

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- The **Scottish Retail Sales Index** for Q2 2018 showed the volume of retail sales grew 0.3% over the quarter (0.5% annually) and the value of sales grew by 0.5% (2.4% annually).

Labour Market

- Over the quarter to March – May 2018, the **employment rate** increased by 0.5 percentage points to 75.5%, the **unemployment rate** increased by 0.2 percentage points to 4.3% and the **inactivity rate** fell by 0.6 percentage points to 21.1%.

Business Surveys

- The **Royal Bank of Scotland Scottish Business Monitor** signalled a pick-up in business volumes and turnover in Q2 2018 supported by growth in new business and export activity. However, cost pressures continued to rise and capital investment remained subdued.
- The **CBI Scottish Industrial Trends Survey** signalled growth in manufacturing output, new orders and employment over the quarter to July 2018. While there was a fall in business optimism, firms expect total orders and employment to grow next quarter, albeit marginally.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** reported stronger growth in business confidence, sales revenue, employment and investment across the majority of sectors in Q2 2018. Firms' outlook for growth over the next three months remained positive.
- The **Royal Bank of Scotland Purchasing Managers' Index (PMI)** reported accelerated growth in private sector output, new business and employment in June 2018. Business sentiment towards output growth over the next 12 months also remained firmly positive across the sectors.

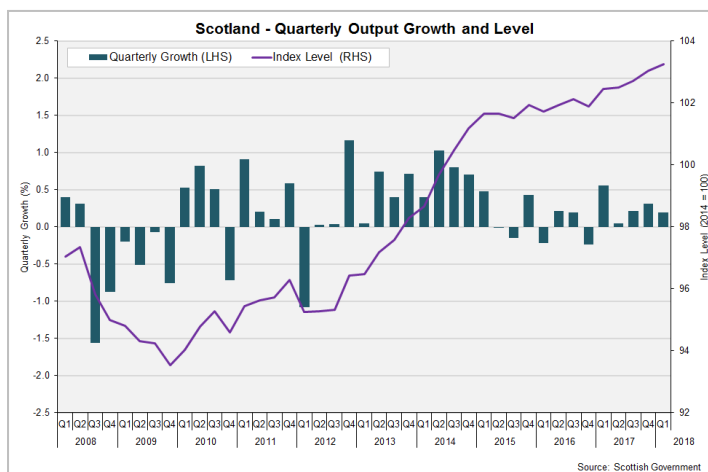
Forecasts

- **PWC's UK Economic Outlook** report projects output growth in Scotland of around 1.0% in 2018 rising to around 1.3% in 2019.

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	0.4	0.1	0.2	0.2	0.4	0.3	0.4	0.2

- **Scottish GDP** (first estimate) grew 0.2% in Q1 2018 (0.8% annually), down from 0.3% in Q4 2017.
- **UK GDP** (third estimate) grew 0.2% in Q2 2018 (1.2% annually), unchanged from Q1 2018.
- **Euro Area GDP** (first estimate) grew 0.3% in Q2 2018 (2.1% annually), down from 0.4% in Q1 2018.
- **US GDP** (first estimate) grew 1.0% in Q2 2018 (2.8% annually), up from 0.6% in Q1 2018.

