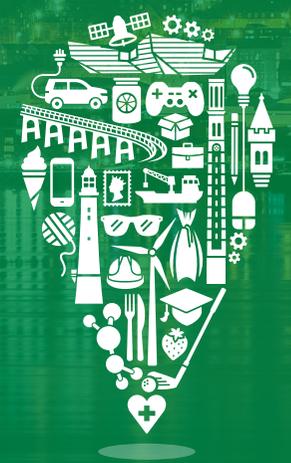




**Dundee
& Angus**
CHAMBER OF
COMMERCE



Quarterly Economic Indicator

January 2022

Platinum partners



What have been the main reasons for changes in business confidence?

“higher revenues, more optimistic clients”

“Starting to see businesses struggle as they come out of lockdown, grants dry up and access to funding challenging and time consuming

“Brexit deal makes exports to EU impossible”

“Burn out, no prospects.”

“International travel beginning to return”

Executive statement

After nearly two years of delivering the Dundee & Angus Quarterly Economic Indicator Report, and Business Sentiment Indicator, the value of the research remains in the wealth of the stories that the data tells us.

We couldn't do this work without two key things: a committed and generous set of businesses and the expertise of Dr Shona Dobbie, who brings a breadth of knowledge and understanding of the key global trends and then helps us paint a picture of the health of the business landscape in Dundee & Angus.

As always, we are indebted to the businesses who take the time to be a part of this long-running business survey – your data is not only central to this report, but to the national work of the Chamber Network ensuring that your data is well represented to key national policy decision makers.

As with many of our reports over the Covid years, we know there's been a shift from the positive set of confidence indicators reported pre-December 2021. It would be hard for business confidence not

to have taken a deeper downturn if we had been data gathering during the height of the Omicron restrictions amid the tsunami wave of festive hospitality booking cancellations, combined with the spread of the virus to our workforces.

We can only hope for a much more positive kick on now into 2022 – many of our business sectors are suffering and need to see their order books fill, supply chain issues resolved, their tills ring with customer spending and the consumer confidence begin to recover – again!

We anticipate that the impacts of surging inflation and persistent supply chain disruption may mean that economic growth prospects for the UK will be under pressure for much of 2022. Our governments must act with utmost caution, making data-lead decisions when issuing guidance and continue to support businesses where there are parts of our economy unable to reopen fully and trade their way out of the pandemic.

Here's to a positive 2022!



Alison Henderson
Chief Executive DACC



Dr Shona Dobbie
Angus Economics

Key results

This chart shows the 'net balance' measure of confidence for the key variables in our local economic survey. The net balance is calculated by subtracting the percentage of firms reporting a decrease in activity from the percentage reporting an increase and, in general, a positive net balance indicates growth and a negative net balance indicates deterioration. This methodology is consistent with that used by the Scottish Chambers of Commerce QES.

Unfortunately, the key results of our Q4 survey show some degree of deterioration from Q3, reflecting tougher operating conditions across the Dundee & Angus region during the autumn months. However, it is encouraging to see that every key variable except employment remains in positive territory. The highest reading indicates that local businesses intend to increase prices, largely in response to higher costs. And, although it is good to see the readings for both revenue and orders are still relatively strong, cash flow and profits have both recorded weaker readings, contributing to the lower reading for business optimism too. Investment has held up reasonably well, but there has been a sharp deterioration in the reading for employment, which has now turned negative for the first time since Q1.



Our key variables show some evidence of deteriorating business conditions during the last 3 months. It is encouraging that both revenue and orders have held up relatively well, but disappointing to see much weaker assessments of both profits and cash flow. One striking feature is the clear intent of many businesses to increase prices in response to rising costs.

Change in business optimism

Our survey asks respondents to assess their current level of business optimism against both 3 and 12 months ago and the net balances are displayed here for each sector. The results highlight that business optimism is slightly higher than it was 3 months ago and considerably higher than 12 months ago, helped by the fact that revenue, orders and investment have all remained relatively strong. Respondents from the construction and tourism sectors are significantly more optimistic than they were 12 months ago, but it is disappointing to see that optimism has fallen over the same period in both the agriculture and healthcare sectors. Over the last 3 months it is encouraging to see that optimism has improved in both the hospitality and manufacturing sectors, but has again deteriorated significantly in the agriculture and healthcare sectors. Capacity utilisation is an important factor and optimism is being impeded by the fact 39% of local businesses are still operating below 'normal' levels of capacity.

