

Economic Commentary

June 2021

All data represent most recent available as of June 1st, 2021

Economic recovery from the pandemic is being dictated by the level of restrictions present in each country, with the **U.S.** and **China** outperforming other major economies in the first quarter of 2021.

The **UK economy** declined in the first quarter, but a strong rebound in business activity is now underway.

Scotland's economy is also beginning to grow as restrictions ease, but ongoing use of the furlough scheme makes the extent of recovery in the labour market difficult to measure.

Scottish businesses are expressing **cautious optimism** as the country exits lockdown.

However, many report **ongoing uncertainty** as a result of the return to the tier system of restrictions, as well as an **inability to plan** tied to uncertainty around the pace and level at which demand will return.

The **UK's departure from the EU** also continues to be a major issue for Scottish businesses trading with Europe – challenges around paperwork and additional costs have generally not eased.

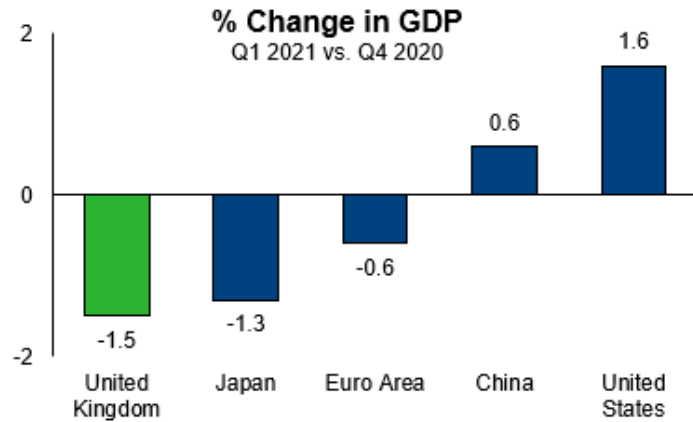
Prospects for the **global economy** have improved considerably but the outlook varies across regions depending on vaccine progress.

The latest forecast for the **UK economy** is for robust growth in 2021 as restrictions ease, and a smaller increase in unemployment than previously anticipated.

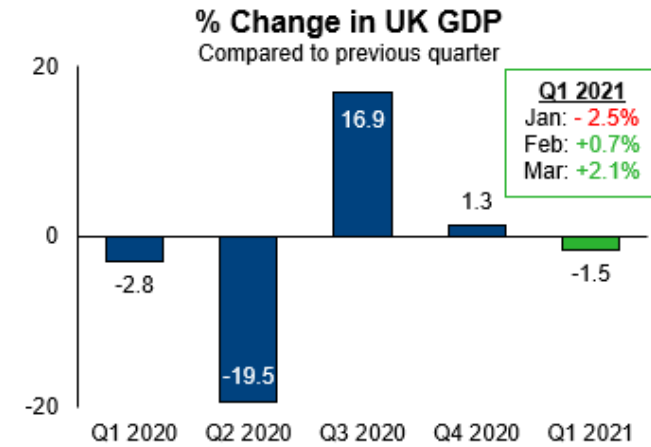
Possible headwinds facing Scottish businesses in the near term include **rising costs** and **competition for staff** – while a **strong rebound in global trade** and a **new incentive for business investment** offer opportunities to accelerate recovery.

Global/UK

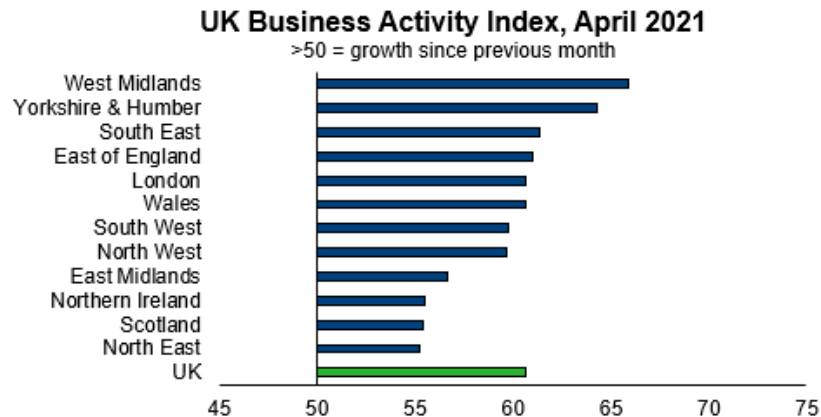
Economic performance in the [first quarter of 2021](#) reflected the pace at which countries reopened their economies.



