



## MONTHLY ECONOMIC BRIEF – April 2019

### KEY SCOTTISH ECONOMIC DEVELOPMENTS

#### Output

- **Quarterly National Accounts Scotland for Q4 2018 reported:**
  - Scotland's GDP grew by 0.3% in real terms during Q4 2018 (up from 0.2% in Q3 2018) and grew 1.3% over the year.
  - The volume of Scottish manufactured exports increased by 1.8% in Q4 2018 and by 5.6% over the year. The largest contributor to the increase over the year was Food and Drink exports which increased 13.1%.
- The **Retail Sales Index for Scotland** showed the volume of retail sales grew 1.2% in Q1 2019 (1.4% annually) and the value of sales grew by 1.1% (2.0% annually).

#### Labour Market

- Over the quarter to December-February 2019, Scotland's **unemployment rate** fell by 0.3 percentage points to 3.3%, the **employment rate** increased by 0.3 percentage points to 75.6%, and the **inactivity rate** decreased by 0.1 percentage points to 21.8%.

#### Earnings

- Latest **HMRC Pay As You Earn Real Time Information** experimental statistics (Oct-Dec 2018) show mean quarterly PAYE pay per individual in Scotland is £6,390 (UK: £6,810) and grew 2.4% over the year (UK: 3.2%).

#### Business Surveys

- The **IHS Markit RBS Purchasing Managers' Index** for March reported a fourth consecutive monthly fall in business activity, though to a marginal extent. Business optimism remained positive and strengthened reflecting an expected decrease in political and economic uncertainty.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** for Q1 2019 reported positive sales revenue growth across most sectors of the economy, however business optimism and investment intentions also fell across most sectors.

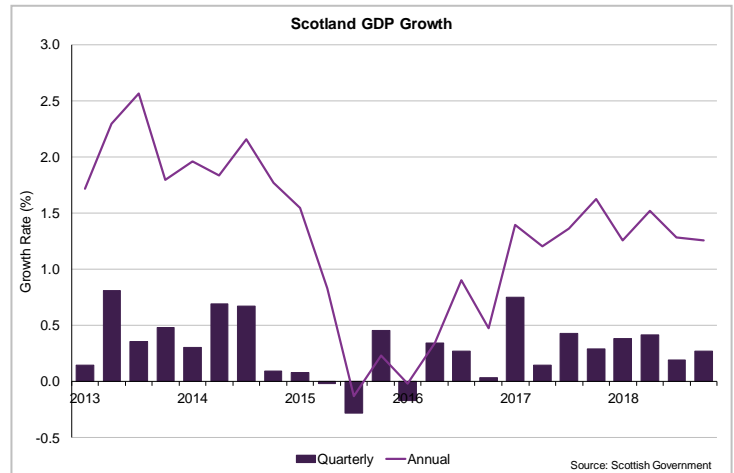
#### Outlook

- The **Fraser of Allander Institute** revised down their central GDP growth forecast for Scotland to 1.1% in 2019 rising to 1.4% and 1.5% in 2020 and 2021 respectively, assuming a smooth Brexit.

## OUTPUT

Quarterly GDP Growth (%)	Q4 2017		Q1 2018		Q2 2018		Q3 2018		Q4 2018	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
		0.3	0.4	0.4	0.1	0.4	0.4	0.2	0.7	0.3

- **Scottish GDP** (first estimate) grew 0.3% in Q4 2018 (1.3% annually), up from 0.2% in Q3 2018.
- **UK GDP** (second estimate) grew 0.2% in Q4 2018 (1.4% annually), down from 0.7% in Q3 2018.
- **Euro Area GDP** (flash estimate) grew 0.4% in Q1 2019 (1.2% annually), up from 0.2% growth in Q4 2018.
- **US GDP** (advance estimate) grew 0.8% in Q1 2019 (3.2% annually), up from 0.5% in Q4 2018.

