

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **GDP** grew by 0.1% in Q2 2017, following growth of 0.6% the previous quarter. Comparing Q2 2017 with Q2 2016, Scottish GDP grew 0.5%.
- **Retail Sales Index** showed that during Q3 2017, growth in the volume of retail sales was flat over the quarter (grew 0.6% over the year) while the value of retail sales in Scotland increased by 0.4% (3.3% over the year).

Labour Market

- Over the quarter to June – August 2017, the **employment rate** increased by 1.2 percentage points to 75.3%, the **unemployment rate** increased by 0.3 percentage points to 4.1% and the **inactivity rate** fell by 1.4 percentage points to 21.5%.
- Annual Survey of Hourly Earnings data showed that over the year to April 2017, **median gross weekly earnings** (full-time) in Scotland were £547.30, up 2.4% from 2016. Adjusted for inflation, wages fell by 0.2% over the year.

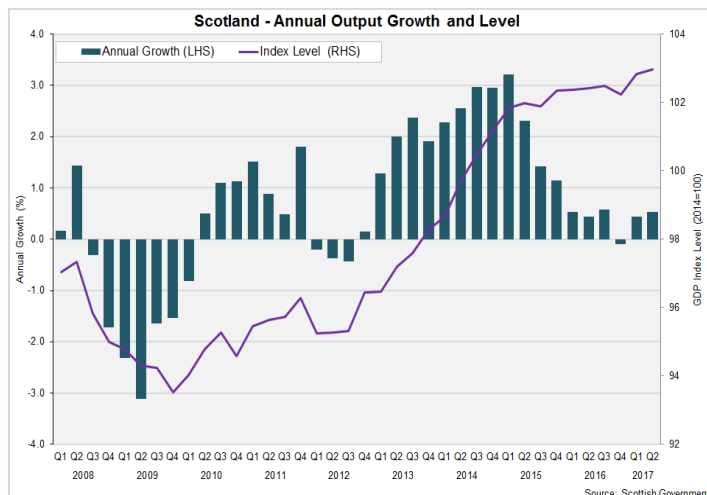
Business Surveys

- The **Bank of Scotland Purchasing Managers' Index (PMI)** for September signalled a modest increase in private sector output and employment. Service sector new business expanded while Manufacturing new orders contracted for the first time since October 2016. Business confidence rose sharply in September reaching a 28-month high.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** signalled a rise in optimism within Scotland's private sector in Q3 2017. All sectors - except for retail and wholesale – reported positive net balances for sales revenue and employment numbers.
- The **CBI Industrial Trends Survey** showed a fall in manufacturers' output over the three months to October, with the survey signalling a general weakening in business activity and employment. Business confidence also softened over the same period but remained on balance positive.

OUTPUT

Quarterly GDP Growth (%)	Q2 2016		Q3 2016		Q4 2016		Q1 2017		Q2 2017	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
	0.1	0.5	0.1	0.4	-0.2	0.6	0.6	0.3	0.1	0.3

- **Scottish GDP** grew 0.1% in Q2 2017 (0.5% annually), down from 0.6% growth in Q1 2017.
- **UK GDP** (first estimate) grew 0.4% in Q3 2017, (1.5% annually), up from 0.3% in Q2 2017.
- **Euro Area GDP** (first estimate) grew 0.6% in Q3 2017, (2.5% annually), down from 0.7% in Q2 2017.
- **US GDP** (first estimate) grew 0.7% in Q3 2017, (2.3% annually) down from 0.8% growth in Q2 2017.

