



Quarterly Economic Indicator

RESULTS: Q2 2026



Scottish
Chambers of
Commerce

FOREWORD



Professor Mairi Spowage

Director, Fraser of Allander Institute

Recent economic commentary has highlighted a familiar but important theme: resilience in the face of continued uncertainty. While global conditions remain unsettled – from trade tensions to geopolitical disruption affecting energy markets – the Scottish economy has so far proved more robust than many had anticipated. However, as has been the case in recent quarters, that resilience should not be mistaken for strength.

The findings in this latest Quarterly Economic Indicator reinforce that message. Business confidence weakened again over the quarter, with a clear shift towards caution in outlooks for the months ahead. Around 40% of firms reported a fall in confidence, compared to just a quarter reporting an improvement, leaving overall sentiment firmly negative.

This cooling in sentiment is occurring alongside persistent pressures on firm performance. While revenues showed some marginal improvement on the previous quarter, profitability and cashflow remain under strain, and investment intentions continue to be subdued. Indeed, around half of firms reported no change in investment, highlighting the extent to which uncertainty is weighing on longer-term decision making.

Cost pressures remain a central challenge. Labour costs continue to be the most widespread pressure, but the sharp rise in fuel costs this quarter underlines the ongoing exposure of businesses to global developments. Nearly seven in ten firms now cite inflation as a key concern, overtaking taxation as the primary issue facing businesses.

Despite these headwinds, firms continue to demonstrate a degree of resilience. Employment has remained broadly stable overall, even as recruitment challenges persist, and many businesses are continuing to operate in difficult conditions. But the overall picture is one of a fragile equilibrium – where resilience is being maintained, but at the cost of reduced investment, weaker confidence, and a more cautious outlook.

As ever, the key question is how long that resilience can be sustained if uncertainty continues to weigh on business decisions in the quarters ahead.

Doug Smith

Vice President, Scottish Chambers of Commerce,
& Chair of the SCC Economic Advisory Group



Entering the second half of the year, businesses are taking a “wait-and-see” approach. Confidence has weakened, investment remains subdued, and recruitment challenges continue to grow. Until businesses see meaningful action that unlocks investment, it is difficult to see confidence recovering.

Perhaps the defining feature of this quarter’s survey is that businesses are protecting today’s operations at the expense of tomorrow’s growth. That cautious approach may help firms weather current pressures, it also places a hard ceiling on Scotland’s growth potential.

The persistence of these pressures is forcing difficult decisions across the country. Three quarters of respondents expect to increase prices in the coming months because absorbing further costs is no longer sustainable. That has implications well beyond individual firms, affecting household budgets, supply chains and wider economic confidence.

The encouraging aspect is that many of these pressures can be influenced through domestic policy. Decisions that improve competitiveness, reduce the cost of doing business and give firms a greater degree of certainty would help unlock investment and support growth across Scotland’s economy



QEI Q2 2026 - KEY FINDINGS

The survey results indicate that business confidence weakened further over the quarter, while revenues, cashflow and profits all remained under significant pressure. Although some indicators performed better than the same period last year, firms continued to face significant cost pressures and labour market challenges, contributing to a cautious outlook for the months ahead.

It is worth noting that these results were gathered during the worsening effects of the prolonged disruption to the global economy caused by the blockade of the Strait of Hormuz. With peace negotiations underway between the USA and Iran, the cost burden faced by firms may be eased in the coming quarter.

Business confidence weakened further

40% of firms reported a fall in confidence compared with the previous quarter, while just 25% reported an increase. This resulted in a net balance of -15%, down from -7% in Q1 2026 and below the level reported in Q2 2025.

Financial performance remained subdued

Revenue and sales trends improved slightly compared with Q1 2026 but remained negative overall. Cashflow continued to contract on balance at -18%, while profitability weakened further during the quarter with a negative net balance of -17%.

Investment continued to be generally frozen

Half of all firms indicated no changes to total and training investment over the quarter. Alongside this caution, all investment trends reported negative net balances with capital investment seeing the largest rate of contraction at -18%.

