

Economy, People and Skills

July 2025



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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 economic outlook remains challenging for both Scotland and the UK. Inflation has risen to an 18-month high of 3.6 per cent, indicating renewed price pressures. Economic growth projections for the year remain subdued, and the UK labour market is weakening. However, labour market data for Scotland remains less conclusive.

Clear signs of weakening in the UK labour market, but there are mixed signals for Scotland

The latest data continues to indicate a weakening in the UK labour market. The Labour Force Survey (LFS) unemployment rate increased to 4.7 per cent. Whilst this is the highest level in four years, it remains close to historic lows. PAYE data also showed a decline in payroll employment, however, the pace of decline slowed in June. Vacancies fell for the 36th consecutive quarter, declining by 7.2%, and wage growth also slowed.

In contrast, data for Scotland is less conclusive. LFS figures show the employment rate increased to 74.9% (+0.6 pp) whilst unemployment decreased to 3.7% (-0.5 pp) and economic inactivity fell to 22.2% (-0.2 pp). Administrative data for Scotland shows a slight rise in the claimant count, whilst the number of payrolled employees declined compared to the previous month (-0.1%) and year (-0.6%). Payrolled employee data continues to show a diverging trend from the LFS, making it difficult to draw definitive conclusions on Scottish labour market conditions. This month's spotlight focuses on PAYE data, and what this tells us about employment trends in Scotland.

Scottish job postings data also contributes to the mixed picture. In June, postings decreased by 2,700 or 5% compared to May, this is similar to the month-on-month trend observed in UK vacancy data. However, job postings in Scotland were still higher than the same point last year,

showing an increase of 5,000, or 12 per cent.

Additionally, the RBS Regional Growth Tracker indicates some stability in the Scottish Labour market. The tracker shows that whilst employment in other regions of the UK declined in June, private sector employment in Scotland remained steady, following a small uptick in May.

Inflation increased to 3.6% in June

Inflation increased to 3.6 per cent in June, up from 3.4 per cent in May, and reached its highest level since February 2024. The increase was driven by transport, specifically motor fuels. A rise had been predicted, but the increase was higher than anticipated. The rate of inflation is expected to temporarily remain above 3 per cent, with a quarterly peak predicted for Q3 2025.

The rate of economic growth in the UK and Scotland in Q1 is not expected to be maintained

GDP data shows that the UK economy expanded by 0.7% in Q1 2025. This was a considerable increase on Q4 2024 (0.1%). Scotland also experienced growth, albeit at a slower rate than the UK, with GDP increasing by 0.4% in Q1 2025, up from 0.1% in Q4 2024. Whilst positive, some of the growth in Q1 2025 may reflect activity being brought forward ahead of the implementation of trade tariffs, and quarterly growth rates are expected to fall.

New forecasts for Scotland downgrade the 2025 estimate amid economic uncertainty

The Fraser of Allander Institute (FAI) downgraded their growth estimates to 0.8 per cent in 2025 and 1.0 per cent in 2026, in contrast to more optimistic forecasts from the Scottish Fiscal Commission (1.1 per cent in 2025 and 1.8 per cent in 2026). The FAI cites that the challenging business environment, changes to National Insurance Contributions (NICs) and uncertainty surrounding US tariffs have been factored into the revised forecasts.

UK and Scotland Economy - Gross Domestic Product (GDP)

UK GDP

In June, the ONS confirmed the UK economy grew 0.7% in Q1 2025, a considerable increase from 0.1% in Q4 2024.¹ However, annual growth is still expected to be muted for 2025, with quarterly growth predicted to decrease. The higher level of growth in Q1 is thought to partly reflect activity being brought forward ahead of the expected implementation of trade tariffs.² Monthly figures show that the UK economy contracted slightly (0.1%) in May. This followed a 0.3% decline in April.³

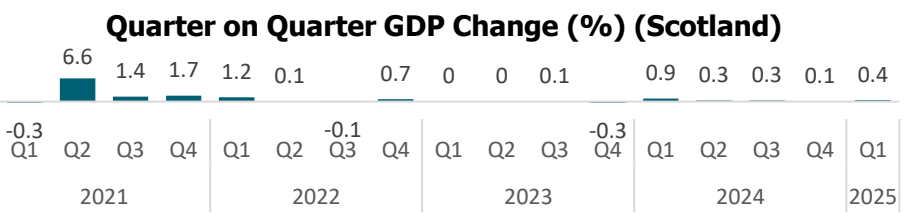
The latest estimate for annual growth suggests that the UK economy grew by 1.1% in 2024, up from 0.4% in 2023, but still relatively low growth, reflecting the slowdown in the second half of the year.¹

