

# Economic Commentary

October 2025  
Insights & Economics



## Economic Commentary: Highlights

### SUMMARY

- Global business activity further expanded in September (for the thirty-second consecutive month, though at a slower pace), with the Service sector outperforming Manufacturing. Year-ahead business optimism also improved, reaching a seven-month high.
- UK GDP grew by 0.1% in August, following a contraction of 0.1% in July. Output expanded in Production (0.4%), whilst Services showed no growth and Construction fell by 0.3%. In the three months to August, GDP was up 0.3%.

### ECONOMIC DATA

- Business activity rose in just three of twelve UK nations/regions in September with most areas recording lower levels of new business as well as continuing cost pressures.
- UK consumer price inflation was 3.8% in the year to September, unchanged from August and still above the Bank of England's 2% target. Producer input prices rose by 0.8% in the year to September 2025.
- The Scottish economy contracted by 0.3% in July following growth of 0.7% in June. Over the month, output was down in Production (-2.3%) but up in Services (+0.1%) and Construction (+0.2%). In the three months to July, GDP is estimated to have grown by 0.5%.

### SE CUSTOMER SENTIMENT

- 24% of Scottish businesses reported an increase in monthly turnover in August, while 22% reported a decrease. The cost of labour was the most significant turnover challenge.
- Scotland's labour market continues to cool as the number of payrolled employees decreased by 10,000 (-0.4%) over the year to September (the tenth consecutive monthly fall).
- The top business concerns for Scottish businesses are falling demand and UK competition. Looking ahead, 30% have concerns about their supply chains.
- More Scottish businesses continue to report a fall in new capital investment. Uncertainty about demand and a shortage of internal finance are the main factors holding back investment.

### OUTLOOK

- Overall, SE customers are reporting lower levels of business sentiment, with economic uncertainty, financial pressures and difficulty accessing finance key causes.
- The IMF forecasts global economic growth of 3.2% in 2025, easing slightly to 3.1% in 2026.
- The British Chamber of Commerce is forecasting UK GDP growth of 1.3% in 2025 and 1.2% in 2026, while the Fraser of Allander Institute forecasts slightly weaker Scottish growth of 1.0% in both 2025 and 2026.

