

# **Update on Economic Impacts.**

**Office of the Chief Economic Adviser  
Cross Party Group Meeting**

**2 June 2021**

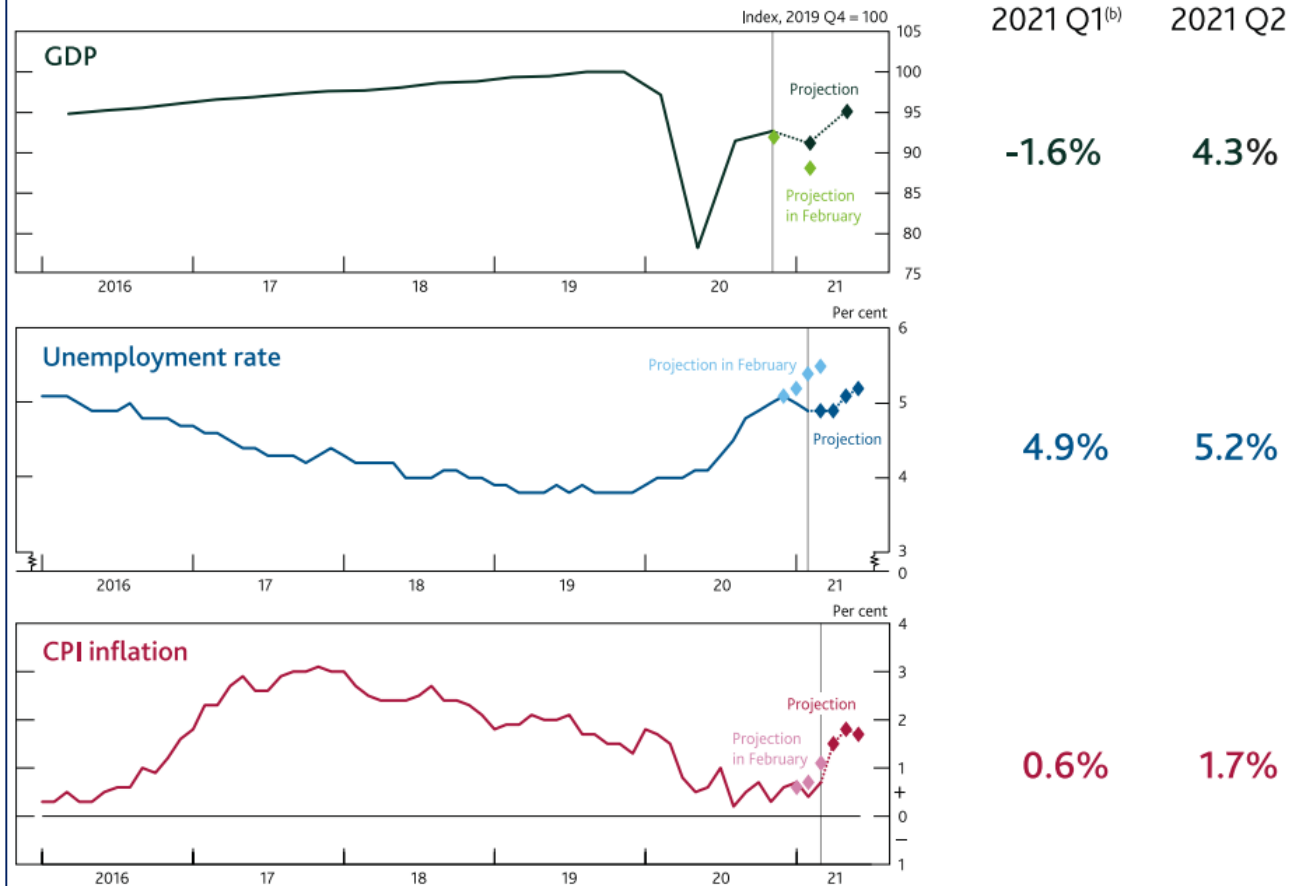


**Scottish Government**  
Riaghaltas na h-Alba  
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The Bank of England forecast UK GDP to grow 7.25% in 2021, returning to pre-pandemic levels in Q4 2021, while unemployment is expected to peak at 5.5% and inflation rise to near its 2% target.

Chart 2.1: GDP is expected to increase in 2021 Q2; unemployment is expected to rise a little; and inflation is expected to rise closer to the target.

Near-term projections<sup>(a)</sup>



Sources: ONS and Bank calculations.