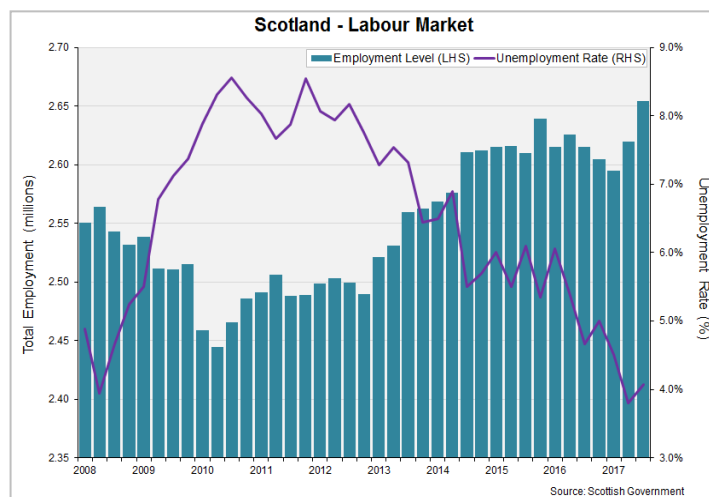


GDP Growth by sector, Q2 2017	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	0.1	0.3	0.5	1.5
Service Sector	0.7	0.4	1.3	1.8
Distribution, Hotels & Catering	0.7	0.9	1.3	3.1
Transport, Storage & Comms	0.9	1.2	2.9	3.4
Business Services & Finance	0.9	0.1	1.8	1.3
Government & Other Services	0.3	0.3	1.3	1.1
Production Sector	-0.7	-0.3	-0.1	0.2
Mining & Quarrying	0.6	0.6	-0.3	-0.9
Electricity & Gas	-1.7	-0.3	-0.5	-4.8
Water & Sewerage	-0.4	-1.0	-1.2	2.4
Manufacturing	-0.7	-0.3	0.2	0.9
Construction	-3.5	-0.5	-5.5	4.1
Agriculture, Forestry & Fishing	0.6	-0.1	0.4	0.4

LABOUR MARKET

Over the quarter to June – August 2017:

- The employment level rose by 35,000 and the employment rate rose by 1.2 percentage points to 75.3% (UK, 75.1%).
- The unemployment level rose by 9,000 and the unemployment rate rose by 0.3 percentage points to 4.1% (UK, 4.3%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 47,000 and the inactivity rate fell by 1.4 percentage points to 21.5% (UK, 21.4%).



Labour Market Headline Statistics, June – August 2017

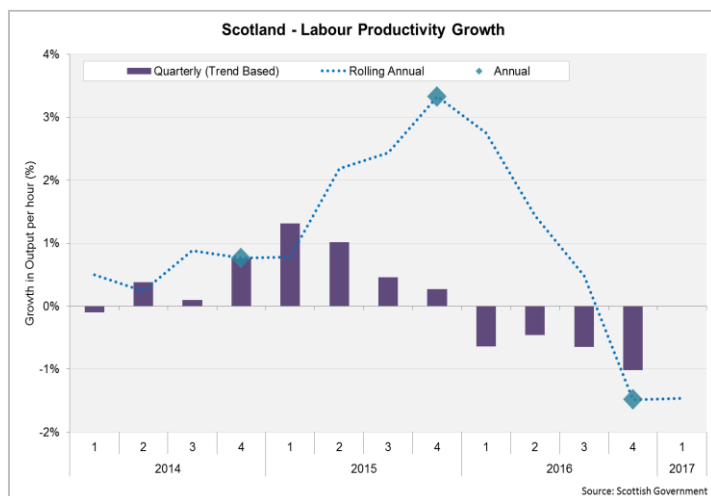
	Rate (%)	Change (% points)		Level ^C ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	75.3	1.2	1.4	2,655	35	40
ILO Unemployment ^B	4.1	0.3	-0.6	113	9	-15
Economic Inactivity ^A	21.5	-1.4	-0.8	735	-47	-29
UK						
Employment ^A	75.1	0.2	0.7	32,105	94	317
ILO Unemployment ^B	4.3	-0.2	-0.7	1,443	-52	-215
Economic Inactivity ^A	21.4	-0.1	-0.1	8,812	-17	-13

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 2017, Scottish labour productivity growth (output per hour worked) was flat (0.0%) compared to Q4 2016, following a decline of 1.0% in the previous quarter.
- On a rolling annual basis to Q1 2017, Scottish labour productivity fell by 1.5% in real terms.
- The fall in productivity over the year reflects that growth in average hours worked outpaced growth in GVA (2.0% and 0.4% respectively).
- Output per hour worked is 7.6% higher in real terms than in 2007, prior to the recession.
- On a rolling annual basis, to Q1 2017 Scottish labour productivity as measured by output per job, decreased by 0.1% in real terms.

