

Scottish Economic Bulletin

Office of the Chief Economic Adviser



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Data up to: 10 January 2025

Cover page Image of peat sampling at Blawhorn Moss © Dougie Barnett NatureScot

Overview

The January 2025 edition of the Scottish Economic Bulletin reviews the latest economic data from during the final quarter of 2024 during a period in which the UK and Scottish budgets set out new fiscal measures and forecasts in the lead up to the festive period.

Latest indicators continue to show that economic activity and growth strengthened in 2024, however the pace of growth softened in the latter half of the year.

GDP growth was flat (0.0%) in the 3 months to October 2024, its slowest 3-monthly rate since the start of the year and reflected a similar pattern of slowing growth at a UK level. There was positive, albeit slower, growth in the services and construction sectors, however this was offset by an accelerated fall in output from the production sector.

Over the year to October, Scotland's GDP has grown 0.9% with growth of 1% forecast for the year as a whole (up from 0.2% in 2023).

The labour market has continued to perform strongly over the course of 2024. The latest Labour Force Survey (LFS) indicators suggest that unemployment in Scotland has fallen to below the UK average, albeit with a slight increase in the latest 3-month period to 3.6%.

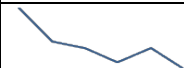
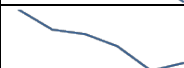
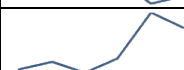


LFS response rates mean that these estimates should be treated with caution, however wider labour market indicators also indicate a resilient labour market with Scotland's claimant count unemployment rate remaining unchanged at 3.9% in November. Earnings growth also remained robust with annual pay growth in November at 4.6% in real terms, supported by robust nominal pay growth and despite inflation picking up slightly to 2.6%.

That said, latest business surveys continue to indicate that recruitment activity softened at the end of the year and more broadly that optimism has softened in recent months, with main business concerns including both falling demand for goods and services and taxation. Consumer sentiment remained negative in November and is at its lowest level in 2024.

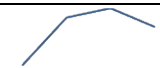
Forecasts for the coming year continue to point towards an underlying pattern of strengthening growth, supported by, in the short term, more expansionary fiscal policy. However, as well as domestic factors, uncertainty around US trade and economic policy present downside risks for the year ahead. This is reflected in recent movements in financial markets, where the cost of UK debt has increased as international bond markets adjust expectations. This may impact the UK Chancellor's fiscal plans given the existing fiscal headroom and fiscal targets. Therefore, there is potential turbulence for the UK economy reflecting the current market assessments of the growth and fiscal outlook of the UK economy.

Data and Forecasts Summary

Outturn Data

Indicator	Latest Data	Next Release	Timeseries								6-month Graph
			May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
GDP (3-month rolling %)	0% (October)	29 January	0.9	0.4	0.3	0.1	0.3	0.0			
Unemployment (%)	3.6% (Aug-Oct)	21 January	4.9	4.4	4.3	4.0	3.4	3.6			
Real Earnings (YoY %)	4.6% (November)	21 January	4.2	3.5	3.7	3.4	3.8	5.0	4.6		
Inflation Rate (CPI YoY %)	2.6% (November)	15 January	2.0	2.0	2.2	2.2	1.7	2.3	2.6		
BoE Base Rate (%)	4.75% (December)	6 February	5.25	5.25	5.25	5.00	5.00	5.00	4.75	4.75	
Consumer Sentiment (Index)	-7.3 (November)	29 January	3.5	4.4	5.5	0.9	-6.9	-5.1	-7.3		

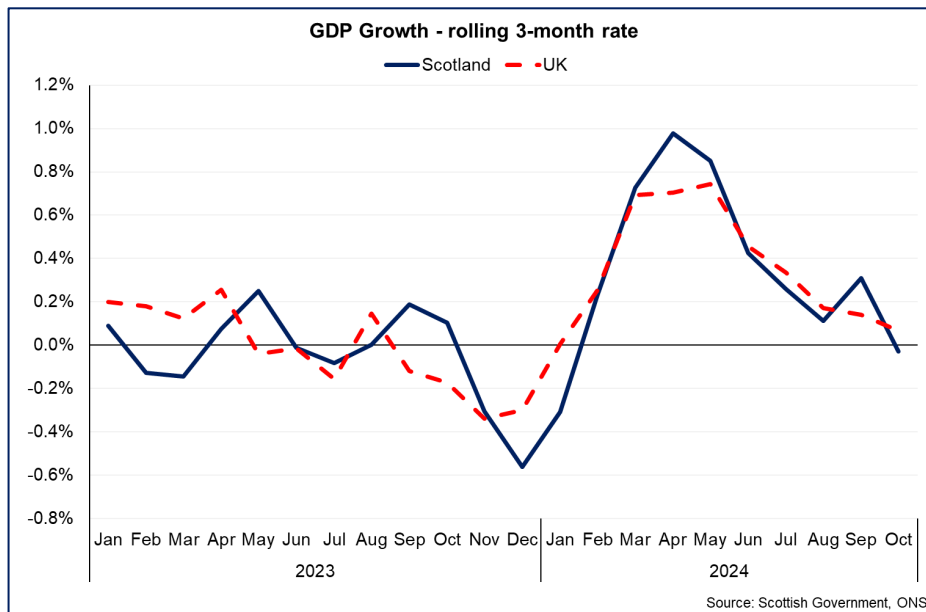
Forecasts

Indicator	Organsiation	Date of Forecast	2024	2025	2026	2027	Graph
GDP (YoY %)	SFC	December 2024	1.0	1.5	1.6	1.4	
Unemployment (%)	SFC	December 2024	3.8	3.9	3.9	4.0	
Nominal Average Earnings (YoY %)	SFC	December 2024	3.5	4.6	2.7	2.9	
Inflation (4Q rate in Q4)	BoE	November 2024	2.4	2.7	2.2	1.8	

Output

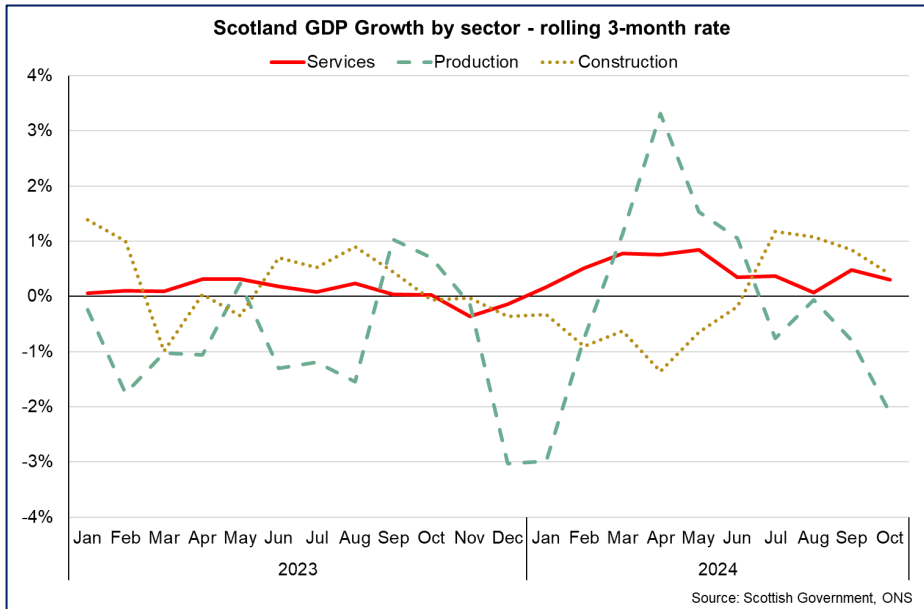
Economic growth was flat in the three months to October 2024.

