

# Economic Commentary

September 2021

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

The second quarter of 2021 saw varying degrees of economic recovery from the pandemic across economies, largely depending on the level of restrictions present in each country. The **UK** and **the Eurozone** outperformed other major economies although there are some signs that business activity is starting to slow.

**Scotland's economy** grew at a rate of 4.7% over the second quarter as restrictions have eased. Private sector activity in August outpaced all other UK nations and regions.

The Scottish **labour market has also strengthened**, with higher employment and fewer furloughed workers over the summer.

However, **staff shortages** are being recorded across a number of sectors. Businesses are responding by offering increased salaries and other incentives.

**Shortages of some goods**, particularly in the food, construction and engineering sectors are also being reported by Scottish businesses, a knock-on effect of both Brexit and COVID-19. As a result, businesses are looking to both local and worldwide suppliers as alternatives.

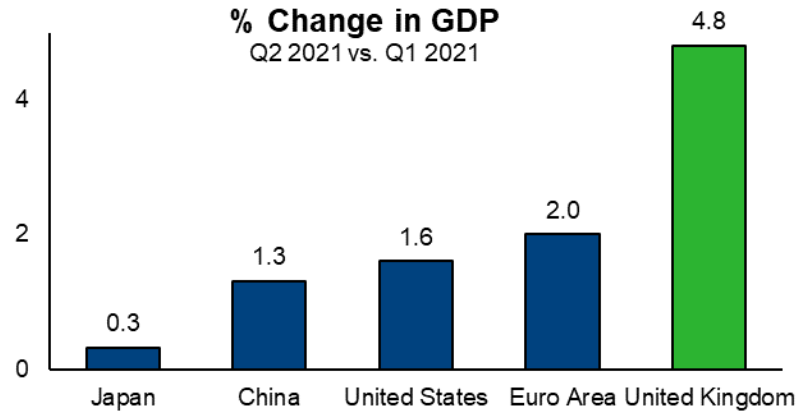
Growth forecasts for the **global economy have improved** since the start of the year but again vary across countries, largely down to different stages of vaccine rollouts.

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

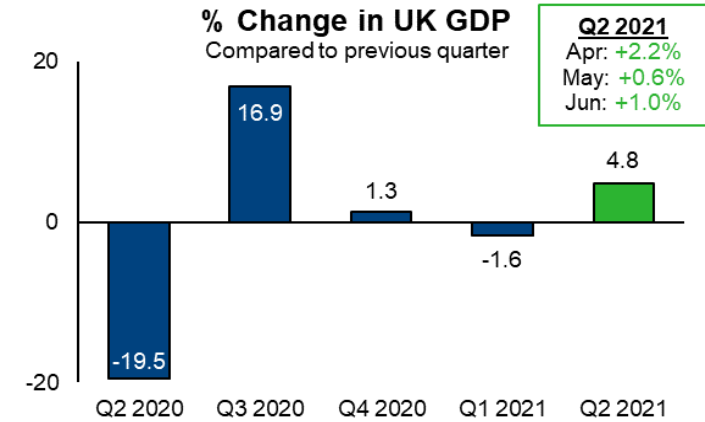
Possible headwinds facing Scottish businesses in the near term include ongoing **rising input costs and competition for staff**.

## Global/UK

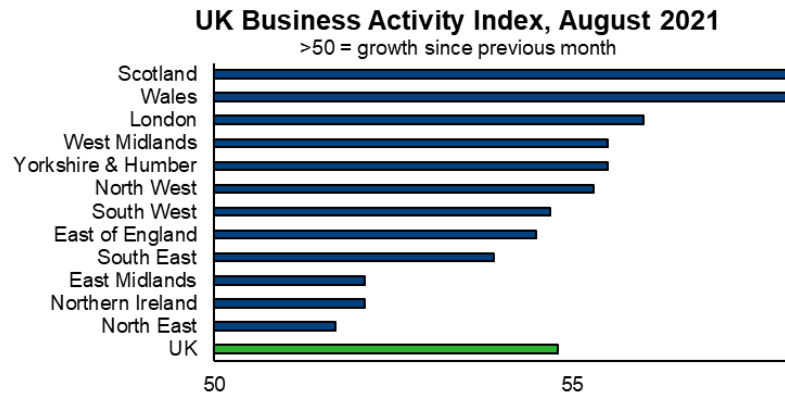
Economic performance in the [second quarter of 2021](#) generally reflected the pace at which countries reopened their economies.



