

PRESS RELEASE

***CPPR ANALYSIS OF THE SCOTTISH GOVERNMENT PUBLICATION –
GROSS DOMESTIC PRODUCT FOR SCOTLAND FOR THE 2ND QUARTER OF
2007***

**BIG QUESTIONS REMAIN OVER INTERPRETATION OF KEY SCOTTISH
DATA**

HEADLINES

- Scotland growing above its long run trend and slightly above UK for the last quarter but noticeably below the UK for the last year
- Scotland's long run trend growth revised up from 1.8% p.a. to 1.9% p.a. due to revisions
- Most recent revisions have also increased Scotland's annual average growth rate since 1998 from 2.0% to 2.1%
- The strong quarterly outturn is mainly due to the continuing strength of Scotland's service sector. The production sector also returned a strong performance, but within production manufacturing output contracted appreciably.
- In light of CPPR's recent analysis, Retail sector past data has been revised down hugely (by 18% in 1999), reversing large upwards revision of a year ago
- Hotels and Catering in Scotland continue to flat-line as opposed to the UK's continuing fast growth
- Financial Services show quarterly fall and continue to grow more slowly than in the UK in recent years
- Public Sector revisions make for greater comparability with UK data

OVERALL

The overall results are quite encouraging, with Scotland continuing to grow above its long run trend, as it has for all but one of the last 8 quarters, and slightly above UK growth for the last quarter but noticeably below it for the last year.

In addition, both Scotland's long run (1970-2006) and short run (1998-2006) annual growth rates have been revised up, to 1.9% (from 1.8%) and 2.1% (from 2.0%) respectively.

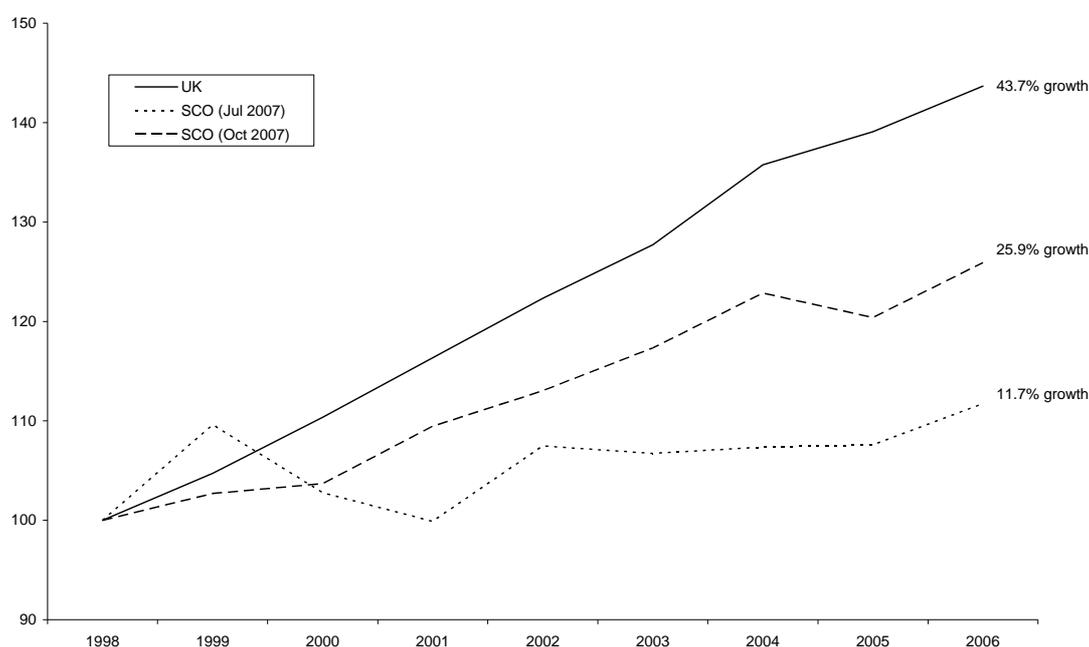
Within these figures there have been some revisions and long-term trends that are worthy of comment.

THE RETAIL SECTOR

For the second time in a year the figures for retail sales have been dramatically revised. When the GDP figures were published in October 2006, the Retail sector was revised up in earlier years (by as much as 10 points in 1999) and down in more recent years (by 4 points in 2005). This gave a very flat profile, so that output actually fell by 2% 1999 vs 2005 (in comparison the UK figures rose by 33%).

Today's publication again shows huge revisions to the data, now down 18 points in 1999 on the previous publication. This now means there is estimated to have been growth of 26% between 1998 and 2006 i.e. higher even than the pre-revision figure of 12% from the July 2006 Scottish GDP publication (see chart 1).

