



University of  
**Strathclyde**  
**Glasgow**

# Fraser of Allander Institute

Scottish Business Monitor Q3 2024  
Results

*October 2024*

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The Fraser of Allander Institute

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## **Disclaimer**

The analysis in this report has been conducted by the Fraser of Allander Institute (FAI) at the University of Strathclyde. The FAI is a leading academic research centre focused on the Scottish economy.

The analysis and writing-up of the results was undertaken independently by the FAI. The FAI is committed to providing the highest quality analytical advice and analysis. We are therefore happy to respond to requests for technical advice and analysis. Any technical errors or omissions are those of the FAI.

# Executive Summary

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This report summarises the key results from our latest Fraser of Allander Institute (FAI) [Scottish Business Monitor](#).

The survey sampled over 350 firms in August and September from across the Scottish economy, examining business sentiment in Q3 2024 and the outlook for the year ahead.

In Q3 2024, business sentiment remains consistently positive. Firms are reporting an increase in employment levels, and cost pressures are easing. Recent interest rate cuts are helping a more favourable climate for investment, leading to a noticeable reduction in the challenges businesses are facing compared to this time last year.

Despite these positive indicators, some challenges remain. Ongoing issues related to exports, investment, staff availability, and rising employee costs continue to pose significant hurdles for businesses. Consequently, while growth expectations are encouraging, they are somewhat tempered by these persistent concerns. As a result, one in four firms are now expecting modest growth in the Scottish economy over the coming year.

Our latest results also show that:

- Scottish businesses continue to show steady confidence in their activity levels for the next six months, with expectations for business volume holding firm at a net balance of 16 to 17. This key indicator has remained stable in 2024, above the pre-pandemic average of 14 and significantly higher than the 2020-2023 average of 7.
- For the second quarter in a row, fewer businesses are saying their costs have gone up. Wages and employee costs remain the biggest concerns, but the pressure from borrowing costs has eased significantly.
- Most businesses expect economic/ business uncertainty (85%), staff availability (78%), and political uncertainty (75%) as the major concerns in the coming three months.

# Section 1: Current Business Activity

- **Dip in Sales:** The volume of business activity (sales) saw a net balance of **-0.8** down by 5.3 points compared to the previous quarter, continuing the cautious outlook seen in recent months - although this decline is not as sharp as seen in previous years.
- **New Business Activity Shows Signs of Recovery:** Although still in negative territory at **-1.4**, this measure has improved from a low of -13.5 at the start of 2024. This upward trend is a hopeful sign for future growth.
- **Turnover Steady:** The value of business activity (turnover) remains positive at **3.4**, down slightly from last quarter, but still better than the negative figures seen earlier this year.
- **Employment – Strongest Improvement:** On a more positive note, employment levels have seen the strongest improvement among all indicators, returning to positive territory at **3.9**.
- **Capital Investment and Exports Remain Negative:** Both new capital investment and export activity continue to linger in negative territory (**-5.4** and **-11.3**, respectively), with more firms reporting declines than increases. These measures have struggled to recover since 2018, reflecting the tough business conditions of recent years.
- **Encouraging Signs for Investment:** However, capital investment has shown gradual improvement since the start of 2024, particularly following the Bank of England’s rate cut.

**Chart 1:** Net balance of firms expecting an increase in their volume of business over the next six months, Q1 2022 - Q3 2024

