



Quarterly Economic Indicator

Q3 2017



Scottish
Chambers of
Commerce

Network

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 21 August 2017 and 14 September 2017. 384 firms responded to the Q3 2017 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

The latest results from the Scottish Chambers of Commerce Quarterly Economic Indicator show that optimism amongst most Scottish businesses has continued to improve during the 3rd quarter of 2017.

Optimism is now higher than it was a year ago in construction, financial and business services, manufacturing, retail and wholesale and tourism.

These positive results show that Scottish businesses are continuing to remain resilient in the face of both significant policy uncertainty – not least the ongoing Brexit negotiations – and a fragile Scottish economy.

Last month's official GDP statistics confirmed that whilst the Scottish economy continues to grow, it is growing at a level well below trend.

The results from this quarter's survey tell us that this picture has continued into the 2nd half of the year. For example, with the exception of retail and wholesale, all major sectors continue to show a positive net balance in sales revenues but the results are typically below trend.

The stand-out sector continues to remain tourism buoyed by a weak pound making holidays and visits in Scotland that bit more competitive, the growth in the number of guests continues to be strong.

Financial services also appears to be building on its strong start to 2017 albeit activity has yet to fully recover to where it was three of four years ago.

In contrast, whilst optimism has been improving in construction overall activity continues to remain relatively fragile. And as in recent surveys, the retail sector continues to experience tough trading conditions. Optimism remains negative whilst sales revenue and cash flow continue to decline.

The ongoing puzzle continues to be the strength of the Scottish labour market, given the overall weak levels of growth in the economy. Employment in Scotland continues to remain around its record high and this is increasingly leading to recruitment difficulties across most sectors. If firms do not have the right staff working in the correct roles this can dampen growth and/or increase costs.

In such uncertain times, it is even more important that businesses focus on the long-term drivers of growth that they can control – including innovation, investing in productivity improvements, and developing the skills of their workforce.

Professor Graeme Roy

Fraser of Allander Institute



Key Findings

CONSTRUCTION

Sales Revenue

Recent positive sales revenue trends in the construction sector continued, with a net % balance of +3 recorded for overall sales revenue, as more respondents reported an increase over the quarter than those that reported a decrease. Yet, the trend balance recorded over the last three months was considerably lower than the net % balance of +18 recorded during the second quarter of 2017. A positive balance of +6 was reported for domestic (Scotland), however, a negative net % balance of -9 was recorded for sales revenue from the rest of UK.

Employment

91.7% of businesses indicated that their levels of staffing either increased or remained the same over the quarter, giving a net % balance of +14. Recruitment problems appear to have marginally decreased over the quarter with 57.1% of firms which actively sought to recruit indicated they had experienced difficulties. The most commonly cited roles that were proving difficult to recruit were for quantity surveyors, site managers and semi-skilled operatives.

FINANCIAL & BUSINESS SERVICES

Profit/Cashflow

34.1% businesses in the financial & business services sector reported an increase in profits over the quarter, resulting in a positive net % balance of +6, which marks a return to positive territory following nine consecutive quarters in which the trend balance was negative. Positive trend balances recorded for profit levels over the quarter may explain the rise in cash-flow levels for businesses within the sector. 73.2% of firms reported that cash-flow levels either increased or remained the same over the last three months, giving a positive net % balance of +6- the highest figure recorded since Q1 2015.

Expectations

Future expectations of sales revenue and investment are encouraging, a net % balance of +39 expect revenue to increase in Q4 whilst +22 of firms expect total investment to increase over the next three months. Positive trend balances in terms of sales revenue and investment expenditure over the next three months may explain why businesses anticipate increasing their prices and employment levels over the next quarter, with net % balance of +21 recorded for both indicators.

Key Findings

MANUFACTURING

Sales revenue

A net % balance of +4 was recorded for overall optimism, the fourth consecutive quarter in which optimism in the manufacturing sector has been positive. This increased optimism may be explained by positive trend balances for sales revenue in Q3, with 41.3% of firms experiencing an increase in total sales revenue (a net % balance of +15). Additionally, positive trend balances were recorded for domestic (Scotland) sales, rest of UK sales and export sales revenue of +9, +2 and +11 respectively.

