

## KEY ECONOMIC DEVELOPMENTS

### *Scottish Output*

- **Scottish GDP** grew 0.8% in Q1 2017, following a contraction of 0.2% in the previous quarter. Comparing Q1 2017 with Q1 2016, Scottish GDP grew 0.7%.

### *Scottish Labour Market*

- Over the quarter to March – May 2017, the **employment rate** rose by 0.7 percentage points to 74.1%, the **unemployment rate** fell by 0.7 percentage points to 3.8% and the **inactivity rate** fell by 0.1 percentage points to 22.9%.

### *Scottish Business Surveys*

- The **Bank of Scotland Purchasing Managers Index (PMI)** signalled growth in Scotland's private sector in June 2017, despite the headline indicator falling slightly from the previous month. Firms across Scotland reported increased employment numbers and new business and order growth. Business sentiment remained positive alongside improved future output expectations.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** signalled relatively positive performances across Financial and Business Services, Manufacturing, Construction and Tourism sectors in Q2 2017. Business optimism, sales and employment indicators were positive on balance, however this contrasted with weaker results over the quarter in the Retail and Wholesale sector.
- The **CBI Industrial Trends** survey of Scottish manufacturing firms signalled strong growth in total orders, output and employment numbers, alongside a rebound in business confidence over the three months to July 2017.

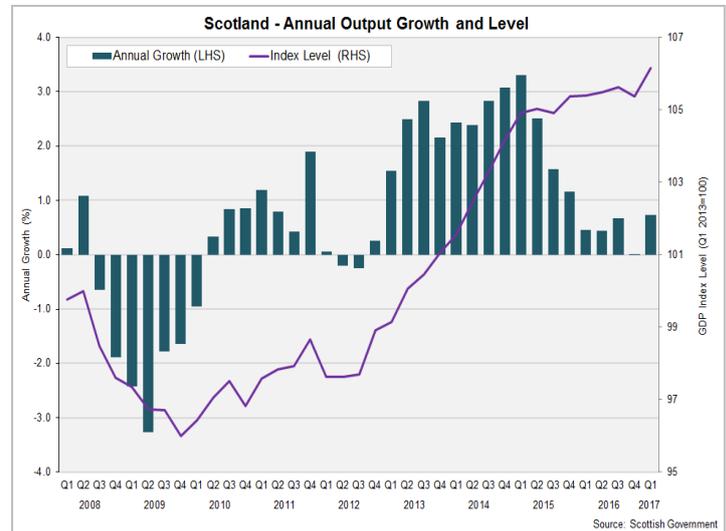
### *Scottish Outlook*

- **PwC** latest economic growth forecasts for Scotland forecast GDP growth of 1.2% in 2017 and 1.1% in 2018.

OUTPUT

Quarterly GDP Growth (%)	Q1 2016		Q2 2016		Q3 2016		Q4 2016		Q1 2017	
	Scotland	UK								
	0.0	0.2	0.1	0.6	0.1	0.5	-0.2	0.7	0.8	0.2

- **Scottish GDP** grew 0.8% in Q1 2017 (0.7% annually) up from a 0.2% contraction in Q4 2016.
- **UK GDP** (first estimate) grew 0.3% in Q2 2017, (1.7% annually) up from 0.2% growth in Q1 2017.
- **Euro Area GDP** (third estimate) grew 0.6% in Q1 2017, (1.9% annually) up from 0.5% growth in Q4 2016.
- **US GDP** (first estimate) grew 0.6% in Q2 2017, (2.1% annually) up from 0.3% growth in Q1 2017.

