

# Economic Commentary

December 2025  
Insights & Economics



## Economic Commentary: Highlights

### SUMMARY

- Global business activity expanded at an accelerated pace in October, with growth in both services and manufacturing. Despite this, optimism eased, and exports contracted.
- UK GDP fell by 0.1% in September, following no growth in August. Production fell by 2.0%, whereas services grew by 0.2% and construction grew by 0.2%. Across the quarter, growth was 0.1%

### ECONOMIC DATA

- Business activity rose in six out of twelve UK nations/regions in October, an increase from just three in September. Scotland was among those that recorded a fall, driven by squeezed client budgets, low levels of new orders and uncertainty across global markets.
- UK consumer price inflation was 3.6% in the year to October, down from 3.8% in September. This is still above the Bank of England's 2% target, but the drop strengthens the case for interest rate cuts. Producer input prices rose by 0.5% in the year to October.
- The Scottish economy contracted by 0.1% in August following a fall of 0.3% in July. Over the month, output was up in Production (+0.3%) but down in Services (-0.2%) and Construction (-0.3%). In the three months to August, GDP grew by 0.7%.

### SE CUSTOMER SENTIMENT

- The top concerns for Scottish businesses are falling demand, taxation and competition with other UK businesses. Cost pressures appear to be easing, though the cost of labour remains the most reported turnover challenge.
- 20% of businesses reported an increase in monthly turnover in September, while 30% reported a decrease. Scottish business surveys show mixed results for business sentiment, indicating small businesses have a more pessimistic outlook for future performance.
- Scotland's labour market continues to cool as the number of payrolled employees decreased by 16,000 (-0.6%) over the year to October (the eleventh consecutive monthly fall).
- Overall sentiment among SE customers is cautiously optimistic – though some sectors (engineering and construction) are more positive than others (energy).

### OUTLOOK

- The IMF forecasts global economic growth of 3.2% in 2025, easing slightly to 3.1% in 2026.
- The EY Item Club is forecasting UK GDP growth of 1.5% in 2025 and 0.9% in 2026, while the Fraser of Allander Institute forecasts slightly weaker Scottish growth in 2025 at 1.0%. They expect it to remain at 1.0% for 2026.

