

KEY ECONOMIC DEVELOPMENTS

Scottish Labour Market

- Over the quarter to February – April 2017, the **employment rate** increased by 0.3 percentage points to 74.1%, the **unemployment rate** fell by 0.6 percentage points to 4.0% and the **inactivity rate** increased by 0.2 percentage points to 22.7%.

Scottish Business Surveys

- The **Bank of Scotland Purchasing Managers Index (PMI)** signalled growth across Scotland's private sector in May with Service sector business activity and Manufacturing production both expanding, alongside improved business sentiment amongst respondents.
- The **Scottish Engineering Quarterly Review** reported that output volumes, orders and staffing levels in the Engineering and Manufacturing Sector expanded in Q2 2017 while business optimism and the outlook for the next three months remained positive.
- The **RBS Business Monitor** for Q2 2017 reported a boost in export activity whilst signalling an increase in the total volume of business and repeat business received by Scotland's private sector. Firms' outlook for the next six months remained optimistic.

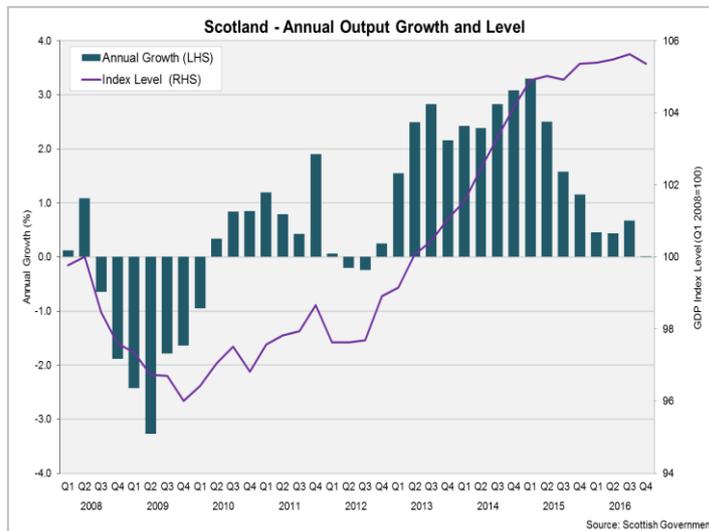
Scottish Outlook

- **EY Scottish ITEM Club** latest economic growth forecasts for Scotland forecast growth of 0.9% in 2017 and 0.7% in 2018.
- **Fraser of Allander Institute** latest economic growth forecasts for Scotland forecast growth of 1.2% in 2017, 1.4% in 2018 and 1.6% in 2019.

OUTPUT

Quarterly GDP Growth (%)	Q4 2015		Q1 2016		Q2 2016		Q3 2016		Q4 2016	
	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** (third estimate) grew 0.2% in Q1 2017, (2.0% annually) down from 0.7% growth in Q4 2016.
- **US GDP** (third estimate) grew 0.4% in Q1 2017, (2.1% annually) down from 0.5% growth in Q4 2016.
- **Euro Area GDP** (third estimate) grew 0.6% in Q1 2017, (1.9% annually) up from 0.5% growth in Q4 2016.

