

Q2 2021

**ADDLESHAW
GODDARD**



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 over 500 firms in July from across the Scottish economy.

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

Our survey results show that business sentiment continued to improve in the second quarter of 2021. Volume of business, employment and turnover metrics continued to be positive for the second quarter in a row highlighting improved optimism as many restrictions lift across Scotland and the rest of the UK.

WE ALSO FOUND THAT:

- The volume of business over the quarter for accommodation and food services is positive for the first time since Q3 2019 and expectations over the next six months are the most optimistic since Q2 2014.
- The proportion of businesses that say their chance of survival over the next six months is somewhat or very high has increased from 82.6% in the final quarter of 2020 to 91.8% in the second quarter of 2021.
- However, 37.2% of businesses have seen their debt burden increase by a moderate or large amount over the pandemic.
- Most business continue to report that homeworking has had a negative impact on productivity, but just over 34% of businesses either have or will permanently reduce their office footprint.
- We asked businesses where they expected their staff, who previously only worked in the office, to work in the long term. Across all businesses, almost 2 in 3 of these staff are expected to work full-time in the workplace, over 1 in 5 staff will work part-time at home and part-time in the office, and around 1 in 10 staff will work from home full time. This marks a significant shift towards a hybrid homeworking model.
- Half of responding businesses currently had open vacancies to hire new staff, of which 77% said they were finding it difficult or very difficult to fill.

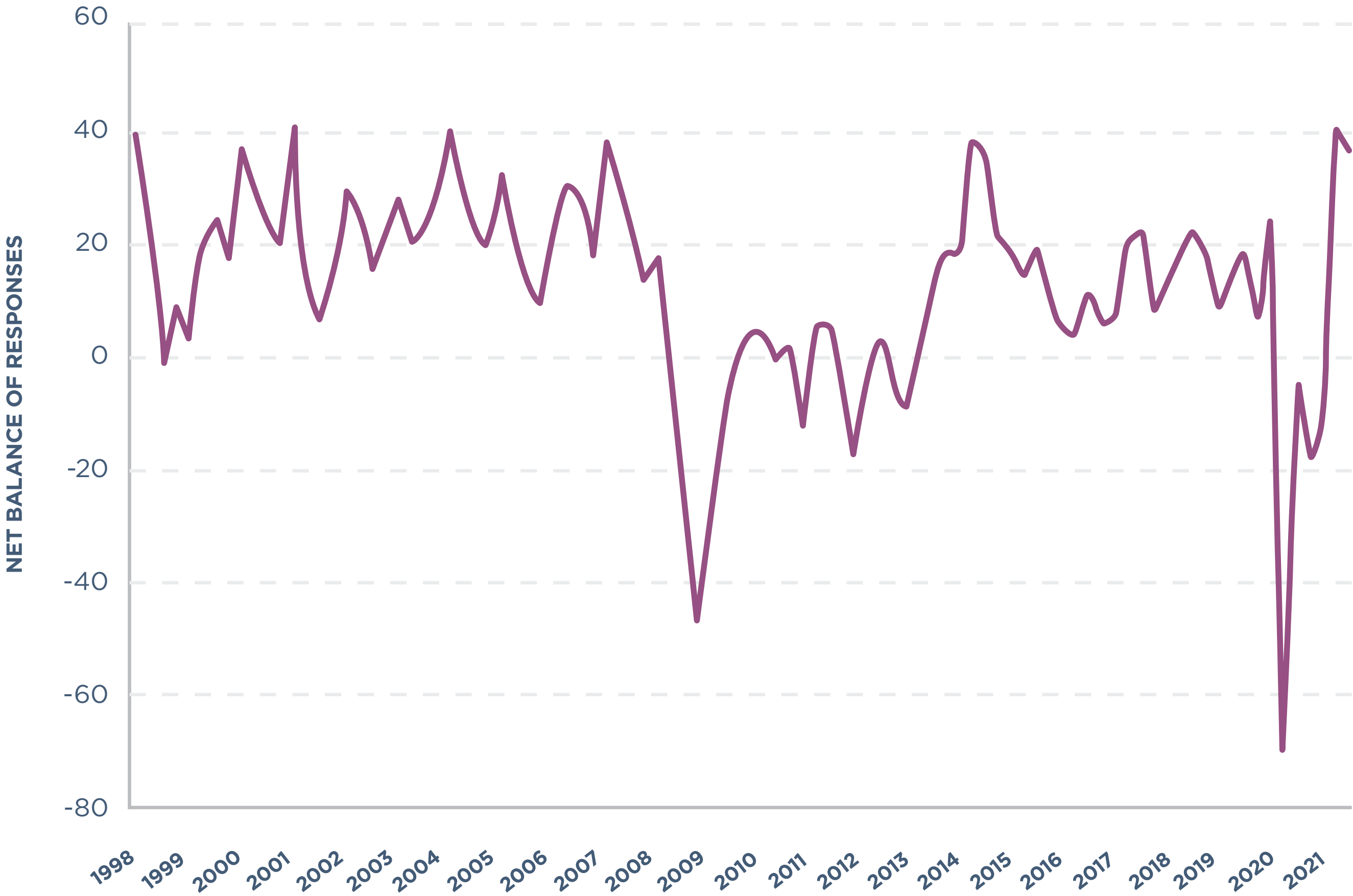


KEY RESULTS

THE EXPERIENCE OF FIRMS

- The net number of firms reporting an increase in their volume of business over the past three months was large and positive for the second quarter in a row, representing many firms experiencing growth over the last quarter.
- This optimism was also seen in expectations over the next six months for volume of new business and turnover positive.

