

PRESS RELEASE – 22nd October 2008

ANALYSIS OF THE SCOTTISH GOVERNMENT PUBLICATION – GROSS DOMESTIC PRODUCT FOR SCOTLAND FOR THE 2nd QUARTER OF 2008

HEADLINES

Latest Figures

- **Growth for Scotland in the second quarter of 2008 was 0.1%, just positive and so above the zero growth rate for the UK. However, revisions to earlier data means that growth for the year 2007 is down from 2.0% to 1.8%, well below the UK's 2.9%.**
- **The bad news was of yet another fall in Financial Services, now down 4.8% (latest 4 quarters on preceding 4 quarters) and the 4th fall in the last 5 quarters. Unlike the huge fall of almost 10% in Q1 this fall was not down to the Banking sector, which rose, but rather the Insurance sector. The recent trend for Scotland remains in stark contrast with the UK picture. (See Figure 1.)**
- **In other areas the Hotels and Catering sector continues to cause concern with another 1% fall. While the UK fell by more in this sector Figure 2 shows the patterns over time with Scotland's non existent growth stretching over a decade. Construction continues to fall (for the 7th consecutive quarter, down over 5% on its 2006Q3 peak), but now on a par with the UK.**
- **Better news comes from other sectors, (principally Manufacturing, Retail and Wholesale, and Transport and Communications).**
- **On Transport, Storage and Communications (TSC), the latest data shows a rise of 2.6% in Q2 and 6.7% latest 4 quarters on preceding 4 quarters. TSC is increasingly important for Scotland, it was almost the only area of the economy that outgrew, quite considerably, the rest of the UK in 2007 (the other was 'Other services', but this was after a 5% fall in 2006). See Figure 3. Within TSC it is the Communications element that has been booming, now up 50% on its 2004 level.**
- **The picture of Public Sector services in Scotland is starting to look worrying. Output relating to Education has been falling, quarter on quarter since 2004Q2 (i.e. for 16 consecutive quarters) and is now 2.7% below its peak. This is in contrast to the employment figures for Education in Scotland which have remained flat. Meanwhile figures for Public Administration and Defence are down 5.3% since their 2006 Q2 peak. Although the Health sector continues to grow the other two elements are resulting in an overall zero growth rate over the last 8 quarters vs UK growth of 2.3% over the same period, and this for a sector that accounts for 23% of the economy. See Figures 4 and 5.**

Wider Issues

- **Recent trends indicate: Financial Services down since start of 2007; Education in steady decline since 2004; and tourism/consumer confidence areas of Hotels and Catering having not contributed to Scottish growth for a decade. If true, this paints a very worrying picture in terms of Scotland's supposed internationally attractive industry sectors.**
- **However, the "if true" element is important as it is currently difficult to explain or understand these trends. Caution therefore needs to be exercised when interpreting these figures.**
- **UK GDP data was significantly revised at the time of the last publication the main changes were: the introduction of a new method for measuring financial intermediation (resulting in the reallocation and hence abolition of FISIM (financial intermediation services indirectly measured); incorporation of new survey data; and supply use balancing of 2004-2006. As a result the past growth rates vs Scotland have changed. Although no changes have been seen in terms of 'who grows faster when', the growth rates for 2004 are now very similar while the UK now outgrows Scotland in 2006 by ½ a percentage point. 2007 growth rates are unchanged, with the UK growing at almost 3% and Scotland at just under 2%. Note: no such adjustments to FISIM have yet been made to the Scottish data.**
- **The poor growth record of the Scottish public sector is a worry as it is often this sector that is thought to protect Scotland during recessionary times.**

Table 1: GVA by broad sector in Scotland and the UK (based on 2004=100)

