

Economic Commentary

October 2021

All data represent most recent available as of September 20th, 2021

Global business activity continued to grow in September driven by the rollout of vaccines, policy support and the lifting of restrictions. **Europe** has outperformed other economies. However, overall global activity has slowed over the month, suppressed mainly by supply chain issues.

The latest monthly **GDP data** for both the UK and Scotland have been positive, but **growth has been lower than expected**.

The Scottish **labour market has continued to strengthen**, with higher employment and lower economically inactive over the summer.

However, **staff shortages** are being reported across almost all sectors. Staff retention and recruitment has been highlighted by businesses as one of the **biggest challenges** over the next 6 months. Some are responding by offering increased salaries and other incentives.

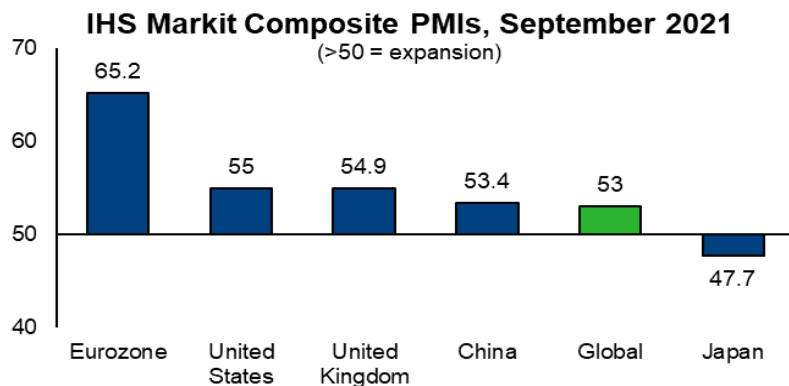
Shortages of some goods, a knock-on effect of both Brexit (for the UK) and COVID (globally), have pushed prices up and disrupted some supply chains. This has been exacerbated by labour shortages in the transport and logistics sector.

The latest forecast for the **Scottish economy** is for robust growth in 2021 as COVID restrictions ease, and a return to pre-pandemic levels of output by April 2022.

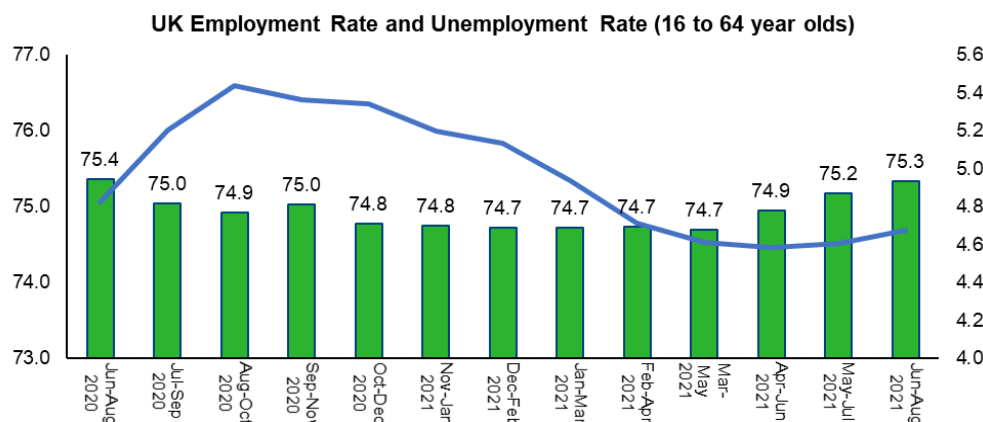
Possible headwinds facing Scottish businesses in the near term include ongoing **rising input costs, supply chain disruptions, competition for staff as vacancy rates hit an all time high, and possible redundancies following the end of the furlough scheme**.

Global/UK

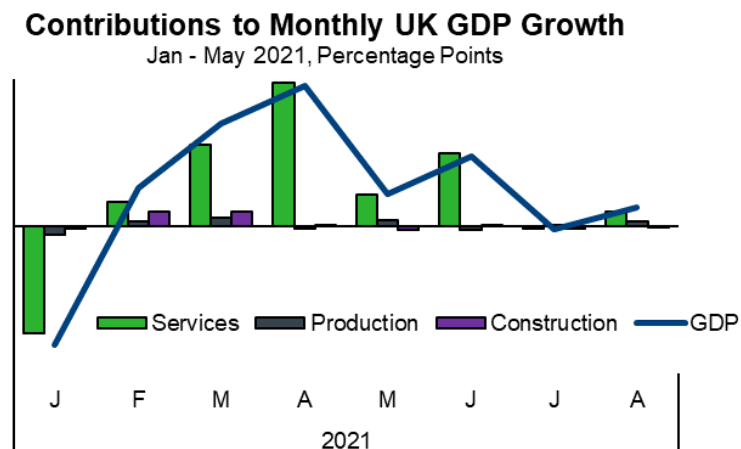
The latest [business surveys](#) show relatively strong growth in business activity in Europe, and moderate growth in the US and UK. Overall global activity slowed in September, suppressed mainly by supply chain issues.



