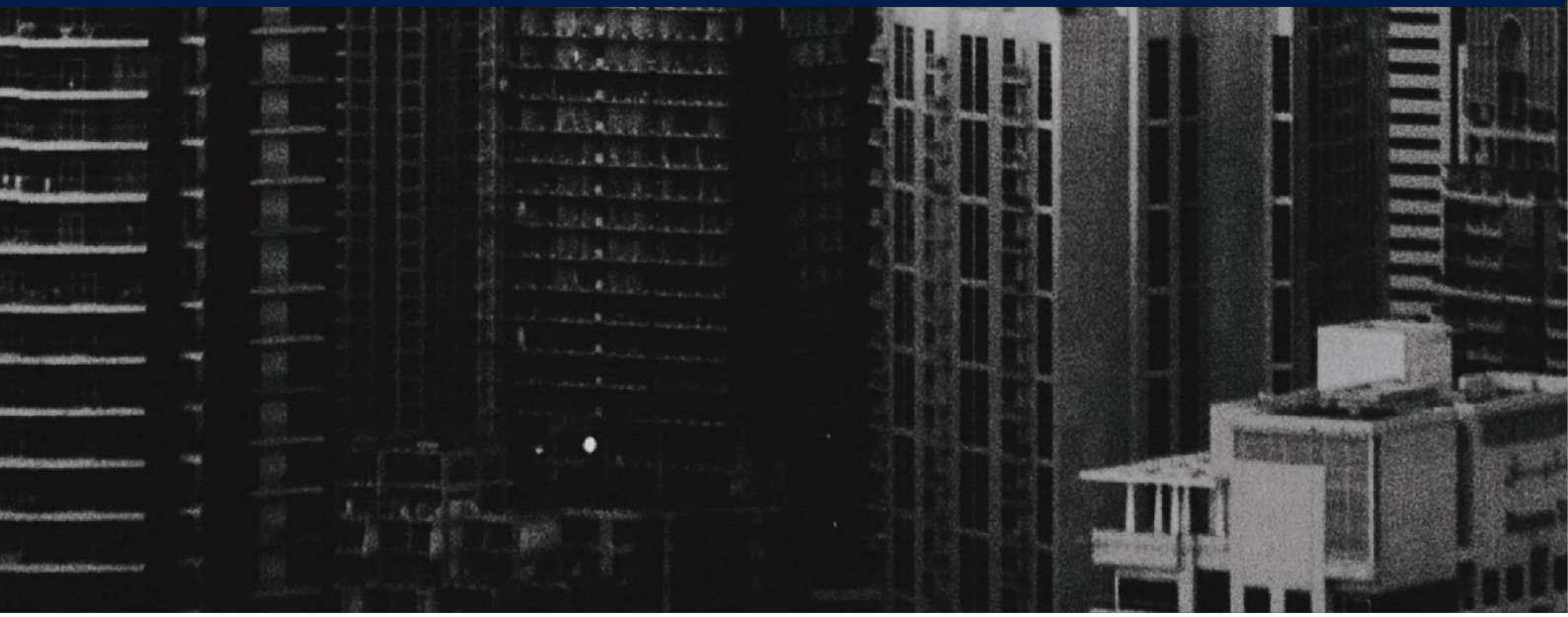




SCOTTISH CHAMBERS OF COMMERCE
QUARTERLY ECONOMIC INDICATOR
RESULTS FOR Q2 OF 2020

*IN PARTNERSHIP WITH FRASER OF
ALLANDER INSTITUTE*



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Foreword

The last three months have been unprecedented in Scottish economic history.

We have seen the greatest scaling back of economic activity in memory, an unprecedented fiscal stimulus, and millions of workers furloughed or working from home.

Recent figures confirmed that in April, GDP fell by almost 19% in Scotland and over 20% in the UK.

What matters now is the pace of recovery, and the scale of the damage left behind as a consequence of this – albeit temporary – hibernation in economic activity.

There remains huge uncertainty however, about the restart, not least because of the ongoing risks to public health, but also concerns around the timing of the removal of government support. Sadly, it will only be when government funding is fully rolled back that the full economic costs of the crisis will be realised.

