

# Fraser of Allander Scottish Business Monitor

## Summer Q2 2020

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# INTRODUCTION

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## **THIS REPORT SUMMARISES THE KEY RESULTS FROM OUR LATEST FRASER OF ALLANDER (FAI) SCOTTISH BUSINESS MONITOR, PUBLISHED IN PARTNERSHIP WITH ADDLESHAW GODDARD.**

The survey sampled over 500 firms – from across the Scottish economy – over the period 30th of June to 14th of July.

The findings come at a time when many lockdown restrictions are beginning to ease. But as the economy opens back up again, businesses are preparing for a ‘new normal’ which will look quite different from the pre-COVID period.

Our survey continues to show that day-to-day activity in the economy remains well below trend. We also find that many businesses are only planning to operate at a fraction of their usual capacity for the next 6 months.

Many businesses have significantly increased their debt burden to get through the lockdown. Therefore, whilst the outlook has ‘improved’, it remains hugely challenging.

Of course, much will depend upon how the virus is contained over the coming months and how policy reacts. A majority of firms plan to cut employment once the furlough support schemes are unwound.



**61% OF FIRMS SAID THEIR CASH FLOW POSITION OVER THE NEXT SIX MONTHS, GIVEN THEIR EXPECTED LEVEL OF TRADING, IS SECURE OR VERY SECURE.**





# KEY RESULTS

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## THE EXPERIENCE OF FIRMS:

- 47% of firms said their debt burden has increased during the period of the pandemic.
- Of those who have seen an increase, 41% have seen this increase by a large amount, 46% by a moderate amount and 13% by a small amount.
- When compared to normal levels of operation over the next six months, the average firm expects to operate at 51-75% capacity. Only one in every four firms expects to operate at normal or above-normal capacity.

Chart: What level of capacity, compared to normal levels of operation over this period, do you expect your business will operate at over the next six months?

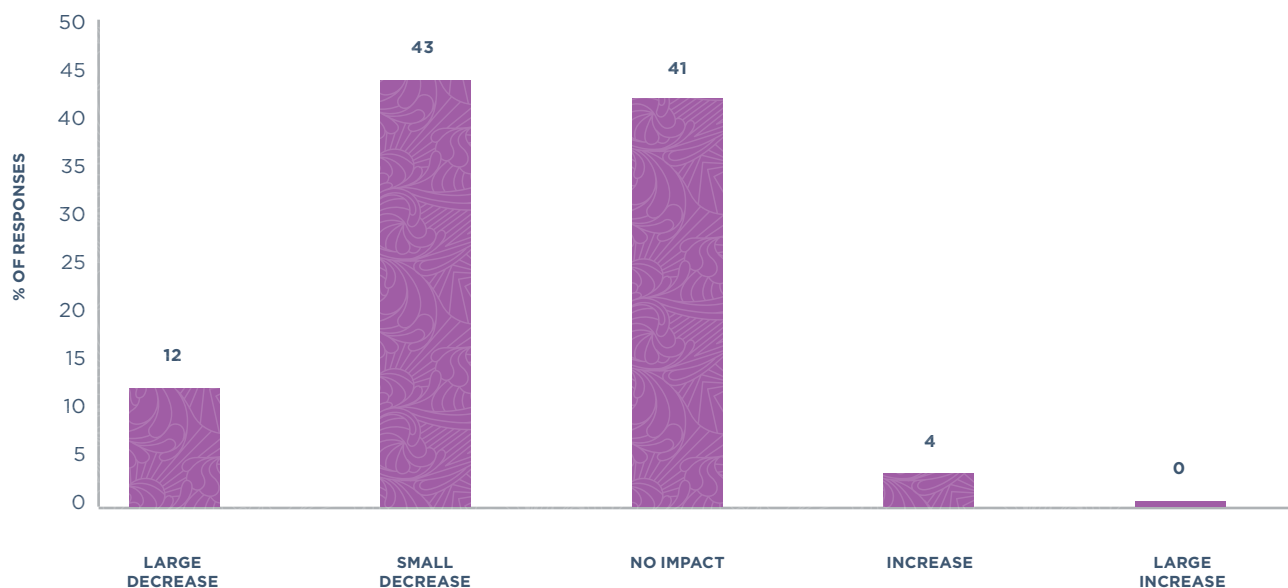




# KEY RESULTS

## OVER THE NEXT 6 MONTHS:

Chart: If you have made use of the Job Retention Scheme, how will its phasing out in the coming months affect the number of staff you employ?



