

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **GDP** in Scotland grew by 0.2% in Q3 2017 (UK: 0.4%) following growth of 0.1% in Q2 2017. On an annual basis, GDP grew 0.6% in Q3 2017 (UK: 1.7%).

Exports

- Scottish international exports (excluding oil and gas) increased by £460 million (1.6%) to £29.8 billion in 2016, compared to 2015. Scottish exports to the EU and rest of the UK fell in 2016 (by 0.8% and 8.8% respectively) while exports to non-EU countries grew (3.4%).

Labour Market

- Over the quarter to September – November 2017, the employment rate in Scotland fell by 0.2 p.p. to 75.0%, the unemployment rate remained at 4.0% and the inactivity rate rose by 0.2 p.p. to 21.7%.

Business Surveys

- The **Bank of Scotland Purchasing Managers' Index (PMI)** for December signalled a marginal contraction in Scottish private sector output in December, while employment numbers grew and business optimism accelerated.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** for Q4 2017 signalled expansion in sales revenue and business optimism for much of Scotland's private sector. However, staff recruitment remained challenging and investment intentions modest.
- The **CBI Industrial Trends Survey** of Scottish manufacturing firms signalled an increase in growth in the volume of new orders, output and staffing levels over the 3-months to January 2018. The outlook for the next 3-months signals slower growth in output and new orders while staffing levels are expected to fall marginally.

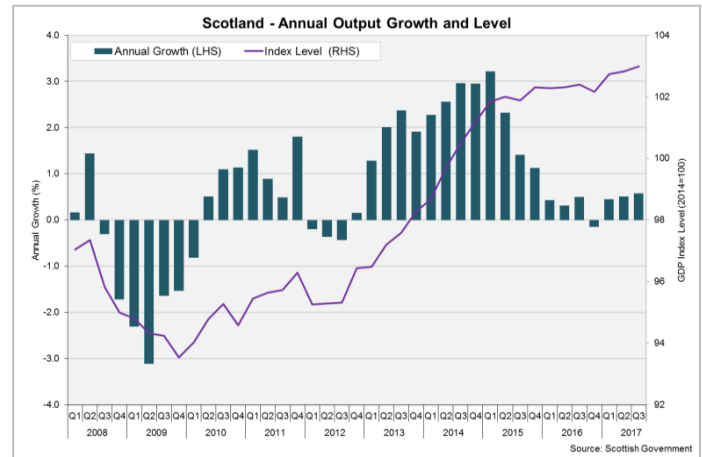
Scottish Retail Sales

- The **Scottish Retail Sales Index** for Q4 2017 showed growth in the volume of retail sales was flat (0.0% growth) over the quarter and grew 1.7% over the year.

OUTPUT

Quarterly GDP Growth (%)	Q4 2016		Q1 2016		Q2 2017		Q3 2017		Q4 2017	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
		-0.2	0.8	0.6	0.3	0.1	0.3	0.2	0.4	...

- **Scottish GDP** grew 0.2% in Q3 2017 (0.6% annually), up from 0.1% growth in Q2 2017.
- **UK GDP** (first estimate) grew 0.5% in Q4 2017. Calendar year growth in 2017 is estimated at 1.8%, down from 1.9% in 2016.
- **Euro Area GDP** (first estimate) grew 0.6% in Q4 2017. Calendar year growth for 2017 is estimated at 2.5%, up from 2.0% in 2016.
- **US GDP** (first estimate) grew 0.6% in Q4 2017. Calendar year growth for 2017 is estimated at 2.3% up from 1.5% in 2016.

