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NORTH-EAST QUARTERLY ECONOMIC SURVEY

Q2 2025

Introduction

Conditions for growth simply don't exist

This latest edition of the North-east Quarterly Economic Survey – run by Aberdeen & Grampian Chamber of Commerce, in partnership with law firm Gilson Gray LLP – paints a troubling short-term outlook for the region's economy.

Established in 1989, the QES is the UK's largest and longest running independent business sentiment survey. This time it was completed by 4,595 companies in Chamber communities across the country with over one million staff. 142 firms collectively employing 14,000 people in the North-east of Scotland took part meaning we have a strong and representative sample from which to compare regional and national data.
The findings are regularly covered in national media and used by agencies such as the OBR, Bank of England and others as a good barometer of what is really happening in the world of business.

The results of this survey continue to deliver a damning indictment of the Labour government's policies on employment and tax. Business confidence is at some of its lowest levels since the pandemic, and the following pages explore why.

A sharp downturn in North Sea activity – driven by the UK Government's decision to raise tax on oil and gas operators to 78% – is now rippling through the wider economy in Aberdeen and Aberdeenshire.

As a result, 24% of firms surveyed – two-thirds (67%) of which do not operate directly in energy – expect to reduce their workforce in the coming months. This is the highest figure recorded since the Covid-19 pandemic in 2020.

A third (34%) anticipate falling turnover, compared to just 20% across the UK – again, the worst reading since the pandemic.

The data reveals a growing divergence between the North-east and the wider UK. While national indicators suggest stabilisation, firms in this region are reporting falling sales and reduced forward orders.

Investment is falling sharply – particularly in training and equipment – pointing to a weakening long-term outlook. Nearly four in ten firms (38%) reported declining sales in the last quarter, while order books have dropped to their lowest level since early 2021.

Unsurprisingly, business confidence is deteriorating. Only 30% of regional firms expect turnover to improve over the next year, while 49% foresee falling profitability – in stark contrast to UK-wide averages of 49% and 28% respectively. Taxation is now the most frequently cited barrier to growth for local businesses, with 73% highlighting it as a concern – far higher than the UK average of 56%. While inflation and interest rate pressures have eased slightly, the combined burden of the Energy Profits Levy, National Insurance rises, and wage inflation is choking investment and squeezing margins.

So what should be done? The Chamber is calling on the UK Government to urgently remove the Energy Profits Levy to prevent further long-term damage to the regional economy.

Why? Because these findings point to a deepening economic malaise. Short-term policymaking and an absence of strategic clarity are eroding confidence not just in energy, but across the supply chain and wider business community. Firms are delaying investment not through lack of ambition, but because the conditions for growth simply don't exist.

The Energy Profits Levy – alongside rising employment costs and continued uncertainty – is creating an environment in which businesses feel unable to plan ahead.

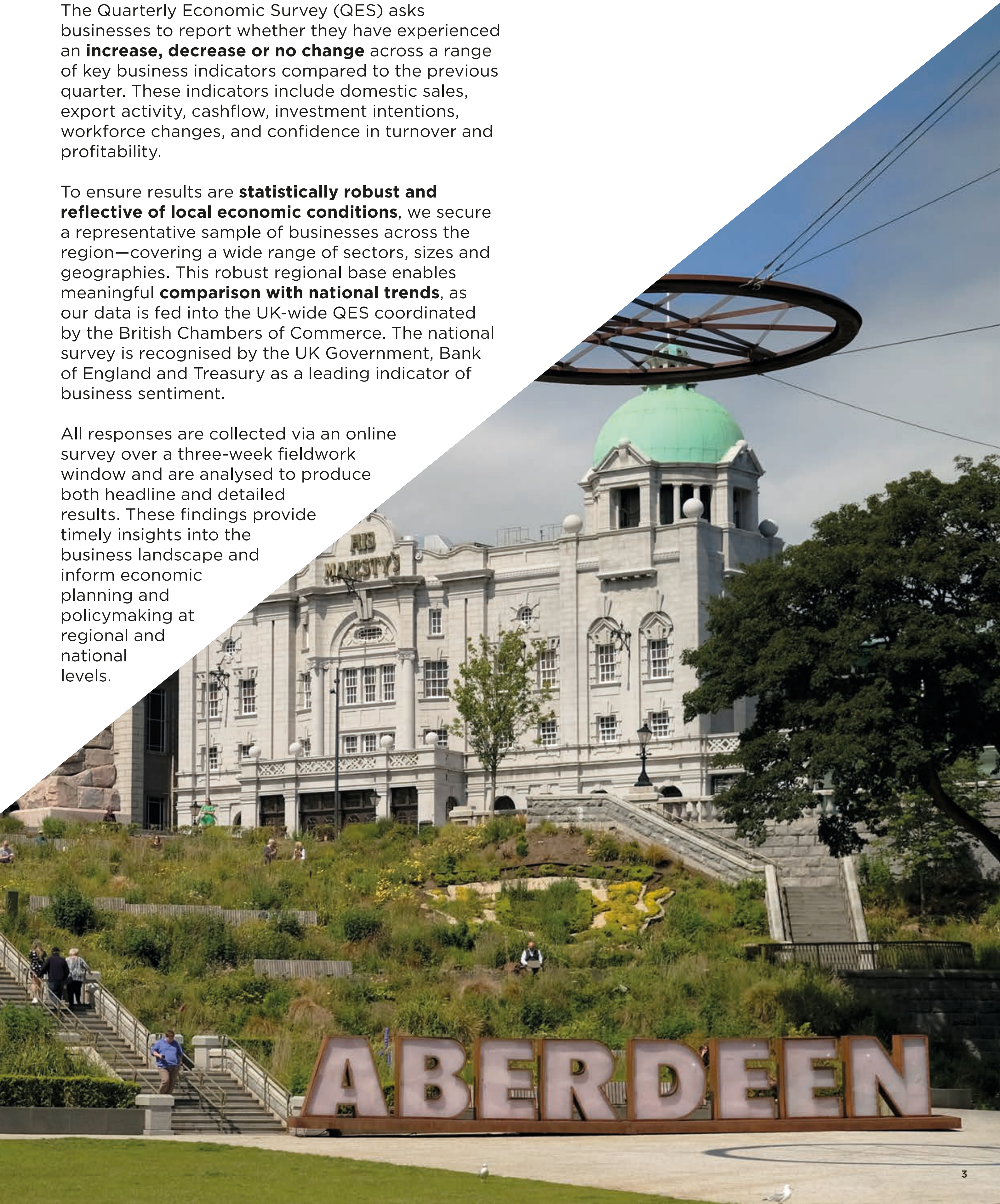
Methodology

The field period for this survey ran between 12th May – 2nd of June 2025, QES Q2.

The Quarterly Economic Survey (QES) asks businesses to report whether they have experienced an **increase, decrease or no change** across a range of key business indicators compared to the previous quarter. These indicators include domestic sales, export activity, cashflow, investment intentions, workforce changes, and confidence in turnover and profitability.

To ensure results are **statistically robust and reflective of local economic conditions**, we secure a representative sample of businesses across the region—covering a wide range of sectors, sizes and geographies. This robust regional base enables meaningful **comparison with national trends**, as our data is fed into the UK-wide QES coordinated by the British Chambers of Commerce. The national survey is recognised by the UK Government, Bank of England and Treasury as a leading indicator of business sentiment.

All responses are collected via an online survey over a three-week fieldwork window and are analysed to produce both headline and detailed results. These findings provide timely insights into the business landscape and inform economic planning and policymaking at regional and national levels.



