

Monthly Economic Brief

Office of the Chief Economic Adviser

December 2021

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Overview

This month's economic brief provides an update on the Scottish economy on the final quarter of 2021. Covid related restrictions on economic activity remain relatively low, particularly compared to last winter, but the emergence of the Omicron variant has increased the uncertainty around both the economic and health outlook, both domestically and globally, and has led to a tightening of public health restrictions and messaging and represents a downside risk to the economy.

At the same time, the economy has seen a build-up in inflationary pressures over the latter half of the year, with inflation reaching 5.1% in November, the highest level in over a decade. This is expected to continue into 2022, with the Bank of England and other forecasters expecting inflation to peak at 6% in the first half of 2022.

The latest data for October show Scotland's GDP grew 0.2% over the month, following falls in July and August. Services output continued to grow, with growth spread across 8 of the 14 subsectors. This was supported by growth in production, driven by fluctuations in energy sector output, with the manufacturing sector seeing output fall. Construction sector output also fell, reversing the gains in the previous month.

The end of September saw the end of the furlough scheme, which had provided essential support to the labour market for over 18 months. The phased nature of the withdrawal, combined with the strength of the reopening economy, has meant that there has been little evidence of an increase in unemployment. The headline unemployment rate fell to 4.1% in August to October while the number of payrolled employees increased in both October and November, and is now almost 16,000 higher than pre-pandemic levels.

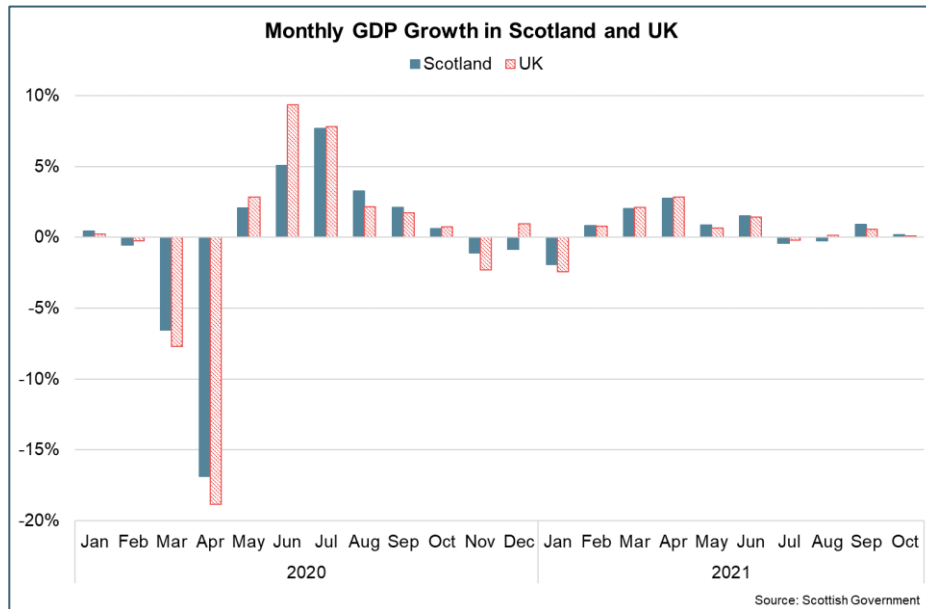
Challenges of shortages in the labour market remain however, with demand for both permanent and temporary staff remaining strong in November while the availability of staff has continued to fall, generating further upward pressure on starting wages. These wage pressures are also accompanied by businesses facing increased input costs more generally, which are also rising at record rates as supply chain pressures continue.

Looking ahead, although the Omicron variant has increased uncertainty for the economic outlook, demand remained robust toward the end of the year, with new work increasing at a strong pace in November. However, supply chain cost pressures and rising labour costs for businesses are increasingly being passed on to customers. As such, despite the labour market remaining strong, households are concerned about the outlook for their personal finances, with inflationary pressures increasing. With consumers becoming more cautious again, some businesses may see demand begin to weaken, and risks to the recovery are more elevated than they have been for some time.

Output

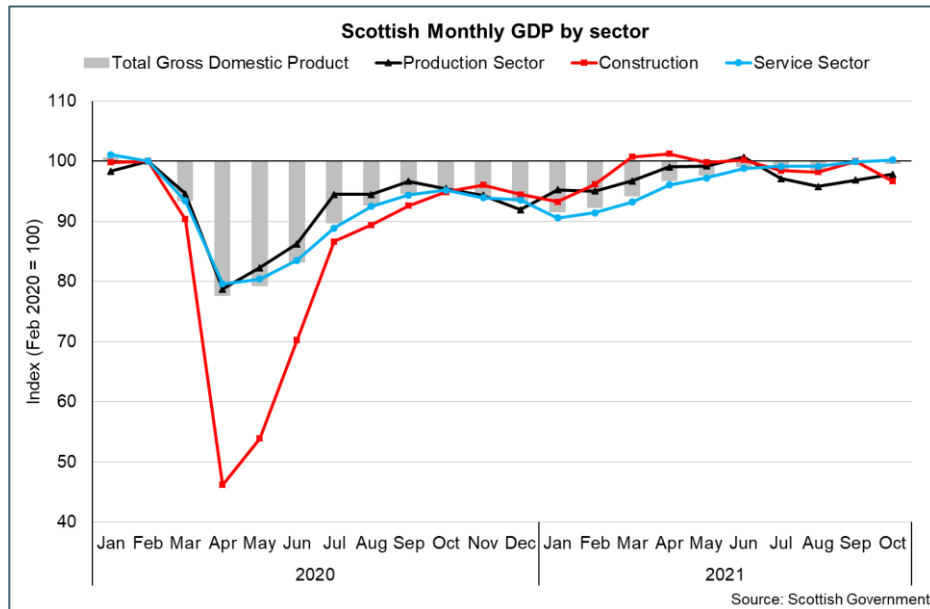
Scotland's GDP grew 0.2% in October and is 0.4% below its pre-pandemic level.

- Scotland's GDP grew 0.2% in October with growth in services (+0.3%) and production (+1.0%) output offset by a fall in construction output (-3.4%).¹

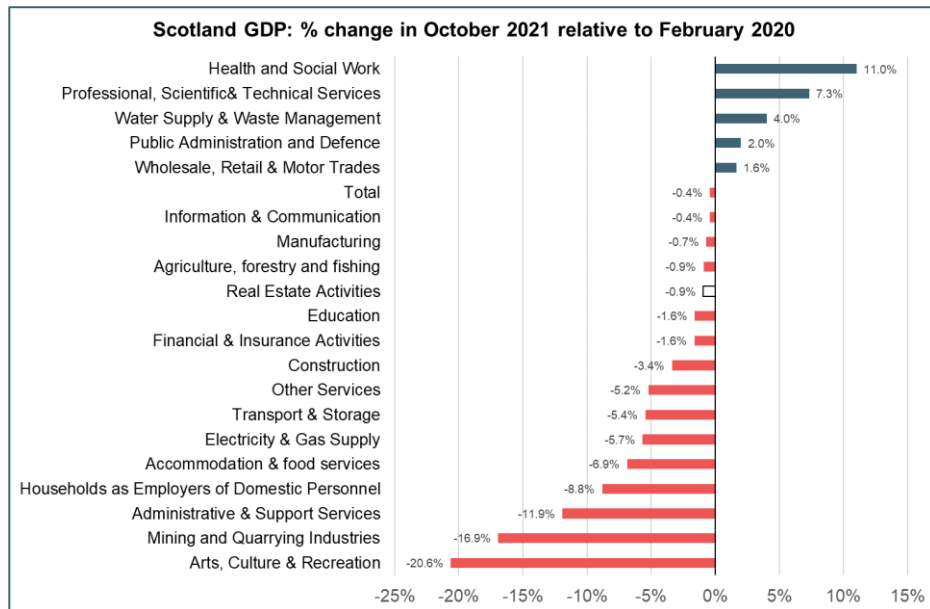


- October saw further growth in some consumer facing services such as accommodation and food (+3.1%), though at a more moderate pace than in recent months, while arts, culture and recreation output fell 5.2%, its first monthly fall since February. Growth in the production sector was partly driven by 5.6% growth in electricity and gas output, which has been relatively volatile in recent months across different modes of generation and maintenance at major power stations, while manufacturing output fell 1.0% over the month.
- Overall growth in October followed growth in September (+0.9%) and falls in output over July (-0.4%) and August (-0.2%) with growth over the third quarter as a whole slowing to 1%, down from 5.6% growth in the second quarter.
- The slower pace of growth over the third quarter partly reflects that the boost in output from restrictions easing on consumer facing services over the second quarter had moderated, while supply chain disruption has been impacting on activity in construction and manufacturing output in particular.

