



Scottish
Chambers of
Commerce



Quarterly Economic Indicator

RESULTS: Q3 2026

Foreword

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The Q3 2026 results point to a more positive outlook among Scottish businesses, with confidence returning to positive territory for the first time this year. This is encouraging, particularly against the backdrop of continued uncertainty facing the Scottish and wider UK economies.

This is consistent with the wider economic picture. Recent data suggest that the Scottish economy has shown resilience, with growth in the first half of 2026 stronger than might have been expected given the challenges facing businesses and households. These results provide some positive indications that this is continuing into the second half of the year.

However, as in recent quarters, the results highlight the challenging conditions in which businesses continue to operate. Revenues remain under pressure and, while cashflow and profitability have improved from the previous quarter, both remain negative on balance. The picture is therefore one of tentative optimism rather than a broad-based improvement in business performance.

Cost pressures remain a significant constraint. Labour costs continue to be the most widely reported pressure, while utilities, fuel and other input costs remain elevated. Almost three-quarters of firms expect to increase their prices over the coming quarter, highlighting the continued pressure on businesses to pass higher costs through to their customers and, ultimately, households.

The resilience being shown by businesses is both notable and reassuring, particularly given the continued pressures they face. But for this improvement in confidence to translate into stronger investment and growth, businesses will need to see greater certainty about the environment in which they are operating, alongside stronger demand.

The upcoming UK and Scottish Budgets will be an important test of this improving business confidence. Taxation is already one of the leading concerns among businesses, and the prospect of further changes to the tax environment could add to the pressures many firms are already facing. Providing businesses with clarity and stability will be important if the improvement in sentiment seen in this survey is to translate into sustained economic growth.

As Scottish businesses have faced considerable uncertainty over the past year, these findings require careful interpretation. An improvement in confidence from a particularly difficult period does not necessarily mean that businesses are experiencing materially better conditions. The underlying results tell a more complicated story, with revenues, cashflow and profitability continuing to face significant pressure.

Businesses have spent several years adapting to successive increases in their operating costs. Many have absorbed these pressures through reduced margins, delayed investment or changes to recruitment plans. But there is a limit to how much businesses can do this without consequences for their operations, their customers and the wider economy.

Perhaps the clearest indication of this is the finding that almost three-quarters of Scottish businesses expect to increase their prices over the next three months. Labour costs remain the most widely reported pressure, while energy, fuel and taxation continue to weigh heavily on firms across different sectors. These headwinds do not end at the doors of individual businesses. They influence investment and employment decisions and, increasingly, the prices paid by households.

The findings underline the importance of looking beyond headline confidence when assessing the health of Scotland's economy. Improving sentiment is encouraging, but a sustained recovery will depend on businesses having the financial capacity and certainty to invest, recruit and pursue opportunities for growth.

Scotland's businesses have demonstrated their ability to adapt through difficult circumstances. Now, they need to move on from a focus on resilience to an environment where they can reach their full potential.

DOUG SMITH,
Vice President,
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the SCC Economic Advisory Group

QEI Q3 2026-Findings

The Q3 results point to an improvement in business sentiment, with the confidence net balance strengthening compared with the previous quarter. However, fewer than half of responding firms reported an increase in confidence, while underlying trading conditions remained challenging.

However, revenue, cashflow and profitability all continued to contract on balance, underlining the continued pressures facing Scottish businesses. Investment and employment showed tentative signs of recovery, while cost pressures remained substantial despite easing in some areas.

Overall findings:

- 1 Business confidence proved to be resilient:**

39% of firms reported higher confidence than in the previous quarter, while 27% reported a decline. This produced a net balance of +13%, up from -15% in Q2 2026 and -12% in Q3 2025. Despite this improvement, the majority of firms reported either no change or a fall in confidence.
- 2 Revenue remained under pressure:**

Total revenue recorded a net balance of -5%, broadly unchanged from -6% in Q2 2026 and -4% in Q3 2025. Domestic and rest of UK revenue also remained negative at -5%. Export revenue was the only measure to grow, recording a net balance of +6%, although this result is based on a smaller number of firms trading internationally.
- 3 Cashflow and profitability continued to contract:**

The cashflow net balance improved from -18% in Q2 2026 to -12% in Q3 2026 but remained below the -9% recorded in Q3 2025. Profitability also improved over the quarter, from -17% to -13%, and performed slightly better than the -15% reported a year ago. Despite these improvements, both measures remained firmly negative.
- 4 Some cost pressures eased, although utilities moved higher:**

Labour costs remained the most widely reported pressure, affecting 70% of responding firms, down from 75% in Q2. Fuel cost pressures also fell, from 65% to 52%, but remained more than twice the level recorded in Q3 2025. Utilities moved in the opposite direction, increasing by nine percentage points over the quarter to 56%.
- 5 Inflation and taxation were the joint leading concerns:**

Both were cited by 59% of responding firms. Concern about inflation eased by ten percentage points from Q2 but remained around ten points higher than in Q3 2025. Concern about taxation was broadly unchanged over the quarter, although it was considerably lower than the 72% recorded a year ago.
- 6 Price rises remained likely:**

Almost three-quarters of responding firms expected to increase their prices in the following quarter. At 74%, this was broadly unchanged from Q2 2026 but 19 percentage points higher than in Q3 2025. Only 4% expected to reduce their prices, indicating that cost pressures are likely to continue feeding through to customers.



