

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Quarterly National Accounts** show that over the year to June 2017, Scotland's onshore GDP is estimated at £150.9 billion (£27,857 per person), in current prices.
- The **Index of Manufactured Exports (IME)** decreased by 0.4% in volume terms in Q2 2017. On a rolling annual basis, the volume of manufactured exports decreased by 0.6%.

Productivity

- **Labour Productivity** (measured in GDP per hour worked) fell by 0.6% in Q2 2017 and by 2.2% on a rolling annual basis.

Labour Market

- Over the quarter to July – September 2017, the **employment rate** was unchanged at 75.2%, the **unemployment rate** rose by 0.1 percentage points to 4.0% and the **inactivity rate** fell by 0.1 percentage points to 21.6%.

Business Surveys

- The **Bank of Scotland Purchasing Managers' Index (PMI)** for October signalled a positive start to the final quarter of 2017 for Scotland's economy. Expansion in indicators for output and employment were broad-based across the sectors, with firms' outlook remaining optimistic.

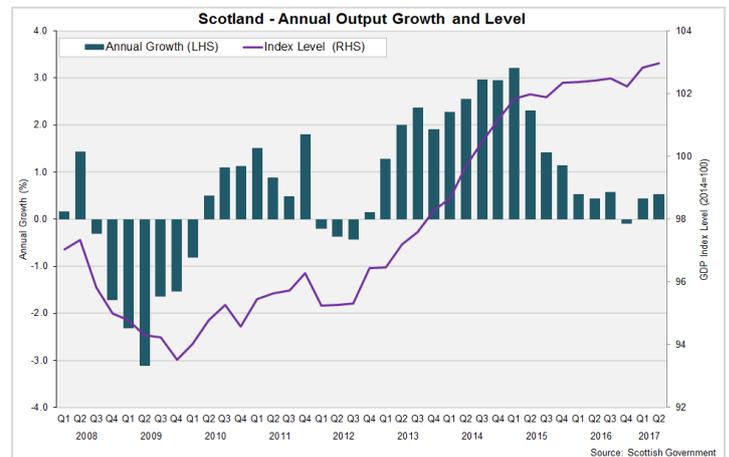
Scottish Retail Sales

- Growth in the **volume** of Retail Sales in Scotland was flat (0.0%) in Q3 2017, while the value grew by 0.4% over the same period. Over the year, Scottish Retail Sales volume grew by 0.6%.

OUTPUT

| Quarterly GDP Growth (%) | Q2 2016 | | Q3 2016 | | Q4 2016 | | Q1 2017 | | Q2 2017 | |
|--------------------------|----------|-----|----------|-----|----------|-----|----------|-----|----------|-----|
| | Scotland | UK |
| | 0.1 | 0.5 | 0.1 | 0.4 | -0.2 | 0.6 | 0.6 | 0.3 | 0.1 | 0.3 |

- **Scottish GDP** grew 0.1% in Q2 2017 (0.5% annually), down from 0.6% growth in Q1 2017.
- **UK GDP** (second estimate) grew 0.4% in Q3 2017, (1.5% annually), up from 0.3% in Q2 2017.
- **Euro Area GDP** (second estimate) grew 0.6% in Q3 2017, (2.5% annually), down from 0.7% in Q2 2017.
- **US GDP** (second estimate) grew 0.8% in Q3 2017, (2.6% annually), unchanged from growth in Q2 2017.

