

# Economic Commentary

October 2024  
Insights and Economics



## Economic Commentary: Highlights

### SUMMARY

- Global business activity growth slowed to an eight-month low in September. Across major economies, the US, the UK and Japan showed the strongest growth while the eurozone business activity contracted.
- Global business activity is being driven by the service sector as manufacturing output contracted in many major economies including the US, China, Japan and the eurozone.

### ECONOMIC DATA

- The UK economy returned to modest growth in August (+0.2%) following zero growth in June and July. The Scottish economy grew by 0.3% in July, after zero growth in June.
- UK business activity rose across almost all nations and regions in September, but growth eased. Business confidence generally eased.
- In Scotland, business activity grew for the 9th consecutive month in September, but at a slower pace than August. Output is being driven by the service sector as manufacturing contracted.

### SE CUSTOMER SENTIMENT

- Scotland's unemployment rate fell by 1 percentage point over the year to August to 3.9% (UK, 4.0%), and the employment rate fell by 0.5ppts to 73.7%, below the UK (75%). Worker shortages and recruitment difficulties remain an issue for businesses.
- Headline UK consumer price inflation eased to 1.7% in September, down from 2.2% in August and below the Bank of England's 2% target for the first time since 2021.
- SE customers are generally more optimistic than this time last year and taking forward investment plans. The main challenges continue to be accessing skills and property, and input costs.

### OUTLOOK

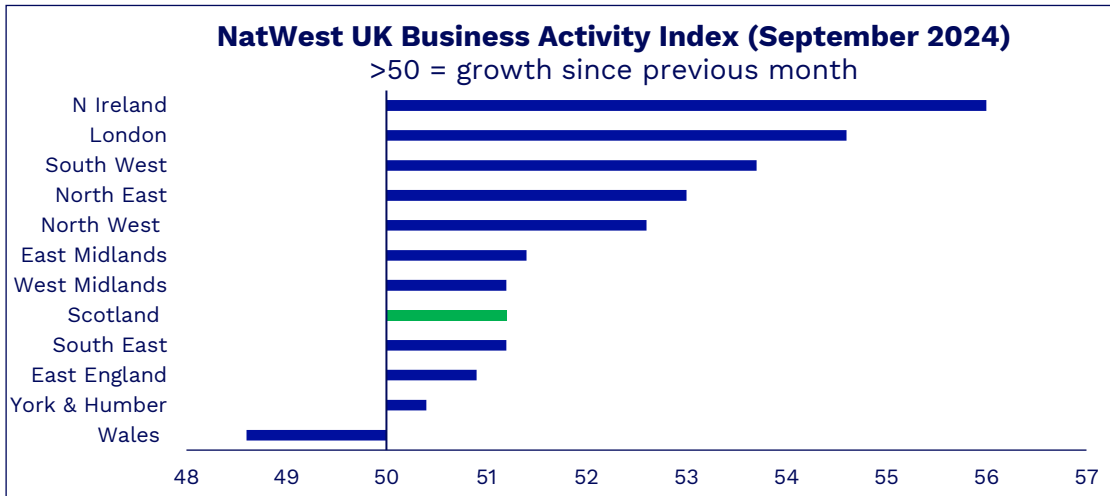
- The OECD is forecasting global economic growth of 3.2% in both 2024 and 2025, as falling inflation, improving real incomes and less restrictive monetary policy underpin demand.
- The Fraser of Allander Institute is forecasting 0.9% GDP growth in 2024, rising to 1.1% in 2025 and 1.2% in 2026. Although this is an upward revision to previous forecasts, the Institute notes that stalling growth over recent months highlights ongoing economic fragility which will dampening growth potential in the medium-term.

