

HIE BUSINESS PANEL SURVEY

BUSINESS CONFIDENCE AND INVESTMENT

SUMMARY FINDINGS

ECONOMIC OPTIMISM

- More than two fifths (42%) of businesses in the Highlands and Islands reported a decline in confidence in the economic outlook for Scotland over the last six months. Levels of confidence remained the same for 44% of businesses and increased for 12%.
- More than half of businesses (55%) said that the EU referendum result had made them less confident about the economic outlook for Scotland (12% more confident and 33% no difference).
- EU referendum result had a more pronounced impact on views in fragile areas, where 68% of businesses felt less confident, compared with 55% in non-fragile areas.

BUSINESS PERFORMANCE

- 79% of businesses reported that their business performance over the last 12 months was generally stable or improving – 42% performed well (10% exceptionally well), 37% steady, and 20% struggled.
- Those in the Creative industries and Tourism sectors were most likely to report that their businesses had performed exceptionally well (19% and 18% respectively).
- In terms of geography, Shetland based businesses (57%) were more likely than average to report good performance.
- Businesses generally reported a period of consolidation in their day-to-day operations over the last six months, and while turnover had increased for 42% of firms, only 25% report an increase in profits.

This suggests businesses are taking action to remain competitive.

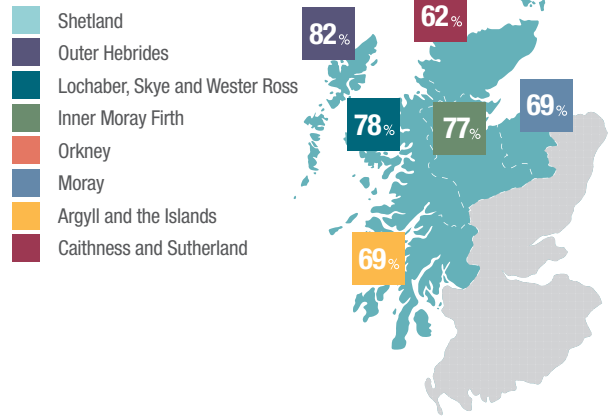
	PERFORMANCE IN LAST SIX MONTHS		EXPECTATIONS FOR THE NEXT SIX MONTHS	
	INCREASE %	STAY THE SAME %	INCREASE %	STAY THE SAME %
EMPLOYMENT	24	67	18	70
EXPORTS	23	57	35	48
WORKING HOURS	27	67	17	73
PROFIT MARGINS	25	45	26	49
STAFF TRAINING	24	70	21	72
SALES OR TURNOVER	42	35	37	42

*Businesses were only asked about the aspects that apply to them

BUSINESS PROSPECTS OVER THE NEXT 12 MONTHS

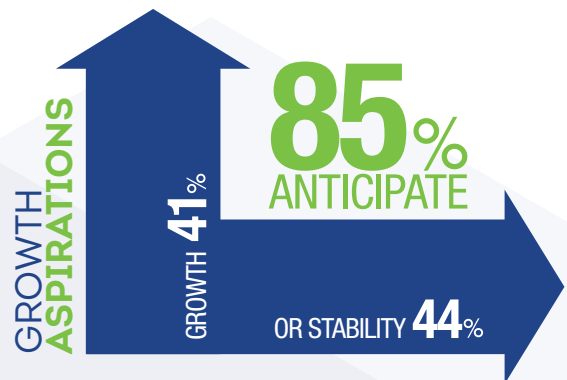
- Despite lack of confidence around the general economic outlook, almost three in four businesses (73%) were optimistic about their own prospects over the next 12 months.
- The result of the EU referendum had lessened the optimism of slightly less than half the respondents (45%), with two in five (41%) reporting that it had made no difference.
- There is a clear link between past performance and optimism for the future – 85% of those who had performed quite or exceptionally well, were optimistic about future prospects. Encouragingly, over two in five (44%) of those who had struggled still expressed optimism.
- Businesses in Shetland and the Outer Hebrides were the most optimistic about their prospects for the next 12 months, as were businesses in the Creative industries sector.

