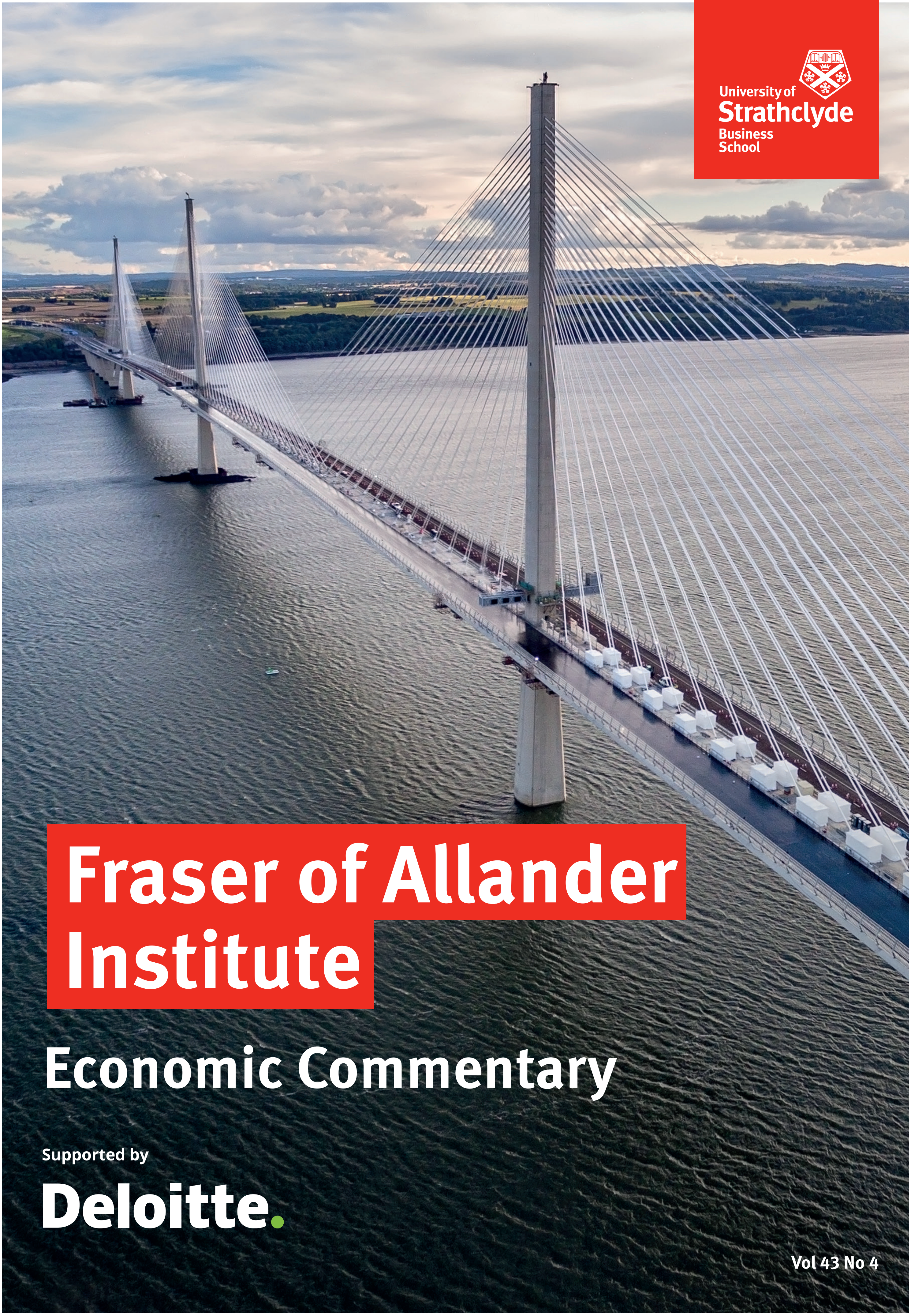

University of Strathclyde Business School

Fraser of Allander Institute

Economic Commentary

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Vol 43 No 4

Foreword

With the election complete, the uncertainty around whether or not Brexit will happen has ended, although questions on Scotland's constitutional future remain. While there are some big questions as to the form Brexit will take, the result has provided greater clarity on the UK's political outlook and with the return of a majority government, there is the opportunity to focus on the post-Brexit challenges the country faces, including strengthening the building blocks of the economy and unlocking business investment.

This concludes a year which, as highlighted in the Commentary, is currently on track to have the slowest global growth since the financial crisis. Looking to Scotland and the UK, it is a similar picture with UK annual growth remaining weak at 1.0% p.a. and underlying momentum in the Scottish and UK economies set to remain fragile in 2020. Investment levels have remained consistently weak since 2017 and this has been compounded by the context of a global slowdown and ongoing Brexit uncertainties.

Despite this, there are positive trends to acknowledge: unemployment levels remain at historic lows at 3.8% in the UK and 4% in Scotland and earnings are rising given the tight labour market. Furthermore, during the election all political parties promised to significantly increase public investment and this should have a positive economic impact in the years ahead.

Looking to the future, it is crucial that Scotland's businesses work with educators and policymakers to ensure that people develop the skills that are vital in the face of advancing technology, AI and robotic capabilities. These were key takeaways from Deloitte's Power Up survey issued in 2018[1], and are still relevant today, particularly when the opportunities afforded by the roll-out of 5G technology are considered.

As outlined in Deloitte's 2020 predictions for UK Technology, Media and Telecommunications[2], 5G is set to become the technology of choice in the next decade. By enabling every machine and tool to become connected, it will, for example, allow factories to go wireless, enabling the reinvention of processes and business models. It will also allow new ways of working; consider fast and reliable remote control which makes it possible to operate machinery from a safe or comfortable place. That could be tractors or drones on farms, diggers on remote construction sites, or inspection cameras along huge power-lines. In a sparsely populated country like Scotland, there should be significant potential benefits.

For Scotland, the impact of this was outlined in a recent report commissioned by the Scottish Futures Trust[3]. The results show that enhanced 5G capabilities have the potential to increase Scottish GDP by £17 billion by 2035 through the creation of jobs in innovative new services and supporting increased levels of inward investment from the private sector.

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1 Power Up: UK-Wide Growth - https://www2.deloitte.com/uk/en/pages/regions/articles/power-up-uk-wide-growth.html
2 For more information, see Deloitte, 2020 predictions for UK Technology, Media and Telecommunications
3 For more information, see Deloitte, Scotland's digital potential with enhanced 4G and 5G capability

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This is not without its challenges, as currently various stakeholders across the private and public sectors are working on a number of initiatives in isolation. With significant benefits for the nation on the horizon, it is important that public and private sectors bring together their experience and resources to ensure that Scotland fully realises its potential[4].

Within the context of a confirmed Brexit, Scottish public policy will also have to address the potential challenges posed by the end of freedom of movement. Scotland's modest forecast population increase is dependent on continued levels of inward migration, and the Commentary is right to acknowledge that a cycle of fewer young people, fewer births, shrinking populations, and smaller economies poses a risk to the sustainability of many communities.

In the last few years Scotland's economy has proven resilient to recession, and it is expected that we will be able to take some comfort in the latest GDP figures when they are published later this week. However, given the likelihood of continued political uncertainty in Scotland, this is no time to become complacent. Looking towards 2020, it is critical that both the private and public sectors coordinate their approaches to capitalise on potential opportunities, increase investment and support the creation of skilled jobs for all demographics working in Scotland.

John Macintosh
Tax Partner
Deloitte

December 2019

[4] Deloitte, Scotland's digital potential with enhanced 4G and 5G capability

Fraser of Allander Institute

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For regular analysis on the Scottish economy and public finances please see our blog

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Summary

The securing of a majority by the Conservatives in last week's election has been interpreted – at least initially – by financial markets as a moment of clarity, with both sterling and the FTSE rising.

Here in Scotland, the success of the Scottish National Party has ensured that the prospects of a second independence referendum remain front and centre in the debate.

The outcome makes certain that the UK is on course to leave the EU on 31st January.

However, leaving the EU next month only marks one step on the road to understanding the long-term future direction of the UK economy.

The tricky business of a trade negotiation now gets underway.

What will happen at the end of the transition period on 31st December 2020? Will the UK Government be able to negotiate a comprehensive trade agreement? What frictions could exist? And how might all this impact upon businesses here in Scotland?

The experience of the last three and a half years suggests that it may not be smooth sailing.

Yes, one element of recent uncertainty has been removed, but much still remains.

The underlying performance of the UK and Scottish economies continues to be a concern. Growth returned to the UK economy in Q3 2019, but more recent figures published last week show growth now flatlining at best.

Scottish GDP data is published tomorrow: expectations are that this will show positive but subdued growth over the year to September.

Scotland and the UK are not unique in this regard. 2019 is set to be the weakest year for global growth since the financial crisis.

Given recent data, we have reduced our forecast for 2019 slightly to 0.9%.

But with the immediate risk of a 'no deal' now removed, our forecasts for 2020-2022 are slightly better, at 1.3% for 2020 and 1.4% for 2021 and 2022. This of course, assumes that a UK-EU trade deal is agreed during 2020. If not, growth could slow sharply toward the tail end of next year.

Understandably, the election was dominated by debates around Brexit. Broader discussions about the future direction of our economy – on issues such as inequalities, productivity or the climate emergency – were crowded out.

And for all the talk we hear about 'outcomes' and 'wellbeing', the political narrative in Scotland once again returned to the same tired format of which party was promising to spend the most (or least) on public services or tax the most (or least).

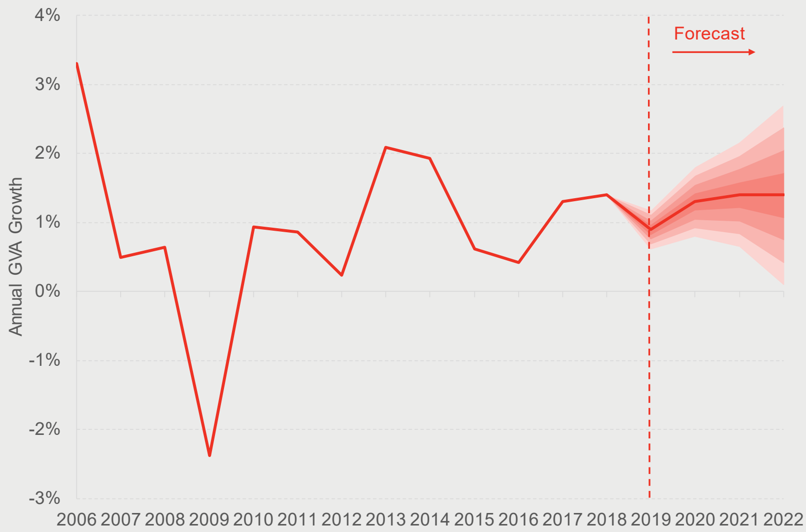
The upcoming Budgets in both the UK and Scotland provide an opportunity for policymakers in government – and in opposition – to re-start a more informed debate and to set out their plans for the economy and public services in the years to come.

As part of this, Mr Mackay has promised to produce an assessment of how his Budget contributes to wellbeing in Scotland, a welcome but not straightforward task (particularly if it is to avoid being simply a PR exercise).

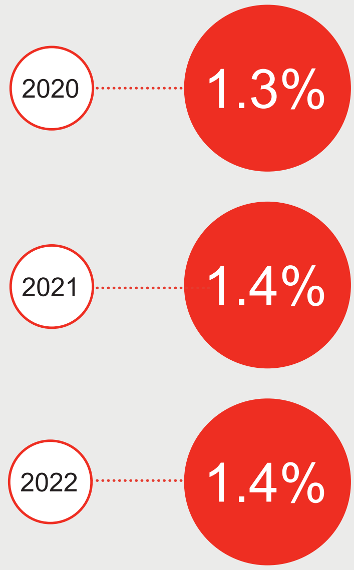
To help it is likely that he will benefit from significant Barnett consequentials coming from new UK Government spending commitments, which will be a welcome offset given that the Scottish Budget may face further difficult income tax reconciliations next year.