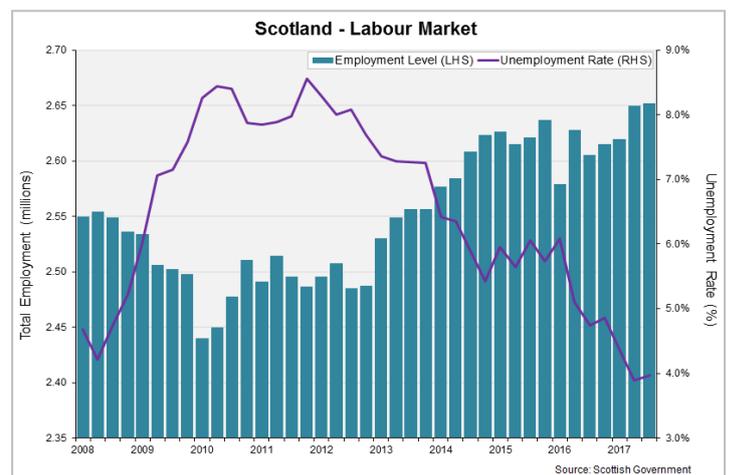


| GDP Growth by sector, Q2 2017 | Quarterly (%) | | Annual (%) | |
|--|---------------|-------------|-------------|------------|
| | Scotland | UK | Scotland | UK |
| Total | 0.1 | 0.3 | 0.5 | 1.5 |
| Service Sector | 0.7 | 0.4 | 1.3 | 1.8 |
| Distribution, Hotels & Catering | 0.7 | 0.9 | 1.3 | 3.1 |
| Transport, Storage & Comms | 0.9 | 1.2 | 2.9 | 3.4 |
| Business Services & Finance | 0.9 | 0.1 | 1.8 | 1.3 |
| Government & Other Services | 0.3 | 0.3 | 1.3 | 1.1 |
| Production Sector | -0.7 | -0.3 | -0.1 | 0.2 |
| Mining & Quarrying | 0.6 | 0.6 | -0.3 | -0.9 |
| Electricity & Gas | -1.7 | -0.3 | -0.5 | -4.8 |
| Water & Sewerage | -0.4 | -1.0 | -1.2 | 2.4 |
| Manufacturing | -0.7 | -0.3 | 0.2 | 0.9 |
| Construction | -3.5 | -0.5 | -5.5 | 4.1 |
| Agriculture, Forestry & Fishing | 0.6 | -0.1 | 0.4 | 0.4 |

LABOUR MARKET

Over the quarter to July – September 2017:

- The employment level rose by 2,000 but the employment rate was unchanged at 75.2% (UK, 75.0%).
- The unemployment level rose by 2,000 and the unemployment rate rose by 0.1 percentage points to 4.0% (UK, 4.3%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 5,000 and the inactivity rate fell by 0.1 percentage points to 21.6% (UK, 21.6%).



Labour Market Headline Statistics, July – September 2017

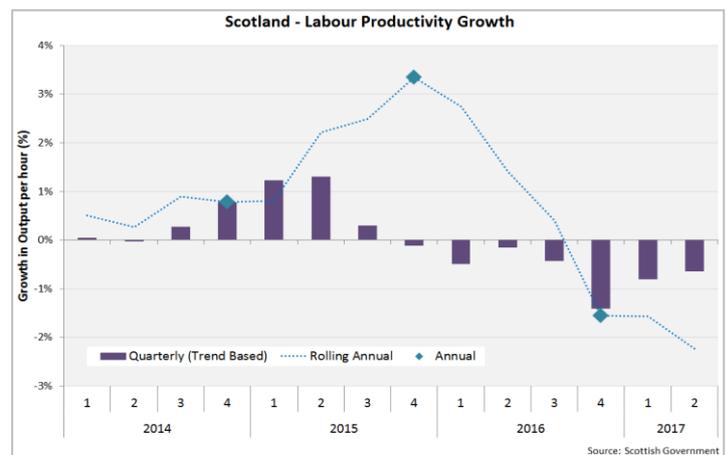
| | Rate (%) | Change (% points) | | Level ^C ('000) | Change ('000) | |
|----------------------------------|----------|-------------------|-----------|---------------------------|---------------|-----------|
| | | Over Quarter | Over Year | | Over Quarter | Over Year |
| Scotland | | | | | | |
| Employment ^A | 75.2 | 0.0 | 1.6 | 2,652 | 2 | 46 |
| ILO Unemployment ^B | 4.0 | 0.1 | -0.8 | 109 | 2 | -20 |
| Economic Inactivity ^A | 21.6 | -0.1 | -1.0 | 738 | -5 | -35 |
| UK | | | | | | |
| Employment ^A | 75.0 | -0.1 | 0.6 | 32,059 | -14 | 279 |
| ILO Unemployment ^B | 4.3 | -0.2 | -0.6 | 1,425 | -59 | -182 |
| Economic Inactivity ^A | 21.6 | 0.3 | -0.1 | 8,883 | 117 | -20 |

