

Economic Commentary/Customer Intelligence

An aerial photograph of a large cable-stayed bridge with white towers and cables, crossing a wide body of water. In the background, a red truss bridge is visible. The surrounding area includes a marina with many boats, a residential neighborhood, and some industrial buildings. The sky is clear and blue.

May 2023

Feedback from Scottish Enterprise Customers

General Sentiment

- Businesses are generally feeling more optimistic, although for some performance is not yet back to pre-pandemic levels.
- Businesses in many sectors are reporting full order books including Construction, Aerospace, Engineering, F&D Manufacturing and Technical Engineering.
- Skills shortages continues to be the main issue that businesses are reporting followed by rising costs and supply chain issues....
-however, more businesses are reporting that it is rising costs (transport, raw materials and components) that are causing challenges.

Labour and Skills Shortages/Jobs

- Recruitment is the biggest challenge for most businesses with shortages of engineers (technical and fabrication), IT (software developers), artists (within the animation sector) and food processors highlighted. One large engineering company is reporting it currently has 200 vacancies that it is struggling to fill.
- There is also a limited pool of people with senior management skills/experience to recruit from and this causes issues for some businesses.
- Turnover of staff is high in food manufacturing and technical businesses. The offer of higher pay elsewhere mean that some staff will only remain with a company for a short period of time.
- Labour shortages is delaying investment in growth projects for some business and the ability to meet customer orders.
- To address this, many businesses are looking to “grow their own” by introducing apprenticeship and graduate programmes, and training/upskilling existing staff.

- Some companies are investing in automation in response to labour supply challenges.
- Allowing staff to work from home has given some businesses the opportunity recruit a wider range of people including those who are uncomfortable working in an office environment.
- To encourage more staff back into the office for 2 or 3 days a week and to address skill shortages, some companies are offering incentives (e.g. free lunch, parking).
- A shortage of available and affordable housing for workers in rural locations is impacting local businesses’ ability to find staff.

Exports

- Some smaller businesses are not considering exporting as they find sufficient opportunities in the UK market.
- Brexit is still causing issues for businesses in terms of increased administration and costs.
- Some small-scale exporters are stopping selling overseas and concentrating on the UK market as shipping small quantities to Europe is not cost efficient due to administration and higher transport costs.
- Some exporters have set up a distribution/sales base in the EU to make it easier for their customers.
- The cost of air freight has significantly increased, with rising fuel prices contributing to this. Transporting goods long-haul (e.g. to Dubai or Singapore) is almost double what it was a year ago.

Supply Chain and Business Costs

- Lead times for delivery of some food manufacturing machinery/equipment can now take 12-18 months where it was previously 6 months. Prices have also increased.
- Lack of components and raw materials is resulting in some projects being delayed and difficulties in meeting customer orders.
- Raw material rises have been significant, especially for food manufacturers/processors. Some businesses have been able to pass these onto their customers, whilst others that are concerned that if they raise prices they will lose customers.
- Rising raw material prices are also making some construction contractors reluctant to quote for projects due to the risk that an increase in material costs will reduce profit margins. However,.....
-others address this by agreeing a contract with the customer that excludes raw materials which are then paid for directly by the customer.
- Payment terms for some contracts have increased from 30 days to 45 days, and in some cases 60 days, which can impact business cash flow.

Workplace

- A lack of suitable properties and sites is hindering some businesses that want to expand.
- Businesses that cannot expand within their current site can be reluctant to take on a second site that is not located nearby.

Net Zero

- High energy costs are driving many businesses to take cost reducing actions:
 - reducing heating;
 - altering shift patterns e.g. reducing opening hours, staggering shift patterns to avoid peak energy times;
 - mothballing parts of premises;
 - not using strip lights;
 - replacing older equipment
 - introducing new technology to make processes more efficient.

To support this many are engaging with Scottish Enterprise sustainability specialists.

- High energy prices are driving some large businesses to look at investing in generating their own energy on-site, including renewables. However, National Grid operating processes can be a barrier – when a business builds its own electricity generating capacity, it needs to cancel the existing connection with the Grid and then pay for a new connection (there is no opportunity to ‘not attach to the grid’). This can cost several hundred thousand pounds.

Access to Finance

- Equity investors are increasingly more risk averse, particularly for first time investment. This makes it difficult for some pre-revenue businesses in higher risk sectors like Life Sciences to access investment.
- Some businesses are still risk averse following the pandemic, and less willing to take on additional borrowing for growth.