

Economic Commentary

November 2021

All data represent most recent available as of November 19th, 2021

Economic growth slowed across most major economies in the third quarter of 2021 as supply chain disruption restricted activity and a resurgence of COVID infections in some countries dampened consumer spending.

The **UK's economic recovery** is being constrained by supply chain problems, with manufacturers unable to match the growth of service providers.

Scotland's economy is following a similar pattern of slower growth but a resilient labour market, as improving demand conditions prompt businesses to increase capacity.

Scottish businesses are generally **optimistic** as demand picks up, but some uncertainty remains.

Businesses are identifying challenges such as **recruitment difficulties** and **supply chain disruption**, while **inflationary pressures** (rising energy, staff and materials costs) are impacting virtually all businesses. Overall, businesses feel these challenges may **limit their ability** to take advantage of opportunities.

Some businesses also feel unable to pass rising costs on to customers and this may **undermine their ability to invest** in the future.

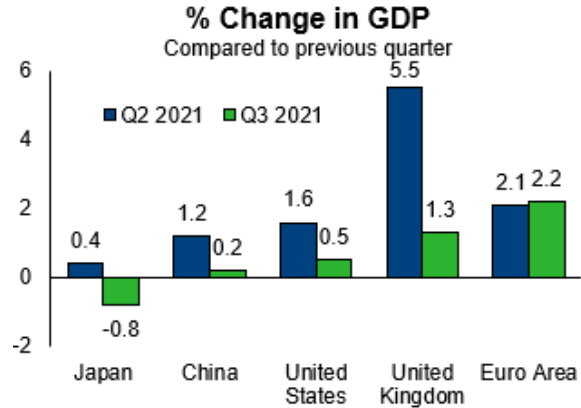
The outlook for the **global economy** has weakened slightly but remains strong, despite ongoing concerns that developing countries with limited access to COVID-19 vaccines are being left behind in the recovery.

The latest official forecast for the **UK economy** is for strong growth in 2021, a smaller increase in unemployment in the final quarter than previously anticipated, and a return to pre-pandemic levels of activity in the first quarter of 2022.

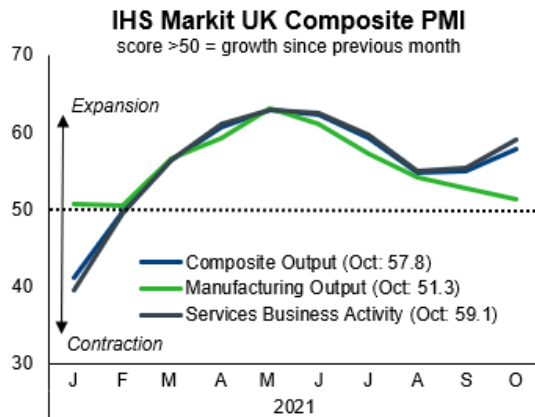
Difficulty meeting demand due to staff or materials shortages and **rising overheads** are the major headwinds facing Scottish businesses in the near term – but improved **consumer confidence** and the **reopening of key trading partners to visitors** provide opportunities to maintain momentum.

Global/UK

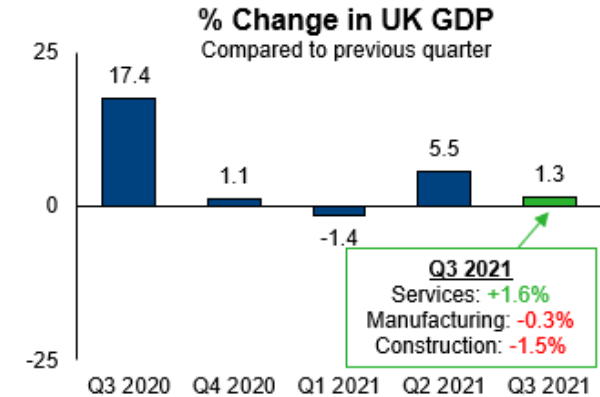
Supply chain problems and a deceleration in consumer spending saw most major economies slow in the [third quarter of 2021](#), while activity in Japan declined due to a global chip shortage.



