STATE OF THE NATION
SCDI's Economic Data Briefing
November 2021

scdi Scottish Council for Development and Industry   DailyBusiness your agenda fresh and informed

INTEREST RATE 0.1% Official Bank of England Rate

The majority of the Monetary Policy Committee of the Bank of England voted to maintain interest rates at 0.1% on 4 November. It will next meet on 16 December. **The committee has indicated that if the economy continues to evolve in line with its November Monetary Policy Report projections, some tightening of monetary policy is likely to be necessary to meet the medium-term inflation target with a rise to 1% by the end of 2022 likely.**

The bank will be looking for signs that recent price rises, largely in energy and goods, are proving persistent rather than temporary, whilst their view is that there remain uncertainties around the labour market in the medium term.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	**Sep**	Aug	Jul	Jun	May
	2.9%	3.0%	2.1%	2.4%	2.1%

Inflation rose in August to 2.9% the highest level for almost a decade. After rising over the summer, it slowed in September as, despite shortages in some areas, global activity showed signs of slowing. Transport, housing & household services and restaurants were amongst the areas seeing rises. Bank staff forecast inflation rising above 4% by the end of the year, before dropping below the 2% target.

In a significant reversal of fortunes since November 2020 global oil prices rose in September to over $80 a barrel, pushing up petrol prices to their highest level to date. Some are forecasting trend could continue to the end of the year thanks to rising demand around the world, weather-related shortages and the relatively high price of gas increasing demand for (relatively cheaper) oil.

Sources: Office for National Statistics, BBC, RAC

PRODUCTIVITY

The latest data for the April-June 2021 period suggests that as the UK economy and businesses unlocked following restrictions this boosted productivity. However, it is probably too early to say with any confidence whether recent trends will be maintained.

Output per hour worked is now 1.7% above pre-pandemic (2019 average) levels and rose by 4.3% in Q2 2021. Output per worker also rose rapidly as the number of workers on furlough fell but remained 1.6% below the pre-pandemic level.

As the economy opened in Q2, the unlocking of many low productivity sectors meant that growth in productivity overall was lower than it might otherwise have been.

A House of Commons Treasury Committee inquiry into jobs, growth and productivity has been taking evidence from experts since July and will report later this year. In evidence sessions to date, slowing globalisation, rising self-employment and poorly managed small businesses are some of the reasons given for the persistent productivity challenge.

Office for Budget Responsibility's (OBR) analysis for the budget and three-year spending review in October 2021 suggested that as restrictions ease and business investment resumes productivity will rise although this will be partially offset by the reopening of some sectors and businesses with lower productivity.

Sources: Office for National Statistics, House of Commons, Productivity Club Scotland, FT, OBR

ECONOMIC GROWTH

GDP Growth	UK
Q2 2021	**5.5%**
Services	6.5%
Production	1%
Construction	3.8%

UK GDP grew by 5.5% in the second quarter of the year (although it is worth noting that estimates are subject to more uncertainty than normal). Despite this it remains 3.3% below where it was at pre-pandemic levels. The biggest increases in output were in the services sector, in part due to upwards revisions in health-related services and the addition of VAT to arts, entertainment and recreation services for the first time.

Demand for food, drink, tobacco and machinery were the main drivers of the modest increase in production output but these were offset by a drop in vehicle production (due to chip shortages) and mining. Construction has largely recovered to pre-pandemic levels although data towards the latter part of the quarter suggested material shortages were starting to impact on growth.

Growth in household expenditure resumed in Q2 following the easing of coronavirus restrictions. Household expenditure rose by 7.2%, following a fall of 4.4%in Q1. However, levels of consumption remain 6.3% below pre-pandemic levels.

Scottish economic growth moderated in third quarter to 2.6% following estimated growth of 5.6% in the previous quarter. GDP in August (in these experimental Scottish Government statistics) remained 1.3% below the pre-pandemic level in February 2020. An expansion in activity in the accommodation and food services sectors boosted growth but this expansion was offset by a dip in the health and social work sectors.

Sources: Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally Adjusted Purchasing Managers' Index	Sep	Aug	Jul	Jun	May	Apr	Marr
	56.1	58.1	57.5	58.4	61.5	55.4	54.3

The RBS Purchasing Managers' Index for Scotland suggests activity expanding for the seventh consecutive month but at a slightly slower rate than in August. The moderation in growth came as the increase in services output was offset by a drop in manufacturing. New business is still expanding and employment rising but cost inflation was the sharpest for over a decade with some costs beginning to be passed on to clients.

According to the latest CBI SME Trends Survey, in the three months to October growth amongst SME manufacturers slowed, following a record rise in July. However, growth rates remain solid and with rising levels of new orders, growth is expected to pick up again in the coming quarter.

