Skills Development Scotland

Economy, People and Skills

April 2025

Contents

This **Economy, People and Skills** report provides evidence on the economy and labour market.

This report is part of a wider suite of labour market information products published by Skills Development Scotland, including **Regional** and **Sectoral** Skills Assessments.

Skills Development Scotland also produces the **Data Matrix**, an interactive tool offering more detailed data from a variety of sources in a visually engaging format.

Find out more at the links above.

The economy continues to face challenges as the latest forecasts for both the UK and Scotland have reduced growth estimates in the short term. This reflects ongoing global economic uncertainty. There are also some signs that increased labour costs arising from the new minimum wage and employer tax changes may be impacting the labour market and business confidence.

Labour market data shows signs of potential economic headwinds

Prior to implementation, the anticipation of higher labour costs arising from an increased minimum wage and changes to employer National Insurance Contributions (which were implemented in April) may have started to impact the labour market. For March, claimant count administrative data was broadly stable, whilst PAYE employment fell on the month (-4,500 or -0.2%) and the year (-10,900 or -0.4%). However, LFS data, which is currently declassified due to low sample sizes, showed increased unemployment (+0.3 pp), alongside increased employment (+0.2 pp) and falling economic inactivity (-0.5 pp) over the three months to February.

Provisional data shows online job postings in Scotland in March increased compared with February (+4,300 postings or +10%) and were broadly similar to March 2024 (+500 postings or +1%). When compared month on month, job postings tend to increase in March compared with February. Across the UK, for which a quarterly comparison is used, vacancy data shows a different trend. For the three months to March, UK vacancies fell by 3.2%, with vacancies decreasing below their pre-pandemic level for the first time since March to May 2021. Along with the fall in payrolled employment, this could reflect employers reducing hiring in anticipation of increased labour costs. Further analysis of the impact of increased labour costs is provided in this month's spotlight. We will also continue to monitor this data, particularly as it becomes available for the time period following the implementation of changes in early April.

Inflation falls again in March, but rising trend expected to return

The latest inflation data showed that CPI fell to 2.6% in March, down from 2.8% in February. This was the second month in a row where the inflation rate fell, but CPI is still expected to rise above 3% in the coming months, reflecting factors such as increased utility bills. Forecasters have predicted a peak of 3.7% in Q3 2025, but the impact of trade tariffs on inflation remains uncertain. Pay growth has continued to increase, with regular annual pay growth rising to 5.9% over the three months to February 2025. Whilst strong, this was slightly below expectations.

Monthly GDP data indicates growth, but challenges remain

The latest quarterly GDP data indicated no change for Scotland (0.0%) and very slight growth (0.1%) for the UK in Q4 2024. The latest monthly GDP data indicated 0.3% growth in Scotland in January and 0.5% growth for the UK in February. However, monthly data is known to be volatile. Of note, Scottish PMI data shows a fourth consecutive month of business activity contraction in March. The latest Scottish Business Monitor found that three quarters of respondents expected the NICs changes to significantly impact their operations.

As with the UK, the latest economic forecasts for Scotland reduce the growth outlook

The Fraser of Allander Institute (FAI) released new economic forecasts for Scotland earlier this month. Similar to the latest forecasts for the UK by the OBR, BoE, and IMF, FAI have reduced their growth outlook in 2025, citing ongoing global economic uncertainty, inflationary pressures, and tight UK fiscal policy.

UK and Scotland Economy - Gross Domestic Product (GDP)

UK GDP

Quarterly GDP data for the UK suggests a slowdown from early 2024. The year started off with 0.9% growth in Q1. This then fell to 0.5% in Q2, with no change (0.0%) in Q3 and only very slight growth (0.1% in Q4). The economy was considerably weaker in the second half of the year compared with the first.[1] Monthly data for 2025 has been volatile showing no change (0.0%) in January, but unexpectedly high growth of 0.5% in February.[2,3] The outlook for 2025 remains highly uncertain, particularly as the impact of tariffs is yet to be captured.[3]

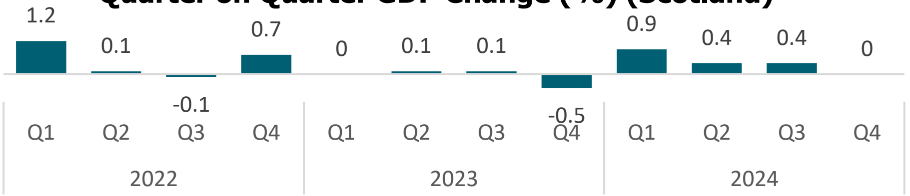
The latest revised estimate for annual growth suggests that the UK economy grew by 1.1% in 2024, up from 0.4% in 2023, but this is still relatively low growth, reflecting the slowdown in the second half of the year.[1]

Scotland GDP

Like the UK, quarterly GDP growth in Scotland slowed over 2024, although the slowdown intensified at a slightly later point in Scotland (Q4 rather than Q3). GDP was unchanged in Q4 (0.0%), following 0.4% growth in both Q3 and Q2, down from 0.9% in Q1.[4] Monthly figures show that Scottish GDP grew by 0.3% in January, following growth of 0.5% in December.[5]

