



MONTHLY ECONOMIC BRIEF – March 2019

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Scotland's GDP** (first estimate) grew 0.3% in Q4 2018, slightly up from the previous quarter (0.2%). UK GDP grew 0.2% over the same period. In 2018 as a whole, GDP in Scotland grew 1.4%, in line with UK wide growth.

Labour Market

- Over the quarter to November-January 2019, Scotland's **unemployment rate** fell by 0.3 percentage points to 3.4%, the **employment rate** increased by 0.3 percentage points to 75.3%, and the **inactivity rate** remained unchanged at 22.0%.

Consumer Sentiment

- The **Scottish Consumer Sentiment Indicator** showed a notable weakening in sentiment in Q1 2019, falling 3.8 points over the quarter to -9.6, its lowest level since the series began in 2013. The indicator has been negative since Q3 2016.

Business Surveys

- The **RBS Purchasing Managers Index** for February reported a third consecutive monthly fall in business activity and new orders. Employment continued to grow at a marginal pace, while business optimism remained positive, however fell to its lowest level since October 2016.
- 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.

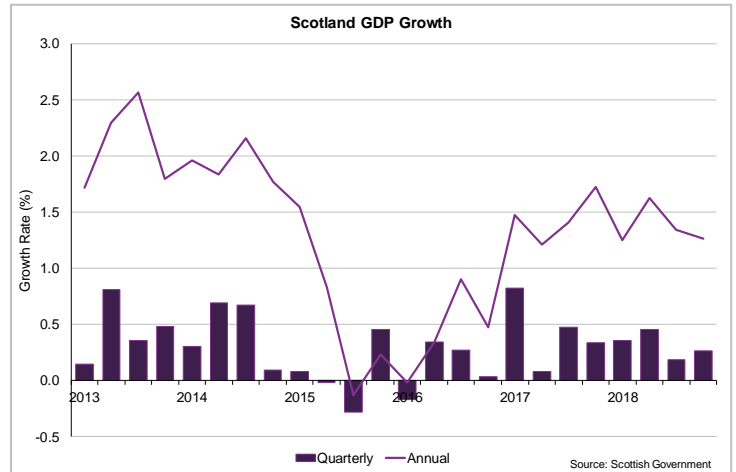
Outlook

- The **PWC economic outlook** projects Scottish output to grow 1.2% in 2019 (UK: 1.1%), and to pick up in 2020 to 1.6% (UK: 1.6%) (assuming an orderly Brexit and a transition period).

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	0.5	0.4	0.2	0.6	0.3	0.2

- **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** (second estimate) grew 0.2% in Q4 2018 (1.1% annually), unchanged from 0.2% growth in Q3 2018.
- **US GDP** (third estimate) grew 0.5% in Q4 2018 (3.0% annually), down from 0.8% in Q3 2018.

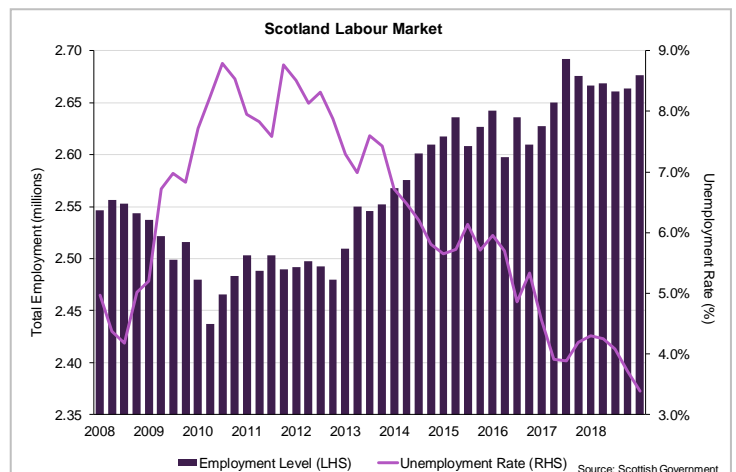


GDP Growth by sector, Q4 2018	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	0.3	0.2	1.3	1.4
Service Sector	0.5	0.5	1.7	2.0
Distribution, Hotels & Catering	1.0	0.3	2.0	3.5
Transport, Storage & Comms	0.1	0.8	2.8	3.9
Business Services & Finance	0.6	0.4	2.1	1.4
Government & Other Services	0.2	0.6	0.8	1.1
Production Sector	-0.9	-0.8	-0.6	-0.7
Mining & Quarrying	1.1	-0.8	1.2	8.7
Manufacturing	0.1	-0.7	1.9	-1.3
Electricity & Gas	-4.5	-1.5	-9.4	-2.5
Water & Sewerage	-1.9	-0.9	1.4	-0.7
Construction	0.8	-0.5	1.7	0.3
Agriculture, Forestry & Fishing	-1.1	0.6	-3.4	-2.5

LABOUR MARKET

Over the year to November-January 2019:

- The employment level increased by 10,000 and the employment rate rose by 0.5 percentage points to 75.3% (UK, 76.1%).
- The unemployment level fell by 26,000 and the unemployment rate fell by 0.9 percentage points to 3.4% (UK, 3.9%).
- The economic inactivity level (those neither in employment or ILO unemployed) increased by 5,000 and the inactivity rate increased by 0.1 percentage points to 22.0% (UK, 20.7%).



