

DECEMBER 2024



U N D E R S T A N D I N G
B U S I N E S S



Diffley
Partnership

56° NORTH



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UNDERSTANDING BUSINESS

It has never been more important to understand what businesses in Scotland are thinking, what challenges they face and their priorities for future prosperity.

Understanding Business is a quarterly survey across Scotland, measuring the outlook, perceptions and challenges for business – allowing for these to be measured over time.

This high-quality, large-scale survey is brought to you by Diffley Partnership and 56° North.

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Introduction

Understanding Business – December 2024

The latest findings from the Understanding Business survey provide an insightful snapshot of the challenges and opportunities that Scottish businesses are currently facing. As we approach the end of 2024, businesses have expressed a mixture of concern and cautious optimism about the economic outlook, with significant shifts in how they view their prospects both for the next 12 months and beyond.

This wave of the survey shows a notable increase in the proportion of businesses that believe conditions have improved compared to the previous year. Despite this positive shift, many still anticipate rising costs and continued economic uncertainty. The significant concern surrounding rising operational costs, taxation, and inflation reflects the broader pressures that businesses are under.

At the same time, the survey points to areas of optimism. A growing proportion of businesses are forecasting increases in turnover and profitability, indicating that, despite the challenges, there is potential for growth. Recruitment remains a key issue, with businesses continuing to struggle with skills shortages and the complexities of attracting and retaining talent.



The reaction to the UK Government's Autumn Budget has been mixed. Businesses are particularly concerned about the changes to National Insurance outlined in the budget

The budget's overall impact has been viewed by many as exacerbating the financial pressures businesses are already under with many reporting anticipated impacts including increased overall costs and increasing prices in response. This has led to a call for more support in areas such as taxation relief, workforce development, and cost management.

This wave of the survey paints a picture of a business community that remains resilient but is increasingly seeking tangible support and policy action to ensure long-term sustainability. The findings highlight the importance of both government and business leaders working together to create an environment where businesses in Scotland can thrive.

5 KEY TAKEAWAYS

Our seventh edition of Understanding Business brings you insights from over 500 businesses in Scotland: focusing on their outlook for the economy, prospects for their businesses and challenges they face.



01 OPTIMISM ON THE RISE, BUT CAUTION PERSISTS

The economic outlook among Scottish businesses has brightened slightly, with 29% now expecting conditions to improve in the next 12 months—a five-point increase since September. Similarly, pessimism is softening, with 42% anticipating a decline in economic conditions, down from 47% last quarter. This wave also saw a record 24% of businesses reporting that conditions have improved compared to a year ago. Although nearly half (48%) still feel the economy is worse than it was 12 months ago.

02 RECORD HIGH PROJECTIONS FOR TURNOVER AND PROFITABILITY

Confidence in financial performance is building, with projections for turnover and profitability both reaching record highs for the Understanding Business series. Over four in ten (43%) businesses expect turnover to increase in the next year, an increase of six percentage points on September. Meanwhile 38% anticipate increased profitability, up four percentage points since September.

03 RECRUITMENT CHALLENGES AND WORKFORCE DYNAMICS

Recruitment remains a significant hurdle, with only 45% of businesses reporting attempting to hire in the past three months—the lowest proportion recorded in the Understanding Business series. Skills shortages are still the most commonly cited barrier (55%), but concerns about a lack of applicants have eased, falling to 35%—down 12 points since March.

04 THE BUDGET AND ITS IMPACT ON BUSINESSES

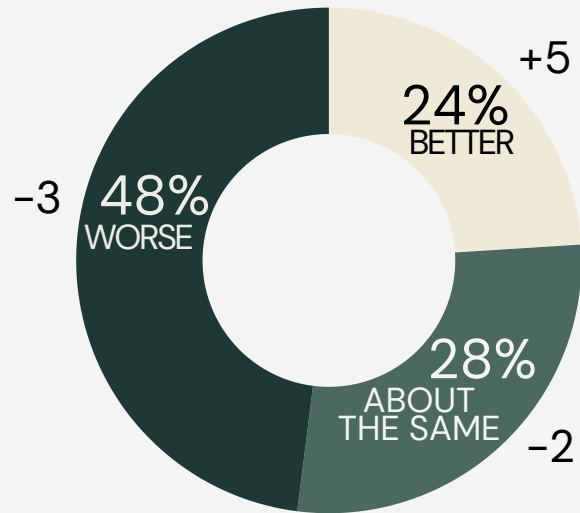
The UK Government's Autumn Budget has sparked a mixed reaction from Scottish businesses. While 46% of respondents expressed a negative reaction, many businesses are particularly concerned about the increased costs stemming from higher employer National Insurance contributions. In addition, significant proportions of businesses anticipate impacts resulting from the UK budget with 41% of businesses expecting their overall costs to rise, and 34% of businesses planning to increase their prices to counteract higher expenses.

05 RISING COSTS AND PRICING PRESSURES

Operational costs remain a top concern, cited as the most significant barrier to growth by 40% of respondents. Nearly six in ten (57%) businesses expect to raise their prices in the next quarter—a seven-point increase since September. Price increases are seen to be driven by workforce costs (33%) and utility expenses (35%). Taxation pressures have risen sharply, with 31% now identifying it as a major factor for increased prices—up eight points since September and 18 points since December 2023.

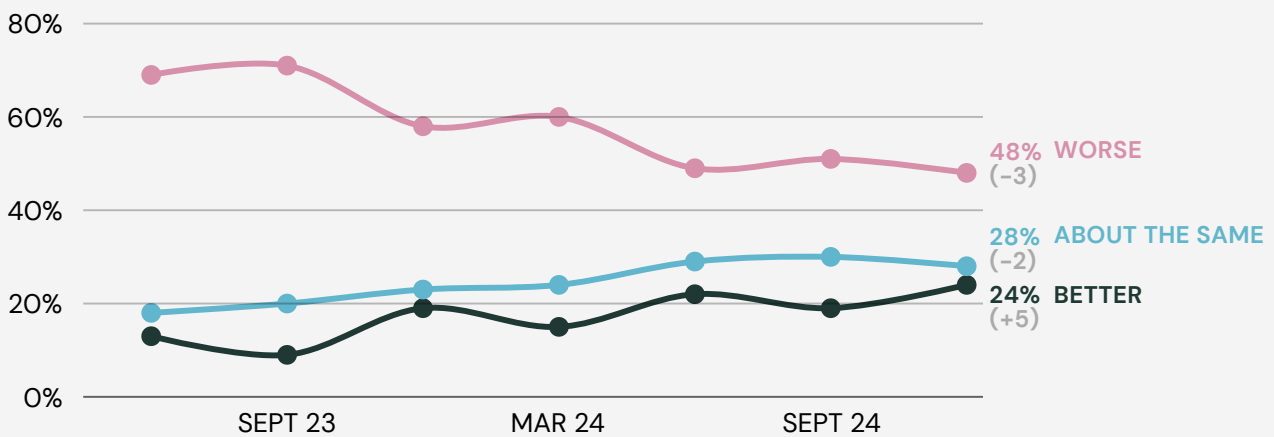
Economic Outlook

When reflecting on the previous 12 months, about half (48%) believe that economic conditions are worse now than a year ago (excluding 'don't knows'), down three percentage points from September and at a low for this series.