Global/UK

SUMMARY

RECENT ECONOMIC DATA

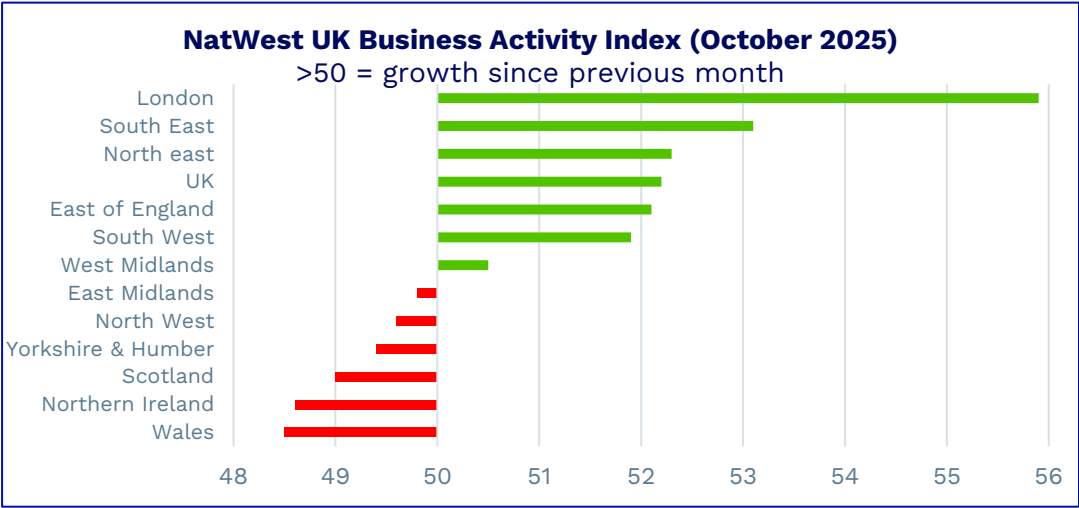
CURRENT BUSINESS SENTIMENT

OUTLOOK

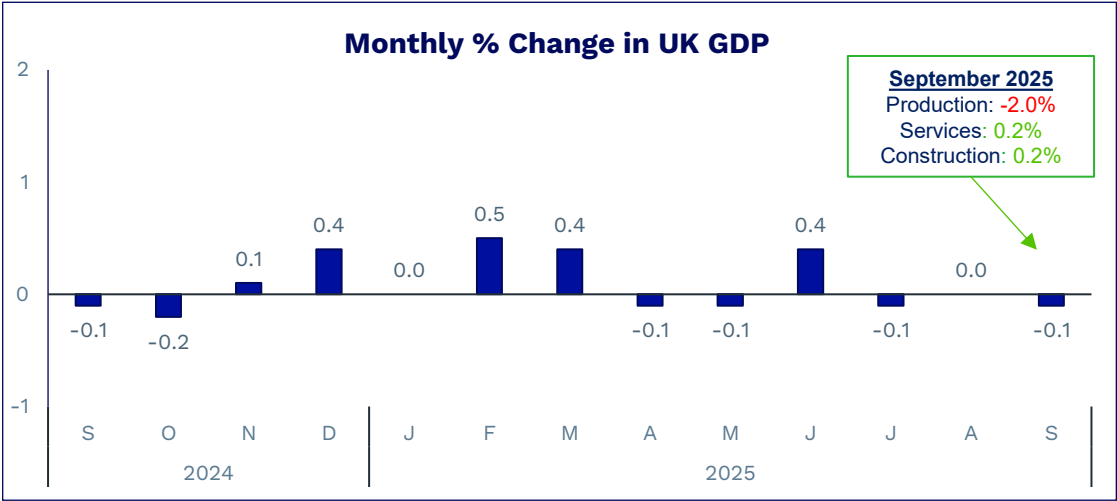
[Global](#) business activity expanded in October at an accelerated pace, with growth in both services and manufacturing. Despite this, optimism eased from September and new export business contracted.

Business Activity Index (>50 indicates increase vs previous month)											Change on month
	2025										
	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct	
US	52.7	51.6	53.5	50.6	52.1	52.4	54.6	54.6	53.6	54.6	📈
China	51.1	51.5	51.8	50.7	51.1	50.6	52.6	53.0	52.9	51.8	📉
Global	51.8	51.5	52.1	50.8	51.2	51.7	52.4	52.9	52.4	52.9	📈
Eurozone	50.2	50.2	50.4	50.4	49.5	50.6	51.0	51.0	51.2	52.5	📈
Japan	51.1	52.0	48.5	51.2	49.8	51.5	51.5	52.0	51.1	51.5	📈
UK	50.6	50.5	51.5	48.5	49.4	52.0	51.0	53.5	51.0	52.2	📈
Scotland	49.6	49.0	45.9	47.4	50.5	50.9	48.7	50.3	49.2	49.0	📉