Recruitment difficulties intensified

53% of firms reported recruitment challenges in Q2, up from 47% in Q1 2026. At the same time, workforce growth remained subdued, suggesting that firms continued to struggle to fill vacancies despite a more cautious approach to hiring. 70% of firms said they did not expect their staff numbers to change in the next quarter.

Cost pressures broadened during the quarter

Labour costs remained the main source of pressure, affecting 75% of firms, which was an increase of 20 percentage points compared to last quarter. Fuel costs recorded one of the most significant increases in the survey in recent years, raising by 50 percentage points to 65%.

Inflation overtook taxation as leading concern

Inflation concern rose by 22 percentage points since the last quarter, up to nearly seven in ten firms at 69%. Tax concern remained significant at 57% but eased slightly since the 62% reported last quarter and the 69% reported last year.

Further price rises expected

Firms reported a small increase in the number expecting to raise their prices next quarter, from 73% in Q1 to 75% in Q2. Over the year, this has seen an increase of 12 percentage points.

CONSTRUCTION

BUSINESS OPTIMISM

Over three quarters of firms (77%) reported either no change or a fall in confidence over the quarter. As 22% reported an increase, this resulted in a negative net balance of -22%.

This was a significant drop off when compared to the previous quarter and the same quarter last year.

CONTRACTS/SALES

All sales trends sat well below their rolling Q2 average and were comparatively weaker than for the same quarter last year.

Contract trends followed the same pattern, with all trends below the same time last year and their five-year survey average.

COST PRESSURES

Firms reported increases across all cost pressures, with labour costs reaching a recent survey high at 88%.

Fuel costs, raw material prices, and energy costs, all saw significant increases of over 10% compared to the last quarter.

LABOUR MARKET

After three successive quarters of contraction in staff numbers, firms reported no change on balance (0%) over the quarter.

Recruitment challenges saw a small increase, reported by just over six in ten firms at 61%. This increased by 17 percentage points over the year.

CONCERNS/PRESSURES

Firms reported increases across all cost pressures, with labour costs reaching a recent survey high at 88%.

Fuel costs, raw material prices, and energy costs, all saw significant increases of over 10% compared to the last quarter.

Business Voice

“There has been a noticeable slowdown in orders, with some projects being delayed as customers adopt a wait-and-see approach amid uncertainty around interest rates and wider geopolitical developments. Rising steel prices, which have increased by around £200 per tonne, are also adding significant costs to large projects.”

A large construction firm in Ayrshire





SERVICES

BUSINESS OPTIMISM

Slightly more firms reported a fall in confidence over the quarter (37%) than a rise (32%).

This resulted in a negative net balance of -5% for the quarter, the first contraction reported by services firm since Q4 2022 and 10 percentage points lower than the 2025 average.

CASHFLOW/PROFITS

Cashflow and profits have generally been a strength for the sector in recent years. Since the start of 2025, this has changed in that firms are seeing significant challenges.

This trend has continued in Q2, with firms reporting contraction for both cashflow and profits. Both trends sat significantly below their rolling average.

LABOUR MARKET

Slightly more firms (20%) reported a rise in staff compared to a fall (17%), resulting in a positive net balance of +3%. Most firms (63%) reported no change to staff numbers.

INVESTMENT

For the second successive quarter, services firms have reported challenges around investment.

On balance, contraction was reported across all trends, resulting in a significant drop off when compared to the same quarter last year.

At least half of firms reported no change to investment levels across all the three trends measured.