Scotland GDP

The Scottish economy is estimated to have grown by 0.4% in Q1 2025, a slower rate than that estimated for the UK. However, this is

still considerably stronger than the 0.1% growth seen in the preceding quarter (Q4 2024). Similar to the UK, quarterly GDP growth in Scotland slowed over 2024.⁴ Monthly figures show that the Scottish economy contracted by 0.2% in April. This follows a contraction of 0.4% in March.⁵

The latest estimate for annual growth suggests the Scottish economy grew by 1.2% 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.⁶

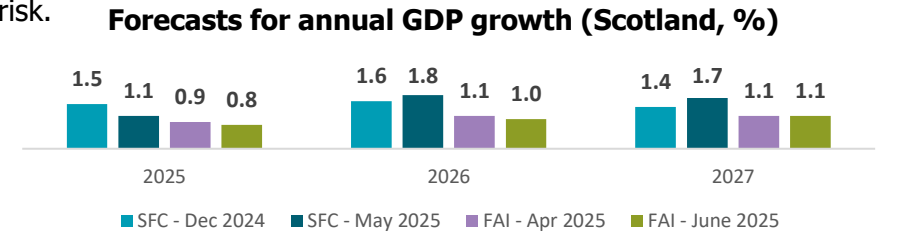


Economic Outlook

The Fraser of Allander Institute (FAI) has downgraded its forecasts for Scottish economic growth to 0.8% in 2025 and 1% in 2026, contrasting with more optimistic expectations from the Scottish Fiscal Commission (SFC) and the Office for Budget Responsibility (OBR).

In their Q2 Economic Commentary, FAI has reduced their 2025 and 2026 GDP growth forecasts for Scotland by 0.1 points to reflect economic conditions in the UK and the world economy, following the weakening growth reported in March and April and a persistent inflation that reached 3.4% in June.⁷ A deteriorating business environment and a reduction in activities following rises in National Insurance Contributions (NICs) and uncertainty surrounding US tariffs have been factored into the revised forecasts.

The Scottish Fiscal Commission published an update to their fiscal forecasts in June, leaving their previous economic forecasts unchanged. The SFC forecasts in May reduced the estimate for GDP growth in Scotland in 2025 to 1.1%, down from 1.5% in the SFC's December forecast.⁸ However, they acknowledge the recent escalation of conflict in the Middle East as an additional element of risk.



¹ ONS. [GDP quarterly national accounts, UK: January to March 2025](#) (June 2025).
² FT. [UK economy grows at fastest pace in a year](#) (May 2025).
³ ONS. [GDP Monthly estimate, UK: May 2025](#) (July 2025).
⁴ Scottish Government. [GDP First Quarterly Estimate 2025 Q1 \(January to March\)](#) (May 2025).

⁵ Scottish Government. [GDP Monthly Estimate: April 2025](#) (June 2025).
⁶ Scottish Government. [GDP Quarterly National Accounts: 2024 Q4 \(October to December\)](#) (April 2025)
⁷ FAI [Economic Commentary Q2 2025](#)
⁸ SFC. [Scotland's Economic and Fiscal Forecasts](#) (June 2025).

Inflation and the Cost of Living



Labour costs were the most common factor causing businesses to consider raising prices

The Business Insights and Conditions Survey (BICS)¹ found that **26.8% of Scottish businesses reported price increases for goods and services bought in May compared with April 2025**, a considerable drop from the previous month (40.3%).

16.3% of businesses reported that they had increased the prices of goods and services sold in May, a fall from last month (28.9%).

38.6% of the businesses were considering raising prices due to labour costs, followed by raw material prices (18.5%).



Consumer confidence still low, but with signs of improvement

The monthly Scottish Consumer Sentiment Indicator (SCSI)² was -5.5 in May, an increase of 8.9 points with respect to the previous month and the highest level since the beginning of 2025. **An improved perception of the Scottish Economy and current household spending mainly drove this.**

At UK level, consumer sentiment remained low in July, **although showing some signs of optimism regarding current household finances.**

The overall S&P Global UK Consumer Sentiment Index (CSI) was 45.1, 0.1 points higher than the June figure.³ Meanwhile, the household finance component reached a 7-month high at 43.6.



Inflation unexpectedly rose to 3.6% in June

Inflation (CPI) in the UK rose to 3.6% in June 2025, an increase from 3.4% in May.⁴

This figure exceeded Reuters' prediction that inflation would remain at May's level.⁵

Transport made the largest upward contribution to the monthly change in CPI, particularly petrol prices, airfares and the price of rail tickets.

