

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Quarterly National Accounts Scotland for Q1 2018 reported:**
 - Scotland's Gross Domestic Product (GDP) grew by 0.4% in real terms during Q1 2018 (up from 0.3% in Q4 2017) and grew 1.3% over the past year.
 - During financial year 2017-18, the value of Scotland's onshore GDP is estimated at £156.5 billion (£28,797 per person), in current prices. Including a geographical share of UK extra-regio (offshore and overseas) economic activity, Scottish GDP is estimated at £170.4 billion (£31,367 per person).
 - The volume of Scotland's manufactured exports increased by 3.6% in Q1 2018 and increased by 8.7% on a rolling annual basis.

Labour Market

- Over the quarter to April – June 2018, the **employment rate** increased by 0.5 percentage points to 75.2%, the **unemployment rate** fell by 0.1 percentage points to 4.2% and the **inactivity rate** fell by 0.5 percentage points to 21.5%.

Labour Productivity

- **Labour productivity** (output per hour worked) for Q1 2018 grew by 1.7% compared to the previous quarter. On a rolling annual basis (comparing the most recent 4 quarters with the previous 4 quarters) labour productivity fell by 0.4%.

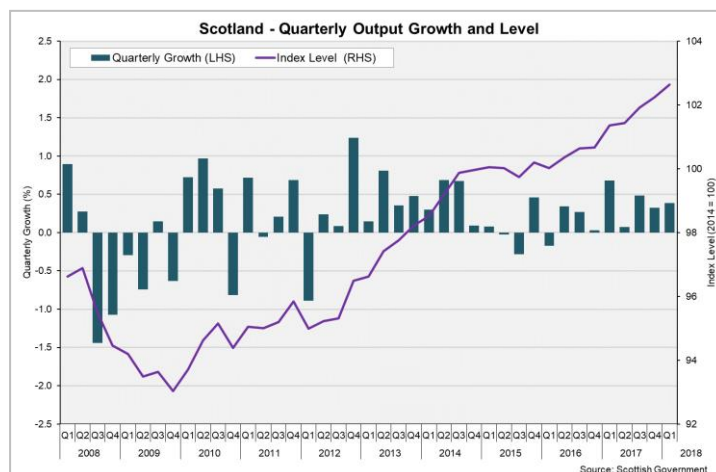
Business Surveys

- The **RBS Purchasing Managers Index** for July reported positive performance in Scotland's private sector with business activity rising to its strongest rate in 4-years. It reported that business confidence remained elevated, but had dipped to a 7-month low.
- The **Scottish Engineering Quarterly Review** for Q3 2018 reported further growth in output volume, order intake and exports in Scotland's manufacturing engineering sector. The pace of growth had slowed over the quarter alongside an easing in business optimism, however staffing and investment strengthened.

OUTPUT

Quarterly GDP Growth (%)	Q1 2017		Q2 2017		Q3 2017		Q4 2017		Q1 2018	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
		0.7	0.4	0.1	0.2	0.5	0.4	0.3	0.4	0.4

- **Scottish GDP** (QNAS) grew 0.4% in Q1 2018 (1.3% annually), up from 0.3% in Q4 2017.
- **UK GDP** (first estimate) grew 0.4% in Q2 2018 (1.4% annually), up from 0.2% in Q1 2018.
- **Euro Area GDP** (second estimate) grew 0.4% in Q2 2018 (2.2% annually), unchanged from Q1 2018.
- **US GDP** (first estimate) grew 0.8% in Q2 2018 (2.5% annually), up from 0.5% in Q1 2018.

