



UNIVERSITY of STRATHCLYDE  
**FRASER OF ALLANDER  
INSTITUTE**



# SCOTTISH BUSINESS MONITOR

Q3 2025



# Q3 2025 | Scottish Business Monitor

## Introduction & Summary

This report presents the key results from the Fraser of Allander Institute's (FAI) latest *Scottish Business Monitor* for the third quarter of 2025.

Over 200 businesses from 31 of Scotland's 32 local authorities participated in the survey, revealing businesses' relationship with the Scottish Government, preparedness for the Net Zero transition, current business activity, and expectations for the economy over the next year.

Business activity remains mixed, with last quarter's tentative recovery having stalled. **Sales and employment saw modest improvements from last quarter, with net balance** (i.e., the share of firms reporting higher minus the share of firms reporting lower) **up 0.6 percentage points and 1.4 percentage points, respectively.**

Export activity also showed some improvement. However, net balance for **all six of the *Scottish Business Monitor's* key indicators remain deep in negative territory.**

Businesses continue to face a challenging environment, with rising costs, subdued investment, and display increasingly cautious sentiment:

- **Government relations:** show modest improvement from last year, with **12 percent of respondents saying the Scottish Government understands the business environment** (up 3 percentage points). However, only **14 percent feel they know how to influence policy**, down from 19 percent.
- **Net Zero readiness:** remains low. More than **2 in 5 businesses report no financial, operational, or strategic preparations** whatsoever. Meanwhile approximately **1 in 3 businesses are partly prepared**, with the remainder mostly still in the planning stage.
- **Cost pressures:** have eased slightly but are still a significant issue. **78.4 percent of respondents reported higher total business costs** this quarter. Looking ahead, cost pressures are expected to persist, with **80.1 percent expecting total business costs to increase in the next 6 months.**
- Total employee costs remain the most significant component cost pressure in Q3, and energy costs are expected to become a rising cost pressure over the next two quarters.
- **Uncertainty dominates:** ahead of the UK Government's Autumn budget. Economic and political uncertainty ranked more concerning than traditional elements, such as staff and credit availability.

Economic outlook has worsened, with **4 in 5 businesses expecting weak or very weak growth in the Scottish economy** over the next 12 months, this outlook was only expressed by 3 in 4 businesses in Q2. **No respondents expected very strong growth, with a mere 1.5 percent expecting strong growth.** This reflects optimism from businesses falling throughout 2025 and the expression of an increasingly cautious sentiment.

## Current Business Activity

*Business activity remained broadly negative across all indicators as last quarter's signs of tentative recovery appear to reverse.*

**Table 1:** Net balance of firms experiencing an increase in activities over the past three months, Q4 2022 – Q3 2025

	2022	2023			2024				2025		
	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Volume of Business Activity (i.e., Sales)	-2.2	9.1	3.0	-1.2	-7.1	4.5	-0.8	-8.8	-20.7	-12.8	-12.3
Volume of new business activity	-4.9	5.7	0.0	-9.6	-13.5	-4.2	-1.4	-18.0	-27.4	-13.4	-16.0
Value of business activity (i.e. turnover)	-0.7	8.1	3.7	0.0	-2.6	5.4	3.4	-7.9	-16.2	-10.3	-11.4
Level of employment in your business	-5.4	-0.5	2.2	1.9	-0.3	-2.7	3.9	-8.3	-18.3	-9.9	-8.5
Level of new capital investment	-14.7	-4.4	-12.1	-16.7	-12.1	-10.5	-5.4	-21.6	-26.6	-18.6	-20.4
Export activity	-11.5	-8.4	-11.4	-11.5	-16.4	-10.5	-11.3	-17.2	-16.6	-25.3	-16.6

\* Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower.

The **volume of business activity (i.e., sales)** showed a net balance of **-12.3 points**. This is **up 0.5 percentage points from Q2** suggesting the recovery from Q1's trough continued this quarter, albeit at a gradual rate. Despite this marginal improvement, the overall negative net balance in sales means more firms saw a reduction, rather than growth, in the volume of business activity.

