

STATE OF THE NATION

SCDI's Economic Data Briefing

December 2020

scdi Scottish Council
for Development
and Industry

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

The Monetary Policy Committee continues to hold UK **interest rates at 0.1%**, a **record low**, and to pump new money into the economy through a programme of Quantitative Easing.

The Committee has noted that the **outlook remains 'unusually uncertain'** due to the pandemic, the end of the Brexit transition and how businesses, households and others will respond to these events in the months ahead.

Source: Bank of England

INFLATION

| UK Consumer Prices Index (CPI) Annual Rate | Oct | Sep | Aug | Jul | Jun |
|--|-------------|------|------|------|------|
| | 0.7% | 0.5% | 0.2% | 1.0% | 0.6% |

Inflation rose again to 0.7% in October as the pandemic affected the cost of food and clothing. Food and clothing prices in the UK were the major determinants of the increase from 0.5% as many consumers renewed stockpiling in response to returning public health restrictions.

However, **inflation is expected to remain relatively low**, and well below the Bank of England's 2% target, for the time being given a relatively weak economy and relatively weak consumer confidence – **unless there is a no-deal Brexit.**

Some estimates suggest that coming to the end of the transition period with the EU at the end of 2020 without an agreement could severely impact prices for imported food products due to higher tariffs, delays at the UK border or wider economic disruption. **Inflation could increase to as much as 3% or 4% in such a scenario.**

Sources: Bank of England, Capital Economics, Office for National Statistics

PRODUCTIVITY

Productivity Club Scotland – a peer-to-peer network from SCDI supporting SMEs to learn from each other, boost productivity and recover from the COVID-19 crisis – is

expanding nationwide. After the success of two pilot projects in Edinburgh and Glasgow, we are launching **three new initiatives for businesses across the North East, the South and the Highlands & Islands.**

The programme is free, open to all and backed by the Scottish Government. Sign up for **FREE** at www.productivity.scot.

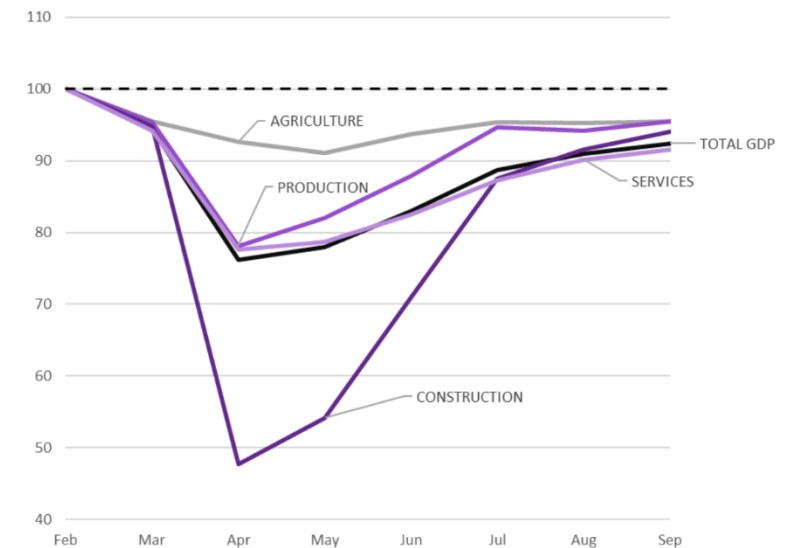
Source: Productivity Club Scotland

ECONOMIC GROWTH

| Onshore GDP | Scotland |
|------------------|--------------|
| September | +1.6% |
| August | +2.6% |
| July | +6.9% |
| June | +6.3% |
| May | +2.4% |
| April | -19.3% |
| March | -5.6% |

Scottish GDP has grown for five consecutive months. The construction sector has grown most strongly as restrictions on activity lifted, while the production and services sectors also grew. However, the **overall size of the Scottish economy remains 7.6% smaller than before the COVID-19 crisis.**

GDP Monthly Estimates: February to September 2020
Index (February = 100) by SIC 2007 main industry sector



The imminent rollout of a COVID-19 vaccine has lifted expectations for a stronger recovery. The OECD now anticipates global GDP growth of 4.2% in 2021. The **only major economy expected to grow in 2020 is China** by 1.8%. The EU, meanwhile, will shrink by 7.5%.

