

KEY ECONOMIC DEVELOPMENTS THIS MONTH

Scottish Output

- The latest **Quarterly National Accounts (QNAS)** for Scotland showed that during the 12 months to June 2016 Scottish onshore GDP grew by 0.4% to an estimated value of £147.7 billion or approximately £27,500 per person. Including a geographical share of offshore and overseas economic activity, Scottish GDP is estimated at £156.4 billion or £29,100 per person.
- The latest Scottish **Index of Manufactured Exports (IME)** for April – June 2016, showed that international manufactured export volumes contracted by 0.8% in real terms over the quarter, largely driven by a fall in exports from the Engineering and Allied Industries sector. Comparing Q2 2016 with the same quarter in 2015, the volume of manufactured exports declined by 3.6%.

Scottish Labour Market

- **Labour Market statistics** showed that unemployment in Scotland fell by 14,000 to a rate of 4.7% over the three months to September 2016 (down from 5.2%). However, the employment level in Scotland decreased by 25,000 over the same period and the inactivity level increased by 31,000. The employment rate now stands at 73.6% (down from 74.1%) and the inactivity rate at 22.6% (up from 21.7%).

Scottish Business Surveys

- **Bank of Scotland Purchasing Managers' Index (PMI)** signalled that private sector output in Scotland increased in October 2016, albeit at a slower rate than the previous month. Both Manufacturers and Services providers reported an increase in production and business activity respectively, accompanied by increases in employment numbers.

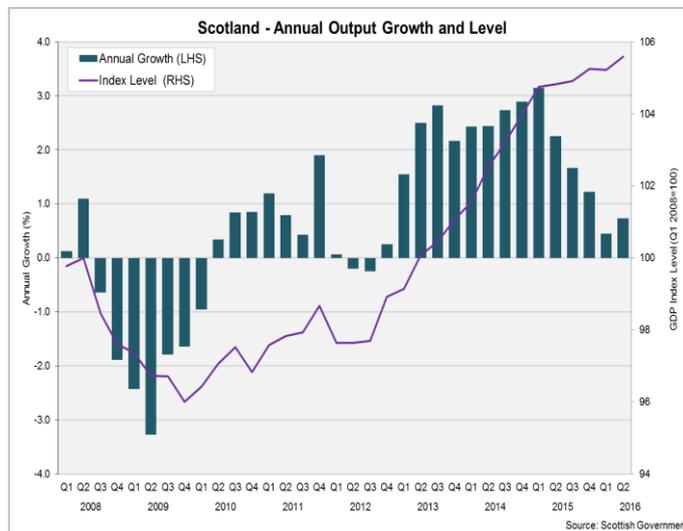
Post EU Referendum November Update

- UK GDP:
 - Second 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 7% and 1% respectively above their pre-referendum level.
- Currency:
 - **Sterling** has strengthened slightly over the past month and now stands 11% lower against the Euro and 16% lower against the US Dollar compared to pre-referendum levels.
- Growth Forecasts:
 - **PWC** forecast Scotland GDP growth of 1.8% in 2016 (UK, 2.0%) and 0.9% in 2017 (UK, 1.2%).
 - **OBR Fiscal and Economic Outlook** UK GDP forecasts for 2016 were revised up marginally to 2.1% (2.0% previously) but revised down for 2017 and 2018 to 1.4% and 1.7% respectively (2.2% and 2.1% previously).
 - **HM Treasury's monthly publication of Average Independent Forecasts** for UK GDP growth was revised up in November to 2.0% for 2016 (1.8% pre-referendum) and to 1.2% for 2017 (2.1% pre-referendum).

OUTPUT

Quarterly GDP Growth (%)	Q3 2015		Q4 2015		Q1 2016		Q2 2016		Q3 2016	
	Scotland	UK								
	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** (second estimate) grew 0.5% in Q3 2016 (2.3% annually) compared to 0.7% in Q2 2016 (2.1% annually).
- **US GDP** (second estimate) grew 0.8% in Q3 2016 (3.2% annually) compared to 0.4% in Q2 (1.4% annually).
- **Euro Area GDP** (second estimate) grew 0.3% in Q3 2016 (1.6% annually), unchanged from quarterly growth in Q2.

