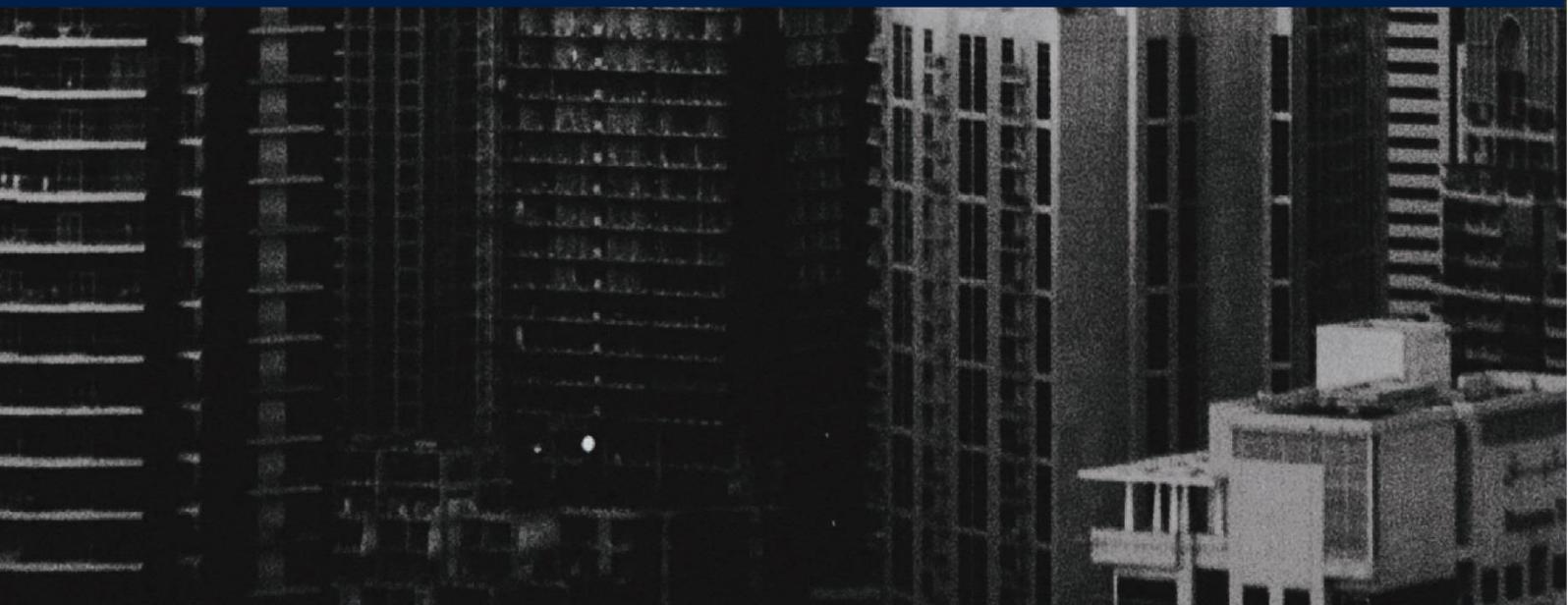




SCOTTISH CHAMBERS OF COMMERCE
QUARTERLY ECONOMIC INDICATOR
RESULTS FOR Q3 OF 2020

*IN PARTNERSHIP WITH FRASER OF
ALLANDER INSTITUTE*



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Foreword

It is a little over six months since the World Health Organisation declared a global pandemic, ushering in the largest upheaval to our day-to-day lives in over 70 years.

The ensuing economic crisis has been severe: the Scottish economy shrunk by nearly a fifth between April and June.

This latest Scottish Chambers of Commerce QEI survey shows that we are far from being out of the woods just yet.

Businesses' outlook on the economic environment in Q3, coupled with levels of activity in the wider economy, remain much more negative than where they were at the start of the year. This comes on the back of one of the worst quarters for business confidence ever recorded in this survey.

The unprecedented government support – including bounce-back loans and the furlough scheme – has enabled many businesses to hang on over the summer. But as this support is wound down, many businesses will no longer be able to postpone the hardest of decisions.

With further restrictions likely to be announced shortly, and little sign that these will be completely lifted anytime soon, the outlook for many businesses is exceptionally challenging.