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



- Scotland's GDP is gradually returning to its pre-pandemic levels and as at October was 0.4% below its pre-pandemic level in February 2020, having fallen 22.3% below in April 2020. However there remain significant differences across sectors in the pace of recovery, which continues to partly reflect the restrictions that have been in place earlier in the year, levels of demand across sectors at this stage of the recovery and the impact of supply chain disruptions on the pace of activity.



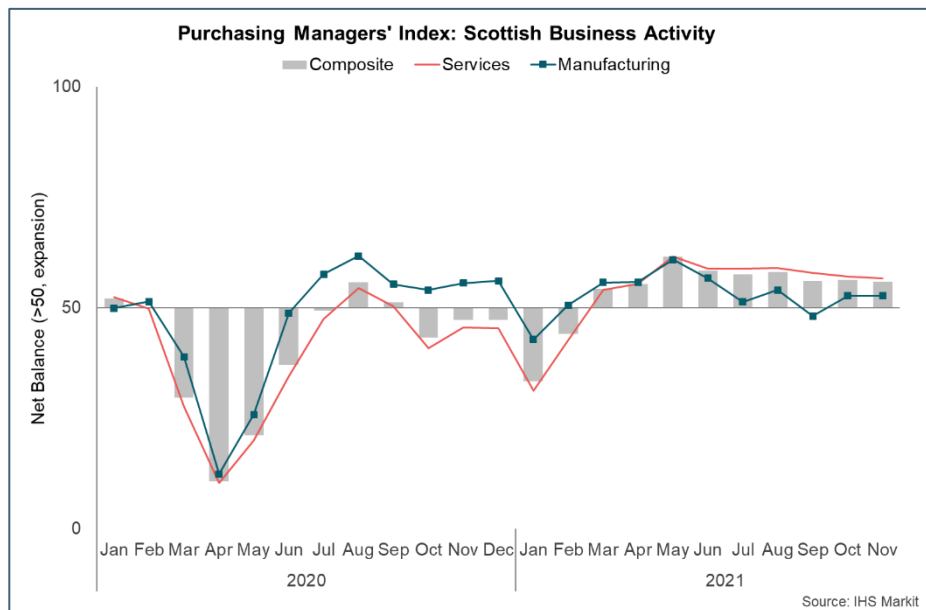
- Output from some sectors in services are above pre-pandemic levels, such as professional, scientific and professional services (7.3%) and wholesale and retail (1.6%). Construction and manufacturing output, which had returned to pre-pandemic levels in recent months and subsequently fallen back, were respectively at 3.4% and 0.7% below in October. Some consumer facing services sectors such as Arts, Culture and Recreation (-20.6%), which are continuing to recover from restrictions earlier in the year, remain amongst sectors furthest below pre-pandemic levels.

Business Activity

More recent survey data indicated business activity remained broadly stable at the start of the fourth quarter, though there are signals that the pace of growth has moderated while supply chain pressures persist.

Business Output

- The Purchasing Managers Index (PMI) business survey reported further robust growth in business activity growth in November (55.9), supported by continued growth in new business and with services sector activity continuing to outpace manufacturing during the month.²



- However, the overall pace of growth in activity has moderated over the month, signalling further stabilisation from stronger activity earlier in the year. Furthermore, latest flash UK PMI data for December indicated a further slowdown in activity, driven predominantly by the services sector, suggesting that Omicron has started to impact on spending on consumer services.

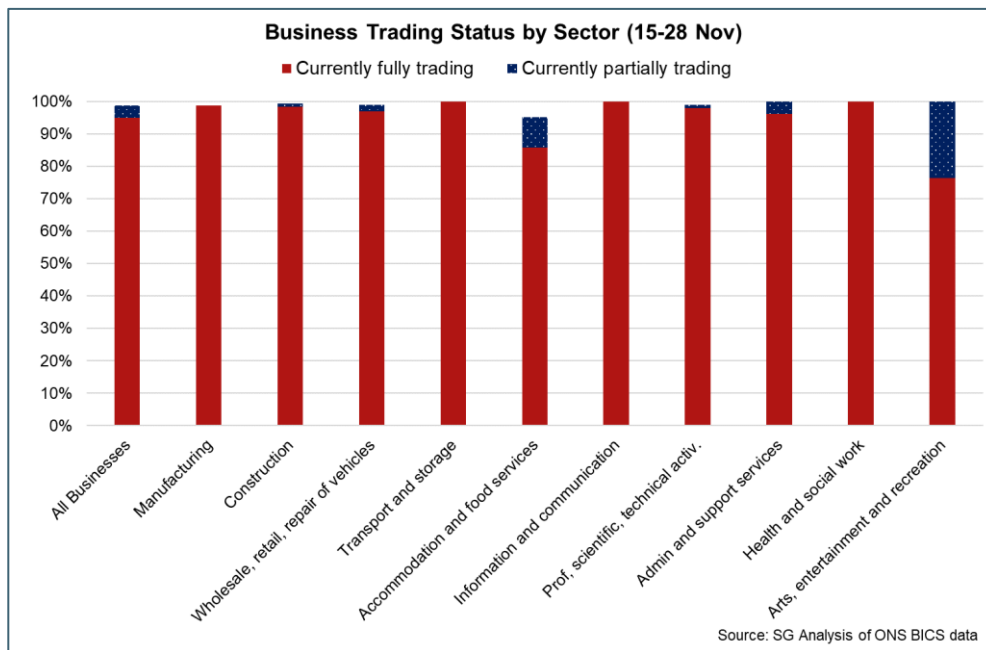
Trading status

- Since August, around 99% of all businesses have been consistently trading following the move beyond level zero restrictions in Scotland (with some protective measures remaining in place) with latest data showing this continued in November.³
- Sector differences and the capacity at which businesses are trading remained a feature of this stage of the pandemic in November. For example, 95% of all businesses reported being fully trading (4% partially), however this was lowest in consumer facing sector such as arts,

² IHS Markit, RBS Purchasing Managers Index, November 2021. [RBS | Scottish private sector records another strong performance \(rbsbusinesshub.com\)](https://www.rbs.com/uk/business/insights/scottish-private-sector-records-another-strong-performance)

³ [BICS weighted Scotland estimates: data to wave 44 - gov.scot \(www.gov.scot\)](https://www.gov.scot/data/bics-weighted-scotland-estimates-data-to-wave-44)

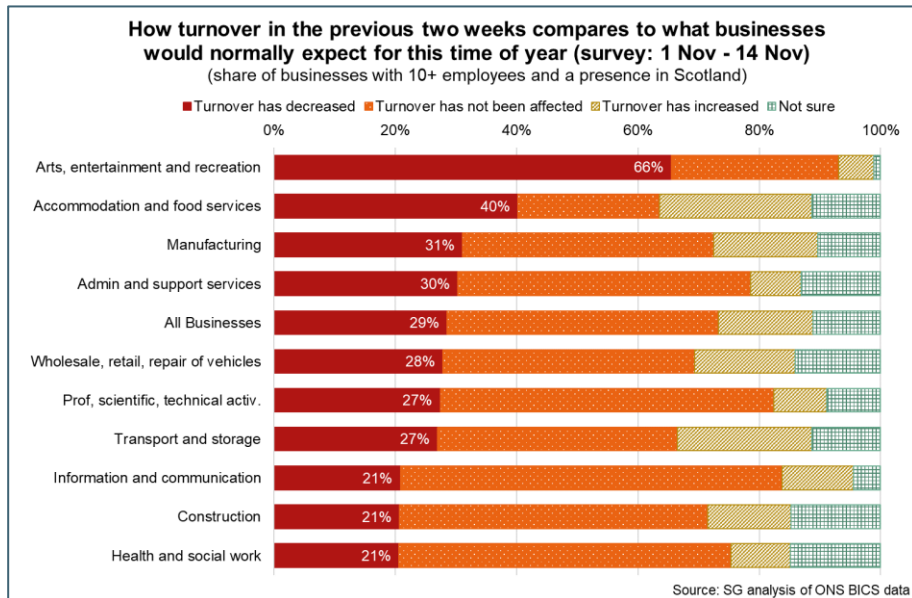
entertainment and recreation (76% fully trading and 24% partially) and accommodation and food services (86% fully trading and 9% partially).



