NORTH EAST SCOTLAND: MONTHLY ECONOMIC REPORT for DECEMBER 2016 by MACKAY CONSULTANTS

Aberdeen Harbour's £350 million expansion plans

○ HIGHLIGHTS

- ○ Aberdeen Harbour's £350 million expansion plans
- ○ Value of Peterhead fish landings up +116%
- ○ Marriott open new hotel at airport
- ○ Macphie of Glenbervie profits up +33%

● LOWLIGHTS

- Aberdeen house prices fall -8.7%
- Aberdeen Airport passenger numbers down -4.1%
- Chevron cancel order for Rosebank FPSO

!! THIS MONTH'S COMMENTS

- ✳ A quiet month
- ✳ Latest forecasts for Scottish economy
- ✳ Aftermath of OPEC meeting
- ✳ Earnings statistics by local area

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ECONOMIC OUTPUT

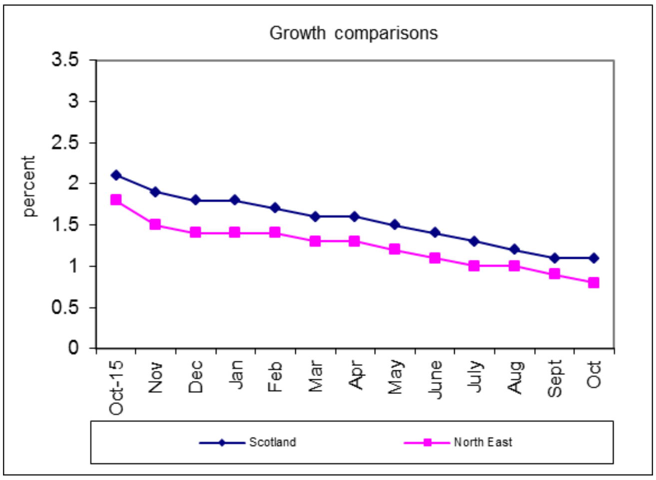
We estimate that economic output in the North East in October 2016 was just under £1.0 billion. That is +0.8% higher in real terms than the October 2015 total. Our estimates for the last twelve months are:

Oct 2015	£1,061 m	May	£1,068 m
November	£1,011 m	June	£1,119 m
December	£977 m	July	£1,268 m
Jan 2016	£1,006 m	August	£1,116 m
February	£1,002 m	September	£1,284 m
March	£1,025 m	October	£1,070 m
April	£1,042 m		

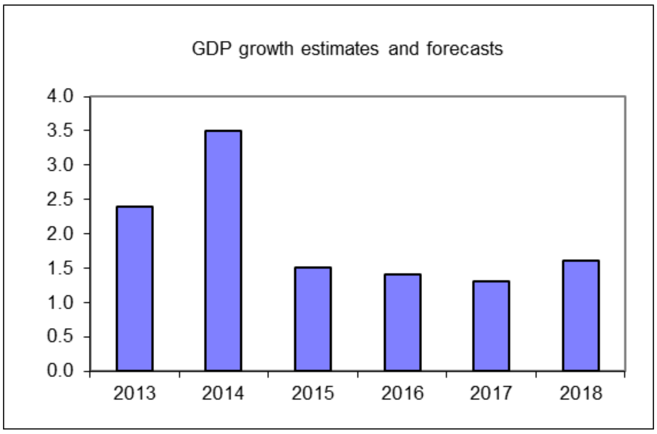
The growth rates for the last twelve months are illustrated in the figure below. These show the month-on-month comparisons, i.e. October 2016 compared with October 2015, September 2016 compared with September 2015 etc.

The figure also shows our estimates of Scottish GDP growth. The North East rate had consistently been well above the national average for the last few years but that has changed recently. Our estimates show the North East rate being below the Scottish average for the last twelve months.

Our latest estimate of Scottish economic growth is +1.1%, compared with +0.8% in the North East. The obvious reason for the change in fortunes is the collapse in world oil prices and the adverse impact that has had on the local economy.



We have recently revised our forecasts of economic output (GDP) in the North East in the period to 2018. They show a continuing downturn, as illustrated in the next figure. We are now forecasting just +1.4% growth in the North East in 2016, +1.3% in 2017 and +1.6% in 2018.



Our latest forecasts of Scottish GDP growth are +1.5% in 2016, 1.2% in 2017 and 1.5% in 2018. These are slightly lower than the original forecasts we made at the beginning of the year, before the Brexit vote.

The UK Treasury publish monthly summaries of about 40 independent forecasts. The latest average forecasts (December) for UK GDP growth are 2.0% in 2016, with a range from 1.8% to 2.2%, and 1.2% in 2017, with a range from 0.5% to 2.7%. The latter average is 0.1% higher than last month. The range for 2017 continues to be surprisingly wide.

Many people are clearly pessimistic about the impact of Brexit on the UK economy.

UK ECONOMY

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

	2016	2017
Britain	2.0%	1.1%
Euro area	1.6%	1.3%
USA	1.6%	2.2%

The UK forecast for 2017 has been increased by +0.2% from 0.9%. The Euro area forecast for 2016 has been increased by +0.1%, as have both the USA forecasts.

The Bank of England's Monetary Policy Committee cut their base interest rate by -0.25% to 0.25% at their October meeting. That continues to be the lowest level since the Bank was created in 1694! The Bank also announced a package of other measures to boost the economy following the Brexit vote.

The external value of sterling rose during November, after big falls following the result of the referendum on EU membership. It ended the month at $1.26 against the US dollar, which was up +0.8%; at €1.15 against the euro, up +2.7%; and the £ trade weighted index also rose +2.7% to 76.2.

UK GDP

The Office for National Statistics' (ONS) estimates show that UK GDP increased by +0.5% in the third quarter (Q3) of 2016, compared with +0.7% in Q2. Output in Q3 was +2.3% higher than in the same quarter of 2015.

Manufacturing output

The index of manufacturing output was 102.3 in October, compared with 103.5 in September.

Unemployment

The claimant count rate of unemployment for November 2016 was 2.2%. The wider rate (including the economically inactive) for the quarter August to October 2016 was 5.3%.

Earnings

The annual growth in average earnings ("regular pay") in October 2016 was 2.6%, down -0.1% from September.

Inflation

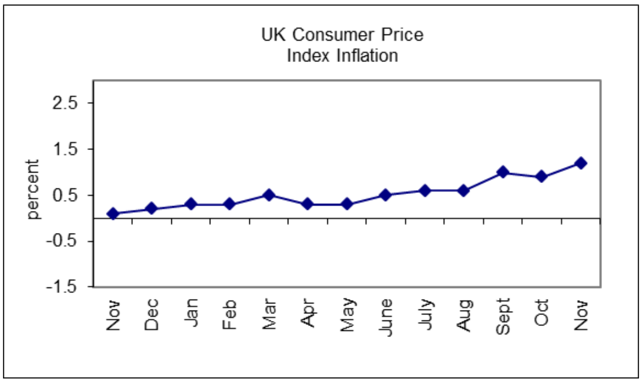
UK inflation, as measured by the Consumer Prices Index up 1.2% in November, from 0.9% in October, according to the Office for National Statistics. The Retail Prices Index (RPI) - a separate measure of inflation, which includes housing costs - was 2.2% in November.

