

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Oil and Gas

- In 2016/17, **oil and gas production** in Scotland rose by 2.9%, sales revenue rose by 15.2% and production accounted for 82% of total UK production.

Labour Market

- Over the quarter to May – July 2017, the **employment rate** increased by 1.8 percentage points to 75.8%, the **unemployment rate** fell by 0.2 percentage points to 3.8% and the **inactivity rate** fell by 1.6 percentage points to 21.2%.

Business Surveys

- The **Bank of Scotland Purchasing Managers' Index (PMI)** for August signalled further expansion in Scotland's private sector output and employment, though at a slower pace than in July. This was supported by growth in new business, while business confidence remained positive.
- The **Scottish Engineering Quarterly Review** for Q3 2017 reported that output volumes in the Engineering and Manufacturing sector in Scotland recorded a fourth consecutive quarter of expansion, although the rate of growth eased over the quarter. Overall business optimism improved however, the outlook for the industry over the next three months is mixed across sub-sectors.
- The **Royal Bank of Scotland Business Monitor** 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 also remained positive, whilst capital investment continued to decline.

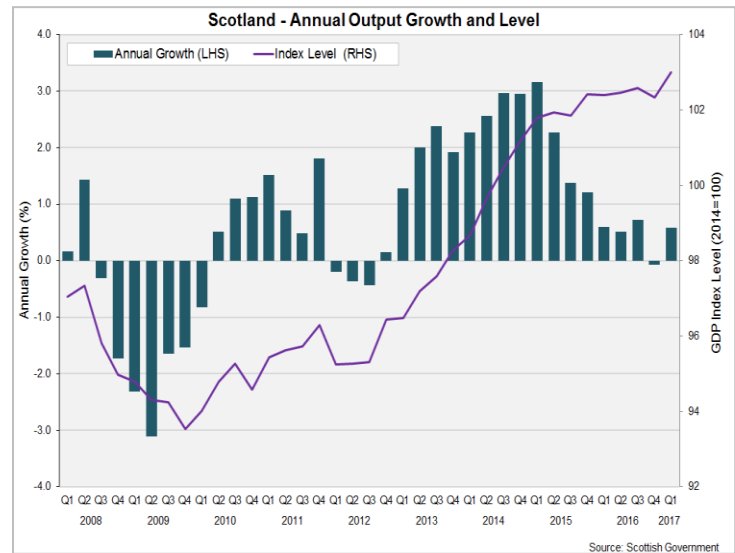
Economic Outlook

- The **Fraser of Allander Institute** published GDP forecasts for the Scottish economy in September. They forecast growth of 1.2% in 2017 and 1.4% in 2018 (unchanged from June 2017) and upgraded their forecast for 2019 to 1.7% (from 1.6% in June 2017).

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	0.6	0.1	0.5	-0.2	0.6	0.7	0.3	n/a

- **Scottish GDP** grew 0.7% in Q1 2017 (0.6% annually) up from a 0.2% contraction in Q4 2016.
- **UK GDP** (third estimate) grew 0.3% in Q2 2017, (1.5% annually), unchanged from Q1 2017.
- **Euro Area GDP** (third estimate) grew 0.6% in Q2 2017, (2.3% annually), up from 0.5% in Q1 2017.
- **US GDP** (third estimate) grew 0.8% in Q2 2017, (2.2% annually) up from 0.3% growth in Q1 2017.

