

NORTH-EAST

QUARTERLY ECONOMIC SURVEY

BROUGHT TO YOU BY



Aberdeen &
Grampian
Chamber of
Commerce

&



GILSON GRAY

LAW · PROPERTY · FINANCE

Q3
2023

The launch of the report is a very timely reminder of the ongoing financial pressures which North-east businesses are facing.

Whilst businesses have certainly benefitted from robust cash flow management instigated over the past 12 months, significant external pressures on cash flow continue to exert pressure on financials.

We are seeing many businesses reporting considerable ongoing cash pressures and in some cases the need to look at further refinancing.”

In response to the survey, North-east businesses reported higher cost pressures from labour, raw materials and utilities than elsewhere in the UK whilst interest rates and inflation continue to drive costs up.

Many businesses have seen increased turnover as the economy remains more robust than many expected. However, that volume is not translating to profit as costs and pricing pressure squeeze margins.

Unsurprisingly, the old maxim that “cash is king” is one of the key takeaways from the report. Over 25% of businesses experienced increased debtor days during the last quarter - a significant metric for cash management - and almost 60% saw pricing and payment pressures increase in the same period.

These twin threats mean 30% of businesses see increased potential for payment disputes and litigation. It is crucial, therefore, that businesses have a clear contractual understanding of their position and the options open to them as early as early as possible alongside robust financial management.

However, there may well be some light at the end of the tunnel as 35% of North-east businesses reported improvement in global sales beyond that seen elsewhere in the UK.

For decades, Aberdeen and Aberdeenshire has had an excellent reputation as an exporter of goods, services and expertise on a worldwide scale. That global market reach may be providing some insulation from the more localised Brexit impacts many UK businesses are feeling.

The Bank of England’s recent pause on interest rate rises was certainly broadly welcomed across the business community. However, the Bank has signalled that rates will likely remain high for the next two years.

For now, high interest rates and borrowing costs are not yet translating into broader anticipated deflationary signs in the markets. The North-east Quarterly Economic Survey report provides key reminders of some of the rigours that businesses need to continue to apply as they navigate the risks and opportunities ahead.





The latest edition of the North-east Quarterly Economic Survey, launched today by Aberdeen & Grampian Chamber of Commerce, in a new partnership with law firm Gilson Gray, benchmarks key indicators in the region's economy against the wider UK.


And the results show promise for our region's economy, which is currently outperforming the UK in a number of key business metrics, according to our research.

For example, companies in Aberdeen and Aberdeenshire are currently performing better in international activities than the rest of the UK.

However, inflation – driven primarily by rising labour costs – continues to squeeze profitability among companies based in this region.

To produce the report, we surveyed 164 businesses in the North-east region and benchmarked the results against the wider British Chambers of Commerce research, which include response from 5,051 companies across the whole of the UK.

Our local research has uncovered five key findings:



