



Quarterly Economic Indicator



Scottish
Chambers of
Commerce

Network

in partnership with
Fraser of Allander Institute

**RESULTS:
QUARTER 4
2022**

CONTENTS

BUSINESS COMMENTARY

- 2 Foreword: Mairi Spowage, Director, Fraser of Allander Institute
- 3 Introduction: Stephen Leckie, President, Scottish Chambers of Commerce

KEY FINDINGS

- 4 Key Findings

SECTORAL RESULTS

- 5 Construction
- 6 Financial & Business Services
- 7 Manufacturing
- 8 Retail & Wholesale
- 9 Tourism

Access the Full Report &
Detailed Statistics at
[ScottishChambers.org.uk](https://www.ScottishChambers.org.uk)



Foreword



Setting out the economic and fiscal context can currently feel a bit like groundhog day, with concerns about economic conditions simply seemingly get worse as we kick off 2023.

The consensus now is that the UK and Scottish economy are in recession: and the only debate among forecasters is exactly when it starts and how many quarters long it will be.

Looking across these rather gloomy prospects, it looks like the contraction in the economy is likely to continue throughout this year, as costs for consumers and businesses continue to rise.

Front and centre for both consumers and businesses are of course energy costs. While the UK Government has put in place very costly help for both groups, it does mean that there is much more pain still to come in April.

The Energy Bill Discount Scheme announced last week is much less generous than the scheme in place before the end of March – and will see energy costs for some businesses potentially double yet again.

This, alongside the constrained spending power of consumers, means that the outlook remains gloomy, despite the better-than-expected data for economic growth in November at the UK level.

As is clear from the survey published today, though, the story of increased costs is not just about energy – labour market costs are also a significant part of the story.

The latest data for wage growth in the UK published this week shows that pay in the private sector increased by 7.2% in the 3 months to November.

In the last few months we have seen falls in the number of vacancies in the UK compared to the heights of the summer, but there is still in an incredibly tight labour market: making vacancies very hard to fill and pushing up costs.

We must be positive about the ability of Scottish businesses to weather the storm – they have proven their resilience over the past three, very challenging, years. What is clear is that they will have to draw on that further during 2023.

Mairi Spowage
Director
Fraser of Allander Institute

Introduction

Stephen Leckie
President
Scottish Chambers of Commerce



The end of 2022 turned out to be a bleak period for Scottish businesses. All sectors are coming under immense strain because of upfront costs which are hitting cashflow and profits.

Additional cost pressures are adding to this burden, particularly with rising staff costs, which is leading the majority of businesses to raise prices.

There can be little doubt that recessionary effects are dragging the Scottish economy away from recovery and growth. The survey results paint a particularly worrying picture for the retail and tourism sectors with contractions in future sales and investment intentions.

As relief packages come to an end, businesses are extremely concerned particularly on energy prices which continue to be volatile. Any sudden removal of this support could severely impact business survivability.

Energy bills continue to be a significant cost pressure for firms. While the survey shows that the energy bills relief scheme has helped since it came into effect in October, the lack of further support is a major cause for concern.

The successor to the energy bills relief scheme from March will see an 85% drop in the financial envelope of support which will fall short for thousands of Scottish businesses who are seriously struggling.

While we welcome the 12-month duration of this package, the value is nowhere near enough and that means for some firms, energy will now be a cost too far. We would urge the UK Government to revisit the relief package urgently.

While considerable uncertainty remains, households and businesses will face a further increase in energy costs from 1st April 2023. Given wider economic challenges, this will harm those most in need and further targeted support for those most vulnerable will be necessary.

Persistent challenges over access to labour and retaining talent are beginning to take precedence as a leading concern for firms. Both the Scottish and UK Government need to act quickly to alleviate the challenges in the workforce.

We call on the UK and Scottish Government to urgently support SMEs by providing relief packages and a clear economic plan.

Key Findings

Quarter 4 2022

The Q4 2022 survey was conducted between November & December 2022. 310 firms responded to the survey.

Inflation Remains Top Concern:

- Q3 2022 saw significantly high concern over inflation, cited by 88% of firms. It has eased for a second successive quarter but remains high with 8 in 10 firms (80%) of firms citing it over Q4. The next highest concern are interest rates (50%) which has seen nearly a 15% increase since Q3 2022.

Cost Pressures Remain High:

- The results for all firms highlight the cost of doing business which continues to cause challenges:
- 72% reported increased cost pressures from labour costs, including salaries
- 61% reported increased cost pressures from fuels such as diesel and petrol
- 60% reported increased cost pressures from raw material prices
- 40% reported increased cost pressures from energy costs (drop of 40%, energy bill relief scheme payments took effect from October 2022)

Cashflow & Profits Falling:

- Around half of all firms reported falls in both cashflow and profits across the quarter. Only 30% reported an increase in cashflow and 18% an increase in profits. Every sector reported a sizeable contraction in cashflow and profits when compared to Q4 2021.

Firms Still Planning to Raise Prices:

- 82% of all firms indicate that they intend to raise the prices that they charge over the next quarter. This is a successive record high for the survey. Retail and tourism firms had the highest proportion of firms indicating future price rises at 77% and 76% of firms respectively.

Flat Labour Market:

- Recruitment difficulties have seen a 2% drop from the previous quarter, with still over half of all firms (52%) reporting increased challenges acquiring staff. This is a 7% increase when compared to Q4 2021. The sectors that reported the highest recruitment challenges were manufacturing and tourism at 69% and 71% respectively.