## Global/UK

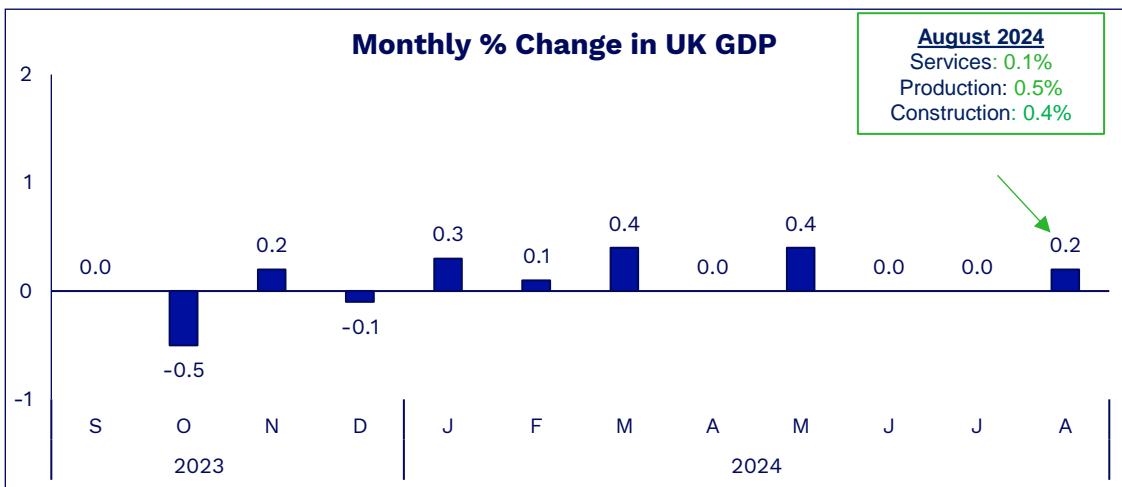
Global [business activity](#) slowed to an eight-month low in September as service sector activity expanded at a slower rate and manufacturing output declined. Activity slowed across all major economies, and manufacturing output contracted in the US, China, Japan and the eurozone.

Business Activity Index (>50 indicates increase vs previous month)									
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Change on month
<b>Global</b>	52.1	52.3	52.4	53.7	52.9	52.5	52.8	52.0	↓
<b>US</b>	52.5	52.1	51.3	54.4	54.8	55.0	54.6	54.4	↓
<b>UK</b>	53.0	52.8	54.1	52.8	52.3	52.7	53.8	52.6	↓
<b>Japan</b>	50.6	51.7	52.3	52.4	49.7	52.6	52.9	52.5	↓
<b>China</b>	52.5	52.7	52.8	54.1	52.8	51.2	51.2	50.3	↓
<b>Eurozone</b>	49.2	50.3	51.7	52.2	50.9	50.2	51.0	49.6	↓

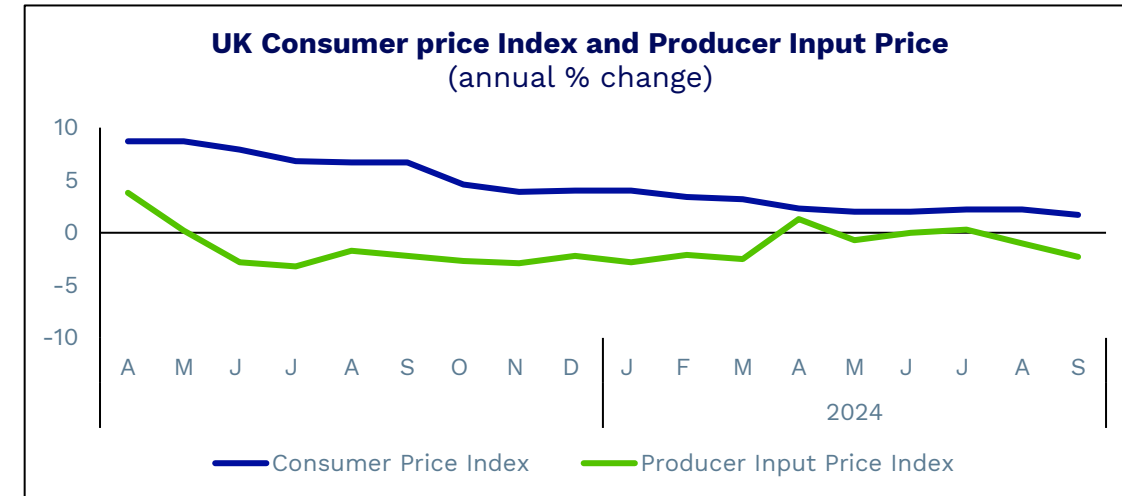
[UK business output](#) rose across nearly all nations/regions in September; however, the rate eased in most areas, including Scotland. Future sentiment eased but remained positive across the UK, although businesses in Scotland are amongst the least confident.



