

Scottish Business Monitor

Q4 2024



Introduction

This report outlines the key results from our latest Fraser of Allander Institute (FAI) Scottish Business Monitor in the fourth quarter of 2024.

The survey sampled over 300 firms in December and January from across the Scottish economy, examining business sentiment in Q4 2024 and the outlook for the year ahead.

At the end of calendar year 2024, business confidence remains pessimistic. Firms surveyed reported decline in business activity – both volume and sales in the last three months of 2024. Firms also reported a decline in the level of export activity and new capital investment despite central bank monetary easing which is gradually easing credit conditions in the economy.

Changes announced in the UK Government Budget pertaining to employer NICs contributions are particularly weighing on the business environment- with three quarters of businesses surveyed indicating that these changes are expected to significantly impact their operations in 2025. Cost pressures also remain a lingering and ongoing concern with **94 per cent of businesses surveyed expect higher total business costs over the first half of 2025**.

Our latest results also show that:

- **Three-quarters of businesses** surveyed economic growth in Scotland to remain weak or very weak over the next 12 months This is an increase of **almost 18 percentage points** over the previous quarter (2024Q3).
- While headline inflation levels have been falling, cost pressures remain an ongoing concern for businesses. **77 per cent** of businesses surveyed reported higher total employee costs in **2024Q4 relative to 2024Q3**. **94 per cent** of businesses surveyed expect total employee costs to be higher again in the first six months of 2025.
- Businesses continue to attach importance to political and economic certainty. Businesses surveyed overwhelmingly flagged economic/ business uncertainty (98) %, and political uncertainty (90%) as the major concerns in the first three months of 2025.

CURRENT SCOTTISH BUSINESS ACTIVITY

Dip in Sales: The volume of business activity (sales) saw a net balance of **-8.8 percentage points**, down by 8 points compared to the previous quarter.

New Business Activity Remains Extremely Weak: Deep in negative territory at a net balance of **-18 percentage points**, this measure has declined significantly from -1.4 at the end of 2024Q3. More importantly, the current metric is the weakest it has been since the beginning of 2022Q1.

Turnover has also declined- The value of business activity (turnover) has also turned negative, with a **net balance of -7.9 percentage points** down sharply from what was a positive net balance at the end of third quarter.

Level of employment across surveyed businesses has declined: Employment levels, which saw a net balance of 3.9 percentage points at the end of 2024Q3, have declined to a **net balance of -8.3 percentage points** at the end of 2024Q4.

Table 1: Net balance of firms experiencing an increase in activities over the past three months, Q1 2022 – Q4 2024

	2022				2023			2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4
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	-8.8
Volume of new business activity	24.9	8.8	0	-4.9	5.7	0	-9.6	-13.5	-4.2	-1.4	-18
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	-7.9
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	-8.3
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	-21.6
Export activity	-8	-9	-9.2	-11.5	-8.4	-11.4	-11.5	-16.4	-10.5	-11.3	-17.2

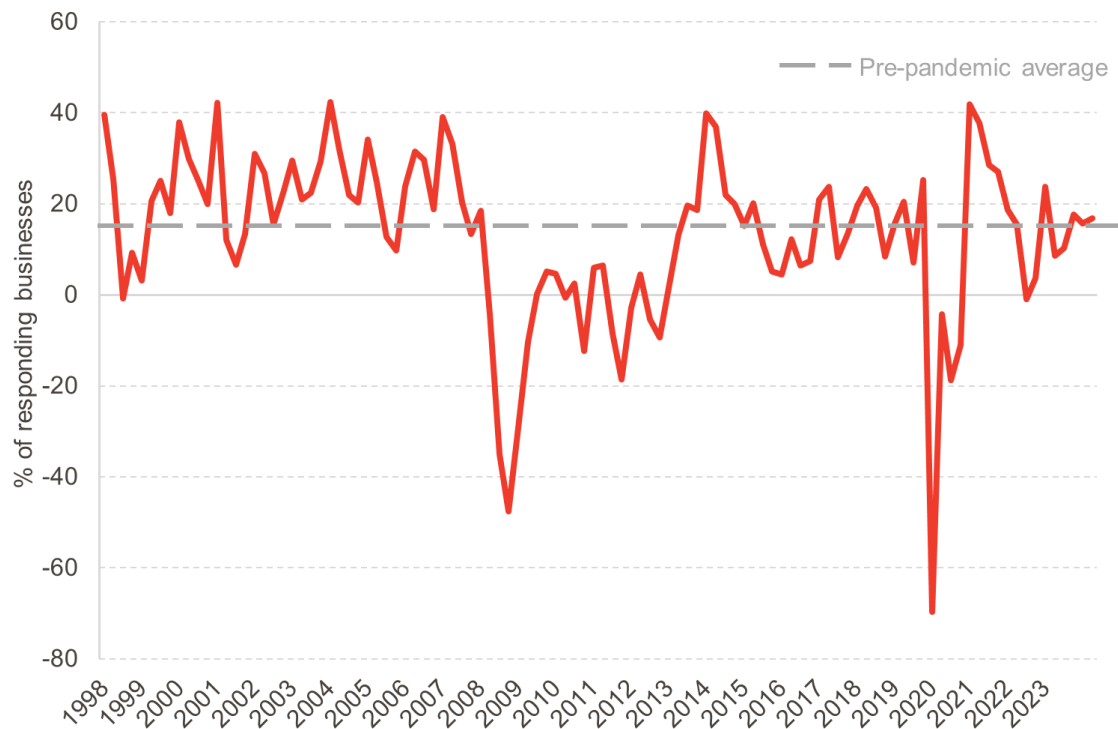
**Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower*

