Scottish Business Monitor

Q2 2025

Introduction

This report outlines the key results from our latest Fraser of Allander Institute (FAI) Scottish Business Monitor in the second quarter of 2025.

The survey sampled over 300 businesses in June across all 32 local authorities in Scotland, examining views on level and volume of business activity, economic sentiment, and confidence levels in the overall outlook for the next 12-month horizon.

The Scottish business community has had to deal with a plethora of challenges since the pandemic. While overall business confidence at the end of the second quarter of 2025, remained subdued, there were tentative signs of recovery from the sharp declines observed in Q1 2025.

Changes to employer National Insurance Contributions (NICs, announced in the autumn 2024 UK Government Budget, kicked in at the beginning of Q2 and have significantly impacted business planning. Nearly two-thirds of businesses reported having adjusted their operations, whilst almost two-fifths anticipated requiring additional adjustments in response to the changes that have resulted in higher employee costs for businesses. Such policy changes, combined with ongoing inflationary pressures continue to contribute to an overall challenging cost environment for Scottish businesses.

Our latest results also show that:

- Nearly three-quarters of businesses expect economic growth in Scotland to remain weak or very weak in the year ahead. **Whilst this is an improvement from last quarter, it underscores the impact of ongoing policy and economic uncertainty affecting business outlook for the next 12-month period.**
- Cost pressures continue to remain elevated, with 83 percent of businesses reporting or expecting higher total business costs in the previous three months and over the next six months. Total employee costs (including wages, pensions, and NICs etc) remain the most pressing cost component for businesses.
- Like last quarter, almost all businesses surveyed highlighted the influence of economic and political uncertainty over traditional economic factors, such as staff or credit availability.

CURRENT SCOTTISH BUSINESS ACTIVITY

Business activity in Q2 2025 showed tentative signs of recovery from Q1, however overall activity levels still remained negative.

Sales continue to decline but the rate of decline has eased. The volume of business activity (sales) saw a net balance of **-12.8 percentage points**, **up 8 points from Q1**. This again underscores that the overall sales environment remains challenging, but the second quarter saw recovery in sales activity relative to first quarter of 2025.

New business activity has recovered from 2025Q1 increasing by 14 points on Q1 to a new net balance of **-13.4 percentage points**. Relative recovery in new business activity may be indicative of early signs of economic recovery as more businesses report increases in new business activity.

Level of employment continues to remain negative: experiencing a net balance of **-9.9 percentage points**, however this has increased by 8 points from Q1 suggesting businesses are preparing to stabilise their workforce levels after the changes announced last autumn which led to increases in overall employee costs.

Level of capital investment remains weak: with a deeply negative net balance of **-18.6 percentage points**. Whilst this is an increase of 8 points on Q1, it signals businesses continue to display heightened levels of uncertainty when it comes to committing to new capital investment.

Export activity is the only area that did not see an improvement from the first quarter. **The level of export activity declined by almost 9 percentage points to a net balance of -25.3.**

Table 1: Net balance of firms experiencing an increase in activities over the past three months, Q3 2022 – Q2 2025

	2022		2023			2024				2025	
	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q1	Q2
Volume of Business Activity (i.e., sales)	4.0	-2.2	9.1	3.0	-1.2	-7.1	4.5	-0.8	-8.8	-20.7	-12.8
Volume of New Business Activity	0.0	-4.9	5.7	0.0	-9.6	-13.5	-4.2	-1.4	-18.0	-27.4	-13.4
Value of Business Activity (i.e., turnover)	6.4	-0.7	8.1	3.7	0.0	-2.6	5.4	3.4	-7.9	-16.2	-10.3
Level of Employment in your Business	8.5	-5.4	-0.5	2.2	1.9	-0.3	-2.7	3.9	-8.3	-18.3	-9.9
Level of New Capital Investment	-5.9	-14.7	-4.4	-12.1	-16.7	-12.1	-10.5	-5.4	-21.6	-26.6	-18.6
Export Activity	-9.2	-11.5	-8.4	-11.4	-11.5	-16.4	-10.5	-11.3	-17.2	-16.6	-25.3

