

Economy, People and Skills

February 2026



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Economy, People and Skills

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 UK labour market shows signs of ongoing weakening, with unemployment reaching progressively higher levels. In Scotland, headline indicators improved marginally, but payrolled employment figures suggest employment growth remains weak, despite an uptick in job postings. Easing price pressures and weak growth have prompted the Bank of England to hold interest rates while revising down UK growth forecasts and signalling gradual rate cuts if disinflation continues.

Measured weakening in the UK labour market, with Scotland's position remaining relatively stable

Evidence suggests a continued, but measured, worsening in the UK labour market. Employment in the UK saw a marginal decline in the three months to December 2025 compared with the previous quarter (-0.1 pp). Over the same period, unemployment rose slightly to 5.2% (+0.2 pp), while economic inactivity fell modestly to 20.8% (-0.1 pp). PAYE employment was broadly stable in January (less than 0.1% decline compared to December) but remains 0.4% lower than in January 2025. Job vacancies increased marginally between November 2025 and January 2026 (+0.3% relative to August and October 2025).

In Scotland, headline indicators showed a slight improvement. The underlying employment growth remains weak, but job postings signal an uptick in demand, particularly for temporary staff. Between October and December 2025, employment increased to 74.8% (+0.4 pp), while economic inactivity declined to 22.3% (-0.5 pp); over the same period, unemployment rose slightly to 3.8% (+0.1 pp). In contrast, PAYE employment was broadly unchanged relative to the previous month and remains lower than in January 2025 (-0.2%). Provisional data on job postings in Scotland shows an increase in January 2026 compared with the previous month (+9,700, 22.2%) and relative to January 2025 (+8,100, 18%), mostly driven by temporary and part-time roles.

Wage pressures continue to ease, while growth remains weak

Wage and price pressures across the UK continue to ease, with annual regular pay growth falling to 4.2% in the three months to December 2025 (-0.5 pp with respect to the previous quarter). Headline inflation fell to 3% in January 2026, in line with analysts' expectations and the lowest level since March last year, mainly driven by food prices and transport. UK GDP grew by 0.1% in Q4 2025, below the 0.2% expected by analysts surveyed by Reuters. This follows growth of 0.1% in Q3 and 0.2% in Q2. Annual UK GDP growth reached 1.3% in 2025, falling just short of the Bank of England's 1.4% estimate but exceeding the 1.1% recorded in 2024. Scotland's GDP increased by 0.1% in Q4 2025, down from a 0.3% growth in Q3. The first estimate for annual growth suggests that in 2025 Scotland's GDP grew 1.4%, up from a revised growth of 1.1% in 2024 and 0.7% in 2023.

Future outlook

The Bank of England held the base rate at 3.75% in February following a narrow vote, prompting markets to increase expectations of a potential rate cut in March. The latest Monetary Policy Report signals a weaker near-term UK outlook, with GDP growth revised down to 0.9% in 2026 and 1.5% in 2027, reflecting softer labour market conditions and businesses operating below full capacity. Inflation is projected to fall from 3% in early 2026 to around 2% by mid-year, dip slightly below target in 2027 and return to 2% in 2028, driven by lower energy prices and easing cost pressures, while tight monetary policy is expected to continue dampening wage and price growth.

In contrast, revised forecasts from the Fraser of Allander Institute point to a more positive outlook for Scotland, with stronger-than-expected growth in 2025 leading to upward revisions. Scottish GDP is now forecast to grow by 1.3% in 2025, 1.1% in 2026 and 1.2% in 2027.

UK and Scotland Economy - Gross Domestic Product (GDP)

UK GDP

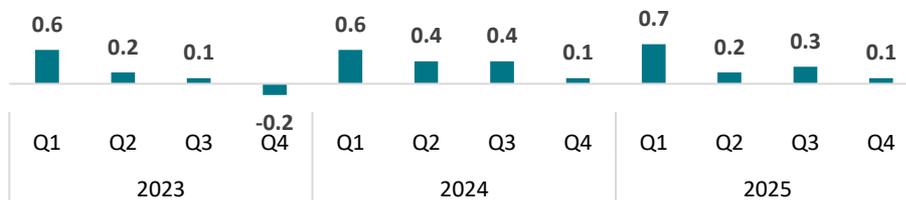
The UK economy grew by 0.1% in Q4 2025,¹ below the 0.2% expected by analysts surveyed by Reuters². This follows a 0.1% growth in Q3 and 0.2% in Q2. In the three months to December 2025, GDP grew by 0.1%, following a decline of 0.1% in the three months to November (revised down from a growth of 0.1%) and 0.1% fall in the three months to October (revised down from no growth). Monthly GDP is estimated to have increased by 0.1%, following revised growth of 0.2% in November 2025 (down from 0.3%) and an unrevised decline of 0.1% in October 2025.³ Annual UK GDP growth reached 1.3% in 2025, falling just short of the Bank of England (BoE) estimate of 1.4% but exceeding the growth of 1.1% recorded in 2024.¹

Scotland GDP

Scotland's GDP increased by 0.1% in Q4 2025, following a 0.3%

growth in Q3.⁴ The Business Services and Finance sector made the largest positive contribution to total GDP. Monthly figures show that in the three months to December 2025, Scotland's GDP grew by an estimated 0.1%.⁵ This follows a growth of 0.4% in the three months to November 2025. Monthly GDP is estimated to have grown by 0.1% in December 2025. The first estimate for annual growth suggests that in 2025 Scotland's GDP grew 1.4%, up from a revised growth of 1.1% in 2024 and 0.7% in 2023.