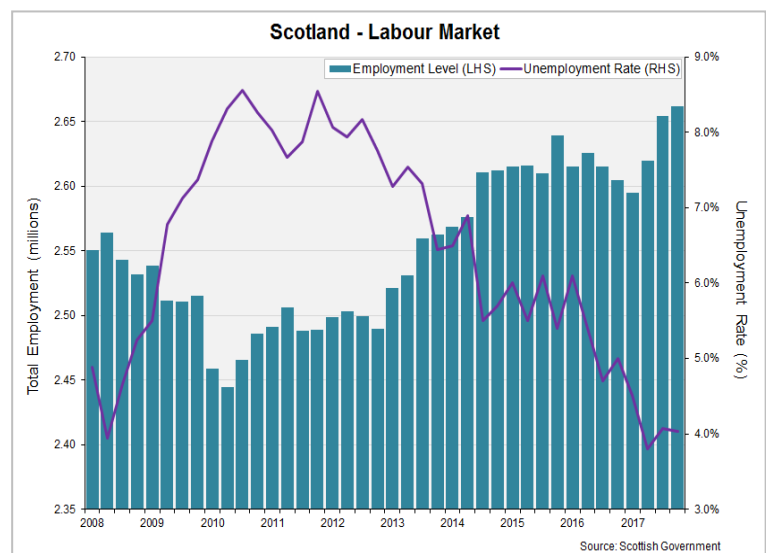


GDP Growth by sector, Q3 2017	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	0.2	0.4	0.6	1.7
Service Sector	0.2	0.4	0.9	1.4
Distribution, Hotels & Catering	0.6	0.5	1.7	2.0
Transport, Storage & Comms	0.4	0.0	2.6	1.8
Business Services & Finance	0.0	0.7	0.1	1.6
Government & Other Services	0.2	0.0	0.9	0.4
Production Sector	1.2	1.3	2.6	2.4
Mining & Quarrying	-0.8	2.9	0.1	-2.1
Electricity & Gas	8.0	1.4	7.3	0.6
Water & Sewerage	-1.9	-0.5	-4.1	2.0
Manufacturing	0.4	1.3	2.9	3.3
Construction	-2.9	-0.5	-7.5	4.8
Agriculture, Forestry & Fishing	0.7	0.8	1.2	0.6

LABOUR MARKET

Over the year to September – November 2017:

- The employment level rose by 57,000 and the employment rate rose by 1.6 percentage points to 75.0% (UK, 75.3%).
- The unemployment level fell by 25,000 and the unemployment rate fell by 1.0 percentage point to 4.0% (UK, 4.3%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 28,000 and the inactivity rate fell by 0.8 percentage points to 21.7% (UK, 21.2%).



Labour Market Headline Statistics, September – November 2017

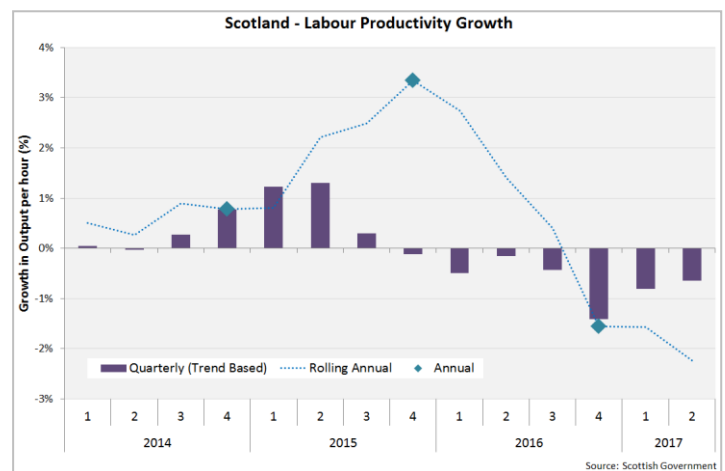
	Rate (%)	Change (% points)		Level ^C ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	75.0	-0.2	1.6	2,662	7	57
ILO Unemployment ^B	4.0	0.0	-1.0	112	-1	-25
Economic Inactivity ^A	21.7	0.2	-0.8	741	6	-28
UK						
Employment ^A	75.3	0.2	0.9	32,207	102	415
ILO Unemployment ^B	4.3	0.0	-0.5	1,439	-3	-160
Economic Inactivity ^A	21.2	-0.2	-0.5	8,734	-79	-167

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+.

