Scottish Enterprise

Economic Commentary

August 2025

Insights & Economics

Economic Commentary: Highlights

Scottish Enterprise

SUMMARY

ECONOMIC DATA

SE CUSTOMER SENTIMENT

OUTLOOK

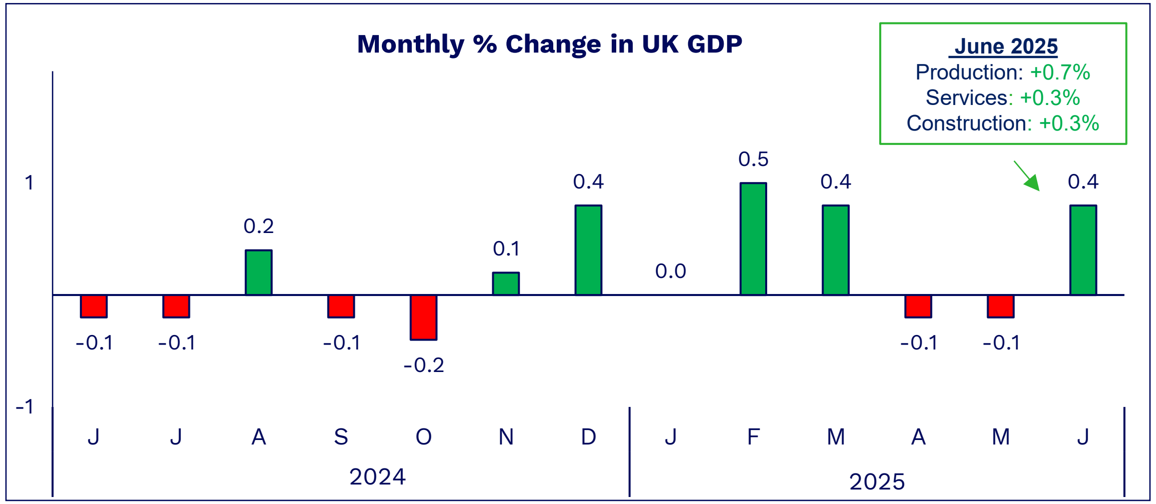
- Global business activity expanded in July at the quickest pace so far in 2025, driven by an acceleration in service sector growth. Business optimism for the year ahead however remained relatively downbeat due to worsening geopolitical concerns.
- UK GDP grew by 0.4% in June, following a contraction of 0.1% in May. Output expanded in all three main sectors with the service sector being the main contributor to growth. In the three months to June, GDP was up 0.3%.
- Business activity rose across the UK as a whole in July with 7 out of 12 nations/regions growing. Business activity in Scotland, however, contracted after 2 consecutive months of growth and optimism about the year ahead also fell in contrast to most other regions/nations.
- UK consumer price inflation was 3.6% in the year to June, up from 3.4% in May and still above the Bank of England's 2% target. Despite the rise, the Bank of England cut interest rates in August in an attempt to stimulate growth, suggesting they view rising inflation as temporary.
- The Scottish economy contracted by 0.2% in May. Output was up in services (+0.3%) but down in both production (-3.0%) and construction (-0.3%). The manufacturing sector was the largest downward contributor (partly due to the closure of Grangemouth). In the three months to May, GDP contracted by 0.4%.
- 26% of Scottish businesses reported an increase in monthly turnover in June (down from a high of 41% in March) while 24% reported a decrease (up from a low of 12% in March). The cost of labour was the most significant 'turnover challenge' reported, likely due to the increased employer NI contributions introduced in April.
- Scotland's labour market continues to cool as the number of payrolled employees decreased by 13,000 (-0.5%) over the year to July (the eighth consecutive monthly fall). 20% of businesses continue to report worker shortages, however this was the lowest proportion in a year.
- SE customers continue to be generally optimistic about their own performance but are increasingly pessimistic about the wider economic outlook. Challenges continue for some businesses with staffing and recruitment remaining a recurrent issue along with rising costs and access to investment funding (particularly for early-stage businesses).
- The IMF has upgraded its global growth forecast to 3.0% for 2025 and 3.1% for 2026.
- The Bank of England is forecasting UK GDP growth of 1.25% in 2025 and 2026, while the Fraser of Allander Institute downgraded its forecast for Scottish economic growth to 0.8% in 2025 and 1.0% in 2026. The downgrade reflected slower growth in March and April along with rising inflation and weaker conditions across the UK and globally.