Aside from the impact of the restrictions themselves, the stop-start nature of our progress through this crisis is adding to the uncertainty and imposing its own additional cost on businesses. For some parts of our economy, where forward planning and advance bookings are key, this poses particularly serious challenges.

The tourism and hospitality sectors remain at the centre of this economic crisis – and this comes through clearly in the survey. This is an extremely serious and harrowing period for business owners and employees in this key part of Scotland's economy – and raises questions about the survival of key parts of the industry.

But it is important to remember that these sectors of our economy are important suppliers and consumers within the broader economy – it might be hospitality and tourism that face the tough decisions first, but the ripple effects will reach most parts of the Scottish economy in time.

There is an urgent need for government support.

Professor Graeme Roy

Director, Fraser of Allander Institute



UNIVERSITY of STRATHCLYDE
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Introduction

The Scottish Chambers of Commerce (SCC) Quarterly Economic Indicator (QEI) survey for Q3 of 2020 confirms the vulnerability of the Scottish economy across sectors as businesses look towards a challenging winter period.

This latest survey shows how fragile some parts of the economy in Scotland remain during this crisis.

It makes sense that there would be some improvement compared to the previous quarter when significant parts of the economy were in an almost unprecedented shut down. But this winter brings significant risks for business, including further lockdowns and a decline in government support.

Now is not the time to cut lifeline support. We expect joblessness to continue to rise, hitting hard from the start of November. There's an urgent need to bridge the skills gap between those who have lost their jobs to those employers that are still recruiting. Plans to develop and support training and retraining in areas such as digital and low carbon technologies will need to be implemented if we are going to build back better.

Many sectors are showing increased worry about the risk of increased taxation. Coronavirus interventions represent a huge burden on the public finances, but we must ensure that business recovery is not strangled to repair them.

We also urge the Scottish Government to avoid a stringent lockdown which would be both ineffective and costly. We must use tools such as track and trace and data we have more effectively to avoid damaging national restrictions. A return to the same or similar conditions that prevailed in March would be catastrophic for the Scottish economy.



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 between August & September of 2020. 420 firms responded to the Q3 2020 edition of the Indicator.

Fieldwork took place during Phase 3 of the Scottish Government's route map through and out of the Coronavirus crisis.

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 weak with 44% of firms less confident compared to Q2 (with a net balance of -11%).
- All sales and contracts trends remain at negative net balances, indeed 45% of construction firms reported a further fall compared to the previous quarter. This is also true for investment trends over the quarter.
- On balance, more firms reported that they had seen staff levels fall than increase, resulting in a net balance of -5%. The percentage of firms looking to recruit has risen by more than half from 25% to 55%.
- Cost pressures such as raw materials prices and other overheads remain significant for the sector, as does concern over taxation.

Financial and business services

- An equal number of firms reported an increase and a decrease in confidence, meaning that the net balance is 0% though this has eased from the net balance of -45% in the previous quarter.
- The balance of firms reporting an increase in sales remained negative, and although has eased since the previous quarter, nevertheless more than 40% recorded sales lower than Q2.
- Investment trends have also seen a similar pattern, with all remaining at negative net balances though with some easing compared to Q2.
- Total employment in the sector eased slightly but remained negative at -11%, with the percentage of firms seeking to recruit rising from 20% in Q2 to 53% in Q3.
- The leading concerns for firms in the sector are taxation (46%), competition (33%) and business rates (31%).

Manufacturing sector

- For the fifth successive quarter, confidence for the sector is negative (-7%).
- The net balances for all sales & orders trends remain negative with a significant proportion reporting a further fall compared to Q2.
- Levels of cashflow and profits both sit at negative net balances of -20% and -16% respectively.
- Firms in the sector are cautiously optimistic about sales in the next quarter with more firms forecasting an increase than decrease in sales, resulting in a net balance of +6%. However, they are less optimistic when it comes to investment (-4%) and employment (-12%).
- The leading cost burdens for manufacturing firms are raw material prices (71%) and costs from other overheads (65%). The leading issues of concern are taxation (64%) and exchange rates (55%).

