

## **SCOTTISH ECONOMY FACES DARKEST STAGE BEFORE DAWN OF**

### **VACCINATION** Key highlights:

- Pre-Brexit manufacturing sales: A rise in demand from export markets ahead of end of year changes to trading rules boosted sales for manufacturers although domestic sales remained weak.
- Lockdown effects: Tourism sector businesses in fight for survival as confidence plummets and expectations for 2021 hit record lows.
- Business confidence: Although some sectors such as financial and business services and manufacturing saw confidence return to positive territory for the first time in 2020, all sectors remain negative on plans for investment dampening hopes of a bounce-back recovery.
- Employment faltering: All sectors have reported lower levels of employment. The extension of the furlough scheme continues to mask the worst impacts of the pandemic, but it is not a panacea to the real risk of mass unemployment over the spring.

Significant parts of the Scottish economy face worsening conditions due to the pandemic before restrictions are set to ease this year, according to the Scottish Chambers of Commerce (SCC) Quarterly Economic Indicator (QEI).

Scotland's largest business network has called on the UK and Scottish Government to put in place a sustained programme of business support, particularly for the hardest hit sectors, to support economic recovery throughout 2021.

### **Tim Allan, President of the Scottish Chambers of Commerce, said:**

"Last year was the most challenging year in living memory for many of us. In addition to the risk to health we all face as a result of Covid-19, restrictions imposed have created an ongoing recession and a jobs crisis which will likely take years to recover from.

"We were hoping 2021 would be a better year than 2020 but it seems it is always darkest before the dawn. We fear the restrictions that have been imposed to prevent the spread of the new variant of the virus will continue to destroy more jobs and businesses unless government support can ease the impact of closures and deliver an environment to enable economic recovery.

"Investment, particularly in green jobs and energy transition, will be key if the economy is going to be built back better and sustainably. For this to happen governments at all levels must be prepared to work hand in hand with the business community to attract and focus investment on where it will have the greatest impact."

**Commenting on the results, Mairi Spowage, Deputy Director at the University of Strathclyde's Fraser of Allander Institute, said:** "We have discussed for some months the prospect of a "K-shaped" economic recovery in Scotland. This is the idea that different sectors have been impacted very differently by the lockdown measures and have experienced divergent pathways in recovery.

"We can see from today's survey results that hospitality and tourism in particular has been badly impacted, with further lockdown measures likely to cause more hardship for the industry. Other industries, such as construction, have been able to adapt to the restrictions they face and operate almost at full capacity, but possible announcements on further restrictions for this sector are likely to act as a new blow. The length of any new lockdown on construction will be key to the ripple effects this has for the wider economy.

"In these challenging and uncertain times, the Scottish Government will set out their budget for 2021-22 on 28th January. The backdrop to the budget will be significant uncertainty around the economic and health outlook; ongoing intergovernmental tensions on a variety of matters including funding flexibility and certainty; and of course the Scottish elections in May.

"Businesses are likely to hope for a range of measures in the form of continued government support and practical proposals to stimulate economic recovery."

**On the manufacturing sector:**

"The return to business optimism is highly welcome but unlikely to be repeated in the first quarter of 2021, because the main driver was getting goods in and out before the trading rules to the European Union changed. Most welcomed the deal even if it was agreed at the last minute and we are only now reckoning with challenges arising at the border. The sector must be adequately supported through the changes to trading rules with Europe, which will impact vital industries such as aviation and automobiles as well as their supply chains."

**On retail and wholesale:**

"On and off again restrictions on operations have taken a toll on these businesses as have sharp reductions in footfall driven by the working from home trend and the move to online sales. These will require a sustained strategy of government support and stimulation to aid recovery. An extension of business rates relief beyond April will be key to preventing a destructive cliff edge scenario. A rethink of how we inhabit our town and city centres is also required, to ensure that in the long-term, businesses based in these centres have a long-term viable future."

**On tourism:**

"This sector contains a range of business operations across leisure, food services and events, and almost all face devastation until vaccines mean they can return to as normal trading as possible. As this now looks unlikely before well into the second half of 2021, government

needs to take a long hard look at how it can support this key sector of the economy or risk setting it back decades with all the consequences for joblessness and poverty that entails.

“Steps must be taken to safeguard the future of our visitor economy, as restrictions gradually ease through 2021, we must see renewed effort by government and agencies to boost Scotland’s profile as a place to visit and invest in.”

**On the construction sector:**

“Pent up sales demand released after the first lockdown has given the sector a little breathing space, but overall profits and cash flow are well below average trend. Even before the end of the Brexit transition period, concerns over higher raw material prices and other cost overheads including inflation and taxation reached record highs. To help mitigate some of the increased cost burdens that the sector is facing, we call upon the UK Government to scrap the reverse VAT charge altogether or at minimum, delay its implementation date for a further 12 months.”

**On financial and business services:**

“The sector to have emerged from 2020 with the least damage is financial and business services, where most employees were able to adapt to working from home. Sales trends returned to a positive net balance albeit this remains subdued compared to last year.

“While these businesses have adapted well, it leaves our town and city centres in limbo and data shows that Scotland’s major city centres are suffering from massively from reduced footfall and investment. Office-based businesses in this sector are ready to start supporting the rejuvenation of city centres devastated by the lockdown. That’s why we must plan now for a safe and sensible approach for a phased return to the option of office working.”