

Yesterday we had a bumper day of economic statistics for Scotland with new data on Scottish [GDP](#) - covering the period July to September 2016 - as well as new [employment and unemployment figures](#) - covering the period September to November 2016.

It's fair to say that there was very little good news - if any - in yesterday's figures.

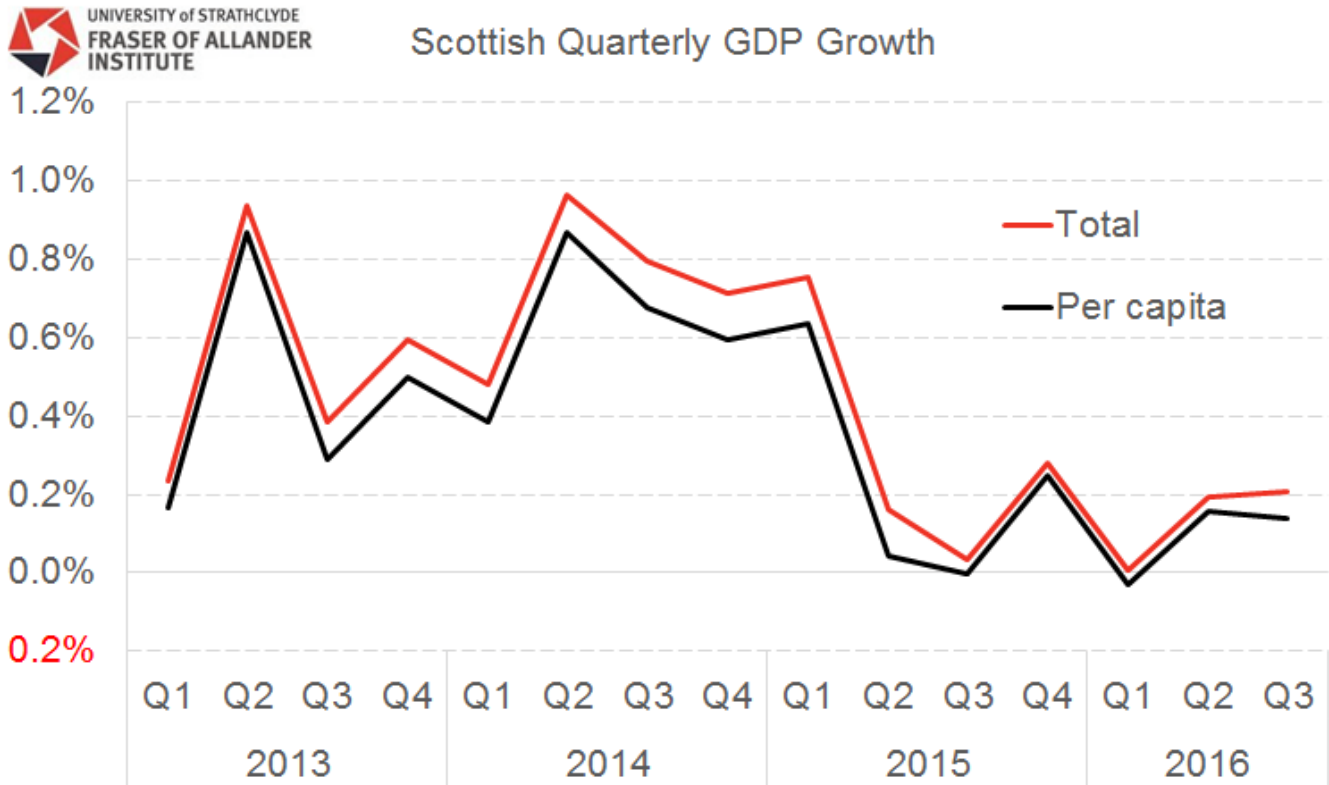
Here we summarise some of the key results and what they tell us about the state of the Scottish economy.

### **Economic Growth**

The Scottish economy continues to lag behind the UK, with growth of just 0.2% over the 3-months to September. Comparable UK growth was 0.6%.

Weak growth figures in any given quarter are not uncommon and the Scottish series can be more volatile than the UK series from time-to-time given the less diverse and smaller scale of the Scottish economy.

But as the chart below highlights, there is little doubt that this is part of a sustained trend of weak growth both in overall GDP and GDP per capita (which will be crucial for Scotland's Budget under the new fiscal framework).



We have now seen a year and a half of very muted (or in some Q's, no) growth.

Interestingly, yesterday's figures also contained downward revisions to the estimates for growth published in October for the three months up to the end of June 2016.

As we highlighted at the time, the growth figure of 0.4% surprised on the [upside](#) and was above our own prediction for the quarter of around 0.2%-0.3%. But the revised data has now taken growth back down to 0.2% for that 3-month period.

Overall, this is weak growth.