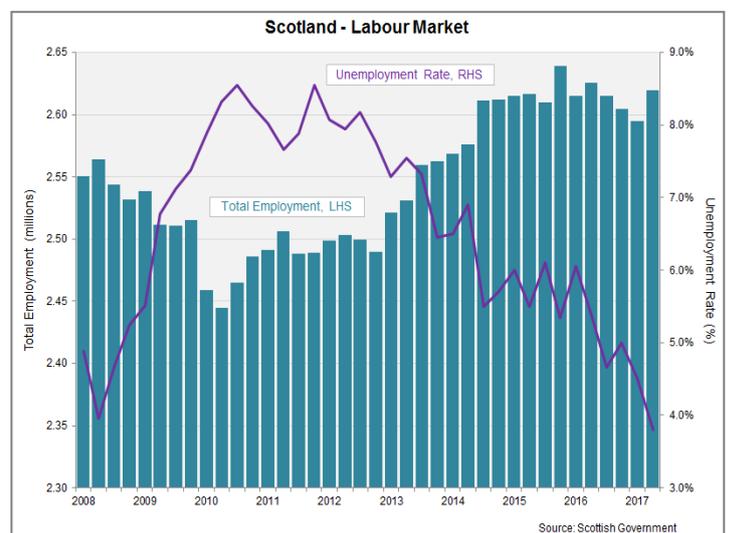


GDP Growth by sector, Q1 2017	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
<b>Total</b>	<b>0.8</b>	<b>0.2</b>	<b>0.7</b>	<b>2.0</b>
<b>Service Sector</b>	<b>0.3</b>	<b>0.1</b>	<b>1.2</b>	<b>2.3</b>
Distribution, Hotels & Catering	-0.5	-0.6	-1.5	3.5
Transport, Storage & Comms	1.0	-0.8	2.2	3.2
Business Services & Finance	0.6	0.5	2.3	2.4
Government & Other Services	0.2	0.4	0.9	1.1
<b>Production Sector</b>	<b>3.1</b>	<b>0.1</b>	<b>0.4</b>	<b>2.3</b>
Mining & Quarrying	2.6	1.5	2.6	1.1
Electricity & Gas	0.2	-4.2	-5.5	0.7
Water & Sewerage	-0.6	1.0	4.3	3.8
Manufacturing	4.3	0.3	0.7	2.5
<b>Construction</b>	<b>-0.7</b>	<b>1.1</b>	<b>-3.8</b>	<b>2.8</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>0.4</b>	<b>0.1</b>	<b>0.9</b>	<b>-0.2</b>

LABOUR MARKET

Over the quarter to March – May 2017:

- The employment level rose by 25,000 and the employment rate increased by 0.7 percentage points to 74.1% (UK, 74.9%).
- The unemployment level fell by 19,000 and the unemployment rate fell by 0.7 percentage points to 3.8% (UK, 4.5%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 4,000 and the inactivity rate decreased by 0.1 percentage points to 22.9% (UK, 21.5%).



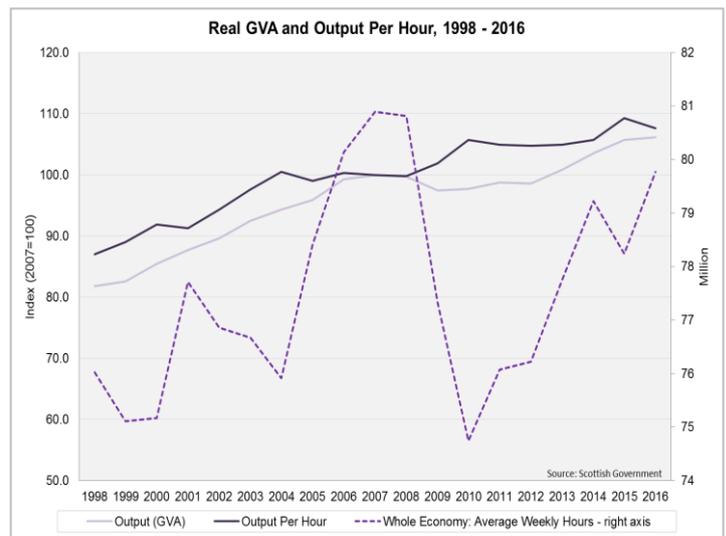
**Labour Market Headline Statistics, March – May 2017**

	Rate (%)	Change (% points)		Level <sup>c</sup> ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
<b>Scotland</b>						
Employment <sup>A</sup>	74.1	0.7	0.1	2,619	25	-6
ILO Unemployment <sup>B</sup>	3.8	-0.7	-1.6	104	-19	-46
Economic Inactivity <sup>A</sup>	22.9	-0.1	1.2	782	-4	40
<b>UK</b>						
Employment <sup>A</sup>	74.9	0.3	0.6	32,010	175	324
ILO Unemployment <sup>B</sup>	4.5	-0.2	-0.5	1,495	-64	-152
Economic Inactivity <sup>A</sup>	21.5	-0.2	-0.2	8,829	-57	-55

