Monthly Economic Brief

Office of the Chief Economic Adviser

October 2020

Scottish Government
Riaghaltas na h-Alba
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Overview

This month's Economic Brief provides an update on Scotland's economy into the third quarter of the year, during which the economy continued to resume activity as national lockdown restrictions were eased. However the path of recovery continued to differ by sector as local restrictions influenced the level of economic activity in some sectors.

The latest GDP data shows that the Scottish economy grew for the fourth consecutive month in August and over that period recovered around 60 per cent of the output lost during the unprecedented falls in March and April. However, like the UK as a whole, the pace of growth slowed notably in August with output rising by 2.6 per cent over the month, down from over 6 per cent growth in July.

Slower growth was evident in both the Services and Construction sectors, alongside a slight fall in output in the Production sector, highlighting the gradual pace at which output will return to pre-pandemic levels. Overall, GDP remained 9.4 per cent below its level in February, however, the scale of the impact on output during national lockdown, the subsequent pace at which demand has recovered and the need for local restrictions means that sectoral differences are already emerging. For example, Accommodation and Food Services output was 31 per cent below its level in February while Construction output was 9 per cent below and Manufacturing 5 per cent.

The latest Purchasing Managers Index signalled that slower growth continued into September with the Services sector in particular reporting only marginal growth. Furthermore, trading conditions remained extremely challenging for businesses with business turnover remaining significantly lower than last year. While the economy continued to transition from national lockdown over this period, Government support has remained a critical factor in helping businesses to retain jobs and provide flexibility during this period in which many businesses have needed to operate below capacity.

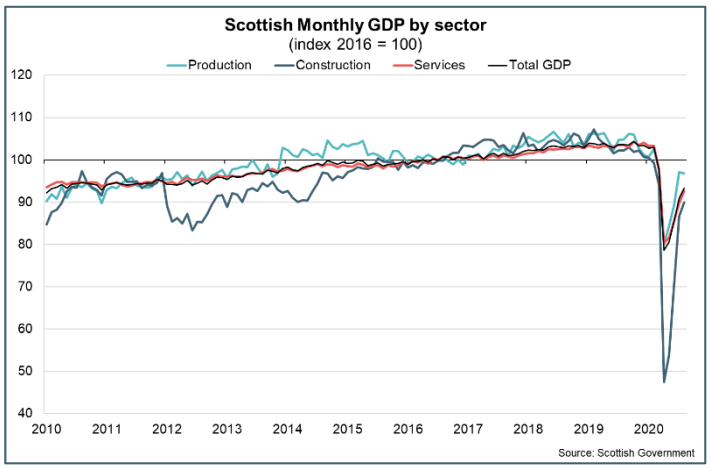
At the end of August, 242,600 employments in Scotland were on furlough, supporting the unemployment rate to remain low at 4.5 per cent in June to August. However, the claimant count remained 8 per cent in September, with payrolled employments around 63,000 lower than last year, further emphasising the underlying challenges that are emerging in the labour market during this pandemic and the need for ongoing support to help mitigate the worst impacts. Unemployment is still expected to rise this year as the furlough scheme is replaced by the Job Support Scheme at the start of November, however the latest recent changes that have been made to the scheme should result in a more limited negative impact than initially feared.

This has an important feed through to expectations for consumption in the final quarter of the year, particularly in the lead up to the festive season which is so important for the retail sector. Retail sales remain significantly down on last year, however have continued to stabilise in recent months. However, amid such uncertainty in the labour market and for household incomes for the coming year, the household savings ratio has risen to a record high level, while consumer sentiment is at historically low levels and remains a downside risk to the outlook for consumption.

More broadly, the short term outlook for the final quarter of the year remains notably uncertain as cases rise in Scotland, the rest of the UK and internationally. This has been reflected in weakening business and consumer optimism which eased back in September, and presents even greater uncertainty for the medium term outlook.

Output[1]

Scotland's GDP data for August showed that output continued to recover from the record fall in April, however like the UK as a whole, the pace of recovery slowed from June and July.



- Scotland's GDP grew 2.6% in August, its fourth consecutive month of growth, after falling by 19.5% in April and by 5.2% in March. The growth in August, reflected the ongoing recovery in business activity, as restrictions from the national lockdown eased.
- The growth in output between May and August recovered around 60% of the significant falls in output in March and April, however Scotland's GDP remained 9.4% below its level in February before national lockdown restrictions were introduced.
- At a sector level, growth was uneven in August, with a marginal fall in Production sector output (-0.3%), while the Construction (3.8%) and Services (3.3%) sectors continued to grow.
- Furthermore, the pace of recovery in output back to pre-pre-pandemic levels in February, continues to vary greatly by sector and has been impacted by the scale of the initial fall in output, the ongoing impacts of restrictions on the sector and the extent to which demand is recovering.

Monthly change GDP across sectors

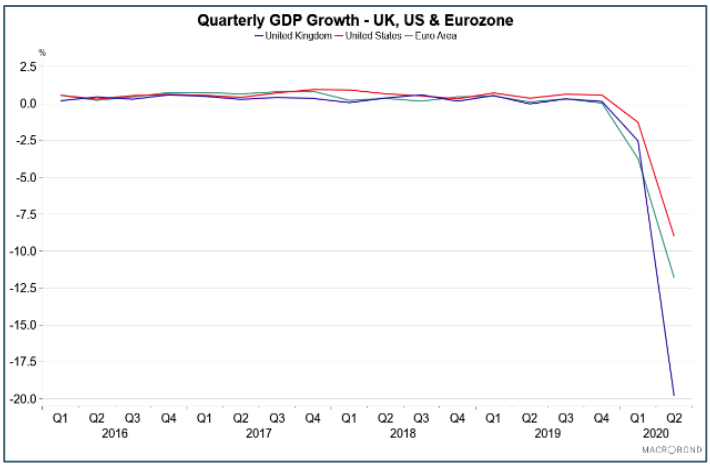
		UK	Scotland
Total GDP	March	-7.3%	-5.2%
	April	-19.5%	-19.5%
	May	2.7%	2.5%
	June	9.1%	6.0%
	July	6.4%	6.4%
	August	2.1%	2.6%
Production Sector	March	-4.6%	-4.8%
	April	-19.6%	-18.0%
	May	5.7%	5.4%
	June	9.8%	5.8%
	July	5.2%	8.8%
	August	0.3%	-0.3%
Manufacturing	March	-6.1%	-5.4%
	April	-25.1%	-18.1%
	May	7.9%	7.2%
	June	12.0%	7.8%
	July	6.9%	7.5%
	August	0.7%	-1.5%
Construction sector	March	-5.5%	-5.2%
	April	-41.2%	-49.6%
	May	9.1%	13.5%
	June	21.8%	31.0%
	July	17.2%	22.9%
	August	3.0%	3.8%
Services sector	March	-7.9%	-5.3%
	April	-17.8%	-17.9%
	May	1.8%	1.5%
	June	8.2%	4.9%
	July	5.9%	4.9%
	August	2.4%	3.3%

Source: ONS, Scottish Government

- In August, the Production sector was 6% below its February level, while the Construction sector was 9% down and the Services sector was 10% down. Within the Services sector, there remains significant variation with Accommodation and Food Services 31% below its February level and Financial and Insurance Activities down 3%.