Chart:
Net balance (%) of firms expecting an increase in their volume of business over the next six months, Q1 1998 – Q2 2021



KEY RESULTS

- All sectors now have a positive net balance for the first time since quarter 2 of 2019.
- The accommodation and food services sector reported the biggest increases with 54% of firms reporting a higher volume of business than the first three months of the year and only 8.3% reporting lower volume.

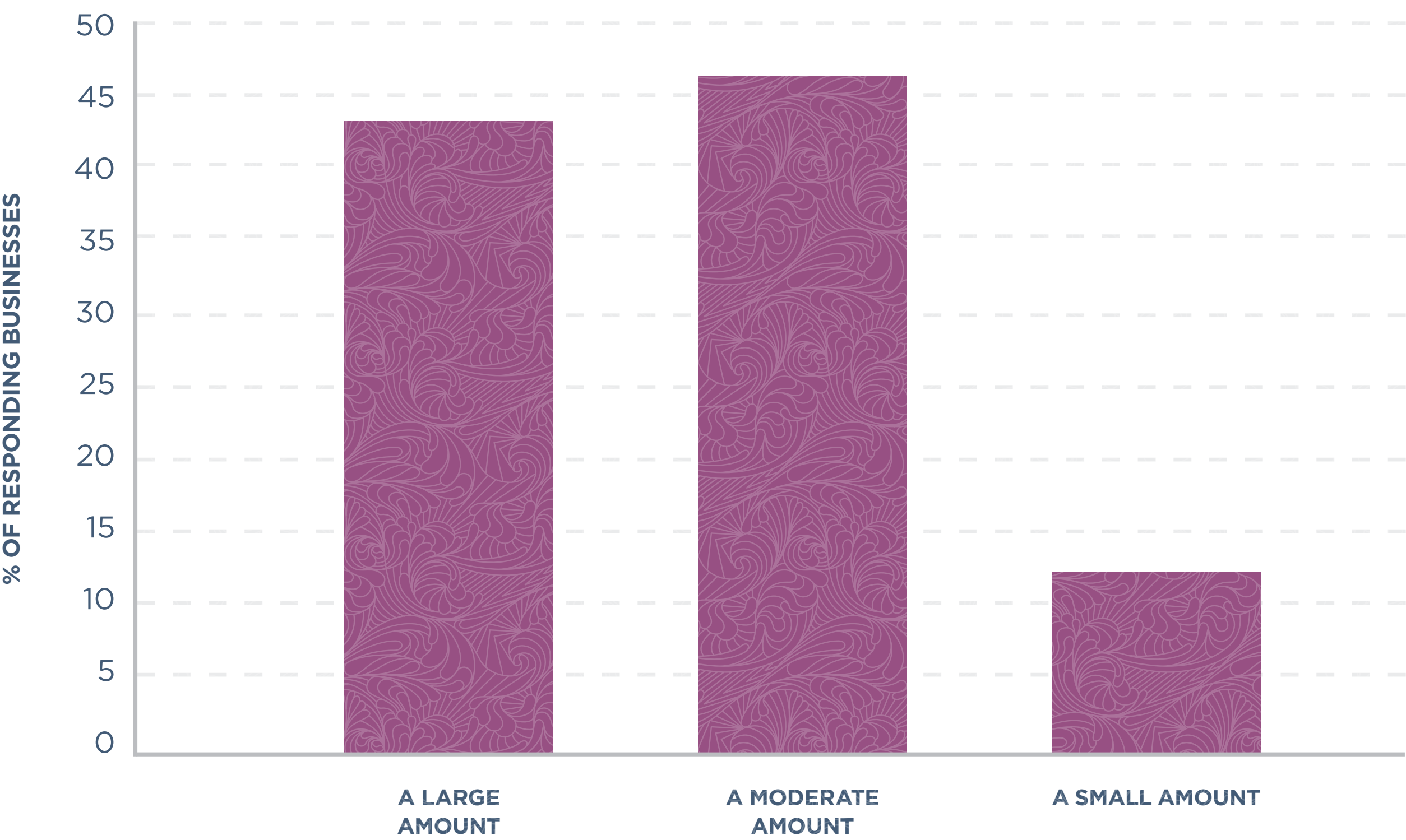
Table:
Net balance (%) of firms experiencing an increase in their volume of business over the past three months, Q2 2020 – Q2 2021

