Scottish Enterprise

Economic Commentary

June 2025

Insights & Economics

SUMMARY

ECONOMIC DATA

SE CUSTOMER SENTIMENT

OUTLOOK

Scottish Enterprise

Economic Commentary: Highlights

- Business activity rose across most major economies in May, except China. Service sector performance was generally stronger while manufacturing declined in the UK, Eurozone and Japan.
- UK GDP contracted by 0.3% in April, following growth of 0.2% in March. Output was down in the service (-0.4%) and production/manufacturing sectors (-0.6%), while the construction sector grew (+0.9%). Over the longer term, in the three months to April, GDP was up 0.7%.
- Business activity rose across the UK as a whole in May with half of nations/regions growing and half contracting. All regions saw an increase in growth expectations in May Vs April as levels of uncertainty eased.
- UK consumer price inflation rose by 3.4% over the year to May, down slightly from 3.5% in April, but remaining above the Bank of England's target of 2%.
- The Scottish economy contracted by 0.2% in March, following -0.2% in February. Output expanded in construction (+0.3%), flatlined in services (0%) but contracted in production/manufacturing (-1.6%). In the three months to March, GDP grew by 0.4%.
- 25% of businesses reported an increase in monthly turnover in April (down from 41% in March) while 27% reported a decrease (vs 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.
- The labour market continues to cool as the number of payrolled employees decreased by 23,000 (-0.9%) over the year to May (the sixth consecutive monthly fall). 22% of businesses continue to report worker shortages but the proportion has been falling since March.
- SE customers are generally optimistic about their own performance but are expressing less confidence in the wider economy, particularly due to the global economic environment. Energy supply chain companies are increasingly nervous about the sector which they report as slowing down domestically and some are looking to other markets and sectors for orders.
- The OECD is forecasting global GDP growth of +2.9% in 2025, a downgrade of -0.2ppts. The World Bank also downgraded its forecast and are predicting global growth of 2.3% in 2025, the slowest rate since 2008.
- The Scottish Fiscal Commission has downgraded its GDP growth forecast for 2025 to 1.1% due to ongoing developments in international trade policy which have created significant uncertainty and volatility. Growth of 1.8 is forecast for 2026.

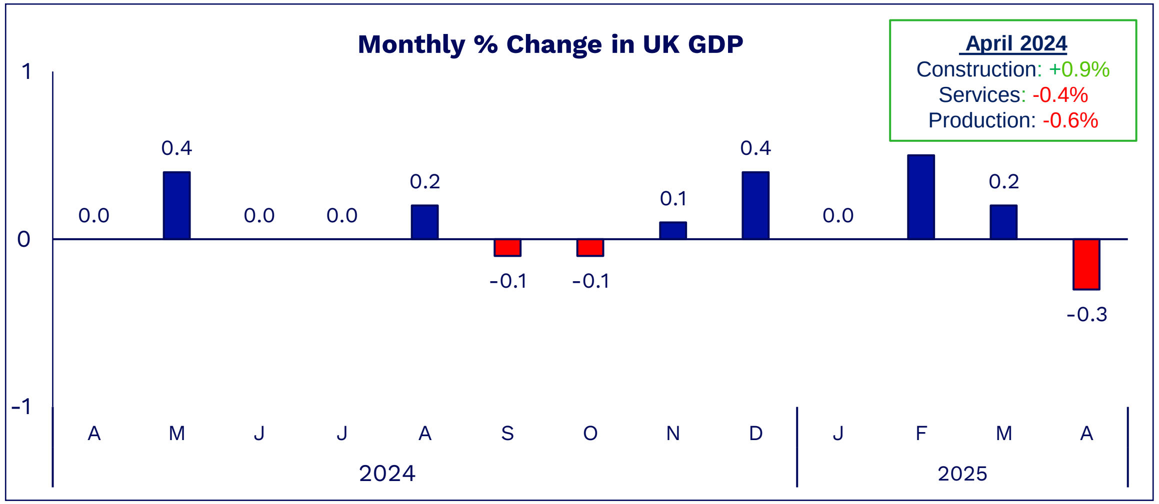
Global/UK

Global business activity expanded again in May. Across major economies, the service sector is posting stronger performance than manufacturing. Business optimism picked up after sinking in April to its lowest level since May 2020.

