

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Quarterly National Accounts Scotland (QNAS)** reported that during 2017 as a whole, the value of Scotland's onshore GDP (current prices) is estimated at £152.1 billion in total, or £28,046 per person. Including a geographical share of UK extra-regio (offshore and overseas) economic activity, Scottish GDP is estimated at £165.4 billion in total, or £30,482 per person.
- The **QNAS** publication also reported that in Q4 2017, the **volume of manufactured exports** decreased by 2.9%, compared to the previous quarter. During 2017 as a whole, manufactured exports increased by 7.4%, compared to 2016.

Productivity

- **Labour Productivity** (measured in GVA per hour worked) increased by 1.0% in Q4 2017. Over the calendar year 2017, labour productivity decreased by 1.9% compared to 2016.

Labour Market

- Over the quarter to January – March 2018, the **employment rate** increased by 0.3 percentage points to 74.7%, the **unemployment rate** fell by 0.2 percentage points to 4.3% and the **inactivity rate** fell by 0.1 percentage points to 21.9%.

Business Surveys

- The **Bank of Scotland Purchasing Managers' Index (PMI)** for April 2018 reported an acceleration in private sector output growth, new business and employment. Businesses' outlook towards activity over the next 12 months also remained positive.

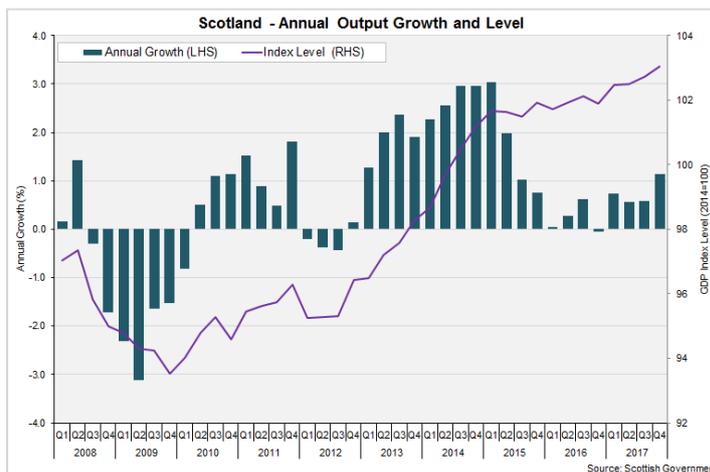
Retail Sales

- The Scottish Retail Sales Index for Q1 2018 showed the volume of retail sales grew 0.5% over the quarter and 1.5% over the year.

OUTPUT

Quarterly GDP Growth (%)	Q1 2017		Q2 2017		Q3 2017		Q4 2017		Q1 2018	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
		0.6	0.3	0.1	0.2	0.2	0.5	0.3	0.4	-

- **Scottish GDP** grew 0.3% in Q4 2017. Calendar year growth for 2017 was 0.8%, up from 0.2% in 2016.
- **UK GDP** (second estimate) grew 0.1% in Q1 2018 (1.2% annually), down from 0.4% in Q4 2017.
- **Euro Area GDP** (second estimate) grew 0.4% in Q1 2018 (2.5% annually), down from 0.7% in Q4 2017.
- **US GDP** (second estimate) grew 0.5% in Q1 2018 (2.8% annually), down from 0.7% in Q4 2017.

