

STATE OF THE NATION

SCDI's Economic Data Briefing

June 2021



DailyBusiness
your agenda ✓ fresh and informed

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

The Monetary Policy Committee voted unanimously on 5 May to maintain the Bank Rate at 0.1%. It will next meet on 24 June.

After previous suggestions that interest rates could rise sharply as fears of a summer inflation surge leading to the economy overheating grew, Threadneedle Street has indicated that **any increases are now unlikely until 2022**.

Source: [Bank of England](#)

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Apr	Mar	Feb	Jan	Dec
	1.5%	0.7%	0.4%	0.7%	0.6%

Inflation surged to 1.5% in April as some demand returned in the UK economy and fuel prices rose significantly, according to the Office for National Statistics

The **average UK house price increased by 10.2%** between March 2020 and March 2021, the fastest annual growth since 2007, exacerbating the UK's housing crisis and the financial challenges faced by many prospective buyers.

Meanwhile, inflation in the eurozone has risen to 2%, breaching the European Central Bank's target of 'below but close to 2%'.

Sources: [Bank of England](#), [European Central Bank](#), [Office for National Statistics](#)

PRODUCTIVITY

The pandemic could strengthen Scotland's long-term prospects for productivity growth, according to new data and analysis. **Investment in machinery and digital technology increased by 3.2% in Q1 2021** compared to Q1 2019.

This could cause higher levels of business innovation and workforce upskilling as employers adapt to new and remote ways of working, ultimately leading to higher levels of productivity, say analysts, including former Bank of England Chief Economist, Andy

Haldane. **Digital transformation is a major opportunity for the UK to narrow the productivity gap with its international competitors.** Dutch, French and German workers produce, on average, the same level of output in four days as UK workers do in five.

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: [Financial Times](#), [Office for National Statistics](#), [Productivity Club Scotland](#)

INCLUSIVE GROWTH

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

New forecasts from KPMG suggest that the Scottish economy will recover faster than expected from the COVID-19 crisis. The firm had previously predicted that Scotland's GDP would increase by 5.5% in 2021. It is now forecasting 6.4% growth in 2021 and 5.2% growth in 2022.

Table 2: All regions to see a recovery in output in 2021 and 2022

	2020	2021	2022
North East	-9.9%	5.3%	3.9%
North West	-7.9%	5.5%	5.7%
Yorkshire & The Humber	-8.7%	5.8%	5.2%
West Midlands	-11.8%	9.5%	6.4%
East Midlands	-9.9%	6.3%	4.8%
East of England	-9.2%	8.0%	6.8%
South East	-10.4%	7.1%	5.7%
South West	-8.0%	5.6%	5.6%
London	-7.2%	8.8%	5.8%
Wales	-8.2%	3.9%	4.2%
Scotland	-9.8%	6.4%	5.2%
Northern Ireland	-6.2%	0.7%	2.6%
UK	-9.8%	6.6%	5.4%

Source: ONS, Scottish Government, NISRA, KPMG analysis.

Note: Forecasts for Northern Ireland are based on Northern Ireland Composite Economic Index (NICEI).

Sources: [IHS Markit](#), [KPMG](#), [Scottish Government](#)

Scotland's GDP could therefore return to pre-pandemic levels by early next year. Official data has now confirmed that **the Scottish economy shrank by 9.6% in 2020**.

However, Scotland has been hit harder by the pandemic than several other nations and regions of the UK – although around the UK average – and is expected to bounce back less quickly too (see table opposite).

Accelerating vaccine programmes and loosening restrictions on retail and tourism & hospitality are driving recovery. The UK's Services sector registered the **biggest jump in consumer spending for 25 years in May**.

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Apr	Mar	Feb	Jan	Dec	Nov	Oct
	55.4	54.3	44.1	33.3	47.3	47.3	43.2

Scotland's private sector continues to improve, with further growth in April as the PMI climbed to 55.4. It is the fastest growth rate in eight months based on new work and growing demand.

