

CBI

THE CBI SCOTTISH PRODUCTIVITY INDEX 2024



**The CBI serves as the catalyst
between industry and government to
drive positive change, speaking for
businesses of all sizes and sectors
across the whole economy, in every UK
region and nation, ensuring sustainable
growth for the benefit
of society.**

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Foreword CBI

Foreword by Tracy Black, Scotland Director, Chief Strategy Officer, Devolved Nations and Regions Ambassador

We publish this year's CBI- Productivity Index, supported by Fraser of Allander Institute, University of Strathclyde, a year on since Humza Yousaf MSP took up the position as First Minister. Once again, we are calling for economic growth to be at the heart of the Scottish Government thinking.

The First Minister has a critical task ahead – steering the Scottish Government towards a renewed focus on economic growth. The discussions around Scotland's potential have lingered for too long, and without decisive action, the window of opportunity narrows as the race to achieve Net Zero by 2045 intensifies.

In this pursuit, every sector and region of Scotland must contribute significantly. However, as the deadline approaches, it's imperative to elevate our efforts. As a collective, we must move beyond mere discussions of ambitious goals and instead take bold, immediate actions to ensure tangible progress – acting swiftly before time runs out.

The productivity index for this year underscores that, despite certain positive short-term shifts in the indicators, numerous enduring challenges persist in the quest for a more productive economy.

The most prudent course of action for the government is to foster an environment conducive to business investment that fuels sustainable growth and positions Scotland on the global stage. Achieving this necessitates providing firms with policy stability and the confidence to expand their investments and enhance our economic capacity.

One of the most concerning figures from this year's report is the decrease in Business R&D spend as a % of GDP. Scottish firms need to consider how they can improve productivity by embracing Innovation and Technology. With the backdrop of the current skills shortages and a population that continues to age, businesses operating in Scotland need to look at other options available to them, as a matter of urgency. Firms need to embrace new technology and innovation, where possible to improve efficiencies and productivity levels.

There is also the need for additional efforts to ensure that our highly educated workforce contributes to sustainable economic growth. This can be achieved by placing emphasis on cultivating leadership skills, enhancing digital proficiency, and integrating new technologies. It is imperative to advocate for sustained investment in re-training and up-skilling initiatives for Scotland's workforce, aiming to bolster both lives and livelihoods through elevated wages, establishing enduring job security, and ultimately enhancing productivity.

To deliver optimal social benefits to our population, the Scottish Government must recognise that by concentrating on economic policy, it can increase public expenditure, inevitably leading to social advantages for our citizens. A growing economy creates benefits for everybody in the country.

More than three years have transpired since the onset of the COVID-19 pandemic, revealing significant transformations in work dynamics and the approaches of both employers and employees to the workplace. Businesses now acknowledge that good health is not merely a desirable quality but a fundamental prerequisite for sustained economic growth. An unhealthy or dissatisfied workforce can constrain industries' access to a stable and flourishing labour market.

Together with the Scottish Government, business is keen to tackle the issues identified in the CBI-Fraser of Allander, University of Strathclyde, Scottish Productivity Index, helping to make Scotland a greener, fairer, economically inclusive society.

Foreword by Louise Hellem, Chief Economist

We want Scotland to live up to its full potential and become a place where businesses can thrive and contribute to sustainable growth across the UK. Productivity is fundamental to growth and to improving the quality of life for citizens, so acting on the findings of this report is an imperative for policymakers in Scotland given the economic headwinds facing businesses and consumers in 2024.

The CBI published its latest economic forecast in December 2023, which shows that the UK as a whole is heading for another year of weak growth in 2024. Inflation is coming down, but household spending will remain subdued as higher interest rates continue to feed through and unemployment ticks up. Weak growth will weigh on business and housing investment.

To mitigate the impact on businesses, the CBI proposed a series of measures aimed at promoting sustainable growth in the lead up to the Scottish Budget for 2024-2025. Since then, Scottish government has taken encouraging action to tackle key supply side blockers to growth, most notably around the consultation on planning reform and moves to boost digital infrastructure. However, the absence of a sustained focus on boosting productivity remains a barrier to unlocking Scotland's full potential and equipping businesses with the tools they need to thrive.

Scottish firms have shown positive signs of recovery in trade openness, with exports as a share of GDP increasing by 1.7 percentage points from 20.4% to 22.1% in 2022. Scotland is also demonstrating a strong upward trend in the training and education of its workforce, with over 50% of the working-age population having higher education certificates, higher than the rest of the UK. These are positive developments which need to be cultivated and built on.

