

# SE Economic Trends Survey

**Leaving the EU – results and analysis**

**Covers the period of November 2017 through end of October 2018**

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November 2018

# Overview

What we will cover:

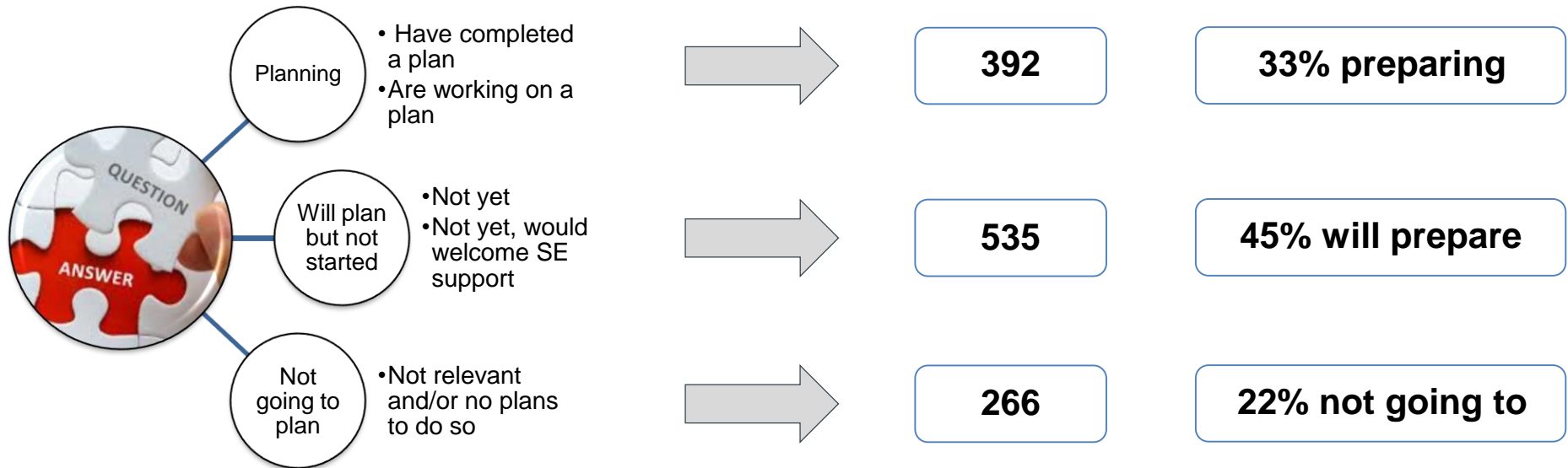
- Planning for Brexit and how this has changed
- Putting Brexit in the wider economic context
- Opportunities being identified
- How exporters see the European market
- Challenges companies are identifying
- Why some companies are not or do not appear to be preparing for Brexit

# Background

Since last November, we've included questions trying to uncover what companies are doing, thinking and need to help them prepare for being outside the EU.

1195 surveyed completed by Account Managers with companies.

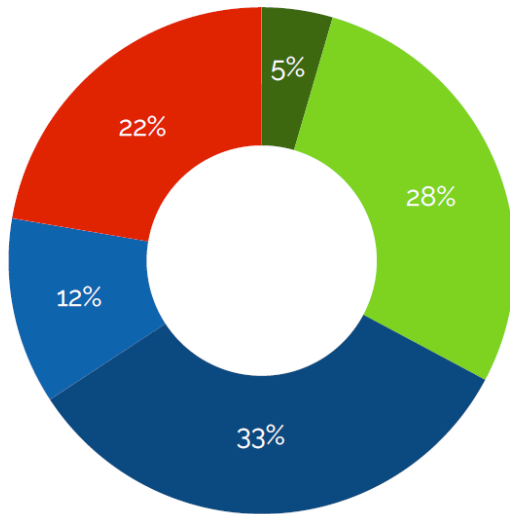
Everything starts with the same question: *have you developed or are you developing scenarios for the UK leaving the EU?*



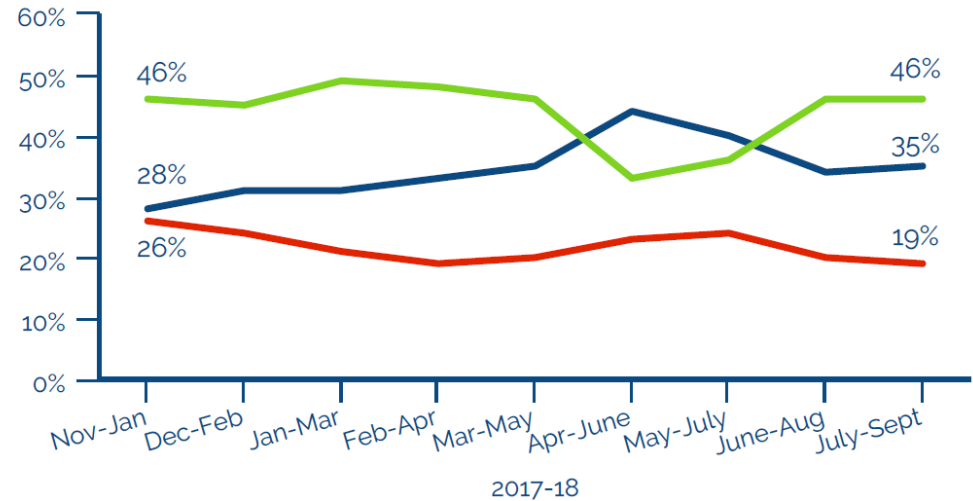
# Extent of planning for Brexit over the last 12 months