Retail and wholesale

- As in Q2, all sales trends have resulted in negative net balances. Over half of firms reported a fall in total and domestic sales, resulting in net balances of -28% and -27% respectively.
- Confidence is also weak in the sector at a net balance of -15%.
- As with sales, all investment trends remain at negative net balances with half of firms reporting that they have decreased investment intentions over the past quarter.
- Almost half of firms reported a decline in cashflow. Only 17% reported an increase in profits.
- Nearly half of firms reported a fall in levels of employment. As only 15% reported an increase, this resulted in a negative net balance of -31%.

Tourism

- 7 in 10 tourism firms (70%) reported a fall in business confidence.
- Nearly half of firms (46%) reported a fall in sales compared to Q2, resulting in a net balance of -22%.
- Levels of investment remain weak, with all trends reporting negative net balances.
- Almost half of firms reported a decrease or static levels of employment (both 47%), resulting in a net balance of -43%.
- Nearly half of firms (48%) reported falls in levels of cashflow and profits, meaning that both trends reported negative net balances of -31% & -40% respectively.
- The expectations for the sector going forward are worrying, with sales (-45%), investment (-41%) and employment (-33%) all expected to decrease in Q4.

Construction

CONTRACTS/SALES

All contract trends report negative net balances. Although these have eased from the previous quarter, they remain well below the average for Q3.

Sales trends also follow a similar pattern. All trends reported negative net balances with at least a third reporting a further fall from Q2.

INVESTMENT

Almost half of firms (47%) reported a decrease in total investment and with only a quarter reporting an increase, this meant a negative net balance of -23%.

Capital and training investment trends have seen fewer heavy falls, but also report negative net balances.

These results remain below the 5-year average for the survey.

WORK IN PROGRESS

As lockdown restrictions have eased for the sector, it is no surprise to see that firms have returned to operating to meet pent up demand and this is reflected by the positive net balance of +13%.

CASHFLOW/PROFITS

Over half of firms (56%) reported a fall in profit levels over the quarter. This resulted in a net balance of -33%.

Just under half (49%) of respondents reported a fall in cashflow levels. As just under a quarter reported an increase (24%), this meant a net balance of -24%.

Both trends are significantly below the Q3 average.

CONCERNS/PRESSURES

Cost pressures remain significant with raw material prices and costs from other overheads being the most reported cost pressures, from 67% and 64% of firms respectively.

EXPECTATIONS

The construction sector is cautious, it anticipates falls in sales, investment and employment in Q4.

(blank space indicates data not available) (balances may not add up to 100% due to M/A responses)				(rounded up to nearest %)		
(figures given as % of respondents)	Up	Level	Down	Q3/20 Net % Balance	Q2/20 Last Quarter	Q3/19 Last Year
Business Optimism	33	22	44	-11	-62	3
Sales Revenue						
Total	36	24	40	-4	-56	5
Domestic (Scotland)	32	34	34	-2	-48	3
Rest of UK	26	29	33	-7	-36	5
Contracts						
Total new contracts	25	30	45	-20	-55	23
Public sector orders	20	33	35	-15	-43	10
Private commercial	15	43	25	-10	-65	10
Domestic/house build	20	23	33	-13	-43	5
Investment						
Total	23	30	47	-23	-52	-5
Capital	28	33	40	-12	-60	-3
Training	16	42	30	-14	-64	-3
Work in Progress	38	38	25	13	-55	-3
Cashflow	24	27	49	-24	-64	0
Applied for Credit?	18			18	35	15
Profits	22	22	56	-33	-76	0
Capacity used (ave. %)				60	25	72
Employment						
Total	18	59	23	-5	-10	10
Recruiting Staff			(yes)	55	25	63
Recruitment Difficulties			(yes)	24	8	50
Increased Wages?			(yes)	14	13	20
Average pay increase (%)				6.2	5.5	6.0
Expectations Next Quarter						
Price Change	27	60	13	13	-16	35
Sales Revenue	28	37	35	-7	-24	3
Investment	21	35	44	-23	-50	0
Employees	18	60	22	-4	-40	3
Cost Pressures (%)						
Pay Settlements			(yes)	7	16	8
Finance Costs			(yes)	11	24	10
Raw Material Prices			(yes)	67	70	48
Other Overheads			(yes)	64	66	38
Concerns (%)						
Interest Rates			(yes)	11	16	10
Business Rates			(yes)	44	66	23
Competition			(yes)	40	48	33
Exchange Rates			(yes)	9	36	13
Inflation			(yes)	44	52	25
Taxation			(yes)	67	64	18

Financial & Business Services

BUSINESS OPTIMISM

The same number of firms reported an increase in confidence as did a decrease, meaning that the net balance was flat at 0%.