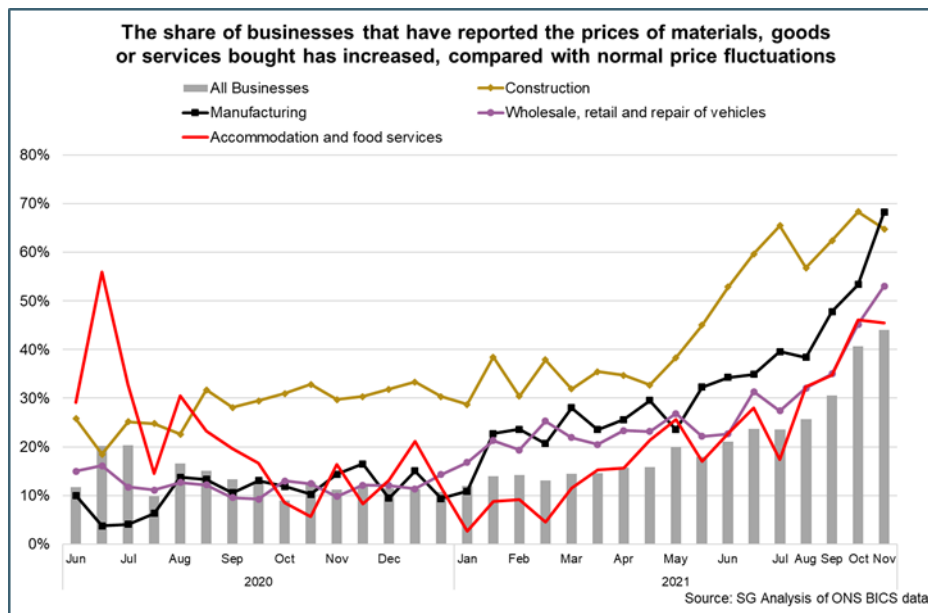
Business turnover and input costs

- The financial context of businesses also continues to vary across sectors. In terms of business turnover in November, 29% of all business reported having lower turnover than normal for the time of year, while 45% reported that turnover was not affected and 17% reported that it had increased.⁴
- Lower than normal turnover continues to be most widespread in the arts, entertainment and recreation services sector (66%) followed by the accommodation and food services sector (40%). However in the case of the latter, accommodation and food also had the highest share of firms reporting that turnover had increased (25%) alongside the transport and storage sector (22%), emphasising the level of variability of within sectors of customer demand.

⁴ [BICS weighted Scotland estimates: data to wave 44 - gov.scot \(www.gov.scot\)](https://www.gov.scot/data-to-wave-44)



- Overall, there has been some stabilisation in recent months, however turnover performance remains notably improved compared to March with a rise in the proportion of firms reporting an increase in turnover (from 6% to 16%) and a fall in the share reporting lower turnover (from around 45% to 29%). However, on the cost side, supply chain disruption, rising input costs inflation and employee shortages have emerged as key challenges and risks for many businesses reflecting imbalances following the sharp rebound in demand at this stage of the recovery.
- On the supply side, input cost pressures (e.g. raw materials and energy) have remained elevated in November, partly reflecting ongoing domestic and global supply challenges reflecting the imbalances which characterise this stage of the pandemic.



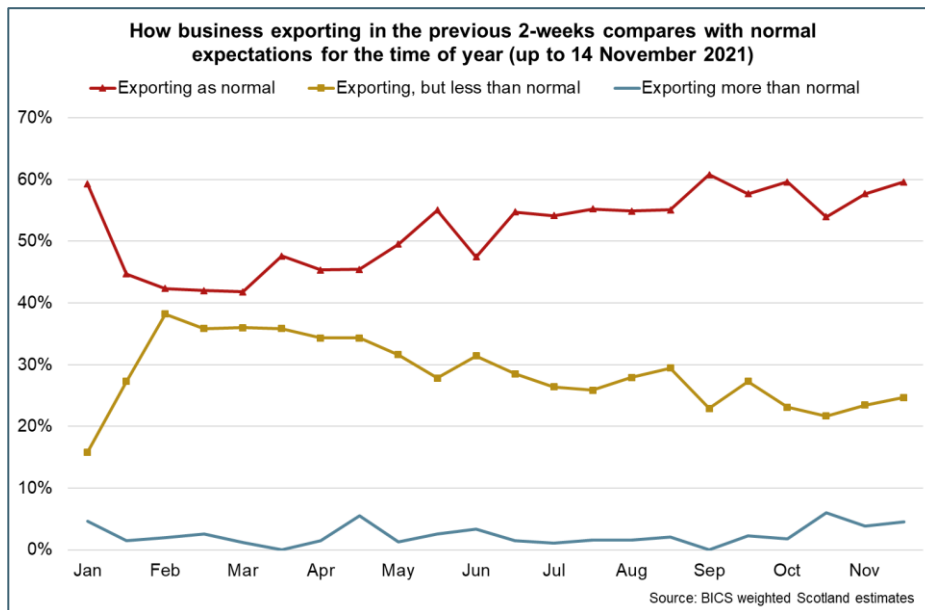
- Increased input costs have been evident across sectors. In November, the Business Insights and Conditions Survey (BICS) showed that 44% of businesses had seen prices increase more

than normal, however this was most prominent in manufacturing (68%), construction (65%), arts entertainment and recreation (56%) and wholesale and retail (53%).⁵

- Scottish PMI data for November also showed the indicator for input cost inflation rose further to a series high (76.6), with respondents citing that this is due to issues around supply shortages, transport issues, the pandemic and EU-Exit. PMI data also showed that firms continued to partly pass on greater costs through to customers with the indicator for prices charged also rising to a series high (63.3).⁶

Trade

- International trade and supply chains have experienced significant challenges in 2021 arising from the pandemic and the transition to the new trade agreement between the UK and EU.
- BICS data for November indicates improvement in trade activity from the start of the year with 60% of Scottish businesses reporting to be exporting as normal for the time of year (up from 42% at the start of February) while 25% were exporting less than normal (down from 38% at the start of February).⁷



- However, supply chain bottlenecks continue to present significant challenges in November with 41% of exporters and 47% of importers reported facing changes in transportation costs while 18% of exporters and 25% of importers reported a lack of hauliers to transport goods or lack of logistics equipment. Furthermore, in November, 52% of exporters reported that the costs of

⁵ [BICS weighted Scotland estimates: data to wave 44 - gov.scot \(www.gov.scot\)](https://www.gov.scot/data/bics-weighted-scotland-estimates-data-to-wave-44)

⁶ IHS Markit, RBS Purchasing Managers Index, November 2021. [RBS | Scottish private sector records another strong performance \(rbsbusinesshub.com\)](https://www.rbsbusinesshub.com/news/2021/11/scottish-private-sector-records-another-strong-performance)