Construction

Confidence in the sector proved to be resilient, with 42% of firms reporting an increase and 33% reporting a fall. This produced a net balance of +8%, up sharply from -22% in Q2 2026 and -9% in Q3 2025.

Financial pressures eased considerably over the quarter, although conditions remained challenging. The cashflow balance improved from -31% in Q2 2026 to -8%, while profitability rose from -40% to -12%. Both measures remained negative, but the scale of the improvement suggests the immediate financial strain on firms may have eased following a particularly weak second quarter.

The uptick in confidence was accompanied by a recovery across sales measures. Total and domestic revenue both improved to -5%, from -17% and -14% respectively in Q2, while rest of UK revenue returned to growth at +3%.

Cost pressures remained acute and broadened in several areas. Labour costs affected 92% of firms, the highest level reported in the current quarter, while fuel pressures increased by 21 percentage points over the quarter to 83%. This was almost double the 44% recorded in Q3 2025.

However, this did not extend to new contracts. More than half of firms reported a decrease in total new contracts, producing a net balance of -33%, down from -25% in Q2 2026 and -16% in Q3 2025. Public sector orders also remained weak at -13%, while private commercial and housebuilding contracts both recorded balances of -7%.

Three-quarters of firms cited raw material prices and two-thirds reported pressure from utility costs. Taxation was the leading business concern, cited by 67% of firms, followed by inflation at 58%.

Employment returned to modest growth, recording a net balance of +6% after no change in Q2 and a balance of -15% in Q3 2025. Expectations for the following quarter also strengthened sharply to +28%, with more than a third of firms expecting to increase employee numbers. Recruitment pressures nevertheless intensified. Seven in ten firms attempting to recruit reported difficulties, up from 61% in Q2 and 45% a year earlier.

Business voice

“The construction industry is feeling the effects of underinvestment, particularly in the lack of young people coming through the ranks. There is no shortage of people wanting to join apprenticeship schemes, but smaller firms often lack the funding needed to offer placements.”

- *Construction firm in Dumfries & Galloway*



Services

Confidence among financial and business services firms strengthened considerably. More than four in ten reported an increase in confidence, compared with 23% recording a fall. This produced a net balance of +18%, up from -5% in Q2 2026 and +7% in Q3 2025.

Trading conditions remained broadly stable rather than showing the same strength as confidence. Total revenue recorded a modest positive balance of +3%, down from +6% in both Q2 2026 and Q3 2025. Domestic revenue was also marginally positive at +2%, while rest of UK revenue was unchanged on balance. Exports improved from -4% to +7%, while online revenue recorded the strongest balance at +20%.

Profitability registered a notable improvement, rising from -3% in Q2 2026 to +10%. This was also above the +4% reported a year earlier. Cashflow did not show the same improvement, remaining negative at -5%, compared with -8% in Q2 2026 and +2% in Q3 2025. The results suggest that stronger profitability has not yet translated fully into firms' cash positions.

Investment remained largely frozen, with around six in ten firms reporting no change across the main measures. Total investment was unchanged on balance, capital investment contracted by -5%, and training investment recorded modest growth of +3%. Employment strengthened to +8%, from +3% in Q2 2026, while the forward balance rose to +13%.

Business voice

“Rising staffing and energy costs are making it extremely difficult to reinvest in our team or business. Our monthly costs are now close to our income, and if they continue to rise, the future of the business will be at risk.”

- Services firm in Moray

Labour costs remained the main pressure, affecting 64% of firms. Most other pressures eased over the quarter, including fuel, utilities and other overheads. Utility cost pressures recorded the largest fall, decreasing by 12 percentage points to 41%. Inflation and taxation were the joint leading concerns, each cited by 51% of firms. Concern about inflation remained 11 percentage points higher than in Q3 2025, while concern about taxation was 14 points lower.



Manufacturing

Business optimism

Four in ten firms reported an increase in confidence and 20% reported a fall, producing a net balance of +20%.

This was up from -8% in Q2 2026 and -6% in Q3 2025.

Orders/sales

Trading conditions remained difficult despite the marked improvement in confidence. Total revenue continued to contract at -10%, although this represented an improvement from -18% in Q2 2026 and -17% a year earlier. Domestic revenue remained the weakest sales measure at -20%, while exports grew on balance by +8%. Orders followed a similar pattern. Total orders improved from -26% to -12%, but domestic orders remained firmly negative at -24%. Export orders were unchanged on balance.

