

# STATE OF THE NATION

## SCDI's Economic Data Briefing

### February 2020



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

The Bank of England has held interest rates at **0.75%** amid early signs of a pick-up in the global economy, but continued caution over the impact of Brexit on the domestic economy. The Monetary Policy Committee voted 7-2 to keep rates unchanged.

Source: Bank of England

## INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Dec	Nov	Oct	Sep	Aug
	<b>1.3%</b>	1.5%	1.5%	1.7%	1.7%

Inflation fell to its lowest level in the UK for more than three years in December. The Consumer Prices Index dropped to 1.3%, down from 1.5% in November, partly due to falling costs for items like women's clothing and hotel rooms.

Source: Office for National Statistics

## PRODUCTIVITY

	Q2 2019	Q1	Q4 2018	Q3	Q2
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%

UK productivity growth of just 0.3% over the past decade has been named the Royal Statistical Society's 'statistic of the decade'. **If productivity had grown since 2010 at the normal historic rate, output for every hour worked in the UK would be more than 20% higher than it is today.**

The six most productive regions in the UK are London and the East, South East, South West, West Midlands and the North West of England. Scotland was among the six least productive regions of the UK, alongside Wales, the East Midlands, Yorkshire and Humber, the North East and Northern Ireland. The gap in average output per hour worked was £33.88 to compared to £29.50.

Closing the productivity gap between different parts of the UK through investment in research and development for small and medium-sized enterprises could deliver a £106 billion uplift to economic output and create an additional 272,000 jobs.

Sources: Centre for Business and Economics Research, Royal Statistical Society, Scottish Government

## ECONOMIC GROWTH

GDP Growth	Scotland
<b>Q3 2019</b>	<b>+0.3%</b>
Agriculture, forestry & fishing	+1.3%
Services	+0.1%
Production	+1.1%
Construction	0.0%

Scotland's economy grew by **0.3%** during the third quarter of 2019. During the third quarter, figures show output in the services sector grew by 0.1%, output in the production sector grew by 1.1%, with output in the construction sector remaining flat compared to the second quarter. Agriculture, forestry and fishing grew by 1.3%.

**Key sectors of the Scottish economy have entered the new decade feeling relatively upbeat and confident about the future**, despite significant remaining concerns about the potential impact of Brexit. Professional services firm CMS surveyed over 100 prominent industry leaders from Scotland's renewable energy, life sciences, Food & Drink and technology sectors. A high proportion (69%) viewed Brexit as a threat, with few (15%) identifying it as an opportunity. 38% expected higher profits in the year ahead, against 31% forecasting no change and 17% a decline.

The value of exports from Scotland grew to £85bn in 2018, an increase of 2.9%. The growth was spearheaded by growing demand for Scottish food and drink produce where exports rocketed by 7.1%. The Scottish government highlighted that **trade with the EU was growing faster than trade with other international markets**, increasing by 4.5%.

**V&A Dundee has had a significant impact on the local economy**, according to recent analysis. The museum delivered an economic boost of £75m last year, well above the anticipated £23m. Museum visitors were worth £21m to the Dundee economy against a projected £10m. V&A Dundee supported the equivalent of 696 jobs in the city, in addition to 2,143 across Scotland.

Sources: CMS, Ekosgen, Scottish Government, Scottish Trends

## BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Dec	Nov	Oct	Sep	Aug	Jul	Jun
	50.0	50.9	49.6	50.0	50.3	50.2	51.3

The RBS PMI fell from 50.9 in November to 50.0 in December, signalling that **the private sector in Scotland stagnated at the end of 2019**. Manufacturing output fell sharply, outweighing marginal Services output growth.

As the UK leaves the EU, identifying new internationalisation opportunities is a key challenge for Scotland's exporters. The Federation of Small Businesses found that 46% of small exporters hop to export to the USA over the next three years, while 38% and 36% respectively hope to export to Germany and France. **The EU remains the most important trading bloc for 62% of exporters and 55% of importers**, ahead of the United States, Mexico and Canada as part of NAFTA.

**The number of companies in critical financial distress in Scotland fell by 28% in the closing months of 2019**, despite a record number of British firms reporting significant problems.

Sources: Begbies Traynor, Federation of Small Businesses, IHS Markit, RBS

## CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Dec	Nov	Oct
Total Sales Growth	+0.4%	-2.5%	+1.0%
Food Sales Growth	+1.8%	+2.7%	+2.5%
Non-Food Sales Growth	-0.8%	-6.8%	-0.2%

**Scottish retailers suffered a difficult winter due to stuttering Christmas sales.** Headline figures for the crucial five week-period to 28 December showed that total retail sales in Scotland increased by just 0.4% compared with 2018.

However, the 2019 data was "positively distorted by the late timing of Black Friday", according to KPMG, which occurred in December last year as opposed to November as in 2018. After adjusting for this effect, festive sales reduced by 0.9%, marking a second successive year of decline for Scotland.

**There have been almost 10,000 retail job losses in the UK so far in 2020**, according to the Centre for Retail Research, and a further 1,200 jobs are under threat with the recent collapse of Beales and Hawkin's Bazaar.

Retail sales in Scotland's capital Edinburgh rose 0.2% in 2019 against a Scotland-wide fall of 0.4% and an average UK decline of 0.5%. In December 2019 Edinburgh's retailers enjoyed a year-on-year revenue rise of 2.8%, once again outstripping Scottish and UK increases of 0.4% and 1.9%. Edinburgh's Christmas and Hogmanay activities were cited as a key reason for the continued growth.

Sources: Barclays, Deloitte, KPMG, Scottish Retail Consortium, STR Data

## EMPLOYMENT

	Sep 19- Nov 19	Aug 19- Oct 19	Jul 19- Sep 19	Jun 19- Aug 19
Economically Active	77.3%	77.4%	77.6%	77.5%
In Employment	74.3%	74.5%	74.4%	74.3%
Unemployed	3.8%	3.7%	4.0%	4.1%
Economically Inactive	22.7%	22.6%	22.4%	22.5%

Unemployment has risen slightly in Scotland to 3.8% from the previous month. This rate was the same as the UK's overall unemployment rate – from September to November 2019. The employment rate of 74.3% in Scotland was below the UK figure of 76.3%.

**Over 10,000 jobs were generated in Scotland as a result of foreign direct investment in 2018-19**, including 3,161 are high value jobs with salaries around 20% higher than the Scottish average. The three most predominant sectors for inward investment were Financial & Business Services, Energy, Oil & Gas, Technology and Advanced Engineering.

About two dozen British firms told German authorities in 2019 they plan to open offices in Germany and will create 680 new jobs, more than in the previous two years combined. Germany Trade and Invest linked the increase to Britain's departure from the European Union on January 31 and said the number of planned new jobs may rise as some firms registered plans directly with Germany's 16 federal states.

An estimated **18% of Apprentices in Scotland were victims of illegal low pay** (pay that is less than the National Minimum Wage or National Living Wage), an increase from 14% in 2016.

Sources: Centre for Retail Research, Germany Trade and Invest, Office for National Statistics, Scottish Development International

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.

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