

SCOTTISH BUSINESS MONITOR

Q2 2022

**ADDLESHAW
GODDARD**

MORE IMAGINATION MORE IMPACT



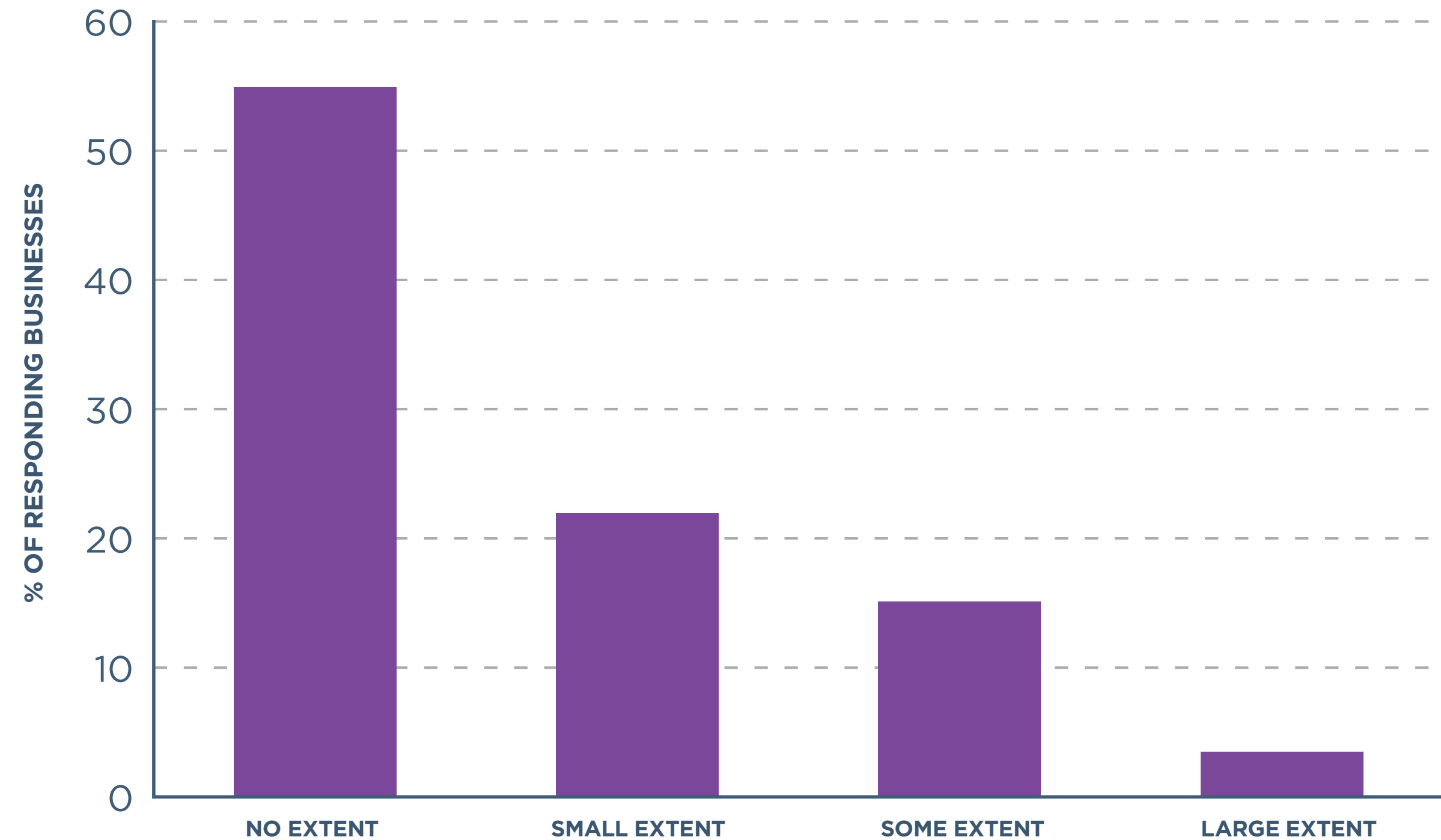
KEY RESULTS

INFLATIONARY PRESSURES AND SUPPLY CHAIN ISSUES

- We continued to ask businesses about the ongoing price increases in the energy sector and how this is expected to impact their operations.
- **40%** of firms expect to reduce their operations this year due to higher energy prices, with the majority reporting that the reduction would be small or moderate.
- This was an increase on the previous quarter when **1 in 3** firms expected to reduce their operations due to rising energy bills.
- The majority of businesses, **55%**, reported that they do not expect to reduce operations.
- The wholesale and retail (**51%**) and transport and storage (**43%**) sectors had the highest share of firms expecting to reduce operations due to rising energy costs.

