MARCH 2025

UNDERSTANDING BUSINESS

Diffley Partnership

56° NORTH

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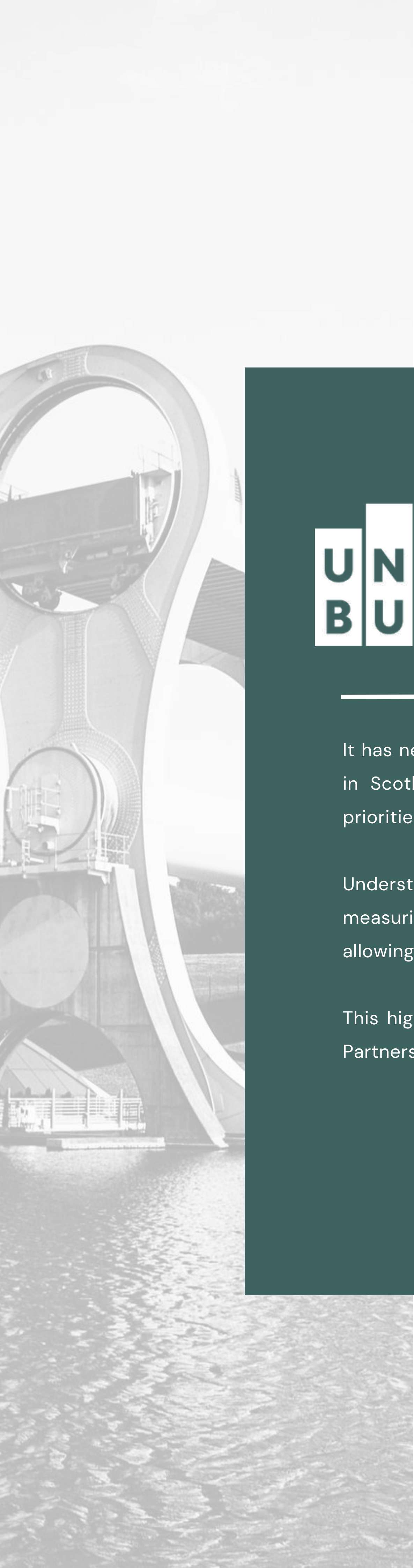


UNDERSTANDING BUSINESS

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.

Introduction

Understanding Business - March 2025

The latest findings from the Understanding Business survey offer a clear and timely snapshot of the challenges and shifting sentiments facing Scottish businesses in 2025.

This wave reveals a growing sense of economic unease, with confidence in the year ahead falling sharply. More businesses now expect conditions to deteriorate over the next 12 months. This rising pessimism reflects mounting concerns over economic stability, with businesses increasingly uncertain about their future prospects.

Related to this increase in pessimism, financial expectations have also weakened. Fewer businesses anticipate growth in turnover or profitability, while more expect these to decrease.

Many are bracing for tougher times, reflecting the mounting financial pressures they face, from rising costs to ongoing trade challenges.

The report also highlights concerns with tariffs with many believing they will have a negative impact on Scottish businesses. This underscores the difficulties of cross-border trade during uncertain times.

Politically, the survey reveals a shifting landscape. The SNP remains the party most trusted by Scottish businesses, albeit narrowly. Scottish Labour is close behind, while Reform UK—new to the survey—has quickly made its presence felt. When it comes to policies for growth and investment, the SNP leads and support for Labour has slipped significantly over the last 12 months during which time the party took the reins at Westminster.

Sentiment towards government shows a clear divide. While businesses continue to believe the Scottish Government is concerned with their needs, there are signs of a modest improvement in how they view the UK Government.

Overall, this wave paints a picture of a business community increasingly wary of the economic outlook for the coming year and readying for tougher times. Business will be keen to hear what parties have to offer as the race for Holyrood 2026 begins in earnest.

5 KEY TAKEAWAYS

Our eighth 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 RISING PESSIMISM ABOUT THE FUTURE ECONOMY

A majority (51%) of businesses think that general economic conditions have worsened in the last 12 months, up three percentage points since December. Looking ahead confidence is decreasing with nearly half of Scottish businesses (48%) expecting economic conditions to worsen over the next 12 months, marking a six percentage point increase from the previous wave. Only a quarter (25%) expect conditions to get better, down four percentage points.

02 PROFITABILITY AND TURNOVER EXPECTATIONS SLUMP

Financial confidence among Scottish businesses is weakening. Only 37% of firms anticipate their turnover will grow over the next year—a notable seven point drop from the previous wave—while just 32% expect their profitability to increase, down six points. Meanwhile, nearly one in five (18%) predict their turnover will shrink, up four points. This signals mounting financial strain and a more cautious outlook as businesses brace for tougher times.

03 WIDESPREAD FRUSTRATION WITH TARIFFS

Scottish businesses view tariffs as a major impediment, with 60% believing they negatively impact Scotland as a whole. Even when considering their own operations, 38% of businesses perceive tariffs as neither positive nor negative but only a small fraction sees them as beneficial. This widespread dissatisfaction with trade barriers highlights ongoing concerns about the cost and complexity of cross-border commerce.

04 SNP RETAINS LEAD WITH BUSINESS, BUT REFORM UK EMERGES AS A NEW PLAYER

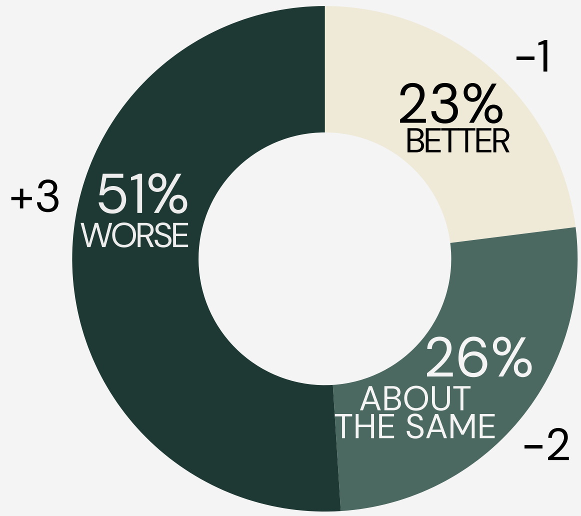
The SNP is seen as the party which best represents the interests of Scottish business (28%), but its lead is narrowing. Labour follows at 26%, with the Conservatives trailing at 15%. Meanwhile, Reform UK has quickly gained 9% support. When it comes to policies for growth and investment, the SNP also leads (29%), but Labour's support has slipped by seven points to 24%, suggesting that business has grown more cautious over Labour's approach since they took the reins at Westminster.