Local businesses have remained optimistic overall, but challenges are clearly emerging. Whilst it is good to see that optimism has improved over the last 3 months in the manufacturing and hospitality sectors, our survey suggests that both the agriculture and healthcare sectors are under more pressure.

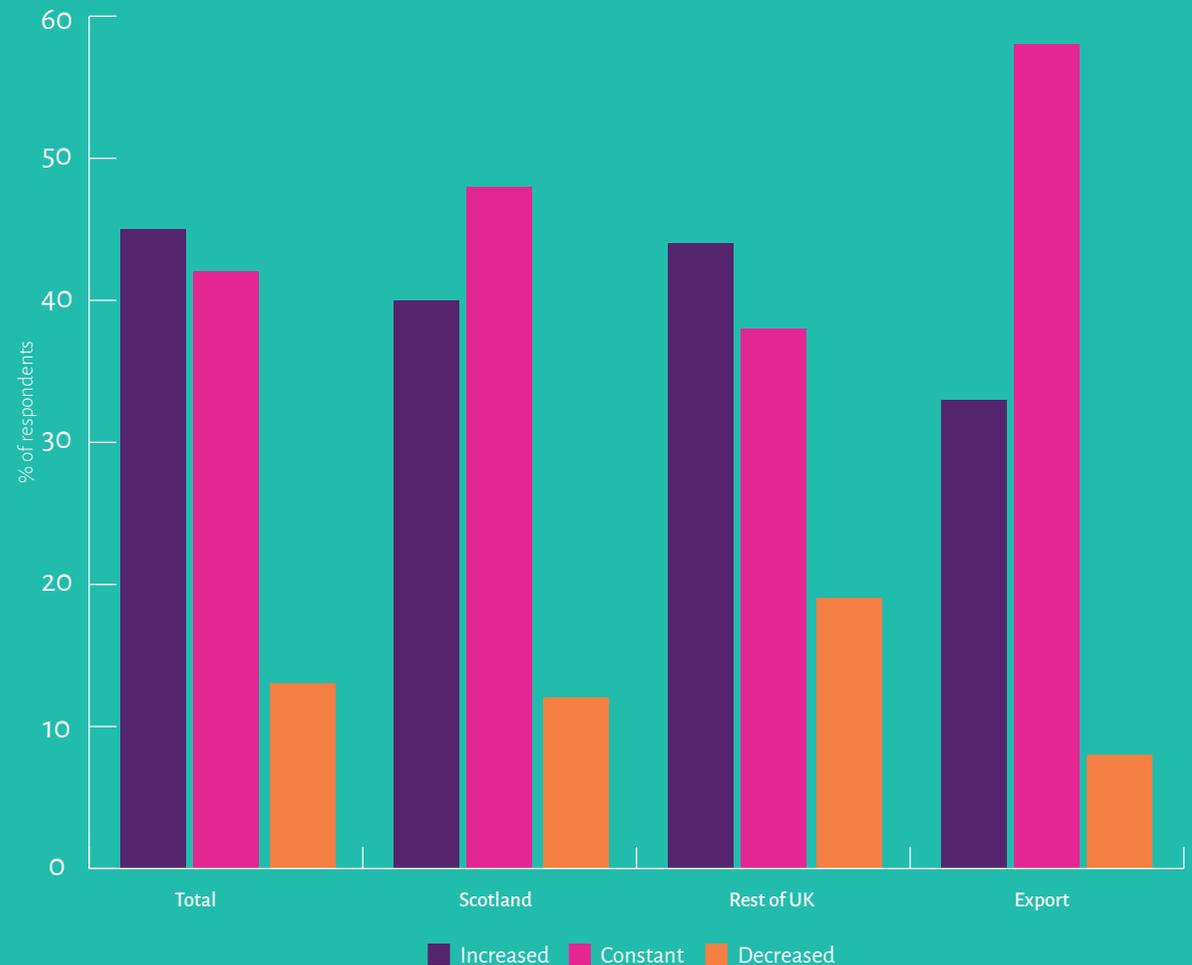


Change in business revenue since last quarter

Our survey indicates that business revenue has continued to improve for the third successive quarter, but the rate of improvement has slowed. The net balances for total revenue, revenue achieved in Scotland and that raised in the rest of the UK all remain positive, but at lower levels than were recorded in Q3, but sales outside the UK have improved significantly, with more than 91% of respondents reporting an increased or constant level of export revenue over the last 3 months. The hospitality sector has reported a sharp improvement in revenue overall, helped by the absence of lockdowns, but reports from both the agricultural and healthcare sectors are more muted in tone. Our survey also covers future revenue expected over the next 3 months and in this case sales to the rest of the UK are expected to increase most. Respondents from the healthcare sector are much more optimistic about future revenue, but the construction sector appears to be a bit more cautious.

	net balance (%)
Total	+32
Scotland	+28
Rest of UK	+25
Export	+25

More than 91% of local participants report that export related revenue has increased or remained constant over the last 3 months.