Similarly, the volume of **new business activity remained in negative territory, declining to -16.0 percentage points: a fall of 2.7 points from Q2** pointing to difficulty in generating new demand.

Meanwhile, the **value of business activity (i.e., turnover) also remained in negative territory, falling 1.1 points to a net balance of -11.4 percentage points this quarter**. This indicates business revenue is under pressure amid a wider environment of falling sales and increasing inflation.

**New capital investment is once again subdued this quarter, falling 1.8 points to a net balance of -20.4**. With availability and costs of credit not being particularly pressing this quarter, this implies businesses are reluctant, rather than unable, to commit to investment spending.

More optimistically, **employment levels saw a net balance of -8.5 percentage points this quarter**. The only measure not in negative double digits and **an improvement of 1.4 points on last quarter**. This suggests whilst an overall contraction in the workforce continued this quarter, it is alleviating.

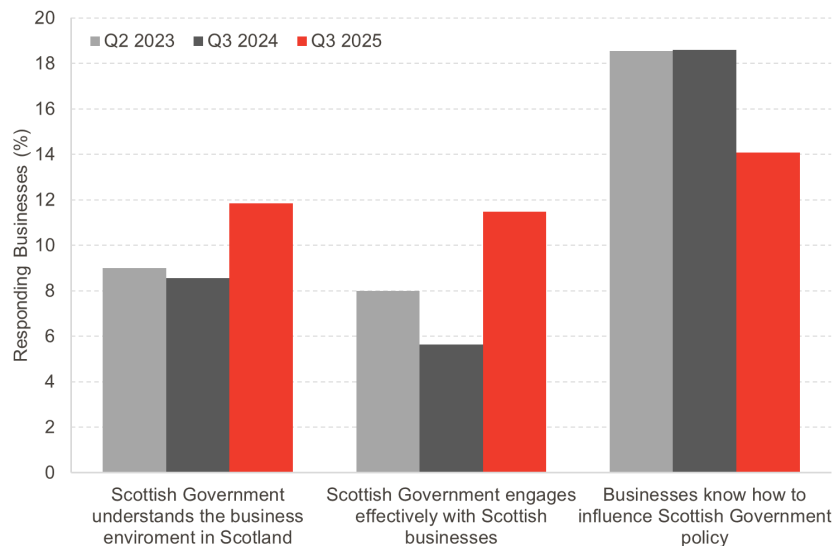
Export activity continued to be comfortably inside negative territory at -16.6 percentage points. Whilst this does highlight ongoing challenges in international trade, the **increase of 8.7 points from Q2 may indicate exports have adjusted** to disruption experienced at the start of the year.

# Scottish Government Relationship & Net Zero

*Relations with the Scottish Government have improved since last year, but businesses feel less able to influence policies which affect them.*

**Chart 1:** Scottish Government relationship with business, Q2 2023 – Q3 2025

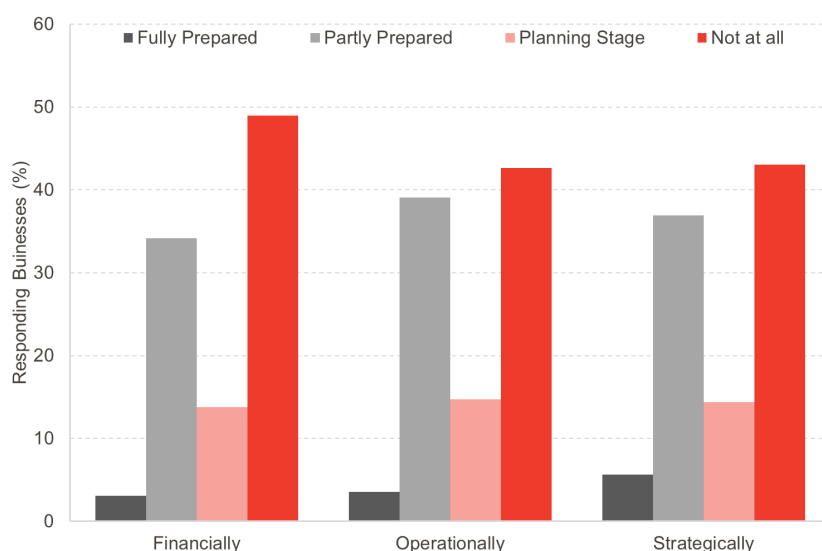
The share of businesses agreeing that the Scottish Government understands the business environment rose by 3.2 points, from **8.6 percent last year to 11.8 percent this year**, and views on Scottish Government engagement with businesses improved from 5.6 percent last year to 11.5 percent this year. Ultimately, this represents an improvement in the relationship between Scottish businesses and the Scottish Government.



