

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 Bank of England's Monetary Policy Committee is scheduled for 2 May, at which **the Bank Rate is expected to remain unchanged**.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Mar	Feb	Jan	Dec	Nov
	1.9%	1.9%	1.8%	2.1%	2.3%

Inflation remained stable at 1.9% in March in defiance of some expectations. The rising price of petrol and diesel was offset by the falling price of food. However, there are concerns that imported food prices in particular will increase substantially in the event of a 'hard' or disruptive Brexit.

Given that the Bank of England's target for inflation is 2%, these latest figures will also significantly ease the pressure on Threadneedle Street to raise interest rates.

Source: Office for National Statistics

PRODUCTIVITY

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

Business and organisational productivity remains an ongoing challenge for the Scottish economy. Productivity growth is expected to remain stubbornly low over the half-decade, according to the Scottish Fiscal Commission, Scotland's independent and official forecasting body. Remarkably, **productivity levels are unchanged from 2010**.

Productivity was a key theme of SCDI Forum 2019, which convened over 300 senior leaders from business, government, diplomacy and academia in Edinburgh in late April.

Sources: Fraser of Allander Institute, Scottish Fiscal Commission

ECONOMIC GROWTH

Brexit Scenario Forecasts	2019	2020	2021
Business Investment Unlocked	+1.7%	+1.8%	+1.6%
Central Forecast	+1.1%	+1.4%	+1.5%
No deal max policy response	-0.2%	-0.3%	+1.3%
No deal no policy response	-2.1%	-1.5%	+1.4%

Scottish employers and employees continue to face Brexit-related uncertainty. **Future growth will depend to a great extent on the nature and timing of Brexit** – or, indeed, whether the UK's withdrawal from the EU happens at all. The Fraser of Allander Institute has developed four Brexit scenarios and produced forecasts for economic growth based on their projected impact on the Scottish economy.

The range of possible scenarios, it says, remain "as wide as ever". According to its central forecast, which presumes an "orderly departure" in 2019, Scottish GDP will grow by 1.1% in 2019, rising gradually to 1.4% in 2020 and 1.5% in 2021. The UK's planned departure date has been delayed, in order to avoid a disastrous 'no-deal' scenario, until 31 October.

Nonetheless, the UK could still leave without a deal, resulting in significant and widespread disruption for employers and employees – and to supply chains, just-in-time processes, exports, imports, investment and labour – across all sectors and all geographies of the Scottish economy. **In the event of 'no-deal', the Fraser of Allander Institute envisages Scotland falling into a short, but potentially deep, recession**, defined as at least two consecutive quarters of negative growth.

In the worst-case scenario, the Scottish economy could contract by 2.1% in 2019 and again by 1.5% in 2020. However, this assumes no policy response from the UK Government or Bank of England. In the event of a fiscal and monetary policy response to stimulate business activity and consumer spending, the decline this year (0.2%) and next (0.3%) is much smaller.

New data from Barclays suggests that the adoption of 5G – the fifth generation of advanced wireless connectivity and one of the key technologies of the Fourth Industrial Revolution which is already disrupting and transforming the global, UK and Scottish economies – could supercharge Scotland's economy by up to £1.12bn per year by 2025. However, Barclays have counselled that the opportunity could be missed, because industry leaders are still unclear about the tangible benefits of significant investment in this technology, including higher levels of productivity.

Network Rail have laid out ambitious plans for boosting the freight industry. It has proposed to increase freight activity by 7.5% net tonne miles. Freight already generates an estimated £200m for the Scottish economy. Increasing the resilience and capacity of Scotland's rail network is crucial to the Scottish economy, given the importance of the transportation of goods. Four million tonnes of products were moved by rail in Scotland in the last twelve months alone.

Sources: Barclays, Fraser of Allander Institute, Network Rail

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Mar	Feb	Jan	Dec	Nov	Oct	Sep
	49.6	49.4	49.2	49.3	52.2	53.4	53.4

Private sector economic activity in continued to fall in March, as has been the case in each of the past four months. Although there was a slight improvement, the figure was still indicative of a contraction of the sector and an overall deterioration in the level of Scottish business activity.

