STATE OF THE NATION
SCDI's Economic Data Briefing
November 2019

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INTEREST RATE 0.75% Official Bank of England Rate

Interest rates remain at 0.75%. The Monetary Policy Committee will next meet on 7 November. Changes to the Official Bank Rate are not expected given in light of the agreement to delay Brexit beyond 31 October.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Sep	Aug	Jul	Jun	May
	1.7%	1.7%	2.1%	2.0%	2.0%

Inflation remained steady at 1.7% in September, its lowest level since late 2016. Some key factors were falling prices of motor fuel and second-hand cars falling, but these were also offset by rising prices for furniture, household appliances and hotel rooms.

However, the Bank of England forecasts that inflation will rise above 2% next year after falling in the last quarter of 2019.

Source: Office for National Statistics

PRODUCTIVITY

UK Labour Productivity	Q2 2019	Q1
Output Per Hour	**-0.5%**	-0.2%
Services	**-0.8%**	+0.2%
Manufacturing	**-1.9%**	-0.9%

Productivity in the UK fell at its fastest annual pace in five years in the second quarter of the year. Output per hour fell by 0.5% after two previous quarters of no growth. Both Services and Manufacturing saw a fall from April to June.

Source: Office for National Statistics

ECONOMIC GROWTH

FAI Forecasts	2019	2020	2021
GDP	**1.0%**	**1.2%**	**1.3%**
Production	1.2%	1.4%	1.5%
Construction	0.7%	0.9%	1.0%
Services	1.1%	1.2%	1.3%

Forecasts from the respected Fraser of Allander Institute suggest that the Scottish economy will continue to grow over the coming years in line with recent trends. In other words, Scotland's GDP, and the size of its Production, Construction and Services' sectors, will expand, but **growth will remain subdued and stubbornly below pre-2008 trend levels**. Activity in the Construction sector is likely to remain particularly fragile with levels of investment still weak.

The impact of Brexit and Brexit-related uncertainty on the Scottish economy is already significant. The Fraser of Allander Institute's analysis starkly illustrates that **Scotland is approximately £3 billion worse off in 2019 than it would have been had the UK voted in 2016 to leave the EU**. Analysis by the National Institute of Economic and Social Research found that the revised Brexit deal now on the table would result in UK GDP being 3.5% lower in 10 years' time than if the UK had remained in the EU, leaving the UK £70 billion worse off. The GMB also claim that it could put up to 329,400 jobs in Scotland at risk.

Scotland's open, internationalised economy is vulnerable to Brexit-related risks due to a dependence on European and global trade and supply chains. Transport Scotland estimates that Scotland traded goods imports and exports worth over £57.6 billion in 2018 – 44% of which were imports, 56% of which were exports. 54% or £17.3 billion of the £32.2 billion worth of goods exports destined for international markets went to the EU, Scotland's biggest overseas trade partner.

The top five individual destinations for Scottish exports in 2018 were the Netherlands, the United States, Germany, the Republic of Ireland and France. Scotland's key export goods included Petroleum, petroleum products & related materials, beverages and power generating machinery & equipment. These three commodity groups combined – which include key products like North Sea oil & gas and Scotch whisky – accounted for 57% of the value of Scottish goods exports in 2018.

Despite political uncertainty, Scotland continues to attract a healthy share of Foreign Direct Investment. EY identified 1,473 inward investment projects in 2018. 558 went to Scotland's core cities of Edinburgh, Glasgow and Aberdeen. Scotland's 'top three' are also in the UK top ten cities outside of London for attracting inward investment projects. Projects in Scotland were relatively balanced across manufacturing plants, research centres and sales and marketing offices. Inward investment in Scotland was most likely to come from the United States, Germany, Switzerland or Norway.

To prepare your business or organisation for Brexit with SCDI, visit www.scdi.org.uk/brexit/ to access seminars, webinars and expert legal advice.

