

FRASER OF ALLANDER INSTITUTE

Economic Commentary

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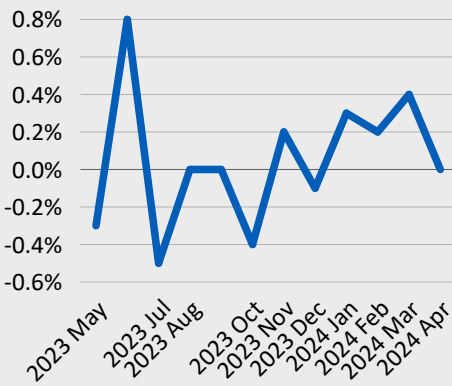
FORECASTS

June 2024

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Despite the healthy growth in UK GDP across quarter 1, the fall at the end of 2023 still means growth is likely to be depressed for the year overall.

UK Monthly Change in GDP



1.1%

2025 forecast

0.7%

2024 GDP growth forecast

0.6%

Previous 2024 forecast

Forecasts

The
Scottish
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Inflation

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Labour
Market

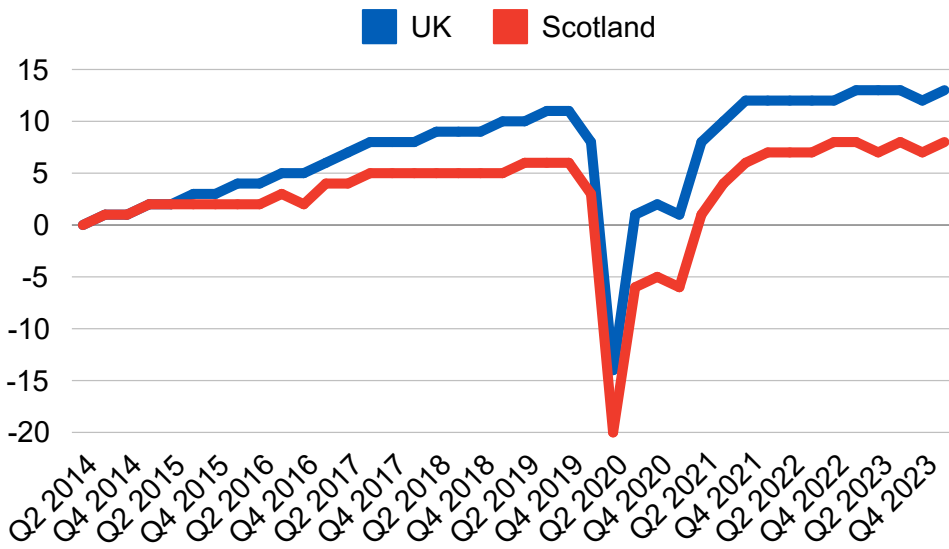
Household
Incomes

	2024	2025	2026
FAI <i>June 2024</i>	0.7%	1.1%	1.2%
FAI <i>March 2024</i>	0.6%	1.1%	1.2%
Scottish Fiscal Commission <i>December 2023</i>	0.7%	1.1%	1.3%



THE SCOTTISH ECONOMY

Scottish and UK Quarterly GDP Index (2014=0)

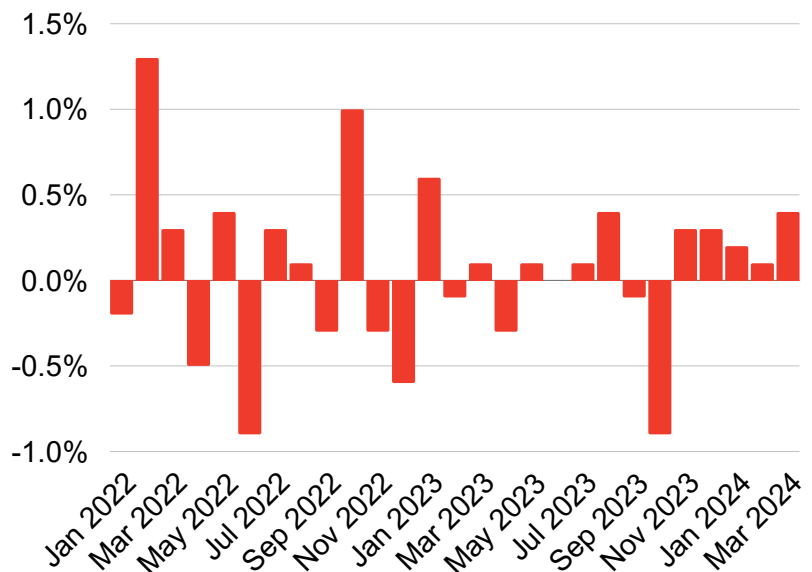


The UK saw a declining GDP for two consecutive quarters across 2023, followed by growth in Q1 2024, although it stagnated again in April 2024 compared to March.