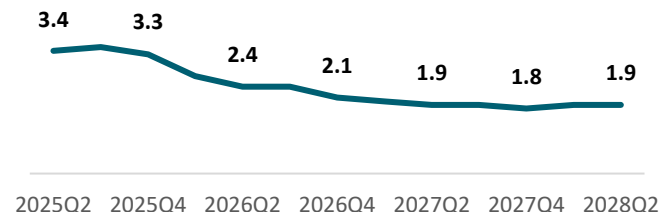
Below the headline rate, **core inflation also rose, whilst services inflation remained unchanged** (key measures for the Bank of England).

Inflation forecast

The latest UK inflation forecasts were released by the Bank of England (BoE) in early May.⁶ As with their previous forecast, the BoE predict inflation will temporarily increase, before returning to target. On a quarterly basis, inflation is expected to peak in Q3 2025, before returning to the 2% target in Q1 2027. The monthly peak is predicted at 3.7% by September 2025.

The BoE have highlighted the uncertainty associated with the inflation forecast, noting both upside and downside risks. It has provided two scenarios. One scenario where inflation falls quicker due to lower demand, resulting in CPI being 0.3pp lower than the baseline projection at the three-year forecast horizon. In the other scenario inflation remains elevated as the short-term increase in inflation leads to stronger wage growth which in turn affects prices, as a result CPI is 0.4pp higher than the baseline projection throughout the forecast period.

BoE – Modal CPI Inflation Projection (%)



2025Q2 2025Q4 2026Q2 2026Q4 2027Q2 2027Q4 2028Q2

¹ Scottish Government. [BICS weighted Scotland estimates: data to wave 134](#) (June 2025).

² Scottish Government, [Scottish Consumer Sentiment Indicator : Monthly Data](#). (May 2025)

³ S&P [Global UK Consumer Sentiment Index](#) (July 2025)

⁴ ONS. [CPI, UK: June 2025](#) (July 2025).

⁵ FT [UK inflation unexpectedly rises to 18-month high of 3.6%](#) (July 2025)

⁶ BoE. [Monetary Policy Report](#) (May 2025).

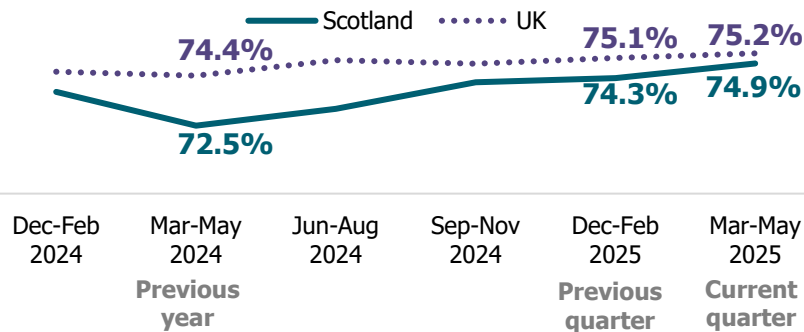
The ONS published revised LFS estimates from 2011 for the UK (except for youth unemployment, which is from 2019) and from 2019 for Scotland in December 2024. The revised data incorporates new population estimates, including the Scottish 2022 Census, helping to make LFS estimates more representative. 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

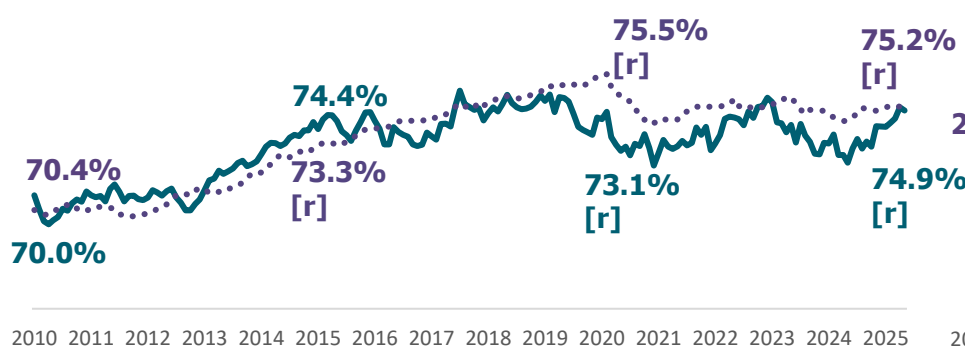
➤ **Scotland's employment rate was estimated to be 74.9%**

- The latest data suggests Scotland's employment rate was **74.9%** in the period covering March to May 2025. The rate is estimated to have increased by 0.6pp compared with the previous quarter.*

