

Economic Commentary

June 2024

Insights and Economics



Economic Commentary: Highlights

SUMMARY

- The OECD is forecasting global GDP growth of 3.1% over 2024 and 3.2% in 2025. Emerging and developing market economies are expected to grow much faster than advanced economies.
- Business activity continued to increase across all major global economies in May, although the pace slowed in the UK. Globally, the manufacturing sector is showing signs of recovery, but remains in contraction in the Euro-zone.

RECENT ECONOMIC DATA

- The UK economy grew in both February (+0.2%) and March (+0.1%), and exited recession in Q1 (Jan-Mar) as GDP increased by 0.6.
- The Scottish economy grew by 0.4% in March, following +0.2% in February. In the three months to March, the Scottish economy grew by 0.7%, slightly stronger than the UK (+0.6%).
- Consumer price inflation fell to 2.3% in April, the lowest for nearly three years. Cost pressures continue to impact Scottish businesses as 35% reported cost increases in May (+11ppts since April), driven by the cost of labour.
- The Bank of England left the interest rate at 5.25% for the 9th month in a row. High interest rates, coupled with poor economic growth forecasts, may be impacting business' confidence to invest – just 17% of Scottish businesses planned to invest in capital between April and June 2024.

CURRENT BUSINESS SENTIMENT

- Business activity rose in all 12 UK regions in May, with Scotland the second strongest performer. Positively, the UK manufacturing sector returned to growth as output hit a two-year high. In Scotland, however, business activity growth was driven exclusively by the service sector, as manufacturing output continued to decline.
- In April, 30% of Scottish businesses reported a rise in monthly turnover, whilst 25% reported a decrease (the % reporting lower turnover has been edging up). The main challenges highlighted include the cost of labour, cost of materials, competition and economic uncertainty.
- Scotland's labour market is showing signs of cooling - the unemployment rate increased 1.4ppts to 4.7% over the year to April 2024, while employment fell by 1.1ppts to 73.1%. The proportion of Scottish businesses reporting worker shortages and recruitment difficulties increased in May, although remain significantly below their peak last summer.

OUTLOOK

- SE customers are becoming less concerned about energy prices and inflation. With strong order books and more stable costs, they are gaining confidence to invest in growth opportunities. The main challenges are staffing and recruitment, including high staff turnover and a low number of job applicants, as well as issues with property availability and suitability.
- The British Chambers of Commerce is forecasting UK GDP growth to increase slightly to 0.8% in 2024 and then to just +1.0% in 2025. For Scotland, the EY Item Club is forecasting weak GDP growth of 0.4% for 2024 before rising to 1.7% in 2025.

Global/UK

SUMMARY

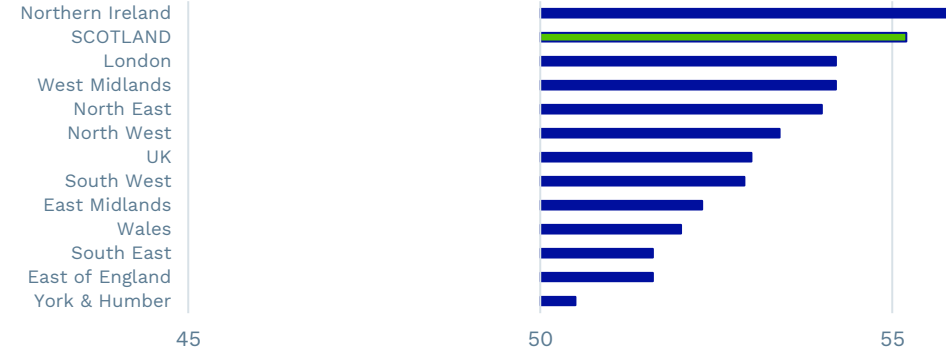
Global [business activity](#) expanded at its fastest rate in a year in May, as output in the services sector accelerated and growth in manufacturing activity hit a 2.5 year high. Across the major economies, the US and China were the strongest performers, and the eurozone the weakest.