Source: SBM

However, **the share of businesses who feel they know how to influence Scottish Government policy declined from 18.6 percent last year to 14.1 percent this year**. Reconciling declining influence with improved engagement and understanding may suggest the Scottish Government has improved at communicating with businesses but has been less effective at including firms in policy decisions.

**Chart 2:** Net Zero readiness by business aspect, Q3 2025



Source: SBM

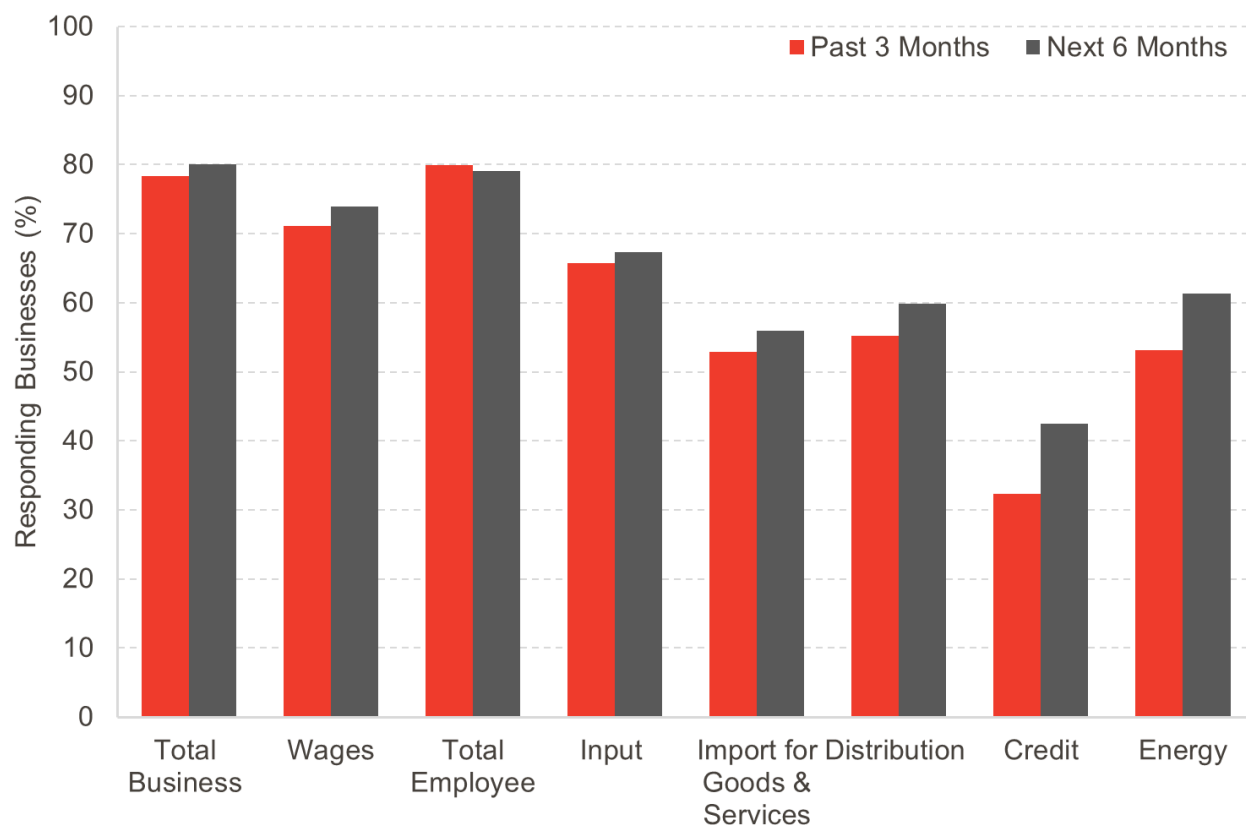
More than 2 in 5 businesses report being not at all prepared for Net Zero, while approximately 1 in 3 are partly prepared. Fewer than 1 in 20 consider themselves fully prepared; given the Scottish and UK Governments' targets are in 2045 and 2050, respectively, this is not surprising. Some variation in readiness by aspect of business exists. Strategic preparedness is stronger, indicating long-term visions are being aligned with Net Zero targets.