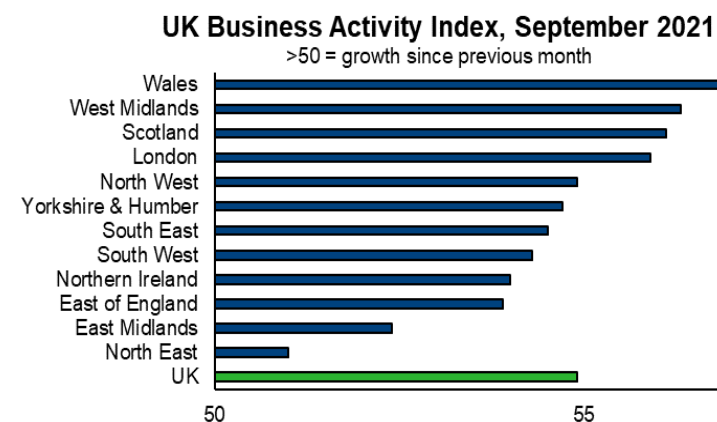
The [UK labour market](#) is continuing to recover but as unfilled vacancy rates rise there are supply side pressures.



The UK [economy grew by 0.4% in August](#) and remains 0.8% below its COVID-19 pandemic level. Growth in the economy this year has been driven by the service sector.

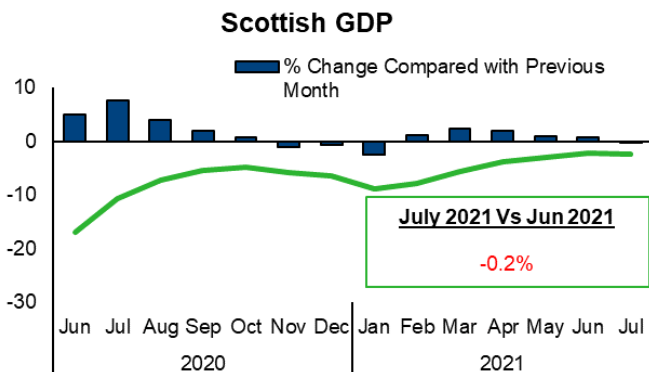


All UK nations and regions [experienced growth in business activity over September](#), although at a lower rate than in previous months.

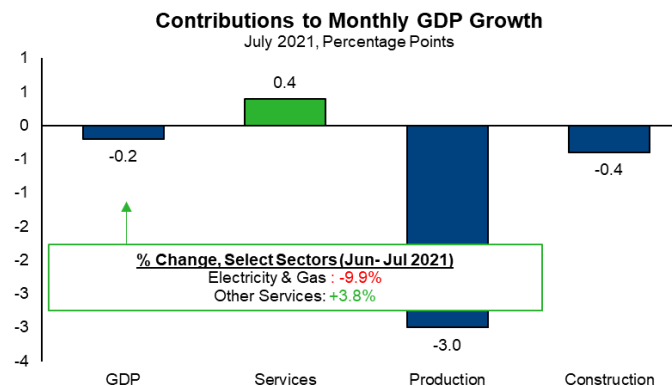


Scotland

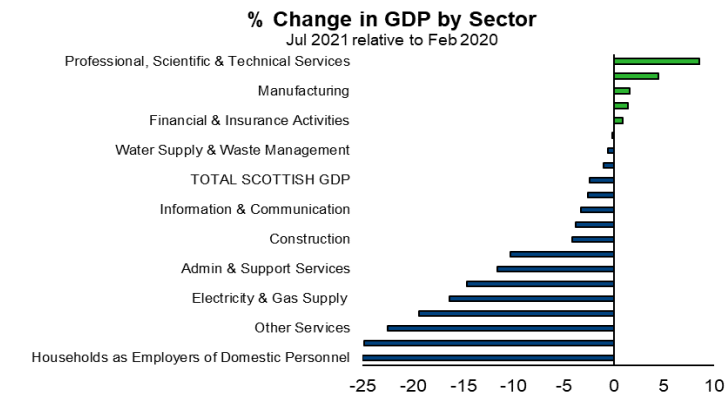
The latest [monthly GDP data](#) showed a contraction in July after modest growth since February 2021.