Chart 1:

To what extent do you expect to reduce operations this year due to increases in energy (electricity, gas, or fuel) prices?



*6% of businesses responded N/A; therefore, percentages will not sum to 100%

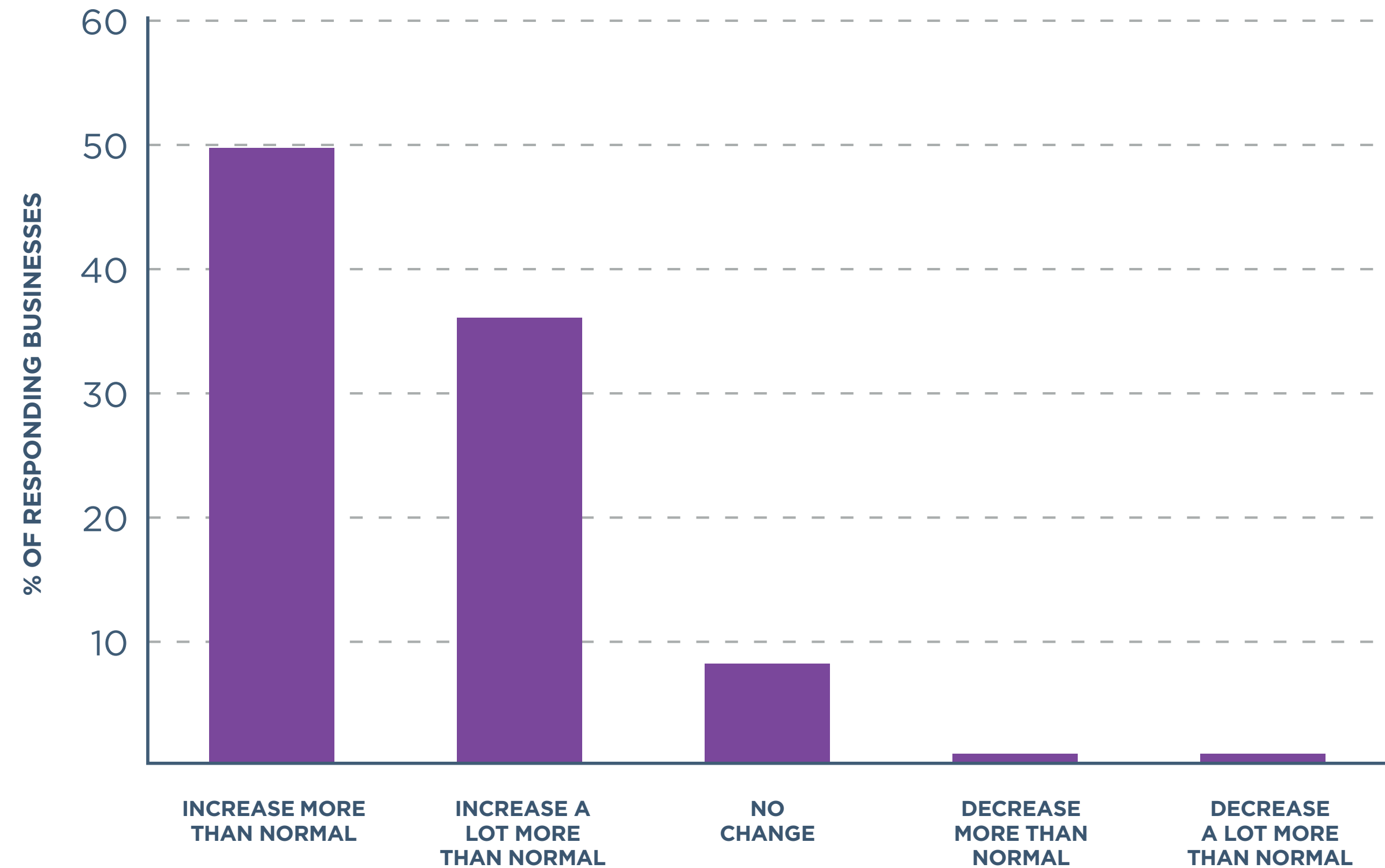
KEY RESULTS

INFLATIONARY PRESSURES AND SUPPLY CHAIN ISSUES

- General inflationary pressures also continued to affect firms, with **86%** of responding businesses reporting that they expect their prices to increase by more than normal, or a lot more than normal, in the next 12 months. Down slightly from **88%** last quarter.
- Only **2%** of firms expect their prices to decrease in the next 12 months, and just **8%** of firms anticipate no price changes.
- **All** transport and storage services firms expect to increase prices in the coming 12 months.
- **96%** of accommodation and food services firms also expect their prices to increase, followed by **95%** of firms in the wholesale and retail, and construction sectors.

Chart 2:

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



*4% of businesses responded N/A; therefore, percentages will not sum to 100%

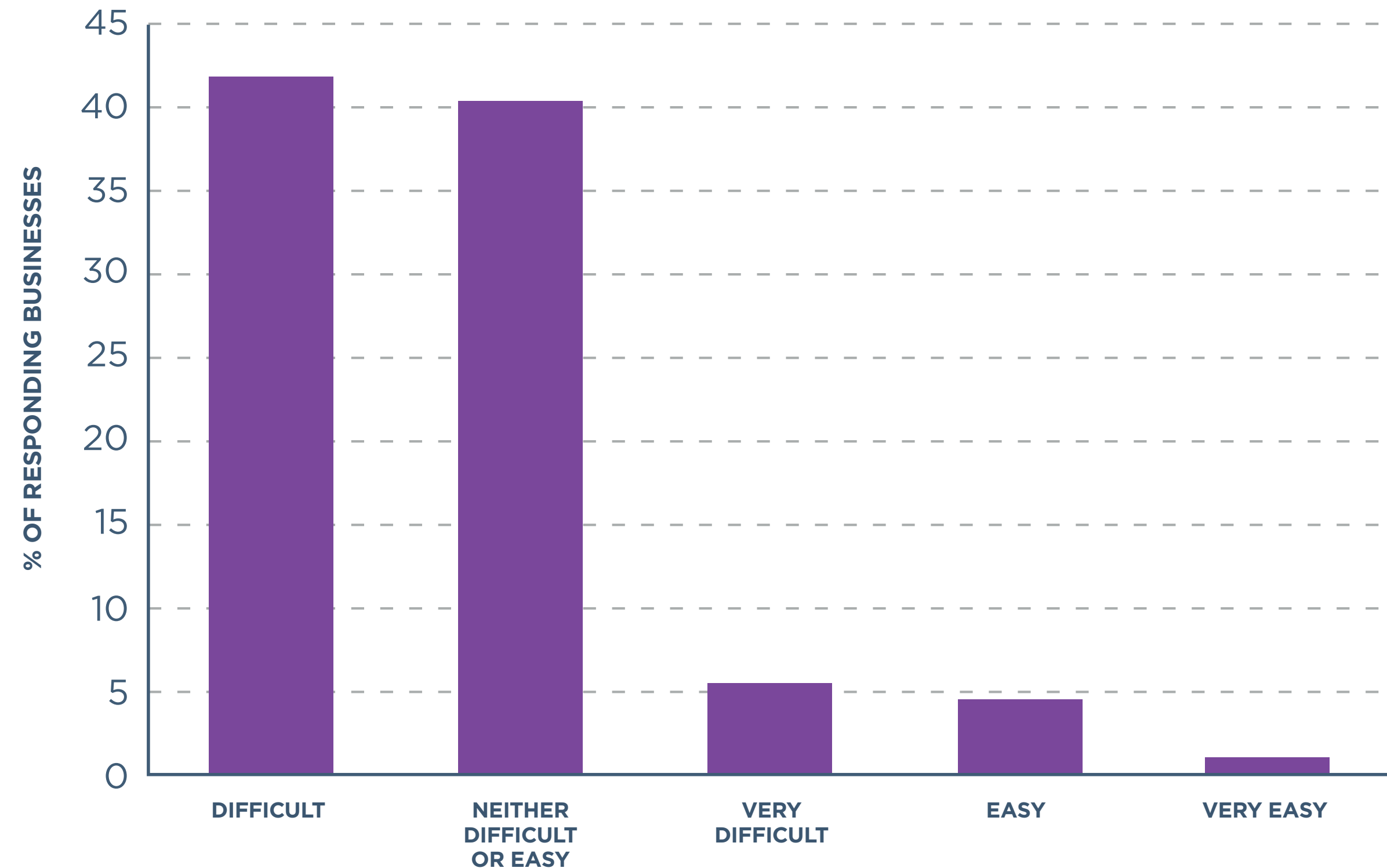
KEY RESULTS

INFLATIONARY PRESSURES AND SUPPLY CHAIN ISSUES

- Given ongoing global supply chain issues, we also asked firms about their experience sourcing goods and services.
- Just **under half** of responding businesses reported finding it difficult or very difficult to source goods and services, down 4-percentage points since last quarter.
- Over **3/5** of firms in the accommodation and food services sector reported difficulties sourcing goods and services, a slight improvement compared to last quarter.
- Sectors such as transport and storage have also seen improvements in sourcing goods and services over the past quarter, with difficulties falling from **77%** in Q1 to **57%** in Q2.
- The most common factors affecting firms' ability to source goods and services were the lack of supply in the U.K. (**36%**) and the price of goods and services (**33%**).
- Other common factors included freight availability and delays (**24%**) and a lack of supply internationally (**20%**).

Chart 3:

How easy or difficult are you finding it to source available goods and services your business purchases?



