

## KEY ECONOMIC DEVELOPMENTS

### *Scottish Quarterly National Accounts*

During the 12-months to September 2016, the value of Scottish onshore GDP is estimated at £149.3 billion in total, or around £27,750 per person. Including a geographical share of UK extra-regio (offshore and overseas) economic activity, Scottish GDP is estimated at £157.6 billion, or £29,300 per person.

### *Scottish Index of Manufactured Exports*

The Index of Manufactured Exports (IME) fell by 3.8% in volume terms during the third quarter of 2016. Comparing the most recent four quarters to the previous four quarters (4Q-on-4Q growth), the volume of manufactured exports fell by 5.3%.

### *Scottish Productivity*

In 2015, Scottish labour productivity, as measured by output per hour worked, increased by 3.5% in real terms (inflation adjusted), following growth of 0.9% in 2014. Output per hour worked is now 9.4% higher in real terms than in 2007, prior to the recession.

### *Scottish Labour Market*

Over the quarter to October - December 2016, the unemployment rate rose by 0.2 p.p to 4.9% (though fell by 0.9 p.p over the year), whilst the employment rate rose by 0.1 p.p to 73.6% and the inactivity rate fell by 0.2 p.p to 22.4%.

### *Scottish Consumer Sentiment*

In Q4 2016, the Scottish Consumer Sentiment Indicator weakened further, with the headline composite indicator falling to -5.3, compared to -3.9 in Q3 2016.

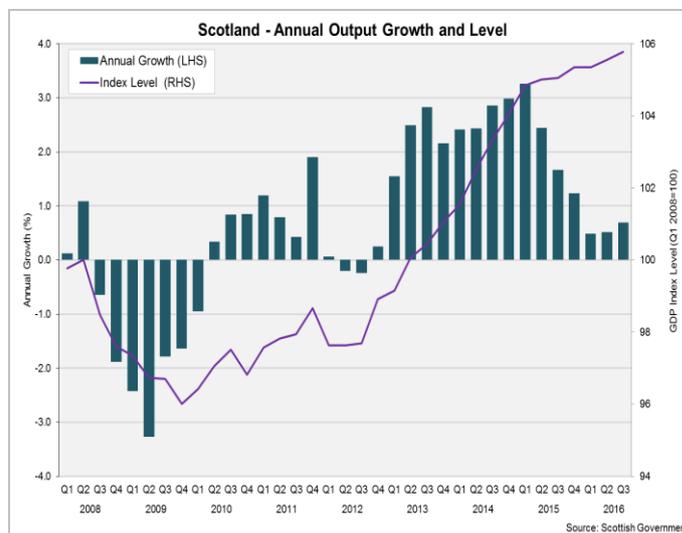
### *Scottish Business Surveys*

The **Bank of Scotland Purchasing Managers Index (PMI)** signalled a rise in private sector activity in January 2017 with the output index rising from 50.7 to 51.2 underpinned by expansions in new business and manufacturing output.

OUTPUT

Quarterly GDP Growth (%)	Q4 2015		Q1 2016		Q2 2016		Q3 2016		Q4 2016	
	Scotland	UK								
	0.3	0.7	0.0	0.2	0.2	0.6	0.2	0.6	N/A	0.7

- **Scottish GDP** grew 0.2% in Q3 2016 (0.7% annually), following growth of 0.2% in Q2 2016 (0.5% annually).
- **UK GDP** (2<sup>nd</sup> estimate) grew 0.7% in Q4 2016, up slightly from 0.6% in Q3 2016. Calendar year growth for 2016 was 1.8%, down from 2.2% in 2015.
- **US GDP** (2<sup>nd</sup> estimate) grew 0.5% in Q4 2016 compared to 0.9% in Q3. Calendar year growth for 2016 was 1.6%, down from 2.6% in 2015.
- **Euro Area GDP** (2<sup>nd</sup> estimate) grew 0.4% in Q4 2016, unchanged from Q3. Calendar year growth for 2016 was 1.7%, up from 1.6% in 2015.