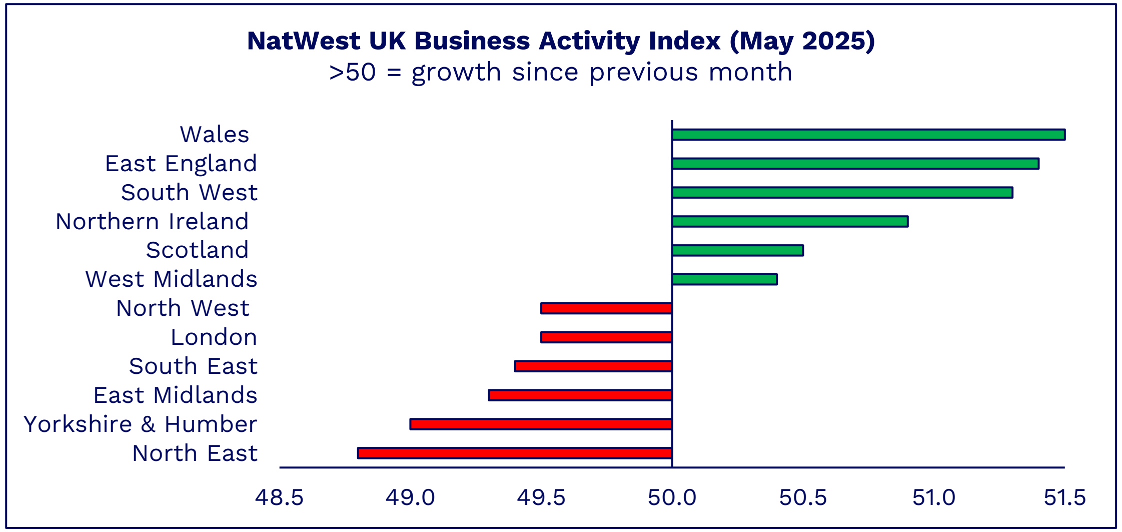
Business Activity Index (>50 indicates increase vs previous month)

	2024					2025					Change on month
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	March	Apr	May	
US	54.6	54.4	54.1	54.9	55.4	52.7	51.6	53.5	50.6	53.0	↑
Global	52.8	52.0	50.0	50.4	52.6	51.8	51.5	52.1	50.8	51.2	↑
UK	53.8	52.6	51.8	50.5	50.4	50.6	50.5	51.5	48.5	50.3	↑
Japan	52.9	52.5	49.6	50.1	50.5	51.1	52.0	48.5	51.2	50.2	↓
Eurozone	51.0	49.6	50.0	48.3	49.6	50.2	50.2	50.4	50.4	50.2	↓
China	51.2	50.3	51.9	52.3	51.4	51.1	51.5	51.8	51.1	49.6	↓