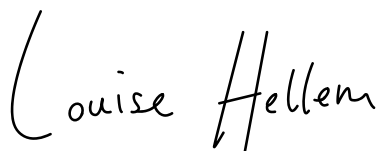
Despite these encouraging figures, Scotland continues to suffer from acute skills shortages and absences due to illness, which are above pandemic levels. The CBI welcomed the First Minister's announcement to bolster childcare support to help parents work more hours, we are now looking forward to seeing this policy fully implemented.

Business investment as a share of Scottish GDP is contracting and Scotland's rate of innovation-active businesses remains below the UK average, showing an urgent need to improve the business environment if we are to see better productivity and growth in the year ahead. These challenges can only be addressed successfully in a joint effort with businesses and the Scottish government, acting on evidence.



Tracy Black

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Louise Hellem

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Foreword Fraser of Allander

This year's productivity index is published at a time when there is cautious optimism about economic prospects for 2024.

Inflation, while still double the Bank of England's target, is now 4%, significantly lower than at the start of 2023. This has raised hopes amongst businesses and consumers that there will be interest rate cuts throughout the course of this year, which will ease pressure on businesses and consumers. This cautious optimism is reflected in consumer and business sentiment data,

The expectation for 2024 is that we will see modest growth over the year, with most forecasters expecting growth of 0.6 or 0.7% for 2024. While nothing to get hugely excited about, it is hoped that this will be sustained if muted growth, rather than the stop-start growth we saw during 2023.

Some of the data in the productivity index supports this cautious optimism. In particular, the improvement in the openness of the economy over the last two years is to be welcomed and suggests that the economy is recovering from the supply chain and trade shocks of both the pandemic and Brexit. Of course, Scotland continues to lag the UK average, due to the strength of London and the Southeast in particular.

In the latest annual data there continues to be poor performance on business investment, both compared to the past and compared to the UK. This reflects wider data on businesses pausing or cancelling investments due to economic uncertainty and the interest rate environment. Many will hope that the introduction of permanent full expensing (at the Autumn Statement) will encourage much more investment in the UK economy and have long-term benefits.

The health of the workforce continues to be a significant concern. The indicators in the index on sickness absence and inactivity due to ill health suggest there has been deterioration in this area over the last year. Indeed, wider indicators – such as people claiming disability-related benefits – have suggested that the situation has only worsened.

There are many reasons for this, and therefore the policy responses to deal with it will have to be similarly multi-faceted. The legacy of the pandemic continues to loom large, with long COVID and mental health issues causing issues for many in the population. In addition, the crisis in the health service – and the associated long waits for treatment – is undoubtedly contributing to the problem.

We highlighted last year that a key plank of the National Strategy for Economic Transformation was focused on bringing people back into the labour market through investment in employability programmes. Despite being a 10-year strategy, the NSET is now being reviewed and refreshed. Unfortunately, employability programmes have often been targeted by sources of in-year budget cuts over the last couple of years, so the investment that was envisaged has not materialised.

Overall, as we produce the sixth edition of the Productivity Index this year, it is clear that there are many data challenges for us to properly understand the drivers of productivity. Whilst this may seem like a technical point, if the data is not available to properly understand and diagnose issues in the economy, it is difficult to design policy responses to improve the situation.

The pandemic has had a role to play here, with many scheduled data collections being paused or delayed over the period. Response rates from both businesses and individuals have also been significantly impacted and this has exacerbated long-standing quality issues. So we are now in the situation of having no consistent time series on business research and development; and, more concerningly, significant issues with all data to do with the Scottish labour market.

The Scottish Productivity Index will, therefore, be going through a review and refresh itself over the course of 2024 to update the set of indicators to reflect the changes in both the economy and the data landscape since it launched in 2018.















