

# STATE OF THE NATION

## SCDI's Economic Data Briefing

### May 2020



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

Back in March, alongside the Chancellor's initial stimulus and support packages announcement, the Monetary Policy Committee of the Bank of England made emergency reductions to interest rates – from 0.5% to 0.25% and then subsequently to 0.1%. **Interest rates are now at their lowest ever level in the Bank's 325-year history.**

The Committee will next meet on 7 May, when the Bank Rate is expected to remain at 0.1% to mitigate the negative impact of COVID-19 on the UK economy.

Source: Bank of England

## INFLATION

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

Inflation fell by 0.2% in March to 1.5% due to **sharp reductions in domestic consumer spending and even sharper reductions in the global oil price**, which will hit the North East of Scotland especially hard. Inflation will remain well below the Bank of England's 2% target for the foreseeable future with demand falling out of the economy.

Source: Office for National Statistics

## PRODUCTIVITY

Before COVID-19, the UK's productivity performance was poor. Productivity grew by 0.3% in Q4 2019, unchanged from Q3. In the previous four quarters, growth was stagnant. **Given that investment is a key driver of productivity, with better training and new technologies fuelling better or new ways of working, the pandemic will cause serious damage.** Business investment has collapsed across the economy.

Recent analysis by SRUC suggests that Scottish agricultural productivity, however, is much stronger. Between 2011 and 2015, average annual growth was 2.28%, significantly higher than most comparable European countries.

Sources: EY, Office for National Statistics, SRUC

## ECONOMIC GROWTH

GDP Growth	Scotland
<b>Q4 2019</b>	<b>+0.2%</b>
Agriculture, forestry & fishing	+0.1%
Services	+0.5%
Production	-1.2%
Construction	+0.7%

The anticipated impact of the COVID-19 pandemic and lockdown on the global, UK and Scottish economies is severe. **The Scottish Government's Chief Economist forecasts a contraction so severe as to wipe out a third of Scotland's GDP.** The Office for Budget Responsibility similarly forecast a 35% fall in UK GDP in Q2 2020. The Chief Economist's analysis also suggested that **a relatively quick or 'v-shaped' recovery is unlikely.** A slower 'u-shaped' recovery may even represent an optimistic scenario.

The picture is similar across Europe and the world in Scotland's major markets and trading partners. The collapse in economic activity has been significantly steeper than in previous downturns – and the recovery could be much slower and more challenging. Deep and sustained social and economic scarring effects from a recession are likely.

The costs for businesses, workers and communities will be high. **When asked how long they could survive in current conditions, 54% of businesses in Scotland said less than 3 months.** A further 32% said they could survive for between 4 and 6 months.

There is an urgent need for government support and funding to be accelerated to save businesses and livelihoods. If the movement of the public is heavily restricted for 3 months, the Office for Budget Responsibility predicts that public sector borrowing will increase this year by £218bn as state spending rises.

**The outlook for Scotland's oil & gas, aviation and tourism & hospitality sectors look particularly difficult.** These sectors are highly significant for Scottish GDP in terms of their contribution to employment, productivity and growth.

Oil and gas firms are adapting to more complex operations and a very low oil price. The global Brent Crude benchmark price for oil briefly and dramatically fell below \$0 and remains at historic lows. Fuel demand has dried up due to travel and movement restrictions across the world. Oil and Gas UK analysis suggests 1 in 5 people who work in the sector, or around 50,000 workers, could lose their jobs. But the sector remains an important supplier of products, components and ingredients for PPE, medicines and other vital equipment in this crisis.

In tourism & hospitality, **Scottish hotel occupancy fell by 80% or more.** The events economy has been decimated with the cancellation of sporting, summer and conference events, such as Edinburgh Festivals and COP26. In aviation, airlines are projecting large losses with airport total passenger numbers down 90%.