Global/UK

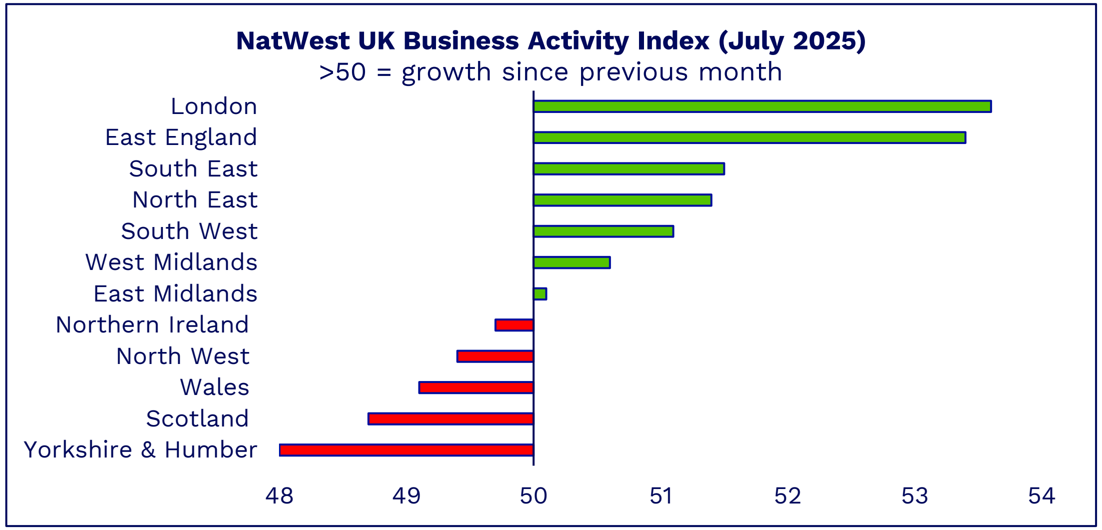
Global business activity expanded in July at the quickest pace so far in 2025, driven by an acceleration in service sector growth. Business optimism about the year ahead however remained relatively downbeat due to worsening geopolitical concerns.

	2024			2025							Change on previous month
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
US	54.1	54.9	55.4	52.7	51.6	53.5	50.6	52.1	52.4	54.6	↑
China	51.9	52.3	51.4	51.1	51.5	51.8	50.7	51.1	50.6	52.6	↑
Global	50.0	50.4	52.6	51.8	51.5	52.1	50.8	51.2	51.7	52.4	↑
Japan	49.6	50.1	50.5	51.1	52.0	48.5	51.2	49.8	51.5	51.5	=
UK	51.8	50.5	50.4	50.6	50.5	51.5	48.5	49.4	52.0	51.0	↓
Eurozone	50.0	48.3	49.6	50.2	50.2	50.4	50.4	49.5	50.6	51.0	↑
Scotland	51.3	51.1	46.9	49.6	49.0	45.9	47.4	50.5	50.9	48.7	↓

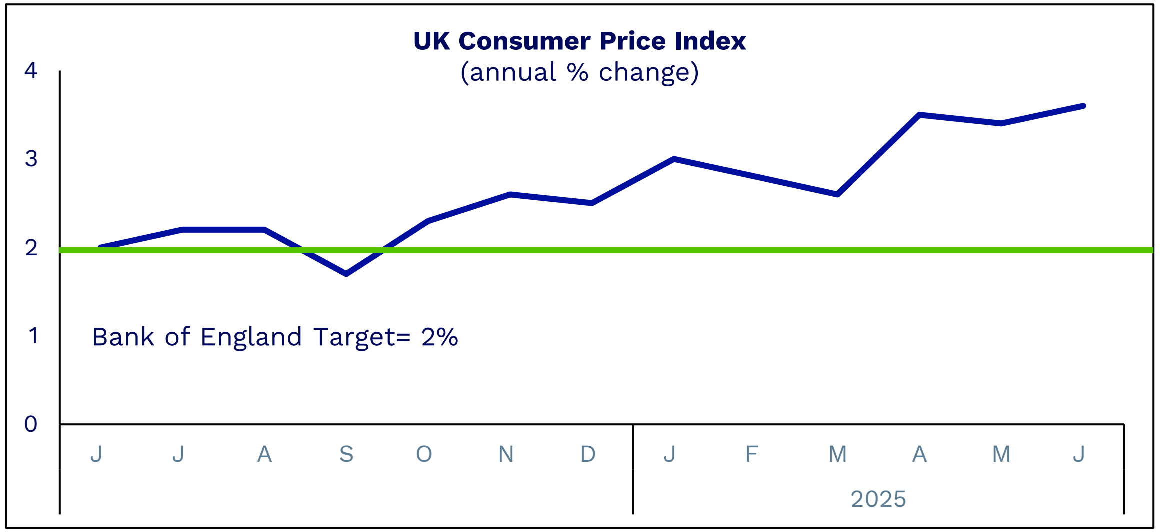
UK GDP grew by 0.4% in June, following a contraction of 0.1% in May. Output expanded in all three main sectors with the service sector being the main contributor to growth. In the three months to June, GDP was up 0.3%.



