

N O R T H - E A S T

QUARTERLY
ECONOMIC
SURVEY



Aberdeen &
Grampian
Chamber of
Commerce

&

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Q1
2024

Overview



This UK wide survey of business confidence by the British Chambers of Commerce network took place between 12th February and 12th March, of over 4,800 firms across the UK - 92% of whom are SMEs (fewer than 250 employees).

At a national level, the key findings were:

- 56% firms expect to see their turnover increase over the next 12 months - the same figure as Q4 2023. Only 15% of respondents are expecting to see their financial situation worsen in the year ahead, 29% expect things to remain the same.
- Profitability confidence has remained static, with 48% of companies saying they expect profits to increase in the next year. That compares to 47% in Q4. 21% of respondents believe their profits will fall.
- Economic headwinds continue to impact heavily on business investment. The majority of firms say they haven't increased the amount of new plant, machinery and equipment they've bought or rented. Only 24% reported an increase in investment (the same as Q4), while 60% said levels had remained the same, while 16% reported a decrease.
- There are large sectoral disparities in investment levels. 28% of hospitality sector firms say they have decreased investment, while 30% of manufacturing businesses have increased investment.
- Despite inflation falling significantly in recent months, many firms are expecting the price of their goods or services to rise. 46% of respondents are predicting an increase (compared with 47% in Q4), 51% think prices will stay the same, and just 3% are anticipating a decrease.
- Labour costs are cited as the main cost pressure across all businesses. For the second quarter running, 68% of responding firms say they are under pressure to raise prices because of staffing costs. Some sectors are under particular pressure from labour costs, with 77% of hospitality firms and 76% of manufacturers citing it as a pressure.
- While inflation remains firms' biggest concern, business worries about interest rates continue to gradually fall. 35% of businesses say they are concerned about the cost of borrowing, compared with 39% in Q4. These figures remain high compared with the pre-Covid trend.

Foreword

It is a privilege once again for Gilson Gray LLP to be sponsors of the North-east Quarterly Economic Survey, issued by Aberdeen & Grampian Chamber of Commerce.

The report continues to provide an insightful and key perspective on the economic temperature of the North-east from quarter to quarter, and gives a useful comparison to UK business perspective on the same issues.

Last quarter we reported on encouraging signs for the regional economy as the large majority of businesses continued to report sales growth both domestically and internationally. I took the chance to note that our governments must continue to support this “powerhouse” region to be a vital part of our national economy. One quarter on and we are having to report the opposite with recent taxation changes clearly impacting sentiment across North-east companies.

A common theme this quarter is the perceived lack of support from government with detrimental policies on the oil and gas sector impacting many businesses on a broader scale than just that one industry. The Scottish Government’s income tax changes became understood this quarter and are also being seen to have a negative impact.

North-east businesses continue to see price increases with key factors continuing to be labour costs (76% of businesses) and utilities (62%). Both those measures and raw materials (47%) continue to outpace the general UK picture as causes for concern for North-east businesses. Indeed, across most measures local businesses are reporting higher cost pressures than their UK peers.

Not surprisingly however, given the headlines of the past month or two, taxation is now seen as a key constraint to growth with a jump from 40% in Q3 2023 to 52% this quarter. For the first time since 2021, taxation has displaced inflation as the main market factor most likely to impact local businesses in 2024.

In contrast, inflation remains the number one constraint for businesses in the UK as a whole. As a result of these factors, whilst 57% of local businesses believe that their turnover will increase in 2024 (almost on a par with the UK at 56%), 18% think turnover will decrease in the same period (up from 14% last quarter). More local businesses feel that their turnover will worsen over the next 12 months than the UK as a whole.

Cash flow is also a fundamental barometer of the short term health of a business. And whilst more businesses are reporting increases in recent cash flows since the last quarter (25% to 30%), we have seen a significant rise in the number of businesses reporting cash flow declines in the last quarter – from 18% to 27%.

These metrics confirm some of what we are seeing anecdotally in the market. There are more reports of businesses across multiple sectors making moves to manage cash flow with more businesses utilising overdrafts or seeing credit terms under pressure. Each quarter we have focused on the criticality of managing cash flow and debtor days and this has not changed for us this quarter.

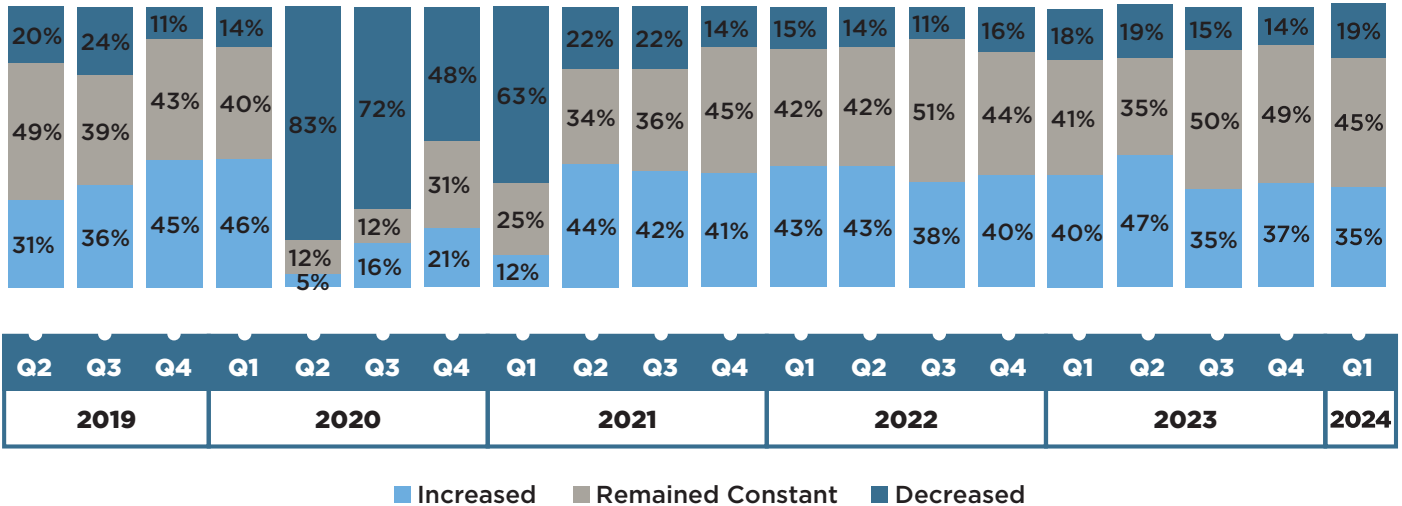
Unsurprisingly, whilst the North-east continues to see more confidence about its export capabilities than the UK generally, the number of businesses projecting increased sales both domestically and internationally saw a reduction in the quarter both locally and across the UK. It is clear that the North-east economy remains resilient with less inflationary concerns than previously. However, government policies have not helped and it remains to be seen how these will affect the economy as we prepare for 2-3 critical quarters in business and politics.



Domestic Demand

Q: Excluding seasonal variations, over the past 3 months 'UK sales/custom/bookings' have...

35% of North-east businesses reported an increase in UK orders, a slight decrease since Q4 2023 (from 37% to 35%).

