Monthly Economic Brief

February 2021

Scottish Government
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Monthly Economic Brief

Office of the Chief Economic Adviser

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Overview

This edition of the Monthly Economic Brief provides an update on the Scottish economy during the final quarter of 2020 and into the start of the new year. The necessary tightening of restrictions over the period increasingly weighs on the short term outlook, although the roll out of the vaccination programme provides new scope for optimism further ahead.

Scotland's GDP fell 1.4% in November (UK: -2.6%), having grown for six consecutive months following the sharp fall in March/April during the national lockdown when GDP fell by almost a quarter. The fall in output in November primarily reflects the tightening of restrictions during the month, with consumer facing parts of the service sector most directly impacted driving the fall.

Scotland's GDP in November was 7.1% lower than its pre-pandemic level in February (UK: -8.5%) showing that significant progress in the recovery has been made from the national lockdown back to pre-pandemic levels of output. However, latest business surveys have signalled ongoing challenges with a fall in the proportion of firms trading, and a renewed increase in the proportion of the workforce that are furloughed. For some sectors, the start of the year has also seen some trade disruption and delays in the movement of goods following the end of the EU-exit transition phase. Despite this, the latest restrictions, both in the UK and internationally, appear to have had a smaller impact on the economy than had initially been expected, reflecting how businesses and consumers have adapted to living with restrictions, while business confidence also started to pick-up reflecting positive news about vaccine developments.

The pattern of growth in Scotland over 2020 has been broadly similar to the UK as a whole, with variations in the pace of growth across months reflecting differences in the sectoral makeup across the UK and the timing and duration of restrictions. However, the necessary tightening of restrictions at the end of the year, domestic and international, is expected to further slow the pace of recovery in the short term across the UK as a whole.

Reflecting these short term challenges, the Scottish Fiscal Commission (SFC) has forecast Scotland's GDP to fall 5.2% in the first quarter of the year and for unemployment to rise to 7.6% in the second quarter when the furlough scheme ends in April. This highlights how critical the furlough scheme has been in supporting jobs and incomes at a time when output has fallen sharply and the risk of a sharp rise in unemployment when the scheme is ended. Furthermore, the longer term outlook remains extremely uncertain and will be strongly influenced by the roll out of the vaccination programme and the ongoing need for restrictions.

The SFC's latest forecasts see a moderate recovery in 2021, reflecting an expectation that some form of restrictions remain in place over the course of the year. This strengthens to 7.5% in 2022, as restrictions are removed. Overall, output is not expected to return to pre-pandemic levels until the start of 2024. This not only highlights the extent of the recovery that still lies ahead, but also the importance of supporting businesses and jobs through this period to ensure businesses remain viable and the level of scarring from this economic crisis is minimised.

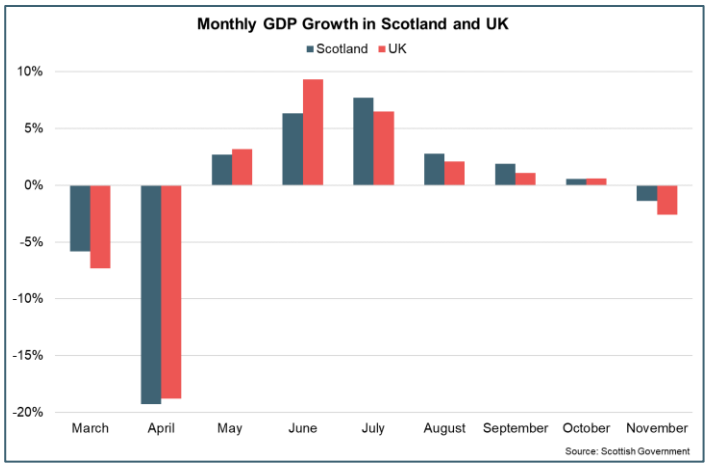
Looking back over 2020, we can see the importance of having a clear framework, moving early to suppress the virus and maintaining confidence of consumers and businesses. This has been important in signalling the Government's decision making process, allowing business to plan, adjust and minimise uncertainty and the associated costs of concurrent opening and closing.

We have also seen innovation from business to continue trading albeit in difficult circumstances and a willingness to respond to requirements for change. Continuing this flexible approach, alongside a clear framework in order to reduce uncertainty as best we can, is crucial for the year ahead.

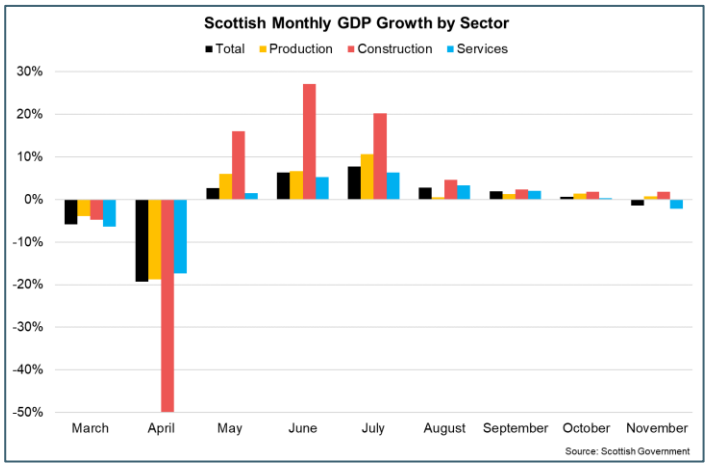
Output[1]

Scotland's GDP data for November showed a fall in output for the first time in six months as restrictions were tightened across the UK to suppress a resurgence of coronavirus.

- Scotland's GDP fell 1.4% in November (UK: -2.6%), having grown for six consecutive months following the sharp fall in March/April when GDP fell by almost a quarter during the initial national lockdown.
- The growth in output between May and October reflected the reopening and resumption of business and consumer activity as national lockdown restrictions eased during the summer months. Over that period, 76% of the fall in output in March and April was recovered.



- However, as in the UK as a whole, the pace of recovery slowed considerably towards the end of the third quarter with ongoing weakness in domestic and international demand, particularly in the service sector, and the introduction of regional restrictions on activity in October.
- The fall in output in November was driven by a 2.2% fall in Service sector output, reflecting the industries most directly impacted by the restrictions in place during the month. Output from Accommodation and Food Services fell 28.3%; Arts, Culture and Recreation fell 15.4% and Wholesale, Retail and Motor Trades fell 3.4% (with a sharp fall in non-food retail output).
- Production output grew 0.8% and Construction by 1.8%, however both sectors posted their lowest rates of growth in recent months.
- Overall, Scotland's GDP is 7.1% lower than its pre-pandemic level in February (UK: -8.5%), demonstrating that progress back to pre-pandemic levels has been made.

