

STATE OF THE NATION

SCDI's Economic Data Briefing

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

Interest rates remain at their **historic low of 0.1%**. The Monetary Policy Committee (MPC) will next meet on 5 August.

The MPC is expected to remain **very cautious about any increases** in the Bank Rate in the short-term, with one member recently indicating that the UK is 'not out of the woods yet in terms of the virus and the impact on the economy'.

New analysis from Deutsche Bank argues that the Bank of England is underestimating the likely 'peak and persistence' of **inflationary pressures in the UK economy** as it rebounds from the pandemic. However, it expects interest rates to rise modestly in the near future, reaching only 0.75% by 2024.

Source: [Bank of England](#), [Deutsche Bank](#), [Gertjan Vlieghe](#)

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Jun	May	Apr	Mar	Feb
	2.5%	2.1%	1.5%	0.7%	0.4%

Inflation continues to rise in the UK, climbing to from 2.1% in May, just north of the Bank of England's official 2% target, to 2.5% in June. Inflation remains **higher than at any point in over two years**. The cost of food, eating out, clothing and footwear all increased.

Many observers continue to make **predictions of further increases to 3% or 4%**.

Sources: [Bank of England](#), [Office for National Statistics](#)

PRODUCTIVITY

COVID-19 has transformed employer and employee attitudes to flexible working, but appears to have had a mixed impact on workers and their productivity:

- **61% of Scottish workers have worked from home at least some of the time in lockdown**

- 46% worked exclusively from home
- 44% felt trusted by their employer, while 37% felt supported
- 29% changed their working hours around family or caring responsibilities
- 30% reported a better work-life balance
- 31% felt lonely or isolated
- 26% felt more stressed
- 24% found it hard to switch off from work
- 19% worked longer hours
- **19% felt more productive – versus 16% who felt less productive**
- 18% spent more on household bills like gas and electricity
- Women were more likely than men to report negative impacts of work during lockdown on their happiness, health and wellbeing and financial security

Sources: [Flexibility Works](#), [Productivity Club Scotland](#)

INCLUSIVE GROWTH

May 2021	Scotland
Onshore GDP	+0.9%
Services	+1.1%
Production	+0.7%
Construction	-0.8%

Scotland's onshore GDP increased by 0.9% in May but remains 2.7% below pre-pandemic levels from February 2020. The Scottish economy is therefore expected to beat early forecasts that it may not recover to its former size until 2022.

The Services sector grew by 1.1%, with food & accommodation businesses performing strongest as restrictions on movement between local authority areas began to be further relaxed and the tourism & hospitality sector reopened across Scotland.

The Production sector also grew in May. The Construction sector is estimated to have declined but is 1.1% larger than prior to COVID-19.

According to the Centre for Cities, **Glasgow has been hit harder by home-working than any other city in the UK**. By the end of May, only 9% of commuters had returned to their workplaces or offices in central Glasgow. Edinburgh was among the next lowest at 15%.

Glasgow also experienced the largest fall in weekday footfall outside of London, returning only to 40% of pre-COVID-19 levels by the end of May. The number of people in town during the day on weekends was only 56% of pre-Covid levels, reflecting relatively strong shopping numbers compared with commuters.

The study raises profound questions for the future of town and city centres and their role in our post-pandemic economy and society.

Sources: [Centre for Cities](#), [Scottish Government](#)

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Jun	May	Apr	Mar	Feb	Jan	Dec
	58.4	61.5	55.4	54.3	44.1	33.3	47.3

Scotland's private sector continued to grow in June. The RBS PMI recorded a 'solid performance' of 58.4, down on the previous month but well above the 50 threshold indicating expansion rather than contraction. New demand and hiring of staff rose, but inflation increased costs significantly for many firms and contributed to fuelling the inflationary cycle of **rising input and output prices**.