Investment

Investment levels did increase overall with a net % balance of +2 recorded, but this growth level is lower than the net % balance of +9 reported the same time last year, and investment is expected to remain largely unchanged in Q3, with 72.7% of firms anticipating no change in investment expenditure in Q4 2017.

Price change

Most businesses do not expect their prices to change in Q3 (56.5%), however, 43.5% of businesses indicated that they expect to increase their prices over the next three months, giving a net % balance of +44. The most commonly cited pressures on businesses to raise prices include: raw material costs, devaluation of Sterling and wage costs.

RETAIL & WHOLESALE

Overall

Overall, results over the third quarter of 2017 suggest continued decline in the retail & wholesale sector in Scotland, with several indicators remaining in negative territory. Negative net % balances were recorded for total sales revenue, cashflow and profitability of -5, -16 and -15, which may explain why 42.1% of firms expect their prices to increase over the next three months.

Employment

Negative employment trends throughout 2017 continued, with a net % balance of -5 reporting a decrease in staffing levels. This is the 3rd consecutive quarter employment balances have been negative. Recruitment problems appear to have lessened over the quarter as although 50.0% of firms were actively recruiting, fewer firms experienced difficulties, falling from 56.5% to 36.8%.

Key Findings

TOURISM

Sales Revenue

A net % balance of +37 was recorded for overall sales revenue, with the majority (51.9%) of respondents reporting a rise over the quarter. Positive balances were reported for domestic (Scotland), rest of UK and online sales, with a net % balances of +2, +14 and +23 respectively. However more businesses in the tourism sector expect sales revenue to fall over the next three months than those that anticipate an increase (a net % balance of -13). This may explain why growth in business optimism slowed in Q3 with a net % balance of +11, compared with +18 in Q2 2017.

Profits

40.4% of businesses in the tourism sector experienced an increase in profitability over the quarter, giving a net % balance of +19. This is the highest figure recorded since the same quarter in 2015. Similarly, more firms reported an increase in cashflow than those that reported a decrease in Q3, a positive net % balance of +33, which is also the highest figure recorded since the same quarter in 2015.

Construction

BUSINESS OPTIMISM

81.1% of businesses in the construction sector highlighted business optimism either increased or remained the same. Therefore, business optimism remained positive on balance over Q3 with a net % balance of +16- the highest recorded since Q2 2016.

CONTRACTS

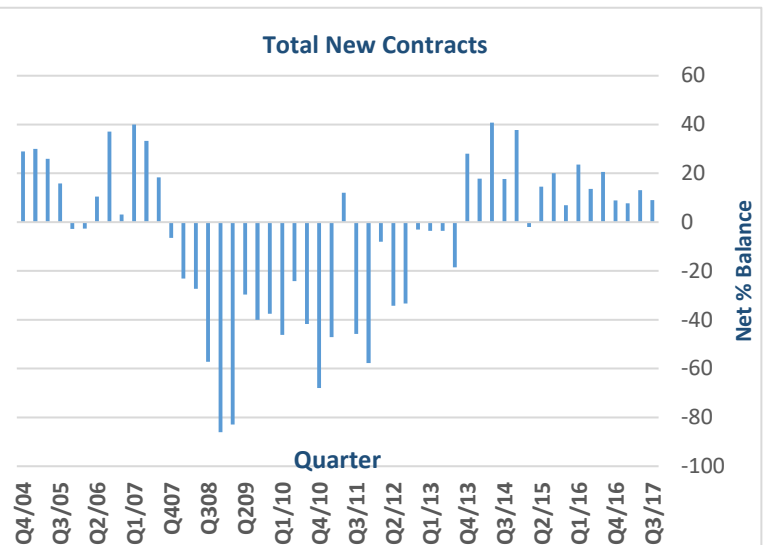
A net % balance of +9 was reported for total contracts. This increase appears to be largely due to the rise in private commercial contracts, with a net % balance of +15, which is the highest net % balance recorded since Q3 2016. Similarly, a positive trend balance was recorded for public sector contracts (+3) marking a return to positive territory. A net % balance of +9 was recorded for domestic/house build contracts, the same net % balance recorded in the previous quarter.

WORK IN PROGRESS

86.2% of businesses reported that their level of work in progress either increased or remained the same in Q3, giving a net % balance of +28. This is the highest net % balance recorded since Q1 2016. This may explain the average capacity utilisation figure of 83.3%.