Worryingly, **nearly half of all firms are not prepared financially**, implying a lack of understanding of how to finance the transition. Only a **small share of businesses report being in the planning stage**, suggesting a 'hollowing out' effect, where firms are either partly prepared or entirely unprepared, with few of the unprepared firms progressing toward readiness.

## Cost Pressures

*Cost pressures eased slightly, especially labour pressures, but inflation and high energy prices continue to weigh heavily on businesses.*

**Chart 3:** Proportion of businesses assessing cost pressures as 'higher' in the previous three months and next six months, Q3 2025.



Source: SBM

Cost pressures eased slightly in Q3 2025, with the share of **businesses reporting higher total business costs falling from 82.8 percent in Q2 to 78.4 percent**. Forward-looking expectations also softened, with **80.1% of businesses estimating higher costs over the next two quarters** – down 2.7 percentage points from Q2. Despite this moderate improvement, rising costs remain a significant concern for the majority of Scottish firms.

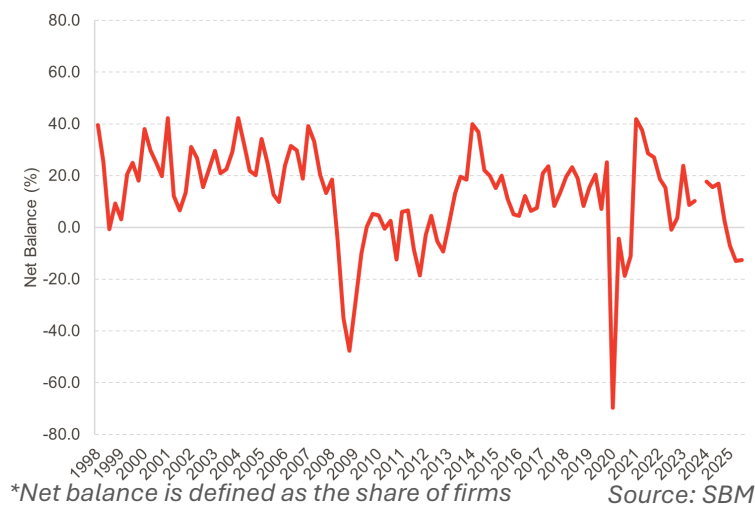
- **Total employee costs** remain the most significant component cost but **dropped to 78.4% of firms reporting these as higher in Q3**, compared to 89.7% in Q2.

- **71.2 percent reported wage costs to be higher during Q3**, compared to 81.9 percent in Q2. Unlike employee costs, wage costs are expected to increase in the next 6 months.
- Looking ahead, **all component costs, except Total Employee Costs, are estimated to rise** over the next six months, which is synergetic with persisting inflationary pressures across the UK.

Energy costs stand out as a growing pressure: just over half of all businesses experienced higher energy costs in Q3, while nearly 2 in 3 expect further increases in the next two quarters.