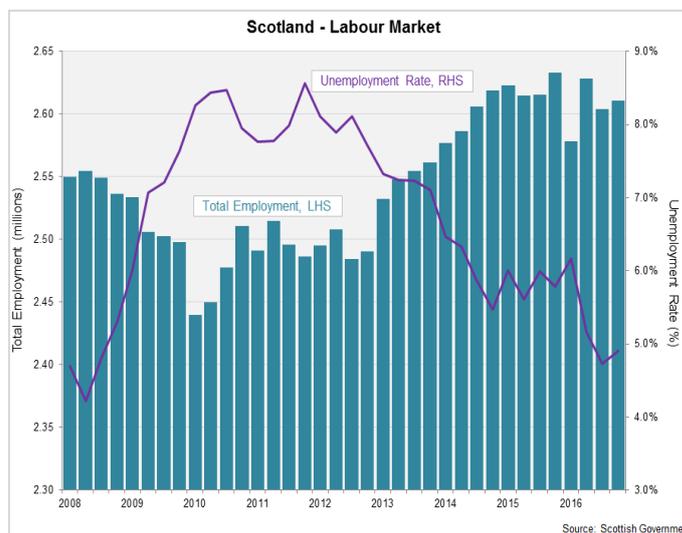


GDP Growth by sector, Q3 2016	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
<b>Total</b>	<b>0.2</b>	<b>0.6</b>	<b>0.7</b>	<b>2.2</b>
<b>Service Sector</b>	<b>0.4</b>	<b>1.0</b>	<b>2.1</b>	<b>3.1</b>
Distribution, Hotels & Catering	0.1	1.1	2.0	5.0
Transport, Storage & Comms	0.0	2.6	0.6	4.2
Business Services & Finance	0.8	0.8	3.8	3.1
Government & Other Services	0.2	0.4	0.6	1.6
<b>Production Sector</b>	<b>-0.1</b>	<b>-0.4</b>	<b>-2.9</b>	<b>1.1</b>
Mining & Quarrying	2.1	4.3	-0.7	3.6
Electricity & Gas	5.2	-4.2	-2.4	-1.1
Water & Sewerage	0.7	-0.1	7.9	5.2
Manufacturing	-1.9	-0.8	-5.2	0.5
<b>Construction</b>	<b>-1.4</b>	<b>-0.8</b>	<b>-4.5</b>	<b>1.7</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>0.5</b>	<b>-0.7</b>	<b>1.9</b>	<b>-1.7</b>

LABOUR MARKET

Over the quarter to October-December 2016:

- **Employment** levels in Scotland rose by 8,000, with the headline employment rate increasing by 0.1 percentage points to 73.6% (UK, 74.6%).
- The **unemployment** rate in Scotland increased by 0.2 percentage points to 4.9% (UK, 4.8%) with the unemployment level increasing by 6,000 over the quarter.
- **Economic inactivity** levels in Scotland (those neither in employment or ILO unemployed) decreased by 8,000 (0.2 percentage points), to a rate of 22.4% (UK, 21.6%).

