

Quarterly Economic Indicator



Scottish
Chambers of
Commerce

Network

In partnership with Fraser of
Allander Institute

RESULTS:
Q3 2024

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Foreword

Mairi Spowage
Director
Fraser of Allander Institute

Following a positive start to 2024, economic growth in the summer months has been more hesitant for the UK and Scotland. After a strong start to the year, with growth rates reaching 0.6% in the first quarter and 0.5% in the second quarter, Scotland seemed poised for a sustained recovery.

However, growth faltered in May and June, reflecting broader economic trends, with only a slight recovery in July at 0.3%. Despite the dip, these figures still reflect a more consistent growth pattern compared to the volatile year of 2023, although Scotland remains just behind the UK in terms of overall performance for 2024 to date.

Business confidence in the first half of the year was consistently getting better, buoyed by inflation coming down to normal levels and expectations of interest rate cuts over the course of the Autumn. Some indicators suggest that business confidence has softened over the summer, with the percentage of firms who are expecting their activity to increase over the next few months falling back from the highs in the Spring.

Consumer confidence has shown a similar pattern: going down in July and August, with falls in perception of the general economic conditions and the likelihood of consumers making big purchases.

Are the gloomy messages coming from politicians impacting on confidence? It is not possible to draw direct causal links (i.e. to say definitively that government rhetoric is causing a wobble in business or consumer confidence). The economy is a dynamic and organic thing, not a machine where pulling a particular lever has a completely measurable and predictable outcome. There are lots of factors that are changing all the time that can impact on the economic weather.

The changing pathway for interest rates, for example, is likely to be weighing on business expectations for growth: the latest decision by the Bank of England is likely to yet again temper expectations of the trajectory for interest rates coming down over the next year. These expectations have been continually redrawn as we have moved through 2024.

The news about the probable increases in energy bills is also likely to impinge on consumer confidence about the Autumn. Overall, though it does feel like many consumers, and certainly many businesses, are holding their breath to see what is announced in the UK Budget at the end of October.

We all wait for 30th October – here's hoping the announcements provide more certainty and therefore breed confidence in the wider economy, to drive the growth that we all want to see.

Introduction

Douglas Smith
Vice President
Scottish Chambers of Commerce

The latest survey results confirm that general business confidence is uncertain given recent rhetoric from government on how painful upcoming budgets will be, both at Holyrood and Westminster.

How this will impact business and employees is a concern and the lack of clarity has stalled investment and undermined confidence.

In addition, employees worry about personal taxation with fuel duty, pension tax relief and the impact of fiscal drag all taking cash from their pockets.

That will lead to increased wage demands and more cost pressures on businesses where seven in 10 Scottish businesses are now warning labour costs are the leading factor.

Businesses understand the fiscal backdrop government is facing and the need to address the public finances but any changes made must not be at the expense of investment and growth.

We are willing to work in partnership to overcome these challenges and help grow the economy but that can only happen if we strive to be competitive and innovative.

Economic growth is forecast to remain flat in 2025 and 2026. Coupled with warnings of tough budgets and increases in taxation on firms have left many business leaders wary.

We need to see government listening to our concerns, delivering incentives and solutions if we are to restore confidence and create the foundations for investment and growth.

The delays and obstacles put in the way of progress, be it infrastructure projects or small planning applications, all contribute to the current stagnation and lingering austerity.

The upcoming Autumn and Scottish Budgets is a chance to reset the relationship with business and finally work in partnership to create jobs and stimulate growth.

We have put forward many realistic solutions to encourage investment and ease business pressures, but the real test is whether government will listen and take action.

Key Findings

Q3 2024

The Q3 2024 survey was conducted between August & September 2024. 405 firms responded to the survey.

Cashflow & Profits:

- Cashflow is a considerable challenge for firms, with a contraction on balance reported across three out of the five sectors. The services and tourism sectors were the only sectors to report growth on balance in cashflow.
- In terms of profits, only the services sector reported growth on balance. Every other sector in the survey reported contraction on balance.

Investment:

- Investment trends continue to be generally positive, with growth recorded on balance across all trends. The retail sector was the only sector with generally negative results in terms of investment.

Labour Market:

- Labour market concerns have eased slightly, down to 50% compared to 55% in the previous quarter. Compared to this time last year, these recruitment difficulties have come down from 60%.

Cost Pressures:

- All cost pressures eased slightly over the quarter and have eased significantly since this time last year. Labour costs are the leading cost pressure, cited by 7 in 10 firms. Concern from energy costs is cited by over half of firms (53%).

Concerns:

- Taxation remains the leading concern for firms and saw an increase over the quarter, it is now cited by 55% of firms. Concern from inflation has eased but remains significant for nearly half of firms (47%).
- Compared to last year, inflation was cited by 75% of firms with taxation cited by 35%.

