

STATE OF THE NATION

SCDI's Economic Data Briefing

June 2020

scdi
Scottish Council
for Development
and Industry

DailyBusiness
your agenda fresh and informed

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

The Monetary Policy Committee of the Bank of England voted unanimously to maintain interest rates at 0.1% on 6 May. It will next meet on 18 June. **Interest rates are expected to remain historically low for some time** in an effort to ultimately stimulate business and consumer spending.

There will also be growing pressure on the Bank to expand this stimulus programme of quantitative easing. It is currently continuing its £200bn programme of government and corporate bond purchases to support confidence and stability in the UK economy.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Apr	Mar	Feb	Jan	Dec
	0.8%	1.5%	1.7%	1.8%	1.3%

Inflation fell to 0.8% in April, a four-year low. The decline from 1.5% in March took place as global oil prices, economic activity and demand collapsed.

Global oil prices have not been lower in more than two decades, causing significant issues for the energy sector and steep falls in prices for customers at the pumps. This fall was only partially offset by the increasing cost of recreational goods, especially children's toys and games, and takeaway food, particularly through online delivery platforms, as demand grew strongly during the lockdown.

Sources: Office for National Statistics, Oil and Gas UK

PRODUCTIVITY

COVID-19 has likely had a substantial negative impact on levels of productivity as many businesses and whole sectors are forced to close entirely; normal working practices are disrupted; remote and online working puts pressure on technological or digital skills and capacity; and social distancing keeps collaborative or creative teams apart.

The earliest official indication of the impact suggests that **output per hour for UK workers fell by 0.4% in Q1 2020** – which included just a few of the early days of the UK's lockdown period – after a weak 0.3% in Q4 2019.

Productivity fell fastest in the Services sector, especially hospitality. **Worse is expected to come in Q2**, given that the period will be dominated by the lockdown.

In Q4 2019, in a more stable macroeconomic environment, productivity in Scotland increased by 0.8%. However, **Scottish productivity at the end of 2019 remained below pre-recession levels over a decade on from 2008**. This only underlines, as we face up to today's crisis, how long the scarring effects of an economic slowdown can last.

Sources: Office for National Statistics, Scottish Government

ECONOMIC GROWTH

GDP Growth	UK
Q1 2020	-2.0%
Services	-1.9%
Production	-2.1%
Construction	-2.6%

UK GDP shrank by 5.8% in March alone, the biggest single monthly fall since records began in 1997. UK GDP decreased by 2% across Q1 2020, the largest fall since Q4 2008 at the onset of the financial crisis and recession of a decade ago.

Meanwhile, growth had already essentially flatlined in January and February before COVID-19, the lockdown and its catastrophic economic impact in the UK. The National Institute for Economic and Social Research forecasts that the UK economy could contract by up to a third in Q2, which would be beyond the scale of any crisis in living memory.

The Bank of England notes that the outlook for the UK and global economies are "unusually uncertain". Demand has stabilised at "very low levels" after a period of rapid and steep decline during March and April in the UK.

Household consumption is estimated to have reduced by nearly a third. Business investment has halved. Unemployment is expected to continue to grow. However, Threadneedle Street continues to judge that "the fall in GDP should be temporary and activity should pick up relatively rapidly" once lockdown restrictions are eventually eased or lifted.

Business survival is the urgent challenge for government and for large numbers of employers in Scotland. 35% of Scottish firms report that their current cashflow levels will only sustain them for a maximum of three months – for 13% it is just one month. 9% have no cash reserves left.

Sources: Bank of England, National Institute for Economic and Social Research, Office for National Statistics, Scottish Chambers of Commerce

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Apr	Mar	Feb	Jan	Dec	Nov	Oct
	10.7	29.7	50.1	52.0	50.0	50.9	49.6

The RBS Purchasing Managers' Index for Scotland plummeted further in April to an unprecedented 10.7. With any rate below 50 suggesting a contraction in the size of the Scottish private sector, April witnessed a dramatic collapse in business activity with serious repercussions for business cash flow and survival and for employment, productivity and growth. Scotland's decline was sharper than that of the rest of the UK.

According to the latest CBI SME Trends Survey, manufacturing output from small- and medium-sized enterprises across the UK fell at fastest level in more than ten years in Q1. Sectoral investment expectations hit record lows in the face of uncertainty about demand and the lockdown. **Business investment across the economy has reduced by 50%.**

Sources: Bank of England, CBI, IHS Markit, RBS

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	April	Mar	Feb
Total Sales Growth	-40.3%	-14.5%	-0.8%
Food Sales Growth	-2.4%	+12.1%	+2.9%
Non-Food Sales Growth	-71.4%	-27.9%	-2.4%

Scottish retail sales suffered their worst month on record in April as the High Street shut down. Total sales decreased by a remarkable 40.3%. Non-food retailers suffered another awful month. After a bumper month for food sales in March as many consumers took part in panic buying or stockpiling, food sales also contracted in April.

Despite an increased in online shopping, online retail sales have only marginally compensated for the dramatic decline in in-person and in-store sales, which has been total for non-essential, non-food retailers during lockdown. Household consumption may have fallen by a third.

With UK consumer confidence also at record lows – only marginally higher than that recorded in late 2008 at the height of the financial crisis – a **consumption-led economic recovery looks unlikely.** Consumer spending habits, already cautious as a result of stagnant wages and the uncertainty of Brexit, could be fundamentally changed for the long-term.

Sources: Bank of England, GfK, KPMG, Scottish Retail Consortium

EMPLOYMENT

	Jan 20-Mar 20	Oct 19-Dec 19	Jul 19-Sep 19	Apr 19-Jun 19
Economically Active	77.9%	77.8%	77.6%	78.4%
In Employment	74.7%	75.0%	74.4%	75.4%

Unemployed	4.1%	3.5%	4.0%	3.6%
Economically Inactive	22.1%	22.2%	22.4%	21.6%

The number of people claiming social security for unemployment in Scotland increased by 66.9% in the first quarter of the year, an increase of around 75,000 to a total of 188,000. The jobless rate increased marginally to 4.1% in late March as the lockdown began.

The number of new weekly claims for Universal Credit in Scotland increased dramatically from a baseline of less than 5,000 throughout early 2020 to nearly 40,000 throughout April. There were just **over 90,000 new starts to Universal Credit in April.**

But this will only be the beginning, with **unemployment anticipated to rise significantly in the second quarter of 2020**, despite the success of the Coronavirus Job Retention Scheme in delaying mass redundancies. 78% of UK workers in firms that have closed down or paused trading have been furloughed. The full picture will only become clear once future support packages and the latest data covering this period are released. After nearly five years of unemployment consistently below 5%, it appears that **the era of near-'full employment' is over.**

Most employers have frozen recruitment, frozen or cut pay and furloughed staff in order to reduce costs and protect jobs. Half of private sector employers report plans to freeze wages over the next twelve months. 22% planned to make some redundancies in Q1. Only 40% of employers plan to recruit in the next three months, a substantial fall from 66%. **The average employer utilising the Job Retention Scheme claims that they would have otherwise made 35% of their workforce redundant.** The crisis is likely to mean declining real wages growth for the vast majority of the workforce.

Oil and Gas UK warn that 30,000 jobs could be at risk across the UK's energy sector, which is concentrated in Scotland's North East.

Research by the Open University suggests that 5 million workers across the UK expect their role to be affected by the crisis, significantly changing their skills needs. **Nearly 1 in 4 employees are developing new skills via online learning** to protect themselves against this uncertainty.

Sources: CIPD, Department for Work and Pensions, Office for National Statistics, Oil and Gas UK, Open University

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.