Global/UK

SUMMARY

RECENT ECONOMIC DATA

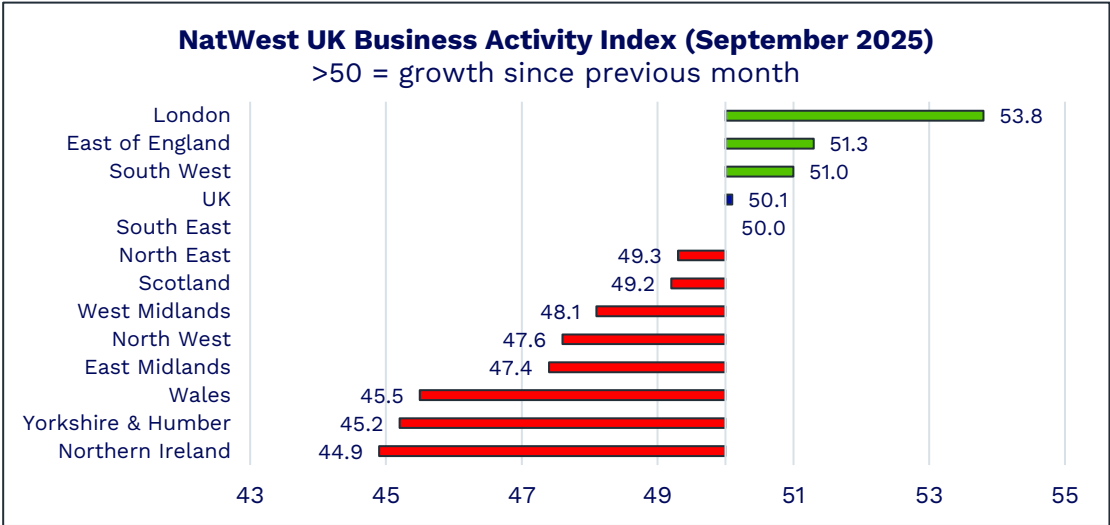
CURRENT BUSINESS SENTIMENT

OUTLOOK

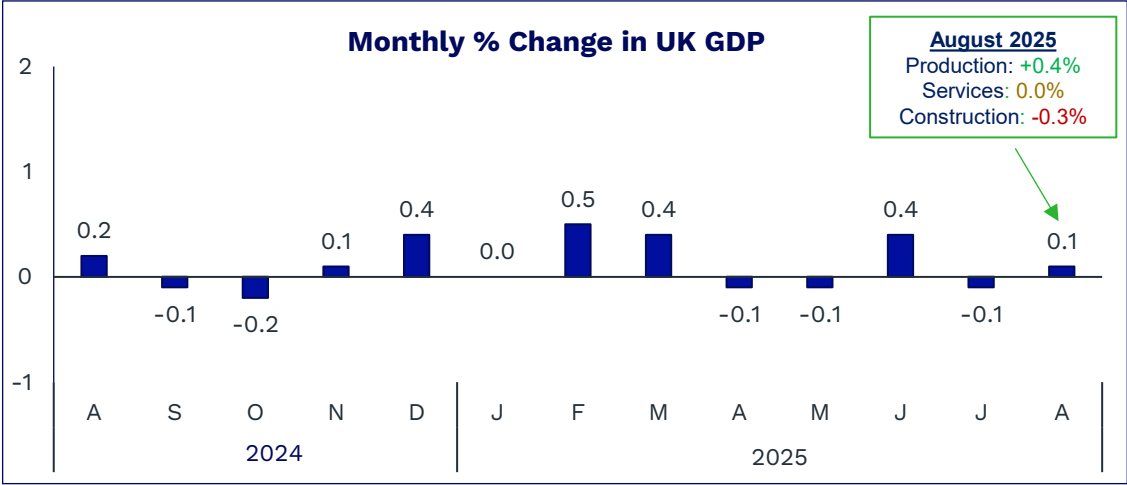
[Global](#) business activity expanded in September, with Services outperforming Manufacturing. Year-ahead business optimism improved to a seven-month high and rates of increase in input and output costs eased slightly.

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

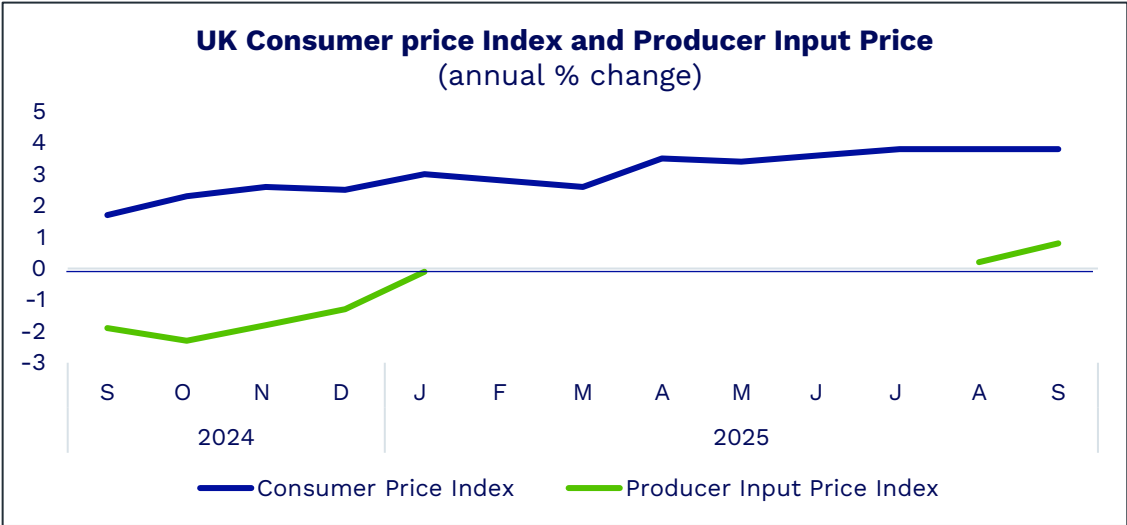
[Business activity](#) rose in just 3 out of 12 nations/regions in September (down from 10 in August) with most areas recording lower levels of new business and continued cost pressures. Activity in [Scotland](#) fell, driven by economic uncertainty, weak demand and cost pressures.



