

SCOTTISH BUSINESS MONITOR

Q3 2021

ADDLESHAW
GODDARD



INTRODUCTION

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

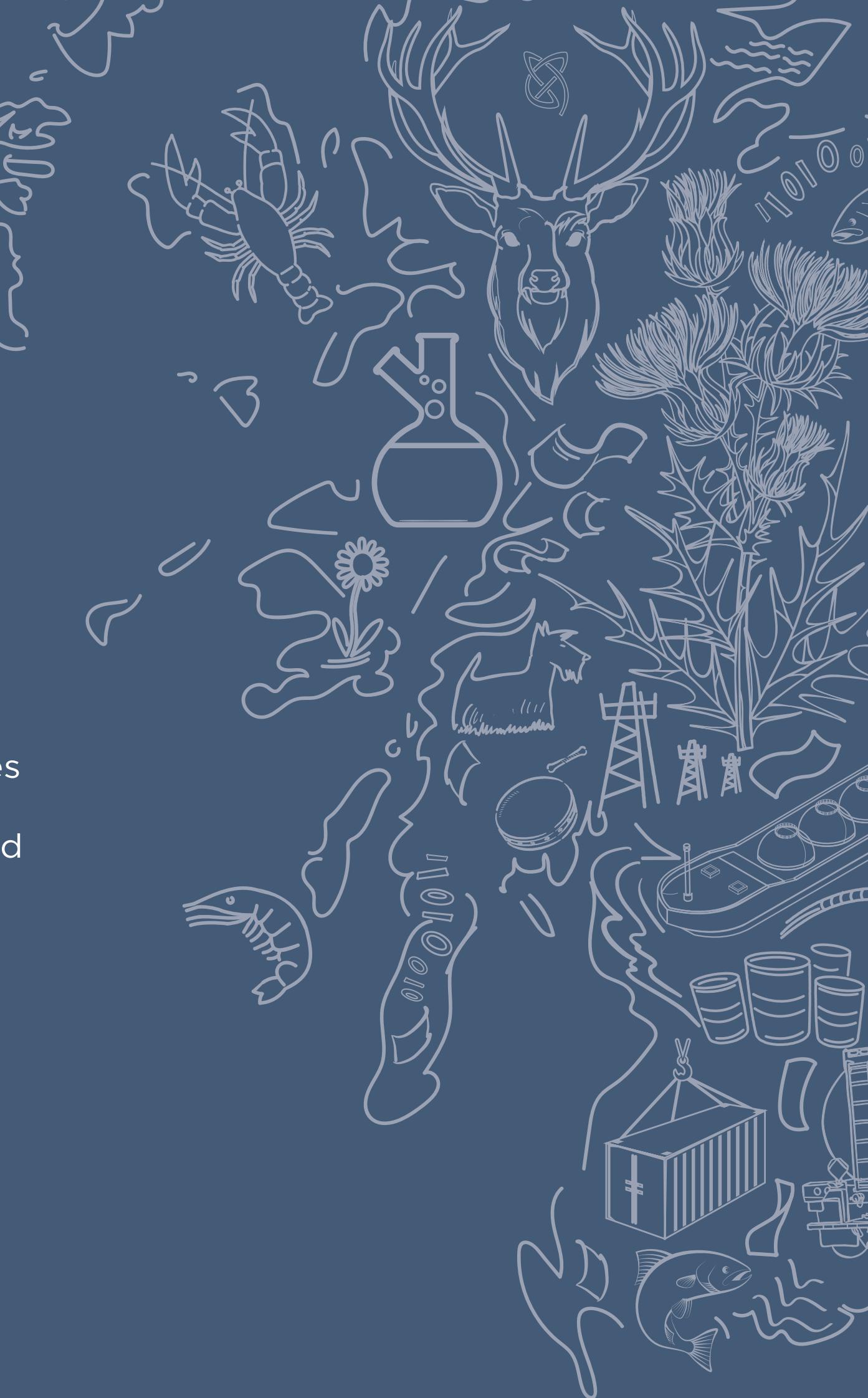
The survey sampled 500 firms in October from across the Scottish economy.

The survey examined business sentiment in the third quarter of 2021 and the outlook and expectations through the remainder of 2021 and the beginning of 2022.

