

STATE OF THE NATION

SCDI's Economic Data Briefing

March 2021

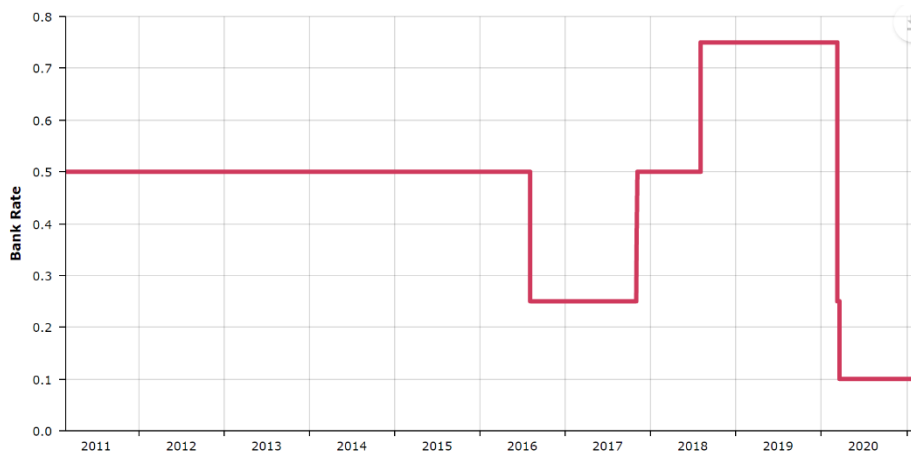
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INTEREST RATE **0.1%** Official Bank of England Rate

The Bank of England continues to hold interest rates at 0.1%, a record low, while signalling that it could go even lower.

The Monetary Policy Committee, which sets UK interest rates, has instructed lenders to 'commence preparations in order to be ready to implement a negative Bank Rate at any point after six months', depending on macroeconomic circumstances.



Never deployed by Threadneedle Street, negative interest rates are a tool under consideration in the event the UK economy fails to recover this summer, according to Governor Andrew Bailey. Analysts suggest this scenario is possible, but unlikely.

The Monetary Policy Committee will next meet on 18 March.

Source: [Bank of England](#), [Guardian](#)

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Jan	Dec	Nov	Oct	Sep
	0.7%	0.6%	0.3%	0.7%	0.5%

UK inflation rose again in January from 0.6% to 0.7%. Furniture and household goods, restaurants and hotels, food and transport largely contributed to the upward trajectory. Meanwhile, clothing and footwear prices declined.

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

PRODUCTIVITY

In an initial wave of optimism about working from home, many employers claimed strong staff performance – or even productivity gains – this time last year. In one early survey, 75% of employees in Germany, India and the USA said they had maintained or improved their productivity during COVID-19.

However, new evidence is now emerging which increasingly challenges this view. Social isolation, sedentary lifestyles and work-related anxiety all appear to be on the rise, acting as significant drags on the health, wellbeing and, therefore, productivity of workers.

Only 11% of employees now feel more productive and more engaged with remote work than office work. 55% report being both less productive and less engaged. More Scottish firms are now reporting productivity issues.

Some of the early claims to the contrary may have been built on the weak foundations of so-called 'panic productivity' – workers concerned about losing their jobs 'working like crazy' or putting in longer hours to protect their livelihoods. Now, however, fatigue and burnout may be catching up with many.

Sources: [Addleshaw Goddard](#), [Forbes](#), [Productivity Club Scotland](#), [S&P Global](#)

INCLUSIVE GROWTH

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

Scotland's onshore GDP grew by 15.8% during Q3 2020, marginally revised downwards from a provisional estimate of 16%, after shrinking in Q1 and Q2.

The UK economy has shrunk by 9.9% in 2020 as a result of COVID-19, although UK GDP increased by 1.2% in December after declining by 2.3% in November.

Recent analysis by the Fraser of Allander Institute underlines how unequal the impact of the pandemic could be across the country. Scotland (£20,000 GDHI per capita) is close to the UK average (£21,000 GDHI per capita) of its nations and regions in terms of wealth. Aberdeen and Edinburgh perform strongly. However, areas such as Dundee, East Ayrshire, Glasgow, North Ayrshire and North Lanarkshire are among the lowest performing areas of the UK alongside the deindustrialised North East of England.