	2020			2021	
	Q2	Q3	Q4	Q1	Q2
MANUFACTURING	-59	-15	-24	5	45
CONSTRUCTION	-93	-3	-8	14	55
RETAIL & WHOLESALE	-62	-26	-33	-11	18
TRANSPORT & STORAGE	-68	-23	-53	-36	32
ACCOMMODATION & FOOD SERVICES	-78	-58	-92	-77	46
FINANCE & INSURANCE	-43	-24	-19	47	23
IT &	-32	-6	-38	3	44
ADMIN & SUPPORT SERVICES	-73	-43	-49	-13	26
PROFESSIONAL, SCIENTIFIC AND TECHNICAL	-62	-29	-16	15	24

KEY RESULTS

- Despite encouraging signs of optimism, the pandemic has led to many firms taking on debt.
- 42% of businesses reported that their debt burden had increased during the period of the pandemic, of which 43% said it had increased by a large amount, and 46% by a moderate amount.
- Comparatively, 12% of reporting businesses said that their debt had decreased during the period of the pandemic, with 1 in 4 business saying that it had decreased by a large amount, and 55% reporting a moderate reduction.

Chart:
To what extent has your company’s debt burden increased during the period of the pandemic?



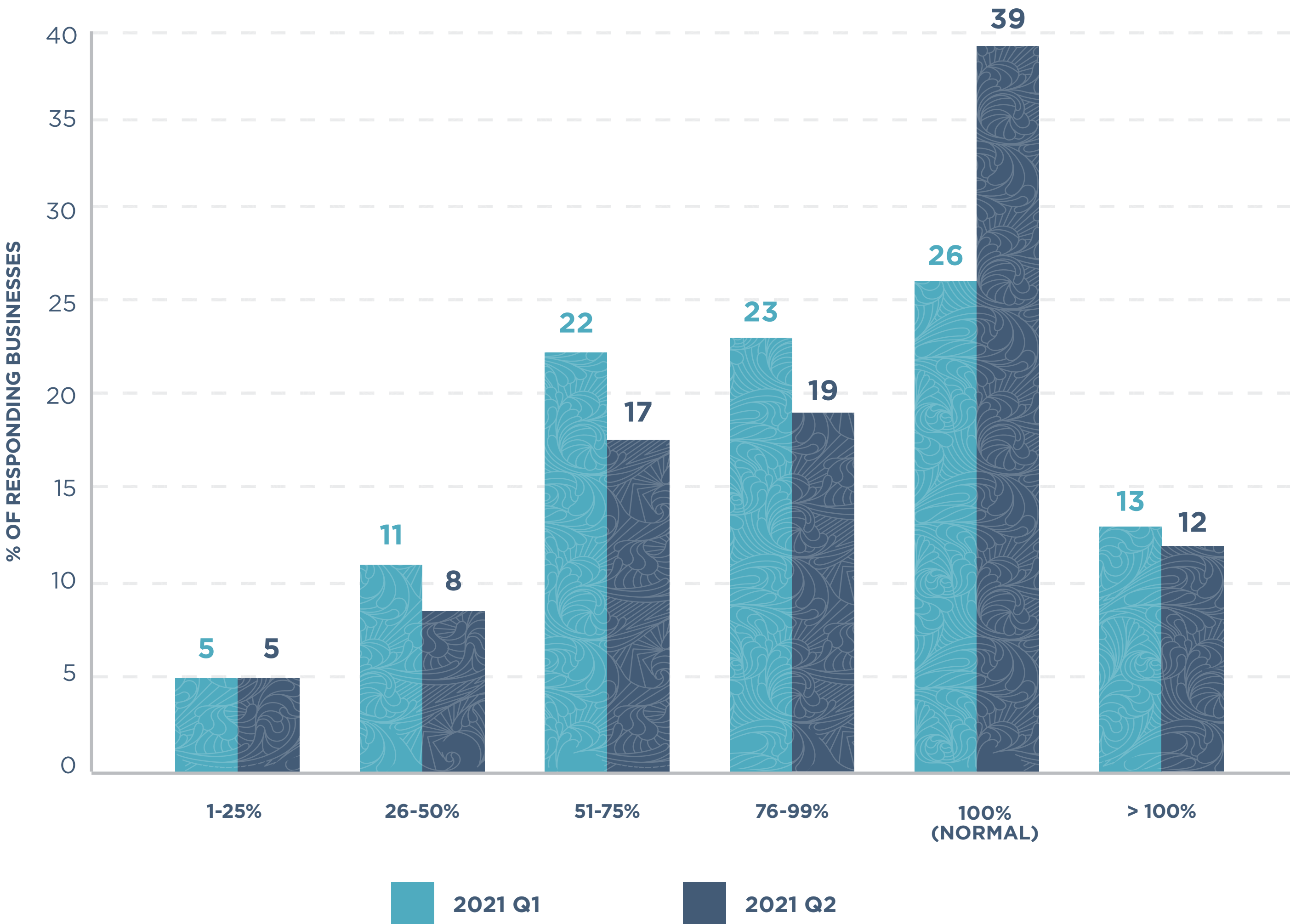
KEY RESULTS

Over the coming months:

- With the easing of lockdown restrictions over the past few months, expected levels of capacity over the next 6 months have improved since Q1 of 2021.
- 51% of firms now expect to operate at normal or above normal levels of capacity 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?



