

KEY ECONOMIC DEVELOPMENTS

Scottish Output

- Scottish **GDP** fell by 0.2% in Q4 2016 following growth of 0.1% in the previous quarter. Over the calendar year (2016 vs. 2015) Scottish GDP grew 0.4%.
- The Scottish **Retail Sales Index** for Q1 2017 showed that the volume of retail sales in Scotland fell by 0.4% over the quarter and grew 0.2% over the year whilst the value of retail sales increased by 0.5% over the quarter and 1.8% over the year.

Scottish Labour Market

- Over the quarter to December – February 2017, the **employment rate** fell by 0.1 percentage points to 73.4%, the **unemployment rate** fell by 0.5 percentage points to 4.5% and the **inactivity rate** increased by 0.5 percentage points to 23.0%.

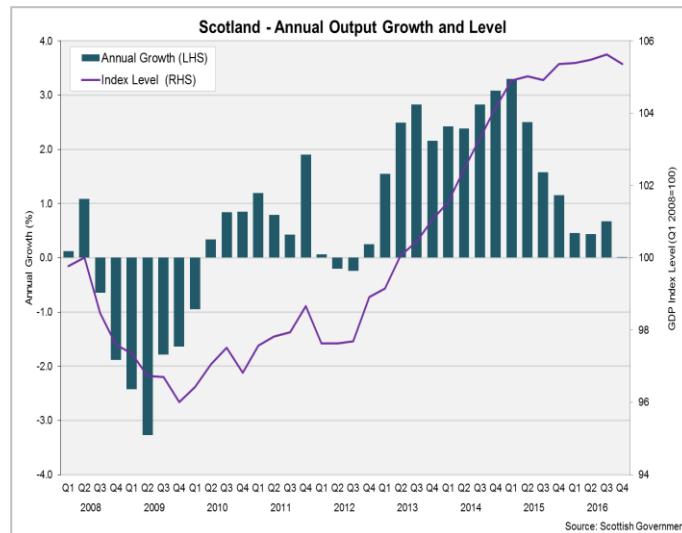
Scottish Business Surveys

- The **Bank of Scotland Purchasing Managers Index (PMI)** for March 2017 signalled that private sector output was broadly unchanged compared to the previous month, though remained positive alongside marginal expansions in new business and employment numbers.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** for Q1 2017 signalled mixed performances across Scotland's private sector industries at the start of the year, with inflationary pressures continuing to impact on profit and cash flow.
- The **CBI Industrial Trends Survey** for the three months to April 2017 signalled that Scottish manufacturing firms expanded both output and employment numbers over the quarter. Business optimism fell over the quarter, however new orders and employment numbers are expected to strengthen over the next quarter.

OUTPUT

Quarterly GDP Growth (%)	Q4 2015		Q1 2016		Q2 2016		Q3 2016		Q4 2016	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
	0.3	0.7	0.0	0.2	0.1	0.6	0.1	0.5	-0.2	0.7

- **Scottish GDP** contracted by 0.2% in Q4 2016 (0.0% annually), down from 0.1% growth in Q3 2016. Calendar year growth for 2016 was 0.4%.
- **UK GDP** (first estimate) grew 0.3% in Q1 2017 (2.1% annually) down from 0.7% growth in Q4 2016.
- **US GDP** (first estimate) grew 0.2% in Q1 2017 (1.9% annually) down from 0.5% growth in Q4 2016.
- **Euro Area GDP** (first estimate) grew 0.5% in Q1 2017 (1.7% annually), unchanged from Q4 2016.