Fraser of Allander Institute
December 2019

Scottish growth outlook



Central forecast



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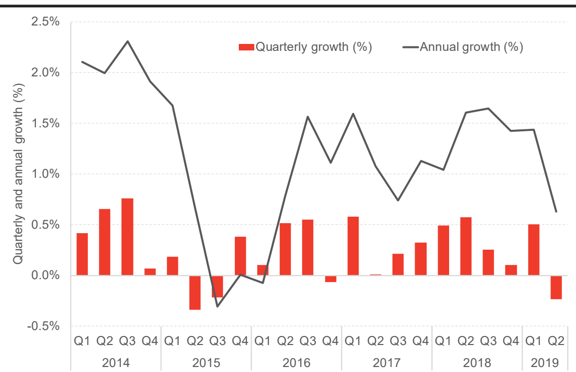
At a glance

Scottish growth (since 2014) – year and quarter %



Employment & unemployment rates, Jul-Sep 2019

	Employment (16-64)		**Unemployment (16+)**	
	Rate (%)	**Year Change**	**Rate (%)**	**Year Change**
Scotland	74.4	▼	4.0	▲
England	76.5	▲	3.9	▼
Wales	73.9	▼	3.8	▼
N. Ireland	72.3	▲	2.5	▼
UK	76.0	▲	3.8	▼

FAI forecast Scottish labour market indicators

	2020	**2021**	**2022**
Employment rate (%)	74.9	74.6	74.6
Unemployment Rate (%)	4.1	4.2	4.2

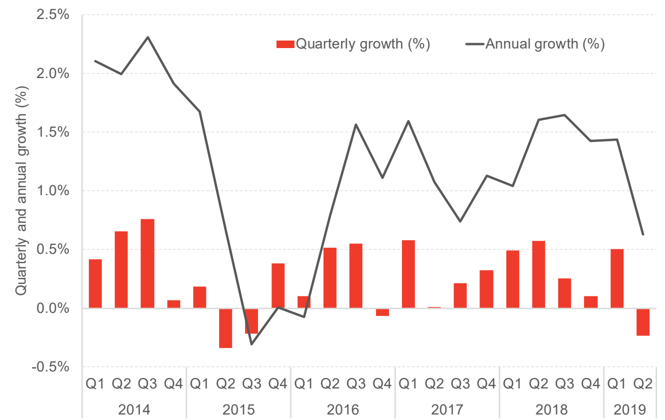
FAI forecast Scottish economic growth (%), 2020 – 2022

	2020	**2021**	**2022**
GDP	**1.3**	**1.4**	**1.4**
Production	1.1	0.9	1.3
Construction	0.6	0.9	1.0
Services	1.4	1.5	1.5

Outlook and Appraisal

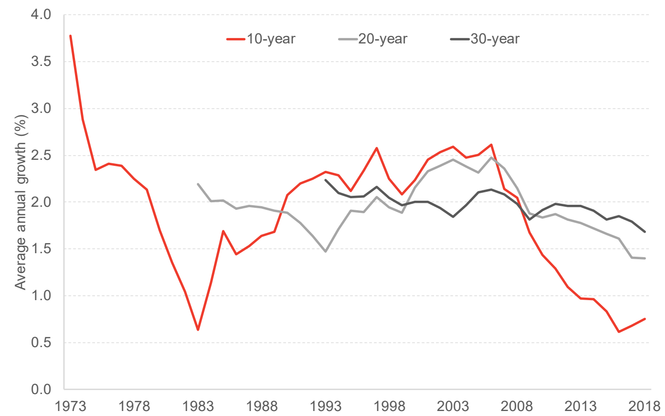
With the immediate risk of 'no deal' removed, the short-term prospects for the economy look brighter than in October. But risks remain. All of this sets the backdrop for the quick turnaround now needed in the UK/Scottish budgets, where we will find out just how key election pledges translate into actual policy commitments.

Chart 1: Scottish growth since 2014 - year and quarter %



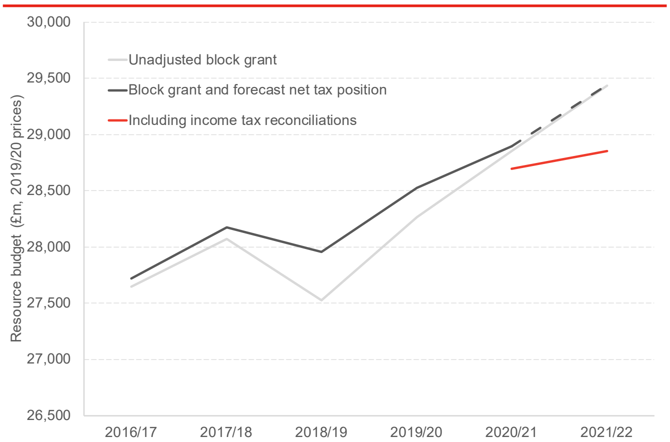
Source: *Scottish Government*

Chart 2: Average annual growth in Scottish GDP, 1973 – 2018



Source: *Scottish Government*

Chart 3: Outlook for the Scottish resource budget excluding social security, £m 2019/20 prices



Source: *FAI analysis*

Introduction

The outcome of the general election has given us some clarity on the immediate direction of travel for UK economic policy over the next couple of months.

The balance within parliament is such that the UK is on track to leave the EU at the end of January.

However, whilst there may be some easing of short-term uncertainty, key decisions and negotiations have still only been delayed for a few months. Crucially, the end date for the transitional exit of the UK from the EU is December 2020.

By then, the UK will need to have secured a comprehensive trade agreement with the EU to avoid a 'no deal' outcome.

This means that – unfortunately – a period of uncertainty remains for the foreseeable future.

Whether or not the events of the past week will be enough to unlock delayed investment for example, remains to be seen.

All of this makes judging the outlook for the UK and Scottish economies tricky to assess.

One thing that will help boost demand – at least in the short-run – is the promised increase in government spending now pencilled in for this year and next.

We expect that the UK Budget will take place early in 2020, with the Scottish Budget soon after.

Barnett consequentials will give Derek Mackay considerably more flexibility than he may have envisaged just a few months ago. However, he will still have the complication of around £200 million of income tax reconciliations to contend with.

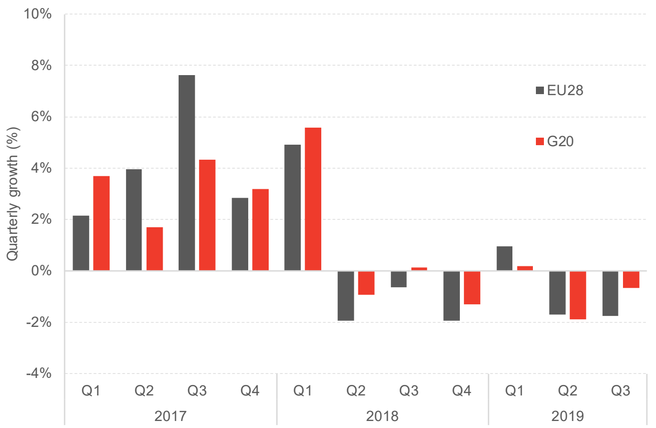
One key challenge he faces – and parliament faces too – is that the budget process will have to happen over a constrained timescale, at a time when scrutiny matters more than ever. The situation Holyrood finds itself in is clearly regrettable. The timing of the Budget process – and the dependence of the Scottish Budget on UK decisions – must be looked at as part of the Fiscal Framework review.

Table 1: IMF forecast growth rates (%), 2018 to 2022

	2018	2019	2020	2021	2022
UK	1.4	1.2	1.4	1.5	1.5
US	2.9	2.4	2.1	1.7	1.6
Japan	0.8	0.9	0.5	0.5	0.5
Canada	1.9	1.5	1.8	1.8	1.7
Germany	1.5	0.5	1.2	1.4	1.3
France	1.7	1.2	1.3	1.3	1.4
Italy	0.9	0.0	0.5	0.8	0.7
Euro Area	1.9	1.2	1.4	1.4	1.4
World	3.6	3.0	3.4	3.6	3.6

Source: *IMF Economic Outlook*

Chart 4: Slowing global trade in merchandise growth



Source: *OECD*

The global economy

In our autumn economic commentary, we discussed how the outlook for the global economy had weakened throughout 2019.

In the months since, there has been little change in this assessment. 2019 is on track to be the year with the slowest global growth since the financial crisis. Table 1.

The slowdown is comprehensive, with most key markets on track to grow more slowly this year than last.

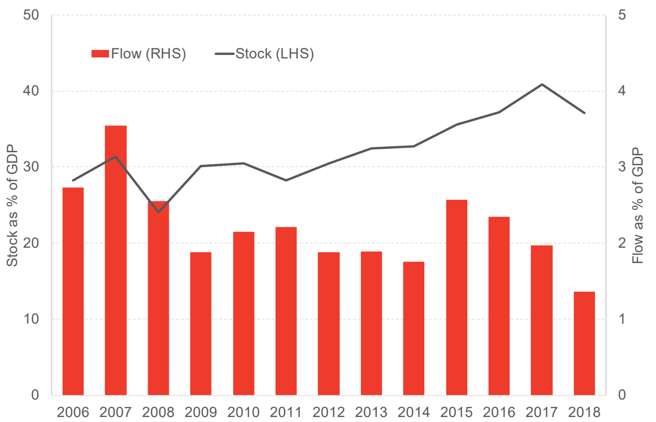
As we discussed in October, the slowdown has had its greatest impact on international trade – Chart 4 – and investment – Chart 5.

There are some tentative signs that the outlook may have eased. Confidence in the Euro Area has been helped by Germany avoiding a 'technical' recession (just). Inflation has surprised on the upside in Europe, all adding to a belief that the European economy is stabilising.

The pace of the US economy's expansion has picked up in the back half of 2019, with the economy expanding at a 2.1 per cent annualised rate in the 3-months to September, up on both the initial estimate for that time and on the previous 3 months.

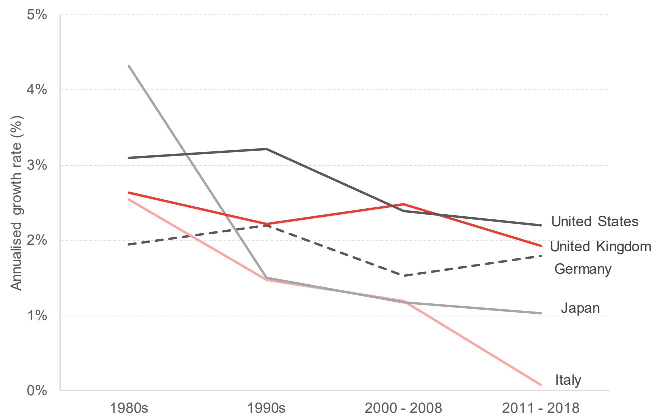
However, this does not disguise the ongoing structural weak performance in advanced economies over time. As Jim Walker's Asianomics recent analysis clearly shows the performance of the world's so-called advanced economies has been well below-par now for over a decade.

Chart 5: Global foreign direct investment, 2006 – 2018



Source: *OECD*

Chart 6: Real annualised GDP growth by decade, 1980 – 2018

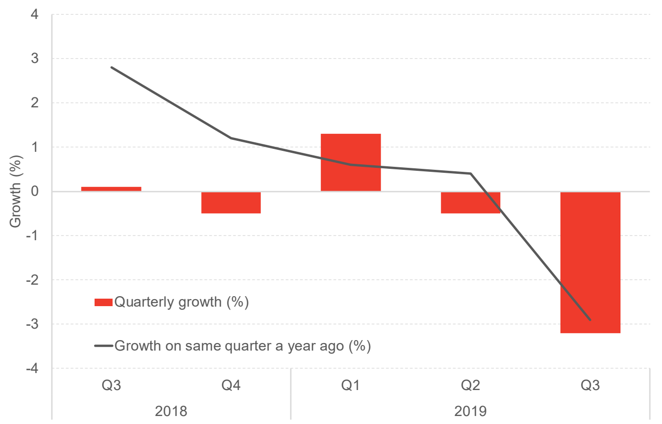


Source: *OECD*

Chart 7: US Treasury yield curve, 10-year vs 3-month, 2019

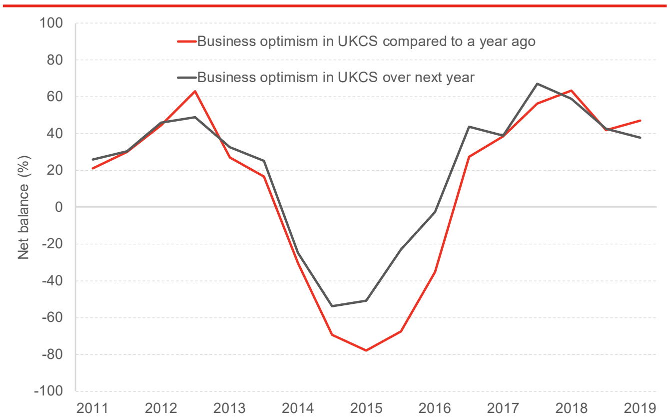
Source: *US Treasury*

Chart 8: GDP growth in Hong Kong, Q3 2018 – Q3 2019



Source: *Census and Statistics Department, Hong Kong Special Administrative Region*

Chart 9: Contractor optimism in UKCS, 2011 – May/Oct 2019



Source: *FAI / AGCC Oil and Gas Survey*

This has been driven by structural challenges but also numerous policy failures. Chart 6.