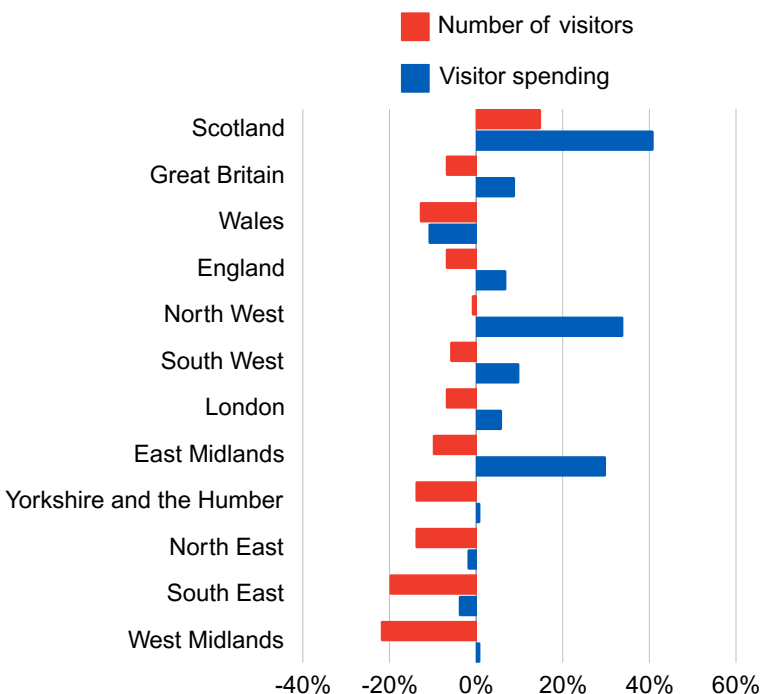
Changes in Scotland's GDP have generally followed that of the UK, albeit with a little more volatility over the past ten years.

Volatility in Scotland's monthly GDP changes were especially pronounced across 2022 and 2023. After a deep drop in GDP between September and October 2023, Scotland's GDP has consistently grown each month since.

Scottish Monthly GDP Change, 2022-2024



Change in Overseas Tourism, 2019 to 2023



Recent economic headlines in Scotland have discussed the value of overseas and internal tourism, thanks to an influx of cash into Edinburgh's economy from certain international pop stars. While it's not clear how much this actually will impact the local economy, we are keen to see how the added tourism expenditure develops in the UK in the coming months.

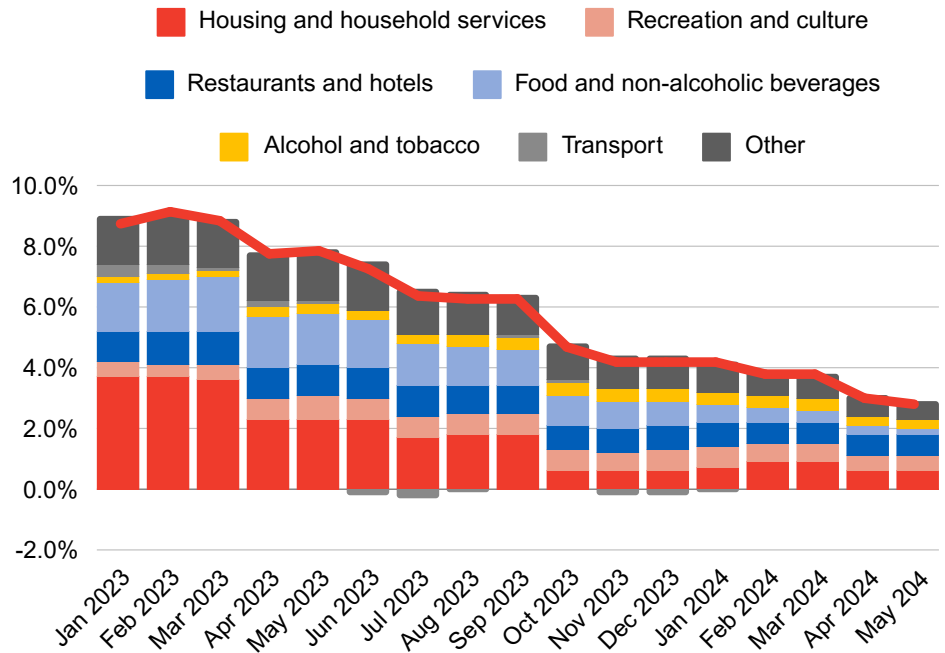
Tourism is a multibillion pound industry, and in 2023, Scotland saw the biggest rebound in overseas tourism spending since the pandemic. It was the only region in Great Britain to see an overall increase in the number of international visits between 2019 and 2023.

