

Fraser of Allander Institute, December 2016

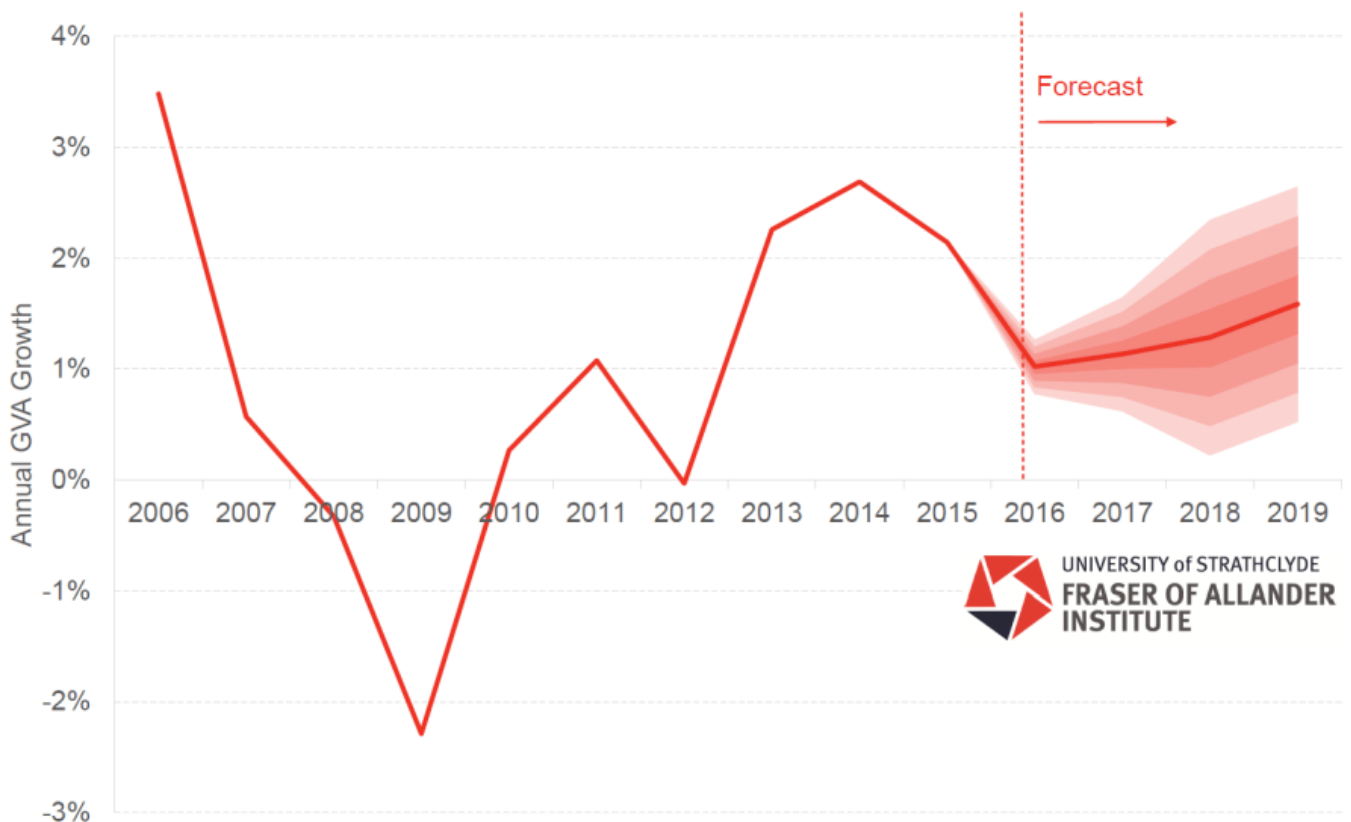
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Today we published our latest [Fraser of Allander Economic Commentary](#).

This short blog summarises our key conclusions in eight bullet points.

1. Growth in Scotland's economy is forecast to continue through 2017, 2018 and into 2019 despite the challenges of Brexit. The outlook - whilst challenging - is slightly more positive than our July forecast

#### Fraser of Allander forecast range - 2016 to 2019



2. The Scottish economy returned to growth in Q2 2016, with GDP up +0.4%. The indications are that this growth has continued through the remainder of the year. But the challenges in the oil and gas sector continue to resonate with Scotland's growth rate over the last 12-18 months around 1/3 of that of the UK

