

Monthly Economic Brief

Office of the Chief Economic Adviser

July 2021



Scottish Government
Riaghaltas na h-Alba
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Office of the Chief Economic Adviser

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Overview

This month's economic brief provides an update on data covering much of the second quarter of 2021. While it is too early to see the impacts of the easing of restrictions (level zero) that came into effect in Scotland on 19 July, the indicators for the period April to June capture the pick in demand for consumer facing services such as in non-essential retail and parts of hospitality.

The latest GDP data for May show further growth in Scotland with overall GDP growth of 0.9% over the month. The strongest contribution to growth was from accommodation and food services while there was further growth from non-food retail and other consumer facing services which continued to benefit from the easing of restrictions on non-essential retail in April.

Overall, Scotland's GDP is back to 2.7% below its pre-pandemic level in February 2020 and is at its highest level since the start of the pandemic. The recent strong growth in consumer facing sectors has supported this recovery, however output from sectors such as accommodation and food and arts, culture and recreation remain furthest below their pre-pandemic levels of output. In contrast, output from sectors such as construction, manufacturing and parts of the services sector (e.g. financial and insurance activities) were above their pre-pandemic levels in May, continuing to emphasise the K-shape nature of the recovery across sectors.

Business surveys for June and into the start of July continue to signal this pattern of recovery continuing, though at a more stable and moderate pace than the sharp pick up we saw in April and May as restrictions were lifted. In the first half of July, 98% of businesses reported they were currently trading, however the proportion of firms reporting lower than normal turnover has remained relatively stable since June. On the consumption side, consumer sentiment has continued to strengthen, though the pace of retail sales growth softened compared to April (however is notably above pre-pandemic levels). Despite higher retail sales, visits to retail and recreation have remained on average 6% below pre-pandemic levels since the start of June, with some city areas in particular seeing larger fall offs. With online sales remaining elevated, and business surveys suggesting greater use of home working will remain in future, some of these differences may begin to reflect further patterns of change in the economy.

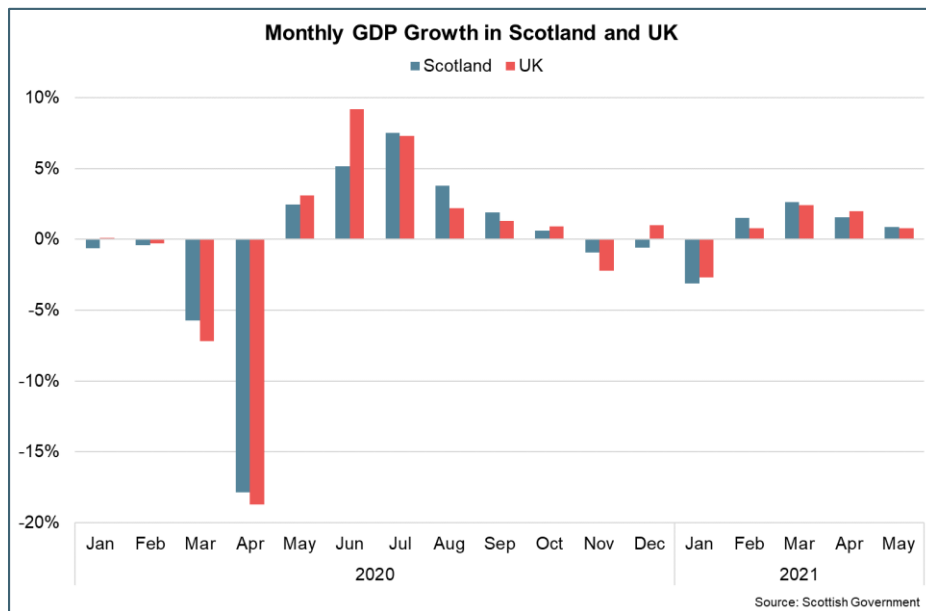
As restrictions have eased and businesses have further resumed trading, we have seen notable improvements in many labour market indicators, with the number of jobs on furlough falling sharply and an increase in recruitment activity to meet the pick-up in demand. In June, while both indicators remained weaker than their pre-pandemic levels, the number of payrolled employees in Scotland rose to its highest level since March 2020 while the claimant count has continued to fall to its lowest level over the same period. The latest UK data also show increased growth in payrolled employees aged 18-24 over May and June, an encouraging sign for a demographic which has been particularly hard hit in the labour market during the pandemic so far.

Looking ahead, the further easing of restrictions in August with potential easing in physical distancing and graduated return to previous working will continue to influence the level and pace of output. Over half of the remaining jobs on furlough are on a flexible basis, suggesting that many businesses are transitioning back to trading gradually and are ready to step up production or services as required. This flexibility is important given both the ongoing uncertainty for some firms about the pace at which demand will continue to strengthen and the pace at which operating capacity is expected to increase. Alongside this, the Scottish consumer sentiment indicator returned to positive in June, reflecting the renewed confidence of households at this time.

Output

Scotland's GDP grew 0.9% in May, but is 2.7% below pre-pandemic levels.

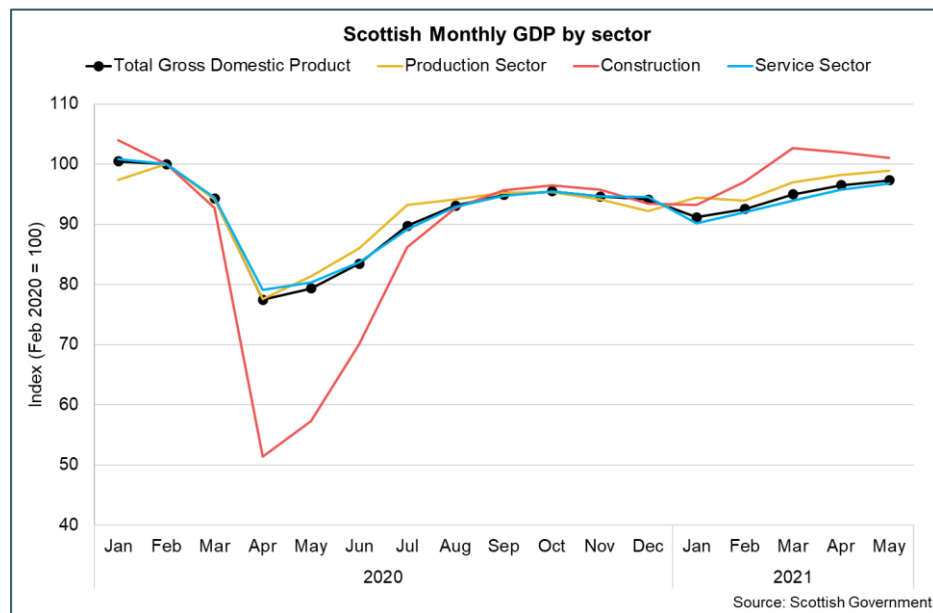
- Scotland's GDP grew 0.9% in May (UK: 0.8%), its fourth consecutive month of growth. GDP continues to follow a similar pattern to the UK as a whole,¹ with growth over the month driven by the services (1.1%) and production (0.7%) sectors offsetting a fall in construction sector output (-0.8%).



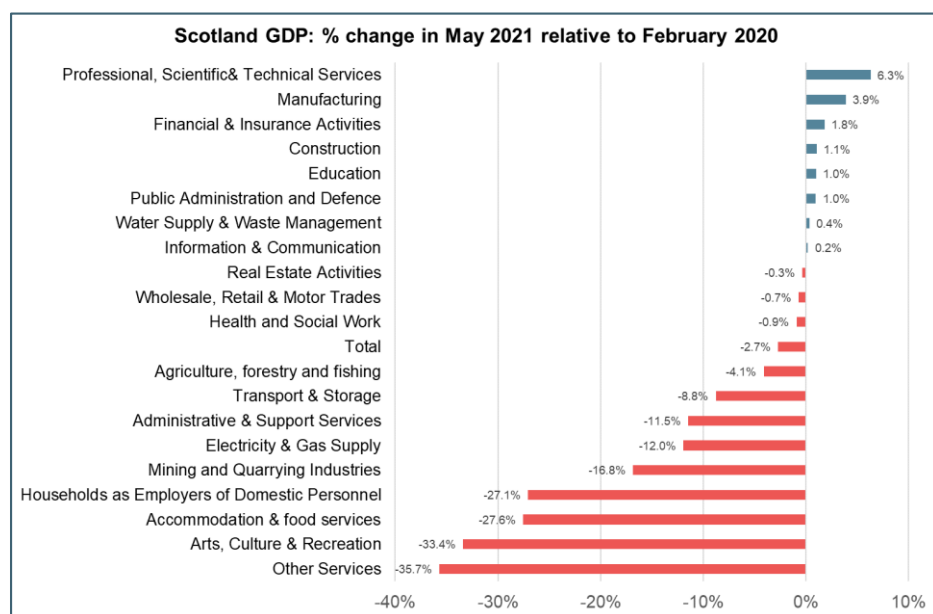
- The phased easing of restrictions in April and May on consumer facing services and the movement of people was a key enabler of the output growth in May, as an increasing number of businesses reopened and consumer demand strengthened.
- This was particularly evident in the services sector in which there was further strong output growth in accommodation and food services (24.4%) and arts, culture and recreation (9.8%) which were supported by the movement to level 3 restrictions at the end of April enabling the reopening of parts of the hospitality sector and the further easing of most of mainland Scotland to level 2 restrictions in May.
- There was also further growth in non-food retail (2.8%) and other mainly consumer facing services (4.6%), though to a lesser extent than in April when output picked up as they resumed trading.
- Production sector output in May was driven by increases in electricity and gas supply (3.1%) and water and waste management (5.7%) which offset falls in mining and quarrying (-0.3%) and manufacturing (-0.6%).

