

Economic Commentary

June 2023

SUMMARY

- Recent business surveys showed a **sustained increase in private sector output** across most major economies in May. The upturn was primarily **driven by the services sector** whilst growth in the manufacturing sector was much more subdued.
- Global growth is expected to be **2.7% in 2023, increasing slightly to a 'still subdued' +2.9% in 2024**. Performance of emerging/developing economies is forecast to be far stronger than advanced economies. The **UK is expected to be one of the weakest performing OECD economies**, growing by just 0.3% this year and 1% in 2024.

RECENT ECONOMIC DATA

- **UK GDP grew by 0.2% in April**, following a contraction of 0.3% in March. In the three months to April, the UK economy grew by just 0.1%.
- More recent business survey data showed **UK business activity increasing** in nearly all nations and regions in May, **but growth eased**, particularly in Scotland. Business confidence remained positive.
- In April, consumer price inflation **slowed slightly but remained high at 8.7%**, whilst producer input price inflation fell to 5.4%, continuing a downward trend but still above the longer-term average.

CURRENT BUSINESS SENTIMENT

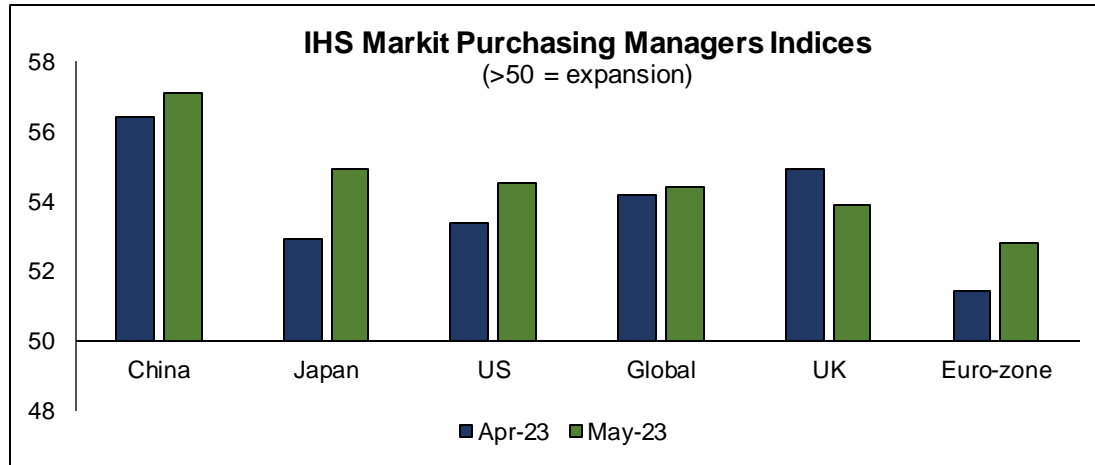
- Scotland's onshore GDP **grew by 0.4% over Q1 2023** (vs +0.1% across the UK as a whole). Over the quarter however, the **rate of growth eased month-on-month**.
- Just over a quarter of Scottish businesses reported an increase in turnover in April (vs March), **while 25% reported a decrease**. Over a third expect business performance to increase over the next year, a slightly lower proportion than in recent months.
- Scotland's **unemployment rate remains low** (3.1% in April), while the **employment rate fell** to 74.6% and **economic inactivity rate increased** to 22.9%. Over a third of Scottish businesses are reporting **worker shortages**.