Business Activity Index (>50 indicates increase vs previous month)

	Oct	Nov	Dec	Jan	Feb	Mar	April	May
Global	50	50.5	51	51.8	52.1	52.3	52.4	53.7
US	50.7	50.7	52.3	50.9	52.5	52.1	51.3	54.4
China	50	51.6	52.6	52.5	52.5	52.7	52.8	54.1
UK	48.6	50.1	52.1	52.5	53	52.8	54.1	52.8
Japan	50.5	50	50	51.5	50.6	51.7	52.3	52.4
Eurozone	46.5	47.6	47.6	47.9	49.2	50.3	51.7	52.2

[UK business output](#) rose across all 12 nations/regions in May, the first time all have posted growth in over a year. Northern Ireland led the way, followed by Scotland and London. Businesses also reported easing cost pressures. Employment trends however were mixed as only half of nations/regions recorded a rise in staff numbers. Future optimism was generally positive.

UK Business Activity Index (May 2024) >50 = growth vs previous month

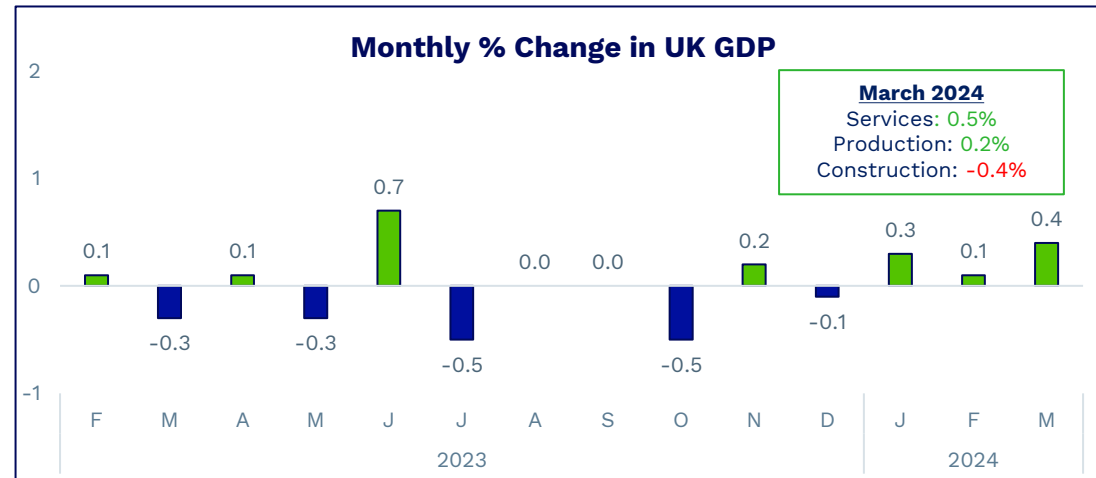


RECENT ECONOMIC DATA

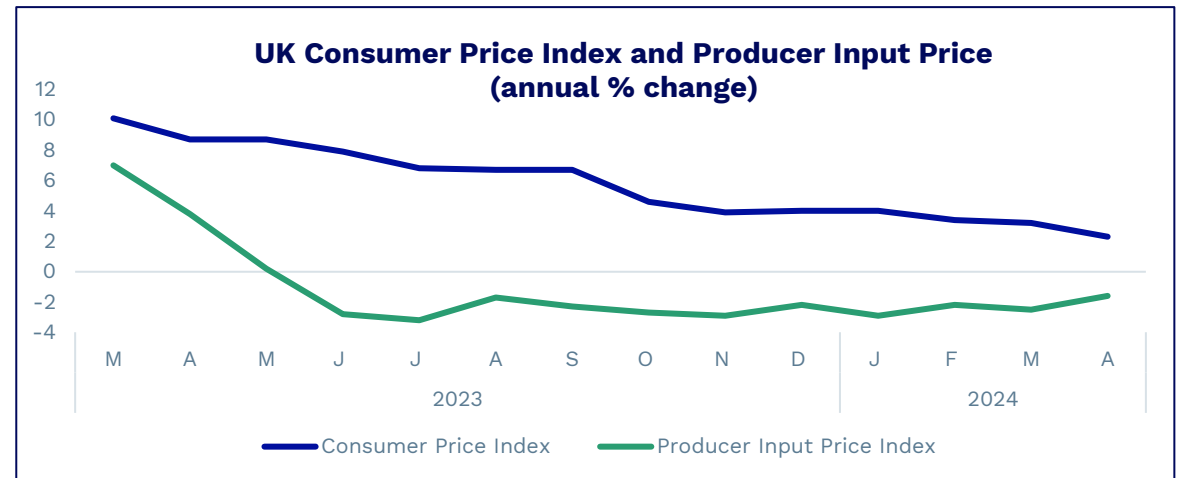
The [UK economy](#) grew by 0.4% in March 2024, following + 0.2% in February. Growth was driven by both services and production, with construction output contracting. The economy exited recession in Q1 (Jan-Mar) as GDP increased by 0.6%, after contracting by 0.1% and 0.3% in Q3 and Q4, respectively.

