



MONTHLY ECONOMIC BRIEF – September 2019

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Scotland's GDP statistics** for Q2 2019 show that the Scottish economy contracted by 0.3% over the quarter (UK GDP contracted by 0.2%) and grew 0.7% over the year (UK GDP grew by 1.3%).
- **HMRC Regional Trade Statistics** for the year ending Q2 2019 showed that the value of Scotland's annual international goods exports (including oil and gas) increased by 14.5% (UK: 3.3%) to £34 billion.

Labour Market

- Over the quarter to May to July 2019, Scotland's **unemployment rate** increased by 0.7 percentage points to 4.0% (UK: 3.8%), the **employment rate** fell by 1.0 percentage points to 74.9% (UK: 76.1%) and the **inactivity rate** increased by 0.4 percentage points to 21.9% (UK 20.8%).

Business Surveys

- The **Purchasing Managers Index**¹ for August reported that the private sector economy in Scotland grew only fractionally for the second month in a row, while business optimism remained positive, however fell to its lowest level in over three years.
- The **Scottish Business Monitor**² for Q3 2019 reported 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 **Small Business Index**³ for Q2 2019 reported a fall in Scottish small business revenue and profit growth over the quarter, though to a lesser extent than in Q1, while business confidence increased over the quarter and was positive for the first time since Q2 2018.

¹ IHS Markit: RBS Purchasing Managers Index.

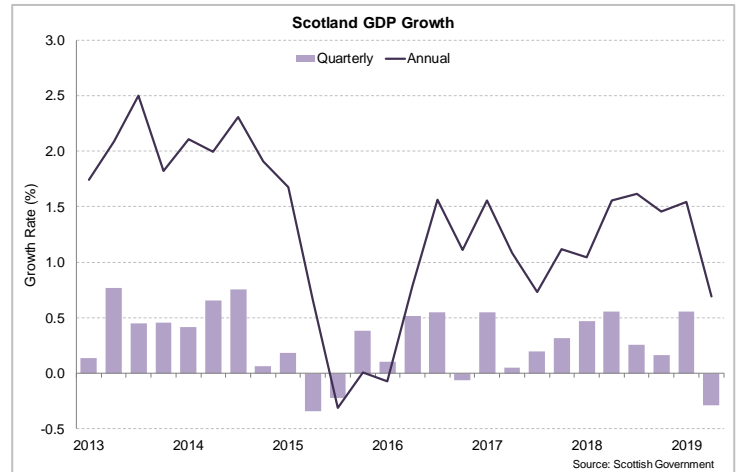
² Fraser of Allander Institute: Addleshaw Goddard Scottish Business Monitor

³ Federation of Small Businesses Scotland Small Business Index

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	0.2	0.3	0.6	0.6	-0.3

- **Scottish GDP** (first estimate) contracted by 0.3% in Q2 2019 (grew 0.7% annually), down from 0.6% 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** (first estimate) grew 0.2% in Q2 2019 (1.2% annually), down from 0.4% growth in Q1 2019.
- **US GDP** (third estimate) grew 0.5% in Q2 2019 (2.3% annually), down from 0.8% in Q1 2019.