¹ <https://www.gov.scot/collections/economy-statistics/>

- The fall in manufacturing and construction output in May came on the back of stronger growth earlier in the year and followed a similar pattern to the UK as a whole.



- The four consecutive months of growth between February and May mean that Scotland's GDP has recovered from the recent fall in output over November to January and has continued to recover back to its pre-pandemic level in February 2020 (having initially fallen to 22.6% below in April 2020). In May, Scotland's GDP was 2.7% below its pre-pandemic level and is at its highest level during the pandemic.
- However there remain significant differences across sectors in the pace of recovery, which largely reflects the restrictions that have been in place and the extent to which this has impacted demand and trading capacity across sectors.



- While there are month to month variations, parts of the economy are generally operating above their pre-pandemic levels of output. For example, manufacturing output in May was 3.9% above its February 2020 level while construction output was 1.1% above.
- The service sector is more mixed with some parts (private and public) currently operating above their pre-pandemic levels and others below. Output from professional, scientific & technical services (+6.3%) and financial and insurance activities (+1.8%) has recovered relatively quickly from initial falls of 6%-7% in output at the start of the pandemic as businesses were in a position to adapt (e.g. working from home) and demand recovered.
- Consumer facing parts of the services sector however have been more directly impacted by restrictions on activity over the course of the year (e.g. requirements to close), and as such output remains further below pre-pandemic levels of output. The phased easing of restrictions on non-essential retail and hospitality over April and May has resulted in more rapid recovery over the last couple of months in these sectors as businesses have opened and resumed trading. For example, accommodation and food services output grew 73% in April and 24% in May and is now 27.6% below its pre-pandemic level, while arts, culture and recreation output grew 1.3% in April and 9.8% in May and is 33.4% below.

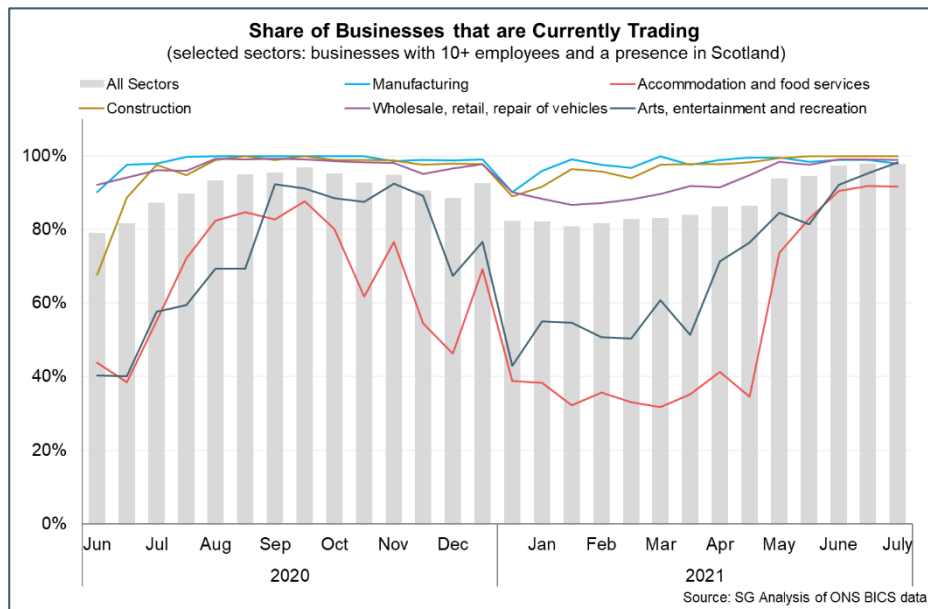
Business Activity

Business activity has strengthened as lockdown restrictions have eased in April/May.

Proportion of business trading

- The phased easing of restrictions over April and May has seen a sharp increase in the share of businesses trading, driven by the reopening of businesses in consumer facing services sectors (hospitality, leisure, non-essential retail) which had closed during lockdown.
- At the start of July, an estimated 98% of businesses in Scotland were trading.² This has remained broadly stable since the start of June, however is notably higher than the recent low point of 82% during lockdown in January and is at its highest rate since comparable estimates began in June 2020.

² BICS weighted Scotland estimates: data to wave 34. [https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus\(covid-19\)survey\(bics\)](https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics))

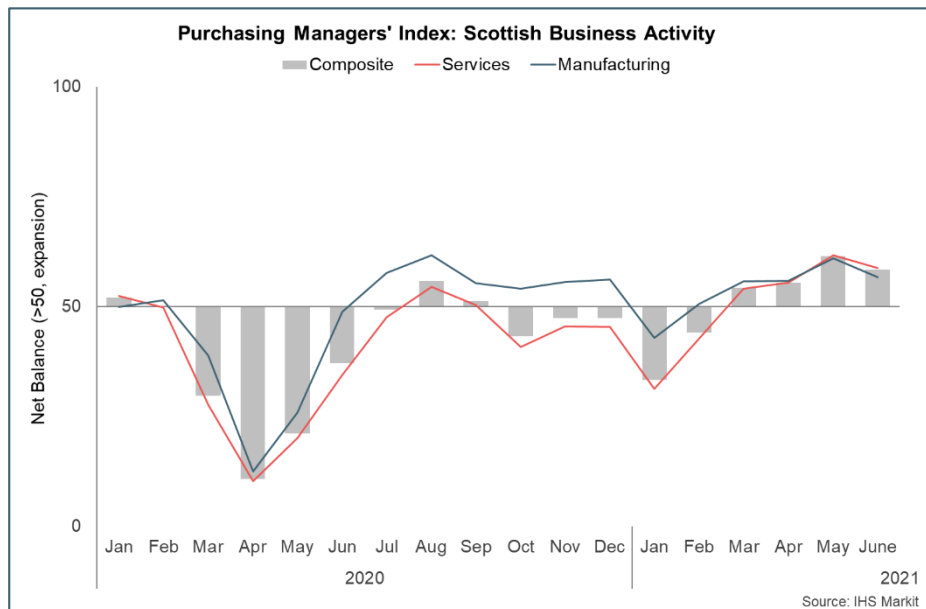


- The largest increases since April have been in the accommodation and food services sector (up 56 percentage points to 92%) and the arts, culture and recreation sector (up 47 percentage points to 98%). Non-consumer facing services sectors (e.g. information and communication) and manufacturing and construction have been less impacted by restrictions with over 98% of business trading over this period, reflecting the ability to continue operations through home working and/or adapting operations to the restrictions in place.
- The rate of increase in those trading in consumer facing sectors has naturally slowed since June as the proportion trading approaches 100%.

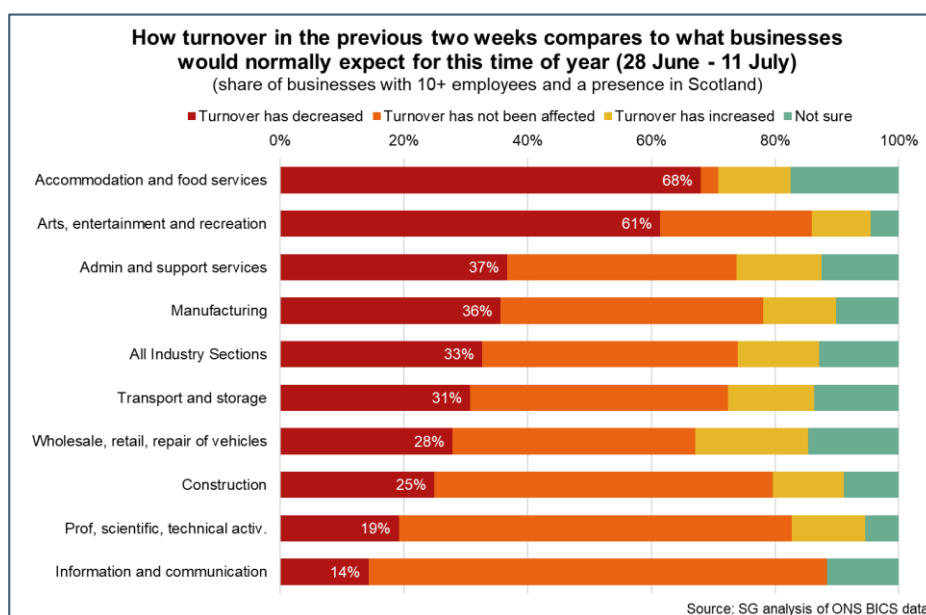
Business output

- The increase in businesses trading is reflected in the Purchasing Managers Index (PMI)³ business survey which reported a further increase in business activity in June, albeit at a slower pace than in May, with positive growth across the services and manufacturing sectors.
- Growth in June continued to be slightly higher in the services sector, supported by a sustained increase in inflows of new work as the easing of restrictions on parts of the sector over April enabled it to close some of the gap with the manufacturing sector.