Even including the financial crisis and sharp recession of 2008 and 2009, Scotland's average quarterly growth rate has been around 0.4% per quarter since 1998 (the figure would be 0.5% excluding the years of the financial crisis). Since Q2 2015, we have yet to match that in any of the 6 subsequent quarters.

So is this down to a Brexit effect?

It is the case that this is the first official data we have on the overall performance of

Scotland's economy since the EU referendum on 24<sup>th</sup> June 2016.

But as the chart above highlights, the weakness in the Scottish economy was evident prior to the EU referendum. Moreover, in contrast the UK economy has been powering ahead since the summer with growth surprising on the upside.

Overall, growth is currently on track to come in around 1% over 2016 - in line with both our July and December forecasts.

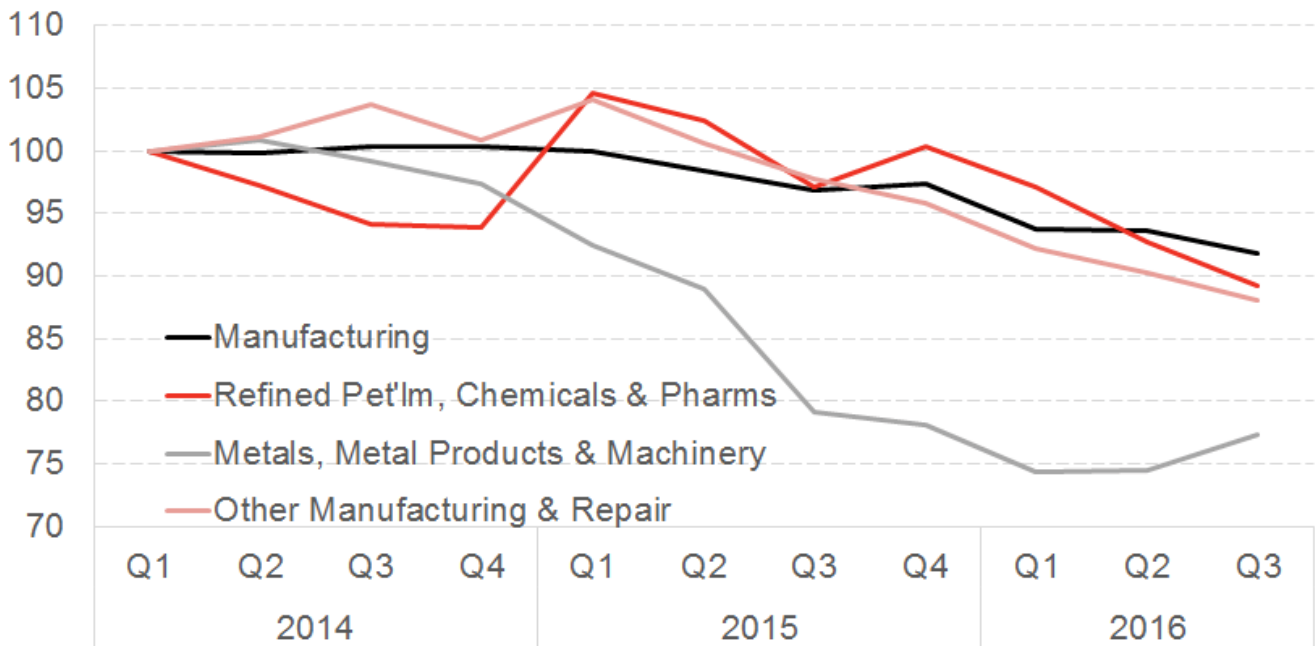
**So what is behind this slow growth environment?**

There are a number of drivers of this quarter's weak results.

Firstly, and as we have discussed in detail in our last two [Fraser Economic Commentaries](#), it is hard to move away from the conclusion that the on-going challenges in the North Sea are continuing to have a significant impact on the wider Scottish economy.

Industries closely associated to the oil and gas supply chain, such as key components of manufacturing, have fallen sharply over the last year and a half (100 = Q1 2014).

