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HIE BUSINESS PANEL SURVEY

April 2017

Ipsos MORI Scotland

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

CONTENTS

1. INTRODUCTION

Background

The Highlands and Islands Enterprise (HIE) Business Panel was established in 2008 to measure and monitor the economic health of the region through the experiences and opinions of businesses and social enterprises in the region, and to explore topical issues at a regional, sub-regional or sectoral level.

Following two waves of panel surveys in 2014 and 2015 HIE commissioned Ipsos MORI to carry out a further five, quarterly business panel surveys with 1,000 businesses and social enterprises, representative of the Highlands and Islands business base in terms of geographic area, organisation size and sector.

This report presents findings from the most recent wave of the survey (the third in the series of quarterly surveys, and fifth overall) carried out in January and February 2017. The survey covered a number of topics of general interest to businesses in the region, including economic optimism, business performance and growth aspirations. The survey also included questions on trade with other countries and the potential impacts of a change in trade conditions between the UK and the European Union (EU).

Methodology

Sampling

The survey sample was mainly sourced from businesses that took part in the previous waves of the survey and had indicated that they were willing to be re-contacted. Additional HIE panel members and account-managed businesses were also approached along with companies identified from the Experian business database. The sample was designed to match the structure of the Highlands and Islands business population in terms of sector, size and geographical distribution. Quotas were set for recruitment and interviewing so that the achieved sample reflected the population of eligible organisations as defined by the Inter-Departmental Business Register (IDBR). Eligible organisations were defined by SIC code, with the following SIC 2007 Sections excluded from the sampling:

- Public administration and defence; compulsory social security;
- Education;
- Human health and social work activities;
- Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use;
- Activities of extraterritorial organisations and bodies.

SIC codes were also used to identify areas of economic activity considered to be growth sectors (as set out in the Government Economic Strategy) so that quotas could be set to ensure these were represented in the survey sample.

Within each participating organisation, the survey respondent was the owner or a senior manager able to comment on the performance and future prospects of the organisation.

Survey fieldwork

The survey fieldwork was conducted between 11th January – 14th February 2017, using a combination of online and telephone methods. The survey was initially distributed by e-mail, inviting respondents to complete the questionnaire online. Remaining interviews were then carried out by telephone. In total 1,002 eligible interviews were achieved.

The achieved sample was broadly representative of the population, notwithstanding some differential non-response due to differences in availability and willingness to participate. Weighting was applied to correct the distribution of sectors to match the sample counts.

Follow-up qualitative interviews

As a means of probing into more detail on certain topics covered in the survey, a series of follow-up qualitative interviews were carried out with businesses that took part in the survey. The interviews covered views on the impact of the UK leaving the EU, with a particular focus on the impact on trade relationships.

Twenty in-depth interviews were carried out in March 2017. Businesses who took part in the fifth business panel survey were asked if they were willing to be contacted by Ipsos MORI for follow up research. Businesses were targeted based on their response to particular questions in the survey, to explore a range of positive and negative views about the impact of the UK leaving the EU, including their views on a range of scenarios associated with changes to trade relationships between the UK and the EU. Those businesses who agreed were invited to take part in a telephone interview.

Business who took part in the in-depth interviews were from a range of growth and non-growth sectors. Focus was placed on Food and drink businesses, as they were relatively more likely in the survey to be have a negative view about potential changes to trade relationships between the UK and the EU. Of the 20 interviews, seven were with Food and drink businesses. Interview participants also represented a mix of large and small businesses.

Presentation and interpretation of the data

Interpretation of Quantitative Data

The survey findings represent the views of a sample of businesses, and not the entire business population of the HIE area, so they are subject to sampling tolerances, meaning that not all differences will be statistically significant. Throughout the report, differences between sub-groups are commented upon only where we are sure these are statistically significant i.e. where we can be 95% certain that they have not occurred by chance.

Where percentages do not sum to 100%, this may be due to rounding, the exclusion of 'don't know' categories, or multiple answers. Aggregate percentages (e.g. "optimistic/not optimistic" or "easy/difficult") are calculated from the absolute values. Therefore, aggregate percentages may differ from the sum of the individual scores due to rounding of percentage totals.

Throughout the report, an asterisk (*) denotes any value of less than half a percent and a dash (-) denotes zero. For questions where the number of businesses is less than 30, the number of times a response has been selected (N) rather than the percentage is given.

Interpretation of Qualitative Data

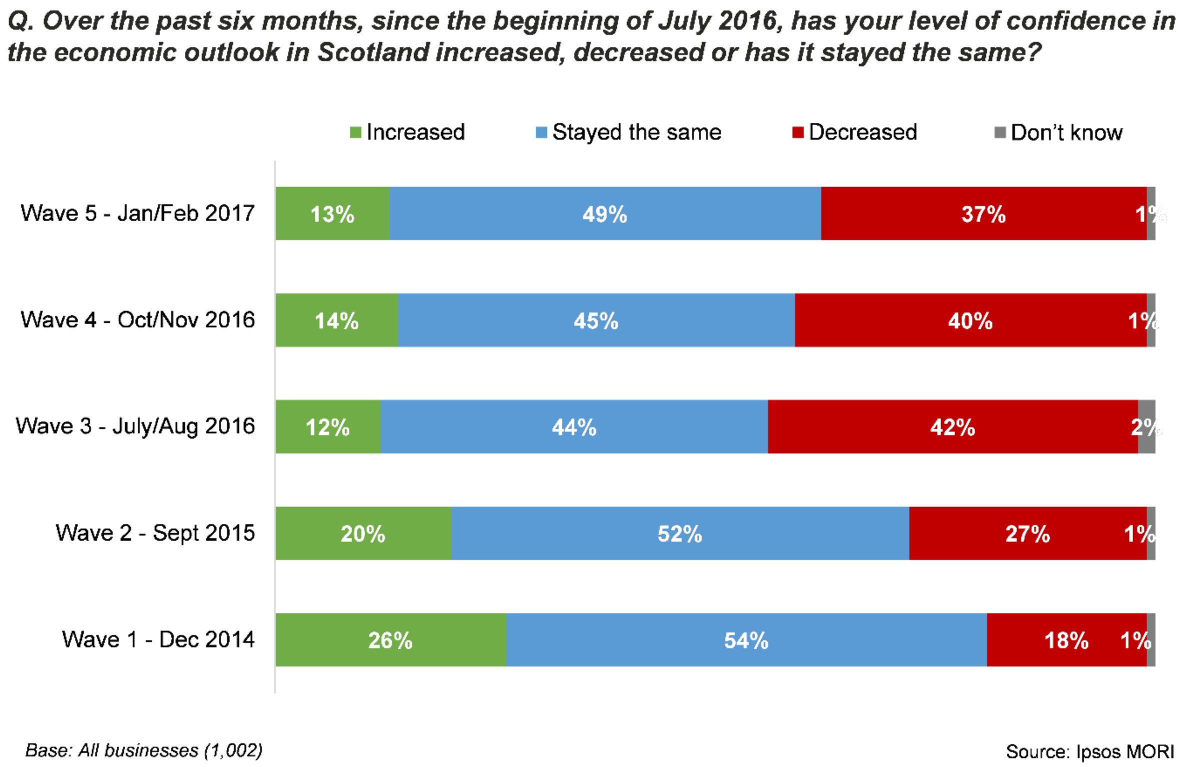
Unlike survey research, qualitative social research does not aim to produce a quantifiable or generalisable summary of population attitudes, but to identify and explore the different issues and themes relating to the subject being researched. The assumption is that issues and themes affecting participants are a reflection of issues and themes in the wider population concerned. Although the extent to which they apply to the wider population, or specific sub-groups, cannot be quantified, the value of qualitative research is in identifying the range of different issues involved and the way in which these impact on people. All aspects of the study were carried out to the international quality standard for market research, ISO 20252.

2. OPTIMISM, PROSPECTS AND PERFORMANCE

Economic optimism

Economic optimism remained at a similar level to the previous wave, with 37% saying their confidence in the economic outlook in Scotland had decreased compared with only 13% who said their confidence had increased. Almost half of businesses (49%) felt that their confidence in the economic outlook had remained the same. (Figure 2.1). Economic optimism had an overall net negative of -24 points, which is similar to the net negative of -26 seen in wave four, but a significant decline from the net positive of +7 points in the first wave of the survey in 2014.[1]

Figure 2.1 – Confidence in the economic outlook in Scotland over time



Businesses in the Food and drink sector were more likely than others to report that their confidence had decreased: 43% compared with 37% overall (Table 2.1). Those in the Creative industries and Tourism sectors were more likely than those in Non-growth sectors to report increased confidence (20% and 19% compared with 10% respectively).

[1] The net figure is the difference between 'increased' and 'decreased' assessments at each wave. Net scores are positive when positive assessments exceed negative.

Table 2.1 – Economic optimism by growth sector

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
Creative Industries	20	34	46	-	*45*
Tourism	19	30	51	-	*109*
Financial and Business Services	16	41	42	1	*91*
Food and Drink	13	43	43	1	*241*
Non-growth sector	10	35	54	2	*431*
	N	N	N	N	N
Energy[2]	2	10	11	-	*23*
Life Sciences	-	1	1	-	*2*
Base: All businesses in each sector					

Larger businesses were more optimistic than average, with 24% of those with 25 or more employees saying their confidence had increased, compared with 13% overall (Table 2.2).

Table 2.2 – Economic optimism by size of business

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
0-4	10	38	50	2	*588*
5-10	14	33	53	-	*163*
11-24	20	33	47	-	*138*
25+	24	36	38	2	*113*
Base: All businesses					

The trends were largely consistent across businesses in terms of location and fragile areas. The exceptions to this were businesses in Lochaber, Skye and Wester Ross, who were more likely than average to report increased confidence (20% compared with 13% overall), while businesses in the Outer Hebrides were more likely than average to say their level of confidence had stayed the same (63% compared with 49% overall). When interpreting these differences, and any differences in results by region, it is important to note the sectoral profile of businesses from these areas who took part in the survey. For example, the sample of businesses in Lochaber, Skye and Wester Ross contained a higher proportion of Tourism businesses than the overall sample (19% of businesses in the region compared with 10% overall). Increased confidence in this region may therefore be linked to the higher than average levels of increased confidence among Tourism businesses, as highlighted earlier.

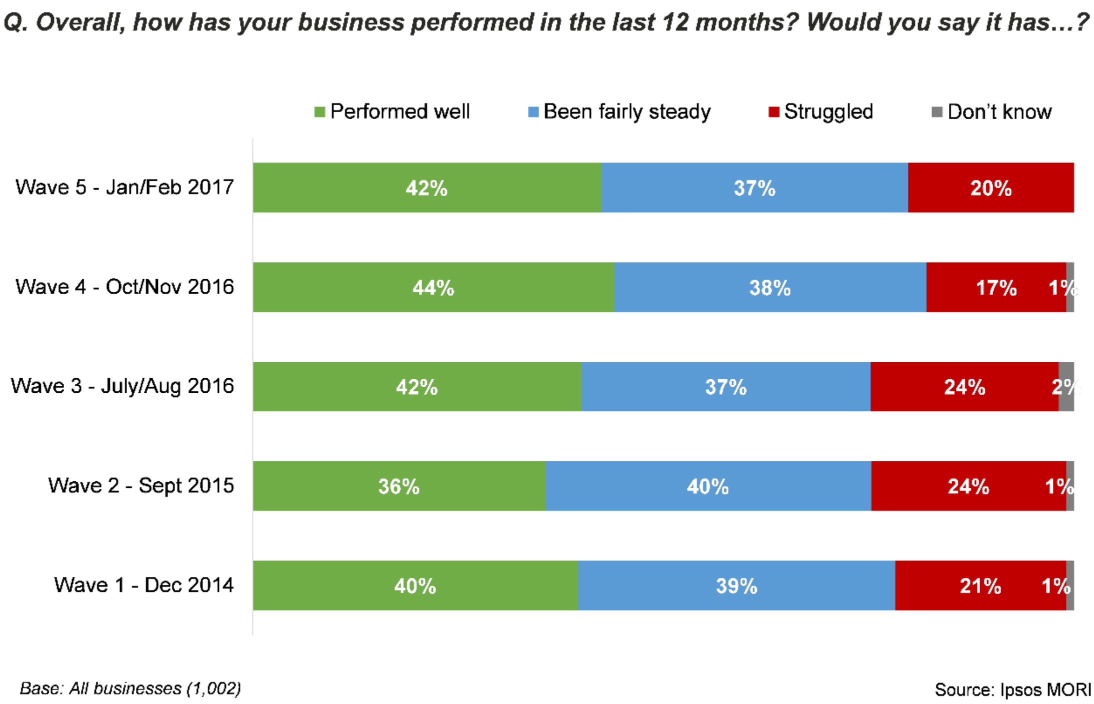
[2] As base sizes for Energy and Life Sciences are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

As with the previous wave, non-account managed businesses were more likely than account managed businesses to report that their confidence had decreased over the previous six months (38% compared with 29% of account-managed firms).

