

## KEY SCOTTISH ECONOMIC DEVELOPMENTS

### *Output*

- **GDP** in Scotland grew by 0.3% in Q4 2017 (UK: 0.4%) following growth of 0.2% in Q3 2017. Calendar year growth for 2017 as a whole was 0.8% (UK: 1.8%), up from 0.2% in 2016.

### *Labour Market*

- Over the quarter to December – February 2018, the **employment rate** fell by 0.1 percentage points to 75.0%, the **unemployment rate** rose by 0.1 percentage points to 4.2% and the **inactivity rate** remained unchanged at 21.7%.

### *Consumer Sentiment*

- The **Scottish Consumer Sentiment Indicator** increased to -1.8 in Q1 2018 from -4.3 in the previous quarter. The increase of 2.4 points signals an improvement in sentiment however on balance, sentiment remains negative.

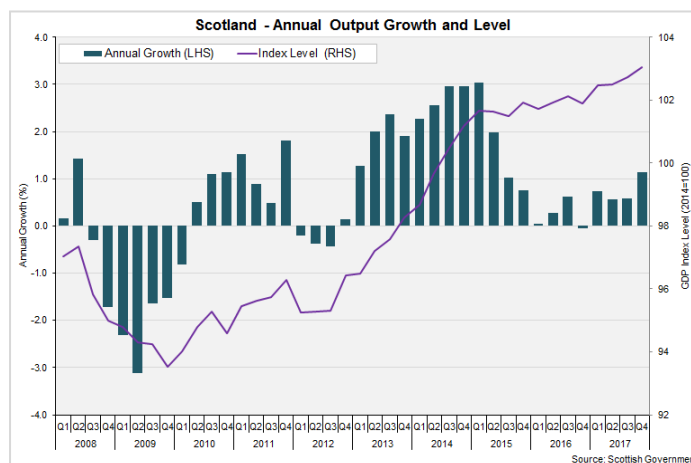
### *Business Surveys*

- The **Bank of Scotland Purchasing Managers' Index (PMI)** for March 2018 reported a return to growth in Scotland's private sector with expansions in new business and employment numbers, while firms' outlook towards activity over the next 12 months continues to be optimistic.
- The **Royal Bank of Scotland Business Monitor** for Q1 2018 signalled further growth in private sector volumes of business, though at a slower pace than previously. Firms' expectations for domestic and overseas business were positive, however investment expectations remain weak.
- The **Scottish Chambers of Commerce Quarterly Economic Indicator** for Q1 2018 reported increased levels of business investment while firms continue to show signs of optimism across the majority of sectors, with a positive outlook for sales, investment and job creation.
- The **CBI Industrial Trends Survey** of Scottish Manufacturing firms for Q1 2018 signalled contraction in output, total orders and staffing numbers over the quarter. However, businesses remained optimistic of output and employment growth over the next 3-months.

## OUTPUT

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

- **Scottish GDP** grew 0.3% in Q4 2017. Calendar year growth for 2017 was 0.8%, up from 0.2% in 2016.
- **UK GDP** (first estimate) grew 0.1% in Q1 2018 (1.2% annually), down from 0.4% in Q4 2017.
- **Euro Area GDP** (third estimate) grew 0.7% in Q4 2017. Calendar year growth for 2017 is estimated at 2.3%, up from 1.8% in 2016.
- **US GDP** (first estimate) grew 0.5% in Q1 2018 (1.9% annually), down from 0.6% in Q4 2017.

