

# Economic Commentary

July 2021

*All data represent most recent available as of July 12th, 2021*

**Global economic performance** continues to vary according to the level of coronavirus restrictions present in each country, with the **U.S.** and **Europe** outperforming Asian economies at the end of the second quarter of 2021 after the latter reported a resurgence in COVID-19 cases.

The **UK's economic recovery** is becoming increasingly broad-based as more sectors re-open, although growth slowed in May as the boost from earlier phases of re-opening faded.

**Scotland's economy** is following a similar trajectory, yet the uneven impact of forced closures over the last year means the pace of recovery (as well as reliance on government support, such as the furlough programme) differs between sectors and regions.

Scottish businesses are **increasingly optimistic** of a return to more normal trading conditions as COVID-19 restrictions ease.

However, consumer-facing sectors such as hospitality report being forced to operate **below capacity** as a result of **remaining restrictions**.

**Supply chain disruption** caused by shipping delays and **staff shortages** due to workers leaving sectors heavily impacted by restrictions also continue to be major issues for Scottish businesses.

The outlook for the **global economy** remains strong but there is considerable concern developing countries with limited access to COVID-19 vaccines will be left behind in the recovery.

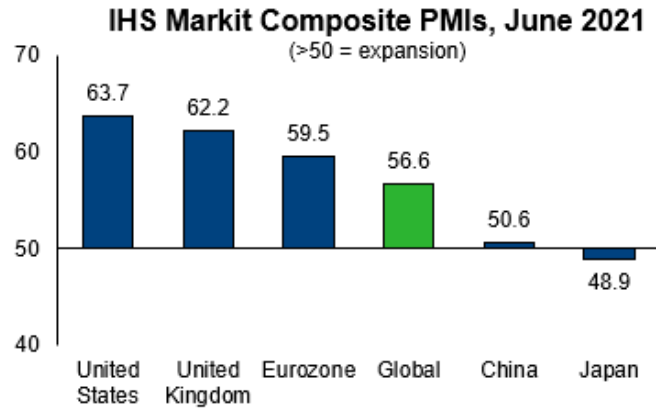
The latest forecast for the **Scottish economy** is for robust growth in 2021 as restrictions ease further, and a quicker return to pre-pandemic levels of activity than previously anticipated.

Headwinds facing Scottish businesses in the near term include **rising input costs** and **capacity pressures** - while the **transition to net zero** and an **attractive inward investment proposition** offer opportunities to accelerate recovery.

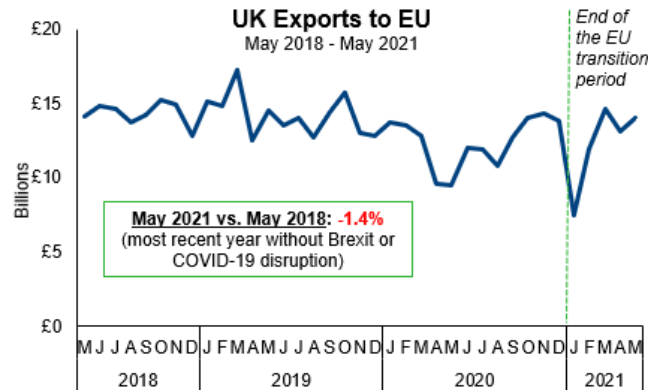


## Global/UK

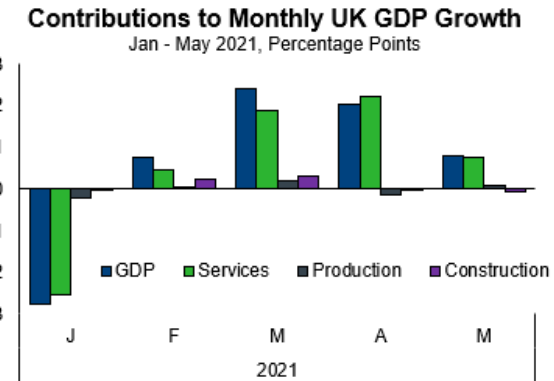
The latest [business surveys](#) signal elevated rates of expansion of output in the U.S. and Europe, but challenges in Asia where an uptick in COVID-19 infections has kept restrictions in place and dampened demand.