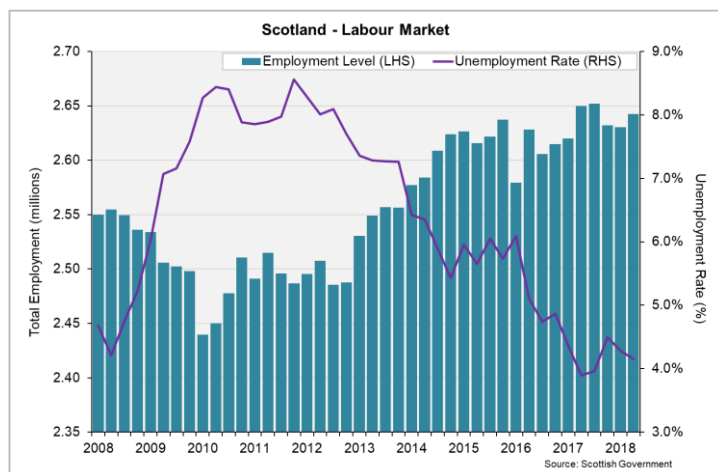


GDP Growth by sector, Q1 2018 (QNAS)	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	0.4	0.2	1.3	1.2
Service Sector	0.4	0.3	1.1	1.2
Distribution, Hotels & Catering	0.1	0.1	2.6	0.9
Transport, Storage & Comms	1.6	0.1	2.2	2.9
Business Services & Finance	0.4	0.5	0.7	1.6
Government & Other Services	0.2	0.3	0.4	0.1
Production Sector	1.0	0.4	3.4	2.4
Mining & Quarrying	0.6	2.5	3.6	-0.1
Manufacturing	2.0	-0.1	2.6	2.5
Electricity & Gas	-1.1	1.4	8.7	4.1
Water & Sewerage	-1.0	1.7	-2.6	1.3
Construction	-1.4	-0.8	-1.9	0.3
Agriculture, Forestry & Fishing	0.4	-1.5	0.2	-0.4

LABOUR MARKET

Over the year to April – June 2018:

- The employment level fell by 8,000 and the employment rate was unchanged at 75.2% (UK, 75.6%).
- The unemployment level rose by 7,000 and the unemployment rate rose by 0.3 percentage points to 4.2% (UK, 4.0%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 12,000 and the inactivity rate fell by 0.3 percentage points to 21.5% (UK, 21.2%).



Labour Market Headline Statistics, April – June 2018

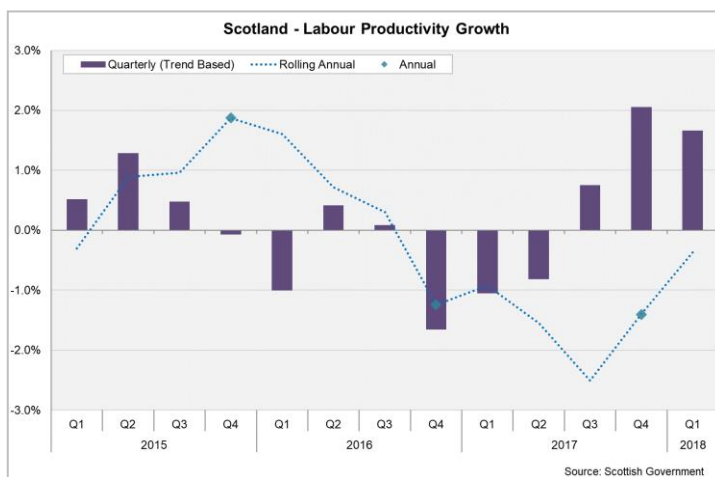
	Rate (%)	Change (% points)		Level ^C ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	75.2	0.5	0.0	2,642	12	-8
ILO Unemployment ^B	4.2	-0.1	0.3	115	-3	7
Economic Inactivity ^A	21.5	-0.5	-0.3	731	-17	-12
UK						
Employment ^A	75.6	0.0	0.4	32,386	42	313
ILO Unemployment ^B	4.0	-0.2	-0.4	1,360	-65	-124
Economic Inactivity ^A	21.2	0.2	-0.1	8,735	77	-31

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+.