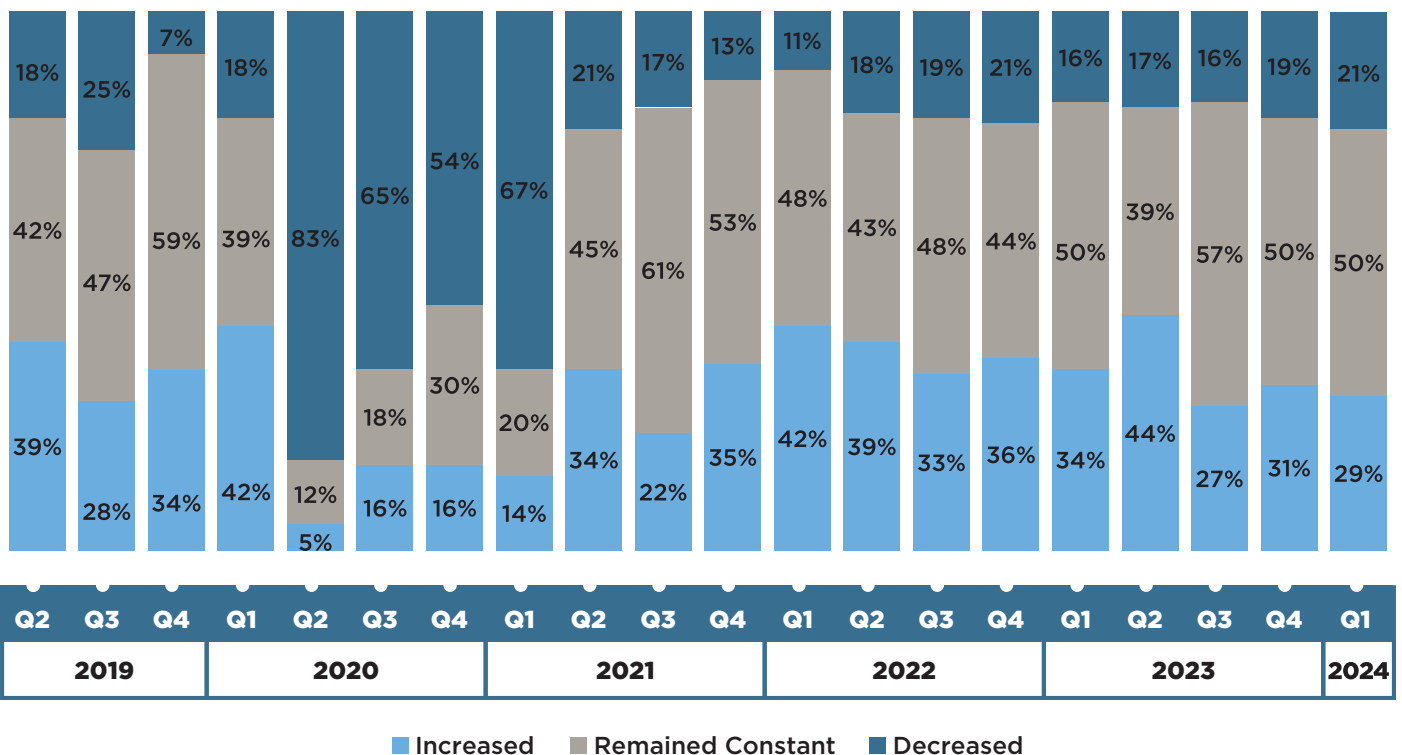


UK Comparison

A similar picture to the whole of the UK, with 36% reporting an increase in domestic sales and 32% an increase in domestic advance orders.

Q: Excluding seasonal variations, over the past 3 months 'UK orders/advance custom/bookings' have...

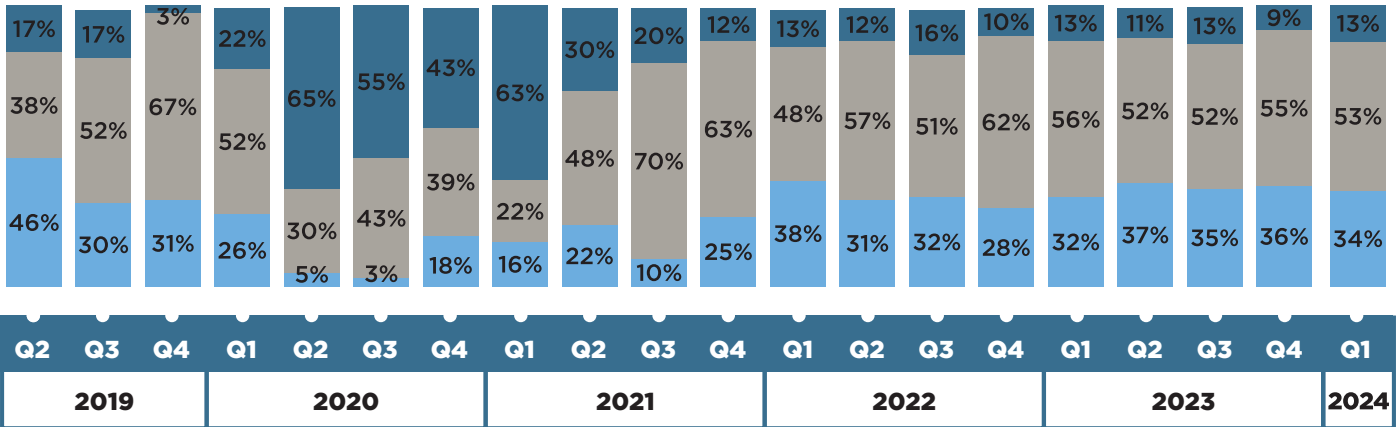
We have also seen a decline in advance orders (from 31% to 29%).



International Demand

Q: Excluding seasonal variations, in the past 3 months overseas sales/custom/bookings have...

34% of businesses think their international sales have increased over the past 3 months, a slight decline since the end of 2023. There has been an increase in those businesses thinking international sales have decreased over the last 3 months (from 9% to 13%).



■ Increased ■ Remained Constant ■ Decreased

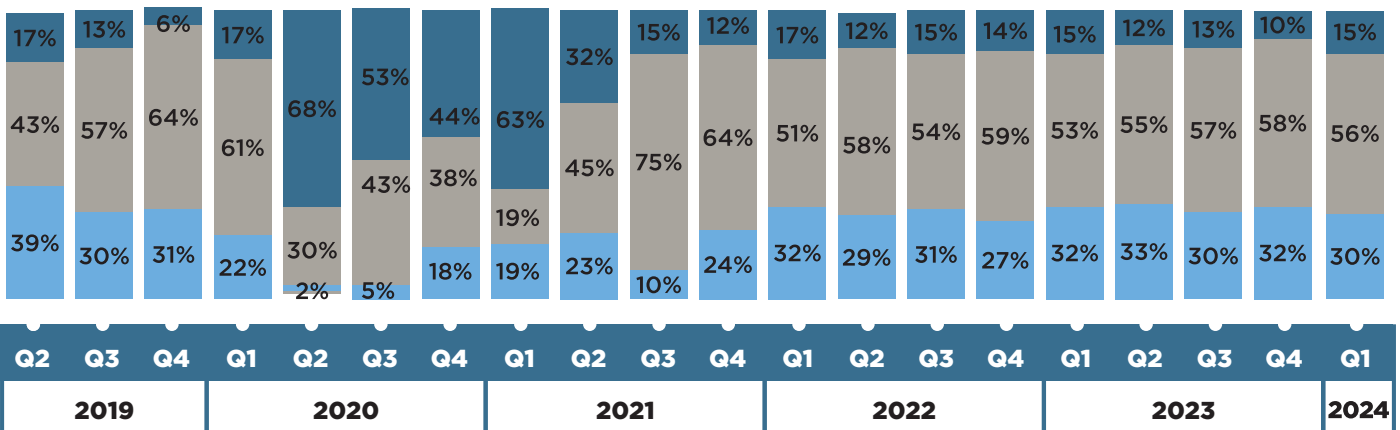
	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Increase	34%	26%	+8
Remain the same	53%	52%	-1
Decrease	13%	22%	-9

UK Comparison

Less local businesses have seen a decline in overseas sales over the past 3 months than the UK as a whole.

Q: Excluding seasonal variations, during the past three months forward overseas orders/advance custom/bookings have...

30% of businesses report that their international orders have increased over the past 3 months (decline from 32%). A similar story at the other end of the spectrum with an increase in those businesses thinking international demand has declined (from 10% to 15%).



