

STATE OF THE NATION

SCDI's Economic Data Briefing

October 2021

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

Interest rates remain at their **historic low of 0.1%**. Andrew Bailey, the Governor of the Bank of England, has indicated, however, that **continued inflationary pressures in the UK economy could force interest rates to rise in 2022**.

The Monetary Policy Committee – the body which determines the Official Bank of England Rate which shapes UK interest rates – will have its next meeting on 4 November.

Source: [Bank of England](#), [Guardian](#)

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Aug	Jul	Jun	May	Apr
	3.2%	2.0%	2.5%	2.1%	1.5%

Inflation in the UK surged by 3.2% in August. The jump from 2% in July to 3.2% in August was the **biggest ever monthly increase** in prices since comparable records began in 1997.

Inflation is also now at its highest level since 2012, significantly above the Bank of England's official 2% target. Higher prices for food, transport, recreation, furniture and eating out are all fuelling the inflationary increase.

With **gas and electricity bills set to rise significantly in the coming weeks**, there are concerns that inflation could be pushed still higher, putting even greater **pressure on household finances**. Analysts and observers are split over whether this could mean a temporary or more long-term **cost of living crisis**.

According to new analysis by the OECD, **inflation is currently on the rise around the world** due to higher raw materials costs, constraints on the supply of goods and stronger consumer demand as economies reopen and prices bounce back.

However, while the OECD expects the UK to face inflation of 3% at the end of 2022, it expects inflation to be lower in every other G20 economy with falls in the US, France, and Germany.

Brexit is therefore likely to be playing a role with **labour shortages and disrupted supply chains in key sectors contributing to rising prices**, especially of food and fuel.

Petrol in the UK has climbed to an average of 135.9p a litre, a level not seen since 2013, according to the AA.

Sources: [AA](#), [Financial Times](#), [OECD](#), [Office for National Statistics](#)

PRODUCTIVITY

The UK Government has launched a consultation on **new proposals to give employees the legal right to request flexible working from the first day of employment** rather than having to wait at least six months. It says that allowing flexible working such as remote working, job sharing or flexi time helps to make businesses more productive.

A new study by researchers at the University of Southampton study suggests that **90% of people thought their productivity had stayed the same or improved by working from home** during COVID-19 lockdowns.

However, this also appears to have contributed to lower levels of wellbeing and poorer mental health for some employees. As the researchers conclude: 'Workers have proved they are highly adaptable in these unusual times. Employer focus is now needed on well-being to support people and sustain performance.'

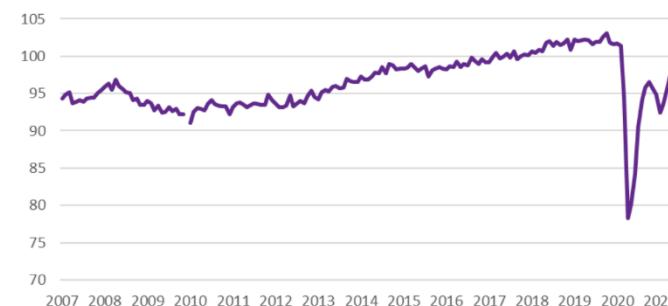
Sources: [Productivity Club Scotland](#), [UK Government](#), [University of Southampton](#)

INCLUSIVE GROWTH

July 2021	Scotland
Onshore GDP	-0.2%
Services	+0.4%
Production	-3.0%
Construction	-0.4%

Scotland's economy is now 2.4% smaller than before the COVID-19 pandemic. In July, onshore GDP shrank marginally by 0.2%, the first decline since January. The pattern of growth in Scotland remains largely similar to that of the UK as a whole.

Monthly GDP Index, January 2007 to July 2021
Chained volume measure, 2017=100



Source: [Scottish Government](#)

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Aug	Jul	Jun	May	Apr	Mar	Feb
	58.1	57.5	58.4	61.5	55.4	54.3	44.1

Scotland's private sector grew more strongly in August. The RBS PMI rose to 58.1 to suggest another month of robust growth.

New research from the Office for National Statistics has identified a clear link between management practices and innovation. It found that 'better-managed firms' were more likely to engage in research and development than their peers and were more focused on innovative activity versus 'less-well-managed firms'.