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

KEY RESULTS

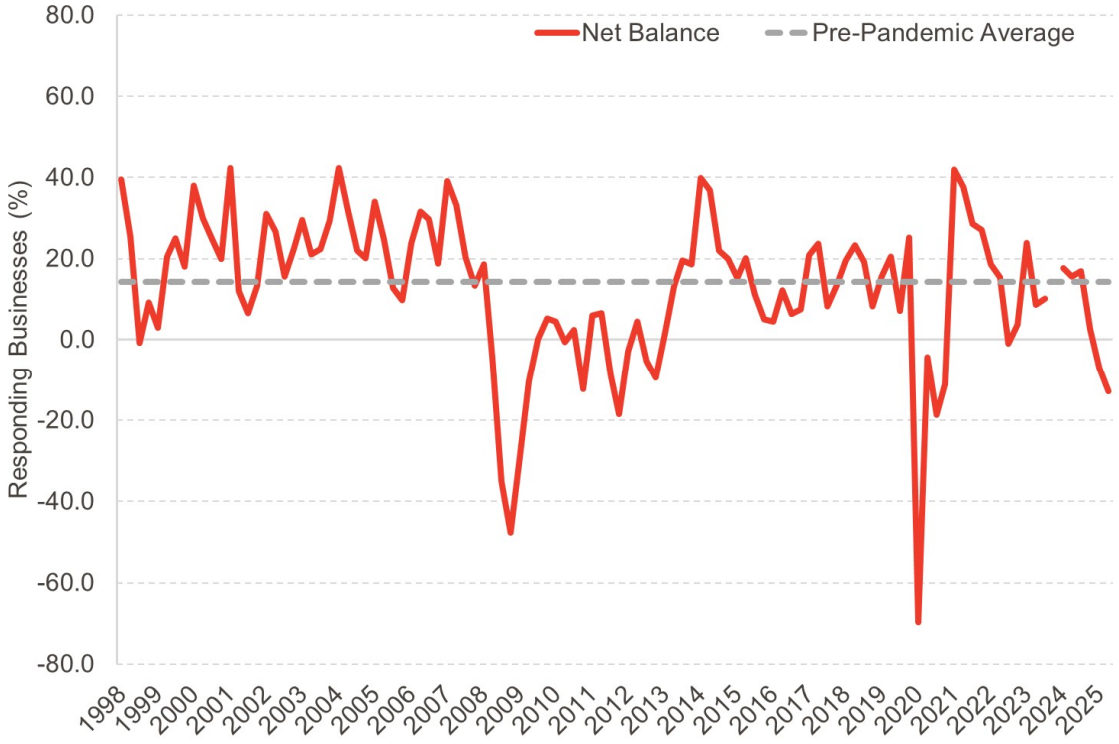
Business sentiment for the remainder of 2025 remains pessimistic.

Despite a recovery from Q1 into Q2, business sentiment for the second half of 2025 remains pessimistic, with the net balance of anticipated business volume falling to **-12.9 percentage points**. This deterioration marks a further continuation in the apprehension observed from Q1, with a **6-point decline observed in Q2**.

The downward trend of 2025 is in sharp contrast to the relatively stable and positive expectations throughout 2024 and represents a significant departure from the **pre-pandemic average of 14**. This suggests that while the second quarter was better than the first quarter of the year, it has not managed to significantly improve the Scottish business confidence for the rest of the year.

There is a disconnect between the net balance of current business performance and future anticipation. While the experience of Q2 2025 showed signs of recovery in activity, forward-looking expectations have become more negative which may indicate Scottish businesses are bracing for more challenges amidst a generally difficult external environment.

Chart 1: Net balance of firms expecting an increase in their volume of business over the next six months, Q1 1998 – Q2 2025



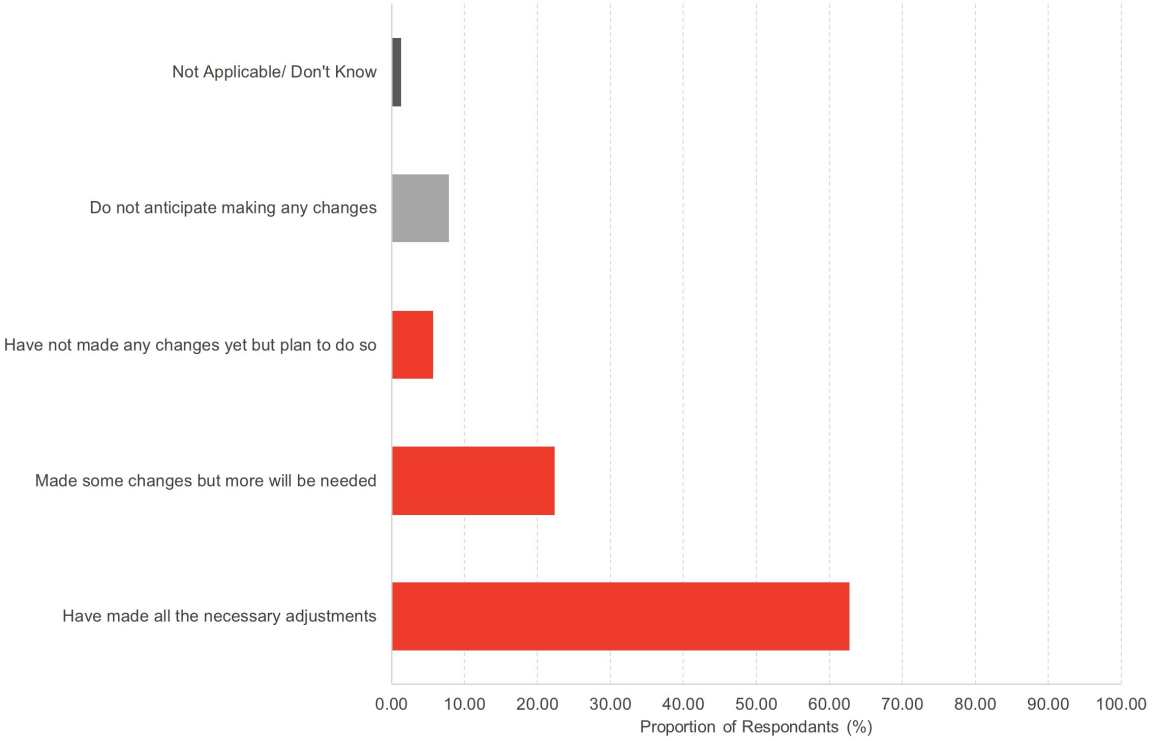
** Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower*

