

Scotland's Economic Performance

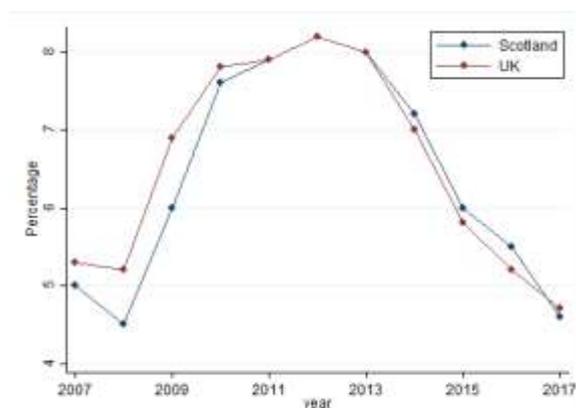
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Summary:

- This submission compares key labour market trends for Scotland and the UK over the past decade.
- Aggregate unemployment rates are similar between Scotland and the UK. Since 2017 unemployment has returned to pre-recession levels. Younger workers have the highest level of unemployment.
- Economic Activity rates are increasing in the UK, but have remained fairly constant in Scotland since 2010.
- For many industry sectors the trend in the proportion of jobs in that sector is similar between Scotland and the UK. Accommodation and Food, Public Administration and Health and Social care have become relatively more important in Scotland over recent years.
- Wages were substantially impacted by the Great recession, and are still below 2007 levels. In recent years wages have begun to rise, the increase being proportionately larger for the lowest earners due to the introduction of the National Living Wage. This has resulted in a slight narrowing in wage inequality.

1. Unemployment Rate

Figure 1: Aggregate unemployment (16-64)¹



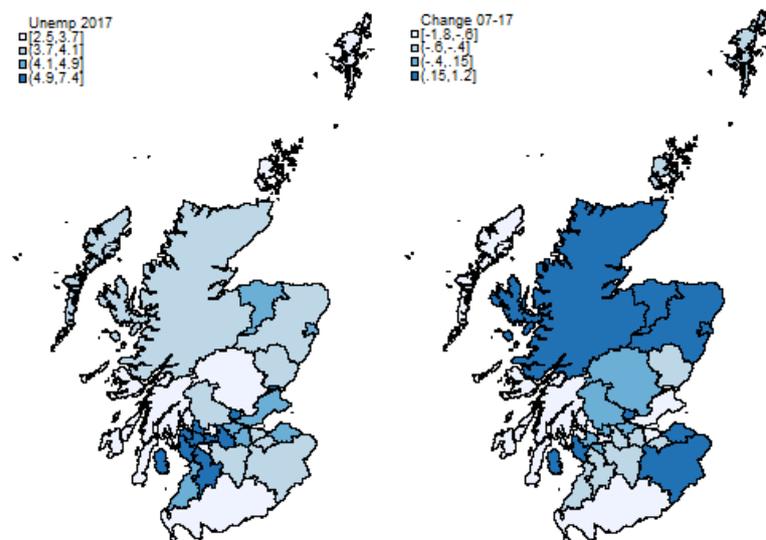
Movements in the unemployment rate, defined as the proportion of economically active individuals who are not working, are very similar in Scotland and the UK. Prior to and during the beginning of the Great Recession (2008-2012) aggregate unemployment was lower in Scotland than in the UK. During the Great Recession unemployment rose by over 50%. Since 2012

unemployment has been decreasing each year, and in 2017 has returned to pre-recession levels. This trend for aggregate unemployment (all individuals aged 16-64), is mirrored within the three broad age groups: young workers (16-24), prime-age (25-49) and older workers (50-64).

