

N O R T H - E A S T

QUARTERLY ECONOMIC SURVEY

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Q3
2026

Rising costs and increasing competition squeeze profits

There are some encouraging signs in our latest Quarterly Economic Survey - amid more positive government narrative around the North Sea - that the North-east economy may finally be beginning to stabilise.

But while the headline figures offer grounds for cautious optimism, they also reveal a more troubling picture beneath the surface. Businesses across our region are finding it increasingly difficult to turn hard-won revenue into healthy profits due to a cocktail of costs and competitive pressures.

Turnover is one thing. Profit is quite another.

While 38% of North-east businesses expect their turnover to increase over the next 12 months, just 28% anticipate an improvement in profitability. Indeed, 38% expect their profits to deteriorate, significantly higher than the 27% reported nationally.

This is not simply a North-east problem. Businesses across the UK are facing a growing disconnect between revenue and profitability. But the pressures are particularly acute here, where subdued demand and uncertainty over the future of our energy sector continue to weigh heavily on confidence.

The explanation is not difficult to find. Rising employment costs, energy bills, fuel prices and other operating expenses are eating into margins, leaving many firms working harder simply to stand still.

More than three-quarters of North-east businesses cite labour costs as a source of pricing pressure, while over half point to utility bills. Fuel and raw material costs are also placing a significant burden on employers.

Yet despite these pressures, businesses are becoming increasingly reluctant to pass higher costs on to their customers. Just 39%

of regional firms expect to increase their prices over the next three months, down sharply from 58% in the previous quarter and the lowest proportion since early 2021.

That is a particularly telling statistic. It suggests that businesses are reaching the limits of what customers are prepared to pay. With competition intensifying and demand remaining fragile, many are choosing to absorb additional costs rather than risk losing contracts. That may protect turnover in the short term, but it is not a sustainable foundation for long-term growth.

Without healthy profits, businesses cannot invest in new equipment, develop their people or create the jobs that will drive our future prosperity.

The employment figures provide a more encouraging counterpoint.



We cannot expect businesses to deliver growth if the cost of doing business continues to erode the rewards of doing so.

The proportion of businesses reporting a reduction in workforce numbers has fallen to 13%, its lowest level since the end of 2024. Meanwhile, 22% expect to increase headcount over the next three months, the highest proportion since the first quarter of 2025.

That suggests a degree of confidence may be returning, although recruitment remains challenging. More than half of regional businesses attempted to hire during the quarter, yet fewer than one in five actually increased their workforce.

Many employers are still recruiting simply to replace departing staff, while others continue to struggle to find candidates with the skills and experience they need.

Taken together, these findings paint a picture of an economy showing resilience, but not yet delivering the sustained growth our region needs.

And resilience alone is not enough.

When we asked businesses what single government intervention would make the biggest difference, 52% identified reducing the overall cost and burden of doing business.

That should be a wake-up call for policymakers.

If we want businesses to invest, recruit and grow, we must create an environment in which they can do so profitably and with confidence.

That means a more competitive tax regime, greater certainty for investment and a coherent approach to the energy transition which protects the jobs, skills and supply chains that underpin our regional economy.

The North-east has enormous economic potential. We have world-class businesses, exceptional people and the expertise to compete internationally.

But we cannot expect businesses to deliver growth if the cost of doing business continues to erode the rewards of doing so.

There are green shoots in this latest survey. Our collective priority must now be to create the conditions in which they can flourish.



Russell Borthwick
Chief Executive



Survey background



Established in 1989, the Quarterly Economic Survey (QES) is run by the British Chambers of Commerce and is the largest, longest running and most representative independent business sentiment survey of its kind in the country with its findings reported by national media and closely watched by the policymakers such as the Treasury and the Bank of England.

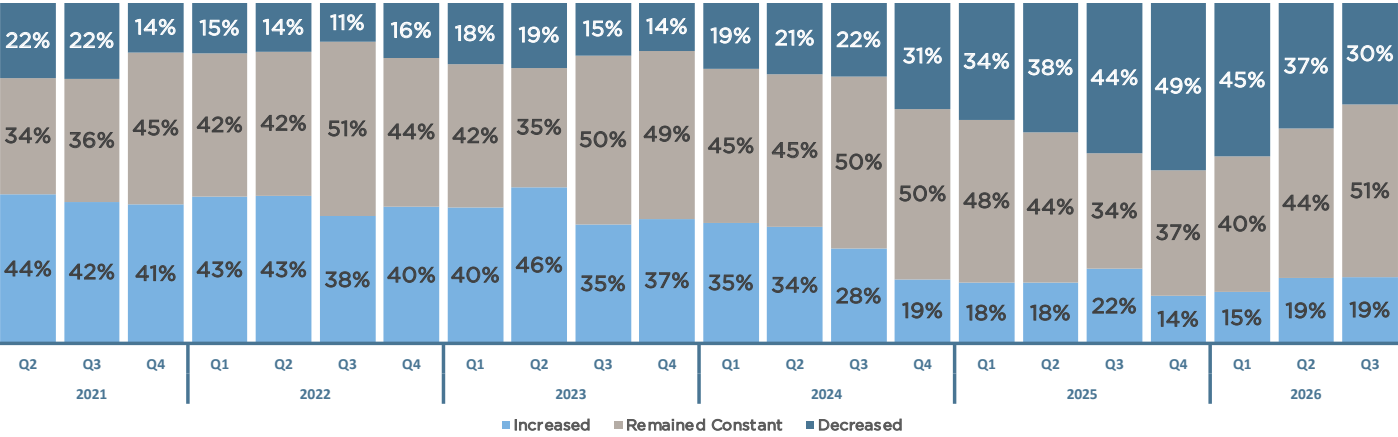
This latest edition took place between 17th August and 11th September 2026 and asked a series of questions on key economic indicators. Completed by 4,333 businesses nationally, collectively employing over 1 million people. 92% of these are SMEs (<250 employees).

In the North-east of Scotland, we heard from 123 companies (3% of the national sample in a region representing just 0.7% of the UK population) collectively employing over 68,000 people. 89% of these are SMEs and 66% of regional respondents do not operate directly in the energy industry.

Domestic activity in Q3

The pattern that we saw in quarter two continued. Still only 19% of North-east firms saw growth in the latest period, again ten percentage points behind the UK figure. Meanwhile 30% of local respondents reported decreasing activity. Slightly more encouraging, however, was that over half of companies said their domestic sales remained constant, perhaps suggesting that our economy might be beginning to bottom out.

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



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	19%	29%	-10
Remained Constant	51%	46%	+5
Decreased	30%	25%	+5

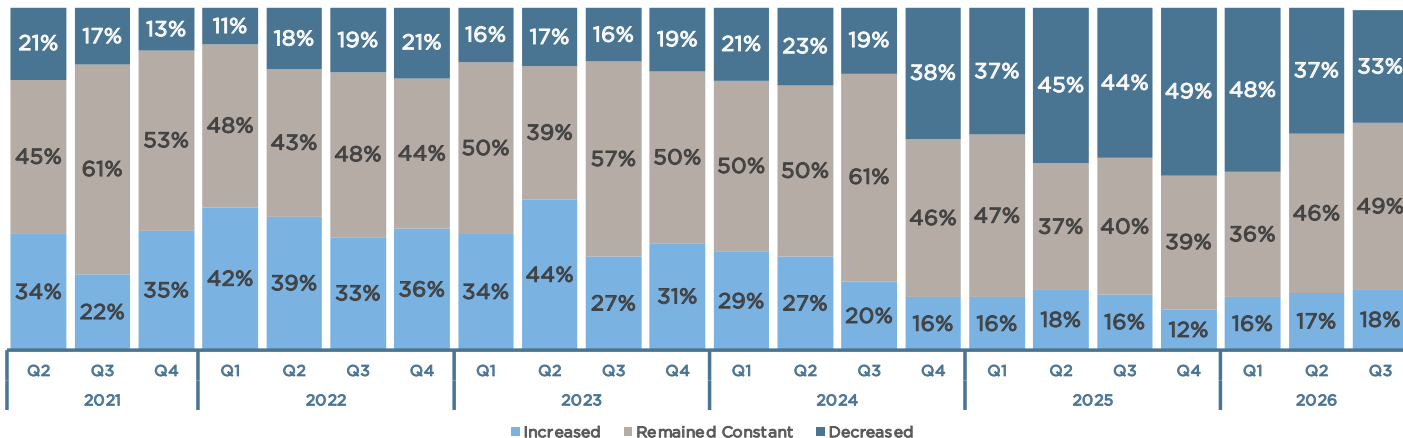


Domestic activity forecast

Forecasts for the next period very much reflect the actuals for Q3. Regional companies expecting growth still trails the UK data by eight percentage points. This tells a story of businesses struggling across the nation, but with additional negative factors here.

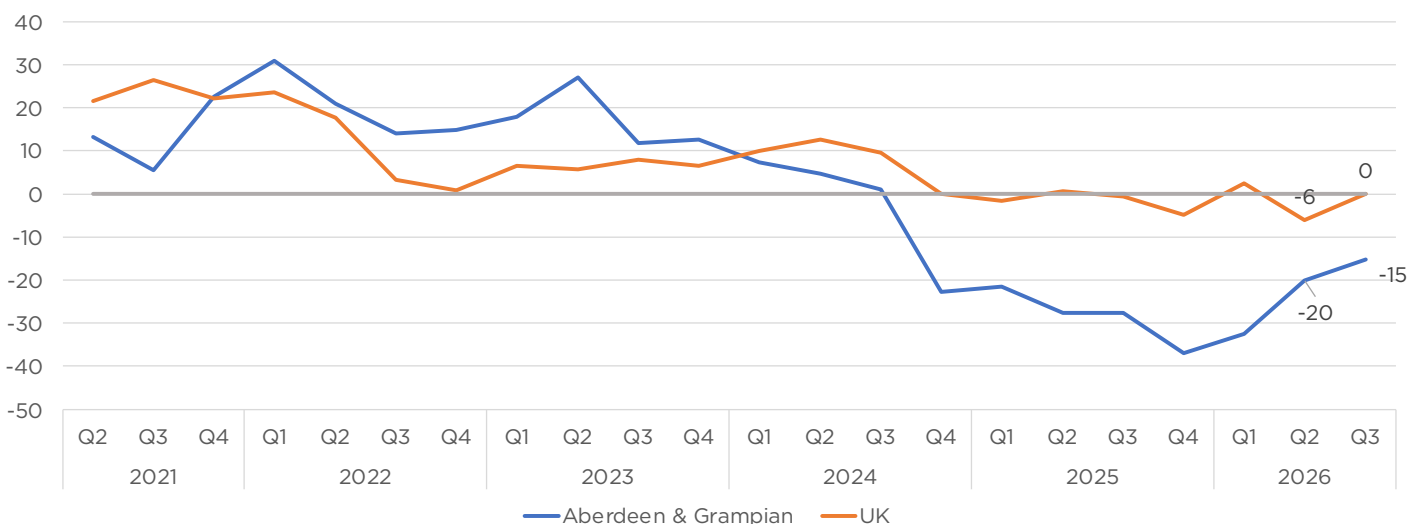
The net balance data shows clearly how the performance of regional firms clearly dipped against UK peers since the General Election.

