The Scottish economy

Forecasts of the Scottish economy

Economic background

As acknowledged by Scotland's Chief Economic Advisor in his State of the Economy presentation of May 2009, Scotland has been affected by developments in the world economy. It is likely therefore that Scotland's future growth prospects will be significantly affected by the duration of the global downturn, and the speed by which, in some cases unconventional, policy decisions taken over the last six to nine months restore the world economies to a growth trajectory. A largely unprecedented feature of this most recent slowdown is its synchronised nature, with all major advanced economies going into recession over the second half of 2008, and into 2009. The Euro area declined by 1.6% in Q4 2008, making the third consecutive quarter of negative growth, while the recession in the UK was confirmed by a second quarter of declining GDP growth (down by 1.6% in Q4, following a 0.7% decline in Q3 2008). US GDP fell by 1.6% in Q4 2008, after a 0.1% fall in Q3.

The importance of global demands in explaining the observed recession can be seen by the fact that export-orientated countries have suffered particularly badly as world trade volumes have declined sharply. The IMF published their World Economic Outlook projections for 2009 and 2010 in May, and noted that the world economy is experiencing its deepest downturn in 50 years. Their growth projections for 2009 and 2010 from May 2009, were markedly lower than those published in January 2009, showing both the deepening of the recession, and the speed at which growth predictions have been revised downward over the course of a number of months. Their report predicts an 11.0% decline in world trade in 2009, with world output falling by 1.3% over this year. IMF for GDP growth over 2009 for the US, Euro area and UK were lowered to -2.8%, -4.2% and -4.1% respectively. This same report forecasts GDP growth in 2010 for these same three countries of 0.0%, -0.4% and -0.4%.

The monetary and fiscal response of the UK authorities to the worsening economic environment has been swift and, in the use of quantitative easing, unprecedented. On the monetary policy side, the Bank of England cut interest rates in March 2009 down to 0.5%, where it has remained for the last three months. The bank has also begun, and extended, its programme of quantitative easing – issuing Bank funds to purchase up to £125 billion of Government and corporate bonds. In May, the amount of funds set to purchase assets was increased from £75 billion to £125 billion. From March to the most recent announcement, purchases of almost £80 billion have been made through this facility. The Budget in April 2009 announced the extension of some of the packages introduced in November 2008's Pre-Budget Report designed to provide immediate support, with changes in the tax regime in line with the anticipated reductions on public spending from 2011 onwards. Borrowing is forecast to increase over the next two years at levels above 10% of national income. There will be automatic reductions in tax take owing to slowing economic activity, with borrowing expanding to ensure that government expenditure is maintained through the next two years.

The Scottish economy

In the last quarter for which data are available (Q4 2008, published on 22nd April 2008), the Gross Domestic Product in Scotland fell by 1.7% from the previous quarter, which had fallen by 0.8% compared to Q2 2008. The second consecutive decline in quarterly GDP thus confirmed that the Scottish economy was technically in recession in late 2008.

In Q4 2008, the decline in the service sector continued, with an overall decline of 0.8%, after falling 1.6% in Q3 2008. Within the service sector, other services (-3.3%), real estate and business services (-1.9%), retail and wholesale (-2.1%) and transport, storage and communications all saw declines in sectoral value added, while financial services (+2.2%) and public administration, education and health (+0.5%) saw increases. An apparent strong increase of 2.0% was reported for the banking industry in Q4, however this sub-sector recorded a 0.7% fall in value added over the last four quarters, and the financial services sector as a whole saw value added decline by 5.3% to Q4 2008. Within the production sectors, where an overall decline of 4.7% was seen in Q4, large falls were seen in mining and quarrying (-2.3%), electricity gas and water supply (-6.0%) and manufacturing (-4.5%). There was a small increase in the value added in Q4 in the mechanical engineering sector, and no change in the value added reported by the refined petroleum sector, but these were exceptions. All other production and manufacturing sectors for which data are reported experienced declines in Q4. The construction sector reported a second subsequent quarter of declining value added, falling by 4.7%. The broad-based sectoral nature of this recession is thus confirmed.

Labour market developments in Scotland to the end of March 2009 showed falling employment, and increasing unemployment from what had been historic highs and lows respectively. Employment of those aged over 16 between January and March stood at 2,521 thousand, down 22,000 on the same period one year previous. The employment rate as a percentage of those of working age was down to 74.9% from 76.5% in Jan-March 2008. The numbers of people over the age of 16 who were unemployed rose by 34000 over the last year, standing at 157 thousand, while those receiving unemployment-related benefits stood at 122,300 in April 2009. The claimant count figure is up 52,400 since April 2008, and up 42,600 since August 2008.

Final demand and recent trends

The FAI forecasting model acknowledges the drivers of economic activity in the Scottish economy to be consumption, government spending, investment, tourism and exports (to the rest of the UK and the rest of the World). For all three scenarios considered, the recent trends in each of these measures, as well as recent survey evidence, are discussed below.