**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+.

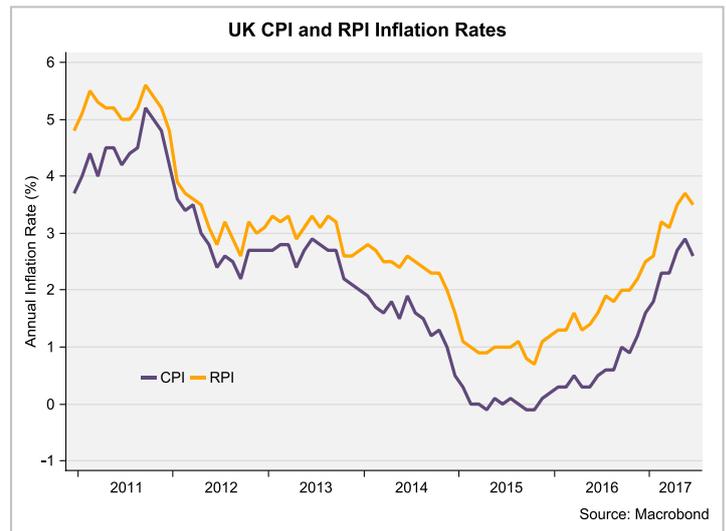
**PRODUCTIVITY**

- In 2016, Scottish labour productivity, as measured by output per hour worked, fell by 1.5% in real terms, following growth of 3.5% in 2015.
- The fall in productivity reflected that growth in average hours worked outpaced growth in GVA during 2016 (2.0% and 0.4% respectively), meaning that output per hour declined.
- Output per hour worked is 7.6% higher in real terms than in 2007, prior to the recession.
- Output per hour worked in nominal terms (2015) was estimated to be 99.7% of the average UK value (excluding extra-regio output).
- Labour productivity as measured by output per job increased by 0.2% in 2016.



**INFLATION**

- The Consumer Prices Index (CPI) 12-month rate was 2.6% in June 2017, down from 2.9% in May. The slower rate was a result of lower prices for motor fuels and recreational and cultural goods. Counterbalancing factors were rising prices for furniture and furnishings.



**RETAIL**

- The Scottish Retail Sales Index for Q1 2017 showed that the volume of retail sales in Scotland fell by 0.4% over the quarter (GB fell by 1.4%) and grew 0.2% over the year (GB grew by 2.1%).
- Sales volume from large retail businesses fell by 0.7% during Q1 2017 whilst sales from small & medium size stores fell by 0.1%.

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

Volume	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Value	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Scotland	0.4	1.4	-0.5	-0.4	Scotland	0.2	1.3	0.3	0.5
GB	1.1	1.8	1.2	-1.4	GB	0.9	2.1	1.9	0.0

## EXPORTS & TRADE

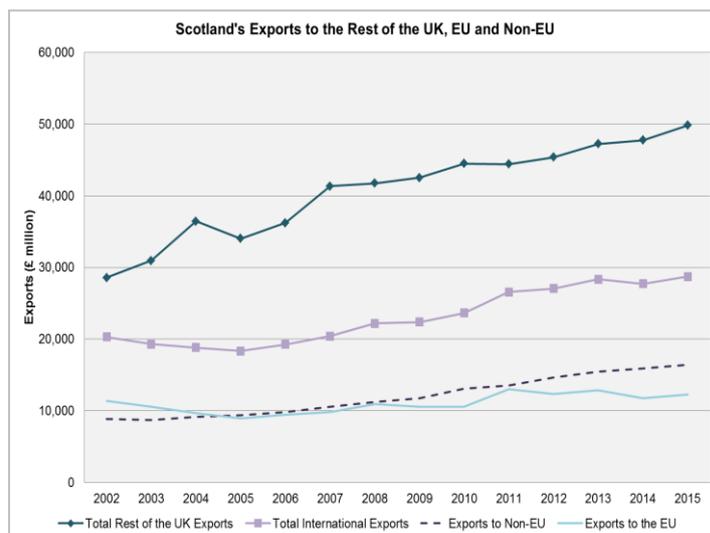
### Index of Manufactured Exports (Q4 2016)

Manufactured Exports, Scotland, Q4 2016	2013 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
<b>Total Manufacturing Exports</b>	<b>100</b>	<b>-2.3</b>	<b>-5.3</b>
Engineering & Allied Industries	32.5	-9.1	-7.6
Food, Beverages & Tobacco	35.3	0.0	2.7
Refined Petroleum, Chemical & Pharmaceutical Products	11.3	0.6	-4.7
Non-Metallic Products, Other Manufacturing & Repair	8.7	-2.9	-11.6
Metals & Metal Products	5.5	5.1	-25.8
Textiles, Clothing & Leather	3.3	4.7	-13.9
Wood, Paper & Printing	3.3	7.9	-9.7

- The volume of Scottish manufactured exports, a subset of total international exports, fell by 2.3% in Q4 2016. At current prices, the value of Scottish manufactured exports grew by 1.0% over the same period.
- The quarterly decrease in export volumes was predominantly driven by a decline in the Engineering and Allied Industries sector and zero growth in the Food, Beverage and Tobacco sector.
- Contractions were partially offset by quarterly expansions in the Wood, Paper and Printing, Metals & Metal Products and Textiles, Clothing & Leather sectors.
- On a rolling-annual basis Scottish manufactured export sales fell by 5.3% in Q4 2016.