Our survey results show that business sentiment remained positive in the third quarter of 2021, with all indicators except export activity remaining optimistic for the third consecutive quarter.

WE ALSO FOUND THAT:

- All sectors reported growth in sales over the quarter, for the second quarter in a row.
- 44% of responding businesses said that their debt burden had increased during the pandemic, of which 1 in 3 businesses reported that it had increased by a large amount.
- In the coming six months, the highest share of businesses reported that total employee costs (i.e., wages, pensions, and national insurance) were the key cost drivers for their businesses.
- 1 in 4 businesses expects to reduce their operations due to increases in electricity and gas prices.
- 59% of businesses currently had vacancies to hire new staff in their business, of which 86% were finding them difficult or very difficult to fill.
- The majority of responding businesses had either committed to achieving net-zero (56%) or had already attained their net-zero targets (3%).
- More than half of businesses (51%) reported that high costs made the transition to a more sustainable business difficult.
- 43% of businesses state that prioritising their recovery from the pandemic makes the transition to a more sustainable business difficult.



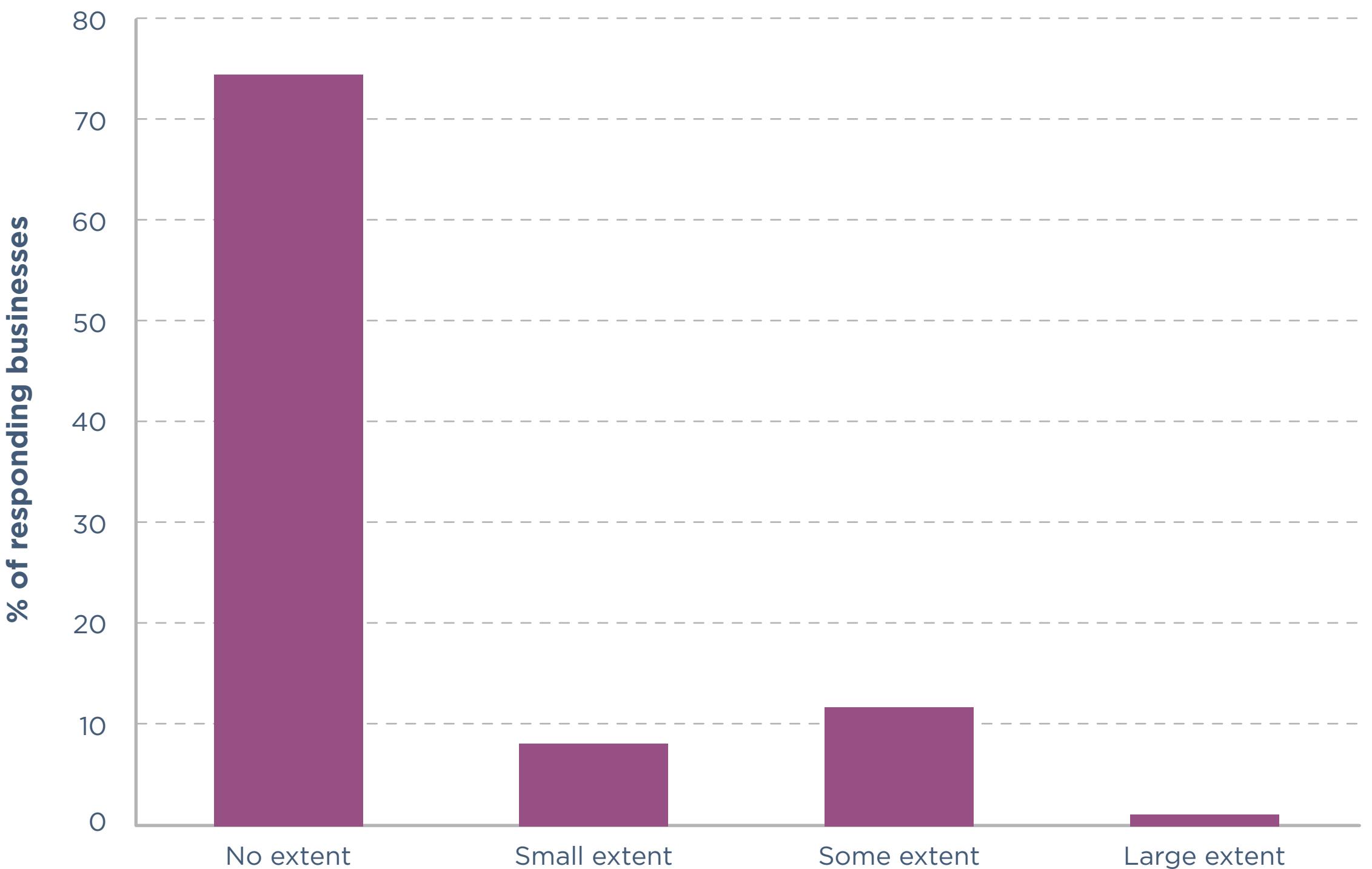
KEY RESULTS

OVER THE COMING MONTHS

- We asked businesses about the ongoing opportunities and challenges they face within the Scottish economy.
- Firms were asked whether their operations were likely to be affected by increasing energy prices.
- As many as one in four businesses expect to reduce their operations due to higher energy prices. However, the majority of firms reported that the reduction would be to a small or moderate extent.

Chart:

To what extent do you expect to reduce operations this year due to increases in gas and electricity prices?



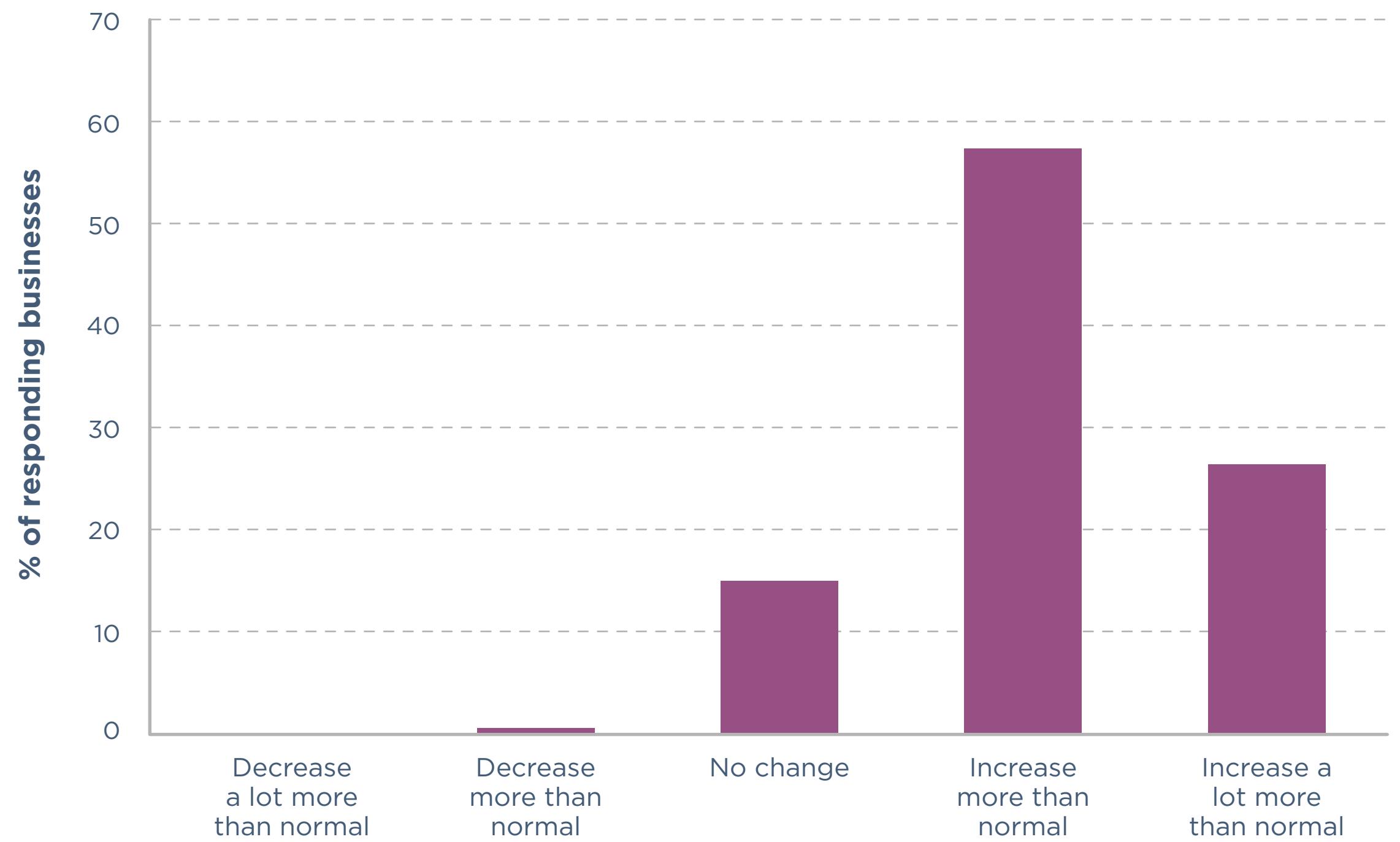
*5% of businesses responded N/A; therefore, percentages won't sum to 100%

