

Quarterly Economic Indicator



Scottish
Chambers of
Commerce

Network

In partnership with Fraser of
Allander Institute

RESULTS:
Q1 2024

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Foreword



Economic data in early 2024 is showing that the economy is likely to be recovering hesitantly as expected, following the contractions in growth in the final part of 2023.

Bright spots for the UK economy can be seen in inflation data, with the latest showing that Consumer Price Inflation fell to 3.4% in February, adding to hopes that interest rate cuts are likely to be coming over the course of 2024. January GDP data for the UK also shows growth after a poor end to 2024.

In Scotland, consumer sentiment has risen 4.8 points over the last quarter and 23 points over the year, indicating a significant improvement in sentiment across Scotland. However, most indicators remain in negative territory (i.e. more people being negative than positive about their circumstances) reflecting the challenging economic and financial pressures facing households.

Some of this positivity is reflected in the survey published today. Despite some of the headwinds reported by businesses – including increasing employment costs – business confidence is still in positive territory. There are clear sectoral differences, as might be expected, with the retail and hospitality sector in particular having a subdued set of results. The increase in the national minimum wage coming in April, while positive for workers, is likely to impact particularly on these sectors.

The recent Scottish Budget saw further divergence between tax rates in Scotland and the rest of the UK, with the introduction of the new “Advanced” tax band between £75,000 and £125,000. Interestingly, this survey has seen concern about taxation increase, increasing by 14 percentage points to now being reported as a concern by half of firms.

The survey results today are released on the same day as the Fraser of Allander Economic Commentary, which assesses all the main data on the Scottish and UK economies and presents our latest forecasts for the Scottish economy.

The verdict of our assessment chimes really well with the results from the survey today: that things are difficult, but that there are both signs of and hope of improvement.

Mairi Spowage
Director
Fraser of Allander Institute

Introduction

Stephen Leckie
President
Scottish Chambers of Commerce



The latest insights from Scottish business underscores the extreme cost pressures facing companies in all sectors. The persistently high cost of doing business is hammering cashflow and profitability which will hit the economy in the long-term.

The operating environment - nationally and globally - is exceptionally challenging.

Geopolitics has moved up the agenda in boardrooms underlining the critical role governments will continue to play to ensure smooth trading conditions.

Red Sea disruption, unresolved global conflicts and emerging concerns on data sovereignty are live issues businesses and communities require clarity on.

Despite this, Scottish businesses are showing signs of resilience with business confidence and recruitment intentions remaining stable for the next quarter.

Closer to home, businesses continue to express major dissatisfaction with tax policy direction from Scottish and UK Governments. Businesses are concerned about the impact of income tax divergence between Scotland and rest of UK in attracting and retaining talent.

The message from businesses is clear: we need Governments north and south of the border to reduce the tax burden.

More businesses are struggling to find and secure the skills and talent they need with recruitment difficulties significantly increasing over the quarter.

The planned increase in the national minimum wage, whilst welcome for workers, will heap extra costs on the most vulnerable sectors such as hospitality and leisure explaining why labour costs is the number one cost pressure this quarter.

Changes to the UK immigration system also threaten to harm Scotland's attractiveness, with a planned 50% rise in the minimum salary threshold for a Skilled Worker visa from April.

This policy alone will make it impossible for many Scottish businesses to hire international staff as the salary threshold is far higher than Scotland's average wage. The UK Government must adopt a business-friendly approach which aligns with Scotland's economic needs.

Key Findings

Q1 2024

The Q1 2024 survey was conducted between February & March 2024. 400 firms responded to the survey.

Cashflow & Profits:

- Q1 has seen a significant downturn in terms of cashflow and profits for firms, with sizeable contraction on balance recorded for both trends.

Investment:

- Investment trends remain largely frozen with 53% reporting no change to total investment and 52% reporting the same for training investment.

Labour Market:

- Labour market concerns have increased with 47% reporting recruitment challenges for the quarter compared to 40% in the last quarter. This has been driven by increases across the construction and manufacturing sectors.

Sales:

- Nearly all sales trends saw growth on balance with domestic sales seeing the most significant increase compared to the previous quarter. However, rest of UK sales saw a slight contraction on balance.

Cost Pressures:

- The leading cost pressures remain the same as at the end of last year with labour costs (76%), energy costs (60%) and raw material prices (44%), with more companies raising concerns specifically on labour and energy costs.

Concerns:

- Inflation remains the leading business concern, being reported by 55% of firms. Taxation has seen a significant increase over the quarter, up 14 percentage points to being reported by half of all firms.

Price Rises:

- More firms are indicating that they will raise prices this quarter compared to last, despite a 2023 low of 40% reported in Q4 2023. For this quarter, that has risen by 10 percentage points to 50% of all firms.