Sources: Fraser of Allander Institute, McKinsey & Company, Oil and Gas UK, Office for Budget Responsibility, Office for National Statistics, Scottish Government

## BUSINESS ACTIVITY AND CONFIDENCE

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

Scotland's private sector activity fell by almost half in March, according to the RBS PMI, which registered its steepest drop since it began in 1998. The decline from 50.1 to 29.7 suggests a rapid and large contraction of GDP. The Services sector was particularly badly hit as social distancing guidelines and restrictions were announced. Some of the Manufacturing sector remains operational with key workers and new precautions to maintain food, medical and energy supplies, for example.

89% of businesses in Scotland report that their turnover has been impacted by COVID-19. 85% expect weak or very weak growth in the Scottish economy in the next 12 months. Business confidence has collapsed. Optimism is at record lows. Expectations are of further declines in activity for the moment.

Nearly 1 in 5 of all UK SMEs may not get the cash they need to survive in the next month. Between 800,000 and 1 million firms may have to close over the next four weeks.

Globally, research by McKinsey suggests 45% of businesses immediately cut back spending. 39% have cancelled or postponed planned investment – a number which is likely to grow as short-term business liquidity becomes the overriding concern.

Sources: Federation of Small Business, Fraser of Allander Institute, IHS Markit, McKinsey & Company, RBS

## CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Mar	Feb	Jan
Total Sales Growth	-14.5%	-0.8%	+1.3%
Food Sales Growth	+12.1%	+2.9%	+2.7%
Non-Food Sales Growth	-27.9%	-2.4%	+1.1%

The Scottish Retail Sales Monitor has recorded its worst ever month of figures since it began in 1999. Non-food spending collapsed by nearly 28% in March. April is expected to be even worse as the lockdown continues.

Clothing sales have been particularly low. However, food sales have increased strongly, alongside toys and games, health and hygiene products and fridges and freezers, as consumer adapt and reprioritise.

It is estimated that 40% to 50% of total discretionary consumer spending may not occur, in addition to massively reduced or now non-existent spending on travel, holidays and restaurants. This 40% to 50% drop alone could mean a 10% fall in GDP.

Sources: KPMG, McKinsey & Company, Scottish Retail Consortium

## EMPLOYMENT

	Dec 19- Feb 20	Nov 19- Jan 20	Oct 19- Dec 19	Sep 19 Nov 19
Economically Active	78.4%	77.7%	77.8%	77.3%
In Employment	75.4%	74.9%	75.0%	74.3%
Unemployed	3.7%	3.5%	3.5%	3.8%
Economically Inactive	21.6%	22.3%	22.2%	22.7%

Scotland's labour market before COVID-19 was in many respects in good health, despite some signs of softening. Official data shows unemployment at just 3.7% in February, employment up to 75.4% and economic inactivity down to 21.6%. It was performing strongly by historic standards, despite concerns about stagnant pay growth and Fair Work. However, the labour market has changed radically in March and April. Early indications suggest that **Scottish employers shed jobs at the fastest rate in over two decades in March – and at a faster rate than firms UK-wide**. 51% of Scottish businesses report reduced staff headcount and 81% reduced staff working hours.

The Office for Budget Responsibility expects UK unemployment to rise by 10% and recover at a slower rate than GDP. According to the Resolution Foundation, unemployment could peak at almost 5m people (14.1%) if disruption lasts for six months – or at over 7m (20.8%) in 12 months.

Nearly 1.5m new applications for Universal Credit have already been made by the recently unemployed. An average 100,000 applications were received per day by the Department for Work and Pensions after the beginning of the lockdown. However, the Coronavirus Job Retention Scheme appears to have had a very substantial impact on employment, protecting millions of jobs across the UK. **More than 2.2 million UK employees have been furloughed** under the scheme.

Millions of people are utilising technology to work from home. But analysis by the RSA reveals that those least able to work from home are also most likely to suffer from low wages and economic insecurity. Key workers keeping the NHS running and critical sectors of our economy moving are most exposed to COVID-19.

Sources: Fraser of Allander Institute, Office for Budget Responsibility, Office for National Statistics, Resolution Foundation, RSA, Totaljobs

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.

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