

SCOTTISH BUSINESS MONITOR Q4 2019

**BUSINESS SHOW INCREASE IN CONFIDENCE FOR THE COMING
6 MONTHS AFTER A CHALLENGING END TO 2019**

ABOUT FRASER OF ALLANDER

- The Fraser of Allander Business Monitor is one of the first major surveys of Scottish firms post-election.
- The figures show that the outlook for business activity, investment and employment are at their highest level since 2014. This follows a challenging end to 2019 for all these indicators.
- Expectations of growth in the Scottish economy over the next year have also improved, with more firms believing it will be moderate, and less believing it will be weak.

The Scottish Business Monitor

Launched in 1998 – and now in its 21st year – the Scottish Business Monitor is one of Scotland’s preeminent trackers of business sentiment and activity.

Compiled by the Fraser of Allander Institute – an independent economics research institute at the University of Strathclyde – the Business Monitor compiles responses from around 500 businesses across Scotland – and from a range of sectors – on issues such as business activity, investment, employment prospects and turnover/costs.

The Scottish Business Monitor is published weeks in advance of official growth data on the Scottish economy. It also provides a detailed assessment of sentiment in the business community, including investment and recruitment intentions.

ECONOMIC CONTEXT

SCOTTISH BUSINESS MONITOR DASHBOARD

	Q4 2019	3-YEAR AVERAGE	CHANGE OVER QUARTER	CHANGE OVER YEAR
FAI Business Activity Index (net % balance*)	5	8	0 ▼	-5 ▼
New Business	2	9	-1 ▼	-8 ▼
Turnover	4	9	-4 ▼	-9 ▼
Costs	63	54	7 ▲	8 ▲
New Capital Investment	-9	-7	-6 ▼	-5 ▼
Export Activity	-11	0	-3 ▼	-5 ▼

Our principal indicator of activity – the FAI Business Activity Index – remained unchanged this quarter, and just below its three-year average.

Chart 3: FAI Business Activity Index



Source: Scottish Business Monitor

The net balance of +5 indicates that, on average, Scottish businesses experienced continued growth in the latest quarter.

Additionally, expectations of future business activity and turnover over the next six months are at the highest level since the second quarter of 2014. Expectations of employment, capital investment and export activity also appear more optimistic.

However, the number of businesses reporting increasing costs continued to rise into the fourth quarter and business expectations are that business costs will continue to rise over the first half of 2020.

DETAILED RESULTS

BUSINESS ACTIVITY REMAINS POSITIVE BUT FRAGILE IN THE LATEST QUARTER

In the latest data, three out of five sectors have seen growth in business activity over the fourth quarter of 2019.

In particular, more firms in Retail & Wholesale, Manufacturing, Accommodation & Food and Financial Services sectors are reporting growth than in the previous quarter.

Table 1: Trend in volume of business activity, net response of firms

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Construction	22%	21%	0%	-6%	-11%
Retail & wholesale	0%	0%	8%	-14%	11%
Manufacturing	7%	-2%	12%	-2%	2%
Accommodation & food	0%	24%	17%	-32%	-23%
Finance	35%	0%	32%	25%	33%

Source: Scottish Business Monitor

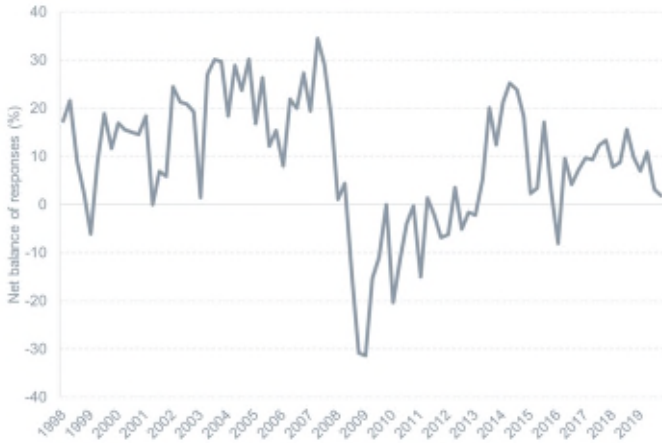
However, the uptick in expectations is widespread, with four out of five sectors more optimistic about the next six months than in the previous quarter, and all firms now in positive territory.

Table 2: Expected trend in volume of business activity over next 6 months, net response of firms.

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Construction	14%	33%	25%	12%	9%
Retail & wholesale	-15%	-4%	14%	-8%	19%
Manufacturing	12%	13%	10%	8%	25%
Accommodation & food	-9%	38%	32%	-59%	43%
Finance	41%	-7%	26%	-5%	17%

New business activity is down on the year and has slightly worsened over the quarter. However, expectations of future new business is significantly more optimistic than in the third quarter of 2018.

Chart 3: New business activity



Source: Scottish Business Monitor

When it comes to turnover, we can see a similar story.

Businesses reported growth in turnover in Q4, although at a lower level than in the previous quarter. However, while a net balance of only 6% of businesses expected turnover to increase in the six months after Q3, in the latest quarter a net balance of over 26% of businesses expect growth. These expectations are shared by businesses of all sizes.