Employment Rate



Employment Rate: Longer-term trend

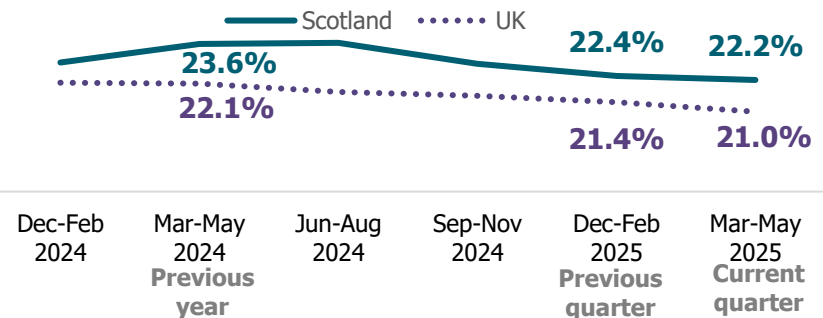


Economic Inactivity (16-64)¹

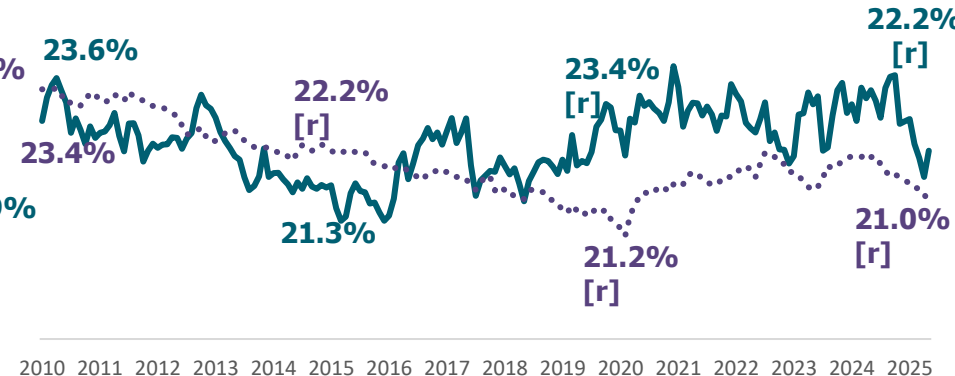
➤ **The 16-64 Scottish economic inactivity rate was estimated to be 22.2%**

- The latest data suggests that Scotland's economic inactivity rate was **22.2%** in March to May 2025. The economic inactivity rate was 0.2pp lower than last quarter.*

Economic Inactivity Rate



Economic Inactivity Rate: Longer-term trend



¹ ONS, Labour Force Survey (17th July 2025).

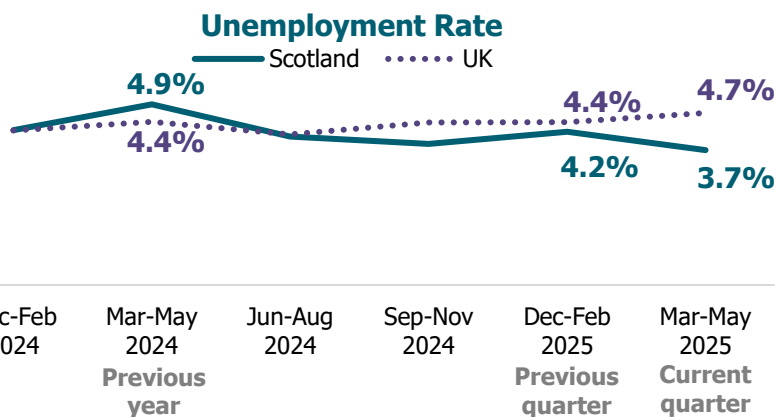
*Figures may not sum due to rounding.

