

KEY ECONOMIC DEVELOPMENTS THIS MONTH

Scottish Output

- [Scottish GDP](#) – Scottish GDP grew by 0.4% in Q2 2016 (0.7% annually) rebounding from flat growth in the previous quarter. Below the headline figure, there was growth in both the Service sector (0.5%) and the Production sector (0.3%), however the Construction sector contracted 1.9%.
- [Scottish Retail Sales Index](#) – Volume of retail sales in Scotland increased by 2.1% in Q3 2016 (4.9% annually), up from 0.3% growth in Q2 2016.

Scottish Labour Market

- [Labour market statistics](#) – Latest ONS statistics for Scotland (June – August 2016) show that over the quarter the unemployment rate fell to 4.6%, (UK 4.9%) however, the employment rate decreased slightly to 74.0% (UK 74.5%), and the inactivity rate rose to 22.3% (UK 21.5%).
- [Annual Survey of Hourly Earnings \(ASHE\)](#) - Gross median weekly earnings for full-time employees in Scotland increased 1.5% over the year to £535 in April 2016. Adjusted for CPI inflation, gross median weekly earning for full-time employees in Scotland increased by 1.2% over the period.

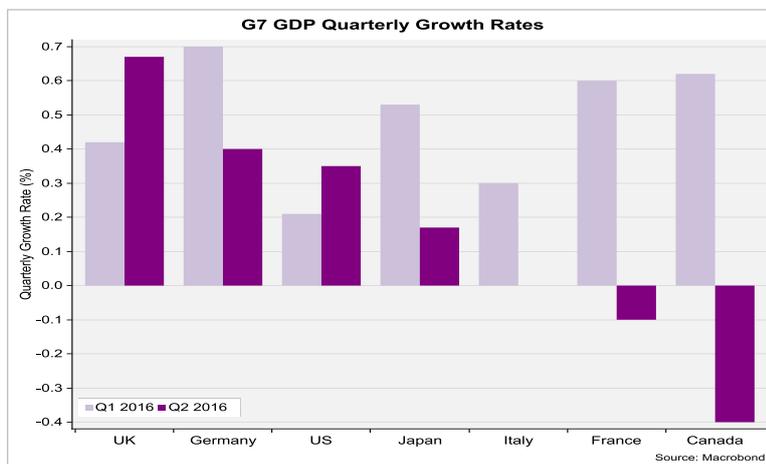
Post EU Referendum October Update

- [UK GDP](#):
 - Preliminary estimate of UK GDP in Q3 2016 shows growth of 0.5% over the quarter (2.3% annually), slightly down from 0.7% growth in the previous quarter.
- [Financial Markets](#):
 - Following the immediate fall in UK share prices following the EU referendum, the FTSE 100 and 250 now stand at 10% and 2% respectively above their pre-referendum level.
- [Currency](#):
 - Sterling has depreciated further over the past month and now stands 15% lower against the Euro and 18% lower against the US Dollar compared to pre-referendum levels.
- [UK Growth Forecasts](#):
 - **HM Treasury's monthly publication of Average Independent Forecasts** for UK GDP growth was revised up over the month to 1.9% for 2016 (1.8% pre-referendum) and to 1.0% for 2017 (2.1% pre-referendum).
 - **IMF World Economic Outlook** forecast of UK growth for 2016 is 1.8% (1.9% pre-referendum), and 1.1% for 2017 (2.2% pre-referendum).
- [Scottish Business Surveys](#):
 - **CBI Industrial Trends Survey** signalled that manufacturing output increased over the 3 months to October 2016, however new orders and employment numbers contracted over the period.
 - **Scottish Chambers of commerce Quarterly Economic Indicator report** indicated steady performance in the period following the EU referendum with sales revenue and employment level indicators signalling expansion across most sectors. However, business optimism remained weak across the board.
 - **Bank of Scotland's Monthly Purchasing Managers Index** signalled that private sector output picked up in September following two months of contraction. This turnaround was supported by an increase in new business and activity across both manufacturers and service providers.

OUTPUT

	Q3 2015		Q4 2015		Q1 2016		Q2 2016		Q3 2016	
	Scotland	UK								
GDP Growth (Q-on-Q)%	0.1	0.3	0.3	0.7	0.0	0.4	0.4	0.7	n/a	0.5

- **Scottish GDP** grew 0.4% in Q2 2016 (0.7% annually) following flat growth of 0.0% in Q1 2016 (0.5% annually).
- **UK GDP** (first estimate) grew 0.5% in Q3 2016 (2.3% annually) compared to 0.7% in Q2 2016 (2.1% annually).
- **US GDP** (first estimate) grew 0.7% in Q3 2016 (2.9% annually) compared to 0.4% in Q2 (1.4% annually).
- **Euro Area GDP** (first estimate) grew 0.3% in Q3 2016 (1.6% annually), unchanged from quarterly growth in Q2.