The first estimate for annual growth suggests the Scottish economy grew by 1.1% in 2024, up from 0.5% in 2023. Whilst an improvement on 2023, the annual growth almost exclusively occurred in Q1 rather than consistent growth across the year.[4]

Quarter on Quarter GDP Change (%) (Scotland)



Economic Outlook

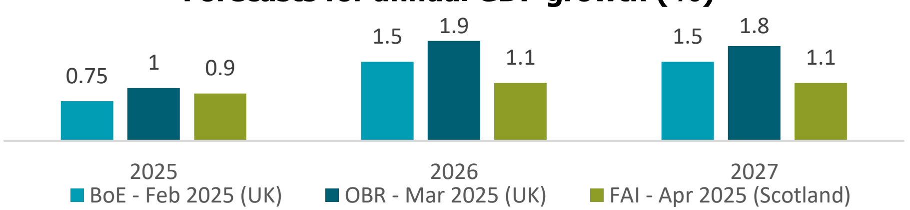
New forecasts for the Scottish economy were released by the Fraser of Allander Insitute[6] (FAI) in early April. Reflecting recent UK forecasts from the Office for Budget Responsibility (OBR) and Bank of England (BoE), FAI have downgraded their estimate for 2025.

FAI's latest forecast has reduced predicted growth for Scotland in 2025 to 0.9%, down from 1.3% in their January forecast. This follows the OBR and BoE halving their 2025 predictions for the UK. At 0.9% FAI are expecting growth to remain around the same as in 2024 (1.1%), and are slightly more optimistic than the BoE for the UK (0.75%), but slightly less optimistic than the OBR (1%).

Key factors driving FAI's reduction in Scotland's growth outlook are continued concerns over the global economy (including uncertainty around trade tariffs), tighter UK fiscal policy and ongoing inflationary pressures, including the expected rise in CPI to nearly 4% in the coming months.

Looking ahead, FAI do predict an upturn in growth in 2026 and 2027 (both 1.1%) compared with 2025, but this remains below forecasts from the OBR and BoE for the UK economy. The estimate for 2026 has also been reduced from their January forecast (1.2%).

Forecasts for annual GDP growth (%)



[1] ONS. GDP quarterly national accounts, UK: October to December 2024 (March 2025).
[2] ONS. GDP monthly estimate, UK: February 2025 (April 2025).
[3] FT. UK economy surpasses expectations to grow 0.5% in February (April 2025).
[4] Scottish Government. GDP First Quarterly Estimate: 2024 Q4 (February 2025).
[5] Scottish Government. GDP Monthly Estimate: January 2025 (March 2025).
[6] FAI. FAI Economic Commentary Q1 2025 (April 2025).

Inflation and the Cost of Living

Further deterioration in small business confidence

The latest small business index[1] from the Federation of Small Businesses found a considerable fall in confidence. Across the UK the index fell from -24.4 in Q3 2024 to -64.5 in Q4, **the lowest reading since the start of the pandemic in Q1 2020**. The trend was similar for Scotland where the index fell from -41.2 to -67.2.

Key drivers of falling confidence include general economic conditions and concerns over the impact of changes to employer National Insurance Contributions. **Further analysis of business sentiment is provided in this month's spotlight.**

Consumer confidence remains low

The monthly Scottish Consumer Sentiment Indicator (SCSI)[2] remained at -5.7 in February, the same as in January. **Following an uptick in Spring/Summer 2024 the indicator has since fallen back over the Autumn/ Winter**. Between January and February there were some small improvements in perceptions of the Scottish economy, whilst sentiment relating to household finances worsened.

The GfK UK consumer confidence survey[3] found similar results, with the indicator increasing very slightly (+1) to -19 in March. As with the SCSI, the indicator had improved in the Summer but has since fallen over Autumn/Winter.

Inflation falls again, but is expected to rise

Inflation (CPI) in the UK fell to 2.6% in March 2025, down from 2.8% in January.[4] As with last month, a dip had been expected but the fall was slightly greater than had been anticipated.[5] The main drivers of the decrease were motor fuels and recreation and culture.[4]

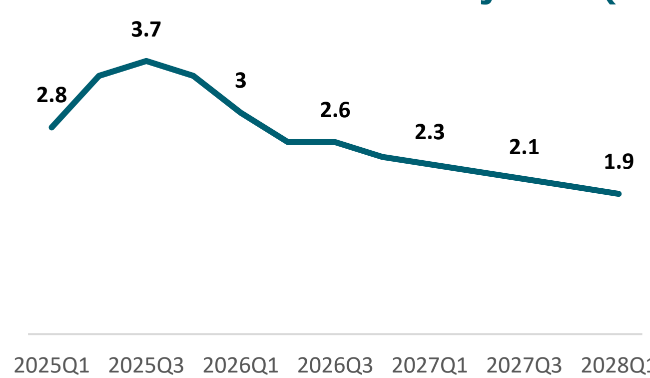
Looking ahead, whilst inflation has now fallen for two consecutive months, **it is still expected that inflation will rise in the coming months**, reflecting factors such as utility bill rises. The inflationary impact of trade tariffs also remains uncertain.[5]

