

INTRODUCTION

THIS REPORT SUMMARISES THE KEY RESULTS FROM OUR LATEST FRASER OF ALLANDER INSTITUTE (FAI) SCOTTISH BUSINESS MONITOR, PUBLISHED IN PARTNERSHIP WITH ADDLESHAW GODDARD.

The survey sampled almost 400 firms in February from across the Scottish economy, examining business performance in the current quarter and the outlook for the year ahead.

Early 2024 was a difficult period for business in Scotland. All of our main indicators showed deterioration, with the exception being capital investment - which improved - although remains in negative territory.

Businesses are much more positive as they look ahead, and indeed more positive than they were last quarter.

OUR LATEST RESULTS ALSO SHOW THAT:

- The vast majority of businesses expect economic/ business uncertainty (**97%**), staff availability (**92%**), and political uncertainty (**90%**) to be important or very important over the next three months. These are up considerably for businesses compared to last quarter.
- In every category, the proportion of businesses reporting that costs were higher has increased compared to last quarter. The increase in the cost of employing people were the most commonly cited, with **77%** reporting that total employee costs were higher and **76%** reporting that wage costs were higher.
- In this edition, we explored with businesses what they felt should be the top priority for the UK Government after the election. “Deliver long-term economic growth” was by far the most popular option, being selected by **72%** of businesses. This was followed by “Tackle Labour and Skills Shortages” at 45% and “Reduce UK business taxes” at 43%.



CURRENT AND EXPECTED SCOTTISH BUSINESS ACTIVITY

CURRENT BUSINESS ACTIVITY

- Business activity has worsened in early 2024. Across almost every measure – apart from, interestingly, capital investment - firms reported deteriorating business conditions.
- This means that all of our regular activity measures are in negative territory for the first time since the end of 2022.
- The net balance of firms reporting an increase in volume of sales has fallen to -7.1 percentage points meaning that more firms have seen a decline in activity than have seen a rise.
- The measure of new business has deteriorated significantly with a net balance of -13.5 percentage points compared to -9.6 last quarter.
- The net balance of firms reporting an increase level of employment has fallen into negative territory, after being in positive territory for most of 2023.
- Levels of new capital investment and export activity measures remain negative (more firms reporting falls than increases). However, capital investment is not as negative as late 2023.

Table 1:

Net balance of firms experiencing an increase in activities over the past three months, **Q1 2022 - Q1 2024**

	2022				2023			2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1
VOLUME OF BUSINESS ACTIVITY (I.E., SALES)	30.1	15.3	4	-2.2	9.1	3.0	-1.2	-7.1
VOLUME OF NEW BUSINESS ACTIVITY	24.9	8.8	0	-4.9	5.7	0.0	-9.6	-13.5
VALUE OF BUSINESS ACTIVITY (I.E., TURNOVER)	32.3	15	6.4	-0.7	8.1	3.7	0.0	-2.6
LEVEL OF EMPLOYMENT IN YOUR BUSINESS	15.5	10.2	8.5	-5.4	-0.5	2.2	1.9	-0.3
LEVEL OF NEW CAPITAL INVESTMENT	6.3	1.2	-5.9	-14.7	-4.4	-12.1	-16.7	-12.1
EXPORT ACTIVITY	-8	-9	-9.2	-11.5	-8.4	-11.4	-11.5	-16.4

