HIE BUSINESS PANEL SURVEY PERFORMANCE AND PROSPECTS

SUMMARY FINDINGS DECEMBER 2016

ECONOMIC OPTIMISM

- **Overall confidence in the Scottish economy amongst businesses in the region remains low, having declined significantly from a net positive of +7 points in 2014 to a net negative of -26 points.**
- Two fifths (40%) 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 45% of businesses and increased for 14%, rising to 22% amongst Tourism businesses.

BUSINESS PERFORMANCE

- **Just over four fifths (82%) of businesses reported good (44%) or steady (38%) performance over the last 12 months, while 17% struggled.**
- Larger businesses (25+ employees) and those in the Tourism sector were more likely to have performed well, while small businesses (0-4 employees) were more likely to report that performance has been steady.
- Businesses generally experienced stability in key aspects of performance over the last six months, and expect this to continue.
- While 45% reported stable profit margins, a similar proportion reported an increase in sales or turnover (44%) indicating that businesses are taking action to remain competitive.
- **Of those businesses that export (20% of those surveyed), over a third (36%) reported an increase in exports in the last 6 months - up 13% from the previous survey in July 2016.**

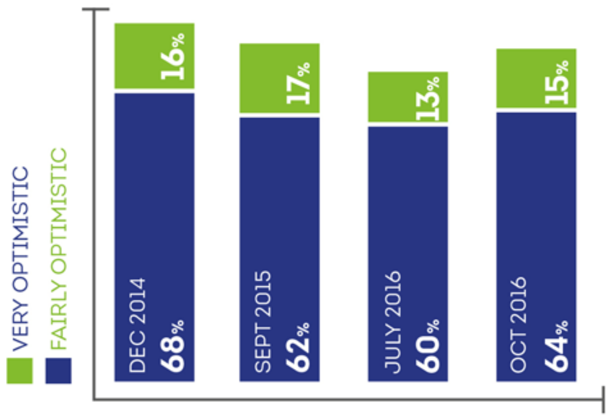
	PERFORMANCE IN LAST SIX MONTHS		EXPECTATIONS FOR THE NEXT SIX MONTHS	
	INCREASE %	STAY THE SAME %	INCREASE %	STAY THE SAME %
EMPLOYMENT	26	66	18	68
EXPORTS	36	45	41	42
WORKING HOURS	26	66	17	66
PROFIT MARGINS	26	45	25	46
STAFF TRAINING	28	66	29	64
SALES OR TURNOVER	44	35	35	39

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

BUSINESS PROSPECTS OVER THE NEXT 12 MONTHS

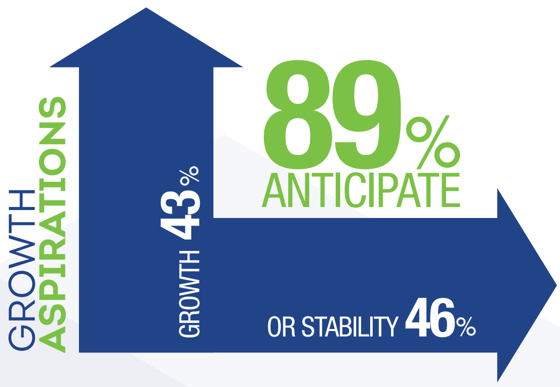
- **Despite lack of confidence around the general economic outlook, levels of optimism continue to be high with 79% of businesses very or fairly optimistic for their own business prospects over the next 12 months.**
- Tourism businesses were more likely than average to be very optimistic (25% vs 15% overall).

"How optimistic are you for your business propects over the next 12 months?"



GROWTH ASPIRATIONS

- **The vast majority (89%) of businesses in the Highlands and Islands anticipate growth (43%) or stability (46%) in the next year or two.**
- Around one in 10 anticipate contraction (9%).
- Tourism businesses (52%), those with 5-10 (57%) or 25+ staff (58%) were more likely than average to anticipate growth, while smaller businesses were more likely to expect a period of consolidation (53%).



EUROPEAN SINGLE MARKET AND FREE MOVEMENT OF PEOPLE

- The Highlands and Islands economy is dominated by micro and small businesses, operating in local and domestic markets. Reflecting this, access to the European single market and free movement of people across the European Union (EU) were seen as important to 44% and 35% of businesses in the region overall. More than half (56%) recognise the importance of one or both of these aspects to their business.
- Access to the European single market was seen as being of particular importance to exporters in the region (65%).
- Free movement of people across the EU was significantly more important to those in the Tourism sector (55%), and to larger businesses (57% of those with 25+ employees).