7% of businesses responded N/A; therefore, percentages will not sum to 100%

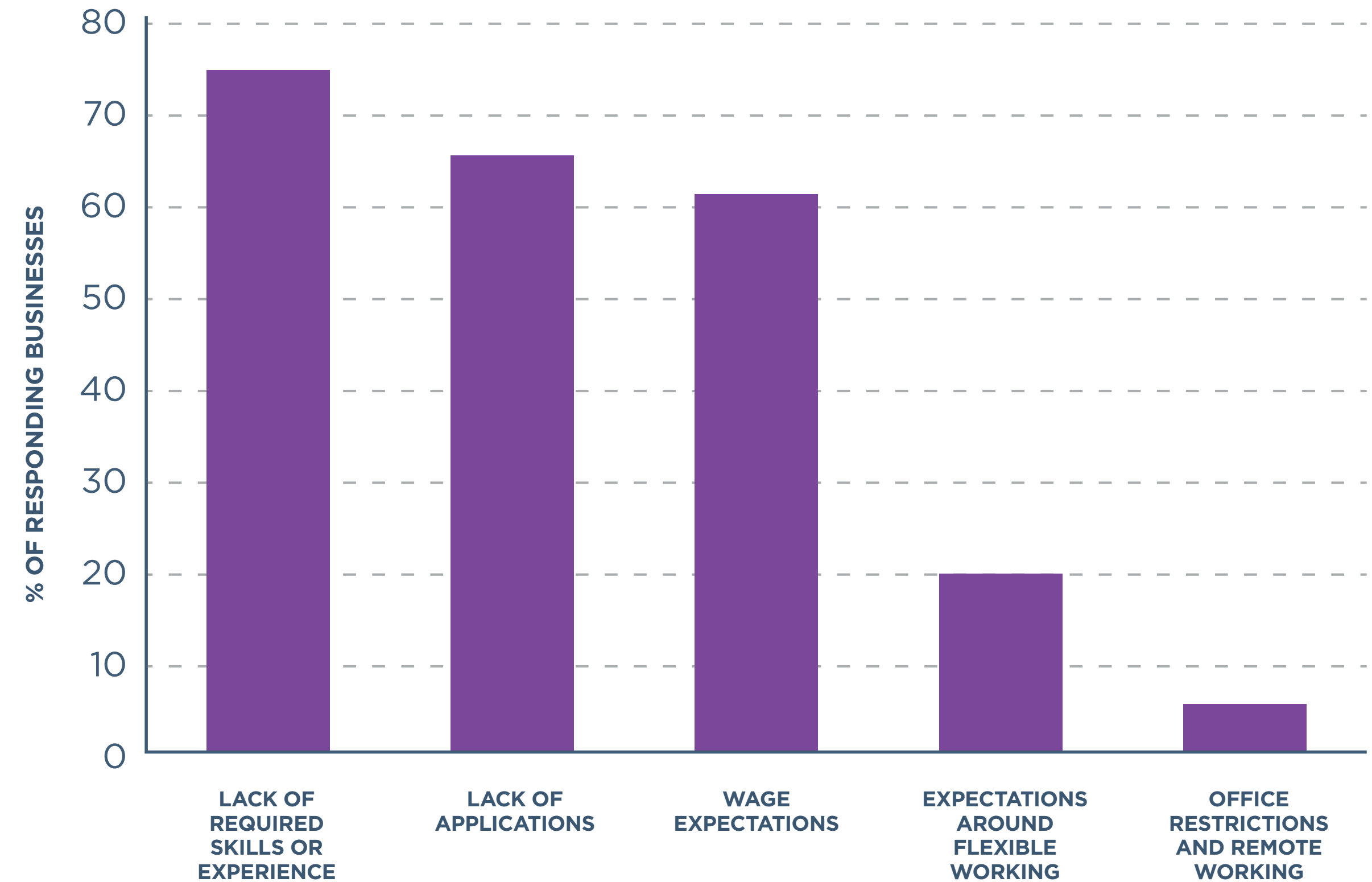
KEY RESULTS

VACANCIES

- In the latest quarter, **56%** of responding businesses had vacancies to hire new staff members.
- Of the firms reporting that they currently had vacancies, **86%** said they were finding them difficult or very difficult to fill, up slightly since last quarter, with just **1%** reporting that filling the vacancies was easy or very easy.
- Firms in the administrative and support services sector face the greatest staffing challenges, with over **3 in 5** firms reporting difficulties filling vacancies. Construction (**59%**) and hospitality (**58%**) firms are also struggling to fill vacancies.
- Across the Scottish economy, a lack of required skills (**75%**) and a lack of applications (**66%**) were the most common factors that have made filling vacancies difficult.
- Increasingly, wage expectations (**61%**) make filling vacancies difficult.
- However, firms are not just struggling to attract talent; **1 in 3** firms were finding it difficult or very difficult to retain current staff, up from **1 in 4** last quarter.
- The transport and storage sector is finding it the most difficult to retain staff, with **2 in 3** firms struggling with staff retention. Interestingly, just over **16%** of admin and support services firms were finding retaining talent difficult.

Chart 4:

What factors have made filling vacancies difficult?