Easing lockdown restrictions across much of the country helped boost business optimism but left behind firms in other areas, such as Glasgow, with higher levels of infections and therefore sustained restrictions.

According to the Bank of Scotland's Business Barometer, **Scottish business confidence rose by 15% in May** to its highest level since February 2020, before the pandemic.

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

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Apr	Mar	Feb
Total Sales Growth	-15.6%	-13.8%	-24.3%
Food Sales Growth	+7.2%	+19.7%	+3.1%
Non-Food Sales Growth	-22.7%	-49.2%	-47.4%

Retail sales in Scotland continue to perform poorly against pre-pandemic levels, despite continued positive news for food sales growth. Total retail sales, however, were over 15% lower in April 2021 compared to April 2019.

Scottish retail footfall was down by nearly a quarter in May compared to the same month in 2019. However, this did represent a 27.4% increase from April 2021 and better than the UK average.

The retail industry has called on policymakers to think 'more creatively' about how to encourage consumers to return to our town and city centres, with a focus on safe return to workplaces and reassurance on public transport.

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

EMPLOYMENT

SCOTLAND	Jan 21- Mar 21	Oct 20- Dec 20	Jul 20- Sep 20	Apr 20- Jun 20
Economically Active	77.8%	77.2%	77.6%	77.3%
In Employment	74.4%	73.7%	74.0%	73.7%
Unemployed	4.3%	4.5%	4.5%	4.6%
Economically Inactive	22.2%	22.8%	22.4%	22.7%

Unemployment remains low in the Scottish labour market and has actually fallen back slightly since the middle of last year. However, while overall unemployment is down to 4.3%, **youth unemployment in Scotland is now over 13%**, underlining the unequal economic impacts of the pandemic on different communities and demographics. The recovery is likely to be just as uneven.

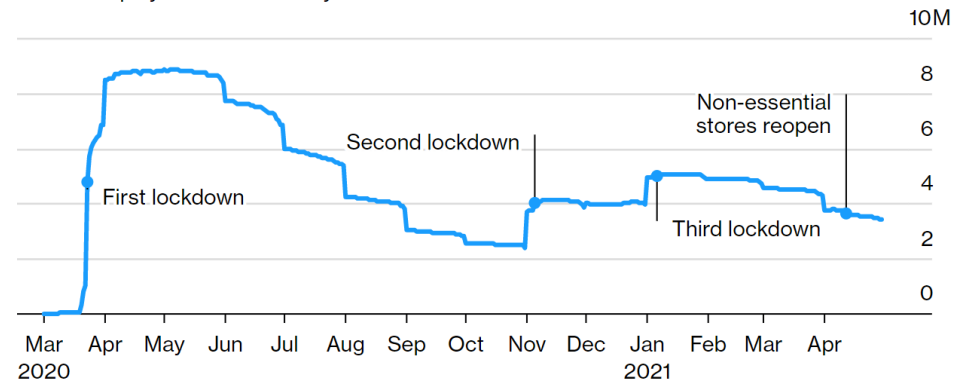
The number of furloughed workers across the UK decreased by 880,000 in April. The figures are now 1.6 million lower than in January. Cumulatively, **HM Treasury has paid for over two billion working days via furlough.**

The **Coronavirus Job Retention Scheme is currently set to end in September 2021.** The Scottish Government has called on HM Treasury to extend wage support via furlough beyond September to prevent mass joblessness. Michael Gove MP, Cabinet Office, has said the UK Government is 'open-minded' to doing so.

Back to Work

Furlough levels are falling as the economy emerges from lockdown

U.K. employments covered by the Coronavirus Job Retention Scheme



Source: HM Revenue and Customs

Sources: [Bloomberg](#), [HMRC](#), [IHS Markit](#), [Office for National Statistics](#), [RBS](#)

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

Find out more about the benefits of SCDI membership for your business or organisation at www.scdi.org.uk/join or email membership@scdi.org.uk