

STATE OF THE NATION

SCDI's Economic Data Briefing

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INTEREST RATE **0.25%** Official Bank of England Rate

At its December meeting the Monetary Policy Committee of the **Bank of England voted by a majority of 8-1 to increase the Bank Rate by 0.15 percentage points, to 0.25%**. It will next meet on 2 February.

Rises in Consumer Price Index (CPI) inflation from 3.1% in September to 5.1% in November triggered an exchange of open letters between the Governor and the Chancellor of the Exchequer. **This precipitated the Bank's decision to make the increase to respond to concerns about the impact of rises on the cost of living, consumer spending, and subsequent demands for salary increases.**

The Bank of England also kept the total size of its bond-buying programme (quantitative easing) unchanged at £895bn. This follows a fall in the yields across government bonds worldwide, influenced by the advance of the Omicron variant through developed economies. These measures were taken to lower the cost of borrowing, including for government. This move signals changes to the Bank of England's stimulus measures.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPIH) Annual Rate	Nov	Oct	Sep	Aug	July
	4.6%	3.8%	2.9%	3.0%	2.1%

Inflation (CPIH) rose by 4.6% in the 12 months to November 2021, up from 3.8% in October. The increase has been attributed to continuing sharp increases in gas and electricity prices, and to higher prices in restaurants and hotels after a partial removal of a VAT cut for the hospitality sector, as well as rising prices for consumer products like second-hand cars, clothing, and food and drink. The Bank of England forecast inflation will rise to around 5% in the spring this year.

In response to concerns about the Omicron variant, oil prices fell by around \$10 a barrel in December, to their lowest levels since September. Despite this, the cost of a litre of unleaded went up by 3.1p to 147.3p while diesel increased by 2.7p to 151.1p; this prompted the RAC to call for a reduction in prices in line with the fall in wholesale costs.

Sources: Office for National Statistics, Oil and Gas UK, the Royal Automobile Club

PRODUCTIVITY

Productivity for the UK as a whole rose in the period July to September but at much reduced rates relative to the earlier two quarters which saw a re-opening bounce in the figures.

The CBI/KPMG Scottish Productivity Index for 2021 found that Scotland lags behind other parts of the UK or international competitors in 9 of the 13 productivity indicators for which comparable data was available (down from 11 out of 15 in 2020). The areas where Scotland lags included business investment, exporting and innovation. Scotland has however outperformed the UK average in tackling economic inactivity due to long-term ill health and has maintained its advantage on rates of tertiary education in its working population.

The report's key recommendations include committing to increased investment in training to make businesses more competitive, accelerating technology adoption plans, to develop a strategic approach to hybrid working that enhances the efficiency of businesses, and establishing organisational norms that support staff's mental and physical wellbeing wherever they work.

Sources: Office for National Statistics, CBI/KPMG

ECONOMIC GROWTH

GDP Growth	UK
Q3 2021	1.1%
Services	1.4%
Production	-0.1%
Construction	-1.0%

UK GDP is estimated to have increased by 1.1% in Q3 2021, revised from the first estimate from the ONS 1.3%. Growth in services and production were revised down with production output turning negative against early projections of a rise in output.

Scotland's onshore GDP is estimated to have grown by 0.2% in October, and output is now just 0.4% below pre-pandemic levels in February 2020. Over the quarter as a whole to October, GDP is estimated to have grown by 0.7% compared to the previous three-month period (May - July).

The Fraser of Allander Institute Q4 economic commentary estimated growth of 6.4% in 2021 and forecasts growth of 4.7% in 2022. Based on this updated forecast **the economy is now expected to get back to pre-pandemic levels in May 2022,** one month later than previously predicted due to slower than expected growth in the Autumn. However, the impact that the restrictions over the festive period may have on the economy, particularly on the retail and hospitality sectors, is not yet unclear from the data.

Sources: Bank of England, Office for National Statistics, Fraser of Allander Institute

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Nov	Oct	Sep	Aug	Jul	Jun	May
	55.9	56.3	56.1	58.1	57.5	58.4	61.5

The RBS Purchasing Managers' Index showed Scotland's business activity and confidence remained firmly in expansion mode in November at 55.9. This is the ninth successive rise, although November's findings do suggest a slight loss of momentum with the rate of increase the slowest since April. Meanwhile, new business rose again, amid reports of strong client demand, in part due to looser COVID-19 restrictions.

Despite these positive signs, the Businesses in Scotland statistical release showed the estimated number of businesses in Scotland fell by 19,805, a drop of 5.4% between March 2020 and March 2021. There are now 344,505 enterprises in Scotland, the smallest number since 2014 – demonstrating the impact of the pandemic on businesses and entrepreneurs in Scotland.

Total UK exports of goods increased by £0.4 billion (1.6%) in October 2021, driven by a £0.8 billion (6.2%) increase in exports to non-EU countries while exports to EU countries decreased by £0.4 billion (2.7%). The trade in services surplus increased by £1.6 billion in the three months to October 2021, increasing to £35.7 billion.

Sources: RBS, Office for National Statistics, Scottish Government

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor (LFL YoY)	Nov	Oct	Sep
Total Sales Growth	2.6%	-0.3%	1.1%
Food Sales Growth	-2.2%	-5.5%	-0.8%
Non-Food Sales Growth	6.7%	4.1%	2.6%

Despite increases in November, when total sales in Scotland increased by 2.6% year on year, the restrictions imposed to tackle the omicron variant have clearly had a direct impact on the figures for December.

