

Economic Commentary

June 2022

All data represent most recent available as of June 14th, 2022

All major global economies reported **weak growth or even contraction** in the first quarter of 2022 as high inflation, the conflict in Ukraine, and supply chain challenges related to the pandemic all weighed on economic performance.

Growth in **UK GDP** slowed to just 0.8% in the first quarter and contracted by 0.3% in April as consumers cut back on spending..Business surveys also suggest a loss of momentum in April, with rising inflation beginning to weigh on demand.

The **Scottish economy** grew by 1% over the first quarter of 2022 and by 0.3% in March. Business activity has been more resilient than in the UK (likely due to a later easing of restrictions), but confidence is now easing as concerns over inflation grow.

Unemployment in Scotland has remained at a record low causing recruitment difficulties for employers.

Scottish businesses across all sectors continue to report widespread **inflationary pressures, recruitment difficulties** and **some supply chain disruption**. Concerns over **cashflow** are rising again.

The cost of **energy** is a major contributor to cost pressures, now affecting almost half of Scottish businesses and becoming a key concern for the rest of 2022.

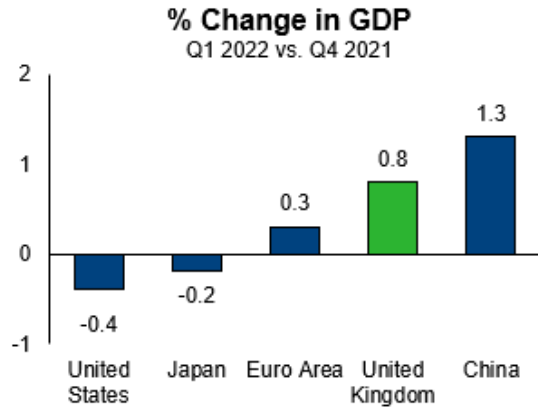
The outlook for the **global economy** has weakened considerably, with growth in 2022 now forecast at **3%, and all** major economies are expected to grow more slowly than previously expected. The UK is also expected to experience a significant slowdown as a combination of high inflation, rising interest rates and higher taxes

The **UK economy** is now expected to grow by around **4% in 2022** but could **stagnate in 2023, while the latest Scottish forecast for 2022/23 shows growth of 4% over 2022 followed by a drop to 1% in 2023** as prolonged high inflation reduces consumer spending and business investment.

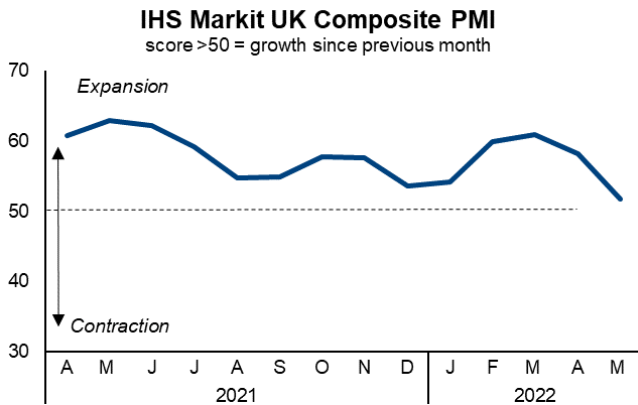
Global/UK

SUMMARY

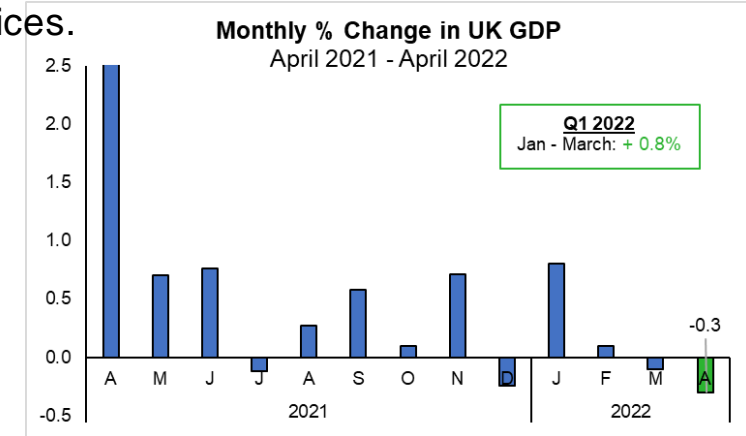
Economic performance weakened in the [Q12022](#) as high inflation, conflict in Ukraine and supply chain challenges combined to stifle or even halt recovery in most major economies.



