

# STATE OF THE NATION

## SCDI's Economic Data Briefing

### April 2020



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## INTEREST RATE **0.1%** Official Bank of England Rate

The Monetary Policy Committee of the **Bank of England cut interest rates to 0.1% – an all-time low – at a special meeting in response to the COVID-19 crisis** on 19 March. The decision was unanimous. The MPC noted that the crisis would result in an “economic shock” which could be “very sharp and large but should be temporary”.

It also considerably increased its holdings of UK Government and corporate bonds by £200 billion as debt rises and demand falls out of the economy. It is next scheduled to meet on 7 May.

Source: Bank of England

## INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Feb	Jan	Dec	Nov	Oct
	1.7%	1.8%	1.3%	1.5%	1.5%

In February, inflation fell back slightly to 1.7%, in part due to cheaper motor fuel. However, **inflation is expected to fall further in March, April and May as a result of the COVID-19 crisis, perhaps well below 1%**, with global oil prices and consumer spending decreasing precipitously during the 'lockdown' across the UK.

Source: Office for National Statistics

## PRODUCTIVITY

According to new analysis by the Office for National Statistics, labour productivity increased in 15 out of 18 city regions across the UK between 2010 and 2018, underlining the economic strength of urban centres and the growing divide between large metropolitan areas and smaller towns or rural communities.

**Edinburgh (110%), Aberdeen (107%) and Stirling (105%) were among the strongest performers in productivity growth over the past decade across the UK.** Glasgow (86%) also grew strongly. Greater London (132%) led the way.

Sources: Office for National Statistics

## ECONOMIC GROWTH

GDP Growth	Scotland
<b>Q4 2019</b>	<b>+0.2%</b>
Agriculture, forestry & fishing	+0.1%
Services	+0.5%
Production	-1.2%
Construction	+0.7%

Until the beginning of the COVID-19 crisis, the Scottish economy was experiencing modest albeit steady growth. Scottish GDP increased by 0.2% in the last quarter of 2019. There were signs of increasing global economic resilience. However, the **unprecedented level of disruption to our society** in peacetime caused by the global pandemic and the UK-wide 'lockdown' is highly likely to have an **unprecedented impact on our economy**.

Consumer demand, labour supply and business investment have fallen sharply due to the spread of the disease and the 'lockdown' measures. Many businesses in the retail, tourism and hospitality sectors will be hit by an almost total loss of customers. Some will have to fight for survival. 1 in 5 of the Scottish workforce could be out of action at any one time. Many will be 'furloughed', others could lose their jobs. Over 477,000 people applied for Universal Credit in the space of 9 days. Technology is enabling many to continue working from home, albeit potentially at lower levels of productivity. The impact is likely to be uneven across the country, with rural and deprived communities at greater risk.

**A severe recession is expected – but for how long, and how deep, is for now unclear.** Forecasts vary in a highly uncertain, fast-moving context. **The Centre for Economics and Business Research forecasts UK GDP to fall by a gargantuan 15% in Q2 2020, and unemployment to double.**

Forecasts by KPMG represent two different scenarios. The main scenario forecast is that UK GDP declines by 2.6% in 2020, but then rebounds relatively strongly in 2021 with growth of 1.7%. This scenario would suggest a shorter period of lockdown, with a shorter recession, leading to recovery from late summer onwards. However, according to a more pessimistic scenario in which the pandemic persists until the second half of next year, UK GDP contracts by 5.4% in 2020 and again by 1.4% in 2021. This would represent a more severe recession than the downturn of 2008 and 2009.

SCDI welcomes the vital support for employers, workers and the self-employed announced to date by the UK Government and the Scottish Government – including the Coronavirus Job Retention Scheme, the COVID-19 Corporate Financing Facility and the Self-Employed Income Support Scheme and other packages of rates and regulatory reliefs. These unprecedented interventions are essential.

However, we have urged the injection of this money into the economy to be accelerated. Cash flow is an urgent issue. **Time is critical to save businesses, protect jobs and preserve incomes to stabilise our economy, while protecting industrial and workforce capacity for the future beyond the crisis.** Further action will also be needed to close gaps in support to ensure no one, and no business, is left behind.

