



MONTHLY ECONOMIC BRIEF – October 2019

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Quarterly National Accounts Scotland for Q2 2019 reported that:**
 - Scotland's GDP contracted by 0.2% in real terms during Q2 2019 (down from 0.5% in Q1 2019), and grew 0.6% over the year.
 - The annualised value of Scotland's onshore GDP is estimated at £165.7 billion (£30,312 per person), in current prices. Including a geographical share of UK extra-regio (offshore and overseas) economic activity, Scottish GDP is estimated at £181.0 billion (£33,120 per person).
 - The volume of Scottish manufactured exports, decreased by 2.9% in Q2 2019 and decreased 2.4% over the year.
- The **Retail Sales Index for Scotland** showed the volume of retail sales grew by 0.4% in Q3 2019 (2.3% annually) and the value of sales grew by 1.1% (3.1% annually).

Labour Market

- Over the quarter to June to August 2019, Scotland's unemployment rate increased by 0.8 percentage points to 4.1% (UK: 3.9%), the employment rate fell by 1.4 percentage points to 74.3% (UK: 75.9%) and the inactivity rate increased by 0.8 percentage points to 22.5% (UK 21.0%).

Consumer Sentiment

- The **Scottish Consumer Sentiment Indicator** showed a weakening in sentiment in Q3 2019, decreasing 0.4 points over the quarter and remained negative on balance (-6.6).

Business Surveys

- The **IHS Markit RBS Purchasing Managers Index** reported a stagnation in Scottish private sector business activity in September. Business optimism remained positive and picked up from August, however was at its second lowest level in over 3-years.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** for Q3 2019 reported positive sales revenue growth across most sectors of the economy, however the pace of growth had generally slowed and contracted in the manufacturing sector. Alongside this, business optimism weakened across all sectors, as did investment intentions for the next quarter.

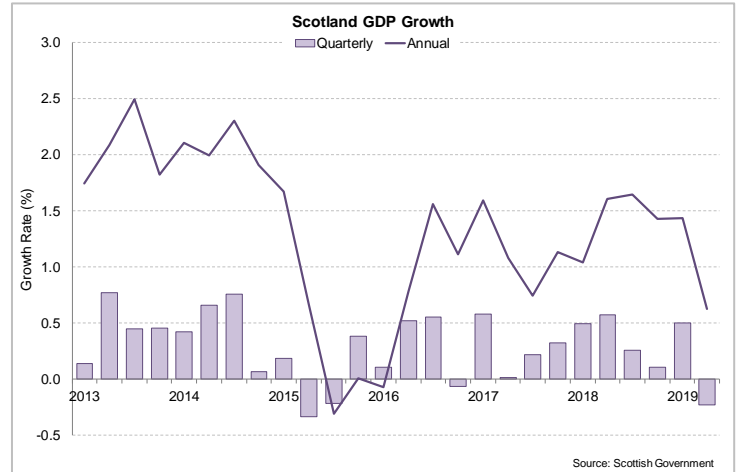
Outlook

- The **Fraser of Allander Economic Commentary** revised down their central GDP growth forecast for Scotland to 1.0% in 2019, rising to 1.2% and 1.3% in 2020 and 2021 respectively (all 0.2 p.p. down from June 2019).

OUTPUT

Quarterly GDP Growth (%)	Q1 2018		Q2 2018		Q3 2018		Q4 2018		Q1 2019		Q2 2019	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
		0.5	0.1	0.6	0.5	0.3	0.6	0.1	0.3	0.5	0.6	-0.2

- **Scottish GDP** (second estimate) contracted by 0.2% in Q2 2019 (grew 0.6% annually), down from 0.5% growth in Q1 2019.
- **UK GDP** (second estimate) contracted by 0.2% in Q2 2019 (grew 1.2% annually), down from 0.6% growth in Q1 2019.
- **Euro Area GDP** (preliminary estimate) grew 0.2% in Q3 2019 (1.1% annually), in line with 0.2% growth in Q2 2019.
- **US GDP** (advance estimate) grew 0.5% in Q3 2019 (2.0% annually), in line with 0.5% growth in Q2 2019.