The headlines

Persistent pressures for North-east businesses

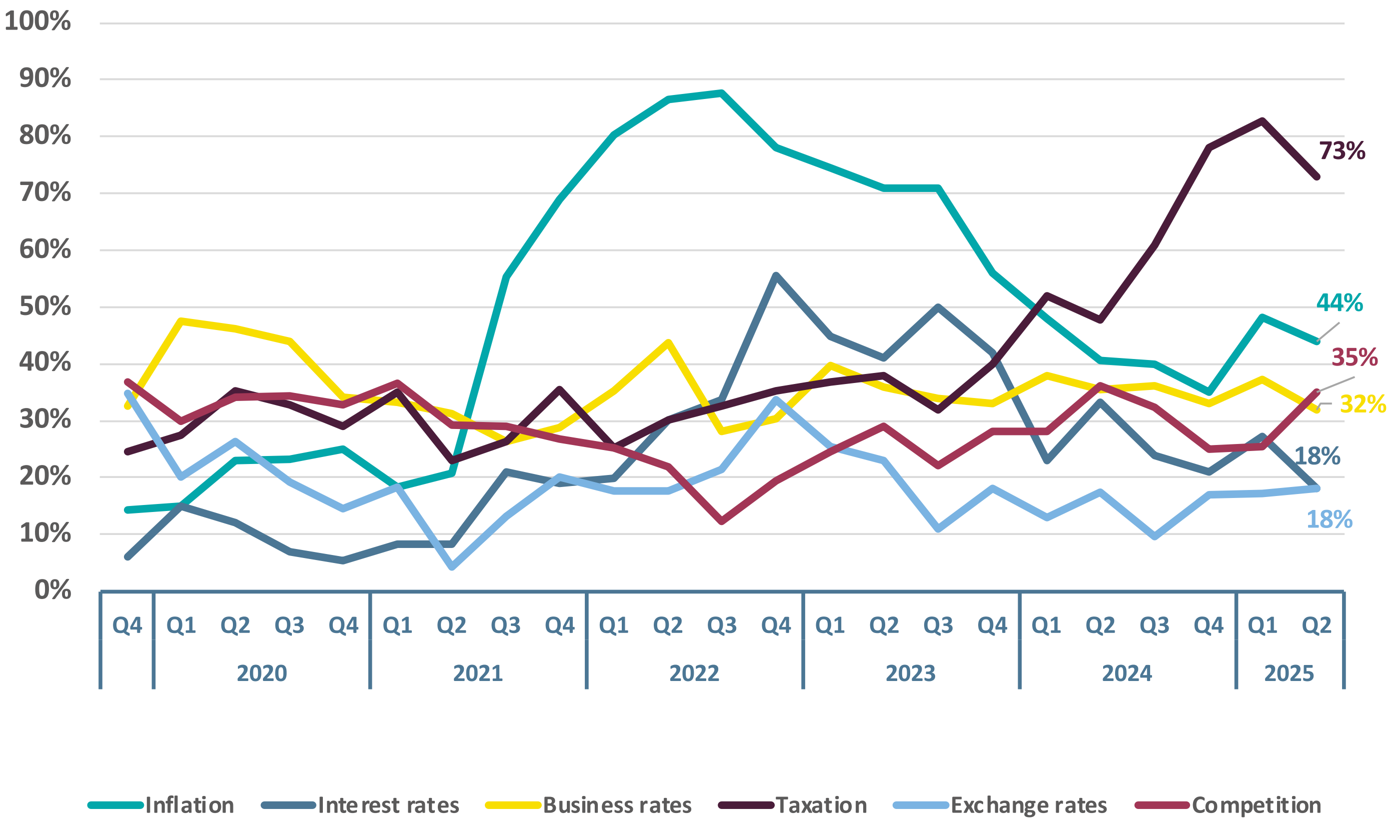
As we move through Q2, North-east firms continue to face many of the same headwinds that have defined the start of 2025. Rising labour costs, increasing tax burdens, and a slowdown in domestic activity remain the most pressing challenges across the region.

Tax and regulation still biting – but signs of easing

While concerns around taxation (including Employer National Insurance) remain high, they have eased slightly since Q1. In the North-east, 73% of businesses now cite tax as a barrier to growth – still well above the national average of 56%, but down from 83% last quarter. Business rates also continue to be reported more frequently as a constraint in this region than elsewhere in the UK.

At the same time, concern over inflation and interest rates has eased, with those citing interest rates as a barrier falling from 27% to 18%. However, pressure is mounting in other areas – particularly competition, which has jumped from 25% to 35% – suggesting that while some financial pressures are softening, market conditions may be tightening.

Q: Please indicate which of these following factors are more of a concern to your business than 3 months ago?



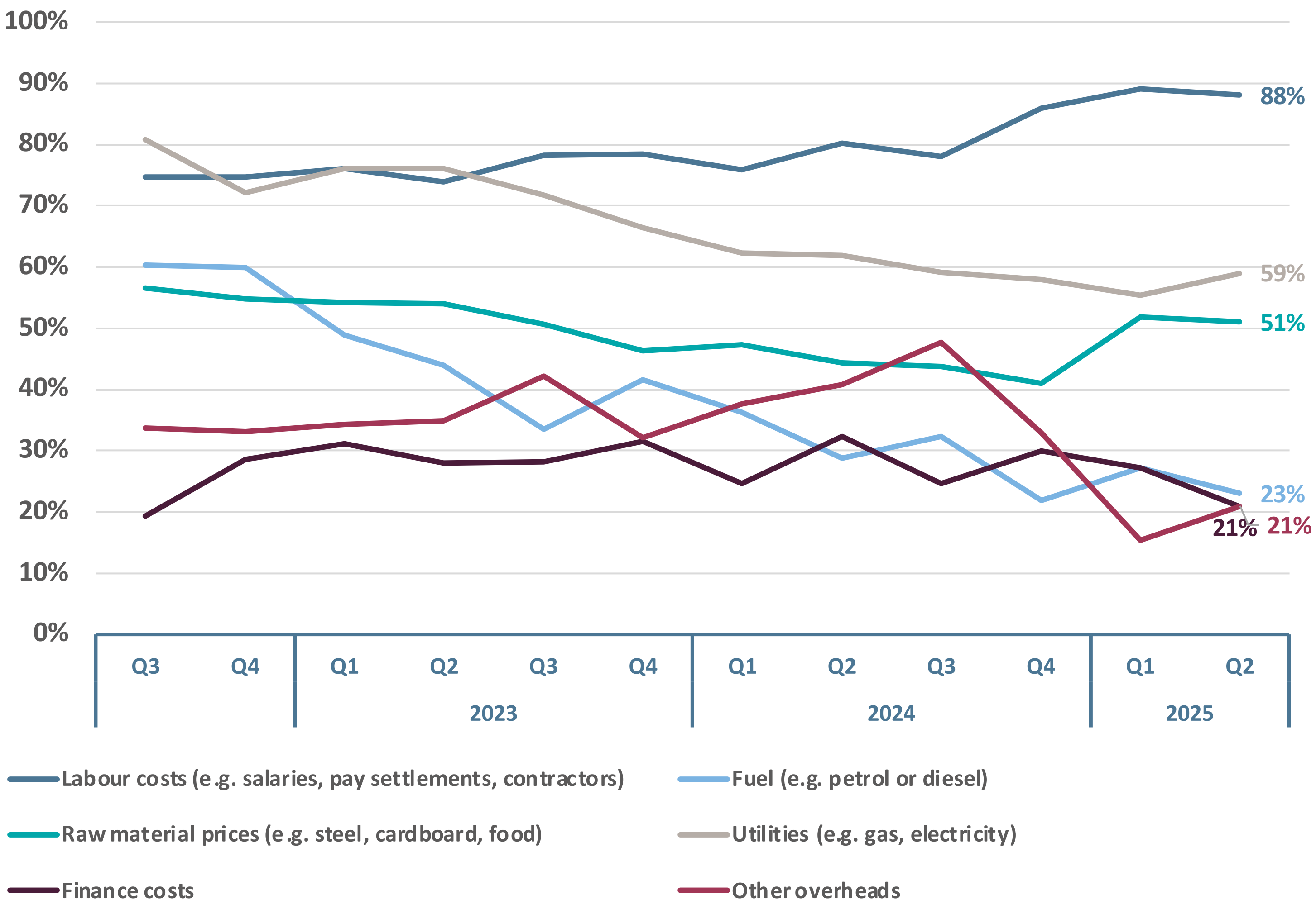
	Inflation	Interest rates	Taxation	Business rates	Exchange rates	Competition
Aberdeen & Grampian	44%	18%	73%	32%	18%	35%
UK	52%	24%	56%	30%	17%	37%

N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

Labour costs remain the top driver of price rises

Labour costs continue to be a huge concern in the North-east, with nine in ten businesses citing this as a key reason for raising prices – the highest rate in the UK. In Q2, firms report sustained pressure from multiple sources, with a combination of labour costs, utilities, and raw materials continuing to drive the most significant upward pricing pressure.

