EY ITEM Club Scottish Spring Forecast

May 2025

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EY ITEM Club Scottish Forecast

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The report is based on data and information available before May 2025. The quarterly EY ITEM Club Scottish report is part of the EY Economics programme which provides knowledge, analysis and insight to help businesses understand the economic environments in which they operate, both in the UK and globally.

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Highlights

- Estimates for Scottish GDP growth continue to be volatile, but recent data suggests that the economy is likely in a fragile state. The US's announcement in early April of 10% blanket tariffs on all imports has hampered business and consumer confidence, contributing to growing macroeconomic uncertainty, and the subsequent UK-US trade deal announced in May is unlikely to assuage anxiety completely. Coupled with indications that inflation was (and will continue to be) sticky, the near-term outlook for Scottish economic output remains weak.

- Production sectors appear to have driven Scottish growth in Q1 2025; however, output levels remain below those seen before the COVID-19 pandemic in many sub-sectors. Reasons behind this can be boiled down to two laggards: firstly, the decline of oil and gas, with mining and quarrying output at around half the level seen in 2019; and secondly, the electricity and gas supply sector with output 11% lower than in 2019. Manufacturing, meanwhile, continued to be volatile in the quarter, alternating between growth and contraction from one month to the next but posting output growth of 1.2% in the three months to February. Meanwhile, the main driver of UK growth was in the services sector, which grew by 0.6% in the three months to February, while the Scottish services sector grew by just 0.1% over the same period.

- Labour market conditions appear to have weakened since the start of 2025. PAYE payroll employment fell in February, March and April for both Scotland and the wider UK, but Scotland accounted for 12% of the total decline, despite only supporting 8% of all roles. Like the UK, the majority of losses were in the accommodation and food sector, but Scotland saw relatively more falls in information and communication alongside smaller gains in health and social work. Unemployment in Scotland increased to 4.3% over the December 2024 to February 2025 period. Interestingly, the number of online job vacancies also increased, providing another sign that the skills mismatch between workers and available jobs that has been evident in Scotland for some time, appears to remain an issue.

- Over the forecast horizon, we expect the tariffs announced by the US will contribute to increased caution from both businesses and consumers, as the economic uncertainty makes them delay major spending decisions. As a result, we have downgraded our Scottish GVA growth forecast to 0.6 in 2025 and to 0.6% in 2026. However, as consumer spending increases, we anticipate that GVA growth should improve from 2027 onwards.

- On a sector-by-sector basis, the manufacturing sector will be exposed to weak global and domestic demand over this year and next. Related to US tariffs, the main drag on growth in the sector will be the transport equipment, electrical and instrument equipment, and food and drink subsectors. In the latter, whisky exports to the US comprise a significant share of total exports, and our forecasts for food and drink output in Scotland have been cut significantly. More positively, the trade deal with India reduces tariffs on whisky, which could help redirect some of Scotland's exports while also strengthening the country's position in a fast-growing market. Overall, we anticipate that private services sectors, as well as utilities and human health and social care, will drive Scottish GVA growth both this year and over the longer term.

- Although we expect a modest rise in total employment for 2025, within this, we also anticipate job losses and a rise in the unemployment rate. Still, the jobless rate is expected to increase only slightly – from 4.4% in 2025 to 4.5% in 2026 – and it will remain lower than the UK-wide average next year. We anticipate that productivity gains, rather than employment, will contribute the most to longer-term economic growth, especially when factoring in that Scotland's working-age population (like many other parts of the UK) is set to decline from 2027 onwards, limiting the scope for future jobs growth.

- The US tariffs are likely to have an asymmetric impact on Scotland's local areas. Employment and GVA figures for 2023 indicate that regions such as West Dunbartonshire, West Lothian, Argyll and Bute, Clackmannanshire, Moray and Angus were the most export-dependent, with large whisky sectors. Consequently, we forecast that the smaller and less diversified of these economies – namely Clackmannanshire, Moray and Angus – will struggle the most this year.

Latest developments

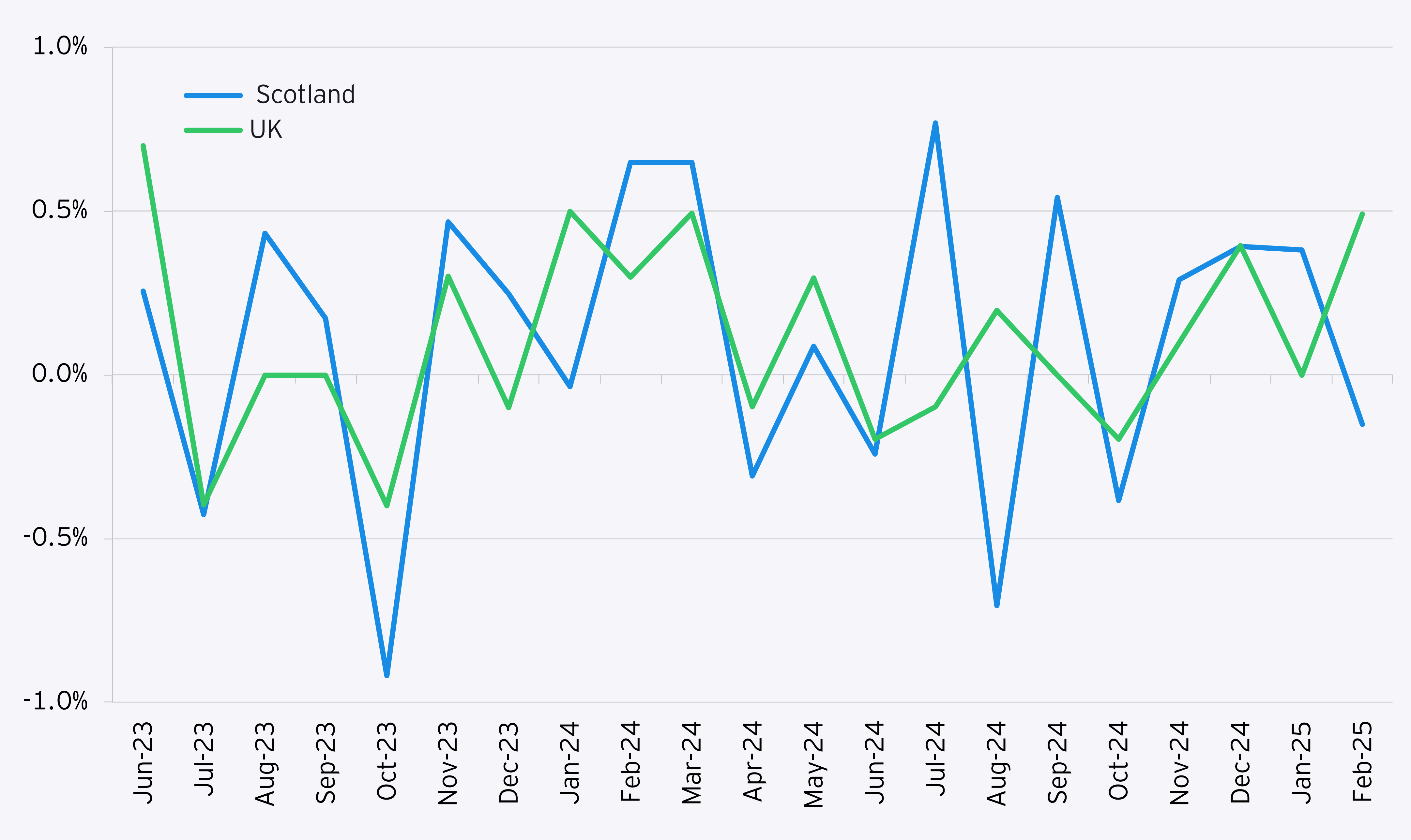
Scotland's economic growth remains fragile as the US imposes blanket 10% tariffs on imports

Following GDP growth of 1.1% in 2024, data for the start of 2025 suggest that Scotland's economy is likely fragile, and the announcement of blanket US tariffs on imports in April has increased the uncertainty about growth prospects. While the subsequent announcement of a UK-US trade deal on 8 May may soften the blow for certain manufacturing sectors, the retention of the baseline 10% tariff on imports from the UK means that US tariffs on UK exports remain higher than they were in the last forecast. The trade deal is unlikely to offset the wider impacts of US tariffs on global economic growth and domestic uncertainty.

