

STATE OF THE NATION

SCDI's Economic Data Briefing

July 2020

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Scottish Council
for Development
and Industry

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

The Bank of England's Monetary Policy Committee voted 8-1 on 18 June to **expand its quantitative easing programme** by £100bn, with extra stimulus deemed necessary to try to fuel growth and inflation. The decision to maintain the Bank Rate at 0.1% was 9-0.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	May	Apr	Mar	Feb	Jan
	0.5%	0.8%	1.5%	1.7%	1.8%

Fuel prices fell by 16.7% in May, dragging **inflation down to just 0.5%** in May, far below the UK's 2% target. The costs of clothing also declined, although food prices rose.

A **lack of consumer demand has dramatically eroded the pricing power of firms**, especially in tourism & hospitality, retail and aviation. The result has been a tsunami of heavy discounting to entice consumers. Efforts have generally been unsuccessful. Consumer spending remains at rock bottom. Overall shop prices fell by 2.4% in May.

Source: British Retail Consortium, Financial Times, Office for National Statistics

PRODUCTIVITY

Between 1998 and 2018, median firm-level productivity in sectors of the economy beyond the financial services sector grew by 4% in real terms. Meanwhile, the top 10% best-performing firms increased their productivity by 18% on average during the same period. Manufacturing firms made substantial productivity gains during the period, despite a large shrinkage of the sector's total workforce, suggesting that technology has been successfully deployed to improve competitiveness.

On average, **foreign-owned firms were more productive than their domestically owned equivalents and competitors**. EU-owned and non-EU-owned firms were more productive than domestically owned firms by 14% and 19% respectively.

Sources: Office for National Statistics

ECONOMIC GROWTH

GDP Growth	Scotland
Q1 2020	-2.5%
Services	-2.2%
Production	-3.3%
Construction	-3.4%

Between January to March, at the beginning of the crisis and after just a couple of weeks of lockdown, **Scottish GDP contracted by 2.5% in Q1**. Experimental data suggests **the Scottish economy may have shrunk by 5% in March and by 18.9% in April**. The **UK economy contracted by 20.4% in April** due to lockdown, the largest monthly decline ever.

KPMG forecast Scottish GDP to shrink by 6.8% in 2020 as a whole, compared to a potential 7.2% fall in UK GDP. With low oil prices and the risk of mass layoffs in the energy sector, it is little surprise that Aberdeen (-8.6%) and Aberdeenshire (-8.5%) could be the regions of Scotland facing the most difficult year.

Meanwhile the **OECD forecasts that the UK could be the worst-hit developed economy in the world**, with an anticipated 11.5% decline in UK GDP this year. The Bank of England had previously said it was "likely" that UK GDP fall by 14% in 2020. France (-11.4%), Italy (-11.3%) and Spain (-11.1%) are expected to follow close behind. Germany (-6.6%) and China (-2.6%) is expected to fare significantly less badly, although still fall into recession.

The Scottish Government's Chief Economist, Gary Gillespie, used two potential scenarios to illustrate the impact of crisis and recessionary scarring on the economy. A 'V-shaped' or 'bounce-back' recovery appears unlikely. Under a less optimistic 'gradual recovery' scenario, **the Scottish economy may not recover to pre-pandemic levels until 2023**.

Evidence from previous recessions suggests that young people will be particularly vulnerable to sustained negative effects of the crisis, such as lower earnings, less progression and fewer opportunities, for the rest of their working lives.

The crisis for the Scottish economy could be exacerbated by the UK's departure from the EU. A Scottish Government study suggests that if the UK's transition period with the EU concludes at the end of 2020 during a pandemic, it could wipe billions of pounds from the Scottish economy. Scottish GDP could be 1.1% lower in two years now that a Brexit extension has not been agreed before the end of June.

In more positive news, the annual EY Attractiveness Survey identified **Scotland as the most attractive destination for foreign direct investment in the UK outside of London** for the seventh consecutive year. The number of FDI projects in Scotland increased by 7.4% between 2018 and 2019 to 101 in total. Scotland increased inward investment at a faster pace than the UK as a whole, both in terms of number and share of UK projects.