[UK GDP](#) grew by 0.2% in August, after zero growth in both June and July. Growth was broad-based across the production (+0.5%), construction (+0.4%) and services (+0.1%) sectors. Over the 3 months to August, the economy grew by 0.2%.



[Annual consumer price inflation](#) was 1.7% in September, down from 2.2% in August and below the Bank of England's 2% target for the first time since 2021. Both core (down to 3.2%) and services (down to 4.9%) inflation eased. [Producer input prices](#) fell by 2.3%.



SUMMARY

RECENT ECONOMIC DATA

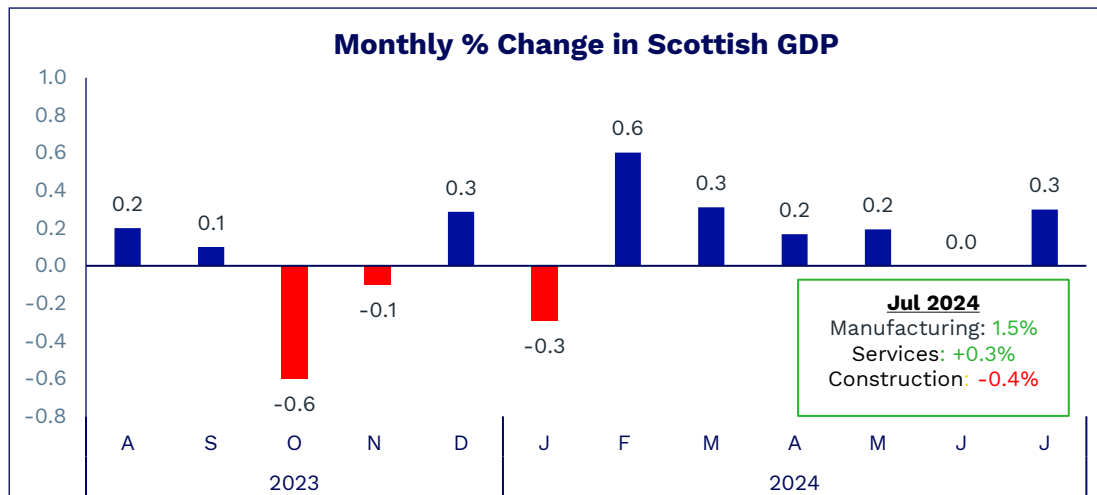
CURRENT BUSINESS SENTIMENT

OUTLOOK

## Scotland

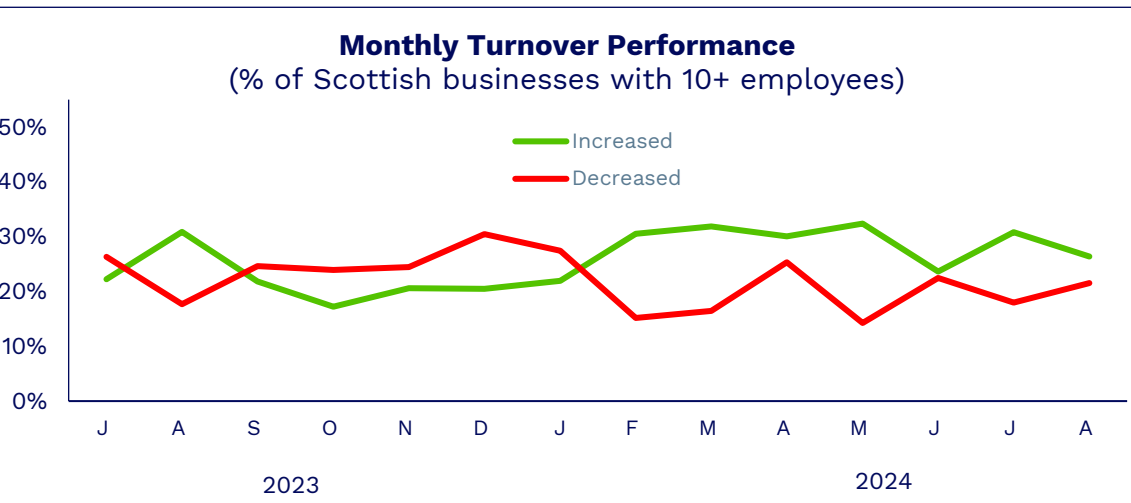
SUMMARY

