

STATE OF THE NATION

SCDI's Economic Data Briefing

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

The **Monetary Policy Committee voted unanimously to freeze interest rates at 0.75%**, despite the Bank of England downgrading its growth forecast for the UK economy.

The UK's refusal to cut interest rates contrasts with **recent rate reductions by central banks around the world – including in Brazil, China, the Eurozone, India, the US and Vietnam – in response to a slowing of the global economy**. However, it is likely that a no-deal Brexit on 31 October would precipitate a cut in the UK to soften an anticipated recession.

Sources: Bank of England, Reuters

INFLATION

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

Inflation fell significantly in August to 1.7%, its lowest level in almost three years. The end of summer sales kept clothing prices down to ease pressure on consumers. Recreation and culture costs fell particularly sharply sector by 5%.

Source: Office for National Statistics

PRODUCTIVITY

To tackle our chronic underperformance in productivity against competitor nations, **SCDI launched Productivity Club Scotland in August**. Productivity Club Scotland is a business-led pilot project in partnership with the Scottish Government which is being developed to strengthen networking and peer-to-peer learning for businesses with a focus on continuous improvement and organisational capacity.

Any Scottish business which is exploring how to increase its productivity can participate without charge. Find out more and sign up at www.productivity.scot.

Source: SCDI

ECONOMIC GROWTH

GDP Growth	Scotland
Q2 2019	-0.3%
Agriculture, forestry & fishing	+0.3%
Services	+0.1%
Production	-1.1%
Construction	-2.2%

The Scottish economy contracted by 0.3% in Q2, according to the first official estimate. While the Services sector which comprises three-quarters or more of Scotland's GDP grew modestly (+0.1%), this was offset by the Production (-1.1%) and Construction (-2.2%) sectors falling sharply into negative territory.

Meanwhile, UK GDP contracted by 0.2% in Q2. The British Chambers of Commerce has cut its GDP growth forecasts for the UK in 2019 from 1.3% to 1.2%. Its expectations for 2020 – also revised downwards from 1% to 0.8% – would represent the slowest year of growth since the 2008-09 recession.

It appears that the **relatively strong levels of growth recorded in Q1 2019 and Q4 2018 were the result of pre-Brexit stockpiling** or work being brought forward ahead of the UK's original date of 31 March for exiting the European Union. In Q1, the Food & Drink and Pharmaceutical industries accounted for more than half of total growth, which business surveys attributed to stockpiling. In Q2, meanwhile, these sectors contracted considerably.

The continued lack of clarity on the terms and nature of the UK's withdrawal will have an impact on the foundations of long-term progress and prosperity. Official analysis by the Scottish Government suggests that the current period of **prolonged Brexit-related uncertainty will reduce or defer the level of business investment in Scotland** by a further £500 million by 2020-21.

According to revised analysis by the Bank of England, a worst-case scenario **'no-deal' Brexit could precipitate a large recession which reduces UK GDP by 5.5% and increases unemployment to 7%, wiping £9 billion off Scottish GDP and doubling the number of jobless Scots**. Threadneedle Street's initial analysis in November last year estimated an 8% contraction and unemployment rising to 7.5%.

The importance of preventing serious and widespread disruption to the flow of goods, services and people between the UK and the EU is underlined by recent trade statistics. Large, complex supply chains and just-in-time processes – especially in retail and Food & Drink – rely on imports from the EU.

Over half of all Scottish goods exports in the last quarter were to the EU. The total value of Scotland's annual goods exports increased by 14.5% or £4.3 billion to £34 billion over the last 12 months, against a UK growth rate of 3.3%.

Sources: Bank of England, Fraser of Allander Institute, HMRC, Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Aug	Jul	Jun	May	Apr	Mar	Feb
	50.3	50.2	51.3	48.9	51.0	49.6	49.4

The RBS PMI rose marginally in August from 50.2 to just 50.3, illustrating a **broadly unchanged picture of highly subdued growth in Scotland's private sector**. The contraction reported by Manufacturing firms in August had eased from July, but firms in the Services sector reported a worsening rate of growth.