Quarter on Quarter GDP Change (%) (Scotland)



Economic Outlook

This month the BoE announced its decision to keep the base interest rate unchanged at 3.75%⁶, leading markets to heighten their expectations of a potential rate cut in March⁸. Updated GDP projections included in the BoE's Monetary Policy Report (MPR) reflect a shift toward a more downbeat assessment of short-term growth prospects for the UK. Conversely, revised forecasts for Scotland by the Fraser of Allander's Institute (FAI) show a slightly more optimistic outlook.

February's interest rate decision was finely balanced after a closely divided 5–4 vote. Underlying domestic wage and price pressures continue to ease, reducing the risk of inflation remaining persistently high and shifting the balance of risks toward weaker demand. If this progress on disinflation continues, the Bank Rate is likely to follow a gradual downward path.^{6,7} The BoE has revised its outlook, lowering

its 2026 GDP growth forecast to 0.9% down from 1.2%. Growth in 2027 is now expected to reach 1.5%, compared with the earlier projection of 1.6% in November. This reflects, in part, recent weaker-than-expected labour-market and capacity-utilisation data.

On the other hand, FAI's upgraded forecasts for Scotland reflect stronger-than-expected growth across the first three quarters of 2025.⁸ Scotland's GDP is now expected to grow by 1.3% in 2025 (up from 1%), 1.1% in 2026 (up from 1%), and 1.2% in 2027 (up from 1.1%)

BoE Forecasts of UK GDP Growth (%)



¹ ONS. [GDP first quarterly estimate, UK: October to December 2025](#) (February 2026).

² FT. [UK economy grows just 0.1% in final quarter of 2025](#) (February 2026).

³ ONS. [GDP monthly estimate, UK: December 2025](#) (February 2026).

⁴ Scottish Government [GDP First Quarterly Estimate 2025 Q4 \(October to December\)](#) (February 2026).

⁵ Scottish Government. [GDP Monthly Estimate: December 2025](#) (February 2026)

⁶ BoE. [Monetary Policy Report](#) (February 2026).

⁷ FT. [Bank of England holds rates steady at 3.75% in knife-edge vote](#) (February 2026).

⁸ FAI [Economic Commentary Q4 2025](#) (February 2026)

Inflation and the Cost of Living



Pessimism persists across Scottish businesses

Scotland's Small Business Index (SBI) fell to -58.6 in Q4 2025¹, its seventh consecutive quarter in negative territory, while the UK-wide SBI dropped by 12.5 points to -70.6.

This weakness is echoed across the private sector, with the **FAI's Scottish Business Monitor** showing the net balance of firms expecting activity to increase **edging up only slightly to -7.5 in Q4 2025²**, remaining negative throughout the year.

Results from the latest Highlands and Islands Business Panel Survey also show lower confidence in November–December 2025, with 47% of businesses confident in the economic outlook, down from 53%.



Financial pressures remain the public's main concern

Data from the Scottish Government's Public Insight Monitor shows **that financial pressures remain the dominant concern for people in Scotland** over the coming year.³ Rising grocery costs are the top worry for 41% of adults, closely followed by concerns about household finances at 38%. Together with energy and fuel prices, overall cost-related worry has climbed to 56%, up from 50% in September.

Confidence remains very low - only 7% feel the cost-of-living crisis is easing, and around two-thirds (64%) expect long-term negative impacts. **This pessimism is reflected in behaviour**, with over 80% taking steps to manage their finances, including reduced spent on non-essential items (52%) and reduce energy use in the home (45%).



Inflation fell to 3% in January, in line with expectations

Inflation in the UK eased to 3% in January 2025, down from 3.4% in December.⁵ This was in line with analysts' expectations and the lowest level since March 2025%.⁶

Transport, along with food and non-alcoholic beverages, recorded the largest downward contributions to the monthly change.