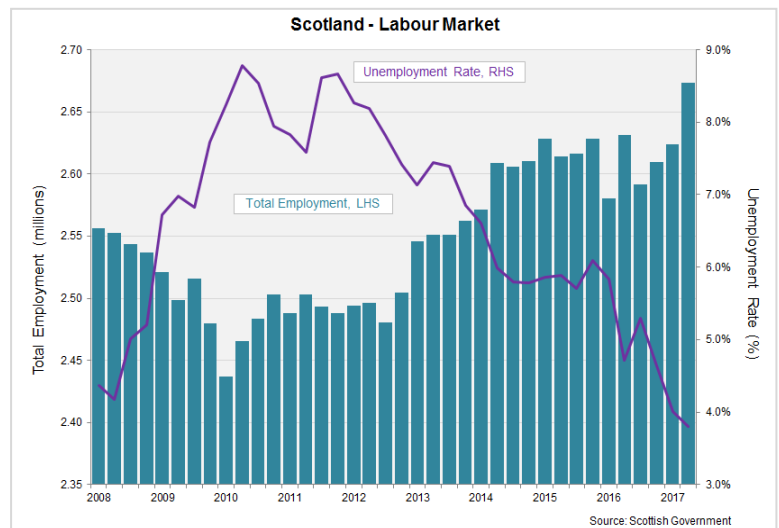


GDP Growth by sector, Q1 2017	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	0.7	0.2	0.6	1.9
Service Sector	0.4	0.1	1.2	2.3
Distribution, Hotels & Catering	-0.4	-0.6	-1.5	3.5
Transport, Storage & Comms	1.1	-0.8	2.7	3.2
Business Services & Finance	0.6	0.5	2.4	2.4
Government & Other Services	0.3	0.4	0.8	1.1
Production Sector	2.7	0.1	-0.1	2.3
Mining & Quarrying	2.8	1.5	-5.9	1.1
Electricity & Gas	0.0	-4.2	-6.0	0.7
Water & Sewerage	-0.3	1.0	3.1	3.8
Manufacturing	3.8	0.3	2.0	2.5
Construction	-0.6	1.1	-4.0	2.8
Agriculture, Forestry & Fishing	0.3	0.1	0.8	-0.2

LABOUR MARKET

Over the quarter to May – July 2017:

- The employment level rose by 49,000 and the employment rate rose by 1.8 percentage points to 75.8% (UK, 75.3%).
- The unemployment level fell by 4,000 and the unemployment rate fell by 0.2 percentage points to 3.8% (UK, 4.3%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 54,000 and the inactivity rate fell by 1.6 percentage points to 21.2% (UK, 21.2%).



Labour Market Headline Statistics, May – July 2017

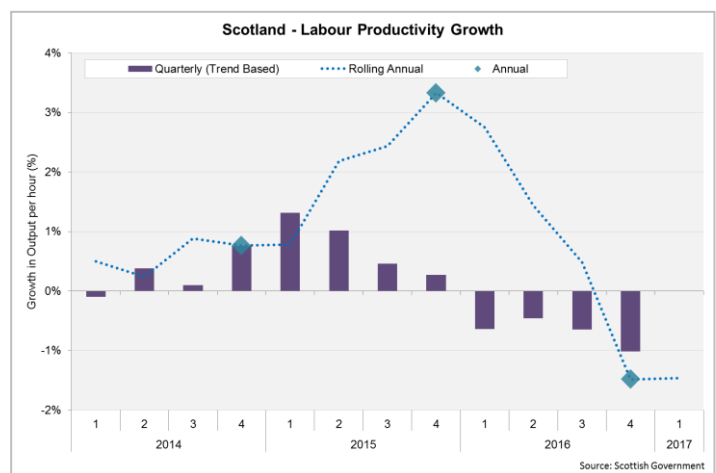
	Rate (%)	Change (% points)		Level ^c ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	75.8	1.8	1.8	2,674	49	44
ILO Unemployment ^B	3.8	-0.2	-0.9	106	-4	-24
Economic Inactivity ^A	21.2	-1.6	-1.0	722	-54	-35
UK						
Employment ^A	75.3	0.5	0.8	32,136	181	379
ILO Unemployment ^B	4.3	-0.2	-0.5	1,455	-75	-175
Economic Inactivity ^A	21.2	-0.3	-0.3	8,743	-107	-96

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+.