Industry	2004 weight	2007Q2-2008Q2			2008Q1-2008Q2		
		Sc	UK	Diff	Sc	UK	Diff
TOTAL	1000	1.4%	1.5%	0.1%	0.1%	0.0%	-0.1%
Agriculture etc	16	1.3%	1.8%	0.5%	2.4%	0.4%	-2.0%
Production	178	-0.7%	-1.1%	-0.4%	0.2%	-0.7%	-0.9%
Mining etc	11	-10.0%	-5.8%	4.1%	-1.7%	-0.1%	1.5%
Electricity, Gas & Water	27	-8.2%	2.0%	10.2%	-2.4%	-0.1%	2.3%
Manufacturing	139	1.2%	-0.9%	-2.1%	0.7%	-0.9%	-1.6%
Construction	68	-3.2%	2.0%	5.2%	-0.3%	-0.5%	-0.2%
Services	738	2.4%	2.1%	-0.3%	0.1%	0.2%	0.1%
Retail & Wholesale	112	4.5%	2.2%	-2.3%	1.7%	0.7%	-1.0%
Retail	55	1.4%	3.9%	2.5%	-1.7%	0.6%	2.3%
Wholesale & Motor Vehicles	57	7.3%	1.9%	-5.4%	5.0%	0.7%	-4.2%
Hotels & Restaurants	35	2.5%	-2.4%	-4.9%	-1.0%	-2.0%	-1.0%
Transport & Communications	74	6.5%	1.8%	-4.7%	2.7%	1.0%	-1.6%
Financial Services	83	-8.3%	6.1%	14.4%	-1.1%	-0.1%	1.0%
Real Estate & Business	193	3.6%	2.3%	-1.3%	-1.0%	0.2%	1.2%
Public Administration, Education & Health	230	0.3%	1.1%	0.8%	-0.7%	-0.2%	0.5%
Other services	58	8.0%	2.3%	-5.7%	1.0%	0.2%	-0.9%

CPPR quotes –

John McLaren commented that *“These latest figures show Scotland to be just keeping its head above recessionary waters but these figures predate the worst of the financial markets meltdown. However, some recent trends (e.g. in Financial Services, Hotels and Catering and Public Services) are worrying in terms of Scotland’s ability to bounce back after current economic difficulties are overcome.”*

Director of CPPR Richard Harris highlighted that *“Interpretation of Scotland’s relative performance remains difficult. It is not easy to reconcile many of the emerging trends with reality. This is as true for the sectors that are performing very well, like Communications, as for those that are struggling.”*

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Figure 1: Financial Services

