

JUNE 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.



56° NORTH

Introduction

Understanding Business – June 2025

The latest findings from the Understanding Business survey offer insights into how Scottish businesses are faring during ever-changing economic times.

This wave witnesses noteworthy shifts from March – most prominently, a rise in optimism across a range of business and economic aspects. Pessimism remains for a plurality of respondents when considering the current and future condition of economic affairs in Scotland; however, negative sentiments appear to be slowing giving way.

Similarly, this wave sees a sharp improvement in business confidence when it comes to both profit and turnover – record high levels of optimism are captured when businesses discuss their financial expectations over the next year.

Despite this, worries persist among Scottish businesses about issues like taxation and inflation. Despite a decrease in the proportion of respondents who report being more concerned than they were twelve months ago, the majority of all businesses surveyed remain increasingly concerned about both issues. Concern with business rates, exchange rates and competition are also on the rise.

And despite concerns about a tight labour



market, more Scottish businesses are reporting workforce growth, suggesting strong appetite for skilled labour. However, the skill of applicants remains a critical challenge.

Perhaps in response to this challenge, most businesses view migration as an answer to critical skill shortages in Scotland. Many are open to increased devolution of worker migration to Holyrood. Yet, some businesses remain wary of the impact migration has on local workforces, and the integration of devolution of migration on UK-wide immigration laws.

Considering governments in both London and Edinburgh, businesses are moderately more satisfied with each government's sensitivity and actions to address business concerns in recent months.

Overall, this wave indicates increasing confidence in the economy despite recent turbulence and underscores the rapidly shifting landscape of Scottish business.

5 KEY TAKEAWAYS

Our ninth 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 ECONOMIC PESSIMISM REMAINS, BUT OPTIMISM GAINING GROUND

About half of businesses that express an opinion (48%) believe general economic conditions are worse than a year ago, while two in five (41%) believe conditions will continue to deteriorate over the next year. However, a growing proportion report that the general economy is better now than a year ago (30%) or will improve over the next year (35%), up seven and ten percentage points respectively.

02 TURNOVER AND PROFITABILITY PREDICTIONS ON THE RISE

A plurality of businesses expect their turnover (47%) and profitability (44%) to increase in over the next 12 months, record highs for the Understanding Business series. In each case, this is followed closely by those that think their turnover or profitability will remain the same in the next year, at 41% and 39%.

03 REPORTS OF GROWING WORKFORCES REVEAL DYNAMIC RECRUITMENT CHALLENGES

While most businesses report that their workforce size has remained the same over the last three months (61%) and expect it to remain the same in the coming months (57%), a growing proportion report current (25%) or future increases (31%) to their workforce size. And although the proportion of businesses that are recruiting has stabilised around half, skill of applicants (62%) is a growing concern, up six percentage points, as is desired working arrangements of applicants (36%), up five percentage points, and preferred hours (29%), up six percentage points.

04 CALLS FOR GREATER DEVOLUTION OF MIGRATION

Almost seven in ten (68%) believe migration is vital for filling critical skill shortages in Scotland and that the Scottish Government should have powers over migration of workers to Scotland. A similar number (70%) are supportive of the introduction of a "Scottish visa" that would allow some migrants to come to Scotland to work, so long as they reside in Scotland and maintain a Scottish tax code. Despite strong support for devolution of migration, businesses are still conscious of the impact of migration on the local workforce, and the need for joined-up thinking on devolution of migration and UK-wide immigration policy.

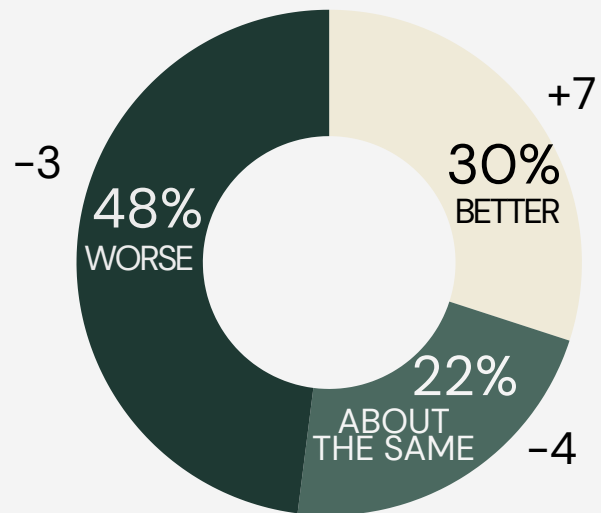
05 WIDESPREAD CONCERNS LINGER

Well over half of Scottish business are more concerned with taxation (56%) and inflation (55%) than they were three months ago, although these proportions have witnessed small declines of three and four percentage points respectively. Concern with business rates (43%), exchange rates (30%) and competition (26%) are on the rise, each up three percentage points since March 2025.

