Scottish Enterprise

Economic Commentary

August 2026
Strategic Research & Futures Team

Economic Commentary: Highlights

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- The global economic upturn gathered pace in July, with rates of expansion in output and new orders accelerating and employment returning to growth. The US led the expansion, while Scotland remained in contraction.
- UK monthly GDP was 0.3% in June after showing no growth in May. Growth was driven by the service sector which offset falls in production and construction. In the three months to June the economy grew by 0.4%, following growth of 0.6% in in the three months to March.
- 10 out of 12 UK nations and regions recorded higher business activity in July, up from just three in June. Scotland and Yorkshire & Humber were the only areas to record decreases in output. All areas saw a fall in cost pressures and growth expectations for the year ahead recovered across most parts of the UK.
- Consumer price inflation rose by 2.9% in the 12 months to July, up from 2.6% in June. Household and household services led the upward contributions. Producer input prices rose by 4.9% in the year to July, down from a rise of 7.4% in the year to June. CPI remains above the Bank of England's 2% target rate.
- Monthly onshore GDP grew by 0.1% in May, after 0.8% growth in April and 0.3% growth in March. The services sector saw growth (0.3%), while both production and construction fell (-0.4% and -0.8% respectively). In the 3 months to May, onshore GDP grew by 0.6%.
- In June, 32% of businesses reported higher turnover compared with the previous month, while 20% reported a decrease. Falling demand (17%), worker shortages (12%) and competition (10%) were the leading concerns in August, and looking ahead, 28% expect performance to improve over the next 12 months.
- Scotland's labour market continued to show signs of cooling: the unemployment rate increased by 1.4ppts to 5.1% over the year to April – June 2026 while the employment rate decreased by 1.1ppts to 74.0%. The number of payrolled workers also continued to fall in the year to July.
- 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 cost pressures, funding constraints and wider economic uncertainty.
- GDP forecasts published from the IMF in July project global growth of 3.0% for 2026 and 3.4% for 2027, broadly unchanged from their previous April projections.
- The Fraser of Allander Institute expect Scottish GDP to grow by 1.0% for 2026, and 1.1% for 2027, a slight upgrade from their forecast in April, after stronger-than-anticipated growth at the start of 2026. Nine consecutive quarters of expansion show resilience, but a softer labour market and energy-cost pressures cloud the outlook.

What this means for SE

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CPI inflation has risen again, but other cost pressures are easing
CPI rose to 2.9% in July, but producer input price growth slowed and fewer firms reported rising costs. Falling demand leads business concerns and Scottish activity remains subdued. SE should prioritise market development, productivity and resilience.

Labour conditions are cooling, yet skills shortages persist
Employment and payrolls are declining, but shortages remain acute particularly in the construction and manufacturing sectors. Targeted skills, workforce development and automation support remain important.

Businesses are cautious, but opportunities remain
Funding is harder to secure and uncertainty is slowing investment. Despite this, businesses are using AI, improving efficiency and exploring new export markets. SE can help reduce investment risk, bring products to market and strengthen business skills.

Infrastructure is increasingly decisive for investment
Growth projects depend on grid capacity, transport links, planning and specialist property. SE should align investment support with enabling infrastructure and the net zero transition.