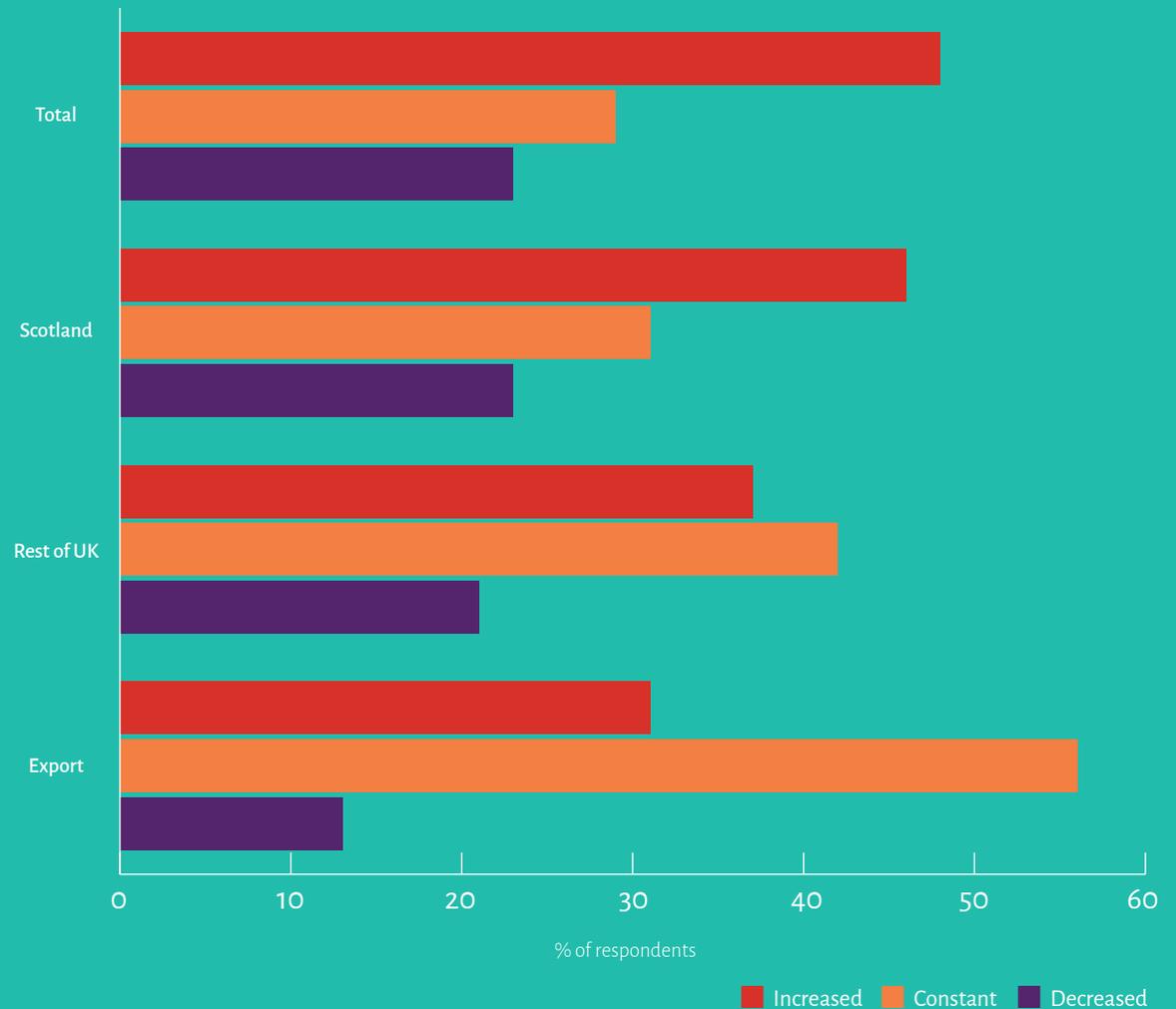


Change in orders since last quarter

The net balance figure for total orders has fallen from +33% to +26%, its second successive decline. But this reading remains positive and reflects that fact that 48% of respondents report orders have actually increased, while a further 29% say orders have remained unchanged. Most of the deterioration is due to a less positive assessment of orders from the rest of the UK, but this follows a sharp improvement in Q3. The tourism sector is the most positive, while both agriculture and healthcare are seeing some deterioration. And it is encouraging to report that the assessment of expected orders is relatively strong, with 90% of respondents expecting orders to increase or remain constant over the next 3 months.

