

SCOTTISH BUSINESS MONITOR

Q1 2021

 **ADDLESHAW
GODDARD**



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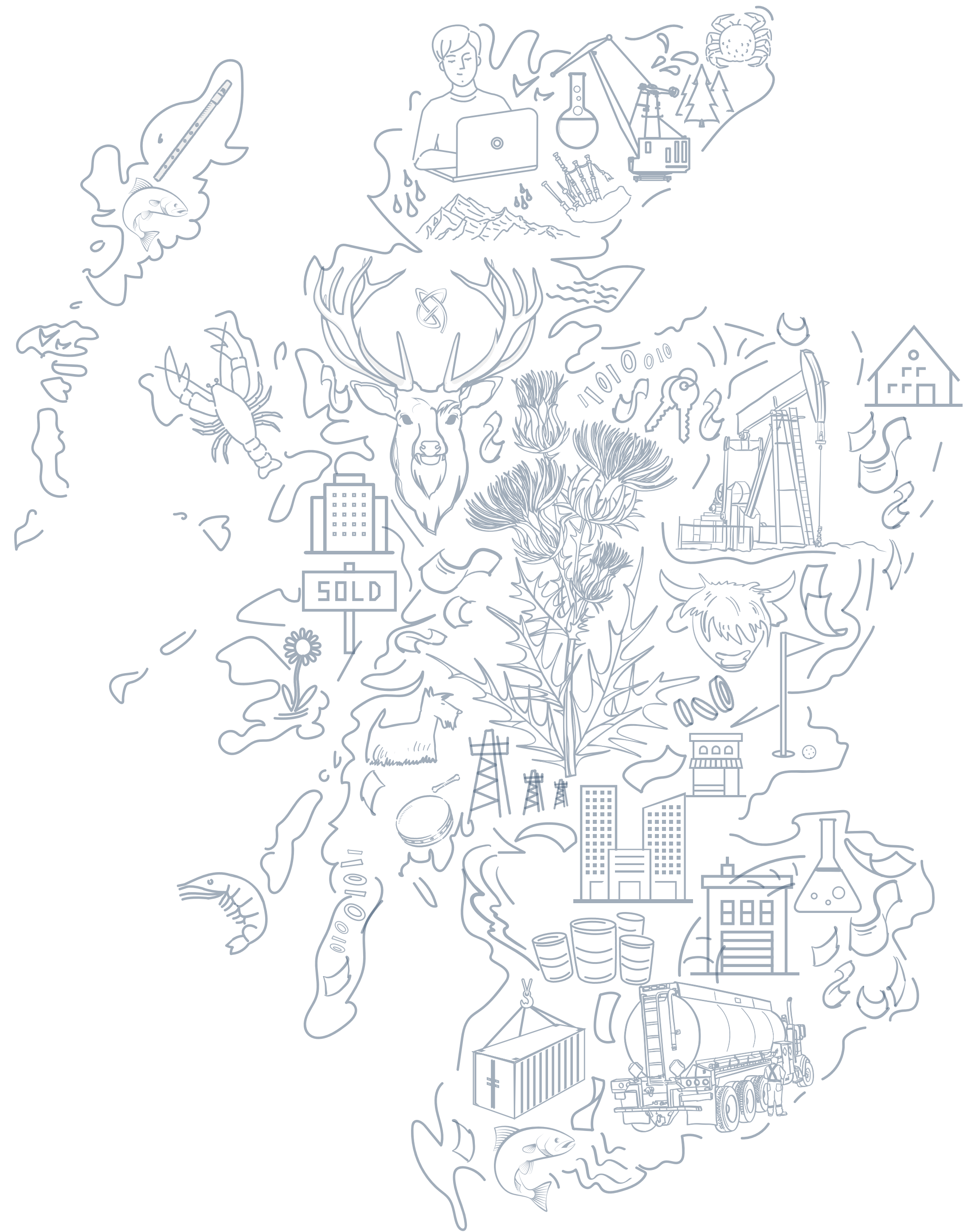
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INTRODUCTION

This report summarises the key results from our latest Fraser of Allander (FAI) Scottish Business Monitor, published in partnership with Addleshaw Goddard.

The survey sampled around 500 firms in April from across the Scottish economy.

