



INTRODUCTION

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 in October from across the Scottish economy.

The results come at a time of high uncertainty for businesses operating in the Scottish and UK economies with rising COVID-19 cases and further lockdown restrictions, in the form of a tiered system, being announced by both Governments in October.

Our survey results show that business activity remains low compared to normal levels.

Whilst many businesses have seen levels of activity increase over the latest quarter, the current economic uncertainty remains the biggest concern over the coming months.

Tourism-facing industries remain the hardest hit in the Scottish economy and are the most exposed to tightening COVID-19 measures. Businesses in these industries are expected to make job cuts before the new year.

With the tightening of restrictions across different regions of the UK it remains to be seen how businesses will manage under the new tiered system and how employment will fare even with the extension to the Government furlough scheme.



KEY RESULTS

THE EXPERIENCE OF FIRMS:

- The net number of firms reporting an increase in their volume of business has improved on the previous quarter, however, this net balance remains negative for the third consecutive quarter.
- The number of firms reporting an expected increase in volume of business and level of employment for the next 6 months was also down on the previous quarter. Over 40% of firms expected a drop in the volume of business over the next 6 months, with 20% expecting a decrease in employment.
- Economic and policy uncertainty remain the biggest concerns for businesses in the coming months.
- A significant share of businesses feel secure about their finances and are not overly concerned about credit availability in the coming months.
- Accommodation and food services remains one of the hardest hit industries in the economy. Almost 70% of businesses in this industry expect to cut jobs by the end of the year.

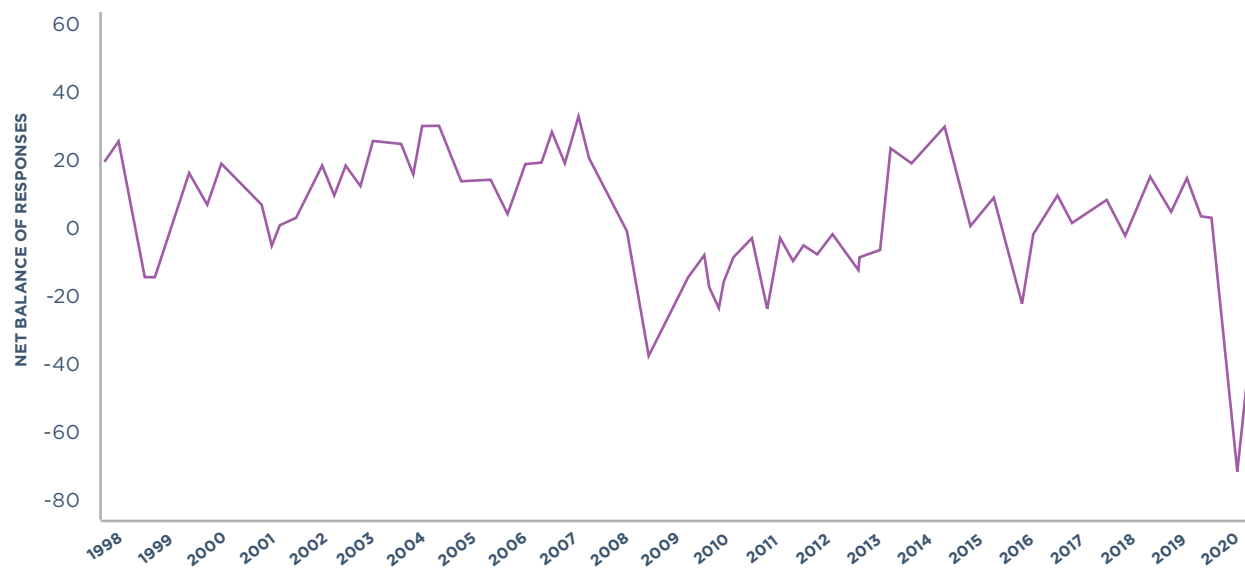


Source: Fraser of Allander Institute

KEY RESULTS

THE EXPERIENCE OF FIRMS:

Chart: Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 – Q3 2020



Source: Fraser of Allander Institute



KEY RESULTS

The net balance of firms expecting an increase in their volume of business remains negative across all sectors in Q3. This is particularly apparent in the accommodation and food services sector. More positively, there have been large improvements in the construction sector as building sites reopened and projects started up again

Table: Net balance (%) of firms experiencing an increase in their volume of business over the past three months, Q3 2019 – Q3 2020

