

STATE OF THE NATION

SCDI's Economic Data Briefing

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INTEREST RATE **0.5%** Official Bank of England Rate

At its meeting on 2 February 2022, the Bank of England's Monetary Policy Committee **voted by a majority of 5-4 to increase the Bank Rate by 0.25 percentage points, to 0.5%**. Those who voted against the 0.25% increase called for an even bigger increase of 0.5 percentage points, to 0.75%.

Global and UK activity returned to their pre-Covid-19 (Covid) levels towards the end of last year. Beyond the near term, the Bank of England expects UK GDP growth to slow to subdued rates. The emergence of the Omicron variant is expected to have depressed activity somewhat in December and January but its economic impact is likely to be limited and of short duration, and UK GDP is expected to recover in February and March such that output returns to its pre-pandemic level once again by the end of the first quarter.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPIH) Annual Rate	Dec	Nov	Oct	Sep	Aug
	4.8%	4.6%	3.8%	2.9%	3.0%

Inflation (CPIH) rose by 4.8% in the 12 months to December 2021, up from 4.6% in November. The increase has been attributed to continuing sharp increases in gas and electricity prices, and to higher prices in restaurants and hotels after a partial removal of a VAT cut for the hospitality sector, as well as rising prices for consumer products like second-hand cars, clothing, and food and drink. The Bank of England forecast inflation to rise to around 5% in the spring of this year.

The RAC's January figures show that motorists paid an average of 146p a litre for unleaded petrol, a decrease from 147p the month before, and 149p a litre for diesel, a decrease from 151p.

However **oil prices rose more than \$1 a barrel** after drone attacks at an oil facility in Abu Dhabi put upward pressure on pump prices. **US investment bank Goldman Sachs also estimated the price of crude will rise to \$100 a barrel** in the second half of 2022 as global economic activity recovers from the disruption caused by the Omicron variant.

Sources: Office for National Statistics, Royal Automobile Club, Goldman Sachs

PRODUCTIVITY

In January a worrying report the Finance and Public Administration Committee of the Scottish Parliament forecast that the impact of low wages, poor productivity, and changing demographics on income tax receipts could **"if they come to pass, put Scotland's fiscal sustainability at risk"**. The long-term implications of these shifts could threaten to undermine Scotland's ability to retain current levels of public spending and social welfare support, at a time when expectations of the provision of services are rising.

Sources: Scottish Parliament

ECONOMIC GROWTH

GDP Growth	UK	Scotland
Nov 2021	0.9%	0.8%
Services	0.7%	0.5%
Production	1.0%	1.7%
Construction	3.5%	3.6%

UK GDP is estimated to have increased by 0.9% in November 2021, compared with a 0.2% increase in October 2021 (revised from 0.1%). Growth in services supported this growth with consumer-facing services, such as retail and entertainment, growing by 0.8% mainly because of a 1.4% increase in retail trade, while all other services rose by 0.6%. Consumer-facing services are still 5.0% below their pre-coronavirus levels while all other services are 2.9% above.

UK GDP growth for 2022 as a whole is forecast at 4.7%. The IMF's latest data however points to a cooling of UK GDP this year as Omicron, persistently high inflation and a global chip shortage threaten to impact growth in the near future. The latest figures represent a 0.3% downward revision for UK GDP expansion this year, but still reveal a relatively optimistic outlook for the UK.

Scotland's onshore GDP is estimated to have grown by 0.8% in November, and output is now back above the pre-pandemic level of February 2020 for the first time. Output in the services sector, which accounts for around three quarters of the economy, grew by 0.5% in November, with increases in nine of the fourteen subsectors.

Output in the production sector in Scotland, which accounts for around 16% of the economy, grew by 1.7% in November. There was growth in three of the four subsectors, including growth of 1.7% in the manufacturing subsector. Output in the construction sector, which accounts for around 6% of the economy, is estimated to have grown by 3.6% in November.

Sources: Office for National Statistics, International Monetary Fund, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Dec	Nov	Oct	Sep	Aug	Jul	Jun
	52.7	55.9	56.3	56.1	58.1	57.5	58.4

The RBS Purchasing Managers' Index posted 52.7 in December, down sharply from 55.9 in November. The results (above 50) signalled a further expansion in activity, but one that was the weakest in the current 10-month sequence of growth. At the sector level, services saw a slower rate of expansion, while factory production declined for the first time since last September. At the same time, the growth of new work eased noticeably, with inflows of new business rising only mildly overall in December as Covid-19 concerns weighed on client demand.

In January it was reported that total UK exports of goods decreased by £0.3 billion (1.0%) in November 2021, driven by a £0.3 billion (2.1%) fall in exports to non-EU countries while exports to EU countries remained flat. The trade in services surplus increased by £2.1 billion to £35.9 billion in the three months to November 2021.

Sources: RBS, Office for National Statistics

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor (LFL YoY)	Dec	Nov	Oct
Total Sales Growth	15.6%	2.6%	-0.3%
Food Sales Growth	1.2%	-2.2%	-5.5%
Non-Food Sales Growth	27.7%	6.7%	4.1%

Shopper footfall in Scotland slumped again in December marking the fifth consecutive month in which the country suffered the deepest decline of the UK nations. Figures from the Scottish Retail Consortium show that footfall across the country declined by 22.8% compared to the same period in 2019, a three percentage point decrease from November. The average decline across the UK was 18.6% as the spread of the Omicron variant led to people limiting their outings.

