EY Scottish ITEM Club 2023 Forecast

March 2023

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EY Scottish ITEM Club Forecast

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The report is based on data and information available before March 2023. The EY Scottish ITEM Club report is part of the EY Economics for Business programme which provides knowledge, analysis and insight to help business understand the economic environments in which they operate, both in the UK and globally.

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Foreward

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Welcome to the EY Scottish ITEM Club 2023 Forecast. While the world was recovering from the impacts of the COVID-19 pandemic, other challenges soon came to the fore to make 2022 a choppy year for the global, UK and Scottish economies across government, business and society.

From relatively robust growth early in 2022, a flattening off by the second quarter gave way to indications of decline later in the year. In what can best be described as see-saw conditions, we experienced disrupted energy markets, high inflation, a cost-of-living squeeze, and the fall-out from the UK Government's mini-budget.

Some of these pressure points will continue to influence Scotland's economy. But while challenging conditions are expected to stretch into 2023, there has been some better news recently with an improvement of conditions in a number of areas giving cause for a level of optimism.

The positive factors include falling energy prices and an economy that has proved to be more resilient than expected. These developments, combined with a pick-up in business and consumer confidence since last autumn's lows, have brightened the outlook to a degree.

That said, the Scottish economy is still expected to contract this year. According to our projections, Scottish GVA will fall by 0.6% during 2023, with the decline largely concentrated in the first six months.

The most at-risk areas will be consumer-facing sectors such as retail and house-building, along with manufacturing industries that are also dependent on consumer spend. This reflects the cost-of-living squeeze and shrinkage in real income levels.

All of this does, however, need to be balanced with better performance in some sectors, notably health and social care, education, administrative and support, and public administration.

Looking further ahead, we expect to see a return to growth in 2024, with key service sectors – the likes of information and communications, professional services, and the service industry at large – leading the way.

Overall, though, any bounceback in the Scottish economy next year is expected to lag the UK as a whole. This is due, in part, to Scotland facing some challenging demographics in, for example, the profile of the working-age population.

Indeed, there will be no shortage of challenges for the new First Minister – not least ongoing pressure on public spending, the need to foster economic growth, and the importance of generating momentum in engagement with business, demographics, skills and training.

But there are also some exciting opportunities that must be grasped to catch the next bounce of the ball in terms of local economic growth. These include plans for two Green Freeports, as well as the Glasgow innovation cluster and the new investment zones due to come on stream.

More broadly, growth opportunities should be created by building on Scotland's world-class strengths in financial services, life sciences, software and technology. There are also clear natural advantages in navigating the transition to net zero – by industries and societies - using established and emerging skills to move from traditional hydrocarbons and towards clean energy and renewables in a measured and 'just' way.

We desperately need to continue pressing towards a return of stability and the associated confidence to invest and grow differentially once more. We know this can generate strong positivity across Scotland, especially when coupled with our relatively high attractiveness – both globally and within the UK – as a place to live, work and do business.

Forecast summary

01

The Global context

- The global economic outlook deteriorated significantly during 2022, as a combination of higher inflation and resulting central bank interest rate hikes squeezed consumer spending power and corporate confidence.
- However, there has been some evidence of an improving outlook more recently, with falls in energy prices starting to drive down inflation, and economic activity holding up better than expected in the US and Europe. The re-emergence of China following its abandonment of a zero-tolerance policy towards COVID-19 should also support growth in 2023.
- In this context, global GDP growth is forecast to slow from 3.1% in 2022 to 1.4% in 2023, and GDP is expected to expand by 0.1% in the US and stagnate in the eurozone. However, downturns are expected to be relatively mild and short-lived.
- The EY ITEM Club Winter forecast predicted a decline in GDP of 0.7% for the UK in 2023, after a relatively strong performance of 4.1% in 2022. However, again the outlook has improved – the UK narrowly avoided a technical recession in Q4 2022, and more recent GDP figures for January 2023 were also positive (growth of +0.3%). Indeed, more optimistic economic forecasts from the OBR in the recent March budget gave the Chancellor room for a modest loosening of fiscal policy.
- The Bank of England has raised its Bank Rate sharply over the last 12 months to 4.25% in March. Although the Monetary Policy Committee has indicated a willingness to drive them higher if needed, it has also hinted that the hiking cycle is close to an end, an assessment probably reinforced by any central bank worries over the health of the global banking system. Inflation is likely to fall markedly during 2023, and as a result the economy should return to growth in the second half of the year.
- We forecast that the UK economy will sustain average annual growth of close to 2% over 2024-26, helped by lower inflation and global growth of about 3% a year. However, as the recent turmoil in financial markets has shown, the economic environment still remains highly uncertain.

The outlook for Scotland

- Unsurprisingly, Scotland's economy has been at the mercy of broader global developments. 2022 began with reasonably robust growth, with the economy still benefitting from re-opening post-COVID-19. But this began to tail off over the course of the year, as higher inflation began to sap consumer demand and business confidence.
- Consumer sentiment remains a key point of focus — in Q4 2022, for the first time since Q1 2020, the majority of consumers surveyed on behalf of the Scottish government expected the economy to deteriorate over the coming year. High inflation will continue to squeeze real disposable incomes this year, and we forecast a fall in consumer spending. But as inflation falls throughout the year, the drag on real incomes should begin to abate. Indeed, the GfK Consumer Confidence Index increased seven points in February, although still remaining negative.
- Business confidence also fell during 2022, according to a range of surveys, primarily as a consequence of rising costs for energy and other raw materials, but also ongoing challenges with recruitment and labour shortages. However, there are some more positive signals in recent surveys.
- In line with the UK forecast, the Scottish economy is expected to contract in 2023, with Scottish GVA forecast to fall by 0.6%. The impact will largely be felt in consumer-facing sectors such as hospitality and leisure, and manufacturing. Some sectors will, however, see growth: health and social care; education; administrative and support; and public administration. We also forecast marginal sectoral growth in professional, scientific, and technical sector employment, as well as construction.
- Scotland's economy is expected to return to growth in 2024, with GVA rising by 1.6%, helped by a 2.3% increase in consumer spending, as employment and real wages recover.

A full inbox for the new First Minister

- In this context, the new First Minister will face a number of economic challenges. Fortunately, some global headwinds are alleviating; energy prices (particularly gas prices) are way off their summer 2022 highs. Global supply chains are returning to normality, which has already significantly reduced inflationary pressures. However, geo-political uncertainty remains high, and the recent global banking sector concerns have highlighted that the full impact of rising interest rates is yet to be realised.

- In terms of the domestic policy agenda, the Scottish government, like most European governments, will face challenges in matching its spending ambitions to its revenue streams, at a time of low economic growth, high inflation, and increasing hardships for those on low and fixed incomes. The options include tax increases and spending cuts, but the scope for either may be limited. Therefore, renewed efforts to improve government efficiency are likely to be a major area of policy focus for the new First Minister.

- Achieving faster economic growth in Scotland would help the public finances, and would also improve the prospects for employment and household earnings. A key challenge is to achieve this while also moving towards the Scottish government's net-zero ambition. The decline in North Sea Oil & Gas Production is to some extent inevitable, although there is an active debate as to the extent to which its life could be extended if the UK and Scottish governments were more supportive. However, the renewables sector in particular lends itself as an area of opportunity for the Scottish economy, given its advantages in terms of clean energy generation opportunities, and the skills base built up by the North Sea sector.

- Another sector that the government may focus on is digital technology. Scotland has a particularly strong position in computer games. While, other subsectors such as medical tech and fintech may receive increased attention. The latter is of particular relevance to Scotland given its large legacy financial services sector.

Global and UK background

02

The Global outlook remains uncertain

The global economic outlook, having deteriorated markedly during much of 2022—not least because of the Ukraine war—improved at the end of the year and in early 2023. Global energy prices have eased markedly, and the unexpected ending of China's zero-tolerance policy towards COVID-19 raised the possibility of stronger 2023 growth in that economy than previously seemed likely, with knock-on benefits for the rest of the world. Further, a wide range of data releases showed that the global economy was a little more resilient at the turn of the year than seemed likely just a few months earlier. For example, the Eurozone avoided recession in Q4 2022, while early 2023 data for the US have shown solid momentum in that economy, with the labour market in particular remaining robust.

However, despite some more positive mood music, forecasts provided by Oxford Economics still suggest a challenging outlook, with growth of just 0.1% expected for the US in 2023, and no growth at all in the eurozone. Growth in China is likely to be stronger, at 4.5%. Overall, this weaker global outlook is perhaps unexpected, as despite recent reductions in inflation, households are still being squeezed. Linked to that, restrictive central bank policies are likely to remain in place across most economies for at least the first half of 2023, and world trade is not likely to be much of a driver of growth during the year. Fiscal policies in many countries will be restrictive.

That all means that business investment will also probably remain subdued, with companies waiting for clear signals that global risks—political as well as economic—are receding. In that regard, no imminent solution to the Ukraine crisis seems to be in prospect, and political tensions are currently high in Asia Pacific. Worries have also emerged about the stability of the global banking system, following well-publicised issues in the US and European banking sectors, and beyond.

Real GDP growth, key global economies, 2020-2026, % y/y

	2020	2021	2022	2023	2024	2025	2026
US	-2.8	5.9	2.1	0.1	0.8	2.2	2.2
Japan	-4.3	2.2	1.3	0.7	1.3	1.7	1.3
Eurozone	-6.3	5.3	3.3	0.0	1.8	2.1	1.8
UK	-11.0	7.6	4.1	-0.7	1.9	2.2	1.9
China	2.2	8.1	3.0	4.5	4.7	5.3	5.0
India	-6.6	8.3	6.8	4.4	7.2	7.5	7.2
World	-3.3	6.1	3.1	1.4	2.7	3.4	3.1

Source: Oxford Economics

The UK is suffering from headwinds, but there are signs these may be easing

For the UK, an increasingly difficult 2022 for the world economy was exacerbated late in the year by domestic difficulties. Political turmoil in September and October contributed to a sharp jump in market interest rates and a slump in sterling. While these movements have since largely unwound, the economy is still bearing the brunt of the sharpest tightening in monetary policy since 1989 (the Bank of England policy rate rose from 0.1% in late 2022 to 4.25% as of March) and a squeeze on spending power from high inflation.

More recently there have been some signs of improving performance and sentiment. The UK economy avoided a technical recession in Q4 2022. The composite PMI index rose to 53.1 in February, indicating a return to expansion. And the GfK Consumer Confidence Index increased seven points in February, to -38

The labour market remains robust. The official Labour Force Survey (LFS) unemployment rate remained at just 3.7% in the three months to January. Meanwhile, the number in work rose by 65,000 on the previous three month-period and the employment rate remained unchanged at 76%.

The latter was still a percentage point below where it stood just before the COVID-19 pandemic — many older workers have left the labour market, and there has been a significant rise in the number of people unable to work due to long-term sickness. These factors have contributed to recruitment difficulties for many employers and ongoing wage pressure. Year-on-year growth in average total pay (including bonuses) was 5.7% in November 2022 to January 2023, and growth in regular pay (excluding bonuses) was 6.5% among employees. However, in the face of inflation still over 10%, real pay growth has been negative, squeezing consumer spending.

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Despite improving circumstances government finances remain tight

In the Autumn Statement in November 2022 Jeremy Hunt opted for fiscal prudency to try and calm financial markets off the back of the crisis triggered by the Truss/Kwarteng "mini-budget". This has proved to be largely successful, and a better set of economic forecasts from the OBR in the March Spring Statement allowed the Chancellor to slightly relax spending.

This was made possible partly by falling energy prices, which have been supportive of economic growth, and also improved public finances. The Budget adjustments included keeping the energy price guarantee at £2,500 until June, and extending 2022's modest cut in fuel duty until March 2024. The Chancellor also promised a £2bn a year increase in defence spending.

The Chancellor also suggested that his Spring Budget would boost the UK's underlying growth performance over the medium term. That said, support for childcare and pension changes aimed at encouraging older workers to stay in the labour force for longer are likely to impact only a minority of people. The same is true for reforms to disability and incapacity benefits. The childcare changes also do not apply in Scotland, which operates a separate system. Of potentially critical importance, there was no new funding for the NHS, beyond what was announced in the Autumn Statement.

The Spring Budget did contain changes to corporation tax, to allow companies to immediately write off the full cost of investment in qualifying plant and machinery against taxable profits. This will partly mitigate headwinds of the Chancellor's own making: April's sharp rise in corporation tax and the end of the super-deduction tax break.

Overall, the tax burden is still headed for a 70-year high.

Lower inflation and a peak in interest rates should support an economic recovery in the second half of 2023

In 2023, the UK looks set to see its first calendar-year decline in GDP since 2009 (excluding the COVID-19 pandemic period), with a fall of 0.7%. However, the fall is likely to be concentrated in the first half of the year, and should only be shallow, with a recovery forecast in the second half of 2023 as inflation eases, real household incomes return to growth, and consumers make more use of the savings accumulated during the pandemic. Activity should be boosted further in 2024 by lower interest rates. The government will also be hoping that it will be able to announce tax cuts at some point, with an eye on the general election which must occur by the start of 2025, but which will probably come sooner.

At its March meeting, the Monetary Policy Committee (MPC) raised Bank Rate to 4.25%, reflecting members' concerns over persistently strong pay growth, high service-sector inflation, higher than expected inflation numbers and increases in interest rates in the eurozone and the US.