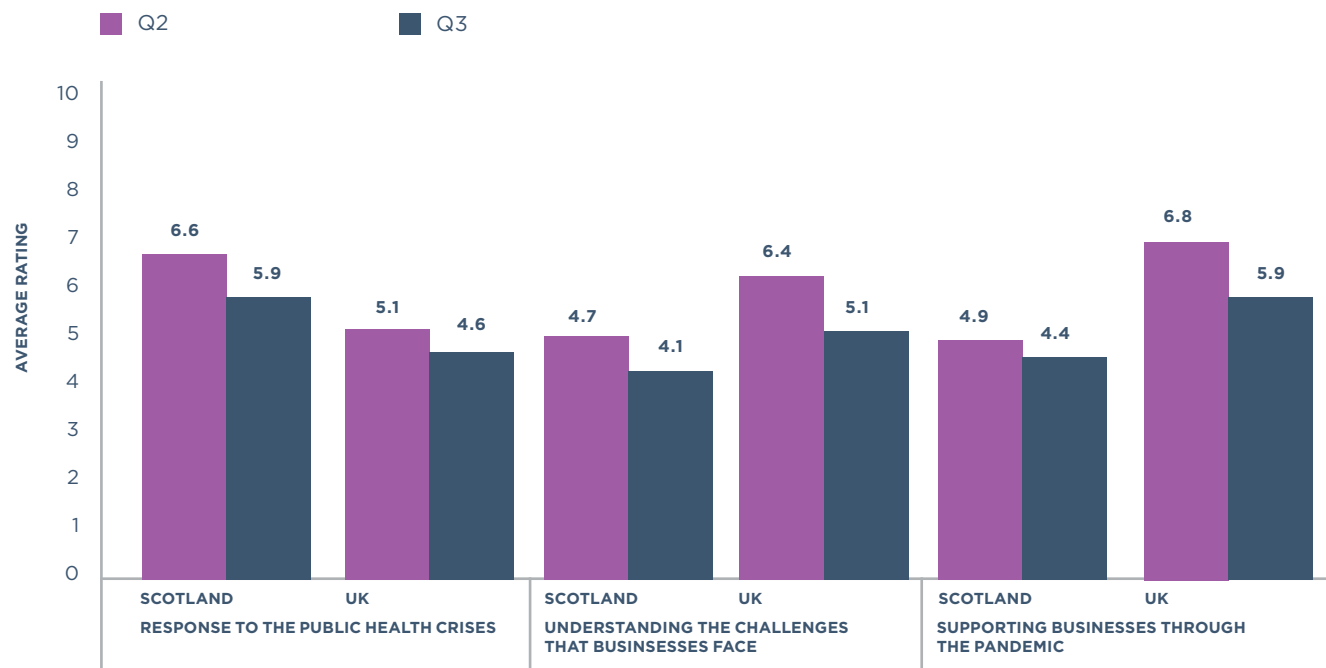
	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Manufacturing	4	-5	-35	-58	-47
Construction	-2	-11	-23	-93	-32
Retail & Wholesale	-13	4	-14	-62	-37
Transport, information & comms	30	24	-24	-49	-41
Accommodation & Food Services	0	-17	-20	-78	-67
Finance, business admin and other services	15	15	-28	-64	-56



KEY RESULTS

Along with business expectations, support of the government's handling of the current crisis has also declined. Compared to our summer business monitor, ratings across all three metrics have fallen in both Scotland and UK, indicating that opinions on government support have weakened.

