



MONTHLY ECONOMIC BRIEF – January 2020

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Quarterly National Accounts Scotland for Q3 2019 reported that:**
 - Scotland's GDP grew by 0.3% in real terms during Q3 2019 (up from a 0.3% contraction in Q2 2019), and grew 0.6% over the year.
 - The annualised value of Scotland's onshore GDP is £167.2 billion (£30,658 per person), in current prices. Including a geographical share of UK extra-regio (offshore and overseas) economic activity, Scottish GDP is £176.9 billion (£32,443 per person).
- The **Retail Sales Index** for Scotland showed the volume of retail sales fell by 0.8% in Q4 2019 (grew 0.1% annually) and the value of sales fell by 0.6% (grew 0.8% annually).

Exports

- **Exports Statistics Scotland** reported that Scottish international exports (excluding oil and gas) increased by £1.1 billion (3.4%) to £33.8 billion in 2018, compared to 2017. Scottish exports to the rest of the UK increased by £1.2 billion (2.5%) to £51.2 billion.

Labour Market

- Over the quarter to September to November 2019, Scotland's unemployment rate decreased by 0.3 percentage points to 3.8%, the employment rate remained unchanged at 74.3% and the inactivity rate increased by 0.2 percentage points to 22.7%.

Business Surveys

- The IHS Markit **RBS Purchasing Managers Index** reported that Scotland's private sector activity stagnated in December. Business optimism increased over the month, however remained low compared to historical data.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** for Q4 2019 reported a slower pace of sales revenue growth across most sectors, while business optimism weakened and investment intentions remained subdued..

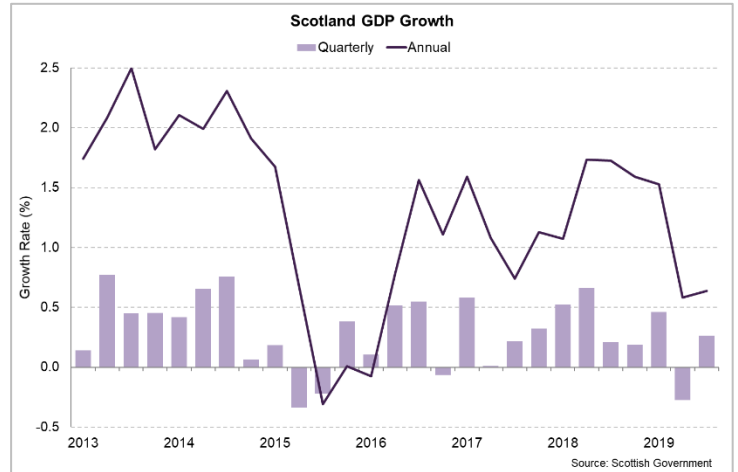
Consumer Sentiment

- The **Scottish Consumer Sentiment Indicator** showed a weakening in sentiment in Q4 2019, decreasing 1.4 points over the quarter and remains negative on balance (-8.0).

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
		0.7	0.5	0.2	0.6	0.2	0.3	0.5	0.6	-0.3	-0.2	0.3

- **Scottish GDP** (second estimate) grew by 0.3% in Q3 2019 (grew 0.6% annually), up from a 0.3% contraction in Q2 2019.
- **UK GDP** (second estimate) grew by 0.4% in Q3 2019 (grew 1.1% annually), up from a 0.2% contraction in Q2 2019.
- **Euro Area GDP** (flash estimate) grew 0.1% in Q4 2019 (1.0% annually), down from 0.3% growth in Q3 2019.
- **US GDP** (advance estimate) grew 0.5% in Q4 2019 (2.3% annually), in line with 0.5% growth in Q3 2019.