Q: **Is your business currently suffering pressures to raise its prices from any of the following?**



	Aberdeen & Grampian	UK	% point difference, region v UK
Labour costs	88%	73%	+15
Utilities	59%	50%	+9
Raw materials	51%	37%	+14
Fuel	23%	23%	-
Finance	21%	27%	-6
Other	21%	40%	-19

N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

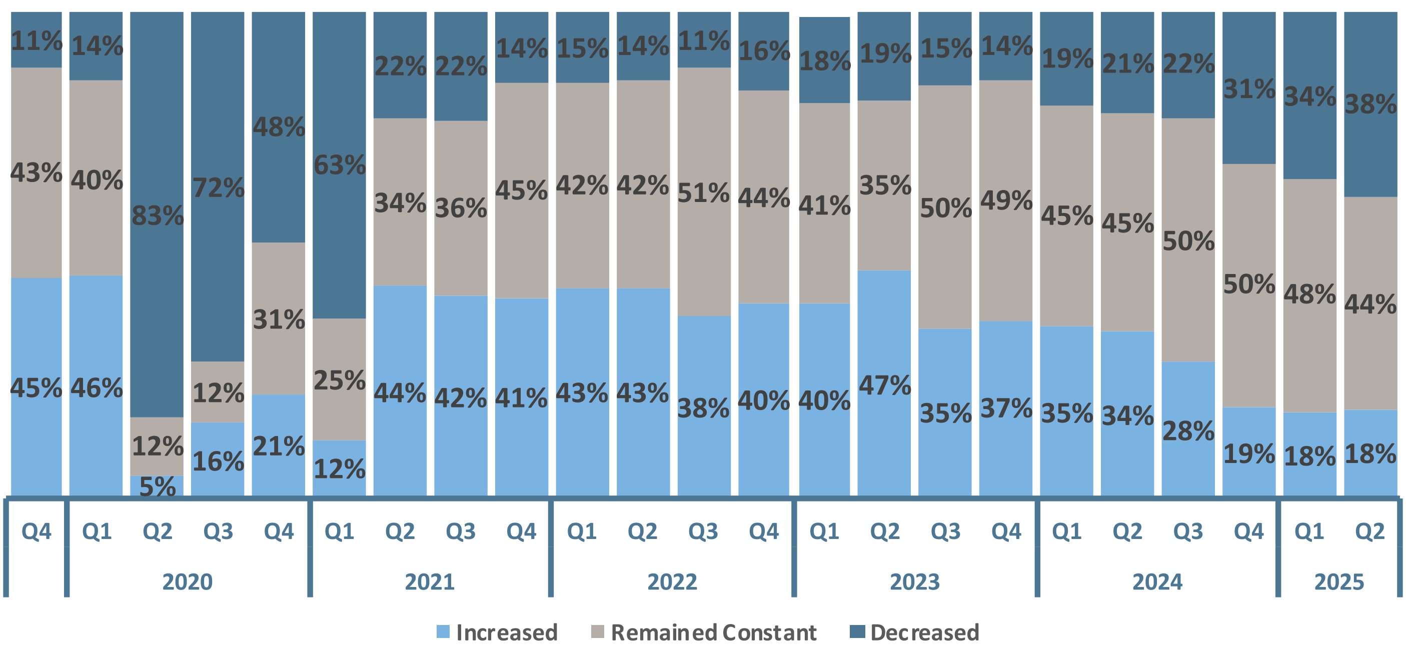
Domestic market still under pressure – regional outlook remains bleaker than rest of UK

Decreasing sales (38%) and falling advance orders (45%) remain alarmingly high across the North-east – the worst figures recorded since the pandemic lows of Q1 2021. Both measures have worsened since last quarter, highlighting mounting pressure on local firms.

In contrast, the UK-wide picture remains broadly stable. Nationally, 32% of businesses reported growth in domestic sales and 28% saw an increase in advance UK orders, with stability the dominant trend (42% and 45% respectively).

North-east Scotland continues to lag behind, with net growth figures falling well below national levels. This widening gap signals growing uncertainty and weakening forward demand, suggesting that regional businesses are operating in significantly tougher trading conditions than their counterparts elsewhere in the UK.

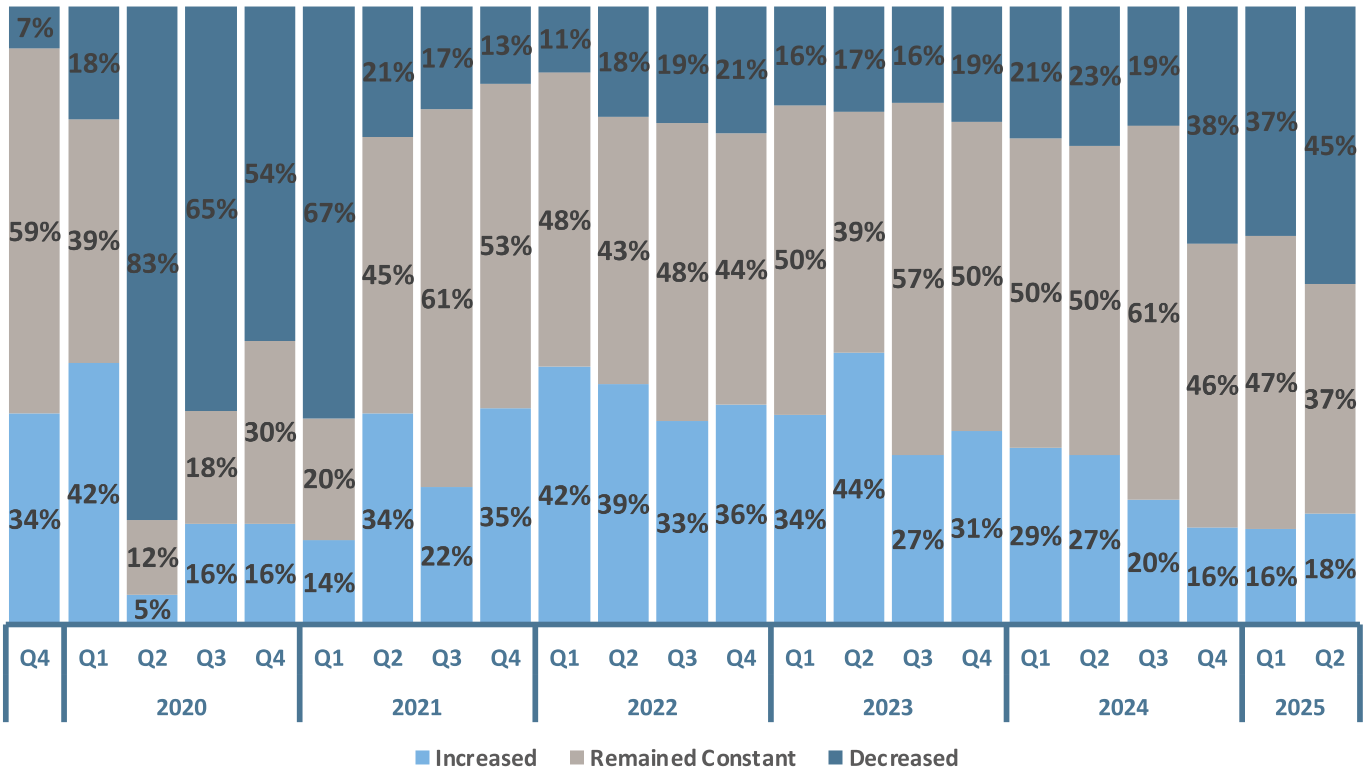
Q: Excluding seasonal variations, over the past 3 months 'UK sales/custom/bookings' have...



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	18%	32%	-14
Remained Constant	44%	42%	+2
Decreased	38%	26%	+12

N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

Q: Excluding seasonal variations, over the past 3 months 'UK orders/advance custom/bookings' have...



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	18%	28%	-10
Remained Constant	37%	45%	-8
Decreased	45%	27%	+18

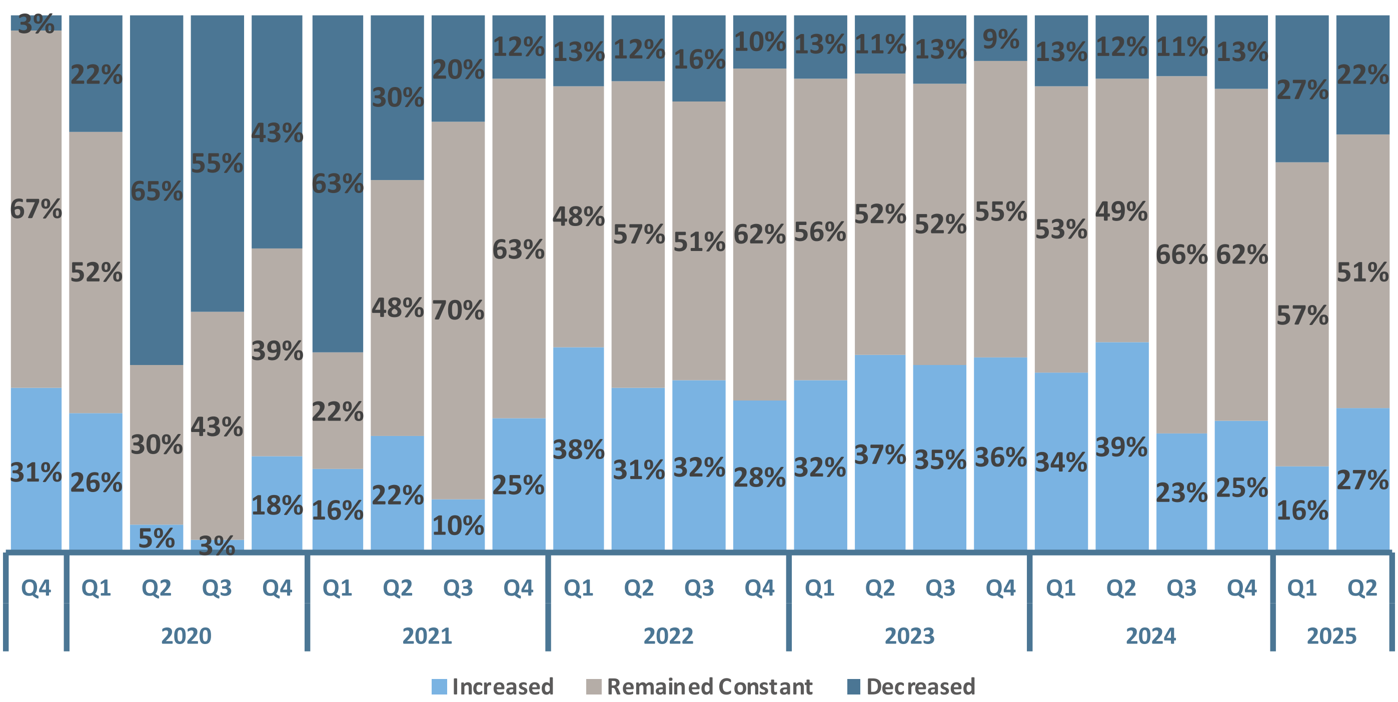
N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