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

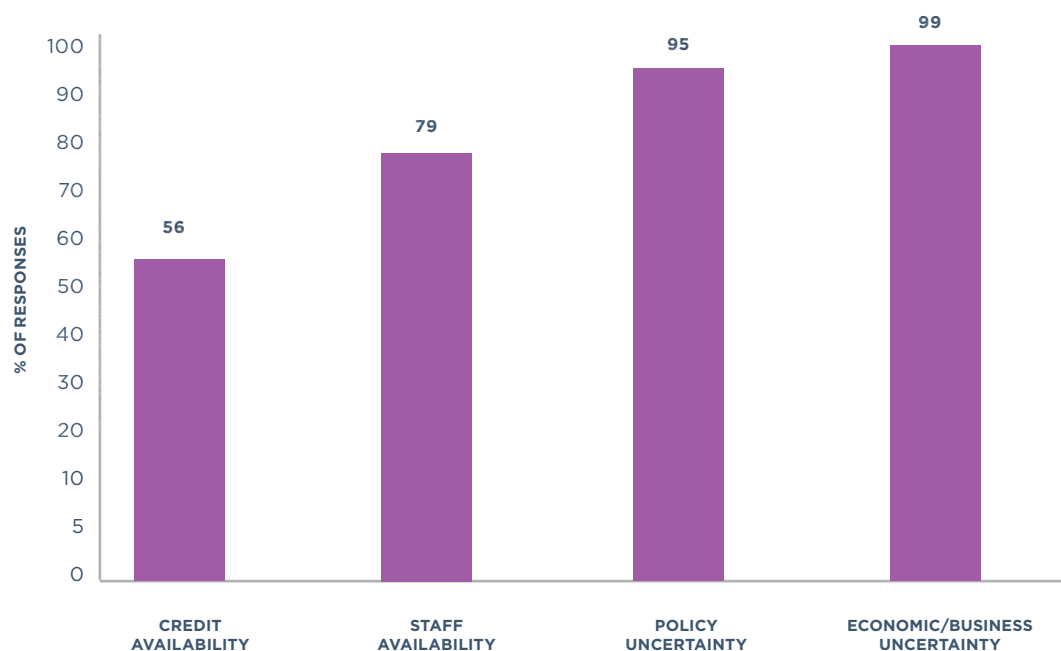


KEY RESULTS

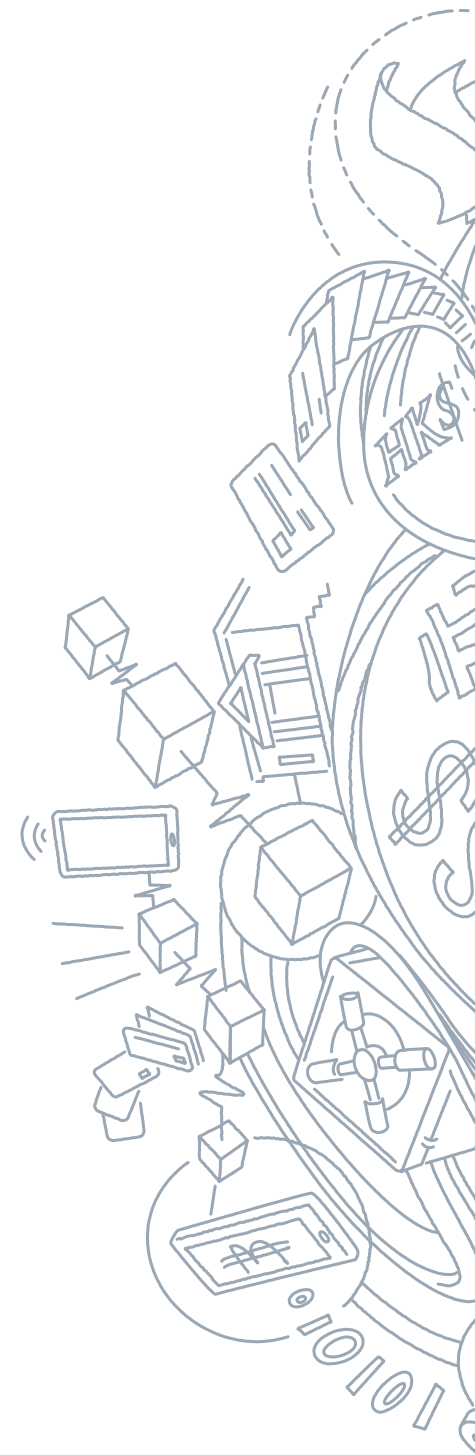
OVER THE COMING MONTHS:

With poor expectations, what are firms most concerned with? Almost all of firms reported that economic uncertainty will be important or very important over the coming three months. Additionally, 95% of firms reported policy uncertainty as an important or very important factor in the near future. Just half of firms were concerned about credit availability.

Chart: % of businesses reporting 'Very Important' or 'Important' as their response to: In terms of your business how important are the following expected to be over the next 3 months?



