

# STATE OF THE NATION

## SCDI's Economic Data Briefing

### July 2019

**scdi** Scottish Council  
for Development  
and Industry

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

The **Monetary Policy Committee** voted unanimously on 20 June to maintain the **Bank Rate at 0.75%**. There had been some market expectation that a minority of the MPC could push for a rise in interest rates due to concerns that rising wages will push up inflation. However, the Bank of England warned that a combination of ongoing Brexit uncertainty and global trade tensions were weighing heavily on prospects for UK growth.

Source: Bank of England

## INFLATION

UK Consumer Prices Index (CPI) Annual Rate	May	Apr	Mar	Feb	Jan
	2.0%	2.1%	1.9%	1.9%	1.8%

A fall in the cost of transport and clothing brought to an **end to the recent rise in inflation**, which had threatened to compel the Bank of England to ultimately increase interest rates. Air fares and car prices made the largest downward contributions to the change in the rate between April and May.

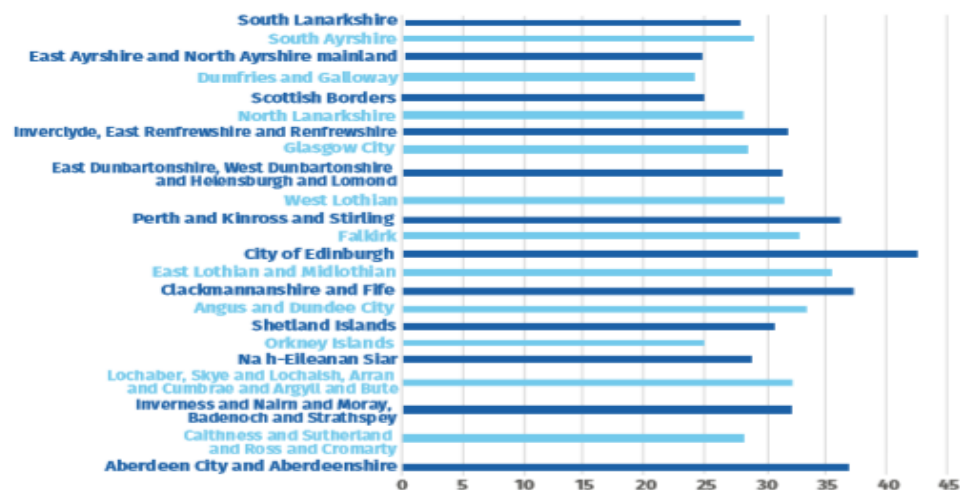
Source: Office for National Statistics

## PRODUCTIVITY

Scotland's productivity puzzle has a strong geographical dimension, as underlined by recently published research by the Institute of Public Policy Research (IPPR) Scotland. Largely **due to the concentration of sectors and employers in different regions of the country, productivity performance is divergent across Scotland**.

Scotland's global energy hub in Aberdeen City and Aberdeenshire performs very strongly, as does the City of Edinburgh, Scotland's financial services centre, and neighbouring areas like East Lothian and Midlothian. Performance is much weaker across much of the West and the South. For example, for every hour worked in Edinburgh, productivity is 77.5% higher than in Dumfries and Galloway. East Ayrshire, North Ayrshire, Scottish Borders and even Glasgow City face similar challenges. These regions also have more jobs in primary industries, retail or the public sector.

## Local-level productivity performance across Scotland



Source: ONS (2019b)

Sources: IPPR Scotland, Office for National Statistics

## ECONOMIC GROWTH

GDP Growth	Scotland
Q1 2019	+0.5%
Agriculture, forestry & fishing	+0.9%
Services	+0.1%
Production	+1.8%
Construction	+2.0%

The **Scottish economy grew by 0.5% during the first quarter of the year**, with strong growth reported by the Production (1.8%) and Construction (2.0%) sectors. However, the Services sector, which accounts for three-quarters of Scotland's GDP, expanded by just 0.1%.

Amidst ongoing Brexit uncertainty and subdued overall growth, the Scottish Fiscal Commission downgraded its official GDP growth forecasts in June to below 1% over the next two years. Its revised expectations suggest 0.8% growth in 2019, compared to its previous estimate of 1.2%, and 0.9% in 2020.

Scottish growth will lag well behind the UK until 2023, with serious implications for the Scottish Budget under the new Fiscal Framework. Scotland's spending power is now partly calculated through GDP performance relative to the UK as a whole. The Scottish Government could face a £1bn revenue shortfall over this period.