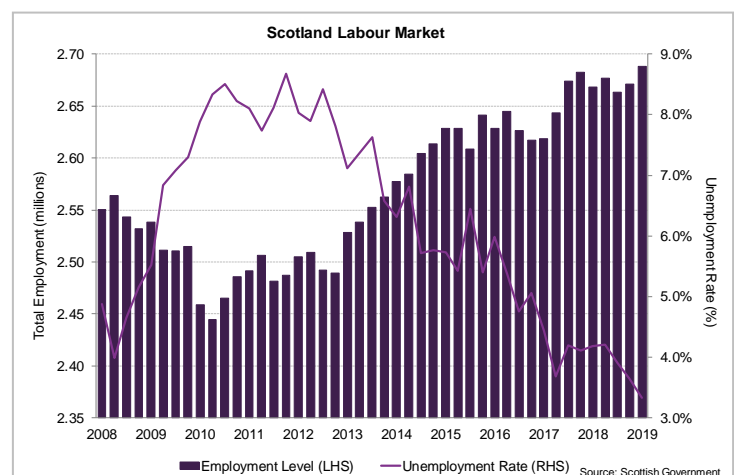


GDP Growth by sector, Q4 2018	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
<b>Total</b>	<b>0.3</b>	<b>0.2</b>	<b>1.3</b>	<b>1.4</b>
<b>Service Sector</b>	<b>0.5</b>	<b>0.5</b>	<b>1.5</b>	<b>2.0</b>
Distribution, Hotels & Catering	0.9	0.3	1.8	3.5
Transport, Storage & Comms	0.1	0.8	2.4	3.9
Business Services & Finance	0.6	0.4	1.8	1.4
Government & Other Services	0.3	0.6	0.8	1.1
<b>Production Sector</b>	<b>-0.8</b>	<b>-0.8</b>	<b>1.1</b>	<b>-0.7</b>
Mining & Quarrying	1.3	-0.8	1.2	8.7
Manufacturing	0.1	-0.7	2.6	-1.3
Electricity & Gas	-4.3	-1.5	-3.6	-2.5
Water & Sewerage	-1.8	-0.9	1.5	-0.7
<b>Construction</b>	<b>0.4</b>	<b>-0.5</b>	<b>-0.4</b>	<b>0.3</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>-1.1</b>	<b>0.6</b>	<b>-3.9</b>	<b>-2.5</b>

## LABOUR MARKET

Over the year to December-February 2019:

- The employment level increased by 20,000 and the employment rate rose by 0.6 percentage points to 75.6% (UK, 76.1%).
- The unemployment level fell by 24,000 and the unemployment rate fell by 0.9 percentage points to 3.3% (UK, 3.9%).
- The economic inactivity level (those neither in employment or ILO unemployed) increased by 3,000 and the inactivity rate increased by 0.1 percentage points to 21.8% (UK, 20.7%).



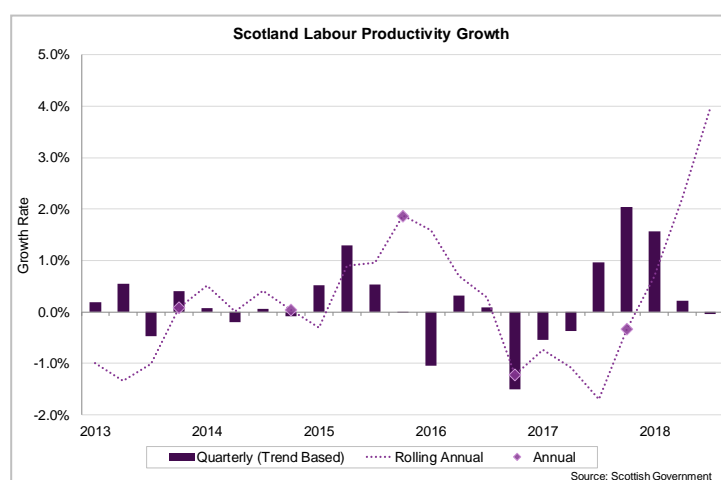
## Labour Market Headline Statistics, December - February 2019

Rate (%)	Change (% points)		Level ('000)	Change ('000)			
	Over Quarter	Over Year		Over Quarter	Over Year		
<b>Scotland</b>							
Employment <sup>A</sup>	75.6	0.3	0.6	Employment <sup>C</sup>	2,688	17	20
ILO Unemployment <sup>B</sup>	3.3	-0.3	-0.9	ILO Unemployment <sup>C</sup>	93	-8	-24
Economic Inactivity <sup>A</sup>	21.8	-0.1	0.1	Economic Inactivity <sup>D</sup>	749	-3	3
<b>UK</b>							
Employment <sup>A</sup>	76.1	0.4	0.8	Employment <sup>C</sup>	32,721	179	457
ILO Unemployment <sup>B</sup>	3.9	-0.1	-0.3	ILO Unemployment <sup>C</sup>	1,343	-27	-76
Economic Inactivity <sup>A</sup>	20.7	-0.3	-0.6	Economic Inactivity <sup>D</sup>	8,536	-114	-213

**Source:** Labour Market Statistics and Regional Labour Market Statistics, Scotland, Office of National Statistics.  
**Notes:** A. Denominator is all persons aged 16-64, B. Denominator is total economically active, C. All persons aged 16+, D. All persons aged 16-64.