Chart 1: Retail GVA in UK and Scotland (latest and previous estimates)



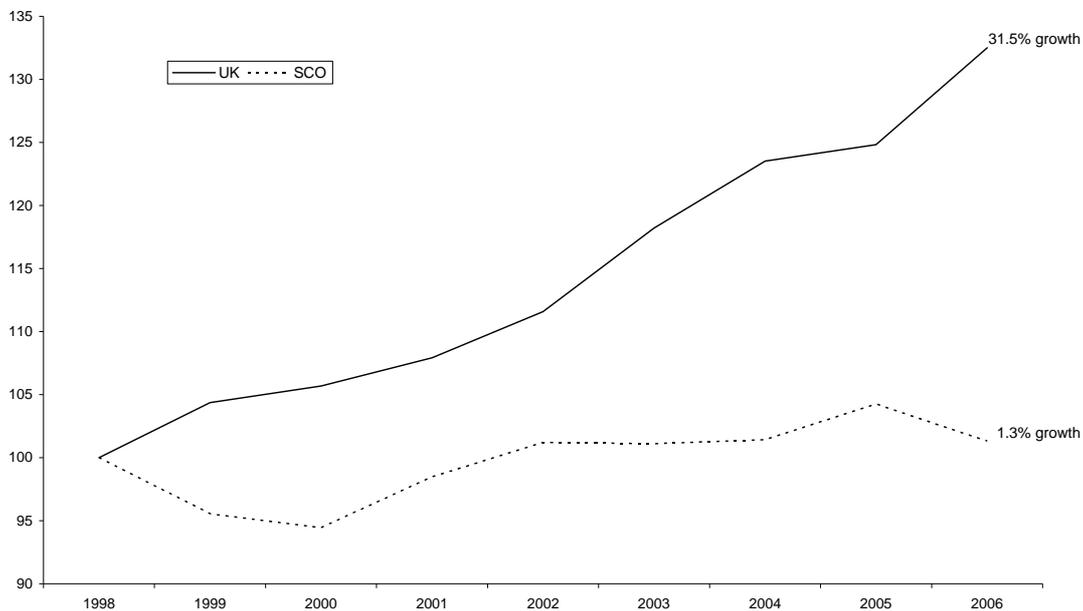
The reason for the previous revision was given as being due to the “*correction of an error in the deflation system*”. Commenting on the revised data out today, Scottish statisticians acknowledge that following on from CPPR’s pointing to anomalies in the July results, they have now found inconsistencies in their data which has led to the latest upwards revisions. Clearly, the data problems must have been significant (see Chart 1), and there is still need for an explanation for the significant differences that remain between Scotland and the UK during this period..

HOTELS AND CATERING

This sector continues to perform very poorly in Scotland. Q2 2007 saw another fall of almost 1% on the previous quarter, while for the UK as a whole the sector rose by almost 1%. This means that between 1998-2006 the sector in Scotland has grown by only 1%, while in the UK it has grown by over 31% (Chart 2). It remains difficult to understand why this huge divergence in Scottish vs UK economic performance has

come about. In their response to CPPR’s previous analysis of this sector, Scottish statisticians state: *“Further investigation has highlighted a genuine structural difference in these sectors between Scotland and the UK as a whole. Applying deflators to the turnover data has the effect of slowing the growth in constant price GVA for Scotland more heavily than the UK growth.”* Thus, data for this sector has not been revised in the latest figures produced. Clearly Chart 2 shows that if the main difference between Scotland and the UK is due to the use of different deflators to different sub-groups of the underlying data, then we need to know a lot more about which sub-groups are affected, and how different these inflation rates must be! We find the very large differences displayed as being in need of much greater interpretation and discussion.

Chart 2: Hotels & catering GVA in UK and Scotland



FINANCIAL SERVICES

Financial services fell by almost 3% in Scotland Q2 on Q1, against a rise of over 2% in the UK. This continues a worrying trend seen in recent years. Historically Scotland has outgrown the UK in this sector, increasing by 87.5% between 1998 and 2006, as against a UK rise of 55%. However, this faster growth occurred in the earlier years of this period and since 2003 the UK has out grown Scotland, by at least one-percentage point in each year, culminating in the most recent figures which show annual (latest 4 quarters on preceding 4 quarters) UK growth of 9.6% versus 5.3% for Scotland.

PUBLIC ADMINISTRATION, EDUCATION AND HEALTH

These figures have been revised since the Q1 publication such that, since 1998, Scottish growth is now slightly slower than before at 1.9% annual growth as opposed

to 2.1%. In addition, output has remained virtually unchanged in Scotland for the last 5 quarters, in an area that has traditionally shown steady growth.

Today's publication announces that revisions have taken place in this sector "*due to enhancements to data sources and methodology which move from employment measures to direct measures of output and enhance comparability with UK measures*". This revision is to be welcomed but more detail is needed on what exactly has occurred.

Revisions have occurred in all 3 major sub sections (Public Administration, Education and Health) but it is not clear for each of these (i) how consistent they now are with the UK methodology, and (ii) how significant each of the revisions are and in which direction they went.

THE PRODUCTION SECTOR

The production sector grew by 0.8% in Scotland in Q2, slightly above the UK figure. However, unusually the performance of this sector did not reflect the outturn of its principal component, manufacturing. Manufacturing output fell by 0.8% while UK manufacturing output *rose* by 0.8%. The main reason for the strong performance of the production sector was due to a significant and unexplained rise in the output of electricity, gas and water supply, which rose by 11%, while in its UK counterpart output fell by 0.4%. The weakness of Scottish manufacturing in the second quarter was mainly due to a further deterioration in the performance of electronics, which contracted by 0.8% while UK electronics expanded by 1%. Further weakness in the Scottish engineering sector was also evident in transport equipment, which cut back its out put by 7% in the quarter compared to a rise of nearly 3% in the sector in the UK.

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