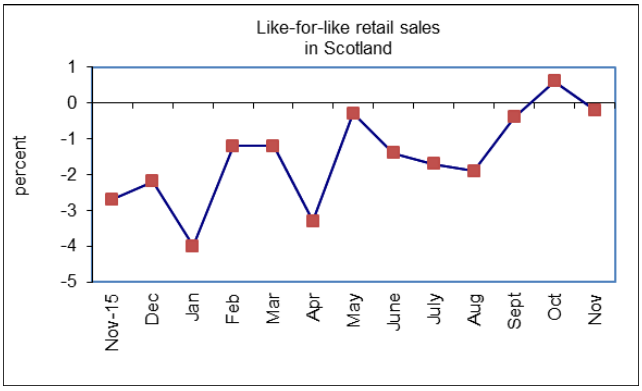
The table below gives the main economic indicators.

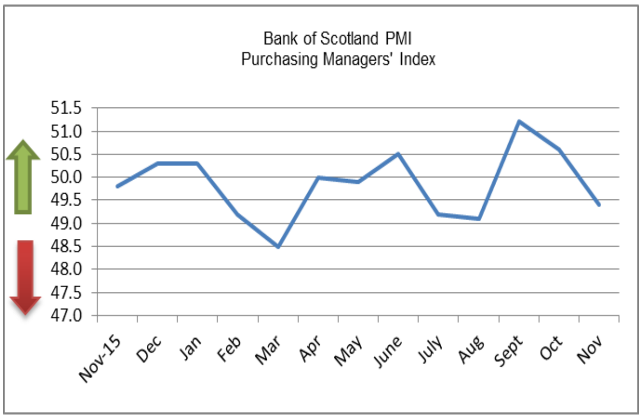
	Real GDP (%)	CPI change (%)	Earnings growth (%)	Manufacturing output	Unemployment rate (%)
2009	-4.9	2.2	2.3	89.3	4.7
2010	1.8	3.3	1.9	90.8	4.9
2011	0.7	4.5	2.0	93.8	5.2
2012	0.0	2.8	1.7	101.1	5.2
2013	1.7	2.7	1.0	101.3	4.6
2014	2.8	1.4	1.2	101.8	3.5
2015	2.3	0.1	2.3	101.3	2.7
2014 Q1	0.8	1.7	1.3	101.8	4.0
Q2	0.9	1.7	0.6	102.1	3.6
Q3	0.7	1.4	1.3	102.3	3.3
Q4	0.6	0.9	1.7	101.1	2.9
2015 Q1	0.4	0.1	1.9	101.6	3.1
Q2	0.5	0.0	2.8	101.5	2.8
Q3	0.4	0.0	2.5	101.1	2.6
Q4	0.5	0.1	2.0	101.0	2.1
2016 Q1	0.4	0.4	2.1	100.6	2.2
Q2	0.6	0.4	2.3	103.5	2.2
Q3	0.5	0.7	2.4	103.0	2.3
September	n/a	1.0	2.7	103.5	2.2
October	n/a	0.9	2.6	102.3	2.2
November	n/a	1.2	n/a	n/a	2.2

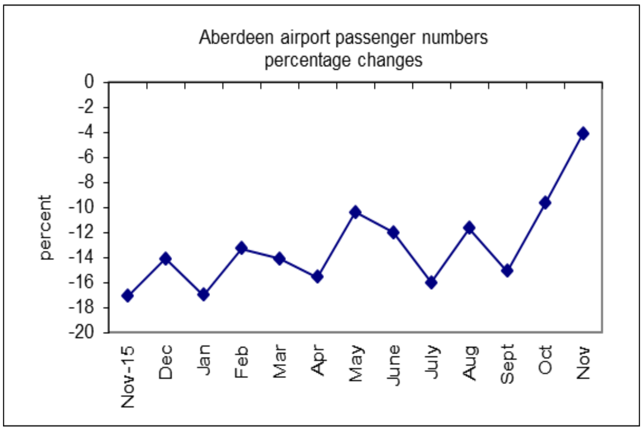
Note: GDP, CPI and earnings figures show the percentage growth over the same period in the previous year. The manufacturing output index is 2003=100.0.

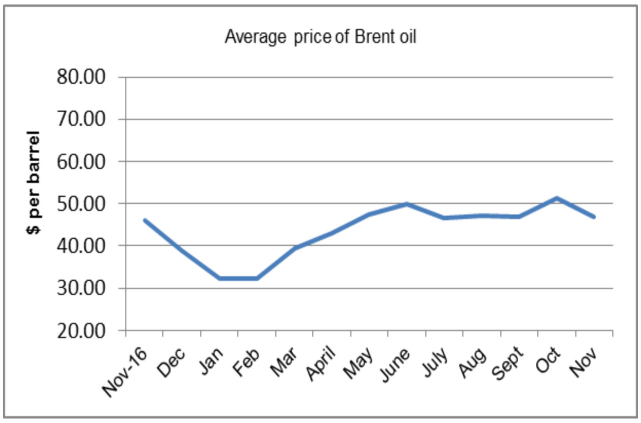
MONTHLY STATISTICS

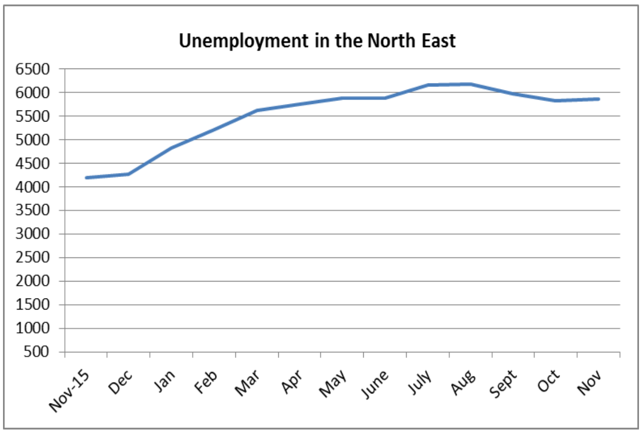












UNEMPLOYMENT

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 2.2%. The wider rate (including the economically inactive) for the quarter August to October 2016 was 5.3%.

The latest monthly statistics (November 2016) for the North East published by the Employment Department are:

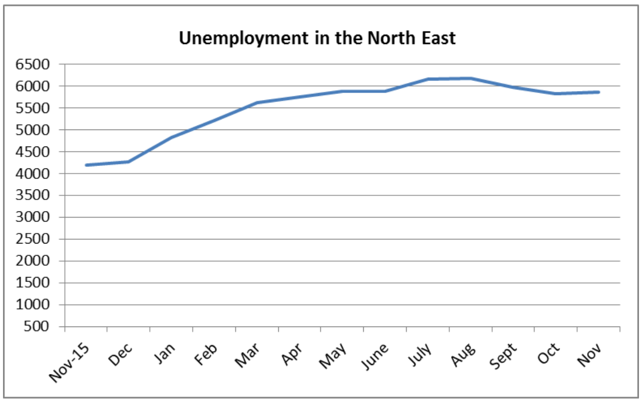
	male	female	total	male %	female %	total %
Aberdeen City	2,485	1,015	3,500	3.0	1.3	2.2
Aberdeenshire	1,615	740	2,355	1.9	0.9	1.4
Total	**4,100**	**1,755**	**5,855**	**2.6**	**1.1**	**1.9**
Aberdeen TTWA	3,370	1,450	4,820			
Turriff and Banff TTWA	185	95	280			
Fraserburgh TTWA	145	60	205			
Peterhead TTWA	350	145	495			
Total TTWAs	**4,050**	**1,750**	**5,800**			

The Aberdeenshire rate of 1.4% is the seventh lowest of the 32 local authority areas in Scotland and the Aberdeen City rate of 2.2% is the 21st lowest. The Scottish average is currently 2.2% on the same basis. The wider rate for Aberdeen City is approximately 4.8% and for Aberdeenshire 3.1%.