Weakening Confidence:

- On balance, all firms have reported a fall in confidence compared to the previous quarter and a more significant fall compared to last year. On a sectoral basis, every sector reported a fall in confidence with retail and tourism seeing the largest fall when compared to the previous quarter.

CONSTRUCTION



Business Concerns:

While inflation remains the biggest concern for firms, cited by 80% of firms, concern over interest rates (56%) is at a five-year high.

Cost Pressures:

Labour costs have overtaken energy costs as the leading cost pressure for firms, with seven in ten reported increased workforce related costs.

Work in Progress:

A contraction in work in progress for the first time since Q2 2020, when the industry was largely inoperative due to COVID-19.

Contracts & Sales:

For the first time since Q1 2021, all sales trends have reported negative net balances. All contract trends have reported negative net balances for a second successive quarter.

Price Rises:

A survey record 71% of firms anticipate raising their prices in Q1 2023, an increase of 25 percentage points compared to Q4 2021.

BUSINESS VOICE:

“Surrounded by customers at all levels wanting more for less which is fundamentally not sustainable. General level of fear and anxiety exhibited by customers as demonstrated by additional demands in terms of either cost or time savings.” - Construction firm in Ayrshire

FINANCIAL & BUSINESS SERVICES



Inflation:

A successive record high of 82% of firms have reported increased concern from inflation. This is almost double the level of concern recorded for Q3 2021.

Confidence:

For the first time in over two years, firms in the sector have reported a fall on balance in confidence. This is only the second negative net balance for confidence in the past five years, alongside Q2 2020.

Sales Revenue:

After a generally positive 2022 for sales, firms have reported negative net balances across most trends for the first time since Q1 2021.

Cashflow & Profits:

Firms have reported negative net balances for both cashflow and profits levels, for the first time since Q1 2021.

Price Rises:

A survey record 71% of firms anticipate raising their prices in Q1 2023, an increase of 25 percentage points compared to Q4 2021.

BUSINESS VOICE:

"The biggest business issue is uncertainty - changing rules, taxes, markets, mixed messages from rule makers - hard to plan for anything just now. Change can be good but not in a very short period of time."

- Services firm in Aberdeen

MANUFACTURING



Inflation:

While concern from inflation has eased slightly to 80%, concern from all other trends has increased over the quarter. In particular, interest rates by 11 percentage points.

Cost Pressures:

Raw material prices, utility and labour costs remain the dominating cost pressures for manufacturing firms, all reported by at least seven in ten firms.

Labour Market:

Recruitment difficulties have remained consistently high over the past year, now culminating in a five-year survey high of 69%.

Cashflow & Profits:

For a second consecutive quarter, manufacturing firms have reported falls in both cashflow and profits on balance. Almost half of firms (48%) reported a decrease in profits over the quarter.

Confidence:

Going against the trend of the past two years of the survey, manufacturing firms have reported a fall in confidence for the first time since Q3 2020.

BUSINESS VOICE:

"Increases in all business costs, with no sight where it will all stop, are throttling our attempts to grow the business. Orders are looking positive but with not knowing how the economy will perform in the short and longer term it is curtailing the investment we would like to put into the company. Outlook on the economy feels bleak."

- Manufacturing firm in the Highlands

RETAIL & WHOLESALE



Inflation:

While concern over inflation has eased slightly since the previous quarter, it remains high at eight in ten firms.

Cost Pressures:

Utility bills and labour costs remain the leading cost pressures, with fuel costs taking a place among the top three from raw material prices.

Sales Revenue:

Despite the lead up to the festive period usually being fruitful for retailers, it has not borne out with all sales trends reporting negative net balances.

Confidence:

As has been the trend for most of 2022, retail firms have reported a fall in confidence. A near seven in ten reported such a fall, with the net balance of -47% the largest contraction since Q2 2020.

Cashflow & Profits:

For a fifth quarter in a row, retail firms have reported falls on balance for levels of cashflow and profits.

BUSINESS VOICE:

"Business pressures are severe right now. We are suffering with recruitment and retention. With no staff we have no business despite the measures we are putting in place to aid retention." - Retail firm in Renfrewshire

TOURISM



Inflation:

Concern over inflation has reached a consecutive survey record high of 95%, the next highest concerns are interest rates and taxation for 59% of firms.

Cost Pressures:

Utility costs remain the dominant concern at 91% of firms, labour costs (82%) and raw material prices (68%) are also growing burdens on the sector.

Price Rises:

Over three quarters of firms (76%) expect to raise their prices in Q1 2022. This is just one percentage point off the record high of 77% recorded in Q3 2022.

Cashflow & Profits:

Over half of firms reported falls in both cashflow and profits over the quarter, both net balances are significantly down when compared to the previous quarter and to last year

Confidence:

Nearly three-quarters of tourism (73%) firms reported a fall in confidence over the quarter. As only 17% reported an increase, this resulted in a net balance of -57%.

BUSINESS VOICE:

"Electricity, gas and oil prices are very uncertain and the support is not clear especially off mains supply. Our footfall is down and bookings for next year are slow. We are trying really hard to create more offerings and to innovate, but customers are scared to commit."

- Hospitality firm in Moray

Quarterly Economic Indicator



Scottish
Chambers of
Commerce

Network

in partnership with Fraser of
Allander Institute

**RESULTS:
QUARTER 4
2022**