STRONG SALES UNDERPINNING GROWING LOCAL CONFIDENCE

1

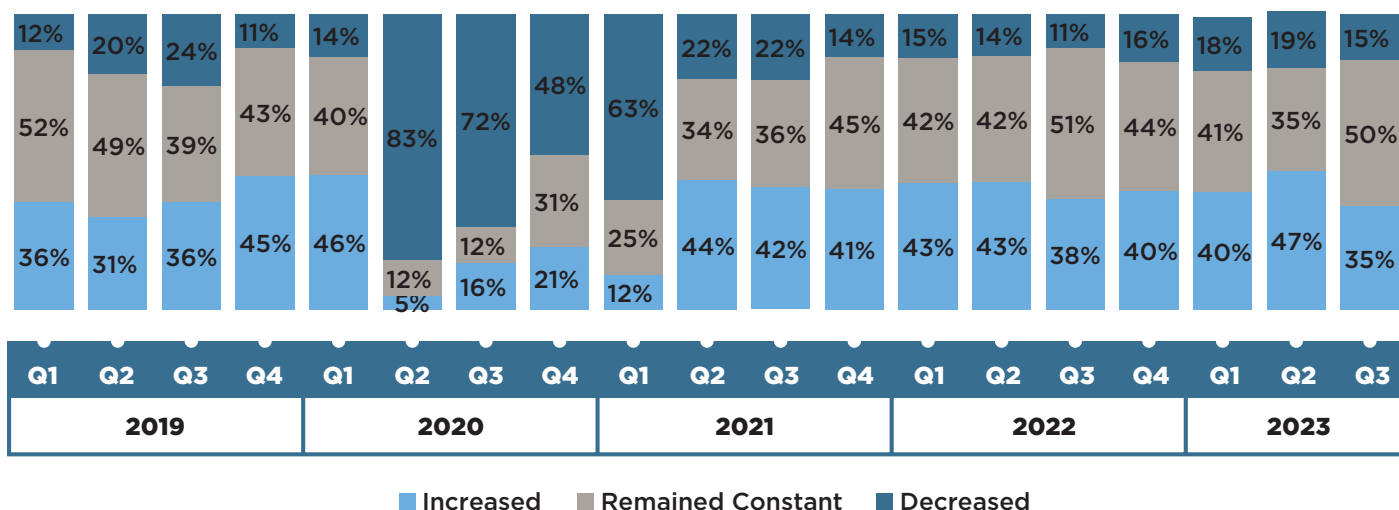
More than a third of companies (35%) in the North-east report that domestic sales increased in the period, in line with the UK average. And 23% businesses reported a decline in sales in the last three months compared to just 15% in this region.

The data shows that North-east businesses are performing far better in global markets.

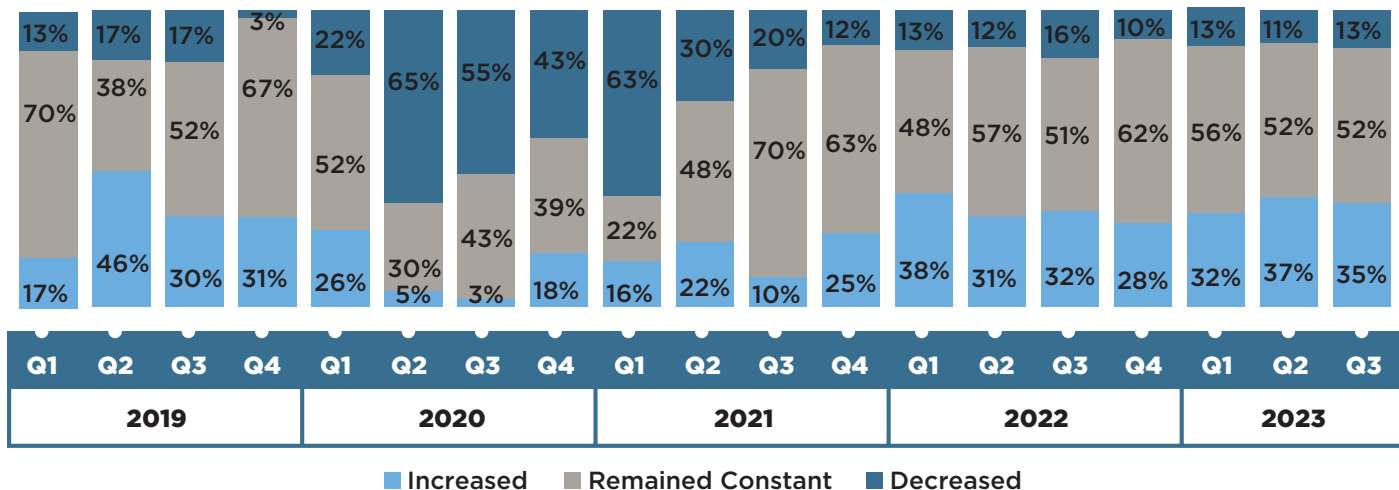
Again, 35% of our regional businesses have seen an increase in international sales, outpacing the national average (27%) by eight-percentage points. 24% of UK companies saw a decline in export activity in the quarter, compared to just 13% in the Aberdeen region.

Future overseas order pipelines are also stronger in the North-east (30% vs 27%).

