HIE BUSINESS PANEL SURVEY

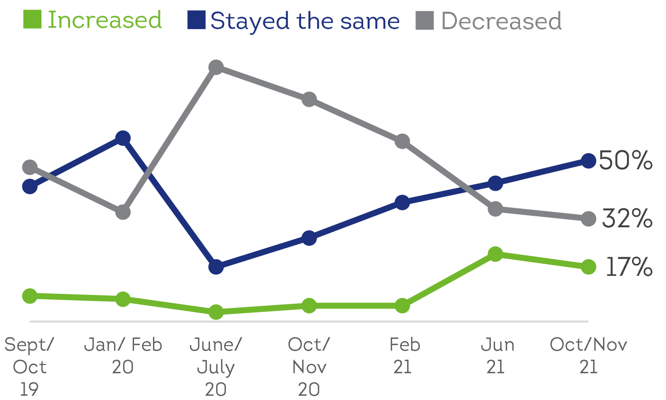
WAVE 20: COSTS, LABOUR, AND SUPPLY CHAIN CHALLENGES

HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

ECONOMIC CONFIDENCE AND OUTLOOK

Businesses were fairly confident in the economic outlook for Scotland over the next 12 months and confidence had remained fairly stable since the previous wave. Net confidence* was -15, in line with-14 in June/July 2021 and higher than earlier stages of the pandemic, which saw -51 in Feb 2021, -64 in Oct/Nov 2020 and -76 in June/July 2020.

Economic confidence: 2019-2021 trend



More confident:
- Tourism
- Operating above pre-COVID-19 levels
- Trading outside the EU
- Striving for growth

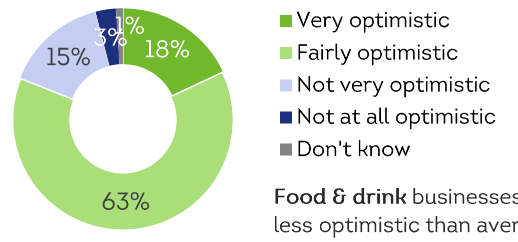
Less confident
- Operating below pre-COVID-19 levels
- Trading only domestically
- Aiming to downsize

Confidence in economic outlook for Scotland over next 12 months

64% Very/fairly confident

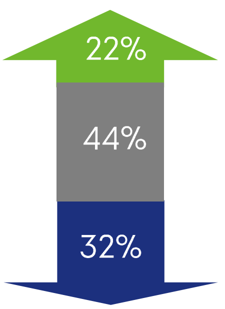
34% Not very/not at all confident

82% of businesses were optimistic about their prospects in next 12 months, 17% were not.



Food & drink businesses were less optimistic than average

CURRENT OPERATING LEVEL



<u>Over and above</u> the level we were before coronavirus

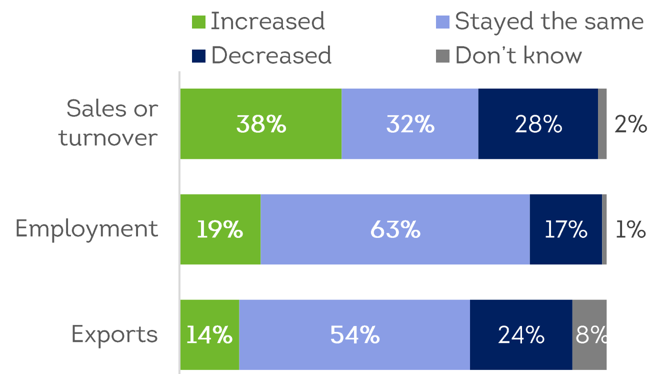
At <u>much the same</u> level as we were before coronavirus

<u>Below</u> the level we were before coronavirus

For the first time since June/July 2020, more businesses were operating in line with (44%) than below (32%) their pre-pandemic levels.

