

State of the Nation: August 2018

SCDI's Economic Data Briefing

INTEREST RATE

Official Bank of England Rate **0.5%**

The **Monetary Policy Committee will meet on 2 August** to determine whether to raise interest rates for only the second time in over a decade. Early in July, Governor Mark Carney asserted his confidence in a strong summer upturn in the UK economy, which appeared to increase the likelihood of a rate rise to 0.75%. However, with inflation static and wage growth low, Threadneedle Street may act with caution. Indeed, the increases widely predicted by economists throughout 2018 have each failed to materialise. *Bank of England*

INFLATION

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

Inflation remained stable at 2.4% for the third consecutive month. Rising prices for fuel and electricity had the largest upward effect, while falling prices for clothing and recreation had the largest downward impact during the summer sales season. Petrol and diesel costs hit their highest levels since September 2014, hurting drivers and hauliers. *ONS*

Month	Rate
May	2.4%
April	2.4%
March	2.5%
February	2.7%
January	3.0%

CONSUMER ACTIVITY & CONFIDENCE

UK Consumer Confidence Index **July 2018** **-10**

The UK Consumer Confidence Index is produced by GfK and the European Commission. It is a composite indicator of consumers' assessments of their personal household financial situation, the economic situation of the UK, the climate for purchasing and the climate for saving.

Month	Index
June	-9
May	-7
April	-9
March	-7
February	-10

Overall confidence remains negative as wages stagnate and Brexit-related uncertainty fails to dissipate. Consumer spending was given a strong boost by the early summer heatwave – the **Scottish Retail Sales Monitor** recorded a 2.7% increase in retail sales in June – but this may be short-lived. *GfK, KPMG, SRC*

ECONOMIC GROWTH

UK GDP growth, May 2018 **0.3%**

Services	0.3%
Production	-0.4%
Construction	2.9%
Agriculture	0.2%

Rolling three-monthly estimate, March – May **0.2%**

February – April 0.0%

The Office for National Statistics has introduced two new statistical releases of UK GDP growth: a monthly indicator and a rolling three-monthly estimate. The UK is now the first major economy to produce an official monthly GDP figure.

There was a small "bounce-back" in May after zero growth between February and April. This was underpinned by "modest" Services growth after a good month for retail – and by strong Construction growth after months of decline – likely thanks to the "period of good weather" as summer got into gear. The FIFA World Cup and Wimbledon are expected to continue this trend in June. *ONS*

The escalating tit-for-tat trade war involving Canada, China, the EU and the US, however, threatens global growth. Rising tariffs are already reducing global trade. G20 nations have introduced twice as many restrictions in the past year. *WTO*

PRODUCTIVITY

UK Labour Productivity **Q1 2018** **Q4 2017** **Q3 2017**

Category	Q1 2018	Q4 2017	Q3 2017
Output per hour	-0.4%	0.7%	0.9%
Services	-0.2%	0.3%	1.0%
Manufacturing	-1.7%	2.6%	1.0%

Productivity fell during 2018's first quarter, dampening the UK's wages and GDP growth. Some observers suggested that the deterioration was precipitated by the disruption caused by the so-called "Beast from the East" towards the end of winter. However, the UK's "productivity puzzle" is a longstanding macroeconomic issue far greater and more intractable than any ephemeral spell of inclement weather. UK productivity remains below pre-2008 levels. Dutch, French and German workers produce in four days what UK workers produce in five. *ONS*

With unemployment at a near-historic low as the labour market reaches peak capacity, and post-Brexit population growth anticipated to decline, Scotland's future GDP growth will have to be fuelled by productivity gains.

However, according to the Scottish Fiscal Commission, productivity growth has been slow since 2004 – and 0.0% since 2016. Their projections suggest that productivity will climb gradually to 0.25% in 2018-19 and to 1.1% in 2023-24. *SFC*

BUSINESS ACTIVITY & CONFIDENCE

Bank of Scotland Seasonally-Adjusted PMI	June 2018	54.5
Scottish private sector output expanded at its fastest rate since August 2014. Employment also increased quicker than at any point since February 2014, a rise which markedly outpaced the rest of the UK on the back of rising sales, orders and backlogs of work. Increasing labour and input costs, however, continue to erode profits. <i>IHS Markit</i>	May	53.7
	April	52.6
	March	50.8
	February	49.5
	January	50.3