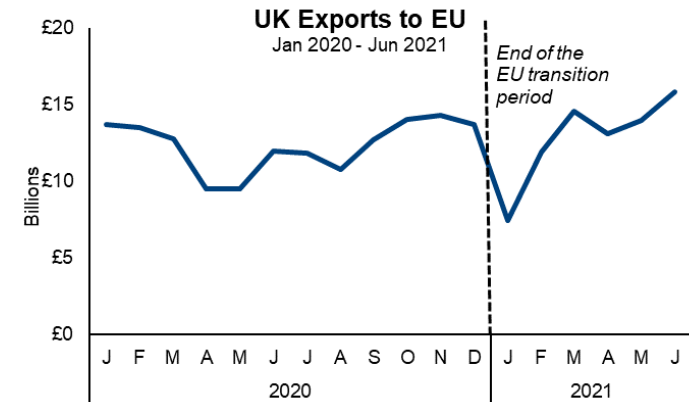
In the UK, the economy returned to growth in Q2 2021 after a modest contraction in the first quarter. However, the most recent [monthly data](#) shows growth has been lower than expected.



With the exception of Scotland, all UK nations and regions experienced a [slower rate of business activity growth](#) in August compared with July 2021.

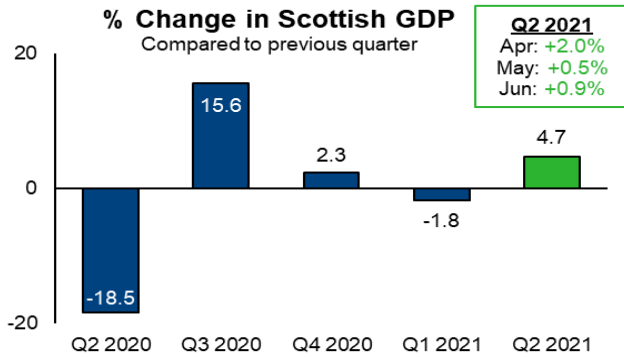


UK goods exports to Europe continued to rise in June 2021, while Non-EU exports were down. The UK's largest single trading partner remains the U.S.

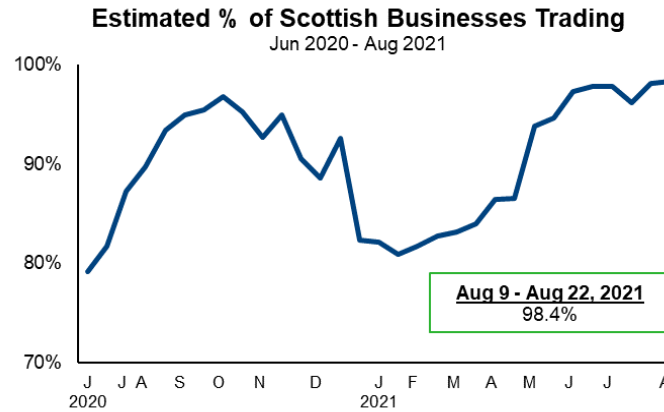


## Scotland

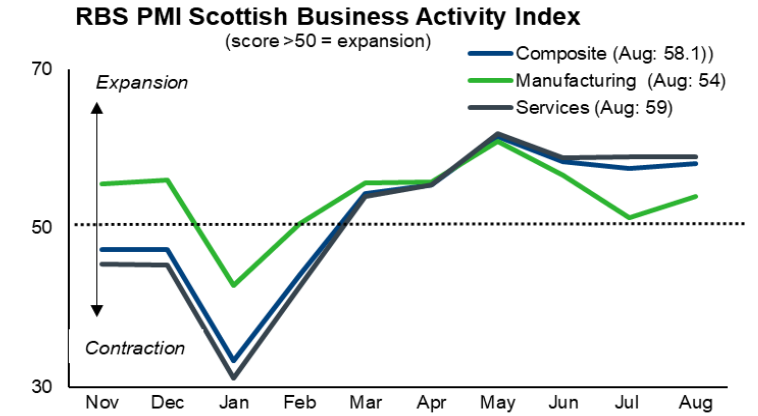
The latest [quarterly GDP data](#) suggest the Scottish economy is growing again though at a more moderate rate.