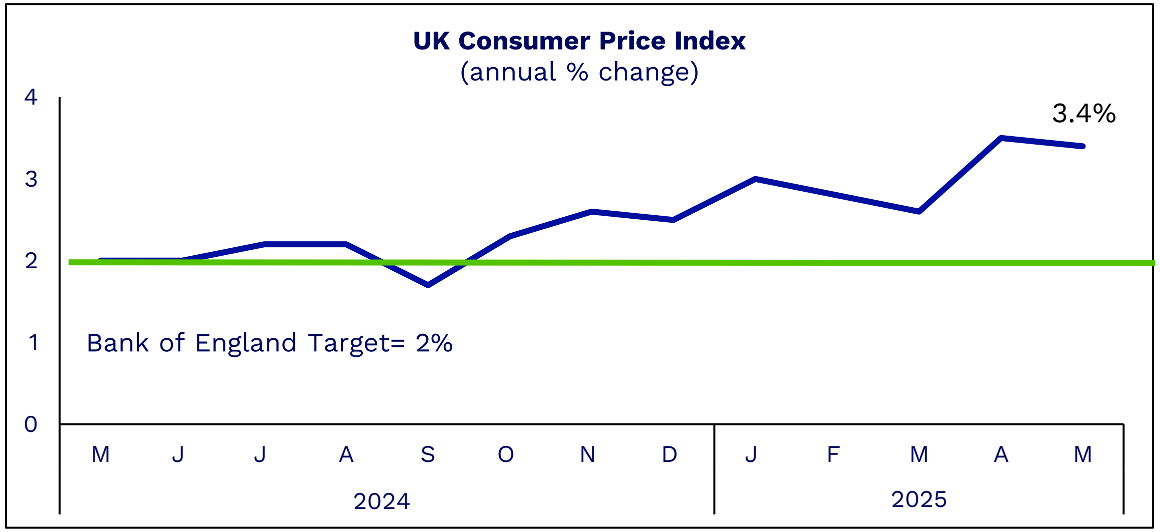
UK GDP contracted by 0.3% in April, down from growth of 0.2% in March. Output fell in both services (-0.4%) and production/manufacturing (-0.6%) but grew in construction (+0.9%). In the three months to April, GDP was up 0.7%.



Business activity rose across the UK as a whole in May with half of nations/regions growing. All areas saw an increase in future growth expectations as levels of uncertainty eased. Business activity in Scotland rose for the first time in 6 months, although marginally.

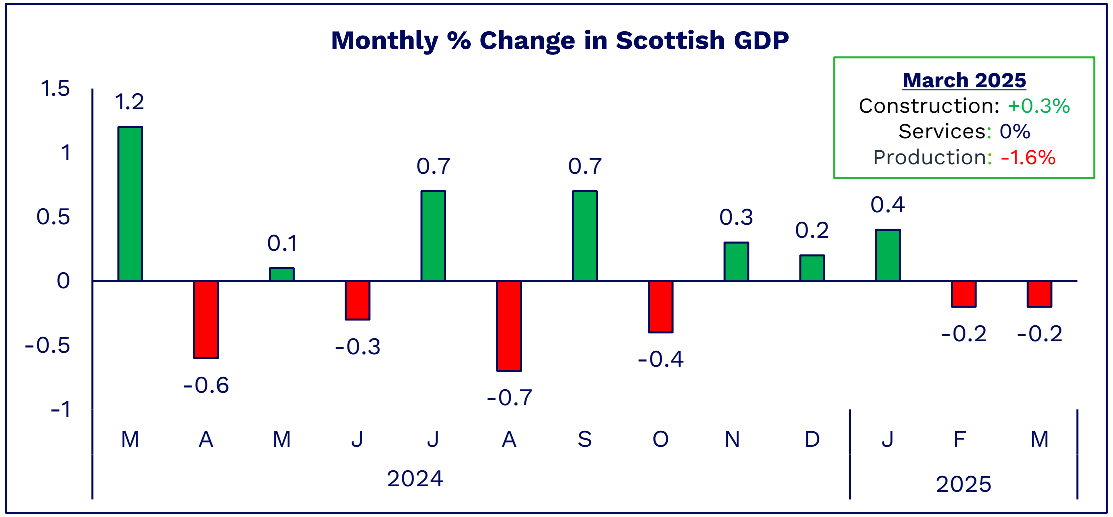


Annual consumer price inflation was 3.4% in the year to May 2025, down slightly from 3.5% in April but still above the Bank of England's 2% target. The largest downward contributions came from transport while the largest upward contributions were from food, furniture and household goods.