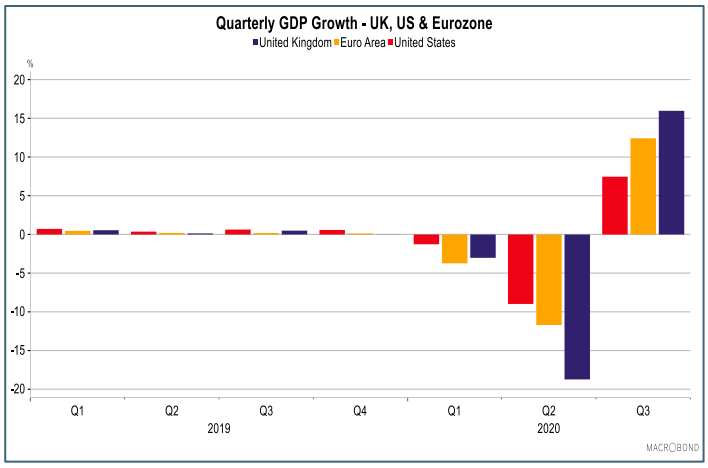


- However there are notable differences in the pace of recovery across sectors. Output in the Production sector is 1.6% above its pre-pandemic

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

level in February, driven mainly by a strong pick-up in Manufacturing output, while Construction output remains 6.1% below and Services 9.2% below. However, the largest differences persist in the Services sector with Accommodation and Food Services 59.2% below its level in February and Arts, Culture and Recreation 39.6% below.

- The overall pattern of Scottish GDP during the pandemic has broadly been in line with the UK as a whole. However, a combination of structural differences between sectors and differences in the timing and nature of restrictions across the UK is reflected in the different growth rates between months.
- Differences in the structure of economies and the stringency of restrictions explain, in part, why the UK, Euro Area and US economies have experienced different economic impacts. However, differences in how components of GDP are calculated across countries makes international comparisons complex.
- Latest quarterly data show UK GDP grew 16.0% in Q3 (following an 18.8% fall in Q2), while the US grew 7.5% (following a fall of 9.0%) and the Euro Area grew 12.4% (following a fall of 11.7%).



- Flash estimates for Q4 2020 show the US continued to grow in the final quarter of the year though at a much reduced rate (1.0%), while the Eurozone contracted over the quarter (-0.7%).

Business Activity

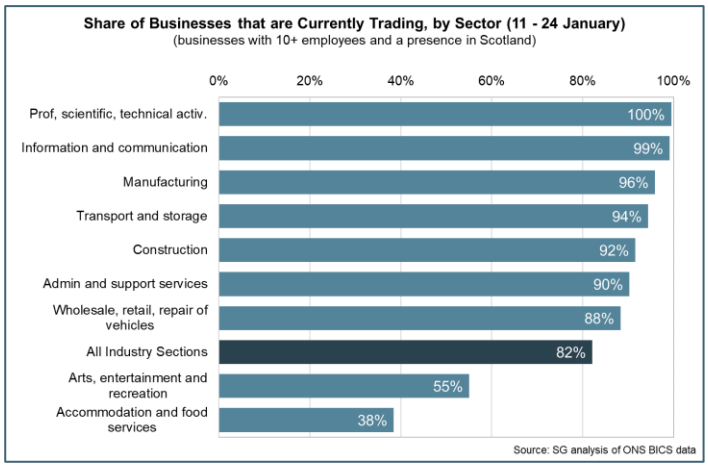
Business activity weakened in the final quarter of 2020 and into the start of 2021 as tighter restrictions were introduced to suppress the second wave and new variant of the virus.

Proportion of business trading[2]

- The easing of national lockdown restrictions during the second and third quarters of 2020 enabled many businesses to gradually reopen, and by the start of October, the proportion of business reporting as currently trading had risen to 97%, up from 79% in June.

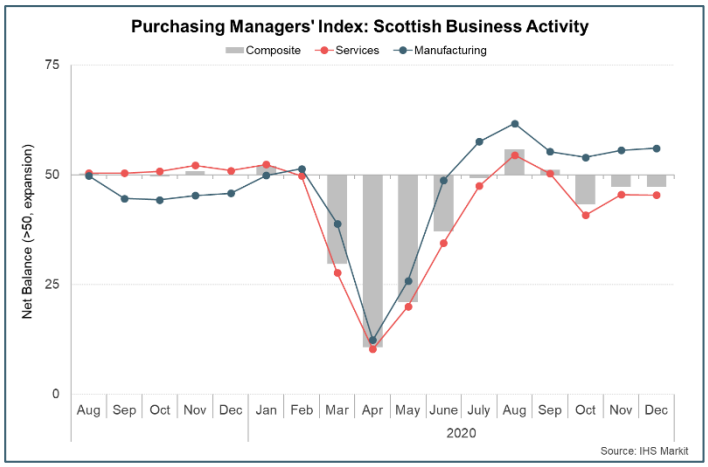
[2] BICS weighted Scotland estimates: data to wave 22. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

- However, this proportion fell over the fourth quarter as regional restrictions were introduced, with a notably sharper drop at the start of the new year as Level 4 restrictions were introduced across mainland Scotland.
- Latest data for mid-January shows the proportion of businesses currently trading fell to 82% (down from c. 90% in December), its lowest rate since the start of July 2020.
- The sectors with the lowest shares of businesses trading continue to be those in the consumer facing services sectors most directly impacted by the restrictions such as Accommodation and Food services (38%) and Arts, Entertainment and Recreation services (55%). However there were falls across other sectors such as Manufacturing (96%, down from 99% in December). Construction (92%, down from 98% in December) and Wholesale, Retail and Repair of Vehicles (88%, down from 98% in December) signalling that the latest restrictions have had a broad impact across the economy.



Business output

- The fall in businesses trading over the final quarter of 2020 has partly been reflected in the RBS Purchasing Managers Index (PMI)[3] business survey which has reported that business activity in Scotland fell in each month in the final quarter of the year.
- Latest PMI data for December show business activity fell at a similar pace to November (47.3) having fallen more sharply in October (43.2), and reflects a further fall in new orders.



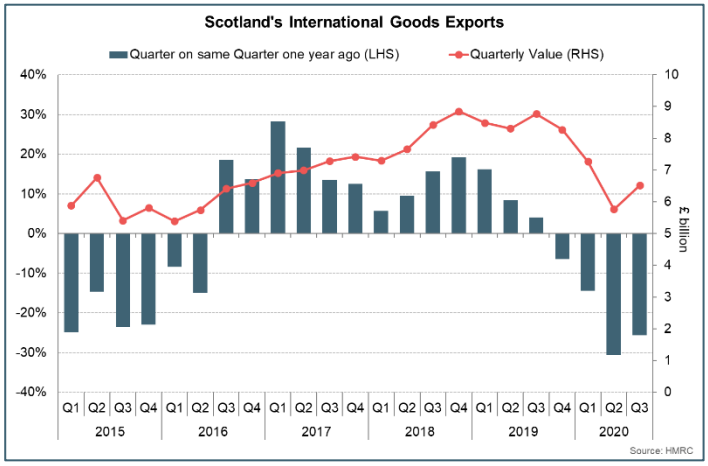
- In that regard, there continued to be a notable difference in December between Manufacturing activity (56.1), which continued to grow strongly over the month (supported by a strong pick-up in new order growth) and Services activity, which fell for the fourth consecutive month (45.5), reflecting the impacts of restrictions on sector activity.