This latest survey from the Scottish Chambers of Commerce presents a sombre picture of the scale of the challenge now facing the Scottish economy.

Across the board, confidence has plummeted, with a sharp fall in sales, turnover and investment across the business base. Chief amongst these was the unprecedented response from the tourism community, where a staggering – albeit not unsurprisingly – 95% of firms reported a fall in business confidence.

What is particularly worrying is the employment outlook. The survey shows a clear warning of what is to come, with a sharp rise in unemployment now inevitable as businesses adjust to a new normal.

The immediate priority for many businesses is survival.

Critical now are practical support measures for the recovery – including employability and skills, flexibility to change jobs, recapitalisation of balance sheets and the like.

But we cannot lose sight of the urgency of the situation now and the need for immediate action to help support businesses through these extraordinary times.

Professor Graeme Roy

Director, Fraser of Allander Institute



UNIVERSITY of STRATHCLYDE
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Introduction

The latest Scottish Chambers of Commerce Quarterly Economic Indicator survey for Q2 of 2020 confirms the economic pain that has been felt by Scottish businesses across sectors in all parts of the country due to the Coronavirus (COVID-19) outbreak and the subsequent lockdown.

In many instances, these results are among the worst over the 30-year history of the survey. However, the circumstances of which they have arisen means that they should come as little surprise. COVID-19 has drastically halted or limited activity across all sectors of the Scottish and global economy.

Our message to government is this: work productively with businesses in our shared aim of protecting jobs and local economies that may be lost forever if action is not taken now. Businesses are eager to do whatever they can to adapt to what will be a testing business environment; which will include changing workplace practises, dramatically evolving business models and re-skilling the workforce which will be critical across all sectors.

It is critical that governments in Holyrood & Westminster continue to provide business support for companies during and beyond the easing of lockdown restrictions. A sudden end to these vital financial support measures would not be welcome by anyone and a tsunami of jobs would disappear overnight.

Looking towards the future, governments must accelerate investment plans to fuel economic demand and activity as well as providing support for sectors to adapt to the new economy. This must go hand in hand with job guarantee and training schemes that ensure that we do not see a lost generation of talent.



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 April, May & June of 2020. 525 firms responded to the Q2 2020 edition of the Indicator.

It should be noted that the survey fieldwork took place – and ended - during the still ongoing Coronavirus (Covid-19) lockdown period for Scotland. Fieldwork ended before Phase 2 of the Scottish Government's Roadmap for moving through and out of lockdown restrictions commenced on the 18th of June 2020.

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 was very negative as 70% of firms reported a decrease in confidence, resulting in a net balance of -62%.
- Investment intentions have suffered a heavy blow with more than half of firms reporting a decrease. Capital investment dropped to a negative net balance (-60%) and training investment has also fallen into a negative at -64%.
- Levels of employment in the sector have waned to a net balance of -10%, and the percentage of firms looking to recruit has fallen by more than half from 53% to 25%.
- Cost pressures such as raw materials prices and other overheads are having a significant impact on firms, with 70% and 66% respectively of respondents indicating increased cost burdens from these.

Financial and business services

- Firms in the sector reported a negative balance for business confidence (-45%).
- The balance of firms reporting an increase in sales plummeted by 80 percentage points to -63%.
- The balance of firms reporting total investment increases also fell heavily, to a net balance of -40%. All other forms of investment – capital and training – also fell by a heavy margin.
- Total employment in the sector decreased significantly resulting in a net balance of -16%, and the percentage of firms seeking to recruit was only 20%.
- The leading concerns for firms in the sector are taxation (43%), competition (40%) and business rates (33%).

Manufacturing sector

- Business confidence has fallen for the fourth successive quarter, with the net balance now at -51%.
- With respect to sales and orders, the net balances for all measurements weakened significantly further into negative net balances.
- Cashflow, a key indicator, has fallen to -41%. Profits have also seen a heavy slump, to -46%.
- Firms in the sector are not optimistic about the next quarter, with a net balance of firms predicting falling investment (-12%) and employment (-35%).
- The leading cost pressures for firms in the sector are raw material prices (80%) and costs from other overheads (63%). The leading concerns are exchange rates (70%) and taxation (60%).

