

Economic Commentary

February 2022

All data represent most recent available as of February 15th, 2022

All major global economies **reported growth in the final quarter of 2021** as generally looser COVID restrictions led to a rebound in consumer spending, despite rising COVID infections in some countries late in the quarter.

The **UK economy** expanded by 1.0% in the final quarter, bringing annual growth in 2021 to 7.5%. Recent business surveys suggest business activity has regained momentum following disruption caused by the Omicron outbreak in December.

Scottish economic output rose above its pre-pandemic level for the first time in November, following a similar pattern as the rest of the UK. Business activity also appears to have navigated the Omicron outbreak largely unscathed, expanding for an eleventh consecutive month in January.

Demand for workers remains strong, and businesses appear increasingly confident to hire **permanent staff**.

Businesses across most industry sectors continue to report **recruitment difficulties, inflationary pressures** (rising energy, staff and raw materials costs), and **some supply chain disruption**. Around a quarter of exporters are **exporting less** than normal.

The biggest opportunities reported by businesses over the next year are around **new markets, products and international growth**.

Global GDP is likely to **continue to recover in 2022 but at a slower pace than previously expected**, reaching 4.4%. The recovery has been adversely affected by the latest COVID-19 outbreak, along with continued supply disruptions and rising energy prices which have led to higher than anticipated rates of inflation, most notably in the US, which is likely to negatively impact consumer spending.

The latest independent forecasts for Scotland predict GDP growth of around **4.8% in 2022**.

SUMMARY

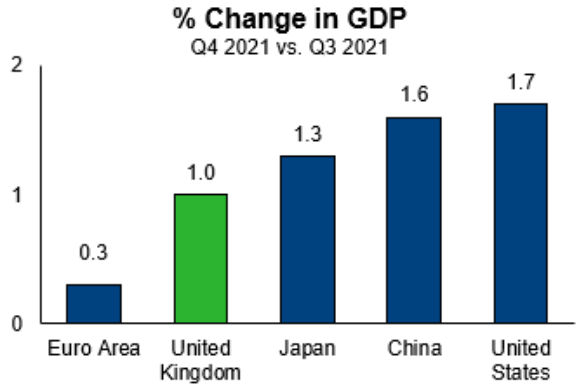
RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

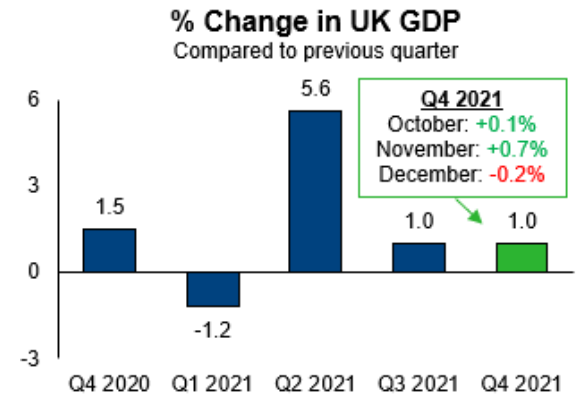
FORWARD LOOK

Global/UK

All major economies grew in the [final quarter of 2021](#) as consumer spending rebounded, despite rising COVID cases in some countries towards the end of the year.

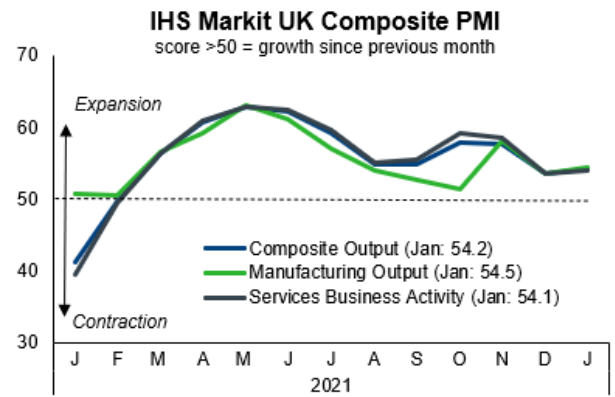


In the UK, [ongoing quarterly growth](#) masked disruption caused by the Omicron variant in December. The economy grew 7.5% over 2021 as a whole, led by a strong rebound in Spring when lockdown restrictions were lifted.