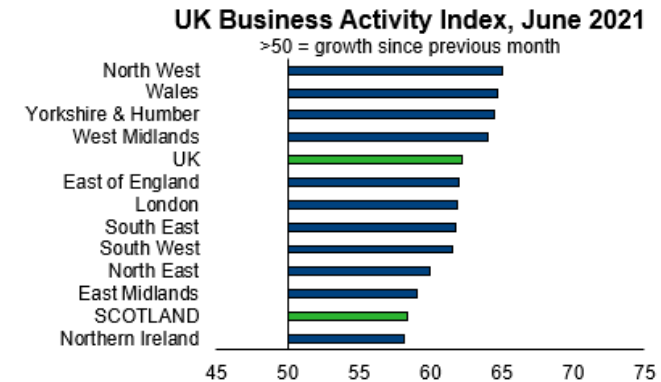
UK [exports](#) to the EU are rebounding to levels more in line with long term trends as businesses adapt to the new trading regulations and the EU economy recovers.



In the UK, the easing of pandemic restrictions has seen services take on an increasingly important role in economic recovery, despite growth slowing in [May](#).

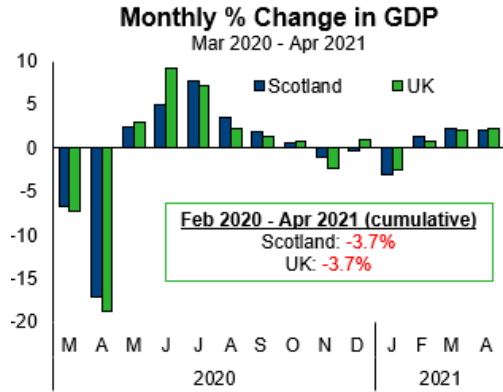


All UK [regions](#) again reported strong increases in business activity in June, but activity in Scotland remained lower than the UK average (reflecting, in part, the later lifting of restrictions).

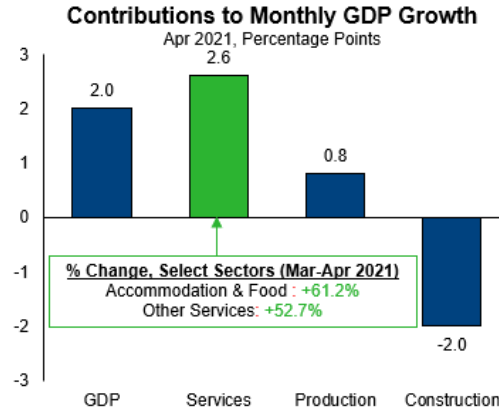


# Scotland

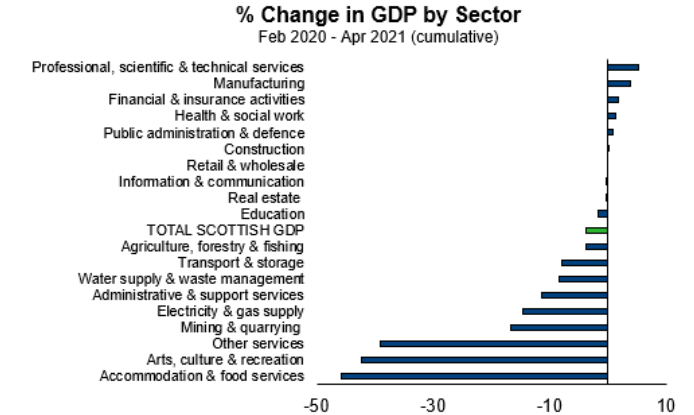
The latest [monthly GDP data](#) suggest Scottish economic performance is closely mirroring that of the UK.



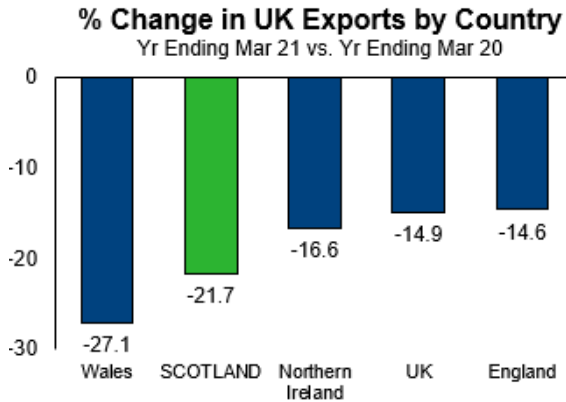
April's growth in Scottish GDP was driven primarily by consumer-facing sectors as they resumed trading.