The changes for the two local authority areas since November 2015 are:

	Aberdeen City		Aberdeenshire		Total for North East	
	Number	Change	Number	Change	Number	Change
Nov 2015	2,530	+217	1,655	+289	4,185	+506
December	2,520	-10	1,750	+95	4,270	+85
January	2,755	+235	2,075	+325	4,830	+560
February	2,925	+170	2,285	+210	5,210	+380
March	3,190	+265	2,420	+135	5,610	+400
April	3,310	+120	2,435	+15	5,745	+135
May	3,400	+90	2,470	+35	5,870	+125
June	3,380	-20	2,505	+35	5,885	+15
July	3,595	+215	2,560	+50	6,155	+270
August	3,635	+40	2,545	-15	6,180	+25
September	3,520	-115	2,445	-100	5,965	-215
October	3,465	-55	2,350	-95	5,815	-150
November	3,500	+35	2,355	+5	5,855	+40

Unemployment rose by +40 to 5,855. The current total is +1,670 above the level of one year ago, as shown in the figure below.



The best comparisons are probably with the same period in 2015. The changes in unemployment in the TTWAs between November 2015 and November 2016 are shown below.

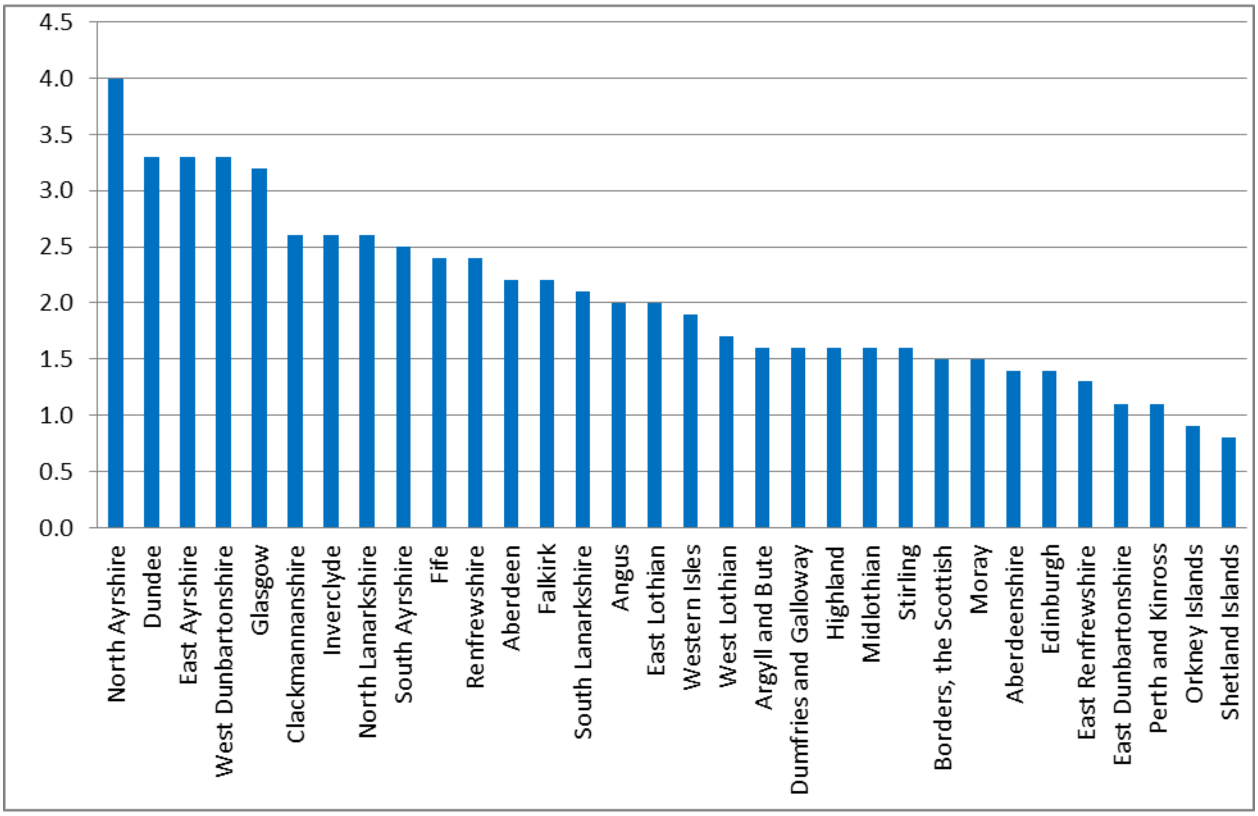
	Nov 2016	Nov 2015	diff	% diff
Aberdeen TTWA	4820	3385	1435	42.4
Turriff and Banff TTWA	280	190	90	47.4
Fraserburgh TTWA	205	175	30	17.1
Peterhead TTWA	495	365	130	35.6
Totals TTWAs	**5800**	**4115**	**1685**	**40.9**

The total number is +40.9% higher. Unemployment rose in all four of the TTWAs. In contrast, the change in Scotland as a whole over the year was just +6.8%, so the region has done much worse in terms of unemployment.

The table and figure on the next page show the latest unemployment levels and % for each of the 32 areas in Scotland.

Unemployment levels: November 2016

	Total	%		Total	%
Aberdeen	3500	2.2	Highland	2335	1.6
Aberdeenshire	2355	1.4	Inverclyde	1290	2.6
Angus	1425	2.0	Midlothian	875	1.6
Argyll and Bute	825	1.6	Moray	880	1.5
Borders, the Scottish	1055	1.5	North Ayrshire	3335	4.0
Clackmannanshire	840	2.6	North Lanarkshire	5695	2.6
Dumfries and Galloway	1475	1.6	Orkney Islands	115	0.9
Dundee	3275	3.3	Perth and Kinross	990	1.1
East Ayrshire	2525	3.3	Renfrewshire	2710	2.4
East Dunbartonshire	745	1.1	Shetland Islands	115	0.8
East Lothian	1310	2.0	South Ayrshire	1675	2.5
East Renfrewshire	710	1.3	South Lanarkshire	4310	2.1
Edinburgh	5015	1.4	Stirling	970	1.6
Falkirk	2200	2.2	West Dunbartonshire	1940	3.3
Fife	5485	2.4	West Lothian	1975	1.7
Glasgow	13485	3.2	Western Isles	305	1.9



NEW DEVELOPMENTS

Non-oil related

Aberdeen Harbour's £350 million expansion plans
The Aberdeen Harbour Board have approved plans for a £350 million expansion which involves relocating some of the facilities to Nigg Bay. In particular, the Board want to attract cruise liners which cannot use the existing harbour.

Work is expected to commence in early 2017 and be completed by 2020. The Aberdeen Harbour Board have agreed a £200 million loan with the European Investment Bank and hope to get a £36 million grant under the Aberdeen City and Region Deal.

Marriott Hotels open first Moxy hotel at airport
Marriott Hotels have opened the first UK Moxy branded hotel at Aberdeen airport. The 200 bedroom Moxy Aberdeen is the brand's first venture in the UK. 42 jobs have been created.