One effect of previous rises in borrowing costs has been clear in a downturn in the housing market. Net mortgage approvals for house purchases decreased to 39,600 in January from 40,500 in December, marking the fifth consecutive monthly decline. And house prices on the Nationwide measure fell 0.6% m/m in the same month, the fifth consecutive monthly decline.

Possible interest rate cuts before the end of 2023

On the positive side, recent declines in commodity prices and shipping costs support the view that inflation is likely to weaken markedly during 2023, creating a risk of it undershooting the Bank of England's target of 2% over the medium term. Indeed, our forecast shows it falling below 2% in the second half of 2024. If inflation falls as quickly as we expect, there is a good chance the MPC will be cutting Bank Rate by the end of this year.

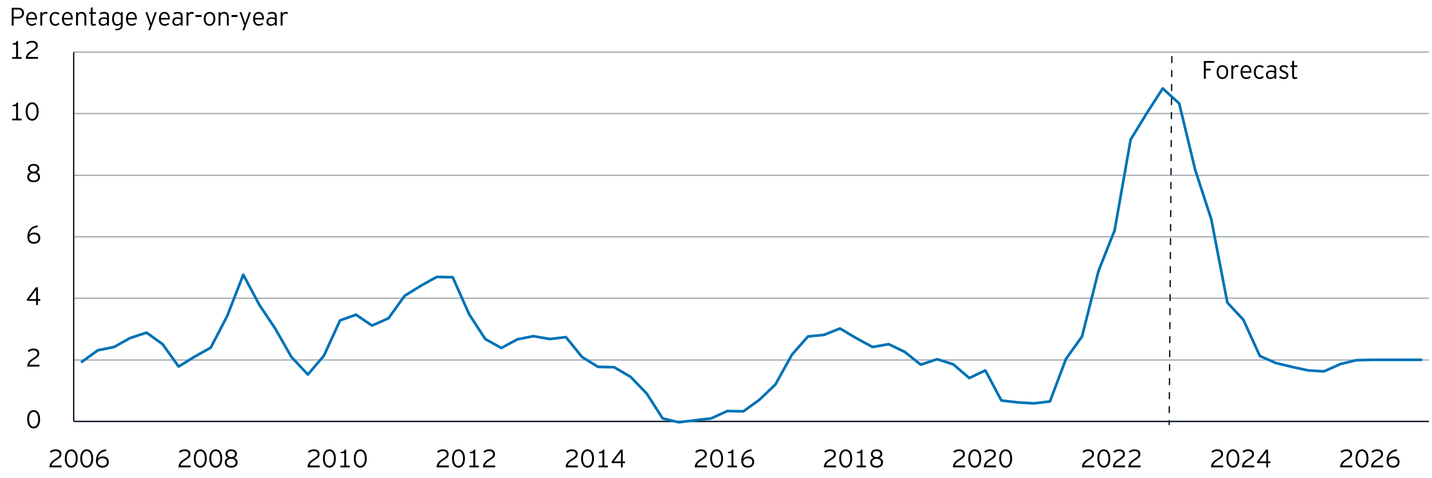
Consumer spending is nevertheless forecast to decline in 2023, dragging down GDP

The critical factor for the UK in 2023 will be by how much consumer spending slows. Our projections show a fall this year, of 1.4% in real terms. Given the large contribution that the household sector makes to overall demand, weak consumption is the main driver of our forecast for GDP to fall this year.

The UK economy in 2024 and beyond: a return to growth, led by consumer spending and global economic expansion

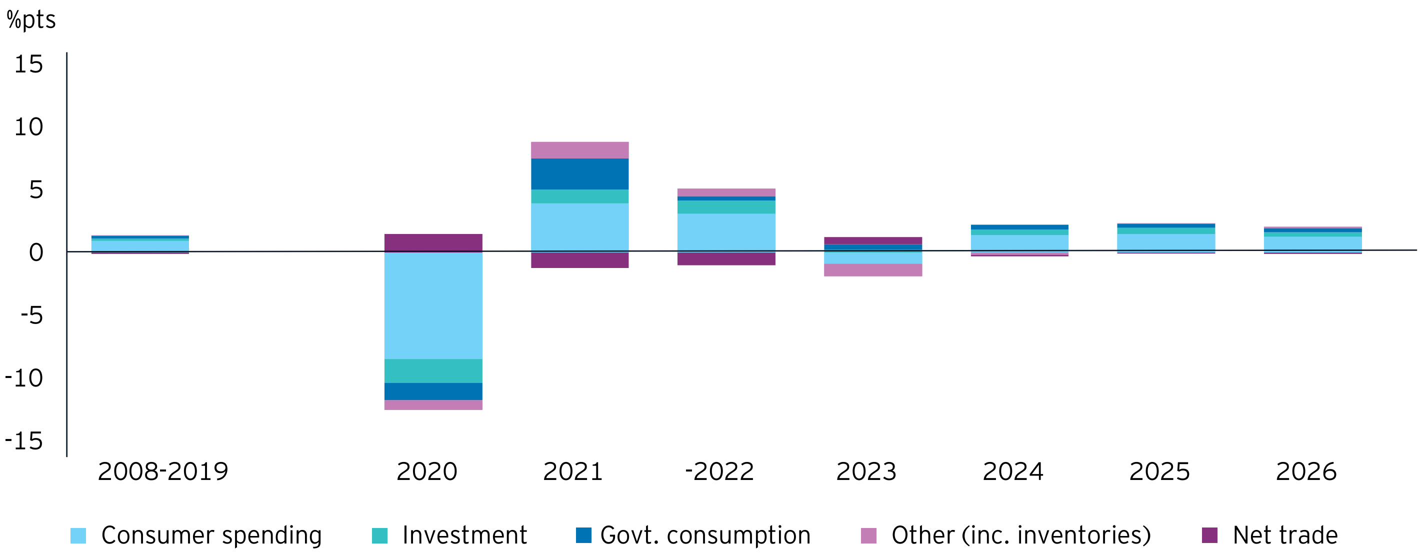
We forecast that the UK economy will return to growth in the second half of 2023 and expands by 2% per year on average over 2024-26. This reflects a combination of lower inflation, some consequent easing of interest rates, and global growth of about 3% a year, led by China and the Asia Pacific region, but with improvements in the US and eurozone economies also playing a part.

CPI inflation, UK, 2006-2026



Source: EY ITEM Club

Contributions to GDP growth, UK, 2008-2026



Source: EY ITEM Club

Scotland: recent performance

03

In 2022, global and UK-level events largely determined the prospects for the Scottish economy, with growth starting strongly but then stumbling in the face of substantial headwinds — not least the war in Ukraine, rising inflation, and macroeconomic policy disruptions at the UK level. Unemployment in Scotland remained low, but for many households, especially those on low or fixed incomes, this was of little comfort, given the impact of rising inflation, including higher energy prices.

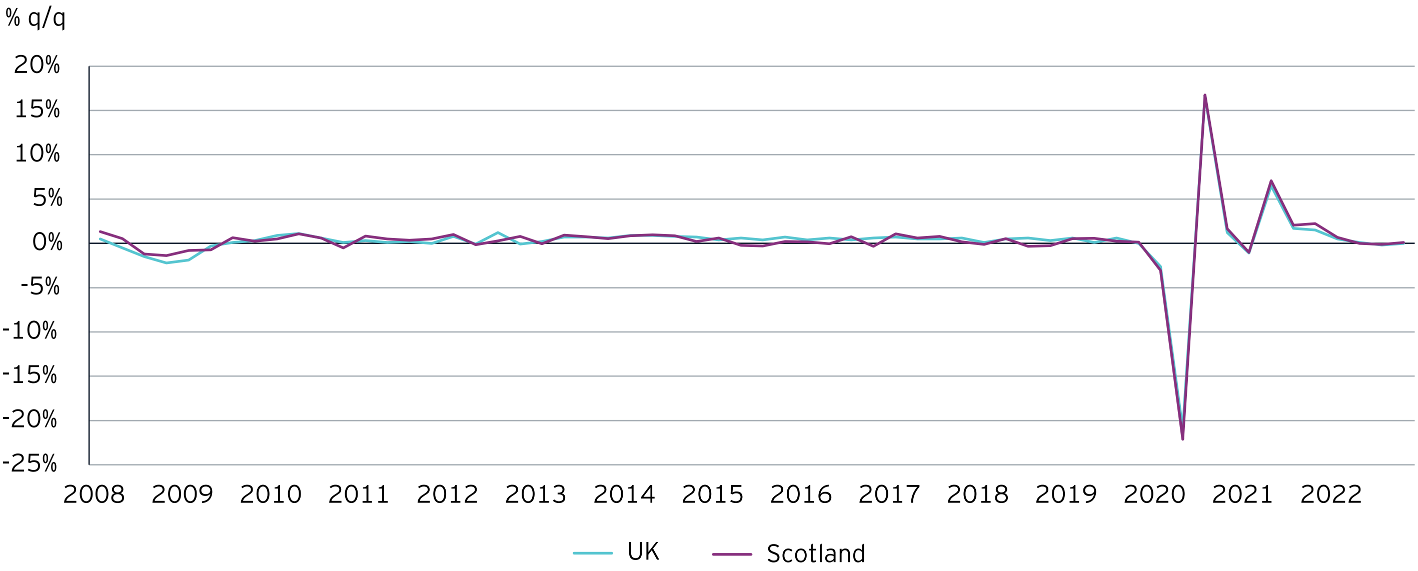
Scotland's economic recovery, like the world's, has been interrupted

Scotland's recovery from the COVID-19 pandemic continued into the first half of 2022, with a 0.6% rise in GDP for the onshore Scottish economy between Q4 2021 and Q2 2022. In the third quarter Scottish GDP declined 0.1% on the previous quarter. This broadly mirrored the experiences of the UK as a whole, and of much of the rest of the world, and reflected the interruption to the global economic recovery caused by Russia's war against Ukraine, and the consequent damage done to confidence, some supply chains, and especially to energy prices and therefore inflation.

The monthly figures suggest that Scottish GDP fell 0.6% in December after flat growth in November. That was in line with the 0.6% drop in overall UK GDP, which was due in part to strike action. Output in Scotland's services sector fell 0.4%, while Scottish manufacturing production fell by 1.6%. Construction sector activity increased marginally by 0.1%.

Overall, we estimate that gross value added (GVA) in Scotland rose 5.3% in 2022, a slowdown from 7.9% in 2021, and with that growth concentrated in the year's first half.

GDP growth, Scotland and UK, 2008-2022

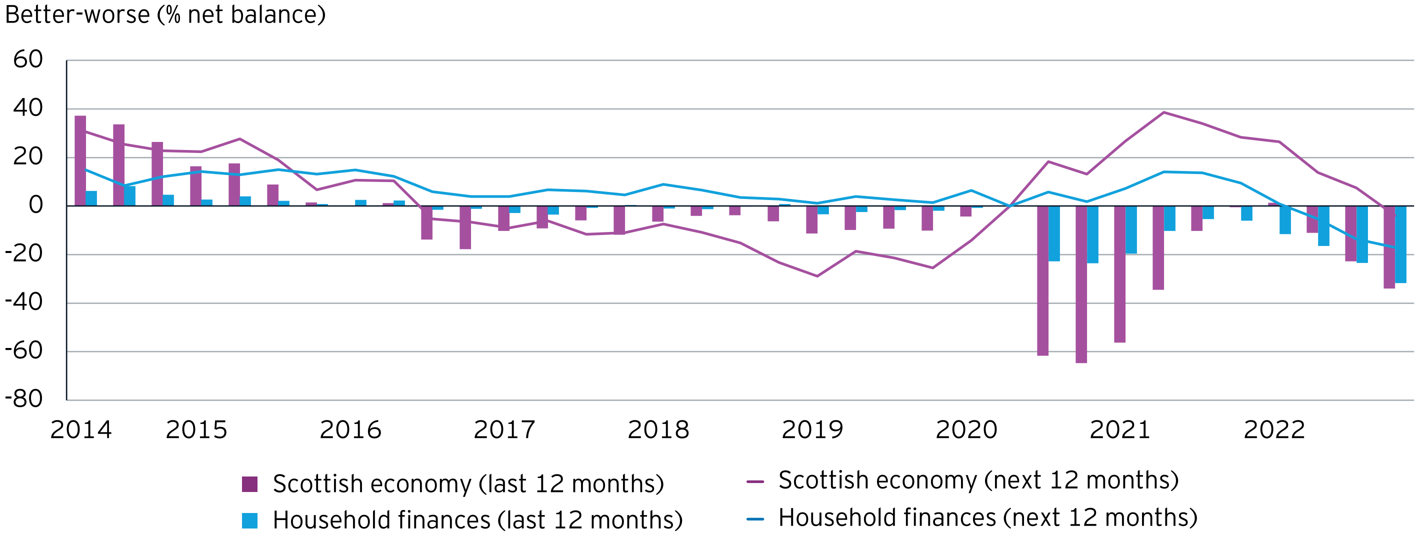


Source: Scottish Government/ONS

Households became more pessimistic as 2022 progressed

Central to the weakening in the Scottish economy has been a decline in consumer finances, with households facing a surge in living costs, higher interest rates, and worries about the possibility of more to come, perhaps including job losses. Problems were apparent as early as the first quarter of 2022, with a majority of Scottish households — surveyed on behalf of the Scottish government — reporting worse finances than a year earlier. The third and fourth quarters then saw further significant deteriorations. In Q4 a majority of households expected the economy to deteriorate over the coming year, for the first time since Q1 2020. And the overall (composite) indicator, reflecting both current sentiment and future expectations, reached the lowest level since records began in 2013.