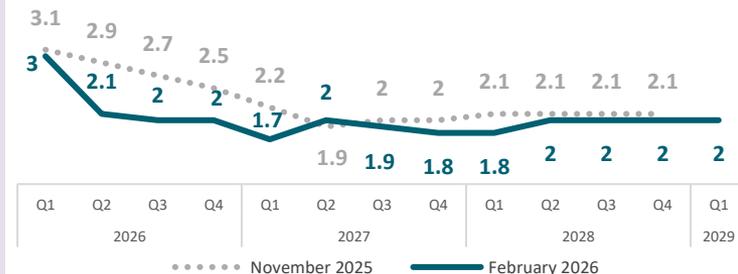
Core inflation also fell from 3.2% to 3.1% in January. Likewise, services inflation decreased from 4.5% to 4.4%. These are key measures for the Bank of England (BoE).

Inflation forecast

The latest inflation projections from the BoE were published in February 2026.⁷ The short-term projection for CPI inflation has been revised down from the November Report, reflecting lower energy prices, partly driven by measures in the 2025 UK Budget. The BoE now expects inflation to reach 3% in Q1 2026 before falling sharply to 2.1% in Q2. It is then projected to settle around the target of 2%, dipping slightly below it in 2027 before returning to target in 2028.

The lower short-term inflation forecast is driven by reduced energy prices following the UK Budget's energy bills package and lower wholesale gas costs. Pressures from administered prices and past National Insurance Contributions related cost increases are also expected to ease by Q2 2026. Across the forecast horizon, the strict monetary policy both currently and over recent years, is projected to continue limiting further increases in prices and wages, allowing these pressures to gradually fade and disappear by late 2027.

BoE – Modal CPI Inflation Projection (%)



¹ FSB [Small Business Index Scotland Q4 2025](#) (January 2026)

² FAI [Business Monitor Q4 2025](#) (February 2026)

³ HIE [Business Panel November-December 2025](#) (February 2026)

⁴ Scottish Government [Public attitudes to cost of living and other topics: Dec 2025](#) (January 2026)

⁵ ONS. [CPI, UK: January 2026](#) (February 2026).

⁶ FT. [UK inflation falls sharply to 3% in January](#) (February 2026)

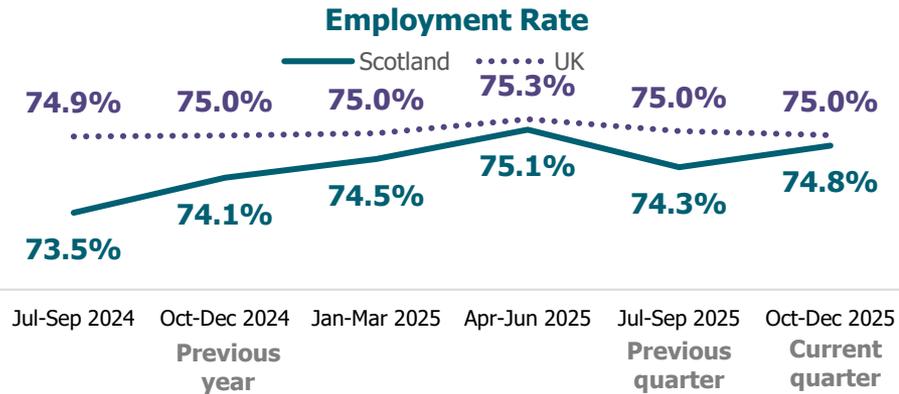
⁷ BoE. [Monetary Policy Report](#) (February 2026).

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 74.8%**

- The latest data suggests Scotland's employment rate was **74.8%** in the period covering October to December 2025. The rate increased compared with the previous quarter (0.4 pp increase).*