INFLATION

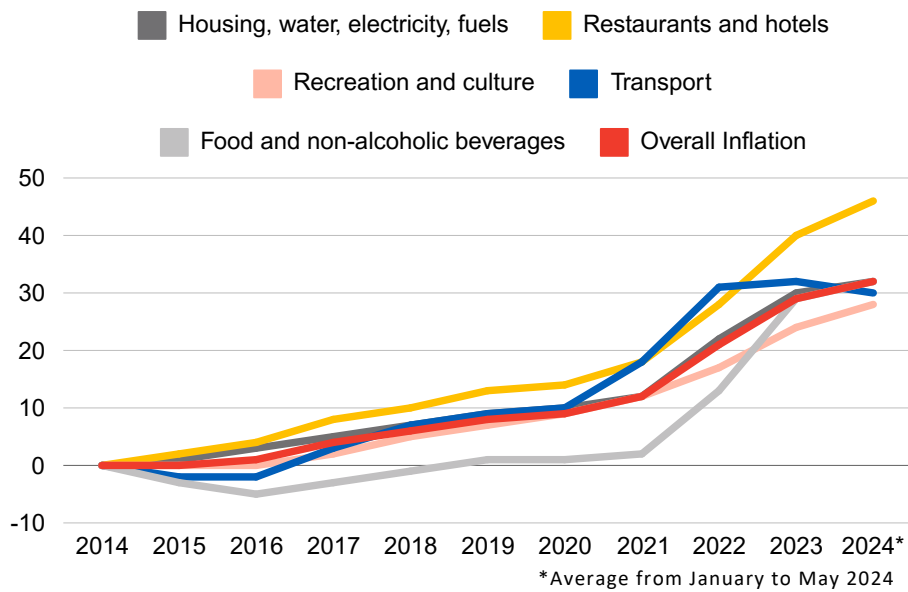
Inflation has been declining over the course of 2024; in May, the CPI returned to the Bank of England's target rate of 2%, while CPIH (a measure of inflation which includes housing costs for owner/ occupiers) fell to 2.8%.

Owner occupier's costs were the largest contributor to CPIH inflation through 2023, although restaurants and hotels are now a significant component of inflation – surpassing housing costs over the past year to become the largest contributor to inflation.

CPIH Inflation, January 2023 - April 2024



Growth in consumer price indices (including housing costs) since 2014 (2014=0)