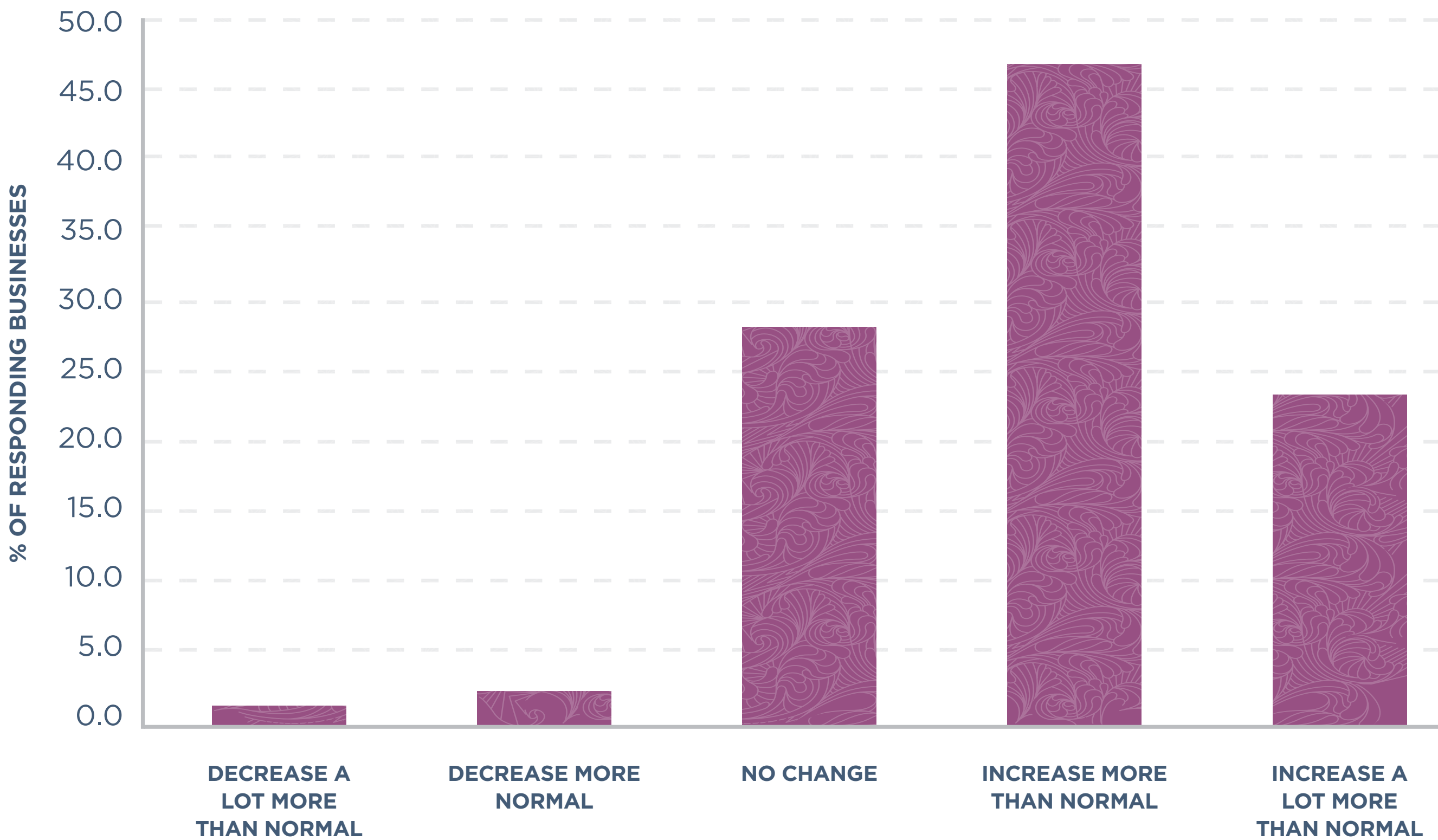
KEY RESULTS

The outlook for the year

- The outlook on growth in the Scottish economy has worsened slightly, with only 17% of businesses expecting strong or very strong growth in the coming 12 months, compared to 25% of businesses in the previous quarter.
- There have been concerns around the potential for higher levels of inflation of the economy. We asked business how they expected the prices of their goods and services to change over the next 12 months compared to normal.
- 70% of businesses expect their prices to increase more or a lot more than normal, with only 2% of businesses expecting a lower growth in prices over the next 12 months.

