

BUSINESS CONFIDENCE SLUMPS AS SOARING TAX RISES, LABOUR COSTS, AND INTERNATIONAL UNCERTAINTIES PLACE SCOTTISH BUSINESSES UNDER EXTREME STRAIN

The latest **Quarterly Economic Indicator (QEI)** from the **Scottish Chambers of Commerce (SCC)**, in partnership with the **Fraser of Allander Institute**, reveals a business landscape which is marked by flatlining demand, stalling investment, and labour cost pressures.

Key findings from the Quarterly Economic Indicator:

- **Business confidence** has declined across all sectors compared to the same period last year.
- **Taxation is the number one concern** for Scottish businesses, overtaking inflation.
- **Labour costs** are the leading pressure on operating costs for businesses.
- **Rising costs** of energy and raw materials continue to squeeze businesses across all sectors.
- All five sectors surveyed expect to **raise prices** next quarter.

Doug Smith Vice-President of Scottish Chambers of Commerce, and Chair of the SCC Economic Advisory Group, said: “The cost of doing business is simply unsustainable. Employers are being punished for hiring through regressive tax hikes, the prospect of the administrative burden of the Employment Rights Act, and NIC increases, resulting in an economic sedative when what we need is an economic stimulant.

“Scotland is losing out on major UK contracts and investment opportunities because we simply don’t have the trained workforce to deliver. Ministers must act now to overhaul the skills system, not with another review, but with real investment in people and training.”

The survey of almost 400 businesses found confidence evaporating across key sectors.

Sharp drops in confidence were recorded for tourism, manufacturing and construction compared to the same period a year ago. Whilst the survey was conducted before the implementation of higher Employer NICs, firms were already changing their hiring patterns in anticipation. Recruitment has slowed considerably as a result, with fewer firms expecting to hire additional staff next quarter compared to the same period last year.

The increased cost of hiring threatens the prospects of businesses across the country. One Aberdeen-based retailer warned that the NIC rise was thwarting pay rises and hurting staff: “Pay rises were scheduled to be between 10 and 12%, but were reduced to 6% as a direct impact of the Chancellor’s decision.”

Beyond cost pressures, Scottish firms are also being squeezed by **global trade challenges**. Ongoing uncertainty over reciprocal US tariffs and worsening global supply chain resilience have further eroded business confidence.

One Inverclyde-based micro-firm in the consumer services sector reported they are “likely to close” if new tariffs are introduced, while a manufacturing business in Caithness cited “global economic fluctuations” as a major concern and emphasised the need to “increase domestic demand.”

“Rising taxes, higher energy bills, and skills shortages are creating a perfect storm,” said **Dr Liz Cameron CBE, Chief Executive of SCC**. “Margins are razor-thin. Recruitment and investment

plans are on hold. Without immediate intervention, we will see more businesses cut back or close entirely.”

The QEI was reinforced by insights from the **SCC Economic Advisory Group**, whose members flagged **chronic skills shortages, poor connectivity, and a broken training system** as structural barriers to growth. Businesses expressed frustration with the apprenticeship levy and the lack of a coherent national workforce strategy.

Professor Mairi Spowage, Director of the Fraser of Allander Institute, added: “Global trade concerns are adding to the uncertainty felt by businesses about growth prospects for this year and beyond. Taking a step back, our long-term outlook is constrained by demographic challenges and weak productivity growth. Wider fiscal challenges mean that much-needed investment in infrastructure may be constrained.”

The national picture echoes the SCC’s findings. The **British Chambers of Commerce’s Quarterly Economic Survey**, representing over 5,000 UK firms, found **Employer NICs are the single biggest concern**—with **59% of firms citing it**, and **55% expecting price increases** driven by labour costs. Hospitality was the most impacted, with **40% scaling back investment**.

“The message from Scottish business is clear,” **Dr Cameron concluded**. “Let’s get serious about growth. Cut the cost burden with a reduction of non-domestic rates. Fix the skills pipeline by removing the Apprenticeship Levy. And protect Scottish jobs before it’s too late.”

ENDS

NOTES TO EDITORS:

- This survey was conducted from 10th February – 7th March 2025.
- 385 firms responded to the Q1 2025 edition of the survey.
- Combined, the 385 respondents employ approximately 82,000 people.
- The Quarterly Economic Indicator is Scotland's longest-running business survey, operating since 1990.

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