

To AGCC Members:

Good quality market intelligence is critical to smart decision-making. Your Chamber has made arrangements with Mackay Consultants to distribute the North East Scotland Monthly Economic Report to all members of the Chamber. We hope that you find this service a useful additional benefit.

Bob Collier, CEO, AGCC

NORTH EAST SCOTLAND: MONTHLY ECONOMIC REPORT for SEPTEMBER 2012 by MACKAY CONSULTANTS



Plan for giant wind farm in Moray Firth

○ HIGHLIGHTS

- Plan for £4.5 billion wind farm in Moray Firth
- British Science Festival held in Aberdeen
- Aberdeen Airport passenger numbers up +9%
- Wood Group back in FTSE 100 index

● LOWLIGHTS

- 135 job losses in local companies
- Legal challenge to FirstGroup rail franchise
- UK oil production down -18%

!! THIS MONTH'S COMMENTS

- * A disappointing month
- * Value of fish landings up +10%
- * Is the Scottish economy really doing better than the UK?

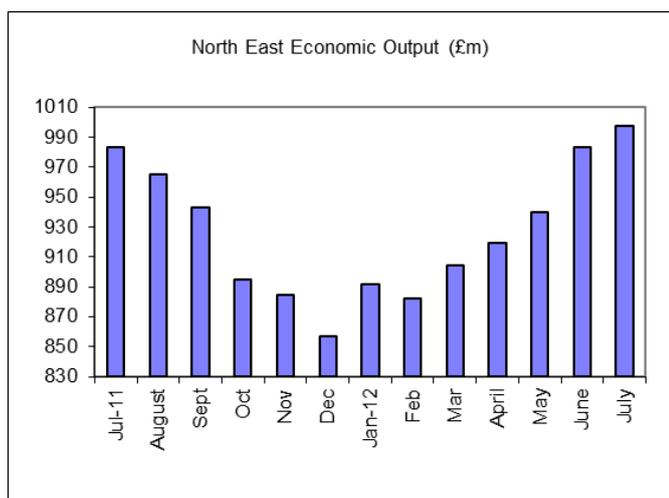
Mackay Consultants, Albyn House, Union Street, Inverness, IV1 1QA
Telephone: 01463 223200, Fax: 01463 230869, E-mail: info@tonymackay.co.uk

- business development strategies
- economic impact analysis
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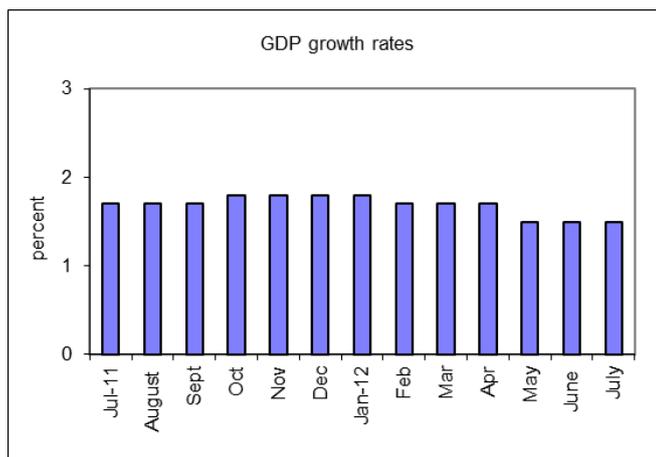
ECONOMIC OUTPUT

We estimate that economic output in the North East in July was approximately £998 million. That is +1.5% higher in real terms than the July 2011 figure. Our estimates for the last twelve months are:

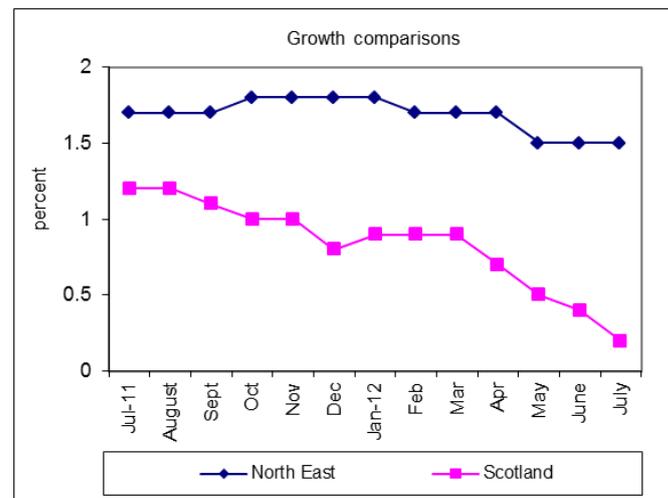
July 2011	£983 m	February	£882 m
August	£965 m	March	£904 m
September	£943 m	April	£919 m
October	£895 m	May	£940 m
November	£885 m	June	£983 m
December	£857 m	July	£998 m
Jan 2012	£892 m		



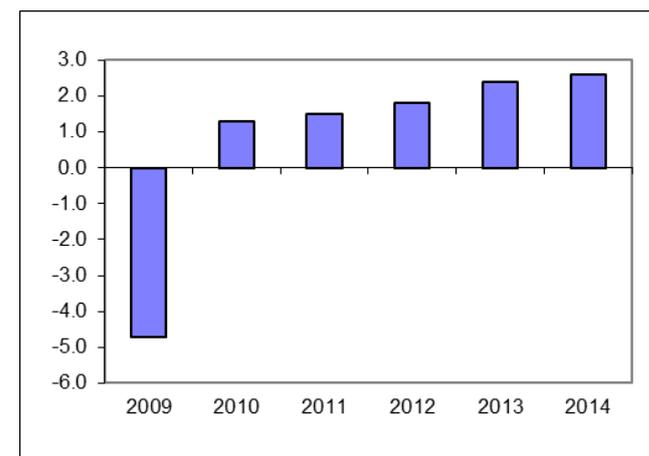
The growth rates for the last twelve months are illustrated in the figure below. These show the month-on-month comparisons, i.e. July 2012 compared with July 2011, June 2012 compared with June 2011 etc.