[Consumer price inflation](#) was 2.3% in the 12 months to April, down from 3.2% in March and the lowest for nearly three years. Core inflation was higher (+3.9%), down 0.3pp on the previous month. Although inflation is on a downward trend, it still remains above the Bank of England's target of 2%. [Producer input prices](#) fell for the 11th consecutive month.

Monthly % Change in UK GDP



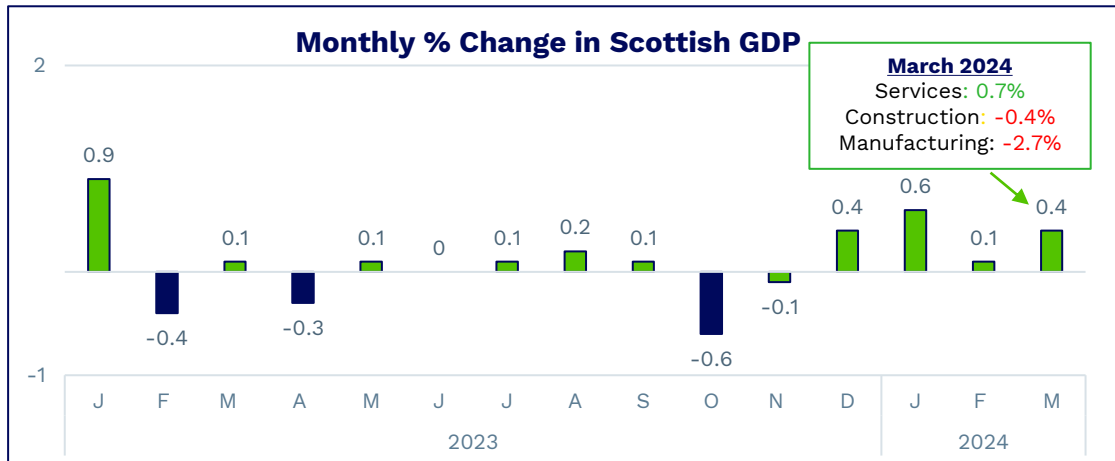
UK Consumer Price Index and Producer Input Price (annual % change)