Sources: EY, KPMG, OECD, Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	May	Apr	Mar	Feb	Jan	Dec	Nov
	21.1	10.7	29.7	50.1	52.0	50.0	50.9

Scotland's private sector continued to contract severely in May, as the PMI climbed from 10.7 to 21.1 but remained deep in recessionary territory. Employers have reduced the size of the workforce for four consecutive months as new orders dry up. Some firms are becoming more optimistic as lockdown restrictions loosen, but nearly a 1 in 3 UK businesses report cash reserves of three months or less.

Business has adapted and innovated. **1 in 5 of Scottish SMEs have adopted new digital technologies during the crisis.** 15% have started or expanded their online presence. 5% have created new services. 8% have created new products.

Sources: FSB Scotland, IHS Markit, Office for National Statistics, RBS

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	May	Apr	Mar
Total Sales Growth	-27.6%	-40.3%	-14.5%
Food Sales Growth	+3.6%	-2.4%	+12.1%
Non-Food Sales Growth	-53.2%	-71.9%	-27.9%

May was another devastating month for much of the retail sector, albeit less so than the record-breaking month of April. **Scottish retail sales fell by 27.6%.** Food sales grew only marginally, despite the continued closure of bars, cafes and restaurants. PPE and social distancing measures are raising costs for retailers. Footfall has decreased severely on the High Street (-77%), in retail parks (-55%) and at shopping centres (-85%).

Sources: British Retail Consortium, KPMG, Scottish Retail Consortium

EMPLOYMENT

	Feb 20- Apr 20	Nov 19- Jan 20	Aug19- Oct 19	May 19- Jul 19
Economically Active	77.9%	77.7%	77.4%	78.1%
In Employment	74.3%	74.9%	74.5%	74.9%
Unemployed	4.6%	3.5%	3.7%	4.0%
Economically Inactive	22.1%	22.3%	22.6%	21.9%

79% of UK businesses have applied for the Coronavirus Job Retention Scheme. There are around **8.7 million furloughed workers in the UK** whose wages are being heavily subsidised by HM Treasury. **In Scotland, 628,000 workers have been furloughed** and £425m has also been spent supporting 146,000 self-employed people. These schemes have been very successful in protecting jobs and livelihoods.

However, failure to withdraw these subsidies gradually could result in a sudden and massive spike in unemployment. **Joblessness is likely to be around 7% at present but**

is expected to increase still further to 10% or 15%. The official rate of 4.6% has not yet caught up with the crisis. Scottish Government forecasts suggest **unemployment could rise to 10% by the end of 2020.** Unemployment claims rose by 70% in April.

The number of online job vacancies has halved since March in the UK. Employers are freezing and pulling back plans to hire. Permanent job openings in Scotland fell at the fastest rate in 17 years and for the fourth consecutive month. Starting salaries for new recruits declined at a record rate.

Physical and mental health and wellbeing for workers has clearly deteriorated due to the COVID-19 crisis and lockdown restrictions. However, even before the pandemic, there were clear links between work and workplaces and poor health and wellbeing, according to new data from CIPD produced before COVID-19:

- Work has negative impact on my mental health – 30% of employees in Scotland
- Work has negative impact on my physical health – 25%
- I go to work despite not feeling well enough – 55%
- I have disabilities and I go to work despite not feeling well enough – 63%
- My workload is too high in a normal week – 34%
- I experience some overwork – 64%
- I often or always feel exhausted at work – 24%
- I feel under excessive pressure at work – 24%
- I feel bored or miserable at work – 13%
- I have no voice to engage with my employer – 19%
- I find it hard to relax in my personal life because of my job – 26%
- My job offers good prospects for career progression – 29%
- My job offers good opportunities to develop my skills – 52%
- Of those who experienced anxiety in the last year, 66% said their job contributed
- Of those who experienced depression, 58% said their job contributed
- Job satisfaction closely correlated to flexible working and job security

These results raise **serious concerns about Fair Work** and job quality in the Scottish labour market. The crisis could deepen these problems with higher levels of home working and job insecurity exacerbating a high stress, high workload, 'always on' culture.

Sources: CIPD, Adzuna, HM Treasury, Office for National Statistics, RBS, Scottish Government, YouGov

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 create an economy and a society for the benefit of all.

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