- *Consumption* – The most recent figures from the Scottish Retail Consortium from April 2009 showed that (nominal, i.e. not taking inflation into account) non-food retail spending in March 2009 on a like for like basis was down 3.5% compared to March 2008, the tenth consecutive month of like-for-like sales declining. The Scottish Retail Sales Monitor suggest that overall sales were up 4.2% over the year, however as noted elsewhere this might suggest that the major multiple retailers are securing market share, and are more resilient to the downturn than independent retailers. Sales of large consumer goods appear to be most adversely affected by the tightening of household purse strings, with the Scottish Motor Trade Association reporting new car sales in Scotland in March 2009 were down by 23% compared to March 2008. The fall in sales was greater (-30.5%) across the UK as a whole. The rate of the decline in new car sales will be affected by the UK Government's introduction of a scrappage scheme for cars over ten years old, with a discount on new car purchases. Whether this is sufficient to maintain increased demand for new cars throughout 2009 remains uncertain.

- Experimental statistics on Scottish Household final consumption expenditure, released in April, show that Q4 2008 saw the first decline in current price household expenditure since the series began in 1998. Particularly affected was expenditure on recreation and culture, restaurants and hotels, and transport.

- As a measure of consumer confidence, the most recent data from the Scottish housing market provides some signs that the large scale declines in house prices seen through 2008 are slowing, and the annual decline in Scottish house prices appear to be less than those seen in the UK as a whole. On the Halifax House Price Index, house prices in Scotland showed the smaller decline over 2008, down 2.8%, and short of the declines seen in the UK (-7.9%). It appears, however, to be too early to suggest that the corner has been turned in this market which has important consequences for household wealth.

- *Government spending* – Government spending in Scotland during 2009 is predicted to remain robust, given the UK Government's increased expenditure, and the bringing forward of a range of capital expenditure programmes by the Scottish Government at Holyrood. Scotland's Chief Economic Advisor's recent (May 2009) state of the economy presentation notes that spending controlled by the Scottish Government through the Departmental Expenditure Levels will grow by around 4.5% in 2009-10, but decline by 1.7% in 2010-11. As noted in Andrew Goudie's latest assessment, DEL spending makes up the principal element of discretionary spending at the disposal of the Scottish Government.

- Going forward, the UK Budget of April 2009 revealed the extent of the fiscal consolidation which is likely to be undertaken from 2010 onwards, under the next spending review. Independent forecasts from the Institute of Fiscal Studies have forecast average declines of 2.3% per year for the three years from 2011-12.

- *Investment* – Sharp declines in investment at the UK level have been a significant factor in the recession. Such changes have in previous recessions mirrored reductions in capital investment in the Scottish economy. Gross capital formation fell by 3.9% over the year to Q1 2009, while overall GDP declined by 4.1% from Q1 2008. Much of this fall has been caused by the running down of inventories, as firms have cut back on production and met orders from production already completed.

- Looking into the future, it is difficult to imagine significant increases in investment demand while business confidence remains weak. While we would expect to see some easing from the steep reductions in investment demand seen at the end of 2008 and into 2009, the pace of recovery will in part be affected by credit conditions facing business, and their abilities to borrow to fund investment. Recent survey evidence indicates borrowing constraints will ease over the next three months for corporate and mortgage lending, but that weak demand will perhaps ensure that investment opportunities are delayed into 2010.

- *Tourism* – As is reported elsewhere in the Economic Commentary, the most recent data reports that hotel occupancy in March was demonstrating resilience, although this could reflect ongoing (and perhaps heavy) discounting, and the unusual timing of Easter in 2008 distorting figures for April 2009. Room and bed occupancies for the time of year were comparable to those over the average of 2005-2009, but down on March 2008. Over the year, however, the exchange rate, particularly against the Euro, might divert some holiday makers to travel in Scotland, rather than abroad. The seasonal and high rate of part-time and family workers might be more flexible to respond to any surge in demand linked to a combination of good weather – for example the "barbeque summer" predicted by the UK's Met Office – and a growth in local domestic tourism from events linked to the Homecoming Scotland programme of events.

- *Exports to the rest of the UK* – Scottish exports to the rest of the UK fall into the unhelpful position of being vitally important as a destination for Scottish production, but also difficult to measure due to the nature of intra-UK trade. There have been some experimental figures published recently which estimated that in 2007 total trade with the rest of the UK was worth £36 billion. The largest exporting sectors to the rest of the UK in 2007 were financial intermediation (£6.3 billion), and wholesale, retail, hotels and restaurants sector (£5.2 billion).

- Developments in exports to the rest of the UK are not updated with as much regularity due to the difficultly of tracking these sales, but recent survey evidence from the PMI report for March indicates that there is some degree of optimism with regard to future exports to the rest of the UK. The rate of decline in orders from the rest of the UK appears to have begun to ease in Q2 2009. Similar results are seen in the CBI's Scottish Industrial Trends survey, indicating that perhaps there are some most positive (or at least less negative) trends appearing in Q2 2009, in particular industries. It is unlikely that these will translate into positive growth, however before Q3 of 2009.

