

Quarterly Economic Indicator



Scottish
Chambers of
Commerce

Network

**RESULTS:
QUARTER 1
2022**

**in partnership with
Fraser of Allander Institute**

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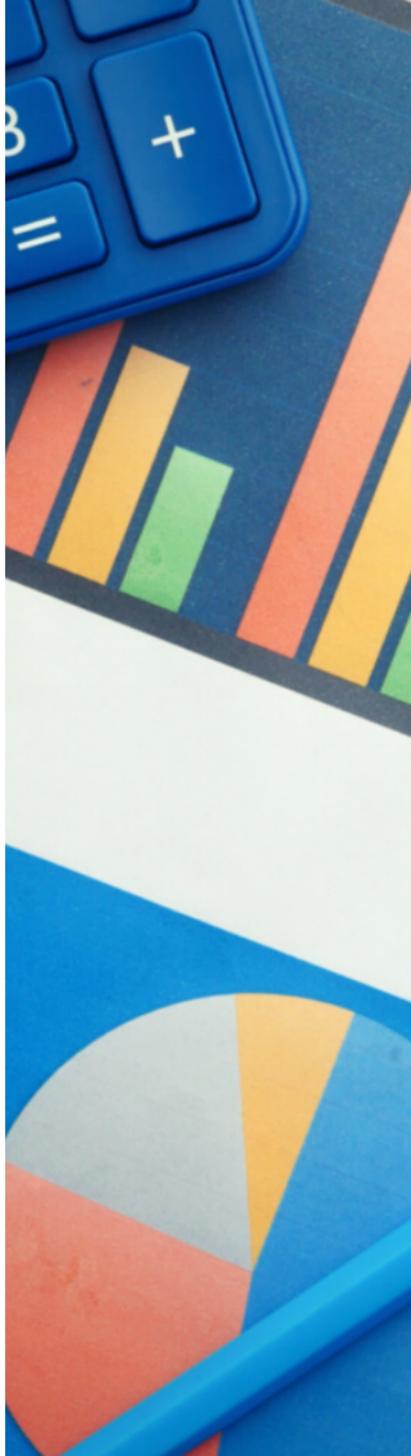
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Foreword

Mairi Spowage
Director
Fraser of Allander Institute



Two years on from the first lockdown, it would be great to be optimistic about the economic prospects for 2022. Unfortunately, global uncertainties and the cost of living crisis, which are not unrelated to each other, have doused that enthusiasm with a bucket of cold water.

The war in Ukraine is first and foremost a humanitarian disaster, with serious consequences for the Ukrainian people, their economy, and the wider security situation in Europe. In addition, it has also had implications for the costs of goods and services in our country. Having said this, it is important to remember that inflationary pressures were evident well before this, with post-pandemic supply chain issues and world-wide demand for gas causing prices to rise.

Despite the impact of Omicron in December, the economy is now (as of data in January) back above pre-pandemic levels of growth. This milestone in the recovery is of course important: but seems less heartening than it might have done a few months ago given the wider economic conditions.

Needless to say, the macro picture for the economy hides a disparate sectoral story. The hospitality, arts, leisure and culture sectors remain significantly below pre-pandemic levels of output. These sectors may suffer further as consumers cut back discretionary spending as the cost of living crisis really starts to bite. The resilience of these businesses is likely to be tested yet again.

Current data suggests that the experience of input price rises for businesses is running at more than double the consumer inflation rate. And as much as many businesses are trying to avoid passing price rises onto customers, something may have to give for tight margin businesses.

This may mean that these cost pressures may continue to feed through to prices experienced by consumers as more businesses face difficult choices. Labour shortages are also feeding into supply constraints as businesses struggle to attract and retain staff.

In the face of all these headwinds, it can be difficult not to be gloomy about the prospects for growth in 2022. The Scottish business base has shown incredible resilience through the last couple of years, and was looking forward to a strong Spring and Summer as we look to operate without COVID-related restrictions.