Economic conditions now, compared to 12 months ago

Proportions of respondents reporting perceived changes to the general economy



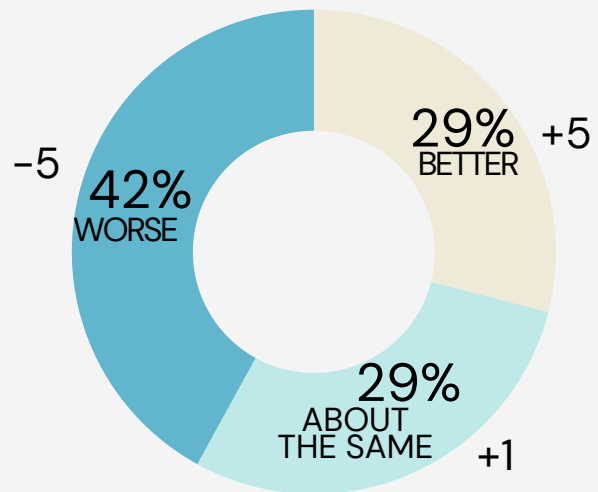
Throughout the series, the proportion that believe general economic conditions are better than they were a year ago has fluctuated, but is trending upward overall. At one in four (24%), businesses that think economic conditions are better than 12 months ago, up five percentage points on the last wave, is the highest

percentage that believe conditions have improved since the survey began.

In line with the increase in business believing that economic conditions are better than 12 months ago, there has also been a small decline of two percentage points in the proportion that believe economic conditions are about the same (28%).

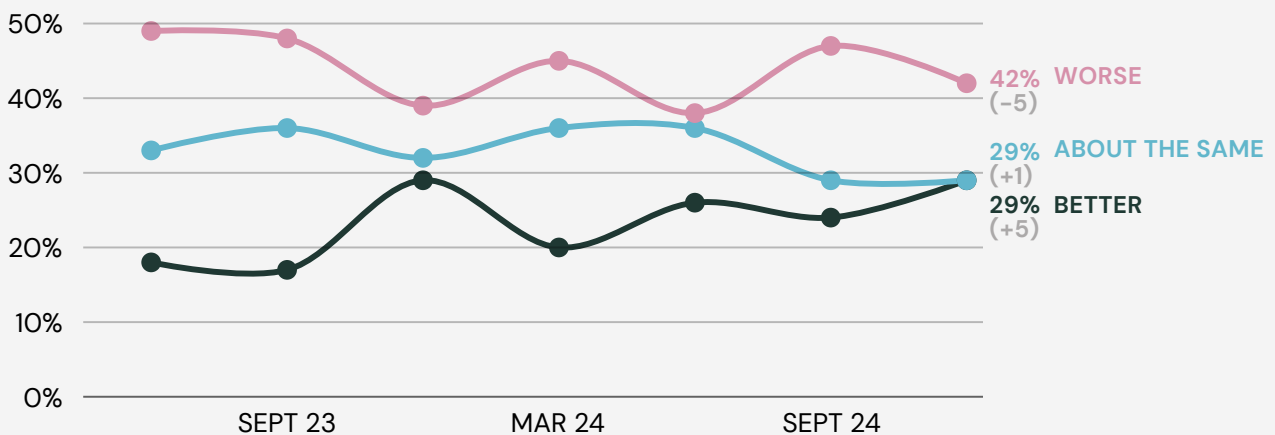
Economic Outlook

Looking forward, one in three Scottish businesses (29%) believe that economic conditions will be better in 12 months' time, up five percentage points from September.



Economic conditions in 12 months, compared to now

Proportions of respondents predicting changes to the general economy



This uptick is supported by a drop in those predicting that economic conditions will be worse in 12 months' time; around four in ten (42%) believe that economic conditions will be worse this time next year, down five percentage points from September.

Despite sizable changes in the percentage that believe conditions will worsen or improve over the next year, the proportion that believe economic conditions will be about the same has remained stable since September, at about three in ten businesses (29%).



Profitability & Turnover

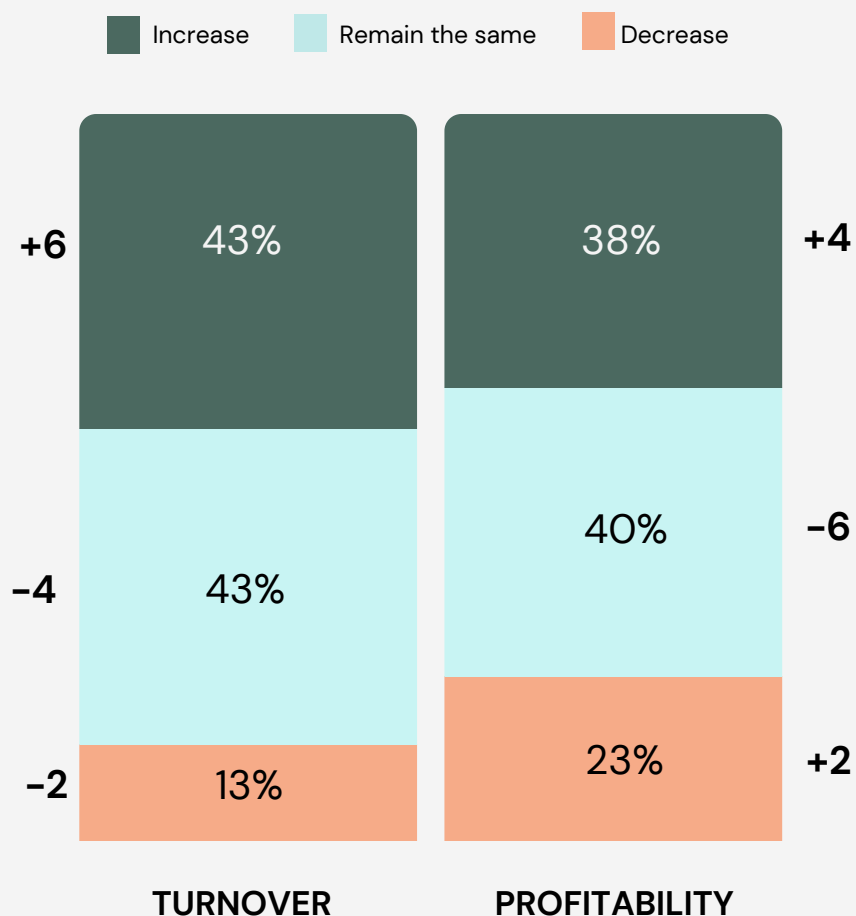
Businesses surveyed were asked to consider whether they thought that their profitability and turnover would increase or decrease over the next 12 months.