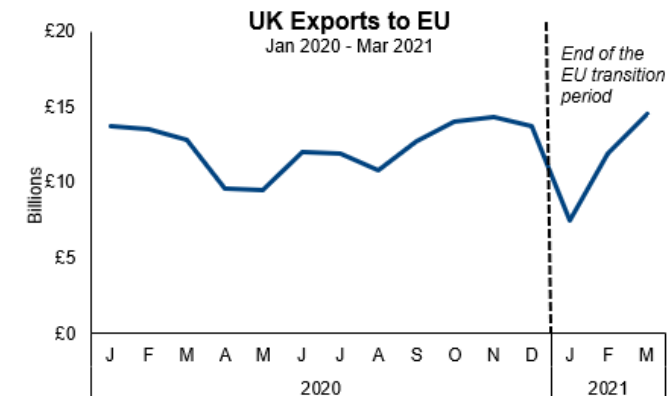
In the UK, a [modest contraction](#) masked renewed momentum during the quarter as lockdown measures started to ease.



Business surveys suggest a broad-based UK recovery is now underway, with all [regions](#) reporting notable increases in business activity in April.

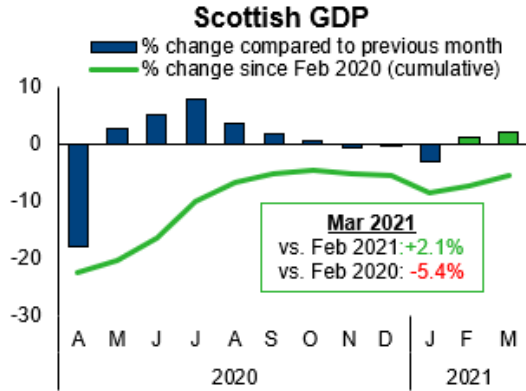


[Exports](#) to Europe have experienced a period of disruption and volatility but it remains too early to determine the lasting impact of the UK's departure from the EU.

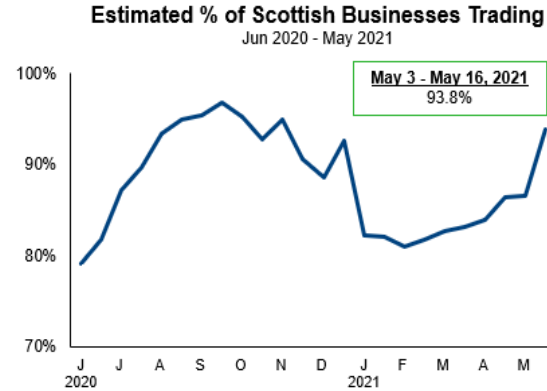


Scotland

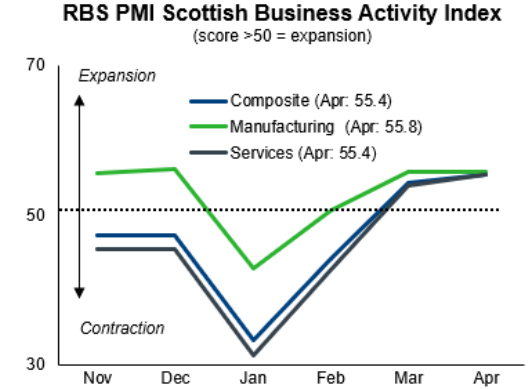
The latest [monthly GDP data](#) suggest the Scottish economy is growing again after declining during the latest lockdown.