Planning for exiting the European Union - All responding companies

Current extent of planning



Trend over time

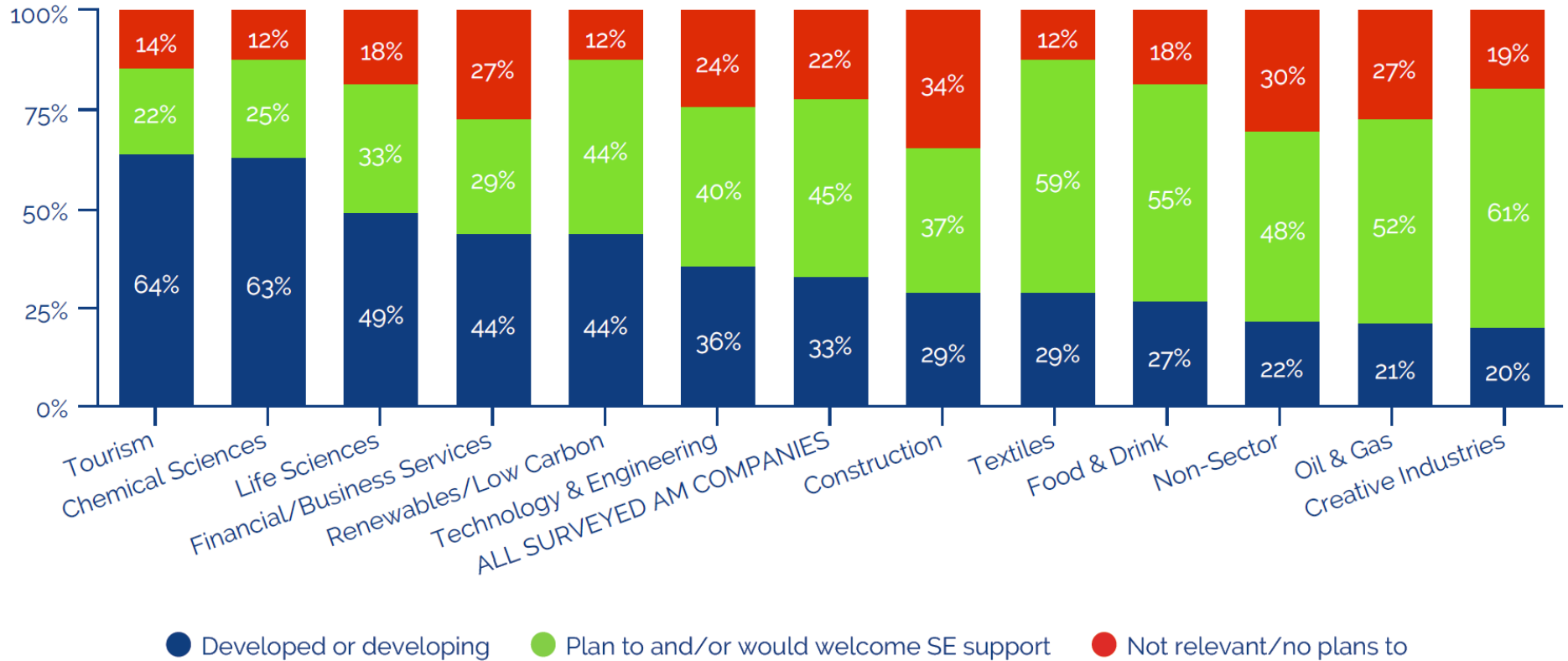


● Developed   
 ● Developing   
 ● Plan to, but not started   
 ● Plan to, and would welcome SE support   
 ● No plans to prepare

— Developed or developing   
 — Plan to and/or would welcome SE support   
 — Not relevant/no plans to