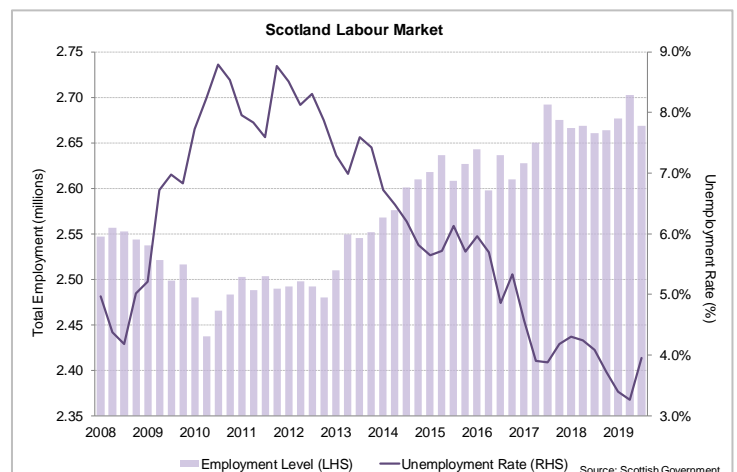


GDP Growth by sector, Q2 2019	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	-0.3	-0.2	0.7	1.3
Service Sector	0.1	0.1	1.1	1.7
Distribution, Hotels & Catering	0.3	0.0	0.7	2.7
Transport, Storage & Comms	0.6	0.6	1.1	5.4
Business Services & Finance	0.3	0.0	1.9	0.3
Government & Other Services	-0.5	0.2	0.4	1.4
Production Sector	-1.1	-1.8	-0.7	-0.9
Mining & Quarrying	2.6	-1.1	8.5	-0.3
Manufacturing	-2.5	-2.8	-0.8	-1.3
Electricity & Gas	1.4	2.8	-4.0	0.9
Water & Sewerage	-2.2	1.2	3.8	0.5
Construction	-2.2	-1.2	-0.3	1.8
Agriculture, Forestry & Fishing	0.3	-0.4	-0.8	-1.4

LABOUR MARKET

Over the year to May to July 2019:

- The employment level increased by 8,000, however the employment rate fell by 0.1 percentage points to 74.9% (UK; 76.1%).
- The unemployment level fell by 3,000 and the unemployment rate fell by 0.1 percentage points to 4.0% (UK; 3.8%).
- The economic inactivity (those neither in employment or ILO unemployed) level increased by 5,000 and the inactivity rate increased by 0.2 percentage points to 21.9% (UK; 20.8%).



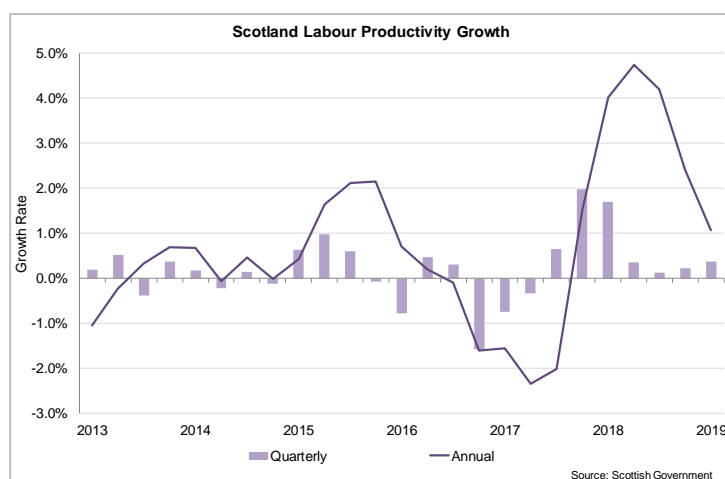
Labour Market Headline Statistics, – May to July 2019

Rate (%)	Change (% points)		Level ('000)	Change ('000)			
	Over Quarter	Over Year		Over Quarter	Over Year		
Scotland							
Employment ^A	74.9	-0.1	-0.1	Employment ^C	2,669	-33	8
ILO Unemployment ^B	4.0	0.7	-0.1	ILO Unemployment ^C	110	19	-3
Economic Inactivity ^A	21.9	0.4	0.2	Economic Inactivity ^D	754	14	5
UK							
Employment ^A	76.1	0.0	0.6	Employment ^C	32,777	31	369
ILO Unemployment ^B	3.8	0.0	-0.2	ILO Unemployment ^C	1,294	-11	-64
Economic Inactivity ^A	20.8	0.0	-0.5	Economic Inactivity ^D	8,587	6	-171

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.

