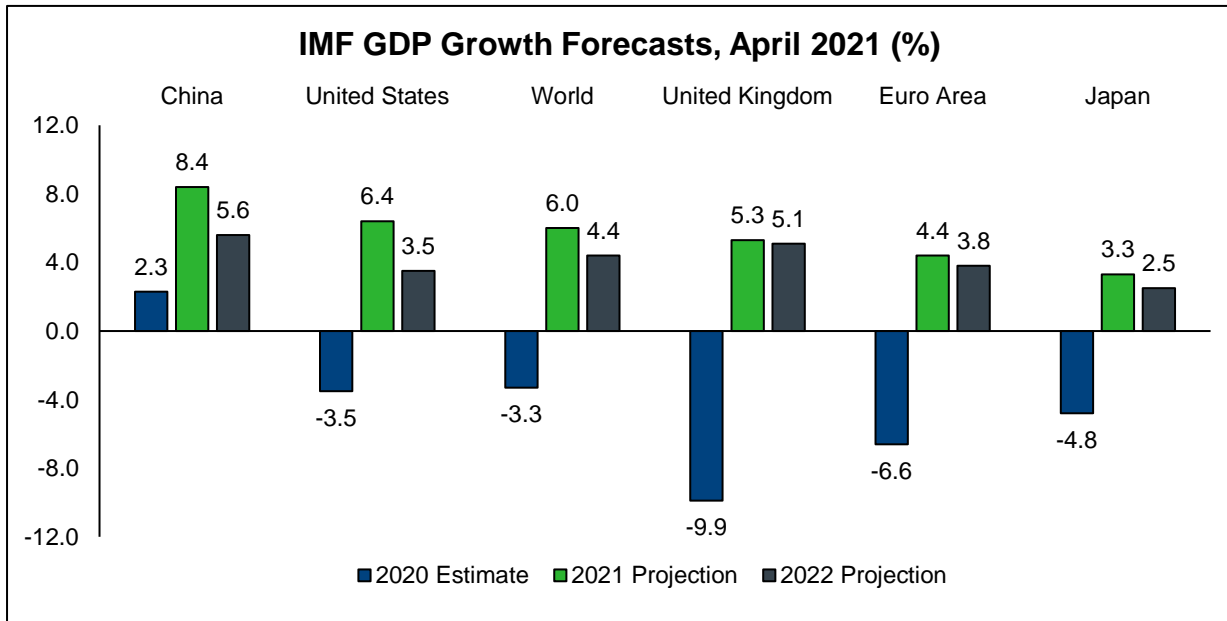


Economic Commentary

April 2021

Global Trends

- The [IMF](#) and the [OECD](#) have **upgraded their economic forecasts**, highlighting the impacts of coronavirus vaccine rollouts and ongoing government stimulus as **significant boosts to expected growth**. The outlook for the US, the world's largest economy is, in particular, far more positive.
- The IMF forecasts global GDP growth of 6% in 2021; the OECD forecasts 5.6%.**
- Both organisations suggest growth will be relatively subdued in the first quarter of 2021 due to ongoing restrictions, but **activity will rise** from Q2 onwards as vaccination programmes expand.



Source: IMF World Economic Outlook, April 2021

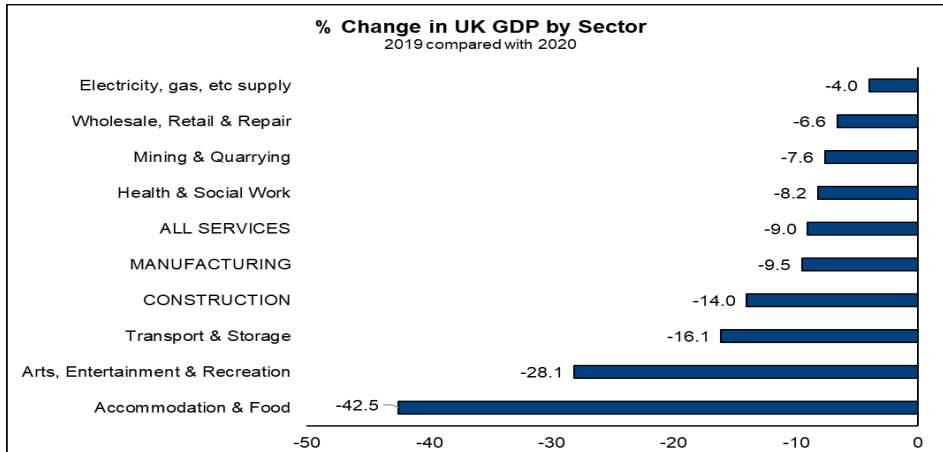
- Although most countries have seen an upward forecast revision in growth forecasts a **significant degree of variance in recovery is still expected**.
- Growth is expected to be strongest in **China**, where a strong recovery began in 2020.
- The **US is also expected to post strong growth** reflecting significant fiscal stimulus and faster than expected vaccine uptakes; it is expected this will also have a positive impact on the US's trading partners and spread through supply chains.