Retail and wholesale

- Sales revenue trends have massively fallen. Total and domestic sales have been most affected, both reporting a negative net balance of -72%.
- Confidence has also dwindled, resulting in a negative net balance of -67%.
- As with sales, all investment trends have fallen into negative net balances with more than half of firms reporting that they have decreased investment intentions over the past quarter.
- Almost two thirds of firms reported a decline in cashflow. Profits declined for nearly 8 in 10 firms to a net balance of -76% and only 4 in 10 anticipate a rise in profits over Q3.
- Only 10% of firms in the sector attempted to recruit.

Tourism

- An unprecedented 95% of tourism respondents to the survey reported a fall in business confidence.
- The net balance for total investment has slumped to -55%. Both capital and training investment have fallen significantly as well, and remain at negative net balances.
- The sector has reported a high drop off in employment levels, resulting in a net balance of -70%.
- Both levels of cashflow and profits have almost entirely collapsed for the sector, with both trends reporting -95% and -97% respectively.
- The expectations for the sector going forward are negative, with sales (-48%), investment (-21%) and employment (-40%) all expected to decrease in Q3.

Construction

CONTRACTS/SALES

Sales for the sector have dropped significantly; more than half of firms are reporting falling total (68%) and domestic sales (64%) respectively and 50% recorded a drop in sales revenue from the rest of the UK.

Similarly, all trends in contracts have fallen greatly and in each case more than half of all firms reported a drop.

INVESTMENT

With fewer than 1 in 10 firms reporting a rise, total investment for the sector has fallen heavily, to -52%.

Capital and training investment have also seen similarly high falls, with over half of all firms reporting decreased levels of investment for all trends.

WORK IN PROGRESS

As perhaps expected through the lockdown period, active work for firms in the sector has slumped to a negative net balance of -55%. This is 72 percentage points lower than the average for the survey.

CASHFLOW/PROFITS

Levels of cashflow and profits have seen substantial declines, with the majority of firms reporting falls for both trends, resulting in negative net balances of -64% and -76% respectively.

CONCERNS/PRESSURES

Cost pressures remain significant with most trends increasing over Q2. Over three-fifths (70%) are reporting increased cost pressures due to raw material prices, with a further 66% reporting other overheads as an increasing pressure.

There have also been significant rises in concerns over business rates, taxation and inflation with over half of firms reporting this for each trend.

EXPECTATIONS

The construction sector is very depressed, with all trends expected to see further decline in Q3.

(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	8	22	70	-62	0	5
Sales Revenue						
Total	12	20	68	-56	10	22
Domestic (Scotland)	16	20	64	-48	7	11
Rest of UK	14	26	50	-36	3	8
Contracts						
Total new contracts	13	20	68	-55	13	28
Public sector orders	10	28	53	-43	3	-4
Private commercial	8	15	73	-65	7	12
Domestic/house build	13	33	55	-43	10	16
Investment						
Total	6	36	58	-52	7	11
Capital	4	32	64	-60	-3	8
Training	4	28	68	-64	10	11
Work in Progress	13	20	68	-55	17	24
Cashflow	8	20	72	-64	3	8
Applied for Credit?	35			35	30	9
Profits	4	16	80	-76	7	6
Capacity used (ave. %)				25	70	77
Employment						
Total	10	70	20	-10	3	13
Recruiting Staff			(yes)	25	53	40
Recruitment Difficulties			(yes)	8	40	33
Increased Wages?			(yes)	13	33	41
Average pay increase (%)				5.5	5.5	11.7
Expectations Next Quarter						
Price Change	6	72	22	-16	13	25
Sales Revenue	16	44	40	-24	10	21
Investment	10	30	60	-50	10	6
Employees	10	40	50	-40	20	22
Cost Pressures (%)						
Pay Settlements			(yes)	16	17	12
Finance Costs			(yes)	24	20	9
Raw Material Prices			(yes)	70	50	52
Other Overheads			(yes)	66	57	30
Concerns (%)						
Interest Rates			(yes)	16	13	6
Business Rates			(yes)	66	33	30
Competition			(yes)	48	27	33
Exchange Rates			(yes)	36	33	12
Inflation			(yes)	52	33	24
Taxation			(yes)	64	37	21

Financial & Business Services

BUSINESS OPTIMISM

83% of firms in the sector are reporting either a decrease or no change in the levels of confidence, resulting in a net balance of -45%.