## Outlook & Sentiment

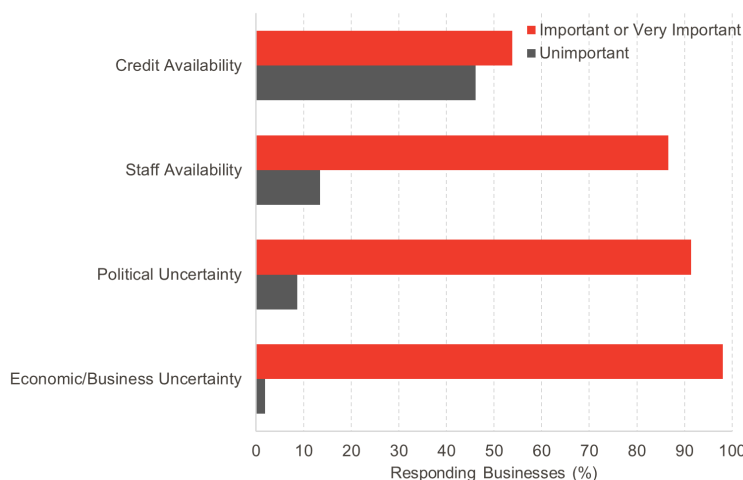
**Chart 4:** Net balance of firms expecting their volume of business to increase in the next 6 months, Q1 1998 – Q2 2025



Business sentiment remains volatile in the post-pandemic period. The downward trend observed since Q3 2024 has stabilised, with **the net balance of expected volume of business plateauing at -12.6 percent in Q3 2025**. This marks the end of concurrently worsening sentiment – the outlook remains very negative for most, reflecting continued pessimism among Scottish firms about the business environment

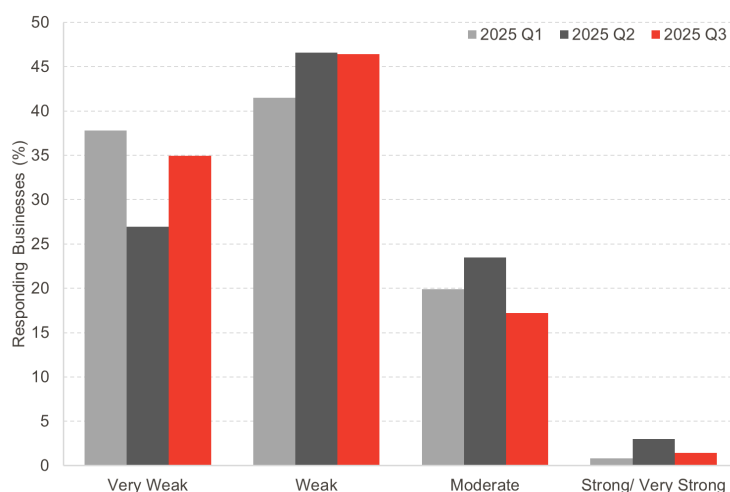
**Chart 5:** Concern of businesses over the next quarter, Q3 2025

**Economic/Business and Political uncertainty remain the top concerns** for Scottish business heading into Q4 2025, particularly in the lead up to the UK Government's Autumn Budget. This reflects a **strong desire amongst businesses for a stable environment**, more than concerns over traditional factors such as credit availability. Staff availability is also ranked highly, highlighting the impact of ongoing pressures in the UK labour market on businesses.



Source: SBM

**Chart 6:** Growth expectations in the Scottish Economy, Q1 2025 – Q3 2025



Source: SBM

The economic outlook has deteriorated - a combined **81.3 percent of businesses expect weak or very weak growth** in Scotland over the next year. This sits in sharp contrast with the mere **1.5 percent of respondents expecting strong growth and none expecting very strong growth**. Compared to Q2, the share of firms expecting weak growth has remained steady, suggesting the decline in moderate and strong expectations has shifted downwards into a 'very weak' outlook.