- Scotland's GDP growth was flat (0.0%) in the three months to October (UK: 0.1%) with the pace of growth slowing from September (0.3%).
- While the pace of growth in the second half of the year has slowed from the first half, latest data continues to indicate that Scotland's GDP growth during 2024 has been notably stronger than in 2023. Over the past year (3-months to October annual growth) Scotland's GDP has grown 0.9% (UK: 1.1%).¹



- Growth over the quarter was supported by a pick-up in growth in the services sector (0.3%), and construction sector (0.4%). Growth in both these sectors offset a 2.1% fall in production sector output, which continued its recent trend.
- Within the services sector, growth was relatively broad based across service industries with strongest growth in professional, scientific, and technical services (2.1%) and in arts, culture and recreation (2.0%). Over the past year, the service sector has grown 1.6% and has been a key driver of growth in the economy.
- Within the production sector, the fall in output in the 3-months to October was broad based across production industries in which manufacturing output fell by 1.4%. Compared to the 3-months to October in 2023, production output has fallen 2.6% over the past year (manufacturing: -1.0%) while construction output has fallen 0.1%.

¹ [Economy statistics - gov.scot \(www.gov.scot\)](https://www.gov.scot/economy-statistics) , [GDP monthly estimate, UK Statistical bulletins - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/gdp-monthly-estimate)



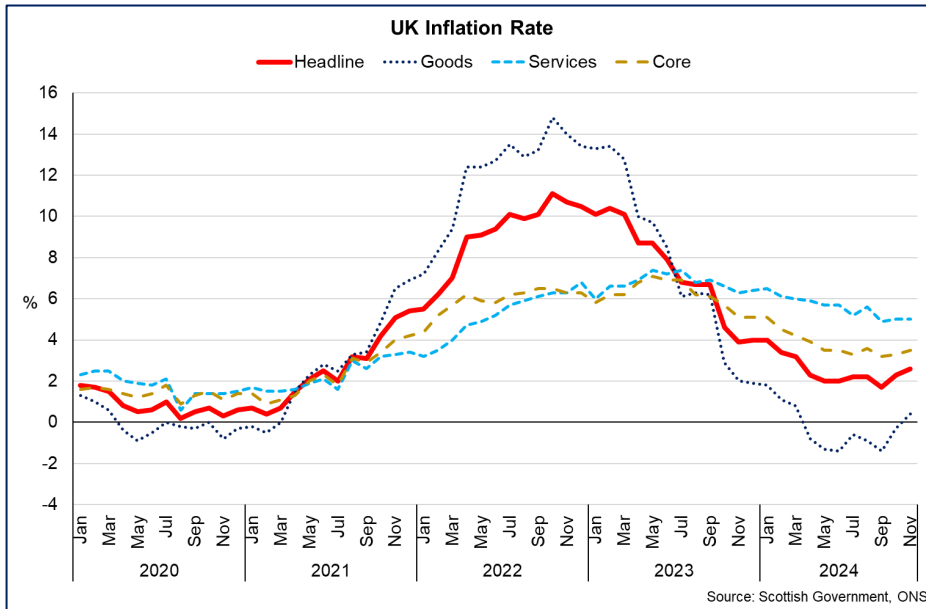
Inflation

Inflation increased to 2.6% in November, slightly higher than forecast.

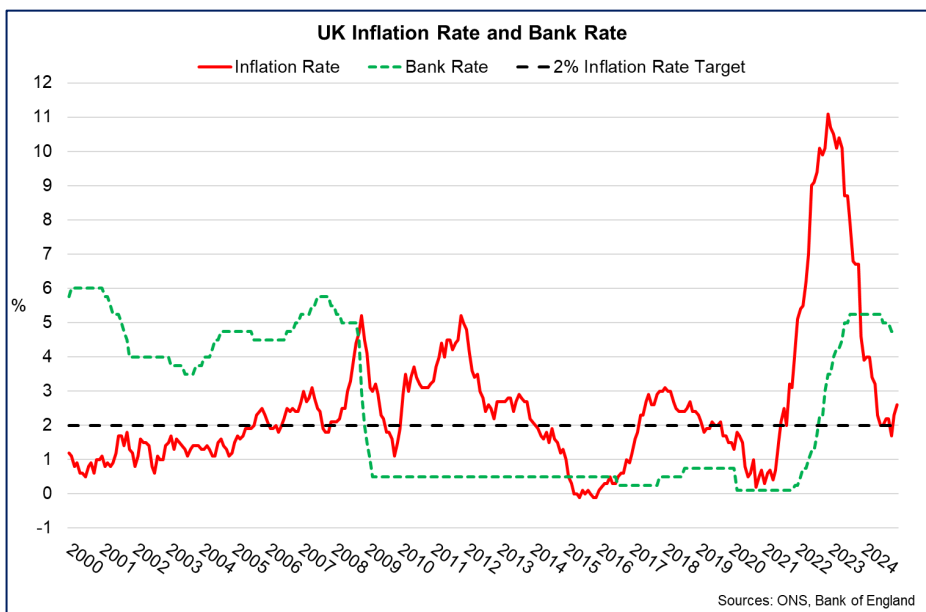
- The inflation rate rose from 2.3% in October to 2.6% in November. While slightly higher than forecast in the Bank of England's latest Monetary Policy Report, it is broadly in line with forecasts of higher inflation in the final quarter of the year and leading into 2025.^{2,3}
- The latest increase was mainly driven by an increase from transport in which there were upward price effects from motor fuels and second-hand cars which partially offset downward effects from air fares.
- The core inflation rate, which excludes energy, food, alcohol, and tobacco, rose from 3.3% in October to 3.5% in November. While there continues to be a notable difference in goods and services price inflation, goods prices rose for the first time in November following seven consecutive months of annual deflation rates. Goods prices rose by 0.4% in the 12 months to November, up from -0.3%, while services price inflation remained unchanged at 5.0%.

² [Consumer price inflation, UK - Office for National Statistics](#)

³ [Bank Rate maintained at 4.75% - December 2024 | Bank of England](#)



- Reflecting on latest inflation data and wider price drivers, the Bank of England’s Monetary Policy Committee (MPC) maintained the Bank Rate at 4.75% in December citing that domestic inflationary pressures are resolving slower than anticipated.



