

STATE OF THE NATION

SCDI's Economic Data Briefing

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

The Monetary Policy Committee of the Bank of England met on 6 August and unanimously agreed to keep **interest rates at 0.1%, a record low** for the UK.

Source: Bank of England

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Jul	Jun	May	Apr	Mar
	1.0%	0.6%	0.5%	0.8%	1.5%

UK inflation jumped to 1% in July against expectations. Most observers anticipated the Consumer Prices Index reflecting the cost of living to remain broadly stable.

The increase was largely due to strongly rebounding global oil prices as demand increased with the easing of lockdown restrictions in many countries.

Source: Office for National Statistics

PRODUCTIVITY

Almost 1 in 2 workers in the UK are working from home, but the evidence to date of the impact of home working on productivity is mixed.

Some employers report little or no impact on workforce productivity. Many are now offering indefinite WFH, including Facebook, Fujitsu, Siemens and Twitter. But others report a severe drop-off in productivity due to challenges for collaboration, creativity and communication. Apple, Amazon and Google have indicated that staff will be asked to return to the workplace as soon as safely possible.

UK employers believe that the proportion of employees regularly working from home once the crisis is over will grow from 18% to 37%. Globally, 92% of start-up founders and staff want the option to work from home in the future. But only 10.6% want to work remotely full-time. Most would choose to work 2 or 3 days remotely each week.

Sources: CIPD, Founders Forum

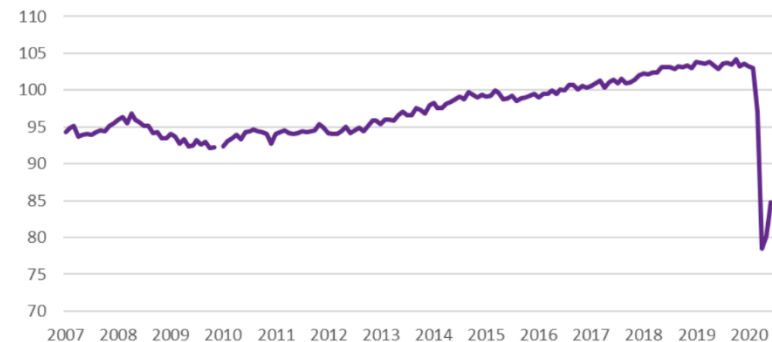
ECONOMIC GROWTH

Scotland	GDP Growth
June	+5.7%
May	+2.3%
April	-19.2%
March	-5.8%

Scotland's economy has returned to growth but remains 17.6% smaller than before the crisis. The latest data indicates a **weak, gradual and uneven recovery** thus far, rather than the 'v-shaped' recovery predicted or hope for by some. As long as the public health emergency persists, this is likely to continue for most affected countries.

Scottish GDP shrank by 19.7% in Q2 2020, the second consecutive quarter of negative growth for Scotland. Activity in most sectors picked up significantly in June, however, as much of the economy and society reopened.

Monthly GDP Index, January 2007 to June 2020
Chained volume measure, 2016=100



UK GDP shrank by 20.4% in Q2 2020, the second consecutive quarter of negative economic growth.

Scotland and the UK are now in recession. It is the deepest recession on record.

Over the same period between April and June, most of Europe performed substantially better than the UK. On average, EU countries experienced a 11.9% fall in GDP. The size of the German economy shrank by just 10.1%. Meanwhile, Belgium (-12.2%), Italy (-12.4%), France (-13.8%) and Portugal (-14.1%) fared less badly than the UK. Greater degrees of success in bringing the virus under control appear to be closely correlated with less damage to growth. **Public health and the economy are intertwined.**

The Bank of England forecasts that the UK economy will shrink by 9.5% in 2020. It had previously anticipated a decline of 14%. It does not expect the economic situation to return to pre-pandemic levels until the end of next year.