The [Scottish economy](#) grew by 0.3% in July, after flatlining (0%) in June. Output was up in the manufacturing sector (+1.5%) and in services (+0.3%) but fell in construction (-0.4%). In the three months to July, GDP grew by 0.3%, slightly below the UK's rate (+0.5%).



RECENT ECONOMIC DATA

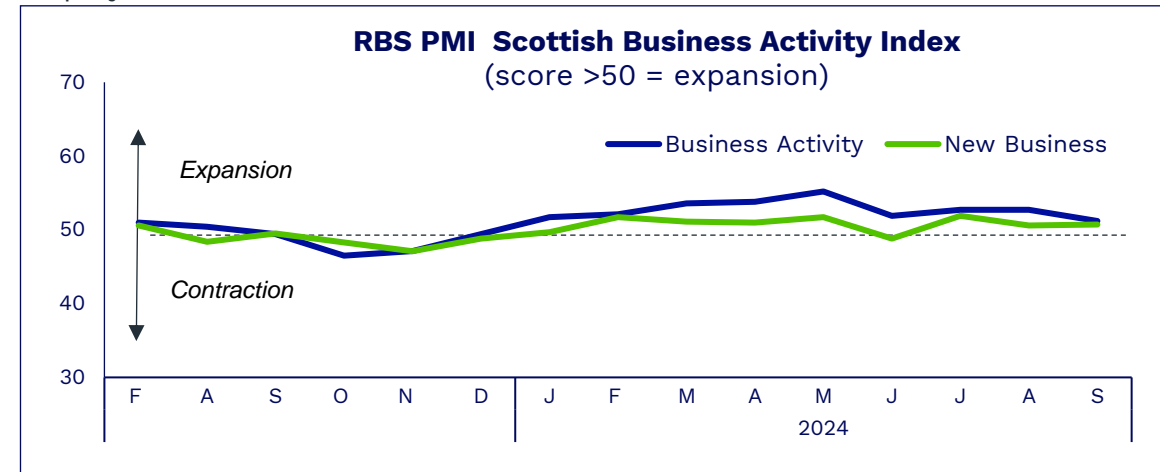
In August, the proportion of businesses reporting a [rise in monthly turnover](#) fell to 26%, whilst 22% reported a decrease. Overall, so far in 2024 more businesses have been reporting an increase in monthly turnover than a decrease. The main challenges affecting turnover continue to be the cost of labour, competition and economic uncertainty.