BUSINESSES IN SHETLAND AND THE OUTER HEBRIDES WERE THE MOST OPTIMISTIC ABOUT THEIR PROSPECTS



GROWTH ASPIRATIONS

- 85% of businesses anticipate growth (41%) or stability (44%) in the next year or two. Around one in 10 anticipates contraction (11%).



BUSINESS INVESTMENT FINANCE IN LAST TWO YEARS



- Other reasons for not investing include market conditions or lack of demand (18%), lack of trust in banks or financial institutions (18%), the economic climate (18%) and concerns about Britain's relationship with the EU (14%).



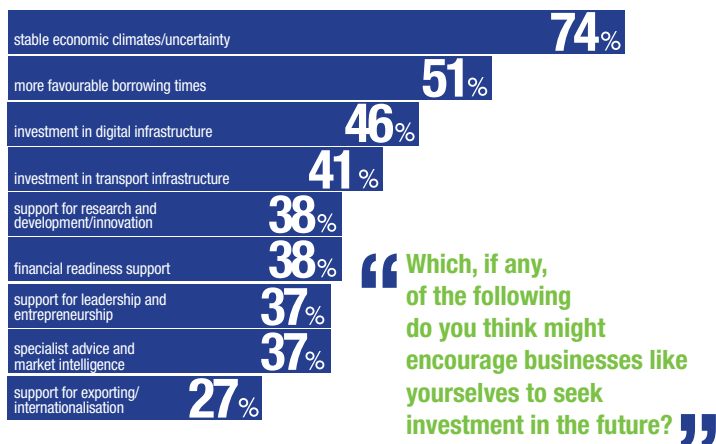
BASE: All who have made no attempt to use investment in past two years (556).

- Businesses with 25 or more employees were also more likely to cite paying off existing debt as a reason for not investing at present (21% compared with 10% overall).
- Investment funding was used mainly for plant, vehicles or equipment (52%), improving or extending existing premises (30%) or for working capital (29%).
- Food and drink businesses (61%), and businesses with 25 or more employees (67%), were more likely to have used investment finance in the past two years.

FUTURE BUSINESS INVESTMENT

- Almost two in three businesses (61%) want to remain debt-free, so are unlikely to invest over the next two years.
- Businesses with 25 or more employees were over twice as likely to seek future investment funding as those with up to four employees (59% vs 25%). Those previously seeking investment were more than three times as likely to seek further investment (56% versus 17%).
- Almost two in five businesses that had planned to invest, are likely to halt (17%) or delay their plans (23%) as a result of the EU referendum.
- A stable economic climate or less uncertainty (74%), and more favourable borrowing terms (51%) were the top two factors likely to encourage future investment.**

Investment in digital infrastructure (46%) and transport infrastructure (41%) were also reported by more than two fifths of businesses.



BASE: All businesses (1,054)

Overall, the EU referendum result has added to a sense of uncertainty regarding the long-term economic outlook – which has had an understandable impact on investor confidence.

However, at an individual level, businesses across the Highlands and Islands remain optimistic, have generally performed well in the recent past and anticipate a degree of growth in the future. This suggests an underlying resilience in the competitiveness of the business base across the region, with exporters (and those reliant on in-bound tourism) capitalising on the devaluation of sterling and seeking other new opportunities as they emerge.

It will be important for policy makers to provide some clarity on the nature of our future trading relationship with Europe to allow businesses the confidence to make longer-term investment decisions, create jobs and increase prosperity.

Fieldwork was a mix of online and telephone survey, conducted between 4 July and 7 August 2016.

A total of 1,054 businesses and social enterprises across the Highlands and Islands participated.

Findings were weighted to ensure a representative sample of the regional business base in terms of geographical location, organisation size and sector;

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