

Economic Commentary

October 2026
Strategic Research & Futures Team



Economic Commentary: Highlights

- The global economy carried positive momentum into September, as output rose at its fastest rate in over three years, with new order growth and business optimism strengthening. The US led the expansion, while Scotland remained in contraction.
- UK monthly GDP grew by 0.1% in August after growth of 0.4% in July. Growth was driven by production (0.8%), while services showed no growth and construction fell by 0.2%. In the three months to August, the economy grew by 0.7%.
- Ten out of 12 UK nations and regions recorded higher business activity in September, although most areas recorded lower growth expectations for the coming year and a rise in cost pressures. Scotland and the North-West were the only areas to record decreases in output.
- Consumer price inflation rose by 3.5% in the 12 months to September, up from 3.1% in August. Transport, particularly motor fuels, led the upward contributions. Producer input prices rose by 8.3% in the year to September, up from a rise of 6.7% in the year to August.
- Scottish monthly onshore GDP grew by 0.1% in July, after 0.3% growth in June. The services sector saw a contraction (-0.3%), while both the production and construction sectors grew (2.1% and 0.1% respectively). In the three months to July, onshore GDP grew by 0.7%.
- Conflict-related factors continue to affect businesses: 79% are concerned about energy prices (+6ppts since September), rising to 88% in Transport & Storage. 32% are concerned international conflict will impact supply chains this year, with shipping disruption another key supply chain concern (22%).
- Cost pressures for businesses show some signs of easing, although 24% reported input prices increased in August vs July 2026 (-15ppts since April's high). 14% expect to increase prices in October.
- Scotland's labour market continued to show signs of cooling: the employment rate decreased by 0.4ppts to 74.0% over the year to June-August 2026 and the number of payrolled workers also continued to fall in the year to September. 33% of businesses expect high demand for management and leadership skills in the coming year, as well as basic and advanced digital skills (30%).
- Overall sentiment remains mixed among SE customers. Many businesses remain optimistic about their products, markets and longer-term opportunities, but are operating cautiously due to funding constraints, skills shortages and wider economic uncertainty.
- GDP forecasts published by the IMF in October project global growth of 3.1% for 2026 and 3.4% for 2027, unchanged for 2026 and revised moderately upward for 2027, compared to the April forecast. UK growth is forecast at 1.3% in 2026, before edging down to 1.2% in 2027.
- The Fraser of Allander Institute projected Scottish GDP growth of 1.1% for 2026 and 1.1% for 2027, a slight upgrade from their forecasts in June.

What this means for SE

Growth opportunities remain, but barriers are constraining investment

Businesses remain positive about opportunities, but access to finance and uncertainty are limiting investment and growth. This reinforces the role for SE in helping businesses unlock growth through investment readiness, access to finance, and support to innovate, scale and enter international markets.

Productivity and innovation are increasingly important

Subdued growth and continued cost pressures strengthen the case for SE support around adopting AI and automation, improving business practices and productivity, and commercialising and scaling innovation.

Skills and workforce capability are increasingly important for growth

Businesses expect strong demand for management, leadership and other workforce skills, while unmet skills needs risk holding back technology adoption, innovation and market expansion. SE can help businesses build the workforce capabilities needed to support productivity and growth.