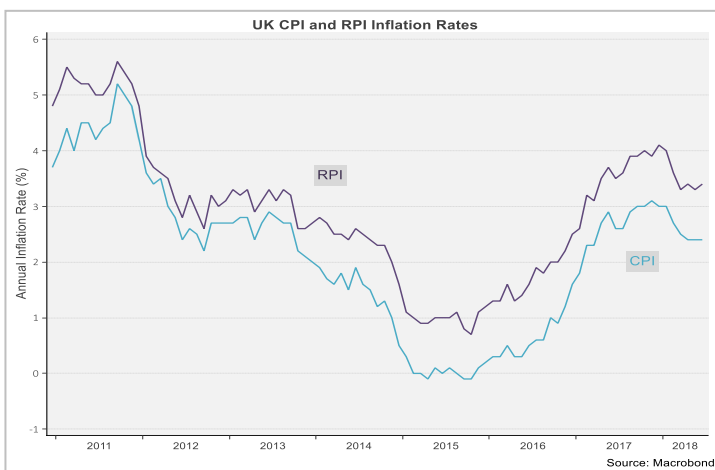
PRODUCTIVITY

- In Q1 2018, Scottish labour productivity (output per hour worked) grew by 1.7% over the quarter following growth of 2.1% in the previous quarter (trend-based).
- On a rolling annual basis (comparing the latest 4 quarters with the previous 4 quarters) Scottish labour productivity fell by 0.4% in real terms.
- The fall in productivity over the year reflects growth in average hours worked outpaced growth in GVA (1.7% and 1.3% respectively).
- On a rolling annual basis, Scottish labour productivity as measured by output per job decreased by 0.1% in real terms (inflation adjusted) in Q1 2018.



INFLATION

- The Consumer Prices Index (CPI) 12-month rate increased to 2.5% in July, up from 2.4% in June. Over the past month, key upward pressure on prices came computer games and transport fares. This was partially offset by downward pressure from goods including clothing and footwear and the removal of initial charges for investment in some unit trusts.



RETAIL

- The volume of Scottish retail sales grew 0.3% over the quarter in Q2 2018 (0.5% growth over the year). The value of retail sales grew by 0.5% over the quarter (2.4% growth over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 0.6% in Q2 2018. Sales from small & medium size stores (which account for the remaining 30% of sales) fell by 1.3% compared to the previous quarter.

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

Volume	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Value	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Scotland	0.0	-0.2	0.4	0.3	Scotland	0.6	0.9	0.3	0.5
GB	0.5	0.5	-0.3	2.1	GB	1.2	1.2	0.2	2.4

EXPORTS & TRADE

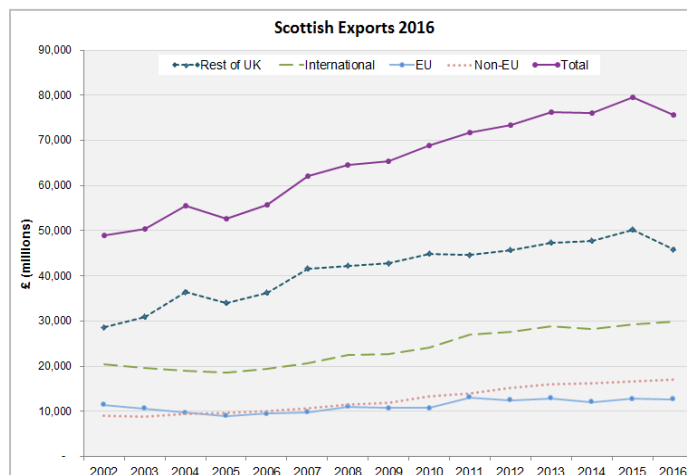
Index of Manufactured Exports (Q1 2018)

Manufactured Exports, Scotland, Q1 2018 (volume)	2015 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing	100	3.6	8.7
Food and Drink	39.6	3.7	1.5
Engineering & Allied Industries	30.4	5.7	6.3
Refined Petroleum, Chemical & Pharmaceutical Products	9.4	-1.7	13.4
Non-Metallic Products, Other Manufacturing & Repair	7.5	0.2	-0.4
Metals & Metal Products	6.6	-0.3	82.2
Textiles, Clothing & Leather	3.0	7.8	11.2
Wood, Paper & Printing	3.5	10.8	3.3

- Manufactured exports make up around half of the total value of international exports from Scotland's onshore economy.
- The volume of Scottish manufactured exports, increased by 3.6% in Q1 2018 and increased by 8.7% on a rolling annual basis.
- The increase in the volume of manufactured exports was relatively broad based over the quarter with the increase mainly driven by exports of food and drink and engineering products.
- At current prices, the value of Scottish manufactured exports increased by 4.2% over the quarter.