INVESTMENT

Positive investment trends continued from the previous quarter, shown by 86.5% of businesses either maintaining or increasing investment in Q3 2017, a trend expected to continue into Q4. Expectations of further increases in investment expenditure may explain increased credit applications, with 24.3% of all firms applying for credit over the quarter, up from 19.6% in Q2 2017.



(blank space indicates data not available)	(rounded up to nearest %)					
(balances may not add up to 100% due to N/A responses)				Q3/17	Q2/17	Q3/16
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	35.1	45.9	18.9	16	14	4
Sales Revenue						
Total	27.0	43.2	24.3	3	18	23
Domestic (Scotland)	27.8	47.2	22.2	6	13	19
Rest of UK	5.7	22.9	14.3	-9	2	10
Contracts						
Total	27.3	39.4	18.2	9	13	21
Public Sector	16.1	45.2	12.9	3	-11	5
Private Commercial	24.2	51.5	9.1	15	0	3
House Building	18.2	33.3	9.1	9	9	11
Work In Progress	41.4	44.8	13.8	28	11	33
Investment						
Total	27.0	59.5	8.1	19	12	13
Capital	21.6	62.2	8.1	14	10	16
Training	13.9	66.7	5.6	8	6	27
Cashflow	27.0	35.1	35.1	-8	-2	11
Applied for Credit?				27		
Profits	37.8	59.5	2.7	35	43	20
Capacity Used (Ave. %)				83	84	82
Employment						
Total	22.2	69.4	8.3	14	6	20
Recruiting Staff			(yes)	57	59	59
Recruitment Difficulties			(yes)	55	59	48
Increased Wages?			(yes)	41	33	22
Average Pay Increase (%)				3.0	5	4
Expectations Next Quarter						
Price Change	37.8	59.5	2.7	35	43	20
Sales Revenue	45.7	42.9	11.4	34	20	24
Investment	29.7	59.5	10.8	19	10	11
Employees	35.1	62.2	2.7	32	31	11

Financial & Business Services

SALES REVENUE

Over Q1 2015 total sales revenue increased for just under half of all businesses (47.9%). There was growth in domestic (Scotland) sales also, a net % balance of +16 reporting an increase, compared with an increase of +39 the same time last year. Rest of UK sales fell on balance (net % balance of -3).

EMPLOYMENT

Most businesses did not make changes to their staffing levels in Q1 2015 (64.9%). Little change to employment is expected in Q2, shown by 62.3% of firms expecting no change to their staff numbers. 42% of firms recruited staff compared with 52% in Q4 2014.

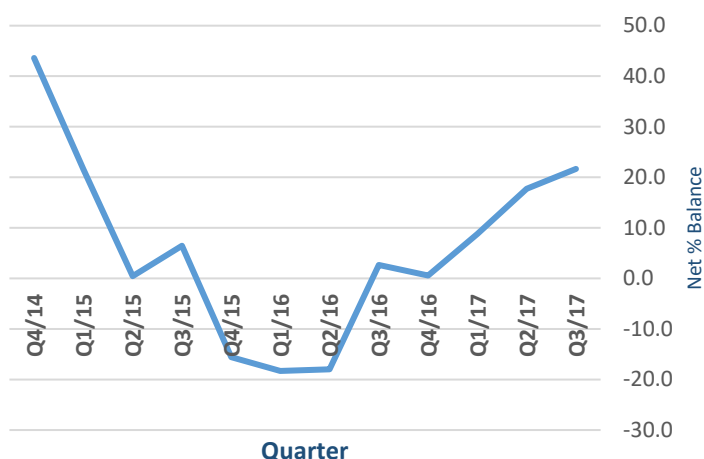
WAGES

Of those firms that increased wages over the quarter, the average wage increase was 7.2%, significantly above the rate of inflation. Just under a quarter of firms (24%) increased wages, down from 29% the previous quarter.

CONCERNS

More businesses are concerned about Business Rates than last quarter, increasing from 12% to 23%.