KEY RESULTS

- The concerns around the potential for higher inflation levels of the economy have also persisted, with most businesses anticipating higher prices of goods and services in the next 12 months.
- 84% of responding businesses expected prices to increase more than normal in the coming 12 months. Only 1% of firms anticipated a decrease in the price of their goods and services.

Chart:

Over the next 12 months, how do you expect the prices of your goods and services to change compared to normal?



Source: Fraser of Allander Institute

KEY RESULTS

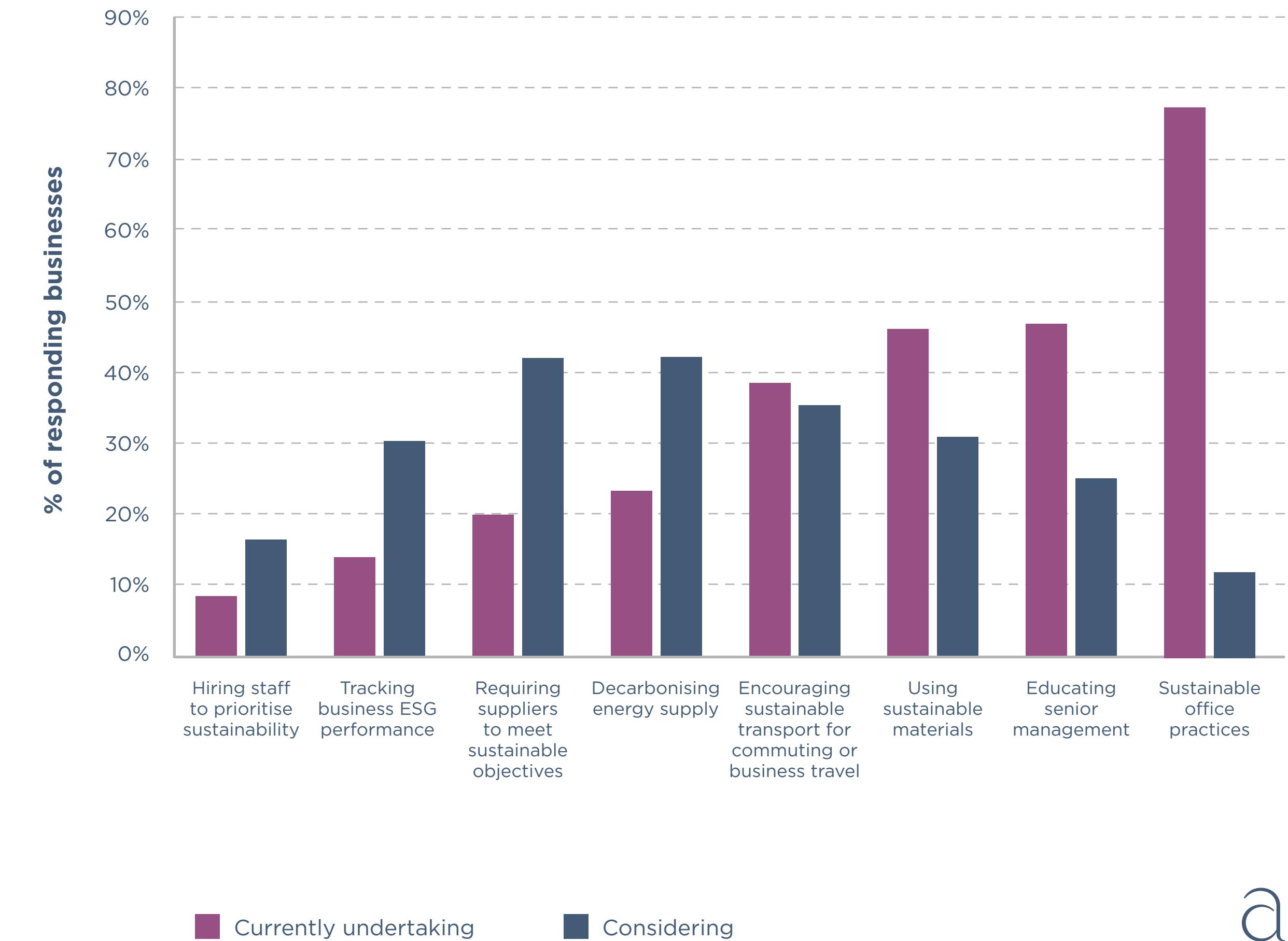
NET ZERO AMBITIONS

- The majority of businesses were committed to achieving net-zero. 21% of businesses had committed to achieving net-zero by 2030, and 32% were committed but had not yet set a target deadline
- 3% of businesses had already reached their net-zero targets, with a further 3% committed to achieving net-zero beyond 2030.
- 42% of responding businesses had not set any net-zero targets.
- The most common sustainable initiative many businesses are currently undertaking is adopting sustainable practices such as recycling and reducing single-use plastics (78%).
- Educating senior management on sustainability (47%) and using sustainable materials (46%) were also popular initiatives implemented by businesses.
- Requiring suppliers to meet sustainable objectives (42%) and decarbonising energy supply (42%) were also two initiatives many businesses considered.
- The least common measure being implemented by firms was hiring staff to prioritise sustainability, with only 8% currently undertaking this initiative and 17% considering it.

KEY RESULTS

Chart:

Which of these sustainable initiatives is your business currently undertaking or considering?