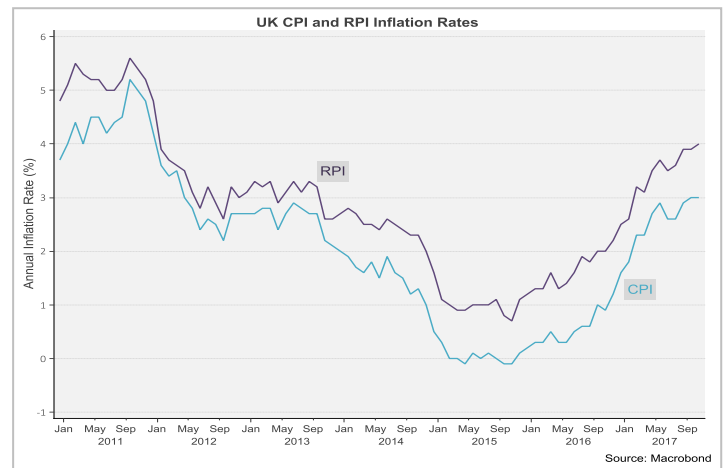
PRODUCTIVITY

- In Q2 2017, Scottish labour productivity growth (output per hour worked) fell by 0.6% over the quarter following a decline of 0.8% in the previous quarter (trend-based).
- On a rolling annual basis to Q2 2017, Scottish labour productivity fell by 2.2% in real terms.
- The fall in productivity on a rolling annual basis reflects that growth in average hours worked outpaced growth in GVA (2.7% and 0.4% respectively).
- Output per hour worked is 6.6% higher in real terms than in 2007, prior to the recession.
- On a rolling annual basis, to Q2 2017 Scottish labour productivity as measured by output per job, decreased by 0.6% in real terms.



INFLATION

- The Consumer Price Index (CPI) 12-month rate was 3.0% in December 2017, falling from 3.1% in November; the largest downward contributions to this change in the growth rate coming from transport and food & non-alcoholic drinks.



RETAIL

- The Scottish Retail Sales Index for Q4 2017 showed flat growth (0.0%) in the volume of retail sales over the quarter (1.7% growth over the year). The value of retail sales grew by 1.1% over the quarter (4.9% growth over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 0.4% in Q4 2017 whilst sales from small & medium size stores (which account for the remaining 30% of sales) decreased by 0.8% compared to the previous quarter.

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

Volume	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Value	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Scotland	0.4	1.2	0.2	0.0	Scotland	1.4	1.5	0.8	1.1
GB	-1.2	1.1	0.8	0.4	GB	0.0	1.5	1.3	1.2

EXPORTS & TRADE

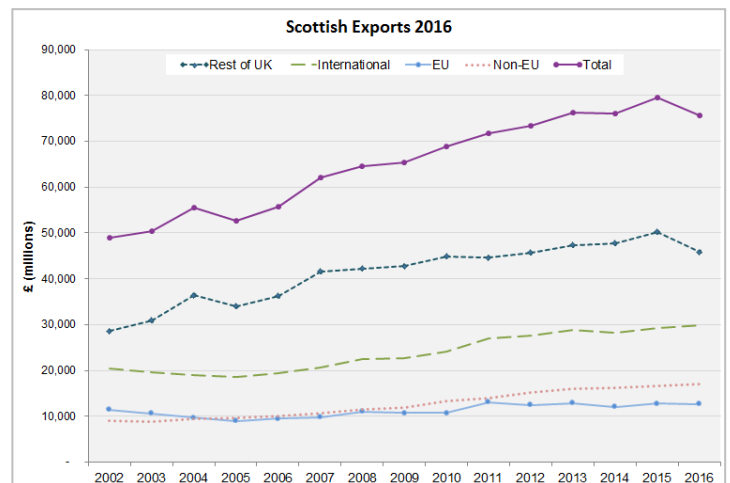
Index of Manufactured Exports (Q2 2017)

Manufactured Exports, Scotland, Q2 2017 (volume)	2014 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing Exports	100	-0.4	-0.6
Food, Beverages & Tobacco	36.9	-2.7	0.6
Engineering & Allied Industries	31.8	5.0	-4.7
Refined Petroleum, Chemical & Pharmaceutical Products	11.2	4.6	7.5
Non-Metallic Products, Other Manufacturing & Repair	8.1	-4.7	-7.2
Metals & Metal Products	5.5	-10.7	9.7
Textiles, Clothing & Leather	3.5	-8.1	-15.7
Wood, Paper & Printing	3.0	0.9	-0.9