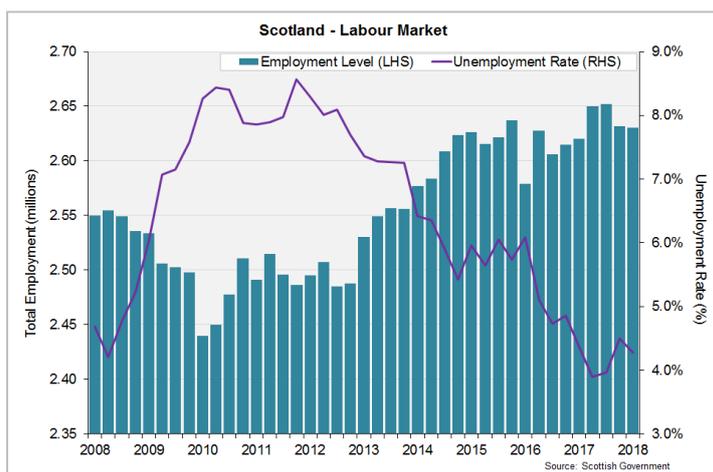


GDP Growth by sector, Q4 2017	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	0.3	0.4	1.1	1.4
Service Sector	0.5	0.4	1.4	1.1
Distribution, Hotels & Catering	0.9	-0.1	3.2	0.2
Transport, Storage & Comms	0.7	1.1	1.2	2.1
Business Services & Finance	0.6	0.6	1.0	1.7
Government & Other Services	0.0	0.1	0.8	0.4
Production Sector	0.9	0.4	3.6	1.9
Mining & Quarrying	0.2	-4.9	6.2	0.6
Manufacturing	0.8	1.3	2.9	2.9
Electricity & Gas	2.7	-0.4	9.5	-1.7
Water & Sewerage	-0.5	-0.4	-4.5	-0.5
Construction	-2.6	-0.1	-6.5	2.3
Agriculture, Forestry & Fishing	-0.1	-1.0	1.2	-0.8

LABOUR MARKET

Over the year to January – March 2018:

- The employment level rose by 10,000 and the employment rate rose by 0.6 percentage points to 74.7% (UK, 75.6%).
- The unemployment level fell by 2,000 and the unemployment rate fell by 0.1 percentage points to 4.3% (UK, 4.2%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 19,000 and the inactivity rate fell by 0.5 percentage points to 21.9% (UK, 21.0%).



Labour Market Headline Statistics, January – March 2018

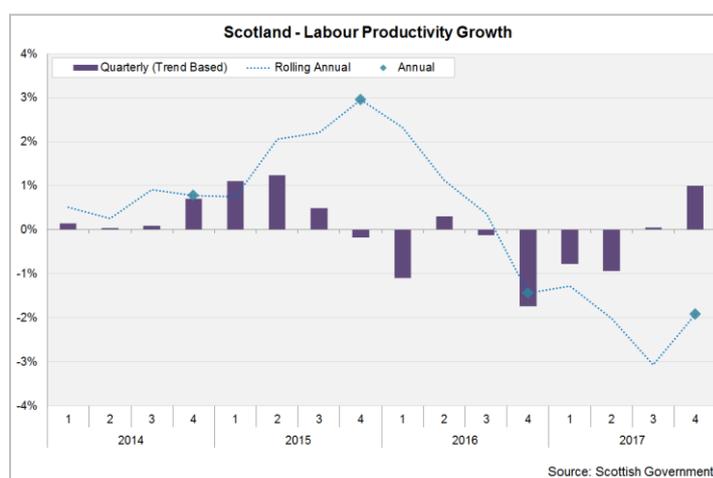
	Rate (%)	Change (% points)		Level ^c ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	74.7	0.3	0.6	2,630	-2	10
ILO Unemployment ^B	4.3	-0.2	-0.1	118	-6	-2
Economic Inactivity ^A	21.9	-0.1	-0.5	748	-5	-19
UK						
Employment ^A	75.6	0.4	0.8	32,344	197	396
ILO Unemployment ^B	4.2	-0.2	-0.4	1,425	-46	-116
Economic Inactivity ^A	21.0	-0.3	-0.5	8,658	-115	-171

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+.

