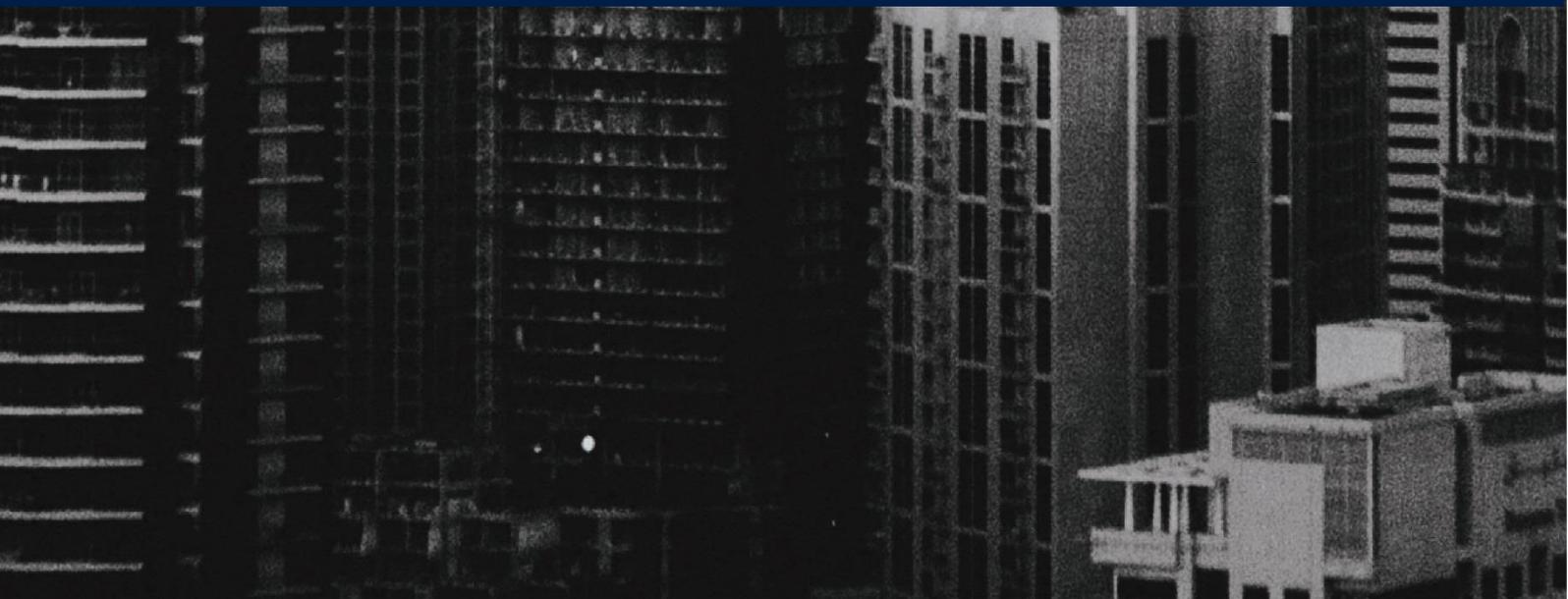




SCOTTISH CHAMBERS OF COMMERCE
QUARTERLY ECONOMIC INDICATOR
RESULTS FOR Q4 OF 2020

*IN PARTNERSHIP WITH FRASER OF
ALLANDER INSTITUTE*



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Foreword

2021 has not started out as many people would have hoped.

The optimism that many felt in early December due to vaccine roll-outs beginning has been severely tempered by the emergence of the new variants and the huge rise in the numbers of cases.

For some businesses right now, the only consideration is survival. Others will be looking forward to economic recovery, to see how best they can capitalise on the opportunities that will come as we move towards economic recovery.

We have discussed for some months the prospect of a “K-shaped” recovery in Scotland. This is the idea that different sectors have been impacted very differently by the lockdown measures and have experienced divergent pathways in recovery.

We can see from today’s survey results that hospitality and tourism in particular has been badly impacted, with further lockdown measures likely to cause more hardship for the industry. Other industries, such as construction, have been able to adapt to the restrictions they face and operate almost at full capacity, but possible announcements on further restrictions for this sector are likely to act as a new blow. The length of any new lockdown on construction will be key to the ripple effects this has for the wider economy.