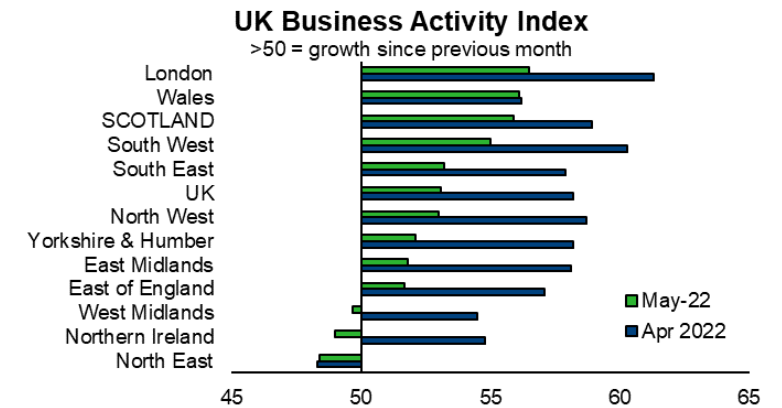
Recent [business surveys](#) suggest UK private sector growth fell to its weakest level since the winter 2021 lockdown as the cost of living crisis hit customer demand in May.



In the UK, Q1 2022 growth was 0.8% but [monthly data for April](#) showed a significant contraction (-0.3%) which followed a contraction of 0.1% in March as consumers began to reduce spending in the face of higher prices.



The slowdown was reflected across the UK, with most [regions](#) reporting softer increases in business activity in May than in April, with three regions experiencing a contraction.



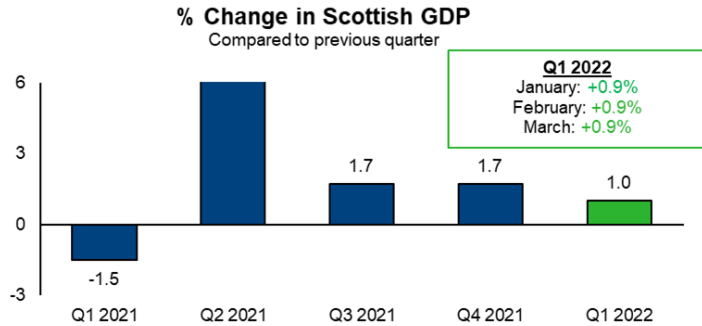
CURRENT BUSINESS SENTIMENT

FORWARD LOOK

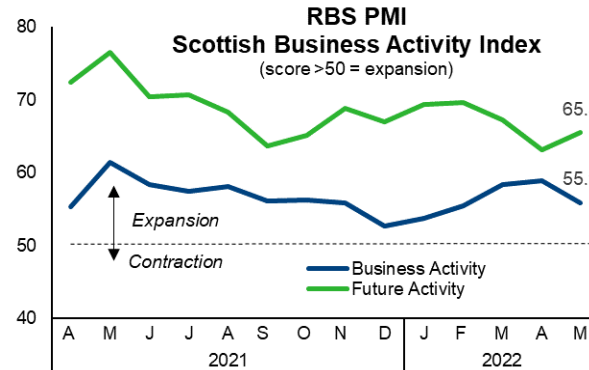
RECENT ECONOMIC DATA

Scotland

The latest [GDP data](#) suggest slowing growth in the Scottish economy, although output remains above its pre-pandemic level.

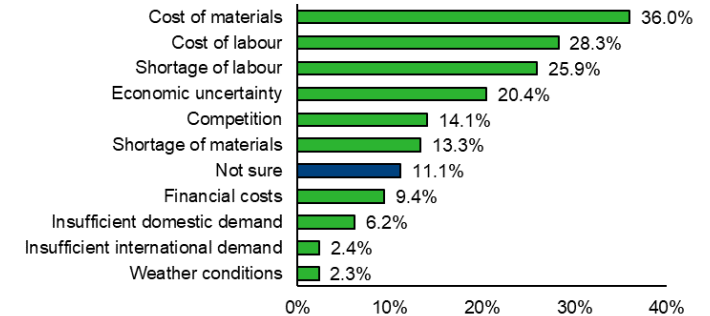


[Private sector activity](#) eased to a three month low in May. Optimism in an economic recovery over the next 12 months rose slightly but remains below the UK average.



Over 20% of businesses reported a [decrease in turnover](#) in May compared with the previous month, citing a number of factors, but particularly costs.

