

## KEY SCOTTISH ECONOMIC DEVELOPMENTS

### *Labour Market*

- Over the quarter to November – January 2018, the **employment rate** fell by 0.2 percentage points to 74.8%, the **unemployment rate** increased by 0.2 percentage points to 4.3% and the **inactivity rate** remained unchanged at 21.9%.

### *Business Surveys*

- The **Bank of Scotland Purchasing Managers' Index (PMI)** for February 2018 reported a marginal fall in private sector output over the month, however employment was resilient and business optimism remained strong.
- The **Scottish Engineering Quarterly Review** signalled activity in the Engineering and Manufacturing sector in Scotland continued strongly into 2018, with growth in order intake – both domestic and overseas – and continued growth in output and staffing levels. Business optimism remained marked, which was reflected in positive indicator forecasts across nearly all company sizes over next 3 months.

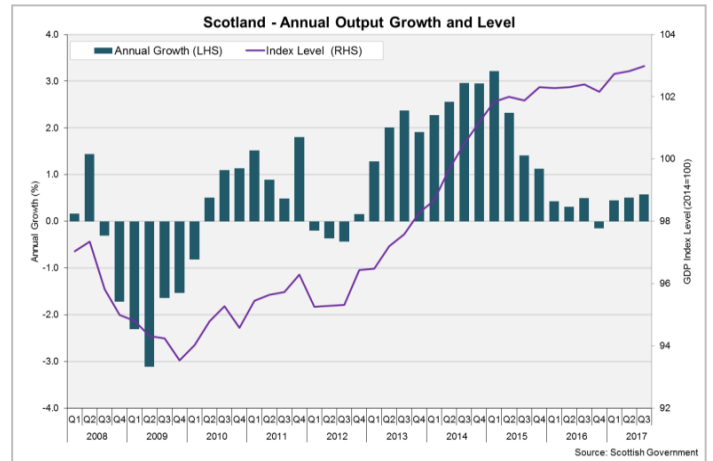
### *Forecasts*

- The **PWC Economic Outlook** report projects Scottish GDP growth of around 1% in 2018, rising to 1.2% in 2019.
- The **Fraser of Allander Economic Commentary** forecasts Scottish GDP growth of 1.2% in 2018 rising to 1.4% in 2019 – unchanged from December 2017.

**OUTPUT**

Quarterly GDP Growth (%)	Q4 2016		Q1 2016		Q2 2017		Q3 2017		Q4 2017	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
	-0.2	0.8	0.6	0.3	0.1	0.3	0.2	0.4	...	0.4

- **Scottish GDP** grew 0.2% in Q3 2017 (0.6% annually), up from 0.1% growth in Q2 2017.
- **UK GDP** (third estimate) grew 0.4% in Q4 2017. Calendar year growth in 2017 is estimated at 1.8%, down from 1.9% in 2016.
- **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** (third estimate) grew 0.6% in Q4 2017. Calendar year growth for 2017 is estimated at 1.8% up from 1.5% in 2016.