[1] Scotland: https://www.gov.scot/collections/economy-statistics/; UK: https://www.ons.gov.uk/economy/grossdomesticproductgdp; Eurozone: https://ec.europa.eu/eurostat/publications/news-releases; US: https://www.bea.gov/data/gdp/gross-domestic-product

- The path of Scottish GDP during the pandemic has broadly been in line with the UK as a whole. In August, UK GDP grew 2.1%, its fourth consecutive month of growth, though the pace of growth had slowed from May, June and July and output remains 9.2% below its level in February.



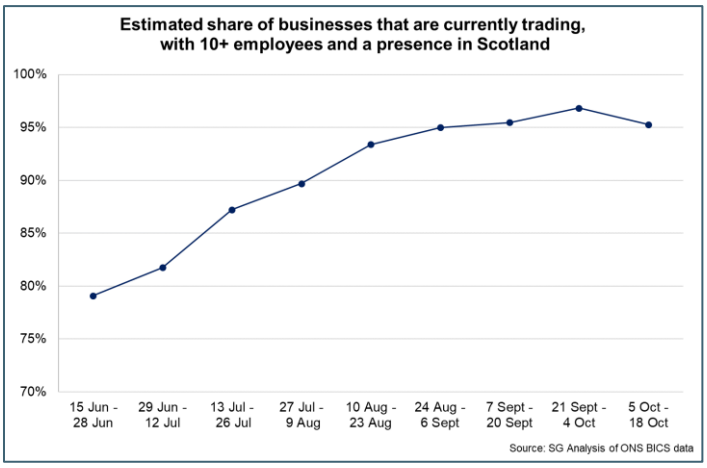
- The scale and duration of lockdown restrictions varied across countries and regions during the first half of the year and had different impacts on economic output. In Q2 2020, US GDP fell 9.0% (following a 1.3% fall in Q1) and Eurozone GDP fell 11.8% (following a 3.7% fall in Q1).

Business Activity

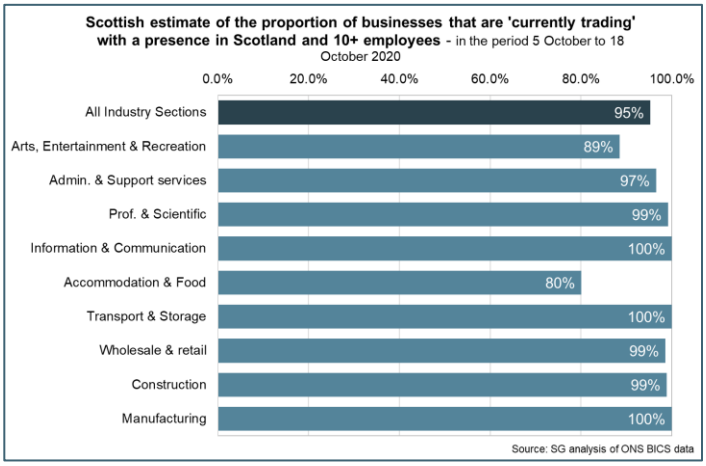
Business activity continued to stabilise into the third quarter of the year, however subdued demand, heightened uncertainty and new local restrictions have weighed on the pace and scale of activity.

Proportion of business trading

- National lockdown restrictions required many businesses to close or scale down activity in March. The easing of national restrictions into the third quarter enabled businesses to gradually reopen, and by the start of October, the proportion of business reporting as currently trading had risen to 97%.



- Latest data into the first half of October showed that the proportion of businesses currently trading had eased back slightly to 95% with the Accommodation and Food Services sector (80%) and the Arts, Entertainment & Recreation sector (89%) continuing to have the lowest proportions trading and decreasing over the latest period.[2]



[2] Scottish Government Estimates of ONS Business Impacts of COVID-19 Survey, Wave 15, 5 October to 18 October 2020. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

Interim Evaluation of COVID-19 Business Support Measures in Scotland

Given the pace and scale of the collapse in economic activity as a result of the COVID-19 pandemic, the Scottish and UK Governments introduced a significant package of business support measures aimed at helping businesses survive and maintain employment through the crisis.

The Office of the Chief Economic Adviser (OCEA) has been undertaking an ongoing programme of work to evaluate the impact of the support available to businesses in Scotland. The first stage of this work considers the outputs of the schemes (in terms of numbers of businesses and jobs supported) and early outcomes (in terms of the extent to which the measures introduced have helped businesses survive through the immediate crisis) to guide ongoing policy thinking on business support as the COVID-19 situation changes. It draws on scheme management information data, ONS' Business Impacts of Coronavirus Survey (BICS), qualitative evidence from business representative organisations and OCEA's sectoral viability model, which explores business viability (turnover, cashflow, profitability and employment) across the sectors of the economy.

The key results of this first stage of the evaluation are set out below which highlight the important role that Government support has played in helping businesses survive.

Estimates of Application and Take-up Rates by Scottish Businesses

- 14% of Scottish businesses did not apply for any support.
- 38% of small to medium-sized enterprises applied for Scottish Government grants, in line with the targeting of these schemes (2% of large firms applied).
- 20% of Scottish businesses received SG Business Support Fund Grants; 7% SG Pivotal Enterprise Resilience Fund; 7% SG sector-specific grants.

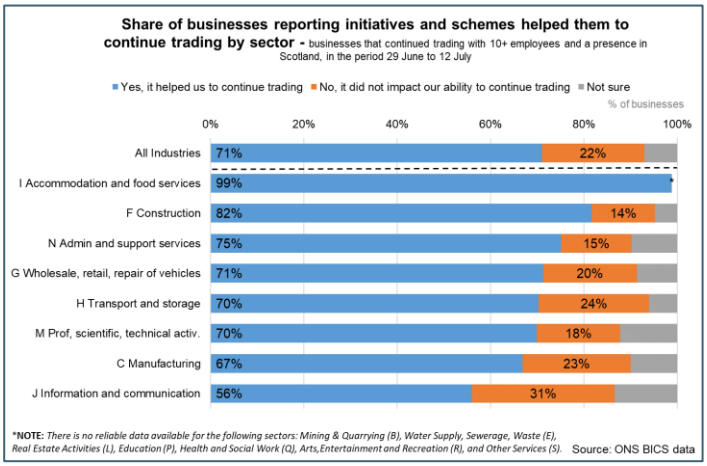
Application & Take-up rates by Scottish Businesses

Scheme	Applied	Received
SG grant support	34%	30%
SG or UKG grant support	38%	-
Coronavirus Job Retention Scheme	82%	81%
UKG-backed loans	26%	21%

Source: ONS BICS, wave 8 (Base: Businesses with 10+ employees with a presence in Scotland who have not permanently stopped trading)

Overview of Impact of Business Support

- 71% of businesses in Scotland who received support reported that it had helped them to continue trading.
- 88% of those who received SG support[3] felt it helped them continue trading compared to those that received UKG support only (65%).
- This suggests that the support provided by SG had an 'additional', complementary impact, over and above that of UKG schemes.
- Business organisations' feedback echoed this, with SG support filling key gaps, though for a limited number of firms/ sectors.

