

CURRENT AND EXPECTED SCOTTISH BUSINESS ACTIVITY

CURRENT BUSINESS ACTIVITY

- Business activity has improved in Q2 2024. Across almost every measure – apart from, interestingly, employment - firms reported improving business conditions.
- This improvement has seen volume of sales and turnover return to positive territory, meaning that more firms have seen an increase in these two measures than have seen a decline.
- The measure of sales improved significantly with a net balance of 4.5 percentage points compared to -7.1 last quarter, and turnover turned positive at 5.4 percentage points, recovering from -2.6 percentage points in Q1 2024.
- Nevertheless, the other activity measures remain negative, reflecting the tough business conditions of the past few quarters.
- New business activity is still in negative territory, now at -4.2 percentage points, though an improvement on the previous two quarters.
- The net balance of firms reporting an increase level of employment has fallen further into negative territory, after being positive for most of 2023.
- Levels of new capital investment and export activity measures both remain negative (more firms reporting falls than increases). However, both have improved their position compared to 2023.

Table 1:

Net balance of firms experiencing an increase in activities over the past three months, **Q1 2022 - Q2 2024**

	2022				2023			2024	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2
VOLUME OF BUSINESS ACTIVITY (I.E., SALES)	30.1	15.3	4	-2.2	9.1	3	-1.2	-7.1	4.5
VOLUME OF NEW BUSINESS ACTIVITY	24.9	8.8	0	-4.9	5.7	0	-9.6	-13.5	-4.2
VALUE OF BUSINESS ACTIVITY (I.E., TURNOVER)	32.3	15	6.4	-0.7	8.1	3.7	0	-2.6	5.4
LEVEL OF EMPLOYMENT IN YOUR BUSINESS	15.5	10.2	8.5	-5.4	-0.5	2.2	1.9	-0.3	-2.7
LEVEL OF NEW CAPITAL INVESTMENT	6.3	1.2	-5.9	-14.7	-4.4	-12.1	-16.7	-12.1	-10.5
EXPORT ACTIVITY	-8	-9	-9.2	-11.5	-8.4	-11.4	-11.5	-16.4	-10.5

*Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower

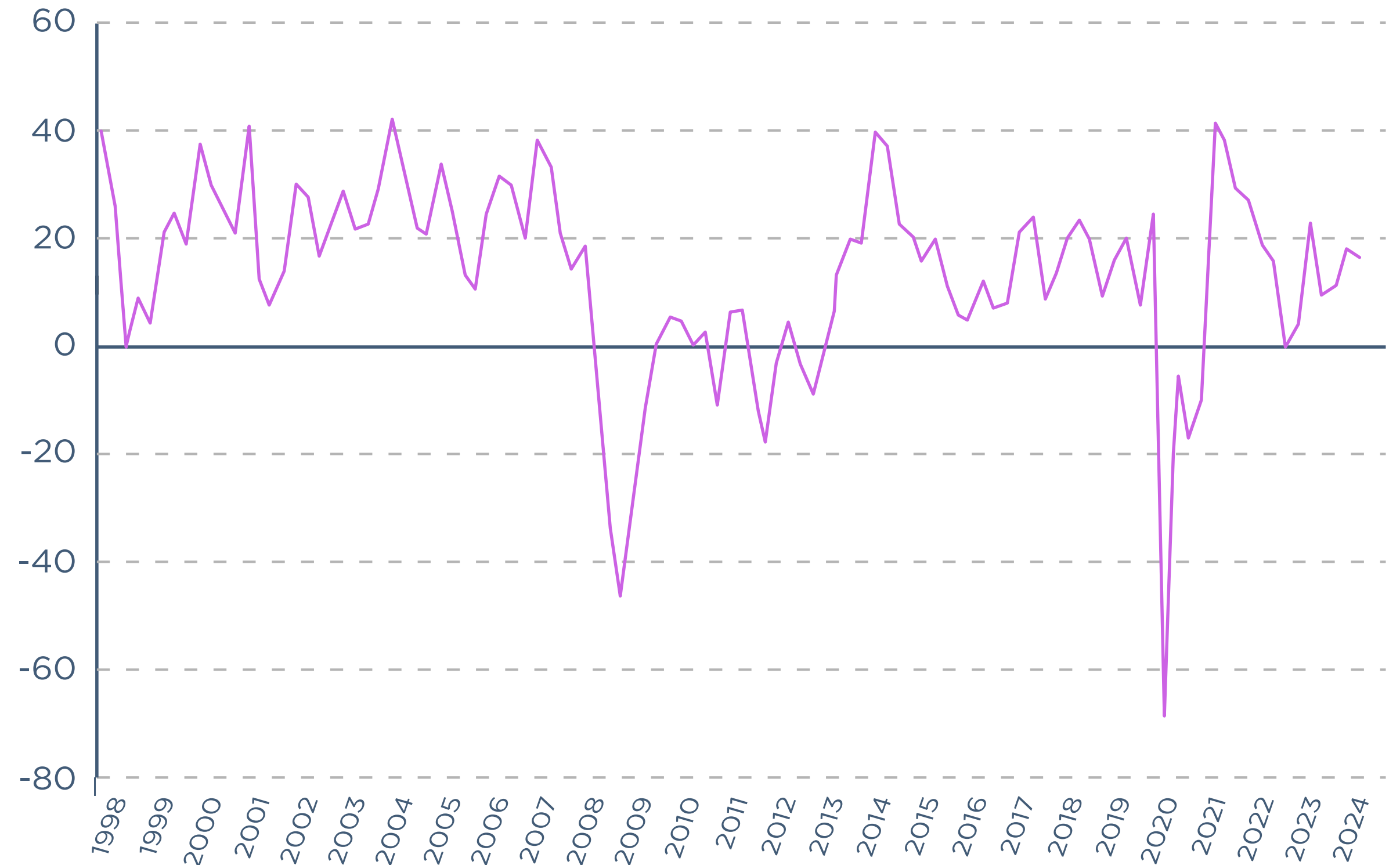
KEY RESULTS

BUSINESSES REMAIN CAUTIOUSLY OPTIMISTIC LOOKING AHEAD

- On average, firms were slightly less optimistic about their expected volume of business over the next six months compared to the last survey.
- The expected volume of business over the next six months has declined slightly since last quarter (18 down to 16 percentage points net balance) but still remains positive overall. This means that more businesses are expecting an increase in their volume of business over the next six months than a decline.
- While there were also positive net balances in expectations for the level of employment and turnover in the coming six months, there continued to be a negative net balance for expected capital investment and export activity.
- We asked Scottish firms what they expect to be important to their business over the coming quarter.
- Most businesses expect economic/business uncertainty (**89%**), staff availability (**81%**), and political uncertainty (**83%**) to be important or very important over the next three months. Although these figures are still relatively high, they are markedly down on the previous quarter.

Chart 1:

Net balance of firms expecting an increase in their volume of business over the next six months, **Q1 1998 - Q2 2024**



*Net balance of firms is defined as the share of firms reporting higher minus the share of firms reporting lower

