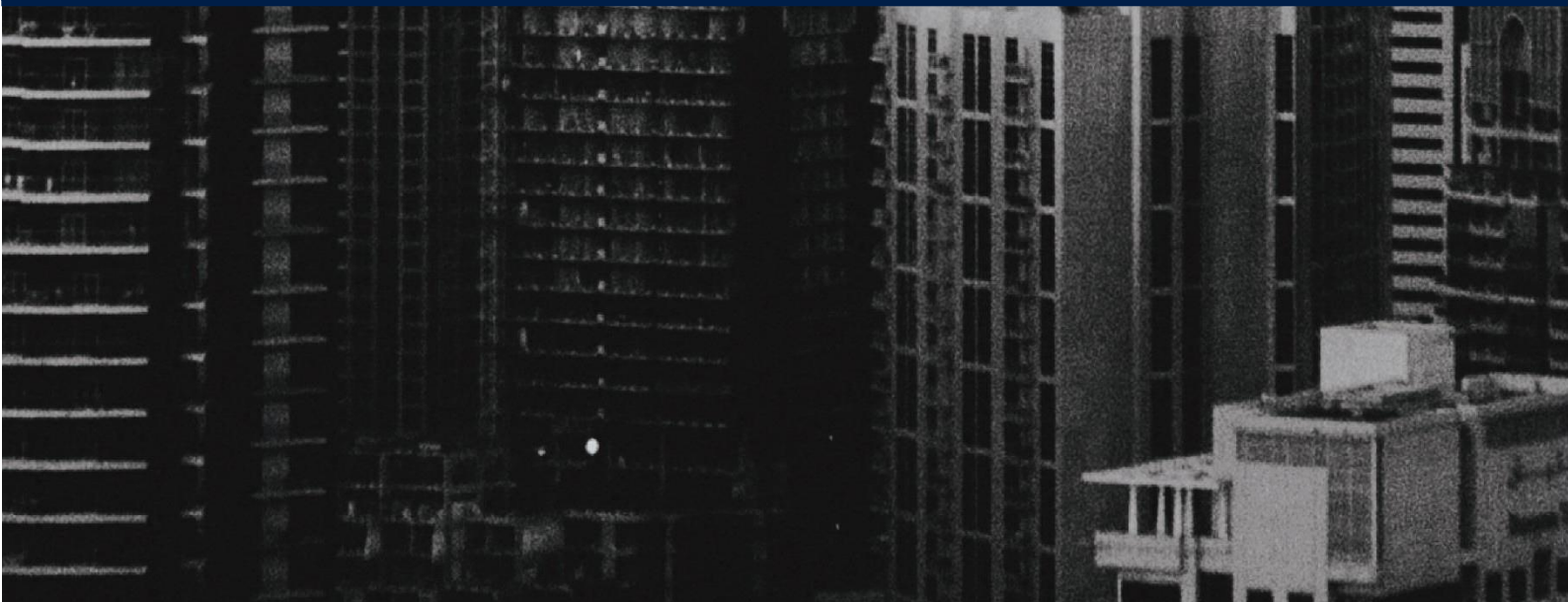




SCOTTISH CHAMBERS OF COMMERCE
QUARTERLY ECONOMIC INDICATOR
RESULTS FOR Q3 OF 2021

*IN PARTNERSHIP WITH FRASER OF
ALLANDER INSTITUTE*



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Foreword

These results today signal an important boost in optimism across the Scottish economy, driven by the removal of most of the pandemic related restrictions over the summer months.

Despite growth contracting slightly in July, mainly due to a fall in renewable electricity production, growth in the Scottish economy was significantly faster during Q2 than expected, leading to forecasters becoming more buoyant about the prospects for growth during 2021 and 2022.

Despite this positivity, there are still a number of risks to the fragile economic recovery that we have seen to date. It is unknown how many of the workers who were on furlough at the end of September will become unemployed or unable to secure the type and level of work they want.

This uncertainty coincides with the cancellation of the Universal Credit uplift which will bring additional financial hardship to around half a million families in Scotland. As well as the risk of joblessness, labour shortages are becoming clear in many sectors, threatening goods shortages and adding to wider inflationary risks.

Consumer confidence, so important for the improvement in outlook over the last six months, could start to wane as prices across the economy rise. Industries which are heavy energy users are signalling that they may need government support to keep operating through the winter.

