

Financial Scrutiny Unit Briefing Economic Indicators

14 September 2012

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This briefing provides the latest data for a selection of indicators from which we are able to identify trends within the Scottish economy.

A summary of the latest movement being displayed by each indicator is shown below.

Gross Value Added (GVA)	↓	Total economic output decreased by 0.1% during Q1 2012
Unemployment	↑	unemployment rate increased to 8.2% for the period May to July
House prices	↑	Two out of three surveys report a slight increase over the quarter to Q2 2012
UK inflation (CPI)	↑	inflation in July was 2.6%, up slightly from 2.4% in June
Interest rates	→	the Bank of England maintained the bank rate at 0.5% in August
Scotland's population	↑	Scotland's population stood at 5.25m, the highest level ever recorded and an increase of 0.6% since 2010 (see 'Guest Indicator')

Each economic indicators publication includes a guest indicator. This edition focuses on Scotland's growing population, as well as its changing demographic profile.

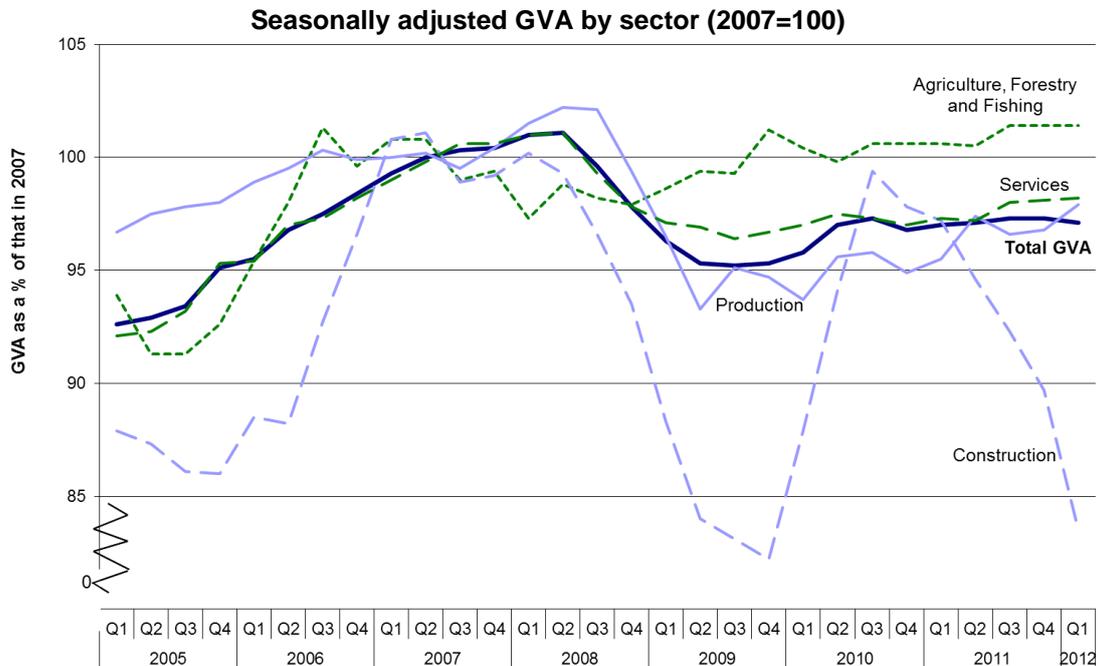


The Scottish Parliament
Pàrlamaid na h-Alba

The next update of Economic Indicators will be issued in December 2012.