Recent Economic Data



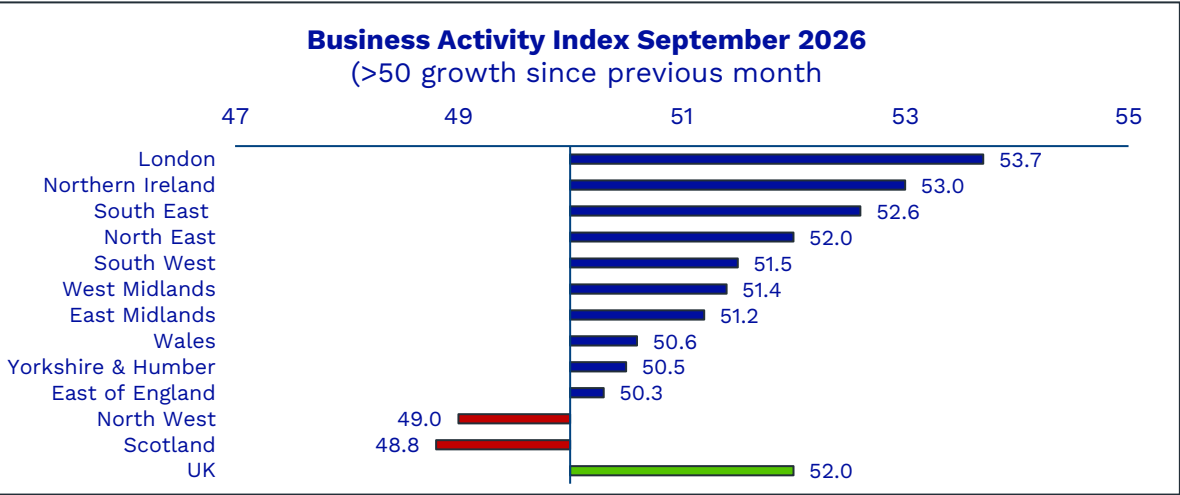
Global/UK



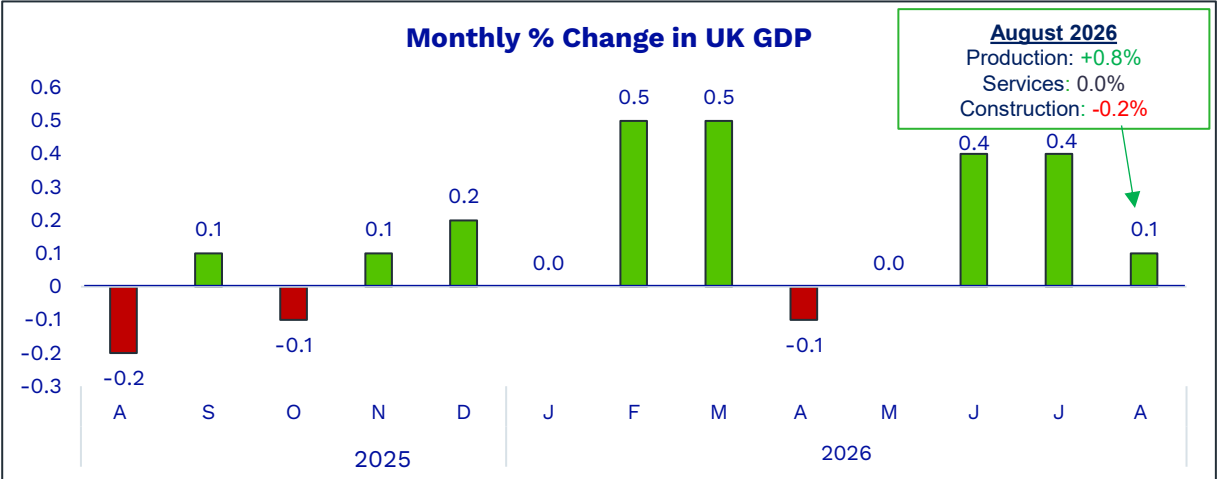
[Global](#) output rose at the fastest rate in over three years in September, with new order growth and business optimism strengthening. The [US](#) led the expansion, while [Scotland](#) remained in contraction for the sixth consecutive month.

Business Activity Index (>50 indicates increase vs previous month)														
	2025				2026									
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Change on month
US	53.6	54.6	54.2	52.7	52.8	51.9	51.4	51.7	51.5	51.9	54.5	56.0	58.4	⬆️
Global	52.4	52.9	52.7	52.0	52.6	53.3	51.0	51.8	51.5	52.2	52.6	53.5	54.3	⬆️
Eurozone	51.2	52.5	52.8	51.5	51.5	51.9	51.7	48.8	48.5	50.0	52.0	52.0	53.1	⬆️
Japan	51.1	51.5	52.0	51.1	52.8	53.9	52.5	52.2	51.1	52.8	52.7	53.5	52.5	⬇️
China	52.9	51.8	51.2	51.3	51.6	55.4	51.5	52.6	54.0	53.6	50.8	52.1	52.4	⬆️
UK	51.0	52.2	51.2	51.4	53.9	53.7	51.0	52.6	49.7	49.3	52.2	52.5	51.7	⬇️
Scotland	49.2	49.0	48.0	48.1	50.0	50.9	50.1	48.0	47.1	47.6	47.3	48.9	48.8	⬇️