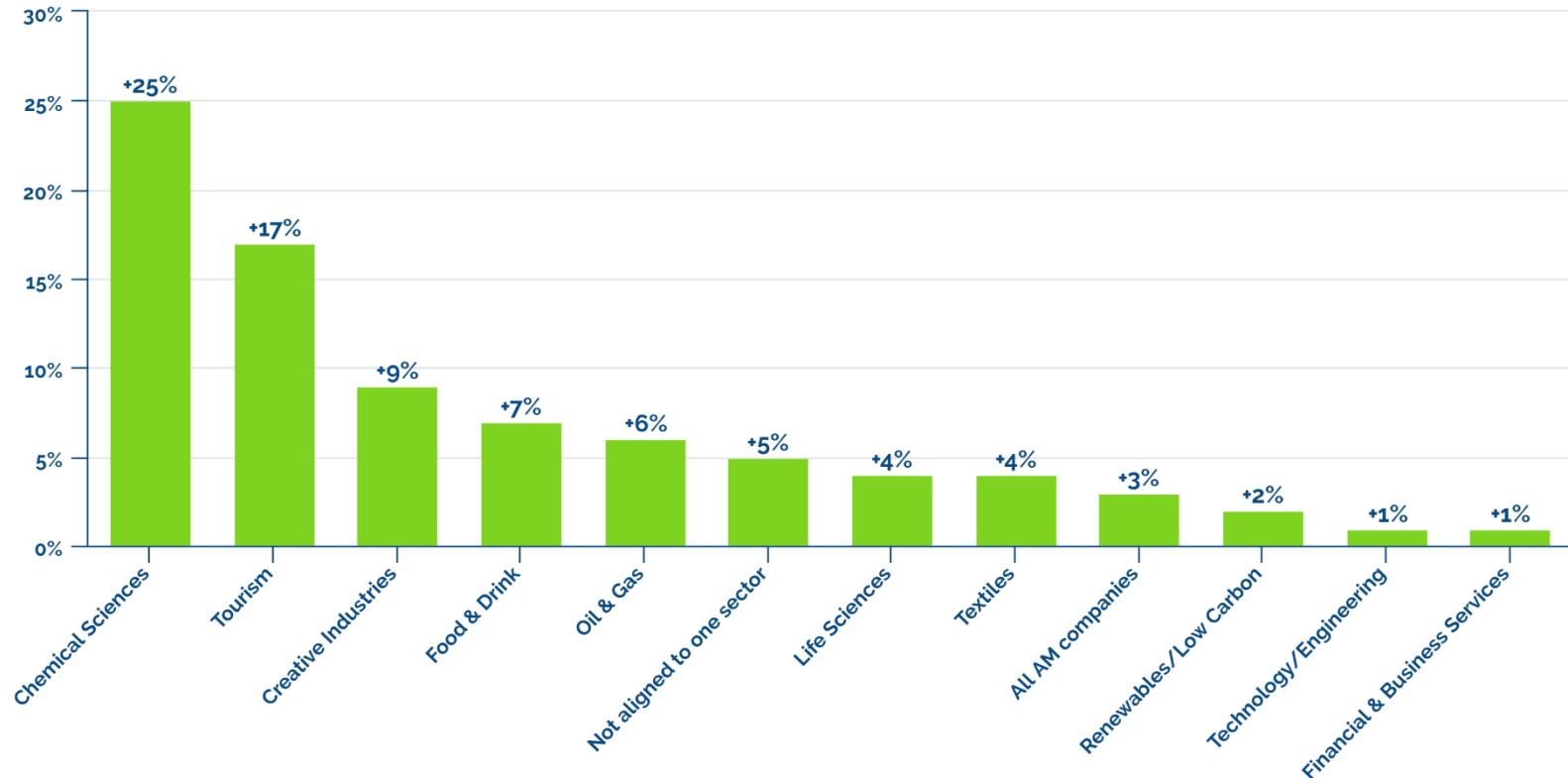
# How this varies across sectors

extent of planning within sectors



There is considerable divergence across sectors. Several have been very proactive, whereas others remain in a wait and see mode.

# How planning has increased across sectors in the last 6 months

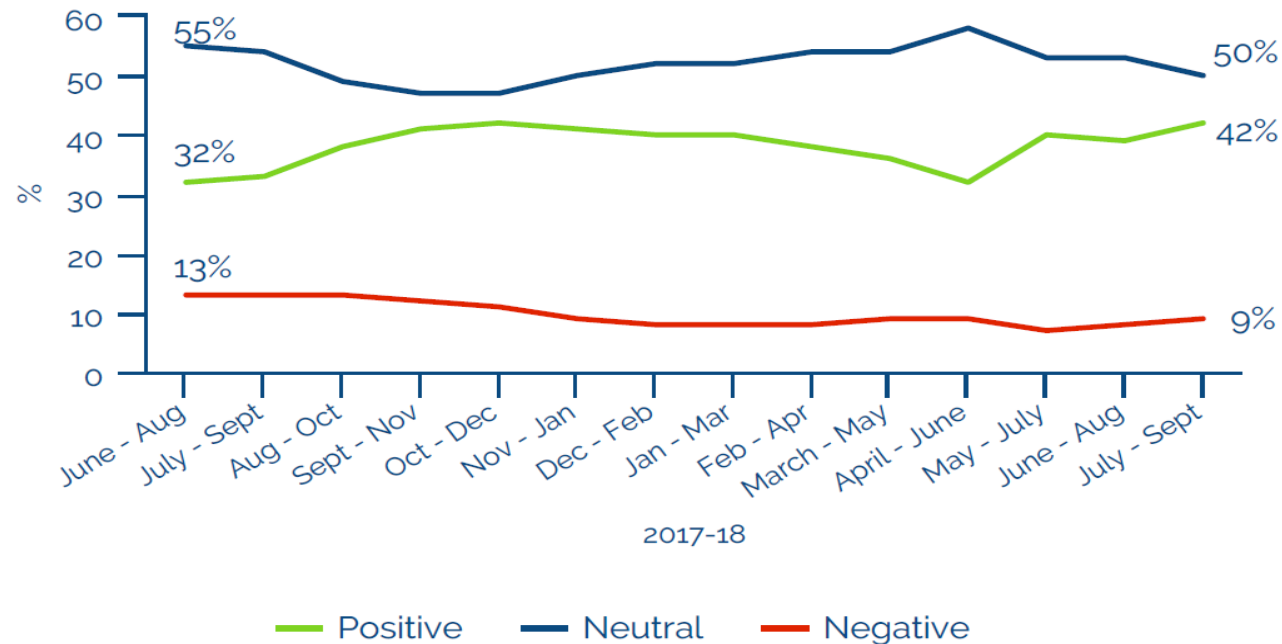


The divergence across sectors reflects that in the last 6 months, whilst all sectors (Construction aside) saw an increase in companies planning for Brexit, the extent to which this occurred varied considerably.

# Context of how Account Managed companies see Brexit

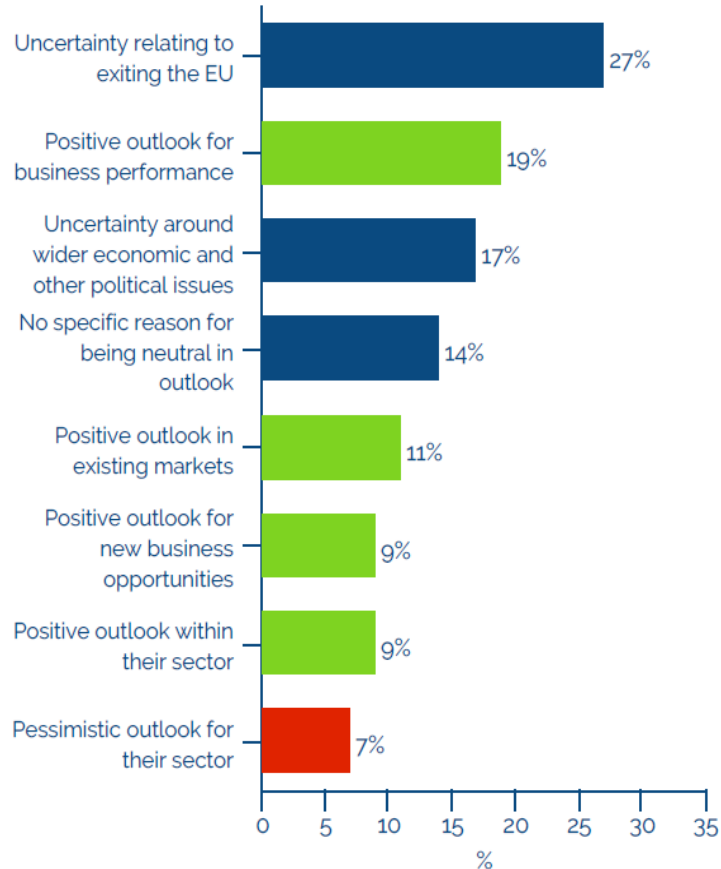
The survey asks companies for their outlook on Scotland's economy and the main reason for this. Most companies continue to be uncertain but optimism has been increasing in the last 6 months.

