

# ECONOMIC REPORT FOR HIGHLANDS AND ISLANDS ENTERPRISE

No 5            9 August 2009

## 1. Introduction

- 1.1 This fifth Economic Report for Highlands and Islands Enterprise follows a similar format to the first four reports produced earlier this year. The main purpose is to track impacts of the international and national recessions on the economy of the Highlands and Islands from statistical information, forecasts, news reports and other intelligence, and to highlight areas of growth. The content of the report is intended as suitable for wider circulation, and confidential information that HIE staff will have on specific company performances and prospects, etc, is thus not included.
- 1.2 Following a summary review of key international and national trends and forecasts, the main implications for the Highlands and Islands are drawn out and new statistical information for the area (or for Scotland where relevant) is interpreted, with a summary of positive and negative features. Summaries are then provided for the five Local Authority areas that are wholly contained within the HIE area and for Argyll and the Islands. These include new statistical indicators (mainly unemployment, vacancies, and house prices and transactions) and key local events or announcements between 1 June and 9 August 2009. Some text is repeated from the 1 June report where still relevant. The main source material and sources of further information are referenced at the end of the report in Section 8.
- 1.3 The unemployment and vacancy figures for July were released after this report was completed, and will be detailed in the next report. The Claimant Count unemployment rate for the Highlands and Islands Travel to Work Areas remained at 2.7% from June, with a small reduction in numbers unemployed. The Great Britain rate remained unchanged at 4.1%, though with a small increase in numbers, while the Scotland rate rose from 4.0% to 4.1%. This is broadly a continuation of recent trends. Notified vacancies in the Highlands and Islands fell from 2,216 in June to 1,550 in July, probably due to tourism businesses having completed their seasonal recruitment.

## 2. Summary

- 2.1 The key points and implications from this report are that:
  - Despite signs from recent statistical indicators and surveys of expectations and confidence that recovery from the international and national recessions is beginning, output is still falling and the speed, strength and nature of the recovery are uncertain. Growth in the UK economy is expected to resume by the end of this year, although expectations by forecasters for next year differ.
  - Although indicators on output trends in the area are not available, the Highlands and Islands appears to have suffered less than either the UK as a whole or Scotland from the downturn. Helped by seasonal factors, unemployment throughout the area decreased between April and June in contrast to continuing increases in the UK and Scotland (where the increase was small). As between March and April, the strongest reductions in the unemployment rate were achieved in areas with a tourism focus.
  - The unemployment trend in the HIE area, with increasing numbers of notified vacancies is relatively encouraging – although the job prospects for University and College graduates and school leavers this year are not good, and unemployment is expected to rise again in the autumn (if not before).

- Sterling's exchange rate has continued to recover, and this trend will tend to reduce the improvements in price competitiveness that the region's exporters and tourism sector have enjoyed since the start of the recession.
- The opportunities in the Highlands and Islands highlighted in Section 6 and the positive developments and trends across the region summarised in Section 7 (and in previous reports) suggest that further population and employment growth should be realistic aspirations over the short, medium and longer terms, and that HIE's targets of higher average incomes and improved productivity should be achievable through a growth strategy.
- However, the Highlands and Islands is relatively highly dependent on public sector employment and in employment related to public sector expenditure (e.g. in the construction sector). The region is therefore likely to be particularly badly affected by the inevitable reductions in public expenditure in forthcoming years as the UK economy reduces the high levels of borrowing that it has incurred in combating the recession. This will lead to reductions in employment, and there is a risk that the region's development will be slowed by a lack of funding for public infrastructure.
- Positive events and announcements since 1 June include an allocation of up to £8 million for EMEC through the UK Low Carbon Transition Plan, plans by TOTAL for a new £500 million gas processing plant at Sullom Voe, £14 million of investment in new facilities and research at North Highland College, plans for housing developments that will boost the construction sector and population growth, a new Campbeltown Creamery (with Scottish Government funding of up to £3.9 million) that will secure the future of 42 dairy farmers in Kintyre and Gigha, and a number of anecdotal indications of a good tourism season.
- Negative events and announcements include proposed reductions by QinetiQ of 125 jobs in the Uists and 20 jobs on the west coast, job cuts in the whisky industry by Whyte and Mackay and Diageo, the loss of 20 jobs at Dunlisa (Dornoch) who lost a contract to a Perth company, job reductions in Moray (not major) by Baxters, Forsyths Group and Claymore Dairies, and the closure of the Sustainable Development Research Centre at the Horizon Centre, Forres.