Manufacturing Industry GDP Indices



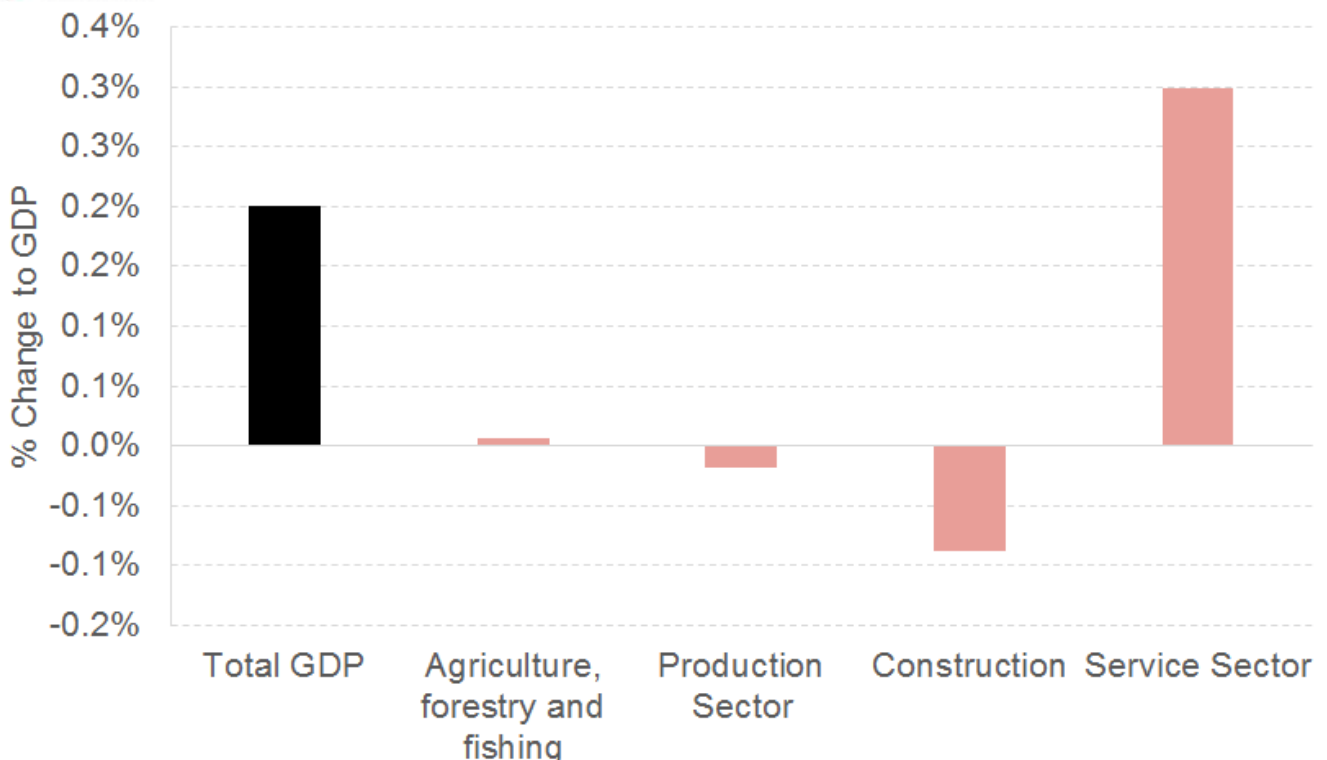
We need to watch however, that we don't pin all of the blame on the slowdown in the North

Sea and that once the sector adjusts to a new normal that growth will bounce back. Unfortunately, there is no data that differentiates between oil and gas supplying firms and other firms in the economy.

Moreover, looking at some other sectors which aren't immediately impacted by the oil and gas slowdown, the evidence also appears to show a weak performance. For example, food and drink is down nearly 2% over the year, computer and electrical products is down nearly 5%, whilst textiles and clothing - albeit a small sector - is down nearly 10%.

Secondly, and following on from the above, the construction sector continues to act as a drag on overall growth - down nearly 6% over the year. As we have highlighted before, this appears to be part of a sustained adjustment back to trend. Construction grew by over 30% between the start of 2014 and the end of 2015. We remain puzzled by the scale of this growth and what we seem to be now seeing is a fall-back to more 'normal' levels.

Drivers of Change - Q3 2016



Thirdly and as the chart above highlights, any growth in the Scottish economy continues to be coming through the all-important services (which makes up around 75% of the total economy). In stark contrast to other parts of the economy, the services sector has now

grown in each and every quarter since mid-2015.

This growth is driven, in part, by relatively strong growth in retail and wholesale reflecting a continued robust uptick in consumer spending. It is also driven by a reportedly sharp rise in financial and insurance activities which are up over 12% on the year.

All that being said, as the chart below highlights for the latest quarter, one of the key explanations why Scotland is lagging behind is not just because sectors such as construction and manufacturing have been contracting in Scotland but growing in the rest of the UK in recent times, but because the UK service sector has been growing that much stronger.

Service Sector GDP Growth in Scotland and the UK



Over the year as a whole, UK services are up 3.1% compared to growth of 2.1% in Scotland.

### Labour Market

The weak economy-wide data is corroborated by the labour market data.