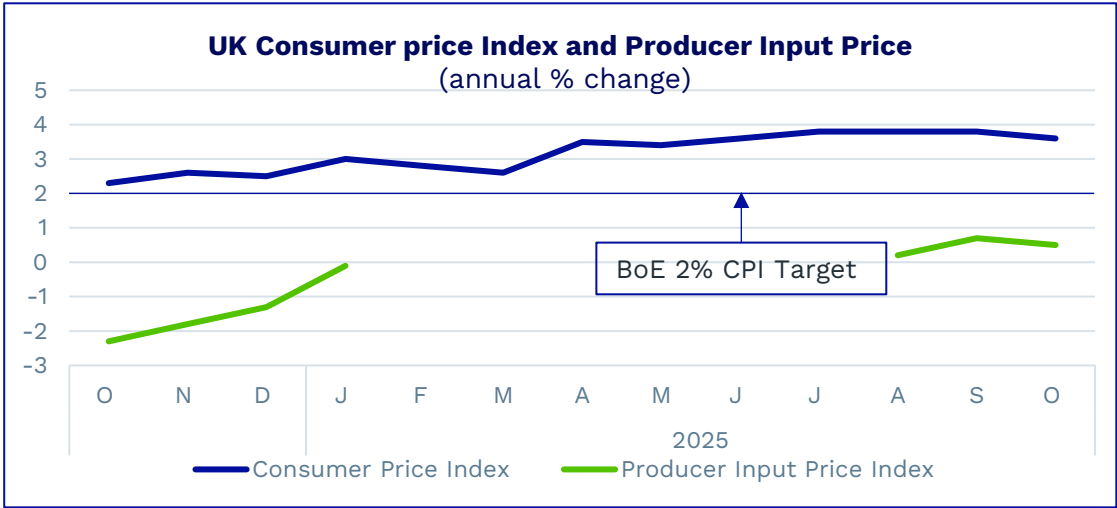
[Business activity](#) rose in 6 out of 12 nations/regions in October (up from 3 in September). New business rates increased for half, and the rate of decline slowed for the rest. Activity in [Scotland](#) fell, driven by squeezed client budgets, low levels of new orders and uncertainty across global markets.



[UK GDP](#) fell by 0.1% in September, following no growth in August. Production fell by 2.0%, whereas services grew by 0.2% and construction grew by 0.2%. The fall in production was largely driven by fall in the manufacture of motor vehicles, trailers and semi-trailers. Across the quarter, growth was 0.1%



[Annual consumer price inflation](#) fell to 3.6% in October, down from 3.8% in September, strengthening the case for the Bank of England to cut interest rates. October's decline was led by a smaller rise in gas and electricity prices. [Producer input prices](#) rose by 0.5% in the year to October. \*Blanks in the Producer Input Price Index are due to a temporary a pause in data collection by the ONS.