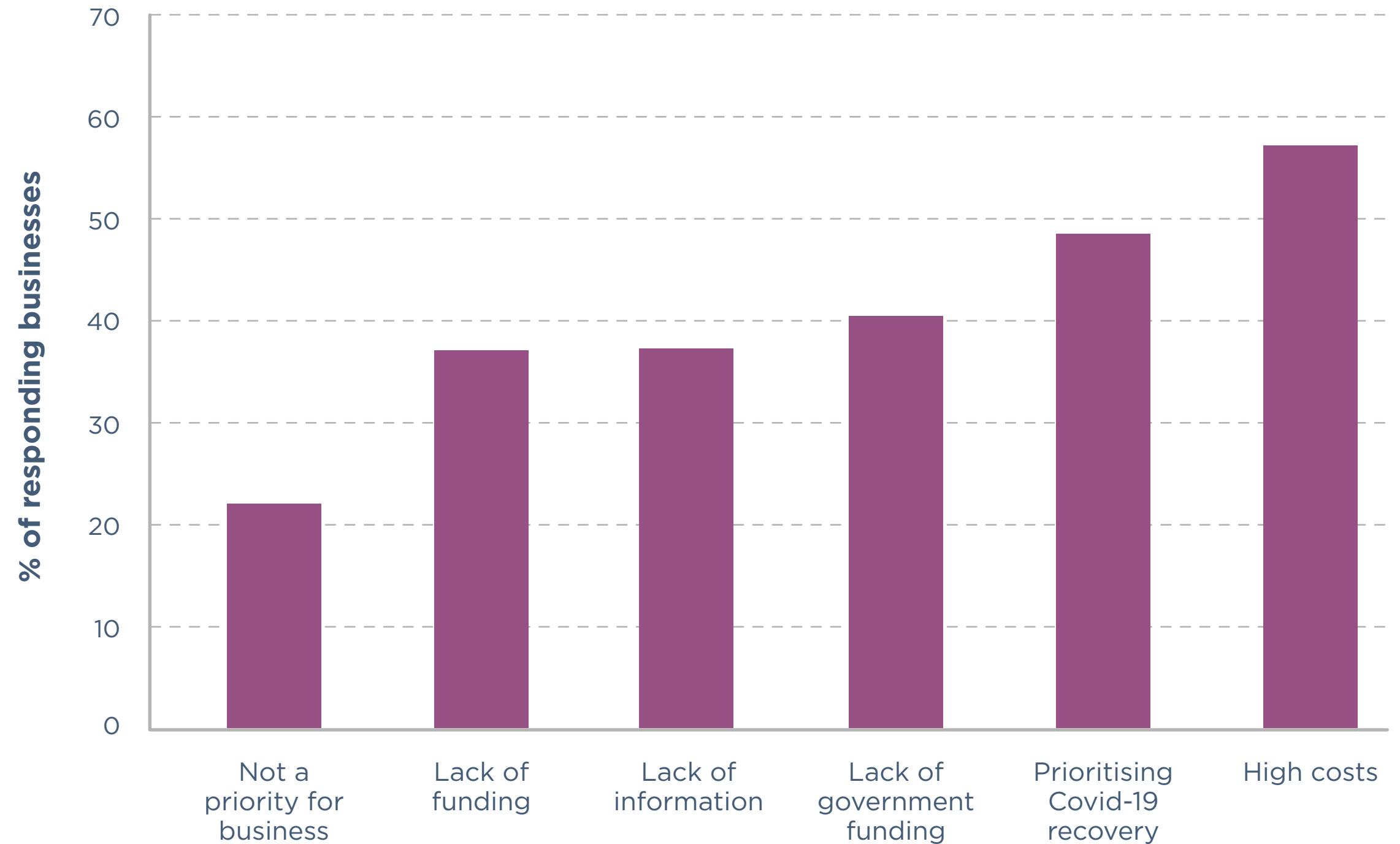
Source: Fraser of Allander Institute

KEY RESULTS

- We asked firms what factors are making a transition to becoming a more sustainable business difficult.
- More than half of responding businesses (57%) said that the high costs associated with becoming more sustainable was a barrier, with 49% of businesses reporting that prioritising their recovery from Covid-19 was making the transition more difficult.
- 1 in 3 businesses also reported that lack of information and government funding made it difficult to transition to a more sustainable business.

Chart:

Which factors, if any, are making the transition to a more sustainable business more difficult?



