KEY ECONOMIC DEVELOPMENTS

Quarterly National Accounts

- The value of **Scottish GDP** (onshore) during 2016 is estimated at £149.8 billion or £27,839 per person. Including a geographical share of UK extra-regio (offshore and overseas) economic activity, Scottish GDP is estimated at £159.0 billion during 2016, or £29,554 per person.

- **Manufactured Exports** fell by 2.3% in volume terms during the fourth quarter of 2016. Comparing the most recent four quarters to the previous four quarters (4Q-on-4Q growth), the volume of manufactured exports fell by 5.3%.

Scottish Labour Productivity

- In 2016, labour productivity as measured by **output per hour worked** decreased by 1.5% in real terms, following growth of 3.4% in 2015, whilst **output per job** increased by 0.2% in real terms during 2016, following growth of 2.0% in 2015.

Scottish Labour Market

- Over the quarter to January – March 2017, the **employment rate** increased by 0.3 percentage points to 74.0%, the **unemployment rate** fell by 0.5 percentage points to 4.4% and the **inactivity rate** increased by 0.1 percentage points to 22.5%.

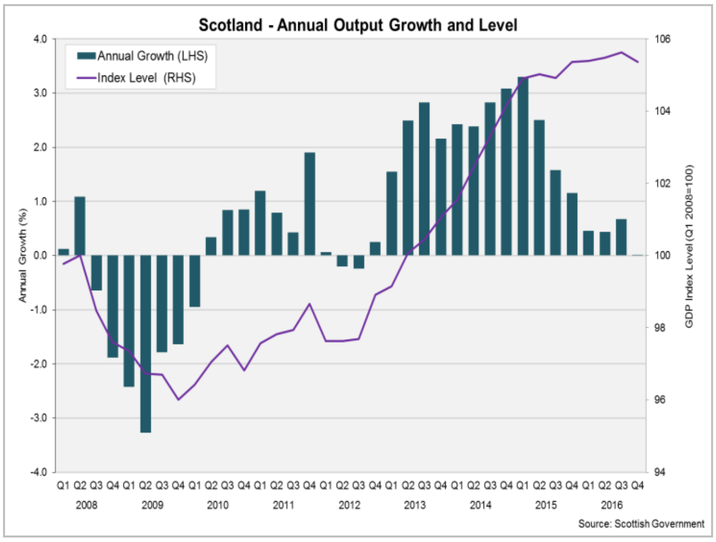
Scottish Business Surveys

- The **Bank of Scotland Purchasing Managers Index (PMI)** for April 2017 signalled a slight pick-up in Scotland's private sector activity over the month, largely driven by an expansion in manufacturing output, which offset a slight decline in service sector activity.

OUTPUT

Quarterly GDP Growth (%)	Q4 2015		Q1 2016		Q2 2016		Q3 2016		Q4 2016	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	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** (second estimate) grew 0.2% in Q1 2017 (2.0% annually) down from 0.7% growth in Q4 2016.
- **US GDP** (second estimate) grew 0.3% in Q1 2017 (2.0% annually) down from 0.5% growth in Q4 2016.
- **Euro Area GDP** (second estimate) grew 0.5% in Q1 2017 (1.7% annually) unchanged from Q4 2016.