Small Business Scotland Survey 2017

This data is extracted from an annual UK-wide survey of over 6,600 owners and managers of Small- and Medium-Sized Enterprises (SMEs). **SMEs are the backbone of the Scottish economy and 99.4% of all private sector firms.**

- 363,235 SMEs operate in Scotland, representing 41% of total employment and 35% of total turnover
- 82% are micro businesses (1-9 employees); 16% small businesses (10-49); 3% medium-sized businesses (50-249)
- 68% family-owned, 35% home-based
- 62% based in urban areas, 38% in rural Scotland
- 79% led by men, 21% led by women – only 3% led by an ethnic minority
- 31% exported goods or services to the rest of the UK
- 14% exported goods or services outside of the UK in the past 12 months – Communication (32%) and Manufacturing (30%) SMEs most likely to export, Admin (9%) and Construction (2%) least likely
- 40% innovated (i.e. introduced new or improved goods, services or processes) in the last three years – Communication (66%) and Manufacturing (52%) SMEs most likely to innovate, Admin (22%) and Construction (19%) least likely
- 80% generated a profit and 51% facilitated training in the last 12 months
- 22% expect to employ more people next year – 8% expect to employ fewer
- **32% of SMEs believe exiting the EU will damage their business – 5% think it will be beneficial, 48% say it will make “no difference”**
- 29% feel “prepared”, 32% “unprepared”, for Brexit *Scottish Government*

RSM Brexit Monitor

May 2018

RSM and YouGov have been tracking sentiment among middle market firms (with turnover between £30m and £300m) in key sectors of the UK economy in relation to Brexit on a quarterly basis since May 2017.

- **Middle market leaders are increasingly confident about their long-term ability to thrive outside the EU** – although this was pre-Chequers
- 58% of Scottish firms surveyed said that Brexit would have a positive effect on the UK economy over the next five years; 58% also said it would be positive for their own business – Scotland was among the most optimistic parts of the UK
- Most firms want access to the EU single market and customs union *RSM*

EMPLOYMENT

	Mar – May 18	Dec 17 – Feb 18	Sep – Nov 17	Jun – Aug 17	Mar – May 17
Economically Active	78.9%	78.3%	78.3%	78.5%	77.1%
In Employment	75.5%	75.0%	75.0%	75.3%	74.1%
Unemployed	4.3%	4.2%	4.0%	4.1%	3.8%
Economically Inactive	21.1%	21.7%	21.7%	21.5%	22.9%

Scotland’s employment and unemployment rates have both increased over the past 12 months. **The labour market remains strong, and broadly in line with the rest of the UK, but is reaching peak capacity.** The UK employment rate hit a record high of 75.7% in May. Unemployment remained stable at 4.2%, its joint lowest level since 1975. Public sector employment increased by 42,000, and private sector employment by 398,000, in the year to March 2018. Over 30% of all public sector workers in the UK are employed by the NHS.

Wages growth slowed to 2.5% despite very low unemployment and large numbers of unfilled jobs. Against inflation of 2.4% this delivered real wages growth – the increase in workers’ take-home pay and spending power – of just 0.1%.

The number of job vacancies is now at an unprecedented level. Employers were actively seeking to recruit outside their organisation to fill over 824,000 positions in June. According to the Scottish Chambers of Commerce Quarterly Economic Indicator, 48% of Scottish firms reported difficulties with recruitment in the second quarter of 2018. *ONS, SCC*

The number of self-employed people in the UK has increased by over 40% since 2000, accounting for almost half of all jobs growth since the Great Recession of 2008. 1 in 7 workers now work for themselves. This trend has empowered many workers, facilitating greater creativity, entrepreneurialism and flexibility leading to improved professional outcomes and quality of life. However, it also reflects insecurity and disruption in some areas of the labour market. The self-employed “face a lack of sick pay, insufficient parental pay, no employer pension contributions and volatile incomes caused by late payments”. *RSA*

This briefing brings together up-to-date headline data from various credible sources with context and analysis to give an at-a-glance view of Scotland's economy. It is produced to inform and inspire an evidence-based debate about how we create social and economic prosperity for all of Scotland.

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.