In line with this resilience, it is important to highlight that these results today show positivity for 2022 despite all these challenges. It will be interesting to see how this positivity evolves as we progress through 2022.

Introduction

Stephen Leckie
President
Scottish Chambers of Commerce



“Despite a period of relatively strong growth, the latest Scottish Chambers of Commerce business survey reveals that growth is now levelling off as the complexity of the challenges facing Scotland’s businesses start to take hold.

“Many firms are becoming increasingly anxious about rising inflation, energy prices and cost pressures. For many businesses, the focus is still simply on survival.

“Businesses who have weathered the pandemic over the past two years are now seeing problems pile up, one on top of another, as they struggle with longstanding challenges linked to recruitment, planning and managing change and are now being hammered by surging energy prices, inflation and falling consumer spending.

“Consequently, Scotland’s businesses are making serious adjustments to operating models and taking difficult decisions over absorbing price rises or passing them on to consumers. Business finances are being squeezed with Coronavirus Business Interruption Loan Scheme repayments, rising interest rates and significant business insurance cost rises.

“The prospect of impending additional devolved taxes such as the Workplace Parking Levy, Transient Visitor Levy (Tourist Tax) and the Deposit Return Scheme are further cause for concern amongst already hard-pressed businesses.

“Economic growth is now plateauing because of these rising inflationary and cost pressures creating an increasingly uncertain outlook for businesses, with international trade and the global economy remaining volatile.

“With continued disruption to international trade due to the war in Ukraine, energy prices expected to rise again later in the year and inflation likely to remain resurgent, businesses will be forced to increase prices further, cut back on investment and protect their cashflow and profits to enable them to cope with any additional economic shocks.

“Scotland is approaching a critical point in recovery. Businesses are struggling now.

“That is why the Scottish and UK Government’s need to urgently rethink the impact of new and increased taxes on business, to give them the necessary headroom they need to adjust and grow.”

Key Findings

Quarter 1 2022

The Q1 2022 survey was conducted between February and March 2022. 333 firms responded to the survey.

Record Concern Over Inflation:

- With UK inflation reaching 5.5% earlier this year, the negative impact on businesses is becoming increasingly clear with all sectors of the economy reporting record high levels of concern. The financial and business services sector (FBS) reported a 15% increase and the tourism sector a 14% increase from Q4 2021 respectively.

Cashflow Crunch & Profits Plummet:

- Businesses continue to report significant cashflow and profit challenges, with high inflation a key driving factor. The construction, retail and tourism sectors all reported decreases in both cashflow and profits, highlighting the impact of rising cost pressures, leaving businesses at increased risk from economic shocks.

Growing Cost Pressures:

- Across all sectors, business cost pressures have increased. Raw material prices, rising energy costs, increased tax burdens and other overheads are leading pressures. Energy price rises and the ongoing global supply chain disruption are cited to be the primary contributing factors to these increases.

Consumer Price Rise:

- In response to rising cost pressures, a record 7 in 10 firms have indicated that they intend to raise the prices that they charge for their goods and services. This is likely to deepen inflationary challenges and further increase the cost-of-living.

Retail & Tourism Remain Vulnerable:

- Despite the continued easing of COVID-19 restrictions over the first quarter of 2022, firms in these sectors have still reported concerning figures for both sales and investment. Retail footfall remains considerably below pre-pandemic levels due to changes in office work patterns and the removal of international travel restrictions have cooled the staycation market.

Expectations Next Quarter:

- Inflationary pressures for businesses and consumers are likely to become even more prevalent in the coming months, with 7 in 10 firms expected to raise their prices within the next quarter. The effects of increasing costs of imported raw materials and energy price hikes are likely to add to this.
- As reported in the previous quarter, construction, FBS and manufacturing remain optimistic about their expectations for Q2 2022. However, expectations are more volatile when it comes to retail and tourism. While firms in these sectors anticipate sales and staff levels to increase in Q2, they are reporting that they will be pulling back investment on balance.

CONSTRUCTION



Cost Pressures:

Cost pressures saw increases over the quarter, with raw material prices and other overheads leading the list of concerns.