Vattenfall sign 24 year lease with Aberdeen Harbour
Vattenfall, the Scandinavian utility, have signed leases totalling 24 years with Aberdeen Harbour, becoming the first offshore wind operator to invest long term in the port. The company will establish a construction team within the Regent Centre this month and also move into a warehouse unit at Commercial Quay. The facilities will support the construction, commissioning, operation and maintenance and eventual decommissioning of Vattenfall's £300 million European Offshore Wind Deployment Centre in Aberdeen Bay. A team of up to 10 people will be based at the harbour facilities during the lifetime of the project.

Finance agreed for two new health centres
A multi-million finance package has been agreed for new health centre provision in Inverurie and at Foresterhill in Aberdeen, paving the way for construction on both facilities to begin. The £22 million projects will be led by Hub North Scotland after they were appointed as the development partner by NHS Grampian. Work on both sites will be carried out by Morrison Construction.

New plans for Union Terrace Gardens in Aberdeen
New plans for a £20 million revitalisation of the historic Union Terrace Gardens in Aberdeen city centre centre have been unveiled. LDA Design said the aim is to make UTG a "lively cultural hub". A report on the consultation is expected to go to the full council in March next year. If approved, the target completion date is the autumn of 2019.

Peterhead Port Authority awarded £5 million grant
The Peterhead fishing port is to receive a £5 million investment, split on an equal basis between the Scottish Government and the European and Maritime Fisheries Fund. The money will be used to expand the floor space of the fish market by 50% and bring together key services and facilities so vessels can complete port calls quicker.

SMG chosen as operators for new AECC
SMG, the venue management company, have been chosen as the preferred bidder for the new Aberdeen Exhibition and Conference Centre (AECC) by Aberdeen City Council's finance, policy and resources committee.

Kintore railway station may reopen
Kintore railway station, which closed over 50 years ago, could be revived if authorities can plug a £3 million funding gap. Nestrans, the region's transport partnership will have to agree how to source nearly £3 million of funding. Opening a new station at Kintore will cost £12.2 million, with 50% of that total already secured via contributions from Aberdeenshire Council and the Scottish Stations Fund (SSF), administered by Transport Scotland. The new station would be located off the Northern Road and will feature a 180-capacity car park, passenger facilities and a new access road.

Flybe announce new flights to Heathrow
Flybe will launch a new air service between Aberdeen and London Heathrow. There will be more than 10 scheduled flights per week, starting on 26th March 2017.

Glenshee Ski Centre plans for new chairlift
The Glenshee Ski Centre near Braemar have submitted a planning application to replace the Cairnwell T-Bar with a four-person carrier which can transport 1,500 passengers an hour to the top of the hill.

Macphie profits up +33% to £4.7 million
Macphie of Glenbervie, the food ingredients company based in Glenbervie near Stonehaven, reported a +33% increase in pre-tax profits to £4.7 million in the year to end March 2016. Turnover increased by +7% to £47.6 million.

Alastair Macphie, the chairman and chief executive, stated that there had been growth in both the UK and international markets, particularly in the Middle East.

Gray and Adams' profits down -1.5%
Gray & Adams, the freight vehicle manufacturers, reported a -1.5% fall in pre-tax profits to £4.6 million in the year to April 2016. Turnover fell -2.7% to £101.2 million.

Duncan & Todd reduce losses to -£257,000

Duncan and Todd, the eyecare specialists based in Aberdeen, have cut losses but increased sales by more than +35% amid expansion across Scotland. The Business Growth Fund (BGF)-backed company reduced pre-tax losses to -£257,219 during the year to March 31, from -£829,487 in 2014/15. Turnover rose +36.4% to £16.5 million.

James Hutton's turnover up +25% to £4.9 million

James Hutton Ltd, the commercial subsidiary of the James Hutton Institute, the agricultural research body based in Aberdeen, reported that their annual turnover increased by +25% to £4.9 million in the year ended March 2016. Pre-tax profits increased to £170,000 from just £12,000 in the previous year.

Aberdeen Airport passenger numbers down -4.1%

238,000 passengers used Aberdeen Airport in November, which was -4.1% less than in the same month of 2015. The numbers of domestic and international passengers were down by -6.8% and -1.6% respectively, and helicopter passengers by -8.5%.

Value of Peterhead fish landings up +116.4%

Fish landings at Peterhead in November were valued at £26.9 million, which was +116.4% more than in November 2015, according to the latest statistics from the Peterhead Port Authority. White fish accounted for 43% of the total, herring and mackerel 53% and shellfish 3%.

Landings in 2016 to date have totalled £175.7 million, which is +41% higher than in the same period of last year.

Retail sales down -0.2% in November

Like-for-like retail sales in November decreased by -0.2% compared with November 2015, according to the latest statistics from the Scottish Retail Consortium (SRC). Total food sales decreased by -2.2% and total non-food sales by -2.7%.

New car sales fell -4.8% in November

New car registrations in the North East in November totalled 1,345, which was a fall of -4.8% compared with November 2015, according to the Scottish Motor Trade Association. New car registrations in Scotland in November totalled 15,278, which was a rise of +2.0%. The overall British figure showed a rise of +3.01%.

Aberdeen house prices fall -8.7%

The Registers of Scotland reported in their latest monthly House Price Index that the biggest decrease was again in Aberdeen City, where the average price fell by -8.7% to £172,870 over the year to October. The Scottish average rose +4.0% to £143,131. The Aberdeenshire average fell -3.1% to £194,727.

Aberdeen's hotel revenues down -14.6%

LJ Research have published their latest monthly statistics on the hotel industry in Aberdeen. They show that the average occupancy rate in Aberdeen in November was 70%, up from 68.5% in November 2015. The average room rate (ARR) was £65.38, which was down -14.6% on the same month of last year. The revenue per available room (RevPar) rate was down -13.0% from 2015.

AAM taking over BlackRock Income Strategies Trust

Aberdeen Asset Management (AAM) hope to take over the underperforming BlackRock Income Strategies Trust and merge it into their own UK Tracker Trust. The plan, which requires the backing of both trusts' shareholders, will result in a combined portfolio with around £500 million of assets under management. It will be renamed Aberdeen Diversified Income and Growth.

Aberdeen law firm taken over

Shepherd & Wedderburn (S&W) have bought Aberdeen firm The Commercial Law Practice (CLP). The deal, for an undisclosed sum, sees CLP co-founder and partner Mike Anderson become a partner of Edinburgh-headquartered S&W. Based in Aberdeen's West End, CLP was formed in January 1995.

First eBusiness Solutions taken over

Incremental Group, a digital technology business based in Glasgow, hope to create 140 jobs after acquiring First eBusiness Solutions, based in Inverurie, Aberdeenshire. Incremental Group have acquired the 34 person First eBusiness Inverurie firm and plan to diversify the business by creating around 30 jobs in the Central Belt within the next year, with a further 110 likely to be added in the next three to five years.

Holiday camp plans rejected

Banff and Buchan area committee recently met to determine whether landowner Marianne Shand could build a holiday camp at Forglen. Despite receiving praise for the initiative by councillors, who described her plan to install seven yurts and three wigwams at Silverstripe as a "good idea", they rejected the scheme over road safety fears.

