# Economic Commentary

January 2022

*All data represent most recent available as of January 21st, 2022*

Insights & Economics

Scottish Enterprise

SUMMARY

RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

FORWARD LOOK

**Global business activity** slowed in November mainly due to of supply chain problems and a deceleration in consumer spending as Covid-19 restrictions increased in many countries. Growth though was still recorded, particularly in the US.

The **UK economy** grew by 0.9% in November and reached **pre-pandemic levels** (of February 2020). However, this was before the latest Omicron outbreak, and more recent business surveys suggest that business activity growth has slowed, although demand for workers remains strong.

**Scotland's economy** is following a similar pattern of slower growth but with a resilient labour market.

Businesses across most industry sectors are continuing to report challenges such as **inflationary pressures** (rising energy, staff and raw materials costs), **recruitment difficulties** and **some supply chain disruption**. These are leading to businesses becoming increasingly uncertain about prospects.

Labour shortages are leading some employers to **increase wages and offering other incentives** such as enhanced benefits packages to attract and retain talent.

**Hybrid models of working** are continuing to be offered by many businesses allowing a combination of home and office working.

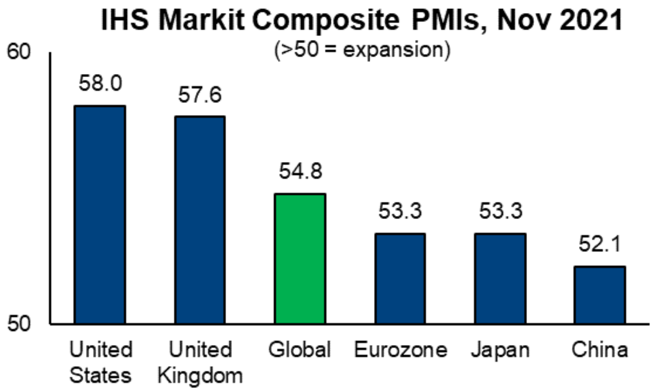
Global GDP is likely to **continue to recover in 2022,** but recovery is likely to be **unbalanced** with lower income countries with low rates of vaccination seeing less of a rebound. There are imbalances in advanced economies too, with **acute labour shortages for some sectors** combined **with rising prices for goods and services where supply outstrips demand**.

The latest forecasts for Scotland predicts a return to **pre-pandemic GDP levels by 2022Q2.**

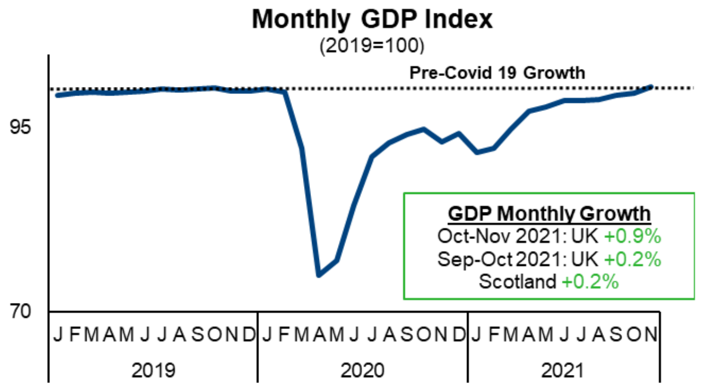
**Supply side pressures (staff and costs in particular) remain a significant and rising challenge** for Scottish businesses, despite increasing consumer sentiment in November.

## Global/UK

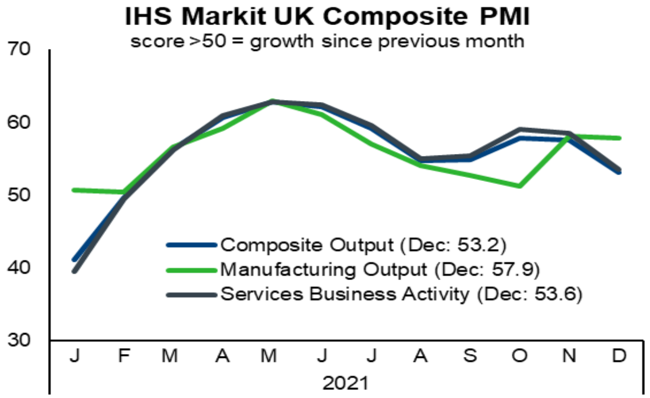
Global business activity slowed in November, though growth was still recorded, particularly in the US. The slowdown was likely as a result of supply chain problems and a deceleration in consumer spending.