Scottish monthly GDP estimates, which can be volatile, showed growth of 0.4% in January, followed by a 0.2% decline in February. Combined with figures for December 2024, the Scottish economy is estimated to have grown by 0.7% in the three months compared with the three months to November 2024. During the same period, UK GDP was flat in January with no growth compared with December, before then expanding by 0.5% in February. Over the three months to February, UK GDP is estimated to have grown by 0.6%, mirroring the overall growth rate of the Scottish economy.

The GDP figures for both are subject to change as more data become available, but looking below the surface, there are some interesting divergences. In the UK, growth over the three-month period was mainly driven by an expansion in the services sector, while growth in Scotland was largely dependent on progress in production sectors, which, until recently, had been hindering Scotland's growth.

Monthly GDP growth, Scotland and UK, 2023-2025, % m/m



Source: Scottish Government

While growth since the start of 2025 has been somewhat mixed, the announcement by the US in early April of a 10% tariff on all imports from countries other than Canada and Mexico has affected business sentiment. Confidence amongst Scottish businesses dropped by 15 points in April to 40%, according to the Lloyds Business Barometer. Although measures of business confidence can be heavily influenced by sentiment rather than reflecting actual change in activity, we believe that US tariffs will affect Scotland's growth through 2025 and beyond, and we have revised our forecast accordingly.

The subsequent UK-US trade deal offers relatively little for Scottish exporters to celebrate, as the largest benefit is to sectors that have a relatively small presence in Scotland. The deal focusses on specific products, in particular the removal of 25% tariffs on steel and aluminium, and tariffs on cars exported to the US will be reduced from 27.5% to 10% on 100,000 cars. Exceptions aside, the baseline 10% tariffs on UK imports to the US will remain, and US tariffs overall are significantly higher than they were before the recent changes in US trade policy were introduced.

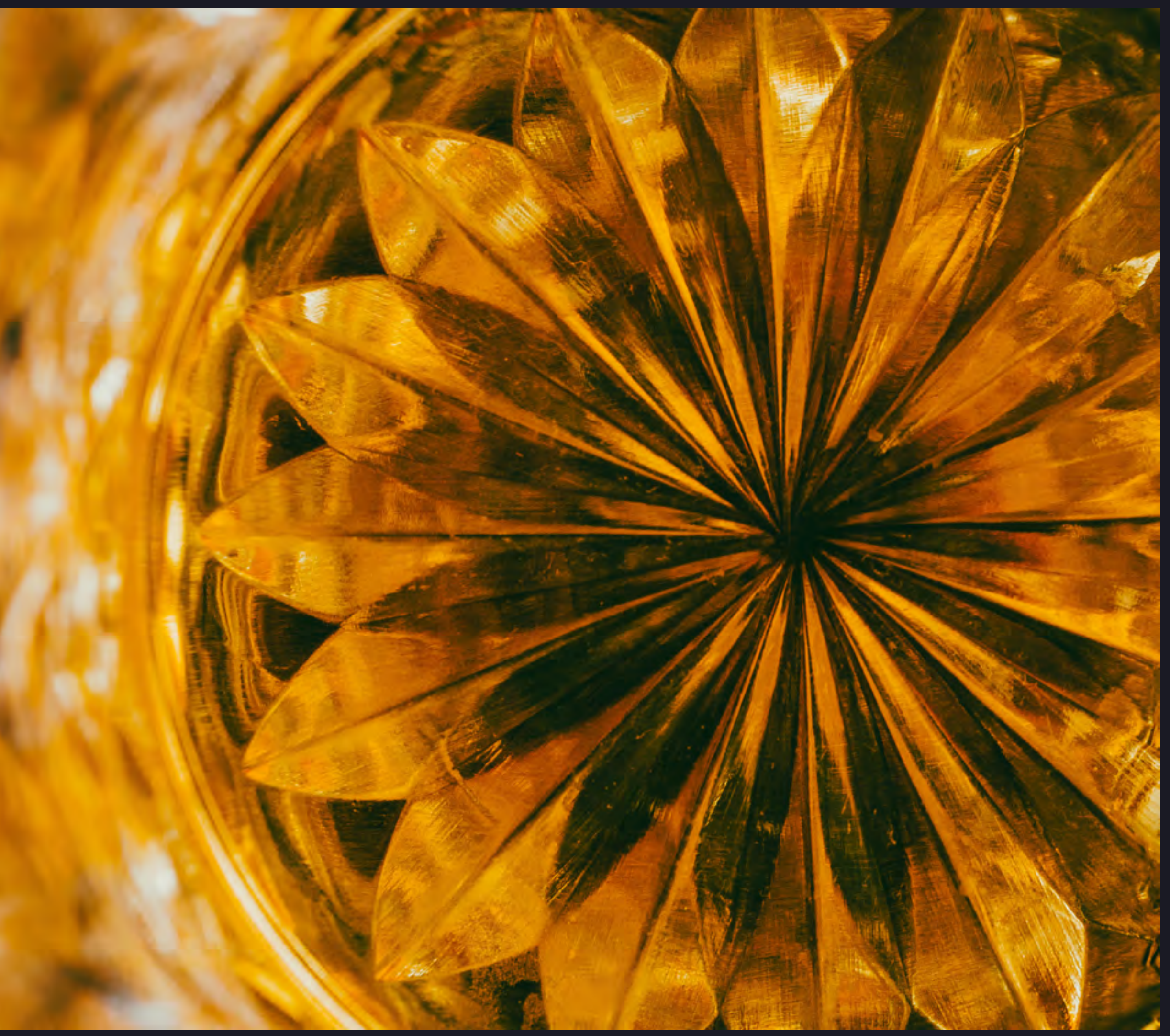
The latest trade data for 2024 shows Scotland's goods exports to the US were valued at £3.9 billion in current prices, representing 17% of total international goods exports, a smaller proportion than recorded for the UK (22%). Drink was Scotland's largest goods export, representing 27% of the total, of which 69% was exported outside of the EU. This important sector to Scotland was not mentioned in the UK-US trade deal and is subject to the 10% baseline tariff. Power-generating machinery accounted for 15% of total goods exports, with 72% exported outside of the EU. Manufacturers of these products are therefore most exposed to the US tariffs. Perhaps more positive for Scotland is the newly signed trade deal between the UK and India. Amongst other measures, this reduces tariffs on whisky, which could help redirect some of Scotland's exports while also strengthening the country's position in a fast-growing market.