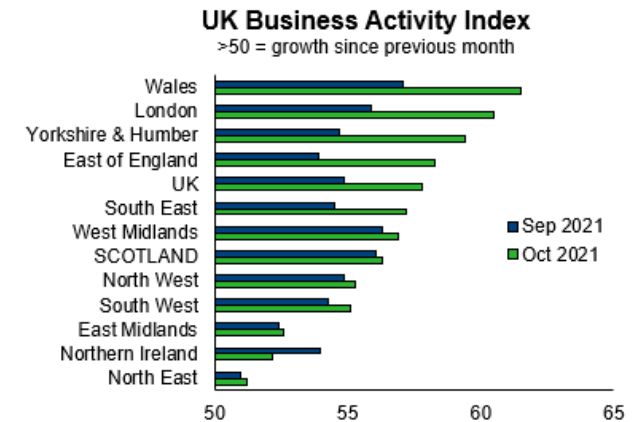
Recent [business surveys](#) confirm the slowdown in manufacturing, with production rising at the slowest pace for eight months in October.



In the UK, [weaker growth](#) was primarily a result of supply constraints due to material and staff shortages, diluting the positive impact of remaining lockdown restrictions ending in July.

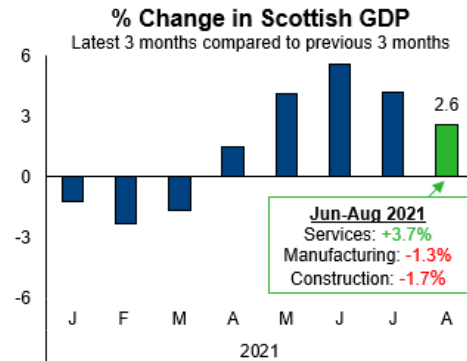


However, strong service sector momentum proved enough for most [UK regions](#) to report stronger increases in business activity than in September, although the increase in Scotland was relatively modest.

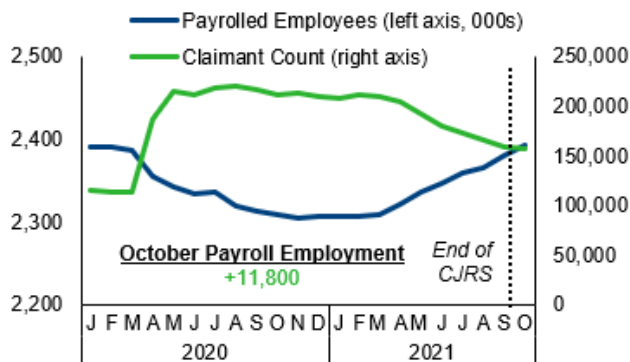


Scotland

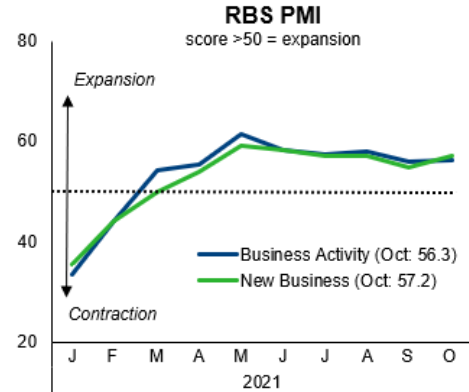
The latest [GDP data](#) suggest a slowdown in growth in the Scottish economy, with declines in manufacturing and construction weighing on strong service sector growth.