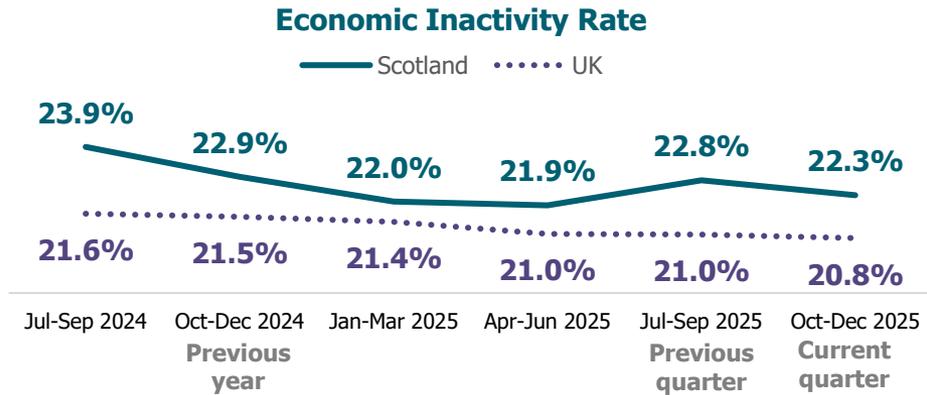
Employment Rate: Longer-term trend



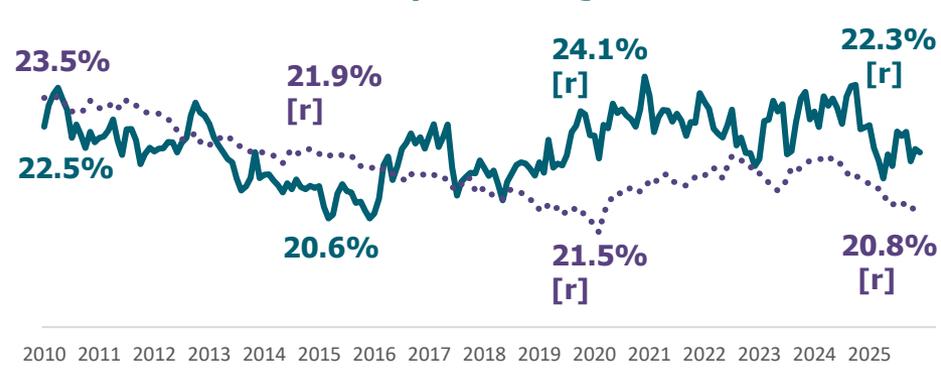
Economic Inactivity (16-64)¹

➤ **The 16-64 Scottish economic inactivity rate was estimated to be 22.3%**

- The latest data suggests that Scotland's economic inactivity rate was **22.3%** in October to December 2025. The economic inactivity rate was 0.5 pp lower than last quarter.*



Economic Inactivity Rate: Longer-term trend



¹ ONS, Labour Force Survey (17th February 2026).

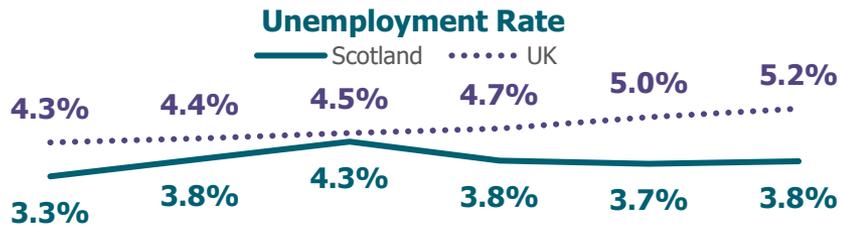
*Figures may not sum due to rounding.

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.

Unemployment (16+)¹

➤ **Unemployment in Scotland was estimated to be 3.8%**

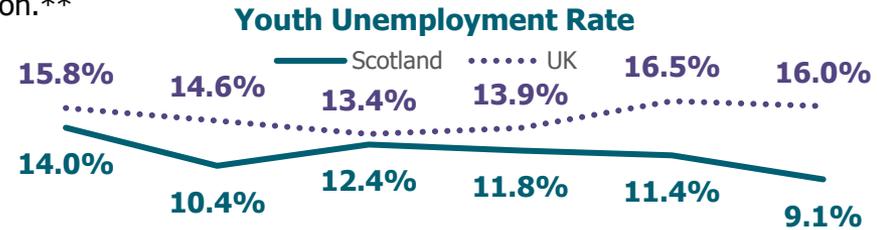
- The latest data suggests Scotland's unemployment rate was **3.8%** in the period covering October to December 2025. This is an increase of 0.1 pp compared with the last quarter.*