Inflation forecast

UK inflation forecasts were released by the Bank of England (BoE) in February[6] and the Office for Budget Responsibility (OBR) in March.[7] As with their previous forecasts, the BoE predict inflation will temporarily increase, before then returning to target. However, inflation is now expected to increase at a sharper rate, rising to 3.7% in Q3 2025, compared with 2.8% in their November forecast. Inflation is expected to return to the 2% target in Q4 2027, slightly later than previously predicted (Q2 2027).

The forecasts released by the OBR[7] suggest a similar position to the BoE, with CPI also predicted to peak at 3.7% in Q3 2025. However, the OBR do predict a quicker return to the 2% target (Q2 2026).

BoE – Modal CPI Inflation Projection (%)



[1] FSB. Small Business Index: Q4 2024 (March 2025).
[2] Scottish Government. Scottish Consumer Sentiment Indicator : Monthly Data (March 2025).
[3] GfK. UK Consumer Confidence Survey – March 2025 (March 2025).
[4] ONS. CPI, UK: March 2025 (April 2025).
[5] FT. UK inflation falls more than expected to 2.6% in March (April 2025).
[6] BoE. Monetary Policy Report - February 2025 (February 2025).
[7] OBR. Economic and fiscal outlook – March 2025 (March 2025).

Economy, People and Skills

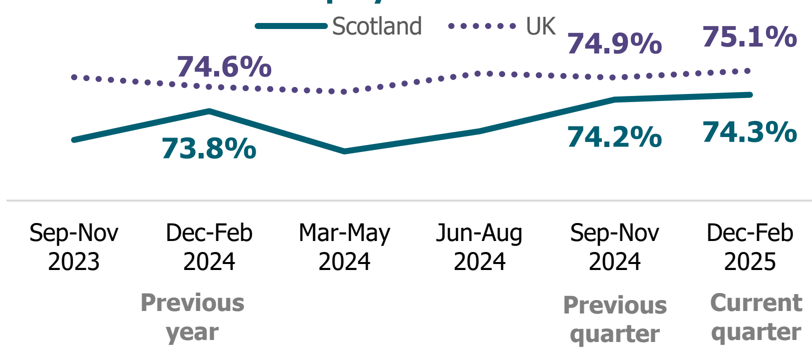
The ONS published revised LFS estimates from 2011 for the UK (except for youth unemployment, which is from 2019) and from 2019 for Scotland in December 2024. The revised data incorporates new population estimates, including the Scottish 2022 Census, helping to make LFS estimates more representative. Scotland shows the biggest revisions due to population changes, but rates remain similar. The revisions cause a step change discontinuity between revised and un-revised data, and therefore the longer-term trend graph indicates where data is revised with a [r] in the data label.

Employment Rate (16-64)[1]

Scotland's employment rate was estimated to be 74.3%

- The latest data suggests Scotland's employment rate was **74.3%** in the period covering December 2024 to February 2025. The rate is estimated to have increased by 0.2 pp compared with the previous quarter.*

Employment Rate



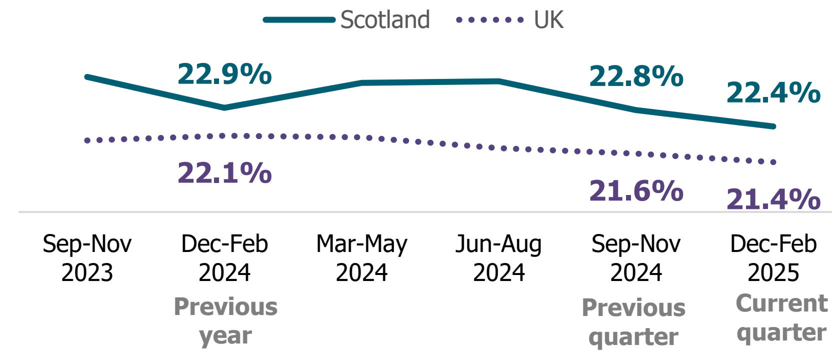
Employment Rate: Longer-term trend

Economic Inactivity (16-64)[1]