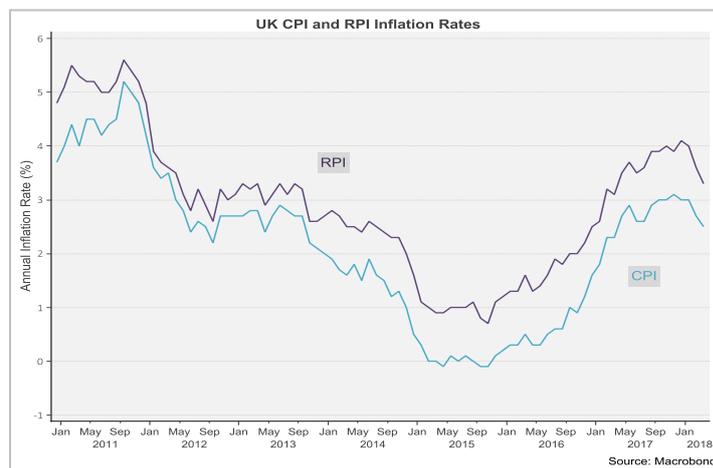
PRODUCTIVITY

- In Q4 2017, Scottish labour productivity growth (output per hour worked) grew by 1.0% over the quarter following flat growth (0.0%) in the previous quarter (trend-based).
- Over the calendar year 2017 as a whole, Scottish labour productivity fell by 1.9% in real terms.
- The fall in productivity in 2017 reflects that growth in average hours worked outpaced growth in GVA (2.7% and 0.8% respectively).
- Annual productivity is 5.4% higher in real terms than in 2007, prior to the recession.
- On an annual basis, Scottish labour productivity as measured by output per job decreased by 1.1% in real terms (inflation adjusted) in 2017.



INFLATION

- The Consumer Price Index (CPI) 12-month rate continued its downward trend of 2018, falling to 2.4% in April – its lowest rate since March 2017. Air fares made the largest downward contribution due to the timing of Easter which fell in March last year. This was partially offset by rising petrol prices and rising prices for recreation and culture.



RETAIL

- The volume of Scottish retail sales grew 0.5% over the quarter in Q1 2018 (1.5% growth over the year). The value of retail sales grew by 0.5% over the quarter (3.6% growth over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 0.5% in Q1 2018. Sales from small & medium size stores (which account for the remaining 30% of sales) also increased by 0.5% compared to the previous quarter.

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

Volume	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Value	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Scotland	1.2	0.1	-0.3	0.5	Scotland	1.5	0.8	0.8	0.5
GB	1.0	0.6	0.4	-0.5	GB	1.5	1.1	1.1	0.0

EXPORTS & TRADE

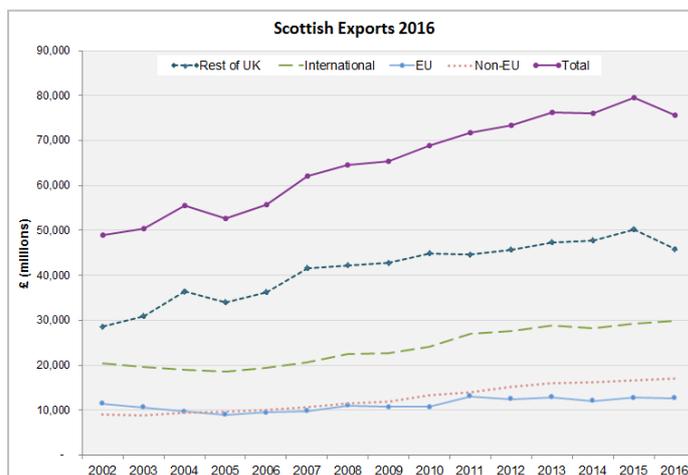
Index of Manufactured Exports (Q4 2017)

Manufactured Exports, Scotland, Q4 2017 (volume)	2014 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing	100	-2.9	7.4
Food and Drink	36.9	-10.7	1.9
Engineering & Allied Industries	31.8	-1.8	5.0
Refined Petroleum, Chemical & Pharmaceutical Products	11.2	3.4	14.8
Non-Metallic Products, Other Manufacturing & Repair	8.1	2.1	0.1
Metals & Metal Products	5.5	9.6	58.3
Textiles, Clothing & Leather	3.5	12.4	6.2
Wood, Paper & Printing	3.0	-3.1	0.3

