STATE OF THE NATION
SCDI's Economic Data Briefing
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INTEREST RATE 0.1% Official Bank of England Rate

UK interest rates remain at 0.1%, a record low.

The Monetary Policy Committee of the Bank of England next meets on 6 August. It is expected to keep interest rates at 0.1% and continue pumping money into the UK economy through quantitative easing.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	**Jun**	May	Apr	Mar	Feb
	0.6%	0.5%	0.8%	1.5%	1.7%

The UK Consumer Prices Index increased marginally in June from 0.5% to 0.6%, the **first increase in inflation this year**. The data suggests that this was largely caused by higher prices for clothes and games.

The Bank of England's target rate for inflation remains 2%. It will not be met for the foreseeable future with consumer demand still so low.

Sources: Bank of England, Office for National Statistics

PRODUCTIVITY

New research suggests that **productivity improved fastest in Scotland of all of the nations and regions of the UK over the past two decades**. The data suggests that Scotland's annual average labour productivity grew by 1.69% between 1998 and 2018. London came in second in the table on 1.46%, ahead of the UK average during the same period of 1.27%. Northern Ireland registered the worst performance with 0.67%.

However, the COVID-19 crisis is likely to have substantially damaged productivity across the Scottish economy.

Source: National Institute Economic Review

ECONOMIC GROWTH

GDP Growth (Feb – May)	Scotland
Scottish GDP	**-22.1%**
Agriculture, forestry and fishing	-7.7%
Production	-18.7%
Construction	-39%
Services	-21.9%

The Scottish economy has now stopped shrinking but remains much smaller than a few short months ago. The damage of the pandemic and the lockdown has been severe. Scottish GDP decreased by 2.5% during the first three months of 2020. In March, it fell by 5.5%. in April, in shrank by a massive 18.9%. In May, it grew back slightly by 1.5%, as parts of the economy began to reopen or restart in a limited way.

Our economy is now 22.1% smaller than it was in February prior to the COVID-19 crisis:

- **Agriculture, forestry and fishing sector has shrunk by 7.7%**
  Agricultural output and domestic food supply chains demonstrated significant resilience.

- **Production sector has shrunk by 18.7%**
  Manufacturing picked back up by 7.1% in May. Textiles was the hardest hit part of the sector, down by 34%. Chemical, pharmaceutical and petroleum output declined the least, at just 3.5%.

- **Construction sector has shrunk by 39%**
  Non-essential construction sites closed entirely for months, but are now beginning to reopen.

- **Services sector has shrunk by 21.9%**
  Impact varies widely throughout a large and diverse sector of the Scottish economy. Working from home has been possible for most of the sector. The most damage has been sustained by those which have been required to close or where working at home is not possible, including Accommodation & Food Services (-89.8%) and Arts, Culture & Recreation Services (-54.3%).

Before the pandemic and since the UK voted to leave the EU on 23 June 2016, the UK economy grew at a substantially lower rate than prior to the referendum. The UK fell from the top to the bottom of G7 countries in terms of macroeconomic performance. New 'counterfactual' analysis illustrates the impact of the decision on prosperity in the different nations, regions and communities of the UK.

In Scotland, **projected lost growth due to the Brexit vote amounts to 2.8% of Scottish GDP – or £736 per person**. Only Edinburgh was identified as a potential 'Brexit vote winner' in Scotland. Aberdeen fared worst, with an estimated cost for each resident £9,060.

Sources: Scottish Government, Warwick Econometrics

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Jun	May	Apr	Mar	Feb	Jan	Dec
	37.1	21.1	10.7	29.7	50.1	52.0	50.0

Scotland's private sector recovered marginally in June, but growth remains far off. The RBS PMI rose from 21.1 in May to 37.1 in June, representing a softer contraction. Any score over 50 represents growth.

Scottish firms report falling new orders for the fourth month in a row. Lay-offs and redundancies continued, but at a slower pace than in previous months during the pandemic. Average prices charged by firms fell again in an attempt to stimulate or protect demand.

The British Chambers of Commerce's quarterly economic survey indicated that economic conditions deteriorated at an unprecedented rate in Q2. 11 of 14 indicators of prosperity hit their lowest level in the 31-year history of the research. Import and export sales fell particularly badly.

The Scottish Chambers of Commerce's quarterly economic survey found that **95% of Scottish firms reported a fall in business confidence**. Sales, turnover and investment are massively down due to overwhelming uncertainty and historically low consumer spending.

Sources: British Chambers of Commerce, IHS Markit, RBS

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Jun	May	Apr
Total Sales Growth	**-18.6%**	-27.6%	-40.3%
Food Sales Growth	**+4.0%**	+3.6%	-2.4%
Non-Food Sales Growth	**-19.4%**	-53.2%	-71.9%

Scottish retail sales continued to fall in June, although at a slower pace than in previous months, as the difficulties facing large parts of the sector were prolonged. Food sales registered a second month of growth. Non-food sales improved significantly due to **rising online sales**.

Across the UK, retailers continued to cut prices in an attempt to stimulate consumer spending, which had fallen through the floor. Shop prices fell by 2.4% in May and 1.6% in June. Non-food prices fell by 4.6% in May and then by 3.4% in June.

During the second week of reopening, retail footfall fell by 53.4% year-on-year. Different retail environments fared differently as the public heeded public health advice. The footfall decline at retail parks was 28.4%, compared to 55.4% in May. Shopping centre footfall decreased by 60.7%.

Sources: British Retail Consortium, KPMG, Scottish Retail Consortium

EMPLOYMENT

	Mar 20-May 20	Dec 19-Feb 20	Sep 19-Nov 19	Jun 19-Aug 19
Economically Active	**77.6%**	78.4%	77.3%	77.5%
In Employment	**74.1%**	75.4%	74.3%	74.3%
Unemployed	**4.3%**	3.7%	3.8%	4.1%
Economically Inactive	**22.1%**	22.3%	22.6%	21.9%

Unemployment in Scotland has climbed to 4.3%, its highest level since the early months of 2017. There are **growing concerns of a looming unemployment crisis**. More than half of employers in Scotland say that they expect to reduce the size of their workforce as the Coronavirus Job Retention Scheme comes to an end.

Nearly 30% of all workers in Scotland have been furloughed, a total of 736,500 people, at a similar level to the English national average. By local authority area, the proportion varies from a low of 24% in the Western Isles and a high of 34% in Highland. The rate in Glasgow was 32%, in Edinburgh 28%. Stirling (32%), South Ayrshire (32%) and Perth & Kinross (33%) also showed high rates.

Around 9.4m people have been furloughed across the UK. 1.14m employers have made at least one claim. This represents a total of £26.5 bn in financial support from HM Treasury to date. Women were less likely to be furloughed than men. The youngest employees were most likely to be furloughed, middle-aged workers least likely.

Employees of small and micro businesses were more likely to have been furloughed than those working for medium or larger employers. 57% of workers at employers with 5 to 9 employees had been furloughed compared to only 19% at employers with 250 or more employees.

Large UK employers and big UK brands have already begun to announce substantial job losses. Boots are to cut over 4,000 jobs. Car dealership owner Pendragan will shed 1,800 jobs. Marks & Spencer are planning to cut nearly 1,000 jobs. Scottish busmaker Alexander Dennis will reduce its workforce by 650 people.

Sources: Addleshaw Goddard, Fraser of Allander Institute, HMRC, Office for National Statistics

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 create an economy and a society for the benefit of all.

To discuss this briefing, or for further views on the data, contact SCDI's Policy Manager, David Kelly: **david.kelly@scdi.org.uk**.