Closing date for bids for Aberdeen hotel

Shepherd Chartered Surveyors, the selling agents appointed by the administrator, Michael Reid of Meston Reid & Co, who are handling the sale of the defunct Inn at the Park in Aberdeen's Ferryhill have set a closing date for bids. Shepherd's are seeking offers in excess of £550,000 for the hotel. It was hoped that the hotel would continue to remain open until a buyer was found but that did not materialise and the remaining five staff were made redundant.

DHL to close Aberdeen depot
DHL Freight UK, the logistics group with a depot in Aberdeen has announced a period of consultation with a view to closing operations. 11 workers at their warehouse on Howe Moss Drive are facing redundancy.

Oil-related

First gas delivered from Cygnus Field
A £1.3 billion North Sea field has delivered "first gas" in what has been described as a significant boost to UK energy security. Engie, the French energy company, said the Cygnus field 93 miles off the coast of Lincolnshire will soon be delivering 5% of UK gas production ,enough to heat the equivalent of 1.5 million homes. The firm's flagship North Sea gas project was sanctioned in 2012 and represents a £1.3 billion investment.

Development plan for Blythe gas field
Independent Oil and Gas have submitted to the Oil and Gas Authority a field development plan for the Blythe field in the Southern North Sea. The gas field contains independently verified 2P (proved and probable) reserves of 34.3 billion cubic feet, which equates to 6.1 million barrels of oil equivalent. Independent said the first gas is expected to come onstream in the second half of 2018, subject to completion of the development funding.

A find was first made at Blyth by Burmah 50 years ago. Independent said that the planned gas hub around Blythe will include the nearby Elgood discovery as a tie-back to the same infrastructure.

Progress with Lancaster field development plans
Hurricane Energy have signed heads of terms with Bluewater Energy Services for the use of the Aoka Mizu floating production storage and offloading vessel (FPSO) on the company's Lancaster field, West of Shetland. Hurricane intend to use the Aoka Mizu for the Early Production System (EPS) phase of development and will have the right to extend the contract for up to ten years.

Leadon oil field decommissioning contract
Maersk Supply Service announced that they had secured a contract with Maersk Oil UK for the Leadon subsea decommissioning programme. Located 120 nautical miles off the Shetland Islands, the Leadon subsea structure sits in approximately 120 metres water and the subsea structures to be recovered weigh up to 397 tonnes. The project completion is expected in December 2017.

Orion Group sign joint venture in China
The Orion Group based in Inverness has signed a joint venture (JV) agreement with China National Offshore Oil Corporation (CNOOC). The JV Company, known as CNOOC Orion Technical Services Co Ltd has the capabilities to supply foreign and local workers with a wide range of expertise. The two companies announced that the aim of the JV is to develop the talent resources service market and provide relevant personnel provision across CNOOC's oil, gas and energy related projects throughout China and the rest of the world.

14 more offshore blocks offered for licensing
The UK Government are offering 14 offshore blocks for licensing in a supplementary round following the closing last month of the 29th licensing round Operators have until March 7th to apply for licences to the Oil & Gas Authority (OGA). Supplemental round blocks lie outside areas covered by the 29th round. Block locations vary, ranging from the Southern North Sea to the East of Shetland area. The supplemental round uses the "innovate license" approach introduced in the 29th round."

In the 29th round, 24 companies submitted 29 applications for 113 blocks.

UK North Sea oil and gas production falls
UK oil production fell in August 2016, compared with the same month of 2015. Average daily oil output was 803,143 barrels, which was down -0.5%. Average daily gas output was 3,591 million cubic feet, a fall of -4.7%.

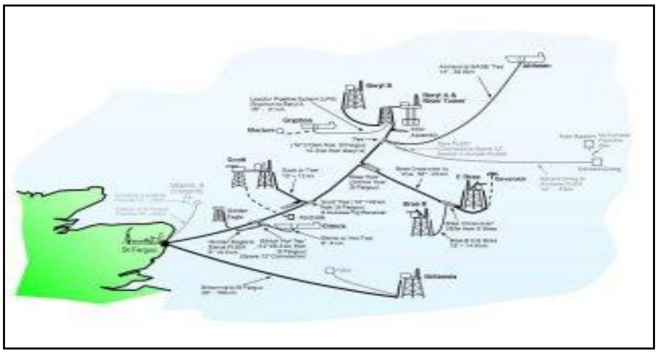
Oil prices
Brent crude began November at US $48.66 per barrel and ended it at $51.50, a rise of +5.5%. The monthly average was $47.00 which was -8.6% lower than the $51.42 average in October. Prices traded between $43.92 and $51.50.

SengS Subsea Engineering Solutions taken over
Pryme Group, an oil services firm based in Dundee, have bought SengS Subsea Engineering Solution, who are based in Aberdeenshire, for an undisclosed sum. The deal will allow the firm to add specialist design testing and assembly services to its offering. The acquisition is the fourth that Pryme has completed recently.

Apache Corporation selling interest in pipelines

Apache Corporation have agreed to sell their interests in the Scottish Area Gas Evacuation (SAGE) pipeline and an associated link to funds advised by London-based Ancala Partners. The Sage pipeline carries the output from nine North Sea fields around 200 miles for processing at the terminal at St Fergus, north of Aberdeen. The value of the transaction was not disclosed.

The Ancala Midstream Acquisitions vehicle formed by the private equity firm has agreed to buy Apache's 30.28% share of Sage. It will also buy Apache's 60.56% interest in the pipeline that connects the Beryl field to the Sage line. Aberdeen-based Wood Group will manage the pipelines for the company. The 110 people working for Apache on the terminal will transfer to the Wood Group. There will be no job losses as a result of the deal.



Bowleven report -£105 million loss

Bowleven, the oil and gas company headquartered in Edinburgh, reported a wider loss of -£104.6 million ($129.3 million) for the year to 30 June 2016, including a $122.3 million impairment charge and $11.8 million in unsuccessful exploration costs. That compares with a -$90 million deficit and $76 million impairment a year earlier.

Chevron terminate order for Rosebank FPSO

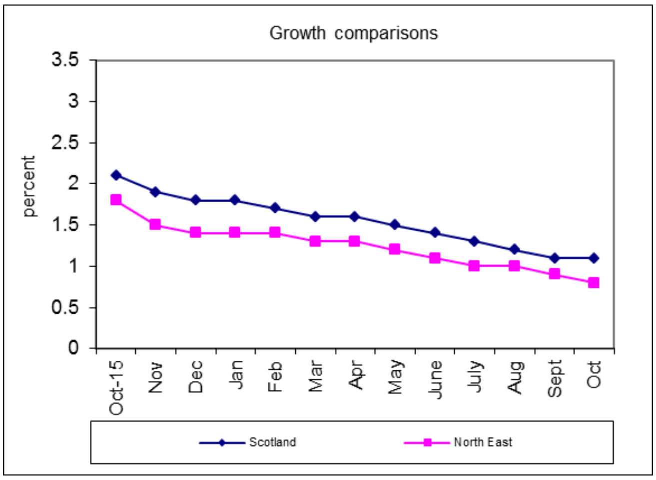
Chevron have terminated their order for an FPSO unit which was planned to be used on the Rosebank field in the UK North Sea. Hyundai Heavy Industries (HHI) was sent a termination notice earlier this month, according to reports. The order had been valued at $1.85billion. As for the Rosebank project, a Chevron spokesperson said that the company are continuing the Front End Engineering and Design (FEED).

