

N O R T H - E A S T

QUARTERLY ECONOMIC SURVEY

BROUGHT TO YOU BY



Aberdeen &
Grampian
Chamber of
Commerce

&



GILSON GRAY

LAW PROPERTY FINANCE

Q4
2023

Overview



This UK wide survey of business confidence by the British Chambers of Commerce network took place between 6th and 30th November and was completed by 5029 businesses, collectively employing around 1 million people. 91% of these are SMEs (<250 employees) and 47% are exporters.

At a national level, the key findings were:

- 56% of businesses nationally expect turnover to increase over the next 12 months but this will largely be driven by price rises rather than increased sales volumes. (29% expect revenues to be flat and 15% that they will worsen)
- 47% of respondents expect their prices to rise in the next quarter (up from 41% in Q3). Despite the rate of inflation slowing, this reflects a catch-up as companies look to mitigate the significantly higher costs of doing business over the last two years. Ironically, in turn, this could be a factor in keeping inflation stubbornly higher than target for longer
- 47% of firms taking part in the survey expect profit growth over the next 12 months, with 21% forecasting profits will decline in 2024
- Only 24% of firms increased investment in plant/machinery/equipment during the quarter while 19% decreased spending on this. Most of the survey responses were already received before the Autumn Statement, so it will be interesting to see any impact from the announcement around full capital allowances expensing relief in the Q1 2024 data
- At a sector level, B2B/services businesses displayed significantly greater confidence and future investment intention than manufacturing, retail and hospitality firms—the latter continuing to fare very badly since the pandemic
- Despite the recent slowing, inflation remains the biggest current concern for businesses with 58% citing this as an issue, however this is down from 80% a year ago. And recent better news on interest rates has seen companies concerned about borrowing costs reduce to 39% (from 45% in Q3)

Sponsor Foreword

Gilson Gray LLP are once again delighted to be sponsoring the North-East Quarterly Economic Survey, issued today by Aberdeen & Grampian Chamber of Commerce.

This report is a key barometer into the financial health of businesses in the north east as it reflects not only the feedback of local businesses, but provides a comparator to the UK-wide feedback on the same issues, giving us a good sense on how local businesses are faring in the economy. As a national firm who is continuing to invest in our growth in the region we are proud to support this work by the Chamber along with the British Chambers of Commerce.

We are pleased to see the response rate for the North East of Scotland remains high with 167 respondents, representing 3% of the national response - more than 4 times higher than our pro-rata population. Businesses in this region are engaged on the issues we are discussing here. It is also encouraging to see responses from across the range of sectors, ensuring that this is a strong representative sample of what our companies are saying locally.

The results continue to show encouraging signs for the local economy as we appear to slowly edge back from the brink of a threatened recession. Local businesses continue to see sales growth with 86% reporting stable or increasing sales domestically and 91% internationally. The north east continues to show why it is critical that our governments must support this region to be a vital part of our national export economy.

At the same time, we saw a slight increase in the number of local businesses reporting higher debtor days from 28% last quarter to 32% this

time round. This represents an ongoing payment challenge in certain sectors and it remains key for local businesses to maintain strong cashflow rigour. We have seen this play out locally with a number of businesses asking us to support them on non-payment challenges and others asking us to advise on options to strengthen contract terms.

And costs also remain high in our region putting upward pressure on prices and that will continue to challenge profitability. Labour costs remain a key factor for local businesses, with 79% of firms seeing price pressure. Despite the fact that 88% of businesses believe their turnover will remain stable or increase this year, we do continue to see some redundancies in certain sectors as businesses struggle to get their costs under control.

Across almost all factors the north east economy continues to perform better than the national average as companies slowly grow in confidence. However, it is clear that 2024 will be a year where profitability continues to be challenged and costs and cash control will remain critical factors for all businesses through the year.

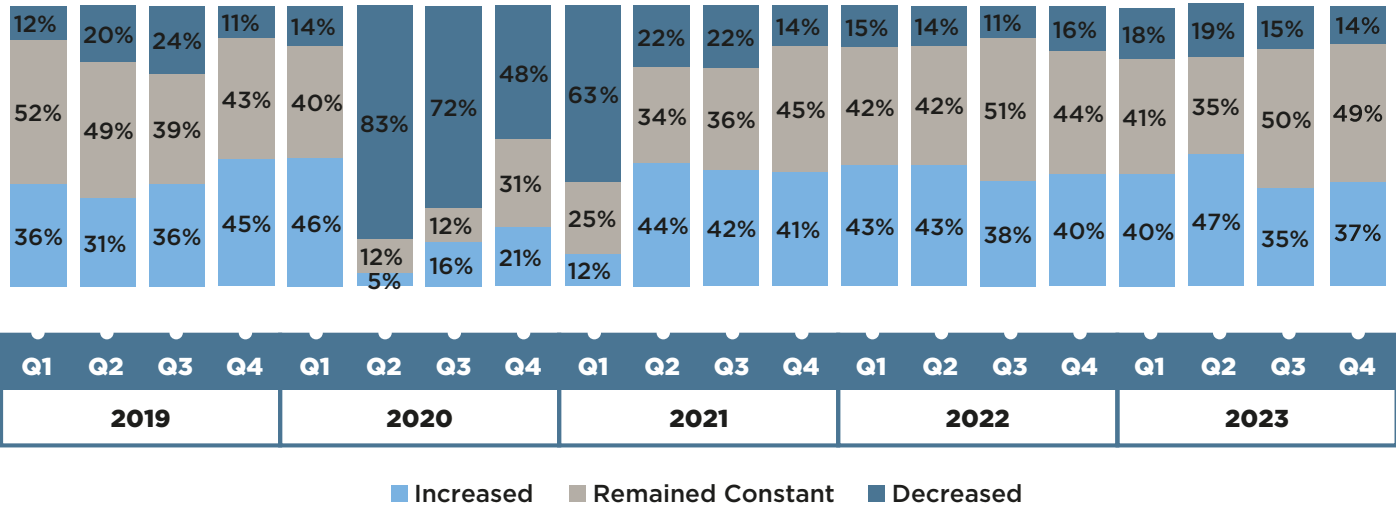


Findlay Anderson,
Partner, Head of Corporate
Gilson Gray LLP

In the North-east of Scotland we heard from 167 companies (3% of the national sample in a region representing just 0.7% of the UK population) so the data is robust. It's interesting to note that almost 70% of NE respondents undertake export activities, again demonstrating our strength in this regard.