Young workers have the highest unemployment rates, more than double the other age groups. For this age group unemployment has fallen to below the UK level in 2017 (10% vs 13%), unemployment for prime-age and older workers in Scotland is still slightly above that in the UK (respectively 3.7% and 3.6% vs 3.6% and 3.2%)

Figure 2: Unemployment in Scotland by Council Area²

¹ Source: Annual Population Survey, Office of National Statistics (ONS)

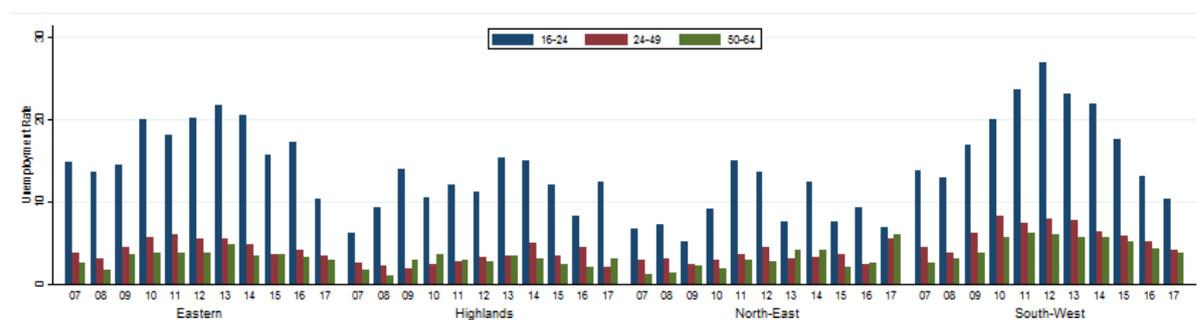


Within Scotland there is a variation in unemployment rates by council area (see Figure 2). In 2017 the lowest unemployment areas (below 3.6%) are Argyll and Bute, Dumfries and Galloway, East Dunbartonshire, Orkney, East Renfrewshire and Shetland; the highest

(above 5.6%) are Ayrshire (East and North), Dundee, Glasgow, Inverclyde and West Dunbartonshire. Almost all areas have lower unemployment levels in 2017 as compared to 2007. Four areas have an unemployment rate that is more than 0.5% higher in 2017 than in 2007: Aberdeen City, Aberdeenshire, East Lothian and North Ayrshire.

Figure 3 compares annual unemployment rates for the three broad age groups across regions of Scotland. Overall, youth unemployment is particularly pronounced in the Eastern and South-Western regions, where the impact of the Great Recession is clearly evident. Unemployment within Highlands and the North-East is generally lower than in the other regions, and was not as severely affected by the Great Recession.

Figure 3: Unemployment by age group in regions (NUTS 2) of Scotland³



² Source: Model-based estimates of unemployment derived from Annual Population Survey, ONS

³ Source: Annual Population Survey, ONS. Due to data availability Figure 3 groups regions at NUTS 2 level. Eastern Scotland comprises Angus, Borders, Clackmannanshire, Dundee, Edinburgh, Falkirk, Fife, Lothian, Perth and Kinross and Stirling. Highlands comprises Argyll and Bute, Highland and Islands. North-East is made up of Aberdeen City, Aberdeenshire. South-West comprises Ayrshire, Dumfries and Galloway, Dunbartonshire, Glasgow, Inverclyde, Lanarkshire and Renfrewshire.

2. Economic Activity Rate

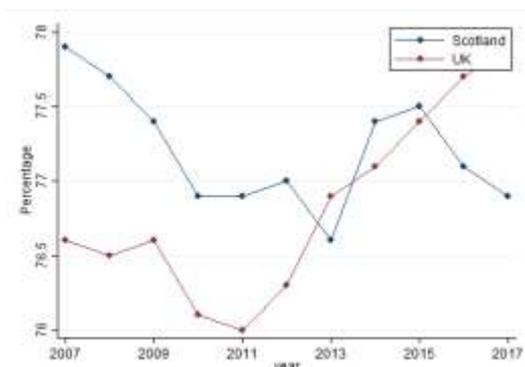


Figure 4: Aggregate Economic Activity (16-64)⁴

Along with unemployment, it is also interesting to examine the proportion of individuals who are economically active (defined as either working or looking for work) within the population. Figure 4 shows that over the past decade the trend in Scotland is different to that in the UK. Since 2010 the activity rate has remained somewhat constant at

