

KEY SCOTTISH ECONOMIC DEVELOPMENTS

Output

- **Labour Productivity** (output per hour worked) growth in Scotland was flat (0.0%) between Q1 2018 and Q2 2018. On a rolling annual basis to Q2 2018, labour productivity increased by 1.3%.

Labour Market

- Over the quarter to July - September 2018, the **unemployment rate** fell by 0.4 percentage points to 3.8%, the **employment rate** fell by 0.2 percentage points to 75.0%, and the **inactivity rate** rose by 0.6 percentage points to 22.0%.

Business Surveys

- The **RBS Purchasing Managers Index** for October signalled further growth in Scotland's private sector business activity, driven mainly by growth in the Services sector and supported by stronger growth in inflows of new work.
- The **FAI/RBS Scottish Business Monitor** signalled stronger growth in business volumes and turnover in Q3 2018, supported by growth in new and repeat business, while capital investment declined further over the quarter.
- The **Scottish Engineering Quarterly Review** for November signalled further weakening in output growth from the sector reflecting a fall in new orders, exports and staffing. In contrast, business optimism strengthened over the quarter.

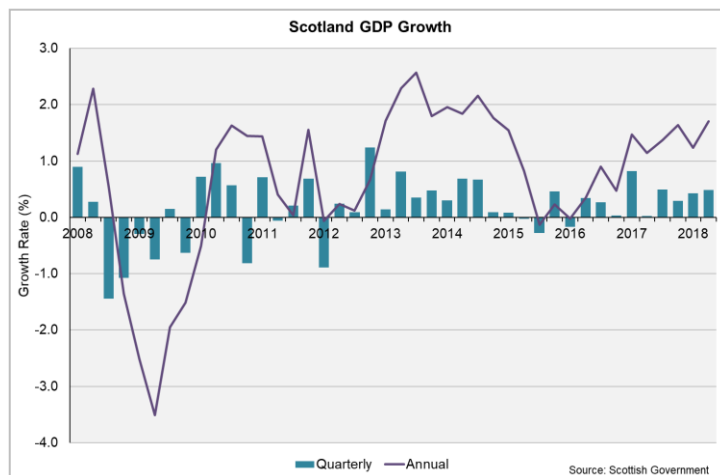
Outlook

- The **PWC UK Economic Outlook** projects Scotland's output growth to remain stable over 2018 and 2019 growing at 1.5% per annum.

OUTPUT

Quarterly GDP Growth (%)	Q2 2017		Q3 2017		Q4 2017		Q1 2018		Q2 2018	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
	0.0	0.3	0.5	0.4	0.3	0.4	0.4	0.1	0.5	0.4

- **Scottish GDP** grew 0.5% in Q2 2018 (1.7% annually), up from 0.4% in Q1 2018.
- **UK GDP** (first estimate) grew 0.6% in Q3 2018 (1.5% annually), up from 0.4% in Q2 2018.
- **Euro Area GDP** (flash estimate) grew 0.2% in Q3 2018 (1.7% annually), down from 0.4% in Q2 2018.
- **US GDP** (second estimate) grew 0.9% in Q3 2018 (3.0% annually), down from 1.0% in Q2 2018.