[UK GDP](#) grew by 0.1% in August, following a contraction of 0.1% in July. Output expanded in Production (0.4%), whilst Services showed no growth and Construction fell by 0.3%. In the three months to August, GDP was up 0.3%.



[Annual consumer price inflation](#) was 3.8% in the year to September, unchanged from August and still above the Bank of England’s 2% target. The largest upward contribution was from Transport. [Producer input prices](#) rose by 0.8% in the year to September, up from 0.2% in August. \*Blanks in the Producer Input Price Index are due to a temporary a pause in data collection by the ONS.



SUMMARY

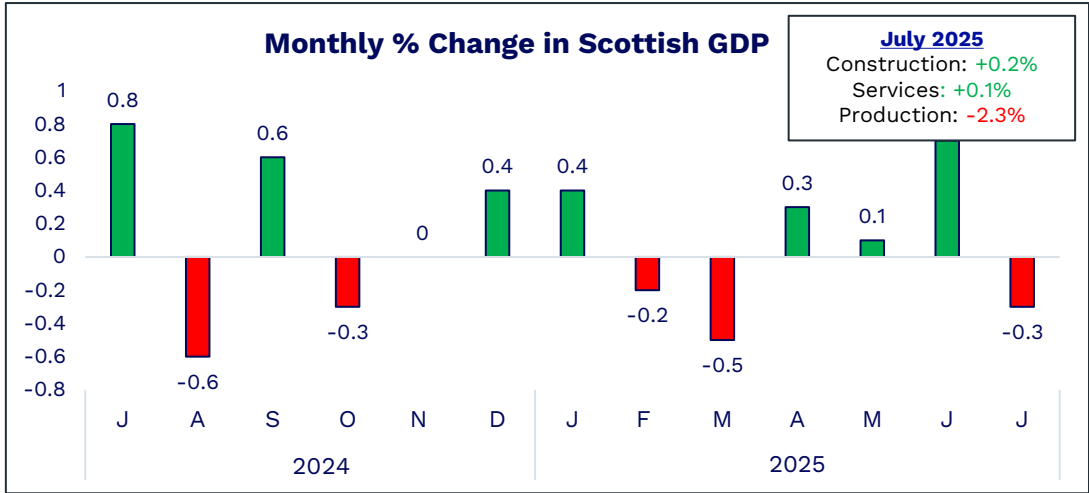
RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

