



MONTHLY ECONOMIC BRIEF – November 2019

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Labour Productivity statistics** showed that in Q2 2019, output per hour in Scotland grew by 0.2% over the quarter, down from 0.7% in Q1 2019. Compared to the same quarter last year, labour productivity in Scotland grew 1.3%.

Labour Market

- Over the quarter to July to September 2019, Scotland's unemployment rate increased by 0.4 percentage points to 4.0%, the employment rate fell by 1.0 percentage points to 74.4% and the inactivity rate increased by 0.8 percentage points to 22.4%.

Business Surveys

- The IHS Markit **RBS Purchasing Managers Index** reported that Scotland's private sector activity contracted in October. Business optimism remained positive, however fell to its lowest level in over 3-years.
- The **Scottish Engineering Quarterly Review** for Q4 2019 reported a slight rise in Engineering/Manufacturing output volume over the quarter. However, order intake and exports continued to fall and business optimism remained negative.

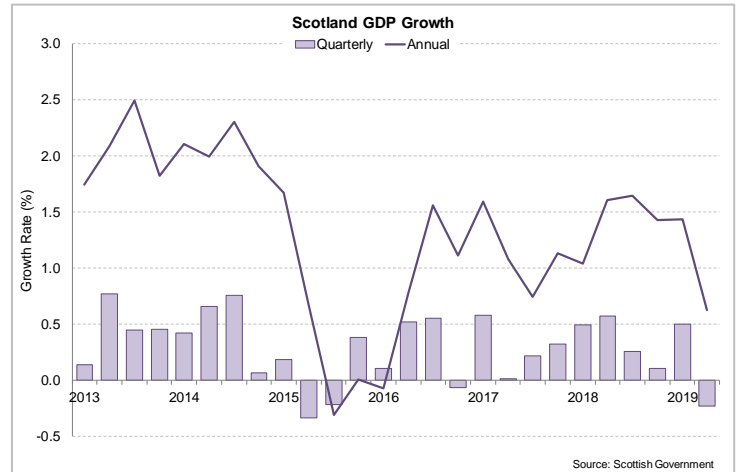
Outlook

- The **PWC UK Economic Outlook** projects Scottish output growth of 1.4% in 2019, before easing back to 1.0% growth in 2020.

OUTPUT

Quarterly GDP Growth (%)	Q2 2018		Q3 2018		Q4 2018		Q1 2019		Q2 2019		Q3 2019	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
		0.6	0.5	0.3	0.6	0.1	0.3	0.5	0.6	-0.2	-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** (first estimate) grew by 0.3% in Q3 2019 (grew 1.0% annually), up from a 0.2% fall in Q2 2019.
- **Euro Area GDP** (flash estimate) grew 0.2% in Q3 2019 (1.2% annually), in line with 0.2% growth in Q2 2019.
- **US GDP** (advance estimate) grew 0.5% in Q3 2019 (2.1% annually), in line with 0.5% growth in Q2 2019.

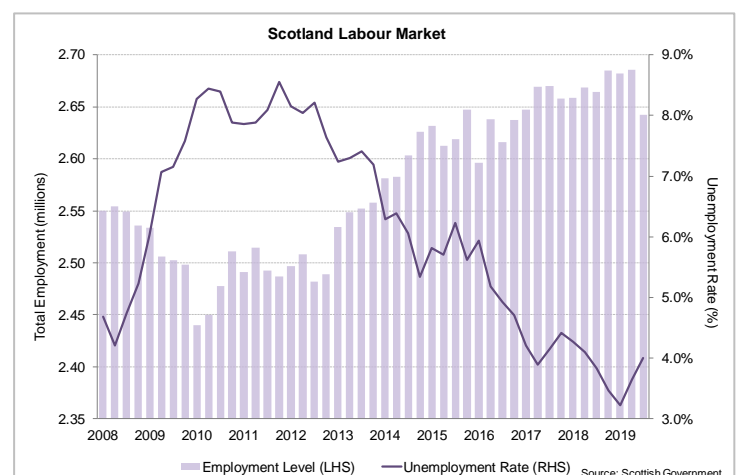


GDP Growth by sector, Q2 2019 (2 nd Estimate)	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	-0.2	-0.2	0.6	1.3
Service Sector	0.2	0.1	1.2	1.7
Distribution, Hotels & Catering	0.3	0.0	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 July to September 2019:

- The employment level decreased by 22,000 and the employment rate fell by 0.5 percentage points to 74.4% (UK; 76.0%).
- The unemployment level increased by 4,000 and the unemployment rate increased by 0.2 percentage points to 4.0% (UK; 3.8%).
- The economic inactivity (those neither in employment or ILO unemployed) level increased by 13,000 and the inactivity rate increased by 0.4 percentage points to 22.4 (UK; 20.8%).



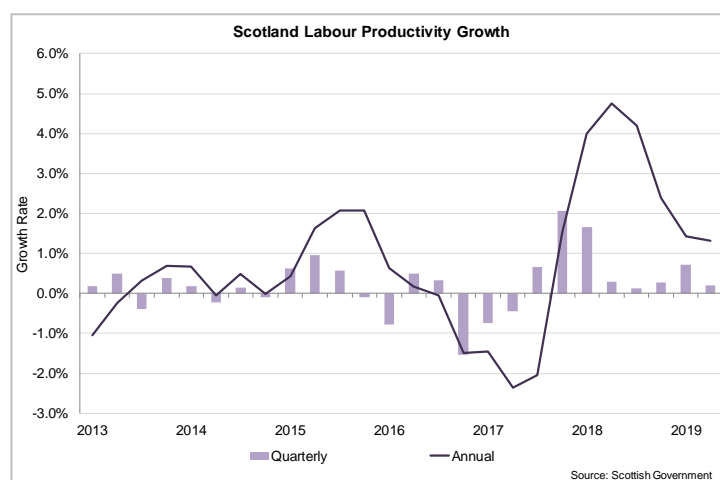
Labour Market Headline Statistics – July to September 2019