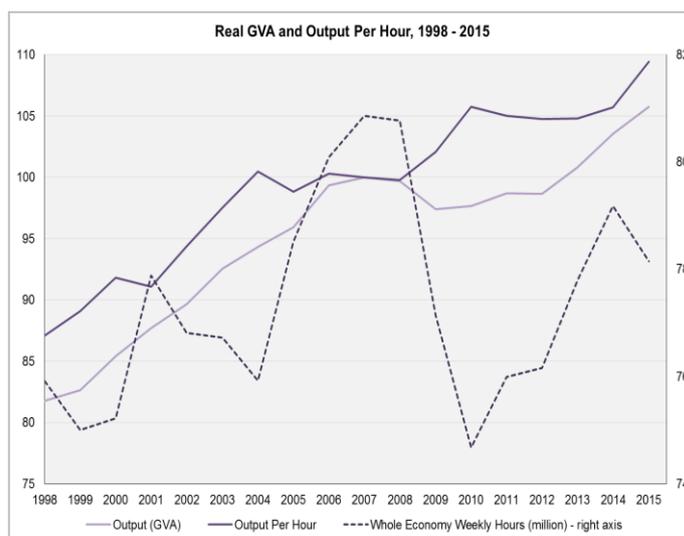


- Youth unemployment in Scotland decreased by 30,000 over the year, with the youth unemployment rate falling to 9.0% (UK, 12.2%). Over the same period, the youth employment rate fell by 4.2 percentage points to 56.9% (UK, 55.8%), with the youth inactivity rate rising to 37.5% (UK, 36.4%).
- The Claimant Count<sup>1</sup> level in Scotland decreased by 4,300 in January to 76,400, with the claimant count rate falling 0.2 percentage points to 2.7% (UK, 2.1%).

Labour Market Headline Statistics, October – December 2016						
	Rate (%)	Change (%pt)		Level <sup>c</sup> ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
<b>Scotland</b>						
Employment <sup>A</sup>	73.6%	0.1	-1.0	2,611	8	-20
ILO Unemployment <sup>B</sup>	4.9%	0.2	-0.9	135	6	-27
Economic Inactivity <sup>A</sup>	22.4%	-0.2	1.7	765	-8	59
<b>UK</b>						
Employment <sup>A</sup>	74.6%	0.1	0.5	31,837	37	302
ILO Unemployment <sup>B</sup>	4.8%	0.0	-0.3	1,597	-7	-97
Economic Inactivity <sup>A</sup>	21.6%	-0.1	-0.2	8,862	-31	-61
<b>Source:</b> Labour Market Statistics and Regional Labour Market Statistics, Scotland, Office of National Statistics.						
<b>Notes:</b> A. Denominator is all persons aged 16-64, B. Denominator is total economically active, C. All persons aged 16+.						
Claimant Count, Rates, January 2017						
Claimant Count	Rate (%) <sup>D</sup>	Change (%pt)		Level ('000)	Change ('000)	
		Over month	Over Year		Over Month	Over Year
Scotland	2.7%	-0.2	0.1	76.4	-4.3	3.1
UK	2.1%	-0.1	0.0	745.0	-42.4	2.8
<b>Source:</b> Jobcentre Plus.						
<b>Notes:</b> 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 <u>not directly comparable</u> to the CC figures published before 17 June 2015.						

## PRODUCTIVITY

- In 2015, Scottish labour productivity, as measured by output per hour worked, increased by 3.5% in real terms, following growth of 0.9% in 2014.
- Productivity growth in 2015 was underpinned by GVA growth of 2.1% while labour input as measured by the number of hours worked decreased by 1.3%.
- Output per hour worked is now 9.4% higher in real terms than in 2007, prior to the recession.
- Output per hour worked in nominal terms (not adjusted for inflation) was estimated to be 99.9% of the average UK value (excluding extra regio output).



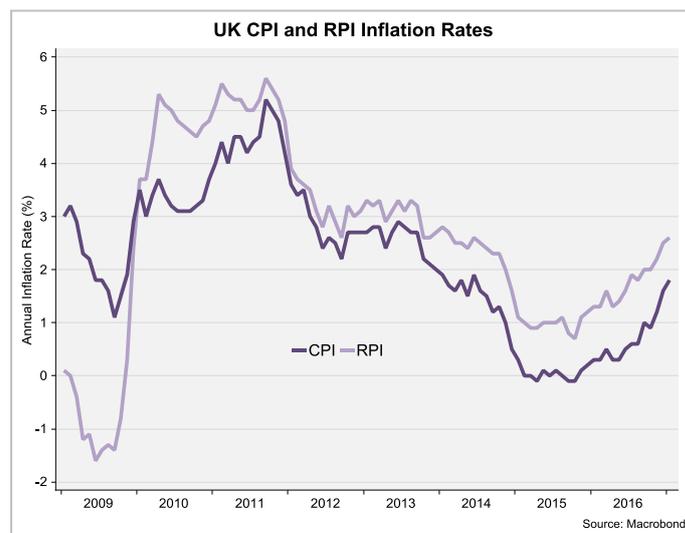
<sup>1</sup> From the June 2015 LFS release, the new experimental measure, that includes Universal Credit claimants who are not in work, became the new Claimant Count, replacing the previous measure based only on Jobseeker's Allowance claimants. The figures above are therefore not directly comparable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