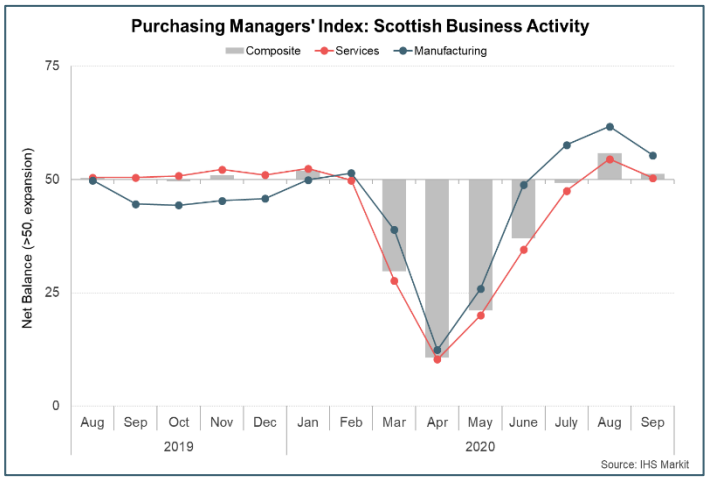


[3] Including those businesses in Scotland who also received UKG support

- OCEA sector viability modelling suggests the sectors finding the support most helpful were among the most adversely affected by the crisis.
- Business feedback and OCEA Modelling suggests that support is effective in softening the impacts of the pandemic, and is significant in supporting Accommodation & Food Services, and Arts, Entertainment & Recreation sectors in particular.

Business activity

- The RBS Purchasing Managers Index (PMI)[4] showed an increase in business activity in Scotland for the second consecutive month in September (51.2).[5] However, the pace of growth was mild and notably slower than in August (55.8), reflecting a fall in new business over the month.



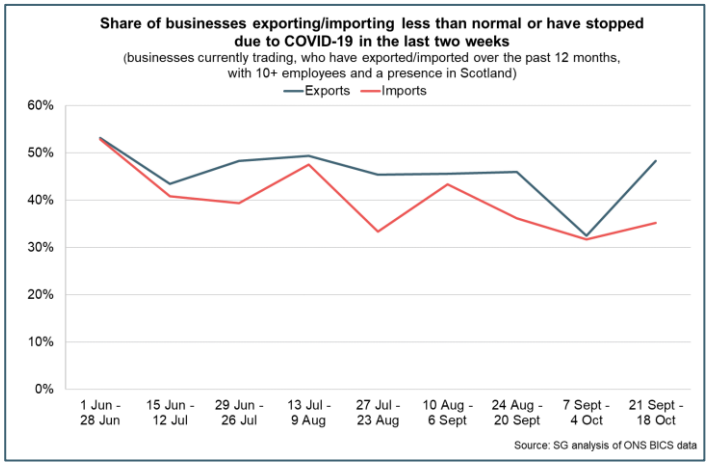
- At a sector level, growth in business activity continued to be stronger in the manufacturing sector (55.3) while service sector growth was more marginal (50.3).
- The easing in business activity growth was linked to a combination of subdued client demand and heightened uncertainty. This was also reflected in a decrease in business optimism for the coming 12 months which fell to its lowest level since May.
- The more recent UK Flash PMI for October signalled further growth in UK business activity over the month, however at a notably slower pace than in September and driven by a fall in new business volumes. This was most pronounced in the services sector which respondents linked with tighter local restrictions impacting on consumer activity as contributing factors.[6]

Trade

- On the back of significant global trade headwinds in 2019 and Brexit uncertainty, many businesses faced further challenges to trade in the first half of 2020 due to the pandemic and lockdown measures impacting supply chains and demand across countries.

[4] IHS Markit, RBS Purchasing Managers Index, September 2020.
https://www.markiteconomics.com/Public/Home/PressRelease/3f3ebe61bc45412db66928ad75960711
[5] The IHS Markit Purchasing Managers Index is between 0 and 100. Readings above 50 indicate an increase compared to the previous month, and below 50 a decrease.
[6] https://www.markiteconomics.com/Public/Home/PressRelease/67777e5fdf8949959881048618c2480e

- In Q2 2020, the value of Scotland's goods exports was £5.7 billion, a decrease of 31.1% compared to Q2 2019 (UK: 28.7%). The fall in exports over the year was driven by a fall in oil & gas exports (-52.4%) and a fall in beverages exports (-39.9%).[7]
- Latest data on Scottish ports activity (non-EU trade only) up to August 2020 shows further evidence of subdued trade activity. In August, the value of non-EU exports leaving Scottish ports (£433 million) was down 50% compared with August 2019 and the value of non-EU imports entering Scottish ports (£448 million) was down 55% over the year.[8]
- Scottish Government estimates of ONS data[9] suggests that subdued trade activity continued further into the start of the fourth quarter with 46% of Scottish trading exporters reporting that they were exporting less than normal and 35% of Scottish importers.

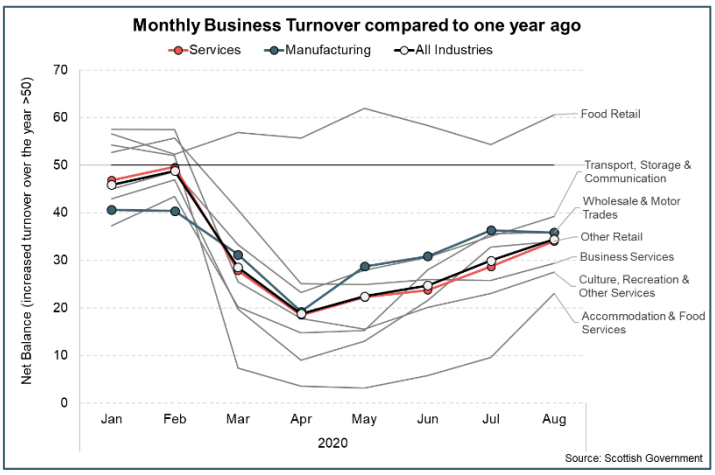


Business Turnover

Businesses continued to reopen and adjust to new operating and demand conditions going into the third quarter, however many were operating below full capacity and cashflow challenges remained a key risk.