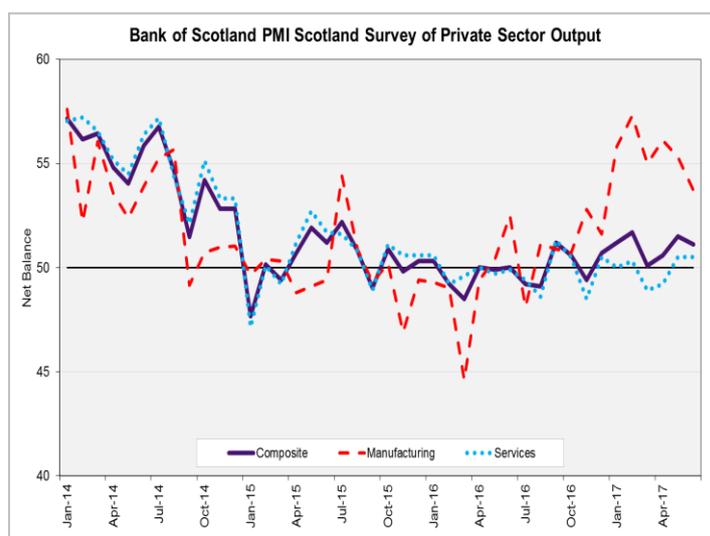
### Export Statistics Scotland (2015)

- 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 June 2017 signalled expansion in new business and orders for Scotland's private sector. Input price inflation continued to weigh on businesses as a result of wage pressures and the weak value of sterling.
- The latest RBS Scotland Business Monitor for Q2 2017 signalled growth in total volume of business, export activity, repeat business, and turnover across Scotland's private sector. Firms also expect new business volumes to increase over the next six months.
- The latest Scottish Engineering Quarterly Review for Q2 2017 signalled that output volumes, orders



and staffing levels expanded in the engineering and manufacturing sector over the quarter while business optimism and the outlook for the next three months remained positive.

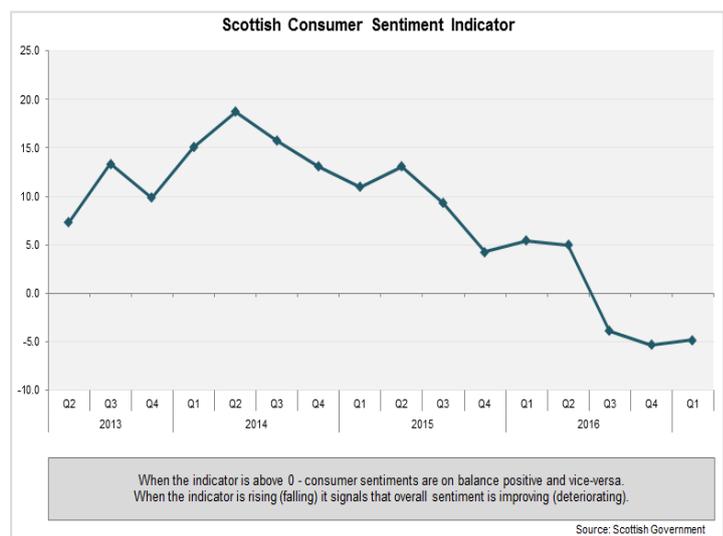
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q2 2017 reported that optimism within Scotland’s private sector continued to hold up, signalling a positive albeit sensitive outlook for the Scottish economy. Positive performances on sales and employment were reported across most sectors, however, key indicators were noticeably weaker in the Retail and Wholesale sector.
- The latest CBI Industrial Trends Survey of Scottish manufacturing firms for the three months to July 2017 signalled strong growth in new orders and output and also signalled that further strong growth is expected, with a rebound in business optimism, and employment levels growing at the fastest pace the survey has ever recorded.