KEY RESULTS

CURRENT AND EXPECTED VOLUME OF SCOTTISH BUSINESS

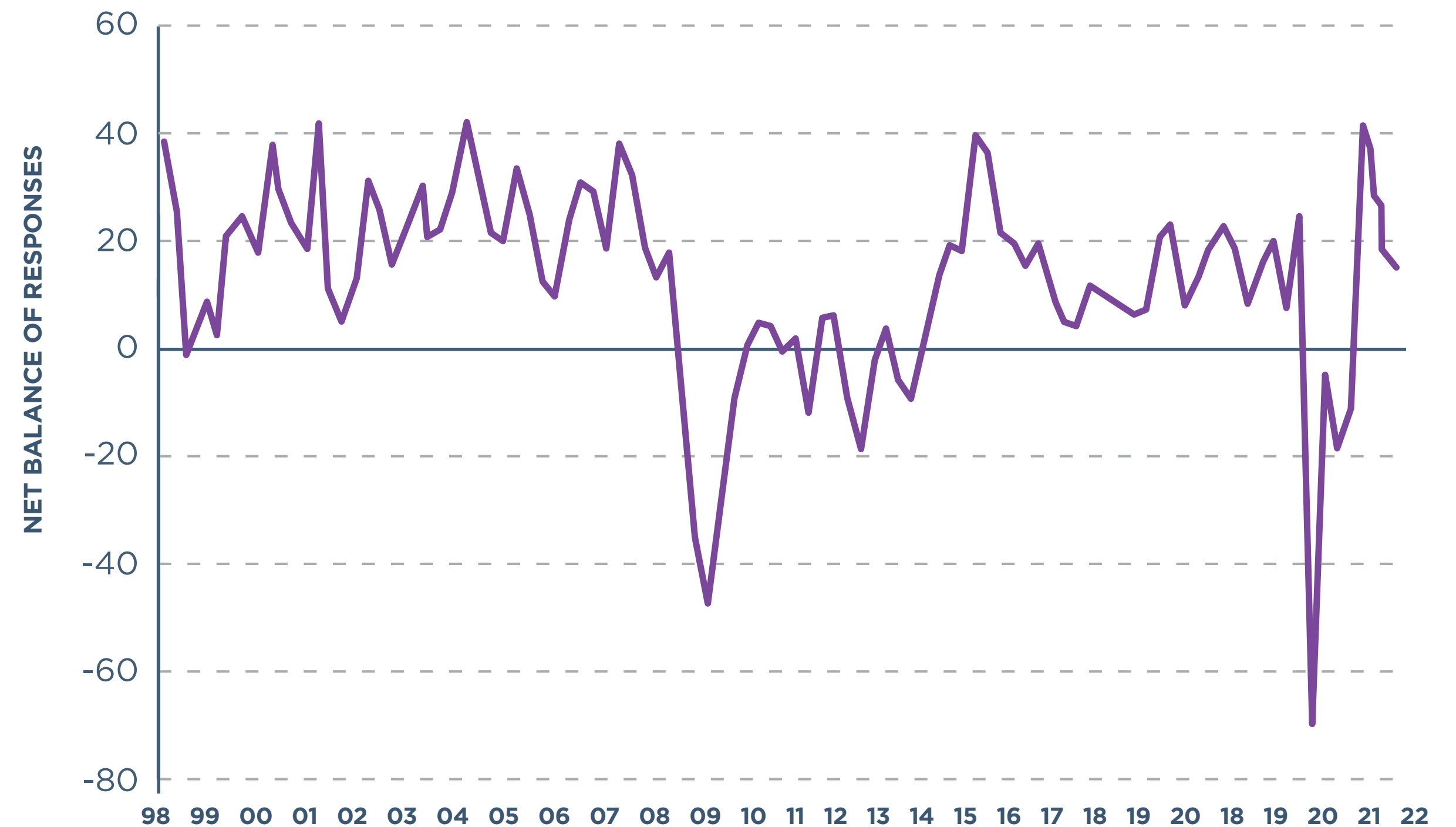
- The net balance of firms reporting an increase in their volume¹ of business over the second quarter² of 2022 remained positive although down on the last quarter.
- Expectations for the second half of 2022 were also positive; however, optimism continues to fall.
- In the latest quarter, there were positive net balances in expectations for the level of employment and turnover in the coming six months. However, there were negative net balances for expected capital investment and export activity.

¹ i.e. business sales.

² Q2 2022 compared to Q1 2022.

Chart 5:

Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 – Q2 2022.



KEY RESULTS

THE EXPERIENCE OF FIRMS

- All sectors reported a positive net balance for the volume of business in the second quarter of 2022. However, there have been notable declines since the previous quarter.
- There were also positive net balances for all sectors, except manufacturing, for the value of business activity (turnover).
- There were also positive net balances for all sectors, except admin and support services, for the level of employment.

Table:

- Net balance (%) of firms experiencing an increase in their volume of business over the past three months, Q1 2021 – Q2 2022

	2021				2022	
	Q1	Q2	Q3	Q4	Q1	Q2
CONSTRUCTION	14	55	40	3	29	26
RETAIL & WHOLESALE	-36	32	15	25	41	21
TRANSPORT & STORAGE	-11	18	17	39	30	17
ACCOMMODATION & FOOD SERVICES	-77	46	31	18	14	17
FINANCE & INSURANCE	15	24	32	14	31	14
IT & COMMS	3	44	29	33	27	14
ADMIN & SUPPORT SERVICES	-13	26	7	0	31	3
PROFESSIONAL, SCIENTIFIC & TECHNICAL	5	45	36	4	22	2