Sources: Fraser of Allander Institute, KPMG, Office for National Statistics

## BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Feb	Jan	Dec	Nov	Oct	Sep	Aug
	50.1	52.0	50.0	50.9	49.6	50.0	50.3

Scotland's private sector "approached stagnation" in February, despite renewed growth in manufacturing. Of the 11 nations and regions of the UK which reported an increase in new business, Scotland recorded the joint-softest rise.

12.9% of Scottish SMEs reported falling profits. Small businesses were unable to maintain employment growth, with 4% more laying staff off rather than taking them on.

The RBS PMI will fall below 50 and into negative territory in March as the private sector shrinks during the COVID-19 crisis. A number of key sectors have already been affected deeply, with shares and valuations falling in the face of uncertainty about short-term viability. The aviation and transport sectors will face significant challenges due to all-encompassing travel restrictions globally.

Sources: Federation of Small Business, IHS Markit, RBS, UK Hospitality

## CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Feb	Jan	Dec
Total Sales Growth	-0.8%	+1.3%	+0.4%
Food Sales Growth	+2.9%	+2.7%	+1.8%
Non-Food Sales Growth	-2.4%	+1.1%	-0.8%

Retailers were already facing declining demand and rising costs before the COVID-19 crisis. Non-food sales in Scotland experienced a significant drop in February, although food sales increased by 2.9%, partly due to some stockpiling activity.

**Intensified stockpiling and panic-buying in March will result in very strong food sales growth in March**, particularly in large supermarkets.

In-person non-food sales will fall even more sharply, although early indications suggest that the picture in relation to online sales may be more mixed. Takeaway and fast food sales have already risen by 8.7%. Online entertainment firms are benefitting too – for example, Netflix has achieved growth of more than 12%

Consumer activity and confidence is likely to fall sharply as a result of high levels of uncertainty across our economy and our society. **More than 20,600 stores are forecast to close by the end of the year** – a dramatic increase on the 4,547 which closed in 2019, a difficult year itself for the retail sector.

Sources: Barclaycard, Centre for Retail Research, KPMG, Scottish Retail Consortium

## EMPLOYMENT

	Nov 19- Jan 20	Oct 19- Dec 19	Sep 19- Nov 19	Aug 19 Oct 19
Economically Active	77.7%	77.8%	77.3%	77.4%
In Employment	74.9%	75.0%	74.3%	74.5%
Unemployed	3.5%	3.5%	3.8%	3.7%
Economically Inactive	22.3%	22.2%	22.7%	22.6%

Between November 2019 and January 2020, an additional 31,000 people found work in Scotland, taking the employment rate to 74.9%. Unemployment remained low at 3.5%, below the UK level of 3.9%, causing issues for employers. 38% of small employers reported struggling to recruit the right staff over the past year.

However, unemployment is likely to surge as a result of the COVID-19 crisis. The lag in the data may mean that the full impact is not clear for several months. **The Centre for Economics and Business Research expects a doubling of the number of jobless people across the UK, which could mean unemployment of around 7% in Scotland.**

Large numbers of workers in the retail, tourism and hospitality sectors appear to have been laid-off after an unprecedented decline in customer demand almost overnight. More than 3.2 million people work in pubs, restaurants and other outlets, making it the third-largest sector for employment. **Over 477,000 people across the UK applied for Universal Credit in a period of just 9 days at the beginning of the 'lockdown'.**

The potential impact on the physical and mental health and wellbeing of individuals, households and communities at a time of stress, anxiety and uncertainty will be significant. The potential so-called 'scaring' effects of the anticipated recession will go far beyond the visible economy.

However, the UK Government's Coronavirus Job Retention Scheme will be a lifeline for many, paying up to 80% of employees' wages who cannot work during the pandemic. Others will be protected by the ability of many employers to utilise technology to work remotely and continue providing products and services.

Sources: Federation of Small Businesses, HMRC, Office for National Statistics, PwC

This briefing presents and analyses the most authoritative and up-to-date statistics about the Scottish economy to give an at-a-glance view of the *State of the Nation*. It is produced to inspire and inform an evidence-based conversation about how we grow all sectors and all geographies of the Scottish economy.

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