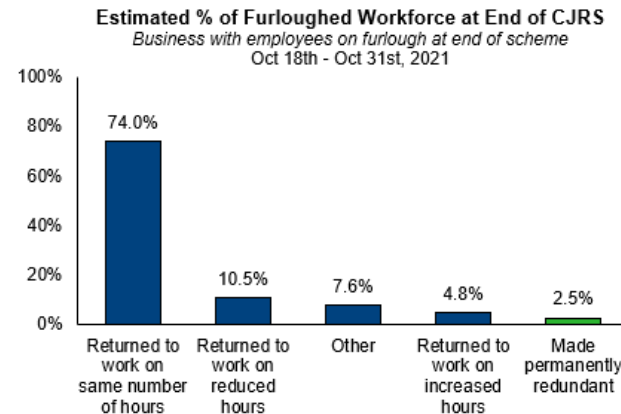
In the labour market, October saw another strong rise in [payroll employment](#) as employers continued to recruit...



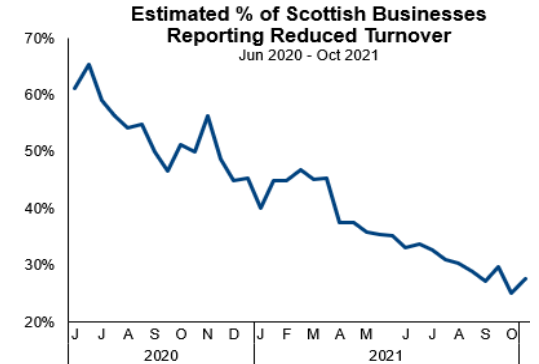
However, overall expansion in [private sector activity](#) continued in October as inflows of new business increased for the seventh consecutive month.



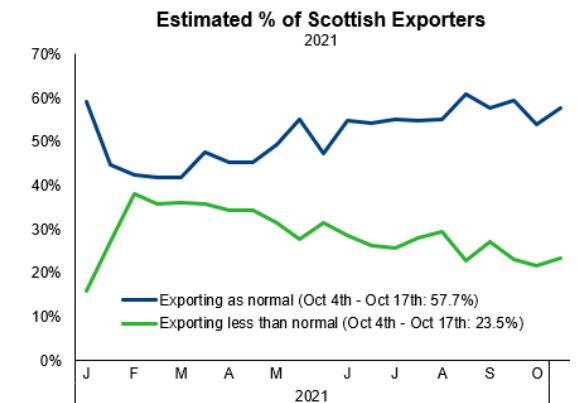
...while [recent surveys](#) seem to confirm only a fraction of workers still furloughed at the end of September were made redundant.



Fewer Scottish businesses are also reporting [lower turnover](#) than normal, dropping to just one in four in October.



Meanwhile, [exporting](#) remains challenging due to a combination of supply chain disruption and Brexit-related difficulties.



Feedback from Scottish Enterprise Customers: November 2021

SUMMARY

Overall Sentiment & Trends

- Based on our Business Trends Survey, Scottish businesses are generally more **optimistic** as demand picks up. However, some uncertainty remains.
- **Supply chains, recruitment** and staff **retention**, and **costs** continue to pose challenges.

Workforce

- Some **civil engineering** businesses are finding it difficult to recruit people with the right skills and are looking to sponsor overseas talent to come to the UK.
- Businesses are setting up apprentice schemes and are working with local colleges to address the shortage of **fabricators/welders**.
- **Construction workers** on sites are moving from one employer to another to get an increased rate of pay.
- **Software developers** are in high demand with many being offered multiple job offers with large salaries; this is particularly impacting smaller businesses who are struggling to recruit and cannot compete financially.
- Mental health issues are becoming more common - **young people** in particular may not be getting the level of mentoring due to homeworking.

- There are some staff shortages within the **life sciences sector** with highly qualified and skilled staff the most sought after.
- There continues to be a shortage of **care workers**.
- **Chefs, kitchen staff** and **housekeeping** shortages continue.

Workplace

- Businesses are continuing to explore **hybrid models of working** – e.g., as leases come to an end, some are looking at how they use their existing office space.
- The rise in **energy prices** will impact on the running costs for buildings and increase service charges for tenants.