### **3. The International Context**

- 3.1 GDP in the OECD area fell by 2.1% in the first quarter of 2009, the largest fall since OECD records began in 1960, following a fall of 2.0% in the previous quarter. Japan's GDP declined by 4.0%, following a 3.8% decrease in the previous quarter. GDP in the euro area was down 2.5%, following a 1.6% fall in the previous quarter. Compared with the same quarter a year earlier, all of the Major Seven economies recorded a fall in GDP, and a marked deterioration on the previous quarter's year-on-year figures. There was an overall reduction in GDP of 4.2% in the OECD area between the first quarter of 2008 and the first quarter of 2009. China's continuing growth (a 7.9% GDP increase between the second quarters of 2008 and 2009) stands out against all other countries. A recent Reuters survey of 39 economists showed GDP in the 16 nation Euro block falling by 0.5% in the second quarter after the 2.5% fall in the first quarter – which would be the fifth consecutive quarterly reduction.
- 3.2 In its June 2009 bi-annual Economic Outlook, the OECD forecast GDP growth (net of inflation) of -2.6% for the OECD area and -3.6% for the Euro area for the 4<sup>th</sup> quarter of 2009 on the 4<sup>th</sup> quarter of 2008, with recovery to +1.5% for the OECD area and +0.9% for the Euro area (12 OECD countries) by the fourth quarter of 2010. Its forecast of unemployment in the Euro area was rising to 10% of the workforce in 2009 from 7.5% in 2008, and with a further increase to 12% in 2010. OECD Composite Leading Indicators for June 2009 (published in August) point to stronger signs of improvement in the outlook of OECD countries than they had for May.
- 3.3 In its most recent World Economic Outlook update (July 8<sup>th</sup>), the IMF produced yet more pessimistic forecasts for this year than previously. Year-on-year world output is now expected to contract by

1.4% in 2009, and recover to growth of 2.5% in 2010. The United States economy is expected to contract by 2.6% in 2009, with 0.8% growth in 2010, while GDP in the Euro area is expected to contract by 4.8% in 2009 and by 0.3% in 2010. Two of the world's major economies, Japan and Germany, are expected to contract by 6.2% and 6.0% respectively in 2009. An acute loss of confidence has accentuated the impact of the financial crisis, although expectations for 2010 are improving.

- 3.4 The World Bank's latest Prospects for the World Economy (Global Development Finance 2009) show expected real world GDP growth at -2.9% in 2009, +2.0% in 2010 and +3.2% in 2011. After an expected fall of 9.7% in 2009, the volume of world trade is expected to resume growth of 3.8% in 2010 and 6.9% in 2011. Non-oil commodity prices are expected to have fallen by 30.2% in 2009 and by 2.1% in 2010, and rise by a modest 1.4% in 2011. This is encouraging for future raw materials purchases by UK businesses, although there have been strong increases in commodity prices in recent months.
- 3.5 The Economist's poll of forecasters in August showed an average expectation of a 4.4% fall in real GDP in the Euro area in 2009 (down from -3.7% in May) and 0.6% growth in 2010.
- 3.6 The World Bank's Global Development Finance 2009 report includes an item on swine flu. Estimates as at 1 June are that its clinical severity is similar to that of the Hong Kong flu of 1968-69, and that its rate of spread, though higher than normal flu, is in the low range of previous pandemics. So far, the economic costs of the epidemic have been concentrated in Mexico and in the transportation sectors. Simulations of the potential economic and human costs of a global pandemic undertaken in 2006 suggest that costs could range from 0.7% to 4.8% of global GDP, with most of the economic cost relating to absenteeism and efforts to avoid infection. Developing countries would generally be hardest hit.