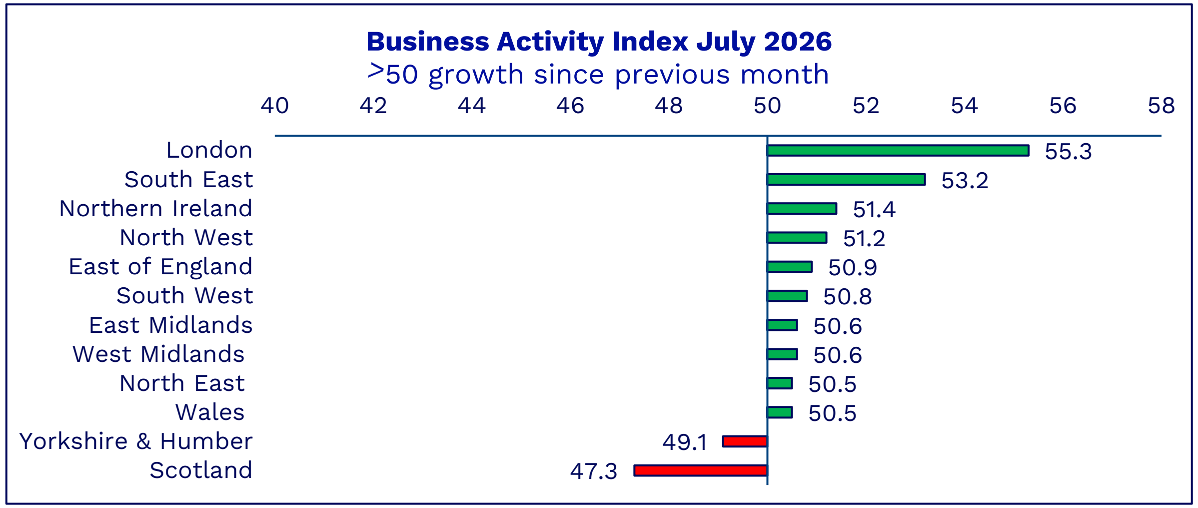
Recent Economic Data

Global/UK

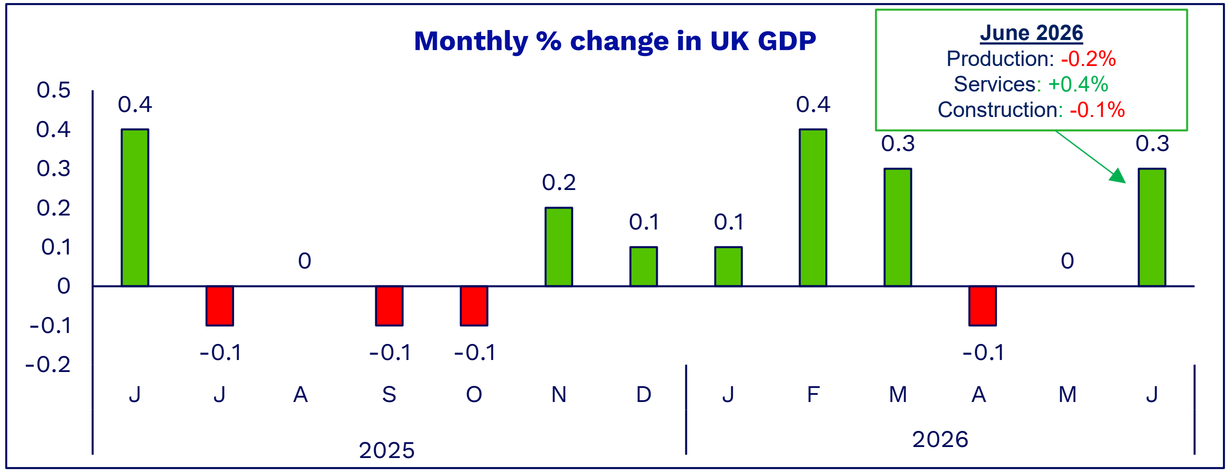
The [global economic upturn] gathered pace in July, with rates of expansion in output and new orders accelerating, while employment returned to growth. The US led the expansion, while Scotland remained in contraction.

Business Activity Index (>50 indicates increase vs previous month)														
	2025						2026							Change on latest month
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
US	54.6	54.6	53.6	54.6	54.2	52.7	52.8	51.9	51.4	51.7	51.5	51.9	54.5	↑
Japan	51.5	52.0	51.1	51.5	52.0	51.1	52.8	53.9	52.5	52.2	51.1	52.8	52.7	↓
Global	52.4	52.9	52.4	52.9	52.7	52.0	52.6	53.3	51.0	51.8	51.5	52.2	52.6	↑
UK	51.0	53.5	51.0	52.2	51.2	51.4	53.9	53.7	51.0	52.6	49.7	49.3	52.2	↑
Eurozone	51.0	51.0	51.2	52.5	52.8	51.5	51.5	51.9	51.7	48.8	48.5	50.0	52.0	↑
China	52.6	53.0	52.9	51.8	51.2	51.3	51.6	55.4	51.5	52.6	54.0	53.6	50.8	↓
Scotland	48.7	50.3	49.2	49.0	48.0	48.1	50.0	50.9	50.1	48.0	47.1	47.6	47.3	↓

