

STATE OF THE NATION

SCDI's Economic Data Briefing

SEPT 2018

INTEREST RATE – 0.75% Official Bank of England Rate

The Monetary Policy Committee voted unanimously on 2 August to raise interest rates from 0.5% to 0.75%, their highest level since March 2009. The decision reflects the Bank's confidence that growth in GDP, wages and consumer spending will continue to strengthen. This expected increase rise had been repeatedly postponed in the wake of weaker than anticipated data. The Bank Rate will now climb very gradually over the next few years to between 2% and 3%, Threadneedle Street's judgement of the "natural" interest rate for the UK economy. Mortgage costs will increase in response. Savers will see gains, albeit more slowly.
Bank of England

INFLATION

	July	June	May	April	March
UK Consumer Prices Index (CPI) Annual Rate	2.5%	2.4%	2.4%	2.4%	2.5%

After remaining steady at 2.4% for three consecutive months, inflation crept upwards in July. The rise was largely fuelled by growing prices for transport, given that the cost of raw materials and oil are 10% and 50% higher respectively than twelve months ago. By increasing interest rates, the Bank of England hopes to bring down inflation towards its 2% target rate. Consumers, however, will continue to face rising prices in many areas. ScotRail peak prices, for example, are to rise by 3.2% in January. **ONS**

PRODUCTIVITY

Labour Productivity	Q1 2018	Q4 2017	Q3	Q2
Quarterly (Trend-Based) Labour Productivity Growth in Output per Hour	+1.7%	+1.0%	-0.7%	-0.6%
Rolling Annual Labour Productivity Growth in Output per Hour	-0.4%	-1.9%	-3.2%	-2.2%

Labour productivity measures the amount of economic output that is produced, on average, by each unit of labour input. In other words, it is the change in hours worked by employees compared against the change in the volume and value of what employees produce. In the first three months of 2018, productivity in Scotland's onshore economy output per hour fell by 0.4% – although this was a significant improvement on the last quarter of 2017. Output per job also fell by 0.1%. Scots are generally working longer and being less productive. **From 1998 to 2007, output per hour worked increased by an average of 1.5% every year. Since the Great Recession, however, this annual rate has slowed to 0.6%. Scottish Government**

ECONOMIC GROWTH

	Revised estimate	Previous estimate
UK GDP growth, Q1 2018	0.2%	0.2%
UK GDP growth, Q2 2018	0.4%	0.4%
Scottish GDP growth, Q1 2018	0.4%	0.2%
Services	0.4%	0.4%
Production	1.0%	0.9%
Construction	-1.4%	-3.5%
GDP per person	0.3%	0.1%
Scottish GDP growth, Q1 2017 – Q1 2018	1.3%	0.8%
UK GDP growth, Q1 2017 – Q1 2018	1.2%	1.2%

Scotland's most recent growth figures have been revised upwards by substantial margins, painting a very different picture of the economy's recent performance. GDP growth in the first three months of the year was twice as fast as previously believed and outperforming the then-UK rate. This upturn was partly driven by the introduction of new methodologies for measuring economic activity, particularly in Construction. The change is stark: rather than shrinking by 12% between the Q4 2015 and Q1 2018, the sector grew by nearly 4%.

Scottish GDP can now be estimated at £170.5bn in total – or £31,367 per person, putting Scotland on a par with Japan and just outside the top 30 richest countries in the world as measured per capita. **ONS, Scottish Government, World Bank**

PUBLIC FINANCES

Government Expenditure & Revenues Scotland (GERS) 2017-18

GERS is an annual publication of the money raised and spent by the UK Government, the Scottish Government, local authorities and other public agencies in Scotland.

- **Total Scottish revenue was £60bn, up 5.4% from 2016-17**
- Scottish North Sea revenue increased strongly from £266m to £1,327m
- Scottish revenue in 2017-18 was 8% of total UK revenue; Scottish spending was 9.3% of total UK expenditure – this gives Scotland a **net fiscal deficit of 7.9% of GDP**
- The EU average net fiscal deficit is 1.7% of GDP. The UK's is 1.9%

Although most of the GERS debate is about independence, it is only a snapshot of the status quo. As the Fraser of Allander Institute noted: "If the very purpose of independence is to take different choices... then a set of accounts based upon the current constitutional settlement and policy priorities will tell us little about the long-term finances of an independent Scotland". **Scottish Government**