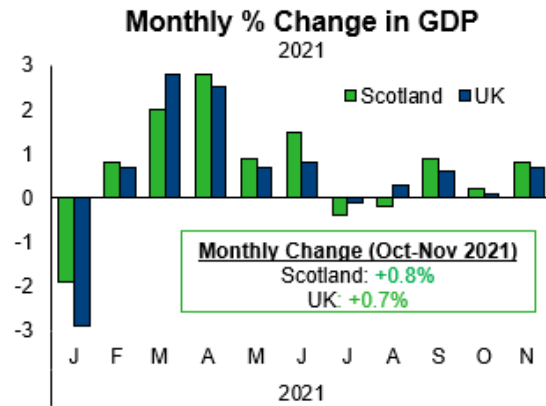
Recent [business surveys](#) suggest a slight rebound in UK private sector growth in January as constraints from the Omicron outbreak began to ease and customer demand rebounded.

This uptick was reflected across the UK, with most [regions](#) reporting greater increases in business activity in January than in December. The North East of England recorded the only fall in output in January.



Scotland

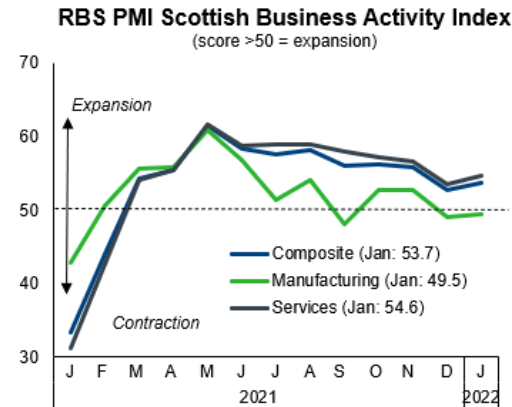
[Scotland's GDP](#) grew by 0.8% in November as output rose above its pre-pandemic level of February 2020 for the first time.



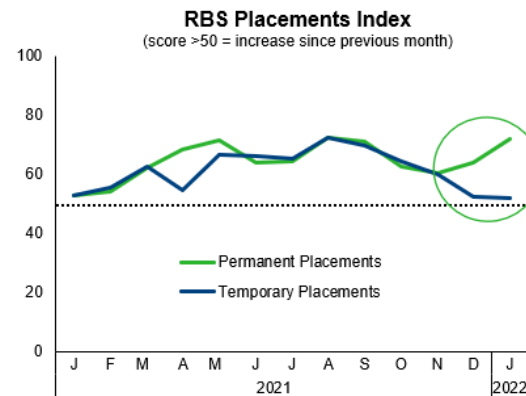
The latest [labour market data](#) for Scotland suggest employers are continuing to respond to rising demand by adding staff.

	RATE (OCT-DEC 2021)	ANNUAL CHANGE
EMPLOYMENT	74.1%	+0.8%pts
UNEMPLOYMENT	4.1%	-0.5%pts
ECONOMIC INACTIVITY	22.6%	-0.5%pts

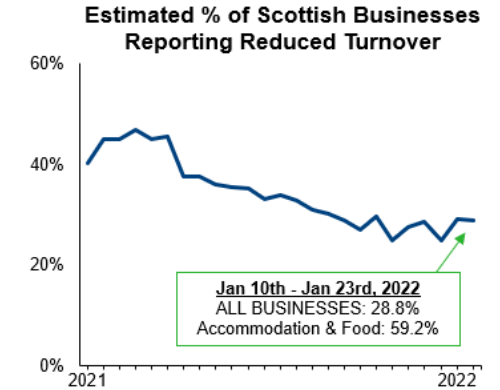
Private sector business activity expanded for an eleventh consecutive month in [January](#), although supply issues again appeared to weigh on manufacturers.



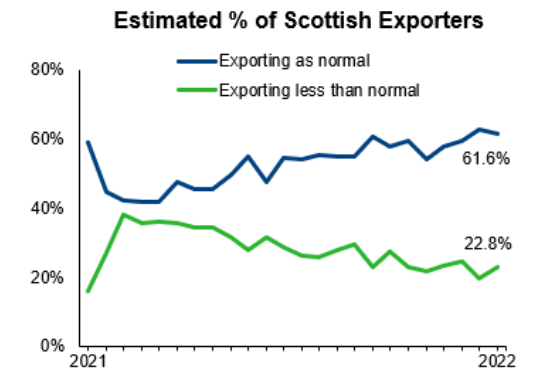
Businesses are also increasingly favouring hiring [permanent roles](#) as confidence around the economic outlook strengthens.



A downward trend in the proportion of businesses reporting [reduced turnover](#) also masks ongoing challenges in consumer-facing sectors.