OECD & IMF GDP Forecasts for the UK		
	OECD	IMF
2020	-9.9	-9.9
2021	5.1	5.3
2022	4.7	5.1

- 2021 forecasts for the **UK** and the **Euro Area** were also revised upwards with the UK now expected to grow by over 5% in 2021. Again, these revisions are predominantly the result of accelerated vaccine deployment and are anticipated in spite of the lockdown in the first quarter.

UK Trends

- UK GDP growth **slowed to 1.0% in Q4 2020**, following a 16.1% expansion in Q3. Overall, GDP contracted **9.9% in 2020**, the largest annual fall on record.
- All UK sectors saw reduced output, with the **Accommodation and Food** sector hardest hit (43% contraction).
- The latest monthly figures show that the **UK economy grew by 0.4% in February**, following a contraction of 2.2% in January.



Source: ONS

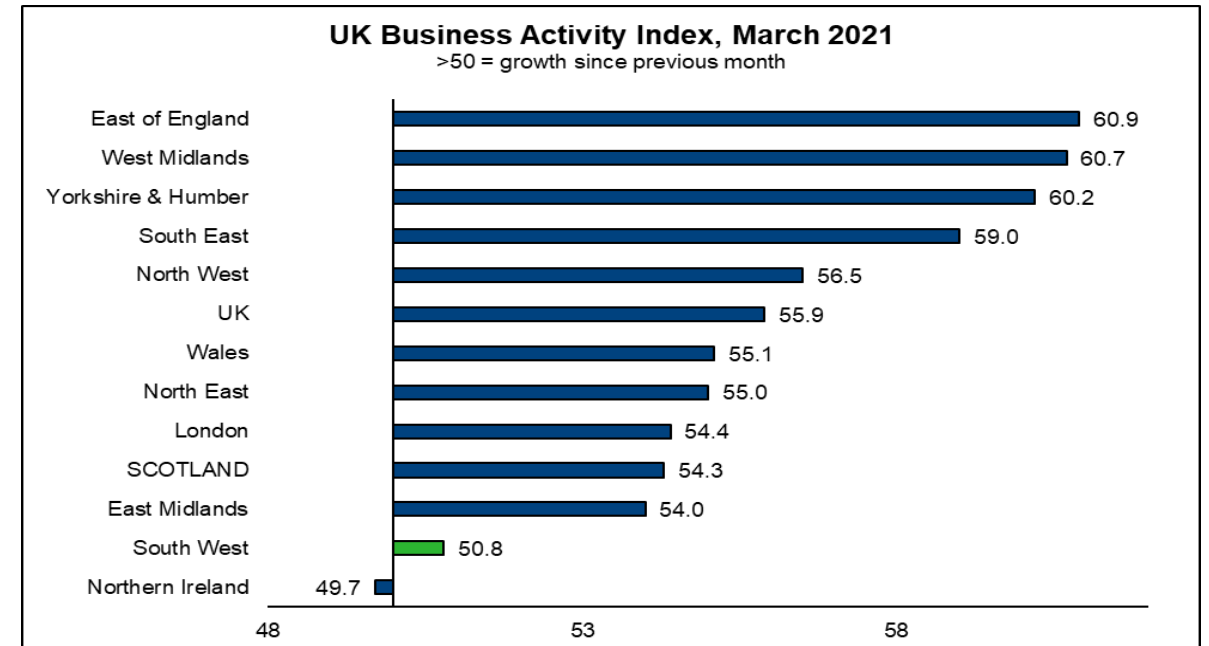
- UK growth forecasts by [KPMG](#) suggest **growth of 4.6% for 2021** and 5.6% for 2022. These projections account for both the Q1 lockdown and the vaccine roll-out and suggest strong UK growth from Q2 2020.
- The **UK unemployment rate** was 4.9% between December 2020 and February 2021, compared with a pre-pandemic rate of around 4%. The low rate is likely impacted by the furlough scheme.

UK business surveys also point to a rebound in business activity in March with increased customer demand from lockdown easing.

The [RBS/NatWest Regional Business Activity Index](#) for March reported a **broad-based increase in business activity** across the whole of the UK with the exception of Northern Ireland.

Inflows of **new work** in Scotland were stable although most other nations and regions saw increases.

