

Economic Commentary

August 2021

All data represent most recent available as of August 16th, 2021

Economic growth returned to all major economies in the second quarter of 2021, although Asian economies underperformed after being disrupted by a resurgence in COVID-19 cases.

The pace of the **UK's economic recovery** now appears to be easing as the initial boost from re-opening fades, while on the supply side more businesses are experiencing growth constraints from shortages of labour and materials.

Scotland's economy is following a similar pattern of more moderate growth and an improving labour market, although conditions remain challenging for businesses that were impacted most by restrictions.

Scottish businesses are broadly **optimistic** as restrictions are lifted, with many now able to turn their attention to day-to-day matters.

However, a return to normal trading conditions remains distant for some businesses, and some consumer-facing sectors are **uncertain about the pace at which demand will fully return.**

Staff shortages are emerging as a major issue in parts of the Scottish economy; **supply chain disruption** and a **difficult trade environment** represent further challenges for some businesses.

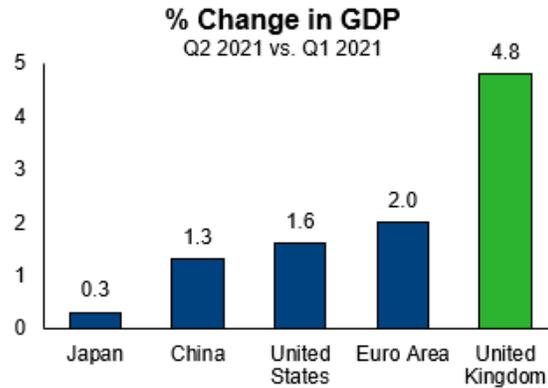
The outlook for the **global economy** remains strong, but differences in vaccine access and policy support may see the pace of recovery diverge across countries.

The latest forecast for the **UK economy** is for record growth in 2021 and a quicker return to pre-pandemic levels of activity than previously anticipated.

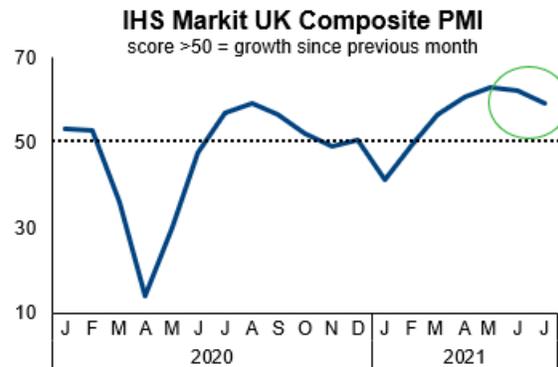
Increased **debt levels** and ongoing **cost pressures** have the potential to constrain Scottish businesses in the near term – but rebounding **consumer confidence** and further **adoption of digital technology** provide opportunities to maintain momentum.

Global/UK

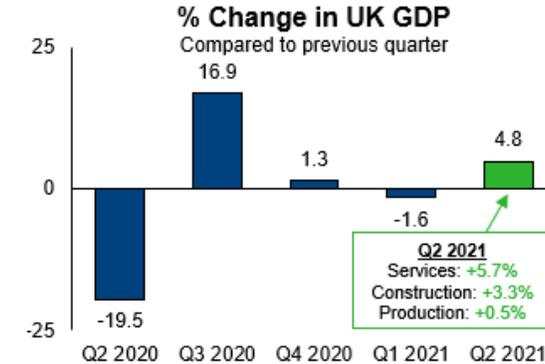
All major economies returned to growth in the [second quarter of 2021](#) as restrictions eased, although activity in Japan and China remained subdued as COVID-19 measures remained in place.