Of course, these restrictions are necessary to protect public health; and in the end this is what will ensure Scotland is in a position to recover successfully when restrictions can be eased.

A key feature of this crisis has been the unprecedented levels of Government support that have been put in place to help businesses and individuals get through. A vital measure has been the UK Government’s furlough scheme, which has now been extended to the end of April 2021. This has been widely welcomed by businesses.

Despite this, there is likely to be a serious toll on individuals still to come, with unemployment likely to rise significantly as this scheme is rolled back. The overall impact on jobs is likely to be dependent on the way that this scheme is wound down or adapted to new circumstances in the economy.

In these challenging and uncertain times, the Scottish Government will set out their budget for 2021-22 on 28th January.

The backdrop to the budget will be significant uncertainty around the economic and health outlook; ongoing intergovernmental tensions on a variety of matters including funding flexibility and certainty; and of course the Scottish elections in May.

Businesses are likely to hope for a range of measures in the form of continued government support and practical proposals to stimulate economic recovery.

Mairi Spowage

Deputy Director, Fraser of Allander Institute



Introduction

Significant parts of the Scottish economy face worsening conditions due to the pandemic before restrictions are set to ease this year, according to the latest Scottish Chambers of Commerce Quarterly Economic Indicator.

2020 was the most challenging year in living memory for many of us. In addition to the risk to health we all face as a result of Covid-19, restrictions imposed have created an ongoing recession and a jobs crisis which will likely take years to recover from.

We were hoping 2021 would be a better year than 2020 but it seems it is always darkest before the dawn. We fear that restrictions to prevent the spread of the new variant of the virus will continue to destroy more jobs and businesses unless government support can ease the impact of closures and deliver an environment to enable economic recovery.

Investment, particularly in green jobs and energy transition, will be key if the economy is going to be built back better and sustainably. For this to happen governments at all levels must be prepared to work hand in hand with the business community to attract and focus investment on where it will have the greatest impact.

The on and off nature of lockdowns has proved hugely damaging to business confidence, cashflow and investment. Lockdown measures must be aligned with sufficient support, supplemented by a clear exit route from restrictions to allow businesses to plan and prepare appropriately.

While we have seen some very positive news lately about vaccines, there is still great uncertainty over what lies ahead and much depends on the effective delivery of business support, the speed of a vaccine rollout and how we rebuild the economy.

We call upon the UK and Scottish Government to put in place a sustained programme of business support, particularly for the hardest hit sectors, to support economic recovery throughout 2021.



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 November to December of 2020. 365 firms responded to the Q4 2020 edition of the Indicator.

Fieldwork took place during the early implementation of the Scottish Government's 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 suppressed at -6% and is down by 8 percentage points, compared to Q4 2019, despite some easing from Q3.
- All sales trends remain at negative net balances, 46% of construction firms reported a further fall in total sales compared to the previous quarter. All investment trends remain negative aside from training which has seen no rise or fall on balance.
- All contract trends returned to positive net balances for the first time since Q1 2020, with domestic/house building the main driver of this.
- More firms reported that they had seen staff levels fall than increase, on balance, resulting in a net balance of -6%. Over half (54%) reported no change in staff levels.
- Raw materials prices and other overheads remain significant cost pressures for the sector, as does concern over taxation.

Financial and business services

- Confidence in the sector has recovered to a positive net balance for the first time since Q1 2020, at +6%.
- Most sales trends have also seen some recovery, with some seeing positive net balances, aside from exports (which has seen a fall again) and online sales (which are flat).
- Investment trends all remain at negative net balances, with all seeing further falls compared to Q2.
- Total employment in the sector eased slightly but remained negative at -5%, with the percentage of firms seeking to recruit falling from 53% in Q3 to 35% in Q4.
- The leading concerns for firms in the sector are taxation (46%), business rates (37%) and competition (35%).

