

Economic Commentary

February 2025
Insights & Economics



Economic Commentary: Highlights

SUMMARY

- Business activity rose across all major economies in January, but only marginally in the UK and eurozone. Services growth softened across the eurozone, US, UK and China.
- The IMF is forecasting 3.3% global growth in 2025, up from 3.2% in 2024. Emerging economies are expected to grow much faster than advanced, with country divergences widening.

ECONOMIC DATA

- The UK economy returned to modest growth in the last quarter of 2024 (+0.1%) after remaining flat in Q3.
- Business activity rose in only four UK regions and nations in January, with Scotland among those that contracted as an uplift in services activity was offset by a decline in manufacturing.
- Headline UK consumer price inflation rose to a 10-month high of 3.0% in January, up from 2.5% in December, and remaining above the Bank of England's target of 2%.

SE CUSTOMER SENTIMENT

- The Scottish economy contracted in November by 0.5%, following a fall of 0.4% on October.
- More businesses in Scotland reported falling monthly turnover than rising for the fourth month in a row in December.
- January data shows signs of a cooling labour market as businesses report shedding jobs, and the number of payrolled employees decreased by 2,000 (-0.1%) over the year. Despite this, 24% of businesses continue to report worker shortages.

OUTLOOK

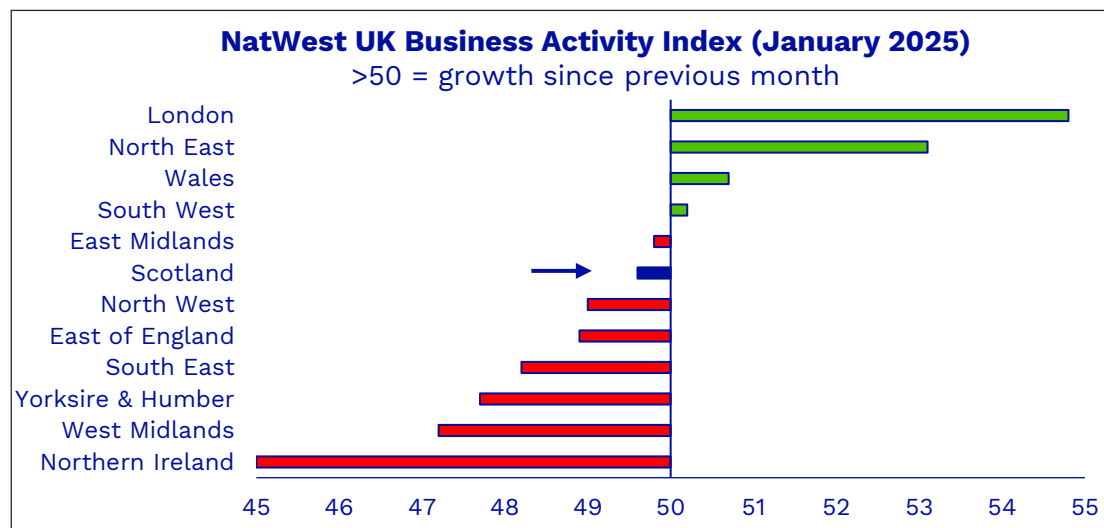
- SE customers are generally less optimistic than they were this time last year; they are more reluctant make significant investments. The main challenges continue to be finding staff, skills and rising costs.
- The Scottish Fiscal Commission is forecasting 1.5% GDP growth in 2025, up from 1.0% in 2024 as an increase in public spending in Scotland, following the UK fiscal expansion announced in the UK Autumn budget, is expected to boost GDP growth.