05 SCOTTISH AND UK GOVERNMENT SENTIMENT DIVIDED

Almost half (48%) of Scottish businesses believe the Scottish Government is concerned with their needs, but only 33% feel the same about the UK Government. Interestingly, while the proportion expressing confidence in Westminster is lower, it has risen by three points since December 2024, marking its highest level since the survey began. This suggests a slight but noteworthy improvement in sentiment toward the UK Government's approach to business concerns while also maintaining a gap in perception between the two administrations.

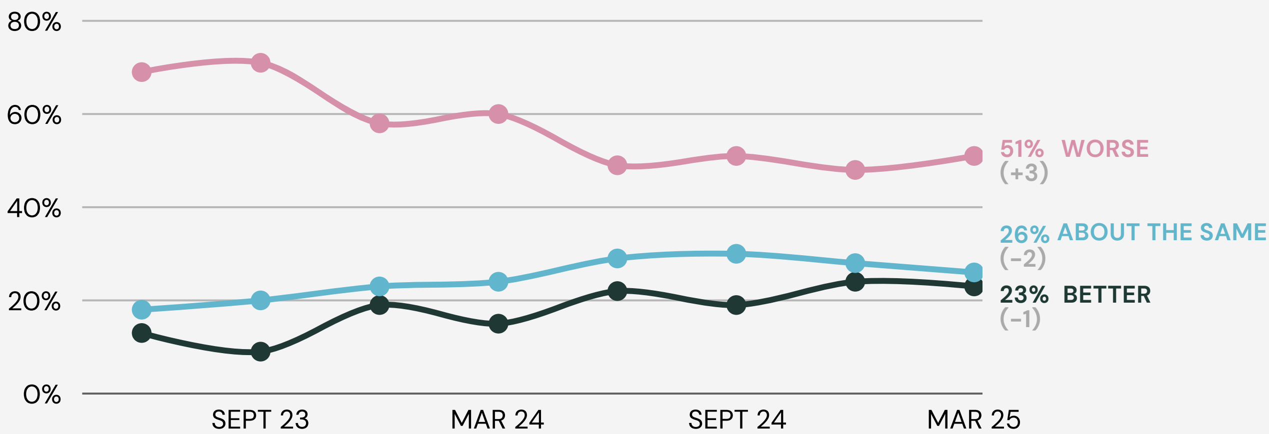
Economic Outlook

When reflecting on the previous 12 months, just over half of respondents (51%) believe that economic conditions are worse now than a year ago (excluding 'don't knows'), up three percentage points from December.



Economic conditions now, compared to 12 months ago

Proportions of respondents reporting perceived changes to the general economy



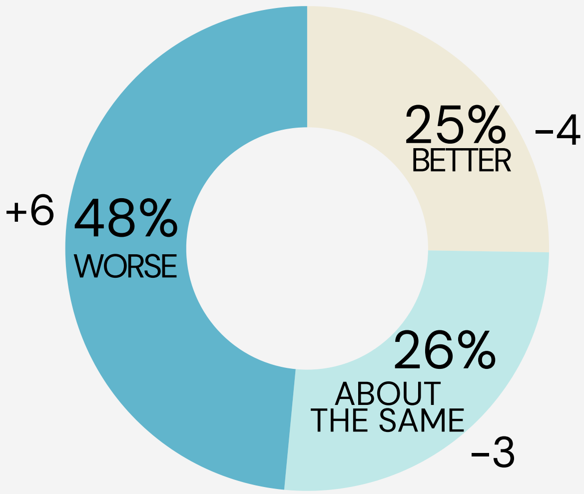
Whilst the proportion of businesses that believe economic conditions are worse now than they were 12 months ago has been steadily declining over the Understanding Business series, this wave saw a slight increase of three percentage points, bringing it back in line with the September 2024 wave of Understanding Business (51%).

Conversely, the percentage of businesses who believe the economy is better now than it was a year ago has decreased by just one percentage point to 23%.

In a similar fashion, the percentage of businesses reporting that economic conditions are about the same as they were a year ago has decreased modestly by two percentage points.

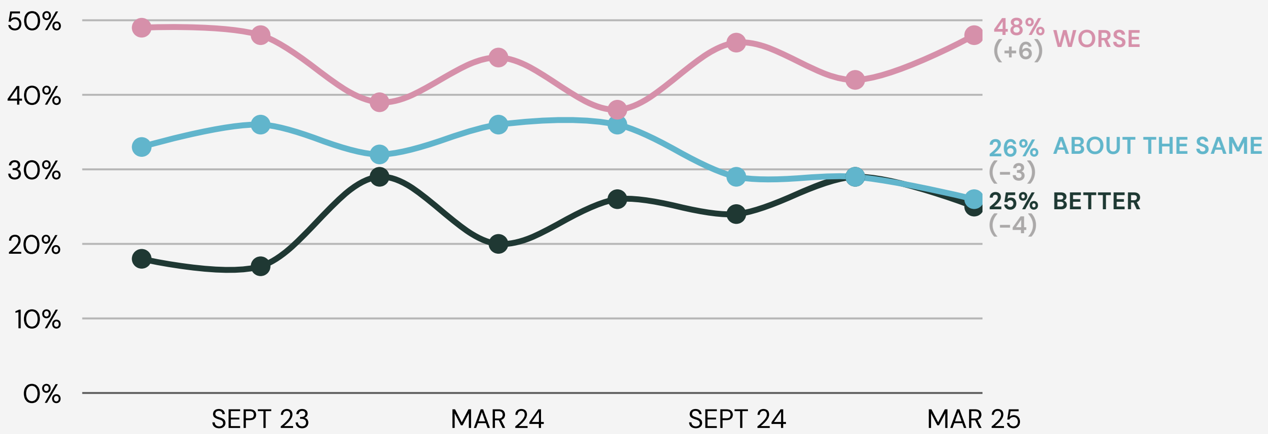
Economic Outlook

Looking to next year, nearly half of businesses (48%) believe that economic conditions will be worse in 12 months time compared to now, up six percentage points from the previous wave.



