Financial Scrutiny Unit Briefing
Economic Indicators – August 2013

Andrew Aiton and Greig Liddell

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>Change/Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Value Added (GVA)</td>
<td>↑ Total economic output increased by 0.4% during Q1 2013</td>
</tr>
<tr>
<td>Unemployment</td>
<td>↓ Unemployment rate decreased to 7.2% for the period April to June 2013</td>
</tr>
<tr>
<td>House prices</td>
<td>↓ The average house price fell by 0.9% over the year to June 2013</td>
</tr>
<tr>
<td>UK annual change in inflation (CPI)</td>
<td>↓ Annual change in CPI inflation in June fell slightly to 2.8%</td>
</tr>
<tr>
<td>Interest rates</td>
<td>→ the Bank of England maintained the bank rate at 0.5% in August</td>
</tr>
<tr>
<td>Bankruptcies and corporate insolvencies</td>
<td>↑ Levels of both personal and corporate insolvencies increased slightly between Q1 and Q2 2013</td>
</tr>
</tbody>
</table>

Each Economic Indicators publication includes a guest indicator. This edition focuses on recent bankruptcy and corporate insolvency figures.
ECONOMIC OUTPUT (GROSS VALUE ADDED)

- Total output of the Scottish economy, as measured by Gross Value Added\(^2\) (GVA), rose by 0.4 per cent during the first quarter of 2013. UK GDP grew by 0.3 per cent over the same period (Office for National Statistics 2013a), and by 0.6 per cent during Quarter 2 (Scottish data is not yet available for Q2).
- The Scottish services sector grew for the seventh consecutive quarter. Output in the production sectors continued to grow in the first quarter after a return to growth in Q3 of 2012. Agriculture, forestry and fishing sector output continued to decline and the construction sector contracted by 2.5% during Quarter 1, after a year of steady growth.

Seasonally Adjusted GVA, by sector (2009=100)

Source: Scottish Government (2013a)

World outlook: Estimated GDP growth %
The IMF expects to see relatively weak economic growth in 2013 and 2014 – it recently revised world GDP growth estimates downwards for both years.

The IMF recommends that 'key advanced economies', including the UK’s, should 'pursue a policy mix that supports near-term growth, anchored by credible plans for medium-term public debt sustainability. This would also allow for more gradual near-term fiscal adjustment' (IMF, 2013).

<table>
<thead>
<tr>
<th>Area</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>0.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>6.9</td>
<td>7.0</td>
</tr>
<tr>
<td>US</td>
<td>1.7</td>
<td>2.7</td>
</tr>
<tr>
<td>World</td>
<td>3.1</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund (2013)

\(^2\) Also known as Gross Domestic Product at basic prices i.e. excluding taxes and subsidies.
Scottish & UK economic outlook:
The two forecasts for Scotland predict low-level growth in 2013, with an improved picture for 2014. The Fraser of Allander Institute explains that its forecast reflects ‘the continued weakness of domestic demand, in particular government spending and consumer expenditure, and weak anticipated growth in the rest of the UK and Eurozone markets’ (FAI, 2013).

| Estimated economic outlook: GDP growth % Scotland and UK |
| Organisation | 2013 Scot | 2013 UK | 2014 Scot | 2014 UK |
| Fraser of Allander Institute (June 2013) | 0.9 | n/a | 1.6 | n/a |
| ITEM Club (Summer 2013) | 0.8 | 1.1 | 1.4 | 2.2 |
| Office for Budget Responsibility (Mar 2013) | n/a | 0.6 | n/a | 1.8 |

LABOUR MARKET

- The unemployment rate in Scotland was 7.2% for the three months to June 2013, a reduction of 0.1 percentage points from the same period last year. The UK’s headline unemployment rate was unchanged over the quarter at 7.8%.
- The employment rate increased by 0.5 percentage points over the year, to 72.1%. The Scottish employment rate is now above the UK rate of 71.5%.
- The economic inactivity rate, the proportion of the population not in work, not seeking work and not available to work, in Scotland fell 0.1 percentage points to 22.1% over the year to June 2013.
- The seasonally adjusted claimant count rate for Scotland in July was 3.7%, a reduction of 0.1 percentage points from June 2012.

Unemployment Rate (16+) (%): Apr–Jun 2006 – Apr–Jun 2013 (seasonally adjusted)

Source: Office for National Statistics. (2013b)
The chart above shows that the unemployment rate more than doubled between 2008 and 2010 - the rate prior to the recession was around 4-5%. Since 2010, the rate has been around 8%. With an estimated 198,000 people unemployed in April-June, unemployment is now at its lowest level since late 2009.

The chart on the right shows changes in the Scottish labour market over the year to Apr-Jun 2013.