International / Trade

- Businesses continue to set up operations in the **EU** to ensure they can tender for activity and serve existing EU customers – Ireland and the Netherlands are popular locations.
- Some companies that have set up EU operations are now looking at them more **strategically** - i.e., deciding which ones they really need, the wider tax implications, whether they need to be in all locations, which need to be staffed, etc.
- The ease and burden of trade **documentation** varies across EU countries but selling to **Spain** and **France** is seen as more bureaucratic.

RECENT
ECONOMIC
DATA

CURRENT
BUSINESS
SENTIMENT

FORWARD
LOOK

Events

- While some in-person trade events are being held, there are reports that they are **not as busy** as usual.
- The **business conference** market has been severely impacted - while some hybrid events have been held there is an appetite for them to resume in person.
- Conference centres, and universities with conference facilities, have taken the opportunity to **invest in technology** and **staff training**.
- Long-term physical event planning continues to be difficult as concerns remain about **future lockdowns**.

Construction

- Ongoing **supply issues** mean that project planning is difficult - e.g. projects that were scheduled to take 18 months may now take 2 years.
- **Costing projects is also difficult** as raw materials prices are increasing; this could impact on project **profitability**.
- This will also impact suppliers locked into **fixed price contracts** who are unable to pass on cost rises.

Hospitality

- Many businesses have taken on significant **debt** and their main concern is getting through the winter months – particularly if they have not built up **sufficient reserves** or have had a much **shorter season**.
- Forward planning can be difficult for hotels as people continue to make multiple bookings and **cancel at the last minute**.

Life Sciences

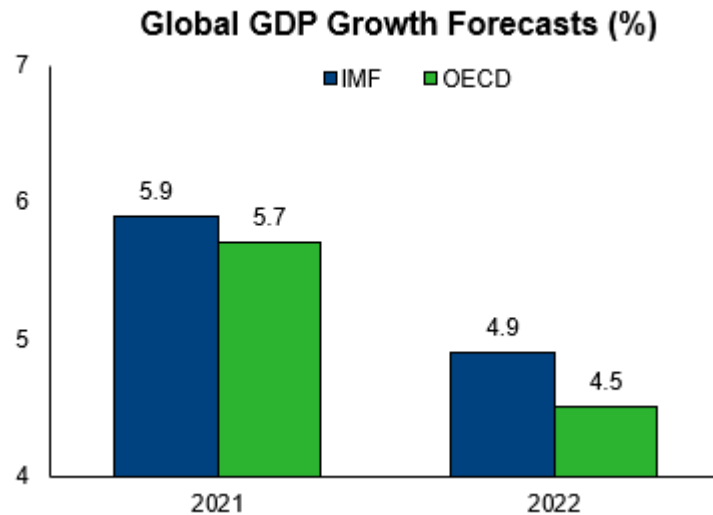
- The sector fared relatively well during the COVID crisis with high **demand** for healthcare products e.g. vaccine development, drug repurposing and technologies for remote consultations.
- COVID has acted as a catalyst for the expansion and acceleration of **digital health-related technology** e.g. tools enabling the monitoring of patients and remote consultations.
- The use of **digital technology** and **data** has become much more important to healthcare and has also encouraged **joint working** between the NHS and other agencies.

Economic Forecasts

Global GDP Forecasts

The [IMF](#) and [OECD](#) both lowered their forecasts for global growth in 2021 in recent months, reflecting disruptions to supply chains and softening consumption in the third quarter.

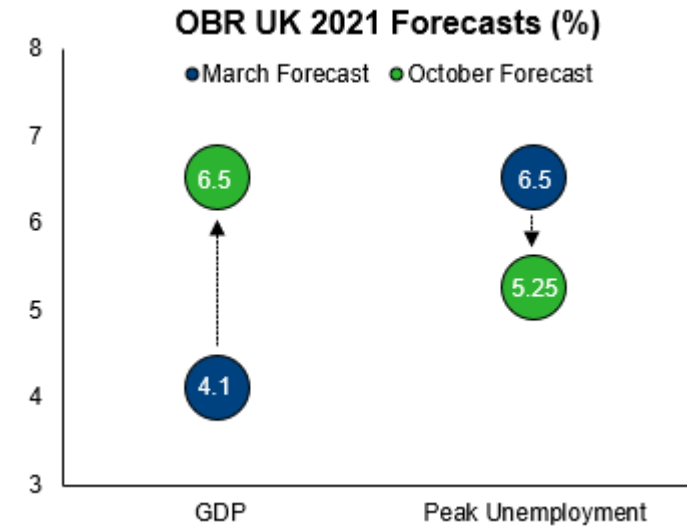
Both expect global economic recovery to continue in 2022 but have reiterated warnings of an uneven recovery due to differences in vaccination rates and policy support across countries.