Economic output in the North East fell by a massive -4.7% in 2009. There was a modest recovery during 2010 and 2011 and our latest estimate is +1.5% growth, as shown in the figure below. Our estimate for Scotland as a whole is significantly lower at +0.2%.



Our current forecasts of North East GDP growth for the period to 2014 are:



Our latest forecasts are +1.8% in 2012, +2.4% in 2013 and +2.6% in 2014. All of those are well above our Scottish forecasts.

However, world oil and gas prices will inevitably be very important influences on the North East economy and they are very difficult to predict. Nevertheless, it is clear that the local economy is currently doing much better than the Scottish and UK economies.

UK ECONOMY

We refer each month to the “Economist” magazine’s poll of GDP growth forecasts. The latest averages are:

	2012	2013
Britain	-0.3%	+1.2%
Euro area	-0.5%	+0.2%
USA	+2.1%	+2.0%

The forecasts for Britain have been revised downwards again, from -0.2% and +1.3% respectively. The range of forecasts for Britain in 2012 is now from -0.7% to +0.5%, and for 2013 from +0.3% to +1.8%.

There is even more pessimism about the Euro area economy, including a forecast -0.5% fall in output in 2012.

The Bank of England’s Monetary Policy Committee kept their base interest rate unchanged at just 0.5% at their August meeting. That continues to be the lowest level since the Bank was created in 1694!

Sterling rose by +2.6% against the US dollar, ending August at \$1.59. It fell slightly against the euro to €1.26. The £ trade weighted index rose by +0.7% to 84.2.

GDP

The Office for National Statistics’ (ONS) latest estimates show that UK GDP fell by -0.5% in the second quarter (Q2) of 2012.

Manufacturing output

The index of manufacturing output was 105.9 in July, compared with 102.2 in June.

Unemployment

The claimant count rate of unemployment is currently 5.2%. The wider rate (including the economically inactive) for the quarter March to May 2012 was 8.0%.

Earnings

The annual growth in average earnings (“regular pay”) in July was +1.9%, up +0.1% from June.

Inflation

Inflation, as measured by the Consumer Price Index (CPI), was +2.5% in August, down from +2.6% in July. Retail Price Index (RPI) inflation was +2.9% in August, down from +3.2% in July.