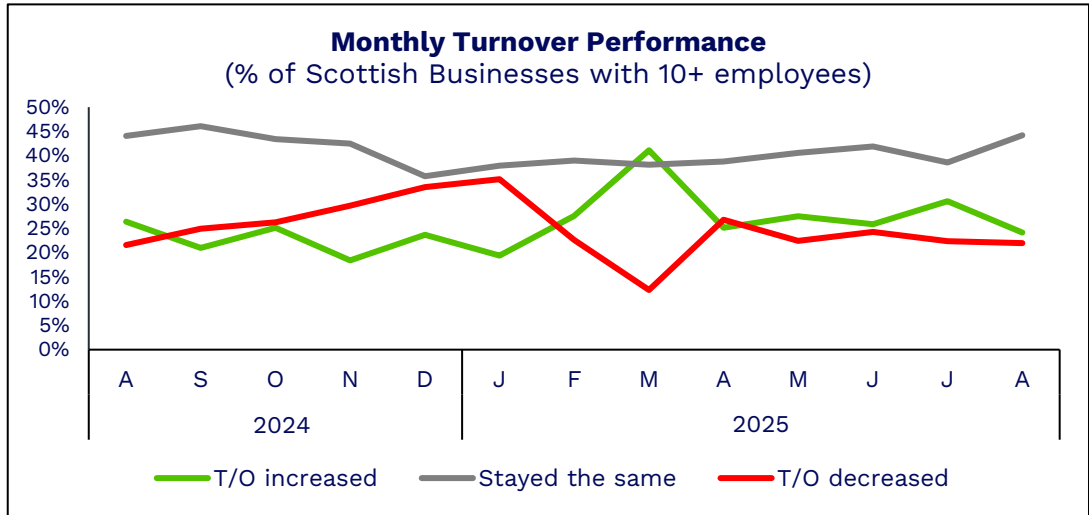
OUTLOOK

## Scotland

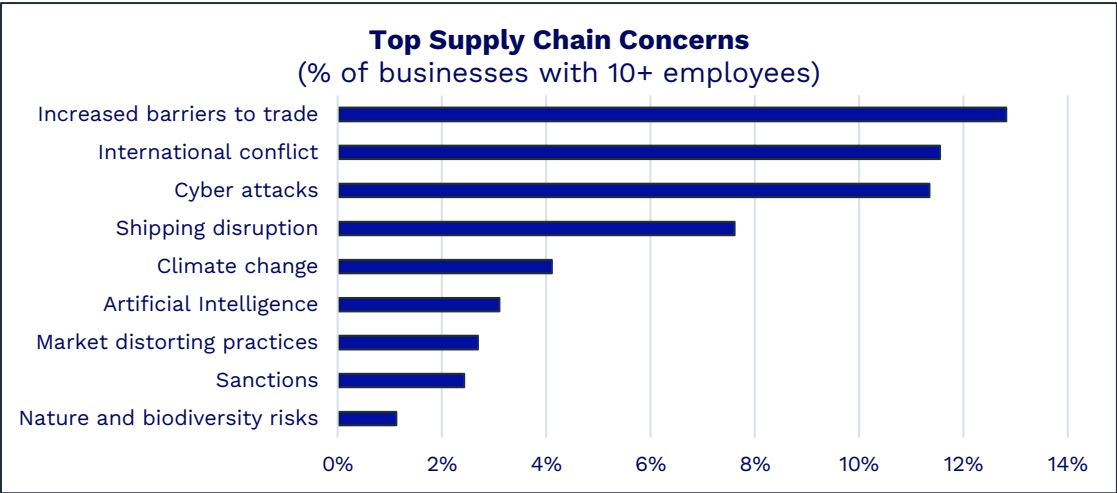
The [Scottish](#) economy contracted by 0.3% in July following growth of 0.7% in June. In the three months to July, GDP is estimated to have grown by 0.5%, below the UK level. Over the month, output was down in Production (-2.3%) but up in Services (+0.1%) and Construction (+0.2%).



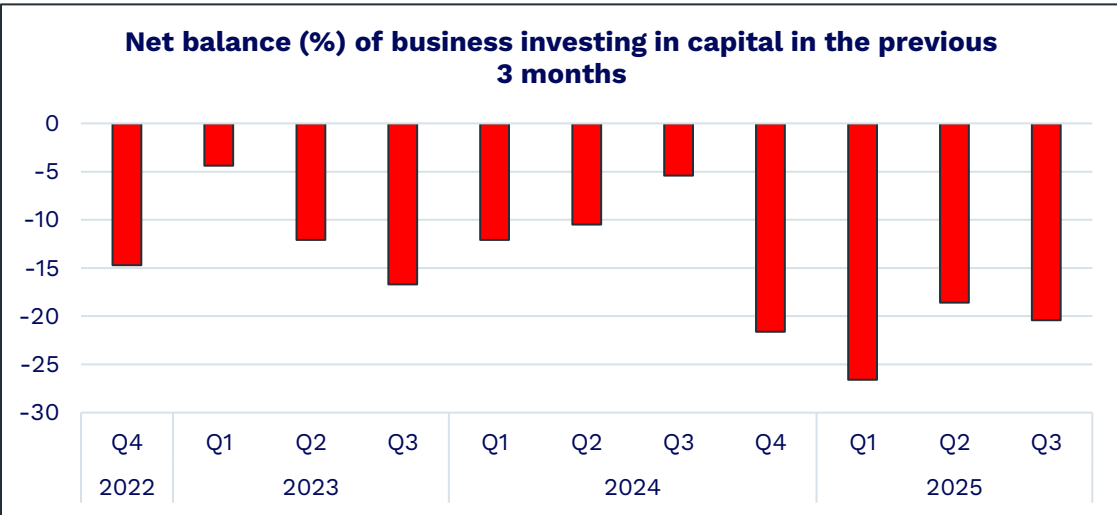
24% of businesses reported an [increase in monthly turnover](#) in August (down from a high of 41% in March) while 22% reported a decrease. The cost of labour was the most significant turnover challenge reported, alongside competition and cost of materials. Despite challenges, 17% expect turnover to increase in October, rising to 35% for large businesses.