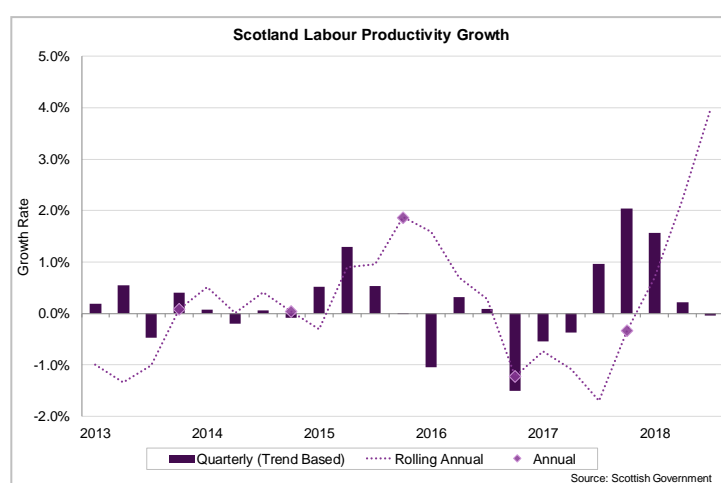
Labour Market Headline Statistics, November-January 2019

	Rate (%)	Change (% points)		Level ^c ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	75.3	0.3	0.5	2,676	13	10
ILO Unemployment ^B	3.4	-0.3	-0.9	94	-9	-26
Economic Inactivity ^A	22.0	0.0	0.1	758	1	5
UK						
Employment ^A	76.1	0.4	0.8	32,714	222	473
ILO Unemployment ^B	3.9	-0.1	-0.4	1,338	-35	-112
Economic Inactivity ^A	20.7	-0.3	-0.5	8,549	-117	-194

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+.

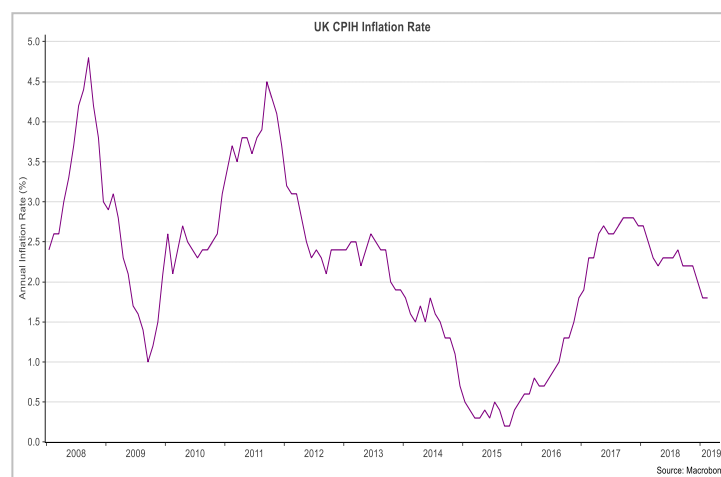
PRODUCTIVITY

- 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 February 2019, unchanged from January 2019. Key upward contributions to the rate came from food, alcohol and tobacco, offset by downward contributions from clothing and footwear.



RETAIL

- The volume of Scottish retail sales grew 0.6% over the final quarter of 2018 (1.4% over the year). The value of retail sales grew by 1.0% over quarter 4 (2.2% over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 1.0% in Q4 2018. Sales from small & medium size stores (which account for the remaining 30% of sales) decreased by 0.8% compared to the previous quarter.

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

Volume	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Value	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Scotland	0.8	0.3	-0.3	0.6	Scotland	0.8	0.5	-0.2	1.0
GB	-0.3	1.9	1.4	-0.2	GB	0.4	2.0	1.8	-0.1

EXPORTS & TRADE

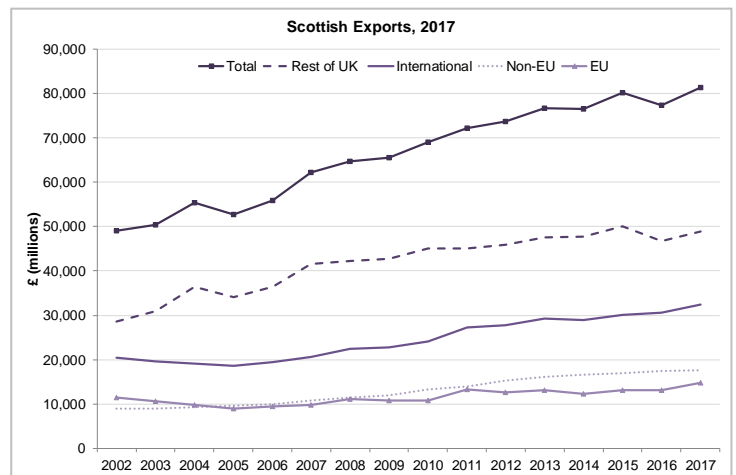
Index of Manufactured Exports (Q3 2018)

- Manufactured exports make up around half of the total value of international exports from Scotland's onshore economy.
- The volume of Scottish manufactured exports, decreased by 0.7% in Q3 2018 and decreased 1.2% over the year.
- The largest contributor of the decrease in the volume of manufactured exports over the year was Food and Drink exports which fell 5.1% over the year.