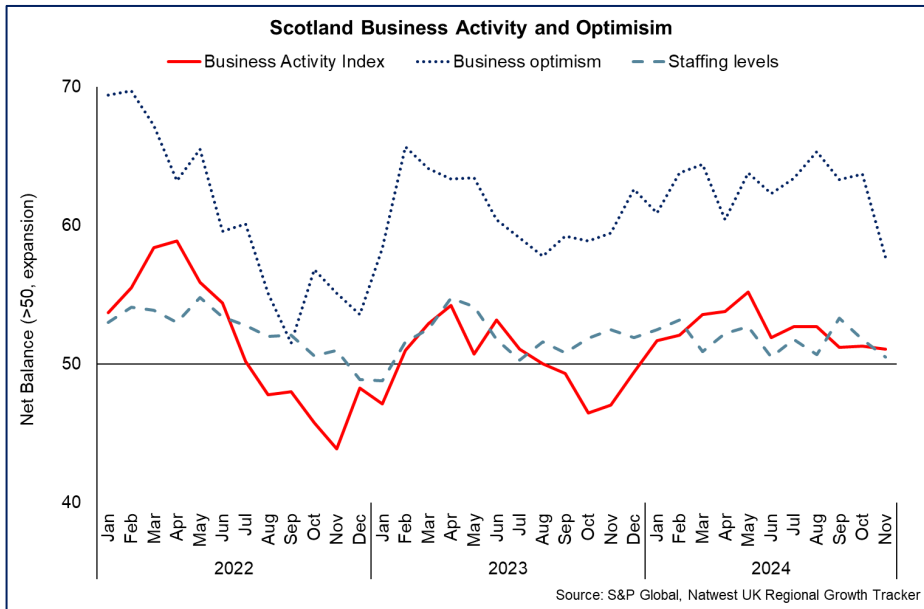
- The MPC is gradually loosening monetary policy as inflationary pressures continue to stabilise and has reduced the Bank Rate twice in the second half of 2024 from its recent peak of 5.25% to 5.00% in August and to its current rate of 4.75% in November. Markets continue to expect further gradual reductions in 2025, although these will be dependent on inflation being seen as on a path to return sustainably to target.

Business Conditions

Business activity has continued to grow in the second half of the year though the pace of growth has eased.

Business Activity

- The RBS Growth Tracker business survey indicates that business activity in Scotland's private sector continued to grow in November (51.1) maintaining the pattern of positive growth in 2024, albeit more moderately than earlier in the year.⁴
- However, the indicator was down marginally from October and fell to its lowest level in 2024 to date. This reflects that the pace of activity growth has eased in the second half of the year, with activity in the manufacturing sector remaining weaker than in the services sector.



- Broader Growth Tracker indicators also suggest weaker business activity with new business orders continuing to decline (49.7), albeit to a lesser extent than in the previous month, while business optimism fell to a 23-month low in November (57.7).

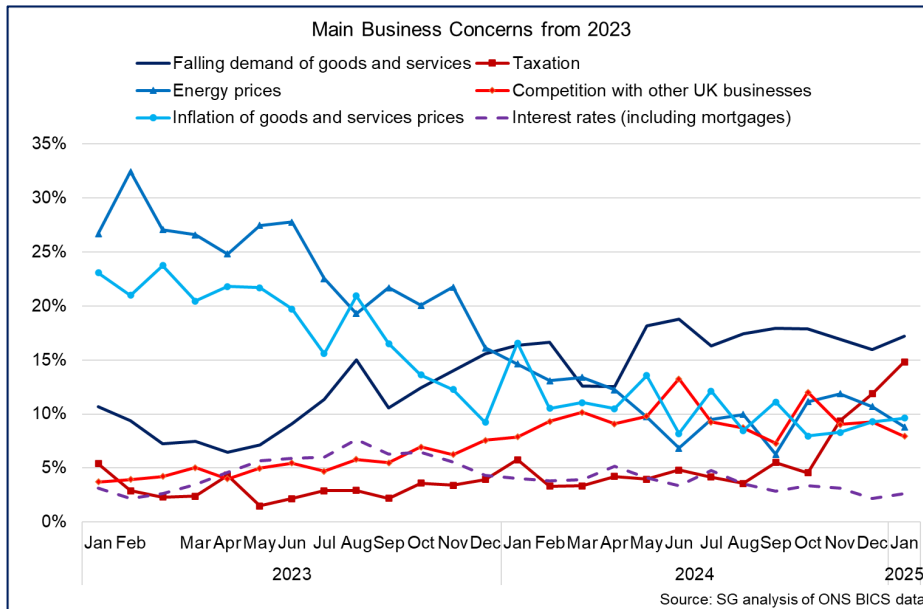
Business Concerns

- At the start of the new year, the Business Insights and Conditions Survey (BICS) indicates that falling demand for goods and services remains the leading cause for concern among businesses for January, cited by 17.2% of businesses, up slightly from December and in line with data from the middle of 2024.⁵

⁴ [Royal Bank of Scotland Regional Growth Tracker report for November 2024 | Royal Bank of Scotland](#)

⁵ [Business and innovation statistics - gov.scot \(www.gov.scot\)](#)

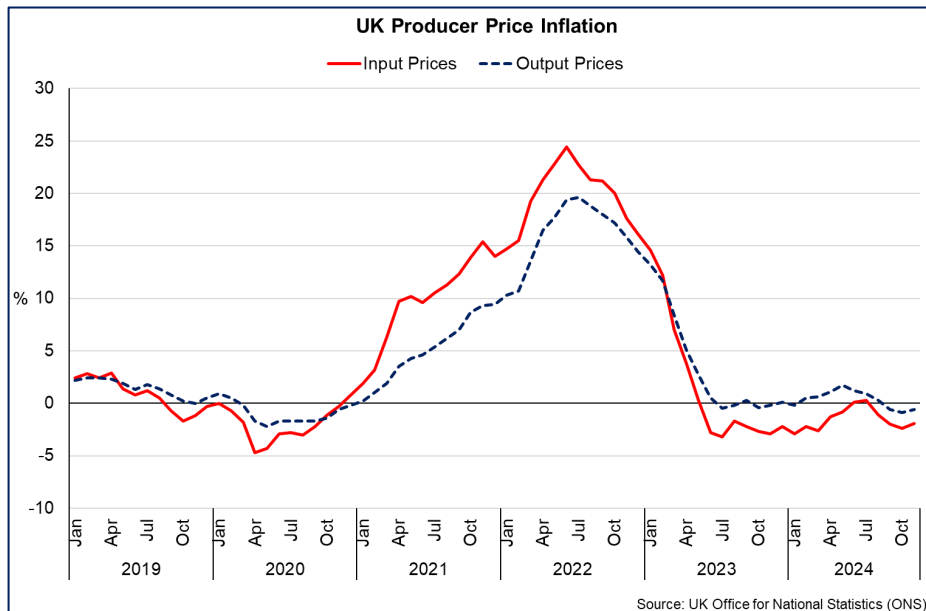
- Taxation is the second most commonly cited concern for businesses in January, with the proportion of businesses flagging this issue rising from 11.9% in December to 14.8% in January, and has been on an upward trend since October.
- Concerns around some other issues remain lower than in recent years, with energy prices being cited by 8.8% of businesses (down from 14.6% in January 2024), and inflation also becoming less of a concern, falling to 9.6% from 16.6% January 2024.



