

Scotland's Recovery from Covid: How is the Scottish Economy Performing?

June 2023

Government Covid-related funding in Scotland

The latest estimates produced by Audit Scotland¹ showed that the Scottish Government spent £14.5bn on Covid-related measures, which was funded by £14.4bn of Barnett consequentials generated by UK Government spending measures. **In addition**, £11.4bn was spent directly by the UK Government in Scotland.

The main measures which the UK Government was responsible for which generated spending in Scotland are detailed in the Table below. This includes £29bn of support for devolved administrations which will include the 14.4bn in consequentials mentioned above.

Table 1: Selected UK Government Covid-related measures

Measure	Estimated Spending as at June 2022 across the UK (£m)
Coronavirus Job Retention Scheme	68,754
Support to the devolved administrations	29,100
Bounce Back Loan Scheme	14,457
Self-Employment Income Support Scheme: first and second grants	13,522
Self-Employment Income Support Scheme: fourth and fifth grants	8,364
Reduced rate of VAT for the hospitality sector	8,360
Universal Credit standard allowance £20 uplift	6,874
Self-Employment Income Support Scheme: third grant	6,219
Supporting and expanding Universal Credit support programmes	2,452
Increase in the basic element of Working Tax Credit by £20 per week	1,495
Coronavirus Business Interruption Loan Scheme	1,468
Pressures on the asylum support system	1,406
Kickstart: financial incentive for businesses to hire young employees	1,142
TOTAL of selected measures	163,613

Source: FAI Analysis of National Audit Office Covid-19 Cost Tracker²

¹ <https://www.audit-scotland.gov.uk/publications/scotlands-financial-response-to-covid-19-spending-update>

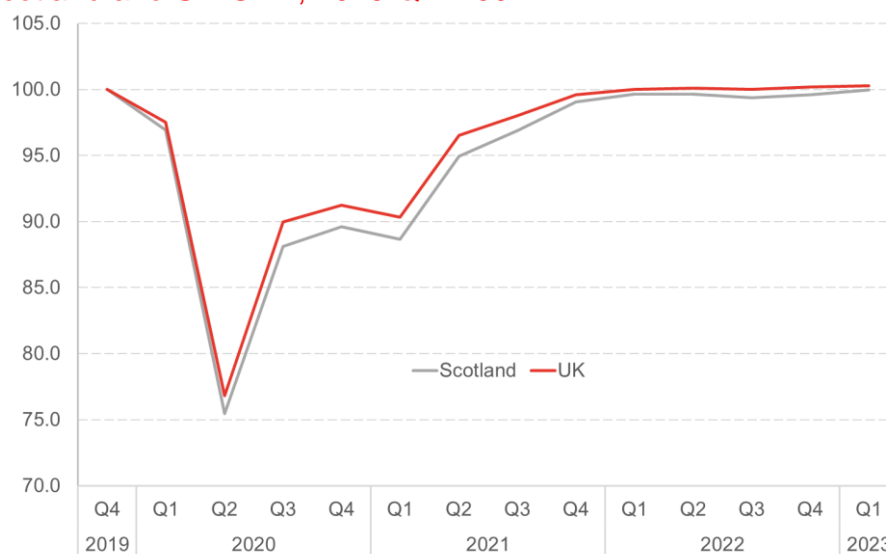
² <https://www.nao.org.uk/overviews/covid-19-cost-tracker/>

Excluding this £29.1bn means that the £11.4bn UK Government spending represents around 8.4% of spending through these UKG schemes, which is very similar to a population share.

Performance of the Scottish Economy vs UK Economy compared to pre-COVID levels

The pathway of both the Scottish and UK economies has been fairly similar over the period of the pandemic: with a significant contraction of around 25% as the economy was locked down in Q1 & Q2 of 2020, and now roughly only just back to the size that the economy was at the end of 2019.

Chart 1: Scotland and UK GDP, 2019 Q4=100



Source: SG, ONS

However, this aggregate similarity hides significant sectoral variations. For manufacturing, there are significant divergences evident in the recovery from the initial lockdown shock. The manufacturing sector is larger in Scotland than the UK average, representing 10.4% of the economy as opposed to 9.7% in the UK. The composition of the manufacturing sector is also different in Scotland.