The contraction in [Scottish GDP growth](#) was largely due to a decline of output in the Production & Manufacturing sector.



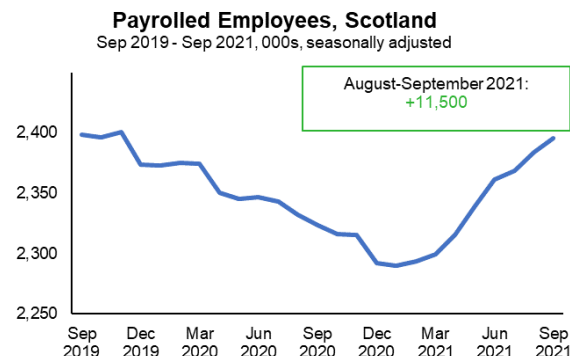
[Sectors](#) most affected by COVID restrictions remain furthest behind their pre-pandemic levels.



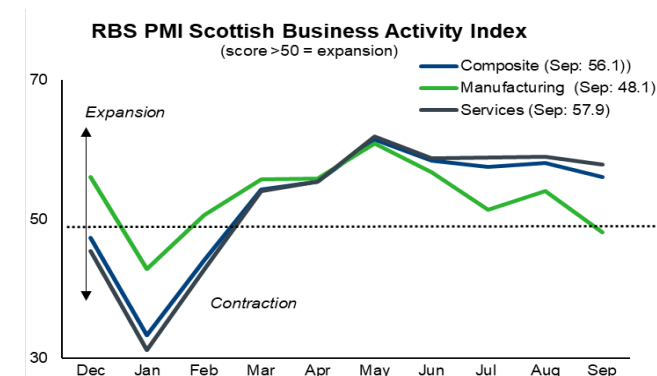
The latest headline [labour market data](#) for Scotland suggest employers are continuing to add staff as they rebuild capacity and respond to demand.

	RATE (JUN-AUG 2021)	QUARTERLY CHANGE
EMPLOYMENT	74.3%	+0.3%pts
UNEMPLOYMENT	4.4%	0.0%pts
ECONOMIC INACTIVITY	22.2%	-0.4%pts

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



[Private sector activity](#) in Scotland continued to expand but at a slower rate due to falls in manufacturing output.



Feedback from Scottish Enterprise Customers: October 2021

Overall Sentiment & Trends

- Based on a **small sample** from our Business Trends Survey, businesses are generally **upbeat and positive** about the next 6 months. However, staff retention and recruitment is highlighted as one of the many challenges in the near future.
- **Staff shortages** continue to be reported across almost all sectors which could lead to increased salaries.
- Businesses are continuing to explore **new ways of working** including hybrid schemes of office and home working.
- **Energy prices** have not been mentioned by businesses as major problem currently.
- **Global supply chain issues** continue to impact many sectors.

Workplace

- Some businesses have gone “**fully remote**” and have given up their physical offices while others are looking at **hybrid options**. Currently, the hybrid model appears to be the most common.
- With the increase of remote working opportunities, some businesses are concerned there will be **increased competition for skilled workers** from businesses based in locations where higher salaries may be offered - e.g. live in Edinburgh and work (remotely) for a London employer with an associated London salary.

Supply Chains

- **Increased raw material prices**, due to global supply issues, increased freight costs and transport disruption and delay are negatively impacting on business cash flow across many sectors.
- Some businesses are looking at other industries to source raw materials and repurpose them.

International

- Some tradeshows have **resumed** as a mixture of **hybrid/in-person** events.
- Getting **samples into European markets** remains difficult due to new regulations, particularly VAT rules. Although some improvements have been reported the situation remains challenging.

Transport

- Employment Agencies are approaching HGV drivers with offers of **increased salaries** and better conditions. As a result, some transport companies are putting **incentives** in place to retain staff.
- Labour shortages in the logistics sector now extend beyond HGV drivers, with **warehouse staff** and **van drivers** also increasingly scarce.

Sectors

Energy

- There is a shortage of offshore drillers as many have left the **oil & gas** sector.
- Net zero and climate change are very much on the business agenda with many looking at **opportunities** within battery manufacturing and energy transition.
- Some businesses within the oil & gas sector supply chain have said they are not recruiting graduates as they do not have time to **mentor** them.