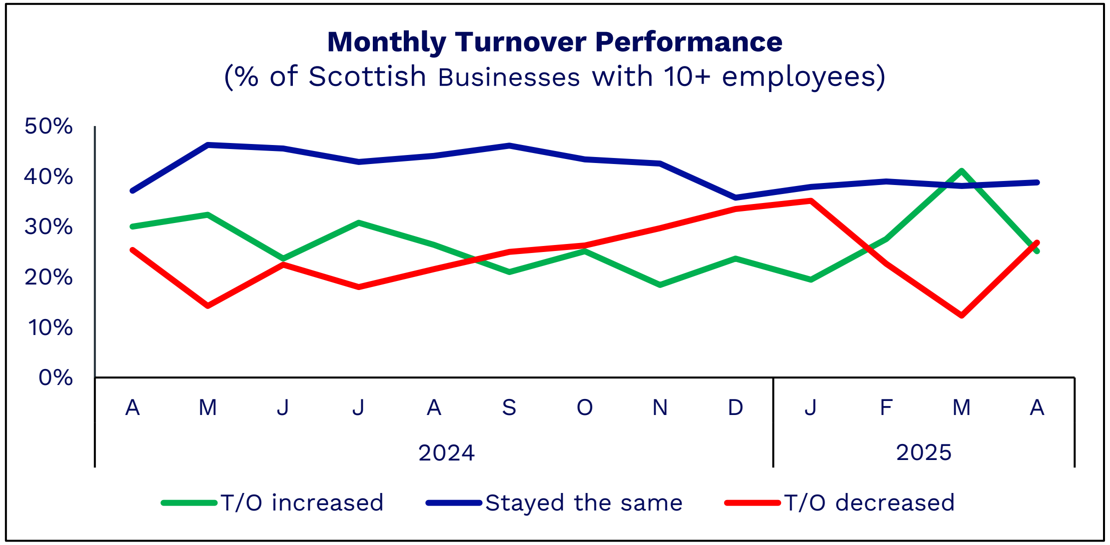


Scotland

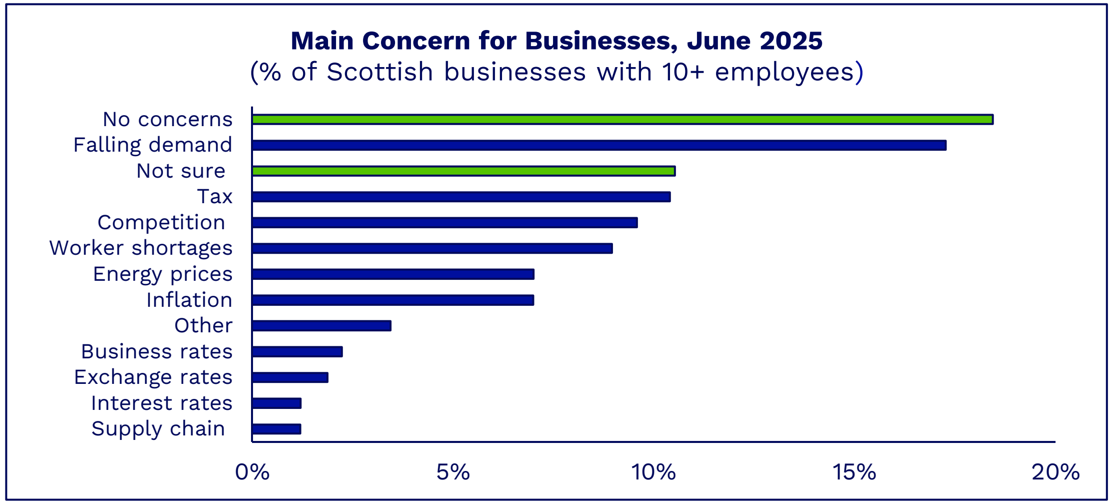
The Scottish economy contracted by 0.2% in March. Output was up in construction (+0.3%) and flatlined in services (0%), but fell in production (-1.6%). Electricity and gas along with IT services were the largest downward contributors. In the three months to March, GDP grew by 0.4%.



