

STATE OF THE NATION

SCDI's Economic Data Briefing

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

The Bank of England's **Monetary Policy Committee will next meet on 26 March**. It is widely expected to maintain interest rates – which have been unchanged since early 2019 – at 0.75%.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Jan	Dec	Nov	Oct	Sep
	1.8%	1.3%	1.5%	1.5%	1.7%

Inflation reached its highest level in six months in January. Substantial rises in petrol and house prices were key factors behind the rise from 1.3% to 1.8%. However, the Consumer Prices Index of inflation remains below the Bank of England's long-standing 2% target.

Source: Office for National Statistics

PRODUCTIVITY

	Q3 2019	Q2	Q1	Q4	Q3 2018
Quarterly (Trend-Based) Productivity Growth in Output per Hour	+0.8%	+1.3%	+1.1%	+0.5%	0.0%
Rolling Annual Productivity Growth in Output per Hour	+0.2%	+0.7%	+0.4%	+2.3%	+4.0%

Scotland's labour productivity, as measured by output per hour worked, has increased by 0.8% over the year to the third quarter of 2019. However, **Scotland's productivity would need to improve by 20% to match the best performing countries in the OECD**.

Remarkably, according to research by the University of Sussex, the **UK's productivity growth has not been weaker at any time since the start of the Industrial Revolution two-and-a-half centuries ago**.

Sources: Scottish Funding Council, Scottish Government, University of Sussex

ECONOMIC GROWTH

GDP Growth	Scotland
Q3 2019	+0.3%
Agriculture, forestry & fishing	+1.3%
Services	+0.2%
Production	+0.9%
Construction	0.0%

Scotland's economy is anticipated to continue expanding in 2020, but at levels significantly below historic trend. **GDP growth this year is widely forecast to be below or around 1%** – which is in line with subdued growth over recent years – as a result of underlying structural weaknesses such as weak productivity and demographics, in addition to other factors such as Brexit.

The **UK economy experienced zero growth in the final quarter of 2019**, as Manufacturing slowed for the third quarter in succession and Services slowed around the time of the UK General Election. Overall, however, UK GDP increased by 1.4% in 2019, marginally higher than 1.3% in 2018.

The concept of wellbeing has been increasingly prominent in recent debates about Scottish economic policy in recent weeks and months. The EU Social Progress Index analyses data across three elements – basic human needs, foundations of wellbeing and opportunity – to provide an overall score of 'social progress', rather than Gross Domestic Product. Scotland's four regions perform broadly in line with the Western European average, but well behind the leaders in Scandinavia and Northern Europe.

Scotland's most important goods exports remain the iconic products of whisky and salmon. Exports of Scotch whisky sold overseas have grown by 4.4% to £4.91bn, with growth achieved in more than 100 of its global markets. Export growth was driven in particular in Asia and Africa, with value increases of 9.8% and 11.3%, respectively.

Salmon exports also saw a 22% increase on the previous year, bringing in £618m. The EU accounted for 56% of the volume of global Scottish salmon exports and 52% of the value.

A joint report for the Scottish Government by the Principals of City of Glasgow College and Edinburgh College highlighted that the colleges sector is worth £3.5bn to the Scottish economy every year.

Sources: City of Glasgow College, Edinburgh College, European Commission, HMRC, Office for National Statistics

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Jan	Dec	Nov	Oct	Sep	Aug	Jul
	52.0	50.0	50.9	49.6	50.0	50.3	50.2

Private sector business activity in Scotland reached a 14-month high in January.

The Service sector showed an eighth consecutive month of expansion with finance, consumer services and computing performing particularly well. Manufacturing contracted slightly, including the machinery, metals, wood and textiles sub-sectors.

However, analysis by KPMG found that 21% of Scottish businesses with revenues over £10m are financially stressed, while 3% face "acute financial distress". The UK position was marginally worse, with UK-wide figures of 24% and 4% respectively.

The number of **Scottish businesses in distress has increased by 22% over the last five years**. The consumer production and leisure and hospitality sectors had the highest proportion of stressed businesses, while business services and industrial manufacturing bore the largest number of stressed companies.

New business activity remained weaker than a year ago and firms remained cautious about the implications of Brexit negotiations. 76% of businesses expected costs to increase over the next six months. Capital investment fell, with a net balance of 9% reporting a decrease.

The FinTech sector in Scotland continues to be an industry leader among SMEs. FinTech Scotland estimates there are now 119 FinTech SMEs operating across Scotland, driving forward innovation and creating jobs. Overall, however, a net balance of 12.9% of Scottish SMEs have reported falling profits. Small businesses were unable to maintain employment growth in Q4, with 4% more laying staff off than taking them on.

Sources: [FinTech Scotland](#), [Fraser of Allander Institute](#), [IHS Markit](#), [KPMG](#), [Royal Bank of Scotland](#)

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Jan	Dec	Nov
Total Sales Growth	+1.3%	+0.4%	-2.5%
Food Sales Growth	+2.7%	+1.8%	+2.7%
Non-Food Sales Growth	+1.1%	-0.8%	-6.8%

Real terms sales growth of 1.7% provided a moderate boost to the High Street in the most recent data of consumer spending in Scotland for January. However, whether this uplift will be sustained over the coming months is unclear.

Consumers remained concerned about the general economic outlook and, therefore, relatively reluctant to spend. Levels of negativity continued to grow up to September 2019, reaching their highest level since late 2011. Expectations about the economy were reflected in real household spending per person, which grew at its slowest rate since the end of 2016. It is unclear whether the UK's formal withdrawal from the EU

on 31 January will have a substantial impact on confidence ahead of the end of the transition period on 31 December.

Sources: [Federation of Small Business](#), [Insider](#), [KPMG](#), [Scottish Retail Consortium](#)

EMPLOYMENT

	Oct 19- Dec 19	Sep 19- Nov 19	Aug 19- Oct 19	Jul 19- Sep 19
Economically Active	77.8%	77.3%	77.4%	77.6%
In Employment	75.0%	74.3%	74.5%	74.4%
Unemployed	3.5%	3.8%	3.7%	4.0%
Economically Inactive	22.2%	22.7%	22.6%	22.2%

Unemployment in Scotland fell by 14,000 to 96,000 in the three months to December. **Employment rose over Q4 to 75% and remains close to the highest rate on record.** This has been mostly driven by a rise in the employment rate for women by 0.9% to 71.4%. Nonetheless, Scotland's employment rate of 75% is now below the UK figure of 76.5%.

Subsea UK's Business Activity Review forecast employment in the industry could rise from 45,000 to more than 54,000 by 2022, as output and optimism rebound after a sharp decline in 2017. Almost 80% of employers anticipate ramping up recruitment, with the majority of jobs expected to be created in north-east Scotland, where 63% of the UK industry is currently based.

SCDI's Upskilling Scotland report was published in January. The report explores the changing world of work and the future of skills, as well as responding to concerns from employers struggling to identify the right people with the right skills to help their businesses and organisations compete and thrive on the global stage. It makes a number of bold recommendations to accelerate reskilling, upskilling and lifelong learning, including for a Scottish Disruption Council, an Upskilling & Lifelong Learning Fund and radical reform of the immigration system to meet Scotland's distinct needs.

More information is available here: www.scdi.org.uk/policy/skillsleadershipgroup/

Sources: [Office for National Statistics](#), [Subsea UK](#)

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.