

# STATE OF THE NATION

## SCDI's Economic Data Briefing

### December 2019

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for Development  
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## INTEREST RATE **0.75%** Official Bank of England Rate

At its meeting on 7 November, **the Monetary Policy Committee voted 7 to 2 to hold the Official Bank of England Rate at 0.75%**. Two of the outside experts on the Committee believed that a growing sense of weakness in the UK economy merited a reduction in interest rates to stimulate demand, signalling a slight shift in opinion.

In the Bank of England's overall judgement, however, **the short-term prospects for the economy have improved alongside the diminished risk of a no-deal Brexit** in the short-term. The Committee will meet again on 19 December.

Source: Bank of England

## INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Oct	Sep	Aug	Jul	Jun
	<b>1.5%</b>	1.7%	1.7%	2.1%	2.0%

**Inflation has dropped to its lowest level for three years** due to declining gas and electricity prices. The rising cost of clothing was the most significant upwards factor. The Consumer Prices Index level of inflation was last this low in November 2016.

Source: Office for National Statistics

## PRODUCTIVITY

	Q2 2019	Q1	Q4	Q3	Q2 2018
Quarterly (Trend -Based) Productivity Growth in Output per Hour	<b>+1.3%</b>	+1.1%	+0.5%	0.0%	+1.3%
Rolling Annual Productivity Growth in Output per Hour	<b>+0.7%</b>	+0.4%	+2.3%	+4.0%	0.0%

**Labour productivity in Scotland increased by 1.3% in Q2 2019** compared to the same quarter of 2018. Compared to the previous three months, productivity was up by 0.2% during April to June 2019.

However, official forecasts suggest that a UK withdrawal from the European Union would represent a significant long-term risk to productivity growth. HM Treasury analysis suggests that productivity in the Scottish economy would be 3.5% lower by 2030 than if the UK remained an EU member state.

Sources: HM Treasury, Scottish Government

## ECONOMIC GROWTH

GDP Growth	Scotland
<b>Q2 2019</b>	<b>-0.3%</b>
Agriculture, forestry & fishing	+0.3%
Services	+0.1%
Production	-1.1%
Construction	-2.2%

**The immediate threat of large-scale disruption to the UK economy from a no-deal Brexit is, for now, off the table.** However, the impact of continued Brexit uncertainty on economic growth is clear. Analysis from the Fraser of Allander Institute indicates that **Scottish GDP is around £3 billion lower in 2019 than it would have otherwise been had the UK voted in 2016 to remain in the EU.**

Evidence from the National Institute of Economic & Social Research suggests that the UK economy could be £70bn worse off by 2030, representing a 3.5% hit to GDP, under the revised Withdrawal Agreement compared to EU membership.

Nonetheless, the economy of the North East of Scotland is expected to grow steadily over the next decade after emerging from a difficult period. The Aberdeen Economic Policy Panel forecasts that the Aberdeen City and Aberdeenshire economies will grow by 1.5% annually between 2018 and 2028.

The report suggests that renewable energy, culture and tourism sectors will be increasingly important in the region. The transition to a net-zero Scottish economy by 2045 will be particularly challenging for the North East as Scotland's oil and gas capital.

Scotland's music industry generated £431 million of spending last year and sustained 4,300 full-time jobs. Scotland saw the strongest growth in bringing music tourists to the UK, rising from 800,000 in 2017 to 1.1m last year, an increase of 38%. Visitors spent £431m in Scotland on tickets, merchandise, drinks, food and accommodation, as well as indirect spending, such as costs created by organisers in running events.

Sources: Aberdeen Economic Policy Panel, Fraser of Allander Institute, National Institute of Economic & Social Research, UK Music

## BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Oct	Sep	Aug	Jul	Jun	May	Apr
	49.6	50.0	50.3	50.2	51.3	48.9	51.0

Scotland's private sector contracted in October amid escalating Brexit-related uncertainty and anxiety across the economy.

Manufacturing output dropped at its fastest pace in nearly nine years and employment fell at its sharpest rate in ten. Services sector growth slowed to modest levels. New business for Scottish firms fell for the third consecutive month. The decrease was the sharpest since July 2016 in the immediate aftermath of the EU referendum.

Lloyds Bank found that while economic optimism increased by eight points and overall business confidence rose four points in October across the UK, sentiment was poorest among Scottish businesses. Confidence in Scotland was at -18%.

Sources: Lloyds Bank, IHS Markit, RBS

## CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Oct	Sep	Aug
Total Sales Growth	+1.0%	-1.9%	-0.3%
Food Sales Growth	+2.5%	+2.3%	+1.8%
Non-Food Sales Growth	-0.2%	-5.4%	-1.9%

The Scottish Retail Consortium-KPMG Sales Monitor found total sales were up by 1% year-on-year in October. Food sales rose by 2.5%, while non-food sales fell by 0.2%. Adjusted for the estimated effect of online sales, non-food was up by 1.7%. This represents the best performance since January.

Evidence suggests that retailers used reduced prices and promotions to drive footfall and demand, particularly on winter coats and heavier footwear.

Supermarkets have seen a slow start to the crucial festive period despite shoppers already spending £17m on mince pies and £3m on Christmas puddings. Slowing growth in the overall market saw sales at Asda and Morrisons fall by 1.2% and 1.7% respectively, while Sainsbury's and Tesco proved slightly more resilient with drops of 0.2% and 0.6% in the past 12 weeks.

Social media is increasingly important to manufacturers in Scotland. Over half of manufacturers (58%) plan to digitalise their distribution processes in the next five years. 4 out of 5 Scottish companies now sell direct to consumers (82%). **Over the last five years, Scotland's direct to consumer sales have soared by 62%.**

Sources: Barclays, Kantar, KPMG, Scottish Retail Consortium

## EMPLOYMENT

	Jul 19-Sep 19	Jun 19-Aug 19	May 19-Jul 19	Apr 19-Jun 19
Economically Active	77.6%	77.5%	78.1%	78.4%
In Employment	74.4%	74.3%	74.9%	75.4%
Unemployed	4.0%	4.1%	4.0%	3.6%
Economically Inactive	22.4%	22.5%	21.9%	21.6%

The number of Scots in work fell by 43,000 in the three months to September. The proportion of people aged between 16 and 64 who are in paid work now stands at 74.4%. Scotland's unemployment total over the same period rose by 8,000 to 110,000.

After a sustained period of outperforming the rest of the UK, the Scottish jobless rate now stands at 4%, compared with 3.8% for the UK as a whole.

Employers' confidence in the UK economy has dropped to the lowest level since mid-2016, with significant impacts on the labour market as a result. **74% of employers said they had little or no surplus workforce, but 52% had concerns about hiring permanent staff.** The sector with the most difficulty of maintaining a skilled workforce was health and social care as labour shortages and skills gaps increased.

The number of workers earning less than the real Living Wage in Scotland has dropped by 13% in the last year. An estimated 380,000 employees currently earn below the threshold of £9 per hour, 57,000 fewer than in 2018 – equivalent to 17% of the workforce, of which two-thirds are women.

The number of people working in Scotland's brewery sector has more than doubled in a year. Around 2,500 people were employed in the industry in 2017-18, up from 1,000. Jobs in Scottish distilleries – which account for nine in 10 of those across the UK – reached 10,000, a rise of roughly 2,000 compared to the previous year. There are now 280 distilleries in Scotland producing whisky and gin, a 93% increase since 2010.

Sources: Federation of Small Businesses, Office for National Statistics, KPMG, Scottish Parliament Information Centre, The Recruitment & Employment Confederation

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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