Where might activity go next?

Over the years, the US yield curve has been seen as a key barometer of the outlook for the US economy, with previous US recessions accompanied by an inverted yield curve. The US yield curve did display a recession-warning indication in the autumn, but since then it has bounced back. Chart 7.

More generally, emerging markets and middle-income economies continue to drive much of the growth in the global economy – once again highlighting the importance of such markets to Scotland over the long-term.

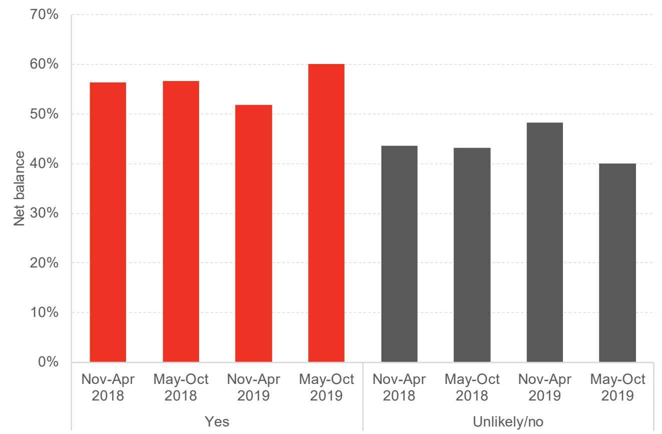
The obvious exception has been Hong Kong where the unrest has had a severe impact on its economy. Chart 8.

Despite the uncertainty, financial markets have continued to post positive returns. Oil prices remain relatively constant around the $60 mark. Our latest survey of the oil and gas industry in Scotland suggests that sentiment remains relatively positive despite heightened levels of uncertainty. Chart 9.

A particularly interesting finding this time was the modest growth in the number of firms exploring new energy – particularly low carbon – technologies. Chart 10.

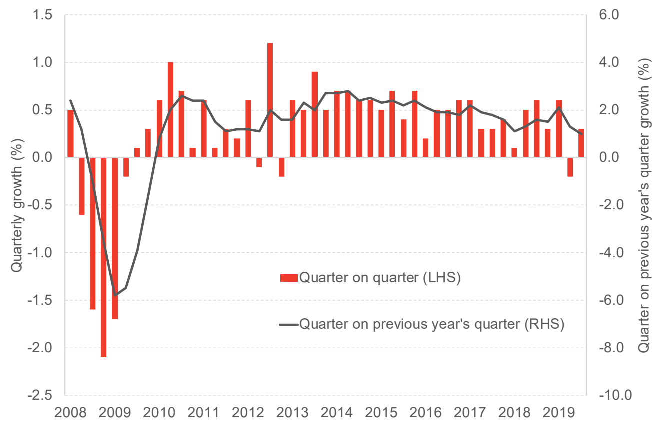
See our last commentary for a discussion about the transition to a low carbon economy in Scotland, and the opportunities and risks that this will provide.

Chart 10: Contractors involved in renewables in next 3-5 years, 2018 – 2019



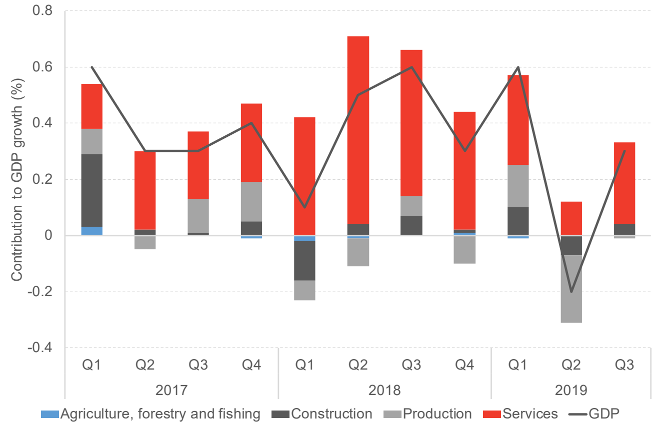
Source: *FAI / AGCC Oil and Gas Survey*

Chart 11: UK real GDP growth, Q1 2008 – Q3 2019



Source: *ONS*

Chart 12: Composition of UK economic growth, Q1 2017 – Q3 2019



Source: *ONS*

Chart 13: UK manufacturing growth, Q1 2017 – Q3 2019

Source: *ONS*

The UK economy

The UK returned to growth in the third quarter of the year, with activity increasing 0.3% – after a decline of 0.2% the previous quarter.

Whilst welcome, the pace of growth was slower than many analysts – including in the Bank of England – had predicted.

Underlying momentum in the UK economy remains fragile. Annual growth is just 1.0% - the weakest since early 2010.

Over the last two quarters, the economy has grown by just 0.1% - with services leading the way, growing by 0.5%. Chart 12.

Services increased by 0.4%, following the weakest quarterly figure in 3 years in Q2.

Over the summer, the effects of Brexit stockpiling were much less pronounced than earlier on in the year.

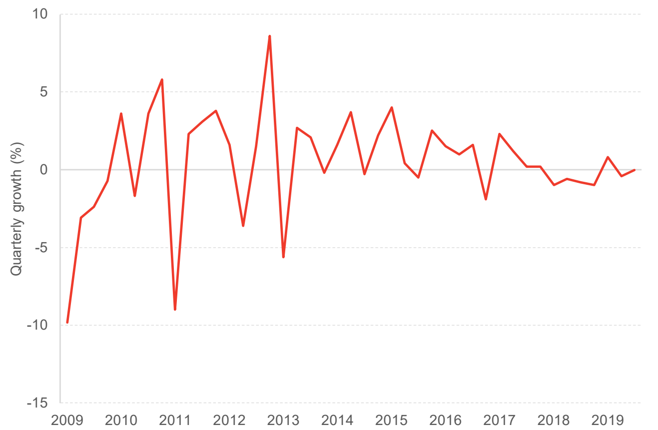
The strong built up of inventories in the run-up to the 31st March deadline, distorted the UK's growth figures – with manufacturing output particularly volatile. Chart 13.

Business investment continues to remain weak. Investment was flat over the summer, continuing the trend of exceptionally weak performance – with investment flat (or falling) since 2017. Chart 14.

Wider evidence suggests that this trend is likely to have continued into the final few months of the year

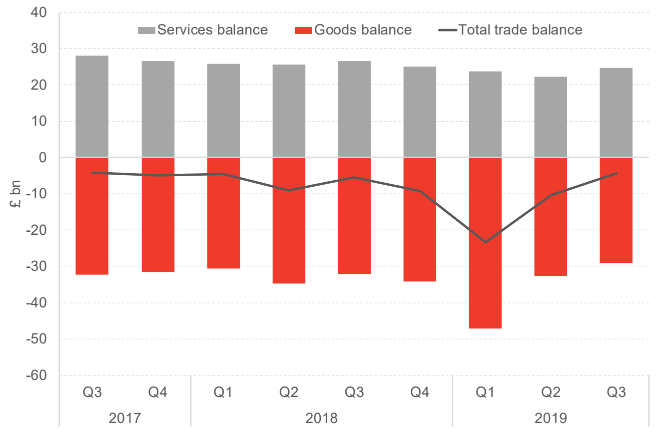
The latest Bank of England Agents' survey has found that investment intentions amongst UK businesses is now at a nine-year low.

Chart 14: UK business investment, Q1 2009 – Q3 2019



Source: *ONS*

Chart 15: UK trade balance, Q3 2017 – Q3 2019



Source: *ONS*

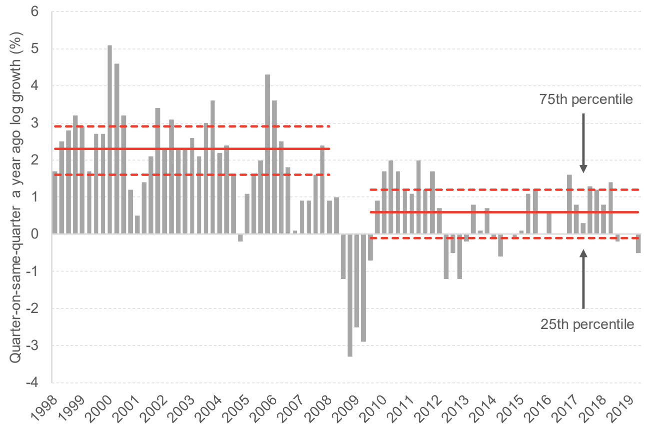
The UK's trade balance – which has been consistently negative (i.e. we import more than we export) – improved a little over the summer, although non-official statistics suggest that conditions may be more challenging than these figures suggest (particularly in the light of ongoing global trade tensions).

Much has been made of the UK's trade deficit and how it may change post-Brexit.

Interestingly, the UK has a relatively 'strong' trade surplus with the rest of the world, but it is on goods where it has a deficit. The improvement over the last year has come from both an improvement in the services surplus and a weakening in the goods deficit.

We know that levels of internationalisation and investment are key drivers of productivity in the long-run.

Chart 16: Output per hour with pre/post-downturn 25th, 50th and 75th percentiles, Q1 1998 – Q2 2019



Source: *ONS*

The percentiles indicate the percentage of observations where the quarterly growth rates are beneath a specified point.

The UK's productivity puzzle shows no sign of being resolved.

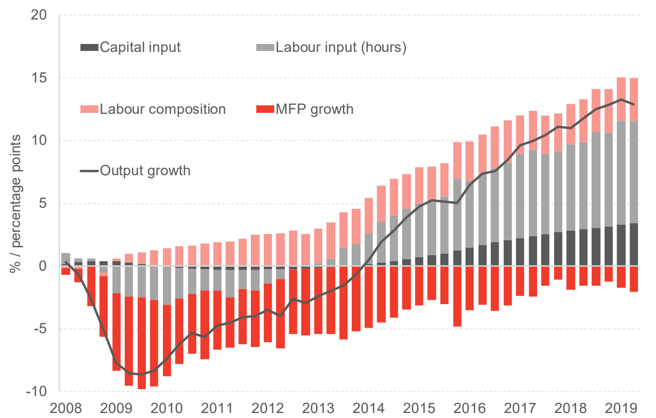
Labour productivity in the UK fell over the summer, having been effectively flat through the start of the year.

Productivity growth remains well below trend. Chart 16.

Much of the weakness in UK productivity stems from weak growth in multi-factor productivity.

Any growth we have seen in the UK economy has largely stemmed from more people working (and working harder), and modest increases in the country's capital stock rather than any underlying improvement in productivity performance. Chart 17.

Chart 17: Composition of UK output growth, Q1 2008 – Q2 2019



Source: *ONS*

UK labour market indicators

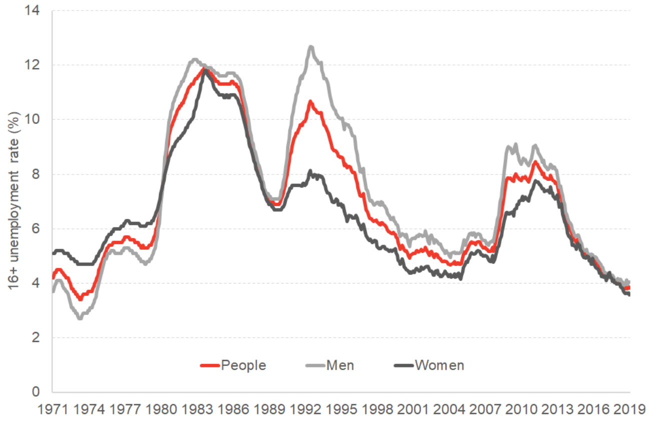
Unemployment in the UK continues to be close to near record lows.

Over the quarter to September, unemployment in the UK fell to just 3.8%. Whilst changes from month-to-month can be volatile, the direction of travel is clearly into almost unparalleled territory.

UK employment now stands at 76%.

During the financial crisis and its aftermath, the number of people working part-time increased sharply.

