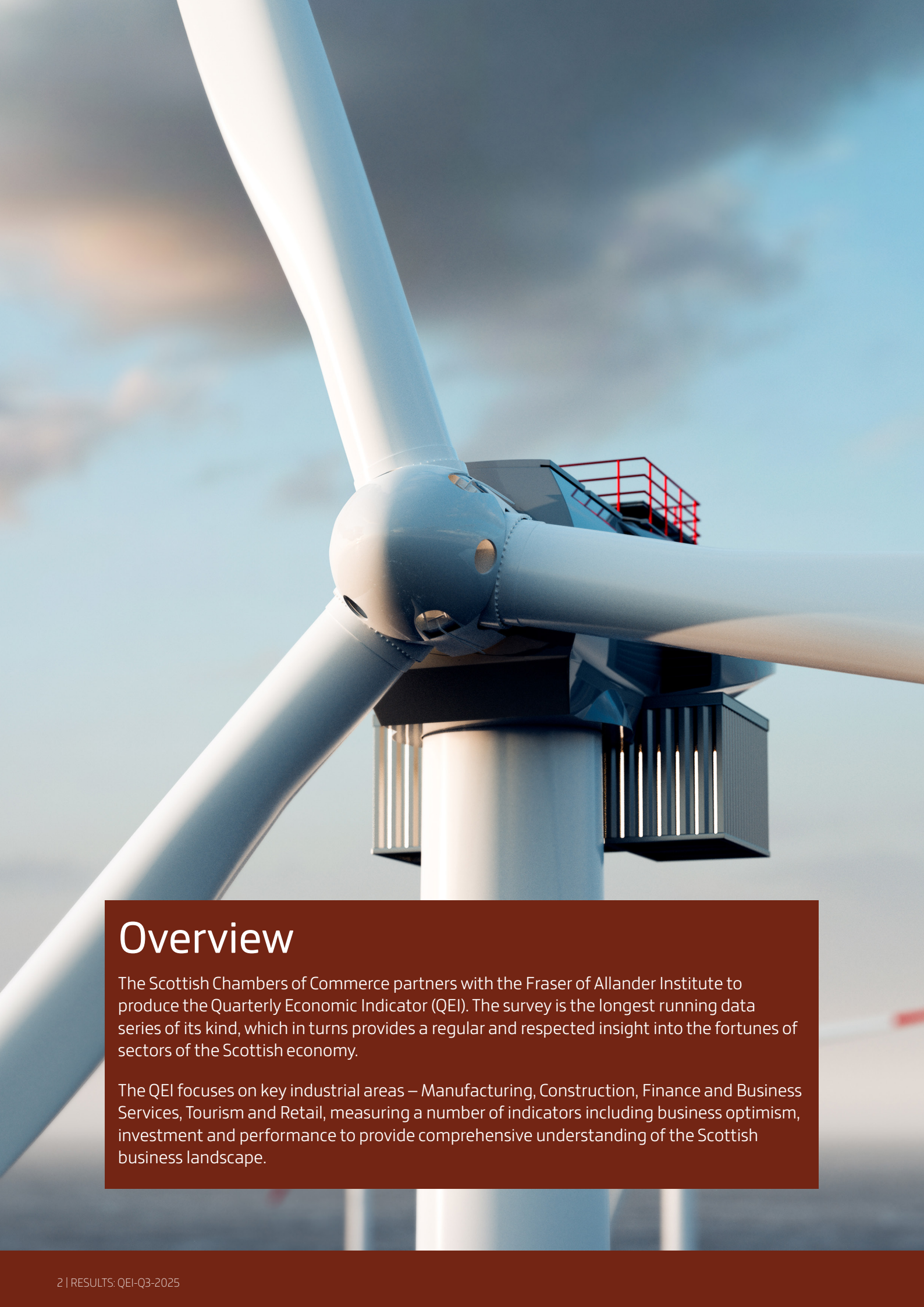




Quarterly Economic Indicator

Results: Q3 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.

CONTENTS

FOREWORD	4
KEY FINDINGS	5
CONSTRUCTION	6
FINANCIAL & BUSINESS SERVICES	7
MANUFACTURING	8
RETAIL & WHOLESALE	9
TOURISM	10

Foreword



Professor Mairi Spowage
Director, Fraser of Allander Institute

The economy remains sluggish with jitters about tax rises in the upcoming UK budget hitting confidence and momentum lost amid stop start growth. Pressure continues on employment levels as businesses continue to adjust to the NIC rises.

Productivity figures are likely to be downgraded by the OBR making it more difficult for the Chancellor to hit their fiscal rules with tax rises the inevitable outcome. Most likely is a freezing of income tax thresholds, but there have been a number of other tax proposals that have been floated over the summer.