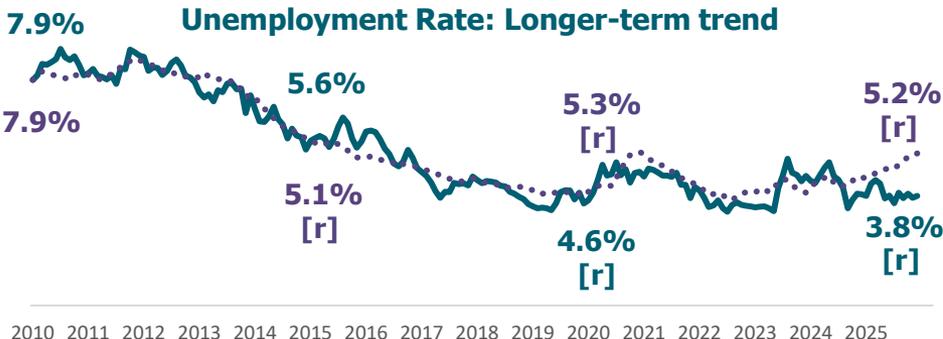
Youth Unemployment (16-24)^{1,2}

➤ **16-24 youth unemployment in Scotland was estimated to be 9.1%**

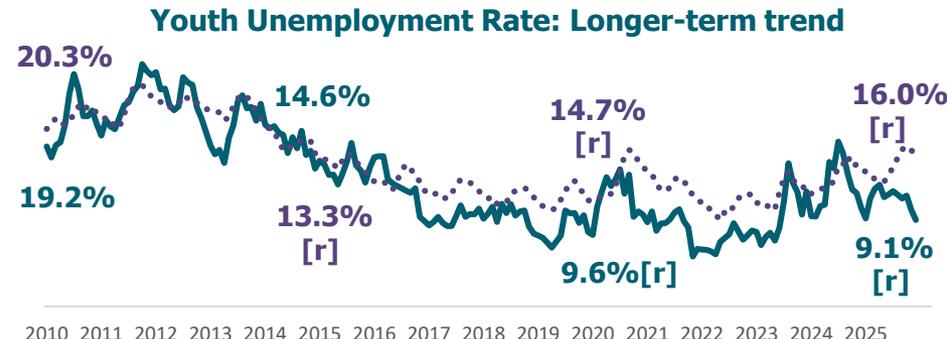
- The latest data estimates that Scotland's youth unemployment rate was **9.1%** in the period covering October to December 2025.** This is lower than the same period of the previous year (1.3 pp decrease), but it is important to note the declassification of LFS data and the small sample sizes that youth unemployment is based on.**



Unemployment Rate: Longer-term trend



Youth Unemployment Rate: Longer-term trend



¹ ONS. Labour Force Survey (17th February 2026). 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](#).

Universal Credit¹ and Claimant Count Rate²

698,300

people claiming Universal Credit in Scotland in January 2026

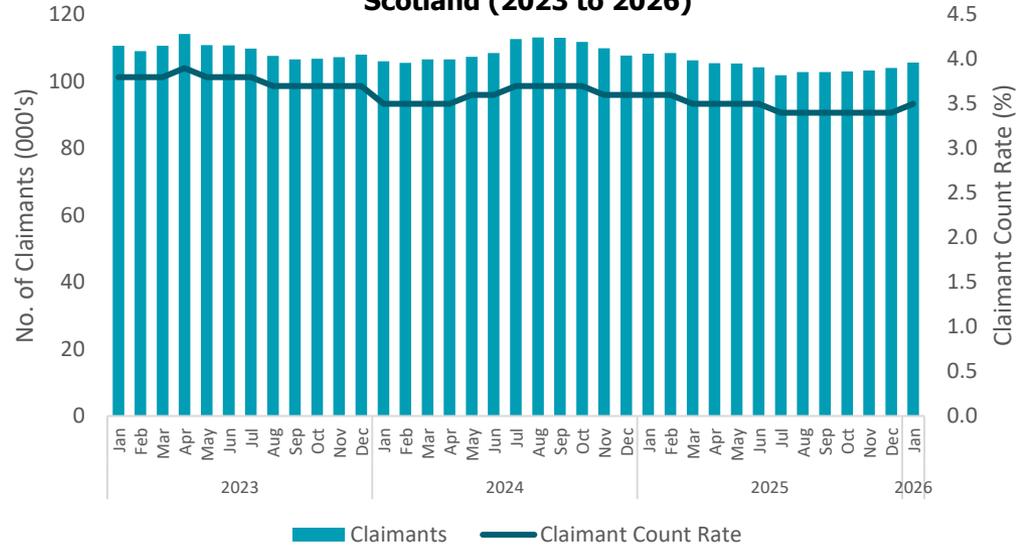
Between December and January 2026, 4,000 additional people in Scotland claimed Universal Credit, an increase of 0.6%. This continues a trend of increase from June 2022. The overall rise has been driven by an increase in claimants not in work.¹ Since January 2023, the proportion of claimants in work has ranged from 29% to 38%. As noted in the [September 2024](#) spotlight, migration from legacy benefits is likely to be a factor contributing to the increase in people claiming Universal Credit.

3.5%

Claimant Count rate in Scotland in January 2026 (105,700 claimants)

Between December and January 2026, the Claimant Count increased. The number of claimants increased by 1,600, whilst the Claimant Count rate increased 0.1 pp, from 3.4% to 3.5%. The Claimant Count rate has fallen from 4.7% in January 2022, but there has been some recent fluctuation in trends.

Claimant Count: No. of Claimants (thousands) and Rate (%), Scotland (2023 to 2026)



Redundancies³ and Company Insolvencies⁴

9,000*

Redundancies in the three months to December 2025 in Scotland

4.0*

Redundancies per 1,000 people (4.9 in the UK)

The number of people who were made redundant in Scotland increased by 4,200 in the three months to December 2025 compared with the three months to December 2024.

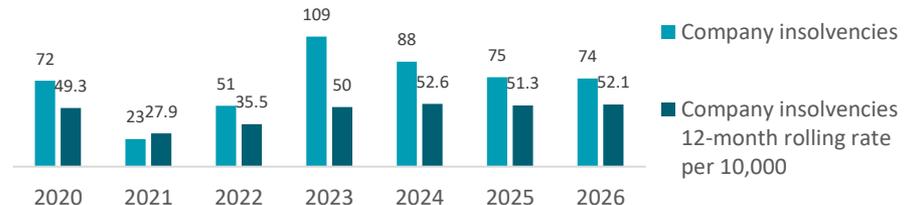
*Please note estimates are based on a small sample and should be used with caution.