Chart:

Over the next 12 months, how do you expect the prices of your goods and services to change compared to normal?



STANDOUT FACTS

42%

OF BUSINESSES REPORTED
THAT THEIR DEBT BURDEN
HAD INCREASED DURING THE
PERIOD OF THE PANDEMIC

51%

OF FIRMS NOW EXPECT TO
OPERATE AT NORMAL OR
ABOVE NORMAL LEVELS OF
CAPACITY OVER THE NEXT
SIX MONTHS

54%

THE ACCOMMODATION AND
FOOD SERVICES SECTOR
REPORTED THE BIGGEST
INCREASES WITH 54% OF
FIRMS REPORTING A HIGHER
VOLUME OF BUSINESS THAN
THE FIRST THREE MONTHS
OF THE YEAR

1 IN 3

BUSINESSES REPORTED
THAT THEY EXPECT TO
PERMANENTLY REDUCE
THEIR WORKPLACE
FOOTPRINT COMPARED
TO PRE-PANDEMIC LEVELS

38%

OF RESPONDING BUSINESSES
ALSO REPORTED THAT
LEAVING THE EU HAD
NEGATIVELY IMPACTED THEIR
ABILITY TO FILL VACANCIES

84%

OF BUSINESSES EXPECT
THAT AT LEAST SOME OF
THEIR WORKFORCE WILL
REMAIN WORKING FULL-TIME
IN THE WORKPLACE

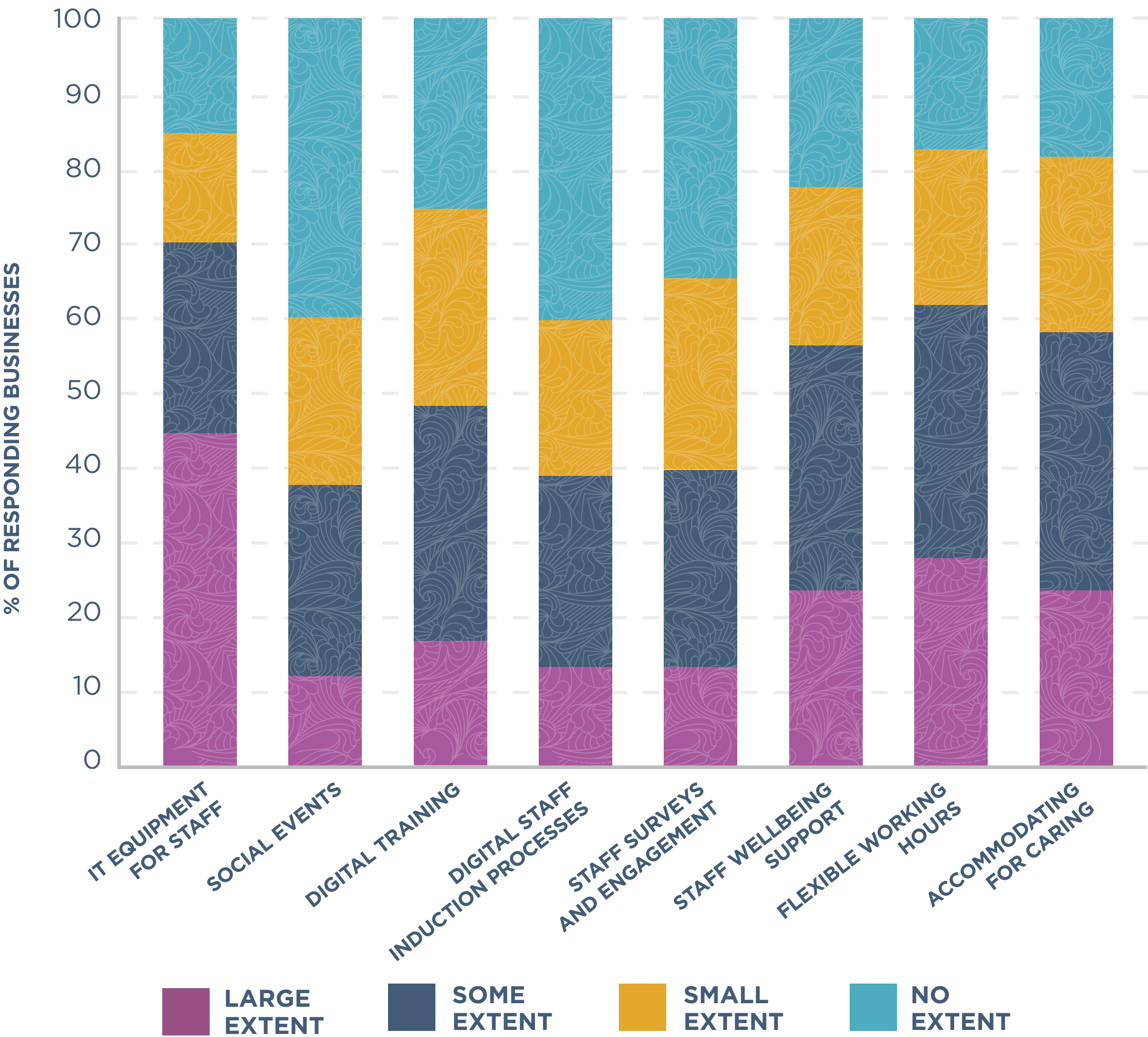
KEY RESULTS

Homeworking

- More than half of businesses reported that homeworking has not improved their organisations productivity – this continues a trend seen throughout the pandemic.
- Businesses have also put in a number of provisions to successfully support homeworking in their organisation. IT equipment such as laptops and webcams were the most highly reported provision, with 45% of businesses reporting that these had been implemented to a large extent.
- Accommodating caring responsibilities and flexible working hours were also provisions that the highest share of businesses reported to having implemented to some extent also.

Chart:

To what extent have you, or do you plan to, put the following in place to support effective home working in your organisation in line with your company values or culture?