1. ECONOMIC GROWTH (GROSS VALUE ADDED)

- Total output of the Scottish economy measured by Gross Value Added¹ (GVA) is estimated to have fallen by 0.1 per cent during the first quarter of 2011. The UK saw GDP decrease by 0.4 per cent over the same period.
- There was a slight increase in the output of both the service and production sectors over the period; however construction saw another massive reduction in output (a change of -6.9% in the latest quarter).
- Within the production sector, growth was most significant in the Refined Petroleum, Chemical & Pharmaceutical Products sector, as well as the Metals & Metal Products', and Textiles, Leather & Clothing' sectors



Source: Scottish Government (2012a)

Global economic outlook: GDP growth %

Area	2012	2013
Developing Asia	7.1	7.5
World	3.5	3.9
US	2.0	2.3
UK	0.2	1.4
Euro Area	-0.3	0.7

Source: International Monetary Fund (2012)

The IMF's [World Economic Outlook](#) updated in July 2012 states: "These forecasts are predicated on two important assumptions: that there will be sufficient policy action to allow financial conditions in the euro area periphery to ease gradually and that recent policy easing in emerging market economies will gain traction. Clearly, downside risks continue to loom large, importantly reflecting risks of delayed or insufficient policy action".

IMF growth forecasts for the UK were revised downwards for 2012 from the previous projections in April. Eurozone area forecasts were also revised downwards for 2013, with the prediction showing negative growth for 2012 and growth of 0.7% during 2013.

Scottish & UK economic outlook: GDP growth %

	2012		2013	
	Scot	UK	Scot	UK
Fraser of Allander Institute (Jun 2012)	0.4	n/a	1.6	n/a
ITEM Club (Jun 2012)	0.3	0.5	1.1	1.6
Average	0.4	-0.2*	1.3	1.3*

Sources: Scottish Government (2012b); *HM Treasury (2012)

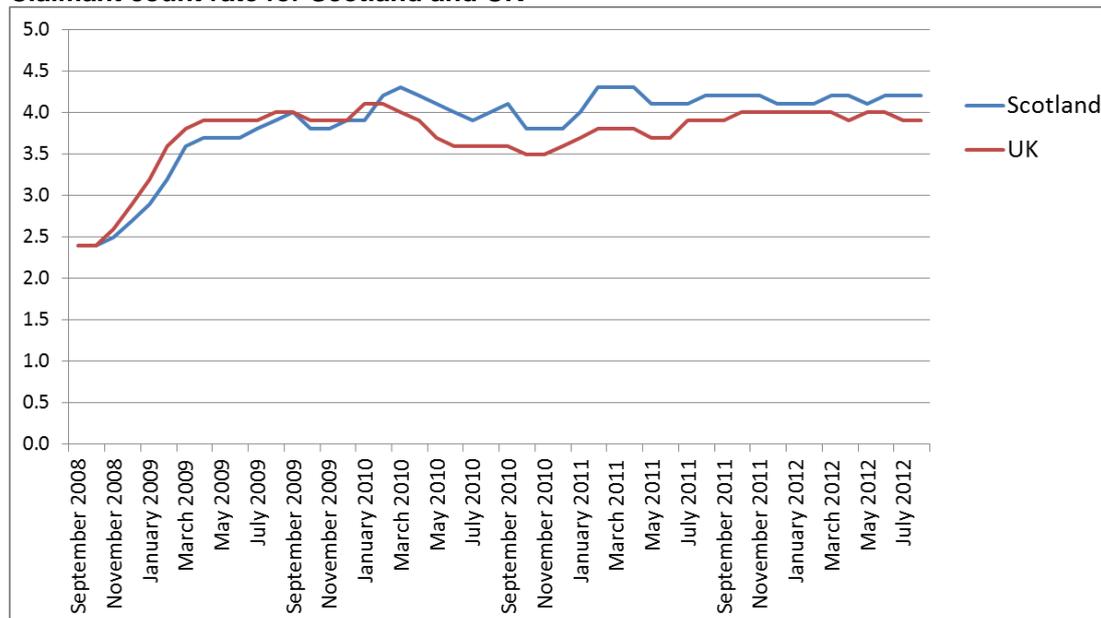
- Average 2012 forecasts for the Scottish economy have been downgraded since April's *Economic Indicators*.
- The Fraser of Allander Institute forecasts weak growth for Scotland throughout 2012. However a strong performance in production sectors is predicted for 2013 and 2014, depending on a resolution of the Eurozone crisis (FAI, 2012).
- The average forecast shown for Scotland is that of the two listed above. The UK average is compiled by the Treasury.