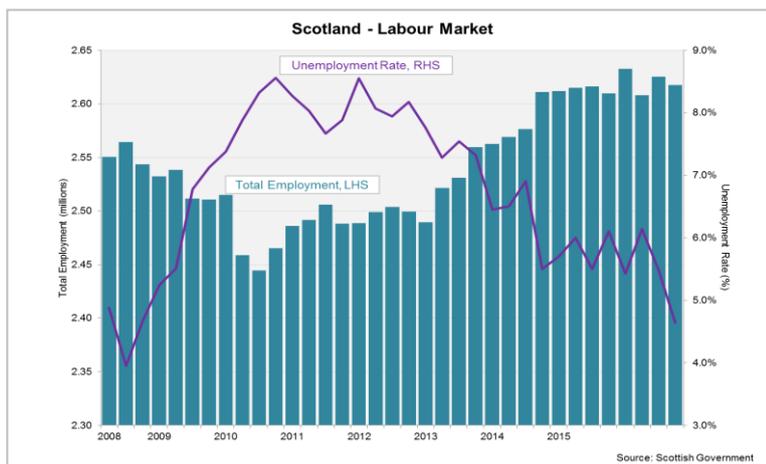


Scottish GVA Growth, (GDP at basic prices), Q2 2016	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Service Sector	0.5	0.6	2.0	2.7
Distribution, Hotels & Catering	0.0	1.1	3.2	5.0
Transport, Storage & Comms	0.6	0.6	0.8	2.5
Business Services & Finance	1.3	0.6	3.4	2.6
Government & Other Services	-0.2	0.1	0.1	1.5
Production Sector	0.3	2.1	-2.9	1.6
Mining & Quarrying	0.3	2.8	-0.2	1.0
Electricity & Gas	-6.8	4.6	-12.5	4.4
Water & Sewerage	7.0	2.1	12.1	5.3
Manufacturing	0.8	1.6	-3.6	1.0
Construction	-1.9	-0.1	-4.5	0.4
Agriculture, Forestry & Fishing	0.9	-1.0	1.9	-0.7

LABOUR MARKET

Over the period June – August 2016:

- Total employment levels (16-64) in Scotland fell by 8,000. The headline employment rate (aged 16-64) decreased by 0.1 percentage points over the quarter to 74.0% (UK 74.5%).
- The ILO unemployment rate (16+) in Scotland decreased by 0.8 percentage point to 4.6% (UK 4.9%), with the level falling by 25,000 over the quarter.
- The level of economic inactivity (16-64) in Scotland (those who are neither in employment or ILO unemployed) increased by 26,000, to a rate of 22.3% (UK 21.5%).



Youth Labour Market (aged 16-24)

Based on Labour Force Survey non-seasonally adjusted data for June – August 2016, the Scottish youth unemployment level decreased by 28,000 over the year. The youth unemployment rate fell over the year by 5.0 percentage points to 12.2% (UK 13.7%), however the youth employment rate also fell by 0.7 percentage points over the year to 60.8% (UK 54.6%).

Claimant Count¹ (Sept 2016)

The claimant count level in Scotland increased by 3,200 over the month to 81,900. Over the same period, the claimant count rate increased by 0.1 percentage point to 2.9% (UK 2.3%).

Headline Rate Statistics, Jun - Aug 2016

	Rate (%)	Change (%pt)		Level ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	74.0%	-0.1	0.2	2,618	-8	7
ILO Unemployment ^B	4.6%	-0.8	-1.5	127	-25	-44
Economic Inactivity ^A	22.3%	0.8	1.0	763	26	35
UK						
Employment ^A	74.5%	0.1	0.9	31,811	106	560
ILO Unemployment ^B	4.9%	0.0	-0.4	1,656	10	-118
Economic Inactivity ^A	21.5%	-0.2	-0.6	8,809	-65	-231

Source: Labour Market Statistics and Regional Labour Market Statistics, Scotland, ONS

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.