³ IHS Markit, RBS Purchasing Managers Index, June 2021. [b210bf6333d94b17af4dd1ce10beb2fd](https://www.markiteconomics.com/b210bf6333d94b17af4dd1ce10beb2fd) ([markiteconomics.com](https://www.markiteconomics.com))



- While growth in activity and demand continues to strengthen across the economy as a whole, at this stage of the recovery, the capacity at which business are operating and the turnover generated compared to what would be normally expected, continues to differ notably across sectors.
- At the start of July, 33% of businesses reported having lower turnover than normal for the time of year, while 41% reported that turnover was not affected and 13% reported that it had increased.⁴ However, the accommodation and food sector has the highest proportion of firms (68%) reporting that business turnover is lower, followed by the arts, entertainment and recreation services sector (61%).

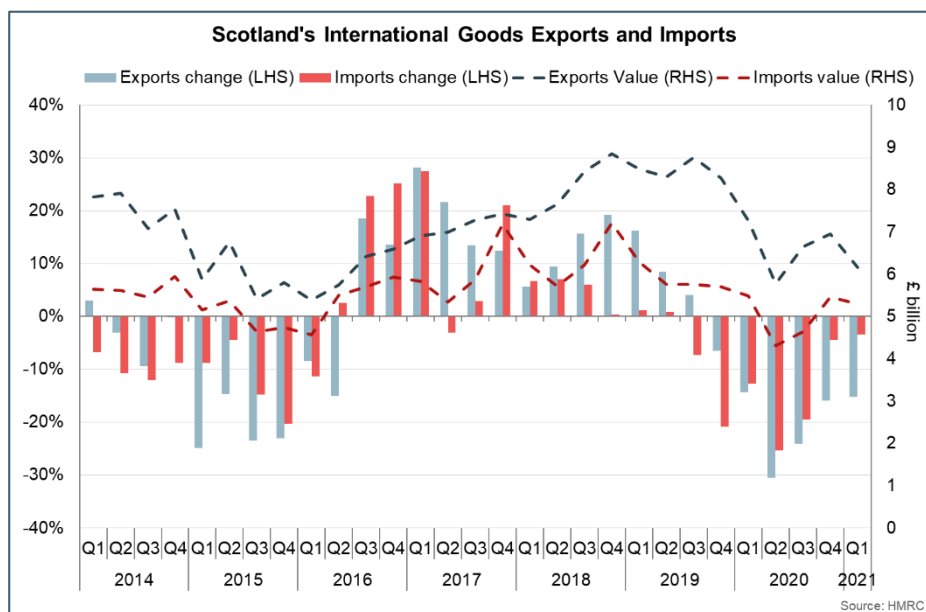


⁴ BICS weighted Scotland estimates: data to wave 34. [https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus\(covid-19\)survey\(bics\)](https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics))

- There are indications that conditions have improved since March as restrictions have eased. For example, the proportion of business overall reporting lower turnover has fallen from around 45% to 33%, while the proportion reporting a rise in turnover has increased from around 6% to 13%. However the rates have remained relatively stable since the start of June suggesting that overall trading conditions remain challenging alongside the specific challenges that different sectors are facing at their stage of recovery.
- Looking to the year ahead, the PMI business survey for June showed that levels of business optimism had eased back from recent months, however remained elevated overall, with strong expectations from businesses of further strengthening in business activity to come over the year. The flash UK PMI for July signalled further growth in UK business activity going into the third quarter, however also flagged a further slowing in the pace of growth across the private sector during the month.⁵

Trade

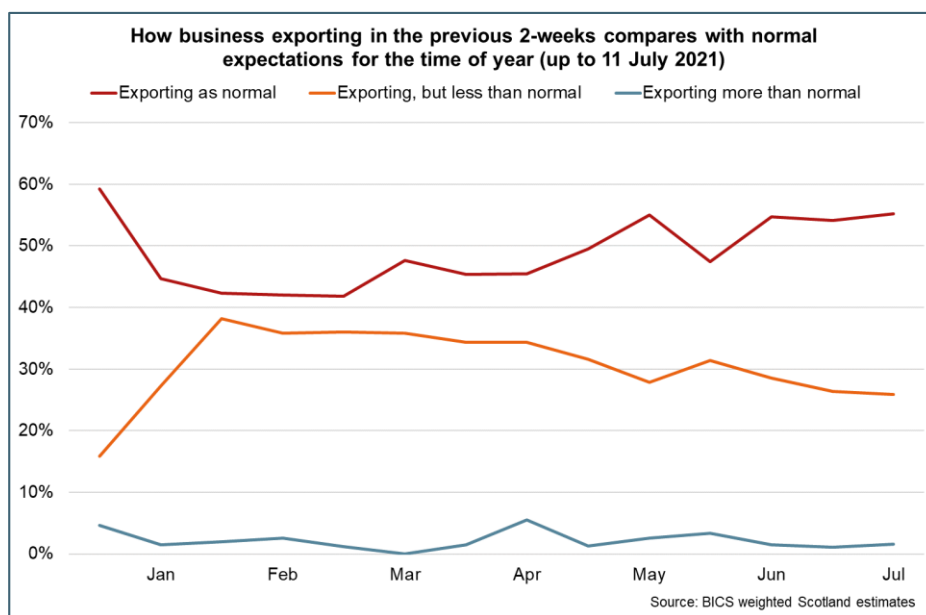
- Scotland's international trade in 2021 has been impacted by a combination of the pandemic and the end of the EU Exit transition period and the start of the new trade agreement between the UK and EU which includes the introduction of new regulatory and administrative compliance checks on goods trade.
- In the first quarter of 2021, the value of Scotland's goods exports were £6.2 billion, down 15.2% compared to Q1 2020, while imports were £5.3 billion, down 3% over the same period.⁶



⁵ IHS Markit/CIPS Flash UK Composite PMI (July): [081555c449834abd84e8ca89d36e0118 \(markiteconomics.com\)](https://www.markiteconomics.com/081555c449834abd84e8ca89d36e0118)

⁶ [UK regional trade in goods statistics: first quarter 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/uk-regional-trade-in-goods-statistics-first-quarter-2021)

- The fall in exports was mainly driven by a 36% fall in exports of oil and gas, with notable falls across other commodities including food (-20%) and beverages (-2.9%). However, there was a 19% increase in exports of chemicals.
- Isolating the impacts of the pandemic and EU exit on trade in 2021 is challenging due to the impacts of public health restrictions on demand for goods and services as well as international supply chains, which is further complicated by the volatility in trade patterns due to periods of stockpiling prior to and during the EU Exit transition phase.
- Comparing the first quarter of 2021 to the first quarter of 2018 (the most stable recent period when trade was not impacted by the pandemic and the end of the EU transition period), total Scottish goods exports fell 15.5% with exports to the EU falling 21% and by 8.9% to non-EU countries. The difference is largely driven by falls in oil and gas exports, however key commodity groups saw larger falls in exports to EU countries than non-EU countries (-28.7% compared to -2.5% for food and -10.8% compared to 2.7% for beverages).
- More recent monthly UK data for May⁷ signals that trade to both EU and non-EU countries has strengthened from the falls at the start of the year, with total goods exports rising 3.7% over the month. However goods exports in 2021 so far (Jan – May) remain 11.9% below the equivalent period in 2018 and key exporting sectors for Scotland have followed this pattern. In May, exports of Scotch Whisky were up 24% over the month (the first five months of 2021 were 12% down on the same period in 2018), while exports of fish rose 6% (the first five months of 2021 were 22% down on same period in 2018).