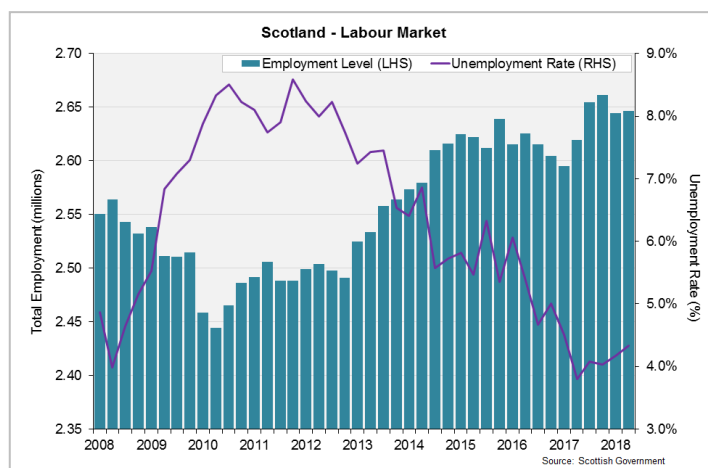


GDP Growth by sector, Q1 2018	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	0.2	0.2	0.8	1.1
Service Sector	0.4	0.3	1.4	1.2
Distribution, Hotels & Catering	0.0	0.1	2.7	0.9
Transport, Storage & Comms	1.6	0.1	2.2	2.9
Business Services & Finance	0.6	0.6	1.4	2.0
Government & Other Services	0.1	0.3	0.4	0.1
Production Sector	0.9	0.4	2.4	2.4
Mining & Quarrying	0.4	2.5	3.9	-0.1
Manufacturing	1.8	-0.1	1.6	2.5
Electricity & Gas	-1.4	1.4	9.2	4.1
Water & Sewerage	-1.0	1.7	-4.6	1.3
Construction	-3.5	-0.8	-9.2	0.3
Agriculture, Forestry & Fishing	0.2	-1.5	1.3	-0.4

LABOUR MARKET

Over the year to March – May 2018:

- The employment level rose by 27,000 and the employment rate rose by 1.4 percentage points to 75.5% (UK, 75.7%).
- The unemployment level rose by 16,000 and the unemployment rate rose by 0.5 percentage points to 4.3% (UK, 4.2%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 63,000 and the inactivity rate fell by 1.8 percentage points to 21.1% (UK, 21.0%).



Labour Market Headline Statistics, March – May 2018

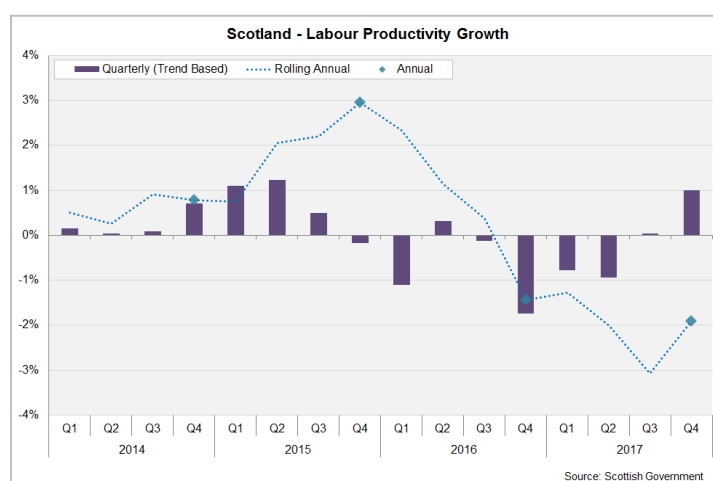
	Rate (%)	Change (% points)		Level ^c ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	75.5	0.5	1.4	2,646	2	27
ILO Unemployment ^B	4.3	0.2	0.5	120	5	16
Economic Inactivity ^A	21.1	-0.6	-1.8	718	-23	-63
UK						
Employment ^A	75.7	0.3	0.7	32,399	137	388
ILO Unemployment ^B	4.2	-0.1	-0.3	1,411	-12	-84
Economic Inactivity ^A	21.0	-0.2	-0.5	8,645	-86	-184

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+.

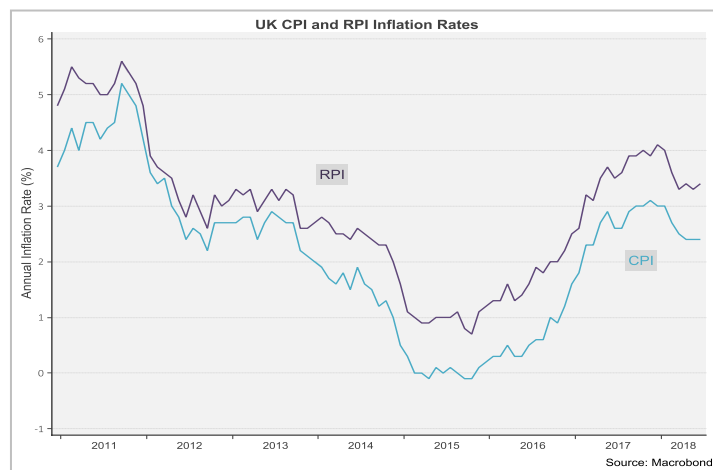
PRODUCTIVITY

- 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 Prices Index (CPI) 12-month rate remained at 2.4% in June, unchanged from the past two months. Over the past month, key upward pressure on prices came from transport, principally motor fuels, however this was offset by downward pressure from goods including clothing and footwear and recreation and culture.



