

KEY ECONOMIC DEVELOPMENTS

Scottish Output

In Q3 2016, GDP grew by 0.2% (0.7% annually), the pace of growth unchanged from the previous quarter. Below the headline figure, the Service sector grew 0.4%, whilst the Production and Construction sectors contracted 0.1% and 1.4% respectively.

Scottish Retail Sales

The Scottish Retail Sales Index for Q4 2016 showed that the volume of retail sales in Scotland decreased by 0.5% over the quarter and grew 3.1% over the year.

Scottish Labour Market

Over the quarter to September - November 2016, the unemployment rate rose by 0.4 p.p to 5.1% (though fell by 0.4 p.p over the year), whilst the employment rate fell by 0.5 p.p to 73.4% and the inactivity rate rose by 0.2 p.p to 22.5%.

Scottish Consumer Sentiment

In Q3 2016, the Scottish Consumer Sentiment Indicator weakened over the quarter from +5.0 to -3.9, recording a negative reading for the first time since the survey started in 2013.

Scottish Business Surveys

CBI Industrial Trends Survey: signalled that manufacturing output and employment increased over the 3-months to January 2017, supported by increases in new domestic and export orders.

Bank of Scotland Purchasing Managers Index: signalled a marginal rebound in Scotland's private sector output in December 2016. The expansion was shared across manufacturing and service sectors, linked to increased domestic and overseas demand.

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 remains finely balanced.

Scottish Exports

Scotland's international exports (excluding oil and gas) increased in 2015 by £1 billion (3.6%) from £27.7 billion in 2014 to £28.7 billion in 2015.

Scottish GDP Growth Forecasts

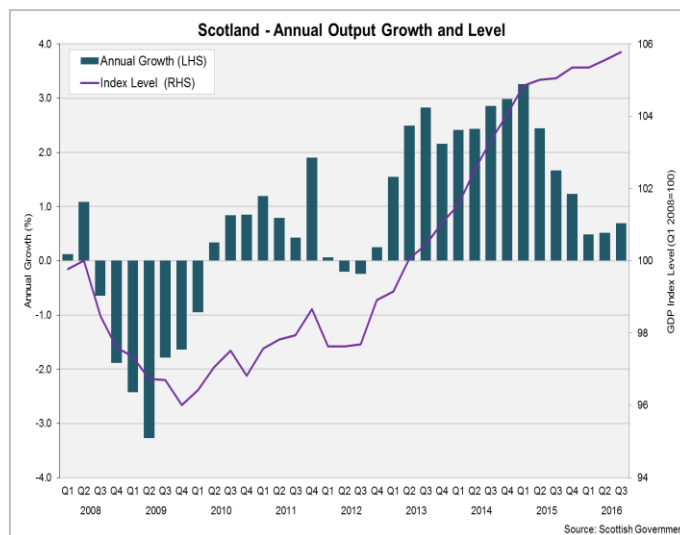
The **Scottish Government** published GDP forecasts for the first time alongside the Draft Budget 2017-18 to underpin the forecasts for the newly devolved income tax powers. The forecasts were for GDP growth of 1.0% in the 2016-17 financial year and 1.3% in 2017-18.

A number of other organisations have also recently published GDP growth forecasts for Scotland, including the **Fraser of Allander Institute**, **EY Scottish ITEM Club** and **PWC**. These forecasts are for growth of between 0.7% and 1.8% in 2016, rising to between 0.4%-1.1% in 2017. This comparatively wide range illustrates the current level of uncertainty surrounding the economic outlook.

OUTPUT

Quarterly GDP Growth (%)	Q3 2015		Q4 2015		Q1 2016		Q2 2016		Q3 2016	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
	0.0	0.3	0.3	0.7	0.0	0.4	0.2	0.7	0.2	0.6

- **Scottish GDP** grew 0.2% in Q3 2016 (0.7% annually) following growth of 0.2% in Q2 2016 (0.5% annually).
- **UK GDP** (preliminary estimate) grew 0.6% in Q4 2016, unchanged from Q3. Calendar year growth for 2016 was 2.0%, down from 2.2% in 2015.
- **US GDP** (preliminary 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** (preliminary estimate) grew 0.5% in Q4 2016, compared to 0.4% in Q3. Calendar year growth for 2016 was 1.7%.