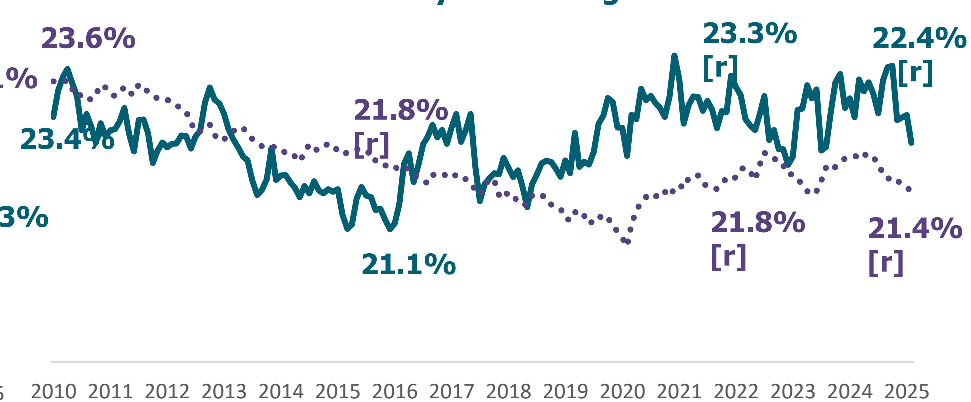
The 16-64 Scottish economic inactivity rate was estimated to be 22.4%

- The latest data suggests that Scotland's economic inactivity rate was **22.4%** in December 2024 to February 2025. The economic inactivity rate was 0.5 pp lower than last quarter.*

Economic Inactivity Rate



Economic Inactivity Rate: Longer-term trend



[1] ONS. Labour Force Survey (15th April 2025).

*Figures may not sum due to rounding.

Economy, People and Skills

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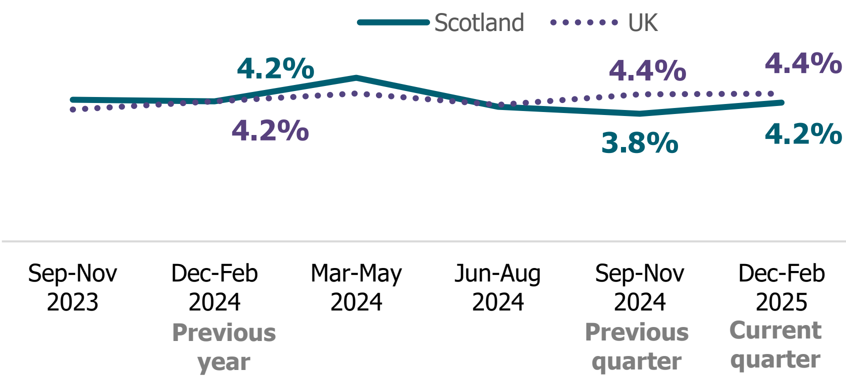
Unemployment (16+)[1]

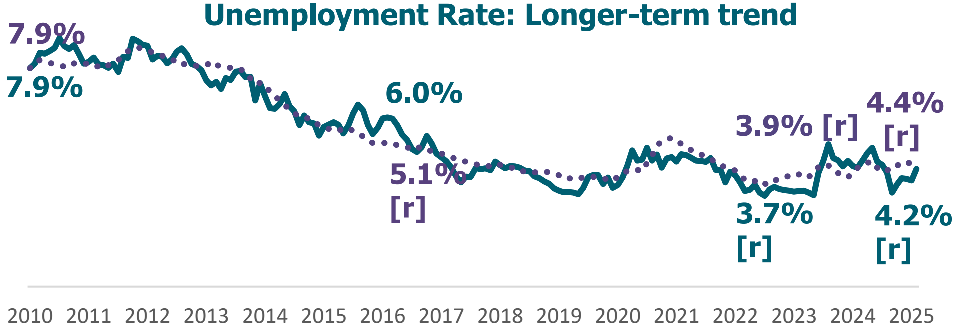
Unemployment in Scotland was estimated to be 4.2%

- The latest data suggests Scotland's unemployment rate was **4.2%** in the period covering December 2024 to February 2025. This is an increase compared with the last quarter (0.3 pp change).*

Unemployment Rate



Unemployment Rate: Longer-term trend

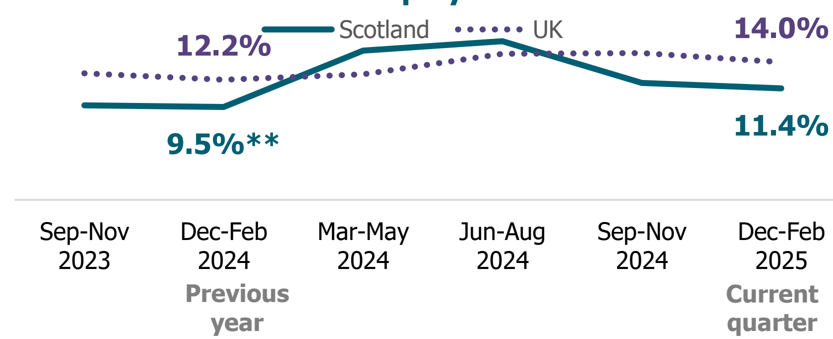


Youth Unemployment (16-24)[1,2]

