

Economic Commentary

May 2022

All data represent most recent available as of May 25th, 2022

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

The outlook for the **global economy** has weakened considerably following Russia's invasion of Ukraine, with growth in 2022 now forecast at **3.2%**. All major economies are expected to grow more slowly than previously expected as the war adds to supply constraints and inflation, although the impact will be greatest in countries nearest the conflict.

Growth in **UK GDP** slowed to just 0.8% in the first quarter as consumers cut back on spending in March, undermining gains earlier in the quarter as pandemic-related restrictions eased. Business surveys also suggest a loss of momentum in April, with rising inflation beginning to weigh on demand.

The **Scottish economy** was 1.3% above its pre-pandemic level of output in February. 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 has dropped to a record low and the number of payrolled workers in Scotland has grown by 93,000 in the last year. However, wages are failing to keep pace with inflation, and the tight labour market is causing recruitment difficulties for employers.

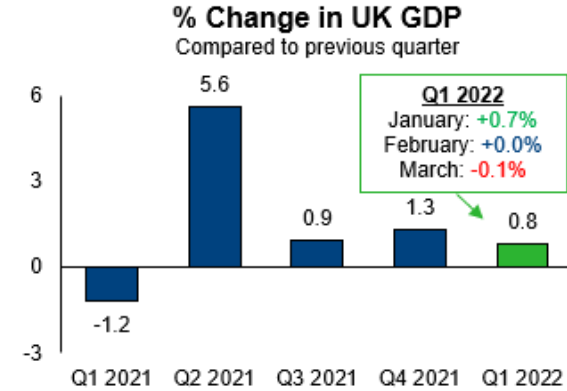
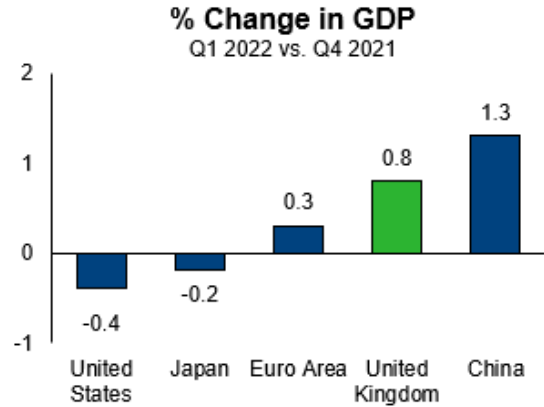
Scottish businesses across all sectors continue to report widespread **inflationary pressures, recruitment difficulties and some supply chain disruption**. Concerns over **cashflow** are rising again.

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

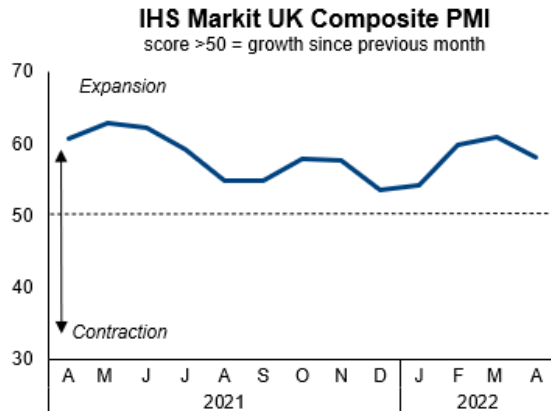
The **UK economy** is now expected to grow by around **4% in 2022** but could **stagnate** in **2023**, as prolonged high inflation reduces consumer spending and business investment.

Global/UK

Economic performance weakened in the [first quarter of 2022](#) as high inflation, conflict in Ukraine and supply chain challenges combined to stifle or even halt recovery in most major economies.

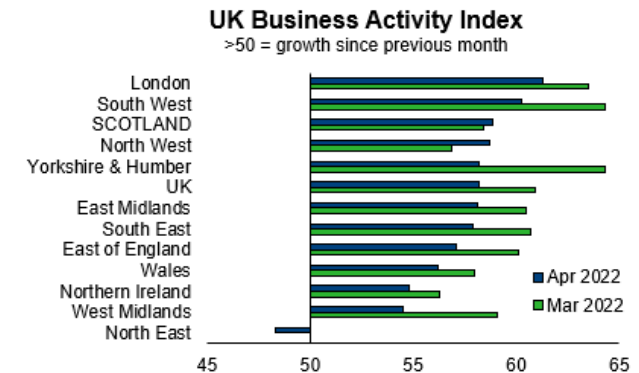


Recent [business surveys](#) suggest UK private sector growth eased to a 3-month low in April as new orders slowed amid record cost pressures.



In the UK, [quarterly growth](#) masked a contraction 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 April than in March. Scotland was one of just two areas where activity accelerated, likely due to a later easing of restrictions.