There is also growing evidence that inflationary pressure is returning and is likely to persist through 2025. UK CPI inflation fell back in March to 2.6%, but data for March suggests that prices may be rising again. Indeed, 37.2% of Scottish businesses reported that the prices of materials, goods and/or services bought in March had increased compared with the previous month, up from 28.4% reporting price changes in February compared to January. And businesses anticipate further rises ahead, with 40.3% expecting to increase their sale prices in May, with labour costs the main driver behind the expected price rises and cited by over half of Scottish businesses. Energy prices and raw material prices are the other main factors. This is consistent with our view that regulated price increases and higher labour costs are set to push CPI inflation to 3% in April. Meanwhile, the Monetary Policy Committee (MPC) continued to cut interest rates at a pace of one per quarter, lowering Bank Rate to 4.5% in February and then 4.25% in May.

Production sectors propped up Scotland's recent growth as key service sectors stalled

Scotland's economy is more dependent on production sectors than the UK average, accounting for 15.8% of the economy compared to 13.1% in the UK. The production sector includes manufacturing, mining & quarrying and utilities. Underperformance in these sectors has weighed on Scottish growth over recent periods, and in February 2025, output from production sectors was 1.2% down on the 2019 average.

Part of the story relates to the long-term decline of oil and gas, with mining and extraction output now near half its 2019 value. However, this accounts for a relatively small proportion of production output in the Scottish GDP figures. The bulk of the difference is due to the decline in output from the energy sector, with electricity and gas supply 11% lower than in 2019. Within this, the energy subsector grew rapidly in the latest period, with output expanding by 14.3% in the three months to February 2025. There is reason to believe that this could be the sign of sustained growth in the sector, and the Scottish government points to a wide variety of new energy projects that are either already progressing or have planning approval.



Elsewhere in the production sector, water supply and sewerage also grew in the three months to February 2025. However, manufacturing comprises the largest slice of the wider sector, accounting for over 10% of total Scottish output. Scottish manufacturing has experienced mixed fortunes since the COVID-19 pandemic, with periods of growth often followed by periods of decline. The latest output data corroborate this finding – a month-on-month growth of 0.5% in February followed an estimated 3.3% decline in January. Growth in the three-month period to February is estimated at 1.2%. Within the sector, the manufacture of transport equipment continues to be the standout performer, posting growth of 5.7% in the three months to February. However, it remains small in size. Food and drink is the largest manufacturing sector in Scotland in absolute terms, mainly due to whisky production. The sector grew by 2.2% in the quarter to February, but monthly output declined by 7.0% in that month. The US is a key export market for Scottish whisky, and the 10% tariffs pose significant risks to the outlook for this sector.

For the UK, expansion in the services sector activity was the main driver of growth at the start of 2025. In the three months to February, the sector grew by 0.6%, compared with just 0.1% in Scotland. Most parts of the UK private services sector expanded in the period, with accommodation and food services the only exception. In Scotland, meanwhile, a decline was recorded in accommodation and food, as well as in administrative and support services and professional, scientific and technical activities. Both of these sectors account for relatively large proportions of activity in Scotland, and the latter has demonstrated robust average annual growth since 2022. The sector is a key driver of UK growth, and so the recent fall in output from these sectors in Scotland is a cause for concern.

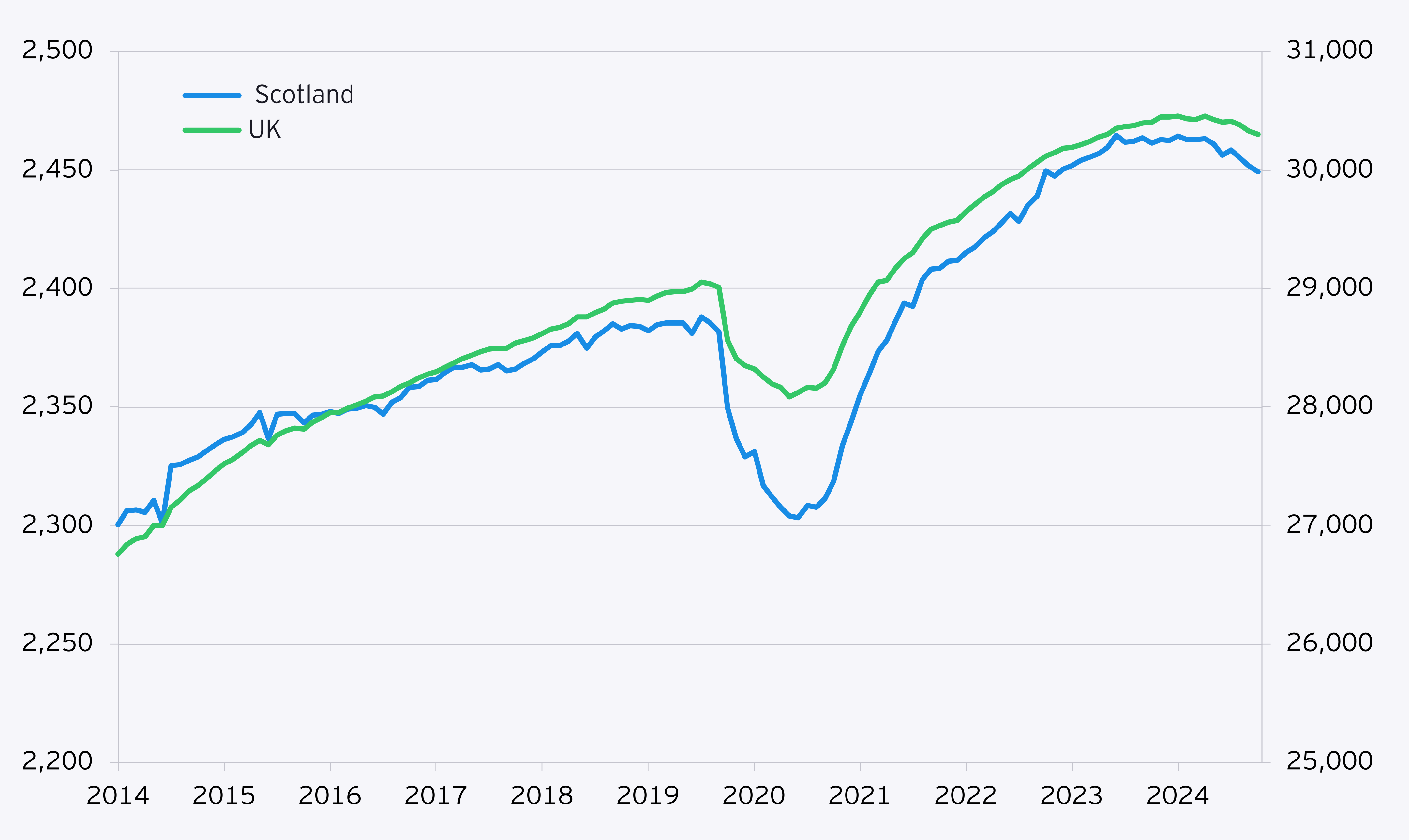
Meanwhile, the picture for construction activity in Scotland remains mixed. Output rose by 0.1% in the three-month period to February, but within that quarter, monthly output fell compared with both December and January. A stronger reading for February improved the picture for the period. Anecdotal evidence suggests that strong infrastructure activity is underway as major rail, road and energy schemes proceed. However, housebuilding statistics released in March 2025 showed that new build housing starts and completions fell across all tenures by 17% year-on-year.