Despite the worrying comparisons the total retail sales in Scotland increased by 15.6% for December compared to the same period the year before, when they had previously decreased by 16.6% compared to December 2019.

The uptake of retail vacancies has also increased: in the fourth quarter of 2021 the Scottish shop vacancy rate decreased to 16.1%, from 16.4% in Q3. At the same time, shopping centre vacancies decreased to 20.4% from Q3's 21.4%. On the High Street, vacancies remained at 15.0% for the second consecutive quarter in Q4. While retail park vacancies decreased to 12.6% in Q4 2021, down from 13.4% in Q3.

The Federation of Small Businesses Scotland warned that this trend could lead to more firms closing their doors for good, as it released findings from its quarterly Scottish Small Business Confidence Index (SBI). Around one in ten Scottish firms (12%) say late payment is now threatening the viability of their business and according to

Scotland's Small Business Index fell by 23.2 points between Q3 and Q4, reaching -22 compared to a UK-wide fall of 25 points. This marked the second consecutive quarterly decline and the first negative reading since Q4 2020.

Sources: KPMG, Scottish Retail Consortium, Federation for Small Businesses

EMPLOYMENT

ONS monthly employment statistics	Sep 21- Nov 21	Jul 21- Sep 21	May 21- Jul 21	Apr 21- Jun 21
Economically Active	77.9%	78.0%	77.5%	77.6%
In Employment	75.1%	74.8%	74.1%	74.2%
Unemployed	3.6%	4.1%	4.4%	4.4%
Economically Inactive	22.1%	22.0%	22.5%	22.4%

Scotland's unemployment rate fell sharply in the autumn to below pre-pandemic levels. Office for National Statistics data showed the number of Scots seeking work between September and November fell on the previous quarter by 0.8% to 3.6%. The figure for the UK as a whole was 4.1%.

Meanwhile, the employment rate rose to 75.1% of working age adults, lower than the UK figure of 75.5%. In addition "early estimates" from HMRC showed that in December 2021 there were 2.42 million employees in Scotland - 22,000 more than there were in February 2020.

Meanwhile, ONS figures showed average pay rises are failing to keep up with the rise in the cost of living. While wages rose in the year to November, they did not rise as fast as prices over the same period. This meant that average weekly earnings - adjusted for price rises - fell for the first time since July 2020. Regular pay, excluding bonuses and adjusted for inflation, fell 1% in November compared with the same month in the previous year.

The number of job vacancies in October to December 2021 rose to a new record of 1,247,000, an increase of 462,000 from the pre-coronavirus (COVID-19) pandemic level in January to March 2020. In October to December 2021, the total number of vacancies increased by 127,800 (11.4%) on the quarter, with the largest increase seen in human health and social work which was up 26,800 (14.9%) to a new record of 206,000.

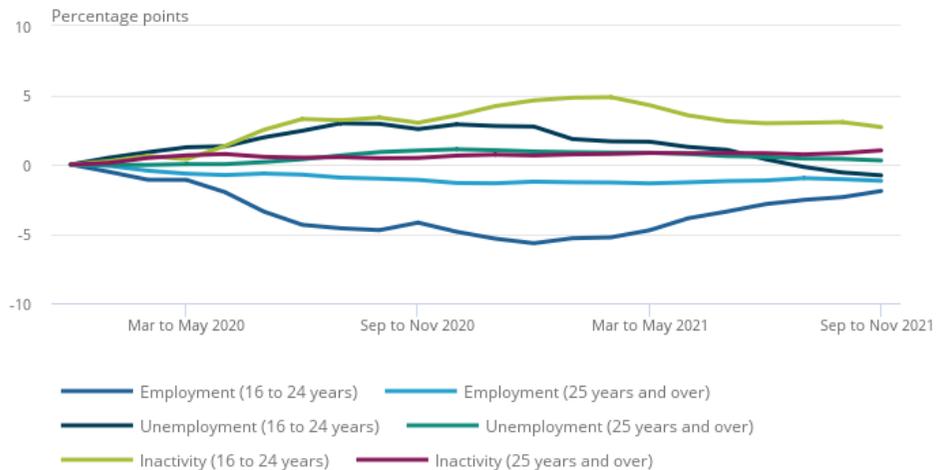
Demographic trends show that during the latest three-month period, which covered the end of the Coronavirus Job Retention Scheme (CJRS), there had been increases in the employment rates and decreases in the unemployment rates for both men and women. The increase in the economic inactivity rate compared with the previous three-month period was driven by women, but the inactivity rate for men has also increased and remains above pre-coronavirus rates.

The same statistics continue to bear out that young people (aged 16 to 24 years) have been particularly affected by the pandemic, with the employment rate impacted more than other age groups. However, during the three-months up to December there was an increase in the employment rate and a decrease in the unemployment rate for young

people to below pre-coronavirus rates. The inactivity rate for young people also decreased compared with the previous three-month period.

Figure 3: The employment rate for young people (those aged 16 to 24 years) has increased compared with the previous three-month period, while the unemployment rate for young people has returned to pre-coronavirus levels

UK economic status rates by age (people aged 16 to 24 years and 25 years and over), seasonally adjusted, cumulative change from December 2019 to February 2020, for each period up to September to November 2021



Source: Office for National Statistics - Labour Force Survey

Sources: Bank of England, Scottish Government, Office for National Statistics, Recruitment & Employment Confederation, HM Revenues and Customs,

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, Angus Robertson: Angus.Robertson@scdi.org.uk