Food and Drink

- There remains concern over **CO2 supply issues** and the impact it will have on the food and drink supply chain. The gas is used to package food, stun animals for slaughter and to carbonate drinks.
- **Logistic prices** and lack of flight options continues to have a negative impact on the overall cost and availability of shipping food and drink products, particularly seafood.

Life Sciences

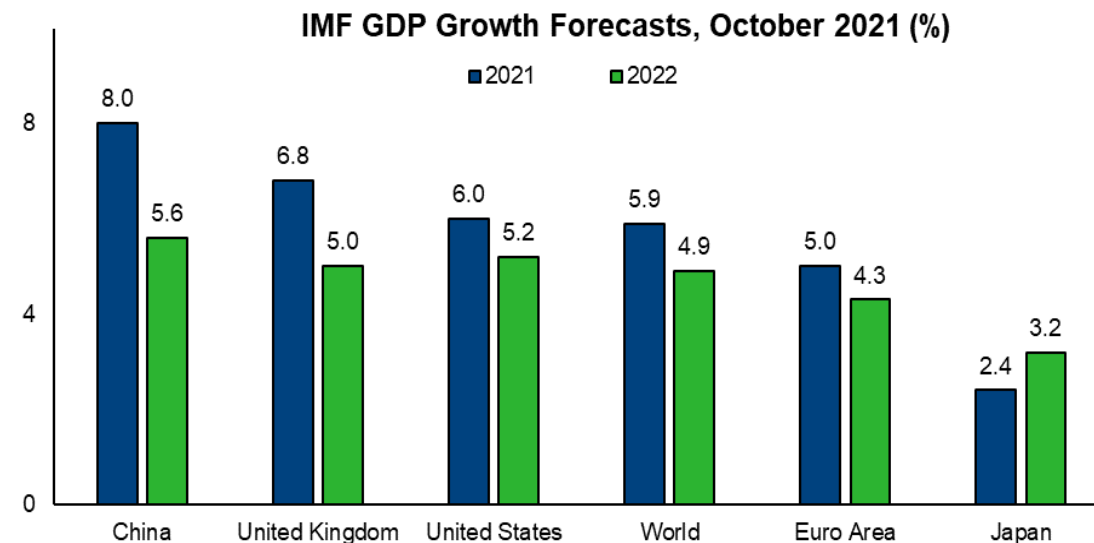
- Life Science businesses are reporting issues **recruiting** and **retaining** staff at all levels. Salaries in the sector are increasing due to a combination of staff 'poaching' or to retain key staff.

Hospitality and tourism

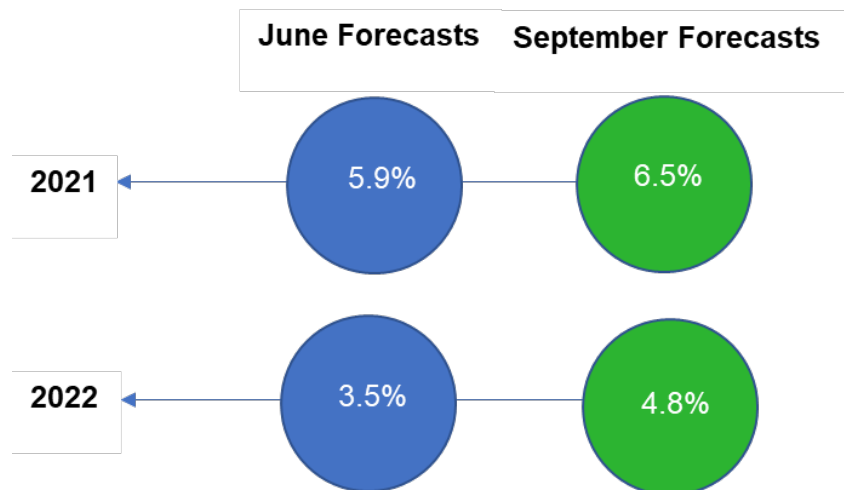
- The hospitality sector is facing major **recruitment challenges**. In some cases, due to the shortage of staff, new recruits are not always receiving the level of induction or support that would normally be provided and are choosing to leave.
- Many businesses are still in **survival mode** and not yet in recovery. Concerns remain about the autumn and winter months ahead with continued staffing challenges and rising costs.
- There continue to be issues filling vacancies within the hospitality sector, especially **chefs** and **kitchen staff**; others may leave the sector due to the long, unsocial hours.
- A shortage of staff can, in some cases, result in a **reduced menu** offering, fewer covers and shorter opening hours.

