



# INTRODUCTION

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**THIS REPORT SUMMARISES THE KEY RESULTS FROM OUR LATEST FRASER OF ALLANDER INSTITUTE (FAI) SCOTTISH BUSINESS MONITOR, PUBLISHED IN PARTNERSHIP WITH ADDLESHAW GODDARD.**

The survey sampled **332** firms in September and October from across the Scottish economy, examining business sentiment in **Q2 2024** and the outlook for the year ahead.

The survey response rate was lower than is normally the case, and for this reason, there are no industry breakdowns reported in this publication. These results will be provided to survey respondents for information, but cannot be published as normal due to concerns over robustness of sample size. The economy wide estimates are still considered to be robust.

**Q2 2024** was a cautiously optimistic time for business in Scotland. Over the quarter, businesses typically experienced an uptick across all activities. Most measures, except employment, show improved conditions. Similarly, in every category, the proportion of businesses reporting higher costs has decreased compared to the last quarter.

Looking ahead, there is a positive balance of businesses expecting the volume of business activity to increase in the next 6 months.

## OUR LATEST RESULTS ALSO SHOW THAT:

- The vast majority of businesses expect economic/business uncertainty (**89%**), staff availability (**81%**), and political uncertainty (**83%**) to be important or very important over the next three months. Although these figures remain relatively high, they have significantly decreased from the previous quarter.
- In every category, the proportion of businesses reporting that costs were higher has decreased compared to last quarter. Looking ahead, **72%** of firms expect total business costs to increase over the next six months, an improvement from **85%** last quarter. Wages and total employee costs are expected to be the main drivers.
- The share of firms expecting weak/very weak growth in the Scottish economy has fallen from **68%** to **63%** this quarter. Conversely, **28%** are expecting moderate or strong growth over the next year in the Scottish economy, up from **19%** last quarter.



# CURRENT AND EXPECTED SCOTTISH BUSINESS ACTIVITY

## CURRENT BUSINESS ACTIVITY

- Business activity has improved in Q2 2024. Across almost every measure – apart from, interestingly, employment - firms reported improving business conditions.
- This improvement has seen volume of sales and turnover return to positive territory, meaning that more firms have seen an increase in these two measures than have seen a decline.
- The measure of sales improved significantly with a net balance of 4.5 percentage points compared to -7.1 last quarter, and turnover turned positive at 5.4 percentage points, recovering from -2.6 percentage points in Q1 2024.
- Nevertheless, the other activity measures remain negative, reflecting the tough business conditions of the past few quarters.
- New business activity is still in negative territory, now at -4.2 percentage points, though an improvement on the previous two quarters.
- The net balance of firms reporting an increase level of employment has fallen further into negative territory, after being positive for most of 2023.
- Levels of new capital investment and export activity measures both remain negative (more firms reporting falls than increases). However, both have improved their position compared to 2023.

**Table 1:**

Net balance of firms experiencing an increase in activities over the past three months, **Q1 2022 - Q2 2024**

	2022				2023			2024	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2
<b>VOLUME OF BUSINESS ACTIVITY (I.E., SALES)</b>	30.1	15.3	4	-2.2	9.1	3	-1.2	-7.1	4.5
<b>VOLUME OF NEW BUSINESS ACTIVITY</b>	24.9	8.8	0	-4.9	5.7	0	-9.6	-13.5	-4.2
<b>VALUE OF BUSINESS ACTIVITY (I.E., TURNOVER)</b>	32.3	15	6.4	-0.7	8.1	3.7	0	-2.6	5.4
<b>LEVEL OF EMPLOYMENT IN YOUR BUSINESS</b>	15.5	10.2	8.5	-5.4	-0.5	2.2	1.9	-0.3	-2.7
<b>LEVEL OF NEW CAPITAL INVESTMENT</b>	6.3	1.2	-5.9	-14.7	-4.4	-12.1	-16.7	-12.1	-10.5
<b>EXPORT ACTIVITY</b>	-8	-9	-9.2	-11.5	-8.4	-11.4	-11.5	-16.4	-10.5

