

The Scottish economy

Forecasts of the Scottish economy

Background

Given the slowdown in the world economy and the problems of the US technology sector recent world events (see World economy section) forecasting the Scottish economy is more difficult than usual. As in our January Commentary we believe the effects of the US slowdown on the Scottish economy will be relatively benign, however, there are clear problems in the short-run.

Scottish consumption, general government expenditure, exports to the UK and investment are the main drivers of the economy over the forecast period, although we do expect that there will be a significant reduction in investment in 2002. We are concerned about Scotland's exports outside the UK in 2001 and tourism is also expected to perform poorly over 2001-2002.

The forecast in detail

GDP

Our forecasts for GDP have been revised down since our previous Commentary. GDP growth in 2000 was 1.5 percent and Table 1 shows that in 2001 we forecast that growth will be 1.6 percent rising to 1.9 percent in 2002. These forecasts are beneath the historical trend for Scotland.

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

	2001	2002
GDP	1.6%	1.9%
Agriculture	-3.0%	-1.8%
Manufacturing	-0.4%	0.7%
Manufacturing (exc. Electronics)	-1.0%	-0.1%
Construction	4.6%	3.9%
Services	2.3%	2.3%

Source: Fraser of Allander Institute

Services contribute significantly to GDP over 2001-2002, as does construction. Manufacturing's contribution is positive in 2002 but agriculture is negative in both years. Each of the main sectors are discussed below.

Output

Output in the service sector is forecast to grow at 2.3 percent for both 2001 and 2002. Retail & wholesale, transport & communications, financial services and public services drive growth. A much weaker performance is expected in hotels & catering due to the relatively poor performance of tourism. Foot and mouth disease has impacted on both agriculture and tourism. Construction growth is forecast to be particularly strong in 2001-02. This is due to the large number of public and private investment works already on stream and the proposed housing stock transfer.

Manufacturing output is forecast to fall by 0.4 percent in 2001, but grow by 0.7 percent in 2002. When electronics are excluded output falls in both 2001 and 2002, by 1.0 and 0.1 percent respectively. During 2001 most manufacturing sub-sectors are forecast to have negative growth with a slight improvement in 2002. The slowdown in US Information, Communication & Technology (ICT) has had a significant impact on the Scottish electronics sector. For a sector with historically high growth rates forecast growth is only 0.8 percent in 2001 and 2.2 percent in 2002. Our view is that this will be a relatively short-term problem and that by 2003 the sector will have recovered significantly. The events are also reflected in our employment forecasts that are presented in Table 2.

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

	2001	2002
Total Employment	2,032,300 (-5,000)	2,042,700 (10,400)
Agriculture	37,500 (-3,000)	35,900 (-1,500)
Manufacturing	279,300 (-11,800)	274,500 (-4,800)
Construction	124,500 (5,000)	128,800 (4,200)
Services	1,549,800 (5,800)	1,563,000 (13,100)

Source: Fraser of Allander Institute; net change in parentheses

Employment

We forecast employment to be 2,032,300 in 2001 and 2,042,700 in 2002. The net change for 2001 is forecast to be a fall of 5,000 and in the following year a gain of 10,400. Agricultural employment is forecast to decline by 3,000 in 2001 to 37,500 and by a further 1,500 in 2002.

Construction employment is forecast to rise by 5,000 in 2001 and by 4,200 in 2002 giving employment of 128,800 in that sector.

Manufacturing employment is forecast to be 279,300 in 2001 (a decrease of 11,800) while in 2002 employment is forecast to be 274,500 (down 4,800). Electronics is forecast to lose 4,500 jobs in 2001 and is only expected to gain 500 jobs in 2002. The slowdown in the US ICT sector is forecast to have a severe impact on employment growth. Food & tobacco, paper, printing & publishing, metals, mechanical engineering, transport equipment and other manufacturing are all sub-sectors that have a relatively poorer performance over the forecast horizon.

Service sector employment is forecast to rise to 1,549,800 (up 5,800) in 2001 and to be 1,563,000 (an increase of 13,100) in 2002. Public services in both years provide the majority of these jobs. Retail & wholesale are forecast to have a small decrease in employment over 2001-02 due to productivity improvements while hotel & catering are forecast to lose a considerable number of jobs, particularly in 2001. Our employment forecast has several impacts on the labour market, the most important being on unemployment.

Unemployment

Our forecasts for unemployment are presented in Table 3. Our forecasts of unemployment for 2000 in the last Commentary were very close to the actual outturn. Claimant Count was forecast to be 4.9 percent and the out turn was 4.7 percent, while ILO unemployment was forecast to be 7.3 percent and the out turn was 7.0 percent. We have revised up our forecast of Claimant Count for 2001 slightly. For Claimant Count we forecast 106,100 (4.7%) in 2001 and 102,100 (4.5%) in 2002. ILO unemployment is forecast to be 171,400 (6.7%) in 2001 and for 2002 to be 162,400 (6.4%). We believe that unemployment will continue to fall, albeit gradually.

Table 3: Forecasts of Scottish unemployment, 2001-2002

	2001	2002
ILO Unemployment		
Level	171,400	162,400
Rate	6.7%	6.4%
Claimant Count		
Level	106,100	102,100
Rate	4.7%	4.5%

Source: Fraser of Allander Institute

Conclusion

In conclusion we believe the economy will suffer slightly in the short-run with lower growth over 2001-02 although growth is forecast to recover to just below trend in 2002 at 1.9%. We forecast a net job loss of 5,000 in 2001 but employment should recover in 2002. The stall in employment growth is probably the most serious effect the slowdown will have on the Scottish economy. Our forecasts of unemployment show that the labour market continues to perform relatively well.

Kenneth Low
15th May 2001

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