Monthly Business Turnover Index[10]

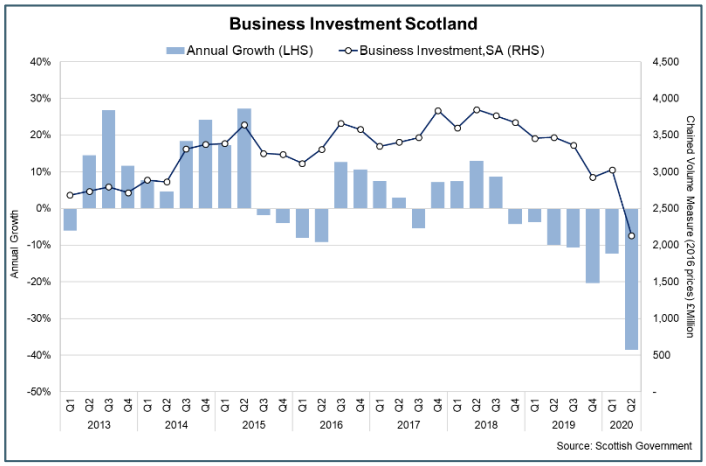
- The Monthly Business Turnover Index for August showed that most companies in Scotland continued to report that turnover had fallen compared to last year (34). However, overall, the indicator did continue to strengthen from its low point in April.
- The rise in the turnover index since April, suggests that business activity strengthened between July and August, however, most



[7] https://www.gov.uk/government/collections/uk-overseas-trade-statistics-and-regional-trade-statistics#current-releases
[8] HMRC UK Trade data for Scottish Ports
[9] SG estimates of ONS Business Impacts of COVID-19 Survey data, Wave 15, 21 September – 18 October. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)
[10] https://www.gov.scot/collections/economy-statistics/#monthlybusinessturnoverindex. The Index is between 0 and 100. Readings above 50 indicate an increase compared to the previous year, and below 50 a decrease.

companies continue to report notably lower sales than last year and there were variations across sectors.

- Compared to last year, business turnover remains lower across both Manufacturing (36) and Services (34) sectors, and while turnover in the Services sector continue to strengthen over the month, turnover in the Manufacturing sector remained broadly flat.
- Within the Services sector, Accommodation and Food Services continued to be the industry with most businesses reporting a decrease in turnover over the year, followed by Culture and Recreation Services.
- Compared to July, the index for most industry sectors strengthened in August, particularly for Accommodation & Food services and non-food (other) retail, however Wholesale & Motor trades fell over the month.
- The improvements in business turnover across most sectors in August reflect the further reopening of the economy over that period. However, the widespread falls in business turnover compared to last year continue to emphasise the challenging cashflow position that many businesses are facing.
- The Scottish Government estimates of ONS BICS data show further challenging trading conditions in September and October, with 51.3% of the businesses with a Scottish presence reporting that turnover was lower than what they would normally expect for the time of year, up from 46.7% in the previous wave. Within this, there were four industries where more than half of the businesses continue to experience lower turnover: Accommodation & Food Services (73.1%) and Arts, Entertainment & Recreation (71.4%), both of which continued to be impacted significantly by restrictions on consumer activity, and also Transport & Storage (56.1%) and Administration & Support services (59.0%).[11]
- Cashflow and cash reserves remain a critical aspect of business viability as firms rebuild capacity in an environment in which there remains levels of restrictions on activity and demand is subdued. It presents ongoing risks to business investment also, which on the back of a downward trend over 2019, fell by 29.6% in Q2 2020 and by 38.5% over the year to Q2.[12]



[11] SG estimates of ONS Business Impacts of COVID-19 Survey data, Wave 15, 21 September – 18 October. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)
[12] https://www.gov.scot/publications/gdp-quarterly-national-accounts-2020-q2/

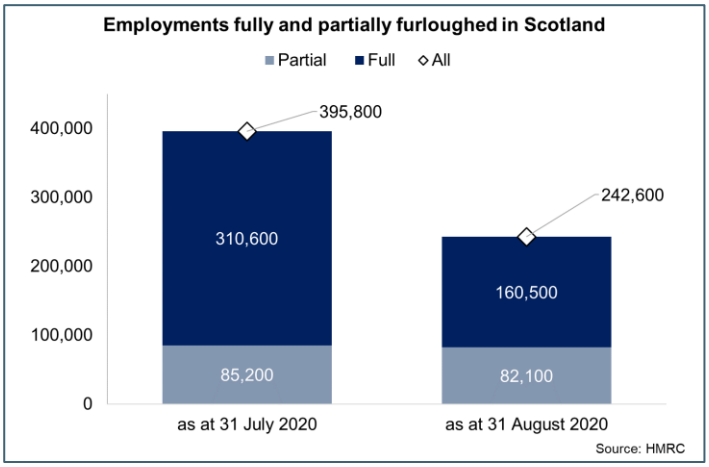
Labour Market

Unemployment remained low by historical standards in August, supported by the Job Retention Scheme, however wider labour market indicators signal challenging labour market conditions.

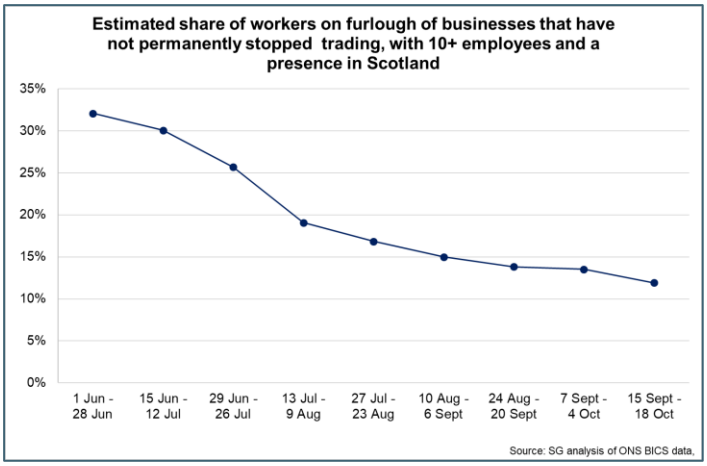
Coronavirus Jobs Retention Scheme (CJRS) and Self Employment Income Support Scheme[13]

- The CJRS has been supporting the retention of jobs and incomes since March, during both the national lockdown phase and as restrictions were relaxed in the third quarter of the year. Latest HMRC data show that at the end of August, 242,600 employments in Scotland were on furlough, 160,500 on full furlough and 82,100 on partial furlough.

- As restrictions continued to ease in August and people continued to return to work, the number of employments on furlough fell 153,200 (-39%) over the month. Employments on full furlough fell 150,100 (-48%) and employments on partial furlough fell 3,100 (-4%), suggesting that firms continued to require flexibility on staffing levels as they resumed operations though with many operating below capacity and with ongoing cashflow challenges.