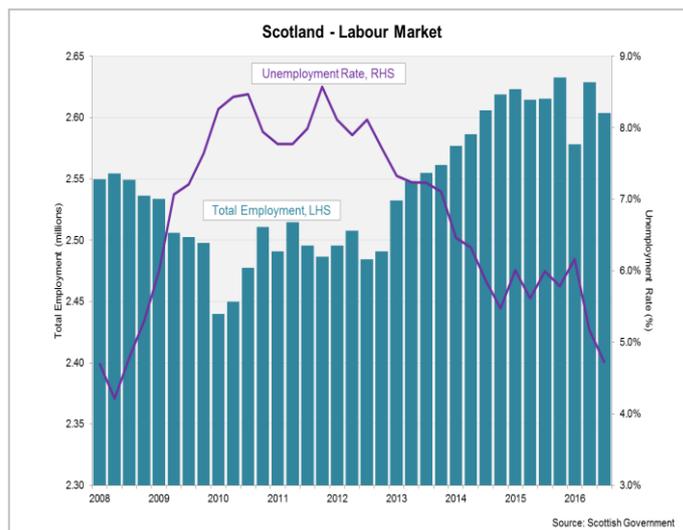


GDP Growth by sector, Q2 2016	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	0.4	0.7	0.7	2.1
Service Sector	0.5	0.6	2.0	2.7
Distribution, Hotels & Catering	0.0	1.1	3.2	5.0
Transport, Storage & Comms	0.6	0.6	0.8	2.5
Business Services & Finance	1.3	0.6	3.4	2.6
Government & Other Services	-0.2	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 July – September 2016:

- Total employment (16-64) levels in Scotland fell by 25,000 over the quarter, with the headline employment rate falling by 0.5 percentage points to 73.6% (UK 74.5%).
- The ILO unemployment rate (16+) in Scotland decreased by 0.4 percentage points to 4.7% with the unemployment level falling by 14,000 over the quarter.
- The level of economic inactivity (16-64) in Scotland (those neither in employment or ILO unemployed) increased by 31,000 (0.9 percentage points), to a rate of 22.6%



- Youth unemployment in Scotland decreased by 18,000 over the year, with the youth unemployment rate falling to 12.0% (UK, 14.3%). Over the same period, the youth employment rate also fell by 3.1 percentage points over the year to 60.0% (UK, 55.9%), with the youth inactivity rate rising to 31.8% (UK, 34.7%).
- The Claimant Count¹ level in Scotland increased by 700 over the month to 83,600. Over the same period, the claimant count rate stayed unchanged at 3.0% (UK 2.3%).

Labour Market Headline Statistics, Jul - Sep 2016						
	Rate (%)	Change (%pt)		Level ^c ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	73.6%	-0.5	-0.6	2,604	-25	-12
ILO Unemployment ^B	4.7%	-0.4	-1.3	129	-14	-38
Economic Inactivity ^A	22.6%	0.9	1.6	773	31	54
UK						
Employment ^A	74.5%	0.0	0.7	31,799	49	461
ILO Unemployment ^B	4.8%	-0.1	-0.5	1,604	-37	-146
Economic Inactivity ^A	21.7%	0.1	-0.3	8,893	49	-103

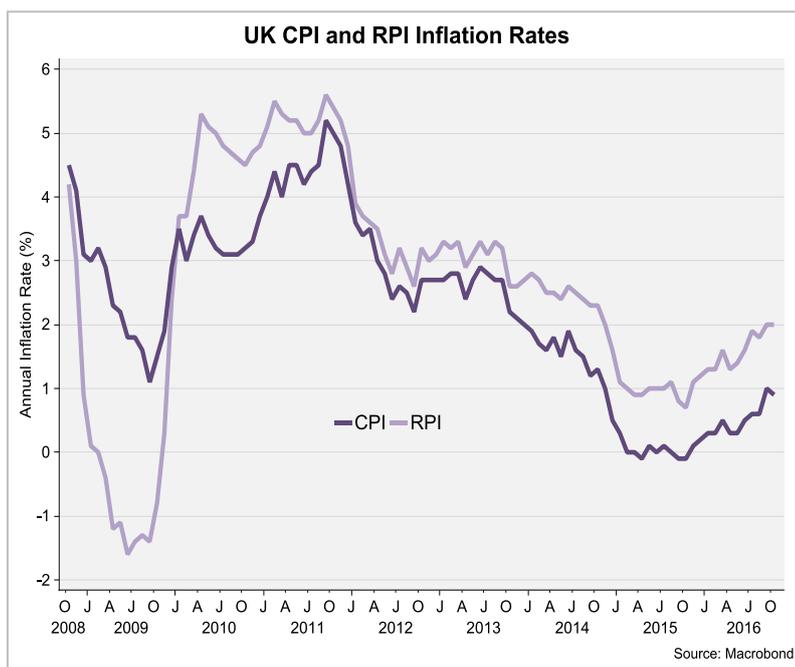
Source: Labour Market Statistics and Regional Labour Market Statistics, Scotland, Office of National Statistics
Notes: A. Denominator is all persons aged 16-64, B. Denominator is total economically active, C. All persons aged 16+.

Claimant Count, Rates, October 2016						
Claimant Count	Rate (%) ^D	Change (%pt)		Level ('000)	Change ('000)	
		Over month	Over Year		Over Month	Over Year
Scotland	3.0%	0.0	0.1	83.1	0.7	4.1
UK	2.3%	0.0	0.0	803.3	9.8	9.9

Source: Jobcentre Plus.
Notes: D. 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 0.9% in the year to October 2016. Although slightly lower than September 2016, it remained higher than rates seen since late 2014. Downward pressures from clothing and university tuition fees were offset by rising fuel prices and prices for furniture and furnishings.
- 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 November.



