

Scotland's Labour Market Drivers

18th October 2024

Introduction

Within the last 10 years, the Scottish economy has faced disruption due to events such as the pandemic, Brexit, the war in Ukraine, and the recent cost-of-living crisis. In addition, megatrends around demography, technology, and the environment have continued to shape the country's economy and labour market.

This report presents an overview of the drivers expected to have the greatest influence on Scotland's labour market outlook in the near term, based on a comprehensive analysis of structural and cyclical factors.

The assessment of these "Strategic Drivers" highlights that an agile and responsive skills system is vital to responding to the economy's challenges and opportunities, supporting and attracting inward investment, increasing productivity, and tackling inequality and deprivation.

This report was written over the first half of 2024 and finalised in October, and will not reflect any economic or labour market developments after this time. It is important to note this, as elevated levels of uncertainty are present, and the economy and labour market are reactive to change. Whilst recent changes may not be reflected in this report, SDS remains responsive to the needs of employers and learners – ensuring that the latest insights inform our products and services and that we work with partners and stakeholders to make this insight available for the wider skills system.

This report provides an overview of the five key drivers of the Scottish labour market now and in the future, which are:



The Economy

The economy and the labour market are inextricably linked. The economic outlook for Scotland has improved, but growth is still expected to be modest in 2024, after annual GDP figures estimated the Scottish economy (like that of the UK) remained broadly flat throughout 2023. While the inflation rate has eased from its peak in October 2022, the effects of rising prices and high interest rates continue to impact Scotland's households and businesses.



Demographic Change

Scotland has an ageing population, population growth is expected to slow in the next decade, and it is anticipated that the country is likely to rely on in-migration for population growth. These demographic changes in Scotland have important implications for the economy and labour market.



Inclusive Growth and Equality

Inequality affects different groups disproportionately and can impact individuals' access to labour market opportunities. There have been some advances in improving diversity within the workforce and reducing inequality across Scotland, but challenges remain.



Technology and Automation

Scotland has a strong technology sector, with specific strengths in digital technology, life sciences and financial technology; with AI predicted to be the most important technological advancement for the foreseeable future. AI, and other technological advancements, offer significant opportunities for the economy and society but also have the potential to be disruptive.



Climate Change

The Scottish and UK governments have committed to meeting net zero targets. This will directly impact the labour market, with the potential to create significant opportunities in Scotland. However, it will require reskilling and upskilling across several sectors to support the transition to net zero.



The Economy

Key points:

Economic growth in Scotland is expected to be modest in 2024.

The impact of rising prices continues to affect Scottish households and businesses, despite inflation easing in recent months.

Scotland and the UK continue to have high levels of economic inactivity, particularly due to long-term ill health.

Scotland and the UK have experienced a tight labour market, which has been loosening in 2024 as evidenced, in part, by falling online job postings.

One of the key drivers impacting Scotland's labour market is the economy – the economy and the labour market are intrinsically linked. In recent years, Scotland and the UK have experienced a difficult economic context including rising inflation and cost-of-living challenges, tight monetary policy and weak performance by historical standards. Economic growth has also been impacted by the ongoing effects of high energy pricing, low consumer confidence and reductions in business investment. While the economic outlook for Scotland has improved, forecasts predict that future growth is still expected to remain subdued. For example, Fraser of Allander estimates that the Scottish economy will grow in 2024 following a flat 2023 (0.1% growth), but at 0.9%, this would remain relatively muted. Their forecasts expect growth of 1.1% in 2025 and 1.2% in 2026, but this still remains below the mean annual growth of 1.5% in the 2010s.¹

However, the success of Scotland's economy is not solely based on GDP. There has been growing commentary on the need to evaluate the economy on measures other than GDP growth, such as how the economy serves society and sustains the environment. The Scottish

Government's National Strategy for Economic Transformation (NSET) has a commitment to a 'Wellbeing Economy' – a society that is *'thriving across economic, social and environmental dimensions.'*² The Wellbeing Economy Monitor has been developed with fourteen benchmarks to measure success.³

Price inflation, which has contributed to recent economic challenges and a cost-of-living crisis, has been easing. UK inflation (CPI), which peaked at 11.1% in October 2022, was 1.7% in September 2024.⁴ This was below the Bank of England's (BoE) inflation target of 2%. Looking ahead, inflation is likely to hover slightly above or below the 2% target over the next few years. While the BoE cut the base interest rate in August 2024, the first time since 2020 (from 5.25% to 5.0%), this remains high and households continue to experience significant financial challenges.⁵