74

Company insolvencies in Scotland, January 2026

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, and for January 2026 the number of insolvencies and 12-month rolling rate of insolvencies was higher than in January 2020.

Company Insolvencies (Scotland), January



¹ Department for Work and Pensions (February 2026). The breakdown of Universal Credit claimants by employment status is not available for January. January data is provisional. Figures for 'not in work' could include both those unemployed or economically inactive.

² ONS. Claimant Count (February 2026). Experimental statistics. January data is provisional.

³ ONS. Labour Force Survey (17th February 2026).

⁴ The Insolvency Service. [Monthly Insolvency Statistics, January 2026](#) (February 2026).

Job Postings in Scotland^{1,2}

Provisional data for January suggests that online job postings in Scotland increased compared with December, rising to 53,300.

Postings increased by 22.2% or 9,700 postings compared with December 2025 and increased by 18.0% or 8,100 postings compared with January 2025. The three-month-rolling average increased by 9.6% for November to January compared with October to December.

The highest demand in January was for occupations such as:

- Cleaners and Domestic;
- Sales Related Occupations n.e.c.;
- Care Workers and Home Carers;
- Kitchen and Catering Assistants; and
- Customer Service Occupations n.e.c..

The occupations in highest demand remain broadly similar to last month.

The following occupations had the largest change in job postings in January compared with December:

Increase:

- Cleaners and Domestic (+400);
- Sales Related Occupations n.e.c. (+400);
- Kitchen and Catering Assistants (+300).

Decrease:

- Teaching Professionals n.e.c. (-600);
- Finance and Investment Analysts and Advisers (-50); and
- Solicitors and Lawyers (-50).

The skills in highest demand in January were:

Common skills

- Communication;
- Customer Service; and
- Management.

Specialised skills

- Continuous Improvement Process;
- Project Management; and
- Auditing.

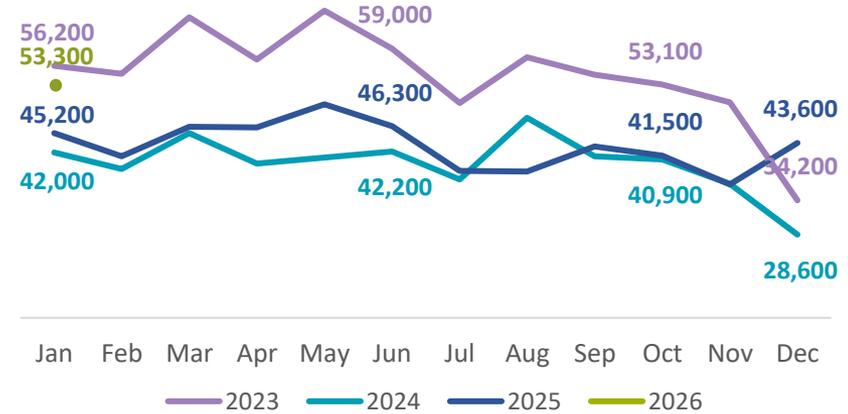
Public and private sector postings in January:

- In January, the top 10 organisations with the most job postings were mainly private sector organisations.

¹ Lightcast (February 2026). Lightcast gathers insights from online job postings

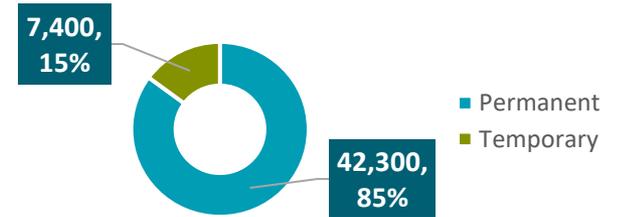
² Numbers rounded to the nearest 100.

Job Postings

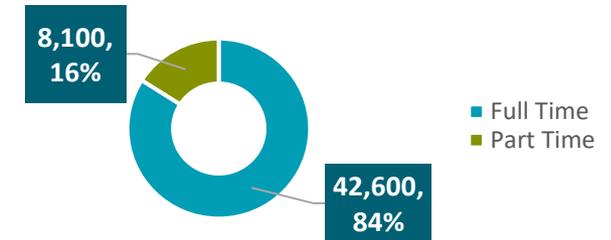


Job Postings in Scotland, January 2026

Permanent and Temporary*



Full Time and Part Time*



*Please note, the total number of temporary and permanent job postings and full time and part time may not sum to Scotland's total as some postings do not specify this information.

Spotlight: ONS Skill Levels in Scotland: Evidence from Job Postings

The Office for National Statistics (ONS) SOC2020 framework groups occupations into four skill levels based on the training, education and experience required to do them. This spotlight uses job postings data to explore how these skill levels are reflected in Scottish job postings, including how common they are and how they vary across regions. This provides insight into where jobs are being created and what skills people need to take advantage of these opportunities.

