

State of the Nation: June 2018

SCDI's Economic Data Briefing

INTEREST RATE

Official Bank of England Rate **0.5%**

The Bank of England held interest rates steady at its 10 May meeting. Seven of nine members of the Monetary Policy Committee voted for no change. **Governor Mark Carney denied he had sent "mixed signals"** after indications that interest rates would rise to prevent a strengthening UK economy from "overheating". Slower GDP growth in the first quarter of 2018 – a "temporary soft-patch", precipitated by the so-called "Beast from the East", according to Carney – prompted a rethink. *Bank of England*

INFLATION

UK Consumer Prices Index (CPI) Annual Rate **April 2018** **2.4%**

Inflation continued to fall towards the Bank of England's 2% target rate, surprising some observers. Housing, recreation and culture and transport were the primary contributors to April's rise. Stronger global growth and higher crude oil prices were transmitted to consumers via higher utility bills.

Month	Annual Rate
March	2.5%
February	2.7%
January	3.0%
December 2017	3.0%

After the introduction of the Soft Drinks Industry Levy on April 6, sugary drink costs also rose, but some retailers have not passed on the tax to consumers. *ONS*

CONSUMER ACTIVITY & CONFIDENCE

Retail Sales Index for Scotland	Q1 2018	Q4 2017	Q3
Growth in <i>volume</i> of retail sales	0.5%	-0.3%	0.2%
Growth in <i>value</i> of retail sales	0.5%	0.8%	0.4%

Quarterly growth in Scottish retail sales resumed in the first three months of 2018, despite winter weather disruption. GDP data shows that online retail sales actually increased during the bad weather, offsetting the inevitable decline in high street footfall. However, retail performance was significantly worse in April if the **Scottish Retail Consortium-KPMG Retail Sales Monitor** is any indication. It found total sales fell by 3.4% on April 2017. Non-food sales fell by 5.5%, the worst performance since April 2012. Food sales fell by 0.8%. *Scottish Government*

ECONOMIC GROWTH

	Q1 2018	Q4 2017
UK GDP growth	0.1%	0.4%
Services	0.3%	0.6%
Production	0.6%	0.5%
Construction	-2.7%	-0.7%
Agriculture, forestry and fishing	-1.4%	-0.9%
GDP per person	-0.1%	0.2%

The UK economy slowed to its weakest quarterly growth in six years in the first quarter of 2018. The Office for National Statistics insisted – contrary to the claims of the UK government, the judgement of the Bank of England and much of the media – that the negative economic impact of the weather was "limited". Only the construction sector experienced notable disruption. Household spending rose by 0.2%, the slowest rate since 2015. Meanwhile, business investment fell by 0.2%.

Scotland-only data for Q1 2018 is still to be published and will feature in July's edition of *State of the Nation*. *ONS*

2018 GROWTH FORECASTS

	IMF	European Commission	OECD
Brazil	2.3%	2.4%	2.2%
China	6.6%	6.6%	6.7%
<i>Eurozone</i>	2.4%	2.3%	2.3%
France	2.1%	2.0%	2.2%
Germany	2.5%	2.3%	2.4%
Italy	1.5%	1.5%	1.5%
India	7.4%	7.4%	7.2%
Japan	1.2%	1.3%	1.5%
UK	1.6%	1.5%	1.3%
USA	2.9%	2.9%	2.9%
Global	3.9%	3.9%	3.9%

The European Commission, IMF and OECD released refreshed growth projections for 2018 over the past few weeks. Anticipated UK growth is well behind the Eurozone average and is the equal lowest in the EU alongside Italy.

BUSINESS ACTIVITY & CONFIDENCE

Bank of Scotland Seasonally-Adjusted PMI	April 2018	52.6
The Purchasing Managers' Index is a seasonally adjusted, single-figure measure of month-on-month change in Scotland's combined manufacturing and services output – greater than 50 signals enlargement; less than 50 signals deterioration.	March	50.8
	February	49.5
	January	50.3
	December 2017	49.4
Growth in April was the fastest recorded since October last year thanks to strong growth in the services sector. Meanwhile, manufacturing output fell for the third month in succession.	November	50.2
	October	52.7
	September	52.5

Job creation increased modestly to meet growing demand and reduce backlogs. Cost pressures were more significant for manufacturing firms in the face of persistent food, fuel and labour inflation. As a result, price inflation rose to its highest level in 15 months. *IHS Markit*

Housing Market

- **Average house price in Scotland reached £174,900** in March 2018 – **7.6% increase** on 2017
- Properties most expensive in East Renfrewshire, Edinburgh and East Dumbartonshire; least expensive in Na h-Eileanan Siar, Inverclyde and West Dumbartonshire
- Royal Institution of Chartered Surveyors reported uptick in new buyer enquiries in Scotland in April
- 87% of Scottish home owners expect the value of their property to increase over the next six months
- **Average UK house price increased by 4.2%** – but fell in London by 0.7%
ONS, Registers of Scotland, Scottish Government, Zoopla

PRODUCTIVITY

	Q4 2017	Q3	Q2
Quarterly (Trend-Based) Labour Productivity Growth in Output per Hour	1.0%	-0.7%	-0.6%
Rolling Annual Labour Productivity Growth in Output per Hour	-1.9%	-3.2%	-2.2%

Between 1998 and 2007, output per hour worked in the Scottish onshore economy increased by an average of 1.5% each year. In the decade since, this average has fallen to 0.5%, exacerbating Scotland's historic underperformance. Productivity growth has returned, however, in the last quarter. *Scottish Government*

EMPLOYMENT

	Jan – Mar 18	Oct – Dec 17	Jul – Sept 17
Economically Active	78.1%	77.9%	78.4%
In Employment	74.7%	74.3%	75.2%
Unemployed	4.3%	4.5%	4.0%
Economically Inactive	21.9%	22.1%	21.6%

According to the headline indicators, the Scottish labour market continues to perform near its historic peak. Employment and economic activity increased marginally in the first three months of 2018, while unemployment and economic inactivity fell.

Scotland, however, is performing just behind the UK. **The UK employment (75.6%), unemployment (4.2%) and inactivity (21.0%) rates all hit record levels in March.** Employment is higher than it has ever been since comparable records began in 1971; unemployment has not been lower since 1975; inactivity was last this low in 1971. In several sectors employers are reporting difficulties recruiting staff, whether high- or low-skilled, as the domestic supply of labour and post-Brexit levels of inward migration contract.

Nevertheless, **the headline numbers obscure deeper issues which suggest a much more dysfunctional labour market.** Youth unemployment in Scotland is now 10.5%. 152,000 Scots aged 16 or over (excluding students) have never worked. Only half of economically inactive people – those between 16 and 64 who are not in employment nor actively seeking work – are students or suffering from long-term sickness. Less than a quarter of those who are economically inactive say that they would like a job. Moreover, in-work poverty is growing as low-paid and insecure employment proliferates. There are around 1 million Scots living in relative deprivation – 59% of working-age adults living in poverty are in working households; 66% of children living in poverty have at least one parent who works. Significant questions remain, therefore, about the kind of jobs which are being created as the economy approaches peak labour capacity. *Scottish Government, ONS*

This briefing brings together headline data from various credible sources to give an at-a-glance view of Scotland's economy, based on the most up-to-date statistics available. It is compiled to inspire and inform an evidence-based debate 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.