The [top concerns](#) for businesses remain falling demand for goods/services and competition from other UK businesses, whilst 19% reported no concerns. 30% have concerns about their supply chain in the coming year (rising to 40% for manufacturers), with increased barriers to trade, international conflict and cyber attacks the top factors expected to impact supply chains.



In Q3 2025, more businesses again reported a [fall in new capital investment](#) rather than an increase (see chart below). However, 15% expected to [increase capital expenditure](#) between July and September this year (-5ppts since April), though uncertainty about demand and a shortage of internal finance were the main factors holding back investment. 15% expected a decrease.



SUMMARY

RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

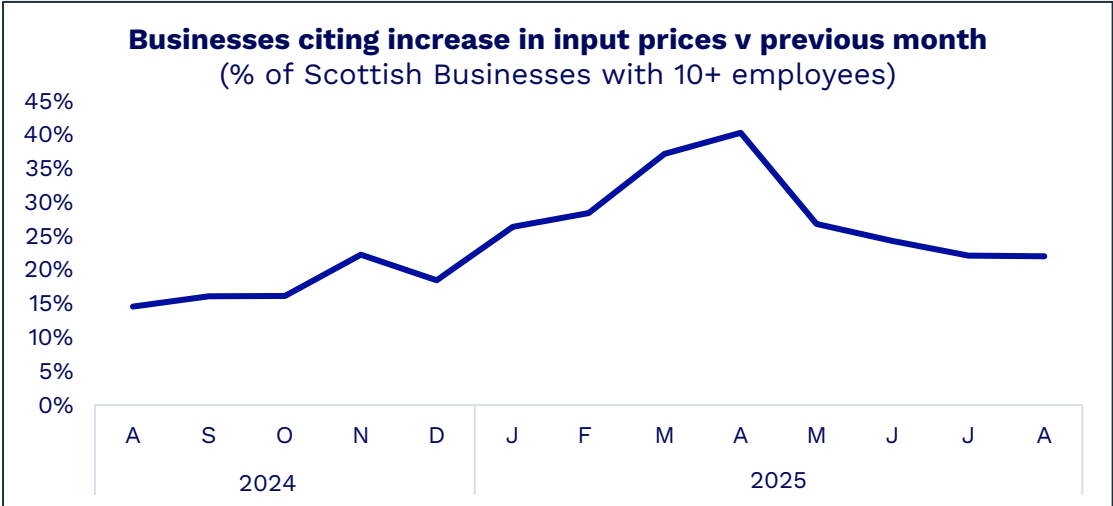
OUTLOOK

Scotland

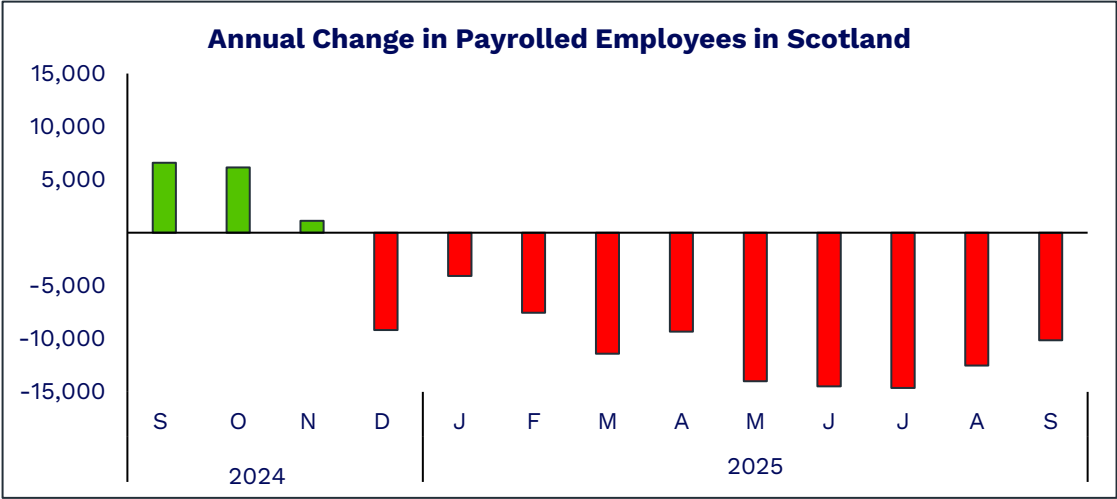
[Scotland's unemployment](#) rate fell 0.2ppts to 3.9% in the year to June (UK: 4.8%). The employment rate increased by 1.1ppts to 74.3% but remains below the UK (75.1%); economic inactivity was down 1.0ppts to 22.7% (UK: 21.0%). Median monthly pay increased by 5.9% in the year to July (UK: 5.5%).

