

Scottish Business Monitor

Q1 2025



Introduction

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

The survey sampled nearly 250 firms in March across the 32 local authorities in Scotland, examining business sentiment in Q1 2025 and the outlook for the year ahead.

At the end of first quarter of 2025, business confidence remains extremely pessimistic. Firms surveyed have reported a decline in business activity – both volume and sales in the first three months of 2025. Firms also expect employment levels to decline due to weak economic outlook as well as employment related policy changes announced last autumn in the UK government autumn statement. Businesses are no doubt also being affected by tremendous trade and tariff policy uncertainty weighing the global markets as well.

Changes announced in the UK Government Budget in autumn 2024 pertaining to employer NICs contributions are particularly weighing on the business environment. In our survey at the end of 2024, three quarters of businesses surveyed indicated that these changes were expected to significantly impact their operations in 2025. The survey results this quarter reveal that firms have cancelled workforce expansion plans, reduced employment, and adjusted prices in response to increased payroll costs from NICs rises.

Our latest results also show that:

- **8 out of 10 businesses** surveyed expect economic growth in Scotland to remain weak or very weak over the next 12 months This is an increase of **almost 4 percentage points** over the previous quarter (2024Q4).
- While headline inflation levels have been falling, overall cost pressures remain an ongoing concern for businesses. **Almost 92 per cent** of businesses surveyed expect higher total business costs over the next six months.
- Businesses continue to attach the most importance to political and economic certainty. **Almost all the businesses surveyed highlighted economic and political certainty to be more important than traditional factors such as staff or credit availability.**

CURRENT SCOTTISH BUSINESS ACTIVITY

Dip in Sales: The volume of business activity (sales) saw a net balance of **-20.7 percentage points**, down by 12 points compared to the previous quarter.

New Business Activity Remains Extremely Weak: Deep in negative territory at a net balance of **-27.4 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 -16.2 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 -18.3 percentage points** at the end of 2025Q1. This is the second consecutive quarterly decline for this category.

Table 1: Net balance of firms experiencing an increase in activities over the past three months, Q2 2022 – Q1 2025

	2022			2023			2024				2025
	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q1
Volume of Business Activity (i.e., Sales)	15.3	4.0	-2.2	9.1	3.0	-1.2	-7.1	4.5	-0.8	-8.8	-20.7
Volume of new business activity	8.8	0.0	-4.9	5.7	0.0	-9.6	-13.5	-4.2	-1.4	-18.0	-27.4
Value of business activity (i.e. turnover)	15.0	6.4	-0.7	8.1	3.7	0.0	-2.6	5.4	3.4	-7.9	-16.2
Level of employment in your business	10.2	8.5	-5.4	-0.5	2.2	1.9	-0.3	-2.7	3.9	-8.3	-18.3
Level of new capital investment	1.2	-5.9	-14.7	-4.4	-12.1	-16.7	-12.1	-10.5	-5.4	-21.6	-26.6
Export activity	-9.0	-9.2	-11.5	-8.4	-11.4	-11.5	-16.4	-10.5	-11.3	-17.2	-16.6

Source: Scottish Business Monitor

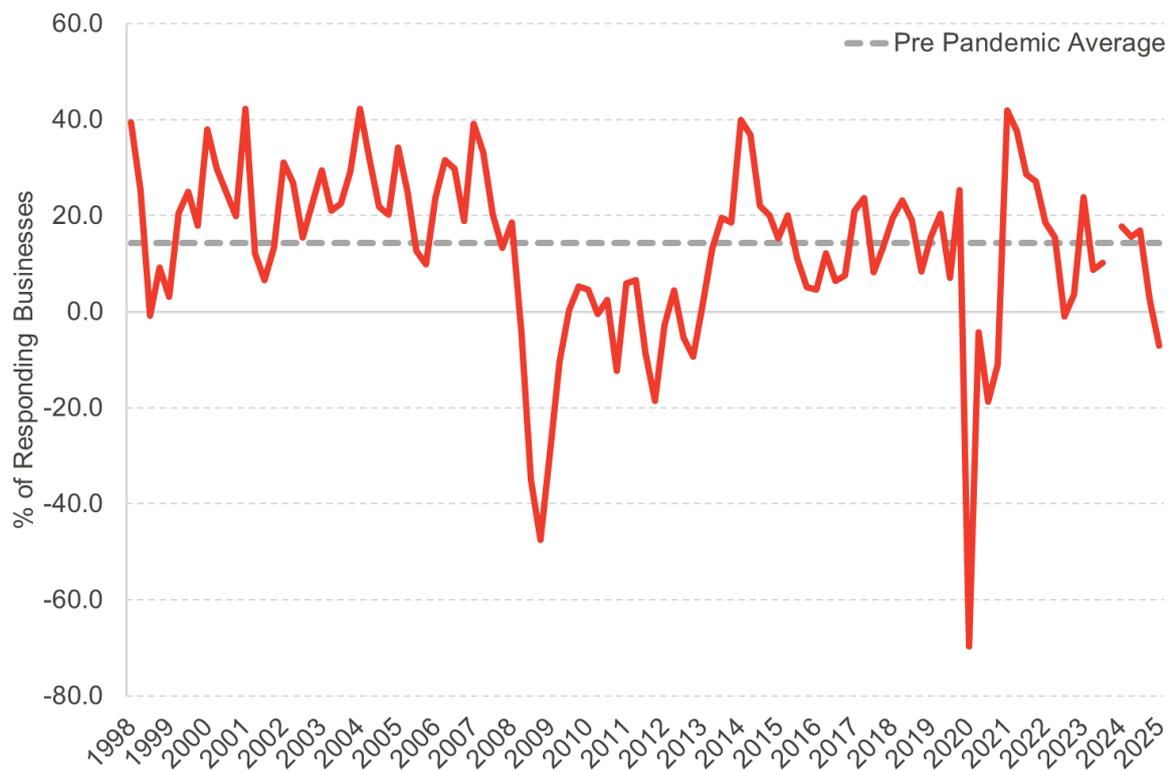
*Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower.