Sales Revenue



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/17	Q2/17	Q3/16
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	35.4	43.1	21.5	14	9	3
Sales Revenue						
Total	44.8	31.5	23.1	22	18	3
Domestic (Scotland)	33.8	34.5	25.4	8	13	-6
Rest of UK	17.5	42.7	10.5	7	1	-8
Exports	16.2	21.1	10.6	6	3	-5
Online	10.5	27.3	6.3	4	2	2
Investment						
Total	31.5	49.7	11.2	20	2	6
Capital	31.5	49.7	11.9	20	3	3
Training	32.9	46.9	12.6	20	14	10
Cashflow	32.4	40.8	26.8	6	4	1
Applied for credit?			(yes)	13	7	9
Profits	34.1	37.0	27.5	7	-1	-18
Capacity Used (Ave. %)				67	70	68
Employment						
Total	29.2	49.3	18.8	10	8	0
Recruiting Staff			(yes)	52	30	44
Recruitment Difficulties			(yes)	32	43	33
Increased Wages?			(yes)	27	31	17
Average Pay Increase (%)				5.7	7	5
Expectations Next Quarter						
Price Change	28.9	63.4	7.7	21	19	10
Sales Revenue	51.7	35.0	13.3	38	36	20
Investment	31.5	55.9	9.1	22	18	11
Employees	31.7	57.9	10.3	21	19	14

Manufacturing

ORDERS

Total orders increased in Q3 for a net % balance of +20 firms, less of an increase than in Q2 (+23). However, in comparison to Q2, the net % balance for both Scottish orders and export orders were higher over the last three quarters, with a net % balance of +7 and +11 respectively. Conversely, a negative trend balance of -2 was recorded for order from the rest of the UK in Q3.

CASHFLOW

More firms experienced a decline in cashflow than an increase in Q3 (net % balance of -2), marking a return to negative territory and the first time the net % balance for cash-flow has been in negative in 2017.

PROFITS

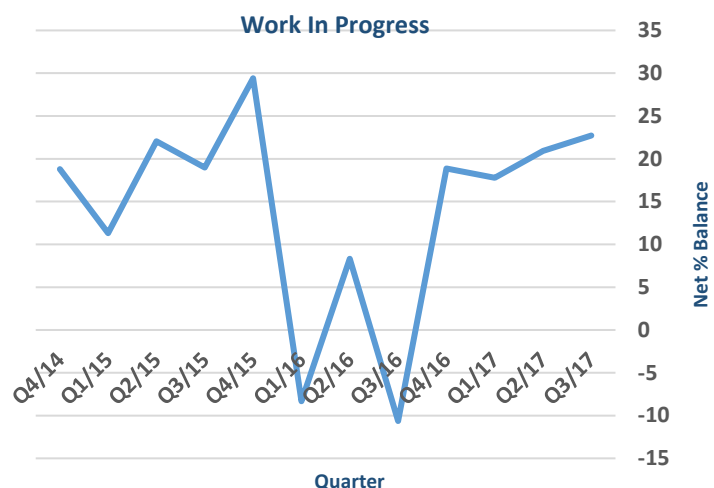
The same number of businesses reported a rise in profitability over the last three months as those that reported a decline, resulting in a net % balance of 0. This is significantly lower than the net % balance of +32 recorded in Q2.

WORK IN PROGRESS

Work in progress increased in Q3 for 40.9% of respondents in the manufacturing sector. The rise in work in progress over the last three months may explain the increase in the number of businesses currently recruiting, which rose from 62.8% in Q2 to 78.3% in Q3.

