

STATE OF THE NATION

SCDI's Economic Data Briefing

September 2019



DailyBusiness
your agenda fresh and informed

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

Interest rates remain unchanged at **0.75%** after the Bank of England downgraded its growth projections for 2019 and 2020 to 1.3%. The Monetary Policy Committee will next meet on 19 September.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Jul	Jun	May	Apr	Mar
	2.1%	2.0%	2.0%	2.1%	1.9%

There was a **marginal but unexpected increase above the Bank of England's inflation target** in July, raising the cost of living and the cost of doing business. The Office for National Statistics suggested that it was too soon to identify the weakening of Sterling in the face of Brexit-related uncertainty as key factor behind rising prices. Businesses continue to fear a no-deal Brexit will create major disruption at ports, further pushing up the cost of imports. It noted that July's increase was driven by higher costs for hotel accommodation and video games & consoles, in addition to less discounting of clothes in summer sales.

Source: Office for National Statistics

PRODUCTIVITY

	Q1 2019	Q4	Q3	Q2	Q1 2018
Quarterly (Trend -Based) Productivity Growth in Output per Hour	+1.1%	+0.5%	0.0%	+1.3%	+1.7%
Rolling Annual Productivity Growth in Output per Hour	+0.4%	+2.3%	+4.0%	0.0%	-0.4%

The rate of growth of **Scottish workers' productivity remains modest**, with annual growth at just 0.4% in Q1 2019. Although trend-based output per hour accelerated to

1.1%. It remains below the historic trend – between 1998 and 2007 productivity grew by an average of 1.5% between 1998 and 2007.

SCDI's **Productivity Clubs** pilot, in partnership with the Scottish Government, was launched in late August. It will facilitate peer-to-peer learning for businesses and support members to improve their organisational capacity through live events, online resources, networking and an annual conference.

Source: Scottish Government

ECONOMIC GROWTH

GDP Growth	Scotland
Q1 2019	+0.6%
Agriculture, forestry & fishing	+0.8%
Services	+0.2%
Production	+2.0%
Construction	+0.4%

Scotland's GDP growth in the first quarter of the year has been revised upwards.

Official data now indicates that the Scottish economy expanded by 0.6% between January and March 2019, rather than 0.5% as previously estimated, driven by strong Production growth of 2%. UK GDP grew by 0.5% over the same period. Scotland's annual GDP has grown by 1.5%, revised up from an initial estimate of 1.4%.

However, the UK took a significant step towards recession in Q2, as UK GDP contracted by 0.2% between April and June. Should the UK economy shrink again in the Q3 it will have officially entered a recessionary period – which is defined as two consecutive quarters of negative GDP growth – with Brexit on the horizon. The first estimate of Q2 growth data for Scotland will be published on 18 September.

The latest Government Expenditure and Revenue Scotland data, known widely as GERS, was published in August. GERS provides official estimates of the contribution of revenue raised in Scotland toward the goods and services provided for the benefit of the people of Scotland. Its annual publication is usually accompanied by politically contentious interpretations of the data. The statistics for 2018-19 demonstrate that **Scotland's net fiscal balance improved for the third consecutive year as overall revenue grew to a record £62.7 billion.**

However, **Scotland still has a substantial notional fiscal deficit** – the gap between what is spent in and what is raised in Scotland by both governments – of £12.6bn or around 7% of GDP. The UK as a whole is currently running a deficit of 1.1% of UK GDP. Scottish public spending per capita is 13.6% higher than the UK average, while revenue is 2.6% lower, although this is heavily skewed by the performance of London.

Professor Graeme Roy, Director of the Fraser of Allander Institute, cautioned that GERS represents an estimate of the status quo rather than a forecast of future performance under alternative constitutional arrangements, such as fiscal autonomy or independence.

Sources: Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Jul	Jun	May	Apr	Mar	Feb	Jan
	50.2	51.3	48.9	51.0	49.6	49.4	49.2

The **Scottish private sector approached stagnation in July with only marginal growth**, according to the RBS PMI. Nonetheless, firms reported increased orders for the second consecutive month and continue to expect higher sales volumes in 12 months' time. Services firms performed relatively well, while manufacturing sales dropped sharply.