- The volume of Scottish manufactured exports, a subset of total international exports, decreased by 0.4% in Q2 2017. At current prices, the value of Scottish manufactured exports fell by 1.7%.
- The fall in Q2 2017 follows growth of 7.2% the previous quarter and was driven by a fall in a range of industries including Food, Beverages & Tobacco; Metals & Metal Products; Non-Metallic Products, Other Manufacturing & Repair; and Textiles, Clothing & Leather.
- Despite the quarterly contraction, growth in exports from Scotland’s largest product group, Food, Beverage and Tobacco, was positive on a rolling annual basis (0.6%).
- On a rolling annual basis Scottish manufactured export sales fell by 0.6% in Q2 2017.

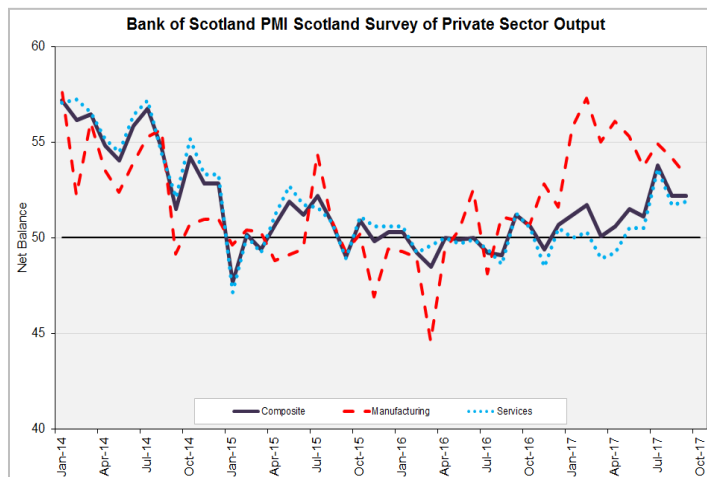
Export Statistics Scotland (2016)

- Total exports 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 continues to be 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 latest Bank of Scotland Purchasing Managers' Index (PMI) for December 2017 signalled a marginal contraction in private sector output in December, while employment numbers grew and business optimism accelerated.
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q4 2017 signalled expansion in sales revenue and business optimism for much of Scotland's private sector over the quarter. However, staff recruitment remains challenging and investment intentions are modest.
- The latest CBI Industrial Trends Survey of Scottish manufacturing signalled growth new order volumes, output and employment over the 3-months to January 2018. The outlook for the next 3-months signals slower growth in output and new orders while staffing levels are expected to fall.
- The latest RBS Scotland Business Monitor for Q4 2017 reported that volume of business increased over the quarter supported by a rise in export activity. Capital investment continued to be weak, however growth expectations for the next 6-months are positive.
- The latest Scottish Engineering Quarterly Review for Q4 2017 signalled growth in the Engineering and Manufacturing sector. Output volumes, order intakes - both domestic and overseas – and staffing levels all expanded while business optimism continued to improve.

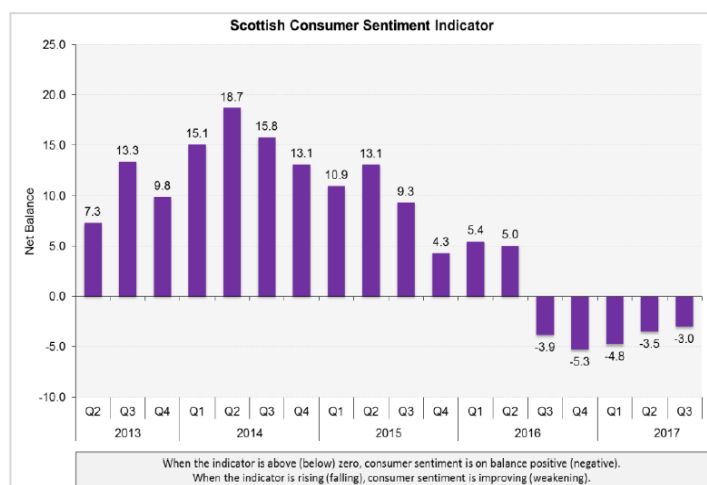


PMI Headline Private Sector New Business				
	2017			
	Sep	Oct	Nov	Dec
Scotland	52.4	52.8	50.3	49.6
Service Sector New Business	53.7	54.1	50.0	49.8
Manufacturing New Orders	47.0	47.7	51.5	49.1