Business activity rose across the UK as a whole in July with 7 out of 12 nations/regions growing. Business activity in Scotland, however, contracted after 2 consecutive months of growth and optimism about the year ahead also fell in contrast to most other regions/nations.



Annual consumer price inflation was 3.6% in the year to June, up from 3.4% in May but still above the Bank of England's 2% target. June's inflation was the highest recorded since January 2024 (4.0%). Transport, particularly motor fuels, made the largest upward contribution to the monthly change.



Scotland

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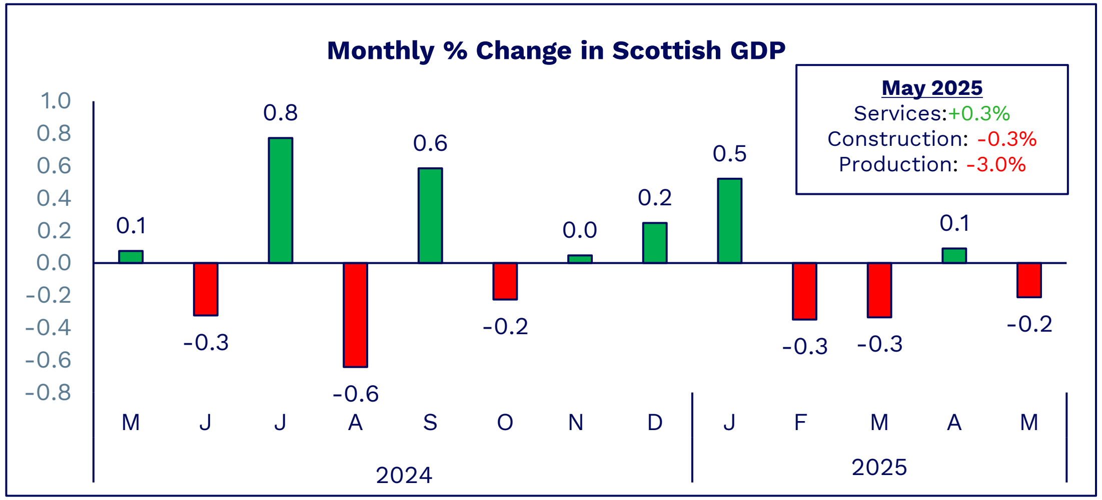
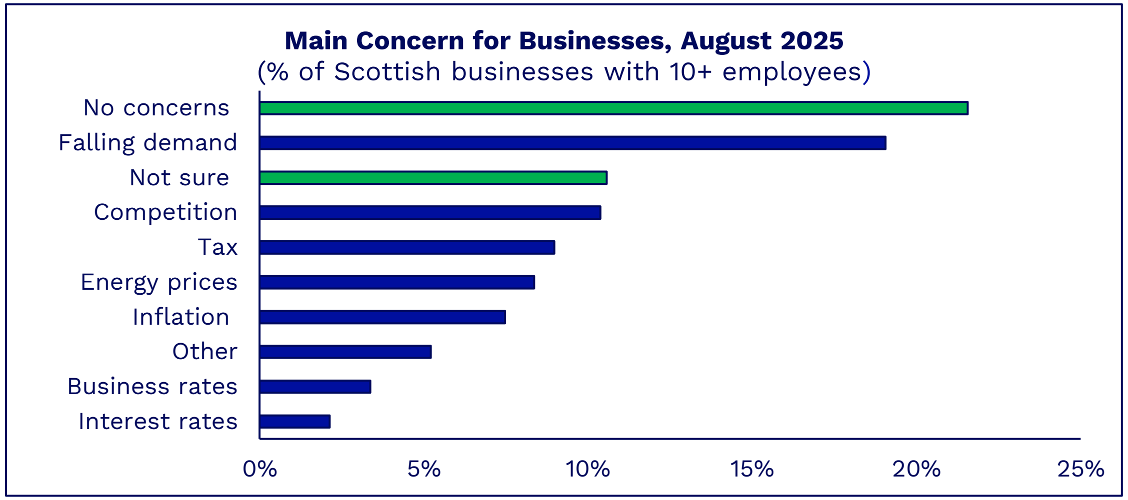
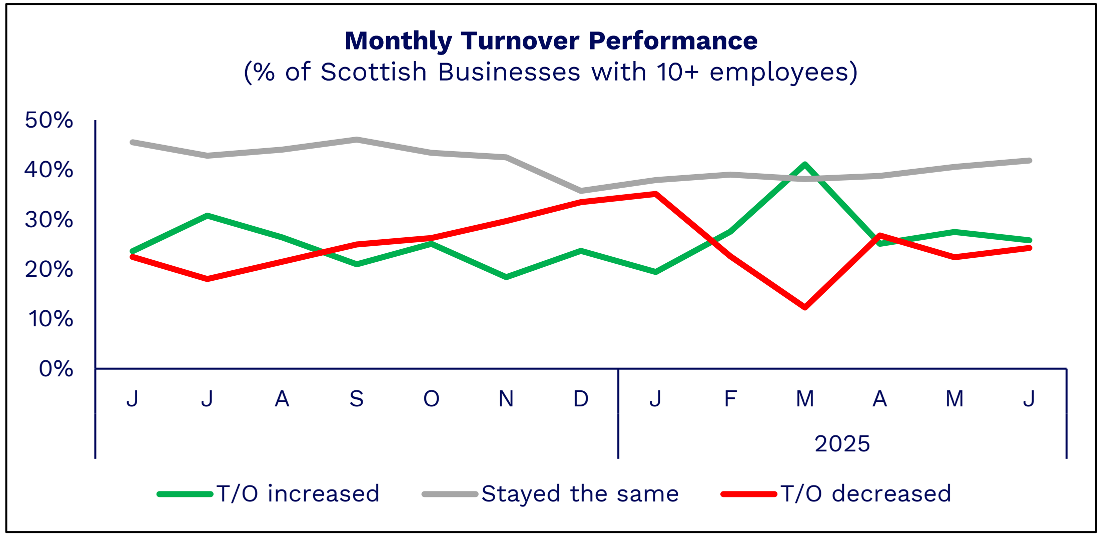


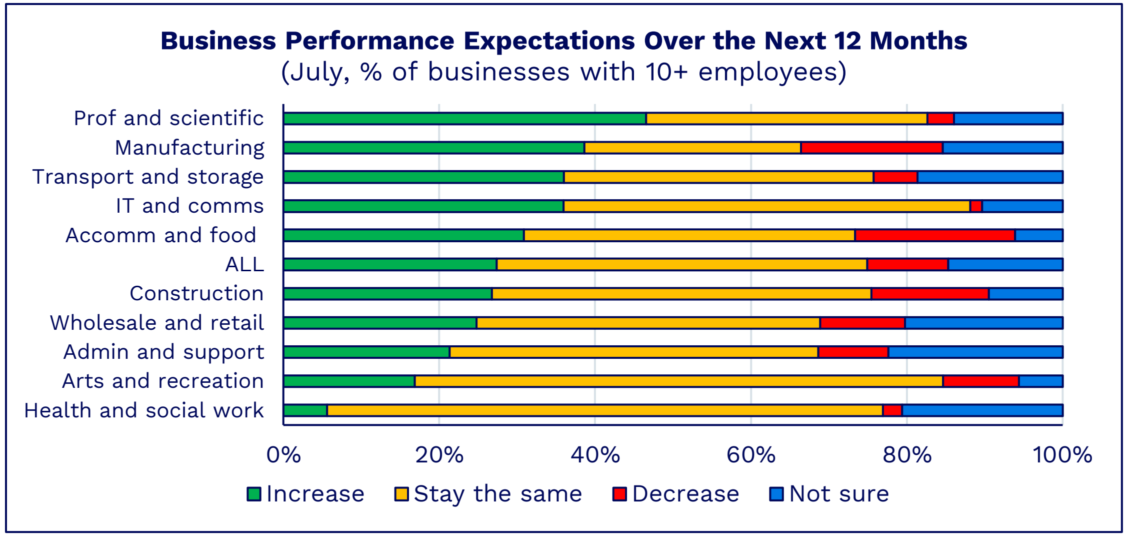
22% of businesses have no concerns (up from 19% in July) but of those reporting concerns, the biggest challenge is falling demand for goods or services (19%) followed by competition from other UK businesses (10%) and taxation (9%).