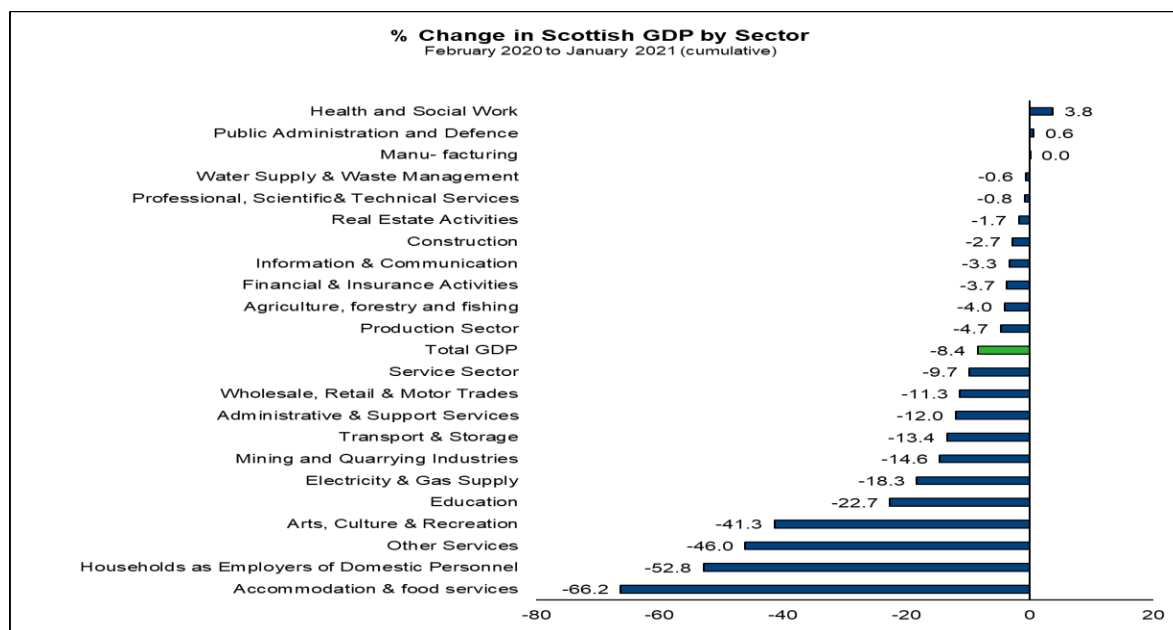
Moreover, in contrast to all other UK regions apart from Wales, **employment levels in Scotland continued to fall**.



Source: NatWest, IHS Markit

Scottish Trends

- **Over Q4 2020, Scottish GDP rose by 2%** after a rise of 16% in Q3. This was above the UK average of 1%.
- The **latest monthly Scottish Government GDP data** show that the Scottish economy **contracted by 2.3% in January**; with contractions also for November and December Scottish output remains **8.4% below its February 2020 level**.
- Significant **sectoral differences remain** in Scottish output levels.

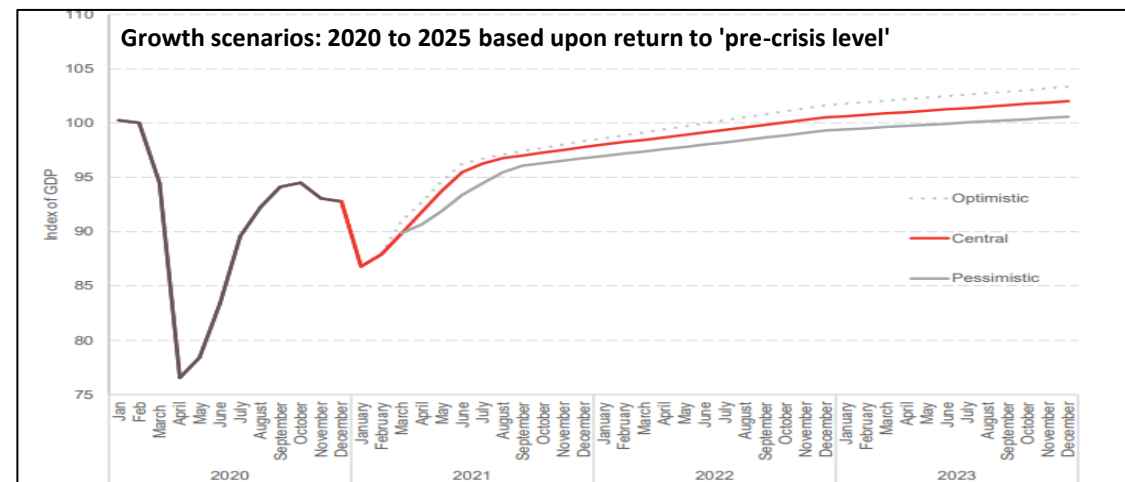


Source: Scottish Government

- **Accommodation and Food Services'** output remains 66% below its pre-pandemic level.

The latest [Fraser of Allander \(FAI\) Commentary](#) provides 3 growth forecasts for the **Scottish economy depending on the speed of recovery**:

- Growth of 4.2% in 2021 and 5.9% in 2022 under an optimistic scenario (recovery to pre-crisis level by summer 2022).
- **Growth of 3.6% in 2021 and 5.6% in 2022 under a central scenario**, (recovery by Autumn 2022).
- Growth of 2.4% in 2021 and 5.5% in 2022 under a pessimistic scenario (recovery by Summer 2023).
- FAI emphasise that the immediate future of the Scottish economy remains **extremely uncertain**, particularly once the furlough schemes ends in September.
- It also notes the **very varied outlook across sectors** and the dependency on the speed of vaccine roll-outs.