Chart 18: UK unemployment rate (16+), 1971 – Jul/Sep 2019



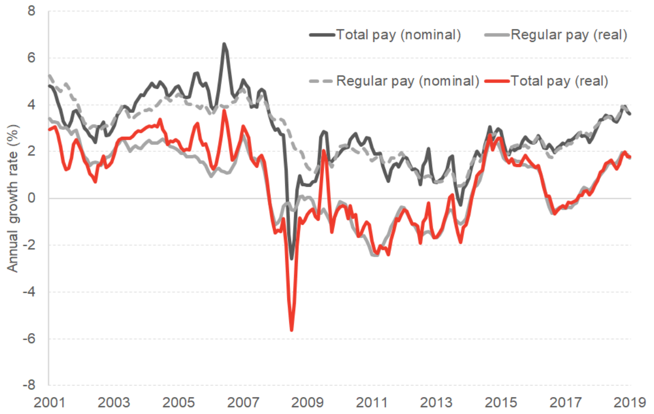
Source: *ONS (LFS)*

Table 2: UK labour market transition rates, Q2 2019 – Q3 2019

		Q3 2019		
		Employment	**Unemployment**	**Inactivity**
Q2 2019	Employment	97%	0.9%	1.8%
	Unemployment	31.3%	48.1%	19.7%
	Inactivity	6.4%	4.3%	88.5%

Source: *ONS (LFS)*

Chart 19: GB average weekly earnings, annual growth rate (%), Jul/Sep 2001 – Jul/Sep 2019



Source: *ONS*

Does this still lie behind the recent surge in employment?

No. In fact in recent times, the number of people working part-time has fallen back.

The number of part-time workers fell by 164,000 to 8.54 million in Quarter 3 2019, while the number of full-time workers increased by 106,000 to 24.21 million.

The flow of workers in an out of unemployment has started to become more dynamic. Nearly 1 in 3 people who were unemployed in the three months to June were in employment during the subsequent quarter.

In contrast, only 6% of those economically inactive found employment. Table 2.

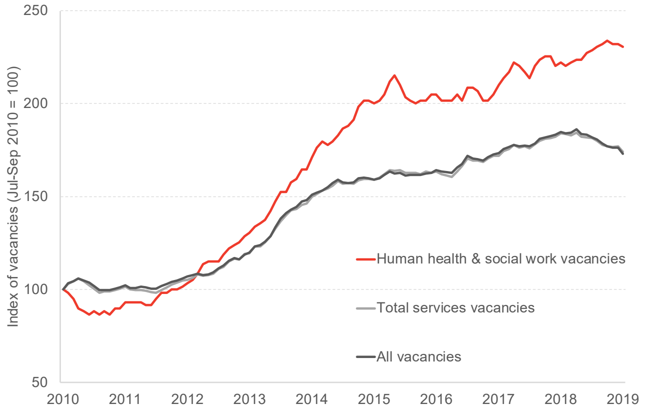
In light of the tight labour market, and despite limited productivity growth in the economy, it is no surprise that earnings have been on a steady rise. Chart 19.

Indeed, this has been the largest sustained increase in earnings since the financial crisis.

Vacancies have also been on the rise (although they have fallen back in recent times) adding to the pressure building on wage growth. What is particularly interesting is the growth in vacancies within particular sectors. These trends over time can help identify wider structural challenges within the labour market.

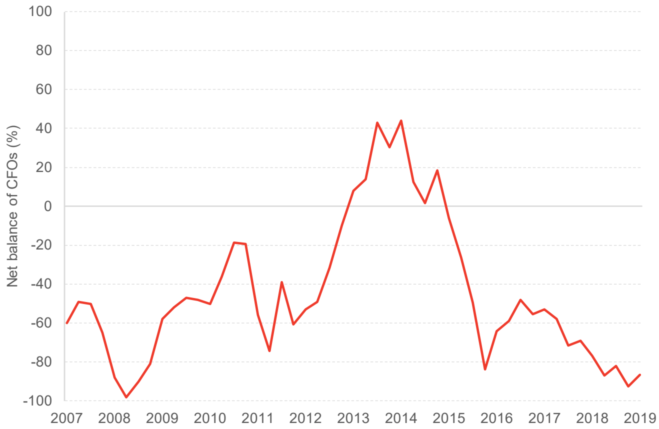
Consistent with wider trends – particularly around increased demand – pressures appear to be growing and particularly acute in the caring professions. Chart 20.

Chart 20: Vacancies in health and social services, Aug/Oct 2010 – Aug/Oct 2019



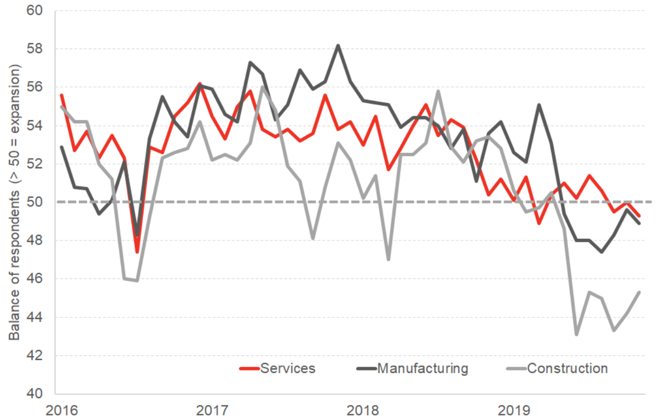
Source: *ONS*

Chart 21: Net % of CFOs that think it is a good time to be taking greater risk onto balance sheets



Source: *Deloitte*

Chart 22: Purchasing Manager's Index (PMI) for the UK, Jan 2016 – Nov 2019



Source: *IHS Markit*

UK outlook

The outlook for the UK Economy remains fairly uncertain, even despite the outcome of the general election.

Early indicators for Q4 are not promising: the latest monthly data for October showed no (0.0%) growth in aggregate, with weak 0.2% growth in services and manufacturing being offset by a significant (-2.3%) contraction in construction.

Away from the official data, most measures of confidence and current activity levels remain – at best – subdued.

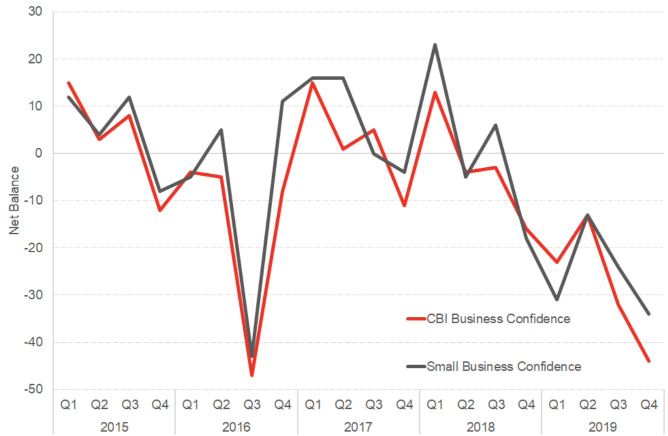
The latest Deloitte survey of Chief Financial Officers in UK corporates shows a continued reluctance to take on risk. Chart 21. Q4's CBI survey shows confidence has continued to fall and is now almost at the level it was at after the EU Referendum in 2016. Chart 23.

We have said before that it is possible that in such times the link between surveys – particularly measures of confidence – and day-to-day activity may not be perfect.

But it is undoubtedly the case that the economic situation has impacted on investment and dampened growth. Chart 24.

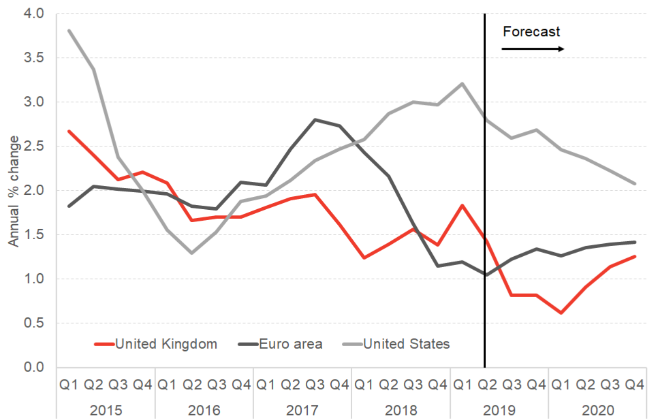
The hope must now be that with the General Election now resolved – whether you agree or disagree with the outcome – there is an opportunity for some stability to return to the underlying policy environment.

Chart 23: CBI measures of confidence for the UK, Q1 2015 – Q4 2019



Source: *CBI*

Chart 24: OECD forecasts of UK, Euro Area and US economic growth



Source: *OECD*

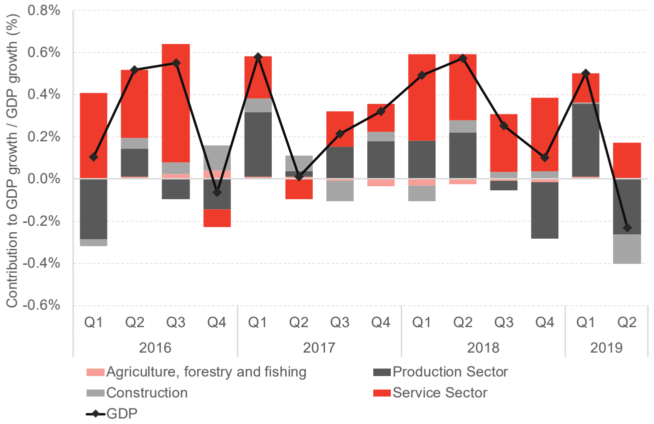
Scottish Economy Dashboard

	Annual Growth*	↑↓	5-Year Average Annual Growth	Key trends
GDP	0.6%	↑	1.2%	■ There was a contraction in growth of -0.2% in Q2 after growth of 0.5% in Q1. ■ The effects of the unwinding of stockpiling seen in Q1 are now evident.
Production	-1.4%	↓	0.6%	■ The production sector felt the effect of stockpiling the most in Q2, with growth contracting -1.5%. ■ The sector was the biggest contributor to the contraction in growth in Q2 2019.
Services	1.2%	↑	1.2%	■ The services sector grew by 0.2% in both the first and second quarter of 2019. ■ In the last year, the bulk of the services sector's growth has been driven by financial services.
Construction	-1.1%	↓	3.0%	■ The second quarter of 2019 saw the first contraction in growth since Q1 2018, bringing the period of sustained growth to an end.
Agriculture	-0.6%	↓	-0.6%	■ Agriculture recovered from last quarter when annual growth was -2.8%, however, growth in this sector remained fragile into the second quarter of the year.
Exports**	-1.0%	↓	2.9%	■ Exports slipped back in the first two quarters of 2019, after strong growth last year.
Business Investment**	-8.3%	↓	2.5%	■ Business investment declined further in Q2 2019 after a turbulent year in 2018. ■ Brexit uncertainty continues to halt investment and the latest data indicates that investment in the first two quarters of 2019 was deeply affected.
Productivity	1.3%	↑	1.4%	■ Productivity (output per hour) increased by 0.2% in Q2 2019.

	Level	↑↓	Change over year	Key trends
Employment	74.4%	↓	-0.5pp	■ Employment fell by 1 percentage point in Q3, with 43,000 fewer people in employment than Q2.
Unemployment	4.0%	↑	0.2pp	■ Unemployment increased by 0.4 percentage points in Q3.

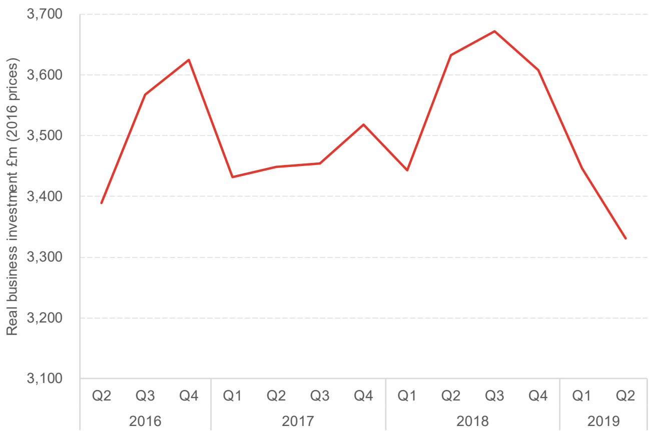
* Quarter on same quarter a year ago.
** Experimental statistics.