Labour Market Changes over the year to Apr-Jun 2013

Employed (16-64) Unemployed (16+) Economically Inactive (16-64)

Source: Office for National Statistics. (2013b)

Employment Rate (16-64) (%): Apr-Jun 2006 to Apr-Jun 2013 (seasonally adjusted)

In 2008, employment rates peaked at 74.9%. The rate then fell to 70.0% for Jan-March 2010. The most recent employment rate, for the three month period to May 2013, was 72.1%, the highest seen since Apr-Jun 2009 (72.1%).
HOUSING MARKET

- Registers of Scotland data (not seasonally adjusted) shows there was an increase in house prices over the second quarter of 2013 of 3.3% but a decrease of 0.3% over the year.
- Robert Gardner, Nationwide’s Chief Economist, noted that “London was again the top performing region (in the UK), with prices up 5.2%... (however) Northern Ireland usurped Scotland as the worst performing region, with prices down 2.1% compared with Q2 2012.” (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>Jun-2013</td>
<td>£181,000</td>
<td>0.6%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Halifax</td>
<td>Q2 2013</td>
<td>£113,338</td>
<td>-3.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>Q2 2013</td>
<td>£134,611</td>
<td>1.4%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Registers of Scotland</td>
<td>Q2 2013</td>
<td>£153,102</td>
<td>3.3%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

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

### Loans advanced

Recent figures from the Council of Mortgage Lenders (CML) show the number of loans advanced for house purchases across the UK fell from 94,800 in May 2007 to 55,900 in May 2013. Paul Smee, director general of the CML, commented: “Although monthly lending is still running at half its typical monthly level during the peak, there is no doubt that the mortgage market is firmly open for business. Both the borrowing appetite of first-time buyers, and the availability of attractive mortgages for them, have improved markedly since a year ago”.

In Scotland a rise in the number of first-time buyers contributed to a small increase in house purchase lending over the year. A total of 9,900 house purchase loans (worth £1.1 billion) were advanced in Scotland in the first quarter of 2013.

### First-time buyers

The following chart shows the number of mortgages advanced to first-time buyers in Scotland each quarter since 2007, as well as the average loan to value (LTV) rate of first-time mortgages advanced. The number of first time loans advanced is less than half the levels witnessed during the peak quarters in 2007, and the LTV rates are around 10% lower than pre-recession rates, with first-time buyers typically borrowing 80% of their property’s value.

**Loans advanced to first-time buyers in Scotland**

![Chart showing number of loans advanced to FTBs and LTVs](image_url)
Annual increases in CPI and RPI inflation in July were 2.8% and 3.1% respectively. The CPI rate has remained relatively constant since the beginning of the year, rising slightly in May and June. RPI annual inflation has been 3% or above during the same period. The most recent slight reduction in inflation came primarily from three areas; air fares (particularly for long-haul flights), and price movements in the recreation & culture, and clothing & footwear sectors.

CPI remains above the Bank of England’s target of 2%, however the Monetary Policy Committee (MPC) forecasts that “inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures”. (Bank of England 2013a).

On 1st August, 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. Mark Carney, in his first statement as Governor of the Bank of England, believes inflation will remain at current levels in the near term, and will ‘fall back to the 2% target only a little after the 2-year horizon’ (Bank of England, 2013a). The MPC intends not to raise the base rate above its current level of 0.5% ‘at least until the Labour Force Survey headline measure of unemployment has fallen to a threshold of 7%’.

The graph above shows 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, the pound is losing value, resulting in cheaper exports and more expensive imports, and vice versa where the line goes up.

Over the past year, the pound has lost value against the Euro and gained value against the Japanese Yen. Exports to the Eurozone have therefore become more competitive, but exports to Japan have become less competitive.
GUEST INDICATOR: BANKRUPTCIES AND INSOLVENCIES

Recent figures from the Scottish Government’s Accountant in Bankruptcy show a quarterly increase in the number of both personal and company insolvencies in Quarter 2 of 2013. Over the longer-term, however, the number of personal insolvencies has been reducing year-on-year since the peak year of 2009-10, and the number of corporate insolvencies recorded during 2012-13 was significantly lower than 2011-12 levels (AIB, 2013).

<table>
<thead>
<tr>
<th>Quarterly figures since Q2 2012</th>
<th>Q2 2012</th>
<th>Q3 2012</th>
<th>Q4 2012</th>
<th>Q1 2013</th>
<th>Q2 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Personal Insolvencies</td>
<td>5,601</td>
<td>4,065</td>
<td>3,863</td>
<td>3,486</td>
<td>3,999</td>
</tr>
<tr>
<td>Total Corporate Insolvencies</td>
<td>420</td>
<td>274</td>
<td>185</td>
<td>143</td>
<td>184</td>
</tr>
</tbody>
</table>

Commenting on their own corporate insolvency figures, which reveal similar trends, Blair Nimmo, head of restructuring for KPMG in Scotland, commented ‘We are starting to see a much more positive trend emerge with the business failure rate in Scotland clearly starting to slow. Year-on-year we are seeing a significant slowdown in the number of insolvencies, for both larger and smaller businesses.’ (KPMG, 2013)

Personal insolvency figures consist of the number of bankruptcies awarded and the number of protected trust deeds (PTDs) registered. PTDs are voluntary arrangements, where the debtor passes his estate to an insolvency practitioner who arranges to repay part of the debt to creditors on the debtor’s behalf. Both PTDs and bankruptcy awards increased between Q1 and Q2 2013, but were down 11% and 41% respectively on Q2 2012 figures.

Demand for personal debt advice in Scotland continued to remain high during 2011/12. Statistical returns from Citizens Advice Bureaus across Scotland show that Bureaus advised on 15,348 new debt cases over the year (CAS, 2013). High levels of financial anxiety were also highlighted in the findings of a report published in July by the UK government agency, the Money Advice Service. This surveyed over 5,000 people across the UK and found that ‘a third of people said they were struggling in 2006, but this figure has risen to over half (in 2013). There is a general feeling that people worry about their ability to make their money last until payday.’ (Money Advice Service, 2013).
Sources


RELATED BRIEFINGS

SB 13-27 Inflation (20 May 2013)
This factsheet provides a short guide to inflation, how it is measured, and why and how those measures are used.

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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