## INFLATION

- The Consumer Prices Index (CPI) rose by 1.8% in the year to January 2017, up from the 1.6% rise in December 2016. The main contributors to the increase in the rate were rising prices for motor fuels and to a lesser extent food prices, which were unchanged, having fallen a year ago.

## RETAIL

- The Scottish Retail Sales Index for Q4 2016 showed that the volume of retail sales in Scotland decreased by 0.5% over the quarter (GB rose by 1.2%) and grew 3.1% over the year (GB grew by 5.6%).
- Sales volume from large retail businesses grew by 0.7% during 2016 Q4 whilst sales from small & medium size stores decreased by 1.7%.



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

Volume	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Value	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Scotland	1.8	0.4	1.4	-0.5	Scotland	0.8	0.2	1.3	0.3
GB	1.4	1.1	1.8	1.2	GB	0.7	0.9	2.1	1.9

## EXPORTS & TRADE

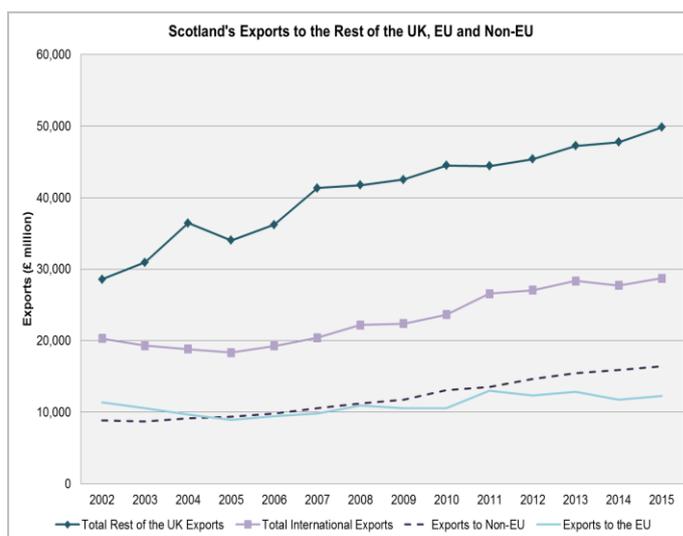
### Index of Manufactured Exports (Q3 2016)

Manufactured Exports, Scotland, Q3 2016	2013 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
<b>Total Manufacturing Exports</b>	<b>100</b>	<b>-3.8</b>	<b>-5.3</b>
Engineering & Allied Industries	32.5	-5.2	-6.3
Food, Beverages & Tobacco	35.3	-1.2	-0.4
Refined Petroleum, Chemical & Pharmaceutical Products	11.3	-1.3	0.3
Non-Metallic Products, Other Manufacturing & Repair	8.7	-10.2	-9.3
Metals & Metal Products	5.5	-5.4	-28.2
Textiles, Clothing & Leather	3.3	-7.4	-10.2
Wood, Paper & Printing	3.3	-6.8	-15.3

- The volume of Scottish manufactured exports, a subset of total international exports, decreased by 3.8% in Q3 2016.
- This decrease in export volumes was predominantly driven by declines in the two largest weighted industries, Food, Beverage and Tobacco and Engineering and Allied Industries which together account for over two thirds of Scotland's manufactured exports. The largest quarterly contraction was seen in the Non-Metallic Products, Other Manufacturing and Repair sector. (-10.2%).
- On a rolling-annual basis Scottish manufactured export sales were down by 5.3% in Q3 2016.