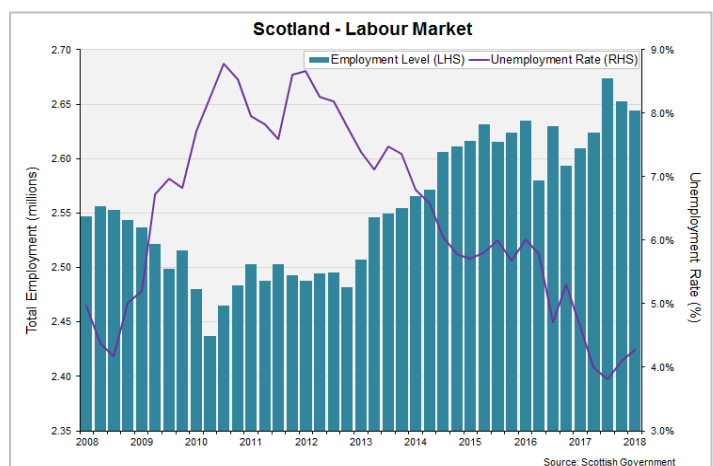


GDP Growth by sector, Q3 2017	Quarterly (%)		Annual (%)	
	Scotland	UK	Scotland	UK
<b>Total</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>	<b>1.7</b>
<b>Service Sector</b>	<b>0.2</b>	<b>0.4</b>	<b>0.9</b>	<b>1.4</b>
Distribution, Hotels & Catering	0.6	0.5	1.7	2.0
Transport, Storage & Comms	0.4	0.0	2.6	1.8
Business Services & Finance	0.0	0.7	0.1	1.6
Government & Other Services	0.2	0.0	0.9	0.4
<b>Production Sector</b>	<b>1.2</b>	<b>1.3</b>	<b>2.6</b>	<b>2.4</b>
Mining & Quarrying	-0.8	2.9	0.1	-2.1
Electricity & Gas	8.0	1.4	7.3	0.6
Water & Sewerage	-1.9	-0.5	-4.1	2.0
Manufacturing	0.4	1.3	2.9	3.3
<b>Construction</b>	<b>-2.9</b>	<b>-0.5</b>	<b>-7.5</b>	<b>4.8</b>
<b>Agriculture, Forestry &amp; Fishing</b>	<b>0.7</b>	<b>0.8</b>	<b>1.2</b>	<b>0.6</b>

**LABOUR MARKET**

Over the year to November – January 2018:

- The employment level rose by 35,000 and the employment rate rose by 1.0 percentage point to 74.8% (UK, 75.3%).
- The unemployment level fell by 9,000 and the unemployment rate fell by 0.4 percentage points to 4.3% (UK, 4.3%).
- The economic inactivity level (those neither in employment or ILO unemployed) fell by 25,000 and the inactivity rate fell by 0.7 percentage points to 21.9% (UK, 21.2%).



**Labour Market Headline Statistics, November – January 2018**

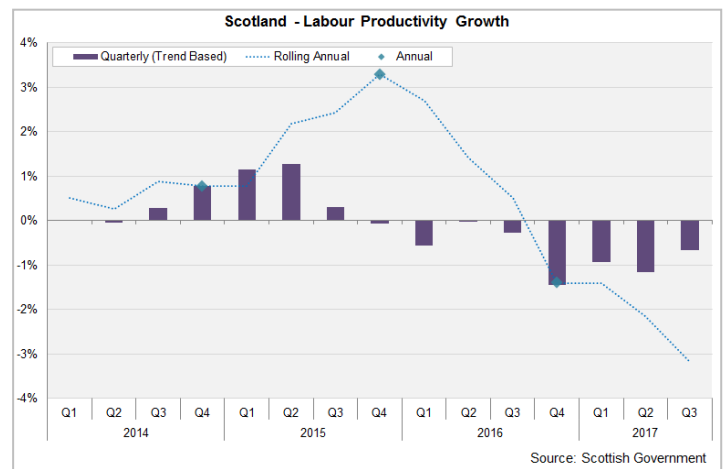
	Rate (%)	Change (% points)		Level <sup>C</sup> ('000)	Change ('000)	
		Over Quarter	Over Year		Over Quarter	Over Year
<b>Scotland</b>						
Employment <sup>A</sup>	74.8	-0.2	1.0	2,644	-8	35
ILO Unemployment <sup>B</sup>	4.3	0.2	-0.4	118	5	-9
Economic Inactivity <sup>A</sup>	21.9	0.0	-0.7	745	1	-25
<b>UK</b>						
Employment <sup>A</sup>	75.3	0.3	0.8	32,248	168	402
ILO Unemployment <sup>B</sup>	4.3	0.0	-0.4	1,453	24	-127
Economic Inactivity <sup>A</sup>	21.2	-0.3	-0.4	8,723	-136	-158

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+.

