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.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Movement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Value Added (GVA)</td>
<td>↑</td>
<td>Total economic output increased by 0.6% during Q3 2012</td>
</tr>
<tr>
<td>Unemployment</td>
<td>↓</td>
<td>Unemployment rate decreased to 7.7% for the period October to December 2012</td>
</tr>
<tr>
<td>House prices</td>
<td>➔</td>
<td>Mixed information on house price performance in Scotland in 2012.</td>
</tr>
<tr>
<td>UK annual change in inflation (CPI)</td>
<td>➔</td>
<td>Annual change in CPI inflation in January was 2.7% for the fourth month in succession.</td>
</tr>
<tr>
<td>Interest rates</td>
<td>➔</td>
<td>the Bank of England maintained the bank rate at 0.5% in February</td>
</tr>
<tr>
<td>Scotland’s Exports</td>
<td>↑</td>
<td>Scotland’s overseas exports grew by 7% between 2010 and 2011 in cash terms.</td>
</tr>
</tbody>
</table>

Each economic indicators publication includes a guest indicator. This edition focuses on Scotland’s exports following the Scottish Government’s recent release of the 2011 Global Connections Survey.
ECONOMIC OUTPUT (GROSS VALUE ADDED)

- Total output of the Scottish economy measured by Gross Value Added\(^1\) (GVA) is estimated to have risen by 0.6 per cent during the third quarter of 2012. The UK saw GDP increase by 0.9 per cent over the same period (Office for National Statistics 2013a). The ONS estimates that in the fourth quarter of 2012 UK GDP fell by 0.3% and in 2012 as a whole GDP growth was flat (Office for National Statistics 2013a).
- The Scottish services sector grew for the fifth consecutive quarter, albeit slowly, and is at 99% of output levels in 2007. Output in the production sectors returned to growth in quarter three after a fall in quarter 2. Output in the agriculture, forestry and fishing sector declined for the fifth quarter in a row. GVA of the construction sector fell in quarter 3 and is 16% lower than the first quarter of 2007.

\[\text{Source: Scottish Government (2013a)}\]

\[\text{Also known as Gross Domestic Product at basic prices i.e. excluding taxes and subsidies.}\]

\[\text{World outlook: Estimated GDP growth %}\]

<table>
<thead>
<tr>
<th>Area</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>-0.2</td>
<td>1.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-0.4</td>
<td>-0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>World</td>
<td>3.2</td>
<td>3.5</td>
<td>4.1</td>
</tr>
<tr>
<td>US</td>
<td>2.3</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>6.6</td>
<td>7.1</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund (2013)

The IMF’s expects growth to improve in 2014. However, it has revised GDP growth estimates downwards for 2013 and 2014 across the world. Two priorities the IMF identifies are continuing instability in the Euro zone and the United States avoiding “excessive fiscal consolidation in the short term”.

The IMF’s main policy recommendation for developed countries is to apply “steady and sustained fiscal consolidation” along with reducing risks in the financial sector. (International Monetary Fund, 2013)

\[\text{Scottish & UK economic outlook: GDP growth %}\]

<table>
<thead>
<tr>
<th>Area</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraser of Allander Institute (Oct 2012)</td>
<td>1.3</td>
<td>n/a</td>
</tr>
<tr>
<td>ITEM Club (Oct 2012)</td>
<td>0.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Office for Budget Responsibility (Dec 2012)</td>
<td>n/a</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Sources: University of Strathclyde (2012); Ernst & Young (2013) & (2012); Office for Budget Responsibility (2012)

A range of projections estimate low growth in 2013 for both Scotland and the UK, with growth slightly increasing in 2014
LABOUR MARKET

- The unemployment rate in Scotland was 7.7% for the three months to December 2012, down 0.4 percentage points on the previous quarter. The UK’s headline rate also fell by 0.1 percentage points to 7.8%.
- The employment rate increased 0.1 percentage points quarter on quarter to 70.7%. This is below the UK rate of 71.5% and is increasing more slowly.
- The rate of economic inactivity, the proportion of the population not in work, not seeking work, and not available to work in Scotland increased 0.3 percentage points to 23.3% over the three months to December.
- The seasonally adjusted claimant count rate for Scotland in January was 4.0%, unchanged since November 2012.