Consumer indicator scores and expectations, Scotland, 2014-2022



Source: Scottish Government

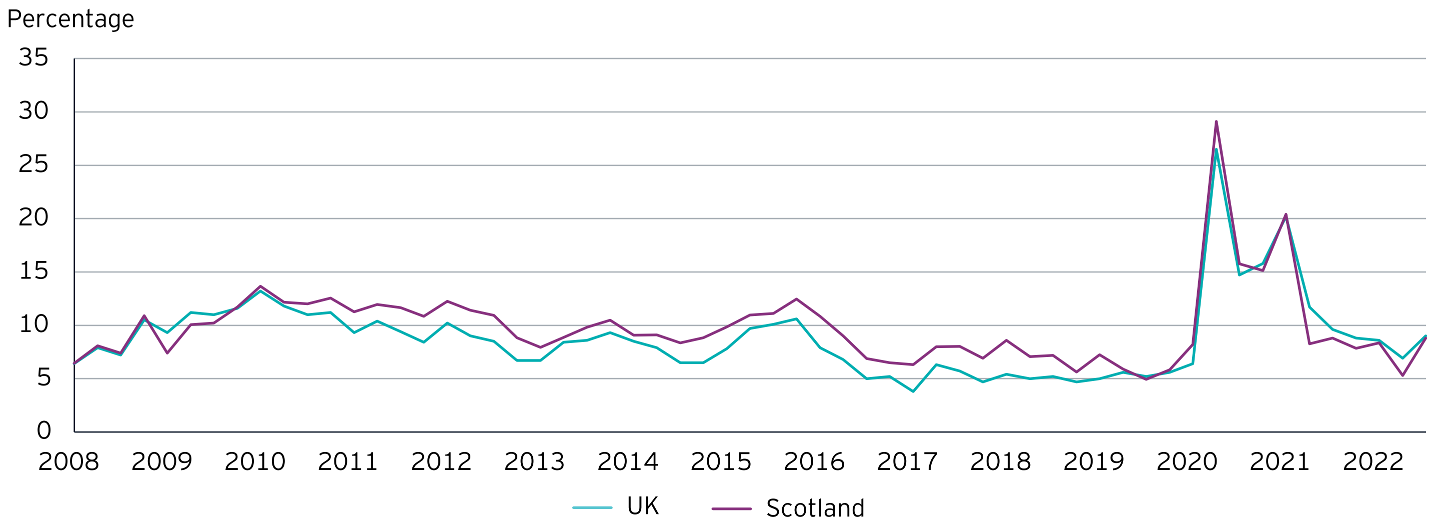
This picture is reinforced by ONS survey evidence for the period September 2022 to January 2023, which suggests that 46% of adults surveyed in Scotland were finding energy bills somewhat or very difficult to pay (unchanged from June to September), while 26% said that rent and mortgage payments had become difficult to afford (up slightly from 25%).[1] As a result, 67% of respondents said they were spending less on non-essentials (up from 62%), and 62% were using less fuel such as gas and electricity in their homes (up from 57%).

There were also widespread concerns in 2022 over private-sector housing rents. ONS figures suggest that these rose by 4.5% y/y in the 12 months to January, the highest annual percentage increase since the Scottish series began in January 2012.

In early October, the Scottish Parliament passed emergency legislation, freezing rents until at least the end of March 2023. Going forward, this could have an impact on the availability of homes for rent.

Some Scottish households will have been cushioned from these problems by higher-than-normal levels of net savings, accumulated during the pandemic when spending levels were artificially depressed by lockdowns. Saving rates have been reduced to support spending – net savings fell as a share of household disposable incomes from a peak of 29.1% of disposable household incomes in Q2 2020 to just 8.8% in Q3 2022. That put the ratio back into its typical pre-pandemic range, and slightly below the UK figure.

Household savings ratio, Scotland and UK, 2008-2022



Source: Scottish Government/ONS

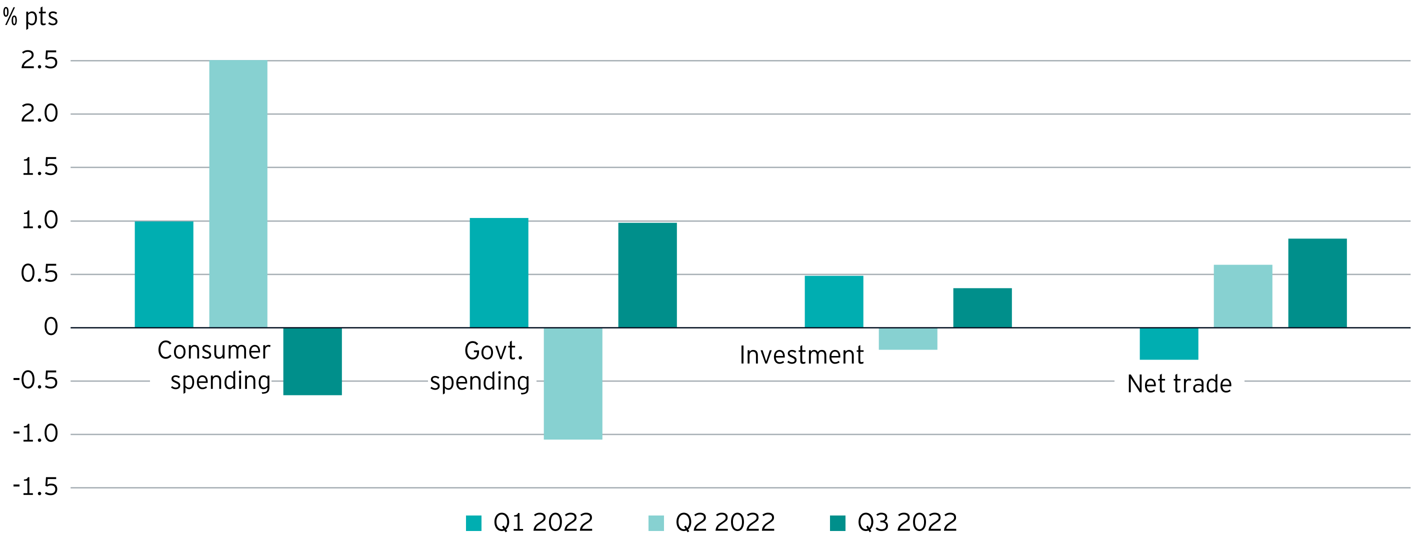
[1] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/impactofincreasedcostoflivingonadultsacrossgreatbritain

Consumer spending weakened in 2022, outweighing gains elsewhere

We estimate that the full year rise in consumer spending in 2022 was 2.3% in real terms, after an 8.2% increase in 2021. In the second quarter of 2022 consumer spending was up 5.2% q/q, but in the third quarter it declined by 1.0%. That decline more than outweighed improvements in government spending, investment, and net trade, with the first two of those swinging from negative to positive, and the third becoming more positive.

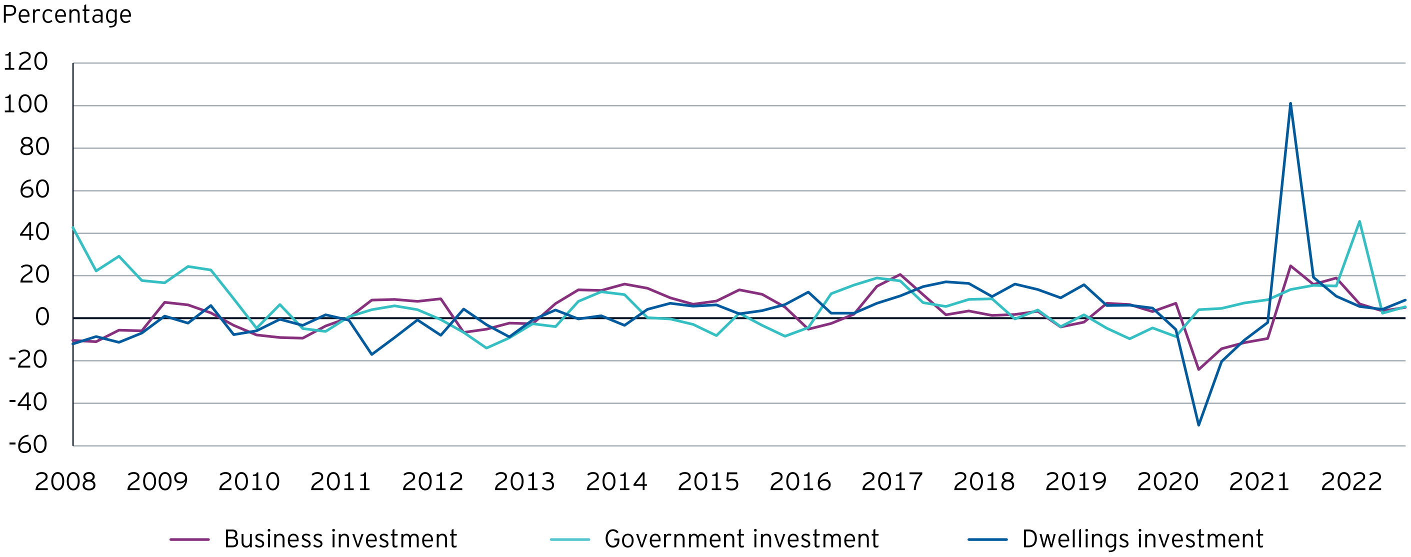
Of the various types of investment, capital spending by businesses in the third quarter was up 5.0% on a year earlier and government investment was up 5.4% y/y. Private investment in dwellings (mainly housebuilding, but also major repair work) was up by slightly more, at 8.5%.

Contributors to quarterly GDP growth, Scotland



Source: Scottish Government

Investment by sector, Scotland, 2008-2022, % y/y



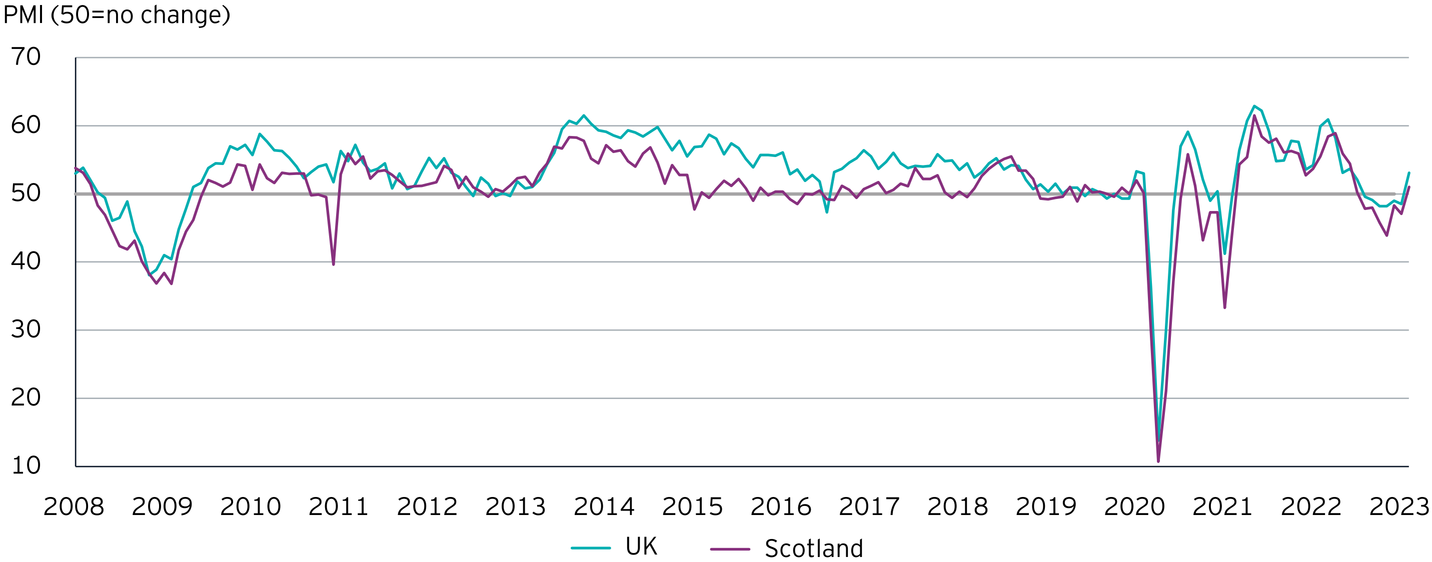
Source: Scottish Government

Business confidence declined in the face of weak demand and rising costs but has improved more recently

2022 saw a decline in Scottish business confidence, mirroring the fall in consumer confidence. The PMI composite index of economic activity peaked back in May 2021, when the index reading was 61.5. The latest figures for January and February 2023 were 47.1 and 51.0 respectively, and the trend now appears to be upwards. These latest Scottish numbers are marginally below the equivalent figures for the UK: the narrowness of the gap testifies to how the current problems of the Scottish economy are part of a wider story.