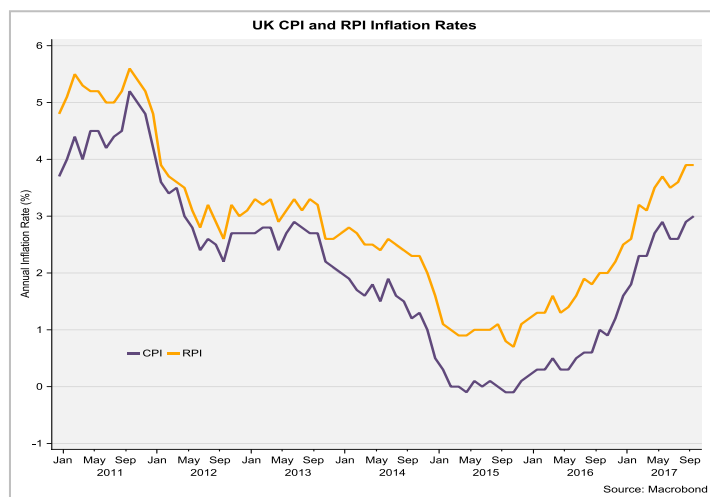


INFLATION

- The Consumer Price Index (CPI) 12-month rate was 3% in September 2017, up from 2.9% in August. The main drivers of the rate increase were rising prices for food and recreational goods while transport costs fell by less than they did the previous year.

RETAIL

- The Scottish Retail Sales Index for Q3 2017 showed that the volume of retail sales growth in Scotland was flat over the quarter (grew 0.6% annually) and the value of retail sales grew by 0.4% (3.3% annually).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) decreased by 0.4% in Q3 2017 whilst sales from small & medium size stores (which account for the remaining 30% of sales) increased by 0.9% compared to the previous quarter.



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

Volume	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Value	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Scotland	-0.7	-0.3	1.1	0.0	Scotland	0.3	0.8	1.4	0.4
GB	0.8	-1.4	1.5	0.6	GB	1.7	0.1	1.6	1.2

EXPORTS & TRADE

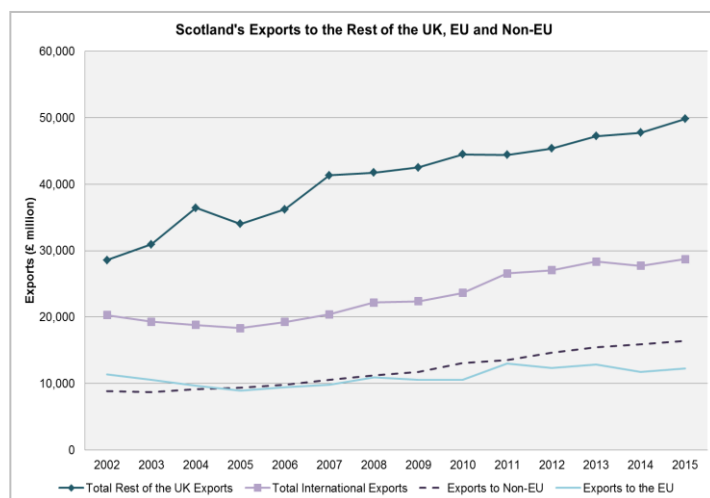
Index of Manufactured Exports (Q1 2017)