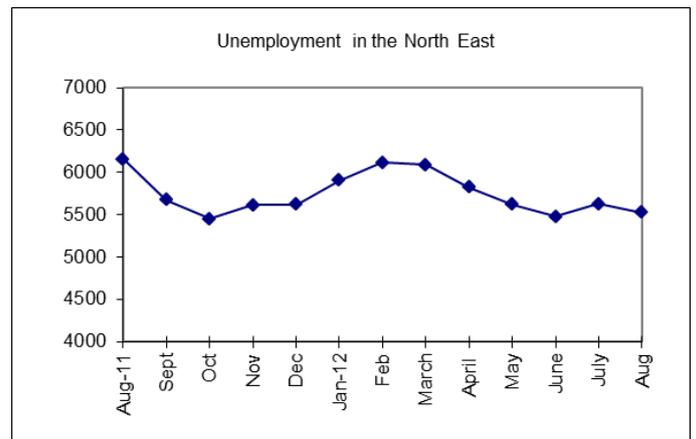
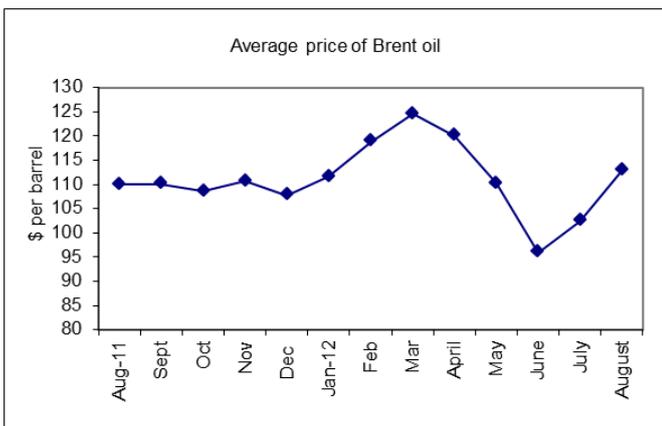
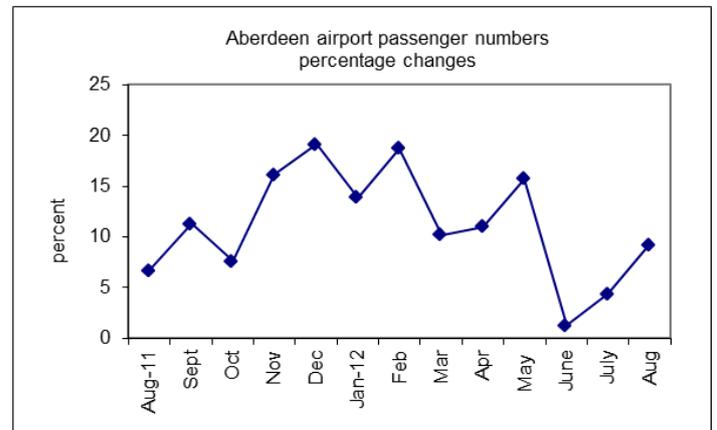
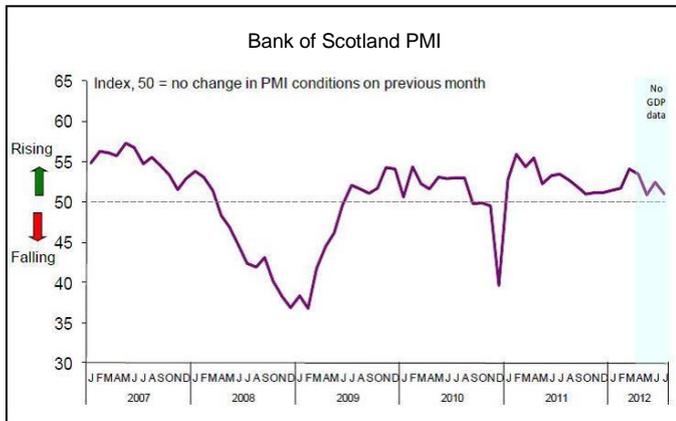
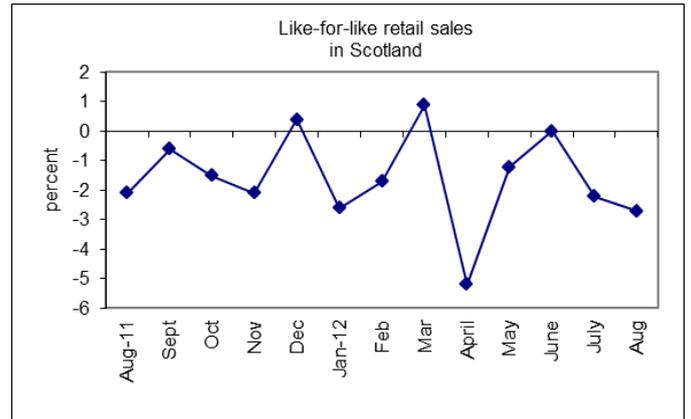
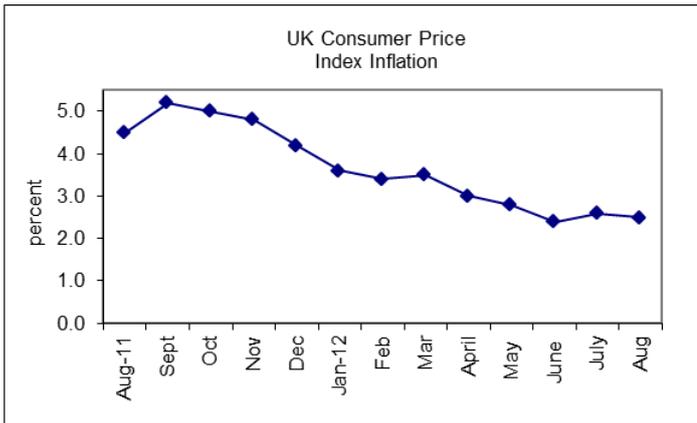
The CPI figure remains above the Government’s official +2% target.

The table below gives the main economic indicators.

	Real GDP (%)	CPI change (%)	Earnings growth (%)	Manufacturing output	Unemployment rate (%)
2008	0.4	3.7	3.7	101.3	2.7
2009	-4.9	2.2	2.3	89.3	4.7
2010	1.8	3.3	1.9	90.8	4.9
Q1 2009	-5.0	3.0	3.2	90.9	4.2
Q2	-5.5	2.1	2.6	88.5	4.7
Q3	-5.1	1.5	2.0	88.6	5.0
Q4	-3.1	2.1	1.2	89.2	5.0
Q1 2010	1.2	3.3	1.7	90.0	4.9
Q2	1.7	3.4	1.8	90.9	4.7
Q3	2.8	3.1	1.9	91.1	4.9
Q4	1.5	3.4	2.1	91.3	4.9
Q1 2011	1.8	4.1	2.2	92.8	5.0
Q2	0.8	4.4	2.1	91.9	5.2
Q3	0.5	4.7	1.9	95.1	5.4
Q4	-0.2	4.7	1.9	95.3	5.1
Q1 2012	-0.3	3.5	1.6	95.1	5.6
Q2	-0.5	2.7	1.8	100.7	5.2
June	n.a.	2.4	1.8	102.2	5.2
July	n.a.	2.6	1.9	105.9	5.3
August	n.a.	2.5	n.a.	n.a.	5.3

Note: GDP, CPI and earnings figures show the percentage growth over the same period in the previous year. The manufacturing output index is 2003 = 100.0.