1 a) DOMESTIC SALES REPORTED BY NORTH-EAST FIRMS IN Q3



1 b) OVERSEAS SALES REPORTED BY NORTH-EAST FIRMS IN Q3



BUT HIGHER TURNOVER NOT ALWAYS CONVERTING TO PROFIT

2

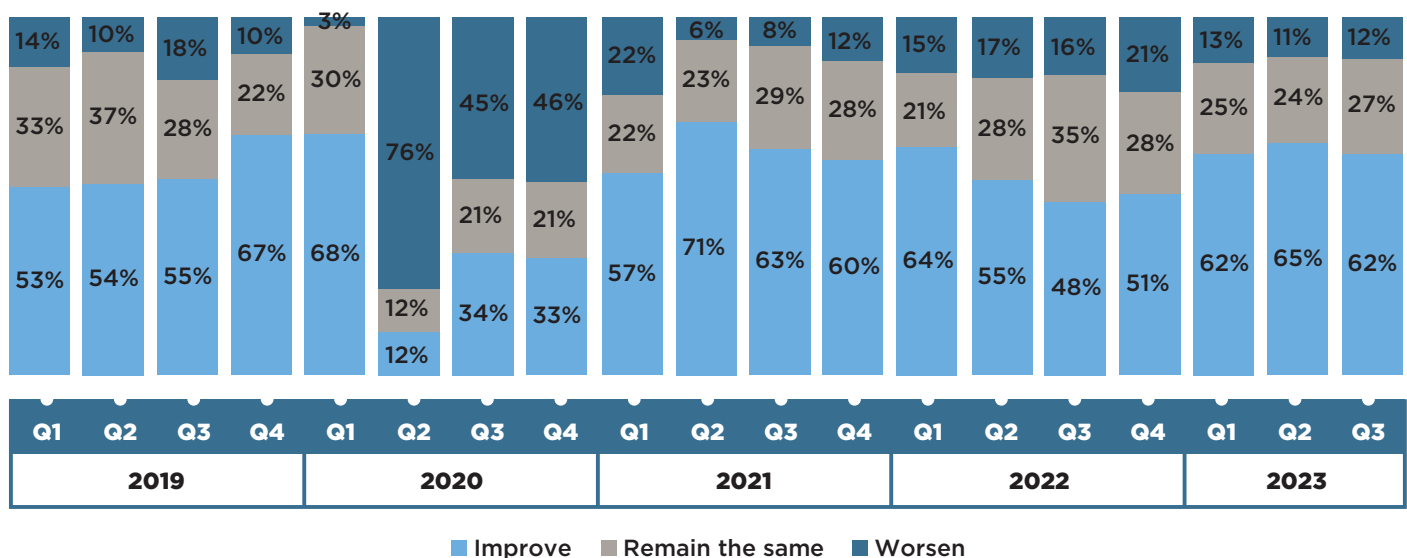
A higher proportion of North-east businesses feel their turnover will improve in the next 12 months (62%) compared to the UK (53%).

But more local businesses think the price of their goods/services will have to increase over the next three months than across the UK as a whole, due to a range of pressures.