Scotland and the UK have experienced a tight labour market in recent years. There has been a loosening of this in 2024 evidenced, for example, by falling online job postings in Scotland⁶ and the easing of UK wage growth.⁷ Nonetheless, like the rest of the UK, economic inactivity is high in Scotland, estimated at 23.2% from June to August 2024.⁸ As with the rest of the UK, the main reason for economic inactivity is long-term ill-health.⁹

A contributing factor to the tight labour market is skills mismatches; the availability of the right skills for current jobs and vacancies.¹⁰ These create challenges for employers either through difficulty recruiting people with the correct skills or lack of skills proficiency in the existing workforce.¹¹ Skills Shortage Vacancies (SSVs) are where vacancies do not receive enough applicants with the required skills, experience and training; making these vacancies harder to fill. In 2022, a skills survey reported that 10% of Scottish employers had an SSV, almost double the level recorded by the same study in 2017. Such challenges can impact businesses in various ways including increasing the workload of other staff, creating difficulties in meeting customers' needs and increasing operating costs.¹²



Demographic Change

Key points:

Scottish population growth is expected to slow in the next decade, and forecast to decline from 2033 onwards.

Simultaneously, the Scottish population is getting older, with around one-fifth of the population aged 65 and over.

There are regional variations in this trend, with the ageing population more pronounced in some rural areas.

These demographic changes in Scotland could affect the already tight labour market, tax revenues, economic growth and productivity.

The new 2022 Census data for Scotland revealed that the Scottish population had increased by 2.7% since 2011. This rate of growth was slower than between 2001 and 2011 when the population grew by 4.6%.¹³ Although Scotland's population has increased over the past ten years, this growth was largely driven by migration (as the number of deaths exceeded the number of births), and population growth is predicted to start declining from 2033 onwards.¹⁴ The Scottish population is also ageing, with people aged 65 and over accounting for a fifth of the population in 2022 (20.1%), while under 15s accounted for only 15.3%.¹⁵ This is more pronounced in some rural areas. For example, in Dumfries and Galloway, Argyll and Bute, and in Na h-Eileanan Siar people aged 65 and over account for more than a quarter of the population.¹⁶ It is projected that by 2045, one-quarter of the Scottish population will be aged 65 and over.¹⁷

These demographic changes have important implications for the labour market. Taken together, it could limit the number of available workers in the economy and is likely to reduce tax receipts,¹⁸ whilst simultaneously putting increasing pressure and demands on some services and sectors.¹⁹ For example, as the number of people over

retirement age increases and the number of people in work falls, this could lead to greater pressure on services such as health and social care. In addition, an increasingly older population could result in more demand for people to provide unpaid care. Such care is often delivered informally by older family members, later in their working life, which can impact upon their availability and participation in the labour market.²⁰ It is estimated that there are between 0.7-0.8 million unpaid carers in Scotland, including one in four people aged 55-64.²¹

Following the pandemic there has been a well-documented increase in economic inactivity, which has been part of a wider picture of challenges for businesses in securing the labour they need, creating a tight labour market and economic challenges. Therefore there is a continued risk of potential worker shortages and further recruitment difficulties. This is likely to be experienced in different degrees across Scotland, exacerbating the issue in areas already facing shortages. However, AI, which we explore in more detail in the next section, has the potential to play a role here and has been introduced across a range of sectors. One example is the NHS, where it is being used to support selected functions. This may alleviate workloads, improve efficiency,²² and potentially mitigate some of these workforce issues in future.

The 2023 mid-year population estimates reported a population increase due to international and UK migration to Scotland.²³ Looking ahead, projected population growth in Scotland is expected to follow this trend, assuming migration flows remain consistent with average levels – and migrants tend to be of working age and highly skilled.²⁴ However, recent policy changes announced by the UK Government could impact the attractiveness of the UK to potential overseas migrants.²⁵ It is predicted that, if projected immigration flows are proportionate across the UK, there could be an annual reduction of immigration to Scotland from between 18,000 to 25,000.²⁶ Taken together, demographic changes in Scotland are likely to be a significant strategic driver going forward.



Inclusive Growth and Equality

Key points:

The cost-of-living crisis has had a disproportionate impact on different groups, particularly Scotland's low-income households.

Geographical inequality within Scottish regions can affect individuals' access to the labour market. A range of factors drive this, including location and infrastructure, demographic profile, quality of local services, local skill profiles, employment opportunities and growth in local sectors.

The Scottish Government has set key priorities for improving equality, diversity and inclusion to reduce gaps in economic participation rates.

There have been some advances in improving diversity within the workforce and reducing inequality, but challenges remain.