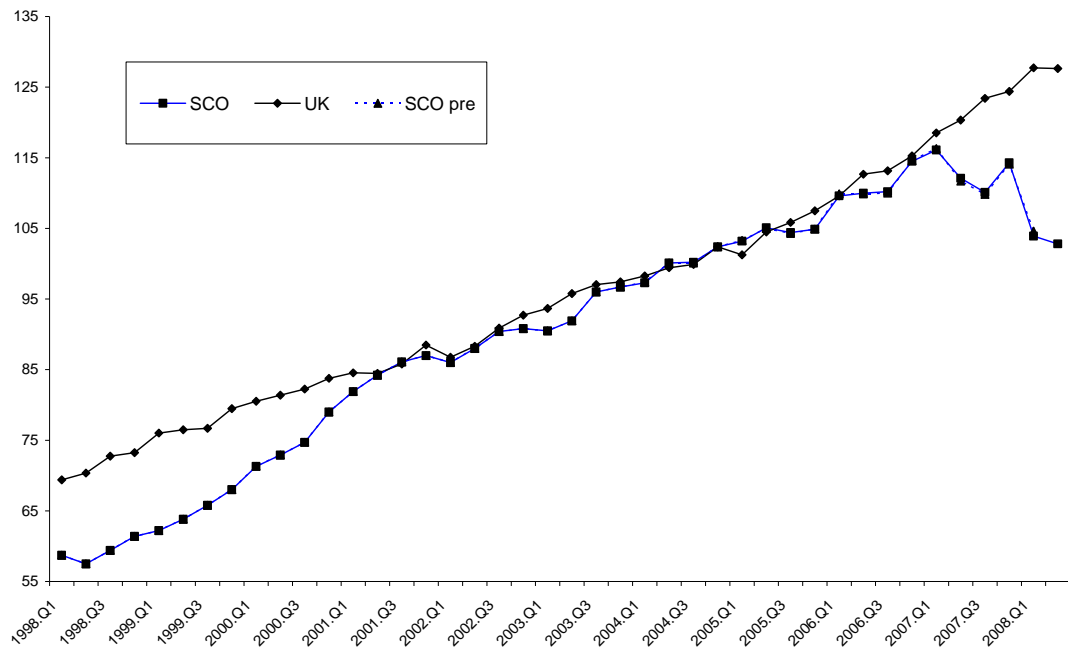


Figure 2: Hotels & Catering

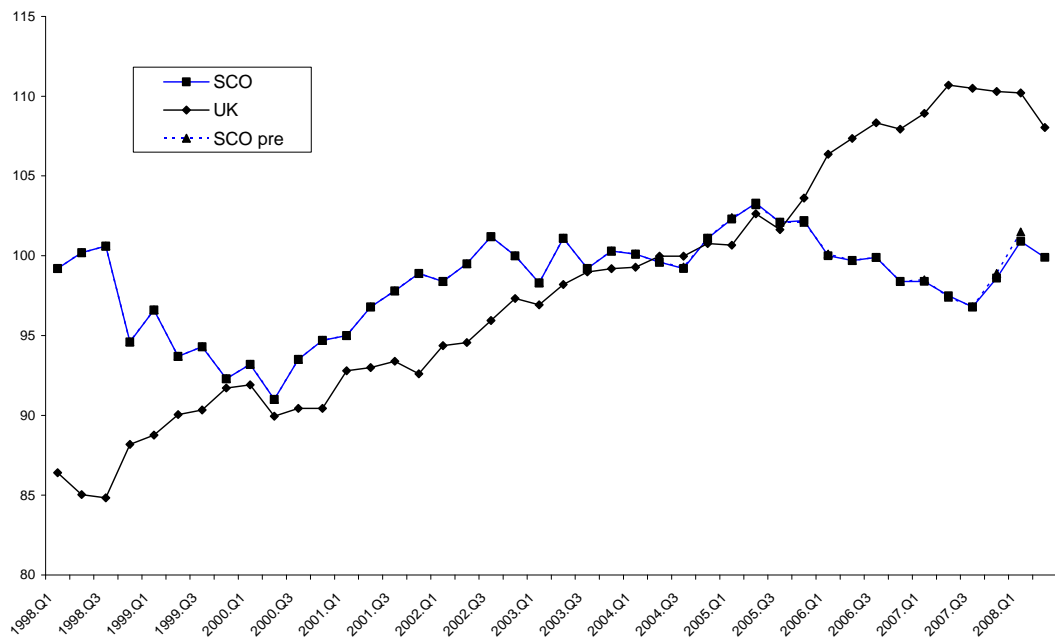


Figure 3: Transport, Storage and Communications