[3] IHS Markit, RBS Purchasing Managers Index, December 2020.
https://www.markiteconomics.com/Public/Home/PressRelease/32a988b2357045679e8236e29f8f97fa

- Looking ahead, business output expectations for the next 12-months remained positive, and optimism strengthened to its highest level since February 2020 (64.8, up from 64.0), reflecting positive developments on the roll out of a vaccine. However, the introduction of tighter restrictions at the end of the year, means the short term outlook has weakened. The UK PMI for January[4] signalled a renewed downturn in UK business activity as lockdown restrictions were reintroduced across the UK. Overall, output fell at its sharpest rate since May 2020 (41.2) driven by a sharp fall in services activity (39.5), and a slowdown to marginal growth in manufacturing output (50.7).

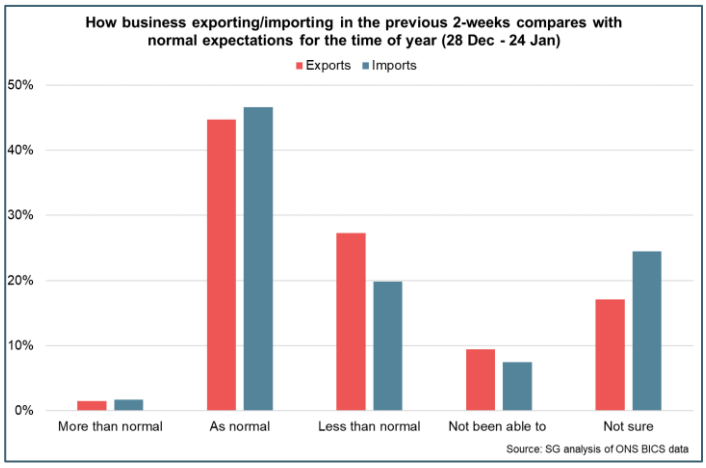
Trade

- On the back of significant global trade headwinds in 2019, many businesses have faced further challenges to trade in 2020 due to the pandemic and restrictions impacting demand and supply chains across countries.



- In Q3 2020, the value of Scotland's international goods exports was £6.5 billion, down 26% compared to Q3 2019. The fall in exports over the year was driven partly by a fall in oil & gas exports (-60%) and a fall in beverages exports (-16%).[5]

- BICS weighted Scotland estimates[6] suggest that trading conditions remained challenging in January, likely reflecting a combination of pandemic impacts alongside the end of the EU-Exit Transition phase.



- In January, 45% of respondents were exporting as normal, however 27% were exporting less than normal and 9% were unable to. Importers shared a similar pattern with 47% import as normal, while 20% had imported less than normal and 7% had not been able to import.

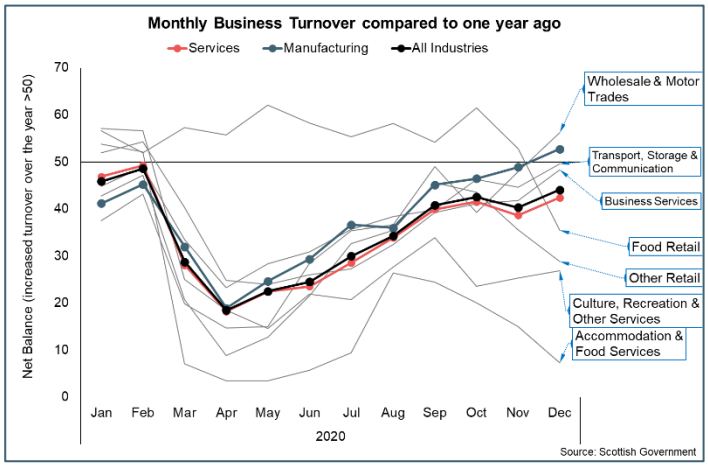
[4] IHS Markit/CIPS UK Composite PMI, January 2020. https://www.markiteconomics.com/Public/Home/PressRelease/514aa66dc87149979bbe8bf5edf5b36b
[5] https://www.gov.uk/government/collections/uk-overseas-trade-statistics-and-regional-trade-statistics#current-releases
[6] BICS weighted Scotland estimates: data to wave 22. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

Business Turnover

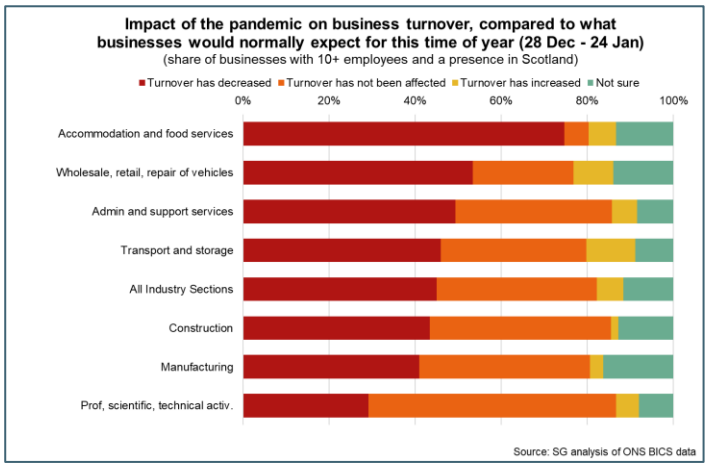
A renewed fall in business turnover in the final quarter of the year as restrictions are tightened emphasises the ongoing cash flow challenges for businesses.

Monthly Business Turnover Index[7]

- The Monthly Business Turnover Index for December showed that most companies in Scotland continued to report that turnover had fallen compared to last year (44.0), however, the index strengthened from November (up from 40.3).
- Compared to last year, business turnover has increased in the Manufacturing sector (52.7) but continues to be notably lower in the Services sector (42.4). 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. However, while turnover continued to stabilise for Transport and Storage and Business Services, the Accommodation and Food Service sector and retail (food and non-food) weakened over the month reflecting the tighter restrictions during the month.