Labour market conditions are loosenings

Official statistics are starting to back up survey and anecdotal evidence that labour demand in Scotland has weakened since the start of 2025. PAYE payroll employment fell in February, March and April, and the reports indicate that there were over 12,000 fewer payrolled employees at the end of April 2025 compared to a year earlier. This data indicates that there were greater losses in Scotland compared with the UK average; Scotland accounted for 12% of the UK decline over the period, despite only supporting 8% of total roles. According to the data, there were 9,000 fewer Scottish PAYE employees in accommodation and food in April 2025 compared to April 2024, a 5% reduction over the period, and comparable to the UK decline. Relatively larger losses were recorded in information and communication, down 3.9% compared to a 2.7% decline in the UK. Gains in health and social work were also lower than the UK, adding 2,500 roles – just 3% of the additional UK jobs in the sector over the period. Relatively large gains however were reported in energy production, aligning to the evidence of growing output in the sector as new projects come to fruition.

With employment in decline, evidence from the Labour Force Survey indicates that unemployment is rising, with the rate notching up to 4.3% in the December 2024 to February 2025 period. The Scottish rate was lower than the UK average (4.5%), but the gap has closed considerably. In addition, there were around 3,300 redundancies announced in February, the highest in Scotland since November 2023 and representing 12% of the UK total.

PAYE employees, UK and Scotland, 2014–2025 (000s)



Source: ONS

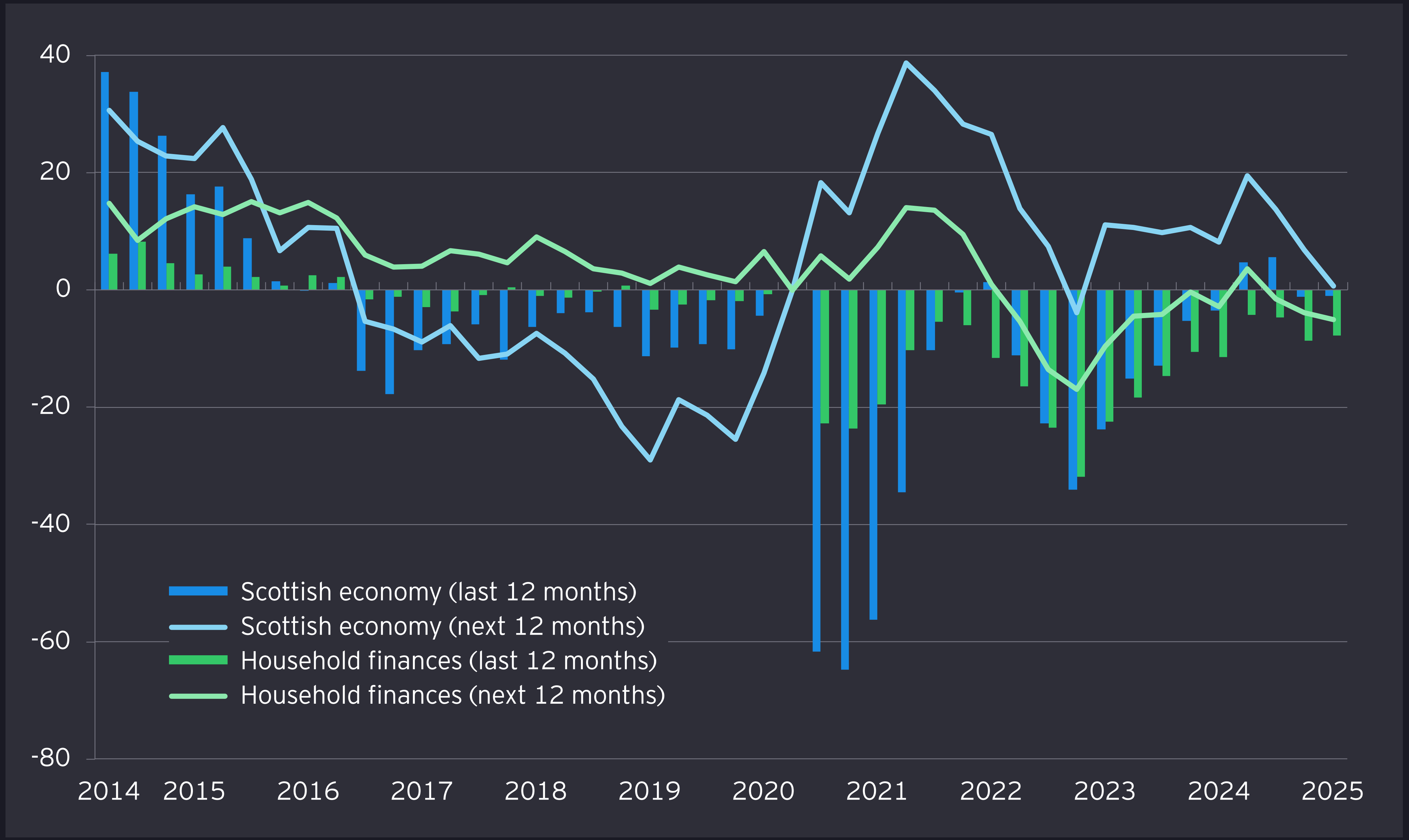
Despite proof of much weaker labour market conditions in Scotland, there were an estimated 47,600 new online job adverts in March 2025 – 6,000 higher than a year previous. The online job vacancy data is somewhat difficult to interpret. On the one hand, volumes in Scotland have dropped and broadly follow the UK job vacancies data. However, the data is not seasonally adjusted, with evidence of an uptick in early 2025 compared with the same period 12 months ago. The data suggests the upturn has been greater in Scotland than in other UK regions, but this finding is at odds with other data sources. It seems most likely that while overall labour demand is weaker, there are some sectors and areas that continue to struggle to find suitably skilled staff to fill roles, and this is potentially a greater issue in Scotland than in the wider UK. Indeed, the ONS Business Insights and Conditions Survey shows that almost 23% of Scottish businesses employing more than 10 employees reported recruitment difficulties in March 2025, with administration and support services, transport and storage, and construction most affected. Directly comparable figures are not available for the UK, but for businesses of all sizes, 17.3% of all Scottish businesses reported recruitment difficulties, compared with 14.6% for the UK. The ICAEW Business Confidence Monitor for Q1 2025 also found that growing concerns about the availability of management and non-management skills were more widespread amongst businesses in Scotland than in other region or home nation in the UK.

Consumer and business confidence remains weak

Scottish consumer confidence remains weak, and despite a slow recovery in demand following the COVID-19 pandemic, output from consumer-facing sectors in early 2025 in Scotland was essentially at the same level as in 2019. The Composite Consumer Sentiment Indicator fell further to -6.5 in Q1 2025, down 1.6 points compared with Q4 2024. Consumers remained most concerned about their personal finances and household spending. While their views about current economic conditions had barely changed from the previous quarter, consumers were less optimistic about economic prospects, with the sentiment score falling by 6.2 points over the quarter, to 0.7.

Business confidence also dropped. The Scotland Growth Tracker index reported sentiment at 45.9, with an average of 48.2 for Q1 2025. An index reading below 50 indicates a contraction in activity in Scotland. UK confidence also softened, but at 50.9 for Q1 2025, this indicates that activity still expanded, albeit only slightly. The Lloyds Business Barometer showed sentiment in Scotland falling in April, with the score dropping by 15 points compared with March, and while businesses were less optimistic about their own prospects (down four points), they were much more pessimistic about the economy (down 25 points). Meanwhile, the Business Condition and Insights Survey showed that in April 2025, almost 14% of businesses expected performance to decrease, up from approximately 12% in March.