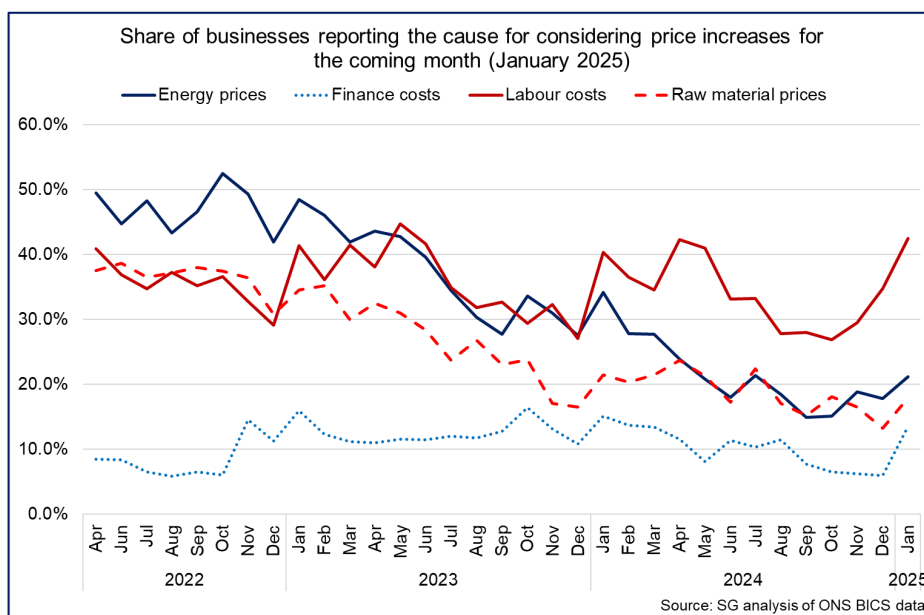
Business Costs

- At a headline level, producer input prices fell by 1.9% over the year to November 2024, up from a fall of 2.4% in November. The key driver of this was the easing of crude oil price disinflation (down 14.3% annually, compared to a fall of 21.3% in October). In terms of the feed through to output prices, producer output prices fell 0.6% over the year to November, rising from a fall of 0.9% in the previous month.⁶

⁶ [Producer price inflation, UK Statistical bulletins - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/producer-price-inflation). Prices of goods bought and sold by UK manufacturers, including price indices of materials and fuels purchased and factory gate prices.



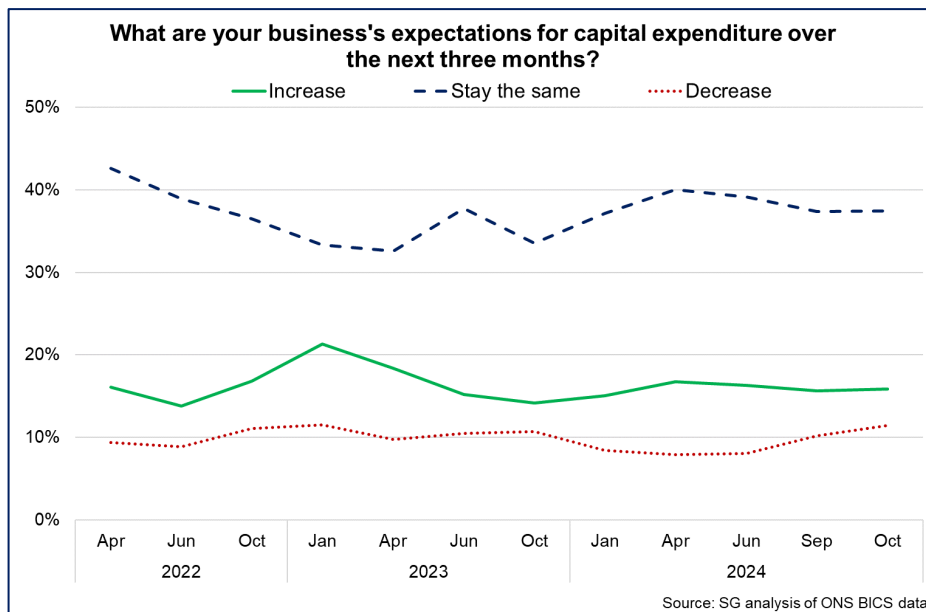
- More broadly, Scottish business survey data from the RBS Growth Tracker also indicates increased input and output price growth, with the measures in November standing at 60.2 and 55.2 respectively. This indicates that input and output costs are continuing to rise, and at a slightly faster rate than in recent months, with labour, energy and material costs all contributing to cost pressures in recent months.⁷
- These factors have also been identified in BICS data for January, showing a recent rise in the share of businesses considering price increases because of labour costs (42.5%), energy prices (21.2%), raw material costs (18%) and the cost of finance (13.6%). 39.3% of businesses responded that they did not plan to increase prices, the lowest figure since May 2024.



⁷ S&P Global: [Royal Bank of Scotland Regional Growth Tracker report for November 2024 | Royal Bank of Scotland](#)

Business Investment

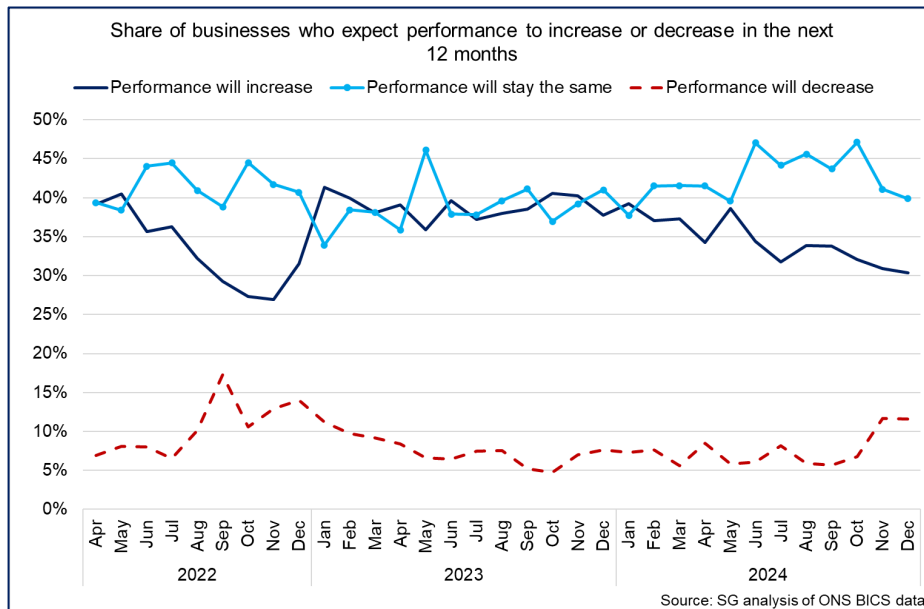
- Latest business surveys for 2024 show that indicators of new capital investment improved from 2023 but remained weak overall with the combination of business concerns around demand, cost pressures and borrowing costs continuing to weigh on business investment decision making.
- BICS data indicate that the majority of businesses continued to expect capital expenditure to remain the same (37.4%) or increase (15.6%) in the final quarter of 2024. However there was a slight increase in the share of businesses expecting to decrease capital expenditure in the second half of 2024 (10.2%), compared to the first half of the year.



- Of those businesses expecting to authorise capital expenditure, 48.1% reported that it would be for replacements, with fewer respondents intending to provide new services (6.8%) or purchase new technology (8.4%). Business investment is also being directed to increase efficiency (18.3%) and expand capacity (15.1%).

Business Optimism

- As outlined above, RBS Growth Tracker data shows that business optimism in Scotland fell sharply from October (63.7) to November (57.7), albeit remained positive.
- Similarly, BICS data for December showed a softening in business sentiment, with the share of businesses expecting performance to improve (30.4%) or stay the same (39.9%) falling from previous months. The share of businesses expecting performance to worsen has also increased in recent months, but has remained broadly stable from November to December at 11.6%.