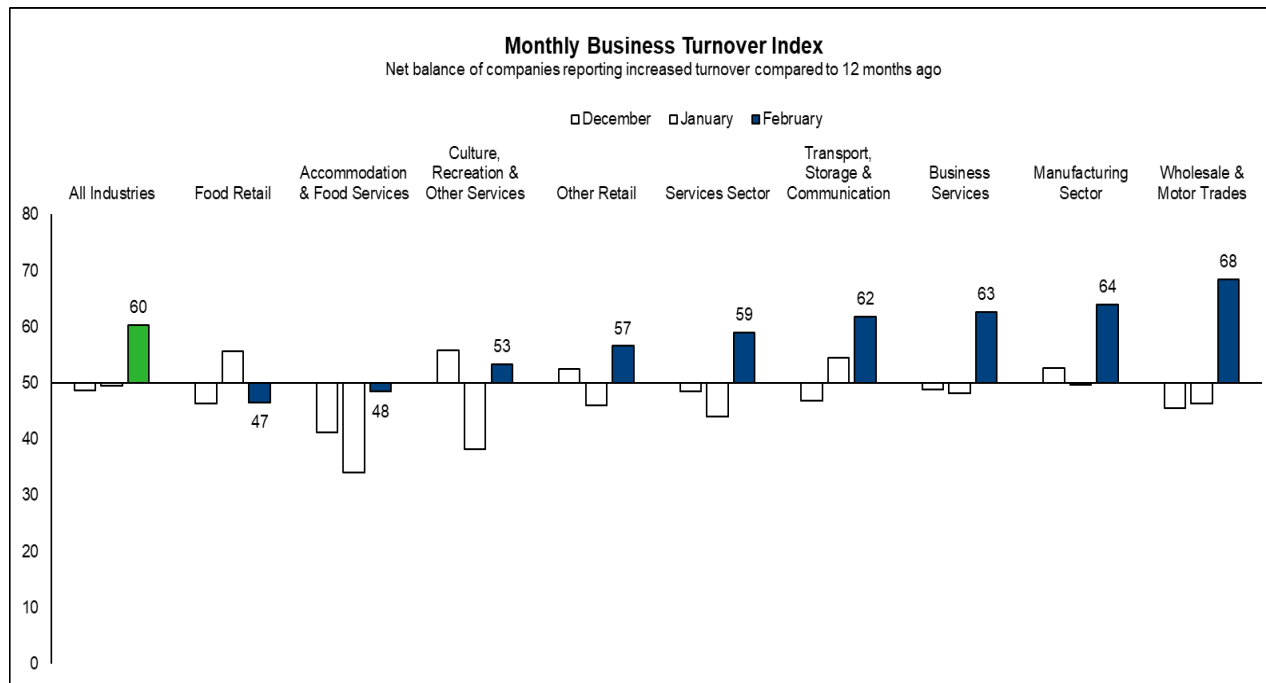


Source: Fraser of Allander Economic Commentary March 2021

Scottish Trends

The [Scottish Monthly Business Turnover Index](#) is an indicator of business activity. Values below 50 indicate that more businesses are showing decreased turnover than increased. Key points for **February** are:

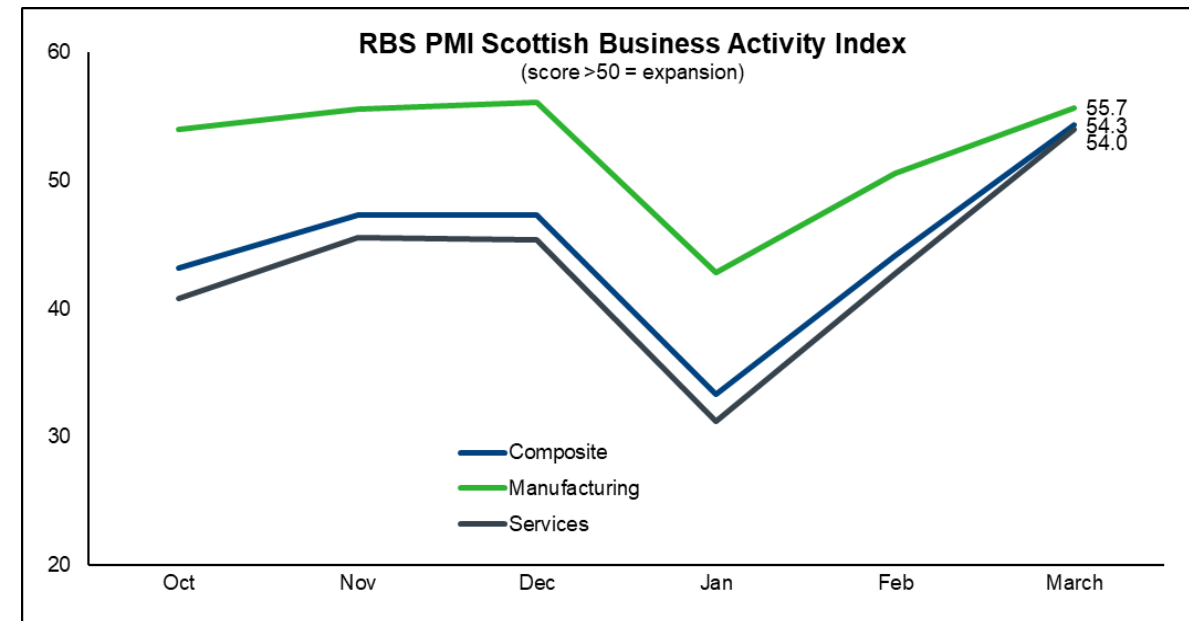
- Compared to **the previous month**, the 'all industries' turnover overall index was 60.3 (i.e. more companies **reporting increasing sales** than decreasing). This was the first time since November 2020 the index has been above 50.
- However, compared to **12 months ago**, the index was 39 - most companies still **reporting lower sales than last year**. Turnover was down in all industry sectors except for Food Retail.