As restrictions ease, the share of Scottish businesses [trading](#) has approached a level similar to late Summer 2020.



[Private sector activity](#) in Scotland expanded at a robust pace in April, despite underperforming most other areas of the UK.

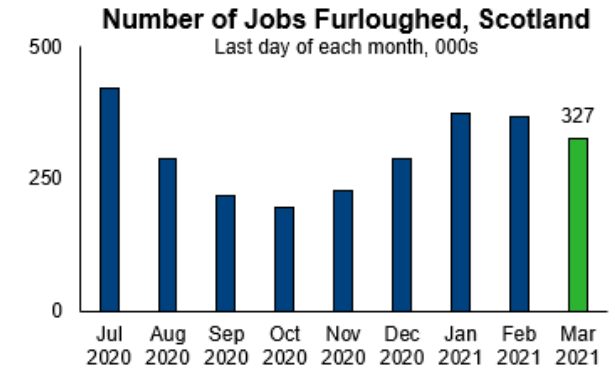


The latest headline [labour market data](#) for Scotland suggest employers *may* be adding staff as they rebuild capacity.

This is consistent with a modest rebound in recent months in the number of [payrolled employees](#).

The number of [furloughed workers](#) is yet to fall materially, but more recent [survey data](#) suggest it is likely to do so.

	RATE (JAN - MAR 2021)	QUARTERLY CHANGE
EMPLOYMENT	74.4%	+0.7%pts
UNEMPLOYMENT	4.3%	-0.2%pts
ECONOMIC INACTIVITY	22.2%	-0.6%pts



Feedback from Scottish Enterprise Customers: May 2021

Overall Sentiment

- COVID-19 remains the **dominant challenge** facing a majority of businesses.
- Optimism for the future has **improved considerably** as a result of restrictions being eased and the continued success of the vaccine rollout.
- However, many businesses cite **ongoing uncertainty** following a return to the tier system and the possibility of restrictions changing at short notice.
- Businesses also report an **inability to plan ahead** - this reflects uncertainty around the pace and level at which demand will return.
- **Brexit** continues to be a major issue for many businesses trading with the EU - challenges around paperwork and additional costs have generally not eased.
- Some businesses impacted by Brexit continue to seek more **long-term solutions** e.g. setting up facilities in the EU.

Workforce

- Some businesses are keeping a proportion of workers **furloughed** until demand picks up - others are retraining workers to perform **multiple roles** so they can reopen with fewer staff until demand levels become more clear.

- Some employers are finding it difficult to offer staff **guaranteed hours** due to uncertainty around the trading environment.
- Hospitality businesses are reporting **staff shortages** - some overseas staff returned home during the pandemic, while others who found employment in other sectors during lockdown are choosing to stay in those jobs.
- Other businesses expect to **lose staff** as they reopen - some workers that would ordinarily have left by choice chose instead to remain on furlough throughout.
- Many businesses report returning **staff have concerns about potential loss of skills**, so are holding back-to-work retraining sessions.
- A few Scottish businesses (e.g. in creative industries) report **losing staff to London-based companies** who are able to offer remote working paying London wages.

International & Trade

- Scottish businesses continue to report reluctance among EU customers to buy from the UK due to **perceived barriers** post-Brexit e.g. additional paperwork.
- Some businesses are absorbing huge increases in freight/customs costs just to **maintain their customer base** - but acknowledge they will ultimately need to pass these on, risking future sales.

Feedback from Scottish Enterprise Customers: May 2021

- Other businesses have simply **stopped selling to the EU** until shipping and other costs reduce.
- Businesses continue to explore **more permanent solutions e.g.** applying to operate customs warehouses in the UK or establishing warehouse/distribution facilities in the EU.
- Some businesses continue to report **increased sales from markets** where **restrictions are easing faster** e.g, in Asia Pacific.
- Businesses have indicated that they may only have a presence at **larger industry events** in the future - the pandemic has shown they can engage/maintain customer relationships virtually, while reduced travel budgets for customers may further reduce the value of attending trade shows.