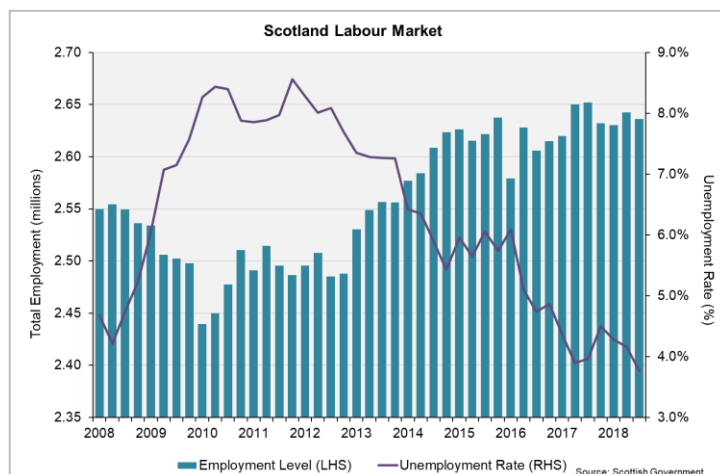


GDP Growth by sector, Q2 2018	Quarterly (%)		Annual (%)	
	(Latest quarter compared to previous quarter)		(Latest quarter compared to same quarter of previous year)	
	Scotland	UK	Scotland	UK
Total	0.5	0.4	1.7	1.2
Service Sector	0.5	0.6	1.4	1.5
Distribution, Hotels & Catering	0.8	1.6	2.8	2.3
Transport, Storage & Comms	1.0	1.5	2.7	3.3
Business Services & Finance	0.6	0.1	1.3	1.6
Government & Other Services	0.0	0.4	0.5	0.2
Production Sector	0.3	-0.8	4.3	0.8
Mining & Quarrying	-0.5	0.7	-0.2	-1.1
Manufacturing	0.8	-0.7	4.3	1.3
Electricity & Gas	-2.8	-3.3	7.0	-0.7
Water & Sewerage	5.5	0.8	3.1	-0.4
Construction	1.9	0.8	-0.8	0.4
Agriculture, Forestry & Fishing	-1.4	0.1	-2.5	-0.5

LABOUR MARKET

Over the year to July – September 2018:

- The employment level fell by 16,000 and the employment rate fell by 0.2 percentage points to 75.0% (UK, 75.5%).
- The unemployment level fell by 6,000 and the unemployment rate fell by 0.2 percentage points to 3.8% (UK, 4.1%).
- The economic inactivity level (those neither in employment or ILO unemployed) rose by 12,000 and the inactivity rate rose by 0.4 percentage points to 22.0% (UK, 21.2%).



Labour Market Headline Statistics, July - September 2018

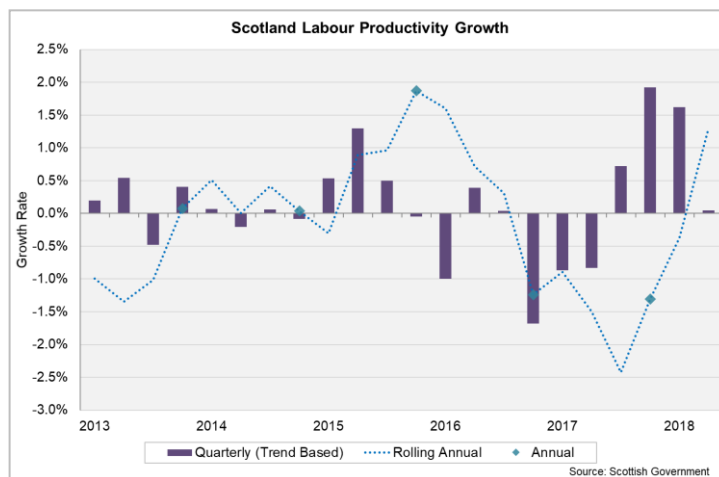
	Rate (%)	Change (% points)		Level ^C ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
Scotland						
Employment ^A	75.0	-0.2	-0.2	2,636	-6	-16
ILO Unemployment ^B	3.8	-0.4	-0.2	103	-12	-6
Economic Inactivity ^A	22.0	0.6	0.4	750	19	12
UK						
Employment ^A	75.5	0.0	0.5	32,409	23	350
ILO Unemployment ^B	4.1	0.1	-0.2	1,381	21	-43
Economic Inactivity ^A	21.2	0.0	-0.4	8,736	1	-147

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+.

