Economic Outlook & Economic Recovery

Presentation to the Tourism Taskforce

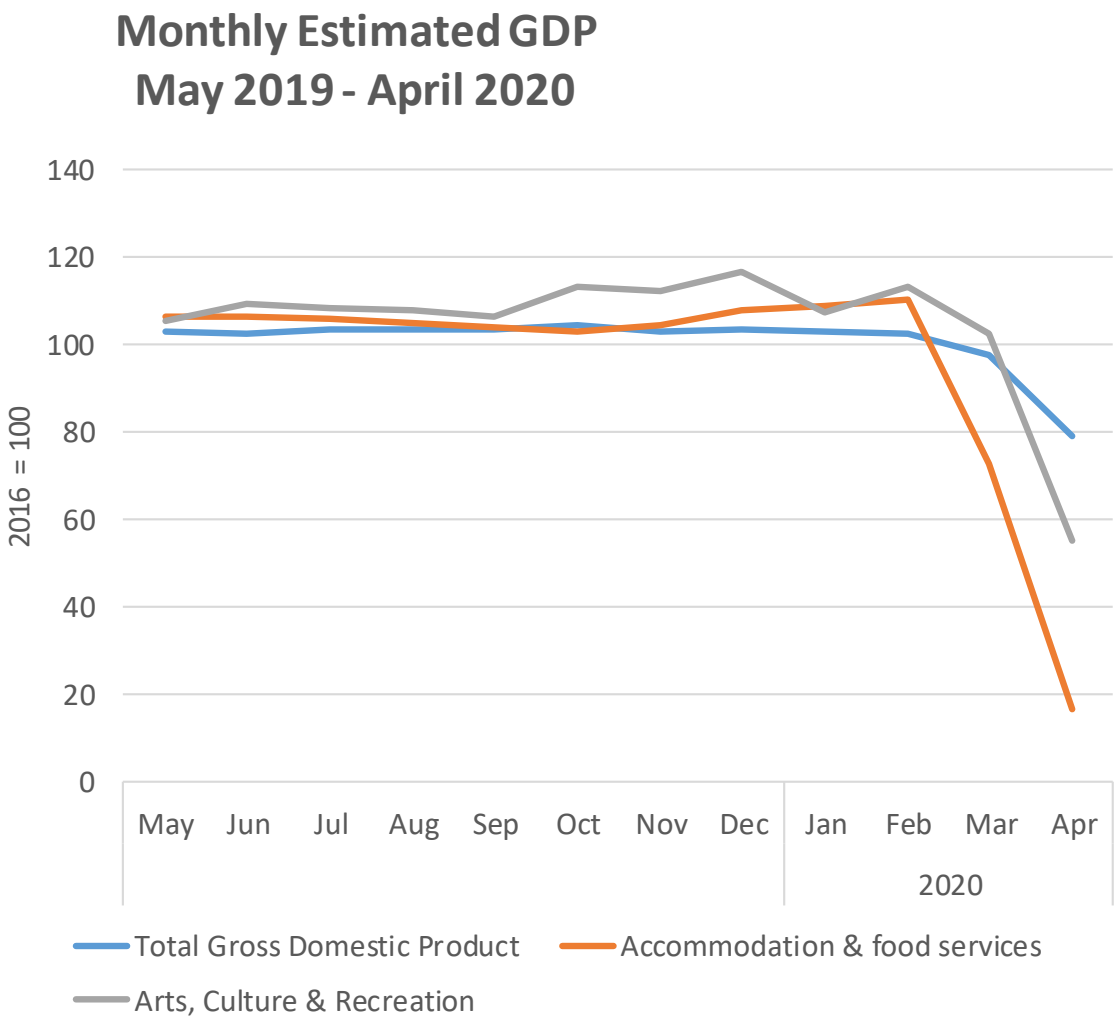
Kevin Brady
Office of the Chief Economic Adviser
Scottish Government

Overview of Latest Economic Impacts

- The scale of collapse in economic activity is dramatic. Latest outturn GDP figures show (compared to previous month):
  - Scottish GDP fell by 18.9% in April and fell by 5.0% in March.
  - This is similar to the UK: UK GDP fell 20.4% in April and fell 5.8% in March.
  - Latest business surveys have signalled a further sharp fall in output in May, though to a slightly lesser extent than in April.
  - Our modelling suggests that a gradual recovery from the crisis is increasingly likely and that economic output may not recover to pre-crisis levels until the start of 2023.
- Latest labour market figures show unemployment rising but the full scale of impact on Scotland's labour market is only starting to emerge.
  - Scotland's unemployment rate for the period Feb to Apr 2020 was 4.6% (127,000 people).
  - There was a further rise in the claimant count for Scotland in May, an increase of claimants of around 20,000 from the month before with total claimants now 217,600 (a rate of 7.8%).
  - The youth unemployment rate was 13.1%, higher than a year ago (6.1%). 45,000 young people were unemployed (24,000 more than a year ago.)
  - There are approximately 628,000 employments under the Job Retention Scheme and approximately 146,000 (70%) of eligible self-employed individuals made a claim under the Self-Employment Income Support Scheme in Scotland.
- The outlook for the UK and global economy is pessimistic.
  - The latest average of independent forecasts is for UK GDP to fall by 9.2% in 2020 (previous month's average was a fall of 8.6%).
  - OECD global outlook report forecasts a slow economic recovery, with GDP not back to 2019 Q4 levels for at least two years.

Tourism has been particularly hard hit

- Near total halt of activity since late-March
- Importance of extraordinary fiscal measures, particularly Job Retention Scheme
- Forecasts for international inbound are pessimistic in the short to medium term
- Domestic consumer nervousness, but interest in staying close to home
- Virus control influences customer confidence, business capacity and costs



Significance of Tourism for Scotland

- Visitor spend supports £7 billion GDP: 5% of Scottish total
- Sector represents over 8% of the workforce: 1 in 12 jobs
  - But is as much as 15% in Argyll & Bute, and 10% in Edinburgh
- The sector is a substantial employer of those at risk from recession
- Important to how the world sees and experiences Scotland; fundamental to Scotland's brand

Advisory Group on Economic Recovery

- Established to advise on Scotland's economic recovery from Covid-19, including:
  - Measures to support different sectoral and regional challenges the economy will face in recovery; and
  - How business practice will change as a result of Covid, including opportunities to operate differently and how Government policy can help the transition towards a greener, net zero and wellbeing economy.
- Identifies focus for the recovery as being on employment; education; and addressing inequality.
  - Joint effort by government, business and third sector.
- Tourism's importance to Scotland, and the challenges it faces, recognised in the report

Advisory Group's Recommendations on Tourism

- Specific recommendation on Tourism & Hospitality (#13):
  - Industry and Scottish Government work together to develop a sustainable future strategy and vision for the sector
  - Consider fiscal measures to support recovery, e.g. targeted reduction in Business Rates, and pressing UK Government on targeted, temporary VAT reduction
- Report highlights impacts on tourism from other recommended interventions
  - E.g. regional business support (#3); bank finance (#5); inward investment (#6); digital infrastructure (#10); supporting culture & creative industries (#14); Workplace Innovation, including Fair Work Agreements (#19); skills, especially in high participation sectors (#20)
  - Collaborative partnership between Government and the business community (#7)