Inclusive growth is identified as a key strategic driver likely to impact Scotland's labour market in 2024 and beyond. The Scottish Government defines 'Inclusive Growth' as '*growth that combines increased prosperity with greater equity; that creates opportunities for all; and distributes the dividends of increased prosperity fairly*'.²⁷ Since 2021, global and domestic events have caused a cost-of-living crisis, and along with existing economic and social challenges such as child poverty and in-work poverty, this may make achieving inclusive growth more challenging.²⁸

Cost-of-living pressures continue to be experienced across Scotland, with increased energy costs a key contributing factor – in August 2024, 31% of adults who pay energy bills reported they find them difficult to pay.²⁹ In 2024, over 1 million people in Scotland are living in poverty, and this figure includes around 250,000 children.³⁰ However, government targets are set to reduce these by 2030/31.³¹

The pressures are not felt equally across Scotland's population, with lower-income families being disproportionately impacted by rising costs, and experiencing higher real-term falls in income than the average UK resident.³² The cost-of-living crisis has also placed additional pressure on public services, such as health and social care services, through associated declines in mental and physical health, and third-sector services, such as food banks, have also experienced increased demand.³³

Geographical inequality also exists between and within Scottish regions, which can affect individuals' access to the labour market. Infrastructure, demographic profile, location, quality of local services, skills levels, employment opportunities and growth of local key sectors, all influence the economic performance of regions. Scottish Index of Multiple Deprivation (SIMD) data highlights the variation in deprivation that exists in Scotland's urban areas.³⁴ Challenges also remain in rural areas related to connectivity and access to public services such as healthcare, transport and shops.³⁵

Improving equality, diversity and inclusion is a key priority for the Scottish Government. The NSET targets a fair and equal economy and aims to '*eradicate structural barriers to participating in the economy*'.³⁶ Equality, diversity and inclusion policies are also seen as a route to addressing skills shortages, with employer groups suggesting that embedding these values may help businesses attract and retain talent.³⁷

There have been some advances in improving diversity within the workforce and reducing inequality. Progress has been made in addressing the gender pay gap, which fell to 1.7% in 2023 – the lowest rate since first observed in 1997.³⁸ Income inequality has improved with a reduction in people being paid less than the living wage.³⁹ There remain improvements to be made however, with for example, an estimated ethnicity pay gap in Scotland of 10.3% in 2019.⁴⁰

Key points:

Scotland has a strong technology sector, with specific strengths in digital technology, life sciences and fintech.

It is expected that AI will be the most important technological advancement for the foreseeable future in Scotland.

Knowledge and adoption of AI is on the increase - it is estimated that 60% of jobs in developed countries will be affected by AI. This is expected to be a disruptive force within the labour market, creating both challenges and opportunities, and impacting job roles and businesses.

The impact of the adoption of AI remains uncertain, but could be transformative for Scotland's economy, with the potential to impact positively across many sectors. However, careful management of AI adoption will be required to mitigate potential risks and the upskilling of the workforce could support this.

In 2023, the technology industry contributed £6bn to the Scottish economy and employed 80,000 people.⁴¹ The sector is responsible for 4% of Scotland's total economic output and has grown by 107.5% between 2012 and 2022.⁴² Strengths within the technology sector also provide the ability to grow the market and scale up capability within sectors aligned with economic priorities.⁴³

Continued advances in the sector will likely create challenges and opportunities worldwide, and are expected to impact the Scottish labour market and economy in the coming years. Emerging technologies such as AI, novel batteries and 4D printing all have the potential to develop into successful industries.⁴⁴ Globally, it is estimated that AI could increase economic growth to between \$2.6 trillion and \$4.4 trillion per annum.⁴⁵ Recent developments in the

growth and commercialisation of AI suggest that it will be the most significant advancement in Scotland in the short term.⁴⁶

It has been claimed that economic growth could also be created through AI as it has the potential to improve efficiency, productivity and outputs across many sectors.⁴⁷ AI is predicted to have a transformative impact on many jobs – with 60% expected to be affected in advanced economies.⁴⁸ A recent survey reported that 15.6% of Scottish businesses are currently using AI technology.⁴⁹ AI may complement existing roles and duties ranging from finance, where AI tools can create visualisations from supplied data and build predictive models for financial forecasting,⁵⁰ to health where AI can interpret patient records data and assist with diagnostics.⁵¹ Previous analysis had suggested that AI could displace between 10-30% of UK jobs.⁵² However recent reports suggest a more neutral impact on overall employment and that technology may also create new jobs and enhance existing roles to support smarter and more agile ways of working.⁵³

However, there is also the risk that AI will be a potentially disruptive influence.⁵⁴ This could impact different groups across the labour market, depending on, for example, qualifications, job roles and different sectors.⁵⁵ There may also be the potential that AI could increase economic inequality as individuals and businesses with skills leverage this technology to benefit economically, leaving other businesses and individuals lacking relevant skills behind.⁵⁶

Whilst AI technology has developed rapidly, the full impact of AI on the Scottish labour market remains uncertain and it will take some time to fully determine this.⁵⁷ Recent analysis has demonstrated existing digital skills shortages in the Scottish labour market.⁵⁸ Therefore, for businesses to harness AI across a range of roles, it will be important for employees to have the skills to utilise and work alongside new digital tools including AI.⁵⁹



Climate Change

Key points:

Both the Scottish and UK governments have committed to meeting a target of net zero carbon emissions.

