

State of the Nation: July 2018

SCDI's Economic Data Briefing

INTEREST RATE

Official Bank of England Rate **0.5%**

The Monetary Policy Committee decided on 21 June to, once again, maintain UK interest rates at 0.5%. Low GDP growth, weak wage growth and above-target inflation would have been key factors in their deliberations. *Bank of England*

INFLATION

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

Inflation remained steady, driven largely by rising fuel prices. Fuel prices are now at a three-year high after increasing by 3.8% in May, the largest monthly surge since January 2011. The **RAC** says that current prices are unjustifiable in the face of falling wholesale costs and is demanding that retailers pass this on to consumers. *ONS, RAC*

Month	Annual Rate
April	2.4%
March	2.5%
February	2.7%
January	3.0%
December 2017	3.0%

CONSUMER ACTIVITY & CONFIDENCE

Scottish Consumer Sentiment Indicator **Q1 2018** **-1.8**

The Scottish Consumer Sentiment Indicator is a composite measure reflecting 2,000 respondents' present views on, and expectations of, national economic performance, household financial security and attitudes to spending. Net balances indicate whether overall sentiment is positive or negative.

Quarter	Indicator
Q4 2017	-4.3
Q3 2017	-3.0
Q2 2017	-3.5
Q1 2017	-4.8

Overall consumer sentiment improved substantially in the first three months of 2018, but remained negative. Sentiment was last positive in Q2 2016.

Household expectations improved, marginally boosting willingness to spend.

Data from the **Scottish Retail Consortium** shows that total sales were up 2.6% in May against the previous year. The four-year retail sales high was fuelled by strong summer demand for garden furniture, barbecues, clothing and food. Scots continue to believe, however, that the macroeconomic picture will worsen, likely dampening consumer activity. *Scottish Government, SRC*

ECONOMIC GROWTH

GDP growth, Q1 2018	0.2%
Services	0.4%
Production	0.9%
Construction	-3.5%
Agriculture, forestry and fishing	0.2%
GDP per person	0.1%
GDP growth, Q1 2017 – Q1 2018	0.8%

Scottish GDP growth slowed from 0.3% in Q4 2017, but UK growth in Q1 2018 was only 0.1%. The Construction sector continues to contract rapidly after the conclusion of several large connectivity and energy infrastructure projects.

The public is feeling the impact of low growth. The **Scottish Social Attitudes Survey 2017** found that 56% believed that living standards fell last year. Only 14% thought they had risen. 50% said the economy was weaker. *Scottish Government*

SCOTLAND'S ECONOMIC AND FISCAL FORECASTS

The **Scottish Fiscal Commission** is Scotland's independent official forecaster. SCDI President Dame Susan Rice is Chair of the Commission.

	2018	2019	2020	2021	2022	2023
GDP growth	0.7%	0.8%	0.9%	0.9%	0.9%	0.9%
Productivity growth	0.2%	0.5%	0.8%	0.9%	1.0%	1.1%
Real wages growth	-0.5%	0.0%	0.2%	0.6%	0.9%	1.2%

In its *Scotland's Economic and Fiscal Forecasts* report, the Commission revised its key forecasts downwards. GDP grew by 0.2% in 2016 and 0.8% in 2017. The Commission does not anticipate economic growth breaking 1% before 2024, due to low population and productivity growth. Real wages growth was therefore negative in 2017 (-1.0%) and is expected to remain weak. The knock-on effect of lower income tax receipts means that there will be a gap in Scottish public finances which will need to be closed. The deficit will be £317m in 2018-19 alone.

