

PRESS RELEASE – 22nd July 2009

ANALYSIS OF THE SCOTTISH GOVERNMENT PUBLICATION – GROSS DOMESTIC PRODUCT FOR SCOTLAND FOR THE 1st QUARTER OF 2009

HEADLINES

Overall

- GDP for Scotland fell in the first quarter of 2009 by 2.4%, the largest recorded quarterly fall in Scotland (note: quarterly data is only available for Scotland from 1995).
- This figure is roughly in line with that seen for the UK as a whole (-2.5%).
- Scottish GDP is now 5.2% lower than its peak level at 2008 Q2.
- The fall in Scottish GDP over the last 3 quarters is now the largest since records began (in 1963), easily outstripping the -3.2% experienced over the two years spanning 1979 to 1981.
- **Financial Services** fell by 4.4% and is now 14.4% below its 2007Q1 peak. However, within this Banking has only fallen by just under 6%, suggesting a fall in non-Banking Financial Services of over 25% in the last 2 years.

2009 First Quarter Data

- The bad news in Q1 was concentrated in Mining (-9.8%), Manufacturing (-6.3%), Construction (-6.6%) Business services (-4.1%) and Financial Services (-4.4%).
- Within **Manufacturing**, Chemicals (-13.8%) and Textiles, Footwear etc (-8.5%) again experienced big falls. Textiles are now at half the level they were in 2002 Q1 and Chemicals have fallen by 22% since 2008Q3. Mechanical Engineering also fell by 12.1%.
- Within **Services, Hotels and Catering** fell by 3.3% and is now at its lowest level since 2001, a finding that is difficult to either understand or believe, especially as the UK sector has shown solid growth over this period.
- **Business services** fell by 4.1% and are now down a worrying 11% from a year ago.
- **Financial Services** fell by 4.4% and is now 14.4% below its 2007Q1 peak. However, within this Banking has only fallen by just under 6%, suggesting a fall in non-Banking Financial Services of over 25%. This is again very worrying and the Government needs to better understand what is happening in this sector in Scotland. By way of contrast, Financial Services at the UK level continued to rise until the end of 2008 and have only fallen by 1.6% since then.
- **Construction** fell by 6.6% and is now 14% below its 2006Q3 peak.
- 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 4% below its peak. Meanwhile figures for Public Administration and Defence improved in Q1 but are still down 2% on their 2006 Q1 peak. These declines are offset by the continuing growth in the Health sector, up 14.4% on its 2004 level.
- In comparison to the **UK**, Scotland has recently been trailing in terms of the growth in important sectors like Financial Services and Public Services. However, it has

managed to outperform the UK in Manufacturing, Retail & Wholesale and Transport & Communications.

Revisions to previous data

- For 2008 as a whole, Scotland's growth rate was unchanged, but this hid large revisions in two sectors, Banking and Public Administration.
- Public Administration and Defence was revised up by 1% in 2007 and by 2% in 2008. By contrast Financial Services (the non-banking element) were revised down by 1% in 2008, although this was concentrated in Q4, which fell by almost 8%. This is described in the text of the Scottish Government release as being due to "an improvement in seasonal adjustment methodology" but the drop in Q4 is not reflected by increases in the other quarters of 2008.

Prospects for 2009 Q2 and beyond

- NIESR now estimate that UK GDP fell by another 0.4% over Q2 of 2009 (preliminary UK figures will be published on Friday).
- Fraser of Allander forecast growth for Scotland in 2009 ranging between -1.9% and -3.8%, which is better than most forecasts for the UK of around -4%. However, the FoA forecast for Scotland for 2010 is across the range -0.5% to -1.7%, in contrast to forecasts for the UK of returning positive growth of up to 1%.
- 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 the depths of the UK recessions in the early 1980's and early 1990's. 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 not expect a significant upturn until the middle of 2010.

CPPR quotes –

John McLaren: *"Scotland has now experienced the largest fall in GDP since records began in 1963. These latest figures suggest that Scotland is, in general, mirroring the experience of the UK as it makes its way through this recessionary period."*

"Perhaps most worryingly for Scotland Business Services and non-Banking Financial Services are now being hard hit. The latter appear to have fallen by over 25% in the last 2 years."

Director of CPPR, Richard Harris: *"These figures show that Scotland has lost over 5% of its total GDP in the last 3 quarters and that this loss has been concentrated in the areas of Manufacturing, Construction, Business Services and the non-Banking side of Financial Services."*

Contact: John McLaren: 07910 333194