\*Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower

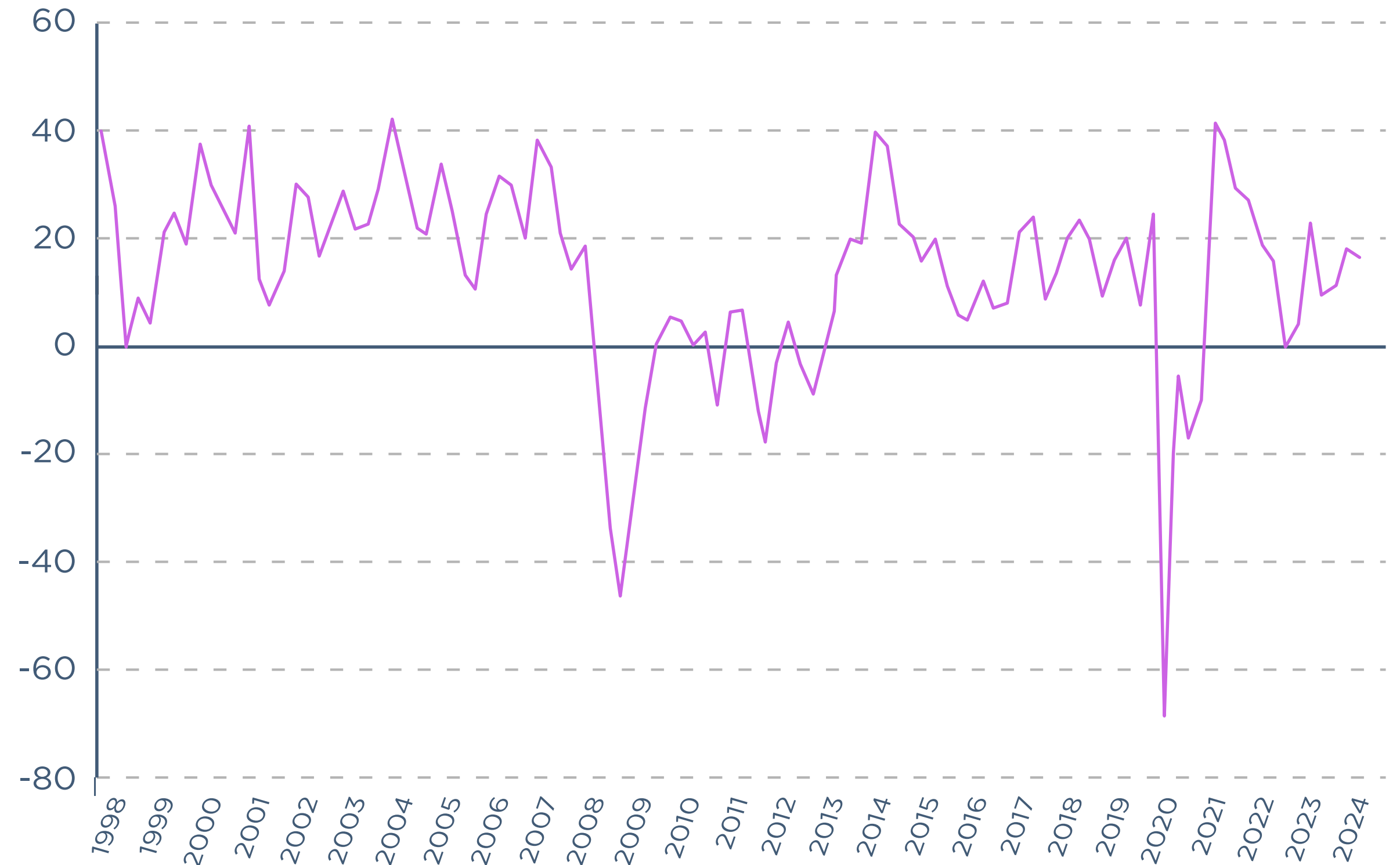
# KEY RESULTS

## BUSINESSES REMAIN CAUTIOUSLY OPTIMISTIC LOOKING AHEAD

- On average, firms were slightly less optimistic about their expected volume of business over the next six months compared to the last survey.
- The expected volume of business over the next six months has declined slightly since last quarter (18 down to 16 percentage points net balance) but still remains positive overall. This means that more businesses are expecting an increase in their volume of business over the next six months than a decline.
- While there were also positive net balances in expectations for the level of employment and turnover in the coming six months, there continued to be a negative net balance for expected capital investment and export activity.
- We asked Scottish firms what they expect to be important to their business over the coming quarter.
- Most businesses expect economic/business uncertainty (**89%**), staff availability (**81%**), and political uncertainty (**83%**) to be important or very important over the next three months. Although these figures are still relatively high, they are markedly down on the previous quarter.