- The volume of Scottish manufactured exports, a subset of total international exports, decreased by 2.9% in Q4 2017 and increased by 7.4% over the calendar year 2017. Over the quarter, at current prices, the value of Scottish manufactured exports fell by 2.6%.
- The decrease of 2.9% in the latest quarter was mainly driven by a fall in Food & Drink exports alongside falls from Engineering & Allied Industries and Wood, Paper and Printing.
- Growth was seen in four of the seven subsectors, and was strongest in the Metals & Metal Products and Textiles, Clothing & Leather sub-sectors.

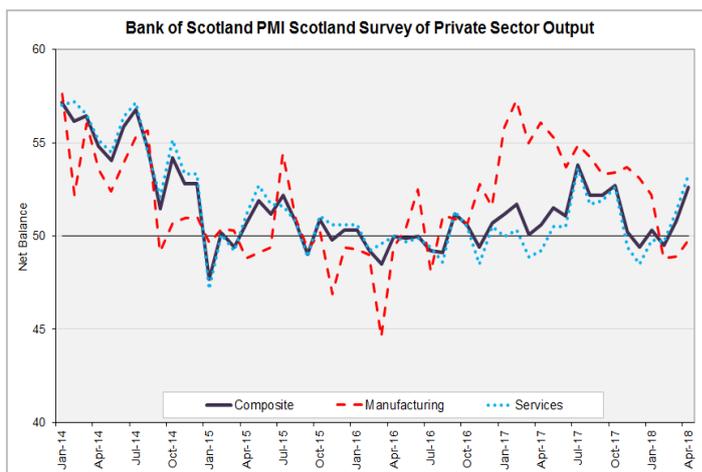
Export Statistics Scotland (2016)

- Total exports (goods and services) 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 was 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 April reported an acceleration in private sector output growth, new business and employment. Firms' outlook over the next 12 months remained positive across the sectors.
- The latest CBI Industrial Trends Survey of Scottish manufacturing firms signalled contraction in output, total new orders and employment over the 3-months to April 2018. The outlook for the next 3-months however was broadly positive, with optimism levels reaching a near 4-year high.
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q1 2018 signalled strong business investment growth over the quarter. Firms continued to show signs of optimism across the majority of sectors, with a positive outlook for sales, investment and job creation over the next 3 months.
- The latest RBS Scotland Business Monitor for Q1 2017 signalled growth in private sector volumes of business over the quarter – both new and repeat business – albeit at a slower pace. Firms' expectations for domestic and overseas business remained positive, while investment expectations remain weak.
- The latest Scottish Engineering Quarterly Review signalled growth in the Engineering and Manufacturing sector. Domestic and overseas orders, output and staffing levels all increased in Q1 2018, with business optimism picking up pace across most company sizes.

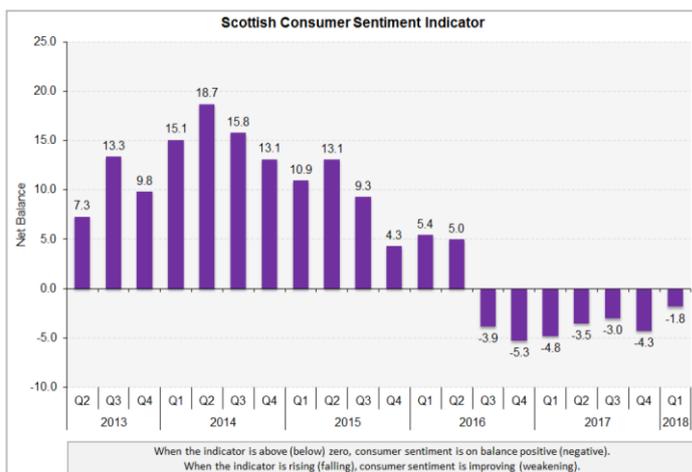


PMI Headline Private Sector New Business	2018			
	Jan	Feb	Mar	Apr
Scotland	51.4	49.9	51.9	53.5
Service Sector New Business	50.7	50.1	52.3	54.2
Manufacturing New Orders	54.2	49.2	50.1	50.6