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%	26%	-8
Remained Constant	49%	48%	+1
Decreased	33%	26%	+7

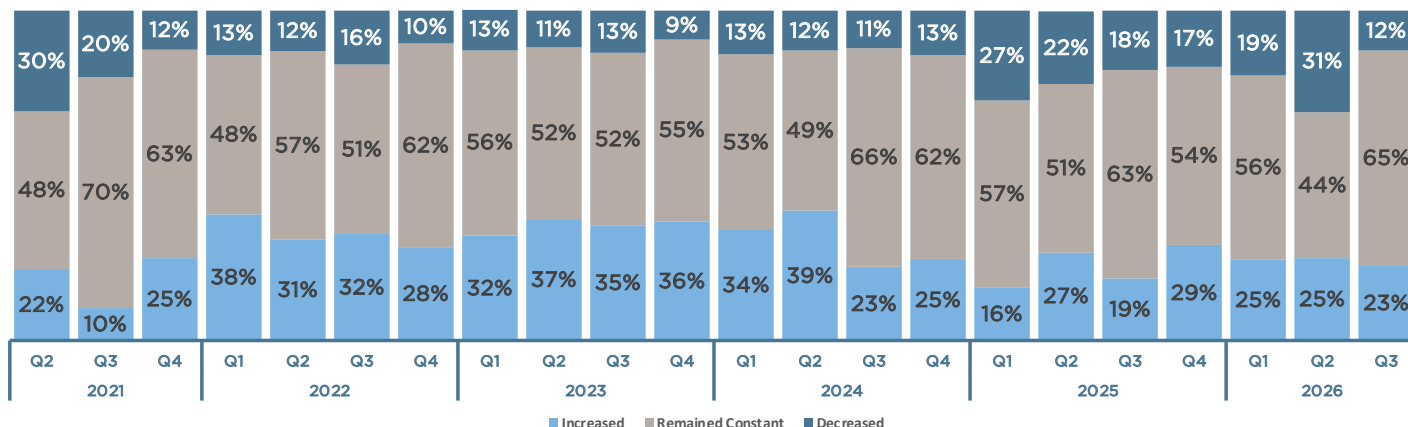
Net balance of domestic forecast of orders/advance custom/bookings over the past 3 months: Aberdeen & Grampian compared with UK



International activity in Q3

Again, a similar pattern when comparing the performance of North-east exporters in quarter 3 v quarter 2 with 23% saying they had seen increased activity. In better news, only 12% of regional respondents said their international activity had decreased, 12 percentage points better than in quarter 2. Interesting to note an uptick in the number of UK firms reporting growth in the period.

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



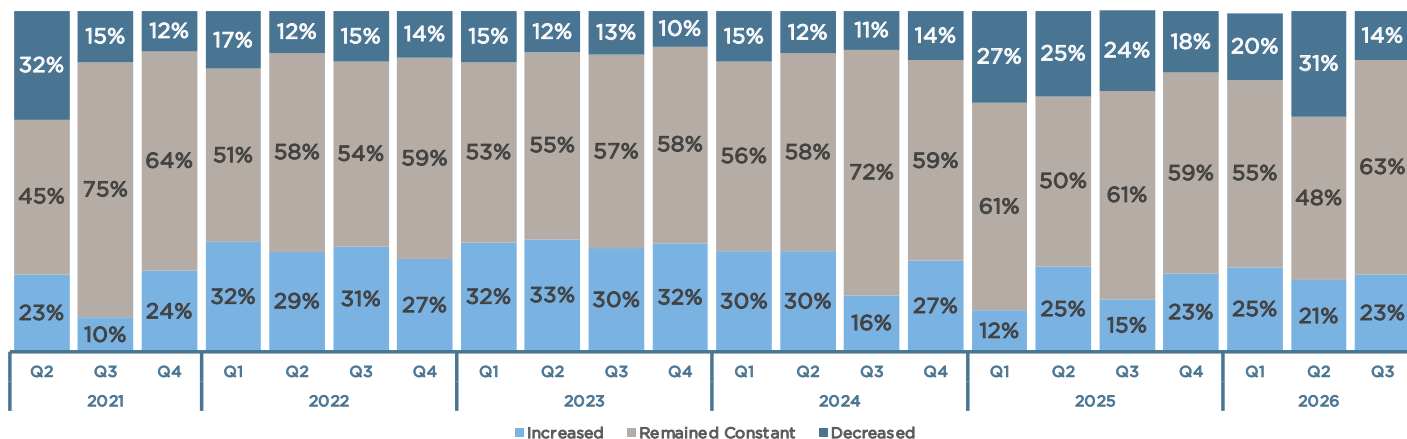
	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	23%	22%	+1
Remained Constant	65%	55%	+10
Decreased	12%	23%	-11



International demand forecasts

For both regional and national companies, forward forecasts are remarkably in line with Q3 actual results. Again, there is some encouragement that only 14% of North-east respondents expect to see export sales decline in quarter 4, ten percentage points better than nationally.

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



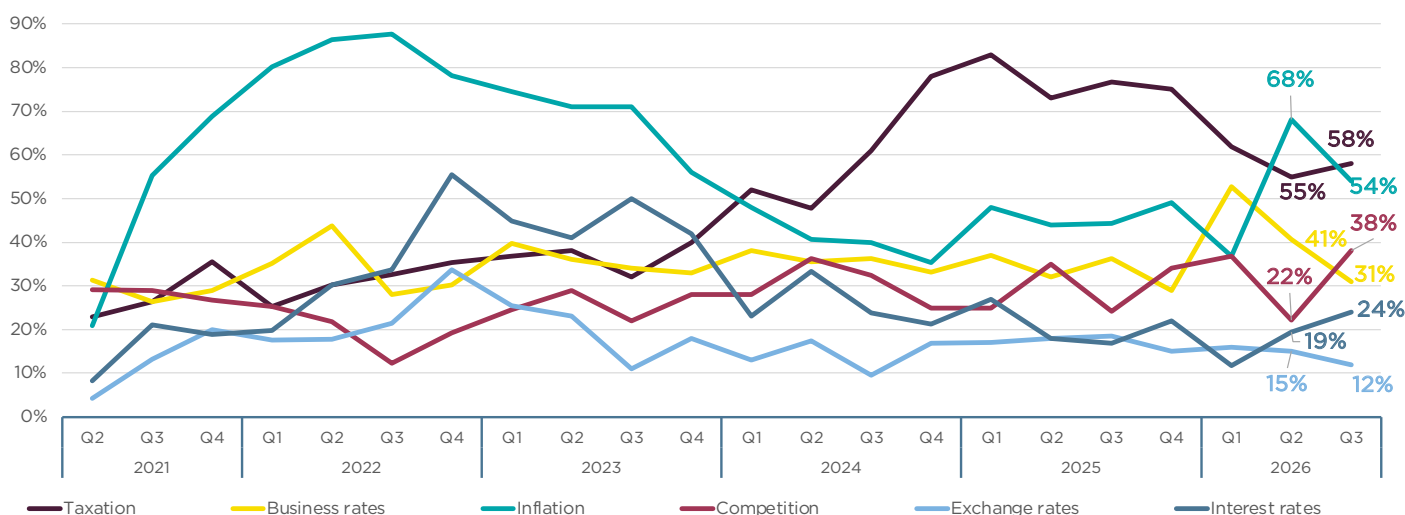
	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	23%	20%	+3
Remained Constant	63%	56%	+7
Decreased	14%	24%	-10



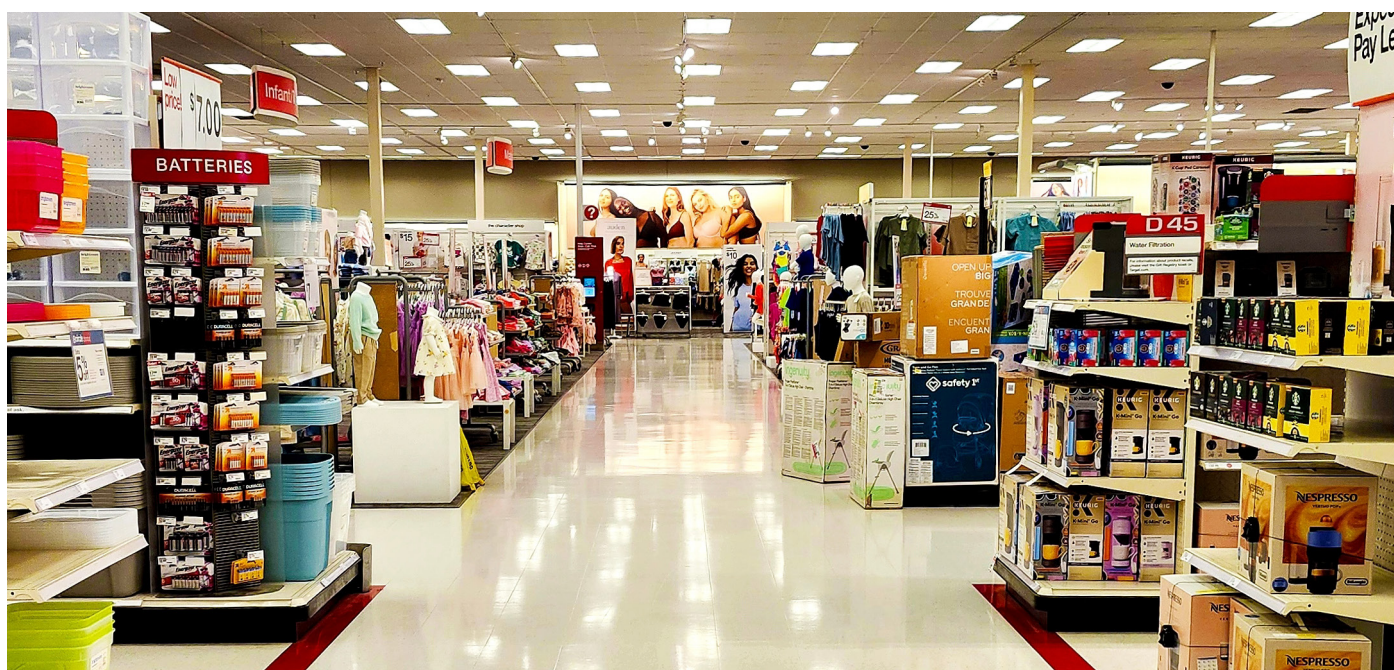
Constraints to growth

Interestingly, compared to three months ago, regional firms view inflation as less of a growth constraint. Taxation remains largely consistent with 58% citing this as a concern. In Q2, only 22% of North-east companies saw competition as an issue but this increased to 38% in the latest data, possibly suggesting that the market here is responding to challenges by focusing short term on volume of work over margin.