Rate (%)	Change (% points)		Level ('000)	Change ('000)			
	Over Quarter	Over Year		Over Quarter	Over Year		
Scotland							
Employment ^A	74.4	-1.0	-0.5	Employment ^C	2,643	-43	-22
ILO Unemployment ^B	4.0	0.4	0.2	ILO Unemployment ^C	110	8	4
Economic Inactivity ^A	22.4	0.8	0.4	Economic Inactivity ^D	771	26	13
UK							
Employment ^A	76.0	-0.1	0.5	Employment ^C	32,753	-58	323
ILO Unemployment ^B	3.8	-0.1	-0.2	ILO Unemployment ^C	1,306	-23	-72
Economic Inactivity ^A	20.8	0.1	-0.3	Economic Inactivity ^D	8,616	53	-110

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.

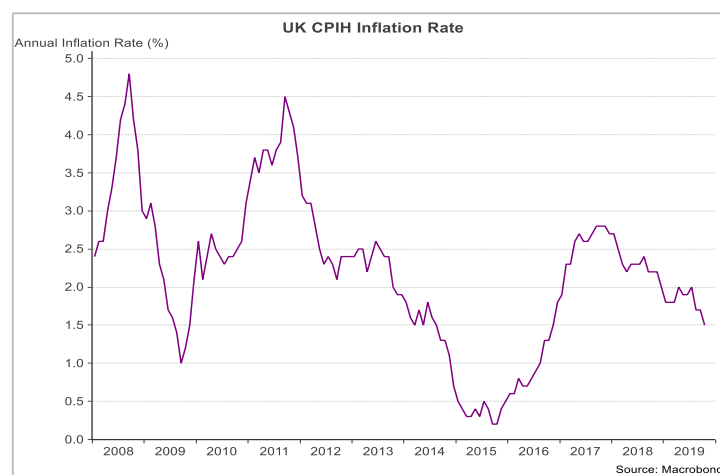
PRODUCTIVITY

- In Q2 2019, Scottish labour productivity (output per hour worked) grew by 0.2% over the quarter, down from 0.7% in the previous quarter.
- Compared to the same quarter one year ago, output per hour in Q2 2019 grew by 1.3%.
- The growth in productivity over the year reflects that GVA growth (1.3%) outweighed a fall in total number of hours worked (-0.7%).
- 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 1.5% in October 2019, down from 1.7% in September 2019.
- Key downward contributions to the rate came from electricity, gas and other fuels (as a result of changes to the energy price cap) alongside furniture, household equipment & maintenance. These were partly offset by a rise in clothing and footwear prices.



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

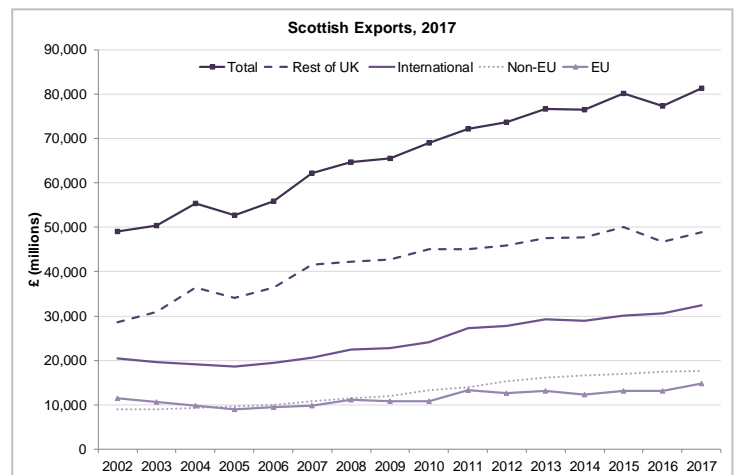
Index of Manufactured Exports (Q2 2019)

- 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

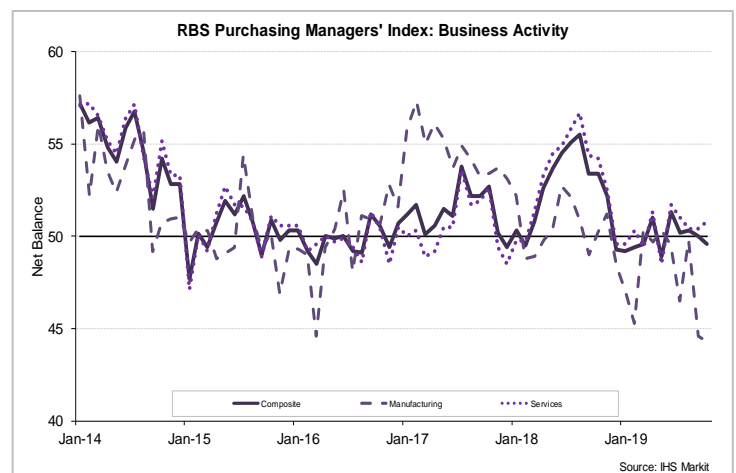
Export Statistics Scotland (2017)

- 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 contraction in Scottish private sector business activity in October. Marginal growth in the services sector was offset by a sharp fall in manufacturing output. Looking ahead, business optimism remained positive, however was at its lowest level in over 3-years.
- The Scottish Engineering Quarterly Review reported a slight rise in output volumes in Q4 2019 (potentially related to inventory building) while order intakes and exports continued to



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** (November 2019) projects Scottish output to grow 1.4% in 2019 (revised down from 1.6% in July 2019), and to ease in 2020 to 1.0% (unchanged from July 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 (November 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/>