FORWARD LOOK

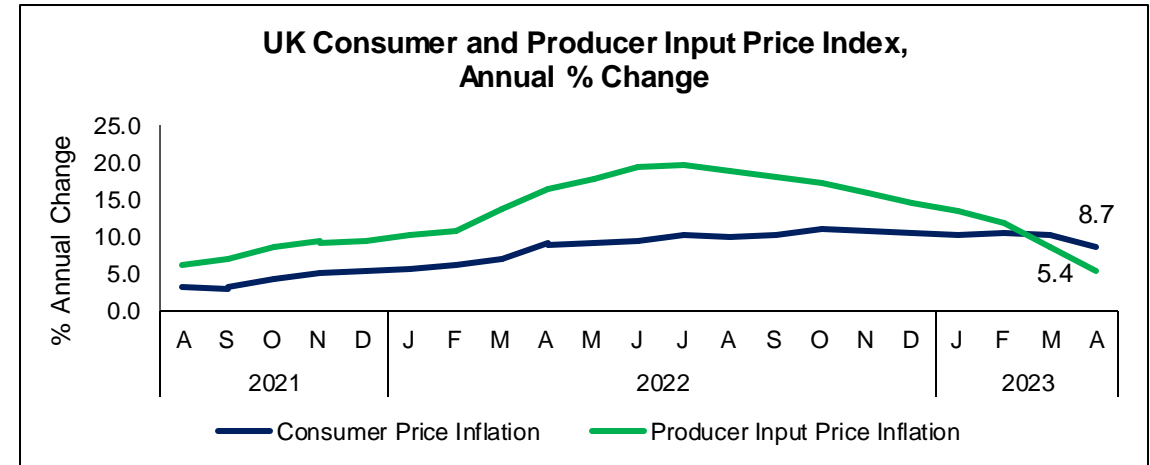
- Intelligence from SE customers suggests **optimism is rising**, as are intentions to **invest and grow**. However, **skills shortages** continue to be a key challenge.
- The Scottish Fiscal Commission are **forecasting economic growth of 0.2% for 2023**. Performance is expected to be subdued over the longer term as inflation outpaces wages, putting pressure on household disposal incomes.

Global/UK

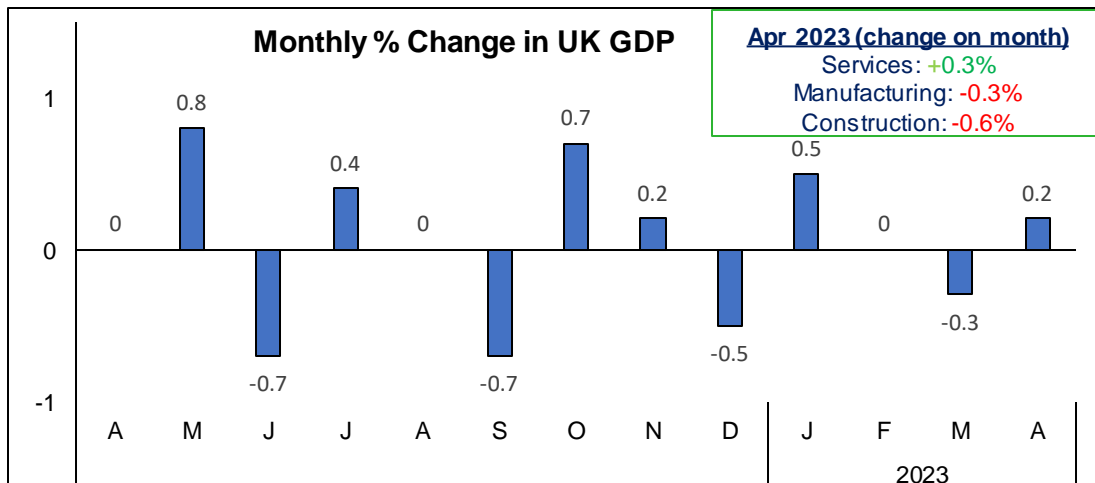
[Recent business surveys](#) indicate a sustained rise in private sector output across most major economies in May, with the exception of the UK where growth eased. Performance is primarily being driven by the services sector with manufacturing much less buoyant .



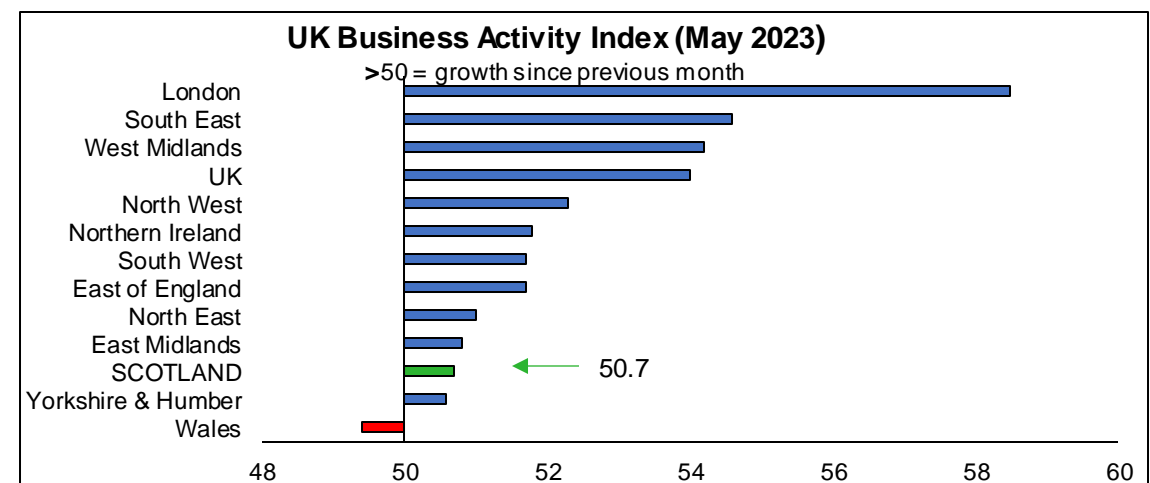
In April, [consumer price inflation](#) declined slightly but remained high at 8.7%, whilst [producer input price inflation](#) fell to 5.4%, continuing a downward trend but still above the longer-term average.