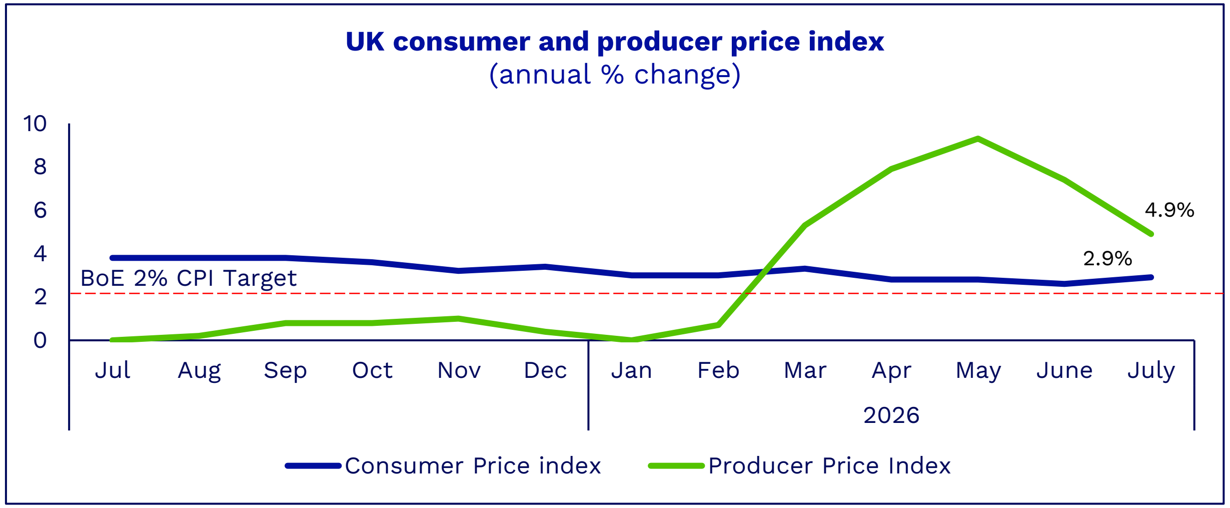
10 out of 12 UK nations and regions recorded [higher business activity] in July, up from just three in June. Scotland and Yorkshire & Humber were the only areas to record decreases in output. All areas saw a fall in cost pressures and growth expectations for the year ahead recovered across most parts of the UK.



[UK monthly GDP] was 0.3% in June after showing no growth in May. Growth was driven by the service sector which offset falls in production (-0.2%) and construction (-0.1%). In the three months to June the economy grew by 0.4%, following growth of 0.6% in in the three months to March.

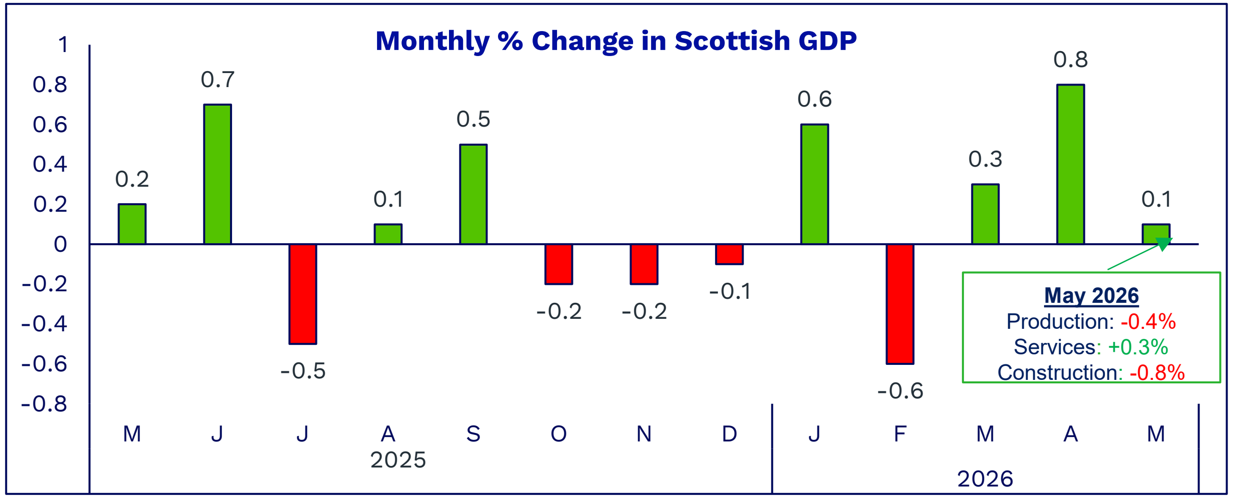


[Consumer price inflation] rose by 2.9% in July, up from 2.6% in June. Household and household services led the upward contributions. [Producer input prices] rose by 4.9% in the year to July, down from a rise of 7.4% in the year to June. CPI remains above the Bank of England's 2% target rate.