The share of Scottish businesses that are now [trading](#) is at its highest level since Covid-19 restrictions began.



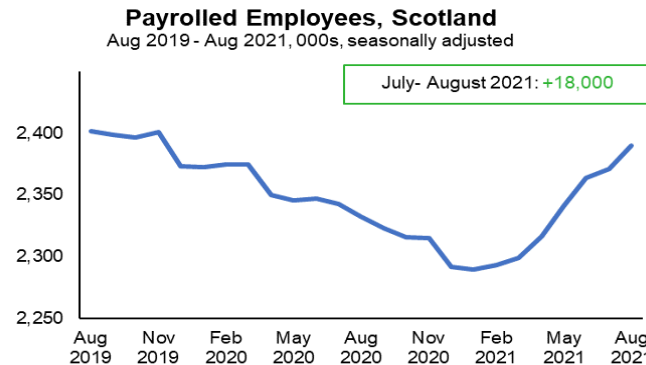
[Private sector activity](#) in Scotland continued to expand at a robust pace in August, ahead of most other UK regions.



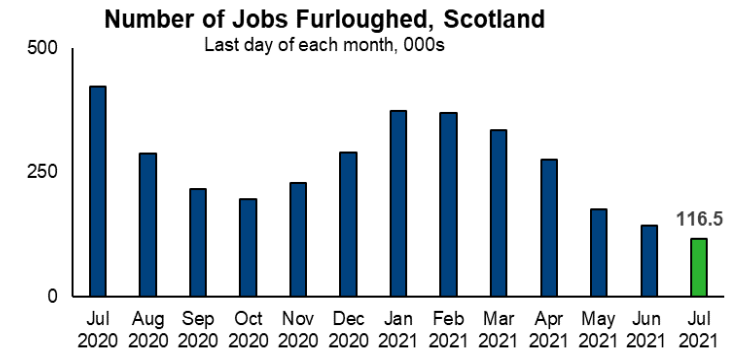
The latest headline [labour market data](#) for Scotland suggest employers appear to be adding staff as they rebuild capacity and respond to demand.

	RATE (MAY- JUL 2021)	QUARTERLY CHANGE
<b>EMPLOYMENT</b>	74.1%	+0.2%pts
<b>UNEMPLOYMENT</b>	4.3%	-0.1%pts
<b>ECONOMIC INACTIVITY</b>	22.5%	-0.1%pts

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



The number of [furloughed workers](#) has fallen consistently since February 2021.



## Feedback from Scottish Enterprise Customers: September 2021

### Overall Sentiment

- COVID-19 remains the **dominant challenge** facing a majority of businesses,.
- **Staff shortages** are being recorded across almost all sectors.
- Businesses are continuing to explore **new ways of working** including hybrid schemes of office and home working.
- **Shortages of many goods** are prompting businesses to review and expand their supply chains at both home and overseas.

### Workforce

- Some sectors, **including construction, IT and hospitality** are facing staff shortages with some larger businesses increasing salaries by as much as £10k to £20k above typical levels in order to attract staff.

### Workplace

- Many businesses are still deciding what to do long term on office space and are **waiting until their leases expire**.
- Some smaller businesses are **opting to move to out of city/town locations** where rents are cheaper and where there are good transport links and/or parking.

- There is also an increasing demand for high quality buildings which meet **green/net zero** heating requirements. Here, rents continue to rise.
- The trend towards **hybrid work** patterns is continuing and businesses are maintaining their social distancing-adapted office space as employees return to the office.
- Most businesses are only considering **remote working opportunities within the UK** for their staff, in order to avoid tax implications. However, some larger businesses are happy for staff to work remotely and be based in another country if they already have an operation in that country.
- Some businesses are concerned that, with the increase of remote working opportunities, there will be **increased competition for skilled workers** from businesses 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.
- While online meetings have been successful during the pandemic, and may continue going forward, there is an **appetite for international business customers travel to resume**. This is also feeding into demand to re-start in-person trade fairs, exhibitions etc.