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



	Taxation	Inflation	Competition	Business rates	Interest rates	Exchange rates
Aberdeen & Grampian	58%	54%	38%	31%	24%	12%
UK	52%	60%	35%	34%	25%	12%



Cost pressures

NE respondents continue to feel higher cost pressures than their UK peers in quarter 3 in terms of labour costs and fuel but the gap closed significantly for utilities and raw materials.

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

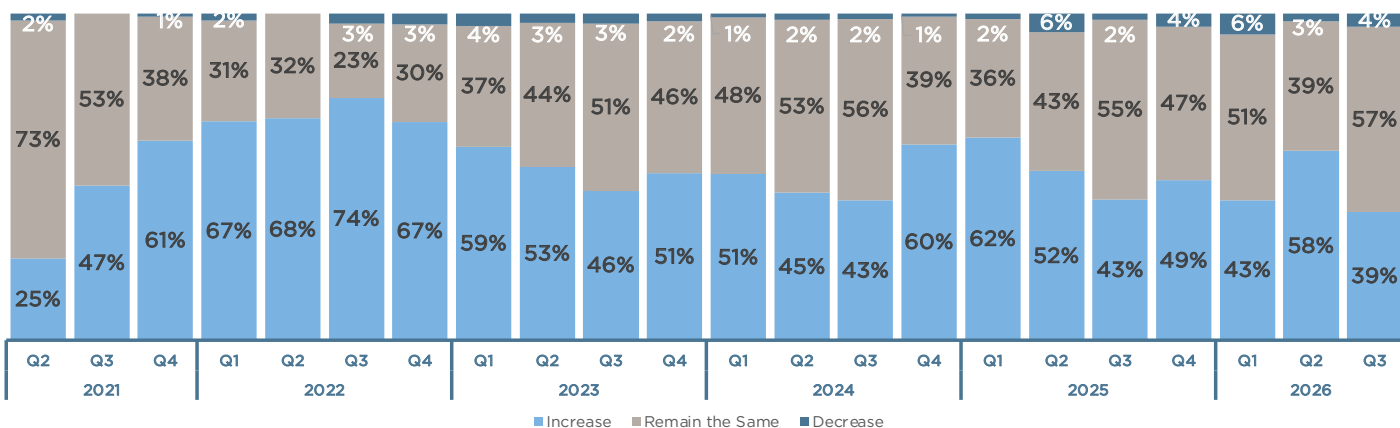
	Q2			Q3		
	Aberdeen & Grampian	UK	% point difference, region v UK	Aberdeen & Grampian	UK	% point difference, region v UK
Labour costs	73%	70%	+3	76%	69%	+7
Utilities	71%	56%	+15	54%	53%	+1
Fuel	51%	42%	+9	49%	42%	+7
Raw materials	67%	52%	+15	47%	43%	+4
Other	23%	24%	-1	20%	24%	-4



Pricing

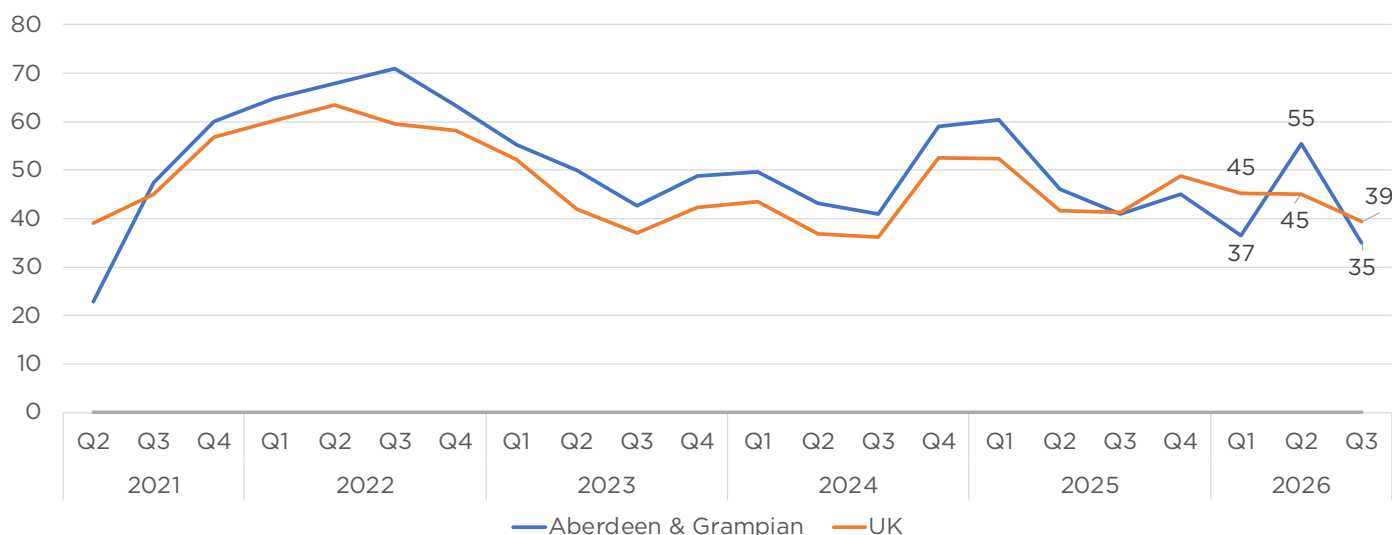
Although the market remains tough with a range of cost pressures facing companies, quarter 3 saw the lowest number of North-east firms since early 2021 planning to increase prices. Just 39% report planning to do so over the next three months, down from 58% in Q2. This echoes the findings from the 'Constraints to growth' question suggesting fierce competition in the market means that companies believe that increasing prices, may result in them losing business.

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



	Aberdeen & Grampian	UK	% point difference, region v UK
Increase	39%	43%	-4
Remain the Same	57%	54%	+3
Decrease	4%	3%	+1

Net balance of those expecting to raise the price of goods/services over the next 3 months: Aberdeen & Grampian compared with UK

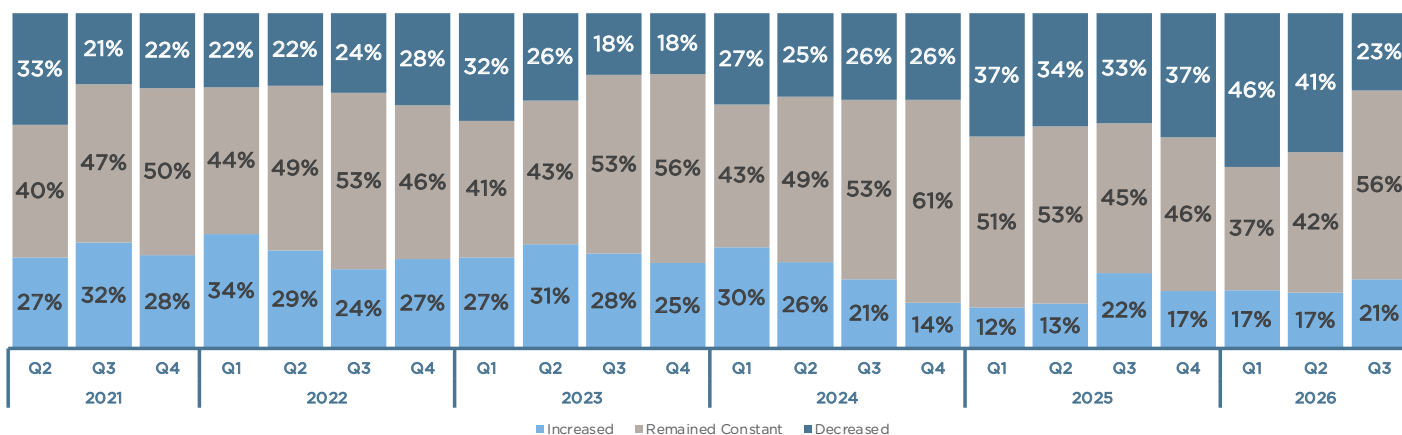




Cash flow

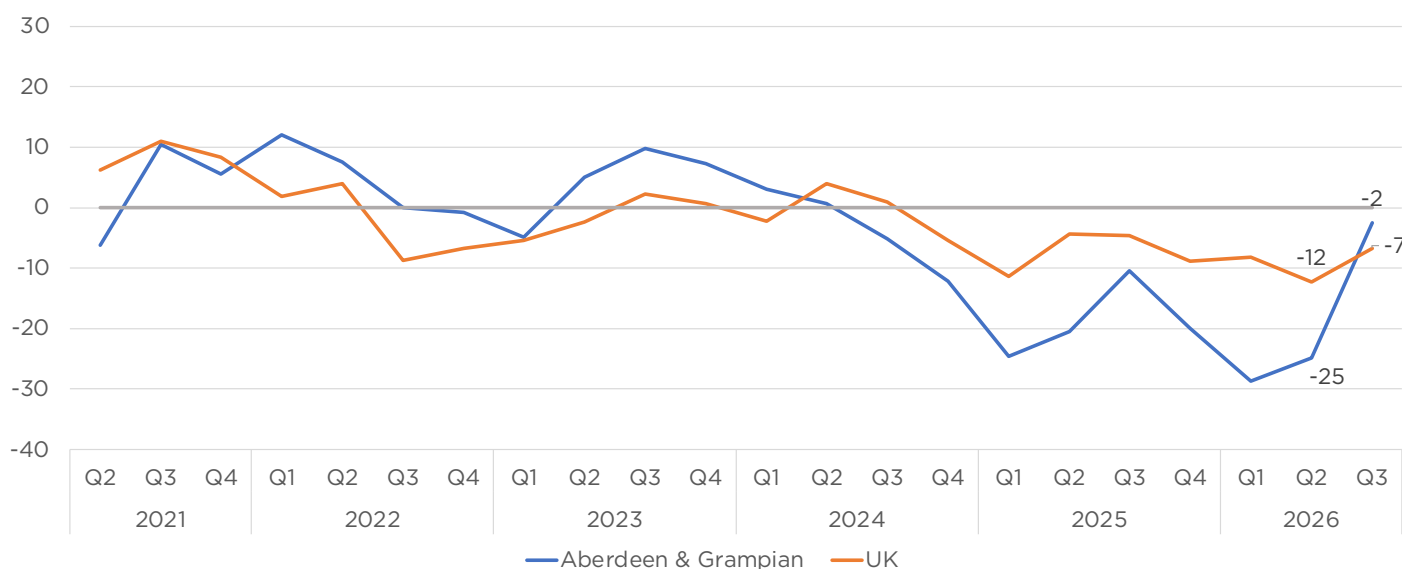
Despite the headwinds detailed elsewhere in this report, the quarter 3 data tells the best story since mid-2024 about the cash position of North-east respondents. Less than a quarter say that cash flow decreased in the period (compared to 29% of national respondents) with 77% of regional businesses reporting it remained constant or improved.