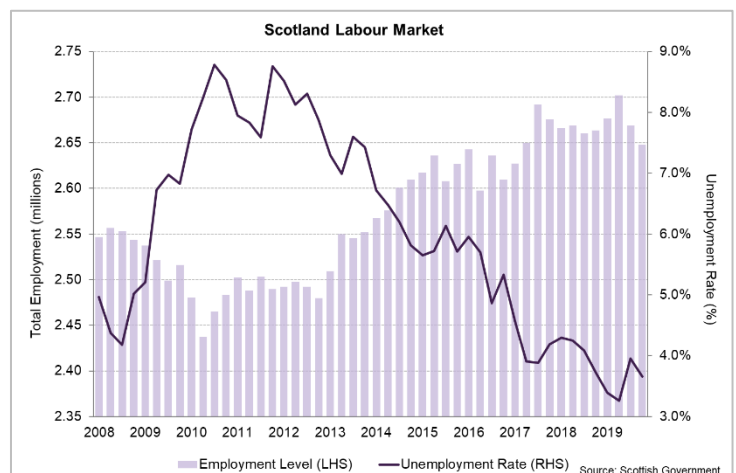


GDP Growth by sector, Q3 2019 (2 nd Estimate)	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	0.3	0.4	0.6	1.1
Service Sector	0.1	0.5	0.7	1.6
Distribution, Hotels & Catering	-0.2	0.2	1.7	2.0
Transport, Storage & Comms	-0.4	0.6	1.3	3.8
Business Services & Finance	0.3	0.5	0.7	0.5
Government & Other Services	0.1	0.5	0.1	1.8
Production Sector	1.1	0.1	0.5	-1.3
Mining & Quarrying	-0.1	-0.1	4.0	-3.7
Manufacturing	-0.3	0.1	-1.7	-1.0
Electricity & Gas	6.8	-1.8	6.5	-3.5
Water & Sewerage	0.2	1.6	-2.1	0.8
Construction	0.0	1.2	-1.1	1.9
Agriculture, Forestry & Fishing	1.3	-0.1	6.4	-1.4

LABOUR MARKET

Over the year to September to November 2019:

- The employment level decreased by 17,000 and the employment rate fell by 1.0 percentage points to 74.3% (UK; 76.3%).
- The unemployment level increased by 4,000 and the unemployment rate increased by 0.2 percentage points to 3.8% (UK; 3.8%).
- The economic inactivity (those neither in employment or ILO unemployed) level increased by 28,000 and the inactivity rate increased by 0.8 percentage points to 22.7 (UK; 20.8%).



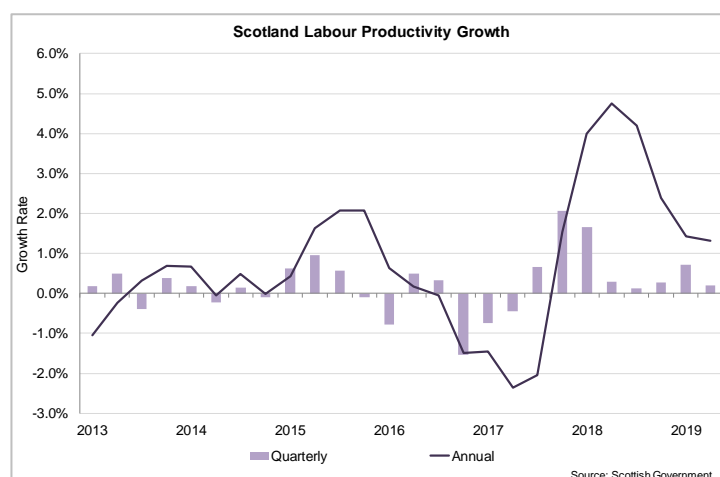
Labour Market Headline Statistics – September to November 2019

Rate (%)	Change (% points)		Level ('000)	Change ('000)			
	Over Quarter	Over Year		Over Quarter	Over Year		
Scotland							
Employment ^A	74.3	0.0	-1.0	Employment ^C	2,654	18	-17
ILO Unemployment ^B	3.8	-0.3	0.2	ILO Unemployment ^C	105	-7	4
Economic Inactivity ^A	22.7	0.2	0.8	Economic Inactivity ^D	781	8	28
UK							
Employment ^A	76.3	0.5	0.6	Employment ^C	32,901	208	359
ILO Unemployment ^B	3.8	0.0	-0.2	ILO Unemployment ^C	1,306	-7	-64
Economic Inactivity ^A	20.6	-0.4	-0.4	Economic Inactivity ^D	8,506	-171	-145

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.

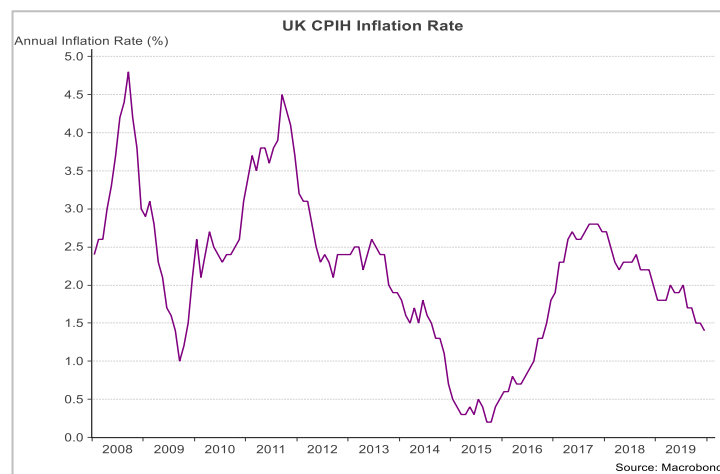
PRODUCTIVITY

- 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 1.4% in December 2019, down from 1.5% in November 2019.
- Key upward contributions to the rate came from housing, water, electricity, gas and other fuels. These were offset by a fall in accommodation services and clothing prices.