Sources: Scottish Fiscal Commission, Scottish Government

## BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	May	Apr	Mar	Feb	Jan	Dec	Nov
	48.9	51.0	49.6	49.4	49.2	49.3	52.2

Scottish private sector output in May declined for fifth time in six months, reversing a modest pick-up in activity in April, according to the RBS PMI. The only nation or region of the UK to experience a sharper fall in output was Northern Ireland.

New orders for Scottish firms declined, but intensified cost pressures led to selling prices to rise at a quicker pace. Operating expenses were driven higher by labour costs, as firms continued to expand their workforces, which kept Scotland's employment levels high.

Scottish small business confidence, as measured by the FSB Scotland Index, increased by a record 37.5 points to +3.3 in Q2 2019. Remarkably, this is **only the second time since 2015 that small business optimism in Scotland has been in positive territory** – and comes after two quarters of record-breaking lows. Some businesses, especially in retail, benefited from the mini heatwave around Easter. The delay to the UK's withdrawal from the EU also let businesses breathe a sigh of relief, with the threat of 'no-deal' averted – at least for now.

However, in stark contrast, the FSB reports that small business confidence in England fell to -8.8 from -5 last quarter. This is the fourth quarter in a row in which the UK index has been below zero, a first in its near 10-year history.

A survey of Scottish Enterprise account managed companies found that 56% of firms report increased profitability. 16% experienced lower profitability. 44% reported higher exports. Over the next six months, 67% expect increased profitability, with only 8% anticipating lower levels. 63% expect to increase in their exports against 3% who forecast a fall.

Sources: FSB Scotland, IHS Markit, RBS, Scottish Enterprise

## CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	May	Apr	Mar
Total Sales Growth	-3.1%	+4.4%	+0.3%
Food Sales Growth	+0.5%	+8.6%	-0.2%
Non-Food Sales Growth	-6.1%	+0.8%	+0.7%

Scottish retailers continue to face a challenging consumer climate, with activity and confidence seemingly dampened by ongoing economic and political instability. Total sales growth and non-food online sales growth both fell sharply, with only weak food sales growth. **Total non-food sales were down by 6.1% – the worst decline in Scotland since comparable records began in January 1999.**

Research by Colliers concluded that **most high streets outside of Edinburgh and Glasgow in towns and cities across Scotland are struggling.** It found that in some areas Scottish local authorities are granting 'change of use' consent for shops to be turned, for example, into badly needed housing.

Interestingly, however, a recent Visa study found that business confidence in the High Streets has grown significantly. 85% of surveyed small high street businesses in Scotland reported optimism about the future of their local high street, up from just 39% last year.

Sources: Colliers, KMPG, Scottish Retail Consortium, Visa

## EMPLOYMENT

	Feb 19– Apr 19	Jan 19- Mar 19	Dec 18- Feb 19	Sep 18- Nov 18
Economically Active	78.5%	78.0%	78.2%	78.1%
In Employment	75.9%	75.4%	75.6%	75.3%
Unemployed	3.3%	3.2%	3.3%	3.6%
Economically Inactive	21.5%	22.0%	21.8%	21.9%

Scotland's labour market continues to perform at record levels. **Employment is now at 75.9%, its highest ever rate.** Unemployment in Scotland fell by 3,000 to 91,000 people in April. The jobless rate now stands at 3.3%, compared with 3.8% across the UK.

Analysis by the Fraser of Allander Institute suggests that Scotland's performance has been driven largely by **large increases in the number of working-age women in employment.** This success underlines the importance of expanding the talent pool – supported by inclusive recruitment practices and childcare provision – to deliver inclusive growth and business growth in a tight labour market. Scotland's rates of labour market participation for women and young people continue to outperform the rest of the UK.

However, this may have also contributed to greater challenges with sub-optimal utilisation of skills. Skills Development Scotland's new Strategic Plan notes that **one in five graduates are under-employed and 225,000 employees are "over-qualified" or "over-skilled" for their current role.**

The workforce in some sectors has shrunk as that of others has grown. Employment in the Scottish construction sector has fallen by 8,000 to a two-year low. Similarly, retail employment in Scotland has declined by 8.6% between 2012 and 2017.

Sources: Fraser of Allander Institute, Office for National Statistics, Scottish Building Federation, Skills Development Scotland

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).