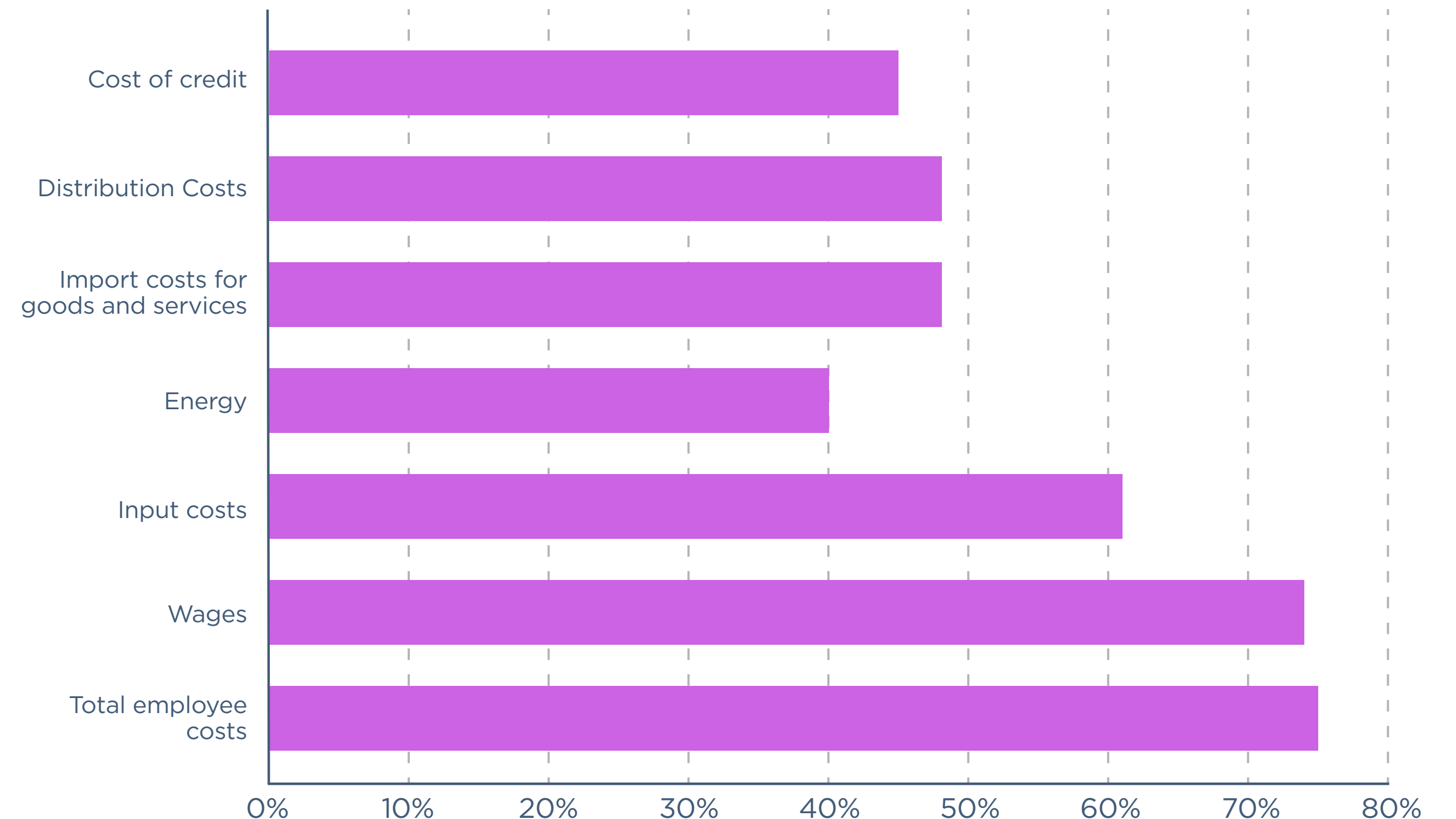
KEY RESULTS

COST PRESSURES FINALLY EASED AS INFLATION FALLS, WITH EXPECTATIONS FOR THIS TREND TO CONTINUE

- **72%** of firms in Scotland reported cost increases over the last quarter, down from **83%** in the previous quarter.
- In every category, the proportion of businesses reporting that costs were higher has decreased compared to last quarter.
- The increased cost of employing people remained the most cited, with **75%** reporting that higher total employee costs and **74%** reporting higher wage costs.
- **40%** of firms reported higher energy costs, a significant drop from **57%** in last quarter.
- Looking ahead to the next 6 months, **72%** of firms expect total business costs to be higher. Although still relatively high, this is an improvement from **85%** last quarter.
- Wages and total employee costs are expected to be the key driving factors, with **68%** and **69%** respectively expecting these costs to increase over the next 6 months. Again, these are much lower than they were last quarter.

Chart 2:

Proportion of businesses responding that costs were higher this quarter compared to the previous 3 months.



