

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Labour Market

- Over the quarter to October-December 2018, Scotland's **unemployment rate** fell by 0.4 percentage points to 3.5%, the **employment rate** increased by 0.6 percentage points to 75.5%, and the **inactivity rate** fell by 0.3 percentage points to 21.7%.
- Latest **HMRC Real Time Information** data for Scotland show that average PAYE pay in July-September 2018 was 3.8% higher than the previous year. In the 2017/18 tax year annual growth was 2.4%.

Labour Productivity

- In Q3 2018, Scotland's **labour productivity growth** (output per hour worked) was flat over the quarter (0.0%), following 0.2% growth in the previous quarter. On a rolling annual basis, labour productivity grew 4.0%.

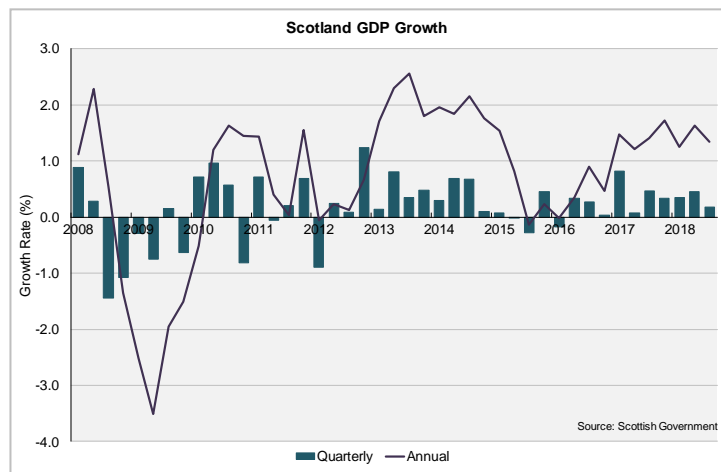
Business Surveys

- The **RBS Purchasing Managers Index** for January 2019 reported a slight decline in Scotland's business activity over the month. On balance, business optimism remained positive however eased over the month to its lowest level since April 2017.
- The **SCC Quarterly Economic Indicator** for Q4 2018 reported further growth in sales revenue across the majority of sectors (except manufacturing and tourism), albeit at a slower pace than previously. Investment also slowed across the sectors, alongside weaker levels of business optimism.
- The **Scottish Engineering Quarterly Review** for Q1 2019 reported an increase in output, alongside a rebound in order intake and staffing levels. In contrast, business optimism weakened over the quarter though remained marginally positive on balance.

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	-

- **Scottish GDP** (second estimate) grew 0.2% in Q3 2018 (1.3% annually), down from 0.5% in Q2 2018.
- **UK GDP** (first estimate) grew 0.2% in Q4 2018 (1.3% annually), down from 0.6% in Q3 2018.
- **Euro Area GDP** (flash estimate) grew 0.2% in Q4 2018 (1.2% annually), unchanged from 0.2% growth in Q3 2018.
- **US GDP** (first estimate) grew 0.6% in Q4 2018 (3.1% annually), down from 0.8% in Q3 2018.

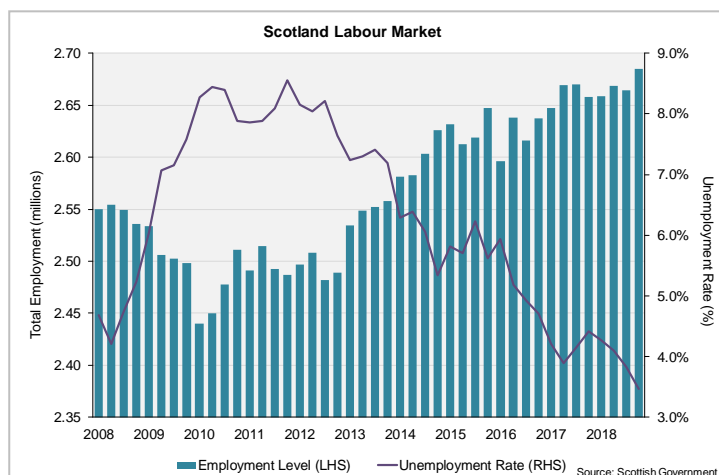


GDP Growth by sector, Q3 2018	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	0.2	0.6	1.3	1.6
Service Sector	0.2	0.5	1.3	1.8
Distribution, Hotels & Catering	-0.1	1.0	1.9	3.3
Transport, Storage & Comms	0.6	1.5	2.8	4.0
Business Services & Finance	0.4	0.3	1.5	1.7
Government & Other Services	0.1	0.1	0.4	0.0
Production Sector	-0.9	0.6	1.4	0.7
Mining & Quarrying	0.7	1.7	-0.5	2.6
Manufacturing	-0.9	0.2	3.2	0.9
Electricity & Gas	-1.7	1.7	-3.3	-0.5
Water & Sewerage	-0.7	0.8	3.6	-1.2
Construction	2.9	2.1	2.0	1.5
Agriculture, Forestry & Fishing	-1.1	-0.5	-3.4	-3.9

LABOUR MARKET

Over the year to October-December 2018:

- The employment level increased by 27,000 and the employment rate rose by 1.1 percentage points to 75.5% (UK, 75.8%).
- The unemployment level fell by 26,000 and the unemployment rate fell by 1.0 percentage points to 3.5% (UK, 4.0%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 13,000 and the inactivity rate fell by 0.4 percentage points to 21.7% (UK, 20.9%).



