

STATE OF THE NATION

SCDI's Economic Data Briefing

October 2020



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

The Monetary Policy Committee voted unanimously on 16 September to maintain UK interest rates at **0.1%**, a **record low**, due to the ongoing public health and economic crisis.

The Committee highlighted that the course of the pandemic and the resolution of Brexit could severely impact on the UK economy in the months ahead. It will next meet on 5 November.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Aug	Jul	Jun	May	Apr
	0.2%	1.0%	0.6%	0.5%	0.8%

Inflation fell sharply to 0.2% in August. The strongest downward pressure on the Consumer Prices Index was exerted by **dramatically lower café and restaurant prices during the 'Eat Out to Help Out' scheme**. Over 100m subsidised meals were claimed across the UK as demand surged.

Source: Office for National Statistics

PRODUCTIVITY

UK labour productivity fell sharply between April and June. Output per worker reduced by up to 22% compared to the same period in 2019, the **steepest productivity drop on record**.

However, output per hour declined by only around 3%, indicating the somewhat distorting impact of furloughed workers on the data. Millions of workers have still been in employment but making no contribution to worker output during that same period, creating a statistical divergence.

Source: Office for National Statistics

ECONOMIC GROWTH

GDP Growth	Scotland
July 2020	6.8%
June	6.7%
May	3.1%
April	-20.1%
March	-4.9%

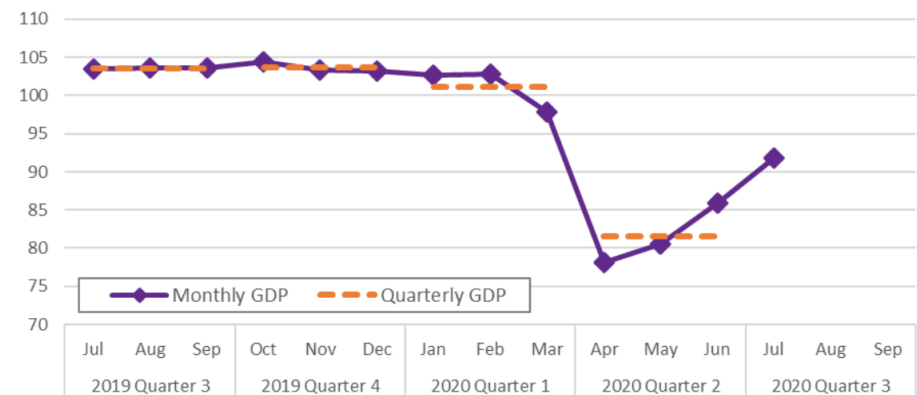
The Scottish economy is growing again but remains significantly smaller than before the crisis. It is estimated that Scotland's onshore GDP increased by 6.8% in July after similar growth in June.

This suggests that **a recovery, albeit highly fragile and gradual, was underway in recent weeks**. The reimposition of restrictions in late September will likely have a negative impact on further progress without government intervention, as called for in our *Building Scotland's Green Recovery* report.

However, the **Scottish economy is 10.7% smaller than it was in February** before the COVID-19 crisis in the UK. GDP had shrunk by 24.1% by the end of April after just two months. This compares to a 4% loss in total economic output in Scotland in 2008 and 2009 over the course of 18 months.

Comparison of Quarterly and Monthly GDP

Chained volume measure, 2016=100



Notes:

(1) Users are advised to be mindful that the axis on this chart does not start at zero.

KPMG has revised its forecast for Scotland's economy for 2020. It now expects Scottish GDP to decline by 9.1%. It had previously predicted shrinkage of 6.8%. KPMG expects the UK economy as a whole to fare worse than Scotland's. It has downgraded its previous estimate to a 10.3% fall in UK GDP.