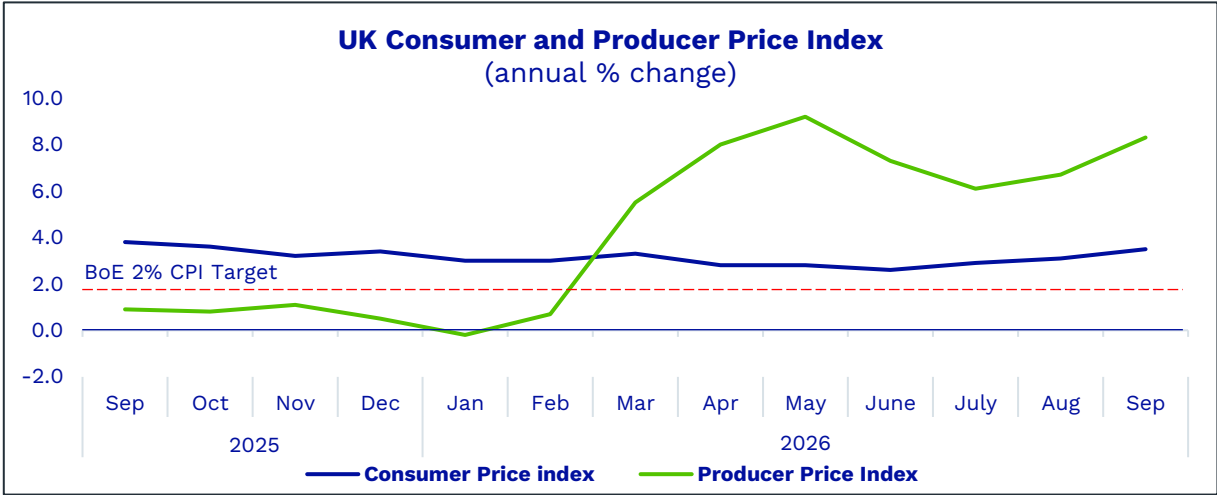
Ten out of 12 UK [nations and regions](#) recorded higher business activity in September, although most areas recorded lower growth expectations for the coming year and saw a rise in cost pressures. Scotland and the North-West were the only areas to record decreases in output.



[UK monthly GDP](#) was 0.1% in August following growth of 0.4% in July. Growth was driven by production (0.8%), while services showed no growth and construction fell by 0.2%. In the three months to August, the economy grew by 0.7%, following growth of 0.5% in the three months to July.



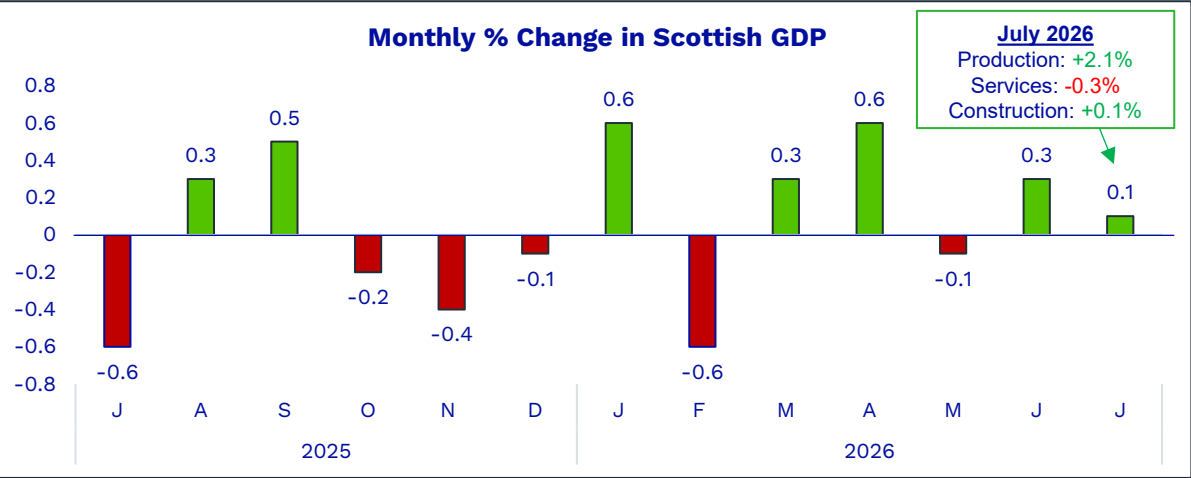
[Consumer price inflation](#) rose by 3.5% in the 12 months to September, up from 3.1% in August. Transport, particularly motor fuels, led the upward contributions. [Producer input prices](#) rose by 8.3% in the year to September, up from a rise of 6.7% in the year to August. CPI remains above the Bank of England's 2% target rate.



