

STATE OF THE NATION

SCDI's Economic Data Briefing

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

As anticipated given Brexit-related political and economic uncertainty, the **Monetary Policy Committee voted unanimously to maintain interest rates at 0.75%** on 2 May. The Bank of England is likely to gradually raise interest rates if and when there is a clear resolution to the Brexit impasse, with inflation just above target.

Source: Bank of England

INFLATION

| UK Consumer Prices Index (CPI) Annual Rate | Apr | Mar | Feb | Jan | Dec |
|--|------|------|------|------|------|
| | 2.1% | 1.9% | 1.9% | 1.8% | 2.1% |

Inflation reached its highest level so far this year in April and above the Bank of England's 2% target. Electricity and gas prices were the biggest upward driver on the Consumer Prices Index, with the cost of computer games and package holidays partially helping to offset the impact on consumers.

Source: Office for National Statistics

PRODUCTIVITY

| | Q4 2018 | Q3 | Q2 | Q1 | Q4 2017 |
|---|--------------|-------|-------|-------|---------|
| Quarterly (Trend-Based) Productivity Growth in Output per Hour | +0.5% | 0.0% | +1.3% | +1.7% | +1.0% |
| Rolling Annual Productivity Growth in Output per Hour | +2.3% | +4.0% | 0.0% | -0.4% | -1.9% |

Both quarterly trend-based and rolling annual measures of productivity in Scotland returned to modest growth in the final quarter of 2018 but remains low by international standards. **Some sectors, however, such as Food & Drink and Oil & Gas, have a concentration of highly productive firms outperforming the national picture.** Each employee in the Scotch whisky industry is estimated to generate the equivalent of

£210,505 in activity, compared to £173,511 in the energy industry. In the digital technology sector, it is £68,000.

Sources: Scottish Government, Scotch Whisky Association, Tech Nation

ECONOMIC GROWTH

| GDP Growth | Scotland |
|--------------------|--------------|
| Q4 2018 | +0.3% |
| Services | +0.5% |
| Production | -0.8% |
| Construction | +0.4% |
| 2018 Growth | +1.4% |

The **Scottish economy grew modestly in 2018**. GDP expanded by 1.3% throughout the year and by 0.3% in Q4 2018. Services sector growth was positive, but Production contracted. UK GDP also grew by 1.4% during 2018.

However, the Scottish and UK economies remain relatively subdued in the face of domestic and global challenges. Growth has been impacted by low levels of business investment; weak productivity growth; Brexit-related political uncertainty; and global macroeconomic headwinds, including the China-US trade war.

In this challenging context, the Scottish Government published its new Exports Plan, *Scotland: A Trading Nation*, in May. The strategy includes a new target to increase Scottish exports from 20% to 25% of GDP over the next decade to drive growth and create 17,500 new jobs.

The Exports Plan also sets out action to:

- Expand the network of GlobalScot business representatives abroad from 600 to 2,000 people in key markets;
- Hire up to 15 in-market specialists in the countries which together represent over two-thirds of Scotland's export opportunities; and,
- Increase the number of Scottish trade envoys from four to twelve.

Achieving these objectives in the face of Brexit will require looking to new and less established markets to offset likely disruption to established European export market and long-running supply chains, especially in the event of a **'no-deal Brexit', which would be disastrous for the Scottish economy.** EU exports are worth £15.7 billion to the Scottish economy. Scottish Government analysis suggests that the UK-EU Withdrawal Agreement – which has been repeatedly unable to command a majority in the House of Commons – could result in Scottish GDP being £9 billion lower than would otherwise be the case by 2030.

Scotland has several strengths in exports, including in Food & Drink. The sector was worth an estimated £14.8bn to Scottish GDP in 2017, which represented a rise of 6% on 2016 and is in line with the sector's stretch target. It continues to exhibit resilience.