(a) The lighter diamonds show Bank staff's projections at the time of the February 2021 Monetary Policy Report. The darker diamonds show Bank staff's current projections.  
 (b) GDP and unemployment projections are based on official data to February. CPI inflation figure is an outturn.

### Bank of England

#### GDP

- UK GDP fell 1.5% in Q1 2021, reflecting the lockdown restriction in place.
- GDP is expected to grow strongly in Q2 as restrictions ease.

#### Unemployment

- The unemployment rate has remained broadly stable over the past few months supported by the furlough scheme.
- Unemployment is expected to rise in Q2 as more people currently out of work begin searching for jobs.

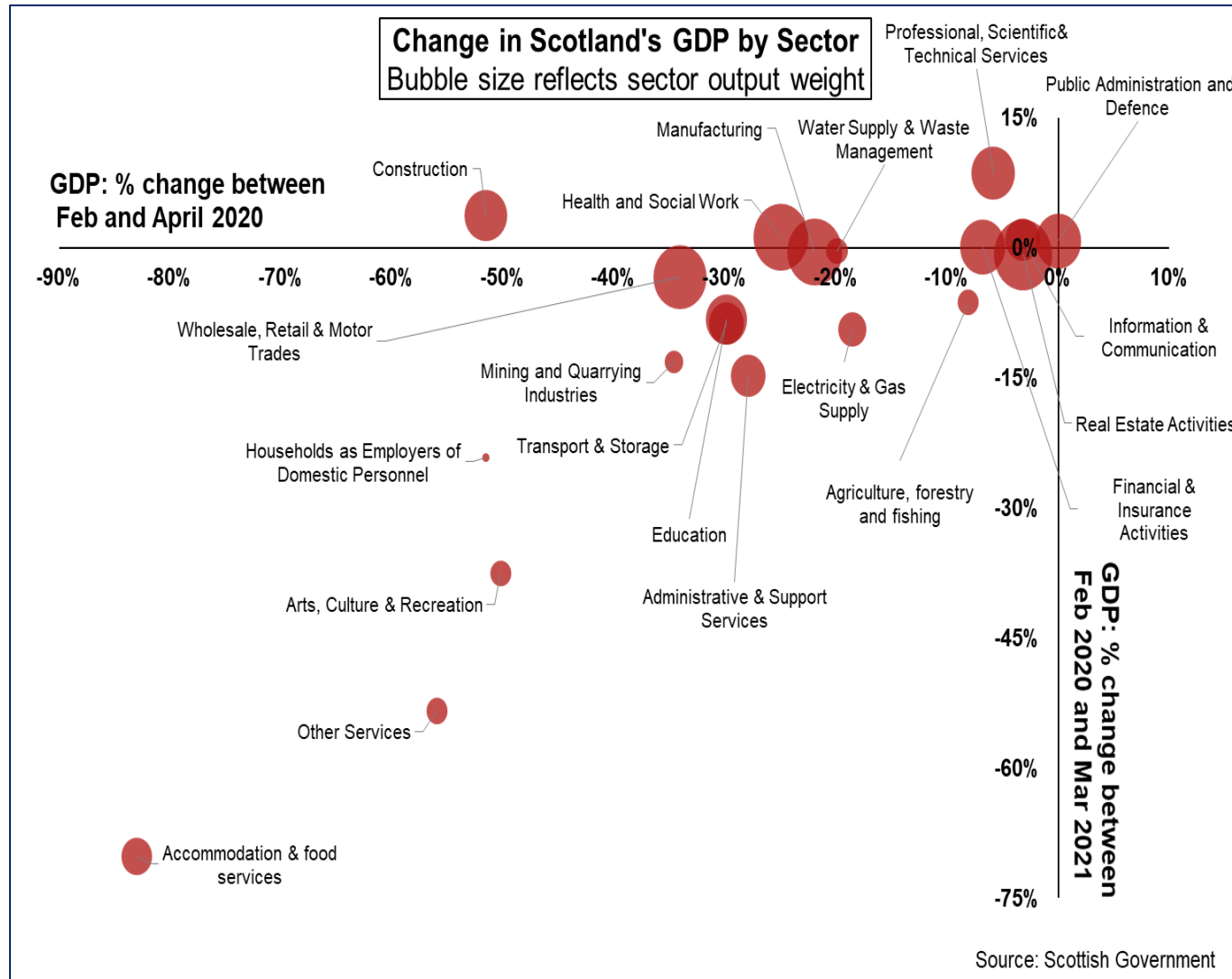
#### Inflation

- Energy prices, the cut to VAT and weak demand has weighed on inflation over the past year (0.6% in Q1 2021).
- Inflation is expected to rise towards 2% from Q2 as some of these effects fade.