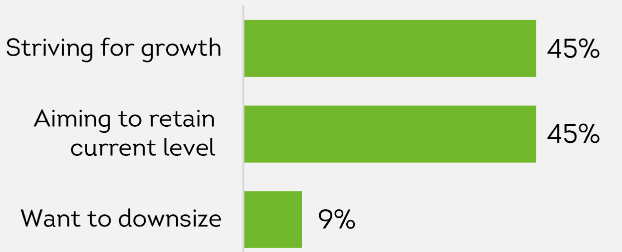
PERFORMANCE

Aspects of business performance over last 6 months



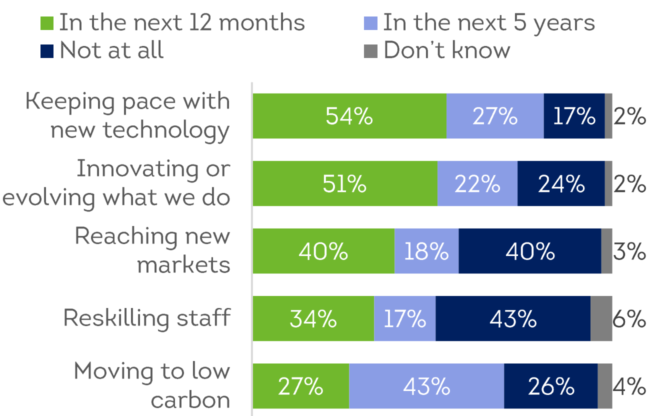
GROWTH ASPIRATIONS

Current aspirations for the business



Tourism, **HIE-account managed** and those **trading internationally** were more likely to be striving for growth

PRIORITIES FOR BUSINESSES

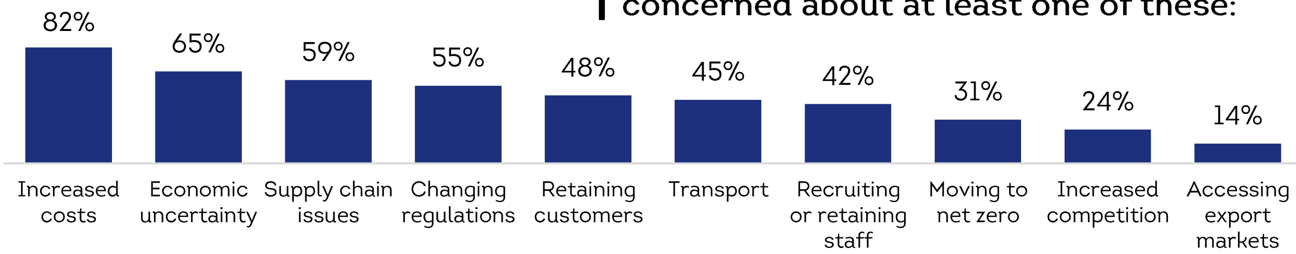


Ipsos MORI

*The net figure is the difference between 'increased' and 'decreased' levels of confidence

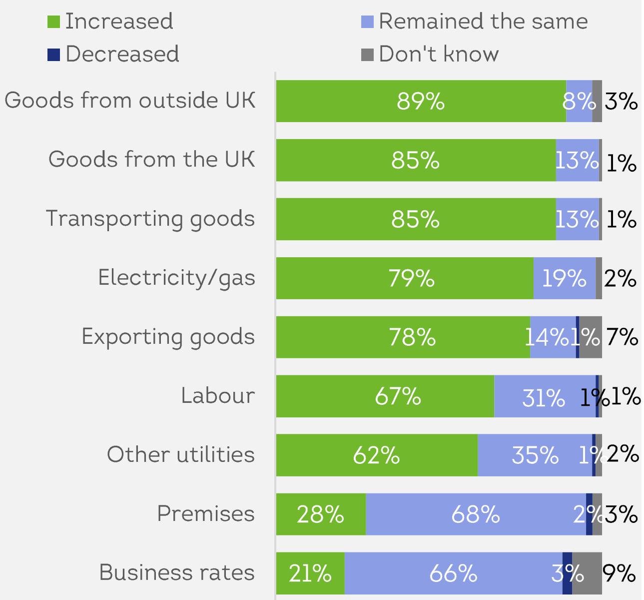
TOP CONCERNS FOR BUSINESS

96% of businesses were currently concerned about at least one of these:



INCREASED COSTS

Changes to costs in the past 12 months

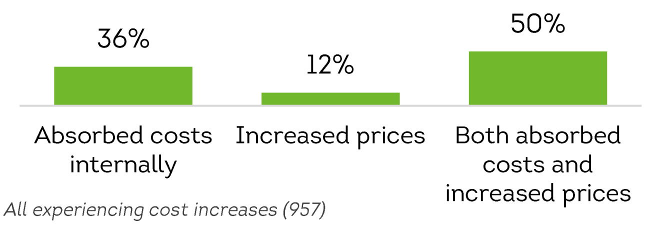


More likely to experience cost increases:

- **Food & drink** (cost of goods in UK & electricity/gas)
- Those with **25+ staff** (cost of labour)
- **Remote rural** (electricity/gas & other utilities)
- **Accessible rural** (electricity/gas & transportation)

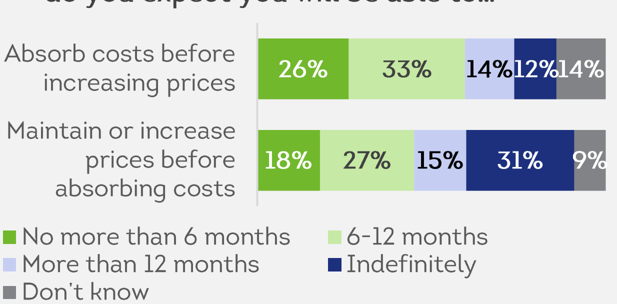
RESPONSE TO COST INCREASES

Response to costs increase in last 12 months:



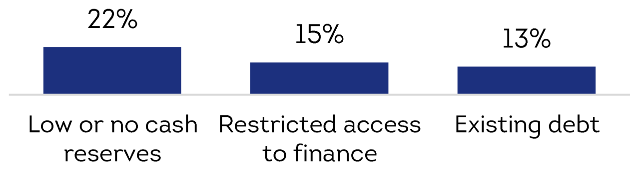
All experiencing cost increases (957)

“ Assuming costs remain the same, how long do you expect you will be able to…



FINANCIAL CONCERNS

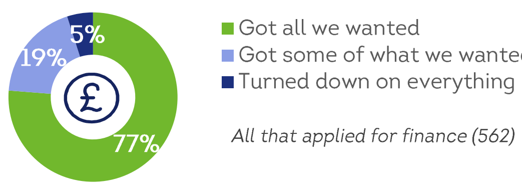
31% of businesses were concerned about at least one of these aspects of their finance:



FINANCIAL SUPPORT

56% of businesses had applied for financial support in the past 12 months. Of those, 96% had been successful.

Outcome of funding applications

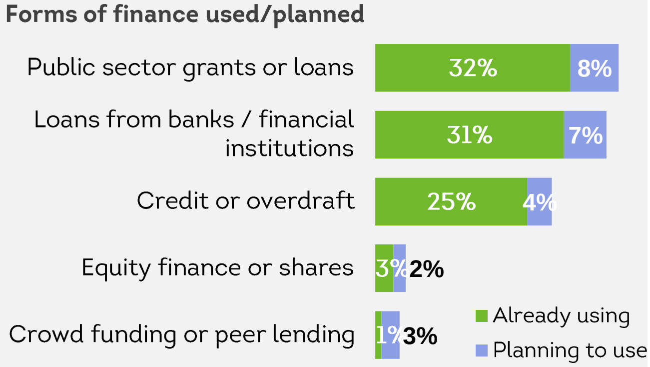


All that applied for finance (562)

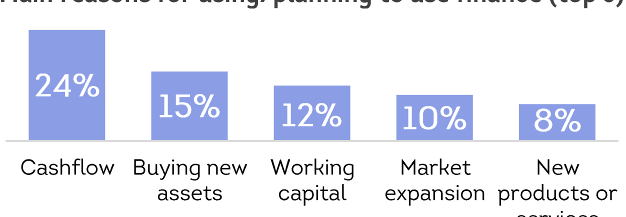
Of those that were unsuccessful, 1 in 5 postponed plans indefinitely (14%) or dropped them altogether (7%).