- More recent Scottish Government estimates of ONS BICS data in December/January suggest that some of the sector differences in business turnover have continued into the start of the year.
- Overall, 45% of businesses reported having lower turnover than normal for the time of year (down from 56% in October/November and from a high of 65% in June/July). The Accommodation and Food services sector has the highest proportion of firms (75%) reporting that business turnover is lower.[8]



- Furthermore, business resilience remains a key factor as restrictions on activity continue at the start of the year. The same survey showed that in January, 28% of firms reported having no, or less than 3-months' of cash reserves (34%

[7] 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.
[8] BICS weighted Scotland estimates: data to wave 22. https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

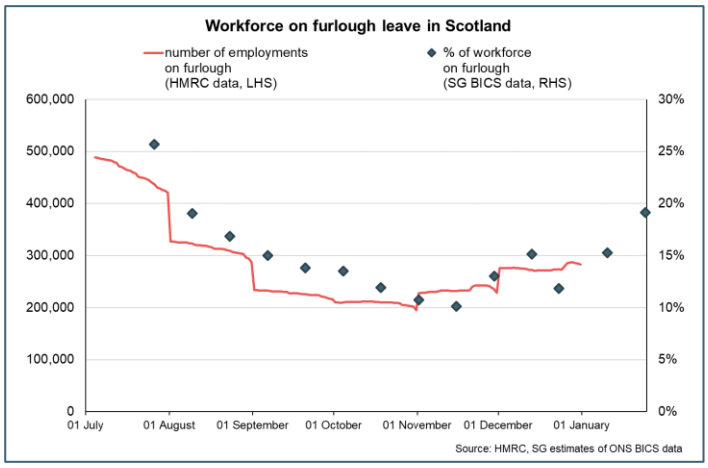
had more than 6-months), while 15% reported a severe or moderate risk of insolvency (73% reported being at low or no risk).

Labour Market

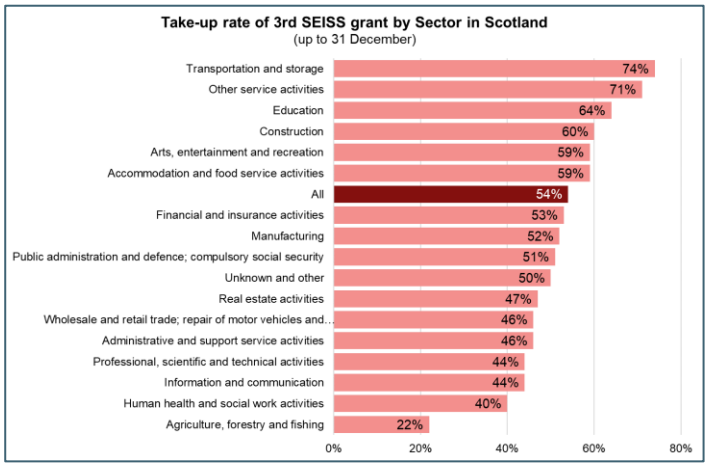
Unemployment remained low by historical standards in November, supported by the Job Retention Scheme, however wider labour market indicators signal challenging labour market conditions.

Coronavirus Jobs Retention Scheme (CJRS) and Self Employment Income Support Scheme[9]

- The CJRS has been supporting the retention of jobs and incomes since March, during the national lockdown phase, as restrictions were relaxed in the third quarter, and has been extended to the end of April 2021, reflecting the restrictions that have been in place at the end of 2020 and into the new year.



- At the end of December, 282,800 employments (11% of eligible employments) in Scotland were furloughed.
- This is lower than the 421,200 employments (17%) furloughed at the end of July, however has risen from the low of 195,200 (8%) at the end of October and 228,300 (9%) at the end of November as take-up has increased as restrictions have been re-introduced.
- The sectors with the highest number of employments furloughed across Scotland were Accommodation and food services (83,200, 30% of all employments furloughed in Scotland), Wholesale and retail (50,000, 18%) and Arts, entertainment and recreation (25,400, 9%).



- More recent Scottish Government ONS BICS data suggests the furlough take-up rate continued to increase in January with an estimated 61% of businesses in Scotland having staff on furlough (up from 49% in December), supporting 19% of the workforce (up from 12% in December).[10]
- The Self Employed Income Support Scheme (SEISS) has also continued to provide critical support to the labour market with the third SEISS grant opening on 30 November. By the end of

[9] https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics
[10] BICS weighted Scotland estimates: data to wave 22 https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics)

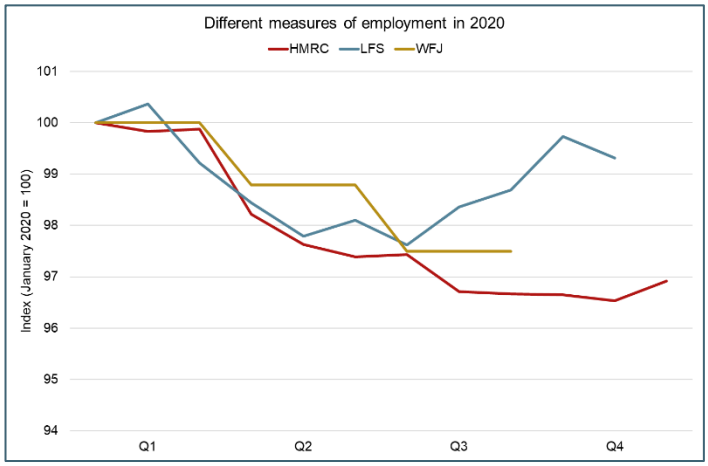
December, 112,000 claims in Scotland had been made to the third SEISS. This represents 54% of the eligible population, with an average claim of £2,800. By sector, take-up rate was highest for Transportation and Storage (74%), other service activities (71%), Education (64%) and Construction (60%).

Measuring the labour market during the pandemic

The pandemic has had a significant impact on the labour market with many people unable to work as normal due to restrictions imposed to supress the spread of COVID-19. In some sectors, people have been able to continue to work, either in their usual workplace with mitigation measures, or by working from home. Other sectors, particularly those with face-to face customer interaction, such as accommodation and hospitality and retail, have had less flexibility and have been impacted to a greater degree. Many of these affected jobs have been protected by the furlough scheme. However, some businesses have closed permanently as a result of the pandemic, and not everyone has been eligible for the support schemes.

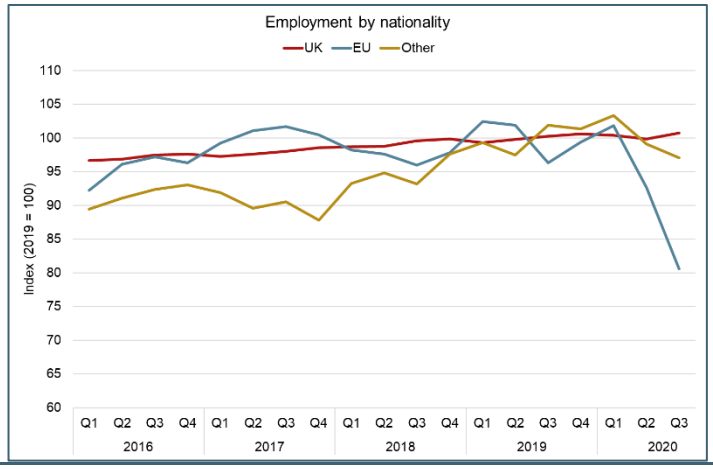
Understanding the impact of the pandemic on the labour market is crucial in order to provide the necessary support to workers. The official source of estimates of employment and unemployment levels and rates is the Labour Force Survey (LFS). These have remained relatively stable since February, which in part reflects the impact of support schemes.