% OF RESPONDING BUSINESSES

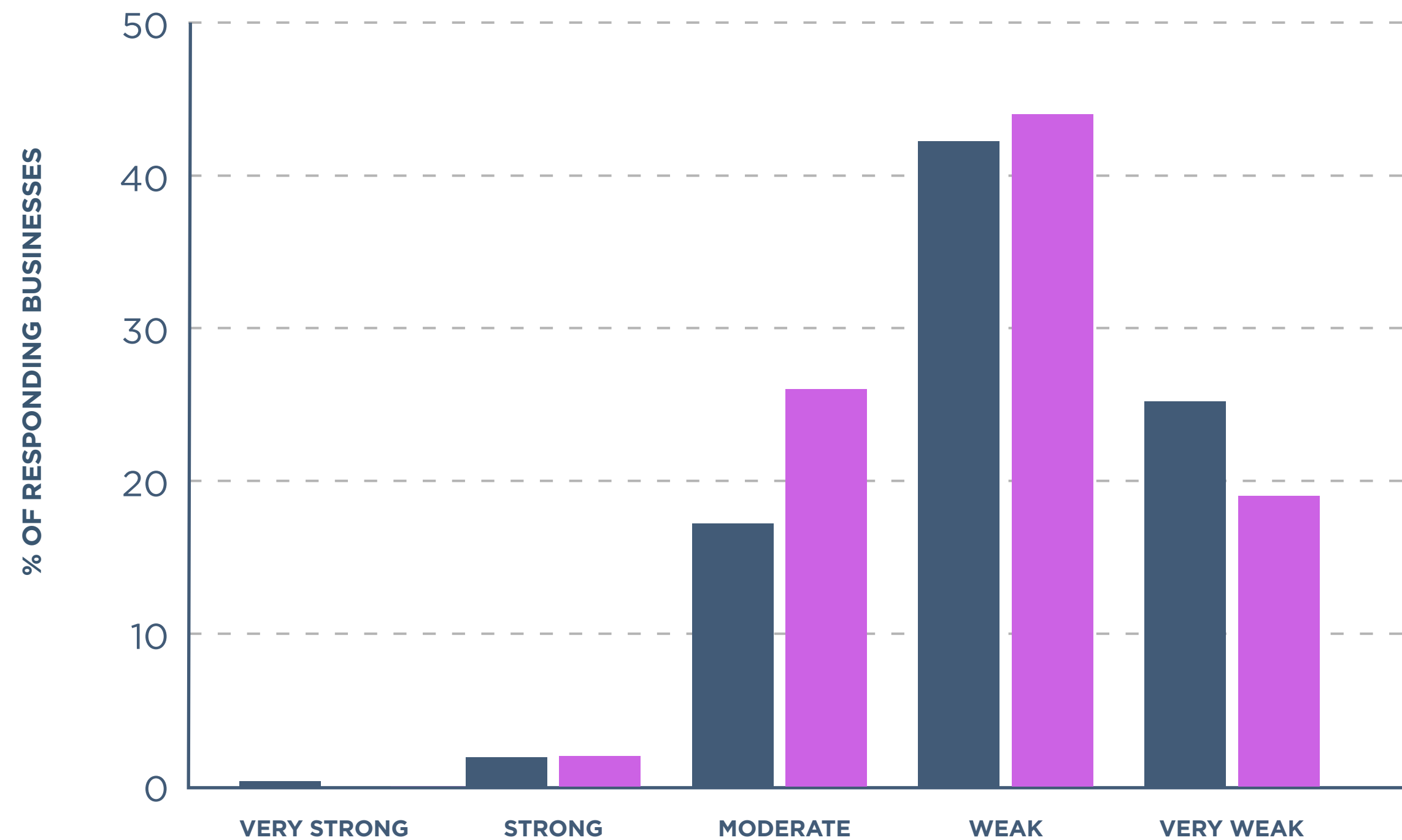
KEY RESULTS

EXPECTATIONS OF SOME GROWTH IN THE SCOTTISH ECONOMY RISE, THOUGH CONCERNS LINGER ON

- Moderate growth expectations have increased from **17%** in Q1 2024 to **26%** in Q2 2024, indicating a more optimistic outlook among responding businesses.
- Likewise, expectations of very weak growth have decreased from **25%** last quarter to **19%** in Q2 2024, suggesting a reduction in pessimism.
- Other growth expectations have remained relatively stable, with a slight increase in weak growth.
- Overall, while there is a mixed sentiment among responding businesses, there seems to be a moderate increase in optimism regarding the growth of the Scottish economy in the coming year.

Chart 3:

Thinking about the growth in the Scottish economy over the next 12 months compared to the previous 12 months, do you think that growth will be, Q1 2024 vs Q2 2024*



*13% (Q1) and 9% (Q2) of businesses responded N/A; therefore, percentages will not sum to 100%

MORE IMAGINATION MORE IMPACT

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