

STATE OF THE NATION

SCDI's Economic Data Briefing

January 2021



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

Interest rates are stable at 0.1% and are expected to remain so for the foreseeable future as restoring demand in the UK economy remains the priority of the Bank of England and HM Treasury. The Monetary Policy Committee will next meet on 4 February.

Source: [Bank of England](#)

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Nov	Oct	Sep	Aug	Jul
	0.3%	0.7%	0.5%	0.2%	1.0%

After surging to 1.0% during the summer easing of public health restrictions across the UK, inflation fell back to 0.3% in November as transmission of COVID-19 increased and disruption intensified.

Sources: [Bank of England](#), [Office for National Statistics](#)

PRODUCTIVITY

In 2020 Scotland fell behind other parts of the UK and international competitors on 10 out of 15 key indicators of productivity, compared to 9 out of 15 in 2019.

A new analysis by academics at Birmingham City University suggests that the productivity gap between Scottish workers and English workers has halved since devolution. Average wages for Scottish workers were 5% less than their English counterparts in 1999 – it is now 2.5%. While Scotland's productivity was previously 1.3% lower than, for example, the North West of England, it is now 6.5% higher. The study concluded that further devolution in the UK could drive better economic performance.

Productivity Club Scotland's annual expo will take place digitally throughout February. Participation is free and open to all. Register now: www.productivity.scot/productivity-matters

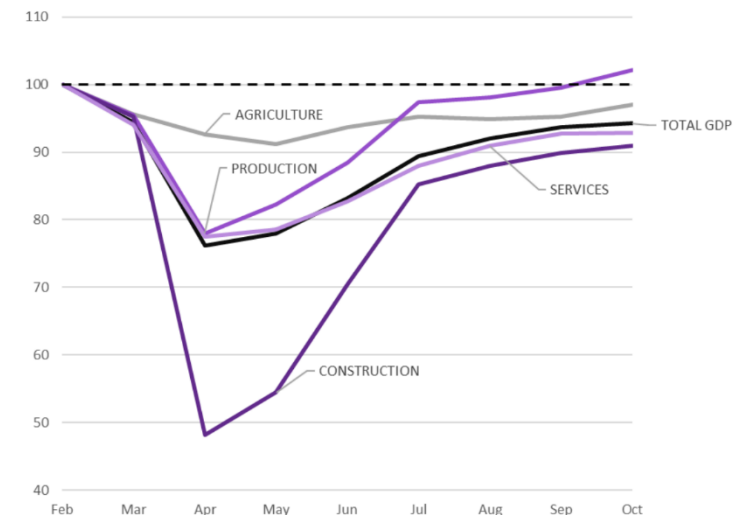
Sources: [Birmingham City University](#), [CBI Scotland](#), [KPMG](#), [Productivity Club Scotland](#)

ECONOMIC GROWTH

Onshore GDP	Scotland
October	+0.6%
September	+1.6%
August	+2.6%
July	+6.9%
June	+6.3%
May	+2.4%
April	-19.3%
March	-5.6%

Growth in Scotland's economy slowed in October as stricter public health restrictions returned across much of the country. Onshore GDP increased by 0.6%. Production grew by 2.7% and Construction by 1.2%. Construction output remains 9.1% down from February. The Services sector failed to expand. Agriculture, Forestry and Fishing increased by 2%.

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



Scottish Government modelling claims that the **Brexit deal could cut Scotland's GDP by around 6.1% or £9 billion by 2030 compared to EU membership.**

The Fraser of Allander Institute has produced a series of estimates for how the Scottish economy could recover from COVID-19. The central scenario predicts normality will return to the economy by August 2022. The most optimistic scenario suggests February 2022. The most pessimistic scenario suggests business closures, rising unemployment and a slow rollout of the vaccine would result in the economy not reaching pre-pandemic levels until September 2023.

EY has forecast 6.2% GDP growth in 2021 as the UK economy benefits from the rollout of the COVID-19 vaccine.

