Scottish Chambers of Commerce Network

THE VOICE OF BUSINESS

Quarterly Economic Indicator

Results: Q2 2025

Overview

The Scottish Chambers of Commerce partners with the Fraser of Allander Institute to produce the Quarterly Economic Indicator (QEI). The survey is the longest running data series of its kind, which in turns provides a regular and respected insight into the fortunes of sectors of the Scottish economy.

The QEI focuses on key industrial areas – Manufacturing, Construction, Finance and Business Services, Tourism and Retail, measuring a number of indicators including business optimism, investment and performance to provide comprehensive understanding of the Scottish business landscape.

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Foreword

Professor Mairi Spowage
Director, Fraser of Allander Institute

Economic conditions remain challenging across the UK as we go into the summer months. After healthy growth in January and February, we have seen contractions in March and April, which means the size of the economy in Scotland is essentially the same as it was six months ago.

It was always likely that some of the growth in the early part of the year was, to some extent, a "sugar rush" of stockpiling due to the wider economic conditions, particularly the threats of tariffs from the new US administration. The uncertainty that persists about the trading environment and geopolitical tensions has had a chilling effect on the investment environment.

Businesses reported a slowdown of activities in the first quarter compared to the same period last year. This decline in activity may reflect the impact of increases to employer National Insurance Contributions (NICs) as well as uncertain conditions, particularly from trade and tariff decisions taken by the US government.

Difficult conditions for business have been echoed in the labour market, where pay growth has been slow and the number of number of employees has fallen by 0.9% from last year. While there is some indication that the proportion of people living beyond their means in Scotland may have increased compared to this time last year, other indicators of financial stability seem to be holding steady.
Many businesses and consumers will be hoping that the economy turns a corner over the summer and that wider factors stabilise.

Doug Smith
Vice President, Scottish Chambers of Commerce,
& Chair of the SCC Economic Advisory Group

The Quarterly Economic Indicator, produced by SCC in partnership with the Fraser of Allander Institute, offers a vital snapshot of Scottish business sentiment. The latest findings paint a troubling picture: investment is frozen, employment is stagnating and concerns are growing around taxation at a time of economic uncertainty around tariffs, immigration, tax, and general fiscal policy. We need urgent government action to ease those pressures.

These survey results highlight major concerns and challenges for Scottish businesses as a direct result of rising costs, particularly the increase in employer NICs. Introduced in April, this policy is demonstrably harmful: dampening recruitment, curbing reinvestment, and stretching already narrow margins to breaking point. These tax burdens, compounded by soaring energy prices and export tariffs, are choking growth. Every obstacle to sustaining cashflow and profits has a direct impact on confidence, investment, growth and jobs across all sectors.

The lack of essential skills is a real challenge not just in meeting the demand of future projects but also in completing current and day-to-day work. We need a clearer focus from both governments on matching education to the needs of business. In particular, the focus must be on the hard skills in construction and engineering needed to deliver projects; as well as on the soft skills in project management, which accelerate productivity and growth. The lack of alignment will impact our ability to deliver the jobs and growth our nation so desperately needs.

Businesses have spoken. What's needed now is a co-ordinated response. Simplifying the export finance system would help businesses navigate international trade more easily; extending targeted support on energy bills would ease immediate pressure on SMEs struggling to keep costs down; and a clear strategy for funding apprenticeships in construction and engineering would strengthen the workforce for Scotland's high-growth sectors. But the government must move fast on these policies.

Policymakers in Westminster and Holyrood face a choice: support business to drive growth, create jobs, and attract investment – or continue to suppress recovery through inaction. The time to stand with business is now. Further delay is not an option.

Key Findings

Labour Pressures

There is a lot of caution and uncertainty shared by businesses around the labour market. Overall, while on balance, employment has slightly increased, over half of all firms (55%) reported no changes in staff levels. 65% of all firms expect staff levels to also not change in the next quarter. Linked to this, training investment is generally frozen with half of all firms reporting no changes now and expecting no change next quarter.

