

# STATE OF THE NATION

## SCDI's Economic Data Briefing

### April 2019



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

The Bank of England's Monetary Policy Committee decided unanimously to keep **interest rates unchanged at 0.75%** at its most recent meeting on 21 March. Threadneedle Street is in a cautious, 'wait-and-see' mood in the face of escalating Brexit-related uncertainty and fears of a disorderly, disruptive withdrawal.

Source: Bank of England

## INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Feb	Jan 19	Dec 18	Nov	Oct
	1.9%	1.8%	2.1%	2.3%	2.4%

**Inflation rose marginally to 1.9% in February.** Rising food, alcohol and tobacco prices more than offset falling clothing and footwear prices.

According to analysis by HIM Research & Consulting, 74% of people in the UK believe that food prices will increase after Brexit, with 1 in 4 anticipating large increases.

**Consumers in Scotland are more concerned about higher prices** than shoppers in any other region or nation of the UK.

Source: Office for National Statistics

## PRODUCTIVITY

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

**Scotland's business productivity is expected to grow, albeit slowly,** over the next few years, according to official 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. Scottish employees and employers continue to lag behind those in comparator and competitor countries. Our 'productivity puzzle' remains unsolved.

Sources: David Hume Institute, Scottish Fiscal Commission

## ECONOMIC GROWTH

GDP growth	Scotland
<b>Q4 2018</b>	<b>+0.3%</b>
Services	+0.5%
Production	-0.9%
Construction	+0.8%
Agriculture, forestry & fishing	-1.1%

The pace of **Scottish GDP growth quickened from 0.2% to 0.3% in the last quarter** of 2018, the eighth consecutive quarter of growth.

The Business Services & Finance sector – including Real Estate, Professional, Scientific & Technical Services, Admin & Support and Finance & Insurance Services – made the largest contribution to growth, as the wider Services macro-sector expanded by 0.5%.

The agriculture, forestry & fishing sector continued to shrink significantly. For three consecutive quarters the sector has contracted by 1.1% (Q4), 1.1% (Q3) and 1.4% (Q2). The availability of labour, including seasonal labour, after Brexit will be a critical concern for farmers, crofters, fisherman, food processors and food & drink producers. Nevertheless, this totemic sector, while critical in some regions of the country, represents just 1% of total Scottish GDP.

Similarly, UK GDP grew by 0.3% in Q4. **In the twelve months between Q4 2017 and Q4 2018, the Scottish onshore economy has grown by 1.3%**, which is also the same pace of expansion as the UK.

However, **Brexit-related uncertainty is likely to dampen growth in 2019**, as business investment falls and barriers to trade are erected. The impact of a 'no-deal' Brexit on the Scottish economy would be particularly disastrous.

According to analysis by the Scottish Government's Chief Economic Adviser, Gary Gillespie, 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.

Scotland's close economic relationship with EU markets is worth hundreds of thousands of jobs to Scottish families and billions of pounds to Scottish firms. In 2017, Scotland exported £14.9bn worth of goods and services to the EU – including our largest partners in the Netherlands (£2.5bn), France (£2.4bn), Germany (£2.3bn) and Ireland (£1.5bn) – representing 46% of all Scottish exports. The Scottish Government projects that a 'no-deal' Brexit could increase unemployment by over 100,000 people.

According to the Bank of England, 'no-deal' could precipitate a recession twice as severe as that which followed the financial crisis a decade ago. It forecasts a contraction in the UK economy of up to 8% in 2019 in such a scenario.

Sources: Bank of England, NFU Scotland, Office for National Statistics, Scottish Government

## BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Feb	Jan	Dec	Nov	Oct	Sep	Aug
	49.4	49.2	49.3	52.2	53.4	53.4	55.5

Scotland's private sector contracted again in February, forcing business confidence to its lowest level since October 2016. Scotland was an "underperformer" – optimism north of the border was the second-lowest of any of the UK's nations and regions. New orders and output also fell. Brexit was the most common factor cited by respondents to the monthly PMI survey to explain their business' performance and outlook.