THIS MONTH'S COMMENTS

A quiet month

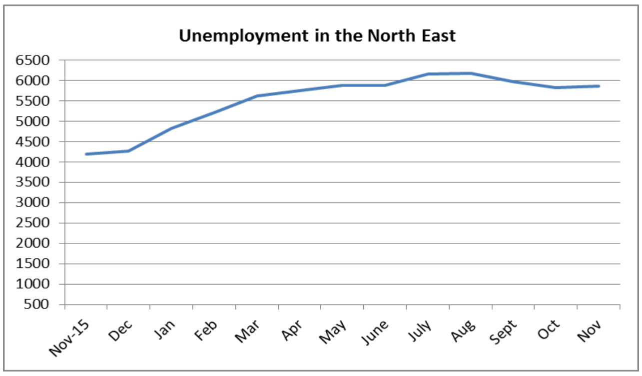
December has been a quiet month for the North East economy, with relatively few new developments, either positive or negative. The local economy has had a very difficult 2016, because of the recession in the North Sea oil and gas industry, but there are signs that the worst is over.

We estimate that the latest monthly economic output was approximately £1,070 million and the latest annual growth rate +0.8%. The latter has fallen steadily during 2016, as illustrated in the figure below. It has been below the Scottish average but the trends have been very similar.



The main reason for the falls in both growth rates has been the recession in the North Sea oil and gas industry, following the collapse in world oil prices. Some people have blamed the fall in the Scottish growth rate on the Brexit vote to leave the EU but I do not believe that is accurate….at least so far.

The latest unemployment statistics (claimant count) show a rise of 40, as illustrated in the next figure, which is disappointing. There was a fall in Scotland as a whole. The current total of 5,855 is +1,670 higher than one year ago.



The positive developments during the month included:

- approval of Aberdeen Harbour's £350 million expansion plans
- value of Peterhead fish landings up +116%
- Marriott opening new hotel at airport.

The bad news included:

- Aberdeen house prices falling by -8.7%
- Aberdeen Airport passenger numbers falling by -4.1%
- Chevron cancelling Rosebank FPSO order.

The Aberdeen Harbour Board approved a £350 million expansion, including a new harbour at Nigg Bay. There has been a lot of opposition to these plans, on both environmental and economic grounds. However, the Board are determined to continue. They have agreed a £200 million loan from the European Investment Bank (EIB) and hope for a grant from the Aberdeen City Region Deal.

The development is an excellent example of the current challenges facing the North East economy. The harbour has suffered badly from the recession in the North Sea oil and gas industry and needs to find other markets, like many other local businesses. The proposed expansion/relocation will help attract cruise liners which cannot use the existing harbour.

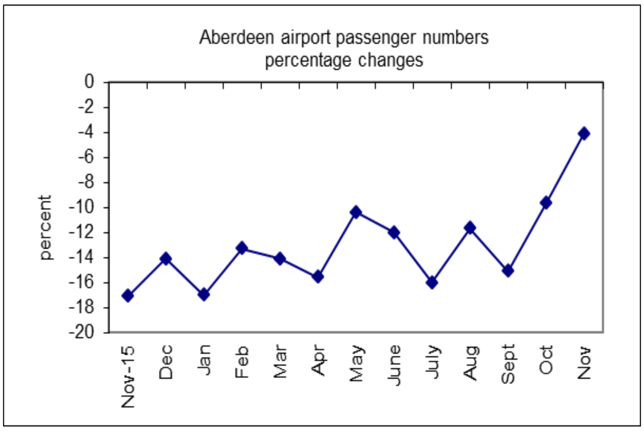
However, there are many doubts that the £350 million investment is worthwhile. One of the main reasons for that is that the market analysis/economic impact study commissioned by Scottish Enterprise and the Aberdeen Harbour Board is appallingly poor. The forecasts in it for the oil industry, the decommissioning market and the cruise liner market are unbelievably optimistic.

So too are the claims that the harbour expansion will create 7,000 jobs and add £1 billion a year to the local economy. Scottish Enterprise should never have accepted nor published such estimates or forecasts.

Other good news during the month included the latest fish landings statistics for Peterhead, which show that the value in November was +116% higher than in the same month of last year. 2015 was a disappointing year for the Scottish fishing industry but this year has been much better.

Marriott opened a new Moxy hotel at the airport. However, they presumably took that investment decision before the collapse in world oil prices.

The usual monthly statistics were disappointing. For example, passenger numbers at Aberdeen Airport fell again by -4.1%, compared with +8.3% at Edinburgh and +7.7% at Glasgow . However, the figure below suggests that the rate of decline is slowing down.



The latest monthly hotel statistics for Aberdeen were also disappointing.

So too are the latest statistics on local house prices. Registers of Scotland have begun publishing a monthly House Price Index, which gives statistics for each of the 32 local areas. The latest report shows that the Scottish average rose +4.0% to £143,131 in the twelve months to October.

However, the biggest decrease was again in Aberdeen City, where the average price fell by -8.7% to £172,870 over the year to October. The Aberdeenshire average fell -3.1% to £194,727.

It has been a strange month for the North Sea oil and gas industry, which has been the main cause of the downturn in the Scottish economy in 2015 and 2016. OPEC agreed on production cuts at a meeting on November 30th, which it was hoped would force up world oil prices. They initially rose by about +15% but since then the price of Brent crude has fallen back to about $55 a barrel.

This is discussed in more detail in another comment below.

I have written before that I believe that the world oil price needs to get back up to at least $70 before there is a significant revival in North Sea activity but that seems very unlikely, as discussed in more detail in the latest edition of our "sister" report on the North East economy. Nevertheless, there are signs that the recession in the North Sea oil and gas industry may have bottomed out.

Positive developments during the month included:

- first gas from the Cygnus field
- development plan for Blythe gas field
- progress with Lancaster field development
- contract for Leadon field decommissioning.

The Blythe development is particularly interesting because the field was discovered by Burmah 50 years ago but never developed.

Negative developments included:

- cancellation of FPSO contract for the Rosebank field.

It is not known what Chevron and partners plan to do with the field now.

Overall, therefore, December has been another mixed month for the North East economy. However, there has been a lot of gloom and doom for most of 2016 so the recent positive developments are encouraging.

I believe that the worst of the North Sea oil and gas recession may be over. However, the response to date of the OPEC agreement to cut production does not suggest a significant revival in North Sea activity. We probably have to accept that the decline will continue, albeit more slowly.

Diversification of the North East economy must be a top priority during 2017.

Tony Mackay

Latest forecasts for Scottish economy

Four bodies now produce regular forecasts of the Scottish economy. There used to be three – the Fraser of Allander Institute (FAI) at Strathclyde University, the accountants Ernst and Young (EY) and Mackay Consultants. Now there is a fourth body, PricewaterhouseCoopers (PwC), the accountancy firm.

The Scottish Government's economics division does not publish its own forecasts but seems to rely on those of the Fraser of Allander Institute. That has attracted increasing criticism recently, not least because of the Institute's poor forecasting record.

The latest forecasts are summarised in the table below.

	2016	**2017**	**2018**	**2019**
Mackay	1.5	1.2	1.5	1.7
FAI	1.0	1.1	1.3	1.6
EY	0.7	0.4	1.2	1.4
PwC	1.3	0.3	?	?

FAI, EY and ourselves have all reduced our growth forecasts recently, mainly because of the Brexit vote to leave the EU. We believe that there is far too much pessimism about Brexit but nevertheless have also had to reduce our forecasts, for the reasons explained below.