KEY RESULTS

Businesses sentiment for 2025 remains weak.

- The anticipated volume of business has seen a significant decline from **2 percentage points in net balance in 2024Q4 to a negative net balance of around 7 – a decline of almost 9 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 2025Q1 indicate that businesses remain nervous about business activity. 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 – Q1 2025



Source: Scottish Business Monitor

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

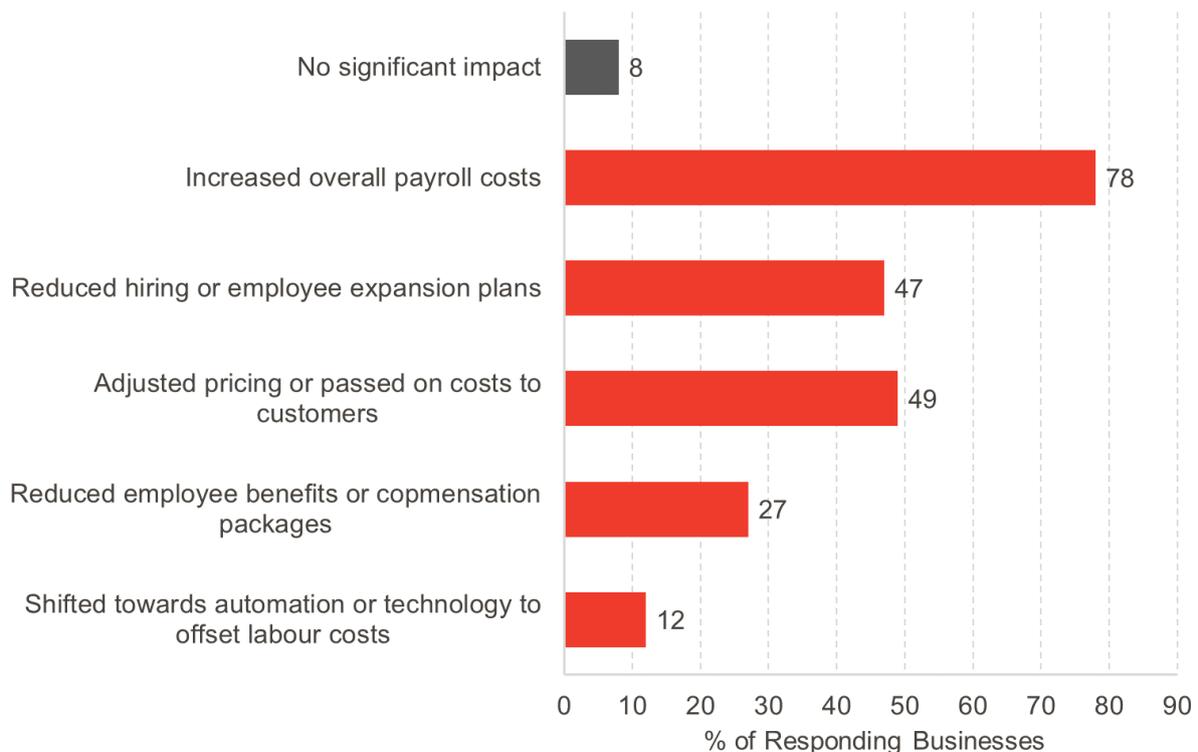
Employer NICs changes are expected to have a significant impact on workforce and pricing decisions.