26% of businesses reported an increase in monthly turnover in June (down from a high of 41% in March) while 24% reported a decrease (vs a low of 12% in March). The cost of labour was the most significant 'turnover challenge' reported, likely due to the increased employer NI contributions introduced in April.



27% of businesses are optimistic about their performance over the next 12 months. Future optimism has been gradually declining. Just 10% expect performance to decrease. Expectations differ by sector, with Professional and Scientific services being most positive and Health and social work the least.

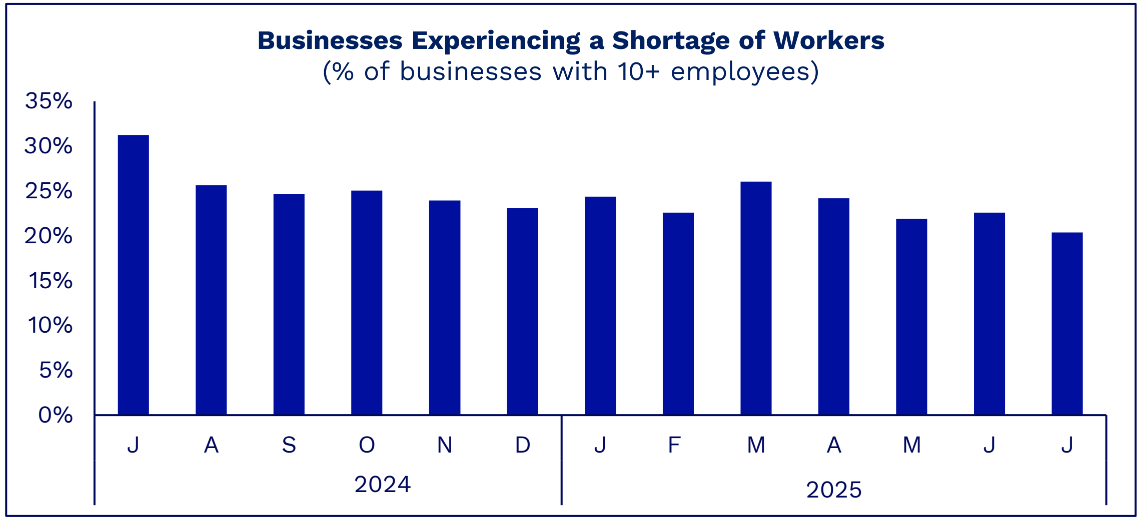


Scotland

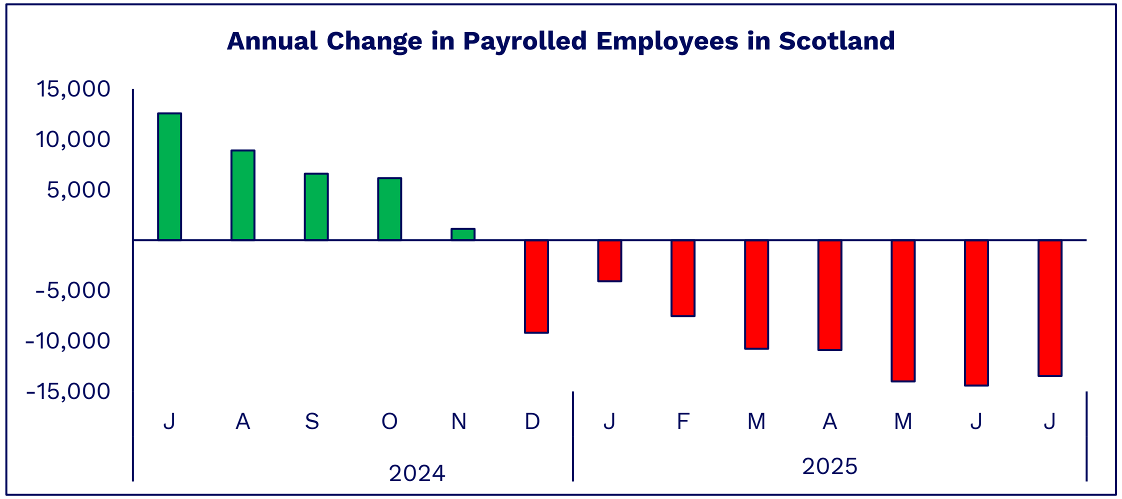
Scotland's unemployment rate fell to 3.8% in the year to June (UK: 4.7%). The employment rate increased by 0.7ppts to 75.1%, below the UK (75.3%); economic inactivity was down 1.4ppts to 21.9% (UK: 21%). Median monthly pay increased by 6% in the year to July (UK: 5.7%).

Scotland	RATE (April 25- June 25)	ANNUAL CHANGE
EMPLOYMENT (aged 16-64)	75.1%	+0.7%pts