Proportion of respondents projecting increases/decreases

Since the last wave, more businesses are projecting an increase in both turnover and profitability.

Over four in ten (43%) respondents project their turnover will increase over the next 12 months, a rise of six percentage points on the last wave and the highest in the Understanding Business series to date.

The proportion who expects their profitability to increase has risen by four percentage points to 38% from September. This figure is roughly in line with the proportion that expected their profitability to increase in December 2023 (37%).



Recruitment

More than one in five (22%) respondents report that their workforce size has increased over the past 3 months, up three percentage points since September. Around two-thirds (65%) report that the size of their workforce has remained the same while 12% say it has decreased.

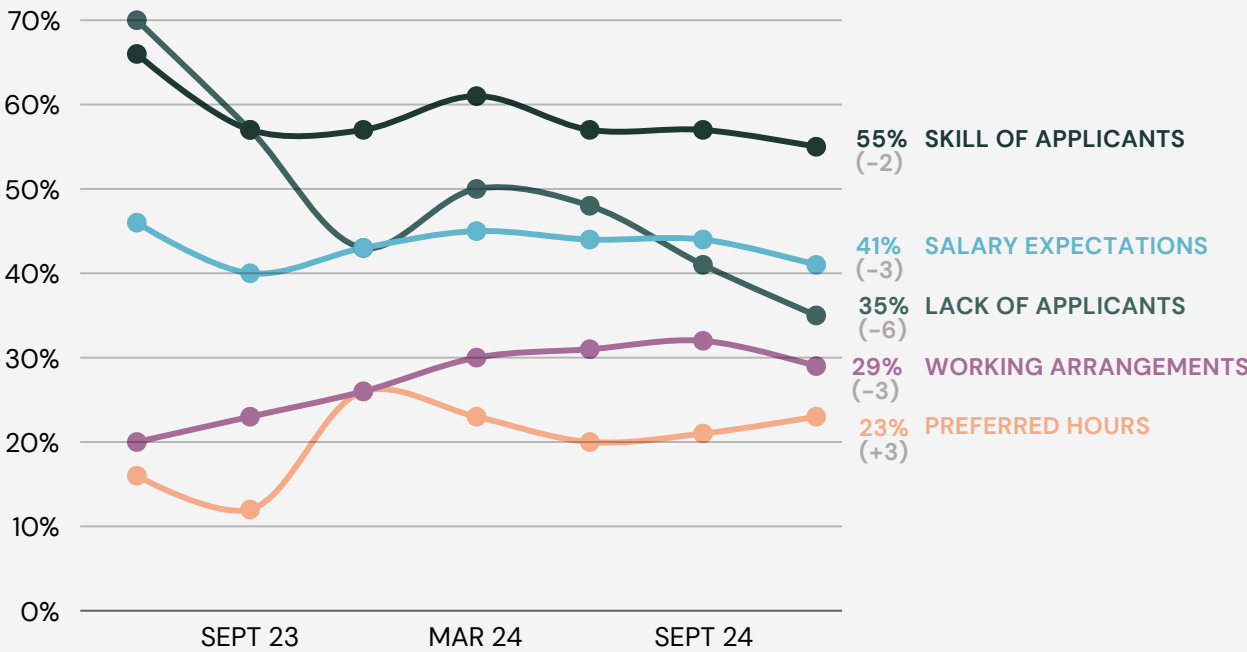
Looking ahead, more than a quarter (26%) expect their workforce size to increase over the next three months, up five percentage points from September. Six in ten (61%) expect it to remain the same, down four percentage points, while 12% expect their workforce size to decrease.

Less than half of businesses (45%) have attempted to recruit in the past three months, the lowest proportion reported in the Understanding Business series.

Challenges for businesses that are recruiting have remained relatively stable since 2023. The skill of applicants remains the biggest challenge with 55% of businesses that have been recruiting citing this as a challenge.

Notably, the proportion of recruiting businesses that have cited lack of applicants continues to fall. This is down six percentage points from September and fifteen percentage points from March.

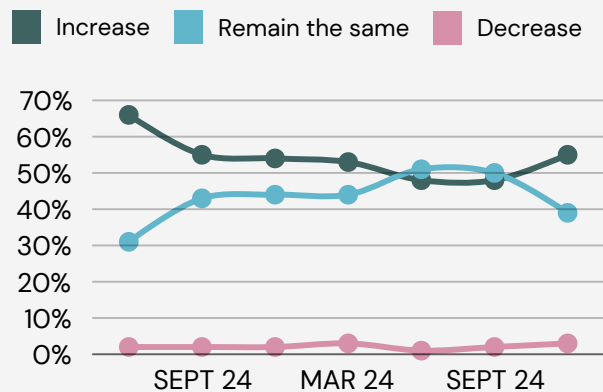
Proportion of recruiting businesses that experienced the following recruitment challenges over time