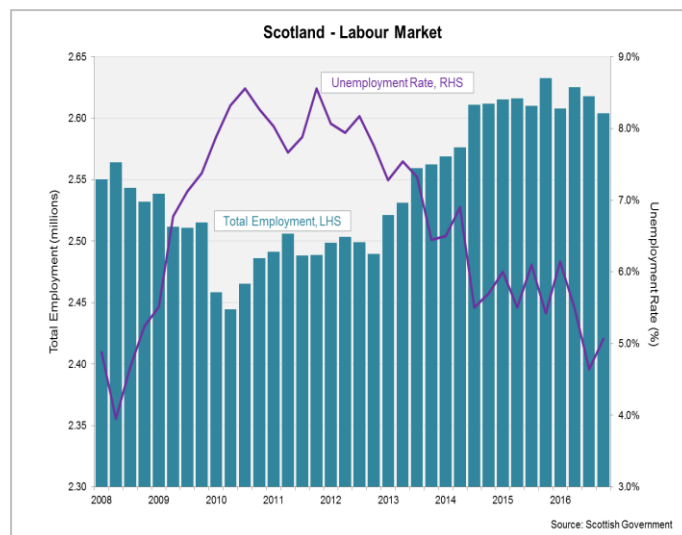


GDP Growth by sector, Q3 2016	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	0.2	0.6	0.7	2.2
Service Sector	0.4	1.0	2.1	3.1
Distribution, Hotels & Catering	0.1	1.1	2.0	5.0
Transport, Storage & Comms	0.0	2.6	0.6	4.2
Business Services & Finance	0.8	0.8	3.8	3.1
Government & Other Services	0.2	0.4	0.6	1.6
Production Sector	-0.1	-0.4	-2.9	1.1
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
Construction	-1.4	-0.8	-4.5	1.7
Agriculture, Forestry & Fishing	0.5	-0.7	1.9	-1.7

LABOUR MARKET

Over the quarter to September-November 2016:

- **Employment** levels in Scotland fell by 14,000 over the quarter, with the headline employment rate falling by 0.5 percentage points to 73.4% (UK, 74.5%).
- The **unemployment rate** in Scotland increased by 0.4 percentage points to 5.1% (UK, 4.8%) with the unemployment level increasing by 11,000 over the quarter.
- **Economic inactivity** levels in Scotland (those neither in employment or ILO unemployed) increased by 6,000 (0.2 percentage points), to a rate of 22.5% (UK, 21.7%).



- Youth unemployment in Scotland decreased by 20,000 over the year, with the youth unemployment rate falling to 9.4% (UK, 13.0%). Over the same period, the youth employment rate also fell by 3.6 percentage points over the year to 58.0% (UK, 55.5%), with the youth inactivity rate rising to 35.9% (UK, 36.2%).
- The Claimant Count¹ level in Scotland decreased by 1,600 over the month to 81,500, with the claimant count rate falling 0.1 percentage points to 2.9% (UK, 2.3%).

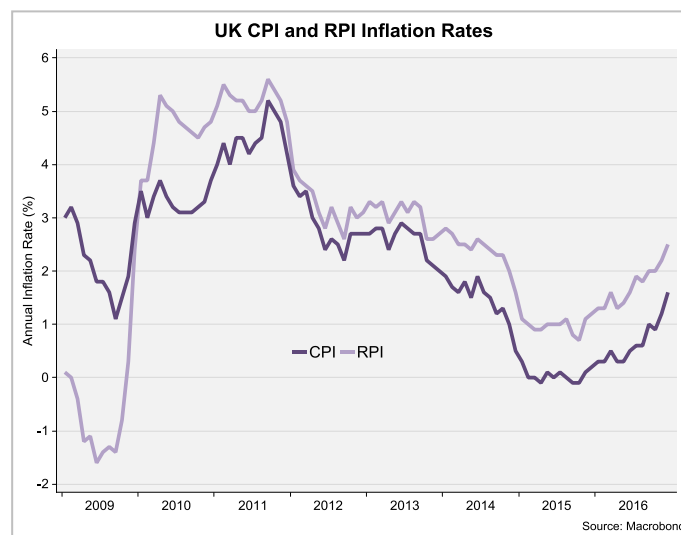
Labour Market Headline Statistics, September – November 2016						
	Rate (%)	Change (%pt)		Level ^c ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	73.4%	-0.5	-1.4	2,604	-14	-29
ILO Unemployment ^B	5.1%	0.4	-0.4	139	11	-12
Economic Inactivity ^A	22.5%	0.2	1.7	769	6	59
UK						
Employment ^A	74.5%	-0.1	0.4	31,802	-9	294
ILO Unemployment ^B	4.8%	-0.1	-0.3	1,604	-52	-81
Economic Inactivity ^A	21.7%	0.2	-0.2	8,894	85	-63
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, December 2016						
Claimant Count	Rate (%) ^D	Change (%pt)		Level ('000)	Change ('000)	
		Over month	Over Year		Over Month	Over Year
Scotland	2.9%	-0.1	0.2	81.5	-1.6	5.2
UK	2.3%	0.0	0.1	797.8	-10.1	26.9
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