Mairi Spowage

Director, Fraser of Allander Institute



Productivity Dashboard

	Latest Performance	How does Scotland compare? Benchmark	Are we improving? Short term trend	Are we improving? Long term trend	Analysis
Business practices					
Business Investment as a % of GDP	9.5% (2022)	●	●	●	<p>Business investment as a share of Scottish GDP contracted by 0.3-percentage points (-p.p.) in 2022 to 9.5%. Meanwhile, there was a 0.3-percentage points increase to 9.8% for the UK.</p> <p>This indicator continues to remain below the long-term trend (1998-2022) of 9.8% and similarly, the UK is below its long-term trend of 10.1%.</p>
Exports as a % of GDP	22.1% (2022)	●	●	●	<p>Exports as a share of Scottish GDP increased by 1.7-p.p. from 20.4% to 22.1% in 2022. The equivalent UK figure rose 3.8-p.p. on the year to 33.4%.</p> <p>While Scotland lags the UK on trade openness, both economies are showing clear signs of recovery since the pandemic slump in 2020.</p>
Business R&D spend as a % of GDP	1.8% (2021)	●	●	●	<p>Scotland's Business R&D as a percentage of GDP has shown a marginal decrease from 1.9% in 2020 to 1.8% in 2021, while the UK remains unchanged at 2.1%.</p> <p>The UK's Business R&D as a percentage of GDP has consistently been higher than Scotland's, with a 0.3 percentage point gap in 2021 (2.1% for the UK vs. 1.8% for Scotland).</p> <p>The old series data from 2001-2020 shows a strong upward trend in R&D investment relative to GDP in Scotland. The data from 2018-2021, reflecting a new methodology, shows a stable trend for both Scotland and the UK. However, this recent data is not directly comparable with the old series from 2001-2020 due to changes in methodology.¹</p>
% of innovation-active businesses ²	39.0% (2018-2020)	●	●	●	<p>Scotland's share of innovation-active businesses increased to 39% in 2018-2020 from 32.2% in 2016-2018.</p> <p>However, Scotland's rate of innovation-active businesses remains below the UK average, trailing by 5.9 percentage points in the latest period (2018-2020).</p> <p>The average innovation-active rate from 2010-2020 for Scotland sits at 42%, indicating that the current figure is still slightly below the long-term trend. However, the data for 2020-2022 has not yet been published.</p>
Total early-stage entrepreneurship activity	8.8% (2022)	●	●	●	<p>In 2022, the early-stage entrepreneurship rate in Scotland slightly decreased to 8.8% from 9.5% in 2021, while the UK maintained a higher rate at 11.0%.</p> <p>Over the three-year period from 2020 to 2022, Scotland's average total early-stage entrepreneurial activity (TEA) rate was 8.5%, lower than the UK average of 10% and England's 10.4%.</p> <p>The TEA rate in Scotland indicates that approximately 300,000 individuals (one in eleven of the 18-64 age group) were engaged in early-stage entrepreneurial activities in 2022.</p>

	Latest Performance	How does Scotland compare? Benchmark	Are we improving? Short term trend	Are we improving? Long term trend	Analysis
Skills and training					
% of working age population with Higher Education Certificate or above ³	50.0% (2021)				<p>As of 2021, Scotland has the highest percentage of the working-age population with higher education certificates or above at 50%, surpassing the UK average of 43.5%.</p> <p>There has been a significant increase in higher education attainment in Scotland, rising from 30.2% in 2004 to 50% in 2021, indicating a strong long-term upward trend.</p> <p>In comparison, England's higher education attainment stands at 43.2%, Northern Ireland at 41.6%, and Wales at 38.6%, with all showing increases but still trailing behind Scotland in 2021.</p>
% of workforce in job-related training in past 3 months	27.5% (Oct 2022 – Sep 2023)				<p>The data indicates a slight increase in the workforce training rate for Scotland from 26.4% in the period from October 2021 to September 2022 to 27.5% in the following year. This shows Scotland continues to improve, maintaining its position above the pre-pandemic level and second only to Wales across the UK nations.</p> <p>The long-term decline in the workforce training rate has accelerated since 2013. However, this indicator has risen by 5-p.p. since its pandemic low of 22.5% and with continued improvement in the coming years this long-term trend could change.</p>
% of employers with skill shortage vacancies ⁴	10% 2022				<p>There was a significant increase in skill shortages across all regions from 2020 to 2022, with the overall percentage in Scotland rising from 3% to 10%.</p> <p>The regions with the highest reported skill shortages in 2022 are Edinburgh and Lothians (14%), Glasgow (12%), Fife, and the Highlands and Islands (both at 11%).</p>
% of employers with underutilised staff ⁵	37% 2022				<p>Between 2020 and 2022, the total percentage of underutilised staff in Scotland increased from 33% to 37%, indicating a rise in underutilisation across the workforce.</p> <p>There is significant variation across regional outcome agreement areas, with Ayrshire experiencing the largest increase in underutilised staff (from 30% to 45%) and Forth Valley showing a decrease (from 32% to 28%).</p> <p>The highest underutilisation rate in 2022 is observed in Dumfries and Galloway and West, both at 46% and 47% respectively, highlighting specific regional challenges in addressing workforce efficiency.</p>

Latest Performance	How does Scotland compare? Benchmark	Are we improving? Short term trend	Are we improving? Long term trend	Analysis
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Health and wellbeing