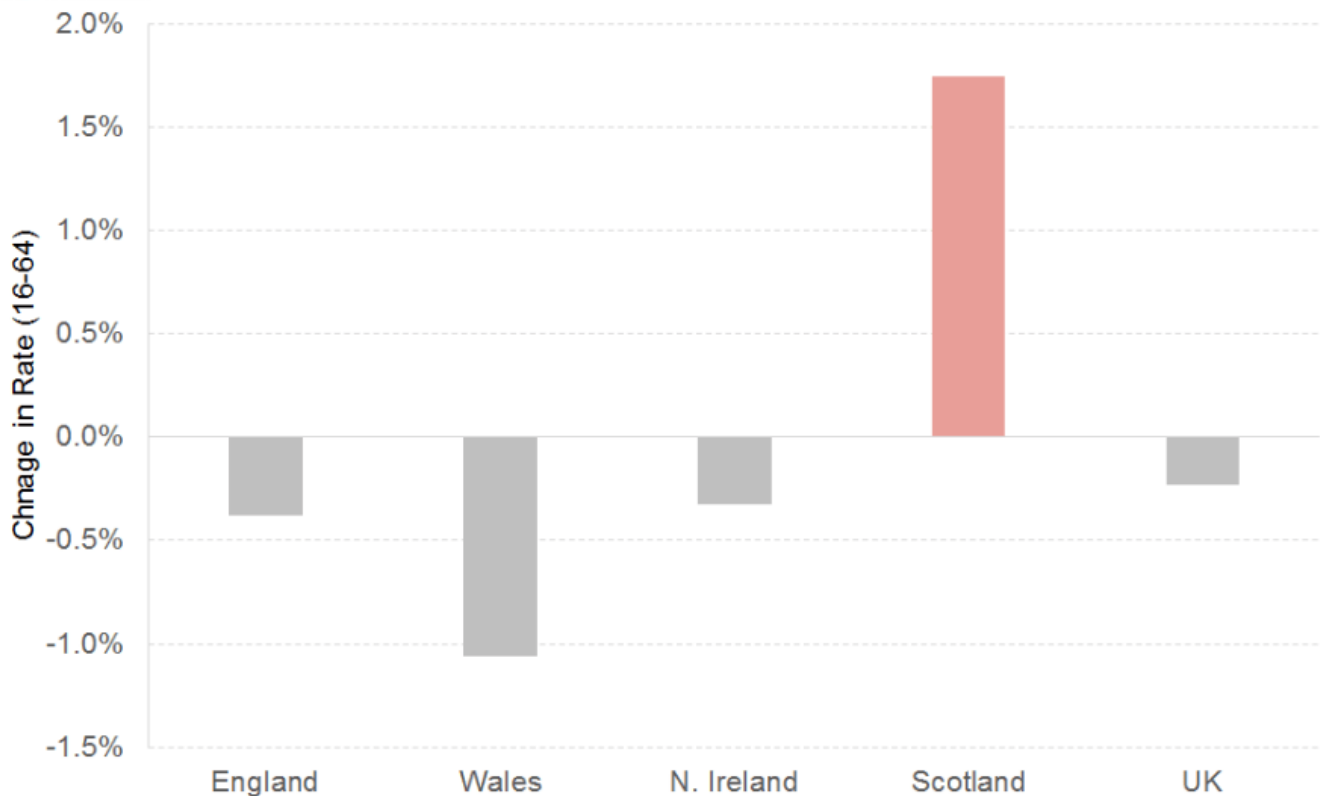
Over the three month period to November, employment was down, unemployment was up and economic inactivity was up. An unenviable score card on all three indicators!

Again, the Scottish labour market data can be a bit more volatile than the UK figures so it is perhaps best to focus on the annual changes.

Employment has fallen sharply - down 29,000 in total and by 49,000 in the 16 - 64 working age category. The fall in Scotland's employment rate was the higher than that of any UK nation or English region.

We also continue to see a sharp rise in inactivity in Scotland (up 1.7% points or 59,000) over the year. So whilst the Scottish Government are correct in saying that unemployment in [Scotland fell over the year](#), this is not because people are finding work but because they are leaving the labour market entirely.

Year Change in Economic Inactivity Rate



Overall, Scotland continues to have a slightly higher unemployment and lower employment rate than the UK as a whole. Given the degree of variability within the data - and the sample sizes underpinning the statistics - it is fair to say that Scotland's overall labour market performance remains broadly similar to that of the UK as a whole.

## Headline Labour Market Indicators

	Employment (16-64)	Unemployment (16+)	Inactivity (16-64)
Scotland	73.4%	5.1%	22.5%
England	74.9%	4.8%	21.3%
Wales	72.5%	4.4%	24.1%
N. Ire	69.3%	5.6%	26.5%
UK	74.5%	4.8%	21.7%

But it is the trends over the year - coupled with the economic growth numbers - that paint a relatively worrying picture.

With most economists predicting that 2017 will be an uncertain year for the economy, the contrast between an apparently robust UK economy vis-à-vis the current state of the Scottish economy could not be more stark.