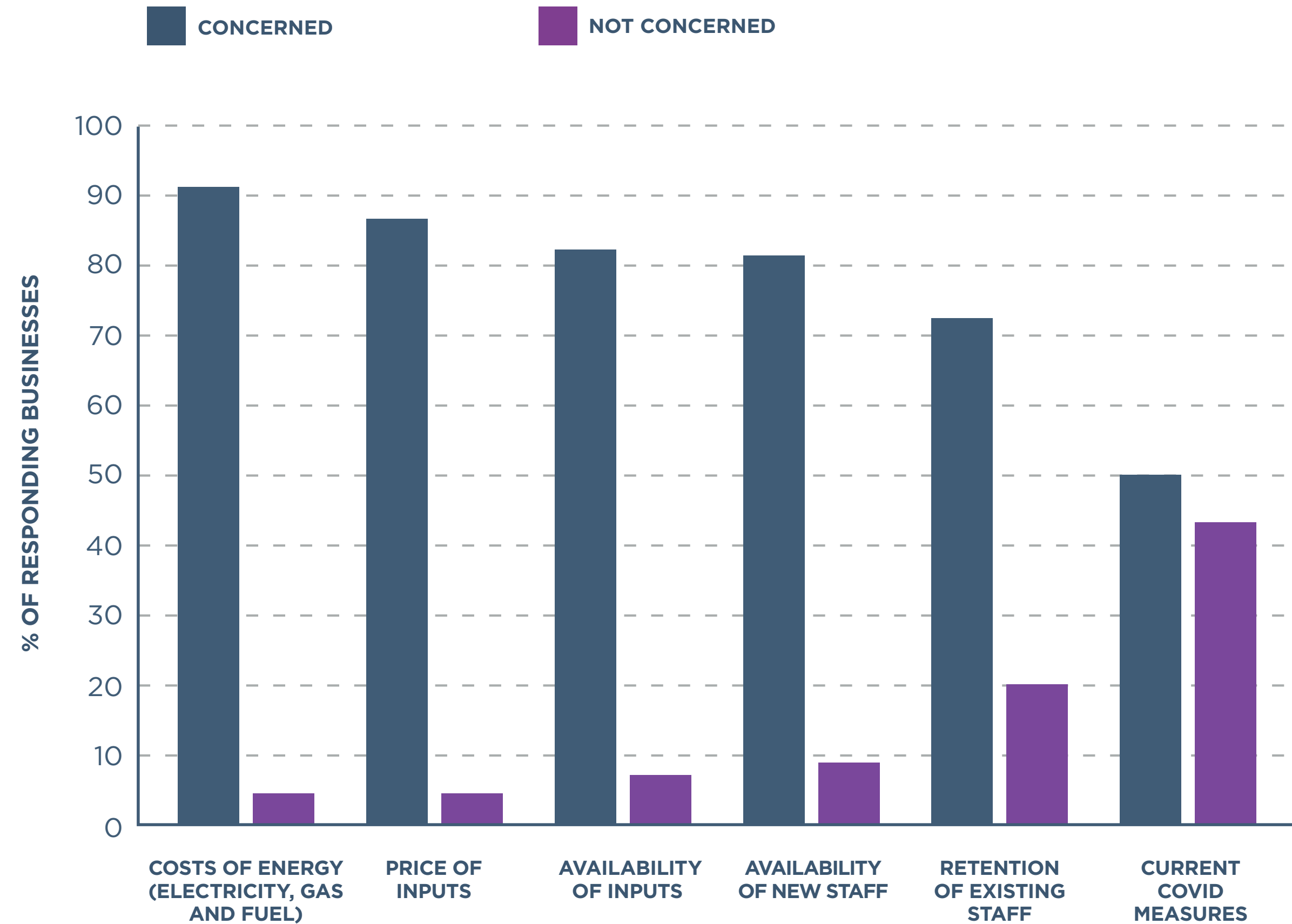
KEY RESULTS

THE OUTLOOK FOR THE YEAR

- We asked Scottish firms what they expect to be important to their business over the coming quarter.
- The majority of firms expect economic and business uncertainty (**87%**) and staff availability (**85%**) to be important to their business in the coming 3 months
- Additionally, firms were asked what the biggest concerns for their business were for the coming months.
- Very similar to last quarter, the most common concerns among responding businesses were the costs of energy (**91%**), the price of inputs (**87%**), and the availability of inputs (**82%**) and new staff (**81%**).

Chart 6:

Compared to normal, how concerned is your business about the following factors?



