

STATE OF THE NATION

SCDI's Economic Data Briefing

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

Interest rates remain at their **historic low of 0.1%**. The Monetary Policy Committee (MPC) will next meet on 23 September.

The MPC is expected to remain very cautious about any increases in the Bank Rate in the short-term, with one member recently indicating that the UK is 'not out of the woods yet in terms of the virus and the impact on the economy'.

New analysis from Deutsche Bank argues that the Bank of England is underestimating the likely 'peak and persistence' of **inflationary pressures in the UK economy** as it rebounds from the pandemic. However, it expects interest rates to rise modestly in the near future, reaching only 0.75% by 2024.

Source: [Bank of England](#), [Deutsche Bank](#), [Gertjan Vlieghe](#)

INFLATION

UK Consumer Prices Index (CPI) Annual Rate	Jul	Jun	May	Apr	Mar
	2.0%	2.5%	2.1%	1.5%	0.7%

Inflation receded in July, falling back to the Bank of England's 2% target after several months of sharp increases.

However, analysts widely expect this to be a mere 'blip' as prices continuing to rise as the UK economy reopened this summer. **The Bank of England expects inflation to hit 4% by the end of 2021.**

Sources: [Bank of England](#), [Office for National Statistics](#)

PRODUCTIVITY

New research by Enrico Moretti, Professor of Economics at the University of California, Berkeley, illustrates the '**spillover effects' for productivity experienced by workers and firms located close together** in the same building, street or neighbourhood, which could be at risk due to the 'pandemic city exodus'.

Analysis of data from the US found that when a firm with double the revenue of its neighbour moves into a city block, it increases the productivity of the neighbouring firm by about 2%.

Tech workers who relocate to a large industry cluster become up to 14% more productive by making connections and facilitating knowledge transfers through 'work meetings, informal coffees or gatherings at the pub'.

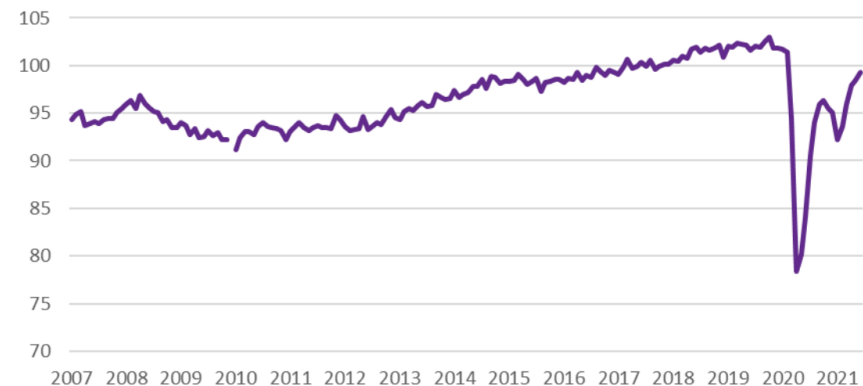
Sources: [Enrico Moretti](#), [Productivity Club Scotland](#)

INCLUSIVE GROWTH

June 2021	Scotland
Onshore GDP	+0.9%
Services	+1.2%
Production	+0.5%
Construction	-1.4%

Scotland's economy is now 2.1% smaller than before the pandemic after growing by 0.9% in June. The latest official estimates of onshore GDP found that the Services and Production sectors expanded, while Construction shrank again. Accommodation and food services registered the strongest growth of any sub-sector thanks to the easing of public health restrictions and 'staycations'.

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



New data suggests that the UK was the most attractive investment destination in Europe in 2020-21. Foreign direct investment (FDI) created over 707,000 jobs across the UK and contributed more than £7bn to the economy. There were 92 FDI projects in Scotland which created 3,245 jobs. The annual increase in Scotland (10%) was among the highest of the nations and regions of the UK. **Scotland is home to 3 of the top 10 cities for inward investment in the UK – Aberdeen, Edinburgh and Glasgow.**

Sources: [Department for International Trade](#), [Scottish Government](#)

BUSINESS ACTIVITY AND CONFIDENCE

RBS Seasonally-Adjusted Purchasing Managers' Index	Jul	Jun	May	Apr	Mar	Feb	Jan
	57.5	58.4	61.5	55.4	54.3	44.1	33.3

Scotland's private sector continued its recovery in July as it grew for the fifth consecutive month, but the pace of expansion slowed. The RBS PMI eased from 58.4 in June to 57.5 in July, indicating strong (but relatively slower) growth.

Inflationary pressures on prices and costs also continued due to 'supply constraints, rising utilities, staff and fuel bills, as well as greater Brexit-related costs'. Scottish business confidence remains relatively strong, however, with demand rising.

Nevertheless, the long-term impact on business viability and indebtedness remains potentially severe. **1 in 4 businesses in Scotland took on government-backed debt during the COVID-19 crisis.** More than £4bn of government-backed loans were provided to Scottish businesses compared to £1.3bn of grant support was delivered to businesses by the Scottish Government through local authorities. Government and banks will have a key role to play in supporting recovery through flexible approaches to managing this unprecedented level and pace of emergency lending.

Sources: [FSB Scotland](#), [IHS Markit](#), [RBS](#)

CONSUMER ACTIVITY AND CONFIDENCE

SRC-KPMG Retail Sales Monitor	Jul	Jun	May
Total Sales Growth	-4.4%	-3.0%	-3.0%
Food Sales Growth	+1.8%	+5.5%	+5.5%
Non-Food Sales Growth	-12.1%	-10.1%	-10.7%

Total UK retail footfall decreased by 28% in July compared to pre-pandemic levels, according to the latest from the British Retail Consortium, below the three-month average decline of 27.7%. In Scotland, **footfall decreased by 27.1%** compared to 2019 figures.

The pandemic has increased concerns about the working conditions faced by frontline workers, including retail staff. New legislation has been introduced to provide increased protection. The Protection of Workers (Scotland) Act creates a new offence for situations where a retail worker is assaulted, threatened or abused while engaged in their work.

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

EMPLOYMENT

SCOTLAND	Apr 21- Jun 21	Jan 20- Mar 21	Oct 20- Dec 20	Jul 20- Sep 20
Economically Active	77.6%	77.8%	76.9%	77.8%
In Employment	74.2%	74.3%	73.4%	74.1%
Unemployed	4.3%	4.4%	4.5%	4.6%

Economically Inactive **22.4%** 22.2% 23.1% 22.2%

Unemployment in Scotland has fallen slightly to 4.3%, with employment relatively stable at 74.2%.

Labour shortages are increasing, fuelling rising prices and wages. **There are now over 1 million job vacancies in the UK – a record high – and almost 2 million people remain on furlough.** The jobless rate is likely to increase substantially once the Coronavirus Job Retention Scheme closes at the end of September.

Job vacancies in the UK hit a record high in May to July



Wages have increased by 7.4% over the last quarter – or by 8.8% including bonuses – as a result as employers compete to attract and retain skills and talent.

Slower re-entry into the labour market after redundancy and lower levels of inward migration

after Brexit have contributed **labour shortages in key sectors** like agriculture, food processing and haulage. The Scottish Building Federation, for example, reports serious and damaging shortages of plumbers, heating engineers, plasterers and construction workers in their sector.

Sources: [Guardian](#), [Office for National Statistics](#), [Scottish Building Federation](#), [Scottish Government](#)

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