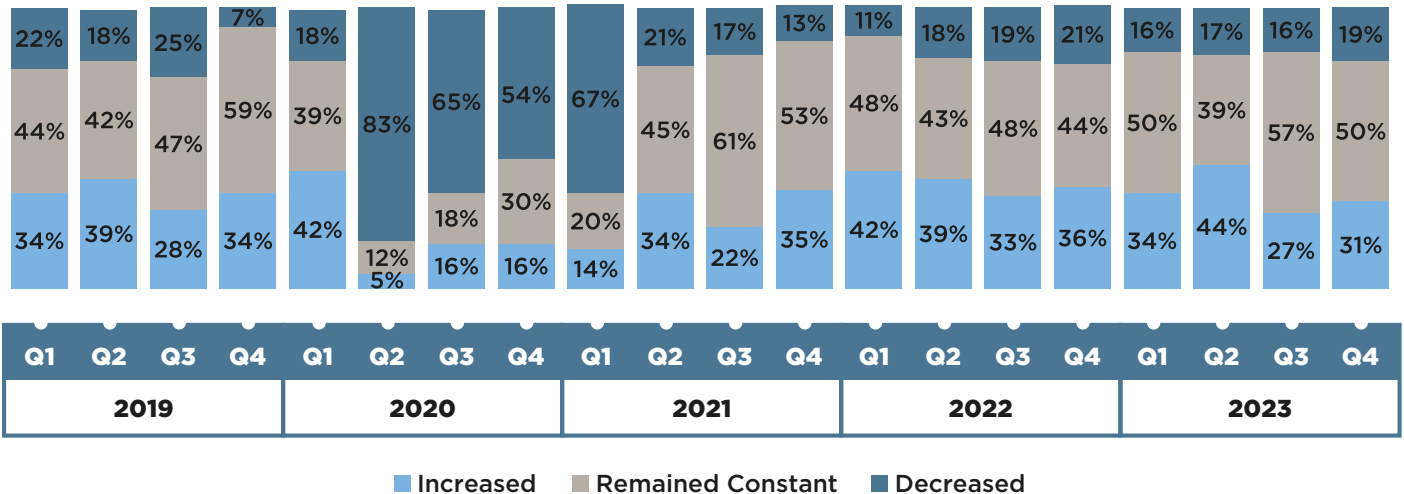
Q: Excluding seasonal variations, over the past 3 months 'UK sales/custom/bookings' have...

Just 14% of firms in the NE reported a decline in domestic sales during Q3 (compared to 22% nationally). 37% of regional respondents said they'd seen sales growth in the quarter, in line with UK figures



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

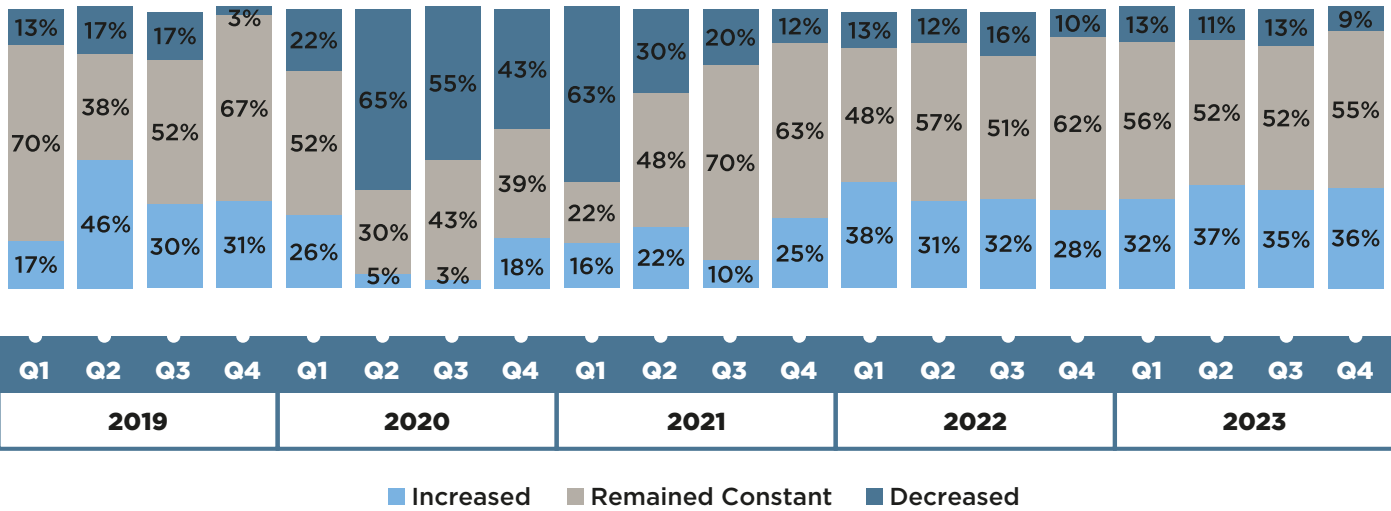
Looking ahead, 31% of companies both in this region and across the country expect to see increased domestic sales into 2024. Interestingly though just 19% of NE firms expect to see a decline compared to 25% nationally



The latest data, again, reaffirms the status of our region as an export powerhouse. 36% reported international sales growth in Q4 (28% nationally) and just 9% reported declining sales (v 24% UK wide).