This is over 20 percentage points lower than Q3 2019 and the Q3 average.

SALES REVENUE

All sales trends have reported negative net balances. Although these trends have eased from very weak levels in Q2, they remain weak with 43% reporting total sales down on Q2 with all trends are significantly lower than the Q3 average.

INVESTMENT

In terms of investment, all trends have reported negative net balances for the second successive quarter.

Total investment, while eased from Q2, nevertheless sits 30 percentage points lower than it did for Q3 2019.

LABOUR MARKET

More than three quarters of firms (82%) are reporting either a decrease or no change in the number of staff. The net balance of -11% is 29 percentage points lower than the Q3 average.

CONCERNS/PRESSURES

The major cost pressure for firms in the sector is increasing costs from other overheads (36%).

Taxation is the main concern for firms in the sector, followed by competition and business rates.

The 46% of firms concerned over taxation is the highest on record for the survey.

EXPECTATIONS

The outlook for the sector is mixed. On the one hand, nearly half of firms (48%) anticipate increased sales revenue in Q4 compared to Q3 – resulting in a net balance of +25%.

However, expectations for investment and employment are subdued with firms anticipating negative net balances for both trends.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/20	Q2/20	Q3/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	34	31	34	0	-45	22
Sales Revenue						
Total	26	31	43	-17	-63	32
Domestic (Scotland)	25	35	40	-15	-65	29
Rest of UK	19	21	31	-12	-45	14
Exports	13	16	19	-6	-32	10
Online	11	14	16	-5	-14	6
Investment						
Total	17	38	29	-12	-40	18
Capital	15	33	29	-13	-40	14
Training	18	38	26	-8	-32	16
Cashflow	26	29	46	-20	-50	12
Applied for credit?	14			14	32	9
Profits	25	30	46	-21	-58	25
Capacity Used (Ave. %)				69	51	64
Employment						
Total	13	57	25	-11	-16	26
Recruiting Staff	53			53	20	45
Recruitment Difficulties	11			11	7	39
Increasing Wages	15			15	3	24
Average pay increase (%)				5	3	8
Expectations Next Quarter						
Price Change	24	65	11	13	-5	29
Sales Revenue	48	29	23	25	-6	40
Investment	17	42	21	-4	5	6
Employees	17	61	22	-5	-12	23
Cost Pressures (%)						
Pay Settlements			(yes)	6	8	14
Finance Costs			(yes)	10	16	15
Raw Material Prices			(yes)	10	22	11
Other Overheads			(yes)	36	41	30
Concerns (%)						
Interest Rates			(yes)	11	12	14
Business Rates			(yes)	31	33	24
Competition			(yes)	33	40	41
Exchange Rates			(yes)	13	13	18
Inflation			(yes)	21	21	29
Taxation			(yes)	46	43	25

Manufacturing

BUSINESS OPTIMISM

Optimism for the sector remains negative for the fifth successive quarter at -7%, and in this latest quarter 38% of firms reported a further drop in confidence compared to Q2.

SALES REVENUE/ORDERS

45% of firms reported a fall in total sales revenue. Just over 3 in 10 reported an increase, resulting in a net balance of -13%.

All other sales trends also reported negative net balances, with all below their Q3 average.

Nearly half of firms (47%) also reported a fall in total orders, with the overall net balance being -13%.

All other trends in orders are also showing negative net balances, as well as being below their Q3 average.

WORK IN PROGRESS

The level of work in progress eased significantly – although still negative - from the record low in Q2, to -5% in Q3.

This figure remains 13 percentage points lower than the 5-year average for the survey.

CASHFLOW/PROFITS

The results shows that cashflow declined for just over 4 out of 10 manufacturing firms.

