

Fraser of Allander Institute think Scotland's economy is lagging behind the UK

Scotland's economic recovery is forecast to be weaker than the UK's according to the latest Economic Commentary from the University of Strathclyde's Fraser of Allander Institute, sponsored by PricewaterhouseCoopers LLP.

The Institute's new revised central case forecast is for GDP growth of 1.0% this year – 0.3% higher than the June forecast – growing to 1.1% in 2011 and 1.9% in 2012. There is a fear, however, that the greater welfare spending cuts may dampen growth in 2012 compared to the previous forecast. When put alongside the UK figures, these forecasts suggest that the recovery continues to be weaker in Scotland, especially in 2011.

Professor of Economics at University of Strathclyde, Brian Ashcroft said:

“The Scottish economy strengthened appreciably in its recovery from recession in the 2nd quarter of this year. However, there are reasons to believe that an unsustainable bounce back in construction and re-stocking were key factors in the strength of the recovery in the second quarter and this will tend to fade away in later quarters.”

Following the Comprehensive Spending Review the cut in the Scottish government's budget is now expected to be around 11% by 2014-15. The Institute estimates that such a cut could produce economy wide job losses of between 49,000 to 113,000 and between 60,000 – 71,100 public sector jobs.

Ashcroft added:

“It is clear that the Scottish government has options other than simple spending cuts. If these are exercised in the

forthcoming Budget, the GVA and job loss could be less than our estimates. Whilst cuts in spending will have to be made the Scottish government should focus on protecting economic stabilisation, economic growth and social justice as the key elements in a rational process that links fiscal consolidation to its objectives.”

According to Paul Brewer, senior partner at PwC in Edinburgh, unprecedented concerns over the economy and a focus on spending cuts has put the economy at the top of the political agenda. The economy remains fragile however signs are that liquidity in the debt market is starting to ease.

He said:-“The severity of the cut in spending allocation to Scotland will undoubtedly have far reaching impacts, particularly when combined with the deferral of the current year’s spending cuts and a near £1bn cut in the investment budget. In short, Scotland cannot afford to be wasteful in any aspects of public service delivery.

“The challenge will be to ensure that resultant cuts are made in the right places in order to preserve vital front line services and free resources in order to build and invest in sustainable infrastructure and job creation which is crucial to economic growth. We have already come to anticipate the heavy job losses that are likely to arise in the public sector due to the greater reliance on this sector for employment in Scotland however, what has become clear is that the private sector will not be immune either.

“There will also be challenges ahead for our private sector as they try to make up for the magnitude of cuts that are on the way in Scotland. Sectors such as construction, due to its exposure to public sector capital investment projects, and business services will undoubtedly be hit harder, while others, such as outsourcing and manpower services, may find opportunities as government and public sector organisations seek to reduce their non-core and fixed cost operations by

shifting delivery of front-line services to private and third sector organisations.

“Over recent years we have seen an increased reliance on flexible working within the private sector, from reduced working hours to deferred pay increases, and creativity in securing efficiencies, all of which has impacted their ability to move quickly to capitalise on market opportunities as and when they arrive. As the public sector rises to the challenge of implementing the cuts required, there are perhaps some lessons that can be learned from the private sector.”

PricewaterhouseCoopers, in association with FAI, produces a Business Review which considers some of the implications of the Economic Commentary trends for Scottish business. The Business Review can be downloaded [here](#).