	net balance (%)
Total	+26
Scotland	+23
Rest of UK	+16
Export	+19

Although the assessment of orders is slightly softer than in Q3, 77% of local businesses say orders have increased or remained constant in Q4.

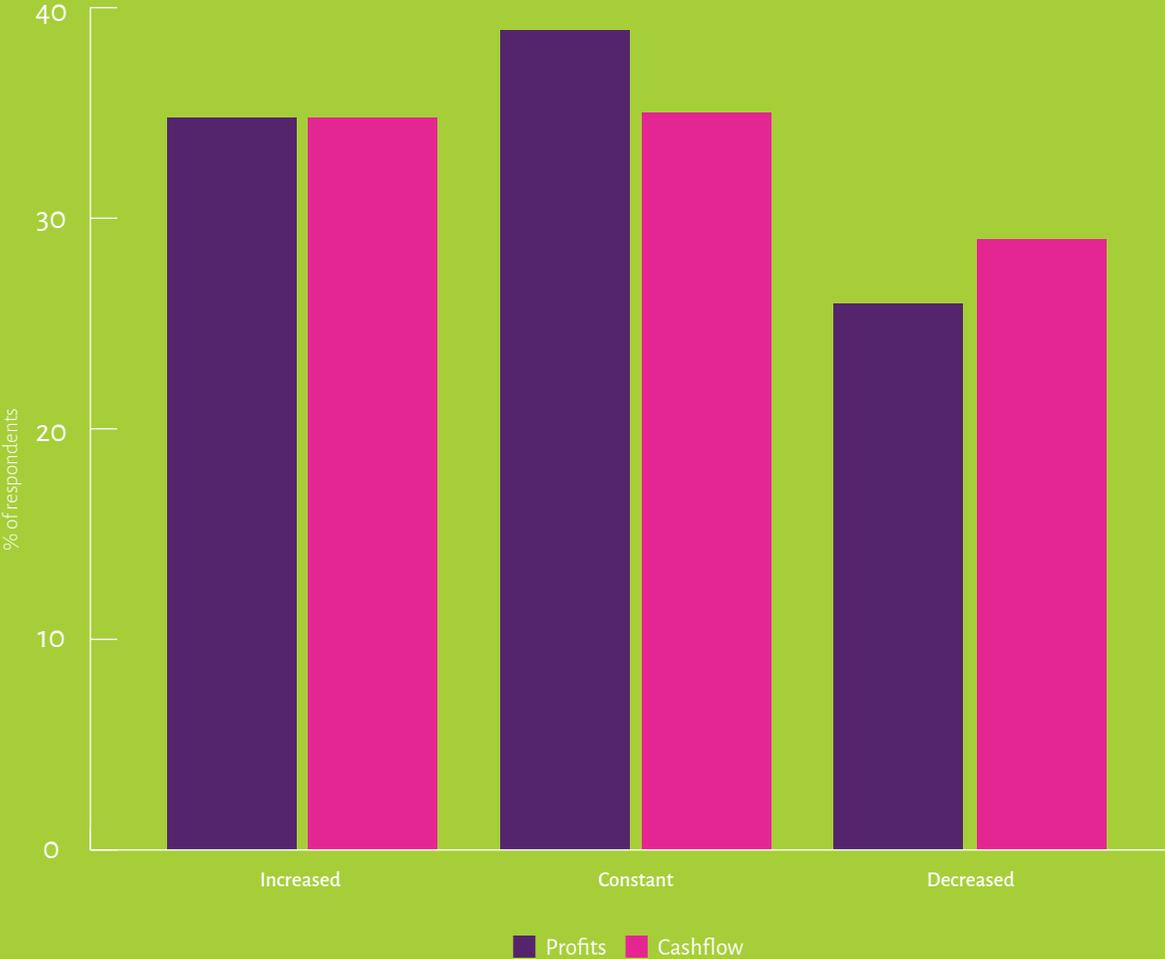


Profits and cash flow

Profitability and cash flow are both very significant factors in the ability of businesses to survive and thrive. It is therefore encouraging to see that the responses from local businesses have produced positive net balances for both variables. However, as you can see from the table below, the net balances for both variables are lower than last time, reflecting more challenging conditions such as the significant increase in cost pressures. The most positive trends in profits were reported by the construction sector, whilst both agriculture and healthcare reported that profits had decreased. These 2 sectors also reported the weakest assessments of cash flow, whilst both education and finance & insurance were the most positive.

