

STATE OF THE NATION

SCDI's Economic Data Briefing *OCTOBER 2018*

INTEREST RATE – 0.75% Official Bank of England Rate

The Monetary Policy Committee voted unanimously to keep interest rates unchanged at **0.75%** at its most recent meeting on 12 September. The Bank of England remains concerned about how consumers, businesses and markets will respond to the UK's departure from the EU, the terms of which remain deeply uncertain. In its official statement, the Committee concluded that "any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent".

Governor Mark Carney warned the Cabinet on 13 September that a 'no deal' Brexit could precipitate a macroeconomic shock similar to the Great Recession, including substantial falls in GDP growth, the pound and consumer spending. In a worst-case scenario, house prices could drop by a third. *Bank of England*

INFLATION

	Aug	July	June	May	April
UK Consumer Prices Index (CPI) Annual Rate	2.7%	2.5%	2.4%	2.4%	2.4%

Inflation continues to climb upwards, against the prior expectations of economists and observers, hitting 2.7% in August. The rising costs of recreation/culture, clothing and transport were the largest upward contributors to the change in the rate. Transport costs including motor fuels are 6% higher now than twelve months ago. Rising prices suggest some strength in the UK economy. *ONS*

PRODUCTIVITY

Wealth of the Nation: Scotland's Productivity Challenge

The University of Edinburgh's David Hume Institute examined Scotland's long-standing underperformance in productivity growth in the context of case studies from Australia, Greater Manchester, London and Sweden.

Scotland "sits mid-table for productivity among OECD countries". The Scottish economy is held back by low levels of innovation, business investment and Research & Development spend – and by "poor management quality" which fails to exploit the potential of Scotland's very strong skills base. 1 in 4 workers have a university degree.

The report, published in early September, identifies "lessons of success" from its diverse case studies, which include: consensus and collaboration; credible and independent institutions; a focus on skills; and clear strategic direction. *DHI*

ECONOMIC GROWTH

	Scotland
GDP growth, Q2 2018	+0.5%
Services	+0.4%
Production	+0.6%
Construction	+1.8%
Agriculture, forestry and fishing	-1.2%
GDP growth, Q2 2017 – Q2 2018	+1.7%

The first official estimates of Scotland's onshore Gross Domestic Product for the second quarter of 2018 suggest that **the Scottish economy is growing in strength**. GDP grew by 0.5% over the last three months and by 1.7% over the past twelve. Production has led the way, likely boosted by rising goods exports on the back of the falling value of the pound, and is now 4.6% larger than in 2017.

The most sizeable sector of the economy remains Business Services and Finance (27%), ahead of Government (26%) and Distribution, Hotels and Catering (14%) and Manufacturing (11%). **Scotland's economic growth is now faster than the UK's**, which was 0.4% in Q2 2018 and 1.3% from Q2 2017.

Scottish Government

EXPORTS

HMRC Overseas Trade in Goods Statistics

Q2 2018

- Scottish goods exports increased in volume and value in the year to Q2 2018
- **Goods exports increased by 7.0% to £28.8bn**
- Goods imports increased by 9.4% to £24.9bn
- Scotland's largest export partners: the Netherlands (£5.3bn – up 52.9%), the United States (£3.4bn – up 5.1%), Germany (£2.5bn – down 8.8%), France (£1.6bn – up 1.7%) and Ireland (£1.5bn – up 44.8%)
- Strongest export sectors: Mineral Fuels (£2.2bn), Machinery & Transport (£1.8bn) and Beverages & Tobacco (£1bn)
- Scotland's largest import partners: Norway (£4.1bn – up 18.6%), China (£2.9bn – up 11.3%), the United States (£2.7bn – up 11.1%), Germany (£2.0bn – up 6.0%) and the Netherlands (£1.6bn – up 4.4%)
- **Scotland is the only nation or region of the UK with a trade surplus (£3.9bn)**

Nonetheless, there is significant room for improvement. 70 Scottish companies are responsible for half of our exports – and only 14% of SMEs exported goods or services outside of the UK in 2017. Exports as a proportion of Scottish GDP (18.4%) are also substantially lower than comparator countries like New Zealand (27.9%), Norway (33.8%) or Denmark (53.1%).