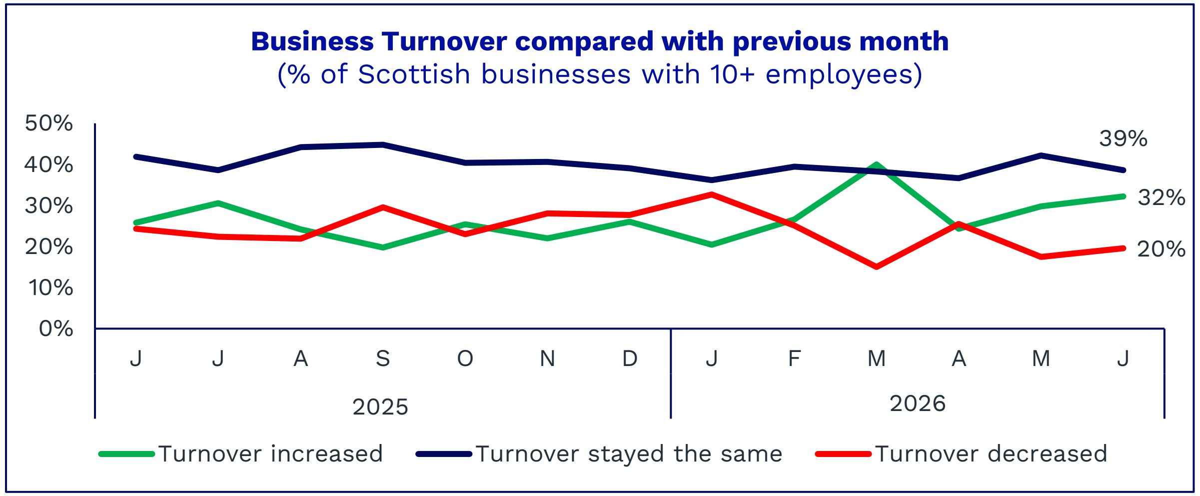


Scotland

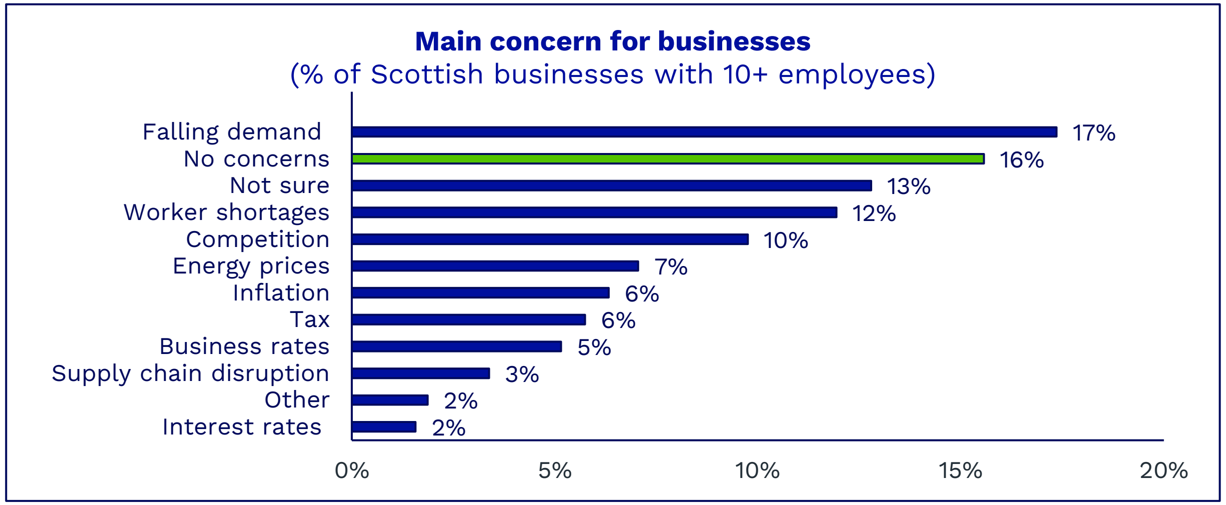
Monthly onshore GDP grew by 0.1% in May, after 0.8% growth in April and 0.3% growth in March. The services sector saw growth (0.3%), while both production and construction fell (-0.4% and -0.8% respectively). In the 3 months to May, onshore GDP grew by 0.6%.