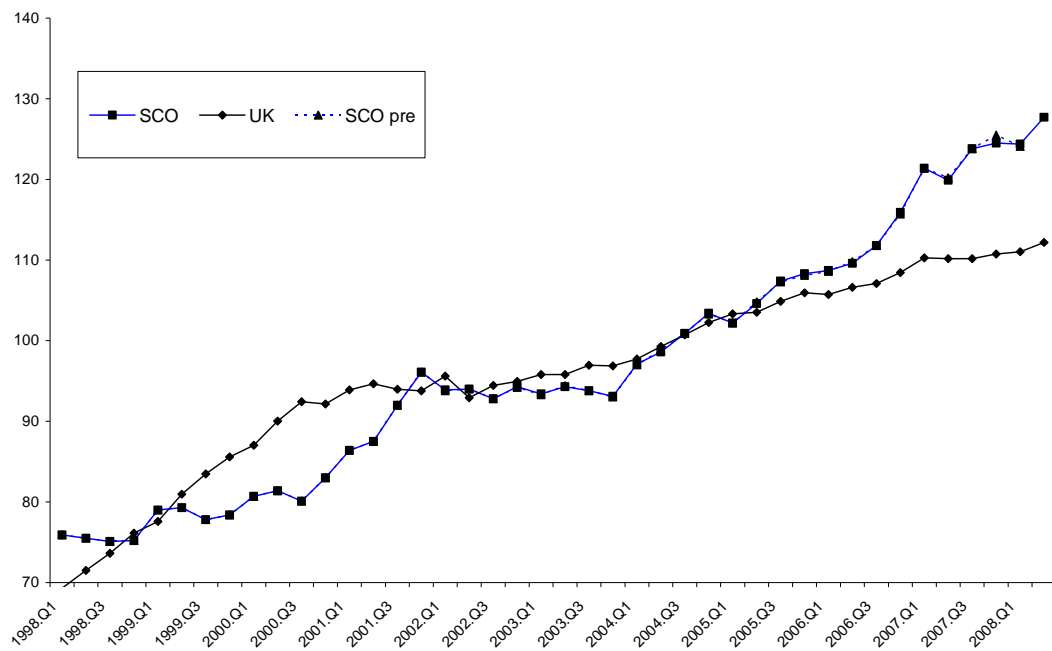


Figure 4: Public Administration & Defence

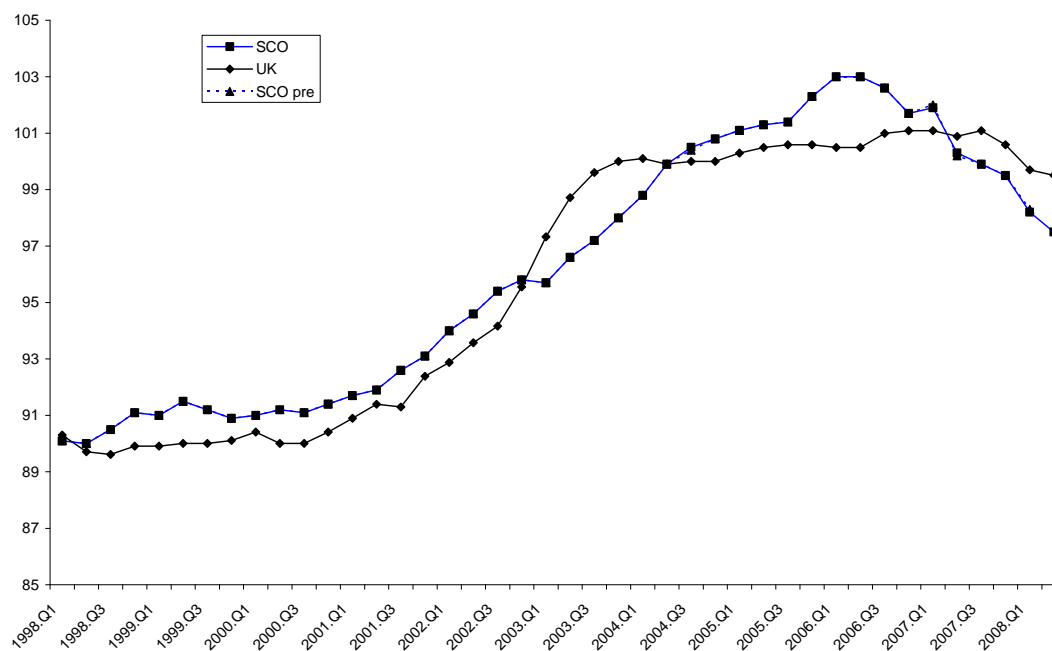


Figure 5: Education