Business performance

In line with findings from the previous wave, a little over two fifths (42%) of businesses said that they had performed quite (34%), or exceptionally well (8%) over the previous 12 months, while 37% reported a steady performance. A fifth (20%) said that their business had struggled slightly (15%) or markedly (5%). (Figure 2.2 and Table 2.3).

Figure 2.2 – Assessments of business performance in the last 12 months over time



Assessments of past business performance were correlated with the level of confidence in the economic outlook in Scotland: 72% of those who reported that their business had performed well also reported that their confidence had increased.

Once again, businesses in the Tourism sector were more likely than average to have positive assessments of their business performance: 62% reported that their business performed either quite well or exceptionally well, compared with 42% overall. In contrast, Food and drink businesses were more likely to have struggled, with 28% saying they had struggled slightly or markedly compared with 20% overall (Table 2.3).

Table 2.3 – Business performance by growth sector

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	
Overall	**8**	**34**	**37**	**15**	**5**	*****	***1,002***
Tourism	17	45	28	6	2	1	*109*
Financial and business services	6	36	43	12	4	-	*91*
Non Growth Sector	7	33	39	16	4	*	*431*
Food and drink	8	28	36	21	7	-	*241*
Creative industries	5	28	47	15	5	-	*45*
	N	N	N	N	N	N	N
Energy[3]	-	11	8	4	1	-	*23*
Life sciences	*	1	*	*	*	-	*2*
Base: All businesses in each sector							

There was no significant variation by location or fragile area.

In terms of variation by size, large businesses (25+ staff) were more likely than average to report that their business had performed exceptionally well (17% compared to 8% overall). Once again, smaller business with 0-4 employees were more likely than average to report steady performance (42% compared with 37% overall) (Table 2.4).

Table 2.4 – Business performance by size of business

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	
0-4	6	30	42	15	5	1	*588*
5-10	7	41	33	15	3	*	*163*
11-24	14	41	30	11	4	-	*138*
25+	17	37	21	18	7	-	*113*
Base: All businesses							

There were no significant variations by relationship with HIE.

Turning to specific aspects of performance, businesses reported stable performance in a number of key areas that applied to them, including employment (73%), staff training (71%), working hours (67%), and exports (56%). Views were mixed in relation to profit margins and sales or turnover; 24% reported an increase in profit margins while

[3] As base sizes for Energy and Life Sciences are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

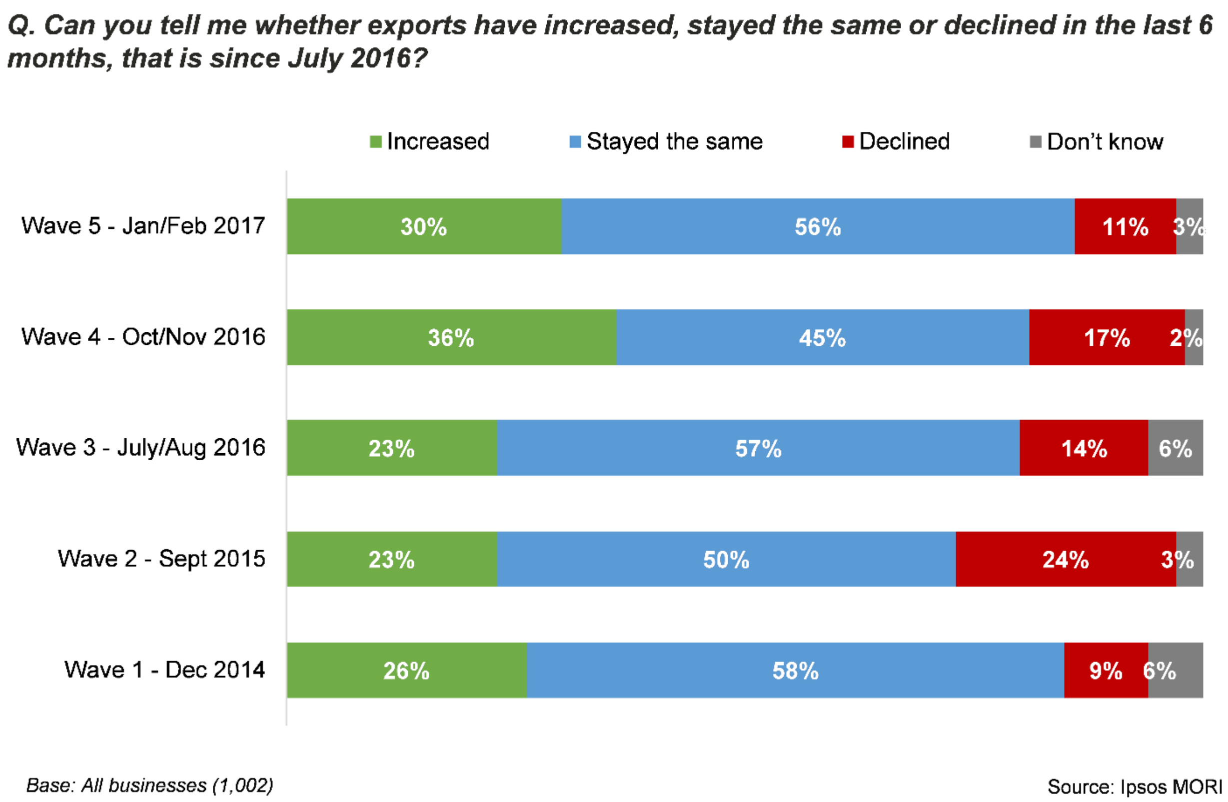
29% reported a decrease; and 40% reported an increase in sales or turnover while 21% reported a decrease. (Table 2.5).

Table 2.5 – Aspects of business performance in the last six months

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	
Sales or turnover	40	21	37	2	*990*
Exports	30	11	56	3	*232*
Working hours	25	8	67	*	*992*
Staff training	24	5	71	*	*826*
Profit margins	24	29	43	4	*983*
Employment	17	10	73	*	*934*
Base: All businesses saying each aspect applied to them					

The proportion reporting an increase in exports was slightly lower than wave four, at 30% compared with 36% (Figure 2.3). Among those that export (approximately 20% of those surveyed), businesses with 25 or more employees were more likely to report an increase in exports in the last six months (52% compared to 30% overall). In terms of location, businesses in Moray were more likely than average to say their exports had increased, at 48%. There were no statistically significant variations by growth sector or fragile areas.

Figure 2.3 – Trends in exports over time



To summarise businesses' experience, we scored each instance of increased performance as +1, each decrease as -1 and each 'stayed the same' as 0 and summed across the six aspects for each business, giving a maximum of +6 for increases on all aspects and a minimum of -6 for those reporting decreases across the board. A positive score indicates that on average businesses reported more aspects increasing than decreasing or staying the same. A negative score means more aspects decreasing than staying the same or increasing.

Across the whole sample, the average score was 0.6 – slightly positive, and indicating that few businesses reported increases or decreases in all aspects. Forty-six percent of businesses had an overall positive score, while 28% had a negative score and 26% had a score of zero. This is consistent with the previous wave of the survey.

There was little variation by growth sector, although Tourism businesses had the higher overall average score across all aspects of business performance, at 0.9 (Table 2.6), reflecting the stronger than average performance among Tourism businesses reported in the past two waves of the survey. More specifically, Tourism businesses were more likely to report an increase in sales or turnover (55% compared with 40% overall) and profit margins (34% compared with 24% overall), again echoing findings from the past two waves. This increase in financial performance in the Tourism sector may be linked to the low value of the pound, making the UK and Scotland a more attractive visitor destination.

Table 2.6: Overall assessments of business performance in the last six months by growth sector

Growth Sector	Assessment of business performance (mean score)
Life sciences[4]	1.3
Tourism	0.9
Creative industries	0.7
Financial and business services	0.6
Food and drink	0.6
Energy	0.5
Non Growth Sector	0.3

In line with the previous wave, businesses in Lochaber, Skye and Wester Ross were more likely than average to report an increase in sales or turnover (51% compared with 40% overall) and profit margins (37% compared with 24% overall). This is reflected in their average business performance score, higher than other locations at 0.9 (Table 2.7).

[4] Although Life Sciences had an average score of 1.3, this does not represent a significant difference from other sectors due to the small base size for Life Science businesses

Table 2.7: Overall assessments of business performance in the last six months by location

Location	Assessment of business performance (mean score)
Lochaber, Skye and Wester Ross	0.9
Outer Hebrides	0.7
Orkney	0.6
Inner Moray Firth	0.6
Moray	0.6
Caithness and Sutherland	0.5
Argyll and the Islands	0.5
Shetland	0.3

Businesses with 11-24 and 25 or more employees were more likely to report an increase in aspects of business performance, overall, compared with those with fewer employees (0-4 or 5-10) (Table 2.8). In line with findings from the past two waves, businesses with 25 or more employees were once again more likely than average to report an increase in several aspects of business performance including sales or turnover (58%) exports (52%), staff training (40%), employment (38%) and profit margins (32%). Similarly, businesses with 11-24 employees were more likely than average to report an increase in profit margins (36%), staff training (35%) and employment (28%).

Table 2.8 – Overall assessments of business performance by size of business

Size of business	Assessment of business performance (mean score)
0-4	0.4
5-10	0.6
11-24	1.1
25+	1.1

Account-managed businesses had higher positive scores (1.3) than non-account managed (0.4) (Table 2.9) and were more likely to report increased performance in sales or turnover (56% compared with 37%), profit margins (36% compared with 23%), and employment (33% compared with 14%). This is in keeping with results from the past two waves.

Table 2.9: Overall assessments of business performance in the last six months by relationship with HIE

Relationship with HIE	Assessment of business performance (mean score)
Account-managed	1.3
Non-account managed	0.4

As in previous waves, there were again no statistically significant differences in aspects of business performance in the last six months for those in fragile areas.

Business prospects in the next six months

When asked about future performance of their business in the next six months, most businesses expected stability in employment (69%), working hours (69%) and staff training (66%). Views were more mixed in relation to the other aspects of business performance that applied to them. On exports, 37% expected an increase while 49% expected them to stay constant. In terms of profit margins, 31% expected an increase, while 17% expected a decrease and 48% expected no change. Similarly, in terms of sales or turnover, 43% expected an increase, 15% expected a decrease and 40% expected them to stay constant. (Table 2.10).

Table 2.10 – Aspects of business performance in the next six months

	Increase	Decrease	Stay the same	Don't know	Base
	%	%	%	%	
Sales or turnover	43	15	40	3	*992*
Exports	37	9	49	5	*266*
Profit margins	31	17	48	4	*984*
Staff training	30	4	66	2	*868*
Employment	25	6	69	1	*938*
Working hours	24	6	69	1	*994*
Base: All businesses saying each aspect applied to them					

Scoring future prospects in the same way as past performance, the overall score across the six aspects was 1.1, an increase from 0.5 in the previous wave. Just over half (54%) of businesses had an overall positive score, while 18% had an overall negative score and 28% had a score of zero.

Each sector had an overall positive mean score. (Table 2.11). The most notable change from the previous wave was among Tourism businesses, who saw their overall score increase from -0.4 to 1.6. As noted earlier, this may reflect current optimism in the sector as a result of the low value of the pound, and potentially the approaching tourism season of Easter and early summer. Tourism businesses were more likely than others to anticipate an increase in sales or turnover (58% compared with 43% overall), profit margins (40% compared with 31%), and working hours (36% compared with 24%).