EXPECTATIONS

Longer term expectations are positive, with a net % balance of +47 businesses expecting total orders to increase over the next quarter. Additionally, net % balances of +46 and +37 were recorded for total sales revenue and export revenue respectively.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/17	Q2/17	Q3/16
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	33.3	37.8	28.9	4	5	-9
Sales Revenue						
Total	41.3	32.6	26.1	15	27	7
Domestic (Scotland)	34.8	32.6	26.1	9	5	2
Rest of UK	31.8	29.5	29.5	2	2	-2
Exports	27.3	29.5	15.9	11	33	16
Orders						
Total	46.7	26.7	26.7	20	23	6
Domestic (Scotland)	31.7	41.5	24.4	7	2	-4
Rest of UK	28.9	28.9	31.1	-2	-12	-11
Exports	28.9	26.7	17.8	11	5	13
Work in Progress	40.9	40.9	18.2	23	21	-11
Investment						
Total	19.6	63.0	17.4	2	9	13
Capital	19.6	58.7	17.4	2	5	0
Training	20.5	61.4	11.4	9	23	9
Cashflow	28.3	39.1	30.4	-2	16	-17
Applied for Credit?			(yes)	20	16	18
Profits	32.6	34.8	32.6	0	32	-6
Capacity Used (Ave. %)				75	78	73
Employment						
Total	34.8	52.2	13.0	22	16	13
Recruiting Staff			(yes)	78	63	55
Recruitment Difficulties			(yes)	31	48	42
Increased Wages?			(yes)	28	37	30
Average Pay Increase (%)				2.8	5	3
Expectations Next Quarter						
Price Change	43.5	56.5	0.0	43	40	19
Sales Revenue	54.5	36.4	9.1	45	30	28
Investment	15.9	72.7	9.1	7	12	-6
Employees	26.1	67.4	6.5	20	34	13

Retail & Wholesale

OPTIMISM

Business optimism in the retail & wholesale sector remained in negative territory in Q3 with a net % balance of -10, this marks the third consecutive quarter in which optimism has been negative.

SALES REVENUE

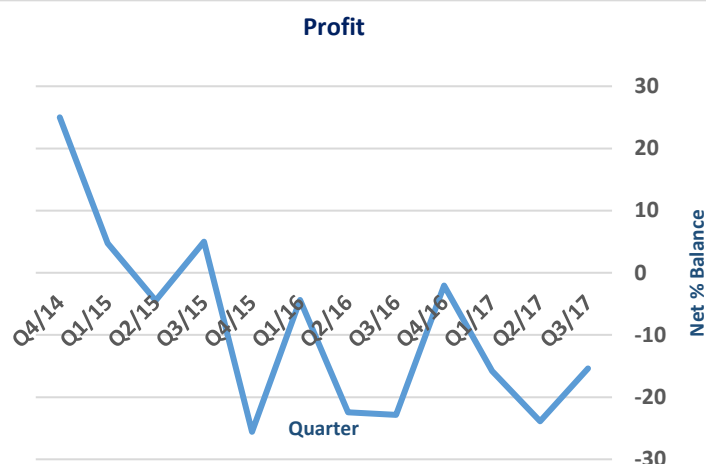
A net % balance of -5 was reported over the quarter for total sales revenue, with 35.9% of firms experiencing a fall over the last three months. However, despite the net % balance during Q3 remaining negative, it indicates an improvement from the net % balance of -28 recorded in Q2. Additionally, domestic (Scotland) sales were down over the quarter with net % balance of -13 respectively. Yet, positive net % balances were recorded for rest of UK sales, export sales and online sales of +5, +13 and +19 respectively.

PROFIT

More businesses reported a decline in profits over Q3 2017 than those that reported an increase giving a net % balance of -15. This marks the eighth consecutive quarter in which a negative net % balance for profitability has been reported.

CASHFLOW

78.9% of respondents stated that their cashflow levels either remained the same or decreased over the quarter, giving a net % balance of -16. Similar to profitability, this marks the eighth consecutive quarter a negative net % balance for cashflow has been reported.



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/17	Q2/17	Q3/16
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	23.1	43.6	33.3	-10	-22	-23
Sales Revenue						
Total	30.8	33.3	35.9	-5	-28	-12
Domestic (Scotland)	26.3	28.9	39.5	-13	-17	-24
Rest of UK	13.2	23.7	7.9	5	-12	-3
Exports	13.2	7.9	0.0	13	12	0
Online	27.0	16.2	8.1	19	-4	11
Investment						
Total	17.9	46.2	17.9	0	2	-9
Capital	23.1	38.5	17.9	5	-2	-6
Training	7.7	61.5	12.8	-5	0	-6
Cashflow	21.1	42.1	36.8	-16	-17	-20
Applied for Credit?			(yes)	16	18	17
Profits	25.6	33.3	41.0	-15	-24	-23
Capacity Used (Ave. %)				74	70	73
Employment						
Total	17.9	56.4	23.1	-5	-2	6
Recruiting Staff			(yes)	50	51	54
Recruitment Difficulties			(yes)	37	57	21
Increased Wages?			(yes)	32	37	17
Average Pay Increase (%)				3	4	5
Expectations Next Quarter						
Price Change	42.1	55.3	2.6	39	54	34
Sales Revenue	43.6	25.6	30.8	13	18	14
Investment	15.8	44.7	26.3	-11	9	-11
Employees	23.7	63.2	13.2	11	11	3