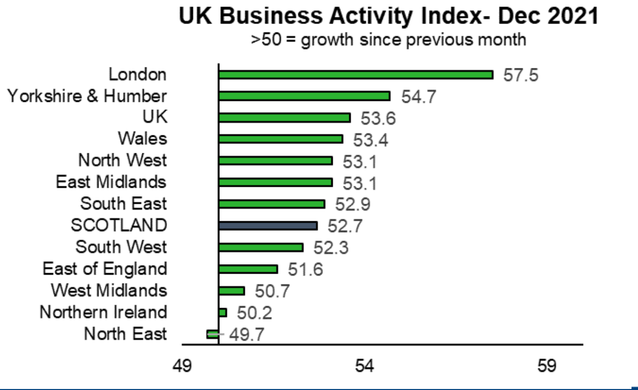

The latest UK monthly GDP data for November showed the economy growing by 0.9% and output exceeding its pre-pandemic level (of February 2020), though this was before the latest Omicron outbreak.




Recent business surveys show a slowdown in UK private sector growth to a 10-month low as Omicron restrictions hit consumer spending. Employment rose again and there were some signs that the supply chain crisis has started to stabilise.




Growth slowed across all UK regions and contracted in the North East in December due to the resurgence of COVID-19. Activity levels however, seem to have been less affected compared with previous Covid waves due to comparatively lighter restrictions.



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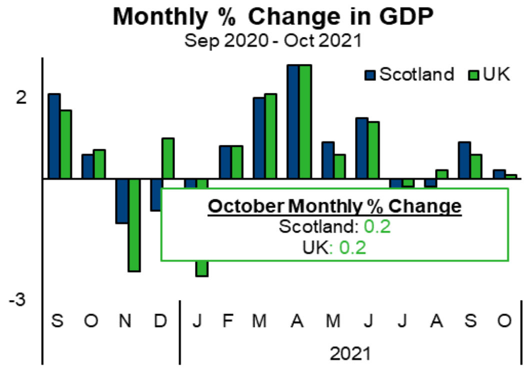
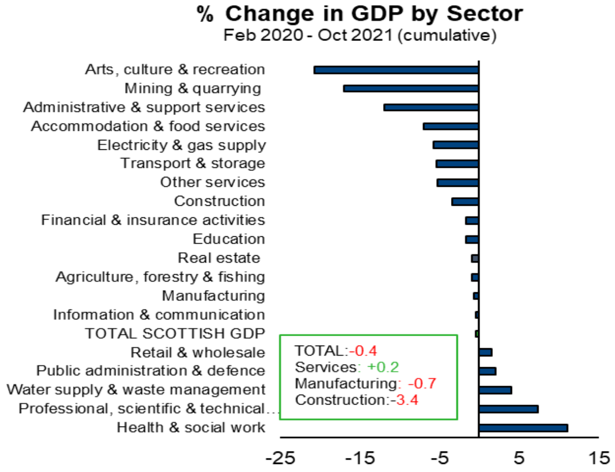
# Scotland

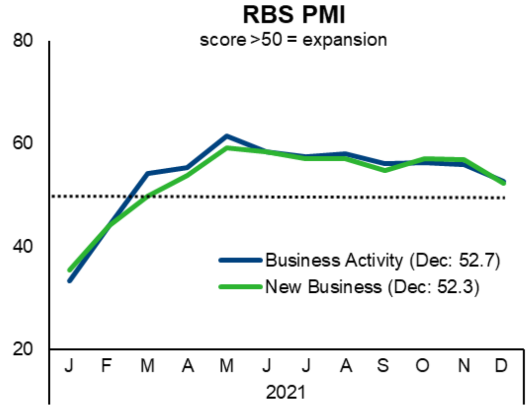
The latest monthly GDP data suggest a slowdown in growth in the Scottish economy near the end of 2021.