Economic conditions in 12 months, compared to now

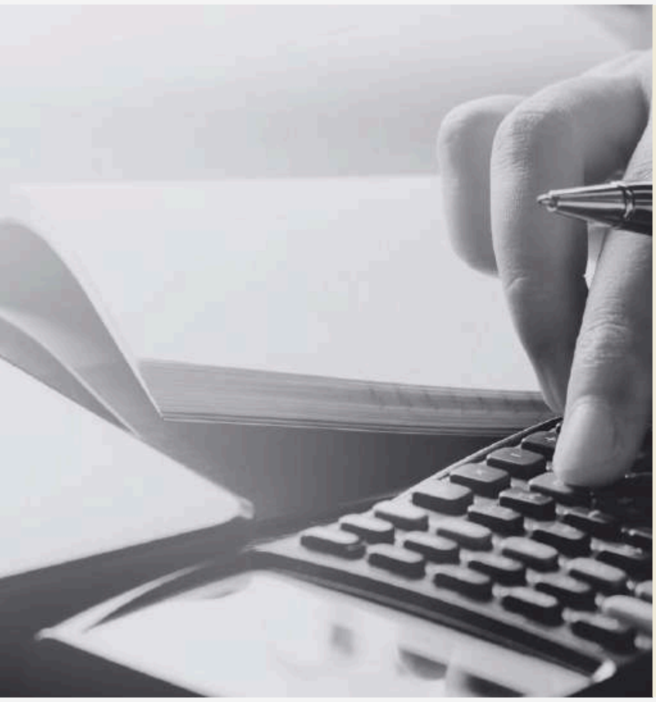
Proportions of respondents predicting changes to the general economy



Supporting this increase is a four percentage drop in the proportion of businesses that believe the economy will be better this time next year to just a quarter (25%).

This represents the largest downturn in positivity since March 2024.

The most modest shift was seen in the proportion of businesses who believe that the economy will be roughly the same in 12 months as it is now, with a drop of three percentage points to 26%.



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.

Since the last wave, there has been a significant decrease in the proportion of businesses projecting that their turnover and profitability will increase

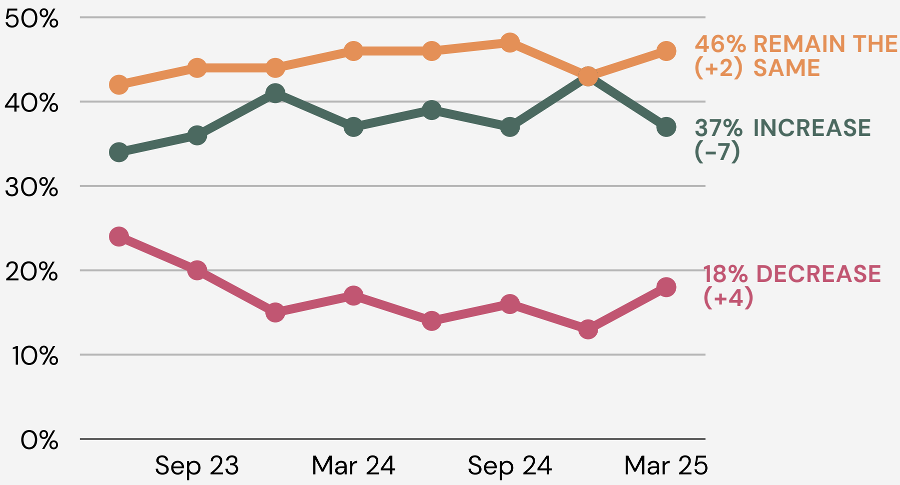
Less than four in ten (37%) respondents project their turnover to increase over the next 12 months, a decrease of seven percentage points since the last wave, seeing a return to the level measures in September 2024.

Meanwhile the proportion who expect their turnover to decrease has increased by four percentage points to 18%.

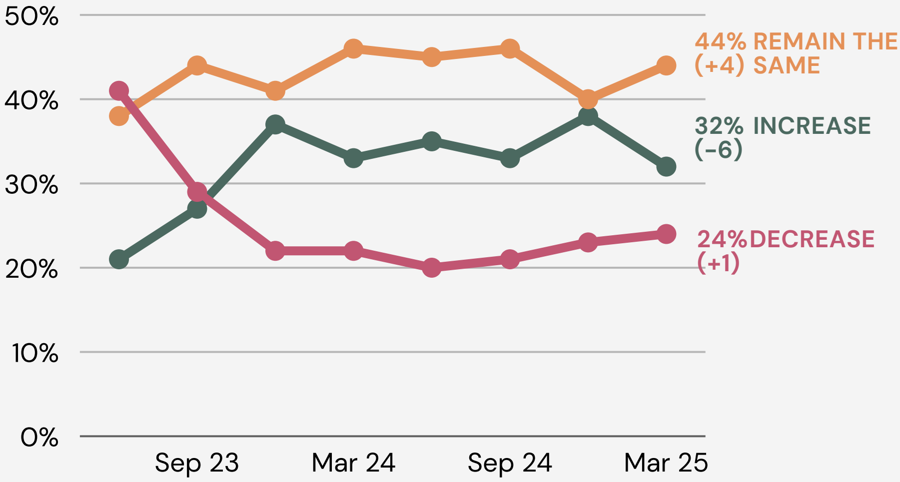
The proportion who expect their profitability to increase has decreased by six percentage points to just one in three businesses (32%).

This decrease is largely explained by the four percentage point increase in those predicting that their profitability will remain the same over the next twelve months to 44%.

Proportions of respondents predicting changes to Turnover



Proportions of respondents predicting changes to Profitability



Recruitment

Around a fifth (22%) of respondents reported that the size of their workforce has increased over the past three months, remaining steady from December. Notably, 18% of businesses reported that the size of their workforce has decreased, up six percentage points since December.

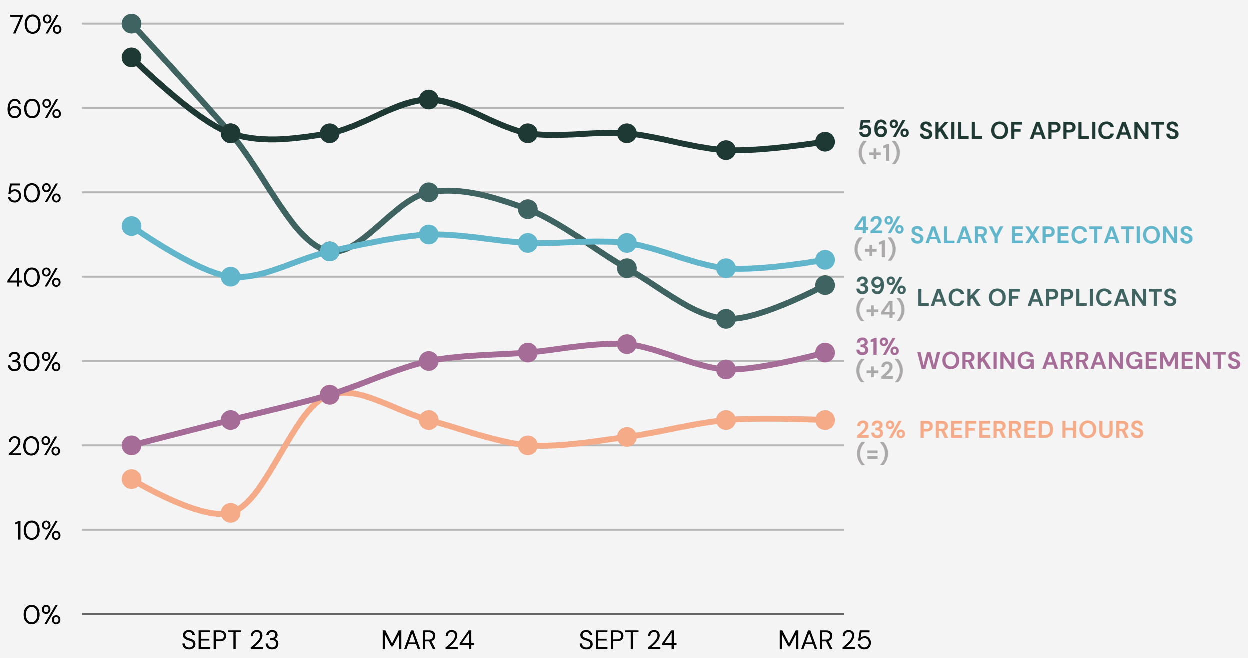
A similar, albeit more modest increase is seen when looking to the coming three months, where 16% of businesses expect that their workforce size will decrease. This is up four percentage points from December. Conversely, 23% expect their workforce to increase in size, a drop of three percentage points from December.