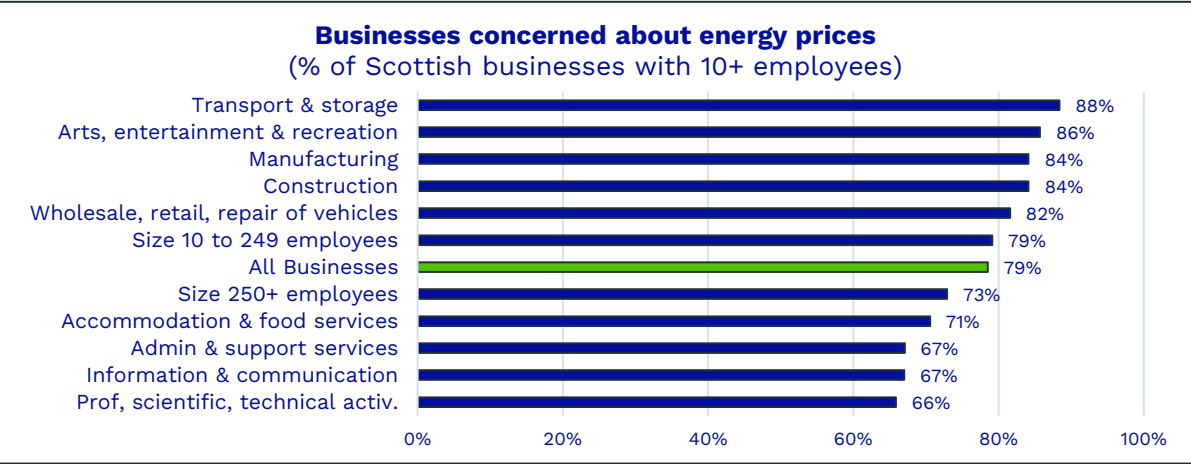
Scotland



Monthly onshore GDP grew by 0.1% in July, after 0.3% growth in June. The services sector saw a contraction (-0.3%), while both the production and construction sectors grew (2.1% and 0.1% respectively). In the three months to July, onshore GDP grew by 0.7%.



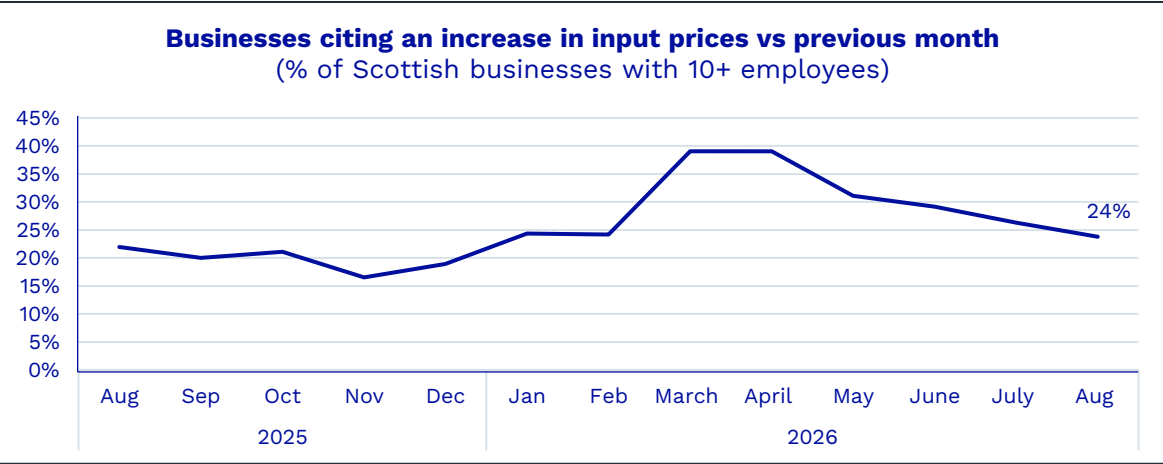
Conflict-related factors continue to affect businesses: 79% are concerned about energy prices (+6ppts since September), rising to 88% in Transport & Storage. 32% are concerned international conflict will impact supply chains this year, with shipping disruption another key concern (22%). Expected supply chain impacts are higher costs of sourcing materials (reported by 54%) and transportation (49%).



The FAI business monitor shows business activity improved across headline indicators in Q3 2026, with the net balance of businesses experiencing an increase in sales turning positive, and the net balance of turnover rising to zero. Business activity, employment, investment and exporting all improved on the quarter.

*Net balance: share of firms reporting 'higher' minus the share of firms reporting 'lower'.	2025 Q1	Q2	Q3	Q4	2026 Q1	Q2	Q3	Improvement on previous quarter
Volume of business activity (sales)	-21	-13	-12	-9	-12	-7	1	Y
Volume of new business activity	-27	-13	-16	-14	-14	-10	-6	Y
Value of business activity (turnover)	-16	-10	-11	-15	-14	-8	0	Y
Level of employment in your business	-18	-10	-8	-14	-12	-8	-7	Y
Level of new capital investment	-27	-19	-20	-25	-19	-20	-18	Y
Export activity	-17	-25	-17	-21	-22	-27	-15	Y

Cost pressures for businesses show some signs of easing, although 24% reported input prices increased in August vs July 2026 (-15ppts since April's high). 14% expect to increase prices in October, rising to 22% in the Transport & Storage sector. Labour costs (31%), energy costs (31%), and raw material prices (19%) are the main factors driving businesses to increase prices.