¹ Also known as Gross Domestic Product at basic prices i.e. excluding taxes and subsidies.

2. LABOUR MARKET

- During the three months to July 2012, the official unemployment rate in Scotland increased by 0.1 percentage points to 8.2%. This compares with a decrease in the UK unemployment rate of 0.1 percentage points to 8.1%.
- The claimant count, a narrower but more up to date measure of unemployment shown in the chart below, fell to 4.1% over July and August. This compares to a rate of 3.9% across the UK as a whole.

Claimant count rate for Scotland and UK



Source: Office for National Statistics (2012a)

Note – The Claimant Count is a partial measure of those who are unemployed and counts only those claiming certain benefits

Geographic snap-shot

- There is considerable geographical variation in the claimant count rate across Scottish Parliament constituencies.
- The figures for August 2012 range from 1.0% in Aberdeenshire West to 7.6% in Glasgow Maryhill & Springburn.
- The Carrick, Cumnock and Doon Valley constituency saw the largest percentage point increase in JSA claimant count rate over the year from August 2011.

Job vacancies

- The total number of Jobcentre live unfilled vacancies in August 2012 was 24,713, an increase of over 8,754 on July 2011 (15,959).
- The number of live unfilled part-time vacancies rose by 73% over the year whereas the number of full-time vacancies rose by 48%.

Source: Office for National Statistics (2012c)

Full-time and part-time employment in Scotland

Period	Full-time workers	Part-time workers
	000's (not seasonally adjusted)	
Apr 2010 - Mar 2011	1,799	671
Jul 2010 - Jun 2011	1,796	672
Oct 2010 - Sep 2011	1,789	672
Jan 2011 - Dec 2011	1,785	676
Apr 2011 - Mar 2012	1,776	684

Source: Office for National Statistics (2012b)

Over the past two years, full-time employment has been falling while the number of part-time workers has been rising.

Economic activity in Scotland (Labour Force Survey)

May-July 2012 (seasonally adjusted)	Rate	Change in rate over year
<i>Economically Active</i>	77.9%	+0.3% points
<i>in employment</i>	71.4 %	-0.1% points
<i>unemployed *</i>	8.2%	+0.1% points
<i>Economically Inactive</i>	22.1%	-0.3% points

Source: Office for National Statistics (2012b)

*rate is for the 16-64 group

- The percentage economically active in Scotland over the period April to June 2012 is 0.3 percentage points higher than a year earlier, with a corresponding decrease in the percentage of economically inactive.

3. HOUSING MARKET

- Registers of Scotland data (not seasonally adjusted) shows there has been an increase in house prices over the quarter to Q2 2012 with twenty local authority areas seeing increases in average residential property prices over the quarter. However over the year there has been a reduction of 0.2 percent in average residential property prices.
- All of the four surveys in the table below show a decline in average Scottish house prices over the year. Referring to the UK housing market Robert Gardner, chief economist with Nationwide, states that "the average number of mortgage approvals is currently running at around 50,000 per month, around half the level prevailing over the 2005-2007 period. Interestingly, the share of mortgages taken up by first time buyers has actually increased slightly to 39% of the total, up from the 37% prevailing in the pre-crisis period." (Nationwide 2012a).