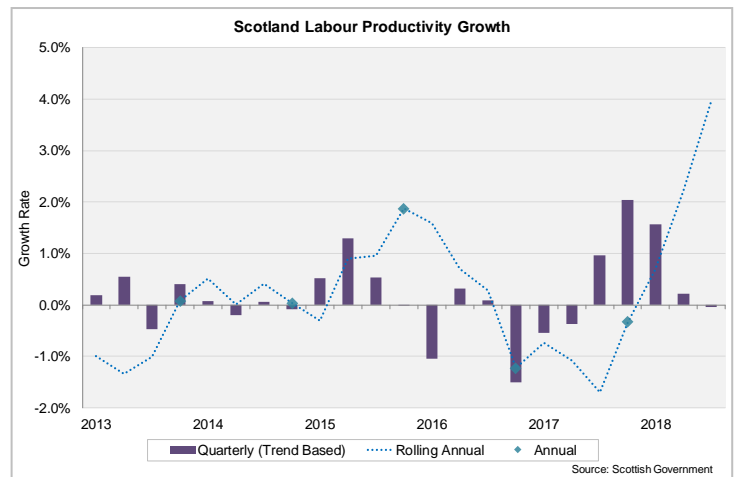
Labour Market Headline Statistics, October - December 2018

	Rate (%)	Change (% points)		Level ^C ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	75.5	0.6	1.1	2,685	21	27
ILO Unemployment ^B	3.5	-0.4	-1.0	96	-10	-26
Economic Inactivity ^A	21.7	-0.3	-0.4	747	-11	-13
UK						
Employment ^A	75.8	0.3	0.7	32,597	167	444
ILO Unemployment ^B	4.0	-0.1	-0.3	1,363	-14	-100
Economic Inactivity ^A	20.9	-0.2	-0.4	8,632	-94	-153

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+.

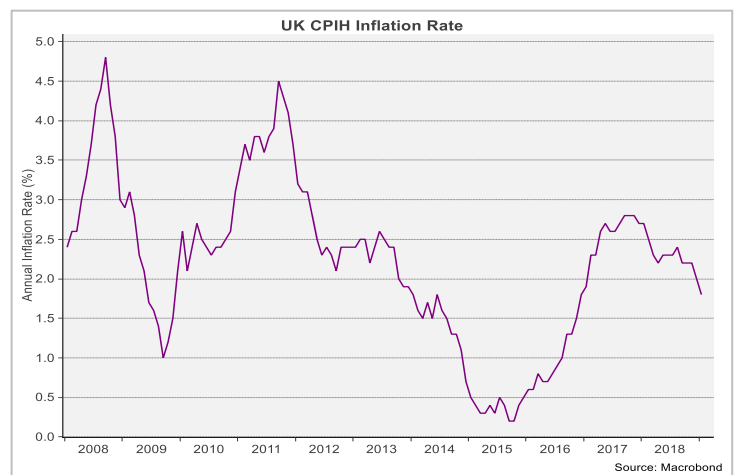
PRODUCTIVITY

- 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 January 2019, down from 2.0% in December 2018. The change was mainly driven by a fall in the price of electricity, gas and other fuels over the year.



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, 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

- 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.

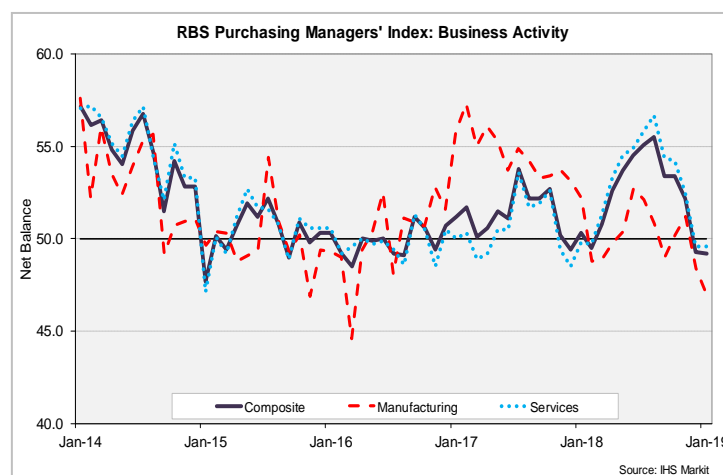
Export Statistics Scotland (2017)