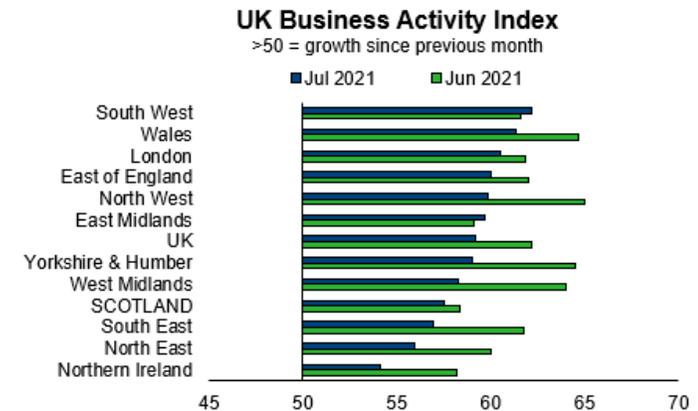
[Business surveys](#) suggest the speed of recovery (although still strong) is now easing, with July signaling the weakest rate of private sector expansion in four months.



In the UK, [robust growth](#) was primarily driven by the reopening of the service sector, allowing consumers to spend some of the savings accumulated during lockdown.

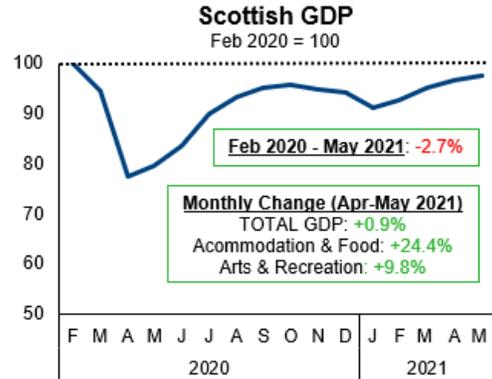


This slowdown is reflected across the UK, with all but two [regions](#) reporting softer increases in business activity in July than in June.

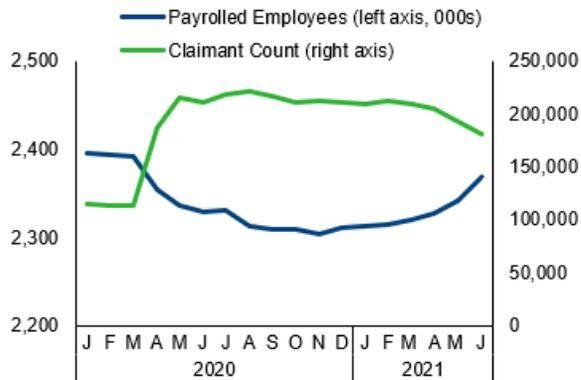


Scotland

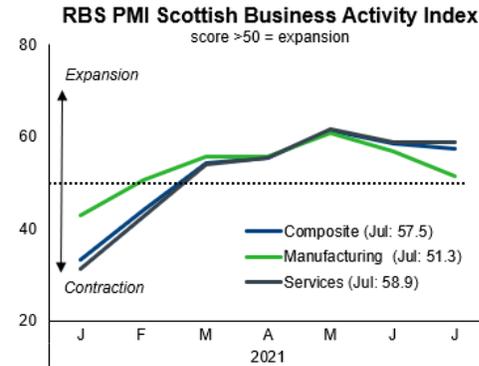
The latest [monthly GDP data](#) suggest ongoing recovery in the Scottish economy, with consumer-facing sectors continuing to benefit from the easing of restrictions.



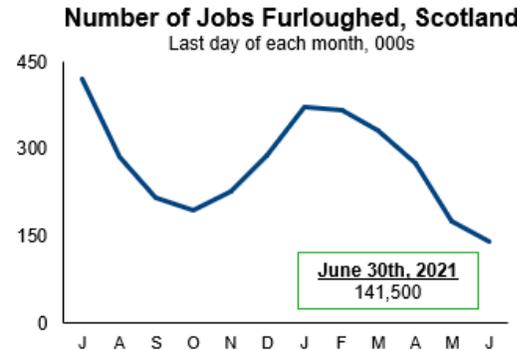
In the labour market, increased demand for staff appears to be moving people out of [unemployment](#)...