⁷ [BICS weighted Scotland estimates: data to wave 44 - gov.scot \(www.gov.scot\)](https://www.gov.scot/data/bics-weighted-scotland-estimates-data-to-wave-44)

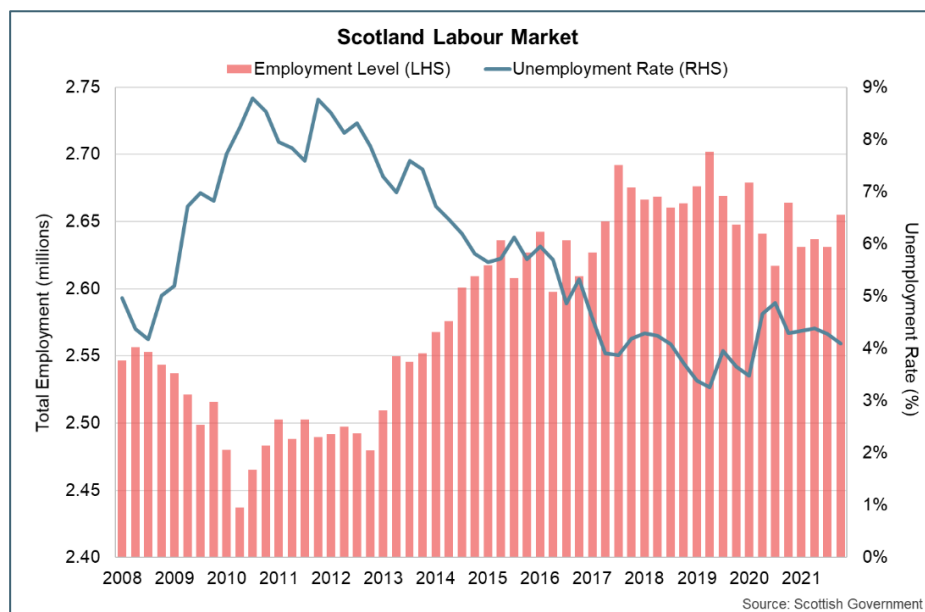
exporting in the last month had increased compared to normal expectations for the time of year alongside 63% of importers.⁸

Labour Market

The number of payrolled employees continued to rise in November as demand for staff remained strong though staff shortages persist.

Official labour market statistics

- The latest labour market statistics for August to October show Scotland's employment rate was 74.6% (down 0.2 percentage points over the year), the unemployment rate was 4.1% (down 0.2 percentage points) and the inactivity rate was 22.1% (up 0.3 percentage points).⁹



- The headline labour market indicators compare well against historical trends with latest data continuing to cover a period in which up to the end of September, the Coronavirus Jobs Retention Scheme was providing significant support to the labour market.
- Since its inception, the furlough scheme has supported 911,900 unique jobs in Scotland (11.7 million across the UK) and at the end of the scheme in September, 80,800 jobs were being supported - 50.9% of furloughed employments on flexible furlough and the remaining 49.1% fully furloughed.¹⁰
- Wider labour market indicators provide insights into how the labour market has performed in October and November following the end of the furlough scheme.

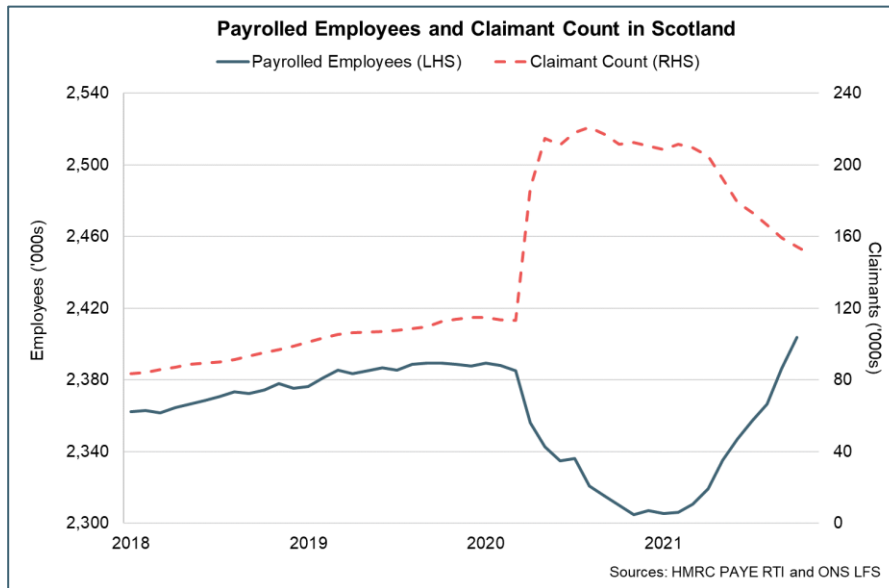
⁸ [BICS weighted Scotland estimates: data to wave 44 - gov.scot \(www.gov.scot\)](https://www.gov.scot/collections/labour-market-statistics/)

⁹ <https://www.gov.scot/collections/labour-market-statistics/>

¹⁰ [Coronavirus Job Retention Scheme statistics: 16 December 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-16-december-2021)

PAYE payrolled employment and Claimant Count

- More recent Pay As You Earn (PAYE) Real Time Information data for November 2021 indicate the number of payrolled employees in Scotland continued to increase, up 17,000 (0.7%) over the month and up 99,000 (4.3%) compared with November 2020.¹¹
- Overall in November, there were 2.4 million payrolled people in employment, 25,000 (1%) more than in September at the end of the furlough scheme and 16,000 (0.7%) more than in February 2020 prior to the pandemic.



- Alongside the rise in payrolled employees, 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 3.0% in November to 149,700; a claimant count rate of 4.7%.
- The claimant count continued its recent downward trend and has fallen 32.2% from its peak in August 2020 and 6% since September when the furlough scheme ended however, it remains 36,000 (31.7%) higher than its pre-pandemic level in February 2020.¹²

Demand for staff

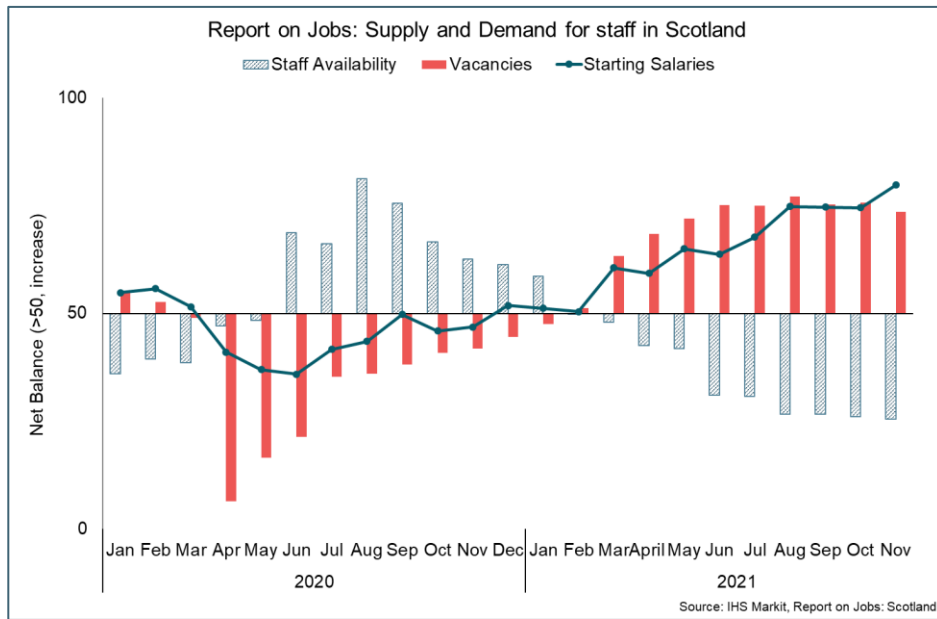
- The latest Report on Jobs also signalled that permanent and temporary staff placements continued to grow in November as businesses expanded their workforce in response to rising levels of demand.¹³ Demand for staff also continued to grow strongly, with job vacancies rising across Scotland for both permanent and temporary staff, though the pace of growth in demand