Chart 25: Composition of economic growth in Scotland, Q1 2016 – Q2 2019



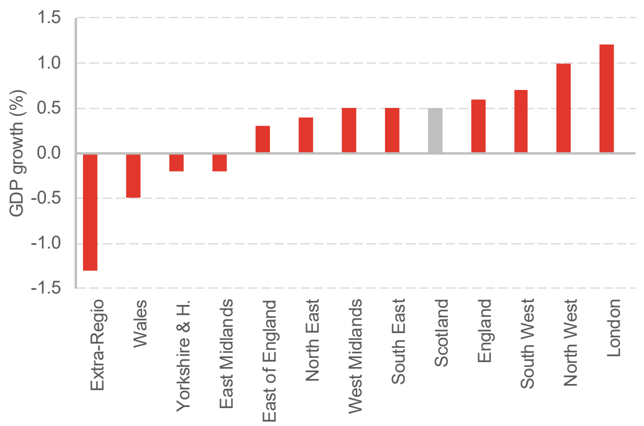
Source: *Scottish Government*

Chart 26: Real terms quarterly business investment, 2016 base year



Source: *Scottish Government*

Chart 27: Q1 2019 Regional GDP growth rates for England and Wales, compared to Scotland



Source: *ONS*

The Scottish economy

Following the same pattern as at the UK level, there was a contraction in Q2 in Scottish GDP which appeared to be driven by stockpiling in advance of the original Brexit deadline.

Q3 data will be published tomorrow: the expectations are that this will show that positive, but rather weak growth has returned to the Scottish economy.

Since the EU Referendum, services has contributed most to growth in the Scottish economy. Out of total growth of 3.9%: Services accounted for 3.3%, Production only 0.4% and Construction 0.2%.

In other words, despite making up 76% of the economy, services has accounted for 84% of growth.

Two sectors, finance & insurance and retail & wholesale, accounted for almost half of services growth over that period.

Like the UK, business investment has fallen steadily in the last few quarters, and is now below the level of Q2 2016 in real terms. Chart 26.

Often, Scottish economic data is compared to data for the UK as a whole. Sometimes there is the justified criticism that UK figures are skewed by the performance of London and the South East.

ONS have recently released a new experimental statistics publication which estimates GDP growth for the 9 English regions and Wales.

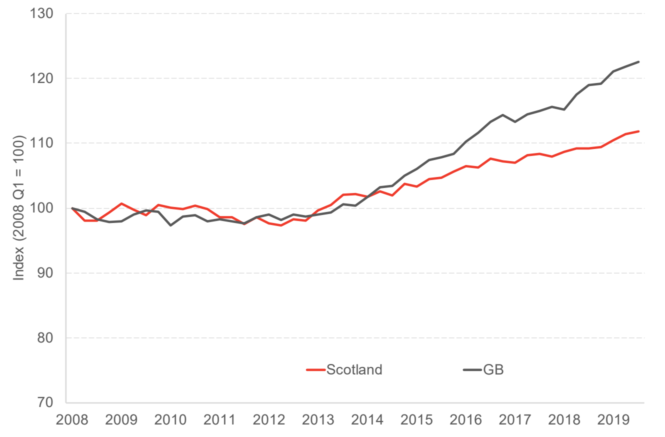
These data are an excellent development, and when they become more established, will provide a useful comparator for the Scottish data currently produced by the Scottish Government, and the data produced for Northern Ireland by NISRA.

These data are still in development and should therefore be used and interpreted with caution, but the early results show the differential growth rates for Q1 2019. Chart 27.

In many of the quarters published so far, London has the highest growth rates, although the data are currently fairly volatile. It will be interesting to see how this product develops over the coming months.

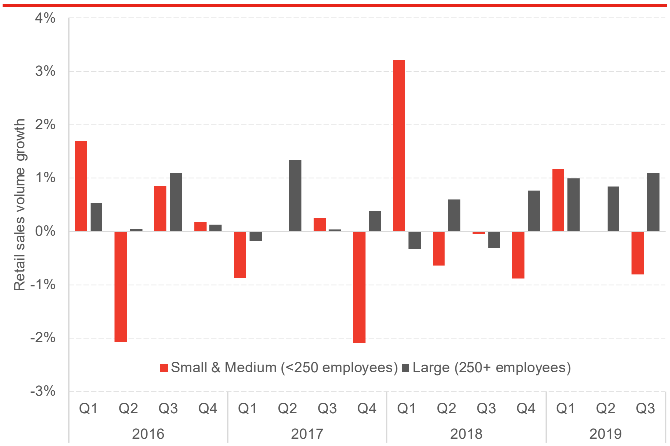
As it becomes more established we are likely to produce further analysis of this data on our blog.

Chart 28: Volume of Retail Sales in Scotland and GB



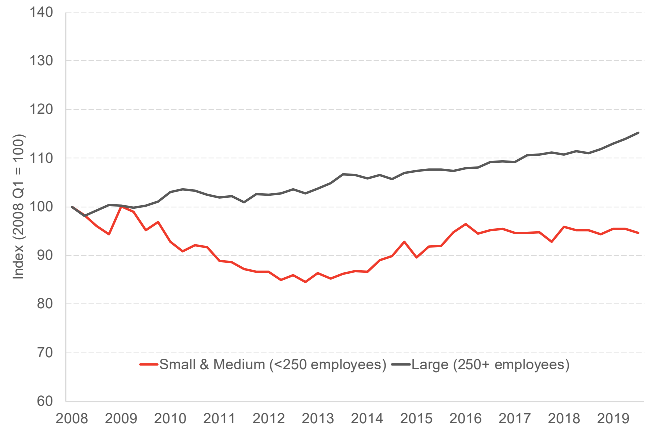
Source: *Scottish Government*

Chart 29: Retail sales in Scotland, large and small businesses, 2016 Q1 – 2019 Q3



Source: *Scottish Government*

Chart 30: Retail Sales Volume Growth in Scotland, 2008 – 2019



Source: *Scottish Government*

Retail Sales In Scotland

This section was written by Freya Buchanan, a 6th year high school pupil, who carried out work experience at the Fraser of Allander Institute as part of our Economic Futures initiative.

Over the past decade, one feature of the recovery from the Great Recession, has been the strong growth in household consumption (despite weak growth in earnings).

As a result, retail sales have continued to perform better than some other sectors. But there are clearly challenges underlying these headline trends.

One feature in the data is that Scotland's retail sector has been lagging behind the rest of GB.

Another is that the rise of online shopping has caused the high street to undergo radical changes with internet sales as a % of total retail sales in GB increasing from just 3% in 2007 to 18% in 2018.

All of this has created challenges for Scotland's retail sector and in particular for Scotland's small and medium firms.

During the financial crisis, and its immediate aftermath, the performance of Scotland's retail sector was broadly in line with that of GB.

As the volume of sales began to recover in 2013 a significant divergence soon appeared, with Scottish sales lagging behind the rest of GB. Chart 28.

Over the past few years, small and medium businesses have experienced fairly volatile growth as high as 3.2% in Q1 2018 and as low as -2.1%.

We can see that typically larger businesses do not experience such volatility and unpredictability in sales volume. Chart 29.

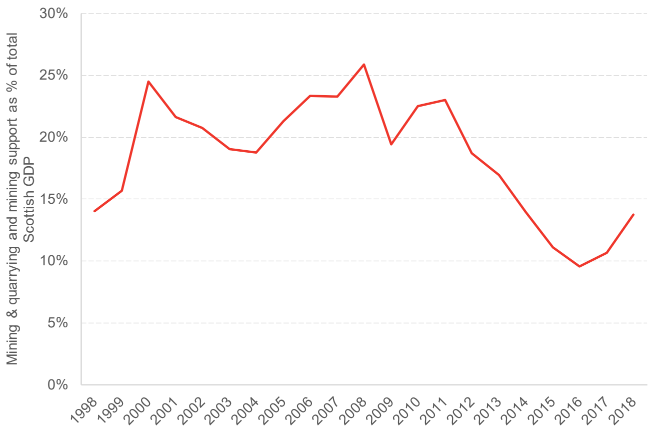
The effects of the Great Recession are still being felt by small businesses in Scotland. The volume of retail sales for small and medium businesses in the latest quarter remains 5% lower than in the first quarter of 2008. In contrast, large businesses have expanded their sales volume by 15% during the same period. Chart 30.

With the rise of online shopping and ongoing pressures on earnings, it may not be unreasonable to conclude that small retailers in Scotland appear to have been left behind.

Chart 31: Price of oil, US $ / BBL, Jan 2013 – Dec 2019

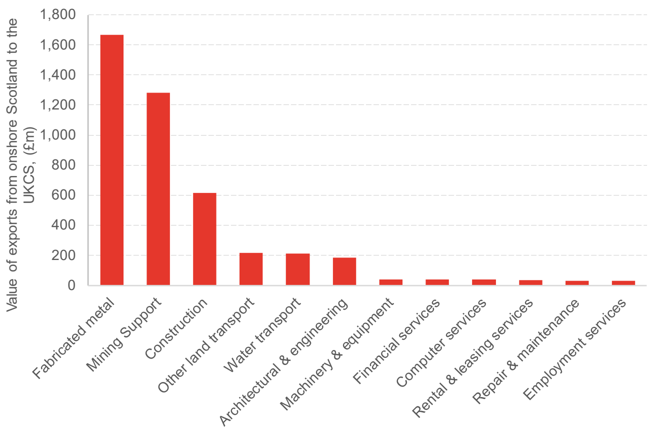
Source: *Thomson Reuters Datastream*

Chart 32: Mining & Quarrying and Mining Support as a percentage of the Scottish economy



Source: *Scottish Government*

Chart 33: Supply chain linkages to the onshore economy, 2014



Source: *Scottish Government*

The Oil and Gas sector

With the more fragile outlook for the global economy and ongoing geopolitical tensions, it is no surprise that the price of oil has remained relatively subdued at around $60 a barrel. Chart 31.

The North Sea remains an important part of Scotland's industrial base, with extraction activity and mining support services alone making up almost 15% of activity in the Scottish economy. Chart 32.

And this does not even include the significant supply chain activity which supports the industry, particularly in areas such as metals manufacture, engineering and water transport services.

In the last couple of years, the Scottish Government has produced experimental statistics which try to estimate the linkages between Scotland's offshore and onshore economies.

Whilst still in development, these statistics are an excellent insight into the linkages between the North Sea and the day-to-day onshore Scottish economy. Chart 33. In time, a full 'satellite account' will be a welcome development, helping to understand key questions around trade flows and value added.

Of course, the transition to net zero provides significant challenges for the oil and gas sector, but also tremendous opportunities.

On any deliverable transition plan, the North Sea will continue to play a key role in UK energy needs for the foreseeable future. But the demands to shift into new sources of energy will only increase.

As discussed above, our latest survey of the industry suggests that confidence has increased in recent months, with the outlook for international work being particularly positive.

Looking ahead, 86% of companies said they expected to be involved in decommissioning, and 61% in renewables in the next three to five years.

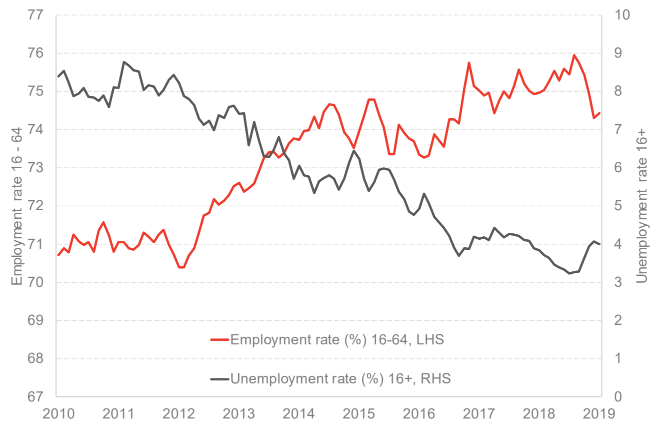
The latest report also highlights the challenges faced in recruiting and retaining skilled workers. Following the loss of many workers during the oil price fall in 2015, coupled with Brexit uncertainty and issues around some people's perceptions of the industry, this remains a top concern for oil and gas companies.

Table 3: Scottish/UK Labour markets, Jul-Sep 2019

	Employment (16-64)	Unemployment (16+)	Inactivity (16-64)
Scotland (%)	**74.4**	**4.0**	**22.4**
Quarterly change (p.p.)	-1.0	0.4	0.8
Annual change (p.p.)	-0.5	0.2	0.4
UK (%)	**76.0**	**3.8**	**20.8**
Quarterly change (p.p.)	-0.1	-0.1	0.1
Annual change (p.p.)	0.5	-0.2	-0.3

Source: *ONS (LFS)*

Chart 34: Employment and unemployment rate in Scotland, Jul-Sep 2010 – Jul-Sep 2019



Source: *ONS (LFS)*

Scottish labour market and productivity

Scotland's unemployment rate currently sits at 4%, near a record low.