Just under half of businesses (48%) have attempted to recruit staff over the past three months.

Challenges that businesses have faced in recruiting new staff have remained fairly stable over the past few waves, but notably, following a period of decline in the number of businesses reporting a lack of applicants, this wave saw a four percentage point increase (to 39%) in the number of businesses listing this as a challenge.

The skill of applicants remains the most reported challenge that businesses have faced in recruitment (56%), consistent with the last several waves of Understanding Business.

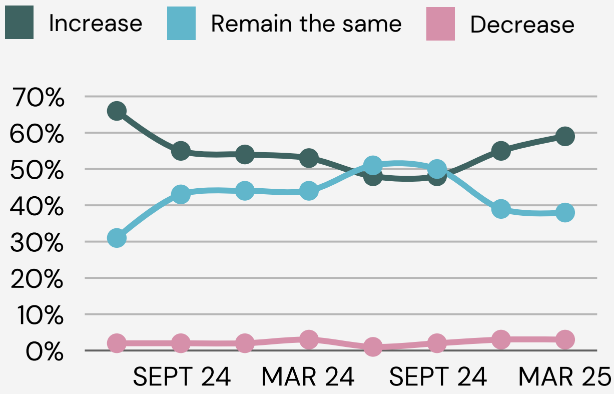
Proportion of recruiting businesses that experienced the following recruitment challenges over time



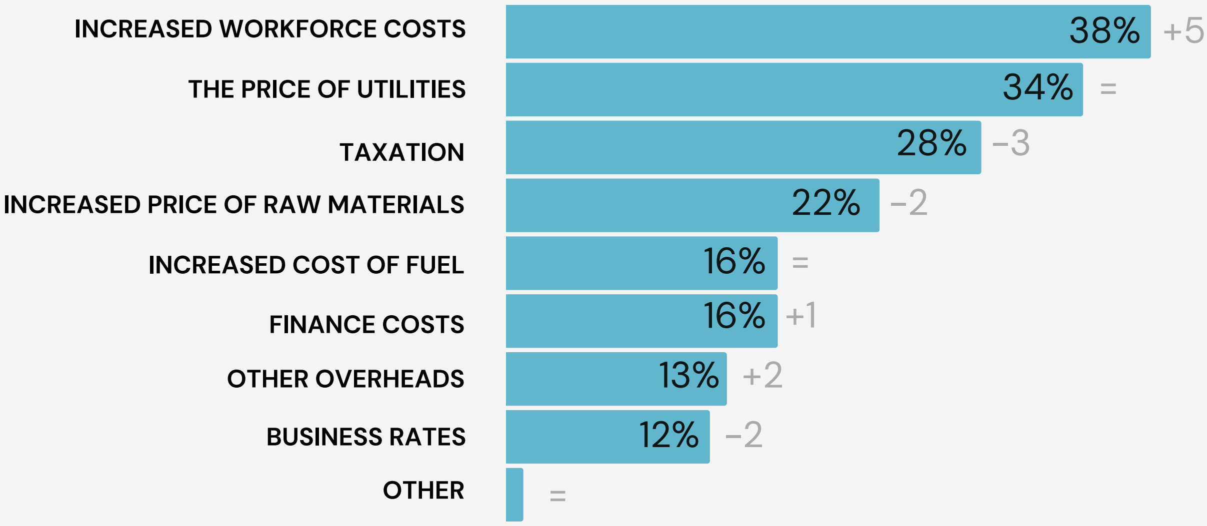
Pricing

Around six in ten respondents (59%) expect that prices will increase over the next three months. 38% believe that prices will remain the same, while just 3% of businesses believe that prices will decrease. These proportion of businesses anticipating price increases has increased by two percentage points since the last wave.

Proportion of respondents expecting price increases/decreases



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



When asked about the top pressures that increase costs, the greatest proportion of respondents selected increased workforce costs (38%). Among the other most mentioned factors were the price of utilities (34%), taxation (28%), and the increased price of raw materials (22%)

In terms of notable shifts, this wave saw an increase of five percentage points in the proportion of businesses mentioning workforce costs as an important pressure to increase costs. There was also a slight decrease in the proportion mentioning taxation of three percentage points.

Concerns

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
More concerned	**59%** +1	**59%** +11	**42%** -1	**39%** -2	**35%** -1	**23%** -1	**27%** =
No change	**36%** +1	**34%** -8	**49%** +3	**48%** -3	**53%** -1	**60%** -2	**52%** -2
Less concerned	**4%** -2	**6%** -3	**8%** -2	**7%** +2	**11%** +2	**15%** +3	**12%** +2

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

While the proportion of respondents reporting that they are more concerned with taxation than they were three months ago increased slightly by one percentage point (59%), concern with inflation has increased substantially. Nearly six in ten respondents reported being more concerned with inflation (59%), the highest since September 2023 and up eleven percentage points since December.

Concern with issues like businesses rates, business survival, exchange rates and competition seems to have eased slightly. While a greater proportion of respondents still report being more concerned than less concerned in each of these categories, the percentage of businesses who said they were less concerned than they were three months ago has increased slightly in all of them.

Regarding interest rates, this wave saw slight decreases in the percentage of businesses who said they were more concerned and less concerned. About half (49%) said they were about as concerned as they were three months ago, up three percentage points from December.