PMI Headline Private Sector New Business				
	2017			
	Mar	Apr	May	Jun
<b>Scotland</b>	<b>50.8</b>	<b>52.3</b>	<b>51.2</b>	<b>50.9</b>
Service Sector New Business	51.0	51.6	51.1	50.6
Manufacturing New Orders	50.1	54.9	51.8	52.2

Business Optimism				
	2016		2017	
	Q3	Q4	Q1	Q2
Scottish Engineering	-18	+2	+17	+16
CBI: Industrial Trends Survey	-6	+30	-3	+30
SCC: Manufacturing Sector	-9	+2	+11	+5

### CONSUMER SENTIMENT<sup>1</sup>

- In Q1 2017, the Scottish Consumer Sentiment indicator remained in negative territory though strengthened slightly from -5.3 to -4.8.
- Underneath the overall consumer sentiment score, the indicators for current and expected economic performance remained negative with expected performance over the next 12 months weakening relative to the previous quarter.
- The indicator for current household financial position weakened over the quarter and was reflected in a weakening in attitude to household spending. In contrast, the indicator for household’s expected financial position over the next 12 months strengthened slightly over the quarter.
- The broad trend across all questions signalled that in Q1 2017, consumer sentiment was mixed with expectations for household finances strengthening, whilst expectations regarding the performance of the economy as a whole were weaker.



Scottish Consumer Sentiment Indicator	Score (Q1 2017)	Score in Previous Quarter	Score in Same Quarter of Previous Year	Score - Series Average
<b>Overall Indicator Score</b>	<b>-4.8</b>	<b>-5.3</b>	<b>5.4</b>	<b>7.9</b>
<b>(a) Economy performance - last 12 months</b>	<b>-10.3</b>	<b>-17.8</b>	<b>-0.1</b>	<b>11.7</b>
<b>(b) Economy performance - next 12 months</b>	<b>-8.9</b>	<b>-6.6</b>	<b>10.7</b>	<b>16.4</b>
<b>(c) Household financial position - last 12 months</b>	<b>-2.9</b>	<b>-1.2</b>	<b>2.5</b>	<b>1.8</b>
<b>(d) Household financial position - next 12 months</b>	<b>4.0</b>	<b>3.9</b>	<b>14.9</b>	<b>10.9</b>
<b>(e) Attitude to household spending - current</b>	<b>-5.9</b>	<b>-4.9</b>	<b>-0.8</b>	<b>-1.1</b>

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 (worsening).

<sup>1</sup> 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 Q1 2017 was conducted between 25<sup>th</sup> January and 12<sup>th</sup> March 2017. Care should be taking when interpreting the headline and individual indicators as they are not seasonally adjusted and may be revised at a later date. With the indicator commencing in Q2 2013, the time series is not yet long enough to allow for seasonal-adjustment or to examine the indicator’s power as a leading indicator.

## GDP GROWTH FORECASTS<sup>2</sup>

- **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 2017-18<sup>3</sup>.
- **PwC** latest Scottish GDP growth forecast (July 2017) was revised down for 2017 to 1.2%, (from 1.3% previously) with growth of 1.1% forecast for 2018 remaining unchanged.
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (June 2017), was unchanged for 2017 at 1.2% and revised up for 2018 to 1.4% (from 1.3% in March) and for 2019 to 1.6% (1.4% in March).
- **EY Scottish ITEM Club** 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 (July 2017), projects growth of 1.6% in 2017 and 1.4% in 2018, both rates unchanged from June.
- The **IMF's** World Economic Outlook Update (July 2017) forecast for UK GDP growth has been revised down in 2017 to 1.7% (from 2.0% in April), and remained unchanged for 2018 at 1.5%.

Annual GDP Growth (calendar year) (%)	Region	Outturn	Forecasts	
		2016	2017	2018
Fraser of Allander Institute (June 2017)	Scotland	0.4	1.2	1.4
EY Scottish ITEM Club (June 2017)			0.9	0.7
PwC (July 2017)			1.2	1.1
HM Treasury Average UK Independent Forecast (July 2017)	UK	1.8	1.6	1.4
International Monetary Fund (July 2017)			1.7	1.5

<sup>2</sup> Non-Scottish Government forecasts for the Scottish economy presented in this report were undertaken following the EU Referendum and are widely available in the public domain:

Fraser of Allander Institute [http://www.strath.ac.uk/business/economics/fraserofallanderinstitute/economic\\_commentary/latestcommentary/](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.

<sup>3</sup> 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>