- 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

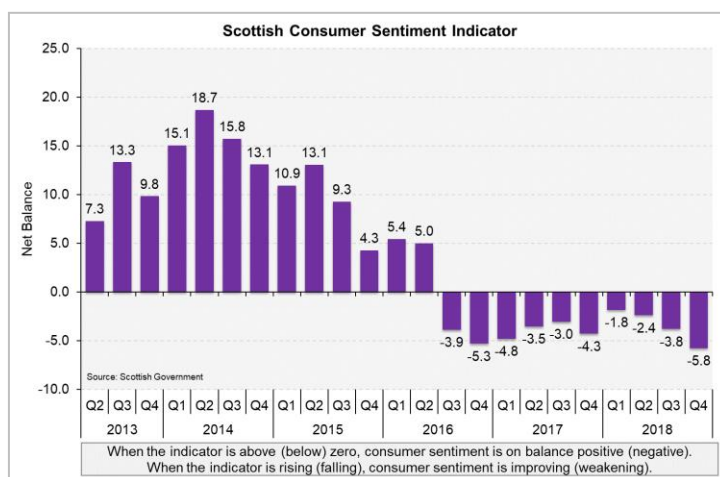
- The IHS Markit RBS Purchasing Managers Index for January showed a further slight fall in Scotland's private sector business activity, alongside a contraction in new orders across the Service and Manufacturing sectors. Looking ahead, business confidence remained positive however weakened to its lowest level since April 2017.
- 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 Q4 2018 reported further growth in business activity (both new and repeat business) over the quarter, however at a slower pace than in Q3 2018. Alongside this, capital investment remained subdued with the balance of firms reporting a decline over the quarter and the indicator remaining 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 Q4 2018, the Scottish Consumer Sentiment Indicator was -5.8, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 2.0 points, implying that sentiment weakened compared to the previous quarter. It is the indicator's lowest reading since the series began.
- Changes in current sentiment over the quarter were mixed. The indicators for attitude to spending and household financial security increased, signalling an improvement in sentiment, however the economic performance indicator decreased.
- Expectations for the outlook weakened across both the economic performance indicator and the household financial security indicator, which fell to their lowest readings since the series began.



Scottish Consumer Sentiment Indicator	Score (Q4 2018)	Score in Previous Quarter	Change from Previous Quarter
Composite Indicator Score	-5.8	-3.8	-2.0
(a) Economy performance - last 12 months	-6.3	-3.8	-2.5
(b) Economy performance - next 12 months	-23.3	-15.2	-8.1
(c) Household financial position - last 12 months	0.8	-0.3	1.1
(d) Household financial position - next 12 months	2.9	3.6	-0.6
(e) Attitude to household spending – last 12 months	-3.0	-3.3	0.3

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

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.

- The **Scottish Fiscal Commission's** (SFC) latest Scottish GDP growth forecast (December 2018), was revised up to 1.4% for 2018 (0.7% in May) and 1.2% in 2019 (from 0.8% in May).²
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (December 2018), remained unchanged at 1.3% for 2018, rising to 1.4% in 2019.
- **EY Scottish ITEM Club's** latest Scottish GDP growth forecast (December 2018) was revised up for 2018 to 1.6% (from 1.3% in June) and revised down to 1.0% for 2019 (from 1.6%).
- **PwC's** latest Scottish GDP growth projection (November 2018) was revised up to 1.5% per annum in 2018 and 2019 (from previous projection of around 1.0% in 2018 and around 1.3% in 2019).
- The **OBR's Economic and Fiscal Outlook** (October 2018) forecast for UK GDP growth was revised down for 2018 to 1.3% (1.5% previously) and revised up for 2019 to 1.6% for 2019 (1.3% previously).
- **HMT's comparison of independent GDP forecasts** for the UK economy (February 2019) reported an average growth forecast of 1.4 in 2019 (revised down from 1.5 January 2019) and 1.6% in 2020.
- The **IMF's World Economic Outlook** (January 2019) forecast UK GDP growth to be 1.4% in 2018 and 1.5% in 2019 (unchanged from October).

Annual GDP Growth (calendar year %)	Region	Outturn	Forecasts/Projections	
		2017	2018	2019
Scottish Fiscal Commission (December 2018)	Scotland	1.4	1.4	1.2
Fraser of Allander Institute (December 2018)			1.3	1.4
EY Scottish ITEM Club (December 2018)			1.6	1.0
PwC (November 2018)			1.5	1.5
OBR (October 2018)	UK	1.8	1.4	1.6
HM Treasury Average UK Independent Forecast (February 2019)				1.4
International Monetary Fund (January 2019)				1.5

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/>