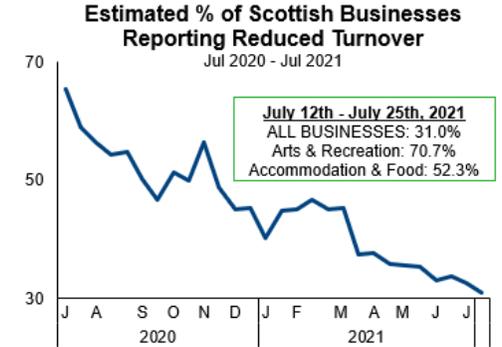
However, overall expansion in [private sector activity](#) eased slightly in July as manufacturing growth slowed to its weakest pace since February.



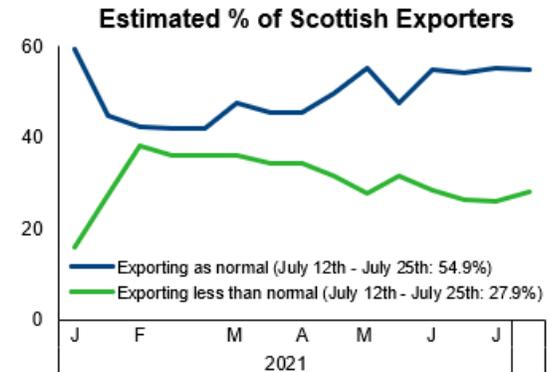
... while the number of [furloughed](#) workers has fallen sharply.



Fewer Scottish businesses are reporting [lower turnover](#) than normal, but conditions remain challenging for sectors most impacted by restrictions over the period.



Meanwhile, [trade disruption](#) for some Scottish exporters remains ongoing amid travel restrictions and new EU trading requirements.



Overall Sentiment

- Scottish business optimism continues to **improve** as COVID-19 restrictions are lifted, with a growing number of businesses now able to shift focus to more routine operational issues.
- Several sectors (e.g. hospitality) report **ongoing uncertainty** around the pace at which consumer demand will return due to both health concerns and changed behaviour.

Workforce

- Many tourism & hospitality businesses continue to report severe **staff shortages** - many former furloughed workers have found different jobs in other sectors, some overseas workers have returned home, and more generally there appears to be growing apathy towards some jobs in the sector.
- Shortages appear most acute in **rural areas** where a declining population, lack of affordable housing for seasonal staff, and distance from population centres are intensifying recruitment challenges - some businesses have had to reduce services, opening hours or both.

- Other sectors are also being constrained by staffing issues e.g. transportation businesses are offering HGV drivers a £1,000 **recruitment incentive** to address current shortages.
- **Remote working** has allowed some Scottish businesses to recruit from outside the country, but there is also concern businesses located elsewhere in the UK and targeting remote workers are contributing to Scottish recruitment challenges and more workers leaving their jobs.
- **Poaching of staff** is becoming increasingly common as the economy recovers, with senior staff and those with digital skills (e.g. software developers) most likely to be targeted.
- Some businesses report reduced interest among school leavers in **apprenticeships** - this appears to be an issue across sectors and is prompting some businesses to hire older people (25+) to train up.
- Forced COVID-19 **self-isolation** is also impacting Scottish businesses - some food producers have had to change shift patterns to accommodate isolating staff, while care homes have been forced to turn to expensive agency staff to cover shortages.
- Some Glasgow hotels have questioned whether they will have enough staff needed to meet visitor demand during **COP 26**.

Feedback from Scottish Enterprise Customers: July/August 2021

SUMMARY

Workplace

- Businesses continue to seek city-centre office space but are now opting to take less space with a greater emphasis on high-end finishes for **meetings and/or collaborative work**.