Source: Fraser of Allander Institute

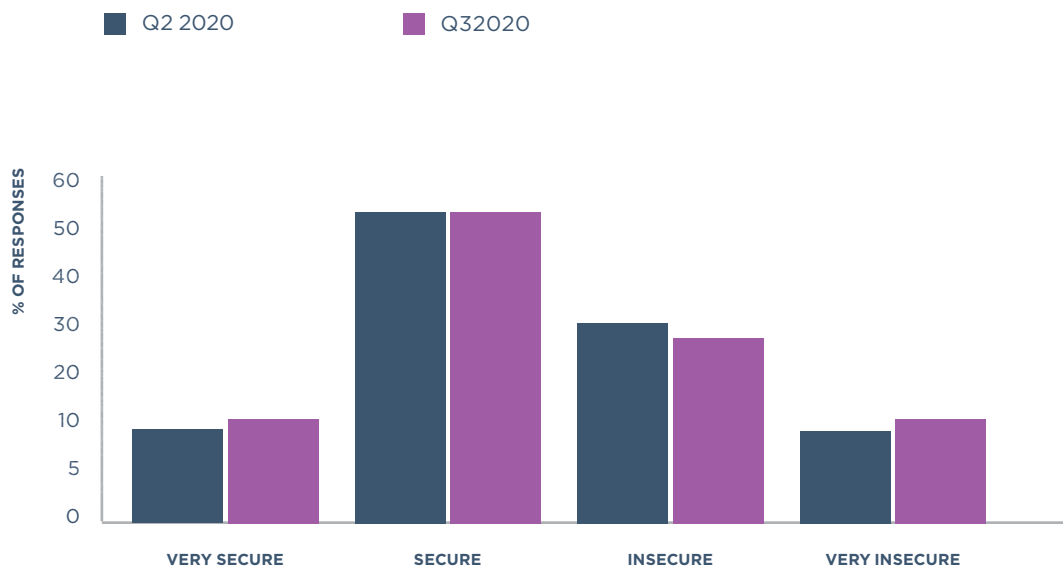


KEY RESULTS

OVER THE COMING MONTHS:

The majority of firms reported secure or very secure cashflow positions over the next 6 months with just under 40% of firms reporting being insecure or very insecure about their cashflow positions.

Chart: Cashflow during next 6 months given expected level of trading.



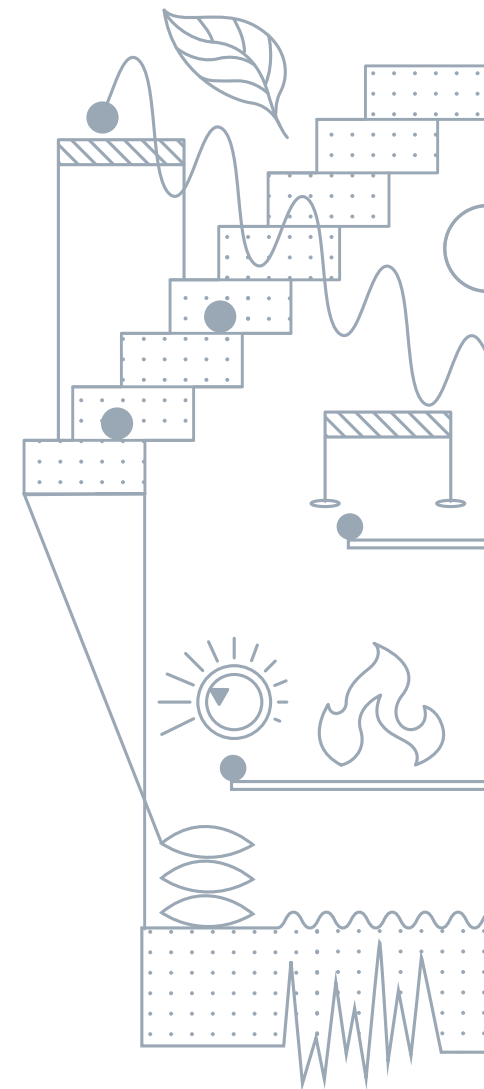
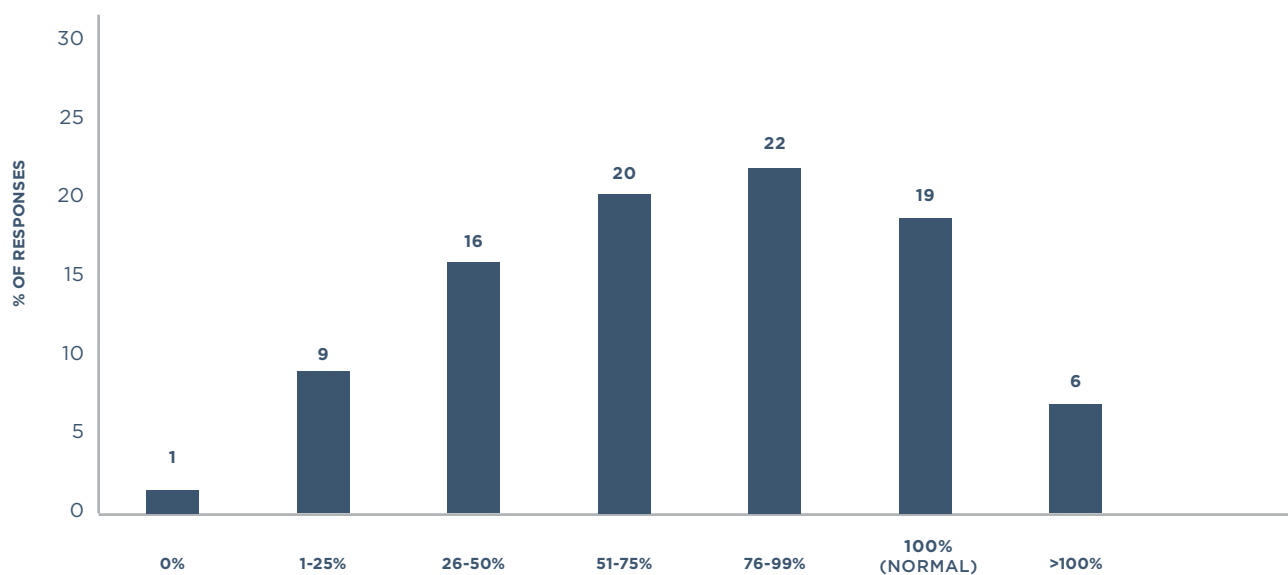
Source: Fraser of Allander Institute