International demand strengthens – signs of recovery for North-east exporters

After a sharp decline in Q1, the North-east has seen a welcome rebound in international sales. In Q2, 27% of businesses reported increased overseas trade – up from just 16% last quarter – while those reporting a decrease fell from 27% to 22%. This marks the region's strongest export performance since late 2022 and suggests improving conditions for exporters.

Nationally, the picture also improved modestly, with 25% of firms reporting increased international sales (up from 21%) and 25% noting a decrease (down slightly from 26%). While UK-level performance remains finely balanced, North-east exporters have regained lost ground and are once again outperforming the national average on net international growth.

Q: **Excluding seasonal variations, over the past 3 months 'Overseas sales/custom/bookings' have...**



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	27%	25%	+2
Remained the same	51%	50%	+1
Decreased	22%	25%	-3

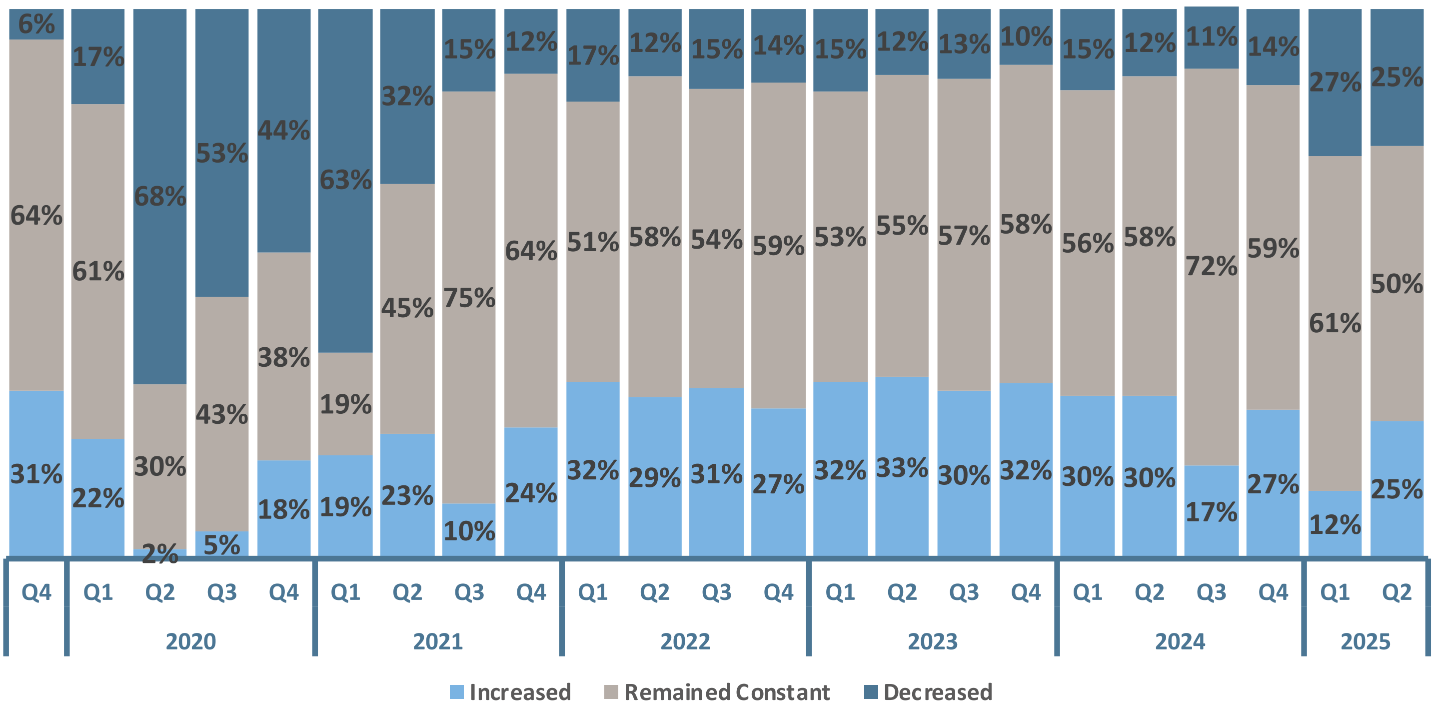
N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

Advanced international orders showing renewed strength

After a subdued start to the year, forward-looking indicators suggest improving international demand. The share of North-east businesses reporting increased overseas orders has doubled – rising from 12% in Q1 to 25% in Q2 – while those seeing a decline dipped slightly from 27% to 25%. Half of firms reported no change, down from 61% last quarter.

This marks a notable recovery and brings the region broadly in line with national trends. North-east Scotland now reports a slightly higher proportion of firms seeing growth in advanced international orders and a slightly lower rate of decline, pointing to a more stable and encouraging international outlook than in previous quarters.

Q: **Excluding seasonal variations, over the past 3 months 'Overseas orders/advance custom/bookings' have:**



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	25%	23%	+2
Remained constant	50%	50%	0
Decreased	25%	27%	-2

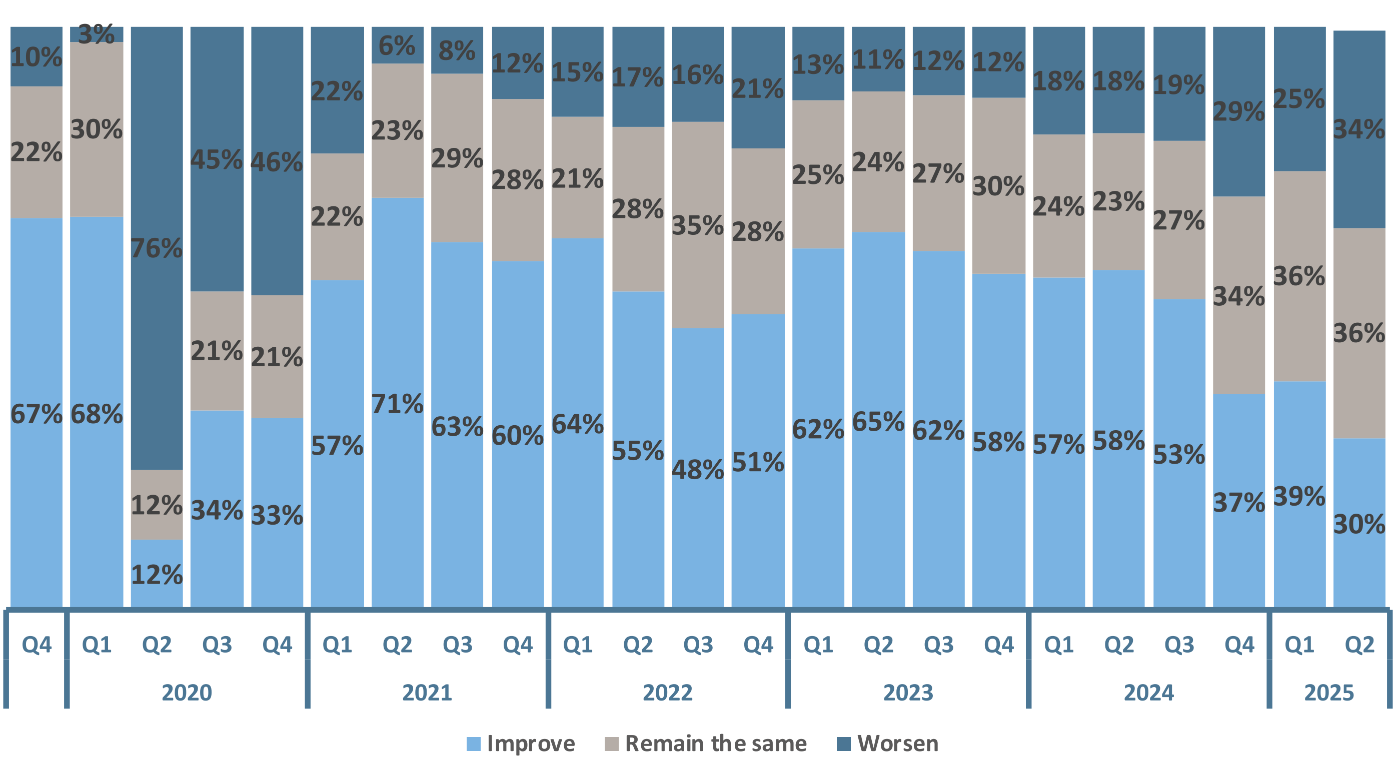
N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

