

STATE OF THE NATION

SCDI's Economic Data Briefing

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

The UK interest rate is 0.75%. **The next meeting of the Monetary Policy Committee is scheduled for 7 February**, at which the Bank Rate is expected to remain unchanged.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Dec	Nov	Oct	Sept	Aug
	2.1%	2.3%	2.4%	2.4%	2.7%

Inflation fell further in December to 2.1%, reflecting a slowing of the UK economy as a whole. The continued decline was driven by the falling cost of vehicle fuel and air fares. Accommodation services prices, mobile phone charges and food costs, however, increased.

A recent analysis by the Office for National Statistics found that the rising cost of food may be underestimated due to the growing phenomenon of **'shrinkflation'** – 206 products in the UK decreased in size yet remained the same price between July 2016 and June 2017. Firms have been seeking to reduce calorie content and maintain profits in the face of rising raw material costs.

Source: Office for National Statistics

PRODUCTIVITY

Trend Productivity Growth	2018	2019	2020	-	2023
	+0.3%	+0.7%	+0.9%	-	+1.2%

Scottish workers' productivity is expected to grow, albeit slowly, over the next few years, according to projections from the independent Scottish Fiscal Commission. This trend could be disrupted by Brexit-related uncertainty, however, if firms postpone investment in infrastructure, equipment, training and new processes.

Source: Scottish Fiscal Commission

ECONOMIC GROWTH

	2019	2020	2021
Total Scottish GDP	1.4%	1.5%	1.4%
Production	1.6%	1.7%	1.6%
Construction	1.1%	1.1%	1.1%
Services	1.4%	1.4%	1.4%

The global economy is expected to have registered strong growth during 2018, building on a 3.7% rise in aggregate GDP in 2017 and an increase of 3.2% in 2016. However, **there are indications of slowing growth in 2019**. Several advanced economies, including Germany and the UK are experiencing an easing in the pace of growth, and China recorded its lowest level of growth since 1990. Political instability in Brazil, France and the United States will also hurt growth.

After a period of lagging-behind the UK, the Scottish economy has strengthened and largely caught up with the UK across the second half of 2018. A weak pound has supported internationalisation, with Scottish exports outside of the UK increasing by 10% last year. Analysis suggests that 130,000 jobs in Scotland are supported by export demand from EU markets.

The Fraser of Allander Institute forecasts that Scottish GDP will grow by 1.4% in 2019, 1.5% in 2020 and 1.4% in 2021, provided a "broad-based agreement" is reached and implemented between the UK and the EU to prevent a catastrophic 'no-deal' Brexit. However, expectations and uncertainties related to Brexit already appear to be dampening business investment as confidence wanes. 'No-deal' could lead to large-scale disruption to supply chains, exports and GDP growth.

The Fraser of Allander Institute's projections remain more optimistic than those of the Scottish Fiscal Commission on which official budgetary decisions and allocations are made by the Scottish Government and UK Government respectively. The highly complex fiscal framework under which devolved functions are now partially funded means that the Scottish Government's available resources are closely tied to the performance of the Scottish economy relative to the UK as measured by the Commission.

Regardless of the forecasting institution, Scottish GDP growth looks set to remain subdued in the medium-term as the weak recovery from the Great Recession continues. **GDP per head in Scotland is just 1.7% larger than it was 10 years ago – average annual GDP growth in the preceding decade was 1.9%**. This has led some to talk of a 'lost decade' of growth.

Some cities, however, are thriving. The Vitality Index recently ranked Edinburgh as the best city in the UK for growth in 2019 based on the Scottish capital's vibrant higher education sector, emerging fintech companies and growing tourism sector. Aberdeen surged up the rankings compiled by property consultancy Lambert Smith Hampton after further recovery in the North Sea oil and gas industry on the back of gradually rising global oil prices.