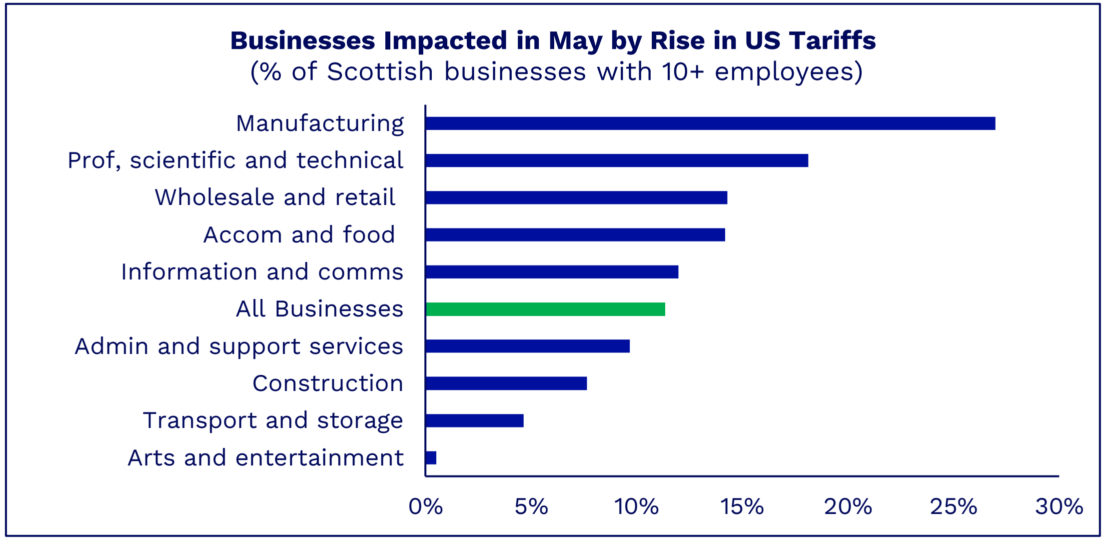
25% of businesses reported an increase in monthly turnover in April (down from 41% in March) while 27% reported a decrease (vs 12% in March). The cost of labour was the most significant 'turnover challenge' reported, likely due to the increased employer NI contributions introduced in April.



Falling demand for goods or services is the biggest concern businesses are highlighting (17%), followed by taxation, competition and worker shortages. 18% of businesses reported no concerns in June.

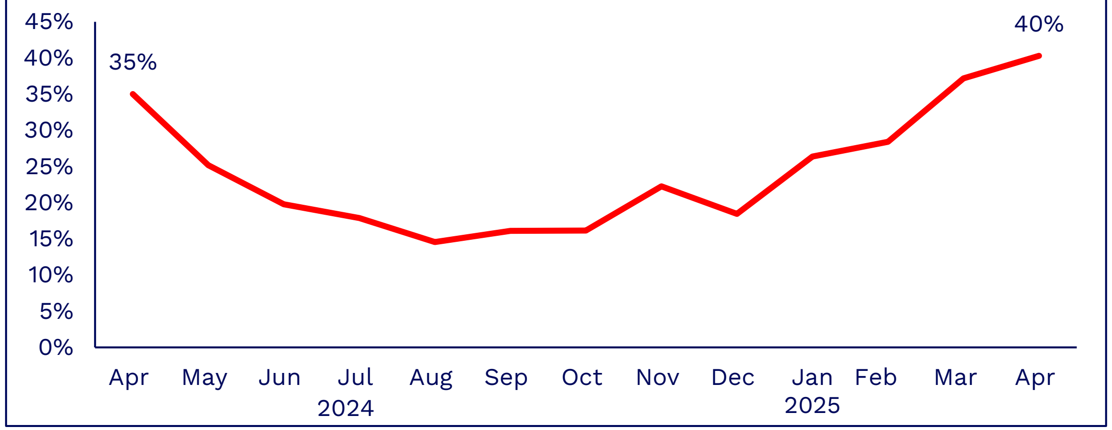


11% of businesses reported being impacted by the rise in US import tariffs in May, rising to 27% of manufacturers. Of those impacted, 57% cited additional costs, 31% supply chain disruptions and 26% reduced demand. 13% of all businesses expect higher US tariffs to impact their business in the future.