Manufacturing sector

- For the first quarter since Q2 2019, confidence for the sector is positive (+2%).
- The net balances for sales & orders trends present a mixed picture: all domestic and rUK trends remain negative while total trends have been buoyed by positive export trends.
- Levels of cashflow and profits both remain at negative net balances of -12% and -8% respectively, despite some easing from the previous quarter.
- 80% of firms reported either flat or lower staff levels, resulting in a negative net balance of -16%, down 7 percentage points from Q3.
- 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

- Confidence remains subdued in the sector at a net balance of -9%.
- All sales trends remain at negative net balances, though most have seen some easing since the previous quarter. All trends are significantly down when compared to Q4 2019.
- All investment trends also remain at negative net balances, with investment intentions down by 31 percentage points when compared to Q4 2019.
- Both levels of cashflow and profits have seen some easing since Q3, but both remain at negative net balances.
- Half of firms reported no changes in staff levels. As more reported a decrease (34%) than an increase (16%), this resulted in a negative net balance of -19%.

Tourism

- The sector continues to report very fragile levels of confidence, with a negative net balance of -62%.
- Almost nine in ten firms (89%) reported a fall in sales compared to Q2, resulting in a negative net balance of -86%.
- All investment trends report negative net balances with significant falls from Q3.
- Over three quarters of firms report level or lower staff levels, resulting in a net balance of -54%.
- Over three quarters of firms reported falls in levels of cashflow and profits, meaning that both trends reported negative net balances of -74% & -84% respectively.
- Expectations for firms in the sector make for bleak reading, with sales (-68%), investment (-57%) and employment (-44%) all expected to decrease in Q1 2021.

Construction

CONTRACTS/SALES

Two thirds of firms (66%) reported lower or static sales, resulting in a negative net balance of -11%.

For the third consecutive quarter, all sales trends report negative net balances and all sit significantly lower than the Q4 average.

Perhaps owing to pent up demand being unleashed - particularly in the housebuilding sector - all contract trends report positive net balances.

INVESTMENT

Nearly three quarters of firms (74%) report level or lower levels of investment, this made for a negative net balance of -11%.

Training investment sits 13 percentage points lower than the Q4 average.

WORK IN PROGRESS

The sector continues to work to catch up on projects that it could not complete under restrictions earlier in the year, this is reflected by the positive net balance of +7%.

CASHFLOW/PROFITS

70% of firms reported level or lower levels of profits, resulting in a negative net balance of -13%.

Over three quarters of firms (77%) reported static or weaker cashflow levels. This resulted in a negative net balance of -20%.

Both trends sit 15 percentage points lower than that recorded for Q4 2019 and remain significantly below their five-year survey average.

CONCERNS/PRESSURES

All cost pressures have risen, with raw material prices (74%) and costs from other overheads (71%) rising to record highs. Concerns over inflation and taxation have also reached record highs for the survey.

EXPECTATIONS

The outlook for the sector is mixed: it sees slight rises in sales and staff, but with a significant fall in investment.

(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	Net % Balance	Last Quarter	Last Year
Business Optimism	23	49	29	-6	-11	2
Sales Revenue						
Total	34	20	46	-11	-4	12
Domestic (Scotland)	31	31	37	-6	-2	7
Rest of UK	17	29	34	-17	-7	2
Contracts						
Total new contracts	43	30	27	17	-20	10
Public sector orders	27	33	23	3	-15	-2
Private commercial	23	47	20	3	-10	5
Domestic/house build	37	27	27	10	-13	5
Investment						
Total	26	37	37	-11	-23	-5
Capital	20	51	29	-9	-12	-5
Training	14	63	14	0	-14	12
Work in Progress	33	40	27	7	13	19
Cashflow	23	34	43	-20	-24	5
Applied for Credit?	13			13	18	24
Profits	30	27	43	-13	-33	2
Capacity used (ave. %)				80	60	74
Employment						
Total	20	54	26	-6	-5	5
Recruiting Staff			(yes)	46	55	54
Recruitment Difficulties			(yes)	17	24	38
Increased Wages?			(yes)	9	14	36
Average pay increase (%)				4.0	6.2	3.6
Expectations Next Quarter						
Price Change	14	80	6	9	13	29
Sales Revenue	23	57	20	3	-7	14
Investment	13	63	23	-10	-23	10
Employees	17	73	10	7	-4	19
Cost Pressures (%)						
Pay Settlements			(yes)	9	7	12
Finance Costs			(yes)	14	11	19
Raw Material Prices			(yes)	74	67	43
Other Overheads			(yes)	71	64	38
Concerns (%)						
Interest Rates			(yes)	9	11	14
Business Rates			(yes)	51	44	40
Competition			(yes)	46	40	21
Exchange Rates			(yes)	31	9	24
Inflation			(yes)	57	44	33
Taxation			(yes)	71	67	31

Financial & Business Services

BUSINESS OPTIMISM

4 in 10 firms reported an increase in confidence. 26% reported no change in confidence and 34% a decrease, this resulted in a positive net balance of +6%: the first positive net balance for this trend since Q1 2020.