For the ninth consecutive quarter a net balance of firms have reported a fall in profits, the final net balance being -16%.

CONCERNS/PRESSURES

The majority of cost pressures have marginally eased across all trends – barring other overheads - with raw material prices and other overheads remaining the highest cost burdens for firms.

Concerns have generally eased, aside from the two highest trends – that of business rates and taxation – which have both increased.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/20	Q2/20	Q3/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	31	31	38	-7	-51	-11
Sales Revenue						
Total	33	22	45	-13	-44	-12
Domestic (Scotland)	30	21	42	-11	-41	-8
Rest of UK	24	29	31	-8	-40	-10
Exports	22	28	26	-4	-38	-8
Orders						
Total	35	18	47	-13	-40	-21
Domestic (Scotland)	26	25	43	-17	-41	-11
Rest of UK	19	26	36	-17	-33	-13
Exports	19	29	33	-13	-43	-15
Work in Progress	28	40	33	-5	-42	-10
Investment						
Total	20	35	38	-18	-35	-4
Capital	21	25	43	-23	-25	-8
Training	15	44	33	-17	-41	-6
Cashflow	24	33	44	-20	-41	-10
Applied for Credit?	21			21	18	14
Profits	31	22	47	-16	-46	-10
Capacity Used (Ave. %)				70	43	72
Employment						
Total	27	36	36	-9	-19	-8
Recruiting Staff			(yes)	33	15	71
Recruitment Difficulties			(yes)	16	8	53
Increased Wages			(yes)	15	8	29
Average pay increase				5	3	2
Expectations (next quarter)						
Price Change	40	54	6	34	4	33
Sales	36	34	30	6	-6	-12
Investment	11	62	15	-4	-12	-2
Employees	19	50	31	-12	-35	8
Cost Pressures (%)						
Pay Settlements			(yes)	11	20	25
Finance Costs			(yes)	16	28	15
Raw Material Prices			(yes)	71	80	74
Other Overheads			(yes)	65	63	42
Concerns (%)						
Interest Rates			(yes)	11	13	15
Business Rates			(yes)	47	45	13
Competition			(yes)	35	40	25
Exchange Rates			(yes)	55	70	64
Inflation			(yes)	33	43	26
Taxation			(yes)	64	60	19

Retail & Wholesale

BUSINESS OPTIMISM

For a fifth successive quarter, a negative net balance has been recorded for business confidence.

The balance of -15% is 9 percentage points lower than the average for Q3.

SALES REVENUE

Sales trends show a challenging picture for retailers in Scotland, many of which will have resumed operations in Q3 after a long period of lockdown restrictions.

Over half of firms reported decreased levels of total and domestic sales, resulting in net balances of -28% and -27% respectively.

INVESTMENT

All investment trends remain at negative net balances, with nearly half of firms (45%) reporting a fall in total investment.

All trends sit well below the five-year average for the survey.

CASHFLOW/PROFITS

Nearly half of firms (49%) reported level or falling levels in cash flow, resulting in a negative net balance of -26%.

Over 8 in 10 firms (83%) reported either no change or a decrease in profit levels, meaning that the net balance was -23%.

LABOUR MARKET

The majority of firms (85%) report that they decreased or did not change their staffing numbers.

This resulted in a negative net balance for the second successive quarter, with -31% for Q3. This figure is 40 percentage points lower than Q3 2019.

CONCERNS/PRESSURES

The main cost pressures for the sector are costs from raw material prices and other overheads, all cost pressures generally eased from the high levels recorded last quarter.

