# Quarterly Economic Indicator

Scottish Chambers of Commerce Network

in partnership with Fraser of Allander Institute

## RESULTS: Q4 2023

# CONTENTS

## BUSINESS COMMENTARY



## KEY FINDINGS



## SECTORAL RESULTS



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# Foreword

The final quarter of 2023 was full of policy events and economic news at both UK and Scottish level setting out the context for the year ahead. Scotland might not be in a technical recession, but growth has remained subdued, in a stop-start pattern since the beginning of 2022. The latest figures show the Scottish economy just above pre-pandemic levels in October, following a monthly contraction of 0.5%.

Inflation is easing, in large part due to the Bank of England's action, which has seen its interest rate successively raised to the current 15-year-high of 5.25%. Inflation in the 12 months to November was 3.9% - much lower than a year before, but still nearly double the Bank's target.

This means interest rates will likely remain high for the foreseeable future, with the Bank keen to resist talk of future cuts. Even if they do happen, as markets expect, interest rates are likely to settle around 4% - more than four time the pre-pandemic level.

Monetary policy is slow to filter through the economy, and nowhere is that more evident than in the mortgage market. The Office for Budget Responsibility estimates that the full effect of rollovers of deals will not be felt until the end of 2026. Many will therefore continue to feel the squeeze on incomes for a while, even if other economic indicators improve.

In the meantime, the cuts to National Insurance took effect on 6 January, although they only partly offset the increase in taxes due to tax thresholds being frozen. This 'fiscal drag' has been a feature of both the UK and Scottish Governments' policies, and raises much more revenue than the new advanced rate and increase in the top rate in the Scottish Budget.

The Scottish Budget also included decisions on non-domestic rates, with a freeze in the poundage for lower value properties and increases in higher property value supplements. But there was no replication of the English retail, hospitality and leisure relief for Scotland as whole despite Barnett consequentials.

Prospects for 2024 are a little more positive than what transpired in 2023. This is reflected in the survey results being published today. Confidence has proved resilient; sales growth has continued and some of the cost pressures are starting to ease. These factors give us some confidence that there might be an uptick into more sustained economic growth in the year ahead.

**João Sousa**
**Deputy Director**
**Fraser of Allander Institute**

# Introduction

**Stephen Leckie**
**President**
**Scottish Chambers of Commerce**


These latest survey results paint a clear picture: Scotland's economy is stuck in a low growth cycle. Persistently high inflation, higher borrowing costs, frozen investment and ongoing global uncertainty are placing businesses under significant pressure.

These issues must be addressed by all parties at the next General Election with businesses expecting clear plans which will boost economic growth and investment. Parties of all colours will be tested on whether they are listening to business and taking real action to back business growth.

Skills shortages and availability of talent continue to act as a major barrier for business expansion. The Scottish Government's £2.4 billion investment into colleges, universities and the wider skills system must remain agile to align with future economic demand to ensure we have a talent pool ready to contribute to the economy.

Businesses are rightly asking why practical existing schemes such as the Flexible Workforce Development Fund have been scrapped, considering the challenges firms face regarding training and upskilling talent. The news of a reduction in funded University places is also a major concern for the business community when we need as many highly skilled graduates to enter the workforce as possible.

On top of these concerns, companies are now grappling with the increasing tax burden of working in Scotland, making it more challenging to retain and attract talent. The introduction of a new income tax band is impacting on our competitiveness and depleting the spending power of individuals in the economy. Anyone in Scotland who makes more than £28,850 will now pay higher taxes than workers elsewhere in the UK.

While concern from high inflation and interest rates remains high, the levels of concern have slightly eased compared to the previous quarter. However, this should not be interpreted as an improvement as these figures are still too high and contributing to low business confidence.

Clarity on the future direction of interest rates policy will be critical to help unlock suppressed growth and investment in the economy.

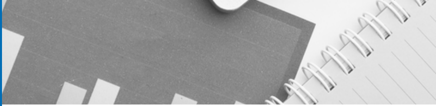
Over half of Scottish firms continue to report no changes to investment which has exacerbated the low growth cycle the economy is now in.

The decision by the Chancellor to make full expensing permanent in the Autumn Statement was welcome but more must be done to shift the dial and incentivise firms to invest.

QUARTERLY ECONOMIC INDICATOR

# Key Findings

## Q4 2023



*The Q4 2023 survey was conducted between November & December 2023. 420 firms responded to the survey.*

**Inflationary concerns continue to fall:**

- Concern over inflation has fallen to 52% for this quarter - compared to 75% in the last quarter - and this is the lowest that concern from inflation has been in all of 2023, but still remains high compared to pre-inflation crisis in the UK in early 2021.

**Concern from interest rates also falls:**

- Concern over interest rates was reported by half of firms in the last quarter, that has now fallen by 10 percentage points to 40% for this quarter, this does remain significantly higher than the 15% recorded pre-inflation crisis in Q1 2021.

**Cost pressures continue to generally ease:**

- 60% reported increased cost pressures from labour costs, including salaries
- 57% reported increased cost pressures from energy costs
- 45% reported increased cost pressures from raw material prices
- 37% reported increased cost pressures from fuels such as diesel and petrol

**Less firms planning to raise prices:**

- Four in 10 now indicate they will raise prices in the next quarter compared to 48% in the last quarter.

**Cashflow & profits:**

- For only the second time this year, more firms have reported an increase in cashflow (36%) than a fall (31%). However, more firms continue to report a fall in profits (33%) than a rise (31%).