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

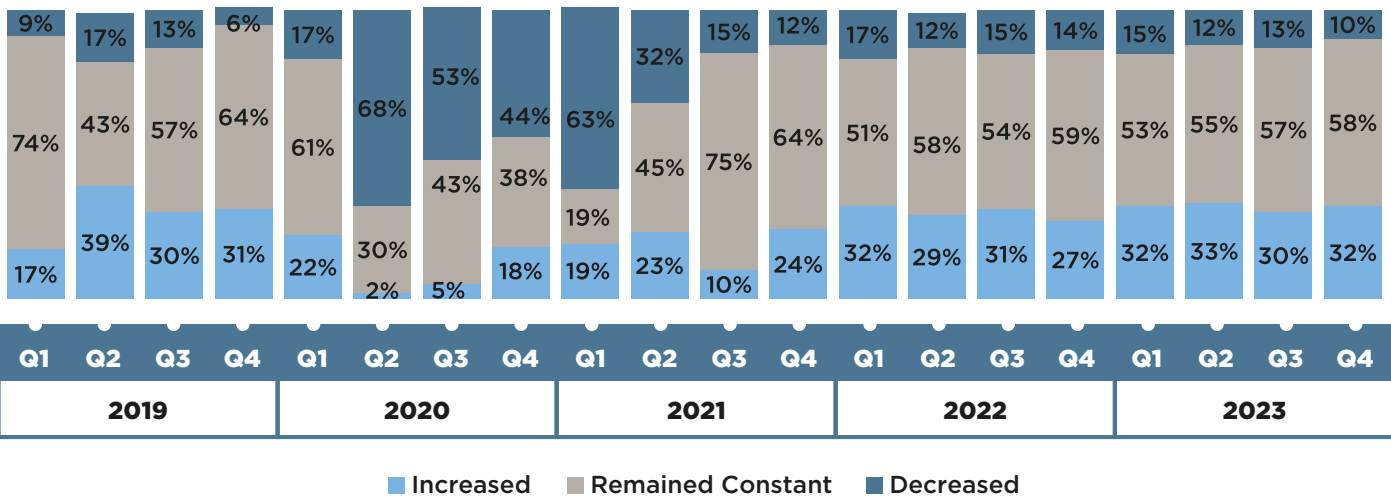
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	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Increase	36	28	+8
Remain the same	55	49	+6
Decrease	9	24	-15

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

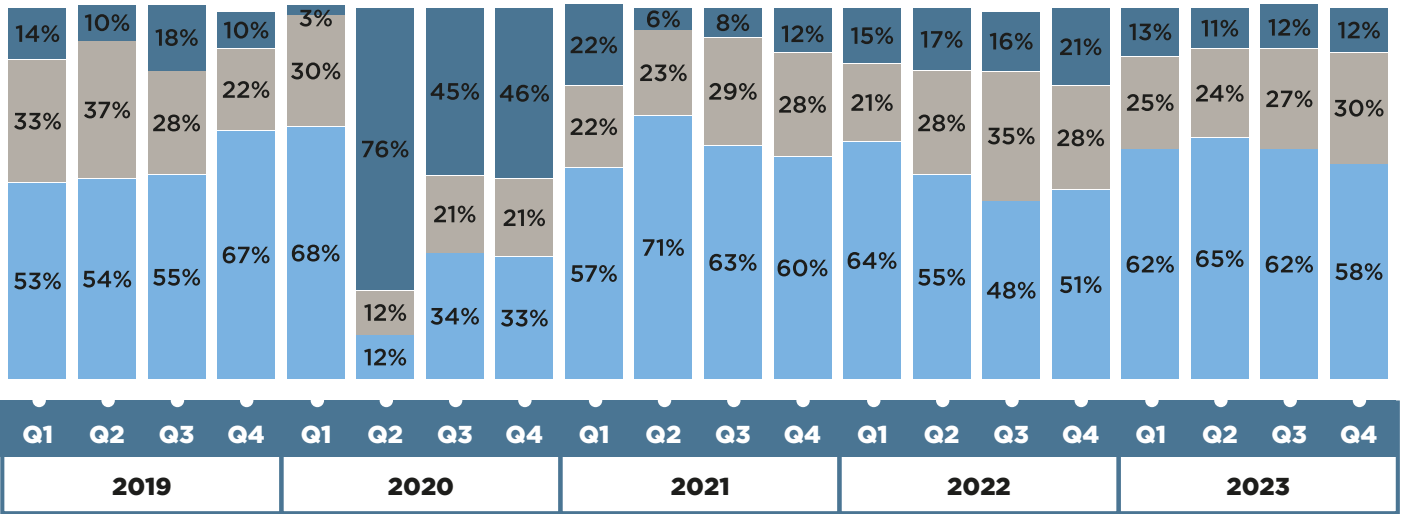
And 32% of NE respondents are forecasting growth this year in overseas activity (26% UK) with just 10% of regional firms expecting this to decline (v 25% nationally)



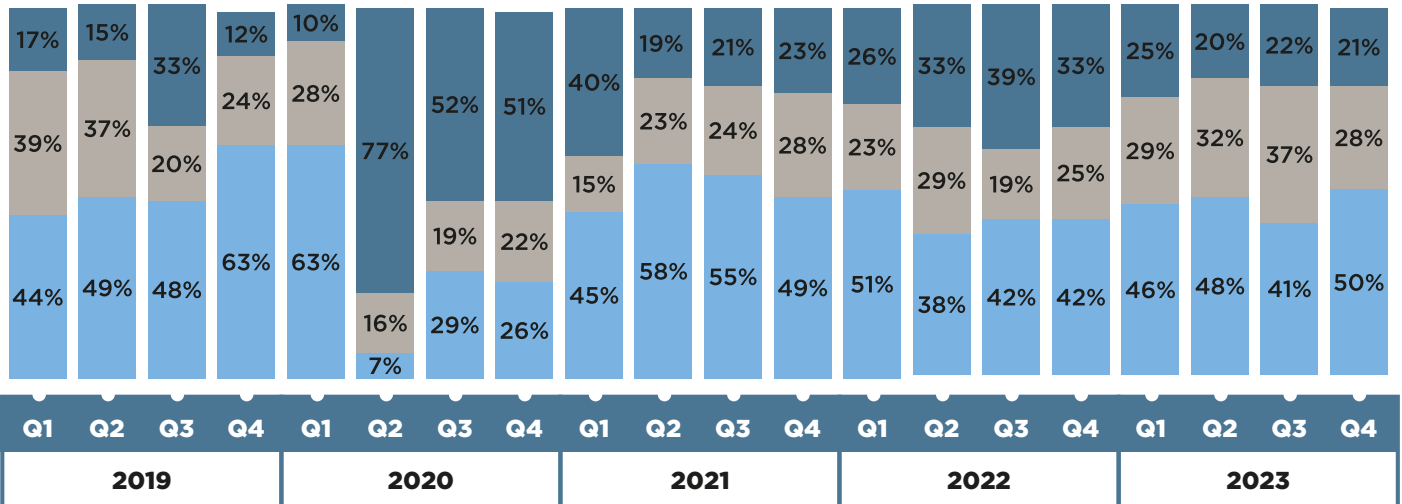
	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Increase	32	26	+6
Remain the same	58	49	+9
Decrease	10	25	-15