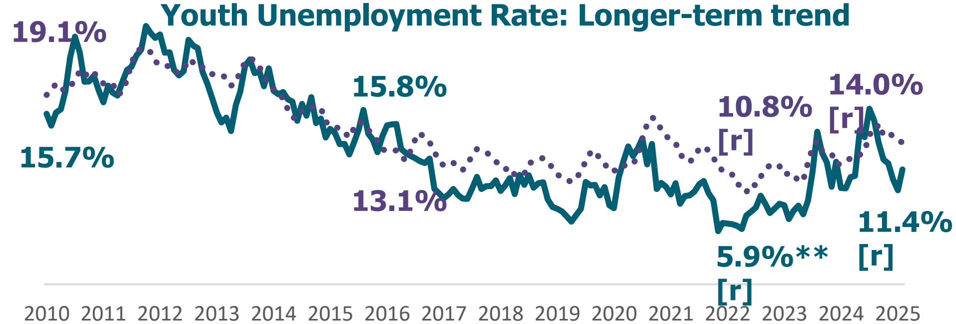
16-24 youth unemployment in Scotland was estimated to be 11.4%

- The latest data estimates Scotland's youth unemployment rate was **11.4%** in the period covering December 2024 to February 2025.* This is higher than the same period of the previous year (1.9 pp increase), but it is important to note the declassification of LFS data and the small sample sizes that youth unemployment is based on.**

Youth Unemployment Rate



Youth Unemployment Rate: Longer-term trend



[1] ONS. Labour Force Survey (15th April 2025). [2] Please note: Youth Unemployment should only be compared to the previous year.

*Figures may not sum due to rounding. **Figures marked with ** have been flagged by the ONS as based on small sample sizes. More generally, age breakdowns of regions will be subject to smaller sample sizes, creating greater volatility and less precision. As a result the Annual Population Survey (APS), which has a larger timeframe and the English, Welsh and Scottish LFS boosts, is the preferred source for labour market indicators by region and age (although it too has been impacted by smaller sample sizes and has been declassified from official statistics. The Scottish Government has also recently noted "limited confidence" in APS unemployment in youth unemployment estimates for Scotland). Please find analysis of the Scottish youth labour market using APS data here.

Economy, People and Skills

Universal Credit[1] and Claimant Count Rate[2]

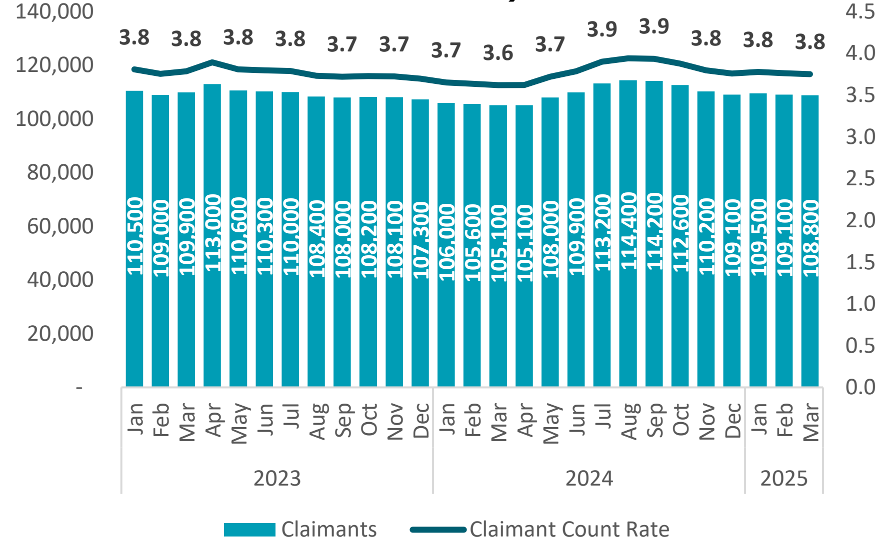
614,900 **people claiming Universal Credit in Scotland in March 2025**

Between February and March 2025, 13,100 additional people in Scotland claimed Universal Credit, an increase of 2.2%. This continues a trend of increase from June 2022. The overall rise has been driven by an increase in claimants not in work.[1] Since January 2023 the proportion of claimants in work has ranged from 33% to 38%. As noted in September's spotlight, migration from legacy benefits is likely to be one factor in the increase in people claiming Universal Credit.

3.8% **Claimant Count rate in Scotland in March 2025 (108,800 claimants)**

Between February and March the Claimant Count stayed broadly similar, the number of claimants decreased very slightly (-300), whilst the Claimant Count rate remained at 3.8%. The Claimant Count rate has fallen from 4.7% in January 2022, but there was a slight uptick during summer 2024, which has since started to reduce.

Claimant Count: No. of Claimants and Rate (%), Scotland (2023 to 2025)



Redundancies[3] and Company Insolvencies[4]

4,000* **Redundancies in the three months to February 2025 in Scotland**

1.5* **Redundancies per 1,000 people (4.0 in the UK)**

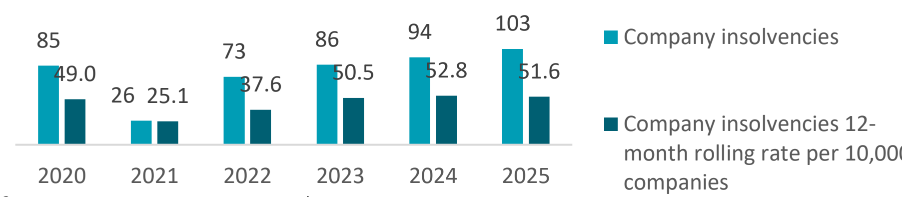
The number of people who were made redundant in Scotland decreased in the three months to February 2025 (decreased by *5,000 people or *60.3%) compared with the three months to February 2024.