Global/UK

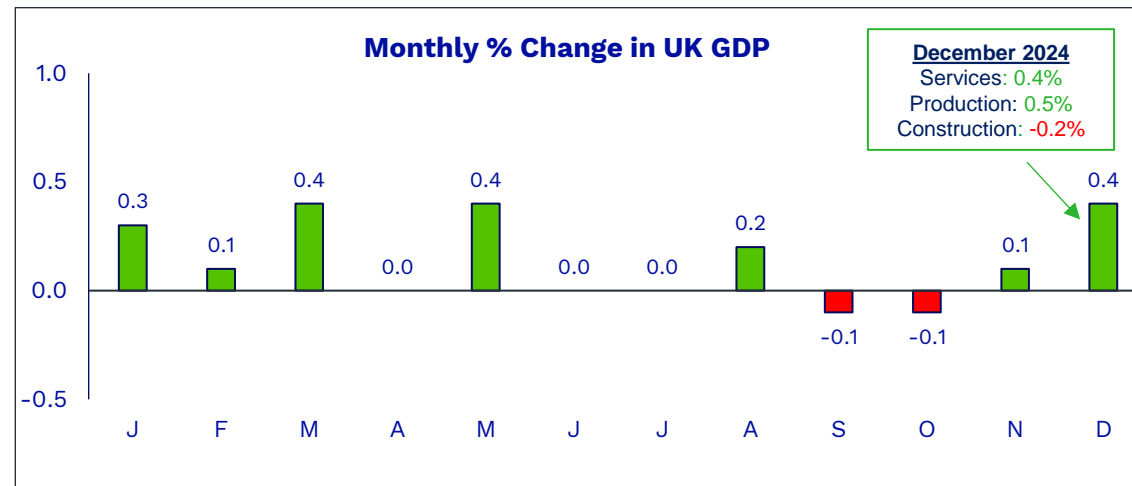
[Global](#) business activity growth eased in January as an upturn in manufacturing output was offset by a slowdown in services. Across most major economies service sector is posting stronger performance than manufacturing.

Business Activity Index (>50 indicates increase vs previous month)									
	2024							2025	Change on month
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
Global	52.9	52.5	52.8	52	50.0	50.4	52.6	51.8	↓
US	54.8	55.0	54.6	54.4	54.1	54.9	55.4	52.7	↓
Japan	49.7	52.6	52.9	52.5	49.6	50.1	50.5	51.1	↑
China	52.8	51.2	51.2	50.3	51.9	52.3	51.4	51.1	↓
UK	52.3	52.7	53.8	52.6	51.8	50.5	50.4	50.6	↑
Eurozone	50.9	50.2	51	49.6	50.0	48.3	49.6	50.2	↑

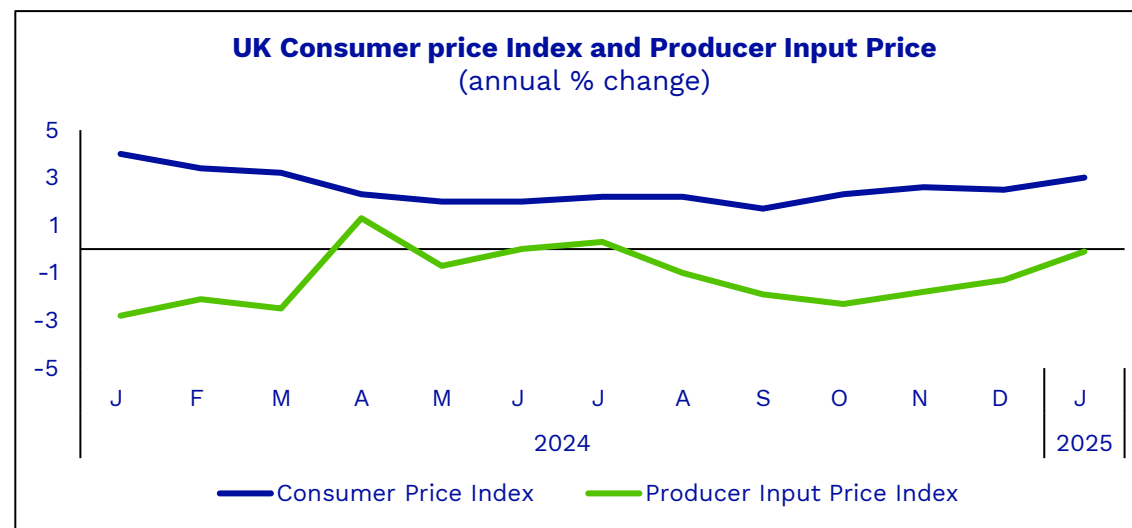
[Business activity](#) rose in only four UK nations/regions in January. Output contracted in [Scotland](#), as an uplift in services was offset by a decline in manufacturing. Future optimism weakened, with Scotland below the UK average.