Cashflow

- Some businesses believe **social distancing measures**, even as restrictions ease, continue to undermine their ability to trade profitably.
- Many businesses have delayed debt repayments over the last year and accrued even greater levels of debt - and now fear **repayment coming due before revenue fully recovers**.
- Many smaller businesses expect to operate with major debt for the foreseeable future and are unlikely **to invest in their businesses for some time** as a result.

- Some businesses in the Glasgow service sector (e.g. hotels, taxis, transport companies) have indicated their existence is reliant on **COP26 going ahead as a physical event**.
- A few businesses report being in a **better financial position** than expected due to savings on travel and greater use of digital technology.

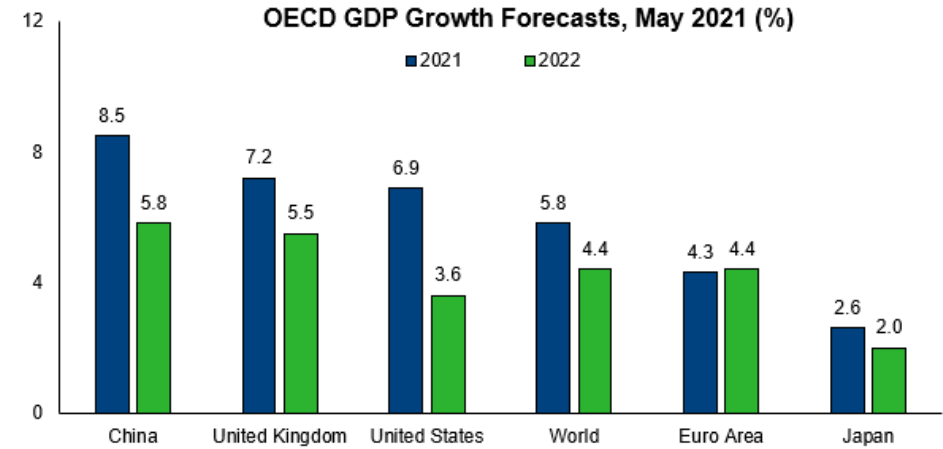
Tourism & Hospitality

- Industry performance since reopening in late April has been **mixed**.
- **Rural areas** are seeing greater demand than cities - limited forward tourism booking in cities has been further exacerbated by a lack of business trade.
- Tourism businesses are almost focusing exclusively on **domestic customers** - the lack of international visitors in 2021 is likely to disproportionately impact the visitor attractions sector.
- Many tourism businesses are keen to avoid any appearance of **price gouging** while international breaks are not possible - but this is proving challenging as costs increase.
- Tourism and hospitality businesses in Glasgow report **widespread cancellations and food waste** following the decision to keep the city in Level 3.

Forecasts

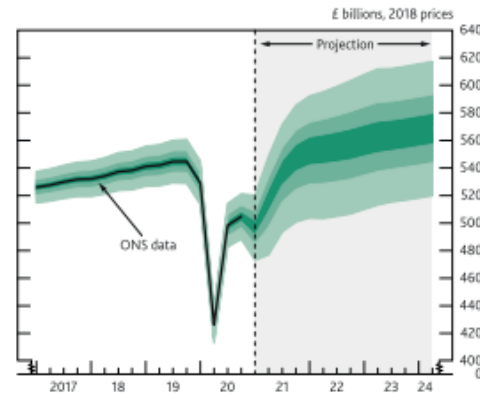
Global GDP Forecasts

The [OECD](#) has raised its forecast for global growth in 2021 as a result of effective vaccination programmes and strong government support in advanced economies, but warned of an uneven recovery that could worsen inequalities as emerging-market economies struggle with slower vaccine deployment.