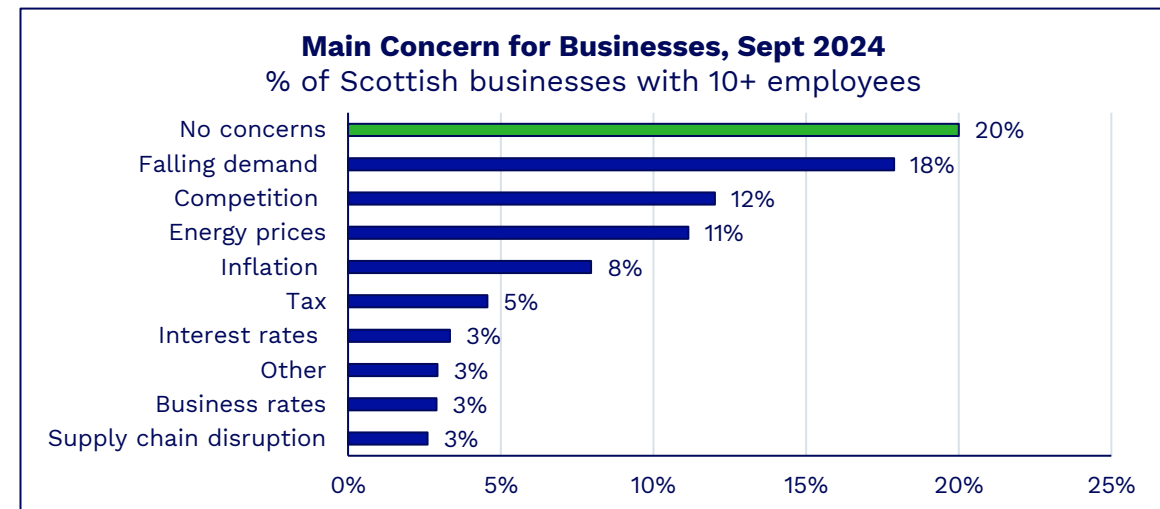
CURRENT BUSINESS SENTIMENT

OUTLOOK

[Scottish business activity](#) rose in September for the 9<sup>th</sup> consecutive month, but at a slower pace than in August. Service sector growth cooled, and manufacturing contracted for the 15<sup>th</sup> consecutive month. Businesses reported a modest increase in new business orders, and a mild rise in employment.



Excluding staffing issues, the [main concern for businesses](#) remains falling demand followed by competition from other UK businesses and energy prices. 20% of businesses reported no major concerns. Inflation seems to have become less of a concern, falling from 11% in August to 8% in September.



## Scotland

SUMMARY

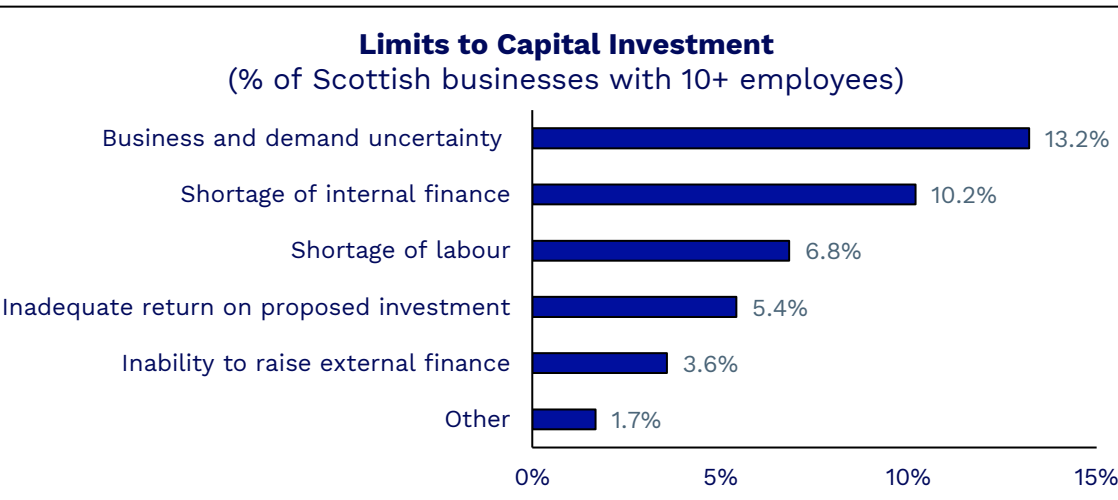
Scotland's [unemployment](#) rate decreased by 1 percentage point to 3.9% (UK, 4.0%) over the year to August. The employment rate fell by 0.5ppts to 73.7%, below the UK (75%); economic inactivity was up 1.2ppts to 23.2% (UK, 21.8%). Median monthly wages increased by 4.9% to £2,441 in the year to September 2024 (+5.3% for the UK).