Bank of Scotland Seasonally-Adjusted Purchasing Managers' Index

	July	June	May	April	March	Feb	Jan
	55.1	54.5	53.7	52.6	50.8	49.5	50.3

Scottish private sector output grew at its fastest rate since 2014 in July. The PMI hit 55.1 in Scotland, above the UK average, reflecting greater demand in the economy. Although the rate of job creation also increased to deal with backlogs and in anticipation of a strong month of sales growth in August, the pace of expansion was slower than in June. Despite positive growth, business confidence fell to a seven-month low as concerns about the outcome of the Brexit negotiations escalated. If such concerns, as certainty remains elusive, continue to increase among businesses and spread to consumers, activity and confidence will decline further in future months. **IHS Markit**

RBS Scottish Business Monitor

Q2 2018

- Business volume by firm size – micro: -9%, small: -9%, medium: +27%, large: +41% (all: +7%)
- Capital investment – micro: -13%, small: -20%, medium: +3%, large: +17% (all: -6%)
- Exports – micro: -16%, small: +12%, medium: +15%, large: 50% (all: +7%)
- 62% of all companies reported increased cost pressures

FAI, RBS

Fraser of Allander Institute Brexit Survey

July 2018

- 350 Scottish businesses from various sectors were surveyed
- **75% complained of inadequate information to enable Brexit-outcome planning**
- Only 6% believed that “the impact of the Brexit decision, to date” had been positive **FAI**

CONSUMER ACTIVITY & CONFIDENCE

Retail Sales Index for Scotland	Q2 2018	Q2 2018	Q2 2018
Growth in volume of retail sales	0.3%	0.5%	-0.3%
Growth in value of retail sales	0.5%	0.5%	0.8%

The Retail Sales Index provides one of the earliest official indicators of the performance of the Scottish economy. **In the second quarter of the year, Scottish retail sales grew in both volume and value, but at a much lower rate than in England and Wales.** Across Britain, sales volume rose by 2.1% and sales value by 2.4%. The value of retail sales increasing at a faster rate than the volume of retail sales indicates rising prices. Consumer spending contributed over £104bn to the Scottish economy in 2017. **Scottish Government**

The Scottish Retail Consortium reported a weak 0.1% like-for-like increase in July in sales on last year, although food sales achieved their strongest performance since 2013. The SRC expects retail sales to increase in August on the back of Edinburgh’s festivals season and Glasgow’s European Championships. However, there are concerns that rising interest rates and low wage growth will constrict consumer spending in the medium-term. **SRC**

	Apr – Jun 18	Jan – Mar 18	Oct – Dec 17	Jul – Sep 17
Economically Active	78.5%	78.1%	77.9%	78.4%
In Employment	75.2%	74.7%	74.3%	75.2%
Unemployed	4.2%	4.3%	4.5%	4.0%
Economically Inactive	21.5%	21.9%	22.1%	21.6%

Employment in Scotland increased by 0.5% to 75.2% between April and June, marginally below the UK rate of 75.6%. Unemployment also fell to 4.2%, with 3,000 fewer Scots registered as jobless. This is the eighth consecutive quarter during which unemployment has been below 5%.

Despite this, and contrary to conventional assumptions in economics, **pay growth remains, in the verdict of the Trades Union Congress, “anaemic”.** Real pay – average weekly earnings adjusted for inflation – rose by just 0.1%. Average weekly pay increased from £474 in June 2017 to £488 a year later.

Female labour market participation is higher in Scotland (71.6%) than across the UK (71%). Scottish young people are also performing better – 56.2% of Scots aged between 16 and 24 are in work, 2.4% above the UK average. There has been a substantial drop in the number of people in the workforce from Central and Eastern Europe amidst Brexit-related uncertainty. 780,000 people in the UK are on zero-hours contracts, although this is 104,000 fewer than last year. **ONS**

RBS Report on Jobs

June 2018

The most recent RBS Report on Jobs found that permanent staff appointments in the Scottish economy in June “rose sharply” and at the fastest pace in over three years. There was also a strong increase in permanent job openings, with growth significantly higher than the UK average. However, RBS also noted that Scottish recruitment agencies “observed “a marked deterioration in permanent candidate availability”. This suggests that **employers are continuing to struggle to identify the right people with the right skills,** as the supply of labour constricts and the pace, and complexity, of change in the workplace expands. **RBS**

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.**