

LABOUR COSTS AND TAX CONCERNS WEIGH DOWN SCOTTISH BUSINESS IN LATEST LEADING NATIONAL SURVEY

The latest Scottish Chambers of Commerce Quarterly Economic Indicator, produced in partnership with the Fraser of Allander Institute, reveals the swift and widespread impact of April's National Insurance hike with businesses across all sectors feeling the strain.

The survey of more than 400 Scottish businesses found that while confidence and sales have improved over the quarter, ongoing cost pressures and concerns continue to subdue growth and investment.

Key findings include:

- **Concern from taxation** has risen by 40% in one year, with 70% of all firms citing increased concern from taxation, compared to 50% in Q2 2024.
- **Significant challenges around cashflow and profits**, despite positive sales trends across the board. On balance, both cashflow and profits have seen contraction over the quarter.
- The number of firms expecting to **raise their prices** next quarter has risen to 65%, compared to 50% in Q2 2024.
- **Pressure from labour costs** has risen by 15% in one year. Nearly 9 in 10 (86%) firms were experiencing increased pressure from labour costs, compared to 75% for the same quarter last year.
- **Staff hiring stalled** as over half of all firms (55%) reported no changes to staff levels and 65% expect no change next quarter.

Doug Smith, Vice President of Scottish Chambers of Commerce, and Chair of the SCC Economic Advisory Group, said:

“The latest findings paint a troubling picture: investment is frozen, employment is stagnating and concerns are growing around taxation at a time of economic uncertainty around tariffs, immigration, tax, and general fiscal policy.

“These survey results highlight major concerns and challenges for Scottish businesses as a direct result of rising costs, particularly the increase in employer NICs. Every

obstacle to sustaining cashflow and profits has a direct impact on confidence, investment, growth and jobs across all sectors.

“The lack of skills is a real challenge not just in meeting the demand of future projects but also in completing current and day-to-day work. We need a clearer focus from both governments on matching education to the needs of business.”

The QEI was reinforced by insights from the **Scottish Economic Advisory Group**, which raised concerns around skills shortages in sectors such as construction, engineering, and manufacturing, and the misalignment of education priorities with the practical needs of business.

The group also emphasised the intense cost pressures of Employer NICs - described as “life or death” for microbusinesses, and particularly tough for SMEs - as well as increased taxation, and energy costs significantly higher than the rest of Europe.

The group claimed that ‘it has proven nigh on impossible to recruit in construction, and businesses are struggling to maintain labour forces to meet demand.’ **Fiona McKee, Founder of The HR Practice, said:** “It is increasingly difficult to recruit skilled workers, and salary expectations are unrealistic, pushing costs up on top of Employer NICs.”

Tariffs were also raised by businesses with overall taxation concerns increasing again over the quarter and over the year.

Survey fieldwork began a month after ‘Liberation Day’, which saw the USA announce new tariffs on imports. **One small manufacturing firm in Ayrshire said:** “At the moment they are 10% on our products. Should they be any higher it could be a serious problem.”

Dr Liz Cameron CBE, Chief Executive of SCC, said:

“While agreements have been reached between the US and UK Governments to remove barriers, we urge ongoing cooperation and collaboration to rebuild business confidence and restore certainty.

“The new agreements with the EU and India are pragmatic moves towards building strong trading relationships with our economic partners. These will reduce costs, cut red tape, and make it easier for Scottish businesses to compete and grow across the world.

“However, more still needs to be done on people and migration to attract skilled talent, with a migration system aligned with the needs of Scotland’s economy.”

Professor Mairi Spowage, Director of the Fraser of Allander Institute, added:

“Economic conditions remain challenging across the UK as we go into the summer months. After healthy growth in January and February, we have seen contractions in March and April, which means the size of the economy in Scotland is essentially the same as it was six months ago.

“Businesses reported a slowdown of activities in the first quarter compared to the same period last year. This decline in activity may reflect the impact of increases to employer National Insurance Contributions (NICs) as well as uncertain conditions, particularly from trade and tariff decisions taken by the US government.

“Many businesses and consumers will be hoping that the economy turns a corner over the summer and that wider factors stabilise.”

ENDS

NOTES TO EDITORS:

- This survey was conducted from 12th May - 9th June 2025.
- 405 firms responded to the Q2 2025 edition of the survey.
- Combined, the 405 respondents employ approximately 50,000 people.
- Of these, 92% are SMEs - businesses with less than 250 people.
- Scottish Economic Advisory Group: [Economic Advisory Group - Scottish Chambers](#)

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