SALES REVENUE

On balance, most sales trends returned to positive net balances albeit subdued compared to last year's results.

Export sales remain at a negative net balance and online sales did not see an increase or a decrease.

Most trends are significantly lower than their Q4 average.

INVESTMENT

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

All have also seen some further weakening compared to Q3's results and represent a significant drop off from the same period last year.

LABOUR MARKET

Only 18% of firms reported an increase in staff levels. As 82% reported lower or static levels, this meant a net balance of -5%.

This net balance is 16 percentage points lower than the Q4 average.

The percentage of firms recruiting is at the lowest level in more than 4 years.

CONCERNS/PRESSURES

Cost pressures from other overheads remains the main cost pressure and has increased since Q3 to 42%.

Taxation remains the main concern for firms, followed by business rates and competition.

EXPECTATIONS

Outlook for the sector remains subdued: the majority of firms said that they do not expect levels of employment and investment to change in Q1 2021, indicating a high degree of caution moving forward.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/20	Q3/20	Q4/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	40	26	34	6	0	11
Sales Revenue						
Total	38	32	30	8	-17	11
Domestic (Scotland)	35	34	28	6	-15	11
Rest of UK	30	28	27	3	-12	12
Exports	22	18	25	-4	-6	7
Online	13	38	13	0	-5	8
Investment						
Total	16	39	33	-17	-12	11
Capital	13	38	34	-21	-13	11
Training	15	42	30	-15	-8	15
Cashflow	25	38	36	-11	-20	15
Applied for credit?	19			19	14	15
Profits	31	35	34	-3	-21	11
Capacity Used (Ave. %)				72	69	71
Employment						
Total	18	54	23	-5	-11	11
Recruiting Staff	35			35	53	53
Recruitment Difficulties	13			13	11	43
Increasing Wages	16			16	15	26
Average pay increase (%)				9	5	9
Expectations Next Quarter						
Price Change	23	65	12	12	13	36
Sales Revenue	40	30	30	10	25	13
Investment	15	58	15	0	-4	14
Employees	15	67	12	3	-5	27
Cost Pressures (%)						
Pay Settlements			(yes)	3	6	19
Finance Costs			(yes)	8	10	20
Raw Material Prices			(yes)	14	10	23
Other Overheads			(yes)	42	36	16
Concerns (%)						
Interest Rates			(yes)	6	11	23
Business Rates			(yes)	37	31	31
Competition			(yes)	35	33	34
Exchange Rates			(yes)	15	13	15
Inflation			(yes)	17	21	28
Taxation			(yes)	44	46	32

Manufacturing

BUSINESS OPTIMISM

Confidence in the sector has returned to a positive net balance for the first quarter since Q2 2019.

SALES REVENUE/ORDERS

A combination of unleashed demand from projects earlier in the year, and rising demand from export markets to complete orders before the end of the Brexit transition period, has resulted in positive net balances for total and export sales / orders.

The net balance of +18% for export sales is the first positive balance for the trend since Q3 2018.

However, domestic and rUK sales / orders have remained weak since Q3 and it remains to be seen how the sector will be impacted after the end of the Brexit transition period.

WORK IN PROGRESS

The level of work in progress has risen slightly, on balance, and is likely as a result of the rise in demand from export orders.

Over half of firms (51%) reported no change in work-in-progress. As more reported an increase (26%) than a decrease (23%), this resulted in net balance of +3%.

CASHFLOW/PROFITS

Over three quarters of firms (76%) reported static or lower levels of cashflow and profits, resulting in negative net balances of -12% and -8% respectively.

LABOUR MARKET

Only 2 in 10 firms reported an increase in staff levels. As 80% reported level or lower levels of employment, this meant a net balance of -16%.