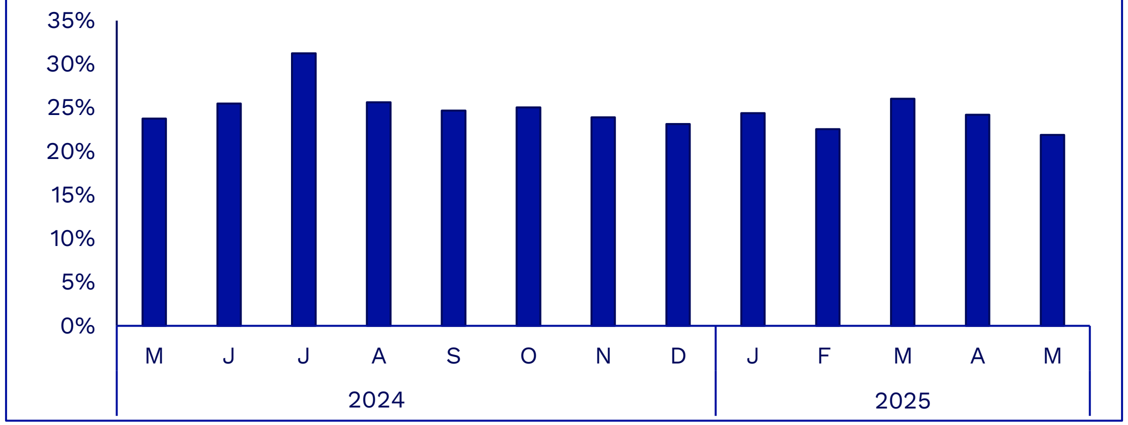
Scotland

Input costs have been rising for Scottish businesses since December 2024 and in April, 40% reported higher costs than in March. The cost of labour was the biggest contributor to price rises followed by higher raw material costs.



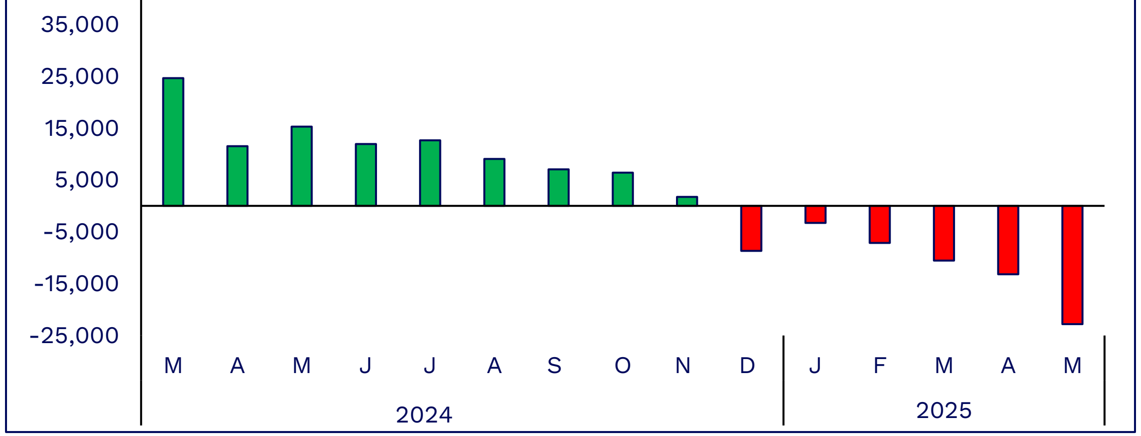
Businesses citing increased input prices vs previous month
(% of Scottish Businesses with 10+ employees)

The proportion of businesses reporting worker shortages has been dropping since March and in May 2025 reached a yearly low of 22%. This is higher for some sectors though - 37% for construction and 34% for admin. Of those businesses impacted, around 40% were unable to meet demand in May.