However, in the latest Labour Market statistics, the ONS also noted that due to the uncertainty caused by the pandemic, the levels of employment and unemployment and changes in those levels, should be used with caution; although they do stress that overall headline rates remain robust and reliable. As well as the LFS, there are a number of other data sources that provide insights into the labour market and which can be more timely.



HMRC's Pay as You Earn Real Time Information system provides information on the number of payrolled employees across the UK, and the quarterly Workforce Jobs Survey (WFJ) directly asks businesses how many staff they employ. While all the measures had been broadly similar in the initial impact of the pandemic, they have shown some divergence in recent months.

The LFS suggests that overall employment in Scotland has recovered to pre-pandemic levels, whilst HMRC data, and to a degree the Workforce Jobs Survey (WFJ), which is quarterly, suggest that employment levels remain lower. Lower employment levels are also consistent with results from claimant count data showing a significant rise in people claiming for unemployment related benefits.

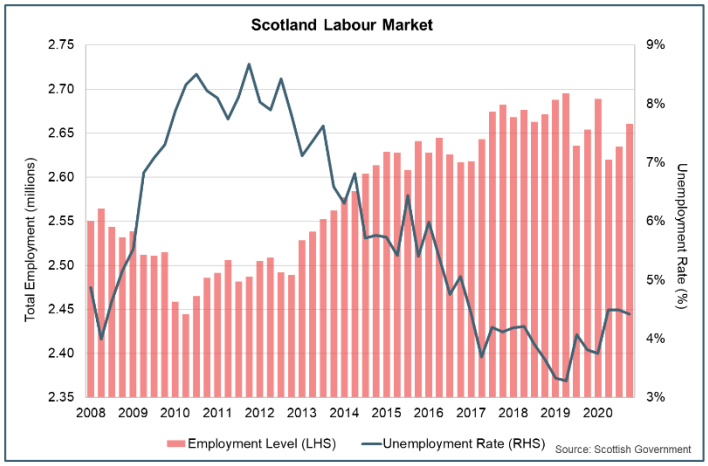


Part of the explanation for the potential divergence between the LFS and other

indicators may be the impact of migration. This has been raised recently by a recent publication from the Economic Statistics Centre of Excellence. This highlights that the LFS assumes that there has been no significant change in the UK population during the pandemic, but presents research suggesting that the UK has experienced a degree of net outward-migration.[11] This may also be reflected in survey data that shows that the number of EU nationals in employment has fallen faster than other nationalities.

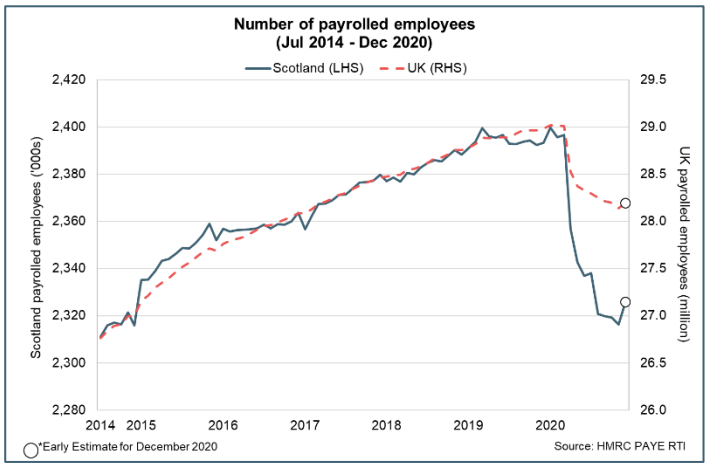
The ONS are currently reviewing the population totals used in the LFS. Were changes to be made, the current LFS employment and unemployment figures could potentially be revised in future. Hence a degree of caution may be required in currently putting too much emphasis on one source of labour market data when interpreting the current impacts of the pandemic.

Official labour market statistics



- The latest labour market statistics cover the period September to November when national lockdown restrictions had been eased, but regional restrictions started to be introduced from October and businesses continued to receive support through the CJRS and SEISS.
- Over the quarter to September to November,[12] the employment rate increased 0.5 percentage points to 74.4% (UK: 75.2%), while the unemployment rate fell 0.1% percentage points to 4.4% (UK: 5.0%) and the inactivity rate fell 0.5 percentage points to 22.1% (UK: 20.7%).
- The headline labour market indicators only show a partial picture of the labour market as people on furlough are considered employed. Wider labour market indicators show challenges that have been emerging in the labour market during the pandemic.

PAYE payrolled employment

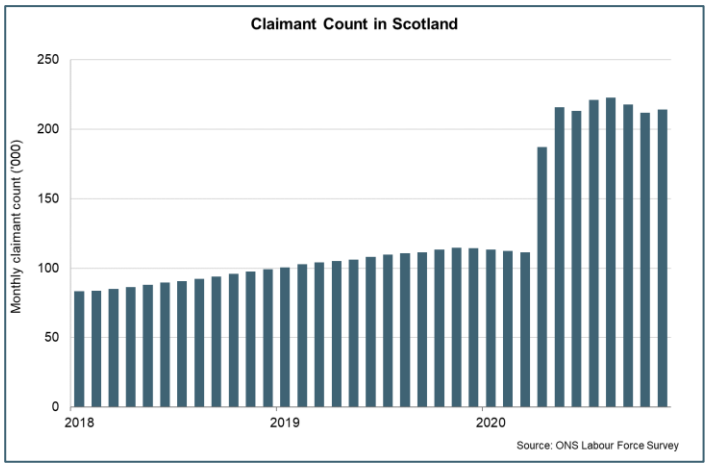


- The more timely Pay As You Earn (PAYE) Real Time Information data show that the number of payrolled employees in Scotland (2.33 million) and the UK as a whole (28.2 million) has fallen sharply in 2020.
- Over the month from November, payrolled employees increased by c.9,000 (0.4%) in Scotland (UK: 0.2%). However, compared to

[11] https://www.escoe.ac.uk/estimating-the-uk-population-during-the-pandemic/
[12] https://www.gov.scot/collections/labour-market-statistics/

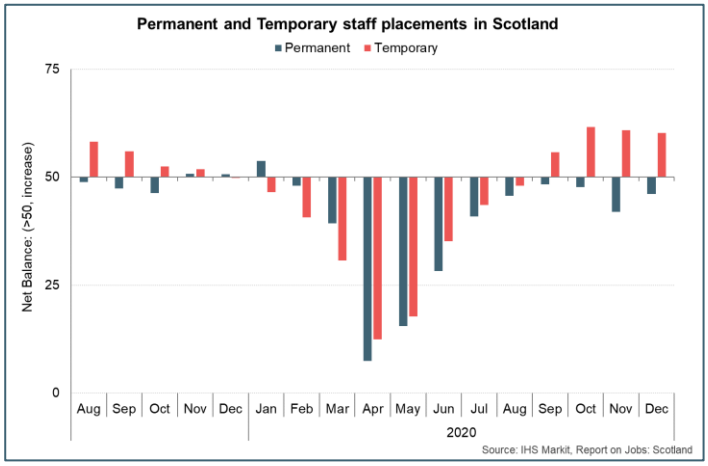
February 2020, the number of payrolled employees has fallen c. 70,000 (-2.9%) in Scotland (UK: -2.9%).[13]