[UK GDP](#) grew by 0.4% in December, following growth of 0.1% in November. Output was up in services (0.4%) and production (0.5%), but construction contracted (-0.2%). Over Q4 as a whole GDP grew by 0.1%, following zero growth in Q3.



[Annual consumer price inflation](#) rose more than expected in January to a 10-month high of 3.0%, up from 2.5% in December and above the Bank of England's target (2%). The largest upward contributions came from transport and food & drink. [Producer input prices](#) fell by 0.1%.



SUMMARY

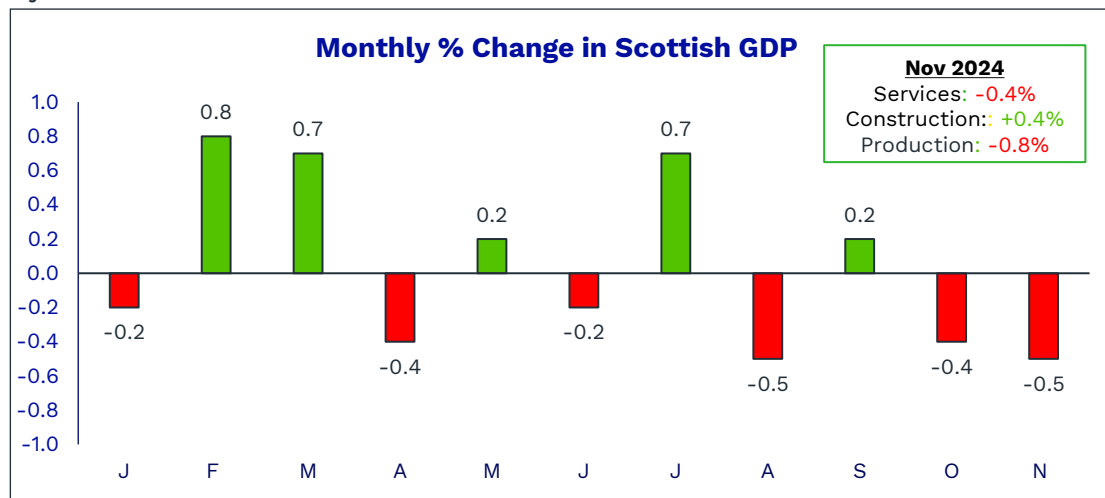
RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