So while the Scottish economy is now only around 2% below pre-pandemic levels of output, there are a number of risks that could stall growth.

In this survey today, increased optimism goes hand in hand with significant concerns from businesses about labour shortages and increased costs of inputs. Though on balance, it is likely that global recovery will continue as we move forward, the situation remains fluid, particularly as government support winds down which could present a risk to growth.

As the economy moves, however uncertainly, into this new phase, policy focus turns towards dealing with the climate emergency. As all eyes turn towards Scotland, COP26 in Glasgow in November is seen as the last chance for world leaders to make the step change needed to halt the most harmful form of climate change.

Businesses will be analysing at the risks and opportunities that come with decarbonising our economy, as they find their place in the green recovery that the Government wants to build.

What is clear is that a bold and ambitious approach by policy makers and business leaders – at a scale and pace not seen since the industrial revolution - will be required to make the step change we need to see to achieve our climate goals.

Mairi Spowage

Director, Fraser of Allander Institute



Introduction

The latest Scottish Chambers of Commerce Quarterly Economic Indicator shows the resilience of the Scottish economy and businesses shaking off the cobwebs to deliver a strong start to economic recovery over the summer months, in line with the easing of COVID-19 restrictions.

The survey results indicate that confidence and domestic sales are generally strong across all sectors surveyed, with expectations in line with improving economic forecasts that the Scottish economy should return to pre-pandemic levels in the spring of 2022. After what has been an extremely challenging past 18 months for Scottish businesses, many are now looking and working towards building back to a new normality.

However, that progress is under significant threat with increasing concern over the emerging energy crisis driving up business costs, inflation and taxation, the cost of raw materials and shipping, all of which are fuelling uncertainty at a time when businesses urgently need confidence and certainty to continue their recovery from the pandemic.

An additional growing challenge for business is instability in the labour market and persistent skills shortages. All sectors in the survey are reporting increased recruitment difficulties, in line with official statistics recently reporting record high vacancies for the Scottish and UK economy. If Scottish businesses cannot get the talent that they need, they risk falling dangerously behind the curve on recovery and growth.

For sectors which have been most heavily reliant on the furlough scheme: aviation, retail, tourism and hospitality, the potential damage of restrictions returning over the next quarter cannot be underestimated. While welcome progress is finally being made in opening up international travel, going backwards domestically could lead to a catastrophic loss of jobs in these vital sectors of the economy.

There is no time for timidity when it comes to action to support businesses and that's why the Scottish and UK Government must urgently back business with a clear economic plan and budgets focused on business recovery.

It is business which is driving the rapid return to economic growth and Governments must stop adding upfront business costs and instead focus on supercharging recovery by creating the right environment for businesses to trade, invest and grow.



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 in August and September 2021, covering Q3 2021. 300 firms responded to the Q3 2021 edition of the Indicator.

Fieldwork took place while widespread lockdown restrictions remained in place across Scotland, but with significant lockdown easing also taking place over the quarter through the levels system.

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

- Confidence in the sector continues to rise, increasing by 12 percentage points from Q2, to +37%.
- Total and domestic sales have surged to record highs, with more than half of firms reporting increases in these trends. Investment trends also continue to show positive signs, although most firms are holding back on training investment.
- Most contract trends remain at positive net balances, although public sector orders have been reported as flat for the quarter, seeing little to no change.
- On balance, staff levels have continued to rise positively since Q2. 51% of firms have reported no changes to staff levels with a notable 23% rise in recruitment difficulties.
- More than 7 in 10 firms have reported increased concern over raw material prices and other overhead costs. Significant rises in concern over inflation and taxation have also been recorded.

Financial and business services

- Confidence in the sector has risen by 8 percentage points, to a survey record high of +39%.
- Most sales trends remain at positive net balances and have seen significant increases since Q2. This is with the notable exception of exports, which remain at a negative net balance.
- Investment trends remain on an upward trend, with training investment seeing the highest increase compared to the previous quarter.
- Employment levels have risen by 11 percentage points to +27%, with positive expectations for Q4.
- The leading concerns for firms in the sector are taxation (47%), inflation (43%) and competition (42%).

