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Scotland's economy needs clarity on post-Brexit powers

Fraser Institute calls for focus on boosting productivity

Uncertainty over Brexit continues to loom over Scotland's economic recovery, according to the Fraser of Allander Institute (FAI).

In its latest Economic Commentary, published today (21 September 2017), the University of Strathclyde-based independent research institute says the UK Government should provide greater clarity on the specific powers it envisages transferring to the Scottish Parliament after the UK leaves the bloc in March 2019.

While the latest data shows Scotland's economy bounced back in the first three months of 2017 it comes on the back of an exceptionally weak last two years. Analysts say growth remains fragile and well below trend. And whilst employment is at a record high, household budgets continue to be squeezed by rising inflation eroding take-home pay.

Graeme Roy, Director of the FAI, said: "The latest leading indicators suggest the economy continues to recover, albeit at a relatively fragile pace.

"We believe Brexit has the potential to act as a long-term brake on Scotland's growth potential and, to date, very little progress seems to have been made by the UK Government in its negotiations with the EU.

"One area the UK government could provide greater clarity on is over the specific powers they envisage being transferred to the Scottish Parliament post-Brexit. This would help enable preparatory discussions between business and the devolved administration.

"On balance our forecasts are based upon the assumption that a constructive deal between the UK and the EU is reached. Should this not occur, outcomes towards the lower-end of our forecast ranges are more likely.

John Macintosh, head of tax for Deloitte in Scotland, said: "Despite the considerable economic challenges, most sectors are actively looking to use technology to deliver gains in productivity, develop new products and services and grow into new markets.

"The challenges created by political uncertainty can't be underestimated and there is work to do if we are to realise the latent potential in the Scottish economy. However we're encouraged to see the opportunity laid out by this report – negotiating a path through the obstacles must be a key focus over the next few years. It should help raise productivity, which is vital to our long term economic success."

Overall, the FAI's forecast for growth in 2018 remains the same as in June at 1.4% in 2018 while its forecast growth for 2019 has been revised upwards to 1.7%.

Prof Roy added: "Given Scotland's below-trend growth a focus – both by policymakers and business – on the long-term drivers of growth such as innovation, investment and skills, is more important than ever."

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Notes to Editors:

1. The University of Strathclyde's Fraser of Allander Institute (FAI) publishes its Economic Commentary with the support of Deloitte. The Fraser of Allander Institute is a research institute of the Department of Economics at Strathclyde Business School.
2. Deloitte supports the production of the Fraser Economic Commentary. It has no control of its editorial content, including in particular the Institute's economic forecasts. The Institute's comments on the future performance of the UK economy are drawn from consensus forecasts.
3. For further information on Deloitte please see www.deloitte.com
4. The University of Strathclyde is a leading international technological university recognised for its strong links with business and industry, commitment to enterprise and skills development and knowledge sharing with the private, public and third sectors.
5. The University of Strathclyde was the Times Higher Education (THE) UK University of the Year 2012, THE Entrepreneurial University of the Year 2013. Strathclyde Business School is THE Business School of the Year 2016.

Fraser of Allander Forecasts (September 2017)

Table 1 Forecast Scottish GVA growth (%) 2017 to 2019

	2017	2018	2019
GVA	1.2	1.4	1.7
Production	1.3	1.6	1.9
Construction	0.7	0.9	1.1
Services	1.2	1.4	1.7

Source: Fraser of Allander Institute

Table 2: Fraser of Allander Institute labour market forecasts (2017 to 2019)

	2017	2018	2019
Employee Jobs	2,448,600	2,481,900	2,523,700
% employee job growth over year	+0.8%	+1.4%	+1.7%
ILO unemployment	104,400	128,750	134,500
Rate (%) ¹	4.0	4.8	4.9

Source: Fraser of Allander Institute

Notes:

Absolute numbers are rounded to the nearest 50.

¹ Rate calculated as total ILO unemployment divided by total of economically active population aged 16 and over.