Turnover expectations dip – confidence weakens across the region

Business confidence in future turnover has declined in the North-east. Just 30% of firms now expect revenue growth over the next 12 months – down from 39% last quarter. At the same time, the share of businesses anticipating a decline in turnover has risen sharply from 25% to 34%.

This 9-point swing reflects growing concern about future trading conditions and a more cautious outlook across the region. Optimism remains well below historic norms, signalling persistent uncertainty heading into the second half of the year.

Q: : Over the next 12 months, do you believe your business's turnover will...



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	30%	49%	-19
Remained the same	36%	31%	+5%
Decreased	34%	20%	+14%

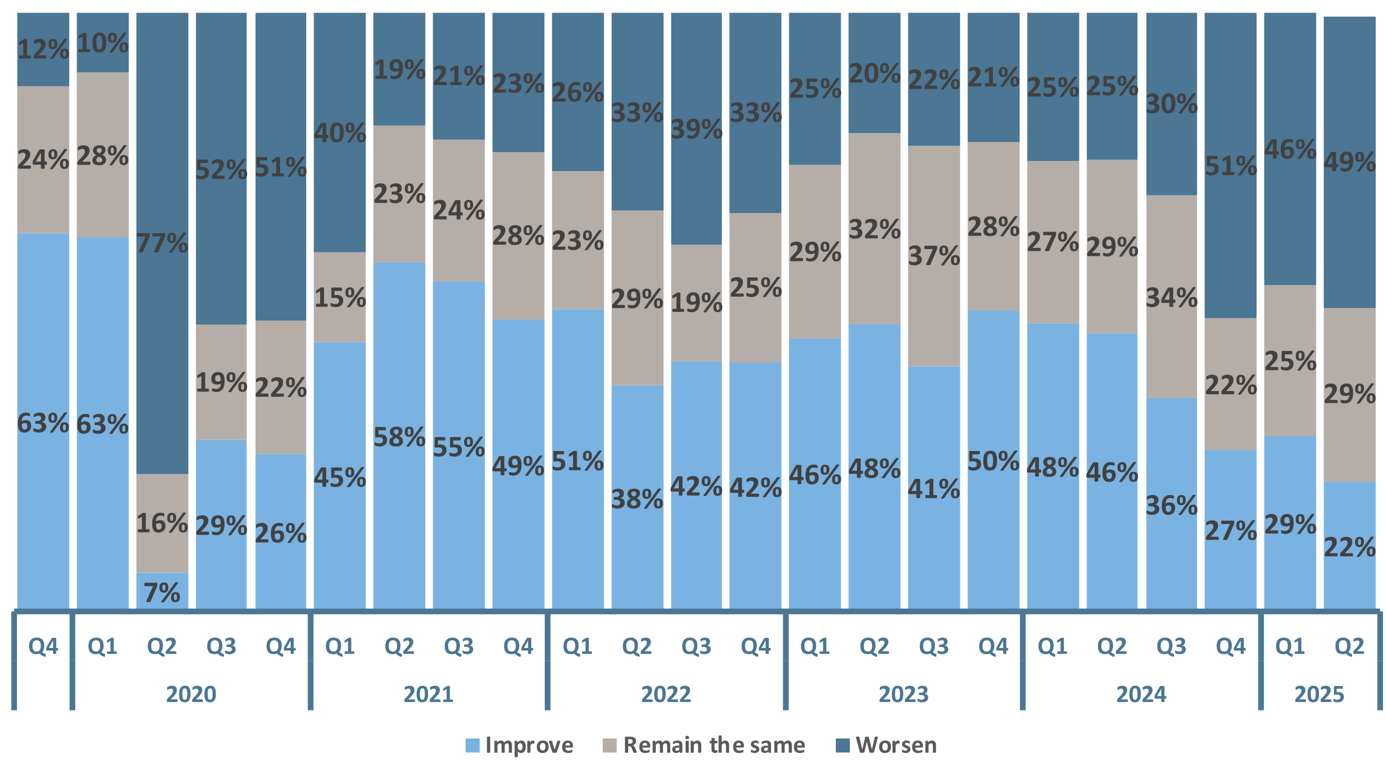
N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

Profitability outlook weakens – confidence gap widens between region and UK

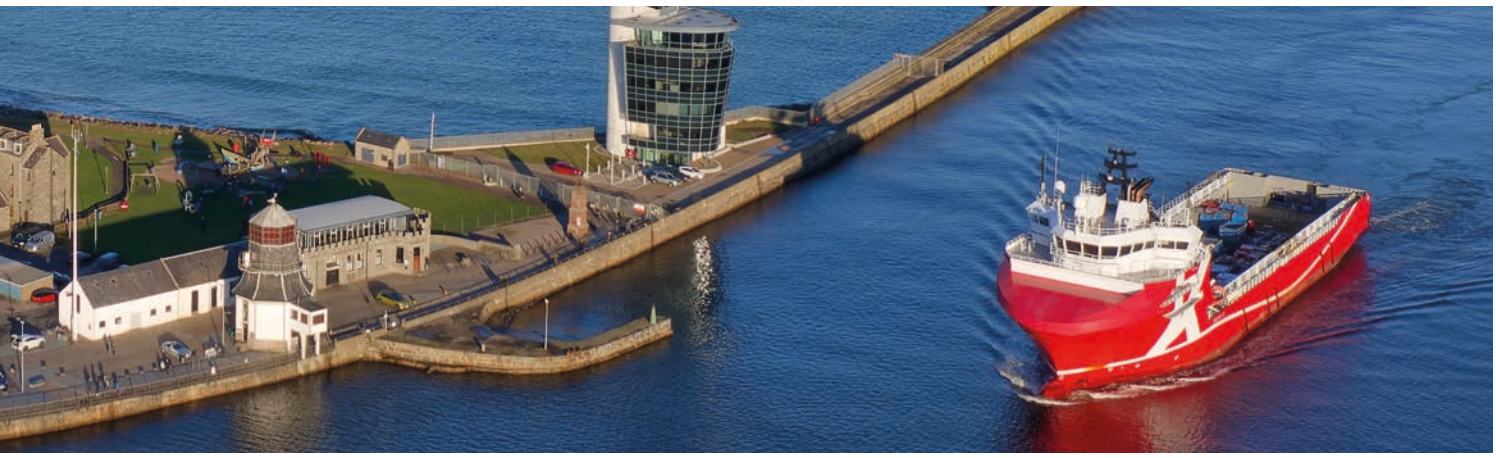
Businesses in the North-east remain pessimistic about profitability, with confidence dipping further in Q2. The proportion of firms expecting profits to worsen has risen from 46% to 49%, while those anticipating improvement fell sharply from 29% to just 22%. More firms now expect no change (up 4 points), suggesting a general decline in optimism across the region.

Compared to the national picture, the gap in sentiment is stark. UK businesses are considerably more optimistic, with far fewer expecting a drop in profitability. This widening confidence gap suggests that firms in Aberdeen & Grampian continue to face greater financial pressures and heightened uncertainty relative to their counterparts elsewhere in the UK.

Q: : Over the next 12 months, do you believe your business's profitability will...



