

KEY ECONOMIC DEVELOPMENTS

Scottish Labour Market

- Over the quarter to November – January 2017, the employment rate increased to 73.7%, whilst the unemployment rate fell to 4.7% and the inactivity rate remained unchanged at 22.6%.

Scottish Business Surveys

- The **RBS Scotland Business Monitor** signalled that Scottish private sector output continued to grow over the three months to February 2017, but at a slower pace than the previous quarter. Firms expect business volumes to grow over the next six months, including in the North East of Scotland.
- The **Bank of Scotland Purchasing Managers Index (PMI)** signalled that Scotland's private sector continued to strengthen in February with business output increasing for its third consecutive month and at its quickest rate since July 2015. However, the employment indicator signalled a marginal contraction in staffing levels.
- The **Scottish Engineering Quarterly Review** signalled that activity in the Engineering Manufacturing sector strengthened in the first quarter of 2017, particularly regarding export orders. The outlook for quarter 2 has also strengthened with firms expecting to increase staffing levels to support a growth in orders.

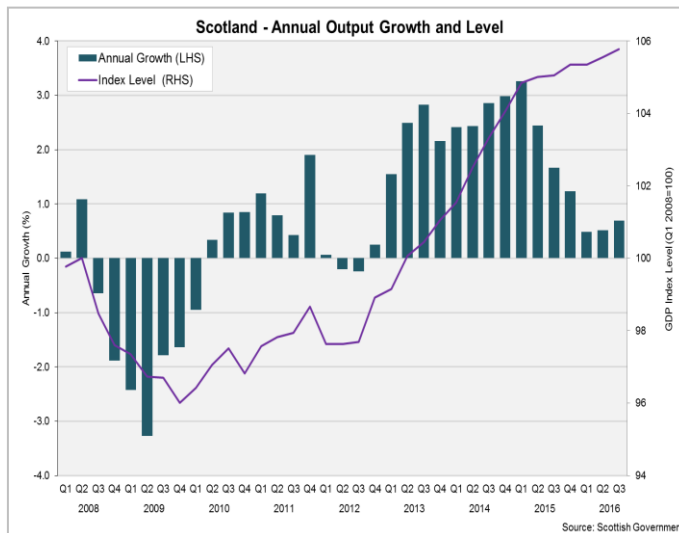
Scottish Forecasts

- The latest **PWC UK Economic Outlook** report revised up their Scottish economic growth forecast for 2017 to 1.3% (0.9% previously) and forecast growth of 1.1% in 2018.
- The **Fraser of Allander Institute Economic Commentary** revised up their Scottish economic growth forecast for 2017 to 1.2% (1.1% previously), whilst the forecast for 2018 was unchanged at 1.3%, and growth for 2019 was revised down to 1.4% (1.6% previously).

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	0.2	0.6	0.2	0.5	N/A

- **Scottish GDP** grew 0.2% in Q3 2016 (0.7% annually), following growth of 0.2% in Q2 2016 (0.5% annually).
- **UK GDP** grew 0.7% in Q4 2016, up slightly from 0.5% in Q3 2016. Calendar year growth for 2016 was 1.8%, down from 2.2% in 2015.
- **US GDP** grew 0.5% in Q4 2016 compared to 0.9% in Q3. Calendar year growth for 2016 was 1.6%, down from 2.6% in 2015.
- **Euro Area GDP** grew 0.4% in Q4 2016, unchanged from Q3. Calendar year growth for 2016 was 1.7%, down from 2.0% in 2015.

