

STATE OF THE NATION

SCDI's Economic Data Briefing

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

The **Monetary Policy Committee voted 7-2 in favour of holding interest rates at 0.75%** on 19 December in anticipation of only “marginal” growth across the UK economy in the short-term. Looking ahead, it suggested that interest rates “could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target”.

The following day it was announced that former Deputy Governor for Prudential Regulation and current Chief Executive of the Financial Conduct Authority **Andrew Bailey will replace Mark Carney as Governor of the Bank of England** in March 2020.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Nov	Oct	Sep	Aug	Jul
	1.5%	1.5%	1.7%	1.7%	2.1%

Inflation remains unchanged at 1.5%, well below the Bank of England's 2% target. The CPI was at its lowest level in three years in November despite rising prices for chocolate, concert tickets and package holidays.

Source: Office for National Statistics

PRODUCTIVITY

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

Labour productivity in Scotland increased marginally 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.

According to a recent analysis by PwC, the UK as a whole continues to lag behind international competitors. Output per worker in the UK is 10% – 15% lower than in Germany, France and Sweden, and nearly a third lower than in the United States.

Sources: PwC, Scottish Government

ECONOMIC GROWTH

GDP Growth	Scotland
Q3 2019	+0.3%
Agriculture, forestry & fishing	+1.3%
Services	+0.2%
Production	+0.9%
Construction	0.0%

The latest Scottish GDP data release confirms that the Services, Production and Agriculture, forestry & fishing sectors all grew at modest rates, while output in the Construction sector remained flat. **Scotland's annual growth rate for the year 2019 is set to hit around 1%.**

The CBI expects the UK economy to slow in 2020, even if the UK leaves the EU with a deal. It forecasts that UK GDP will increase by 1.3% in 2019 – the worst performance since the Great Recession – and then just 1.2% in 2020. However, growth could pick up to 1.8% in 2021.

December's Queen's Speech strongly indicated that **the UK Government will pursue a harder Brexit.** It also **reopened the possibility of the UK leaving without a deal.** A revised Withdrawal Agreement Bill which prevents an extension to the transition or implementation period beyond the end of 2020 has been passed by the newly elected House of Commons. Given that the UK and the EU are unlikely to have time to negotiate a comprehensive future trading relationship in such a short period – such agreements conventionally take between 5 and 10 years – a disastrous 'no-deal' Brexit could result.

JP Morgan judge that there is a 25% risk that the UK and EU will fail to agree a trade deal by the end of 2020. It believes there is a 50% chance that a deal can be reached and a 20% possibility of the transition period being extended.

A joint report from Highlands & Islands Enterprise and South of Scotland Economic Partnership noted the role and importance of social enterprises to the rural economy. Both regions have experienced significant growth in the sector in recent years. Social enterprises in the Highlands & Islands and the South respectively now generate annual income of £320m and £192m and are collectively valued at £548m and £285m.

Sources: CBI, Fraser of Allander Institute, Highlands and Islands Enterprise, JP Morgan, South of Scotland Economic Partnership

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Nov	Oct	Sep	Aug	Jul	Jun	May
	50.9	49.6	50.0	50.3	50.2	51.3	48.9

Scotland's private sector expanded in November for the first time since August, according to the RBS PMI. After back-to-back months of decline or stagnation, businesses across the country returned to growth.

Scotland's Services firms reported their fastest expansion for half a year, which outweighed a sharp fall in output from manufacturers. Staffing levels across the board increased moderately after four months of decline, suggesting that employment numbers will continue to improve.

However, across the UK construction companies recorded a drop in business activities in November as new orders dried up in the face of political uncertainty. The UK's Services sector also recorded a difficult month with **lower demand as a result of subdued levels of business investment and consumer spending**. Both employers and consumers are highly cautious at present as they look to the future.

SMEs remain the backbone of the Scottish economy. In 2019, 178,780 businesses were registered in Scotland, a ratio of 396 for every 10,000 adults. 99.3% of these businesses were small or medium-sized employers with fewer than 250 employees.

Sources: Federation of Small Businesses, IHS Markit, Royal Bank of Scotland

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Nov	Oct	Sep
Total Sales Growth	-2.5%	+1.0%	-1.9%
Food Sales Growth	+2.7%	+2.5%	+2.3%
Non-Food Sales Growth	-6.8%	-0.2%	-5.4%

At first glance, the Scottish Retail Sales Monitor suggests a sharp decline in sales for Scottish retailers, with a sharp decline in like-for-like sales of -5.2% in November. However, adjusting for the later timing of Black Friday and Cyber Monday in 2019 compared to 2018 – which would have registered like-for-like sales growth of 0.1% – places the results in some context.

In a bid to stimulate growth, it was believed that **sales discounts on clothing and products in the lead up to Christmas were the biggest in nearly a decade**. Deloitte expected average discounts to hit 50% by Christmas Eve. Retailers' concerns about consumers' willingness to spend has led to sharper and earlier discounting across the sector.

The UK's retail sector was given a boost by Black Friday promotions. Sales volumes from 25 November to 2 December rose by 7.1% compared with 2018, while sales value increased by 16.5%.

Sources: Barclays, Deloitte, KPMG, Scottish Retail Consortium

EMPLOYMENT

	Aug 19- Oct 19	Jul 19- Sep 19	Jun 19- Aug 19	May 19- Jul 19
Economically Active	77.4%	77.6%	77.5%	78.1%
In Employment	74.5%	74.4%	74.3%	74.9%
Unemployed	3.7%	4.0%	4.1%	4.0%
Economically Inactive	22.6%	22.4%	22.5%	21.9%

Unemployment in Scotland has fallen from 4% to 3.7%, just above the UK figure of 3.8%. The number of Scots seeking work fell by 9,000 to 100,000 between August and October. **Youth employment continues to increase, with 57.9% of those aged 16 to 24 years who are not in education old in Scotland in work in September 2019**. This is a substantial improvement on the previous year when in 2018 the rate was 57.9%. There are now 336,000 young people in employment in Scotland.

In Scotland, 73% of people work full-time. Men make up 61% of those in full-time jobs. **The median (or typical) gross full-time salary in 2019 was £30,000**, just below the UK figure of £30,353 and the highest of any nation or region in the UK outside London, the South East and the East of England.

Within Scotland, Aberdeen has the highest workplace income per hour at £15.33, while Inverclyde has the lowest at £10.56. East Renfrewshire performs best on pay for residents at £19.31, with Dumfries and Galloway at the bottom of the table on £10.79. Dundee are also in the bottom quartile, with Edinburgh and Aberdeen in the top quartile.

75% of UK employers indicate that they have little or no surplus capacity in their workforce. Moreover, **50% of employers report concerns about shortages of candidates** for hire that were suitable for the specific vacancy. Concerningly, overall employer confidence in the economy fell to a net figure of -34%, its lowest since 2016. The RBS Report on Jobs shows that **permanent candidate availability in the Scottish labour market continues to fall as it has done since March 2012**, exacerbating labour shortages and skills gaps for employers across all sectors and all geographies.

Sources: Office for National Statistics, Recruitment & Employment Confederation, Royal Bank of Scotland, Scottish Parliament Information Centre, Scottish Government

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.