Q: "Over the past 3 months, cash flow has ..."



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	21%	22%	-1
Remained Constant	56%	49%	+7
Decreased	23%	29%	-6

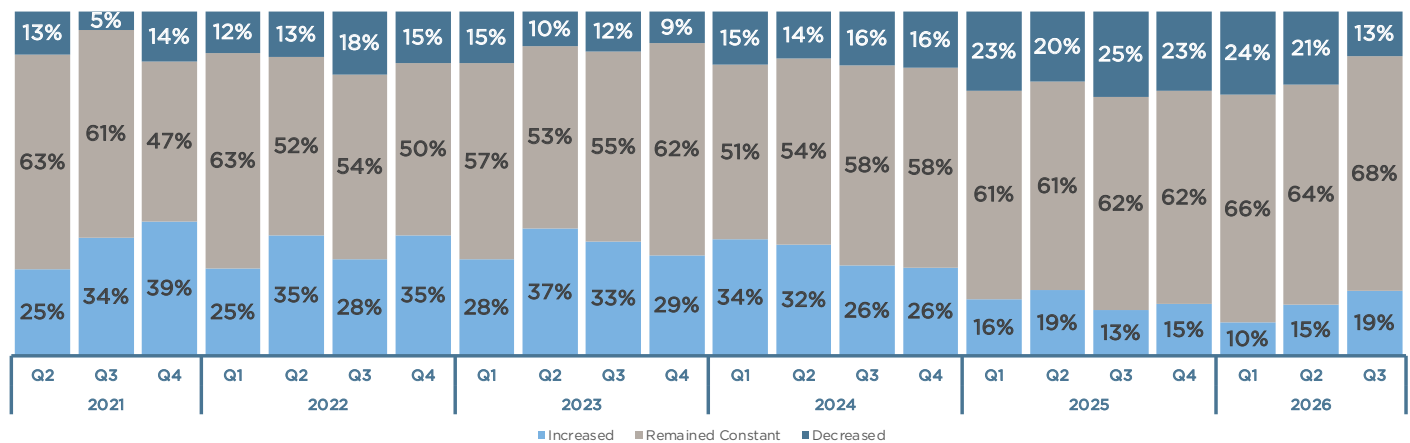
Net balance of cash flow over the past 3 months: Aberdeen & Grampian compared with UK



Workforce trends

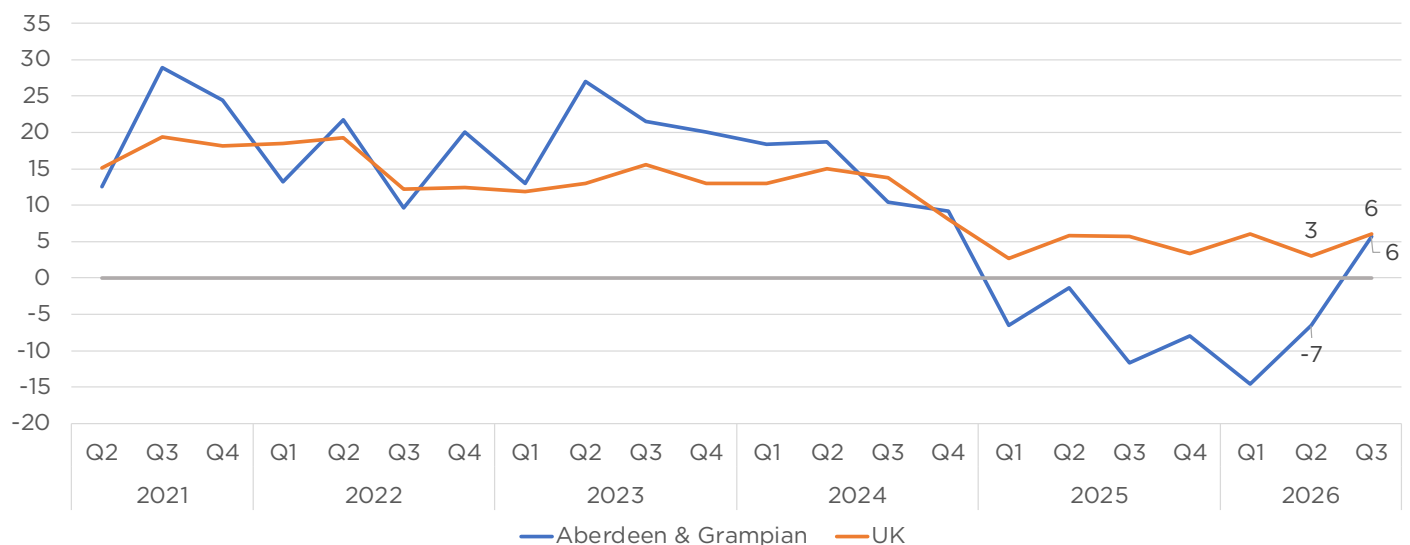
Quarter 3 saw the lowest number of regional respondents since Q4 2024 saying that their workforce had decreased over the period. After a period where the North-east has performed much worse than peer regions nationally, the latest data shows this gap has closed; suggesting either that firms across the UK are reacting to tougher trading conditions and/or that North-east firms have already factored in the 'new normal'.

Q: "Over the past 3 months, has your workforce ..."



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	19%	21%	-2
Remained Constant	68%	64%	+4
Decreased	13%	15%	-2

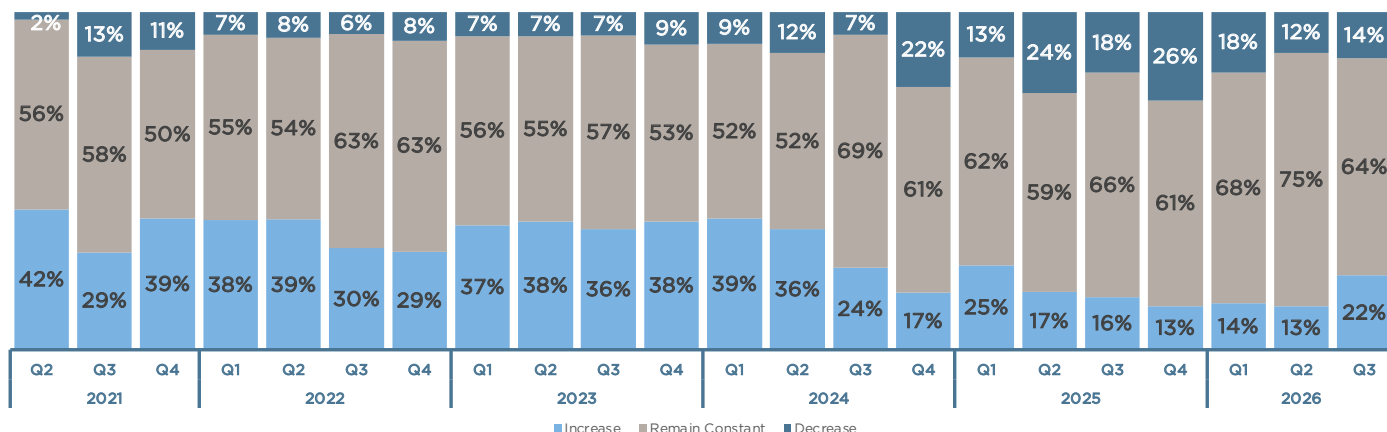
Net balance of workforce over the past 3 months : Aberdeen & Grampian compared with UK



Workforce outlook

The Q3 workforce pattern is repeated looking forward with the highest number (22%) of North-east respondents since Q1 2025 saying they plan to increase headcount over the next period, although we saw a very small rise in the number planning to reduce levels.

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



	Aberdeen & Grampian	UK	% point difference, region v UK
Increase	22%	23%	-1
Remain Constant	64%	66%	-2
Decrease	14%	11%	+3

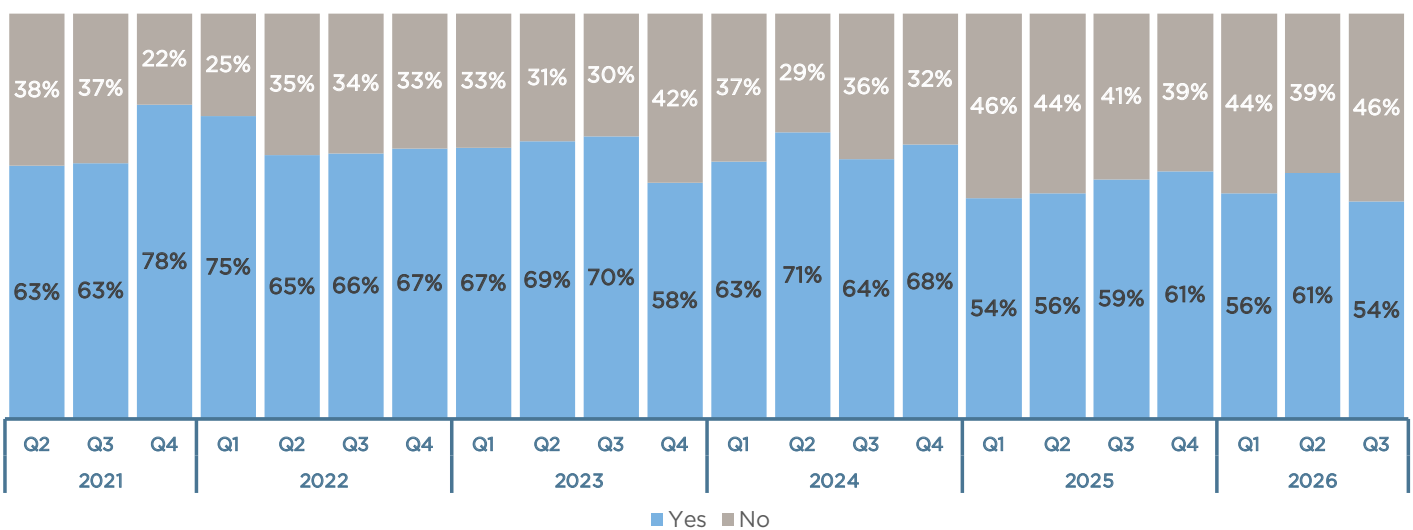


Recruitment activity and challenges

54% of NE respondents say they attempted to recruit staff over the past three months- in line with UK figures but significantly below historic levels. Interestingly, during this period just 19% of regional firms reported actually increasing their staff numbers; suggesting that they were recruiting to deal with workforce churn and/or unable to find candidates.