UNEMPLOYMENT (16+)	3.8%	-0.6%pts
ECONOMIC INACTIVITY (16-64)	21.9%	-1.4%pts

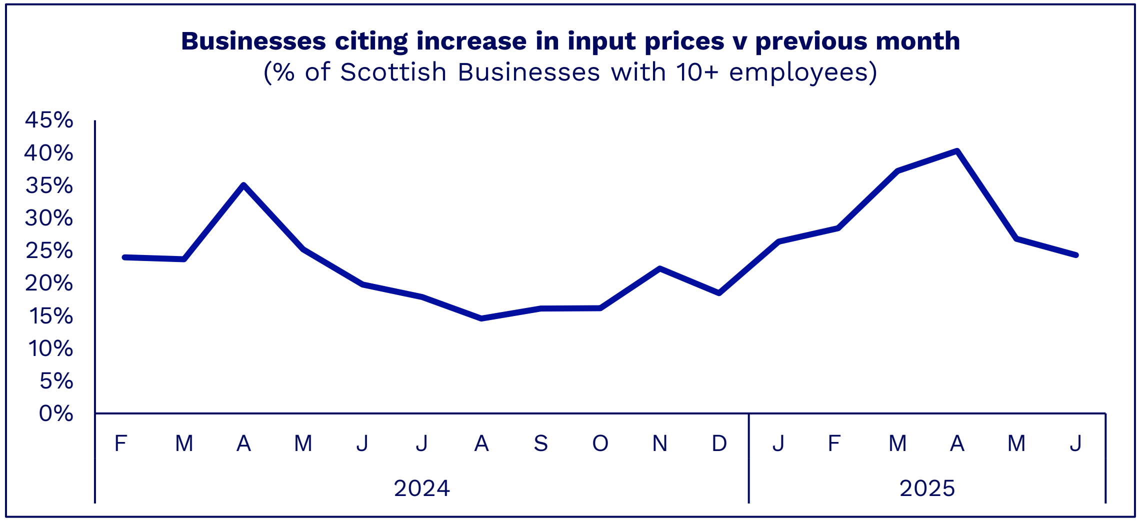
The proportion of businesses reporting worker shortages has been dropping since March and in July 2025 reached a yearly low of 20%. This is higher for some sectors - 33% for Admin and support services and 29% for Transport. Of those businesses impacted, around 40% are unable to meet demand.



The overall downward trend in businesses reporting worker shortages suggest the market is cooling. This is also evidenced by the decline in payrolled employee numbers, down by 13,000 (-0.5%) over the year to July. UK Recruiters also reported a rise in candidate supply as a result of fewer job listings combined with redundancies.



Cost pressures for Scottish businesses appear to be easing: 24% reported input prices increased in June v May (-16ppts since a high in April). Labour costs continue to be the main factor causing businesses to consider increasing their prices although this is also easing as the labour market cools.