Net balance (%)	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Profits	-8	-45	+4	+36	+10
Cash flow	+16	-39	+4	+23	+6

Whilst it is encouraging to report that local businesses are giving us a positive assessment of both profits and cash flow, it is disappointing to see that the net balance readings for both variables have decreased considerably in Q4.



Investment

The net balance for total investment has fallen from its record level of +40% to +22% in Q4. However this reading is still relatively strong, with 82% of local businesses reporting that investment has either increased or remained stable over the last 3 months. Training investment has been relatively stronger during this period, recording a net balance of +27% compared with +20% for capital investment. Given the weaker sentiment about current conditions in the healthcare sector, it is really encouraging to see that both capital and training investment in this sector have been relatively strong. In contrast to this, recent investment levels have been weaker in the hospitality sector and capital investment has been cut in the both the agricultural and tourism sectors.

Looking forward, investment spending is expected to remain positive overall, but capital investment is expected to perform relatively better, whilst investment in training is expected to decrease.

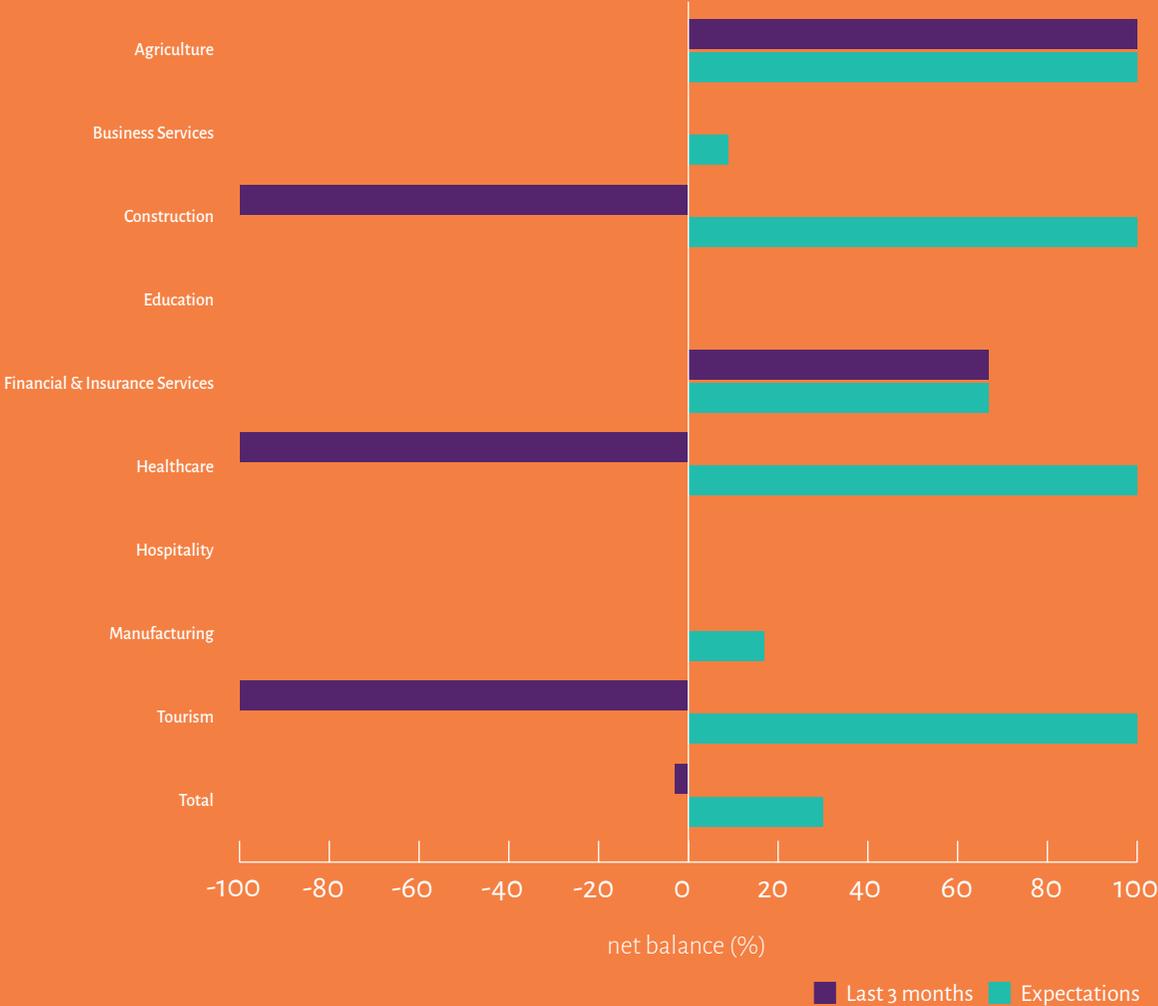
82% of businesses have reported that investment levels have increased or remained stable over the last 3 months, and training investment has been relatively stronger than capital spending.