Labour Costs

86% of all firms cited that they were experiencing increased pressure from labour costs, compared to 80% last quarter and 75% for the same quarter last year. Three out of the five main sectors surveyed are close to or reached record high levels of pressure from labour costs. There are several factors contributing to this, with the recent rise in National Insurance Contributions from employers likely being particularly significant.

Tax Concerns

Taxation continues to be the top concern for firms in Scotland. 70% of all firms cited increased concern from taxation, compared to 65% last quarter and 50% in Q2 2024. This means that concern over tax has risen by 40% over the course of a year.

Price Rises

In spite of generally positive sales trends across the survey, most firms still anticipate that they will raise their prices in Q3 2025. Among the factors most commonly cited are: ongoing inflation, supressed consumer demand, taxation, contributing to an overall challenging cost of doing business for many firms. 65% of all firms expect to raise their prices in the next quarter, compared to 60% last quarter and 50% in Q2 2024.

Quick Glance

- **Challenges around cashflow and profits remain for firms, despite positive sales trends across the board.** On balance, both cashflow and profits have seen contraction over the quarter.
- **Pressure from labour costs has risen by 15% in one year.** 86% of all firms cited that they were experiencing increased pressure from labour costs, compared to 75% for the same quarter last year.
- **70% of all firms cited increased concern from taxation, compared to 50% in Q2 2024.** This means that concern from taxation has risen by 40% in one year.
- **The labour market remains largely frozen.** Overall, while on balance, employment has slightly increased, over half of all firms (55%) reported no changes in staff levels. 65% of all firms expect staff levels to also not change in the next quarter.
- **The number of firms expecting to raise their prices next quarter has risen by 15% in one year.** 65% of all firms expect to raise their prices in the next quarter, compared to 50% in Q2 2024.

This survey was conducted from 12th May – 9th June 2025. 405 firms responded to the Q2 2025 edition of the survey. Combined, the 405 respondents employ approximately 50,000 people.

Construction

Confidence:

70% of construction respondents reported either an increase or no change in confidence. As 30% reported a decrease, this resulted in a positive net balance of +10%, slightly higher than the rolling five-year survey average.

Contracts/Sales

After a challenging Q1, sales trends have generally rebounded back to growth on balance. Public sector orders saw contraction on balance over the quarter, with the negative net balance of -13% being significantly below the same quarter last year. However, this was offset by growth on balance in private commercial contracts, contributing to a positive overall in terms of total contracts.

Investment:

Firms reported contraction on balance across all investment trends. Trends for the quarter are significantly down when compared to the same quarter last year, as well as the rolling five-year survey average. Looking ahead, firms also said that they expect investment to fall on balance in the next quarter.

Concerns/Pressures

Labour costs continue to be the dominant cost pressure and by a considerable distance, remaining around record high levels for the sector at 85%. Pressure from fuel costs, raw materials, and utilise, are impacting at least half of construction firms.

Inflation and taxation remain the leading concerns. Since the same quarter last year, taxation has overtaken inflation as the top concern.

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"All the works we had lined up for this year are all on hold due to funding issues or red tape, environmental, planning issues. It's getting worse each year with all the various permissions that are required and the duration of necessary applications for small jobs taking more than a year currently." **- A small construction firm in Ayrshire**

"Cost of labour and availability of skilled labour remain a concern. With Construction activity expected to increase due to Government Infrastructure investment [which is needed], again prices and labour availability could come under pressure." **- A small construction firm in West Lothian**

FINANCIAL & BUSINESS SERVICES

BUSINESS VOICE

"The recent National Insurance changes have dealt a terrible blow to our small family business. We are heavily dependent on electricity 24x7 for specialist heating, and this has almost doubled in the past year, putting an enormous strain on our profits." – A small services firm in Aberdeen

Confidence

Three quarters of firms reported either increased or no change in confidence. As a quarter reported a decrease, this resulted in a positive net balance of +5%. This figure, while positive, is still significantly down when compared to the same quarter last year (+26%) and the rolling five-year survey average of +19%.

Sales:

Services firms reported growth on balance across all sales trends. This growth has eased somewhat when compared to the same quarter last year.

Investment

Firms in the sector reported positive net balances across all investment trends. In a similar pattern to sales, investment growth has eased compared to Q2 2024. In addition, close or at least half of all firms in the sector indicated no change to investment levels.