[UK GDP](#) grew by 0.2% in April, after declining 0.3% in March, driven exclusively by the service sector, particularly wholesale and retail. Looking longer term, GDP was up by just 0.1% in the three months to April.

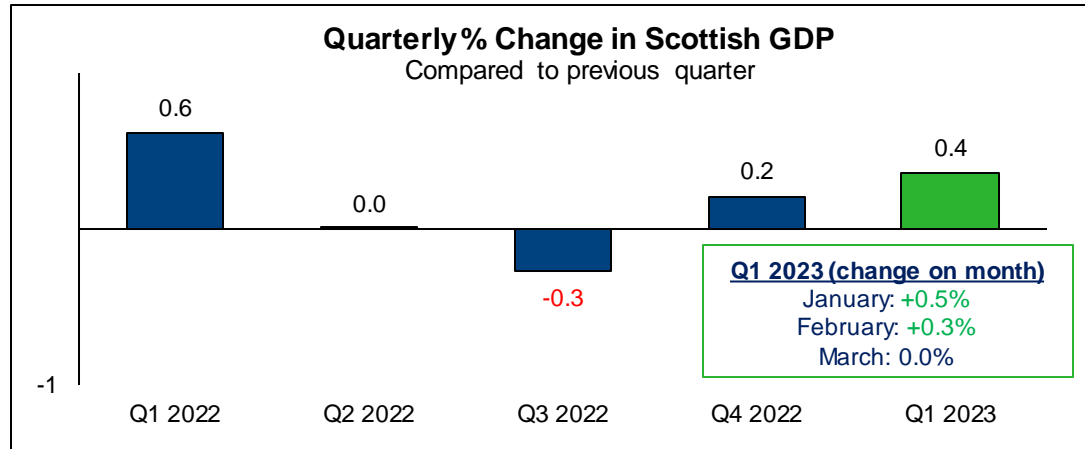


Although most UK regions and nations saw [business activity](#) increase in May, the rate of growth eased compared with April, particularly in Scotland. Business confidence, though, remained positive.