- More recent business survey data into the first half of July also indicates some improvement in trade with 55% of Scottish businesses reporting to be exporting as normal for the time of year

⁷ [UK overseas trade in goods statistics: May 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/uk-overseas-trade-in-goods-statistics-may-2021)

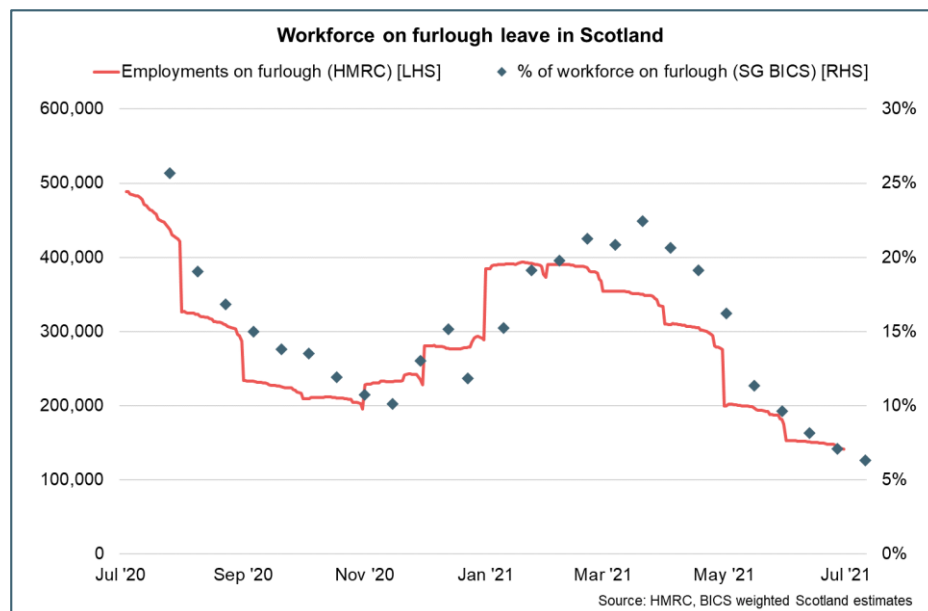
(up from 42% at the start of February) while 26% were exporting less than normal (down from 38% at the start of February).⁸

Labour Market

Labour market indicators continue to strengthen as restrictions have eased.

Coronavirus Jobs Retention Scheme (CJRS)⁹

- The CJRS continues to provide significant support to businesses and the labour market (set to remain in place until September 2021) however the number of jobs supported by the scheme has fallen as businesses have resumed trading following the easing of restrictions.



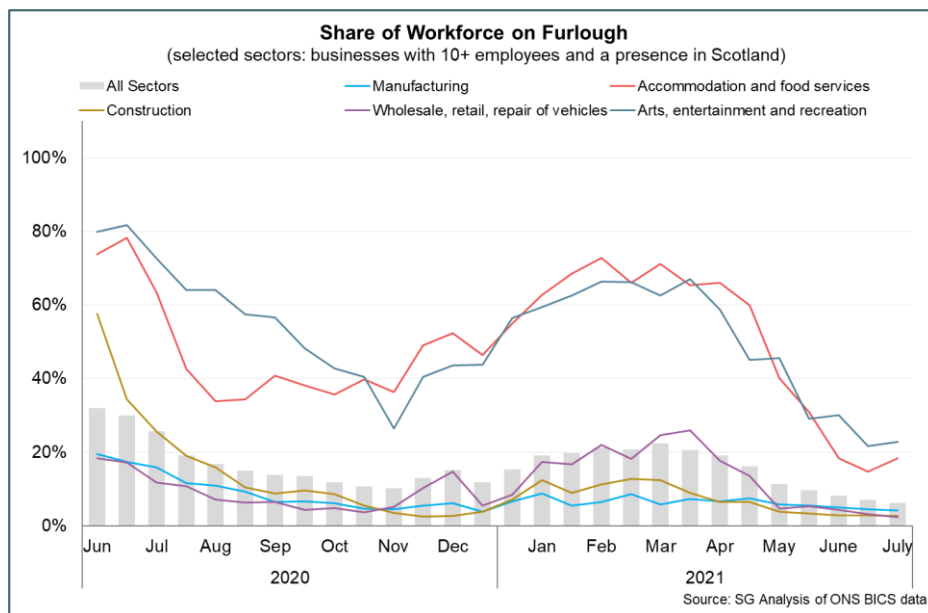
- At the end of June, 141,500 jobs in Scotland (6%) were furloughed, its lowest point in the time series, and is down from 175,300 (8%) at the end of May and from the recent peak of 393,400 in January during the recent lockdown. More recent business survey data indicates that the proportion of staff on furlough continued to fall into the first half of July.¹⁰
- The composition of furlough has also changed notably in recent months as business have required more flexibility as lockdown restrictions have eased and businesses have reopened at different levels of capacity. At the end of February during lockdown, 70% of jobs on furlough were fully furloughed (30% partially), however this has been gradually reversing and in June, 48% of jobs furloughed were fully furloughed and 52% were flexibly furloughed.

⁸ BICS weighted Scotland estimates: data to wave 34. [https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus\(covid-19\)survey\(bics\)](https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics))

⁹ Coronavirus Job Retention Scheme statistics: 29 July 2021 - GOV.UK (www.gov.uk)

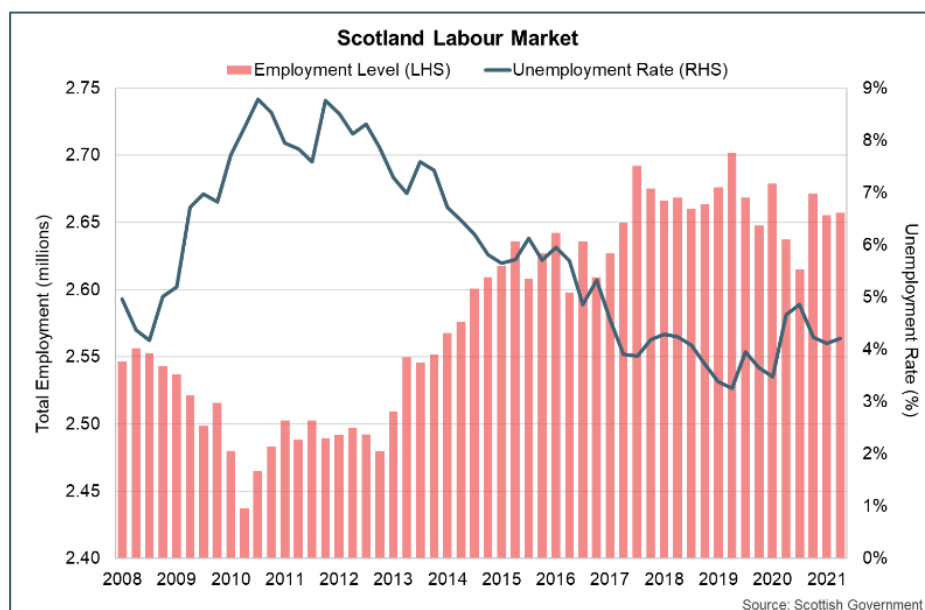
¹⁰ BICS weighted Scotland estimates: data to wave 34. [https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus\(covid-19\)survey\(bics\)](https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics))

- At a sector level, HMRC data show consumer facing services such as accommodation and food (31,900) and wholesale and retail (19,300) continue to have the highest number of employments on furlough, however they have also had the largest falls as restrictions on the consumer facing services sector have eased and businesses in the sector have resumed trading. Business survey data indicates that this pattern continued, though with some volatility at the start of July.¹¹



Official labour market statistics

- The latest labour market statistics for March – May 2021 show Scotland's employment rate was 74.0% (up 0.3 percentage points over the year),¹² the unemployment rate was 4.4% (down 0.1 percentage points) and the inactivity rate was 22.6% (down 0.2 percentage points).