KEY RESULTS

Over the next six months, when compared to normal levels of operation, the average firm expects to operate between 76-99% capacity, an improvement on our summer survey. However, over 1 in 4 businesses expect to be operating at under 50% 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?

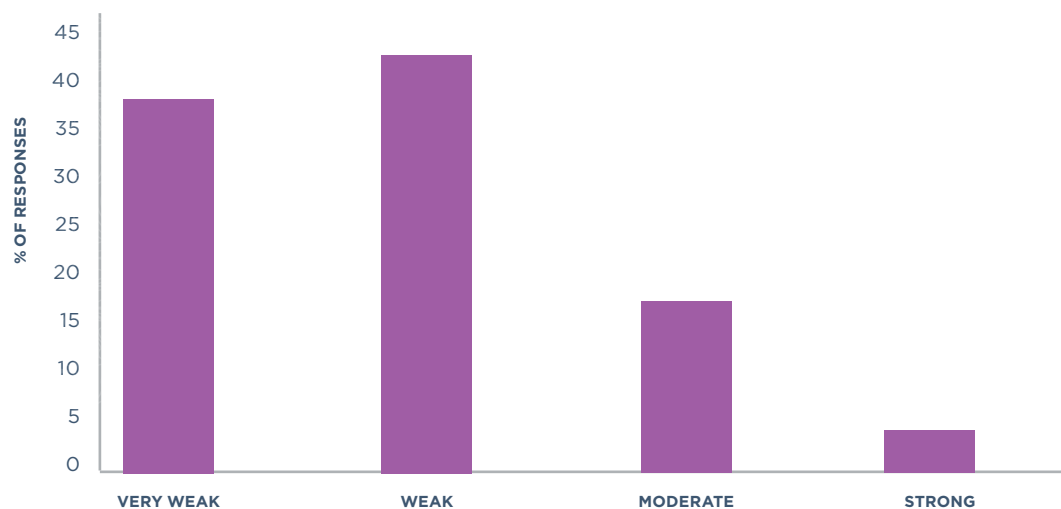


KEY RESULTS

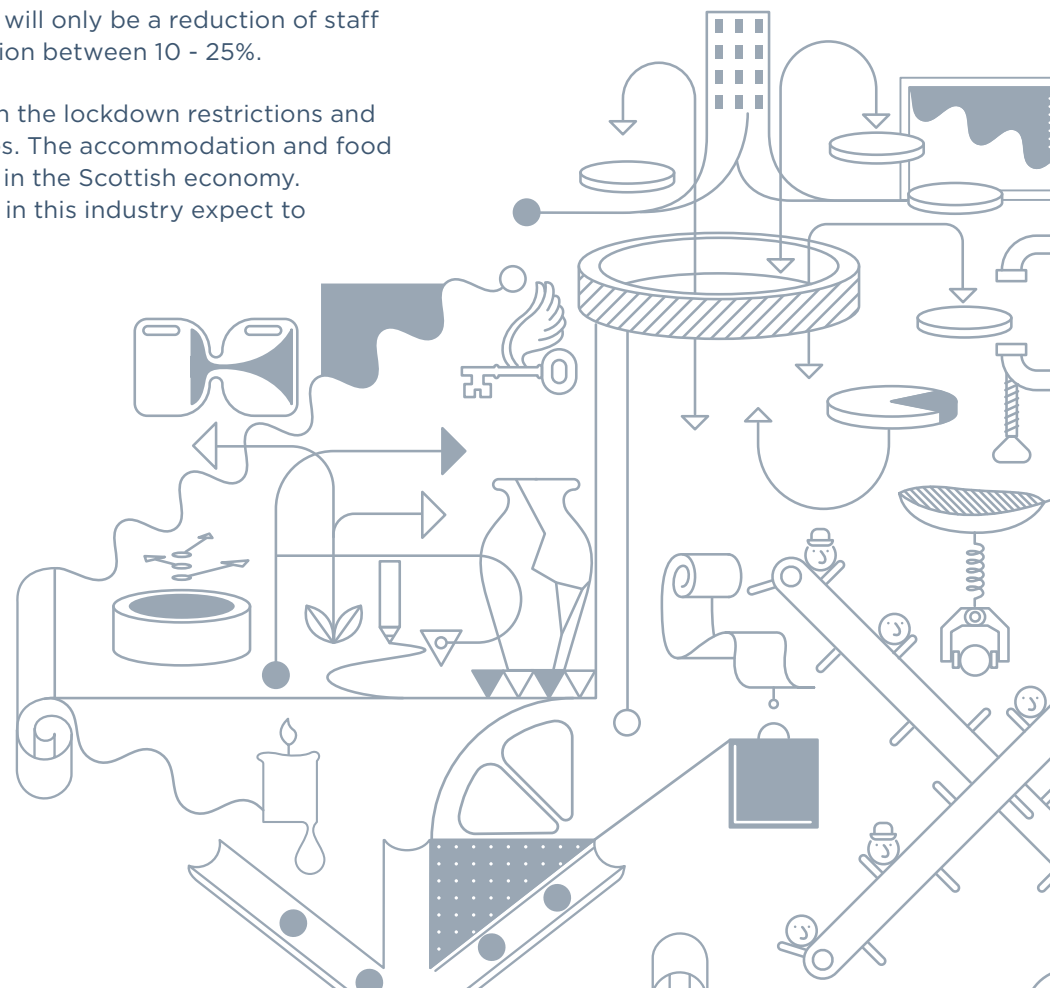
THE OUTLOOK FOR THE YEAR:

The majority of firms are not hopeful for the outlook of the Scottish economy over the next year. Only 2% of firms expected strong growth for the economy, with 82% of firms expecting a weak or very weak performance.

Chart: Thinking about the growth in the Scottish economy over the next 12 months compared to the previous 12 months, how do you think it will perform?



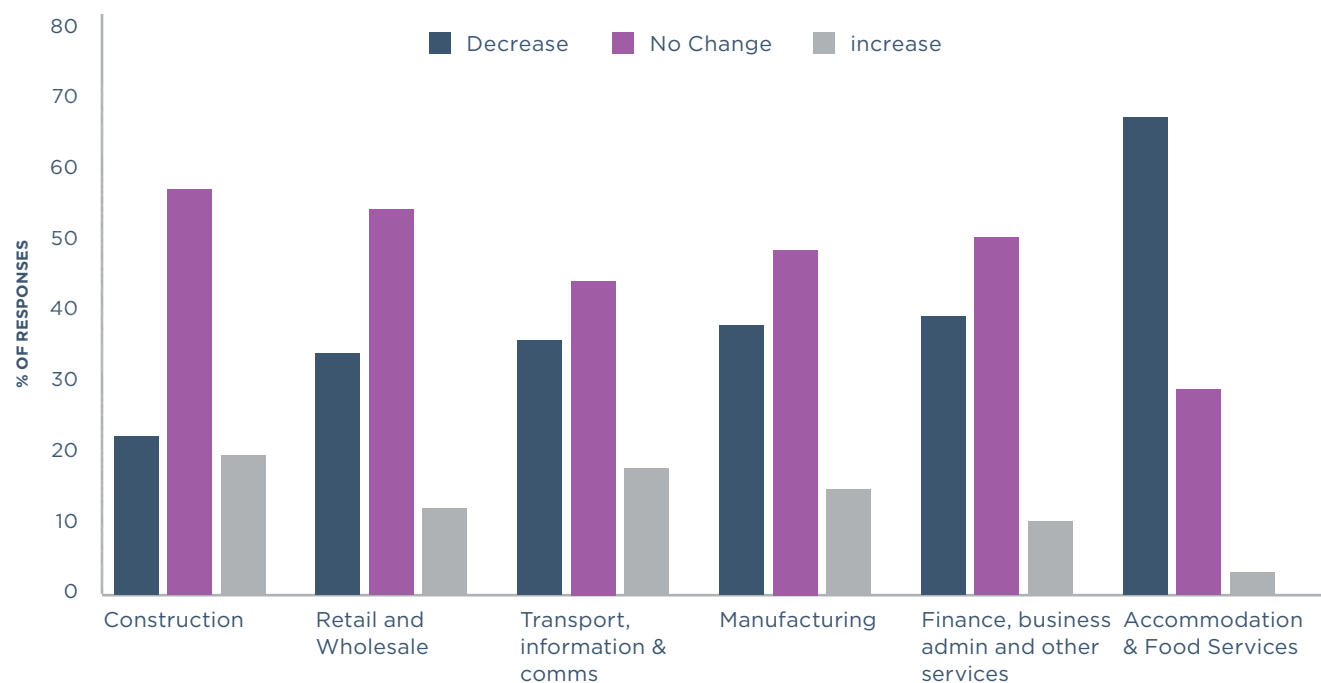
- The threat of job losses featured in the latest results - whilst just under 50% of businesses expect to make no changes to the numbers of staff in the coming months, a large proportion still anticipate some reduction in their workforce. This was before the latest announcements of the extension of the furlough scheme.
- Just under 40% of businesses expect to decrease their numbers of staff between October and the end of 2020. Around 23% of businesses expect it will only be a reduction of staff numbers by 1 - 10%, with a further 11% expecting a reduction between 10 - 25%.
- Tourism and tourism-facing industries have struggled with the lockdown restrictions and subsequent capacity limits and social distancing measures. The accommodation and food services sector has been one of the hardest hit industries in the Scottish economy. The latest results highlight that almost 70% of businesses in this industry expect to decrease their staff numbers by the end of the year.