Source: Scottish Government

The [Royal Bank of Scotland Purchasing Managers' Index \(PMI\)](#) for March showed Scottish private sector activity rising for the first time since September 2020.

- **Employment levels fell** again but at the slowest rate since February 2020. Job losses were attributed mainly to the non-replacement of voluntary leavers.
- **Business confidence rose to the highest on record (since 2012)** on the back of the vaccine rollout and hopes of fewer restrictions.
- Scottish **service providers** registered a higher confidence level than manufacturers in March, despite manufacturing activity being higher.

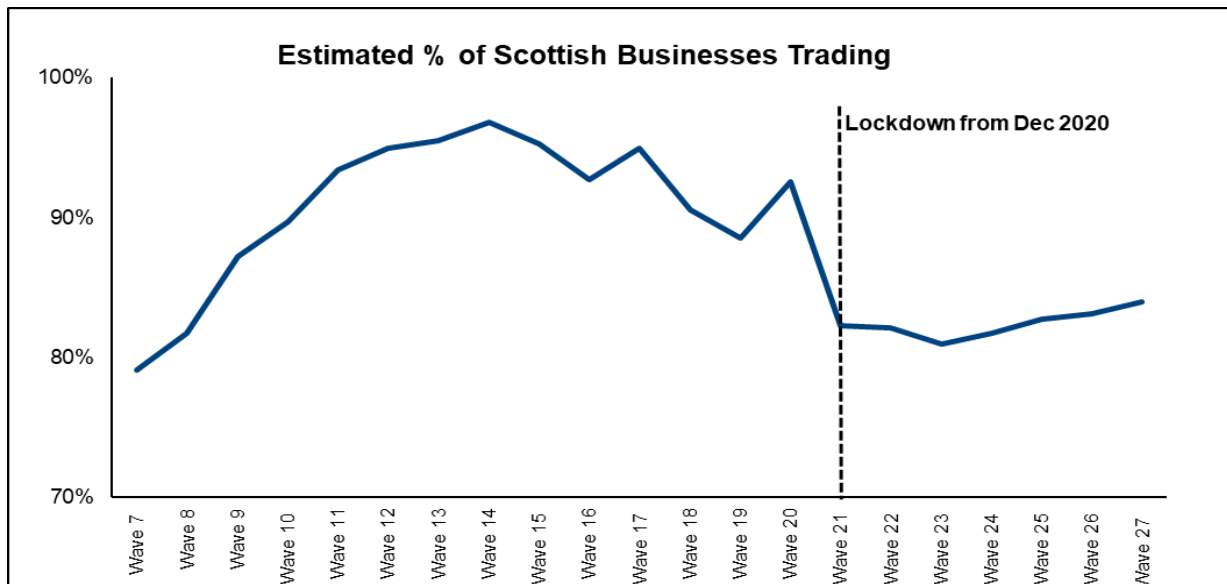


Source: RBS, IHS Markit

Scottish Trends

The latest [Scottish Government analysis](#) of ONS BICS survey data for the period **22nd March to 4th April 2021** show:

- **84%** of Scottish businesses were **trading**.



Source: Scottish Government

- The **Accommodation & Food Services** and **Arts, Entertainment & Recreation** industries had the lowest shares of businesses trading: 35% and 51%, respectively.
- **25%** of Scottish businesses had **no or less than 3 months of cash reserves**.
- **58%** were **highly confident** their businesses will survive the next 3 months.

Between **8th March** and **4th April 2021**:

- **21%** of the Scottish private sector workforce was on **furlough leave**.
- The **Arts, Entertainment & Recreation** and **Accommodation & Food Services** industries had the highest shares of their workforce on furlough leave: 67% and 65%, respectively
- **38%** of Scottish trading businesses experienced **reduced turnover**. **11%** reported turnover more than halved.
- **Accommodation & Food Services** (79%) had more than **half** of trading businesses experiencing a **decrease in turnover**
- **34%** of Scottish exporters trading were **exporting less** than normal.
- [Results for the UK](#) are **broadly in line with Scotland**, however fewer Scottish businesses have reported having less than 3 months of cash reserves.