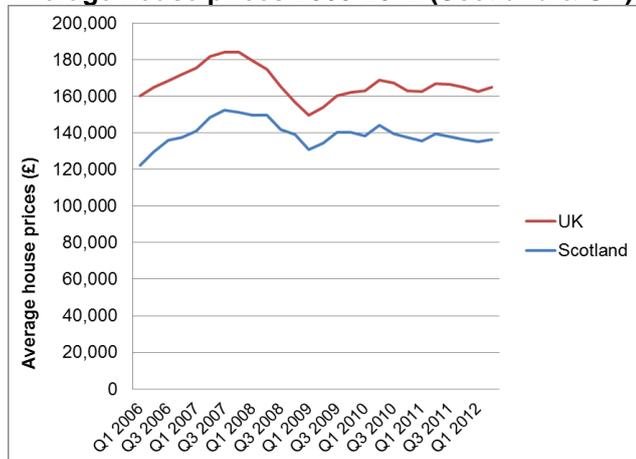
House price data

Survey source	Period	Scotland		
		Av. House Price	Quarterly change	Annual Change
Dept of Communities & Local Gov.	Jun 2012	£180,000	n/a	-1.0%
Halifax	Q2 2012	£113,417	5.9%	-5.4%
Nationwide	Q2 2012	£136,182	-2.0%	-2.3%
Registers of Scotland	Q2 2012	£153,501	3.2%	-0.2%

Sources: Dept of Communities & Local Gov't (2012); Halifax (2012b); Nationwide (2012a); Registers of Scotland (2012).

Note: Due to differences in survey methods, house price survey data show considerable variation in the level of prices in Scotland. Registers of Scotland data shown here is not seasonally adjusted.

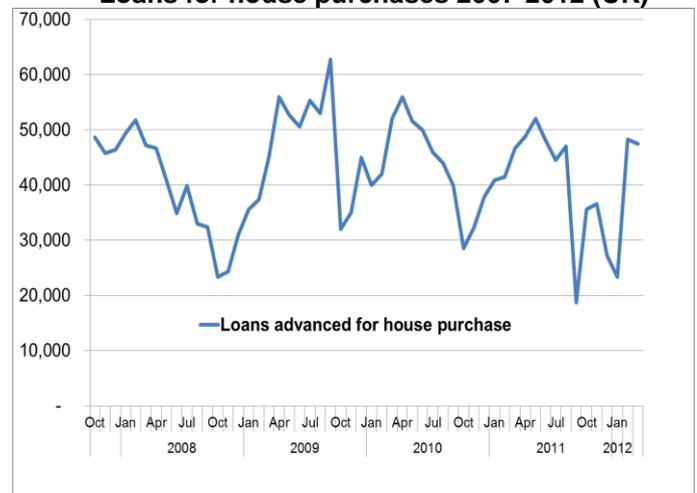
Average house prices 2005-2012 (Scotland & UK)



Source: Nationwide (not SA) (2012b)

- According to Nationwide, seasonally adjusted house prices fell by 2.0% in Scotland over the quarter to Q1 2012. Within Scotland, there was a mixed picture.
- Registers of Scotland reports a rise in average house prices across most local authority areas between Quarter 1 and 2 2012, with the largest increases in Shetland Islands (17.8%) and Clackmannanshire (14.8%). However, ten local authority areas experienced a fall in prices, including Orkney (-11.3%) and South Lanarkshire (-6.9%) (ROS, 2012).

Loans for house purchases 2007-2012 (UK)

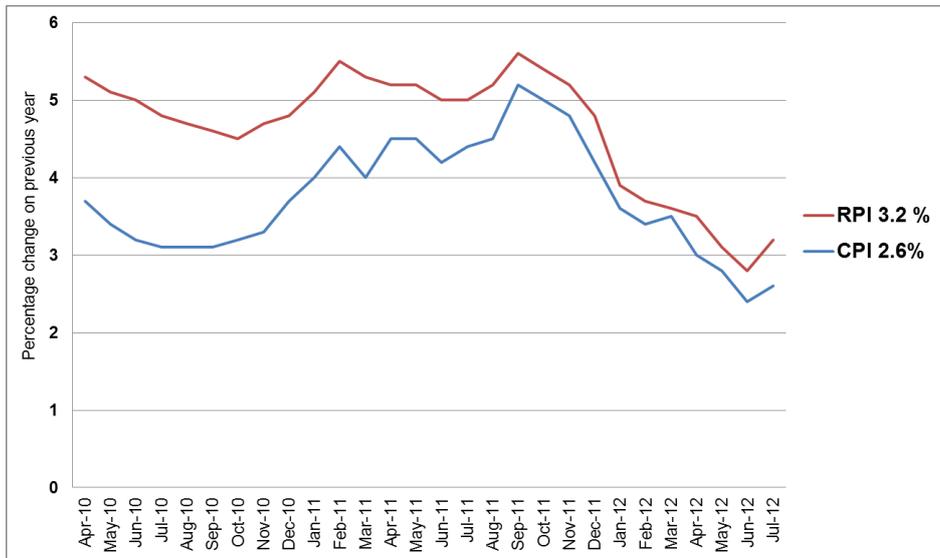


Source: Council of Mortgage Lenders (CML) (2012)