SUMMARY

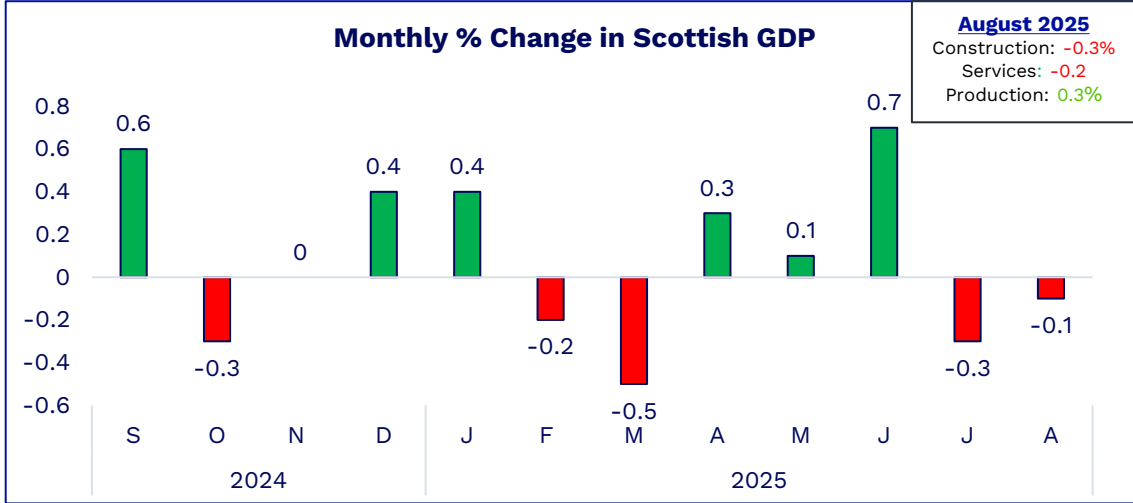
RECENT  
ECONOMIC  
DATA

CURRENT  
BUSINESS  
SENTIMENT

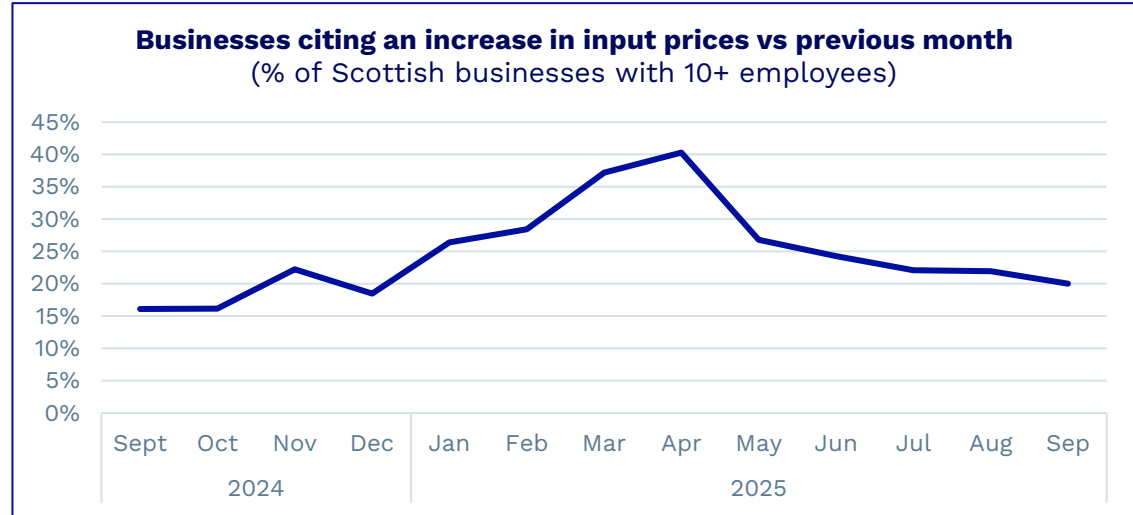
OUTLOOK

Scotland

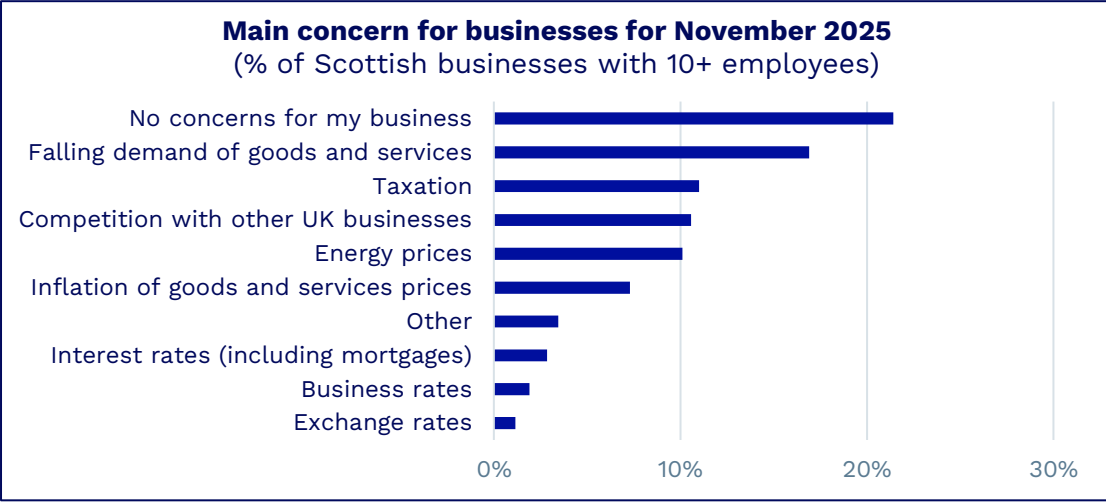
The [Scottish](#) economy contracted by 0.1% in August following a contraction of 0.3% in July. Over the month, output was up in Production (0.3%) but down in Services (-0.2%) and Construction (-0.3%). In the three months to August, GDP grew by 0.7%.