The poorest performing manufacturing sub-sectors are metals, metal products and machinery and computer and optical products. The output of these sectors is about 18% and 14% respectively below pre-pandemic levels of output.

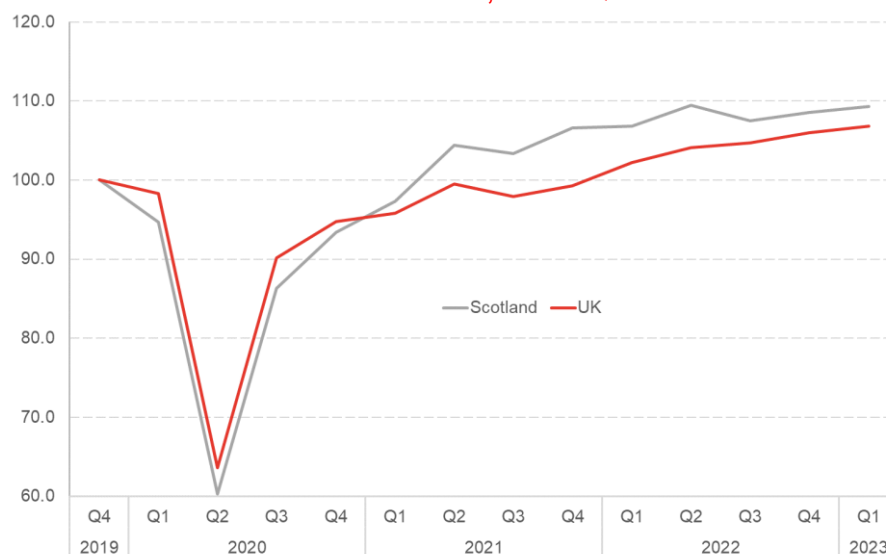
Chart 2: Scotland and UK Manufacturing GDP, 2019 Q4=100



Source: SG, ONS

On construction, the Scottish economy has performed better than the UK average: the industry is 9% above pre-pandemic levels compared to 7% in the UK as a whole.

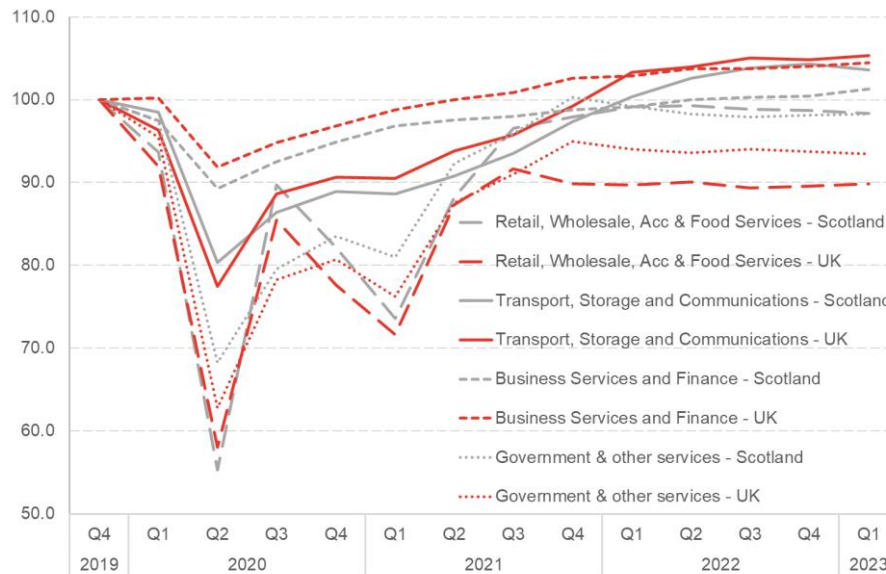
Chart 3: Scotland and UK Construction GDP, 2019 Q4=100



Source: SG, ONS

Of course, the vast majority (77%) of the Scottish economy is made up of services. In the chart below, services is split up into its 4 component parts, which again highlights significant differences. This shows that Scotland is lagging behind on business services and finance, but is performing better on retail, wholesale and accommodation and food services and on Government and other services.