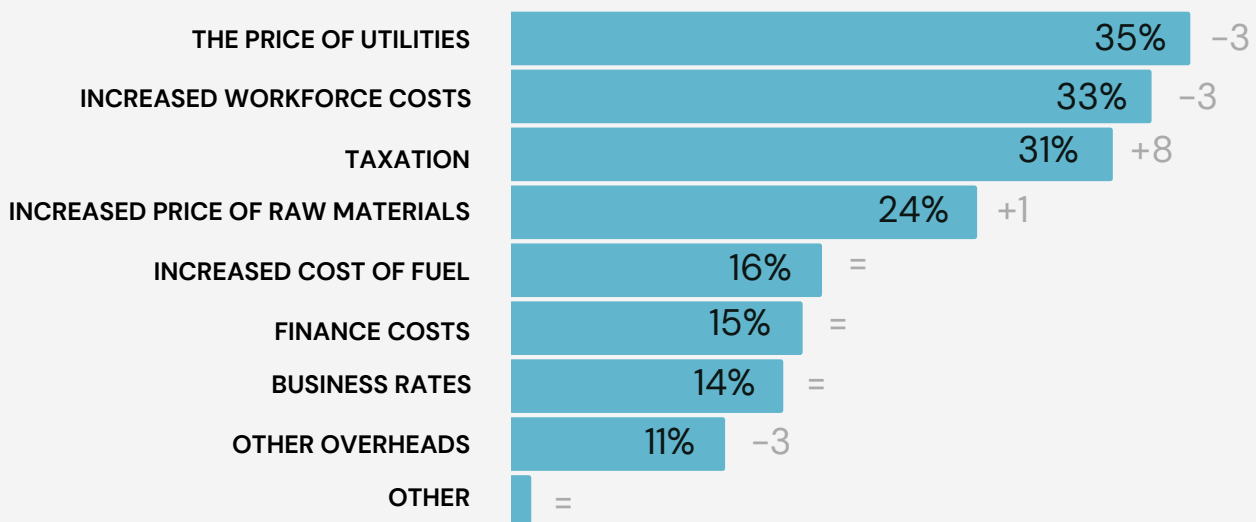
Pricing

Around six in ten (57%) respondents expect their prices to increase over the next three months, excluding don't knows. This is a notable increase of seven percentage points, meaning that more businesses now expect to increase prices than expect them to remain the same. Correspondingly, there has been a seven percentage point decrease in the proportion expecting prices to remain the same, from 48% to 41%.

Proportion of respondents expecting price increases/decreases



Proportion of respondents citing the following as an important pressure to increase costs



Reflecting on the two most important drivers of price increases, 35% of businesses select the price of utilities, though this is down three percentage points from September and twelve percentage points from the high of June (47%). One in three (33%) select increased workforce costs, and about one in four (23%) select increases in raw material prices.

In this wave there has been a notable increase in the proportion of business who view taxation as a pressure to increase costs. Now, three in ten (31%) businesses cite taxation as a pressure to increase costs, up eight percentage points compared to September (23%) and up eighteen percentage points compared to December 2023 (13%).

Respondents were asked whether they are more or less concerned about a series of issues than they were three months ago.

Proportion of respondents citing the following as a concern compared to three months ago*

More concerned No change Less concerned

TAXATION	INFLATION	INTEREST RATES	BUSINESS RATES	BUSINESS SURVIVAL	COMPETITION	EXCHANGE RATES
58% +2	48% +3	43% +6	41% +5	36% =	24% =	28% +7
35% -3	42% +2	46% -1	51% -2	54% +2	63% +1	55% -8
6% +1	8% -5	10% -4	5% +1	9% -2	12% -1	10% =

*'Don't know' answer option provided, but results not displayed

Six in ten (58%) respondents report that they are more concerned with taxation, up two percentage points on September 2024. This is the second highest proportion to say they are more concerned with this issue in the Understanding Business series, behind the 61% that said they were more concerned in June 2023.

Concern with inflation, interest rates, and businesses rates has also increased considerably. Over four in ten (48%) report being more concerned with inflation than 3 months ago, up three percentage points, while a little over four in ten report being more concerned with interest rates (43%) and business rates (41%) than three months ago, up six and five percentage points respectively.

There has been a notable increase in the proportion of respondents reporting that they are more concerned with exchange rates (28%), up seven percentage points from September.

Government Responsiveness

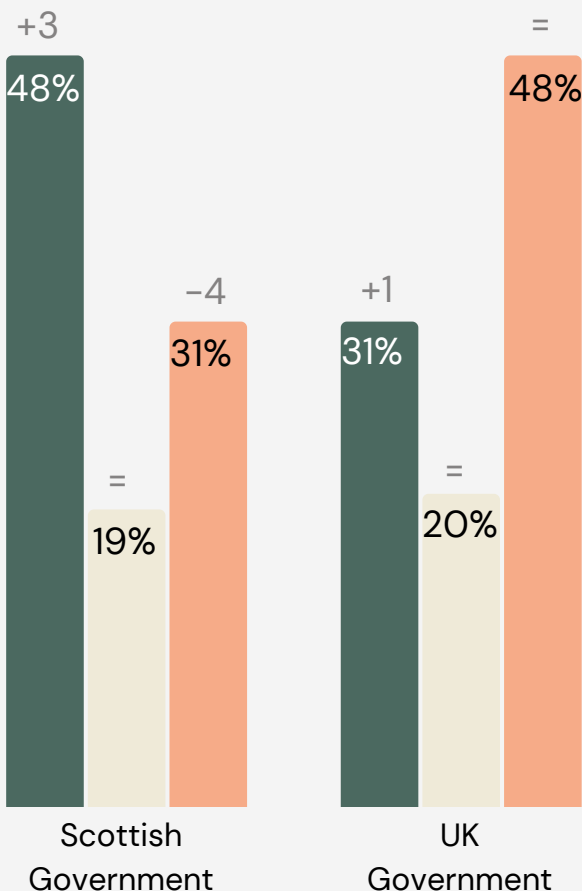
When asked if the Scottish Government is concerned with the needs of Scottish businesses, around half (48%) agree, while 31% disagree. The proportion agreeing has increased by three percentage points from last wave, representing a record high for the series.

When asked the same about the UK Government, just three in ten agree (31%), while around half (48%) disagree. These rates have relatively stable since September.