**Chart 1:**

Net balance of firms expecting an increase in their volume of business over the next six months, **Q1 1998 - Q2 2024**



\*Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower

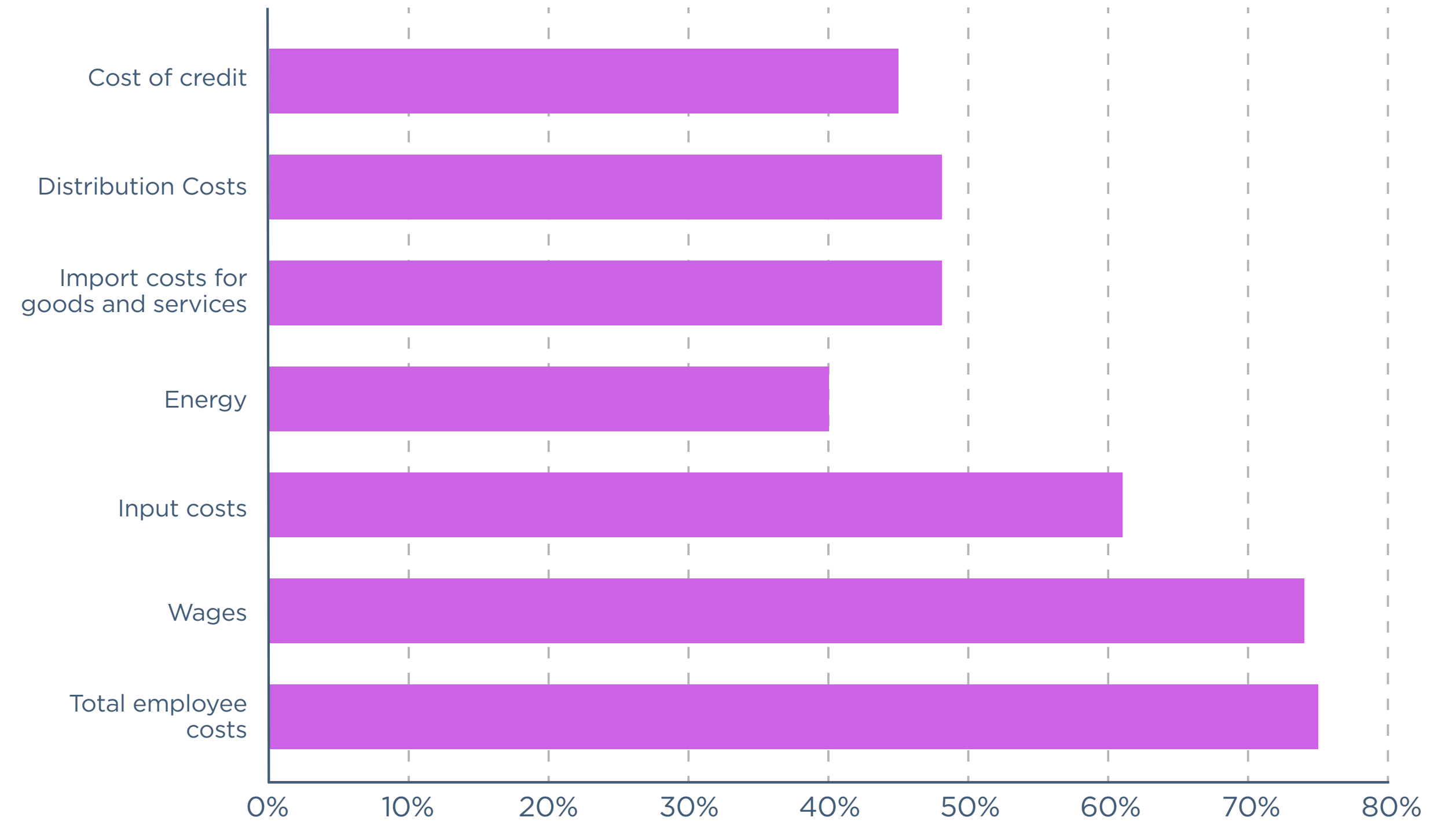
# KEY RESULTS

## COST PRESSURES FINALLY EASED AS INFLATION FALLS, WITH EXPECTATIONS FOR THIS TREND TO CONTINUE

- **72%** of firms in Scotland reported cost increases over the last quarter, down from **83%** in the previous quarter.
- In every category, the proportion of businesses reporting that costs were higher has decreased compared to last quarter.
- The increased cost of employing people remained the most cited, with **75%** reporting that higher total employee costs and **74%** reporting higher wage costs.
- **40%** of firms reported higher energy costs, a significant drop from **57%** in last quarter.
- Looking ahead to the next 6 months, **72%** of firms expect total business costs to be higher. Although still relatively high, this is an improvement from **85%** last quarter.
- Wages and total employee costs are expected to be the key driving factors, with **68%** and **69%** respectively expecting these costs to increase over the next 6 months. Again, these are much lower than they were last quarter.

**Chart 2:**

Proportion of businesses responding that costs were higher this quarter compared to the previous 3 months.



