



Lowlands and Uplands Scotland ERDF and ESF Programmes 2007 - 2013 Programme Monitoring Committee

UPDATE ON THE SCOTTISH ECONOMY

1. Introduction

- 1.1 At its October 2008 meeting, the Programme Monitoring Committee indicated that it would be useful to have an update at the March 2009 meeting on the current economic situation in Scotland. This paper summarises the latest published data on output (Gross Domestic Product) and the labour market, with the focus on the latter enabling some sub-national trends to be identified. The paper also notes the policy responses that have been put in place by the European Commission, UK Government and Scottish Government.

2. Total Output

- 2.1 The pace of the global slowdown accelerated in the second half of 2008 as the impact on the real economy of the financial crisis and credit crunch intensified. The latest figures show that GDP in the UK fell 1.5% in 2008 Q4, compared with the previous quarter, the largest quarter-on-quarter decline since 1980.
- 2.2 The latest GDP data for Scotland are for 2008 Q3. These show that the economy contracted by 0.8 per cent, compared with the second quarter – itself the largest quarterly decline since the series began in 1995. At the broad sectoral level, there were declines of 1.1 per cent in the service sector and 1.0 per cent in construction, whilst the production sector increased by 0.8 per cent. Within the production sector, the positive growth was due to the electricity, gas and water supply industry; there were declines in manufacturing and mining and quarrying. In terms of the annual growth rate¹, Scotland's GDP growth rate of 1.4 per cent in the year to 2008 Q3 lagged behind the UK rate of 1.9%.
- 2.3 It can be seen, therefore, that the deterioration in the global economy had already started to affect the Scottish economy by the third quarter of last year. As all the business surveys have reported that all sectors of the Scottish economy will have declined in the fourth quarter, further significant weakening can be expected when the figures for GDP in 2008 Q4 are published in April. The latest (February 2009) independent forecasts from the Fraser of Allander Institute suggest that the Scottish economy will contract by between 2-3 per cent in 2009, with a further decline in 2010, before recovering in 2011 or 2012. It is acknowledged, however, that there is considerable uncertainty over both the depth and duration of the recession within the UK and Scotland.

3. The Labour Market

- 3.1 Labour Force Survey data for Scotland are available for 2008 Q4. These show that the employment rate of 75.4 per cent fell by 1.1 percentage points from 2007 Q4, the largest fall of all the countries of the UK, although the Scottish rate remains the highest of these countries. The unemployment rate of 5.1 per cent has increased by 0.3 percentage points

¹ Measured as GDP in the 4 quarters to 2008 Q3, compared with the 4 quarters to 2007 Q3.

over the year, the lowest increase (by far) of all the UK countries (for example, England's rate was up 1.2 percentage points to 6.4 per cent). Scotland has the joint lowest unemployment rate (along with Northern Ireland).

- 3.2** Over the most recent quarter, the combination of a fall in employment (of 19,000 to 2.53m, seasonally adjusted) and the smaller increase in unemployment (of 11,000 to 137,000) implies that there has been a reduction in the economic activity rate in Scotland: i.e. those in work or out of work and actively seeking work. Nonetheless, the activity rate of 79.7 per cent in Scotland remains the highest in the UK.
- 3.3** The January 2009 statistics on the number of people claiming an unemployment-related benefit in Scotland have attracted some media interest. They show that the number of people registered for an unemployment-related benefit (109,000) increased by over 11,000 (or 11 per cent), compared with December 2008, and by 34,500 (or 46 per cent) in the year from January 2008. This led some commentators to suggest that, whilst the official unemployment statistics for the end of 2008 look comparatively good for Scotland, the more up-to-date claimant count statistics indicate more serious recent developments.
- 3.4** Some caution must be taken with the interpretation of claimant count statistics, as the headline figures are not seasonally adjusted. There will always be some degree of seasonal fluctuation, for example due to temporary employment over the Christmas period. Accordingly, there is usually an increase in the claimant count in January (for example, in 2 of the previous 5 years, there was a similar sized increase in the January claimant count).
- 3.5** The Office for National Statistics (ONS) publish adjusted figures that correct for the seasonal adjustments and allow for more accurate month-on-month comparisons. These figures show an increase in Scotland's claimant count of 3,400 (or 4 per cent) between December 2008 and January 2009. This compares with an increase of 5,400 (or 6 per cent) between November and December 2008.
- 3.6** Below the national data, some features of the most recent labour market statistics are of particular interest. These are summarised here by gender, age, locality and occupational group.