SUMMARY

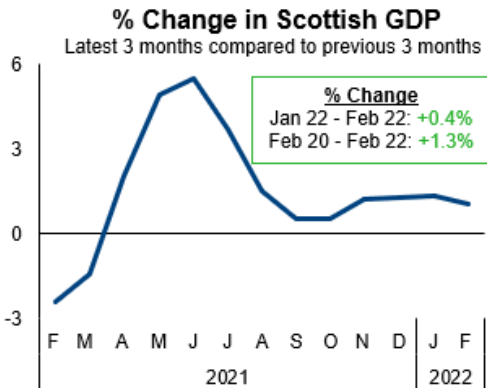
RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

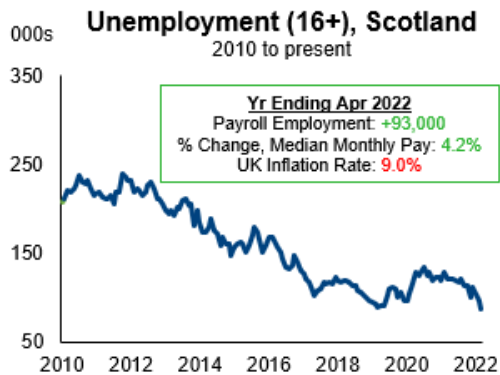
FORWARD LOOK

Scotland

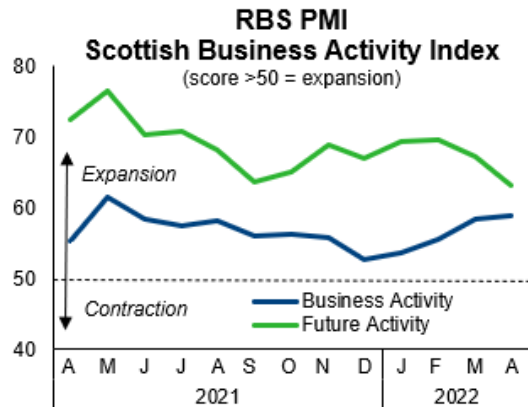
The latest [GDP data](#) suggest slowing growth in the Scottish economy, although output remains above its pre-pandemic level.



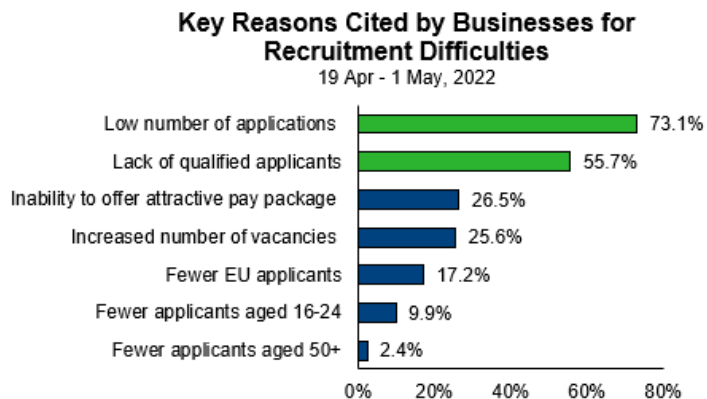
In the [labour market](#), unemployment has dropped to a record low as employers add staff, although wage growth remains below inflation.



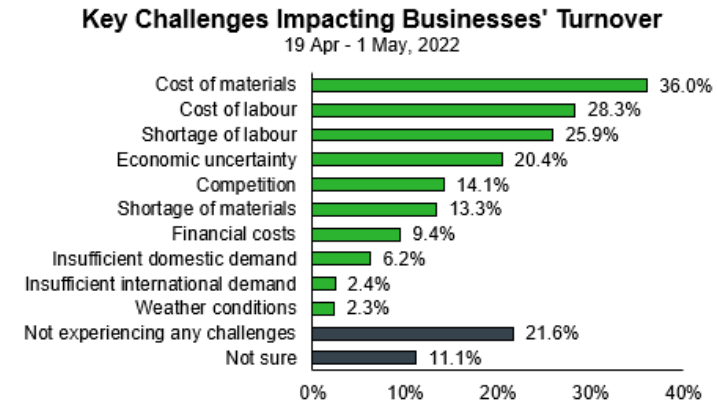
[Private sector activity](#) expanded again in April, but optimism fell to an 18-month low as concerns over the impact of inflation grew.