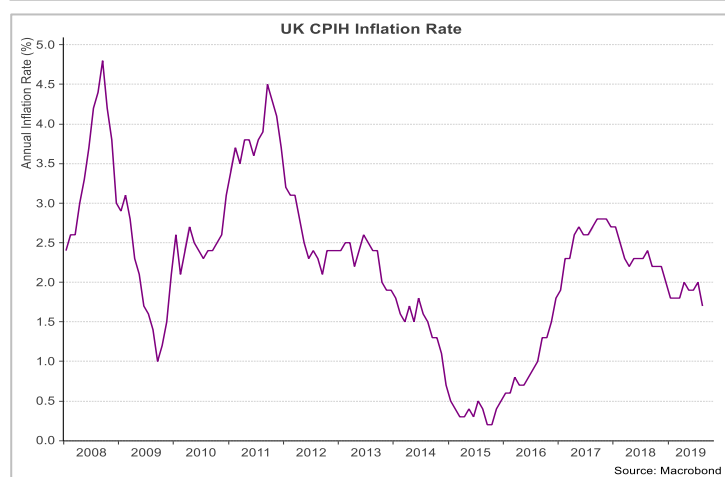
PRODUCTIVITY

- 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 August 2019, down from 2.0% in July 2019.
- Key downward contributions to the rate came from a range of recreational and cultural goods and services. The largest offsetting upward contributions came from a rise in air fares.



RETAIL

- The volume of Scottish retail sales grew 0.9% over the second quarter of 2019 (2.5% over the year). The value of retail sales grew by 0.8% over quarter 2 (2.7% over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 0.8% in Q2 2019. Sales from small & medium size stores (which account for the remaining 30% of sales) decreased -0.1% compared to the previous quarter.

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

Volume	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Value	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Scotland	0.1	0.2	1.3	0.9	Scotland	0.1	0.5	1.2	0.8
GB	1.2	0.1	1.6	0.7	GB	1.6	0.2	1.6	0.7

EXPORTS & TRADE

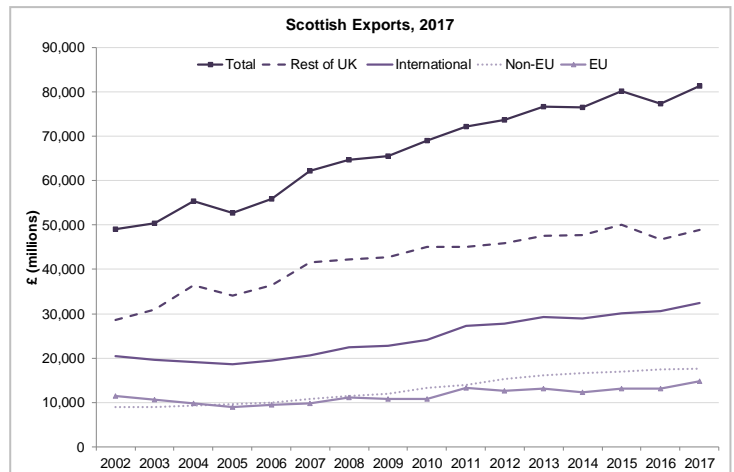
Index of Manufactured Exports (Q1 2019)

- Manufactured exports make up around half of the total value of international exports from Scotland's onshore economy.
- The volume of Scottish manufactured exports, increased by 1.4% in Q1 2019 and increased 3.3% over the year.
- The largest contributor to the increase in the volume of manufactured exports over the year was Food and Drink exports which increased 16.9%.

Manufactured Exports, Scotland, Q1 2019 (volume)	2016 Weight	Quarterly Growth (%)	Annual Growth (%)
Total Manufacturing	100	1.4	3.3
Food and Drink	36.2	5.7	16.9
Engineering, Machinery and Metals	39.8	-0.8	-6.9
Refined Petroleum, Chemical & Pharmaceutical Products	11.2	-1.8	3.3
Other Manufactured Products	12.8	-3.3	-4.3

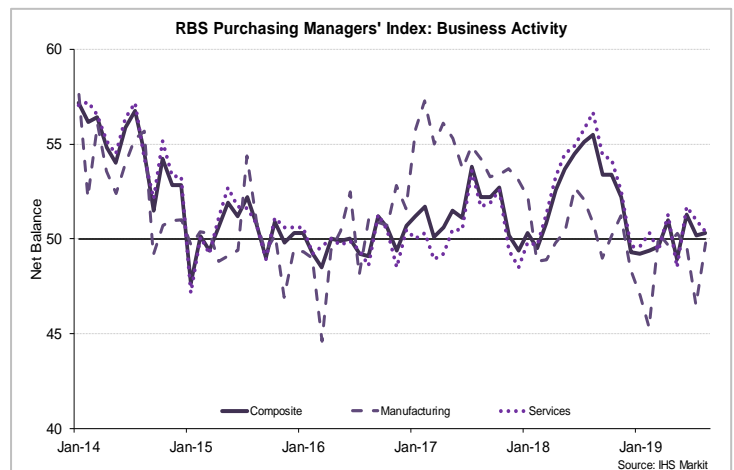
Export Statistics Scotland (2017)