| SCOTLAND                    | RATE<br>(June – August 25) | ANNUAL<br>CHANGE |
|-----------------------------|----------------------------|------------------|
| EMPLOYMENT (aged 16-64)     | 74.3%                      | +1.1%pts         |
| UNEMPLOYMENT (16+)          | 3.9%                       | -0.2%pts         |
| ECONOMIC INACTIVITY (16-64) | 22.7%                      | -1.0%pts         |

[Cost pressures](#) for Scottish businesses have eased somewhat as 22% reported input prices increased in August v July (-16ppts since April's high), although rising to 46% for Accommodation & Food Services. 13% expect to increase prices in October, mainly driven by labour and energy costs.



The number of [payrolled workers](#) declined again over the year to September, down 10,000 (-0.4%). In August, [HR1 forms](#) showed a significant monthly increase of jobs at risk of redundancy (4,153 jobs in Aug v July's 1,553). 21% of businesses continue to face [worker shortages](#), although the proportion has been dropping since March (-5ppts).



Scottish international [goods exports](#) (excl. services) were £22.3 billion in the year to June 2025, similar to June 2024. The EU is Scotland's top international goods export destination (38% of total value), followed by the US (18%). The commodity category with the highest export value was Drink at £5 billion.





## Feedback from Scottish Enterprise Customers

### SUMMARY

#### General Sentiment

- Overall sentiment among SE customers has generally fallen, with economic uncertainty, financial pressures and difficulty accessing finance for investment key causes.
- Long-standing challenges continue to drive caution – e.g. costs of doing business, worker shortages and access to investment funding.
- However, some are still more optimistic due to strong sectoral demand and growth opportunities (e.g. Creative, Digital).

#### Cost of Doing Business

- Many businesses continue to be negatively impacted by high costs, particularly labour costs (e.g. increased employer NI contributions), especially in labour-intensive sectors such as Food and Drink manufacturing.
- High energy and raw material costs are also cited as concerns.
- Increased costs are having knock-on effects on some businesses – e.g. some are pausing investment or reducing attendance at trade shows due to reduced budgets.

#### Investment/Access to Finance

- Businesses are investing (e.g. in automation) with a view to increasing productivity and offsetting worker shortages.
- Start-up businesses (e.g. in Science and Tech sectors) are looking to invest; however, raising funds has become increasingly difficult as investors tend to favour those already generating revenue.
- Early-stage businesses are seeking investment through attending investor-related events to promote their business. However, this usually falls on the business founder which can be time-consuming with no guarantee of success.

#### Innovation

- Some businesses are developing new products (e.g. in the Critical Technologies sector); however, the full commercialisation journey is challenging, especially given the lack of investment funding which is a major barrier to innovation and growth.

### RECENT ECONOMIC DATA

### CURRENT BUSINESS SENTIMENT

### OUTLOOK

#### Skills and Labour

- Some businesses continue to face recruitment challenges, particularly in rural locations where there is a lack of affordable housing. Some skilled positions are very hard to fill – e.g. data scientists, engineers or leadership roles.
- To address shortages, some businesses are promoting their sector as a desirable career through school education initiatives or offering apprenticeship/training programmes. Others are providing staff accommodation to tackle local accommodation shortages.
- Retaining staff can be challenging as apprentices can move on after programme completion. Some are having to increase salaries to retain staff, further exacerbating cost concerns.