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

North-east businesses are more confident than their UK peers about turnover and profitability growth in 2024. 58% expect revenues to increase (v 56% nationally) and 50% are forecasting profit growth (47% UK)



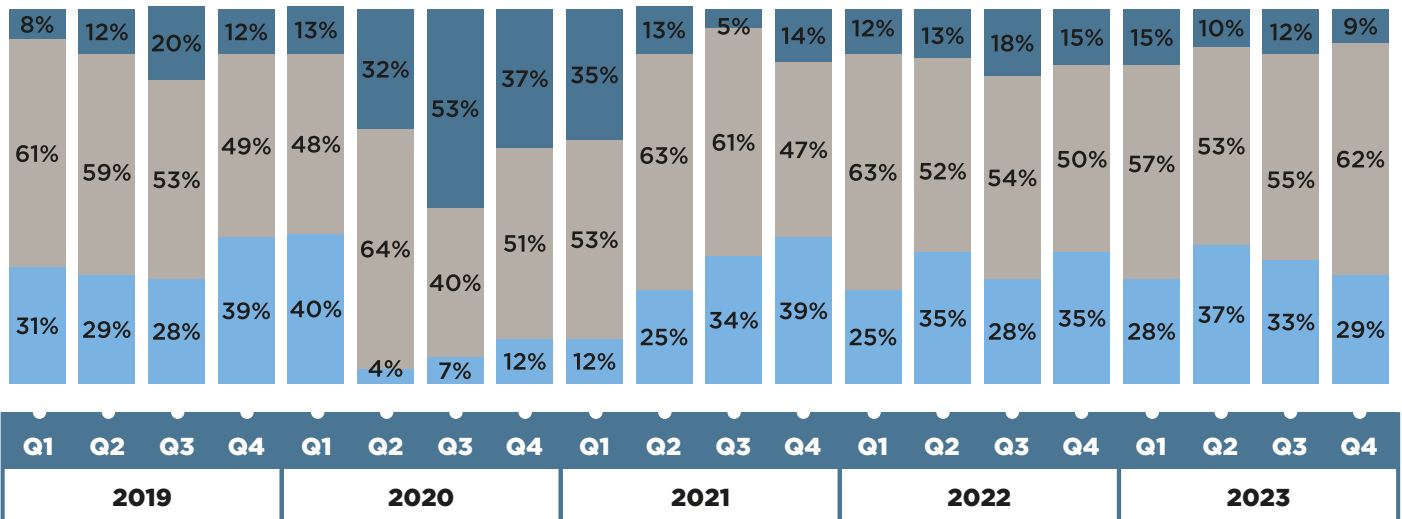
Q: Over the next 12 months, do you believe your business's profitability will...



■ Improve ■ Remain the same ■ Worsen

Q: Over the past 3 months, has your workforce

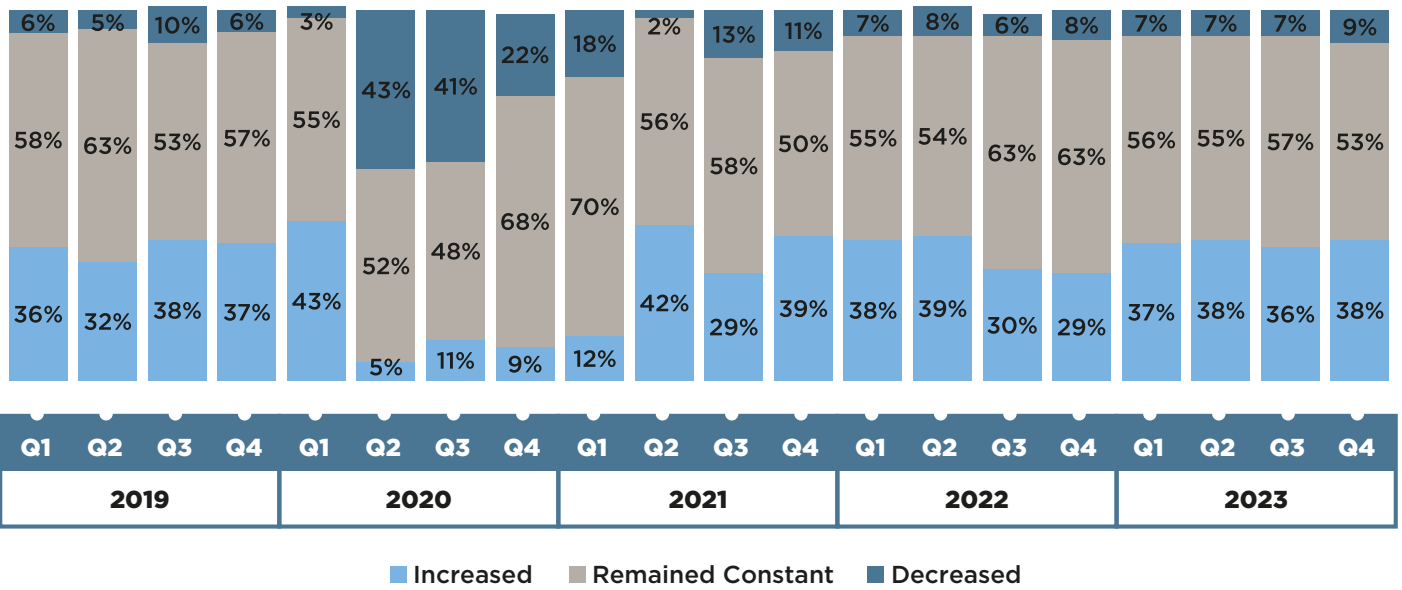
In terms of workforce, just 9% of regional respondents decreased numbers in Q4 (v 14% UK)