The latter point is supported by 61% of regional companies saying they did have difficulty in finding suitable staff for live vacancies, lower than historic North-east data but still 8 percentage points higher than across the UK.

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

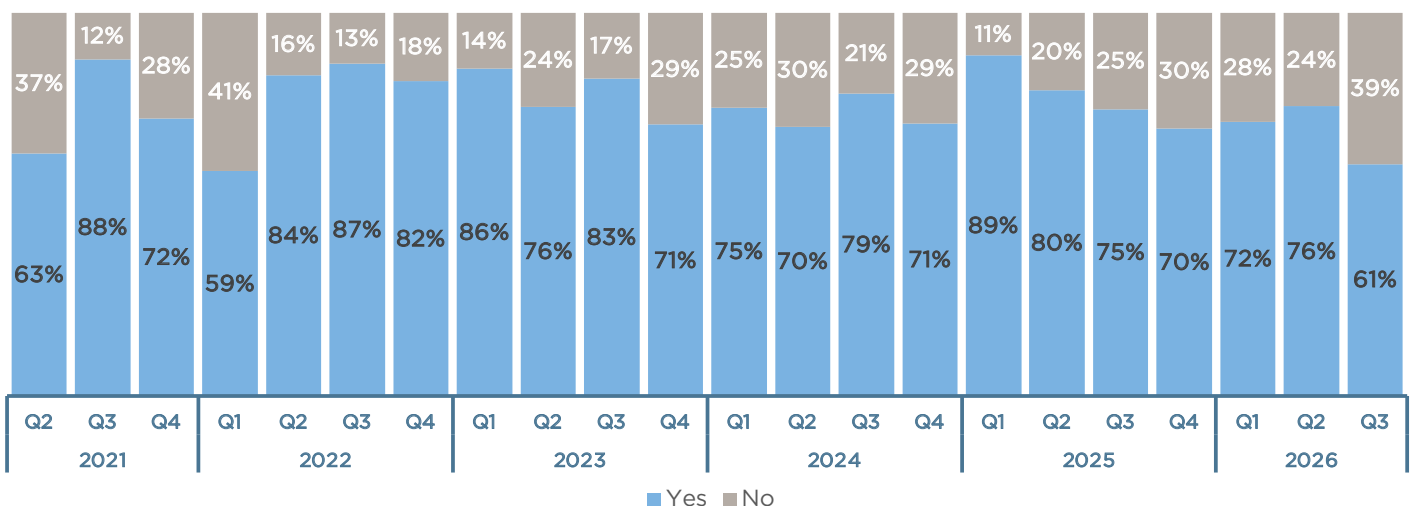


■ Yes ■ No

53% - UK Yes

47% - UK No

Q: "If you attempted to recruit, did you experience any difficulties finding suitable staff? "



■ Yes ■ No

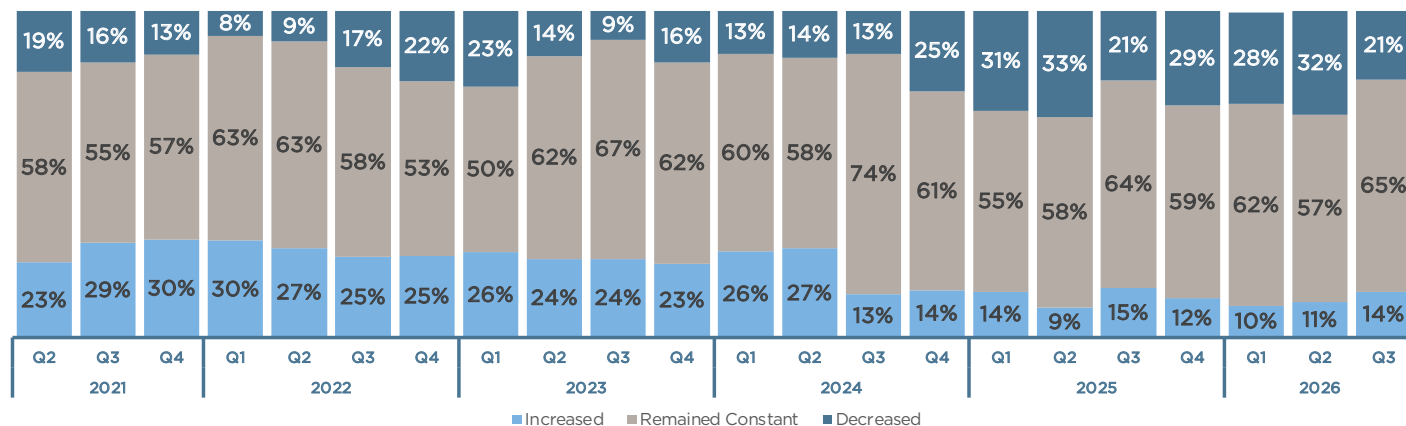
53% - UK Yes

47% - UK No

Staff training

We saw a stabilisation, in the latest period, of North-east firms investing in staff training. Reflecting, perhaps the recruitment challenges referenced in this report and the need to retain and upskill existing staff. The regional data still lags slightly against the UK picture.

Q: “Over the past 3 months, investment plans for training have...”



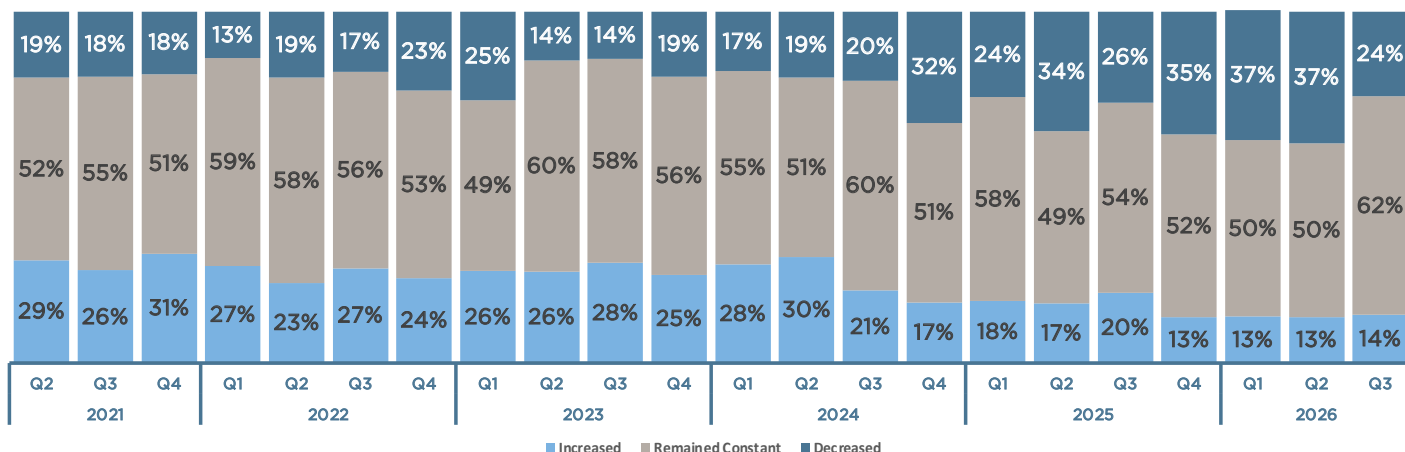
	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	14%	20%	-6
Remained Constant	65%	63%	+2
Decreased	21%	17%	+4



Capital investment

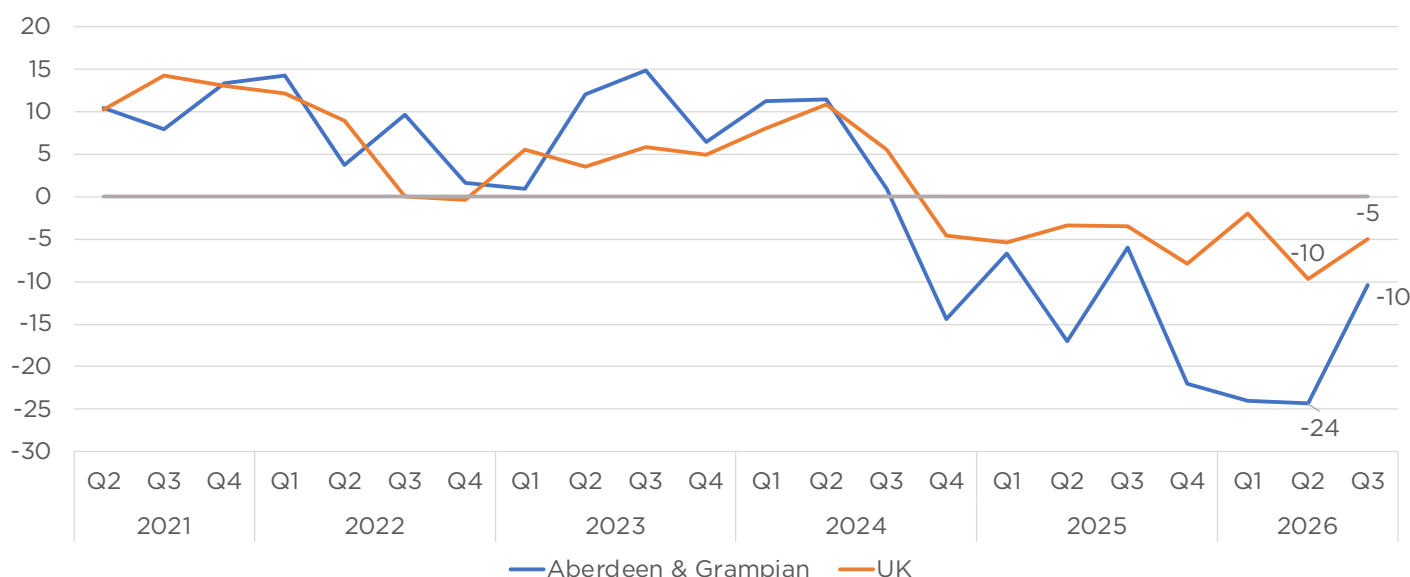
As a result of current economic conditions and uncertainty, companies across the UK continue to show relatively low levels of investment appetite. In recent surveys this has been more marked for North-east firms, although in the latest dataset we see regional results much closer to national trends and a historically high number local respondents saying that their capex plans remain constant.

Q: "Over the past 3 months, investment plans for plant/machinery/equipment have.."