Sources: KPMG, Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

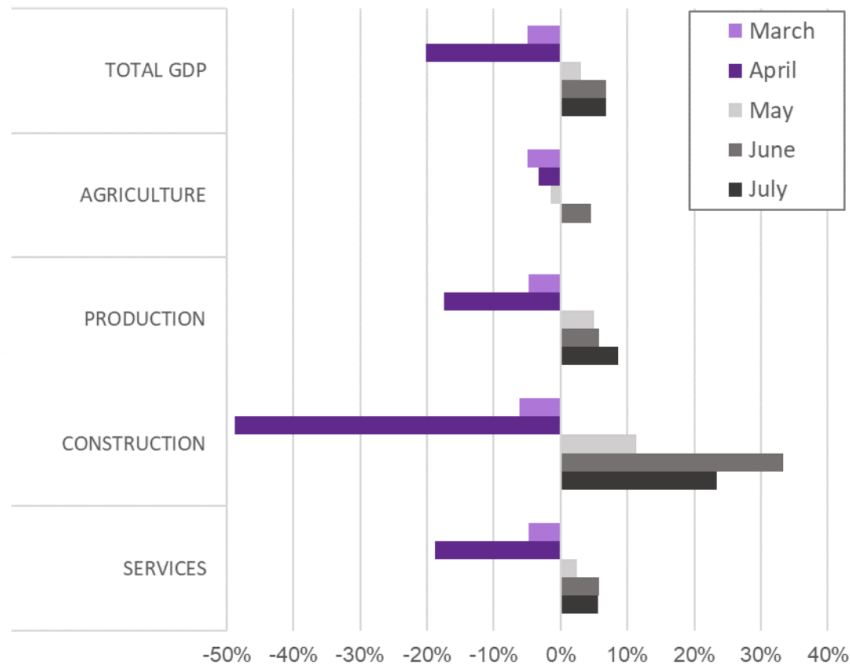
RBS Seasonally-Adjusted Purchasing Managers' Index	Aug	Jul	Jun	May	Apr	Mar	Feb
	55.8	49.3	37.1	21.1	10.7	29.7	50.1

Scotland's private sector has returned to growth after months of severe and unprecedented decline. The RBS PMI rose strongly to 55.8 in August, the highest level of business expansion recorded since 2014.

Manufacturing has bounced back more strongly than Services. Higher demand and looser restrictions had helped some firms make up lost ground. This is especially true in Construction, which suffered the worst month of contraction in April of any major sector but registered the best growth performance of any major sector in May, June and July.

GDP Monthly Estimates: March to July 2020

percentage change month on month, by SIC 2007 main industry sector



Nevertheless, the reimposition of restrictions in late September threatens this progress. The public health emergency is not over – neither is the economic crisis. **80% of Scottish businesses report that new local and national lockdowns are their biggest concern.** Business confidence in Scotland is the second lowest of any UK nation or region.

Sources: IHS Markit, RBS, Scottish Chambers of Commerce, Scottish Government

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Aug	Jul	Jun
Total Sales Growth	-7.5%	-8.3%	-18.6%
Food Sales Growth	+1.5%	+3.5%	+4.0%
Non-Food Sales Growth	-1.7%	-5.2%	-19.4%

With footfall so low and the squeeze on household finances tightening, Scotland's retail sector continues to face a very difficult period. Consumer activity and confidence remains weak. Food sales growth has slowed, demand for homeware items has been relatively high and spending on clothes and shoes is low.

42% of UK consumers say that they will be more likely to shop online going forward due to the pandemic. **Only 11% intend to spend more next month** than last month.

Sources: British Retail Consortium, KPMG, Scottish Retail Consortium

EMPLOYMENT

	May 20- Jul 20	Feb 20- Apr 20	Nov 19- Jan 20	Aug 19- Oct 19
Economically Active	78.0%	77.9%	77.7%	77.4%
In Employment	74.3%	74.3%	74.9%	74.5%
Unemployed	4.6%	4.6%	3.5%	3.7%
Economically Inactive	22.0%	22.1%	22.3%	22.6%

Unemployment in Scotland rose to 4.6% in the last quarter, as 30,000 more people became jobless. The Scottish rate is now higher than the UK rate of 3.9%.

However, **the worst is yet to come for workers and the labour market.** The Coronavirus Job Retention Scheme ends on 31 October. A wave of redundancies is expected across sectors, especially those subject to new or reimposed restrictions, such as travel and hospitality. Young people are likely to be at higher risk.

The **new Job Support Scheme** – which will top up the wages of workers who have not been able to return to the workplace – aims to minimise job cuts over the next six months.

Sources: HM Treasury, Office for National Statistics

SCDI is an inclusive and independent network of businesses and organisations from all sectors and all geographies of the Scottish economy.

Our mission is to help our members grow and to help build a better Scotland.

Find out more about the benefits of SCDI membership at www.scdi.org.uk/join or email membership@scdi.org.uk