Businesses Experiencing a Worker Shortgaes
(% of businesses with 10+ employees)

The overall decline in businesses reporting worker shortages does suggest the market is cooling. This is also evidenced by the decline in payrolled employee numbers, down by 23,000 (-0.9%) over the year to May. Recruiters also reported a rise in candidate supply as a result of fewer job opportunities combined with redundancies.



Annual Change in Payrolled Employees in Scotland

Scotland's unemployment rate fell to 4.2% over the year to April (UK: 4.6%). The employment rate increased by 2.1ppts to 75.0%, below the UK (75.1%); economic inactivity was down 1.8ppts to 21.6% (UK: 21.3%). Median monthly pay increased by 5.3% in the year to May (UK: 5.8%).

Scotland	RATE (February 25- April 25)	ANNUAL CHANGE
EMPLOYMENT (aged 16-64)	75.0%	+2.1%pts
UNEMPLOYMENT (16+)	4.2%	-0.6%pts
ECONOMIC INACTIVITY (16-64)	21.6%	-1.8%pts

Feedback from Scottish Enterprise Customers

General Sentiment

- SE customers continue to be generally optimistic about their own performance but are increasingly nervous about wider economic conditions.
- Challenges continue with rising costs (labour and inputs), staffing and recruitment and access to investment funding, particularly for early-stage businesses.

Trade and Tariffs

- Companies that export are continuing to do so and have largely been unaffected by tariffs. Some are exploring new markets or expanding in existing markets depending on where their products fit.
- Most businesses have not been affected by tariffs directly, but for those that have, planning ahead can be challenging given policy is rapidly changing and forcing many to continue with a 'wait and see' approach.

Cost of Doing Business

- Rising costs (inputs, energy and particularly labour costs) are an increasing concern, with some finding it difficult to pass higher costs onto customers, particularly where contracts have already been agreed.
- Some businesses have been significantly impacted by employer NI contribution increases. Some are not replacing workers and squeezed margins means capital investment has been scaled back.

Skills and Labour

- Skill shortages are still an issue, especially in manufacturing and for skilled trades. Businesses are continuing to addressing shortages by training existing staff and hiring apprentices.
- With labour costs higher, some businesses are reviewing their recruitment strategies and in some cases, hiring has been put on hold.

Capital Investment

- Many businesses are continuing to invest and with other costs rising, they are increasingly seeking to invest in automation which offers high returns and reduces labour demand.

Access to Finance

- Early-stage businesses continue to report access to funding as a major barrier. Investors have increasingly tighter criteria and are favouring projects that are already delivering value. Businesses are seeking support from SE to make their case for investment as robust as possible.

Net Zero

- Businesses are adopting net zero actions in order to save costs (particularly energy costs). Some manufacturers are exploring the use of solar panels and heat pumps.

Workplaces

- Finding suitable property for growth remains a challenge, particularly securing cost effective lab and manufacturing spaces. Some businesses are compromising on location and moving to locations outwith city centres if suitable property is available.

Energy Transition

- Energy supply chain companies are increasingly nervous about the sector which the report as slowing down. While most haven't so far reported decreased orders, some are looking at overseas markets such as South America where they can export their goods and services.
- Some are looking at how they can diversify more quickly into renewables but market opportunities are not at the scale they need, and significant barriers still remain (e.g. a lack of understanding on how their products can be used or adapted for renewable uses).
- Some are looking at alternative markets other than renewable energy) to keep order books full while the sector is still developing.