63% of businesses were currently using or planning to use some from of finance

Forms of finance used/planned



Main reasons for using/planning to use finance (top 5)



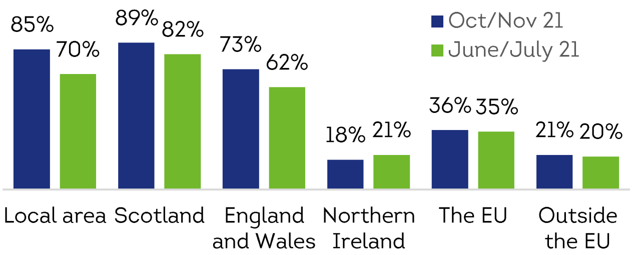
All those using/planning to use finance (624)

Main reason for not using finance was having no need to (79%), while 10% wished to remain debt free

MARKETS OF OPERATION

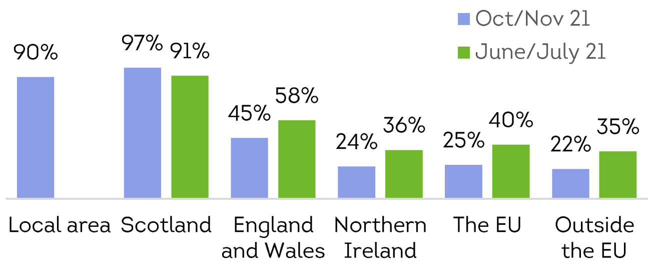
76% were importing from outside Scotland and findings suggest increased import substitution from local markets and England and Wales

Markets from which goods were sourced



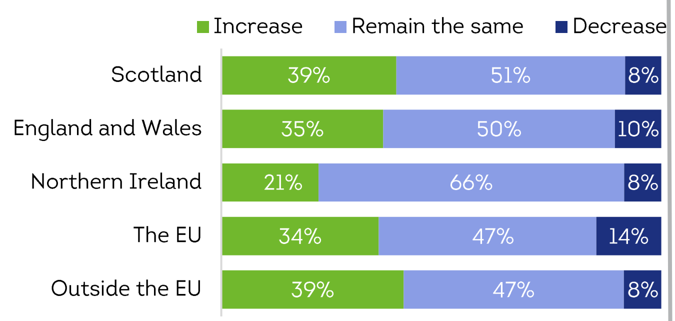
48% were exporting goods or services outside Scotland, down from 62% the previous wave

Markets to which goods were sold*



Businesses expected either stability or an increase in sales to their markets of operation.

Outlook for export markets in next 12 months

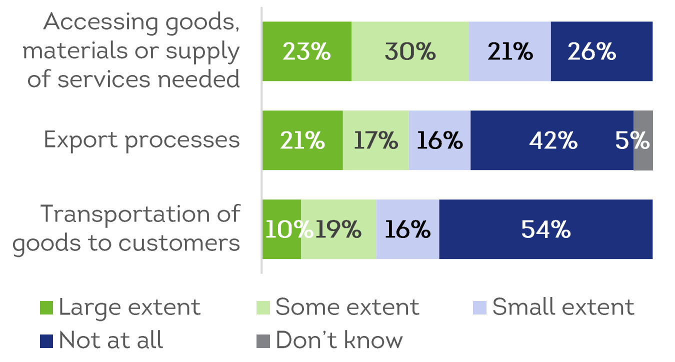


All to whom each applied

SUPPLY CHAIN ISSUES

Among those for whom it was relevant, 76% were experiencing some form of supply chain issue

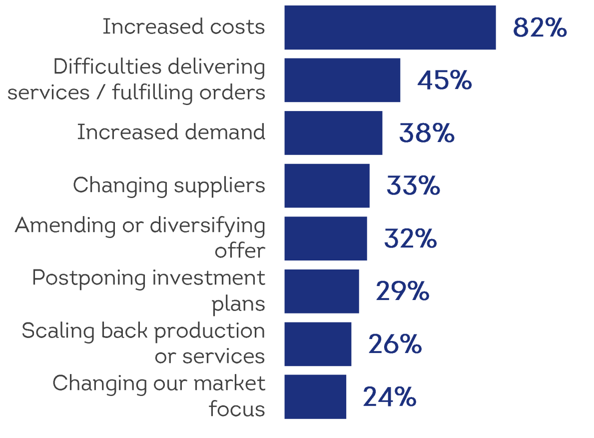
Experience of each supply chain issue



All for whom it applied

Supply chain issues were being experienced by businessess trading in each market outside of Scotland, and did not vary significantly by location.