Economic Outlook

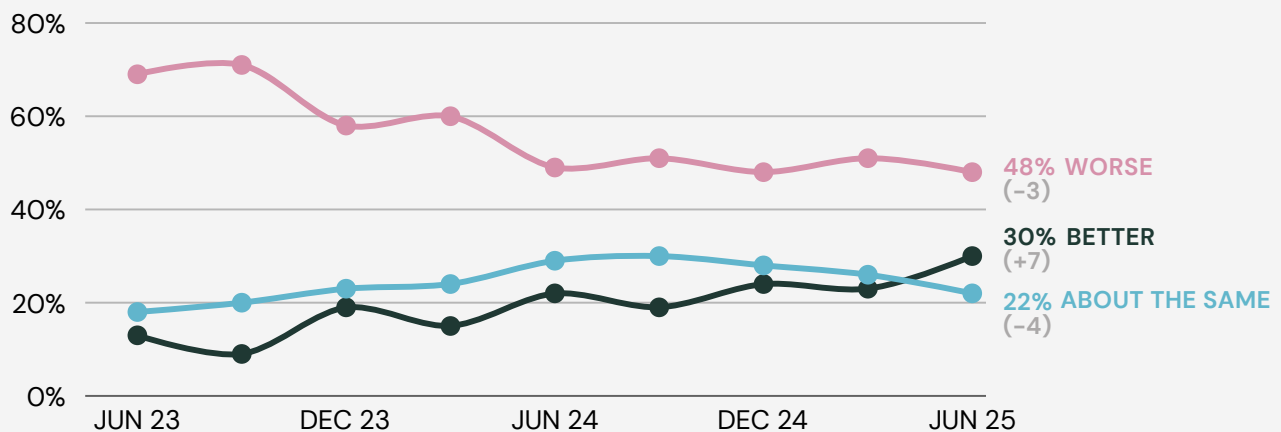
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This wave of Understanding Business carries on a trend of gradual decline in the proportion who believe economic conditions are worse now than they were 12 months ago, down three percentage points since March to about half (48%) (excluding 'don't know's').



Economic conditions now, compared to 12 months ago

Proportions of respondents reporting perceived changes to the general economy



This proportion is one of the lowest observed since Understanding Business began tracking business sentiment in June 2023.

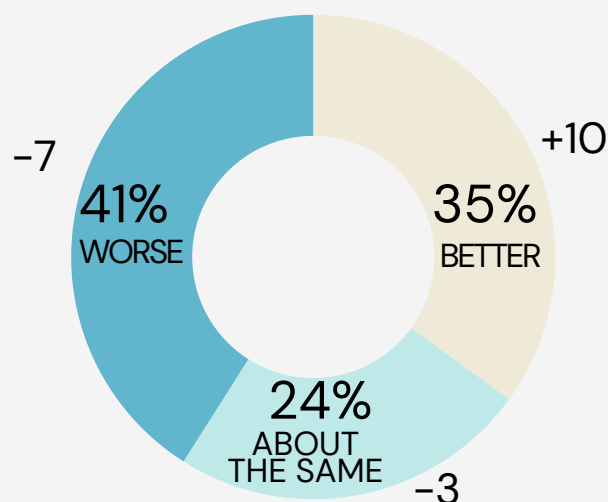
In addition, less businesses believe economic conditions are about the same as a year ago, with over one in five (22%) reporting this compared to just one in four (26%) last wave.

Supporting these falls is a notable

rise in the proportion who believe the economy is better now than it was 12 months ago, reported by three in ten (30%), up seven percentage points from March. For the first time in the Understanding Business series, the proportion that believe general economic conditions have gotten better has eclipsed the proportion that believe conditions are about the same as a year ago.