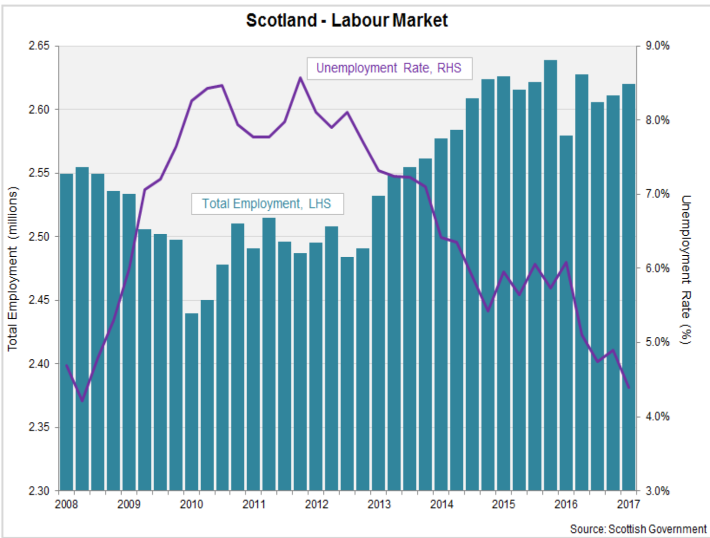


GDP Growth by sector, Q4 2016	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	**-0.2**	**0.7**	**0.0**	**1.9**
Service Sector	**0.0**	**0.7**	**1.6**	**2.9**
Distribution, Hotels & Catering	-0.4	2.1	1.1	6.0
Transport, Storage & Comms	1.0	0.9	-0.2	4.4
Business Services & Finance	-0.4	0.5	3.0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

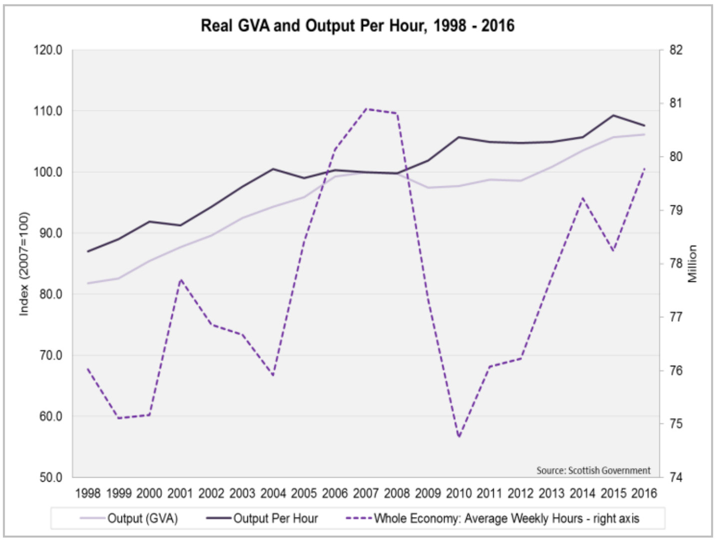
- The employment level rose by 5,000 and the employment rate rose by 0.3 percentage points to 74.0% (UK, 74.8%).
- The unemployment level fell by 14,000 and the unemployment rate fell by 0.5 percentage points to 4.4% (UK, 4.6%).
- The economic inactivity level (those neither in employment or ILO unemployed) rose by 4,000 and the inactivity rate increased by 0.1 percentage points to 22.5% (UK, 21.5%).



Labour Market Headline Statistics, January – March 2017

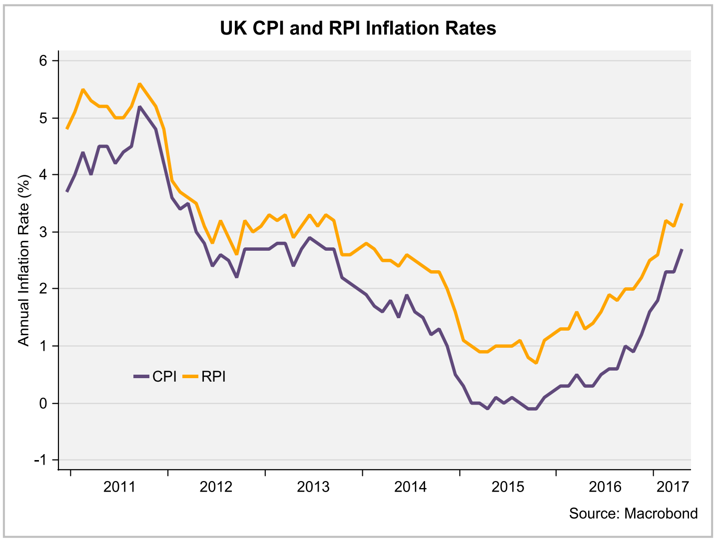
	Rate (%)	Change (% points)		Level C ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment A	74.0	0.3	0.9	2,620	5	41
ILO Unemployment B	4.4	-0.5	-1.7	120	-14	-48
Economic Inactivity A	22.5	0.1	0.5	767	4	15
UK						
Employment A	74.8	0.2	0.6	31,947	122	381
ILO Unemployment B	4.6	-0.2	-0.5	1,541	-53	-152
Economic Inactivity A	21.5	-0.1	-0.3	8,829	-40	-82

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 2.6% in April 2017, up from 2.3% in March. The rate was driven by rising air fare prices, alongside rising clothing prices, vehicle excise duty and electricity. This was partially offset by a fall in motor fuel prices.

