

The Scottish economy

Forecasts of the Scottish economy

Background

Our forecasts of the Scottish economy have been prepared against a backdrop of an expected downturn in the US economy - see World Economy section. The impact of the US downturn on Euro zone is expected to be mild. The UK economy as a whole is also expected to slow down in 2001 - see UK Economy section - although the prospects are relatively benign given developments in the US.

Consumption, investment and export growth over the short term will be the main stimuli to the Scottish economy. Scotland will also benefit from the increased spending plans announced in the UK spending review last July, although less so than the UK as a whole. Tourist expenditure has been disappointing relative to previous targets and estimates and we forecast a decline in the short term.

Over the four quarters to 2000 Q2 Scottish GDP (excluding oil and gas) grew at 2%. Services account for over two thirds of output so that the growth of GDP and the service sector are closely related. Manufacturing has declined in importance with electronics remaining the engine of manufacturing growth. Agriculture is a relatively small but important part of the Scottish economy and has recently suffered considerably due to the problems associated with BSE and falling prices. Business and Financial Services continue to drive the service sector although Public Services are also important to the Scottish economy.

The forecast in detail

Our main Scottish forecasts are presented in Table 1.

Table 1: Forecasts of the Scottish Economy, 2000-2002

| | 1999 | 2000 | 2001 | 2002 |
|---------------------------|-------|-------|-------|------|
| GDP | 2.4% | 2.1% | 2.0% | 2.3% |
| Manufacturing | 2.2% | -0.5% | 0.9% | 2.5% |
| Manufact (ex Electronics) | -1.9% | -3.2% | -0.5% | 0.2% |
| Construction | 3.1% | 0.4% | 3.0% | 2.5% |
| Services | 2.2% | 3.4% | 2.4% | 2.4% |

Source: Scottish Executive & Fraser of Allander Institute

The most recent data for the Scottish economy showed that in 2000 Q1 and Q2 the electronics sector grew at less than its trend rate in recent years. This would be a matter of some concern if it reflected a permanent change as opposed to a temporary downward blip. Our forecast involves a slight drop in electronics output for 2000, but by 2002 we have assumed that the sector has recovered, as at this stage we have no real evidence of a permanent change in the performance of the sector. Manufacturing output as a whole is forecast to fall slightly in 2000, but by 2002 the sector has recovered and growth is in line with GDP. When electronics is taken out of manufacturing, there is a more serious fall in output in 2000 and a far weaker recovery in 2002. Growth in construction is expected to resume in 2001 and 2002, with the performance in 2000 being flat.

Services are forecast to grow at 3.4% in 2000 and at 2.4% in both 2001 and 2002. This growth here is driven by financial services, although retail & wholesale, transport & communications services and real estate & business services all make significant contributions. Growth in the construction sector is weak in 2000, though growth rates pick up to 3.0% and 2.5% in 2001 and 2002 mainly as a result of increased government spending on public services and infrastructure. Private construction demand in 2001 and 2002 is sustained, although this may fall slightly due to the slight slowing of the economy in general.

Our forecasts of employment are given in Table 2 with the net employment change figure given in brackets. Total employment is expected to grow steadily over the period 2000-2002. Service sector employment growth should rise significantly, although there is a slight dip in growth in 2001. Manufacturing employment is expected to fall steadily over 2000 to 2002 with a net loss of 10,000 jobs. Construction employment is forecast to rise steadily however over the 2000 to 2002 period, rising from 117,000 to 126,600 in 2002. After a significant increase in agricultural employment in 1998 we expect employment in this sector to decline slowly again dropping from 37,500 in 2000 to 36,600 in 2001.

Table 2: Forecasts of Scottish employment and net employment change, 2000-2002

| | 2000 | 2001 | 2002 |
|------------------|-----------------------|----------------------|----------------------|
| Total employment | 2,032,600 (7,400) | 2,039,100 (6,500) | 2,049,000 (9,900) |
| Agriculture | 37,500 (-300) | 36,600 (-1,000) | 36,600 (0) |
| Manufacturing | 292,000 (-8,500) | 287,300 (-4,700) | 282,000 (-5,400) |
| Construction | 117,000 (3,300) | 120,800 (3,800) | 126,600 (5,800) |
| Services | 1,543,500 (13,700) | 1,551,700 (8,200) | 1,561,600 (9,900) |

Source: Fraser of Allander Institute

Our most recent forecasts of unemployment are presented in Table 3. Unemployment measured using both the claimant count and ILO definitions is forecast to continue to fall slowly over the period 2000 to 2002. There is a slight contrast to the UK wide position where unemployment is expected to be roughly stable in 2001 and 2002.

Table 3: Forecasts of Scottish unemployment, 2000-2002

| | 2000 | 2001 | 2002 |
|------------------|---------|---------|---------|
| ILO Unemployment | | | |
| Level | 180,300 | 177,400 | 175,600 |
| rate | 7.3% | 7.2% | 7.1% |
| Claimant Count | | | |
| Level | 118,700 | 110,700 | 102,700 |
| rate | 4.9% | 4.6% | 4.3% |

Source: Fraser of Allander Institute

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