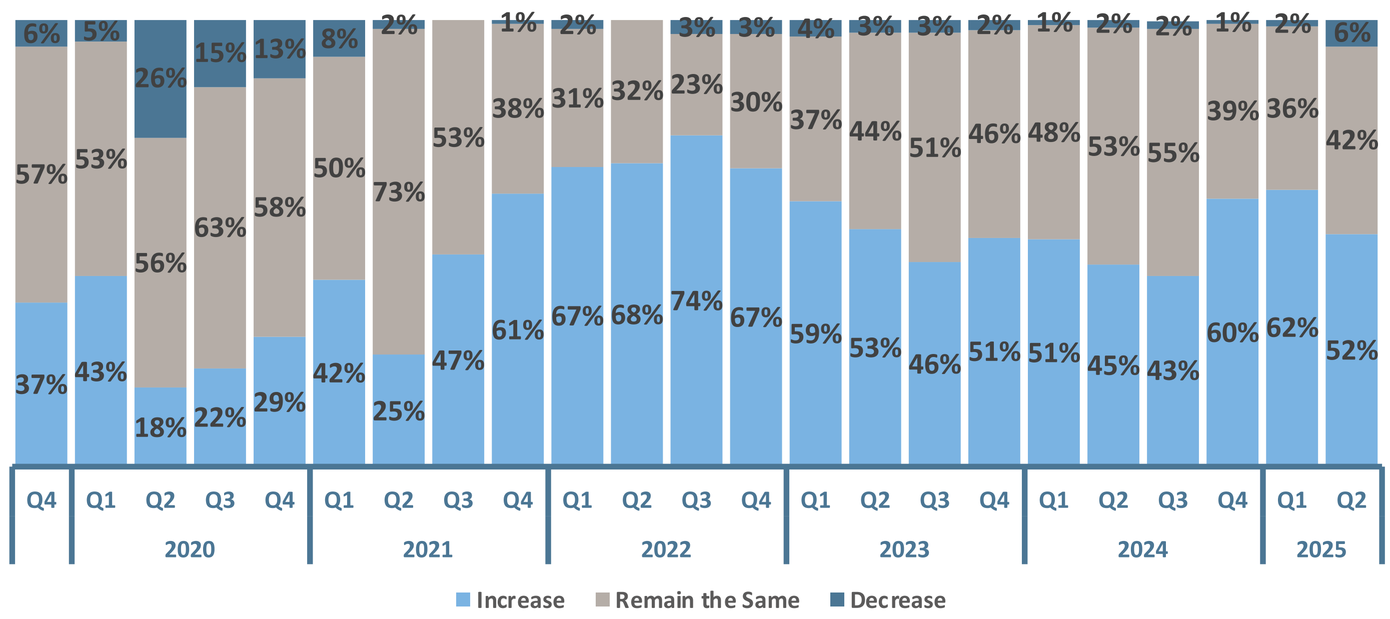
	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	22%	41%	-19
Remained the same	29%	31%	-2%
Decreased	49%	28%	+21



N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

Fewer North-east businesses now plan to raise prices in the next three months – 52%, down 10 points from last quarter. At the same time, the share expecting to lower prices has increased to 6% (up 4 points), and more firms now anticipate no change.

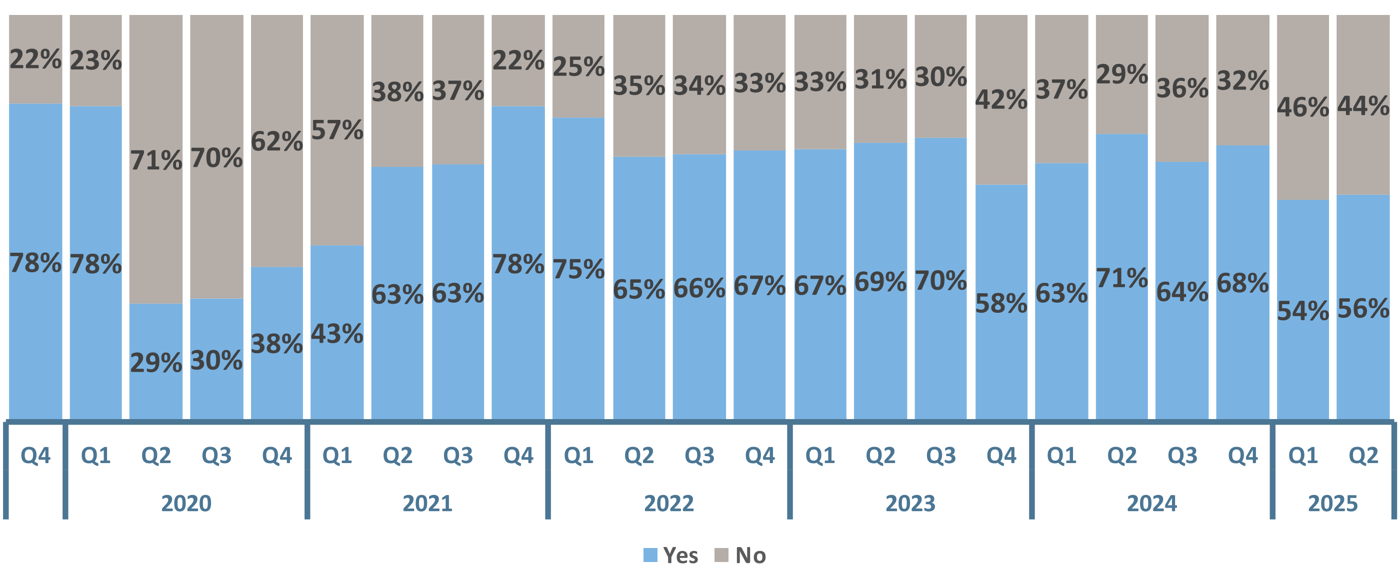
Q: : Over the next 3 months, do you expect the price of your goods/services to...



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	52%	44%	+8
Remained the same	42%	53%	-11
Decreased	6%	3%	+3

What does this mean for the labour market?

Q: : Have you attempted to recruit staff over the past 3 months?



N.B. figures are rounded to the nearest whole number/percentage; consistent with previous survey editions.

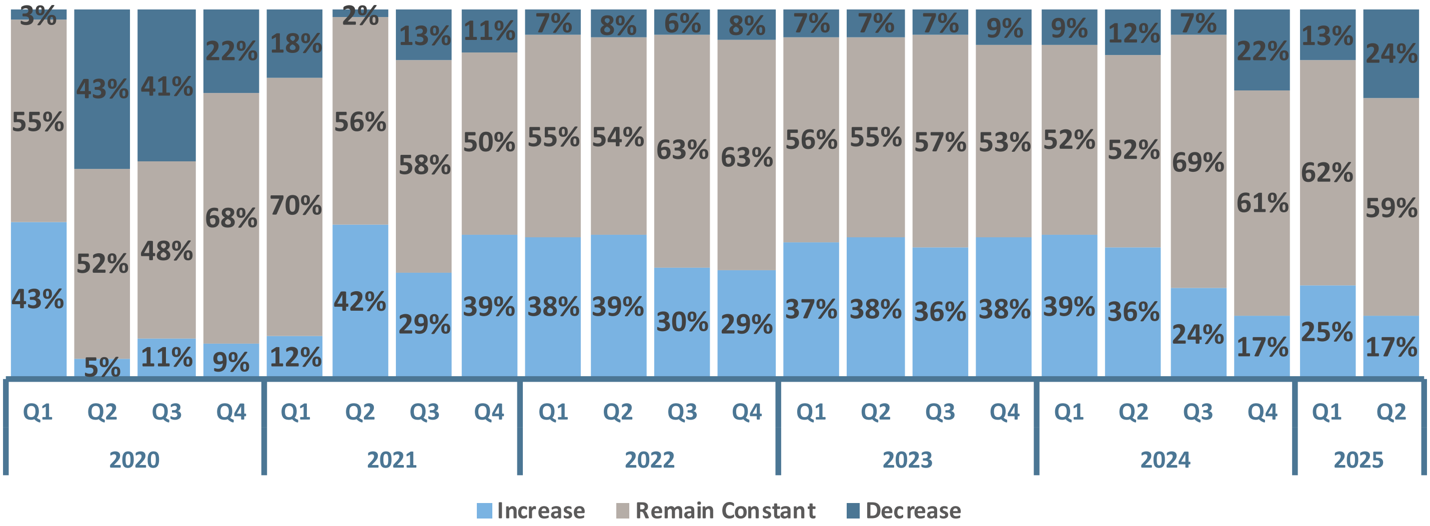
Workforce trends point to continued caution

Although 56% of North-east businesses attempted to recruit in Q2 – up slightly from 54% – only 19% managed to increase headcount. Most firms reported either no change or a reduction, suggesting ongoing recruitment challenges and a cautious approach to workforce growth.

Recruitment activity in the region remains broadly in line with the UK average (55%), but outcomes lag slightly behind. Nationally, 23% of businesses expanded their workforce, compared to 19% in Aberdeen & Grampian, while fewer UK firms reduced staff (17%) than in the North-east (20%). These figures reflect a more subdued regional labour market and continuing uncertainty around hiring confidence.

