

State of the Nation: May 2018

SCDI's Economic Data Briefing

INTEREST RATE

Official Bank of England Rate **0.5%**

Interest rates remain unchanged. The Monetary Policy Committee had been expected to vote for increases in May to bring inflation closer to 2%, but its month-on-month fall may yet cause Threadneedle Street to reconsider.

Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate **March 2018** **2.5%**

Inflation continued to fall towards the Bank of England's target rate of 2% in March. Inflation is now at its lowest level in 12 months and has fallen for two months running for the first time since 2015.

February	2.7%
January	3.0%
December 2017	3.0%

Over the past decade, stubbornly high inflation and historically weak wage growth has created what some commentators have called a "cost of living crisis". Inflation has been higher than wages growth for over a year, squeezing household spending power and weakening consumer confidence. Most recently, average UK wages in the three months to February increased by 2.8%, against inflation of 2.9% over the same period, with the picture expected to improve.

ONS

CONSUMER SPENDING

Visa UK Consumer Spending Index	March 18	February	January
Annual change in overall spending	-2.1%	-1.0%	-1.2%
<i>face-to-face spending</i>	-3.0%	-2.4%	-4.0%
<i>e-commerce spending</i>	-1.2%	+0.3%	+1.5%

Consumer spending in the first quarter of 2018 fell to its lowest level since 2012. March's "Beast from the East" caused some disruption to face-to-face trading. However, the continued impact of declining real wages – employees' take-home pay – was much stronger. As 60% of the total UK economy, changes in consumer spending have a substantial knock-on effect.

IHS Markit

ECONOMIC GROWTH

	Scotland	UK
GDP growth – 2017	0.8%	1.8%
GDP growth – Q4 2017	0.3%	0.4%
<i>Services</i>	0.5%	0.6%
<i>Production</i>	0.9%	0.5%
<i>Construction</i>	-2.6%	-0.7%
<i>Agriculture, forestry and fishing</i>	-0.1%	-0.9%
<i>GDP per person</i>	0.2%	0.2%
GDP growth, Q3 2017	0.2%	0.4%
GDP growth, Q4 2016 – Q4 2017	1.1%	1.4%

- *Scottish and UK data not precisely comparable – Scottish data only measures onshore economy; UK data includes offshore oil and gas activity*
- *Scottish economy underperforming with lacklustre growth*
- *Services sector – retail, financial services, government, hospitality, property etc. – is 75% of Scottish economy and made largest contribution to Q4 growth*
- *Production sector – manufacturing, utilities, mining etc. – is 17% of the economy and grew in Q4*
- *Construction sector is 6% of the economy – the sector is returning to a normal level of activity after the completion of several large-scale, high-value projects of national importance (Forth Replacement Crossing, M8, Borders railway etc.); Construction sector is still 15% larger than in 2014*
- *Agriculture, forestry and fishing is just 1.4% of the economy*

Scottish Government, ONS

PRODUCTIVITY

UK Labour Productivity	Q4 2017	Q3 2017
Output per hour	0.7%	0.9%
<i>Services</i>	0.3%	1.0%
<i>Manufacturing</i>	2.6%	1.0%

UK productivity grew for two consecutive quarters, after falling in the first half of 2017. The retail and hospitality sectors are a strong drag on the overall growth. Retail productivity fell by 1.6% over 2017 and is less than four fifths of the national rate; hospitality fell by 6% over the past decade and is half of the national rate. Dutch, French and German workers in these low-wage sectors produce more in four days than their British counterparts produce in five.

ONS, Joseph Rowntree Foundation

BUSINESS ACTIVITY & CONFIDENCE

Bank of Scotland Seasonally-Adjusted PMI	March 2018	50.8
	February	49.5
	January	50.3
	December 2017	49.4
	November	50.2
	October	52.7
	September	52.5

The Bank of Scotland Purchasing Managers' Index (PMI) is a monthly tracker of business activity and confidence. A PMI above 50 signals an "increase or improvement"; below 50 signals a "decline or deterioration".

The private sector returned to growth in March. Although weak, it was the strongest growth recorded by the PMI since October 2017 and most respondents retained a positive outlook for 2018. Manufacturing and services output increased thanks to a "moderate" rise in new domestic and foreign demand, leading to firms to hire new staff and continuing clearing backlogs as since January 2015. However, businesses also noted "sharp" cost inflation for food, fuel and labour.

IHS Markit

RBS Scottish Business Monitor Q1 2018

The RBS Scottish Business Monitor is conducted on a quarterly basis in partnership with the Fraser of Allander Institute at the University of Strathclyde. Over 400 enterprises are surveyed to similarly gauge business activity and confidence.

- **All regions experienced "sluggish" or zero increase in trade – except East Central Scotland**, thanks to increased activity in Edinburgh's financial services sector
- 32% of firms reported higher turnover
- 32% of firms reported lower turnover
- Production firms had a modest rise in turnover overall
- Services firms experienced a modest fall in turnover overall
- 59% of firms reported rising costs, with inflationary pressures most serious in tourism (65%), distribution (63%) and construction (60%)
- Lowest level of export demand since 2016

Fraser of Allander Institute

Scottish private sector growth, to quote the Fraser of Allander Institute, "ground to a halt" in the first quarter of 2018. Both sets of data agree that businesses are struggling with cost pressures. March's cold and stormy weather had some impact, particularly on the retail sector. But technology and home working have significantly diluted the negative macroeconomic impact of any disruption caused by bad weather.

EMPLOYMENT

	Dec 17 – Feb 18	Sept – Nov 17	Jun – Aug 17
Economically Active	78.3%	78.3%	78.5%
In Employment	75.0%	75.0%	75.3%
Unemployed	4.2%	4.0%	4.1%
Economically Inactive	21.7%	21.7%	21.5%

The Scottish labour market is almost unchanged since November. Economic activity, employment and economic inactivity remained static. Unemployment, however, increased marginally. 115,000 Scots are now jobless and seeking work, an rise of 3,000 people. On each of the four key indicators, Scotland is closely in line with the UK average. The UK employment rate is at its highest level since records began in 1971. Youth unemployment is 12%.

ONS

Technological Change and the Scottish Labour Market

In April, the Scottish Government and the Scottish Trades Union Congress published a joint report exploring the potential impact of the technological changes associated with the **Fourth Industrial Revolution** – automation, digitisation, artificial intelligence etc. – on the labour market.

It found that there was "little evidence" that such technologies are "disrupting the Scottish labour market" – which is "performing strongly" and remains stable – or are "likely to do so in the short- to medium-term". Although new technology could "pose new and serious challenges" by making some jobs redundant, it may also create many new jobs, while increasing productivity for employers and delivering better quality of life for employees. Nevertheless, the report also raised concerns that it could worsen labour market inequalities. Since the 2008 crisis, "atypical", insecure and largely low-pay/low-skill forms of work – self-employment, zero-hours contracts, part-time work etc. – have become much more widespread. 2.7% of the Scottish workforce is on a zero-hours contract. The decade's overall rise in employment has been driven by a strong increase in part-time self-employment. 28% of the self-employed now work part-time, up from 21% a decade ago.

The Fourth Industrial Revolution will be a key theme of [SCDI Forum 2018](#).

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.