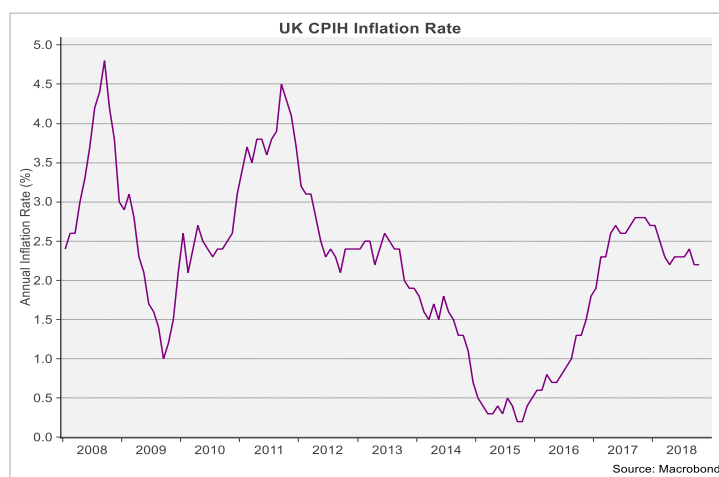
PRODUCTIVITY

- In Q2 2018, Scottish labour productivity (output per hour worked) grew by 0.0% over the quarter following growth of 1.6% in the previous quarter (trend-based).
- On a rolling annual basis (comparing the latest 4 quarters with the previous 4 quarters) Scottish labour productivity fell by 1.3% in real terms.
- The growth in productivity over the year reflects that growth in GVA outpaced growth in average hours worked (1.5% and 0.2% respectively).
- On a rolling annual basis, Scottish labour productivity as measured by output per job increased by 0.8% in real terms (inflation adjusted) in Q2 2018.



INFLATION

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.2% in October, unchanged from September. Downward contributions to the rate from food and non-alcoholic beverages, clothing and footwear, were offset by upward contributions from rising petrol, diesel and domestic gas prices.



RETAIL

- The volume of Scottish retail sales grew 0.4% over the quarter in Q3 2018 (1.3% growth over the year). The value of retail sales grew by 0.6% over the quarter (2.7% growth over the year).
- Sales volume from large retail businesses (which account for around 70% of retail industry sales) decreased by 0.3% in Q3 2018. Sales from small & medium size stores (which account for the remaining 30% of sales) increased by 2.1% compared to the previous quarter.

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

Volume	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Value	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Scotland	-0.2	0.5	0.5	0.4	Scotland	1.0	0.4	0.7	0.6
GB	0.5	-0.3	2.0	1.2	GB	1.2	0.3	2.1	1.7

EXPORTS & TRADE

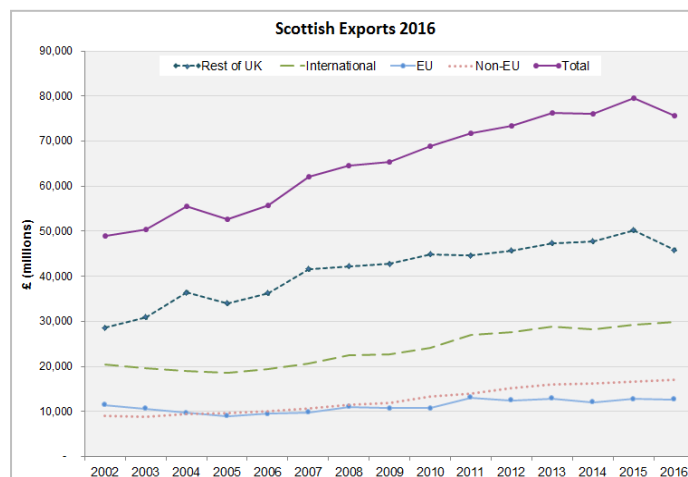
Index of Manufactured Exports (Q2 2018)