■ Increased ■ Remained Constant ■ Decreased

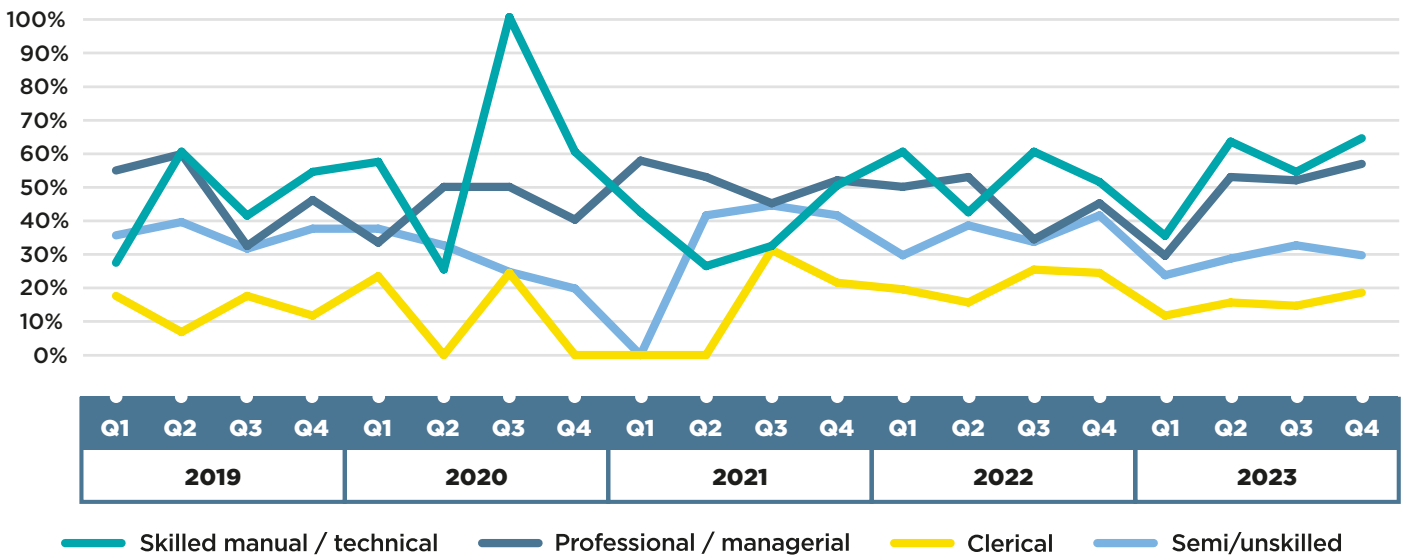
Q: Over the next 3 months, do you expect your workforce to...

38% of NE firms expect staff numbers to increase in 2024 against 31% nationally



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

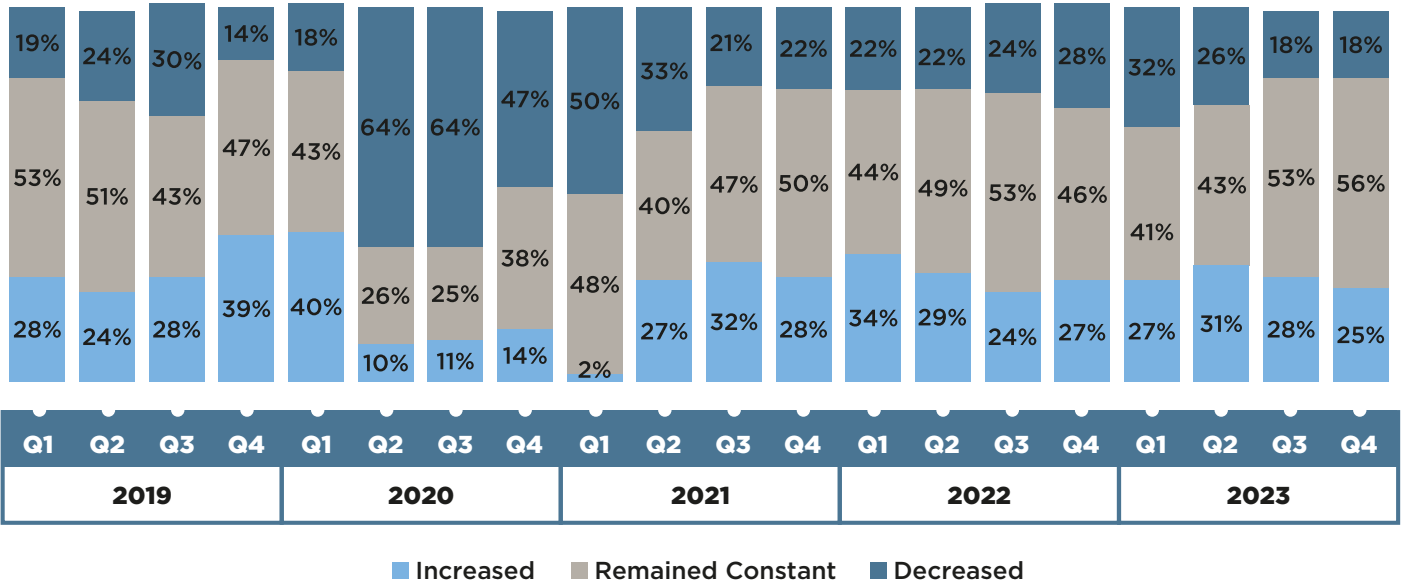
Interestingly, while 76% of firms nationally reported difficulties in recruiting suitable staff, this was lower in our region at 71%. Perhaps unsurprisingly, while 51% of UK companies said they had difficulty in finding candidates for skilled manual & technical staff, this figure is higher in the Aberdeen region at 64%