International/Trade

- Exporters to the EU (e.g. in the seafood sector) continue to report issues around the time and cost involved to obtain **Export Health Certificates** and concede they will ultimately need to pass these additional costs onto customers.
- More complex trading requirements are also making it more difficult to find reliable and affordable **EU distributors**.
- Transporting goods from Scotland to Europe generally remains more challenging than before - currently, this is because of both **increased paperwork requirements** and a **shortage of HGV drivers**.
- Transporting goods by air also remains more expensive as a result of **fewer flights** and, therefore, less cargo space.
- Some Scottish businesses have indicated prospective new overseas customers have been **unwilling to fully commit** to orders because of ongoing uncertainty around the future movement of goods (e.g. some countries have had multiple lockdowns).

Supply Chains

- Limited **shipping container availability** is continuing to disrupt supply chains - manufacturers report issues getting parts, while a shortage of timber is causing homebuilders to delay completion dates.

Opportunities

- Opportunities for **Educational Technology** businesses have increased significantly with the growth of online learning, and many are now looking to expand into international markets.
- Growing environmental awareness among consumers is increasing demand for businesses involved in **sustainable packaging**.
- Businesses across sectors believe **COP 26** offers great opportunity but are concerned it may not go ahead in its physical form, so are reluctant to turn down other work for the same time.

Sectors

- **Events** businesses remain nervous - although smaller events can now go ahead, there is acknowledgement the situation can change very quickly, and this is making it difficult to plan.

RECENT
ECONOMIC
DATA

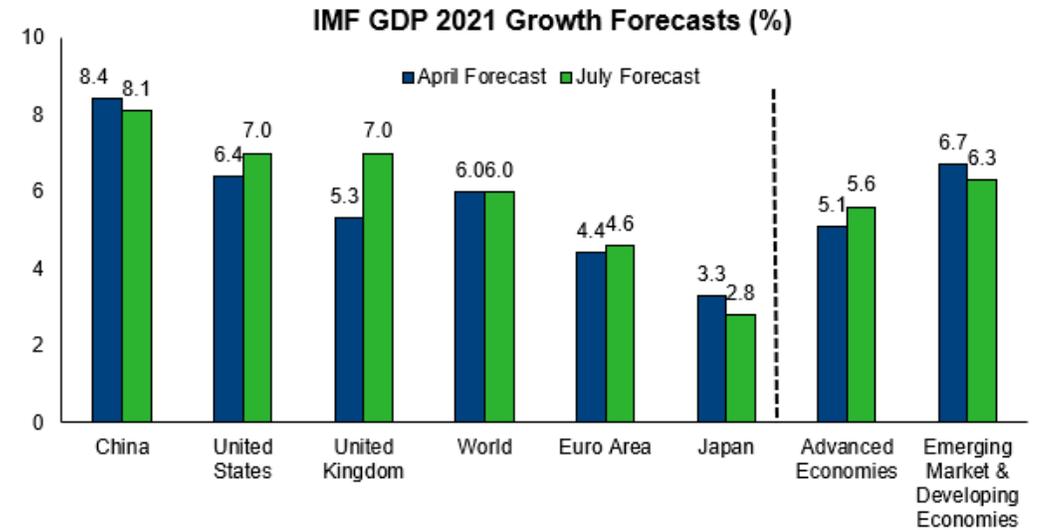
CURRENT
BUSINESS
SENTIMENT

FORWARD
LOOK

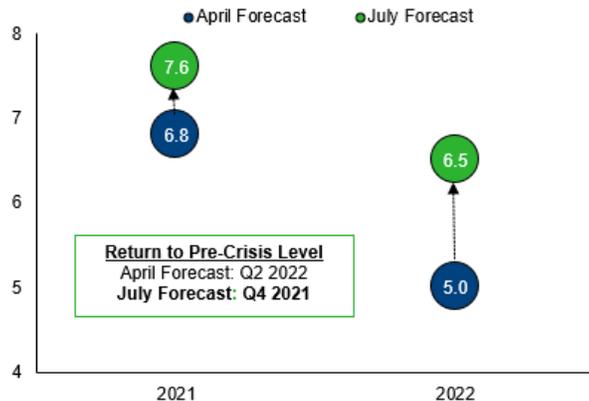
Economic Forecasts

The IMF [forecasts](#) the global economy will grow 6.0% in 2021, unchanged from its previous forecast in April.

