

The Scottish economy

Forecasts of the Scottish economy

Background

Since the last forecast of the Scottish economy the situation in both the global and the UK economies has deteriorated (see World and UK sections). We now expect that the economic slowdown in Scotland may be deeper and slightly longer than we first anticipated. The relative importance of exports and inward investment (primarily from the US) to the Scottish economy suggests that a prolonged downturn in the US will slow the Scottish economy further.

The main stimuli to the Scottish economy should come from consumption and general government expenditure in 2001 and 2002. We do, however, expect a slight weakening of consumption in 2001 and perhaps even in 2002. We anticipate a sharp weakening of investment expenditure in 2001. It is likely that there will be a significant fall in exports to the UK. In 2001 exports to the rest of the world are probably going to slow down by considerably more than exports to the rest of the UK.

The forecast in detail

GDP

We have revised down our forecasts for the Scottish economy from those in our May 2001 Commentary. GDP growth in 2000 was only 1.5% but we are forecasting that this year GDP growth will be 0.9% and rising to 1.4% in 2002. This implies that Scotland will have GDP growth that is below long-term trend growth for three years. The GDP growth forecasts are given in Table 1.

Table 1: Forecasts of the Scottish economy, 2001-2002

	2001	2002
GDP	0.9%	1.4%
Agriculture	-1.9%	-1.6%
Manufacturing	-1.9%	-0.2%
Manufacturing (ex. Electronics)	-1.5%	-0.4%
Construction	4.6%	3.9%
Services	1.7%	1.8%

Source: Fraser of Allander Institute

Clearly the strongest forecast growth is in the construction sector in both 2001 and 2002. Service sector growth is slightly muted relative to the long-run trend. Manufacturing performance is forecast to be worse in 2001 but to improve in 2002. Agriculture is forecast to decline in 2001 and 2002 following two years of growth.

Output

The short-term strong growth in construction is attributed to the expansion of investment and government spending that is already underway particularly in the education and health sectors (although there are significant contributions from water, transport and housing). The recent outbreaks of Foot and Mouth Disease (FMD) have caused agriculture significant problems but it has also affected the meat supply, livestock transportation, food and tourism sectors. It is the latter of these that has suffered the most. The effects are, at the moment, difficult to quantify but the worst affected regions are Dumfries and Galloway and Scottish Borders. Elsewhere the disruption has been relatively minimal.

Services are forecast to grow at 1.7% and 1.8% in 2001 and 2002. The impact of FMD on the tourist industry is forecast to cause negative growth in both years while financial services, real estate and business services and public services are expected to contribute significantly to service sector growth. In 2002 we also anticipate that transport and communications services will contribute significantly to service sector growth. Growth in the retail sector is forecast to be slightly down due to the drop in consumption.

Electronics are very important to manufacturing in Scotland and the recent global economic downturn and the severe weakening in demand for electronics products has caused this sector considerable problems. The excess supply of some products has led to closures and rationalisation of manufacturing capacity in Scotland. We cannot assume that the recent round of job losses will be the last and this sector may face further cuts. We do expect a slight improvement in 2002 but recovery in electronics may not be seen until 2003 or 2004. During 2001 we forecast that most manufacturing sectors will have a relatively poor performance but that 2002 may see a significant improvement.

Employment

We forecast that employment will fall to 2,109,100 in 2001 from 2,115,000 in 2000. The following year employment will rise to 2,113,800. This is a net decrease in 2001 of 7,400 and a net increase in 2002 of 4,700. The employment forecasts are presented in Table 2.

Services are forecast to create jobs with employment of 1,614,200 in 2001 and rising to 1,621,500 in 2002. The implied growth for 2001 has slowed compared with 2000. The main reasons for this are the effects felt from a general slowdown in the economy and the problems experienced by the tourism sector.

Manufacturing employment is forecast to fall by 10,600 jobs in 2001 to 280,400 and by a further 3,600 in 2002. Electronics will lose a considerable number of jobs in 2001 although other manufacturing, mechanical engineering paper, printing and publishing and transport equipment are also forecast to have significant job losses.

Table 2: Forecasts of Scottish employment and net employment change, 2001-2002

	2001	2002
Employment	2,109,100	2,113,800
	(-7,400)	(4,700)
Agriculture	38,700	37,100
	(-1,900)	(-1,500)
Manufacturing	280,400	276,800
	(-10,600)	(-3,600)
Construction	135,900	140,200
	(-400)	(2,500)
Services	1,614,200	1,621,500
	(5,400)	(7,300)

Source: Fraser of Allander Institute; (net change in parentheses)

Construction employment is forecast to shed 400 jobs in 2001 (as some large projects come to completion) but to gain 2,500 jobs in 2002. The short-run outlook for construction is relatively promising. Agricultural employment is forecast to fall by 1,900 and by 1,500 in 2001 and 2002 respectively. We may not see job losses as large as this in agriculture because the effects of FMD may not be as great as we first estimated. Recent work by the Bank of England and the National Institute for Economic and Social Research suggest that the effect of FMD on UK GDP will be less than 0.1% of GDP.

Unemployment

We forecast that claimant count unemployment will decline from 119,400 (4.8%) in 2000 to 104,800 (4.3%) in 2001. By 2002 we forecast that it will have fallen very slightly to 104,100 (4.2%). Part of this is due to growth in employment in services while manufacturing sheds jobs. Many people that lost their jobs in the electronic sector recently have apparently already found employment in the service sector. ILO unemployment is forecast to rise slightly to 169,900 (6.8%) in 2001 from the 168,300 (6.7%) in 2000 but to decline to 167,100 (6.6%) in 2002. By 2002 the employment prospects are forecast to improve and we expect ILO unemployment to decline.

Table 3: Forecasts of Scottish unemployment, 2001-2002

	2001	2002
ILO Unemployment		
Level	169,900	167,100
Rate	6.8%	6.6%
Claimant Count		
Level	104,800	104,100
Rate	4.3%	4.2%

Source: Fraser of Allander Institute