Table 2.11: Overall assessments of business performance in the next six months by growth sector

Growth Sector	Assessment of business performance (mean score)
Life sciences [5]	2.5
Energy	1.7
Tourism	1.6
Creative industries	1.4
Food and drink	1.1
Financial and business services	0.8
Non Growth Sector	0.8

Reflecting their assessment of past business performance, businesses in Lochaber, Skye and Wester Ross had the highest mean score (Table 2.12) and were more likely than average to expect an increase in profit margins (41% compared with 31% overall) and working hours (34% compared with 24%). This was the highest overall mean score seen in this region in comparison with the past two waves of the survey (mean scores were 0.3 in wave 4 and 0.5 in wave 3), and the first time that businesses in this region had higher than average scores in relation to profit margins and working hours.

Elsewhere businesses in the Inner Moray Firth were more likely than average to expect profit margins to remain constant (55% compared with 48%). This is the first time businesses in this region had reported higher than average scores on this aspect of business performance.

Table 2.12: Overall assessments of business performance in the next six months by location

Location	Assessment of business performance (mean score)
Lochaber, Skye and Wester Ross	1.4
Moray	1.2
Orkney	1.1
Argyll and the Islands	1.1
Outer Hebrides	1.0
Inner Moray Firth	1.0
Shetland	0.9
Caithness and Sutherland	0.8

Larger businesses had more positive expectations than smaller businesses, and were more positive overall than they had been in previous waves. Businesses with 0-4 staff had a mean score of 0.8, while those with more than 5 staff had mean scores of between 1.4 and 1.7 (Table 2.13). Those with 25 or more employees were more likely than average to anticipate an increase in employment (45% compared with 25%). This suggests a change in

[5] Although Life Sciences has the highest mean score of 2.5, this does not represent a significant difference from other sectors due to the small base size for Life Science businesses

opinion among businesses of this size in relation to this aspect of performance: in the past two waves, these businesses were more likely than average to expect a *decrease* in employment. In this wave these businesses were also more likely than average to expect an increase in sales or turnover (60% compared with 43% overall), staff training (42% compared with 30%), and profit margins (41% compared with 31%).

Table 2.13: Overall assessments of business performance in the next six months by size of business

Size of business	Assessment of business performance (mean score)
0-4	0.8
5-10	1.4
11-24	1.6
25+	1.7

As in previous waves, account-managed businesses had a higher overall positive score (2.1) than non-account managed (0.9) (Table 2.14). This reflects the higher level of optimism among account managed businesses, who were more likely to expect an increase in sales or turnover (66% compared with 39% of non-account managed businesses), exports (52% compared with 29%), employment (49% compared with 20%) and profit margins (44% compared with 29%).

Table 2.14: Overall assessments of business performance in the next six months by relationship with HIE

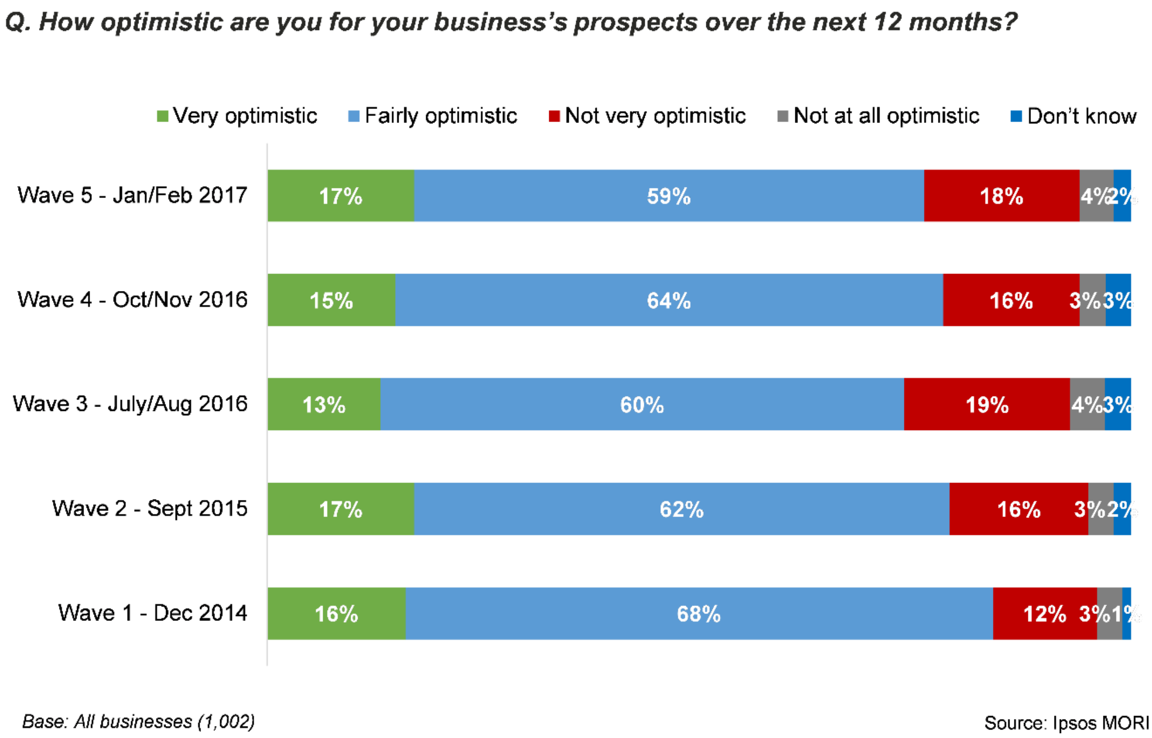
Relationship with HIE	Assessment of business performance (mean score)
Account-managed	2.1
Non-account managed	0.9

Once again there were no statistically significant differences in projections for aspects of business performance in the next six months for those in fragile areas.

Future business prospects

Around three quarters of businesses (76%) were very or fairly optimistic for their prospects over the next 12 months, in comparison to around a fifth (22%) who were not optimistic. These results are broadly in line with all the previous waves (Figure 2.4).

Figure 2.4 – Business prospects over the next 12 months



There is a correlation between economic optimism and assessment of future business prospects; those whose confidence in the economy had increased were also more optimistic about the future of their business. Similarly, those whose confidence had decreased were more likely to report that they were not very optimistic about their future business prospects (Table 2.15).

Table 2.15– Business prospects over the next 12 months by confidence in the economic outlook in Scotland

	Optimism for future business prospects					
	Very optimistic	Fairly optimistic	Not very optimistic	Not at all optimistic	Don't know	Base
Confidence in the economic outlook in Scotland	%	%	%	%	%	
Increased	51	46	3	-	1	*135*
Stayed the same	16	74	8	1	1	*488*
Decreased	6	45	36	10	3	*366*
Base: All Businesses (1,004)						

Past business performance had an impact on future optimism, with 93% of those that had said that their business had performed exceptionally or quite well also reported that they were optimistic about their future business prospects. Similarly, 55% of those who had reported that they had struggled slightly or markedly in the last six months also reported that they were not optimistic for their future prospects (Table 2.16).

Table 2.16 – Optimism for future business prospects by past business performance

	Optimism for future business prospects			
	Optimistic	Not optimistic	Don't know	Base
Past business performance	%	%	%	N
Performed exceptionally/quite well	93	6	1	*421*
Been fairly steady	75	23	2	*373*
Struggled slightly/markedly	42	55	3	*198*

In line with findings from the previous wave, businesses in the Tourism sector were more likely to report that they were very optimistic about their prospects in the next 12 months (28% compared to 17% overall). In contrast, and in line with the past two waves of the survey, Food and drink businesses were more likely to be pessimistic about the next 12 months (24% reported that they were not very optimistic compared to 18% overall) (Table 2.17).

Table 2.17 – Optimism with business prospects by growth sector

	Very optimistic	Fairly optimistic	Not very optimistic	Not at all Optimistic	Don't know	Base
	%	%	%	%	%	N
Tourism	28	58	9	3	2	*109*
Creative industries	23	57	14	2	4	*45*
Financial and business services	18	61	15	4	2	
Non-growth sector	13	63	18	4	2	*431*
Food and drink	15	52	24	7	3	*241*
	N	N	N	N	N	
Energy[6]	2	19	2	-	-	*23*
Life sciences	1	1	*	-	-	*2*

Optimism was higher among larger businesses than smaller businesses. For the first time, those with 25 or more employees were more likely than average to say they were very optimistic (26% compared with 17% overall). However, those with 0-4 employees were more likely than average to say they were not very or not at all optimistic (26% compared with 22% overall), echoing findings from wave 3 of the survey (Table 2.18).

[6] As base sizes for Energy and Life Sciences are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

Table 2.18 – Optimism with business prospects by size of businesses

	Very optimistic	Fairly optimistic	Not very optimistic	Not at all Optimistic	Don't know	Base
	%	%	%	%	%	N
0-4	15	56	21	6	2	*588*
5-10	17	68	13	2	1	*163*
11-24	19	67	12	2	1	*138*
25+	26	55	14	2	3	*113*
Base: All businesses						

Account-managed businesses (89%) were once again more optimistic about their prospects than non-account managed businesses (74%).

There was little variation by location, with the exception of businesses in Lochaber, Skye and Wester Ross who were more optimistic than average (86% compared with 76% overall) and businesses in Moray who were more pessimistic than average (30% compared with 22% overall). As noted earlier the sample of businesses in Lochaber, Skye and Wester Ross contained a higher proportion of Tourism businesses than the overall sample (19% of businesses in the region compared with 10% overall). Conversely, Tourism businesses were under-represented in Moray, at 2% of the sample, while this region had a higher than average proportion of Food and Drink businesses (30% compared with 24% in the overall sample). Optimism in these areas may therefore be linked to the higher than average levels of optimism among Tourism businesses, and lower than average optimism among Food and Drink businesses.

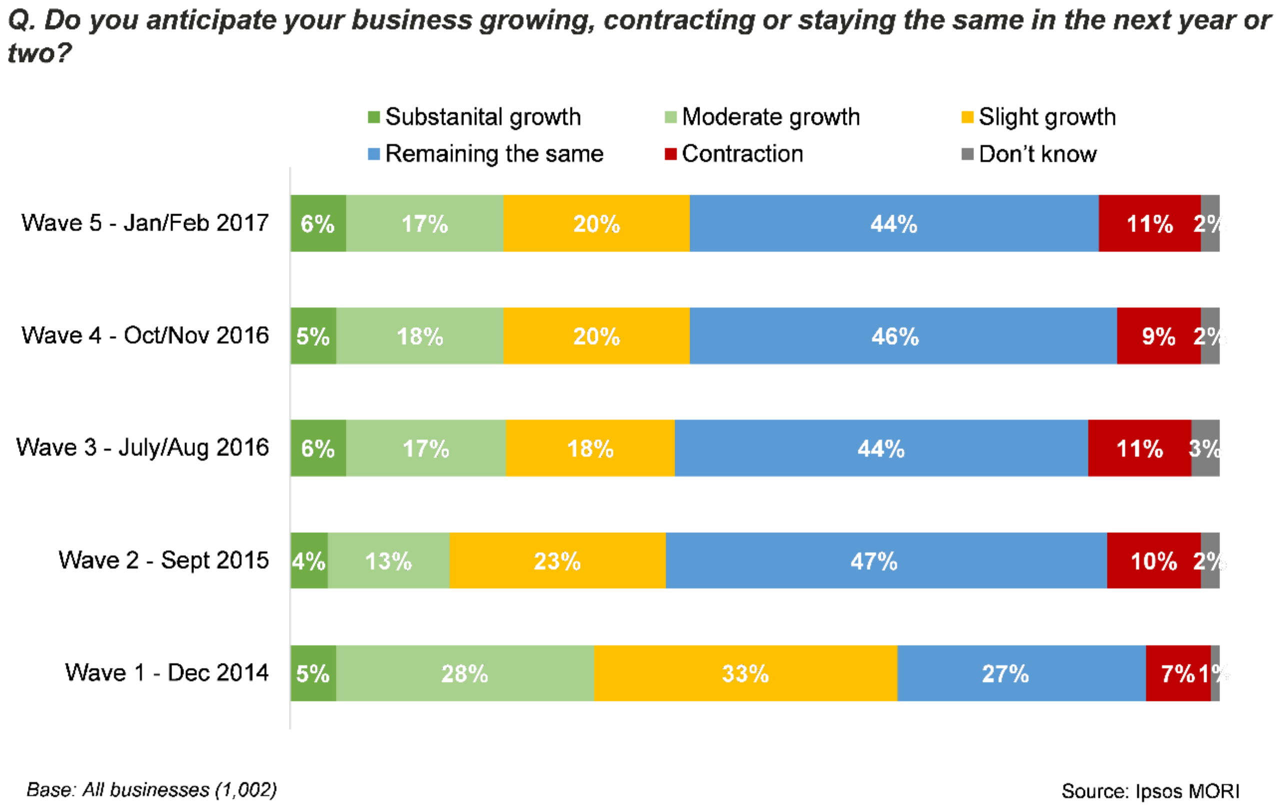
As with results from the last wave, there were no statistically significant differences by fragile area.