* Female Workers

- 3.7** There has been some suggestion that the UK recession is having a greater effect on female workers than males, due to its impact on sectors such as retailing and financial services. Table 1 below shows the latest working age male and female employment rates in Scotland and the UK and the situation one year earlier.

Working Age People by Country	Employment Rate Oct-Dec 2007	Employment Rate Oct-Dec 2008	Change over Year
Scotland: Females	74.0%	72.1%	▼ -1.9
Scotland: Males	79.0%	78.6%	▼ -0.4
UK: Females	70.2%	69.9%	▼ -0.3
UK: Males	79.0%	77.9%	▼ -1.1

Source: Labour Force Survey (ONS)

- 3.8** The most recent statistics suggest that the working age female employment rate in Scotland has dropped by a far greater degree than that of males. Indeed, according to the LFS data, roughly 90 per cent of the net decrease in working age employment levels in Scotland (over the year) is accounted for by the net decrease in female employment levels. This has not happened across the UK as a whole, where the male employment rate has fallen to a larger degree than the female rate.

* Younger Workers (aged 16-24).

- 3.9** It has also been suggested that the UK recession is having a greater impact on younger people. Table 2 shows the latest employment rates for the total population of working age and for 16-24 year olds in Scotland and the UK. The situation one year earlier is also given.

Country	Employment Rate Oct-Dec 2007	Employment Rate Oct-Dec 2008	Change over Year
Scotland: 16–24 year olds	60.3%	59.7%	▼ -0.7
Scotland: All of working age	76.6%	75.4%	▼ -1.2
UK: 16-24 year olds	58.9%	56.5%	▼ -2.3
UK: All of working age	74.8%	74.1%	▼ -0.7

Source: Labour Force Survey (ONS)

- 3.10** The most recent statistics suggest that the employment rate of 16-24 year olds in Scotland has dropped by a lesser degree than that of all working age people. Again, however, this has not happened across the UK as a whole, where the reverse has occurred.

* Workers aged 50-59/64

- 3.11** Table 3 shows the latest employment rates for all those of working age and those aged 15-59/64 in Scotland and the UK: i.e. males aged 50-64 and females aged 50-59.

Country	Employment Rate Oct-Dec 2007	Employment Rate Oct-Dec 2008	Change over Year
Scotland: 50-59/64 year olds	73.0%	72.3%	▼ -0.7
Scotland: All of working age	76.6%	75.4%	▼ -1.2
UK: 50-59/64 year olds	72.0%	71.8%	▼ -0.2
UK: All of working age	74.8%	74.1%	▼ -0.7

Source: Labour Force Survey (ONS)

- 3.12** The most recent statistics suggest that the employment rates for older workers in both Scotland and the UK have fallen to a lesser degree than the rates for all working age people. As yet, therefore, there is no evidence in either Scotland or the UK that older workers are being more severely affected by the downturn than the working population as a whole.

* Regional data

3.13 Table 4 summarises the data on those claiming unemployment-related benefit by region within Scotland. It can be seen that there are marked variations in the respective changes over the last year, ranging from increases of 33-35 per cent in Glasgow, North East Scotland and the Highlands and Islands to over 70 per cent in Lanarkshire.

Region	Jan 2009	Dec 2008	Jan 2008	Working Age Rate	Change Over Month	Change Over Year
Ayrshire	10,684	9,534	7,657	4.8%	▲ 12%	▲ 40%
Edinburgh & Lothians	14,112	12,544	9,252	2.7%	▲ 13%	▲ 53%
Glasgow	18,331	16,986	13,712	4.7%	▲ 8%	▲ 34%
Highlands & Islands	7,477	6,554	5,531	2.7%	▲ 14%	▲ 35%
Lanarkshire	14,960	13,414	8,666	3.8%	▲ 12%	▲ 73%
Mid Scotland & Fife	17,220	15,353	11,046	3.5%	▲ 12%	▲ 56%
North East Scotland	10,001	9,182	7,528	2.3%	▲ 9%	▲ 33%
South Scotland	4,589	4,018	2,986	3.0%	▲ 14%	▲ 54%
West Scotland	11,532	10,138	8,033	3.5%	▲ 14%	▲ 44%
SCOTLAND	108,906	97,723	74,411	3.4%	▲ 11%	▲ 46%

Source: Claimant Count Unemployment Data (NOMIS)

Note: These are not Scottish Parliamentary Regions

* Occupation and industry

3.14 The final table shows the January 2009 breakdown of those claiming unemployment-related benefit by occupation and industry. The changes are given over one month (from December 2008) and a year (from January 2009).

