

PRESS RELEASE – 22nd April 2009

ANALYSIS OF THE SCOTTISH GOVERNMENT PUBLICATION – GROSS DOMESTIC PRODUCT FOR SCOTLAND FOR THE 4th QUARTER OF 2008

HEADLINES

Overall

- GDP for Scotland fell in the fourth quarter of 2008 by 1.7%. For the year 2008 as a whole, Scotland grew by 0.5%,
- These figures are roughly in line with those seen for the UK as a whole (-1.6% and 0.7% respectively).
- With the 2008 Q4 figures showing the second consecutive quarter of negative growth, Scotland is now officially in recession.

2008 Fourth Quarter Data

- The bad news in Q4 was concentrated in the Production and Construction sectors (both -4.7%), although Services also saw a fall of 0.8%.
- Within **Manufacturing**, Chemicals (-12.3%) and Textiles (-8.6%) experienced the biggest falls. Only Mechanical Engineering output grew (+0.1%).
- Within **Services**, Hotels and Catering (+0.5%), Financial Services (+2.2%) and Public Services (+0.5%) all grew but this was more than offset in all other areas of services which each fell by around 2-3%.
- Revisions to the **Construction** sector data mean that the fall from its 2006Q3 peak were arrested at the start of 2008 rather than compounded. However, the Q4 figure showed another large fall.
- Within **Public Sector services**: output relating to Education has been falling or flat, quarter on quarter, since 2004Q1 (i.e. for 5 years) and is now 3% below its peak. Meanwhile figures for Public Administration and Defence improved in Q4 but are still down 5% on their 2006 peak. These declines are offset by the continuing growth in the Health sector, up 13% on its 2004 level.

2008 Annual data

- For 2008 as a whole, Scotland's growth rate of 0.5% was led by Services (+1%) and curtailed by both Manufacturing (-0.7%) and Construction (-1.7%).
- Within the **Services** total, growth was led by Communications (+8.9%) and Other services, but restricted by falls in Financial services (-5.3%) and Public Administration (-2.6%). This contrasts with the UK where Financial Services was the fastest growing sector (+5.7%).
- Overall, the picture on **Financial Services** remains confusing. For the UK, Financial services continues to grow, up 5.7% in 2008 as a whole, and there has not been a single quarter of decline in the last 7 years so that it now stands almost a third higher, in real terms, than its 2002 level. In Scotland, growth was faster than for the UK from 2002 to 2006, but there was a large downwards turn post the 2007Q1 peak, although the previously published 8½% fall in Q1 of

2008 has now been reduced to 4½%. It is difficult to square these trends with what appears to be happening in the real world.

- **Public services** have barely contributed to Scottish GDP growth in either 2007 or 2008. In contrast, in the UK, they have grown by around 1½ % in each year. Again it is difficult to explain why this might be the case. One possible explanation could be that Scotland's public sector is less productive than for the rest of the UK.

Prospects for 2009 and beyond

- Forecasts by both the CBI and the NIESR predict a similarly large fall for UK GDP in Q1 2009 as occurred in Q4 2008. Thereafter the CBI predict that the rate of decline will slow, with an annual decline of almost 4% on 2008 output. (The Chancellor of the Exchequer announced in today's Budget a more optimistic predicted decline of 3.5% in 2009)
- NIESR estimates for the UK show that while the industry sector continued to be the hardest hit in Q1, as it was in Q4, constructions decline has been much tempered.
- If previous UK recessions are anything to go by then we can expect 7-8 quarters of declining or flat output. However, within this timeframe there was a considerable differential between depths of the early 1980's and early 1990's UK recessions. In the early 1990's there was only one serious quarterly fall in output, followed by 7 stagnant quarters. In the early 1980's there were 7 quarters of trend decline, within which 4 quarters showed falls in output of over 1% on the previous quarter. This accounts for the overall top to bottom falls in these two periods, which was almost 6% in the early 1980's but less than 2% in the 1990's.
- If the current and past UK experiences are anything to go by we should expect another significant fall in output in Q1 of 2009 and not expect an upturn until the middle of 2010 (although the Chancellor predicts growth by the end of this year, and overall growth in 2010 of 1.25%).

CPPR quotes –

John McLaren: *“These latest figures suggest that Scotland is, in general, mirroring the experience of the UK as it enters into a recessionary period. However, worryingly for Scotland the public sector has not seriously contributed to growth for the past two years, while the UK public sector continues to support growth. If this situation were to continue then the Scottish public sector will struggle in helping to offset the likely further falls in private sector services and manufacturing.”*

Director of CPPR, Richard Harris: *“These figures show just the beginning of what is likely to be a prolonged period of negative or nil growth. It is still too early to say whether this recession will resemble the shallow downturn of the 1990's or the deeper one of the 1980's, or even go beyond that, but recovery is not likely to start until sometime in 2010.”*

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