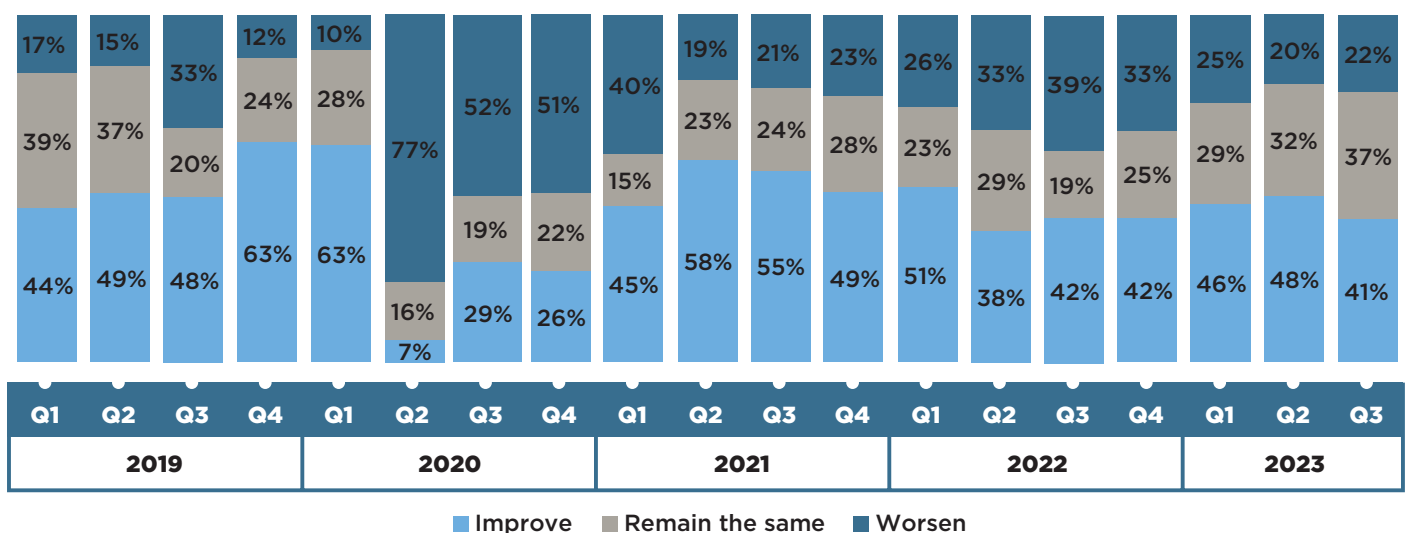
The number of regional companies concerned about interest rates has also risen sharply since Q2, from 41% to 50%, suggesting the cost of borrowing is also having an impact on bottom lines. Inflation continues to be the biggest concern for businesses in the North-east, with 71% of those polled listing it as a concern, six percentage points higher than the UK average (65%).

This is squeezing margins with only 41% of firms in the North-east expecting profits to rise over the next 12 months, compared with 45% in the UK.