- More recent Scottish Government analysis of ONS BICS data show a similar trend with businesses in that survey reporting around 11.9% of their workforce were on furlough in October, down from 32.1% in June.[14]

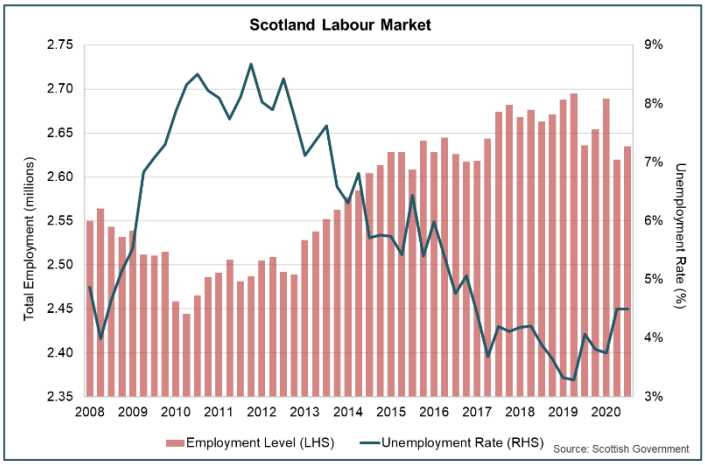


- In terms of the Self Employed Income Support Scheme (SEISS), HMRC data show that by end of September, 137,000 claims in Scotland had been made to the second SEISS which opened on 17 August. This represents 66% of the eligible population, with an average claim of £2,500. The number of claims was down from the first SEISS in which there were 158,000 claims in Scotland.

[13] https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics
[14] SG estimates of ONS Business Impacts of COVID-19 Survey data, Wave 15, 21 September – 18 October. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

Official labour market statistics

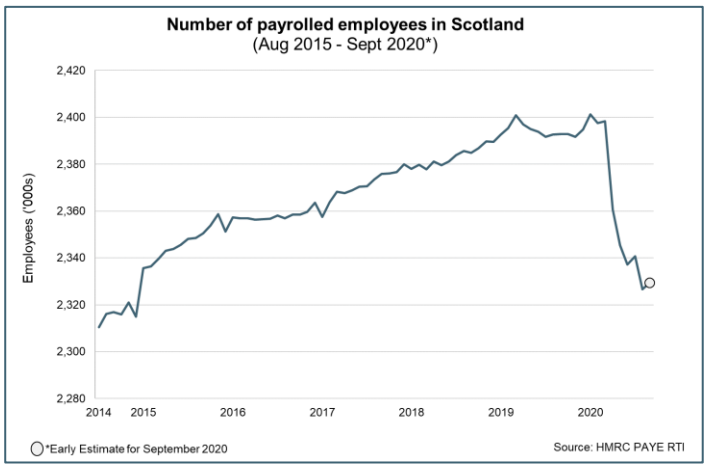
- The latest labour market statistics cover the period June to August when the economy was reopening from national lockdown and businesses were receiving support through the CJRS and SEISS to support employment levels.[15]
- Over the quarter to June to August 2020,[16] the employment level increased by 15,000 in Scotland and the employment rate increased by 0.4 percentage points to 73.9% (UK: 75.6%).



- The unemployment level remained broadly stable over the quarter and the unemployment rate was unchanged at 4.5% (UK: 4.5%).
- The improvement in employment over the quarter is mainly reflected in a decrease in economic inactivity (those neither in employment or ILO unemployed), with the level falling by 15,000 and the inactivity rate decreasing by 0.4 percentage points to 22.6% (UK: 20.8%).

PAYE payrolled employment

- More timely Pay As You Earn (PAYE) Real Time Information data for September indicate that compared to the same period one year ago, the number of payrolled employees in Scotland has fallen 2.7% (-63,000) to 2.3 million employees (UK: -2.2%).[17]



- In September, the number of payrolled employees in Scotland recovered slightly over the month (+3,000 from August), however remained 69,000 (2.9%) lower compared to March 2020.

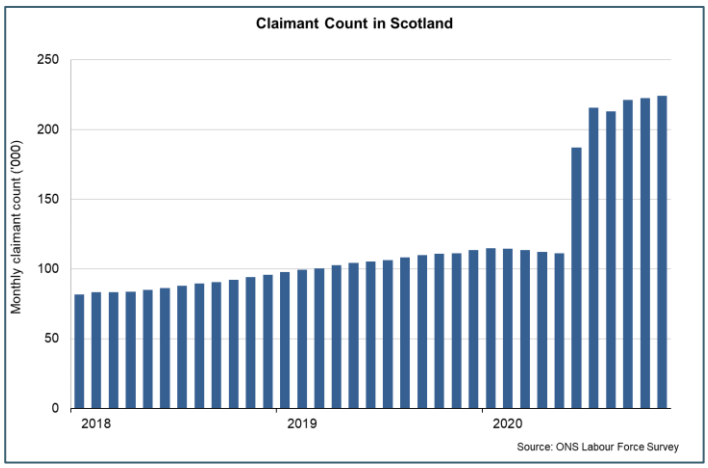
Claimant Count

- Scotland's Claimant Count (the number of claimants of Job Seekers Allowance and claimants of Universal Credit who were claiming principally for the reason of being unemployed) continued to

[15] The labour Force Survey account for furloughed workers as employed, but temporarily away from work.
[16] https://www.gov.scot/collections/labour-market-statistics/
[17] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/october2020#regional-data

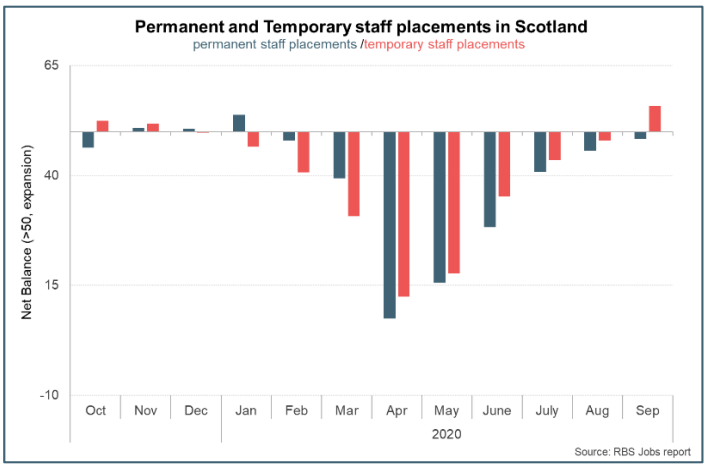
rise in September reflecting that the number of people that are unemployed or employed with low income and/or low hours is increasing.[18]

- In September the number of claimants increased by 1,500 (0.7%) over the month to 224,200, taking the Claimant Count rate to 8.0%.
- Compared to last year, the Claimant Count has more than doubled (up 101%), however most of that increase has come in recent months with the number of claimants rising by around 112,800 since March (+101%).