SALES REVENUE

All trends in sales reached their lowest levels since 2016 for the survey, with total, domestic and rUK trends falling to very high negative net balances.

INVESTMENT

In terms of investment, all trends have reported negative net balances for the first time since 2016.

80% of firms have reported a decrease or no change in levels of total investment, resulting in a net balance of -40%.

Capital and training investment have taken similar hits, both reporting net balances of -40% and -32% respectively.

LABOUR MARKET

More than 9 in 10 firms (91%) are reporting either a decrease or no change in the number of staff.

The net balance of -16% is the first negative net balance for this trend since Q1 2017.

CONCERNS/PRESSURES

The major cost pressure for firms in the sector is increasing costs from other overheads, with 41% reporting this. This is the highest figure reported for this pressure since Q1 2018.

Competition remains the major concern for FBS firms, followed by taxation and business rates. All have seen increases from the previous quarter.

EXPECTATIONS

The outlook for the sector is subdued but less pessimistic than in other sectors.

Investment for Q3 remains at a positive net balance, albeit all other trends have fallen to negative net balances.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/20	Q1/20	Q2/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	18	20	63	-45	8	23
Sales Revenue						
Total	8	23	70	-63	17	28
Domestic (Scotland)	5	25	70	-65	4	20
Rest of UK	5	20	50	-45	10	5
Exports	2	20	34	-32	8	1
Online	10	26	24	-14	5	6
Investment						
Total	10	30	50	-40	13	11
Capital	9	29	48	-40	3	9
Training	12	37	44	-32	11	12
Cashflow	13	26	62	-50	8	9
Applied for credit?	32			32	11	24
Profits	10	23	68	-58	6	14
Capacity Used (Ave. %)				51	77	73
Employment						
Total	7	68	23	-16	11	25
Recruiting Staff	20			20	54	55
Recruitment Difficulties	7			7	48	41
Increasing Wages	3			3	26	49
Average pay increase (%)				0	10	7
Expectations Next Quarter						
Price Change	13	70	18	-5	38	28
Sales Revenue	21	54	26	-6	21	29
Investment	22	58	17	5	8	12
Employees	10	68	22	-12	8	24
Cost Pressures (%)						
Pay Settlements			(yes)	8	17	17
Finance Costs			(yes)	16	21	8
Raw Material Prices			(yes)	22	18	9
Other Overheads			(yes)	41	18	24
Concerns (%)						
Interest Rates			(yes)	12	15	10
Business Rates			(yes)	33	29	14
Competition			(yes)	40	35	30
Exchange Rates			(yes)	13	21	20
Inflation			(yes)	21	24	17
Taxation			(yes)	43	28	17

Manufacturing

BUSINESS OPTIMISM

Optimism for the sector has fallen further among firms, with only 1 in 10 Scottish manufacturers reporting increased confidence. The resultant net balance of -51% is the lowest balance recorded for the sector since Q1 of 2009.

SALES REVENUE/ORDERS

Total sales revenue declined further with more than half of firms reporting a drop. All other sales trends have also seen similar heavy decreases over the quarter, all reporting negative balances.

All trends in orders have also reported sizeable falls, with total orders falling -40% for Q2.

WORK IN PROGRESS

The level of work in progress has also fallen heavily to a net balance of -42% for Q2.

This is 69 percentage points lower than the Q2 average of +24% and is the lowest on record.

CASHFLOW/PROFITS

Many firms will be suffering serious business cash flow problems because of coronavirus, the survey shows that cashflow declined for half of manufacturing firms.

For the eighth consecutive quarter a net balance of firms have reported a fall in profits, the final net balance being -46%. This is the lowest on record for the survey.

CONCERNS/PRESSURES

The majority of cost pressures have marginally increased across all trends – barring pay settlements - with raw material prices and other overheads remaining high concerns for firms.