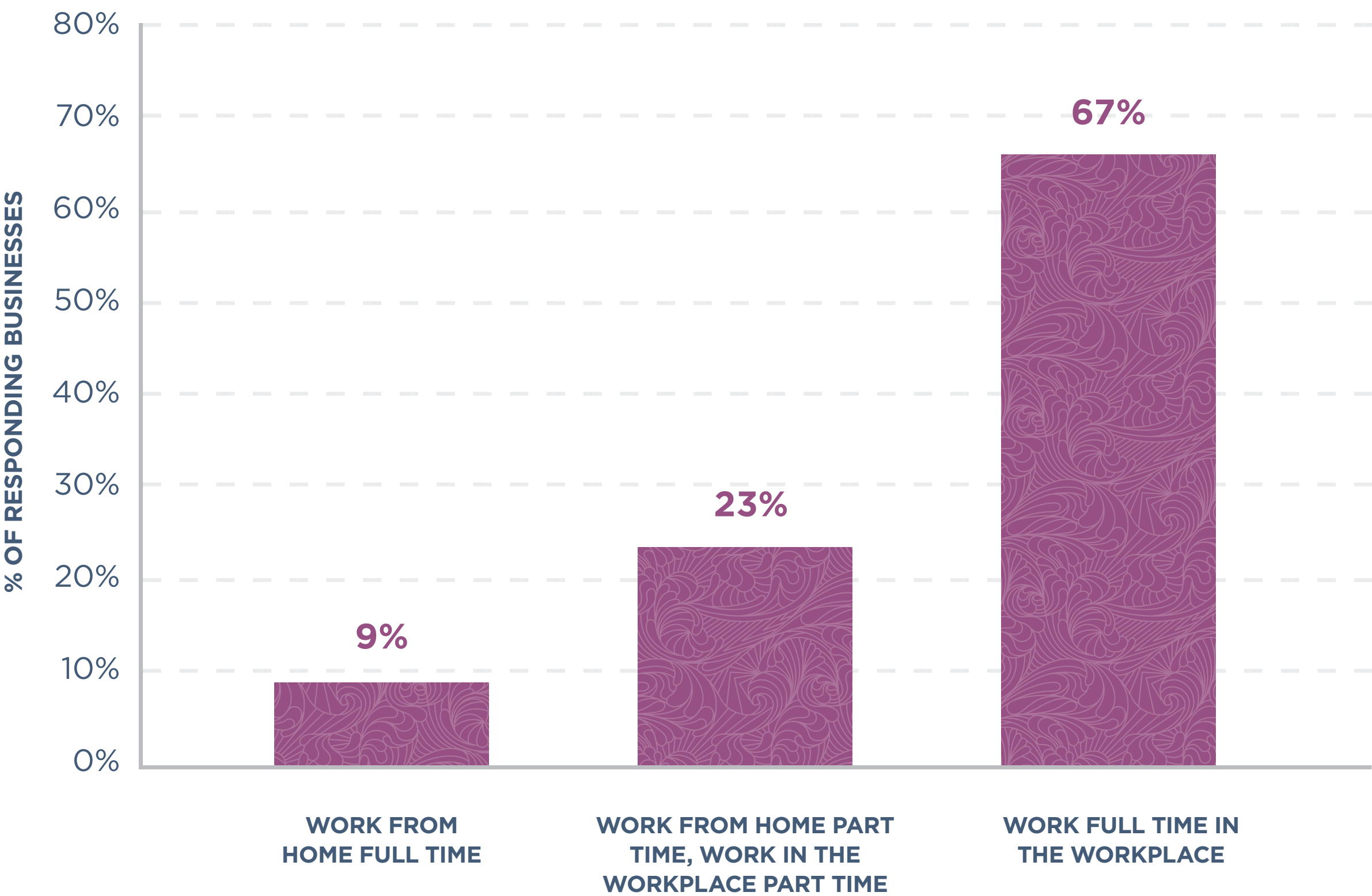


KEY RESULTS

- 1 in 3 businesses reported that they expect to permanently reduce their workplace footprint compared to pre-pandemic levels.
- Given this large scale change in the workplace, we asked businesses where they expected their staff who previously only worked in the workplace to work in the long term.
- Almost 2 in every 3 businesses are expecting a hybrid model of working for some of their staff in the long term, with staff working part-time at home and part-time in work.
- Just under 1 in every 3 businesses are expecting that some of their staff will work full-time from home in the long term.
- 84% of businesses expect that at least some of their workforce will remain working full-time in the workplace.
- But how could this affect businesses in aggregate? Across all businesses, almost 2 in 3 of staff who previously only worked in the workplace are expected to