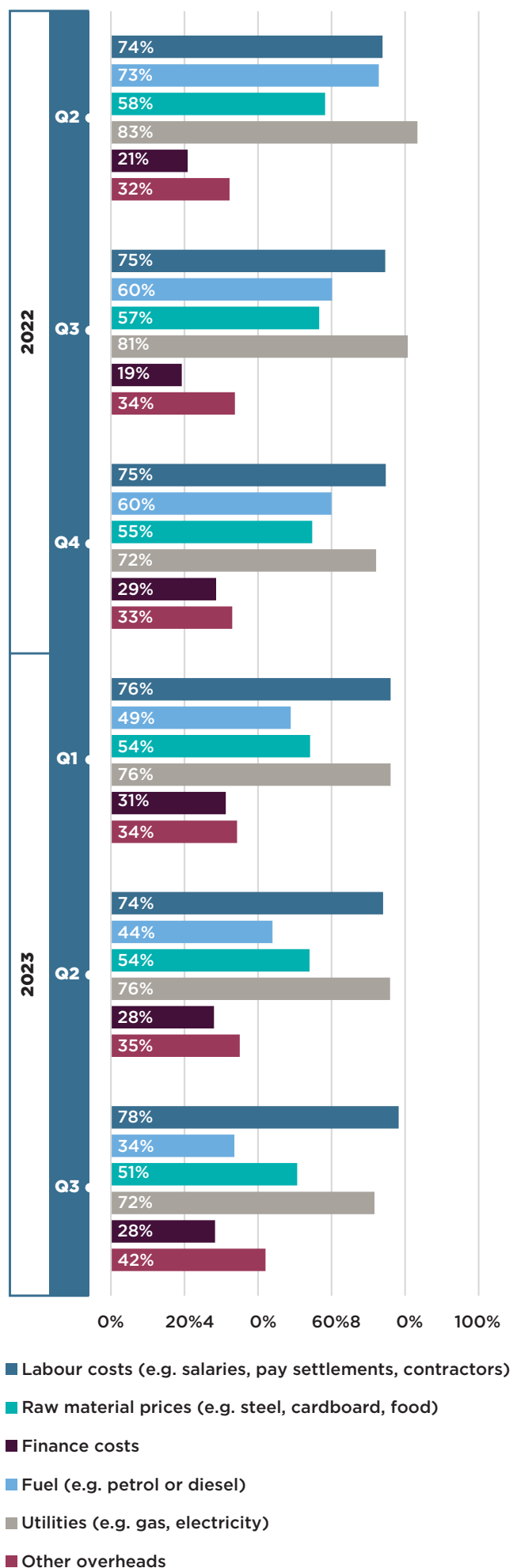
2 a) HOW NORTH-EAST FIRMS BELIEVE TURNOVER WILL CHANGE OVER NEXT YEAR



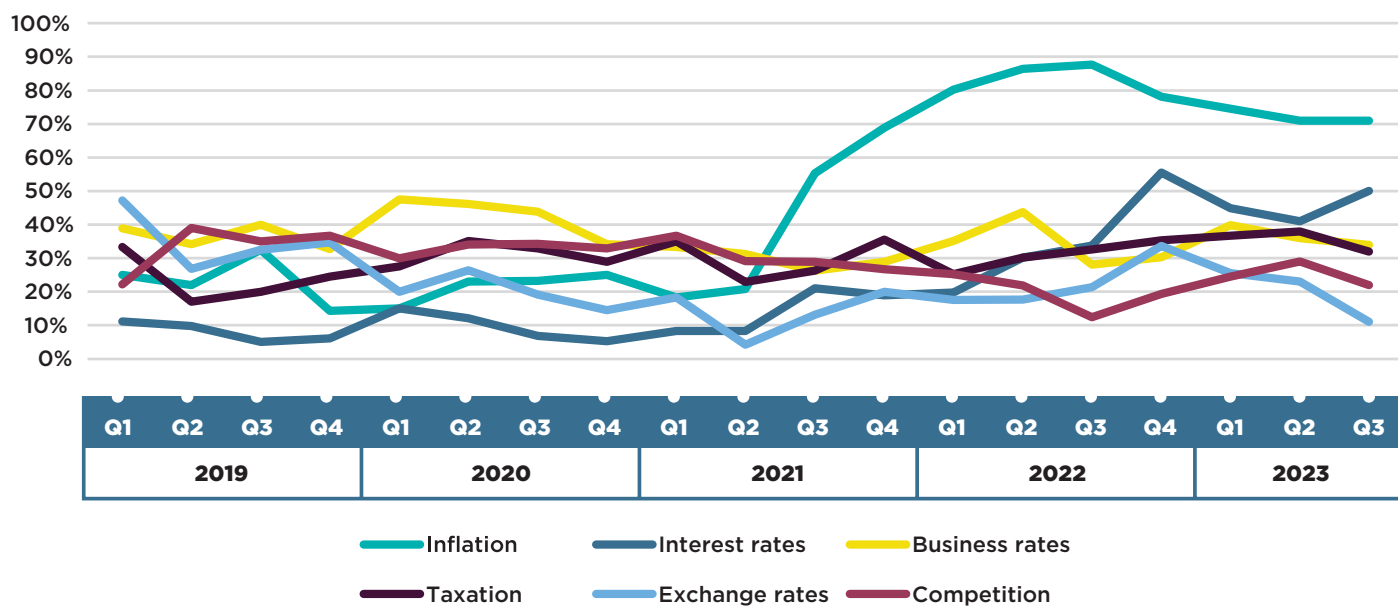
2 b) HOW NORTH-EAST FIRMS BELIEVE PROFITS WILL CHANGE OVER NEXT YEAR



2 c) OVERHEAD PRESSURES ON NORTH-EAST FIRMS



2 d) OTHER FACTORS SQUEEZING PROFITABILITY FOR NORTH-EAST FIRMS



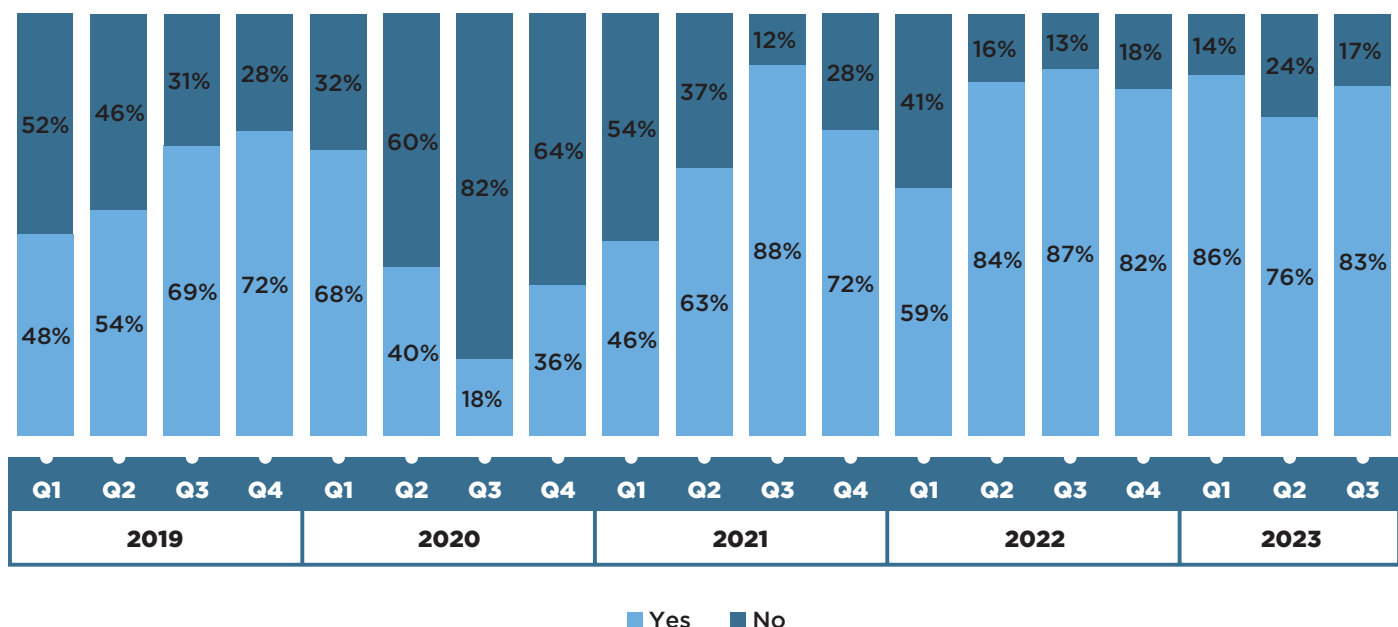
RECRUITMENT STRUGGLES DRIVE LOCAL INFLATION

3

There is no sign of the local labour market easing in the short-term, with four out of five companies (83%) in the North-east reporting issues with recruiting suitable staff, 10 percentage points higher than the rest of the UK.

This tight labour market leads 78% of respondents to say another key factor in upward overhead pressures is funding pay awards and other rising labour costs. Other cost inflation factors (fuel, utilities, raw materials) remain but abated during the quarter.