Change in confidence over time (by three month period)



# Context of how Account Managed companies see Brexit

What is the primary reason for your level of confidence?  
(April - September 2018)



When asked what the main reason(s) are which are driving their economic outlook, amongst Account Managed companies, Brexit has become the most cited issue ...up 8% in last 6 months.

**This has been companies who were and who remain neutral, changing their main reason to Brexit, or including Brexit.**

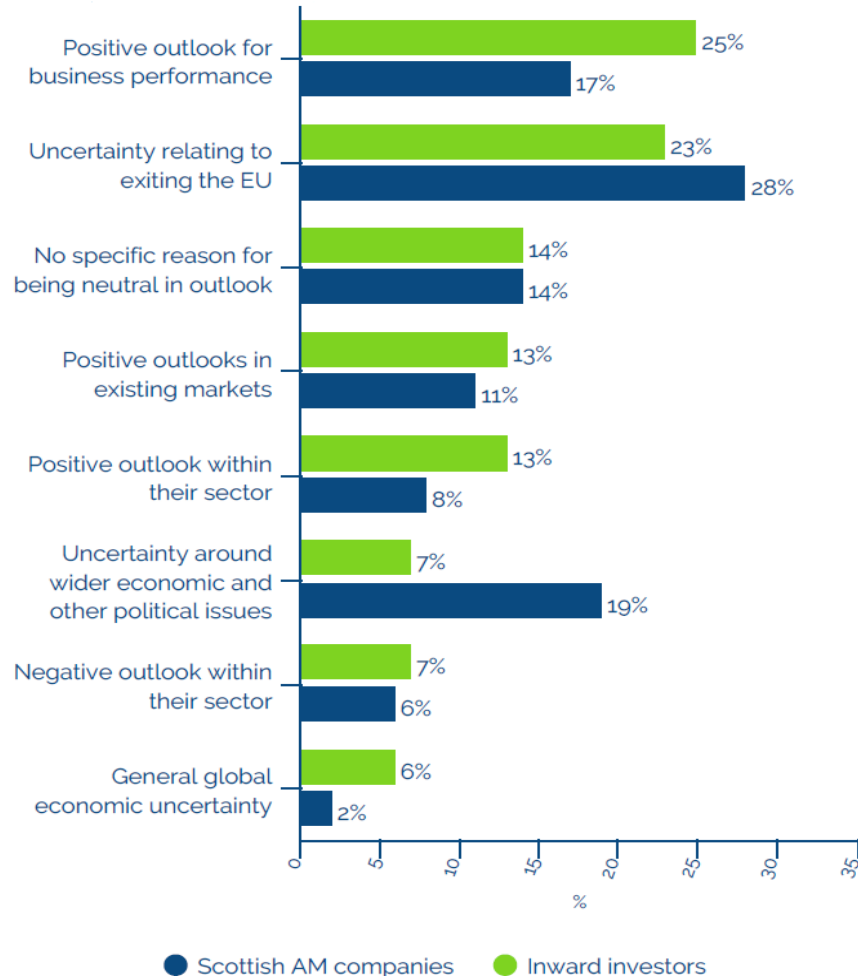
Most reasons given by companies reflect the overwhelming majority feeling somewhat neutral or positive for the economy.

**So at this point, Brexit is not causing companies to feel negative, but it is causing uncertainty, which has increased in recent months.**



# Inward investor outlook on the economy

What is the primary reason for your level of confidence?  
(April - September 2018)



Inward investor AM companies are more likely to give a positive reason for their level of confidence.

They are:

- more positive about their business outlook than Scottish companies;
- more positive in their outlook for existing markets
- more positive in their outlook for their sector

They are less likely to have uncertainty around Brexit clouding their overall confidence, and significantly less likely than Scottish AM companies to cite wider domestic economic and political issues as a concern.

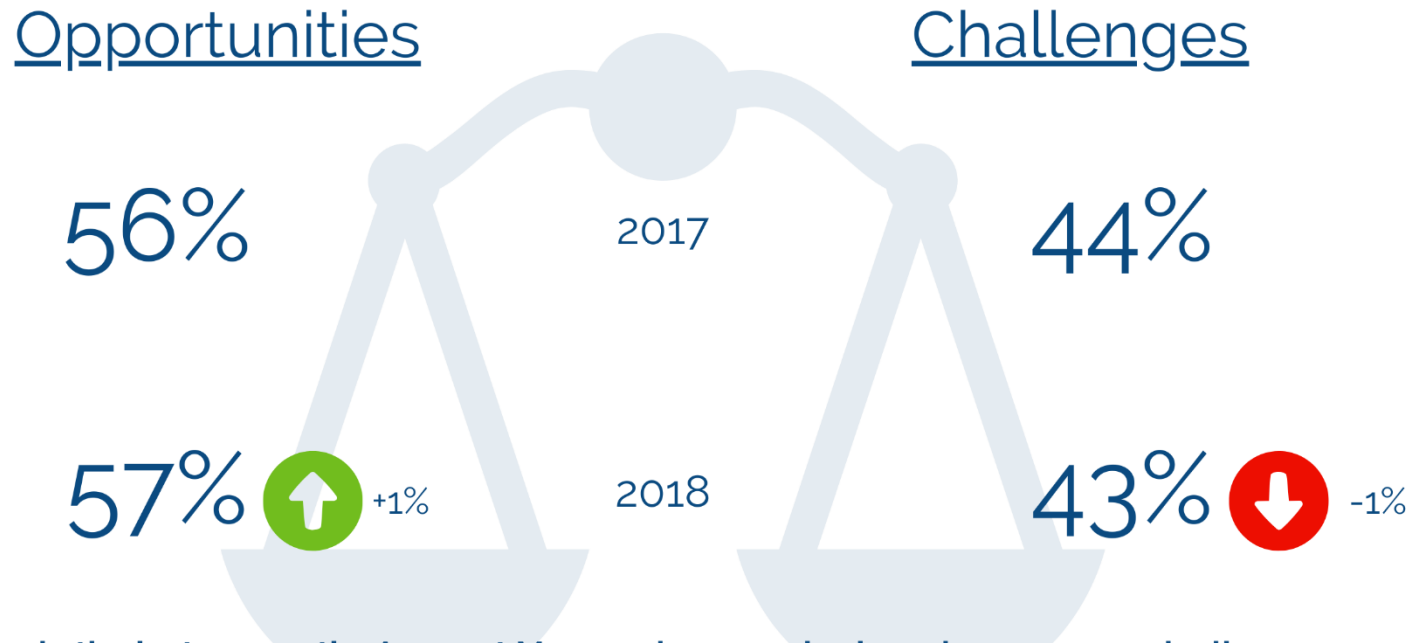
Likely reflecting their more international perspective, inward investors are more likely to cite global economic uncertainty as a concern.