**Investment remains cautious:**

- While on balance, more firms continue to report increases in investment than falls, over half of firms continue to report no changes to both total (55%) and training (54%) investment.

**Labour market challenges easing:**

- Recruitment difficulties have eased over the quarter but remain high, coming down from being reported by 55% of firms last quarter to 40% this quarter.

# CONSTRUCTION

**Confidence:**
Following the trend over the course of 2023, construction firms report a positive net balance of +5%, which is a significant improvement when compared to the same quarter in 2022.

**Cashflow & Profits:**
For the first time in two years of the survey, construction firms report positive net balances for both cashflow and profit levels.

**Investment:**
After contraction across all investment trends in the last quarter, firms report a return to growth across all those trends in this quarter.

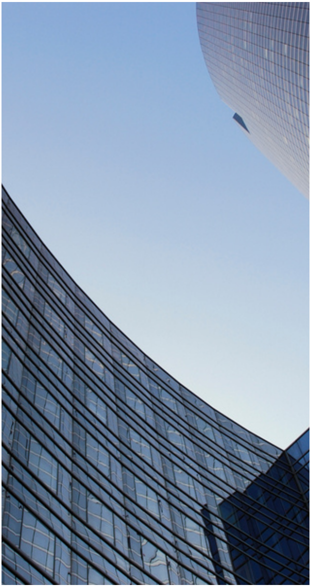
**Sales Revenue:**
Generally positive sales trends have been reported by construction firms in 2023.

However, this quarter has seen little movement with flat levels of total sales (no change) reported on balance.

# BUSINESS VOICE:

**“Concerned regarding interest rates and the ever increasing costs from our suppliers and subcontractors. The war in Ukraine was blamed for so much previously, now with conflict between Israel and Palestine will add to the pressure."** - Construction firm in Forth Valley

# FINANCIAL & BUSINESS SERVICES



**Business Concerns:**
Inflation, interest rates, and taxation remain the leading concerns for firms, but all have eased over the quarter.

**Cashflow & Profits:**
For a second consecutive quarter, firms report growth on balance for both cashflow and profits, with both trends above the Q4 average.

**Sales Revenue:**
The results from this quarter confirm that services firms have now reported positive net balances across all sales trends in every quarter of 2023.

**Investment:**
Total and training investment trends have seen growth but firms report a contraction in capital investment for the first time in a year.

**Expectations:**
Services firms are generally optimistic regarding 2024, with all of sales, investment and staff numbers projected to grow on balance.

# BUSINESS VOICE:

**"Lack of political leadership and no business or commercial / industrial strategy are the single biggest contributing factors to business uncertainty and lack of confidence."** - Services firm in Ayrshire

# MANUFACTURING

**Confidence:**
The final net balance of +31% for confidence is the highest growth recorded for this trend in a single quarter since Q1 2022.

**Sales Revenue & Orders:**
Manufacturing firms report growth across all sales trends for the second time across 2023, order trends have returned to growth on balance apart from rest of UK sales which sees a contraction.

**Investment:**
Throughout 2023, firms have continued to report growth across all investment trends in each quarter and that continues here.

**Cashflow & Profits:**
After firms reported contraction across cashflow and profit levels in Q3, they now report a return to growth on balance for this quarter.

**Cost Pressures:**
The leading cost pressures remain labour, raw material prices and energy costs. Each of these trends has eased significantly over the quarter and the year.

# BUSINESS VOICE:

**"The additional tax on the Oil and Gas sector continues to stifle the sector and Britain's Energy security. It is better environmentally to use our own natural resources rather than importing from other less stable places."**

- Manufacturing firm in Aberdeen & Grampian

# RETAIL & WHOLESALE


**Confidence:**
Retail firms report a return to growth in confidence with a net balance of +12%, a significant improvement when compared to the previous quarter.

**Sales Revenue:**
Firms report that the festive period has resulted in growth being recorded across most trends, aside from exports which saw no change.

**Investment:**
For the first time since Q1 2020, firms report growth across all investment trends, with each trend being significantly above the rolling five-year average.

**Cashflow & Profits:**
After a consistently challenging past few years for cashflow and profits, firms report growth across both trends in the survey for the first time since Q3 2019.

# BUSINESS VOICE:

**"We have appealed our 2023 revised rateable value. The new system of appeals was expected to deal with appeals quicker. It would appear that the assessors do not have the resource to deal with the appeals. This is a potential cashflow disadvantage if our appeal proves to be successful."** - Retail firm in the Highlands

# TOURISM

**Confidence:**
.Half of firms report a fall in confidence over the quarter, 30% report no change, resulting in a negative net balance of -30%.

**Sales Revenue:**
The end of 2023 marks a return to significant contraction across all sales trends, in comparison to the general growth reported in Q2 and Q3.

**Cashflow & Profits:**
Cashflow and profit levels have been consistently weak for tourism firms over 2023 and that continues here to end the year, with over half of firms reporting falls for both trends.

**Expectations:**
Firms generally expect all of sales, investment, and staff levels to fall in Q1 2024. These are results to typically expect from the sector in Q4, when in the off-season for tourism.

**Cost Pressures:**
Most cost pressures saw easing over the quarter, with energy costs, labour, and raw materials remaining the leading pressures for afive to six in 10 firms.

# BUSINESS VOICE:

**"The cost of doing business continues to rise and is 10 to 40% higher than the mainland. Ferry issues are meaning less people are willing to risk traveling to an island in winter. Many booked customers do not arrive due to ferry cancellations. Islands need support to get through these crises."** - Hospitality firm in the Scottish Islands

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