Economic Forecasts

The IMF [forecasts](#) the global economy will grow 5.9% in 2021, slightly lower than its summer forecast (0.1 percentage points). Although **economic growth has picked-up during 2021**, driven by the rollout of vaccines, policy support and the lifting of restrictions. countries have recovered at different rates, and this pattern of **uneven growth** is likely to continue into 2022 and potentially beyond. The IMF points to **headwinds** such as rising prices and further supply chain disruptions as potential brakes on growth.



Fraser of Allander Scottish GDP Growth Forecasts (%)



Fraser of Allander Forecasts

The [Fraser of Allander Institute](#) is forecasting **Scottish GDP growth** of 6.5% for 2021 and 4.8% for 2022, similar to the IMF's UK forecasts. Forecasts for both years has been **upgraded** due to after higher-than-expected actual growth in Q2.

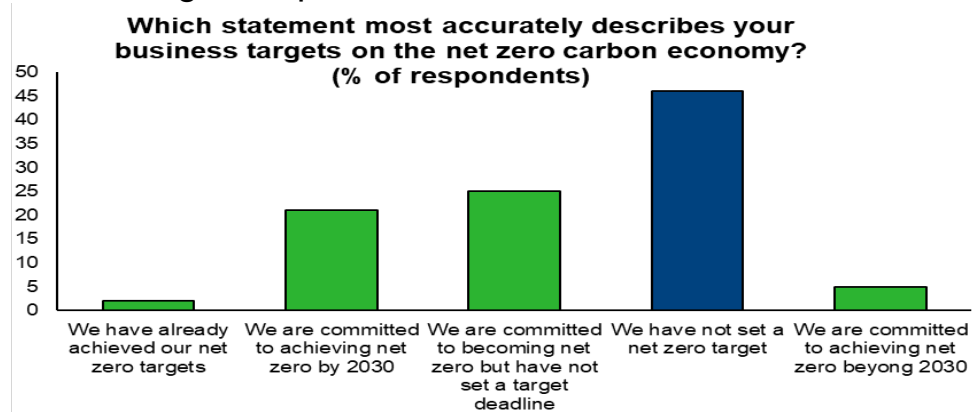
The Scottish economy is expected to return to its pre-pandemic size by April 2022.

Challenges & Opportunities

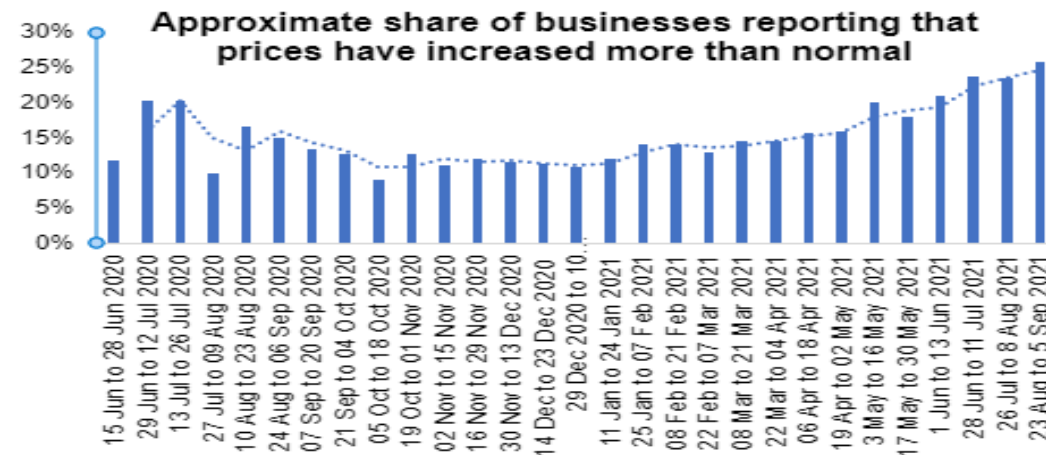
As the **furlough scheme** comes to an end, more Scottish businesses are [expecting to make redundancies](#).



As **COP 26** comes to Glasgow this month, companies are [considering their own commitment to Net Zero](#). According to a recent survey, **only 2% of Scottish businesses** already have net zero targets in place.



Businesses are under increasing **cost pressures** with more [reporting rising prices](#).



[Business confidence in Scotland](#) (and across the UK increased) in September however, supply chain disruptions may have negatively impacted confidence since then.