Feedback from Scottish Enterprise Customers

General Sentiment

- SE customers continue to be generally optimistic about their own performance but are increasingly pessimistic about the wider economy.
- Challenges continue for some businesses, with staffing and recruitment remaining a recurrent issue along with rising costs and access to investment funding (particularly for early-stage businesses).

Trade and Tariffs

- Generally exporters are continuing to export goods/services to existing markets as normal, and in some sectors businesses are exploring expanding into new markets.
- Most SE customers aren't significantly impacted by the rise in US import tariffs (as this is not a major market). Some that are, have reported increased costs for larger orders and some in the renewables sector have reported moving focus away from the US which is seen as 'politically hostile' to green investment.

Cost of Doing Business

- Many businesses have been significantly impacted by employer NI contribution increases. In response, some are not replacing leavers, delaying recruitment and scaling back on investment.
- Energy and raw material costs also continue to be a concern for many businesses.
- Some companies are passing on increased costs to customers, but others are struggling to do so.

Capital Investment and Productivity

- Productivity improvements or efficiency savings continue to be a driver for investment (rather than growth and expansion). However, the complexity of kit/products leave some companies hesitant to invest as they lack the knowledge and expertise on how to use it and who they can speak to about this.

Skills and Labour

- Fewer businesses are reporting skill shortages as a problem, suggesting a cooling in the labour market. However, there are still persistent challenges in recruiting for skilled trades positions (e.g. welders, engineers and programmers). This is a particular problem for businesses in rural areas.
- Some manufacturers are investing in automation for repetitive and low skilled tasks in order to free up staff to take on higher skilled roles. However, some businesses find it challenging to upskill workers (e.g. costs and time involved to provide training).
- Others are at the stage of developing cutting edge technology (e.g. digital twinning, autonomous vehicles), so training and skills requirements are not yet fully known.

Access to Finance

- Raising investment has become increasingly difficult for early-stage pre-revenue businesses across all sectors. Investors increasingly favour businesses already generating revenue, so some businesses are looking to crowd fund to get past the first investment hurdle.
- A range of factors are contributing to this difficulty, including increased risk aversion, ongoing geopolitical uncertainty and limited capital as investors are getting less money than planned when they exit an investment.

Energy Transition

- Businesses in the North East are continuing to express concerns around the slowdown in the oil and gas sector which remains a key market for many supply chain businesses. This could impact on their ability to fund a transition to the renewables sector.

Innovation

- Some businesses are developing new products and technologies but are being slowed down as access to funding has become more difficult.

Inward Investment

- US investors are generally more cautious about investing overseas due to the current US trade and wider economic uncertainty. Many are choosing to observe the impact on their business this year before deciding on future investment.

Economic Outlook

Global Forecasts

The IMF has upgraded its global growth forecast to 3.0% for 2025 and 3.1% for 2026. Emerging and developing economies (e.g. China and India) are expected to grow faster (4.0% this year and 4.1% in 2026) than more advanced economies (1.5% and 1.6%).

Growth has been upgraded as a result of front-loading ahead of tariffs (as businesses buy goods before they increase in costs), lower effective tariff rates, better financial conditions, and fiscal expansion in some major regions.

Global inflation is expected to fall, but US inflation is predicted to stay above target.

However, the IMF highlights a number of potential risks to the global economy:

- higher tariffs could weaken growth.
- elevated uncertainty could reduce investment
- persistent and increasing geopolitical tensions could disrupt global supply chains and push commodity prices up.

UK and Scottish Forecasts

In August, the Bank of England forecast GDP growth of 1.25% in 2025 and 2026, unrevised from their May Forecasts. The Bank is expecting subdued growth as a result of weaker global growth, lower consumer spending and higher employment costs (via increased NI contributions and minimum wage rises).

While inflation is expected to rise to 3.75% across 2025, it is expected to be temporary and fall again to 2.5% in 2026. The Bank therefore cut interest rates to 4% in order to stimulate growth.

The Fraser of Allander Institute has downgraded its forecast for Scottish economic growth to 0.8% in 2025 and 1.0% in 2026. The downgrade reflected slower growth in March and April along with rising inflation and weaker conditions across the UK and globally.