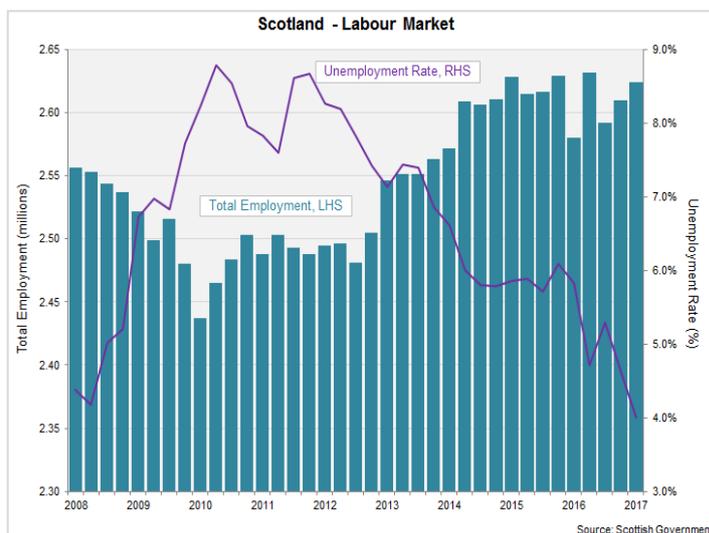


GDP Growth by sector, Q4 2016	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	-0.2	0.7	0.0	1.9
Service Sector	0.0	0.7	1.6	2.9
Distribution, Hotels & Catering	-0.4	2.1	1.1	6.0
Transport, Storage & Comms	1.0	0.9	-0.2	4.4
Business Services & Finance	-0.4	0.5	3.0	2.3
Government & Other Services	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 February – April 2017:

- The employment level rose by 14,000 and the employment rate increased by 0.3 percentage points to 74.1% (UK, 74.8%).
- The unemployment level fell by 17,000 and the unemployment rate fell by 0.6 percentage points to 4.0% (UK, 4.6%).
- The economic inactivity level (those neither in employment or ILO unemployed) rose by 5,000 and the inactivity rate increased by 0.2 percentage points to 22.7% (UK, 21.5%).



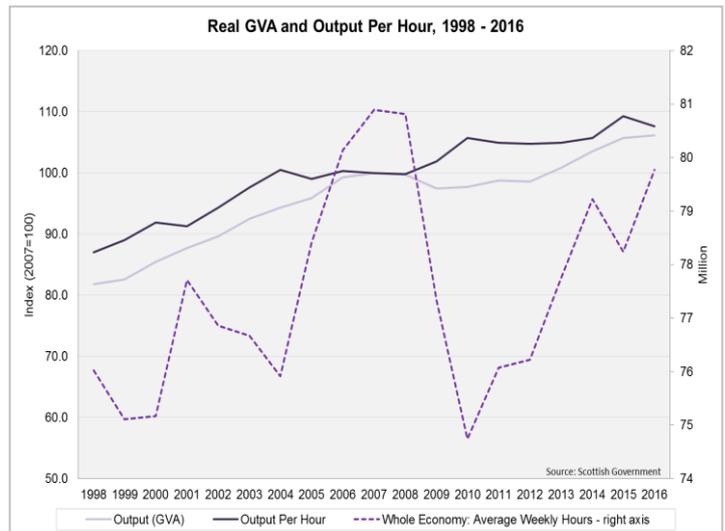
Labour Market Headline Statistics, February – April 2017

	Rate (%)	Change (% points)		Level ^c ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	74.1	0.3	0.9	2,624	14	44
ILO Unemployment ^B	4.0	-0.6	-1.8	109	-17	-49
Economic Inactivity ^A	22.7	0.2	0.4	776	5	14
UK						
Employment ^A	74.8	0.2	0.6	31,954	109	372
ILO Unemployment ^B	4.6	-0.2	-0.5	1,530	-50	-145
Economic Inactivity ^A	21.5	-0.1	-0.3	8,850	-30	-74

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+.