Source: Office for National Statistics (2013b) & (2013c)

The chart above shows that the unemployment rate grew between 2008 and 2010. The rate prior to the recession was around 4-5%; since 2010, the rate has been around 8%. The most recent figure of 7.7% is one of the lowest rates estimated since the beginning of 2010. The employment rate was around 74% prior to the recession. The employment rate recorded for the fourth quarter of 2012 was 70.7%.

Both the unemployment rate and the rate of those in work have decreased over the past twelve months. The chart on the right shows that the drop in unemployed between the three months to December 2012 compared to the same period in 2011 is not a result of more people in work. There has been a
decrease in the labour market as a whole with 27,000 more people becoming economically inactive. 
Source: Office for National Statistics (2013c)

HOUSING MARKET

- Registers of Scotland data (not seasonally adjusted) shows there has been a decrease in house prices over the fourth quarter of 2012 of 2.8% and -1.5% over the year.
- Robert Gardner, chief economist with Nationwide, noted that “England continued to outperform the other home nations, with prices down 0.4% in annual terms. [...] Scotland saw prices fall by 3.3% compared with Q4 2011”. Nationwide’s data showed that only two regions or nations showed price increases over 2012: London and South West England” (Nationwide, 2013).

House price data

<table>
<thead>
<tr>
<th>Survey Source</th>
<th>Period</th>
<th>Av. House Price</th>
<th>Quarterly change</th>
<th>Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office for National Statistics*</td>
<td>Dec-12</td>
<td>£179,000</td>
<td>-1.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Halifax</td>
<td>Q4 2012</td>
<td>£117,852</td>
<td>6.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>Q4 2012</td>
<td>£131,795</td>
<td>0.2%</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Registers of Scotland</td>
<td>Q4 2012</td>
<td>£154,810</td>
<td>-2.8%</td>
<td>-1.5%</td>
</tr>
</tbody>
</table>

*Percentage change calculated from the house price index.

Sources: Office for National Statistics (2013d); Halifax (2013); Nationwide (2013); Registers of Scotland (2013).

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.

The chart on the left shows the Office for National Statistics’ House Price Index, rebased so that the pre-recession peak is shown as 100. The latest figures for December 2012 show that Scotland’s average, mix adjusted, price is 93.0% of the pre-recession maximum. The UK’s average house price is 96.3% of the pre-recession peak.

Source: Office for National Statistics (2013d)

The average price for all types of properties in Scotland has reduced over 2012. However, the price of detached (-2.7%) and semi-detached houses (-2.3%) have held their price better than flats (-5.6%) and terraced houses (-5.3%) (Registers of Scotland, 2013). The volume of sales increased in the fourth quarter by 2.5% on the previous quarter and 2.7% on the same period in 2011.

Average house prices vary greatly between local authorities. Aberdeenshire, East Dunbartonshire, East Renfrewshire and the City of Edinburgh all had average house prices of over £200,000 during the last quarter of 2012. East Ayrshire, Eilean Siar, North Ayrshire and Renfrewshire had average prices of less than £110,000 for the same period.

Growing Confidence of Mortgage Lenders

The Council for Mortgage Lenders (CML) “are more positive about the UK housing market and wider economy than a year ago, despite economic headwinds and downside risks”. Gross mortgage lending in the UK in 2012 is estimated to be £143 billion, up from £141 billion in 2011. Further the CML forecasts that gross lending in 2013 will reach £156 billion. The main reason for the CML’s positive UK outlook is that despite wider economic headwinds, “lenders currently face few funding pressures, in part reflecting the funding for lending scheme”. (Council for Mortgage Lenders 2013)
Scottish figures for quarter 4 are not available, however in November, Iain Malloch, chair of CML Scotland, also noted that the “Funding for Lending scheme is likely to assist with growth”. (Council for Mortgage Lenders 2012).