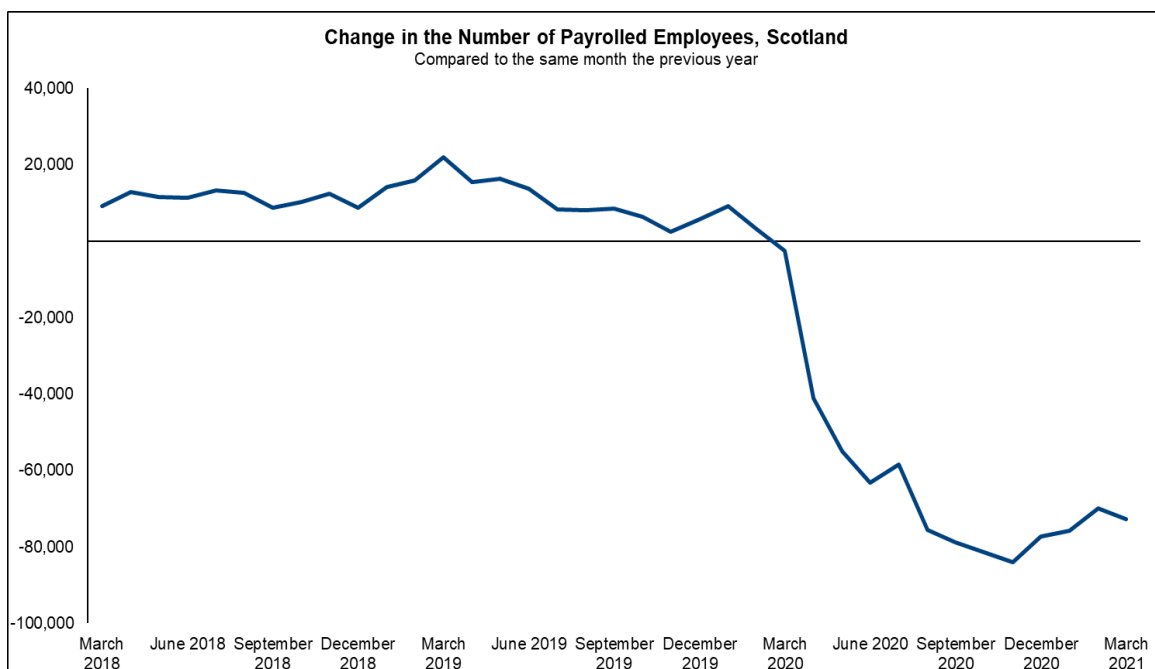
Other business surveys suggest that although sentiment might be improving, the **recovery in Scotland remains fragile** and below many other parts of the UK:

- The [RBS Report on Jobs](#) for March showed signs of **recovery in hiring activity** in Scotland with permanent staff appointments increasing at the highest rate since late 2018.
- **Business confidence amongst Scottish companies rose sharply** along with most other regions of the UK in March according to the [Lloyds Business Barometer](#), however, it remained negative overall and among the lowest in the UK.

Scottish Trends

Statistics from [HMRC and ONS](#) highlight how the number of **payrolled employees** in Scotland has fallen since the onset of the pandemic:

- Almost **73,000 fewer people** were employed in March 2021 than March 2020, with 1,100 less between February and March this year.
- **Scotland recorded the second largest decline in employment over the year (-3.1%)** of the 12 UK nations and regions (only London saw a bigger fall) - the average drop across the UK was 2.8%.

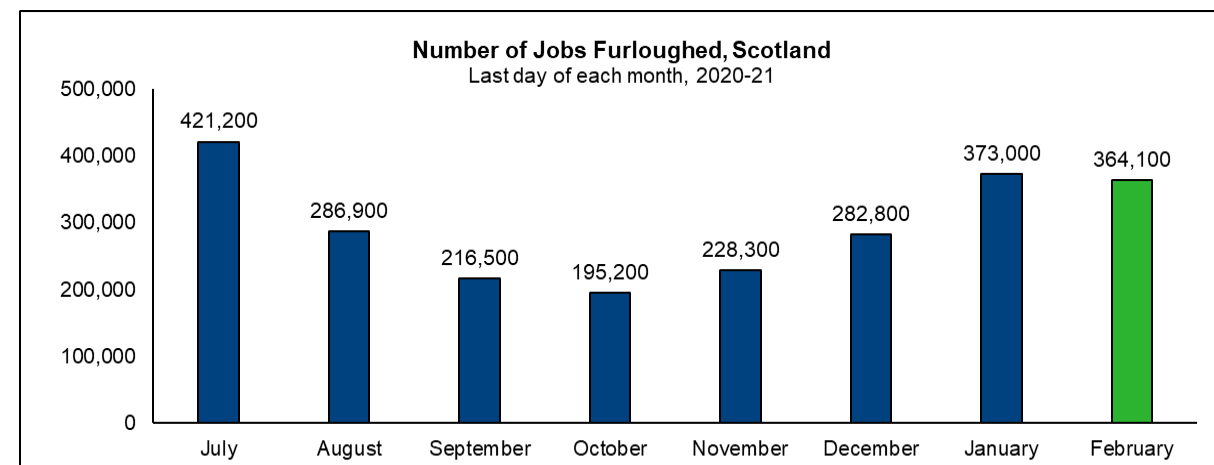


Source: ONS

The latest [labour market statistics](#) for Scotland show that:

- Scotland's unemployment rate **increased by 0.6 percentage points over the year to February** to 4.4% (4.9% in the UK) but remained constant when compared to the previous quarter.
- The total **number of unemployed people increased by 18,000 over the year** but fell by less than 1,000 over the quarter. The unemployment rate for both men and women was 4.4% over the quarter.
- **Youth unemployment increased by 5.2 pp** over 2020 to a rate of 13.5%.
- The unemployment claimant count, which is a measure of people claiming benefits for unemployment-related purposes, **increased by 99,100 (88%)** in the year to March 2021.