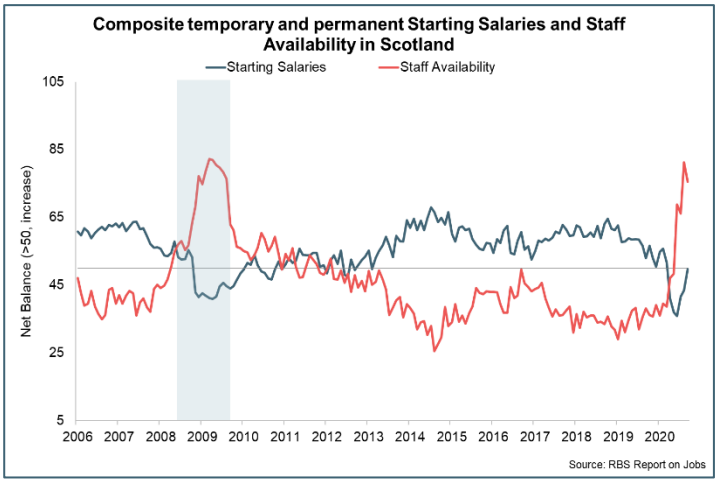


Demand for staff in Scotland

- The RBS Report on Jobs survey for September[19] signalled a further stabilisation in hiring activity, following the sharp slowdown during national lockdown.
- The number of permanent placements continued to fall in September, though the rate of reduction eased further from recent months. In contrast, the number of temporary staff placements increased for the first time in 10 months, reflecting the reopening of businesses and firms looking to clear backlogs.



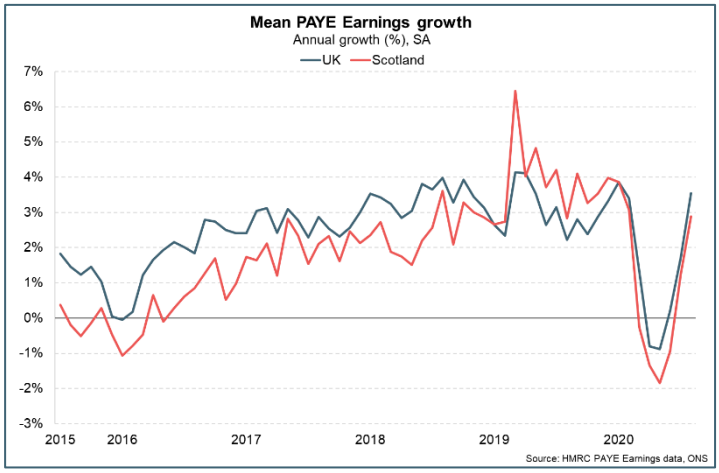
- While hiring activity remained subdued, staff availability increased further in September, albeit at a slightly slower rate than in August, and reflects the increase in number of job seekers which survey respondents linked to layoffs and redundancies.
- Starting salaries remained stable in September following sharp falls in recent months, however this was driven by stabilisation in permanent salaries while temporary salaries continued to fall.



[18] https://www.gov.scot/collections/labour-market-statistics/
[19] https://www.markiteconomics.com/Public/Home/PressRelease/fa22926ad8d04dc28315f2144ac23f05

Earnings

- During the pandemic and the associated policy responses, there has been a sharp slowdown in earnings growth in Scotland, with annual growth falling for four consecutive months between March and June. However the pace of growth strengthened in July and August as national lockdown restrictions eased and business activity stabilised.



- PAYE mean monthly pay in Scotland in August was £2,394, a 2.9% increase from August 2019 (UK: +3.5%). However the pace of growth remains below its rates at the start of the year and in the second half of 2019.[20]

How is COVID-19 affecting groups within our labour market?

As COVID-19 and the government responses to deal with the pandemic have fed through our economy and labour market there has been widespread concern that **groups already at a disadvantage may be hit particularly hard.**[21]

Groups expected to be hardest hit financially have already been identified in Scottish government analysis and include; **low earners, young people, women, minority ethnic people, disabled people, those living in most deprived areas, and lone parents**[22]. Although the Job Retention Scheme (JRS) has had a significant role in mitigating unemployment rises for these groups emerging evidence around labour market outcomes demonstrates they have had differing employment experiences since COVID-19.

Gender

Early gender differences in employment have been moderate, but women still face established labour market barriers that are likely to impact in the longer term[23], particularly around a disproportionate share of caring responsibilities. Although take-up rates of the furlough scheme in Scotland are equal for men and women (10%), the relative pace at which men and women return to the workplace over the coming months will be a key marker for how gender equality has been affected by the crisis, with initial HMRC analysis[24] suggesting men are more likely to be retained by their employers than women.

Age

It is clear that young people have seen particularly large impacts on employment. Latest LFS data[25] (Jun-Aug 2020) shows the unemployment rate of 16-24 year olds in Scotland rose by

[20] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/october2020#regional-data
[21] Institute for Fiscal Studies, The idiosyncratic impact of an aggregate shock, May, 2020
[22] Scottish Government, Coronavirus: economic impact of labour market effects, June, 2020
[23] Scottish Government, Gender Pay Gap Action Plan, Analytical Annex, March, 2019
[24] HMRC, Coronavirus Job Retention Scheme statistics: secondary analysis of ended furloughs, October, 2020
[25] The Annual Population Survey is a more robust measure of unemployment by age but is less timely

2.8 percentage points over the year, more than any other age group. Take-up of the JRS has also been much higher for younger age groups. This disproportionate impact is consistent with prior economic shocks and also that they make up large shares of employment in sectors most affected by the crisis (e.g. accommodation & food) and precarious forms of work (e.g. zero hours contracts).

Low earners and those in the most deprived areas

The impact of the crisis has varied significantly by sector with implications for different experiences by wage distribution. The Institute for Fiscal Studies[26] estimates that low earners across the UK were seven times more likely to work in a shut-down sector of the economy than high earners. ONS[27] analysis of home working by occupation finds there can be less potential for home working in lower paid jobs (e.g. sales and customer service occupations) since these jobs are typically customer facing or based on business premises. This suggests they are more at risk of job losses or being placed on furlough.

By region, most recent claimant count data (Sept '20) shows a broad based rise in claimant count rates but that **the greatest rises have been concentrated in areas with already high claimant rates (e.g. Glasgow City, West Dunbartonshire).**

Lone parents, disabled people, and minority ethnic people

There is less evidence of how the groups above have been affected by the pandemic, although we know that they are more at risk of impact in many cases. The labour market survey data which is traditionally used to understand the challenges these groups face can often be better suited to identify longer term trends than short term impacts.