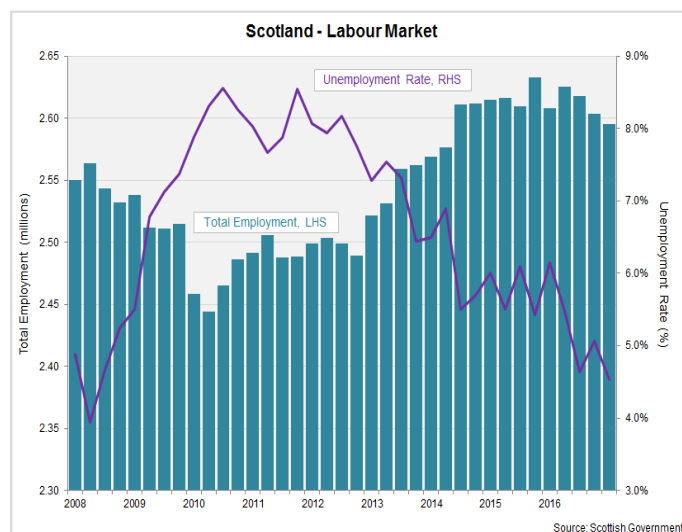


GDP Growth by sector, Q4 2016	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	-0.2	0.7	0.0	1.9
Service Sector	0.0	0.7	1.6	2.9
Distribution, Hotels & Catering	-0.4	2.1	1.1	6.0
Transport, Storage & Comms	1.0	0.9	-0.2	4.4
Business Services & Finance	-0.4	0.5	3.0	2.3
Government & Other Services	0.3	0.3	0.9	1.2
Production Sector	-0.9	0.4	-4.6	1.9
Mining & Quarrying	-1.6	-7.0	1.1	-3.0
Electricity & Gas	-0.9	1.3	-5.5	5.4
Water & Sewerage	-0.8	3.9	7.5	5.3
Manufacturing	0.4	0.9	-7.3	2.0
Construction	-0.8	1.0	-6.0	2.8
Agriculture, Forestry & Fishing	-0.2	0.9	0.3	-3.7

LABOUR MARKET

Over the quarter to December – February 2017:

- The employment level fell by 8,000. The employment rate fell by 0.1 percentage points to 73.4% (UK, 74.6%).
- The unemployment level fell by 15,000. The unemployment rate fell by 0.5 percentage points to 4.5% (UK, 4.7%).
- The economic inactivity level (those neither in employment or ILO unemployed) rose by 18,000. The inactivity rate increased by 0.5 percentage points to 23.0% (UK, 21.6%).



Labour Market Headline Statistics, December – February 2017

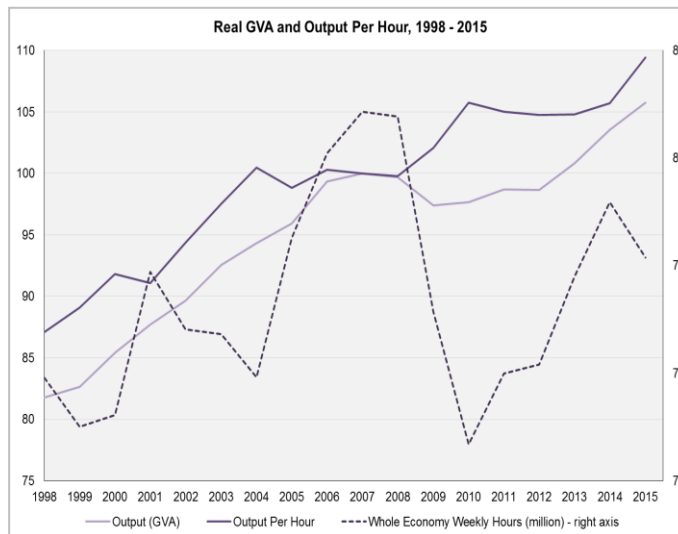
	Rate (%)	Change (%pt)		Level ^C ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	73.4	-0.1	-0.4	2,596	-8	-12
ILO Unemployment ^B	4.5	-0.5	-1.6	123	-15	-47
Economic Inactivity ^A	23.0	0.5	1.8	786	18	60
UK						
Employment ^A	74.6	0.1	0.5	31,841	39	312
ILO Unemployment ^B	4.7	-0.1	-0.4	1,559	-45	-141
Economic Inactivity ^A	21.6	0.0	-0.2	8,884	-10	-36

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+.