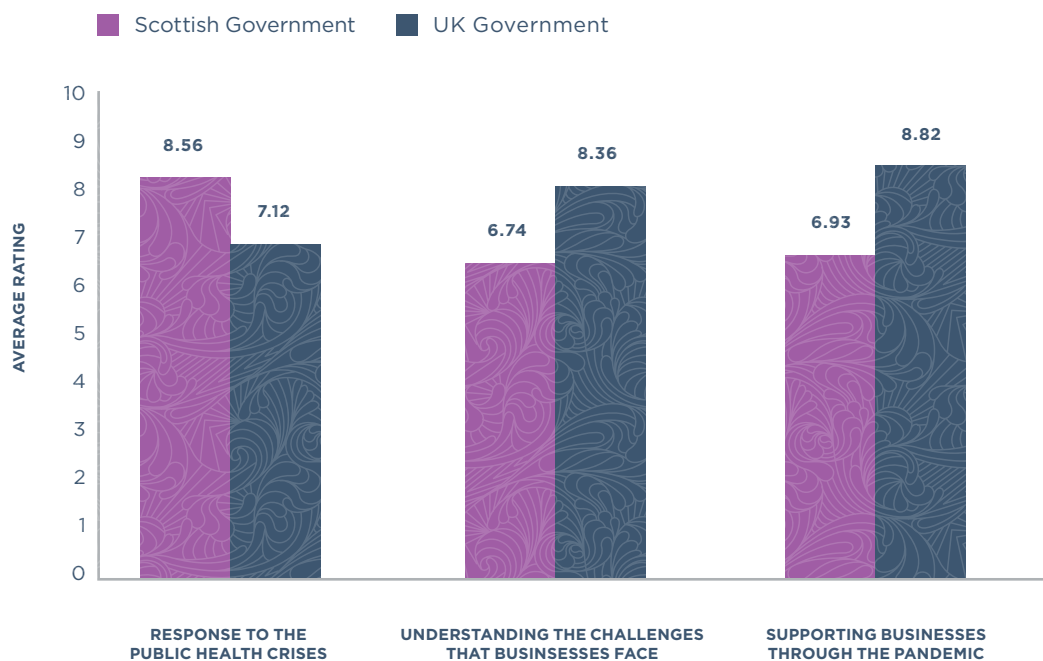
Source: Fraser of Allander Institute



# KEY RESULTS

## OVER THE NEXT 6 MONTHS:

Chart: How would you rate the Scottish/ UK Government's response to the following?  
0 is very poor and 10 is excellent.



Source: Fraser of Allander Institute



# KEY RESULTS

## OVER THE SECOND QUARTER OF 2020:

- Our headline indicator – the net number of firms seeing an increase in their volume of business over the quarter – has fallen to the lowest level on record. A net balance of 65% of firms report a fall (-65). This compares to -24 in the first quarter of 2020 and a previous low of -33 in Q4 2008.
- Volume of new business, turnover, employment and new capital investment are also very negative. 75% of businesses reported a fall in the volume of new business during the second quarter of 2020 with only 13% experiencing an increase.
- Results are negative across all sectors, however they are particularly stark in the construction and accommodation & food services sectors.
- In general, small firms have been reported the most pessimistic results. The difference is not large but it is consistent across the indicators.

Net balance (%) of firms experiencing an increase in their volume of business over the past three months, Q2 2019 – Q2 2020

	2019			2020	
	Q2	Q3	Q4	Q1	Q2
Manufacturing	21	4	-5	-35	-58
Construction	7	-2	-11	-23	-93
Retail & Wholesale	5	-13	4	-14	-62
Transport, information & comms	12	30	24	-24	-49
Accommodation & Food Services	10	0	-17	-20	-78
Finance, business admin and other services	20	15	15	-28	-64