*Please note estimates are based on a small sample and should be used with caution.

103 **Company insolvencies in Scotland, February 2025**

Following a reduction during the pandemic, company insolvencies have since increased. In general, the trend has shown that recent company insolvency levels are above those seen pre-pandemic. This is indicated for February 2025 as the number of insolvencies and 12-month rolling rate of insolvencies was higher than in February 2020.

Company Insolvencies (Scotland), February

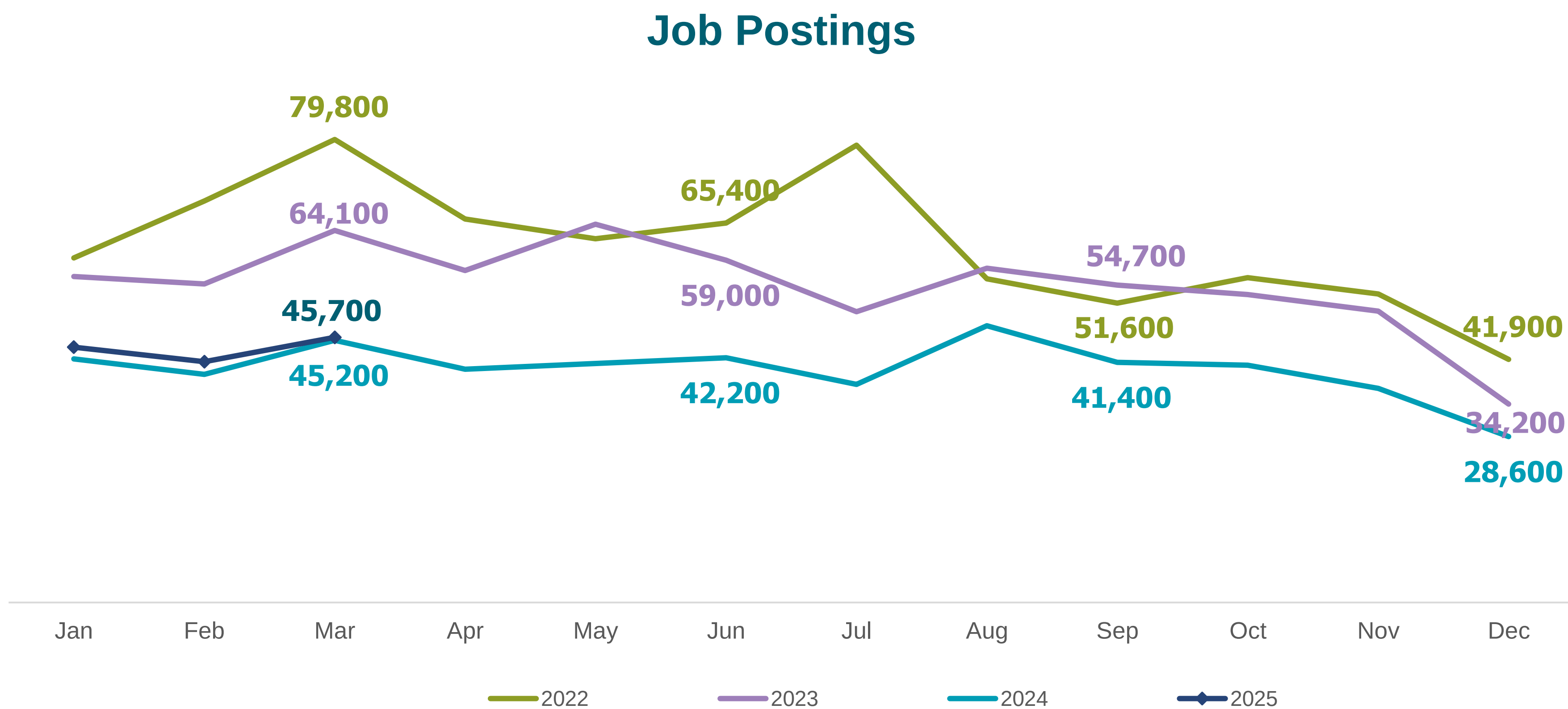


[1] Department for Work and Pensions (April 2025). The breakdown of Universal Credit claimants by employment status is not available for March. March data is provisional. Figures for 'not in work' could include both those unemployed or economically inactive.
[2] ONS. Claimant Count (April 2025). *Experimental statistics.* March data is provisional.
[3] ONS. Labour Force Survey (15th April 2025).
[4] The Insolvency Service. Monthly Insolvency Statistics, February 2025 (March 2025).