KEY RESULTS

THE OUTLOOK FOR THE YEAR:

Chart: What change do you expect in your numbers of staff between October and the end of the year?



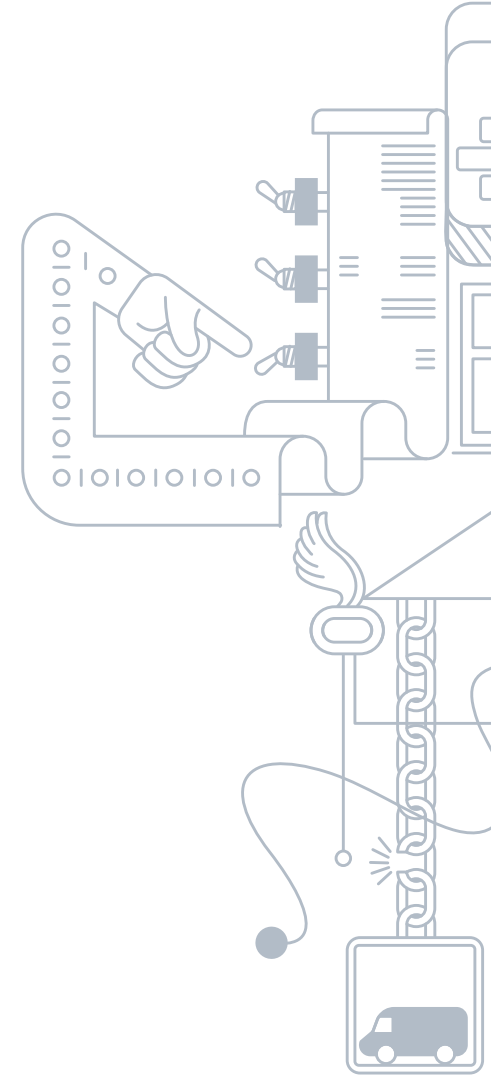
Note: these responses were collected before the some of the most recent restrictions were imposed and do not account for the more generous Job Support Scheme for open companies that was announced on 22nd of October or the subsequent extension of the furlough scheme.

