

STATE OF THE NATION

SCDI's Economic Data Briefing

November 2018



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INTEREST RATE – 0.75% Official Bank of England Rate

The Monetary Policy Committee voted unanimously to keep interest rates steady at 0.75%. The Bank noted that the actions of businesses, consumers and markets were continuing to be “influenced significantly” by the ongoing Brexit negotiations between the UK and the EU, which was casting clouds of uncertainty over the UK economy. Governor Mark Carney has warned of the macroeconomic disruption which a ‘no deal’ outcome would precipitate. The Committee will meet again on 1 November but is not expected to alter the Official Bank Rate. **Future increases are likely but, in their words, will be “at a gradual pace and to a limited extent”.**

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Sept	Aug	Jul	Jun	May
	2.4%	2.7%	2.5%	2.4%	2.4%

Inflation fell to 2.4% in September. The largest upward contributor remained transport thanks to the rising cost of fuel. This trend will only continue as political tensions with and domestic turbulence in key oil-producing states like Iran, Russia, Saudi Arabia and Venezuela continues to escalate. **Stable food prices exerted some downward pressure on inflation, but prices could rise sharply if there is a hard Brexit which disrupts the seamless flow of goods between the UK and the EU.**

Source: ONS

PRODUCTIVITY

Scotland's productivity has improved markedly during 2018. **Labour productivity is now 4% higher than in 2017 and has returned to 2011 levels.** There remains, however, a large ‘productivity gap’ between Scotland and competitor and comparator countries, like Ireland, Norway, Belgium, Denmark and Germany. Scotland's long-standing ambition is to rank in the top quartile of OECD countries for productivity, but currently sits in the third quartile (or 19 out of 36). Scotland is home to many world-leading, highly-productive businesses, but also a ‘long tail’ of businesses lagging behind.

The Scottish Government confirmed in its recent Economic Action Plan that it will partner with SCDI to pilot two Productivity Clubs to facilitate knowledge exchange. Businesses which have been successful in maximising their productivity will support other firms which are eager to do the same through improved leadership and management practices and greater diffusion of technology, as SCDI seeks to crack Scotland's ‘productivity puzzle’.

Sources: OECD, SCDI, Scottish Government

ECONOMIC GROWTH

GDP growth	Scotland
Q2 2018	0.5%
Services	0.4%
Production	0.6%
Construction	1.8%
Q2 2017 – Q2 2018	1.7%

The Scottish economy has continued to strengthen, reaching its highest level of growth since 2014. **Scotland's annual GDP growth (1.7%) is outpacing the UK (1.2%).** The falling value of Sterling and strong growth in the world's major economies – China (6.6%), Germany (2.2%), India (7.3%), Poland (4.2%), the USA (2.9%) etc. – has helped to increase the volume and value of Scottish exports, especially in food & drink, oil & gas and chemical & pharmaceutical products. Manufactured exports are 8.7% higher than in 2017. **Global oil prices have grown by nearly a third to \$80 since the beginning of the year,** providing a substantial boost to the North East energy industry and its supply chain which has reverberated through the wider economy. Brexit, however, poses a significant risk to Scottish growth, trade and investment.

The Scottish Government's Chief Economist, Dr Gary Gillespie, forecasts that stockpiling in preparation for the UK to leave the EU will boost Scottish GDP by up to 0.4%. However, he expects this one-off lift to “be more than offset” by a subsequent decline in growth, perhaps to a total of -0.6% over three years.

Source: Scottish Government

UK Innovation Survey 2017

The bi-annual UK Innovation Survey is conducted by the Department for Business, Energy and Industrial Strategy, which collects data from over 13,000 UK firms to identify and measure private sector innovation trends.

- **Innovation activity fell to 49% of businesses in 2017 from 53% in 2015.**
- **Only 45% of Scottish firms innovation-active** – e.g. developed or introduced a new product, process or organisational innovation.
- Number of innovation-active large firms increased, innovation-active SMEs fell.
- Highest levels in optical manufacturing and transport equipment manufacturing.
- Higher levels of workforce education closely associated with higher levels of company innovation.
- Lowest share of innovation-active firms in hotel and restaurant sector.
- Improving product/service quality, replacing outdated products/services and increasing value added were the most common drivers of innovation.
- Common barriers to innovation, including availability, costs of finance, innovation cost and perceived economic risk, were experienced by decreasing numbers of firms.
- **9% of firms reported EU referendum and Brexit as barrier to innovation.**