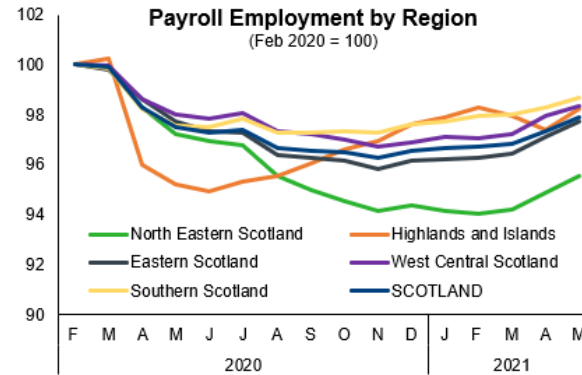
However, these same sectors remain furthest from their pre-pandemic output levels after a year of strict restrictions.



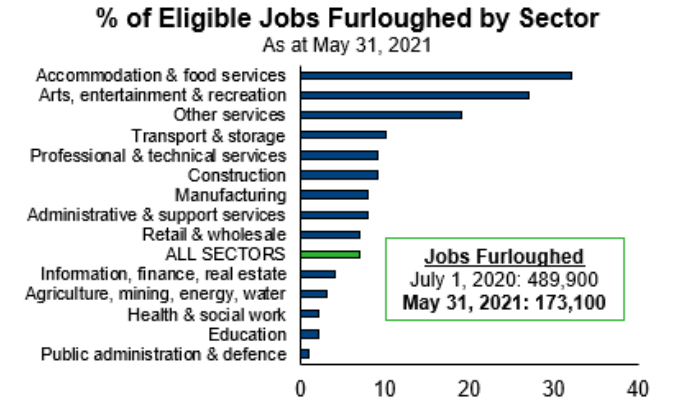
Scottish [goods exports](#) appear to have suffered greater disruption over the last year than some other areas of the UK.



[Payroll employment](#) is continuing to recover across Scotland, but some regions remain further from pre-pandemic levels than others.



The number of [furloughed](#) jobs has fallen to one third of its mid-2020 level, but remains concentrated in a few sectors.



## Feedback from Scottish Enterprise Customers: June 2021

SUMMARY

### Overall Sentiment

- Scottish business optimism continues to **improve** with the easing of coronavirus restrictions and the continued success of the vaccine rollout.
- Several sectors (e.g. hospitality) have indicated the delay in further easing of restrictions continues to **limit their trading capacity**.

### Workforce

- Hospitality and tourism businesses are reporting acute **staff shortages** as a result of furloughed workers taking jobs in other industries and European workers returning home - some hotels are being forced to operate below full occupancy, and some restaurants are trading only on certain days.
- Staff shortages in **rural locations** are being exacerbated by the rise of homeworking – businesses cite housing affordability as a factor contributing to recruitment challenges as remote workers drive up home prices.
- Shortages of **experienced workers** and **specific skills** are having a particularly significant effect in some sectors, e.g.
  - construction businesses report that the loss of **European employees** has impacted completion rates.
  - hospitality businesses are being forced to pay **freelance chefs** unsustainable hourly rates to cover shortages.

- transport businesses are reporting a shortage of **HGV drivers** as a result of the inability to train new drivers due to social distancing constraints, as well as a decline in the number of European drivers working in the UK.
- **technical workers** to aid digital transformation.
- Skills shortages are **disproportionately impacting SMEs** as larger businesses are offering higher salaries to attract talent.
- Some healthcare businesses are **deferring recruitment of salespeople** until they can visit potential customers in healthcare facilities.

### Workplace

- There continues to be **contrasting views on the impact of homeworking** - some businesses say it has brought a welcome opportunity to lower costs, but others feel it has reduced productivity.
- This divergence is reflected in the current **office market** – a few businesses are looking for large premises with a view to bringing staff back into the office while others are looking for smaller spaces for meetings/collaborative working.
- Ongoing nervousness around using public transport is encouraging some businesses to consider moving to premises **outside of city centres**, to allow staff to drive.