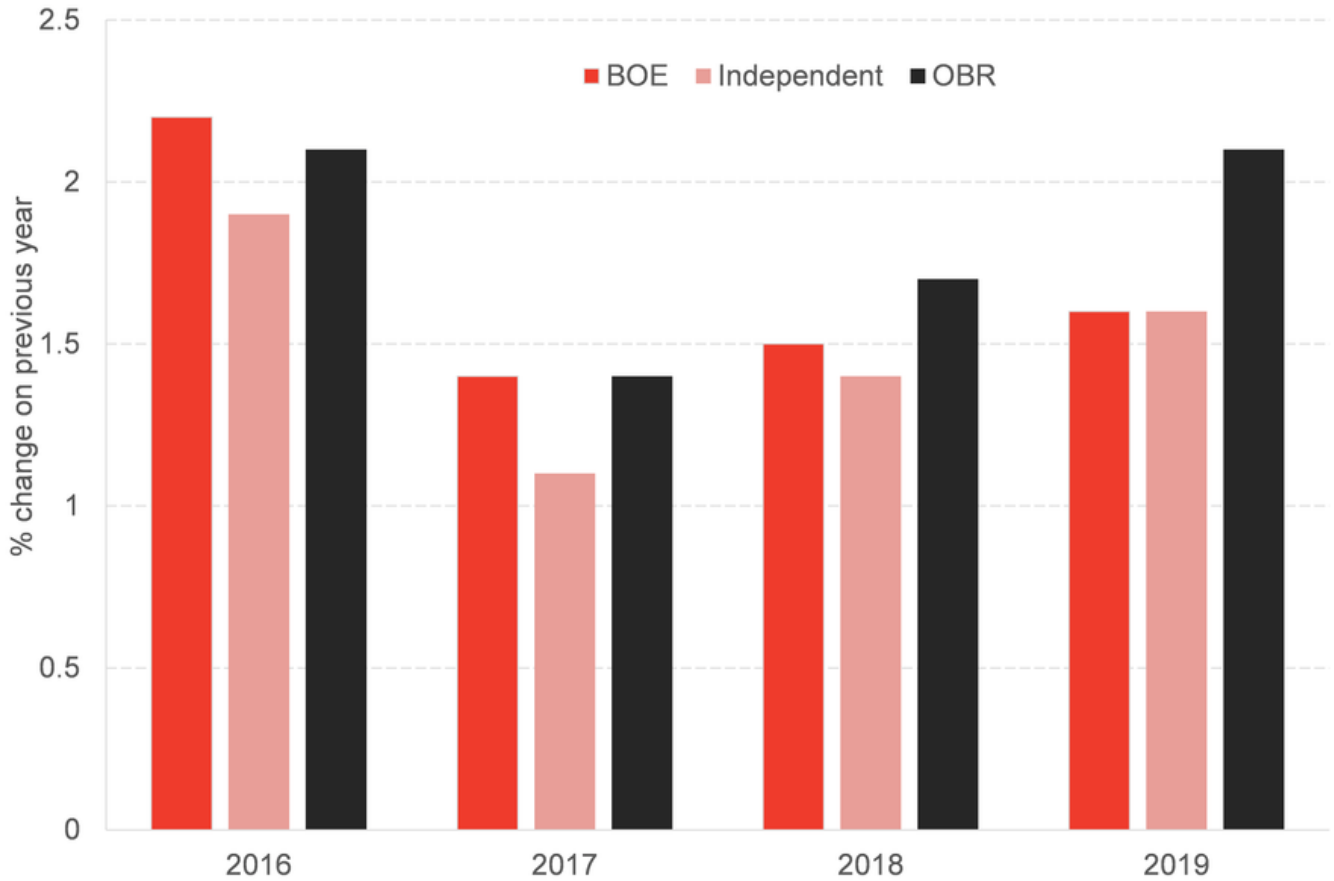
Scottish GDP growth (%) by sector, Q2 2016

	GDP	Agriculture	Production	Construction	Services
Quarterly Growth	+0.4	+0.9	+0.3	-1.9	+0.5
<i>UK</i>	<i>+0.7</i>	<i>-1.0</i>	<i>+2.1</i>	<i>-0.1</i>	<i>+0.6</i>
Annual Growth	+0.7	+1.9	-2.9	-4.5	+2.0
<i>UK</i>	<i>+2.2</i>	<i>-0.7</i>	<i>+1.6</i>	<i>+0.4</i>	<i>+2.7</i>