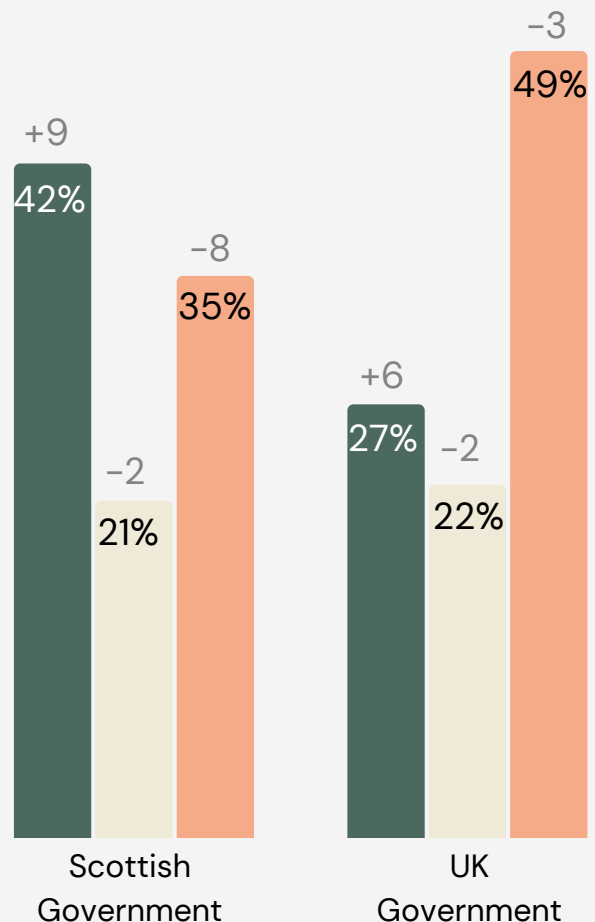
When considering whether the Scottish Government is taking action to address business concerns, four in ten (42%) agree, up nine percentage points from September.

This wave, more than quarter (27%) believe that the UK Government is taking action to address business concerns in Scotland, which is up six percentage points from September and seven percentage points from September 2023. Still, around half (49%) do not think the UK Government is taking such action, down three percentage points.

Concerned with needs of Scottish businesses



Taking action to address Scottish business concerns



Agree Neither agree nor disagree Disagree



Interventions

Respondents were asked to select the top three potential interventions that might be helpful to the growth of their business.

Reduced taxation remains the most commonly selected intervention for business growth, with almost half of respondents (48%) citing this as a top intervention that would help their business, up five percentage points from the last wave.

Around three in ten report increased support for business owners (31%) and reduced business rates (30%) as interventions that would be helpful for the growth of their business.

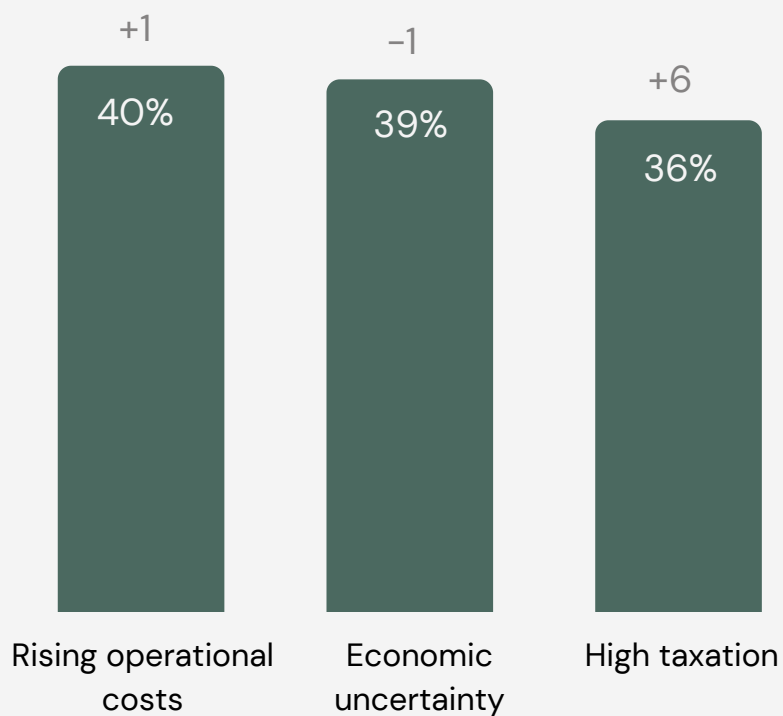
Below these dominating interventions, a myriad of other interventions are reported as helpful to business growth, reported by 10–20% of businesses including investment in skills training (18%) and streamlined regulatory processes (17%).

Proportion of respondents reporting that the following interventions would be the top three most helpful for the growth of their business



Barriers

Main barriers to business growth



Rising operational costs has returned to being the most cited barrier for business growth for the first time since March 2024. Four in ten (40%) cite rising operational costs as a significant barrier, with a similar proportion (39%) citing economic uncertainty.

More than a third (36%) select high taxation as a top barrier, up six percentage points from September.

The proportion selecting lack of a skilled workforce as a top barrier has fallen to 15%, a seven percentage point decrease from September, while the proportion citing political instability has also fallen to 14%, a five percentage point decrease from September.

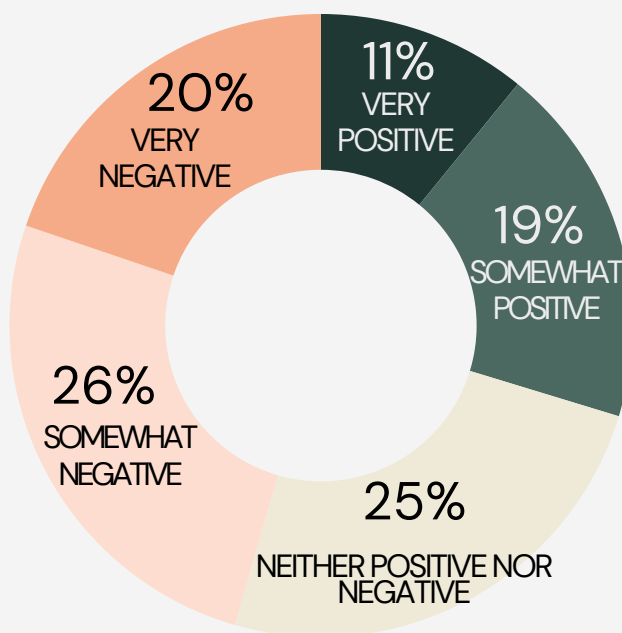
UK Autumn Budget

Only three in ten businesses (29%) expressed that their overall reaction to the UK Government's Autumn Budget was positive. A quarter (25%) expressed a neutral reaction, while 46% stated that their overall reaction was negative.