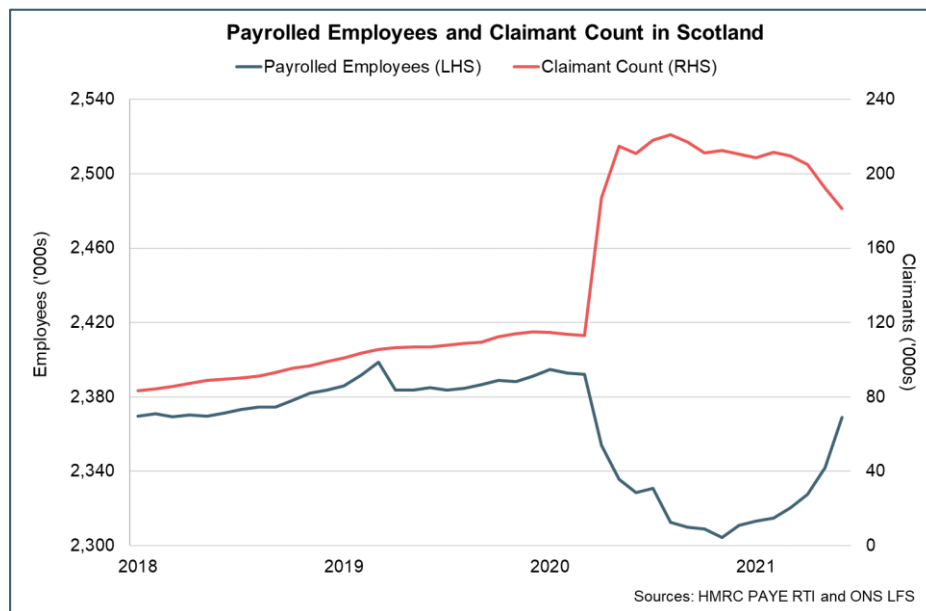
¹¹ BICS weighted Scotland estimates: data to wave 34. [https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus\(covid-19\)survey\(bics\)](https://www.gov.scot/collections/business-and-innovation-statistics/#businessimpactofcoronavirus(covid-19)survey(bics))

¹² <https://www.gov.scot/collections/labour-market-statistics/>

- The headline labour market indicators continue to compare well against historical trends, however they only show a partial picture as people on furlough are considered employed. Wider labour market indicators provide further insight into the challenges that have emerged in the labour market during the pandemic and the signs of improvement in recent months.

PAYE payrolled employment and Claimant Count

- Pay As You Earn (PAYE) Real Time Information data for June show that the number of payrolled employees in Scotland (2.37 million) increased by 27,080 (1.2%) over the month and has increased by 64,779 (2.8%) from its recent low in November.



- This is the highest number of payrolled employees in Scotland since March 2020, however remains 23,872 (1.0%) lower than its pre-pandemic level in February 2020.¹³
- The change in payrolled staff continues to vary regionally in Scotland. In June, annual growth in payrolled employees was highest in Lochaber, Skye and Lochalsh, Arran and Cumbrae and Argyll and Bute, with a rise of 6.6%.
- UK level data signals that the initial recovery in payroll numbers was largely confined to the over 50's age group, however over May and June, there has been stronger growth in 18-24 aged employees. This likely reflects the easing of restrictions on accommodation and food services which saw a notable increase in employees over May and June and which are key employers of young people.
- Alongside this, 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) fell 5.8% in June to 181,200; a claimant count rate of 5.7%. The claimant count continued its recent

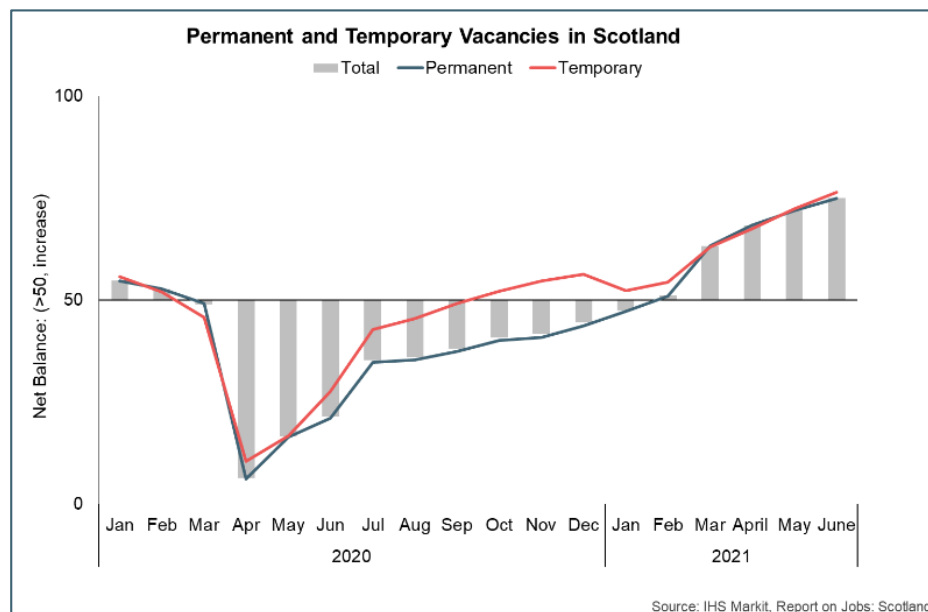
¹³ [Earnings and employment from Pay As You Earn Real Time Information, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/earningsandemploymentfrompayasyouearnrealtimeinformation/uk)

downward trend and has fallen 18% from its peak in August 2020, however, remains 67,500 (59%) higher than its pre-pandemic level in February 2020.¹⁴

- Combined, the claimant count and payroll data signal that the number of people that have been unemployed or employed with low income and/or low hours have increased significantly during the pandemic. However, the movements back to pre-pandemic levels shows that progress in the labour market recovery has been made with ongoing support from the Job Retention Scheme.

Demand for staff

- Business survey data also provides evidence of strengthening demand for staff and recruitment activity in recent months as restrictions have eased and firms have resumed further trading activity.
- In June, demand for both temporary and permanent staff in Scotland continued to increase and was broad based across the majority of sectors.¹⁵



- This corresponds with UK vacancy data for April to June 2021 which showed UK job vacancies grew 39% over the quarter and was 9.9% (77,500) above its pre-pandemic level in Q1 2020.
- At a sector level, UK vacancy growth over the quarter was broad based across the private sector, but sharpest in sectors such as arts entertainment and recreation (up 330%) and accommodation and food services (up 257%) which were recruiting staff as restrictions in these sectors eased. In the latter, the ONS reported that the rise in vacancies in part reflected some evidence of a shortage of skilled staff in the sector and of employees finding alternative areas of employment prior to the sector reopening.¹⁶

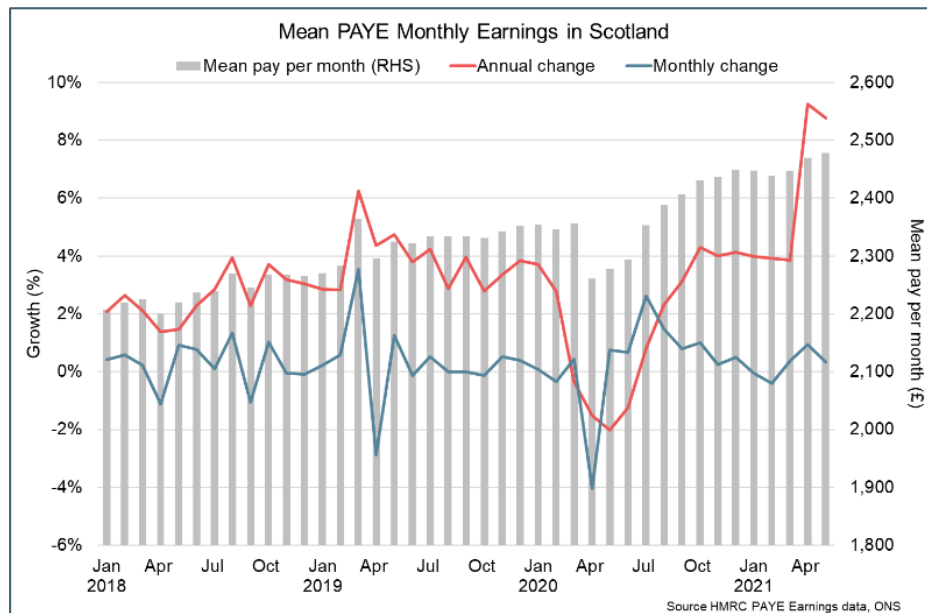
¹⁴ <https://www.gov.scot/collections/labour-market-statistics/>

¹⁵ IHS Markit: RBS Report on Jobs: [173e8f5822dc463499fef4450d1fad66](https://www.markiteconomics.com/reports/rbs-report-on-jobs) (markiteconomics.com)

¹⁶ [Vacancies and jobs in the UK - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/economy/employmentandunemployment/vacancies)

Earnings

- Mean PAYE monthly pay fell sharply at the start of the pandemic, however strengthened over the course of 2020 and rebounded back above its pre-pandemic level in July 2020. Relatively robust earnings growth over this period in part reflects lower inflows of new employees, for which mean pay tends to be around 40% lower than for those continuously employed.¹⁷



- Following a slight fall at the start of 2021, latest data for May shows pay growth in Scotland has returned to positive in recent months, growing 0.3% over the month to £2,478. On an annual basis earnings growth slightly tapered off to 8.8% in May, however remains elevated, which in part reflects the sharp fall in mean earnings at the start of the pandemic.
- While mean earnings have rebounded on an annual basis, this needs to be interpreted with caution. The ONS note that it has been affected by a changing composition of employee jobs, with a fall in the number and proportion of lower-paid employee jobs. This acts to increase average pay, with underlying annual wage growth for the UK estimated to be between 2.2 to 3.4 percentage points lower than headline annual wage growth.