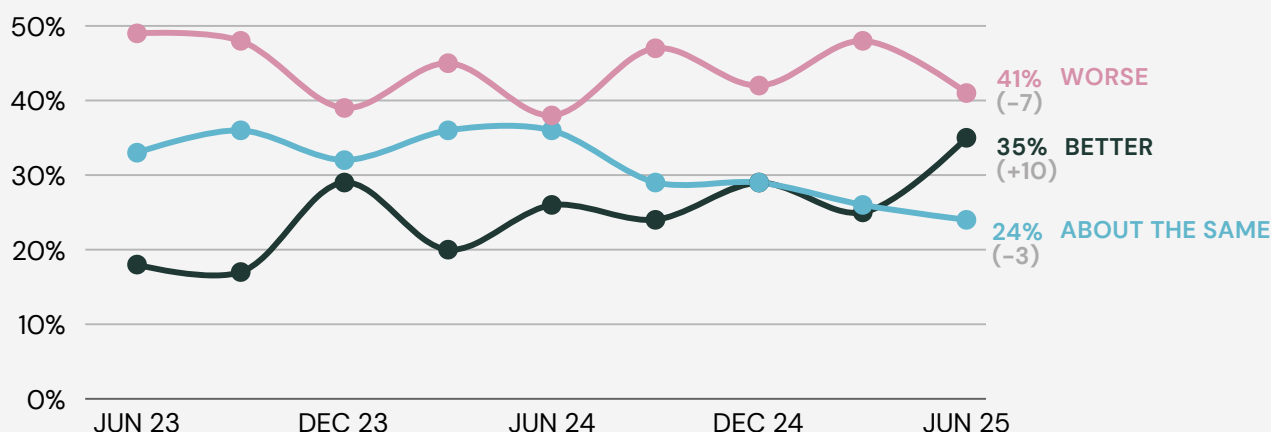
Economic Outlook

Looking to next year, about four in ten businesses (41%) believe that general economic conditions will be worse in a year than they are now (excluding 'don't know's'), a seven percentage point fall since March.



Economic conditions in 12 months, compared to now

Proportions of respondents predicting changes to the general economy



Furthermore, the proportion of businesses that believe the general economy will be about the same as it is now in 12 months' time has decreased by a small three percentage points since the last wave, to 24%.

In contrast, optimism about future economic conditions is on the rise,

with over one in three (35%) reporting that the general economy will be better in about a year's time. This proportion is up a sizable ten percentage points over the last wave, and represents the first wave of Understanding Business where more businesses have thought the economy would improve, rather than stay the same.

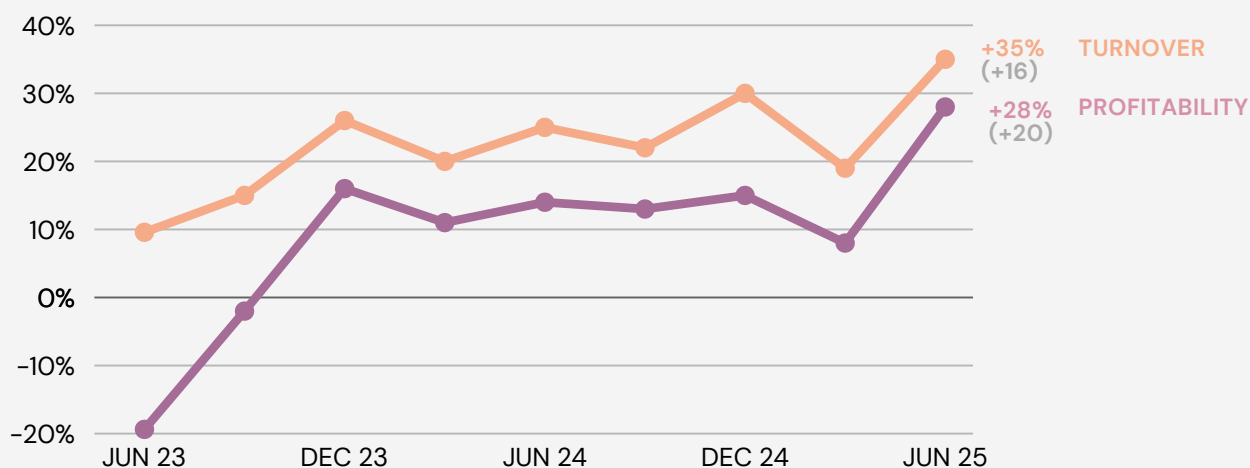


Profitability & Turnover

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

In line with the increased positivity about current and future economic conditions, optimism surrounding future turnover and profitability has risen sizably this wave. About half of businesses (47%) believe that their turnover will increase in the coming year, up 11 percentage points, while two in five (41%) expect their turnover to remain the same. Just one in eight (12%) predict a decrease in turnover. A similar picture is seen when it comes to profitability, with over two in five (44%) of respondents expecting their business profitability to increase in the coming year, up 13 percentage points, compared to only about one in seven (15%) who believe it will decrease. 39% of businesses expect that their profitability will remain about the same.

Proportions of respondents predicting increase in turnover/profitability minus those predicting a decrease