Business growth

Over half (55%) of businesses did not anticipate growth over the next year or two: 44% expect stability while 11% anticipate a contraction. In terms of those who anticipated growth (43%): 6% anticipated substantial growth, 17% moderate growth and 20% slight growth.

While these results are consistent with the previous three waves of the survey, they highlight a decrease in expectations of growth from the results in 2014 where 66% of businesses anticipated growth in the next year or two (Figure 2.5).

Figure 2.5 – Future growth over the next year or two



Businesses with 0-4 employees were less likely than larger businesses to anticipate growth (34% compared with 52% of those with 5-10 employees, 60% of those with 11-24 employees and 69% of those with 25 or more employees). Half of businesses with 0-4 employees anticipated their business remaining much the same. (Table 2.19).

Table 2.19– Future growth by size of businesses

	Substantial growth	Moderate growth	Slight growth	Much the same	Contraction	Don't know	Base
	%	%	%	%	%	%	N
0-4	5	13	16	50	13	3	*588*
5-10	5	19	28	40	8	1	*163*
11-24	13	24	24	31	7	1	*138*
25+	6	39	24	19	11	1	*113*

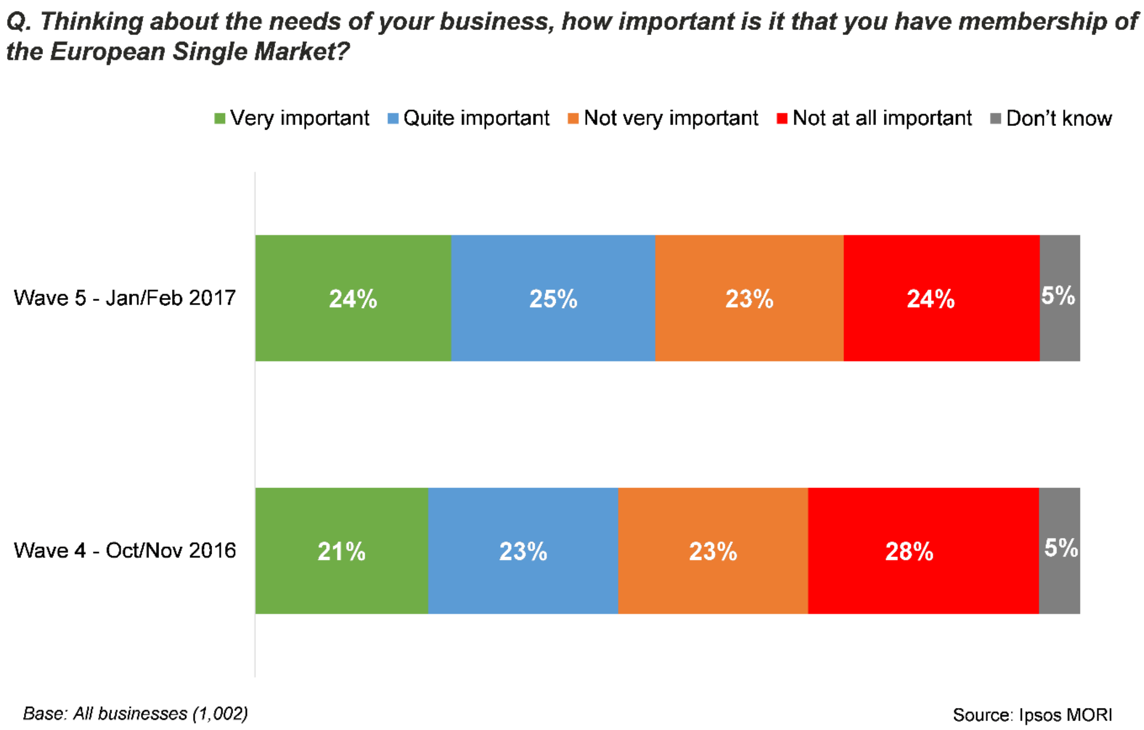
Account managed firms were more optimistic than non-account managed firms. Around three quarters (76%) of account managed firms anticipated growth in contrast to just under two fifths (37%) of non-account managed firms.

There was no significant variations in results by growth sector, location or fragile area.

European Single Market

Businesses were again asked to consider the importance of access to the European Single Market in the context of their business needs. As with the previous wave, opinion was broadly split, with around half (48%) saying that access was important and a similar proportion (47%) saying it was not important. Reflecting this overall split in option, an equal proportion (24%) of businesses reported that access was *very important* as reported that it was *not at all important* (Figure 2.6).

Figure 2.6 – Importance of access to the European Single Market



Consistent with the previous wave, Food and drink businesses were more likely than average to report that access to the European Single Market was important to them (65% compared to 48% overall). In contrast, those in the Financial and business services (56%) and Tourism (53%) sectors were more likely than those in the Food and drink sector (29%) to say that access was *not* important to them (Table 2.20).

Table 2.20 – Importance of access to European Single Market by growth sector

	Very important	Quite important	Not very important	Not at all important	Don't know	Base
	%	%	%	%	%	N
Food and drink	33	32	19	10	5	*241*
Creative industries	30	19	22	26	4	*45*
Non-growth sector	22	21	26	28	4	*431*
Tourism	16	25	24	29	5	*109*
Financial and business services	15	23	17	39	6	*91*
	N	N	N	N	N	
Energy[7]	6	5	6	5	1	*23*
Life sciences	*	1	-	*	-	*2*

There were not many variations by location, although, as with the previous wave, businesses in Orkney were again more likely than average to report that access to the European Single Market was quite important (35% versus 25% overall). This may reflect than higher than average proportion of Food and drink businesses among the sample of businesses in Orkney (37% compared with 25% overall), and the high level of importance that businesses in this sector placed on access to the European Single Market.

Views were largely similar across different sizes of business. However, while the previous wave saw no significant differences by size, this wave those with 11-24 staff were more likely than average to report that access to the European Single Market was important (57% compared with 30% overall).

Consistent with the previous wave, access to the European Single Market was more important to account-managed businesses than those who are non-account managed (57% compared with 47%). There were no statistically significant differences by fragile areas.

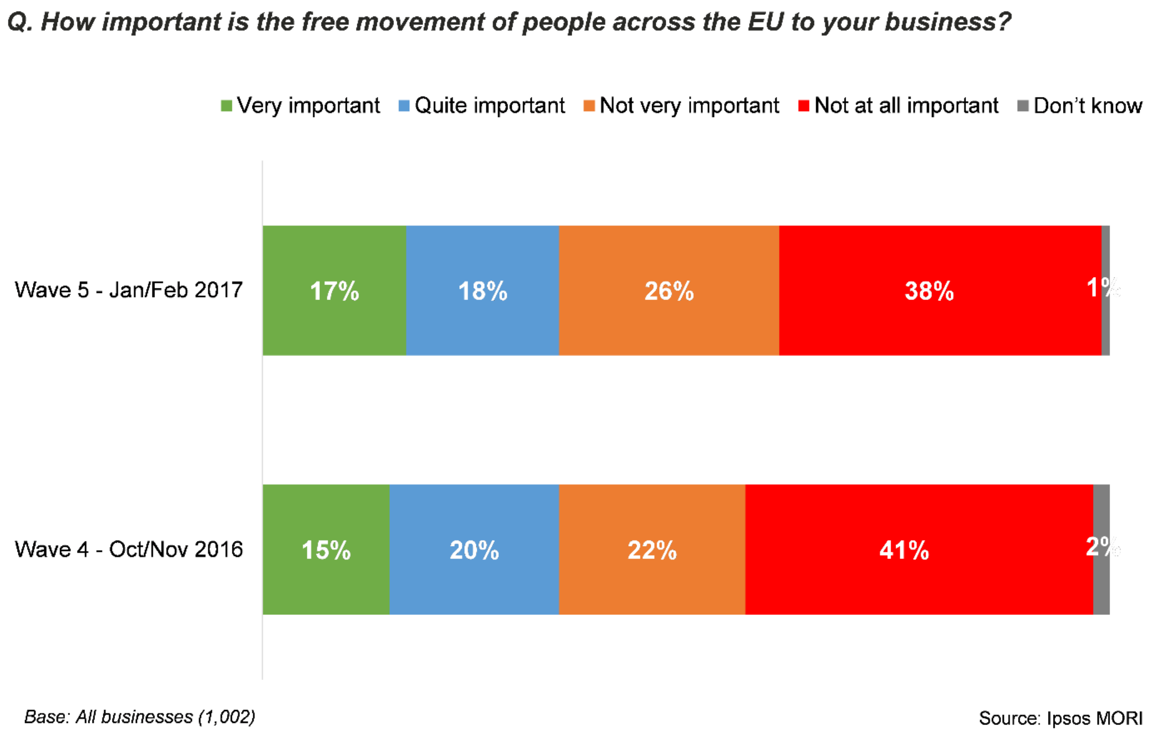
The importance of access to the European Single Market increases to 64% amongst those businesses who conducted trade with the EU (see section 3) and to 67% when we only look at those businesses who exported (similar to the 65% level in the previous wave). Among businesses that exported, those that felt access to the European Single Market was *not* important (32%), were more likely to be non-account managed than account managed (35% compared with 27%). Otherwise, there were no significant variation in size, sector, location or fragile area.

Free movement of people

Around two-thirds (64%) of businesses felt that the free movement of people across the European Union (EU) was not important for their business while around a third (35%) felt that it was important. These results are consistent with those from the previous wave (Figure 2.7).

[7] As base sizes for Energy and Life Sciences are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

Figure 2.7 – Importance of free movement of people across the EU



Those businesses who conducted trade with the EU (see section 3) were more likely than average to say that free movement of people was important to them (54% compared with 35% overall).

Once again, businesses in the Tourism sector were more likely to report that the free movement of people was important to their business (56% compared to 35% overall). Elsewhere, results were broadly similar across sectors.

Variations by size of business reflected those reported in the previous wave. Larger businesses with 11-24 or 25+ staff were more likely than average to feel that the free movement of people was important to their business (46% and 53% respectively, compared to 35% overall). In contrast, smaller businesses (with 0-4 employees) were more likely than average to feel that free movement was not important to them (68% compared to 64% overall).

Account-managed businesses were again more likely than average to report that the free movement of people was important to their business (50% compared to 35% overall and 32% non-account managed businesses).

There were no statistically significant differences by location or fragile areas.

When comparing the views on free movement of people with those on access to the European Single Market, results are very similar to the previous wave. Just over half of those who felt access to the single market was important also felt that free movement of people was important (53%). The majority of those who felt access to the single market was *not* important also felt that free movement of people was *not* important (83%) (Table 2.21).

Table 2.21 – Importance of free movement by importance of access to the European Single Market

	Importance of free movement of people				
	Very important	Quite important	Not very important	Not at all important	Base
	%	%	%	%	
Importance of European Single Market					
Very important	43	19	22	17	*235*
Fairly important	18	26	29	27	*246*
Not very important	8	19	37	36	231
Not at all important	3	5	17	76	236
Important	**30**	**23**	**25**	**22**	***481***
Not important	**5**	**12**	**27**	**56**	***519***
Base: All businesses, excluding those saying "don't know" (953)					

Those who felt that free movement of people *and* access to the European Single Market were important represent 25% of the overall sample of businesses (253 businesses), similar to the 24% reported in the previous wave, while those who felt that *neither* was important represent 39% of the sample (387 businesses) (Table 2.22), similar to the 40% reported last wave.

Table 2.22 – Comparison of importance of free movement of people and importance of access to the European Single Market

	%
Those saying European Single Market was important, but *not* free movement of people	23
Those saying free movement of people across the EU was important, but *not* European Single Market	10
Those saying both were important	25
Those saying both were not important	39
All businesses (1,004)	

As shown in Table 2.23, businesses who conducted trade with the rest of the EU were more likely than average to say that *both* the free movement of people *and* access to the European Single Market were important (40% compared with 25% overall). These businesses were less likely to say that *neither* aspect were important to their business (20% compared with 39% overall).