KEY RESULTS

Businesses sentiment for 2025 remains weak.

- The anticipated volume of business has seen a significant decline from **17 percentage points in net balance in 2024Q3 to a positive net balance of just over 2 – a decline of over 14 percentage points.**
- Interestingly, this net balance had remained steady throughout the first three quarters of 2024, sitting slightly above the **pre-pandemic average of 14** and significantly higher than the **2020-2023 average of 7.**
- The results from 2024Q4 indicate that businesses remain nervous about business activity, at least in the first half of 2025. This nervousness and downbeat sentiment is expected to weigh on the economy.

Chart 1: Net balance of firms expecting an increase in their volume of business over the next six months, Q1 1998 – Q4 2024



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

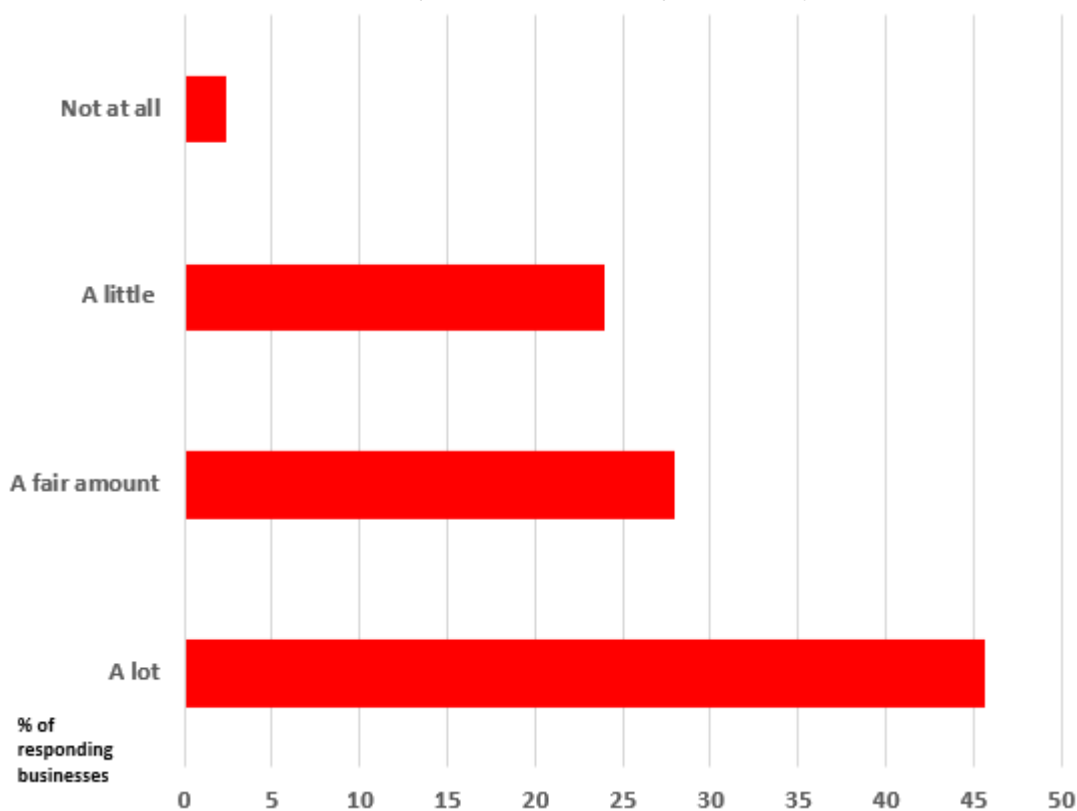
Employer NICs changes to have significant impact on businesses in 2025.