Recruitment

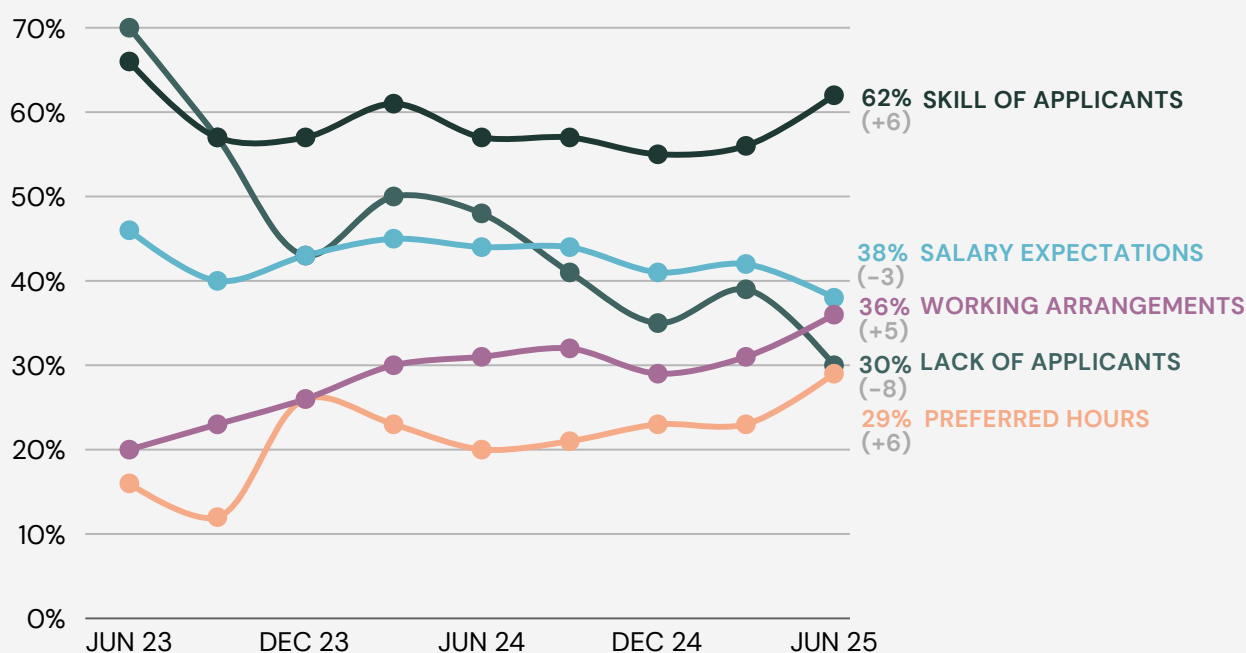
A majority of businesses (61%) report that their workforce size has stayed the same over the past three months. However, one in four respondents (25%) say their workforce size has increased, up four percentage points from March. Only 13% indicate that the size of their workforce has decreased in recent months, a drop of five percentage points since the last wave.

Expectations of future workforce size mirror current conditions. Most believe that their workforce size will stay the same (57%), although three in ten (31%) believe it will increase and one in ten (10%) believe it will decrease. While the proportion that believe their workforce size will stay the same or decrease has fallen, the proportion that expect their workforce to increase has risen

by nine percentage points, suggesting a buyer's market in employment. However, the proportion of businesses that have attempted to recruit staff over the last three months has remained relatively stable since March, at half (49%) of businesses.

For those recruiting, skill of applicants remains the dominant challenge, with 62% of recruiting businesses experiencing this. In addition, reports of this challenge are on the rise, up six percentage points compared to the last wave. Other challenges follow at a distance, although they witness notable changes from March, with the proportion selecting preferred working arrangements (36%) and hours of candidates (29%) as challenges up five and six percentage points respectively, and the proportion selecting lack of applicants (30%) down eight.

Proportion of recruiting businesses that report experiencing the following recruitment challenges over time