Table 2.23 – Comparison of importance of free movement of people and importance of access to the European Single Market, among businesses who trade with the rest of the EU

	%
Those saying European Single Market was important, but *not* free movement of people	24
Those saying free movement of people across the EU was important, but *not* European Single Market	14
Those saying both were important	40
Those saying both were not important	20
All businesses who trade with the EU (291)	

3. TRADE WITH OTHER COUNTRIES

Current markets

In this wave, businesses were asked about the level and nature of their trade with other countries and the impact that changes in trade conditions between the UK and the EU might have on their business.

The vast majority of businesses (92%) carried out trade within Scotland and just over half (54%) did so in the rest of the UK (Figure 3.1). A third of businesses (33%) carried out trade with countries outside of the UK and 28% specifically with the rest of the EU. Other countries with which most trade was conducted were the rest of Europe (22%), North America (17%), Asia (12%) and Australasia (12%).

Among businesses who traded with countries outside of the UK, 85% did so with the rest of the EU, 67% with the rest of Europe and 52% with North America (Figure 3.1). They were also more likely than average to also be trading with the rest of the UK – 90% do compared with 54% overall.

Figure 3.1 – Trade with other countries

Larger businesses were more likely than smaller businesses to trade with other countries: 58% traded with any country outside the UK (compared with 33% overall) and 52% with the rest of the EU specifically (compared with 28% overall) (Table 3.1). Businesses of this size were also more likely than average to trade with the rest of the Europe (40%), North America (30%), Asia (25%), Australasia (22%) Middle East (20%) and Africa (15%).

Table 3.1 – Trade with other countries by size of business

	Trade with countries outside UK[8]	Trade with rest of EU	Base
	%	%	N
0-4	27	22	*588*
5-10	37	33	*163*
11-24	41	34	*138*
25+	58	52	*113*
Base: All businesses			

Businesses in the Tourism sector were more likely to trade with countries outside of the UK (56%) and specifically with the rest of EU (50%) (Table 3.2). Elsewhere there were no significant variations by sector.

Table 3.2 - Trade with other countries by sector

	Trade with countries outside UK	Trade with rest of EU	Base
	%	%	N
Tourism	56	50	*109*
Creative industries	42	40	*45*
Food and drink	32	26	*241*
Non-growth sector	27	23	*431*
Financial and business services	24	19	*91*
	N	N	
Energy[9]	14	11	*23*
Life sciences	2	1	*2*
Base: All businesses in each sector			

There was little variation by location, with the exception that business in Lochaber, Skye and Wester Ross were more likely than average to trade with rest of Europe (30%), North America (25%), Australasia (21%), Central and South America (15%), Middle East (14%), and Africa (13%).

Account managed businesses were more likely than non-account managed businesses to trade with the rest of the UK (80% compared with 50%) and with countries outside of the UK (58% compared with 29%). There were no significant differences by fragile area.

[8] Figures for trade with countries outside of the UK are based on businesses who said they trade with either the rest of the EU, the rest of Europe, Middle East, Asia, Africa, Australasia, North America, or Central and South America.

[9] As base sizes for Energy and Life Sciences are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

Whether or not a business traded with countries outside of the UK, including those specifically within the EU, had no bearing on their economic confidence or their business optimism. As shown in table 3.3 below, confidence in the economic outlook in Scotland was similar across all businesses, those who traded outside the UK and those who trade with the EU specifically.

Table 3.3 – Confidence in the economic outlook in Scotland by trade arrangements

	Increased	Decreased	Stayed the same
	%	%	%
All businesses	13	37	49
All who trade outside the UK	16	36	46
All who trade with the EU	16	36	46
Base: All businesses (1,004); All who trade outside UK (341); All with trade with the EU (291)			

Similarly, optimism in their own business prospects over the next 12 months was the same among businesses who traded outside the UK and with the EU as it was for all businesses (76% optimistic. 22% not optimistic).

Nature of trade with EU

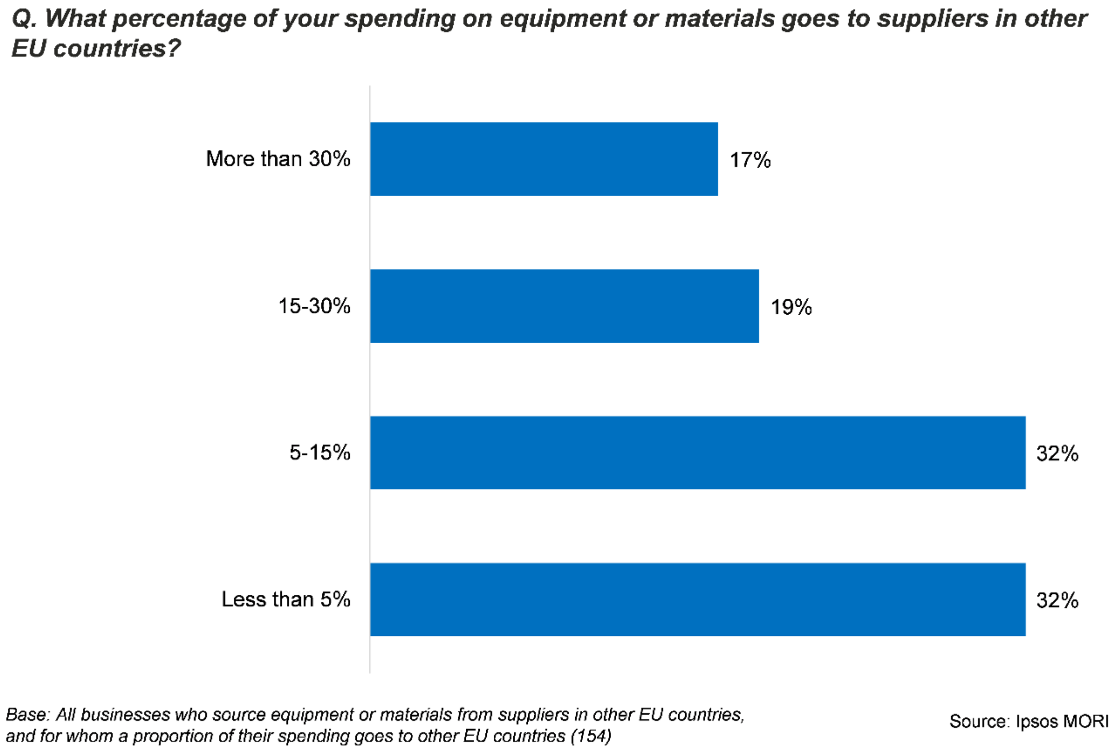
Sourcing equipment and materials

Among those who traded with other countries in the EU, 57% sourced equipment and materials from suppliers in other EU countries.

The proportion who sourced equipment and materials from other EU countries was higher than average among businesses with 25 or more employees, at 71% (compared with 57% overall), those in the Food and drink sector (74%) and among businesses located in Moray (79%). Otherwise, there was no other significant variation by size, location, sector, relationship with HIE or fragile area.

Among those who sourced equipment and materials from suppliers in other EU countries, 17% said that this made up more than 30% of their total spending on equipment and materials. Around a third (32%) said that this made up less than 5% of their spending, while the same proportion (32%) said it made up 5-15% of their spending (Figure 3.2).

Figure 3.2 – Proportion of spending on equipment or materials from other EU countries



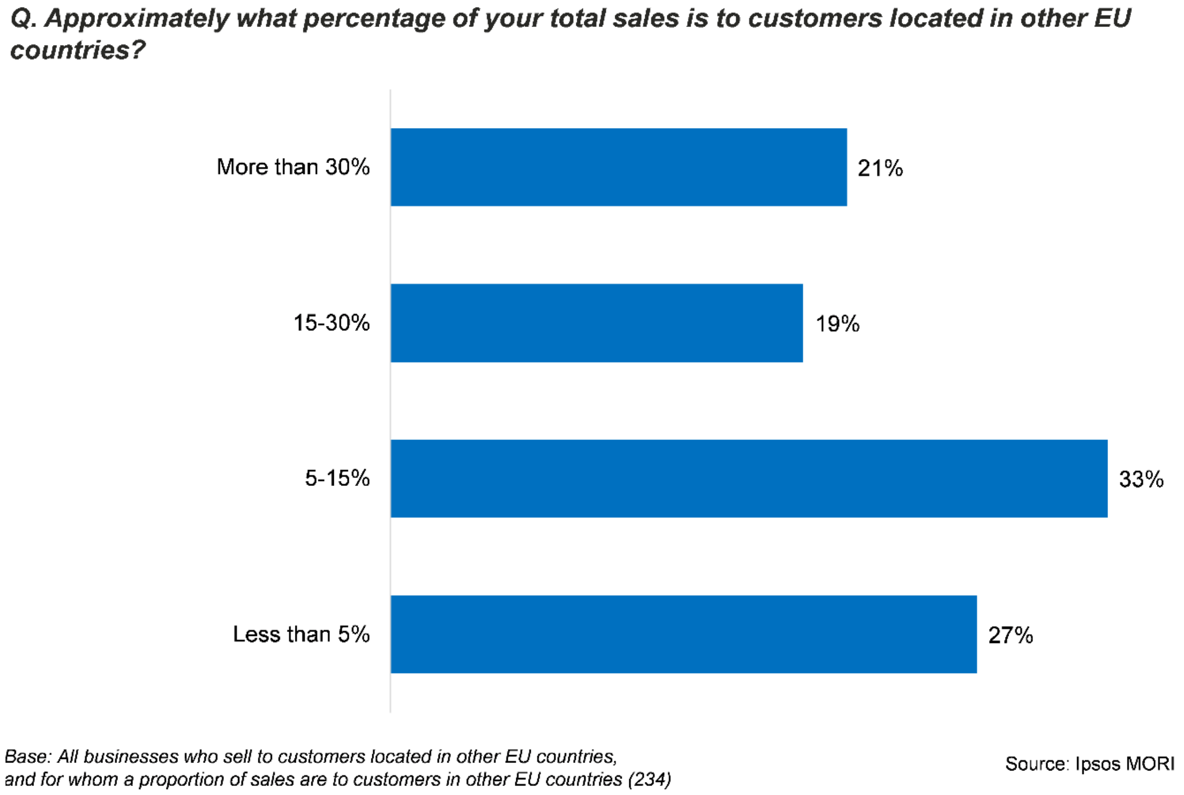
Selling to customers in other EU countries

Among those who traded with other countries in the EU, 85% sold to customers located in other EU countries.

There was no significant variation by size of business, sector, relationship with HIE, or fragile area. The only difference by location was among those in Argyll and the Islands: of businesses in this region who traded in the EU, 98% sold to customers in other EU countries (compared with 85% overall).

Among those who sold to customers located in other EU countries, one in five (21%) said that this made up more than 30% of their total sales, while a similar proportion (19%) said it made up 15-30% of their sales (Figure 3.3). Around a quarter (27%) said that this made up less than 5% of their sales, while a third (33%) said it made up 5-15% of their sales.

Figure 3.3 – Proportion of sales to customers in other EU countries



Wider supply chain

As well as providing details of their direct trade with other countries in the EU, businesses were asked about their relationships with the wider supply chain, in terms of the purchasing goods originally produced in the EU, and selling goods which are ultimately destined for the EU.

In terms of purchasing, 41% of businesses said that they bought raw materials or other inputs from suppliers or wholesalers in the UK that are originally produced in another EU country. There was no significant difference in results for those who currently trade directly with markets outside the UK, or those who current trade directly with the EU (Table 3.4).

Table 3.4 - Purchases originating from another EU country by size of business

As far as you know does your business buy any essential raw materials or other inputs from suppliers or wholesalers in the UK that are originally produced in another EU country?			
	Yes	No	Base
	%	%	N
All businesses	**41**	**44**	***1,004***
All businesses who trade outside of the UK	46	38	*341*
All businesses who trade with the EU	47	34	*291*
Base: All businesses			

There was variation by size of businesses. Those with 11-24 (51%) and with 25 or more employees (51%) were more likely than smaller businesses to have made these types of purchases (Table 3.5).