- There was an increase of 7% in house purchases in Scotland during Quarter 2 2012 compared to Quarter 2 2011. There was also a stronger rate of growth in Scotland than in the UK as a whole between Quarter 1 and Quarter 2 2012.
- Iain Malloch, chair of CML Scotland, believes "it is encouraging to see some positive signs emerging from the housing market in Scotland. We still expect to see challenging conditions in the housing market in Scotland but we hope to see an easing of constraints throughout the rest of 2012 and beyond." (CML, 2012)

4. INFLATION, INTEREST AND EXCHANGE RATES

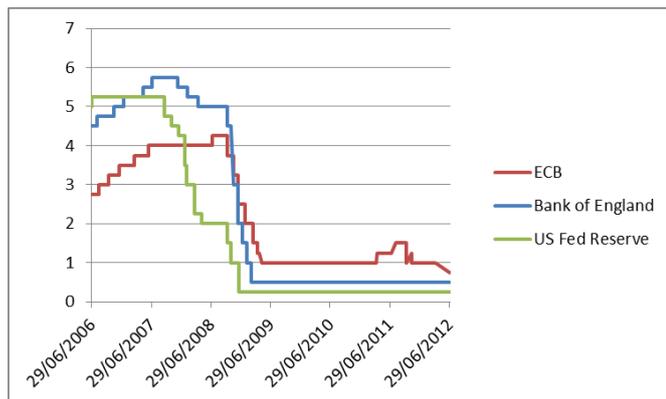
CPI inflation was 2.6 per cent in July 2012, up from 2.4 per cent in June. Upward pressures came from air fares and housing. Downward pressure to the change in CPI annual inflation between February and March came from petrol and diesel and clothing and footwear.



Source: Office for National Statistics (2012d)

Inflation (CPI) still lies above the Bank of England's 2% target, and is likely to continue to remain above it in the near term. Looking ahead, the Bank of England states that it can be reasonably confident that inflation will fall below the target during 2013 as 'the impact of external price pressures eases, and a partial recovery in productivity growth and continued labour market slack restrain domestic cost pressures' (Bank on England, 2012a).

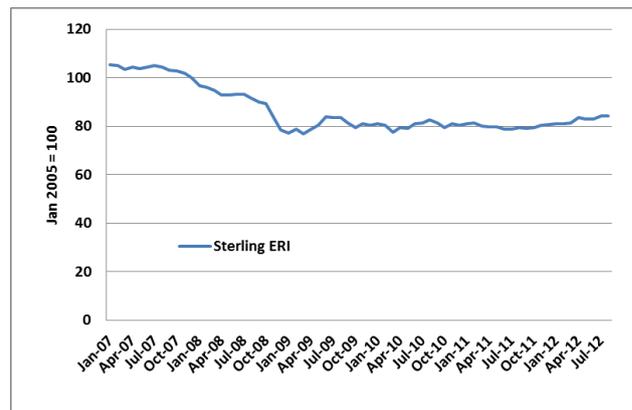
Interest rates 2004-2012



Source: Bank of England (2012b), European Central Bank (2011), US Federal Reserve Board (2012)

- On 6 September, the Bank of England Monetary Policy Committee voted to maintain the bank rate at 0.5% and the size of the Asset Purchase Programme at £375bn. The Asset Purchase Programme was increased from £325bn in July 2012.
- The European Central Bank reduced its rate to 0.75 per cent in July 2011

Exchange rates 2005-2012



Source: Bank of England (2012c)

- A decline in the Sterling Exchange Rate Index (ERI) represents a relative improvement in UK competitiveness (imports become more expensive and exports cheaper).
- The economic circumstances which have unfolded since 2007 mean that the ERI is now around 15% below its 2005-2007 level. This has improved the price competitiveness of UK exports. The downside is an increase in the price of imported goods.