#### Net Zero

- For some businesses implementing net zero practices, their primary motivation is focused on cost reduction rather than emission reduction – e.g. fitting solar panels or changing packaging to reduce product weight.
- Some businesses are looking to reduce use of fossil fuels (both to reduce emissions as well as costs) and are increasingly adopting biomass as an energy source. Others (e.g. in the Whiskey industry) are looking at how they can turn the heat produced in the process into energy.

#### Energy Transition

- The general sentiment around renewables is somewhat cautious, with companies experiencing barriers to entering the sector – e.g. lack of grid infrastructure, and uncertainty around timescales and commercial viability.

#### Tariffs

- Most SE customers are not impacted by US tariffs (either not a big market or they are service-based), but for those who are affected, some are considering setting up operations in the US (both warehousing and staff).
- Others are looking to additional markets such as Europe and the Middle-East.

Economic Outlook

SUMMARY

Global Forecasts

The [IMF](#) forecasts global growth to slow from 3.3% in 2024 to 3.2% in 2025 and 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.

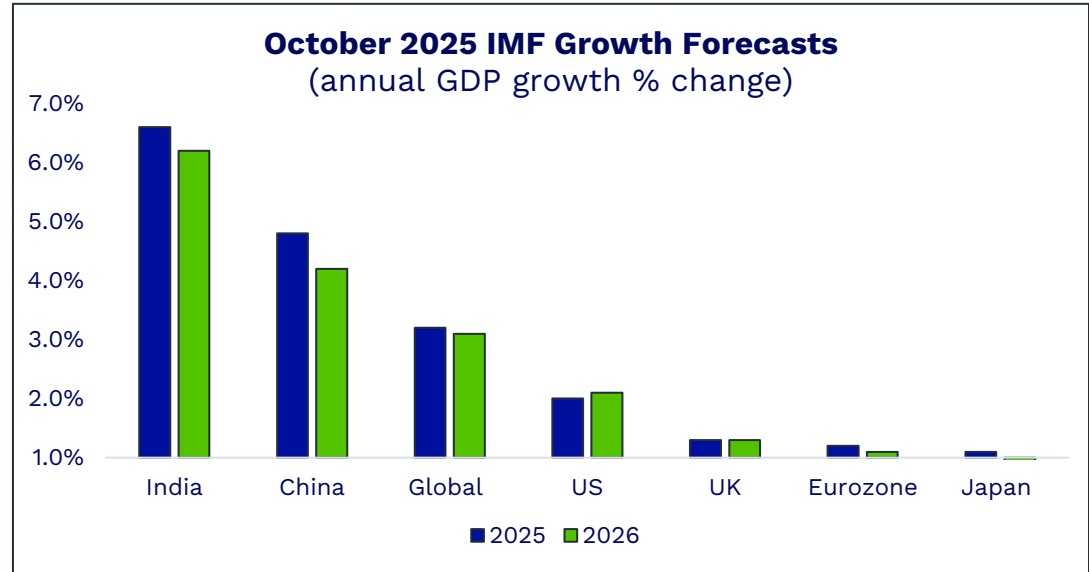
The IMF highlights a number of potential downside risks to the global economy:

- 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 [British Chamber of Commerce](#) is forecasting UK GDP growth of 1.3% in 2025 and 1.2% in 2026.

Inflation is expected to remain above target in 2025 (3.7%) and 2026 (2.5%), driven by business price pressures – e.g. NI increases, wage growth and global trade tensions. Average earnings are expected to remain above inflation and no further interest rate cuts are expected in 2025 (remaining at 4%, before falling to 3.5% by the end of 2026).

Business investment is projected to be weak, growing by 1.6% in 2025 and 1.9% in 2026, as investment plans remain subdued due to higher costs.

Exports are forecast to grow by 3.3% in 2026, remaining modest due to global uncertainty and trade friction.

The [Fraser of Allander Institute](#) upgraded its economic growth forecast 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.