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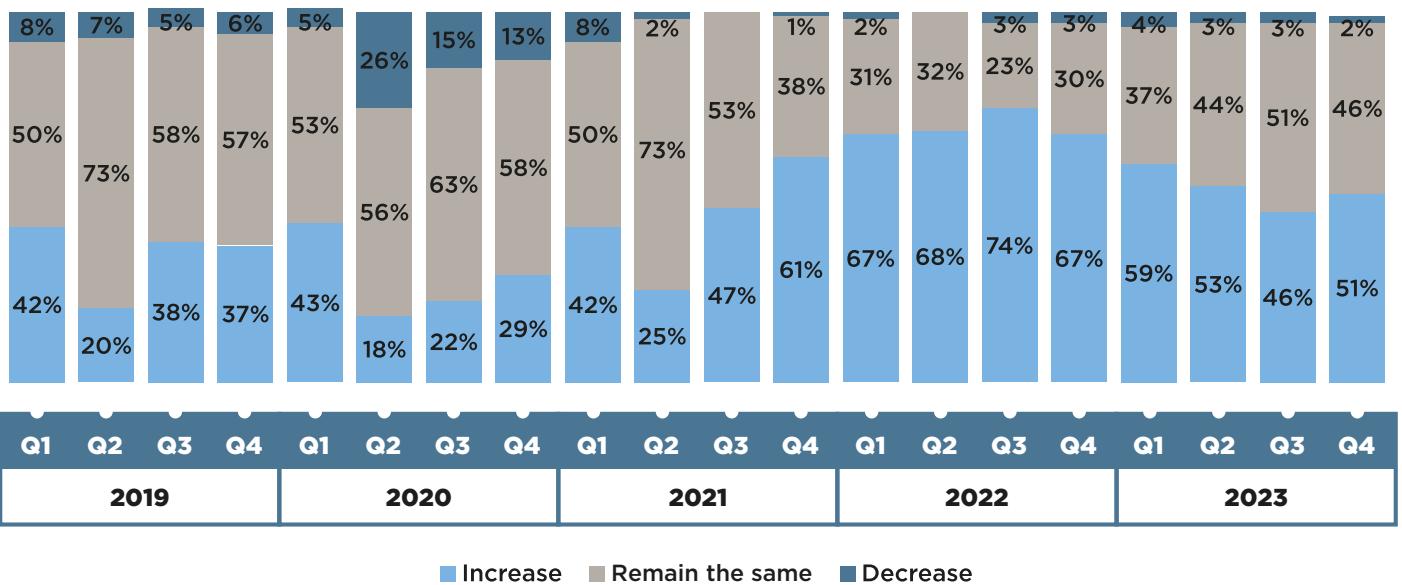
Q: Over the past 3 months, cash flow has ...

In terms of cash flow, NE firms are doing better than their counterparts nationally with only 18% of respondents in this region reporting a worsening of their position, against 26% across the UK



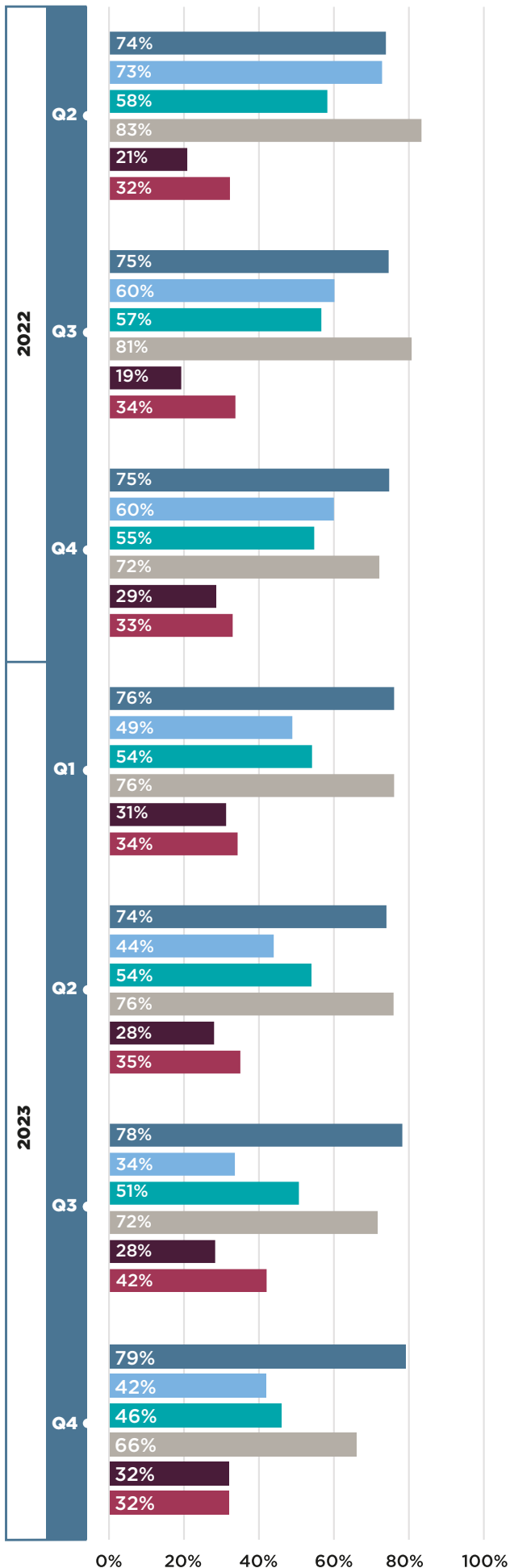
Q: Over the next 3 months, do you expect the price of your good/services to...

51% of firms in this region are likely to implement price increases over the next three months (compared to 47% nationally). However, this is an improving picture when compared to 2022 where the mean number of companies proposing putting prices up was around 70%



Inflation remains the largest growth constraint nationally although this is being felt marginally less in this region.

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



One of the most startling differences between the regional and UK data comes when we look at upward cost pressures on businesses. In almost every metric, North-east firms are feeling the heat more than peers nationally