RECENT ECONOMIC DATA

	RATE (June – August 24)	ANNUAL CHANGE
EMPLOYMENT (16-64)	73.7%	-0.5%pts
UNEMPLOYMENT (16+)	3.9%	-1.0%pts
ECONOMIC INACTIVITY (aged 16-64)	23.2%	+1.2%pts

16% of [businesses](#) were planning to increase their capital expenditure between July and September, with 8% planning a decrease. The main investment barriers include demand uncertainty and a shortage of internal finance. The main investment driver is to replace equipment (cited by 52% of businesses).

CURRENT BUSINESS SENTIMENT

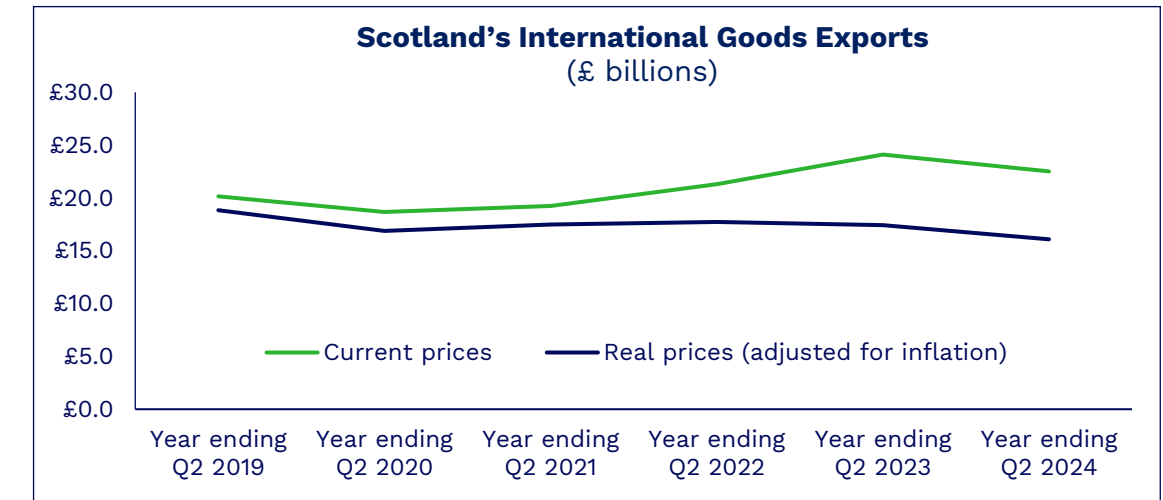


OUTLOOK

25% of Scottish businesses reported [worker shortages](#) in September with a lack of qualified applicants and a low number of applications the main challenges. As a result, 11% of businesses are unable to meet demand. Looking ahead, 15% are expecting to increase employment.



The value of [Scotland's international goods](#) exports (excl. services) decreased by 8% in real terms to £22.5 billion in the year to June, largely driven by a decline in drinks sales (-14%). The EU was Scotland's top goods export destination (39% of total value), followed by the US (17%).





## Feedback from Scottish Enterprise Customers

### SUMMARY

#### General Sentiment

- SE customers are generally more optimistic than they were this time last year, and some are cautiously beginning to invest.
- However, challenges remain around business costs and staffing (particularly for skilled workers), although they have eased a little.
- Some sectors continue to be more affected by challenges than others e.g. manufacturing businesses are particularly affected by a lack of suitable properties.

#### Labour and Skills

- Businesses across all sectors and sizes are continuing to face staffing challenges, although these are softening. Demand generally is greatest for specialist, higher-skilled and experienced staff, as well as entry level workers.
- To address worker shortages, businesses are paying higher wages, upskilling existing staff, offering and extending flexible working, recruiting non-Scottish-based remote workers, and recruiting from as wide a pool as possible. Some are also investing in automation.

#### Capital Investment

- Many businesses are actively looking to improve productivity by investing in new technologies as well as automation equipment. Where investment has taken place, businesses are reporting increased productivity and capacity.
- The main barriers to investment are uncertainty around the overall economic outlook and policy decisions of the new UK government (e.g. potential changes to taxation, labour market regulations, etc.) and the availability of internal/external funding.