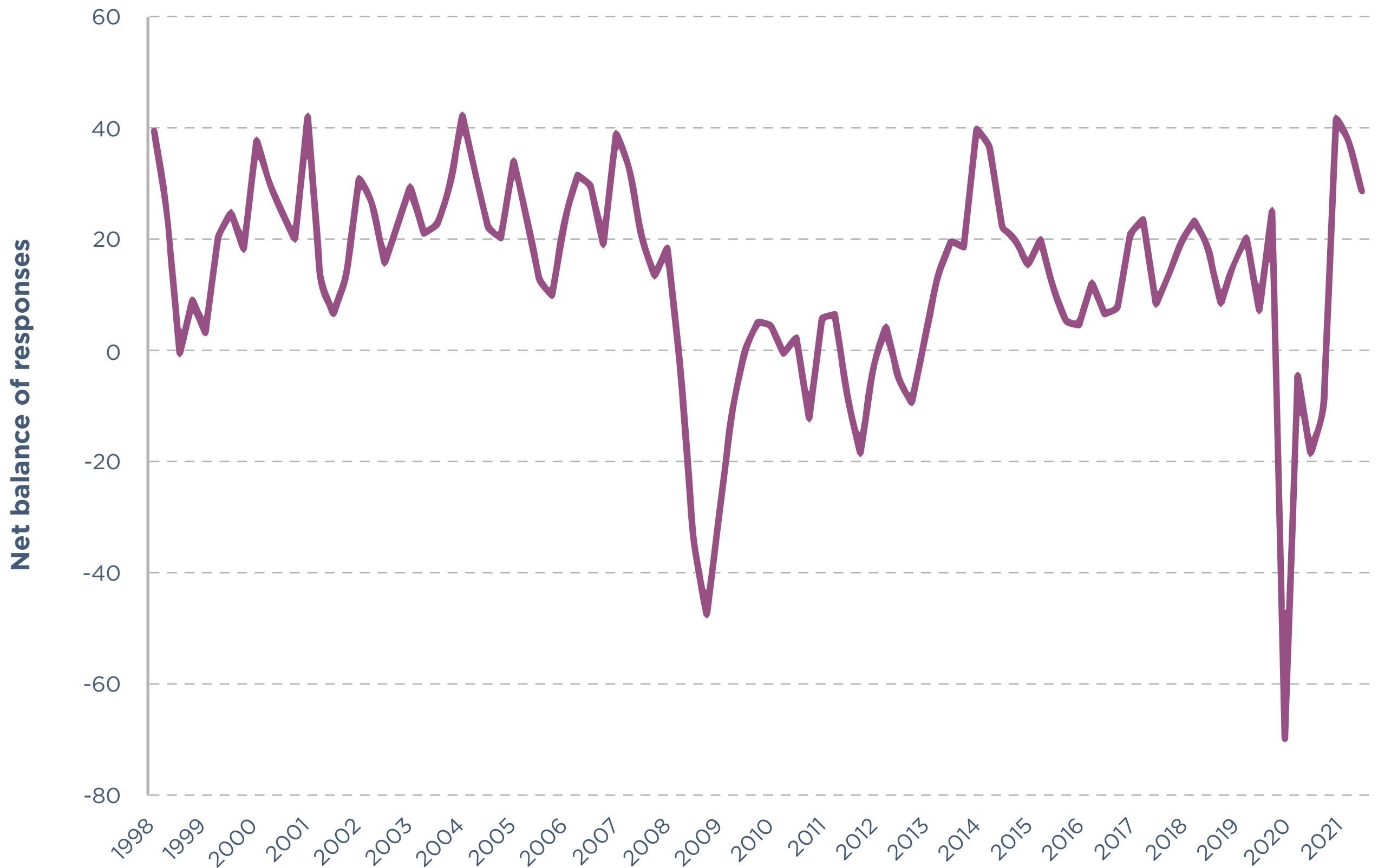
KEY RESULTS

THE EXPERIENCE OF FIRMS

- The net number of firms reporting an increase in their volume of business over the past three months continued to be large and positive for the third quarter in a row.
- Expectations for the coming six months was also positive. However, the net balance of firms expecting a higher volume of business had fallen slightly on the previous quarter.

Chart:

Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 - Q3 2021



Source: Fraser of Allander Institute

KEY RESULTS

- All sectors continued to report a positive net balance for the second quarter in a row.
- The highest share of businesses in IT & Communications reported higher volumes of business in the past six months (57%). However, 29% of firms also reported lower volumes of business.
- The Admin & Support Services sector had the lowest net balance for the volume of business in the past three months. 37% of responding firms in the sector reported higher volumes of business, with 30% reporting lower levels.

Table:

Net balance (%) of firms experiencing an increase in their volume of business over the past three months, Q2 2020 – Q3 2021.

	2020			2021	
	Q3	Q4	Q1	Q2	Q3
MANUFACTURING	-15	-24	5	45	36
CONSTRUCTION	-3	-8	14	55	40
RETAIL & WHOLESALE	-26	-33	-11	18	17
TRANSPORT & STORAGE	-23	-53	-36	32	15
ACCOMMODATION & FOOD SERVICES	-58	-92	-77	46	31
FINANCE & INSURANCE	-24	-19	47	23	33
IT & COMMS	-6	-38	3	44	29
ADMIN & SUPPORT SERVICES	-43	-49	-13	26	7
PROFESSIONAL, SCIENTIFIC AND TECHNICAL	-29	-16	15	24	32

THE OUTLOOK FOR THE YEAR

- The outlook on growth in the Scottish economy has worsened in the latest quarter, with only 1 in 10 businesses expecting strong or very strong growth in the coming 12 months compared to 17% in the previous quarter.
- Half of responding businesses expected moderate growth in the coming 12 months. The share of firms expecting weak and very weak growth also increased, from 33% in quarter 2 to 40% for the latest quarter.