Consumer indicator scores and expectations, Scotland, 2014-2025, better to worse (% net balance)



Source: Scottish Government

Economic outlook

Forecasts downgraded as US tariffs weigh on demand and increase uncertainty

US tariffs pose a significant risk to the global and UK economies, and we expect Scotland's growth to slow sharply in Q2 of this year. US tariffs will make access to one of Scotland's key export markets more difficult, thereby weakening demand for goods. The UK-US trade deal offers only limited benefits to most of Scotland's key export sectors, and the overall picture is worse than it was before the US changed its trade policy.

US tariffs will also result in softer global growth. Economic uncertainty will weigh on consumers and businesses, prompting them to delay major spending decisions. More uncertainty, combined with weakening real income growth, suggests that consumer spending will moderate, while firms will be cautious with their investments due to the lack of clarity around the business environment. The UK trade deal with India offers some upside risk to the outlook, particularly for Scotland with tariffs reduced on whisky, but the UK government estimates that the deal will increase the level of UK GDP by 0.1% in 2040.

As a result, we have downgraded our 2025 Scottish GVA growth forecast to 0.6% from 0.9%. But with some of the weakness rolling through into next year, we have made a much larger downgrade to our 2026 growth forecast, which we now expect to be 0.6%, down from 1.5%. We expect real wage growth to be squeezed as the rate of pay rises slows and inflationary pressures remain sticky. We now forecast consumer spending growth of 0.7% for 2025, down from the more than 1% previously forecast. However, consumer spending should start to pick up in 2026, which will filter through to wider economic growth in 2027, with GVA expanding by 1.2% in that year.

We forecast that Scotland will slightly lag the UK. This is mainly due to Scotland's industrial profile; its larger manufacturing sector is more susceptible to US tariffs and weakening global demand in the short term, and its large public sector is expected to come under further pressure as fiscal conditions continue to tighten. UK GVA is expected to grow by 0.7% in 2025 and 0.8% in 2026, before settling to a growth of 1.4% in 2027.

Key economic indicator outlook, Scotland, 2020–2027, % y/y (unless otherwise stated)

	GVA	Personal disposable income	Consumers' expenditure	Population 000s	Employment 000s	Unemployment rate %	Migration aged 16-64 (000s)
2020	-12.0	-0.2	-12.8	5,409	2,755	4.5	12.2
2021	8.9	0.6	7.9	5,413	2,781	4.3	15.6
2022	5.0	-2.7	7.0	5,447	2,810	3.4	41.4
2023	0.5	0.4	0.4	5,490	2,867	4.1	46.7
2024	1.2	3.7	0.4	5,561	2,900	4.0	51.3
2025	0.6	1.5	0.7	5,586	2,907	4.4	31.8
2026	0.6	-0.2	1.0	5,603	2,916	4.5	27.1
2027	1.2	0.8	1.4	5,613	2,929	4.3	21.2

Source: EY ITEM Club
Note: GVA is chain linked to 2022 prices. Personal disposable income and consumer expenditure are also 2022 prices. Unemployment rate is the ILO unemployment rate using Labour Force Survey data.

Manufacturing and consumer-facing sectors are bracing for a difficult 2025

The downgrade to the forecasts for 2025 is pronounced in the manufacturing sector, which will bear the brunt of the direct impact from US tariffs. Manufacturing output is now expected to shrink this year and next, before seeing a modest expansion in 2027 and beyond. Manufacturing sectors with complex supply chains and those with large exports to the US are likely to suffer the most. This includes transport equipment, which grew rapidly in 2024, and electrical and instrument equipment – both are now forecast to decline in 2025. Food and drink is Scotland's largest manufacturing sector, of which whisky production is a big contributor. In most of the UK, the food and drink sector is largely domestically focussed and, therefore, relatively protected from US tariffs. However, Scotland exports a significant amount of whisky to the US, and hence, our forecasts for food and drink output in Scotland have been cut significantly due to the tariffs. We now expect growth of 0.3% in 2025 and 0.4% in 2026, compared with over 1% in the previous forecasts.

Aside from the mining and quarrying sector, which is forecast to continue to decline over the forecast horizon as oil and gas production continues to fall, prospects for other Scottish production sectors are more positive. Electricity and gas and water supply and waste management are both expected to sustain above-average growth over the 2025–27 period. This reflects large-scale investment activity across both sectors, which is backed by committed government funding and sustained growth in demand, as Scotland plots a path to its 2045 net-zero commitment.

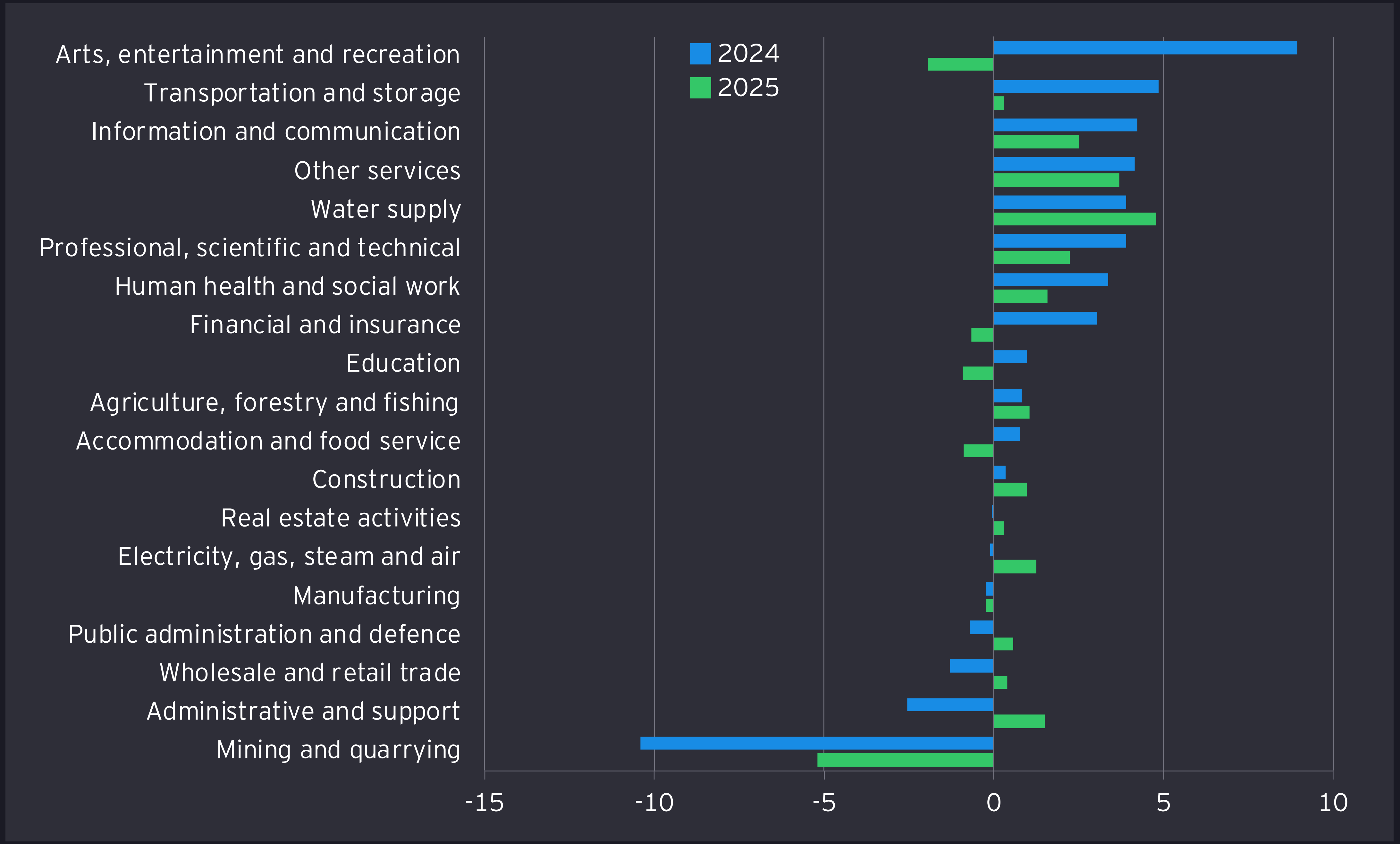
The weaker economic outlook and greater uncertainty are expected to weigh on consumer spending over the rest of this year and into next. Across consumer-facing sectors, the arts, entertainment and recreation sector is forecast to record the largest fall in GVA in 2025, followed by accommodation and food services. Wholesale and retail growth will also be modest at just 0.4%, following an estimated decline of 1.3% in 2024. As consumer spending starts to recover, activity will begin to pick up, with arts, entertainment and recreation leading the way in 2026, and growth picking up in other consumer-facing sectors from 2027 onwards.