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

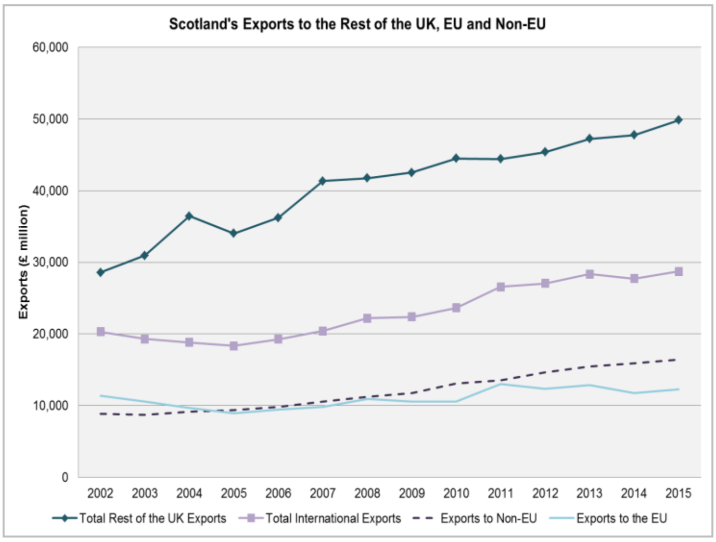
Index of Manufactured Exports (Q4 2016)

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.

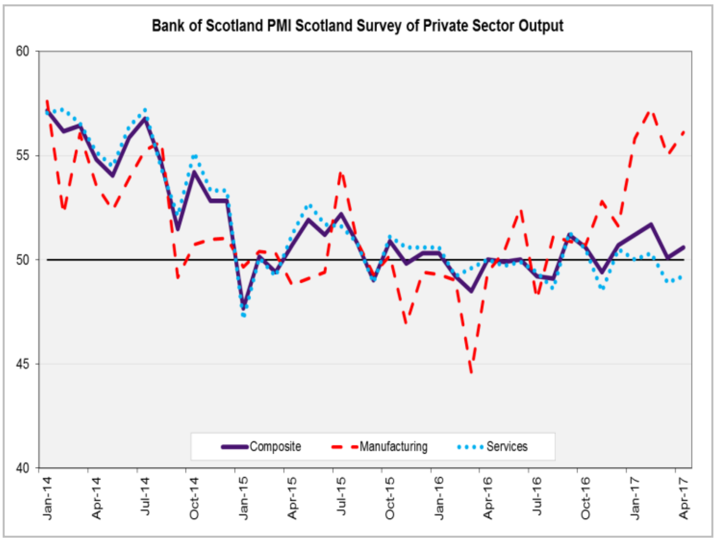
Export Statistics Scotland (2015)

- 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 April 2017 signalled a slight increase in private sector output, driven by expansion in the manufacturing sector. The survey also signalled expansion in staffing levels across the sectors in April.
- 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.

