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***ANALYSIS OF THE LATEST SCOTTISH GROSS DOMESTIC PRODUCT AND LABOUR MARKET FIGURES FOR SCOTLAND***

HEADLINES

- GDP for Scotland rose by 0.5% in the 3rd quarter of 2011, the same as for the UK.
- The Scottish labour market worsened a little, both in absolute terms and relative to the UK position.
- Overall, the different approaches taken by the Scottish and UK government's thus far appear to have made little difference to the economic outcomes. The deterioration in both GDP and the labour market have been on a similar scale in both Scotland and the UK.

**New data on Scottish Economic Growth (2011 quarter 3)**

The new data published by the Scottish Government for the third quarter of 2011 shows that:

- GDP for Scotland rose by 0.5% in the 3rd quarter of 2011, the same as for the UK.
- The best Scottish performances came in 'Manufacturing' (particularly 'Drink') and in the 'Hotels & Catering' and 'Real Estate and Business' areas of private sector services.
- In comparison the best UK performers in Q3 were also 'Hotels & Catering' and 'Real Estate and Business', but then in 'Health' and 'Education' public services, rather than in 'Manufacturing'.
- The public sector continues to underperform at the Scottish level, relative to the UK. Since the end of 2008 'Health & Social Work' services in particular have shown noticeably slower growth.
- Data for 'Financial' Services has been significantly revised up.
- Comparisons between Scotland and the UK performance at lower levels of industry disaggregation are not possible at present as they currently use different industry categories.

Looking at the longer term picture for GDP, and in light of recent revisions to the data both for Scotland and for the UK, we can now see that Scotland grew more slowly than the UK between 1998, which is as far back as detailed Scottish GDP data goes, to the peak economy year of 2007 (see Table 1). Most of this slower Scottish growth was concentrated in the period from 1998 to 2000.

In the case of Scotland, growth over this period was driven by private sector services, excluding Hotels and Catering. In the case of the UK growth was similarly driven by private sector services. Much of the difference in growth between Scotland and the UK was driven by particularly slow growth in Scottish public services. As noted in the bullet points above this continues to be a problem.

**Table 1: Scottish and UK GVA, % growth**

| | Scotland | UK |
|---|---|---|
| 1998 to 2007 (annual) | +26% | +32% |

Table 2 highlights what has happened since the peak of economic activity. It shows that Scotland suffered less of a recession than the UK but has also recovered more slowly. Overall, post peak, both Scotland and the UK find themselves in a similar position, around 3½ % down on their peak output levels.

**Table 2: Scottish and UK GVA growth rates**

| | Change in Scottish GDP | Change in UK GDP |
|---|---|---|
| Peak to trough* | -5.8% | -7.2% |
| Increase since trough to Q3 2011 | +2.7% | +3.8% |
| Fall from respective peaks to Q3 2011 | -3.3% | -3.6% |

**This equates to Q2 2008 – Q2 2009 for Scotland and to Q4 2007 – Q2 2009 for the UK*

## Scottish and UK labour market

Today also saw the publication of the latest regional labour market statistics. These show that, relative to the UK as a whole, Scotland has:

- a slightly higher employment rate, but this advantage has narrowed over the past quarter;
- a slightly higher unemployment rate, reversing the small advantage that had been experienced lately;
- a slightly higher claimant count rate, although this disadvantage has narrowed over the past month.

Table 3, below, puts these figures into a post recession context.

The Labour Force Survey unemployment rate figures for the UK are the worst since the recession began. They are also high for Scotland, although not quite as bad as in May-July 2010.

## Comparing Scottish and UK performance of GDP and the labour market

What has been most striking in recent times has been the improvement of the Scottish labour market performance (both in terms of its rising employment rate and falling unemployment rate), in absolute terms and relative to the UK. The biggest improvement came over the period 2000 to 2007, Scotland's employment rate for 16-64 year olds rose from just under 70% to over 74%, while the UK's employment rate remained largely static, at just over 73%.

This improved labour market performance was matched by a higher than historical average increase in GDP growth, but not by faster growth than was seen for the UK.

Post 2007, the Scottish labour market position worsened both absolutely and relative to the UK. In particular, over the period from the start of 2009 to the start of 2010 Scotland performed relatively poorly. Thereafter, Scotland has bounced back to some extent but has not yet regained the labour market advantage it held over the UK going into the recessionary period. Table 3 shows this in comparison to the UK.