Economic output was still below its pre-pandemic level in October (-0.4%) with the Construction sector being worst hit.



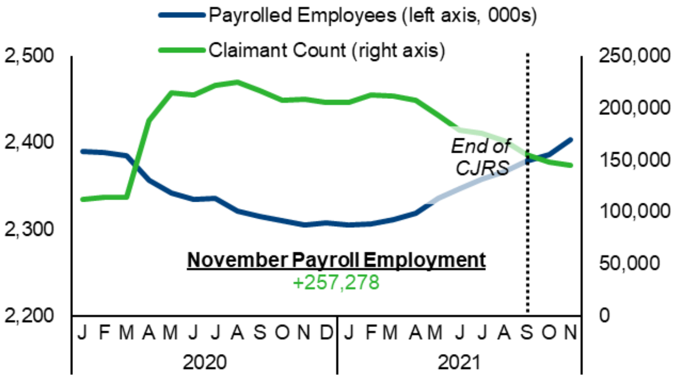

Scottish private sector activity continued to increase in December, but at its weakest pace in 10 months, while growth in new work also eased.



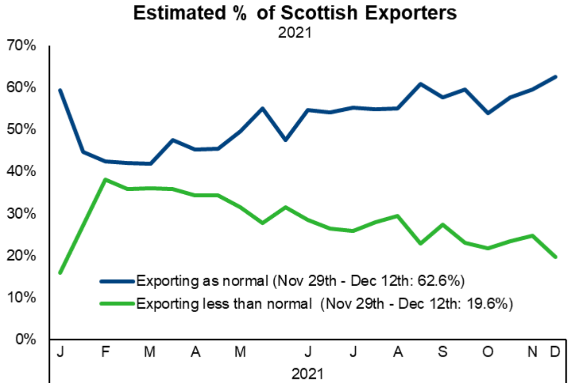

The latest labour market data for Scotland suggest employers are continuing to respond to rising demand by adding staff.

| | RATE (SEP-NOV 2021) | QUARTERLY CHANGE |
|---|---|---|
| EMPLOYMENT | 75.1% | +0.8%pts |
| UNEMPLOYMENT | 3.6% | -0.8%pts |
| ECONOMIC INACTIVITY | 22.1% | -0.2%pts |

This is consistent with payroll data for November which saw a strong rise in payroll employment.




By the end of 2021, 63% of exporters were exporting at normal levels again, perhaps a sign that businesses are adapting to new EU restrictions.



# Feedback from Scottish Enterprise Customers: January 2022

## Overall Sentiment & Trends

- Based on a **sample** from our Business Trends Survey, businesses are **uncertain** about the economy and its prospects.
- Challenges continue around **supply chains**, **recruitment** and **retention** of staff, **rising costs** and the ongoing pandemic.

## Workforce

- As businesses compete for staff many are offering **increased salaries** and other **incentives** such as enhanced benefits packages.
- In **construction**, there is a shortage of experienced **labourers**, **bricklayers** and **joiners**.
- Shortages of **engineers** across the board from apprenticeship level upwards have been reported. Many experienced engineers have left the industry through **retirement/early retirement.**
- There is a shortage of **meat processors** as many experienced workers left the UK following Brexit. In some cases, carcases have been sent to the England for butchering due to the lack of skilled workers.
- There is a shortage of **software engineers** which is, in part, due to the demand for technical skills from businesses moving into ecommerce or increasing digital projects. Businesses are having to offer a **20-30% uplift** in salary and it is difficult for small companies to compete.
- Some businesses that have growth projects supported by SE underway (e.g. Regional Selective Assistance support) are **struggling to recruit staff** and as a result are seeking extensions to the projects.
- **Remote working** is being offered by many IT businesses, which is also impacting on salaries e.g. can live in Edinburgh but work for a London based company and earn a London based salary.

## Workplace

- A **hybrid working** model continues to be offered by some businesses which allows a combination of home working and office working.

## Finance

- With the challenges of Covid and Brexit over the past couple of years, some businesses have had to use their **cash reserves** to keep operating. This means there is less resource for R&D and investment.