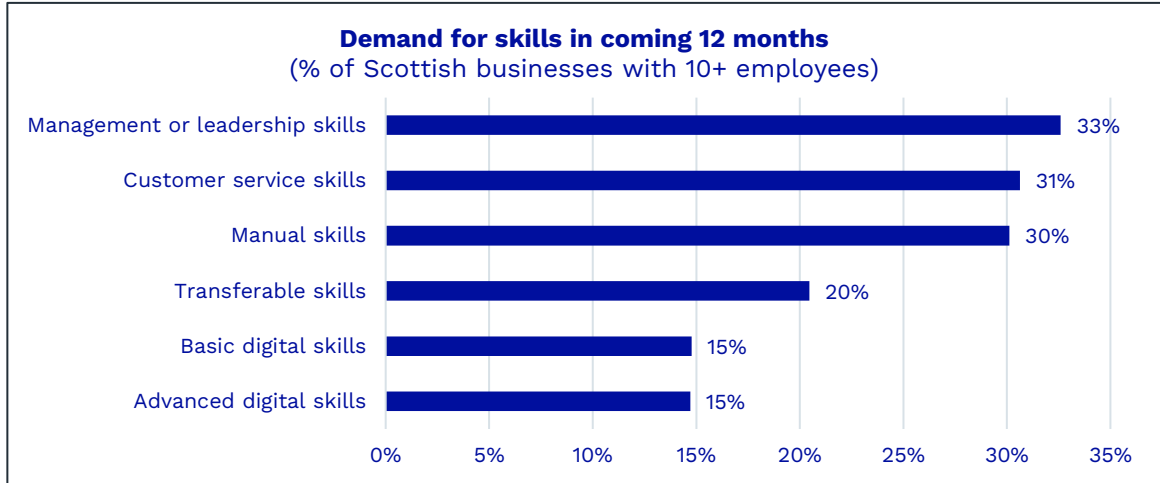
Scotland



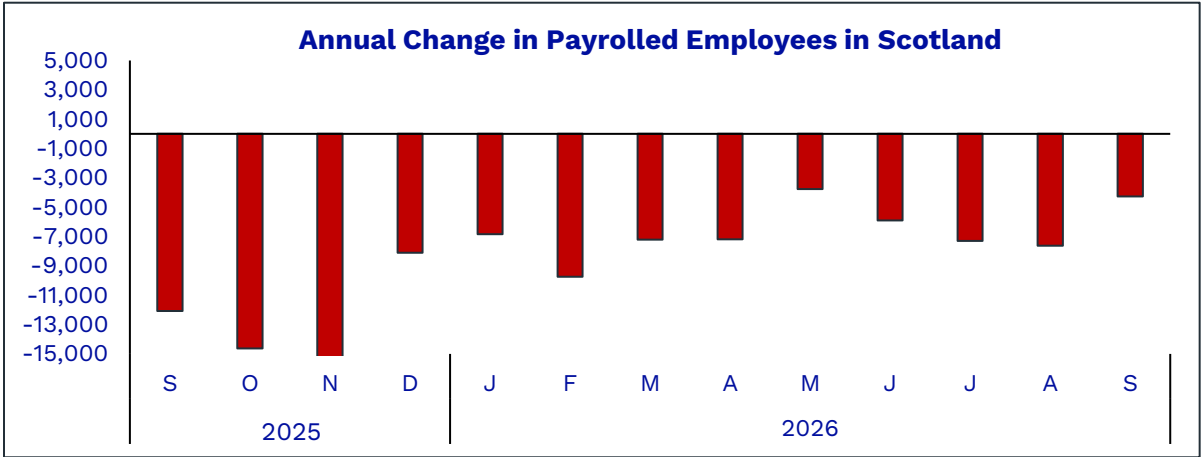
In Scotland's [labour market](#), the unemployment rate decreased by 0.4ppts to 4.3% over the year to June-August 2026 (UK: 4.7%). The employment rate decreased by 0.4ppts to 74.0% (below the UK: 75.3%). The economic inactivity rate was 22.6%, up 0.8ppts over the year and above the UK rate of 20.9%.