The results examined business sentiment in the first quarter of 2021, and their outlook and expectations through 2021.

The survey shows that business sentiment remains negative in the first quarter but has improved since the fourth quarter of 2020.

Expectations of business volume over the next six months have improved significantly and are now positive.

We also found that:

- The accommodation and food services sector continues to have the lowest sentiment of all sectors. However, expectations over the next six months have improved.
- 89% of firms now rate their chances of survival over the next six months as somewhat or very likely. This is up from 79% in our mid-January survey.
- The outlook for Scottish economic growth has improved. 25% of firms expect strong or very strong growth in the coming 12 months, compared to only 8% in the previous quarter.
- Many businesses reported that homeworking has caused issues in performance managing staff, productivity, workplace innovation and organisational culture. However, 27% of firms plan to permanently reduce their office footprint.
- Of those businesses that trade with the EU, 64% reported negative or very negative impacts on their trade since the end of the UK's transition period with the EU. 3% of businesses reported positive impacts, up from 2%.

FIGURES

The experience of firms

- The net number of firms reporting an increase in their volume of business over the first quarter of 2021 remains negative but has improved on the previous quarter.
- On average, firms were more optimistic about their expected volume of business and employment increasing over the next six months, with both of these indicators now positive and significantly improved on the last quarter.
- The accommodation and food services sector continues to have the lowest sentiment of all sectors. There has been some improvement in the net balance for volume of business but this is due to more firms saying that their turnover has remained the same as last quarter.
- There has been an increasing divergence between sectors which are consumer facing, and therefore likely to be experiencing restrictions, and the sectors which are not consumer facing. There are now more firms reporting growth in their sales than firms that are experiencing a decline in manufacturing, construction, and finance, business admin & other services sectors.