CONCERNS/PRESSURES

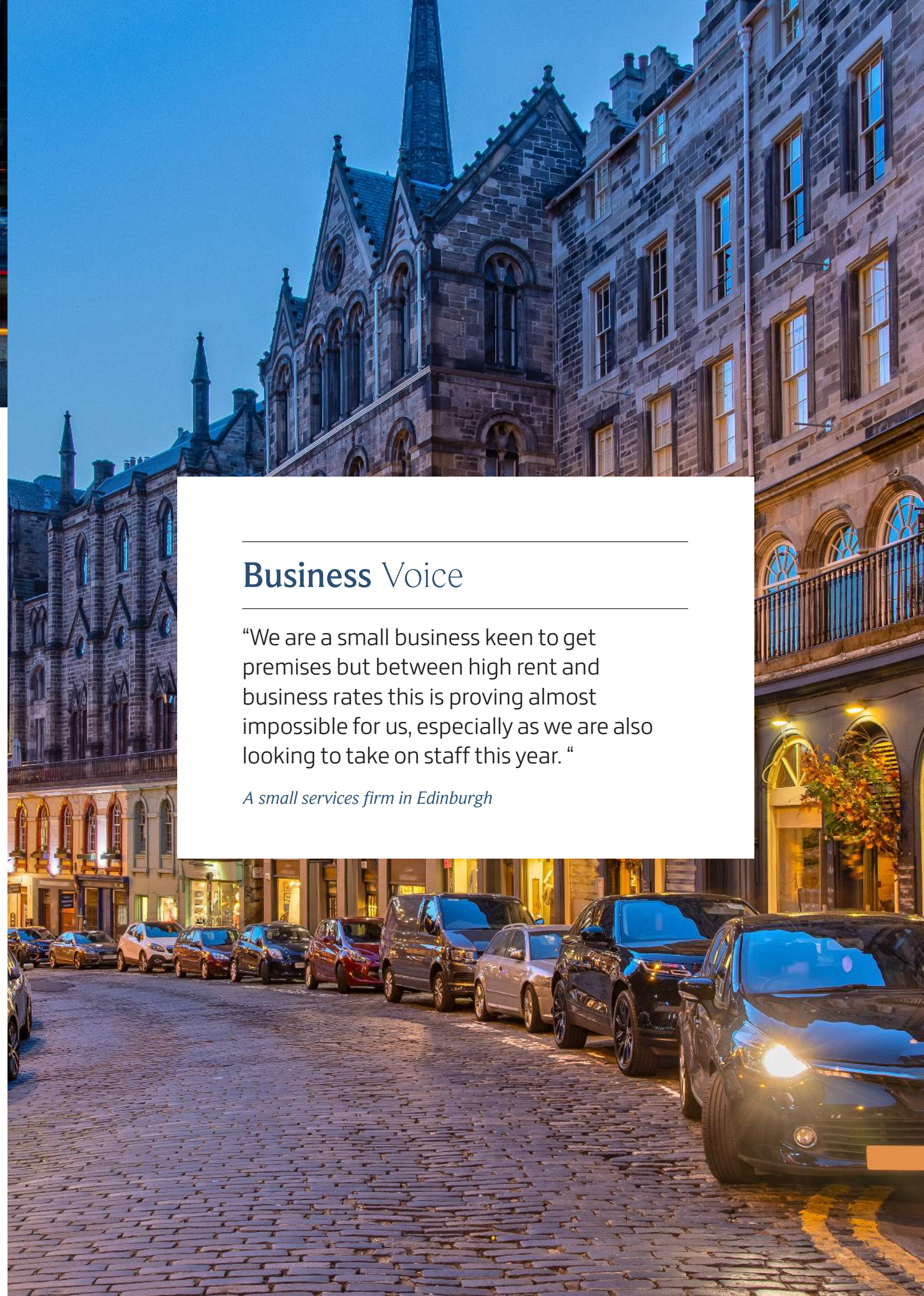
Labour costs and energy bills remained the leading pressures for firms. Fuel costs rose by 20 percentage points to become the third highest pressure.

As has been the case since 2024, inflation and taxation remained the leading concerns for services firms.

Business Voice

“We are a small business keen to get premises but between high rent and business rates this is proving almost impossible for us, especially as we are also looking to take on staff this year. “

A small services firm in Edinburgh





MANUFACTURING

BUSINESS OPTIMISM

For a fourth quarter in a row, firms in the sector reported contraction on balance in levels of confidence.