The slowdown has been attributed to the weakening demand faced by firms. There are expectations, including from RBS, that the next twelve months may see client and business confidence begin to pick up once the political and economic uncertainty as a result of the Brexit process starts to dissipate.

The strongest performing sector in the Scottish economy last year was the technologies industry, which is expressing optimism about the future. Data from ScotlandIS, the trade association championing Scotland's digital technologies sector, illustrates that the share of companies reporting increased sales and profit margins in 2018 rose from 68% to 75% and from 47% to 51% respectively. Scotland has an estimated 9,400 tech firms.

Sources: IHS Markit, RBS, ScotlandIS

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Mar	Feb	Jan
Total Sales Growth	+0.3%	-0.1%	+2.2%
Food Sales Growth	-0.2%	+2.6%	+4.9%
Non-Food Sales Growth	+0.7%	-2.3%	+0.2%

Scottish retail sales were steady in March, despite Easter falling in April this year. As a result of Mother's Day, there was strong performances in the jewellery and watches category. However, beauty products did not perform at the same level as in 2018. In contrast to the rest of the UK, where total sales fell by 0.5%, sales in Scotland were up 0.3%, fuelled largely by non-food sales growth. Scottish food sales, however, shrank.

The Scottish High Street continues to face serious difficulties. The rise and rise of online shopping was devastating for several famous British brands in 2018, with the likes of HMV, Laura Ashley, Mothercare and Maplin forced into store closures, redundancies and even administration. The first major casualty of 2019 is Debenhams, which fell into administration in April. The firm will close 50 stores across the UK, including one in Kirkcaldy, reducing its total footprint to 116. A total of 1,600 jobs are at risk.

The Competition and Markets Authority, the UK's primary competition and consumer authority, **blocked a proposed £12 billion merger between supermarket giants Asda and Sainsbury's.** The CMA's analysis found that UK shoppers and motorists would be worse off if it allowed the merger to proceed. It anticipated higher price rises, reduced quality and range of products and a poorer overall shopping experience as a result of less

competition and more oligopoly in the sector. Many Asda and Sainsbury's supermarkets and petrol stations, for example, are located close together.

Asda and Sainsbury's claim that the tie-up would reduce costs, enabling lower consumer prices had been rejected by unions and, now, the CMA. It concluded that any remedial conditions attached to approval of the deal would be insufficient to counter the fundamental impact of the merger on the retail market.

Sources: Competition and Markets Authority, KPMG, Scottish Retail Consortium

EMPLOYMENT

	Dec 18–Feb 19	Sep 18–Nov 18	Jun 18–Aug 18	Mar 18–May 18
Economically Active	78.2%	78.1%	78.0%	78.9%
In Employment	75.6%	75.3%	74.9%	75.6%
Unemployed	3.3%	3.6%	3.9%	4.2%
Economically Inactive	21.8%	21.9%	22.0%	21.1%

Unemployment in Scotland fell to another record low of 3.3% in the three months to February, according to official figures. Employment is also near record high levels. The jobless total fell by 8,000 in the previous quarter to 93,000. This below the UK rate of 3.9%.

The Scottish labour market is performing very strongly in many respects, despite the ongoing risk posed by Brexit. ScotlandIS found that 81% of Scottish tech firms will increase employee numbers in the year ahead, up slightly on 2018 (80%) and 2017 (78%).

In the face of an increasingly tight labour market and a low birth rate, many Scottish employers are increasingly looking to inward migration to fill skills gaps. Around 5.2% of Scotland's total workforce are EU nationals. The higher education, tourism & hospitality and agriculture sectors are especially reliant on EU labour and talent. An estimated 21,000 EU citizens are employed in the tourism industry, for example, which is 11.6% of the total number of workers in the sector.

Sources: Office for National Statistics, ScotlandIS, 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, David Kelly: david.kelly@scdi.org.uk.