In addition, the majority of concerns have also seen increases – apart from interest rates – with exchange rates, taxation being the top three concerns.

Concern over taxation has doubled since Q1.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/20	Q1/20	Q2/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	9	31	60	-51	-20	12
Sales Revenue						
Total	13	31	56	-44	-15	5
Domestic (Scotland)	9	41	50	-41	-8	-2
Rest of UK	9	34	49	-40	-5	-9
Exports	6	28	44	-38	-5	5
Orders						
Total	13	35	53	-40	-10	0
Domestic (Scotland)	9	41	50	-41	-5	-16
Rest of UK	14	31	46	-33	-5	-9
Exports	14	10	56	-43	0	-12
Work in Progress	9	40	51	-42	-10	16
Investment						
Total	9	48	44	-35	-3	0
Capital	13	50	38	-25	8	-7
Training	4	51	45	-41	-8	5
Cashflow	9	41	50	-41	-13	-14
Applied for Credit?	18			18	17	29
Profits	6	41	53	-46	-10	-5
Capacity Used (Ave. %)				43	76	68
Employment						
Total	13	56	31	-19	-10	27
Recruiting Staff			(yes)	15	60	79
Recruitment Difficulties			(yes)	8	55	53
Increased Wages			(yes)	8	45	49
Average pay increase				3	4	5
Expectations (next quarter)						
Price Change	13	79	9	4	43	25
Sales	25	44	31	-6	-5	17
Investment	17	54	29	-12	-5	5
Employees	8	50	43	-35	15	22
Cost Pressures (%)						
Pay Settlements			(yes)	20	30	34
Finance Costs			(yes)	28	25	16
Raw Material Prices			(yes)	80	75	64
Other Overheads			(yes)	63	60	32
Concerns (%)						
Interest Rates			(yes)	13	20	14
Business Rates			(yes)	45	33	25
Competition			(yes)	40	25	18
Exchange Rates			(yes)	70	63	55
Inflation			(yes)	43	35	20
Taxation			(yes)	60	30	25

Retail & Wholesale

BUSINESS OPTIMISM

Business optimism for retail saw three quarters reporting falling confidence, resulting in a net balance figure of -67%.

This figure is the fourth successive quarter where a negative net balance has been recorded, and is the lowest net balance since Q4 of 2011.

SALES REVENUE

Sales trends show a generally gloomy picture for retailers in Scotland.

Over three quarters of firms have reported decreased levels of total and domestic sales, resulting in a net balance of -72% for both trends.

Online sales have held up better with a fifth of firms reporting increased sales, albeit still resulting in a negative net balance overall.

INVESTMENT

All investment trends have fallen from positive net balances for Q1, to record low net balances for the survey in Q2.

CASHFLOW

Nearly 9 out of 10 firms (87%) reported level or falling levels in cash flow, resulting in a negative net balance of -51%. The next lowest net balance in the history of the survey for this is the -42% recorded for Q4 2011.

LABOUR MARKET

The majority of firms (88%) either decreased or did not change total employment numbers. This resulted in a negative net balance of -56%. This is the first negative net balance recorded for this trend since Q3 2017.

CONCERNS/PRESSURES

The main cost pressures for the sector are costs from other overheads and finance costs, both of which saw slight increases.

Apart from interest rates, business concerns have generally increased, with taxation, competition and business rates being the leading concerns.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/20	Q1/20	Q2/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	8	17	75	-67	-7	4
Sales Revenue						
Total	5	17	77	-72	6	14
Domestic (Scotland)	4	20	76	-72	7	5
Rest of UK	7	17	60	-53	8	0
Exports	3	23	27	-24	-5	10
Online	20	13	42	-22	3	18
Investment						
Total	7	27	53	-47	6	7
Capital	8	32	48	-40	3	7
Training	3	35	47	-44	3	0
Cashflow	13	23	64	-51	-9	8
Applied for Credit?			(yes)	27	12	18
Profits	7	11	83	-76	5	8
Capacity Used (Ave %)				0	1	1
Employment						
Total	4	28	60	-56	7	3
Recruiting Staff			(yes)	13	53	50
Recruitment Difficulties			(yes)	3	50	21
Increased Wages?			(yes)	7	28	20
Average Pay Increase				2.5%	5.0%	9.2%
Expectations Next Quarter						
Price Change	9	65	25	-16	43	36
Sales Revenue	25	29	45	-20	9	22
Investment	15	11	60	-45	14	19
Employees	7	48	37	-31	6	10
Cost Pressures (%)						
Pay Settlements			(yes)	19	17	7
Finance Costs			(yes)	31	29	10
Raw Material Prices			(yes)	24	33	24
Other Overheads			(yes)	44	37	37
Concerns (%)						
Interest Rates			(yes)	13	14	7
Business Rates			(yes)	53	43	20
Competition			(yes)	56	37	32
Exchange Rates			(yes)	47	29	20
Inflation			(yes)	52	31	22
Taxation			(yes)	57	34	22