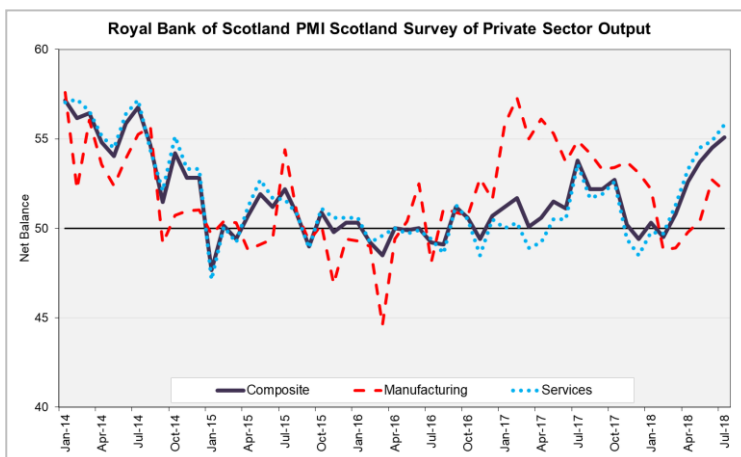
Export Statistics Scotland (2016)

- Total exports (goods and services) from Scotland to the rest of the UK and internationally in 2016 (excluding oil and gas) were estimated at £75.6 billion, down £3.9 billion (5.0%) over the year.
- Exports to the rest of the UK fell £4.4 billion (8.8%) over the year to £45.8 billion while international exports rose by £460 million (1.6%) to £29.8 billion.
- International exports to EU countries fell in 2016 by £105 million (0.8%) to £12.7 billion, making up 43% of international exports.
- International exports to non-EU countries increased by £565 million (3.4%) to £17.1 billion in 2016.
- The USA was Scotland's top international export destination country (£4.8 billion). The top 5 international export markets (USA, Netherlands, France, Germany and Norway) accounted for 41% of international exports from Scotland in 2016.



BUSINESS SURVEYS

- The RBS Purchasing Managers Index for July reported positive performance in Scotland's private sector with business activity rising to its strongest rate in 4-years supported by an acceleration in new order growth. It reported further positive employment over the month and that business confidence also remained elevated, however had dipped to a 7-month low amid Brexit related concerns.
- The Scottish Engineering Quarterly Review for Q3 2018 reported continued growth in output, order intake and exports, although the pace of growth had slowed. Growth in business optimism also slowed over the quarter however capital and training investment remained positive.
- The Royal Bank of Scotland Scottish Business Monitor for Q2 2018 signalled a pick-up in business volumes and turnover supported by growth in new business and export activity. However, cost pressures continued to rise and capital investment remained subdued. Looking ahead, firms generally expect these trends to continue over the remainder of the year.
- The CBI Industrial Trends Survey of Scottish manufacturing firms signalled growth in output, total new orders and employment over the 3-months to July 2018. The outlook for the next 3-months was also broadly positive, with firms expecting total orders and employment to grow. However, business optimism and investment intentions for the next 12-months remain subdued.
- The Scottish Chambers of Commerce Quarterly Economic Indicator for Q2 2018 signalled stronger growth in sales revenue and/or employment across the majority of sectors alongside a pick-up in business confidence. Looking ahead, indicators for sales revenue, investment and employment growth over the next 3-months remain positive.

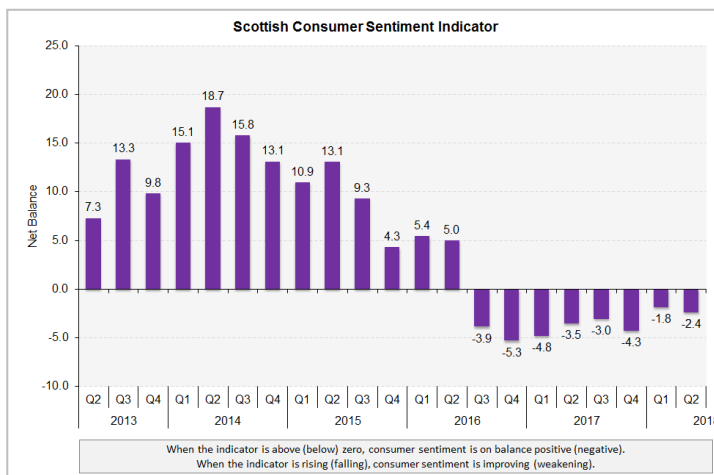


PMI Headline Private Sector New Business				
	2018			
	Apr	May	Jun	Jul
Scotland	53.5	54.1	54.3	54.9
Service Sector New Business	54.2	55.0	54.7	55.6
Manufacturing New Orders	50.6	50.4	52.9	52.0