This includes changing trade tariffs and political and economic instability in other regions of the world.

When totals are added, inward investor AM companies are less negative about economic and political issues at any level than Scottish owned AM companies.

# On balance, how do Account Managed companies see the European market?

Last year, the ETS asked existing exporters whether they felt, on balance, there were greater opportunities or challenges in the European market. We have repeated this question over the last six months to see how things have changed...



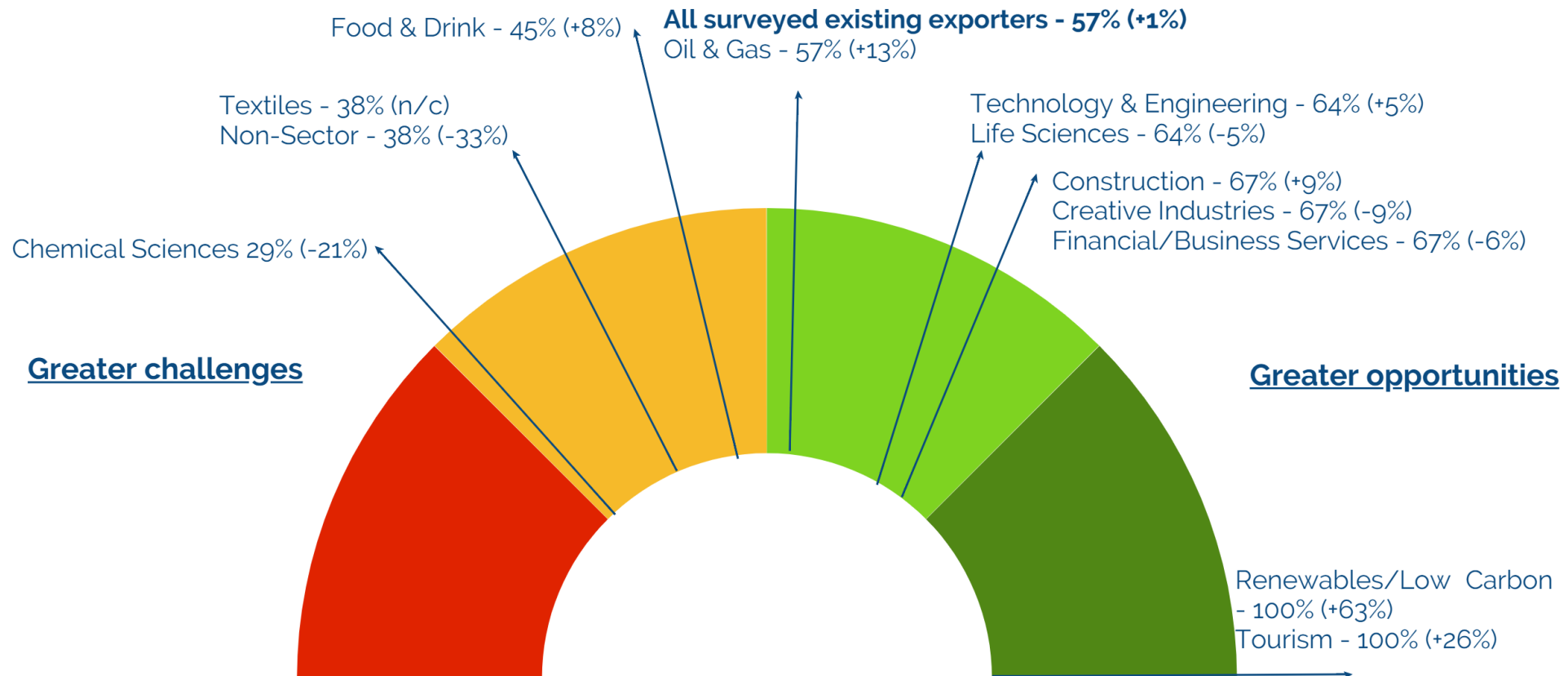
So, in the last 12 months Account Managed companies have become marginally more optimistic about the European market, and on balance see more opportunities than challenges.

# On balance, how do sectors see the European market?

Since 1 May existing exporters have been asked whether, all things considered, they see greater challenges or opportunities in the European market. The below scale highlights the percentage across each sector which sees greater opportunities and how this has changed since 2017. On a month by month basis, every month has returned more companies seeing greater opportunities. However, in July and August 2018 responding companies saw the challenges as being greater.