Employment situation

Local businesses were forced to cut employee numbers during the last quarter, for the first time since Q1 2021, reflecting the extent to which business conditions remain challenging. Only the agricultural and finance & insurance services sectors increased employment, whilst the construction, healthcare and tourism sectors had to make cuts. But local businesses are much more optimistic about the future, as no sectors expect to make any further cuts to employee numbers. The agricultural sector, construction, healthcare and tourism all expect to increase employee numbers over the next 3 months, as do some firms within business services, finance & insurance and manufacturing, whilst the education and hospitality sectors expect employee numbers to remain unchanged.

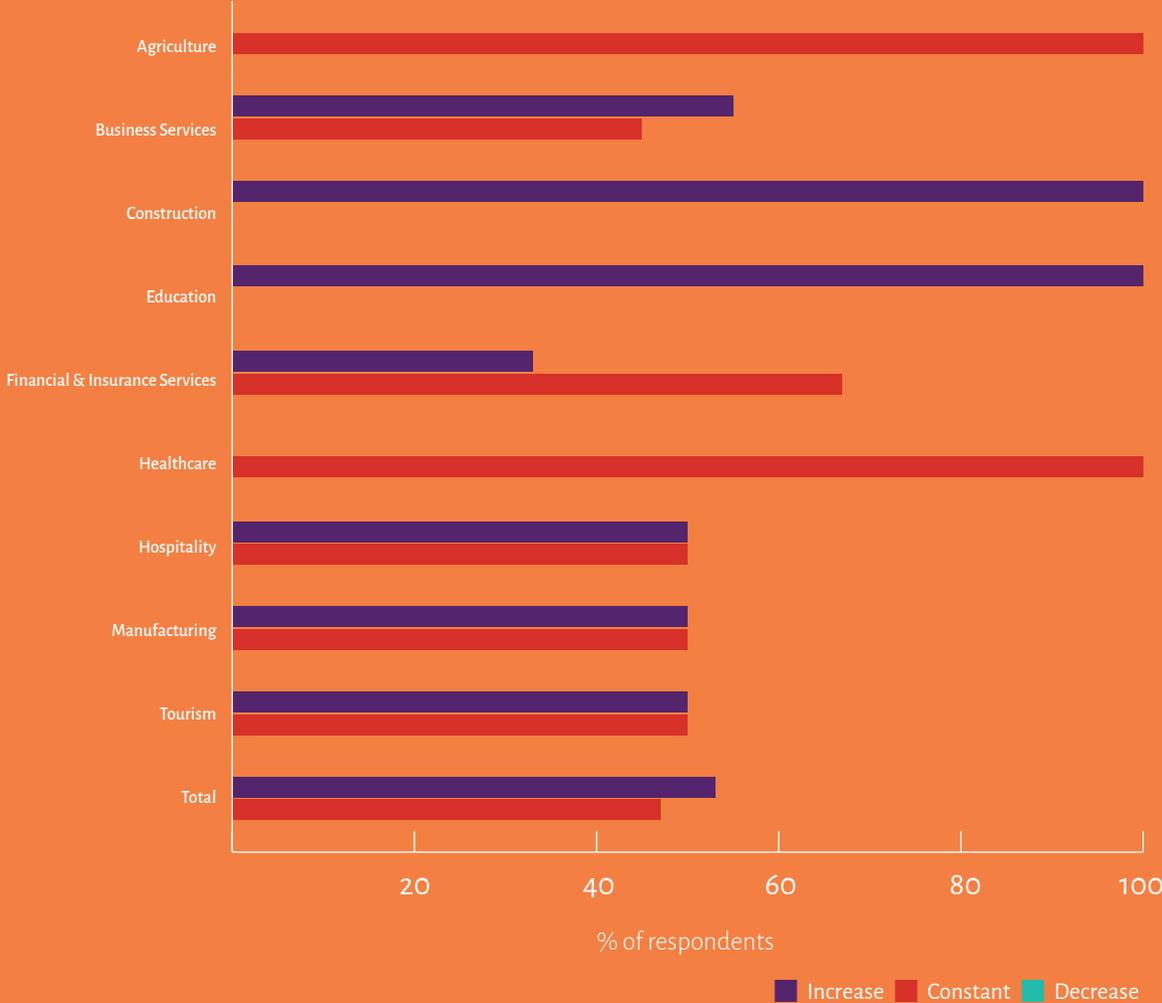
Although it is disappointing to see that some employees had to be cut during the last 3 months, it is really encouraging that several sectors in the DACC region expect employment levels to increase in the months ahead.