■ Increased ■ Remained Constant ■ Decreased

	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Increase	30%	25%	+5
Remain the same	56%	53%	+3
Decrease	15%	22%	-7

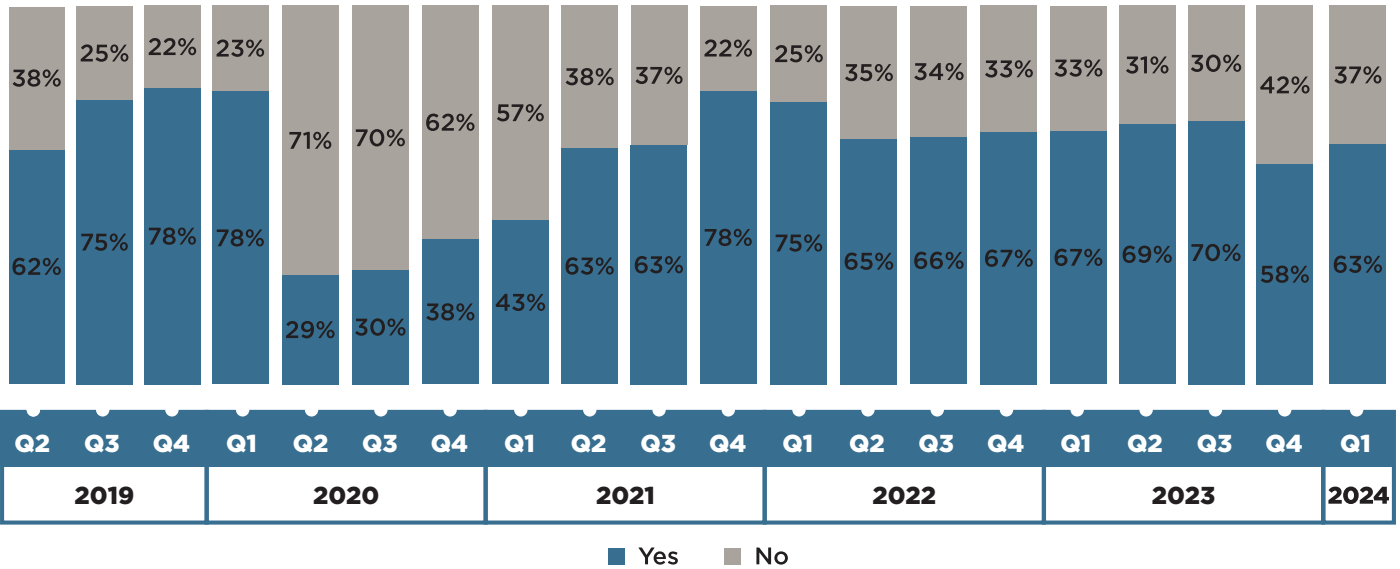
UK Comparison

Less local businesses have seen a decline in advance orders over the past 3 months than the UK as a whole.

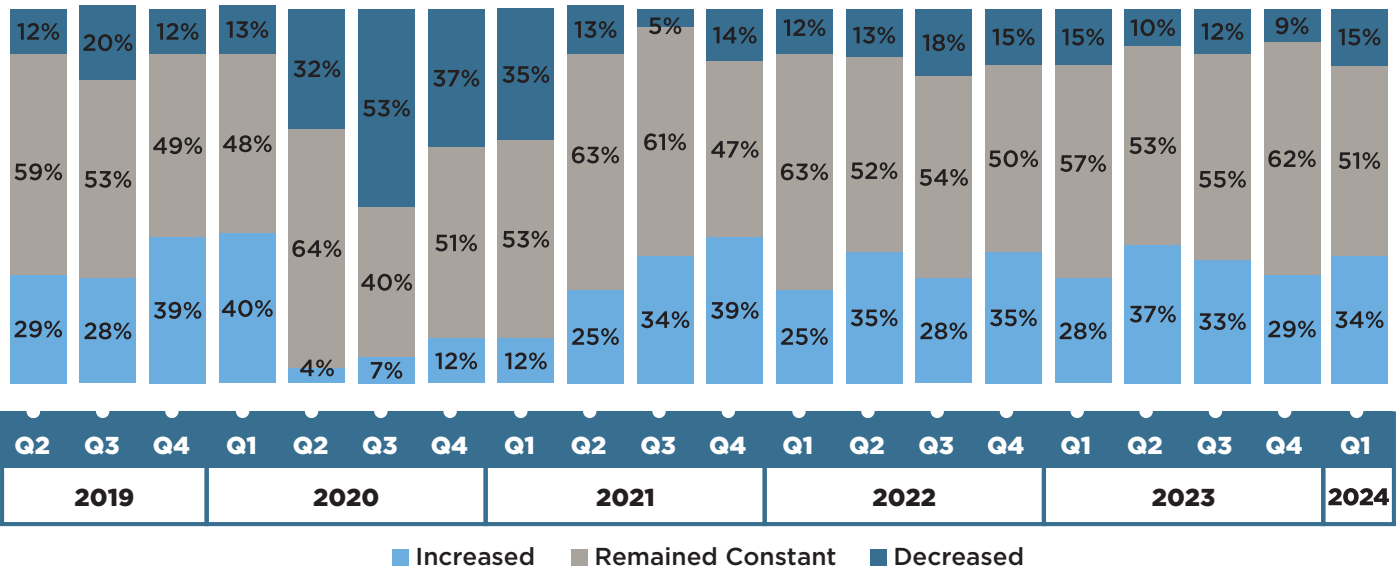
Labour Market

Q: Have you attempted to recruit staff over the past 3 months

63% of businesses have attempted to recruit staff over the last 3 months (up from 58% last quarter), with only 34% recording an actual increase in headcount.



Q: Over the past 3 months, has your workforce



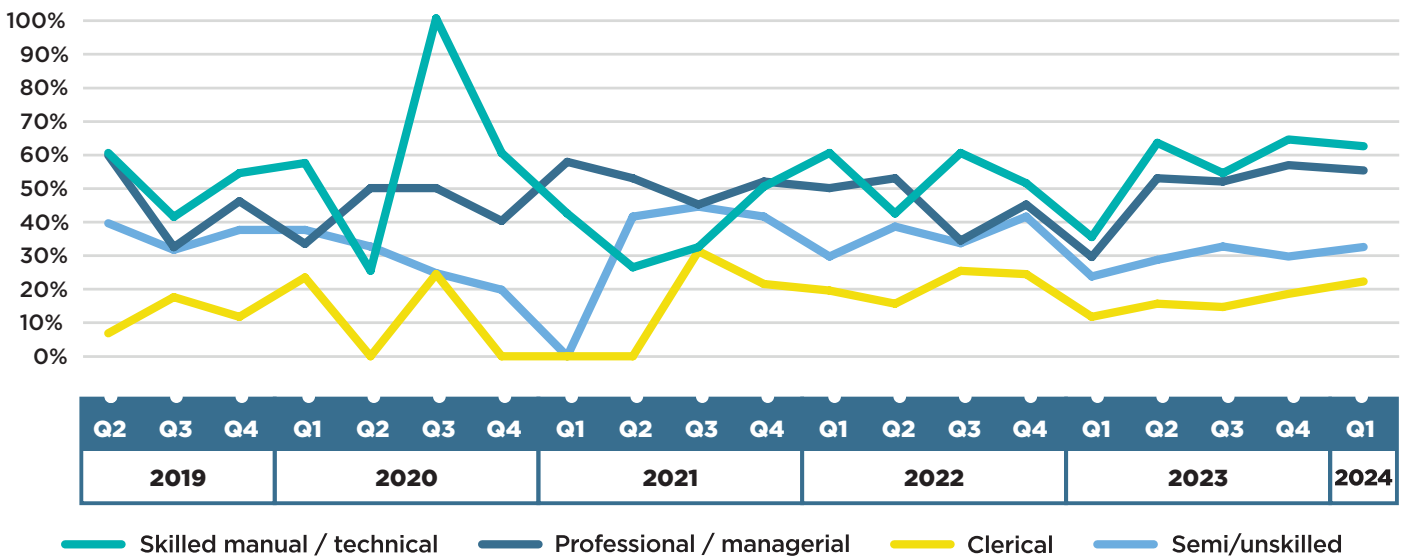
UK Comparison

A larger number of local businesses have seen an increase in headcount over the past 3 months (34% vs. 26%).

62% of UK businesses have attempted to recruit.

Q: If you attempted to recruit, did you experience any difficulties finding suitable staff? If yes, for which of the following categories of employee?

75% reported difficulties in recruiting suitable staff (an increase from 71% in Q4 2023). Within the North-east there has been an increase in the number of businesses reporting difficulty in recruiting clerical and semi/unskilled roles.