## Construction

- The costs of materials is **increasing**, and shortages of timber, steel and concrete have been reported e.g. the price of aluminium has risen by 70%. This will impact some projects currently underway or planned.
- Some businesses can absorb these costs in the short term but eventually they will be **passed onto customers**.
- Businesses are concerned about **bidding for work** as they may not be able to secure materials.

## Energy

- Many businesses are identifying **potential opportunities** in the **low carbon sector** e.g. floating offshore wind/wave, green hydrogen and carbon capture. Decarbonising oil and gas also has the potential to offer opportunities.

## Events

- Many businesses have returned to **international travel** (e.g. attending COP 26 and Expo in Dubai) however hybrid events are also taking place.

## Food and Drink

- Disruption and delay for businesses that **export** via Grangemouth or Greenock have been reported. Some are finding it difficult to book container slots due to a backlog of containers needing to depart, a shortage of vessels and the delayed arrival of incoming containers which is all resulting in gridlock.

## Hospitality

- The current **Covid restrictions** for restaurants and pubs have had a huge impact on the sector due to cancelled bookings - up to 30% of turnover is made in the festive period – and there is a concern that many fail.

## International/Trade

- The extra paperwork and customs processes that are now in place for businesses **trading with the EU** means that products continue to get delayed in ports (both for importing and exporting) and that **supply chains** continue to be badly impacted.
- Some small **Scottish businesses** who order only **limited quantities of stock**, can't source from **Scottish suppliers** e.g. as don't meet minimum order requirements. They, therefore, need to **source from overseas** and are consequently **impacted** by the **new customs procedures.**

# Economic Forecasts

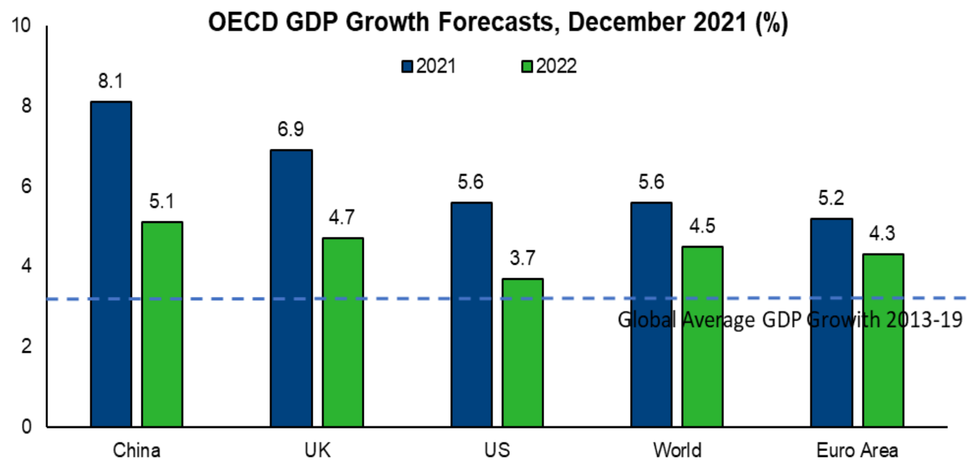
## Global Forecasts

The most recent OECD growth forecasts (pre-Omicron) show global GDP likely to continue to recover in 2022, reaching +4.5%.

The recovery in the global economy however remains unbalanced, with lower income countries with low rates of vaccination seeing less of a rebound.

The recovery is also imbalanced in advanced economies, due to acute labour shortages for some sectors combined with rising prices for goods and services where supply outstrips demand.

The latest Omicron wave of Covid-19 is likely to act as a drag on growth as further restrictions were introduced, though the full economic impact is yet unknown.