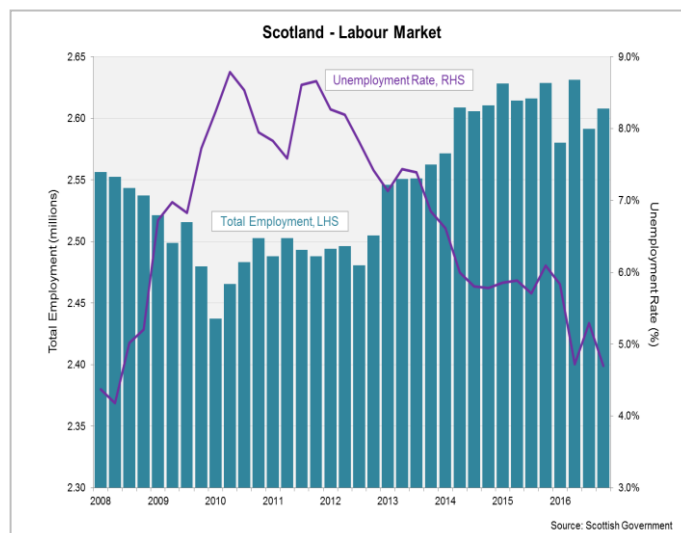


GDP Growth by sector, Q3 2016	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
Total	0.2	0.6	0.7	2.2
Service Sector	0.4	1.0	2.1	3.1
Distribution, Hotels & Catering	0.1	1.1	2.0	5.0
Transport, Storage & Comms	0.0	2.6	0.6	4.2
Business Services & Finance	0.8	0.8	3.8	3.1
Government & Other Services	0.2	0.4	0.6	1.6
Production Sector	-0.1	-0.4	-2.9	1.1
Mining & Quarrying	2.1	4.3	-0.7	3.6
Electricity & Gas	5.2	-4.2	-2.4	-1.1
Water & Sewerage	0.7	-0.1	7.9	5.2
Manufacturing	-1.9	-0.8	-5.2	0.5
Construction	-1.4	-0.8	-4.5	1.7
Agriculture, Forestry & Fishing	0.5	-0.7	1.9	-1.7

LABOUR MARKET

Over the quarter to November - January 2017:

- The employment level increased by 16,000, and the employment rate increased by 0.4 percentage points to 73.7% (UK, 74.6%).
- The unemployment level decreased by 16,000 and the unemployment rate decreased by 0.6 percentage points to 4.7% (UK, 4.7%).
- The economic inactivity level (those neither in employment or ILO unemployed) increased by 1,000 and the economic inactivity rate was unchanged at 22.6% (UK, 21.6%).



Labour Market Headline Statistics, November – January 2017

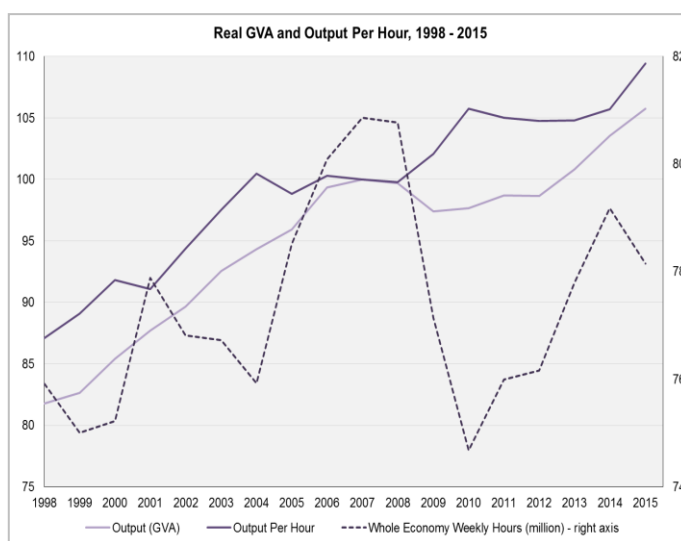
	Rate (%)	Change (%pt)		Level ^C ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	73.7%	0.4	-0.7	2,608	16	-21
ILO Unemployment ^B	4.7%	-0.6	-1.4	129	-16	-42
Economic Inactivity ^A	22.6%	0.0	1.9	770	1	65
UK						
Employment ^A	74.6%	0.2	0.5	31,854	92	315
ILO Unemployment ^B	4.7%	-0.1	-0.3	1,584	-31	-106
Economic Inactivity ^A	21.6%	-0.1	-0.2	8,874	-34	-59

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+.