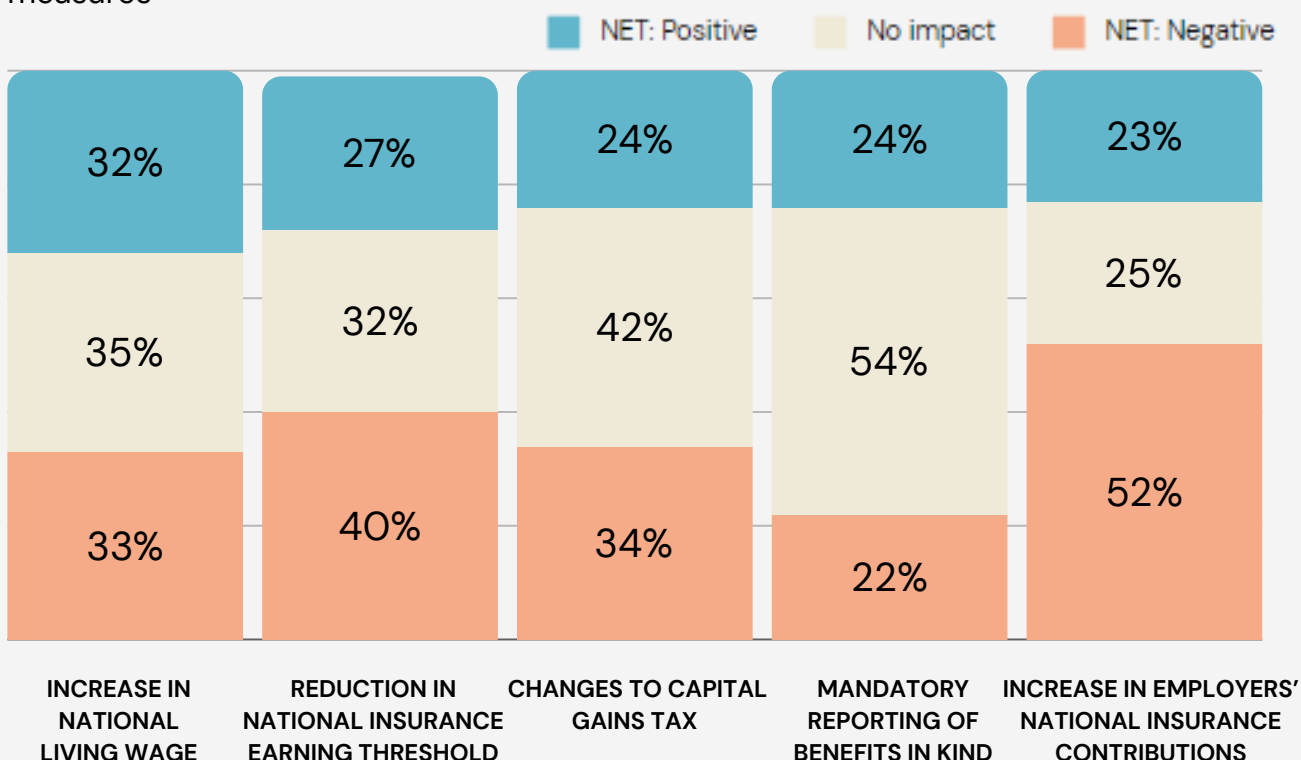
When considering the impact of changes resulting from the budget, there are mixed views. Around a third (32%) expect increases in the National Living Wage to have a positive impact on their operations while a similar proportion (33%) expect it to be negative.

When looking at the increase in employers' National Insurance Contributions, more than half (52%) expect this to have a negative impact, while a quarter (23%) expect a positive impact.

Proportion of businesses that feel positive/negative towards the Autumn Budget 2024



Proportion of respondents reporting anticipated impacts of Autumn Budget measures