MONTHLY STATISTICS



UNEMPLOYMENT

The unemployment level is probably the best single indicator of short-term changes in the local economy. There are various measures of unemployment, of which the wider rate including the economically inactive is probably the best. However, official statistics on that measure are not published monthly, so we have to rely on the narrower measure of the number of people claiming unemployment benefit.

The Scottish average for the latter is currently 5.3%. The wider rate (including the economically inactive) for the quarter May to July 2012 was 8.2%.

The latest monthly figures (August 2012) for the North East published by the Employment Department are:

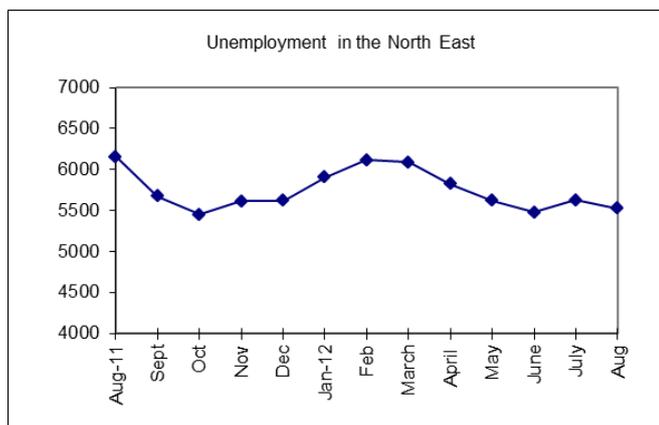
	male	female	total	male %	female %	total %
Aberdeen TTWA	2730	1394	4124			
Banff TTWA	223	116	339			
Fraserburgh TTWA	227	120	347			
Huntly TTWA	81	39	120			
Peterhead TTWA	317	190	507			
Total TTWAs	3578	1859	5437			
City of Aberdeen	2253	1128	3381	2.9	1.5	2.2
Aberdeenshire	1375	767	2142	1.7	1.0	1.3
Total	3628	1895	5523	2.4	1.3	2.0

The Aberdeenshire rate of 1.3% is the lowest of all the 32 local authority areas in Scotland and the Aberdeen City rate of 2.2% is the fourth lowest. The Scottish average is currently 4.3% on the same basis. The wider rate for Aberdeen City is approximately 4.2% and Aberdeenshire 2.5%.

The figures for the two local authority areas since August 2012 are:

	City of Aberdeen		Aberdeenshire		Total for North East	
	Number	Change	Number	Change	Number	Change
August 2011	3,644	0	2,513	+55	6,157	+55
September	3,420	-224	2,257	-256	5,677	-480
October	3,334	-86	2,117	-140	5,451	-226
November	3,466	+132	2,148	+31	5,614	+163
December	3,394	-72	2,226	+78	5,620	+6
January 2012	3,545	+151	2,360	+134	5,905	+285
February	3,669	+124	2,447	+87	6,116	+211
March	3,637	-32	2,454	+7	6,091	-25
April	3,509	-128	2,312	-142	5,821	-270
May	3,399	-110	2,220	-92	5,619	-202
June	3,340	+1	2,139	-81	5,479	-140
July	3,401	+61	2,224	+85	5,625	+146
August	3,381	-20	2,142	-82	5,523	-102

Unemployment fell by -102 to 5,523. That compares with a rise of +55 in August 2011. The current total is -634 below the level of one year ago, as shown in the figure below.



The best comparisons are probably with the same period in 2011. The changes in unemployment in the TTWAs between August 2012 and August 2011 are shown below.

	August 2012	August 2011	diff	% diff
Aberdeen TTWA	4124	4488	-364	-8.8
Banff TTWA	339	409	-70	-20.6
Fraserburgh TTWA	347	439	-92	-26.5
Huntly TTWA	120	114	6	5.0
Peterhead TTWA	507	604	-97	-19.1
Totals TTWAs	5437	6054	-617	-11.3

The total number is -11.3% lower. Unemployment fell in four of the five TTWAs and rose in one – Huntly TTWA (+5.0%). The average change in Scotland as a whole was -1.7%.

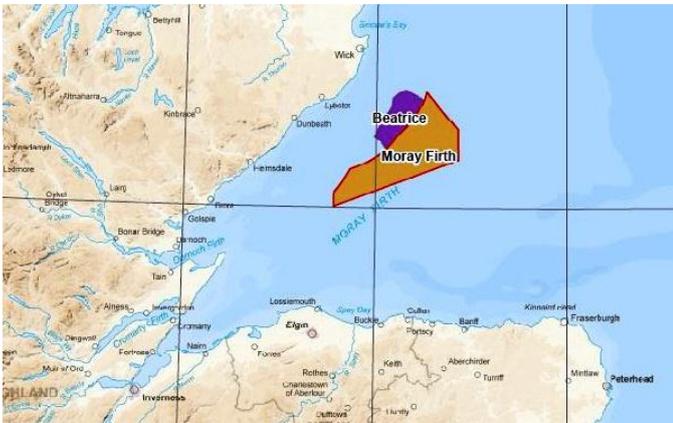
NEW DEVELOPMENTS

Non oil-related

Plan for £4.5 billion offshore wind farm in Moray Firth

Moray Offshore Renewables have applied to the Scottish Ministers for permission to build up to 417 wind turbines in the Moray Firth, 13 miles off the Caithness coast. In the early stages of the plan, the firm had said the scheme would involve more than 200 turbines.