HMRC, Scottish Government, World Bank

Royal Bank of Scotland Seasonally-Adjusted Purchasing Managers' Index

	Aug	July	June	May	April	March	Feb
	55.5	55.1	54.5	53.7	52.6	50.8	49.5

Growth in Scotland's private sector output continued to gather pace in August, with the RBS PMI hitting its highest level in over four years. Expansion accelerated on the back of favourable new order receipts. There has now been growth (signalled by a PMI of 50 or above) for the past six months, to which services contributed more than manufacturing. Operating costs increased substantially as businesses expanded their workforces and dealt with the weakness of sterling. Although most businesses continue to expect higher levels of activity over the next twelve months, deep and growing concerns about the terms of the UK's departure from the EU mean that confidence weakened to its lowest level in nine months. *IHSMarkit*

Oil and Gas Production Statistics 2017-18

The oil and gas industry is a critical sector of the Scottish industry, whose performance has a significant knock-on effect on wider business confidence across the country. **Global Brent Crude prices are now circa \$82, their highest level since 2014.**

- Oil and gas production in Scotland and Scottish waters estimated at 73.7m tonnes of oil equivalent – 81% of total UK production and 1.7% decrease on 2016-17
- Sales value of oil and gas produced in Scotland of £20bn – 18.2% increase
- Operating expenditure (excluding decommissioning) increased to £6.2bn from £5.3bn
- Capital expenditure fell from £7.8bn to £5.8bn

Scottish Government

CONSUMER ACTIVITY & CONFIDENCE

Scottish Retail Consortium-KPMG Retail Sales Monitor	August 2018
Growth in total retail sales	+0.3%
Growth in total food sales	+3.8%
Growth in total non-food sales	-2.2%

Retail sales in Scotland grew for the fourth month in a row in August, albeit modestly. Consumer activity and confidence has been rising faster in the rest of the UK. August was expected to be a strong month for food retailers in Scotland during the Edinburgh Festivals and the European Championships co-hosted by Glasgow. Non-food sales, however, have weakened on the back of poor levels of consumer confidence. **Scottish consumers appear reluctant to commit to large items of expenditure at present amidst Brexit-related uncertainty.**

The High Street and town centres continue to face closures of commercially significant and flagship stores, with consequent job losses and reductions in local economic activity. On the other hand, there is still strong growth in online retail spending. *SRC*

	May – Jul 18	Feb – Apr	Nov 17 – Jan	Aug – Oct
Economically Active	78.3%	78.6%	78.1%	78.2%
In Employment	75.1%	75.2%	74.8%	74.9%
Unemployed	4.1%	4.3%	4.3%	4.1%
Economically Inactive	21.7%	21.4%	21.9%	21.8%

The Scottish labour market remains tight. Employment is historically high and unemployment historically low. Economic inactivity, however, also remains relatively high, perhaps partially caused by the increase in insecure, low-paid and/or irregular work. *ONS*

Recruitment and Employment Confederation's JobsOutlook Report

September 2018

JobsOutlook is a monthly report produced by the Recruitment and Employment Confederation in partnership with opinion research firm ComRes, which interviews 600 UK employers and owners involved in the hiring of staff.

- 50% of employers hiring permanent staff are concerned over sufficient availability of appropriately skilled candidates
- Skills shortages in engineering, health & social care and construction most severe
- Demand for new permanent staff is 23% higher than in 2017
- 60% of employers hiring temporary staff concerned over availability of candidates
- Shortages of drivers increasing concern for employers
- Demand for new temporary staff is 12% higher than last year

REC, ComRes

Migration Advisory Committee Report

September 2018

The Migration Advisory Committee's latest report makes recommendations for the UK's post-Brexit immigration system. The report argues that the UK should no longer give preferential access to EU citizens (barring any deal with the EU); that high-skilled inward migration should continue, but low-skilled migration be drastically reduced; and that powers over immigration should not be devolved. Given the tight labour market and the reliance of sectors such as retail, haulage and hospitality on migrants to fill low-skill positions, this caused widespread business concern. Reports suggest that the Cabinet are minded to accept the recommendations, albeit with caveats.

UK Government

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