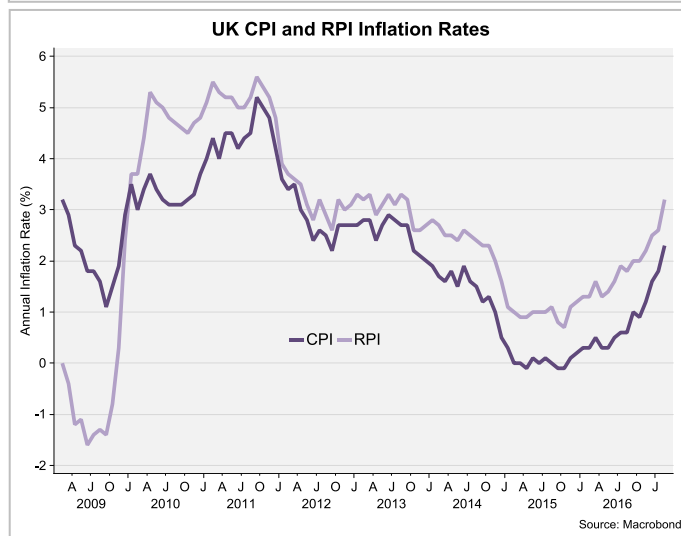
PRODUCTIVITY

- In 2015, Scottish labour productivity, as measured by output per hour worked, increased by 3.5% in real terms, following growth of 0.9% in 2014.
- Productivity growth in 2015 was underpinned by GVA growth of 2.1% while labour input as measured by the number of hours worked decreased by 1.3%.
- Output per hour worked is now 9.4% higher in real terms than in 2007, prior to the recession.
- Output per hour worked in nominal terms (not adjusted for inflation) was estimated to be 99.9% of the average UK value (excluding extra regio output).



INFLATION

- The Consumer Prices Index (CPI) rose by 2.3% in the year to February 2017, up from the 1.8% rise in January 2017. Rising transport costs, particularly for fuel, were the main contributors to the increase.



RETAIL

- The Scottish Retail Sales Index for Q4 2016 showed that the volume of retail sales in Scotland decreased by 0.5% over the quarter (GB rose by 1.2%) and grew 3.1% over the year (GB grew by 5.6%).
- Sales volume from large retail businesses grew by 0.7% during 2016 Q4 whilst sales from small & medium size stores decreased by 1.7%.

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

Volume	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Value	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Scotland	1.8	0.4	1.4	-0.5	Scotland	0.8	0.2	1.3	0.3
GB	1.4	1.1	1.8	1.2	GB	0.7	0.9	2.1	1.9

EXPORTS & TRADE

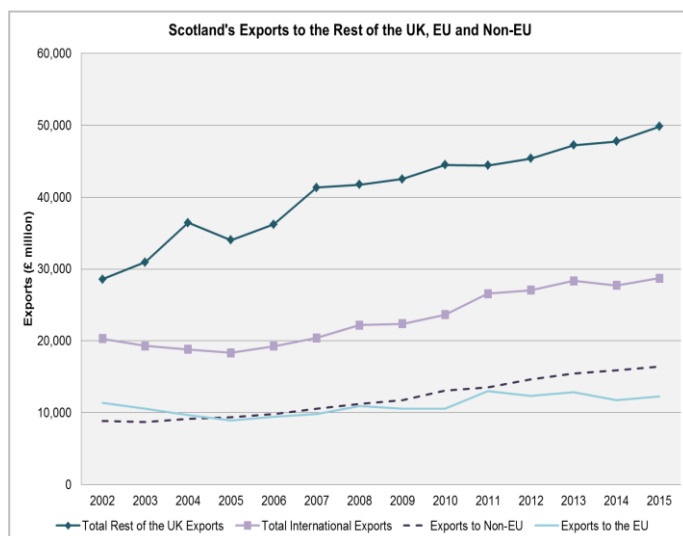
Index of Manufactured Exports (Q3 2016)

Manufactured Exports, Scotland, Q3 2016	2013 Weight	Quarterly Growth (%)	4Q-on-4Q Growth (%)
Total Manufacturing Exports	100	-3.8	-5.3
Engineering & Allied Industries	32.5	-5.2	-6.3
Food, Beverages & Tobacco	35.3	-1.2	-0.4
Refined Petroleum, Chemical & Pharmaceutical Products	11.3	-1.3	0.3
Non-Metallic Products, Other Manufacturing & Repair	8.7	-10.2	-9.3
Metals & Metal Products	5.5	-5.4	-28.2
Textiles, Clothing & Leather	3.3	-7.4	-10.2
Wood, Paper & Printing	3.3	-6.8	-15.3

- The volume of Scottish manufactured exports, a subset of total international exports, decreased by 3.8% in Q3 2016.
- This decrease in export volumes was predominantly driven by declines in the two largest weighted industries, Food, Beverage and Tobacco and Engineering and Allied Industries which together account for over two thirds of Scotland’s manufactured exports. The largest quarterly contraction was seen in the Non-Metallic Products, Other Manufacturing and Repair sector. (-10.2%).
- On a rolling-annual basis Scottish manufactured export sales were down by 5.3% in Q3 2016.