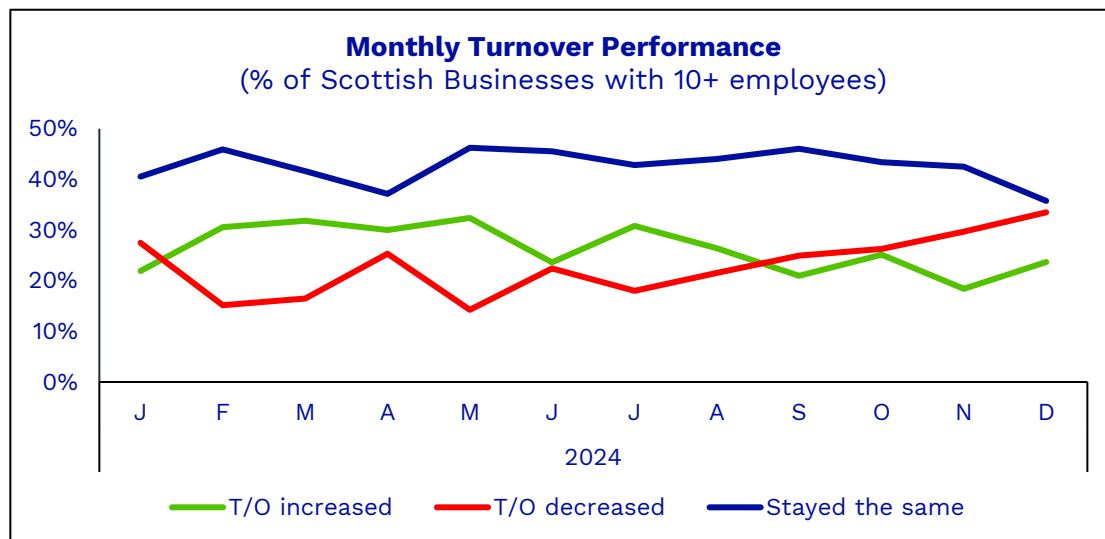
OUTLOOK

Scotland

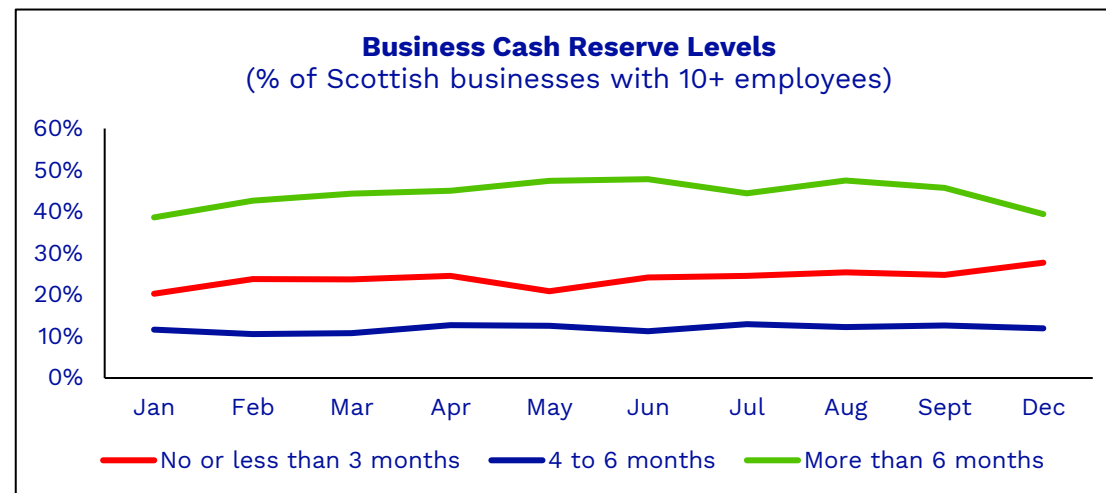
The [Scottish economy](#) contracted for the second month in a row in November (-0.5%). Output was up in construction (0.4%) but fell in services (-0.4%) and production (-0.8%). Over In the quarter to November, GDP fell by 0.3%.