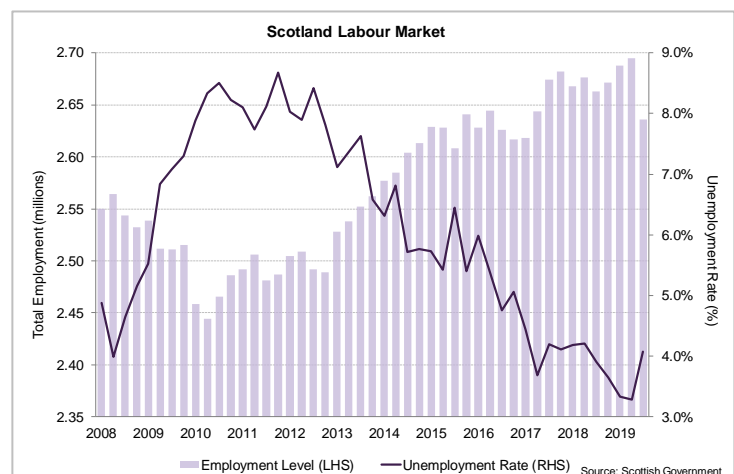


GDP Growth by sector, Q2 2019 (2 nd Estimate)	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	-0.2	-0.2	0.6	1.3
Service Sector	0.2	0.1	1.2	1.7
Distribution, Hotels & Catering	0.3	0.0	1.4	2.7
Transport, Storage & Comms	1.6	0.6	2.1	5.4
Business Services & Finance	0.4	0.0	1.8	0.3
Government & Other Services	-0.5	0.2	0.3	1.4
Production Sector	-1.5	-1.8	-1.4	-0.9
Mining & Quarrying	0.9	-1.1	5.1	-0.3
Manufacturing	-2.3	-2.8	-1.1	-1.3
Electricity & Gas	0.1	2.8	-4.8	0.9
Water & Sewerage	-2.2	1.2	-4.0	0.5
Construction	-2.4	-1.2	-1.1	1.8
Agriculture, Forestry & Fishing	0.3	-0.4	-0.6	-1.4

LABOUR MARKET

Over the year to June to August 2019:

- The employment level decreased by 27,000 and the employment rate fell by 0.6 percentage points to 74.3% (UK; 75.9%).
- The unemployment level increased by 4,000 and the unemployment rate increased by 0.2 percentage points to 4.1% (UK; 3.9%).
- The economic inactivity (those neither in employment or ILO unemployed) level increased by 17,000 and the inactivity rate increased by 0.5 percentage points to 22.5 (UK; 21.0%).



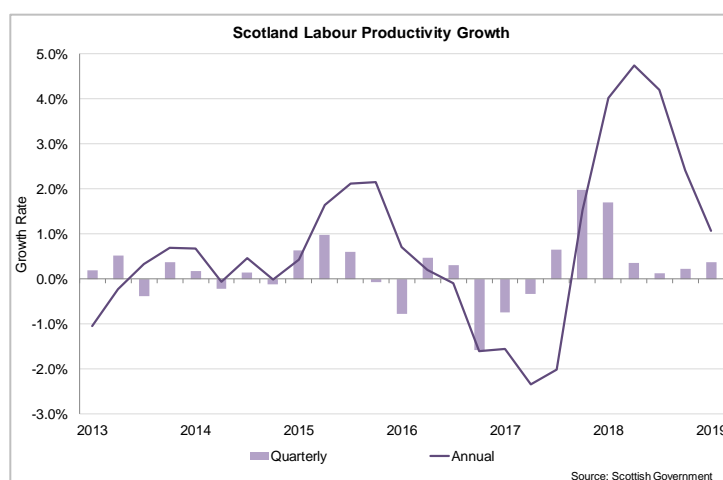
Labour Market Headline Statistics – June to August 2019