- *Exports to the rest of the world* – The most recent figures on Scottish exports to the rest of the World reveal that in 2007 Scotland exports totalled £20.6 billion, of which £13.6 billion came from the exports of Scottish manufacturing. The largest single sector for exports to the rest of the world was the food and beverages sector, exporting £4.6 billion in 2007, and showing the ongoing importance of this sector for Scottish exports. For data after 2007, we are reliant on the Index of Manufactured Exports, which tracks developments in this most important industry. Recent data suggests that after some slight increases in aggregate sales between 2004 and 2007, in the second half of 2008 there were significant falls. Q4 2008 results show a 9.6% decline in exports to the rest of the world, with an annual fall over 2008 of 2.8%. All broad manufacturing sectors suffered the decline, with the food and tobacco sector seeing a reported fall of 23.2%, and the drinks sector reporting a fall of 19.9%. Over the year, the other manufacturing sector saw exports increase by 5.2%, but the decline in Q4 2008 in this sector followed a decline in Q3 2008.

- The most important markets around the world for Scottish exports in 2007 remained those which were largest in 2006 and 2005, with exports to France following the USA in first place, and the Netherlands, Germany and Ireland making up the top five destinations for Scottish goods. The downturns in these countries discussed in the introduction, sets the background to some difficult trading conditions for Scottish exports over 2009.

The forecasts: Background

As with the most recent forecasts published in the last three Economic Commentaries, we have again three alternative scenarios for growth, employment and unemployment in the Scottish economy: we label the scenario we feel is most likely the "central" scenario, with "high growth" and "low growth" as two respectively upper and lower growth alternatives to this scenario. We intend that these capture the range of outcomes which are possible, given that there are considerable uncertainties surrounding any specific single or point estimates underlying the central forecast. The significant revisions to GDP growth forecasts discussed above, suggest that such a scenarios approach is sensible in the current uncertain economic climate. While not presently explicit probabilities for each of these outcomes, we forecast that the central scenario is that which is most likely, while the "high growth" and "low growth" scenarios reveal the range of possible outcomes for the Scottish economy foreseen for future developments from June 2009.

The forecasts: Detail

In the three scenarios considered, the following features are assumed to influence the factors of demand, and economic activity, across the Scottish economy:

- Household confidence returns from lower than expected job losses in early 2009 not denting household income by as much as was previous predicted. Consumer spending over 2009 falls in aggregate due to large reductions in spending in Q1 and Q2, and a slower decline in the rest of the year.

- Consumer finance sees a small return to some of the previous levels of lending.

- In the Low growth scenario, consumer confidence remains low due to significant job losses suffered in Q1 and Q2 2009, and persistent fears about sustained job losses and widespread redundancies. Consumer spending falls in both 2009 and 2010, and shows a slight fall in 2011. In

- The key export markets for the Scottish manufacturing products see declines in growth through 2009, but by 2010 aggregate export demand from the rest of the world is growing, as world trade levels recover towards previous levels. Scottish strengths in specific fields of electrical engineering see growing demand, while there is strong demand from the rest of the UK and rest of the world for the outputs of the drink, chemicals and refined petroleum sectors continuing through both 2011 and 2012.

- Aggregate tourism spending falls slightly, but hotel occupancy remains robust due to discounting and the success of campaigns encouraging domestic tourism. A particularly good summer of weather leads to increased domestic trips, while a relatively weak pound against the Euro leads to some switching to domestic tourism rather than Scots taking holidays abroad. In the High growth scenario, the Homecoming Scotland campaign and increased domestic tourism increases tourism spending slightly from 2008 levels, while the Low growth scenario sees tourism levels and spending drop as individuals tighten their spending on non-essential items, perhaps switching longer trips for shorter overnight trips, or replace nights in hotel and other accommodation to staying with friends and relatives.

- Government spending grows significantly in 2009, while seeing a small growth in 2010, followed by declines each year in 2011 and 2012. While declines are greatest under the Low growth scenario, all three scenarios assume negative growth in Government spending in Scotland in these last two years of our forecasts. The pressure on government budgets, and the anticipated period of fiscal consolidation after the next spending review will reduce aggregate government spending which will have a knock-on impact on economic activity. This is likely to have a significant impact on the shape of public sector expenditure in Scotland from 2011 onwards.