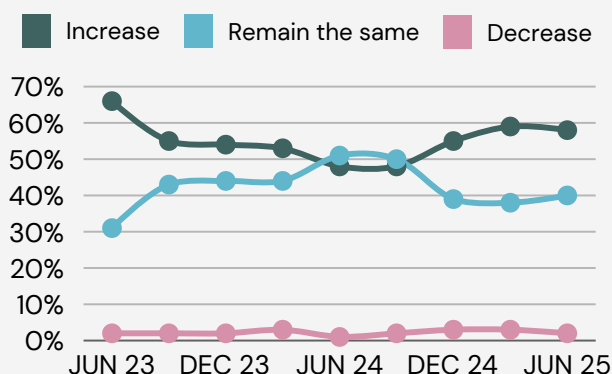


Pricing

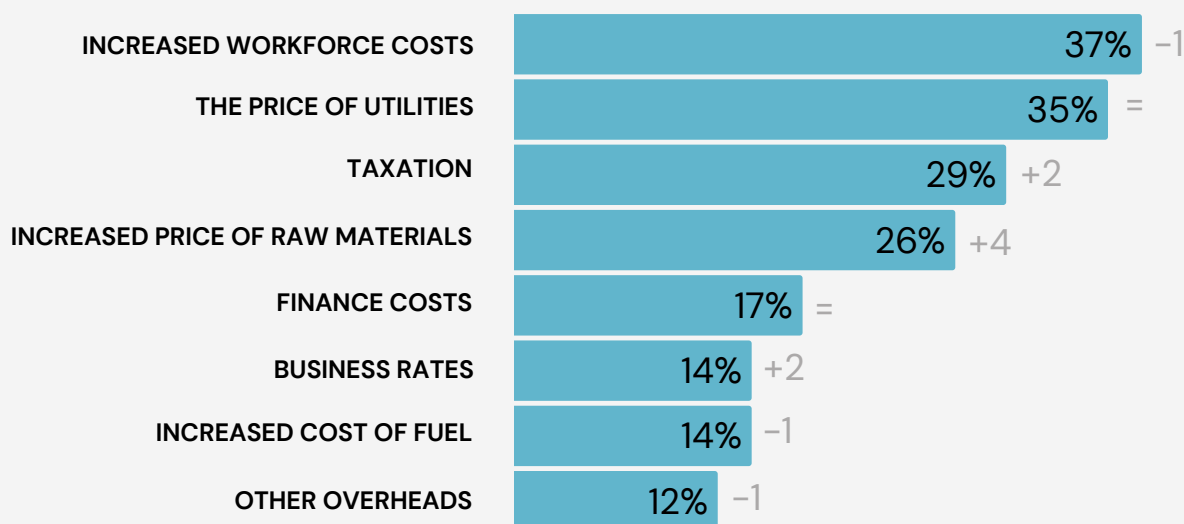
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Almost three in five (58%) expect the price of their goods or services to increase over the next three months, excluding don't know's, while four in ten (40%) believe their prices will remain the same, similar to findings from March.

Proportion of respondents expecting price increases/decreases, excluding 'don't know's



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



When asked to select the top two most important pressures to increase costs, the greatest proportion of respondents select increased workforce costs (37%). Following closely behind, other prominent pressures include the price of utilities (35%), taxation (29%), and the increased price of raw

materials (26%).

Overall, these pressures remain markedly stable from those observed last wave, although there is an increase of four percentage points in those selecting an increased price of raw materials as a pressure to increase costs.

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	BUSINESS RATES	INTEREST RATES	BUSINESS SURVIVAL	EXCHANGE RATES	COMPETITION
56% -3	55% -4	43% +3	38% -4	34% =	30% +3	26% +3
37% +1	35% +1	47% -1	47% -1	53% -1	53% +1	58% -2
6% +2	8% +3	7% -1	12% +4	12% +1	10% -1	14% -1

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

Well over half of Scottish businesses report being more concerned about taxation (56%) and inflation (55%) now compared to three months ago, remaining the issues with the highest levels of concern. Yet, increased concern with these issues has fallen slightly, by three and four percentage points respectively. Further behind, increased concern with interest rates has also fallen by four percentage points to 38%. Correspondingly, more businesses are reporting that they are less concerned with these issues than three months ago, although this varies between two to four percentage points by issue.

In contrast, two in five (43%) report being more concerned about business rates than they were three months ago, while three in ten (30%) are more concerned with exchange rates and one in four (26%) are more concerned with competition. Each has increased a small three percentage points compared to the last wave in March 2025.

Government Responsiveness

Across the board, more businesses agree that both the Scottish and UK Governments are concerned with the needs of Scottish business and taking action to address them.

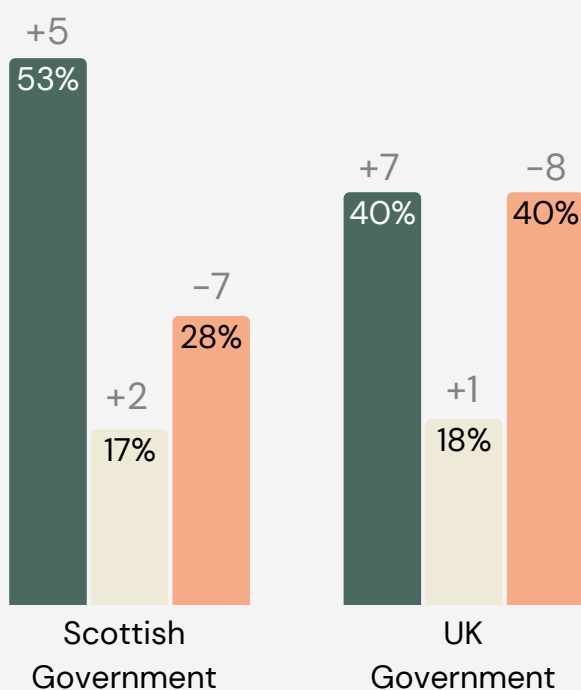
Agreement that the UK Government is concerned with the needs of Scottish businesses remains notably lower than agreement with the same for the Scottish Government, at two in five (40%) compared to over half (53%). However, both have risen considerably since last wave, up seven and

and five percentage points respectively.