RECENT  
ECONOMIC  
DATA

CURRENT  
BUSINESS  
SENTIMENT

FORWARD  
LOOK

## Feedback from Scottish Enterprise Customers: June 2021

### Financial Performance / Resilience

- There is still widespread concern the end of the furlough programme could mean **job losses** and **business closures** in sectors impacted by remaining restrictions (hospitality, tourism) as cashflow from customers remains limited.
- Businesses unable to trade at full capacity because of staff shortages (e.g. hotels) have indicated this is likely to impact their **ability to repay debt moving forward**.

### International / Trade

- Some businesses are turning to **specialist businesses/consultants** to handle import tax/customs issues following the UK's departure from the EU.
- The ability to **set up entities** in the EU has been much faster for businesses with access to people on the ground/partners/advisors. The inability to travel to deal with any required bureaucracy has slowed the process for businesses without these contacts or networks.
- **Ireland** is emerging as a common location for Scottish businesses setting up EU entities due to its relative proximity, ease of doing businesses and lack of language barriers.
- Many businesses indicate they are looking forward to the return of international trade shows as it has been **difficult to build new customer and supplier relationships** virtually.

- Sustained **high air freight costs** has meant some Scottish exporters are finding it difficult to sell their products at a price attractive to customers.

### Supply Chains

- Manufacturers are reporting significant **supply chain disruption** as a result of both Brexit and limited shipping container availability – in extreme cases, this has meant staff being sent home until parts arrive.
- Construction businesses have indicated the **increased cost** and **reduced availability** of raw materials (specifically steel, cement and timber) has the potential to delay projects and increase prices.
- Some businesses have indicated ongoing disruption in the global container market is likely to lead to **supply shortages in the run up to Christmas**.
- The shortage of HGV drivers has meant orders that would normally take three days are taking more than two weeks to deliver, **risking future business**.

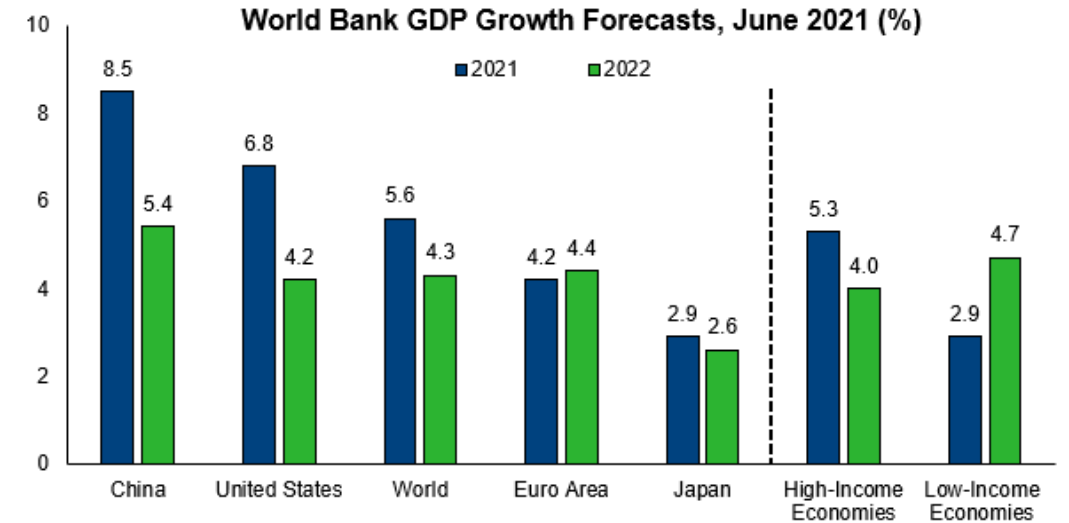
### Sectors

- Spread bookings (people booking more than one accommodation, then cancelling at the last minute) is an ongoing issue for **tourism** businesses.
- **Retail** and **hospitality** businesses offering takeaway remain unclear how the introduction of the Deposit Return Scheme for single use drinks containers on the 1<sup>st</sup> July 2022 will impact demand levels.

## Economic Forecasts

The [World Bank](#) has upgraded its forecast for global growth in 2021 to 5.6%, predicting that COVID-19 vaccinations and huge government stimulus in advanced countries will power the fastest worldwide expansion in nearly five decades.