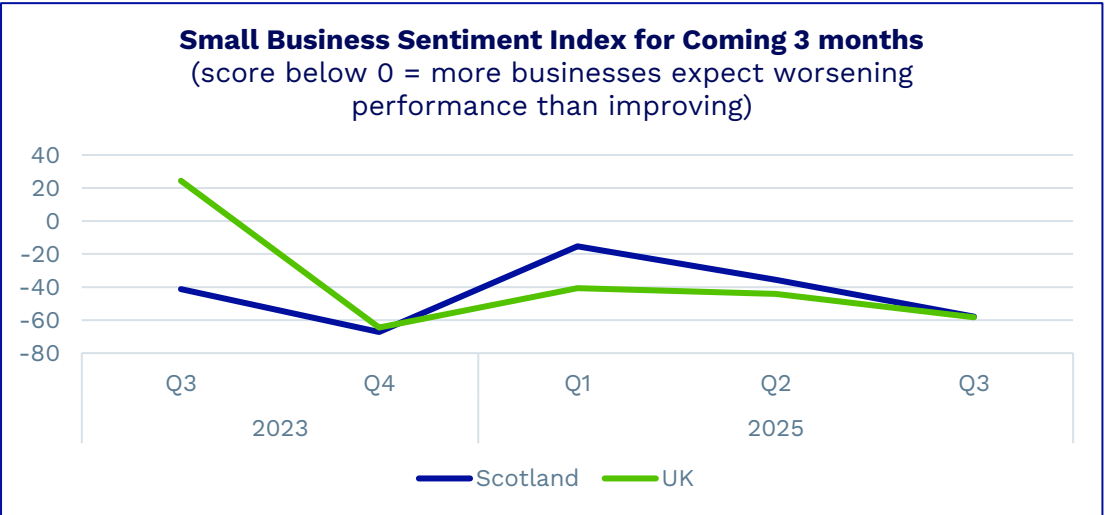
[Cost pressures](#) for Scottish businesses continue to ease with 20% reporting input prices increased in September vs August (-20ppts since April's high). Accommodation & food services remain higher at 27%, but down from 46% in August. 13% expect to increase prices in November.



The [top concerns](#) for businesses remain falling demand for goods/services, taxation, and competition from other UK businesses. 21% reported no concerns.



Scotland's [PMI survey](#) suggests businesses are generally optimistic, however the [FSB](#) shows small businesses' sentiment dropped sharply in Quarter 3; the steepest decline among all UK regions/nations. Small business revenue growth fell as demand weakened, while labour costs were the most cited cost pressure, reflecting the rise in employer National Insurance contributions.