Sources: [EY](#), [Fraser of Allander Institute](#), [Scottish Government](#)

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Nov	Oct	Sep	Aug	Jul	Jun	May
	47.3	43.2	51.2	55.8	49.3	37.1	21.1

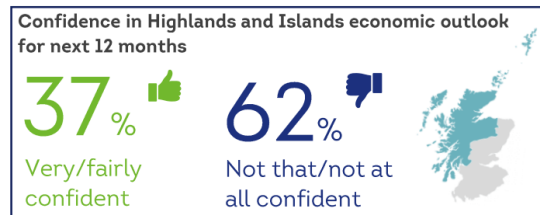
Ahead of lockdown returning to Scotland, business activity continued to decline. The RBS PMI rose to 47.3 in November but remained below the 50 mark, indicating **continued and substantial contraction of the Scottish private sector**. However, looking ahead, **business optimism for the medium-term future has been strengthened by the rollout of the COVID-19 vaccine**.

Survival is a key concern for many businesses. Analysis of official data suggests that **390,000 small and micro businesses across the UK are concerned they will not survive** the next three months, representing 15% of micro and 9% of small businesses.

10% of micro businesses and 6% of small businesses have no cash reserves. An additional 28% of micro businesses and 32% of small businesses have cash reserves to last them for up to three months. This represents over a million small businesses across the UK.

Research by Highlands and Islands Enterprise suggests that businesses are continuing to adapt and innovate to survive and thrive, but that economic confidence is also weak in the region. 50% of firms in the Highlands & Islands are operating 'below the level we were before coronavirus'. Nearly 60% report decreased sales and profit margins. A third have cut back staff and training.

Sources: [Highland and Island Enterprise](#), [IHS Markit](#), [Office for National Statistics](#), [RBS](#)



CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Nov	Oct	Sep
Total Sales Growth	-10.2%	-8.5%	-6.0%
Food Sales Growth	+4.8%	+4.4%	+3.7%
Non-Food Sales Growth	-22.8%	-19.3%	-14.2%

Scottish retail sales in November were over 10% lower in November than in November 2020. Non-food retailers suffered particularly badly with overall sales down by up to a fifth as Tier 4 restrictions closed non-essential shops and hospitality venues across much of Scotland. Shop vacancies are at a five-year high.

Grocery and digital retailers fared much better. Food sales grew strongly in November by 4.8% in Scotland. **Online sales increased by 86% in October across the UK.**

Sources: [BDO](#), [KPMG](#), [Scottish Retail Consortium](#)

EMPLOYMENT

SCOTLAND	Aug 20- Oct 20	May 20- Jul 20	Feb 20- Apr 20	Nov 19- Jan 20
Economically Active	78.2%	77.3%	77.5%	77.7%
In Employment	74.8%	73.4%	73.8%	74.9%
Unemployed	4.2%	4.9%	4.7%	3.5%
Economically Inactive	21.8%	22.7%	22.5%	22.3%

The **full impact of the pandemic on employment has yet to be seen** due to the extension of the Coronavirus Job Retention Scheme, which has provided essential support to many employers to save jobs and protect livelihoods. It has been largely successful in – at least temporarily – staving off a major jobless crisis.

Unemployment in Scotland remains relatively low at 4.2%, but substantially higher than in early March and with future increases still likely. The **Fraser of Allander Institute estimates 7.5% joblessness later in 2021**.

Scottish employment returned to close to pre-pandemic levels by October. The ONS anticipates an intensifying squeeze on wages in an effort to retain jobs and reduce labour costs in the months and years ahead. The UK unemployment rate is now at 4.9%. There were a record high 370,000 redundancies in the most recent quarter with data.

The number of permanent job opportunities in Scotland has declined for 11 consecutive months, although at a slower pace in December than previously. Temporary appointments rose sharply with **employers turning to temporary staff to fill vacancies**.

Three times as many people in Scotland are working from home now than before the pandemic. Recent survey data suggests chief financial officers at Scottish firms expect **flexible and home working to increase fivefold by 2025**.

Although there are likely to be some benefits for some, there will be challenges and disadvantages for many. Many workers 'feel that they are living at work, not working from home', according to the TUC, with negative results for productivity, health and wellbeing.

Sources: [Deloitte](#), [Fraser of Allander Institute](#), [Office for National Statistics](#), [RBS](#), [Scottish Government](#), [TUC](#)

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