Government Responsiveness

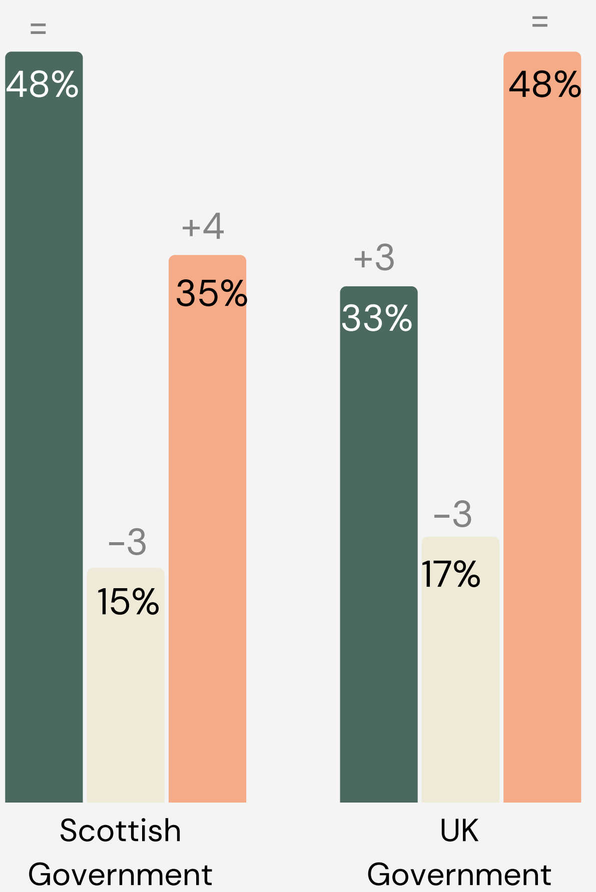
When asked if the Scottish Government is concerned with the needs of Scottish businesses, around half (48%) agree, while one in three (35%) disagree. The proportion of respondents who disagree has increased by four percentage points.

When asked the same about the UK Government, one in three (33%) agree, while around half (48%) disagree. The percentage who agree has increased by three percentage points since the last wave.

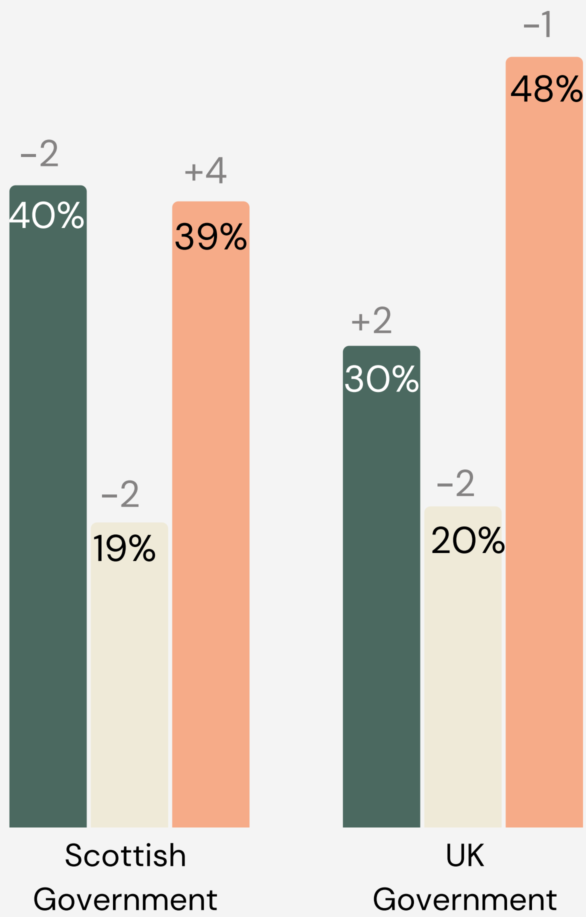
When asked whether the Scottish Government is taking action to address business concerns, four in ten (40%) agree, while about an equal number (39%) disagree. These figures have converged slightly since December.

The proportion who agree that the UK Government is taking action to address Scottish business concerns has continued its upward trend, rising by two points to 30% this wave. Notably, this has increased by nine points since September. Still nearly half of respondents (48%) disagree.