Rate (%)	Change (% points)		Level ('000)	Change ('000)			
	Over Quarter	Over Year		Over Quarter	Over Year		
Scotland							
Employment ^A	74.3	-1.4	-0.6	Employment ^C	2,636	-59	-27
ILO Unemployment ^B	4.1	0.8	0.2	ILO Unemployment ^C	112	20	4
Economic Inactivity ^A	22.5	0.8	0.5	Economic Inactivity ^D	773	29	17
UK							
Employment ^A	75.9	-0.2	0.3	Employment ^C	32,693	-56	282
ILO Unemployment ^B	3.9	0.1	-0.2	ILO Unemployment ^C	1,314	22	-49
Economic Inactivity ^A	21.0	0.1	-0.2	Economic Inactivity ^D	8,676	57	-63

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.

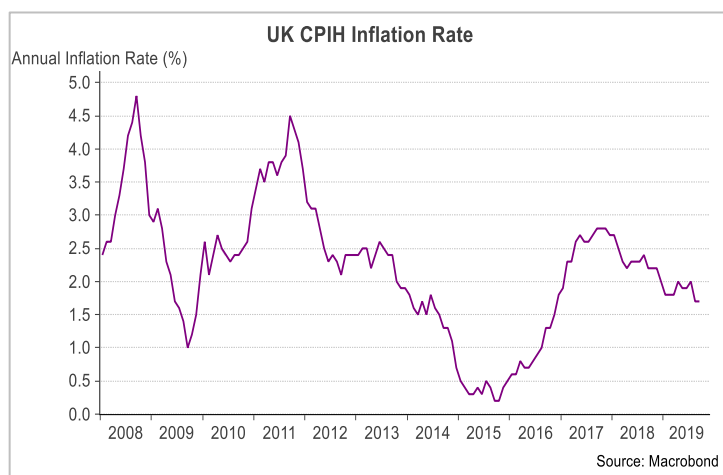
PRODUCTIVITY

- In Q1 2019, Scottish labour productivity (output per hour worked) grew by 0.4% over the quarter, up from 0.2% in the previous quarter.
- Compared to the same quarter one year ago, output per hour in Q1 2019 grew by 1.1%.
- The growth in productivity over the year reflects that GVA growth (1.5%) outweighed a rise in total number of hours worked (0.5%).
- Longer term since 2007, output per hour worked in Scotland has increased by 1.0% per year on average.



INFLATION

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.7% in September 2019, unchanged from August 2019.
- Key downward contributions to the rate came from motor fuels, second hand cars and electricity, gas and other fuels. The largest offsetting upward contributions came from furniture, household appliances, hotel overnight stays and recreational and cultural items.



RETAIL

- The volume of Scottish retail sales grew 0.4% over the third quarter of 2019 (2.3% over the year). The value of retail sales grew by 1.1% over quarter 3 (3.1% over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 1.1% in Q3 2019. 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	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Value	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Scotland	0.1	1.0	0.8	0.4	Scotland	0.4	1.0	0.6	1.1
GB	0.2	1.7	0.6	0.6	GB	0.4	1.6	0.6	1.0

EXPORTS & TRADE

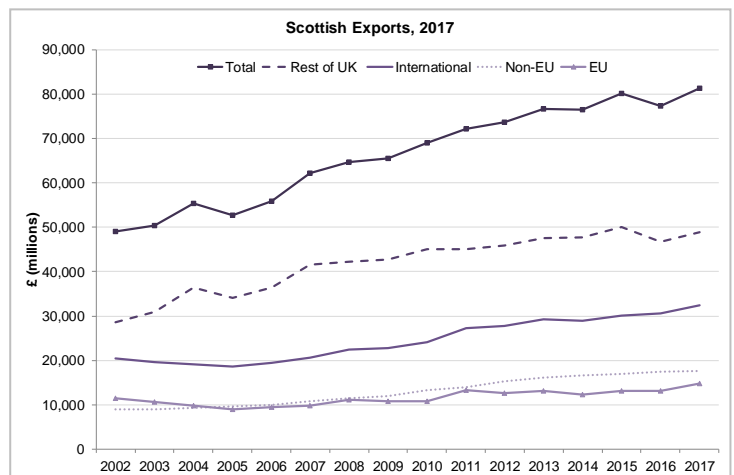
Index of Manufactured Exports (Q2 2019)