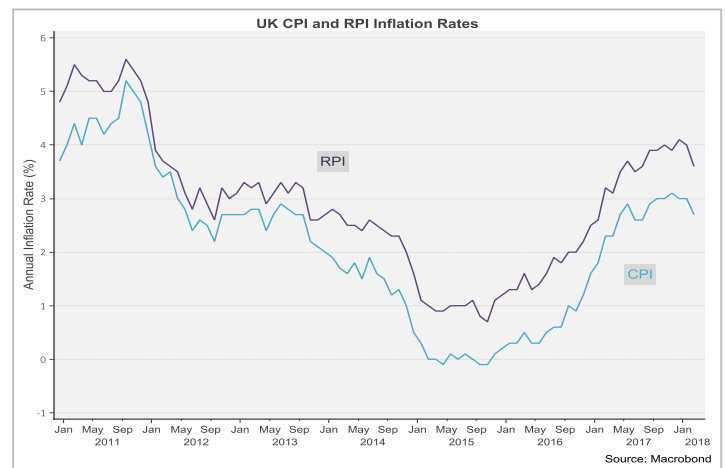
**PRODUCTIVITY**

- 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 2.7% in February 2018, down from 3.0% in January. Downward contributions from fuel and clothing prices – which rose by less than they did in February last year – offset rising prices for restaurants & hotels and transport.



**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**

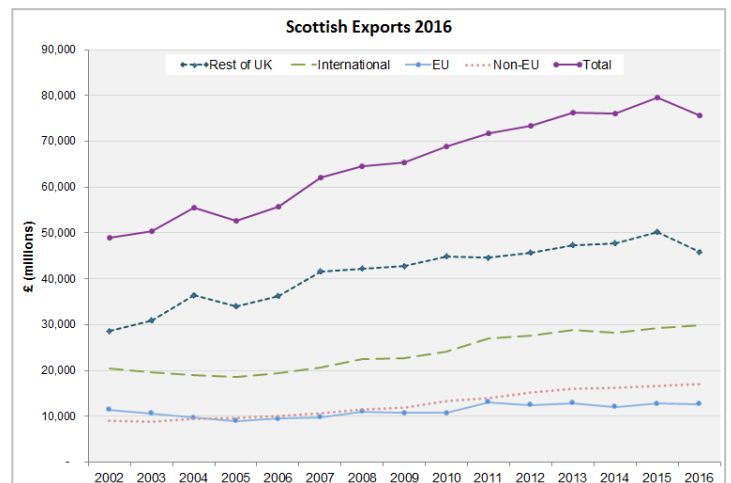
Index of Manufactured Exports (Q3 2017)

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.

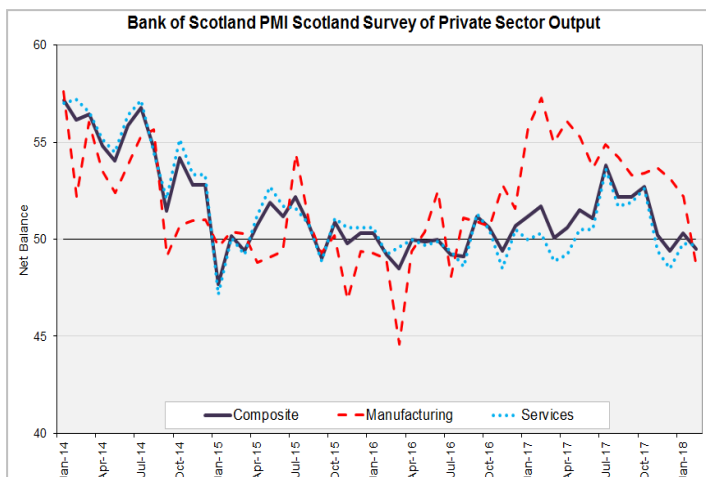
Export Statistics Scotland (2016)

- Total exports 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 continues to be 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) signalled a contraction in Scotland's private sector activity in February – albeit only marginal. The decline was broad based with both manufacturing and service sectors experiencing fractional falls, citing the lack of new business as a contributing factor. Nevertheless, business optimism remains high.
- 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, reflected in positive indicator forecasts across nearly all company sizes over next 3 months.
- The latest RBS Scotland Business Monitor for Q4 2017 reported that volume of business increased over the quarter supported by a rise in export activity. Capital investment continued to be weak, however growth expectations for the next 6-months are positive.
- The latest Scottish Chambers of Commerce Quarterly Economic Indicator for Q4 2017 signalled expansion in sales revenue and business optimism for much of Scotland's private sector over the quarter. However, staff recruitment remains challenging and investment intentions are modest.
- The latest CBI Industrial Trends Survey of Scottish manufacturing signalled growth new order volumes, output and employment over the 3-months to January 2018. The outlook for the next 3-months signals slower growth in output and new orders while staffing levels are expected to fall.