Impact of supply chain issues



All those experiencing supply chain issues (707)

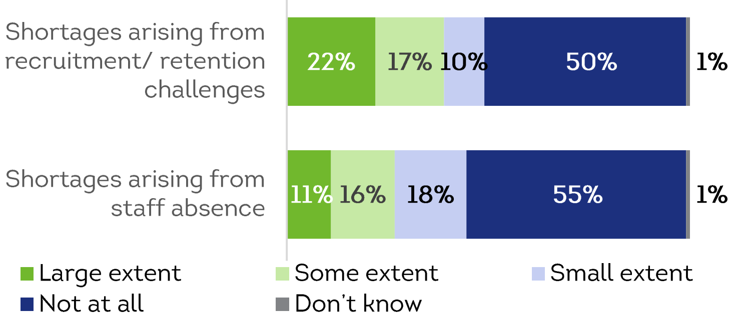
Sectors experiencing higher than average impacts:

- Food & drink - increased costs (89%)
- Tourism - postponing investment plans (40%), scaling back production (39%), changing market focus (33%)

LABOUR SHORTAGES

Among those for whom it was relevant, 57% had experienced some form of labour shortage.

Experience of each type of labour shortage



Labour shortages were more common than average among tourism businesses (68% experienced shortage vs 57% of all businesses).

Impact of labour shortages (Top 3 unprompted responses)

- 29% Increased workload for other staff
- 21% Difficulties delivering services/ fulfilling orders
- 15% Scaling back production or services

All those experiencing labour shortages (425)

*In the June/July 2021 wave, businesses were not asked about sales to their local area

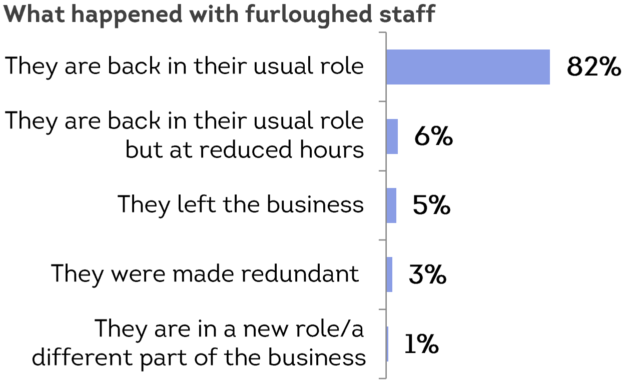
FURLOUGH

34% of businesses had staff on furlough in the few months leading up to end of the scheme (up to 30th September 2021).

More likely to have staff on furlough:

- Tourism
- Those with 11-24 and 25+ staff
- Operating below pre-pandemic levels
- Urban areas

What happened with furloughed staff



Base: All those that had staff on furlough in recent months (344)

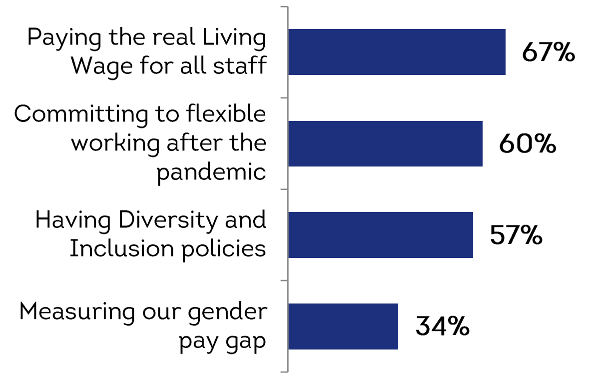
FAIR WORK

The majority of businesses (78%) were taking measures to support Fair Work for their staff.