The Fraser of Allander Institute have revised their forecasts yet again. Their 2016 forecast has been increased to 1.0% from 0.9% and their 2017 forecast to 1.1% from just 0.5% last month.

EY's Scottish ITEM Club's latest report forecasts just +0.7% growth in Scottish GVA in 2016, which is the lowest in the table. Their original forecast for 2016 was +2.3% and then +1.8%, so they have also become much more pessimistic. EY are even more pessimistic about next year, with just +0.4% growth, rising to +1.2% in 2018.

PwC accountants have also begun publishing forecasts for the Scottish economy. Their 0.3% forecast for 2017 is the most pessimistic and we have not seen 2018 and 2019 forecasts from them.

There is relatively little difference between the forecasts for 2018 and 2019 in the table above. The main differences are for this year and next year.

The Scottish Parliament's Finance Committee invited the accountants Ernst and Young to present their forecasts to the Committee but not other bodies, which is surprising. However, the EY representatives avoided giving direct answers to the questions about why they are so pessimistic about the Scottish economy. Their published report is also very vague on that issue.

The UK Treasury publish monthly summaries of about 40 independent forecasts. The latest average forecasts (December) for UK GDP growth are 2.0% in 2016, with a range from 1.8% to 2.2%, and 1.2% in 2017, with a range from 0.5% to 2.7%. The range for 2017 is surprisingly wide.

The Treasury report also gives forecasts for the following three years but they are based on about 20 independent forecasters rather than the usual 40. The average UK GDP growth forecasts are: 2018 +1.5%, 2019 +1.8% and 2020 +2.1%.

The main reason for the pessimism about 2017 is the impact of the Brexit vote. However, that surprises us because the UK will not officially leave the EU until 2019. We could understand lower forecasts for 2019 and subsequent years but are surprised that so many people are pessimistic about the pre-Brexit impacts.

As mentioned in previous reports, there are few signs to date of major pre-Brexit negative impacts. Sterling fell immediately after the vote but has recovered in recent weeks. Some economists believe that sterling was overvalued in any case.

The decline in the value of sterling should boost exports from Scotland and the rest of the UK but there are few signs of that happening so far. Imports have become more expensive, as indicated by the recent rise in inflation.

The Scottish economy has undoubtedly underperformed the UK economy during the last two years. The main reason for that has been the recession in the North Sea oil and gas industry following the collapse in world oil prices.

That resulted in many job losses and business closures, particularly in the Aberdeen area. The fall in oil prices also led to lower output in the oil and gas industry and the wide range of other industries providing goods and services to the North Sea oil and gas companies. That has been particularly noticeable in the North East, as illustrated by the unemployment statistics, airport passenger numbers and other indicators in this and previous reports.

However, there are signs that the recession in the industry may have bottomed out. We do not expect a significant recovery in the near future, but nor do we expect the flood of business closures and job losses to continue on the same scale as in 2015 and 2016. An example is the recent +15% rise in the price of Brent crude oil since the OPEC meeting on November 30th.

The forecasts we originally produced for 2017 showed higher growth than in the current year because of our expectation that the worst of the oil industry recession would be over. However, the average UK growth rate is one of the key inputs into our model of the Scottish economy. We do not produce our own forecasts of UK economic growth but use the averages from the Treasury surveys.

Consequently, our forecasts show growth in Scottish GVA/GDP falling from +1.5% this year to +1.2% in 2017. We believe – and hope - that the latter may prove to be pessimistic.

We continue to believe therefore that our forecasts for 2016 and 2017 will again prove to be the most accurate of those in the table above.

Tony Mackay

Aftermath of OPEC meeting

I wrote last month about the official meeting of OPEC held in Vienna on November 30th and its possible impact on world oil prices. Brent crude was trading at around $48 a barrel prior to the meeting. It rose by about $5 immediately afterwards and at the time of writing (December 23rd) was trading at about $55. However, that is still less than half the $125 peak recorded in 2014.

The recent rise represents an increase of approximately +15%. That is obviously good news for oil producers but not for motorists and other oil consumers.

Nevertheless, the increase has been much smaller than some people predicted and OPEC members hoped for. I have written on various times recently that I believe that the Brent price would have to rise to at least $70 for there to be a significant impact on North Sea activity and that seems very unlikely in the near future.

The main reason for that is the cost of production and operation. The North Sea is a relatively high cost area, particularly in comparison with the Middle East.

Oil and Gas UK (the industry's representative body) have frequently highlighted recent cost reduction initiatives in the North Sea but I believe there is a lot more that has to be done. There have been massive falls in development and exploration expenditure on the UKCS and there is little prospect of a significant upturn.

A few new fields have come onstream recently, Cygnus. However, most of these investment decisions were made when the oil price was over $100.

A Brent price in the $55-60 range will do very little to stimulate more activity on the UKCS, although it will improve the finances of many companies.

Will the recent OPEC developments force the price over $60? Many "experts", including some in Aberdeen, believe so but I hae ma doots.

There were actually two important meetings: that of OPEC itself and then a subsequent meeting between OPEC representatives and key non-OPEC oil producers, such as the Russian Federation ("Russia"). Both resulted in promises to cut production to try to force prices higher. However, will those promises be met? The subsequent relatively small rise in the price of Brent suggests that many key people in the markets are sceptical.

There are significant differences among OPEC members. For example, Saudi Arabia and Iran have been on different sides in the wars in Syria, Iraq and Yemen. It is difficult to expect serious co-operation between them.

Production in various countries, notably Iran and Libya, has been badly affected by conflicts, and they are desperate to increase output and oil revenues.

Saudi Arabia has long been regarded as the "swing producer" but it is facing serious economic problems, mainly because of the fall in oil revenues. The country has ambitious diversification plans to reduce its dependence on the oil industry but progress with those has been very disappointing. There is increasing opposition to or at least scepticism about the OPEC agreement.

Similar comments could be made about the current economic state of the Russian Federation. That also casts doubts over their actual willingness to cut production.

Finally, any rise in prices will encourage more shale oil production in the USA, which would exert downward pressure on prices.

I do not expect any significant rise in the price of Brent crude above $55-60 a barrel in the near future.

Tony Mackay

Earnings statistics by local area

The Office for National Statistics (ONS) publish annual statistics on average earnings for each of the 32 local areas in Scotland (and those elsewhere in the UK). The latest ones for April 2016 are shown in the following tables and figures for the two main indicators:

- place of work
- place of residence.

The ONS statistics show average annual earnings in Scotland in 2016 of £22,918 by place of work and £22,989 by place of residence. There are very large variations among the 32 areas, as in previous years.

The place of work estimates show a range from £26,982 in the Shetland Islands to £18,233 in East Dunbartonshire, which is a difference of about 48%.

The place of residence estimates show a range from £28,496 in East Renfrewshire to £18,814 in Moray, which is a difference of about 55%.

There are also significant differences between the place of work and place of residence estimates for some areas. They can be explained by commuting-to-work patterns, particularly in the Edinburgh and Glasgow conurbations.

In terms of place of work, Shetland and Aberdeen top the rankings because of the importance of the North Sea oil and gas industry. However, that is likely to change when next year's estimates are published.

In contrast the earnings in many areas were well below the average, notably East Dunbartonshire (-20.4%), Dumfries and Galloway (-18.2%) and Inverclyde (-18.1%).