Source: Scottish Government

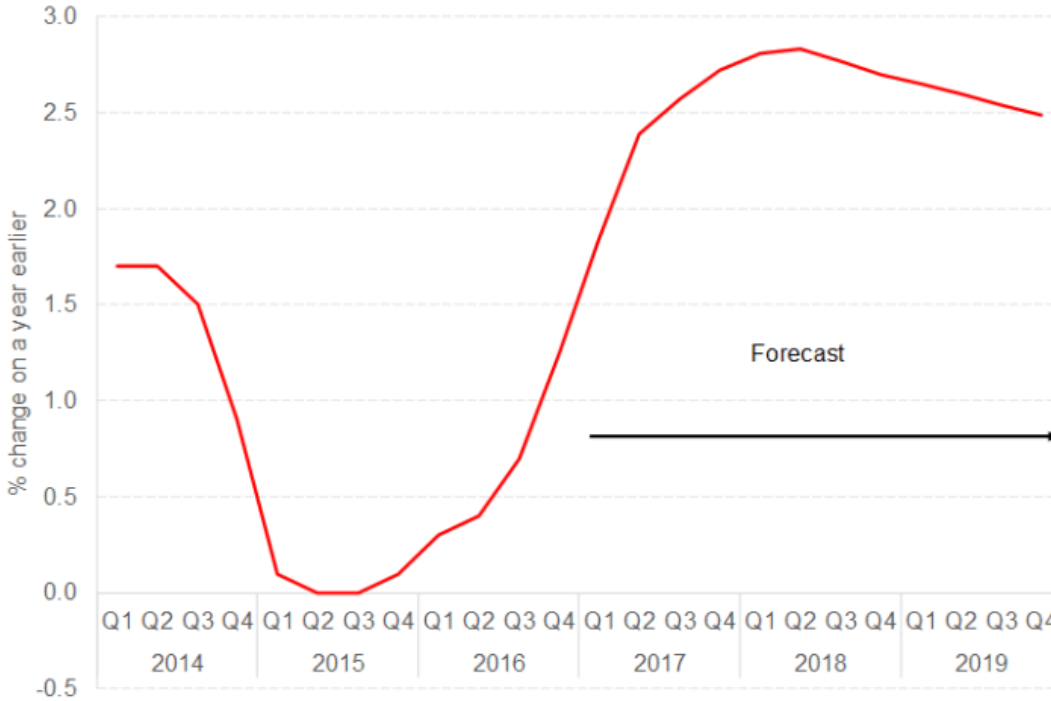
3. Our forecasts are not dissimilar to those for the UK as a whole with most economists - including the OBR and Bank of England - predicting resilient but relatively fragile growth over the next 2-3 years

UK forecast comparisons - Bank of England, average of independent forecasts & OBR



4. Inflation is forecast to rise above Bank of England target of 2%, peaking at nearly 3% in early 2018, making the outlook for household budgets particularly challenging

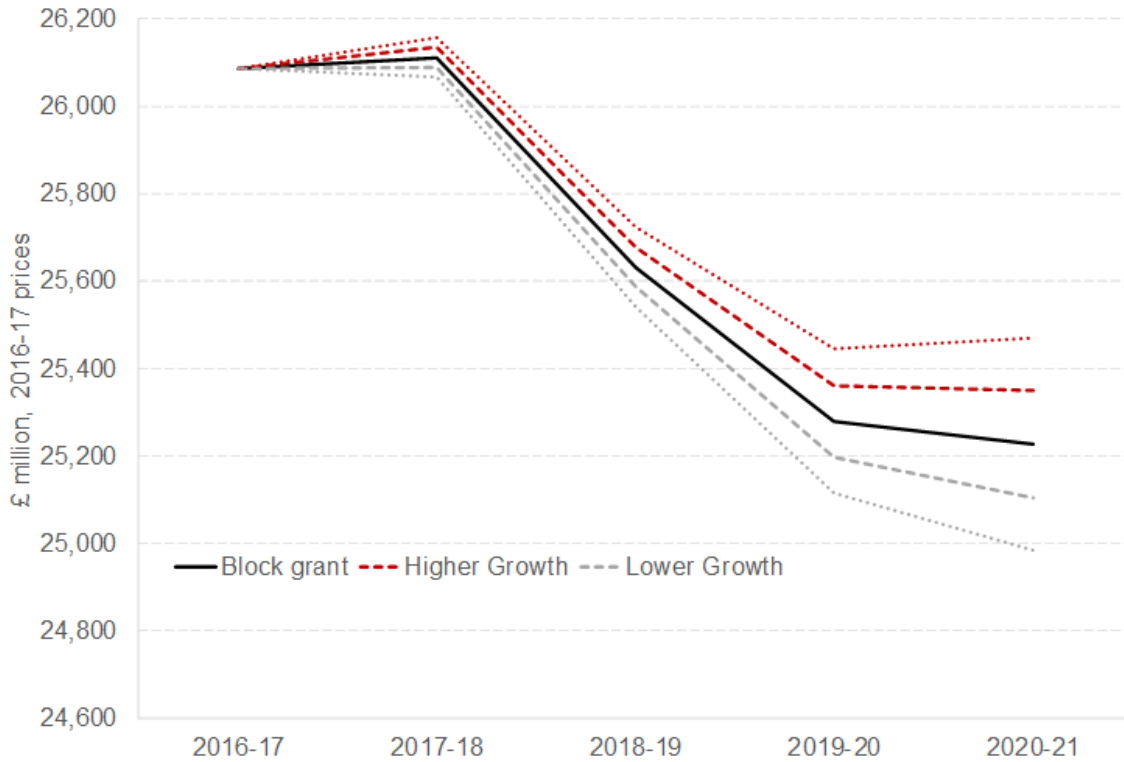
Inflation forecast to pick-up and be above target of 2% until 2020