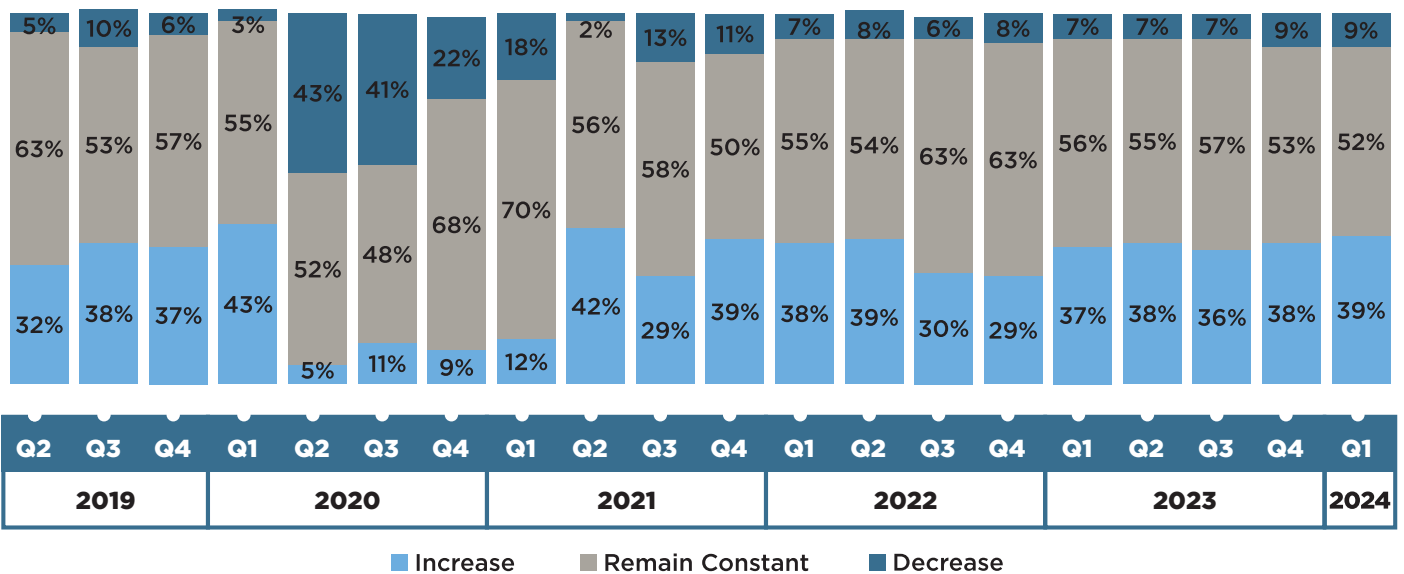


UK Comparison

More local businesses have found recruitment difficulties than the UK as a whole (75% vs. 66%). These issues are more prevalent for skilled manual/technical roles locally (62% reporting issues vs. 50% nationally).

Q: Over the next 3 months, do you expect your workforce to...

39% of businesses expect their workforce to increase over the next 3 months. This is the highest level since Q2 of 2022.



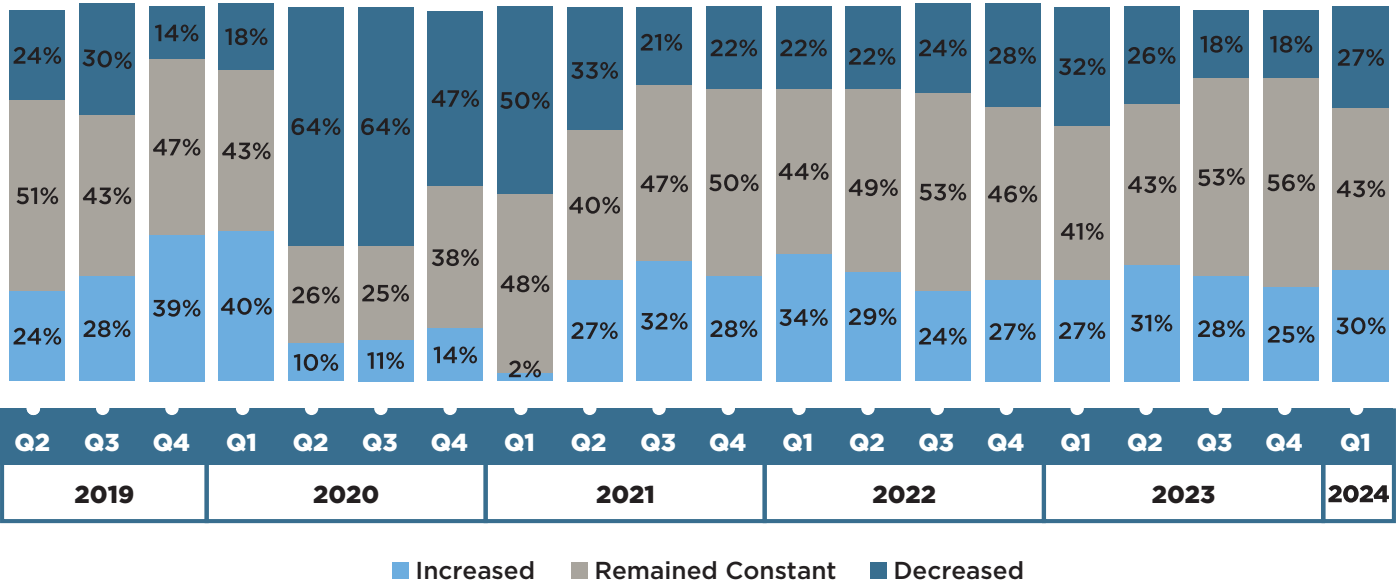
UK Comparison

Less UK businesses expect their workforce to increase over the next 3 months than locally (34% vs. 39%).

Cash Flow and Pricing

Q: Over the past 3 months, cash flow has...

More businesses are reporting increases in recent cash flow since the last quarter (from 25% to 30%).
The results are polarised though with increases at the other end of the spectrum (27% reporting a decrease compared to 18% during the last quarter).



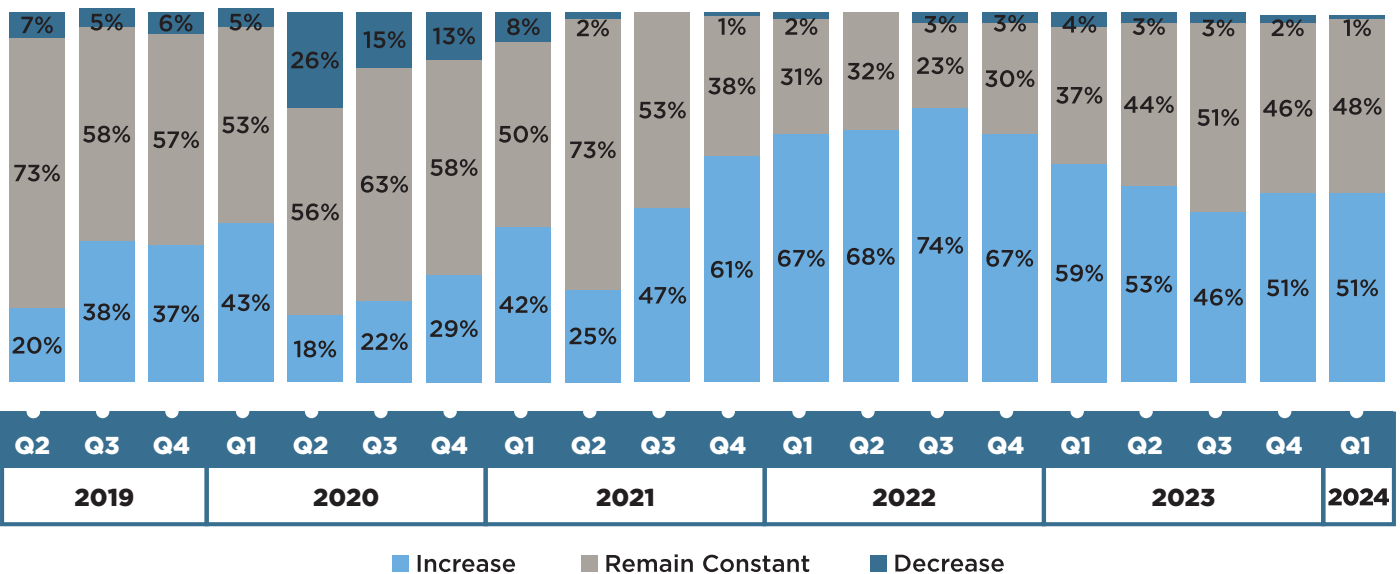
	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Increase	30%	26%	+4
Remain the same	43%	45%	-2
Decrease	27%	28%	+1

UK Comparison

A more positive picture for local businesses concerning cash flow than the UK as a whole. Less local businesses are reporting declining cash flow (27% vs. 28%).