Some businesses responded N/A; therefore, percentages may not sum to 100%

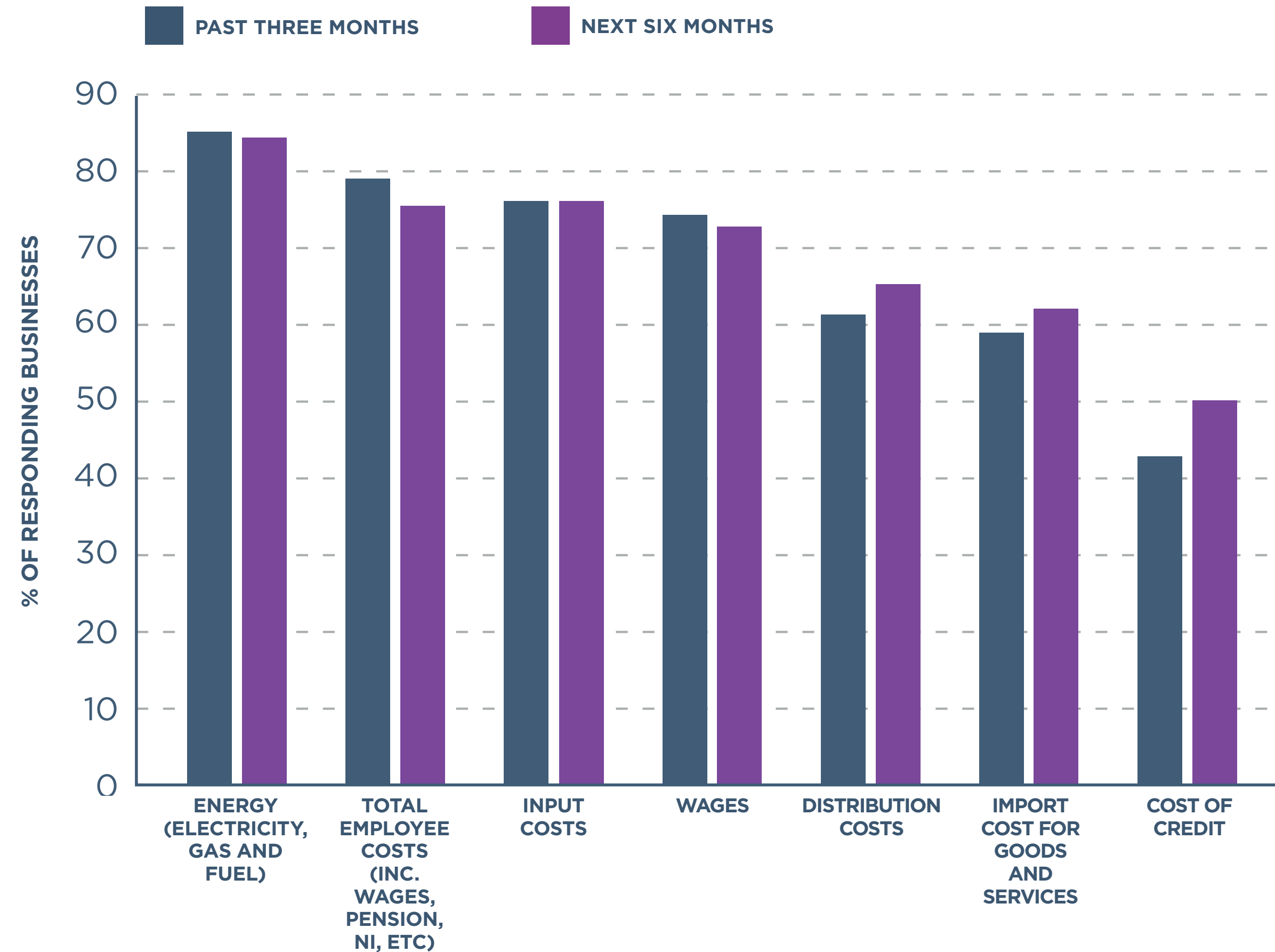
KEY RESULTS

THE OUTLOOK FOR THE YEAR

- We also asked firms what the main cost drivers have been over the latest quarter and what they expect to be the main cost drivers in the coming months.
- Energy prices were the most common cost over the past quarter for businesses (**85%**), followed by total employee costs (**79%**).
- Firms also expect energy costs to increase the most in the next six months.
- Finally, we asked businesses about their outlook for growth in the Scottish economy over the next 12 months.
- **2 in 3** firms expect growth to be weak or very weak, up from just **under half** of the firms surveyed last quarter.
- Just **5%** expect strong or very strong growth over the next year, down from the **7%** reported in Q1.

Chart 7:

Thinking about the key cost drivers for businesses, what is your business' assessment of the following cost pressures over the...



*net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower

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