- 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 2.9% in Q2 2019 and decreased 2.4% over the year.
- The largest contributor to the decrease in the volume of manufactured exports over the year was Engineering, Machinery and Metals which decreased by 6.6%.

Manufactured Exports, Scotland, Q2 2019 (volume)	2016 Weight	Quarterly Growth (%)	Annual Growth (%)
Total Manufacturing	100	-2.9	-2.4
Food and Drink	36.2	-4.1	7.5
Engineering, Machinery and Metals	39.8	-0.4	-6.6
Refined Petroleum, Chemical & Pharmaceutical Products	11.2	-8.2	-16.1
Other Manufactured Products	12.8	-1.5	-5.8

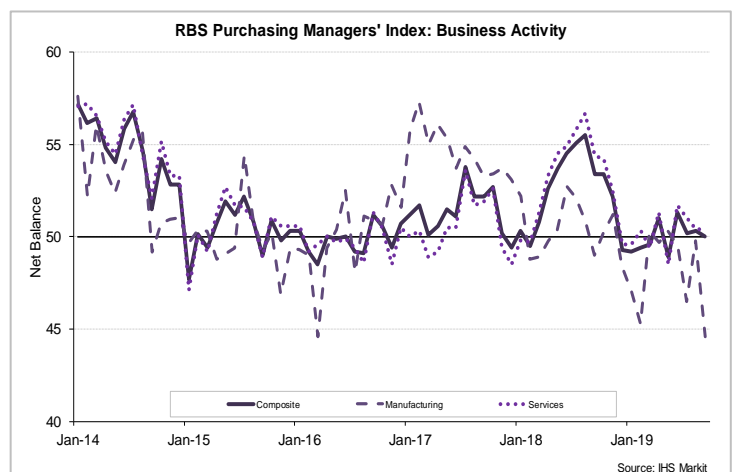
Export Statistics Scotland (2017)

- 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 reported a stagnation (no change) in Scottish private sector business activity in September. Marginal growth in the services sector was offset by a sharp fall in manufacturing output. Looking ahead, business optimism remained positive and picked up from August, however was at its second lowest level in over 3-years with anecdotal evidence suggesting this was due to Brexit uncertainty.
- The Scottish Chambers of Commerce Quarterly Economic Indicator for Q3 2019

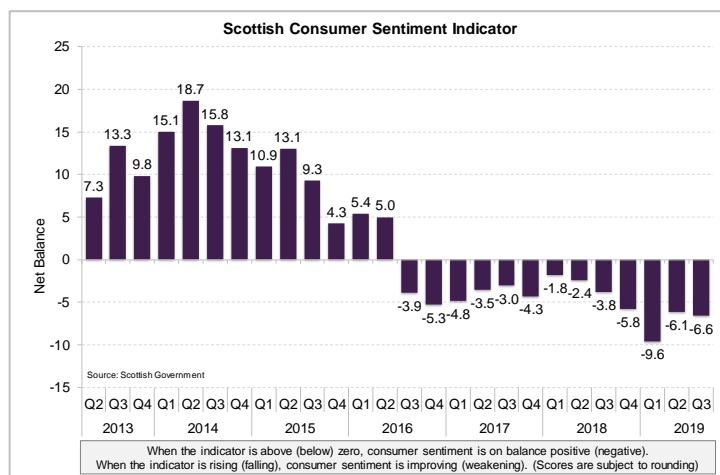


reported further positive sales revenue growth across most sectors of the economy, however the pace of growth had generally slowed from the previous quarter and contracted in the manufacturing sector. Alongside this, business optimism weakened across all sectors, as did investment intentions for the next quarter.