Manufactured Exports, Scotland, Q1 2017 (volume)	2014 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing Exports	100	7.2	-2.8
Food, Beverages & Tobacco	36.9	-1.3	2.4
Engineering & Allied Industries	31.8	6.5	-8.7
Refined Petroleum, Chemical & Pharmaceutical Products	11.2	11.6	2.4
Non-Metallic Products, Other Manufacturing & Repair	8.1	10.0	-8.3
Metals & Metal Products	5.5	52.2	-0.7
Textiles, Clothing & Leather	3.5	4.2	-18.0
Wood, Paper & Printing	3.0	0.1	-5.2

- The volume of Scottish manufactured exports, a subset of total international exports, grew by 7.2% in Q1 2017. At current prices, the value of Scottish manufactured exports grew by 3.7% over the same period.
- The quarterly increase in export volumes was driven by strong growth in the Metal & Metal Products; Refined Petroleum, Chemical & Pharmaceutical Products; and Non-Metallic Products, Other Manufacturing & Repair product groups.
- Exports from Scotland's largest product group, Food, Beverage and Tobacco, contracted over the quarter, but grew by 2.4% on a rolling annual basis.
- On a rolling annual basis Scottish manufactured export sales fell by 2.8% in Q1 2017.

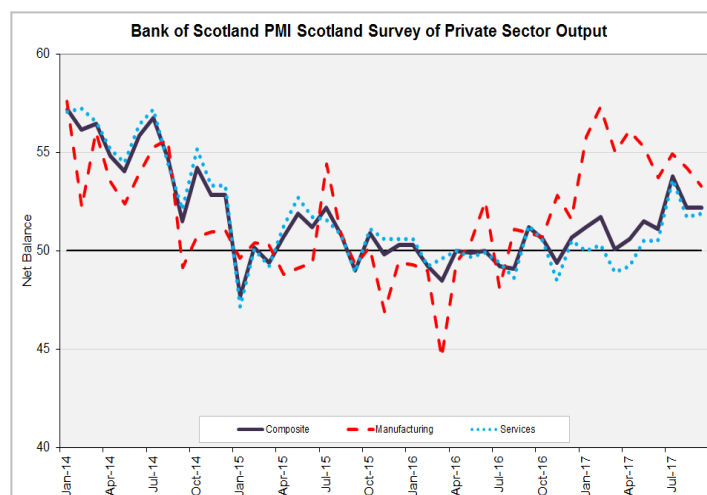
Export Statistics Scotland (2015)

- 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 September 2017 signalled a strong increase in business confidence over the month alongside modest increases in employment numbers and output. Service sector new business expanded while Manufacturing new orders contracted for the first time since October 2016.
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q3 2017 reported that business optimism remained positive, however was softer than the previous quarter, while the private sector outlook was mixed across the sectors.



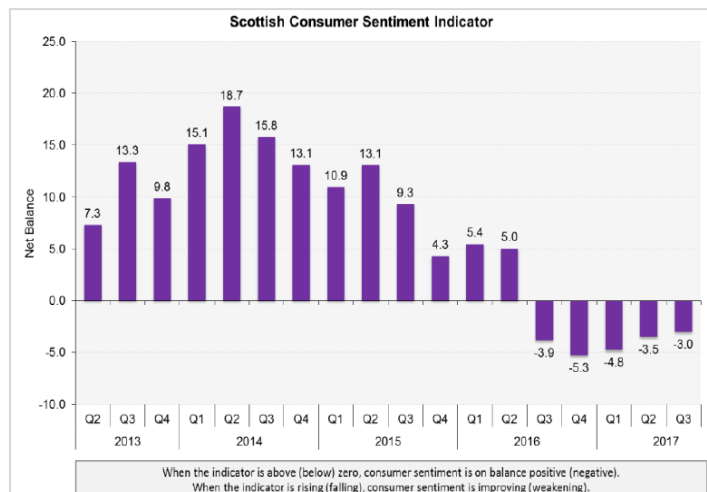
- The latest CBI Industrial Trends Survey of Scottish manufacturing firms for the three months to October 2017 reported that while most indicators remained positive signalling expansion over the quarter, there was a general weakening in business activity, employment and optimism in the sector.
- The latest Scottish Engineering Quarterly Review for Q3 2017 signalled growth in Scotland’s Engineering and Manufacturing sector output, staffing levels and order volumes, alongside improvements in business optimism and investment intentions.
- The latest RBS Scotland Business Monitor for Q3 2017 signalled faster growth in export orders – reaching a three-year high – total volumes of business, new business and turnover over the three months to September 2017. Expectations for business activity over the next six months remain positive, whereas capital investment continues to decline.