- Investment demand has seen significant declines over the last year, and all of our scenarios assume that these declines continue over 2009. The High growth scenario sees some recovery of investment demand in 2010, and increasing rates of investment demand back to growth rates of 6% in 2012. In our central scenario, investment demand displays negative growth until 2011, but grows at 5% in 2011. Growing business optimism will serve to bring investment demand changes closer to the High growth scenario than the central

Table 1: Main forecasts of the Scottish economy (central scenario), 2009-2012

	2009	2010	2011	2012
Gross Value Added	-2.9%	-0.9%	0.6%	1.4%
Agriculture	-5.7%	-0.2%	1.1%	2.8%
Manufacturing	-7.0%	-2.4%	1.7%	3.6%
Construction	-2.4%	-0.7%	0.4%	1.1%
Services	-2.0%	-0.6%	0.3%	0.8%

Table 2: Forecasts of Scottish employment (jobs, 000s) and net employment change in central scenario, 2009-2012

	2009	2010	2011	2012
Total employment (000s)	2,303	2,252	2,263	2,290
Net annual change (jobs)	(84,399)	(51,451)	11,301	26,824
% annual change	-3.54%	-2.23%	0.50%	1.19%
Agriculture (jobs, 000s)	30.8	30.3	30.6	31.5
	(1869)	(589)	339	862
Manufacturing	237.9	223.9	227.9	236.6
	(19351)	(13988)	3978	8855
Construction	125.7	116.1	116.6	117.9
	(12007)	(9609)	497	1241
Services	1908.6	1881.3	1887.8	1903.7
	(51171)	(27265)	6487	15865

Table 3: Forecasts of Scottish unemployment, Central scenario 2009-2012

	2009	2010	2011	2012
ILO unemployment (000s)	186,800	212,600	202,300	207,900
Rate[1]	5.46%	6.16%	5.88%	5.49%
Claimant count	110,700	119,500	135,991	129,426
Rate[2]	4.59%	5.04%	5.67%	5.35%

Notes: [1] = rate calculated as ILO unemployment divided by total of working age population economically active. [2] = rate calculated as claimant count divided by sum of claimant count and total jobs.

Table 4: Forecast Scottish Net Jobs Growth in Three Scenarios, 2009-2012

Net job no's		**2009**	**2010**	**2011**	**2012**
High growth		-62,827	-23,152	33,584	45,174
	February forecast	*-73,007*	*-42,400*	*7,923*	*25,089*
Central		**-84,399**	**-51,451**	**11,301**	**26,824**
	February forecast	*-94,179*	*-51,440*	*3,037*	*14,476*
Low growth		-103,579	-66,894	-3,722	6,847
	February forecast	*-108,984*	*-63,064*	*-6,639*	*10,734*