5. GUEST INDICATOR: SCOTLAND'S POPULATION

A return to growth

Scotland's population fell steadily over the period 1974 - 2002. However, this population decline has been reversed in recent years, with a 4% growth in the population between 2002 and 2011. In 2011, Scotland's population stood at 5.25m, the highest level ever recorded and an increase of 0.6% since 2010. Over the same period, the population of the EU15 grew by 0.4%.

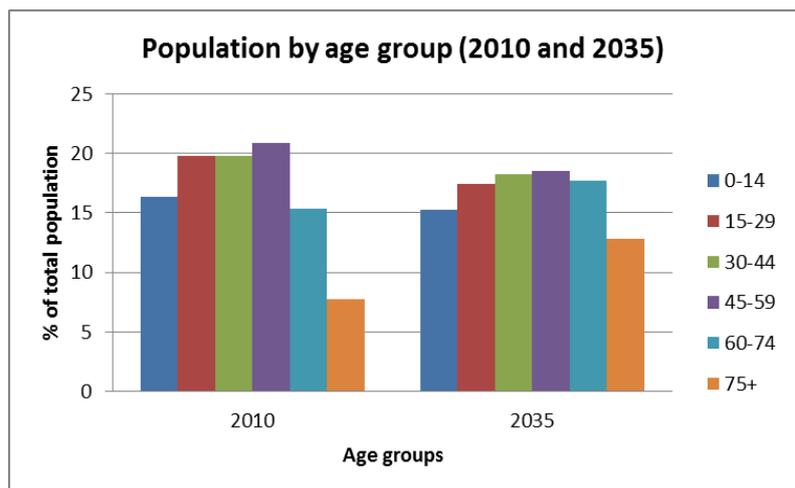
Two factors influence population change:

- Natural change (the extent to which births exceed deaths in any given year)
- Net migration (the extent to which the number of people moving to Scotland exceeds the number of people leaving Scotland in a given year)

In recent years, both factors have contributed towards population growth in Scotland. Net migration has made the largest contribution to population growth since 2002, largely reflecting a sharp increase in the number of people moving to Scotland from overseas. More recently, natural change has also made a positive contribution to population growth, with births exceeding deaths for five consecutive years.

Growing older

The Scottish population is expected to continue to grow, with forecasts suggesting a population of 5.8m by 2035 and 6.2m by 2080. Over this period, there are expected to be significant changes in the age profile of the population. Between 2010 and 2035, the population of working age is expected to grow by 7%. Meanwhile, the population of pensionable age is forecast to expand by more than a quarter (26%), meaning that almost one in four people will be of pensionable age by 2035 (even after the planned increases to the pension age are taken into account).

