

State of the Nation: April 2018

SCDI's Economic Data Briefing

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	February 2018	2.7%
Inflation fell in February, with the post-Brexit referendum spike perhaps now beginning to dissipate. However, inflation continues to register above the Bank of England's target rate of 2%.	January	3%
	December	3%
	November	3.1%

RESEARCH & DEVELOPMENT

The **Gross Expenditure on Research & Development (GERD) Scotland** report is published annually every March. GERD records total R&D spending – which drives innovation, increases productivity and fuels economic growth – by Scotland's business, higher education, government and private non-profit sectors.

The report's data shows that in Scotland in 2016:

- **GERD increased by 2.2% to its highest recorded level** (over £2.3bn)
- **R&D spending increased to 1.54% of GDP**
- 7% of UK R&D spending took place in Scotland, which is 9% of the UK economy
- Business Enterprise R&D (BERD) increased by 10% to over £1.07bn
- Higher Education R&D (HERD) decreased by nearly 5% to over £1.06bn
- HERD in Scotland was the fifth highest in the OECD as a proportion of GDP
- BERD overtook HERD for the first time, but was still very low by OECD standards
- Government R&D was also among the lowest in the OECD

The world's most prosperous, innovative and technologically-advanced economies invest a far greater proportion of their GDP in R&D than the UK (1.7%) and Scotland (1.5%). For most, this includes much higher rates of government investment. South Korea's government, for example, directly spends the equivalent of nearly 0.5% of national GDP on R&D, five times as much as Scotland and the UK. GERD in South Korea is 4.2% of GDP. The OECD average is 2.4%; the EU average is 1.94%.

OECD, Scottish Government

ECONOMIC GROWTH

International Comparisons	2017 Annual Growth
Scotland 	0.8%
UK 	1.4%
China 	6.9%
France 	2.5%
Germany 	2.9%
India 	7.0%
Japan 	1.6%
Russian Federation 	1.7%
United States of America 	2.5%
<i>G7 average</i>	<i>2.3%</i>
<i>OECD average</i>	<i>2.6%</i>
<i>Eurozone average</i>	<i>2.7%</i>

The global economic picture is one of relatively strong, consolidating growth. All of the world's biggest economies – barring the historical outlier of Japan and sanctions-hit Russia – are growing at an annual rate of 2% or more. India has overtaken China as the world's fastest growing economy. Recent concerns of a US-China "trade war" would put global growth at risk.

The UK, however, is lagging behind. Political uncertainty surrounding post-Brexit trade appears to be contributing to low growth of almost half the Eurozone average. The Eurozone is in recovery, which is good news for Scotland as it remains our most important overseas export market, as highlighted in the last *State of the Nation* briefing. However, the pace of Scottish growth remains a cause for concern.

Eurostat, OECD, Reuters, Scottish Government, World Bank

INTEREST RATE

Official Bank of England Rate	0.5%
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Interest rates remain unchanged at 0.5%. However, the Bank of England's Monetary Policy Committee is expected to implement incremental increases from May onwards in an attempt to bring inflation closer to the target rate of 2%.

BUSINESS & CONSUMER CONFIDENCE

Bank of Scotland Seasonally-Adjusted PMI	February 2018	49.5
	January 2018	50.3
	December 2017	49.4
	November	50.2
	October	52.7

The Bank of Scotland Purchasing Managers' Index (PMI) is a monthly survey of businesses tracking economic activity and confidence in Scotland's private sector. A PMI rate of above 50 signals an "increase or improvement"; a PMI below 50 signals a "decline or deterioration".

Over the past four months for which data is available, the private sector has oscillated between contraction and expansion. In February, it fell back into marginal decline after a month of weak, and evidently transient, growth.

IHS Markit

Scottish Small Business Confidence Index	Q1 2018	-17.8
	Q4 2017	-21.4

The Scottish Small Business Confidence Index measures the outlook of small businesses and is produced by the Federation of Small Businesses (FSB) Scotland from survey data. A negative net score suggests that entrepreneurs expect the economic situation to deteriorate; a positive net score suggests they expect improvement.

Confidence has improved since the last quarter of 2017, but remains negative. Scottish small businesses are much more pessimistic about their outlook than the counterparts south of the border. The UK equivalent index reached +6 in the first quarter of 2018.

55% of businesses identified the state of the domestic economy as a barrier to growth. Hospitality and retail companies reliant on consumer spending are more pessimistic about the future than other firms. As noted in previous *State of the Nation* briefings, the **Scottish Consumer Sentiment Indicator** shows that consumer confidence is low. Scots ended 2017 feeling that their household financial security had improved and expecting their finances to improve in 2018. However, despite this positivity about their personal financial situation, households remained strikingly reluctant to spend, heavily influenced by negative perceptions of the national economic situation.

Federation of Small Businesses, Scottish Government

EMPLOYMENT

	Nov 2017 – Jan 2018	Sept – Nov 2017	Jun – Aug 2017
Economically Active	78.1%	78.3%	78.5%
In Employment	74.8%	75.0%	75.3%
Unemployed	4.3%	4.0%	4.1%
Economically Inactive	21.9%	21.7%	21.5%

Scotland's unemployment rate is equal to the UK average. Employment is marginally lower than across the UK, but is now marginally above its pre-crisis rate in 2008. There are significant regional inequalities. Employment is only 66% in Glasgow and just 65% in Dundee, compared to over 88% in Orkney. Youth unemployment is worst in Glasgow, East Dunbartonshire and Stirling. Dundee, Moray and the Borders have suffered the largest falls in employment since 2008, while employment has increased significantly in Orkney, the Western Isles, North Lanarkshire and Dumfries & Galloway.

Office for National Statistics

PRODUCTIVITY

	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%

Scottish productivity is higher than in 2007 by 5.4%, but continues to fall back, hitting its lowest level since 2009. This has had a negative impact on wages and, consequently, living standards and consumer confidence.

Scottish Government

This briefing brings together economic data from various sources to give 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.