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Scotland's economy edges close to recession – but growth forecast to return in the coming months

- *With the Scottish economy shrinking in the final three months of 2016, Scotland is just one data release away from re-entering recession (defined as two consecutive quarters of falling output) – according to the latest edition of the Fraser of Allander Economic Commentary.*
- *However, the Institute forecasts that the Scottish economy will pick-up in 2017, although its central forecasts for growth of 1.2% in 2017, 1.4% in 2018 and 1.6% in 2019 are below trend with Scotland likely to continue to lag behind the UK as a whole.*
- *The Institute's new analysis finds that Scotland's recent economic woes can no longer be explained just by the downturn in the North Sea or indeed by Brexit. Instead, Scotland's economy seems to be stuck in a cycle of weak growth, declining confidence and poor investment and net export figures.*
- *With Holyrood's Budget now much more dependent upon the relative performance of Scottish tax revenues, getting the economy moving again must be a priority for everyone with a stake in Scotland's long-term prosperity.*

Next week's Scottish GDP figures for the first quarter of 2017 will confirm whether or not the Scottish economy has formally re-entered recession. On balance, it is likely to be a close run thing – according to a new report published today by the Fraser of Allander Institute.

Of increasing concern is the fact that the slowdown in Scotland – lasting for around two years now – appears to have spread across a wider set of industrial sectors than was previously the case. In the final three months of 2016, activity in the manufacturing and construction sectors fell, whilst services did not grow at all.

That being said, a number of recent surveys of business sentiment point to a pick-up in activity during the first half of 2017.

At the same time, unemployment is now at a record low – although some of the recent improvement has been the result of a movement out of the labour force into inactivity and a rise in less secure forms of self-employment.

Financial and business services are forecast to lead the return to growth whilst Food & Drink and tourism should continue to benefit from the low value of Sterling.

On the downside, with Scotland's productivity growth remaining weak and with inflation likely to rise to above 3% in the coming months, the outlook for household finances looks grim. Families have been trying their best to support their spending by running down their savings and expanding their credit. This cannot continue for much longer.

Graeme Roy, Director of the Fraser of Allander Institute, said:

“The Scottish economy continues to lag behind the UK as a whole, with the scale of the gap growing rather than narrowing.

On balance, our forecast is that growth will return in 2017, with tentative signs of a more positive outlook for Scotland’s oil and gas sector and improving order books across Scottish businesses.

In the current climate sentiment can change quickly. Should the upcoming Brexit negotiations go badly, or the UK economy slows down more quickly than anticipated, then Scotland’s economic prospects could take a sharp turn for the worse.

That being said, a number of sectors should post relatively healthy returns this year. In particular, Scotland’s food and drink and tourism sectors should benefit from the low value of Sterling.

With the prospects of inflation rising to above 3% in the coming months and wages growing at just 1% or 2%, the outlook for household budgets looks especially tough. Coming on the back of little growth in real earnings since the financial crisis, for many households it will feel increasingly like a ‘lost decade’.

What has been surprising is how little the economy has featured in recent policy debates in Scotland – including in the General Election. With Holyrood now responsible for over £11bn of income tax revenues, it is vital that politicians from all sides come forward with practical policy initiatives that will support businesses, secure new investment and create jobs whatever the constitutional settlement.”

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