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+.

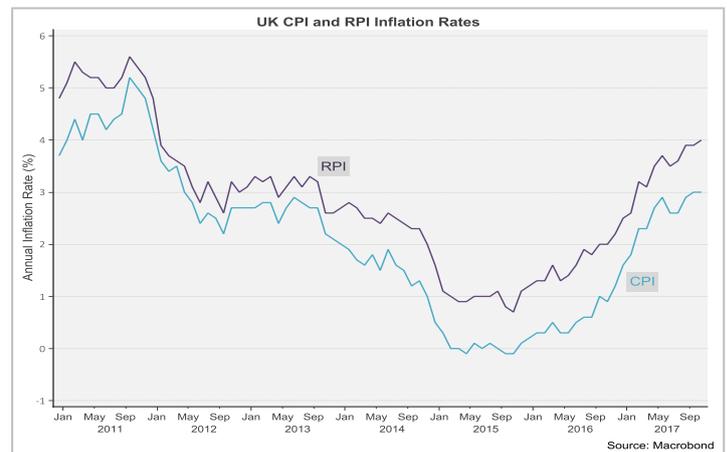
PRODUCTIVITY

- In Q2 2017, Scottish labour productivity growth (output per hour worked) fell by 0.6% compared to Q1 2017, following flat growth (0.0%) in the previous quarter.
- On a rolling annual basis to Q2 2017, Scottish labour productivity fell by 2.2% in real terms.
- The fall in productivity over the quarter reflects that growth in average hours worked outpaced growth in GVA (0.8% and 0.1% respectively).
- Output per hour worked is 6.6% higher in real terms than in 2007, prior to the recession.
- On a rolling annual basis, to Q2 2017 Scottish labour productivity as measured by output per job, decreased by 0.6% in real terms.



INFLATION

- The Consumer Price Index (CPI) 12-month rate was 3.0% in October 2017, unchanged from September. The main drivers of the rate were rising prices for food & non-alcoholic beverages and recreational goods while transport costs grew by less than they did the previous year.



RETAIL

- The Scottish Retail Sales Index for Q3 2017 showed that the volume of retail sales growth in Scotland was flat over the quarter (grew 0.6% annually) and the value of retail sales grew by 0.4% (3.3% annually).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) decreased by 0.4% in Q3 2017 whilst sales from small & medium size stores (which account for the remaining 30% of sales) increased by 0.9% compared to the previous quarter.

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

| Volume | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Value | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 |
|----------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Scotland | -0.7 | -0.3 | 1.1 | 0.0 | Scotland | 0.3 | 0.8 | 1.4 | 0.4 |
| GB | 0.8 | -1.4 | 1.5 | 0.6 | GB | 1.7 | 0.1 | 1.6 | 1.2 |