CONSTRUCTION



Confidence:

Constructions are generally positive as they report a positive net balance in confidence for the first quarter of the year.

Cashflow & Profits:

After reporting growth on balance for both cashflow & profits for the first time in two years last quarter, firms report a return to contraction on balance for both trends.

Investment:

Construction firms report a mixed picture for investment, with contraction on balance across total and capital investment but growth in training on balance.

Contracts:

For the second time in a row, construction firms report contraction on balance across all contract trends. All of these trends are significantly down when compared to the Q1 average and to last year's figures.

BUSINESS VOICE:

"Construction consultants are laying off staff. The Scottish Government have cancelled a series of key large projects in healthcare. These factors have led to a loss of confidence in the Scottish construction market."

- Construction firm in Ayrshire

**Business Concerns:**

Concern from inflation, taxation, and interest rates remains significant. Concern from taxation (53%) has reached a five-year survey high.

Cashflow & Profits:

For a third quarter in a row, firms report growth on balance for both cashflow and profits, with both trends above the rolling five-year average.

Sales Revenue:

Sales trends continue their upward trajectory from last year, with growth and positive net balances recorded for each trend.

Investment:

Services firms report growth on balance across all investment trends, with total and capital seeing the largest increases compared to the previous quarter.

Expectations:

Looking ahead to Q2, services firms are generally confident about their prospects. Sales and staff numbers are expected to grow healthily. Most firms (56%) expect investment levels to stay the same.

BUSINESS VOICE:

"Business confidence remains fragile with organisations taking a cautious approach - especially when it comes to discretionary spend. From a UK perspective, we don't see this changing until at least 2025, when it's hoped an improved economic outlook and more stable political landscape will ignite more investment and development activity." - Services firm in the Highlands

MANUFACTURING



Confidence:

Firms remain generally positive as they were for most of 2023. The final net balance of +23% is 11 percentage points higher than the same trend recorded last year.

Sales Revenue & Orders:

Nearly all sales trends saw growth on balance over the quarter, albeit subdued compared to the previous quarter. All order trends saw growth on balance, with export sales seeing the largest individual growth.

Investment:

For over a year, construction firms have consistently reported growth on balance across all investment trends and that continues here to start 2024.

Cashflow & Profits:

After positive end to 2023, construction firms report falls in cashflow and profits on balance. The final net balances are well below the rolling five-year survey average.

Cost Pressures:

Labour costs remain the leading cost pressure as they were for most of 2023, cited by 72% of firms.

BUSINESS VOICE:

"Consumer demand has dropped. Overstocking still problem in the supply chain. Cash flow has tightened. We expect business conditions to be difficult for Q1 2024, thereafter we are hopeful things will pick up." - Manufacturing firm in the Highlands

RETAIL & WHOLESALE



Cashflow & Profits:

The end of 2023 saw a rare reporting of growth for cashflow and profits, this has now regressed to the norm in recent times of contraction across both trends on balance.

Sales Revenue:

After a strong end to 2023 which saw growth across all sales trends, the start of 2024 sees retail firms report a fall in domestic and total sales on balance.

Investment:

Retail firms reported a mixed picture for investment, with capital seeing growth on balance but training see a similar contraction over the quarter. This meant that overall, investment was flat for the quarter.

Expectations:

Over half of firms (56%) expect to raise their prices next quarter, the highest of any of the main five sectors surveyed in this report.

While firms do project growth on balance for sales and staff, they are expecting investment to fall in the next quarter.

BUSINESS VOICE:

"We urgently need the Scottish government to allow the rate discounts available to retailers south of the border. They are not taking this matter seriously and we need to make things as easy as possible for city centre regeneration to take place." - Retail firm in Perthshire

TOURISM



Confidence:

80% of tourism firms report either decreased or no changes in levels of confidence. As only 20% reported an increase, this results in a net balance of -20%.

Sales Revenue:

Tourism firms report contraction on balance across all sales trends, albeit the fall is less severe than seen in the previous quarter.

Cashflow & Profits:

Cashflow and profits have been a consistent challenge for tourism firms in recent years and the start of 2024 follows that trend. Firms report significant contraction on balance across both cashflow and profits.

Expectations:

Sales and staff numbers are projected to grow in Q2, while investment is expected to be flat on balance (no change). Over half of firms anticipate increasing their prices in the next quarter.

Cost Pressures:

Labour costs rose by 12 percentage points to 78%, the highest recorded for this trend since Q4 2022. All other trends saw some slight easing.

BUSINESS VOICE:

"Our electricity contract has just doubled in cost pcm. With labour cost rises in April, it's very difficult to see how the books are going to balance without some sort of reduction in business rates (as in England) or VAT. Yes, we can increase our prices but not enough to cover the increase in costs." - Tourism firm in Aberdeen & Grampian,

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