Manufactured Exports, Scotland, Q2 2018 (volume)	2015 Weight	Quarterly Growth (%)	Annual Growth (%)
Total Manufacturing	100	0.4	6.0
Food and Drink	39.6	1.9	7.6
Engineering & Allied Industries	30.4	2.5	5.7
Refined Petroleum, Chemical & Pharmaceutical Products	9.4	7.7	10.4
Non-Metallic Products, Other Manufacturing & Repair	7.5	-1.3	3.4
Metals & Metal Products	6.6	-14.6	-3.6
Textiles, Clothing & Leather	3.0	-2.1	12.3
Wood, Paper & Printing	3.5	-0.2	6.7

- Manufactured exports make up around half of the total value of international exports from Scotland's onshore economy.
- The volume of Scottish manufactured exports, increased by 0.4% in Q2 2018 and increased by 6% over the year.
- The increase in the volume of manufactured exports over the year was relatively broad based with growth across the three largest exporting sectors of food and drink, engineering and allied industries and refined petroleum, chemical and pharmaceutical products.
- At current prices, the value of Scottish manufactured exports increased by 1.4% over the quarter and 11.3% over the year.

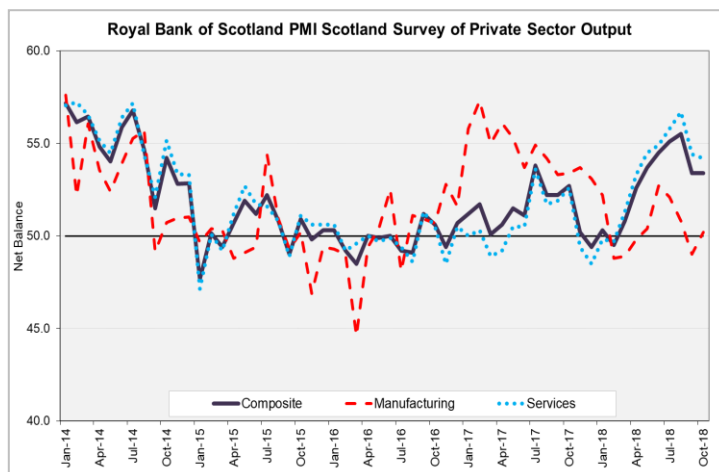
Export Statistics Scotland (2016)

- 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 RBS Purchasing Managers Index for October showed further growth in Scotland’s private sector business activity, alongside stronger growth in new orders and staffing levels, driven mainly by the Services sector. Looking ahead, business confidence remained positive however weakened over the month.
- The Fraser of Allander Institute/Royal Bank of Scotland Scottish Business Monitor for Q3 2018 signalled that business volumes grew at their fastest rate since 2014, accompanied by stronger turnover growth, with firms expecting further output growth in the next quarter. In contrast, investment declined over the quarter with firms expecting a further fall in investment expenditure in the next quarter.
- The Scottish Engineering Quarterly Review for November 2018 reported further growth in output from the sector, though at a marginal pace, while new orders, both domestic and exports, and staffing levels fell over the quarter. Investment growth remained positive and business optimism strengthened over the quarter reflecting expectations of further growth in orders and output over the next 3-months.
- The CBI Industrial Trends Survey of Scottish manufacturing firms showed in the 3-months to October, new orders, employment and output grew, however at a slower pace than the previous quarter. Over the next 3-months, positive growth is expected for new orders and output, however business optimism weakened further over the quarter and investment intentions for the next 12 months remain subdued.
- The Scottish Chambers of Commerce Quarterly Economic Indicator reported generally robust financial results across the sectors in Q3 2018 alongside positive growth in employment. Business optimism remained generally positive, apart from in the Manufacturing sector which reported a decline in optimism alongside a softening in expectations of investment growth over the next quarter.