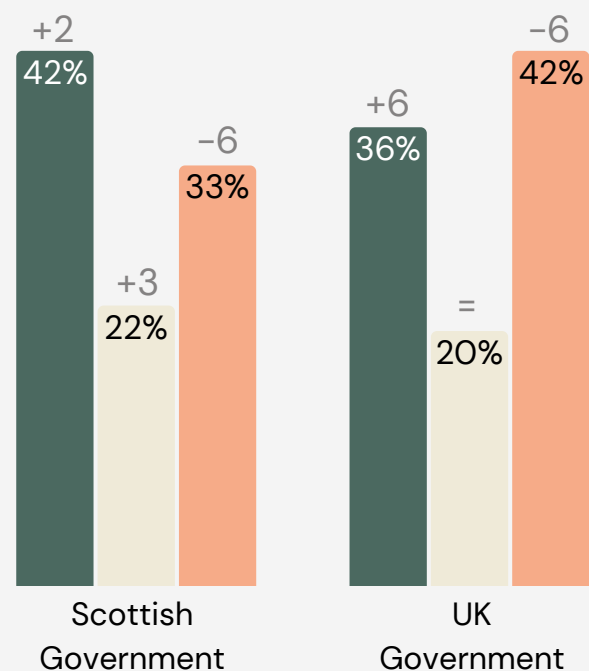
A smaller gap emerges when considering if both governments are taking action to address Scottish business concerns. Two in five (42%) agree that the Scottish Government is taking action to address these concerns, whereas over one in three (36%) say the same for the UK Government. These figures have increased two and six percentage points since March.

In all cases, the proportion of businesses that disagree has fallen by six or more percentage points, while the proportion that neither agree nor disagree has remained more stable.

Concerned with needs of Scottish businesses



Taking action to address Scottish business concerns



■ Agree ■ Neither agree nor disagree ■ Disagree

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



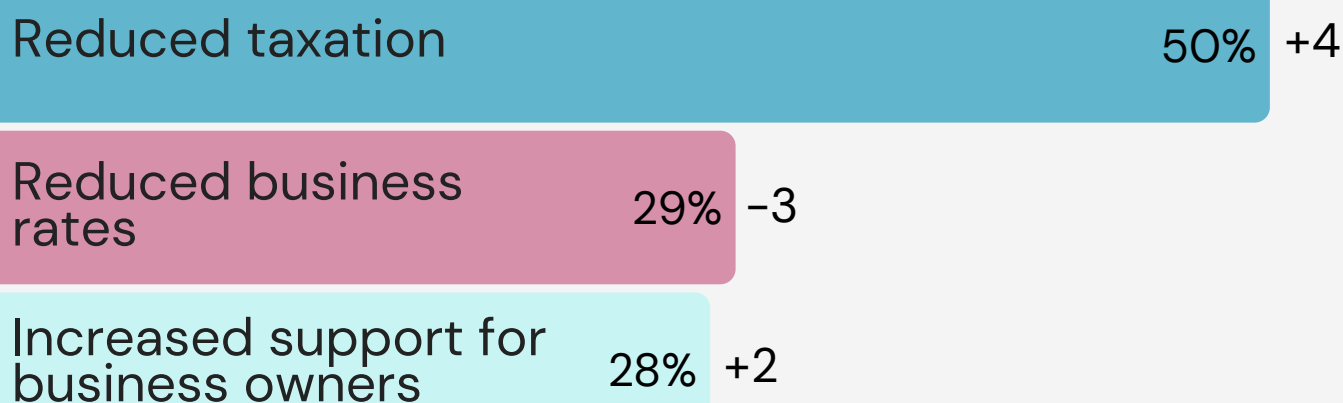
Interventions

Respondents were asked to select the top three potential interventions that would best help the growth of their business.

Reduced taxation remains the most frequently cited intervention that Scottish businesses believe would help their growth. This option rose by four percentage points since March, selected by half of all respondents (50%) this wave. At a distance, just under three in ten select reduced business rates (29%) and increased support for business owners (28%) as helpful measures for their growth, down three and up two percentage points respectively.

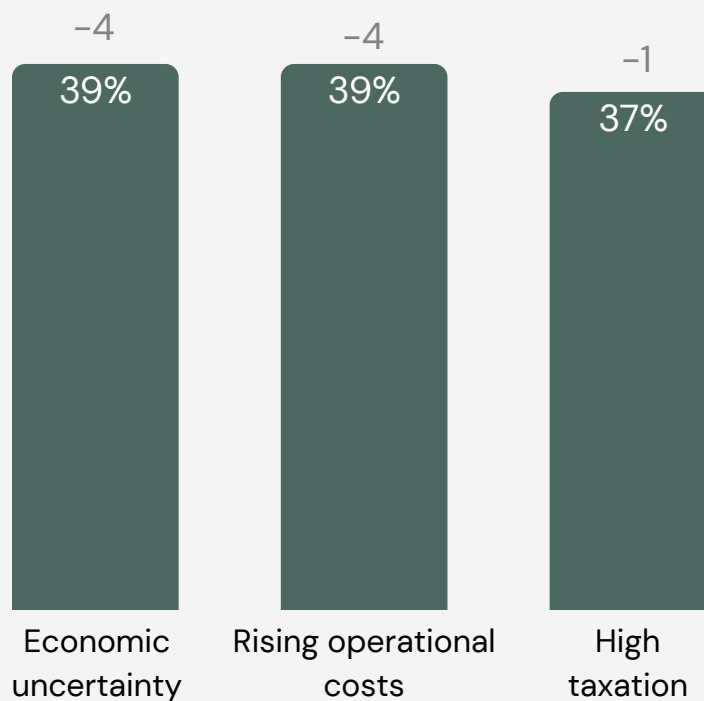
Other measures are selected by about one in four to one in seven businesses. Notable changes include an increase of four percentage points in the proportion selecting infrastructure development as a top measure to help their business growth.