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

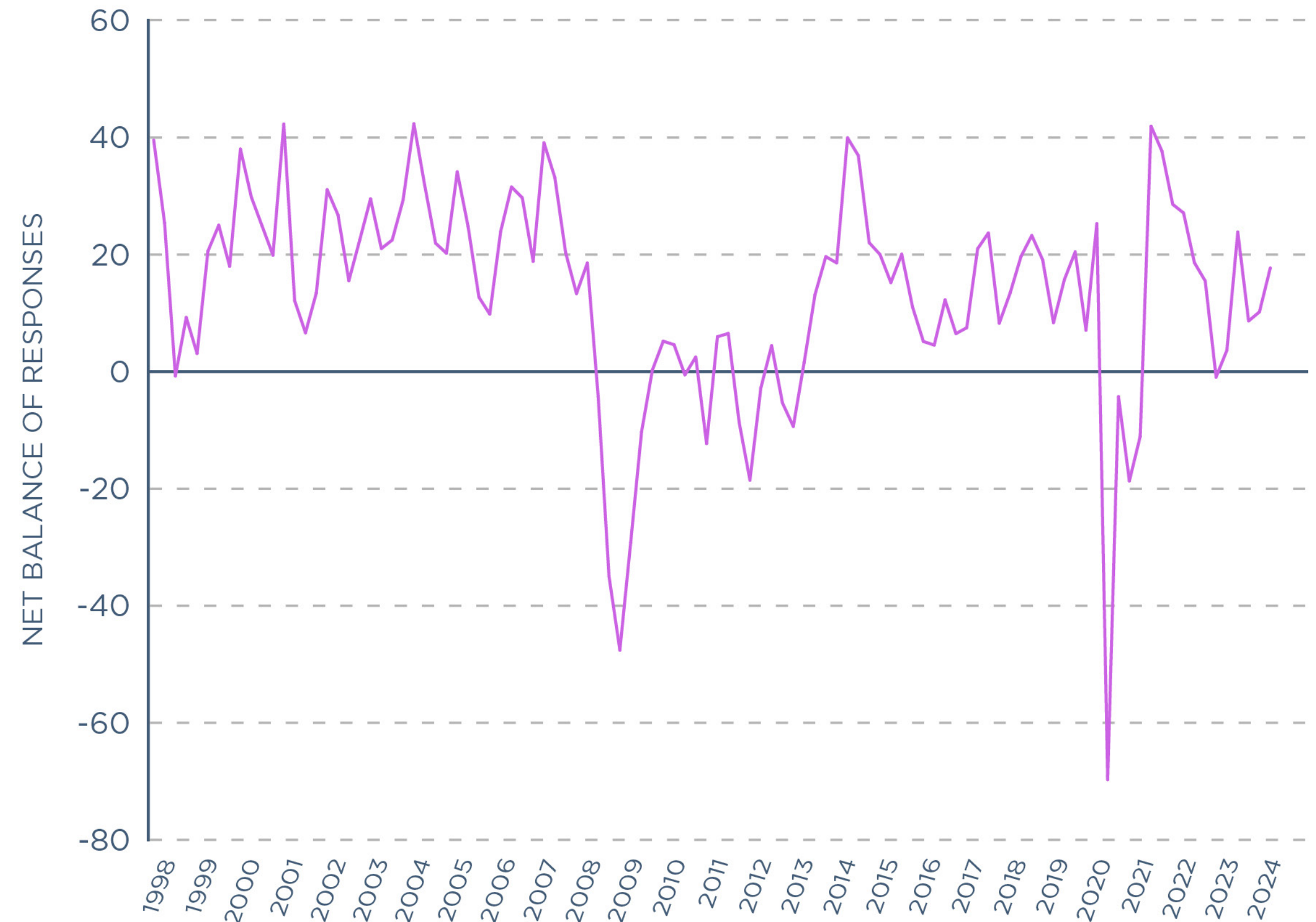
KEY RESULTS

EXPECTED BUSINESS ACTIVITY

- Despite falls in reported business activity over the past three months, the expected volume of business over the next six months has remained positive, and indeed got more positive, over the last quarter.
- Positive net balances have continued this quarter for expectations of new business activity, turnover and employment in the coming six months.
- However, negative net balances have also continued for expected capital investment (-7 percentage points) and export activity (-9 percentage points), which are slightly more negative than the previous quarter.
- We asked Scottish firms what they expect to be important to their business over the coming quarter.
- Most businesses expect economic/ business uncertainty (**97%**), staff availability (**92%**), and political uncertainty (**90%**) to be important or very important over the next three months. These are up considerably for businesses compared to last quarter.