Labour Market

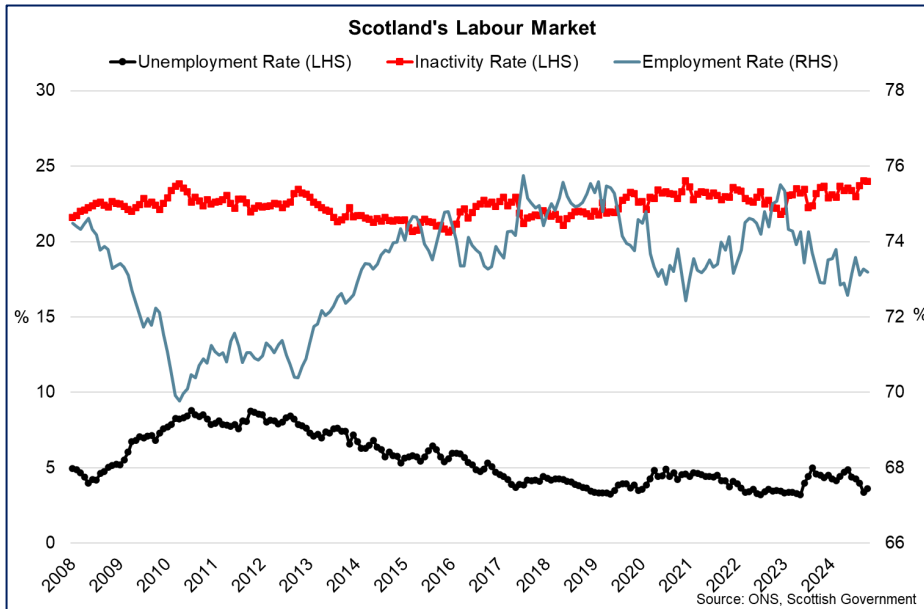
The unemployment rate fell over the most recent quarter to 3.6%.

Employment, Unemployment, and Inactivity

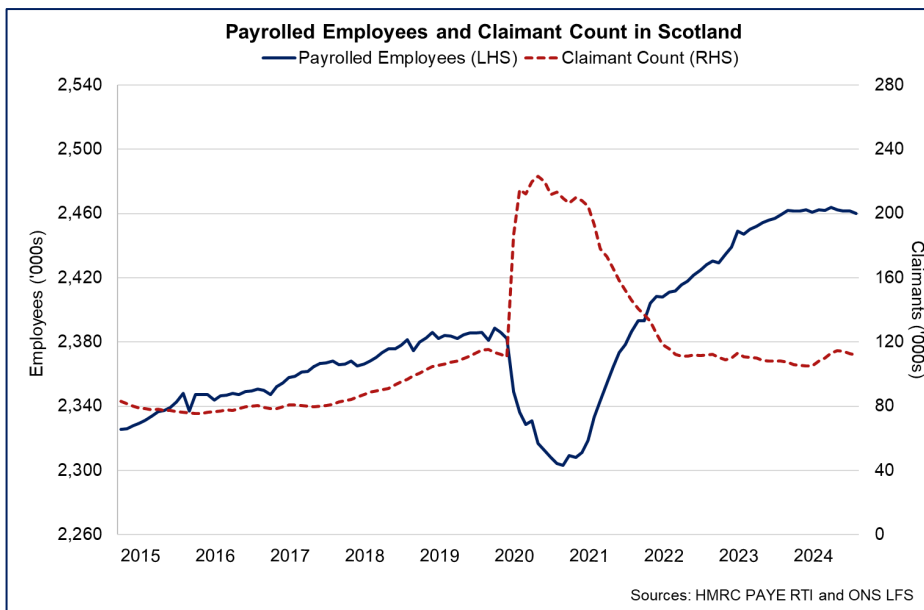
- The labour market in Scotland continued to show strength in the second half of 2024 with low unemployment and high, stable levels of employment, however there are indications that labour market tightness continues to ease.
- Latest Labour Force Survey data for August to October show that Scotland's unemployment rate fell 0.7 percentage points over the quarter, and fell 0.9 p.p annually, to 3.6%. The employment rate fell 0.4 p.p over the quarter, and rose 0.3 p.p over the year, to 73.2%. The inactivity rate fell by 1.0 p.p over the quarter and rose by 0.4 p.p annually to 24.0%.^{8,9}

⁸ [Labour market statistics - gov.scot \(www.gov.scot\)](https://www.gov.scot/labour-market-statistics)

⁹ The ONS notes that the Labour Force Survey (LFS) estimates have been affected by increased volatility, resulting from smaller achieved sample sizes, meaning that estimates should be treated with caution, and are working towards an online-first Transformed Labour Force Survey (TLFS), which is viewed as the long-term solution to the falling response rate.



- Wider labour market data also continues to demonstrate robustness in the labour market while indicating some loosening in conditions. In November, the number of payrolled employees in Scotland fell marginally over the month by 0.1% to 2.46 million, with growth flat over the year. Alongside this, Scotland’s claimant count unemployment rate remained flat in November at 3.9% with the number of claimants increasing by 3,829 over the year to 111,927.^{10,11}



Recruitment Activity

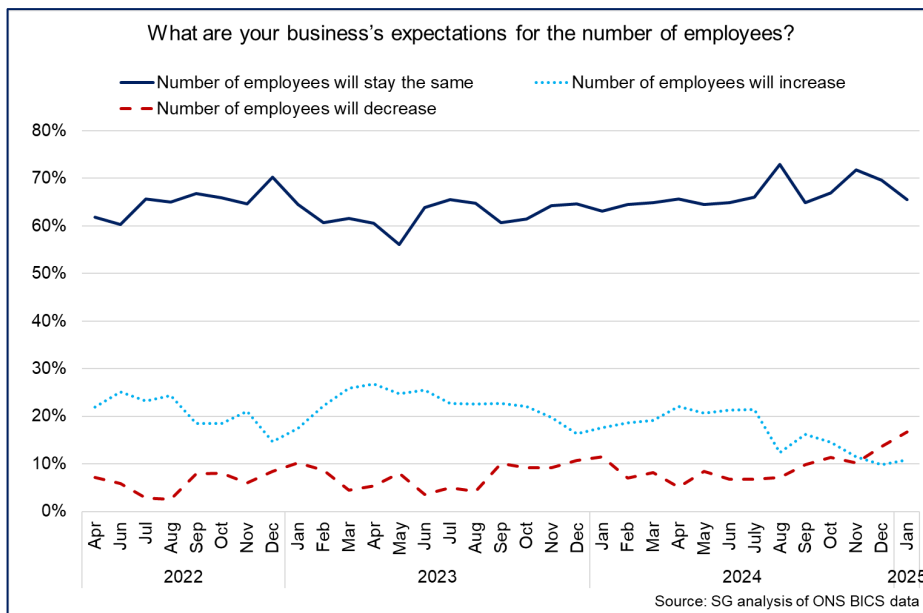
- Recruitment activity continued to stabilise and loosen during the second half of 2024 to around pre-pandemic levels, having fallen from elevated activity levels in 2022 and 2023.¹²