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



Just under four in ten respondents (39%) select economic uncertainty and rising operational costs as top barriers to business growth. However, while these barriers remain prominent, both proportions have fallen by four percentage points.

Just behind, 37% of businesses surveyed select high taxation as a main barrier to the growth of their business, remaining steady from March.

While most barriers have fallen or remained steady since the last wave, more businesses are reporting supply chain disruptions as a barrier, up to one in eight (12%) from 8% last wave.

When examined by average, Scottish businesses are generally neutral, leaning positive, about the impact of migration on their business and the Scottish economy; each aspect surveyed receives an average of about six on a scale of zero to ten. When examined by proportion, four in ten or more businesses give migration a positive score of seven or higher across each aspect

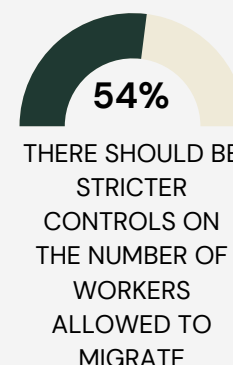
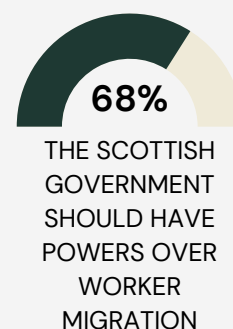
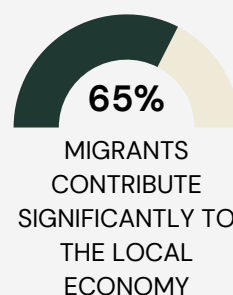
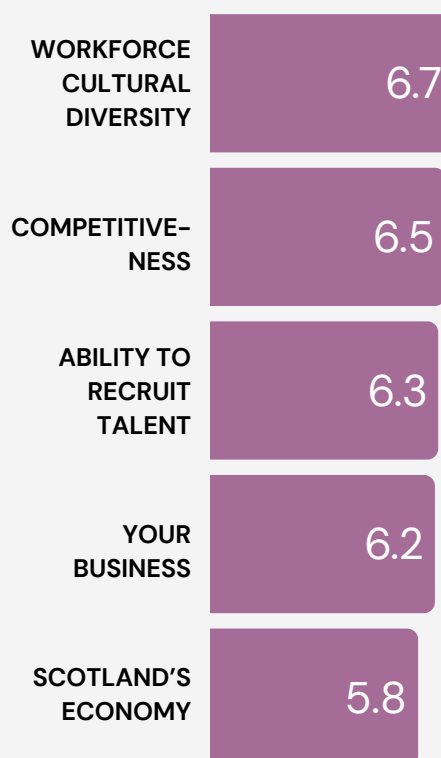
Businesses are most positive about the impact of migration on the cultural diversity of their workforce, followed by the overall competitiveness of their business, which receive an average of 6.7 and 6.5 respectively. And overall, businesses are more positive about the impact of immigration on specific business aspects than their business as a whole, and more positive about the impact on their business than the Scottish economy.

Thinking about how migration interacts with the economy, Scottish businesses generally agree that migrants contribute significantly to the local economy through their work and spending (65%) and that migration is vital for filling critical skill shortages in Scotland (68%).

Furthermore, about three in four businesses (76%) agree sectors with critical shortages should be able to recruit workers from abroad and three in five (61%) agree that employers should be able to recruit from abroad for all jobs. Yet, over half (54%) agree there should be stricter controls on the number of workers allowed to migrate to Scotland, particularly for low-skilled jobs, suggesting mixed attitudes.

Almost seven in ten (68%) agree that the Scottish Government should have powers over migration of workers to Scotland.