The rankings by place of residence are significantly different. The top three areas are East Renfrewshire (+24.0%), East Dunbartonshire (+20.9%) and Shetland (+17.0%). The bottom three areas are Moray (-19.9%), Western Isles (-15.9%) and Dumfries and Galloway (-15.7%).

The estimates suggest that East Dunbartonshire has a very strange economy. It ranks second by place of residents but last by place of work!

A few results were not included, such as for the Orkney Islands, because of the small sample sizes.

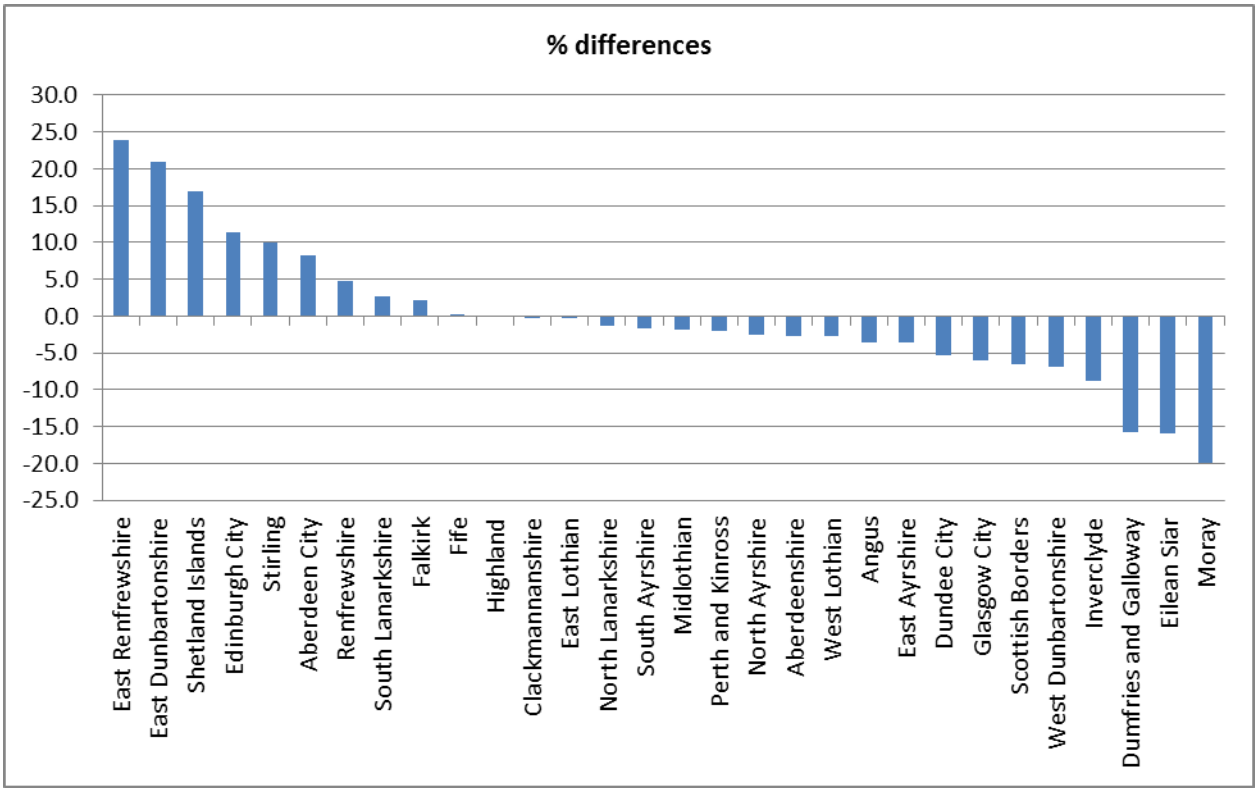
Aberdeen City topped the rankings for many years but that is no longer the case. The place of work average of £26,409 is +15.2% above the Scottish average. The place of work average of £24,871 is +8.2% higher. The difference can be explained by people commuting to wotk in the city from elsewhere.

Aberdeenshire: the place of residence average of £22,379 is -2.7% below the Scottish average. The place of work average of £20,511 is -10.5% below. The latter is surprising.

The ONS statistics show that average earnings in Scotland increased by +2.3% over the last year. However, by place of work they fell by -3.8% in Aberdeen City and by -3.0% in Aberdeenshire. By place of residence they fell by -1.0% in the City and by -2.6% in the Shire.

Gross annual earnings by place of residence 2016

Rank	Area	Annual Average £	Difference %	Rank	Area	Annual Average £	Difference %
1	East Renfrewshire	28,496	24.0	17	Perth and Kinross	22,546	-1.9
2	East Dunbartonshire	27,800	20.9	18	North Ayrshire	22,415	-2.5
3	Shetland Islands	26,888	17.0	19	Aberdeenshire	22,379	-2.7
4	Edinburgh City	25,617	11.4	20	West Lothian	22,374	-2.7
5	Stirling	25,285	10.0	21	Angus	22,148	-3.7
6	Aberdeen City	24,871	8.2	22	East Ayrshire	22,147	-3.7
7	Renfrewshire	24,089	4.8	23	Dundee City	21,757	-5.4
8	South Lanarkshire	23,608	2.7	24	Glasgow City	21,599	-6.0
9	Falkirk	23,505	2.2	25	Scottish Borders	21,489	-6.5
10	Fife	23,002	0.1	26	West Dunbartonshire	21,419	-6.8
11	Highland	22,971	-0.1	27	Inverclyde	20,970	-8.8
12	Clackmannanshire	22,925	-0.3	28	Dumfries and Galloway	19,380	-15.7
13	East Lothian	22,925	-0.3	29	Eilean Siar	19,323	-15.9
14	North Lanarkshire	22,670	-1.4	30	Moray	18,414	-19.9
15	South Ayrshire	22,611	-1.6	31	Argyll and Bute	x	x
16	Midlothian	22,586	-1.8	32	Orkney Islands	x	x



Gross annual earnings by place of work

Rank	Area	Annual Average £	Difference %	Rank	Area	Annual Average £	Difference %
1	Shetland Islands	26,982	17.7	17	West Lothian	21,355	-6.8
2	Aberdeen City	26,409	15.2	18	South Ayrshire	21,126	-7.8
3	Edinburgh City	25,946	13.2	19	East Ayrshire	21,037	-8.2
4	Argyll and Bute	24,598	7.3	20	Angus	20,741	-9.5
5	Midlothian	24,597	7.3	21	North Ayrshire	20,640	-9.9
6	Glasgow City	24,562	7.2	22	Aberdeenshire	20,511	-10.5
7	South Lanarkshire	23,697	3.4	23	Fife	20,210	-11.8
8	Falkirk	23,300	1.7	24	East Renfrewshire	19,894	-13.2
9	Stirling	23,066	0.6	25	Scottish Borders	19,675	-14.2
10	West Dunbartonshire	22,523	-1.7	26	Moray	19,409	-15.3
11	Dundee City	22,458	-2.0	27	Eilean Siar	19,224	-16.1
12	Highland	22,443	-2.1	28	Inverclyde	18,775	-18.1
13	East Lothian	22,034	-3.9	29	Dumfries and Galloway	18,748	-18.2
14	Renfrewshire	21,955	-4.2	30	East Dunbartonshire	18,233	-20.4
15	North Lanarkshire	21,850	-4.7	31	Clackmannanshire	x	x
16	Perth and Kinross	21,736	-5.2	32	Orkney Islands	x	x