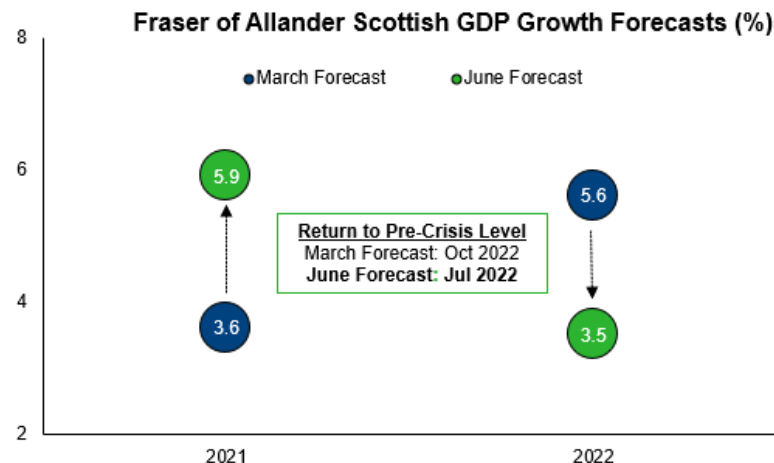
However, the Bank noted recovery will be uneven and many developing and low-income economies will continue to struggle amid 'highly unequal' access to vaccines.



### Scottish GDP Forecast

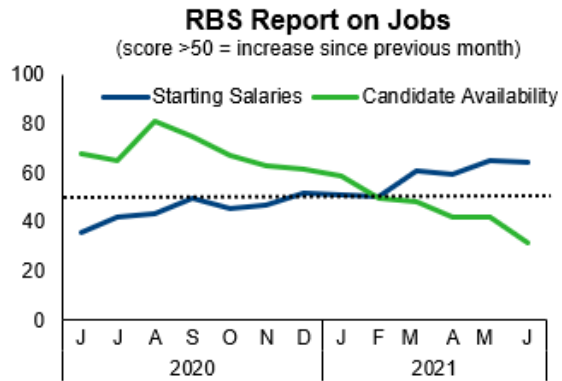
The [Fraser of Allander Institute](#) forecasts the Scottish economy will grow 5.9% in 2021 following the significant opening of sectors since late April and evidence consumers are willing to spend accumulated savings. However, the Institute warned the delay to further easing of restrictions will continue to cause issues for certain sectors.

The Institute now predicts the economy will reach its pre-pandemic peak in the summer of 2022, three months earlier than previously forecast.

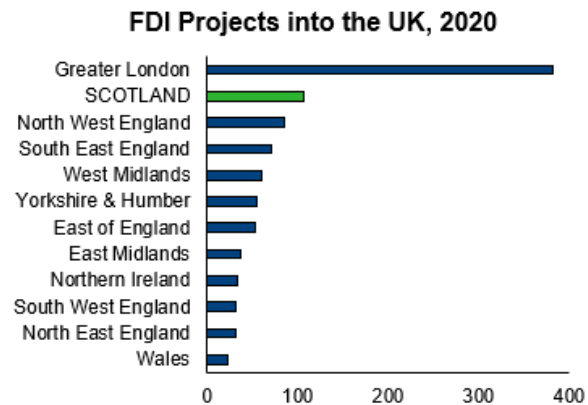


## Challenges & Opportunities

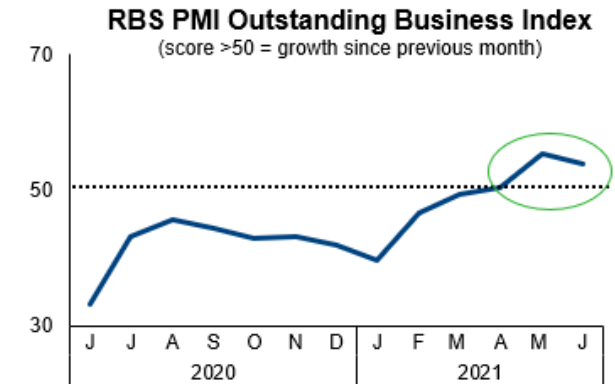
A shortage of job candidates forced Scottish businesses to raise [starting salaries](#) for a seventh consecutive month in June, adding to wider cost pressures.



Scotland retained its position as the leading UK recipient of [FDI](#) outside of London in 2020, underlining the country's attraction to investors even during times of uncertainty.



Supply chain disruptions and strong demand are beginning to cause [capacity issues](#), with Scottish businesses unable to keep up with orders for the last three months.



Almost 80% of Scottish companies in June 2021 intended to take action to [reduce carbon emissions](#) in the next 12 months, offering a potential demand stream for relevant businesses.