The Scottish Business Monitor, published by the Fraser of Allender Institute, paints a similar picture. Although business sentiment was marginally positive in Q4 2022, the net balance of all core business activity indicators was negative for the first time since Q1 2021. And the Scottish Chamber of Commerce reported a fall in confidence in Q4 compared with the previous quarter, and a more significant decline compared with a year earlier. Every sector reported a fall in confidence, with retail and tourism seeing the largest decline compared to the previous quarter, and manufacturing firms reporting a fall in confidence for the first time since Q3 2020.

PMI composite, UK and Scotland, 2008-2022

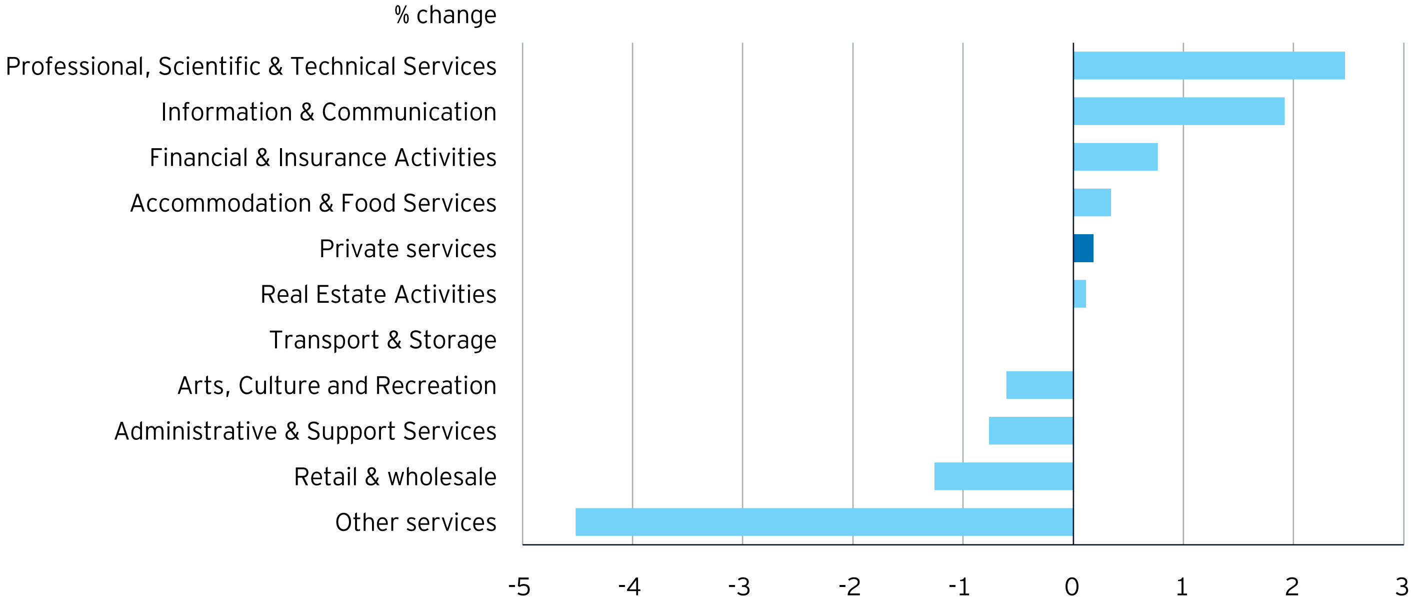


Source: Lloyds Bank Commercial Banking Regional PMI and NatWest Regional PMI

In 2022 there were noticeable variations by sector

Unsurprisingly, there have been major variations across different sectors, with these differences already apparent before the global economic crisis took root in the second quarter of this year. Scottish government data suggest that over the period Q2 to Q4 2022 strong output growth prevailed in some service sectors, while others were seeing declines in output. The largest increase was achieved by the professional, scientific, and technical sector. But there was also relatively strong growth in information and communications. In contrast, the administration and support services sector, which includes people employed via agencies, and those working in activities such as workplace cleaning, saw declining output from Q2 to Q4, 2022.

Private service sector GVA growth, Scotland, Q2 2022 — Q4 2022

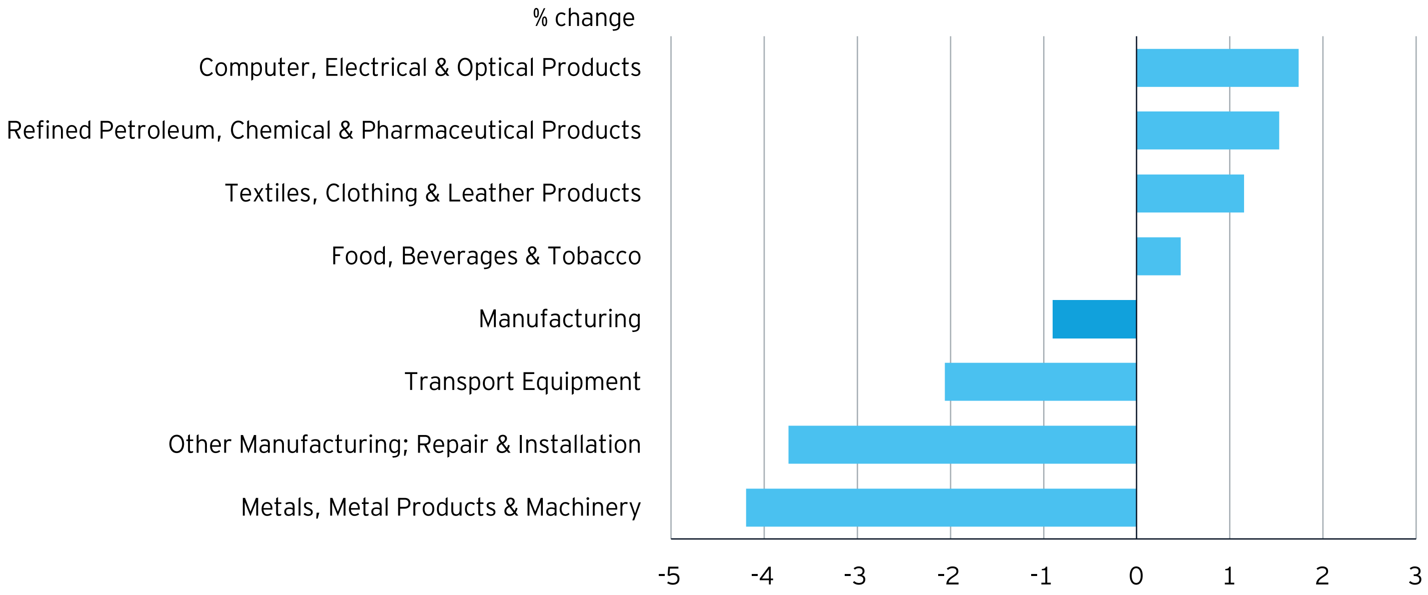


Source: Scottish Government

Scotland's manufacturing sector also failed to show an overall rise in output in the period, although different sub-sectors had different experiences. Supply chain difficulties were probably impinging on many parts of Scotland's manufacturing sector. In the Fraser of Allender Scottish Business Monitor, 41% of companies said they were finding it difficult or very difficult to purchase goods or services in Q4 2022, with 78% of those blaming a lack of UK supply.

Beyond manufacturing, the construction sector experienced modest growth in activity of 1.7% between Q2 2022 and Q4 2022, but since then it is likely to have seen—at best—a levelling-off in activity in the face of higher interest rates. The energy sector saw a decline in output, but the water supply sector experienced an increase: both are small relative to other sectors, and these movements are unlikely to reflect longer-term trends.

Manufacturing GVA growth, Scotland, Q2 2022 - Q4 2022



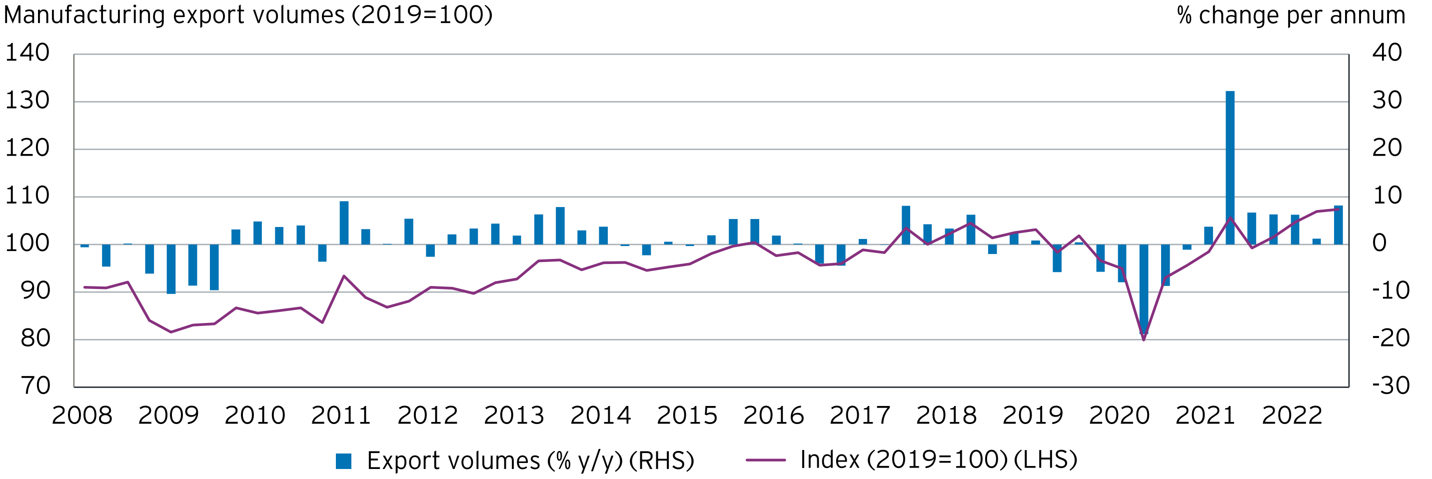
Source: Scottish Government

Scottish exports, including to the rest of the UK, have been growing

Among the more positive developments in the Scottish economy in the past year has been a gradual improvement in exports of manufactured products, including exports to the rest of the UK. These fell sharply in Q2 2020 as the pandemic took hold globally, but have been on a rising trend since then.

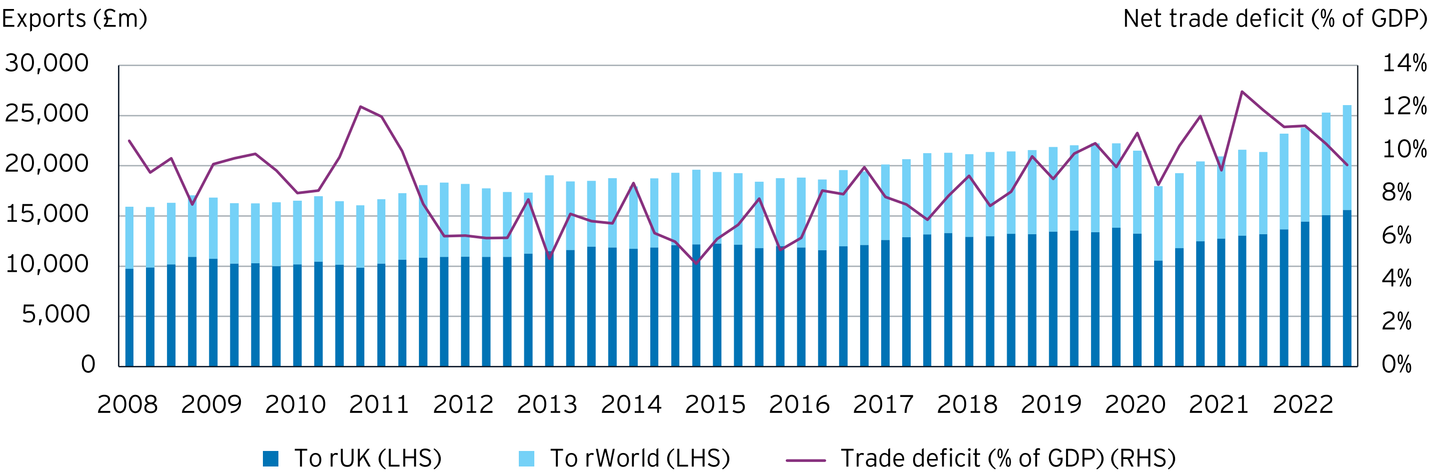
In the context of difficulties with supply chains globally, shortages of shipping, disruptions caused by Brexit, and most of all the impact of the war in Ukraine, this is impressive. It is also notable that Scotland's overall trade deficit with the rest of the UK plus the rest of the world has been on a declining trend since 2021, after half a decade of gradual increases. It is also noticeable that the growth in Scottish exports to the rest of the UK was rather less marked between Q1 2022 and Q3 2022 than the growth in exports to the rest of the world, with an 8.2% rise in the former, compared with 11.8% for the latter.

Growth in Scotland's manufacturing exports, 2008-2022



Source: Scottish Government

Scotland's exports by destination and net trade deficit, 2008-2022



Source: Scottish Government

And the labour market is very tight

With the economy growing—at least until recently—employment in Scotland has been rising. Provisional estimates from the HMRC's Pay As You Earn (PAYE) database suggest that in February 2023 there were 2.44mn pay-rolled employees in Scotland, an increase of 2.4% (58,000) compared with February 2020 (pre-pandemic).