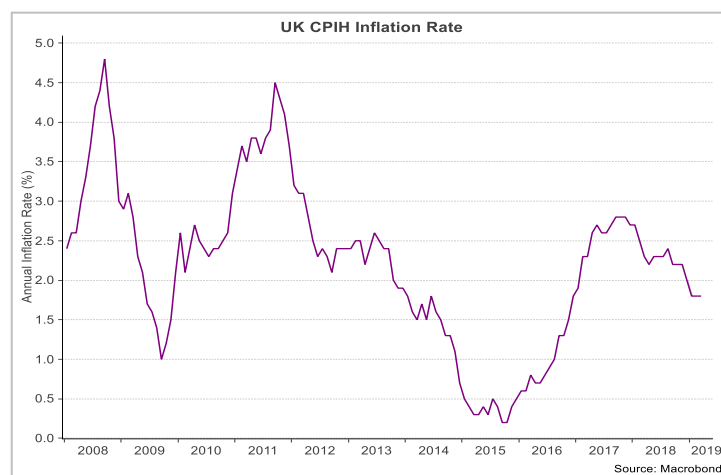
## PRODUCTIVITY

- In Q3 2018, Scottish labour productivity (output per hour worked) was flat (0.0%) over the quarter following growth of 0.2% in the previous quarter (trend-based).
- On a rolling annual basis (comparing the latest 4 quarters with the previous 4 quarters) Scottish labour productivity grew 4.0% in real terms.
- The growth in productivity over the year reflects that GVA grew, while the average hours worked fell (1.5% and -2.4% respectively).
- On a rolling annual basis, Scottish labour productivity as measured by output per job increased by 2.6% in real terms (inflation adjusted) in Q3 2018.



## INFLATION

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.8% in March 2019, unchanged from February 2019. Key upward contributions to the rate came from motor fuels and clothing, offset by downward contributions from recreational and cultural goods, food and motor vehicles.



## RETAIL

- The volume of Scottish retail sales grew 1.2% over the first quarter of 2019 (1.4% over the year). The value of retail sales grew by 1.1% over quarter 1 (2.0% over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 0.9% in Q1 2019. Sales from small & medium size stores (which account for the remaining 30% of sales) increased by 2.1% compared to the previous quarter.

### Scotland & Great Britain (GB) Retail Sales Index (% change on the previous quarter):

Volume	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Value	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Scotland	0.3	-0.3	0.1	1.2	Scotland	0.6	-0.1	0.4	1.1
GB	2.0	1.3	0.1	1.6	GB	2.0	1.6	0.2	1.6

## EXPORTS & TRADE

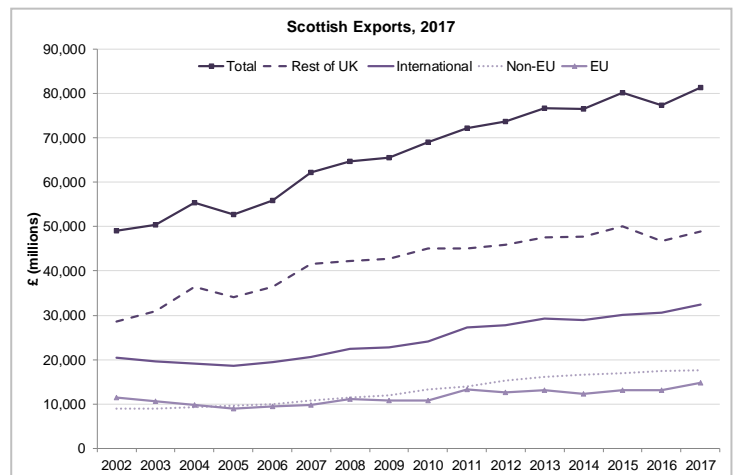
### Index of Manufactured Exports (Q4 2018)

- Manufactured exports make up around half of the total value of international exports from Scotland's onshore economy.
- The volume of Scottish manufactured exports, increased by 1.8% in Q4 2018 and increased 5.6% over the year.
- The largest contributor of the increase in the volume of manufactured exports over the year was Food and Drink exports which increased 13.1%.