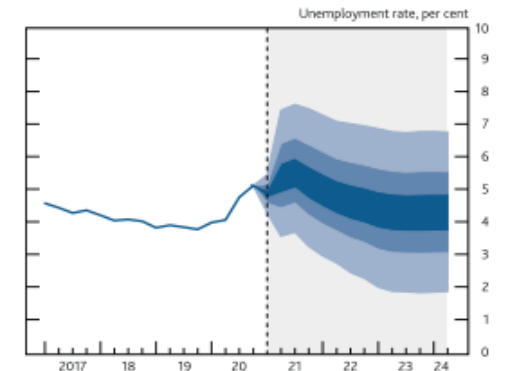
UK GDP Forecast

The [Bank of England's](#) central forecast predicts the UK economy will grow at a record 7.25% in 2021, citing the success of the vaccine rollout and the expected impact of pent-up consumer spending.



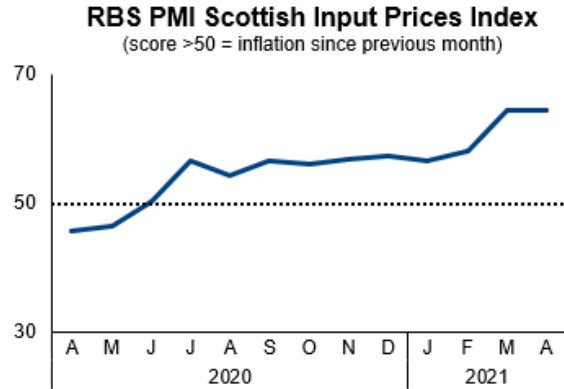
UK Unemployment Rate Forecast

The Bank of England now expects UK unemployment to peak at around 5.5% in the third quarter as the furlough scheme ends, much lower than previously forecast, as demand for labour picks up.



Challenges & Opportunities

Scottish businesses reported another steep [increase in cost burdens](#) in April, forcing many to consider charging higher prices during a time of economic uncertainty.

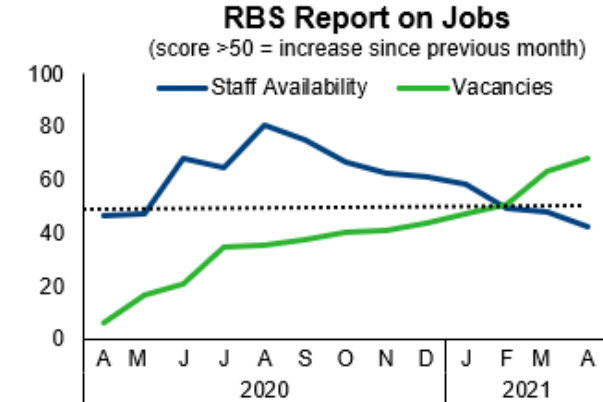


[Global trade in goods](#) rebounded to a record high in the first quarter of 2021, indicating global demand in key markets has recovered for well-positioned Scottish exports able to navigate ongoing trade disruption.

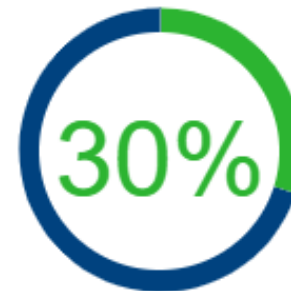
Q1 2021 IMPORTS RELATIVE TO 2019 AVERAGE

CHINA	+20%
UNITED STATES	+7%
EUROPEAN UNION	+1%

[Demand for staff](#) in Scotland has surged while candidate availability has fallen, fuelling concern among employers about potential hiring difficulties.



[Evidence](#) suggests a new tax break on UK business investment has the potential to encourage Scottish businesses to either bring forward future spending or make new capital outlays.



30% OF SCOTTISH BUSINESSES BELIEVE THE NEW 'SUPER DEDUCTION' INITIATIVE WILL HAVE A POSITIVE IMPACT ON THEIR INVESTMENT SPENDING OVER THE NEXT 12 MONTHS.