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 3.7%**

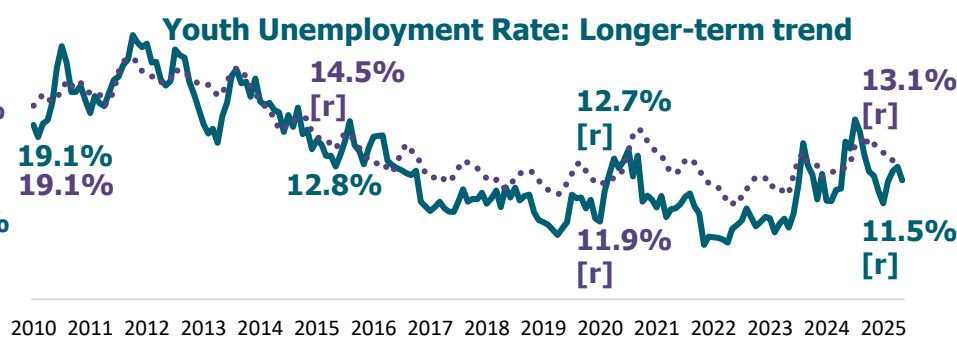
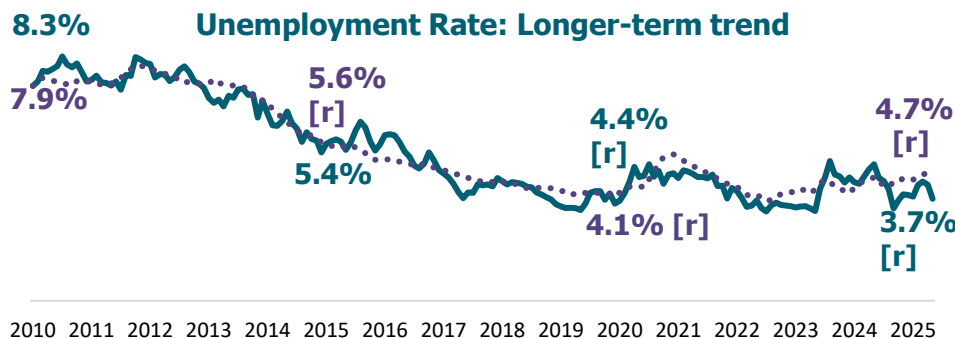
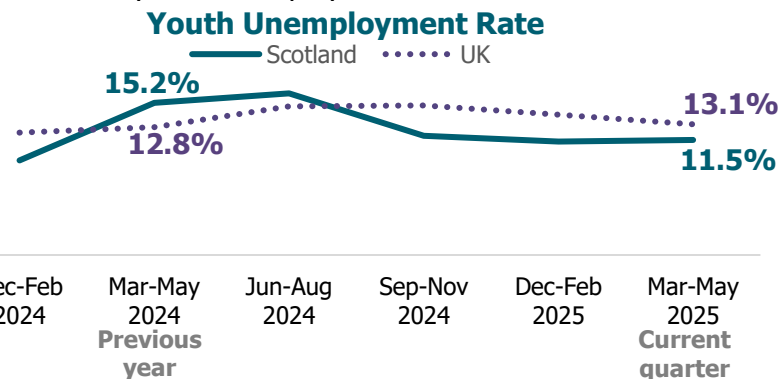
- The latest data suggests Scotland's unemployment rate was **3.7%** in the period covering March to May 2025. This is a decrease compared with the last quarter (0.5pp decrease).*



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

➤ **16-24 youth unemployment in Scotland was estimated to be 11.5%**

- The latest data estimates Scotland's youth unemployment rate was **11.5%** in the period covering March to May 2025.* This is lower than the same period of the previous year (3.8pp decrease), but it is important to note the declassification of LFS data and the small sample sizes that youth unemployment is based on.**



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

Universal Credit¹ and Claimant Count Rate²

646,800

people claiming Universal Credit in Scotland in June 2025

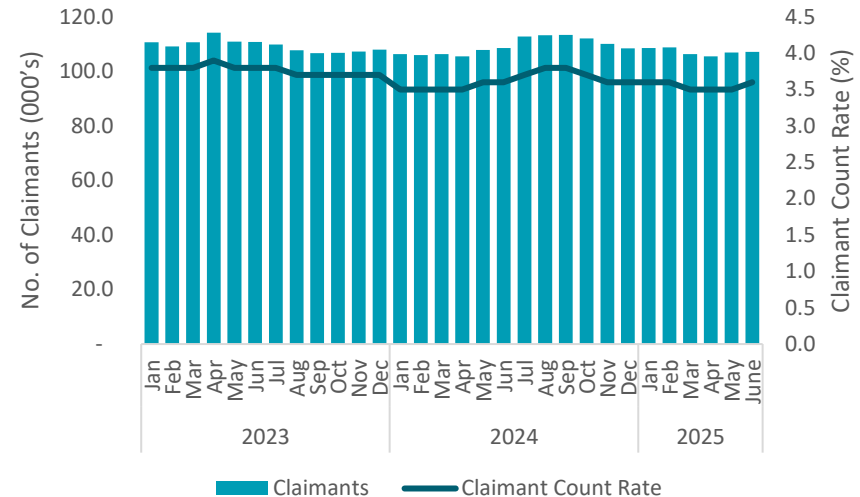
Between May and June 2025, 18,400 additional people in Scotland claimed Universal Credit, an increase of 2.9%. This continues a trend of increase from June 2022. The overall rise has been driven by an increase in claimants not in work.¹ Since January 2023 the proportion of claimants in work has ranged from 31% 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.