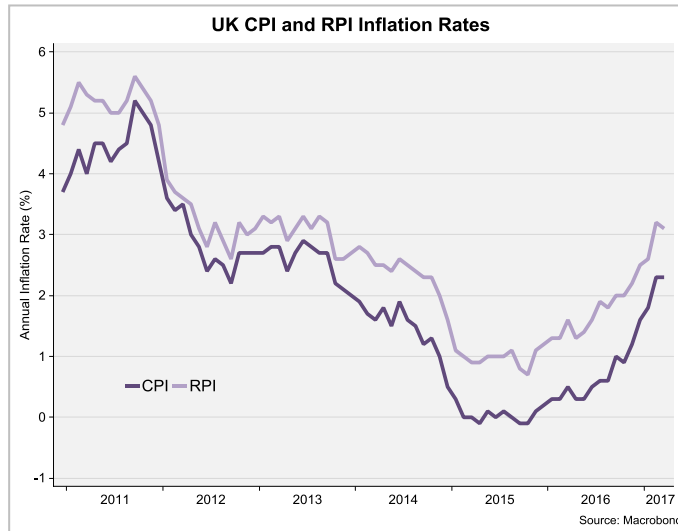
PRODUCTIVITY

- In 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 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).



INFLATION

- The Consumer Prices Index (CPI) 12-month rate was 2.3% in March 2017, unchanged from February. The rate was driven by rising prices for food, alcohol and tobacco and clothing and footwear, offset by falling prices in the transport sector.



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

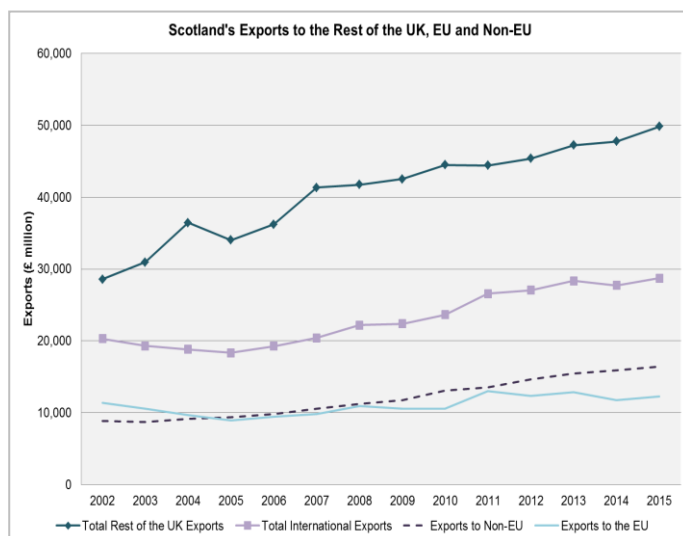
Index of Manufactured Exports (Q3 2016)

Manufactured Exports, Scotland, Q3 2016	2013 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing Exports	100	-3.8	-5.3
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.

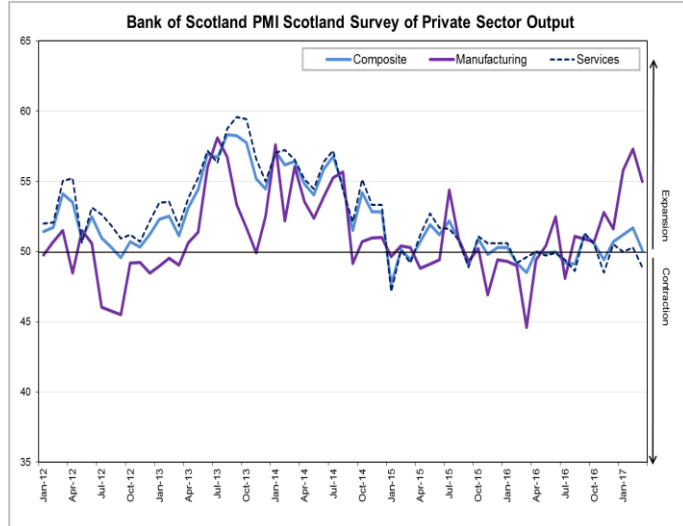
Export Statistics Scotland (2015)

- 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) for March 2017 signalled that private sector output was broadly unchanged compared to the previous month, though remained positive alongside marginal expansions in new business and employment numbers.
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q1 2017 signalled mixed performances across Scotland's private sector industries at the start of the year, with inflationary pressures continuing to impact on business profit and cash flow.