Concerned with needs of Scottish businesses



Taking action to address Scottish business concerns



Agree Neither agree nor disagree Disagree

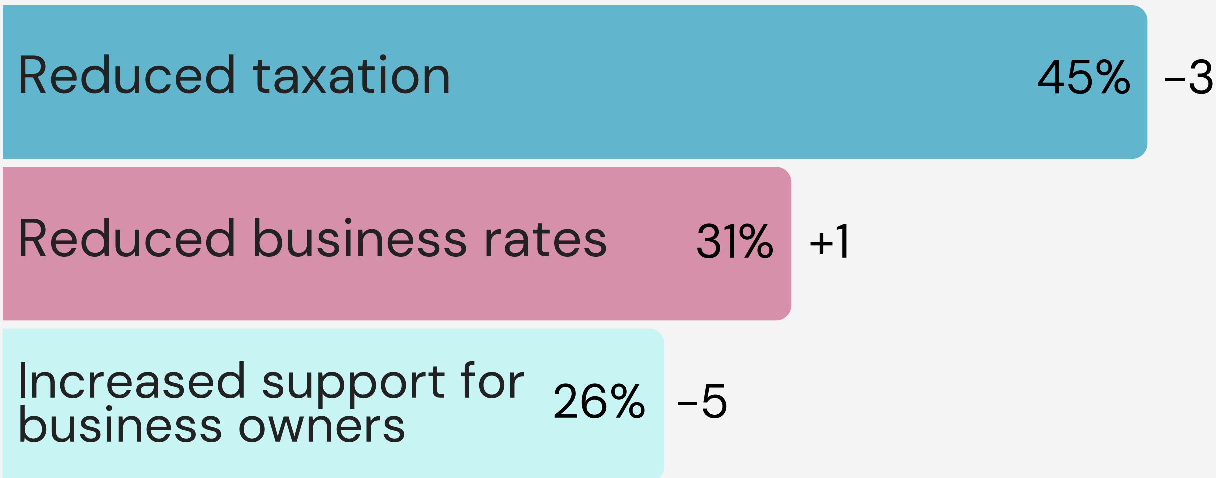
Interventions

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

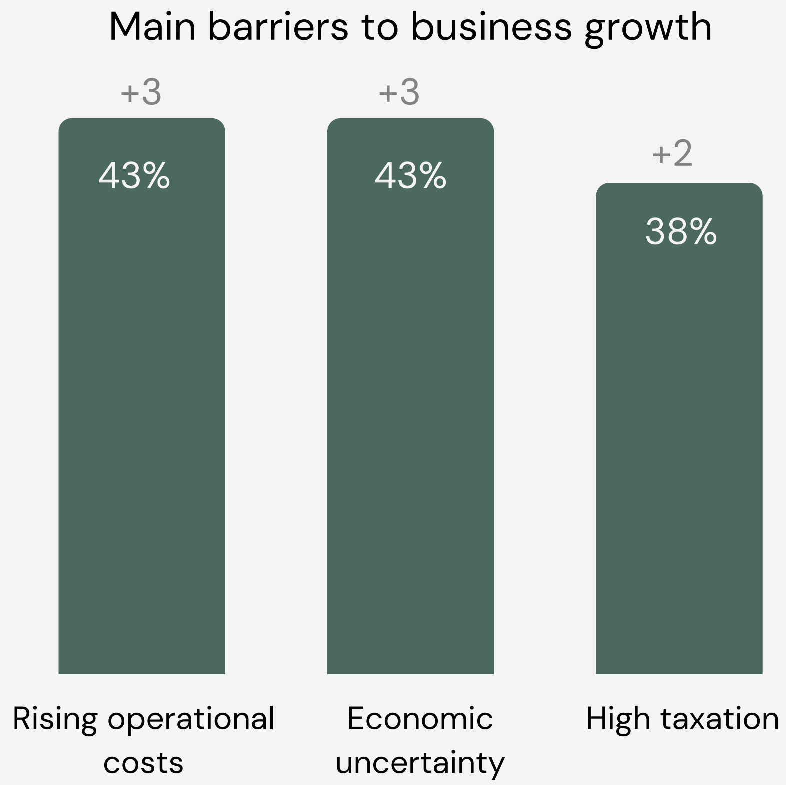
Similarly to the December wave of Understanding Business, reduced taxation remains the most popular intervention to help business growth (45%), despite a slight decline in the percentage of businesses that selected it.

Roughly one in three businesses (31%) reported that reduced businesses rates would be among the most helpful interventions for growth, up one percentage point from December. It overtook increased support for business owners as the second most mentioned intervention among respondents. Support for business owners, while still among the most mentioned interventions, saw a decline in the percentage of businesses that selected it, down to about one in four (26%).

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



Barriers

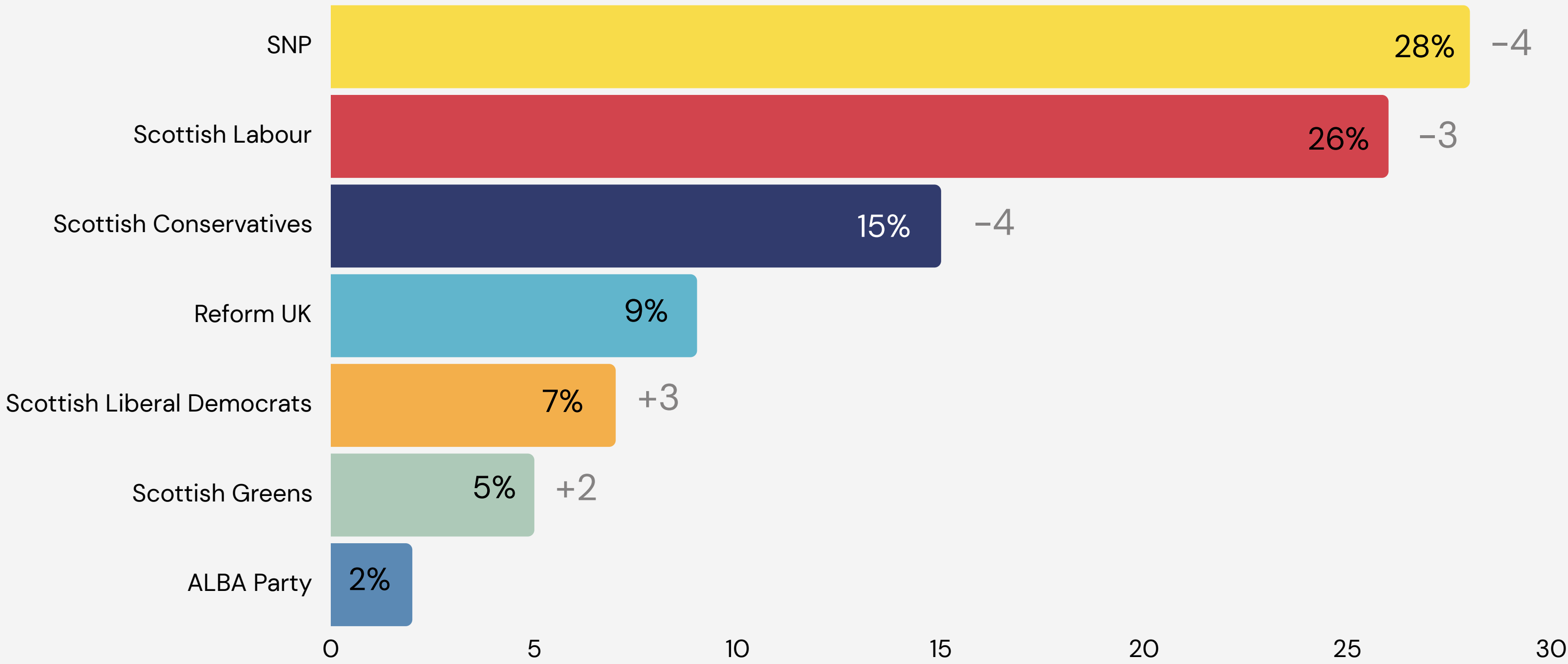


Similarly to last wave, rising operational costs, economic uncertainty, and high taxation were mentioned as the main barriers to business growth. The percentage of businesses mentioning rising operational costs and economic uncertainty rose by three percentage points.

Nearly four in ten businesses (38%) mentioned high taxation as a major barrier to growth. The percentage of businesses mentioning high taxation has continued its upward trend, rising by two percentage points this wave. It has increased by ten points since the March 2024 wave of Understanding Business.