	Aberdeen & Grampian	UK	% point difference, region v UK
Increased	14%	17%	-3
Remained Constant	62%	61%	+1
Decreased	24%	22%	+2

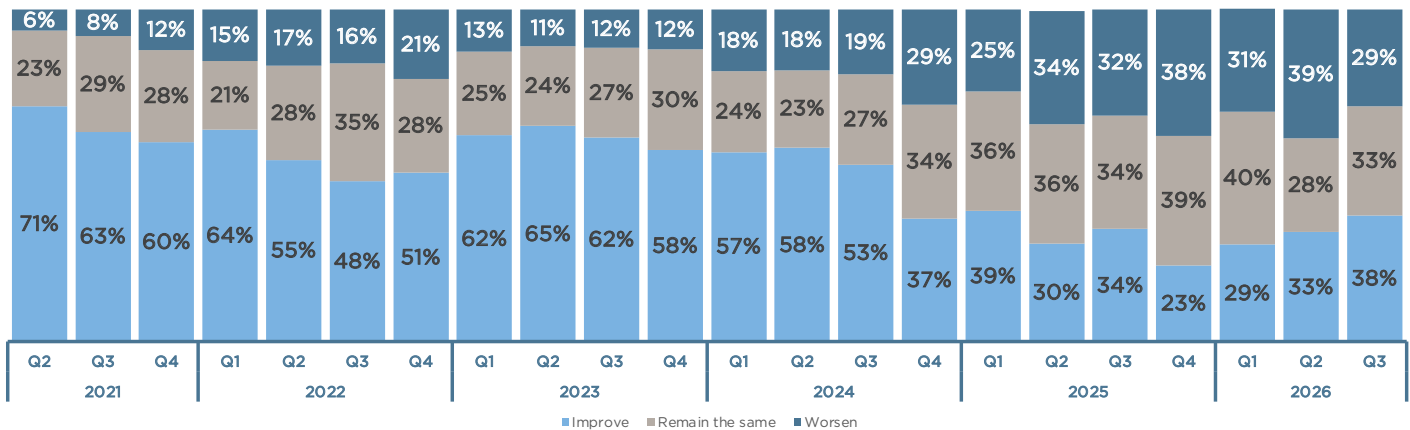
Net balance of investment plans for plant/machinery/equipment over the past 3 months:
Aberdeen & Grampian compared with UK



Turnover

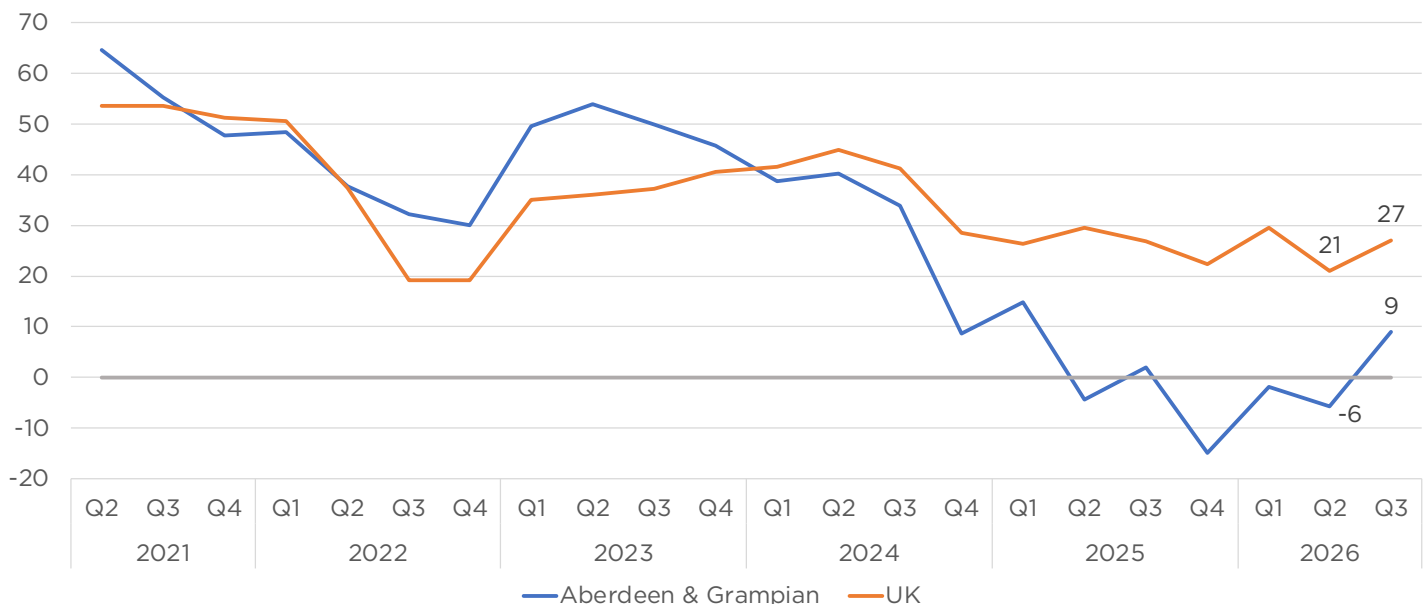
In quarter 3, regional respondents were demonstrating marginally more confidence in turnover outlook over the next twelve months than has been the case for the last couple of years. However, this still lags significantly the outlook for their peers across the nation.

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



	Aberdeen & Grampian	UK	% point difference, region v UK
Increase	38%	47%	-9
Remain Constant	33%	33%	-
Decrease	29%	20%	+9

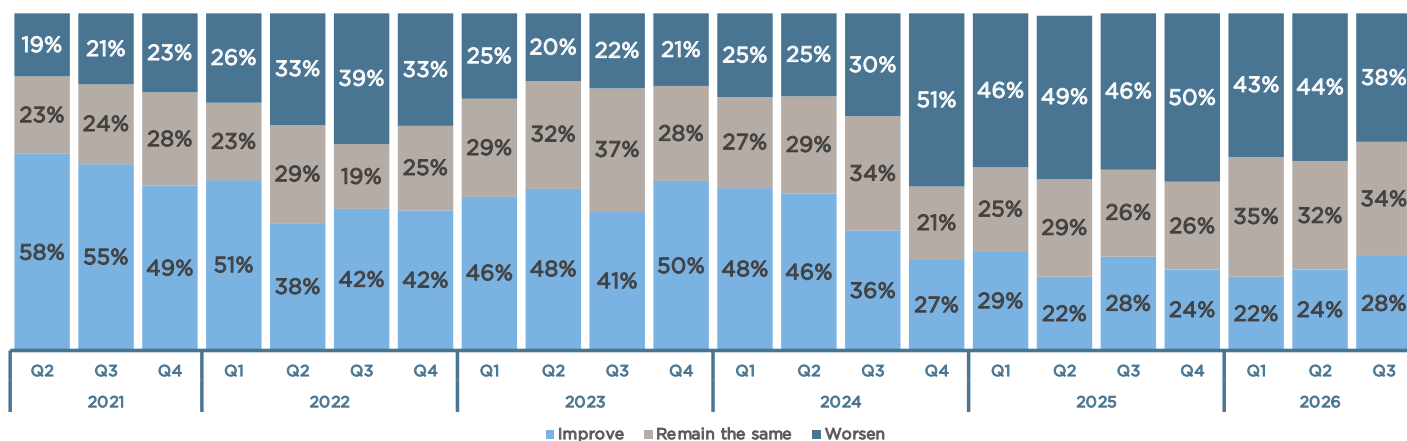
Net balance of turnover over the next 12 months: Aberdeen & Grampian compared with UK



Profitability

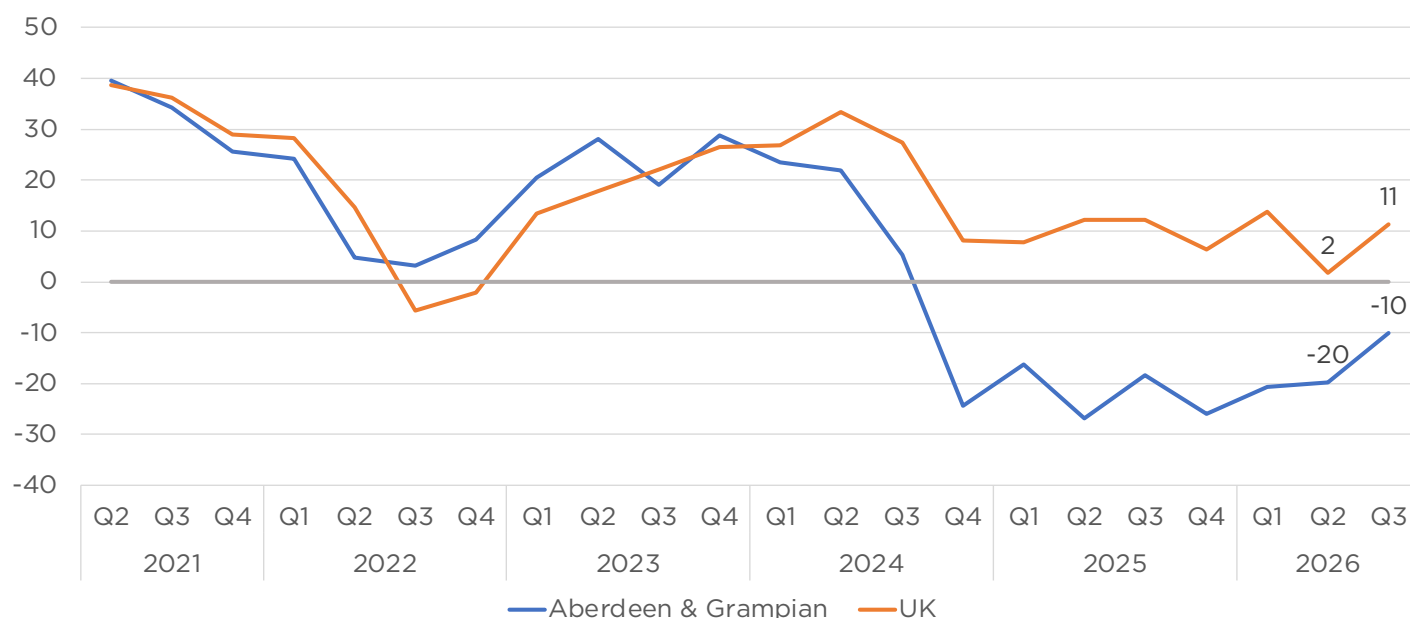
This pattern is repeated for the twelve month profitability outlook, with slightly improved NE confidence but still lagging well behind the UK data. Interestingly there is a trend both regionally and nationally where a significant number of firms expecting growth in turnover, do not see this translating into increased profits.

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



	Aberdeen & Grampian	UK	% point difference, region v UK
Improve	28%	38%	-10
Remain the same	34%	35%	-1
Worsen	38%	27%	+11

Net balance of profitability over the next 12 months: Aberdeen & Grampian compared with UK



Additional feedback

A number of survey respondents added specific comments to support their answers and these are summarised here. Overall, the feedback reinforces the wider QES findings around policy uncertainty, subdued demand and cost pressures.