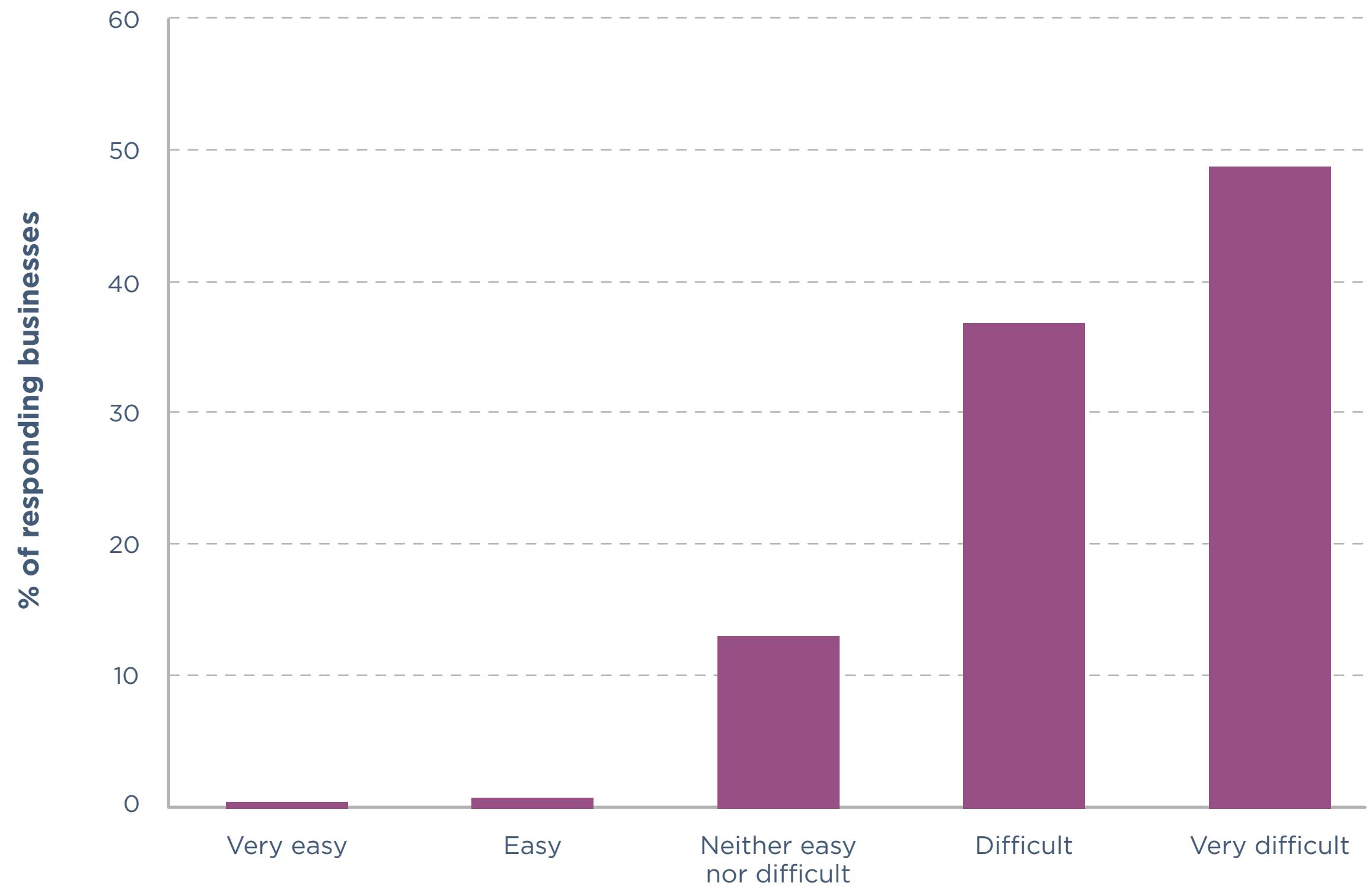
VACANCIES

- Around 60% of businesses currently had vacancies for new staff, a 9% increase on the previous quarter.
- The vast majority of these responding businesses said that they were finding it difficult or very difficult to fill vacancies (86%).
- The most common factor making it difficult to fill vacancies continued to be a lack of required skills or experience (34%), followed by a lack of applications (26%).
- 1 in 5 businesses also reported that wage expectations were making it difficult to fill vacancies. As well as this, 68% of businesses said that wages were higher in quarter three compared to the previous three months.
- The end of September also marked the end of the Government's Job Retention Scheme.
- Only 4% of responding businesses were currently, or were expecting to, make redundancies due to the end of the Job Retention Scheme.

THE OUTLOOK FOR THE YEAR

Chart:

If you currently have vacancies to hire new staff, how easy or difficult are you finding it to fill these vacancies?



Source: Fraser of Allander Institute

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

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