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.

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%).
- 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

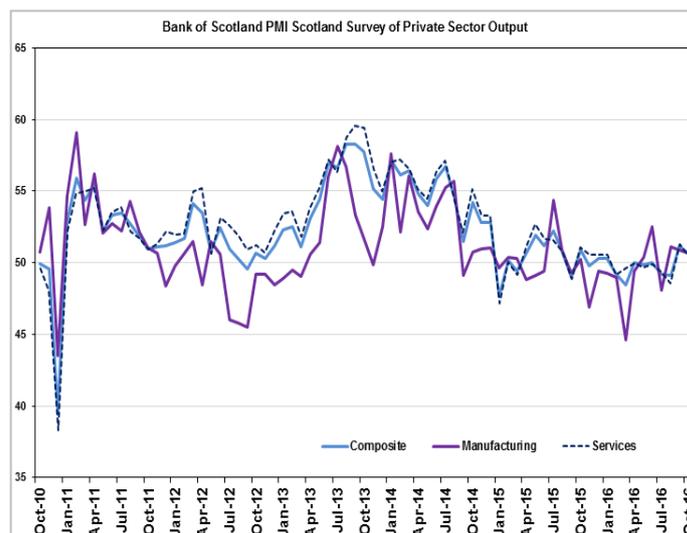
Manufactured Exports, Scotland, Q2 2016	2013 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing Exports	100	-0.8	-3.6
Engineering & Allied Industries	32.5	-6.1	-4.2
<i>Electrical & Instrument Engineering</i>	14.5	-6.7	5.5
<i>Mechanical Engineering</i>	10.5	-10.5	-15.4
<i>Transport Equipment</i>	7.5	1.5	-4.1
Food, Beverages & Tobacco	35.3	4.0	0.0
<i>Drink</i>	28.7	2.2	-0.4
<i>Food</i>	6.7	12.9	1.3
Refined Petroleum, Chemical & Pharmaceutical Products	11.3	-0.4	5.0
Non-Metallic Products, Other Manufacturing & Repair	8.7	-1.1	-6.5
Metals & Metal Products	5.5	0.1	-26.0
Textiles, Clothing & Leather	3.3	-9.4	-6.2
Wood, Paper & Printing	3.3	4.6	-19.8

Source: Index of Manufactured Exports, Scottish Government, 2016.

- The volume of Scottish manufactured exports, a subset of total international exports, decreased by 0.8% in Q2 2016.
- This decrease in export volumes was predominantly driven by declines in export volumes from the Engineering and Allied Industries (-6.1%), Non-metallic Products, Other Manufacturing Repair (-1.1%) and Refined Petroleum, Chemical and Pharmaceutical Products (-0.4%) sub sectors, which account for over 50% of Scotland's overseas manufactured exports.
- On a rolling-annual basis Scottish manufactured export sales were down by 3.6% in Q2 2016.

BUSINESS SURVEYS

- Bank of Scotland Purchasing Managers' Index (PMI) – Latest release signals that Scotland's private sector output continued to increase in October, albeit at a slower rate than the previous month. Both Manufacturers and Services providers reported an increase in production and business activity respectively, accompanied by increases in employment numbers.
- 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.

- The latest Scottish Chambers of Commerce 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 New Business				
	2016			
	Jul	Aug	Sep	Oct
Scotland	47.3	48.8	51.3	49.9
Service Sector New Business	48.2	49.0	51.4	50.3
Manufacturing New Orders	43.8	48.1	50.9	48.7

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

FORECASTS²

- PWC published new growth forecasts in November for Scottish GDP in 2016 and 2017. They showed upward revisions to growth rates in 2016 to 1.8% (from 1.3% in July) and in 2017 to 0.9% (from 0.3% in July).
- The Fraser of Allander (FAI) Institute 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).
- HM Treasury's November publication of Average Independent Forecasts for UK GDP growth was 2.0% for 2016 (1.8% pre-referendum) and 1.2% for 2017 (2.1% pre-referendum).
- The OBR's forecast [November 2016] for annual UK GDP growth was revised up for 2016 by 0.1 percentage points to 2.1%, and down by 0.8 percentage points to 1.4% in 2017, compared to its March 2016 forecast.

Annual GDP Growth (%)	Region	2015 (Outturn)	2016	2017
PWC (Nov 2016)	Scotland	2.1	1.8	0.9
Fraser of Allander Institute (July 2016)	Scotland	2.1	0.9	0.5
HM Treasury Avg. UK Independent Forecast (Nov 2016)	UK	2.3	2.0	1.2
OBR Fiscal and Economic Outlook UK forecast (Nov 2016)	UK	2.3	2.1	1.4

² The forecasts for the Scottish economy presented in this report were undertaken following the EU Referendum and are widely available in the public domain. They can be found at: Fraser of Allander Institute <https://www.sbs.strath.ac.uk/economics/fraser/fraser-commentary-july2016.pdf> and 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.