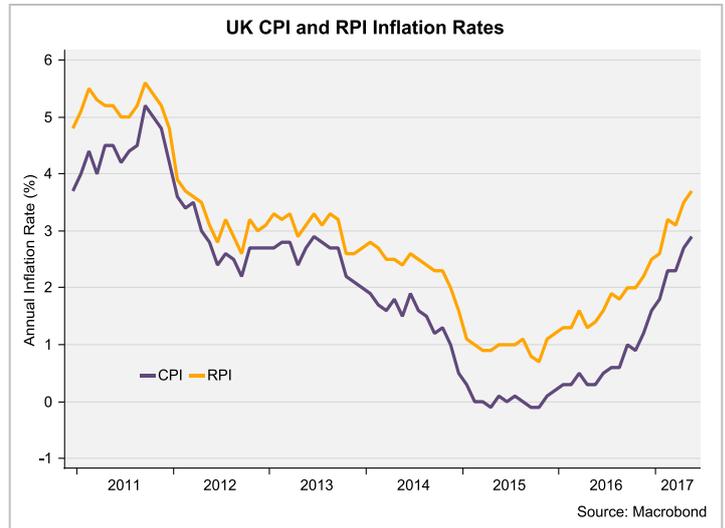
PRODUCTIVITY

- In 2016, Scottish labour productivity, as measured by output per hour worked, fell by 1.5% in real terms, following growth of 3.5% in 2015.
- The fall in productivity reflected that growth in average hours worked outpaced growth in GVA during 2016 (2.0% and 0.4% respectively), meaning that output per hour declined.
- Output per hour worked is 7.6% higher in real terms than in 2007, prior to the recession.
- Output per hour worked in nominal terms (2015) was estimated to be 99.7% of the average UK value (excluding extra-regio output).
- Labour productivity as measured by output per job increased by 0.2% in 2016.



INFLATION

- The Consumer Prices Index (CPI) 12-month rate was 2.9% in May 2017, up from 2.7% in April. The rate was driven by rising prices for recreational and cultural goods and services, particularly games, toys and hobbies alongside rising food and clothing prices. Counterbalancing factors were cheaper fuel costs due to the falling price of oil.



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

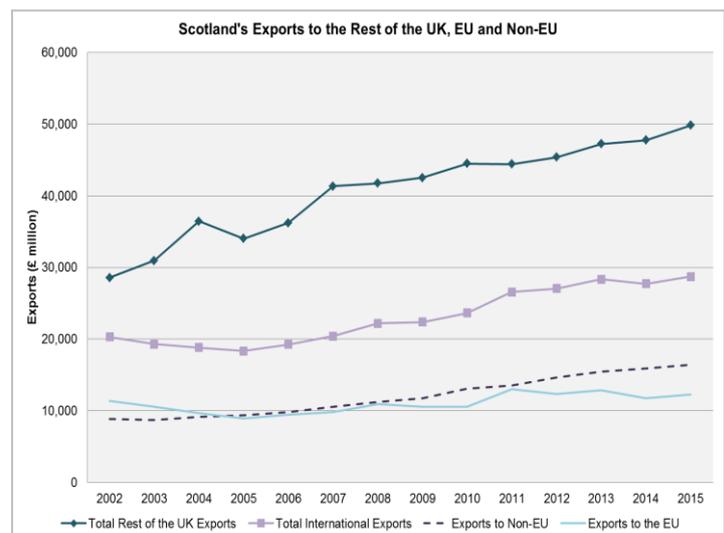
Index of Manufactured Exports (Q4 2016)

Manufactured Exports, Scotland, Q4 2016	2013 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing Exports	100	-2.3	-5.3
Engineering & Allied Industries	32.5	-9.1	-7.6
Food, Beverages & Tobacco	35.3	0.0	2.7
Refined Petroleum, Chemical & Pharmaceutical Products	11.3	0.6	-4.7
Non-Metallic Products, Other Manufacturing & Repair	8.7	-2.9	-11.6
Metals & Metal Products	5.5	5.1	-25.8
Textiles, Clothing & Leather	3.3	4.7	-13.9
Wood, Paper & Printing	3.3	7.9	-9.7

- The volume of Scottish manufactured exports, a subset of total international exports, fell by 2.3% in Q4 2016. At current prices, the value of Scottish manufactured exports grew by 1.0% over the same period.
- The quarterly decrease in export volumes was predominantly driven by a decline in the Engineering and Allied Industries sector and zero growth in the Food, Beverage and Tobacco sector.
- Contractions were partially offset by quarterly expansions in the Wood, Paper and Printing, Metals & Metal Products and Textiles, Clothing & Leather sectors.
- On a rolling-annual basis Scottish manufactured export sales fell by 5.3% in Q4 2016.