Source: Fraser of Allander Institute



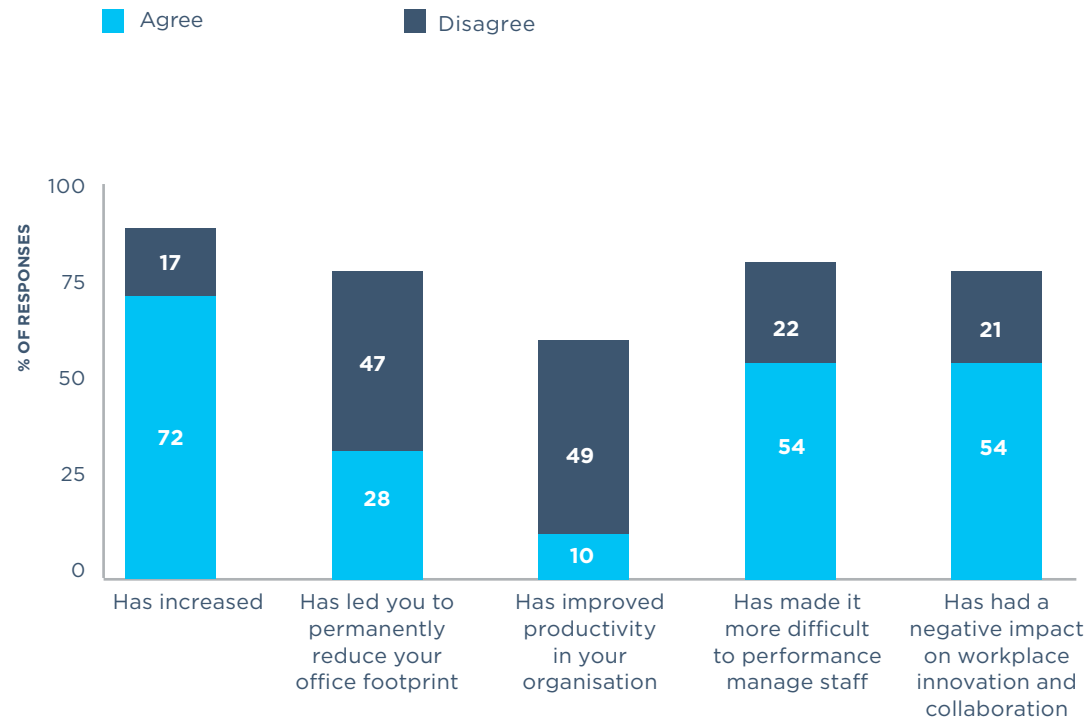
A NEW WAY TO WORK

- In our last business monitor we discussed the role technology had to play in aiding an economic recovery from this crisis and how the transition to a more digital workplace had been accelerated over the past 6 months.
- The vast majority of businesses have seen a higher number of staff working from home since the start of the pandemic, with over 70% of businesses reporting an increase in the number of employees working at home.
- Despite this, 47% of businesses have not reported a permanent reduction in office footprint.
- However, there has been a 28% permanent reduction in office footprint.
- These results suggest that post-COVID, we may see more staff choosing to work flexibly from home or adopting a hybrid approach of working - working from home some days and working in the office on other days.
- The impact that working from home will have on productivity remains to be seen however, increased digitalisation seen throughout this pandemic is something that will likely continue into the future and enhance business productivity.
- Around 10% of businesses responded that productivity has improved since the pandemic and nearly half of businesses reported experiencing no change in productivity from home working practices.

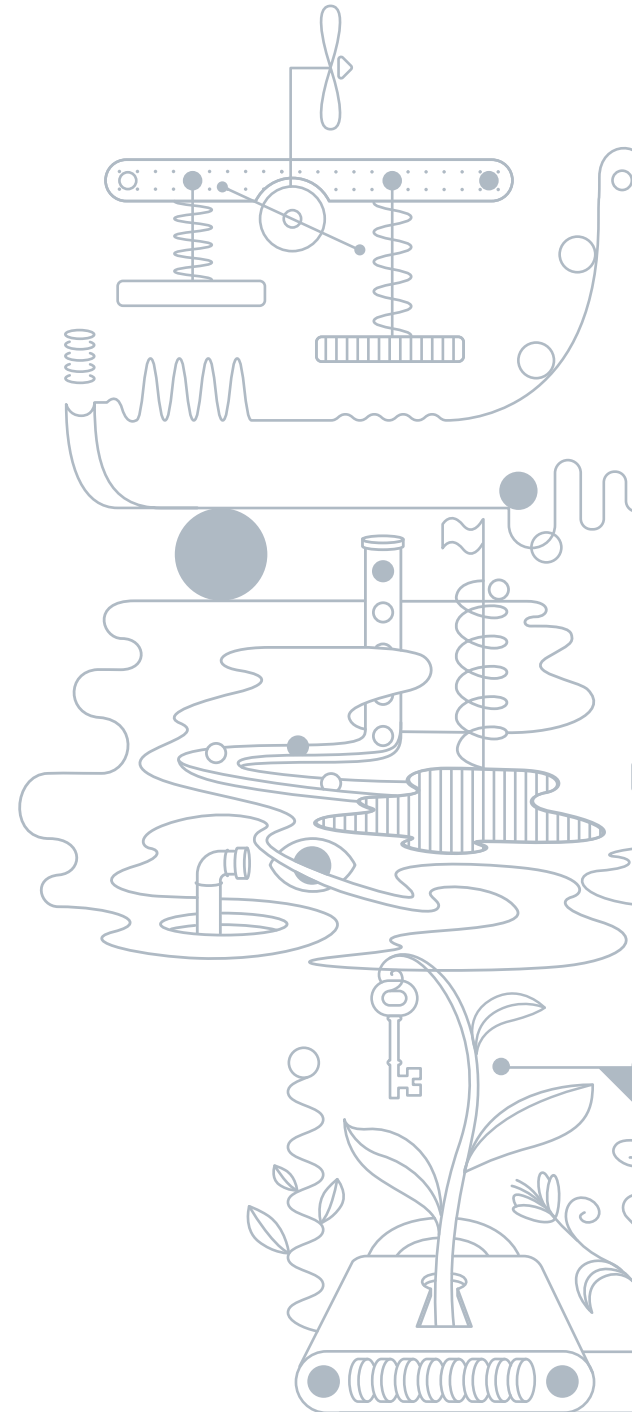


A NEW WAY TO WORK

Chart: To what extent do you agree that staff home working in your organisation.



Source: Fraser of Allander Institute



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

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