¹¹ [Earnings and employment from Pay As You Earn Real Time Information, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

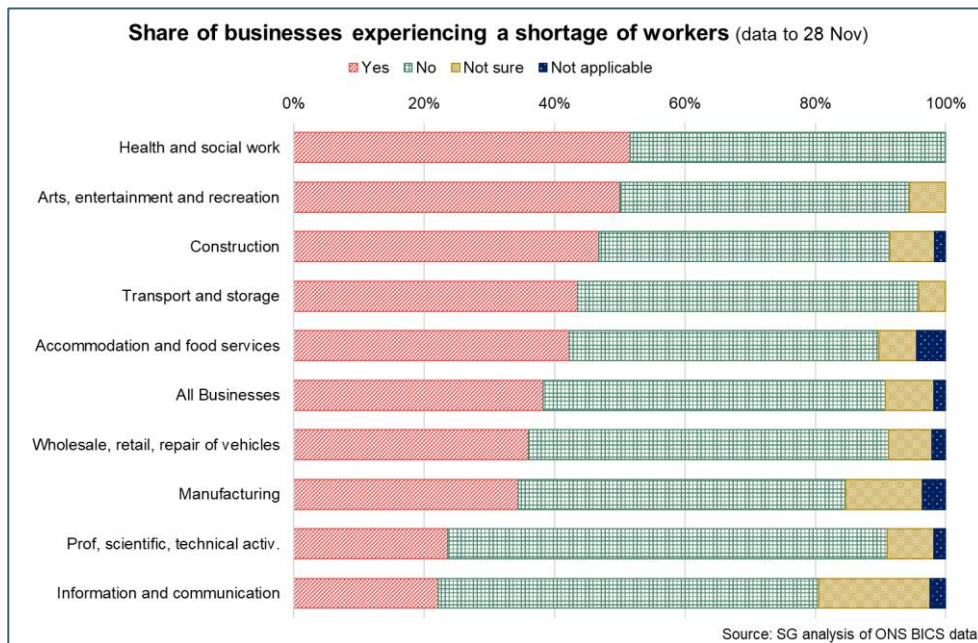
¹² <https://www.gov.scot/collections/labour-market-statistics/>

¹³ IHS Markit: RBS Report on Jobs for November: [93ab54ef41454eee87c84ce9ef383b65 \(markiteconomics.com\)](https://www.markiteconomics.com)

eased slightly from recent months. ONS Adzuna data shows online job vacancies in Scotland for the week to 10 December November were 33.1% higher than in February 2020.¹⁴

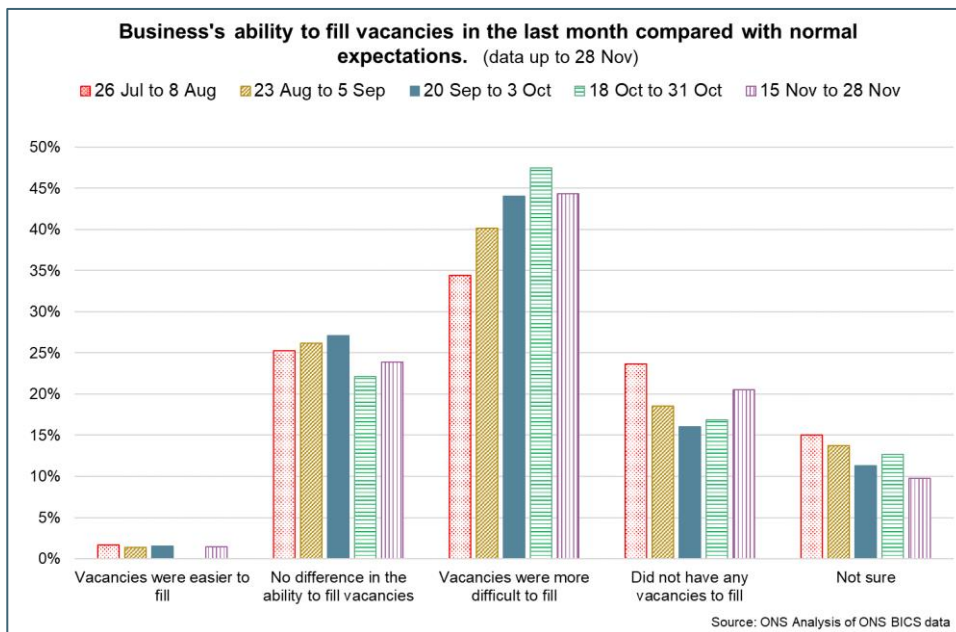


- The combination of relatively low unemployment (supported by the furlough scheme to the end of September), coupled with the recent rapid strengthening in demand for staff and sharp decline in candidate availability has resulted in further upward pressure on starting salaries and ongoing labour shortages affecting a range of sectors including haulage, construction, hospitality and food & drink.



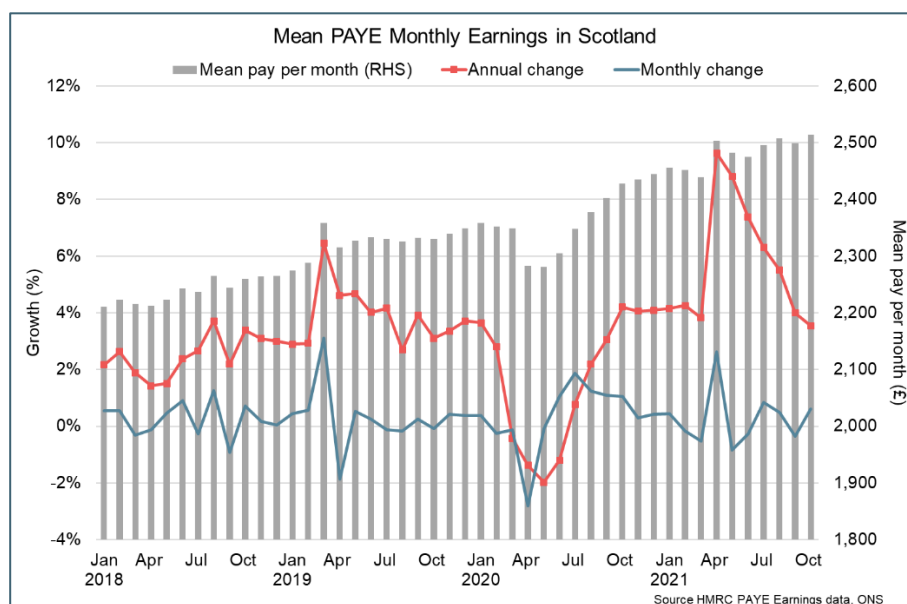
¹⁴ [Online job advert estimates - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

- Latest BICS data for November reported that 44% of businesses found vacancies were more difficult to fill than normal, while 24% found no difference and 2% reported vacancies were easier to fill.¹⁵



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 August 2020.¹⁶
- Following a slight fall in September, latest PAYE RTI data show mean monthly pay grew by 0.6% in October to £2,514 – up 3.5% over the year.¹⁷



¹⁵ [BICS weighted Scotland estimates: data to wave 44 - gov.scot \(www.gov.scot\)](https://www.gov.scot/bics-weighted-scotland-estimates-data-to-wave-44)

¹⁶ [Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/earnings-and-employment-from-pay-as-you-earn-real-time-information-seasonally-adjusted)

¹⁷ The rates of earnings growth during the pandemic need to be interpreted with caution as base effects, compositional factors and the furlough scheme have all influenced the data.