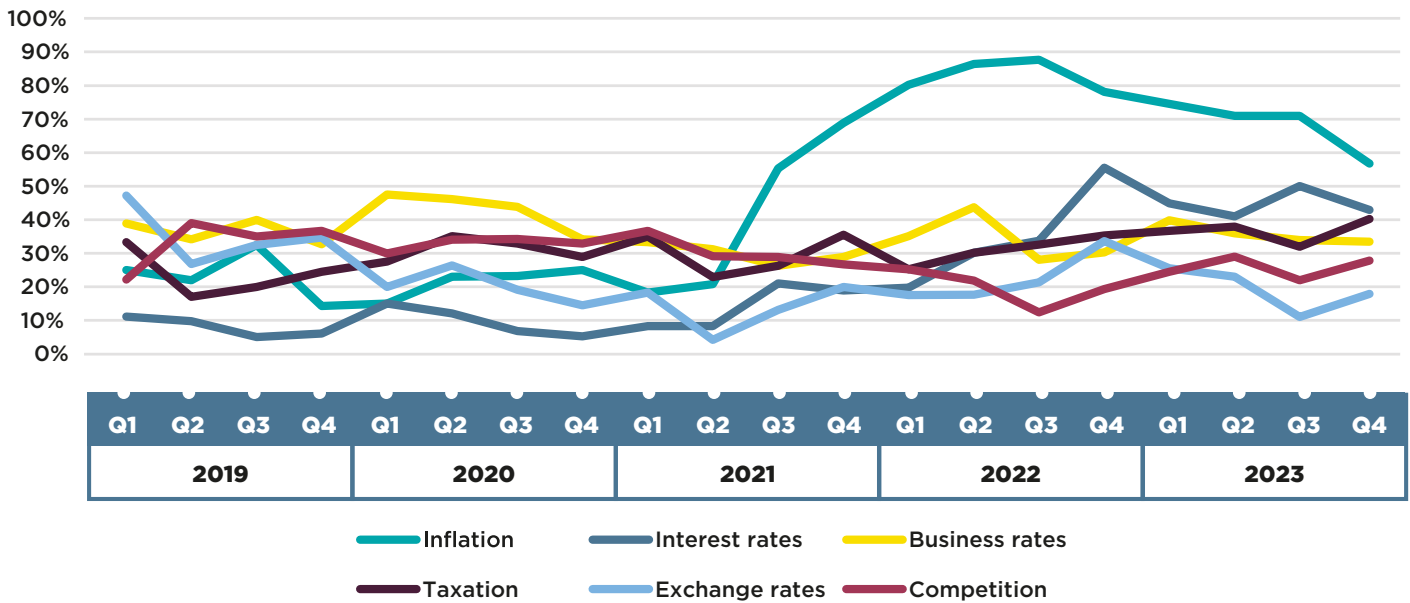
- Labour costs (e.g. salaries, pay settlements, contractors)
- Raw material prices (e.g. steel, cardboard, food)
- Finance costs
- Fuel (e.g. petrol or diesel)
- Utilities (e.g. gas, electricity)
- Other overheads



	Aberdeen & Grampian	UK	% point difference, Aberdeen & Grampian v UK
Labour costs	79	68	+11
Raw materials	46	40	+6
Utilities	66	55	+11
Fuel	42	37	+5
Finance	32	30	+2
Other	32	35	-3

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

Inflation remains the largest growth constraint nationally although this is being felt marginally less in this region. However, North-east firms are more concerned about interest rates, taxation and business rates than the UK as a whole



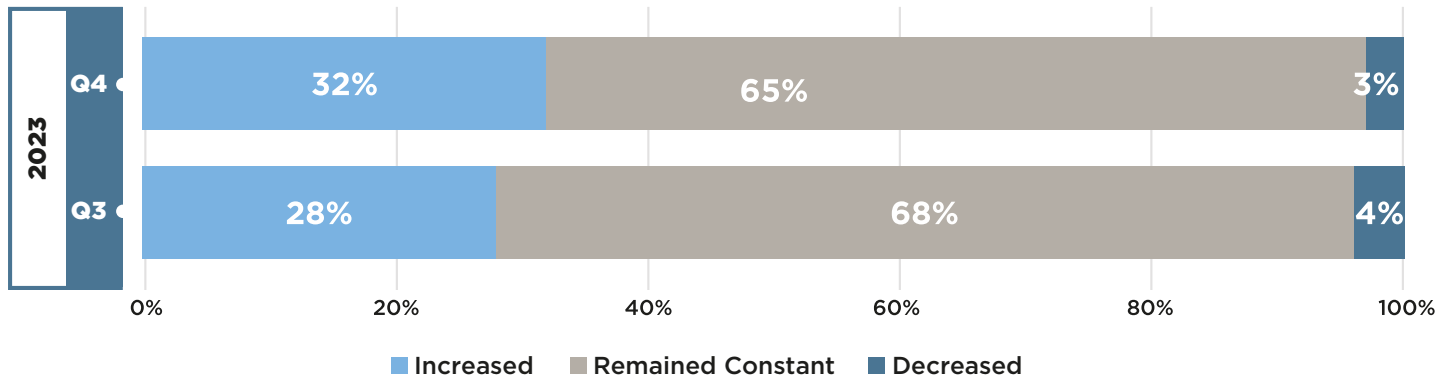
	Inflation	Interest rates	Taxation	Business rates	Exchange rates	Competition
Aberdeen & Grampian	56%	42%	40%	33%	18%	28%
UK	58%	39%	36%	27%	17%	35%



Gilson Gray questions:

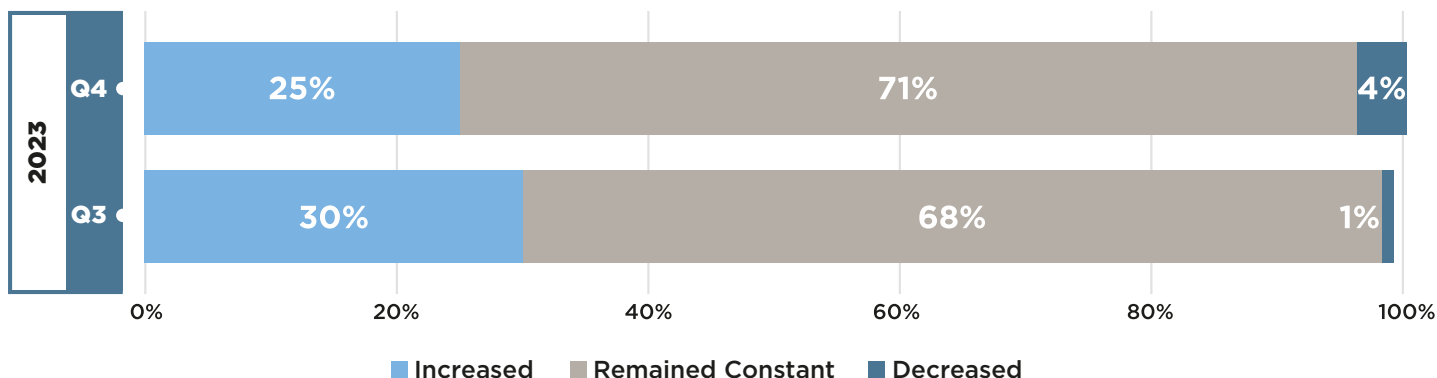
Q: Over the past 3 months, did debtor days

32% of North-east respondents report an increase in debtor days against Q3 (28%)