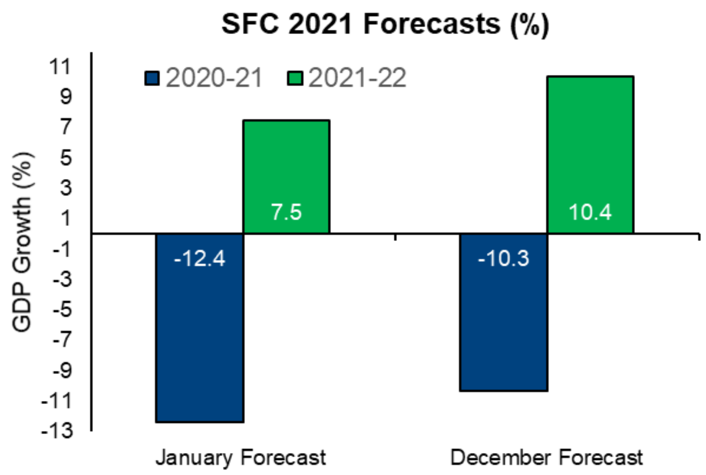



## Scottish Forecasts

Forecasts for 201-22 produced by the Scottish Fiscal Commission have been revised upwards, with growth of 10.4% now expected for 2021-22.

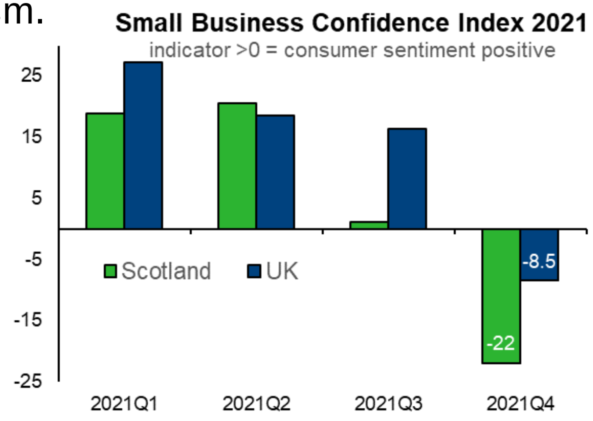
The positive revisions were made as a result of restrictions being lifted faster than anticipated and the economy adapting faster to restrictions than expected. GDP is expected to return to pre-pandemic levels by 2022Q2

The forecasts were produced prior to the emergence of Omicron but the SFC are confident that restrictions introduced shouldn't affect their central growth estimates.

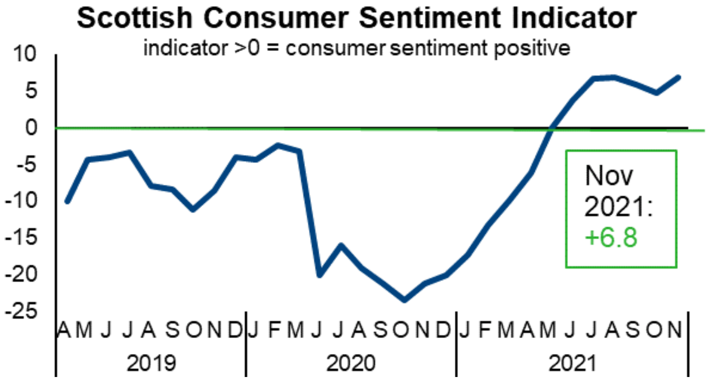


## Challenges & Opportunities

Confidence amongst small Scottish businesses fell in Q42021 and was lower than other parts of the UK with fuel, utilities and other costs rising and impacting negatively on business optimism.




Scottish consumer sentiment rose again in November prior to restrictions being introduced in December. Consumer spending is one of the main drivers of economic growth.




Cost pressures continue to be a concern for many sectors of the economy in Q4 2021 with as many as 91% of construction businesses reporting inflation as a concern.

| Concerns over inflation (% of responding businesses) | Q42021 | Q3 2021 |
|---|---|---|
| Construction | 91 | 80 |
| Financial and Business Services | 60 | 43 |
| Manufacturing | 85 | 80 |
| Retail and Wholesale | 63 | 55 |
| Tourism | 69 | 60 |

The majority of Scottish businesses state they have either achieved or set targets to meet Net Zero targets by 2030. However, a significant proportion have not. Cost is highlighted as the most significant barrier but businesses also recognise the benefits of investing in Net Zero measures such as efficiency savings.

**59%**

Businesses that had achieved or set Net Zero targets

**41%**

Businesses that had not set Net Zero targets