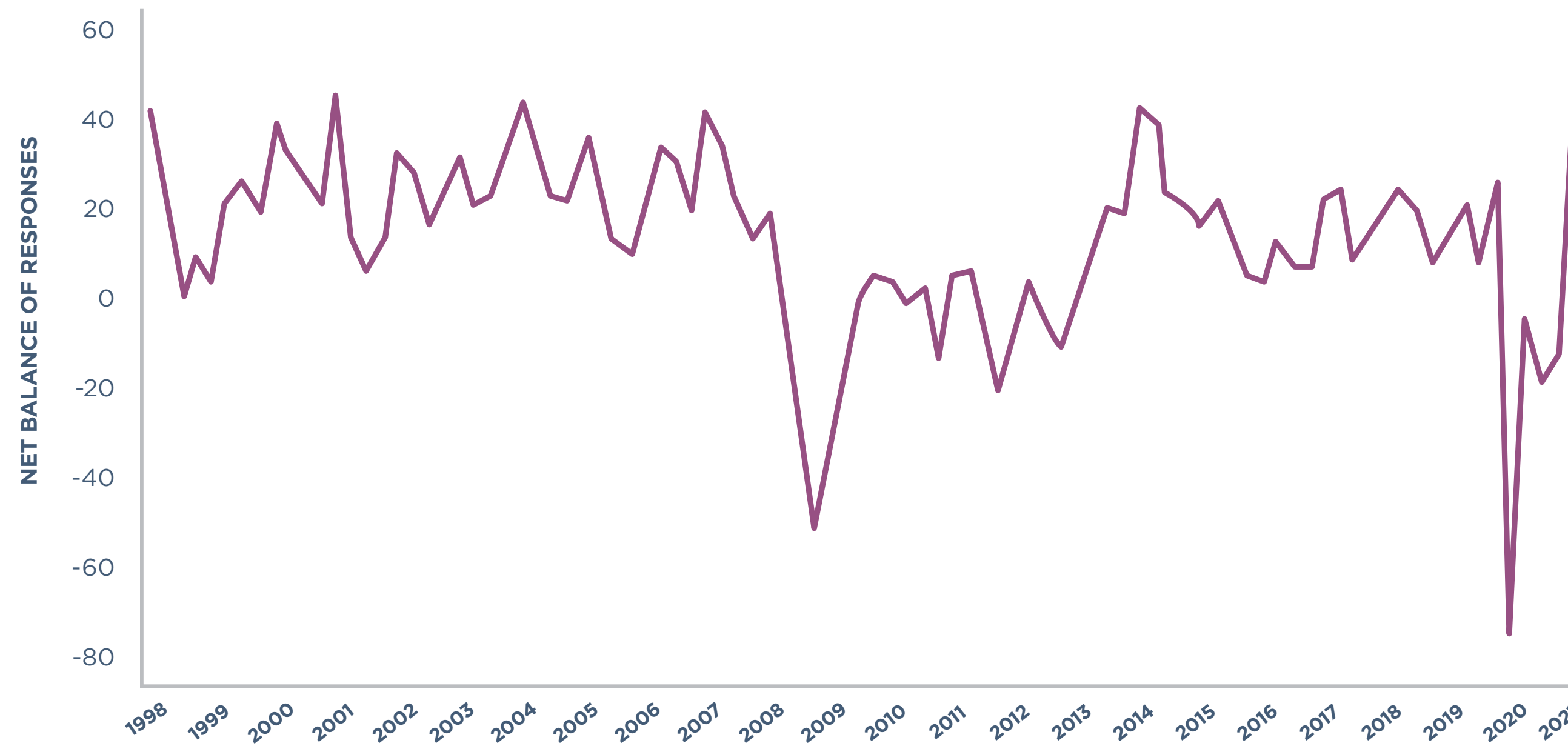


Chart: Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 – Q1 2021

	2020				2021
	Q1	Q2	Q3	Q4	Q1
Manufacturing	-35	-58	-47	-26	5
Construction	-23	-93	-32	-8	14
Retail & Wholesale	-14	-62	-37	-33	-12
Transport, information & comms	-24	-49	-41	-45	-13
Accommodation & Food Services	-20	-78	-67	-91	-76
Finance, business admin and other services	-28	-64	-56	-35	1

Table: Net balance (%) of firms experiencing an increase in their volume of business over the past three months, Q1 2020 – Q1 2021

Source: Fraser of Allander Institute

FIGURES

Over the coming months

- With lockdown restrictions set to ease over the coming months, expectations around levels of capacity over the next six months has improved since Q4 2020.
- On average, the majority of firms expect to operate between 76% and 100% normal capacity, with double the number of firms expecting to operate at more than normal levels of capacity on the previous quarter.
- The net balance of firms expecting an increase in their volume of business over the next six months is positive for all sectors. 69% of accommodation & food services firms expect an increase over the next six months.