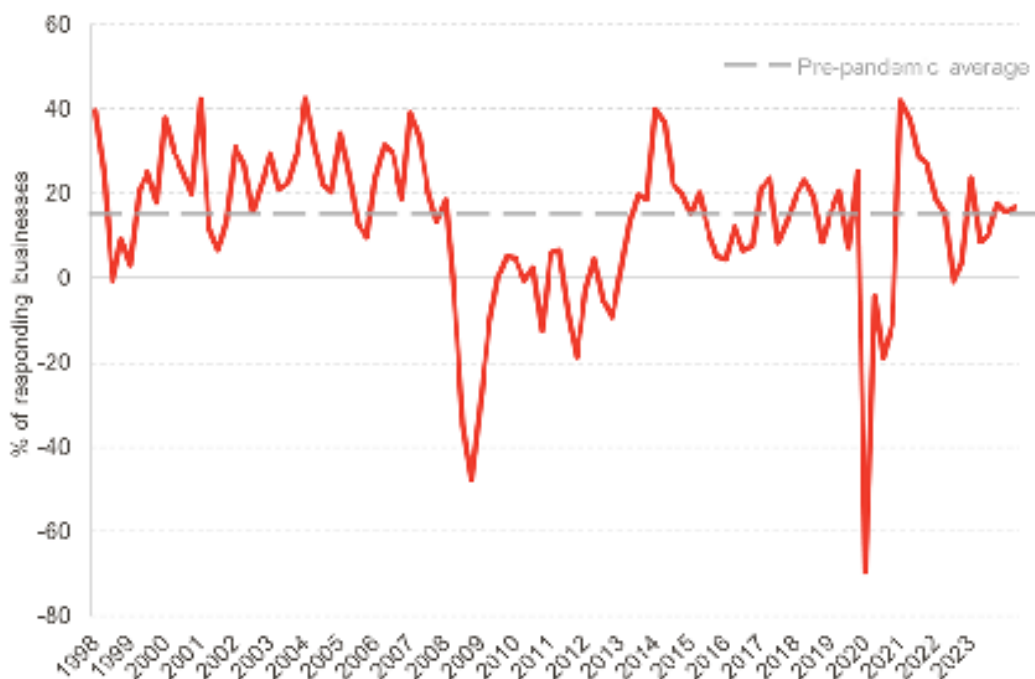
	2022				2023			2024		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3
Volume of business activity (i.e., sales)	30.1	15.3	4	-2.2	9.1	3	-1.2	-7.1	4.5	-0.8
Volume of new business activity	24.9	8.8	0	-4.9	5.7	0	-9.6	-13.5	-4.2	-1.4
Value of business activity (i.e., turnover)	32.3	15	6.4	-0.7	8.1	3.7	0	-2.6	5.4	3.4
Level of employment in your business	15.5	10.2	8.5	-5.4	-0.5	2.2	1.9	-0.3	-2.7	3.9
Level of new capital investment	6.3	1.2	-5.9	-14.7	-4.4	-12.1	-16.7	-12.1	-10.5	-5.4

# Section 2: Key Results

## *Businesses sentiment remains steady.*

- On average, firms have maintained stable expectations for our key indicator - the volume of business over the next six months - compared to the last survey.
- The **anticipated volume of business** has seen a modest increase from **16 to 17 percentage points** in net balance since last quarter. This indicates that more businesses expect growth rather than decline in their volume of business.
- Interestingly, this net balance has remained steady throughout 2024, sitting slightly above the **pre-pandemic average of 14** and significantly higher than the **2020-2023 average of 7**.
- This trend suggests a return to stability for firms, which is particularly encouraging given the many uncertainties and challenges that businesses have faced in recent years.

**Chart 2:** Net balance of firms expecting an increase in their volume of business over the next six months, Q1 1998 – Q3 2024



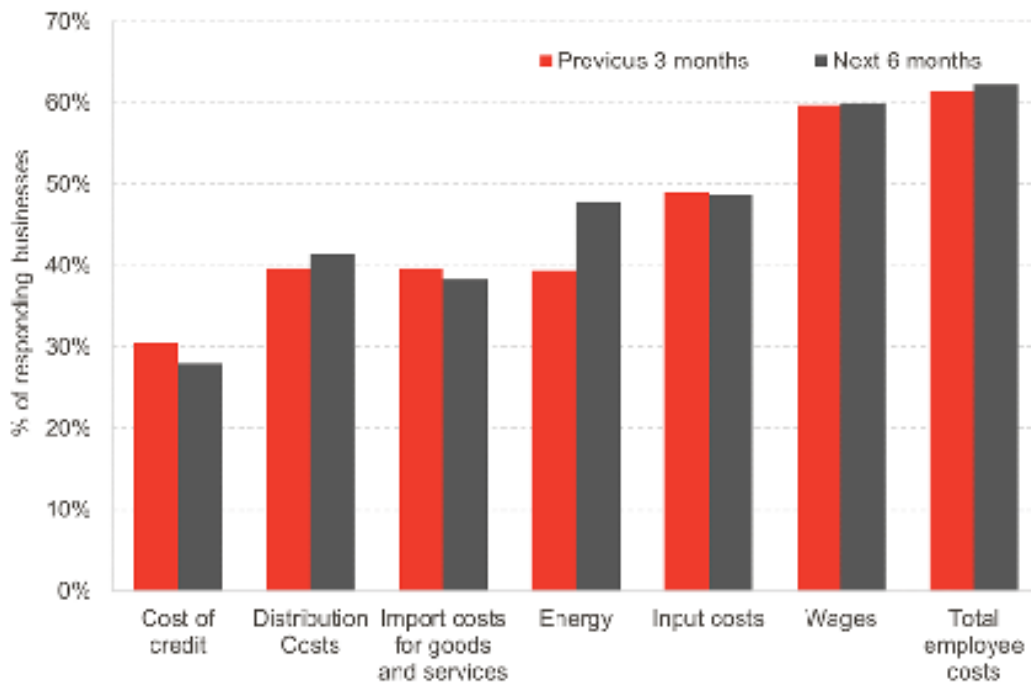
\*Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower

Source: Scottish Business Monitor

## Wages & employee costs continue to be the biggest cost pressure on firms.

- We also asked businesses what their main cost pressures have been over the past three months and what they expect for the next six months.
- For the second quarter in a row, **fewer businesses** are saying that their overall costs have gone up, across all categories.
- **Cost of credit** has become less of a concern for businesses. **30%** of firms reported this as their key cost driver over the past 3 months (down from 38% last year). **28%** of firms expect cost of credit to continue to be a key cost pressure in the coming six months.
- **Total employee costs and wages** have remained the top cost pressure for businesses since Q1 2023. Around **60%** of companies reported these costs were higher over the past three months and expect them to be higher in the next six months. However, this is down considerably from last quarter, showing some cooling off in wage pressure for firms.

**Chart 3:** Proportion of businesses responding that costs were higher this quarter compared to the previous 3 months and next 6 months



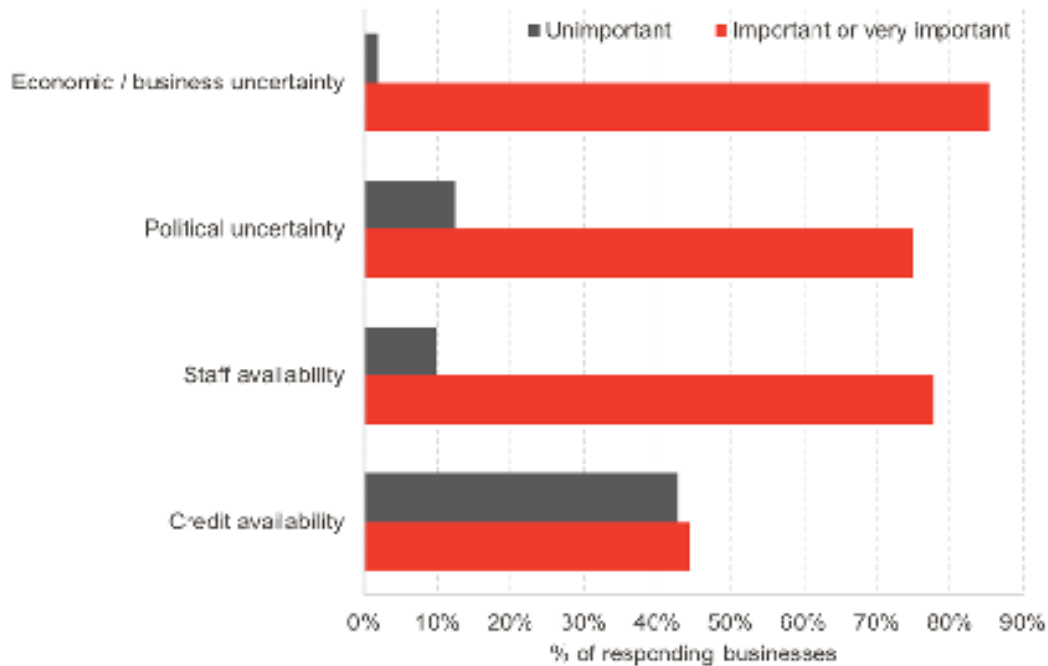
\*Some businesses responded N/A; therefore, percentages may not sum to 100%