SCOTLAND	RATE (June-August 26)	ANNUAL CHANGE
EMPLOYMENT (aged 16-64)	74.0%	-0.4ppts
UNEMPLOYMENT (16+)	4.3%	-0.4ppts
ECONOMIC INACTIVITY (16-64)	22.6%	+0.8ppts

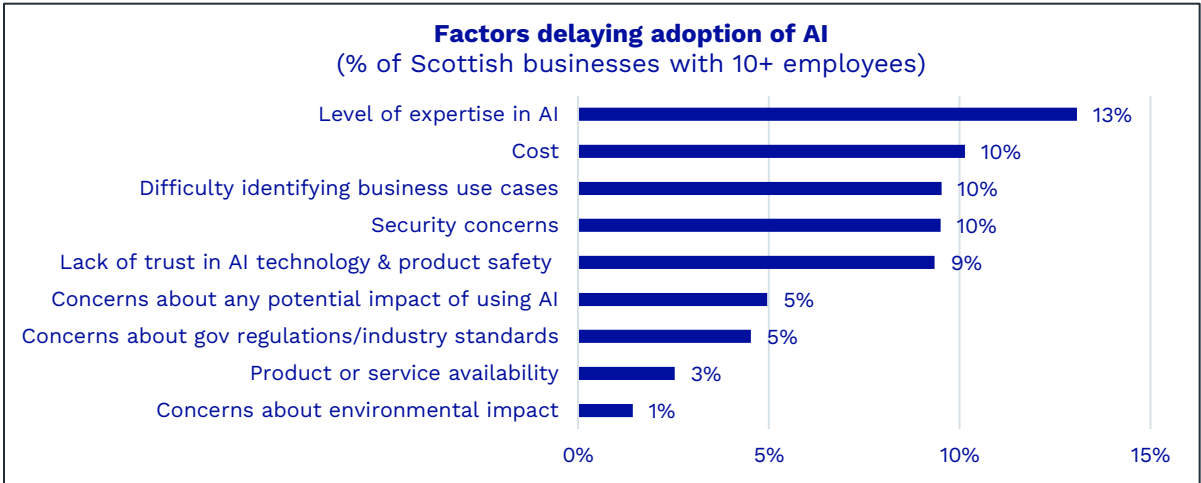
33% of [businesses](#) expect high demand for management and leadership skills in the coming year, as well as basic and advanced digital skills (30%). 20% report that not meeting skills demand will result in reduced ability to adopt new technologies, processes or innovate, while 9% say it will delay market expansion.



The number of [payrolled workers](#) declined again (for the 23rd consecutive month) over the year to September, down 4,300 (-0.2%). [UK hiring data](#) shows permanent and temporary placements both increased marginally in September, although vacancy numbers fell. 19% of Scottish [businesses](#) continue to face worker shortages, the lowest since April.



37% of [businesses](#) are using some form of artificial intelligence, with the Information & communication sector having the highest share (76%). The main use is to improve business operations (62%), but level of AI expertise (13%), cost (10%) and difficulty identifying use cases (10%) are among the factors delaying AI adoption.



Current Business Sentiment

What SE customers are saying



Feedback from SE Customers

General Sentiment

- Business confidence remains mixed. Many companies continue to report strong demand and growth opportunities, particularly in AI, photonics, semiconductors and offshore wind, supporting plans for investment, expansion and workforce development.
- However, investment constraints and wider economic uncertainty are weighing on growth plans.
- Persistent skills shortages are driving businesses to invest in training and talent pipelines, particularly for hard-to-fill roles.
- Productivity, AI and automation remain priorities, although capacity and investment barriers are limiting adoption.

Access to Finance



- Access to growth capital remains a significant barrier for early-stage and high-growth businesses. Fundraising rounds are taking longer, investor due diligence is increasing, and bridge funding is becoming more common.
- Investors are increasingly selective, focusing on commercial traction, recurring revenues and proven business models before committing capital.
- Some businesses are looking beyond Scotland for investment, including to London, the US, and the Middle East.
- Businesses are increasingly raising the capital they can secure rather than the amount they require, resulting in shorter funding runways and repeated fundraising cycles that divert management attention away from growth.

Skills and Labour



- Skills shortages remain a challenge across engineering and manufacturing, particularly for roles such as engineers and welders.
- Businesses are investing in apprenticeships, internal training and engagement with schools and universities to develop future talent pipelines, alongside exploring overseas recruitment.
- Recruitment pressures are lower in knowledge-intensive sectors such as life sciences, but commercial, sales and business development skills remain difficult to source.
- Succession planning is becoming a growing concern in the energy supply chain, as experienced employees retire or move overseas for work opportunities.
- Flexible and remote working remain important for attracting and retaining staff, particularly for smaller companies.

Cost of Doing Business



- Energy costs remain an ongoing concern for manufacturers, although many are investing in solar and energy efficiency measures to reduce costs and their exposure to future price pressures.

Feedback from SE Customers

AI and Innovation

- Innovation activity remains strong in areas such as semiconductors, advanced manufacturing and digital technologies. However, businesses report challenges securing funding to commercialise innovations, invest in capital and scale.
- Companies continue to explore AI and automation opportunities, although implementation can be complex, particularly where processes are highly specialised, such as assembly lines and machinery.
- Some businesses are seeking support to identify practical applications for AI, including relatively simple ways to improve productivity and business processes.