- 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

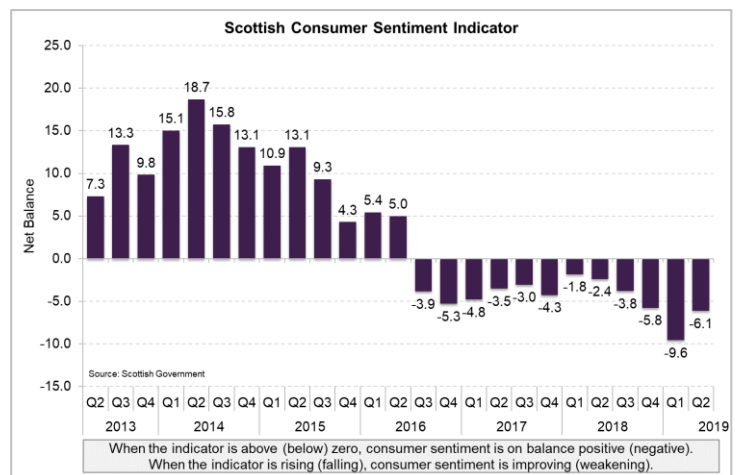
- The IHS Markit RBS Purchasing Managers Index for August reported that the private sector economy in Scotland grew only fractionally for the second month in a row with Service sector growth offsetting a fall in Manufacturing output. Looking ahead, businesses expect output to increase over the coming year however the degree of business optimism remains subdued and fell to its lowest level in three years with anecdotal evidence suggesting this was due to political and economic uncertainty - notably surrounding Brexit.



- 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. In response to ongoing Brexit uncertainty c. 30% of the firms reported to have scaled back new investment and c. 35% of the firms indicated that they scaled back new business projects.
- The FSB Small Business Index for Scotland Q2 2019 reported a fall in small business revenue growth over the quarter, however to a lesser extent than in Q1 2019. Small business confidence increased sharply over the quarter and back into positive levels for only the second time since the end of 2015.
- 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.
- The Scottish Chambers of Commerce Quarterly Economic Indicator for Q2 2019 reported positive sales revenue growth across all sectors of the economy over the quarter, however business optimism and investment intentions remained subdued.
- 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 Q2 2019, the Scottish Consumer Sentiment Indicator was -6.1, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator increased by 3.4 points, implying that sentiment improved compared to the previous quarter.
- All the current indicators improved over the quarter, with the improvement in sentiment regarding current economic performance and individuals own household financial security 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 improved after four consecutive quarters of weakening sentiment. 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	Score (Q2 2019)	Score in Previous Quarter	Change from Previous Quarter
Composite Indicator Score	-6.1	-9.6	3.4
(a) Economy performance - last 12 months	-9.8	-11.3	1.5
(b) Economy performance - next 12 months	-18.6	-29.0	10.3
(c) Household financial position - last 12 months	-2.5	-3.4	0.9
(d) Household financial position - next 12 months	3.9	1.1	2.7
(e) Attitude to household spending – last 12 months	-3.6	-5.4	1.8

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 FORECASTS⁴

- 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).⁵
- The **Fraser of Allander Institute's** latest Scottish central GDP growth forecast (June 2019) was revised up to 1.2% in 2019 (1.1% in April 2019), picking up to 1.4% in 2020 (unchanged from April 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 (September 2019) projects growth of 1.2% in 2019 (down from 1.3% in August 2019) and 1.0% in 2020 (down from 1.2% in August 2019).
- The **IMF's World Economic Outlook** (July 2019) UK GDP growth forecast was revised up to 1.3% for 2019 (1.2% in April 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	1.3	0.8	0.9
Fraser of Allander Institute (June 2019)			1.2	1.4
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 (September 2019)			1.2	1.0
International Monetary Fund (July 2019)			1.3	1.4

⁴ 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.

⁵ 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/>