Source: Bank of England

5. This economic landscape sets the backdrop for Scotland's Budget on Thursday - as under the new fiscal framework and the transfer of major new powers over income tax what is key for the outlook of Scotland's Budget is not just the block grant from Westminster, but the relative growth in Scottish tax revenues per head vis-à-vis the UK.

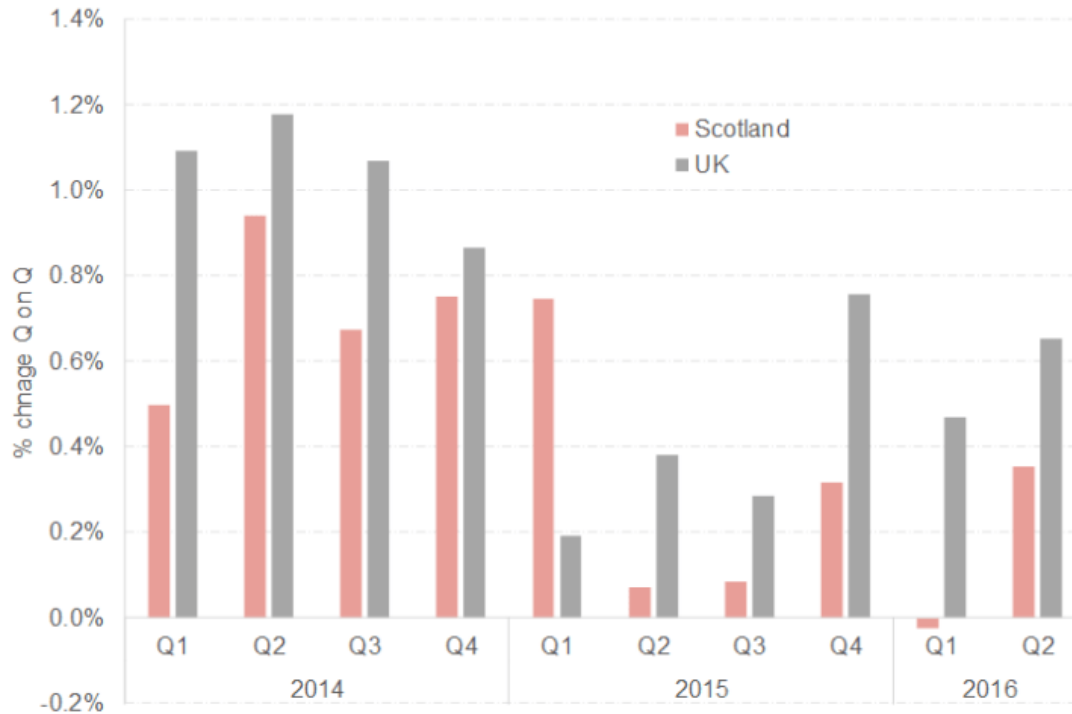
### Scottish Government Resource Budget Outlook



Source: Fraser of Allander Institute

6. All this makes closing the recent gap with the UK all the more important

Scottish Economic Performance vis-à-vis the UK



**Source:** Scottish Government

7. Our central forecast is for growth of 1.1% in 2017, 1.3% in 2018 and 1.6% in 2019. During these uncertain times we recommend that just as much focus is given to the full range of estimates that underpin this outlook as to specific estimates - see Chart 1 above

### FAI forecast Scottish GVA growth (%) 2016 to 2019

	2016	2017	2018	2019
GVA	1.0	1.1	1.3	1.6
Production	1.4	1.3	1.5	1.8
Construction	0.5	0.7	0.8	0.9
Services	1.0	1.1	1.2	1.5

**Source:** Fraser of Allander Institute

8. Unemployment is forecast to rise slightly as the recent rise in inactivity comes to an end

### FAI labour market forecast to 2019

	2017	2018	2019
Employee Jobs	2,467,200	2,505,200	2,543,150
% employment growth over year	1.2	1.5	1.5
ILO unemployment	151,100	155,750	166,400
Rate (%) <sup>1</sup>	5.6	5.7	5.9

**Source:** Fraser of Allander Institute