Looking ahead, our latest Scottish Business Monitor shows that while Scottish firms are still showing resilience, with modest improvements in employment and sales, there is a growing sense of pessimism. Cost pressures remain acute, and there is widespread caution about the potential impact of the UK Budget.

The Chancellor's decisions in the UK Budget will be pivotal, not only for business confidence, but also for determining the size of Scotland's fiscal envelope for the Scottish Budget in January 2026.



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

Business activity remains weak for most sectors with little signs of recovery expected before year-end. The challenges are familiar: subdued demand, cautious consumer spending, and restrained investment across the economy.

However, export performance gives reason for modest optimism. The QEI highlighted a slight growth in exports, despite geopolitical challenges, demonstrating the underlying strength of the Scottish market and the clear demand which exists for our goods and services. Boosting this trade must be a priority.

Considerable progress has been made in recent months on tariffs and international trade deals with our closest partners. Now, the government needs to maintain its focus on international trade by simplifying export finance and accelerating the rollout of UKEF's small business insurance service, to back Scottish exporters and open our economy to the world.

This progress is fragile. Rising costs, including increased employer National Insurance contributions and the higher National Living Wage, are putting further pressure on margins. On top of this, ongoing global economic uncertainty is complicating decision-making even further.

Adding to these concerns is growing unease about next month's UK Budget. Many firms fear they may once again be asked to bear the cost of restoring public finances. With the business tax burden at its highest level in 25 years, the Chancellor must urgently reaffirm last year's promise of no further tax increases, to restore confidence and enable businesses to drive shared economic growth.

Key Findings

Confidence

Three quarters of all firms reported either no change or a fall in confidence over the quarter. As just 25% reported a rise in confidence, this resulted in an overall contraction on balance. On a sectoral level, only the services sector reported an increase in confidence on balance, with all of construction, manufacturing, retail, and tourism reporting falls on balance. Compared to the previous quarter, the construction and manufacturing sectors reported the most significant drop-offs.

Investment

On balance, firms reported that capital and total investment fell over the quarter, with training investment seeing no change in either direction. Out of the five main sectors covered by the survey, only the services sector reported growth on balance across all investment trends. In comparison, all other sectors reported contraction on balance across all investment trends.

Cashflow & Profits

Cashflow and profits continue to be a significant challenge for most firms. On balance, firms reported falls for both trends. Compared to the previous quarter, the construction and retail sectors saw the most significant drop-offs.

Labour Market

Six in ten of all firms reported no changes in staff numbers over the quarter. The same number of firms (20%) reported a rise and fall, meaning that on balance employment was flat for the quarter. 62% of firms report that they do not envisage their staff numbers to change in either direction in the next quarter. 52% of firms stated that they also do not intend to change their level of training investment in Q4.

Labour Costs

Labour costs remain a significant cost, reported by over three quarters of firms at 77%. The construction and services sector reported near recent historical high levels, while retail firms reported a five-year survey high of 75%, matching the same figure reported last quarter. While there was some easing in the number of firms reporting labour costs for manufacturing and tourism firms, these sectors still have around seven in ten businesses citing it as an issue.

Taxation

72% of all firms reported increased concern from taxation over the quarter, a small rise of two percentage points compared to the last quarter, and a major rise of 16 percentage points compared to Q3 2024. Among the five sectors covered by the survey, manufacturing firms reported a five-year survey high concern from taxation at 75%. 75% of tourism firms also cited taxation as a significant challenge.

This survey was conducted from 18th August – 15th September 2025. 440 firms responded to the Q3 2025 edition of the survey. Combined, the 440 respondents employ approximately 37,000 people.

Construction

Confidence

On balance, construction firms reported a fall in confidence over the quarter. The net balance of -9% was significantly lower compared to the last quarter and to the same time last year.

Contracts/Sales

Firms reported contractions on balance across all contract and sales trends over the quarter. Compared to the previous quarter, domestic sales and private commercial contracts saw the most significant drop-off as individual trends.

Investment

For a second successive quarter, firms in the sector reported falls on balance for both capital and total investment. Both trends have seen significant decline compared to the same quarter last year.

On the other hand, firms reported growth on balance in training investment for the first time since Q2 2024. The positive net balance of +10% was also 10 percentage points higher than the Q3 average.

Concerns/Pressures

Pressure from labour costs continues to sit around historically high levels for construction firms at 82%. Energy bills and raw materials remain a significant cost pressure for over half of firms at 51%. Inflation (44%) has significantly eased as a concern compared to last quarter, with competition (51%) overtaking it as a concern and taxation remaining on top at 62%.