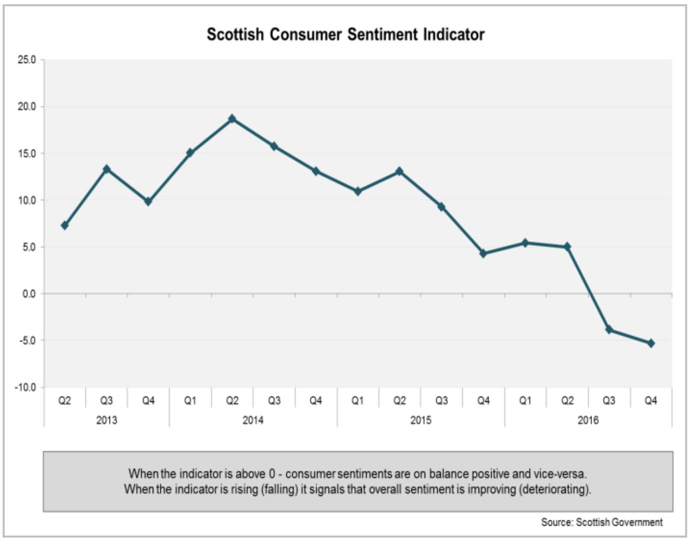


- The latest CBI Industrial Trends Survey for the three months to April 2017 signalled that Scottish manufacturing firms expanded both output and employment numbers over the quarter. Business optimism fell over the quarter, however new orders and employment numbers are expected to strengthen over the next quarter.
- The latest RBS Scotland Business Monitor signalled that private sector output continued to grow over the three months to February 2017, but at a slower pace than previously. Firms expect business volumes to grow over the next six months, including in the North East of Scotland.
- The latest Scottish Engineering Quarterly Review signalled that activity in the sector strengthened in Q1 2017, particularly in export orders. The outlook for the next 3 months also strengthened with firms expecting to increase staffing levels to support a growth in orders.

PMI Headline Private Sector New Business				
	2017			
	Jan	Feb	Mar	Apr
Scotland	**52.3**	**50.9**	**50.8**	**52.3**
Service Sector New Business	51.4	50.5	51.0	51.6
Manufacturing New Orders	55.9	52.6	50.1	54.9

Business Optimism				
	2016			2017
	Q2	Q3	Q4	Q1
Scottish Engineering	-17	-18	+2	+17
CBI: Industrial Trends Survey	-28	-6	+30	-3
SCC: Manufacturing Sector	+10	-9	+2	+11

CONSUMER SENTIMENT[1]



- In Q4 2016, consumer sentiment in Scotland weakened further, with the indicator falling from -3.9 to -5.3.
- Underneath the overall indicator score, the indicators for both current and expected economic performance remained negative and weakened further compared to the previous quarter.
- The indicator for current household financial position slightly strengthened over the quarter though remained negative and was reflected in a further weakening in attitude to household spending.
- Over the quarter, expectations for household's financial position for the next 12 months weakened further though remained positive.
- The broad trend across all questions signalled that in Q4 2016, households became less optimistic about the outlook for both the economy as a whole and their household financial position.

Scottish Consumer Sentiment Indicator	Score (Q4 2016)	Score in Previous Quarter	Score in Same Quarter of Previous Year	Score - Series Average
Overall Indicator Score	**-5.3**	**-3.9**	**4.3**	**8.8**
(a) Economy performance - last 12 months	-17.8	-13.8	1.5	13.1
(b) Economy performance - next 12 months	-6.6	-5.3	6.7	18.1
(c) Household financial position - last 12 months	-1.2	-1.6	0.8	2.1
(d) Household financial position - next 12 months	3.9	5.9	13.2	11.4
(e) Attitude to household spending - current	-4.9	-4.5	-0.8	-0.8

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 a 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 Q4 2016 was conducted between 19th October and 12th December 2016. 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 FORECASTS[2]

- **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 2017-18.[3]
- The **Fraser of Allander Institute's** latest Scottish growth forecast (March 2017) was revised up for 2017 to 1.2% (from 1.1% in December) and was unchanged for 2018 at 1.3%.
- **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.
- **EY Scottish ITEM Club** latest Scottish growth forecast (December 2016), was revised down for 2016 to 0.7% (from 1.2% in June) and for 2017 to 0.4% (from 2.0% in June).
- **HM Treasury's** publication of Average Independent Forecasts[4] for UK GDP growth (April 2017), projected growth of 1.7% in 2017 (up from 1.6% 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 (March 2017)	Scotland	0.4	1.2	1.3
PwC (March 2017)			1.3	1.1
EY Scottish ITEM Club (December 2016)			0.4	1.2
HM Treasury Avg. UK Independent Forecast (April 2017)	UK	1.8	1.7	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
[4] HMT statement: Due to the announcement of a UK general election on 8 June, there will be no May edition of Forecasts for the UK economy. The next edition will be published on 21 June and will contain forecasts up to 2020. https://www.gov.uk/government/collections/data-forecasts