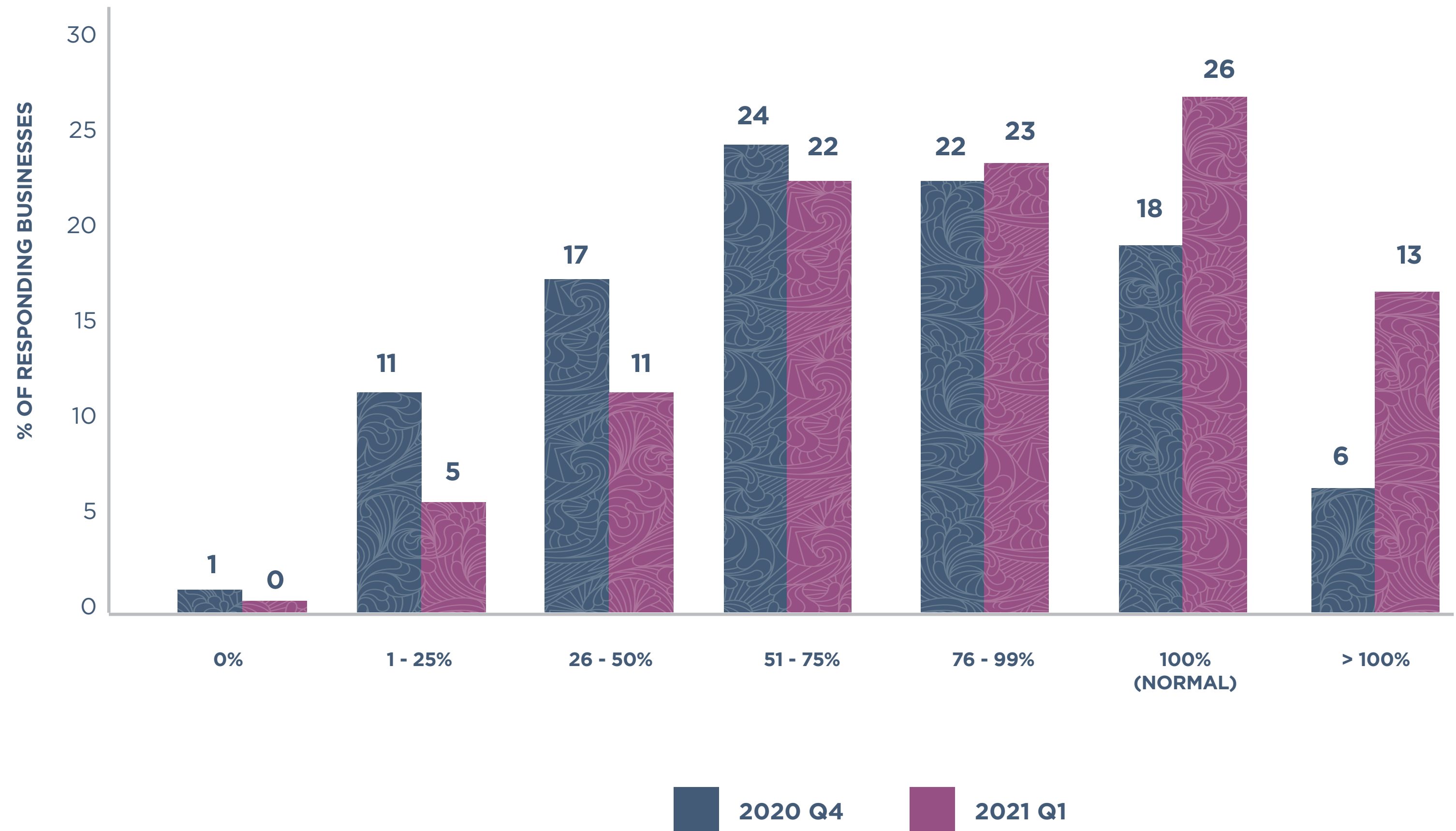


Chart:

What level of capacity, compared to normal levels of operation over this period, do you expect your business will operate at over the next six months?