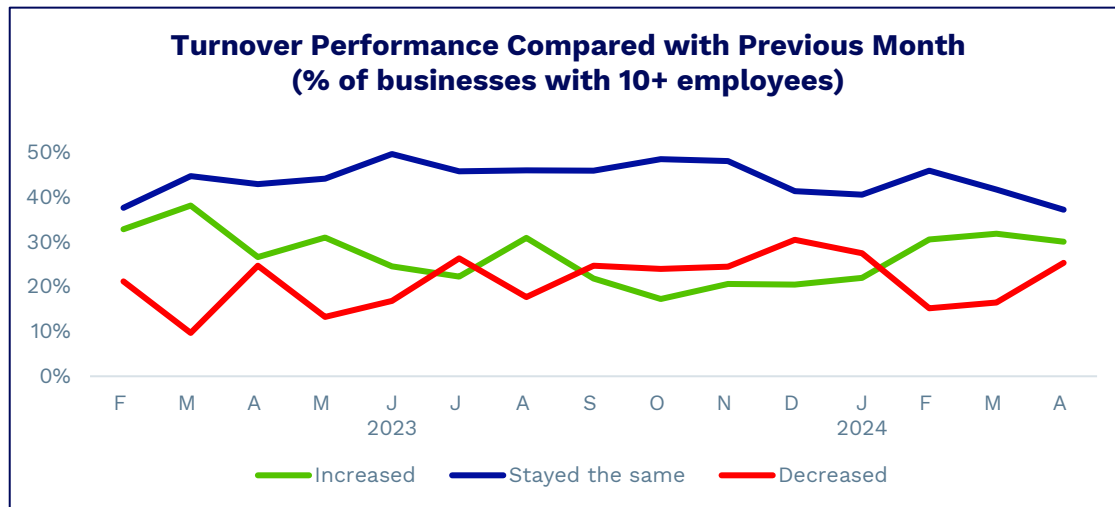
OUTLOOK

Scotland

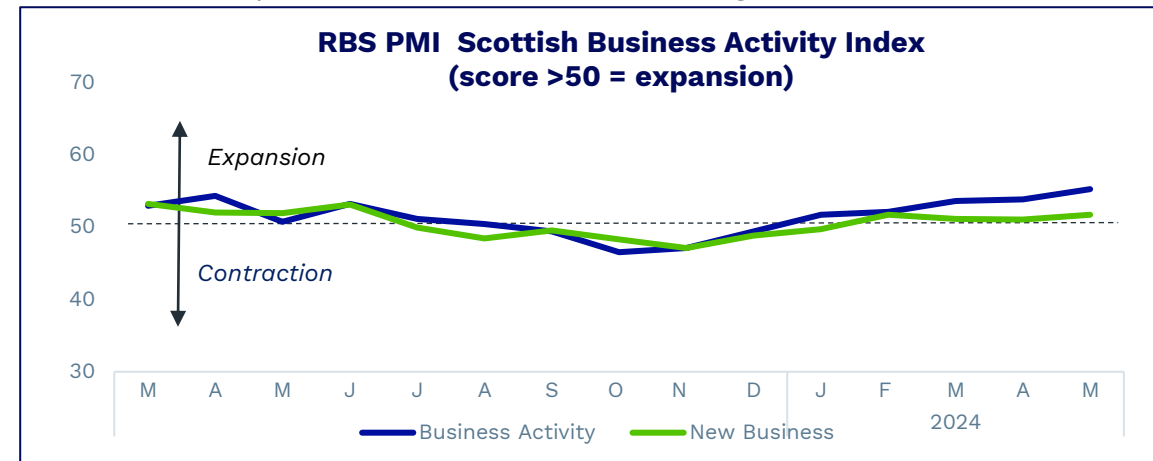
The [Scottish economy](#) grew by 0.4% in March, following +0.1% in February. The service sector was the driver (+0.7%) as both manufacturing (-2.7%) and construction (-0.4%) output fell. In the three months to March, GDP grew by 0.7%, slightly stronger than the UK (+0.6%).



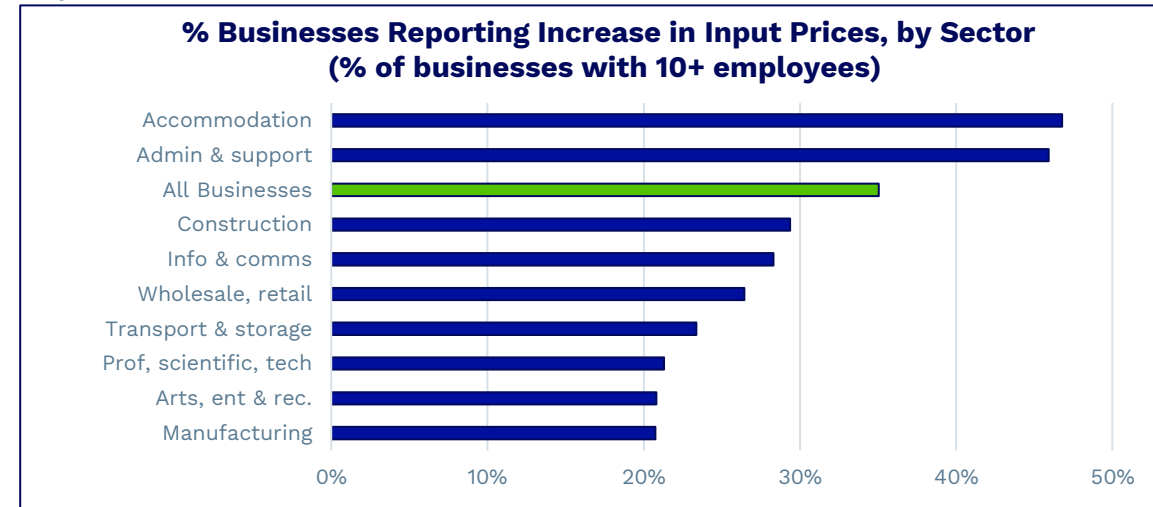
In April, 30% of businesses reported a [rise in monthly turnover](#), whilst 25% reported a decrease (the % reporting lower turnover has been edging up). The main challenges affecting turnover include cost of labour, cost of materials, competition and economic uncertainty. Despite this, 39% of businesses expect performance to increase in year ahead.