Manufactured Exports, Scotland, Q4 2018 (volume)	2015 Weight	Quarterly Growth (%)	Annual Growth (%)
<b>Total Manufacturing</b>	<b>100</b>	<b>1.8</b>	<b>5.6</b>
Food and Drink	39.6	4.3	13.1
Engineering, Machinery and Metals	37.0	0.0	0.7
Refined Petroleum, Chemical & Pharmaceutical Products	9.4	-0.5	-3.7
Other Manufactured Products	14.0	0.5	4.6

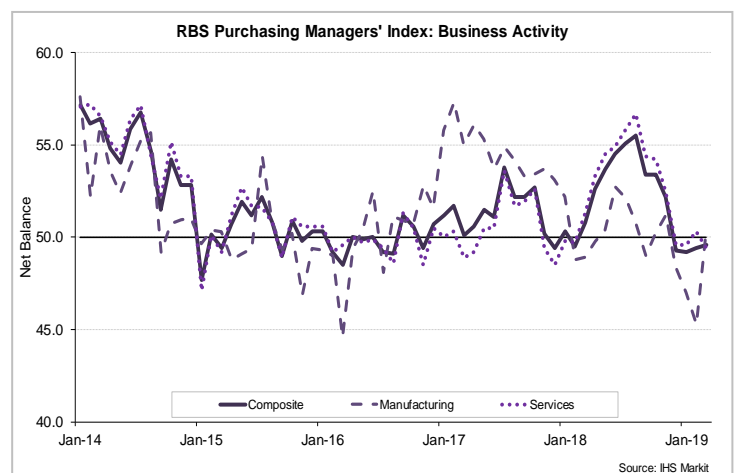
### Export Statistics Scotland (2017)

- Total exports (goods and services) from Scotland to the rest of the UK and internationally in 2017 (excluding oil and gas) were estimated at £81.4 billion, up £4.1 billion (5.2%) over the year.
- Exports to rest of the UK grew £2.2 billion (4.6%) in 2017 to £48.9 billion and international exports increased by £1.9 billion (6.2%) to £32.4 billion.
- International exports to EU countries grew by £1.7 billion (13.3%) to £14.9 billion in 2017, making up 46% of international exports. International exports to non-EU countries increased by £145 million (0.8%) to £17.6 billion.
- The USA was Scotland's top international export destination country (£5.5 billion). The top 5 international export markets (USA, Netherlands, France, Germany and Ireland) accounted for 44% of international exports from Scotland in 2017.



## BUSINESS SURVEYS

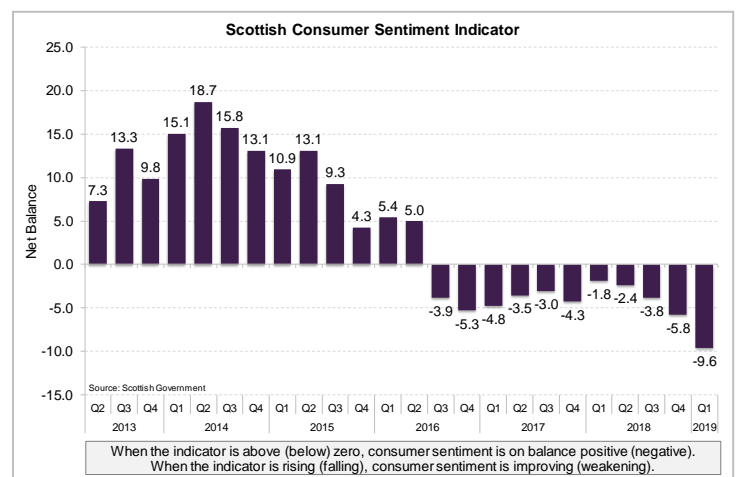
- The IHS Markit RBS Purchasing Managers Index for March showed a marginal fall in Scotland's private sector business activity for the fourth consecutive month, driven by a slight contraction in the Services sector. Looking ahead, business confidence remained positive and picked up slightly reflecting an expected decrease in political and economic uncertainty.
- The Scottish Chambers of Commerce Quarterly Economic Indicator for Q1 2019 reported positive sales revenue growth across most sectors of the economy, however business optimism and investment intentions also fell across most sectors.



- The Fraser of Allander Scottish Business Monitor for Q1 2019 reported further growth in business activity (both new and repeat business) over the quarter, however at a slower pace than in Q4 2018. Alongside this, capital investment remained subdued with the balance of firms reporting a decline over the quarter. Furthermore, the indicator remained below its 3-year average value.
- The Scottish Engineering Quarterly Review for Q1 2019 reported stronger growth in output from the sector, alongside a rebound in new orders, both domestic and exports, and staffing levels over the quarter. Investment growth remained positive as well as business optimism, however the latter weakened over the quarter and is marginal. Looking ahead, firms generally expect further growth in domestic orders and output over the next 3-months.
- The CBI Industrial Trends Survey of Scottish manufacturing firms reported a pick-up in new orders, output and employment in the 3-months to January 2018. Business optimism weakened to its lowest reading since 2012, while investment intentions for the next 12 months also contracted.