## Supply Chains

- Some food businesses are reporting **issues getting products from the EU** (e.g. cheese and some vegetables) and are looking instead at UK suppliers – however, this can increase costs.
- Many businesses **are keen to support local suppliers and producers where possible**. UK products, however, are often marketed as being high quality or artisan which often come at a higher cost.
- Reported long lead times, as a result of both Brexit and Covid, has meant some manufacturers have struggled to purchase component machine parts. As a result, some are **stockpiling goods where possible**.

## Sectors

### Construction

- Construction and engineering sectors continue to report **shortages of materials** - e.g. concrete, plastics, metal, wood. There is a growing second hand market.
- The rise in wood prices continues to make pallets harder to source for hauliers, which could potentially mean higher prices passed-on to businesses or customers.

## Transport

- Shortages of HGV drivers are **impacting the delivery of goods** both into the UK and exporting to customers across Europe.
- The shortage of drivers is a result of **both Brexit and COVID-19** with many EU drivers leaving following the UK's exit from Europe. This has been exacerbated as medicals and training were stopped over lockdowns which has led to a reduction in newly qualified drivers.

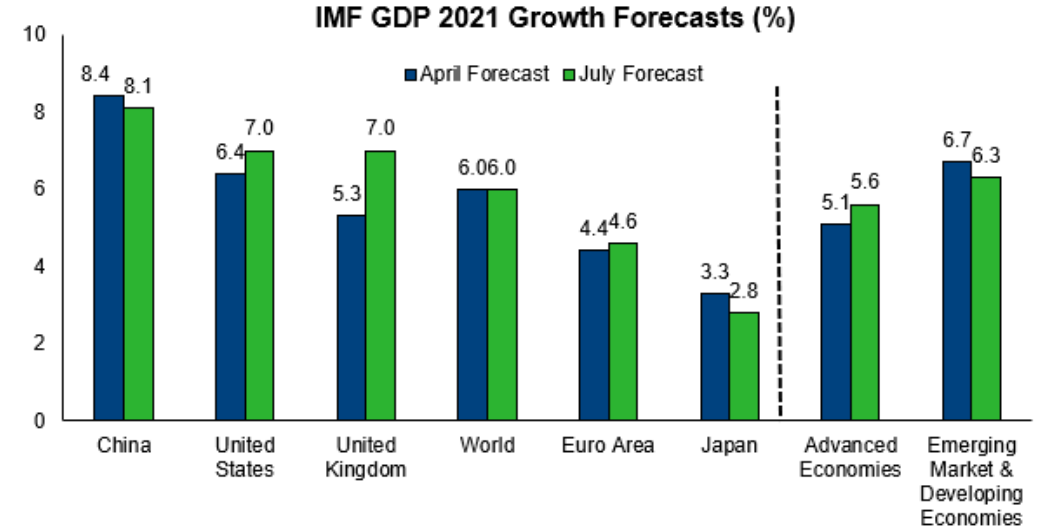
## Engineering

- Engineering business report a **continued upturn in confidence**, encouraged by an increase in **new orders** (not just existing projects restarting as was the case previously).
- Businesses' main concern now is around their **ability to fill new orders** as they struggle with materials and staff shortages.
- Materials shortages are **disproportionally impacting smaller businesses** – suppliers are prioritising larger customers who are more likely to levy penalties if they do not receive their supplies.
- Some businesses report having to **change (increase) their prices weekly** – before price changes may have been annual or twice per year.
- Manufacturers who import manganese steel from the EU are potentially facing an unexpected 25% import duty, which may **undermine their international competitiveness**.