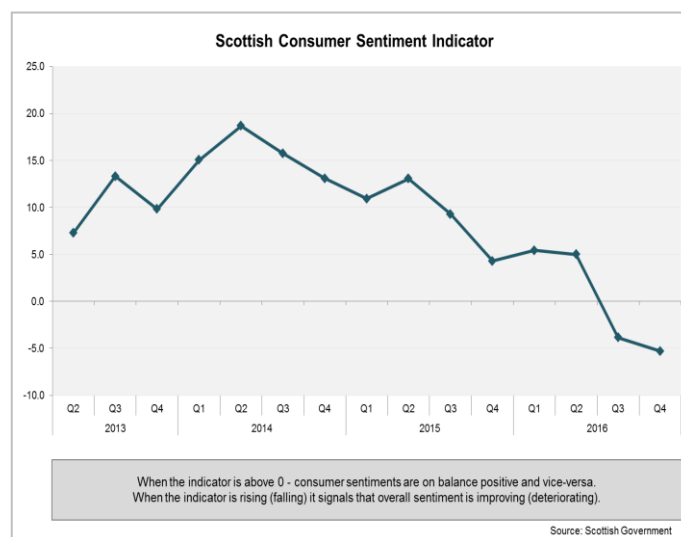
- The latest CBI Industrial Trends Survey for the three months to April 2017 signalled that Scottish manufacturing firms expanded both output and employment numbers over the quarter. Business optimism fell over the quarter, however new orders and employment numbers are expected to strengthen over the next quarter.
- The latest RBS Scotland Business Monitor signalled that private sector output continued to grow over the three months to February 2017, but at a slower pace than previously. Firms expect business volumes to grow over the next six months, including in the North East of Scotland.
- The latest Scottish Engineering Quarterly Review signalled that activity in the sector strengthened in Q1 2017, particularly in export orders. The outlook for the next 3 months also strengthened with firms expecting to increase staffing levels to support a growth in orders.

PMI Headline Private Sector New Business				
	2016	2017		
	Dec	Jan	Feb	Mar
Scotland	50.4	52.3	50.9	50.8
Service Sector New Business	50.4	51.4	50.5	51.0
Manufacturing New Orders	50.6	55.9	52.6	50.1

Business Optimism				
	2016			2017
	Q2	Q3	Q4	Q1
Scottish Engineering	-17	-18	+2	+17
CBI: Industrial Trends Survey	-28	-6	+30	-3
SCC: Manufacturing Sector	+10	-9	+2	+11

CONSUMER SENTIMENT¹

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

¹ 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 19th October and 12th 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.

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 2017-18.³
- The **Fraser of Allander Institute's** latest Scottish growth forecast (March 2017) was revised up for 2017 to 1.2% (from 1.1% in December) and was unchanged for 2018 at 1.3%.
- **PWC** latest Scottish growth forecast (March 2017) was revised up for 2017 to 1.3% (from 0.9% previously) with growth of 1.1% forecast for 2018.
- **EY Scottish ITEM Club** latest Scottish growth forecast (December 2016), was revised down for 2016 to 0.7% (from 1.2% in June) and for 2017 to 0.4% (from 2.0% in June).
- **HM Treasury's** publication of Average Independent Forecasts for UK GDP growth (April 2017), projected growth of 1.7% in 2017 (up from 1.6% previously) and 1.4% in 2018 (unchanged).
- The **IMF's** World Economic Outlook (April 2017) revised up the forecast for UK growth in 2017 to 2.0% (1.5% in January), and for 2018 to 1.5% (1.4% in January).

Annual GDP Growth (calendar year) (%)	Region	2016 (Outturn)	2017	2018
Fraser of Allander Institute (March 2017)	Scotland	0.4	1.2	1.3
PWC (March 2017)			1.3	1.1
EY Scottish ITEM Club (December 2016)			0.4	1.2
HM Treasury Avg. UK Independent Forecast (April 2017)	UK	1.8	1.7	1.4
International Monetary Fund (April 2017)			2.0	1.5

² 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/,

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>