The Labour Force Survey (LFS), which includes the self-employed, provides a similar, although less up-to-date, picture. The LFS suggests that total employment in Scotland rose from 2.69mn in the first three months of 2022 to 2.74mn in the three months to January 2023 — an increase of 1.9%.

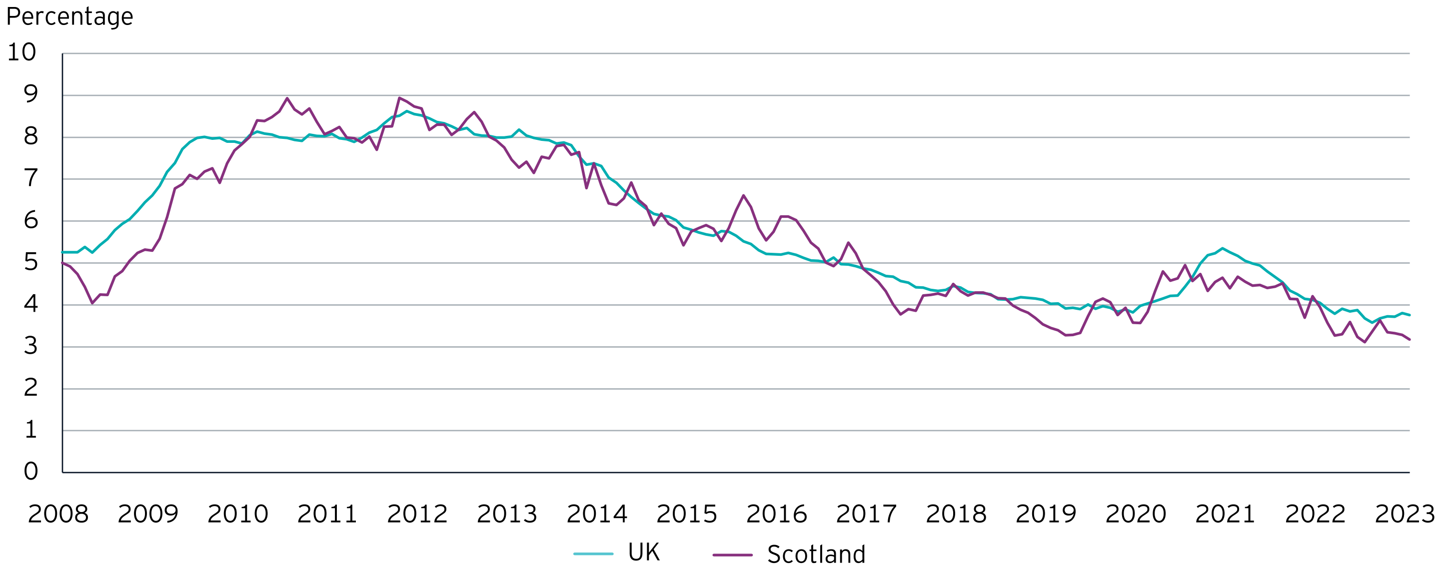
The percentage of people aged 16-64 who were in work in the three months to January 2023 was also up. At 76.5%, it was 1.1 percentage points higher than in the three months to February 2020, as well as being 0.5 percentage points higher than the previous quarter. Scotland does tend to have a high employment rate, in contrast to the UK as a whole where there has been a tendency for more working-age people to become economically inactive.

High employment rates are matched by low unemployment rates. According to the LFS, the 16+ unemployment rate in Scotland for the three months to January was 3.1%, down 0.6 percentage points compared to the three months to February 2020, and down 0.2 percentage points over the quarter. Scotland's unemployment rate was also well below the UK rate of 3.7%.

A tight labour market helps to explain recruitment difficulties reported across various surveys of Scottish business conditions. For example, the RBS Jobs Report for February 2023 reports a decline in the availability of candidates, with recruiters citing skills shortages and a tight labour market as reasons. The decline outstripped that seen UK-wide. As a result, salaries for new recruits rose in February, extending the upward trend observed since December 2020.

The provisional PAYE estimates for December indicate that the median monthly seasonally-adjusted pay of employees in Scotland was £2,243, an increase of 8.7% compared with the same period in the previous year, and 19.8% higher than in February 2020.

Unemployment rate (aged 16-64), Scotland and UK, 2008-2022



Source: ONS

Scotland: economic outlook

04

A fall in household real incomes is leading the economy into recession

Scottish GVA is expected to contract by 0.6% in 2023, reflecting global and UK headwinds, and in particular a 1.8% fall in household real incomes (after a 1.9% fall in 2022). So far, Scottish consumers have been able to cushion themselves from the full impact of the squeeze on incomes by reducing their net savings. Indeed, we estimate that household spending in Scotland increased by 2.3% in 2022 compared to 2021. But the strength of consumer spending last year mainly reflects gains in the first half of 2022. Since then, consumer spending has probably flattened out, and is likely already declining in real terms. Indeed, we forecast a 1.5% fall in 2023.

If inflation falls during the course of 2023 as we expect, then by the middle of 2024 UK interest rates should start to come down, and real incomes will start to rise again and continue to do so. That means that we project real personal income growth of 2.3% in 2024, with household spending rising by nearly as much.

However, other parts of the economy will probably not recover quite as strongly, and we forecast overall GVA growth of 1.6% in 2024, and similar growth thereafter. Only in 2025 does Scotland's GVA at last climb above where it was in 2019, before the pandemic.

Key economic indicator outlook, Scotland, 2020-2026, % y/y (unless otherwise stated)

	GVA	Personal disposable income	Consumers' expenditure	Population 000s	Employment 000s	Unemployment rate %	Working-age migration (000s)
2020	-12.8	-0.8	-13.2	5,466	2,760	4.5	13.9
2021	7.9	1.8	8.2	5,479	2,774	4.2	22.0
2022	5.3	-1.9	2.3	5,510	2,845	3.3	44.2
2023	-0.6	-1.8	-1.5	5,513	2,839	4.3	21.6
2024	1.6	2.3	2.0	5,515	2,867	4.1	16.5
2025	1.7	2.7	2.1	5,522	2,911	3.7	18.1
2026	1.5	1.9	1.8	5,530	2,923	3.8	19.9

Source: EY ITEM Club

Note: GVA is chain linked 2019 prices. Personal disposable income and consumer expenditure are also 2019 prices. Unemployment rate is the ILO unemployment rate using Labour Force Survey data

But several sectors to see GVA growth in 2023

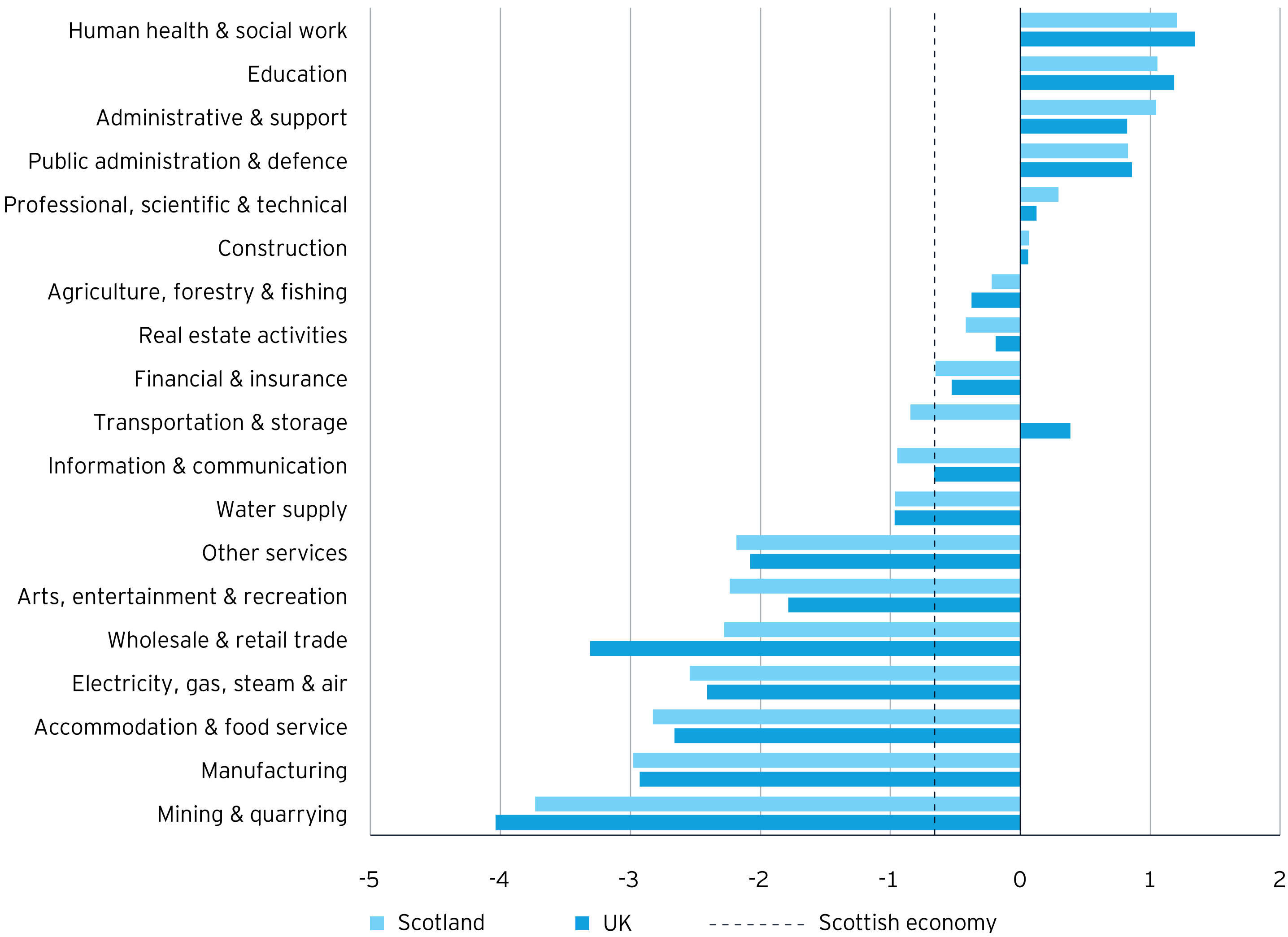
Although aggregate GVA falls in our forecast this year, some service sectors should see increases in activity, led by human health and social work; education; administrative and support; and public administration and defence.

We also anticipate a modest increase in the output of professional, scientific, and technical services. This sector is an important driver of growth in advanced economies globally, but it is seeing intensifying competition, as digital media and activities such as advertising become more globalised and purchasing becomes more centralised.

We forecast a marginal rise in construction sector output in 2023, but a fall in the sector's employment. The fortunes of the construction sector are tied to the broader Scottish economy, and the sector tends to be interest-rate sensitive. So, a modest change for 2023 as a whole may well involve a much sharper dip in the first half and a rebound in the second half of the year on the back of the interest rate cuts that we expect to see coming in this year's final quarter. That said, construction has also been one of the most troubled sectors in terms of recruitment difficulties, and it is possible that a temporary period in which work dries up could lead to people quitting the workforce, making the rebound in activity harder to achieve.

We forecast that Scottish manufacturing output will decline by 3.0% in 2023, very marginally faster than at the UK level (-2.9%). Within the manufacturing total, food manufacturing is prominent in Scotland, and although household consumption of food and drink is likely to hold up reasonably well, demand from the hospitality sector could easily be very weak in 2023. Indeed, output in the accommodation and catering sector, and in arts and entertainment, looks likely to fall quite markedly in 2023. That is despite some possible support as a result of UK residents opting for holidays within the British Isles rather than going further afield. But when that happens it tends to be associated with self-catering holidays, and these contribute less to the sector's output than other types.