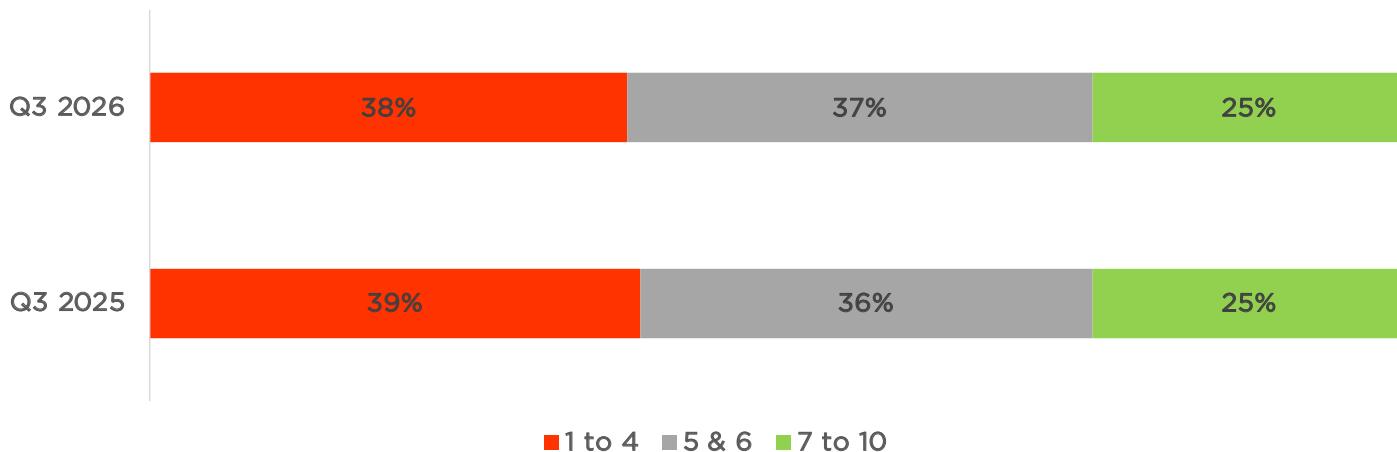
Theme	What businesses are saying
Government policy, taxation and energy	Concerns about government policy, taxation and the future of the North Sea oil and gas sector were the most common theme, with calls for greater policy clarity and certainty.
Weakening demand and business activity	The Energy Profits Levy and wider government approach to oil and gas remain one of the strongest themes, with businesses warning of cancelled projects, reduced investment and supply chain impacts.
Rising costs and local business pressures	Several firms report subdued trading conditions, particularly in construction and the wider local economy, with limited new projects and uncertainty over future workloads.



Confidence in Aberdeen's future

Based on the issues touched on in the survey, we see a mixed picture in terms of levels of optimism about the economic future of this region.

Q: "On a scale of 1 to 10, how optimistic are you right now about Aberdeen's future?"



2025 Base: 137

2025 Base: 137

Q: "Why do you say that?"

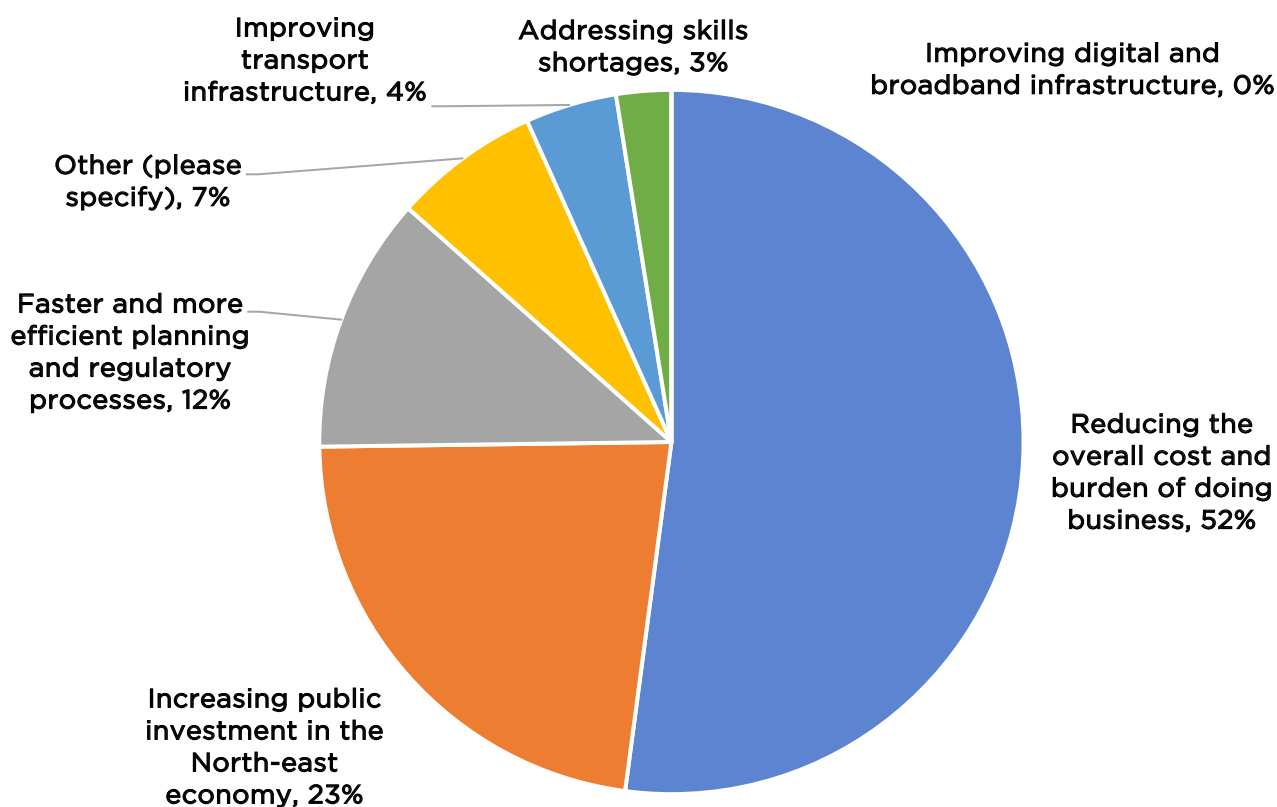
Optimism rating	Most repeated theme	What respondents were saying	Second most repeated theme	What respondents were saying
1-4	Oil & gas decline and uncertainty over energy policy	Concerns about declining North Sea activity, taxation, regulation, lack of support for oil and gas, and uncertainty over the energy transition were by far the most recurring issue.	Weak economic outlook, investment and employment	Respondents linked the energy-sector outlook to reduced investment, fewer jobs, weaker business activity and concerns about the wider local economy and property market.
5-6	Uncertainty around the energy transition	Businesses were uncertain about the future of oil and gas and whether renewable/alternative activity will develop quickly enough to replace declining activity.	Underlying strengths and ability to adapt	Despite the uncertainty, respondents pointed to Aberdeen's economic fundamentals, emerging opportunities, diverse sectors and businesses' ability to adapt to difficult conditions.
7-10	Business opportunities and Aberdeen's underlying strengths	Respondents highlighted strong businesses, skills, business opportunities, investment and signs of improving activity across parts of the economy.	City investment, regeneration and infrastructure	Planned improvements to Union Street, the beach, Castlegate and wider city infrastructure were viewed as potential drivers of greater activity and attractiveness.

2026 Base: 91

What could change the game?

Over half of respondents said that reducing the cost and burden of doing business would be the biggest positive intervention that we could see from our governments. Followed by greater public investment in this region and faster and more efficient planning processes.

Q: "Which ONE of the following actions by government or public bodies would have the greatest positive impact on your business over the next 12 months?"



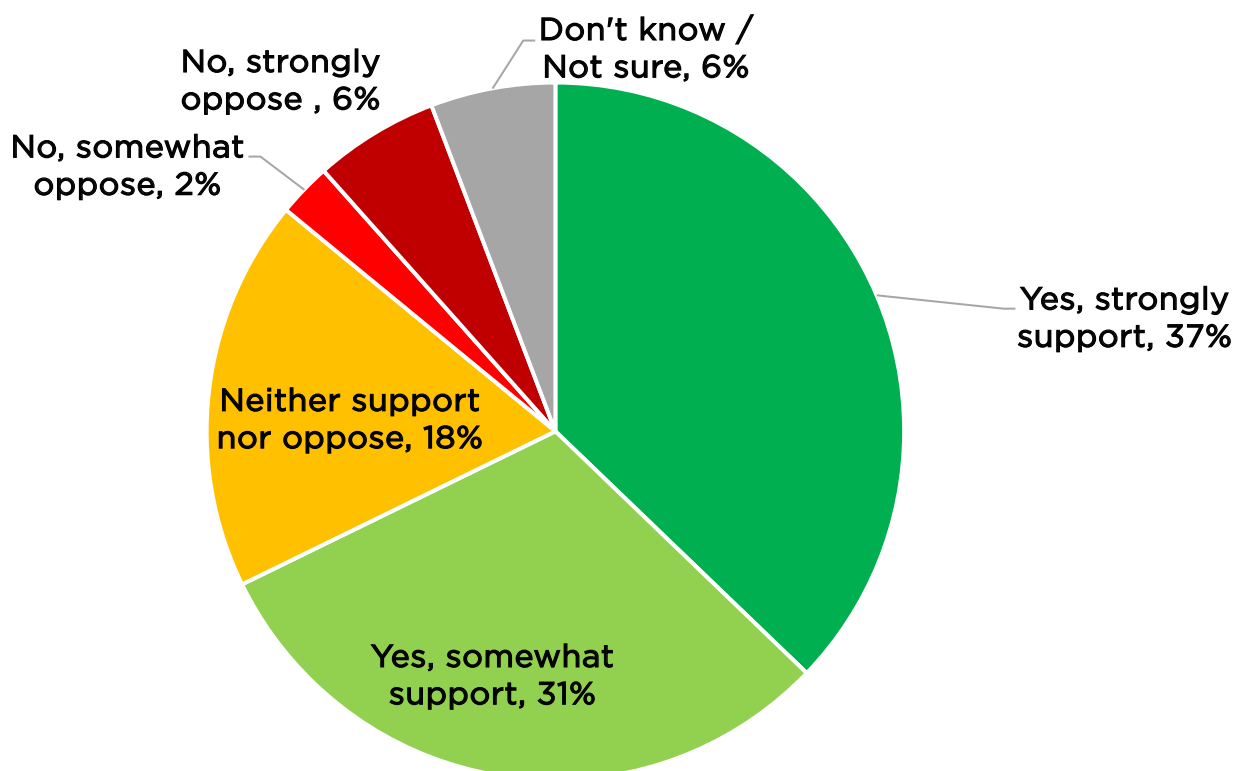
2026 Base: 119



Regional devolution

Only a very small minority opposed the idea of examining ways in which the North-east region could be given greater fiscal and policy levers over its own destiny.