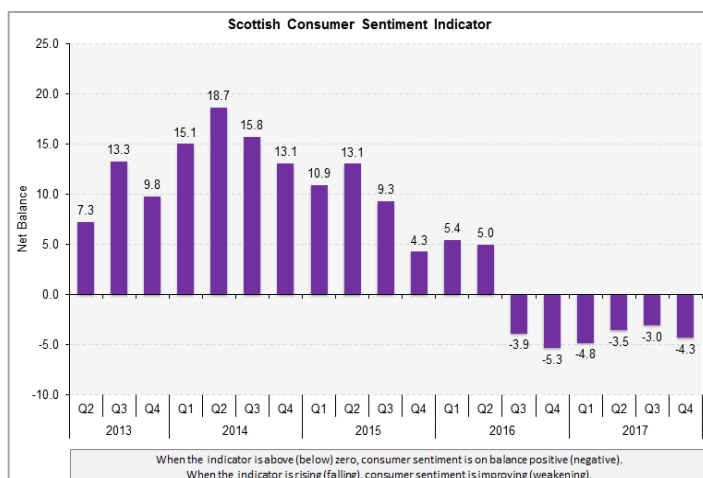


PMI Headline Private Sector New Business				
	2017		2018	
	Nov	Dec	Jan	Feb
<b>Scotland</b>	<b>50.3</b>	<b>49.6</b>	<b>51.4</b>	<b>49.9</b>
Service Sector New Business	50.0	49.8	50.7	50.1
Manufacturing New Orders	51.5	49.1	54.2	49.2

Business Optimism				
	2017			2018
	Q2	Q3	Q4	Q1
Scottish Engineering	+16	+25	+23	+25
CBI: Industrial Trends Survey	+30	+7	+19	-
SCC: Manufacturing Sector	+5	+4	+8	-

**CONSUMER SENTIMENT<sup>1</sup>**

- In Q4 2017, the Scottish Consumer Sentiment indicator was -4.3, indicating that consumer sentiment was on balance negative. Compared to the previous quarter, the indicator decreased by 1.2 points, implying that sentiment has weakened compared to the previous quarter.
- Comparing the Economy Performance indicators to the Household Financial Security indicators, both Economy indicators (current and expected) were negative over the quarter while both Household Financial Security indicators were positive. This indicates that on balance, respondents remain more optimistic about their personal finances than Scotland's economic performance both now and over the next 12 months.



<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 Q4 2017 was conducted between 13<sup>th</sup> October and 18<sup>th</sup> December 2017. Headline and individual indicators are not seasonally adjusted and may be revised at a later date.

Scottish Consumer Sentiment Indicator	Score (Q4 2017)	Score in Previous Quarter	Change from Previous Quarter
<b>Composite Indicator Score</b>	<b>-4.3</b>	<b>-3.0</b>	<b>-1.2</b>
<b>(a) Economy performance - last 12 months</b>	-11.8	-5.9	-5.9
<b>(b) Economy performance - next 12 months</b>	-11.0	-11.7	+0.7
<b>(c) Household financial position - last 12 months</b>	0.5	-0.8	+1.3
<b>(d) Household financial position - next 12 months</b>	4.6	6.2	-1.6
<b>(e) Attitude to household spending - current</b>	-3.7	-3.1	-0.6

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 update (January 2018) forecast for UK GDP growth was unchanged from their report in October, with UK GDP forecast to grow by 1.7% in 2017 and 1.5% in 2018.
- **HM Treasury's** latest publication of Average Independent Forecast for UK GDP growth (March 2018), projects growth of 1.5% in 2018 and 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		
		2016	2017	2018	2019
Scottish Fiscal Commission (December 2017)	Scotland	0.3	0.7	0.7	0.9
Fraser of Allander Institute (March 2018)			1.2	1.2	1.4
EY Scottish ITEM Club (December 2017)			0.8	1.4	1.6
PwC (March 2018)			1.3	1.0	1.2
HM Treasury Average UK Independent Forecast (March 2018)	UK	1.9	1.8	1.5	1.5
International Monetary Fund (January 2018)				1.5	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>