Most businesses have already adjusted in response to changes in employer NICs

At the start of the quarter, changes to employer National Insurance Contributions (NICs) came into effect. In response:

- **63 percent of businesses** reported having already implemented necessary adjustments.
- However, a substantial proportion – **38 percent of businesses** anticipate more future adjustments will be needed.

Chart 2: Has your business already made the necessary adjustments in response to the recent National Insurance Contribution increases, or do you anticipate making further changes in the future?



Source: Scottish Business Monitor

Cost pressures align with this analysis, **83 percent of businesses** reported experiencing or expecting higher total business costs over the past three months and in the upcoming six months respectively. These overall pressures are also consistent with broader inflationary trends currently affecting the economy.

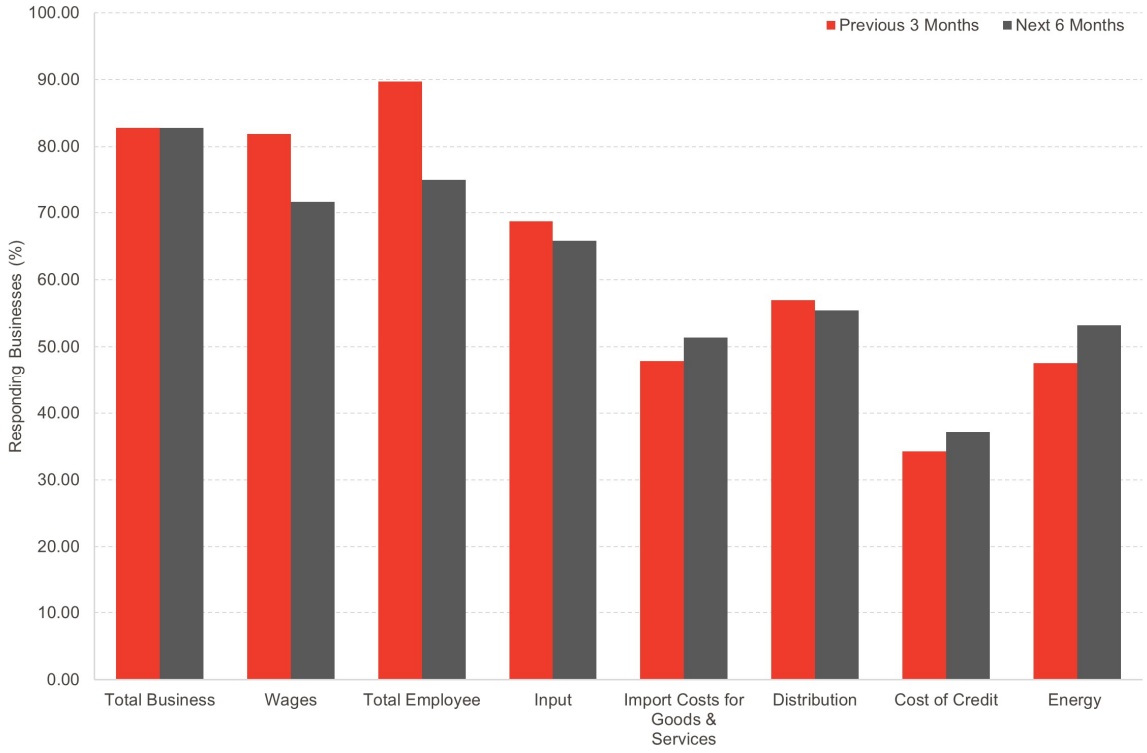
When examining specific cost pressures:

- **90 percent** of businesses reported rising total employee costs over the past three months.
- 82 percent reported higher wages costs during the same period.