Taxation, competition and business rates remain the leading concerns for retail firms.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/20	Q2/20	Q3/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	23	38	38	-15	-67	-4
Sales Revenue						
Total	28	17	55	-28	-72	9
Domestic (Scotland)	26	21	53	-27	-72	4
Rest of UK	18	25	38	-20	-53	4
Exports	9	18	27	-18	-24	5
Online	17	25	27	-10	-22	4
Investment						
Total	18	37	45	-26	-47	4
Capital	15	26	40	-25	-40	3
Training	11	32	32	-21	-44	1
Cashflow	23	28	49	-26	-51	7
Applied for Credit?			(yes)	14	27	16
Profits	17	43	40	-23	-76	14
Capacity Used (Ave %)				1	0	1
Employment						
Total	15	38	46	-31	-56	9
Recruiting Staff			(yes)	26	13	61
Recruitment Difficulties			(yes)	7	3	37
Increased Wages?			(yes)	10	7	25
Average Pay Increase				6.0%	2.5%	2.0%
Expectations Next Quarter						
Price Change	34	60	6	27	-16	33
Sales Revenue	27	29	44	-18	-20	20
Investment	9	27	50	-41	-45	11
Employees	8	57	35	-27	-31	14
Cost Pressures (%)						
Pay Settlements			(yes)	10	19	16
Finance Costs			(yes)	13	31	23
Raw Material Prices			(yes)	30	24	23
Other Overheads			(yes)	40	44	39
Concerns (%)						
Interest Rates			(yes)	12	13	11
Business Rates			(yes)	32	53	39
Competition			(yes)	37	56	37
Exchange Rates			(yes)	23	47	23
Inflation			(yes)	22	52	28
Taxation			(yes)	43	57	32

Tourism

BUSINESS OPTIMISM

85% of tourism firms reported a fall or no change in levels of confidence, this resulted in a net balance of -55%.

This is the third lowest figure recorded for this trend in the survey, after Q2 2020 and Q4 of 2008.

GUESTS/CUSTOMERS

Elements of the sector were allowed to reopen in July as per the easing of lockdown restrictions in Scotland. While this has supported some movement for domestic and rUK figures, all remain at very high negative balances with international travel numbers most impacted.

INVESTMENT

For the third successive quarter, all trends have reported negative net balances. 87% of firms reported either a decrease or no change in levels of total investment, resulting in a net balance of -27%.

LABOUR MARKET

Only 4% of firms reported an increase in employment numbers. 96% reported either no change or a decrease, resulting in a net balance of -43%.

This is 45 percentage points lower than for the same quarter in 2019.

CONCERNS/PRESSURES

Cost pressures have generally eased but remain significant for tourism firms, most notably in raw material prices (42%) and other overheads (57%).

All trends in business concerns have also eased with the top three being taxation, business rates and competition.

EXPECTATIONS

With the sector facing 'three winters in a row' at this time, their confidence is thin and tempered by any possible changes to travelling or operating restrictions.

Firms in the sector are reporting that they expect levels of sales, investment and employment to decrease again in Q4.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/20	Q2/20	Q3/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	15	15	70	-55	-94	6
Sales Revenue						
Total	24	31	46	-22	-98	15
Domestic (Scotland)	30	29	36	-6	-98	10
Rest of UK	21	23	38	-17	-85	2
Online	18	31	24	-5	-74	6
Investment						
Total	13	47	40	-27	-55	4
Capital	10	56	31	-21	-52	0
Training	11	47	29	-19	-48	4
Cashflow	17	35	48	-31	-95	4
Applied for credit			(yes)	20	35	19
Profits	8	44	48	-40	-97	19
Employment						
Total	4	47	47	-43	-70	2
Recruiting Staff			(yes)	22	12	81
Recruitment difficulties			(yes)	4	1	70
Increased wages?			(yes)	23	5	41
Average pay increase (%)				12	5	4
Guests/Customers vs last year						
Total	6	15	79	-73	-98	14
From Scotland	12	20	68	-56	-97	3
From Rest of UK	12	19	63	-51	-94	8
From Rest of EU	0	15	76	-76	-88	3
From Outside the EU	0	9	91	-91	-86	8
Expectations Next Quarter						
Price Change	19	71	9	10	13	27
Sales	9	36	55	-45	-48	-13
Investment	9	41	50	-41	-21	-8
Employees	7	53	40	-33	-40	-4
Cost Pressures (%)						
Pay Settlements			(yes)	8	11	25
Finance Costs			(yes)	23	30	25
Raw Material Prices			(yes)	42	50	46
Other Overheads			(yes)	57	68	58
Concerns (%)						
Interest Rates			(yes)	13	21	10
Business Rates			(yes)	34	52	42
Competition			(yes)	31	40	40
Exchange Rates			(yes)	5	18	25
Inflation			(yes)	19	46	48
Taxation			(yes)	55	56	50