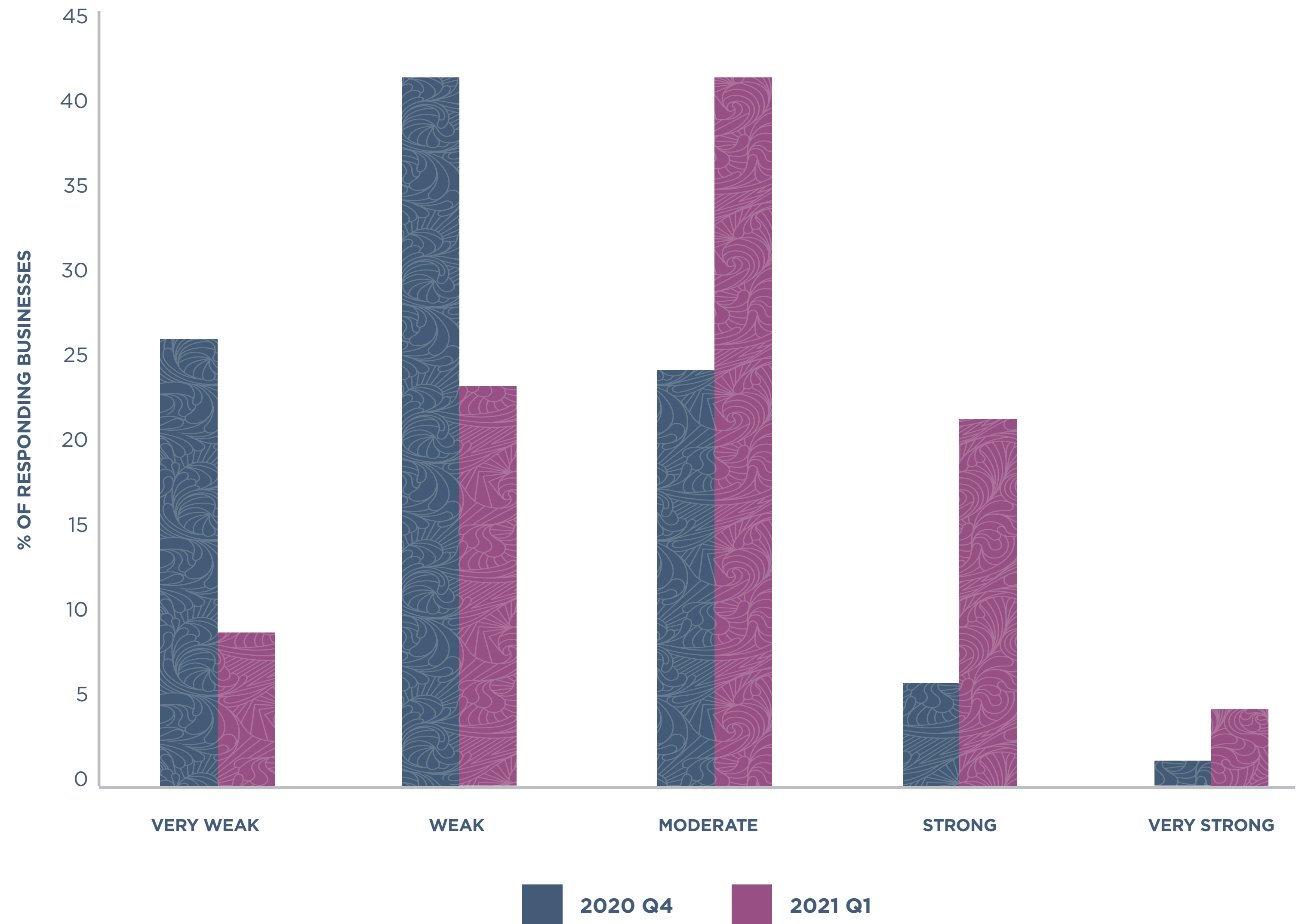
FIGURES

The outlook for the year

- The outlook for Scottish economic growth has also improved.
- 25% of firms expect strong or very strong growth in the coming 12 months, compared to only 8% in the previous quarter.
- 1 in 3 firms still expect growth to be weak or very weak in the coming 12 months, with the majority of firms anticipating moderate growth.

Chart:

Thinking about the growth in the Scottish economy over the next 12 months compared to the previous 12 months, how do you think it will perform?