Political and economic uncertainty continues to cloud the horizon for Scottish business. **Business confidence weakened to the lowest in over three years** as the threat of a 'no-deal' Brexit loomed. Of the 12 nations and regions of the UK, only businesses in Northern Ireland reported a weaker outlook than those in Scotland. Sentiment in relation to Brexit has not been worse at any time since the referendum in 2016.

Sources: IHS Markit, RBS

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Aug	Jul	Jun
Total Sales Growth	-0.3%	-0.3%	-2.3%
Food Sales Growth	+1.8%	+1.8%	+0.8%
Non-Food Sales Growth	-1.9%	-1.9%	-4.8%

The consumer climate remained challenging for Scottish retailers in August, with total sales down by 0.3%. Retailers also witnessed a decline in total sales value of 0.2%.

New research found that **at least five shops closed every week on Scotland's high streets in the first six months of 2019**. A total of 140 shops closed between January and July, an increase of 30% on the same period last year.

Glasgow saw the highest level of deterioration, with 46 closures in the first half of the year only offset by 34 openings. Edinburgh experienced 37 closures and 20 new openings, although the £1bn St James Centre project currently under construction is expected to provide a major boost to the capital in 2020. Aberdeen also performed better than the Scottish average following 20 closures and 13 openings. Perth experienced 12 closures and seven openings.

Meanwhile, **a third of all UK bank and building society branches have closed during the past four and a half years**, representing more than 3,000 in total and underlining the remarkable changes which town centres and consumer preferences have undergone in a relatively short period of time.

RBS alone have shut nearly 3 out of every 4 branches. Nearly 1 in 20 of the remaining branches are open for less than five days a week, raising concerns about accessibility for the most geographically isolated or socially vulnerable.

Sources: KPMG, PwC, Scottish Retail Consortium, Which?

EMPLOYMENT

	May 19- Jul 19	Apr 19- Jun 19	Mar 19- May 19	Feb 19- Apr 19
Economically Active	78.1%	78.4%	78.4%	78.5%
In Employment	74.9%	75.4%	75.8%	75.9%
Unemployed	4.0%	3.6%	3.3%	3.3%
Economically Inactive	21.9%	21.6%	21.6%	21.5%

After a sustained period of outperforming the rest of the UK, **unemployment in Scotland is now higher than the UK average**. 19,000 people joined the ranks of the jobless between May and July, reaching a new total of 110,000. **The Scottish unemployment rate now stands at 4%**, against a UK average of 3.8%.

The labour market has deteriorated since the beginning of 2019. Permanent staff appointments in Scotland fell for the second consecutive month during August, marking consecutive monthly reductions for the first time since 2016. Temporary staff hires increased across Scotland, however, and at a substantially faster pace than across the rest of the UK.

This represents a **potentially damaging intensification of an ongoing shift towards temporary labour in the Scottish labour market**. Significant numbers of people in temporary employment experience low pay, anxiety and insecurity. Given business uncertainty in relation to Brexit, and the low cost of labour relative to capital, many businesses and organisations are clearly turning to cheaper, short-term labour rather than more expensive, long-term investments in new equipment, systems or processes.

Nonetheless, over the next few decades these **lower skill roles, especially those which wholly or largely involve repetitive or manual tasks, may be automated out of existence**. Recent evidence from the RSA, for example, on the potential impact of automation in the retail sector forecasts that female workers and those living and working in the geographical peripheries of the UK will be more likely to face future job losses – unless employers in the sector enact new policies to create an “experience-led High Street” and to support the upskilling of its workforce to add value in this new retail environment. 108,000 jobs were lost in sales and customer service roles between 2011 and 2018. There are now 8% fewer such jobs in Scotland. This disruption is expected to persist and to accelerate.

Sources: Office for National Statistics, RBS, RSA, 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.