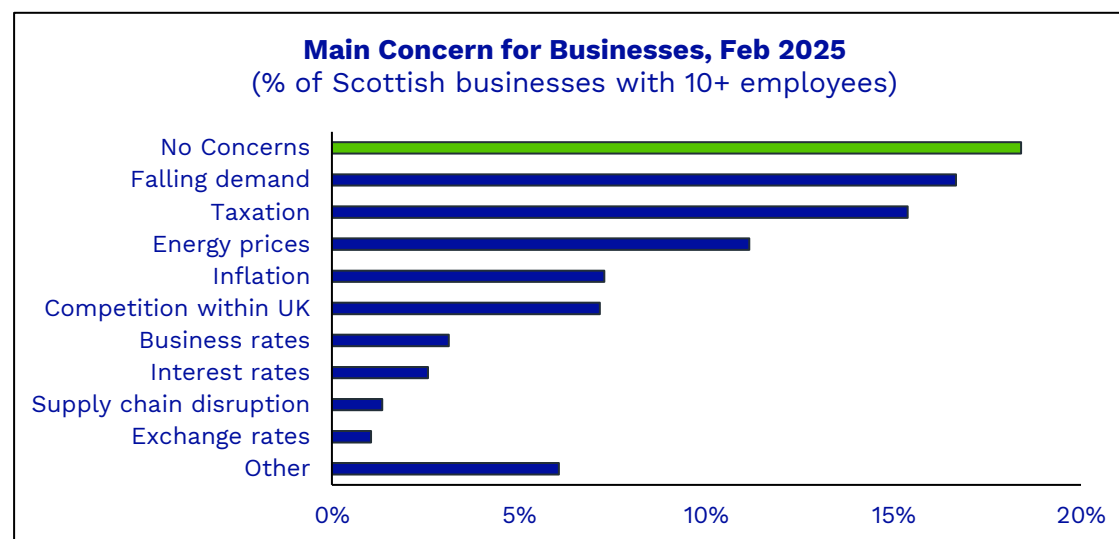
In December, 34% of businesses reported a decrease in [monthly turnover](#), marking the fourth consecutive month where more businesses saw a decrease than an increase. The main challenge affecting turnover continues to be the cost of labour.



A quarter of businesses say they are performing worse than a year ago, with almost the same proportion performing better. An increasing proportion (28%) report having no or less than 3 months [expected cash reserves](#), up from 21% in May.



Excluding staffing issues, the [main concerns](#) for businesses are falling demand, taxation and energy prices, with the proportion of businesses citing taxation tripling in the last year. 18% reported no concerns.



SUMMARY

RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

OUTLOOK

Scotland

SUMMARY

Scotland's [unemployment](#) rate fell by 0.7 percentage points to 3.8% (UK: 4.4%) over the year to December. The employment rate increased by 0.7ppts to 74.2%, below the UK (74.9%); economic inactivity was down 0.1ppts to 22.8% (UK: 21.5%).

RATE
(October - December 24)

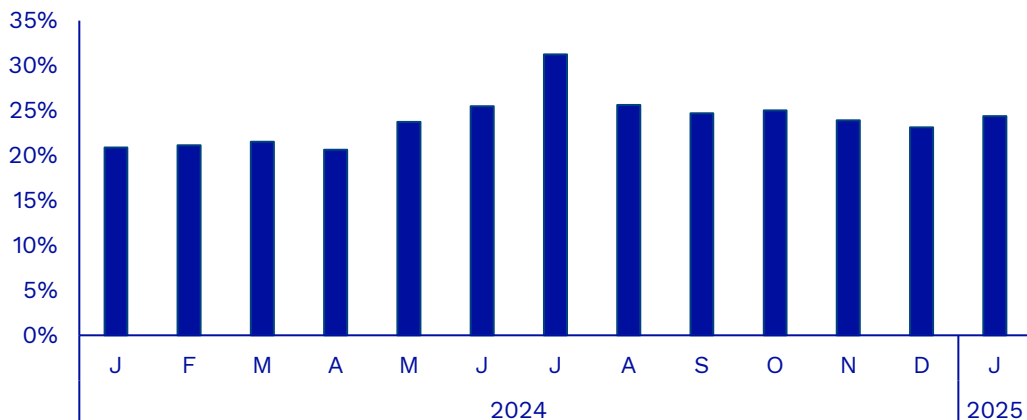
ANNUAL CHANGE

EMPLOYMENT (16-64)	74.2%	+0.7%pts
UNEMPLOYMENT (16+)	3.8%	-0.7%pts
ECONOMIC INACTIVITY (aged 16-64)	22.8%	-0.1%pts

RECENT ECONOMIC DATA

Despite signs of a cooling labour market, 24% of [businesses](#) continue to cite a shortage of workers, with 16% unable to meet demand as a result. Compared to a year ago, [median monthly wages](#) increased by 5.2% in January (below UK's 5.7%).