[Scottish business activity](#) rose in May for the 5th consecutive month and at the strongest pace for two years, driven by the services sector as manufacturing activity contracted again and for the 11th successive month (vs manufacturing recovery across the UK as a whole). Businesses in Scotland were the least optimistic of all UK nations and regions.



Cost pressures are continuing to bite despite inflation falling. April saw an uptick to 35% in the proportion of businesses reporting an [increase in the price](#) of goods/services bought (+11ppts since March). 15% of businesses expect to increase prices of their goods/services in June, with labour costs a key factor.



SUMMARY

RECENT ECONOMIC DATA

CURRENT BUSINESS SENTIMENT

OUTLOOK

Scotland

SUMMARY

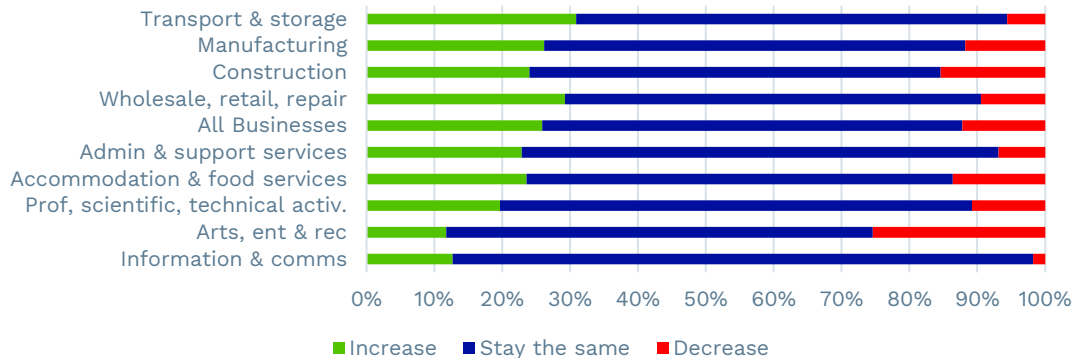
The labour market is showing signs of cooling. [Scottish unemployment](#) increased by 1.4ppts over the year to April 2024 to 4.7% (vs 4.4% for the UK). The employment rate fell by 1.1ppts to 73.1%, below the UK's (74.3%). Economic inactivity was down 0.1ppts to 23.2% (vs the UK's 22.3%). [Median monthly wages](#) increased by 5.5% to £2,411 in the year to May 2024 (vs 5% for the UK).

RECENT ECONOMIC DATA

	RATE (Feb – April 24)	ANNUAL CHANGE
EMPLOYMENT (16-64)	73.1%	-1.1%pts
UNEMPLOYMENT (16+)	4.7%	+1.4%pts
ECONOMIC INACTIVITY (aged 16-64)	23.2%	-0.1%pts

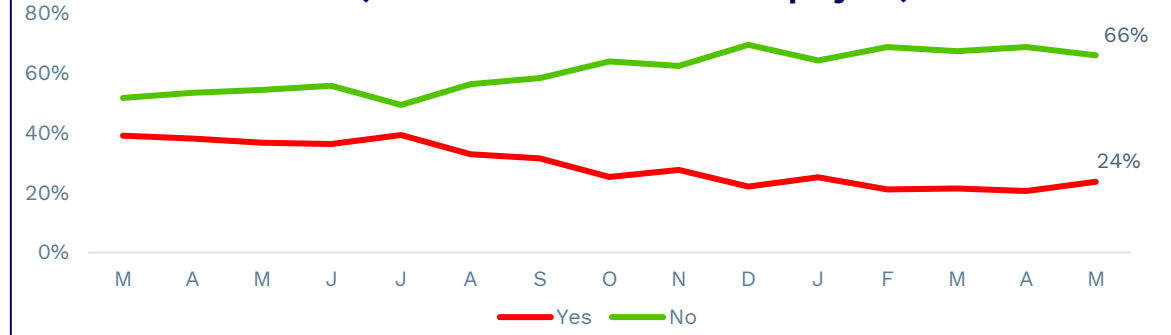
Business investment intentions remain weak. Between April and June, just 17% of businesses expect to [increase capital expenditure](#), rising to 24% in the Transport & Storage sector. Uncertainty about demand and a shortage of internal finance are the main investment challenges businesses face.