Expected prices

Over that last 6 months we have seen a substantial increase in the pressure for businesses to raise prices. In our latest survey the net balance of businesses expecting to increase prices has increased from + 40% to a record high of +53%. Not a single business expects to cut prices in the coming 3 months, but 53% of respondents expect to increase prices and the remaining 47% expect to keep prices unchanged at current levels. The pressure to raise prices is highest in the construction and education sectors, but also relatively high in business services, hospitality, manufacturing and tourism. The pressure to increase prices comes largely from the increased costs of overheads and raw materials, accompanied by some wage pressure too.

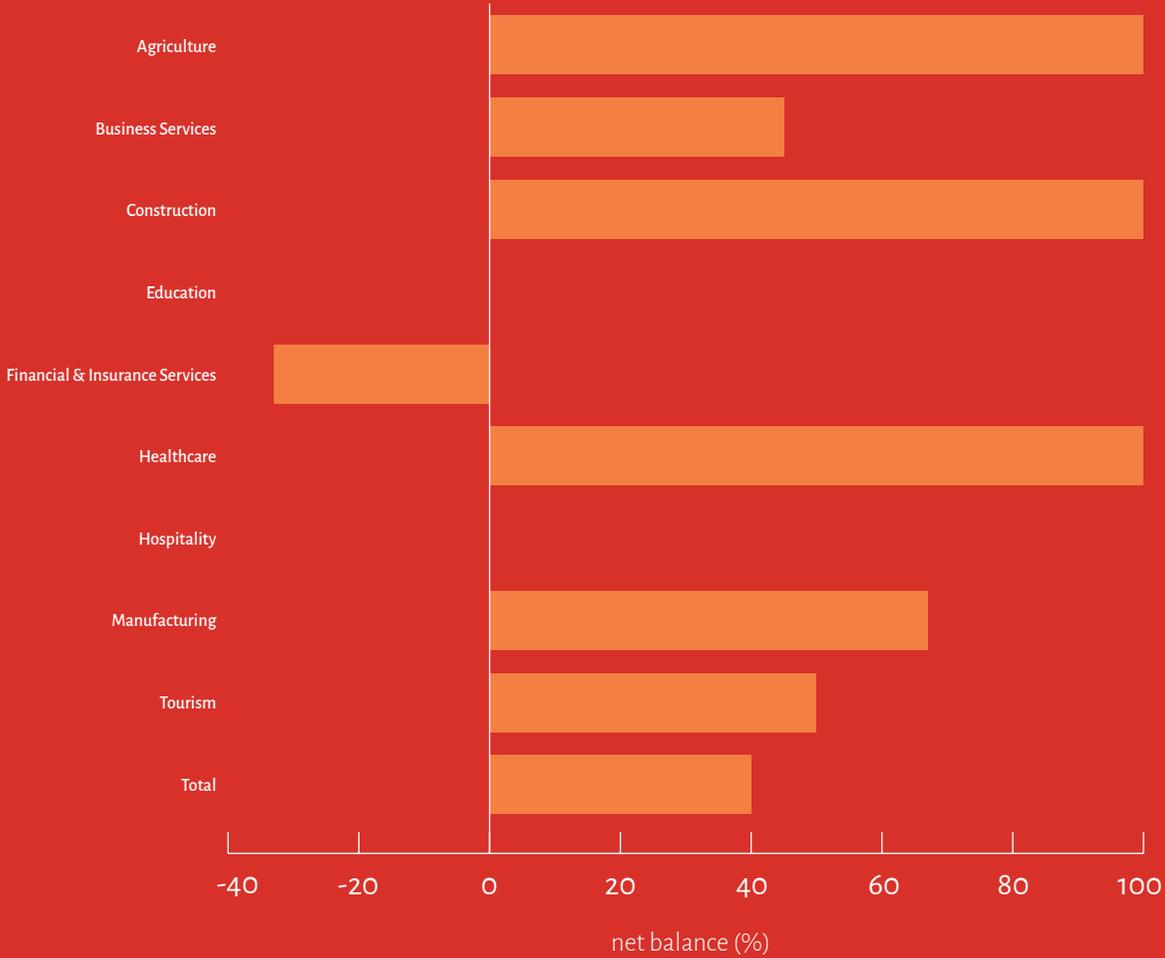
The net balance for potential price increases has reached a record high reflecting cost pressures arising from overheads, raw materials and pay settlements.