Latest [data](#) for Scotland on the use of the Coronavirus Job Retention Scheme show **364,100 jobs** were furloughed in Scotland on 28th February - a **87% increase** from 31st October when the scheme was originally due to end.

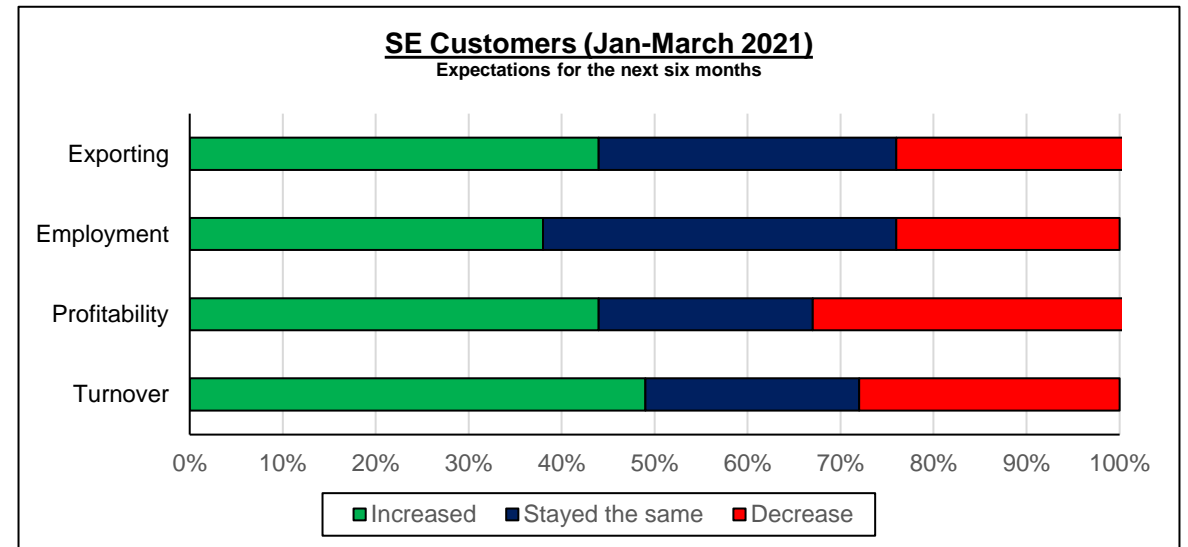
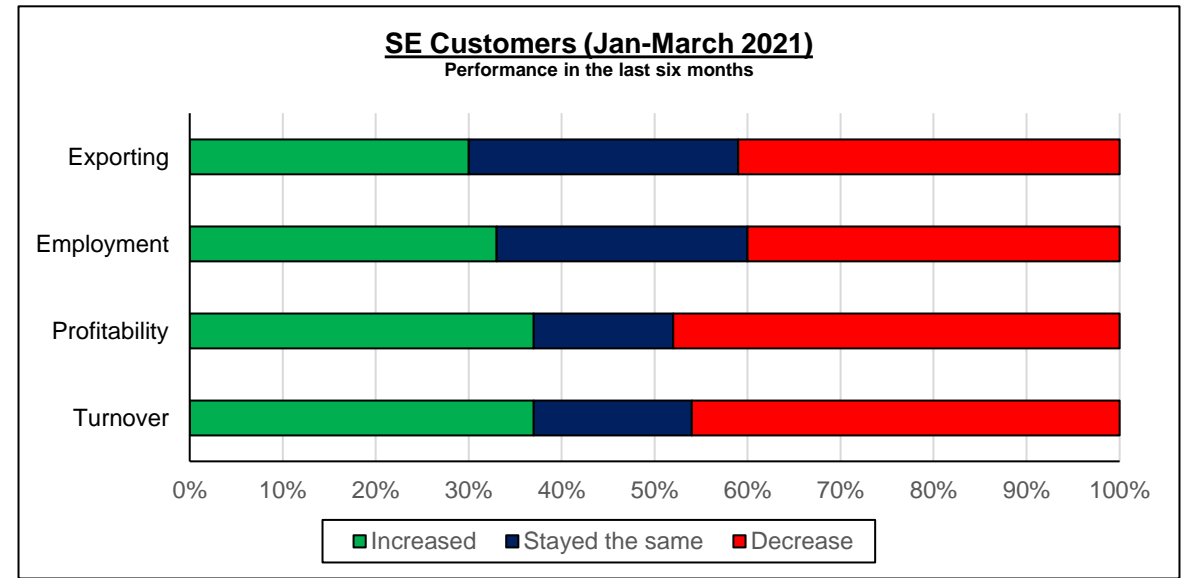


Sources: ONS, Scottish Government, HMRC

Scottish Trends

The Scottish Enterprise Economic Trends Survey provides insight on how **Scottish Enterprise Customers** are responding to the current economic environment. Between January and March 2021 (130 businesses surveyed):