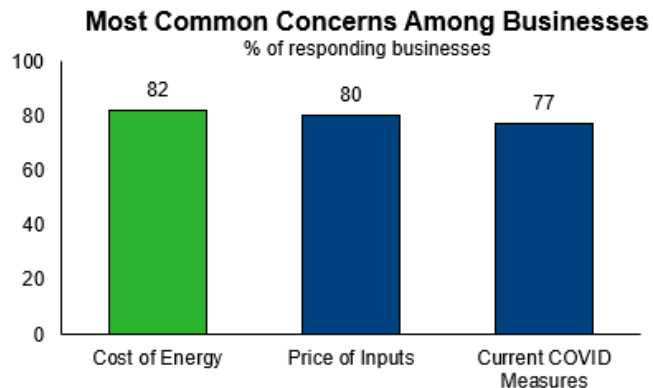
Almost 1 in 4 exporters were [exporting less than normal](#) in early January. Ongoing issues relating to the pandemic and Brexit were cited as the main challenges.



Scotland

SUMMARY

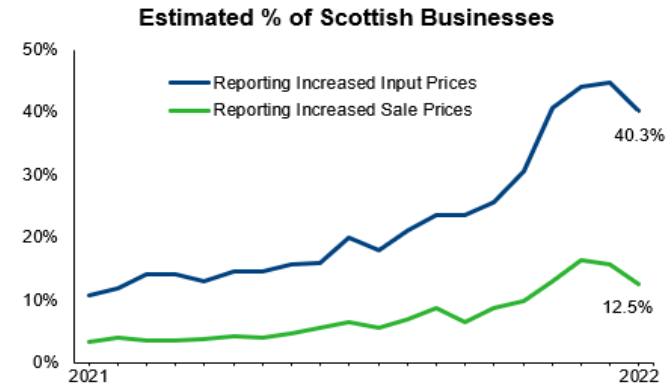
The [cost of energy](#) has rapidly become the most common concern among Scottish businesses, with 1 in 5 even expecting to reduce activity due to price increases.



[Staff shortages](#) continue to impact virtually all sectors, and vacancies are proving increasingly [difficult to fill](#).



40% of businesses reported [increased input prices](#) in January, but not all are passing increased costs on to customers - eroding margins and potentially undermining future working capital.



Many businesses are responding to staff shortages by increasing hours or recruiting temporary workers, but a significant proportion have simply been [unable to meet demand](#).



RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

FORWARD LOOK

Feedback from Scottish Enterprise Customers

SUMMARY

SE Business Trends Survey Findings

- In January, 42% of [responding businesses](#) were **confident** in Scotland's economic outlook, with **12% not confident**. The remaining 46% were **uncertain**.
- Ongoing challenges associated with **COVID-19 and Brexit** are cited as the most common reason for uncertainty.
- However, when asked about **their own performance** in the next 6 months, **businesses are more positive** with the majority expecting turnover, employment, exporting and profitability all to increase.
- Drivers of future growth are expected to be **increasing demand for products and services, new businesses opportunities** (e.g. entering new markets) and **launching products or services**.
- Conversely, the biggest **challenges** over the same period are expected to be around **recruiting staff, cost pressures**, including **rising energy prices**, and **supply chain disruptions**.

Brexit

- Some businesses continue to face challenges with exporting customs **paperwork**, in particular the **amount of time** taken to process forms.
- Businesses also continue to report **export delays at ports** if there are any discrepancies in paperwork.

Workforce

- **Staff shortages** are one of the most consistent and **important challenges** currently **facing businesses**. Many businesses across **all sectors** are having **recruitment difficulties** as activity returns to normal.

A key cause of recruitment challenges cited by businesses is the **lower availability of EU nationals** that has significantly reduced the pool of potential staff.

Businesses are also struggling to find **multilingual staff** – particularly those with a specific skill set e.g. languages and financial services skills.

Low availability of staff means many businesses are resorting to **'poaching' workers** from other employers. And some businesses are offering **financial incentives (e.g. 'golden hellos', bonuses, etc)** to attract and retain staff.

Staff shortages and recruitment challenges are putting **upward pressure on wages**. However, some businesses are struggling to pay higher wages, and are seeking to **renegotiate contracts** with customers to raise prices to offset rising labour costs.

Businesses also expect April's increase in the **national living wage and national insurance tax rise** to be a further challenge to wage costs.

Some businesses report that lack of staff is impacting on their ability to **operate at full capacity**.

Workplace

- A **hybrid working** model continues to be offered by businesses which allows a combination of home working and office working.
- Many businesses are **renovating and improving** their workplaces to **encourage workers** back in. Others are developing **collaborative working spaces** to boost **innovation** and **productivity**.