Sources: [Fraser of Allander Institute](#), [Office for National Statistics](#), [Scottish Government](#)

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Jan	Dec	Nov	Oct	Sep	Aug	Jul
	33.3	47.3	47.3	43.2	51.2	55.8	49.3

Scotland's private sector continues to shrink. The RBS PMI fell to 33.3 in the first month of 2021, signalling the fifth successive month of severe contraction due to COVID-19 restrictions on businesses and consumers. It hit a record low of 10.7 last April.

Nevertheless, as the rollout of the vaccine gathers pace, **Scottish private sector confidence is at its highest level for nearly seven years.** The hopes of business for fewer cases of the virus, loosened restrictions and a strong recovery are growing. Business confidence has strengthened significantly in the first weeks of 2021 compared to the end of 2020.

According to the Scottish Business Monitor survey of 500 firms:

- **Business and economic uncertainty most important issue** – 98% of businesses say 'important' or 'very important'
- Greater policy uncertainty urged – 94% report as 'important' issue
- More business support required – 38% say level of government support has been 'sufficient' or 'very sufficient', 40% say 'insufficient' or 'very insufficient' (including half of all Strategic Framework Business Fund applicants)
- Brexit has damaged trade – 57% of businesses who trade with the EU report 'negative' or 'very negative' impact, only 1% reported any 'positive' impacts
- Disproportionate impact on small business – over the last three months of 2020, small businesses report larger falls in revenue than medium or large firms

Exports from UK ports to the EU fell by 68% in January after the end of the Brexit transition period. Disruption and additional costs to the flow of goods, services, people and labour and capital across the UK-EU border is having a continued impact on businesses and organisations across Scotland.

Sources: [Addleshaw Goddard](#), [Fraser of Allander Institute](#), [IHS Markit](#), [RBS](#), [Road Haulage Association](#), [SCDI](#)

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Jan	Dec	Nov
Total Sales Growth	-27.9%	-14.8%	-10.2%
Food Sales Growth	+4.3%	+3.3%	+4.8%
Non-Food Sales Growth	-54.8%	-33.4%	-22.8%

Food sales continue to grow steadily in Scotland, as essential shops remain open. However, non-food sales continue to decline dramatically as non-essential shops remain closed or highly restricted, with a 54.8% year-on-year decrease in January alone.

The British Retail Consortium has estimated that **lockdowns have cost the UK's non-essential retail sector £22bn in lost sales.** Overall retail footfall was down over 40% in 2020.

62% of Scots think Brexit has gone 'badly' since the end of the transition period with the EU. Only 17% think it has gone well.

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

EMPLOYMENT

SCOTLAND	Oct 20- Dec 20	Jul 20- Sep 20	Apr 20- Jun 20	Jan 20- Mar 20
Economically Active	77.2%	77.6%	77.3%	77.8%
In Employment	73.7%	74.0%	73.7%	74.5%
Unemployed	4.5%	4.5%	4.6%	4.2%
Economically Inactive	22.8%	22.4%	22.7%	22.2%

The jobless rate in Scotland has largely stabilised at around 4.5%, compared to 4.9% across the UK, with the Coronavirus Job Retention Scheme extended until April. Scotland's labour market continues to marginally outperform the UK's, as it has consistently across the headline data in recent years.

However, **1 in 5 workers are worried about losing their jobs.** Over 830,000 people across the UK have fallen off UK payrolls since the beginning of the pandemic nearly a year ago. **The lowest paid workers and people aged 25 to 34 are at the highest risk of losing their jobs.** Young people were five times more likely to lose their jobs in the three months to November 2020 than in the same period the previous year.

The Scottish Fiscal Commission has forecast that unemployment in Scotland could rise to 7.6% by Q2 2021.

SCDI has called on the Chancellor of the Exchequer to further extend wage support through furlough beyond the Spring to protect livelihoods and save businesses.

Sources: [Office for National Statistics](#), [SCDI](#), [Scottish Fiscal Commission](#)

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