Consumption

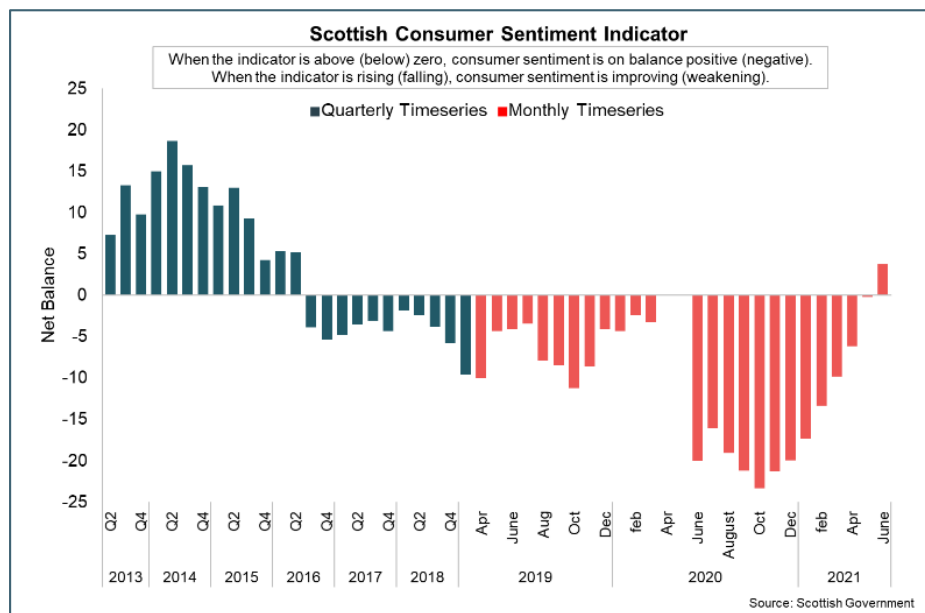
Consumer sentiment has continued to strengthen over the first half of 2021.

Consumer sentiment

- Consumer sentiment in Scotland has continued to strengthen since the start of the year with the Scottish Consumer Sentiment Indicator rising to 3.8 in June, notably improved from the series low levels of sentiment in the second half of 2020.

¹⁷ [Earnings and employment from Pay As You Earn Real Time Information, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/earningsandemploymentfrompayasyouearnrealtimeinformation/uk)

- The general improvement in sentiment since then reflects a combination of factors. Firstly, while consumers continue to consider that current circumstances regarding the economy, financial security and attitude to spending are worse than they were in the previous year, this has been to a progressively lesser extent in recent months and as such sentiment regarding current circumstances has been strengthening.



- Secondly, looking ahead to the next 12 months, respondents expect the economy and their household finances to improve over the coming year (relative to the current situation), and while the economy expectations indicator eased back in June, taken together, expectations for the outlook have improved.¹⁸
- Sentiment indicators continue to be highly sensitive to the rapidly moving developments on the pandemic and the unprecedented economic impacts that we have seen over the past 16 months. As such, they will be a key indicator in understanding the level to which a recovery in consumer sentiment feeds through to changes in consumption over the course of the year.

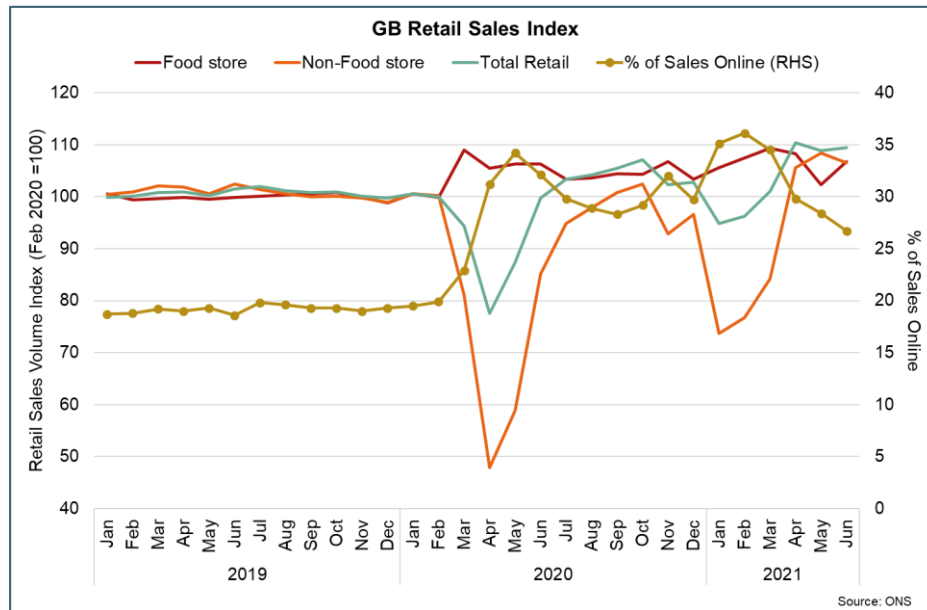
Retail sales and visits to retail hubs

- At a Great Britain level, retail sales volumes have strengthened since the start of the year and have risen back above pre-pandemic levels. Over the 3-months to June, the volume of sales rose 12.2%, with strong growth in non-food sales (23.6%) and automotive fuel sales (35.8%) as restrictions on retail eased in April and people continued to increase their amount of travel.¹⁹

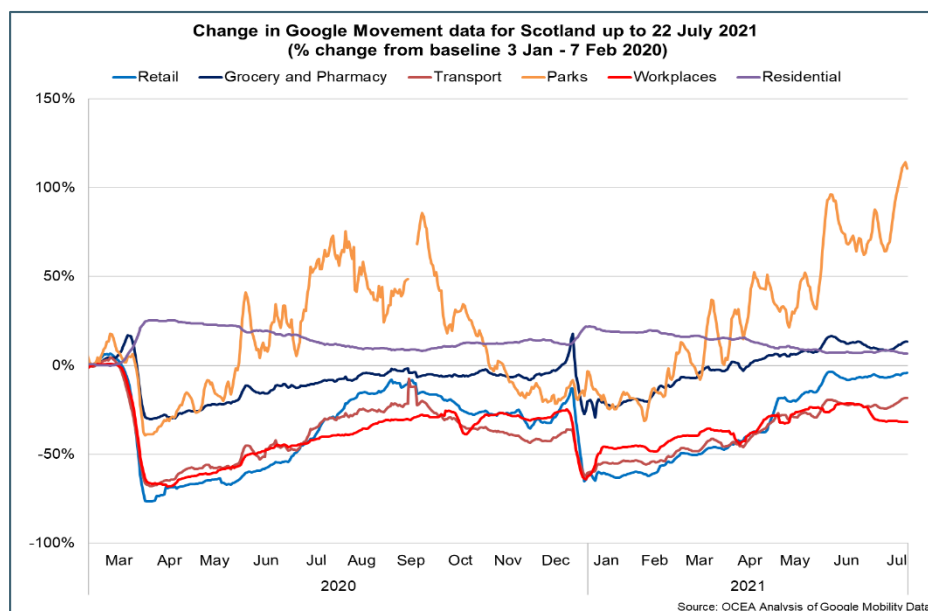
¹⁸ [https://www.gov.scot/collections/economy-statistics/#scottishconsumersentimentindicator\(scsi\)](https://www.gov.scot/collections/economy-statistics/#scottishconsumersentimentindicator(scsi)) Due to the coronavirus pandemic, data was not collected in the last two weeks of March 2020 and in April and May 2020.

¹⁹ [Retail sales, Great Britain - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk)

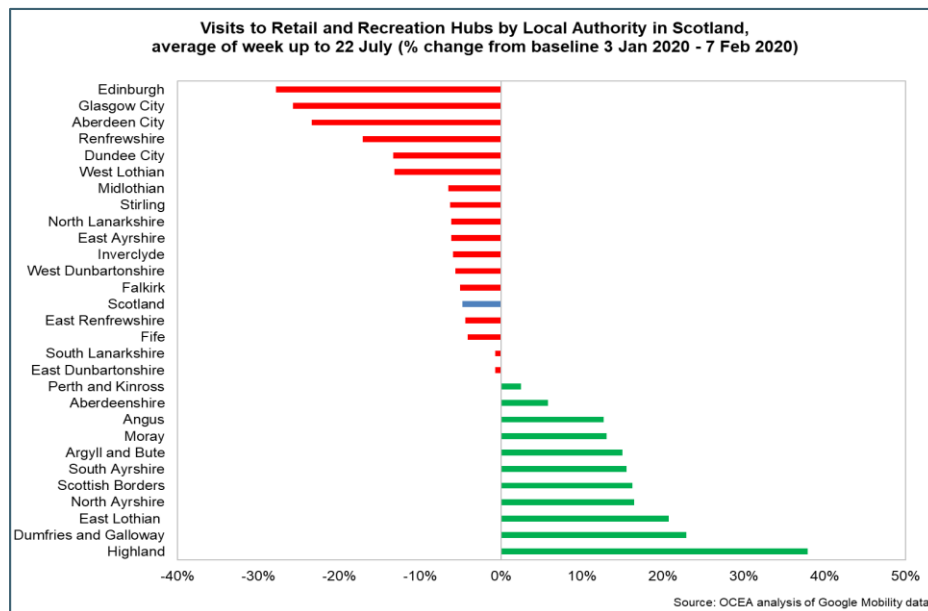
- However on a monthly basis, most of the growth was in April (9.3%) and has moderated over May (-1.3%) and June (0.5%), however the level of sales is 9.5% above its pre-pandemic level in February 2020.