Expectations:

While services firms are generally positive looking ahead to Q3, it is more tempered than in recent surveys. The number of firms indicating that they intend to raise their prices has risen by 15 percentage points, compared to last year.

Concerns/Pressures

Most cost pressures generally eased over the quarter, albeit labour costs remain impactful for 64% of firms. Taxation is cited by 64% of firms. This is five percentage points below the five-year survey high of 69% reported in the previous quarter.

MANUFACTURING

Confidence:

For the first time in three quarters, firms in the sector reported growth on balance with regard confidence. The positive net balance of +11% is a significant increase compared to the previous quarter and is on par with the rolling five-year survey average.

Sales Revenue & Orders:

Manufacturing firms reported positive net balances across all sales trends, after a challenging Q1 which saw contraction across the board. In terms of orders, it was a more difficult quarter for firms. A significant fall in export sales, combined with flat domestic and rest of UK sales, contributed to a contraction overall with regard orders.

Labour Market

The same number of firms reported an increase in staff levels as they did a decrease (23%). This resulted in there being no change on balance over the quarter. Compared to the previous quarter and the same quarter last year, this is a significant fall. In addition, firms expect staff numbers to fall on balance in the next quarter for the first time since Q4 2020.

Concerns/Pressures

Pressure from labour costs rose to a three-year survey high, being reported by 83% of firms. Concern from taxation has matched the five-year survey high of 67%.

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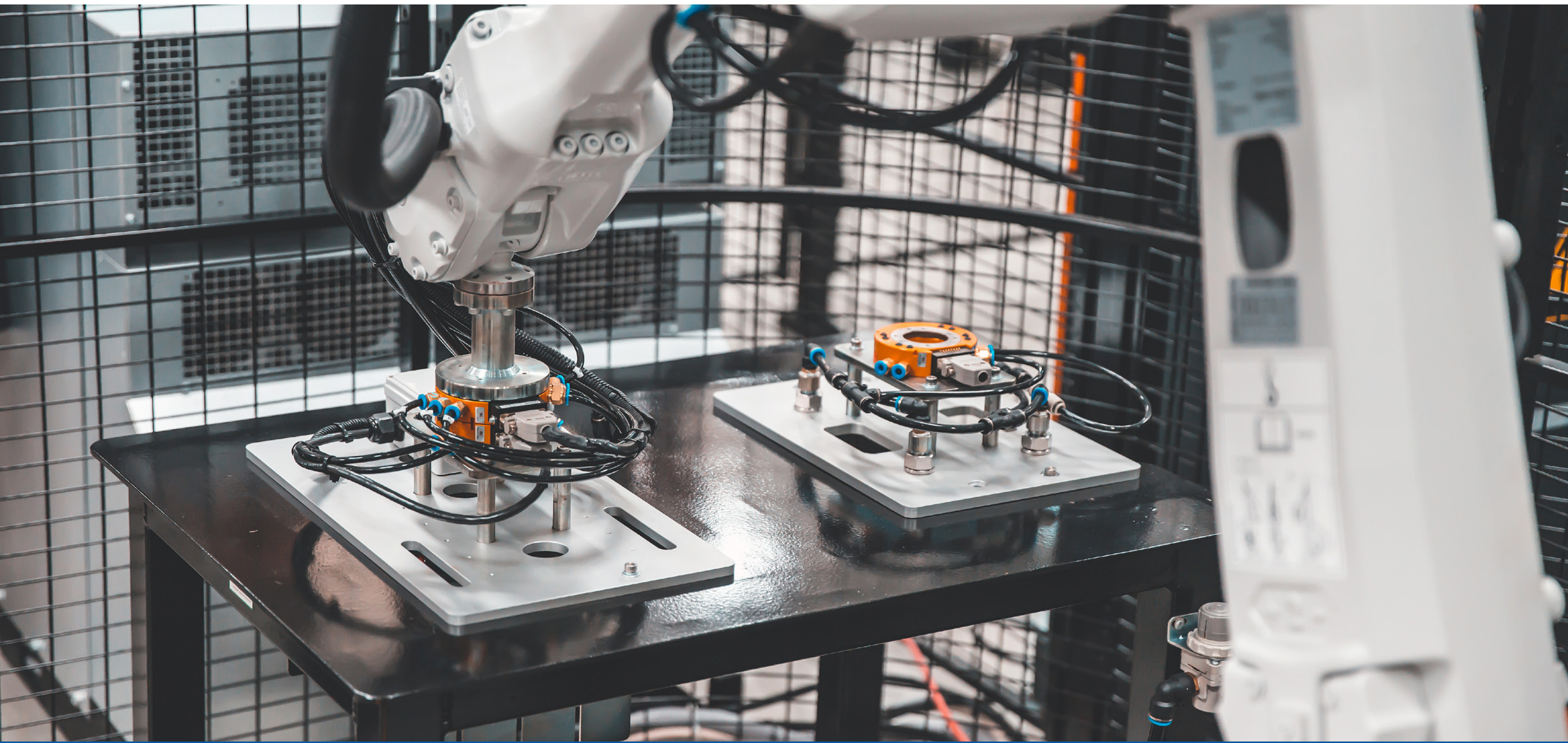
"Tariffs on exports to the USA are a concern. At the moment they are 10% on our products. Should they be any higher it could be a serious problem." **-A small manufacturing firm in Ayrshire**