EXPORTS & TRADE

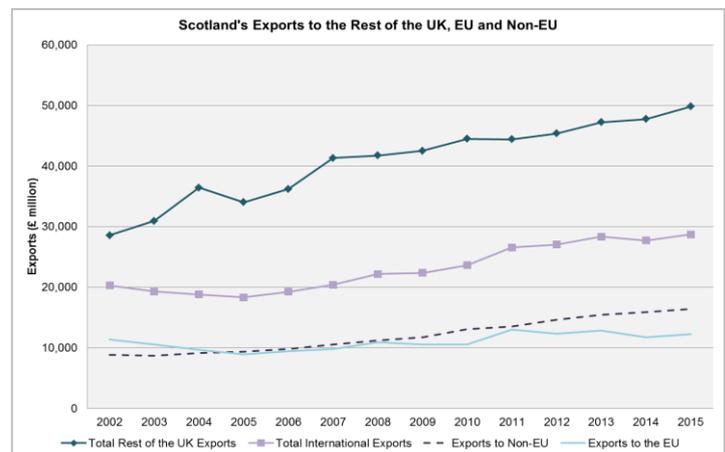
Index of Manufactured Exports (Q2 2017)

| Manufactured Exports, Scotland, Q2 2017 (volume) | 2014 Weight | Quarterly Growth (%) | 4Q-on-4Q Growth (%) |
|---|-------------|----------------------|---------------------|
| Total Manufacturing Exports | 100 | -0.4 | -0.6 |
| Food, Beverages & Tobacco | 36.9 | -2.7 | 0.6 |
| Engineering & Allied Industries | 31.8 | 5.0 | -4.7 |
| Refined Petroleum, Chemical & Pharmaceutical Products | 11.2 | 4.6 | 7.5 |
| Non-Metallic Products, Other Manufacturing & Repair | 8.1 | -4.7 | -7.2 |
| Metals & Metal Products | 5.5 | -10.7 | 9.7 |
| Textiles, Clothing & Leather | 3.5 | -8.1 | -15.7 |
| Wood, Paper & Printing | 3.0 | 0.9 | -0.9 |

- The volume of Scottish manufactured exports, a subset of total international exports, decreased by 0.4% in Q2 2017. At current prices, the value of Scottish manufactured exports fell by 1.7%.
- The fall in Q2 2017 follows growth of 7.2% the previous quarter and was driven by a fall in a range of industries including Food, Beverages & Tobacco; Metals & Metal Products; Non-Metallic Products, Other Manufacturing & Repair; and Textiles, Clothing & Leather.
- Despite the quarterly contraction, growth in exports from Scotland's largest product group, Food, Beverage and Tobacco, was positive on a rolling annual basis (0.6%).
- On a rolling annual basis Scottish manufactured export sales fell by 0.6% in Q2 2017.

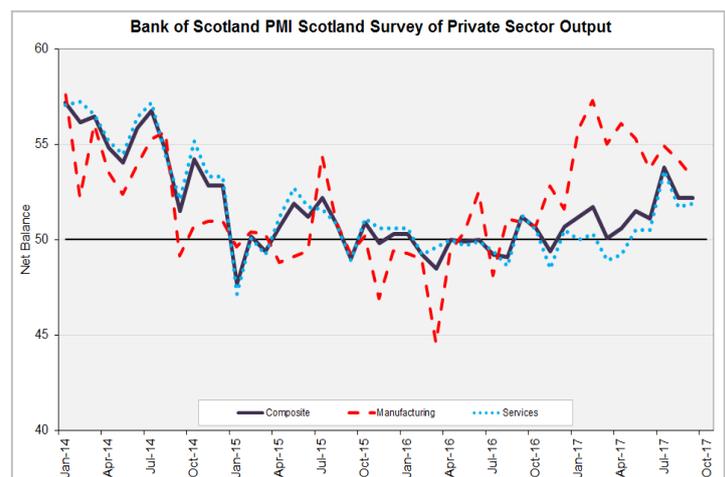
Export Statistics Scotland (2015)

- Total exports from Scotland to the rest of the UK and internationally in 2015 (excluding oil and gas) were estimated at £78.6 billion, up £3.1 billion (4.1%) in the year.
- Exports to the rest of the UK rose by 4.4% over the year to £49.8 bn, whilst international exports rose by 3.6% to £28.7 bn.
- International exports to EU countries rose by 4.4% over the year to £12.3 bn, making up 43% of international exports.
- International exports to non-EU countries rose by 3.0% over the year to £16.4 bn, making up 57% of international exports.