Occupational Group	Jan 2009	Dec 2008	Jan 2008	Most popular industrial sector
Managers/Senior Officials	3,860	▲ 21%	▲ 90%	Retail: 27% Banking & Finance: 20%
Professional Occupations	2,750	▲ 12%	▲ 56%	Public Admin, Education, Health: 55% Banking & Finance: 22%
Associated Professional & Technical Occupations	5,565	▲ 11%	▲ 53%	Public Admin, Education, Health: 49% Banking & Finance: 20%
Administrative & Secretarial Occupations	8,600	▲ 11%	▲ 50%	Public Admin, Education, Health: 39% Banking & Finance: 25%
Skilled Trade Occupations	16,860	▲ 14%	▲ 80%	Construction: 38% Manufacturing: 19%
Personal Service Occupations	5,380	▲ 8%	▲ 30%	Public Admin, Education, Health: 78% Other Services: 12%
Sales & Customer Service Occupations	14,855	▲ 15%	▲ 40%	Retail: 71% Banking & Finance: 11%
Process, Plant & Machine Operatives	14,060	▲ 14%	▲ 61%	Manufacturing: 32% Transport & Communication: 29%
Elementary Occupations (non-High Skill Posts)	36,625	▲ 8%	▲ 31%	Retail: 35% Public Admin, Education, Health: 19%

Source: Claimant Count Unemployment Data (NOMIS) and Annual Population Survey (APS)

3.15 Over the year, the largest percentage increase in claimant count unemployment has occurred amongst those who usually hold managerial and senior occupations (up 90 per cent). This occupational group, which is most commonly found within the Retail and Banking/Finance sectors – where it accounts for 27 per cent and 20 per cent of employment, respectively - also saw the sharpest increase in claimant count unemployment over the previous month. However, despite the large proportionate increase, the numbers in this occupational group remain low compared with other occupations. In contrast, almost 17,000 people on the claimant count usually hold skilled trade occupations (found most often within the construction and manufacturing sectors). This group has increased by 80 per cent on the same time last year.

4. The Policy Response

4.1 There is a collective global determination to promote economic recovery during 2009 and avert a prolonged downturn. The general policy response has been threefold: to reduce the cost of borrowing, increase the supply of liquidity to banks, and boost final expenditure. Central banks have implemented a significant monetary relaxation and base interest rates have been cut to 1 per cent in the UK, 2.5 per cent in Europe and 0.25 per cent in the USA and Japan. However, as noted, it will take time for these initiatives to feed through into the real economy and there remains considerable uncertainty about how long this period will be.

4.2 Within Europe, public agencies - including the European Commission, UK Government, Scottish Government, development agencies and local authorities - have already responded to the economic downturn with various recovery plans or initiatives designed to support businesses and/or deliver re-training programmes to aid those facing redundancy. The Commission's *Economic Recovery Plan* was published in November 2008 and this was followed, in December, by the unveiling of the UK Government's fiscal expansion plans, which included a major programme of public works.

4.3 The Scottish Government's Economic Recovery Programme was published in January 2009 as part of the *Scottish Government's Response to the First Annual Report of the Council of Economic Advisers*. It complements the *Government Economic Strategy*, published in November 2007, which describes the Scottish Government's approach to delivering sustainable economic growth. The Economic Recovery Programme focuses on 6 elements designed to maintain investment in the economy whilst targeting support at businesses and households. The most significant activity is the acceleration in capital expenditure on schools, colleges, universities, housing and transport, which was subsequently incorporated in the 2009-10 Budget.

4.4 The key elements of the Economic Recovery Programme are:

- ♦ reshaping capital spending plans;
- ♦ ensuring all government activity, including on planning and regulation, supports economic development;
- ♦ intensifying activity and support for tourism and Homecoming 2009;
- ♦ intensifying work around energy efficiency and fuel poverty;
- ♦ increasing advice to businesses and individuals;
- ♦ improving financial advice to vulnerable individuals.

4.5 Structural Funds have a modest - but important - contribution to make in assisting the financing of such initiatives. The ability to react to particular circumstances will be essential in helping to address emerging challenges. The scope to front-load expenditure from the 2007-13 Programmes is also an important characteristic, subject to the maintenance of the quality thresholds for individual projects and the availability of match funding. The views of the Programme Monitoring Committee will be sought on whether the two Operational Programmes in Lowlands and Uplands Scotland remain fit for purpose.

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