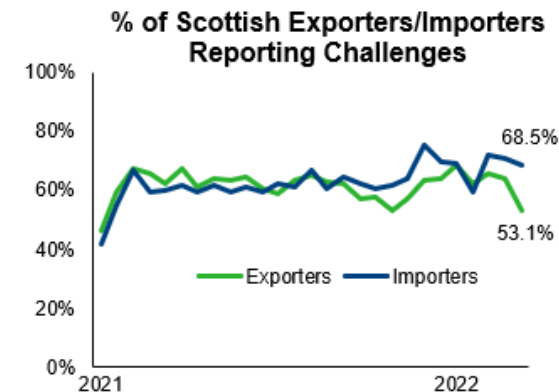
The increasingly tight labour market is continuing to cause [recruitment difficulties](#) for businesses.



Four in five Scottish businesses in late April reported challenges impacting [turnover](#), with cost inflation a major issue.



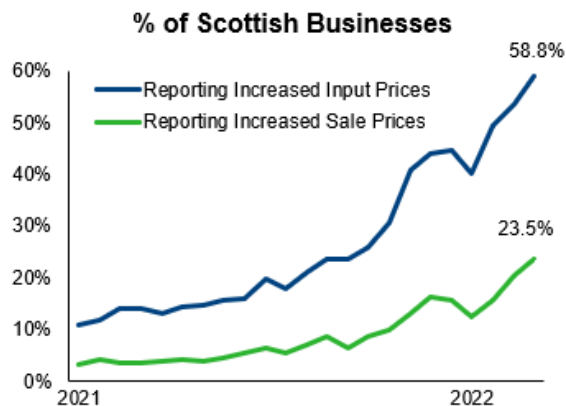
Most Scottish importers and exporters continue to experience challenges [trading internationally](#).



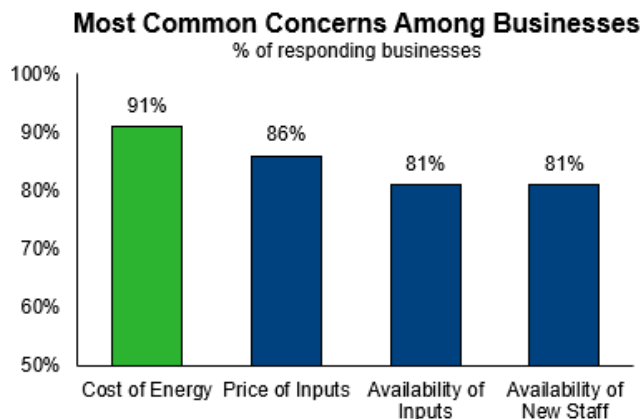
Scotland

SUMMARY

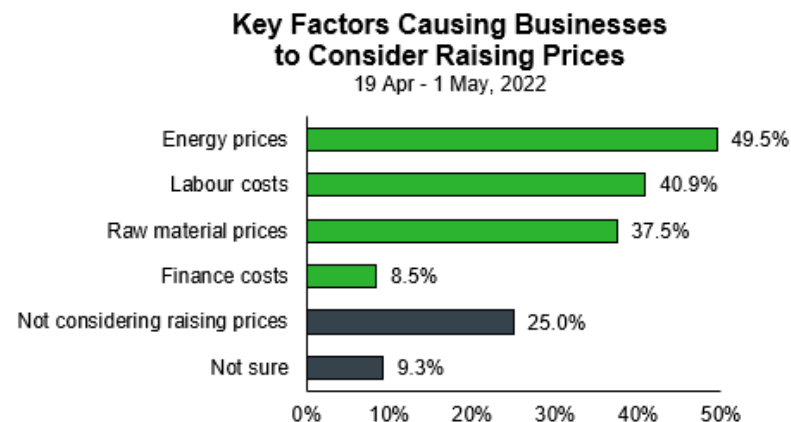
As cost pressures continue to intensify, more than half of affected Scottish businesses chose to absorb [increased costs](#) in April - eroding margins and potentially undermining future working capital.



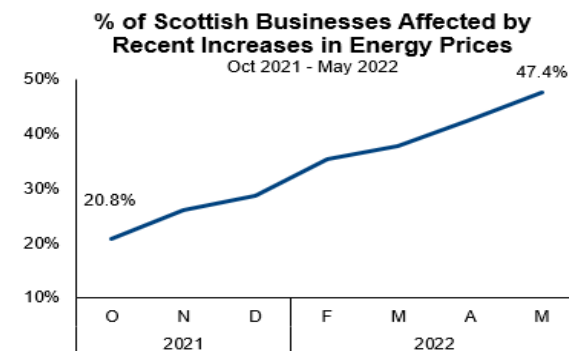
The cost of energy has become the [most common concern](#) for Scottish businesses in an increasingly challenging environment.



However, three quarters report pressure to raise prices as they look to navigate [cost increases](#) from multiple sources.



Almost half of Scottish businesses (but probably more, as 23% are 'not sure') have now been directly or indirectly affected by [energy price increases](#), and more than a third have indicated they expect to [reduce operations](#) in response.