The electricity generated would be carried ashore by a cable buried beneath the seabed and would reach land in Aberdeenshire – either at Fraserburgh or Rattray Head.



British Science Festival held in Aberdeen

The British Science Festival has been held in Aberdeen. The festival – which was last held in Aberdeen 50 years ago – was expected to attract more than 40,000 visitors. Famous faces included physicist Brian Cox and author Bill Bryson.

Aberdeen business park approved

Property investors Pruprim and developers Knight Property Group have been given planning consent for the first phase of the Cityview Business Park, a new 4.4 acre project in Aberdeen. On completion, the Wellington Road development will accommodate up to five office pavilions providing around 100,000 square feet. The first phase will see the construction of pavilions one and two, with completion targeted for the first quarter of next year.

New plans for golf development on Ury Estate

FM Ury have submitted a revised application with Aberdeenshire Council for the creation of an 18 hole golf course on the Ury Estate, near Stonehaven. Planning permission was received previously but was in doubt when the developers went into administration.

Tiger Tiger jobs boost in Aberdeen

Aberdeen entertainment venue Tiger Tiger is investing £250,000 in a refurbishment, creating 25 jobs and safeguarding a further 50.

Buccleuch sell stake in Blackness Industrial Estate

Buccleuch Property have sold their holding in the Blackness Industrial Estate in Aberdeen for £2.95 million. The estate, which is home to a number of oil and gas companies, has been bought by CBRE Investors for the Falcon Property Trust.

Lunar Fishing profits up +81% to £16.3 million

Lunar Fishing Company reported a pre-tax surplus of £16.3 million during 2011, up +81% on the year before. Turnover fell -7% to £66.7 million.

Ledingham Chalmers profits up +3% to £2.8 million

Ledingham Chalmers solicitors reported group profits up +2.8% to £3.8 million in the 12 months to March 2012. Turnover increased +4.7% to £10.4 million.

Ace insurers opening office in Aberdeen

Ace Group insurers will open an office in Aberdeen before the end of this year. It will be Ace's 2nd branch in Scotland after Glasgow.

Retail sales fall -2.7% in August

Like-for-like retail sales in August fell -2.7% compared with August 2011, according to the Scottish Retail Consortium. The equivalent like-for-like retail sales in the UK as a whole were down -0.6%.

Aberdeen Airport passenger numbers up +9.2%

301,800 passengers used Aberdeen Airport in August, which was +9.2% more than in the same month of 2011. Aberdeen continues to have the highest increase in numbers of the three main airports in Scotland.

Value of Peterhead fish landings up +15%

Fish landings at Peterhead in August were valued at £16.7 million, up +15% on August 2011. White fish accounted for 39%, shellfish 4% and pelagic 57%, according to the latest statistics from the Peterhead Port Authority.

New car sales up +10% in August

New car registrations in Scotland in August totalled 5,755, an increase of +10% compared with August 2011. The overall British figure showed an increase of +0.2%, according to the Scottish Motor Trade Association.

John R Weir acquired by Arnold Clark

John R Weir, the Grangemouth-based motor dealers, have been sold to Arnold Clark Automobiles for an undisclosed sum. The deal includes John R Weir's Mercedes-Benz car dealerships in Grangemouth, Perth, Dundee, Aberdeen and Inverness; Smart dealerships in Aberdeen, Inverness and Perth; and the Mercedes-Benz commercial vehicle dealership in Aberdeen. All 321 workers at Weir's 11 showrooms will transfer to Glasgow-based Arnold Clark.

Legal challenge to FirstGroup rail franchise

FirstGroup were awarded the West Coast rail franchise (Glasgow-London) last month but Virgin Rail, the present operators, have made a legal challenge to that decision. It may take months before there is a final outcome.

Job losses at BBC Aberdeen

The BBC plan to axe a total of 35 posts across Scotland by March next year to help make £16 million of savings by 2016. Cutbacks are expected to result in the loss of a senior radio producer post in Aberdeen, as well as an audio engineer and a programme content assistant. A senior broadcaster journalist will also be cut from either the BBC's Aberdeen or Dundee office.

Aberdeen Buttery Company in liquidation

The Aberdeen Buttery Company has gone into liquidation, with all 25 members of staff being made redundant. However, Thain's bakery have taken on a few of the workers after they agreed a deal with liquidators Meston Reid and Co to take on ABC's customer book and brand.

Findlay Clark go into liquidation, with 31 job losses

Findlay Clark Landscapes of Hazelhead have been placed in liquidation, with the loss of 31 jobs. All 31 full and part-time staff have been made redundant and the business has ceased trading.

40 job losses as Midmar store closes

Muiryhall, which traded as The Millers Restaurant and Visitor Centre at Midmar, has entered provisional liquidation, with the loss of more than 40 jobs. The company was based at a two storey complex off the B9119, around 15 miles west of Aberdeen.

Oil-related

Tritech taken over by US firm in £21 million deal

Tritech International, the Westhill-based underwater technology firm, have been acquired by US group Moog from Halma for £21 million. Tritech have a 90 strong workforce, including 30 employees in Aberdeen.