#### Latest OECD global growth forecasts

- Global economic growth is now expected to be 5.8% this year, an upward revision from the December 2020 projection of 4.2% for 2021.
- The vaccine rollout in many advanced economies and the large fiscal stimulus in the United States is driving this improvement.

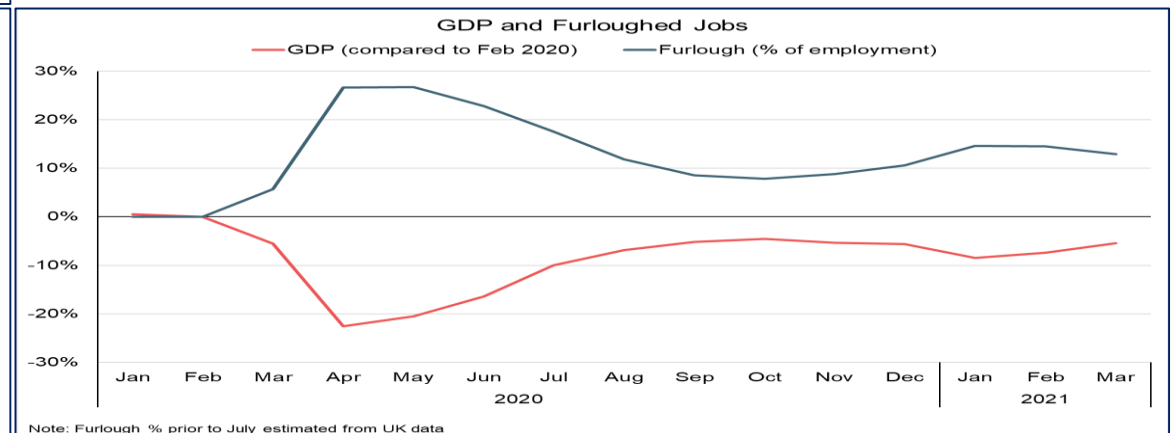
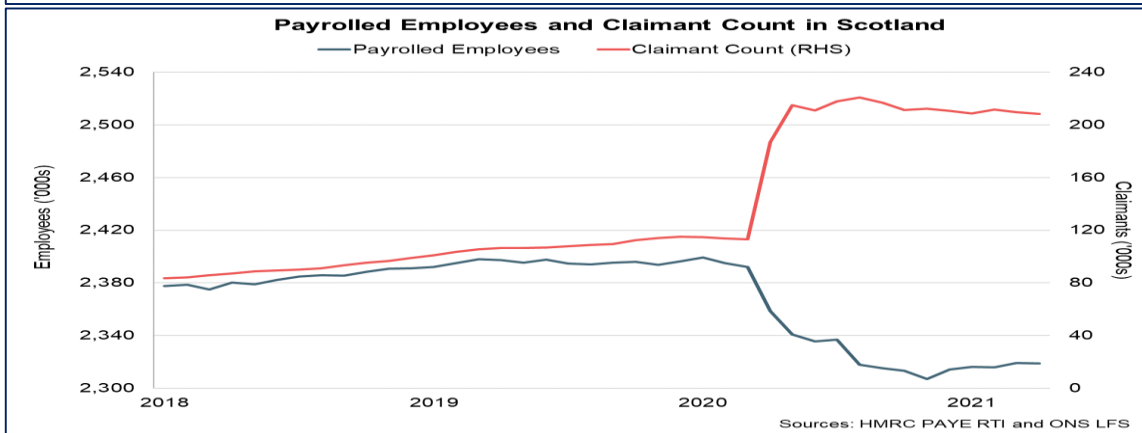
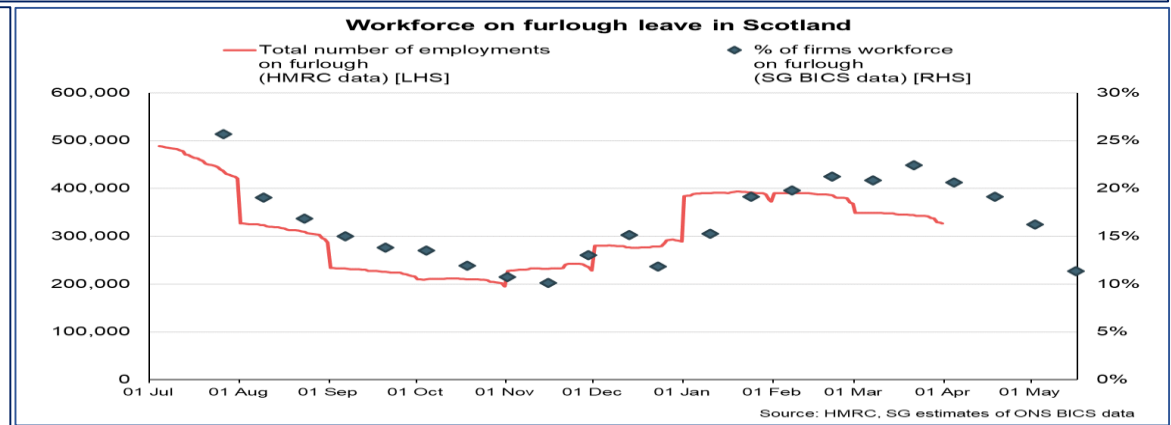
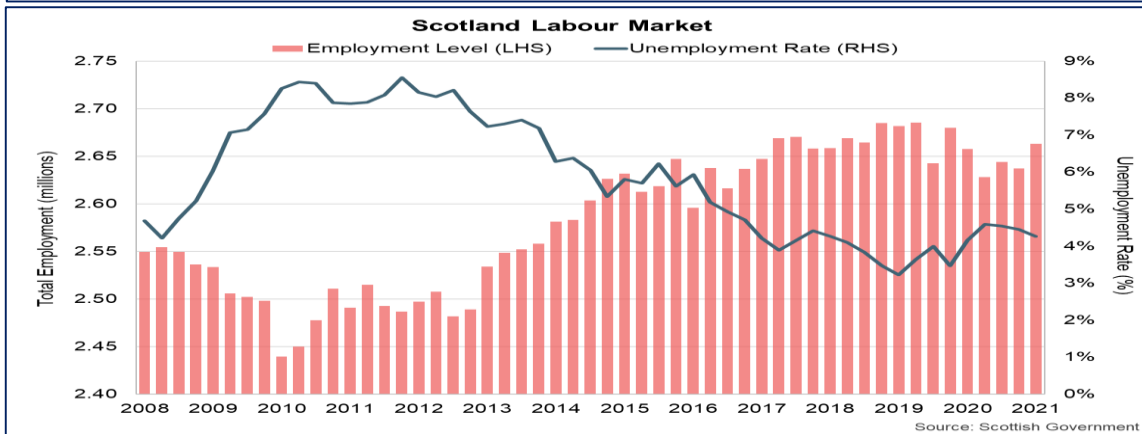
## Recovery from the national lockdown in 2020 is unequal across sectors with some recovering close to pre-pandemic levels whilst others continue to lag behind.