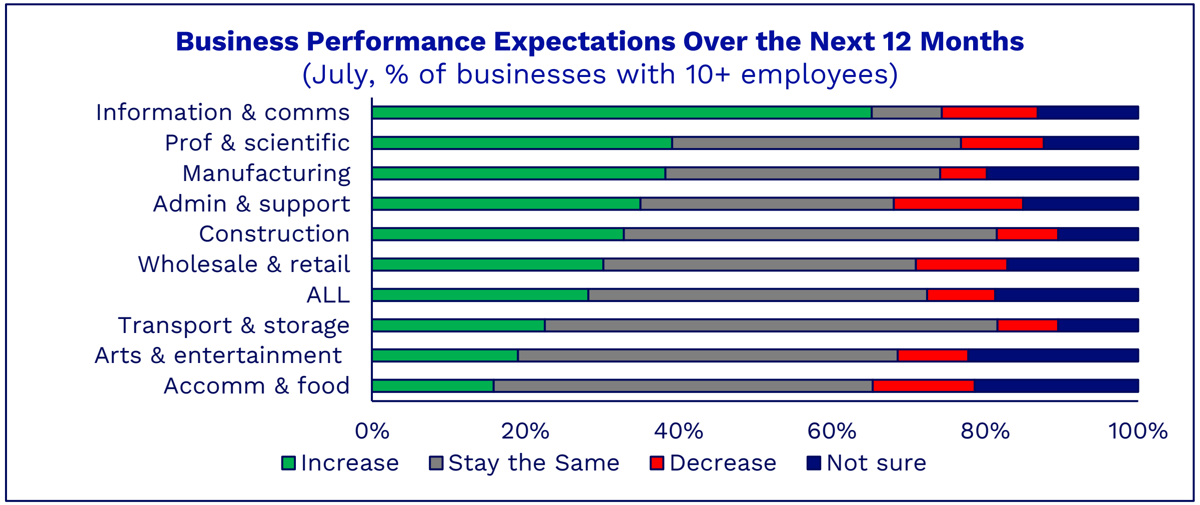
32% of businesses reported that their turnover had increased in June compared with the previous month, which was up since May (30%), putting it above the proportion that saw a decrease.



Businesses' top concerns for August 2026 were falling demand (17%, up from 14% in July), worker shortages (13%) and competition from other UK businesses (10%). 16% reported no concerns, slightly down from July.



In July, 28% of businesses expected performance to increase over the next 12 months, slightly down from the previous month. However, expectations differed across sectors.



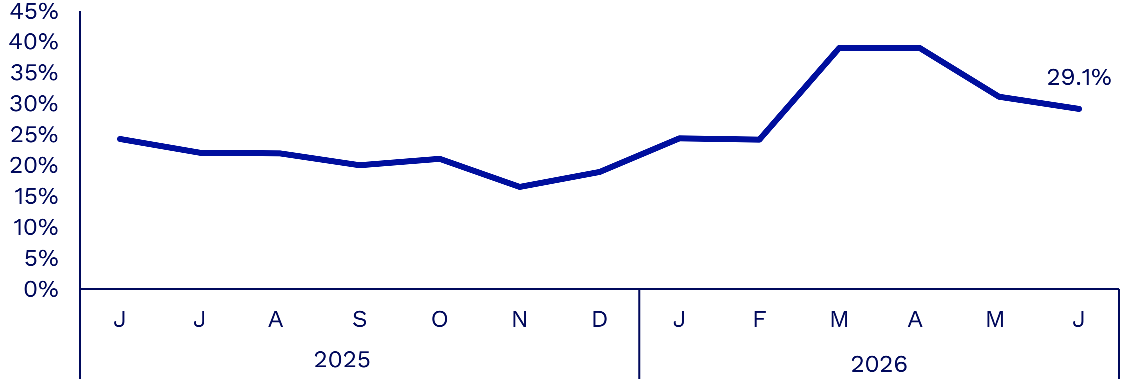
Scotland

Scotland's labour market continued to show signs of cooling: the unemployment rate increased by 1.4ppts to 5.1% over the year to April – June 2026 (UK: 4.9%). The employment rate decreased by 1.1ppts to 74.0% (below the UK: 75.1%). The economic inactivity rate was 22.0%, down 0.1ppts over the year and above the UK rate of 22.9%.

SCOTLAND	RATE (April – June 26)	ANNUAL CHANGE
EMPLOYMENT (aged 16-64)	74.0%	-1.1ppts
UNEMPLOYMENT (16+)	5.1%	+1.4ppts
ECONOMIC INACTIVITY (16-64)	22.0%	-0.1ppts

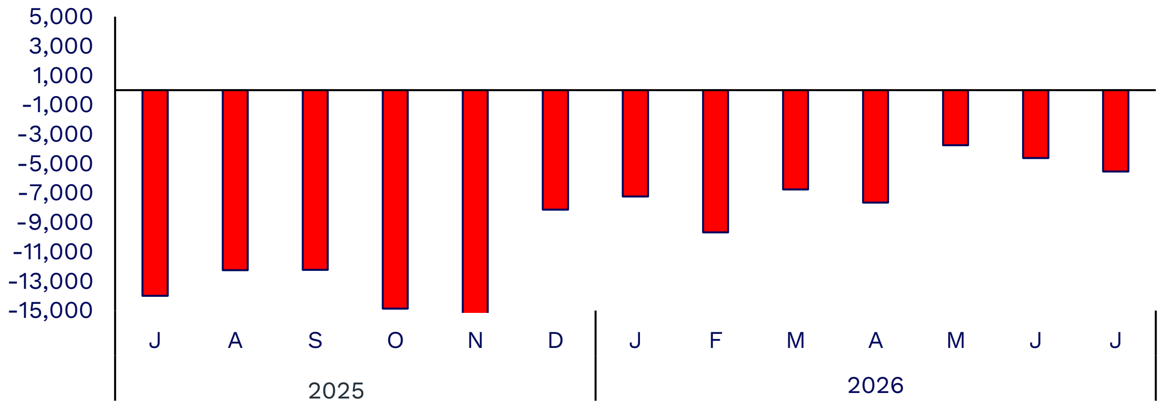
Cost pressures appear to be easing: 29% of businesses reported input prices increased in June v May (-10ppts since a high in March/April). Labour costs continue to be the main factor causing businesses to consider increasing their prices, although this is also easing as labour market conditions soften.