Business confidence continues to be damaged by prolonged Brexit-related political and economic uncertainty. Scottish business confidence fell by 17% to 0% in August. Optimism amongst SME manufacturing firms across the UK deteriorated in the three months to July at the fastest pace in three years.

A 'no-deal' Brexit – which is the current default legal position for the UK on 31 October – would result in the immediate erection of substantial tariff and non-tariff barriers to trade in products and services. Serious disruption to mature just-in-time supply chains, significantly higher import costs and less competitive export prices will impact businesses, organisations and individuals across the Scottish economy.

Sources: CBI, IHS Markit, RBS

CONSUMER ACTIVITY AND CONFIDENCE

Retail Sales Index for Scotland	Q2 2019	Q1	Q4 2018
Growth in volume of retail sales	+0.9%	+1.2%	+0.6%
Growth in value of retail sales	+0.8%	+1.1%	+1.0%

The Retail Sales Index for Scotland indicates **modest but steady consumer activity in the first half of the year**. The volume of retail sales in Scotland grew by 0.9% in Q2 2019, compared to a 0.7% increase across Great Britain as a whole. Since Q2 2018, the volume and value of retail sales in Scotland has increased by 2.5% and 2.7% respectively.

The town centre vacancy rate remained at 9.8%, with **one in every 10 shops lying empty**. More than 400 bank branches, shops and local businesses have closed across Scotland since the start of 2016, an average of nine a month. Although High Street retailers experienced a 4.8% decline in footfall in August, retail parks bucked the trend with 2.4% growth.

Nearly a third of people in the UK have altered their spending habits as a result of Brexit-related uncertainty. 22% are avoiding big purchases – rising to 46% among 18 to 34 year olds – and putting more money into savings. **1 in 5 people have already begun to stockpile food, drinks and medicine** to an average of £380 in additional spending.

Sources: Federation of Small Businesses, KPMG, Scottish Government, Scottish Retail Consortium, Springboard

EMPLOYMENT

	Apr 19- Jun 19	Mar 19- May 19	Feb 19- Apr 19	Jan 19- Mar 19
Economically Active	78.4%	78.4%	78.5%	78.0%
In Employment	75.4%	75.8%	75.9%	75.4%
Unemployed	3.6%	3.3%	3.3%	3.2%
Economically Inactive	21.6%	21.6%	21.5%	22.0%

The Scottish labour market continues to perform strongly. **Unemployment grew between April and June** with 12,000 more Scots out of work. The joblessness total is now 102,000 people or 3.6%, which remains below the UK average of 3.9%.

Youth unemployment is now 7.5%, down 2.3% from 2018. **Jobseeker's Allowance is set to reach its lowest ever value in 2019-20, at just 14.5% of average weekly pay**, further reducing the spending power of the unemployed.

This presents something of a paradox in the context of relatively subdued GDP growth and weak business activity and confidence. Part of the explanation is likely to be found, as noted by the latest RBS Report on Jobs, in the **increasing number of firms hiring short-term staff to fill roles, rather than investing in new technologies, equipment or processes**. Permanent staff placements fell for the first time in two-and-a-half years. **Scottish firms remain cautious, exhibiting a reluctance to invest** given the increasing likelihood of a 'no-deal' Brexit and the outlook for global growth.

Nonetheless, a mixed picture is emerging. Some employers in labour-intensive sectors are escalating investment in new technology in anticipation of post-Brexit labour shortages and skills gaps. The UK Government has committed to end freedom of movement and the automatic right of EU nationals to live and work in the UK, and to significantly reduce the overall level of inward migration.

This has been particularly concerning for employers in Scotland, given the historically tight labour market. Due to a low birth rate, all of Scotland's future population growth is projected to come from immigration. **It has been estimated that Brexit could reduce net international inward migration to Scotland by between 33% and 50%.**

Sources: Office for National Statistics, RBS, 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.