Fair Work practices were more common among:

- Those with 25+ staff
- HIE-account managed
- Striving for growth
- Urban areas

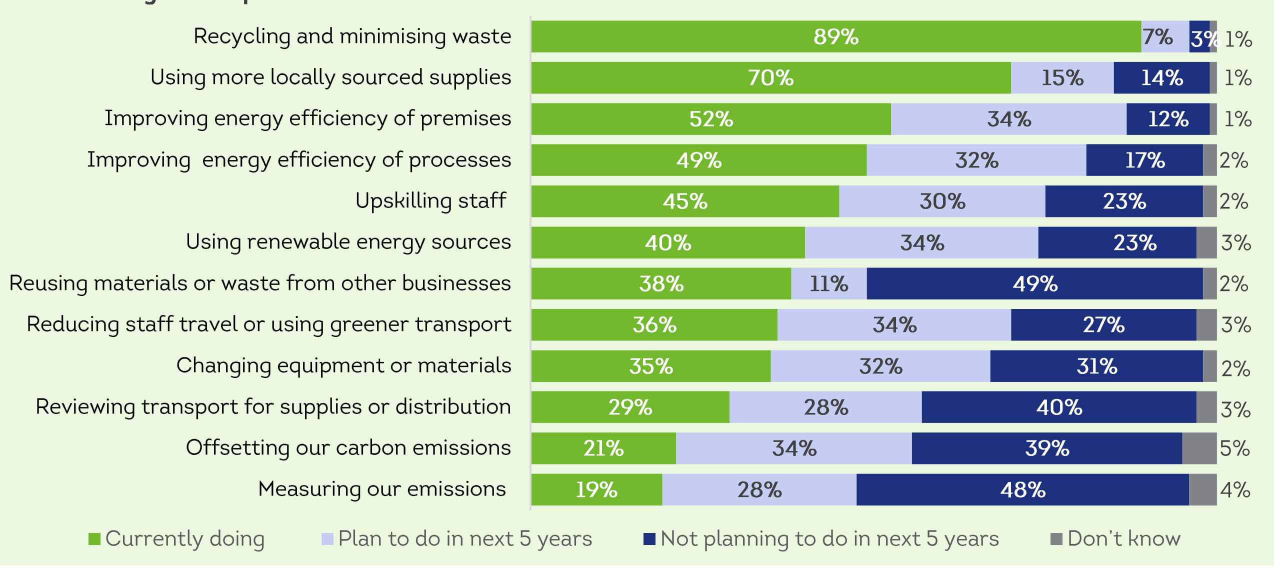
Fair Work practices in place



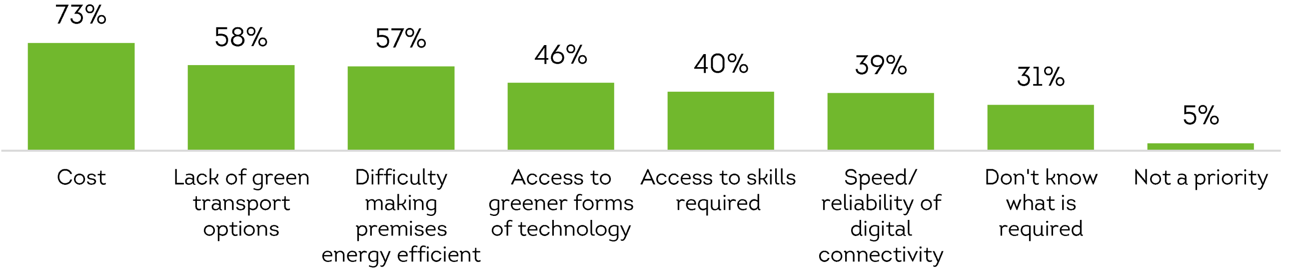
NET ZERO

93% of businesses were currently taking some actions to reduce their greenhouse gas emissions.

Actions being taken/planned to reduce emissions



Barriers to making changes needed to reduce emissions



All those expecting to make changes in future to reduce emissions (736)

NOTES: Survey fieldwork was conducted between 4th October and 3rd November 2021, using telephone interviewing. In total 1,003 businesses and social enterprises participated. For more detail visit **www.hie.co.uk/businesspanel.** Findings are weighted to ensure a representative sample of the regional business base. Where percentages do not sum to 100%, this may be due to rounding, the exclusion of 'don't know' categories, or multiple answers