RETAIL & WHOLESALE

BUSINESS VOICE

"There's a wider ongoing concern of external economic factors, from the USA in particular. As such a large trading nation with reach, any economic changes there have a knock-on effect to the UK and Scottish economy. Mitigating against this is challenging." **- A small retailer from Forth Valley**

Confidence

On balance, retail firms reported a contraction of -8% with regard confidence levels. This figure is 10 percentage points lower when compared to last year but is in line with the Q2 average for the sector of -9%.

Sales

In terms of sales trends, retailers reported mostly growth across the board. This was apart from export sales which saw a contraction for the second successive quarter.

Cashflow & Profits:

Cashflow and profits continued to challenge retailers, with firms reporting contraction on balance for both trends.
Both figures for the quarter are in line with the Q2 average for the sector.

Expectations

Seven in 10 firms expect to raise their prices in the next quarter, which is the highest recorded since the beginning of 2023. It is also 25 percentage points higher than the rolling five-year average. While firms are confident that sales will increase in the next quarter on balance, they do expect investment to significantly fall and for staff levels to not change.

Concerns/Pressures

Three-quarters of firms reported increased pressure from labour costs, a 12-percentage point increase from Q1 2024 and a three-year survey high.

Concern from taxation is reported by seven in 10 firms, which is 16 percentage points higher than the five-year survey average.

TOURSIM

Confidence:

32% of tourism firms reported a fall in confidence, compared to 28% who reported an increase. As 40% of firms reported no change, this resulted in a negative net balance of -4% for the quarter.

Sales/Investment

After a challenging Q1 – which is typically the off-season for most tourism firms – most sales trends have returned to growth on balance. The figures for both total and domestic sales are significantly above the rolling five-year survey average. In terms of investment, firms reported a more difficult outcome over the quarter. While capital investment was flat (no change), there was a significant contraction on balance for training investment of -9%.

Expectations:

While tourism firms do expect sales to increase – as to be expected in the more suitably seasonal Q3 – they are far more cautious and pessimistic when it comes to staff and investment respectively.

Concerns/Pressures

While all cost pressures eased over the quarter, labour costs (70%) and utility costs (50%) remain significant. Concern from taxation (60%) and inflation (48%) continue to be the leading factors for tourism firms, albeit both have eased over the year.

BUSINESS VOICE

"Labour costs are projected to be up by 40% this year due to minimum wage increases, and employer NI particularly. We struggled to survive last year, and in real terms made a loss. All our suppliers have also increased prices due to the same payroll costs, etc." -A small tourism firm in Perthshire

"The NI increases along with the increase in Living Wage were a double blow and have produced additional pressures from colleagues on lower salaries which are not subject to the same increases. We have increased salaries and remain committed to the Loving Wage but these are high costs to absorb particularly for a service business." -A small tourism firm in Dundee & Angus

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