3 a) PERCENTAGE OF NORTH-EAST FIRMS REPORTING RECRUITMENT ISSUES



BUSINESS RATES REMAIN A CHALLENGE

4

The research also suggests that business rates remain a significant barrier to growth in the North-east, despite the broadly positive outcome of the recent non-domestic rates revaluation.

More than a third of firms (34%) said that business rates were a constraint to growth, far higher than the 25% average across the UK, suggesting that rates still have not fallen by enough.

Seven out of 10 properties in the Granite City have had a decrease in their rateable value since April, while there is no change for 14%, and the remaining 16% were landed with rises.

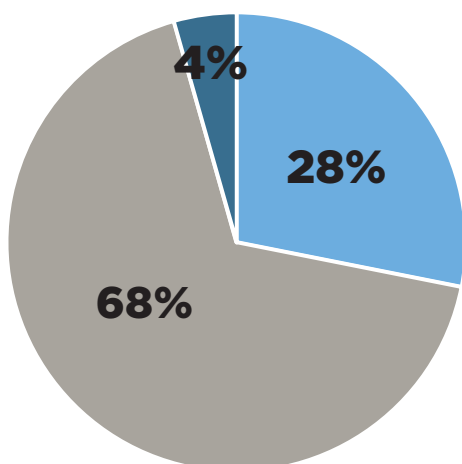
However, properties in Aberdeenshire have not fared as well as the Granite City in the latest revaluation – 48% had rises, 36% saw decreases and there was no change for 16%.