Energy prices, supply costs and supply chains

- Businesses are experiencing or bracing themselves for higher costs from rising **raw materials** and **energy prices**.
- However, many are not yet seeing the full impact of rising **energy prices** as they have fixed contracts in place.
- **Supply chain issues (delays and costs)** are ongoing – particularly for goods/materials that are imported from China – due to the lack of global containers, increased shipping costs and port duties (one company reported the cost of a container has risen from a norm of \$1,800 to \$22,000).
- Most businesses expect **delays** in getting supplies to continue, and this may **impact on timescales** for some projects and contracts.

- Some **small businesses** report that they struggling to compete with large businesses for **raw materials** (e.g. glass and cardboard), as suppliers are tending to **prioritise** larger business customers.
- Some businesses are having to **re-negotiate contracts with clients** due to higher input and raw material costs.
- Rising costs of production and upward pressure on wages are both having a **negative impact on working capital** for some businesses.
- Some businesses report that they **still not running at full capacity** due to ongoing supply chain problems.

Sectors

- Many **oil & gas supply chain** businesses are looking to **diversify** into offshore wind and the development of heat pumps.
- **Life sciences** businesses have generally performed very well during the pandemic, and have **increased investment** (e.g. additional warehouse space, manufacturing facilities etc). Some have, though, **struggled to find staff**.
- Fuel is the biggest cost for **tour operators**, and some report that this has risen by one third in a year.
- **Construction** businesses report delays in processing **planning applications**, due to council planning departments' staff shortages, and this could result in delays to building projects.

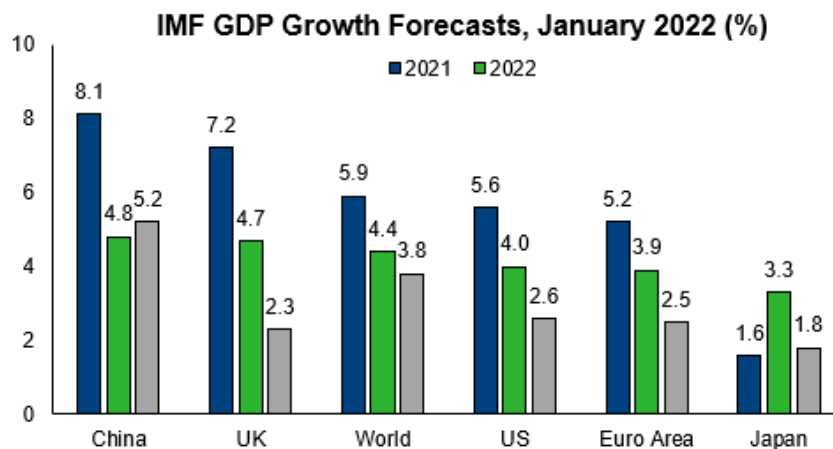
Economic Forecasts

SUMMARY

Global Forecasts

The latest [IMF](#) forecast suggests global GDP is likely to continue to recover in 2022, but at a **slower pace** than previously expected, reaching 4.4%.

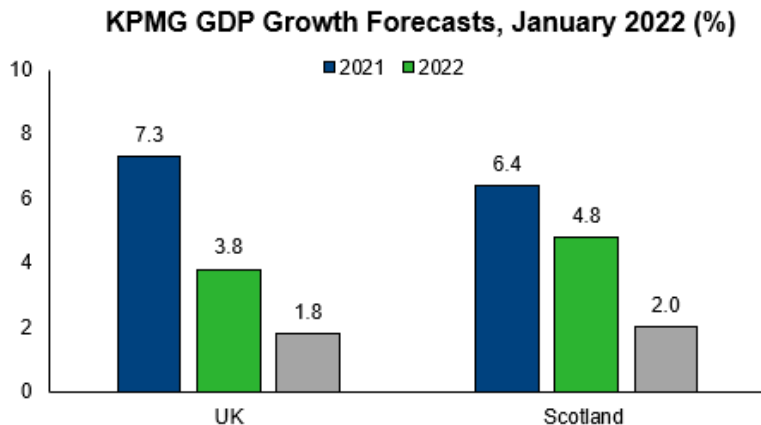
Global economic recovery has been adversely affected by the Omicron variant, with many major economies reintroducing further restrictions. Continued **supply disruptions** and **rising energy prices** have also led to higher than anticipated inflation, which is likely to negatively impact consumer spending.



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FORWARD LOOK



Scottish Forecasts

[KPMG](#) is forecasting economic growth of 4.8% in Scotland over 2022 compared to 3.8% for the UK, reflecting **recovery from more stringent restrictions** north of the border.

Growth is expected to gradually slow over the next few years as a result of **both demand and supply side pressures**. Elevated inflation, rising taxes and borrowing costs are likely to squeeze households' purchasing power, while ongoing supply chain issues and a tight labour market may act as constraints on growth. Growth is expected to pick up across all UK regions after March 2022.