Views on parties: Representing interests

Respondents were asked which party best represents the interests of Scottish business



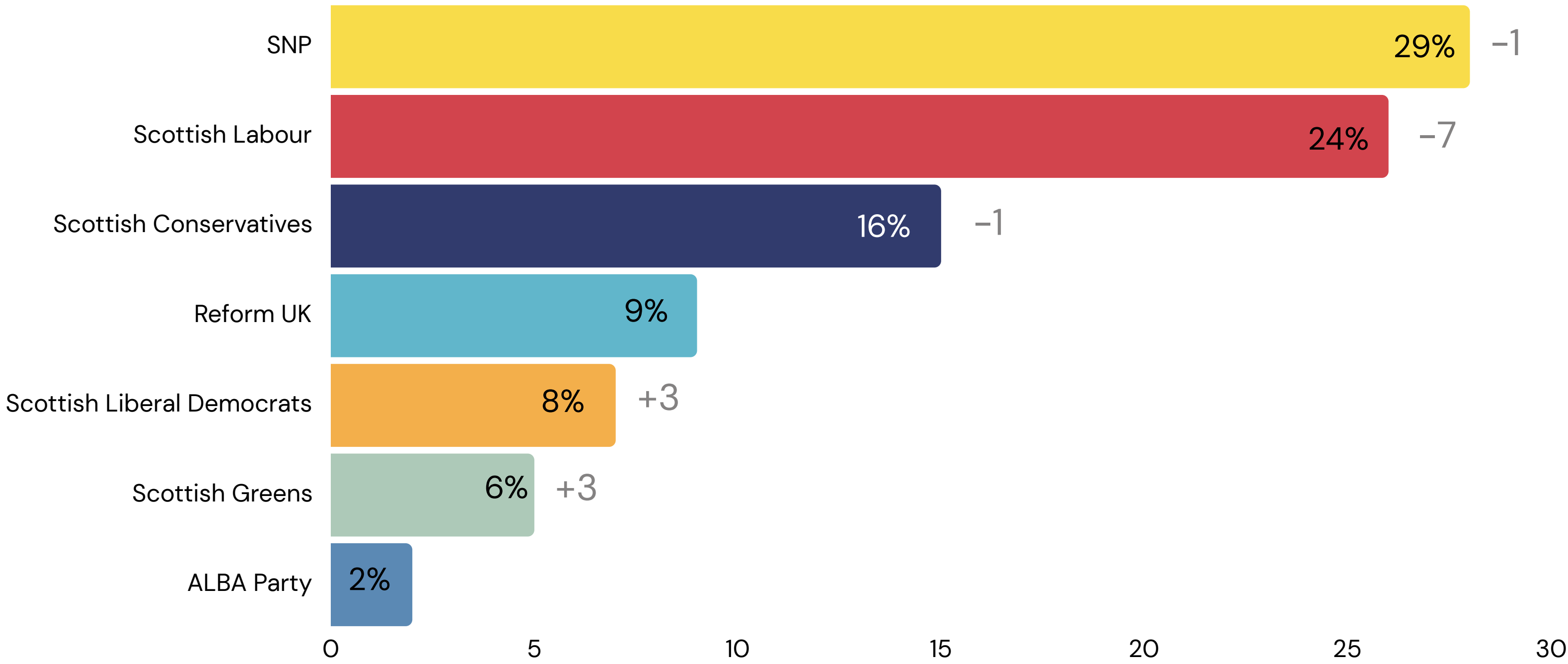
Note: Reform UK and ALBA Party were not an option in March 2024 survey. Remainder (8%) selected 'Other'.

Similarly to March 2024, the highest percentage of respondents (28%) believe that the Scottish National Party best represents the interests of Scottish businesses. They are very closely followed by the Scottish Labour Party (26%). Both the SNP and Scottish Labour saw a slight decline since the March 2024 wave, of four and three percentage points respectively.

The Conservative Party also saw a decline since March 2024 of four percentage points, down to 15% in this wave. Reform UK, who saw the fourth highest share of responses (9%), was a new option on this wave's survey. Both the Liberal Democrats and the Scottish Greens saw slight increases in the percentage of businesses who selected them in this wave.

Views on parties: Policies for growth and investment

Respondents were asked which party has the best policies for Growth and Investment



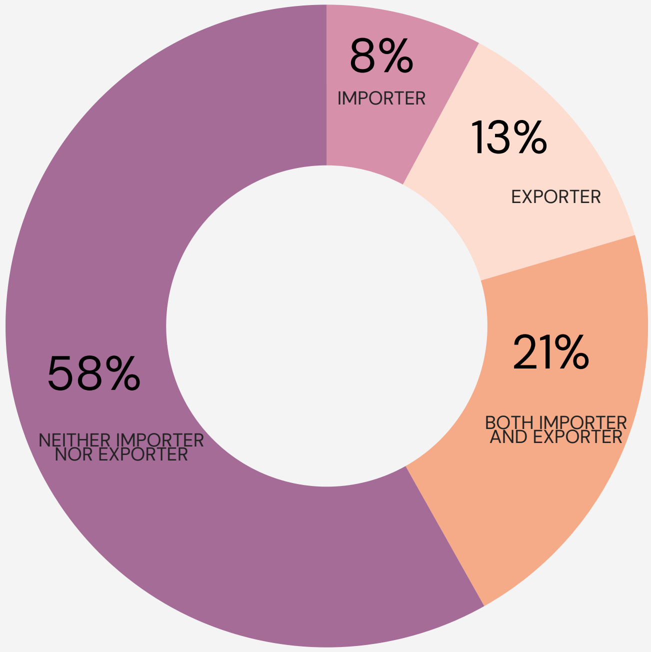
Note: Reform UK and ALBA Party were not an option in March 2024 survey. Remainder (7%) selected 'Other'.

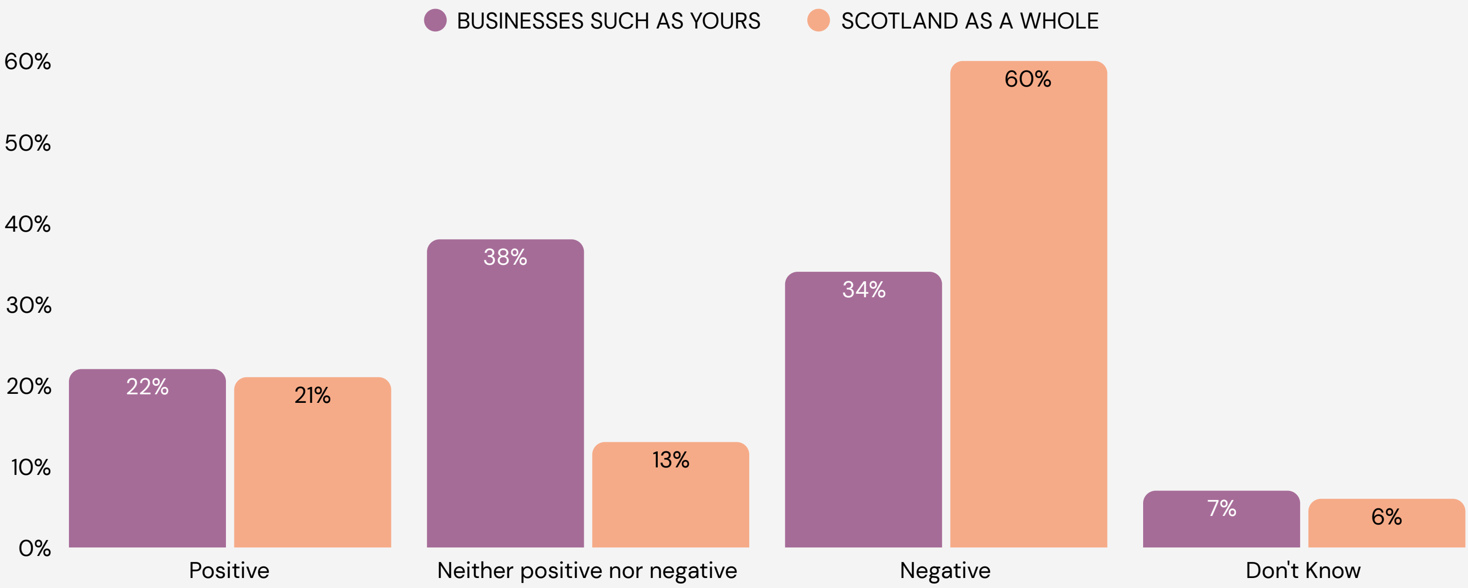
The SNP are also seen as the party with the best policies to support growth and investment in Scotland by three in ten businesses (29%), down by one percentage point on March 2024. Around a quarter (24%) see Scottish Labour as having the best policies to support business growth and investment in Scotland (down from seven percentage points on a year ago) suggesting that businesses have grown cautious around Labour's approach since the party has been in government at Westminster.