Job Postings in Scotland[1,2]

Provisional data for March suggests online job postings in Scotland increased compared with February, rising to 45,700. The level was broadly the same as March 2024.

Online job postings in March increased by 10% or 4,300 postings compared with February, and were broadly similar to March 2024 (+500 postings or +1 per cent). When compared month on month, job postings tend to increase in March compared with February, likely reflecting the longer month and recruitment activity coinciding with the end of the financial year. The three-month-rolling average also increased (by 15%) for January to March compared with December to February. This mainly reflected the low figure for December coming out of this month's rolling average calculation. *Please note that due to data updates planned by Lightcast, January to March data is provisional and it is not possible to provide all the usual data breakdowns.*



[1] Lightcast (April 2025). Lightcast gathers insights from online job postings. Please note January to March 2025 job postings are provisional.
[2] Numbers rounded to the nearest 100.

Spotlight: Labour cost increases and outlook from business

As we enter a new financial year, businesses are facing some notable changes. For employers, April marked the implementation of increases to employer National Insurance Contributions (NICs) and a rise in the national minimum wage. Both policies have created concerns for businesses over increased labour costs, with the wider context of sluggish growth in the latter half of 2024 adding to a more negative economic outlook. Here we review the potential impact of these changes for businesses and the current picture of business sentiment.

Increase in minimum wage and changes to NICs will see a rise in labour costs, particularly for employers with lower wage workers

The new minimum wage, as announced at the Autumn Budget, was implemented on 1st April. This saw the hourly minimum wage for workers aged 21+ increase by 6.7% to £12.21 per hour. Younger workers aged 18-20 and 16 and 17 saw higher increases, at 16% to £10 per hour and 18% to £7.55 per hour respectively. Changes to employer NICs were introduced five days later, which saw a cut in the earnings threshold (reduced from £9,100 per annum to £5,000) as well as a rate increase from 13.8% to 15%.

The change to the earnings threshold means employers will start paying NICs for workers at a lower salary level than before. This means that proportional labour costs (calculated as a percentage of a worker's wage) will increase the most for lower wage workers. For example, employer NICs for a worker earning £10,000 will increase from £124 to £750 per annum, a cost rise of 6.2%. The increase for higher earners will be more in cash terms, but much lower as a percentage of their earnings (2.0%).[1]

The Resolution Foundation also provide additional analysis of the cumulative impact of minimum wage **and** employer NICs changes.[1], This estimates that the labour costs of full-time minimum wage workers aged 21 and over will rise by 10.2% whilst the labour costs for minimum wage workers aged 21 and over working 16 hours per week will rise by 14.2% - the largest increase for part-time workers since 1999. The labour costs of lower wage workers working fewer hours will incur the greatest proportional impact as more of their wages will become liable for NICs. Labour costs for workers aged under 21 are unlikely to be impacted by NICs changes as employer NICs are only liable for under-21s earning over £50,270 per year.

It is expected that the labour market will be affected by the changes

Whilst the tax increases in employer NICs do not directly affect employees, workers are expected to experience an indirect impact as employers are now anticipated to increase wages more slowly and change employment plans in response. When the policy announcement was made in the Autumn, the Office for Budget Responsibility (OBR)[2] estimated that around three-quarters of the cost of employer NICs would be transferred through to workers as slower wage increases, whilst job/hours would be reduced by 50,000 average-hours equivalents across the UK.

The Resolution Foundation (RF)[1] research also estimates that the changes will reduce total UK employment by 85,000, concentrated amongst lower paid workers. These concerns are similarly reflected in comments from the Institute for Fiscal Studies (IFS)[3] on the potential impact of minimum wage changes for young people. The IFS predict a greater impact for this group due to the relatively higher increases in the minimum wage for under 21s, and the concentration of younger workers in sectors such as Hospitality, which will be particularly affected by the changes. The IFS suggest that this could mean fewer work opportunities for young people across the UK. They argue that cumulatively the NICs and minimum wage changes mean companies have greater incentives to employ older, more experienced workers and make use of self-employed sub-contractors or labour-saving technologies.

[1] Resolution Foundation. Minimum wage, maximum pressure? (March 2025).
[2] OBR. Economic and Fiscal Outlook – October 2024 (October 2024).
[3] IFS. Combined impact of minimum wage and tax increases may reduce opportunities for young people (April 2025).

Spotlight: Labour cost increases and outlook from business

Concerns over growing labour costs part of a wider picture of more pessimistic business sentiment

Since the changes to minimum wage and employer NICs were announced in late October there has been a strong message from business surveys of concern over the potential impact of costs, with surveys also suggesting employers could make changes to hiring plans in response. For example, in Scotland, the latest Scottish Business Monitor[4] found that three quarters of respondents expected the NICs changes to significantly impact their operations. Similarly, the Royal Bank of Scotland Growth tracker[5] has reported that private sector businesses are taking a more cautious approach to hiring as a result of the NICs changes.