Internationalisation

- Some companies, particularly in the health and technology sectors, are exploring and expanding into new international markets such as Asia.
- The US remains a key market for sectors such as life sciences. While tariff developments have had limited direct impact on service-based businesses, wider US policy uncertainty is contributing to more cautious customer decision-making and investment sentiment.



Property

- Property requirements are increasingly being driven by infrastructure needs, especially access to grid capacity, energy supply, ports and transport links.
- Businesses are increasingly seeking sites with substantial power requirements, reflecting growing interest from advanced manufacturing, battery storage and data centre projects.
- Business rates, high fit-out costs and limited availability of development-ready sites are acting as barriers to businesses expanding into new premises.



Energy Transition

- Energy supply chain companies continue to explore diversification opportunities across renewable energy markets, including fixed offshore wind and geothermal. Hydrogen activity remains relatively subdued, with some projects delayed or cancelled.
- Companies are progressing where there are clear commercial opportunities but remain cautious about investing heavily in emerging markets where project pipelines are uncertain. Skills, energy costs and access to finance are barriers to investment and growth.
- Some businesses are using revenues from ongoing oil and gas activity, particularly in international markets, to support their transition into renewable sectors.



Outlook

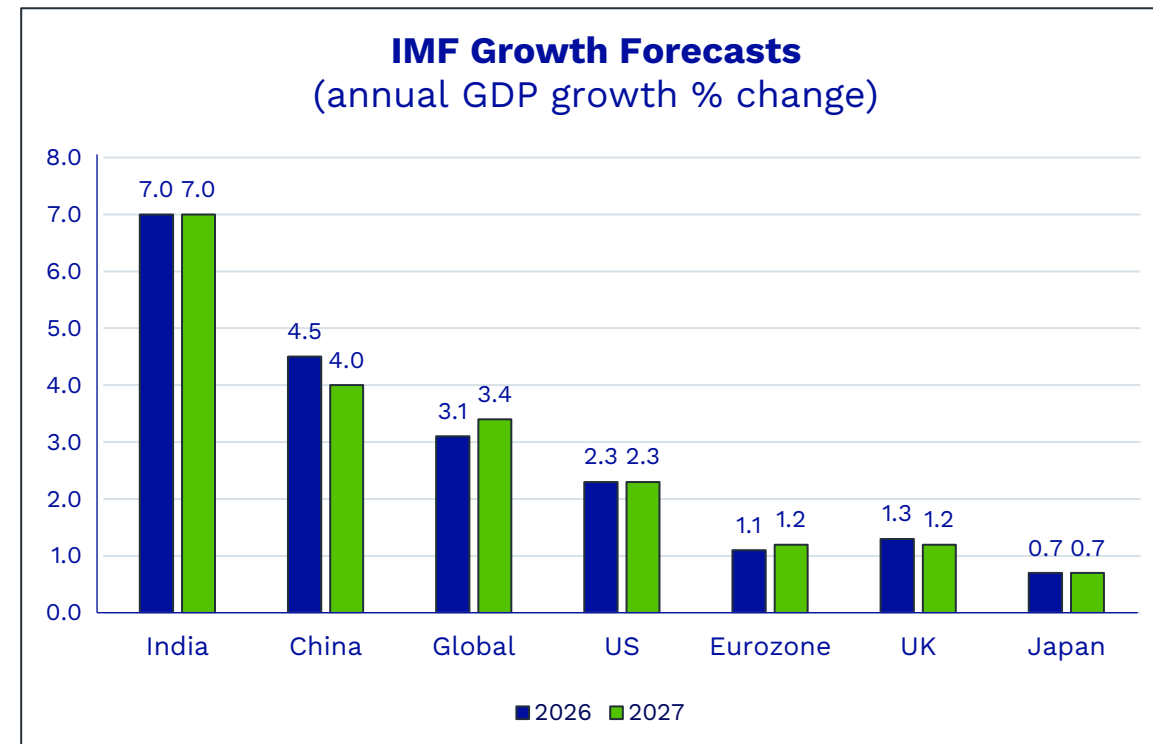


Global Outlook

- GDP forecasts published by the [IMF](#) in October project global growth of **3.1% for 2026 and 3.4% for 2027**, unchanged for 2026 and revised slightly upward for 2027, compared to the April forecast.
- Growth is expected to be stronger for emerging and developing economies while advanced economies remain more subdued. Global headline inflation is projected to increase to 4.7% in 2026 before easing to 4.1% in 2027, with the increase driven mainly by energy and food prices.
- UK growth is forecast at 1.3% in 2026, up from the 1.0% predicted in July, before edging down to 1.2% in 2027, as higher energy prices and long-term interest rates weigh on consumption and business investment. The UK is expected to have the second-fastest growing economy in the G7 in 2026, along with Germany.