Key Challenges Impacting Businesses' Turnover
19 Apr - 1 May, 2022

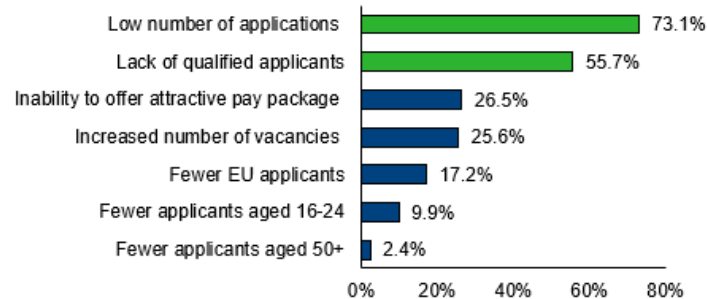


In the [labour market](#), unemployment remains at a record low as employers add staff.

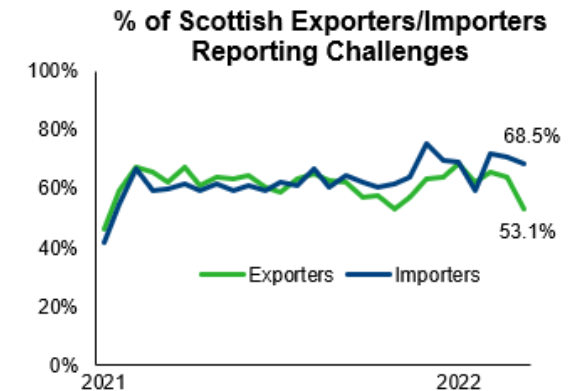
	RATE (FEB - APRIL 2022)	ANNUAL CHANGE
EMPLOYMENT	75.5%	+0.6%pts
UNEMPLOYMENT	3.2%	-0.2%pts
ECONOMIC INACTIVITY	21.9%	-0.7%pts

The increasingly tight labour market is continuing to cause [recruitment difficulties for businesses](#).

Key Reasons Cited by Businesses for Recruitment Difficulties
19 Apr - 1 May, 2022



Most Scottish importers and exporters continue to experience challenges [trading internationally](#).



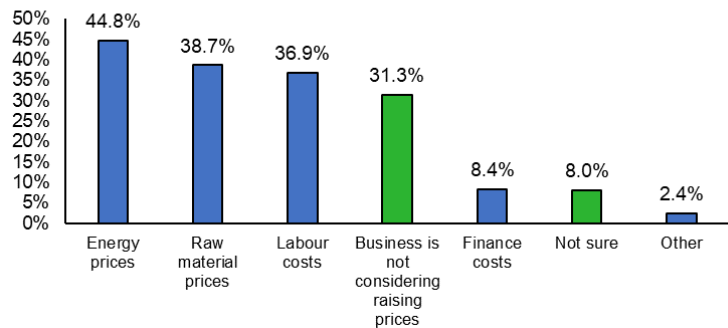
Scotland

SUMMARY

Over [80% of businesses reported](#) being affected by price increases in a variety of areas.

Factors Causing Businesses to Consider Price Increases

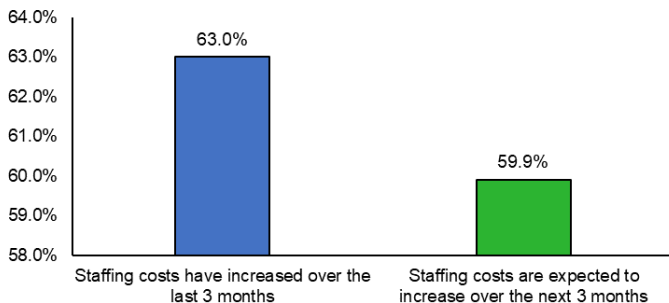
16 May- 29 May



[Current and future costs of staff](#) has increased in recent months and is expected to continue in the next 3 months, putting additional pressure on recruiting businesses.

Current and Future Expectations of Staffing Costs

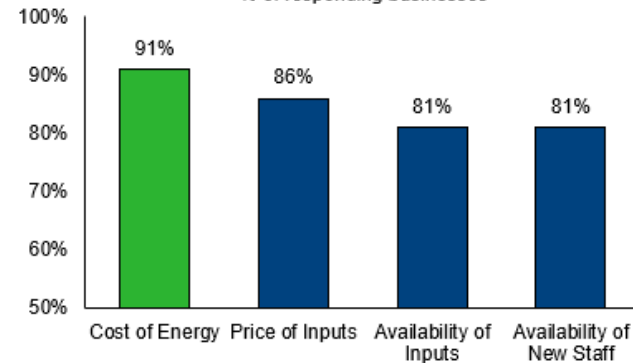
19 April- 1 May 2022



The cost of energy has become the [most common concern](#) for Scottish businesses in an increasingly challenging environment.