GVA growth by sector, Scotland, 2023, % y/y



Source: EY ITEM Club

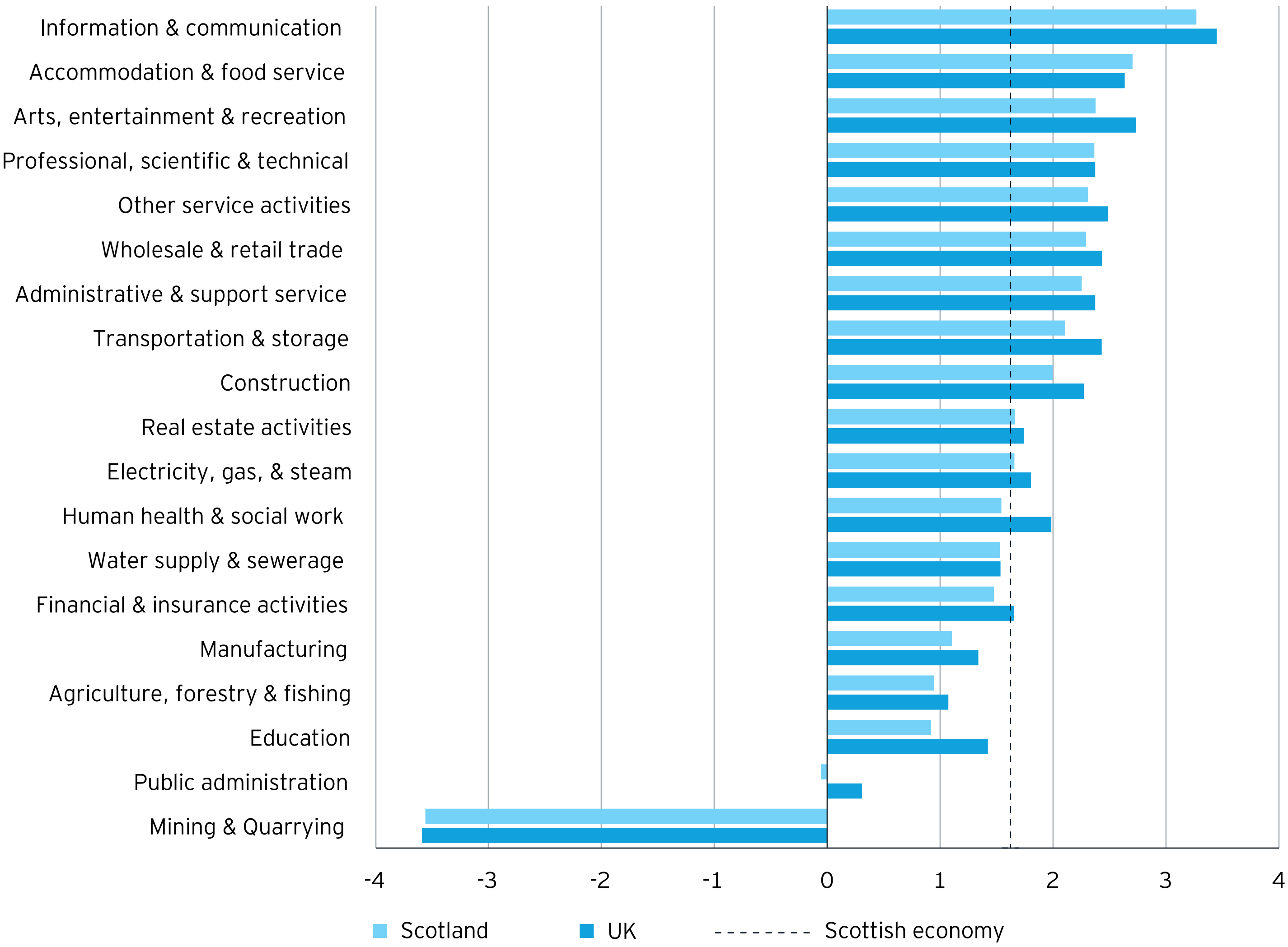
Another sector likely to face particular difficulties in 2023 is wholesale and retail, which we project will experience a 2.3% decline in output. This reflects a mix of the consumer spending squeeze described above and the longer-term shift in consumer demand away from physical goods and towards services, both digital and in-person. Similar pressures exist for retailers in most advanced economies and, indeed, our Scottish forecast is less negative than our UK projection, which shows a 3.3% decline.

Almost all sectors to experience GVA rises in 2024

With the Scottish economy as a whole returning to growth in the second half of 2023, the majority of sectors are likely to experience rising output in 2024 and beyond. The sector that is projected to lead is information and communications, reflecting a similar story at the UK level. Also likely to be experiencing stronger than average growth in 2024 are accommodation and food services, and arts, entertainment and recreation as these sectors rebound from 2023. These should benefit from a combination of continuing improvements in visitor numbers–and also perhaps lengths of stay–as well as increased spending by Scottish residents, as the cost of living crisis recedes.

Another sector that is expected to experience above-average growth is professional, scientific and technical services. Like information and communications, this sector is on a long-term upward trend, and it is also a sector in which customers often look to local suppliers. As such, Scottish companies in the sector are likely to benefit from the overall rise in demand from their home market in 2024. In contrast, one key sector that we forecast will grow by less than the Scottish average in 2024 is manufacturing, although its growth rate will be similar to the UK average.

GVA growth by sector, Scotland, 2024, % y/y



Source: EY ITEM Club

A brief fall in employment in 2023, before returning to growth in 2024

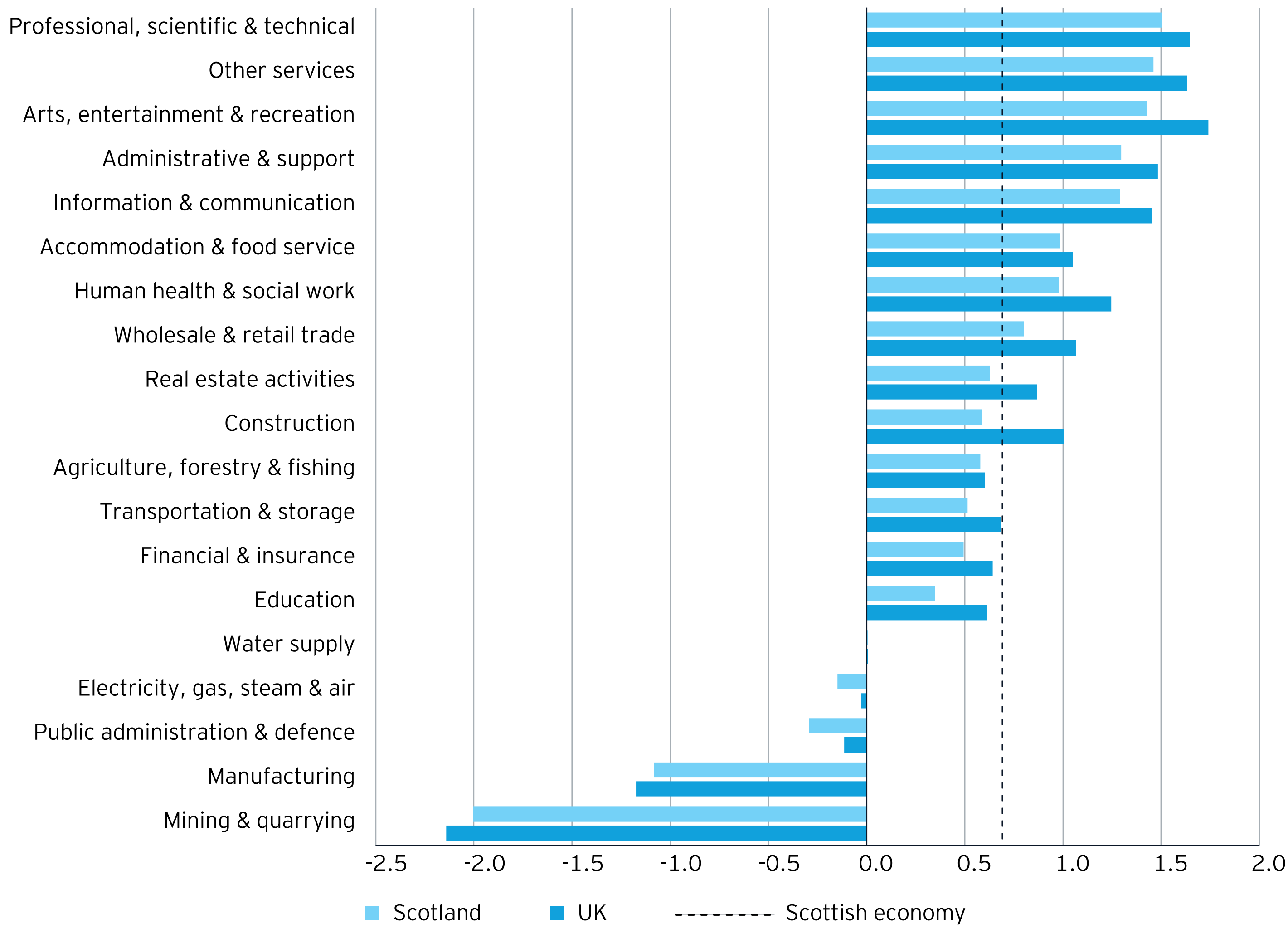
Our estimates suggest that employment in Scotland in 2022 was 2.5% up on 2021, but that 2023 will see a fall of about 0.2%. Once again, this will be a year of two halves: growth should return during the latter part of the year, and should then continue into the future, although probably only at modest rates, as employers look to achieve productivity gains alongside increases in output.

Furthermore, employment growth between now and 2026 will be mostly concentrated in service-sector activities, continuing a long-established pattern. Professional, scientific, and technical services show the fastest increase, although the sector is only very marginally ahead of "other services", a sector which is mainly comprised of personal services, and which is suffering badly from the current reining-in of discretionary consumer spending. Other office-based employment is also likely to be relatively strong. Although the development of artificial intelligence (AI) and other technologies may eat into some office jobs over the longer term, we do not see that happening in the short term.

Among other sectors, we also expect there to be some employment gains in retail and wholesale. Here too there is a risk of new technology leading to job losses, as has clearly been happening for several years. And currently, the sector is in the frontline of recession risks. However, we forecast a rebound in the second half of the year, and a large part of retailing remains small scale. The sector is also widely spread across Scotland, which limits the scope for automation—especially when companies are cautious about investment commitments. On balance, therefore, we continue to expect net job gains.

The story for manufacturing is different. We project job losses over the next four years. Again, this is not new and, in this case, there is significant scope for more widespread automation, except in a few niche markets where "hand-made" is a key part of the marketing proposition.

Employment growth by sector, Scotland, 2023-2026, % (four-year annual avg)



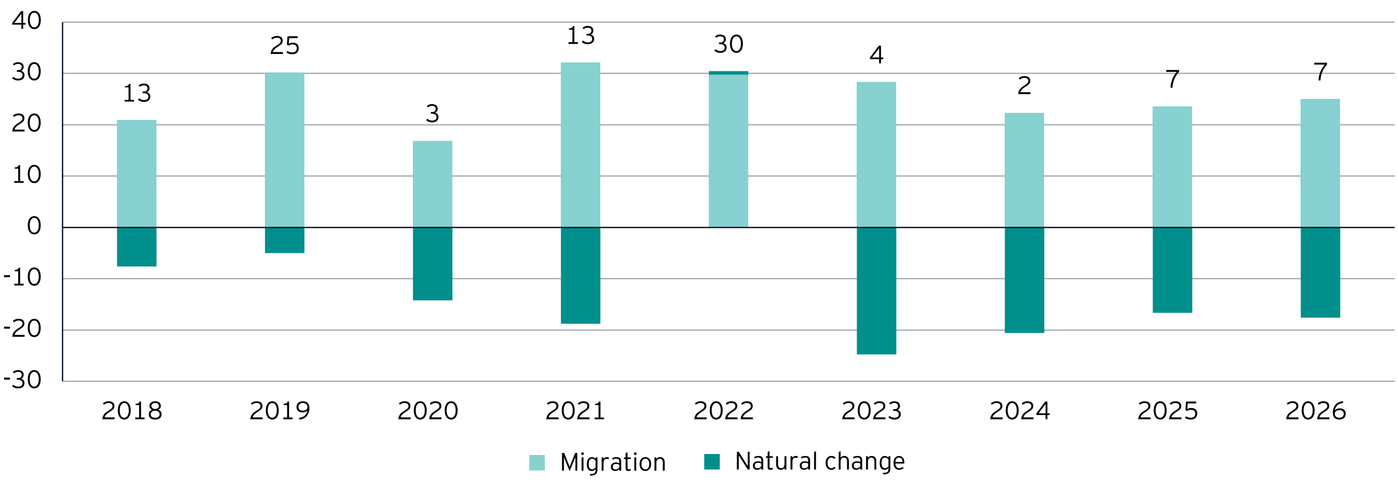
Source: EY ITEM Club

Inward migration is likely to continue at modest rates

We estimate that Scotland will continue to benefit from net inward migration of working-age people, although the 44,000 inflow seen in 2022 will probably not be repeated in the near term. Migration flows tend to partly reflect relative job opportunities and, unless the gap in economic performance between Scotland and the rest of the UK becomes wide (in either direction), large flows are unlikely. We also assume that inward migration into the UK from the rest of the world will be modest compared with recent years. The Scottish government has a policy of encouraging more inflows of people to boost economic growth, but the impact of that on our forecasts is affected by the policy of the Westminster government, and the extent to which migrants from abroad can enter the UK as a whole. Recently, inward migration flows at the UK level have been strong, with net inflows of approximately half a million in the year to mid-2022, although that was partly distorted by high numbers from Ukraine and Hong Kong.

We also forecast that the difference between births and deaths will tend to have a downwards impact on Scotland's population of all ages. This will be offset by a boost from migration, leaving the Scottish population around 0.4% higher by 2026 than in 2022.

Population change by component, Scotland, 2018-2026, y/y (000s)



Source: EY ITEM Club

05

Challenges facing Scotland's new First Minister

Following Nicola Surgeon's resignation in March, Scotland's new First Minister must now consider the economic challenges facing the nation, the range of possible responses, and whether any policy resets are appropriate.

Many difficulties are substantially beyond the Scottish government's control. Fortunately, some of these seem to be receding. The global pandemic has faded as an economic challenge, and the consequent supply chain disruptions are becoming less severe. Inflation will ease during this year, but damage has been done to personal finances and consumer and business confidence. Global geo-political risks remain heightened and recent concerns about the fragility of the global banking system may linger or intensify, depending partly on what happens to interest rates globally, and especially in the US.

In terms of the domestic Scottish policy agenda, where the Scottish government naturally has more leverage, economic issues can be grouped under three headings: public finances and public services; policies towards promoting economic growth while also tackling climate change; and possible independence.

On the first of these, the Scottish government (like most others in Europe) faces difficulties in matching its spending ambitions to its revenue streams, at a time of low economic growth and high inflation. In November 2022 it introduced new benefits for families with children, especially those on low incomes. It also announced more generous benefits for people with disabilities. And in its February 2023 budget, the Scottish government raised the higher and additional income tax rates for people on high incomes.