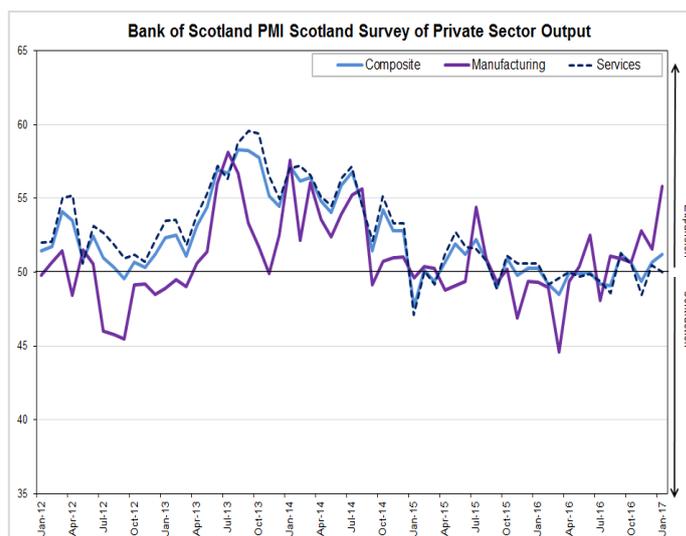
### Export Statistics Scotland (2015)

- 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) signalled a positive start to 2017 for Scotland's private sector. Output growth accelerated in January 2017 however employment fell slightly into negative territory across the sectors.
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator signalled steady performance in Q4 2016 with sales revenue and employment indicators positive across most sectors. Business optimism was mostly positive but remained finely balanced.
- The latest CBI Industrial Trends Survey of Scottish manufacturing firms signalled that manufacturing output and employment increased over the 3-months to January 2017, supported by increases in new domestic and export orders.
- The latest RBS Business Monitor indicated continued improvement in volume of business in Scotland's private sector over the three months to November 2016 supported by an increase in new business. Whilst export activity remained weak and inflationary cost pressures persist, firms expected business volumes to continue growing through to May 2017.
- The Scottish Engineering Quarterly Review for Q4 2016 signalled a pick-up in the Engineering Manufacturing sector in Scotland over the quarter, with balances for order intake, output volume, and staffing all turning positive for the first time in seven quarters. Export orders remained weak despite the fall in Sterling however looking ahead, business optimism and investment intentions were positive.

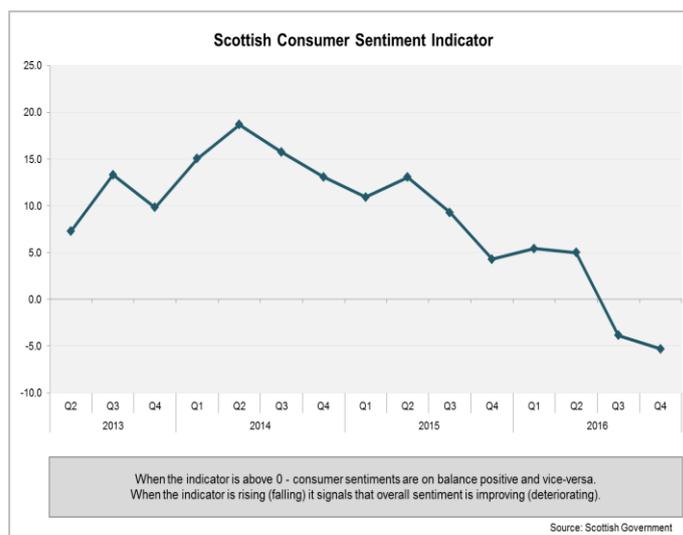


PMI Headline Private Sector New Business				
	2016			2017
	Oct	Nov	Dec	Jan
<b>Scotland</b>	<b>49.9</b>	<b>49.8</b>	<b>50.4</b>	<b>52.3</b>
Service Sector New Business	50.3	49.6	50.4	51.4
Manufacturing New Orders	48.7	50.6	50.6	55.9