## CONSUMER SENTIMENT

- In Q1 2019, the Scottish Consumer Sentiment Indicator was -9.6, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 3.8 points, implying that sentiment weakened notably compared to the previous quarter. It is the indicator's lowest reading since the series began.
- All the current indicators weakened over the quarter with weakening sentiment regarding current economic performance and individuals own household financial security consistent with households being less relaxed about spending money.
- Expectations for the outlook weakened across both the economic performance indicator and the household financial security indicator. Both indicators fell for their fourth consecutive quarter and to their lowest readings since the series began. The decline has been significantly more pronounced regarding expected economic performance than expected security of individuals own household finances.



Scottish Consumer Sentiment Indicator	Score (Q1 2019)	Score in Previous Quarter	Change from Previous Quarter
<b>Composite Indicator Score</b>	<b>-9.6</b>	<b>-5.8</b>	<b>-3.8</b>
(a) Economy performance - last 12 months	-11.3	-6.3	-5.0
(b) Economy performance - next 12 months	-29.0	-23.3	-5.6
(c) Household financial position - last 12 months	-3.4	0.8	-4.2
(d) Household financial position - next 12 months	1.1	2.9	-1.8
(e) Attitude to household spending – last 12 months	-5.4	-3.0	-2.4

Note: The overall indicator score is the mean of the net balances for each question from a-e. The net balance is the difference between the percentage of respondents reporting an improvement and those reporting deterioration. When the indicator is above 0, consumer sentiment is on balance positive and vice versa. When the indicator score is rising (falling) compared to previous quarters, it signals that sentiment is improving (weakening). Numbers may not sum due to rounding.

## GDP GROWTH FORECASTS<sup>1</sup>

- The **Scottish Fiscal Commission's** (SFC) latest Scottish GDP growth forecast (December 2018), was revised up to 1.2% for 2019 (0.8% in May) and 1.0% in 2020 (from 0.9% in May).<sup>2</sup>
- The **Fraser of Allander Institute's** latest Scottish central GDP growth forecast (April 2019) was revised down to 1.1% in 2019 (1.4% in December 2018), picking up to 1.4% in 2020 (revised down from 1.5% in December 2018).
- **EY Scottish ITEM Club's** latest Scottish GDP growth forecast (December 2018) was revised down for 2019 to 1.0% (from 1.6% in June 2018) and revised down to 1.4% for 2020 (from 1.5%).
- The **PwC economic outlook** (March 2019) projects Scottish output to grow 1.2% in 2019 (revised down from 1.5% in November 2018), and to pick up in 2020 to 1.6%.
- The **OBR's Economic and Fiscal Outlook** (March 2019) forecast for UK GDP growth was revised down for 2019 to 1.2% (1.6% previously) and remained unchanged at 1.4% for 2020.
- **HMT's comparison of independent GDP forecasts** for the UK economy (April 2019) projects growth of 1.3% in 2019 (unchanged) and 1.5% in 2020 (revised down from 1.6% in March 2019).
- The **IMF's World Economic Outlook** (April 2019) UK GDP growth forecast was revised down to 1.2% for 2019 (1.5% in January 2019) and 1.4% for 2020 (1.6% in January 2019).

Annual GDP Growth (calendar year %)	Region	Outturn	Forecasts/Projections	
		2018	2019	2020
Scottish Fiscal Commission (December 2018)	Scotland	1.3	1.2	1.0
Fraser of Allander Institute (April 2019)			1.1	1.4
EY Scottish ITEM Club (December 2018)			1.0	1.4
PwC (March 2019)			1.2	1.6
OBR (March 2019)	UK	1.4	1.2	1.4
HM Treasury Average UK Independent Forecast (April 2019)			1.3	1.5
International Monetary Fund (April 2019)			1.2	1.4

<sup>1</sup> Non-Scottish Government forecasts for the Scottish economy presented in this report are widely available in the public domain:

Fraser of Allander Institute [https://www.strath.ac.uk/business/economics/fraserofallanderinstitute/economic\\_commentary/](https://www.strath.ac.uk/business/economics/fraserofallanderinstitute/economic_commentary/) ,

EY ITEM Club <https://www.ey.com/uk/en/issues/business-environment/ey-scottish-item-club-forecast-2019> ,

PwC <http://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook.html>.

The choice reflects published forecasters which are known to us and are subject to review. No significance should be attached to the inclusion or exclusion of any particular forecasting organisation. The Scottish Government accepts no responsibility for the accuracy of material published in this comparison.

<sup>2</sup> Scottish Fiscal Commission Economic and Fiscal forecasts presented in this publication were undertaken to inform the Scottish Government's Medium Term Financial Strategy <http://www.fiscalcommission.scot/>