UK Forecasts

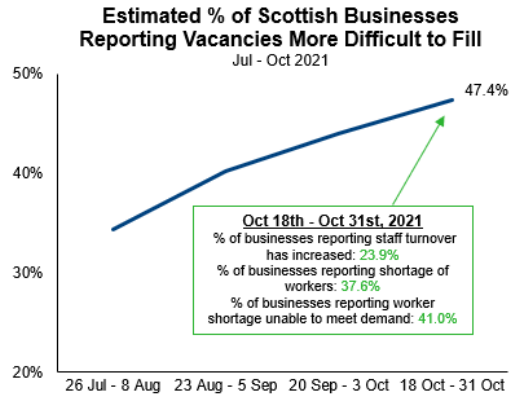
Citing the success of the vaccine rollout and a strong rebound in demand, the [Office for Budget Responsibility \(OBR\)](#) now expects the UK economy to grow 6.5% in 2021 and 6.0% in 2022, and unemployment to rise only slightly to 5.25% this winter.

The latest [Bank of England](#) forecast is broadly similar, predicting growth of 7% in 2021, no significant rise in unemployment following the end of the furlough scheme and a return to pre-pandemic levels of output in the first quarter of 2022.

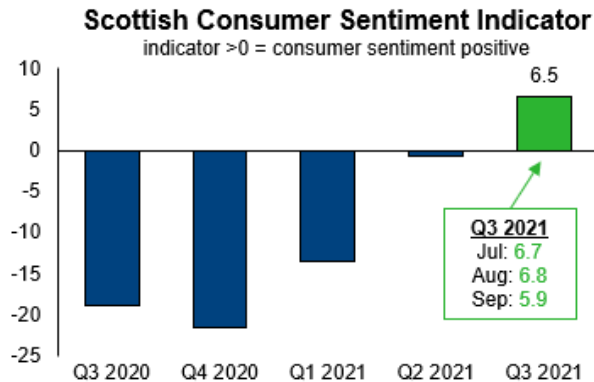


Challenges & Opportunities

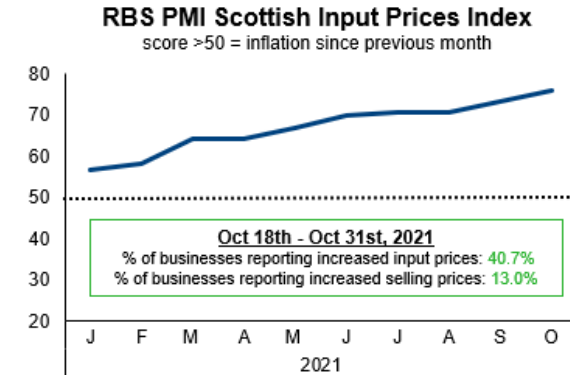
A growing proportion of Scottish [businesses](#) report difficulty filling vacancies as well as increased staff turnover, resulting in some businesses being unable to meet demand.



Scottish [consumer sentiment](#) remained positive throughout the third quarter, offering businesses hope of sustained domestic demand in the final months of 2021 and beyond.



[Cost pressures](#) rose to another record high in October, but not all Scottish [businesses](#) are passing increased costs on to customers – eroding margins and potentially undermining future growth ambitions.



Few Scottish [exporters](#) cite reduced demand as a reason for their exporting challenges, suggesting opportunities as [key trading partners](#) are now open to international visitors.