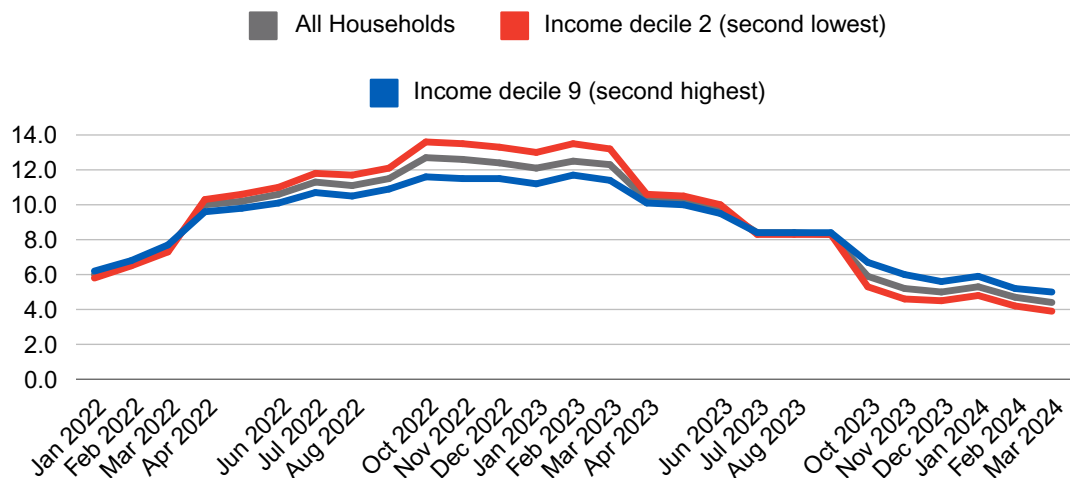


Over ten years, restaurants and hotels have seen higher rates of price changes than any other major contributor to CPIH inflation, with prices increasing by nearly 50% over the course of the decade.

Overall inflation closely mirrors housing costs – unsurprising, given that it is the most significant contributor overall. Transport costs decreased over the course of 2023, contributing to the slow-down of price increases, thanks in part to changes in fuel costs.

Annual change in average household costs (%), 2nd and 9th UK income deciles

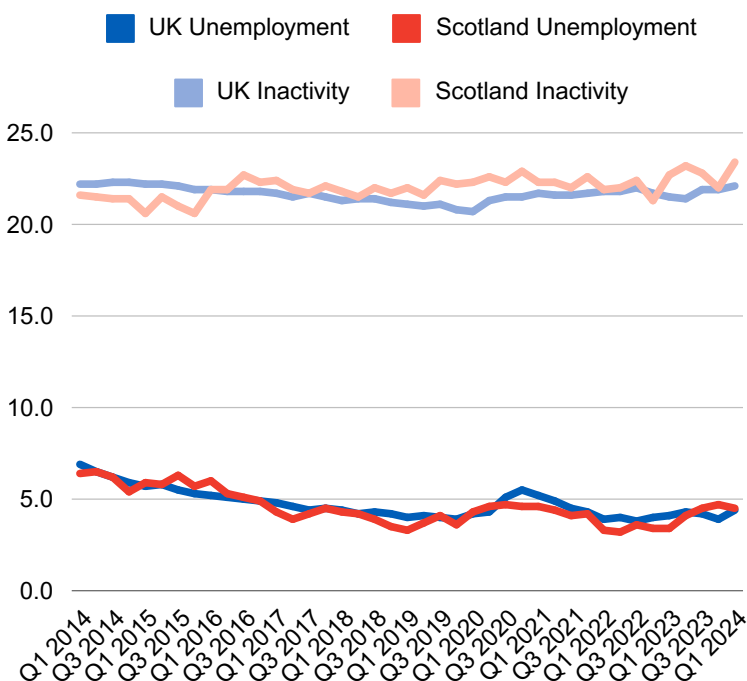
The increases in restaurant and hotel inflation mostly affect higher income deciles. This, combined with the slow-down of energy prices, means that as of late 2023 inflation affects the highest income deciles more than the lowest, reversing the prevailing inflation trends since 2022.





THE LABOUR MARKET

Unemployment and Inactivity rates (%), Scotland and the UK, 2014-2024



After some data issues across 2023, labour market data for the UK is back, although with some remaining uncertainty due to small sample sizes and population reweighting. Changes across Q2 to Q3 2022 should also be taken with a grain of salt, as there is a discontinuity in population size in the Labour Force Survey, which is the UK's main source of labour market data.