The available data suggests Scotland's large financial and insurance sector has struggled so far in 2025. The sector bucked the trend of falling output last year, posting annual growth of 3.0% in 2024. The signs at the start of 2025 are less encouraging, with no growth posted in January and a 0.3% decline recorded in February. At the UK level, the sector declined by 0.2% in Q1 2025 and in March was more than 1 percentage point down on a year earlier. However, the sector is likely through the soft patch and the negative annual growth figure for Scotland in 2025 largely reflects what has already gone and we expect annual GVA growth to return to the sector in 2026.

Alongside utilities and human health and social work, it is mainly the private services sector that will drive Scottish GVA growth this year. We expect information and communication, professional, scientific and technical, as well as administrative support services, to rebound from weak activity at the start of this year and be key contributors. Construction activity is also forecast to expand, with large-scale infrastructure projects – including the electrification of rail and road improvements, along with an uplift in housing delivery – set to drive growth. In the commercial sector, demand for data centres is also expected to remain strong. However, rising costs and skills shortages remain a risk for the construction sector, and prospects for most commercial projects – including office and retail space – remain weak as companies delay investment decisions.

Over the longer term, the same sectors are expected to remain key to Scotland's growth prospects, with the importance of the energy sector and private sector services continuing to grow. The latter, in particular, will be bolstered by growth in domestic and international markets amid growing demand for artificial intelligence (AI) and related services, while the contributions from oil and gas, manufacturing and parts of the public sector are forecast to fade.

GVA growth by sector, Scotland, 2024 and 2025, % y/y



Source: EY ITEM Club

Modest uplift in unemployment as jobs growth and working-age population growth slow

With GVA growth set to slow through this year and into next, we expect to see some job losses and the unemployment rate to rise. However, these increases are expected to be relatively small; the jobless rate is projected to rise only slightly, from 4.4% in 2025 to 4.5% in 2026, and it will remain lower than the UK-wide average, which is forecasted to reach 4.8% next year. However, how firms will respond to increased employment costs following the rise in April in National Insurance Contributions (NICs) and the National Living Wage is highly uncertain, particularly given rising doubts on future growth prospects. Encouragingly, in the latest Scottish BICS, 20.4% of Scottish businesses with 10 or more employees expected that the number of employees would increase in May 2025, compared with 11.4% reported in January.

On balance, therefore, we still expect a modest rise in total employment in 2025, with gains in key private services sectors and construction offsetting expected losses in sectors, including wholesale and retail and manufacturing. Employment prospects remain muted in 2026, and only in 2027 do we expect more significant gains, although admittedly, an annual increase of around 13,000 jobs is modest compared with the average of 36,000 net new jobs recorded each year between 2021 and 2024.

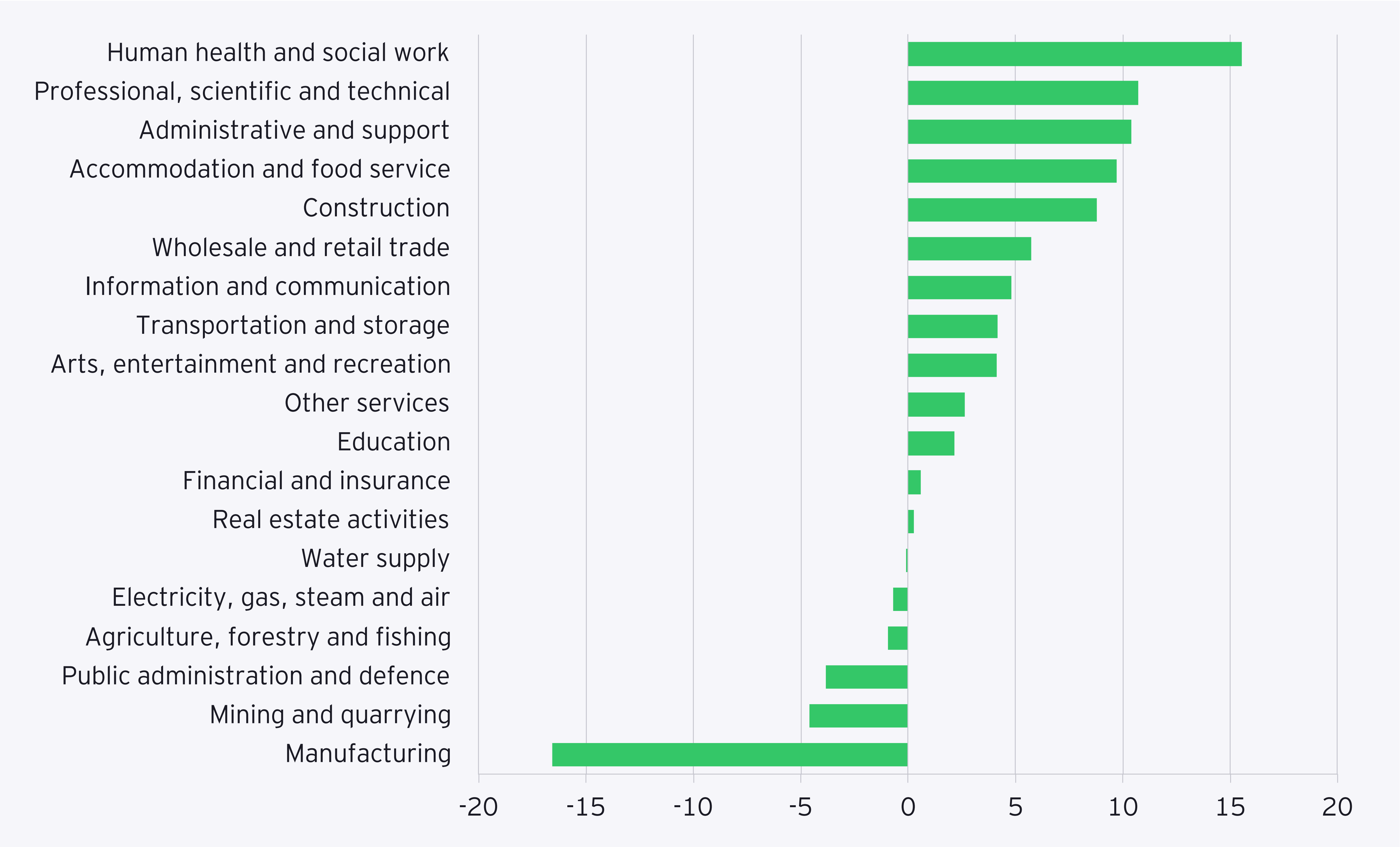
Weaker economic prospects underpin our relatively low employment growth expectations, but the forecasts also reflect Scotland's shifting sectoral profile and an assumption that productivity growth will make a more significant contribution to Scotland's future economic growth. Technological shifts and the use of tools, such as AI, to perform routine tasks more efficiently are expected to drive productivity growth. Another factor at play is the UK and Scotland's weakening demographic profile, and we have recently updated our population forecast to take into account the latest ONS projections for the UK. We now predict Scotland's working-age profile to decline from 2027 onwards. Scotland is not alone; we expect working age population to fall in other parts of the UK over the forecast horizon. Northern Ireland is perhaps most at risk, with the population aged 16-64 expected to start to decrease from 2026. Longer-term we expect all regions apart from London, East of England, South East and South West to experience a decline in the labour pool, placing an even greater emphasis on productivity gains to deliver future regional economic growth in these regions, including Scotland.