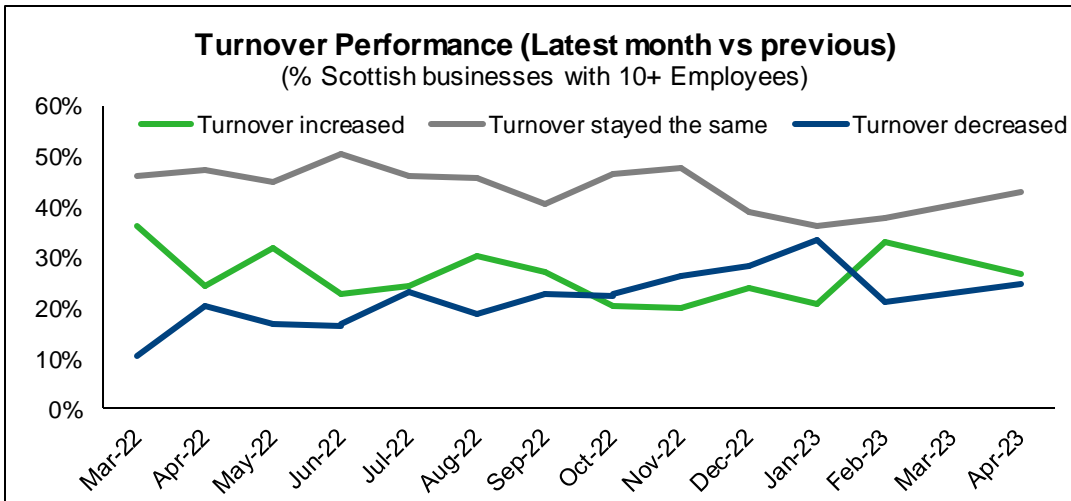


Scotland

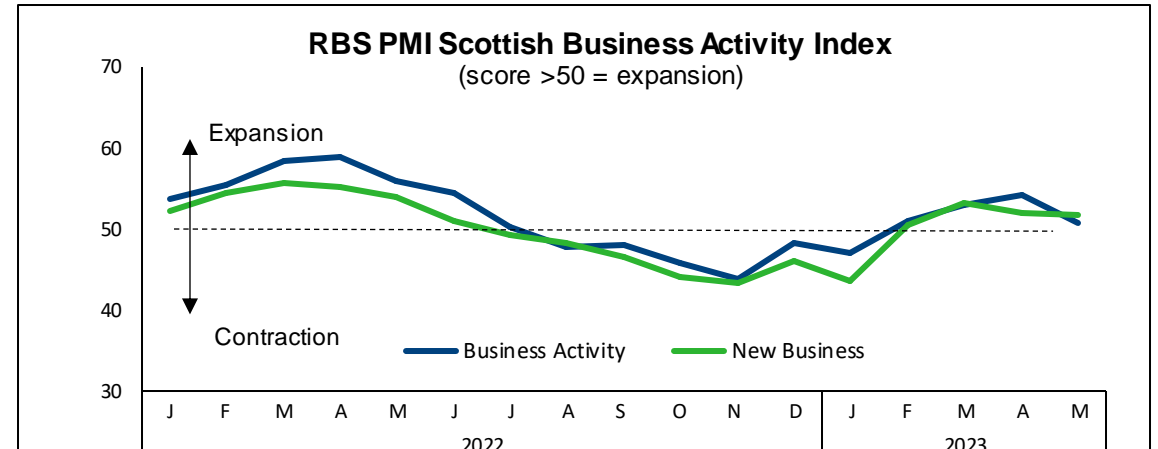
[Scotland's onshore GDP](#) grew by 0.4% over Q1 2023, compared with an increase of 0.1% across the UK. However, growth slowed [over the quarter](#) affected by a number of factors including industrial strike action and poor weather.



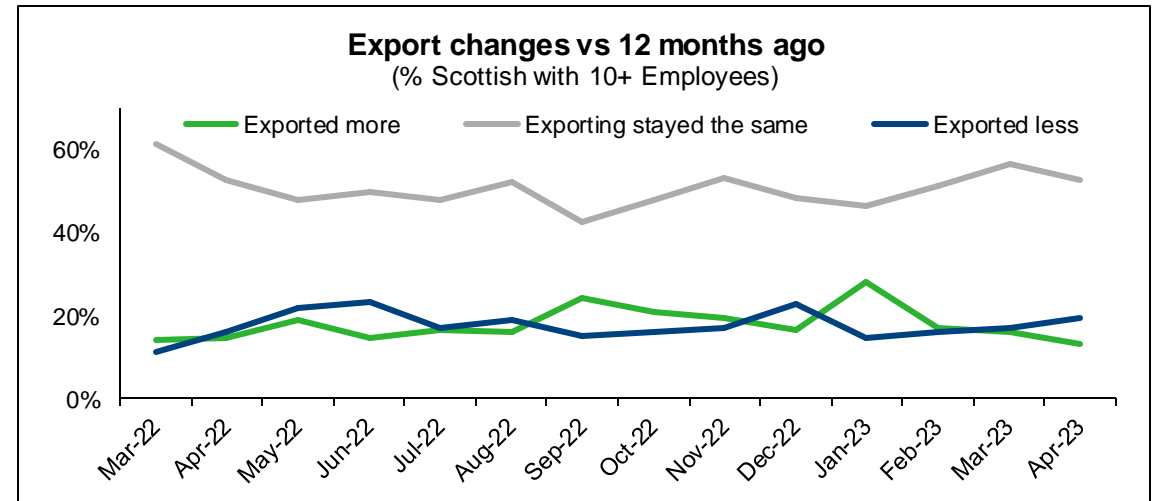
[Over a quarter of businesses](#) (27%) reported a monthly increase in turnover in April, while 25% reported a decrease. Looking ahead, 36% expect their overall performance to increase over the next year, a slightly lower proportion than in recent months.