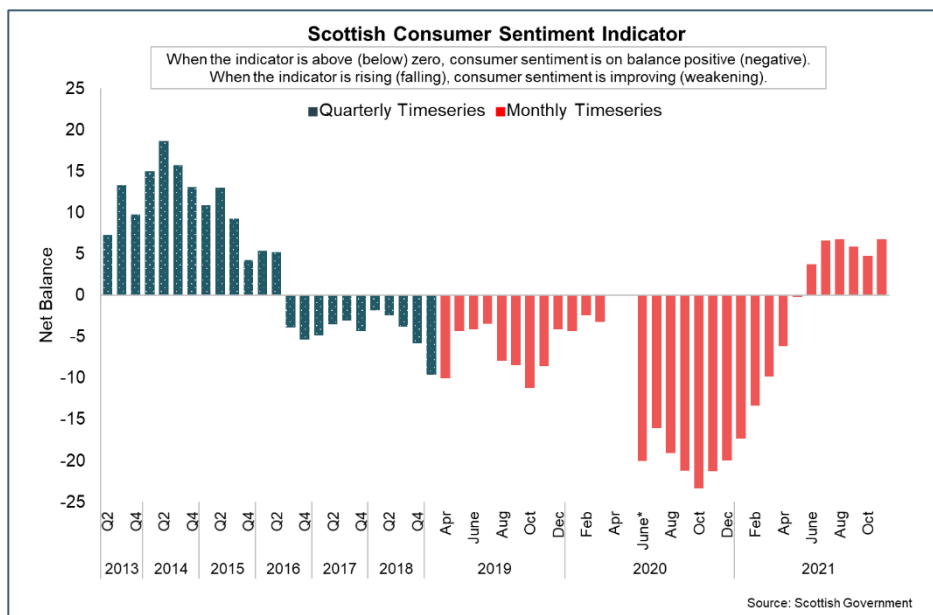
- Looking ahead, business survey data for November shows that the increase in demand for staff and shortage of availability has been reflected in further upward pressures on rates of starting pay for both permanent and temporary staff positions.¹⁸

Consumption

Consumer sentiment picked-up in November, supported by improved expectations for the economy and personal household finances.

Consumer sentiment

- Consumer sentiment indicators continue to be highly sensitive to the rapidly moving developments on the pandemic and the unprecedented economic impacts that we have seen.
- In November, consumer sentiment in Scotland strengthened, with the Scottish Consumer Sentiment Indicator rising 2.0 points to 6.8, having softened slightly over September and October.¹⁹ Overall consumer sentiment remains positive and notably improved from the series low levels of sentiment in the second half of 2020.²⁰



- The latest rise in consumer sentiment reflects an improvement in sentiment regarding current circumstances and expectations for the economy and household finances over the coming year.
- In terms of attitude to spending money, sentiment has strengthened significantly over the past year, consistent with the improvements in the economy and household finances indicators. However, latest data for November showed sentiment on this declined for a second month with the indicator remaining in negative territory.

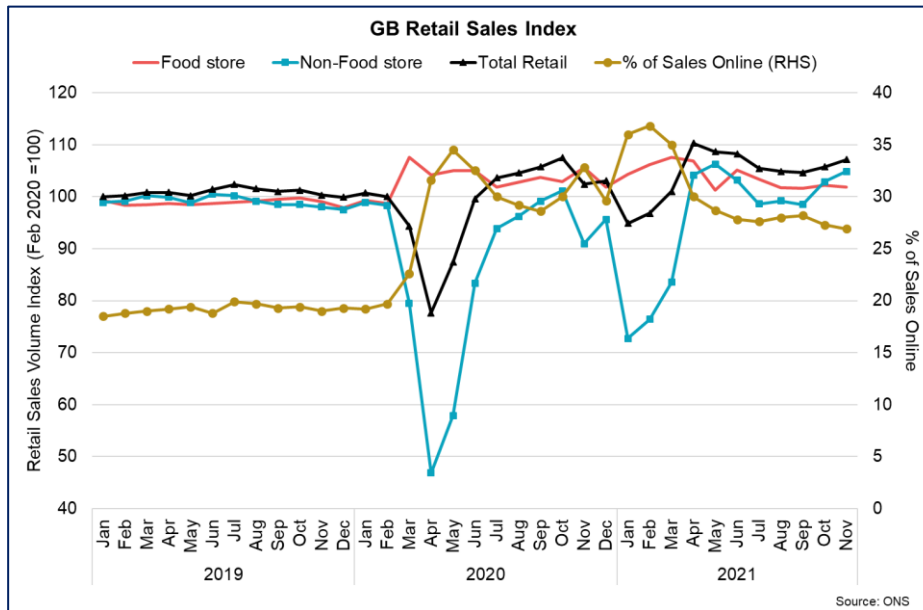
¹⁸ IHS Markit: RBS Report on Jobs: [93ab54ef41454eee87c84ce9ef383b65 \(markiteconomics.com\)](https://www.markiteconomics.com)

¹⁹ The latest consumer sentiment survey was undertaken between 27 October and 21 November 2021.

²⁰ [Economy statistics - gov.scot \(www.gov.scot\)](https://www.gov.scot)

Retail sales

- In November, retail sales in Great Britain rose by 1.4% on October and were 7.2% higher than their pre-pandemic level in February 2020.²¹
- Despite a 0.2% fall in the volume of food store sales in November, volumes were 3.2% higher than their pre-pandemic level. In contrast, non-food sales volumes rose by 2.0%, driven by growth in clothing stores (2.9%) and non-food stores (2.8%) such as computer, toy and jewellery stores, with retailers noting Black Friday and Christmas shopping.



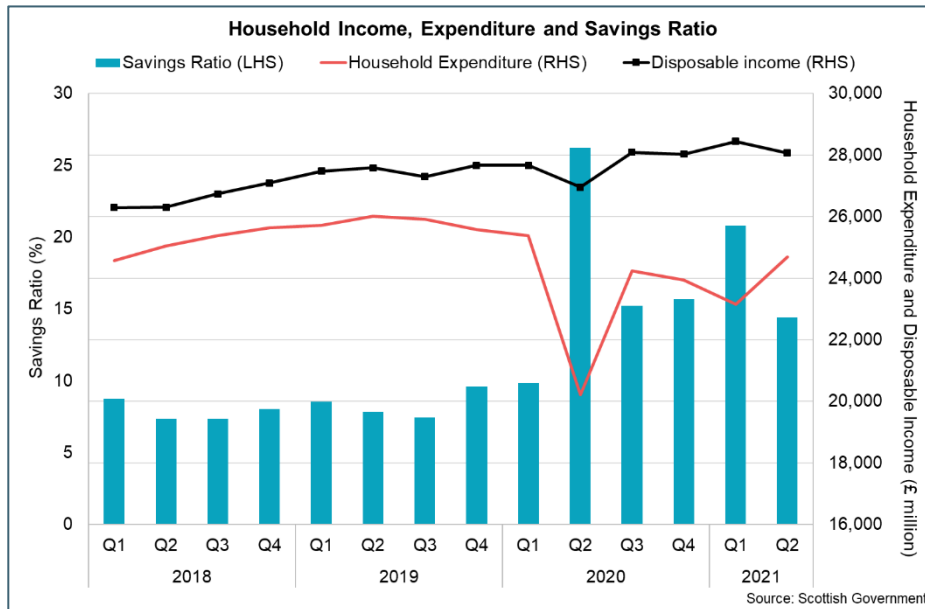
- On a monthly basis, the proportion of retail sales online was 26.9% in November, which has been trending down since its peak in February 2021 (36.8%). While the share of retail sales online has fallen back from earlier in the year, it remains substantially higher than in February 2020 prior to the pandemic (19.7%).