However, the IMF warned differential access to vaccines is likely to split the global recovery into two blocks - advanced economies that can expect normal economic activity by the end of this year (upward revision of 0.5 percentage points) and developing economies that will face setbacks due to resurgent infections (downward revision of 0.4 percentage points).



EY ITEM Club UK GDP Growth Forecasts (%)



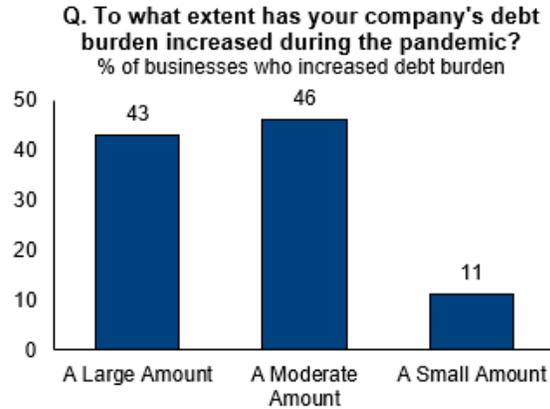
UK GDP Forecasts

Citing the success of the vaccine rollout and the easing of restrictions, the [EY ITEM Club](#) now expects the UK economy to grow 7.6% in 2021 (the fastest rate of growth since 1941) and to return to its pre-pandemic peak by the end of the year.

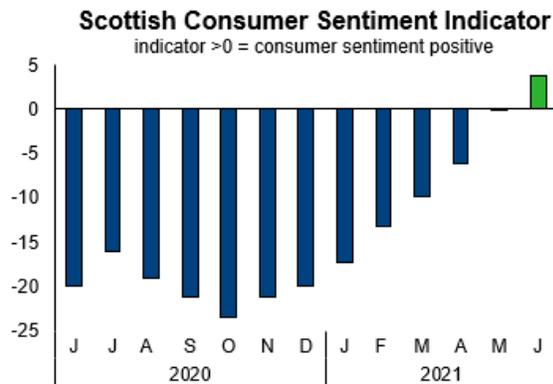
The latest [Bank of England](#) forecast is broadly similar, predicting growth of 7.3% in 2021 and the same return to pre-pandemic levels in the final quarter.

Challenges & Opportunities

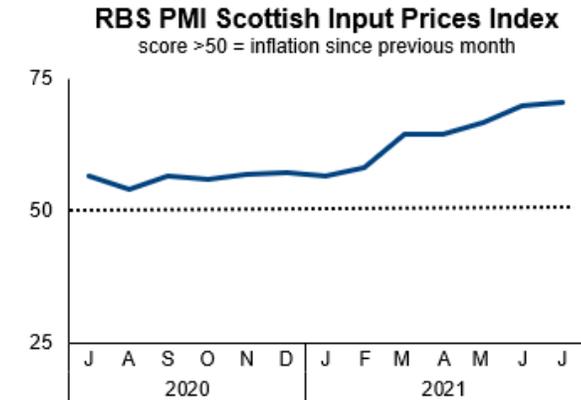
42% of Scottish businesses report that their [debt burden](#) has increased during the pandemic, potentially undermining their future ambitions.



Scottish [consumer sentiment](#) returned to positive territory in June, suggesting renewed confidence among households and possibly greater propensity to spend in the months ahead.



[Cost pressures](#) show no sign of easing, with the rate of input price inflation in July the sharpest since early 2011.



75% of Scottish businesses report that [digital technology](#) has positively impacted their productivity, innovation and/or low carbon working, underlining its role as a source of opportunity and potential for businesses.