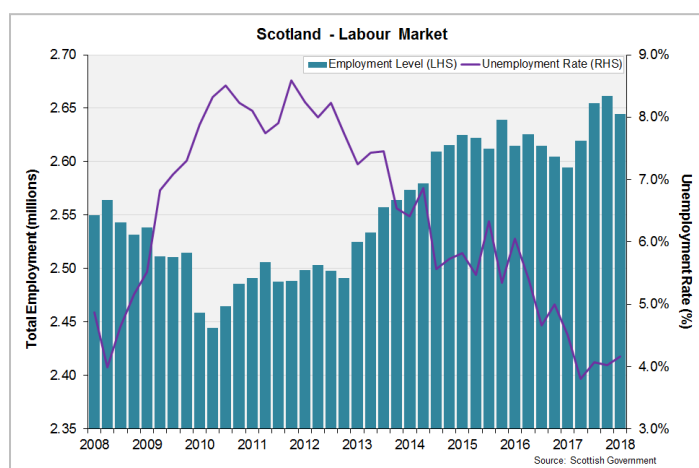


GDP Growth by sector, Q4 2017	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
<b>Total</b>	<b>0.3</b>	<b>0.4</b>	<b>1.1</b>	<b>1.4</b>
<b>Service Sector</b>	<b>0.5</b>	<b>0.4</b>	<b>1.4</b>	<b>1.1</b>
Distribution, Hotels & Catering	0.9	-0.1	3.2	0.2
Transport, Storage & Comms	0.7	1.1	1.2	2.1
Business Services & Finance	0.6	0.6	1.0	1.7
Government & Other Services	0.0	0.1	0.8	0.4
<b>Production Sector</b>	<b>0.9</b>	<b>0.4</b>	<b>3.6</b>	<b>1.9</b>
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
<b>Construction</b>	<b>-2.6</b>	<b>-0.1</b>	<b>-6.5</b>	<b>2.3</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>-0.1</b>	<b>-1.0</b>	<b>1.2</b>	<b>-0.8</b>

## LABOUR MARKET

Over the year to December – February 2018:

- The employment level rose by 50,000 and the employment rate rose by 1.6 percentage points to 75.0% (UK, 75.4%).
- The unemployment level fell by 8,000 and the unemployment rate fell by 0.3 percentage points to 4.2% (UK, 4.2%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 45,000 and the inactivity rate fell by 1.3 percentage points to 21.7% (UK, 21.2%).



**Labour Market Headline Statistics, December – February 2018**

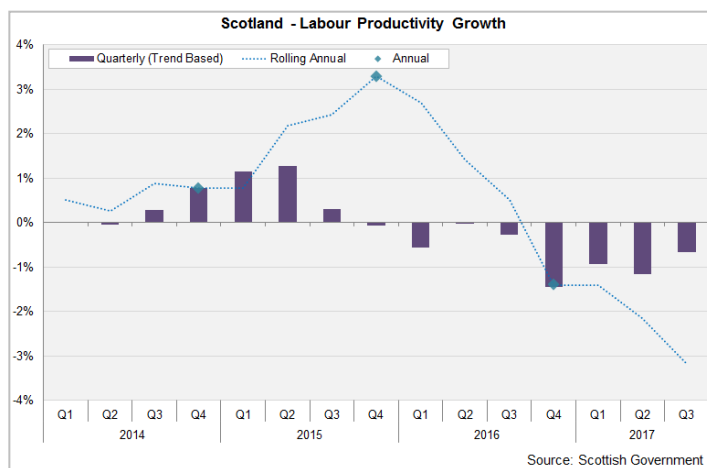
	Rate (%)	Change (% points)		Level <sup>c</sup> ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
<b>Scotland</b>						
Employment <sup>A</sup>	75.0	-0.1	1.6	2,645	-17	50
ILO Unemployment <sup>B</sup>	4.2	0.1	-0.3	115	3	-8
Economic Inactivity <sup>A</sup>	21.7	0.0	-1.3	741	0	-45
<b>UK</b>						
Employment <sup>A</sup>	75.4	0.1	0.8	32,262	55	427
ILO Unemployment <sup>B</sup>	4.2	-0.1	-0.4	1,423	-16	-136
Economic Inactivity <sup>A</sup>	21.2	0.0	-0.4	8,731	-2	-154

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+.