However, cost concerns are rising with almost two-thirds of SME manufacturer expecting an impact in the coming three months (the highest since 1988) and real concerns about labour shortages (the highest in 33 years). Business investment intentions have softened but remain strong.

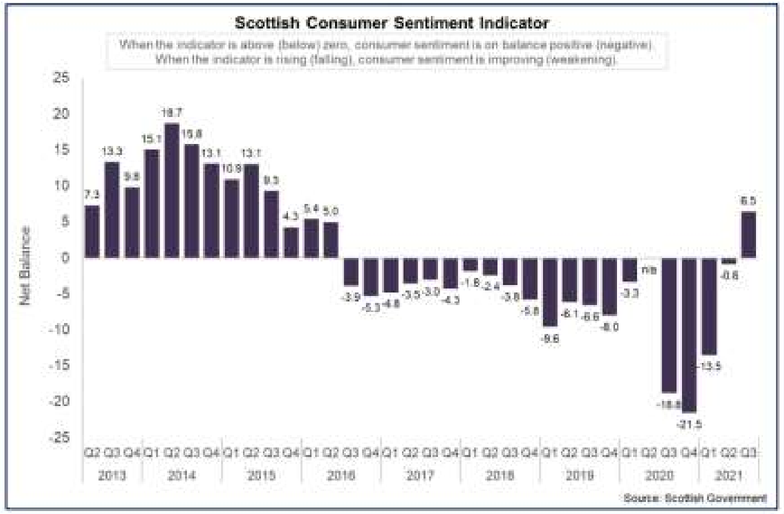
Sources: CBI, IHS Markit, RBS

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Sept	Aug	July
Total Sales Growth	**+1.3%**	+3.2%	+7.4%
Food Sales Growth	**+0.4%**	+0.5%	+1.8%
Non-Food Sales Growth	**+2.1%**	+5.4%	+12.1%

Scottish retail sales rose by 1.3% in September following 5 months of strong growth as restrictions eased over the summer. Food sales grew by just 0.4% year on year although on a 2-year basis relative to pre-pandemic levels these continue to perform well. Non- food sales growth however slowed to just 2.1%.

Clothing and footwear continued to perform well in September, perhaps reflecting the partial return to offices, but other non-food categories including furniture, DIY and electronics were down on last year. This is partly demand for larger items already being satisfied last year but also the petrol crisis in late September keeping some shoppers at home.



Scottish Consumer sentiment bounce back in Q3 as restrictions eased following a series of lows in 2020. Expectations for the economy and household finances improved over the quarter but remain negative. Conversely the balance of expectations for the next 12 months remained positive but decreased, perhaps reflecting rising petrol prices and shortages at the end of the period.

Looking ahead to the coming 12 months, rising inflation and a rise in National Insurance in March 2022 may dent consumer sentiment.

Sources: Bank of England, Scottish Government, Scottish Retail Consortium/KPMG

EMPLOYMENT

	Jun-Aug 21	May-Jul 21	Apr- Jun 21	Feb 21-Apr 21
Economically Active	**77.8%**	77.5%	77.6%	77.4%
In Employment	**74.3%**	74.1%	74.2%	74.0%
Unemployed	**4.5%**	4.4%	4.4%	4.4%
Economically Inactive	**22.2%**	22.5	22.4%	22.6%

The unemployment rate rose very slightly in the third quarter of this year to 4.5% but has remained relatively stable since the turn of the year, with many in the labour force shielded from the impact of the pandemic by the Coronavirus Job Retention scheme. The full impact of removing this is still to feed through to the labour force data.

The highest proportions of employers and workers still benefiting from at the end of July were in the accommodation and food and arts, entertainment and recreation sectors where 15% of workers were still on the scheme. Small employers are still disproportionately reliant on the scheme compared to larger organisations.

As of the end of July 2021 (the latest data available) 116,000 workers in Scotland were still benefitting from the scheme, 26,000 fewer than June 2021 continuing the gradual downwards trend since January.

.

As the economy has reopened and business confidence has increased **the number of vacancies has risen, over the June-August period, at the UK level, to the highest level since records began**, with the biggest increase in the accommodation and food service sectors.

In Scotland according to RBS data employers also saw an 'unprecedented surge' in both permanent and temporary hires in August. A shortage of candidates due to a wariness about moving roles, Brexit and strong demand were reasons given. These are putting pressure on both starting salaries and wage inflation reported to have risen at the fastest rate since 2003.

Sources: Scottish Government, Office for National Statistics, NOMIS, RBS

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 Clare Reid: clare.reid@scdi.org.uk