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Scotland’s Economy: 2017

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May 2017
Outline

• Our take on how the Scottish economy is doing.

• Recent developments & what we think the outlook is like for Scotland.

• Highlight some of the key longer term trends……

    …….many of which will be familiar to those with an interest in the Scottish economy over the years but which have fallen off the agenda in recent times.
Growth in 2016?

• Scottish economy grew 0.0% in 2016.

• Alternative measure based upon 4Q-on-4Q: growth of +0.4%…
  
  o 4Q-on-4Q is the sum of the entire 4 quarters this year compared to the sum of last year’s 4 quarters. If you have growth one year but none the next, the 4Q-on-4Q figure will always be positive!! And vice versa.

*Think of it like walking up a hill and reaching a plateau. You’re no longer going up!*
A resilient labour market?

Unemployment Rate (LHS)

Employment Rate (RHS)

Source: ONS
But beneath the headlines some challenges.....

Source: ONS

Change over year to Dec-Feb 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment (16+)</td>
<td>-40,000</td>
</tr>
<tr>
<td>Employment (16+)</td>
<td>-60,000</td>
</tr>
<tr>
<td>Economically Inactive (16-64)</td>
<td>-20,000</td>
</tr>
</tbody>
</table>
Explanation 1: Challenges in oil and gas

Source: Scottish Government
Explanation 2: Wider challenges???

Source: Scottish Government
Explantion 3: Economic confidence in Scot…….

Source: Scottish Government
Explanation 3: Consumer confidence in Scot…….

Scotland = Red

Other UK nations & regions = Grey

PMI for Scotland been lowest amongst UK nations/regions since Sep 16

Source: GfK
Explanation 4: Brexit

• Back in July, we argued that Brexit uncertainty would act as headwind on Scottish economy.

• Predicted relatively fragile growth over 2016, 2017 and 2018.

• But undoubtedly true that UK economy has held up much better than most anticipated…..but challenges beginning to emerge…….strength of consumer scaled back

• Hard to fully explain Scotland’s weak performance is just driven by Brexit uncertainty.
Scotland vs. the UK…….

Source: Scottish Government
Signs of a more +ve outlook – RBS Business Monitor

Source: Royal Bank of Scotland/FAI
Long-term trends

• Talk back in at start of financial crisis of a possible ‘lost decade’.

• Over the last 10 years, output per head in Scotland – a key measure of economic progress – has grown by just 1.2% (from Q4 2006 to Q4 2016). UK equivalent is 4.2%.

• To put that in context, between Q4 1999 and Q4 2006, output per head in Scotland grew 17%

• It’s nearly 10 years since ambitious targets were set for Scotland’s economy. So…..how are we doing compared to these key Purpose targets?
Matching UK & EU economic performance

In only 12 (of 40) quarters since 2007 has Scotland’s annual growth been the same/better than UK.

Roughly 50:50 when compared to small EU….but current small EU growth 2.4% vs. 0.4% for Scotland.

Source: Scottish Government
Productivity: To rank in top quartile in OECD by 2017

Scotland has caught up with UK.

Scotland slipped into 3rd quartile but back in 2nd in 2015.

Likely to fall in 2016 given weak data.

Productivity still 20% below top quartile

Source: Scottish Government & OECD

www.strath.ac.uk/fraser
Participation: To maintain position as top performing country in UK

<table>
<thead>
<tr>
<th></th>
<th>Employment (16-64)</th>
<th>Unemployment (16+)</th>
<th>Inactivity (16-64)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>73.4</td>
<td>4.5</td>
<td>23.0</td>
</tr>
<tr>
<td>England</td>
<td>75.0</td>
<td>4.7</td>
<td>21.2</td>
</tr>
<tr>
<td>Wales</td>
<td>73.0</td>
<td>4.9</td>
<td>23.2</td>
</tr>
<tr>
<td>N. Ire</td>
<td>68.8</td>
<td>5.2</td>
<td>27.3</td>
</tr>
<tr>
<td>UK</td>
<td>74.6</td>
<td>4.7</td>
<td>21.6</td>
</tr>
</tbody>
</table>

In 2007, Scotland had the highest employment rate of UK nations.

England now 1.6 %-points ahead.

Scotland slightly better on unemployment but weaker on inactivity.

Source: ONS
Participation: To close gap with top 5 OECD

Latest data used to monitor target covers up to 2015.

Gap = identical.

Cohesion target: Still >15%-point difference between top and worst performing local authorities

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate in 5th highest OECD</th>
<th>Scottish rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>2007</td>
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<tr>
<td>2015</td>
<td>72</td>
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</tr>
</tbody>
</table>

Source: Scottish Government & OECD
Match average EU15 population growth over period from 2007 to 2017

One area where evidence of Scotland doing better.

Driven in part by ongoing migration into Scotland – potential challenges if Brexit imposes constraints.

Source: NRS & Eurostat
Conclusions

• Scotland’s economy held up remarkably well during the financial crisis but recovery has remained fragile. Challenges in North Sea have undoubtedly acted as a headwind.

• That being said, policymakers will be concerned about the outlook for the Scottish economy particularly with the new tax powers meaning that future Scottish budgets will depend on revenues generated in Scotland.
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