Claimant Count

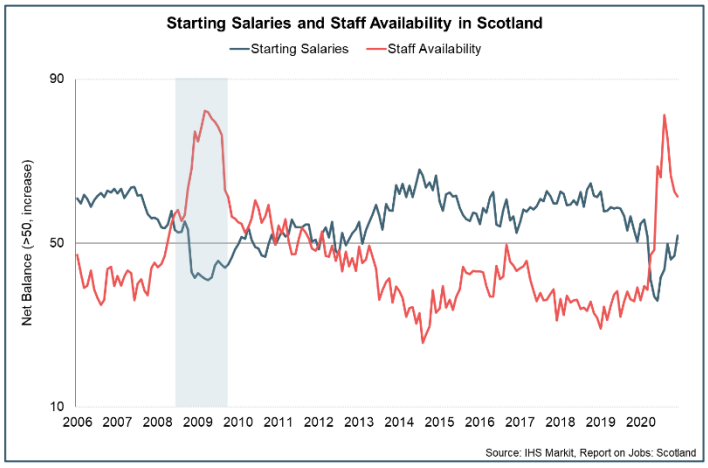


- Scotland's Claimant Count (the number of claimants of Job Seekers Allowance and claimants of Universal Credit claiming principally for the reason of being unemployed) was 210,800 in December and had decreased by 1,400 (0.6%) over the month.
- However, while the claimant count has been relatively stable since May, it remains 88% higher than in February (prior to the impacts of the pandemic), signalling that the number of people that are unemployed or employed with low income and/or low hours has increased significantly during 2020.[14]

Demand for staff in Scotland



- The IHS Markit RBS Report on Jobs survey for December showed a mixed picture for recruitment activity with permanent job placements continuing to fall while temporary placements increased.[15]
- The fall in permanent job placements in December was more moderate than in November. In contrast, temporary job placements increased for a fourth month indicating that where companies are recruiting, they are favouring more flexible recruitment through temporary staff amid the restrictions on activity.



- While hiring activity remained subdued overall, staff availability (labour supply)

13 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/january2021

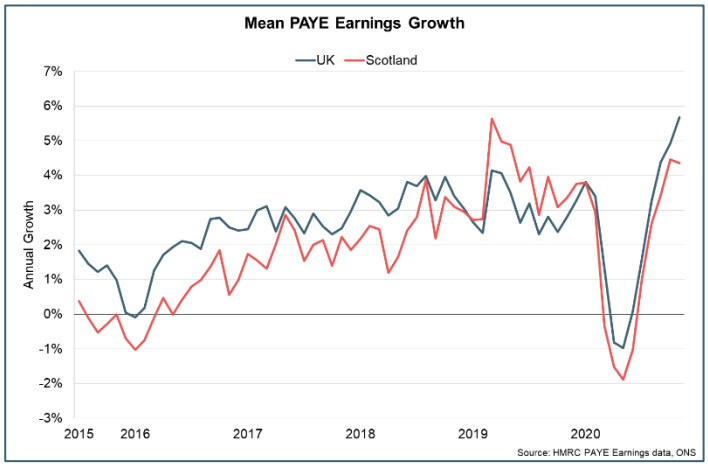
14 https://www.gov.scot/collections/labour-market-statistics/

15 https://www.markiteconomics.com/Public/Home/PressRelease/12e0f54d2aa549ca95d8b7367c1fd2e8

continued to increase in December, though at its slowest pace since May, with respondents continuing to link the increase in job seekers to job losses and redundancies. Alongside this, starting salaries in Scotland increased in December for the first time since March. The growth in starting salaries was marginal overall, however was notably stronger for temporary staff than permanent.

Earnings

- More broadly on earnings, despite the protection offered to the labour market through the furlough scheme, earnings fell at the beginning of the pandemic. Between March and June, PAYE mean monthly pay fell for four consecutive months compared to the previous year. It returned to growth in July, and strengthened through the third quarter. Latest data for November, suggests the rate of growth has stabilised over October and November. Mean monthly pay in November was £2,441, a 4.4% increase from November 2019, while UK annual growth continued to accelerate to 5.7%.[16]



- While the mean annual earnings growth rate has rebounded in the second half of 2020, the picture is complex and caution needs to be used in interpreting the figures, particularly in light of the fall in the number of payrolled employees. There are compositional effects (e.g. by sector and across income levels) underlying the data which suggest that not all parts of the labour market have experienced the same rebound as the mean rate implies.

Consumption

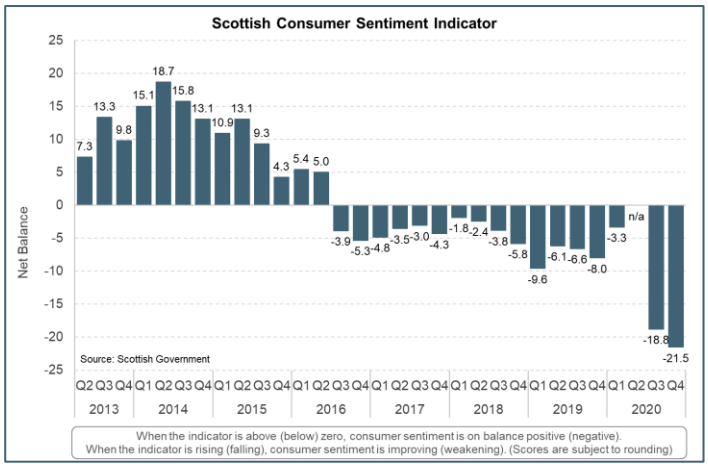
Consumer sentiment and consumption activity have been significantly impacted in 2020 by the coronavirus pandemic and restrictions on activity.