The transition to net zero will have a direct impact on the labour market, with the potential to create significant opportunities and job growth in Scotland.

Scotland is in a good position to take a lead in the development of new green technologies, building on its significant natural resources and strengths in sectors such as Energy and Renewables.

Upskilling and reskilling will be vital to equip Scotland's workforce with the skills needed to meet the transition and will span across various sectors including Construction, Manufacturing, Agriculture, Energy, and Transport.

The transition to net zero to help combat the Climate Emergency will also be a key driver, impacting on Scotland's labour market, and economies worldwide. Action on climate change has accelerated globally since 2015, when the Paris Agreement was established. This resulted in most major advanced economies adopting a net zero target.⁶⁰

The UK Government committed to achieving this by 2050, while the Scottish Government has committed to 2045.⁶¹ The Scottish Government has also committed to a just transition to net zero, meaning ending Scotland's '*contribution to climate change in a way that is fair and leaves no one behind*'.⁶² The recently published Green Industrial Strategy identifies opportunities where Scotland can '*realise the maximum possible economic benefit from the opportunities created by the global transition to net zero*'.⁶³

Achieving these targets and transitioning to environmental sustainability will impact the labour market in different ways. The drive to net zero will increase the demand for existing labour and create new jobs. Building on the country's significant natural resources and strengths in areas like Energy and Renewables, opportunities are expected in Scotland, with the potential for more jobs to be created than lost, with growth in low-carbon sectors such as building retrofit, renewable energy generation and the manufacture of electric vehicles.⁶⁴

Scottish Enterprise's new strategy also highlights the opportunity for growth in the number of high-value jobs and businesses in green energy supply chains and aims to maximise green energy and net zero market opportunities.⁶⁵ Scotland has an advantage in the development of new green technologies and the growth and demand in areas such as offshore wind, the green hydrogen industry, and the decarbonisation of homes is expected to bring significant numbers of new jobs and economic growth.

SDS research as part of the Climate Emergency Skills Action Plan (CESAP) Pathfinder also found that in 2022, there were 690,900 people employed in CESAP (or green) sectors (26.5% of Scottish employment). Between 2022 and 2025, demand from the need to replace existing workers far exceeds the emerging job growth. This research outlined the need for upskilling existing and new entrants to the workforce particularly in sectors such as Construction, Manufacturing, Agriculture, Energy and Transport, to maximise anticipated opportunities and support the transition to net zero.⁶⁶ More information on findings can be found [here](#).

Conclusion

The five strategic drivers identified will impact Scotland's labour market now and in the future. They will also interact and influence each other and create variations across society and the wider economy.

Scotland will likely continue to experience uncertainty and levels of volatility across the economy. The election of a new government, the persistence of cost-of-living pressures and ongoing global events will all continue to have impacts. It is important that up-to-date insight and evidence is available to support Scotland's agile skills system to boost regions, sectors and inward investment.

Skills Development Scotland provides a range of products and services to support partners, businesses and individuals by providing the most up-to-date labour market intelligence for Scotland. These products present a portfolio of data sources that can be found on the [SDS website](#). Our full suite of labour market insight products are highlighted adjacently, with publication dates noted.

We can be contacted at RSA@sds.co.uk to support any queries.

Resources

Regional Skills Assessments



provide a consistent evidence base to inform future investment in skills, built up from existing datasets and supplemented with regional insight.

New release October 2024. A series of webinars on the new publications will be available from November.

The Data Matrix



is an interactive tool offering data from a variety of sources for Local Authorities, Regions and City and Growth Deals. It covers over 80 indicators covering Skills Supply, Skills Demand and Skills Mismatches.

The Data Matrix is updated Monthly.

Economy, People and Skills



provides succinct and up-to-date evidence on Scotland's economy, businesses and people.

The Economy, People and Skills report is updated Monthly.

Sectoral Skills Assessments



provide a high-level evidence base to inform future investment in skills, built up from existing datasets and supplemented with industry insight.

New release October 2024. A series of webinars on the new publications will be available from November.

RSA Summary Infographics



Provide an overview of the economy and current and future demand in local areas across Scotland, down to local authority level.

Evidence on Green Skills



The CESAP pathfinder research provides insight into green skills across Scotland. This includes figures showing the demand for green jobs is growing and they are on average better paid.

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