Sources: BBC, Fraser of Allander Institute, Lambert Smith Hampton, International Monetary Fund

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Dec	Nov	Oct	Sept	Aug	Jul	Jun
	49.3	52.2	53.4	53.4	55.5	55.1	54.5

Growth in the Scottish private sector fell into negative territory in December, as the RBS PMI dropped below 50. Scotland was one of only two nations or regions of the UK to record a contraction in December. Firms reported continued decreases in sales and increases in cost pressures, partially thanks to a weakened Sterling, but also continued to hire additional staff.

CBI Scotland's quarterly Industrial Trends Survey also recorded similarly troubling figures for Q4 2018, with business confidence down and capacity pressures up. There are substantial concerns that many businesses and organisations, especially micro-businesses and small-businesses, have been destabilised by Brexit-related uncertainty and are unprepared for various outcomes.

- Business optimism declined by a mammoth 33 points, the fastest contraction since January 2012
- **Concerns over labour shortages limiting investment** in 2019 increased significantly to its highest level since October 1989
- Investment intentions for the next year were negative across the board – including investment in buildings, plant & machinery, product & process innovation, and training & retraining
- Total new orders growth grew, but are expected to shrink in the next quarter, with domestic demand especially weak. There has been export growth, however, on the back of a weak pound
- Average unit costs for businesses continue to increase
- **'No-deal' Brexit will cost the Scottish economy up to £14bn a year by 2034** in lost output

Sources: CBI Scotland, IHS Markit, RBS

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Dec 2018	Nov 2018
Total Sales Growth	-1.0%	-1.6%
Food Sales Growth	+1.3%	+2.8%
Non-Food Sales Growth	-2.8%	-5.0%

Scottish retailers suffered their worst December on record since the Scottish Retail Sales Monitor began in 1999 at the dawn of the devolution era. Total sales and non-food sales both declined, while food sales registered small growth. Across 2018 as a whole, total retail sales grew by just 0.3%, reflecting modest Scottish GDP growth and dampened consumer confidence. Consumers across the UK, as Deloitte notes, are in a "cautious mood" in the face of a sense of job insecurity, stagnant disposable incomes and political instability.

Sources: Deloitte, KPMG, Scottish Retail Consortium

EMPLOYMENT

	Sept – Nov	Jun – Aug	Mar – May	Dec 17 – Feb 18
Economically Active	78.1%	78.0%	78.9%	78.3%
In Employment	75.3%	74.9%	75.5%	75.0%
Unemployed	3.6%	3.9%	4.3%	4.2%
Economically Inactive	21.9%	22.0%	21.1%	21.7%

Unemployment in Scotland is now at a record low of 3.6%, a remarkable level in an era of low growth and accelerating automation. The number of Scots officially recorded as jobless is below 100,000 for the very first time since comparable records began.

In the decade since the beginning of the Great Recession, Scotland's male unemployment rate peaked at 10.0% in May 2010. It has since fallen by 5.8% to its second lowest rate over the period (4.1%). The female unemployment rate peaked at 8.2% in February 2012. It has since shrunk by 5.3% to the current rate of 3.0%, the lowest rate on record. UK unemployment (4.0%) is substantially higher. The employment rate for women is higher in Scotland than the UK, while it is lower for men in Scotland than the UK. However, of the 74% of people in Scotland's workers who are employed on a full-time basis, men are the majority (62%). Women make up the majority (78%) of those working part-time.

The rate of economic inactivity in Scotland (21.9%) is also higher than across the UK as a whole (21.0%) and fourth highest among its nations and regions. This suggests, along with weak wage growth and the prevalence of people in part-time employment in search of full-time work, that the headline unemployment rate obscures significant labour market challenges in Scotland.

The median salary for a Scottish worker was £23,833 in April 2018, an increase of only 0.9% on April 2017 in real terms. Typical wages are higher in London (£32,976) and the South East of England (£25,000), but lower in the UK's other nations and regions. The median worker's pay increased by 1.9% between 2011 and 2018. Meanwhile, the bottom quarter of the labour market experienced a 5.3% real terms increase.

Sources: Office for National Statistics, Scottish Parliament Information Centre, STUC

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.