57% of businesses in the Highlands and Islands are now operating at pre-pandemic levels or beyond, according to the region's latest Business Panel survey. 67% expressed confidence in the region's economic outlook for the next year, up from 37% in October.

Sources: [Highlands and Islands Enterprise](#), [IHS Markit](#), [Office for National Statistics](#), [RBS](#)

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Jul	Jun	May
Total Sales Growth	+3.2%	-3.0%	-3.6%
Food Sales Growth	+0.5%	+5.5%	+2.5%
Non-Food Sales Growth	+5.4%	-10.1%	-8.7%

Food sales and non-food sales recovered to growth in July, according to the latest data from the Scottish Retail Consortium and KPMG. However, the retail sector continues to face a highly challenging outlook with labour shortages, rising costs and weak consumer confidence. **Total retail sales are around 10% lower than before the pandemic.**

Total retail footfall in Scotland decreased by 27.1% in July, compared to 2019 pre-pandemic figures. Scottish shopping centre footfall declined by 34.1% in the same month. In Glasgow, for example, it was down 26.1%. For the UK as a whole, footfall on high streets declined by 34.6% in July. Retail parks saw footfall decrease by 15%.

Nearly 1 in 6 retail premises across Scotland are now empty, a small increase on last year as the pandemic continues to impact town and city centres.

Sources: [British Retail Consortium](#), [KPMG](#), [Scottish Retail Consortium](#)

EMPLOYMENT

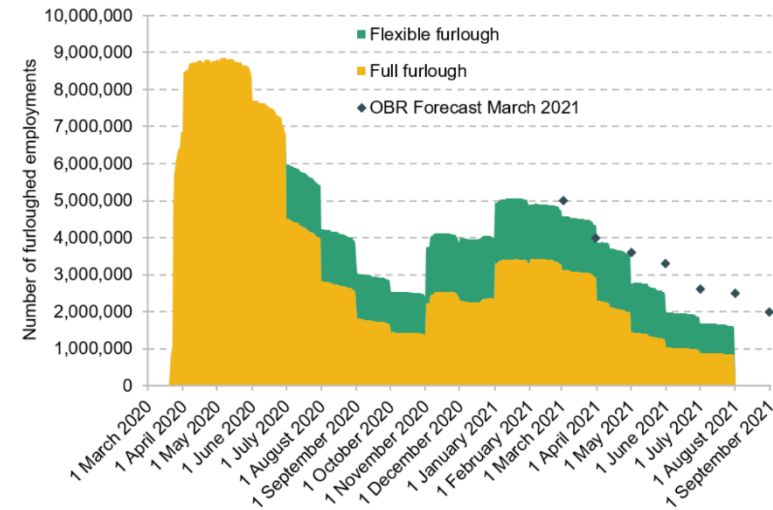
SCOTLAND	May 21-Jul 21	Feb 21-Apr 21	Nov 20-Jan 21	Aug 20-Oct 20
Economically Active	77.5%	77.3%	77.3%	78.2%
In Employment	74.1%	73.9%	73.9%	74.8%
Unemployed	4.3%	4.4%	4.3%	4.3%

Economically Inactive **22.5%** 22.7% 22.7% 21.8%

Levels of employment and unemployment remained relatively stable in Scotland as furlough came to an end on 30 September, which has supported the wages of over 11.6 million workers at a total cost of £70bn.

Joblessness was at 4.3% before the Coronavirus Job Retention Scheme ended, down slightly from 4.4%. Unemployment across the UK as a whole is slightly higher at 4.6%.

Number of employments furloughed, March 2020 to July 2021



In late July, 1.6 million people were still on furlough, with 900,000 of these fully furloughed.

Around 1 million people were made redundant in the 15 months from April 2020 to June 2021 despite the intervention.

It is likely that

unemployment will now rise without continued taxpayer support for wages.

There are now over 1.03m job vacancies in the UK, a record high, leading to some concerns about a 'hiring crisis' for employers unable to secure the right skills. Labour shortages are greatest in the health & social care, retail and hospitality sectors.

Sources: [Institute for Fiscal Studies](#), [Office for National Statistics](#)

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