BUSINESS VOICE

"With the increase in National Insurance kicking in margins are very tight" - **A small construction firm in Inverness**

"Need more focus on domestic issues by the Government and reduce uncertainty with quicker decision making within the economy." - **A small construction firm in Ayrshire**



FINANCIAL & BUSINESS SERVICES

BUSINESS VOICE

"We're a small business with a turnover of less than £1million and a staff team of 43, most of whom are part time. The cost of staffing has increased dramatically for us over the last 18 months. We work in regulated childcare services, so we can't cut back on staffing as we have to be safe and maintain legally mandated staffing ratios. Despite working harder and trying to grow the business, our profit has decreased. We have had to raise our prices significantly just to stand still. It's very disheartening." – **A small public or voluntary sector firm in East Renfrewshire**

Confidence

Services firms reported growth on balance in confidence over the quarter. The positive net balance of +7% is higher growth when compared to the previous quarter, albeit growth has eased when compared to the +21% reported in Q3 2024 last year.

Sales

Most sales trends saw growth over the quarter, except for flat exports and a slight contraction in online sales. All trends saw slight easing over the quarter, with a significant drop-off when compared to the previous year.

Cashflow & Profits

Firms reported positive net balances for both cashflow and profit trends. The level of growth for both trends saw significant easing, when compared to the previous quarter, and while also being slightly below the Q3 average.

Expectations

When compared to the previous quarter, services firms are more positive about sales growth in the next quarter. The positive net balance of +20% is 25 percentage points lower than Q3 2024, as well as being 10 percentage points lower than the Q3 average. In comparison, firms are more subdued regarding growth for investment and staff levels.

Concerns/Pressures

Pressure from labour costs (65%) remains around historically high levels for the sector. Concern from taxation follows a similar vein, with it being reported by 65% of firms, which was the second highest value reported over the past five years of the survey.



MANUFACTURING

Confidence

In Q2, manufacturing firms reported growth in confidence on balance for the first time in just under a year. That confidence reverted to contraction in Q3, the negative net balance of -6% was 10 percentage points down on the average for the quarter.

Sales Revenue & Orders

After a generally positive set of sales trends for Q2, firms reported contraction on balance across all such trends for Q3. Despite growth on balance in exports, domestic and rest of UK trends saw significant decline over the quarter. The negative net balances of -25% and -17% respectively sit well below the Q3 average.

Most order trends also saw significant contraction on balance, aside from growth in exports.

Labour Market

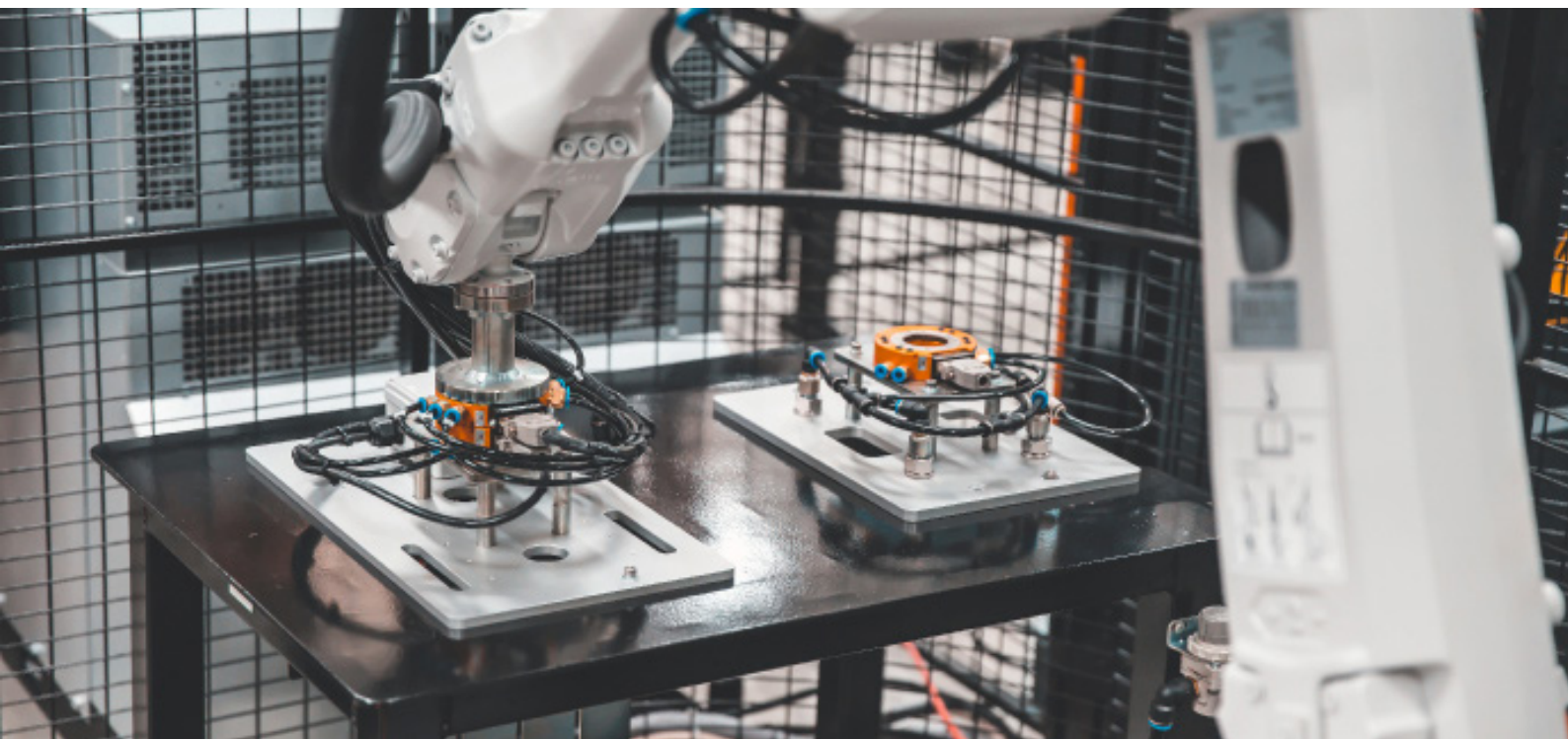
Three quarters of firms reported either no change or a fall in staff levels. As a quarter reported an increase, this resulted in a fall on balance of -5%. Compared to the same quarter last year, this is a significant fall of 20 percentage points.