Source: BEIS

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Sept	Aug	Jul	Jun	May	Apr	Mar
	53.4	55.5	55.1	54.5	53.7	52.6	50.8

Scotland's private sector grew "solidly" in September, according to the RBS Purchasing Managers' Index, although at a slower pace than in August. Growth was faster in the UK than in Scotland for the first time since June. Volumes of new orders rose to deliver a modest boost to employment. Growth was not even across the Scottish economy, as services output grew while the manufacturing sector contracted. Higher costs for labour, transport and food put pressure on businesses' margins causing many to pass on these costs to consumers. The Scottish Chambers of Commerce Quarterly Survey reported that **business confidence marginally deteriorated** over the past three months.

Source: IHS Markit

Business Population Estimates for the UK and the Regions 2018

- 5.7m UK private sector businesses: 1.4m have employees, 4.3m have no employees; **75% of businesses do not employ anyone other than the owner(s)**.
- 35,000 medium-sized business – 0.6% of total business population.
- 7,500 large businesses – 0.1 of total business population.
- SMEs contribute 50% of turnover and 80% of employment in the UK private sector
- **Scotland's business density rate among lowest of nations and regions of the UK.**
- 331,000 private sector businesses in Scotland.

Source: BEIS

CONSUMER ACTIVITY AND CONFIDENCE

Scottish Consumer Sentiment Indicator	Q3 2018	Q2 2018	Q1 2018
Composite Consumer Sentiment	-3.8	-2.4	-1.8
Economy performance – past 12 months	-3.8	-4.0	-6.4
Economy performance – next 12 months	-15.2	-10.8	-7.5
Households' finances – past 12 months	-0.3	-1.3	-1.0
Households' finances – next 12 months	3.6	6.5	9.0
Attitude to spending – past 12 months	-3.3	-2.4	-3.3

Scottish consumer sentiment has worsened significantly throughout 2018 as Brexit-related uncertainty and concerns about a 'no deal' outcome increased. Scots expect the economic situation to get worse over the next year. Interestingly, however, they also tend to have positive expectations of their own future income, even if they appear to remain reluctant to spend. According to research in October by Ipsos MORI and King's College London, **44% of people across the UK think that the UK will leave the EU next year "without a deal"**. Only 29% believe the UK will leave "with a deal in place". Only 14% think that Brexit will improve their living standards. The public also expects exports, economic growth and the quality of care in the NHS to fall.

Sources: Ipsos MORI, Scottish Government

EMPLOYMENT

Status	Jun 18 – Aug 18	Mar 18 – May 18	Dec 17 – Feb 17	Sept 17 – Nov 17
Economically Active	78.0%	78.9%	78.3%	78.3%
In Employment	74.9%	75.5%	75.0%	75.0%
Unemployed	3.9%	4.3%	4.2%	4.0%
Economically Inactive	22.0%	21.1%	21.7%	21.7%

Employment fell by 0.5% over the previous quarter, with 11,000 fewer Scots in work in August than in May. The UK employment (75.5%) and unemployment (4.0%) rates are both marginally higher than in Scotland. **Joblessness has not been lower since December 1974.**

However, **the headline labour market statistics continue to obscure some substantial challenges**. There are significant geographical inequalities in the Scottish labour market. Unemployment was highest in Aberdeen South and North Kincardine (9.8%), as the total workforce of the oil and gas industry continues to shrink, followed by Glasgow Shettleston (9.7%), Glasgow Pollok (9.3%) and Edinburgh Southern (7.6%). Meanwhile, unemployment was lowest in Perthshire South and Kinrossshire (1.8%), Eastwood (2.1%) and North East Fife (2.3%).

Moreover, the national rate of economic inactivity remains relatively high, with 8.75m people across the UK not seeking or not available for work. Yet under-employment still remains a significant issue, with significant numbers of part-time workers unable to find full-time jobs.

Sources: ONS, SPICe

RBS Report on Jobs – September 2018

The latest RBS Report on Jobs found an improving Scottish labour market in September, with jobs growth faster than the UK average and greater than at any point since July 2014. However, the number of permanent and temporary vacancies has continued to rise as supply fails to meet demand and **candidate availability declined severely**. This trend is likely to be exacerbated by Brexit as levels of inward migration from the EU decline. In this tight labour market, there was strong pressure on wages with permanent salaries and wages for temporary staff increasing.

Source: RBS

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@sdi.org.uk or 0141 222 9723.