Source: Fraser of Allander Institute



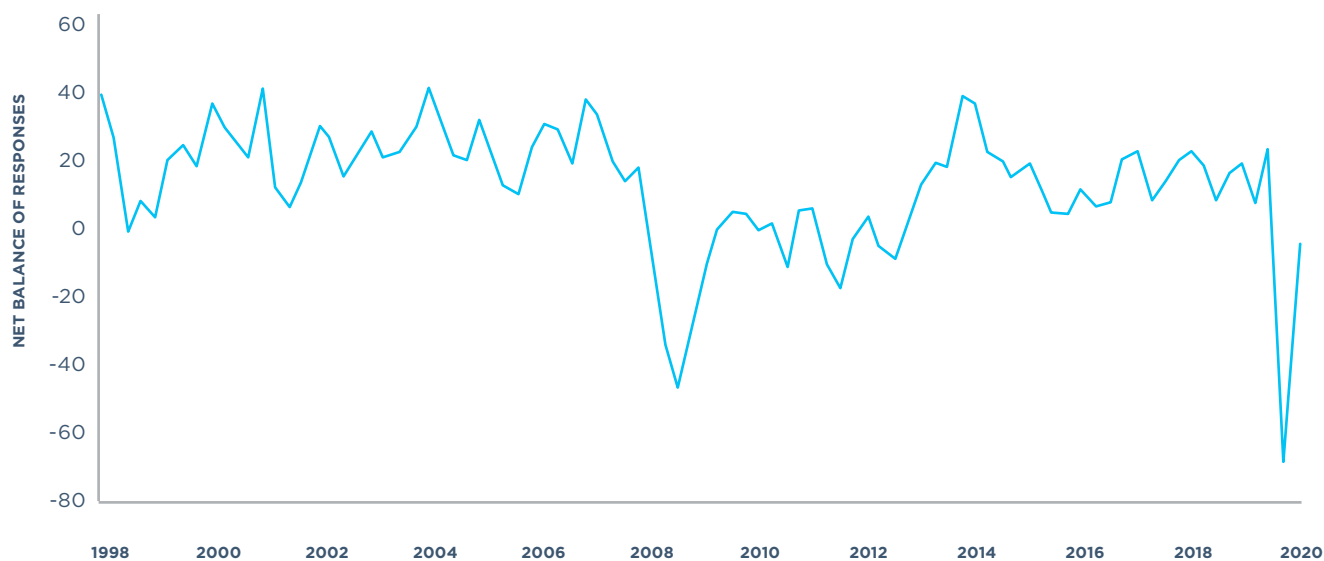


# KEY RESULTS

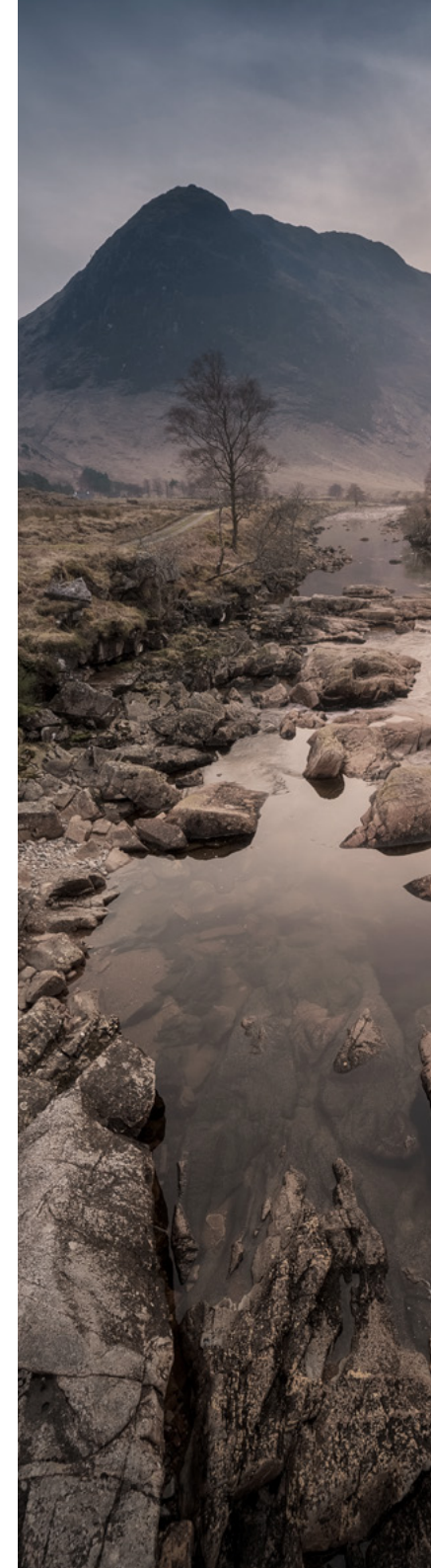
## OVER THE COMING MONTHS:

- Business expectations are important for capturing the overall sentiment of both the economy and individual sectors.
- Firm expectations on the volume of business over the next six months (-4) has seen a recovery from its record low seen in the first quarter (-70). NB: It is important to put this in context. This does not necessarily suggest a 'v-shaped' recession. Instead it reflects that the outlook for the next 6 months are more positive than for the previous six months (which included the lockdown). In short, conditions have improved but remain well off where they would 'normally' be.

Chart: Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 – Q2 2020



Source: Fraser of Allander Institute

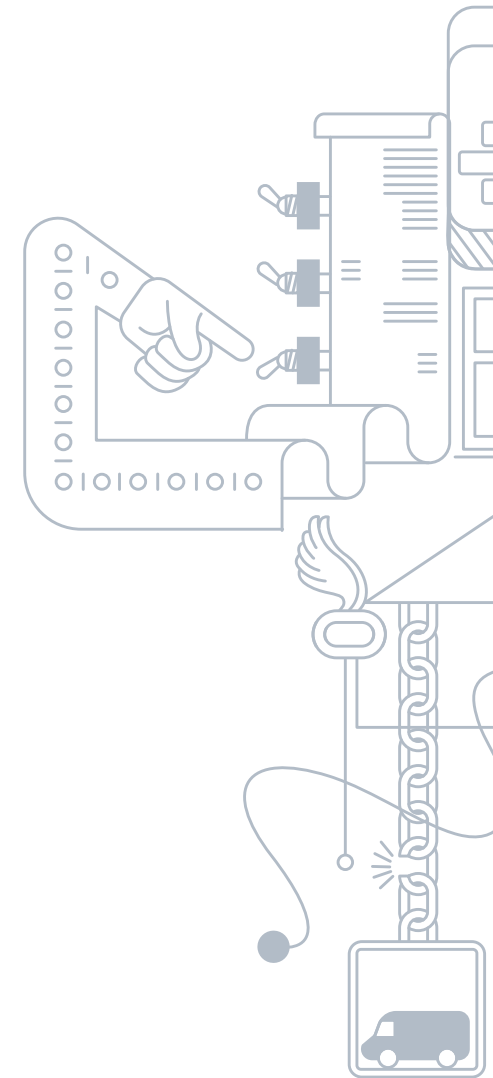


# KEY RESULTS

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## OVER THE COMING MONTHS:

- While the overall net balance presented in the business monitor has recovered, it is clear that the expectations of firms are highly polarised. 38% of firms expect an increase in their volume of business while 43% expect a fall. Only 19% of firms remain in the centre, expecting no change. This compares to a decade average of 46% of firms expecting no change.
- Business sentiment around business activity are particularly weak in the accommodation and food services sector, the retail and wholesale sector and the finance, business services and other services sector.
- Large firms are more optimistic around business activity over the next 6 months. A net balance of 15% expect their volume of business to increase, this is compared to -6% and -7% for small and medium businesses respectively.
- Other expectation indicators have also seen some recovery, but remain negative. Expectations around employment over the next 6 months have increased from -57 to -21 and around new capital investment have increased from -68 to -27.
- Expectations around employment levels are near neutral in the construction sector, with a net balance of -2%. The expectations are particularly poor in accommodation & food services (-41%), finance, retail & wholesale (-28%) and business admin & other (-24%).
- The importance of credit availability over the next 3 months has fallen slightly but remains above the long-term average. A net balance of 61% of firms report it to be important or very important over the next 3 months, compared to 80% last quarter.
- 81% of firms believe that growth over the next 12 months will be weak or very weak. This is similar to last quarter, however more firms now believe the growth will be weak rather than very weak.



PROBLEMS. POSSIBILITIES.  
COMPLEXITY. CLARITY.  
OBSTACLES. OPPORTUNITIES.  
THE DIFFERENCE IS IMAGINATION.  
THE DIFFERENCE IS **AG**.