Sources: EY, Fraser of Allander Institute, GMB, Scottish Government, Transport Scotland

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Sep	Aug	Jul	Jun	May	Apr	Mar
	50.0	50.3	50.2	51.3	48.9	51.0	49.6

Business activity in Scotland declined marginally in September to a standstill. After three months of low growth, the RBS PMI registered 50.0 in September, representing a failure of the private sector to grow or, indeed, to shrink. This likely reflected a slowing of the economy as yet another Brexit deadline on 31 October approached.

Weighing on business performance was the quickest fall in new orders since March. 76% of Scottish businesses said their costs had increased compared with the same period last year. 71% of businesses also expect costs to rise in the next six months. Workforce numbers fell for the third successive month, declining at the fastest rate for nearly three-and-a-half years.

Although the Services sector expanded marginally, there was a sharp fall in Manufacturing output, the biggest since December 2010. The financial services sector experienced strong growth, while the accommodation, food services and manufacturing sectors declined.

Confidence among small firms in Scotland reduced significantly during the summer, after a minor resurgence. Confidence in Scotland in the last quarter fell from +3.3 to -13.5, compared to a change in the UK as a whole from -8.8 to -8.1.

Sources: Federation of Small Businesses, Fraser of Allander Institute, IHS Markit, RBS

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Sep	Aug	Jul
Total Sales Growth	**-1.9%**	-0.3%	-0.3%
Food Sales Growth	**+2.3%**	+1.8%	+1.8%
Non-Food Sales Growth	**-5.4%**	-1.9%	-1.9%

Concerned at political instability and economic uncertainty, Scots have reduced household spending and pulled back on buying non-essential items, according to the latest data from the Scottish Retail Consortium. Although food sales continue to rise in Scotland, and at a faster rate than the UK as a whole, non-food purchases fell steeply in September by more than 5%.

A number of well-known brands continue to be affected, most recently Scottish department store chain Watt Brothers. The company went into administration in October with 306 staff losing their jobs.

Retailers are expected to ramp up their stockpiling efforts to record levels over the coming months, with Brexit and Christmas on the horizon. Retailers' stock levels compared with the volume of expected sales had risen in October to its highest level since 1983.

Sources: CBI, KPMG, Scottish Retail Consortium

EMPLOYMENT

	Jun 19-Aug 19	May 19-Jul 19	Apr 19-Jun 19	Mar 19-May 19
Economically Active	**77.5%**	78.1%	78.4%	78.4%
In Employment	**74.3%**	74.9%	75.4%	75.8%
Unemployed	**4.1%**	4.0%	3.6%	3.3%
Economically Inactive	**22.5%**	21.9%	21.6%	21.6%

The number of Scots in work dropped sharply over the summer, while unemployment rose, according to official figures. There were 2.64 million people in employment between June and August in Scotland, 59,000 fewer than the previous three-month period.

After a sustained period outperforming the UK, Scotland's labour market is now lagging behind the rest of the UK, albeit marginally. The employment rate for adults aged under 65 was 74.3%, now lower than the UK figure of 75.9%. Meanwhile, the number of Scots seeking work rose by 20,000 to a total of 112,000. The unemployment rate is now 4.1% against 3.9% for the UK as a whole.

Recent revised projections underline that Scotland's population is also expected to increase at a slower rate than the rest of the UK. Scotland's population will increase by 5.3% by 2041. Lower levels of inward EU migration is widely anticipated once the UK leaves the EU.

Given that all of Scotland's future population growth is set to come from immigration, this could have a significant long-term impact on the working-age population, the labour market and employment levels. Lower-skilled occupations in Scotland rely heavily on migration from overseas. For example, in 2017 it is estimated that 15.1% of those employed in occupations categorised as "elementary" were non-UK nationals. 12.1% were from the EU.

New data suggests that a growing number of Scottish college students are moving on to work, training or further study. Almost nine out of ten students move on to a "positive destination". There was also a drop in the number of former students who were unemployed or unavailable to work. 89.1% of those who left further education in 2017-18 were in "positive destinations" – up 0.8% on the previous year.

Sources: David Hume Institute, National Records of Scotland, Office for National Statistics, Scottish Funding Council, Scottish Government

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**.