

Quarterly Economic Indicator



Scottish
Chambers of
Commerce

Network

In partnership with Fraser of
Allander Institute

RESULTS:
Q2 2024

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Introduction

Stephen Leckie
President
Scottish Chambers of Commerce



Our latest survey indicates generally improving business conditions across the economy, albeit significant challenges continue to persist which are limiting the ceiling on potential growth and investment.

The impetus to deliver a credible plan for sustainable growth lies with both the Scottish and UK Government. Now must be the moment to focus on long-term solutions to tackle poor productivity and create an environment for business investment to accelerate.

The first step is engaging with businesses in Scotland and across the UK, to instil confidence in a new partnership between government and the private sector which is ready to propel our economy to growth and identify how initiatives such as the National Wealth Fund will support Scottish business.

Taxation continues to concern firms, to the extent that the issue has overtaken inflation as the leading concern.

This is having a major impact in attracting and retaining talent in Scotland, contributing to the significant labour challenges many businesses are already experiencing. Divergence on personal taxation has exacerbated the issue.

Businesses will be looking to both the Scottish and UK government to set out long-term plans to address the current state of taxation which is impacting growth, investment and talent.

Our report also shows that over half of Scottish businesses are continuing to experience significant costs and challenges with attracting and retaining the talent they need.

The UK Government should address this by introducing a skilled migration strategy which is tailored to the needs of the Scottish economy and restore our reputation as a welcoming and open destination for international students to study, live and work.

It's positive that the survey results are beginning to see a reversal in the consistent trend of frozen investment. Without unlocking investment, firms cannot power the growth the economy needs and which government is relying on to grow the public finances.

Significant cost pressures, trade barriers and skills shortages, are critical factors to address if we are to see investment across growth sectors such as AI and green technologies.

Key Findings

Q2 2024

The Q2 2024 survey was conducted between May & June 2024. 410 firms responded to the survey.

Cashflow & Profits:

- Q2 has seen significant improvement in terms of cashflow and profits for firms - particularly profits - with growth on balance recorded for both trends.

Investment:

- Investment trends are generally positive, with growth recorded on balance across all trends. Around four in 10 are holding back on investment which has slightly reduced since the previous quarter.

Labour Market:

- Labour market concerns have increased to 55% reporting recruitment challenges for the quarter compared to 47% in the last quarter. This has been driven by increases across the retail and tourism sectors.

Sales:

- All sales trends saw strong growth on balance with domestic sales seeing the most significant increase compared to the previous quarter.

Cost Pressures:

- Labour costs remained the leading cost pressure by a considerable distance, being cited by three quarters of firms. Other significant pressures such as energy costs and raw material prices saw slight easing over the quarter.

Concerns:

- Inflation and taxation remain the leading concerns but did see slight easing over the quarter. Taxation (52%) overtook inflation (50%) as the leading concern. Concern from competition saw the largest increase (40%) compared to the previous quarter (30%).

Price Rises:

- The number of firms indicating they expect to increase prices fell slightly from the previous quarter, down to 45% this quarter compared to 50% in Q1 2024.

CONSTRUCTION



Cashflow & Profits:

For a second successive quarter, construction firms reported falls on balance for both cashflow and profits levels.

Contracts & Sales:

Compared to the contraction reported across all contract trends last quarter, most trends saw growth on balance in this quarter.

Despite a contraction in domestic sales, firms reported growth on balance overall due to a strong performance for rest of UK sales.

Cost Pressures:

All cost pressures saw increases over the quarter, with labour costs being reported by a five-year survey high of firms at 83%.

Investment:

Construction firms reported growth on balance across all investment trends. On balance, firms expect investment to increase in Q3 2024.

BUSINESS VOICE:

"General cost of living is severely impacting the works which people are undertaking on their homes. Cost of labour and materials for extensions are putting people off from undertaking domestic building works. We do not envisage these costs to decrease but the impact of lack of confidence and lack of access to financing building works, is having an impact on our business."

- Construction firm in The Lothians

**Business Concerns:**

Taxation (51%) has narrowly overtaken inflation (50%) as the leading concern, with interest rates (40%) rounding off the top three concerns.

Cashflow & Profits:

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

Confidence:

The net balance of +26% is the highest recorded in a quarter since Q1 2022 and is higher than the Q2 average.

Cost Pressures:

Labour costs remained the leading cost pressure for services firms and equalled a five-year survey high of 67%. All cost pressures saw increases over the quarter.

Expectations:

Services firms are generally positive looking ahead to the next quarter, having reported expected growth on balance for sales, investment, and staff numbers.

BUSINESS VOICE:

"Overall tax burden is limiting growth in particular all SMEs, hotels, independent restaurants and general small hospitality provision." - Services firm in Perthshire

MANUFACTURING



Confidence:

Over three quarters of firms (77%) reported either increased or no changes in levels of confidence. As 23% reported a decrease, this resulted in a positive net balance of +22%.

Sales Revenue & Orders:

All sales trends saw growth on balance over the quarter, with domestic and export sales being the most significant drivers. All order trends also saw growth on balance for the quarter.

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.

Cashflow & Profits:

After a challenging Q1 for cashflow and profits, firms reported a return to growth on balance for both trends.

Cost Pressures:

Labour costs remained the leading cost pressure for firms, reaching a five-year survey high at 75%. All cost pressures saw increases over the quarter.

BUSINESS VOICE:

"Cashflow and recruitment remains the key ongoing issues with clients slow to pay and the labour market very difficult for skilled personnel." - Manufacturing firm in Aberdeen & Grampian

RETAIL & WHOLESALE



Cashflow & Profits:

On the one hand, firms reported a significant contraction for cashflow on balance.

On the other, firms reported growth on balance for profits for only the second quarter in the past year of the survey.

Sales Revenue:

Firms reported growth on balance across all sales trends, after a challenging start to the year in Q1.

Investment:

Although training investment was flat for the quarter (no change), capital investment saw growth on balance and contributed to a positive net balance for investment overall.

Expectations:

Generally, retail firms are optimistic for Q3, with sales, investment and staff numbers all projected to see growth on balance.

There is some caution with half expecting investment to stay the same and 66% saying staff numbers will not change either.

BUSINESS VOICE:

"Lack of footfall due to parking restrictions now in place on one hour, has dramatically affected business, people just drive through now." - Retail firm in Ayrshire

TOURISM



Confidence:

For just the second time in the past two years of the survey, tourism firms reported growth in confidence on balance (+4%).

Sales Revenue:

Sales trends generally saw a positive uptick over the quarter, with growth across most trends, driven by domestic and rest of UK sales.

Cashflow & Profits:

Tourism firms reported a fall in cashflow on balance, but an increase in profits on balance. Both figures still sat well above their Q2 average.

Expectations:

Tourism firms are generally positive regarding Q3, with all of sales, investment and staff numbers projected to grow in the next quarter.

The net balance of +40 for projected sales is the highest recorded for this trend in a quarter since Q2 2021.

Cost Pressures:

Labour costs (80%) remained the dominant concern for tourism firms, 20% higher than the next highest cost pressure.

BUSINESS VOICE:

"Hospitality businesses in Scotland are at a huge disadvantage to those in England because of zero business rate relief and higher taxation." - Hospitality firm in Renfrewshire

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