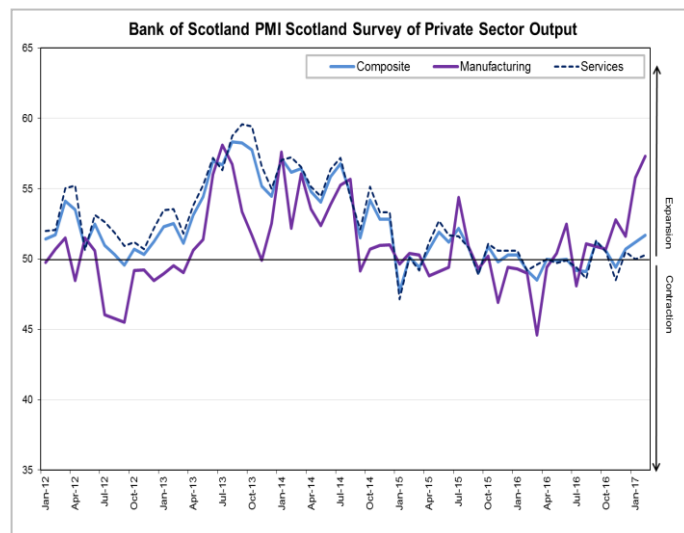
Export Statistics Scotland (2015)

- 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) signalled that Scotland’s private sector continued to strengthen in February with business output increasing at its quickest rate since July 2015. However, the employment indicator signalled marginal contraction in staffing levels.
- 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.



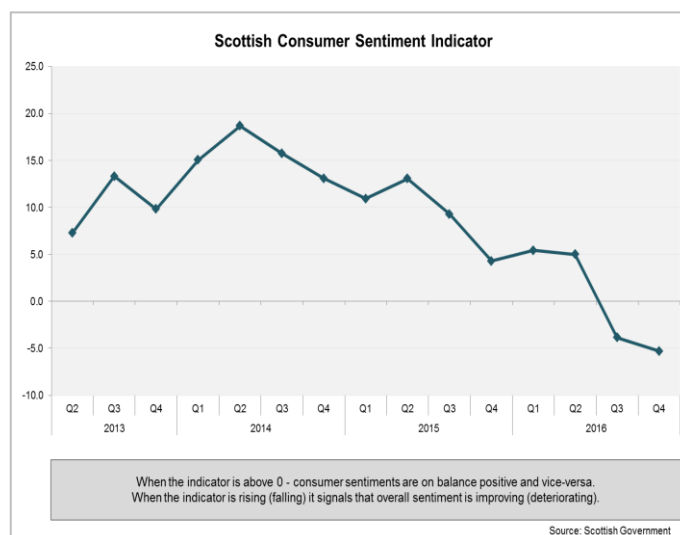
- The latest Scottish Engineering Quarterly Review signalled that activity in the sector strengthened in Q1 2017, particularly in export orders. The outlook for the next 3 months also strengthened with firms expecting to increase staffing levels to support a growth in orders.
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator signalled steady performance in Q4 2016 with sales revenue and employment indicators positive across most sectors. Business optimism was mostly positive but remained finely balanced.
- The latest CBI Industrial Trends Survey of Scottish manufacturing firms signalled that manufacturing output and employment increased over the 3-months to January 2017, supported by increases in new domestic and export orders.

PMI Headline Private Sector New Business				
	2016		2017	
	Nov	Dec	Jan	Feb
Scotland	49.8	50.4	52.3	50.9
Service Sector New Business	49.6	50.4	51.4	50.5
Manufacturing New Orders	50.6	50.6	55.9	52.6

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

CONSUMER SENTIMENT¹

- 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 households 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	Latest 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 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 2017-18.³
- 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 for UK GDP growth (March 2017), projected growth of 1.6% in 2017 (up from 1.4% previously) and 1.4% in 2018 (unchanged).
- The **IMF's** World Economic Outlook update (January 2017) revised up the forecast for UK growth in 2016 to 2.0% (1.8% in October), and for 2017 to 1.5% (1.1% in October).

Annual GDP Growth (calendar year) (%)	Region	2015 (Outturn)	2016	2017	2018
Fraser of Allander Institute (March 2017)	Scotland	2.1	1.0	1.2	1.3
PwC (March 2017)			1.8	1.3	1.1
EY Scottish ITEM Club (December 2016)			0.7	0.4	1.2
HM Treasury Avg. UK Independent Forecast (March 2017)	UK	2.2	1.8*	1.6	1.4
International Monetary Fund (January 2017)			1.8*	1.5	1.4

*Estimated outturn based on preliminary estimate of UK GDP (Q4 2016)

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>