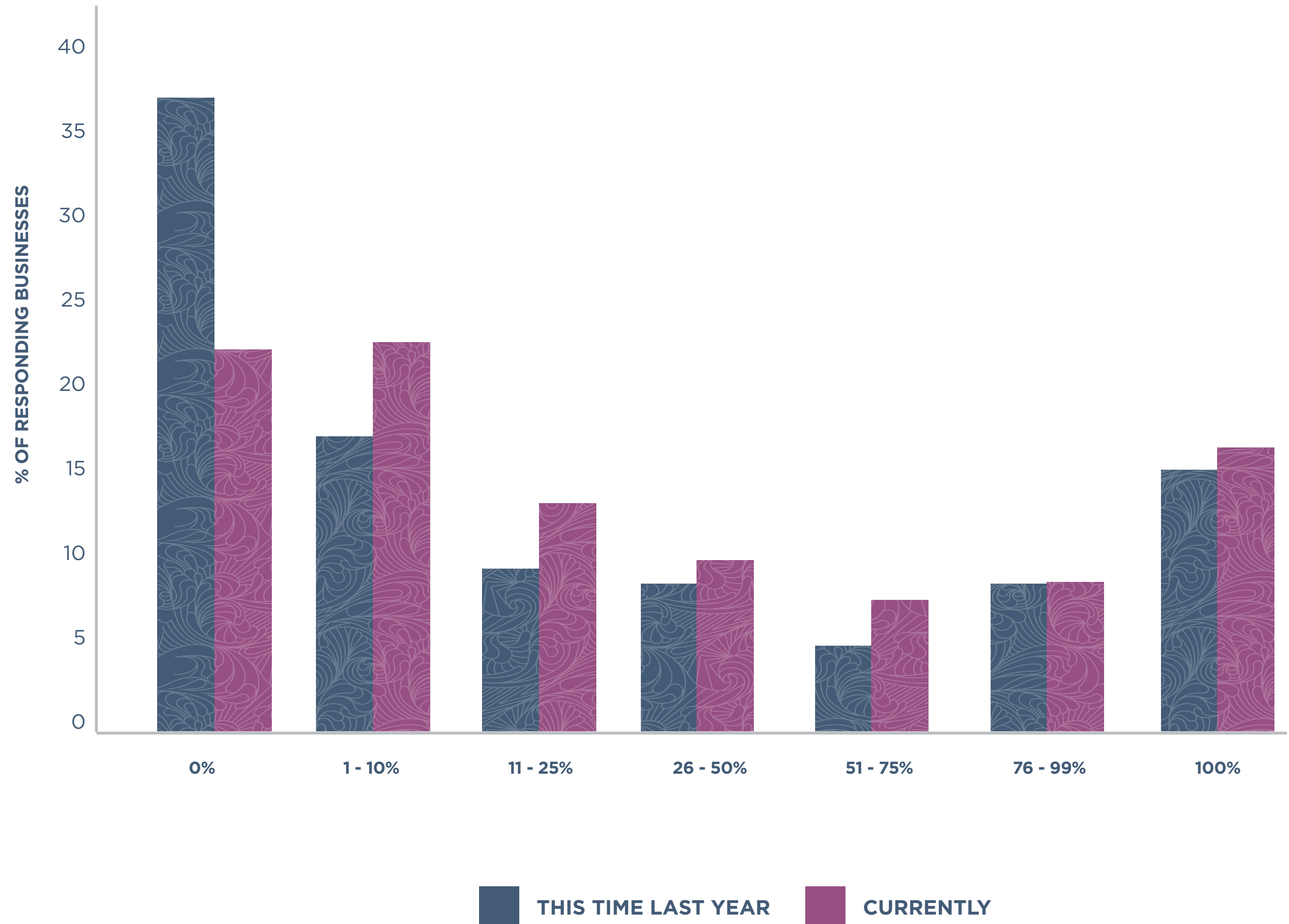


FIGURES

Homeworking

- The majority of businesses continued to report that many of their staff are working from home.
- 45% of businesses had between 1% and 50% of staff currently working from home, with 34% of businesses reporting more than 50% working at home.
- We asked how homeworking has positively or negatively affected businesses.
- Difficulties in performance managing staff remains the most reported negative implication of homeworking, with 63% of businesses agreeing that performance management had become more difficult.

Chart:
What percentage of your staff are working from home currently, and worked from home this time last year?



- While 60% also reported that it has had a negative impact on workplace innovation and collaboration. And almost half of businesses also claimed that homeworking had negatively impacted their organisational culture.
- Productivity is an important indicator of business performance. Interestingly, 42% of businesses said that homeworking has led to new investment in technology and software that has improved productivity.
- But this technology has not been able to mitigate falls in overall productivity. 49% of businesses reported that homeworking has negatively impacted their productivity.
- 27% of firms expect to permanently reduce their office footprint. This is primarily made of firms which have seen either improvements or no change in productivity due to homeworking. But 28% of this group plan to reduce their office footprint despite seeing a negative impact on productivity.