RETAIL

- The volume of Scottish retail sales grew 0.3% over the quarter in Q2 2018 (0.5% growth over the year). The value of retail sales grew by 0.5% over the quarter (2.4% growth over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 0.6% in Q2 2018. Sales from small & medium size stores (which account for the remaining 30% of sales) fell by 1.3% compared to the previous quarter.

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

Volume	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Value	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Scotland	0.0	-0.2	0.4	0.3	Scotland	0.6	0.9	0.3	0.5
GB	0.5	0.5	-0.3	2.1	GB	1.2	1.2	0.2	2.4

EXPORTS & TRADE

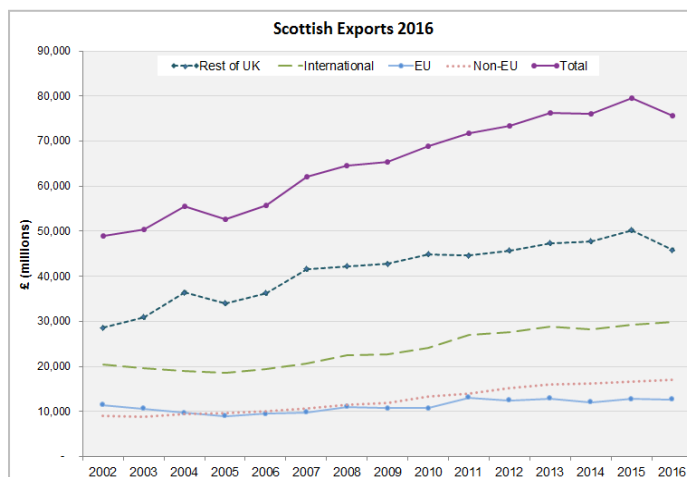
Index of Manufactured Exports (Q4 2017)

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.

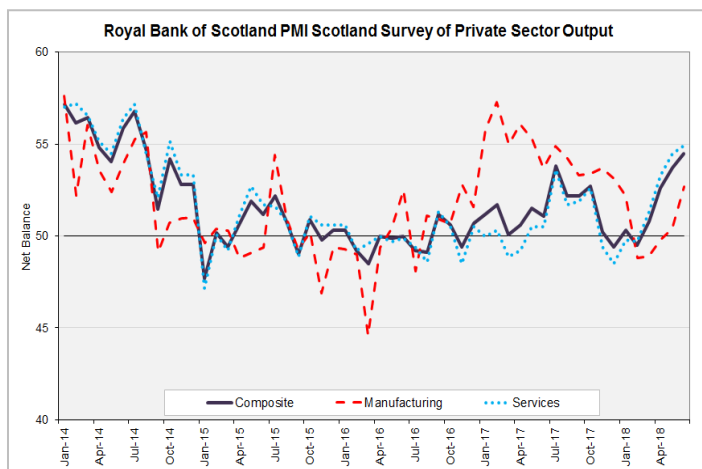
Export Statistics Scotland (2016)

- 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 Royal Bank of Scotland Scottish Business Monitor for Q2 2018 signalled a pick-up in business volumes and turnover supported by growth in new business and export activity. However, cost pressures continued to rise and capital investment remained subdued. Looking ahead, firms generally expect these trends to continue over the remainder of the year.
- The CBI Industrial Trends Survey of Scottish manufacturing firms signalled growth in output, total new orders and employment over the 3-months to July 2018. The outlook for the next 3-months was also broadly positive, with firms expecting total orders and employment to grow. However, business optimism and investment intentions for the next 12-months remain subdued.
- The Scottish Chambers of Commerce Quarterly Economic Indicator for Q2 2018 signalled stronger growth in sales revenue and/or employment across the majority of sectors alongside a pick-up in business confidence. Looking ahead, indicators for sales revenue, investment and employment growth over the next 3-months remain positive.
- The Royal Bank of Scotland Purchasing Managers' Index (PMI) for June reported accelerated growth in private sector output – its fastest pace since August 2014 – alongside stronger growth in new business and employment. Firms' outlook over the next 12 months remained firmly positive across the sectors.
- The Scottish Engineering Quarterly Review for Q2 2018 signalled improved growth in output volumes from the Engineering and Manufacturing sector and further growth in order intakes. Business optimism and investment plans (capital and training) remained positive.