Sources: Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

| RBS Seasonally-Adjusted Purchasing Managers' Index | Apr | Mar | Feb | Jan | Dec | Nov | Oct |
|--|------|------|------|------|------|------|------|
| | 51.0 | 49.6 | 49.4 | 49.2 | 49.3 | 52.2 | 53.4 |

The Scottish private sector returned to growth in April after four consecutive months of contraction, according to the RBS PMI. The expansion was driven by services, as manufacturing output declined. A similar trend was seen in new orders, although employment rose in both sectors in April. Firms expect levels of activity to increase over the coming year, but business optimism is at its lowest level in two-and-a-half years as the UK's future

Recent analysis by KPMG found that nearly 1 in 10 Scottish firms are under "sustained financial strain", the highest level of any nation in the UK. Such so-called "zombie firms" are a drag on the Scottish economy due to their static or declining turnover, high debt levels, low profitability and a lack of investment. Education, Real Estate, Automobile and Mining & Extraction companies were most likely to be vulnerable. Indeed, the number of Scottish firms failing rose by more than a third in the first quarter of 2019 compared to the last quarter of 2018.

Sources: French Duncan, IHS Markit, KPMG, RBS

CONSUMER ACTIVITY AND CONFIDENCE

| SRC-KPMG Retail Sales Monitor | Apr | Mar | Feb |
|-------------------------------|-------|-------|-------|
| Total Sales Growth | +4.4% | +0.3% | -0.1% |
| Food Sales Growth | +8.6% | -0.2% | +2.6% |
| Non-Food Sales Growth | +0.8% | +0.7% | -2.3% |

An 'Easter bounce' brought some cheer to the retailers in April, according to the latest data from the Scottish Retail Sales Monitor. Total sales in Scotland increased by 4.4% compared with a year ago. Food sales grew very strongly by 8.6%, while non-food sales rose marginally year-on-year by 0.8%. The Retail Sales Index found that the total quantity of retail sales in Scotland increased by 1.2% in Q1 2019, although sales in Great Britain grew by 1.6%.

Trading conditions are, nevertheless, highly challenging. A record number of Scottish shops folded in the first three months of the year, according to the most recent insolvency data. A total of 28 retailers were made insolvent over the period, compared with 68 in the whole of 2018. The Scottish Retail Consortium cited "sluggish growth, rising public policy costs and the continued effect of retail transformation", including online.

The Consumer Insight Report for Scotland 2019 by Which? suggests that Scottish consumers' optimism is very fragile and their confidence in big business is quite low:

- 66% of people in Scotland are satisfied with their standard of living, including 83% of over 65s. But 21% say their financial situation is poor
- Only 27% expect their personal finances to improve this year

- 53% believe the UK economy will decline over the next twelve months, a significantly higher level of pessimism than elsewhere in the UK
- 57% are worried about future levels of taxation and the value of their pension
- 47% are concerned about their mortgage rate, with those aged 18 to 29 years (60%) especially anxious
- Minorities of Scottish consumers trust the banks (39%), broadband providers (39%) and car dealers (8%) to provide a fair, quality service, compared to a large majority (69%) who trust publicly owned Scottish Water

Sources: Scottish Government, Scottish Retail Consortium, Which?

EMPLOYMENT

| | Jan 19– Mar 19 | Dec 18– Feb 19 | Sep 18– Nov 18 | Jun 18– Aug 18 |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
| Economically Active | 78.0% | 78.2% | 78.1% | 78.0% |
| In Employment | 75.4% | 75.6% | 75.3% | 74.9% |
| Unemployed | 3.2% | 3.3% | 3.6% | 3.9% |
| Economically Inactive | 22.0% | 21.8% | 21.9% | 22.0% |

Unemployment in Scotland continues to fall. The jobless rate is now just 3.2%, another record low, compared to 3.8% UK-wide. The total number of Scots looking for a job but out of work reduced by 7,000 from the previous quarter to reach 89,000. The total number of Scots in employment fell marginally by 3,000 people.

The Annual Population Survey 2018 provides further detail of the Scottish labour market:

- 321,300 people are self-employed, a near-record high
- The gender employment gap shrunk from 10.5% in 2008 to 7.6% in 2018
- Economic Inactivity is highest in Glasgow, Dundee and South Ayrshire

According to the latest Royal Bank of Scotland Report on Jobs, permanent staff appointments expanded at the fastest rate in the year-to-date during April. Scotland's labour market defied UK trends despite continued difficulties regarding candidate availability. Securing the right people with the right skills for the right role remains challenging for employers in a historically tight labour market.

Sources: Office for National Statistics, RBS, 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.