3.6%

Claimant Count rate in Scotland in June 2025 (107,200 claimants)

Between May and June the Claimant Count increased slightly. The number of claimants increased by 1,800, whilst the Claimant Count rate increased 0.1pp, from 3.5% to 3.6%. 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 2025)



Redundancies³ and Company Insolvencies⁴

7,000*

Redundancies in the three months to May 2025 in Scotland

3.0*

Redundancies per 1,000 people (3.9 in the UK)

The number of people who were made redundant in Scotland decreased slightly in the three months to May 2025 (decreased by *300 people or *4%) compared with the three months to May 2024.

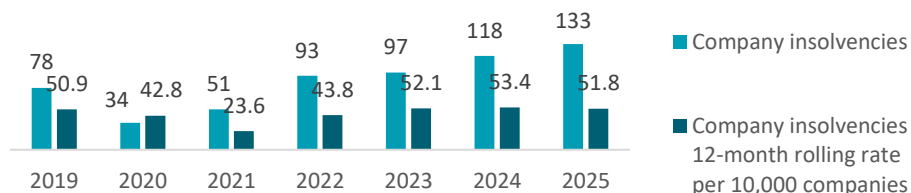
*Please note estimates are based on a small sample and should be used with caution.

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Company insolvencies in Scotland, May 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, and for May 2025 the number of insolvencies and 12-month rolling rate of insolvencies was higher than in May 2019.

Company Insolvencies (Scotland), May



¹ Department for Work and Pensions (July 2025). The breakdown of Universal Credit claimants by employment status is not available for June. June data is provisional. Figures for 'not in work' could include both those unemployed or economically inactive.

² ONS. Claimant Count (July 2025). *Experimental statistics*. June data is provisional.

³ ONS. Labour Force Survey (17th July 2025).

⁴ The Insolvency Service. [Monthly Insolvency Statistics, May 2025](#) (June 2025).

Job Postings in Scotland^{1,2}

Online job postings in June decreased compared with May, falling to 47,200, although this was higher than at the same point in 2024. Postings decreased by 5% or 2,700 compared with May and increased by 12% or 5,000 compared with June 2024. The three-month-rolling average also slightly increased (rising by 0.7%) for April to June compared with March to May.

The highest demand in June was for occupations such as:

- Sales Related Occupations;
- Cleaners and Domestics;
- Care Workers and Home Carers;
- Kitchen and Catering Assistants; and
- Programmers and Software Development Professionals.

The occupations in highest demand remain similar to last month.

The following occupations had the largest change in job postings in June compared with May:

Increase:

- Sales and Retail Assistants (+100);
- Specialist Medical Practitioners (+100); and
- Chartered and Certified Accountants (+100).

Decrease:

- Cleaners and Domestics (-200);
- Customer Services Occupations n.e.c. (-200); and
- Waiters and Waitresses (-100).

The skills in highest demand in June were:

Common skills

- Communication;
- Management; and
- Customer Service.

Specialised skills

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

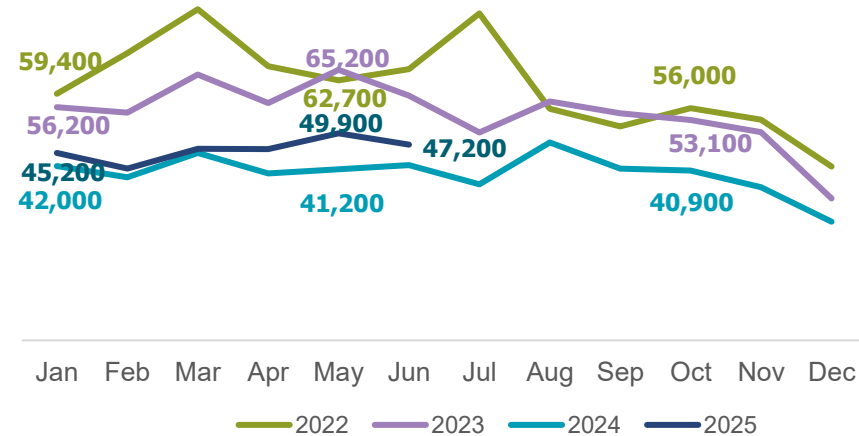
Public and private sector postings in June:

- In June, the top 10 organisations with the most job postings were evenly split between public and private sector organisations.

¹ Lightcast (July 2025). Lightcast gathers insights from online job postings. Please note June 2025 job postings are provisional.