Price Rises:

- The number of firms indicating they expect to increase prices fell for the second successive quarter, down to 40%, compared to 45% last quarter and 50% last year.

CONSTRUCTION



Cashflow & Profits:

For a third successive quarter, firms reported falls on balance for both cashflow & profits.

Contracts & Sales:

All sales trends saw growth on balance over the quarter, which was significantly improved compared to the last quarter and to last year.

Most contract trends saw growth over the quarter. However, firms reported a significant contraction in public sector orders, which has seen gradual decline over the year.

Confidence:

Construction firms remained generally upbeat as they reported a third successive positive net balance for confidence for the year so far.

Concerns:

Taxation (62%) has overtaken inflation (58%) as the leading concern for firms and has reached its highest level since Q1 2022.

BUSINESS VOICE:

“Concerns over what the UK Government might do with regards to taxation and extending employee rights. Very difficult times for medium sized businesses as it is without further constraints and costs.”

- Construction firm in Ayrshire

**Cashflow & Profits:**

Services firms have consistently reported growth on balance for cashflow and profits and that continued here. The level of growth has notably eased since the same quarter last year.

Confidence:

As has been the trend for the year so far, services firms reported growth in confidence on balance, in line with the Q3 average.

Cost Pressures:

Labour costs have consistently been cited as the leading pressure and that continued here, reported by over half (56%) of firms.

Concerns:

Concern from business rates has increased over the year to become a top three concern for 44% of firms. This is a five-year survey high.

Expectations:

Services firms are confident looking ahead to the next quarter, having reported expected growth on balance for sales, investment, and staff. The final net balance of +45% for expected sales is a five-year survey high.

BUSINESS VOICE:

"Windfall taxes on offshore business are impacting our ability to plan for longer term growth, we are focusing more on onshore services now in a bid to try and offset lost opportunities. Possibility of increased taxes and overhead add ons will put more pressure on us."

MANUFACTURING



Cashflow & Profits:

Cashflow and profit trends have varied between growth and contraction over the year. In this quarter, firms reported contraction on balance for both trends.

Sales Revenue & Orders:

Firms reported growth on balance across most sales trends, apart from rest of UK sales which saw a contraction. Orders continued to perform strongly, with growth on balance reported across all trends.

Investment:

Firms continued to report growth on balance across all investment trends for the quarter. Firms also reported they expect investment to increase in the next quarter on balance.

Confidence:

Concern from taxation has reached a five-year survey high at 60%, having overtaken inflation as the leading concern since last year.

Cost Pressures:

All cost pressures saw some easing over the quarter. Concern from labour, raw material prices and energy costs were reported by six in 10 firms.

BUSINESS VOICE:

"Prospect of even higher corporation and personal tax putting off people investing in Scotland. Reduced budgets for infrastructure and uncertainty of budgets slowing everything down."

- Manufacturing firm in Fife

RETAIL & WHOLESALE



Cashflow & Profits:

Cashflow and profits have been consistent challenges for retail firms over this year and that continued here, with sizeable contraction on balance reported for both.

Sales Revenue:

Sales trends have seen significant improvement compared to this quarter in 2023, with domestic sales making up for most of the growth reported.

Confidence:

For the first time this year, retail firms reported a contraction on balance for confidence. The net balance of -5% is 13 percentage points down compared to the last quarter but is still in line with the Q3 average.

Concerns:

60% of retail firms reported increased pressure from business rates, higher than inflation (56%) and only behind taxation (70%). Concern from taxation at 70% is a five-year survey high for the sector.

BUSINESS VOICE:

"Concerned about the upcoming budget. Business is already on a knife-edge, with an unpredictable market. More taxation, or legislation on flexible working etc could tip many businesses over the edge."

- Retail firm in Forth Valley

TOURISM



Confidence:

It is only the third time in the past two years of the survey, that tourism firms have reported growth in confidence on balance.

Sales Revenue:

Most sales trends saw growth on balance, apart from rest of UK sales which reported a contraction on balance.

Cashflow & Profits:

For only the second time in the past three years of the survey, tourism firms reported growth on balance in cashflow. On the other hand, firms reported a contraction on balance for profits despite seeing growth last quarter.

Expectations:

Considering the seasonal dependency of the sector, it is little surprise that sales and stuff levels are forecast to fall in the next quarter. On the other hand, investment is expected to increase on balance.

Concerns:

Concern from taxation has reached 77%, a five-year survey high, and has increased by 10 percentage points compared to Q3 2023.

BUSINESS VOICE:

"The visitor levy - a tax too far. Already one of the highest taxed tourism sectors in Europe. Currently seeing large market decreases in occupancy."

- Hospitality firm in the Highlands

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