**% OF RESPONDING BUSINESSES**

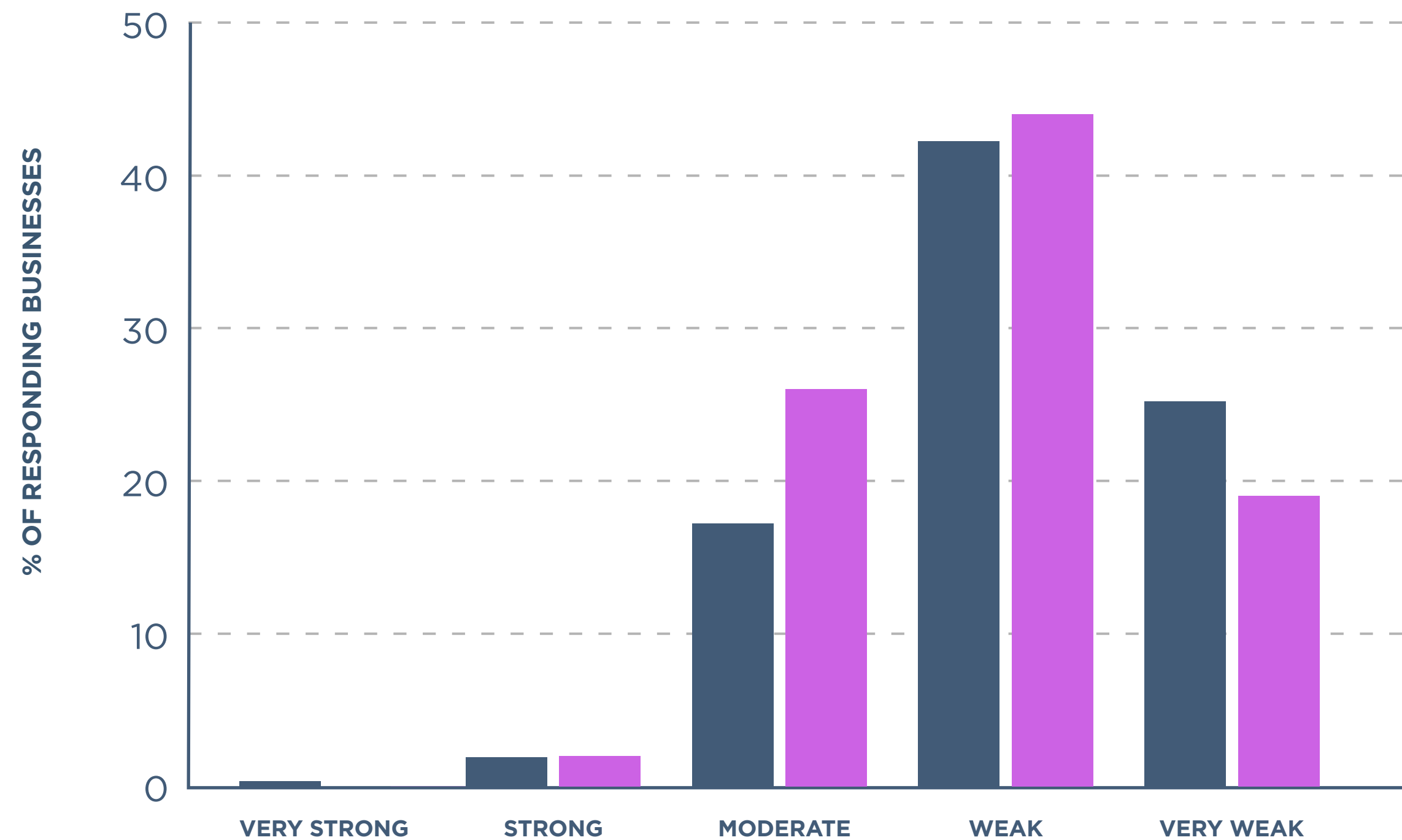
# KEY RESULTS

## EXPECTATIONS OF SOME GROWTH IN THE SCOTTISH ECONOMY RISE, THOUGH CONCERNS LINGER ON

- Moderate growth expectations have increased from **17%** in Q1 2024 to **26%** in Q2 2024, indicating a more optimistic outlook among responding businesses.
- Likewise, expectations of very weak growth have decreased from **25%** last quarter to **19%** in Q2 2024, suggesting a reduction in pessimism.
- Other growth expectations have remained relatively stable, with a slight increase in weak growth.
- Overall, while there is a mixed sentiment among responding businesses, there seems to be a moderate increase in optimism regarding the growth of the Scottish economy in the coming year.

**Chart 3:**

Thinking about the growth in the Scottish economy over the next 12 months compared to the previous 12 months, do you think that growth will be, Q1 2024 vs Q2 2024\*



\*13% (Q1) and 9% (Q2) of businesses responded N/A; therefore, percentages will not sum to 100%

**MORE IMAGINATION MORE IMPACT**

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