

State of the Nation: February 2018

SCDI's Economic Data Briefing

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	January	3%
<i>Office for National Statistics</i>	December	3%
	November	3.1%

The Bank of England's inflation target rate is 2%.

INTEREST RATE

Official Bank of England Rate	0.5%
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Bank of England

On 8 February, the Bank of England's Monetary Policy Committee (MPC) voted unanimously to maintain the Official Bank Rate at 0.5%. The MPC signalled that gradual interest rate increases to bring inflation down from its current level were likely from May onwards, citing increasingly strong average wage and GDP growth across the UK. However, with the UK widely expected to grow at around twice the rate of Scotland in 2018 (*see below*), questions will likely be raised about whether the Scottish economy is ready for interest rate rises.

CONSUMER ACTIVITY & CONFIDENCE

Retail Sales Index for Scotland (RSIS)

<i>Scottish Government</i>	Q4 2017	Q3 2017
Growth in volume of retail sales	0.0%	0.2%
Growth in value of retail sales	1.1%	0.4%

Scottish Consumer Sentiment (SCS) Indicator

<i>Scottish Government</i>	Q4 2017	Q3 2017
SCS Score	-4.3	-3

ECONOMIC GROWTH

Scottish GDP Growth Rate Forecast

<i>Scottish Fiscal Commission</i>	2018	0.7%
	2019	0.9%
	2020	0.6%
	2021	0.9%
	2022	1.1%

The Scottish Fiscal Commission highlighted chronically low population and productivity growth as the twin principal causes of this low growth outlook – which could worsen if, as anticipated, Brexit results in substantially lower net migration and a shrinking working-age population. All of Scotland's population growth over the next 25 years is projected to come from immigration.

On 7 February, the Scottish Government published a discussion paper underlining this demographic threat to Scottish growth. Modelling estimated that Scottish GDP will be 4.5% (or £5bn) lower by 2040 "than it would have been otherwise" due to lower migration post-Brexit. If the UK Government meets its target to reduce net migration to the "tens of thousands", GDP will be lower by 9.3%.

UK GDP Growth Rate Forecasts

<i>Office for Budget Responsibility</i>	2018	1.4%
	2019	1.3%
	2020	1.3%
<i>International Monetary Fund</i>	2018	1.5%
	2019	1.6%
	2020	1.7%
<i>Bank of England</i>	2018	1.6%
	2019	1.7%
	2020	1.7%

PRODUCTIVITY

<i>Scottish Government</i>	Q3 2017	Q2 2017
Quarterly (Trend-Based) Labour Productivity Growth in Output per Hour	-0.7%	-0.6%
Rolling Annual Labour Productivity Growth in Output per Hour	-3.2%	-2.2%

EXPORTS

Export Statistics Scotland 2016

Scotland's official export statistics are released on annual basis by the Scottish Government and **exclude offshore and onshore oil and gas**.







Headline data:

- **Total exports in 2016 were down by 5%** on 2015, falling to £75.6bn
- **International exports up** 1.6% to £29.8bn – **EU exports down** 0.8% to £12.7bn; **Non-EU exports up** 3.4% to £17.1bn
- **Rest of the UK exports down** 8.8% to £45.8bn
- Scottish export growth concentrated in emerging markets (e.g. exports to China up 61% since 2010), which remain under-exploited (e.g. exports to India down 4% since 2010)
- Scottish exports underperforming the rest of the UK (but way data is recorded may paint incomplete picture)

Destination of exports

Rest of the UK		61%	£45.8bn
EU		17%	£12.7bn
Rest of the World		23%	£17.1bn

Top export destinations

1. USA		16%	£4.8bn
2. The Netherlands		7%	£2.1bn
3. France		7%	£2bn
4. Germany		6%	£1.9bn
5. Norway		5%	£1.4bn
6. Ireland		3.4%	£1bn

Composition of exports

	rUK	EU/RoW
Manufacturing	23%	52%
Services	56%	39%
Other	21%	9%
Largest sector	Financial services	Food & Drink

EMPLOYMENT

Office for National Statistics		Sept – Nov 2017	Jun – Aug 2017
Nomis: Nation Profile	Economically Active	78.3%	78.5%
	In Employment	75.0%	75.3%
	Unemployed	4.0%	4.1%
	Economically Inactive	21.7%	21.5%

Employment in Scotland remains at a near-record high and unemployment at a near-record low. Demand for labour continues to outstrip supply. For the second consecutive quarter the **Scottish Chambers of Commerce Quarterly Economic Indicator** raised significant concerns about recruitment. In Q3 2017, 32% of all businesses reported recruitment difficulties, increasing to 47% in Q4 – the highest ever figure. 67% of businesses in the tourism sector reported recruitment issues.

However, despite the historically low jobless rate, there is significant concern about the quality of the jobs which are being created. Extrapolating from UK statistics, there are an estimated 274,000 people in Scotland in "insecure employment", including those in the "gig economy" on temporary or zero-hours contracts. Around 160,000 people are also in low-paid self-employment.

BUSINESS ACTIVITY & CONFIDENCE

Bank of Scotland Seasonally-Adjusted PMI	January 2018	50.3
IHS Markit	December 2017	49.4
	November	50.2
	October	52.7

After a marginal contraction in December, Scotland's private sector returned to growth in 2018. Although this growth was very weak, business confidence surged to its highest level since 2014, fuelled by strong increases in new orders. Manufacturing exports increased thanks to the continued weakness of Sterling. Services sector output declined marginally to complete a mixed national picture.

This briefing brings together economic data from various sources to enable an at-a-glance view of the current state of Scotland's economy, based on the most up-to-date statistics available. It is designed to enable an informed discussion about how we grow Scotland's economy for everyone, everywhere.

To discuss any aspect of this briefing, or SCDI's views on the data, please contact Matt Lancashire, Director of Policy & Public Affairs: matt.lancashire@scdi.org.uk or 0141 222 9723.