

STATE OF THE NATION

SCDI's Economic Data Briefing

July 2021

scdi Scottish Council
for Development
and Industry

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

The Monetary Policy Committee of the Bank of England has decided unanimously to maintain interest rates at their **historic low of 0.1%**.

Despite rising inflation, the Bank of England has concluded that now is not the time to seek to reduce the heat in the UK economy as uncertainty remains over the short- and medium-term impact of the pandemic.

Source: [Bank of England](#)

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	May	Apr	Mar	Feb	Jan
	2.1%	1.5%	0.7%	0.4%	0.7%

Inflation has breached the Bank of England's official 2% target, **rising to 2.1% in May** on the back of higher consumer spending and higher prices for clothing and fuel. Inflation is now at its **highest level in over two years**.

The cost of petrol and diesel have surged by 17.9% price surge over the last twelve months – biggest increase in prices at the pump for more than four years.

The Monetary Policy Committee of the **Bank of England has forecast that inflation will rise to 3% 'for a temporary period'**. Outgoing Chief Economist, Andy Haldane, however, has warned that it could be closer to 4% by the end of 2021.

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

PRODUCTIVITY

Revised estimates and new analysis by the Office for National Statistics suggests that the **UK's 'productivity crisis is less acute than previously thought'**. All major economies faced a slowdown in productivity growth after 2008.

But the UK's decline is now thought to be lowered than previously believed due to 'rapid technological progress'. The change in conclusion has been driven by revised figures for

productivity growth in the telecommunications sector from 5.7% annually to a remarkable 25% every year.

The new analysis underlines the potential of digital technologies from AI to 5G to boost innovation and productivity, as well as support a green recovery from the pandemic, as discussed in SCDI's new report, *Innovation Critical: Scotland's Net Zero Mission and Climate Tech Opportunity*.

To improve your productivity, join Productivity Club Scotland to be part of SCDI's peer-to-peer learning network. Sign up [here](#) for free to access events and resources.

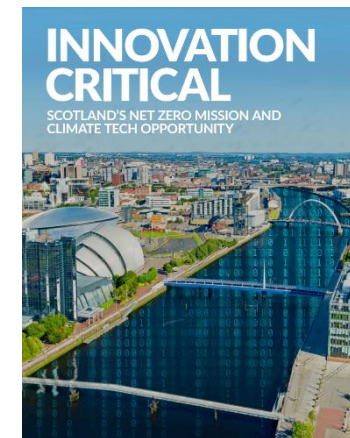
Sources: [Office for National Statistics](#), [Productivity Club Scotland](#), [SCDI](#)

INCLUSIVE GROWTH

Onshore GDP	Scotland
Q1 2021	-1.9%
Q4 2020	+2.3%
Q3	+15.8%
Q2	-3.3%
Q1	-19.1%

The latest official statistics suggest the **Scottish economy shrank by 1.9% between January and March 2021**. Compared to the same quarter last year, Scottish GDP fell by 5.4%, while UK GDP declined by 6.1%. Unsurprisingly given pandemic-related restrictions, the Distribution, Hotels & Catering sector was the worst affected in Q1 2021.

Optimism about the strength of the Scottish recovery from COVID-19 is strengthening. The Fraser of Allander Institute, for example, has revised its forecast for GDP growth in Scotland in 2021 from 3.6% to 5.9%.



SCDI has published a new report – *Innovation Critical: Scotland's Net Zero Mission and Climate Tech Opportunity* – with BT, the Royal Society of Edinburgh and ScotlandIS setting out how Scotland can be a leading innovator and exporter of digital technologies which support climate action – aka 'Climate Tech' – and can help us achieve net zero.

Investment in Scotland's Climate Tech sector grew by 35% in 2020 Current projections suggest it could hit £123m by 2025.

The report **calls for a 'Climate Tech Moonshot'** to catalyse action around a new national innovation mission to maximise the growth potential of this nascent, highly innovative sector of the Scottish economy.