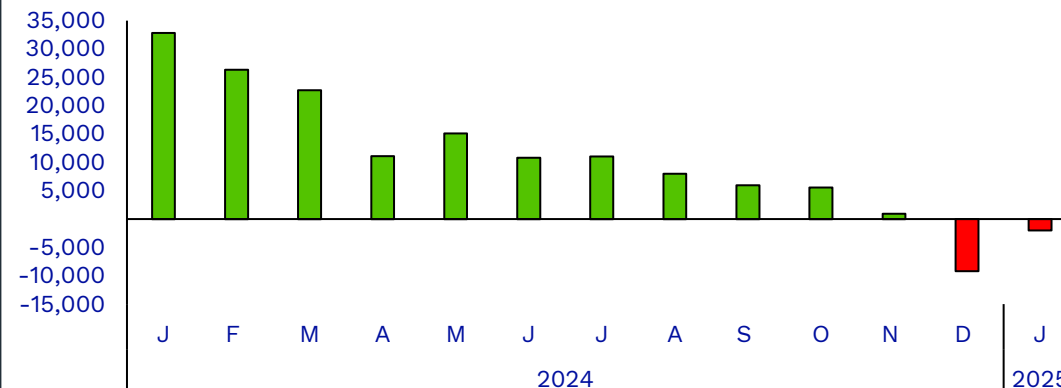
Businesses Experiencing a Shortage of Workers
(% of Scottish businesses with 10+ employees)



OUTLOOK

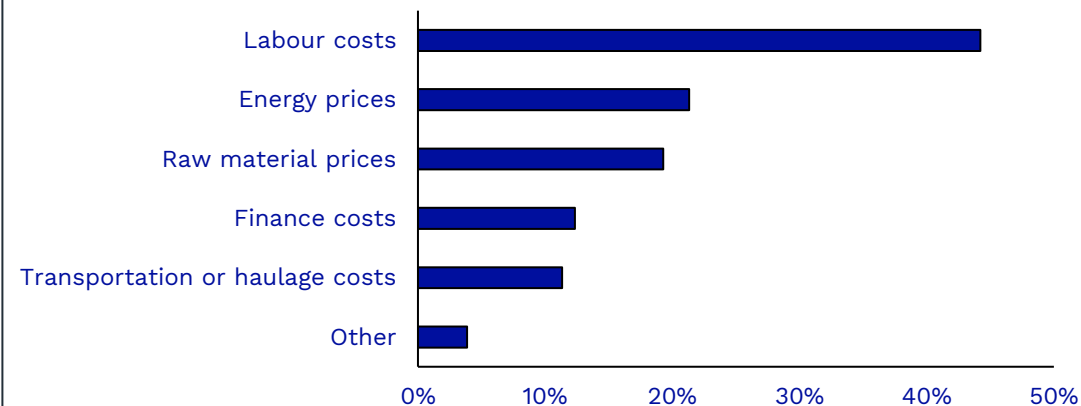
However, January data suggests a cooling labour market as [businesses](#) reported shedding jobs. [Payrolled employee numbers](#) decreased in January by 2,000 (-0.1%) compared to the previous year. Looking ahead, 17% of [businesses](#) expect to decrease employment.

Annual Change in Number of Payrolled Employees



An increasing proportion of [businesses](#) are expecting to increase their selling prices (26% in February) as overall [input prices](#) rose in January. The main factors driving price increases were labour costs and energy/raw material prices, all of which have increased in recent months.