The Scottish Business Monitor for Q2 2021 produced the following findings from its survey of over 500 firms:

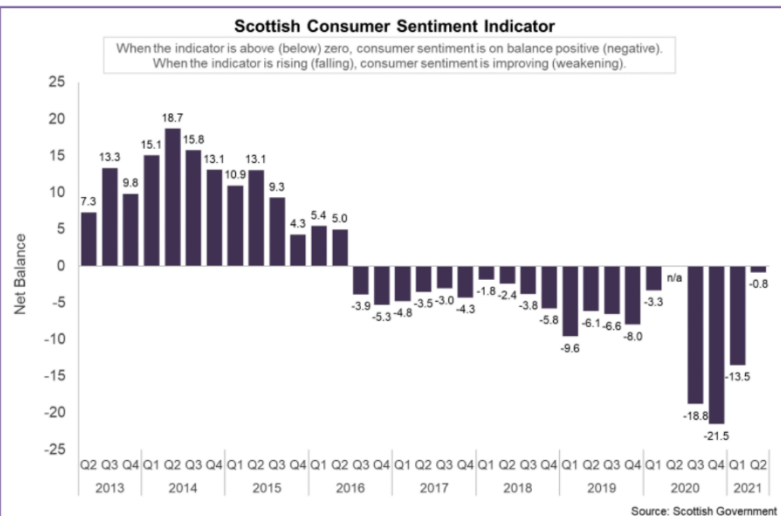
- **91.8% report 'high' chance of 'survival** – up from 82.6% in Q4 2020
- 37.7% report **higher debt burden** due to the pandemic
- 34% intend to or have **reduced their office footprint**
- Nearly half of firms are hiring new staff – but 77% of these are **finding it difficult to fill positions**

Sources: [Addleshaw Goddard](#), [IHS Markit](#), [RBS](#)

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Jun	May	Apr
Total Sales Growth	-3.0%	-3.6%	-15.6%
Food Sales Growth	+5.5%	+2.5%	+7.2%
Non-Food Sales Growth	-10.1%	-8.7%	-22.7%

The latest data from the Scottish Consumer Sentiment Indicator suggests **consumers' views and expectations have strengthened significantly**. In Q2 2021, the composite measure rose from -13.5 points to -0.8 points.



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Scottish consumers report better household finances and also expect to spend more

going forward. However, they remain broadly cautious. The Indicator has not entered positive territory since mid-2016.

Sources: [KPMG](#), [Scottish Government](#), [Scottish Retail Consortium](#)

EMPLOYMENT

SCOTLAND	Mar 21- May 21	Dec 20- Feb 21	Sep 20- Nov 20	Jun 20- Aug 20
Economically Active	77.4%	78.0%	77.9%	77.6%
In Employment	74.0%	74.4%	74.4%	74.0%
Unemployed	4.4%	4.6%	4.4%	4.5%
Economically Inactive	22.6%	22.0%	22.1%	22.4%

Levels of employment and unemployment remain relatively stable in Scotland with the jobless rate consistent around 4.4% below the UK rate of 4.8%. There are over 2.5 million people aged 16 to 64 in employment in Scotland, with 118,000 unemployed.

However, another **173,100 Scots are still on furlough**, which continues to mask the full extent of the challenges for the labour market north of the border – and could potentially more than double levels of unemployment without continued investment in support for workers, job creation and recovery.

Recent analysis by the Resolution Foundation has found that low pay – hourly wages below two-thirds of median hourly pay in the UK – was declining before COVID-19 due to minimum wage policies but 'remains commonplace' and disproportionately affects certain groups in society. Young people, those in part-time employment and those working in hospitality, leisure and retail are most likely to be low paid.

Data from the Office for National Statistics suggest the UK and Scottish Governments have further to go to deliver a Just Transition to Net Zero, according to the STUC. **Despite large increases in green energy production, between 2014 and 2019 employment in the low-carbon and renewable energy economy actually fell** from 246,000 to 202,000 across the UK. In Scotland, the number of jobs also decreased from 23,000 to 21,000. The STUC is calling for more action to deliver a 'green jobs boom'.

Sources: [Office for National Statistics](#), [Scottish Government](#), [STUC](#)

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