UK Business Confidence Monitor Report

Q2 2015 Scotland

BUSINESS WITH CONFIDENCE

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Confidence Index turns negative

In the Q2 2015 *ICAEW/Grant Thornton UK Business Confidence Monitor* (BCM), 60 senior business professionals in Scotland were interviewed and a **Confidence Index score of -7.4** was recorded. Confidence declined further in the latest quarter, with the index turning negative for the first time in three years.

GROWTH EXPECTED TO LEVEL OFF

Scottish businesses have experienced a sustained slowdown in improvements across a range of key financial performance indicators. Year-on-year profit growth has fallen from 6% in Q2 2014 to 3.3% in the latest quarter; similar decelerations have been experienced in sales volumes and turnover. Export growth has seen a notable decline in recent quarters – overseas sales increased by just 0.6% over the last 12 months, compared with a 3.1% increase in the year to Q2 2014.

In line with negative confidence levels, firms in Scotland forecast further declines in the growth of the key indicators. Turnover growth is expected to drop from the 3.4% recorded over the past year to just 1%. The outlook is particularly weak for the production sector. Scottish Power experienced a 21% fall in annual profits over the past year, with its power generation unit sliding into the red. The biggest contributor to this was an impairment loss on its Rye House gas-fired power plant, with a glut of cheap US coal imports squeezing margins for gas-based electricity generation.

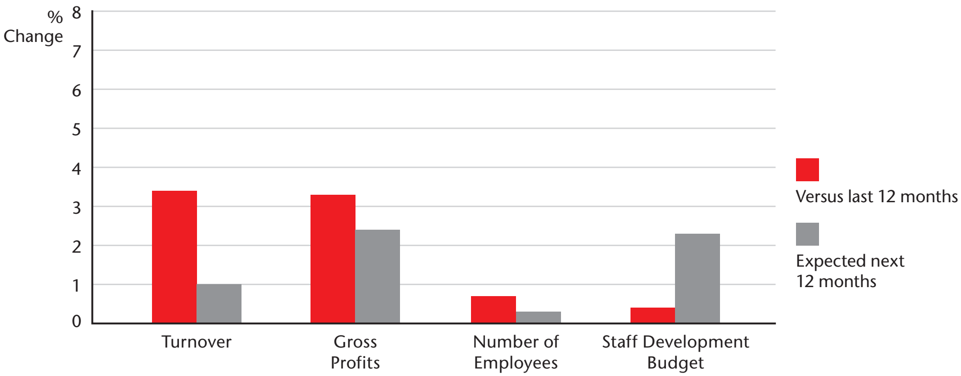
HIRING INTENTIONS SCALED BACK

With falling confidence in the business environment over the next year, companies are curbing their hiring intentions. The 0.7% increase in headcounts over the last 12 months, is already well below the UK average of 2.2%. Additionally, firms expect growth in hiring to decline further to just 0.3% over the next year. The outlook is particularly weak in the oil and gas industry in Scotland. Large oil companies Shell and Taqa have already announced plans to cut around 350 jobs in the North Sea.

The public sector is an important employer across Scotland, accounting for around 23% of jobs. Given that the new UK Government plans fairly sharp cuts to public spending over the course of the next few financial years, weak private sector job creation is particularly concerning for the labour market in Scotland. The weak employment outlook over the coming year is likely weighing on businesses' expectations for domestic demand. Domestic sales growth is expected to fall to a rate of less than half that experienced over the past 12 months.

FIG. 1 BCM CONFIDENCE INDEX TREND IN SCOTLAND

FIG. 2 Q2 2015 – SCOTLAND AVERAGE % CHANGE IN …



ATTENTION TURNING TO STAFF DEVELOPMENT

Businesses' attention seems to have begun to shift towards developing their existing staff as opposed to hiring new employees. Unlike R&D budgets, which firms expect to cut, companies plan to increase spending on staff development, with budgets rising by 2.3% over the next 12 months compared with just 0.4% over the past year, despite expected weaker sales growth.

The plans are likely to be a reaction to the growing challenges that businesses are facing from skills shortages in the labour market. The share of firms reporting that the availability of management and non-management skills has become a greater challenge has grown from 16% a year ago to a little under 30%. By increasing investment in their workforce now, despite the difficult financial conditions, businesses may be better placed to capitalise on any improvement in market conditions in the future.

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