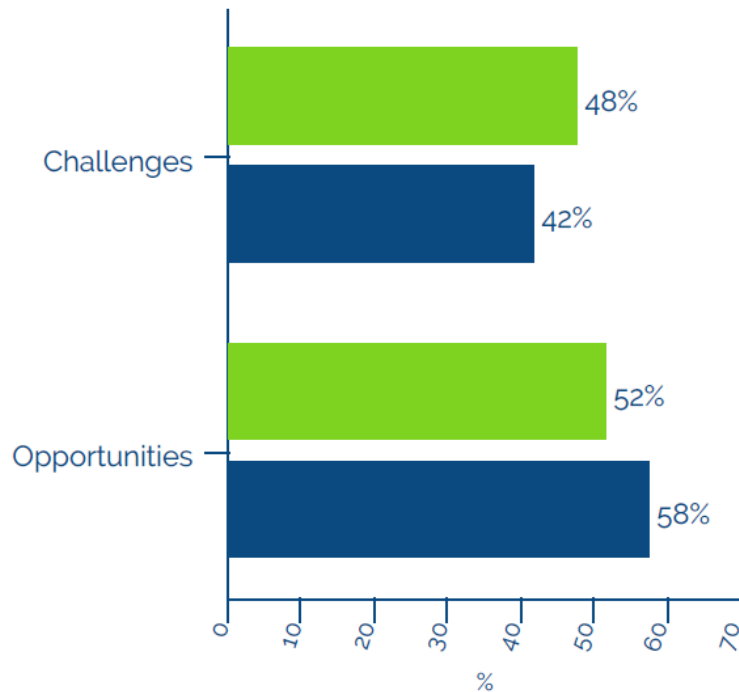
## On balance, do you consider the opportunities or challenges to be greater in Europe at the present time?

All existing exporters surveyed between 1 May and 30 September 2018



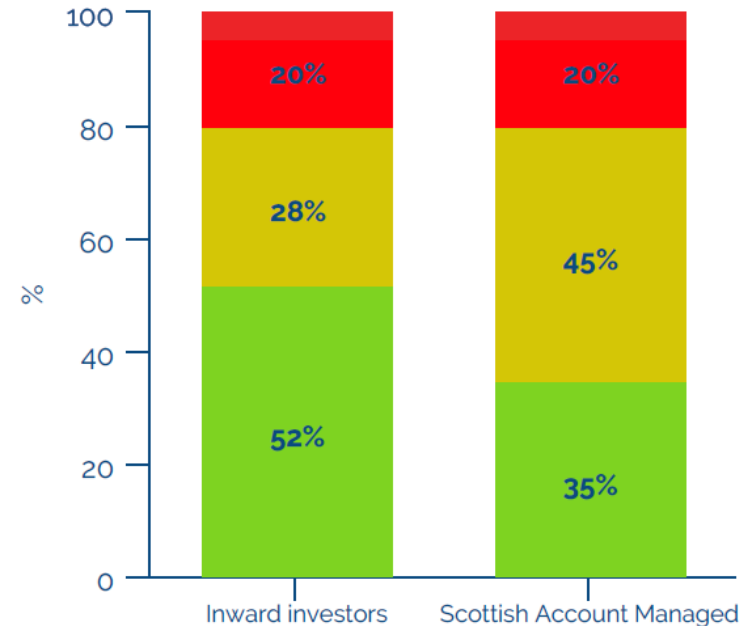
# Inward investor outlook on Europe and Brexit preparations

On balance do you see greater opportunities or challenges in Europe at the present time? (April - Sept)



● Scottish Account Managed ● Inward investors

Current status of planning for leaving the EU (April - Sept)



● Developed/developing  
 ● Plan to and/or would welcome support  
 ● No intention to plan

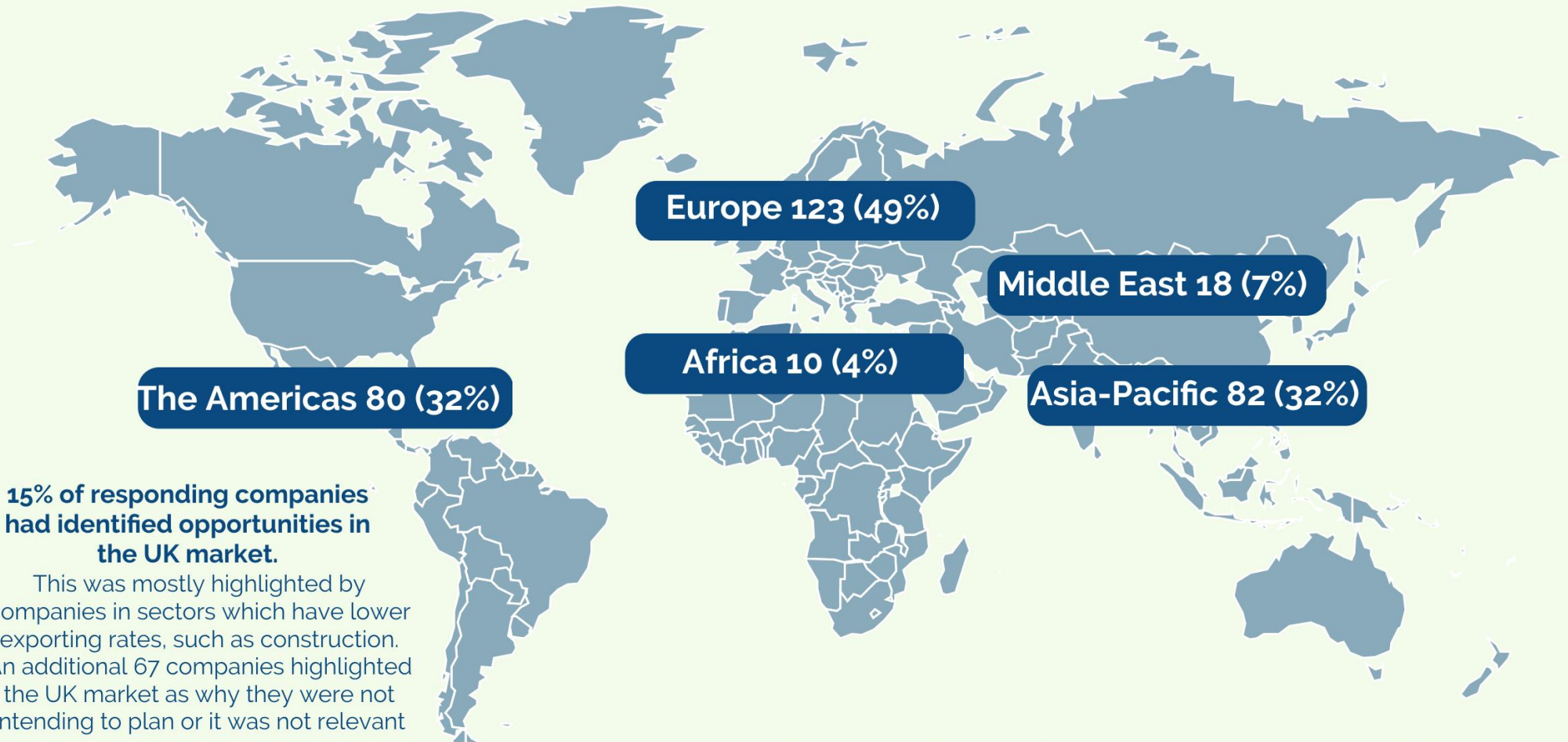
Inward investor companies are considerably more likely to be actively planning for leaving the EU. Only 1 in 4 companies intend to but have yet to do so; compared to nearly 1 in 2 amongst Scottish businesses.