Expectations of future business prospects

We asked local businesses to assess their business prospects over the next 12 months and this chart illustrates the results. The headline net balance remains positive, at a relatively strong level of +40%, but this is significantly lower than the level of +63% recorded in Q3. The agricultural sector, construction and healthcare are the most optimistic, and participants in the education and hospitality sector expect conditions to remain unchanged, but sentiment is lower in the finance & insurance services sector. It is also worrying to see that 7% of firms have some concerns about their ability to survive. Over the last few months local businesses have become increasingly concerned about potential inflation and taxation in particular, but also competition, interest rates and exchange rates too.

57% of respondents expect business prospects to improve over the next 12 months, whilst 10% expect conditions to deteriorate and 7% have some concerns about their ability to survive.



DACC business sentiment indicator

Thanks to the strong response to our Quarterly Economic Survey, we have been able to create a set of confidence indicators specifically for businesses located in the Dundee & Angus area. The 'current conditions' indicator, which assesses trading conditions over the last 3 months, remains positive but has deteriorated from a reading of +25% in September to just +11% today, the lowest reading recorded since March 2021. And our 'expectations' index, which assesses future trading and activity, has also deteriorated this time, from its record high of +43% in September to +30% today. As a result, our headline DACC business sentiment indicator, which combines both current conditions and expectations, has fallen from its record high of +34% to its current reading of +20%, which is the lowest recorded since Q1 2021, at which point the local economy was in its second lockdown.



Our DACC Business Sentiment Index has fallen from its previous record high. Although sentiment remains in positive territory, it is disappointing to see that it has fallen back to levels last seen in Q1 2021, whilst the local economy was in its second lockdown. However, although businesses are assessing current conditions more negatively than before, it is still encouraging to see that expectations and general sentiment remain positive.

Conclusions and outlook

This is the seventh presentation of our business and economic survey which focuses on activity across Dundee & Angus and it has been undertaken during a period of some relatively loose Covid-19 related restrictions, but rising concerns about new strains of the virus, increased case rates and the possibility of more restrictions ahead. Given this background we cannot be too surprised that businesses are assessing current conditions with at least some level of concern, giving results which remain in positive territory but are more muted than before.

We have seen some deterioration in most of the key variable we assess, in particular profits, cash flow, investment, employment and business optimism, but are encouraged that the deterioration reported in the case of both revenue and orders has been much more limited. And, despite current conditions being more challenging, businesses overall remain positive about future prospects, driven by higher expectations for revenue, orders and employment. As a result, our DACC Business Sentiment Indicator has fallen from its previous record high, but remains in positive territory.

Local businesses have clearly highlighted some of the key challenges ahead. There is growing concern about inflation and many businesses are looking to increase prices to compensate for cost pressures arising from overheads, raw materials and pay settlements, whilst also grappling with growing concerns about taxation, interest rates, exchange rates and rising competitive pressures. These are all genuine concerns and it is no surprise that sentiment has deteriorated, but our results also highlight, once again, the high levels of resilience and flexibility which local businesses have displayed continually throughout these challenging times.

Dr Shona Dobbie, Angus Economics
Jan 2022

slow funding work pressure
hourly rates increase demand
burn out staff struggling
constant demands no prospects
higher corporation tax relentless
import challenges Covid
regulation changes UK
increasing inflation no lockdown
easing of travel restrictions
increased sales new customers