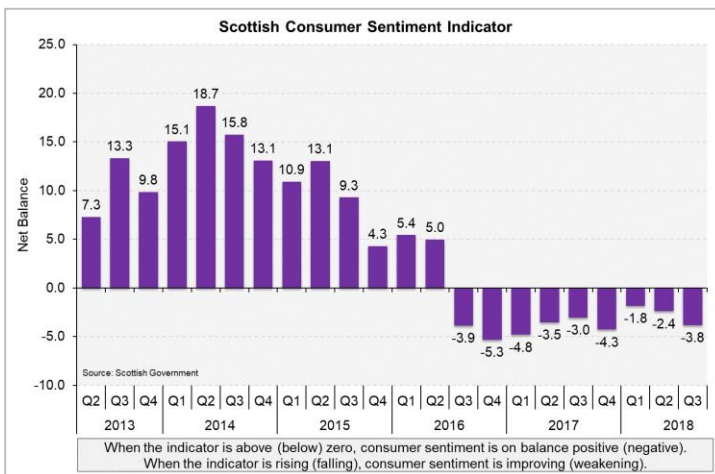


PMI Headline Private Sector New Business				
	2018			
	Jul	Aug	Sept	Oct
Scotland	54.9	54.2	52.0	53.7
Service Sector New Business	55.6	55.1	53.1	55.1
Manufacturing New Orders	52.0	50.6	47.4	48.1

Business Optimism – Manufacturing				
	2018			
	Q1	Q2	Q3	Q4
Scottish Engineering	+25	+24	+1	+15
CBI: Industrial Trends Survey	+31	-6	-9	-
SCC: Manufacturing Sector	+3	+10	-4	-

CONSUMER SENTIMENT

- In Q3 2018, the Scottish Consumer Sentiment Indicator was -3.8, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 1.4 points, implying that sentiment weakened compared to the previous quarter.
- Changes in current sentiment over the quarter were mixed. The indicators for economic performance and household financial security increased, signalling an improvement in sentiment, however the attitude to spending indicator decreased.
- Expectations for the outlook weakened, with both indicators falling compared to the previous quarter. The indicator for expectations of households’ financial position was the only positive indicator 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 (Q3 2018)	Score in Previous Quarter	Change from Previous Quarter
Composite Indicator Score	-3.8	-2.4	-1.4
(a) Economy performance - last 12 months	-3.8	-4.0	0.2
(b) Economy performance - next 12 months	-15.2	-10.8	-4.4
(c) Household financial position - last 12 months	-0.3	-1.3	1.0
(d) Household financial position - next 12 months	3.6	6.5	-2.9
(e) Attitude to household spending – last 12 months	-3.3	-2.4	-0.9

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 FORECASTS¹

- 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)².
- The **Fraser of Allander Institute's** latest Scottish GDP growth forecast (September 2018), was revised up to 1.3% for 2018 (1.2% in June) and 1.4% in 2019 and 2020 (1.3% in June).
- **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 (November 2018) was revised up to 1.5% per annum in 2018 and 2019 (from previous projection of around 1.0% in 2018 and around 1.3% in 2019).
- The **OBR's Economic and Fiscal Outlook** (October 2018) forecast for UK GDP growth was revised down for 2018 to 1.3% (1.5% previously) and revised up for 2019 to 1.6% for 2019 (1.3% previously).
- **HMT's Average of Independent Forecasts** for the UK Economy (November 2018) project growth of 1.3% for 2018 and 1.5% for 2019 (unchanged from October).
- The **IMF's World Economic Outlook** (October 2018) forecast for UK GDP growth was revised down for 2018 to 1.4% (1.6% in April) and remained unchanged at 1.5% in 2019.

Annual GDP Growth (calendar year %)	Region	Outturn	Forecasts/Projections	
		2017	2018	2019
Scottish Fiscal Commission (May 2018)	Scotland	1.3	0.7	0.8
Fraser of Allander Institute (September 2018)			1.3	1.4
EY Scottish ITEM Club (June 2018)			1.3	1.6
PwC (November 2018)			1.5	1.5
OBR (October 2018)	UK	1.7	1.3	1.6
HM Treasury Average UK Independent Forecast (November 2018)			1.3	1.5
International Monetary Fund (October 2018)			1.4	1.5

¹ 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.

² 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/>