Figure 1: GVA growth 2008 and forecasts to 2012, Scotland and the UK

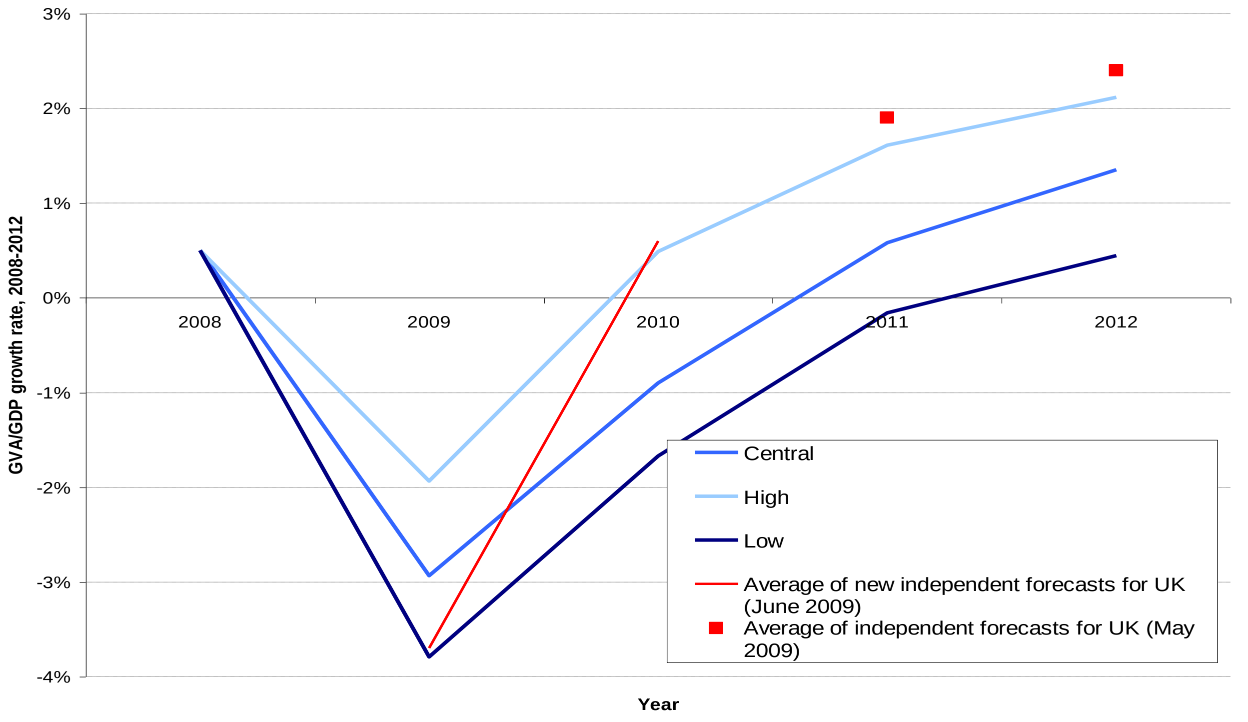
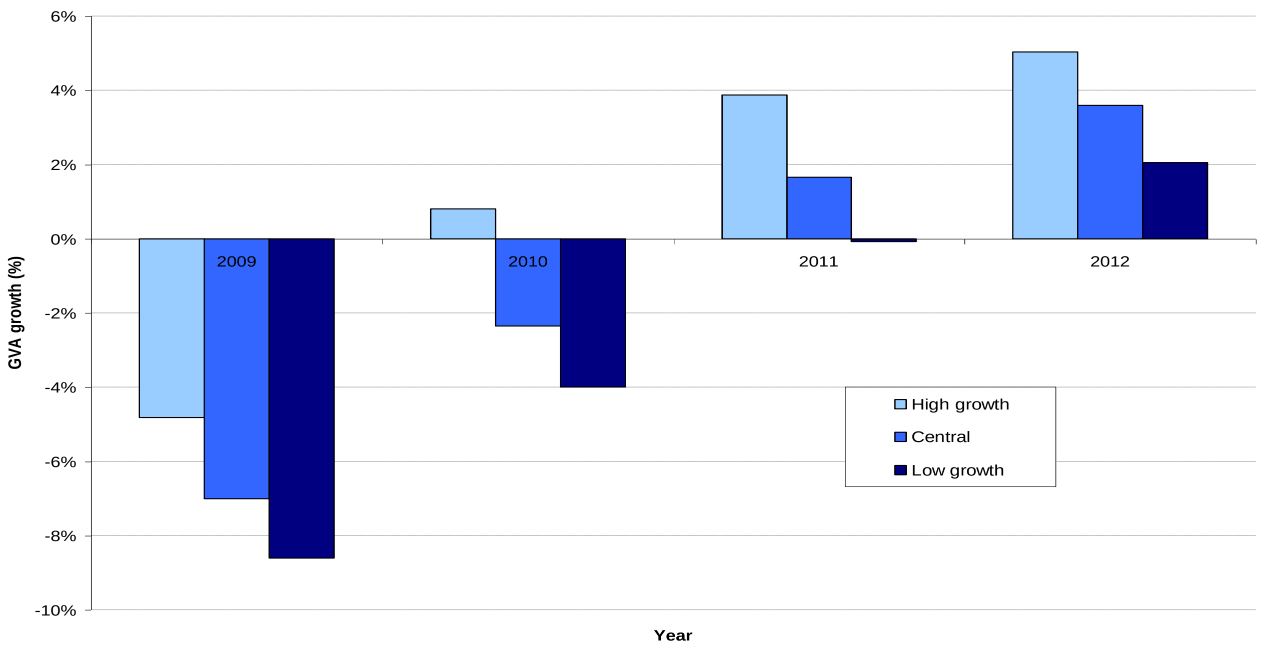


Figure 2: Forecasts of GVA growth in manufacturing, 2009-2012



scenario, although we believe the Central scenario to be the most likely outcome for the Scottish economy over the medium-term

Results

Gross Value Added

The forecast GVA for Scotland in 2009 under all three scenarios is negative. We forecast all three scenarios out to 2012, by which time GVA growth in all scenarios is forecast to be positive, although the time path of changes is faster in the High growth scenario, and slower in the Low growth scenario. These figures are presented in Figure 1, alongside (for comparison) the average of new forecasts (i.e. those made in the last three months to June 2009) for the UK as a whole. Forecasts for the UK in 2011 and 2012 were collected by HM Treasury in May 2009, and these are also shown for each of these years in Figure 1. Characterised, we are forecasting that the Scottish economy will perform more strongly than the UK in two of the three scenarios (the High growth and Central scenarios) while slightly less well than the average of independent forecasts for the UK in our Low growth scenario. As with previous experience of recessions (discussed in detail in the last Economic Commentary), we anticipate that in all three scenarios Scotland will see a slower return to growth than the UK as a whole, with all three scenarios “flatter” than the average of independent forecasts.

Under the Central scenario, GVA growth is negative in 2009 and 2010, and returns to positive annual growth in 2011. In 2012, Scottish growth is forecast to be 1.4%. Our central scenario for 2009, and the forecast for the sectors under this scenario are given in Table 1. Table 2 shows the GVA forecasts under each of the three scenarios. Under the Low growth scenario, negative growth is also seen in 2009, 2010 and 2011, with the Scottish economy not returning to positive growth until 2012.