Additional spending cuts are also a possibility, with the most likely target being efforts to improve government efficiency. Some infrastructure projects have been subject to criticism about poor delivery and cost over-runs. This is therefore likely to be a major area of policy focus for the new First Minister.

Achieving faster economic growth in Scotland would help the public finances, and improve the prospects for employment and household earnings. A challenge is to achieve this while also moving towards the Scottish government's net zero ambition, currently set at 2045.

A specific climate-related issue raised during the leadership campaign was the speed at which the oil and gas industry should continue to extract mineral resources from beneath the North Sea.

Related to this, there is broad agreement within Scotland about the potential for taking advantage of the transition to a low carbon economy, reflecting both Scotland's natural assets in terms of, for example, wind and wave power, and also the skills base that has been built up in the North Sea sector. Under new leadership, the Scottish government is likely to continue to focus on opportunities for the commercialisation of low carbon technologies, green economic growth, and the creation of green jobs.

Another sector in which Scotland has comparative strength is the digital economy, and in particular the video games sector. Opportunities are also likely to exist in medical tech and in fintech. The latter is potentially important given that Scotland's large but traditional financial services sector is unlikely to outpace the economy as a whole. The sector is subject to regulatory restrictions to protect customers, and competition in the marketplace is intense. Fintech offers a potential opportunity to reinvent the sector, something already implicitly reflected in our forecast that information and communications will be Scotland's fastest growing sector.

There are also a number of efforts being made by the Scottish government and in some cases the UK government to foster industrial growth via, for example, free ports and potentially investment zones. The new First Minister and other minsters will want to consider where their priorities lie in this regard, given the many competing claims on the overall budgets, the new First Minister and colleagues will need to consider what pathway to choose and how quickly to seek to proceed. A further complication here is the possibility of a change of UK government in 2024/25, with Labour indicating that if elected it would increase the powers of the Scottish government. Scottish Assembly elections then follow in 2026, and between now and then, Scottish ministers will want to consider what narrative and policy mix might gain most support from the electorate, while also doing most to strengthen business and consumer confidence, and hence the performance of the Scottish economy.

City focus

06

Glasgow

In 2022, total employment in Glasgow rose by an estimated 3.6%, or 16,300 jobs. The economy is estimated to have grown by 5.7% in the same year, outpacing Scotland (5.3%), while also being faster than the UK (4.1%).

The unemployment rate in Glasgow, as published by the Labour Force Survey, fell to 3% in the 12 months to September 2022, a decline of 1.3 percentage points from the equivalent period in 2021. The more up to date, though narrower, claimant-count measure shows a 0.2 percentage point rise between September 2022 and December 2022.

Over the period 2023 to 2026, employment growth is forecast to average 0.9% per year, equivalent to 16,800 additional jobs. Job growth will be driven by gains in the administrative & support service and human health & social work sectors.

GVA is expected to grow by 1.3% per year over the forecast period, growing marginally faster than the regional average (1.1%), while performing broadly in line with the UK (1.4%). By 2026, GVA in the local economy is expected to be £1.3bn larger than in 2022. The information & communication and financial & insurance activities sectors are expected to record the biggest absolute increases in GVA over this period.

Employment, Glasgow, 2022-2026

Employment change by sector			
Sector	Total employment		
	2022 (000s)	2026 (000s)	Annual % growth 2023-26
Utilities, extraction & agriculture	6.0	6.0	-0.1
Manufacturing	19.4	18.6	-1.1
Construction	21.6	22.3	0.8
Wholesale & retail trade	54.0	56.2	1.0
Transportation & storage	13.7	14.0	0.6
Accommodation & food service	33.8	35.1	1.0
Information & communication	25.2	26.4	1.1
Financial & insurance activities	23.3	23.9	0.6
Real estate activities	10.2	10.5	0.9
Professional, scientific & technical	40.2	43.3	1.9
Administrative & support service	59.9	63.1	1.3
Public administration	29.0	28.8	-0.2
Education	41.4	42.3	0.5
Human health & social work	66.7	69.8	1.1
Arts, entertainment & recreation	10.7	11.3	1.4
Other service activities	8.4	8.8	0.9
Total	463.6	480.3	0.9

Source: EY ITEM Club

Edinburgh

In 2022, total employment in Edinburgh rose by an estimated 3.1%, or 11,900 jobs. The economy is estimated to have grown by 7.9% in the same year, outperforming both Scotland (5.3%) and the UK (4.1%).

The unemployment rate in Edinburgh, as published by the Labour Force Survey, reached 2.1% in the 12 months to September 2022, an increase of 0.1 percentage points from the equivalent period in 2021. The more up to date, though narrower, claimant-count measure shows a 0.1 percentage point rise between September 2022 and December 2022.

Between 2023 and 2026, employment is expected to grow at an average rate of 1.1% per year, adding 18,200 jobs over that period. Job growth will be underpinned by gains in the human health & social work and administrative & support service sectors.

GVA is expected to grow by 1.3% per year over the forecast period, growing marginally faster than the regional average (1.1%), while performing broadly in line with the UK (1.4%). By 2026, GVA in the local economy is expected to be £1.4bn larger than in 2022. The financial & insurance activities and real-estate activities sectors are expected to record the biggest absolute increases in GVA over this period.

Employment, Edinburgh, 2022-2026

Employment change by sector			
Sector	Total employment		
	2022 (000s)	2026 (000s)	Annual % growth 2023-26
Utilities, extraction & agriculture	4.9	4.9	0.0
Manufacturing	8.6	8.2	-1.1
Construction	10.7	11.0	0.8
Wholesale & retail trade	40.2	41.9	1.0
Transportation & storage	12.4	12.8	0.8
Accommodation & food service	32.9	34.4	1.1
Information & communication	26.4	28.0	1.6
Financial & insurance activities	35.9	36.5	0.4
Real estate activities	7.4	7.7	0.9
Professional, scientific & technical	35.0	37.7	1.8
Administrative & support service	41.7	44.6	1.7
Public administration	25.9	26.0	0.1
Education	36.9	38.2	0.9
Human health & social work	58.3	61.8	1.4
Arts, entertainment & recreation	13.3	14.1	1.6
Other service activities	11.0	11.8	1.9
Total	401.4	419.6	1.1

Source: EY ITEM Club

Aberdeen

Total employment in Aberdeen is estimated to have increased by 1.2% in 2022, equivalent to 2,000 jobs. We estimate that the economy grew by 3.9% in the same year, lagging Scotland (5.3%), while also underperforming the UK (4.1%).

According to the Labour Force Survey, the unemployment rate in Aberdeen reached 6.3% in the 12 months to September 2022, an increase of 0.5 percentage points from the equivalent period in 2021. The more up to date, though narrower, claimant-count measure remained broadly stable between September 2022 and December 2022.

Over the period 2023 to 2026, employment levels are forecast to remain fairly steady, with gains in human health & social work being offset by losses elsewhere in sectors such as mining & quarrying.

By 2026, we expect GVA in the local economy will broadly match 2022 levels, with modest growth between 2024 to 2026 following a contraction in 2023. The human health & social work and professional, scientific, & technical sectors are expected to record the biggest absolute increases in GVA over this period.

Employment, Aberdeen, 2022-2026

Employment change by sector			
Sector	Total employment		
	2022 (000s)	2026 (000s)	Annual % growth 2023-26
Utilities, extraction & agriculture	19.2	17.7	-2.0
Manufacturing	9.5	9.0	-1.3
Construction	6.7	6.6	-0.4
Wholesale & retail trade	18.3	18.8	0.7
Transportation & storage	7.7	7.7	-0.1
Accommodation & food service	13.6	13.7	0.3
Information & communication	3.8	3.9	0.8
Financial & insurance activities	1.1	1.1	0.0
Real estate activities	1.9	1.8	-0.6
Professional, scientific & technical	23.8	24.3	0.5
Administrative & support service	11.6	11.8	0.4
Public administration	7.0	6.9	-0.7
Education	11.2	11.3	0.0
Human health & social work	27.8	28.6	0.7
Arts, entertainment & recreation	3.3	3.4	0.7
Other service activities	3.1	3.1	0.6
Total	169.5	169.5	0.0

Source: EY ITEM Club

Dundee

In 2022, total employment in Dundee rose by an estimated 4%, or 3,300 jobs. We estimate that the economy grew by 4.5% in the same year, lagging Scotland (5.3%), but ahead of the UK (4.1%).

The unemployment rate in Dundee, as published by the Labour Force Survey, reached 6.9% in the 12 months to September 2022, an increase of 2 percentage points from the equivalent period in 2021. The more up to date, though narrower, claimant-count measure remained broadly stable between September 2022 and December 2022.

Over the period 2023 to 2026, employment growth is forecast to average 0.6% per year, equivalent to 2,100 additional jobs. Job growth will be driven by gains in the human health & social work and wholesale & retail trade sectors.

The economy is expected to expand by 1.1% per year over the forecast period, in line with the regional average (1.1%), while slightly trailing the UK (1.4%). By 2026, GVA in the local economy is expected to be £0.2bn larger than in 2022. The real-estate activities and professional, scientific, & technical sectors are expected to record the biggest absolute increases in GVA over this period.

Employment, Dundee, 2022-2026

Employment change by sector			
Sector	Total employment		
	2022 (000s)	2026 (000s)	Annual % growth 2023-26
Utilities, extraction & agriculture	0.8	0.8	-0.1
Manufacturing	3.7	3.6	-1.1
Construction	3.9	4.0	0.4
Wholesale & retail trade	12.0	12.4	0.8
Transportation & storage	2.5	2.5	0.5
Accommodation & food service	8.5	8.8	0.8
Information & communication	4.5	4.7	1.2
Financial & insurance activities	1.1	1.1	0.4
Real estate activities	1.3	1.3	0.8
Professional, scientific & technical	4.1	4.4	1.7
Administrative & support service	4.0	4.2	1.6
Public administration	5.6	5.4	-0.7
Education	9.8	9.8	0.1
Human health & social work	18.5	19.0	0.7
Arts, entertainment & recreation	2.6	2.7	1.3
Other service activities	2.3	2.4	1.5
Total	85.1	87.3	0.6

Source: EY ITEM Club

Perth & Kinross

Total employment in Perth & Kinross is estimated to have increased by 1.3% in 2022, equivalent to 1,000 jobs. We estimate that the economy grew by 4.9% in the same year, lagging Scotland (5.3%), but ahead of the UK (4.1%).

According to the Labour Force Survey, the unemployment rate in Perth & Kinross fell to 3.3% in the 12 months to September 2022, a decline of 0.5 percentage points from the equivalent period in 2021. The more up to date, though narrower, claimant-count measure shows a 0.1 percentage point rise between September 2022 and December 2022.

Over the period 2023 to 2026, employment growth is forecast to average 0.5% per year, equivalent to 1,400 additional jobs. Job growth will be driven by gains in the human health & social work and accommodation & food service sectors.

GVA is expected to grow by 1.2% per year over the forecast period, growing marginally faster than the regional average (1.1%), while slightly trailing the UK (1.4%). By 2026, GVA in the local economy is expected to be £0.2bn larger than in 2022. The electricity, gas, steam, & air conditioning supply and real-estate activities sectors are expected to record the biggest absolute increases in GVA over this period.

Employment, Perth & Kinross, 2022-2026

Employment change by sector			
Sector	Total employment		
	2022 (000s)	2026 (000s)	Annual % growth 2023-26
Utilities, extraction & agriculture	9.1	9.2	0.3
Manufacturing	5.3	5.0	-1.1
Construction	5.3	5.4	0.3
Wholesale & retail trade	10.6	10.8	0.6
Transportation & storage	2.2	2.2	0.0
Accommodation & food service	8.7	9.0	0.8
Information & communication	0.9	1.0	1.4
Financial & insurance activities	1.8	1.8	0.5
Real estate activities	1.4	1.4	0.2
Professional, scientific & technical	4.1	4.3	1.1
Administrative & support service	2.9	3.0	0.9
Public administration	3.7	3.7	-0.4
Education	6.1	6.2	0.4
Human health & social work	8.0	8.4	1.0
Arts, entertainment & recreation	2.2	2.3	1.5
Other service activities	1.8	1.8	0.8
Total	74.1	75.6	0.5

Source: EY ITEM Club

Stirling

In Stirling, total employment is estimated to have risen by 1,100 jobs in 2022—equivalent to a year-on-year increase of 2.1%. The economy is estimated to have grown by 7.4% in the same year, faster than both Scotland (5.3%) and the UK (4.1%).

The unemployment rate in Stirling, as published by the Labour Force Survey, fell to 3.2% in the 12 months to September 2022, a 1 percentage point decline from the equivalent period in 2021. The more up to date, though narrower, claimant-count measure shows a 0.1 percentage point rise between September 2022 and December 2022.

Between 2023 and 2026, employment is expected to grow at an average rate of 1% per year, adding 2,300 jobs over the period. Job growth will be underpinned by gains in the administrative & support service and wholesale & retail trade sectors.

GVA is expected to grow by 1.5% per year over the forecast period, outperforming the regional average (1.1%), while also growing marginally faster than the UK (1.4%). By 2026, GVA in the local economy is expected to be £0.2bn larger than in 2022. The administrative & support service and real-estate activities sectors are expected to record the biggest absolute increases in GVA over this period.