Transocean contract for Sparrows

Sparrows have won a contract with Transocean worth several millions of pounds annually for the management and servicing of Transocean's offshore cranes on all of their mobile offshore drilling units outside Norway. The open-ended contract takes in 432 deck cranes on 121 of Transocean's mobile offshore drilling units.

Capita to add to workforce after new contract

Capita, the occupational health service providers, are to recruit 20 people in Aberdeen after winning a £1.5 million contract with Transocean to work with the rig operator's North Sea division. Capita will offer medical support to 11 rigs in UK waters and 1,500 people both offshore and onshore.

Total extends Romar waste deal

Romar International have been awarded a three year contract extension from Total potentially worth more than £4 million. The new contract extends an agreement begun in 2007 for Romar to supply equipment for removing metal waste debris from Total projects in the North Sea.

Dana move to new HQ

Dana have moved their 200 strong UK workforce into Centrica's former premises at King's Close, Huntly Street, Aberdeen following a major refit. The Aberdeen oil company have invested £4 million in the new headquarters.

ROVOP's £2 million investment in new vehicles

ROVOP, the subsea company, have invested £2 million in new remotely operated vehicles after securing £8 million in funding. The SAAB vehicles will be used for pipeline surveys, repairs and inspections.

Titan expansion

Titan Torque and Tools Services have invested £150,000 in a move to a modern 25,000 sq ft office and workshop at Queens Links and plan to add a further four to their workforce by the start of next year.

Absoft open office in Stavanger

Absoft, the software suppliers and consultancy, are opening a base in Stavanger, Norway. The firm, which plans to increase their 110 strong headcount to 175 over the next three years, are making their first venture overseas.

SeaEnergy acquire Return to Scene

SeaEnergy have acquired Aberdeen business Return to Scene in a potential £10 million+ deal. Return to Scene, set up 20 years ago, analyse offshore installations to help plan maintenance activities and also work with police forces to recreate crime scenes.

Energy Ventures take stake in Halfwave

Energy Ventures, the venture capital firm with an office in Aberdeen, have invested more than £7.5 million in a 56% stake of Norwegian pipeline inspection company Halfwave.

Eland join Alternative Investment Market (AIM)

Eland Oil and Gas, the Aberdeen-based oil company, have joined the Alternative Investment Market (AIM), with an estimated valuation of £100 million. Eland's main interests are in Nigeria and other parts of West Africa.

Bridge Energy to join AIM

Bridge Energy also announced plans to join AIM, with an estimated valuation of £80 million. Bridge's interests are in the UK and Norwegian sectors of the North Sea.

FTSE 100 re-entry for Wood Group

Wood Group have been promoted to the FTSE 100 in the latest reshuffle of the London stock market index. They were previously part in March 2011 but dropped down into the FTSE 250 last September. The move is expected to result in increased demand for the group's shares.

UK North Sea oil production down -18%

UK oil and gas production both fell in May 2012, compared with the same month of 2011. Average daily oil output was 797,651 barrels per day, which was down -18% compared with May 2011. Average daily gas output was 3,143 million cubic feet per day, a fall of -33% compared with May 2011.

Oil prices

Brent crude began August at US \$105.77 per barrel and ended it at \$114.15, an increase of +8%. The monthly average was \$112.83, which was +10% higher than the \$102.45 average in July. Prices traded between \$105.77 and \$116.12.

39 job losses at Expro subsidiary

39 people at Expro AX-S Technology, part of oilfield service company Expro, have been made redundant.



THIS MONTH'S COMMENTS

A disappointing month

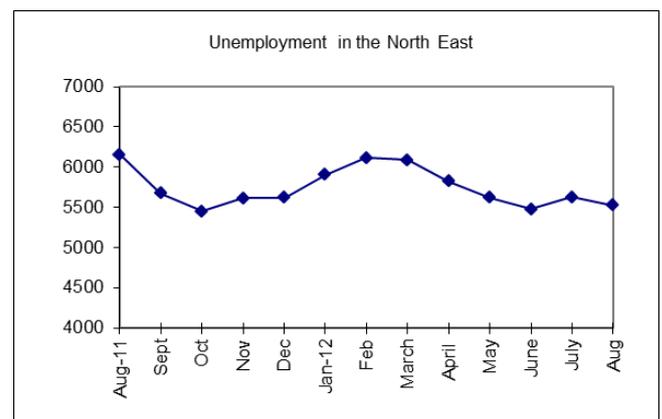
August was a disappointing month for the North East economy, with about 135 job losses announced in four local companies. The local economy has done much better than its Scottish and UK counterparts for the last two years so it is surprising when we have to report a lot of bad news.

The job losses included:

- 40 at the Millers Restaurant and Visitor Centre in Midmar
- 39 at Expro AX-S Technology
- 31 at Findlay Clark Landscapes
- 25 at the Aberdeen Buttery Company.

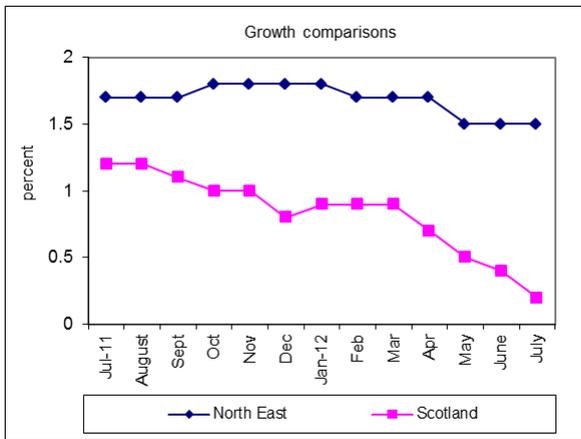
The problems of the businesses concerned indicate that the North East is not immune from the economic recession, although many of the local economic indicators continue to be very positive.