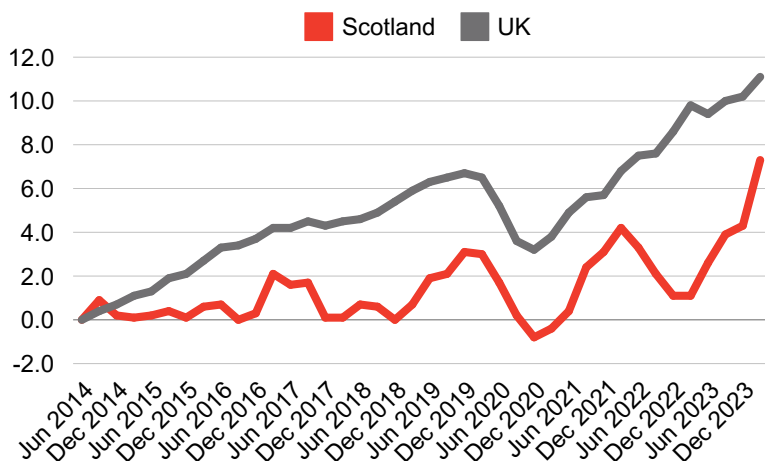
Employment levels have declined off since 2023 for both Scotland and the UK as a whole, driven by both unemployment and inactivity trends.

Scotland historically had lower unemployment rates and higher rates of economic inactivity compared to the UK as a whole. Since 2023, however, Scotland has seen higher rates of both, with economic inactivity at the highest rate of the decade.

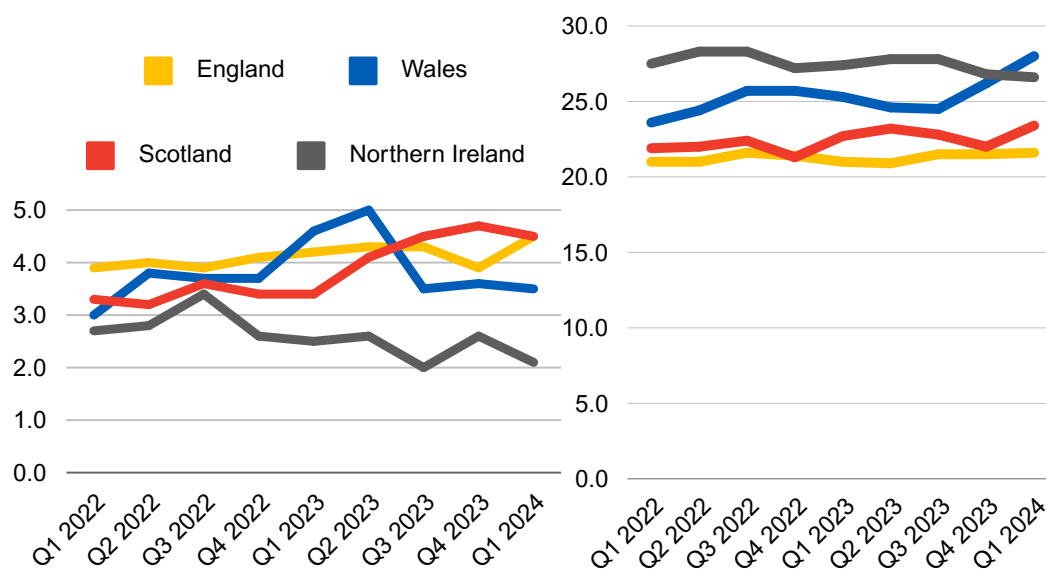
Total Workforce Jobs Index in Scotland and the UK (2014=0)

Scotland has seen a steady increase in jobs since 2023. Preliminary estimates put the number of workforce jobs in Scotland at 2,920,000 – an all-time high. The growth in jobs across Q1 2024 has furthermore been more dramatic in Scotland than in the rest of the UK.

The UK as a whole has seen consistent job growth coming out of the pandemic, adding around 1.5 million jobs since 2022, for a total of over 37,000,000.



Unemployment and Inactivity rates by country (%)



In the last quarter, economic inactivity rates in particular have risen by nearly a full percentage point in Scotland. This inactivity rate is lower than Wales or Northern Ireland, however, even while unemployment rates are higher than the other countries.

In Scotland, unemployment is up by around 1.1 percentage points over Q1 2023, which amounts to around 30,000 more people in unemployment.