HAS INCREASED

IS ANTICIPATED TO CONTINUE AT SIMILAR LEVELS TO NOW

HAS LED YOU TO PERMANENTLY REDUCE YOUR OFFICE FOOTPRINT

HAS LED YOU TO PERMANENTLY REDUCE YOUR ORGANISATION

HAS LED TO NEW INVESTMENT IN TECHNOLOGY AND SOFTWARE THAT HAS IMPROVED PRODUCTIVITY

HAS MADE IT MORE DIFFICULT TO PERFORMANCE MANAGE STAFF

HAS HAD A NEGATIVE IMPACT ON WORKPLACE INNOVATION AND COLLABORATION

HAS IMPROVED ORGANISATIONAL CULTURE

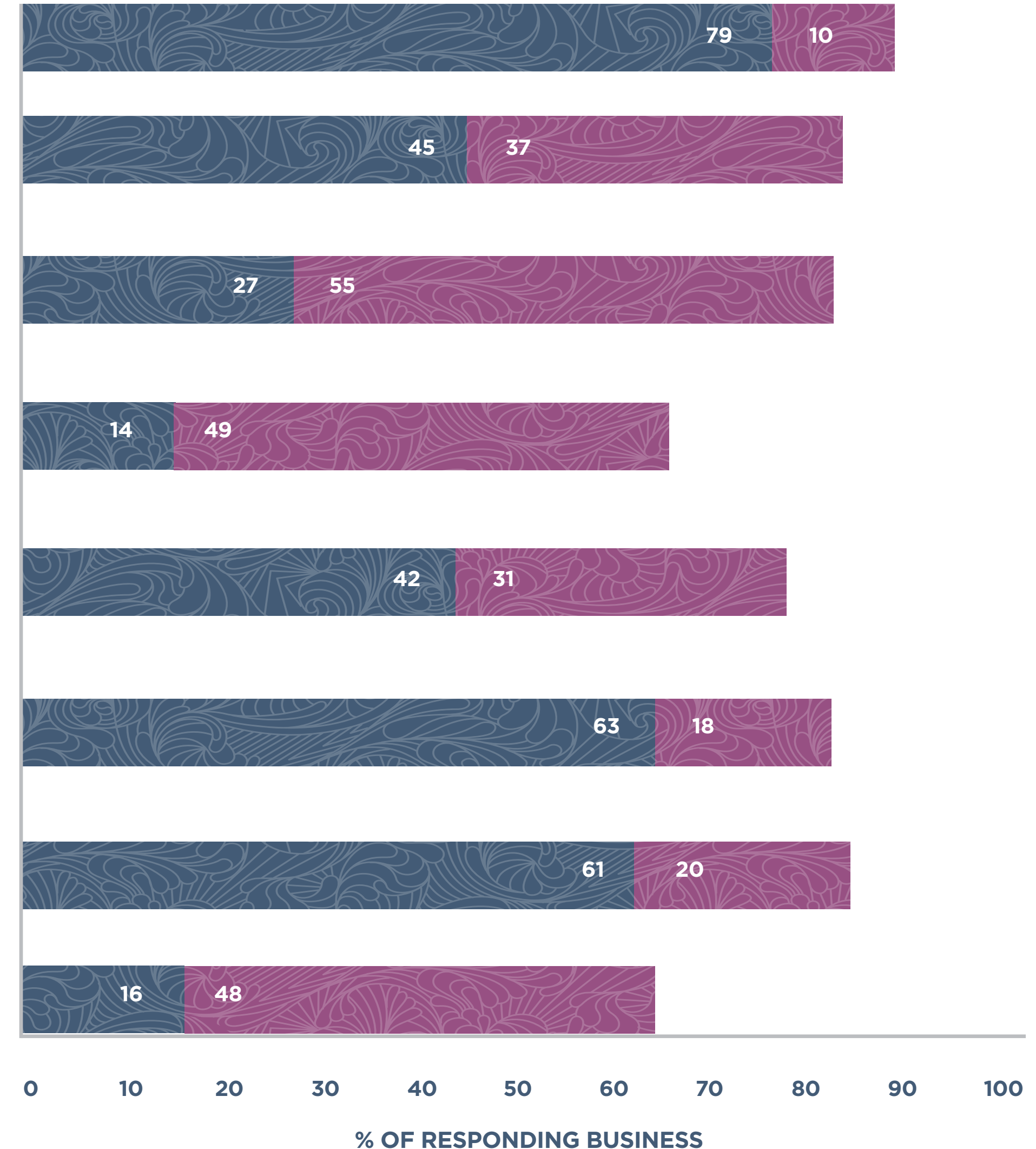


Chart:
To what extent do you agree that staff home working in your organisation?