Business Optimism – Manufacturing				
	2017	2018		
	Q4	Q1	Q2	Q3
Scottish Engineering	+23	+25	+24	+1
CBI: Industrial Trends Survey	+19	+31	-6	-
SCC: Manufacturing Sector	+8	+3	+10	-

CONSUMER SENTIMENT¹

- In Q2 2018, the Scottish Consumer Sentiment indicator was -2.4, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 0.5 points, implying that sentiment weakened compared to the previous quarter.
- Changes in current sentiment over the quarter were mixed. The indicator for households' financial security fell, signalling a weakening sentiment, however economic performance and attitude to spending indicator scores increased, signalling an improvement in sentiment.



¹ The Scottish Consumer Sentiment Indicator was published as an Experimental 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 Q2 2018 was conducted between 18th April and 10th June 2018. Headline and individual indicators are not seasonally adjusted and may be revised at a later date.

- Expectations for the outlook weakened, with both indicators falling compared to the previous quarter. However, the indicator for expectations of households' financial position was the only positive indicator score this quarter indicating that on balance, more respondents expect their households' financial position to improve in 12 months' time.

Scottish Consumer Sentiment Indicator	Score (Q2 2018)	Score in Previous Quarter	Change from Previous Quarter
Composite Indicator Score	-2.4	-1.8	-0.5
(a) Economy performance - last 12 months	-4.0	-6.4	2.4
(b) Economy performance - next 12 months	-10.8	-7.5	-3.4
(c) Household financial position - last 12 months	-1.3	-1.0	-0.2
(d) Household financial position - next 12 months	6.5	9.0	-2.5
(e) Attitude to household spending - current	-2.4	-3.3	1.0

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). Numbers may not sum due to rounding.

GDP GROWTH FORECASTS²

- The **Scottish Fiscal Commission's** (SFC) latest Scottish GDP growth forecast (May 2018), was unchanged at 0.7% for 2018 and revised down to 0.8% for 2019 (from 0.9% in December)³.
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (June 2018), was unchanged at 1.2% for 2018 and revised down slightly to 1.3% for 2019 (1.4% in March).
- **EY Scottish ITEM Club's** latest Scottish GDP growth forecast (June 2018) was revised down slightly for 2018 to 1.3% (from 1.4% in December) and unchanged at 1.6% for 2019.
- **PwC's** latest Scottish GDP growth projection (July 2018) remained around 1.0% for 2018, rising to around 1.3% in 2019.
- The **IMF's** World Economic Outlook (July 2018) forecast for UK GDP growth was revised down for 2018 to 1.4% (1.6% previously) and remained unchanged at 1.5% in 2019.
- **HMT's Average of Independent Forecasts** for the UK Economy (August 2018) project growth of 1.3% for 2018 (unchanged from July) and 1.5% for 2019 (up from 1.4% in July).
- The **OBR's** Economic and Fiscal Outlook (March 2018) forecast for UK GDP growth was revised up from November 2017 to 1.5% in 2018 (1.4% previously) and remained unchanged at 1.3% for 2019.

Annual GDP Growth (calendar year %)	Region	Outturn	Forecasts/Projections	
		2017	2018	2019
Scottish Fiscal Commission (May 2018)	Scotland	1.3	0.7	0.8
Fraser of Allander Institute (June 2018)			1.2	1.3
EY Scottish ITEM Club (June 2018)			1.3	1.6
PwC (July 2018)			1.0	1.3
HM Treasury Average UK Independent Forecast (August 2018)	UK	1.8	1.3	1.5
International Monetary Fund (July 2018)			1.4	1.5
OBR (March 2018)			1.5	1.3

² Non-Scottish Government forecasts for the Scottish economy presented in this report are widely available in the public domain:

Fraser of Allander Institute https://www.strath.ac.uk/business/economics/fraserofallanderinstitute/economic_commentary/,
EY ITEM Club <https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/ey-scottish-item-club-summer-update-2018>
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 Fiscal Commission Economic and Fiscal forecasts presented in this publication were undertaken to inform the Scottish Government's Medium Term Financial Strategy <http://www.fiscalcommission.scot/>