Chart 1:

Net balance of firms expecting an increase in their volume of business over the next six months, **Q1 1998 - Q1 2024**



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

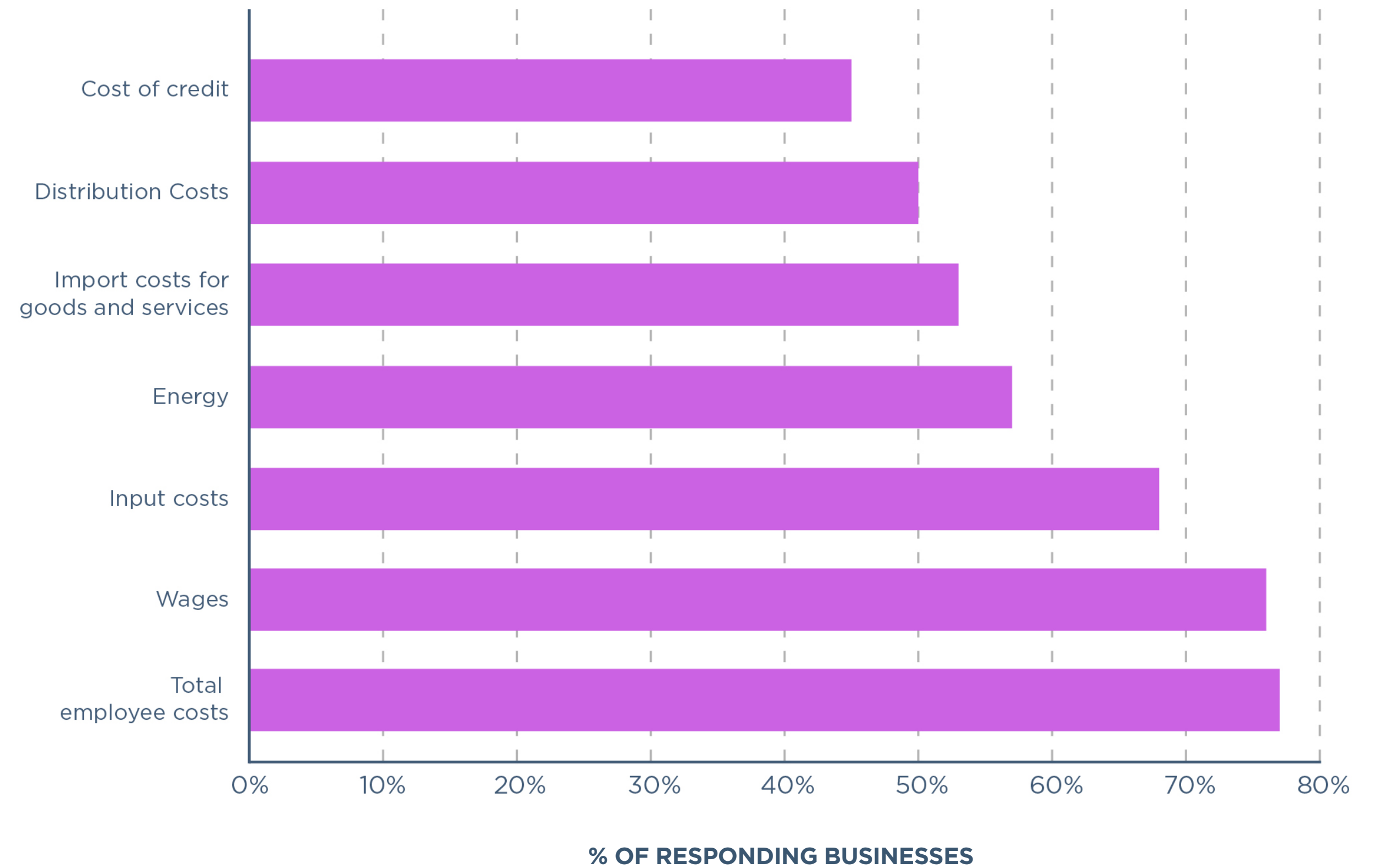
KEY RESULTS

COST PRESSURES

- **83%** of firms in Scotland have seen their costs increase over the last quarter, compared to **78%** last quarter.
- In every category, the proportion of businesses reporting that costs were higher has increased compared to last quarter.
- The increase in the cost of employing people were the most commonly cited, with **77%** reporting that total employee costs were higher and **76%** reporting that wage costs were higher.
- **85%** of firms reported that they expected total business costs to be higher in the next 6 months, which is a big rise from **67%** in last quarter.
- Wages and total employee costs were expected to be the key driving factors, with **78%** and **79%** respectively saying that they expect costs to be higher for these factors over the next 6 months. These are much higher than they were last quarter.

Chart 2:

Proportion of businesses responding that costs were higher this quarter compared to the previous 3 months.