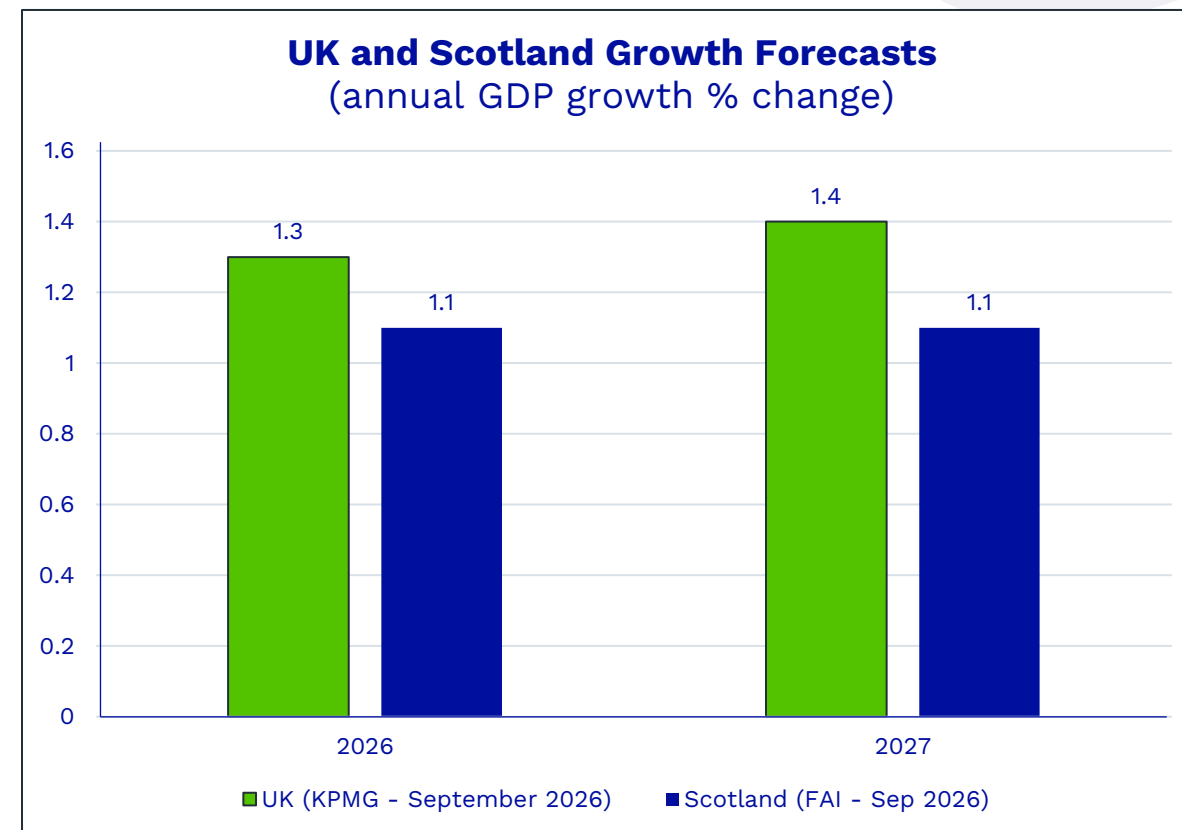
Key downside risks to growth include:

- The Middle East conflict could keep food and energy prices elevated and weigh on growth
- A reassessment of AI-related profitability and productivity prospects could reduce investment, trigger equity market corrections, and tighten financial conditions
- Fiscal vulnerabilities and renewed trade tensions could further weaken growth



UK and Scotland

- [KPMG](#) forecasts UK economic growth of **1.3% in 2026, rising modestly to 1.4% in 2027**. Growth is expected to remain resilient but subdued through the second half of 2026 as higher energy prices and borrowing costs weigh on activity.
- Higher wholesale gas prices remain an upside risk to inflation. CPI inflation is forecast to average 3.1% in 2026 and 2.8% in 2027, peaking at around 4% in early 2027, before returning towards the Bank of England's 2% target by the end of 2027.
- While investment in technology and AI continues to support growth, the Bank of England faces a trade-off between a weakening labour market and persistent inflationary pressures. KPMG expects a further rate rise this year, with Bank Rate reaching 4.0% by the end of 2026, before falling to 3.25% by the end of 2027 as inflationary pressures ease.



Scotland

In September, the [Fraser of Allander Institute](#) projected **Scottish GDP growth of 1.1% for 2026 and 1.1% for 2027, a slight upgrade from their forecasts in June**, although the outlook remains sensitive to geopolitical developments.