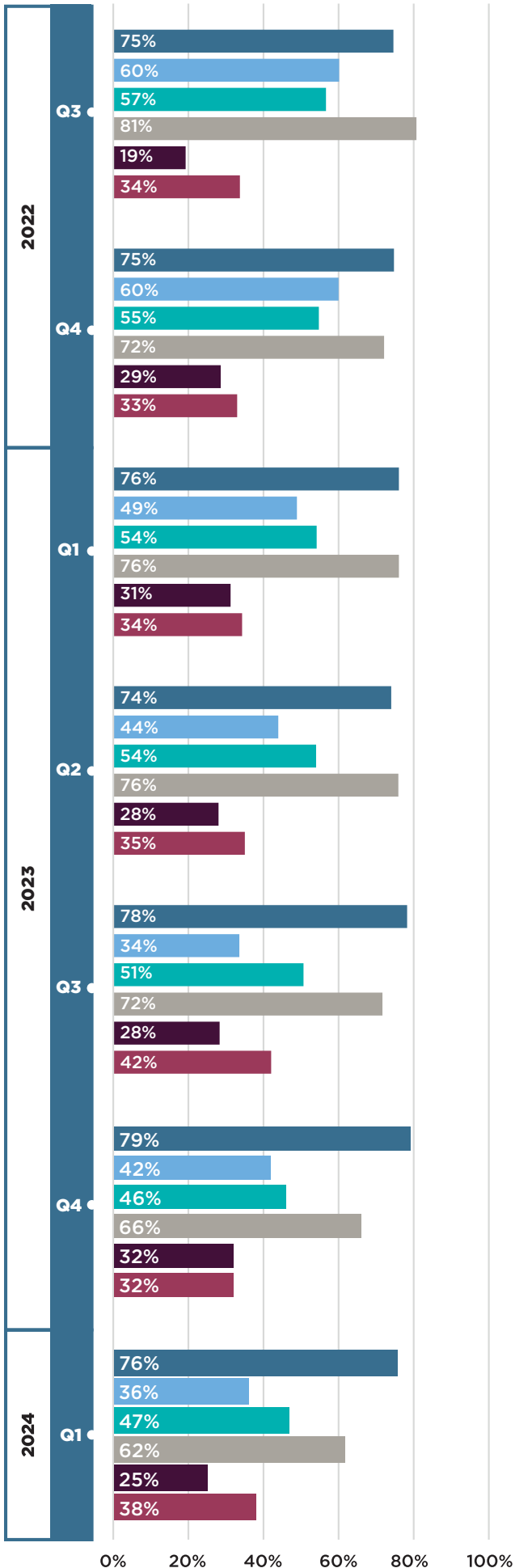
Q: Over the next 3 months, do you expect the price of your good/services to...

There has been no change in the number of businesses looking to increase their prices over the next 3 months since the last quarter.



	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Increase	51%	46%	+4
Remain the same	48%	51%	-3
Decrease	1%	3%	-2

Q: Is your business currently suffering pressures to raise its prices from any of the following?



Price increases are primarily coming from labour costs and utilities. Other overheads has seen an increase since the last quarter (from 32% to 38%). Local businesses are reporting higher cost pressures on most measures than the UK as a whole.

- Labour costs (e.g. salaries, pay settlements, contractors)
- Fuel (e.g. petrol or diesel)
- Raw material prices (e.g. steel, cardboard, food)
- Utilities (e.g. gas, electricity)
- Finance costs
- Other overheads



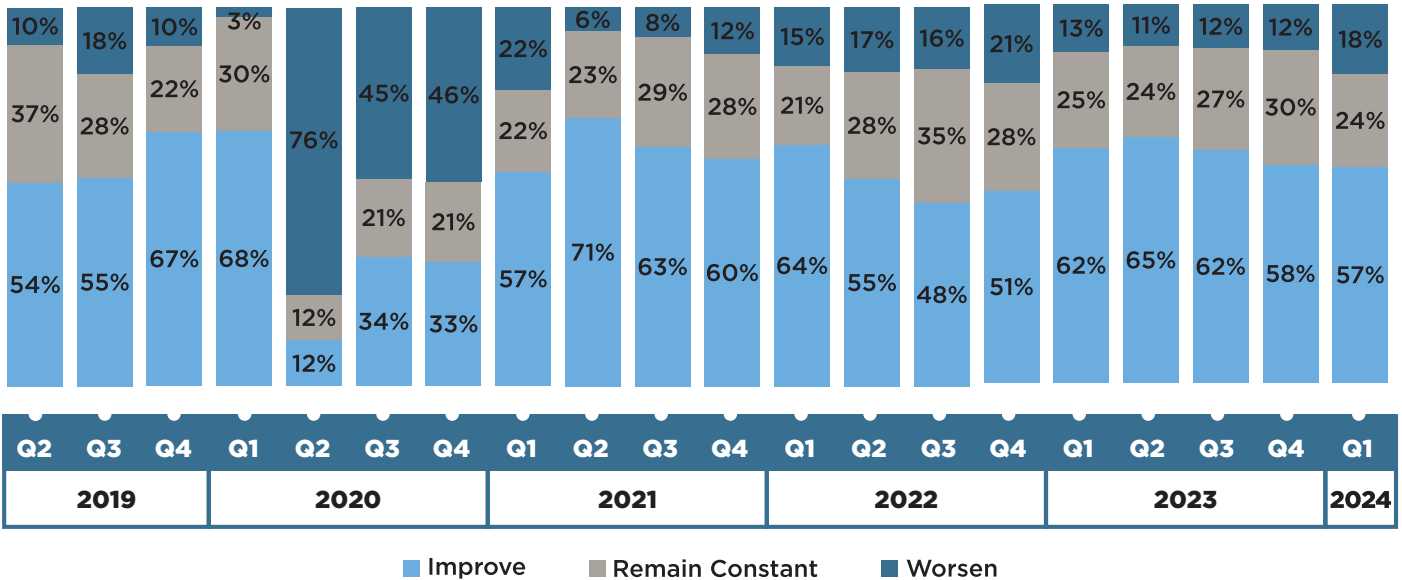
	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Labour costs	76%	68%	+8
Fuel	36%	31%	+5
Raw materials	47%	37%	+10
Utilities	62%	52%	+10
Finance	25%	27%	-2
Other	38%	37%	+1

N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

Turnover And Profitability

Q: Over the next 12 months, do you believe your business's turnover will...

The gradual decline in businesses reporting an improvement in turnover since the start of 2023 continues this quarter. 57% of businesses feel their turnover will improve over the next 12 months (down from 58%).



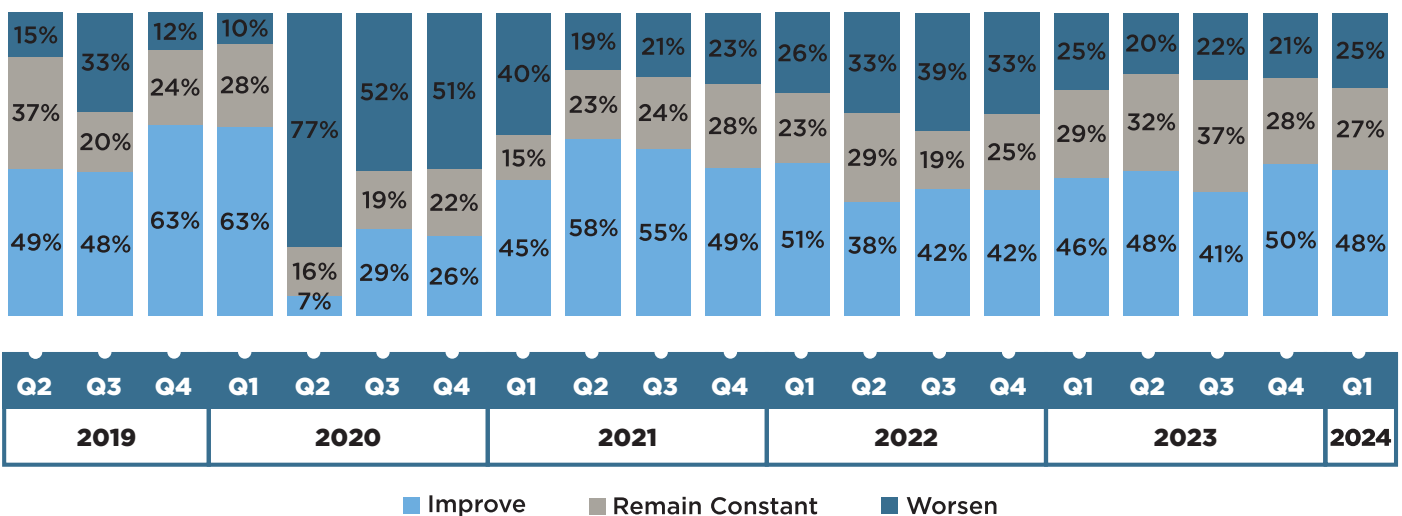
	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Increase	57%	56%	+1
Remain the same	24%	29%	-5
Decrease	18%	14%	+4

UK Comparison

More local businesses feel that their turnover will worsen over the next 12 months than the UK as a whole.