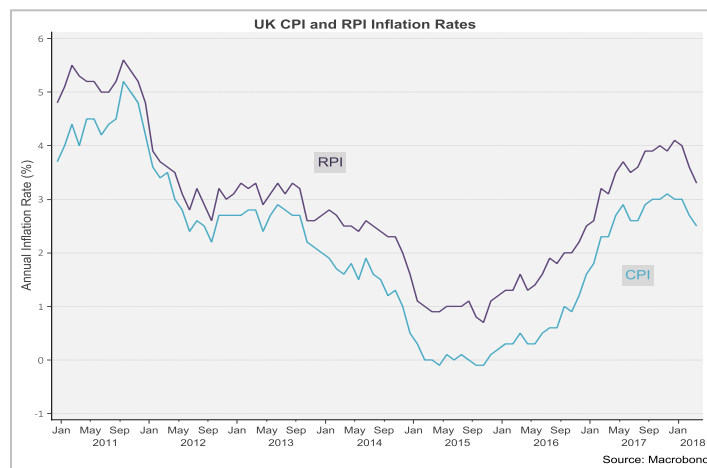
**PRODUCTIVITY**

- In Q3 2017, Scottish labour productivity growth (output per hour worked) fell by 0.7% over the quarter following a decline of 1.2% in the previous quarter (trend-based).
- On a rolling annual basis to Q3 2017, Scottish labour productivity fell by 3.2% in real terms.
- The trend-based fall in productivity reflects that growth in average hours worked outpaced growth in GVA (0.8% and 0.2% respectively).
- Annual productivity is 5.4% higher in real terms than in 2007, prior to the recession.
- On a rolling annual basis, to Q3 2017 Scottish labour productivity as measured by output per job, decreased by 1.3% in real terms.



**INFLATION**

- The Consumer Price Index (CPI) 12-month rate was 2.5% in March 2018, down from 2.7% in February. The largest downward contributions came from clothing & footwear, alcohol & tobacco and miscellaneous good & services.



**RETAIL**

- The Scottish Retail Sales Index for Q4 2017 showed flat growth (0.0%) in the volume of retail sales over the quarter (1.7% growth over the year). The value of retail sales grew by 1.1% over the quarter (4.9% growth over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) increased by 0.4% in Q4 2017 whilst sales from small & medium size stores (which account for the remaining 30% of sales) decreased by 0.8% compared to the previous quarter.

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

Volume	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Value	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Scotland	0.4	1.2	0.2	0.0	Scotland	1.4	1.5	0.8	1.1
GB	-1.2	1.1	0.8	0.4	GB	0.0	1.5	1.3	1.2

## EXPORTS & TRADE

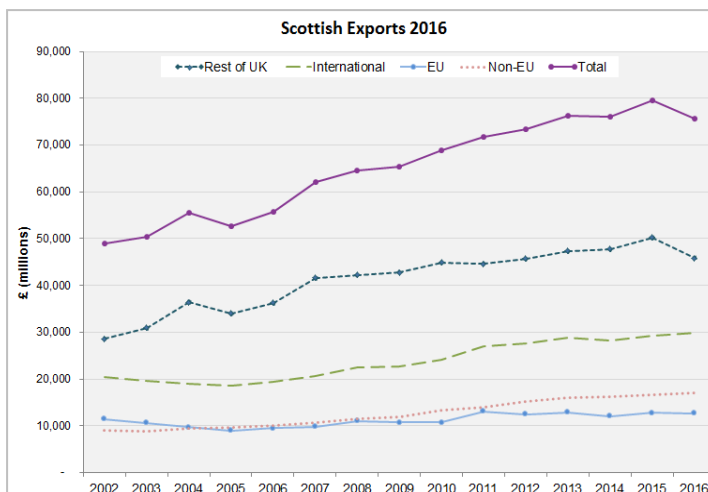
### Index of Manufactured Exports (Q3 2017)

Manufactured Exports, Scotland, Q3 2017 (volume)	2014 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
<b>Total Manufacturing Exports</b>	<b>100</b>	<b>3.6</b>	<b>4.2</b>
Food, Beverages & Tobacco	36.9	15.2	3.9
Engineering & Allied Industries	31.8	2.5	-0.2
Refined Petroleum, Chemical & Pharmaceutical Products	11.2	3.8	11.7
Non-Metallic Products, Other Manufacturing & Repair	8.1	-8.6	-1.1
Metals & Metal Products	5.5	-30.5	36.7
Textiles, Clothing & Leather	3.5	9.4	-9.0
Wood, Paper & Printing	3.0	-1.2	-0.6

- The volume of Scottish manufactured exports, a subset of total international exports, increased by 3.6% in Q3 2017 and 4.2% on a rolling annual basis. Over the quarter, at current prices, the value of Scottish manufactured exports rose by 7.8%.
- The rise in export volumes in Q3 2017 follows the marginal contraction of 0.1% the previous quarter and was driven by strong growth in a range of industries including Food, Beverages & Tobacco; Refined Petroleum, Chemical & Pharmaceutical Products; and Textiles, Clothing & Leather.
- Contractions in export volumes from the Non-Metallic Products, Other Manufacturing & Repair; and Metals & Metal Products industries weighed on overall export growth in Q3 2017.