Tourism

BUSINESS OPTIMISM

95% of tourism firms reported a fall in optimism, with only 4% reporting no change, this resulted in a net balance of -94%.

This is the lowest figure recorded for this trend in the survey.

GUESTS/CUSTOMERS

Due to the strict operating and travelling restrictions that have been in place due to lockdown, it is perhaps unsurprisingly severely impacted upon the sector in terms of visitors with all trends reporting record negative net balances.

INVESTMENT

For the second successive quarter, all trends have reported negative net balances. Firms are reporting significantly higher levels of decreased investment for Q2.

LABOUR MARKET

Almost three quarters of firms (71%) are reporting that they have lower levels of staff on the books for Q2. With 23% reporting no change, this has resulted in a net balance of -70%: the lowest recorded ever for the survey.

CONCERNS/PRESSURES

Cost pressures remain significant for tourism firms, most notably in raw material prices (50%) and other overheads (68%).

All trends in business concerns have increased – aside from exchange rates - with the top three being taxation, business rates and inflation.

Barring exchange rates, all trends are higher than their average for Q2.

EXPECTATIONS

With a high degree of uncertainty persisting it is not surprising that tourism firms are not optimistic that their situation will improve in Q2. On balance, levels of sales, investment and employment are all expected to decrease further.

(blank space indicates data not available)				(rounded up to nearest %)		
(balances may not add up to 100% due to N/A responses)				Q2/20	Q1/20	Q2/19
(figures given as % of respondents)	Up	Level	Down	Net % Balance	Last Quarter	Last Year
Business Optimism	1	4	95	-94	-15	10
Sales Revenue						
Total	0	0	98	-98	-15	32
Domestic (Scotland)	0	0	98	-98	-5	25
Rest of UK	0	0	85	-85	-10	21
Online	1	3	75	-74	15	37
Investment						
Total	4	28	59	-55	-15	4
Capital	3	28	55	-52	-5	-4
Training	3	23	50	-48	-5	-4
Cashflow	2	1	97	-95	-8	5
Applied for credit			(yes)	35	24	19
Profits	0	0	97	-97	-12	32
Employment						
Total	1	23	71	-70	-8	30
Recruiting Staff			(yes)	12	82	81
Recruitment difficulties			(yes)	1	76	69
Increased wages?			(yes)	5	48	70
Average pay increase (%)				5	8	6
Guests/Customers vs last year						
Total	0	1	98	-98	-6	26
From Scotland	0	1	97	-97	9	7
From Rest of UK	0	1	94	-94	-15	14
From Rest of EU	0	1	88	-88	-12	0
From Outside the EU	0	1	86	-86	-3	14
Expectations Next Quarter						
Price Change	33	46	21	13	25	60
Sales	11	31	58	-48	13	52
Investment	5	64	26	-21	-5	22
Employees	5	50	45	-40	10	15
Cost Pressures (%)						
Pay Settlements			(yes)	11	38	36
Finance Costs			(yes)	30	45	14
Raw Material Prices			(yes)	50	55	46
Other Overheads			(yes)	68	60	64
Concerns (%)						
Interest Rates			(yes)	21	13	18
Business Rates			(yes)	52	50	50
Competition			(yes)	40	30	14
Exchange Rates			(yes)	18	30	14
Inflation			(yes)	46	40	39
Taxation			(yes)	56	45	39