Business Optimism				
	2017			
	Q1	Q2	Q3	Q4
Scottish Engineering	+17	+16	+25	+23
CBI: Industrial Trends Survey	-3	+30	+7	+19
SCC: Manufacturing Sector	+11	+5	+4	+8

CONSUMER SENTIMENT¹

- In Q4 2017, the Scottish Consumer Sentiment indicator was -4.3, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 1.2 points, implying that sentiment has weakened compared to the previous quarter.
- Comparing the Economy Performance indicators to the Household Financial Security indicators, both Economy indicators (current and expected) were negative over the quarter while both Household Financial Security indicators were positive. This indicates that on balance, respondents remain more optimistic about their personal finances than Scotland's economic performance both now and over the next 12 months.



¹ The Scottish Consumer Sentiment Indicator was published as an Official 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 Q4 2017 was conducted between 13th October and 18th December 2017. Headline and individual indicators are not seasonally adjusted and may be revised at a later date.

Scottish Consumer Sentiment Indicator	Score (Q4 2017)	Score in Previous Quarter	Change from Previous Quarter
Composite Indicator Score	-4.3	-3.0	-1.2
(a) Economy performance - last 12 months	-11.8	-5.9	-5.9
(b) Economy performance - next 12 months	-11.0	-11.7	+0.7
(c) Household financial position - last 12 months	0.5	-0.8	+1.3
(d) Household financial position - next 12 months	4.6	6.2	-1.6
(e) Attitude to household spending - current	-3.7	-3.1	-0.6

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 (SFC)** produced its first independent economic forecasts to inform the Scottish draft budget in December 2017. They forecast GDP growth of 0.7% in the 2017 and 2018³.
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (December 2017), was unchanged at 1.2% for 2017 and revised down to 1.2% for 2018 (1.4% in September 2017).
- **EY Scottish ITEM Club's** latest Scottish GDP growth forecast (December 2017) was revised down slightly for 2017 to 0.8% (from 0.9% in June) and revised up for 2018 to 1.4% (from 0.7% in June).
- **PwC's** latest Scottish GDP growth projection (November 2017) was revised up for 2017 to 1.3%, (from 1.2% previously) and for 2018 to 1.2% (1.1% previously).
- The **IMF's** World Economic Outlook update (January 2018) forecast for UK GDP growth was unchanged from their report in October, with UK GDP forecast to grow by 1.7% in 2017 and 1.5% in 2018.
- **HM Treasury's** latest publication of Average Independent Forecasts for UK GDP growth (January 2018), projects growth of 1.7% in 2017 and 1.4% in 2018.
- The **OBR's** Economic and Fiscal Outlook (November 2017) forecast for UK GDP growth was revised down from March 2017 to 1.5% in 2017 (2.0% previously) and 1.4% in 2018 (from 1.6% previously).

Annual GDP Growth (calendar year) (%)	Region	Outturn	Forecasts/Projections	
		2016	2017	2018
Scottish Fiscal Commission (December 2017)	Scotland	0.3	0.7	0.7
Fraser of Allander Institute (December 2017)			1.2	1.2
EY Scottish ITEM Club (December 2017)			0.8	1.4
PwC (November 2017)			1.3	1.2
HM Treasury Average UK Independent Forecast (January 2018)	UK	1.9	1.7	1.4
International Monetary Fund (January 2018)			1.7	1.5
OBR (November 2017)			1.5	1.4

² Non-Scottish Government forecasts for the Scottish economy presented in this report 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 Fiscal Commission forecasts presented in this publication were undertaken as part of the Scottish Government Draft Budget 2018-19:

<http://www.gov.scot/Publications/2017/12/8959>