

STATE OF THE NATION

SCDI's Economic Data Briefing

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INTEREST RATE **0.75%** Official Bank of England Rate

The Bank of England's Monetary Policy Committee voted unanimously to keep interest rates steady at 0.75% at its most recent meeting on 1 November. The Committee noted that prolonged Brexit-related uncertainty had dampened economic activity, particularly business investment. It expected the UK's future economic performance to "significantly depend" on the terms of the UK's exit from the EU.

A smooth transition to a soft Brexit would be likely to leave unchanged the current trajectory of progressively higher rates interest, with a potential transition to 1% in spring 2019. A disorderly departure could precipitate a slashing of the Bank Rate in an attempt to fuel consumer spending.

The Committee, however, is inevitably keeping its cards close to its chest, noting only that "the monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction".

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Oct	Sept	Aug	Jul	Jun
	2.4%	2.4%	2.7%	2.5%	2.4%

Inflation remained steady at 2.4% in October due to the rising price of utilities and fuel and the falling cost of food and clothes. Chancellor Philip Hammond froze VAT and road fuel and air passenger duties in his Autumn Budget, while increasing alcohol and tobacco duties, which is anticipated to have an insignificant cumulative impact on inflation.

Competition has generally kept a lid on inflation, with companies in several sectors not passing on to consumers their higher costs in the form of higher prices. However, **raw material costs are now 10% higher than at the same time last year**, causing difficulties for manufacturers. The haulage industry and drivers continue to be impacted by strong growth in prices at the pump, although three large supermarket chains recently acted to cut their petrol prices by up to 2p a litre.

Sources: Office for National Statistics, RAC

PRODUCTIVITY

	Q2 2018	Q1	Q4 2017	Q3	Q2
Quarterly (Trend-Based) Productivity Growth in Output per Hour	+1.3%	+1.7%	+1.0%	-0.7%	-0.6%
Rolling Annual Productivity Growth in Output per Hour	0.0%	-0.4%	-1.9%	-3.2%	-2.2%

The latest statistical release for labour productivity in the onshore Scottish economy suggest that Scottish workers continue to be more productive, building on progress which has closed the gap between Scotland and the rest of the UK in recent years. Scotland, however, still ranks in the third quartile of OECD countries. SCDI's **Productivity Clubs** – a forthcoming partnership with the Scottish Government and Scottish business – will seek to support improved performance in the private sector.

Sources: SCDI, Scottish Government, OECD

ECONOMIC GROWTH

GDP growth	Scotland
Q2 2018	0.5%
Services	0.4%
Production	0.6%
Construction	1.8%
Q2 2017 – Q2 2018	1.7%

Global growth is forecast to hit 3.8% during 2018–2019 but will be highly uneven. While growth in China, India and North America will remain fast, it is expected to slow across the Eurozone, Japan and the UK. The escalating US-China trade war and the persistent threat of a 'hard' or 'no deal' Brexit are substantial risks to the global economy as new (or former) protectionist barriers to trade are (re-)erected.

Scotland continues to marginally outperform the UK. Scotland's macroeconomic performance relative to the UK has now acquired a powerful significance after further devolution of taxation powers to Holyrood, as the size of the Scottish Budget now tracks Scottish growth relative to the UK. Scottish GDP grew by 0.5% in the second quarter of the year and 1.7% over the last twelve months compared to 0.4% and 1.2% respectively for the UK as a whole.

Tuesday 11 December will be a critical day for the future of the Scottish economy – Cabinet Secretary for Finance, Economy and Fair Work Derek Mackay MSP will deliver the Scottish Government's Draft Budget 2019-20 statement at Holyrood, while MPs are expected to vote on the UK Government's draft Withdrawal Agreement with the EU in the House of Commons.