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** enables businesses to target a wider global talent pool.
- Labour shortages in **tourism/hospitality** will be a particular challenge as demand increases with the spring/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.

RECENT
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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**.

- There is a **surplus of office furniture** as businesses reduce their office footprint, which could impact on furniture retailers.

Real Estate

- The impact of the last 12 months has been felt across the real estate space, but especially by 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.
- While demand is **increasing**, some businesses **may expand too quickly** as they come out of the pandemic and are unable to fulfil orders due to having insufficient working capital.

Energy prices, supply costs and supply chains

- **Supply chain disruption** is becoming an increasing challenge for the **construction sector**. Materials costs have increased significantly, some materials are running at a shortage (e.g. steel and concrete) and, overall, margins are being squeezed as contracts may be fixed and increased prices cannot be passed on.
- **Some contracts are being put on hold by** businesses that cannot get materials e.g. engineering parts - specifically those coming from China.
- Some businesses have reported **electricity price increases of up to 350%** as energy contracts are renewed, and are concerned about gas renewal prices. These rises are likely to threaten the viability of many businesses across sectors.
- **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.
- 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 to corn syrup, manufacturers are buying **sugar**, which is in turn becoming more expensive and that could impact across large sections of food market across the UK.

Sectors

- **Businesses across sectors** are starting to find they are being impacted by rising costs and weakening demand.
- There has been a rise in 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.
- **Wedding venues** that postponed events are often obliged to honour contracts which were put in place pre-pandemic and are having to absorb rising costs.

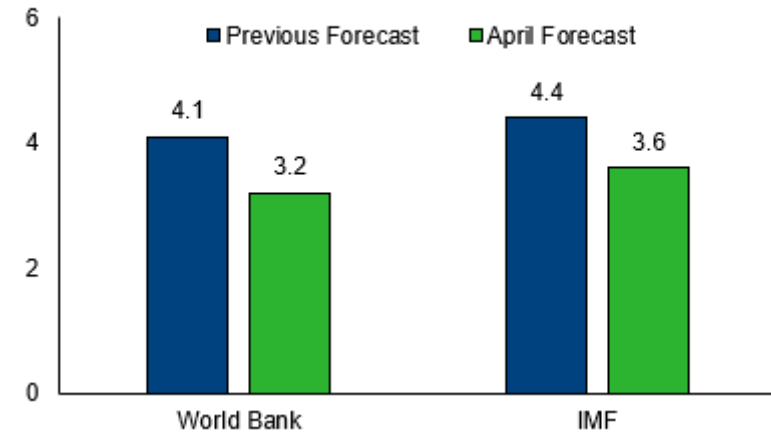
Economic Forecasts

Global Forecasts

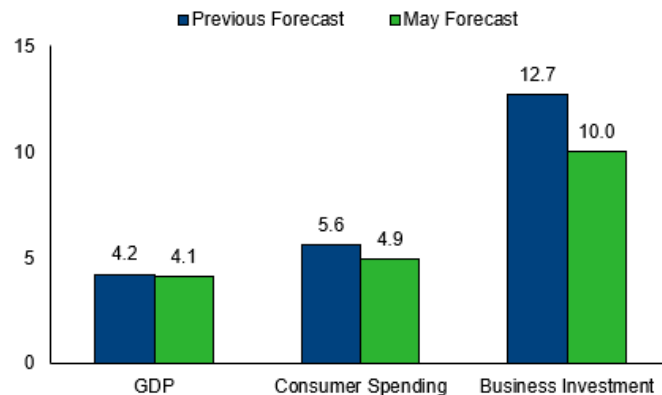
The [World Bank](#) has cut its forecast for **global growth** in 2022 by almost a full percentage point to **3.2%**, due to the expected impacts from Russia's invasion of Ukraine. The Bank has suggested the region comprising Ukraine, Russia and surrounding countries could contract by 4.1% in 2022, but also expects growth to be lower for most advanced and developing economies because of spikes in food and energy prices caused by war-related supply disruptions.

The move echoes a similar downward revision by the [IMF](#), which now forecasts global economic growth of **3.6% in 2022**, highlighting that the war will disrupt global commerce and add to inflation.

Global Growth Forecasts, April 2022 (%)



EY UK 2022 Forecasts (%)



UK Forecasts

[EY](#) has downgraded its expectations for UK growth in 2022 to 4.1%, citing the negative impact prolonged high inflation will have on consumer spending (although the impact is expected to be greater in 2023, as household savings built up during the pandemic slowly diminish). EY also noted the increasingly challenging outlook for **business investment** amid geopolitical uncertainty, supply frictions and inflation in the price of capital goods.

The latest [Bank of England](#) forecast is broadly similar, predicting growth of 3.75% in 2022 and a modest contraction of 0.25% in 2023 as household consumption slows in the face of falling real wages.