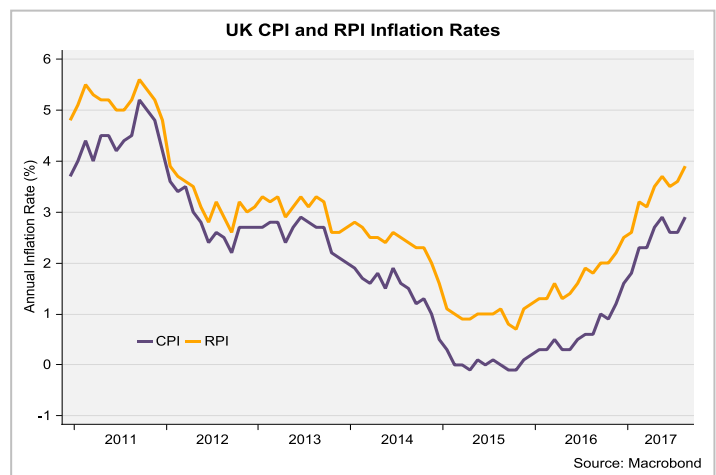
PRODUCTIVITY

- 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 2.9% in August 2017, up from 2.6% in July. Higher clothing & footwear and motor fuel prices were the largest contributors, offsetting smaller downward contributions from food & non-alcoholic beverages and alcoholic beverages & tobacco, where prices still increased, but at a slower rate.



RETAIL

- The Scottish Retail Sales Index for Q2 2017 showed that the volume of retail sales in Scotland grew by 1.1% over the quarter (1.6% annually) and the value of retail sales grew by 1.4% (3.9% annually).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 1.3% in Q2 2017 whilst sales from small & medium size stores (which account for the remaining 30% of sales) increased by 0.2% compared to the previous quarter.

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

Volume	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Value	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Scotland	1.4	-0.7	-0.3	1.1	Scotland	1.4	0.3	0.8	1.4
GB	1.7	0.8	-1.4	1.5	GB	2.1	1.7	0.1	1.6

EXPORTS & TRADE

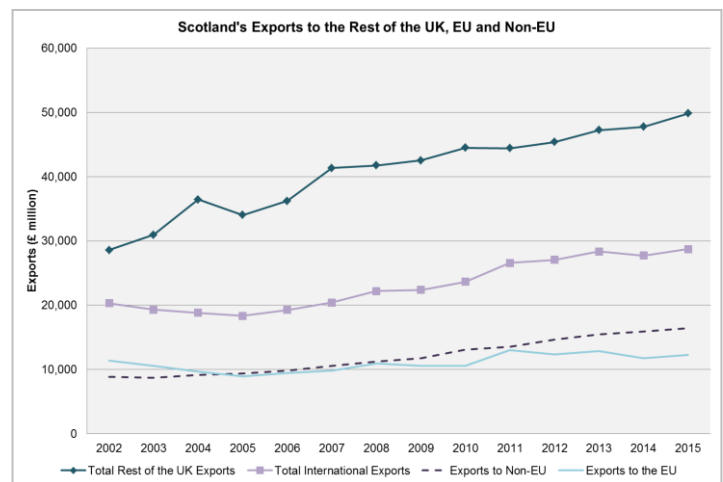
Index of Manufactured Exports (Q1 2017)

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.

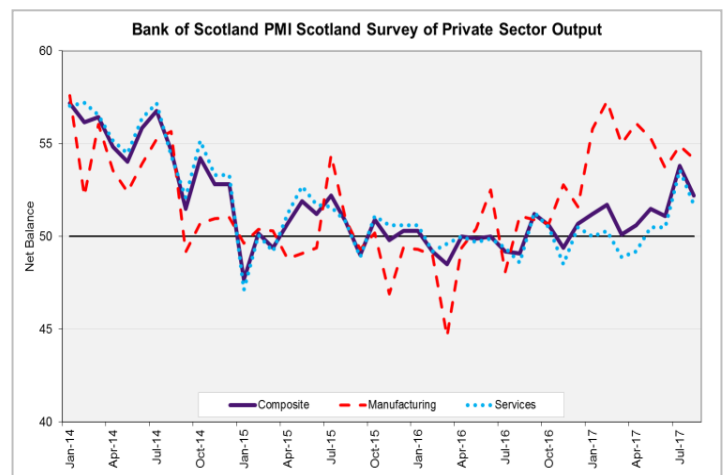
Export Statistics Scotland (2015)

- 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 August 2017 signalled a moderate expansion in Scotland’s private sector output and employment supported by growth in new business, while business confidence remained positive.
- 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.