#### Property

- A lack of suitable properties for expanding businesses continues to be a challenge, particularly in the central belt. Retrofitting of existing space is common practice, although this can be expensive.

### RECENT ECONOMIC DATA

### CURRENT BUSINESS SENTIMENT

### OUTLOOK

#### Cost of Doing Business

- While most customers are reporting strong demand, many are still recovering financially from COVID-19 and have fragile balance sheets. As a result, price increases can be harder to absorb.
- As inflation has eased, however, fewer businesses are reporting costs as an issue. Some though are still citing challenges of high labour costs and prices of specialised raw materials (e.g. computer chip components).
- Some businesses have expressed concerns over the potential impacts should electricity and gas price rises this winter.

#### Net Zero

- Some businesses are signing up for sustainability certification to meet customer requirements (e.g. B Corp Certification). However, this requires a commitment to targets which are often difficult to evidence, leading to some being unable to complete the certification - not necessarily because they are missing targets, but they don't have the data and evidence to demonstrate performance.
- For businesses transitioning into the green energy supply chain, timing of opportunities and contracts can be a barrier to investment. For example, offshore wind licences granted in 2022 expect first power generated in 2029.

#### Access to Finance

- Investors continue to be cautious leading to a tightening of investment criteria. Investments are being made, but they are taking longer as investors require business cases with evidence of solid market demand, as well as showing a good predicted return on investment.

#### Exporting

- The impacts of Brexit are still being felt, with some exporters choosing to explore non-EU markets that are considered to be 'easier to export to' (e.g. less administration), and others are focusing exclusively now on domestic sales. Of those who continue to export to the EU, delays are reported, and some are opting to set up distribution hubs in Europe to address this.

## Economic Outlook

SUMMARY

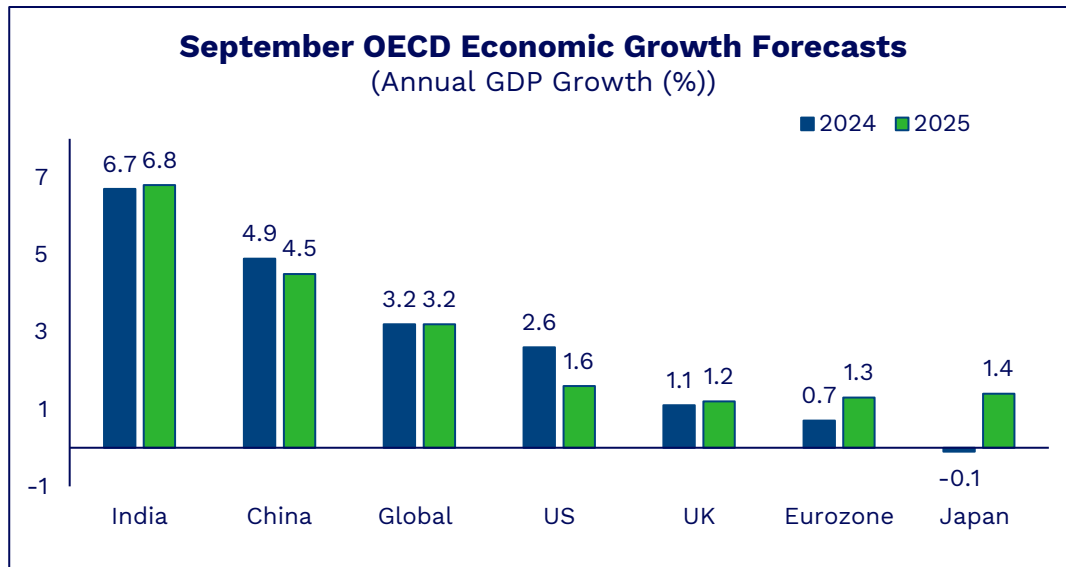
### Global Forecasts

The [OECD](#) is forecasting global economic growth of 3.2% in both 2024 and 2025, as falling inflation, improving real incomes and less restrictive monetary policy underpin improving demand. Emerging and developing economies (e.g. China and India) are generally expected to grow faster than more advanced economies.