We also present forecasts for GVA change in Scotland at broad industry levels for manufacturing and services, as well as the construction sector, under each of the three scenarios – Central, High growth and Low growth. Figure 2 shows the GVA change in Manufacturing under each of these three scenarios, while Figure 3 shows the GVA change in Services. Figure 4 shows the change in forecasted GVA annually in the construction sector between 2009 and 2012.

Across the aggregate manufacturing sector (shown in Figure 2), a recovery from periods of negative GVA growth is not seen until 2011 in the central scenario, although there is a small positive GVA growth forecast for 2010 under the High growth scenario. In 2012, all three scenarios forecast positive growth, with growth ranging from 2.1% to 5.0% in 2012. Key to the speed of this recovery will be the growth of external demand for products, and the time path seen here is in line with current expectations of significant declines in key Scottish manufacturing export markets continuing through 2009 and into 2010.

The IMF forecast total world trade to fall by 11.0% in 2009, and recover to small positive growth (0.6%) in 2010. Economic growth is forecast to recover across the world into 2010, however markets where Scottish exports are strong are forecast to growth slower than the world economy as a whole. The US recovery, for instance, is forecasted by the IMF to see a 2.8% decline in 2009, and zero growth in 2010, while the other top export markets – the Euro area, and the UK – are predicted to contract in 2010, on top of contraction in 2009. Key sectors, like whisky, refined petroleum and electrical engineering have seen recent large falls in exports to the rest of the world, and recovery in these key industries finding export markets will determine the shape and speed of the recovery of manufacturing exports, and a large portion of Scottish exports.

Figure 3 shows that service sector GVA across the three scenarios is broadly more insulated to the economic downturn. GVA growth in 2009 ranges from -1.3% to -2.6%, while in 2010 GVA growth is forecast in the range from -1.1% to 0.4%. Retail sales activity shows that household spending has fallen in aggregate in the last quarter of 2008, and the recovery in consumer confidence and household spending (both in Scotland and in the key, or new, export markets) will drive the speed and duration of the aggregate service sector. Key within the service sector will be the future performance of financial services. We forecast this to experience falls in GVA in 2009 of 2.1% and return to positive growth only in 2011, although this sector is particularly affected by the future direction that RBS and HBOS banks are taken by their new owners. We expect that we will see continuing changes in this sector over the next couple of years, and that large-scale changes will potentially not arise until later in 2010 and even into 2011. Niche markets for banking will provide some growth areas for new opportunities to arise for some existing and new entrants, but the financial services sector as a whole will continue to be driven by changes to the major retail banking and financial services operations.

Figure 4 estimates that declines in the construction sector are largest again in 2009, and by as much as 3.2% in the Low growth scenario. By 2011 the Low growth scenario forecasts slightly negative GVA growth with positive growth recovering in 2012. Clearly, important for the recovery of this sector will be the pace by which consumer sentiment is restored in the housing market, as well as the demand for public sector investment projects. Major public works projects protect some of the falls in GVA under the High growth scenario, as well as a faster recovery of the growth in the residential housing market from rapidly returning consumer confidence. Some signs of positive trends in construction activity have appeared over recent weeks, and the rate of house price declines has slowed. However

Table 5: Forecasts of Scottish unemployment, Central scenario 2009-2012

	2009	2010	2011	2012
ILO unemployment (000s)	186,800	212,600	202,300	207,900
Rate[1]	5.46%	6.16%	5.88%	5.49%
Claimant count	110,700	119,500	135,991	129,426
Rate[2]	4.59%	5.04%	5.67%	5.35%

Notes: [1] = rate calculated as ILO unemployment divided by total of working age population economically active. [2] = rate calculated as claimant count divided by sum of claimant count and total jobs.

Table 6: ILO unemployment rate and claimant count rate measures of unemployment under each of the three forecast scenarios

	2009	2010	2011	2012
ILO unemployment rate				
High growth	4.9%	4.8%	3.8%	3.5%
Central	5.5%	6.2%	5.9%	5.5%
Low growth	6.0%	7.1%	7.2%	7.4%
Claimant count rate				
High growth	4.3%	4.4%	4.3%	3.4%
Central	4.6%	5.0%	5.7%	5.4%
Low growth	4.9%	5.6%	6.7%	6.8%

given the speed of the decline, and the massive uncertainties regarding the future shape of the sector as a whole, it is too soon to conclude whether the corner has been turned in the housing market

Employment

Our forecasts for employment for each of the three scenarios are given in Table 3, along with the net aggregate employment change over the year. The employment figures relate to jobs, not FTEs, and are calibrated on the Employers' Quarterly Survey Series, as given in Table 6.06 of the Economic and Labour Market Review, published by National Statistics. This gave total jobs in Scotland over the year 2008, as 2,387,500. As we have previously forecast, we anticipate in our central scenario that total employment in Scotland will fall in aggregate in both 2009 and 2010.