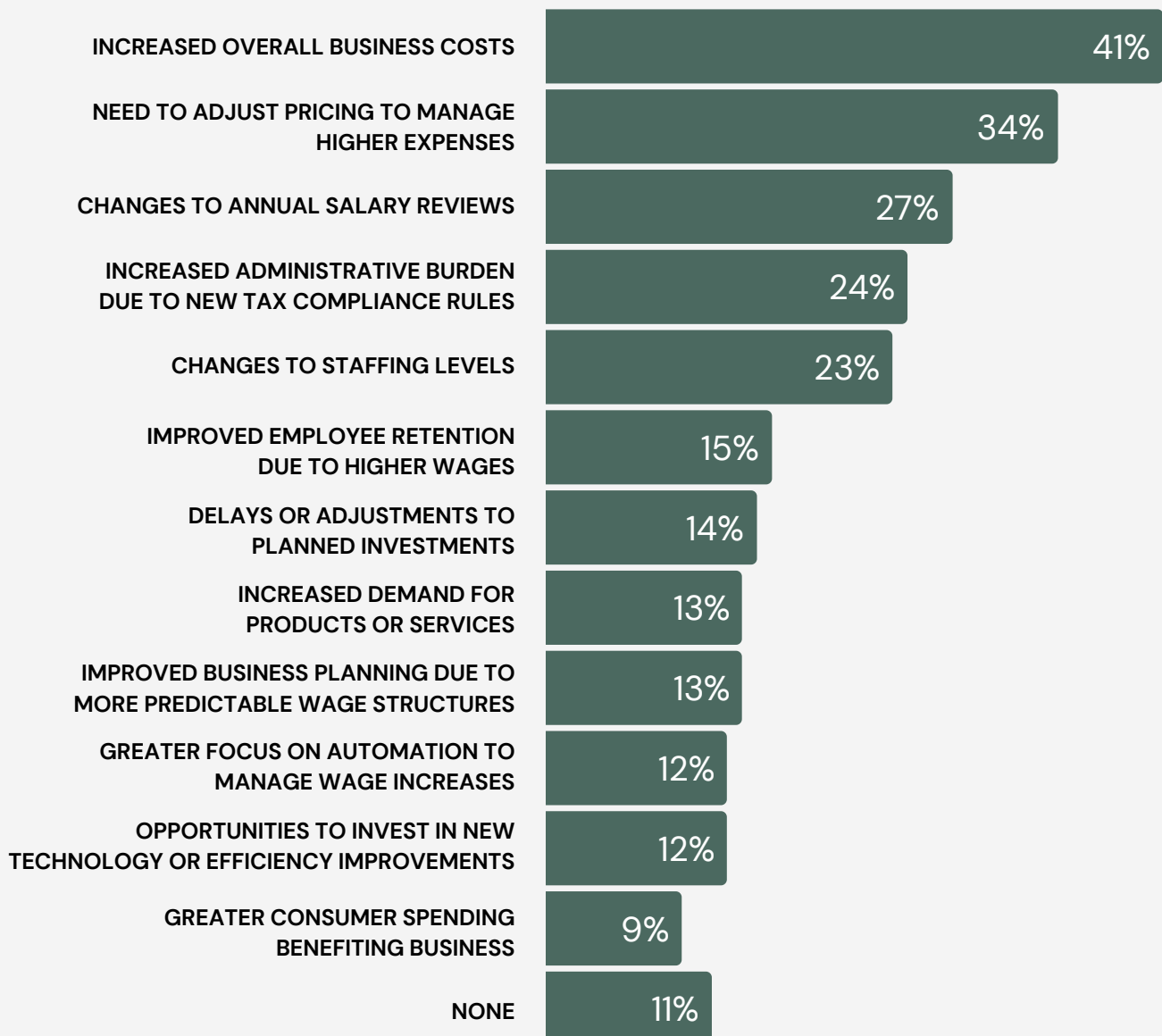


UK Autumn Budget

Findings from this wave highlight significant concerns from respondents over the impacts of the UK Government's 2024 Autumn Budget. The most reported impact is increased overall business costs, cited by 41% of respondents, followed by 34% anticipating a need to adjust pricing. Other challenges include changes to salary reviews (27%), increased administrative burdens (24%), and staffing reductions (23%), reflecting widespread cost and compliance pressures.

Some businesses see potential benefits, though these are less common. Improved employee retention was noted by 15%, while 13% expect increased demand for products and better business planning from predictable wage structures. A similar share (12%) foresee opportunities to invest in technology and automation. However, only 9% expect a boost from greater consumer spending, showing limited optimism about wider economic benefits.

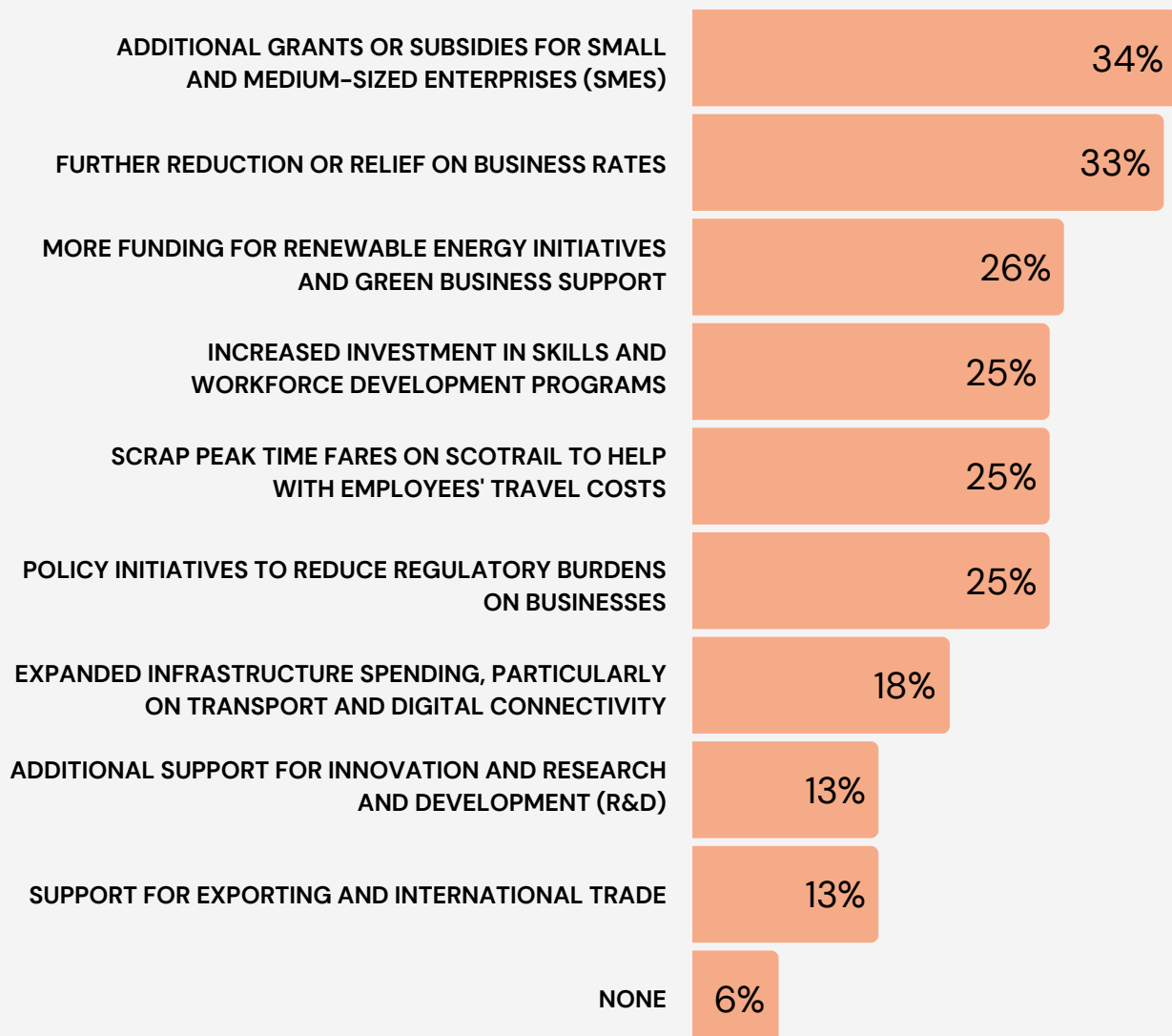
Proportion of respondents anticipating each impact due to budget changes



Scottish businesses have outlined their key priorities for the forthcoming Scottish Budget, with 34% calling for additional grants or subsidies for small and medium-sized enterprises (SMEs) and 33% seeking further reductions or relief on business rates. Other prominent demands include more funding for renewable energy and green business initiatives (26%) and increased investment in workforce skills and development programs (25%). Similarly, 25% of respondents advocate scrapping peak-time fares on ScotRail to reduce employee travel costs and implementing policy initiatives to ease regulatory burdens.

Less commonly cited but still important priorities include expanded infrastructure investment in transport and digital connectivity (18%) and additional support for innovation and R&D (13%). Only 6% of businesses feel no specific measures are needed, underlining a broad demand for government action to support growth and resilience.