<p>% of hours lost due to sickness absence</p>	<p>3% (2022)</p>				<p>In Scotland, the percentage of hours lost due to sickness absence increased from 2.1% in 2021 to 3.0% in 2022, indicating a significant rise in sickness absence in the short term, which is above the pre-pandemic level of 2.0% in 2019.</p> <p>Over the longer term, since 1995 when the percentage of hours lost was 3.4%, Scotland has seen fluctuations in sickness absence rates, with a general downward trend until the recent increase in 2022. The lowest recorded level within this period was 1.8% in 2020, during the height of the COVID-19 pandemic.</p> <p>In 2022, Scotland's sickness absence rate of 3.0% was higher than the United Kingdom's overall rate of 2.6%, indicating that Scotland experienced a relatively higher impact of sickness absence compared to the UK average. This comparison highlights Scotland's unique challenges in managing sickness absence within its workforce.</p>
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<p>% of economic inactivity due to long-term ill health</p>	<p>31.7% (Oct 2022 – Sep 2023)</p>				<p>The latest data (October 2022 – September 2023) shows that Scotland's percentage of economic inactivity due to long-term sickness increased only marginally to 31.7% from 32.1% in 2022, a statistically insignificant increase.</p> <p>Scotland's rate is above the UK average of 25.8%. England's rate (24.2%) brings down the UK average while Wales' (34.0%) and Northern Ireland's (34.2%) rates bring this average up.</p>
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Infrastructure and connectivity

<p>Average internet speeds in Scotland</p>	<p>Mean download & upload speed (128.8 and 31.4 Mbps) Q4 2023</p>				<p>As of Q4 2023, Scotland and the UK both saw significant increases in mean internet speeds, with Scotland reaching download and upload speeds of 128.8Mbps and 31.4Mbps, respectively, demonstrating a marked year-on-year improvement from Q4 2022's 92.8Mbps and 19.9Mbps.</p> <p>The UK continued to maintain higher internet speeds than Scotland, achieving mean download and upload speeds of 133.5Mbps and 41.5Mbps by Q4 2023.</p> <p>Since Q1 2021, both regions showed a consistent upward trend in internet connectivity, with Scotland's download and upload speeds increasing by 247% and 308%, respectively.</p>
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	Latest Performance	How does Scotland compare? Benchmark	Are we improving? Short term trend	Are we improving? Long term trend	Analysis
% of premises with access to full fibre broadband	52% (2023)				<p>As of September 2023, the percentage of premises with access to full fibre broadband in the UK increased to 56%, with Scotland at 52%, indicating a notable improvement from 41% in September 2022.</p> <p>Northern Ireland leads significantly with 90% of premises having access to full fibre broadband as of September 2023, maintaining its position as the region with the highest connectivity in the UK.</p> <p>The data reveals a steady year-on-year increase in full fibre broadband access across all UK regions, with Scotland showing a substantial rise from 4% in September 2018 to 52% in September 2023, reflecting focused efforts to enhance digital infrastructure.</p>
4G Mobile coverage	59%-76% (2023)				<p>From September 2022 to September 2023, Scotland witnessed a slight improvement in 4G connectivity, with the lower range increasing from 57% to 59% and the upper range from 75% to 76%. The gap in coverage narrowed marginally from 18% to 17%.</p> <p>Comparing Scotland to the UK in September 2023, Scotland's 4G coverage (59%-76%) remains significantly lower than the UK average (80%-87%). The coverage gap in Scotland is notably wider than the UK's overall gap, indicating Scotland's lag in achieving parity with the national average.</p> <p>While England and Northern Ireland maintain high levels of 4G coverage (92%-95% and 88%-92%, respectively), indicating minor year-over-year changes, Scotland and Wales continue to show considerable gaps in coverage.</p>
Travel to work time	24.5 mins (2022)				<p>Scotland's average travel-to-work time increased only marginally from the 2021 value of 24.4 minutes to 24.5 minutes in 2022. This slight increase keeps Scotland's commute time shorter than England's (27.9 minutes in 2022) and Great Britain's overall average (27.3 minutes in 2022), but it is now slightly longer than Wales, which has an average of 22.2 minutes in 2022.</p> <p>London continues to significantly skew the Great Britain average with its notably higher travel-to-work time of 43.3 minutes in 2022.</p>

A note on the arrows and the RAG ratings

There are three rating indicators shown for each of the measures on the dashboard – one which is designed to capture change in the last data point, one which is change over time, and one which is designed to capture the comparison with either other parts of the UK or international comparators.

The ratings are likely to be a focus of discussion of the Business Advisory Group.

References

1. The methodology for estimating business research and development (R&D) spending in Scotland (BERD) underwent significant changes starting with the 2021 data, as reported by the Office for National Statistics (ONS). This update, primarily intended to address the underrepresentation of small businesses in previous estimates, involved reweighting the data to reflect R&D activities more accurately across all business sizes. Consequently, this methodological shift has resulted in substantial revisions to the R&D expenditure figures from 2018 onwards.
2. There has been no new data since the previous Productivity Dashboard so estimates remain the same.
3. There has been no new data since the previous Productivity Dashboard so estimates remain the same.
4. This survey was first published in August 2018 so no long-term trends can be deduced.
5. This survey was first published in August 2018 so no long-term trends can be deduced.



To share your views on this topic or ask us a question, contact:

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