Manufacturing sector

- Confidence has risen substantially since the previous quarter, increasing by 24 percentage points to +44% which is a record high for the survey.
- Apart from exports, all sales and order trends continue to report positive net balances, most seeing significant increases from Q2.
- Firms have reported positive net balances for cashflow and profits, for the first time for three years in the survey.
- All investment trends have remained at positive net balances for the quarter, with capital and training investment seeing the most notable increases.
- 94% of firms reported either flat or higher staff levels, resulting in a positive net balance of +46%.
- Concerns over raw material prices (90%) and costs from other overheads (70%) have seen notable increases over the quarter. Concern over inflation has reached a survey record high of 80%.

Retail and wholesale

- Confidence among retail firms has risen slightly, increasing by 5 percentage points from the previous quarter to +18%.
- In a similar pattern to the previous quarter, all sales trends have reported positive net balances, except for export sales, which have fallen 14 percentage points to a net balance of -20%.
- All investment trends have fallen significantly compared to Q2 and are all reporting negative net balances.
- Levels of cashflow have eased slightly from the previous quarter. Indeed, the same number of firms reported an increase as a decrease, meaning the net balance was flat. On the other hand, profits have risen to a positive net balance for the first time in over a year.
- Apart from finance costs, all cost pressures rose over the quarter. The leading concerns remain inflation, taxation and competition.

Tourism

- Confidence in the sector has risen since Q2 2021, by 8 percentage points to +22%.
- 9 in 10 firms reported level or higher levels of total sales compared to Q2 2021, as 10% reported a decrease, this meant a positive net balance of +60%.
- On balance, negative net balances have been reported for all investment trends.
- 86% of firms reported level or lower staff levels, resulting in a net balance of -12%.
- For the first time in two years of the survey, firms have reported positive net balances in both levels of cashflow and profits.

Construction

CONTRACTS/SALES

The positive signs for the sector have continued in Q3, with record high net balances reported by firms for total sales, underpinned by a strong domestic showing.

Most contract trends have also remained at positive net balances, the positive net balance of +40% for total contracts is the highest recorded for this trend since Q3 2018.

INVESTMENT

Total and capital investment have seen significant increases to their positive net balances from Q2, both are also well above the five-year average.

However, while still at a positive net balance, training investment has seen little movement, with the majority of firms (66%) holding back investment.

WORK IN PROGRESS

Over half of firms (52%) reported an increase in their workload in Q3. As 48% reported no change and 0% a decrease, this resulted in a survey record high net balance of +52%.

This is 34 percentage points higher than the five-year survey average.

CASHFLOW/PROFITS

Both cashflow and profits have seen significant boosts on their positive net balances from Q2, with both sitting well above their Q3 average.

CONCERNS/PRESSURES

The leading cost pressures in Q3 remain raw material prices and costs from other overheads.

86% of firms reported increased concern over the price of raw materials, a 20 percentage point increase from Q2 2021. This is a five year high for the survey.

The majority of business concerns saw some easing from Q2, with the exception of the leading concerns.

8 in 10 firms reported increased concern over inflation, a record high for the survey. Concern over taxation is also at double the Q3 average.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to M/A responses)				Q3/21	Q2/21	Q3/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	51	34	14	37	25	-11
Sales Revenue						
Total	63	29	9	54	30	-4
Domestic (Scotland)	57	34	6	51	25	-2
Rest of UK	22	25	9	13	20	-7
Contracts						
Total new contracts	40	60	0	40	33	-20
Public sector orders	10	67	10	0	14	-15
Private commercial	33	33	7	27	23	-10
Domestic/house build	27	37	3	23	23	-13
Investment						
Total	34	49	6	29	18	-23
Capital	34	46	9	26	15	-12
Training	17	66	6	11	10	-14
Work in Progress	52	48	0	52	33	13
Cashflow	46	46	9	37	13	-24
Applied for Credit?	10			10	8	18
Profits	51	31	17	34	13	-33
Capacity used (ave. %)				87	85	60
Employment						
Total	40	51	9	31	20	-5
Recruiting Staff			(yes)	63	60	55
Recruitment Difficulties			(yes)	43	20	24
Increased Wages?			(yes)	24	50	14
Average pay increase (%)				4.0	5.0	6.2
Expectations Next Quarter						
Price Change	57	43	0	57	50	13
Sales Revenue	59	21	21	38	44	-7
Investment	29	53	12	18	24	-23
Employees	31	57	11	20	33	-4
Cost Pressures (%)						
Pay Settlements			(yes)	6	9	7
Finance Costs			(yes)	11	17	11
Raw Material Prices			(yes)	86	66	67
Other Overheads			(yes)	71	69	64
Concerns (%)						
Interest Rates			(yes)	6	9	11
Business Rates			(yes)	11	23	44
Competition			(yes)	40	51	40
Exchange Rates			(yes)	23	51	9
Inflation			(yes)	80	66	44
Taxation			(yes)	63	46	67