The rate in Scotland is slightly above that of the UK as a whole and higher than England, Wales and Northern Ireland. Table 3. However, these differences are small and not statistically significant.

At the same time the employment rate in Scotland remains relatively high, although it has fallen back in the recent data, with 22,000 fewer people in Scotland than the year before.

The impressive inroads that were made in reducing youth (16 – 24-year-old) unemployment in Scotland appear to have plateaued with the youth unemployment rate up 0.8% points in the year to June 2019, and flat over the past two years. Chart 35.

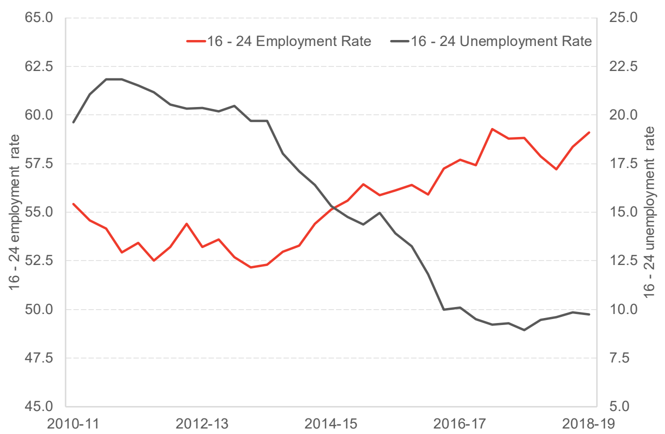
For those in work, the last few years have seen rising trends in the number of people in both part-time and full-time work.

But in the latest data the trend appears to be towards faster growth in full-time employment. Chart 36.

Interestingly however, the growth in hours worked has flatlined. This means that the key driver of growth in recent times has been – albeit modest – improvements in productivity. Chart 37.

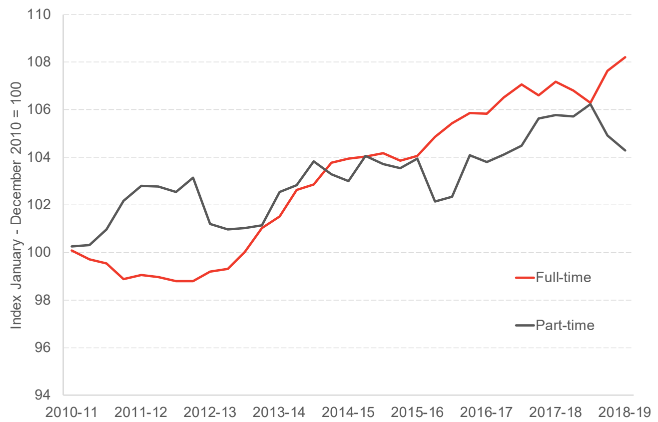
As a result, firms have been able to meet higher demand without increasing hours worked.

Chart 35: 16-24 employment and unemployment rate in Scotland, Jul 2010 - Jun 2011 – Jul 2018 - Jun 2019



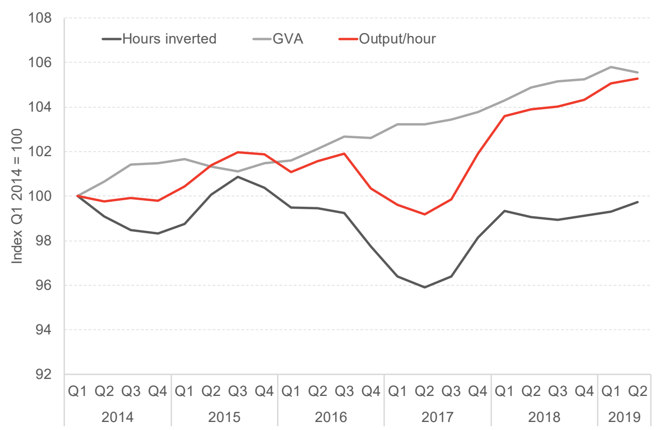
Source: *ONS (LFS)*

Chart 36: Full-time and part-time workers, Jul 2010 - Jun 2011 = 100



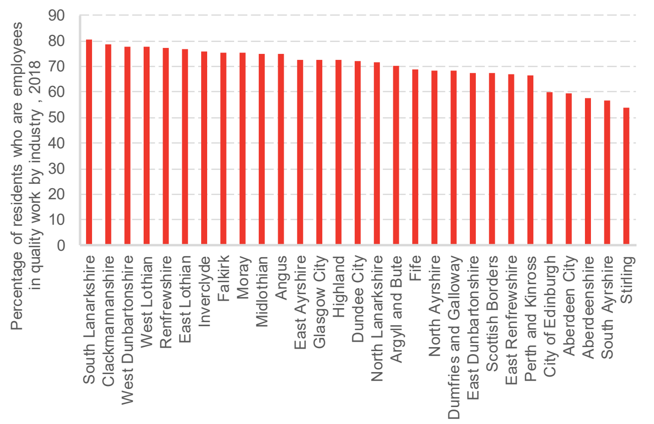
Source: *ONS (LFS)*

Chart 37: Growth in Scottish GVA, hours (inverted) and output per hour, Index Q1 2014 = 100, Q1 2014 – Q2 2019



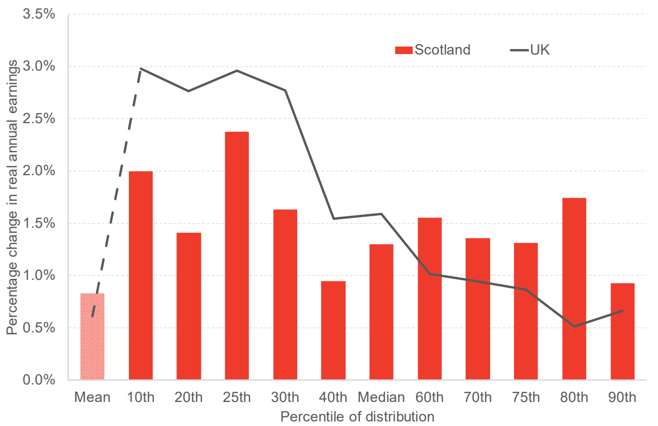
Source: *Scottish Government*

Chart 38: Residents who are Employees - % in quality work, 2018



Source: *ONS*

Chart 39: Annual earnings in Scotland and UK, % change, April 2018 – April 2019



Source: *ONS*

The ONS have recently released a publication which provides the first exploratory analysis of indicators of the quality of jobs. A "good job" is one that has:

- good hours: employees working 48 or fewer hours a week and not wishing to work more hours in their current role or look for an additional job or a replacement job that offers more hours
- a desired contract type: employees either in a permanent contract or who did not accept a non-permanent contract because they could not find a permanent one
- a position not in low pay: employees who are earning above two-thirds of the hourly median pay; this analysis has been done both at UK level and in local areas of residence

Results are provided for regions of the UK, equality characteristics and industry. For example, we can see the pattern across Scottish LAs. Chart 38 shows the results for Scottish local authorities.

It shows that on this indicator, some parts of the country that show strong growth, and high incomes, may not be the best in terms of overall job quality, for example, Aberdeen and Edinburgh. This is something that we will return to in the future.

Since the last commentary we have new data on earnings from the Annual Survey of Hours and Earnings (ASHE).

These show that growth in annual earnings remained rather muted over the year in real terms.

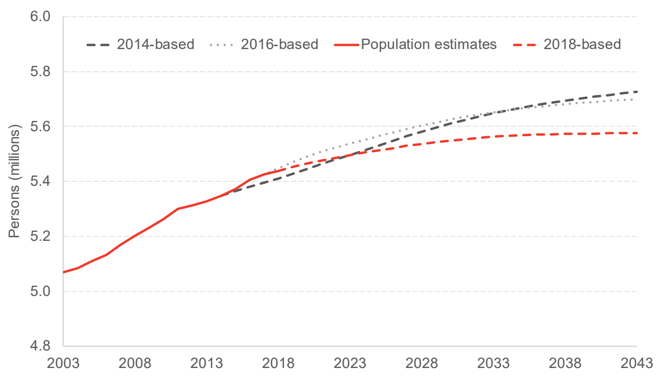
But in a welcome turnaround on recent times, earnings grew slightly more quickly in Scotland than in the UK between 2018 and 2019.

Interestingly, earnings in the top half of the distribution grew more quickly, whilst earnings in the bottom half of the distribution grew less quickly, in Scotland than in the UK.

On the one hand this poses a challenge, as it means inequalities will have increased more quickly in Scotland than in the UK last year (although overall inequality remains lower in Scotland).

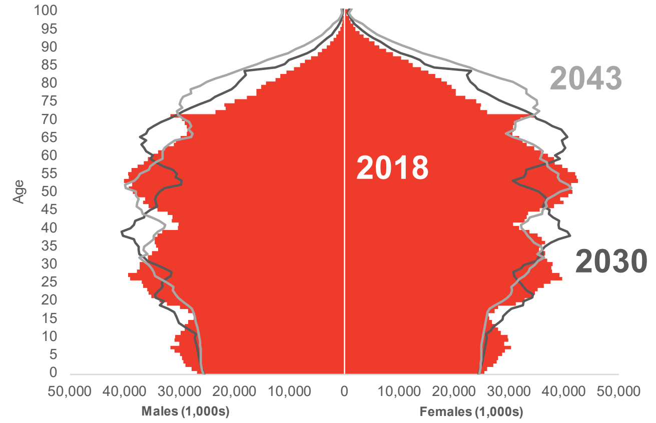
On the other hand, given that higher earners typically pay more tax, one upside is that this could signal that devolved income tax revenues in Scotland may perform better than has been forecast.

Chart 40: Population projections for Scotland up to 2043



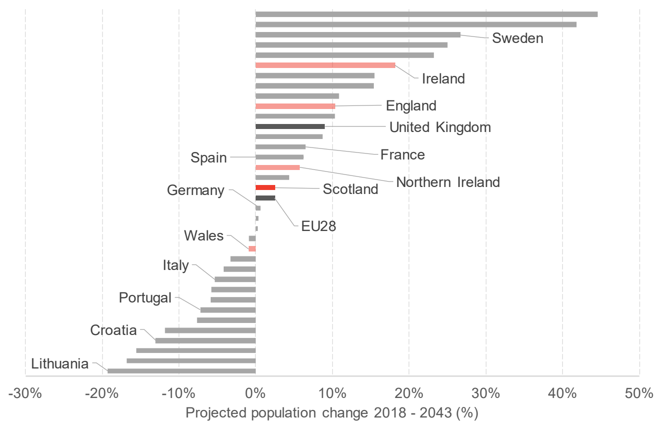
Source: *National Records of Scotland*

Chart 41: Age profile for Scotland, 2018, 2030 and 2043



Source: *National Records of Scotland*

Chart 42: Projected change in population by EU country, 2018 – 2043



Source: *Eurostat, National Records of Scotland*

Scotland's population outlook

In October, the latest projections for Scotland's population were published by National Records of Scotland.

The figures confirm that whilst Scotland's population is projected to grow over the next 25 years from around 5.4 to 5.6 million, the pace of growth is projected to slow and then level off. Chart 40.

Our population will also continue to age.

In 2001, the median average age in Scotland was 39. By 2017, that had risen to 42. In 20 years time that will rise to around 45.

Our current age profile has a relatively large peak around 70 years old (the post-war baby boomers) and then a bulge of people in their early to mid-50s (the children of the baby boomers). Chart 41.

As these people age, with higher life expectancy than in previous generations, they are projected to make up a growing proportion of the population.

Planned increases to the state pension age will help protect Scotland's working age population – at least for the foreseeable future – but in time it will start to fall back.

However, Scotland is not unique in facing such challenges.

These latest projections put Scotland pretty much on the average in Europe.

Some of the changes – particularly in Eastern Europe are hugely significant. Interestingly, the UK bucks the trend.

In contrast to an average EU and Scottish population growth of 2.5% over the next 25 years, the UK population is projected to rise by around 9%.

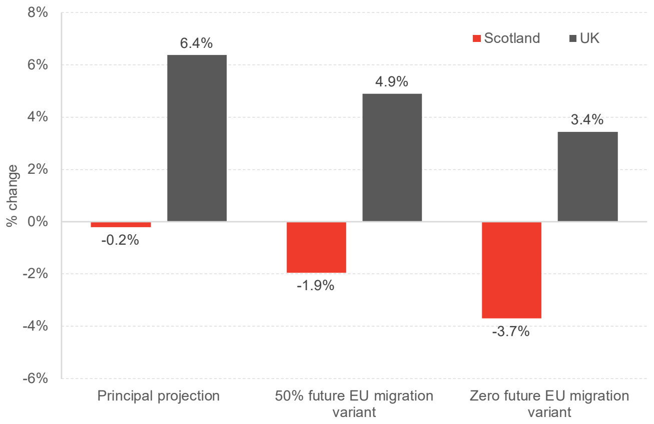
And the UK's working age population outlook is also healthier.