around 77%. In contrast the activity rate in the UK, which has traditionally been lower than that in Scotland, has been on an upward trajectory. The main reasons for economic inactivity are being a student (25% in Scotland vs 27% in UK), looking after family (19% Scotland, 25% UK), sickness or disability (31% in Scotland vs 24% in UK) and retirement (15.4% vs 13.4%). Although the levels are different, the trends for each of these reasons are similar between Scotland and the UK. Since 2015, economic inactivity due to “other” reason has risen more sharply in Scotland than in the UK.

3. Job Availability

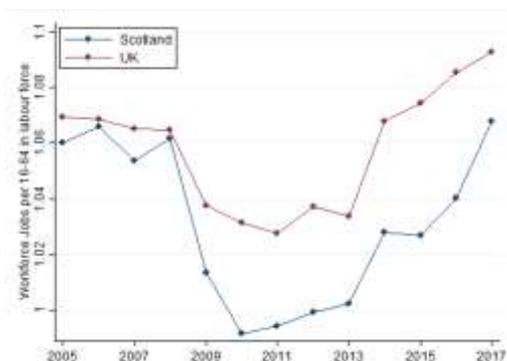


Figure 5: Available jobs per person⁵

An alternative to unemployment to examine labour market conditions is to look at the number of jobs as a proportion of the economically active population. Figure 5 shows that prior to 2008 there was about 1.7 jobs per person in both Scotland and the UK. At the onset of the Great Recession jobs per person fell more in Scotland relative to the UK. As the economic activity rate

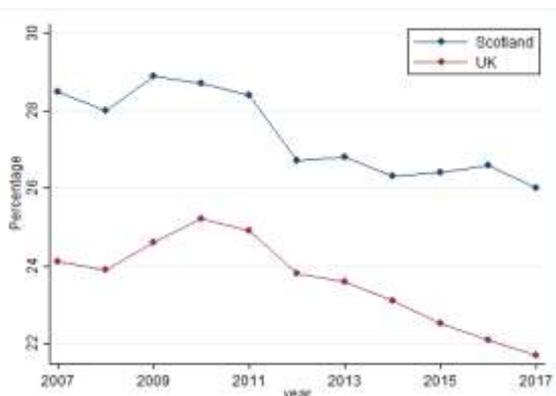
also fell during this period this means that the decrease in available jobs was proportionately higher in Scotland as compared to the UK.

⁴ Source: Annual Population Survey, ONS

⁵ Source: Seasonally-adjusted Workforce Jobs by Industry (SIC 2007) – the sum of employee, self-employment jobs, government-supported trainees and HM Forces.

4. Sectoral Trends in Employment

Figure 5: Public Sector Employment⁶



Scotland has traditionally employed proportionately more individuals in the public sector than in the UK. Figure 5 shows that public sector employment became relatively more important during the Great Recession, as the increase in unemployment was predominantly felt in the private sector. Since 2012 the proportion of individuals working in the public sector as remained fairly constant in Scotland at

around 26%, whereas it has fallen by two percentage points overall in the UK. This indicates that job creation has been proportionately higher in the private sector in the UK as compared to Scotland.

Figure 6: Jobs by industry sector (2017)⁷

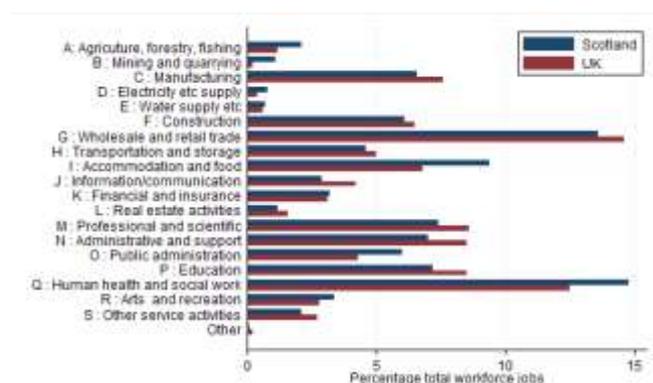


Figure 6 compares the proportion of jobs in each industry between Scotland and the UK. The data indicate the largest proportions of jobs are in Wholesale and Retail Trade (13.6% Scotland, 14.6% UK) and Health and Social Work (14.6% Scotland, 12.5% UK). Examining the