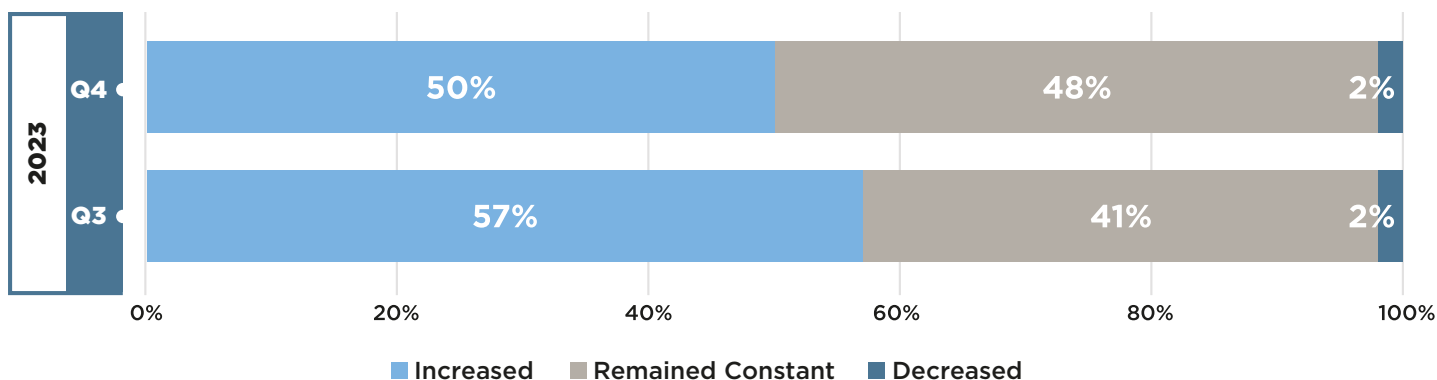
Q: Over the next 12 months, do you expect potential for payment disputes / litigation to

Despite this, only 25% expect potential for payment disputes/litigation to increase, down from 30% three months ago



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

And, in line with the national picture, companies here are seeing upward pricing and payment pressures start to recede with 50% expecting them to worsen this year (against 57% in Q3)



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. Retail and Economic Impact

- Decreased retail spending in Aberdeen.
- Effect of Brexit on employee mobility and business taxes.
- Challenges due to business rates, VAT, and cash flow affecting various sectors.
- Concerns over survival of businesses due to current economic conditions

2. Industry-Specific Challenges

- Issues faced by specific industries, such as seafood processing, logistics, transport, and retail.
- Challenges in the Oil & Gas sector, including government policies, energy transition, recruitment, and negative image.

3. Financial Challenges

- Slow payments affecting businesses.
- Rising costs of utilities, fuel, and materials impacting profitability.
- Criticism towards utility companies for high prices.

4. Local Policy Impact

- Impact of local policies on businesses and sectors.
- Concerns about listed building rates, council tax, and licensing costs.

5. Recruitment and Operational Difficulties

- Recruitment challenges in various sectors.
- Issues with rural locations affecting recruitment and accessibility.

6. Business Operations and Sustainability

- Business strategies to cope with reduced rates and competitiveness.
- Efforts to reduce warehouse footprint and recycle equipment in the Oil & Gas industry.

7. Future Outlook

- Expectations of future business growth, particularly in offshore activities for the upcoming year.



Viewpoint

As companies in the North-east of Scotland look ahead to 2024, they do so with increasing levels of optimism, which is reflected in the data contained within this new report.

The headline is that half of companies in this region expect their profits to grow in 2024, with Aberdeen and Aberdeenshire set to outperform the rest of the UK over the next 12 months.

This edition of the report also concludes that companies in the region are bullish about their prospects this year as inflationary pressures ease.

(1) THE NORTH-EAST REMAINS AN EXPORT POWERHOUSE

The latest data, again, reaffirms the status of our region as an export powerhouse. 36% reported international sales growth in Q4 (28% nationally) and just 9% reported declining sales (v 24% UK wide).

And 32% of North-east respondents are forecasting growth this year in overseas activity (26% UK) with just 10% of regional firms expecting this to decline (v 25% nationally).

(2) TURNOVER & PROFITABILITY OUTLOOK

North-east businesses are more confident than their UK peers about turnover and profitability growth in 2024. 58% expect revenues to increase (v 56% nationally) and 50% are forecasting profit growth (47% UK).

Almost one third (31%) of companies both in this region and across the country expect to see increased domestic sales into 2024. Interestingly though, just 19% of North-east firms expect to see a decline compared to 25% nationally.

(3) RECRUITMENT

Firms here growing faster, with 38% expecting staff numbers to increase in 2024 against 31% nationally.

And while 76% of firms nationally reported difficulties in recruiting suitable staff, this was lower in our region at 71%.

However, while 51% of UK companies said they had difficulty in finding candidates for skilled manual & technical staff, this figure is higher in the Aberdeen region at 64%.

(4) COST PRESSURES REMAIN HIGHER IN THIS REGION

One of the most startling differences between the regional and UK data comes when we look at upward cost pressures on businesses. In almost every metric, North-east firms are feeling the heat more than peers nationally. Most marked are fuel 66% (37% UK) and labour costs 79% (67% UK).

Inflation remains the largest growth constraint nationally although this is being felt marginally less in this region. However, North-east firms are more concerned about interest rates, taxation and business rates than the UK as a whole.

THE NATIONAL PICTURE

Only 24% of firms increased investment in plant/machinery/equipment during the quarter while 19% decreased spending on this. Most of the survey responses were already received before the Autumn Statement, so it will be interesting to see any impact from the announcement around full capital allowances expensing relief in the Q1 2024 data.

At a sector level, B2B/services businesses displayed significantly greater confidence and future investment intention than manufacturing, retail and hospitality firms- the latter continuing to fare very badly since the pandemic with nearly a third (32%) of respondents reporting a decrease in investment.

Despite the recent slowing, inflation remains the biggest current concern for businesses with 58% citing this as an issue, however this is down from 80% a year ago. And recent better news on interest rates has seen companies concerned about borrowing costs reduce to 39% (from 45% in Q3)

WHAT NEXT?

It is clear from the data we are seeing that there is a growing confidence among companies in the North-east – and almost three quarters of the firms we surveyed are exporting their good or services, underlining the global demand for our products and expertise.

However, for all of the positives, it is obvious that the UK is still teetering on the brink of a recession. We need imaginative plans for enabling economic growth, something which needs to be front and centre of the forthcoming election campaign.

You can rest assured that we will be engaging with political parties of all colours on your behalf to ensure that happens.



Russell Borthwick
Chief Executive