Looking ahead, fewer firms expect to grow their workforce (down 8 % points from Q1), the majority (59%) expect no change, broadly consistent with Q4 2024 levels, but those anticipating reductions rose to 24% (up from 13%). That's essentially a quarter of firms surveyed – two-thirds (67%) of which do not operate directly in energy – expect to reduce their workforce in the coming months. This is the highest figure recorded since the Covid-19 pandemic in 2020.

Q: : Over the next 3 months, do you expect your workforce to...



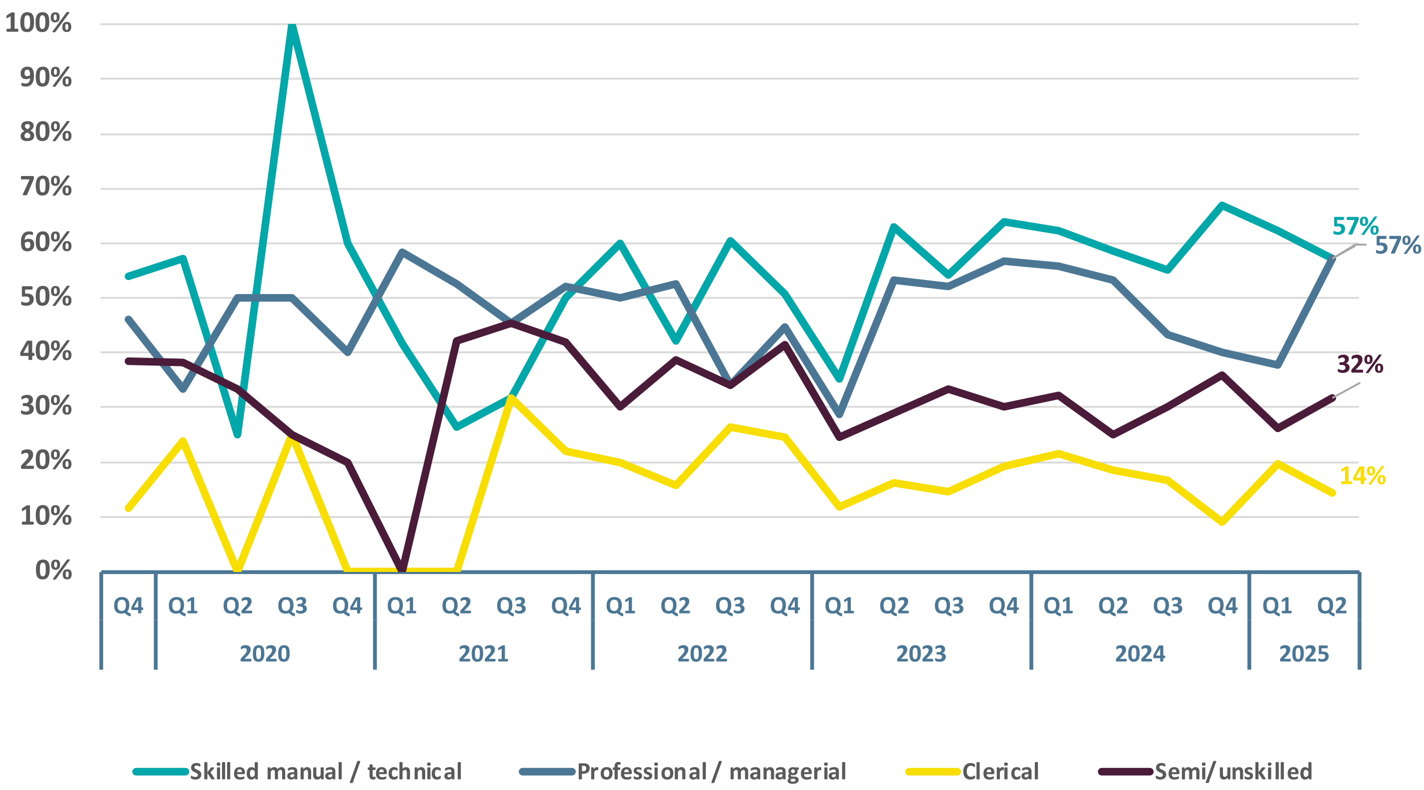
Recruitment challenges intensify, especially for professional roles

Of North-east businesses that recruited in Q2, 80% reported difficulties finding suitable staff — a 5-point increase from Q1 2025. Challenges filling professional and managerial roles rose sharply by 19 points to 57%, while difficulty recruiting for skilled manual roles eased slightly from 62% to 57%. These two categories remain the hardest to fill regionally.

Nationally, 73% of businesses reported recruitment difficulties, down 3 points from Q1. Skilled manual/technical roles (51%) and professional/managerial roles (50%) continue to be the most challenging positions to fill, with clerical (22%) and semi/unskilled (28%) roles less affected.

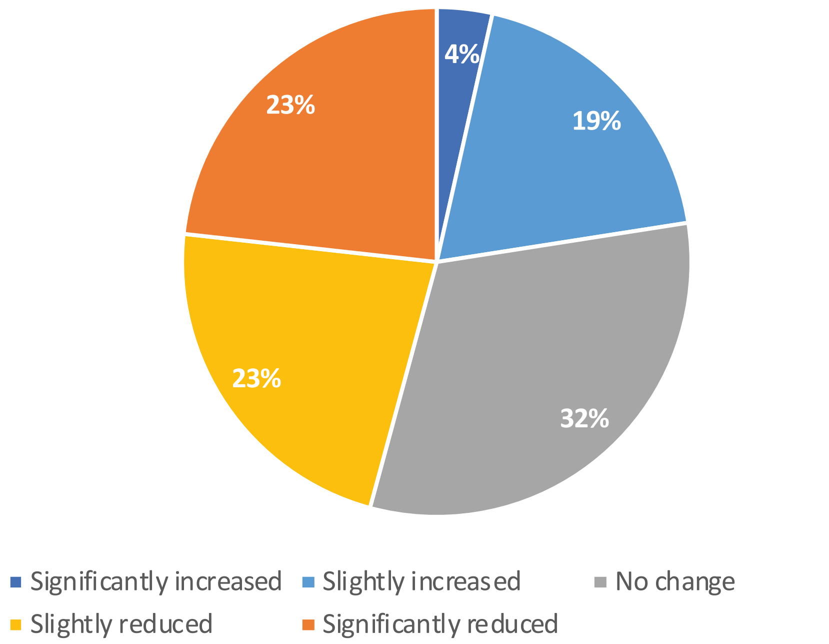
This ongoing shortage of specialised skills continues to place significant pressure on recruitment across the UK, with the North-east experiencing even greater challenges in professional and managerial hiring.

Q: : If you attempted to recruit, did you experience any difficulties finding suitable staff? If yes, for which of the following categories of employee?



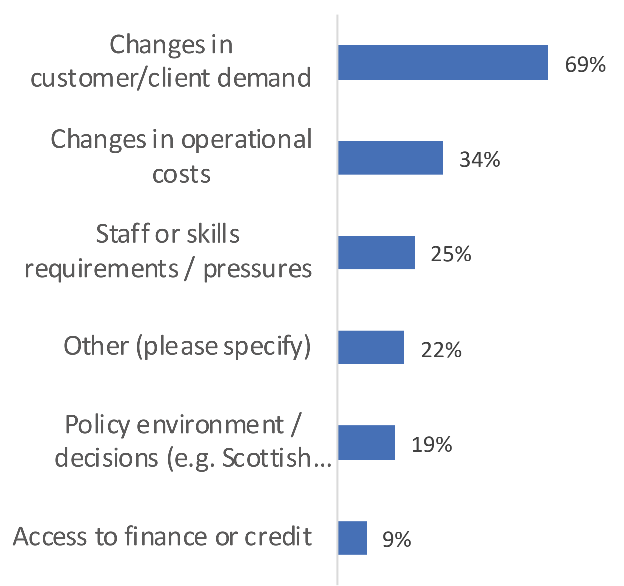
Regional Focus

Q: : Compared to a year ago, how has your willingness to take business risks changed?

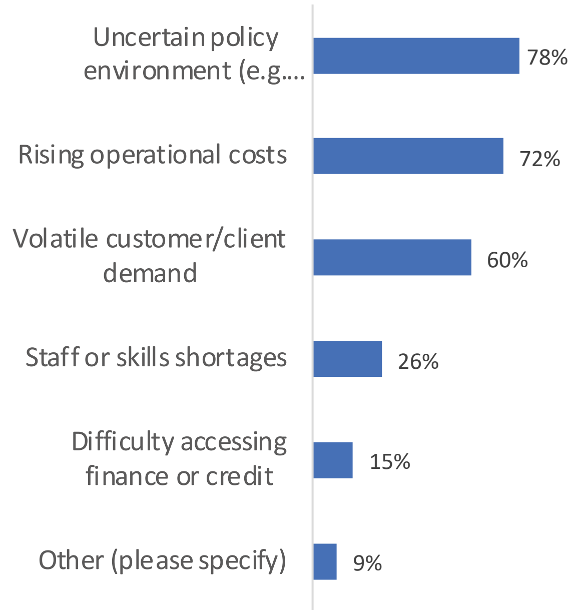


Compared to a year ago, nearly half of businesses (46%) are now less willing to take risks, mainly due to policy uncertainty (78%), rising operational costs (72%), and volatile demand (60%). Only 23% reported increased risk appetite, driven by stronger customer demand (69%) and changes in operational costs (34%). This highlights a cautious business climate, shaped more by external challenges than internal capability.