Sources: BBC, Euromonitor International, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Oct	Sept	Aug	Jul	Jun	May	Apr
	53.4	53.4	55.5	55.1	54.5	53.7	52.6

Scotland's private sector grew at a solid, unchanged rate in October. New orders, new inflows of work, new products and recruitment of new staff all increased strongly. Expansion was recorded in both services and manufacturing. Rising input costs thanks to a weak pound, higher labour costs and higher raw material prices, however, squeezed firms' margins.

Business values stability and predictability. Both have been in short supply during the Article 50 negotiations between the UK and the EU as the exit day of 29 March 2019 has drawn ever closer. It is clear that many businesses have cancelled, postponed or scaled-back investment plans as a result, and that some have moved operations overseas. According to the **Fraser of Allander Institute's Scottish Business Monitor** capital investment fell at its fastest rate in Scotland for over two years in Q3 2018.

Meanwhile, the RBS PMI found that business optimism about Scotland's future economic outlook fell to a twelve-month low amid continued political uncertainty about the terms of the UK's exit and the nature of the future relationship after 2020. This remains unclear given the level of parliamentary opposition to the draft Withdrawal Agreement and Political Declaration.

Sources: BBC, IHS Markit

CONSUMER ACTIVITY AND CONFIDENCE

Scottish Retail Sales Index	Q3 2018	Q2	Q1
Growth in volume of retail sales	+0.4%	+0.3%	+0.5%
Growth in value of retail sales	+0.6%	+0.5%	+0.5%

The Scottish Government's Retail Sales Index is one of the earliest indicators of Scotland's economic performance. Both the volume and value of Scottish retail sales increased in the third quarter of the year, albeit at a **significantly slower rate of expansion than across Great Britain** where growth was a much faster 1.2% and 1.7% respectively. Consumers north of the border appear much more reluctant to spend in the current climate, potentially concerned about the impending impact of Brexit on their household finances.

The **Scottish Retail Consortium-KPMG Retail Sales Monitor** suggests a further deterioration in the fourth quarter. Total sales in Scotland fell by 0.2% against last year in October 2018, the first month of decline after five months of growth. Many retailers brought forward promotional and discount activity to incentivise consumer spending in this challenging retail environment. Black Friday, Cyber Monday and Christmas sales will likely give the sector its annual seasonal boost.

Sources: KMPG, Scottish Government, Scottish Retail Consortium

EMPLOYMENT

	Jul 18 – Sept 18	Apr 18 – Jun 18	Jan 18 – Mar 18	Oct 17 – Dec 17
Economically Active In Employment	78.0%	78.5%	78.1%	77.9%
Unemployed	3.8%	4.2%	4.3%	4.5%
Economically Inactive	22.0%	21.5%	21.9%	22.1%

The quantity of work available in the Scottish labour market is not in doubt. Levels of participation and employment remain at very high levels. Unemployment continues to fall and is now just 3.8%.

The quality of much of this work, however, is of concern. **Precarity, poor working conditions and under-employment** are features of a dysfunctional labour market which has changed quite rapidly and radically since the financial crisis of 2008/09:

- 470,000 people in Scotland now earn less than the living wage of £9 an hour – 53,000 more workers than in 2012
- 35% of jobs created in the UK in the last ten years have been created in London, underlining the extent to which the UK economy is geographically imbalanced
- 7 million people in the UK in working households are also in poverty
- decade of lost wage growth – median worker in the UK earns as much today as they did in 2006
- Nearly 2 million people are on a zero-hours contract
- As many people now work in the gig economy for firms such as Deliveroo, Uber, Handy, CitySprint, PeoplePerHour, TaskRabbit and UpWork as are employed by the NHS (1.5 million)
- Number of self-employed people has increased to 5 million, or 1 in every 7 workers – many face financial insecurity due to irregular work, unexpected illness or late payments
- Estimated 2 billion hours of unpaid overtime are worked in the UK every year
- Only 51% of people believe that their job gives their life "meaning and purpose"

Sources: Office for National Statistics, Scottish Government, TUC, Resolution Foundation, RSA

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 Director of Policy & Public Affairs, Matt Lancashire: matt.lancashire@scdi.org.uk.