¹⁰ [Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

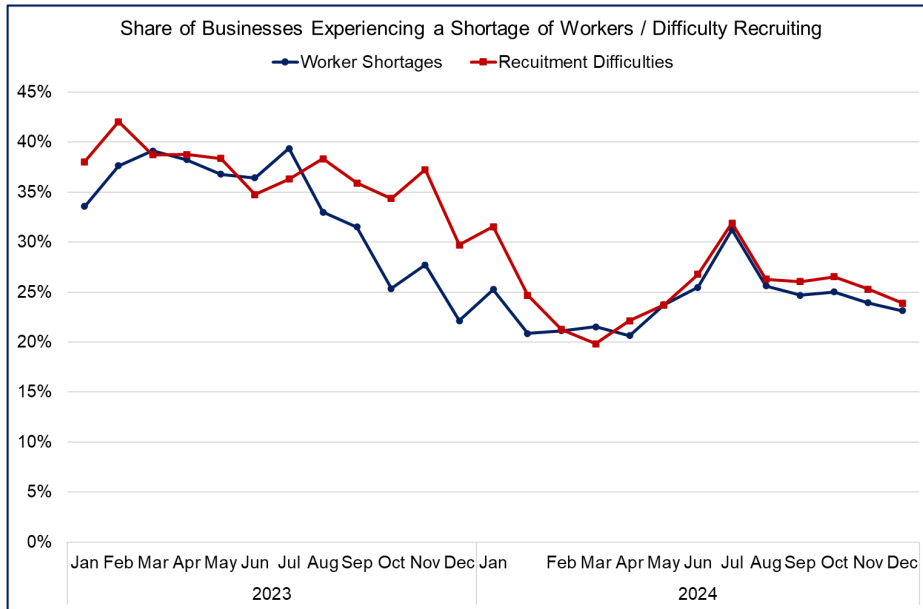
¹¹ [Nomis - Official Census and Labour Market Statistics \(nomisweb.co.uk\)](https://nomisweb.co.uk)

¹² [Online job advert estimates - Office for National Statistics](https://ons.gov.uk)

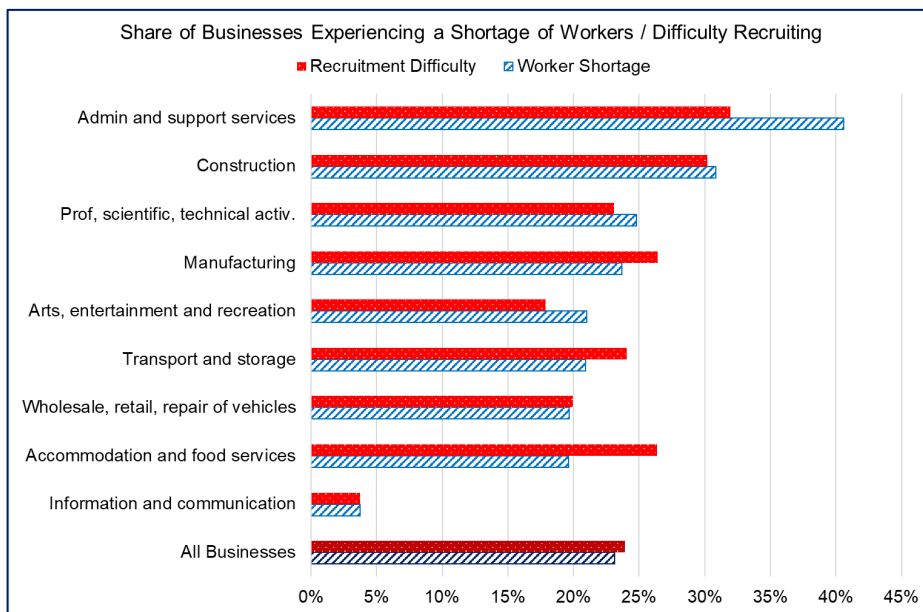
- Wider business survey data also indicates further loosening through the turn of the year. RBS Growth Tracker data for November indicated that private sector businesses continued to increase staffing levels across 2024, however the pace had eased to one of its lowest rates since the middle of 2023.
- BICS data also shows the share of businesses expecting employment to decrease had been on an upward trend since the second half of 2024 rising to 16.7% in January, while the share of businesses expecting to increase employee numbers has been on a downward trend, though rose slightly in January to 10.8%. Most businesses (65.6%) expect the number of employees to remain the same.



- Business surveys continue to indicate businesses are facing recruitment difficulties and worker shortages across different sectors. In December, BICS data show that 23.9% of businesses were experiencing recruitment difficulties and 23.1% were facing worker shortages. These indicators have broadly stabilised in recent months following an increase over the course of 2024, peaking in the middle of the year.



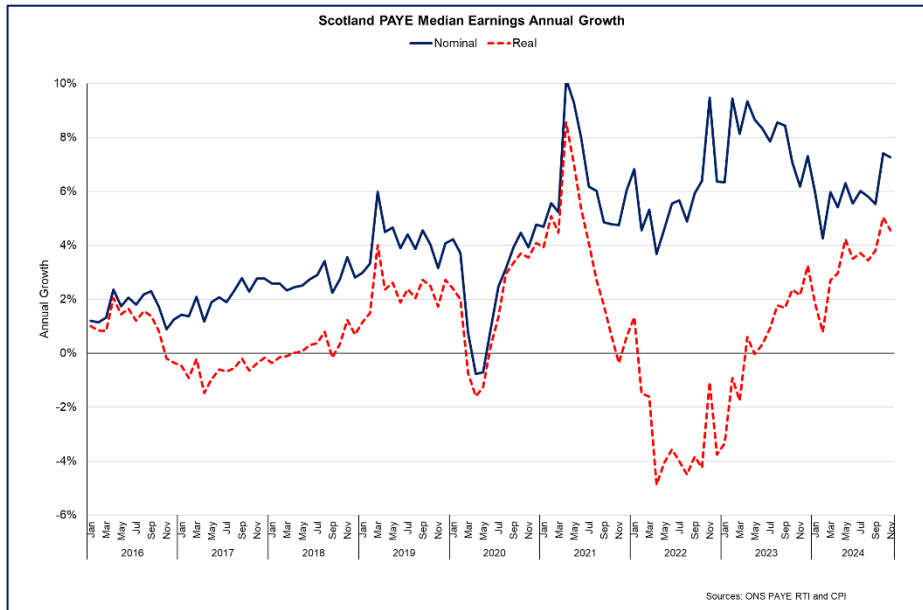
- At a sectoral level, worker shortages and recruitment difficulties in December were particularly concentrated in the admin and support services sector, construction, and professional, scientific and technical activities sectors. In contrast, employers in the accommodation and food services and information and communication sectors were less likely to report these challenges.



- Latest data covering October show most businesses responded that a lack of qualified applicants (48.6%) alongside a low number of applications (37.5%) underpinned their recruitment challenges, while 18.4% of businesses felt their business could not offer an attractive pay package to applicants.

Earnings

- Labour earnings have remained resilient despite the slight softening in the labour market over the past year. The pace of earnings growth alongside falling inflation has resulted in earnings continuing to grow in real terms.
- Nominal median monthly PAYE pay in Scotland was £2,526 in November, and grew 7.3% on an annual basis. This was its second highest annual rate of the year, although it was affected by backdated NHS paydeals and overall remains slightly slower than more elevated rates in 2023.¹³



- Adjusting for inflation, earnings grew by 4.6% in real terms on an annual basis in November. This is down from 5.0% annual growth in October but continues the current pattern of positive annual real terms growth following the period of falling real pay during 2022 and the start of 2023.
- The outlook is also one of continued real wage growth albeit at a slower pace. The Bank of England Decision Maker's Panel (DMP) reported annual UK wage growth of 5.4% in the 3-months to December and anticipated year-ahead wage growth of 4.0% (unchanged from November), signalling wage growth to decline by 1.4 percentage points over the next year.¹⁴

¹³ [Earnings and employment from Pay as You Earn Real Time Information, seasonally adjusted - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/earnings-and-employment-from-pay-as-you-earn-real-time-information-seasonally-adjusted)