Investment/finance

Total and training investment were unchanged on balance, while capital investment remained negative at -8%. These results nevertheless represented an improvement from Q2, when total and capital investment recorded balances of -10% and -12% respectively.

Cashflow also improved, from -17% to -8%, but profitability weakened to -20% as 45% of firms reported a fall.

Employment

Employment returned to modest growth, rising from -2% in Q2 2026 to +4%. Six in ten firms had attempted to recruit during the quarter, while 40% of those recruiting experienced difficulties. Both proportions were lower than in Q2 and Q3 2025.

Cost pressures

Cost pressures remained widespread, with labour costs affecting around four in five firms. Raw material and utility costs also continued to place significant pressure on the sector, while inflation and taxation remained prominent concerns. Pricing expectations strengthened further, with 60% of firms expecting to increase prices and none anticipating a reduction. This produced a forward price balance of +60%, up from +50% in both Q2 2026 and Q3 2025, indicating that persistent input pressures are likely to continue feeding through to customers.

Business voice

"Rising energy costs are our biggest concern. At current prices, it is becoming increasingly difficult to remain competitive in global markets."

- Manufacturing firm in Ayrshire



Retail

Business voice

"In the creative industries, we are increasingly seeing our core work commoditised by AI. We are having to sell more on the value of our knowledge and expertise, rather than output alone, but that transition will take time. As the market adapts, some businesses may not survive, and many firms are already reducing staff numbers."

- A creative industries firm in the Highlands

Business optimism

Retail confidence stabilised in Q3 2026, with an equal number of firms (36%) reporting an increase and a fall. This produced a net balance of 0%, up from -14% in Q2 2026 and -12% in Q3 2025.

Sales revenue

Retail sales remained under pressure, but most measures improved over the quarter. Total revenue rose from a net balance of -17% in Q2 2026 to -4%, while domestic revenue returned to a neutral balance after recording -20% in the previous quarter.

Cashflow/profits

Financial conditions improved but remained negative. The cashflow balance increased from -20% in Q2 2026 to -10%, its strongest result since Q2 2025, although it remained below the -3% recorded a year earlier. Profitability improved from -16% to -5% and was considerably stronger than the -17% recorded in Q3 2025. However, 40% of retailers still reported a fall in profits, compared with 35% reporting an increase.

Investment/outlook

Investment remained subdued, although each measure improved compared with Q2. Total investment increased from -20% to -4%, capital investment from -20% to -10%, while training investment was unchanged on balance.

Forward expectations were more positive. The expected sales balance rose sharply from -20% in Q2 2026 to +25%, while employment expectations remained positive at +10%. Half of firms expected to raise prices, and none anticipated reducing them.

Cost pressures

Labour costs remained the most commonly reported pressure, affecting 70% of retailers. Fuel and utility pressures eased over the quarter but remained considerably higher than a year earlier. Fuel costs were cited by 64% of firms, compared with 25% in Q3 2025, while utility costs affected 60%, up from 50%. Inflation was the leading concern, reported by 64% of firms and up 19 percentage points over the year. Concern about competition almost doubled from 23% in Q2 to 42%, while business rates remained a concern for 44%.



Tourism

Business optimism

Around 38% of firms reported an increase in confidence, while 25% reported a fall. This produced a net balance of +13%, an improvement from -33% in Q2 2026 and -20% in Q3 2025.

Sales revenue

Sales conditions improved but remained weak overall. Total sales increased from a net balance of -20% in Q2 2026 to -13%, while domestic sales recorded the same balance.

Rest of UK sales improved from -13% to -5%, and online sales were unchanged on balance.

Cashflow/profits

The cashflow balance rose from -22% to -13%, although it remained below the -3% recorded in Q3 2025. Profitability recovered from -40% to 0%, with equal proportions of firms reporting an increase and a fall. The neutral balance indicates that firms remain some distance from a broad-based recovery.

Investment/employment

Investment remained under pressure. Total investment improved from -22% to -5%, while capital investment increased from -33% to -3%. Training investment also improved but remained negative at -5%.

Employment recorded modest growth of +5%, although the forward balance remained negative at -8%. Six in ten firms did not expect staffing levels to change in the following quarter, while a quarter anticipated a reduction.

Cost pressures

Labour costs remained the most common pressure, affecting 68% of firms. Utility pressures fell considerably from the joint survey high recorded in Q2, decreasing from 80% to 63%, but remained above the 57% reported a year earlier. Fuel pressures also eased over the quarter, from 60% to 50%, although this was still twice the level recorded in Q3 2025.

Taxation was the leading concern, cited by 63% of firms, followed by inflation at 55% and business rates at 50%. Although the expected price balance fell from +65% to +45%, almost six in ten tourism firms still expected to raise their prices.

Business voice

“Hospitality businesses continue to face significant pressure from VAT, business rates and energy costs. Despite an annual turnover of more than £2 million, we are operating at close to break even, raising serious questions about our long-term viability.”

- Hospitality firm in Edinburgh



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