BUSINESS SURVEYS

- The latest Bank of Scotland Purchasing Managers' Index (PMI) for October 2017 signalled a positive start to the final quarter of 2017 for Scotland's economy. Expansion in indicators for output and employment were broad-based across the sectors, with firms' outlook remaining optimistic.
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q3 2017 reported that business optimism remained positive, however was softer than the previous quarter, while the private sector outlook was mixed across the sectors.



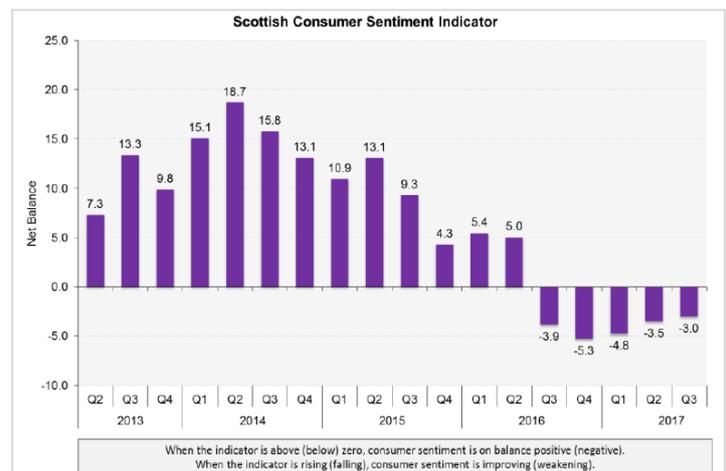
- The latest CBI Industrial Trends Survey of Scottish manufacturing firms for the three months to October 2017 reported that while most indicators remained positive signalling expansion over the quarter, there was a general weakening in business activity, employment and optimism in the sector.
- The latest Scottish Engineering Quarterly Review for Q3 2017 signalled growth in Scotland’s Engineering and Manufacturing sector output, staffing levels and order volumes, alongside improvements in business optimism and investment intentions.
- The latest RBS Scotland Business Monitor for Q3 2017 signalled faster growth in export orders – reaching a three-year high – total volumes of business, new business and turnover over the three months to September 2017. Expectations for business activity over the next six months remain positive, whereas capital investment continues to decline.

| PMI Headline Private Sector New Business | | | | |
|--|-------------|-------------|-------------|-------------|
| | 2017 | | | |
| | Jul | Aug | Sep | Oct |
| Scotland | 53.0 | 51.7 | 52.4 | 52.8 |
| Service Sector New Business | 52.3 | 52.0 | 53.7 | 54.1 |
| Manufacturing New Orders | 55.7 | 50.7 | 47.0 | 47.7 |

| Business Optimism | | | | |
|-------------------------------|------|------|-----|-----|
| | 2016 | 2017 | | |
| | Q4 | Q1 | Q2 | Q3 |
| Scottish Engineering | +2 | +17 | +16 | +25 |
| CBI: Industrial Trends Survey | +30 | -3 | +30 | +7 |
| SCC: Manufacturing Sector | +2 | +11 | +5 | +4 |

CONSUMER SENTIMENT¹

- In Q3 2017, the Scottish Consumer Sentiment indicator was -3.0, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator increased by 0.5 points, implying that sentiment has improved compared to the previous quarter.
- The Economic Performance indicators were both negative in Q3 2017, implying that on balance, respondents believe the economy is performing worse than it was 12 months ago and expect it to weaken over the next 12 months.
- The Household Finance indicators were mixed in Q3 2017. The indicator for current household financial security was negative while the indicator for expected security of household finances was positive. This implies that on balance, respondents feel less secure in their finances than they were 12 months ago, however expect their level of financial security to improve over the next 12 months.
- The broad trends across the indicators signal that compared to the previous quarter, sentiment regarding the current performance of the economy, household financial security and spending has improved while expectations for economic performance and household financial security has weakened.