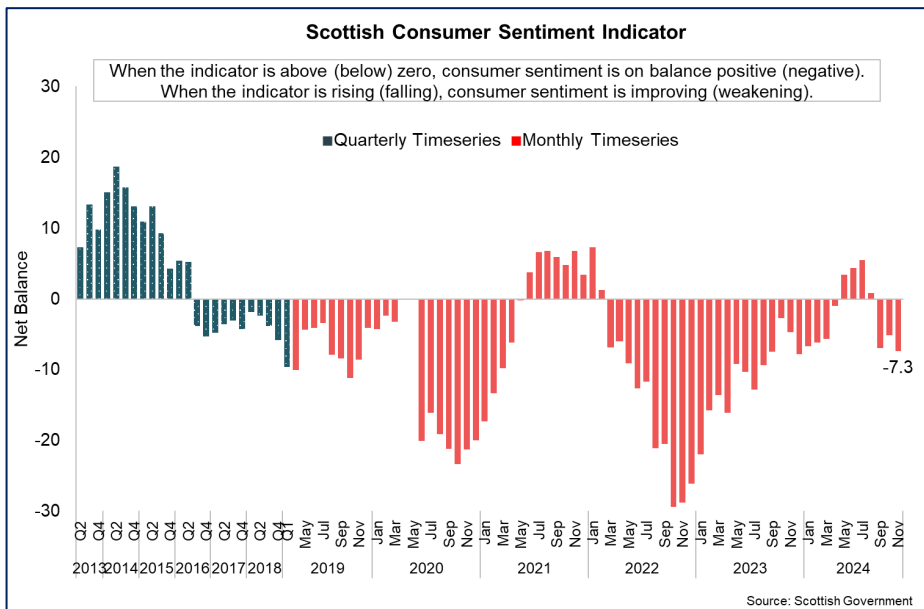
¹⁴ [Monthly Decision Maker Panel data - December 2024 | Bank of England](https://www.bankofengland.co.uk/decision-maker-panel/2024-12)

Consumer Activity

Consumer sentiment remained negative in November and fell to its lowest level of the year.

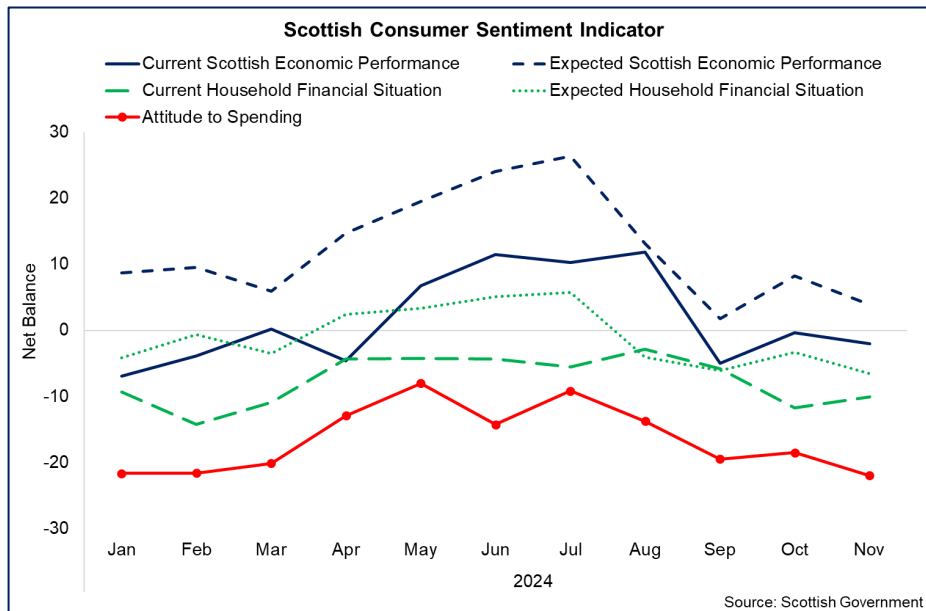
Consumer Sentiment

- The Scottish Consumer Sentiment Indicator reflects how households think the economy is performing, how secure they feel about their household finances and how relaxed they feel about spending money.
- Latest data show consumer sentiment in Scotland fell 2.2 points in November to -7.3. This is its lowest level since December 2023 and continues a downward trend in sentiment during the second half of 2024 following a period of strengthening sentiment over 2023 and the first half of 2024.¹⁵



- The fall in sentiment in November was mainly driven by weakening expectations for economic performance (down 4.3 points to 3.9) and household financial security (down 3.3 points to -6.6) over the coming year, alongside respondents becoming less relaxed about spending money (down 3.5 points to -22.0).
- Compared to last year, respondents also reported that current economic performance had continued to weaken in November (down 1.6 points to -2.1) however that their current household financial security had improved (up 1.7 points to -10.0).

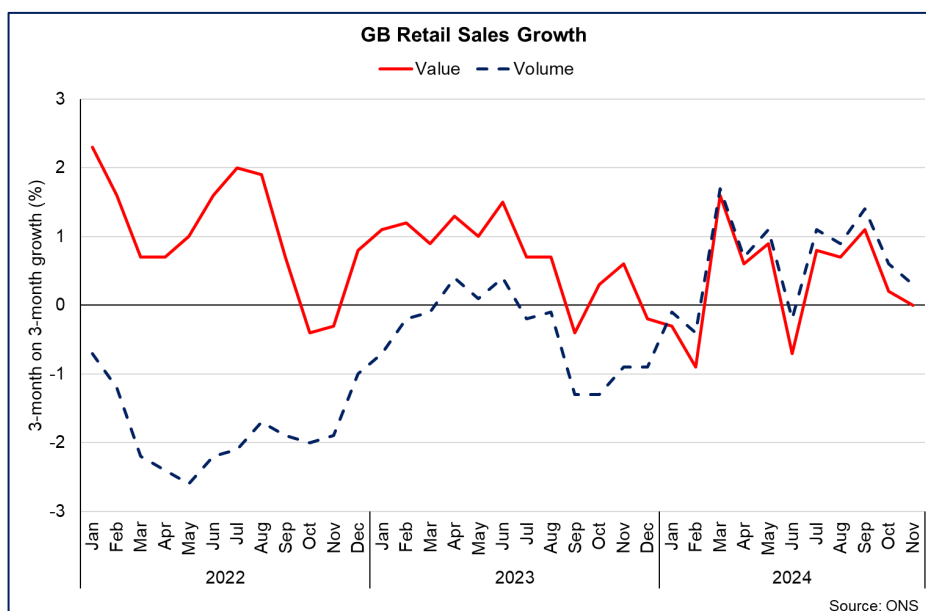
¹⁵ [Economy statistics - gov.scot \(www.gov.scot\)](http://www.gov.scot)



- The weakening in sentiment during the second half of 2024 is broadly consistent with consumer sentiment at a UK level, with the GfK Consumer Sentiment Indicator falling over September and October before picking up slightly in November and December.¹⁶