Consumer sentiment

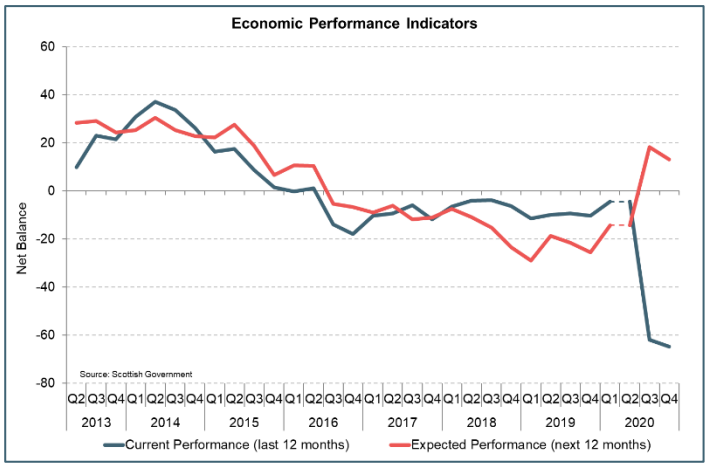
- In Q4 2020, the Scottish Consumer Sentiment Indicator was -21.5 and decreased by 2.7 points compared to Q3 2020. This indicates that consumer sentiment weakened over the quarter, and is at its lowest point in the time series.

16 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/january2021

- Underlying the composite indicator, all current and expectation indicators decreased over the quarter, with the current indicators for the economy, household financial security and attitude to spending all falling to their lowest levels in the times series, reflecting the ongoing impacts of the pandemic on households current circumstances.



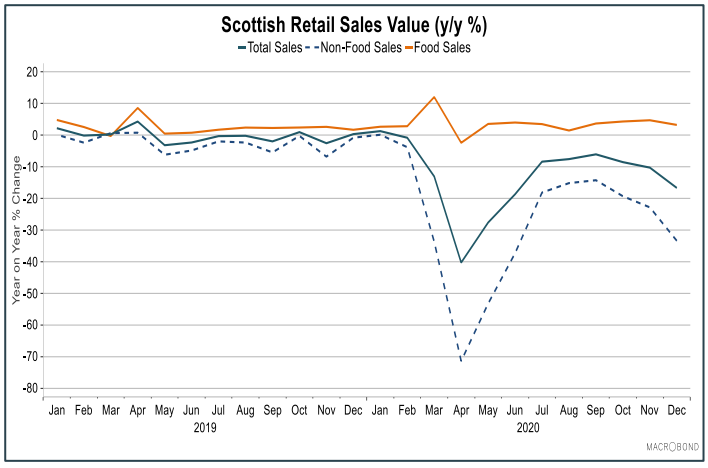
- Looking ahead, households continue to expect the economy and their household financial security to improve over the year (relative to the current situation). However, the largest falls over the quarter were in the expectations indicators for the next 12 months, signalling that the level of optimisim has weakened over the quarter.[17]



- More recent GfK UK consumer sentiment data[18] for January also showed that UK sentiment decreased slightly at the start of the year, mainly driven by a notable weakening in household expectations for the economy over the coming year. Sentiment indicators have been highly sensitive to the rapidly moving developments on the pandemic over the past year and most recently have likely reflected a combination of optimism regarding the vaccine alongside renewed uncertainty from the introduction of tighter restrictions at the start of the year. This will be a key factor influencing the pace at which consumption recovers when restrictions are lifted.

Retail sales

- The Scottish Retail Sales Monitor for December[19] showed the recovery in retail sales growth weakened further in December, having already weakened in November as non-essential retail closed across areas in level 4 restrictions.

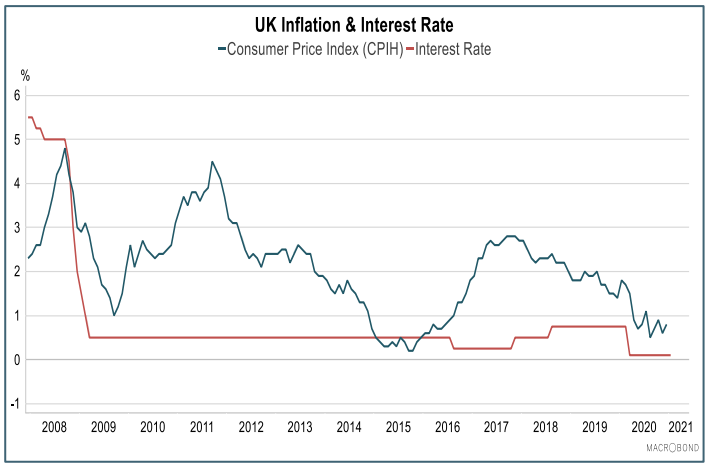


[17] https://www.gov.scot/collections/economy-statistics/#scottishconsumersentimentindicator(scsi) Due to the coronavirus pandemic, data was not collected in the last two weeks of March and in April and May. Therefore there are no results for Q2 2020.
[18] https://www.gfk.com/press?countries67=countriesUnited+Kingdom&sort=-publication_display_date&searchInput=
[19] Source: SRC/KPMG Scottish Retail Sales Monitor: https://brc.org.uk/retail-insight/content/retail-sales/scottish-retail-sales-monitor/reports/202012_scottish_rsm/

- Total sales in December fell 16.6% year on year in Scotland (its sharpest fall since June), weakening from the 10.2% annual fall in November and 8.5% fall in October.
- Food sales increased by 3.3% (its slowest pace since August) while non-food sales fell 33.4% (its sharpest annual fall since June). The combination of the closure of non-essential retail across 11 Local Authorities into the start of December, alongside pressure on incomes, subdued sentiment and heightened uncertainty are factors that continued to impact on consumer activity.

Interest rate and inflation

- The fall in demand during national lockdown, alongside the fall in oil price to record lows placed downward pressure on inflation in the first half of 2020 and which has continued into the third and fourth quarters of the year.



- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate increased to 0.8% in December, up from 0.6% in November.[20]
- There were key upward contributions to the inflation rate from recreation and culture, transport and clothing, which offset falling contributions from food and non-alcoholic beverages and furniture and household goods.
- The Bank of England maintained the Bank Rate at 0.1% in February 2021[21] and in their current central scenario analysis project inflation to rise from 0.5% in 2020 to around 2% in 2021.

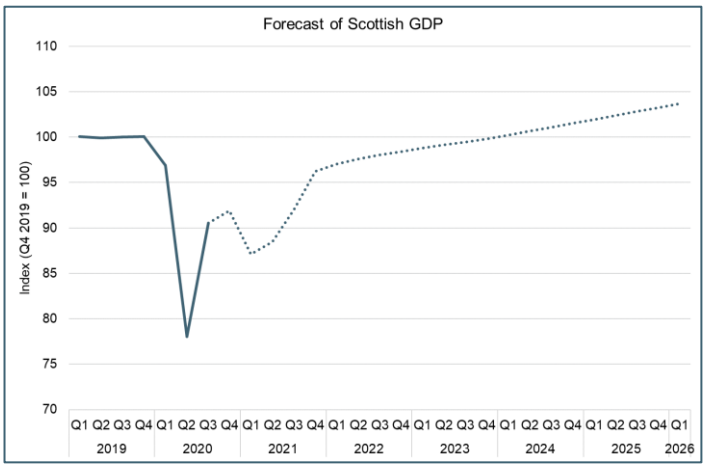
Latest Scottish economy forecasts

The Scottish Fiscal Commission (SFC) published their latest forecasts for the Scottish economy alongside the Scottish Government budget on 28 January. Given the current national lockdown, the forecasts present a difficult economic outlook.