Chart 4: Value of business (turnover)

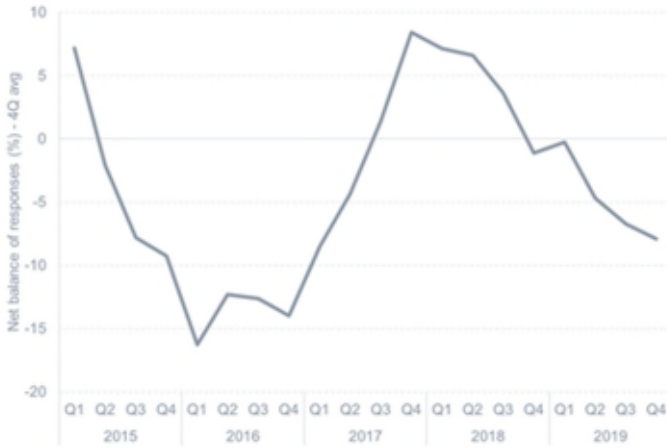


Source: Scottish Business Monitor

EXPORTS CONTINUE TO DECLINE AND CAPITAL INVESTMENT DIPS

Despite business growth remaining unchanged, exports have fallen deeper into negative territory. However, while the net balance of firms expect their export activity to fall over the next six months, this has improved slightly compared to last quarter.

Chart 5: Export activity, 4Q average



Source: Scottish Business Monitor

Capital investment fell back in the latest quarter, with a net balance of 9% of firms reporting a decrease.

Firms expect that capital investment will remain unchanged over the next six months.

BUSINESS EXPECTATIONS FOR SCOTTISH ECONOMIC GROWTH IMPROVE

Business expectations of growth in the Scottish economy over the next 12 months have improved since the third quarter of 2018. Fewer firms believe that growth will be “weak” or “very weak”, while more firms believe it will be “moderate”.

Chart 6: Thinking about the growth in the Scottish economy over the next 12 months compared to the previous 12 months, do you think that growth will be...



Businesses also report that staff availability, policy uncertainty and economic / business uncertainty will all remain important over the next 3 months, with 85%, 86% and 92% of firms responding that these factors are important or very important.

BREXIT

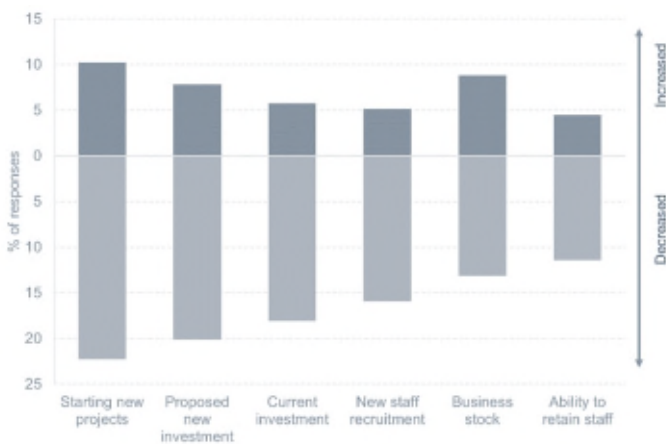
The election result of last month has provided some certainty to businesses.

The UK has left the EU on the 31 January of this year under the agreed Withdrawal Agreement and what follows will be a year-long transitional period where the UK will negotiate a trade deal with the EU.

BUSINESSES REMAIN CAUTIOUS AS THE BREXIT TRANSITION PERIOD APPROACHES

Despite the election alleviating some uncertainty, businesses appear to be exhibiting cautious behaviour as they postpone new business projects and hiring new staff.

Chart 7: The recent election means the UK is on track to leave the EU on 31 January 2020, how has this affected...



Source: *Scottish Business Monitor*

addleshawgoddard.com

Aberdeen, Doha, Dubai, Edinburgh, Glasgow, Hamburg, Hong Kong,
Leeds, London, Manchester, Muscat, Singapore and Tokyo*

*a formal alliance with Hashidate Law Office

© 2020 Addleshaw Goddard LLP. All rights reserved. Extracts may be copied with prior permission and provided their source is acknowledged. This document is for general information only. It is not legal advice and should not be acted or relied on as being so, accordingly Addleshaw Goddard disclaims any responsibility. It does not create a solicitor-client relationship between Addleshaw Goddard and any other person. Legal advice should be taken before applying any information in this document to any facts and circumstances. Addleshaw Goddard is an international legal practice carried on by Addleshaw Goddard LLP (a limited liability partnership registered in England & Wales and authorised and regulated by the Solicitors Regulation Authority and the Law Society of Scotland) and its affiliated undertakings. Addleshaw Goddard operates in the Dubai International Financial Centre through Addleshaw Goddard (Middle East) LLP (registered with and regulated by the DFSA), in the Qatar Financial Centre through Addleshaw Goddard (GCC) LLP (licensed by the QFCA), in Oman through Addleshaw Goddard (Middle East) LLP in association with Nasser Al Habsi & Saif Al Mamari Law Firm (licensed by the Oman Ministry of Justice), in Hamburg through Addleshaw Goddard (Germany) LLP (a limited liability partnership registered in England & Wales) and in Hong Kong through Addleshaw Goddard (Hong Kong) LLP, a Hong Kong limited liability partnership pursuant to the Legal Practitioners Ordinance and regulated by the Law Society of Hong Kong. In Tokyo, legal services are offered through Addleshaw Goddard's formal alliance with Hashidate Law Office. A list of members/principals for each firm will be provided upon request. The term partner refers to any individual who is a member of any Addleshaw Goddard entity or association or an employee or consultant with equivalent standing and qualifications. If you prefer not to receive promotional material from us, please email us at unsubscribe@addleshawgoddard.com. For further information, including about how we process your personal data, please consult our website www.addleshawgoddard.com or www.aglaw.com.