Claimant Count, Rates, September 2016

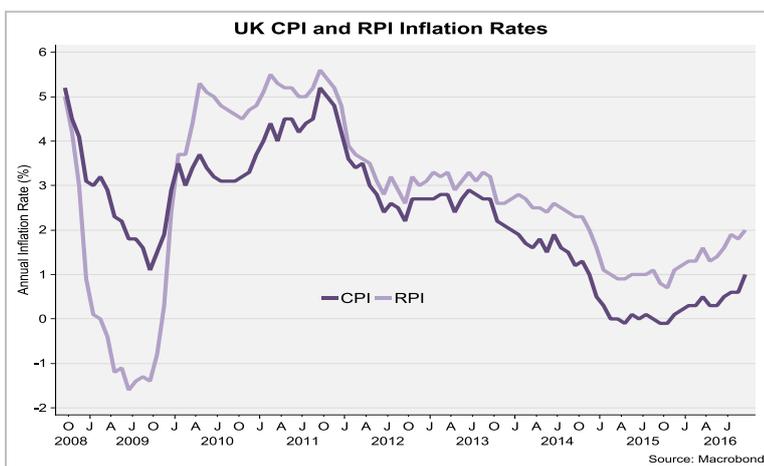
Claimant Count	Rate (%) ^E	Change (%pt)		Level ('000)	Change ('000)	
		Over month	Over Year		Over Month	Over Year
Scotland	2.9%	0.1	0.1	81.9	3.2	2.2
UK	2.3%	0.0	0.0	776.4	2.4	-15.7

Source: Jobcentre Plus.

Notes: E. Denominator is claimant count + workforce jobs. From the June 2015 release, the new experimental measure, that includes Universal Credit claimants who are not in work, will become the new Claimant Count, replacing the previous measure based only on Jobseeker's Allowance claimants. The figures below are therefore not directly comparable to the CC figures published before 17 June 2015.

INFLATION & MONETARY POLICY

- CPI annual inflation rose by 1.0% in the year to September 2016 – the highest inflation rate since November 2014. Rises in clothing, motor fuel and overnight hotel stay prices, were the main contributors to the increase in the rate, partially offset by a fall in air fares and food prices.
- At its August meeting, the Bank of England's Monetary Policy Committee voted to introduce a monetary stimulus package to support the economy, including: a cut in the Bank Rate to 0.25% (from 0.5%); introducing a Term Funding Scheme to reinforce the pass-through of the cut in Bank Rate to the real economy; a £60 billion expansion of the UK Government bonds purchasing programme (increasing the stock of purchased assets to £435 billion); a further purchase of up to £10 billion of UK corporate bonds. This was unchanged in September.



RETAIL

- The Scottish Retail Sales Index for Q3 2016 showed that the volume of retail sales in Scotland increased by 2.1% during the third quarter of 2016 (GB rose by 1.8%), and grew 4.9% annually (GB grew by 5.4%).
- The value of retail sales without adjusting for inflation increased by 2.1% during the third quarter of 2016 (GB increased by 2.0%). Over the year to Q3 2016, the value index grew by 3.2% (GB grew by 3.7%).

¹ From the June 2015 LFS release, the new experimental measure, that includes Universal Credit claimants who are not in work, will become the new Claimant Count, replacing the previous measure based only on Jobseeker's Allowance claimants. The figures above are therefore not directly comparable to the CC figures published before June 2015.

- Sales volume from large retail businesses grew by 1.5% during 2016 Q3 compared to the previous quarter. Small & medium stores saw a higher increase in sales volume of 2.8%.

Scottish & GB Retail Sales Index (% change on the previous quarter):

Volume	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Value	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Scotland	0.5	1.8	0.3	2.1	Scotland	0.1	0.8	0.1	2.1
GB	1.1	1.4	1.1	1.8	GB	0.0	0.7	0.7	2.0