Table 3.5 - Purchases originating from another EU country by size of business

As far as you know does your business buy any essential raw materials or other inputs from suppliers or wholesalers in the UK that are originally produced in another EU country?			
	Yes	No	Base
	%	%	N
All	41	44	*1,004*
0-4	39	45	*588*
5-10	38	49	*163*
11-24	51	36	*138*
25+	51	35	*113*
Base: All businesses			

Food and drink businesses were more likely than average to have made purchases originating from another EU country (47%), while those in the Financial and business services sector were more likely to say they have not made such purchases (60% saying 'no' compared with 44% overall) (Table 3.6).

Table 3.6 - Purchases originating from another EU country by sector

As far as you know does your business buy any essential raw materials or other inputs from suppliers or wholesalers in the UK that are originally produced in another EU country?			
	Yes	No	Base
	%	%	N
Food and drink	47	40	*241*
Creative industries	45	44	*45*
Non-growth sector	42	43	*431*
Tourism	38	42	*109*
Financial and business services	23	60	*91*
	N	N	
Energy[10]	10	9	*23*
Life sciences	1	1	*2*
Base: All businesses in each sector			

Account managed businesses were more likely than non-account managed businesses to have purchased goods in the UK that were originally produced in another EU country (49% compared with 40%).

[10] As base sizes for Energy and Life Sciences are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

There were no significant differences by location or fragile area.

In terms of selling, 20% of businesses said that they sold outputs to a wholesaler where the ultimate destination was likely to be another EU country. This figure was higher among those who traded with countries outside the UK (31%) and among those trading directly with the EU (33%) (Table 3.7).

Table 3.7 – Sales destined for another EU country by trade arrangements.

As far as you know does your business sell any of its outputs to a wholesaler where the ultimate destination for the goods is likely to be another EU country?			
	Yes	No	Base
	%	%	N
All businesses	20	76	*1,004*
All businesses who trade outside of the UK	31	64	*341*
All business who trade with the EU	33	63	*291*
Base: All businesses			

Larger businesses were more likely than smaller businesses to have sold outputs in this way: 28% of those with 25 or more employees had done so (Table 3.8).

Table 3.8 – Sales destined for another EU country by size of business

As far as you know does your business sell any of its outputs to a wholesaler where the ultimate destination for the goods is likely to be another EU country?			
	Yes	No	Base
	%	%	N
All	20	76	*1,004*
0-4	16	77	*588*
5-10	22	74	*163*
11-24	20	77	*138*
25+	28	66	*113*
Base: All businesses			

Food and drink businesses were more likely than average to have sold outputs where the ultimate destination is another EU country (44% compared with 20% overall). Sectors that were least likely to have made these types of sales were Tourism (90% saying ‘no’ compared with 76% overall) and Financial and business services (87%) (Table 3.9).

Table 3.9 – Sales destined for another EU country by size of business

As far as you know does your business sell any of its outputs to a wholesaler where the ultimate destination for the goods is likely to be another EU country?			
	Yes	No	Base
	%	%	N
Food and drink	44	48	*241*
Creative industries	18	76	*45*
Non-growth sector	13	85	*431*
Financial and business services	9	87	*91*
Tourism	7	90	*109*
	N	N	
Energy[11]	2	21	*23*
Life sciences	*	1	*2*
Base: All businesses in each sector			

There was little variation by location, with the exception of businesses in Moray who were more likely to have sales destined for another EU country (29%), while businesses in the Inner Moray Firth were more likely to report that they had not made these types of sales (81% saying 'no' compared with 76% overall).

Account managed businesses were more likely than non-account managed businesses to have made these types of sales (26% compared with 19%).

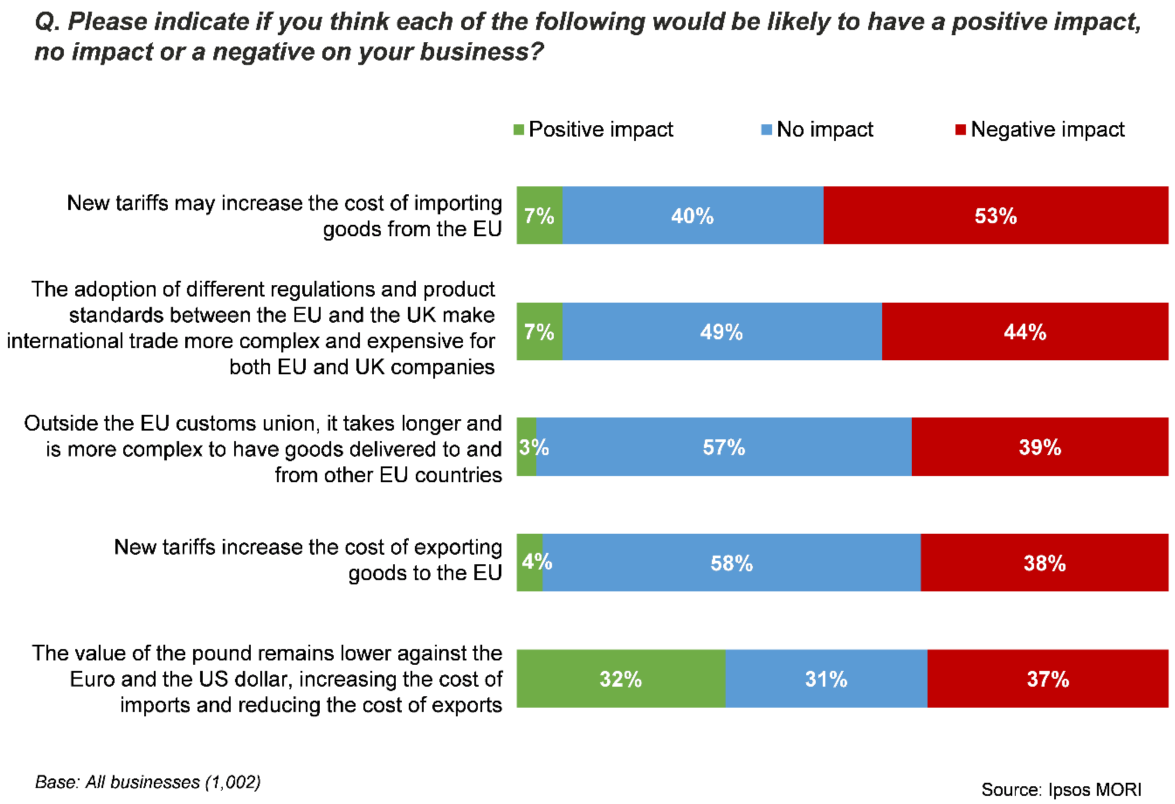
There were no significant differences by fragile area.

Impact of changes to trade conditions

Businesses were presented with five statements about potential changes in the conditions of trade, which may come about as a result of the UK leaving the EU. For each of the statements, the proportion of businesses saying they would have a negative impact was higher than the proportion saying they would have a positive impact (Figure 3.4).

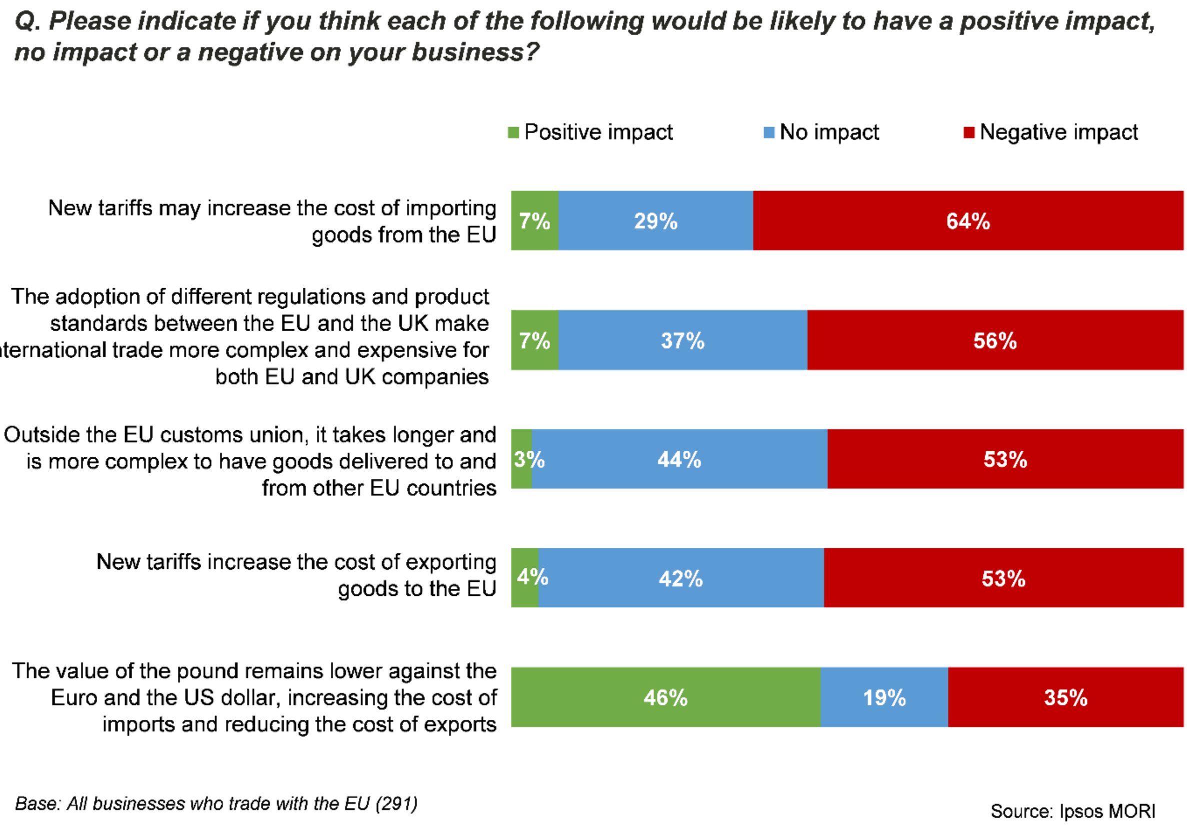
[11] As base sizes for Energy and Life Sciences are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

Figure 3.4 – Impact of potential changes in the conditions of trade with the UK



Among business that traded with the EU, views are more negative in relation to most of the scenarios presented. As shown in Figure 3.5, more than half were negative about: the impact of new tariffs increasing the costs of imports (64%); different regulations and product standards between the EU and the UK (56%); longer and more complex arrangements outside the EU customs union (53%); and new tariffs on exports (53%). It is worth noting, however, that these businesses were more likely to say that the value of the pound remaining low would have a *positive* impact on their business (46% compared to 35% saying it would have a negative impact). Across all of the scenarios, the proportion saying there would be no impact was lower for businesses who trade in the EU, emphasising the strength of opinion about changes to trade relationships among this type of business.

Figure 3.5 – Impact of potential changes in the conditions of trade with the UK, among those who trade with the EU



Each of the scenarios described in the five statements are explored in more detail below.

New tariffs which increase the cost of importing goods from the EU

The most negative views were in relation to new tariffs that may increase cost of importing goods. Just over half (53%) of all businesses felt this would have a negative impact on their business, while 40% felt it would have no impact and only 7% felt it would have a positive impact. When we look at those who currently trade in the EU, negative views were more pronounced (64% saying a negative impact), particularly amongst those who sourced products from other EU countries (77%) and those who sold products to other EU countries (61%) (Table 3.10). In contrast, those who do not trade with the EU are less likely to be negative (48%).

Table 3.10 – Impact of new tariffs that increase the cost of imports

New tariffs may increase the cost of importing goods from the EU				
	Positive impact	No impact	Negative impact	Base
	%	%		N
All businesses	7	40	53	*1,002*
All businesses who trade with the rest of the EU	7	29	64	*291*
All business who source products from other EU countries	10	13	77	*162*
All business who sell products to the EU	6	33	61	*251*
All businesses who *do not* trade with the rest of the EU	8	44	48	*713*

Sub-group differences – among all businesses

Food and drink businesses had stronger opinions on this scenario, being more likely than average to say it would have a positive impact (11%) or a negative impact (64%). In contrast, those in the Tourism and Financial and business services sectors were more likely than average to feel it would have no impact (56% and 59% respectively).

Account managed businesses were more likely than non-account managed businesses to say this would have a negative impact on their business (65% compared with 50%).

There was no significant variation by size of business, location or fragile area.

Sub-group differences – among those who trade with the EU

Among those who traded with the EU, there was a similar pattern of variation. Food and drink businesses were more likely to say this scenario would have a negative impact (75% compared with 64% overall), while Tourism businesses were more likely than average to feel there would be no impact (57% compared with 29% overall).