The negative net balance of -8% was significantly below the sector average for the quarter.

SALES REVENUE/ORDERS

Over the past year of the survey, sales trends were consistently reported as weak by firms and that trend continued in Q2.

Aside from exports which saw no change over the quarter (0%), all other sales trends saw significant levels of contraction.

Compared to the previous quarter and last year, rest of UK sales in particular saw the most significant level of contraction.

The order trends followed a similar picture to sales, with all well below their rolling five-year average.

CASHFLOW/PROFITS

For the fourth successive quarter, firms reported a contraction in cashflow. The negative net balance of -17% was a significant drop off when compared to Q2 in 2025.

The same number of firms reported a fall in profits as they did a rise (33%), meaning that it was flat for the quarter.

CONCERNS/PRESSURES

Compared to the rest of the sectors in the survey, the manufacturing sector was the only sector where over six in ten firms reported increased pressure from at least four of the trends.

Concern from fuel costs more than doubled over the quarter, from 31% in Q1 to 67% in Q2.

Apart from inflation which saw a slight increase in concern, all other factors eased over the quarter.

Business Voice

“The cost of energy & high business rates are making it extremely difficult for us to compete against overseas competitors. “

A large manufacturing firm in Ayrshire





RETAIL

BUSINESS OPTIMISM

Confidence continued to be a significant challenge for retail firms, with just over seven in ten firms (72%) reporting either no change or a fall over the quarter.

As 29% reported an increase, this resulted in a negative net balance of -14% which was 16 percentage points lower than the rolling five-year average for the quarter of +2%.

INVESTMENT

Retail firms reported contraction on balance of -20% for capital investment, which contributed to the overall fall seen in total investment.

Training investment held up better in comparison, seeing no change on balance over the quarter.

INVESTMENT

For a sixth quarter in a row, retail firms reported negative net balances for both cashflow and profit levels. The level of contraction has eased compared to the previous quarter.

SALES REVENUE

Sales also continued to trouble firms in the sector, as the weak results seen here in Q2 had been the trend since the start of last year.

That said, the level of contraction eased compared to the even weaker trends seen in the previous quarter.

CONCERNS/PRESSURES

Fuel costs saw the most significant increase over the quarter, rising by 33 percentage points compared to Q1. In being cited by 73% of firms, it also reached a five-year record high for the sector.