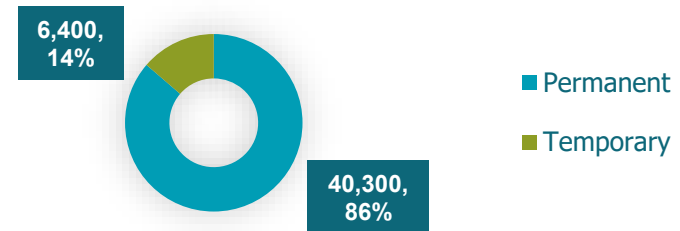
² Numbers rounded to the nearest 100.

Job Postings

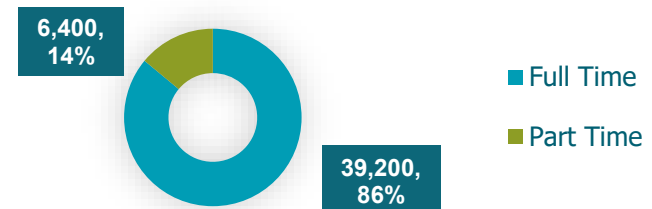


Job Postings in Scotland, June 2025

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: Pay as You Earn (PAYE) Scottish Insights

Over the past few months, Pay as You Earn (PAYE) data¹ has become an increasingly common source used in labour market commentary. In part, the greater use of the data has resulted from persistent challenges with the Labour Force Survey (LFS); but it also reflects a shift towards greater use of administrative data for research, monitoring and reporting purposes. In this spotlight, we explore what PAYE data can tell us about employment trends across sectors.

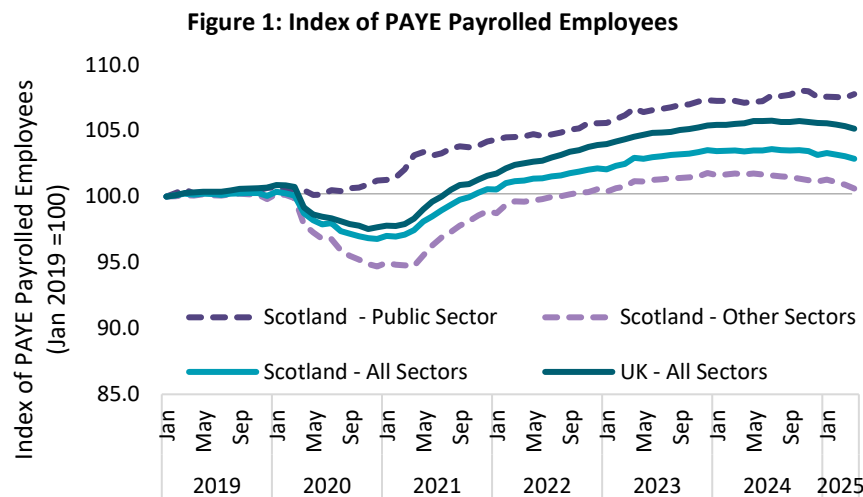
PAYE data is administrative data collected through HM Revenue and Customs' Real Time Information (RTI) system

PAYE is the system employers and pension providers use to take Income Tax and National Insurance contributions before they pay wages or pensions to employees and pensioners. For statistical purposes, the PAYE data produced by the system is classified as official statistics in development, which is currently the same classification as the LFS, the leading survey-based measure.

The PAYE system covers the entire population of employers with payrolled employees (rather than a sample). This is an advantage of the data, as it enables the production of more detailed and reliable breakdowns for specific areas or sectors. However, PAYE data does not capture individuals in self-employment, meaning that, unlike the LFS, it does not capture all employment activity. This is why when assessing labour market activity, a range of sources are used.

Following a period of steady growth, PAYE data shows a recent decline in employment

Scotland and the UK have had similar trends in PAYE employees since early 2019 (see Figure 1). Post-pandemic, both experienced growing PAYE employees, albeit the UK experienced stronger growth relative to Scotland. Since mid-to-late 2024, both the UK and Scotland have experienced a decline in PAYE employees.



The latest data shows that there were 2,447,030 PAYE payrolled employees in Scotland in June 2025. This is a 0.6% reduction over the past 12 months; the UK experienced a comparable decrease over the same period.

Figure 1 shows that pre-pandemic, the Public Sector² and Other Sectors of the economy had comparable rates of growth in PAYE employees. Post-pandemic, the data show diverging trends, with a contraction in Other Sectors predominantly causing the recent decline in PAYE employees.