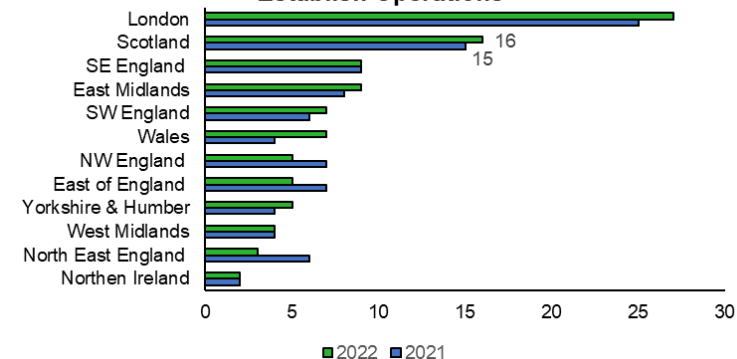
Most Common Concerns Among Businesses

% of responding businesses



Scotland is the 2nd [most desirable location](#) for inward investment in the UK, with 122 investments in 2021, up 14%. It is also considered the 2nd most attractive investment destination for 2022.

UK Region Perceived as Most Attractive to Establish Operations



RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

FORWARD LOOK

Feedback from Scottish Enterprise Customers

SUMMARY

Workforce

- **Staff shortages** and **recruitment challenges** continue across a range of sectors e.g. hospitality/tourism, airports, transport logistics, care sector, engineers. This is increasing **competition** for workers.
- Businesses are offering “**golden hellos**” to recruit and retain staff.
- Offering **homeworking** is enabling businesses to target a wider global talent pool.
- Labour shortages in **tourism/hospitality** will be a particular challenge as demand increases with the summer visitor season starting. This may result in periods of closure or restricted opening hours.
- Businesses highlight a key reason for recruitment difficulties in **rural areas** is a shortage of **affordable homes** and poor **transport links** - often businesses have to put on transport for staff working shifts.

Workplace

- **COVID** remains a concern for manufacturing companies, with many still running split shifts.
- As a result of hybrid working, some businesses are **reducing their office space**.

Real Estate

- The last 12 months have been challenging for the commercial real estate sector, especially for landlords with **retail/hospitality premises** that have been impacted by COVID restrictions.
- For **out-of-town retail property**, change-of-use is becoming more frequent, with examples of large retail units being converted into “last mile” delivery hubs for online retailers.

Finance

- **Cashflow issues** are emerging for some businesses now that COVID-19 related support and protection measures have unwound and payment holidays end.
- As prices rise, businesses are looking at their **input costs** and refreshing contracts where possible - in many cases they have had to **absorb price increases** as they cannot always pass them onto customers.

RECENT
ECONOMIC
DATA

CURRENT
BUSINESS
SENTIMENT

FORWARD
LOOK

Energy prices, supply costs and supply chains

- The rising cost of energy has become a **key concern** for Scottish businesses who (unlike households) do not enjoy the protection of an energy price cap.
- Many **larger businesses remain protected** for now by fixed price contracts or energy price hedging, but a growing proportion are being affected by price increases either directly or indirectly through suppliers.
- To date, impacts on businesses remain limited as many first try to pass on increased costs by raising their own prices - however, **greater impact is likely** as cashflow and profits deteriorate.
- Businesses in **energy-intensive sectors (such as manufacturing and construction) have been impacted the most so far**, as have been **smaller businesses** who are less likely to have fixed price energy/energy price hedging contracts in place.
- **Food manufacturers** are also particularly heavily impacted as their industry is energy-intensive AND operates on low margins with supermarkets often unwilling to negotiate on agreed contracts.
- Some businesses report energy costs have risen by **as much as 400%** in recent months.