Concerns/Pressures

Pressure from labour costs remains significant for three quarters of firms, albeit eased since last quarter. Concern from taxation has reached a new five-year survey high of 75%.

BUSINESS VOICE

"The increase to Employers National insurance the further increasing minimum wage & the increase in business council tax at the same time causes serious damage to the company. All investment has been shelved, reducing head count & money for training have all been cancelled or paused until further notice. We had looked to export or products abroad but also shelved that due to reduced cash flow." - **A small manufacturing firm in Ayrshire**



RETAIL & WHOLESALE

BUSINESS VOICE

"PAYE is a huge concern as is general day to day operating costs. The inflexible VAT system and the huge pressure of hospitality VAT remain a big concern." - **A small retailer from Moray**

Confidence

For a second successive quarter, retail firms reported a fall on balance in levels of confidence. The negative net balance of -13% is the highest contraction for a single quarter since Q4 2022.

Sales

In a reversal of fortunes from Q2, retail firms reported negative net balances across all sales trends. The most significant contractions came in rest of UK and export trends. While the total sales balance of -6% is in line with the Q3 average, domestic and rest of UK sales are significantly below their Q3 average.

Investment

For the fifth successive quarter, firms in the sector reported falls on balance across all investment trends. The negative net balance of -13% for training investment is 10 percentage points lower than the Q3 average.

Cashflow & Profits

Retail firms reported contractions on balance for both cashflow and profit trends over the quarter. Both net balances, -23% & -17% respectively, are still in line with the rolling survey average for Q3.

Concerns/Pressures

Pressure from labour costs continued to be reported by a five-year survey high of 75% of retail firms. Concern over taxation eased over the quarter, although it remains significant for over six in ten firms at 63%.



TOURSIM

Confidence:

Eight in ten firms reported either no change or a fall in confidence over the quarter. As only a fifth (20%) reported an increase, this resulted in a negative net balance of -20%. This is a sizeable drop-off when compared to Q3 2024's positive net balance of 17%.

Sales

Tourism firms reported significant contractions across domestic and rest of UK sales, contributing to a challenging outcome of negative net balances for total sales trends. The negative net balances of -20% and -18% for domestic and rest of UK sales respectively, all fall well under their Q3 averages. 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%.

Cashflow & Profits

Tourism firms have generally reported consistent challenges with both cashflow and profit levels, which continues here. The negative net balance of -10% for profits is in line with the Q3 average. However, the negative net balance of -3% for cashflow is significantly below its own average for the quarter.

Guests & Customers

Tourism firms reported negative net balances across all inward tourism travel trends. The domestic tourism trends saw the most significant contraction over the quarter with negative net balances of -15% & -23% for domestic and rest of UK inward travel respectively.

Concerns/Pressures

Labour costs remain the most significant concern for tourism firms at 67%, albeit this has eased over the quarter and the year. Pressure from raw material prices, energy costs, and other overheads, all saw sizeable rises over the quarter. Concern over taxation is being reported by a near survey high of three-quarters of firms.

BUSINESS VOICE

"Hospitality is being squeezed to an extremely stressful small margin. We employ so many young people and people starting back to employment but we are being punished and so are they." - **A small hospitality firm in Aberdeen**

"Changes to National Insurance are having a significant impact on our running costs which can't be mitigated by anything other than increasing the price to the customer which we are reluctant to do and continue to review." - **A small tourism firm in Ayrshire**





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