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UK recession – what can we expect for Scotland?

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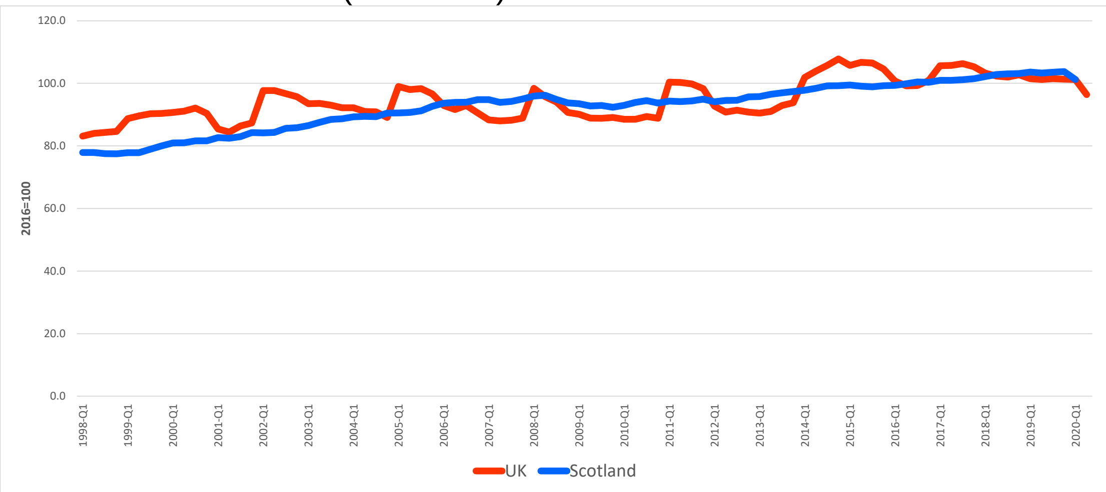
The Office for National Statistics published its estimates of Gross Domestic Product (GDP) for the second quarter of 2020 this week and officially announced that the UK was in a recession (i.e., when the value of goods and services produced falls for two consecutive quarters).

As part of the publication, the ONS also provided quarterly and monthly estimates of production indices (i.e., volume indices) for different industries. Unfortunately, due to confidentiality, this disaggregation is not available for Scotland but at least for two sectors (Agriculture, Forestry and Fishing and Food, Beverages and Tobacco) it is possible to make a comparison. This is shown in Figure 1 and 2.

Figure 1 - UK and Scotland - Agriculture, Forestry and Fishing – quarterly chained volume indices (2016=100) – 1998-2020



Source: ONS and Scottish Government

Whilst the latest statistics for Scotland are for the first quarter of 2020, the ONS provides UK level information for the second quarter. Given the size of the aggregated figure, one can safely assume that the UK trend approximately represents the evolution of England.

As shown in Figure 1, Agriculture, Forestry and Fishing in Scotland and the UK, show a similar increasing trend since 1998, although the UK figures are more cyclical. The estimates indicate that the Scottish figure showed a decrease in the first quarter of 2020 (2.5 per cent compared to the last quarter of 2019) whilst the UK figure only decreased marginally (0.9 per cent). The

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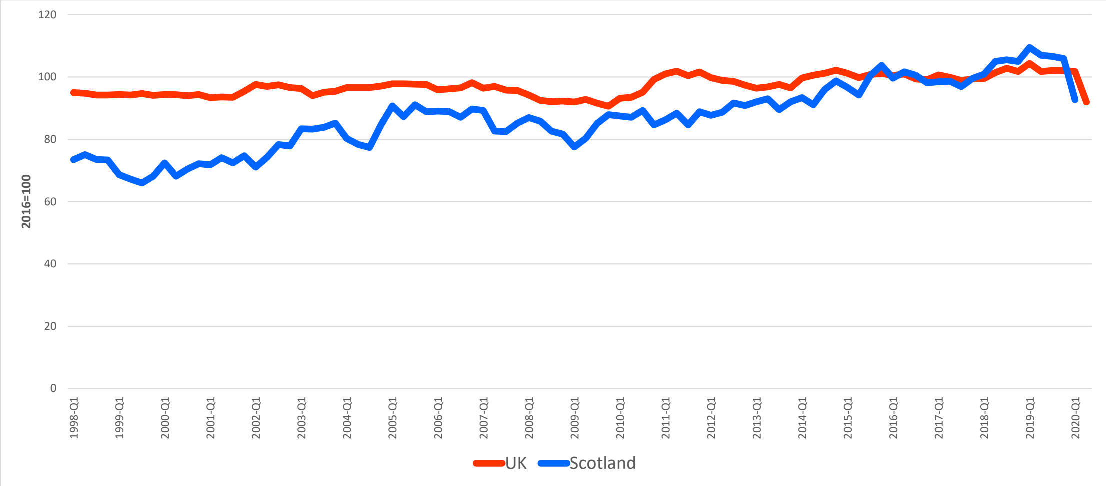
second quarter of 2020 shows the full COVID-19 effect for the UK with a decrease of 4.8 per cent.

Figure 2 - UK and Scotland - Food, Beverages and Tobacco – quarterly chained volume indices (2016=100) 1998-2020



Source: ONS and Scottish Government.

Figure 2 shows that the Scottish production of the Food, Beverages and Tobacco sector has been growing at a faster rate than the UK since 1998 until the first quarter of 2020 when it decreased by 12.5 per cent compared to the last quarter of 2019. In contrast, the big decrease in the UK sector was in the second quarter of 2020 (9.9 per cent).

It is not difficult to expect that the Scottish agri-food sector is going to follow a similar pattern to the one shown by the UK figure as the big hit in production due to the COVID-19 pandemic happened during the second quarter of 2020 and the lockdown in Scotland was perceived as stricter than in England.