More recent business survey data showed [private sector growth](#) slow in May, and it was weaker than the UK as a whole. Services business activity eased whilst manufacturing production declined. Looking ahead, services businesses reported growth in new business, however manufacturing new orders declined.



In April, [17% of Scottish businesses](#) had exported over the last year– a rate that has remained relatively consistent since 2021. Of those, just 13% exported more than this time last year, with 19% exporting less. Increased transportation costs, additional paperwork and custom levies are the most commonly cited export challenges.

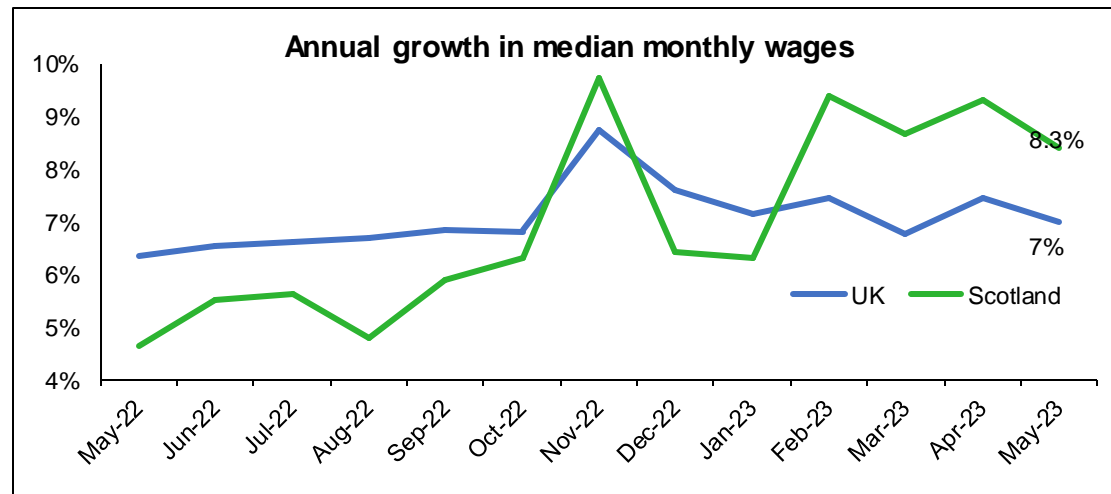


Scotland

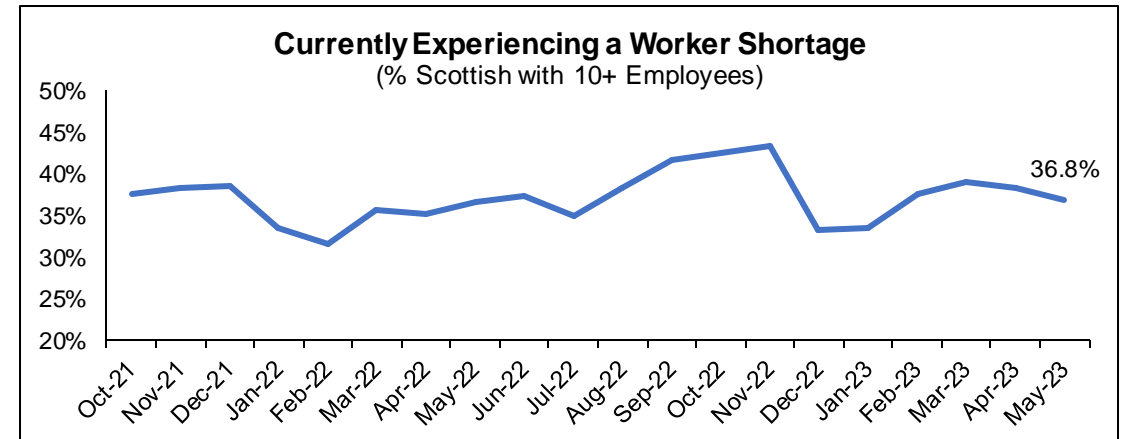
In the [labour market](#), unemployment remains low and is down 0.1 percentage points over the year. The employment rate fell by 0.9pp and is now 0.7pp below pre-pandemic levels. Economic inactivity has risen over the year by 1pp. Overall, the data suggest that the Scottish labour market is still tight.