20% of both types of companies state they do not intend or do not need to plan. Whilst both of these cohorts cite a lack of clarity of information, inward investor companies are more likely to be leaving planning to corporate HQs.

# Opportunities being identified

**44% of responding companies named non-EU nations as presenting opportunities for them.**  
**37% of responding companies identified Europe or EU nations.**

The main nations (and regions) specifically identified are:



**15% of responding companies had identified opportunities in the UK market.**

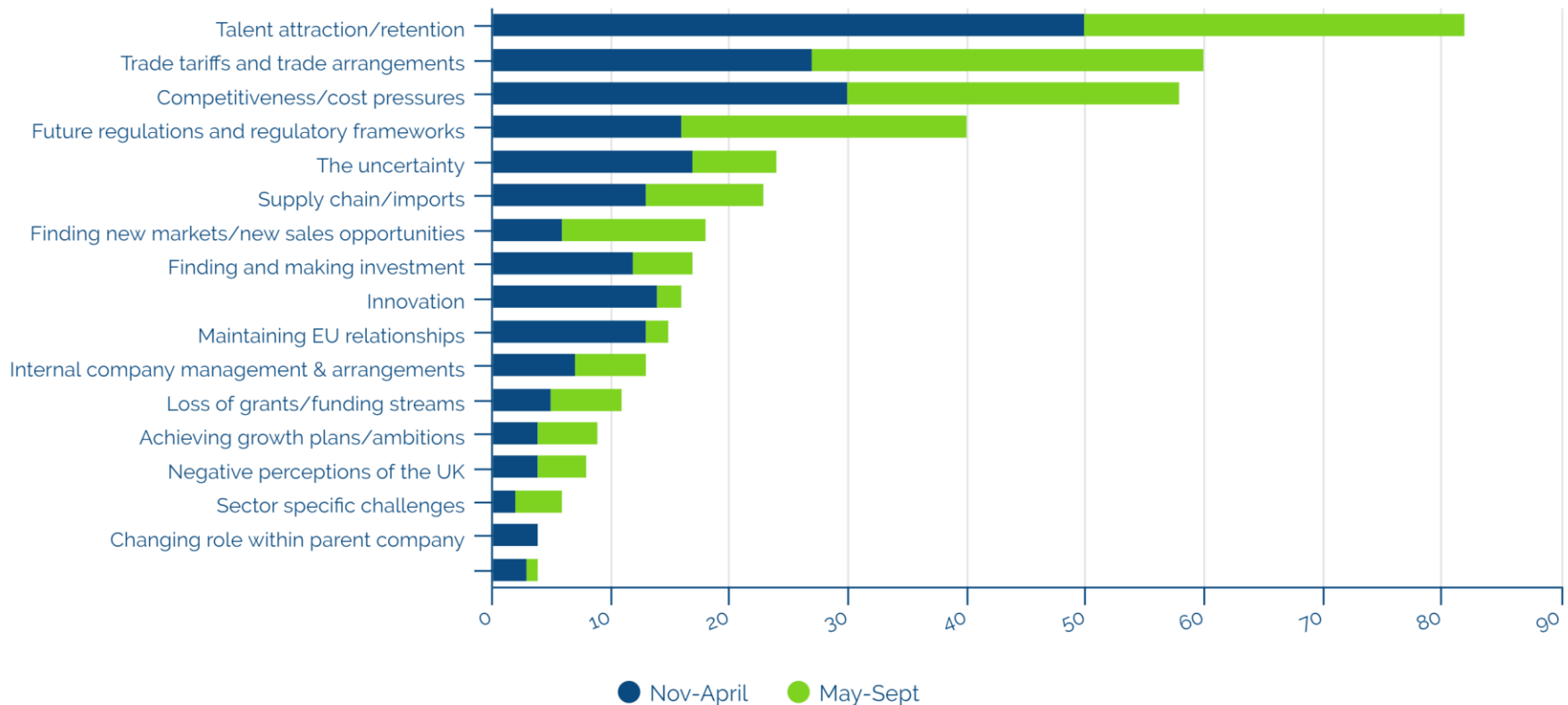
This was mostly highlighted by companies in sectors which have lower exporting rates, such as construction. An additional 67 companies highlighted the UK market as why they were not intending to plan or it was not relevant

# Challenges being identified by Account Managed companies

Among companies actively planning for Brexit, over the last six months four key challenges have begun to crystallise. The below chart details the extent to which:

1. Talent attraction/retention
2. Trade tariffs and trade arrangements
3. Competitiveness/cost pressures; and
4. Future regulations and regulatory frameworks

have now become the biggest issues of concern amongst SE Account Managed companies planning for Brexit.





# Main challenges arising from Brexit, by sector

Among companies actively planning for Brexit, over the last six months four key challenges have begun to crystallise:

But this is not uniform, Across sectors there are differing degrees to which these issues concern Account Managed companies.