Ewan MacDonald-Russell, head of policy at the Scottish Retail Consortium, said: "November was less Black Friday and more bleak winter as Scottish retail sales slipped by 13.4% compared to pre-pandemic trading".

The figures for November were, however, above the 3-month average growth of 1.9% and below the 12-month average of 11.7%. On a 2-year basis, total retail sales are down 13.4% compared with November 2019.

Food sales remain on a stronger footing, albeit with much of the growth expected to be the result of higher food prices as supply chain pressures start to feed through. For non-food goods there was evidence of an ongoing trend with increases in online shopping

replacing store-based purchases as customers sought to maximise the chance of products being available particularly around Black Friday.

Despite the bleaker outlook for the festive period, UK retailers were able to increase their prices for the first time in more than two years in November as the pandemic hit global supply chains, limited staff availability, and pushed up inflation for shoppers. The British Retail Consortium said shop prices rose by 0.3% compared with November 2020, the first annual increase since May 2019.

Sources: KPMG, Scottish Retail Consortium, British Retail Consortium

EMPLOYMENT

	Sep 21- Nov 21	Jul 21- Sep 21	May 21- Jul 21	Apr 21- Jun 21
Economically Active	77.9%	78.0%	77.5%	77.6%
In Employment	75.1%	74.8%	74.1%	74.2%
Unemployed	3.6%	4.1%	4.4%	4.4%
Economically Inactive	22.1%	22.0%	22.5%	22.4%

The number of people claiming social security for unemployment in Scotland decreased from 121,000 in the last quarter to 100,000 this quarter with the jobless rate decreasing to pre-pandemic levels of 3.6%. HMRC estimates show the number of employees in Scotland is now at 2.4 million - 16,000 higher than pre-pandemic levels.

As of October 2021, there were around 460,000 people on Universal Credit in Scotland signalling a 1% decrease over the past year.

Annual growth in total pay was 4.9% and regular pay was 4.3% in August to October 2021. In real terms (adjusted for inflation) total and regular pay continued to grow at a faster rate than inflation over the same quarter, at 1.7% for total pay and 1.0% for regular pay.

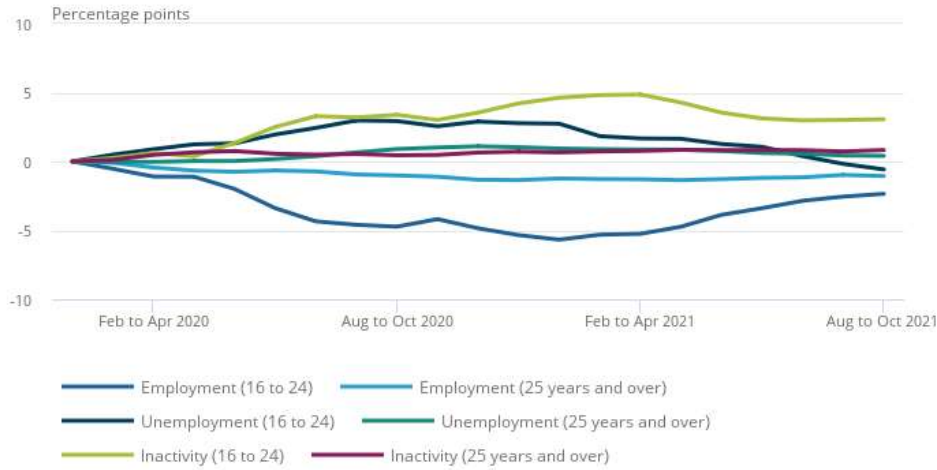
Unfilled vacancies hit a new record high in the run-up to Christmas, with Scotland accounting for half of the top 10 hiring hotspots in the UK. According to the latest tracking report from the Recruitment & Employment Confederation, 210,000 new job adverts were posted in the UK during the week to 28 November following three of the best weeks for new adverts on record.

For the UK as a whole, demographic trends show that unemployment for women has continued to fall with the trend of a growing number of women going into employment continuing steadily over August to October 2021.

Statistics continue to bear out that young people across the UK (aged 16 to 24 years) have been particularly affected by the pandemic, although over the last quarter there was an increase in the employment rate and decreases in the unemployment and inactivity rates for young people. At a UK level the unemployment rate for young people has returned to pre-coronavirus levels.

Figure 3: The employment rate for young people (those aged 16 to 24 years) has increased on the quarter, while the unemployment rate for young people has returned to pre-coronavirus levels

UK economic status rates by age (people aged 16 to 24 years and 25 years and over), seasonally adjusted, cumulative change from December 2019 to February 2020, for each period up to August to October 2021



Source: Office for National Statistics – Labour Force Survey

Sources: Recruitment & Employment Confederation, Office for National Statistics, Scottish Government

This briefing presents and analyses the most authoritative and up-to-date statistics about the Scottish economy to give an at-a-glance view of the ***State of the Nation***. It is produced to inspire and inform an evidence-based conversation about how we grow all sectors and all geographies of the Scottish economy.

To discuss this briefing, or for further views on the data, contact SCDI's Policy Manager, Angus Robertson: angus.roberston@scdi.org.uk