

STATE OF THE NATION

SCDI's Economic Data Briefing

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

The Monetary Policy Committee met on 6 February and **unanimously agreed to maintain interest rates in the UK at 0.75%** based on a slowing of domestic and global growth. "Gradual" and "limited" increases to the Bank Rate will only take place if there is a smooth transition to the UK's departure from the EU and a strengthening of UK GDP.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Jan 19	Dec 18	Nov	Oct	Sept
	1.8%	2.1%	2.3%	2.4%	2.4%

Inflation decreased from 2.1% in December to 1.8% in January, thanks to a slowing of the rise in clothing, vehicle fuel and household gas and electricity prices. Gradually falling prices suggest that there is a continuing 'cooling off' in economic activity.

Source: Office for National Statistics

PRODUCTIVITY

	Q3 2018	Q2	Q1	Q4 2017	Q3
Quarterly (Trend-Based) Productivity Growth in Output per Hour	0.0%	+1.3%	+1.7%	+1.0%	-0.7%
Rolling Annual Productivity Growth in Output per Hour	+4.0%	0.0%	-0.4%	-1.9%	-3.2%

The picture which emerges of **Scotland's productivity performance is decidedly mixed**. Trend productivity growth flatlined in Q3 2018. In 2017, Scotland performed marginally below the UK average. In 2007, the Scottish Government's Economic Strategy aimed to reach the top quartile of OECD countries by 2017. The first official comparative evaluation of Scotland's performance shows that this target has been missed.

Productivity is 20% below target. Scotland's manufacturing industry performs much better than the UK average, but the opposite is the case for Scottish services companies.

Highly productive firms are concentrated in the financial services sector in London and the South East of England. The **South of Scotland, covering the Borders and Dumfries & Galloway, scores particularly poorly** – the region is the third-worst performing sub-region of the UK. However, productivity in Aberdeen and Edinburgh is considerably higher than the UK average.

Sources: Organisation for Economic Co-operation and Development, Office for National Statistics, Scottish Government

ECONOMIC GROWTH

GDP growth	Scotland
Q3 2018	+0.2%
Services	+0.2%
Production	-0.9%
Construction	+2.9%
Q3 2017 – Q3 2018	+1.3%

Scottish GDP growth slowed to 0.2% in Q3 2018 after 0.5% growth in Q2, although there was strong expansion in the Construction sector. UK GDP grew by 0.6% in Q3, but growth also deteriorated to 0.2% in Q4. Future growth remains "highly uncertain" because of Brexit, according to analysis by the Scottish Government's Chief Economic Adviser. Gary Gillespie warned that a **'no-deal' Brexit would precipitate "major dislocation to the Scottish economy"** involving large-scale disruption to logistics, supply chains, imports and exports, inward and business investment, inward migration and market confidence.

Thousands of Scottish firms, and hundreds of thousands of Scottish jobs, are reliant on free and frictionless access to EU markets. **In 2017, Scotland exported £14.9bn worth of goods and services to the EU**, particularly key markets in the Netherlands (£2.5bn), France (£2.4bn), Germany (£2.3bn) and Ireland (£1.5bn), representing 46% of all Scottish exports. The movement of these goods across borders will be disrupted by a 'no-deal' or 'hard' Brexit.

Scottish Government statistical modelling suggests that the Chemicals & Pharmaceuticals, Oil & Gas and Food & Drink sectors would be especially vulnerable to a Brexit-related shock. However, as the Scottish economy is primarily a Services-based economy, the biggest impact on national GDP would be the result of disruption to the Wholesale & Retail, Professional Services and Financial Services sectors. **Most sectors in Scotland will "suffer worse" than sectors in the rest of the UK "as a result of the migration restrictions imposed"** in each likely Brexit scenario. SCDI's members have already observed a negative effect on the ability of businesses to retain and attract EU nationals. Consumer confidence and business investment have also fallen significantly as 29 March, the day on which the UK is due to leave the EU, has approached and the uncertainty has intensified, with a knock-on effect on growth.