## Economic Forecasts

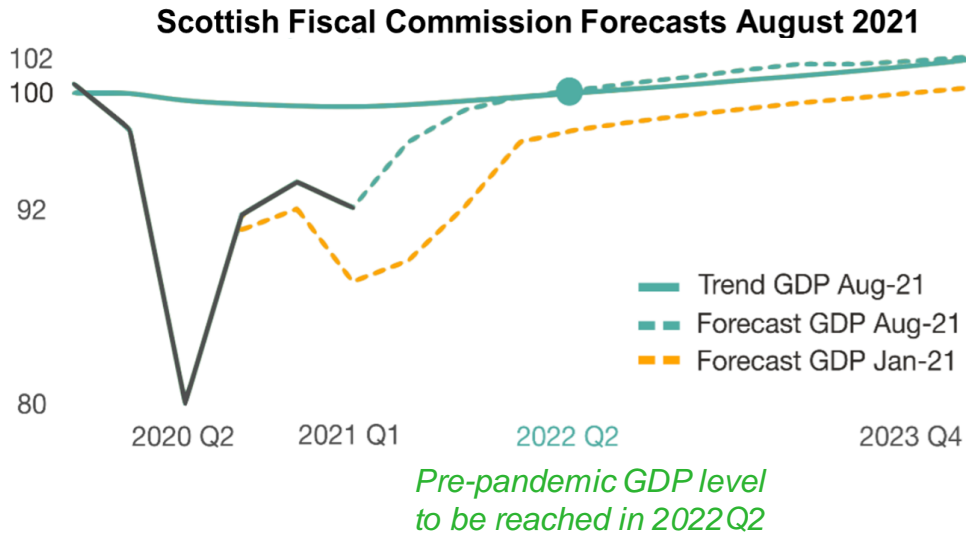
The IMF [forecasts](#) the global economy will grow 6.0% in 2021, unchanged from its previous forecast in April.

However, the IMF also warn that **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 growth revision of 0.5 percentage points) and developing economies that will face setbacks due to resurgent infections (downward revision of 0.4 percentage points).



### Scottish Fiscal Commission Forecasts

The [Scottish Fiscal Commission](#) estimates Scottish GDP growth of 6.7% in 2021 and a return to pre-pandemic levels of GDP in Q2. (April to June) 2022, almost two years sooner than their forecast in January. This upgrade comes as a result of the success of the vaccine rollout and the corresponding easing of restrictions. This follows the same trend as the IMF forecasts.



## Challenges & Opportunities

Supplies and stock **shortages** (the worst reported since 1977) are a major challenge to the UK [manufacturing sector](#) activity.

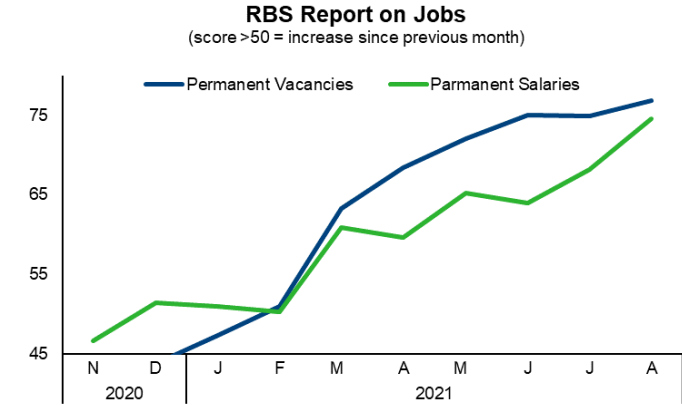


**-14% fall in stock adequacy reported by UK Manufacturers**

Five of Scotland's universities are ranked in the top 250 institutions in the world according to the latest Times Higher Education [World Rankings 2022](#). Ranking highly attracts research investment as well as talent.

	WORLD RANKING 2022	ANNUAL CHANGE
University of Edinburgh	30	↓
University of Glasgow	86	↑
University of Aberdeen	158	↑
University of St Andrews	201-250	↓
University of Dundee	201-250	↑

There has been an unprecedented [rise in Scottish vacancies](#) with a corresponding rise in salaries, fuelling concern among employers about not only the availability of staff but the costs associated with retaining them.



Scotland is in the strongest position to drive the growth of the green economy in the UK, according to the UK Green Growth Index produced by [Lloyds Bank](#).