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

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	May	Apr	Mar	Feb	Jan	Dec	Nov
	61.5	55.4	54.3	44.1	33.3	47.3	47.3

Scotland's PMI Index surged to 61.5 in May as the **private sector continued to expand and recover** with restrictions easing. Scotland is set to move to Level 0 on 19 July and then to move beyond Level 0 on 9 August.

The rate of private sector expansion and job creation was **faster than at any time since 1998**, and faster than in London, the Midlands and Northern Ireland, but slower than other parts of England and Wales.

Business confidence in Scotland is the highest of anywhere in the UK. According to the Bank of Scotland's Business Barometer, it increased by 27% during June to 42%. It is the quickest rise in business confidence this year.

Sources: [Bank of Scotland](#), [IHS Markit](#), [RBS](#)

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	May	Apr	Mar
Total Sales Growth	-3.6%	-15.6%	-13.8%
Food Sales Growth	+2.5%	+7.2%	+19.7%
Non-Food Sales Growth	-8.7%	-22.7%	-49.2%

May's retail sales figures for Scotland were at the best in 15 months. Retailers have benefited from the continued easing of COVID-19 restrictions and the release of some pent-up demand. However, sales remain significantly lower in 2021 than in 2019, especially of non-food items, and operating costs remain higher.

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

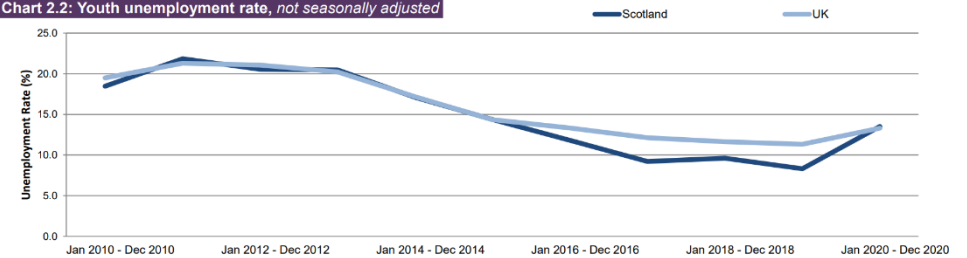
EMPLOYMENT

SCOTLAND	Feb 21- Apr 21	Nov 20- Jan 21	Aug 20- Oct 20	May 20- Jul 20
Economically Active	77.4%	77.5%	78.2%	77.3%
In Employment	74.2%	74.3%	74.8%	74.4%
Unemployed	4.2%	4.1%	4.2%	4.9%
Economically Inactive	22.6%	22.5%	21.8%	22.7%

Unemployment remains relatively steady in Scotland at 4.2%, but was the **only one of the four nations of the UK to see a rise in joblessness** over the quarter. Employment, however, is higher in Scotland (74.2%) than the UK average (75.2%).

Youth unemployment, however, remains a more significant challenge, rising sharply towards 15% in Scotland and across the UK as a whole, underlining the unequal economic impacts of the pandemic on different communities and demographics.

Chart 2.2: Youth unemployment rate, not seasonally adjusted



The second annual *Working Lives Scotland* report by CIPD Scotland has been published with new data revealing the impact of the pandemic on work, workers and workplaces:

- **43% of Scottish workers have jobs which cannot be done from home**
- 26% of employees feel their work impacts negatively on their mental health
- 25% of employees feel their work impacts negatively on their physical health
- **Carers and key workers are more likely to report going to work despite not being well enough to do so**
- 13% of homeworkers lack suitable workspace
- 12% of homeworkers lack suitable broadband
- **Homeworkers report higher workloads and worse work-life balance**, especially if they work from home on a full-time basis
- Only 8% of furloughed workers undertook training while being on furlough
- Only 31% of employees think their role offers good prospects for progression or advancement
- 35% of employees say their workload is too high in a normal week
- **19% of employees say they have no channels for their voice to be heard at work**, a key criteria of Fair Work



Sources: [CIPD Scotland](#), [Office for National Statistics](#), [Scottish Government](#)

SCDI is an inclusive and independent network of businesses and organisations from all sectors and all geographies of the Scottish economy

Our mission is to help our members grow and to help build a better Scotland

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