Q: "As discussions continue about regional devolution across the UK, would you support giving North-east Scotland greater decision-making powers over matters affecting the region's economy?"



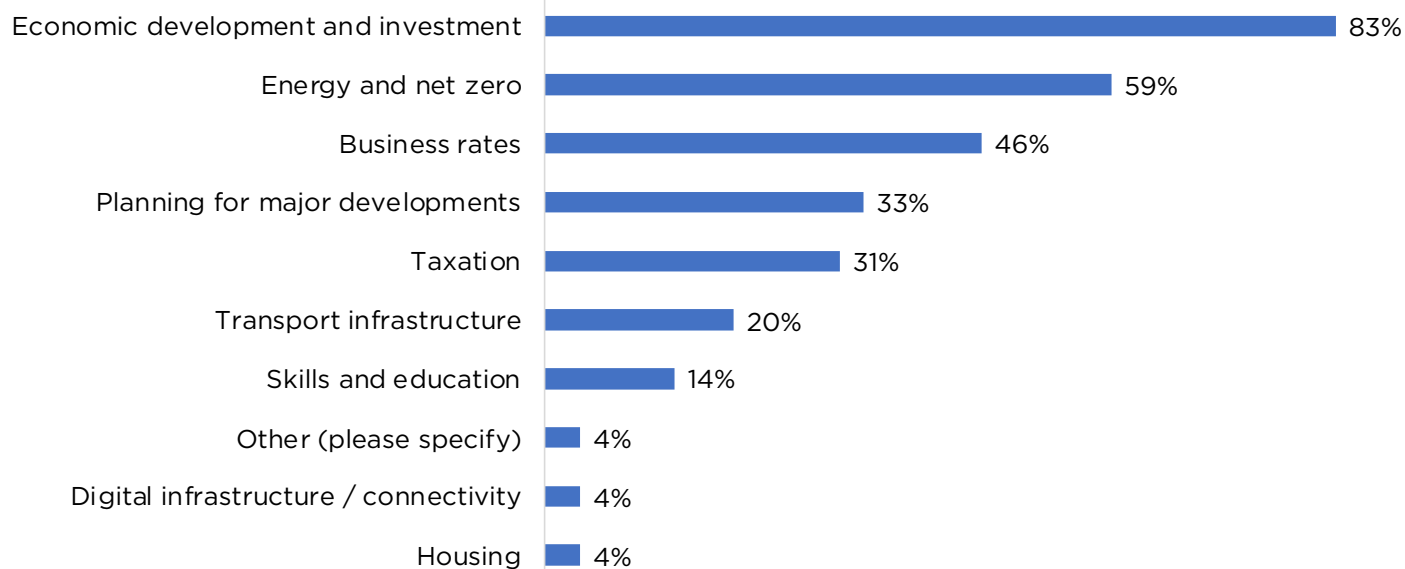
2026 Base: 121



Regional devolution

And when those that supported change were asked what their priorities would be in this scenario, respondents listed their top three with the following results:

Q: "If North-east Scotland were given greater decision-making powers, which THREE areas should be the highest priorities?"



Base 81
Those who chose yes strongly / somewhat support



The national picture

by David Bharier,
British Chambers of Commerce

The survey, based on responses from more than 4,300 firms across the UK, provides a powerful picture of the pressure on businesses and what needs to change.

The latest BCC Quarterly Economic Survey shows a mixed picture for UK businesses. Nearly half (47%) expect turnover to improve over the next 12 months, up from 44% in Q2. However, only 17% plan to increase investment over the next three months – unchanged from Q2 and still at a post-pandemic low.

Ahead of the Budget, businesses continue to face significant cost pressures. Inflation remains the top concern for 60% of firms, followed by taxation at 52%, while labour and utility costs continue to put pressure on businesses.

Hospitality is the sector under the most pressure. Only 39% said they expected increased turnover, but this is still an increase from Q2 (31%). Around a quarter (26%) of hospitality firms expect a decrease.

Cash flow pressures have also eased, although they remain negative overall, with 22% reporting an increase in Q3, against 29% a decrease, and 49% remaining constant.

As firms battle the cost of doing business, investment intentions remain stuck in a deep rut. Fewer than one in five (17%) responding businesses said they planned to increase investment in plant, machinery or equipment over the next three months. This is the same figure as Q2, and it remains a post pandemic low. Just under a quarter (22%) of firms said they planned to cut back on investment, while the majority of responding businesses (62%) said their plans remained unchanged.

Investment intentions vary across different sectors. A third of hospitality businesses (32%) reported they'd scaled back investment plans, while only 20% said they were planning to increase levels. The majority (48%) said investment was likely to remain the same. Meanwhile, only 14% of firms in both construction and transport are planning to

invest more over the coming months. In both sectors, 23% are planning a reduction, 63% said investment levels will remain the same. The percentage of businesses reporting increased domestic sales in Q3 held steady at 29%. Just less than half (46%) reported no change, and a quarter (25%) said they had seen a decrease in sales. Sectoral breakdowns show the hospitality sector experienced the strongest performance, with 31% of firms reporting a sales boost, while the retail was the sector struggling the most, with only 26% reporting increased sales.

With the CPI rate increasing over the summer, inflation remains the top concern for businesses. However, concern did ease slightly in Q3, with inflation cited by 60% (down from 66% in Q2). Half of firms (52%) cited taxation as a worry.

Price rise expectations among firms also remain elevated, despite some quarter-on-quarter easing. The proportion of business forecasting price rises for customers in the next three months sits at 43% in Q3 (compared with 48% in Q2). The majority of firms (54%) said they expect to hold their prices, and only 3% are planning a cut.

Labour costs remain far and away the main price pressure, an issue cited by 69% of businesses. This was felt most acutely by firms in the hospitality sector (78%). Utility costs continue to be a price pressure for over half of firms (53%). Meanwhile, with the Middle East conflict continuing, 86% of firms in the transport and logistics sector highlight fuel costs as a price pressure.

What businesses said:

“Far too much taxation. Running a business is very hard – it feels like death by a thousand cuts.”

**Small professional services firm
in Birmingham**

“Due to sustained increases in raw material costs, labour expenses, government regulatory requirements, and shipping charges, we are now operating at the absolute limit of what the business can absorb.”

Manufacturer in the West of England



“It is difficult to invest in the business with the current economic uncertainty and no indication when the economy will see real growth.”

Professional services firm in Kent

“The running costs to simply turn the light on these days is shocking, we are keeping our head above water, but the rise in business rates, NI and others which the government implemented have not done any favours to SMEs, we are meant to be the life blood of the economy yet are the ones who are suffering.”

Small manufacturing firm in Shropshire

“Fuel prices and cost to employ staff is the biggest burden”

Micro logistics firm in Cambridgeshire

David Bharier, Deputy Director Economics and Insight, at the British Chambers of Commerce said:

“The QES points to an economy stuck in low gear. Most firms are reporting no improvement across almost every indicator we track.

“It’s a positive that the decline of the preceding quarters hasn’t continued, and turnover confidence has seen a slight bounce. But the underlying trend still points to flatlining, with just 17% of firms increasing their investment, a post-pandemic low.

“There is also a big imbalance beneath the headline. Larger firms are driving any improvements to indicators, while the smallest businesses have seen sales and cash flow fall further. Hospitality remains the sector under the most pressure.

“Firms are being held back by two constraints. Global volatility is driving up prices and pushing firms to defer investment decisions, while the underlying cost base continues to rise, particularly around employment. Our cost stack calculator shows domestic policy-driven costs alone have risen by more than 70% in the past decade for a typical SME.

“As the Chancellor finalises the Budget, every major measure should be put through our Growth Delivery Test: what will it get firms to do that they aren’t doing now?”

Green shoots are welcome – but growth requires more

Whilst the latest North-east Quarterly Economic Survey includes reasons for encouragement, it also paints the picture of an economy that is struggling to turn the green shoots into real recovery.

Domestic trading conditions remain challenging, with just 19% of regional businesses reporting increased sales in Q3, compared with 29% across the UK. While international activity has again proved more resilient, this is not yet translating into widespread confidence about the year ahead. An encouraging 38% of North-east firms expect turnover to increase over the next 12 months, but 29% anticipate a decline. On profitability, the outlook is even more concerning, with more businesses expecting profits to worsen than improve.

The message is clear: businesses are working hard to stand still, rather than investing confidently to move forward.

Cost pressures remain a major part of that story. Labour costs continue to weigh heavily on local firms while taxation is another persistent constraint, cited by 58% of regional respondents. At the same time, increasing competition is putting pressure on margins, limiting businesses' ability to pass higher costs on to customers.

The result is a difficult balancing act between protecting profitability and maintaining competitiveness.

Perhaps most worrying is the impact on investment. Whilst capital expenditure plans have stabilised, only 14% of North-east businesses increased investment in plant, machinery and equipment during the quarter. A similar proportion increased spending on staff training.

These are not simply short-term business decisions - sustained underinvestment risks undermining productivity, skills development and the region's long-term competitiveness.

For the North-east, these challenges are inseparable from uncertainty surrounding the future of the North Sea oil and gas industry.

Businesses continue to highlight the impact of taxation, government policy and uncertainty over future activity, with concerns extending well beyond operators into the wider supply chain. The energy transition presents significant opportunities, but businesses need confidence that new investment, projects and employment will develop at a pace capable of sustaining the region's industrial strengths and highly skilled workforce.

The recent decision to allow production consent for the Jackdaw gas field is a welcome signal that the economic value of domestic energy, energy security and the jobs supported by the North Sea supply chain remain important considerations. However, it does not resolve the wider uncertainty facing the sector. The North-east's energy expertise and infrastructure can have a critical role to play not just for the region's economy but for the UK as a whole. The challenge now is to build on that signal with a more consistent and predictable framework for future investment across the energy economy.

Put simply – there is an urgent need to make “growth” the practical test of policy. The Labour Government came into power on a platform which promised growth. Thus far that growth has not manifest, especially in the North-east of Scotland.

Businesses need a competitive environment in which investment is rewarded, projects can proceed with confidence, and where the transition to a lower-carbon economy creates opportunities rather than simply adding uncertainty.

The North-east does not lack ambition. However, it needs the conditions in which ambition can translate into investment, jobs and growth. Green shoots are welcome, but we need decisive action to restore business confidence, enable growth and avoid recent good news stories becoming a false dawn.



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