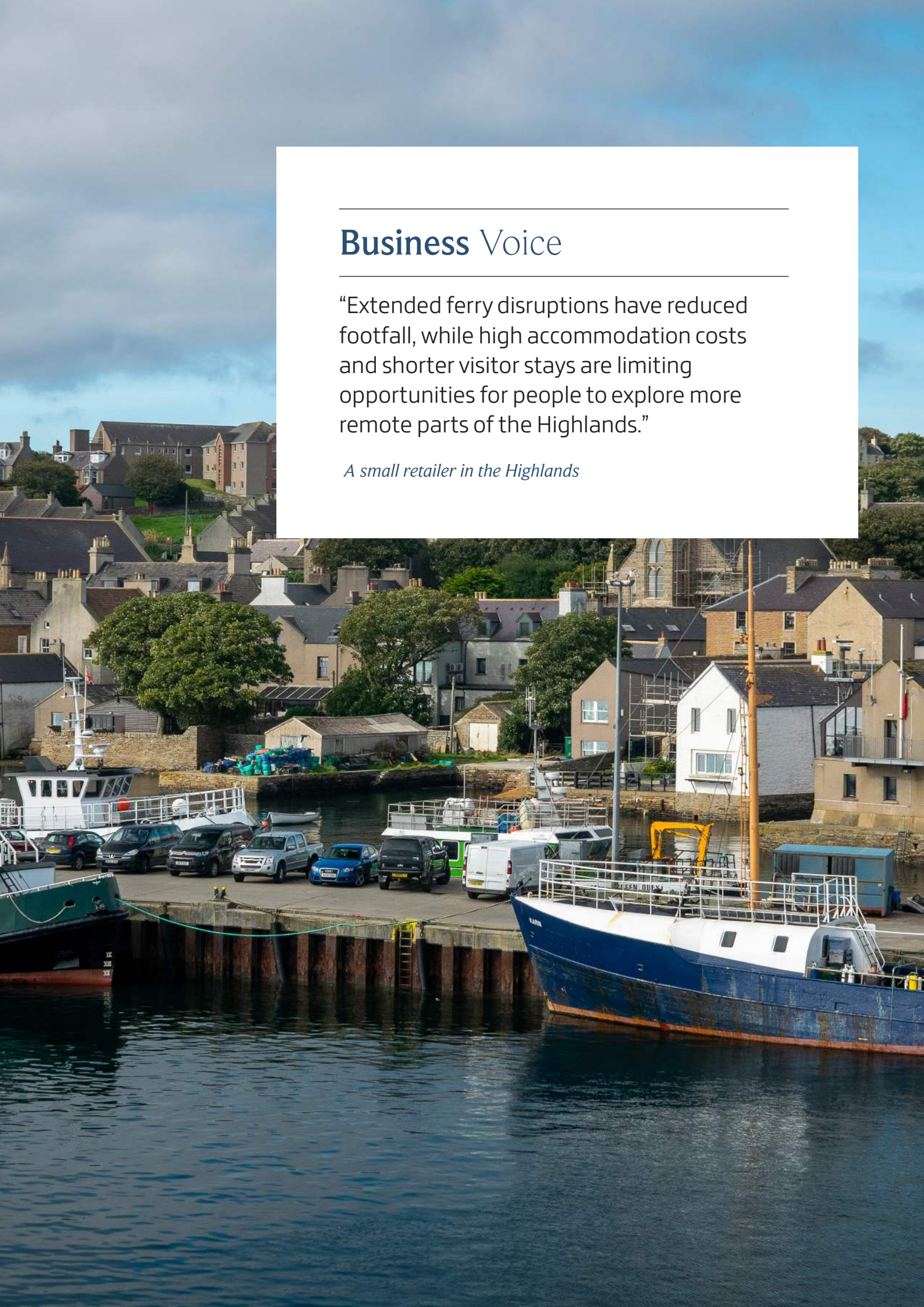
Pressure from labour costs (73%) and energy bills (67%) remained a significant issue for retailers.

Over half of firms remained concerned over business rates, inflation, and taxation.

Business Voice

“Extended ferry disruptions have reduced footfall, while high accommodation costs and shorter visitor stays are limiting opportunities for people to explore more remote parts of the Highlands.”

A small retailer in the Highlands





TOURISM

BUSINESS OPTIMISM

Over half of tourism firms (58%) reported a fall in confidence over the quarter.

As only a quarter (25%) reported a rise in comparison, this resulted in a contraction on balance of -33%.

Compared to the previous quarter and the same quarter last year, this was a significant drop off.

CASHFLOW/PROFITS

The past year of the survey had seen particularly weak results reported across cashflow and profits, a trend which continued here in Q2.

Notably, six in ten tourism firms reported a fall in profits over the quarter. Both trends were well below recent yearly averages and compare more with historically weaker years seen in 2021 and 2022.