Unemployment fell by -102 to 5,523. The current total is -634 below the level of one year ago, as shown in the figure below.



The local unemployment rates remain well below the Scottish and UK averages. The Aberdeenshire rate of 1.3% is the lowest of all the 32 local authority areas in Scotland and the Aberdeen City rate of 2.2% is the fourth lowest. The Scottish average is currently 4.3% on the same basis.

We estimate that monthly economic output in the North East was approximately £998 million, which was +1.5% higher than one year ago. That growth rate is much higher than our +0.2% estimate for Scotland as a whole, as illustrated in the figure below, and the latter estimate may actually be too high.



The non-oil good news during the month included:

- the holding of the British Science Festival in Aberdeen
- Lunar Fishing increasing their annual profits by +81% to £16.3 million
- revised plans for a golf course on the Ury Estate near Stonehaven.

Aberdeen Airport reported a +9.2% increase in passenger numbers to 301,800, which was much better than Glasgow (+3.1%) and Edinburgh (-1.9%). That has been the case for many months.

FirstGroup were awarded the West Coast (Glasgow-London) rail franchise last month. However, Virgin Rail, the present operators, have launched a legal challenge to that decision, so it may be months before there is a final decision.

The oil and gas industry was surprisingly quiet, after a stream of announcements about new field developments and other important investments. A few companies announced new contracts but they were all relatively small scale.

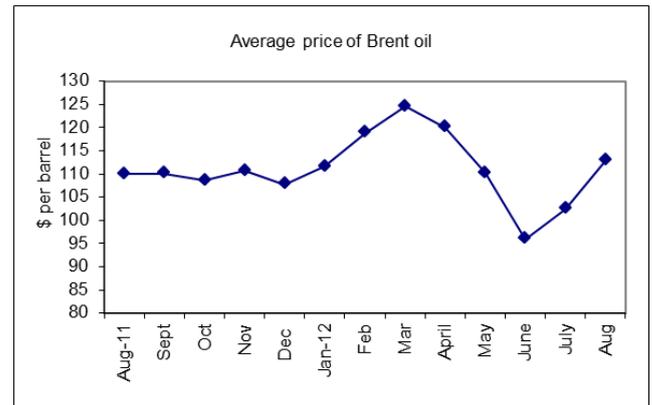
Absoft have opened an office in Stavanger in their first overseas venture.

It was also a quiet month for deals but they included the acquisition of Tritech International for a reported £21 million.

The Wood Group have rejoined the prestigious FT 100 index, having dropped out of it in March 2011.

Eland Oil and Gas, the Aberdeen-based oil company, joined the Alternative Investment Market (AIM) with an estimated valuation of £100 million, and Bridge Energy announced plans to do likewise, with an estimated valuation of £80 million.

Oil prices rose during August, with Brent crude ending the month +8% higher at \$114.1 per barrel. Prices have fallen back a little during the first part of September but are unlikely to go below \$100. The figure below shows the monthly average for Brent during 2012 to date.



There have been mixed influences during the last few weeks. The sanctions on Iran and other problems in the Middle East have forced up price at times. On the other hand, gloomy economic news from the USA and China have exerted downward pressures, as has Saudi Arabia's announcement that it is willing to make up any shortfall in Iranian oil production.

High oil prices are good news for the oil and gas industry in the North East. They have led to a boom in capital spending on the UKCS, particularly around Shetland, and increased activity in many other parts of the world.

However, UKCS oil and production continue to fall at alarming rates. The latest official Statistics from DECC show oil production down -18% on an annual basis and gas production down -33%.

Value of fish landings up +10%

The Scottish Government have published the annual Scottish Sea Fisheries Statistics for 2011, which give a wide range of information on trends in the fishing industry. The report is essential reading for anyone interested in the industry.

The value of fish landings by Scottish-based vessels was £501 million in 2011, which was +13% higher in real terms than in the previous year.

The main reason for the increase was a large rise in the value of mackerel/pelagic landings. Pelagic fish accounted for 37% of the total, shellfish 33% and white fish (demersal) 30%.

The table below shows that the value of fish landings at three ports in the North East was just under £209 million, which was +9.9% higher than in 2010. The North East accounted for 46.6% of the Scottish total, compared with 48.3% in the Highlands and Islands and 5.1% in the Rest of Scotland.

Value of fish landings (£000)

	2010	2011	% change
Peterhead	139,440	154,549	+10.8
Fraserburgh	46,217	50,122	+8.4
Aberdeen	4,194	3,990	-4.9
North East total	189,851	208,661	+9.9

Peterhead continues to be the most important fishing port in Scotland, with 2011 landings of just under £155 million, which was 32.2% of the Scottish total.

Fraserburgh ranks third (after Shetland) with £50 million, which was 10.4% of the total and +8.4% higher than in 2010.