Manufactured Exports, Scotland, Q3 2018 (volume)	2015 Weight	Quarterly Growth (%)	Annual Growth (%)
Total Manufacturing	100	-0.7	-1.2
Food and Drink	39.6	3.0	-5.1
Engineering, Machinery and Metals	37.0	-3.0	0.1
Refined Petroleum, Chemical & Pharmaceutical Products	11.5	-5.3	3.2
Other Manufactured Products	11.9	-2.2	6.3

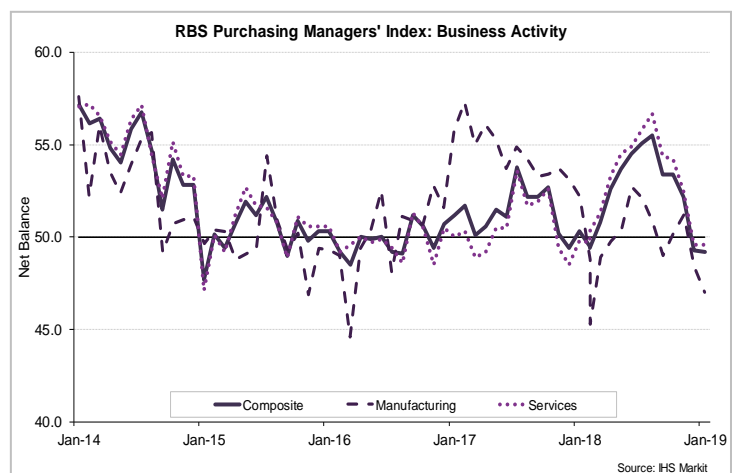
Export Statistics Scotland (2017)

- 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 February showed a slight fall in Scotland's private sector business activity for the third consecutive month, alongside a contraction in new orders in the Manufacturing sector. In contrast, new orders in the Services sectors grew slightly. Looking ahead, business confidence remained positive however weakened to its lowest level since October 2016.
- 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.
- 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

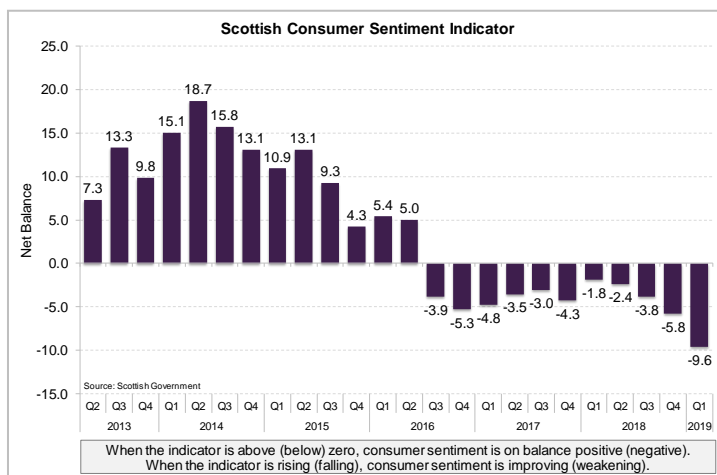


this, capital investment remained subdued with the balance of firms reporting a decline over the quarter. Furthermore, the indicator remained below its 3-year average value.

- 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 Scottish Chambers of Commerce Quarterly Economic Indicator for Q4 2018 reported lower levels of business optimism across the sectors, alongside weaker sales and investment growth; particularly in the manufacturing and tourism sectors which reported contractions. This was broadly reflected in the expectations for sales and investment going into the second quarter.

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
Composite Indicator Score	-9.6	-5.8	-3.8
(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 FORECASTS¹

- 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).²
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (December 2018), remained unchanged at 1.4% for 2019, rising to 1.5% in 2020 (revised up from 1.4% in September 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 (March 2019) projects growth of 1.3% in 2019 (revised down from 1.4% in February 2019) and 1.6% in 2020 (unchanged).
- The **IMF's World Economic Outlook** (January 2019) forecast UK GDP growth to remain unchanged at 1.5% for 2019 and revised up for 2020 to 1.6% (1.5% in October 2018).

Annual GDP Growth (calendar year %)	Region	Outturn	Forecasts/Projections	
		2018	2019	2020
Scottish Fiscal Commission (December 2018)	Scotland	1.4	1.2	1.0
Fraser of Allander Institute (December 2018)			1.4	1.5
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 (March 2019)			1.3	1.6
International Monetary Fund (January 2019)			1.5	1.6

¹ 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/ ,

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.

² 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/>