SALES REVENUE

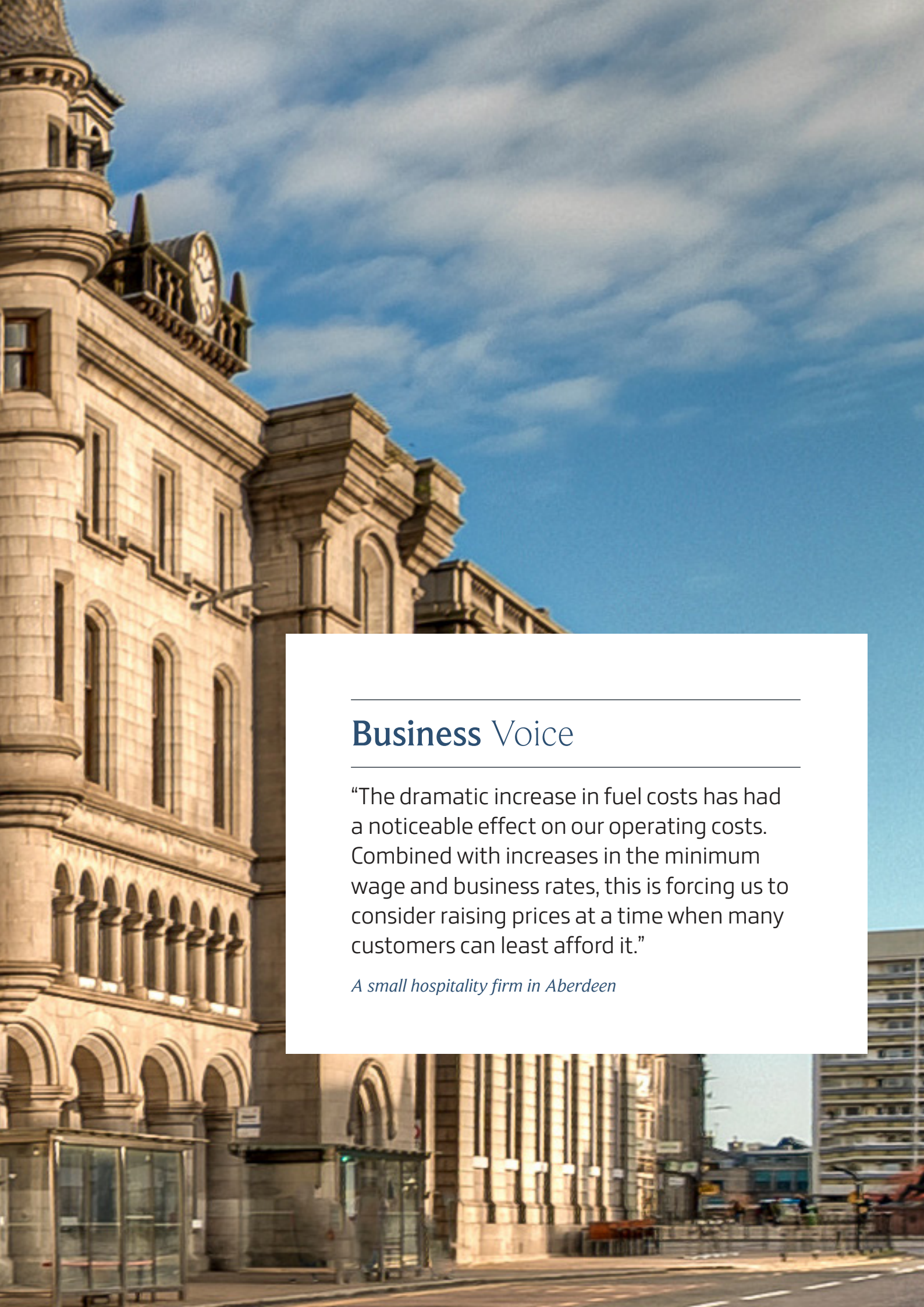
Tourism firms reported a generally weak quarter in terms of sales, with negative net balances across all trends. Compared to the positive set of results recorded in Q2 2025, the largest drop off was seen in domestic and total sales.

CONCERNS/PRESSURES

Pressure from energy bills reached a joint historical high at 80%, a figure last recorded in Q4 2024.

Labour costs eased from a historical high last quarter but remained significant for seven in ten firms.