continue. While over 1 in 5 staff are expected to work part-time at home and part-time in the office, and around 1 in 10 staff will work from home full time. This marks a significant shift towards a hybrid homeworking model

Chart:

Of staff that only worked in the workplace before the pandemic, what proportion do you expect to work in the office and from home in the long-term?



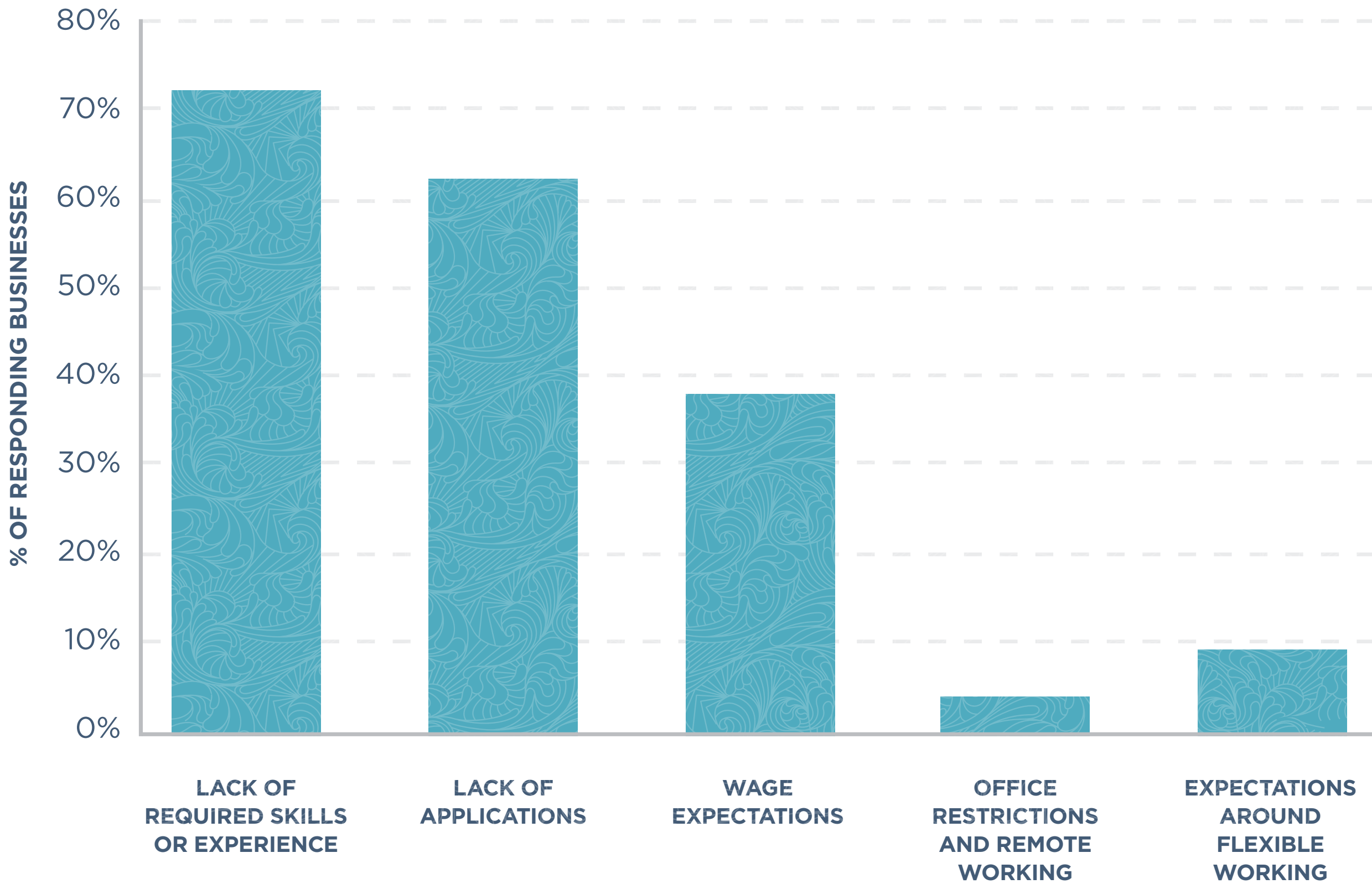
KEY RESULTS

Vacancies

- Half of responding businesses currently had open vacancies to hire new staff, of which 77% said they were finding it difficult or very difficult to fill.
- The majority of businesses said that either lack of skills or experience, or lack of applications was the main reason for finding it difficult to fill current vacancies.
- Less than 10% of businesses reported that office restrictions and remote working

Chart:

What factors have made it difficult to fill vacancies?