However, disabled people do not appear to be experiencing a greater effect on employment status than non-disabled people, with the longer term trend in recent years of a narrowing of the disability employment gap unaffected to date. However, aside from labour market data there is evidence that compared with their non-disabled peers, disabled people have faced a greater impact on their lives from COVID-19[28] and this has implications for employment prospects.

Similarly, although there is less available evidence of a disproportionate impact on employment status for minority ethnic groups, **there is evidence that they have been particularly affected by COVID-19, with UK wide ONS analysis[29] suggesting people from black and minority ethnic groups are over-represented in jobs with higher risk of exposure to COVID-19**, accounting for 1 in 5 workers in the most at risk occupations despite accounting for 11% of the working population. Data from the Resolution Foundation also suggests that 22% of UK minority ethnic workers that were furloughed were no longer working in September, more than double the overall rate.[30]

Lone parents – predominantly women - have lower employment rates and are more exposed to reductions in earnings and job losses than those with partners as they are less likely to have someone to share childcare with and may be unable to work as a result. Lone parents may have been particularly affected by "self-furlough" through asking their employer to use the retention scheme if school closures or reduced access to childcare has reduced their ability to work.

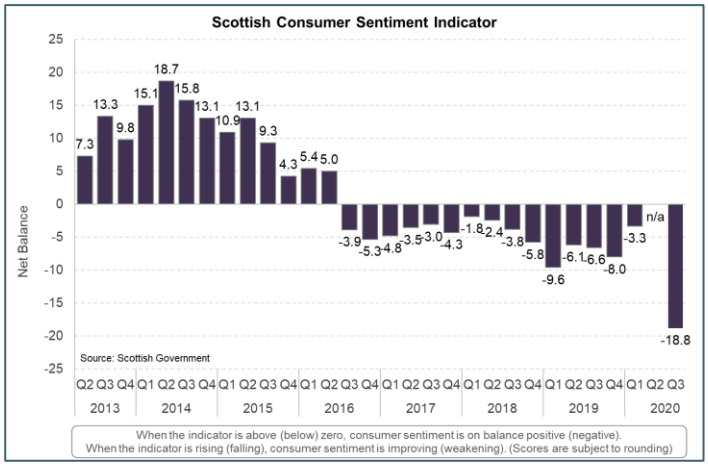
[26] Institute for Fiscal Studies, Sector shutdowns during the coronavirus crisis: which workers are most exposed?, April, 2020
[27] Office for National Statistics, Coronavirus and homeworking in the UK: April, 2020
[28] Office for National Statistics, Coronavirus and the social impacts on disabled people in Great Britain, August, 2020
[29] Office for National Statistics, Which occupations have the highest potential exposure to the coronavirus (COVID-19)?, May, 2020
[30] Resolution Foundation. Evaluating the effects of the current economic crisis on the UK labour market

Consumption

Consumer sentiment and consumption activity have been significantly impacted in 2020 by the coronavirus pandemic and restrictions on activity impacting both supply and demand.

Consumer sentiment

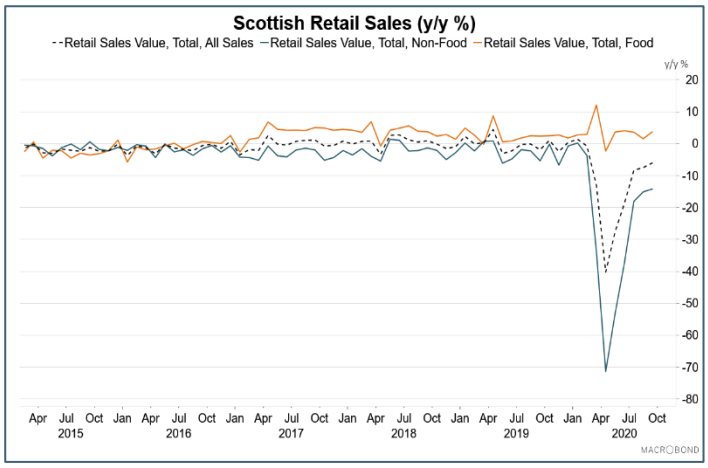
- In Q3 2020, the Scottish Consumer Sentiment Indicator stood at -18.8, indicating that consumer sentiment was on balance negative and at its lowest point in the quarterly time series.[31]
- The low level of consumer sentiment in Q3 was driven by sentiment regarding the current performance of the economy, current security of household finances and current relaxedness about spending being at their lowest levels in the time series and is reflective of the unprecedented economic shock that has resulted from the coronavirus pandemic.



- Looking ahead to the next 12 months, respondents expectations about the economy and their household finances have been less negatively impacted, and on balance expect them to be performing better in a year's time than now. There is significant uncertainty for the economic outlook and going forward, the future expectations indicators will likely be sensitive to ongoing impacts of the pandemic.

Retail sales

- Scottish Retail Consortium data[32] on retail sales for September reported an annual decrease of 6% in total retail sales in Scotland, improving slightly from the 7.5% annual fall in August and further strengthening from the record fall in April (40.3%).
- The decline in retail sales in June was mainly driven by a fall in non-food retail sales. Over



[31] https://www.gov.scot/collections/economy-statistics/#scottishconsumersentimentindicator(scsi) Due to the coronavirus pandemic, data was not collected in the last two weeks of March and in April and May. Therefore there are no results for Q2 2020 as a whole and in Q1 2020 results are based on 2,129 adults instead of 2,250.

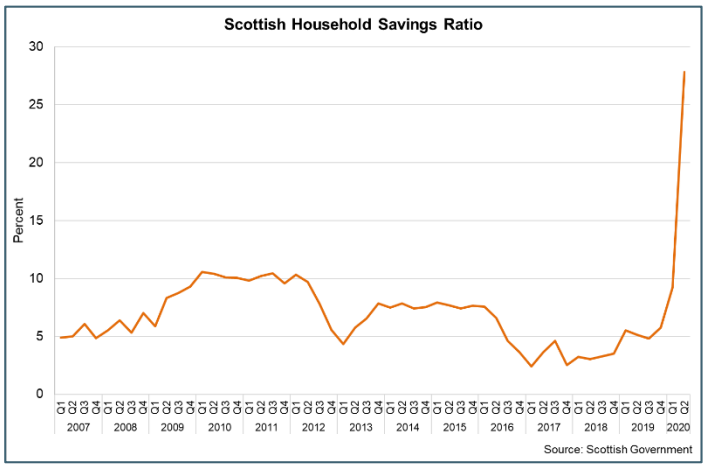
[32] Source: Scottish Retail Consortium.

the year to September, non-food retail sales fell by 14.2%, while food retail sales increased by 3.7%.