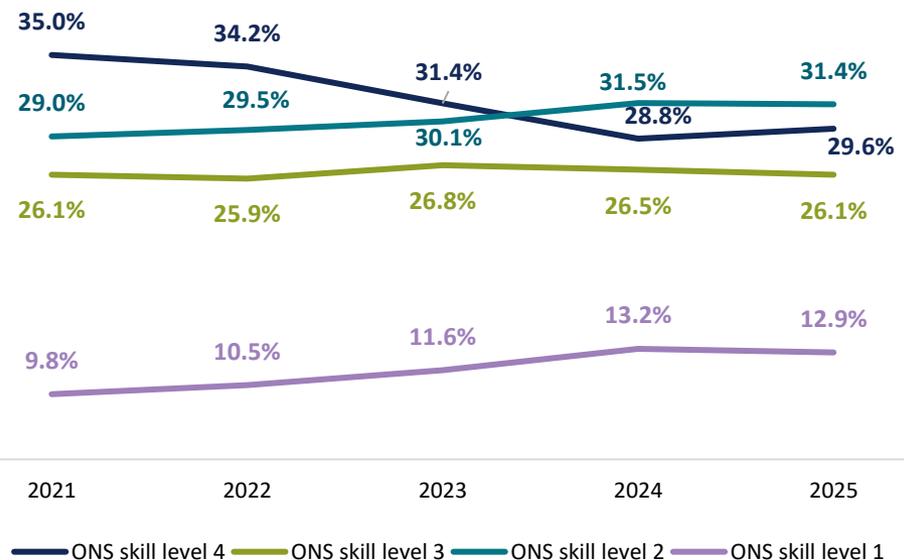
The ONS classifies occupations into four defined skill levels, which help to explain the structure and skills demands of the workforce. Skill level reflects how long it typically takes for someone to become fully competent in a job, based on the training, qualifications, and experience required and reflects the differences in the amount of formal education, work-based training, and practical experience needed across roles. These levels are:

- **Skill Level 1:** Roles requiring a basic general education typically gained by the end of compulsory schooling, with short periods of on-the-job training, such as postal workers, hotel porters, cleaners, catering assistants.
- **Skill Level 2:** Occupations that need a good general education plus longer work-related training or work experience, such as machine operatives, drivers, care workers, retail staff, and clerical roles.
- **Skill Level 3:** Occupations usually requiring post-school education below degree level with substantial work experience including many technical and trades roles and small business proprietors.
- **Skill Level 4:** Professional occupations and high-level managerial roles that typically require degree-level qualifications or equivalent extensive experience.

Demand for higher-skill level jobs has decreased over time with lower-skill level jobs increasing

Over the past five years, there has been a shift in the composition of skill levels sought by employers, based on job postings data. Demand has been moving from higher-skilled roles (ONS skill level 4) toward mid-skilled roles (ONS skill level 2). Looking at Figure 1, there has been a gradual reduction in demand for job postings at ONS skill level 4 over time, from around 35% in 2021 to around 30% in 2025. The proportion of job postings seeking ONS skill level 2 has grown slightly since 2021 (from 29% of all job postings to just over 31% in 2025) and has overtaken ONS skill level 4 in recent years. The job postings for ONS skill level 3 roles have stayed stable throughout the last 5 years, while demand for ONS skill level 1 roles has risen between 2021 and 2024.

Figure 1: Proportion of job postings by ONS skill level, Scotland



For more information about each skill level and the occupations within, please visit the ONS [website](#).

All data in the spotlight is from Lightcast (2026).

Lightcast data is real-time data derived from online job postings it is a useful barometer for activity however it only an estimate as it does not include jobs advertised on non-public facing websites or by other means.

Spotlight: ONS Skill Levels in Scotland: Evidence from Job Postings

Viewing top occupations in Scotland by ONS skill level highlights the varied demands of Scotland’s labour market

In Scotland in 2025, the highest demand was for skill level 2 occupations. At this level, employers were mostly looking for Sales Occupations (accounting for 8.3% of all job postings) and Administrative Occupations (5.1%). The second highest demand was for jobs at skill level 4, Science, Research, Engineering and Technology Professionals accounted for 8.5%. At skill level 3, Business and Public Service Associate Professionals made up 7%, and Skilled Metal, Electrical and Electronic Trades made up 3.5%. The job postings for Elementary Administration and Service Occupations dominated skill level 1, comprising 11.9% of postings. Overall, there is a varied distribution in the labour market, with both entry-level and highly skilled roles playing important roles in the workforce.