change in job proportions in key industry sectors (those industries with a job share of over 3%) over time allows the identification of which sectors are becoming relatively more important.

⁶ Source: Annual Population Survey, ONS

⁷ Source: Seasonally-adjusted Workforce Jobs by Industry (SIC 2007)

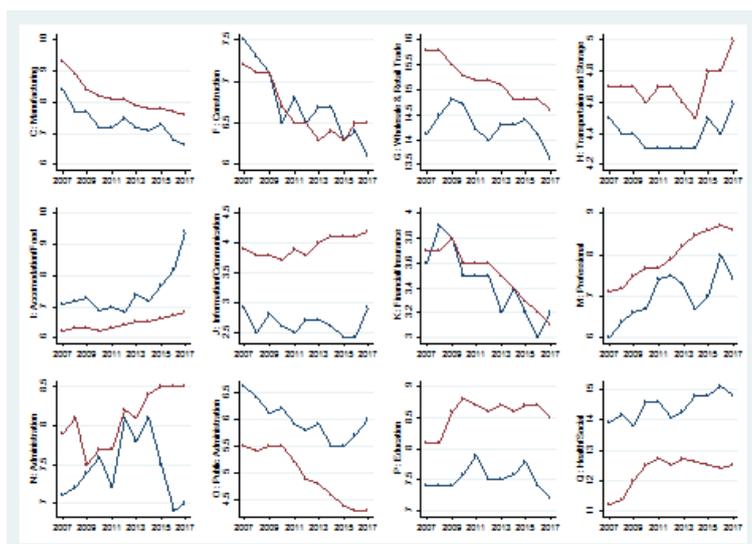
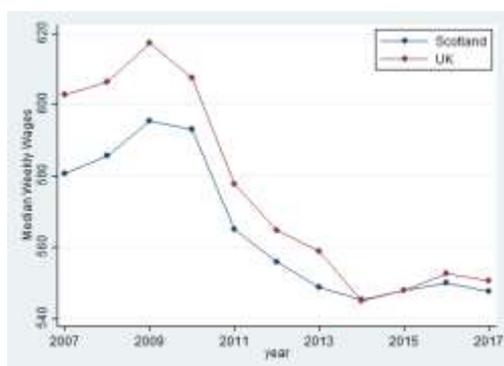
Figure 7: Industry Job shares 2007-2017⁸

Figure 7 indicates similar trends between Scotland and the UK for manufacturing, construction, trade, transport, finance, professional services, and education. Notable differences can be seen for certain sectors: Accommodation and Food, Public Administration and Health and Social care have become relatively more important in Scotland; whereas Information and Communication, Administrative

and Support activities comprise an increasing proportion of workforce jobs in the UK.