ACCESS TO THE SINGLE MARKET 65% OF EXPORTERS FELT IT IMPORTANT

FREE MOVEMENT OF PEOPLE ACROSS THE EU 55% OF TOURISM BUSINESS FELT IT IMPORTANT & 57% OF LARGER BUSINESS (WITH 25+ EMPLOYEES)

- **Those considering both access to the single market and free movement of people across the EU as important to the operation of their business tended to be:**
  - Exporters;
  - currently employing non-UK EU nationals;
  - businesses with 25+ employees;
  - in the Tourism sector.
- **Those viewing access to the single market as important but NOT free movement of people tended to be**:
  - micro-businesses (0-4 employees);
  - in the Food and drink sector;
  - not currently employing non-UK EU Nationals.

SUMMARY

While overall economic confidence remains low, businesses across the Highlands and Islands have performed well in the recent past, are optimistic for the future and anticipate some growth in the next year or two. This displays the continuing resilience of businesses in the region, with small businesses generally showing stability, and exporters and those reliant on in-bound tourism continuing to capitalise on the devaluation of the pound.

There are varying views from businesses in the Highlands and Islands on the importance of access to the single market and free movement of people across the European Union. While many do not currently see these as being of importance to the operation of their business, there is a clear cohort that do, including larger businesses, tourism businesses and those currently employing non-UK EU nationals. For these businesses, uncertainty over trade arrangements and a potentially shrinking labour pool are of critical concern. While most businesses are not yet taking steps to address the potential impacts of the UK leaving the European Union, there is a degree of recognition that they may need to do so. Those taking action are reviewing training and skills development and capital investment, with a view to driving up productivity.

RECRUITMENT AND WORKFORCE

- Overall 23% of businesses with staff currently employ non-UK EU nationals. The mean number of non-UK EU staff employed was 2.7, and the mean number of all employees 30.2.
- **91% of non-UK EU nationals employed by businesses in the region are permanent staff.**
- Employment of non-UK EU nationals was most prevalent amongst larger businesses (71% of those with 25+ staff) and those in the Tourism sector (46%).
- **65% of businesses recruiting in the past 12 months found it difficult to recruit people with the skills and experience they needed.** Lack of appropriate qualifications, rural location and dependency on non UK EU workers were all perceived as challenges.
- Businesses recognised that a reduction in the flow of EU migrants would further impact on recruitment challenges. This was a particular concern of larger businesses, those that had recruitment difficulties previously and those that felt free movement of people across the EU was important. It highlights a risk of skills shortages amongst permanent employees if the flow of EU migrants is reduced.

FUTURE ACTIONS

- Half of businesses (50%) in the region had not yet taken action to address the potential impacts from the UK voting to leave the EU, and don't anticipate having to. However, 27% have already taken action and 23% recognise that they may need to do so.
- Larger businesses, those employing non-UK EU nationals, and those for which free movement of people across the EU and/or access to the European single market were important were most likely to have taken action to address the potential impacts of the UK vote to leave the EU, or recognise that they may need to do so.

ORGANISATION SIZE % / ACTIONS TAKEN TO ADDRESS IMPACTS	0 to 4 EMPLOYEES	5 to 10 EMPLOYEES	11 to 24 EMPLOYEES	25 or more EMPLOYEES	All Businesses
None and don't anticipate having to	60	49	40	36	50
None yet but recognise we may have to	23	22	31	20	23
Reviewed capital investment / automation/ productivity	5	9	15	19	10
Reviewed training and skills development	3	10	14	21	9
Reviewed recruitment and rewards packages	3	5	9	14	6
Offered EU nationals advice on immigration / naturalisation	1	1	6	7	3
Provided information about immigration / naturalisation	1	1	2	4	1

Base: All those employing staff (713)

Fieldwork was a mix of online and telephone survey, conducted between 29 September and 3 November 2016. A total of 1,004 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.

Previous HIE Business Panel Surveys were undertaken in September 2015, October 2014 and July 2016. The next quarterly survey will be in January 2017.

FOR MORE DETAIL ON OUR PANEL OR TO BECOME A MEMBER VISIT

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www.hie.co.uk/business-panel

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