- In June, the proportion of retail sales conducted online remained notably higher than prior to the pandemic at 26.7%, compared to 20% in February 2020. However, the share of sales online continued to fall in June, down from 28.4% in May and from its peak of 36.1% in February, with most retail sectors reporting a fall in their proportions of online sales as consumers returned to physical stores.
- Google mobility data for Scotland show visits to retail picked up sharply in April and May as restrictions eased having been over 60% below the pre-pandemic level at the start of the year. The pace of recovery has been more moderate over June and July and on average has remained around 6% below pre-pandemic levels.



- The stabilisation in the number of visits to retail may be linked to movements that can be seen across the other indicators. For example, movement in transport has also stabilised at 22% below its pre-pandemic level over June and July while visits to workplaces are 31% below pre-pandemic levels in July (though the fall from June will in part reflect the start of school holidays).
- At a regional level, visits to retail and recreation hubs compared to pre-pandemic levels continue to vary across different Local Authorities in Scotland.²⁰ In July, Google Mobility data show visits are furthest below pre-pandemic levels in the city areas of Edinburgh (-28%), Glasgow (-26%) and Aberdeen (-23%) and are furthest above in Highland (+38%) and Dumfries and Galloway (+23%).

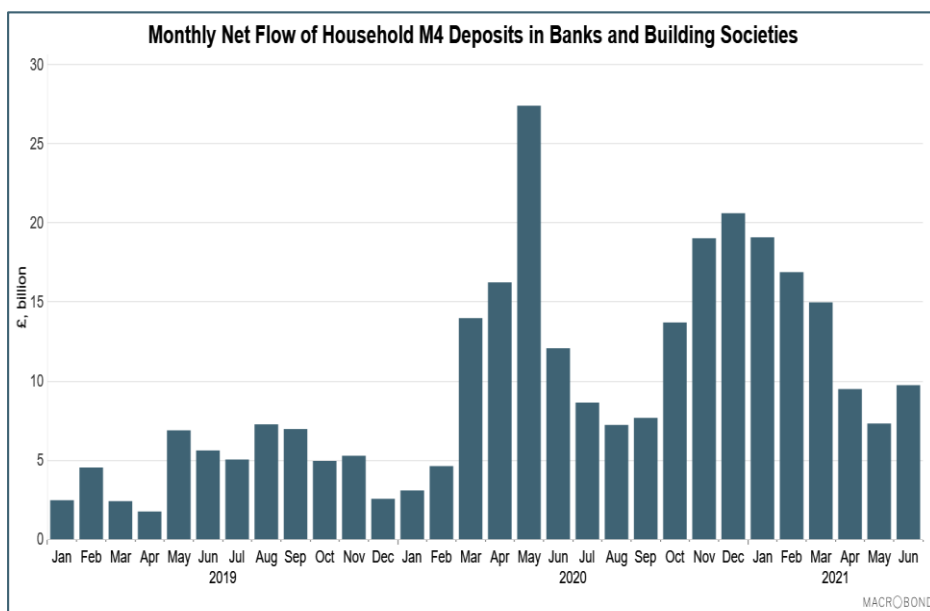


Household Savings and Consumer Credit

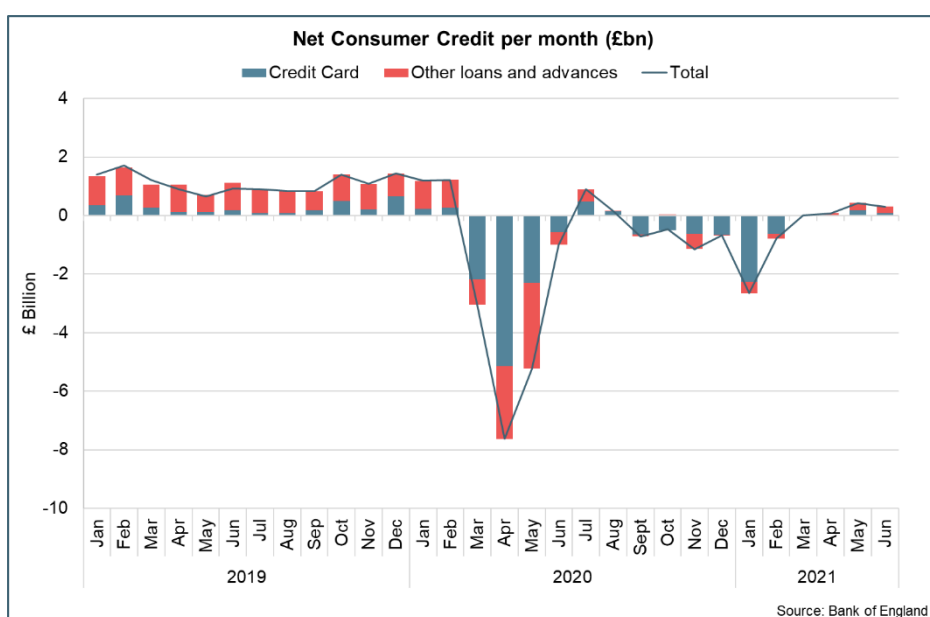
- At an aggregate level, household savings have increased significantly during the pandemic and consumers have made significant net-repayments on consumer credit, as restrictions have caused expenditure to fall while support schemes have helped protect household incomes. This has not been the case across the whole economy, with lower income households facing more significant financial challenges.
- Bank of England data show that at an aggregate level, net flows from households into deposit-like accounts was £9.8 billion in June, up from £7.3 billion in May. This remains relatively high compared to pre-pandemic levels when the average net inflow in the year to February 2020 was £4.7 billion. However, this has fallen from periods of more elevated inflows over the past sixteen months during which the average inflow has been £14 billion.²¹

²⁰ Please note that data is not available for all Local Authorities in Scotland.

²¹ [Money and Credit - June 2021 | Bank of England](#)



- Consumers have also made significant net-repayments of credit since the start of the pandemic with average net repayments between March 2020 and February 2021 of £1.9 billion per month.
- Since March, consumers have marginally increased net borrowing, with latest data for June showing an increase of £0.3 billion with additions in both 'other loans and advances' such as car dealership finance and personal loans and credit card lending. However, the increase in net borrowing remains significantly lower than the pre-pandemic monthly average of £1.1 billion in the year to February 2020.

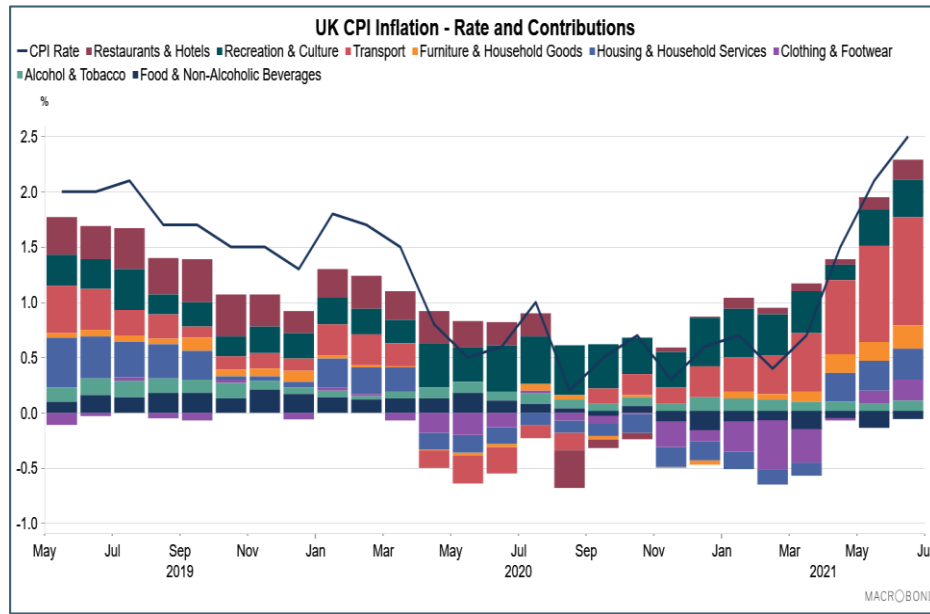


- Overall, the latest data show the pace of household savings has slowed relative to the start of the year while households have on balance started to gradually increase borrowing as restrictions have eased. The extent to which households subsequently spend accumulated savings and further increase borrowing as restrictions ease remains uncertain. As the outlook improves,

latest survey data show an increasing share of people planning to spend a proportion of their additional savings.²²