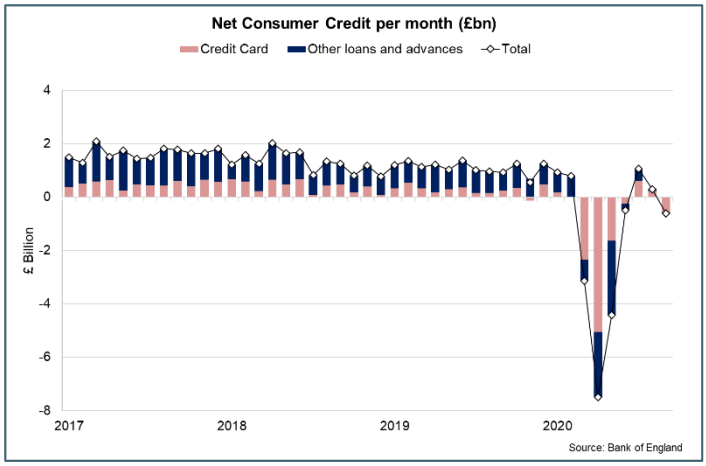
- The combination of restrictions, increased pressure on incomes, subdued sentiment and heightened uncertainty are factors continuing to impact on consumer activity.

Household Saving and Consumer lending and repayments

- The household saving ratio (the proportion of disposable household income available for saving or paying off debt) increased significantly to 27.8% in Q2 2020, up from an average of 5.3% in 2019.



- Whilst in the second quarter of 2020, total household income fell by 1.6% compared to the same period one year ago, consumer spending fell significantly more (-25.1%). As such, the savings ratio significantly increased to its highest rate on record.[33]
- The ONS savings ratio for the UK, also reported a substantial increase in the savings ratio to 29.1% in Q2 2020, compared with 9.6% in Q1, as household expenditure fell by nearly a quarter.
- Between March and June, households on aggregate repaid more consumer credit than they took on in new borrowing and more recently the strengthening in economic activity in July and August as businesses reopened was reflected in a return to consumers' positive demand for credit.[34]



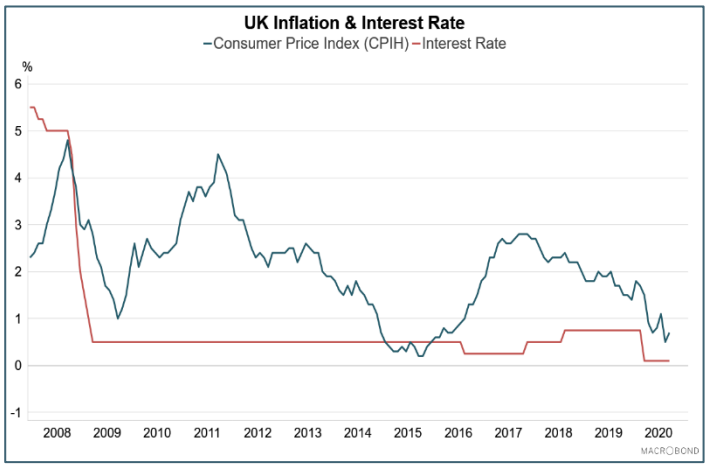
- However, net consumer credit borrowing turned negative again in September (-£0.6 billion), reflecting ongoing weakness in consumer spending.

Inflation and interest rate

- The collapse in demand, alongside the fall in oil price to record lows placed downward pressure on inflation in the first half of 2020 and which has remained low into the third quarter of 2020.

[33] https://www.gov.scot/collections/economy-statistics/#gdpquarterlynationalaccounts,scotland(qnas)
[34] https://www.bankofengland.co.uk/statistics/money-and-credit/2020/september-2020

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 0.7% in September 2020, up from 0.5% in August 2020 but down from 1.8% at the start of the year.[35]

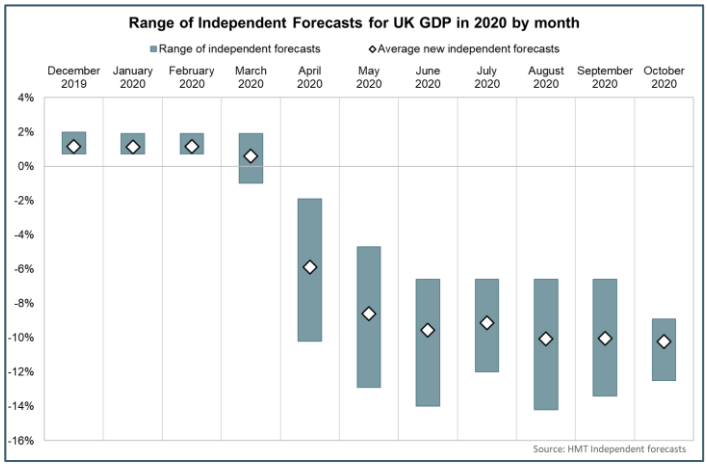


- Key contributions to the latest increase in the inflation rate came from rising prices for transport and restaurants & café prices following the end of the Eat Out to Help out Scheme at the end of August.
- The Bank of England maintained the Bank Rate at 0.1% in September 2020[36] and in their current central scenario analysis project inflation to fall to 0.25% in 2020 before rising to 1.75% in 2021 and 2% in 2022.

GDP growth outlook

Economic output forecasts for 2020 have stabilised in recent months, however significant short term uncertainty remains for the final quarter of the year as well as for the medium term as new local restrictions on activity are introduced to suppress the spread of the virus.

- The scale and duration of the economic impacts from the pandemic remain highly uncertain with substantial ongoing risks associated with further increases in infection rates and the reintroduction of restrictions, the pace at which economic activity and output will recover to pre-pandemic levels, and the feed through to the labour market as support schemes are changed.
- At a global level, the IMF World Economic Outlook Update[37] projects global GDP to fall by 4.4% in 2020 with output from Advanced Economies falling 5.8% and Emerging Markets and Developing Economies falling 3.3%.



- At a UK level, the latest average of new independent forecasts published by HM Treasury[38] suggests UK GDP could contract by 10.2% in 2020. While the range of annual forecasts became narrower around the mean in October, there remains significant uncertainty around what might happen in the final quarter of

[35] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2020
[36] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/september-2020
[37] https://www.imf.org/en/Publications/WEO
[38] https://www.gov.uk/government/collections/data-forecasts#2020

2020 as countries reintroduce further restrictions on domestic and international activity to slow the spread of the virus. This could result in the recovery losing momentum.

- At a domestic level, latest business surveys indicate that the stabilisation and strengthening of business activity as firms reopened from the national lockdown has slowed slightly at the end of the third quarter, reflecting that, underlying demand in the economy remains subdued and uncertainty for the outlook, for business and households, remains elevated.
- In Scotland, scenario analysis published in the latest State of the Economy report in September, suggests GDP could fall by 9.8% in 2020 and not return to pre-crisis levels until the end of 2023, whilst unemployment could rise to 8.2%, and potentially take longer to recover.[39]

[39] https://www.gov.scot/publications/state-economy/

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