**Table 3: Scottish and UK labour market rates**

| | Scotland | UK | Difference |
|---|---|---|---|
| Employment rate 2007 Q2 (Scottish peak) | 74.9% | 72.6% | +2.3 |
| Employment rate 2010 Q1 (Scottish trough) | 70.0% | 70.2% | -0.2 |
| Employment rate 2011 Sep to Nov (latest data) | 70.9% | 70.3% | +0.6 |
| | | | |
| Unemployment rate 2008 Q2 (Scottish peak) | 4.2% | 5.4% | -1.2 |
| Unemployment rate 2010 Q3 (previous Scottish trough) | 8.5% | 7.7% | +0.8 |
| Unemployment rate 2011Q3* (Scottish advantage regained) | 8.0% | 8.3% | -0.3 |
| Unemployment rate 2011 Sep to Nov (latest data) | 8.6% | 8.4% | +0.2 |

*Note: Employment rate figures are for 16-64 year olds, while unemployment rate figures are for those aged 16+, in both cases consistent with the measurers highlighted in the ONS's Summary Labour Market tables.*
**Q3 refers to data for July to September.*

It is difficult to reconcile Scotland's pre or post recession relative labour market performance with what has been happening to output (GDP). For example, post recession, Scotland's initial GDP downturn was shallower than for the UK even though its labour market down turn was deeper. Equally, the subsequent Scottish GDP bounce back has been weaker, even though Scotland's labour market has improved over this later period, unlike the UK's.

In the near future CPPR intend to publish an extended analysis looking at reasons which might help to explain these GDP and labour market movements.

## The Scottish Government's Plan Mac B

In the Financial Times (FT) last week (January 11th), First Minister Alex Salmond restated his case for why *"the UK must follow the Scottish example"* and *"it must embrace a 'plan Mac B' for the UK economy as a whole"*.

The distinctive approach by the Scottish Government that defines plan Mac B was then described as being *"focused on protecting public investment; boosting access to finance; encouraging private investment; and enhancing economic security to promote confidence. We specifically brought forward capital investment, increasing public investment in infrastructure."* The First Minister opined that "*this plan Mac B for Scotland will only continue to work if there is a plan Mac B for the UK."*

What of the out-turns thus far from this alternative Scottish approach? In the FT the First Minister highlights that the Scottish recession was shorter and less sharp than the UK's. This is true. However, as Table 2 above shows, it is also true that the bounce back since the trough has been weaker for Scotland than the UK. As a result, the net position moving from their respective peak outputs to their latest outputs (in 2011 Q3) is slightly better for Scotland. However, given the degree of precision involved in such estimates, both the UK and Scottish positions can be seen as very similar, still around 3½ % below peak output levels.

Previously the Scottish Government had also highlighted the better performing labour market in Scotland as another positive resulting from their actions. This is still true to some small extent for employment but not for unemployment. Furthermore, if we compare the relative shifts from the previous labour market peaks to now, then Scotland has relatively underperformed the UK. That is to say, the advantage that Scotland had over England in its higher employment and lower unemployment rates has narrowed (see Table 3).

The third positive Scottish attribute previously commented upon by the Scottish Government was the performance of the construction sector which, according to the Scottish Government's Economic Recovery Plan of February 2011, was leading a "sustained recovery" of the Scottish economy, helped in turn by an accelerated capital spending programme.

This last claim has been undermined by similarly falling Construction output figures for both Scotland and the UK and, in particular, by the fact that the latest figures for employment in construction in Scotland show a decline of 23% on the peak seen in early 2008. By comparison, UK construction employment is down by 11% (or 13% compared to the UK peak later in 2008).

The bottom line is that neither the Scottish nor the UK economy is in a very good place at present. Scotland's economic performance continues to strongly reflect that of the UK as a whole and it remains unclear where the stimulus for much needed growth is going to come from, for both economies, in the near future.

CPPR quotes –

John McLaren: ***"The most recent Scottish figures mimic movements at the UK level, which means that the overall picture remains gloomy, with output still below pre recession levels and the labour market worsening."***

Jo Armstrong: "***These figures highlight the continuing economic problems being experienced in both Scotland and the UK, regardless of which policies the two government's are following."***

Director of CPPR, Richard Harris: "***Scotland's economic performance continues to worry. CPPR intend to do further analysis in the near future to try and understand better what has been driving some of these important changes."***

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