Sources: Bank of England, Office for National Statistics, Scottish Government

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Jul	Jun	May	Apr	Mar	Feb	Jan
	49.3	37.1	21.1	10.7	29.7	50.1	52.0

The Scottish private sector is now 'approaching stabilisation', according to the latest RBS PMI, which saw the measure of private sector activity rise from 37.1 to 49.3. Any level below 50 represents contraction; any level above 50 represents expansion.

The re-imposition of restrictions in Aberdeen will have a substantial impact on the city's economy, likely delaying its recovery from the crisis compared to other parts of Scotland, as non-essential businesses closed their doors.

The share of Scottish businesses reporting decreased turnover continues to fall. However, it is now the highest of the four nations of the UK at 57% versus 54.1% in England, 51.9% in Northern Ireland and 53.5% in Wales.

Mobility to workplaces remains very low relative to normal levels. Workplace mobility is only at 45% of normal levels in Scotland, significantly lower than most other European countries where the return to the office appears to have taken place more widely.

80% of Scottish businesses cite the threat of another national or local lockdown as their biggest concern right now. 63% cite weak customer demand. 21% anticipate making between 1% and 24% of staff redundant in the next six months. 37% suffered from lower sales, 35% higher sales.

Sources: Fraser of Allander Institute, IHS Markit, Office for National Statistics, RBS, Scottish Chambers of Commerce

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Jul	Jun	May
Total Sales Growth	-8.3%	-18.6%	-27.6%
Food Sales Growth	+3.5%	+4.0%	+3.6%
Non-Food Sales Growth	-5.2%	-19.4%	-53.2%

The Scottish retail sector is facing a very difficult period. Total sales were more than 8% lower in July 2020 than in July 2019. Food sales figures are relatively positive. However, **consumer demand remains weak** in Scotland.

Moreover, the **costs and complexities of adhering to social distancing guidelines** remain highly challenging for many retail businesses. However, **Scotland now has the lowest share of temporarily closed businesses of any nation or region of the UK.** It has now fallen to 5%.

Employment in the UK's retail sector has fallen by 45% over the past year to August.

Sources: Fraser of Allander Institute, KPMG, Office for National Statistics, Scottish Retail Consortium

EMPLOYMENT

	Apr 20- Jun 20	Jan 20- Mar 20	Oct 19- Dec 19	Jul 19- Sep 19
Economically Active	77.8%	77.9%	77.8%	77.6%
In Employment	74.3%	74.7%	75.0%	74.4%
Unemployed	4.5%	4.1%	3.5%	4.0%
Economically Inactive	22.2%	22.1%	22.2%	22.4%

Employment in Scotland has fallen by 15,000 people, with the jobless rate climbing by 0.4% to 4.5%. Between April and June, **employment in Scotland fell at twice the rate (-0.4%) as in the UK as a whole (-0.2%)**. The youngest and the oldest workers have been worst hit, as well as the lowest-skilled. The worst may yet be to come as government wage subsidies come to an end.

The **Bank of England forecasts a doubling of unemployment across the UK around to 7.5%**, levels not seen since the aftermath of the Great Recession of 2008/2009.

Hours worked fell to a record low as millions of workers fell out of the labour market or were put on furlough. 29.8% of all employees in Scotland were furloughed under the Job Retention Scheme. 155,000 people received help from the Self-Employed Income Support Scheme. Over 65,000 businesses received from over £2.3bn in UK Government loans.

More than 1 in 3 UK workers report that their mental health and wellbeing has suffered due to longer working hours during the crisis. Nearly 1 in 2 managers are concerned about the risk of 'staff burnout' as a result.

7,500 jobs have already been lost from Scotland's energy sector. Sir Ian Wood expects that figure to double by the end of 2020.

Employment across the UK in Services declined sharply in the three months to August. Employment in Manufacturing, by contrast, has largely remained steady in most sub-sectors as industry reopens and restarts with PPE and social distancing measures.

Sources: Bank of England, CIPD, HM Treasury, Office for National Statistics, RBS, Robert Walters

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 create an economy and a society for the benefit of all.

To discuss this briefing, or for further views on the data, contact SCDI's Policy Manager, David Kelly: david.kelly@scdi.org.uk.