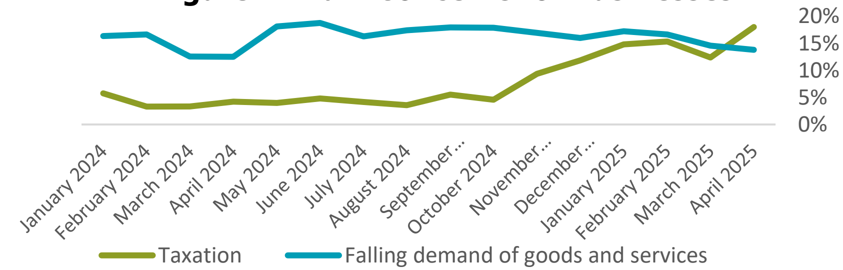
This is against a wider backdrop of signs of falling business confidence. The most recent Small Business Index[6] from the Federation of Small Businesses found that across the UK, small business confidence had fallen to its lowest level since the early stages of the pandemic. For Scotland specifically the index reading fell from -41.2 to -67.2. The Scottish Business Monitor[4] also found that three-quarters of respondents expected economic growth in Scotland to remain weak or very weak, an 18pp increase on the previous quarter. At a regional level, business panels for the Highlands and Islands[7] and South of Scotland[8] similarly reported that confidence in Scotland's economy fell to its lowest level since Autumn 2022.

Falling business confidence comes amidst an overall more negative economic outlook, but tax tops business concerns

Similar declines in consumer sentiment have accompanied this picture of falling business confidence. This reflects the more pessimistic economic outlook as GDP growth has slowed, inflation has started to trend upwards (though it remains far below, and is not expected to reach, highs seen in 2022/23), and base interest rate cuts have been slower than predicted. There is also growing uncertainty over the international economy, including the impact of tariffs from America.

These are all key factors in explaining falling business sentiment, but the Business Insight and Conditions Survey[9] helps to give further insight into the key concerns for Scottish businesses. In particular this highlights tax as a growing issue, likely reflecting the anticipated impact of employer NICs changes. When asked in March, taxation was the top concern for businesses, cited by 18% of respondents. This was the first time taxation appeared as the top concern, having increased substantially (by 13pp) since the budget announcements in Autumn. The second most common concern was falling demand for goods and services (14%), which has been at a fairly consistent level.

Figure 1: Main Concerns for Businesses



Source: Scottish Government, BICS weighted Scotland estimates: data to wave 128

Tentative signs of potential impact increased labour costs

It remains too early to assess the impact of increased labour costs, particularly as data is not yet available since changes were implemented, and a time lag may be expected, but there are tentative signs of potential impact in the labour market. For example, PAYE data indicates falling payrolled employment for Scotland and the UK in March. Whilst online job postings for Scotland have remained fairly stable, UK vacancy data (which is measured quarterly) shows a declining trend. For the three months to March, UK vacancies fell by 3.2%, with vacancies decreasing below their pre-pandemic level for the first time since March to May 2021. It will be important to continue monitoring this data over the coming months to fully assess any impact.

[4] FAI. Scottish Business Monitor: Q4 2024 (February 2025).
[5] RBS. Royal Bank of Scotland Regional Growth Tracker for Feb 2025 (March 2025).
[6] FSB. Small Business Index: Q4 2024 (March 2025).
[7] HIE. HIE Business Panel Survey 2025 (March 2025).
[8] SOSE. Business Panel Survey Results – March 2025 (March 2025).
[9] Scottish Government. BICS weighted Scotland estimates: data to wave 128 (March 2025).

Economy, People and Skills

LMI resources

Regional Skills Assessments and Sectoral Skills Assessments provide a consistent evidence base to inform future investment in skills.

New updates were released in October 2024. A series of webinars on the new publications are also available to view here.

The Data Matrix, offers data at Local Authority level, covering over 80 indicators covering Skills Supply, Skills Demand and Skills Mismatches.

The Data Matrix is updated Monthly.

CESAP Pathfinder, assesses the known investment, skills demand now and in the future, and current training and learning support for green skills in Scotland.

Skills Development Scotland is the national skills agency, supporting people and businesses to apply their skills, helping them to achieve their full potential

Apprenticeships
Scottish Apprenticeships provide integrated, flexible, in-work learning from school to graduate level, helping people gain industry-recognised qualifications.

Find Business Support
Enterprise and Skills agencies aligned offer to Scottish businesses and workers.

PACE
Scottish Government's PACE service can support employers and employees facing redundancy.

Skills for Growth
A fully-funded service for businesses with fewer than 250 employees which helps them identify their skills needs.

Career Information, Advice and Guidance
Skills Development Scotland's inclusive, all-age careers service empower people from all communities to make their own career and learning decisions.

Online Learning Portal
Helping people develop their skills with free online courses from training providers.

My World of Work Job Search
Helping employers advertise opportunities through SDS's careers website.

Green Jobs Workforce Academy
The Green Jobs Workforce Academy can help people take a greener approach to their careers, from accessing training and learning new skills to finding a new job.

Contact us:

rsa@sds.co.uk