- The Consumer Prices Index (CPI) rose by 1.6% in the year to December 2016, up from the 1.2% rise in November. The main contributors to the increase in the rate were rises in air fares and the price of food, whilst the fall in prices for motor fuels was less than it was the previous year.

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%.



Scottish & 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

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.

EXPORTS & TRADE

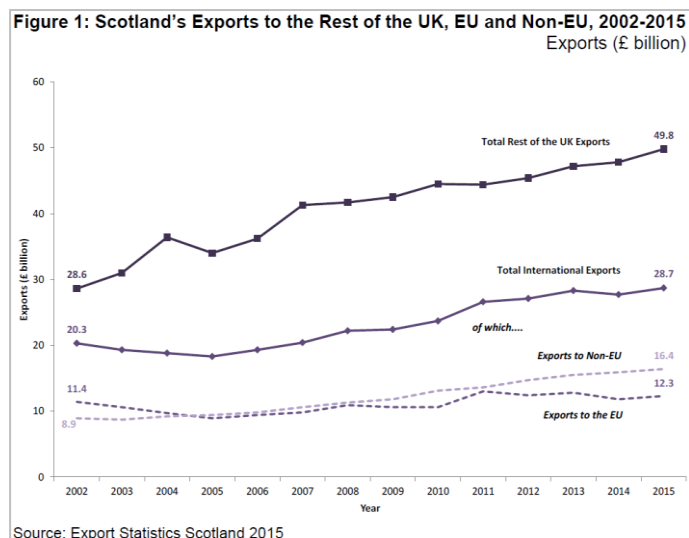
Index of Manufactured Exports (Q2 2016)

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

- 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; all of 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.

Export Statistics Scotland (2015)

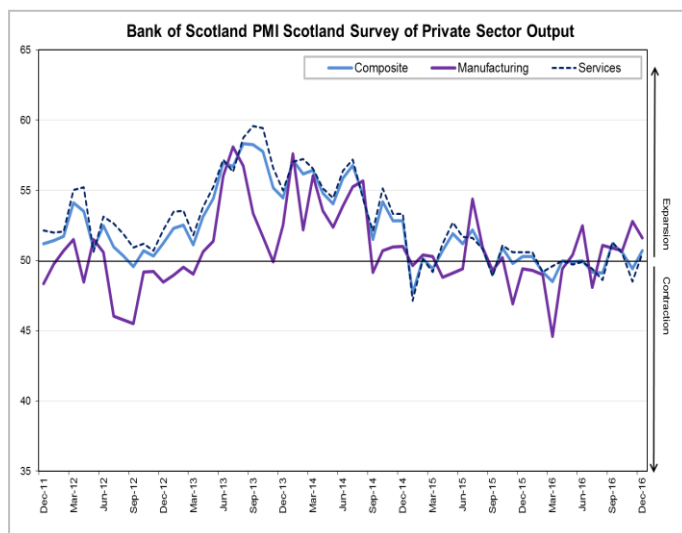
- Total exports from Scotland to the rest of the UK and internationally in 2015 (excluding oil and gas) were estimated at £78.6 billion, up £3.1 billion (4.1%) in the year.
- Exports to the rest of the UK rose by 4.4% over the year to £49.8 bn, whilst international exports rose by 3.6% to £28.7 bn.
- 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 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 Bank of Scotland Purchasing Managers' Index (PMI) signalled a marginal rebound in Scotland's private sector output in December 2016. The expansion was shared across manufacturing and service sectors, linked to increased domestic and overseas demand.
- The latest RBS Business Monitor indicates that volume of business in the Scottish private sector continued to improve over the three months to November 2016 supported by an increase in new business. Whilst export activity remained weak and inflationary cost pressures continue to build, firms expect business volumes to continue growing over the next six months to May 2017.
- The latest Scottish Engineering Quarterly Review for Q4 2016 signals that the Engineering Manufacturing sector in Scotland has picked up over the quarter, with the balances for order intake, output volume, and staffing all returning to positive for the first time in seven quarters. Export orders remain weak despite the fall in Sterling however looking ahead, positive balances on business optimism and investment intentions are encouraging.

