resilience and optimism for the future.