It is important to separate out the different elements of population change.

It is estimated that in 2018, the number of deaths in Scotland exceeded births by around 8,000. The most recent projections are that as our population ages, this will rise to closer to 20,000 over the coming decades.

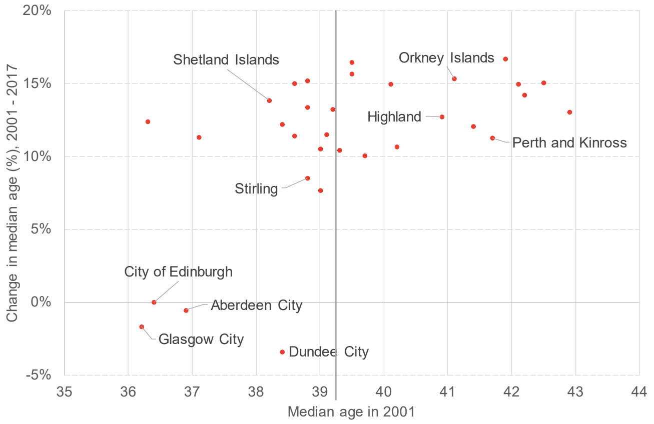
This means that migration becomes absolutely crucial. Without migration - and at levels sufficient to

Chart 43: Change in working age population under different EU migration scenarios, 2018 to 2043



Source: *National Records of Scotland*

Chart 44: Change in working age population by UK nation, 2018 – 2043



Source: *National Records of Scotland & FAI analysis*

counterbalance this fall in Scotland's natural change – Scotland's population will decline.

Average net migration in recent years from both the rest of the UK and overseas was around +21,000 individuals a year. It is this that helps to maintain a stable population in Scotland according to the latest projections.

Overseas migrants tend to be much younger than the population as a whole.

To illustrate this, a 50% decline in EU net migration would see Scotland's working age population fall by nearly 2% over the next 25 years, rising to nearly 4% if there was to be zero net EU migration. Chart 43.

In contrast, for the UK as a whole, their working age population is projected to still rise even without EU migration.

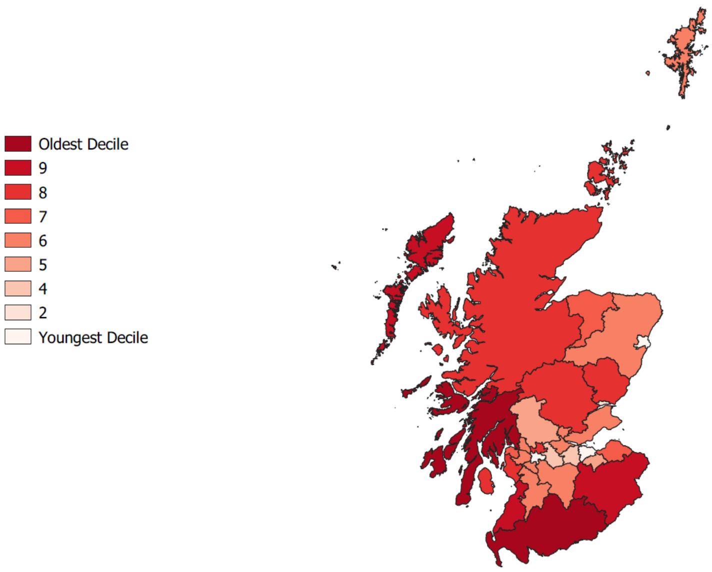
The picture within Scotland is extremely varied. The average age in Scotland is 42 today. In Dumfries & Galloway and the Western Isles it is 49. In Glasgow, Edinburgh, Aberdeen – and other cities with large student populations – it is in the mid-30s. Chart 44.

There are clear geographic patterns in age profiles across the country, with rural areas – and those of post-industrial decline – generally older than urban ones. Chart 45.

Many of the parts of the country with the oldest populations have also been rising at the fastest rate.

A cycle of fewer young people; fewer births; shrinking populations; smaller economies, is a risk to the sustainability of many communities.

Chart 45: Median age by local authority, 2017



Oldest and youngest local authorities	
Dumfries and Galloway	48.9
Argyll and Bute	48.9
Na h-Eileanan Siar	48.5
Scottish Borders	48.4
South Ayrshire	48.2
⋮	
Scotland average	42.0
⋮	
West Lothian	40.8
Dundee City	37.1
Aberdeen City	36.7
City of Edinburgh	36.4
Glasgow City	35.6

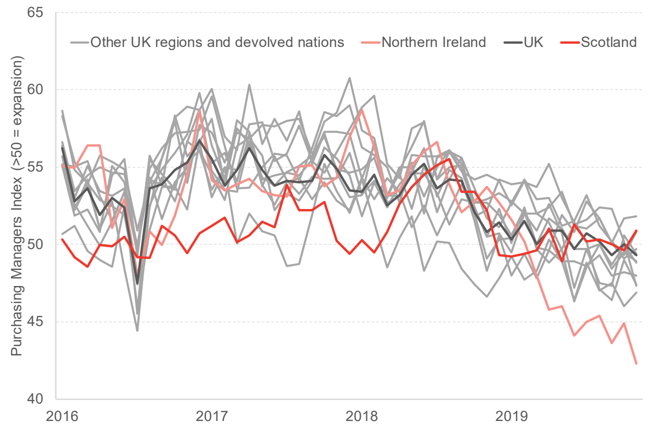
Source: *National Records of Scotland*

Table 4: Scottish business monitor headline results, Q3 2019

	Q3 2019	Quarter change	Year change
FAI Business Activity Index (net % balance)	5	-9 ▼	-11 ▼
New business	3	-8 ▼	-12 ▼
Turnover	8	-5 ▼	-12 ▼
Costs	56	5 ▲	2 ▲
New capital investment	-3	4 ▲	8 ▲
Export activity	-8	3 ▲	-8 ▼

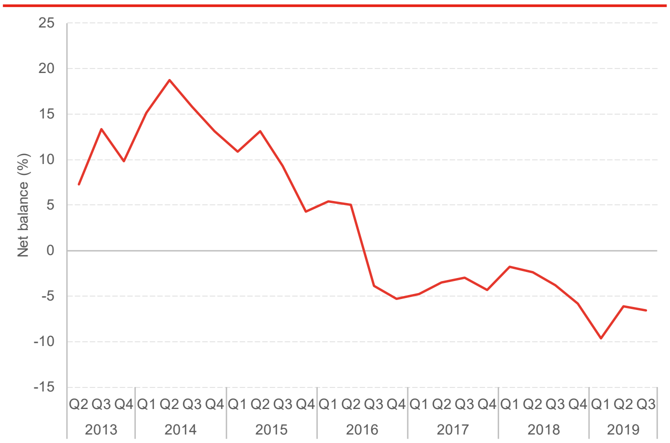
Source: *Scottish Business Monitor, FAI*

Chart 46: Purchasing Manager's Index, Scotland & UK, Jan 2016 – Nov 2019



Source: *IHS Markit*

Chart 47: Scottish Government Consumer Sentiment Index, current conditions



Source: *Scottish Government*

Latest Scottish indicators

The latest up-to-date indicators for Scotland are continuing to show a mixed and somewhat volatile picture.

Our own measure of economic activity – the FAI Business Activity Index – fell during quarter 3, but remained in positive territory. Table 4.

With the Q4 survey currently in the field, we will publish analysis in January which will show whether this pattern has continued - or if the reduction in short term uncertainty has helped to shore up confidence.

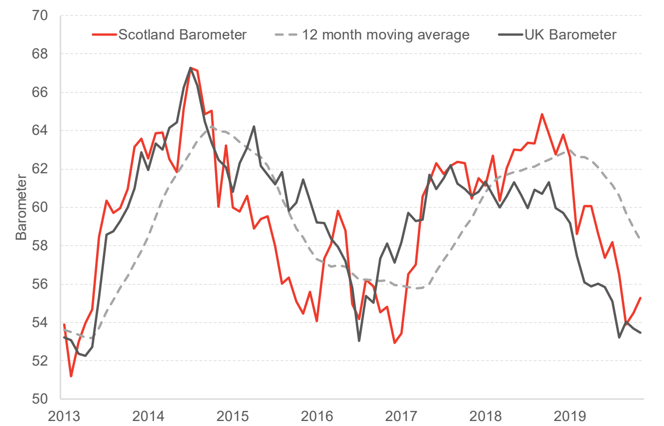
The latest Purchasing Manager's Index for November does show signs of a slightly more optimistic picture. It is back in positive, expansive territory – only just – but it is a sign of the ongoing resilience of businesses in Scotland. Chart 46.

Interestingly the figure for Northern Ireland has got progressively worse in recent months and now lags other regions of the UK by a considerable distance.

Consumer sentiment in Scotland has been in negative territory since the EU referendum. The most recent quarter showed a slight weakening of sentiment compared to Q2 2019, although this is now at a more positive level than it was in Q1 2019. Chart 47.

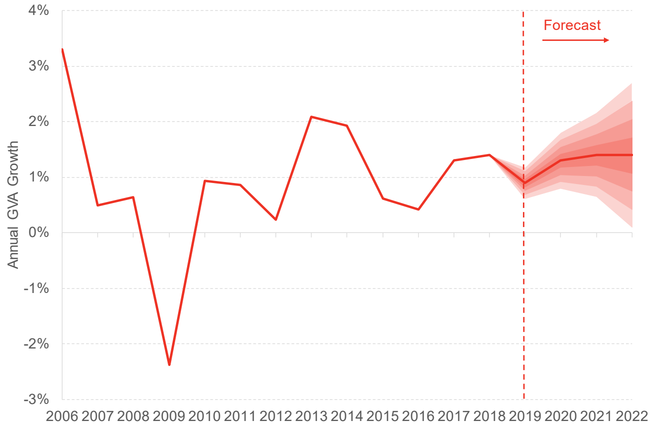
Indicators on activity in the labour market remain in positive territory, suggesting that recruitment continues. However, the outlook has slipped back during 2019 to the level witnessed in the immediate aftermath of the EU referendum. Chart 48.

Chart 48: Employment Barometer, 2013 – Nov 2019



Source: *IHS Markit*

Chart 49: FAI central forecast for 2019 – 2022



Source: *Fraser of Allander Institute*

Actual data to Q3 2019. Central forecast with forecast uncertainty for 2019 – 2022. Uncertainty bands sourced from accuracy of past forecasts at different forecast horizons.

Table 5: Fraser of Allander Central Forecasts (%)

	2019	2020	2021	2022
Central Forecast	0.9	1.3	1.4	1.4

Source: *Fraser of Allander Institute*

Table 6: Latest growth forecasts for the UK economy, %

	2019	2020	2021
Bank of England	1.0	1.6	1.8
OBR	1.2	1.4	1.6
NIESR	1.4	1.4	1.5
European Commission	1.3	1.4	1.4
IMF	1.2	1.4	1.5
Oxford Economics	1.3	1.1	-
ITEM Club	1.3	1.0	1.5
CBI	1.3	1.2	1.8

Source: *HM Treasury, Bank of England, OBR*

Our forecasts

Economic forecasting at the current remains challenging, even in the light of some resolution to the recent uncertainty as a result of last week's general election.

As a result, all economic forecasts should be viewed with caution. It is difficult to quantify, for example, what the impacts could be should the negotiations on the new future UK-EU trade go badly. Although it does seem likely however, that with a large majority the new government will have much greater flexibility in the negotiations than was previously the case.

On a positive note, we have long suspected that a significant amount of investment in the UK has been withheld until greater clarity was known about the UK's economic future. With this gradually being resolved, this may help to unlock investment.

In addition, we have the promise of a significant boost to spending from the new government over the next few years. How many of the spending pledges made during the election will bear out in the forthcoming UK Budget? What will their impact be on Scotland? And what sort of spending profile, in terms of timing, will they have?

The immediate risk of a 'no deal' outcome has however, disappeared. We therefore – for the time being – return to presenting only our central forecast. There remains an unusually wide margin of error around these estimates and it should therefore be interpreted more of a mid-point of a range of possible outcomes at the current time. Chart 49.