The balance of -16% is 18 percentage points lower than the five-year average for the survey.

EXPECTATIONS

Over half of firms do expect levels of investment (55%) and staff (52%) not to change in Q1 2021, but on balance, they do see sales and staff levels falling next quarter.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/20	Q3/20	Q4/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	36	30	34	2	-7	-13
Sales Revenue						
Total	36	30	28	8	-13	-6
Domestic (Scotland)	20	36	30	-10	-11	-6
Rest of UK	24	30	30	-6	-8	-2
Exports	38	24	20	18	-4	-4
Orders						
Total	38	32	30	8	-13	-8
Domestic (Scotland)	28	28	36	-8	-17	-12
Rest of UK	32	20	36	-4	-17	-17
Exports	34	30	24	10	-13	-8
Work in Progress	26	51	23	3	-5	-9
Investment						
Total	12	46	32	-20	-18	-2
Capital	12	42	36	-24	-23	2
Training	10	52	28	-18	-17	-4
Cashflow	24	40	36	-12	-20	-6
Applied for Credit?	8			8	21	17
Profits	24	44	32	-8	-16	-7
Capacity Used (Ave. %)				74	70	74
Employment						
Total	20	44	36	-16	-9	-4
Recruiting Staff			(yes)	44	33	67
Recruitment Difficulties			(yes)	20	16	61
Increased Wages			(yes)	14	15	39
Average pay increase				3	5	4
Expectations (next quarter)						
Price Change	30	59	11	20	34	42
Sales	25	45	30	-5	6	-4
Investment	25	55	25	0	-4	-9
Employees	22	52	26	-4	-12	10
Cost Pressures (%)						
Pay Settlements			(yes)	16	11	29
Finance Costs			(yes)	8	16	19
Raw Material Prices			(yes)	72	71	79
Other Overheads			(yes)	54	65	46
Concerns (%)						
Interest Rates			(yes)	6	11	19
Business Rates			(yes)	44	47	31
Competition			(yes)	40	35	21
Exchange Rates			(yes)	60	55	69
Inflation			(yes)	36	33	31
Taxation			(yes)	56	64	29

Retail & Wholesale

BUSINESS OPTIMISM

A negative net balance has been recorded for business confidence, for the sixth successive quarter.

The balance of -9% is 25 percentage points lower than the average for Q4.

SALES REVENUE

All sales trends continue to paint a gloomy picture for retail firms, with all reporting negative net balance.

As survey fieldwork took place during the initial implementation of the levels framework – where non-essential retail was closed in higher level areas with likely suppressed activity in other areas – these results are perhaps not so surprising.

INVESTMENT

All investment trends remain at negative net balances for the third successive quarter.

Total investment at -20% sits 15 percentage points lower than what it was a year ago, and all trends sit well below the Q4 average.

CASHFLOW/PROFITS

Cashflow and profits have remained at negative net balances (-7% and -13% respectively).

Although both trends have seen some easing since Q2, both sit significantly lower than the Q4 average.

LABOUR MARKET

Only 16% of firms reported increased staff levels. As 84% reported level or lower levels, this resulted in a net balance of -19%.

This figure of -19% is 21 percentage points lower than the Q4 average.

CONCERNS/PRESSURES

Raw material prices and costs from other overheads remain the main cost pressures, with other overheads seeing a significant increase to 51%: the highest recorded since Q2 2018.