Tourism

GUESTS/CUSTOMERS

Growth in the total number of Guests/Customers vs last year continued in Q3 with less than 4% of firms reporting a decrease, giving a net % balance of +23. This can be attributable to positive net % balance for guests coming from Scotland (+11), the rest of UK (+11), outside of the EU (+25). Additionally, more businesses reported an increase in the number of guests/customers from the rest of the EU than those that reported a decrease, giving a net % balance of +30 and marking a return to positive territory following two quarters in which the trend balance was negative.

INVESTMENT

There was an increase in the growth of total investment expenditure shown by a net % balance of +18 firms increasing investment in Q3 compared with +5 in Q2 and -2 in Q1. However, despite respondents experiencing marginal growth in training investment in Q3 (net % balance of +8), growth slowed marginally in terms of capital investment but remained positive with a net % balance of +11.

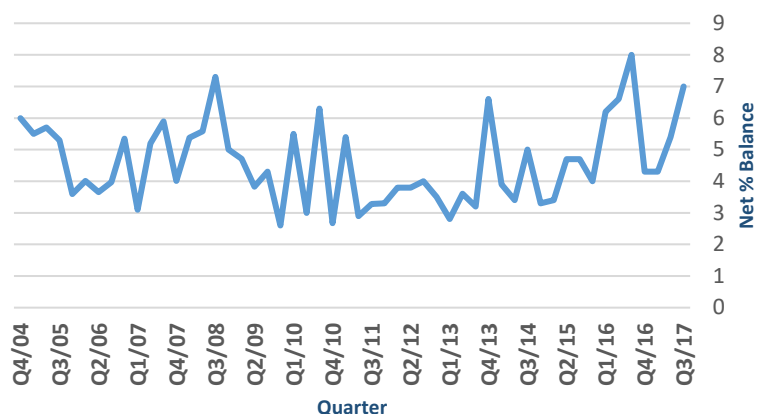
CASH-FLOW

23% of businesses applied for credit in Q3 2017, significantly more than the previous quarter (11%) and potentially explained by positive investment expenditure trends.

WAGES

46.2% of firms increased wages over the quarter. Of those firms increasing wages, the average increase was 7.0%, the highest figure since the same quarter last year and considerably higher than the rate of inflation.

Average Percentage Pay Increase



(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/17	Q2/17	Q3/16
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism (vs last quarter)	32.7	45.5	21.8	11	18	5
Sales Revenue						
Total	51.9	31.5	14.8	37	31	11
Domestic (Scotland)	30.0	34.0	28.0	2	22	11
Rest of UK	30.6	36.7	16.3	14	17	8
Online	32.1	26.4	9.4	23	22	11
Investment						
Total	29.1	41.8	10.9	18	5	11
Capital	24.5	43.4	13.2	11	12	8
Training	15.4	55.8	7.7	8	7	27
Cashflow	46.2	34.6	13.5	33	20	16
Applied for credit?			(yes)	23	11	3
Profits	40.4	34.6	21.2	19	10	16
Employment						
Total	25.0	48.1	15.4	10	12	8
Recruiting Staff			(yes)	77	64	73
Recruitment Difficulties			(yes)	65	59	59
Increased Wages?			(yes)	46	58	35
Average Pay Increase (%)				7.0	5	8
Guests/Customers (vs last year)						
Total	46.2	28.8	23.1	23	21	25
From Scotland	35.8	35.8	24.5	11	13	8
From Rest of UK	30.2	45.3	18.9	11	8	8
From Rest of EU	42.6	31.5	13.0	30	-1	16
From Outside the EU	35.8	35.8	11.3	25	5	24
Expectations Next Quarter						
Price Change	33.3	62.7	3.9	29	37	22
Sales Revenue	24.5	37.7	37.7	-13	38	0
Investment	15.7	52.9	17.6	-2	1	-5
Employees	11.8	68.6	19.6	-8	12	-5