Household Savings and Consumer Credit

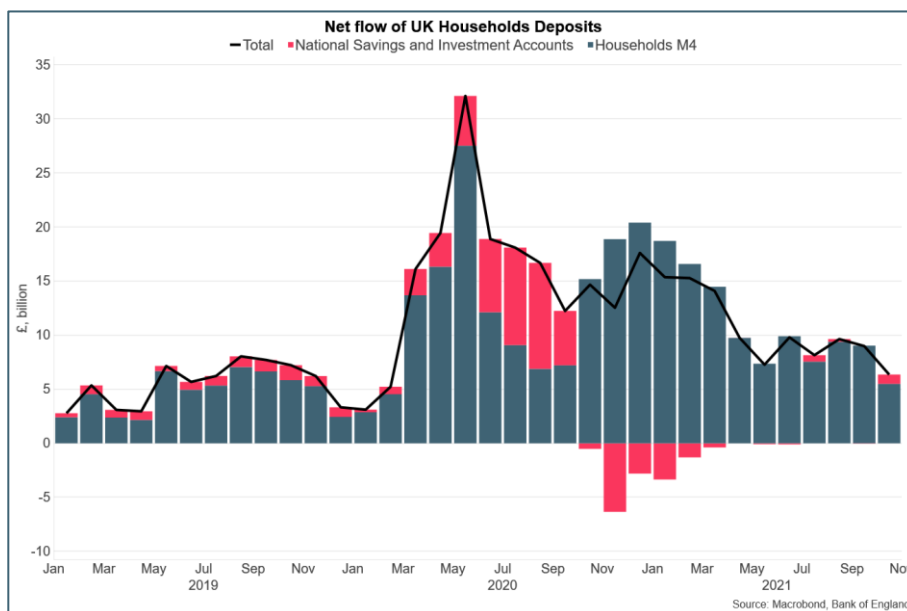
- At an aggregate level, households have increased their levels of savings during the pandemic due to a reduction in expenditure coupled with a rise in disposable income through the retention of earnings. This has been particularly evident during periods of lockdown in Q2 2020 and Q1 2021 when consumer facing services were largely closed.
- Following these peaks (26% and 21% respectively), the savings ratio fell over the second quarter to 14% reflecting, the pick-up in household expenditure as restrictions eased, however savings ratio remained notably higher than pre-pandemic levels (9.6% in Q4 2019).²²

²¹ [Retail sales, Great Britain - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

²² [Economy statistics - gov.scot \(www.gov.scot\)](https://www.gov.scot)



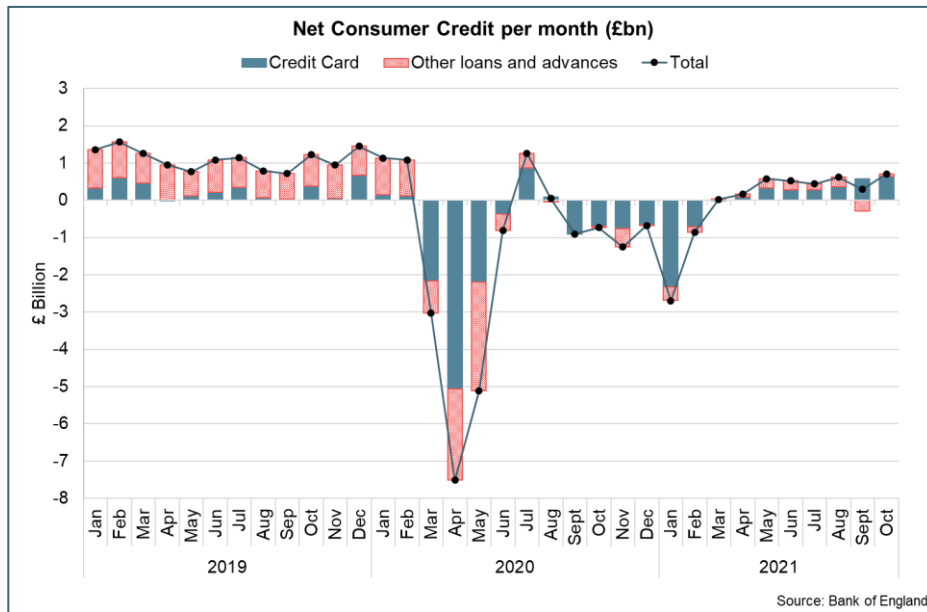
- More recent Bank of England data for October provide further insight at a UK level of how household savings have changed over the third quarter of the year. At an aggregate level, net flows from UK households into deposit-like accounts was £6.4 billion in October.²³ This is lower than in recent months during which the average monthly net flow into banks and building societies and national savings and investment accounts was £11.9 billion in the year to September 2021. However, the combined October net flow remains slightly higher than pre-pandemic flows when the average net flow in the year to February 2020 was £5.5 billion.



- Alongside this, net consumer credit fell significantly during the pandemic, however started to grow again over the second and third quarters and in October, consumers borrowed £0.7 billion in credit on net. Within this, they borrowed £0.6 billion in credit card debt and £0.1 billion of ‘other’ forms of consumer credit (such as card dealership finance and personal loans). Net

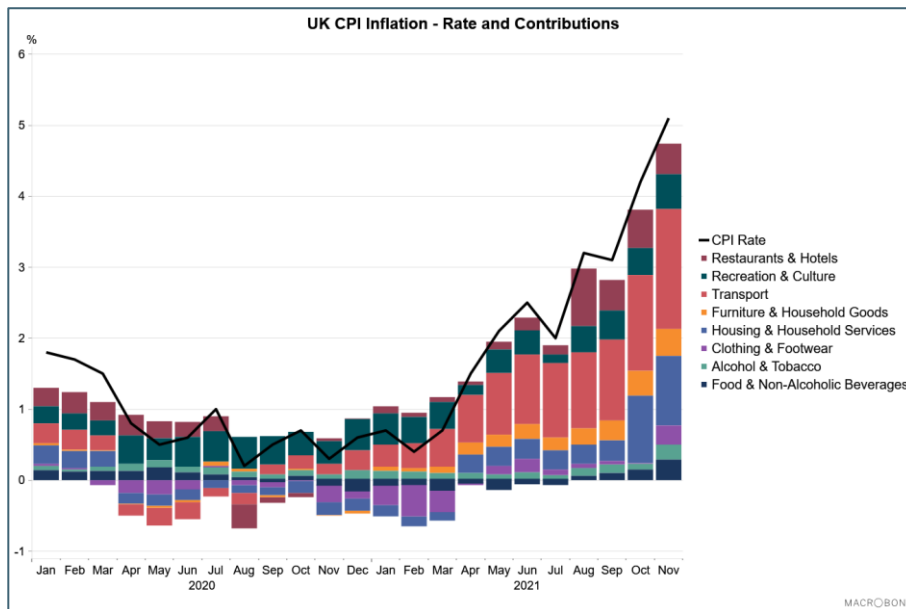
²³ [Money and Credit - October 2021 | Bank of England](#)

borrowing continues to remain lower than the pre-pandemic monthly average of £1.1 billion in the year to February 2020.



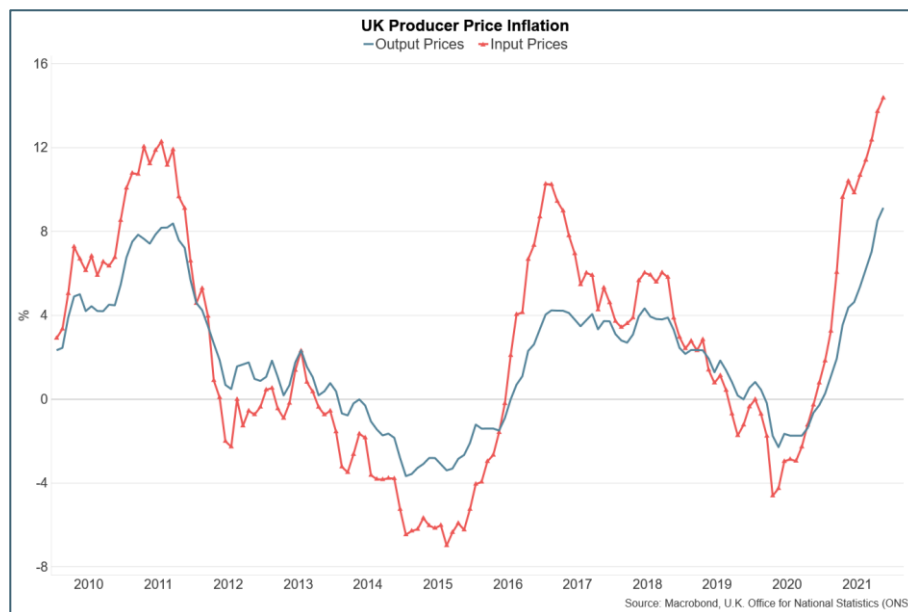
Interest rate and inflation

- UK CPI inflation was 5.1% in November, up from 4.2% in October, while the inflation rate in the US was 6.8% and 4.9% in the Eurozone. The UK CPI rate is the highest since September 2011 when it was 5.2%.