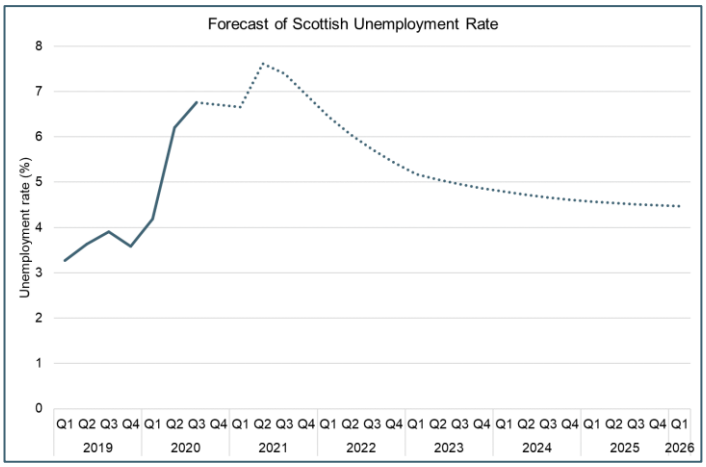
GDP is forecast to fall by 5.2% in Q1 2021, leaving GDP around 13% below its pre-pandemic level, reflecting the impact of restrictions that have been introduced over the past 10 months to supress the spread of the virus.

[20] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2020
[21] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/february-2021

The SFC expect that varying levels of national and regional restrictions will continue to be in place throughout 2021 even as the vaccine programme is rolled out. This results in economic activity remaining subdued during 2021, with growth of 1.8%. It is not until the end of the year, when significant restrictions on economic activity are assumed to no longer be required, that the economy begins to significantly rebound growing by 7.5% in 2022. Despite this the SFC assumes that a degree of "scarring" occurs to the productive capacity of the economy and consequently forecast that economic activity may not return to pre-pandemic levels until early 2024.



Although GDP is expected to fall at the beginning of the year, this does not feed through into the labour market immediately. The SFC assume that, in the short term, the furlough scheme continues to limit the impact of the pandemic on the level of unemployment. However, in line with a number of other commentators, and as discussed in this report, the SFC assume that unemployment is currently higher than suggested by the headline LFS. Their forecast reflects that unemployment is judged to have reached around 6.8% in Q3 2020 and remains there whilst the furlough scheme is in place.



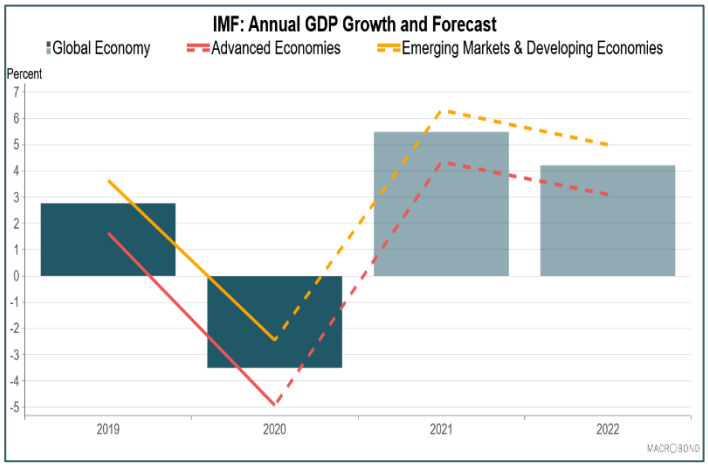
Following the withdrawal of the furlough scheme, unemployment peaks at 7.6% in Q2 2021. It then remains elevated compared to pre-pandemic levels through the forecast, with the scarring effects of the pandemic meaning that the trend unemployment rate is 0.4 percentage points higher in the long run.

The projected increase in unemployment at the end of the furlough scheme highlights the critical role that the scheme has played in supporting both employment and earnings at a time when GDP has fallen sharply. This disconnect between trends in output and labour market indicators such as employment and earnings has also meant that the SFC's fiscal forecasts do not track the economic forecasts as closely as in previous years.

GDP growth outlook

The economic outlook remains extremely challenging. Growth is forecast for 2021 supported by the vaccination programme, however increased restrictions continue to weigh on the short term outlook.

- The economic outlook for the global and domestic economy remains extremely uncertain. The pace at which developments around the pandemic continue to evolve are strongly influencing both the short term outlook and longer term scenarios.



- At a global level, the IMF project world GDP to have fallen 3.5% in 2020 before rebounding to grow 5.5% in 2021 and 4.2% in 2022. However, they set out that the pace of recovery is likely to vary significantly across countries with advanced economies forecast to grow 4.3% in 2021 while emerging market and developing economies are forecast to grow 6.3%.[22]

- At a UK level, the latest average of new independent forecasts published by HM Treasury[23] suggests UK GDP has contracted by 10.6% in 2020 and is expected to grow 4.4% in 2021. The average new forecast for 2021, has slightly weakened from December (down 1 percentage point) potentially reflecting the lockdown restrictions that have been introduced at the start of the year.

- In their latest Monetary Policy Report[24], the Bank of England project that UK GDP will have fallen 10% in 2020, before growing 5% in 2021, revised down from their November forecast of 7.25%. However, they have revised up their estimate of Q4 2020 GDP, following a smaller than expected fall in November, and expect the economy to recover to pre-pandemic levels in Q1 2022, despite the recent tightening of restrictions.

- In Scotland, the Scottish Fiscal Commission[25] project Scottish GDP to have fallen by 10.7% in 2020 as a whole and not recover to pre-pandemic levels until the start of 2024.

- In the short term, the SFC forecast Scottish GDP to fall by 5.2% in the first quarter of this year, reflecting the tightening of restrictions, while unemployment is projected to rise to 7.6% in the second quarter, following the scheduled end of the furlough scheme.

- Longer term the SFC forecast modest growth of 1.8% over 2021 as a whole,

SFC GDP annual growth forecast for Scotland						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**
GDP (%)	-10.7	1.8	7.5	1.6	1.6	1.7%

[22] https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
[23] https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-january-2021
[24] Bank of England Monetary Policy Report February 2021
[25] Scotland's Economic and Fiscal Forecasts | Scottish Fiscal Commission

as health restrictions are assumed to persist throughout the year, before accelerating to 7.5% growth in 2022, as restrictions are assumed to no longer be required.

- Overall, the range of forecasts indicate that there will likely be significant differences in the economic recovery across countries depending on factors such as the roll out of the vaccination programmes, levels of restrictions that continue to be needed and the level of fiscal support.
- Currently, restrictions are continuing to significantly impact economic activity in Scotland and across the UK and the latest data reflect the differences in their timing, duration and stringency. However the international context remains key to the economic outlook also and the pace at which international economic activity can recover and drive growth alongside the domestic economic recovery.

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