5. Wages

Figure 8: Real median wages⁹

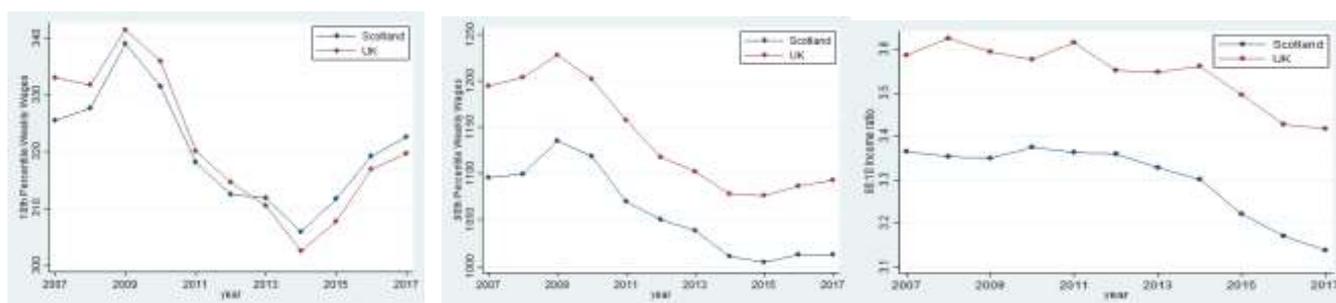
Wages were severely impacted throughout the Great Recession. Figure 8 compares the median wage (in 2017 values) between Scotland and the UK. Wages fell sharply between 2009 and 2012 and proportionately more in the UK than Scotland, thereby narrowing the average wage differential between Scottish and UK workers. Although the pace of the real wage decline slowed,

real wages continued to decrease until 2014. Since 2015 wages have begun to slowly increase, but their level remains over 5% lower than wages in 2007.

Similar wage impacts were seen throughout the wage distribution. Figure 9 shows the similarity in the trends in wages for the highest earners (90th percentile) and the lowest earners (10th percentile). Wages for the highest earners have grown marginally in the UK since 2015, but have remained relatively flat in Scotland. In contrast in both Scotland and the UK from 2015 wages for the lowest earners have risen sharply such that the wage rate for the lowest earners in Scotland is almost at the level of a decade ago, for the UK overall wages of the lowest earners are still 4% lower than 2007 levels. This proportionately larger increase in wages for the lowest earners can be attributed to the introduction of the National Living Wage, announced in the 2015 Summer Budget.

⁸ Source: Seasonally-adjusted Workforce Jobs by Industry (SIC 2007)

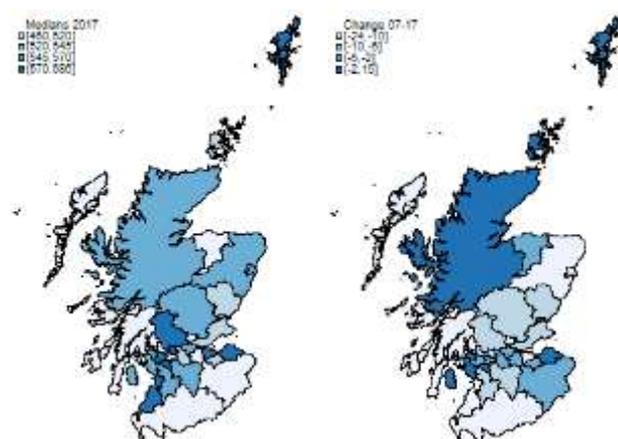
⁹ Source: Annual Survey of Hours and Earnings. Figures are for employees only

Figure 9: Real wages at the top and bottom of the wage distribution¹⁰a) 90th percentileb) 10th percentile

c) 90:10 income ratio

As the wages of the lowest earners has grown proportionately more than for the highest earners, since 2015 there has been a reduction in overall wage inequality (as measured by the ratio in wages of the top 10% to bottom 10% of earners). This has been more pronounced in Scotland, as wages for the highest earners have not risen to the same degree as in the UK.

Figure 10: Wages in Scotland by Council Area



As with unemployment, there is a large variation in average wages across council areas in Scotland (see Figure 10). In 2017 areas with the highest wages (over £600/week) were East Dunbartonshire, East Renfrewshire and Shetland; areas with the lowest wages (under £500/week) were Argyll and Bute, Dumfries and Galloway, Eilean Siar and

Moray. The level of wages in 2017 is lower than that in 2007 for most council areas. Only 4 areas have higher wages in 2017 than 2007: East Lothian, Inverclyde, North Ayrshire and Shetland.

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¹⁰ Source: Annual Survey of Hours and Earnings. Figures are for employees only