In the central scenario, employment is forecast to decline by 84,399 in 2009 and by 51,451 jobs in 2010. Job numbers begin to increase in 2011 and 2012. Total jobs in 2012 are forecast to be around 90,000 short of the jobs total for 2008. The Low growth scenario forecasts that around 103,500 jobs are lost in 2009, and a further 67,000 in 2010. In that scenario, total jobs lost between 2009 and 2012 are 167,000, while in the High growth scenario, the recovery in 2011 and 2012 sees job numbers recover towards their previously measured historical highs, and job numbers in 2012 are around 7,000 lower than their level in 2008. In all scenarios, total job numbers decline in 2009 and 2010.

Table 4 shows the net annual growth in jobs in each of the three scenarios, and how these have changed since our February forecast.

Looking at the sectoral forecasts for employment levels, in all scenarios the services sector sees the largest decline in job numbers in both 2009 and 2010. Overall, 51,000 service sector jobs are forecast to be shed in 2009 and a further decline of 27,300 in 2010. Especially badly affected are financial services, which are forecasted to lose almost 14,000 jobs in 2009, but large job losses are also forecast in real estate and business services, retail and wholesale, and hotels and catering sector. The financial services job numbers continue to see declines in 2010, falling by around 12,400, and making up a significant majority of the job losses observed across the services sector. The wholesale and retail sector also sees large declines in employment through 2009 and 2010, down almost 5,700 and 6,300 respectively in these years.

The construction sector is forecast to lose around 12,000 jobs in 2009, and a further 9,600 in 2010, and see a partial recovery through 2011 and 2012. As with the aggregate jobs total, the total jobs in construction remain below levels of 2008 in 2012. In the High growth scenario, lob losses are less in 2009, and fall by over 10,800 while recovering

Figure 3: Forecasts of GVA growth in services, 2009-2012

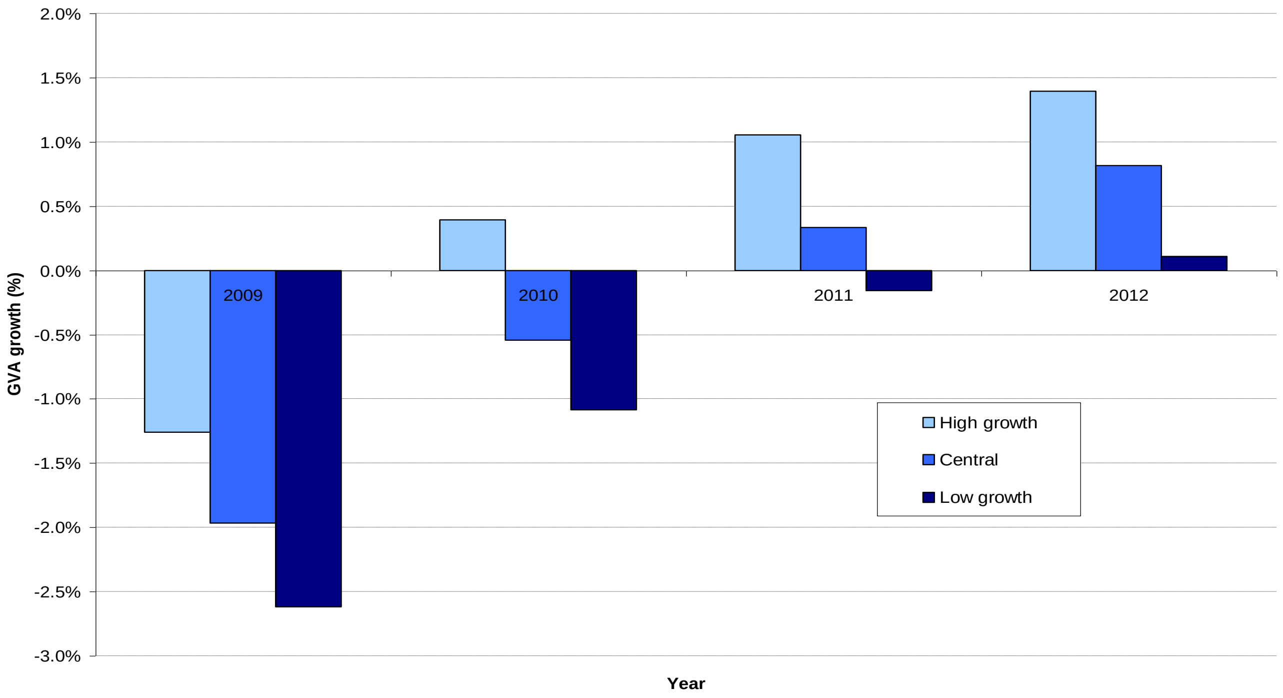
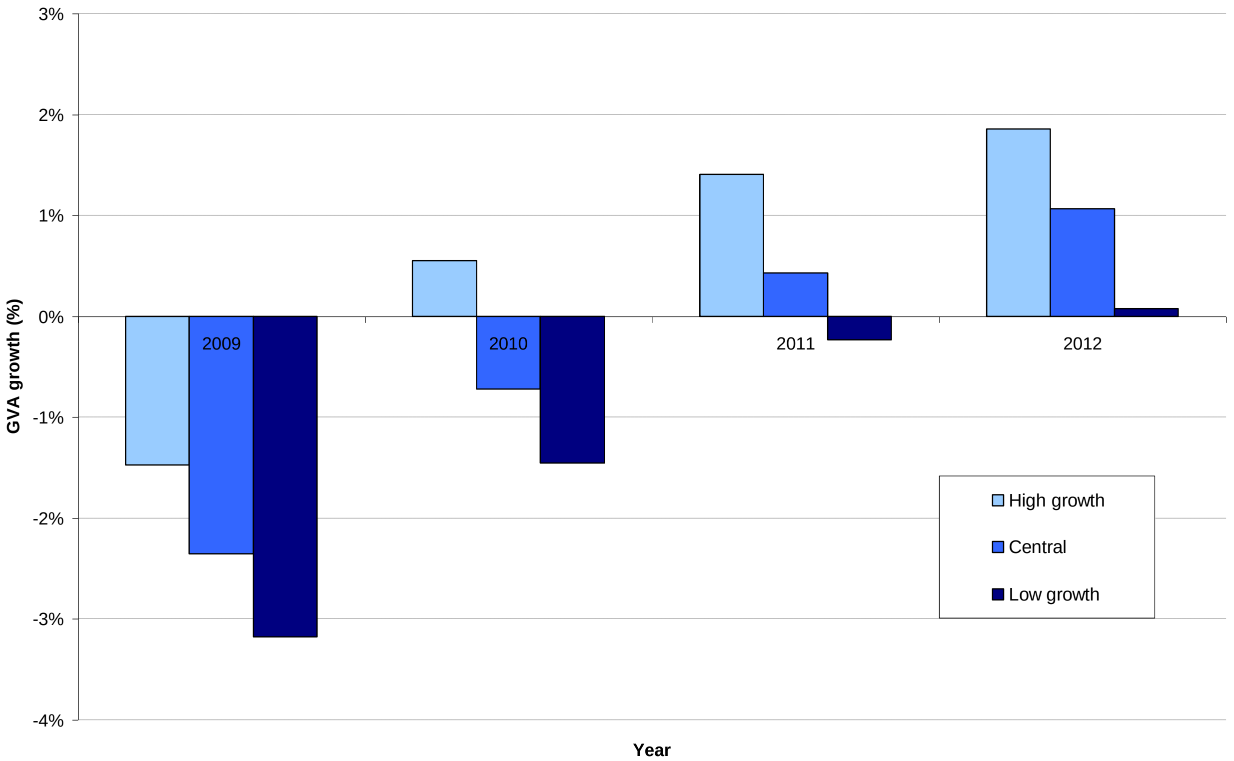