Businesses citing increase in input prices v previous month
(% of Scottish Businesses with 10+ employees)



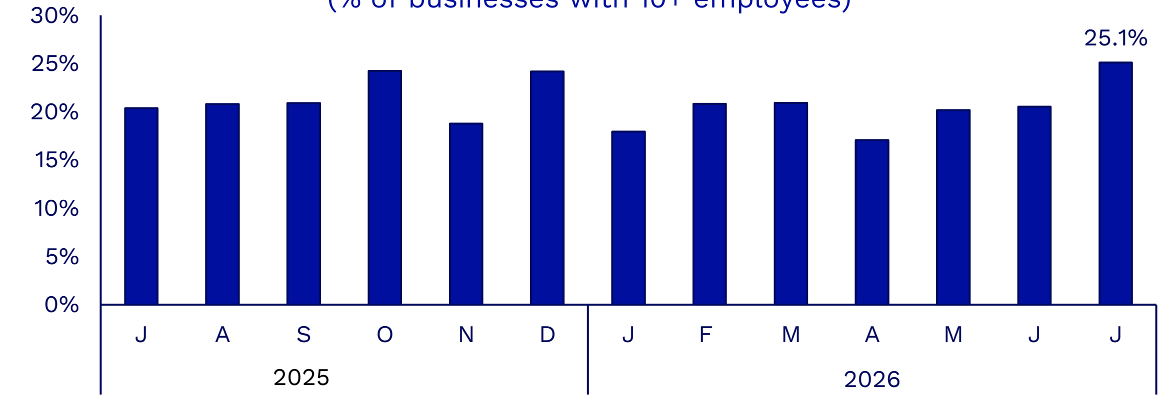
The number of payrolled workers declined again (for the 18th consecutive month) over the year to July, down 5,500 (-0.2%). UK recruiters noted that demand for permanent staff remained subdued in July, but employers were increasingly seeking temporary staff to fill positions.

Annual Change in Payrolled Employees in Scotland



While concerns for businesses around costs have fallen, the proportion of businesses experiencing worker shortages rose again in July (to 25%, the highest level since March 2025). Shortages were most pronounced in the construction sector (reported by 31%) and the manufacturing sector (26%).

Businesses Experiencing a Shortage of Workers
(% of businesses with 10+ employees)



Current Business Sentiment

What SE customers are saying

Feedback from SE Customers

General Sentiment

- Business sentiment remains mixed: companies continue to see growth opportunities; however, funding constraints and uncertainty are delaying investment.
- Productivity, AI and automation are priorities, although skills, capacity and investment barriers limit adoption.
- Companies are exploring new export markets, although trade and regulatory challenges are ongoing. Direct supply-chain, logistics and cost impacts from geopolitical disruption are easing.
- Property demand is increasingly infrastructure-led as businesses prioritise access to energy, ports, rail and wider transport networks.

Access to Finance

- Access to finance remains one of the most significant barriers for early-stage companies. Investors are perceived to be increasingly risk-averse and funding rounds are taking longer to secure.
- Businesses report that funding applications and due diligence processes can be time-consuming and resource intensive.
- Many businesses face a commercialisation challenge: investors require proof of revenue and market traction before investing, but businesses need funding to reach that stage.
- As a result, many pre-revenue or early-stage rely on founder capital, crowdfunding or bridging loans, as they attempt to progress to angel and venture capital rounds.

Skills and Labour

- Skills shortages persist in manufacturing, engineering and skilled trades, especially in roles such as welding and in parts of Northern Scotland.
- Rising costs are making companies more cautious about recruitment, increasing pressure on existing staff and limiting innovation capacity.
- Businesses are responding with internal training academies, workforce development and alternative recruitment options – e.g. some food and drink businesses have been using agency workers to manage staffing gaps.
- Education and training systems are seen as slow to adapt to emerging needs by some companies – for example, AI capabilities.