The Scottish Conservatives are seen to have the best policies for growth and investment by 16% of businesses while one in ten (9%) believe this is Reform UK. The Scottish Liberal Democrats (8%) and Scottish Green (6%) have both seen three percentage point increases in the last twelve months.

Importing and Tariffs

When asked about the international activities of businesses, 58% reported engaging in neither imports nor exports. On the other hand, 21% reported engaging in both, while 13% only exported and 8% only imported.



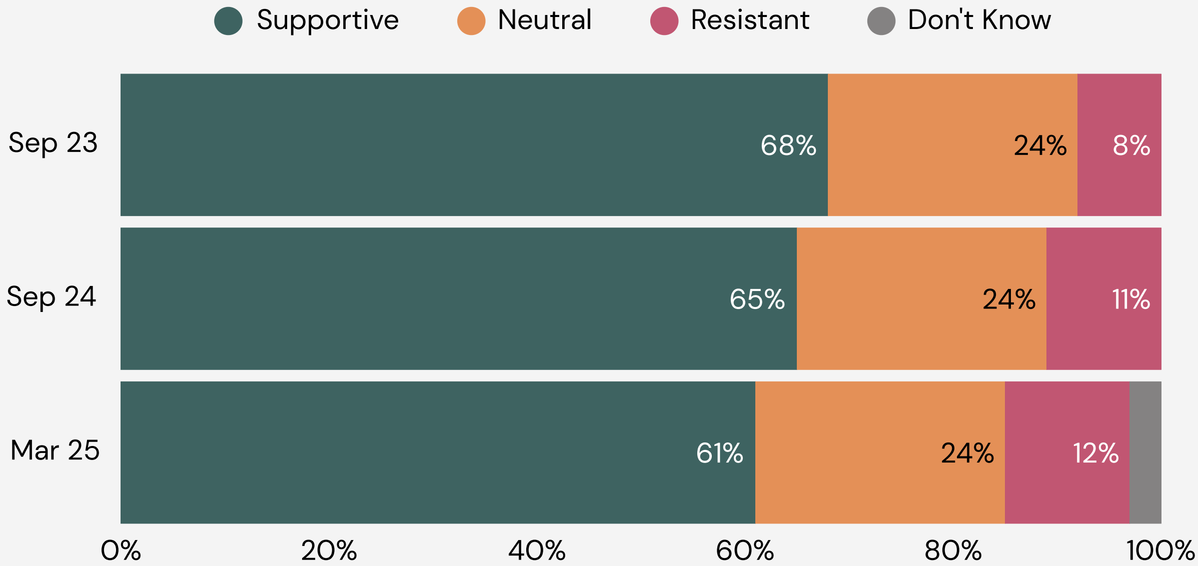


As part of this wave of Understanding Scotland, respondents were asked whether they believe tariffs to generally be positive or negative, for both businesses like their own and Scotland as a whole. Most respondents viewed tariffs in a negative light, particularly when it comes to Scotland as a whole – six in ten respondents (60%) said tariffs are either somewhat negative or very negative to Scotland as a whole. On the other hand, nearly four in ten (38%) said that tariffs were neither positive nor negative when it comes to businesses such as their own.

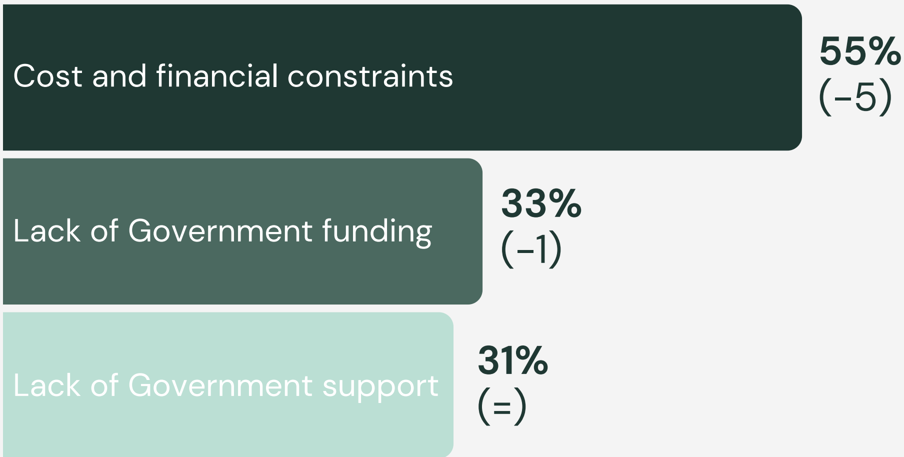
Net Zero

When asked about the overall attitude of businesses towards achieving Net Zero goals, the majority of respondents (61%) expressed that they were supportive, despite a slight dip in the percentage of respondents who said they were highly supportive. On the other hand, only 12% of respondents reported being somewhat or highly resistant to achieving Net Zero goals. There was a two percentage point increase in the proportion of businesses reporting that their overall attitude was highly resistant.

How would you describe the overall attitude of your business towards achieving Net Zero goals?



What are the three most important barriers that your business faces in moving towards Net Zero?



When it comes to the barriers that businesses face in moving towards net zero, the most frequently reported were cost and financial constraints as well as lack of government funding and support. Notably, there was a five percentage point drop in the proportion of businesses mentioning cost and financial constraints, despite it still being the most frequently mentioned barrier.

TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted from 24 February to 11 March 2025. A total of 509 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.

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