Financial & Business Services

BUSINESS OPTIMISM

86% of firms reported static or higher levels of confidence, with 14% reporting a decrease. This resulted in a positive net balance of 39%, 22 percentage points higher than the Q3 average.

SALES REVENUE

All sales trends reported positive net balances - with domestic sales being the prominent driver – except for export sales which saw a sixth successive quarterly fall.

INVESTMENT

All investment trends have remained at positive net balances and have seen some improvement since Q2, particularly training investment which has seen a rise of 12 percentage points.

LABOUR MARKET

93% firms reported either an increase or no changes to staff levels, resulting in a net balance of +27% which is a five-year survey high.

There have been slight increases in the number of firms looking to recruit as well as recruitment difficulties, which are recovering to levels seen before the COVID-19 pandemic.

CONCERNS/PRESSURES

Cost pressures have largely remained static or slightly eased since Q2 2021, the sector being less affected by the cost of raw material prices compared to other sectors in the survey.

Concern over inflation, taxation and competition are the leading concerns for firms in the sector.

Concern over inflation (43%) is at a five-survey high.

EXPECTATIONS

Employment and investment expectations remain cautious, with the majority of firms anticipating no changes to either in Q4 2021.

Just over 6 in 10 firms (62%) are confident of increased sales revenue in Q4 2021, with nearly a quarter (24%) looking to increase their prices.

(blank space indicates data not available) (balances may not add up to 100% due to N/A responses)	(rounded up to nearest %)					
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	53	33	14	39	31	0
Sales Revenue						
Total	51	30	17	35	14	-17
Domestic (Scotland)	50	31	17	32	12	-15
Rest of UK	32	24	13	19	8	-12
Exports	9	18	11	-2	-9	-6
Online	15	22	9	6	6	-5
Investment						
Total	34	42	13	21	19	-12
Capital	28	41	13	15	8	-13
Training	37	38	11	27	15	-8
Cashflow	35	39	26	9	5	-20
Applied for credit?	4			4	5	14
Profits	41	34	22	19	10	-21
Capacity Used (Ave. %)				73	69	69
Employment						
Total	34	56	7	27	16	-11
Recruiting Staff	60			60	57	53
Recruitment Difficulties	35			35	30	11
Increasing Wages	33			33	30	15
Average pay increase (%)				16	6	5
Expectations Next Quarter						
Price Change	24	76	0	24	23	13
Sales Revenue	62	29	9	53	35	25
Investment	34	52	6	28	15	-4
Employees	34	64	3	31	24	-5
Cost Pressures (%)						
Pay Settlements			(yes)	10	8	6
Finance Costs			(yes)	11	10	10
Raw Material Prices			(yes)	21	25	10
Other Overheads			(yes)	35	40	36
Concerns (%)						
Interest Rates			(yes)	13	13	11
Business Rates			(yes)	15	21	31
Competition			(yes)	42	43	33
Exchange Rates			(yes)	8	15	13
Inflation			(yes)	43	35	21
Taxation			(yes)	47	43	46

Manufacturing

BUSINESS OPTIMISM

9 in 10 firms reported either higher or flat levels of confidence. As just 10% reported a decrease, this resulted in a net balance of +20%.

This is a record high figure for the survey and a 24 percentage point increase from the previous quarter.

SALES REVENUE/ORDERS

Generally, all sales and orders trends have remained at positive net balances with improvements across the board.

This is with the notable exception of export sales / orders, where sales have fallen on balance for the third successive quarter and export orders saw no change.

WORK IN PROGRESS

The level of work in progress has risen for the fourth consecutive quarter and is 20 percentage points higher than the five-year survey average.

CASHFLOW/PROFITS

For the first time since Q2 2018, firms have reported positive net balances for both levels of cashflow and profits.

Both trends have seen significant increases since Q2 2021 and are both well above the Q3 average.