Chart 4: Scotland and UK Services GDP, 2019 Q4=100



Source: SG, ONS

The sub-sectors driving this are a better performing retail & wholesale sector in Scotland, albeit this is the difference between the Scottish retail & wholesale sector recovering to around 96% of pre-pandemic levels compared to about 84% for the UK as a whole. Similarly, the sectors dominated by the public sector have generally recovered more quickly in Scotland. Conversely, financial services have grown more quickly in the UK as a whole, now sitting at 104% of pre-pandemic levels, compared to 100% in Scotland.

Earnings

Earnings in Scotland have recovered well compared to pre-pandemic levels, when we compare them to other areas of the UK. Compared to the other devolved nations and the nine regions of the UK, Scotland has the highest PAYE median earnings growth since January 2020.

Breaking this down into the regions of Scotland shows that this has not been evenly spread however. Looking at the 5 International Territorial Level (ITL) 2 regions, we see that all of the regions of Scotland are above the average level apart from the North East of Scotland, which notably has had the poorest growth in median earnings of all of the regions of the UK.

Chart 5: PAYE Earnings Growth for ITL2 regions, growth since January 2020



Source: ONS

Changes in ways of working

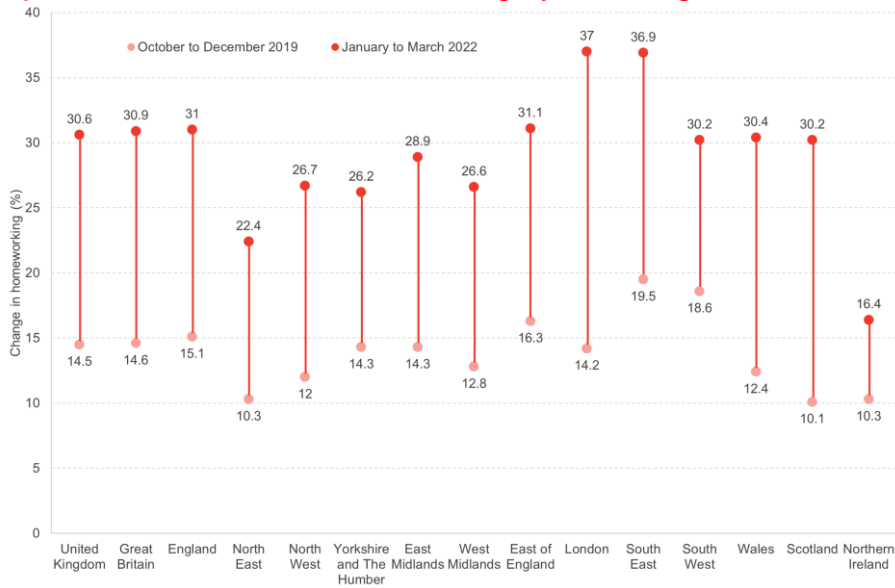
The pandemic accelerated the adoption and diffusion of digital solutions in many organisations, and, for those occupations who are able to support it, has led to a large increase in the incidence of home working either part or in some cases full time.

The long-term consequences of this for productivity and participation (likely both good and bad) are not yet known and understood fully, as many employers are still evolving their policies with their staff and adapting office accommodation to suit the needs of staff better when they are in the office.

City Centres, too, are continuing to adapt to this new normal of fewer commuters in employment hubs during the week.

In Scotland, the level of adoption of home working is roughly the same as the UK average, albeit from a lower initial base.