Sources: Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Jan 19	Dec 18	Nov	Oct	Sept	Aug	Jul
	49.2	49.3	52.2	53.4	53.4	55.5	55.1

The protracted uncertainty of the Brexit process is having an increasingly damaging impact on Scottish business activity and confidence. **Scotland's private sector contracted for the second month in a row in January**, as the PMI stayed below 50, and **business confidence fell to a 21-month low**. The slowdown, although modest, is the most significant in two and a half years. The decline in output hit both services and manufacturing. Weak consumer confidence and lower levels of business investment damaged new orders and growth across the economy.

The Scottish Chambers of Commerce's Quarterly Economic Indicator for Q4 2018 suggests a similar outlook, with uncertainty, raw materials prices and recruitment difficulties up, and optimism and investment down. Prof. Graeme Roy, Director of the Fraser of Allander Institute, commented on the data: "Brexit uncertainty is increasingly casting a shadow over business activity in Scotland. Whilst many businesses remain relatively resilient in terms of their day-to-day activities, levels of optimism have slipped across the board... Across the economy, **investment intentions remain subdued, with many businesses appearing to be in 'wait and see' mode.**"

Sources: Fraser of Allander Institute, IHS Markit, RBS, Scottish Chambers of Commerce

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Jan 2019	Dec 2018	Nov
Total Sales Growth	+2.2%	-1.0%	-1.6%
Food Sales Growth	+4.9%	+1.3%	+2.8%
Non-Food Sales Growth	+0.2%	-2.8%	-5.0%

After enduring its worst December on record at the end of 2018, **the Scottish retail sector began the New Year with a welcome return to sales growth**. Food sales were boosted by Hogmanay and Burns Night.

However, consumer confidence is very fragile. The Scottish Consumer Sentiment Indicator fell to -5.8 in Q4 2018 from -3.8 in Q3, continuing a downward trend since mid-2016 and reaching a lower level than at any stage since its inception in 2013. Consumers are likely to delay non-essential or large purchases until Brexit-related uncertainty has dissipated.

Weak consumer confidence is having a visible impact on the High Street and town centres. **One restaurant shut its doors in Scotland every three days during 2018**. This level of corporate failure is also in the wider context of the rise of on-demand home deliveries of food facilitated by gig economy firms like Just Eat, Deliveroo and Uber Eats.

Sources: French Duncan, KPMG, Scottish Retail Consortium

EMPLOYMENT

	Oct – Dec	Jul – Sep	Apr – Jun	Jan – Mar
Economically Active	78.3%	78.0%	78.5%	78.2%
In Employment	75.5%	75.0%	75.2%	74.8%
Unemployed	3.5%	3.8%	4.1%	4.3%
Economically Inactive	21.7%	22.0%	21.5%	21.8%

The labour market is strong. **Unemployment in Scotland remains at record low levels**, with the jobless count falling by 10,000 between October and December 2018. The number of people in employment in Scotland hit a new high of 2.69 million.

However, Brexit-related uncertainty poses a significant threat to the labour market in Scotland. The Scottish Government projects that **a 'no-deal' Brexit could increase unemployment by over 100,000 people**. International investors, especially in the motor and manufacturing industry, are believed to be withdrawing capital from the UK.

Moreover, in-work poverty remains a stubborn reality across the UK. Recent analysis of poverty and inequality by the Joseph Rowntree Foundation found that "many low-income households" in the UK are "shut out of an acceptable standard of living", which it defines as the Minimum Income Standard:

- **Nearly 19 million people in the UK live on low incomes** below this level – an increase of 2.5 million people since 2008/09
- Nearly 3 in 4 children in lone-parent households live below this level – this is marginally higher than in 2008/09
- 40% of lone parents working full-time have an income below this level
- Pensioners are less likely than working-age adults and children to have low income. However, the number of single pensioners living below this level has risen from 1 in 6 in 2008/09 to 1 in 4 in 2016/17
- Half of all working-age couple parents with a single breadwinner are on low incomes

The Foundation has recommended that the UK Government lift the freeze on working-age tax credits and Universal Credit, so that support keeps pace with the cost of living.

Sources: Joseph Rowntree Foundation, Office for National Statistics

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.