LABOUR MARKET

94% of firms reported an increase or no change in staff levels, this resulted in a positive net balance of +46% which is a five-year survey high.

The percentage of firms looking to recruit (86%) has risen to its highest level since Q2 2018. Recruitment difficulties have returned to pre COVID-19 pandemic levels.

CONCERNS/PRESSURES

The leading cost pressures came from raw material prices (90%) and other overheads (70%), both reaching record highs for the survey.

Generally, business concerns eased apart from inflation (80%) which has also reached a survey record high.

(blank space indicates data not available) (balances may not add up to 100% due to N/A responses)				(rounded up to nearest %)		
(figures given as % of respondents)	Up	Level	Down	Q3/21 Net % Balance	Q2/21 Last Quarter	Q3/20 Last Year
Business Optimism	54	36	10	44	20	-7
Sales Revenue						
Total	58	34	8	50	20	-13
Domestic (Scotland)	46	38	10	36	15	-11
Rest of UK	46	36	12	34	10	-8
Exports	24	40	32	-8	-26	-4
Orders						
Total	52	36	12	40	25	-13
Domestic (Scotland)	28	52	12	16	13	-17
Rest of UK	44	38	10	34	3	-17
Exports	28	38	28	0	-13	-13
Work in Progress	50	30	20	30	33	-5
Investment						
Total	30	60	10	20	18	-18
Capital	34	58	8	26	15	-23
Training	20	64	8	12	0	-17
Cashflow	38	44	18	20	-3	-20
Applied for Credit?	13			13	5	21
Profits	36	44	20	16	-16	-16
Capacity Used (Ave. %)				85	71	70
Employment						
Total	52	42	6	46	25	-9
Recruiting Staff			(yes)	86	63	33
Recruitment Difficulties			(yes)	60	34	16
Increased Wages			(yes)	27	51	15
Average pay increase				4	6	5
Expectations (next quarter)						
Price Change	64	36	0	64	53	34
Sales	62	27	11	51	54	6
Investment	36	61	2	34	16	-4
Employees	42	52	6	36	18	-12
Cost Pressures (%)						
Pay Settlements			(yes)	20	20	11
Finance Costs			(yes)	10	11	16
Raw Material Prices			(yes)	90	71	71
Other Overheads			(yes)	70	57	65
Concerns (%)						
Interest Rates			(yes)	10	11	11
Business Rates			(yes)	20	34	47
Competition			(yes)	30	51	35
Exchange Rates			(yes)	44	46	55
Inflation			(yes)	80	54	33
Taxation			(yes)	40	49	64

Retail & Wholesale

BUSINESS OPTIMISM

Confidence in the sector continues to show signs of recovery, with a second successive positive net balance being recorded for Q3.

This is in contrast to the same quarter in 2020 where lockdown restrictions continued to impact upon the sector.

SALES REVENUE

As lockdown restrictions have eased, most sale trends suggest that firms have been able to take advantage of summer trade.

The positive net balance of +30% for total sales revenue is a five-year survey high.

However, export sales continue to struggle and have seen a fall on balance for the seventh successive quarter. No firms recorded an increase in export sales in Q3.

INVESTMENT

In contrast to the positive signs from sales trends, investment trends have gone in the opposite direction, with firms reporting negative net balances across all trends.

CASHFLOW/PROFITS

Retail firms have reported no change to their levels of cashflow on balance, the same number of firms (24%) reported an increase as they did a decrease.

On the other hand, profit levels have returned to a positive net balance for the first time since Q1 2020 and are at the highest level since Q3 2019.

LABOUR MARKET

Over 7 in 10 firms reported no change to staff levels (71%). As slightly more firms reported an increase than a decrease, this resulted in a positive net balance of +6%.

CONCERNS/PRESSURES

Costs from other overheads and raw material prices remain the leading pressures, both seeing a slight increase from Q2. Concern from other overheads is at five-year survey high.