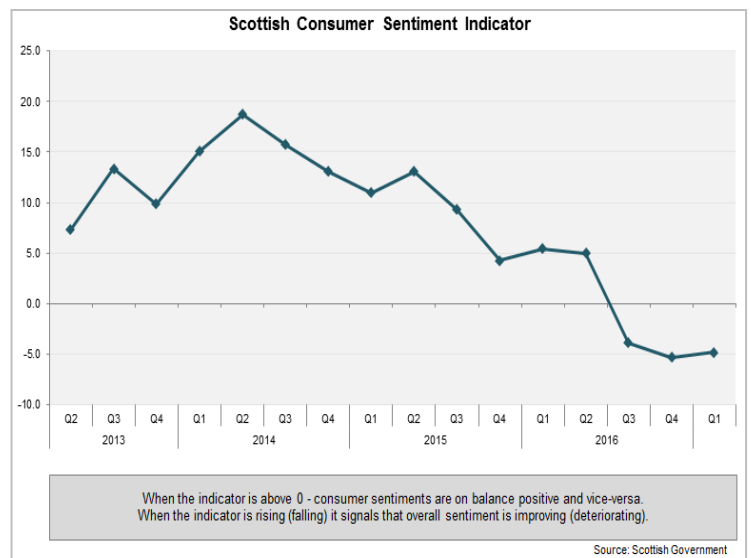
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q2 2017 reported that optimism within Scotland’s private sector continued to hold up, signalling a positive albeit sensitive outlook for the Scottish economy. Positive performances on sales and employment were reported across most sectors, however, key indicators were noticeably weaker in the Retail and Wholesale sector.
- The latest CBI Industrial Trends Survey of Scottish manufacturing firms for the three months to July 2017 signalled strong growth in new orders and output and also signalled that further strong growth is expected, with a rebound in business optimism, and employment levels growing at the fastest pace the survey has ever recorded.

PMI Headline Private Sector New Business				
	2017			
	May	Jun	Jul	Aug
Scotland	51.2	50.9	53.0	51.7
Service Sector New Business	51.1	50.6	52.3	52.0
Manufacturing New Orders	51.8	52.2	55.7	50.7

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

CONSUMER SENTIMENT¹

- In Q1 2017, the Scottish Consumer Sentiment indicator remained in negative territory though strengthened slightly from -5.3 to -4.8.
- Underneath the overall consumer sentiment score, the indicators for current and expected economic performance remained negative with expected performance over the next 12 months weakening relative to the previous quarter.
- The indicator for current household financial position weakened over the quarter and was reflected in a weakening in attitude to household spending. In contrast, the indicator for household’s expected financial position over the next 12 months strengthened slightly over the quarter.
- The broad trend across all questions signalled that in Q1 2017, consumer sentiment was mixed with expectations for household finances strengthening, whilst expectations regarding the performance of the economy as a whole were weaker.



Scottish Consumer Sentiment Indicator	Score (Q1 2017)	Score in Previous Quarter	Score in Same Quarter of Previous Year	Score - Series Average
Overall Indicator Score	-4.8	-5.3	5.4	7.9
(a) Economy performance - last 12 months	-10.3	-17.8	-0.1	11.7
(b) Economy performance - next 12 months	-8.9	-6.6	10.7	16.4
(c) Household financial position - last 12 months	-2.9	-1.2	2.5	1.8
(d) Household financial position - next 12 months	4.0	3.9	14.9	10.9
(e) Attitude to household spending - current	-5.9	-4.9	-0.8	-1.1

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 (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 Q1 2017 was conducted between 25th January and 12th March 2017. 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, 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 2017-18³.
- **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 (September 2017), projects growth of 1.6% in 2017 and 1.4% in 2018.
- The **IMF's** World Economic Outlook Update (July 2017) forecast for UK GDP growth has been revised down in 2017 to 1.7% (from 2.0% in April), and remained unchanged for 2018 at 1.5%.

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 (September 2017)	UK	1.8	1.6	1.4
International Monetary Fund (July 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>