SUMMARY

RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

OUTLOOK

Economic Outlook

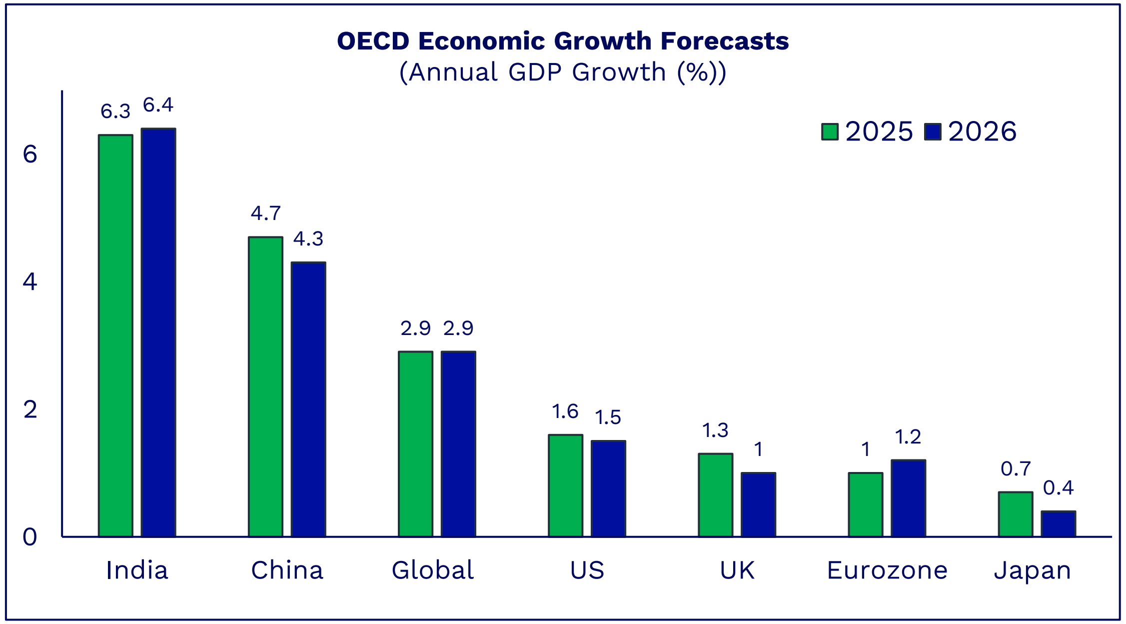
Global Forecasts

The OECD has downgraded its global growth forecast to +2.9% for both 2025 and 2026. Emerging and developing economies (e.g. China and India) are generally expected to grow faster than more advanced economies. Growth has been downgraded due to a combination of factors but particularly rising trade barriers and heighted policy uncertainty.

The OECD highlights that growth is expected to remain modest as downside risks are expected to intensify, including:

- further escalations or sudden shifts in trade policies which could push up inflation.
- more cautious behaviour from consumers and businesses.
- tighter financial conditions (e.g. a reduction in spending and increased taxation)

The World Bank has also significantly downgraded its growth projections- forecasting global growth of 2.3% in 2025 (the slowest growth since 2008) and 2.4% in 2026. Growth is expected to slow as a result of; trade barriers and increased policy uncertainty.



Scottish Forecasts

For Scotland, Ernst & Young have downgraded GDP growth forecasts to 0.6% for both 2025 and 2026 (Vs the UK at 0.8% for 2025 and 0.9% for 2026).

The reasons for the downgrade echo those outlined by the OECD with the Scottish economy described as fragile, exacerbated by the US's tariff announcements, which has dampened business and consumer confidence. Rural areas (whisky producing) are expected to be impacted most negatively.

The Scottish Fiscal Commission has also downgraded its GDP forecast to 1.1% for 2025, followed by +1.8 in 2026, again due to ongoing developments in international trade policy which have created significant uncertainty and volatility.

Scotland's unemployment rate is expected to gradually rise from 3.7% in 2024 to 4.1% by 2027 as labour market tightness eases.

The SFC also modelled an alternative 'trade tariff scenario' where the level of Scottish GDP could be 0.4% lower than their central forecast for 2025/26 assuming a short-term rise in inflation, and decreases in household consumption, business investment and exports as a result of universal US tariff increases and no retaliation.