Proportion of respondents identifying area of support for this business





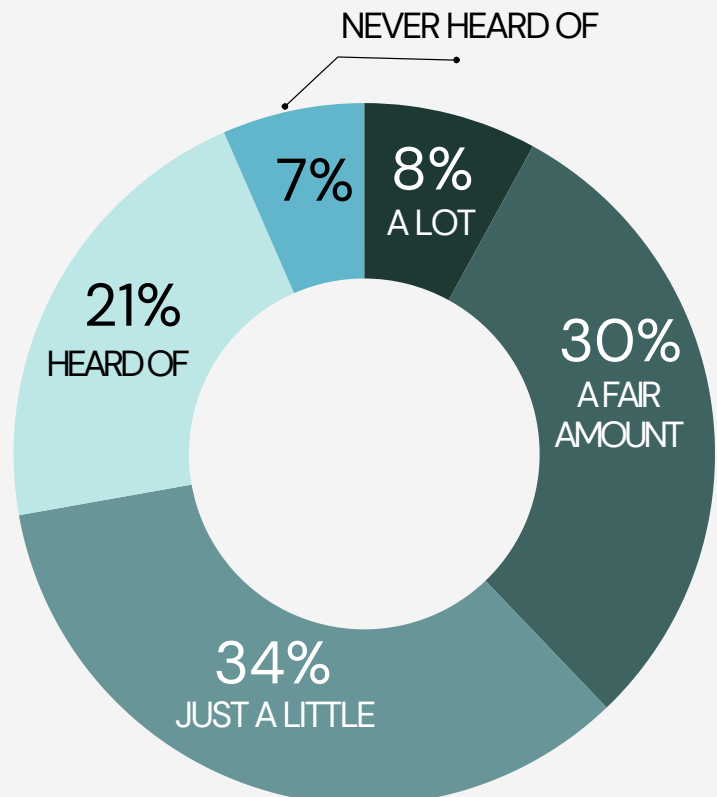
Employment Rights Bill

Businesses were asked about their familiarity with the Employment Rights Bill and the perceived impact it would have on organisations like theirs.

Proportion of businesses that report the following level of knowledge with the Employment Rights Bill

When considering the Employment Rights Bill, most businesses report that they have heard of the Bill and know at least a little.

Almost two in five (38%) Scottish businesses report that they know at least a fair amount about the Employment Rights Bill. One in three (34%) report that they know a little, while one in five (21%) say they have heard of it but know almost nothing about it. Only 7% say they have never heard of it.



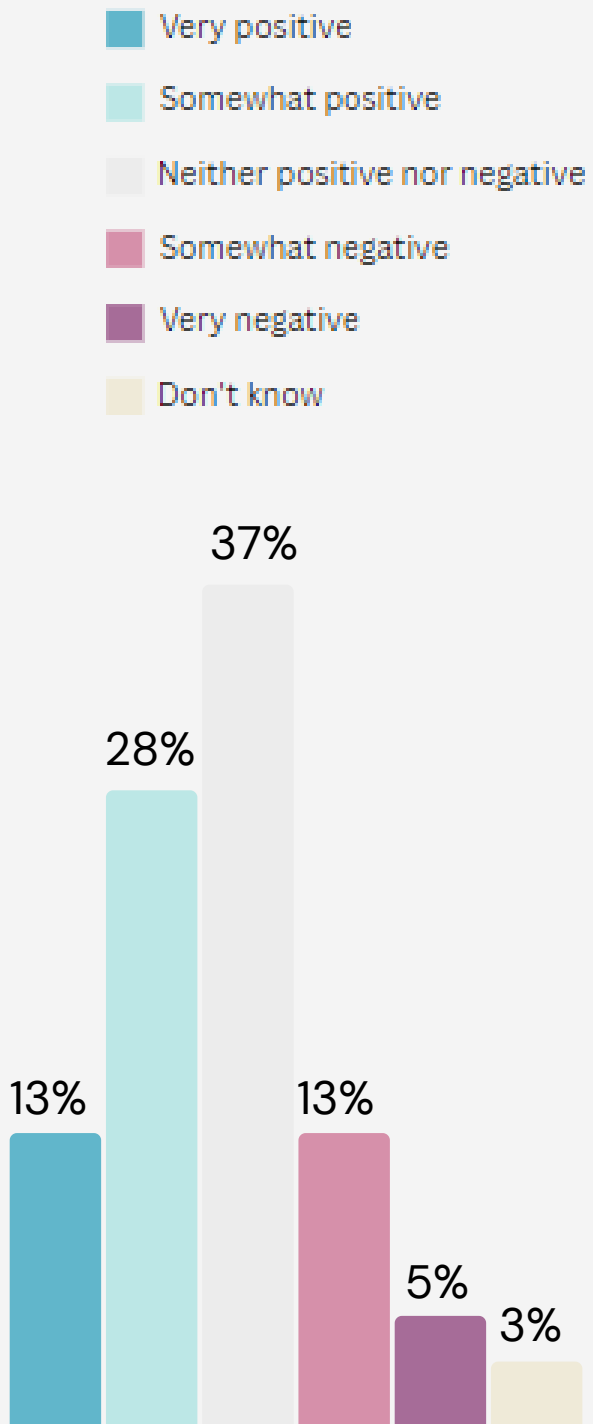
Employment Rights Bill

When asked about the impact the Bill would have on their business, more than two in five (42%) think it will have a positive impact on their business while 37% don't think it will have a positive or negative impact. Around a fifth (18%) believe it will have a negative impact.

The measures set out in the Employment Rights Bill has garnered strong support from businesses, with 68% backing guaranteed working hours for zero-hours contract workers who want them. Similarly, 67% support banning fire-and-rehire practices except in extreme cases and prohibiting the dismissal of women who are pregnant, on maternity leave, or within six months of returning to work. Establishing a Fair Work Agency also has considerable backing, with 63% in favour.

Other proposals with majority support include strengthening flexible working rights (58%) and granting day-one rights for paternity leave and unpaid parental leave (58%). Entitling workers to sick pay from their first day of illness is supported by 57%, while 53% favor introducing a day-one right to claim unfair dismissal. These findings indicate broad approval for measures aimed at improving job security and working conditions.

Proportion of businesses that think the Employment Rights Bill will have a positive/negative impact on businesses such as theirs





TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted during November 2024. A total of 626 responses were received from senior decision makers in businesses across Scotland.



FIND OUT MORE

To register for exclusive updates and a quarterly bulletin please sign up for our mailing list [here](#).

If you are interested in having your own questions asked and answered in future Understanding Business reports, email us at info@diffleypartnership.co.uk



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