CASH FLOW PRESSURES

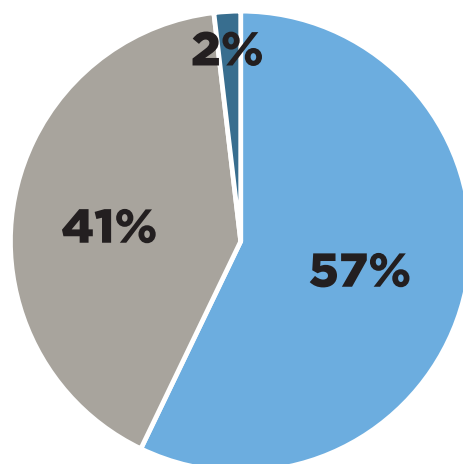
5

For the first time the Q3 study asked North-east businesses three questions relating to debtor days, pricing and payment pressures and potential for payment disputes / litigation.

5 a) **DEBTOR DAYS IN Q3**



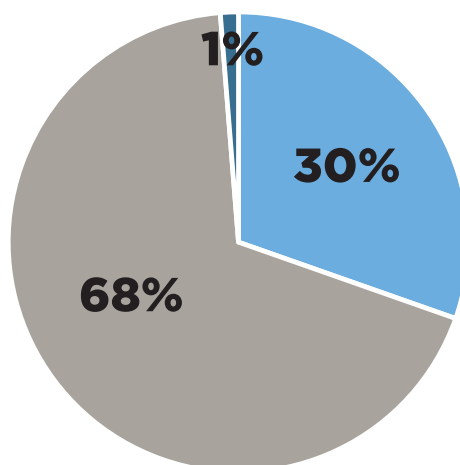
5 b) **PRICING & PAYMENT PRESSURE IN Q3**



■ Increased ■ Remained Constant ■ Decreased

■ Increased ■ Remained Constant ■ Decreased

5 c) POTENTIAL FOR PAYMENT DISPUTES / LITIGATION IN Q3



■ Increased ■ Remained Constant ■ Decreased

“A continued focus on robust cash management programmes alongside strong contract and supply chain rigour will be key to managing and navigating these pressures over the next year.”

Findlay Anderson,
Partner, Gilson Gray



From a North-east point of view, the third quarter of 2023 could barely have gone any better.

Fresh from securing Investment Zone status – worth over £80million to this region alone – we have seen a number of positive economic interventions which will help shape our future economy.

Prime minister Rishi Sunak has backed future oil and gas development in the North Sea and also announced two further carbon capture and storage projects would go ahead as part of the drive for net zero.

The UK Government has now committed to providing up to £20billion of funding for early deployment of carbon capture, utilisation and storage (CCUS), with the Acorn project in our region now receiving support.

And in September we had confirmation that the Rosebank oil and gas field will go ahead, resulting in over £6billion being spent in the local supply chain, much of which resides in Aberdeen and Aberdeenshire.

This positivity is reflected in the sales and turnover data contained within this report, which is perhaps a reflection of a busy local energy sector.

However, we are hearing the same comments from a large number of our 1,200+ members across the region – turnover up, costs up, profitability squeezed.

Across the wider economy, national economic factors – all of which are almost entirely out of our control – continue to hinder our economic performance, as this report demonstrates.

Inflation and interest rates are complex economic forces that can have a corrosive impact on business profitability.

When costs rise faster than a business can adjust its prices, margins get thinner – and I think this is what this dataset is telling us.

While inflation may be starting to ease, it is still having a corrosive presence in the day-to-day operation of businesses in the North-east of Scotland.

This continues to be the biggest concern for businesses in the North-east, with 71% of those polled listing it as a concern, six percentage points higher than the UK average (65%).

Many now face tough decisions, such as whether to absorb the increased costs or pass them on to consumers through higher prices.

Our research suggests the latter, with 46% of companies in the region saying they plan to push up prices in the period ahead.

We will watch with interest to see if this is a trend which continues into the next quarter, or whether the signs that both the labour market and other costs are easing will be enough to reverse it.

Thank you to those businesses that took the time to complete the survey, it provides a strong evidence base to support our lobbying of all three tiers of government on behalf of our members and the region.