**Expectations for Capital Expenditure
(% of businesses with 10+ employees)**



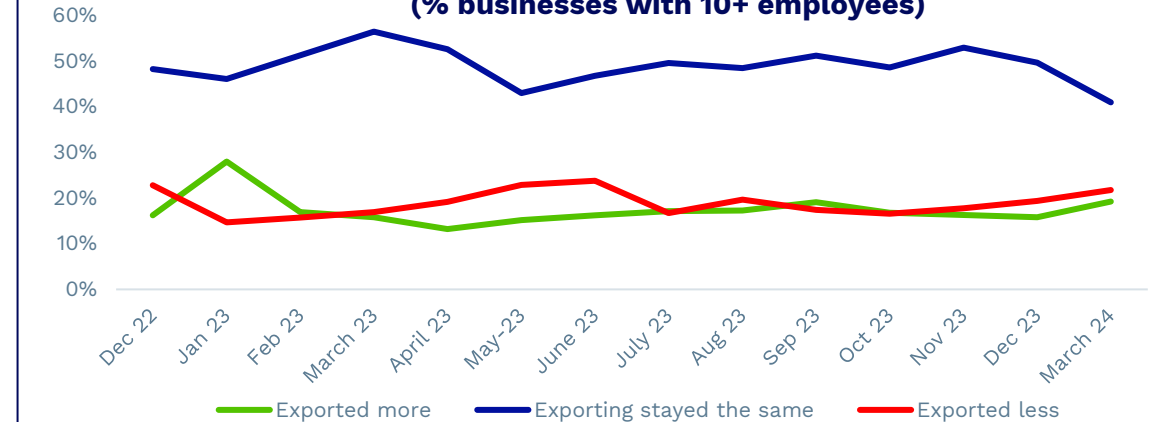
24% of Scottish businesses reported [worker shortages](#) in May, down significantly from last summer, although slightly higher the previous month. Some sectors are more affected than others, with 38% of Construction businesses experiencing shortages. 40% of businesses are unable to meet demands as a result.

**Businesses Experiencing a Shortage of Workers
(% of businesses with 10+ employees)**



Of businesses that exported in the past 12 months, [22% reported selling less overseas](#) than a year ago and 19% sold more – this was the 4th consecutive month of 'negative' export performance. The cost of exporting (+9ppts) and the time spent exporting (+7ppts) have both increased since a year ago.

**Export Changes v 12 Months Ago
(% businesses with 10+ employees)**



OUTLOOK

Feedback from Scottish Enterprise Customers

SUMMARY

General Sentiment

- Businesses are becoming less affected and concerned about energy prices and input cost inflation. With strong order books and more stable costs, they are gaining confidence to invest in growth opportunities.
- However, many continue to face challenges with staffing and recruitment, including high staff turnover and a low number of job applicants, as well as issues with property availability and suitability, especially for growing businesses.
- Many businesses are also focused on how they can increase productivity and reduce costs.

RECENT ECONOMIC DATA

Labour and Skills

- Businesses face ongoing challenges in attracting suitable candidates across both higher and lower skilled positions. While some have initiated apprenticeship programs, others rely on agency staff as a temporary solution.
- Additionally, for higher skilled positions, businesses are raising wages to attract and retain staff.
- Some businesses are turning to automation to alleviate skills issues, not to replace existing staff but to elevate roles to higher skill levels.

CURRENT BUSINESS SENTIMENT

Cost of Doing Business

- Most businesses have adapted to higher energy prices, accepting current conditions are likely to be the 'new normal'.
- For some businesses input costs are still rising e.g. food manufacturers.

Access to Finance

- Businesses are reconsidering growth and investment plans positively as concerns ease about further rises in interest rates. While some businesses still rely on grants, others are approaching banks, which they say are becoming more open to lending.

OUTLOOK

Exporting

- Many businesses are showing renewed interest in international expansion, increasingly participating in global trade shows.
- Businesses are still, however, experiencing challenges in exporting to the EU market due to increased administrative burdens post-Brexit.

Property

- Businesses continue to face a shortage of suitable space and are often having to convert existing space or invest in new facilities, which can be very costly.
- Additionally, some encounter challenges such as restrictions imposed by landlords on upgrading or expansion work.
- When businesses cannot move or expand existing premises, other solutions include investing in reconfiguring workspaces and investing in equipment that takes less space.