EXPORTS & TRADE

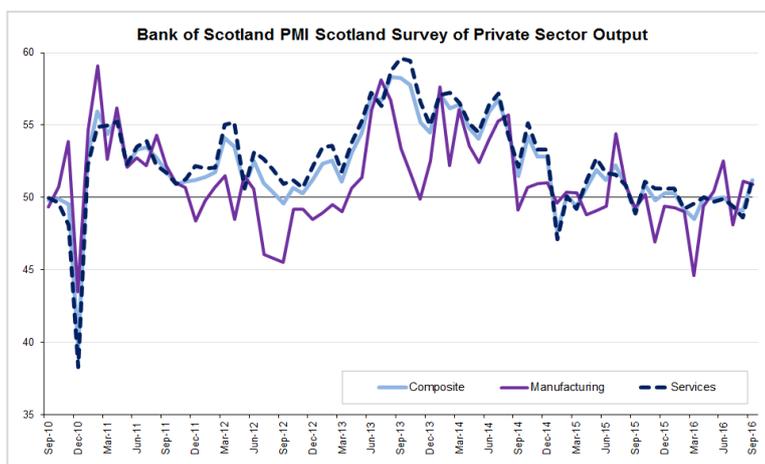
Manufactured Exports, Scotland, Q1 2016	2013 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing Exports	100	-0.5	-2.1
Engineering & Allied Industries	32.5	-0.9	-3.7
<i>Electrical & Instrument Engineering</i>	14.5	5.5	7.1
<i>Mechanical Engineering</i>	10.5	-7.9	-15
<i>Transport Equipment</i>	7.5	-4.7	-5.8
Food, Beverages & Tobacco	35.3	3.3	-0.6
<i>Drink</i>	28.7	6.2	-1.3
<i>Food</i>	6.7	-8.9	2.3
Refined Petroleum, Chemical & Pharmaceutical Products	11.3	-8.0	9.0
Non-Metallic Products, Other Manufacturing & Repair	8.7	1.8	-2.1
Metals & Metal Products	5.5	-13.6	-17.5
Textiles, Clothing & Leather	3.3	2.1	-2.8
Wood, Paper & Printing	3.3	-0.3	-16.7

Source: Index of Manufactured Exports, Scottish Government.

- The volume of Scottish manufactured exports, a subset of total international exports, decreased 0.5% in Q1 2016.
- Over the quarter, this decrease was predominantly driven by a decline in export volumes from 3 sectors which account for approximately 50% of Scotland's overseas manufactured exports: Refined Petroleum, Chemical and Pharmaceutical Products (-8.0%), Metals and Metal Products (-13.6%), and Engineering and Allied Industries (-0.9%).
- On a rolling-annual basis Scottish manufactured export sales were down by 2.1% to Q1 2016.

BUSINESS SURVEYS (Post EU Referendum)

- **CBI Industrial Trends Survey** of Scottish manufacturing firms signalled that manufacturing output increased over the three months to October 2016, however new orders and employment numbers contracted. Looking ahead, the low value of Sterling is expected to have a strong influence, boosting expectations for export orders whilst pushing up input costs.
- **Bank of Scotland PMI** for September signalled that Scotland's private sector output rebounded back into growth territory in September with expansions across Services and Manufacturing
- The latest **SCC Quarterly Economic Indicator** for Q3 (2016) indicated steady performance in the period following the EU referendum with sales revenue and employment level indicators signalling expansion across most sectors. However, business optimism remained weak across the board.
- The latest **RBS Business Monitor** indicated that conditions in the Scottish economy improved slightly over the three months to August 2016 in terms of volume of business and turnover. Looking ahead, firms' expectations for turnover and business activity point to further rebound over the next six months.



- The latest **Scottish Engineering Quarterly Review** for Q3 2016 signals that conditions have deteriorated further in the Manufactured Engineering sector over the quarter. The balances for order intake, output volume, exports and staffing all fell significantly over the quarter, signalling that increased uncertainty following the EU referendum may be compounding existing challenges for the sector.

PMI Headline Private Sector Output				
	2016			
	Jun	Jul	Aug	Sep
Scotland	50.5	49.2	49.1	51.2
Service Sector Activity	49.9	49.4	48.6	51.3
Manufacturing Output	52.5	48.1	51.1	50.9

Source: Bank of Scotland/ Markit PMI

Business Surveys: Optimism					
	2015		2016		
	Q3	Q4	Q1	Q2	Q3
Scottish Engineering	-13	-17	-15	-17	-18
CBI: Industrial Trends	-5	+6	-14	-28	-6
Scottish Chambers (Manu)	+12	+14	-10	+10	-9

FORECASTS

- PWC and the Fraser of Allander (FAI) Institute have both published Scottish growth forecasts in July following the EU referendum. FAI downgraded their projections for growth in 2016 to 0.9% (from 1.4% pre-referendum) and for 2017 to 0.5% (from 2.1% pre-referendum), whilst PWC forecast growth of 1.3% in 2016 and 0.3% in 2017.
- HM Treasury's October publication of Average Independent Forecasts for UK GDP growth was 1.9% for 2016 (1.8% pre-referendum) and 1.0% for 2017 (2.1% pre-referendum).

Annual GDP Growth (%)	2014 (Outturn)	2015 (Outturn)	2016	2017
Average of PWC and FAI Scottish Forecasts (July 2016)	2.7	2.1	1.1	0.4
HM Treasury Avg. UK Independent Forecast (October 2016)	2.9	2.3	1.9	1.0