Average impact of migration, with zero being "very negative" and ten being "very positive"

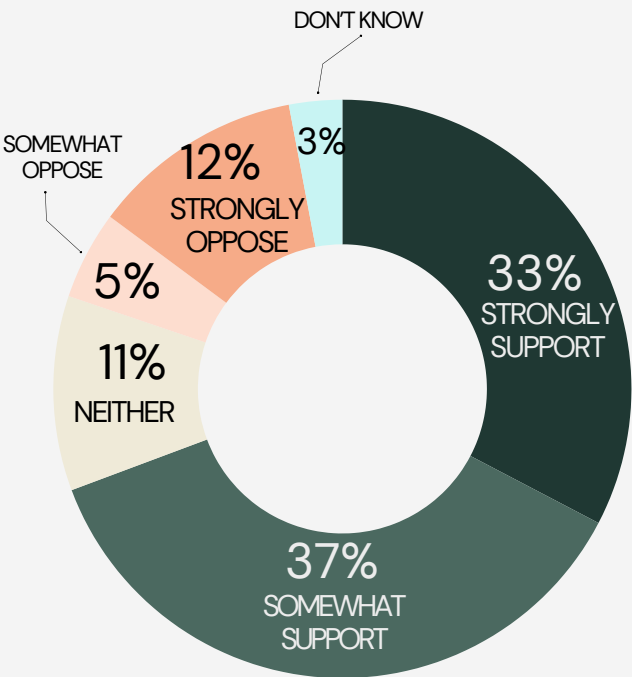


Scottish visa

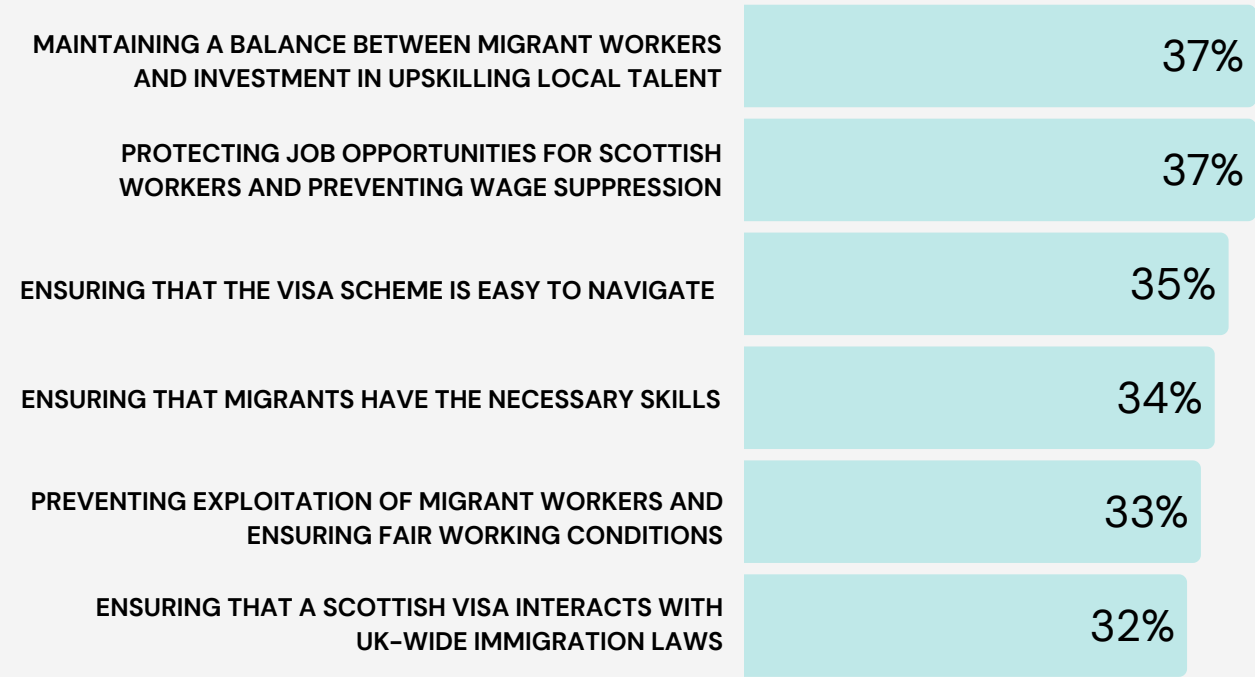
A large majority of Scottish businesses (70%) favour the introduction of a “Scottish visa”, which would allow some migrants to come to Scotland to work, so long as they reside in Scotland and maintain a Scottish tax code. Just 17% of businesses oppose this visa in principle, while 11% are neutral.

Perspectives of businesses on the top three most important considerations to make when introducing a “Scottish visa” scheme are mixed, with many considerations selected by one in three or more businesses. This suggests an appetite for more information on how such a scheme would work in practice, as well as how to ensure protections for both local and migrant workers.

Proportion of businesses that support/oppose the introduction of a “Scottish visa” for workers



Proportion of businesses that select the following as the top most important considerations of a “Scottish visa” for workers





TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted from 27 May to 19 June 2025. A total of 506 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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