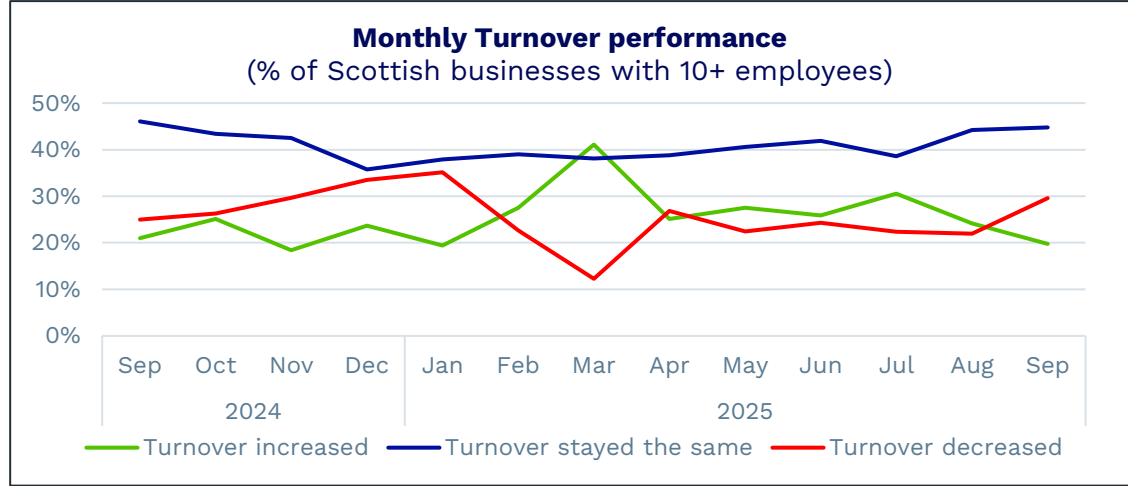


Scotland

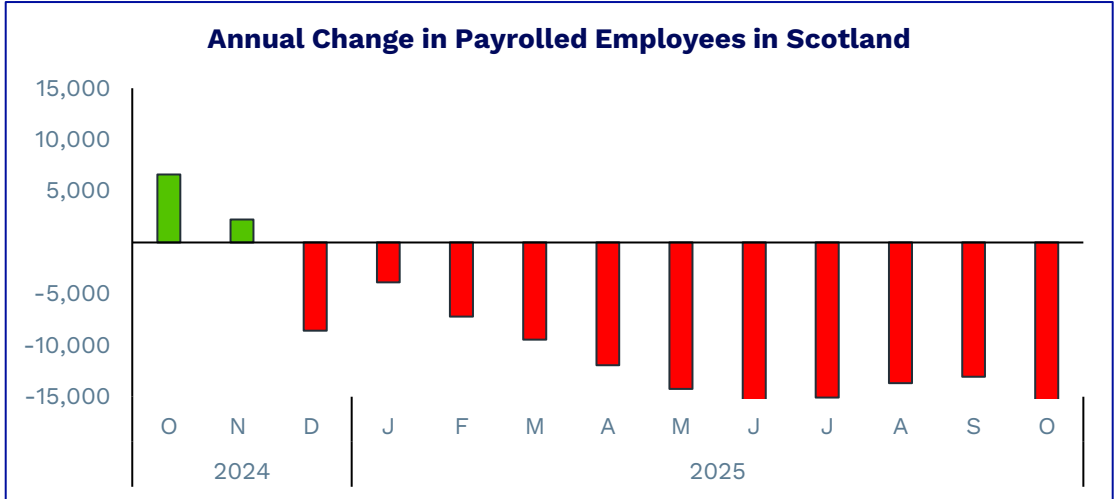
[Scotland's unemployment](#) rate increased by 0.4ppts over the year to 3.7% in July - September (UK: 5.0%). The employment rate increased by 0.9ppts to 74.3% but remains below the UK (75.0%). Median monthly pay increased by 3.6% in the year to October (UK: 3.1%).

SCOTLAND	RATE (July – September 25)	ANNUAL CHANGE
EMPLOYMENT (aged 16-64)	74.3%	+0.9%pts
UNEMPLOYMENT (16+)	3.7%	+0.4%pts
ECONOMIC INACTIVITY (16-64)	22.8%	-1.1%pts

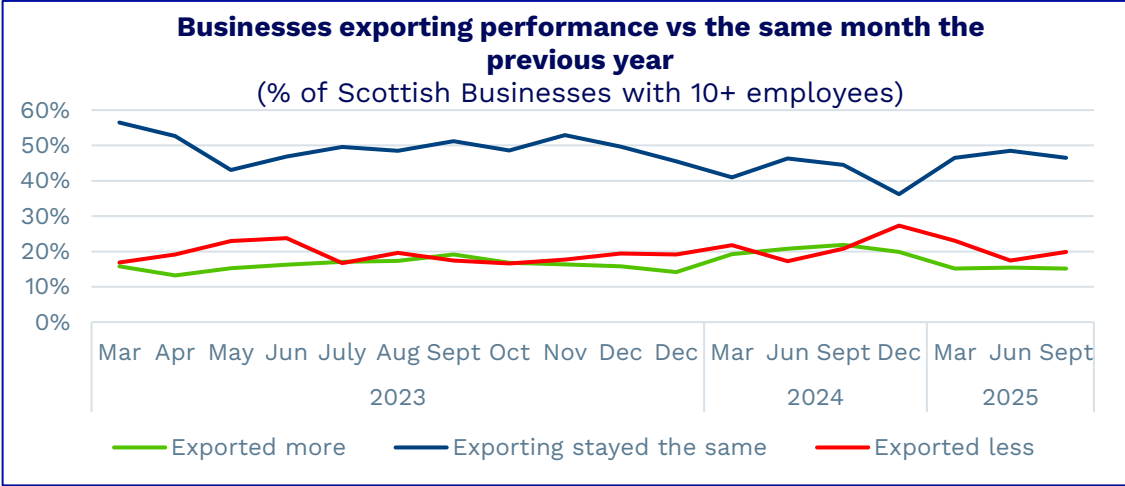
20% of businesses reported an [increase in monthly turnover](#) in September (down from 24% in August). Businesses reporting a decrease in turnover rose to 30%. The cost of labour continued to be the most significant turnover challenge reported, followed by economic uncertainty and competition. More businesses (20%) expect turnover to decrease in November than those expecting an increase (17%).