- The Fraser of Allander, Addleshaw Goddard Scottish Business Monitor for Q3 2019 reported further growth in business activity and new orders, though at a slower pace than the previous quarter. Export activity and capital investment indicators improved over the quarter, however remained on balance negative and are expected to remain weak over the coming 6 months.
- The Scottish Engineering Quarterly Review for Q3 2019 reported negative output volumes for the first time since September 2016, alongside a notable fall in exports. Staffing and investment plans in capital and training increased over the quarter while business optimism was negative for the first time in three years.
- In the 3-months to July 2019, the CBI Scotland Industrial Trends Survey of Scottish manufacturing firms reported a slowdown in output and employment growth. However, total new orders picked-up over the quarter driven by further growth in export orders offsetting a slight fall in domestic orders, while business optimism also improved over the quarter.

CONSUMER SENTIMENT

- In Q3 2019, the Scottish Consumer Sentiment Indicator was -6.6, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 0.4 points, implying that sentiment weakened compared to the previous quarter.
- All the current indicators remained negative on balance, however improved over the quarter. The improvement in sentiment regarding current economic performance and individuals own household financial security is consistent with households being more relaxed about spending money.
- Expectations for the outlook across both the economic performance indicator and the household financial security indicator weakened. On balance, households continue to expect their financial position to be more secure in 12 months' time, however also expect overall economic performance to weaken.



Scottish Consumer Sentiment Indicator	Latest Quarter (Q3 2019)	Previous Quarter (Q2 2019)	Change between Q2 2019 and Q3 2019
Composite Indicator Score	-6.6	-6.1	-0.4
(a) Economy performance - last 12 months	-9.3	-9.8	0.5
(b) Economy performance - next 12 months	-21.4	-18.6	-2.7
(c) Household financial position - last 12 months	-1.7	-2.5	0.8
(d) Household financial position - next 12 months	2.6	3.9	-1.3
(e) Attitude to household spending – last 12 months	-3.0	-3.6	0.5

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 (May 2019), was revised down to 0.8% for 2019 (1.2% in December) and 0.9% in 2020 (from 1.0% in December).²
- The **Fraser of Allander Institute's** latest Scottish central GDP growth forecast (October 2019) was revised down to 1.0% in 2019 (1.2% in June 2019), picking up to 1.2% in 2020 (down from 1.4% in June 2019).
- **EY Scottish ITEM Club's** latest Scottish GDP growth forecast (July 2019) remained unchanged for 2019 at 1.0% and was revised down to 1.3% for 2020 (from 1.4% in December).
- The **PwC economic outlook** (July 2019) projects Scottish output to grow 1.6% in 2019 (revised up from 1.2% in March 2019), and to ease in 2020 to 1.3% (revised down from 1.6% in March 2019).
- 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 (October 2019) projects growth of 1.2% in 2019 (unchanged from September 2019) and 1.0% in 2020 (down from 1.1% in September 2019).
- The **IMF's World Economic Outlook** (October 2019) UK GDP growth forecast was revised down to 1.2% for 2019 (1.3% in July 2019) and remained unchanged at 1.4% for 2020.

Annual GDP Growth (calendar year %)	Region	Outturn	Forecasts/Projections	
		2018	2019	2020
Scottish Fiscal Commission (May 2019)	Scotland	1.4	0.8	0.9
Fraser of Allander Institute (October 2019)			1.0	1.2
EY Scottish ITEM Club (July 2019)			1.0	1.3
PwC (July 2019)			1.6	1.3
OBR (March 2019)	UK	1.4	1.2	1.4
HM Treasury Average UK Independent Forecast (October 2019)			1.2	1.0
International Monetary Fund (October 2019)			1.2	1.4

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/>