Aside from interest rates, all concerns have seen increases since Q2. Over half or nearly half of firms are concerned about business rates, taxation and competition.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/20	Q3/20	Q4/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	27	37	36	-9	-15	-5
Sales Revenue						
Total	23	31	37	-14	-28	6
Domestic (Scotland)	23	44	33	-10	-27	7
Rest of UK	17	27	34	-17	-20	5
Exports	12	23	23	-12	-18	7
Online	15	36	27	-13	-10	9
Investment						
Total	13	46	33	-20	-26	5
Capital	10	41	34	-24	-25	-6
Training	17	37	31	-14	-21	6
Cashflow	27	39	34	-7	-26	0
Applied for Credit?			(yes)	13	14	18
Profits	23	42	35	-13	-23	5
Capacity Used (Ave %)				54	61	70
Employment						
Total	16	50	34	-19	-31	5
Recruiting Staff			(yes)	33	26	54
Recruitment Difficulties			(yes)	4	7	41
Increased Wages?			(yes)	8	10	36
Average Pay Increase				3.0%	6.0%	7.0%
Expectations Next Quarter						
Price Change	27	67	6	21	27	44
Sales Revenue	33	27	40	-7	-18	13
Investment	5	55	27	-22	-41	9
Employees	24	46	30	-6	-27	3
Cost Pressures (%)						
Pay Settlements			(yes)	8	10	14
Finance Costs			(yes)	11	13	25
Raw Material Prices			(yes)	28	30	36
Other Overheads			(yes)	51	40	39
Concerns (%)						
Interest Rates			(yes)	6	12	16
Business Rates			(yes)	52	32	41
Competition			(yes)	48	37	36
Exchange Rates			(yes)	26	23	21
Inflation			(yes)	23	22	25
Taxation			(yes)	51	43	32

Tourism

BUSINESS OPTIMISM

Over 9 in 10 firms reported a fall or static levels of confidence. As only 6% reported an increase, this resulted in a net balance of -62%.

This is 55 percentage points lower than Q4 2019.

GUESTS/CUSTOMERS

Under the levels framework, many parts of the sector were initially forced to close or trade with travel restrictions in place.

Therefore, it comes as little surprise to see that this has meant significantly lower levels of footfall compared to the same time last year in Q4 2019.

INVESTMENT

Over half of firms have reported lower levels of investment across all trends. On balance, this has resulted in very similar results to the record lows seen in Q2 2020, with capital investment at -60% being a record survey low.

LABOUR MARKET

Over 9 in 10 firms report level or lower levels of employment. As only 3% reported an increase, this resulted in a net balance of -54%.

This figure is the second lowest recorded in the history of the survey after Q2 2020.

CONCERNS/PRESSURES

The leading cost pressures for the sector come from raw material prices (51%) and other overheads (60%).

The leading concerns are taxation, business rates and inflation.

All concerns and cost pressures have seen increases across the board.

EXPECTATIONS

The sector will likely continue to be impacted by social distancing and travel restrictions until as such time COVID-19 suppression or vaccine rollout is more substantial.

Firms in the sector report record low expectations for the next quarter, indicating the scale of the challenge that many in the sector face for their very survival.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q4/20	Q3/20	Q4/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	6	26	68	-62	-55	-7
Sales Revenue						
Total	4	7	89	-86	-22	-14
Domestic (Scotland)	4	5	89	-86	-6	-19
Rest of UK	2	2	83	-80	-17	-7
Online	8	11	60	-52	-5	12
Investment						
Total	3	32	55	-52	-27	-10
Capital	3	23	63	-60	-21	2
Training	7	19	56	-49	-19	12
Cashflow	6	13	80	-74	-31	-14
Applied for credit			(yes)	23	20	19
Profits	5	5	90	-84	-40	-17
Employment						
Total	3	41	56	-54	-43	5
Recruiting Staff			(yes)	14	22	78
Recruitment difficulties			(yes)	4	4	72
Increased wages?			(yes)	4	23	64
Average pay increase (%)				5	12	11
Guests/Customers vs last year						
Total	3	0	97	-94	-73	-6
From Scotland	8	3	89	-81	-56	-11
From Rest of UK	6	3	92	-86	-51	6
From Rest of EU	3	0	94	-92	-76	0
From Outside the EU	3	0	94	-91	-91	11
Expectations Next Quarter						
Price Change	31	44	25	5	10	36
Sales	7	18	75	-68	-45	-10
Investment	8	20	65	-57	-41	-11
Employees	0	56	44	-44	-33	2
Cost Pressures (%)						
Pay Settlements			(yes)	14	8	29
Finance Costs			(yes)	26	23	33
Raw Material Prices			(yes)	51	42	48
Other Overheads			(yes)	60	57	62
Concerns (%)						
Interest Rates			(yes)	23	13	7
Business Rates			(yes)	41	34	52
Competition			(yes)	33	31	43
Exchange Rates			(yes)	10	5	17
Inflation			(yes)	34	19	48
Taxation			(yes)	56	55	36