Account managed businesses were more likely than non-account managed businesses to say this would have a negative impact on their business (76% compared with 60%). There were no significant differences by size of business, location or fragile area.

Adoption of different regulations and product standards make trade more complex and expensive.

When asked to consider the impact of the adoption of different regulations and product standards between the EU and UK, which would make international trade more complex and expensive, around half of all businesses (49%) felt this would have no impact on their business. However, almost as many (44%) felt it would have a negative impact, while only 7% felt the impact would be positive (Table 3.11). Again, views were more negative among those who currently trade with the rest of the EU (56%), source products from other EU countries (66%) and sell products to other countries in the EU (53%). Those who did not trade with the EU were more likely to feel there would be no impact (53%).

Table 3.11 – Impact of different regulations and product standards

The adoption of different regulations and product standards between the EU and the UK make international trade more complex and expensive for both EU and UK companies				
	Positive impact	No impact	Negative impact	Base
	%	%		N
All businesses	7	49	44	*1,002*
All businesses who trade with the rest of the EU	7	37	56	*291*
All business who source products from other EU countries	11	23	66	*162*
All business who sell products to the EU	6	41	53	*251*
All businesses who *do not* trade with the rest of the EU	8	53	39	*713*

Sub-group differences – among all businesses

Food and drink businesses were more likely than average to say that this would have a negative impact on their business (55% compared with 44% overall). This may reflect the higher than average proportion of Food and drink business who source equipment or materials from other countries. Tourism businesses, on the other hand, were more likely than average to feel it would have no impact (64%).

Account managed businesses were more likely than non-account managed businesses to say this would have a negative impact on their business (59% compared with 41%).

There was no significant variation by size of business, location or fragile area.

Sub-group differences – among those who trade with the EU

Among those trading in the EU, Food and drink businesses were more negative than average – 68% said this would have a negative impact compared with 56% overall. Tourism businesses again were more inclined to see no impact from this scenario (61% compared with 37% overall).

Account managed businesses were more likely than non-account managed businesses to say this would have a negative impact on their business (70% compared with 52%). There was no significant variation by size of business, location or fragile area.

Outside EU customs union it is longer and more complex to have goods delivered to and from other EU countries

The third scenario was that outside of the EU customs union, it takes longer and is more complex to have goods delivered to and from other EU countries. Over half of businesses (57%) felt that this scenario would have no impact on their business, while 39% felt it would have a negative impact and only 3% felt it would have a positive impact. Once again, businesses who traded with the EU, sourced products from the EU, and sold products to the EU were more negative (53%, 64% and 50% respectively) (Table 3.12). Those who did not trade with the EU were more likely to feel there would be no impact (63%).

Table 3.12 – Impact of longer and more complex trade outside EU customs union

Outside the EU customs union, it takes longer and is more complex to have goods delivered to and from other EU countries				
	Positive impact	No impact	Negative impact	Base
	%	%		N
All businesses	3	57	39	*1,002*
All businesses who trade with the rest of the EU	3	44	53	*291*
All business who source products from other EU countries	4	32	64	*162*
All business who sell products to the EU	3	47	50	*251*
All businesses who *do not* trade with the rest of the EU	3	63	34	*713*

Sub-group differences – among all businesses

The smallest businesses, those with 0-4 employees, were more likely than others to feel that this scenario would have no impact on their business (61% saying no impact), and those in the Financial and business services were, again, more likely to anticipate no impact on their business (75%). Otherwise there was no significant variation by sector, location or fragile areas.

Once again, account managed businesses were more likely than non-account managed businesses to anticipate a negative impact from this change to trade conditions (56% saying a negative impact compared with 36%).

Sub-group differences – among those who trade with the EU

Among those who traded in the EU, there were no significant variations by size, sector, location or fragile area.

However, account managed businesses were more likely than non-account managed businesses to anticipate a negative impact from this scenario (65% saying a negative impact compared with 49%).

New tariffs which increase the cost of exporting goods to the EU

Over half of all businesses (58%) felt that new tariffs which increase the cost of exporting goods to the EU would have no impact on their business, while 38% felt it would have a negative impact. For those currently trading with the EU, the proportion anticipating a negative impact increases to 53%, higher still among those who sourced products from the EU (64%), and those who sold to the EU (55%) (Table 3.13). Again, those who did not trade with the EU were more likely to feel there would be no impact (65%).

Table 3.13 – Impact of new tariffs that increase the cost of exports

New tariffs increase the cost of exporting goods to the EU				
	Positive impact	No impact	Negative impact	Base
	%	%		N
All businesses	4	58	38	*1,002*
All businesses who trade with the rest of the EU	4	42	53	*291*
All business who source products from other EU countries	6	30	64	*162*
All business who sell products to the EU	3	42	55	*251*
All businesses who *do not* trade with the rest of the EU	4	65	31	*713*

Sub-group differences – among all businesses

Variation in results among businesses reflect the pattern seen for the previous scenarios:

- Food and drink businesses had higher than average negative (58%) and positive (10%) views;
- Tourism businesses and those in the Financial and business services sector were more likely to see no impact from this scenario (74% and 71% respectively);
- Account managed businesses were more likely than non-account managed businesses to anticipate a negative impact (55% compare with 35%).

There was no significant variation by location or fragile areas.

Sub-group differences – among those who trade with the EU

Those with 0-4 employees were more likely than average to foresee no impact from this scenario (51% compared with 42%).

Similar to variation among all businesses noted above, Food and drink businesses were more likely to anticipate a negative impact (71% compared with 53% overall) while Tourism businesses were more likely than others to anticipate no impact (63% compared with 42%).

Account managed businesses were more negative than non-account managed businesses - 69% anticipated a negative impact from this scenario compared with 48%.

There was no significant variation by location or fragile areas.

Value of the pound remains low, increasing costs of imports and reducing cost of exports

The most positive views were in relation to the value of the pound remaining low against the Euro and the US Dollar, increasing the cost of imports and reducing the cost of exports. However overall views on this were fairly split: a third of businesses (32%) felt this would have a positive impact and similar proportions felt it would have a negative (37%) or no (31%) impact (Table 3.14).

Businesses who traded with the EU were more likely to say that this scenario would have a positive impact (46% compared with 32%), as were those who sold products to the EU (50%). However, those who sourced products from the EU were more likely to say this would have a negative impact (47% compared with 37%). Again, those who did not trade with the EU were more likely to feel there would be no impact (36%).

Table 3.14 – Impact of value of the pound remaining low

The value of the pound remains lower against the Euro and the US dollar, increasing the cost of imports and reducing the cost of exports				
	Positive impact	No impact	Negative impact	Base
	%	%		N
All businesses	32	31	37	*1,002*
All businesses who trade with the rest of the EU	46	19	35	*291*
All business who source products from other EU countries	37	16	47	*162*
All business who sell products to the EU	50	19	31	*251*
All businesses who *do not* trade with the rest of the EU	26	36	37	*713*

Sub-group differences – among all businesses

There was some variation in views by size of business. Businesses with 25 or more employees were more likely to anticipate a positive impact (45% compared with 32% overall), while businesses with 11-24 employees were more likely to anticipate a negative impact (47% compared with 37% overall).

In terms of differences by sector, Tourism and Food and drink businesses had more positive views about this scenario than those in other sectors (50% and 42% saying 'positive impact' respectively), while those in the Financial and business services sector were more likely to see no impact on their business (45%).

There was no significant variation by location, fragile area or relationship with HIE.

Sub-group differences – among those who trade with the EU

Among those trading in the EU, Tourism businesses were again more positive about this scenario (63% compared with 46% overall).

There was no significant variation by size, location, fragile area or relationship with HIE.

Impact of the UK leaving the EU: qualitative research findings

In order to gain further insights into the views of businesses about the potential impact of the UK leaving the EU, follow-up in-depth interviews were carried out with a sample of survey respondents. Participants for the in-depth interviews were identified based on their responses in the survey, specifically those questions which asked about impacts of changes to trade relationships between the UK and the EU, in order to identify a range of opinions on these issues. Participants represented a range of business sizes and sectors, but particular emphasis was placed on Food and drink business as they were relatively more likely in the survey to have a negative view about potential changes to trade relationships. The aim of the in-depth interviews was to probe more fully into these views and provide further insights into the challenges and opportunities facing businesses in the region.

Overall, the most common view among participants was that the UK leaving the EU would have a negative impact on long term business performance. Coupled with these negative views was an overall sense of uncertainty about the long term impacts of the UK leaving the EU and any resulted changes to the trade relationship. The main areas that were of most concern to businesses were:

- the value of the pound and the associated impact on imports and exports;
- import and export tariffs and the resulting increase in costs;
- potential restrictions on free movement of worker across the EU; and
- direct and indirect impacts of the loss of subsidies and grant funding from the EU.

Value of the pound

Businesses who sourced products from other countries in the EU had either already seen an increase in the cost of imports, or expected to see this increase in the future. The key cause of this increase was seen as the low value of the pound since the UK voted to leave the EU. These price increases were not restricted to any one sector, and the types of goods affected ranged from fruit and vegetable to products such as coffee, fertiliser, wood and bicycles parts.

> *'It's already happening, basic elements such as fertiliser are increasing, and because we rely on this so much as an industry across the UK that is a classic example of increased cost. Given that margins are going to be put under pressure elsewhere, that one element will have a huge impact on our business.'*
>
> (Non-growth sector business with 11-24 employees)

> *'Since the Brexit vote, we have seen an increase in the cost of the products we get from the EU, because the pound has weakened. It has had a huge impact on us – it is costing us a lot more money per month. And so far we have just had to absorb this cost.'*
>
> (Energy business with 11-24 employees)

While not all businesses had yet experienced an increase in the price of importing goods, those that imported all felt that this increase was likely to happen. For both those that had already seen increases and those that anticipated them, the general consensus was that the increase in costs would have an adverse impact on their business. The only options available for these businesses, they felt, were to either absorb the costs and see a reduction in profits, or pass the cost on to customers which may have an impact on the level of demand for their goods or services.

> *'We have had to increase prices. Our distributors set a recommended retail price which we need to follow, and because the trade price has gone up the retail price has to go up too. Sales are down at the moment, but it is hard to say whether that is just from change in customer demand or because of the price rises – it is too soon to say.'*

(Non-growth sector business with 0-4 employees)

Price increases a result of the exchange rate were not only an issue for those who traded directly with the EU. Among businesses who sourced products from UK suppliers, but whose products originated from the EU, there was concern that an increase in the cost of importing these products would ultimately lead to higher costs for the business. Again, it was felt that these costs would either have to be absorbed by the business, or would result in price increases being passed on to customers.

> *'Working in construction, most of the materials I use are from a UK supplier, but they are originally made in Italy and other parts of Europe. As prices go up, because of the value of the pound, it will become extremely difficult to get these, or at least to get them at a price that is affordable.'*

(Non-growth sector business with 0-4 employees)

While overall this increase in costs was seen as an issue for businesses, those working in Tourism, particularly the hospitality industry, felt that the price increases they had been forced to make would not necessarily have an impact on their business. Reflecting the sense of optimism seen among Tourism businesses in the survey, those who took part in interviews were confident that the strong performance in the sector would help it withstand any price increases that were required. This strong performance was itself attributed to the low value of the pound, which has made the UK a more attractive holiday destination for foreign visitors.

> *'Exchange rates are much more favourable towards people coming here to visit, and are causing people here to stay in Scotland rather than holiday abroad. So really it has been very good for hospitality.'*

(Tourism business with 5-10 employees)

There were also positive views about the value of the pound in terms of the impact it has had on those who export goods to other parts of the EU. The weak pound has caused these businesses to become more competitive than those who are selling products using other currencies, and has therefore opened up opportunities for new markets.

> *'If exchange rates stay at the value they are now, our markets in other countries could well increase. So far we haven't been able to do business in Spain, for example, as they have a lot of cheap labour whereas ours is expensive which is reflected in costs. But if the Euro is worth more, it makes our product cheaper for them so makes it easier for us to enter that market'*

(Food and drink business with 0-4 employees)

However, businesses that exported products to the EU also relied on imported goods from other countries, therefore shared the concerns already highlighted about the impact of increased costs of imported goods.