Spending and Cost of Living

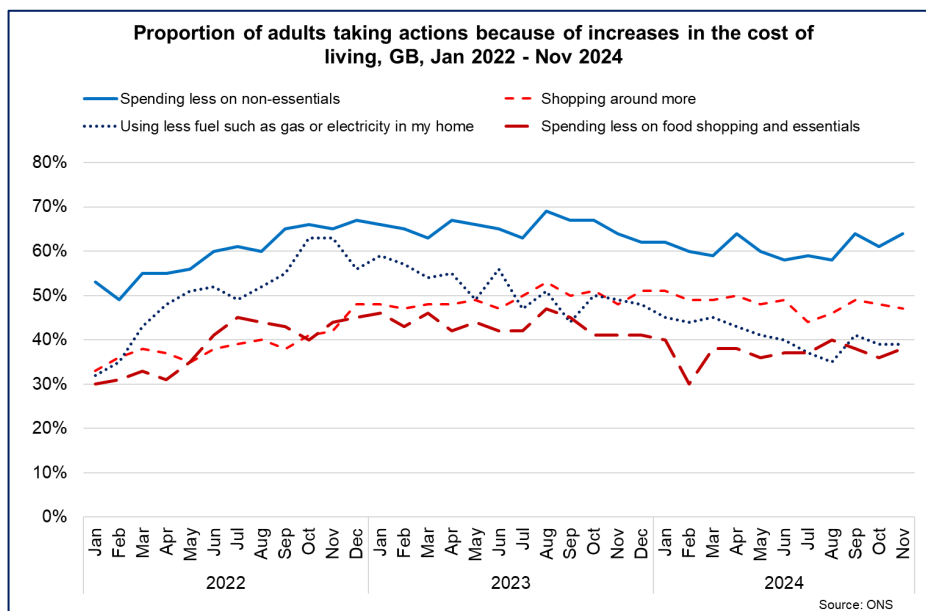
- Retail sales in Great Britain have grown over the past year in both volume and value terms (1.9% and 0.6% respectively) however latest data indicates the pace of growth has slowed in recent months. Retail sales volumes grew 0.3% in the three months to November and were flat (0.0%) in value terms.¹⁷



¹⁶ [UK Consumer Confidence up one point in December - NIQ](#)

¹⁷ [Retail sales, Great Britain - Office for National Statistics](#)

- More recently, Retail Sales Monitor data indicate that retail sales growth remained generally subdued over the fourth quarter as a whole albeit that Black Friday at the end of November coupled with Christmas trading in December boosted in person and online sales.¹⁸
- Lower and more stable inflation and reductions in interest rates are providing improving conditions for consumption, though the full benefits are gradually feeding through, and cost of living challenges are continuing to impact households.
- In November, the ONS Public Opinions and Social Trends survey showed that 32% of respondents found it very or somewhat difficult to afford energy bill payments (down from a peak of 49% in 2023) while 30% of respondents said the same for mortgage and rent payments (down from a peak of 46% in 2023).¹⁹
- The most common actions people are taking in response to the increased cost of living continue to be spending less on non-essentials (64%) and shopping around more (47%). 39% reported using less fuel such as gas or electricity in their home and 38% reported spending less on food shopping and essentials.
- These figures have remained broadly consistent over the course of 2024. However, over the longer term, following a relatively sharper uptake in these actions over 2022 and 2023, the flatter downward trajectory over 2024 indicates that cost of living continues to be a challenge to household budgets, and that it will take time for a stabilising price environment and stronger earnings growth to influence consumer behaviour.



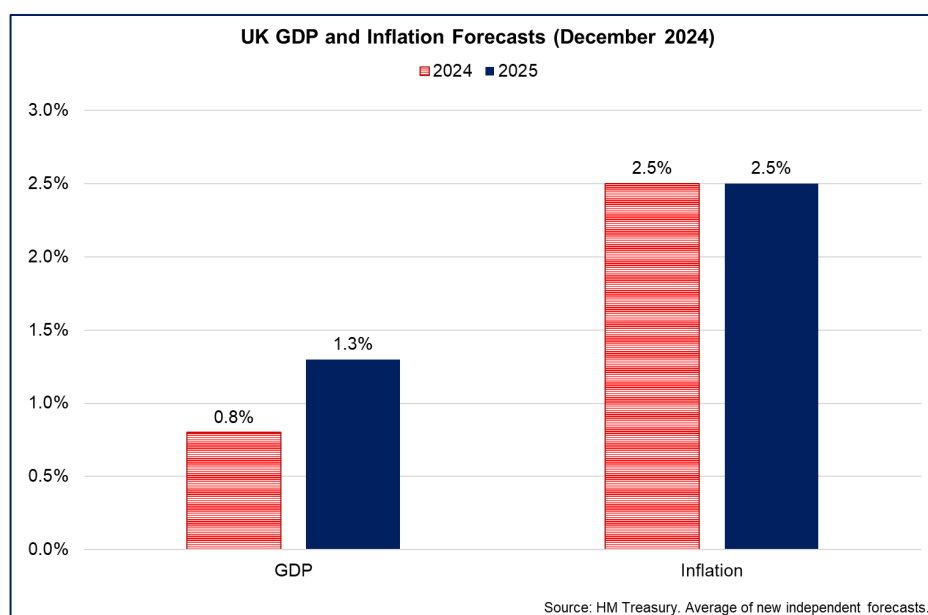
¹⁸ [Special Black Friday Scotland Retail Sales Monitor and Footfall: Black Friday Boom; Retail Sales Monitor: Christmas fails to save 2024 trading](#)

¹⁹ [Public opinions and social trends, Great Britain: household finances - Office for National Statistics](#)

Economic Outlook

Growth is forecast to strengthen in 2025 while inflation is expected to remain slightly higher than previously forecast.

- The economic outlook for 2025 is for stronger GDP growth and more stable inflation than in 2024, however there remain downside risks.
- The latest Scottish Fiscal Commission forecast for the Scottish economy expects 1% growth in 2024 (up from 0.2% in 2023) rising to 1.5% growth in 2025 and 1.6% in 2026.²⁰ This pattern of stronger growth is expected more broadly at a UK level with the Office for Budget Responsibility forecasting UK GDP growth of 1.1% in 2024, rising to 2% in 2025 and 1.8% in 2026.²¹
- Most recently, the latest HMT average of new independent UK forecasts also indicates growth will strengthen from 0.8% in 2024 to 1.3% in 2025.²²



- Alongside the stronger growth outlook, the inflation outlook for 2025 remains more stable than it has been in recent years, albeit that inflation is expected to remain slightly higher than forecasts from earlier in 2024.
- The latest HMT average of new independent UK forecasts indicate inflation to remain unchanged at 2.5% in Q4 2024 and Q4 2025, with the latter gradually rising from an average of 2.1% forecast in June 2024. Furthermore, the Bank of England's Monetary Policy Committee reported in December that while most indicators of UK near-term activity had weakened, inflation, wage

²⁰ [Scotland's Economic and Fiscal Forecasts – December 2024 | Scottish Fiscal Commission](#)

²¹ [Economic and fiscal outlook – October 2024 - Office for Budget Responsibility \(obr.uk\)](#)

²² [Forecasts for the UK economy - GOV.UK \(www.gov.uk\)](#)

growth and some indicators of inflation expectations had risen and added to the risk of inflation persistence.²³

- The stronger outlook for the Scottish and UK economy is set against moderately strengthening global conditions. At a global level, the OECD forecast global economic growth to strengthen from 3.2% in 2024 to 3.3% in 2025 and 2026, supported by lower inflation, employment growth and looser monetary policy as central banks continue to gradually reduce interest rates.
- However, the OECD note there remain significant downside risks to the global growth and inflation outlook from the ongoing conflicts in the Middle East and increased trade policy uncertainty.²⁴

²³ [Bank Rate maintained at 4.75% - December 2024 | Bank of England](#)

²⁴ [Economic outlook | OECD](#)



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