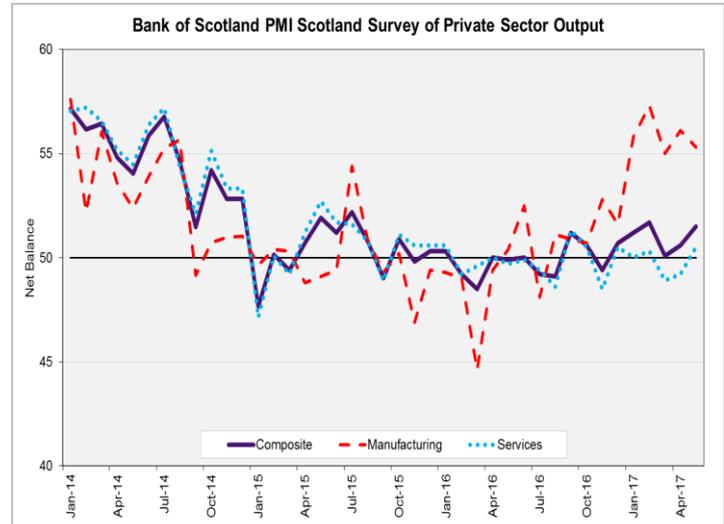
Export Statistics Scotland (2015)

- 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 May 2017 signalled growth in output across Scotland's private sector. New business/orders received also grew in both the Service and Manufacturing sectors, albeit at slower rates than April.
- The latest RBS Scotland Business Monitor for Q2 2017 signalled growth in export activity, repeat business, total volume of business and turnover across Scotland's private sector, with firms also remaining optimistic about the next six months.
- The latest Scottish Engineering Quarterly Review for Q2 2017 signalled that output volumes, orders



and staffing levels expanded in the engineering and manufacturing sector over the quarter while business optimism and the outlook for the next three months remained positive.

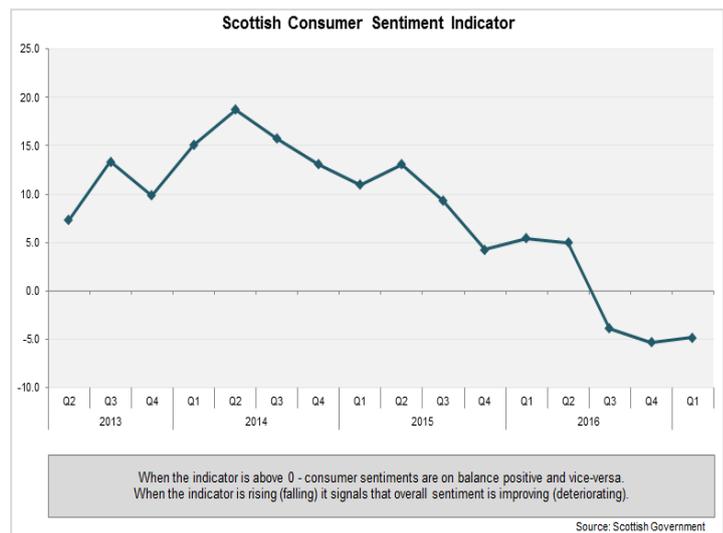
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q1 2017 signalled mixed performances across Scotland’s private sector industries at the start of the year, with inflationary pressures continuing to impact on business profit and cash flow.
- The latest CBI Industrial Trends 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.

PMI Headline Private Sector New Business				
	2017			
	Feb	Mar	Apr	May
Scotland	50.9	50.8	52.3	51.2
Service Sector New Business	50.5	51.0	51.6	51.1
Manufacturing New Orders	52.6	50.1	54.9	51.8

Business Optimism				
	2016		2017	
	Q3	Q4	Q1	Q2
Scottish Engineering	-18	+2	+17	+16
CBI: Industrial Trends Survey	-6	+30	-3	-
SCC: Manufacturing Sector	-9	+2	+11	-

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 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 2017-18³.
- The **Fraser of Allander Institute's** latest Scottish growth forecast (June 2017), was unchanged for 2017 at 1.2% and revised up for 2018 to 1.4% (from 1.3% in March) and for 2019 to 1.6% (1.4% in March).
- **EY Scottish ITEM Club** latest Scottish 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).
- **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.
- **HM Treasury's** publication of Average Independent Forecasts for UK GDP growth (June 2017), projected growth of 1.6% in 2017 (down from 1.7% 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 (June 2017)	Scotland	0.4	1.2	1.4
EY Scottish ITEM Club (June 2017)			0.9	0.7
PwC (March 2017)			1.3	1.1
HM Treasury Avg. UK Independent Forecast (June 2017)	UK	1.8	1.6	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>