- Scotland's GDP fell 23% over March – April 2020 during national lockdown. This varied significantly by sector. E.g. Accommodation and Food output fell 83% while Financial and Insurance Activities fell 7%.
- Scotland's output grew for six consecutive months between May and October as restrictions eased, however fell again between November and January as restrictions tightened before growing in February (1.2%) and March (2.1%).
- In March, Scotland's GDP is 5.4% below its pre-pandemic level in Feb 2020 (UK: -5.9%) and is 0.9% below its most recent high point in October 2020 (UK: -1.1%).
- The pace of recovery back to pre-pandemic levels of output has varied significantly by sector, reflecting the impact of restrictions during the year. E.g. In March 2021, Accommodation and Food output remains 70.2% below its level in Feb 2020, while Manufacturing output (which fell 21% over March-April 2020) has recovered to its pre-pandemic level.
- The size of sectors and their share of overall output in Scotland, impacts on total GDP. E.g. the Service sector makes up 77% of Scotland's output, Construction, 6% and Production, 16%, (which includes Manufacturing (10%).
- The Accommodation and Food sector accounts for 3.2% of output. Collectively, the 4 sectors that remain furthest below their level of output in February account for c7% of Scotland's output.

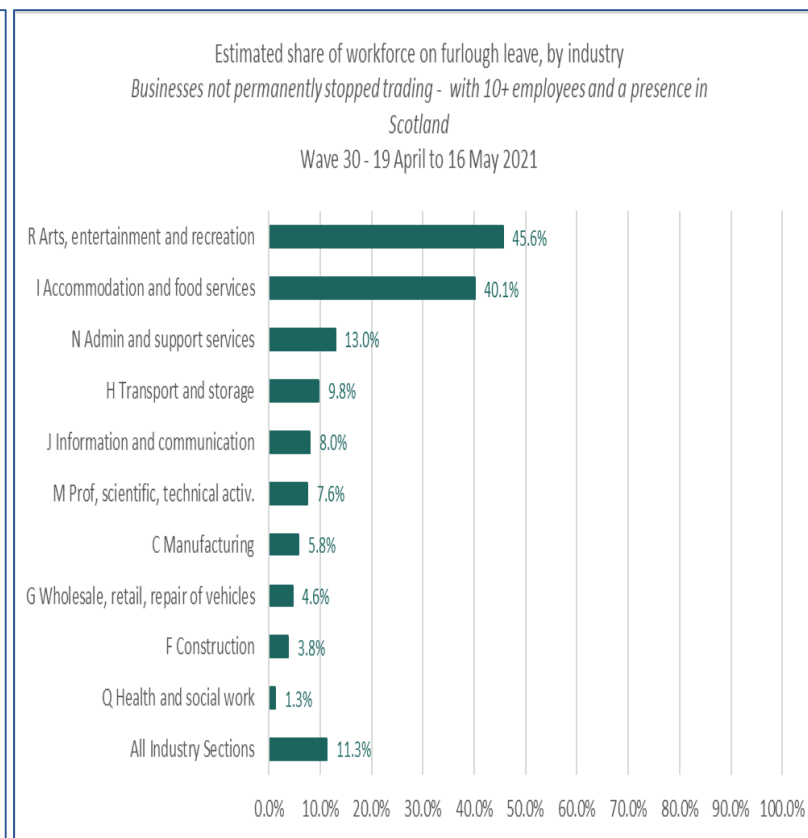
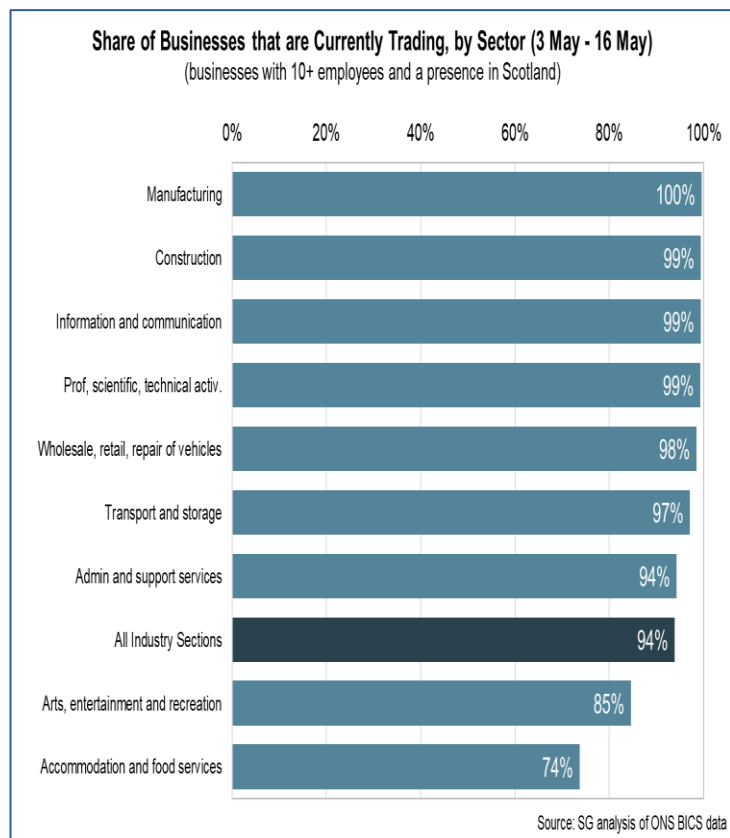
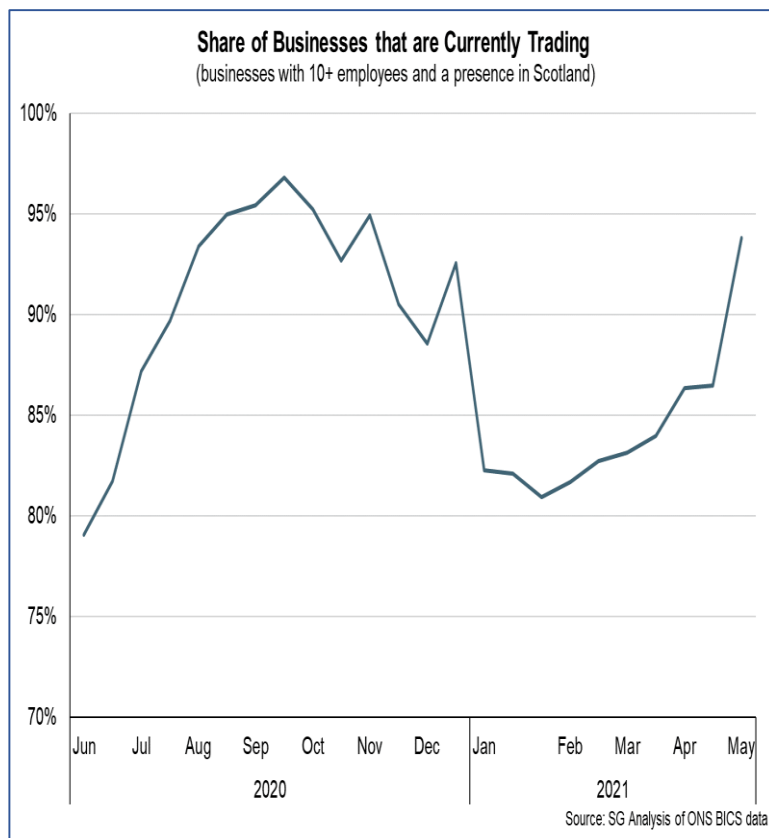
# The furlough scheme has supported the labour market and cushioned the impact when output has fallen.