| Scottish Consumer Sentiment Indicator | Score (Q3 2017) | Score in Previous Quarter | Change from Previous Quarter |
|--|-----------------|---------------------------|------------------------------|
| Composite Indicator Score | -3.0 | -3.5 | +0.5 |
| (a) Economy performance - last 12 months | -5.9 | -9.2 | +3.4 |
| (b) Economy performance - next 12 months | -11.7 | -6.0 | -5.6 |
| (c) Household financial position - last 12 months | -0.8 | -3.6 | +2.8 |
| (d) Household financial position - next 12 months | 6.2 | 6.7 | -0.6 |
| (e) Attitude to household spending - current | -3.1 | -5.5 | +2.5 |

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).

¹ The Scottish Consumer Sentiment Indicator was published as an Official Statistic for the first time on 18 October 2017. The Scottish Consumer Sentiment Indicator provides a measure of consumer confidence. The survey is undertaken quarterly and has a sample of around 2,000 individuals across Scotland. The survey for Q3 2017 was conducted between 19th July and 10th September 2017. Headline and individual indicators are not seasonally adjusted and may be revised at a later date.

GDP GROWTH FORECASTS²

- **Scottish Government** forecast GDP growth of 1.0% in the 2016-17 financial year and 1.3% in 2017-18. Forecasts for subsequent years and for a wide range of economic variables were published in the Devolved Tax Methodology Report alongside the Scottish Draft Budget 2017-18³.
- **PwC's** latest Scottish GDP growth projection (November 2017) was revised up for 2017 to 1.3%, (from 1.2% previously) and for 2018 to 1.2% (1.1% previously).
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (September 2017), was unchanged at 1.2% for 2017 and 1.4% for 2018. It was revised up for 2019 to 1.7% (1.6% in June).
- **EY Scottish ITEM Club's** latest Scottish GDP growth forecast (June 2017) was revised up for 2017 to 0.9% (from 0.4% in December) and revised down for 2018 to 0.7% (from 1.2% in December).
- **HM Treasury's** latest publication of Average Independent Forecasts for UK GDP growth (November 2017), projects growth of 1.6% in 2017 and 1.4% in 2018.
- The **IMF's** World Economic Outlook (October 2017) forecast for UK GDP growth was unchanged from their update in July, with UK GDP forecast to grow by 1.7% in 2017 and 1.5% 2018.
- The **OBR's** Economic and Fiscal Outlook (November 2017) forecast for UK GDP growth was revised down from March 2017 to 1.5% in 2017 (2.0% previously) and 1.4% in 2018 (from 1.6% previously).

| Annual GDP Growth (calendar year) (%) | Region | Outturn | Forecasts/Projections | |
|---|----------|---------|-----------------------|------|
| | | 2016 | 2017 | 2018 |
| Fraser of Allander Institute (September 2017) | Scotland | 0.4 | 1.2 | 1.4 |
| EY Scottish ITEM Club (June 2017) | | | 0.9 | 0.7 |
| PwC (November 2017) | | | 1.3 | 1.2 |
| HM Treasury Average UK Independent Forecast (November 2017) | UK | 1.8 | 1.6 | 1.4 |
| International Monetary Fund (October 2017) | | | 1.7 | 1.5 |
| OBR (November 2017) | | | 1.5 | 1.4 |

² Non-Scottish Government forecasts for the Scottish economy presented in this report are widely available in the public domain: Fraser of Allander Institute http://www.strath.ac.uk/business/economics/fraserofallanderinstitute/economic_commentary/latestcommentary/, EY ITEM Club <http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/ey-scottish-item-club-forecast>, 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.

³ Scottish Government forecasts presented in this publication were undertaken as part of the Scottish Government Draft Budget 2017-18: <http://www.gov.scot/Publications/2016/12/6669>