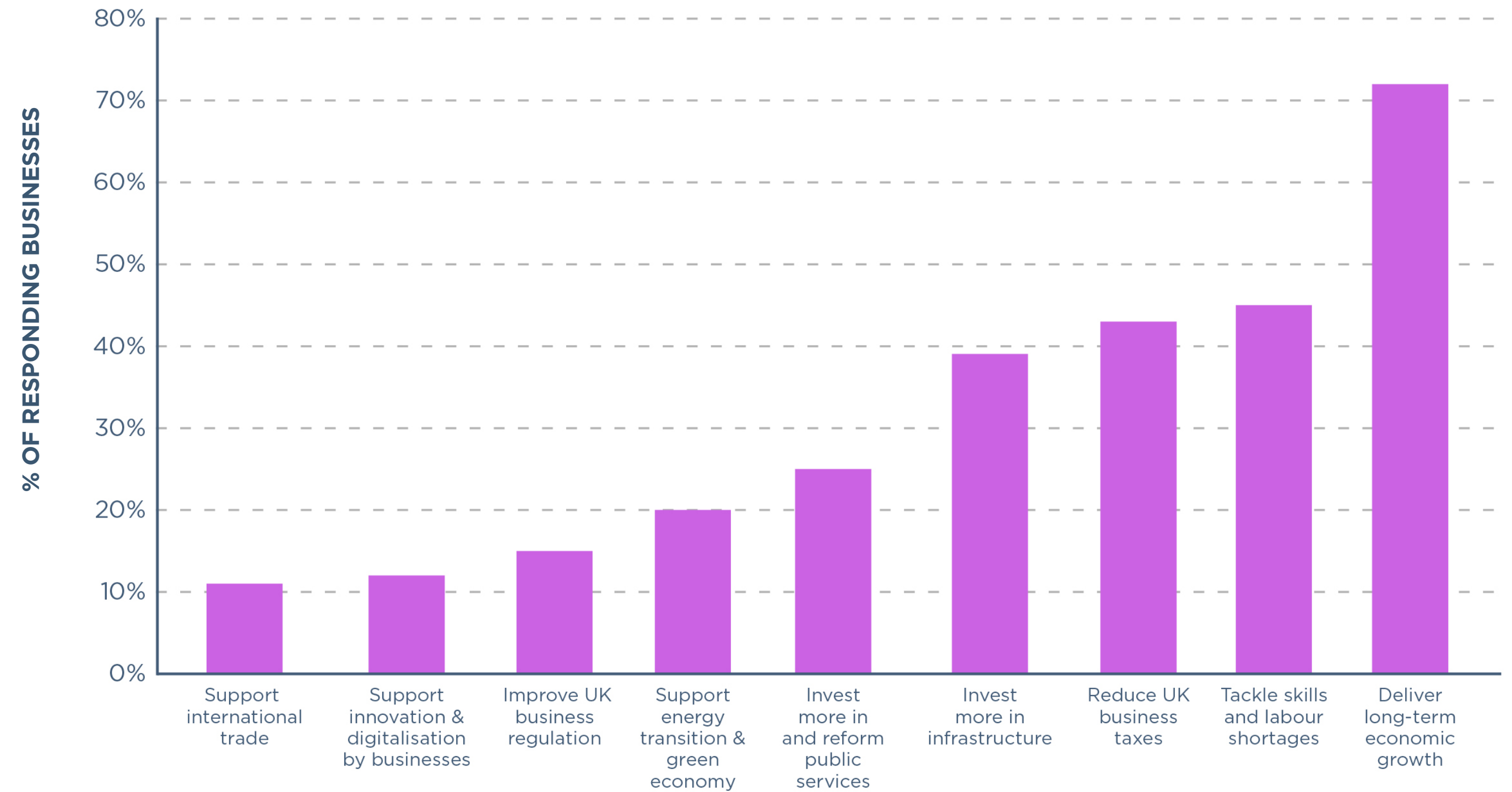
KEY RESULTS

ECONOMIC GROWTH

- In this edition, we explored with businesses what they felt should be the top priority for the UK Government after the election.
- “Deliver long-term economic growth” was by far the most popular option, being selected by 72% of businesses.
- This was followed by “Tackle Labour and Skills Shortages” at 45% and “Reduce UK business taxes” at 43%.

Chart 3:

What should be the top three priorities for the UK Government after the election?



MORE IMAGINATION MORE IMPACT

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