Research by Scottish law firm Anderson Strathern highlights the wide-ranging impact which Brexit could have on business activity and confidence. Over 250 Scottish business leaders from SMEs and larger companies with a turnover of over £25m were surveyed:

- 50% of business leaders identified the EU market as 'key' for their business, making it Scotland's third most important market behind Scotland (86%) and the rest of the UK (57%)
- **57% believe Brexit will have a negative effect on the Scottish economy**
- Leaders of organisations with more than 250 employees, however, have a much more optimistic outlook – 55% believe Brexit will be economically positive
- SMEs take the most pessimistic view – 57% expect a negative impact
- 35% rely heavily on highly-skilled EU staff – 24% on lower-skilled EU staff
- 32% of SMEs have "no idea" what potential quotas or tariffs they will face
- Only 25% of businesses are "fully aware" what 'no-deal' and WTO rules would mean for their business
- 70% have conducted preparations and scenario planning for Brexit
- **43% of SMEs have not completed a risk assessment**
- Businesses identified their workforce (54%); pricing and finance (49%); regulatory and compliance concerns (42%); supply chain disruption (41%); and export/import red tape (33%) as their biggest Brexit "exposure points"

Sources: Anderson Strathern, IHS Markit, RBS

## CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Feb	Jan 2019	Dec 2018
Total Sales Growth	-0.1%	+2.2%	-1.0%
Food Sales Growth	+2.6%	+4.9%	+1.3%
Non-Food Sales Growth	-2.3%	+0.2%	-2.8%

As political and economic uncertainty mounted, Scottish consumers were reluctant to put their hands in their pockets in February. Total sales dipped slightly, while non-food sales dropped significantly. Food sales grew, although this was partly explained by food price inflation. With the Christmas/Hogmanay season firmly in the rear-view mirror, and Brexit on the immediate horizon, **consumer confidence is clearly weak and weakening.**

According to analysis by HIM Research & Consulting, Brexit will likely have a strongly negative impact on consumer activity and confidence:

- 44% of consumers expect less choice in UK supermarkets
- **43% believe that their personal finances will be worse off after Brexit**
- 64% are not planning on making any changes in their shopping habits, but 13% of consumers are planning on "stocking up" on food
- 25% are planning on saving money or reducing their household expenses
- 43% are reducing the cost of their food shop – but there are substantial regional and national differences across the UK. In Scotland, 62% will do so, compared to 67% in Northern Ireland, 25% in the East Midlands and 28% in London

Sources: HIM Research & Consulting, KPMG, Scottish Retail Consortium

## EMPLOYMENT

	Nov – Jan	Aug – Oct	May – Jul	Feb – Apr
Economically Active	78.0%	78.0%	78.3%	78.5%
In Employment	75.3%	75.0%	75.0%	75.2%
Unemployed	3.4%	3.7%	4.1%	4.2%
Economically Inactive	22.0%	22.0%	21.7%	21.5%

Scotland's employment rate continues to rise to record highs. It now stands at 75.3%, the highest level on record since comparable data was first recorded in 1971. However, this expansion in employment could be a corollary of lower levels of investment in technology, infrastructure and training. In the face of Brexit-related uncertainty, cautious businesses may be using labour to solve problems and plug gaps, rather than by investing in new systems, processes or technology, with an impact on productivity.

Nonetheless, the risk of automation 'hollowing out' the labour market in the long-term remains clear. **7.4% of those in work – 1.5 million people in England – are at "high-risk" of losing their jobs to automation.** 70% of these roles are held by women, with young people also disproportionately at risk.

The picture is likely to be similar in Scotland. Occupations with the highest probability of automation are lower-skilled and routine, such as waiters, shelf fillers and elementary sales roles. Medical practitioners and teaching professionals are at lowest risk.

Source: 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.

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