Issue more of concern to the sector

Talent	Trade	Costs	Regulations
Technology & Engineering	Companies not aligned to one sector	Textiles	Companies not aligned to one sector
Creative Industries	Renewables/Low Carbon	Food & Drink	Renewables/Low Carbon
Companies not aligned to one sector	Creative Industries	Technology & Engineering	Life Sciences
Construction	Textiles	Creative Industries	Financial/Business Services
Oil & Gas	Food & Drink	Companies not aligned to one sector	Food & Drink
Financial/Business Services	Technology & Engineering	Tourism	Creative Industries
Tourism	Life Sciences	Chemical Sciences	Chemical Sciences
Food & Drink	Financial/Business Services	Renewables/Low Carbon	Technology & Engineering
Textiles	Chemical Sciences	Financial/Business Services	Oil & Gas
Life Sciences	Oil & Gas	Life Sciences	Textiles
Chemical Sciences	Construction	Oil & Gas	Construction
Renewables/Low Carbon	Tourism	Construction	Tourism

The percentage of sectors who have no intention of planning for leaving the EU.

25-35%	15-25%	0-15%
Construction - 34%	Technology & Engineering - 24%	Tourism - 14%
Non-Sector - 29%	Creative Industries - 20%	Renewables/Low Carbon - 12%
Financial & Business Services - 27%	Food & Drink - 18%	Textiles - 12%
Oil & Gas - 24%	Life Sciences - 18%	Chemical Sciences - 11%
	Forest Industries - 18%	

Since we included the questions in the survey, a not unsubstantial number of responding Account Managed companies have said they have no intention or need to undertake any planning.

Of surveys received since November 2017, 22% (266 AM companies) have said this.

Of non-planning companies, these are most likely to be in:

- Life Sciences
- Technology & Engineering
- Construction
- Food & Drink

Of non-planning companies, these are most likely to be in:

- Financial/Business Services
- Construction
- Tourism
- Renewables/Low Carbon

Of non-planning companies, these are most likely to be in:

- Non-Sector
- Food & Drink
- Technology & Engineering
- Financial/Business Services

Of non-planning companies, these are most likely to be in:

- Life Sciences
- Chemical Sciences
- Oil & Gas
- Technology & Engineering

**This has been a consistent feature since November 2017 to the present day....**

- “ Not relevant - our focus is on developing a new technology ”
- “ It will not have a significant impact on our organisation ”
- “ I do not at this time consider this to be a factor in our ability to sell our products. ”

- “ Our business is all based in the UK market and we have group companies who cover EU ”
- “ We are focused exclusively on US market development, so it is difficult to see how the UK leaving the EU will affect our business. ”

- “ Main growth opportunities are in the US and China. ”
- “ Our international markets are outwith the EU and therefore Brexit is of secondary importance to us. ”

- “ Too little is known about what the arrangements are going to be so it is impossible to make arrangements as a small company. ”
- “ too much uncertainty to plan - nobody knows yet what the trade arrangements will be. ”



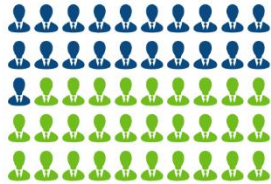
## The percentage of sectors who have no intention of planning for leaving the EU.

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Oil & Gas - 24%	Life Sciences - 18%	Chemical Sciences - 11%
	Forest Industries - 18%	

So we ask them why this is the case **4** main reasons emerge

"Brexit is not relevant to us"

41%



Of non-planning companies, these are most likely to be in:

- Creative Industries
- Life Sciences
- Technology & Engineering
- Construction
- Food & Drink

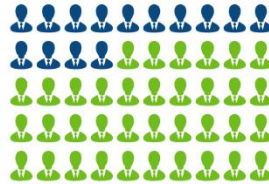
“ Not relevant - our focus is on developing a new technology ”

“ It will not have a significant impact on our organisation ”

“ I do not at this time consider this to be a factor in our ability to sell our products. ”

"Our focus is on the rUK/domestic market"

27%



Of non-planning companies, these are most likely to be in:

- Non-Sector
- Financial/Business Services
- Construction
- Tourism
- Renewables/Low Carbon

“ Our business is all based in the UK market and we have group companies who cover EU ”

“ We are focused exclusively on US market development, so it is difficult to see how the UK leaving the EU will affect our business. ”

"We focus on other regions of the world"

27%



Of non-planning companies, these are most likely to be in:

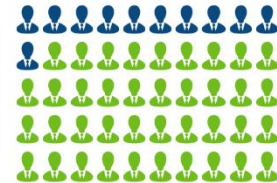
- Oil & Gas
- Non-Sector
- Food & Drink
- Technology & Engineering
- Financial/Business Services

“ Main growth opportunities are in the US and China. ”

“ Our international markets are outwith the EU and therefore Brexit is of secondary importance to us. ”

"We don't have enough information"

21%



Of non-planning companies, these are most likely to be in:

- Textiles
- Life Sciences
- Chemical Sciences
- Oil & Gas
- Technology & Engineering

“ Too little is known about what the arrangements are going to be so it is impossible to make arrangements as a small company. ”

“ too much uncertainty to plan - nobody knows yet what the trade arrangements will be. ”

# Summary of the key points

- Over time we've seen a shift in companies beginning to plan for leaving the EU. Sectors such as Tourism and Life Sciences have accelerated planning in recent months
- Many though are still waiting to start, hoping for more clarity. This approach appears greatest in sectors such as Food & Drink and Textiles.
- Four key themes have really emerged in focus amongst companies planning for Brexit in the last 6 months:
  1. Most concerned about attracting/retaining talent – TAE, Construction, O&G
  2. Most concerned about future trade relations – Food & Drink, Textiles
  3. Most concerned about costs and competitiveness – Food & Drink, Textiles, TAE
  4. Most concerned about future regulations/regulatory frameworks – Financial/Business Services, Life Sciences
- More companies still see greater opportunities than challenges in Europe.
- Food and Drink, Textiles and Life Sciences are where we have the weakest confidence and weakening of an optimistic outlook for the European market.
- SE has seen (relative to responses) greatest demand for support in Food & Drink, Creative Industries and Textiles.
- Companies saying they do not anticipate planning have four broad reasons:
  - focus on rUK; focus on non-EU markets; it is not relevant to them to do so; and, not enough information.
- 21% of companies not expecting to plan cite a lack of information suggesting the proportion who say they are not going to plan is currently inflated. These are most likely found in Textiles and Food & Drink.