Source: Scottish Business Monitor

*Economic and business uncertainty remain top concern for firms ahead of upcoming budgets, but credit concerns ease.*

- **Economic and business uncertainty** remains the top concern, with **85%** of businesses rating it as "important" or "very important," and only **2%** considering it "unimportant."
- **Staff availability** is another significant issue, with **78%** of firms identifying it as important, while just **10%** see it as unimportant.
- **Political uncertainty** is also a notable concern, with **75%** of businesses considering it an important factor, and only **12%** saying it's unimportant.
- Interestingly, **credit availability** is more balanced, with **45%** of firms viewing it as important and **43%** deeming it unimportant. This suggests that businesses may be feeling some relief, possibly due to easing interest rates and expectations of further rate cuts in the future.

**Chart 4:** Proportion of businesses responding how important are the following factors expected to be over the next 3 months.



*\*Some businesses responded N/A; therefore, percentages may not sum to 100%*

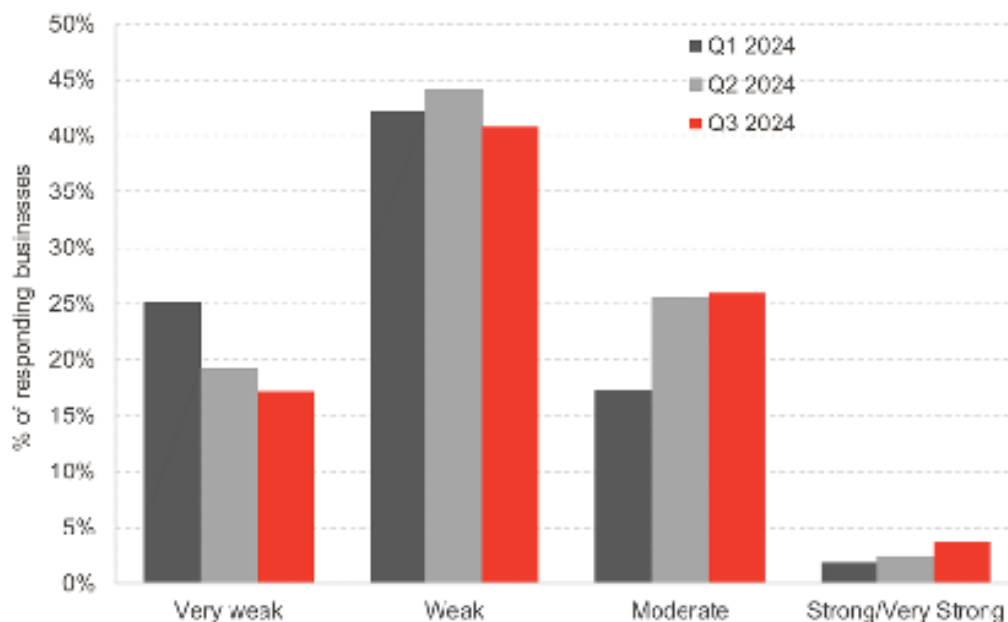
**Source:** Scottish Business Monitor

# Section 3: Outlook for the Next Year

*1 in 4 firms expecting moderate growth in Scottish economy over next year.*

- Scottish businesses are feeling more positive about the economy compared to the start of the year. There has been a noticeable drop in the number of firms expecting **“very weak”** growth, from 25% in Q1 to **17%** by Q3
- Correspondingly, the proportion of businesses predicting **“moderate”** growth has increased significantly from 17% in Q1 to **26%** in both Q2 and Q3, reflecting growing optimism.
- Despite this, many still expect the economy to perform below par, with over **40%** anticipating **“weak”** growth.
- Confidence in strong growth remains low, with only **4%** of businesses expecting **“Strong”** or **“Very Strong”** growth in Q3, slightly up from 2% in Q1 and Q2.

**Chart 5:** 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, Q2 & Q3 2024



*\*Some businesses responded N/A; therefore, percentages may not sum to 100%*

**Source:** Scottish Business Monitor





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