RETAIL

- The volume of Scottish retail sales fell by 0.8% over the fourth quarter of 2019 (grew by 0.1% over the year). The value of retail sales fell by 0.6% over the quarter (grew by 0.8% over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) fell by 0.7% in Q4 2019. Sales from small & medium size stores (which account for the remaining 30% of sales) decreased by 0.1% compared to the previous quarter.

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

Volume	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Value	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Scotland	1.1	0.7	-0.8	-0.8	Scotland	1.1	0.5	-0.2	-0.6
GB	1.6	0.5	0.4	-1.0	GB	1.6	0.6	0.7	-0.9

EXPORTS & TRADE

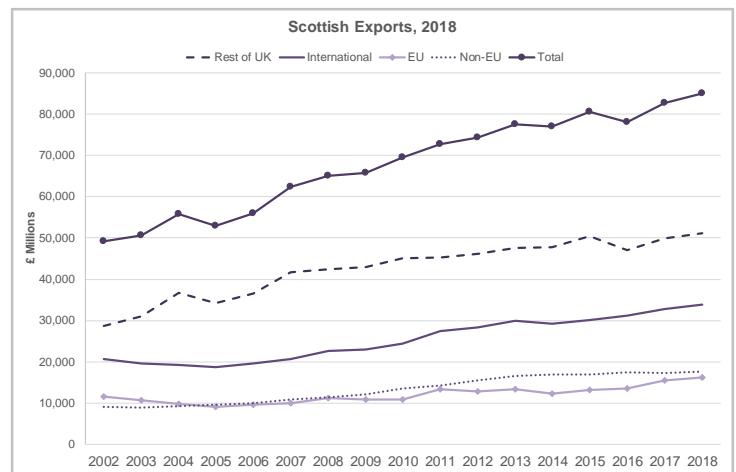
Index of Manufactured Exports (Q3 2019)

- 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 3.2% in Q3 2019 and increased 3.6% over the year.
- The largest contributor to the increase in the volume of manufactured exports over the year was Engineering, Machinery and Metals which increased by 5.9%.

Manufactured Exports, Scotland, Q3 2019 (volume)	2016 Weight	Quarterly Growth (%)	Annual Growth (%)
Total Manufacturing	100	3.2	3.6
Food and Drink	36.2	2.5	8.4
Engineering, Machinery and Metals	39.8	5.9	5.5
Refined Petroleum, Chemical & Pharmaceutical Products	10.5	5.8	-8.4
Other Manufactured Products	13.5	-4.5	-7.0

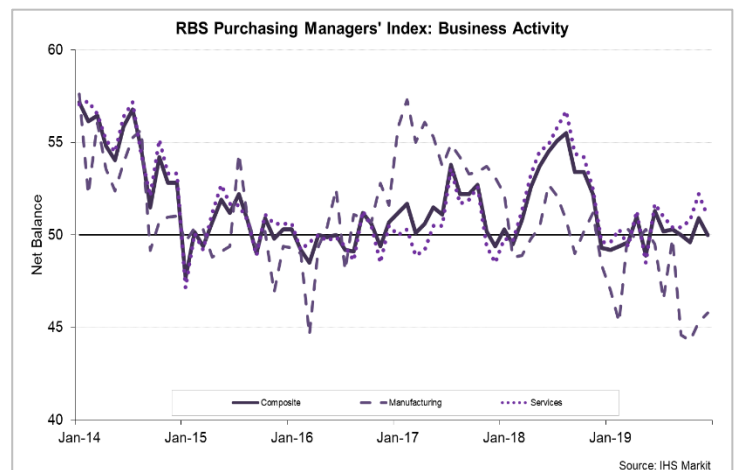
Export Statistics Scotland (2018)

- Total exports (goods and services) from Scotland to the rest of the UK and internationally in 2018 (excluding oil and gas) were estimated at £85.0 billion, up £2.4 billion (2.9%) over the year.
- Exports to rest of the UK grew £1.2 billion (2.5%) in 2018 to £51.2 billion and international exports increased by £1.1 billion (3.4%) to £33.8 billion.
- International exports to EU countries grew by £0.7 billion (4.5%) to £16.1 billion in 2018, making up c. 48% of international exports. International exports to non-EU countries increased by £0.4 billion (2.5%) to £17.7 billion.
- The USA was Scotland's top international export destination country (£5.5 billion). The top 5 international export markets (USA, France, Netherlands, Germany and Belgium) accounted for £15.1 billion (45%) of international exports from Scotland in 2018.