The number of [payrolled workers](#) declined again over the year to October, down 16,000 (-0.6% - the same as the UK). [Anecdotal evidence](#) show redundancies and the non-replacement of voluntary leavers, often due to efforts to cut costs, are key drivers of job shedding



15% of [Scottish exporters](#) exported more in September 2025 vs September 2024; 20% exported less. Exporting slowed more for manufacturing businesses with 35% reporting exporting less (16% exporting more). Weak global market conditions, ongoing tariff uncertainties and UK competitiveness issues were all mentioned as factors leading to [reduced overseas demand](#) for manufacturers.



SUMMARY

RECENT  
ECONOMIC  
DATA

CURRENT  
BUSINESS  
SENTIMENT

OUTLOOK



## Feedback from Scottish Enterprise Customers

### SUMMARY

#### General Sentiment

- Overall sentiment among SE customers is cautiously optimistic – though some sectors (engineering and construction) are more positive than others (energy).
- The long-standing challenges of the cost of doing business, worker shortages and access to investment funding remain, though.

#### Cost of Doing Business

- Most businesses continue to be negatively impacted by high costs, particularly labour costs.
- Some have reported concerns over the upcoming budget and whether it will result in increased taxes or further NI contribution rises which will again add to costs.

#### Investment/Access to Finance

- Some businesses are continuing to invest (e.g. in automation) but are focused on increasing productivity rather than growth.
- For example, many engineering businesses are investing in capital equipment to boost productivity and remain competitive. Businesses report this type of investment is more likely to secure external finance, as lenders see it as lower risk compared to general working capital.
- However, securing funding for growth is becoming increasingly challenging for early-stage companies. Angel investors are requiring more proof of concept and future profitability which is pushing some businesses to seek grant funding or raise money through crowd funding.
- Some early-stage businesses are however reporting growing opportunities from Asia based investors, who are keen to access the European market.
- Others have not been able to secure funding at all and as a result have been forced into administration.

#### Innovation

- Some businesses are developing innovative products (e.g. in critical technologies) but many are unable to invest or innovate as accessing funding to do so is too much of a barrier.

### RECENT ECONOMIC DATA

### CURRENT BUSINESS SENTIMENT

### OUTLOOK

## International

- Most exporters are not reporting any exporting challenges, but some are focusing activity towards Europe rather than the US due to political reasons and in some cases tariffs.
- Brexit continues to cause issues for companies – e.g. in terms of freedom of movement, access to labour and increased complexity of supply chains for those using European suppliers.

## Skills and Labour

- Some businesses continue to face recruitment challenges particularly for specialist or experienced positions such as engineers.
- To address this businesses are taking a variety of different approaches, from increasing wages, running recruitment events in schools, recruiting staff from overseas and increased use of contracted staff.

## Net Zero

- For some businesses implementing net zero practices, their primary motivation is cost reduction rather than emission reduction.
- However, for some business whose premises are leased, progress often depends on negotiating terms with the landlords for net zero changes that will impact on the building itself (like solar panels).
- Some Whisky distilleries are looking at how byproduct waste materials (biomass) can be used as an energy source to cut down on energy costs and reduce reliance on fossil fuel energy.

## Workplaces/Property

- Finding suitable and equipped property (particularly manufacturing and lab space) remains a challenge for some businesses.
- Some businesses have adopted remote working rather than leasing office space to reduce costs. This has generally worked well but there is often a need for co-working spaces for face-to-face meetings. Some businesses in the digital sector are liaising with others that do have a dedicated space to access those spaces on an ad-hoc basis.