Tariffs

There was less certainty around the impact of tariffs than there was around the exchange rate, as these had yet to be seen. However, in terms of tariffs on imported goods, these were expected to have a negative impact on businesses, reflecting the overall weight of opinion among EU trading businesses in the survey. The additional costs that these tariffs would introduce were viewed as problematic for businesses, particularly on top of the already increased or increasing costs as a result of the low value of the pound. The prospect of increased costs from import tariffs was causing some businesses to consider sourcing goods from other countries, though it was acknowledged that this may be difficult to do.

> *'Basically [tariffs] would mean our costs increase, which is difficult for any business. We are likely to start looking outside the EU to see if we can source goods from other countries, because that might be what we have to do.'*

(Food and drink business with over 25 employees)

> *'Most of the goods I import are from Italy and other parts of Europe. If [tariffs] are put on them, it will become extremely difficult for us to get them, because the price will become too much. We could try and find a UK supplier but that is difficult, time-consuming and costly too.'*

(Energy business with 11-24 employees)

Several businesses said that tariffs, or any form of price increase on imported goods, would lead them to try sourcing raw materials from within the UK, as a substitute for imported goods. It was noted, however, that this can be challenging as it takes time, effort and planning in order to find these suppliers and build relationships with them. If businesses were to substitute imports with products from UK suppliers, it was felt that businesses needed to account for the time and cost associated with sourcing these alternatives. It was also highlighted that import substitution was not always possible, and depended on the availability of the products; for example, one business working in the energy sector said that many of the products they source from the EU are not currently available in the UK, therefore if they need to look elsewhere for these it would be to countries outside of the EU.

While not a common view, potential benefits of import tariffs were raised. It was suggested that the increase in costs that tariffs may introduce could force UK based businesses to source goods from within the UK, instead of from the EU, so it may indirectly help to support growth of domestic industries. These views, however, were confined to those working within manufacturing sector, and were not widely held.

> *'My suspicion is that there will be a lot more manufacturing occurring in the UK to meet market demands. Brexit presents opportunities for UK manufacturers to produce products which are traditionally sourced from abroad and because of the tariff implications they will be competitive, while currently they may not be'*

(Manufacturing business with over 25 employees)

In terms of tariffs on exported goods, participants were less certain about the impact this would have in comparison with import tariffs. However, among those who took a view on this, it was felt that export tariffs would cause them to be less competitive than businesses based within the EU and could therefore lead to loss of business.

> *'It would have a big impact. Most lamb production is exported to Europe. If tariffs are placed on that, it could reduce the amount that we can export, and ultimately the sheep and lamb industry suffers or even collapses. That is a very real possibility.'*

(Non-growth sector business with over 25 employees)

The wider potential impacts of tariffs were also discussed, beyond the direct financial implications of an additional cost on imports or exports. Businesses felt that the introduction of tariffs would add a level of complexity to trade arrangements between the UK and the EU, which would make doing business more difficult and potentially more expensive. These businesses felt that the more complexities that are introduced to trade, the more time they would need to spend planning and negotiating with suppliers, which would be an additional cost for the business. It was also felt that tariffs, and their associated complexities, could mean it takes longer to have goods delivered, which could potentially have an impact on business' ability to meet customer demand and ultimately have an impact on their cash flow.

Free movement of people

While not a common view among all participants, free movement of people was considered a major concern for those who employed a significant proportion of non-UK EU employees, particularly those within the Tourism sector. Echoing findings from previous qualitative research among businesses in the HIE region, those who employed non-UK EU nationals felt that constraints on free movement would result in a reduction in their workforce which they would find difficult to replace.

> *'It will have a massive impact. We have 65, non-UK EU nationals out of 95 staff. Internationally tourism is seen as a career pathway of choice, in Scotland it is seen a career pathway for young people until they find something better to do…if [EU workers] weren't allowed to work here then many services would grind to a shuddering standstill'*

(Tourism business with over 25 employees)

> *'There is such a spectrum of possibility for what might happen with our relationship with the EU. But we have to buy in to the elements that are of most value to us, and one of those is the free movement of people. If we want to remain functioning as an economy, there has to be free movement.'*

(Life science business with 0-4 employees)

Subsidies and EU grants

For those working within, or with links to the agricultural sector, one of the main areas of uncertainty was around the arrangements that will replace the Common Agricultural Policy and the subsidies for the agriculture industry that would be provided. The sector was seen to be dependent on subsidies, and the lack of certainty about the future availability of this type of financial support was a cause for concern.

'The impact of tariffs and other changes is hard to say until we know what the Government decide to do with the Common Agricultural Policy. A new form of subsidy for agriculture may help to balance out any increases in prices that are introduced, but we don't know yet.'

(Food and drink business with over 25 employees)

'The Common Agricultural Policy will need to be replaced with something. Whatever the replacement is will have an impact on what people will do with their land and how the industry will perform'.

(Non-growth sector business with over 25 employees)

Other businesses, who worked in the Energy and Life Sciences sectors, highlighted potential risks associated with the reduction in EU funding. These businesses noted that a significant proportion of their clients and customers received EU funding, and the loss of that funding may reduce the amount of business they are able to do. Further, one of these businesses, working in the Energy sector, was in direct receipt of EU grants and raised concern that the loss of that funding would mean that they could no longer provide the same level of service of their clients.

Changes to regulations and standards

Based on their survey responses, all interview participants felt that the adoption of different regulations and product standards would have either a negative impact on their business, or no impact. When asked about this in more detail in the interviews, participants found it difficult to articulate the exact nature of the impact this would have on their business, as they were unclear about what changes in regulation and standards would look like. However, the common view was that any such change would have a negative impact if it resulted in international trade becoming more complex and expensive. As noted above, it was felt that any additional complexities that are added to trade arrangements would create unwanted additional time and expense.

Ability to respond to potential impacts

The predominant sense of feeling among businesses interviewed was one of uncertainty. While businesses were able to speculate on the potential impacts of any increase in costs, fluctuation in demand for their services, or reduction in their workforce, ultimately they felt several aspects of the trading relationship between the UK and EU were yet to be confirmed and their impacts were therefore difficult to predict. For many, this sense of uncertainty was itself a cause of frustration and made it difficult for businesses to know how to best plan for the future.

'It is difficult to plan what to do. People will tell you not to worry, that any business lost can be replaced, but nobody really knows. I don't mind a leap in the dark, but I do like information before I make a decision, and at the moment we don't have it.'

(Non-growth sector business with 0-4 employees)

'I feel a bit helpless. We are doing what we can. But it is difficult to implement long term plans because of uncertainty. We are living day by day – we may be doing okay at the moment, but we are just not clear where things will go next.'

(Food and drink business with 0-4 employees)

In spite of this sense of uncertainty, businesses demonstrated a sense of resilience about the future prospects for their business. While uncertain about the nature of the impacts that the UK leaving the EU will have on them, a common response to that uncertainty was to continue to perform as best they can and capitalise on any opportunities that come their way.

> *We will continue to have the UK as a big market and need to continue to nurture and develop our relationships with European partners, whether we are in the EU or not. The only thing we can do is keep going, do what we do even better and make the most of the partnerships that we have developed in Europe, regardless of the political landscape.'*

(Food and drink business with 11-24 employees)

4. SUMMARY

Economic confidence remains low this wave, with businesses around three times more likely to say their confidence in the economy had decreased than they were to say it had increased. These results are broadly in line with the previous two waves.

In spite of the low level of confidence in the economy, views on business performance were again broadly positive. Around four in five said that their business had either performed well in the past 12 months or at a steady level. The remaining one in five said their business had struggled, a level unchanged on previous waves of the survey.

On specific aspects of performance, businesses mainly reported stability in employment, working hours, staff training and exports. Once again, views were more mixed in relation to sales/turnover and profit margins. Across all aspects, Tourism businesses reported more positive performance in the last six months.

Overall, the majority of businesses remain optimistic about their own prospects for the next 12 months. Optimism is linked to overall confidence in the economy: those whose confidence in the economy had increased were also more optimistic about the future of their business, while those whose confidence had decreased were more likely to be pessimistic. One in five businesses remain pessimistic about their business prospects, and pessimism is higher than average among small businesses and those in the Food and drink sector.

In line with the previous wave, views on the European Single Market were mixed; around half said that access to the single market was important to them, and half of businesses felt that it was not important. On the question of free movement of people across the EU, the majority felt that this was not important to the needs of their business. However, a third felt that free movement of people was important, and this figure was higher among larger business, account managed businesses, and those working in the Tourism sector. A quarter of businesses felt that free movement of people *and* access to the European Single Market were important, however a greater proportion (two in five) felt that *neither* were important.

Around a third of businesses carried out trade with countries outside of the UK. Trade with countries outside of the UK was higher among larger businesses and those working in the Tourism sector. In terms of specific markets, over a quarter traded with the rest of the EU, while at least one in ten traded with North America, Asia, and Australasia. Among those who traded with countries outside the UK, over four-fifths traded with the rest of the EU, two thirds with the rest of Europe, and half with North America.

Among those who trade within the EU, most sold to customers in the EU while around half sourced equipment or materials from suppliers in the EU. As well as this direct trade with the EU, indirect connections between businesses and other EU countries were apparent: two in five businesses bought goods from UK suppliers that were originally produced in another EU country, while one in five sold goods to a wholesaler where the ultimate destination for the goods was another EU country.

When asked about a range of potential changes in the conditions of trade between the UK and the EU, businesses were more likely to say they would have a negative impact than a positive impact. The area that businesses were most negative about was the possibility of new tariffs that may increase the cost of importing goods from the EU. The one area in which views were more mixed was in relation to the exchange rate: if the value of the pound remained low, increasing the cost of imports and reducing the cost of exports, a third felt this would have a positive impact on their business while a similar proportion felt it would have negative impact. Certain types of business were more likely than others to anticipate a negative impact from changes in trade conditions: those who already carried out trade with other EU countries; those in the Food and drink sector; and account managed businesses.

Views on potential changes to trade relationships were more pronounced among business that traded with the EU. For most of the scenarios considered, the proportion anticipating a negative impact was higher than the level reported among all businesses. It is worth noting, however, that these businesses were more likely than average to say that the low value of the pound and associated reduction in cost of exporting would have *positive* impact on their business. On both ends of the scale, therefore, views about impact of changes to trade relationships were more strongly held among those doing business in the EU. This finding is supported by results among those businesses who did not trade with the EU. Across all the potential scenarios considered, these businesses were more likely to say that there would be no impact on their business.

Among businesses who took part in the qualitative interviews, the most common view was that the UK leaving the EU would have a negative impact on long term business performance. Coupled with these negative views was an overall sense of uncertainty about the long term impacts of the UK leaving the EU and any resulted changes to the trade relationship. The main areas of concern for businesses very much reflect the survey findings and feedback from previous qualitative research carried out following the last wave of the survey.

Firstly, businesses who sourced products from other countries in the UK had either already seen an increase in the cost of imports, or expected to see this increase in the future, as a result of the low value of pound. There were also positive views about the value of pound in terms of the impact it has had on those who export goods to other parts of the EU, causing these business to become more competitive. However, businesses that exported products to the EU also relied on imported goods from other countries, therefore shared the concerns already highlighted about the impact of increased costs of imported goods.

While there was less certainty around the impact of tariffs than there was around the exchange rate, the potential increased costs that tariffs would introduce were viewed as problematic for businesses, particularly on top of the already increased or increasing costs as a result of the low value of the pound.

Free movement of people was considered a major concern for those who employed a significant proportion of non-UK EU employees, particularly those within the Tourism sector. Echoing findings from previous qualitative research among businesses in the HIE region, those who employed non-UK EU nationals felt that constraints on free movement would result in a reduction in their workforce which they would find difficult to replace.

Finally, for those working within, or with links to the agricultural sector, one of the main areas of uncertainty was around the arrangements that will replace the Common Agricultural Policy. The sector was seen to be dependent on subsidies, and the lack of certainty about the future availability of this type of support was a cause for concern.

Ultimately business in the qualitative research felt several aspects of the trading relationship between the UK and EU were yet to be confirmed and their impacts were therefore difficult to predict. For many, this sense of uncertainty was itself a cause of frustration and made it difficult for businesses to know how to best plan for the future. However, businesses nonetheless demonstrated a sense of resilience about the future prospects for their business. A common response to the feeling of uncertainty was to continue to perform as best they can and capitalise on any opportunities that come their way.

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