- **Shipping costs** have increased and, in some cases, shipping by sea is taking longer due to delays (congestion at ports, disruptions due to lockdowns). As a result, some businesses are considering transporting goods by air.
- **Supply chain disruption** is becoming an increasing challenge for the **construction sector**. Materials costs have increased significantly, there are shortages of some materials (e.g. steel and concrete) and, overall, margins are being squeezed.
- **Some contracts are being put on hold by** businesses that cannot get materials (e.g. engineering parts), particularly supplies from China.
- **Agriculture** businesses report issues with sourcing as well as the cost of **fertiliser** (increased by 300%), and agrichemicals.
- The disruption to **wheat, grain and corn supplies** is also likely to impact some **by-products** such as **corn syrup**. As an alternative, manufacturers are buying **sugar**, which is in turn becoming more expensive and that could impact large sections of food market across the UK.

Sectors

- There has been a rise in business insolvency cases, particularly in **travel, retail, hospitality, leisure, energy and construction** sectors. The pressure of rising energy prices, inflation, the cost of living and overtrading are key risk factors.

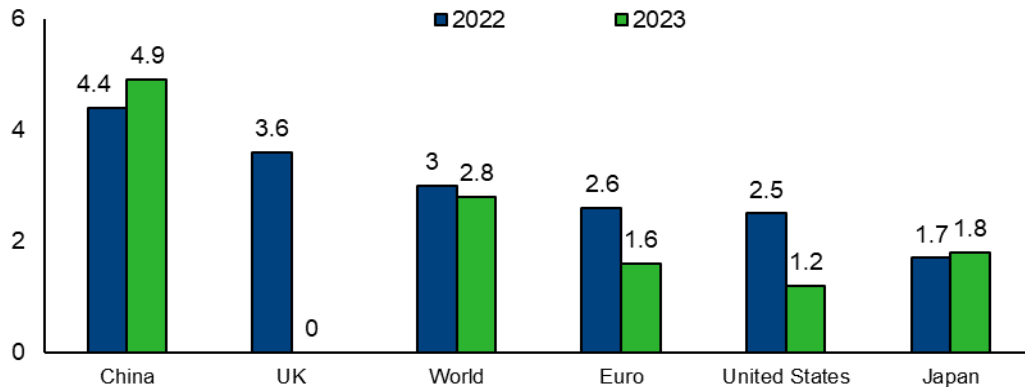
Economic Forecasts

Global Forecasts

The [OECD](#) has significantly downgraded its latest 2022 global growth forecasts **from 4.5% (in December 2021) to 3%**, due to the war in Ukraine slowing the recovery from COVID-19 and exacerbating **the rising price of energy, food and other commodities**.

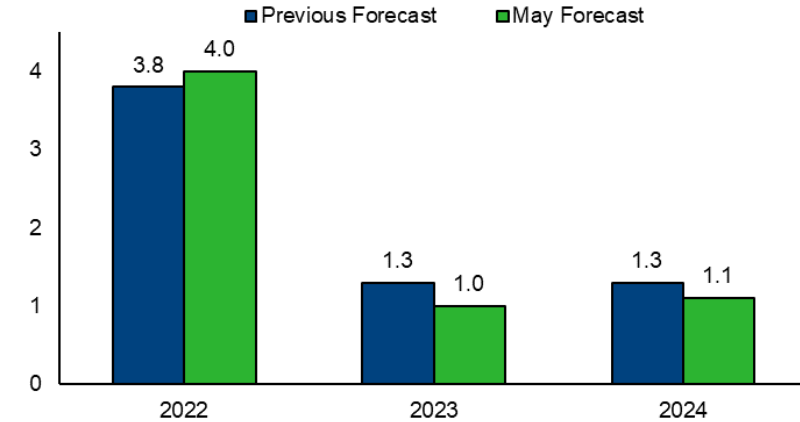
Growth in the UK for 2023 is expected to **be the lowest of all OECD countries (with the exception of Russia)** with high inflation, rising interest rates and increasing taxes all putting pressure on UK consumers and businesses.

June 2022 OECD GDP Growth Forecasts (%)



Similarly, the [World Bank](#) has also cut its forecast for **global growth** in 2022 by 1.2pp to **2.9%**, and has warned that the global economy could tip into 1970s stagflation over the next few years.

Scottish Fiscal Commission GDP Growth Forecasts (%)



Scottish Forecasts

The [Scottish Fiscal Commission](#) expects growth of **4% over 2022 followed by a drop to 1% in 2023 and 1.1% in 2024**. Growth is expected to remain around the 1% level up to 2027. The Commission cites the **rise in inflation combined with recent tax increases** as major factors for slower growth – pulling down household incomes and consumer spending power.

A similar fall in growth is forecast by the [Fraser of Allander Institute](#) with expectations of 3.5% and 1.5% growth over 2022 and 2023.