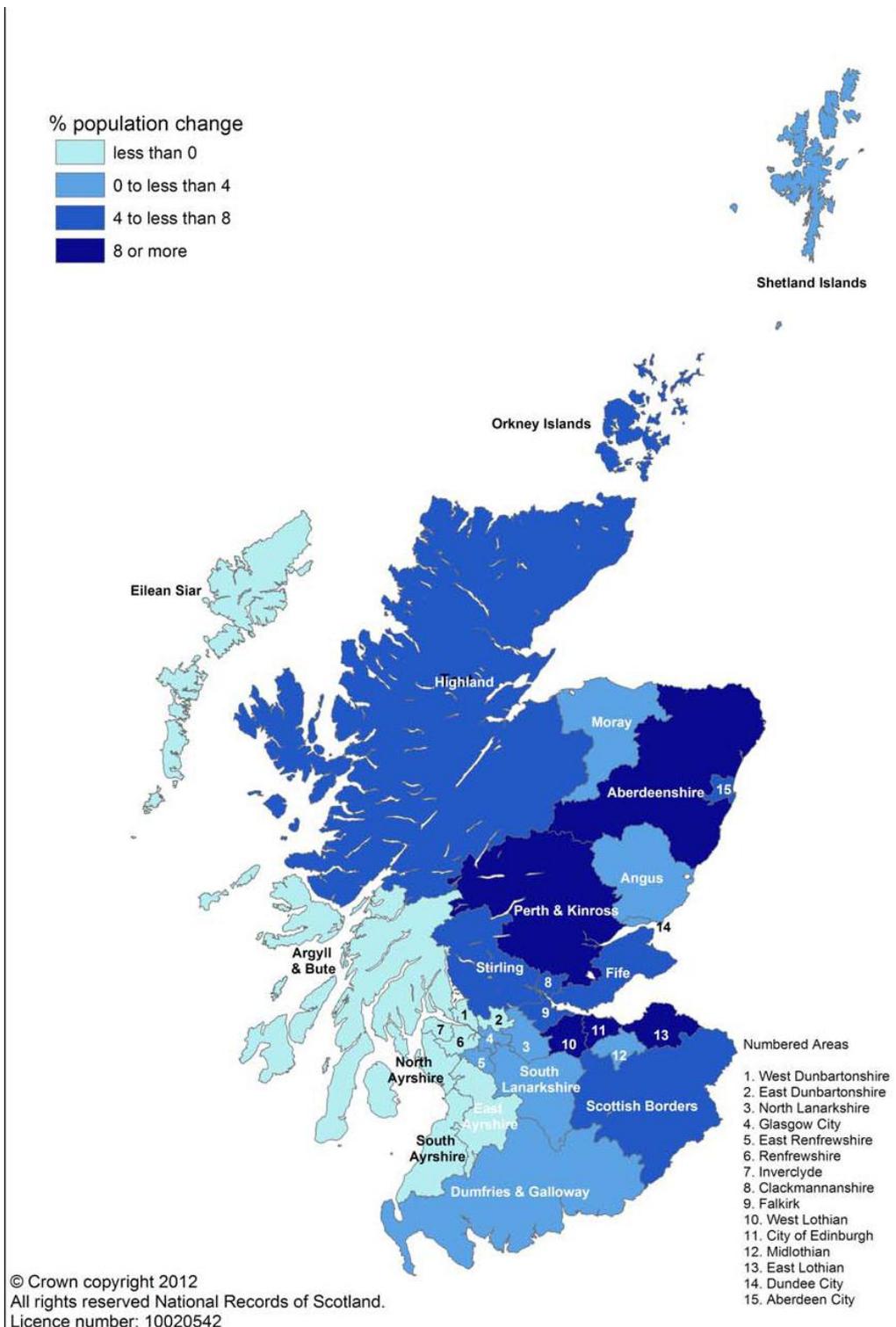


Life expectancy has increased steadily over time. In 2010, life expectancy in Scotland stood at 76.1 years for men and 80.6 years for women. Despite steady improvement, Scottish life expectancy remains below that of England, Wales and Northern Ireland as well as many EU countries.

In addition, *healthy* life expectancy fell in 2010, to 59.5 years for men and 61.9 years for women.

Regional patterns

The pattern of growth has been uneven across the country, with Edinburgh and the neighbouring local authorities of East and West Lothian experiencing strong population growth over the last decade, along with Perth and Kinross and Aberdeenshire. Meanwhile, the population has been falling in areas of western Scotland, including Inverclyde, Renfrewshire, Dunbartonshire, Ayrshire, Argyll and Bute and the Western Isles.



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[SB 12-20 Youth Unemployment: Policy](#) (12 April 2012)

This briefing examines in detail the various policies, strategies and interventions, at a Scottish level, aimed at improving youth employment in Scotland.

[SB 12-23 Public Procurement in Scotland](#) (27 March 2012)

This briefing explains the EU rules governing public procurement and how they operate in Scotland

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