Cost of Doing Business

- Energy costs, logistics costs and wider operating costs, mainly as a result of wider economic and geopolitical factors, continue to weigh on business confidence.
- Exporting companies continue to face additional costs and uncertainty from tariffs, regulation and geopolitical disruption.
- Multiple shocks are compounding cashflow pressure, with limited reserves leaving more businesses less able to absorb cost volatility, delays or unexpected disruption.

Feedback from SE Customers

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AI and Innovation

- Interest in AI continues to grow across sectors, with businesses exploring opportunities to improve efficiency, productivity and business processes. Demand for AI-related support is high.
- Many businesses remain at an early stage of adoption and lack the skills, capacity, systems or data foundations required to implement AI effectively.
- Some creative businesses remain concerned about the impact of AI on quality, originality and future employment opportunities, particularly entry-level roles.
- Automation is increasingly being viewed as a response to labour shortages and a route to improving productivity, although investment and capability barriers remain.

Internationalisation

- Tariffs, regulation and geopolitical uncertainty are making overseas trade harder.
- Brexit-related EU rules continue to raise entry costs; some life science firms report setting up EU subsidiaries for testing and regulatory compliance.
- Businesses are adapting international strategies, exploring new markets and staying positive about long-term overseas opportunities.
- The new EU Digital Product Passport requirements will add supply-chain reporting, systems and compliance challenges for affected exporters – e.g. companies in the textiles sector.

Property

- Property requirements are increasingly infrastructure-led. Businesses prioritise access to energy, ports, rail and wider transport networks over specific locations.
- Demand is high for large, development-ready sites that can meet complex investor needs, particularly for grid capacity and suitable planning designations. Conversely, fewer companies are seeking traditional office space.
- Specialist developers are now active in the life science sector, but rental incomes need to be high enough to make investment in new lab and grow-on space commercially viable.

Middle East/Geopolitical Impacts

- Geopolitical disruption is making investment and international expansion decisions more difficult; however, reports of direct impacts (supply chain, logistical and cost challenges) are lessening.
- Some exporters are diversifying market strategies, exploring opportunities in China, Japan and wider Asia in response to uncertainty in traditional markets.

Net Zero

- Cost savings, over emissions cuts, are the main motivation for introducing net zero actions for many businesses.

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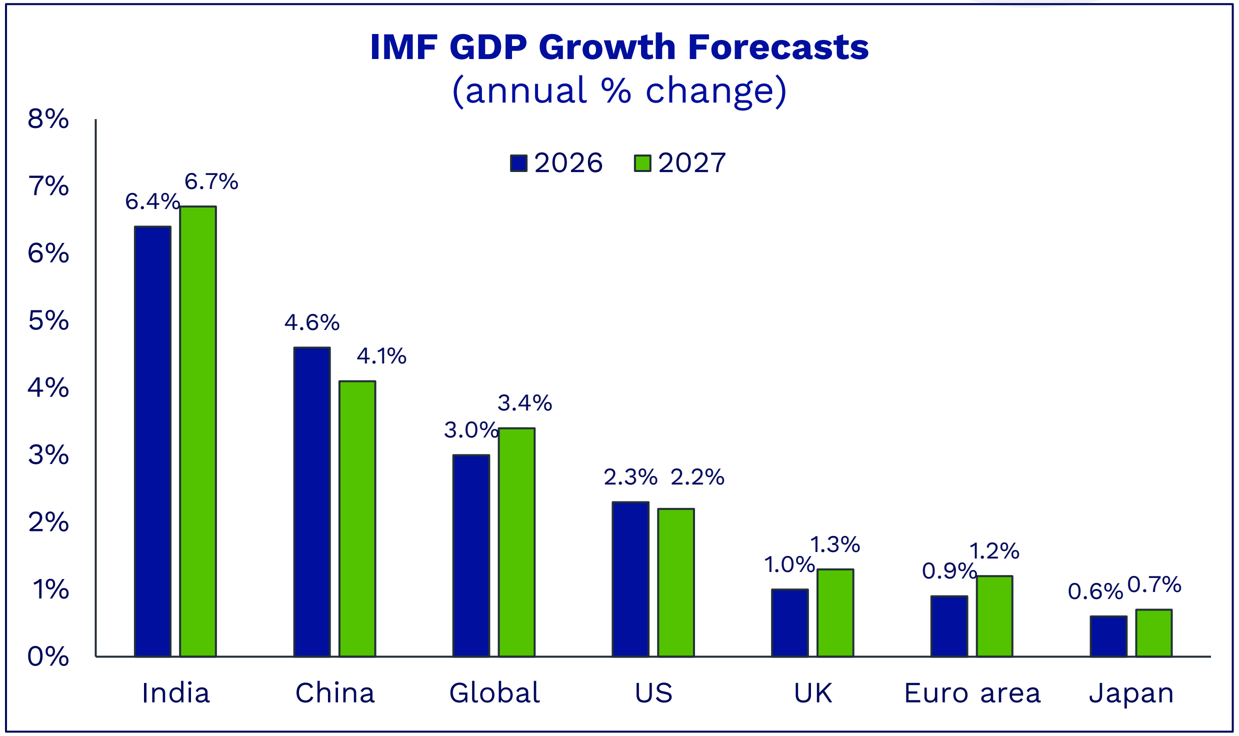
Outlook