Investment

- An increasing number of businesses are becoming less cautious and reevaluating potential capital investment plans and opportunities.
- Some businesses are making small scale investments in AI and automation to see how effective it is before investing more substantially.

Net Zero

- Many businesses are considering investing in sustainable energy solutions, such as solar panels and heat pumps, but high implementation costs still remain a barrier, especially for smaller businesses.

Supply Chain

- Businesses are facing supply challenges as the Red Sea crisis continues, with container shipping delays and rising input prices.

Economic Outlook

Global Forecasts

SUMMARY

The [OECD](#) is forecasting modest global GDP growth of 3.1% in 2024, rising to 3.2% in 2025. Global growth is proving resilient as inflation is falling faster than expected and private sector confidence is improving.

Emerging and developing market economies such as India and China are expected to grow much faster than advanced ones in 2024 and 2025.

The UK is expected to be one the weakest performers amongst advanced economies in 2024 with growth of 0.4%, rising to 1.0% in 2025, reflecting the impact of tight monetary policy.

The OECD note the following risks to the global economy:

- High geopolitical tensions, with the potential to disrupt energy and financial markets, pushing up inflation and reducing growth.
- Further reductions in inflation could be slower than expected if cost pressures remain elevated. This could result in slower-than-expected reductions in policy interest rates. On the other hand, continued strong labour growth may allow inflation to fall quicker than expected.

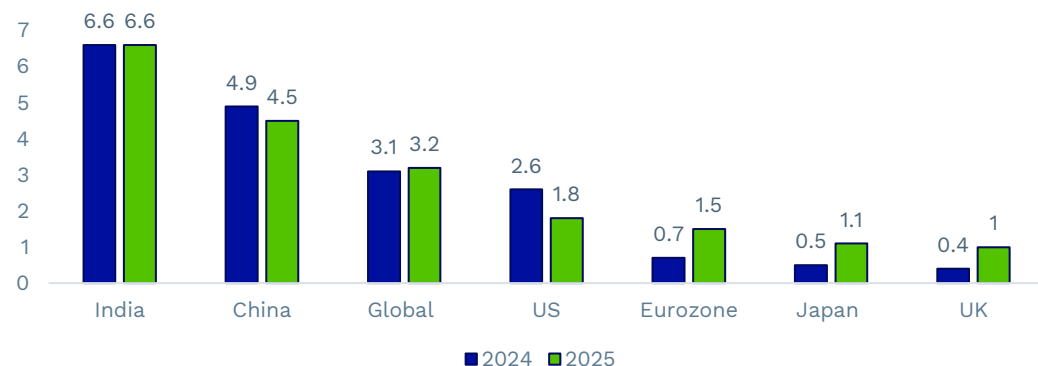
The OECD also highlights that artificial intelligence has the potential to significantly rive innovation and productivity but depends on the rate and spread of adoption across businesses.

RECENT
ECONOMIC
DATA

CURRENT
BUSINESS
SENTIMENT

OUTLOOK

**OECD Growth Forecasts
(Annual GDP Growth (%))**



UK and Scottish Forecasts

The [British Chambers of Commerce](#) is forecasting UK GDP growth to increase slightly to 0.8% in 2024, then to just +1.0% in both 2025 and 2026. The outlook remains weak as high interest rates continue to limit investment and a poor outlook for exports impacts growth – trade is likely to suffer due to subdued global demand, geopolitical conflicts and trade barriers with the EU.

The BCC notes:

- CPI inflation is expected to continue its downward trend to 2.1% in 2025 and 2.2% in 2026.
- Interest rates are expected to fall to 4.75% in 2024, then 4.35% in 2025, and 3.95% in 2026.
- The unemployment rate is expected to be 4.5% in 2024, rising to 4.6% in 2025, although the labour market is expected to remain tight.
- Average earnings are expected to outpace inflation across the forecast period, with annual growth of 3.0% in 2024, 4.0% in 2025 and 4.5% in 2026.

For Scotland, [EY Item Club](#) forecast weak near-term growth of 0.4% for 2024 before rising to 1.7% in 2025 and 2026. Lower inflation is expected to support a steady recovery in real incomes which, in turn, should spur growth in consumer expenditure. EY expect Scotland's growth to lag the UK as a whole (+0.7% in 2024, +1.8% in 2025 and 2026).

**Growth Forecasts
Annual % Change**