Q: Over the next 12 months, do you believe your business's profitability will...

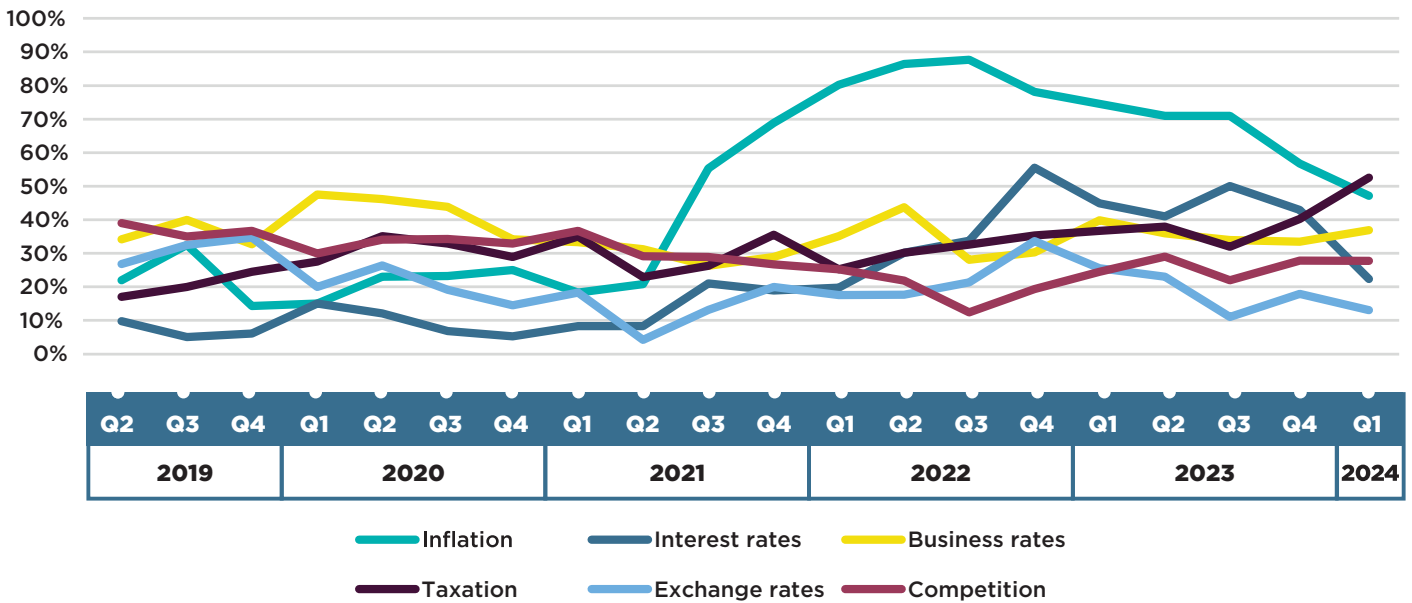
The highs of improvements in profitability seen during Q4 2023 do not remain this quarter, with 48% of businesses believing their profitability will increase over the next 12 months (50% Q4 2023).



	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Increase	48%	48%	-
Remain the same	27%	32%	-5
Decrease	25%	21%	+4

Q: Please indicate which of these following factors are more of a concern to your business than 3 months ago?

For the first time since 2021, taxation has surpassed inflation as a constraint to growth for businesses and increased from 40% in Q3 2023 to 52% this quarter. Taxation and business rates are causing more issues for local businesses than the UK as a whole. Inflation remains the number one constraint for businesses in the UK as a whole.

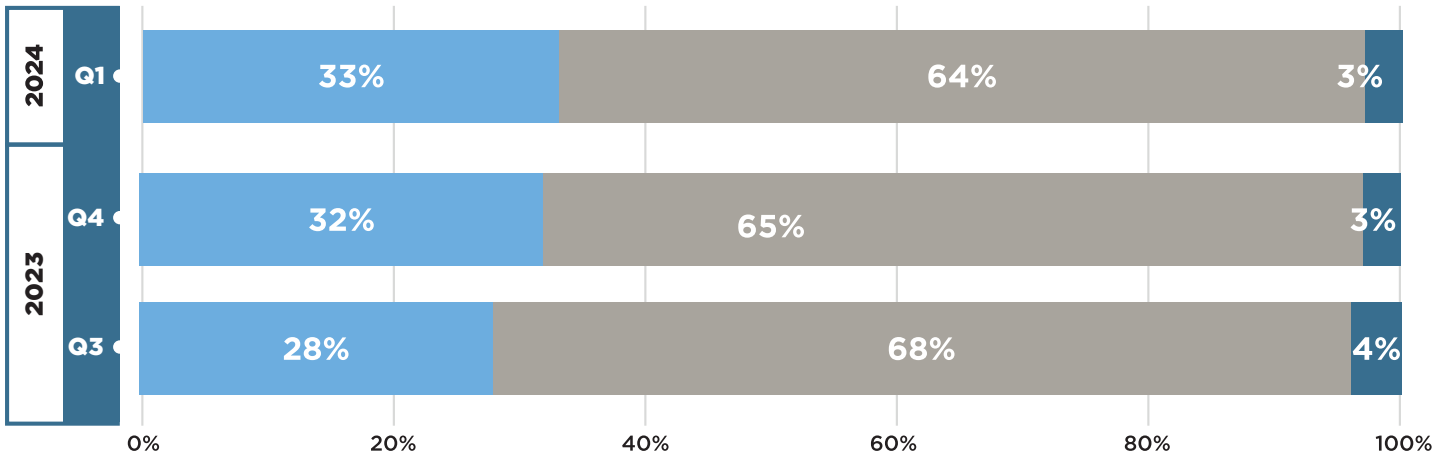


	Inflation	Interest rates	Taxation	Business rates	Exchange rates	Competition
Aberdeen & Grampian	48%	23%	52%	38%	13%	28%
UK	58%	35%	36%	30%	16%	37%

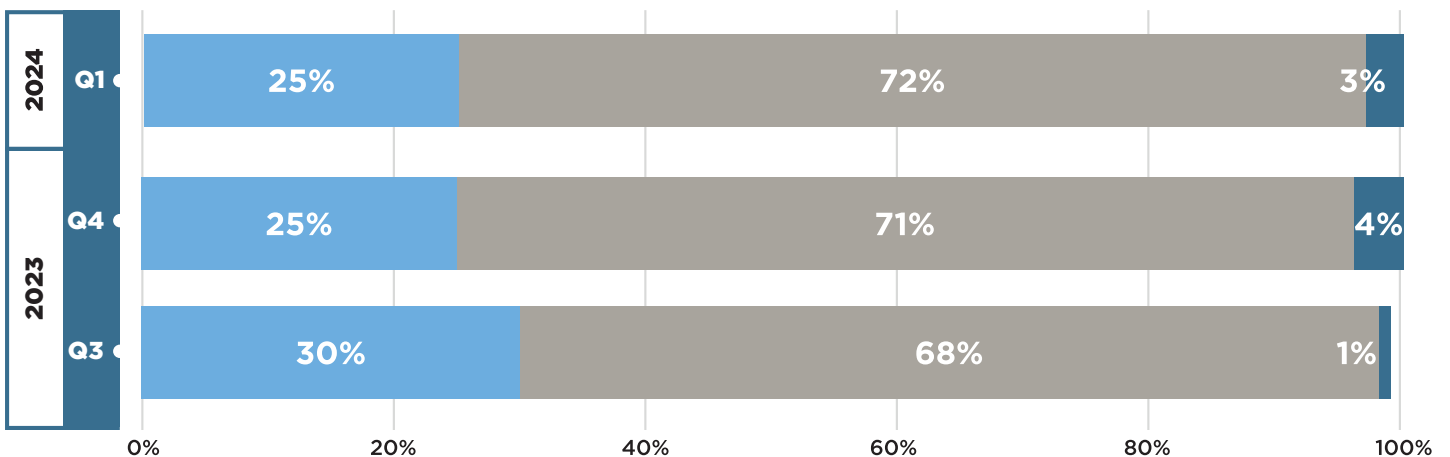


Gilson Gray questions:

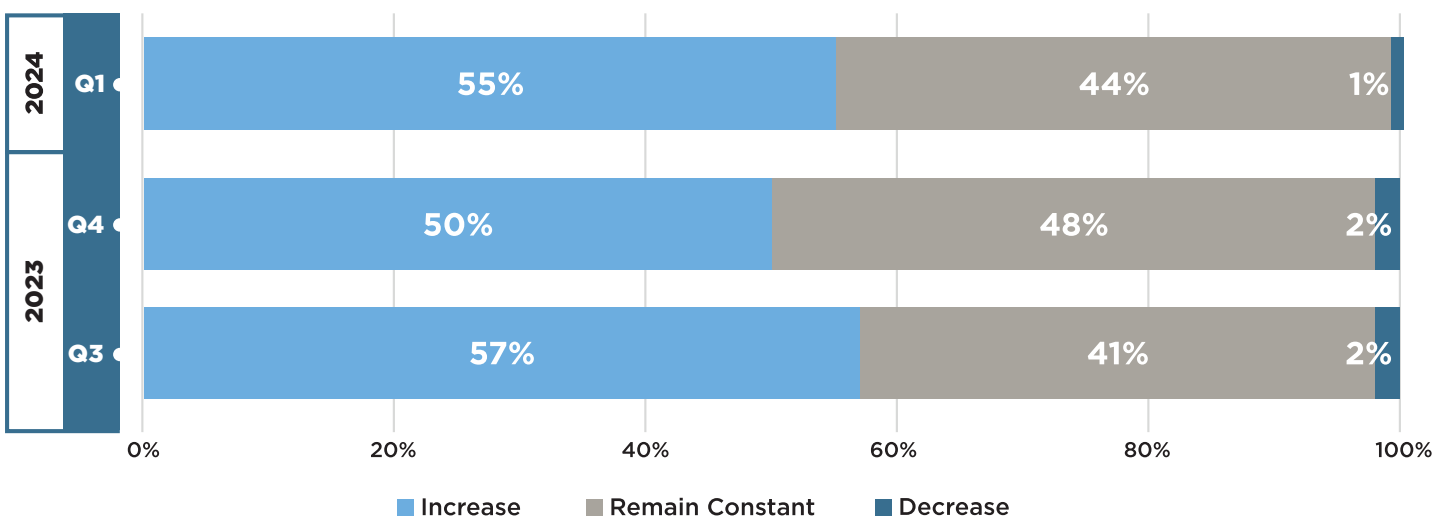
Q: Over the past 3 months, did debtor days



Q: Over the next 12 months, do you expect potential for payment disputes / litigation to



Q: Over the next 12 months, do you expect pricing and payment pressure to

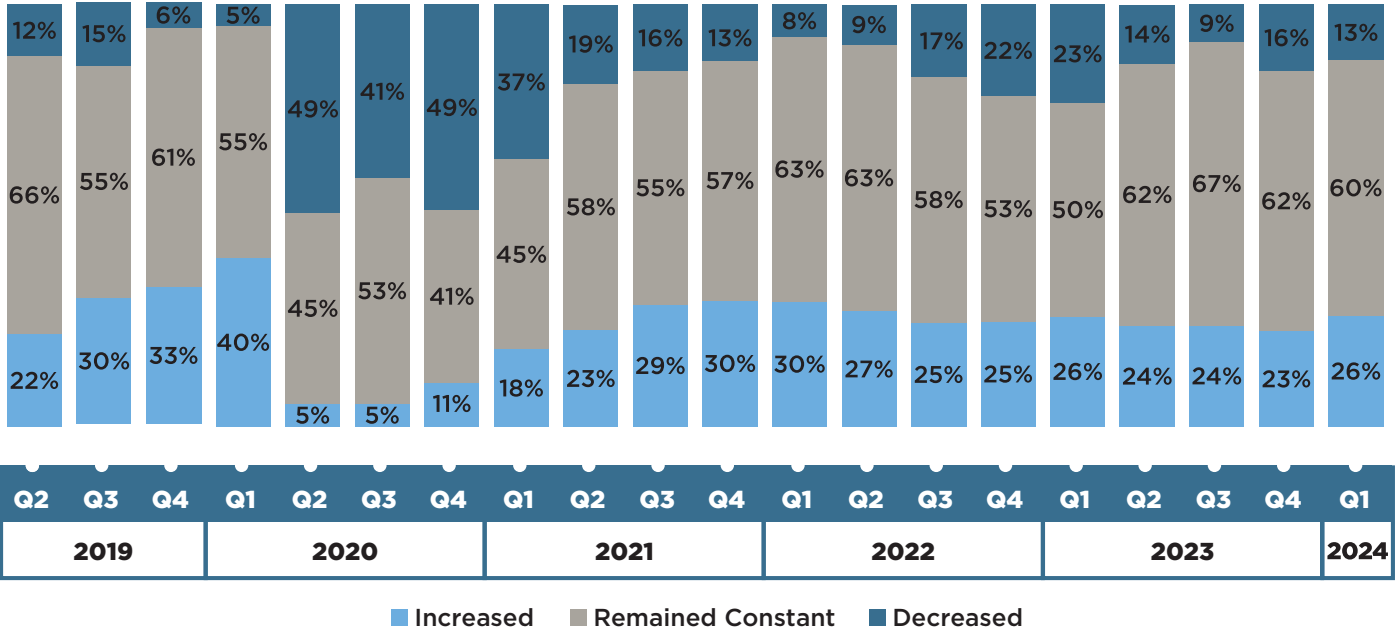


■ Increase ■ Remain Constant ■ Decrease

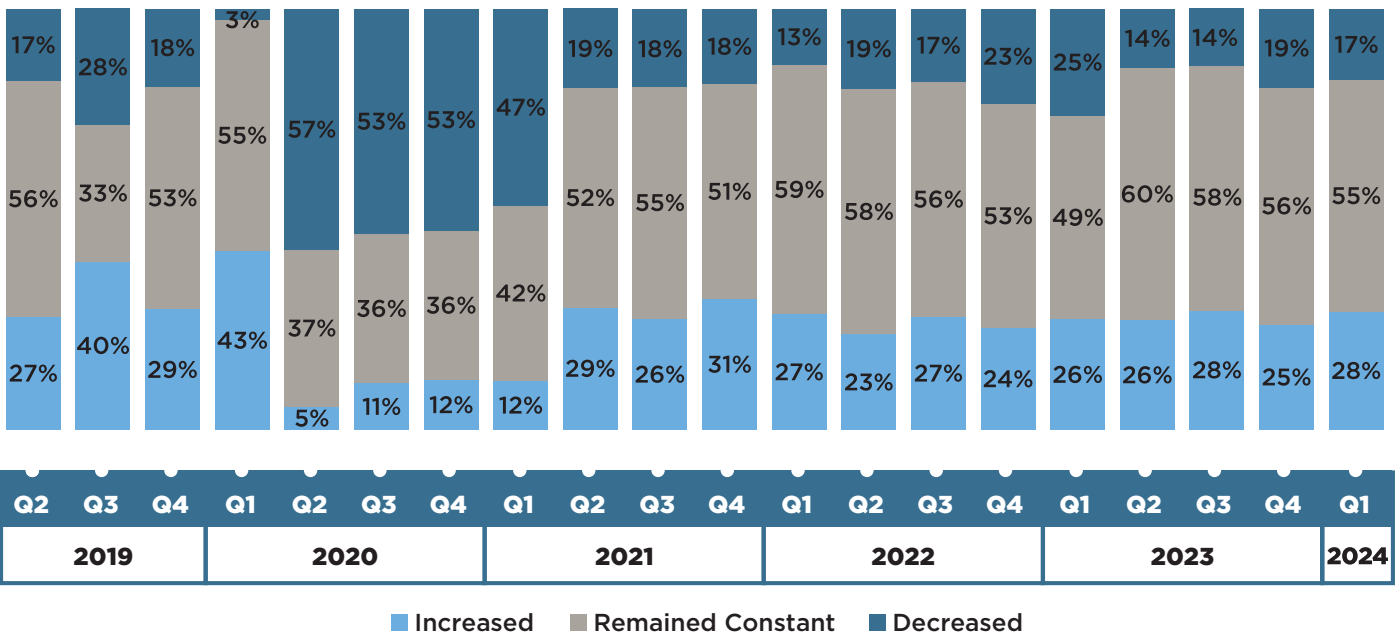
Investment

Q: Over the past 3 months, investment plans for training have...