- UK inflation continues to rise, as forecast, in part reflecting the global rise in input cost pressures (raw materials) which are partially being passed through to consumer goods, base effects from price falls earlier in the pandemic (e.g. in energy), and increased business activity and demand.

- The largest contribution to the increase in November came from transport which increased by 25% over the month. Within transport, fuels and lubricants and the purchase of second-hand cars were the largest drivers of increased prices. The ONS reported that the price of petrol rose by 7.2 pence per litre between October and November 2021 and is the largest monthly rise on record (since 1990).²⁴ The used car market continues to be competitive with the easing of restrictions contributing to an increased demand and some buyers switching to second-hand cars due to a shortage of new cars caused by supplychain bottlenecks.
- The other largest upward contributions to the 12-month rate came from clothing and footwear, food and non-alcoholic beverages, and alcoholic beverages and tobacco.
- In terms of producer price inflation, input price inflation was 14.3% in November while output price inflation was 9.1%; both having increased compared to October.²⁵



- In response to the further rise in underlying inflationary pressures, at their December meeting, the Bank of England’s Monetary Policy Committee (MPC) increased the Bank Rate by 0.15 percentage points to 0.25%, with no change to the current programme of Quantitative easing.²⁶ The MPC noted that inflation in advanced economies has risen by more than expected in their November Monetary Policy Report and there are some signs of greater persistence in domestic cost and price pressures. In terms of the potential impact of Omicron, the MPC consider that it presents downside risks to economic activity in the short term, however, the medium term impacts on inflationary pressures remain unclear. The MPC expect CPI inflation to remain around 5% before peaking at 6% in April 2022.

²⁴ [Consumer price inflation, UK - Office for National Statistics](#)

²⁵ [Producer price inflation, UK - Office for National Statistics \(ons.gov.uk\)](#)

²⁶ [Bank Rate increased to 0.25% - December 2021 | Bank of England](#)

GDP growth outlook

Scottish economic output is forecast to return to pre-pandemic levels in 2022, however Omicron presents a new phase of downside risks and uncertainty.

- In September, Scotland's GDP recovered to 1.1% below its pre-pandemic level and is forecast to return to its pre-pandemic level in the first half of 2022.
- The most recent Scottish Fiscal Commission (SFC) forecasts from December expect the economy to grow 6.7% in 2021 before moderating to 3.8% in 2022 and 1.3% in 2023, and return to its pre-pandemic level in Q2 2022. Longer term COVID related scarring to GDP in 2025 is estimated at 2%. Unemployment is expected to peak at 4.9% in Q4 2021, reflecting some post-furlough job losses and some people who had stopped looking for work, re-joining the labour market.²⁷
- More recently, the Fraser of Allander Institute 2021 Q4 Economic Commentary forecasts Scottish GDP growth of 6.4% in 2021 and 4.7% in 2022 with the economy expected to return to pre-pandemic levels in May 2022.²⁸
- However, in both cases, the forecasts reflect on the uncertainty and downside risks to the outlook that Omicron presents; the extent to which will only start to emerge at a sector and aggregate level over the coming weeks as more information and data emerge.
- At a UK level, in November, the Bank of England revised down their UK GDP growth forecasts to 7% in 2021 and 5% 2022 (down from 7.25% and 6% respectively in August) reflecting the indicators of slower growth in the third quarter of the year. At their latest MPC meeting in December, they further revised down their expectations for UK GDP in 2021 Q4 by 0.5%, leaving it 1.5% below its pre-pandemic level, reflecting that the persistence of supply chain disruption alongside the emergence of Omicron and the additional COVID measures introduced will place downward pressure on GDP over the turn over the year. Reflecting the strength in labour market data following the end of the furlough scheme, they assume UK unemployment will fall to around 4% in 2021 Q4, compared with the 4.5% projected in the November report.^{29,30}
- The average of new independent forecasts (published monthly by HMT) in December forecast UK GDP growth of 7.0% in 2021 (this has remained stable since October) while the growth outlook for 2022 has fallen further to 4.7%.³¹

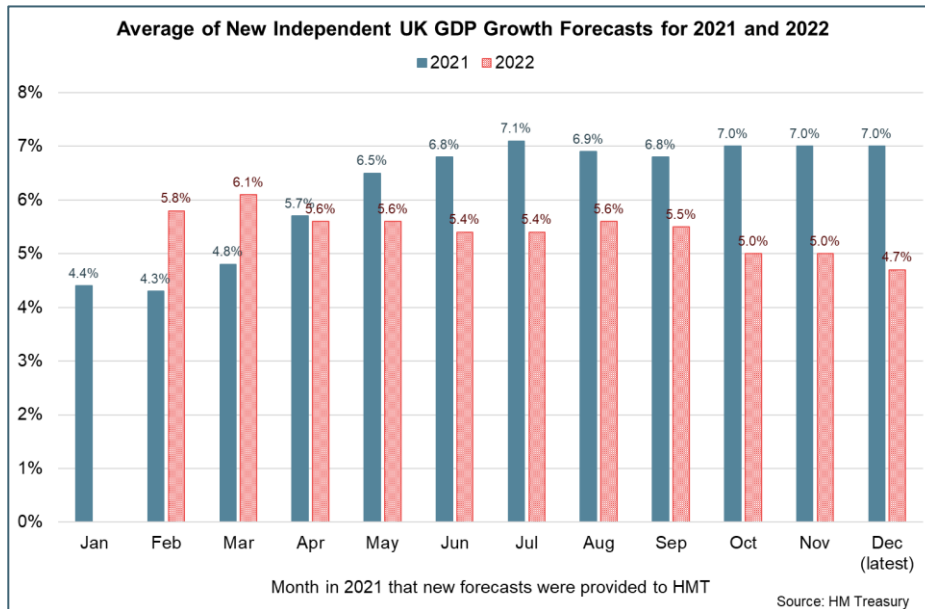
²⁷ [Scotland's Economic and Fiscal Forecasts – December 2021 | Scottish Fiscal Commission](#)

²⁸ [FAI Economic Commentary, 2021 Q4 | FAI \(fraserofallander.org\)](#)

²⁹ [Monetary Policy Report - November 2021 | Bank of England](#)

³⁰ [Bank Rate increased to 0.25% - December 2021 | Bank of England](#)

³¹ [Forecasts for the UK economy: December 2021 - GOV.UK \(www.gov.uk\)](#)



- At a global level, in October, the IMF forecast global GDP to grow 5.9% in 2021, easing to 4.9% in 2022.³² More recently in December, the OECD forecast the world economy to grow by 5.6% in 2021, 4.5% in 2022 and moderate to 3.2% in 2023, setting out that the economic recovery is progressing, but uncertainty remains high and imbalances continue to emerge.³³
- The pace and stage of recovery varies significantly across countries with the emergence of bottlenecks in global supply chains and a sharp rise in inflationary pressures weighing on the pace of recovery in recent months. The emergence of Omicron presents further significant uncertainty and risks to these imbalances and the pace of recovery.

³² [World Economic Outlook, October 2021 \(imf.org\)](https://www.imf.org/external/pubs/ft/weo/2021/02/)

³³ [OECD Economic Outlook](https://www.oecd.org/economic-outlook/)



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