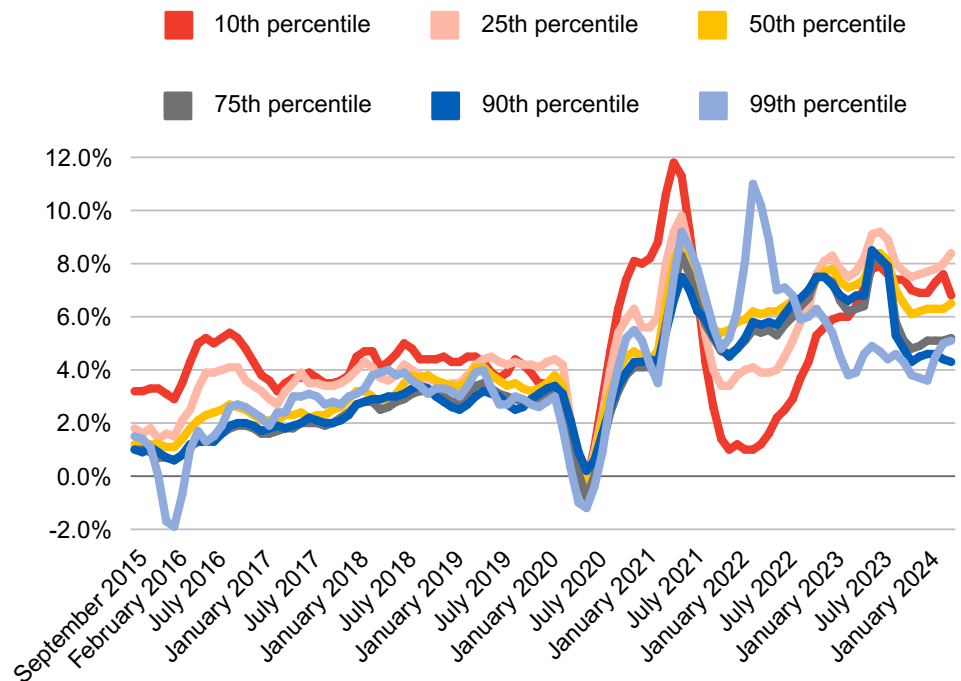


HOUSEHOLD INCOMES

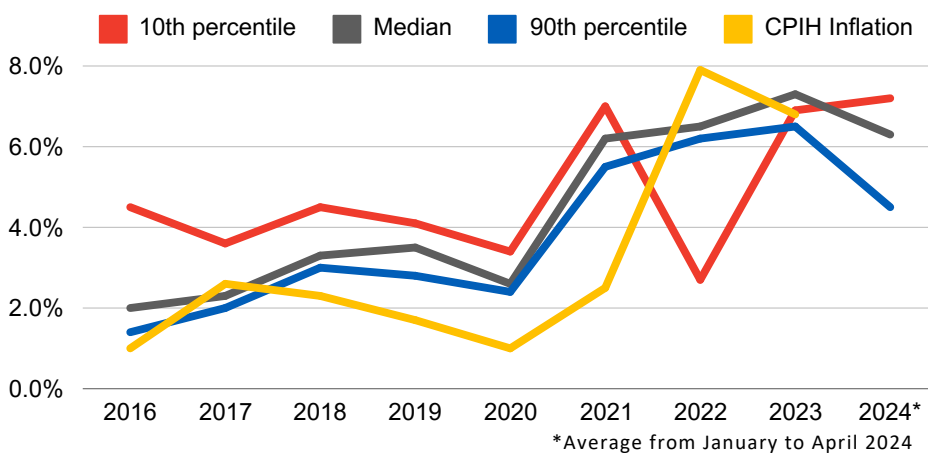
Nominal incomes for the lowest earning 10% of payrolled employees have seen earnings growth slow down over the past few months. This group saw the largest rebound of earnings post-pandemic - unsurprising, given that low earners were more likely to be furloughed - but saw the largest slow-down of earnings growth across 2021 and 2022.

Earnings growth for the top 25% and the top 10% of earners has historically closely mirrored each other, although their earnings have diverged slightly in the last few months, with the top 25% of earners outpacing the top 10% slightly.

Year-on-year income growth rate by payroll earnings decile, UK, 2015-2024



Average annual change in monthly income compared to CPIH inflation



These incomes are nominal, however, meaning that they do not reflect changes in the real value of these earnings.

Earnings for most groups outpaced inflation until 2022, when inflation upturned sharply. Average income growth for the lowest earners also experienced a significant downturn during this time frame.

The loss of real value of household incomes - reflected in inflation outpacing earnings growth - can be seen in Scotland's negative sentiments towards household finances, which have been negative since the pandemic.

The growth in GDP is also reflected in consumers' expectations of the economy in the future, however, which remains positive.

Scottish Consumer Sentiment Indicators