Aberdeen, in contrast, experienced a -4.9% fall to just under £4 billion, which was only 4.0% of the Scottish total. There has been a big contraction in the fishing industry in the city and it is obvious that the Aberdeen Harbour Board prefer oil business to fish.

The near demise of the fishing industry in Aberdeen saddens me. I lived in Torry for many years and walked past the fish market most mornings on my way to work at the university. I suspect that the late John Wood – the founder of the Wood Group – and my old friend George Craig - of the Craig Group - would feel the same as me.

Nevertheless, the fishing and fish processing industries continue to be very important parts of the local economy. The Statistical Tables show 1,304 local fishermen, including 788 in Fraserburgh, 398 in Peterhead and 118 in Aberdeen.

That total is 26% of the Scottish total of 4,966, which was -4% lower than in 2010. However, the three ports account for a much larger proportion of the fish landings (47%).

Is the Scottish economy really doing better than the UK?

The question should be less worse, rather than better, of course.

Both the Scottish and UK economies are currently in recession, as I discussed in last month's report. However, Ministers responded to my comments by claiming that the Scottish economy was doing better than its UK counterpart.

I do not believe that is the case, although the differences are very small. The Scottish and UK economies are very closely linked and for most of the time the differences in economic performance are negligible.

There are differences in the structure of economic activity and employment. On the positive side, the oil and gas industry is currently doing very well, notably in the Aberdeen area. There is also currently a high level of investment in onshore wind farms. The Scotch whisky industry is also doing well at the present time, although it accounts for only a small proportion of national output and employment.

On the negative side, the public sector is significantly larger in Scotland than in the UK as a whole. It has had a low level of productivity for many years, which has held down the growth rate. More recently it has been adversely affected by the public expenditure cuts imposed by the UK Government.

The financial services industry is also larger in Scotland than in the UK as a whole, partly because of the presence of the Royal Bank of Scotland (RBS) and Bank of Scotland (BoS). The industry's problems are well known and need not be repeated here.

These positive and negative differences balance each other out to a large extent.

The Scottish economy has proportionately more exports than the rest of the UK. However, about 60% of those exports go to England.

The obvious implication is that if the English economy is in recession, then there will have been a fall in Scottish exports. That is also the case with exports to the EU.

There are various economic indicators but the two we most frequently use are economic output (GDP or GVA) and unemployment. The latter has the advantage

of up-to-date monthly statistics, whereas the GDP estimates are published quarterly and after a few months' delay. There are also other indicators, which we include in our monthly reports, but these are the two main ones.

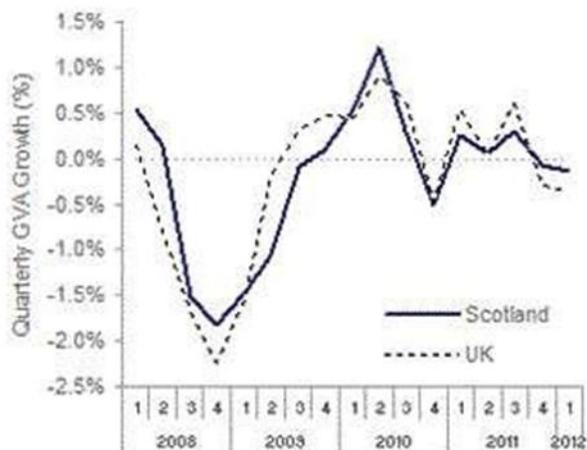
The Office for National Statistics (ONS) publish quarterly estimates of UK GDP. The Scottish Government also publish quarterly estimates but three months after the ONS ones. The latter are often much less accurate and subject to substantial revisions, unfortunately.

The latest ONS estimates show UK GDP falling by -0.5% in the second quarter (Q2) of 2012. That figure is likely to be revised to -0.4% but nevertheless was much worse than generally expected.

It was the third consecutive quarterly fall in UK economic output, so it is evident that the UK economy is back in recession.

The Scottish Government's Q2 estimates will not be published until October. The estimate for the first quarter of 2012 was a -0.1% fall in GDP, following a similar fall in Q4 of 2011.

The figure below is reproduced from the last Scottish Government report and compares the Scottish and UK quarterly GDP changes since 2008.



The trends are very similar and the differences small, as I have argued in many previous reports.

I can understand why Scottish Ministers claim that the Scottish economy has been doing better – or more accurately, less worse – than the UK economy but there is limited evidence to support that claim. The latest monthly unemployment statistics show the Scottish rate slightly above the UK average, for example.

The UK Government's economic policies are not working well at the present time, as I wrote in last month's report. The Scottish Government wants to increase public spending on infrastructure projects in order to give a boost to the economy and help bring down unemployment. The latter are in a good political situation because they can blame the UK Coalition Government if additional funding is not made available.

Nevertheless, there is relatively little that John Swinney and his colleagues can do to revitalise the Scottish economy. The states of the UK and EU economies are very important influences.

As we highlighted earlier in this report, there is widespread pessimism. The latest consensus forecast for the UK economy is a -0.3% decline in GDP in 2012 and +1.2% growth in 2013. The forecasts for the Euro area are -0.5% and +0.2% respectively.

Whether or not these forecasts prove accurate, I am sure that the actual outcome in Scotland will be little different from the UK as a whole. The oil and gas industry seems certain to do well over the next few years but that advantage will be largely offset by the continuing low productivity in the public sector in Scotland.

Tony Mackay