Figure 4: Forecasts of GVA growth in construction, 2009-2012



and in to job growth of over 2000 in 2012. As mentioned earlier in this section, the construction sector has tended to see both quicker, and earlier, declines than the rest of the economy, upswings would tend to see increased activity ahead of much of the economy. The timing and duration of the downturn in this sector presented here are plausible given the current state of the market, and current expectations of future developments for this sector in Scotland.

Manufacturing jobs fall in 2009 by almost 19,400 in the central scenario, with a range from 24,000 to 13,000 in the Low and High growth scenarios respectively. Within this broad sector, the most heavily hit sectors in 2009 will be those which rely upon export markets for the destination of their output, and as the forecasts for GVA declines, falls in employment are forecast in metals and non-metal products (down 2,400), mechanical engineering (down 2,000) and mining and quarrying (down 2,200). Key to the response in the labour market will be the extent to which labour hoarding occurs in the face of the recession, and large falls in employment in the first half of 2009 would be indicative of low rates of labour hoarding. This might suggest that the impact on jobs could be more significant, with employment being lower than previous historical highs for a number of years into the future.

Unemployment

We present our forecasts for unemployment, as measured by the ILO definition as well as those claiming unemployment benefit, in Table 5. The preferred measure of unemployment is the ILO definition, as given by the Labour Force Survey. This measure is preferred as it reveals the extent of labour which is unemployed and available for work, rather than that which is currently in receipt of unemployment benefit.

The forecasts for unemployment have been revised upwards from forecasts published in the last Economic Commentary, given the speed of the reduction in employment and increasing unemployment observed in the first quarter of 2009, and in line with our revision downwards of our central scenario forecasts for Scottish GVA in 2009. The Scottish labour market had been outperforming that of the UK when measured by employment rate, and had seen high levels of employment and low levels of unemployment. Of crucial importance to realised levels of unemployment will be the extent to which people who lose employment switch into the unemployed, or move into labour inactivity, i.e. unemployed but not available for work.

Table 6 shows the ILO and claimant count measures of unemployment under each of the three scenarios of our forecasts.

Grant Allan
22 June 2009