- **46%** reported a decline in turnover and **48%** reported a decline in profitability in the previous 6 months.
- **41%** reported a decline in exporting and **40%** reported a decline in employment.
- **44%** expect their turnover to increase **over the next 6 months**, while **38%** expect to see a rebound in employment – this perhaps reflects an increase in optimism as the country moves out of lockdown in coming months.
- **21%** think the **Scottish economy will grow** over the next 6 months and **31%** think it will **weaken**, the most common reasons for the weakening cited are:
 - the impact of COVID-19 (56%)
 - uncertainty over Scotland’s future relationship with the rest of the UK (21%)
 - uncertainty over the UK’s future relationship with the EU (17%)
- **48%** are **uncertain** about the prospects of the Scottish economy. There has been a consistent rise in uncertainty since Autumn 2020.



Source: Scottish Enterprise Economic Trends Survey

Overall Sentiment

- The biggest **concern for businesses remains COVID-19 with** most citing ongoing restrictions as their main reason for weak performance.
- Businesses are generally **feeling more optimistic** as a result of restrictions being gradually lifted and the successful rollout of vaccines.
- There is still uncertainty and **concern around the ending of the furlough scheme** and particularly how that may impact businesses if demand is slow to recover as the economy re-opens.
- Sectors continue to be unevenly impacted with **accommodation and food being hardest hit**.

Workplace

- There are **mixed reports on the pros and cons of homeworking**. Some businesses are reporting reduced productivity while others are unaffected. Most are reviewing their workplace arrangements and **offering a more flexible model for employees for the longer term**.
- There has been an increased demand for homes that allow a **dedicated home working space**, including gardens; this could impact on house building design and construction.
- Due to the growing trend of home working, some apartment developers are **enhancing facilities within their properties** to support residents who work from home – e.g. communal remote working spaces with high-speed internet access.

- With the roll-out of the vaccine and restrictions being slowly lifted, **businesses are making plans for staff to return to offices**. A particular focus will be health and welfare of staff and visitors, as well as site visits, working in client's offices, etc.
- However, as a result of home working and potential hybrid working models, businesses are continuing to **review their office space** requirements.
- The **commercial property market continues to see significant change**, disruption and exploration of different options to maximise its effectiveness. For example:
 - there is a **shortage of high quality industrial/warehouse property** in locations with good transport connectivity. As a result rents are increasing and incentives reduced – e.g. fewer rent-free periods.
 - many businesses are looking to **downsize their office spaces**.
 - **prime office stock remains in demand** (in- and out-of-town) but a probable increase in supply of 'grey space' (offices under lease but no longer required and available for occupation) to the market may add to the supply.
 - there is a **significant rise in 'out-of-town' office buildings** falling vacant and there is some evidence that these offices are being used for the more "technical/cleaner" industrial uses.

Workforce

- Demand remains high for **IT and digital skilled staff**.
- More widely, accessing talent has been a concern for some businesses due to ongoing COVID-19 related travel restrictions. The end of **freedom of movement** as a result of Brexit is also yet to be fully felt.
- At present, many businesses are **advertising home-working roles**. However, contracts could change in terms of work location (e.g. office-based) in the future depending on business needs.
- In some cases it has been difficult for employers to offer staff **guaranteed hours** due to ongoing uncertainty around trading restrictions.
- There is **no common trend for staff turnover**. Some businesses feel workers are staying for job security while others feel turnover has increased, especially for skilled, experienced workers where high demand is driving salaries higher.
- In the short term, as tourism, hospitality and related businesses reopen, a **period of training** (e.g. health & safety procedures) will be required for all staff, and clear dates for re-opening are important to allow that training to be planned. This may mean that some businesses are not able to open immediately as restrictions are lifted.
- More generally, many businesses have reported that **staff confidence** has become an issue as workers return, so are holding back-to-work retraining sessions.
- Many businesses are investing in tools and resources to connect more effectively with employees virtually in order to **improve staff wellbeing**.

- Many businesses are also retraining workers to perform **multiple roles** so they can operate with fewer staff, at least initially.
- Businesses **expect to lose staff as they reopen** (as they normally would) with some workers that would ordinarily have left remaining on furlough throughout.

International and Trade

- Generally, businesses are **adapting to the new trade environment** and while some border disruption remains a challenge, the overall environment has improved since January.
- Exporting businesses are, in the main, increasingly **able to export as normal with fewer disruptions** – although some sectors still face significant issues – e.g. Food and Drink.
- Some Scottish businesses are, however, reporting a reluctance from EU customers to purchase from the UK due to **perceived increased barriers** post-Brexit – e.g. additional paperwork.
- Businesses are **reassessing their supply chains** and looking for UK-based suppliers; however, problems are emerging where appropriate suppliers do not exist in the UK or have closed due to COVID-19.
- There is increasing evidence of Scottish businesses opening or actively exploring **setting-up facilities in Europe** to avoid the costs of re-exporting goods that are manufactured overseas, and also to comply with EU Regulations.
- The **full impact of Brexit may still be to come** as some businesses (with long-dated products) increased exports in advance of the end of the transition period.