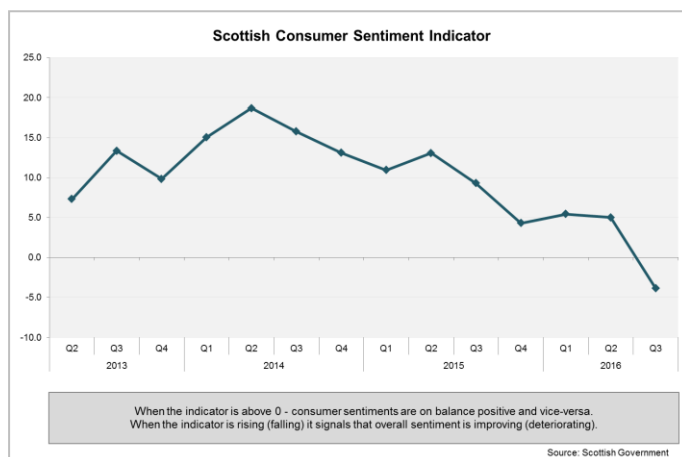


PMI Headline Private Sector New Business				
	2016			
	Sep	Oct	Nov	Dec
Scotland	51.3	49.9	49.8	50.4
Service Sector New Business	51.4	50.3	49.6	50.4
Manufacturing New Orders	50.9	48.7	50.6	50.6

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 SENTIMENT²

- In Q3 2016, consumer sentiment in Scotland weakened substantially over the quarter, with the indicator falling from +5.0 to -3.9. This is the first negative indicator reading since the survey began in Q2 2013.
- Underneath the overall indicator score, the indicators for current and expected economic performance weakened compared to the previous quarter and turned negative in Q3.
- 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, at this stage we do not have a sufficiently long time series to allow for seasonal-adjustment or to examine the indicator's power as a leading indicator. Despite this, the broad trend across all questions signal that households have become less optimistic about the outlook for both the economy as a whole, and their personal financial position since the EU referendum result.



² 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 Q3 2016 was conducted between 20th July and 5th September 2016.

Scottish Consumer Sentiment Indicator	Latest Score (Q3 2016)	Score in Previous Quarter	Score in Same Quarter of Previous Year	Score - Series Average
Overall Indicator Score	-3.9	5.0	9.3	9.8
(a) Economy performance - last 12 months	-13.8	1.2	8.9	15.3
(b) Economy performance - next 12 months	-5.3	10.4	19.0	19.8
(c) Household financial position - last 12 months	-1.6	2.3	2.2	2.4
(d) Household financial position - next 12 months	5.9	12.2	15.1	11.9
(e) Attitude to household spending - current	-4.5	-1.2	1.4	-0.5

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 FORECASTS³

- **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 2017-18.⁴
- 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).
- **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** January publication of Average Independent Forecasts for UK GDP growth remained at 2.0% for 2016 and was revised up to 1.3% for 2017 (1.2% in December).
- 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
Fraser of Allander Institute (December 2016)	Scotland	2.1	1.0	1.1
EY Scottish ITEM Club (December 2016)			0.7	0.4
PWC (November 2016)			1.8	0.9
HM Treasury Avg. UK Independent Forecast (January 2017)	UK	2.3	2.0	1.3
International Monetary Fund (January 2017)			2.0	1.5

³ 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.

⁴ 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>