Driving our results are a short-term uptick in the first half of 2020, followed by a further boost in 2021 as a result of a degree of easing in the uncertainty leading to higher levels of investment and a boost to government spending. Depending on the scale of this boost to investment, this could lead to GDP growth surprising on the upside.

Of course, this does still assume that a comprehensive trade agreement is reached with the EU in the timescale set out by the Prime Minister. This is subject to significant uncertainty, particularly based upon previous experience.

On the other hand, global growth has weakened and could act as a drag on growth.

Table 7: FAI central forecast Scottish GDP growth 2020 to 2022

	2020	2021	2022
GDP	**1.3**	**1.4**	**1.4**
Production	1.1	0.9	1.3
Construction	0.6	0.9	1.0
Services	1.4	1.5	1.5

Source: *Fraser of Allander Institute*

Table 8: FAI Labour Market forecasts to 2021

	2020	2021	2022
Employment rate[1]	74.9	74.6	74.6
Unemployment Rate[2]	4.1	4.2	4.2

Source: *Fraser of Allander Institute*

[1] Rate calculated as total employment divided by total of economically active population aged 16-64.
[2] Rate calculated as total unemployment divided by total of economically active population aged 16 and over.

Table 9: FAI Nowcasts for Scotland's GDP, Q3 &Q4 2019

	Q3 2019	Q4 2019
Quarterly Growth	0.21%	0.25%
Annualised growth	0.83%	0.99%

Source: *Fraser of Allander Institute*

We forecast growth of 1.3% in 2020, 1.4% in 2021 and 1.4% in 2022.

Overall, our forecasts are not that dissimilar to those for the UK as a whole – although there is admittedly significantly variation between forecasters.

Our forecast for the production sector has been revised down following the decline in quarter 2 and the continued weak sentiment amongst manufacturing firms.

The Service sector is predicted to continue to grow slightly faster than the economy as a whole, continuing the trend of this becoming a larger part of our economy. We believe that much of this growth will continue to be led by financial and professional services, alongside continued growth in tourism related sectors.

Public services should also pick-up as a result of growth in public spending.

New Scottish Labour Market data is published today. Recent publications have shown a slight fall back in employment, and a slight increase in unemployment, compared to recent months.

Our outlook is for this to continue over the next two years, as labour market indicators continue to move in the direction of more typical levels.

This forecast will obviously also be dependent on confidence returning and business investment picking up from its current very low level.

One helpful indicator to keep an eye on, to see just how much the latest developments may change the outlook is to look at our Scottish nowcasts.

The Fraser of Allander Institute is at the cutting edge of developing innovative – and timelier – indicators of economic activity. These monthly "nowcasts" of the Scottish economy distil economic "noise" from hard and soft economic indicators to produce a robust near instantaneous assessment of growth in the Scottish economy.

You can find the latest estimates of Scottish economic growth using the Fraser of Allander Institute Nowcasting model in Table 9.

These figures for example, show that while the Scottish economy is unlikely to enter a technical recession in Q3 2019 – in line with the pattern at the UK level – growth will remain sluggish.

Policy context

The outlook for the Scottish budget 2020/21

Budget 2020/21 will be the fourth of five to be set in this parliament. Normally of course it would have been published by now – the Scottish Government initially planned to publish it on 12 December – and the process of scrutiny and debate on the proposals contained within it would have begun.

It was inevitable that the announcement of a UK General Election on 12 December resulted in the postponement of the Scottish budget. The outlook for the Scottish budget – and the viability and outcomes of tax and spending policies – is heavily dependent on UK Government policy decisions.

A Scottish budget published in advance of knowing the complexion of the UK Government would have had to be underpinned by a range of caveats and uncertainties, and could have been subject to substantial revision once the UK Government's plans became known with greater certainty.

The fact that the General Election result last week was so decisive has in a blink lifted much of the uncertainty that it existed, at least in the short run (i.e. for 2020/21).

The departmental spending plans of the Conservative Government for 2020/21 are unlikely to differ substantially from those set out in September's Spending Round (and reiterated in the Conservative manifesto). There may be a few extra spending announcements here or there, but the UK Chancellor has little scope to announce anything significant given his stated fiscal rule and his party's commitment to avoid tax increases.

In principle the Chancellor could be dealt a helping hand by the OBR if it revises up its forecasts for UK economic growth. But the prospect of this seem unlikely in the context of economic data published since the OBR's last forecasts in March this year (the March forecasts were made on the assumption that the UK exited the EU on terms not dissimilar from those negotiated by Mr. Johnson).

So, on the assumption that the UK Government's spending plans do not differ materially from those set out in September, the implication is that the Scottish resource block grant will increase by around £1.1bn, or just over 2% in real terms in 2020/21.

However, the resources available to the Scottish Government may increase somewhat less than this for two reasons – one of which we have certainty on, the other is more uncertain.

- First, the block grant will be reduced by £200m to reflect forecast error in relation to the income tax forecast for the 2017/18 budget. Long lags between budget forecasts and income tax reconciliations are an unfortunate side effect of the new fiscal powers.
- Second, it seems likely that the SFC's forecasts for Scottish income tax revenue growth in 2020/21 may point to somewhat less revenue being raised through this channel than in 2019/20. This is by no means a given, and it will depend on a variety of factors, including how the SFC choose to interpret recent (relatively positive) economic data for Scotland in the context of longer term trends.

A central assumption therefore is that the Scottish Government's resource budget will rise by around 2% in real terms, assuming no major tax policy changes. This would take the Scottish budget to around 4% higher in real terms than in 2016/17.

Whilst this is not a huge increase in a historic context (and the budget would remain some 3% lower than in the pre-austerity peak of 2010/11), it represents a marked improvement on the outlook Mr. Mackay faced at the end of 2016. Then, the outlook was for real terms decline in the block grant of over 3% to 2019/20.

On the spending side, we can expect a continuation of the trends in previous budgets of this parliament. Health spending is likely to increase 3 or 4 per cent in real terms.

Alongside (much smaller) commitments on police, education and childcare, expect a further debate about the constraints faced by local government. In this context it will be interesting to see how much further the debate on local taxation gets.

Local authorities do have the power to set a 'workplace parking levy' in their areas, and the Programme for Government included an intention to create a discretionary power to enable councils to introduce a tourist visitor levy. And as part of last year's budget, the government committed to convene cross-party talks on replacing the current council tax – although we have of course been here several times before.

But the pace of reform on local government finance has been slow. This no doubt explains, in part why many now in Parliament are supporting the radical decision to devolve business rate setting to local authorities. There are clearly risks with such a move, and it should be part of a much wider discussion about the future of local government funding more generally rather than a policy in isolation.

As well as local government, some other spending areas have also been consistent losers so far this parliament, including universities, environment agencies, prisons, and some other elements of the justice portfolio. Thus far there has been relatively little acknowledgement of this, and it will be interesting to see whether there becomes a point where these trends attract greater attention.

The big change happening to the Scottish budget in 2020/21 is the transfer of financial responsibility for a further five of the eleven social security payments that are being devolved following the recommendations of the Smith Commission. This will mean that the Scottish Government has assumed financial responsibility for 9 of the 11 payments being devolved by April 2020.

The transfer of financial responsibility exposes the Scottish budget to the risk that spending on the payments transferred is higher than the increase to the Scottish block grant. This is unlikely to happen in a significant way in the short run, not least because the Scottish Government will only be able to roll out new Scottish specific policy gradually over the next few years.

But the risks will grow in coming budgets. Spending on the devolved payments could increase more rapidly than the uplift to the block grant if the eligible population (largely consisting of older people) grows more quickly in Scotland than in the rest of the UK.

But it could also occur if the Scottish Government sets a policy that is more generous than the equivalent policy in rUK. The indications are that this is the direction of travel the government intends to take.

These are perfectly legitimate policy choices, and it is clearly the intention of devolution that it enables policy to evolve differently in Scotland. But higher spending on the social security payments being devolved will mean reduced spending on other areas or increases in tax.

What about the outlook for capital spending?

Last year the Scottish Government announced what appeared at the time to be an ambitious aspiration to increase capital investment in Scotland by £1.5bn by 2025.

In their Manifesto, the Conservatives said they will allow net investment to rise to 3% of GDP (from just over 2% currently). This would result in an additional £1.7bn (one third) in real terms flowing to the Scottish Government to fund capital investment in Scotland by 2023/24. On this basis, the Scottish Government's capital investment pledge could be met – and then some – without it needing to use its capital borrowing powers or more 'innovative' forms of investment.

Of course we still do not yet know when the Scottish budget will be.

The UK budget is expected to be published in February, after the UK has officially left the EU at the end of January. An announcement on a specific date can be expected soon.

If the UK budget is published in early February, the Scottish budget will probably follow 2-3 weeks later, following which there will be an extremely short period of parliamentary debate, a truncated legislative process, and an expedited process of Royal Assent for the Budget Bill (and related legislation, including the Scottish Rate Resolution on income tax and the Local Government Finance Order).

If the UK budget is published later in February, there may be no option other than to prepare the Scottish budget concurrently, publishing it at around the same time.

If the UK budget contained any particular surprises in terms of spending lines or tax policy, the Scottish Government may end up having to amend its budget mid-way through a scrutiny or legislative process that had already begun.

Beyond the 2020/21 budget itself, the UK Government is likely to aim to publish a multi-year spending review towards the summer, enabling the Scottish Government to follow suit with its own spending review, possible in summer.

The hope for many in the public sector will be that the Scottish Government finally gets around to setting a multi-year spending framework as oppose to the more opportunistic decision of recent times to simply set one-year budgets.

In the context of the near future outlook however, all eyes will be on the publication of the 2018/19 Scottish income tax outturn data in July. The latest forecasts indicate that this outturn figure might be 'bad' for Scotland for two reasons:

- First, because it will indicate (if latest forecasts are to be believed) that the Scottish income tax base grew relatively weakly in 2018/19, offsetting any hoped-for boost from the income tax policy introduced in Scotland that year.
- Second, because this weaker performance wasn't forecast at the time the 2018/19 budget was set, it effectively means the Scottish budget has not yet incurred the costs of this weaker tax revenue growth. A reconciliation will apply to the 2021/22 budget to reflect the extent of this forecast error.

The big question remain how large this adjustment will need to be, which is why the outturn data is so important. Indications are that it could be as high as £600m. If this is realised, it will create some interesting debates in the lead-up to the final budget of this parliament.

More generally, the prospect of a Brexit-focussed, Boris Johnson-led Conservative government at Westminster with SNP dominance in Scotland means that constitutional questions will remain dominant in the political debate.

And as well as its principle demand for a further independence referendum, its worth remembering that the SNP manifesto also called for devolution of a number of further economic and fiscal powers.

These included the devolution of powers over migration, devolution of National Insurance Contributions and devolution of aspects of employment law (including the minimum wage).

Together with an ongoing debate over what should replace various EU funds post-Brexit, it is not unlikely that we will spend much of the year debating what fiscal and economic powers the Scottish Government should be able to exercise in future, and relatively less on how the existing powers are being used today.

Fraser of Allander Institute
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University of Strathclyde Business School

Fraser of Allander Institute

University of Strathclyde

The Fraser of Allander Institute (FAI) at the University of Strathclyde entered Scottish public life in 1975. Since then, it has become established as a leading independent economic research institute working with a wide range of clients on a variety of different topics.

What we do

For nearly 45 years, the Fraser of Allander (FAI) has been monitoring and commentating on the Scottish economy. Our regular publications include:

- FAI Economic Commentary – Quarterly – First published in 1975, our quarterly Economic Commentary provides the authoritative independent assessment of economic conditions in Scotland, along with a wide range of economic and policy issues.
- Scottish Business Monitor – Quarterly – Since 1998, the FAI Scottish Business Monitor has been a key leading indicator of the Scottish economy. This survey of Scottish business sentiment provides vital insights into the Scottish economy well in advance of official statistics.
- Labour Market Trends – Semi-annual – Labour Market Trends aims to shed light on key developments in Scotland's labour market. Alongside a summary of recent trends and the future outlook, the report also highlights longer trend developments and areas for discussion.
- Scotland's Budget Report – Annual – The Fraser of Allander Institute's analysis of the Scottish Budget and the choices, risks and opportunities facing the Finance Secretary.
- Our blog – Launched in 2016, and viewed over 200,000 times, our FAI blog is a keenly watched discussion platform on the Scottish economy. The blog publishes short reflections on economic developments as well as the policy debate.

Keeping in touch

You can follow our commentary and stay up to date with our latest publications at:

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