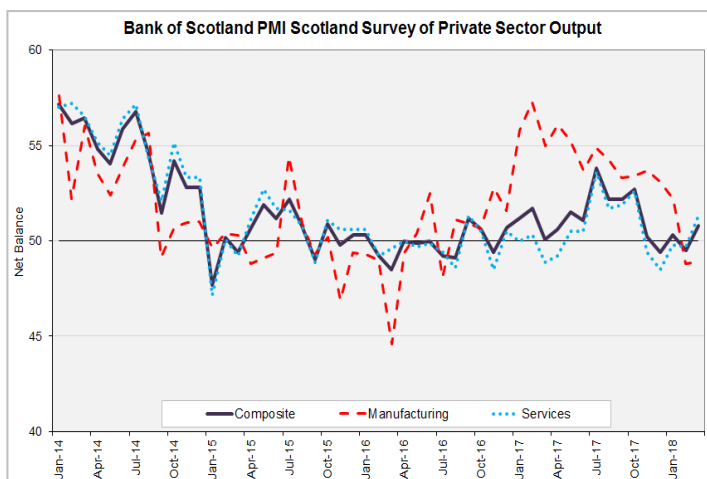
### Export Statistics Scotland (2016)

- 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) rebounded back into growth in March 2018. The expansion over the month was driven by the service sector and was accompanied by increased staffing levels and optimism across the sectors. Manufacturing firms cited the adverse weather conditions at the start of the month as a factor which reduced production capabilities.
- 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 stronger 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.

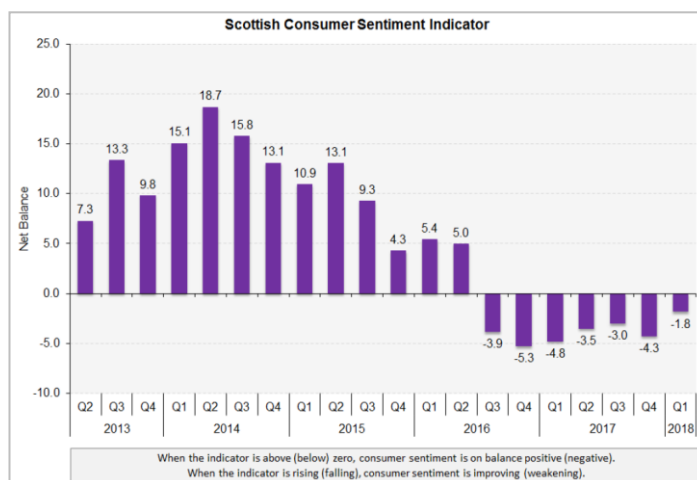


PMI Headline Private Sector New Business				
	2017	2018		
	Dec	Jan	Feb	Mar
<b>Scotland</b>	<b>49.6</b>	<b>51.4</b>	<b>49.9</b>	<b>51.9</b>
Service Sector New Business	49.8	50.7	50.1	52.3
Manufacturing New Orders	49.1	54.2	49.2	50.1

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 SENTIMENT<sup>1</sup>**

- 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.



<sup>1</sup> The Scottish Consumer Sentiment Indicator was published as an Official 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 24<sup>th</sup> January and 13<sup>th</sup> 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
<b>Composite Indicator Score</b>	<b>-1.8</b>	<b>-4.3</b>	<b>+2.4</b>
<b>(a) Economy performance - last 12 months</b>	-6.4	-11.8	+5.5
<b>(b) Economy performance - next 12 months</b>	-7.5	-11.0	+3.5
<b>(c) Household financial position - last 12 months</b>	-1.0	0.5	-1.5
<b>(d) Household financial position - next 12 months</b>	9.0	4.6	+4.4
<b>(e) Attitude to household spending - current</b>	-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 FORECASTS<sup>2</sup>

- The **Scottish Fiscal Commission** (SFC) produced its first independent economic forecasts to inform the Scottish draft budget in December 2017. They forecast GDP growth of 0.7% in the 2017 and 2018<sup>3</sup>.
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (March 2017), 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 (April 2018), projects growth of 1.5% in 2018 and 1.4% 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 (December 2017)	Scotland	0.8	0.7	0.9
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 (April 2018)	UK	1.8	1.5	1.4
International Monetary Fund (April 2018)			1.6	1.5
OBR (March 2018)			1.5	1.3

<sup>2</sup> 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/](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.

<sup>3</sup> Scottish Fiscal Commission forecasts presented in this publication were undertaken as part of the Scottish Government Draft Budget 2018-19: <http://www.gov.scot/Publications/2017/12/8959>