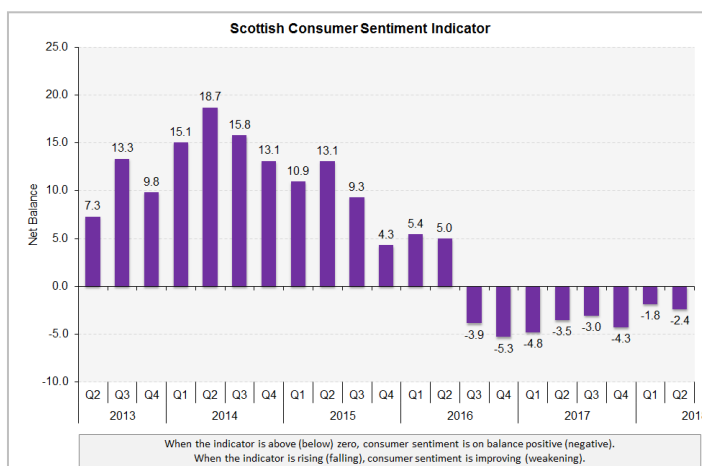


PMI Headline Private Sector New Business				
	2018			
	Mar	Apr	May	Jun
Scotland	51.9	53.5	54.1	54.3
Service Sector New Business	52.3	54.2	55.0	54.7
Manufacturing New Orders	50.1	50.6	50.4	52.9

Business Optimism – Manufacturing				
	2017		2018	
	Q3	Q4	Q1	Q2
Scottish Engineering	+25	+23	+25	+24
CBI: Industrial Trends Survey	+7	+19	+31	-6
SCC: Manufacturing Sector	+4	+8	+3	+10

CONSUMER SENTIMENT¹

- In Q2 2018, the Scottish Consumer Sentiment indicator was -2.4, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 0.5 points, implying that sentiment weakened compared to the previous quarter.
- Changes in current sentiment over the quarter were mixed. The indicator for households' financial security fell, signalling a weakening sentiment, however economic performance and attitude to spending indicator scores increased, signalling an improvement in sentiment.
- Expectations for the outlook weakened, with both indicators falling compared to the previous quarter. However, the indicator for expectations of households' financial position was the only positive indicator



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 Q2 2018 was conducted between 18th April and 10th June 2018. Headline and individual indicators are not seasonally adjusted and may be revised at a later date.

score this quarter indicating that on balance, more respondents expect their households' financial position to improve in 12 months' time.

Scottish Consumer Sentiment Indicator	Score (Q2 2018)	Score in Previous Quarter	Change from Previous Quarter
Composite Indicator Score	-2.4	-1.8	-0.5
(a) Economy performance - last 12 months	-4.0	-6.4	2.4
(b) Economy performance - next 12 months	-10.8	-7.5	-3.4
(c) Household financial position - last 12 months	-1.3	-1.0	-0.2
(d) Household financial position - next 12 months	6.5	9.0	-2.5
(e) Attitude to household spending - current	-2.4	-3.3	1.0

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 (June 2018), was unchanged at 1.2% for 2018 and revised down slightly to 1.3% for 2019 (1.4% in March).
- **EY Scottish ITEM Club's** latest Scottish GDP growth forecast (June 2018) was revised down slightly for 2018 to 1.3% (from 1.4% in December) and unchanged at 1.6% for 2019.
- **PwC's** latest Scottish GDP growth projection (July 2018) remained around 1.0% for 2018, rising to around 1.3% in 2019.
- The **IMF's** World Economic Outlook (July 2018) forecast for UK GDP growth was revised down for 2018 to 1.4% (1.6% previously) and remained unchanged at 1.5% in 2019.
- **HM Treasury's** latest publication of Average Independent Forecasts for UK GDP growth (July 2018), revised down growth for 2018 to 1.3% (1.4% previously) and for 2019 to 1.4% (1.5% previously).
- 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 (June 2018)			1.2	1.3
EY Scottish ITEM Club (June 2018)			1.3	1.6
PwC (July 2018)			1.0	1.3
HM Treasury Average UK Independent Forecast (July 2018)	UK	1.8	1.3	1.4
International Monetary Fund (July 2018)			1.4	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 https://www.strath.ac.uk/business/economics/fraserofallanderinstitute/economic_commentary/ ,

EY ITEM Club <https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/ey-scottish-item-club-summer-update-2018>

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/>