PMI Headline Private Sector New Business				
	2017			
	Jun	Jul	Aug	Sep
Scotland	50.9	53.0	51.7	52.4
Service Sector New Business	50.6	52.3	52.0	53.7
Manufacturing New Orders	52.2	55.7	50.7	47.0

Business Optimism				
	2016	2017		
	Q4	Q1	Q2	Q3
Scottish Engineering	+2	+17	+16	+25
CBI: Industrial Trends Survey	+30	-3	+30	+7
SCC: Manufacturing Sector	+2	+11	+5	+4

CONSUMER SENTIMENT¹

- In Q3 2017, the Scottish Consumer Sentiment indicator was -3.0, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator increased by 0.5 points, implying that sentiment has improved compared to the previous quarter.
- The Economic Performance indicators were both negative in Q3 2017, implying that on balance, respondents believe the economy is performing worse than it was 12 months ago and expect it to weaken over the next 12 months.
- The Household Finance indicators were mixed in Q3 2017. The indicator for current household financial security was negative while the indicator for expected security of household finances was positive. This implies that on balance, respondents feel less secure in their finances than they were 12 months ago, however expect their level of financial security to improve over the next 12 months.
- The broad trends across the indicators signal that compared to the previous quarter, sentiment regarding the current performance of the economy, household financial security and spending has improved while expectations for economic performance and household financial security has weakened.



Scottish Consumer Sentiment Indicator	Score (Q3 2017)	Score in Previous Quarter	Change from Previous Quarter
Composite Indicator Score	-3.0	-3.5	+0.5
(a) Economy performance - last 12 months	-5.9	-9.2	+3.4
(b) Economy performance - next 12 months	-11.7	-6.0	-5.6
(c) Household financial position - last 12 months	-0.8	-3.6	+2.8
(d) Household financial position - next 12 months	6.2	6.7	-0.6
(e) Attitude to household spending - current	-3.1	-5.5	+2.5

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 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).

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 Q3 2017 was conducted between 19th July and 10th September 2017. Headline and individual indicators are not seasonally adjusted and may be revised at a later date.

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 2017-18³.
- **PwC** latest Scottish GDP growth forecast (July 2017) was revised down for 2017 to 1.2%, (from 1.3% previously) with growth of 1.1% forecast for 2018 remaining unchanged.
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (September 2017), was unchanged at 1.2% for 2017 and 1.4% for 2018. It was revised up for 2019 to 1.7% (1.6% in June).
- **EY Scottish ITEM Club** latest Scottish GDP growth forecast (June 2017) was revised up for 2017 to 0.9% (from 0.4% in December) and revised down for 2018 to 0.7% (from 1.2% in December).
- **HM Treasury's** latest publication of Average Independent Forecasts for UK GDP growth (October 2017), projects growth of 1.6% in 2017 and 1.4% in 2018.
- The **IMF's** World Economic Outlook (October 2017) forecast for UK GDP growth was unchanged from their update in July, with UK GDP forecast to grow by 1.7% in 2017 and 1.5% 2018.

Annual GDP Growth (calendar year) (%)	Region	Outturn	Forecasts	
		2016	2017	2018
Fraser of Allander Institute (September 2017)	Scotland	0.4	1.2	1.4
EY Scottish ITEM Club (June 2017)			0.9	0.7
PwC (July 2017)			1.2	1.1
HM Treasury Average UK Independent Forecast (October 2017)	UK	1.8	1.6	1.4
International Monetary Fund (October 2017)			1.7	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>