The Commission's view, however, is not shared by all. The **Fraser of Allander Institute** anticipates Scottish GDP growth of 1.2% in 2018, 1.3% in 2019 and 1.3% in 2020. While Brexit-related uncertainty is a major concern, "cautious optimism" is warranted due to strong labour market data and a resurgent oil and gas industry, it claims. Strong global growth and a weak pound also creates opportunities for Scottish exports – although a "trade war" with the US, Scotland's largest export market and biggest inward investor, puts this at risk. *FAI, SFC*

BUSINESS ACTIVITY & CONFIDENCE

Bank of Scotland Seasonally-Adjusted PMI	May 2018	53.7
The pace of growth in the Scottish private sector accelerated in May to its strongest rate in ten months. Purchasing managers in both manufacturing and services reported increased demand underpinned by improved export sales, new product launches and robust job creation. Indeed, job creation has not been as strong for nearly three and a half years. As a result, business confidence remained healthy, with export demand expected to keep order books full.	April	52.6
	March	50.8
	February	49.5
	January	50.3
	December 2017	49.4
	November	50.2
	October	52.7

However, despite higher sales and significant expansion, businesses reported some pressure on their profit margins due to increased fuel, food and labour costs. The overall growth rate was stronger than the UK average, but Scotland was outperformed by the Midlands, Wales, London and others. *IHS Markit*

The Fraser of Allander Institute's 28th Oil & Gas Survey

The Fraser of Allander Institute's report concluded that the oil and gas sector "continues to remain resilient" as confidence returns to the UK Continental Shelf.

- Global Brent Crude now trading above \$70 a barrel – up from \$50 last year
- Sector "more competitive, diversified and innovative"
- Contractors report reduced costs, increased exploration, higher capital investment – **70% of firms expect higher profits in 2018**
- Employment levels continue to fall, although at a marginally slower rate than in previous years – headcount down 5.4% in 2018 compared to 6.2% in 2017

2017 analysis by the Scottish Government's Chief Economist attributed two-thirds of Scotland's economic slowdown between 2014 and 2016 to the sector's severe slump as global prices fell from a high of \$120 a barrel to a nadir of \$25. *FAI*

FOREIGN DIRECT INVESTMENT

EY Scotland Attractiveness Survey 2018

- **Scotland is the most attractive destination for FDI in the UK after London**
- Record number of projects in 2017 – 7.4% increase to 116 projects
- Scottish share of UK FDI is 9.6%, but the report warns of increasing competition from English regions including the Midlands and the North East
- 104% increase in number of jobs created by FDI – over 6,300 in 2017
- UK FDI destinations: #3 Edinburgh, #6 Glasgow, #8 Aberdeen, #20 Livingston
- **Top inward investors: #1 USA, #2 Norway, #3 France, #4 Ireland, #5 China**
- Scotland's strengths in attracting FDI in business services and digital represent an "opportunity to carve out a reputation for being a global leader" *EY*

EMPLOYMENT

	Feb – Apr 18	Nov 17 – Jan 18	Aug – Oct 17	May – Jul 17
Economically Active	78.6%	78.1%	78.2%	78.8%
In Employment	75.2%	74.8%	74.9%	75.8%
Unemployed	4.3%	4.3%	4.1%	3.8%
Economically Inactive	21.4%	21.9%	21.8%	21.2%

Employment in Scotland increased by 0.4%, returning to a level similar to that recorded twelve months prior. 78,000 more people are in the work now than at Scotland's pre-recession peak. Youth unemployment fell to 8.9%, one of the lowest rates in the EU. The overall jobless rate rose by 0.3% over the past year, but remained steady during the last quarter. 118,000 people are looking for work.

The UK-wide employment rate rose to 75.6%, hitting a record total of 32.3 million. **However, over 70% of the 146,000 new jobs created between February and April were part-time.** Part-time self-employment is up markedly. *ONS*

Scotland's Workforce	March 2018
Services sector	82.4%
Production sector	9.5%
Other	8.2%
Public sector	21.5%
Private sector	78.5%
Further or Higher Education Qualification	48.4%

Over 0.56 million people are employed in Scotland's public sector, a 0.4% increase on March 2017. After several iterations of devolution, the reserved public sector now accounts for just 9.9% of this figure. Over 2.05 million people are employed in Scotland's private sector, a 0.5% decrease. The UK public sector accounts for just 16.5% of all UK employment, the lowest since comparable records began in 1999. *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.