Sources: Bank of England, OECD, Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

| RBS Seasonally-Adjusted Purchasing Managers' Index | Oct | Sep | Aug | Jul | Jun | May | Apr |
|--|------|------|------|------|------|------|------|
| | 43.2 | 51.2 | 55.8 | 49.3 | 37.1 | 21.1 | 10.7 |

Scotland's private sector fell back into contraction in October as public health restrictions were ramped back up to suppress the spread of COVID-19. The RBS PMI fell sharply from 51.2 in September to 43.2 in the following month.

Scottish firms widely believe activity will increase over the coming year, but immediate levels of confidence for the short-term remain weak. **Business confidence is critically tied to optimism about bringing the virus under control and the success of a vaccine.**

The number of **private sector jobs fell for the ninth month in a row in October.** Several large employers have recently announced large-scale redundancies in Scotland, including Debenhams, Ineos and Stewart Milne Group.

Nearly 9 in 10 company directors report making changes to their business in response to COVID-19. Nearly half of those changes had apparently improved productivity. A significant minority plan to increase investment in IT and R&D.

Sources: IHS Markit, IoD, RBS, Scottish Government

CONSUMER ACTIVITY AND CONFIDENCE

| SRC-KPMG Retail Sales Monitor | Oct | Sep | Aug |
|-------------------------------|--------|--------|-------|
| Total Sales Growth | -8.5% | -6.0% | -7.5% |
| Food Sales Growth | +4.4% | +3.7% | +1.5% |
| Non-Food Sales Growth | -19.3% | -14.2% | -1.7% |

Retail sales continue to fall in Scotland, with total sales down by 8.5% in October compared with the same month in 2019. Non-food sales fared especially poorly as Scottish consumers continued to put off non-essential purchases.

Grocery stores and supermarkets have performed well as restrictions on the opening of cafes, restaurants and pubs have continued in many areas. A strong performance across Black Friday and the Christmas period will be critical for the survival of many businesses.

The COVID-19 crisis has been a severe crisis for the retail sector. Across the UK, **over 15,000 stores have closed so far during the pandemic at a cost of over 140,000 jobs.** Given the demographics of the retail workforce, the impact has been felt disproportionately by female and older workers.

UK consumer confidence increased marginally with the news that COVID-19 vaccine trials and approvals were progressing, despite growing restrictions on mobility and leisure in much of the country. Positive perceptions of household finances and house prices were primarily boosted.

Source: Centre for Retail Research, Scottish Retail Consortium, YouGov

EMPLOYMENT

| SCOTLAND | Jul 20-Sep 20 | Apr 20-Jun 20 | Jan 20-Mar 20 | Oct 19-Dec 19 |
|-----------------------|---------------|---------------|---------------|---------------|
| Economically Active | 77.6% | 77.3% | 77.8% | 77.8% |
| In Employment | 74.0% | 73.7% | 74.5% | 75.0% |
| Unemployed | 4.5% | 4.6% | 4.2% | 3.5% |
| Economically Inactive | 22.0% | 22.1% | 22.3% | 22.6% |

Unemployment in Scotland has increased significantly since the Spring, but not as severely as previously anticipated. Joblessness is now 4.5%, up from a record low of 3.2% at the beginning of 2019, but far lower than the high of 8.6% registered in 2011 during the long recovery from the Great Recession of 2009.

The jobless rate for men in Scotland is 4.5%. The jobless rate for women is 4.2%.

Across the UK, unemployment is marginally higher at 4.8%. A total of 1.62 million people are out of work and looking for employment.

The extension of government support for jobs and wages, particularly the Coronavirus Job Retention Scheme, has helped save many jobs for the time being. The Winter will be a critical period for the survival of many jobs. The worst may yet still be to come.

The Bank of England still expects **unemployment across the UK to peak at 7.7% in Q1 2021.**

The Office for Budget Responsibility projects 7.5% unemployment in the UK – around 2.6 million people – in the middle of 2021.

26.4% of Scotland's workforce is currently working remotely and not at their normal place of work. The average workday has increased by nearly 50 minutes, which suggests that any productivity gains may be unsustainable in the long-term or even 'false'. The pandemic will continue to deepen existing issues for many workers around unpaid work, overwork and burnout in a digital working world.

Sources: Bank of England, BT, Office for National Statistics, Scottish Government

SCDI is an inclusive and independent network of businesses and organisations from all sectors and all geographies of the Scottish economy.

Our mission is to help our members grow and to help build a better Scotland.

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