The leading concerns for retail firms are inflation, 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)				Q3/21	Q2/21	Q3/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	30	58	13	18	12	-15
Sales Revenue						
Total	50	30	20	30	16	-28
Domestic (Scotland)	38	43	11	27	32	-27
Rest of UK	24	32	16	8	9	-20
Exports	0	20	20	-20	-6	-18
Online	21	8	17	4	9	-10
Investment						
Total	11	56	28	-17	3	-26
Capital	17	37	30	-13	-8	-25
Training	15	59	18	-3	5	-21
Cashflow	24	52	24	0	6	-26
Applied for Credit?			(yes)	6	6	14
Profits	31	51	17	14	-17	-23
Capacity Used (Ave %)				67	39	30
Employment						
Total	17	71	11	6	0	-31
Recruiting Staff			(yes)	53	40	26
Recruitment Difficulties			(yes)	44	31	7
Increased Wages?			(yes)	11	33	10
Average Pay Increase				10.0%	5.0%	6.0%
Expectations Next Quarter						
Price Change	30	45	0	30	40	27
Sales Revenue	48	30	21	27	20	-18
Investment	9	75	16	-6	3	-41
Employees	16	72	13	3	33	-27
Cost Pressures (%)						
Pay Settlements			(yes)	13	11	10
Finance Costs			(yes)	10	16	13
Raw Material Prices			(yes)	50	45	30
Other Overheads			(yes)	63	55	40
Concerns (%)						
Interest Rates			(yes)	13	11	12
Business Rates			(yes)	25	34	32
Competition			(yes)	43	52	37
Exchange Rates			(yes)	18	32	23
Inflation			(yes)	55	50	22
Taxation			(yes)	55	48	43

Tourism

BUSINESS OPTIMISM

82% of firms reported an increase or static levels of confidence, resulting in a second successive and improved positive net balance of +22%.

This is the highest figure reported for this trend since Q3 2018.

SALES/INVESTMENT

All sales trends have continued an upwards trajectory from Q2, all reporting significantly improved positive net balances.

However, all investment trends have reported negative net balances, perhaps in anticipation of the seasonality aspect of the sector.

CASHFLOW/PROFITS

Firms have reported positive net balances for both levels of cashflow and profits for the first time in two years of the survey.

Both figures also sit well above their Q3 average.

LABOUR MARKET

While most firms (6 in 10) are reporting no changes to their staff levels, more have reported a decrease than an increase, resulting in a negative net balance of -12%.

Recruitment difficulties have also increased by 20%.

CONCERNS/PRESSURES

The leading cost pressures remain costs from other overheads and raw material prices. Concern over raw material prices have risen by 15 percentage points while concern over raw material prices has reached a five-year survey high.

Concern over inflation and taxation have also risen significantly since Q2 and reached five-year survey highs.

EXPECTATIONS

The sector is pessimistic regarding Q4. On balance, firms anticipate falls in sales, investment, and employment in Q4.

It should be noted that the seasonal dependency of the scheme will be a key factor in these trends.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q3/21	Q2/21	Q3/20
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	40	42	18	22	14	-55
Sales Revenue						
Total	70	20	10	60	31	-22
Domestic (Scotland)	64	24	8	56	23	-6
Rest of UK	38	24	18	20	3	-17
Online	27	14	5	22	9	-5
Investment						
Total	13	48	26	-13	11	-27
Capital	15	44	26	-11	13	-21
Training	11	57	17	-6	0	-19
Cashflow	43	35	22	20	-6	-31
Applied for credit			(yes)	11	8	20
Profits	51	19	25	26	-24	-40
Employment						
Total	14	60	26	-12	10	-43
Recruiting Staff			(yes)	72	58	22
Recruitment difficulties			(yes)	70	50	4
Increased wages?			(yes)	33	44	23
Average pay increase (%)				10	3	12
Guests/Customers vs last year						
Total	75	14	11	64	13	-73
From Scotland	68	16	16	52	22	-56
From Rest of UK	59	16	20	39	11	-51
From Rest of EU	2	9	73	-70	-56	-76
From Outside the EU	5	9	70	-66	-64	-91
Expectations Next Quarter						
Price Change	33	60	8	25	22	10
Sales	26	15	60	-34	53	-45
Investment	19	43	32	-13	5	-41
Employees	15	53	32	-17	18	-33
Cost Pressures (%)						
Pay Settlements			(yes)	14	22	8
Finance Costs			(yes)	12	32	23
Raw Material Prices			(yes)	50	35	42
Other Overheads			(yes)	70	56	57
Concerns (%)						
Interest Rates			(yes)	4	11	13
Business Rates			(yes)	20	25	34
Competition			(yes)	36	41	31
Exchange Rates			(yes)	6	16	5
Inflation			(yes)	60	40	19
Taxation			(yes)	64	37	55