- Scotland's unemployment rate remained low at 4.3% in Q1 2021 (UK: 4.8%), up 0.1 p.p over the year. The young person's (16 – 24 years) unemployment rate remains notably higher at 13.5% in Jan-Dec 2020 (up 5.2 p.p over the year).
- At the end of March, 327,100 employments (14%) were on the furlough scheme. The number of employments on furlough has fallen by 41,000 since the end of February and business survey data indicates that this has continued to fall across April and May and is now 11.3%.
- Scotland's Claimant Count (claimants of Jobseekers Allowance and Universal Credit claiming principally for the reason of being unemployed) decreased by 0.7% in April to 208,400 though remains 94,700 (83%) higher than February 2020.
- The number of Payrolled employees remained broadly stable in April (down 384 over the month) and has increased by 11,724 (0.5%) since November. However, payrolled employees have fallen 76,358 (-3.2%) since February 2020.
- Business survey data indicates that that recruitment activity has stabilised and strengthened in March and April as restrictions start to ease.



## As the economy reopens, the share of businesses trading has increased and the share of jobs on furlough has decreased but sectoral differences are notable.

- The share of business trading has increased from around 82% in January 2021 to 94% in the first half of May.
- Over the same period, consumer facing sectors such as Accommodation and food services (74%) and Arts, culture and recreation (85%) continue to have the lowest shares of businesses trading due to the direct impacts of restrictions. However, they had the largest proportion of businesses that resumed trading during the previous fortnight (32% and 18% respectively) as restrictions eased.
- The proportion of staff on furlough continued to fall and in mid May the overall share is now 11.3%, down from 16.3% in mid April.
- Over the same period, the sectors with the highest share of jobs furloughed across Scotland were Arts, entertainment and recreation (45.6%) and Accommodation and food services (40.1%).



## Visits to retail and entertainment hubs in Scotland have increased steadily in the first quarter but remain below baseline levels, while there are signs visits in Glasgow has slowed with most recent restrictions.

- Visits to retail and entertainment hubs in Scotland are currently around 15% below pre-pandemic levels.
- This compares to around 60% below pre-pandemic levels at the beginning of 2021.
- The Glasgow City and Moray Local Authorities did not initially move to Level 2 on the 17<sup>th</sup> May alongside the rest of Scotland
- Moray has since moved to level 2 on the 22<sup>nd</sup> May (data not yet available).
- In general, Glasgow City is below the Scottish average in terms of change in visits to retail and entertainment hubs relative to pre-pandemic levels.
- As Glasgow currently remains in Level 3 there is evidence that visits in Glasgow city fallen back recently.

*Data covers visits to restaurants, cafes, shopping centres, theme parks, museums, libraries, movie theatres and similar locations*