Labour market pressures are easing, and inflation is projected to be back to central bank targets in most G20 economies (generally 2%) by the end of 2025.

The OECD highlights the following main risks to its growth forecasts:

- Ongoing geopolitical tensions, the impact of high interest rates, higher-for-longer inflation and a cooling labour market, could all contribute to slower economic growth.
- Labour cost growth, higher shipping costs, and geopolitical or trade tensions could all contribute to 'sticky' inflation.
- On the upside, real income recovery could boost demand, confidence and consumer spending, contributing to growth.



### UK and Scottish Forecasts

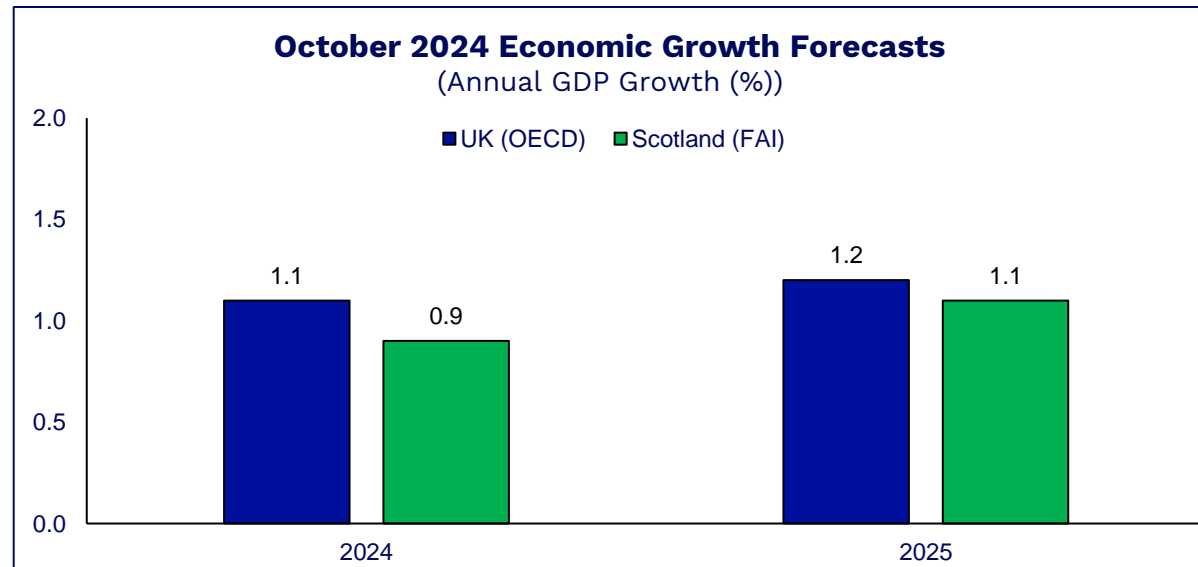
The [OECD](#) has upgraded its economic growth forecast for the UK to 1.1% in 2024 (vs the previous forecast of 0.4%) and 1.2% in 2025, putting the UK joint-second highest out of the G7 countries behind the US. Strong real wage growth is expected to drive consumer spending.

The OECD, however, notes that the UK 'faces a challenging economic environment of high interest rates and low growth' and should consider stimulating growth through:

- Increasing business investment.
- Boosting the labour supply by reducing economic inactivity.
- Maintaining a balanced fiscal and monetary policy mix (focused on supporting inflation falling to target).

For Scotland, the [Fraser of Allander Institute](#) is forecasting 0.9% economic growth in 2024, rising to 1.1% in 2025; this is a slight upward revision on their June assessment due to more positive data for the first half of 2024.

The FAI notes stalling growth in recent months highlights ongoing economic fragility that will dampen future growth.



RECENT  
ECONOMIC  
DATA

CURRENT  
BUSINESS  
SENTIMENT

OUTLOOK