BUSINESS SURVEYS

- The IHS Markit RBS Purchasing Managers Index reported that Scottish private sector business activity stagnated in December. Marginal growth in the services sector was offset by a sharp fall in manufacturing output. Looking ahead, business optimism remained positive, however low compared to historical data.
- The Scottish Chambers of Commerce Quarterly Economic Indicator for Q4 2019 reported positive sales revenue growth across most sectors of the economy, however the pace of growth had generally

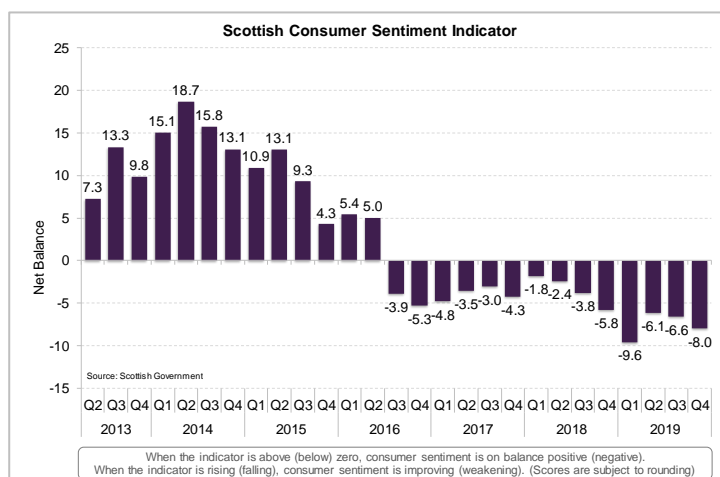


slowed from the previous quarter and contracted in the manufacturing and tourism sectors. Alongside this, business optimism generally remained subdued, as did investment intentions for the next quarter.

- 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 fall. Staffing and investment plans in capital and training increased, however eased from Q3 2019 while business optimism remained negative.
- 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.

CONSUMER SENTIMENT

- In Q4 2019, the Scottish Consumer Sentiment Indicator was -8.0, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 1.4 points, implying that sentiment weakened compared to the previous quarter.
- All the current indicators remained negative on balance and weakened over the quarter. The weakening in sentiment regarding current economic performance and individuals own household financial security is consistent with households being less 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 (Q4 2019)	Previous Quarter (Q3 2019)	Change between Q3 2019 and Q4 2019
Composite Indicator Score	-8.0	-6.6	-1.4
(a) Economy performance - last 12 months	-10.1	-9.3	-0.9
(b) Economy performance - next 12 months	-25.5	-21.4	-4.1
(c) Household financial position - last 12 months	-1.9	-1.7	-0.2
(d) Household financial position - next 12 months	1.5	2.6	-1.1
(e) Attitude to household spending – last 12 months	-3.8	-3.0	-0.8

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 FORECASTS¹

- The **Scottish Fiscal Commission** (SFC) latest Scottish GDP growth forecast (May 2019), expects growth to strengthen in 2020 to 0.9% (down from 1.0% forecast in December 2018).²
- The **Fraser of Allander Institute's** latest Scottish central GDP growth forecast (December 2019) expects growth to strengthen in 2020 to 1.3% (up from 1.2% forecast in October 2019).
- **EY Scottish ITEM Club's** latest Scottish GDP growth forecast (July 2019) expects growth to strengthen in 2020 to 1.3% (down from 1.4% forecast in December 2018).
- The **PwC economic outlook** (November 2019) projects Scottish output growth to slow in 2020 to 1.0%.
- The **OBR's Economic and Fiscal Outlook** (March 2019) forecast for UK GDP growth expects growth to strengthen in 2020 to 1.4% (unchanged from previous forecast).
- **HMT's comparison of independent GDP forecasts** for the UK economy (January 2020) projects growth to slow to 1.1% in 2020 (unchanged from December 2019 forecast).
- The **IMF's World Economic Outlook** (January 2020) UK GDP growth forecast expects growth to strengthen in 2020 to 1.4% (unchanged from forecast in October 2019).

Annual GDP Growth (calendar year %)	Region	Outturn	Forecasts/Projections	
		2018	2019	2020
Scottish Fiscal Commission (May 2019)	Scotland	1.5	0.8	0.9
Fraser of Allander Institute (December 2019)			0.9	1.3
EY Scottish ITEM Club (July 2019)			1.0	1.3
PwC (November 2019)			1.4	1.0
OBR (March 2019)	UK	1.3	1.2	1.4
HM Treasury Average UK Independent Forecast (January 2020)			1.3	1.1
International Monetary Fund (January 2020)			1.3	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/>