Interest rate and inflation

- The inflation rate has risen sharply in recent months, both in the UK and internationally. The UK Consumer Prices Index (CPI) increased by 2.5% in the 12 months to June, up from 2.1% in May, its highest rate since August 2018.²³



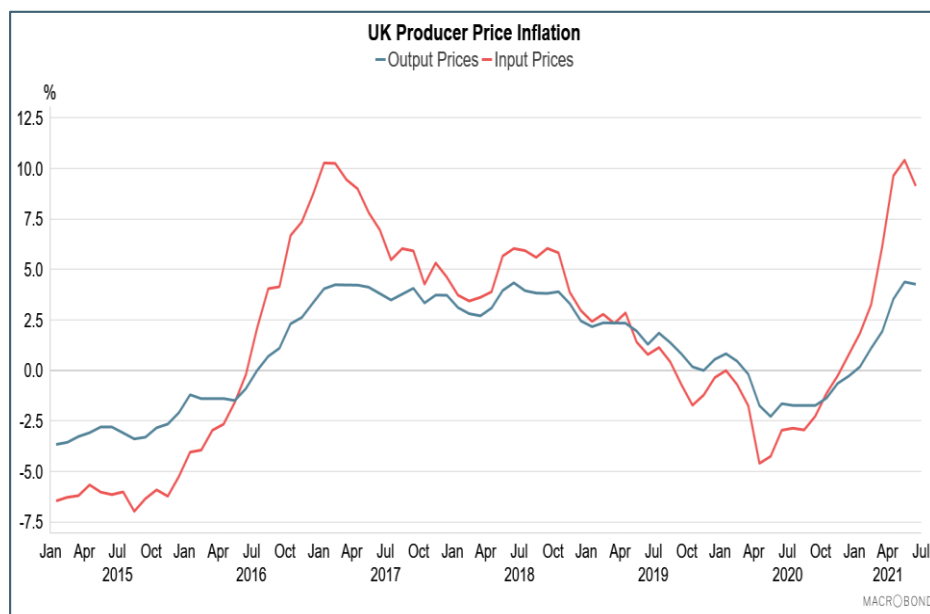
- The increase in June was relatively broad based with upward contributions from transport (principally second-hand cars and motor fuels), restaurants and hotels, food and non-alcoholic beverages, and clothing and footwear. There continue to be some base effects that are playing out in the 12-month inflation rate with comparisons to the early stages of the pandemic when lockdown lead to a sharp fall in demand.
- The CPI rate is currently above the Bank of England's 2% inflation target. At their June meeting, the Monetary Policy Committee (MPC) made no change to monetary policy, maintaining the Bank Rate at 0.1% and the current programme of Quantitative Easing.²⁴
- The MPC expect the inflation rate to temporarily rise above 3% in 2021 before easing back towards the 2% target. This in part reflects the fading out of previous energy price falls while more recent rises in energy prices feed through.
- On the supply side, input cost pressures (e.g. raw materials) have risen sharply over the past year which are expected to further pass through to consumers as demand strengthens. Producer

²² [How have households spending expectations changed since last year | Bank of England](#)

²³ [Consumer price inflation, UK - Office for National Statistics](#)

²⁴ [Bank Rate maintained at 0.1% - June 2021 | Bank of England](#)

input price inflation was 9.1% in June while output price inflation was 4.3%; both having fallen slightly compared to May, however remain at rates similar to those last seen in 2017.²⁵



- Wider PMI business survey evidence points to supply chain pressures intensifying in recent months and contributing to this in both the manufacturing and construction sectors, with firms facing material shortages and increased levels of purchases and stocking, while supplier delivery times have deteriorated.

GDP growth outlook

Optimism for the economic outlook this year has continued to strengthen.

- At a global level, the IMF's latest forecast from July projects world GDP to grow 6% in 2021 following the fall of 3.2% in 2020.²⁶ At an aggregate level, this remains unchanged from their previous forecast in April, however reflects an upward revision to their growth forecasts for Advanced Economies (up 0.5 percentage points to 5.6%) and a downward revision to their forecast for Emerging Market and Developing Economies (down 0.4 percentage points to 6.7%) with the IMF highlighting that differences in vaccine access and policy support have contributed to greater divergences in the expected pace of recovery across countries.
- At a UK level, the IMF forecast UK GDP to grow 7% in 2021 (revised up from 5.3% in April). This is broadly in line with the Bank of England's May forecast²⁷ of 7.25% and the latest average of new independent UK forecasts²⁸ published by HM Treasury which points to UK GDP growth of 7.1% in 2021. Reflecting the general improvement in optimism for the outlook, supported by stronger than expected activity in the first half of the year, the delivery of the vaccination

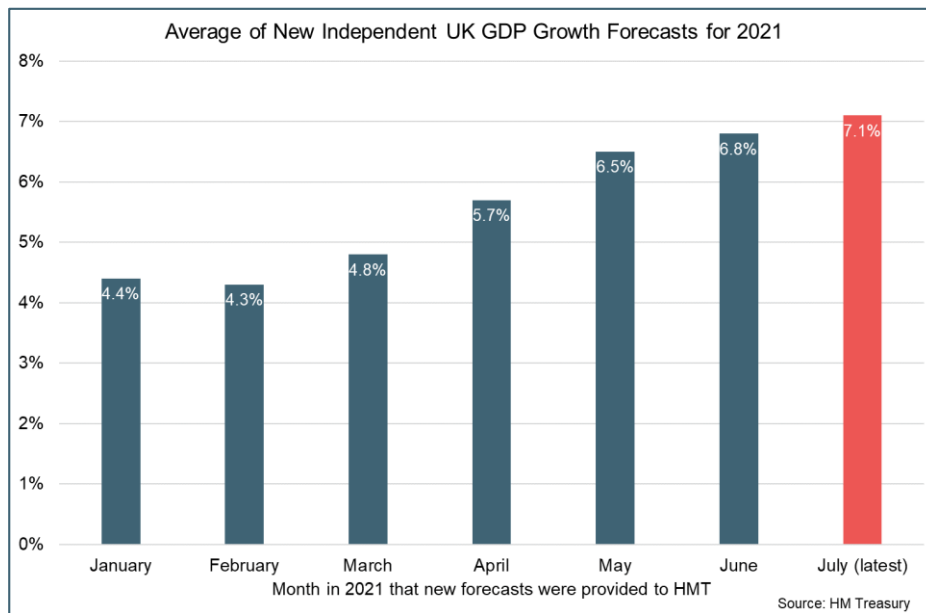
²⁵ [Producer price inflation, UK - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/producer-price-inflation)

²⁶ [World Economic Outlook Update, July 2021: Fault Lines Widen in the Global Recovery \(imf.org\)](https://www.imf.org/en/Publications/WEO/Issues/2021/07/20/world-economic-outlook-update-july-2021)

²⁷ <https://www.bankofengland.co.uk/monetary-policy-report/2021/may-2021>

²⁸ [Forecasts for the UK economy: July 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/forecasts-for-the-uk-economy-july-2021)

programme and easing of restrictions, the average new forecast for 2021 has risen each month since February and is up 0.3 percentage points from the average new forecast in June.



- At a Scotland level, the latest forecasts from the Scottish Fiscal Commission²⁹ in January 2021 projected Scotland's GDP to fall 5% over the first quarter of 2021 during lockdown and to grow 1.8% over 2021 before returning to pre-pandemic levels at the start of 2024. As in the UK as a whole, the latest outturn data for Q1 2021 show that economic output fell by less than many independent and official forecasts had expected in the first quarter, with Scotland's GDP falling by 2.1%. The Commission will publish their next set of forecasts on 26 August.
- Reflecting the stronger outturn data, the Fraser of Allander Institute revised up their GDP forecast for 2021 to 5.9% (up from 3.6% in March) and moderated their 2022 forecast to 3.5% (down from 5.6% in March). Overall, GDP is forecast to return to pre-pandemic levels by July 2022, a quarter earlier than had previously been forecast.³⁰

²⁹ <https://www.fiscalcommission.scot/forecast/scotlands-economic-and-fiscal-forecasts-january-2021/>

³⁰ [FAI Economic Commentary, 2021 Q2 | FAI \(fraserofallander.org\)](#)



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