Global Outlook

- GDP forecasts published by the IMF in July project global growth of **3.0 percent for 2026 and 3.4 percent for 2027,** broadly unchanged from their previous April projections.
- This forecast is slightly below the 3.5% average for 2024–25, with Middle East war impacts partly offset by AI-driven momentum in the global technology cycle.
- Growth is expected to be uneven, led by emerging and developing economies while advanced economies remain more subdued.
- UK growth is forecast to stay subdued, at **1.0% in 2026, before edging up to 1.3% in 2027** (up from 0.8% in April), reflecting a slightly better near-term outlook despite global growth being revised down.



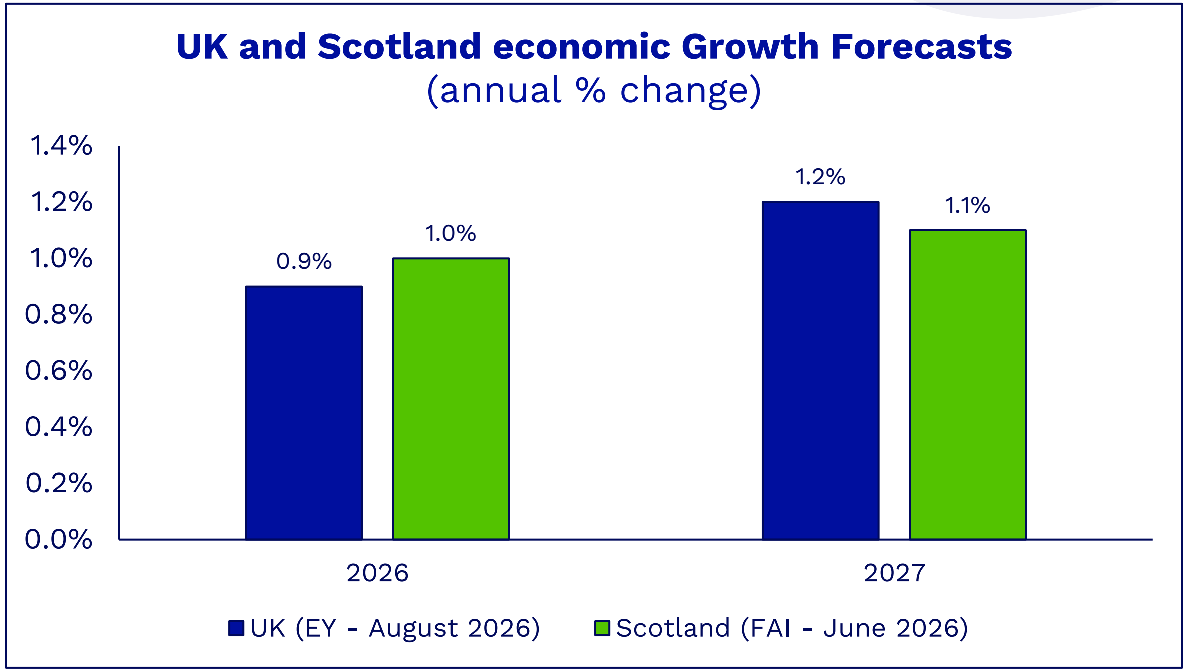
Risks to growth include:

- Renewed Middle Eastern conflict could disrupt energy supplies and raise commodity prices.
- Higher inflation may persist, delaying interest-rate cuts.
- Tighter financial conditions could weaken investment and consumer demand.
- Trade fragmentation and export restrictions could weigh on output.
- Supply-chain disruption could affect energy, technology inputs and global manufacturing.
- AI-driven momentum could slow if investment slows or productivity gains take longer to materialise.

UK and Scotland

- EY forecasts UK economic growth to be 0.9% for 2026 before rising to 1.2% in 2027. The economy has demonstrated continued resilience despite disruption from the conflict in the Middle East and is now forecast to grow at a slightly better-than-expected pace in 2026.

- Downside risks include:
  - ➢ A continuation/worsening of the Middle Eastern conflict.
  - ➢ A potentially constrained fiscal position under the new Andy Burnham leadership.
  - ➢ Higher energy costs in late 2026.
  - ➢ Further inflationary rises.



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