Factors causing businesses to raise their prices
(% of Scottish Businesses with 10+ employees)



Feedback from Scottish Enterprise Customers

General Sentiment

- SE customers are generally less optimistic than they were this time last year and are more hesitant to make significant investments.
- Small businesses continue to be more affected by economic challenges, with concerns about rising costs and difficulties investing in technology due to lack of financial resources.

Skills and Labour

- Businesses across all sectors continue to face skills challenges and worker shortages, with high demand for engineers, data analysts and commercialisation skills. Many businesses are investing in automation and offering higher wages to mitigate this.
- Some businesses are hesitant to invest in apprenticeship programmes due to the high costs involved and the risk of losing trained apprentices once qualified.

Capital Investment

- Businesses remain keen to invest in automation and renewable energy to address labour shortages, improve productivity and manage rising costs.
- However, some remain reluctant to take on debt due to high interest rates, economic uncertainty and increased business costs, especially energy and labour, affecting their ability to repay.
- Delays in grid connection and planning approval for renewable projects makes it difficult for businesses to commit to investments.

Inward Investment

- Some inward investors are highlighting that delays in energy grid connection and planning consent are impacting timescales for projects and this is affecting investor confidence.

Cost of Doing Business

- Businesses in traditionally lower paid sectors, for example food manufacturing, are concerned about rising labour costs (national insurance contributions and wages). As a result, some are reconsidering recruitment plans going ahead.
- Businesses are also concerned about rising energy costs, which, along with labour costs, are reducing resources to invest.

Net Zero

- Businesses recognise that taking steps towards net zero is important for reputation (among customers and employees) and cost savings. Many are taking small steps that require little to no investment, such as switching off equipment when not in use.
- Stretched staff and net zero skills shortages are creating a barrier to delivering more significant sustainability initiatives and investment.

Access to Finance

- The main concern for early-stage businesses remains securing funding and this long-standing challenge has worsened over the last year. Generally, investors are cautious and require evidence of solid market demand and good predicted financial returns before investments are made.

Exporting

- Exporters continue to report low sales in Europe due to increased costs as a result of Brexit and are struggling to make their products more cost competitive.

Property

- A lack of available, modern property space continues to cause challenges for many businesses that are looking to expand. This is a particular issue for manufacturing and life sciences businesses.

Economic Outlook

SUMMARY

Global Forecasts

The [IMF](#) is forecasting global growth of 3.3% in 2025, up from 3.2% in 2024. Emerging economies are expected to grow much faster (+4.2%) than advanced ones (+1.9%), with country divergences widening.

The IMF highlights that global economic uncertainty has increased sharply, especially linked to trade policies.

Key downside risks include:

- new US tariffs could impact growth by causing trade tensions, lowering investment, and disrupting supply chains.
- renewed inflationary pressures could prompt central banks to keep interest rates higher for longer.
- geopolitical tensions could intensify, leading to renewed commodity price spikes.

On the upside, global economic activity could increase if governments can renegotiate existing trade agreements and forge new deals.

UK and Scottish Forecasts

The [Bank of England](#) slashed its UK economic growth rate to 0.75% for 2025, down from 1.5%; this comes from weaker than expected productivity and a deterioration in business and consumer confidence. The Bank also highlighted downside risks of US trade tariffs lowering UK economic activity.

For Scotland, the [Scottish Fiscal Commission](#) is forecasting 1.5% GDP growth in 2025, up from 1.0% in 2024. Increased in public spending in Scotland following the UK Autumn budget is expected to boost GDP growth.

Scotland's unemployment rate is expected to gradually rise from 3.8% in 2024 to 4.0% by 2027 as labour market tightness eases.

[The Fraser of Allander Institute](#) is forecasting slightly lower economic growth of 1.3% in 2025, easing to 1.2% in 2026. Despite turbulent recent GDP performance, future growth is expected to be fuelled in part by increased public spending and improved business sentiment.

RECENT
ECONOMIC
DATA

CURRENT
BUSINESS
SENTIMENT

OUTLOOK