Economic Outlook

SUMMARY

Global Forecasts

The [IMF](#) forecasts global growth to slow from 3.2% in 2025 to 3.1% in 2026. Emerging and developing economies (e.g. China and India) are expected to grow faster (4.2% this year and 4.0% in 2026) than more advanced economies (1.6% in both years).

The IMF expects the UK to be the second-fastest growing economy in the G7 (behind the US) in 2025 (1.3%) and 2026 (1.3%).

Global inflation is expected to fall to 4.2% in 2025 and 3.7% in 2026, but UK and US inflation is predicted to stay above target.

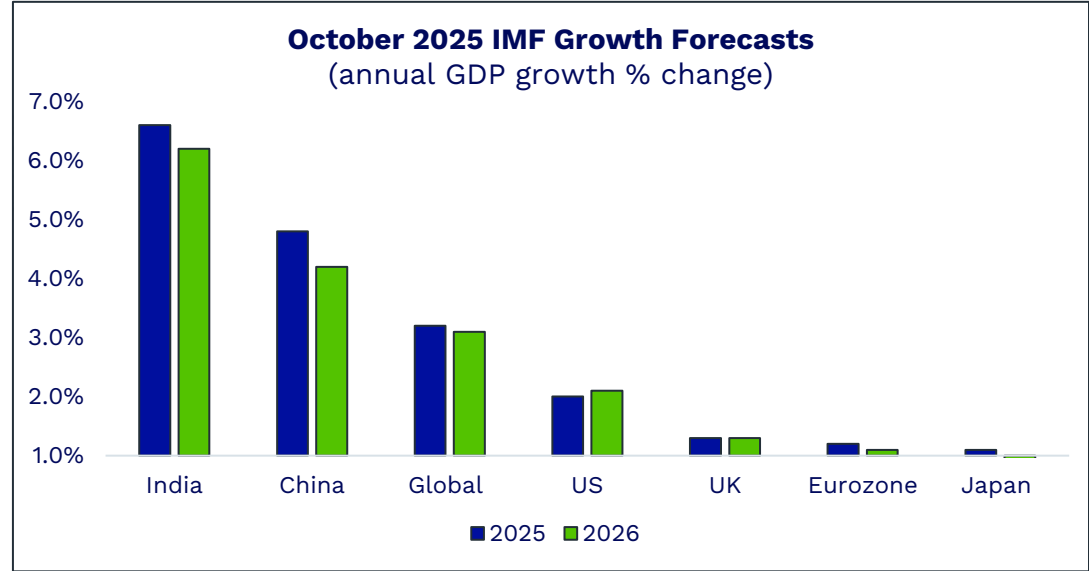
The IMF highlights a number of potential downside risks to the global economy:

- ongoing policy uncertainty and labour supply shocks
- climate shocks, regional conflicts, and geopolitical tensions could lead to renewed spikes in commodity prices
- a sudden drop in tech stock prices, triggered by disappointing AI-related earnings or productivity gains, could end the current AI investment boom and destabilise financial markets

RECENT  
ECONOMIC  
DATA

CURRENT  
BUSINESS  
SENTIMENT

OUTLOOK



UK and Scottish Forecasts

The [EY ITEM Club](#) has revised up its GDP forecast for the UK to 1.5% in 2025. Growth is then forecast to slow in 2026 to 0.9%, due in part to global trade disruption and anticipation of tightening fiscal policy being announced in the Autumn budget.

Business investment growth for 2025 has been upgraded to 3.7% largely due to a jump aerospace investment at the start of the year. Investment growth is then expected to slow to 0.8% in 2026, partially due to uncertainty in the global economy and the challenging worldwide trading environment caused by tariffs.

The EY ITEM Club predicts that inflation has reached its peak and will cool gradually through Q4 2025, averaging 3.4% in 2025 and 2.7% across 2026.

The [Fraser of Allander Institute](#) upgraded its economic growth forecast for Scotland to 1.0% in 2025 (from 0.8%) and 1.0% in 2026. This is to reflect stronger economic performance in the year to date.