Over the period to 2029, job losses are expected to be concentrated in three sectors. The adoption of new technology and the changing profile of output from the manufacturing sector are forecast to drive the loss of more than 16,500 jobs over the period. Smaller – though still significant – losses are expected in mining and quarrying, with around 4,600 fewer jobs due to the decline of oil and gas activities. Employment in public administration is forecast to decline by 3,800 between 2025 and 2029, as the Scottish government seeks to balance its books amid tightening fiscal conditions.

Of particular concern for the Scottish government is the need to meet the growing demand for healthcare as the population ages, and it is the human health and social work sector we anticipate will create the most jobs over the period, with over 15,500 net new jobs forecast in the sector. As in other key sectors, skills shortages are likely to remain an ongoing challenge in meeting projected demand. Indeed, vacancies are high in the sector, with 135,000 vacancies reported in the January-March 2025 period, equivalent to 2.9 vacancies per 100 employee jobs, and above the economy-wide rate of 2.4.

Other significant jobs gains are forecast across private services, including professional, scientific and technical services, and administration and support, which are both major contributors to longer-term employment growth in Scotland, creating around 21,000 jobs over the 2025 to 2029 period. Despite the anticipated growth in output from energy and utilities, this will not translate into direct job gains in these sectors, with most of the new activity being captured within the professional, scientific, and technical services and construction sectors. Alongside new energy and utilities projects and a range of transport infrastructure schemes, employment in the construction sector is expected to be driven by the demand for new homes, as the Scottish government strives to meet its target of delivering 110,000 affordable homes by 2032. We expect the increase in construction output to support the creation of 9,000 new jobs in the sector by 2029.

Forecast employment growth by sector: 2025-2029 (000s)



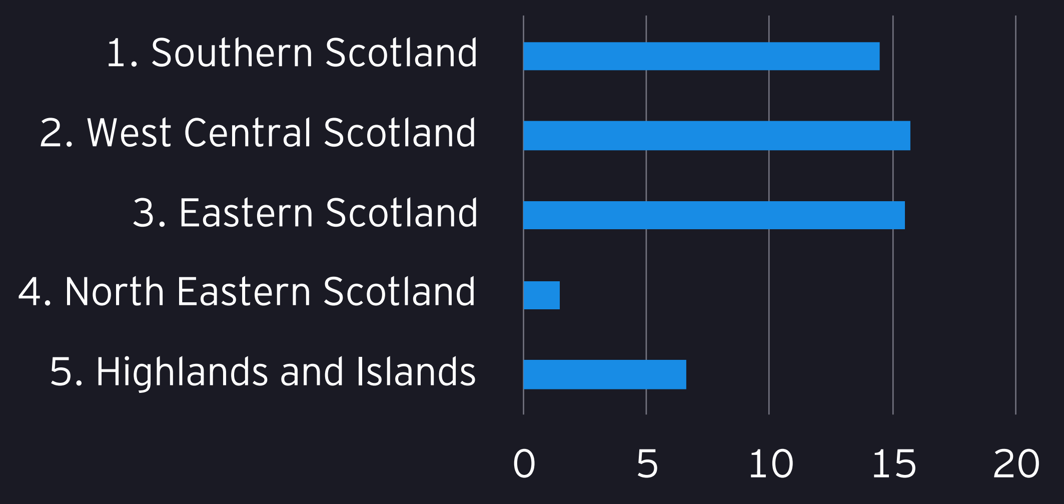
Source: EY ITEM Club

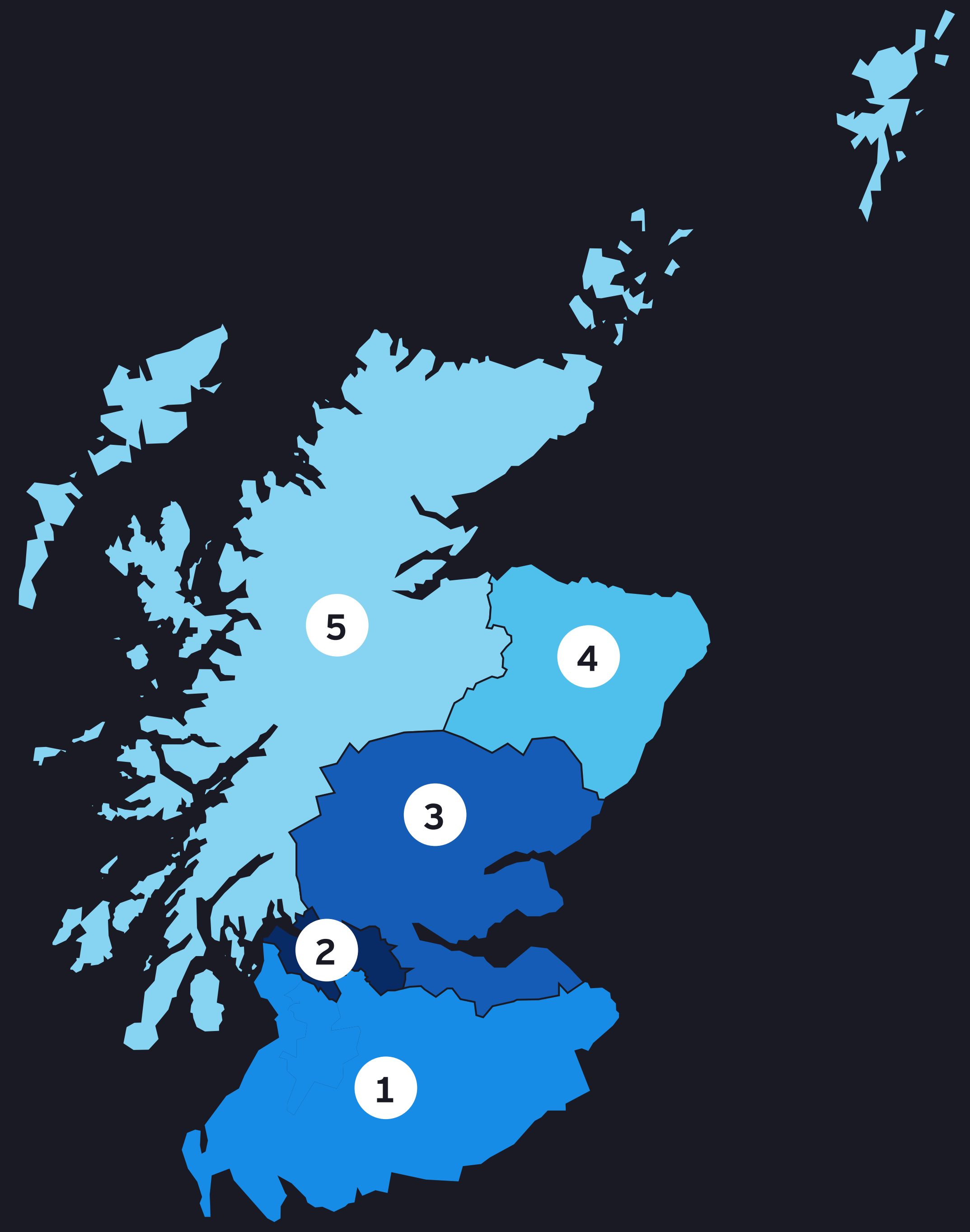
Exposure to US tariffs varies widely across Scotland