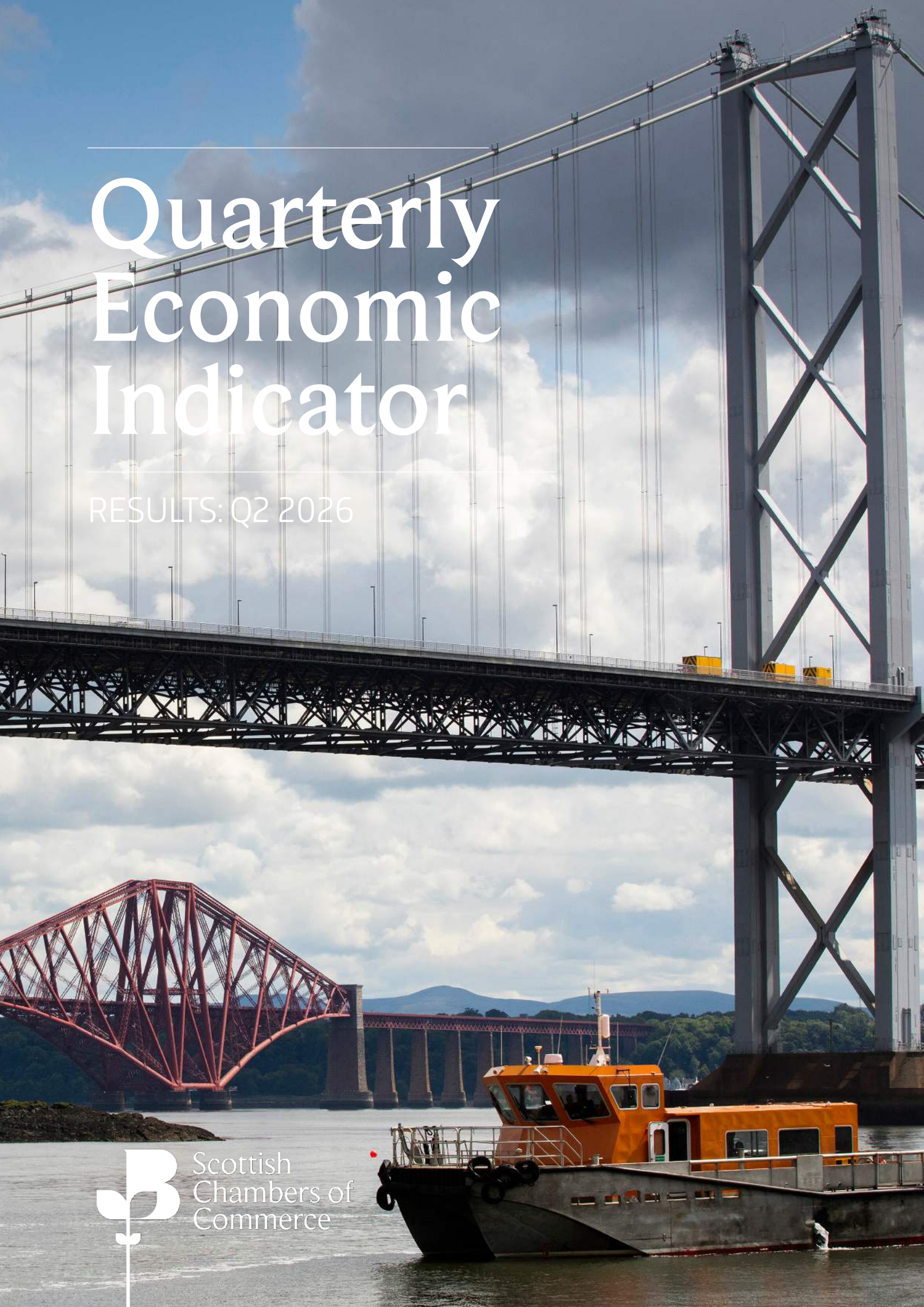
Fuel costs saw the single largest increase of 27 percentage points to 60%, the highest level recorded since the 66% seen in Q3 2022.



Business Voice

“The dramatic increase in fuel costs has had a noticeable effect on our operating costs. Combined with increases in the minimum wage and business rates, this is forcing us to consider raising prices at a time when many customers can least afford it.”

A small hospitality firm in Aberdeen



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