

The Scottish economy

Forecasts of the Scottish Economy

Background

Our Scottish forecast has been prepared against the background of deteriorating prospects for the global economy (see the World economy section). The UK economy has already slowed down during 2001 with a further slowdown in output growth expected in 2002 (see UK economy section).

Scotland's exports are likely to fall due to weaker demand. Multi-national business in the face of a significant downturn is re-assessing plants on a global scale and this is obviously a concern for the Scottish economy. Based on the figures available for the first half of 2001 it is likely that the Scottish economy will have significantly slower growth in 2001 as whole, although 2002 should see an improvement in performance.

We expect that Scottish consumption will weaken very slightly in the remainder of 2001 and in 2002 too, although Government spending remains strong. Our view is that investment expenditure will fall considerably, particularly in 2001 and 2002. We anticipate a significant fall in exports to the rest of the world as the demand for electronic components is falling considerably on a global scale. Whisky exports are also likely to suffer as incomes fall across the globe.

The forecast in detail

GDP

We are forecasting Scottish GDP growth in 2001 of 0.9%, compared with growth in 2000 of 1.5%. In 2002 we expect growth of 1.2%. Table 1 contains information on the growth of various sectors.

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

	2001	2002
GDP	0.9%	1.2%
Agriculture	-1.2%	0.1%
Manufacturing	-1.9%	-0.1%
Manufacturing (ex. Electronics)	0.0%	-0.9%
Construction	5.6%	1.8%
Services	1.3%	1.6%

Source: Fraser of Allander Institute

We expect growth to be strongest in the construction sector in 2001, although this will moderate considerably in 2002. Service sector growth in 2001 and 2002 will be slow compared with our September forecast as the effects of the global slowdown work their way into this sector. The worst performance in 2001 is expected to be manufacturing with a decline of 1.9% in 2001 but to improve in 2002. Agriculture is forecast to fall by 1.2% in 2001 but to remain relatively stable in 2002. The forecasts are discussed in more detail below.

Output

Construction growth remains relatively strong due to the significant public investment in infrastructure that is currently being undertaken. Agricultural prospects remain bleak this year but are forecast to improve in 2002 and 2003.

Services are forecast to grow at 1.3% and 1.6% in 2001 and 2002. This is a downward revision from the September forecast. We now anticipate that the downturn in the tourist industry will be largely confined to 2001 where negative growth of 1.9% is forecast. Positive growth is forecast thereafter. In 2001 growth in the retail sector is forecast to be slightly down due to the drop in consumption. Financial services and public services growth is forecast to be below 2% for 2001 whereas real estate and business services, other services and transport and communication services are expected to contribute significantly to service sector growth in 2001. In 2002 we forecast that transport and communications services and real estate and business services will contribute significantly to service sector growth. We forecast that by 2003 all service sectors will recover to trend growth or close to it.

Manufacturing output continues to cause concern in Scotland in the short to medium-term. Electronics is forecast to see output fall significantly in 2001, as is oil refining and nuclear fuel. The severe weakening in demand for electronics products has caused this sector considerable problems. We cannot rule out further closures or contractions in output growth. There are very few signs of better prospects for this industry in the future and consequently we have seen forecast growth moderate considerably in this sector. Recovery in electronics is not expected until 2003 or 2004. During 2001 and 2002 we forecast that most manufacturing sectors will have a relatively poor performance. A relatively better performance may be seen in manufacturing in 2003.

Employment

We are forecasting that employment will fall to 2,111,200 in 2001 from 2,115,000 in 2000. The following year we forecast employment will rise to 2,114,800. This is a net decrease in 2001 of 5,200 and a net increase in 2002 of 3,500. The employment forecasts are presented in Table 2.

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

	2001	2002
Employment	2,111,200	2,114,800
	(-5,200)	(3,500)
Agriculture	38,500	38,200
	(-2,000)	(-400)
Manufacturing	283,100	278,500
	(-7,900)	(-4,700)
Construction	133,400	134,600
	(-400)	(1,200)
Services	1,613,900	1,620,800
	(5,000)	(7,000)

Source: Fraser of Allander Institute (Net change in parenthesis)

Services are forecast to create jobs with employment forecast to be 1,613,900 in 2001 and rising to 1,620,800 in 2002. Both these forecast are slightly down on the September forecast. The main effect is a general slowing of the economy but the tourism industry and a slowdown in consumption are specific problems within services.

Manufacturing employment is forecast to fall by 7,900 jobs in 2001 and by 4,700 in 2002. The 2001 forecast is slightly lower than our previous forecast but the 2002 figure is relatively higher. This is because some of the job losses actually announced in 2001 will not take place until 2002 and some jobs previously under threat and assumed to turn into job losses have now been saved. Electronics are forecast to lose a considerable number of jobs. Oil refining and chemicals are forecast to lose 1,000 jobs over 2001 and 2002.

Construction employment is forecast to shed 400 jobs in 2001 (as some large projects come to completion) but the increase in construction employment is muted compared to our September forecast. This is because some private sector work has been delayed and the increase in employment is only 1,200 in 2002. Agricultural employment is forecast to fall by 2,000 in 2001 and by 400 in 2002. We do not forecast any large job losses in this sector except in 2001.

Unemployment

ILO unemployment is forecast to increase in 2001 but claimant count is not expected to rise until 2002 (see Table 3). Relative to the September forecast this is an upward revision. This reflects the forecast job losses and the reduction in employment opportunities in 2002. One problem that may occur in 2002 is an increase in structural unemployment as there is a fall in the numbers in manufacturing that are transferring to service sector jobs. This is a

reflection of the 'dual economy' where manufacturing is forecast to continue to perform relatively poorly whereas service sector employment growth has slowed and is forecast to be return to trend by 2003. By 2003 we expect both ILO and claimant count of unemployment to fall.

Table 3: Forecasts of Scottish unemployment, 2001-2002

	2001	2002
ILO Unemployment		
Level	169,900	172,500
Rate	6.7%	6.8%
Claimant Count		
Level	105,000	105,800
Rate	4.3%	4.3%

Source: Fraser of Allander Institute

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