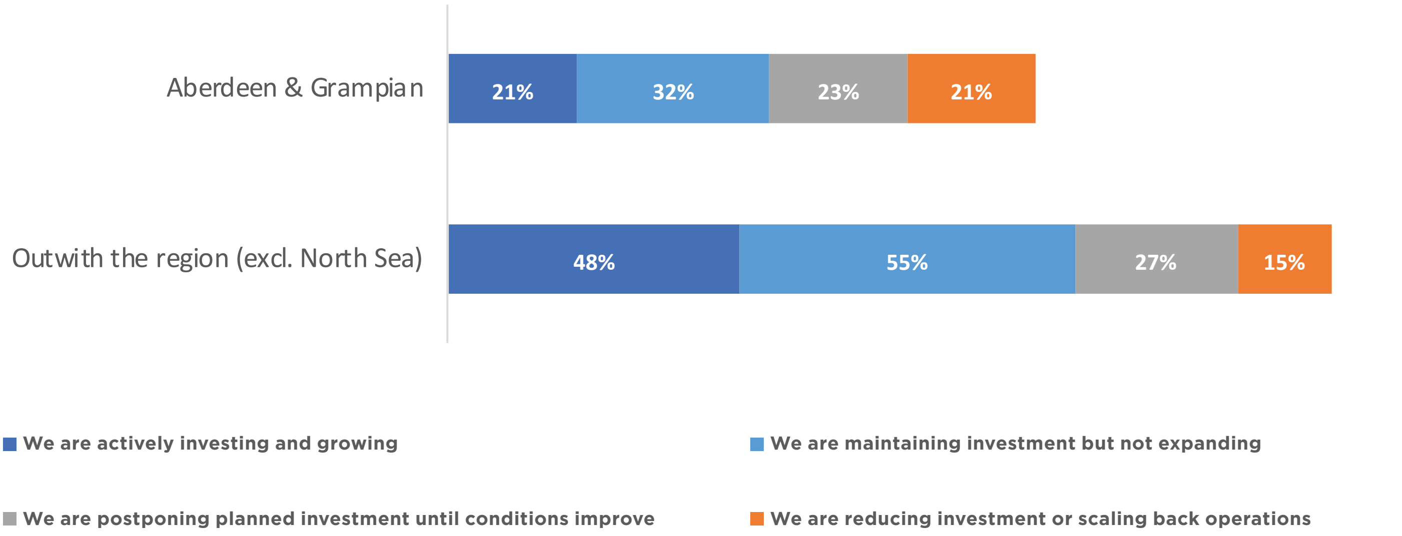
Q: : What are the key reasons for your increased willingness to take business risks compared to a year ago?



Q: : What are the key reasons for your reduced willingness to take business risks compared to a year ago?



Q: **: Which statement best describes your current investment position in...**



In Aberdeen & Grampian 21% are actively investing and growing however 44% are either scaling back or postponing investment locally — reflecting caution.

Worryingly, 48% are actively investing out with the region and 55% are maintaining investments, with 42% scaling back on investments elsewhere.

Across the Rest of Scotland and the UK, most businesses are maintaining or cautiously managing investment. Active investment is lower (13% in Scotland, 11% UK-wide), and many are choosing to postpone plans (9–12%).

Globally, the outlook is more optimistic: 23% are actively investing, the highest of all regions, with fewer businesses reporting reduced or postponed investment (only 7% combined).

National Viewpoint

Shevaun Haviland,
Director General.
British Chambers of Commerce

"The rising cost of doing businesses means confidence levels remain at their lowest levels since 2022.

"However, it's encouraging to see a drop in the number of firms planning to raise prices. Any signs of inflationary pressures easing is good news for business and the wider economy. But prices remain volatile.

"Last week, the Prime Minister acknowledged at the BCC's Global Annual Conference that business has been asked to shoulder a huge tax burden. We now need the Government to rule out any further business taxes in this year's Budget.

"Businesses have welcomed the series of long-term strategies from Government in recent weeks, all designed to drive forward economic growth. Our research shows businesses are stuck in a rut and more needs to be done at pace by ministers to turbocharge the economy and boost business confidence.

"Our Blueprint for Growth report provides a clear set of proposals to drive business innovation and investment. We urge ministers to work with us to implement these ideas.

"Businesses are clear – they want their costs reduced, regulation reformed, and skills barriers removed. Action by policymakers now, will help businesses out of this confidence slump and give firms the tools to boost growth."

David Bharier,
Head of Research,
British Chambers of Commerce

"Business sentiment in Q2 remains fundamentally subdued, following last autumn's tax increase announcements and the more recent introduction of global tariffs.

"April's rise in National Insurance contributions has cemented tax as the dominant concern for firms. Businesses are entering a new employment landscape marked by structurally higher labour costs and administrative requirements, fuelling increased anxiety about redundancies.

"While there has been some easing in our price expectations indicator, this follows a spike to near historic highs in Q1 and may indicate that firms already baked in the recent NICs increase. Inflation is likely to remain volatile in the short term, as any escalation in global conflict could trigger renewed shocks to commodity and shipping prices.

"SMEs are operating in an increasingly unpredictable world and have limited capacity to absorb further disruption. A meaningful improvement in business conditions will depend on a roadmap to ease the tax and admin burden, de-escalation of geopolitical tensions, implementing improvements to the UK-EU trading deal, and further mitigation of US tariffs."

Sponsor Viewpoint

Gilson Gray are delighted to once again sponsor the North East Quarterly Economic Survey (QES) issued by Aberdeen & Grampian Chamber of Commerce. Unfortunately, the Q2 2025 QES report paints a challenging picture for the north east businesses, with many reporting more strain than their UK counterparts. With 142 regional responses, the report gives a cross-sectoral view and reveals a worrying mix of falling demand, investment cutbacks, and deteriorating business confidence that collectively point to a fragile and uncertain local economy.

The clearest warning sign is the sharp drop in both domestic sales and forward orders - now at their lowest levels since Q1 2021. A huge 38% of firms reported declining sales and 45% saw falling advance orders. This contrasts starkly with national trends, where sales and orders are largely stable, if flat.

There is some good news in international markets. Whilst overseas sales and orders were significantly down last quarter, perhaps resulting from global tariff uncertainty, they have ticked upward again with the proportion of businesses seeing growth in overseas orders doubling to 25%. Regionally, firms have regularly outperformed the UK average in international demand and it is encouraging to see this side of the economy showing resilience.

Labour market conditions remain tight and largely stagnant. While 56% of firms attempted to recruit, only 19% managed to grow their workforce. The biggest challenges were with skilled and professional workers, with 80% of recruiters reporting hiring challenges. Looking ahead, fewer businesses expect to expand their teams, and more anticipate downsizing - pointing to continued headwinds in the employment landscape.

On the investment side, both training and capital expenditure have fallen more sharply in the north east than in the wider UK market. The north east still records the highest proportion of actively investing businesses compared to other UK regions. However, 44% of respondents are scaling back or postponing local investments, highlighting a cautious mood across the region which risks eroding its future productivity base.

We have regularly highlighted that the UK government tax and policy approach to the domestic oil & gas industry will hit Aberdeen and the north east hard – particularly without rapid action on a robust and progressive energy transition plan and incentives mechanism. And it seems clear we are seeing first-hand the consequences of government policies impacting cascading across businesses in our region. Only 27% of businesses are operating at full capacity, the lowest since early 2021 and well below the UK average of 39%. At the same time, 35% of businesses cite competitive pressures as a major concern - up from 25% last quarter.

There is a strong perception of declining government support, and many firms are either delaying investment or considering exit strategies. Recently there have been increasing headlines of firms pointing to government policies as the reason for reducing workforce and moving operations overseas.

While some UK-wide indicators suggest a stabilising economy, the Q2 2025 QES report reveals a region under significant strain, caught between systemic pressures and a lack of confidence in the policy environment. UK & Scottish governments must act quickly to arrest the decline and incentivise investment and growth. Strategic intervention—particularly around infrastructure, skills, and sector-specific support—will be critical in reversing the negative trends we are seeing in the region.

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Findlay Anderson,
Partner, Head of Corporate
Gilson Gray LLP

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