Inflation:

Record high levels of concern (94%) over inflation.

Confidence:

Confidence in the sector has remained positive, albeit eased compared to the previous quarter.

Sales & Investment:

All sales trends have remained at positive net balances, with over half of firms (52%) reporting increased total sales. Investment also continues to show positive signs, except for capital investment which reported a fall on balance.

Contracts:

All contract trends have reported positive net balances with most seeing significant improvement since the previous quarter.

COST PRESSURES:

"Cost pressures remain high and concern from other overheads (77%) has reached a five-year survey high. Most business concerns have also increased since the previous quarter, apart from taxation which saw a small fall. **Concern over inflation (94%) has reached a record high for the survey.** This is likely a driving factor behind a record 84% of firms saying they intend to raise their prices in the next quarter."

FINANCIAL & BUSINESS SERVICES

**Inflation:**

Three quarters of firms reported increased concern over inflation, a record high for the survey.

Confidence:

Confidence among firms in the sector has risen significantly since the previous quarter, with over half of firms (53%) reporting an increase.

Sales & Orders:

All sales trends have remained at positive net balances for a second successive quarter.

Cashflow & Profits:

Levels of cashflow and profits remained positive on balance, with cashflow seeing an increase of 13 percentage points compared to the previous quarter.

Investment:

All investment trends have remained at positive net balances for a fourth successive quarter.

EXPECTATIONS:

"Expectations for sales and investment remain generally positive, a notable 65% of firms expect sales to increase in Q2 2022. On employment, firms remain cautious with most firms (65%) envisaging no changes."

MANUFACTURING



Cost Pressures:

Concern over raw material prices and costs from other overheads remain the leading concerns for firms, with both reporting second successive record highs.

Inflation:

Concern over inflation has also reached a second successive record survey high at 91%.

Confidence:

Confidence in the sector has remained strong, seeing an increase of 16 percentage points to +33% compared to the previous quarter.

Sales & Orders:

The majority of sales and order trends remained at positive net balances, with domestic orders seeing the largest increase since the last quarter. However, firms reported a fall in export orders on balance.

Investment:

All investment trends have remained at positive net balances for the fifth successive quarter.

PERFORMANCE:

"After the blip in Q4 2021, the level of work in progress has returned to a positive net balance. The net balance of +9% is 14 percentage points higher than the Q1 average. Levels of cashflow have returned to a positive net balance after Q4 2021, exceeding the Q1 average. However, profits have remained at a negative net balance for the second successive quarter."

RETAIL & WHOLESALE



Cost Pressures:

The leading concerns remain inflation, taxation and competition. Concern over inflation has reached a five-year survey high at 75%.

Confidence:

Confidence among retail firms remains positive, seeing a slight increase of 5 percentage points compared to Q4 2022.

Sales & Investment:

For the third successive quarter, firms have reported negative net balances for all sales and investment trends.

Cashflow & Profits:

Levels of cashflow and profits have remained at negative net balances for the second successive quarter, with at least half of firms reporting falls for both trends.

EMPLOYMENT:

"Retail firms continue to be cautious when it comes to employment. Over 6 in 10 firms (63%) reported no change to staff levels over the quarter and 66% anticipate 'no change' in the next quarter."

TOURISM



Inflation:

Compared to the previous quarter, concern over inflation rose by 14 percentage points to 83%. This is a five-year record survey high.

Cost Pressures:

All cost pressures saw increases over the quarter, with raw material price and other overheads increases being the most highly reported.

Confidence:

Confidence in the sector remains fragile with a second successive negative net balance reported.

Sales:

Negative net balances have been reported for all sales trends for the first time in a year.

Cashflow & Profits:

Levels of cashflow and profits have remained at negative net balances and have fallen significantly compared to Q4 2022. 52% and 67% of firms reported falls in these trends respectively.

EXPECTATIONS:

"Tourism firms are looking towards the late spring and early summer with general optimism. Overall, the sector anticipates sales and staff levels to increase in Q2 2022, although it expects to cut back on investment."

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