Business Optimism					
	2015	2016			
	Q4	Q1	Q2	Q3	Q4
Scottish Engineering	-17	-15	-17	-18	+2
CBI: Industrial Trends Survey	+6	-14	-28	-6	+30
Scottish Chambers (Manufacturing Sector)	+14	-10	+10	-9	+2

## CONSUMER SENTIMENT<sup>2</sup>

- In Q4 2016, consumer sentiment in Scotland weakened further, with the indicator falling from -3.9 to -5.3.
- Underneath the overall indicator score, the indicators for both current and expected economic performance remained negative and weakened further compared to the previous quarter.
- The indicator for current household financial position slightly strengthened over the quarter though remained negative and was reflected in a further weakening in attitude to household spending.
- Over the quarter, expectations for households financial position for the next 12 months weakened further, though remained positive.
- The broad trend across all questions signalled that in Q4 2016, households became less optimistic about the outlook for both the economy as a whole and their household financial position.



Scottish Consumer Sentiment Indicator	Latest Score (Q4 2016)	Score in Previous Quarter	Score in Same Quarter of Previous Year	Score - Series Average
<b>Overall Indicator Score</b>	<b>-5.3</b>	<b>-3.9</b>	<b>4.3</b>	<b>8.8</b>
<b>(a) Economy performance - last 12 months</b>	-17.8	-13.8	1.5	13.1
<b>(b) Economy performance - next 12 months</b>	-6.6	-5.3	6.7	18.1
<b>(c) Household financial position - last 12 months</b>	-1.2	-1.6	0.8	2.1
<b>(d) Household financial position - next 12 months</b>	3.9	5.9	13.2	11.4
<b>(e) Attitude to household spending - current</b>	-4.9	-4.5	-0.8	-0.8

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 a 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).

## GDP GROWTH FORECASTS<sup>3</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>4</sup>
- The **Fraser of Allander Institute** latest Scottish growth forecasts (December 2016), raised their projection for growth in 2016 to 1.0% (from 0.9% in July) and for 2017 to 1.1% (from 0.5% in July).
- **EY Scottish ITEM Club** latest Scottish growth forecasts (December 2016), lowered their projection for growth in 2016 to 0.7% (from 1.2% in June) and for 2017 to 0.4% (from 2.0% in June).

<sup>2</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 Q4 2016 was conducted between 19<sup>th</sup> October and 12<sup>th</sup> December 2016. Care should be taken 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.

<sup>3</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>4</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>

- **PWC** latest Scottish GDP growth forecasts (November 2016) raised their projection for growth in 2016 to 1.8% (from 1.3% in July) and for 2017 to 0.9% (from 0.3% in July).
- **HM Treasury's** February publication of Average Independent Forecasts for UK GDP growth, projected growth of 1.4% in both 2017 and 2018, an upward revision for 2017 from 1.3% in January.
- The **IMF's** World Economic Outlook update in January revised up the forecast for UK growth in 2016 to 2.0% (1.8% in October), and for 2017 to 1.5% (1.1% in October).

Annual GDP Growth (calendar year) (%)	Region	2015 (Outturn)	2016	2017	2018
Fraser of Allander Institute (December 2016)	Scotland	2.1	1.0	1.1	1.3
EY Scottish ITEM Club (December 2016)			0.7	0.4	1.2
PwC (November 2016)			1.8	0.9	-
HM Treasury Avg. UK Independent Forecast (February 2017)	UK	2.2	1.8*	1.4	1.4
International Monetary Fund (January 2017)			1.8*	1.5	1.4

\*Estimated outturn based on preliminary estimate of UK GDP (Q4 2016)