INFLATION, INTEREST AND EXCHANGE RATES

Annual increase in CPI and RPI inflation in January were 2.7% and 3.3% respectively. The annual rate of increase of CPI has remained constant for the fourth month in a row. RPI annual inflation has been 3% or above in the same period. Utility bills and food costs caused were the main upward pressures on both indices.

CPI remains above the Bank of England’s target of 2%. The Monetary Policy Committee forecast that “CPI inflation is likely to rise further in the near term and may remain above the 2% target for the next two years”. However, it will not change policy on monetary stimulus, low interest rates and QE, as it has to take into account the economic conditions. (Bank of England 2013a).

On 7 February, 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 Federal Reserve and the European Central Bank have maintained their rates at 0-0.25% and 0.75% respectively.

The RBS (2013) forecasts that interest rates are unlikely to rise until 2016.

The graph above shows the how the value of Sterling has changed since January 2008 against the Euro, the US Dollar, the Japanese Yen and the Chinese Yuan. Where the lines go down, this indicates the pound is losing value, resulting in exports becoming more competitive and imports more expensive, and vice versa where the line goes up.

Over the past six months, the pound has lost value against the Euro and gained value against the Yen. Exports to the Eurozone have become more competitive, but exports to Japan have become less competitive.
GUEST INDICATOR: SCOTLAND’S GLOBAL CONNECTIONS SURVEY 2011

The Global Connections Survey (GCS) (Scottish Government, 2013b) is the only export survey that covers all sectors of the Scottish economy. It is a voluntary survey of around 2,000 companies who provide financial and sales information. This data is supplemented by data from other sources. The GCS presents figures in current prices and does not include exports from UK continental shelf production.

In 2011 services are estimated to have made up a third of overseas exports. A similar proportion has been reported for each year since 2006. The GCS shows that the top 5 industries for exports in 2011 were:

- Food & Beverages (£4.2 bn);
- Manufacture of Coke, Refined Petroleum and Chemical Products (£3.7bn);
- Manufacture of Computer, Electronic And Optical Products (£1.4bn);
- Financial and Insurance Activities (£1.4bn); and
- Manufacture of Machinery and Equipment NEC (£1.4bn).

Total overseas exports value in 2011 is estimated at £23.9bn, a 7% increase on 2010 figures in cash terms. The GCS reports that the value of sales to the rest of the UK increased by 4% in 2011 to £45.5bn.

In 2011 the largest overseas market, by value, for Scottish exports was the USA, estimated at £3.5bn. The EU taken as a whole accounted for an estimated £11.0bn of income from exports.

The top ten overseas export markets are shown on the right.

The chart on the left shows the value of exports reported in the GCS from 2002 to 2011. It also illustrates the relative importance of sales to the rest of the UK, and exports to the remainder of the European Union and the rest of the world.

Exports to the rest of the world have grown by around 50% in cash terms since 2002, although much of this growth occurred before 2008.

In the same period, sales values to the rest of the UK have increased by around 60% in cash terms. And again the majority of the growth occurred prior to the recession.

The value of export trade to EU countries in 2011 is similar to the figure for 2002, in cash terms. However, this represents a recovery from the low of £8.2bn in 2006.

The total value of sales to the rest of the UK and overseas has held up since the start of the recession in 2008.
The GCS presents the value of exports in current prices. This will over-state the growth in the value of exports overseas and sales to the rest of the UK. On the right is a chart which shows the overseas export values at constant prices and indexed (2011=100).

By this measure there was a fall in exports between 2002 and 2005, largely due to a reduction of exports of computer, electronic and optical products. Between 2005 and 2007, exports values picked up and have remained flat since 2008.

Trade deflators provided by the Office for National Statistics, personal communication.
SOURCES


RELATED BRIEFINGS

**SB 13-08 Scotland Performs-January 2013 Update** (6 February 2013)
This briefing provides the third update on the Scottish Government’s progress against the Purpose Targets and National Indicators, set out in its National Performance Framework and the Scotland Performs website.

**SB 13-11 Labour Market: February 2013 update** (21 February 2013)
Short briefing on the February labour market statistics release.

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