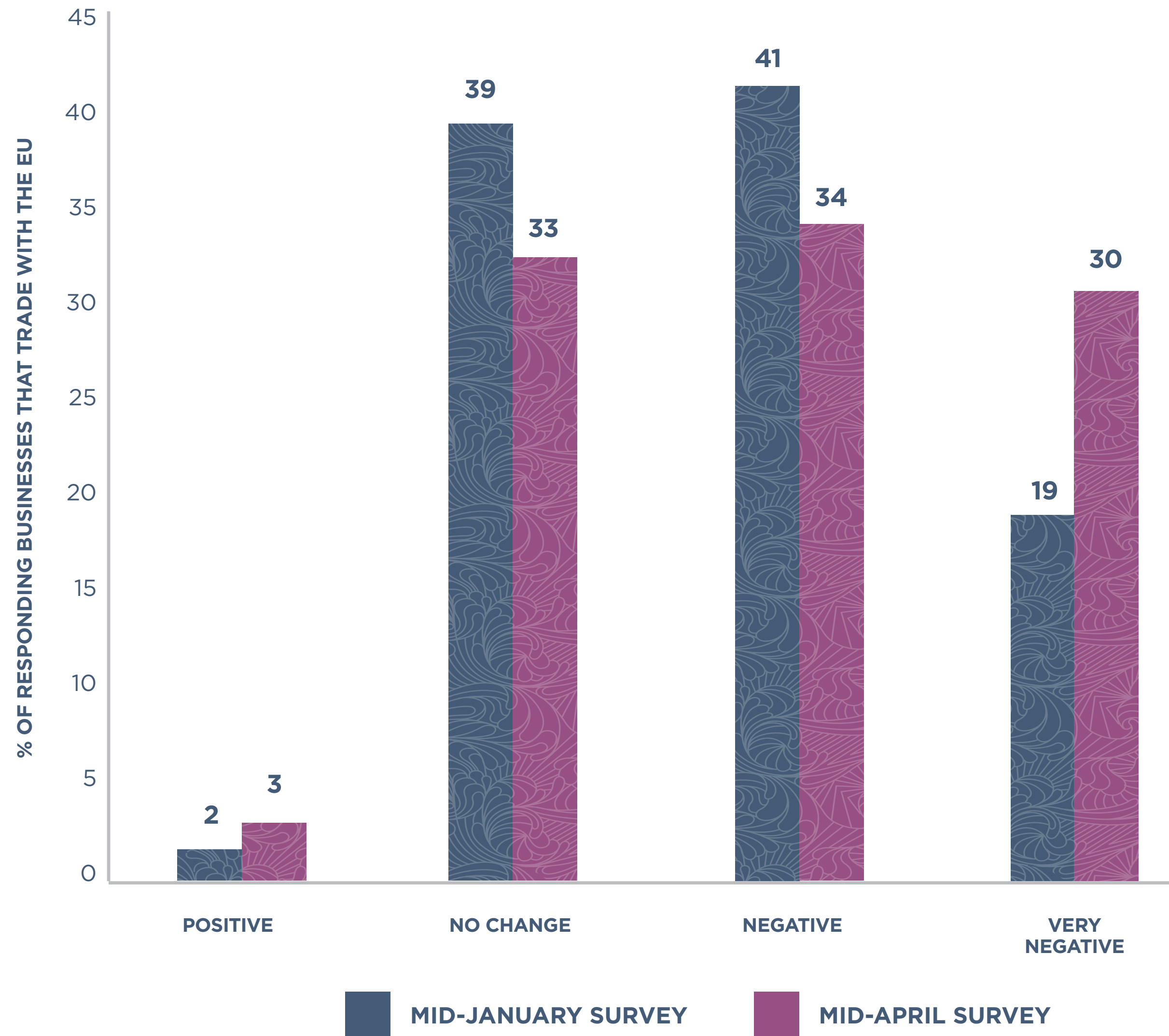
FIGURES

The end of the UK's transition period with the EU

- We asked Scottish businesses again about their overall experience in trading with the EU since the end of the transition period on the 31st of December 2020.
- Of the businesses who trade with the EU, 64% reported negative or very negative impacts on their trade. This marks an increase since we first asked businesses in mid-January. 3% of businesses reported positive impacts, an increase on 2% previously.

Chart:

Since the end of the transition period on the 31st December, are you experiencing any positive or negative impacts on your trade with the EU?* Including firms which trade with the EU only.



PROBLEMS. POSSIBILITIES.
COMPLEXITY. CLARITY.
OBSTACLES. OPPORTUNITIES.
THE DIFFERENCE IS IM**AG**INATION.

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