We also asked businesses to inform us about the impact of UK Government employer NICs (National Insurance Contributions) changes on their operations. We were particularly interested in the combination of strategies businesses are taking to manage the rise in NICs.

- **78%** of businesses reported that these changes have increased overall payroll costs.
- **47%** of businesses surveyed reported that they have reduced hiring and/or employee expansion plans after NICs changes.
- **49%** of businesses surveyed have adjusted pricing and passed on costs to customers.
- **12%** of businesses have shifted towards automation and technology to offset the rise in labour costs.

Going forward, we will survey businesses again in the future quarters of 2025 to examine evolution in strategies employed by businesses to manage these NICs changes. It's also worth that the strategies are not mutually exclusive. Businesses can and will utilize a combination of strategies for the overall business planning purposes.

Chart 2: How have the recent increases in NICs affected your business operations and financial planning in 2025? (Select all that apply)



Source: Scottish Business Monitor

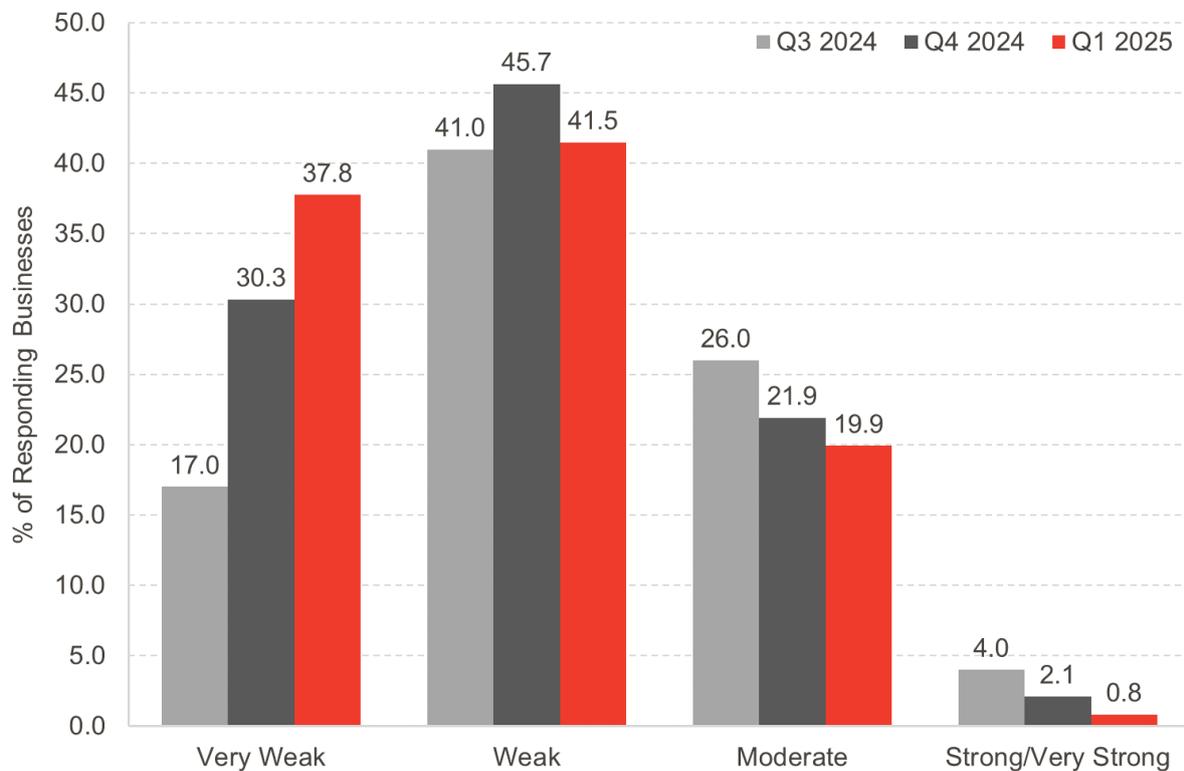
* Respondents were asked to "Select all that apply"; therefore, percentages will not sum to 100%

THE OUTLOOK FOR THE NEXT YEAR

8 in 10 firms surveyed is expecting weak or extremely weak economic growth over the next 12-month period

- Scottish businesses are showing increased signs of pessimism – almost **38%** of businesses surveyed expected growth over the next 12 months remain “very weak” – **an increase of almost 8 percentage points relative to 2024Q4.**
- The proportion of businesses predicting “moderate” growth has also declined, **from 22% in 2024Q4 to 20% in 2025Q1.**
- **Less than 1%** of businesses surveyed expect the economic growth over the next 12-month period to be in the “strong/very strong” territory.

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%