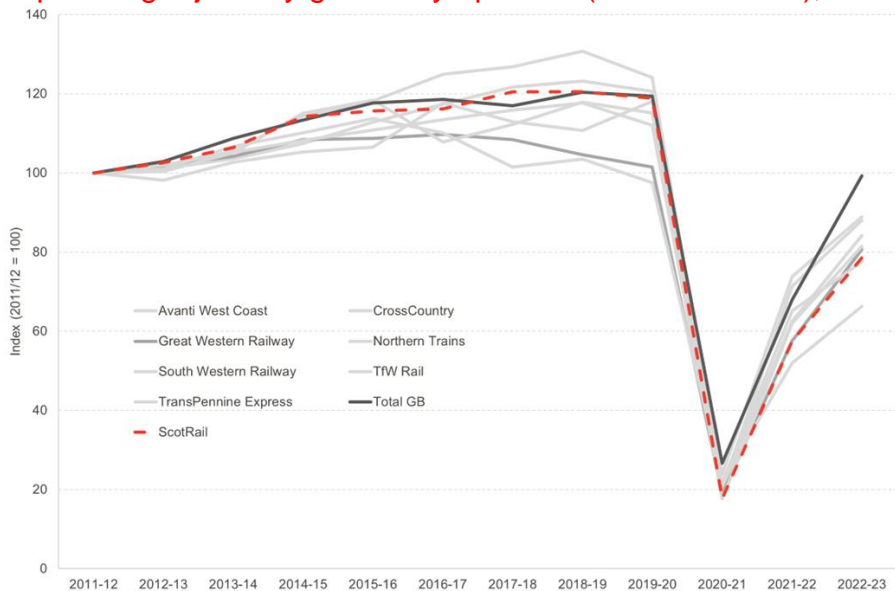
Chart 6: Proportion of individuals homeworking by ITL 1 region



Source: ONS

This has many consequences for many parts of the economy and, indeed, the delivery of public services. For example, Scotrail passenger numbers are around 66% of pre-covid levels, compared to 83% for all operators across GB.

Chart 7: Rail passenger journey growth by operator (2011-12 = 100), 2011 - 2023



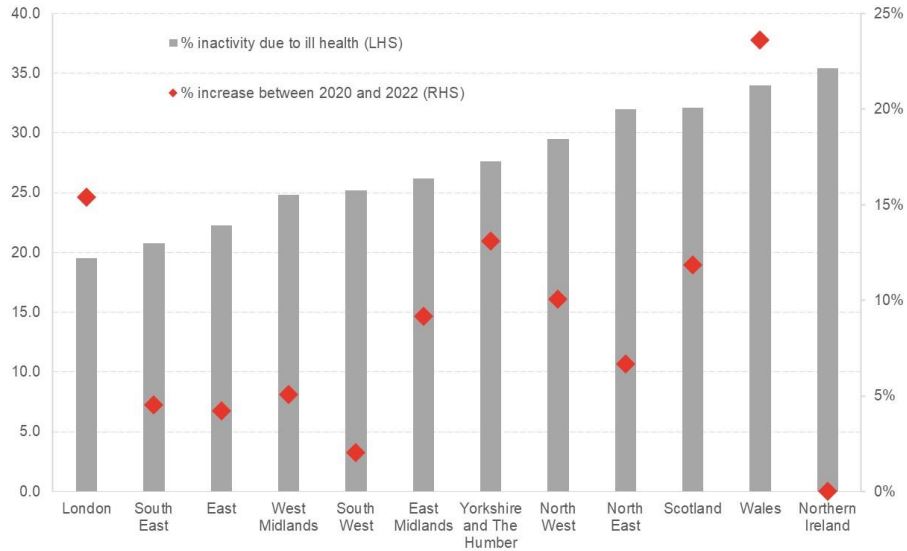
Source: ONS

Inactivity and long-term illness

One of the features in the Scottish labour market for many years is a relatively higher proportion of people being inactive due to ill health or disability. Across the UK, we have

seen these rates increase compared to pre-pandemic levels, which is leading to an increase in claims for disability related benefits (both reserved and devolved).

Chart 8: Inactivity due to ill health or disability, by ITL1 region, and % increase between 2020 and 2022



Source: ONS

This presents a huge challenge for policymakers, and makes the health of the workforce a real issue not just of social policy but also for economic policy too. The reasons for this are not fully understood, but it is likely to be some combination of long term impacts of COVID, through both long COVID and also mental health impacts, and also impacts from people waiting longer for treatments due to NHS waiting lists.

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