Skill level 2 roles were the most in-demand across three-quarters of Scottish local authorities

Skill levels in job postings vary across Scotland. Figure 3 shows that ONS skill level 4 or level 2 were the most sought by employers across each local authority, with level 2 being the most prevalent. Urban areas like Glasgow, Edinburgh, and Aberdeen City mostly feature ONS skill level 4 due to many Science, Research, Engineering and Technology Professionals occupations. Level 4 is also common in Moray, Na h-Eileanan Siar, Orkney Islands, and Shetland Islands, driven by the presence of Teaching and Health Professionals.

To fully understand what is driving the change in skill levels sought, as derived from job postings data, it will be important to consider a wider range of data sources, which form part of our future analysis.

Figure 2: Top occupations within each ONS skill level in Scotland, based on the number of job postings in 2025

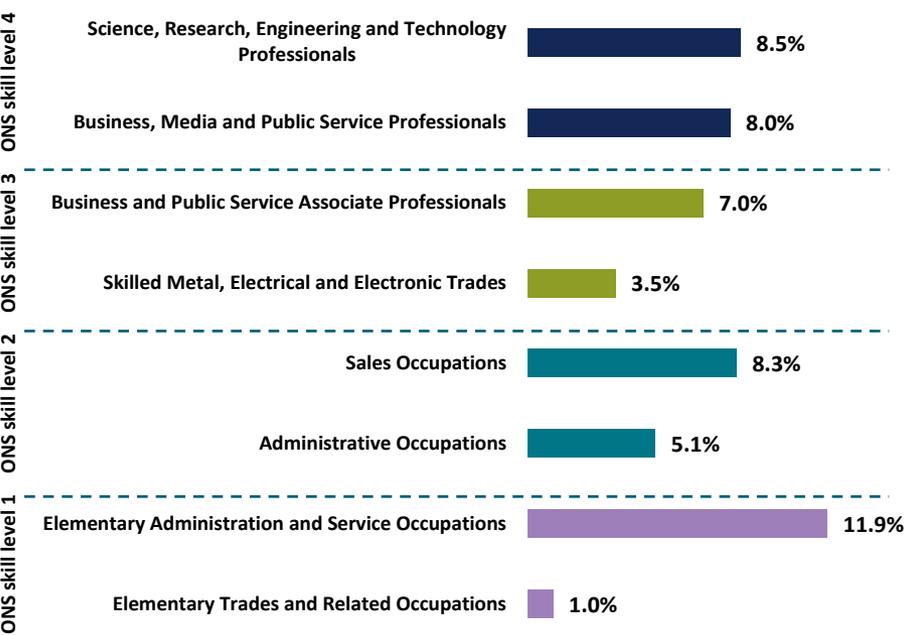
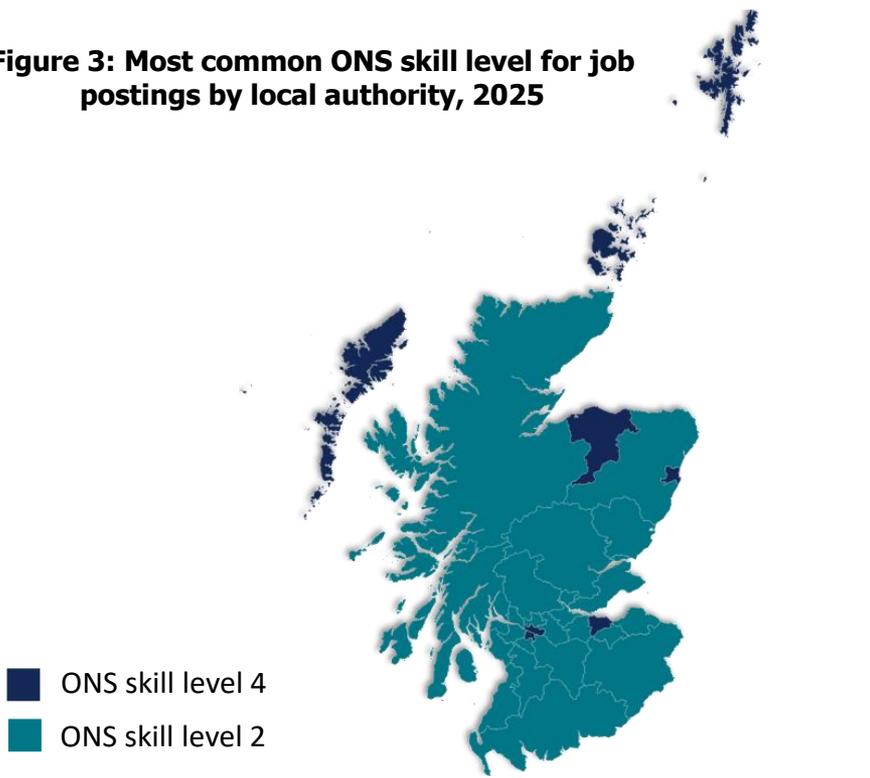


Figure 3: Most common ONS skill level for job postings by local authority, 2025



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