	RATE (Feb - Apr 23)	ANNUAL CHANGE
EMPLOYMENT (aged 16-64)	74.6%	-0.9%pts
UNEMPLOYMENT (16+)	3.1%	-0.1%pts
ECONOMIC INACTIVITY (aged 16-64)	22.9%	1.0%pts

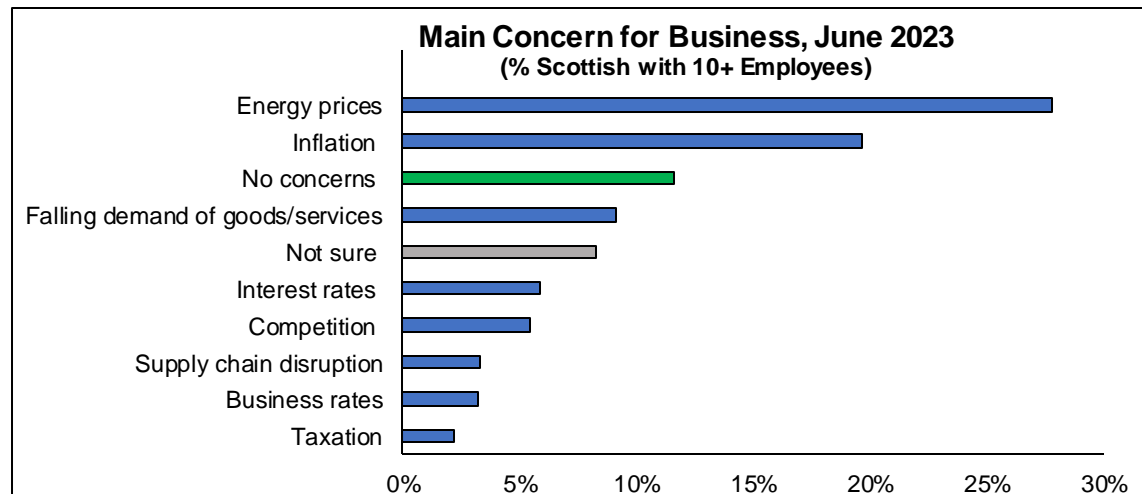
Many businesses are increasing wages to attract staff, and [annual median pay](#) growth was 8.3% in May, higher than the UK average. The level of median monthly pay for Scottish employees is also slightly higher than the UK as a whole and many other nations/regions.



With the tight labour market, businesses are continuing to report the ability to hire as a significant problem. In May, [37% were experiencing worker shortages](#) and this was particularly acute in the Construction and Accommodation & Food sectors. In response, most affected businesses ask employees to work longer hours, although a small proportion (6%) had to pause some trading.



Along with worker shortages, high costs still [remains a key issue for businesses](#), with 28% reporting energy prices as their main concern and 20% reporting inflation of goods and services as their main concern.



Feedback from Scottish Enterprise Customers

General Sentiment

- Businesses are generally feeling more **optimistic** and are looking to **invest and grow**. Many report full order books.

Labour and Skills Shortages/Jobs

- **Availability of workers** continues to be a key issue with shortages across most sectors and skills levels. Vacancies are generally taking longer to fill, and many businesses are having to **increase wages/enhance packages** to retain and attract workers.
- There are continued reports of staff poaching, and in some sectors (e.g. **food manufacturing**) there is a **high turnover of workers** who move to competitors for increased pay.
- Some businesses are still finding **attracting European workers** a challenge due to post-Brexit immigration rules, and generally stronger labour markets in European countries.
- Businesses increasingly recognise the need to **invest in training and upskill their existing workforce** as a way of retaining talent, and are promoting training/development opportunities to attract new staff. Many are using SE's workplace innovation specialists to support this.

Exports

- Businesses are keen to attend international trade shows/events in person however with the high **cost of travel** they are being more selective in what they attend.
- However, some businesses are **not** looking to export overseas and are concentrating on the **domestic market** due to strong demand.

Supply Chain

- For food manufacturers and processors, **raw material price rises** continue to be significant.
- **High transportation costs** are pushing up the prices of imports, impacting many sectors. Some UK businesses that normally source from overseas are now able to **buy cheaper domestically**, and this is creating new opportunities for Scottish businesses.
- Some businesses have had to **pause** and/or **redesign** growth projects due to increased input costs (and/or shortages of staff).
- **Customer payment terms** for some contracts have increased from 30 days to 45 days, and in some cases 60 days, which can impact business cash flow. This has been highlighted by food manufacturers and the oil & gas supply-chain sector.

