

Business Confidence is on the Rise in Scotland – But Can it be Maintained?

To say that the economic picture in the UK is bleak would be something of an understatement, with interest rates at a 15-year high and inflation remaining an eye-watering 7.9% in June.

Sure, the latter metric fell in relation to the previous month's figures, but a rate of 7.9% indicates that consumer prices and the wider economic situation are simply deteriorating at a slightly slower rate rather than actively improving.

The UK economy is also performing particularly badly when compared to its neighbours and economic partners. For example, inflation in the US has now fallen to 3%, while the average rate in the Eurozone is 5.5%. This has much to do with Brexit, of course, with the government choosing to ignore the impact that this is having on the supply chain and cost of raw goods rather than tackling this head on.

However, Scotland received a boost recently as business confidence moved into positive territory for the first time in 12 months. But what's behind this upturn, ***and can it be sustained going forward?***



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The Rise of Business Confidence in Scotland

Despite the quarterly uptick in business confidence, companies in Scotland continue to face “very real difficulties” according to a closely watched survey of chartered accountants.

These largely exist in the form of rising inflation, which is having a direct (and detrimental) supply costs and consumer prices. Both factors have increased at their fastest and largest rates in nearly 20 years, squeezing business margins at both ends and impacting on companies of all shapes and sizes.

The question that remains, of course, is how has business confidence grown against such an arduous backdrop? Well, the Institute of Chartered Accountants in England and Wales’ (ICAEW) has revealed that Scotland saw the highest level of export growth in the UK during the reporting period, which came as something of a surprise to entrepreneurs and

economists alike.

More specifically, export growth in Scotland peaked at 5.6%, which compared favourably to the UK average of 4.9%.

This caused the business confidence monitor to rise by an impressive 6.4% in the second quarter of 2023, with this providing a stark contrast to the 0.2% decrease reported during Q1.

Is This Sustainable?

While the recent confidence increase has provided some respite to a besieged economy, the ICAEW has forecast that the growth of both exports *and* domestic sales will slow in the year ahead, with the latter predicted to become the slowest in the whole of the UK.

This trend is prevalent across a broad range of economic metrics in Scotland, including the workforce. At present, this is expanding at a rate close to its historical high, but it's continuing to grow at a decreased pace and remains embarked on a downward trend.

Similarly, research and development budgets north of the border are currently growing at the fastest rate in the UK, but a significant downturn is being forecast through 2024. These factors suggest that the recent hike in optimism and business confidence simply cannot be sustained, as the wider economy continues to be dragged down by high inflation and a bloated base interest rate.

This will also impact capital investment in Scotland and its assets, as while this metric is up at present, such growth cannot be sustained if confidence falls once again and productivity rates start to decline.

This is where it's important to understand the unique characteristics of [investing vs trading](#), as while traders can

leverage economic volatility to their advantage, investors will be more adversely affected by the challenges facing Scotland.

The Bottom Line

Because the current business level of business confidence and optimism may not be sustainable in the short-term, the ICAEW has said that governments should focus their efforts on delivering long-term economic growth by increasing resilience and minimising volatility through monetary policy.

Such plans must also factor in the challenging but inevitable transition to 'Net Zero', which will require careful management and incur additional government spending.

What's more, the UK government and devolved leaders must address the precise and very real challenges impacting the economy, ***in order to tackle these head on and create actionable policies that improve the circumstances for businesses and households alike.***