An increase in businesses investing in both training and plant/machinery/equipment over the past 3 months. This is in line with the UK results, with 26% having increased their plans for training investment and 24% on plant/machinery/equipment.



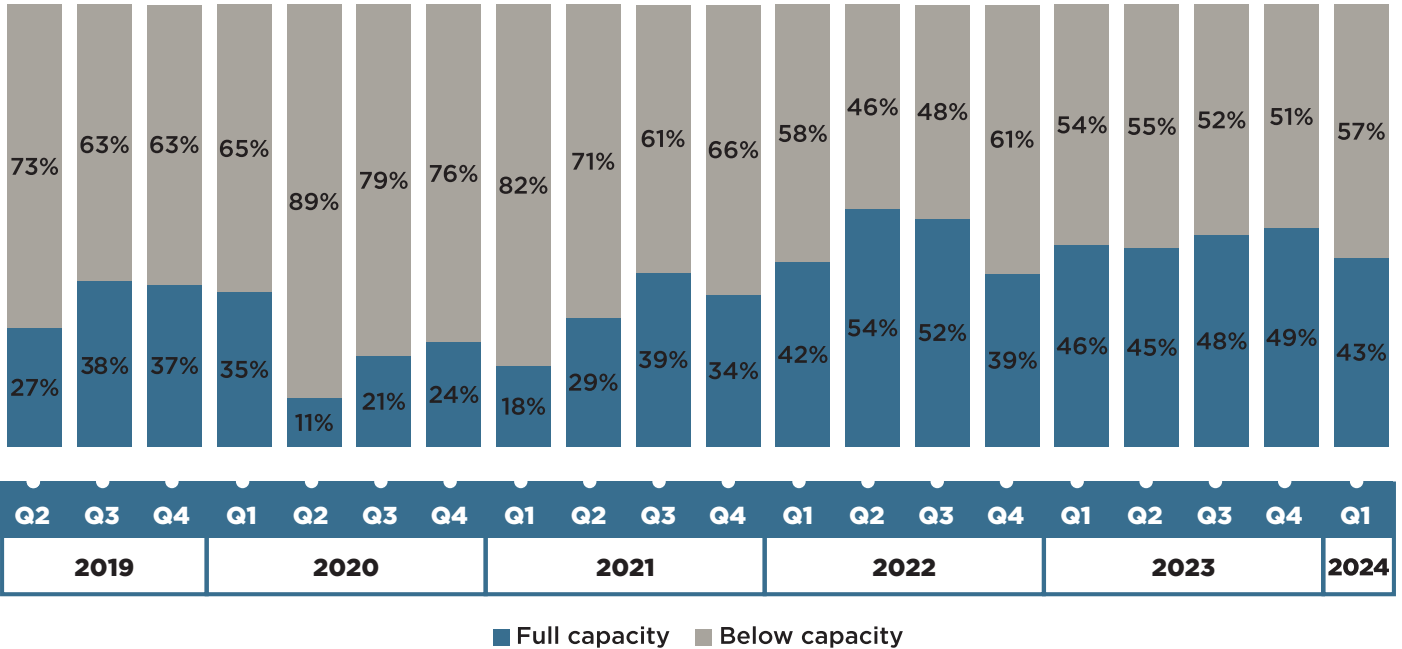
Q: Over the past 3 months, investment plans for plant/machinery/equipment have..



Capacity

Q: Are you currently operating at...

Number of businesses reporting working at full capacity has declined since Q4 (from 49% to 43%).



We also received a large number of more qualitative responses from companies in the region and some of the key themes are summarised here:

1. Taxation concerns

- Respondents express frustration over various tax issues, including corporation tax rates, business rates, the windfall tax on the oil and gas industry, and the Scottish income tax rates.

2. Economic challenges and cost increases

- There are mentions of increased energy costs, higher wages leading to inflation, and the general rise in operational costs, including those due to doubling electricity contracts and increased rent.

3. Government policy and stability

- A common theme is the perceived lack of support from government bodies, instability in government investment strategies, and detrimental impacts of policies on the oil and gas sector and wider business environment.

4. Labour and employment issues

- Several comments touch on the difficulty of recruiting and retaining staff, the negative impact of visa policies on the movement of skilled workers, and challenges specific to sectors like seafood processing that relied on EU workers.

5. Business Environment and Support

- Responses indicated concerns over the lack of support for businesses, particularly in attracting investments and support for entrepreneurship, as well as issues with public services and support for the third sector.

6. Impact of Political Decisions

- There's mention of political decisions affecting the future of businesses, particularly the actions of the SNP and Labour parties.

7. Operational challenges and competition

- There are references to struggles with keeping up with international competition, maintaining profitability amidst increasing costs, and managing operational challenges post-Covid.

8. Sector-specific issues

- Specifically within the seafood sector, there are concerns about recruitment, energy costs, access to markets, and the need for industry-specific visas.

9. Investment and growth prospects

- Comments indicate a lack of confidence in future growth due to current economic and political climates, affecting the willingness to invest and operate within the UK.

10. Exit Sentiments

- Some respondents are considering exiting their industry or the country due to the cumulative impact of the issues.



Viewpoint

There is a clear message leaping out from our research this quarter – and it is that high personal and business taxes are hampering the growth of companies in Aberdeen and Aberdeenshire.

Despite costs pressures still existing, taxation has overtaken inflation and high energy costs as the biggest constraint facing companies in the region.

Many firms in the region operate within the oil and gas industry, which continues to be strangled by the windfall tax and a headline rate of 75%. The extension of the tax to 2029 will leave Aberdeen with the slowest growing economy of any city in the UK, according to EY.

On top of that, we've seen the introduction of a new income tax system by the Scottish Government which has opened a significant tax gap between Scotland and England, placing businesses here at a disadvantage.

Following changes which came into force this month, anyone who earns more than £28,850 will pay more in income tax than they would if they lived in England or Wales. Those who earn below the cut-off figure will pay less than they would south of the border.

The tax differentials grow sharply for those on higher incomes. Those on a £35,000 salary pay £61 more in Scotland than the rest of the UK. But the gap widens to £442 at £45,000; £1,696 at £55,000 and £2,096 at £75,000.

The new threshold, of 45% on earnings between £75,000 and £125,140 is also now in place, and the top rate, on salaries of more than £125,140, has jumped from 47% to 48%.

Some companies are having to add a Scottish weighting on to salaries to compensate individuals for the income tax consequences of working in Scotland – making this an issue which our policy-makers must keep an eye on.

Our three other key findings are:

(1) INTERNATIONAL DEMAND CONTINUES TO GROW

More than a third of businesses (34%) think their international sales have increased over the past three months, continuing a trend of strong export trade for

companies located in Aberdeen and Aberdeenshire.

Like the previous quarter, this is significantly ahead of the wider UK total (26%) and underlines the strong global demand for our produce, products and services.

(2) LABOUR MARKET REMAINS TIGHT

Three quarters of companies (75%) reported difficulties in recruiting staff during the first quarter.

Within the North-east there has been an increase in the number of businesses reporting difficulty in recruiting clerical and semi/unskilled roles.

Several comments touch on the difficulty of recruiting and retaining staff, the negative impact of visa policies on the movement of skilled workers, and challenges specific to sectors like seafood processing that relied on EU workers.

(3) INFLATIONARY PRESSURES EASING

Local businesses are reporting higher cost pressures on most measures than the UK as a whole, with a ten percentage-point difference in raw materials and utilities.

Within the data there are mentions of increased energy costs, higher wages leading to inflation, and the general rise in operational costs, including those due to doubling electricity contracts and increased rent.

However, fewer firms now list inflation as a constraint for growth, down from 56% last quarter to 38% this time around.

Elsewhere, there has been a small uplift in the number of companies looking to invest in new machinery and equipment, which can be attributed to the expansion of full expensing, which has given the UK one of the world's best capital allowances regimes.

However, if the chancellor was hoping that the Budget would strengthen growth across our economy, there is little to suggest that has been achieved.