PRESS RELEASE – 28th January 2009

ANALYSIS OF THE SCOTTISH GOVERNMENT PUBLICATION – GROSS DOMESTIC PRODUCT FOR SCOTLAND FOR THE 3rd QUARTER OF 2008

HEADLINES

Overall

- GDP for Scotland fell in the third quarter of 2008 by 0.8%, this was worse than the 0.6% fall for the UK.
- **Revisions to past data mean that growth rate for Scotland over the period 1998-2007 has risen from an average annual rate of 2.0% to 2.2%,** although this is still below the UK average annual rate of 2.8% over the same period.
- To give some indication of what recent figures could mean for year on year Scottish growth:
  - If Scotland experienced the same fall in output in Q4 as the UK did (-1.5%) then growth for the year 2008 would be 0.5% (as against 0.7% for the UK)
  - If output was to remain flat at this Q4 2008 level for the whole of 2009, then Scottish GDP would fall by 1.5% in 2009.
  - Given the current outlook (where the shake out in financial services and many others industries is only just starting to gather pace) such a projection for 2009 seems optimistic

Sectoral

- The bad news in Q3 was spread across most of the industry sectors, although Business services were particularly hard hit, down 3.7%.
- Perhaps surprisingly Financial services was one of few growth sectors in Q3, up 0.5%. Due to the abolition of the FISIM category Financial services have been revised considerably and the 9% decline seen in Q1 of 2008 from Q4 of 2007 has been reduced to 5%, although this is still very large and Scottish Financial services remain 8.5% below their 2007Q1 peak.
- The large scale revisions did not have a significant impact on the Hotels and Catering sector and so this sector continues to cause concern with no overall growth for a decade.
- Construction continues to fall (for the 8th consecutive quarter, it is now down by 6.5% over the last 2 years). This fall predates the current housing troubles, unlike in the UK where the downturn began in 2008Q2. It remains difficult to interpret the Scottish trend in this area. To put this in some historical context, **in the worst Scottish Construction downturn, 1977-1981, output fell 22% and did not recover to its 1977 level until 1991**.
- Better news comes from the Energy sector, up 10% in Q3.
- Manufacturing fell by 0.6% in Q3 but within this total Electrical and Instrument engineering fell by 4.6% and Other manufacturing by 3.8%. On a positive note the Chemicals sector rose by 9.5% in Q3.
- While the Retail and Wholesale sector fell by 1.5%, the Retail element of this grew in Q3 by almost 2%

- The picture of ***Public Sector services*** in Scotland continues to look worrying. Output relating to Education has been falling, quarter on quarter since 2004Q1 (i.e. for 19 consecutive quarters) and is now 3.2% below its peak. Meanwhile figures for Public Administration and Defence are down 5% since their 2006 peak. These declines are offset by the continuing growth in the Health sector but, overall, **Public services did not contribute to Scottish GDP growth in 2007 and look unlikely to do so in 2008 either.**
- Recent data for the **UK** showed that for the year 2008 as a whole, Business services and finance was the fastest growing sector, followed by Construction. This helps illustrate how the downturn in these sectors has only just begun to impact on the UK GDP output data. In 2008 it was Manufacturing that was still acting as the largest drag on the overall UK growth rate.
- The **UK** position for Q4 may give some indication of what Scotland can expect in that quarter. The news is mixed. Perhaps surprisingly both Business services and finance and also Government and other services experienced the smallest falls in output (0.5%). However, this 'mixed' news looks bad both ways when looking further ahead as it suggests that the Financial services fallout has not yet fully worked its way through to the GDP data and that the Public sector is not going to be as strong a defence against slowdown as some had hoped. A view supported by recent Scottish data.

CPPR quote –

John McLaren commented that "***These latest figures suggest that Scotland is currently in recession and that, unlike in previous recessions, Scotland may well be worse off than the UK as a whole. The fact that Public sector services have not contributed to growth for over two years now and that the fall out from Financial services has yet to be reflected in the data suggests that there are hard times ahead. The pause in Public Services growth is particularly worrying given its position as the 'last man standing' in terms of protecting against a general slump.***"

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