Business Optimism - Manufacturing	2017			2018
	Q2	Q3	Q4	Q1
Scottish Engineering	+16	+25	+23	+25
CBI: Industrial Trends Survey	+30	+7	+19	+31
SCC: Manufacturing Sector	+5	+4	+8	+3

CONSUMER SENTIMENT¹

- In Q1 2018, the Scottish Consumer Sentiment indicator was -1.8, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator increased by 2.4 points, implying that sentiment has improved compared to the previous quarter.
- Changes in current sentiment over the quarter were mixed. The security of household finances indicator fell signalling a weakening sentiment, however economic performance and attitude to spending indicator scores increased, signalling an improvement in sentiment.
- Expectations for the outlook improved, with both indicators increasing compared to the previous quarter, however, the indicator for economic performance expectations remains in negative territory indicating that on balance, more respondents expect economic performance to weaken in 12 months' time.



¹ The Scottish Consumer Sentiment Indicator was published as an Experimental 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 Q1 2018 was conducted between 24th January and 13th March 2018. Headline and individual indicators are not seasonally adjusted and may be revised at a later date.

Scottish Consumer Sentiment Indicator	Score (Q1 2018)	Score in Previous Quarter	Change from Previous Quarter
Composite Indicator Score	-1.8	-4.3	+2.4
(a) Economy performance - last 12 months	-6.4	-11.8	+5.5
(b) Economy performance - next 12 months	-7.5	-11.0	+3.5
(c) Household financial position - last 12 months	-1.0	0.5	-1.5
(d) Household financial position - next 12 months	9.0	4.6	+4.4
(e) Attitude to household spending - current	-3.3	-3.7	+0.4

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's** (SFC) latest Scottish GDP growth forecast (May 2018), was unchanged at 0.7% for 2018 and revised down to 0.8% for 2019 (from 0.9% in December)³.
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (March 2018), was unchanged at 1.2% for 2018 and 1.4% for 2019.
- **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 (March 2018) was revised down for 2018 to 1.0%, (from 1.2% previously) rising to 1.2% in 2019.
- The **IMF's** World Economic Outlook (April 2018) forecast for UK GDP growth was broadly unchanged from their January update, with UK GDP forecast to grow by 1.6% in 2018 and 1.5% in 2019.
- **HM Treasury's** latest publication of Average Independent Forecast for UK GDP growth (May 2018), projects growth of 1.4% in 2018 rising to 1.5% in 2019.
- The **OBR's** Economic and Fiscal Outlook (March 2018) forecast for UK GDP growth was revised up from November 2017 to 1.5% in 2018 (1.4% previously) and remained unchanged at 1.3% for 2019.

Annual GDP Growth (calendar year %)	Region	Outturn	Forecasts/Projections	
		2017	2018	2019
Scottish Fiscal Commission (May 2018)	Scotland	0.8	0.7	0.8
Fraser of Allander Institute (March 2018)			1.2	1.4
EY Scottish ITEM Club (December 2017)			1.4	1.6
PwC (March 2018)			1.0	1.2
HM Treasury Average UK Independent Forecast (May 2018)	UK	1.8	1.4	1.5
International Monetary Fund (April 2018)			1.6	1.5
OBR (March 2018)			1.5	1.3

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 Economic and Fiscal forecasts presented in this publication were undertaken to inform the Scottish Government's Medium Term Financial Strategy <http://www.fiscalcommission.scot/>