Employment, Stirling, 2022-2026

Employment change by sector			
Sector	Total employment		
	2022 (000s)	2026 (000s)	Annual % growth 2023-26
Utilities, extraction & agriculture	1.4	1.5	0.3
Manufacturing	2.8	2.7	-0.5
Construction	3.5	3.7	0.8
Wholesale & retail trade	7.4	7.7	1.1
Transportation & storage	1.3	1.3	0.9
Accommodation & food service	5.5	5.7	1.1
Information & communication	3.5	3.8	1.8
Financial & insurance activities	1.2	1.3	0.5
Real estate activities	0.9	0.9	0.7
Professional, scientific & technical	3.9	4.2	1.9
Administrative & support service	4.5	4.9	2.1
Public administration	3.1	3.0	-0.4
Education	5.7	5.8	0.4
Human health & social work	5.5	5.7	1.0
Arts, entertainment & recreation	2.1	2.3	2.0
Other service activities	1.3	1.4	1.9
Total	53.5	55.7	1.0

Source: EY ITEM Club

Inverness

In Inverness, total employment is estimated to have risen by 900 jobs in 2022—equivalent to a year-on-year increase of 1.9%. We estimate that the economy grew by 3.3% in the same year, underperforming both Scotland (5.3%) and the UK (4.1%).

The unemployment rate in Inverness, as published by the Labour Force Survey, reached 4.2% in the 12 months to September 2022, an increase of 1.5 percentage points from the equivalent period in 2021. The more up to date, though narrower, claimant-count measure shows a 0.2 percentage point rise between September 2022 and December 2022.

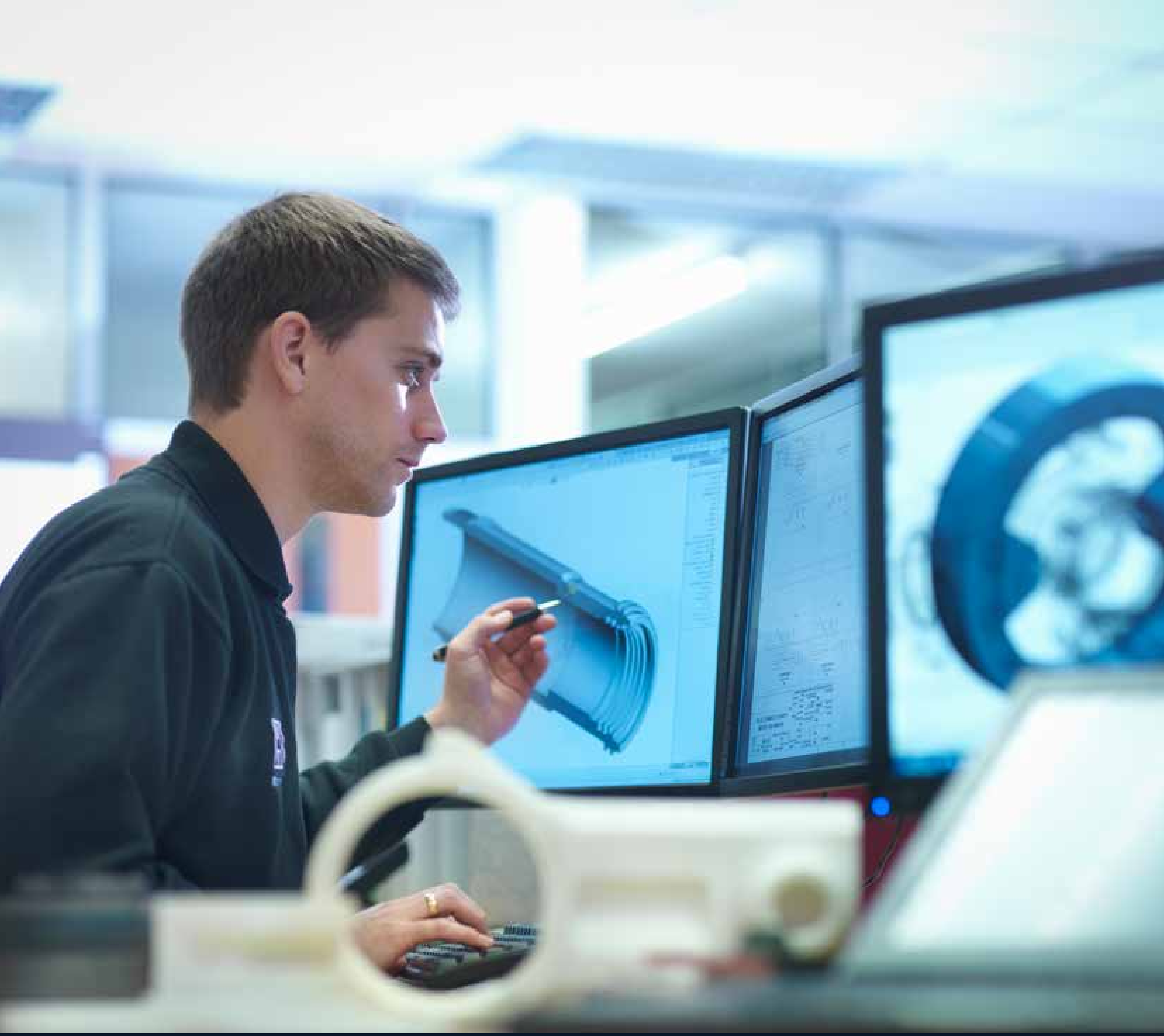
Over the period 2023 to 2026, employment growth is forecast to average 0.9% per year, equivalent to 1,700 additional jobs. Job growth will be driven by gains in the human health & social work and wholesale & retail trade sectors.

GVA is expected to grow by 1.3% per year over the forecast period, growing marginally faster than the regional average (1.1%), while performing broadly in line with the UK (1.4%). By 2026, GVA in the local economy is expected to be £0.1bn larger than in 2022. The real-estate activities and human health & social work sectors are expected to record the biggest absolute increases in GVA over this period.

Employment, Inverness, 2022-2026

Employment change by sector			
Sector	Total employment		
	2022 (000s)	2026 (000s)	Annual % growth 2023-26
Utilities, extraction & agriculture	1.4	1.4	0.3
Manufacturing	1.4	1.3	-1.3
Construction	3.5	3.7	0.9
Wholesale & retail trade	7.8	8.1	1.0
Transportation & storage	2.5	2.7	2.0
Accommodation & food service	3.8	4.0	1.2
Information & communication	1.3	1.4	1.4
Financial & insurance activities	0.4	0.4	0.1
Real estate activities	0.6	0.6	0.7
Professional, scientific & technical	2.7	3.0	2.6
Administrative & support service	3.3	3.5	1.4
Public administration	3.3	3.2	-0.7
Education	2.4	2.4	0.1
Human health & social work	12.1	12.4	0.6
Arts, entertainment & recreation	1.0	1.1	1.6
Other service activities	1.2	1.2	1.8
Total	48.7	50.4	0.9

Source: EY ITEM Club



Forecast tables

07

Economic & demographic indicators, Scotland, 2020-2026

	2020	2021	2022	2023	2024	2025	2026
Population (000s)	5466	5479	5510	5513	5515	5522	5530
(% pa)	0.0	0.2	0.6	0.1	0.0	0.1	0.1
Migration[1]	3.1	5.9	5.4	5.1	4.1	4.3	4.5
Employment rate[2](%)	58.4	58.5	59.4	58.4	58.7	59.2	59.2
Unemployment rate	5.4	4.9	3.3	3.7	3.7	3.3	3.2
Personal disposable income (% pa)	-0.8	1.8	-1.9	-1.8	2.3	2.7	1.9
Per capita (UK=100)	91.7	92.3	93.2	93.4	93.4	93.2	93.0
Consumers' expenditure (% pa)	-13.2	8.2	2.3	-1.5	2.0	2.1	1.8
Per capita (UK=100)	91.9	92.0	93.4	91.4	91.7	91.7	91.6
Self-employed (000s)	277	268	270	271	283	297	301
(% pa)	-7.0	-3.3	0.6	0.5	4.4	4.9	1.5
Employment[3] Total employment (000s)	2760	2774	2845	2839	2867	2911	2923
(% pa)	-1.3	0.5	2.5	-0.2	1.0	1.5	0.4
Manufacturing (000s)	186	186	191	190	188	187	183
Location quotient[4]	90.3	92.4	92.2	92.2	92.6	93.1	93.4
Private serv. (000s)	1327	1327	1369	1359	1380	1413	1425
Location quotient[4]	91.2	90.6	90.7	90.7	90.8	90.9	90.9
Government serv. (000s)	810	820	835	841	846	852	853
Location quotient[4]	114.1	113.5	113.7	113.6	113.4	113.4	113.5

Source: EY ITEM Club

Notes

1. Per 1,000 of the population of working age.
2. Labour force as a percentage of the 16+ population.
3. Claimant-count basis.
4. Employees plus the self-employed, Government Supported Trainees and HMF Forces Sector's share of total regional employment divided by the sector's share in total UK.

Sectoral outlook: total employment (000s)

	2020	2021	2022	2023	2024	2025	2026
Agriculture, forestry & fishing	60	60	55	56	56	56	56
Mining & quarrying	30	25	24	24	24	23	22
Manufacturing	186	186	191	190	188	187	183
Food, beverages & tobacco	49	51	51	50	50	50	49
Textiles, clothing & leather products	12	11	11	11	11	11	11
Refined petroleum, chemical & pharmaceutical products	11	13	13	12	12	12	11
Metals, metal products & machinery n.e.c.	35	32	33	33	33	33	32
Other manufacturing industries, including repair	51	50	54	54	54	54	53
Electrical and instrument engineering	15	16	16	15	15	15	15
Transport equipment	13	13	13	13	13	13	12
Electricity & gas supply	20	19	17	17	17	17	17
Water supply & waste management	19	21	22	22	22	22	22
Construction	164	170	176	175	176	179	180
Retail & wholesale	362	371	375	369	374	385	388
Transportation and storage	127	125	125	124	126	127	127
Accommodation & food services	191	196	217	213	217	223	225
Information and communication	104	97	102	102	104	107	107
Financial & insurance	84	85	82	83	83	84	84
Real estate	42	41	43	43	43	44	44
Professional, scientific and technical activities	206	195	204	204	208	213	216
Administrative and support service activities	211	218	221	220	224	230	233
Public administration & defence	168	174	177	178	178	177	175
Education	216	227	238	239	240	241	241
Human health & social work	426	419	421	425	428	434	438
Other service activities	147	149	156	155	158	163	165
Total employment	2760	2774	2845	2839	2867	2911	2923

Source: EY ITEM Club

Sectoral outlook: GVA (% y/y)

	2020	2021	2022	2023	2024	2025	2026
Agriculture, forestry & fishing	-3.7	0.0	1.4	-0.2	0.9	0.8	0.4
Mining & quarrying	-6.8	8.8	4.2	-3.7	-3.6	-3.7	-2.0
Manufacturing	-15.1	9.5	0.9	-3.0	1.1	1.3	1.1
Food, beverages & tobacco	-15.3	10.3	13.5	-1.2	1.1	2.0	1.7
Textiles, clothing & leather products	-24.7	32.4	7.0	-6.9	-2.0	-2.5	-3.4
Refined petroleum, chemical & pharmaceutical products	0.0	16.9	-18.2	-2.0	1.7	1.5	1.6
Metals, metal products & machinery n.e.c.	-15.3	1.0	0.8	-5.4	1.1	0.2	0.2
Other manufacturing industries including repair	-19.6	8.9	-3.8	-3.8	0.3	0.7	0.5
Electrical and instrument engineering	-19.6	3.5	1.5	-5.9	1.4	1.3	1.5
Transport equipment	-12.4	6.0	-5.3	2.8	3.7	3.2	1.9
Electricity & gas supply	4.0	-8.3	-0.5	-2.5	1.7	1.5	1.6
Water supply & waste management	-5.8	10.8	3.1	-1.0	1.5	1.9	2.4
Construction	-20.1	15.3	4.1	0.1	2.0	2.0	1.6
Retail & wholesale	-10.9	8.5	0.5	-2.3	2.3	2.1	0.8
Transportation and storage	-20.6	7.6	8.7	-0.8	2.1	2.1	1.6
Accommodation & food services	-45.7	25.1	45.9	-2.8	2.7	3.0	1.9
Information and communication	-4.2	2.5	11.5	-0.9	3.3	4.3	3.9
Financial & insurance	-6.4	0.1	3.8	-0.7	1.5	2.0	2.3
Real estate	-0.4	1.0	1.4	-0.4	1.7	2.1	2.2
Professional, scientific and technical activities	-12.0	12.6	3.7	0.3	2.4	2.8	1.9
Administrative and support service activities	-10.8	3.3	14.6	1.0	2.3	2.9	2.2
Public administration & defence	1.6	2.9	1.2	0.8	-0.1	-0.7	-0.4
Education	-12.4	7.7	8.0	1.1	0.9	0.5	0.7
Human health & social work	-5.7	15.0	-13.3	1.2	1.5	1.3	1.5
Other service activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total GVA	**-12.8**	**7.9**	**5.3**	**-0.6**	**1.6**	**1.7**	**1.5**

Source: EY ITEM Club

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ED None

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