Workplace

- Some manufacturing businesses that want to expand or move out of old or unsuitable property report **a lack of available space** to buy or rent.
- As a result, businesses in older properties need to keep paying high **maintenance costs**.

Net Zero

- Most businesses are exploring investing in Net Zero actions, but some are restricted by lack of **funds**.
- For example, many are keen to take advantage of the support available for **installing solar roof panels**. However, the investment required to upgrade building roofs can be prohibitive.
- Some businesses are also assessing their **transport fleets** with a view to investing in **electric vehicles**.

Economic Outlook

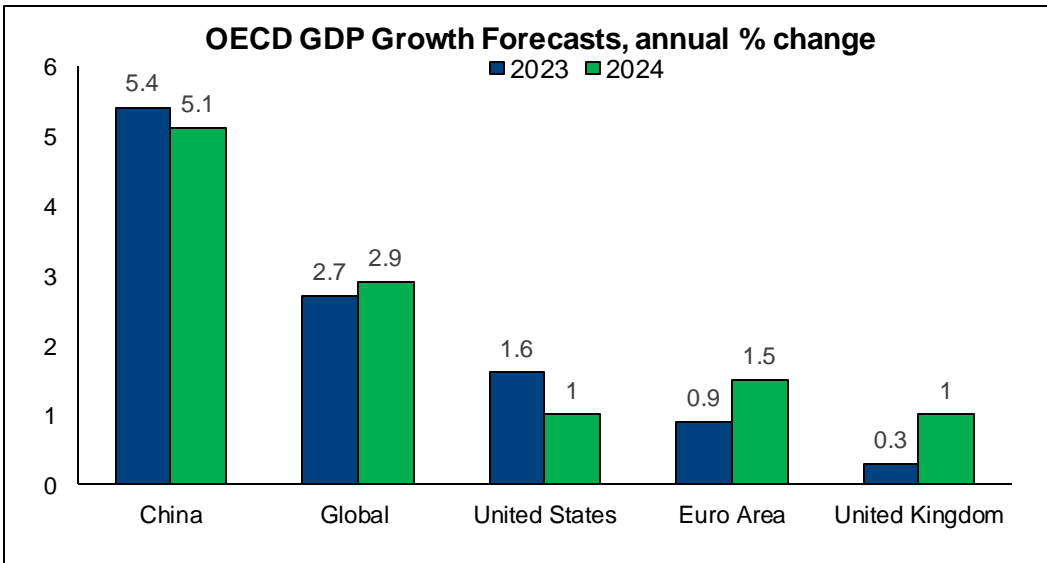
Global Forecasts

The [OECD's June Economic Outlook](#) notes that although the global economic environment has improved, the upturn remains fragile. Global growth is expected to be 2.7% in 2023, increasing slightly to a 'still subdued' 2.9% in 2024. Although lower energy prices are easing financial strains on households and businesses, core inflation remains persistently high, and rising interest rates are particularly impacting property and financial markets.

Growth in emerging/developing economies is forecast to be far stronger than advanced economies, and the UK is expected to be one of the weakest performing OECD economies, growing by just 0.3% this year and 1% in 2024.

A number of downside risks to the outlook are highlighted:

- Inflation could remain high, resulting in further interest rate rises.
- Higher interest rates could place more strain on financial markets than expected, leading to global financial volatility.
- How the war in Ukraine develops, and the impacts on global energy and food markets.



Scottish Forecasts

The [Scottish Fiscal Commission](#) are forecasting growth of just 0.2% for 2023, rising to 0.9% in 2024. These are upward revisions to their December projections due to a stronger start to the year combined with a fall in energy costs and lower expectations for inflation.

Longer term, growth is expected to be subdued due to falling living standards negatively impacting on household disposable income as inflation outpaces wages. Also, as the population ages, the Commission also point to declines in overall labour participation having a negative impact on longer term growth. This, however, may be partly offset by the 2026-28 State Pension age rise.

The SFC is also forecasting for 2023:

- Employment growth of 0.6%
- Consumer price inflation to fall to 5.4%
- Nominal average earnings to grow by 5.2%
- Productivity growth of 0.5%.