Compared with some other parts of the UK, Scotland may be somewhat less exposed to US tariffs overall, largely because the volume and proportion of manufactured goods exports directed to the US is lower than the UK average. However, some goods are particularly important, including whisky and power-generating equipment, and the local areas that produce these goods are therefore more likely to be exposed to US tariffs. This is the case for West Central Scotland, where manufactured goods exports to the US accounted for 15.7% of the region's total exports in 2022. The proportion is similar in Eastern Scotland (15.5%) and Southern Scotland (14.5%). Of these areas, Eastern Scotland accounts for 45% of Scotland's total US-manufactured exports, while West Central Scotland accounts for 31%, and Southern Scotland accounts for 14%. In contrast, Highlands and Islands and North Eastern Scotland are far less dependent on US exports overall.

However, published export data provides only a limited geographical breakdown, while employment and GVA estimates for key export sectors offer a more local perspective on areas more exposed to US trade policy. Scotland's top export sectors to the US employed around 22,500 workers in 2023, equivalent to around 13% of total manufacturing employment. However, in West Dunbartonshire, these sectors accounted for over 54% of manufacturing employment, and in West Lothian, as well as in Argyll and Bute, the sectors accounted for around 27% of all manufacturing employment.

US manufacturing exports as a proportion of total goods exports by Scottish ITL2 area, 2022 (%)

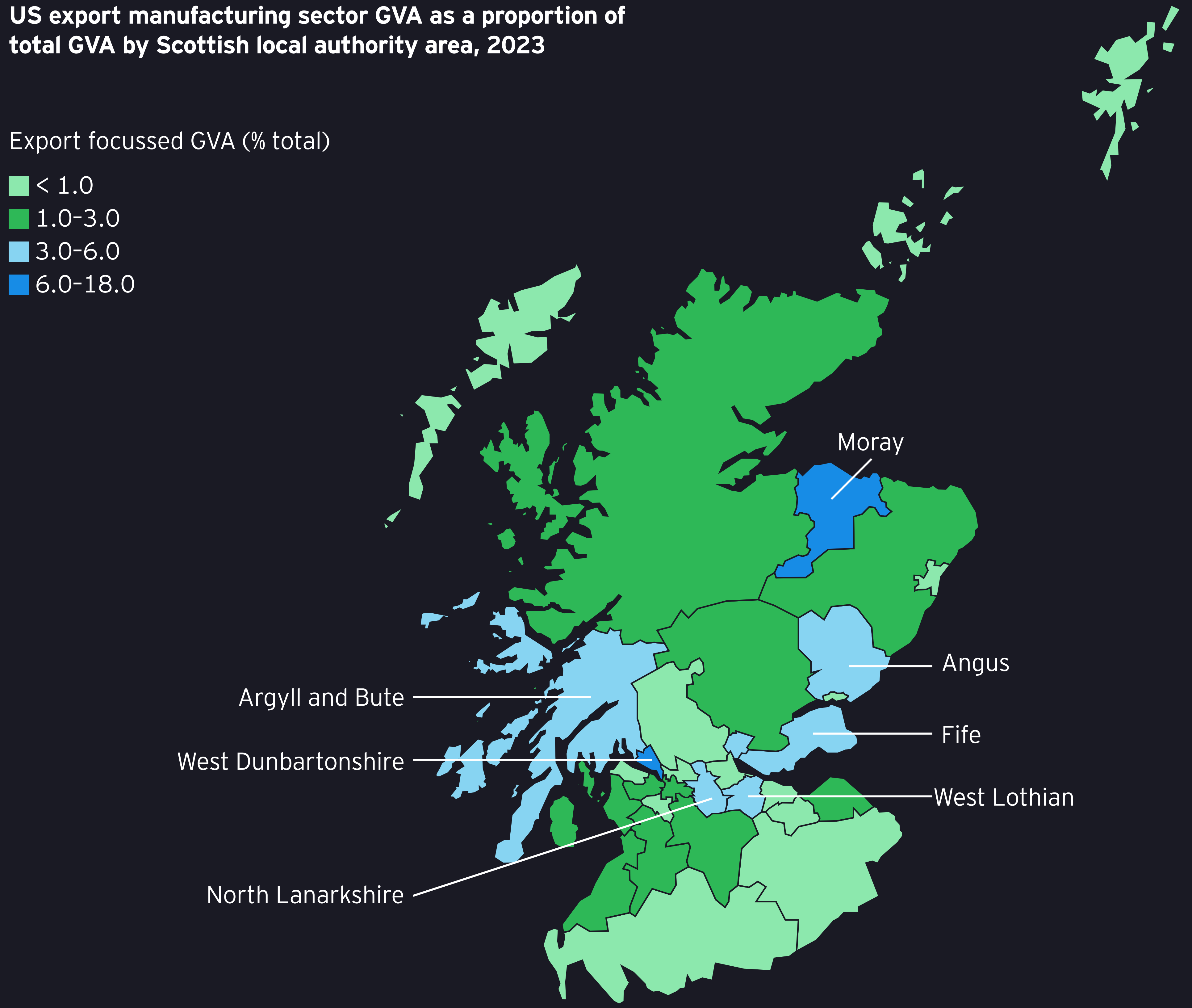




GVA values provide a more accurate sense of the local importance of these relatively high-value sectors to local economies. The map below shows GVA from key US export manufacturing sectors as a proportion of total GVA. West Dunbartonshire again comes out on top, with 18% of its total GVA accounted for by industries that tend to be large US exporters, followed by Moray at 14%. In both areas, whisky manufacture is the main export industry. Clackmannanshire, Argyll and Bute, Fife and Angus are also major whisky distilling areas, where production is estimated to have contributed between 3%-6% of total GVA in 2023. Meanwhile, for West Lothian and North Lanarkshire, whisky is less significant to GVA, but combined with the manufacture of machinery in these areas, it means they are amongst the local areas potentially most exposed to US tariffs.

The outlook for these more export-focussed locations is more uncertain as a result of US tariffs. Scotland's smaller economies that have a high dependency on US exports and lack sectoral diversity are the most at risk. We forecast that Clackmannanshire's economy will shrink by around 0.7% in 2025, with relatively weak longer-term prospects. Moray and Angus could also see a contraction in economic output this year. However, some of the larger economies with higher direct exposure to US tariffs are also expected to underperform this year, notably West Lothian and North Lanarkshire, while Fife is expected to be more resilient.

US export manufacturing sector GVA as a proportion of total GVA by Scottish local authority area, 2023



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