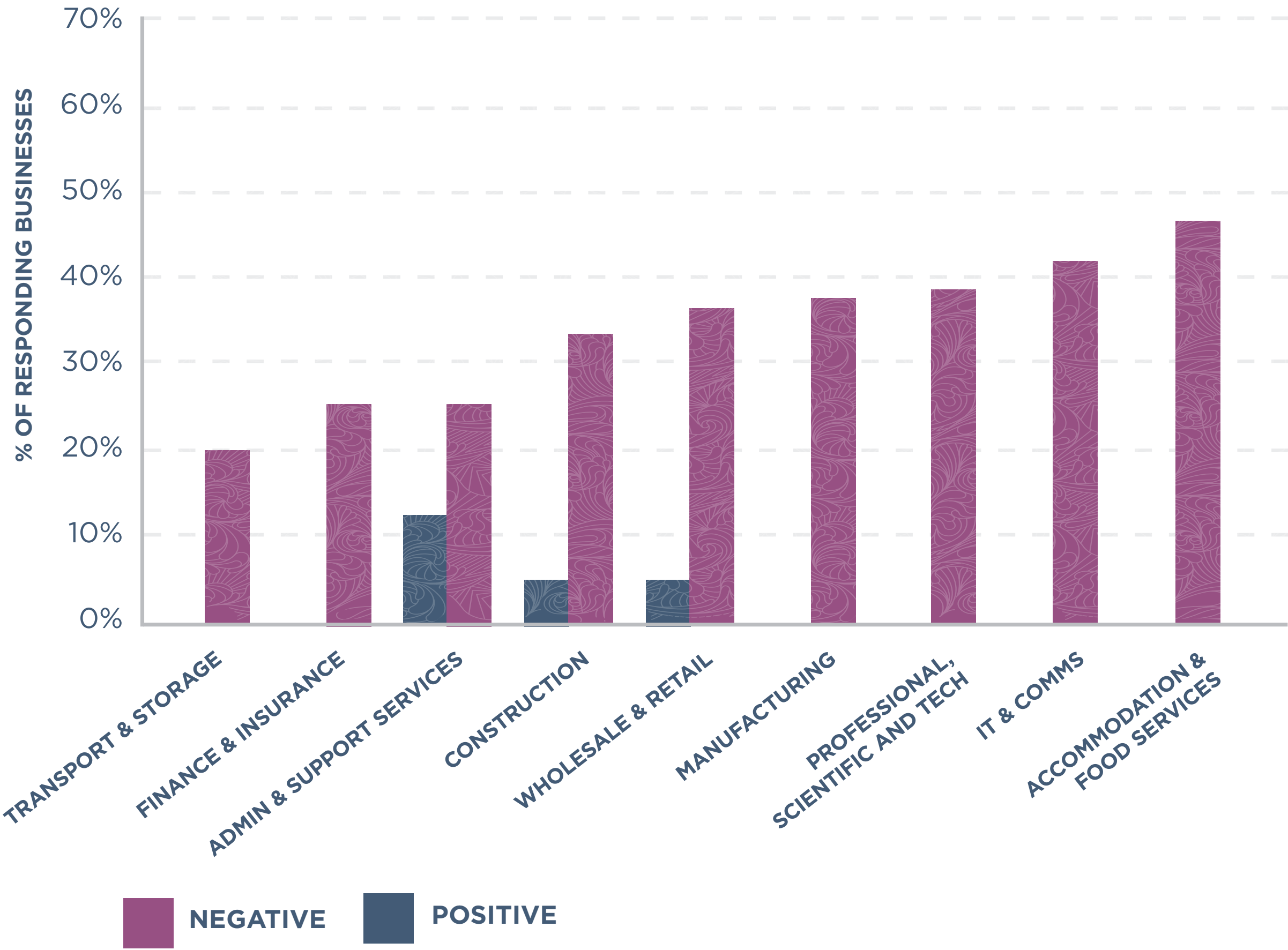
KEY RESULTS

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

- Of the firms that trade with the EU, 70% reported that they were experiencing negative impacts of their EU trade since the end of the transition period, with only 2% reporting positive impacts.
- 38% of responding businesses also reported that leaving the EU had negatively impacted their ability to fill vacancies; with the majority (60%) reporting that Brexit had no impact on their ability to fill vacancies.
- Accommodation & food services was the sector reporting the most difficulty in filling vacancies due to Brexit, with 60% reporting negative impacts. This was followed by IT & Communications (46%) and Professional, Scientific and Technical (43%).

Chart:

As a result of leaving the EU, are you experiencing any positive or negative impacts on your ability to fill vacancies?



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

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