We also asked businesses to inform us about the impact of UK Government employer NICs (National Insurance Contributions) changes on their operations.

- **45%** of businesses reported that these changes will have “a lot” of impact on their operations in 2025.
- **28%** of businesses surveyed expect that these changes will have “a fair amount” of impact on their operations in 2025.
- **24%** of businesses surveyed expect that these changes will have “a little” impact on their operations in 2025.
- Less than **3%** of businesses surveyed expect these changes to have no impact on their operations in 2025.

Going forward, we will survey businesses again in the future quarters of 2025 to examine strategies employed by businesses to manage these NICs changes.

Chart 2: To what extent do you believe the recent UK Government changes to employer National Insurance Contributions (effective April 2025) will affect your business.



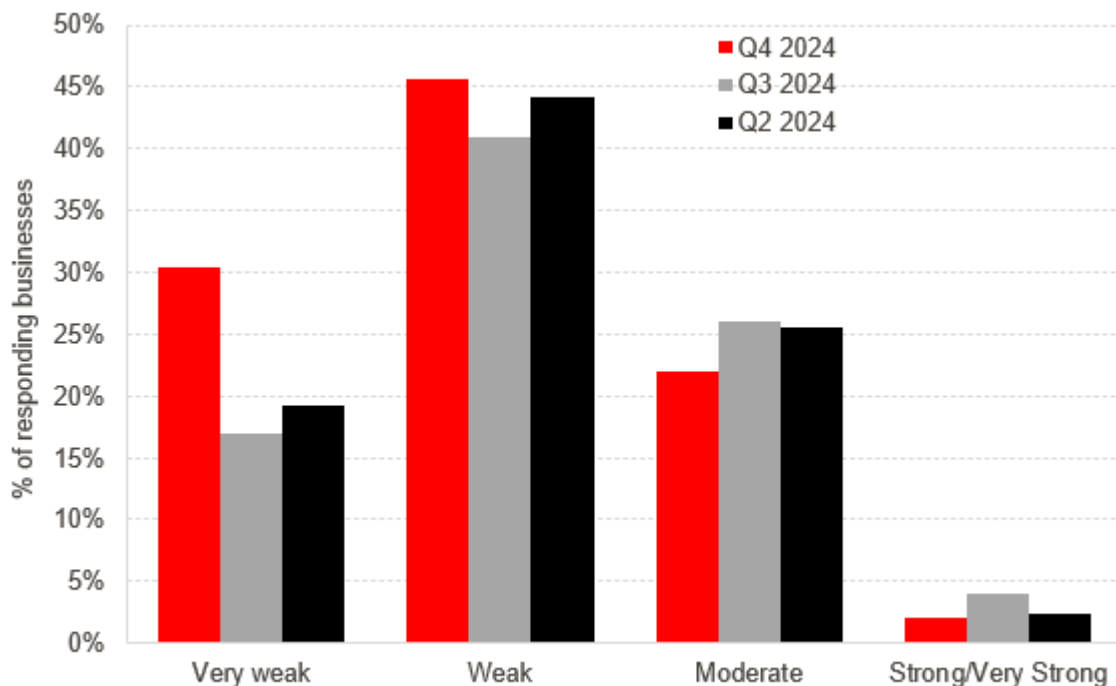
Source: Scottish Business Monitor

THE OUTLOOK FOR THE NEXT YEAR

3 in 4 firms surveyed is expecting weak or extremely weak economic growth over 2025.

- Scottish businesses are showing increased signs of pessimism – 30% of businesses surveyed expected growth over the next 12 months remain “very weak” – **an increase of almost 13 percentage points relative to 2024Q3** where only 17% of businesses expected “very weak” growth.
- The proportion of businesses predicting “moderate” growth has also declined, from 26% in Q3 to 21% in Q4.
- 45% of businesses surveyed in 2024Q4 expect growth over the next 12-month period to be “weak”. This is 4 percentage points higher than 2024Q3, where 41% of surveyed businesses expected growth to be weak.
- Confidence in strong growth remains low, with only 2% of businesses expecting “Strong” or “Very Strong” growth in Q4, down 2 percentage points from 4% in 2024Q3.

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–



Source: Scottish Business Monitor

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