Table 1 was also produced using the ONS information published this week and shows the most recent indices focusing on the food production and related services sectors. Except for the manufacture of dairy products and grain mill products, which showed similar production levels to the pre-COVID-19 period, all other sectors were affected.

In most cases, the lowest point of production happened in April, after which all the sectors started to show some recovery but without reaching the January-February 2020 levels. The penultimate column of Table 1 presents the average monthly rate of recovery (recovery growth) from the minimum value between March to May to the latest value in June. These rates are high and probably will not be maintained at those levels.

Using the average monthly recovery growth, it is possible to calculate - for illustrative purposes - the number of months that would be required at that rate to reach the pre-COVID levels of January-February 2020. For the food sector, it is about four months (say by the end of August), whilst for the services sector is six months (by the end of October). There are, however, important differences by sector. Thus, whilst manufacturing of vegetables and animal oil and fats would require only 0.8 of a month to reach the pre-COVID levels, other sectors such as the manufacture of other food products or prepared animal feed, at their observed growth rates, would require far more time.

In the service sector, accommodation and food services were the most affected, particularly the accommodation sector which is still showing a low rate of recovery which is associated with consumers' (domestic and foreign) weak confidence.

As a conclusion, if the figures in Table 1 can be extrapolated to the Scottish (and UK in general) situation, they highlight that several sectors will require additional help if the furlough scheme is going to end in October.

Table 1: COVID-19 effect on UK food manufacturing and selected service industries
Chained volume indices (2016=100)

Sectors	2019	2020 Indices					Change wrt January-February 2020 (%)				Recovery growth 1/ (%)	Months to pre COVID 2/
	Average index	January February	March	April	May	June	March	April	May	June		
Total production industries	101.3	100.2	96.0	76.4	81.1	88.7	-4.14	-23.71	-19.02	-11.43	7.75	3.63
Total manufacturing	101.3	100.3	95.4	71.9	77.9	86.4	-4.84	-28.28	-22.29	-13.82	9.62	3.62
Food products, beverages and tobacco	102.6	101.8	102.0	89.5	91.6	94.9	0.20	-12.08	-10.02	-6.78	2.97	4.40
Food products	106.6	106.2	108.0	97.9	98.8	101.8	1.74	-7.77	-6.92	-4.10	1.97	4.14
Processing/preserving of meat and meat products	113.7	112.3	114.8	100.7	103.8	109.3	2.23	-10.33	-7.57	-2.67	4.18	2.66
Processing/preserving of fish and seafood, fruit and vegetables	103.8	106.8	109.3	96.7	101.1	103.7	2.39	-9.41	-5.29	-2.86	3.56	2.83
Manufacturing of vegetables and animal oil and fats	103.0	105.2	107.3	103.2	105.9	108.2	2.00	-1.90	0.67	2.85	2.39	0.81
Manufacture of dairy products	95.1	97.5	98.4	100.1	98.3	97.8	0.97	2.72	0.87	0.36	..	..
Manufacture of grain mill products	94.6	81.3	95.1	89.4	85.3	94.2	16.97	9.96	4.92	15.87	..	..
Manufacture of bakery and farinaceous products	104.4	101.8	103.2	91.8	92.3	97.7	1.38	-9.82	-9.33	-4.03	3.16	3.32
Manufacture of other food products	110.2	111.8	111.6	99.5	100.1	100.7	-0.18	-11.00	-10.47	-9.93	0.60	19.44
Manufacture of prepared animal feed	112.7	112.7	111.8	109.2	109.2	109.6	-0.75	-3.06	-3.06	-2.71	0.18	17.01
Manufacture of alcoholic beverages and tobacco	81.9	76.9	70.6	53.6	56.6	59.7	-8.19	-30.30	-26.40	-22.37	5.54	6.70
Manufacture of soft drinks	111.7	117.8	115.6	89.3	101.3	108.4	-1.87	-24.19	-14.01	-7.98	10.18	2.86
Electricity, gas, steam, and air conditioning supply	95.0	91.6	89.8	81.9	81.8	85.2	-1.91	-10.54	-10.65	-6.94	4.16	2.77
Water supply, sewerage, waste & remediation activities	104.2	105.7	105.4	98.0	98.5	102.5	-0.28	-7.28	-6.81	-3.03	2.27	3.37
Total service industries	105.5	106.2	98.2	80.1	81.2	87.5	-7.53	-24.58	-23.54	-17.61	4.52	6.38
Distribution hotels and restaurants	108.4	108.7	92.7	57.9	65.4	83.9	-14.68	-46.71	-39.81	-22.78	20.38	3.39
Wholesale trade	113.1	113.1	105.8	82.5	90.5	104.1	-6.45	-27.06	-19.98	-7.96	12.33	2.71
Retail trade	107.5	107.5	101.7	83.4	93.7	106.7	-5.35	-22.38	-12.80	-0.70	13.11	2.06
Transportation and storage	105.9	105.9	91.8	64.5	68.3	79.7	-13.27	-39.06	-35.47	-24.70	11.16	4.68
Accommodation and food services	107.4	107.4	73.6	10.0	10.6	17.8	-31.44	-90.68	-90.13	-83.42	33.42	8.23
Accommodation	109.2	108.5	60.7	8.9	7.1	7.8	-44.03	-91.79	-93.45	-92.81	9.86	28.99
Food and service beverage activities	106.6	106.9	79.2	10.5	12.1	22.2	-25.91	-90.18	-88.68	-79.23	45.41	6.20

Source: Based on ONS data
Notes:
1/ Seasonally adjusted production and services indices.
2/ Monthly growth rate from the minimum in 2020 to June.
3/ Number of months required to reach the January-February level at the recovery growth rate.