Looking ahead, these pressures are expected to ease only slightly:

- **75 percent** of businesses anticipate increase in total employee costs over the next six months.
- **72 percent** expect wage costs to remain a key pressure over the same period.

Chart 3: Proportion of businesses assessing costs pressures as 'higher' in the previous three months and next six months, Q2 2025



Source: Scottish Business Monitor

OUTLOOK FOR THE NEXT YEAR

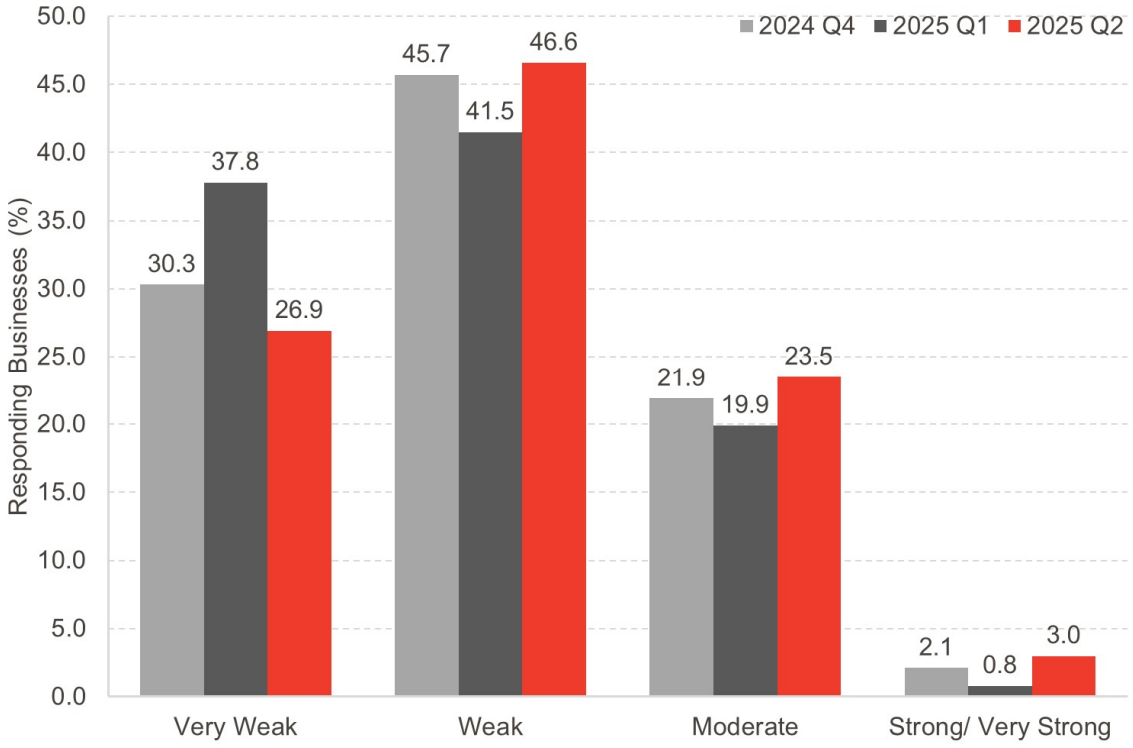
Some optimism returns, but three-quarters of businesses still expect weak or very weak economic growth over the next 12 months.

Despite business sentiment becoming more pessimistic for the remainder of 2025, the outlook for growth in the Scottish economy over the next year is slowly becoming more optimistic – a total of **73.5 percent of businesses expect weak or very weak growth** compared to last year, however, this is **down from 79.3 percent in the previous quarter** suggesting possible green shoots on the horizon.

- **3.0 percent of businesses expect strong or very strong growth** compared to the previous 12 months. This is **an increase of 2.2 points** from last quarter.
- **23.5 percent of business now expect moderate growth**, **up 3.6** points from Q1.
- Expectations for weak growth are 46.6 percent, up 5.1 points. However, this is likely the results of the decline in "very weak" moving into "weak" being greater than the shifts into "moderate" and "strong/very strong."
- "Very weak" is the only expectation to decrease, suggesting some optimism is taking hold and shifting business expectations to "weak", "moderate", and "strong/very strong."

It's worth noting that, on the whole, businesses are still pessimistic, but some optimism has returned especially relative to the levels seen in the first quarter of 2025.

Chart 4: 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:



Source: Scottish Business Monitor