This greater reduction in recent months could, in part, reflect the reported growing financial pressures on Scottish businesses, of which increased NIC contributions announced as part of the UK Government's Autumn Budget are a factor. The data reflects one approach businesses are taking to mitigate the pressures: reducing hiring activity.³

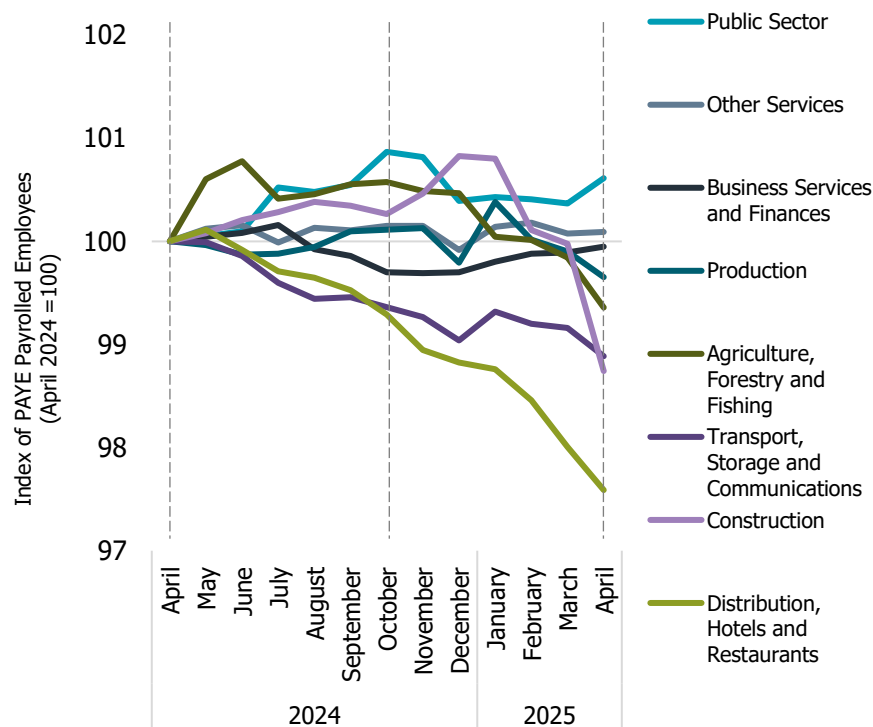
¹ All data in this spotlight has been sourced from ONS. [Earnings and employment from Pay As You Earn Real Time Information, UK: June 2025](#)

² Public Sector defined by Broad SIC sectors: Public administration and defence; social security; Education; and Health and Social Work.

³ Fraser of Allander (2025). [Scottish Business Monitor Q1 2025](#)

Spotlight: Pay as You Earn (PAYE) Scottish Insights

Figure 2: Index of PAYE Payrolled Employees in Scotland by Sector



In greater detail, the latest PAYE data for sectors shows a reduction in employees in almost all sectors

PAYE payrolled employment data includes a sectoral breakdown for individuals domiciled in Scotland. Figure 2 shows the change in PAYE employees by grouped sectors between April 2024 and April 2025. This shows over the 12-month period, the Public Sector¹ in Scotland was the only sector to have any notable growth, increasing by 0.6%, c.5,000 employees. All other sectors had static or declining PAYE employee levels.

¹ Public Sector defined by Broad SIC sectors: Public administration and defence; social security; Education; and Health and Social Work.

There is an apparent and notable step change in PAYE employee volumes in four sectors since October 2024, coinciding with businesses reporting potential changes to planned hiring activity because of cost pressures



The Distribution, Hotels and Restaurants sector experienced a 0.7% reduction in PAYE employees between April 2024 and October 2024. The rate of decline accelerated to 1.7% from October 2024 to April 2025.



The Construction sector experienced a decline of 1.5% from October 2024 to April 2025, which contrasts with growth in PAYE employees of 0.3% in the preceding six months.



In Agriculture, forestry and fishing, PAYE employees grew by 0.6% from April 2024 to October 2024, but have since declined by 1.2% over the following six months.



Despite being the only sector to grow over the 12-month period, PAYE employees in the Public Sector declined by 0.3% from October 2024 to April 2025. This followed growth of 0.9% in the preceding six months.

PAYE data provides valuable insights into employment trends in Scotland

PAYE data provides insight into more than just sectoral trends. For example, over the last year, the difference between age groups has become more remarkable, with PAYE data showing young people experienced a decline in employment that is at least 1.9 percentage points larger than for the older age groups.

In August, updated PAYE data will be released, providing detailed information required to understand trends by sector, region, and age in Scotland. This data, along with other sources and insights, will enable greater confidence in conclusions about how recent policy and fiscal decisions, as well as broader economic conditions, are affecting PAYE employment in 2025.

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