#### 4. The UK Context

- 4.1 HM Treasury's comparison of 20 new independent forecasts received between July 1<sup>st</sup> and 9<sup>th</sup> showed an average expectation of a 4.1% reduction in the UK's GDP in 2009 (up from 3.8% in May), with all forecasts reviewed ranging from -3.1% to -4.4%. The IMF's latest expectation is for the UK's GDP to fall by 4.2%, which is near the lower end of this range. The Treasury's comparison shows an average expectation of 0.7% GDP growth in the UK in 2010 (up from 0.4% in May), with all expectations ranging from +2.0% to -1.3%. The IMF expects UK growth of 0.2% in 2010. Average medium term projections for GDP in the Treasury's May comparison report were +1.9% in 2011, +2.4% in 2012 and +2.6% in 2013. The Government's 2009 Budget projections for GDP are summarised at 4.20 below.
- 4.2 The latest indicators provided in the Treasury's Pocket Data Bank as at 4 August include the following. The % change is on a year earlier unless otherwise stated.

GDP	<i>Q2, 09</i>	-0.8%
Service Sector Output	<i>3 months to Jan 09</i>	-1.4%
Industrial Production	<i>3 months to May 09</i>	-12.3%
Manufacturing Output	<i>3 months to May 09</i>	-13.1%
Whole Economy Investment	<i>Q4, 08</i>	-3.1%
Goods Exports (vols)	<i>3 months to May 09</i>	-14.6%
Halifax House Prices	<i>June 09</i>	-15.0%
Nationwide House Prices	<i>June 09</i>	-9.3%
Exchange Rate Index (2005=100)	<i>21 July</i>	84.3
Bank Rate	<i>latest</i>	0.5%
Long term Interest Rates	<i>21 July</i>	3.88%

- 4.3 GDP fell at a lower rate in the second quarter than in the first quarter of 2009 (-0.8% compared with -1.9%). The sterling exchange rate index has gradually improved from 76.1 in March to 84.3 (an appreciation of 10.8%). The reduction in goods exports volumes of 14.6% in the three months to May exceeded the reduction of 8.4% in the three months to March.
- 4.4 The 0.8% quarter-on-quarter decline in GDP comprised decreases in all components. Construction output decreased by 2.2%, manufacturing output fell by 0.3%, services by 0.6% (mainly due to computer services within the business services and finance sub-sector), and agriculture, forestry and fishing by 2.3% (compared with -0.1% in the previous quarter).
- 4.5 Within manufacturing, the main reductions have been in machine tools (-27.2%) and coke, ref petrol and nuclear fuels (-8.6%), and the main increases in publishing of books (+10.9%) wood and wood products (+4.8%), and motor vehicle manufacture (+10.1%) – although the annual decline of the latter remains very high at -42.8%.
- 4.6 Construction output in the first quarter of 2009 was at its lowest level since 1963. Over the previous quarter, industrial projects were down 27%, commercial projects by 16% and private housing work by 10%.
- 4.7 The seasonally adjusted volume of retail sales in June was 2.9% higher than in June 2008, following a year-on-year decrease of 1.6% for May 2009. Predominantly food stores sales rose by 2.6% and those by predominantly non food stores by 2.4%. Clothing stores sales increased particularly strongly, whilst sales in furniture and hardware stores continued to fall substantially. The Retail Sales Monitor showed an increase of 1.4% between June 2008 and June 2009 on a like-for-like basis, with the sunny weather the main driver.
- 4.8 The Treasury's July comparison of new independent forecasts made in the last 3 months shows that, on average, fixed investment is expected to fall by 12.3% in 2009, exports by 10.6% and private consumption by 3.0% (all worse than expectations in May). Only Government consumption is expected to grow (by 2.9%).
- 4.9 Unemployment in the UK continues to rise and reached 2.38 million (on the ILO measure) in the three months to May 2009 – an unemployment rate of 7.6% (up from 7.1% for January-March). Claimant Count unemployment in June also rose (by 0.1%) on the previous month to 4.8% (1.56 million people). The Treasury's independent forecasters expect (on average) that Claimant Count unemployment will continue to rise to 1.99 million in 2009 and 2.29 million by the fourth quarter of 2010 – a rate of 7.0%. On this basis, the ILO measure of unemployment (used for international comparisons) would be 11.2% by the end of 2009 – 3.5 million people. Youth unemployment is of particular concern, and some 20% of 18-24 year olds currently looking for work.
- 4.10 Average earnings including bonuses rose by 2.5% in the year to June 2009, up from the May increase of 2.3%. The average increase in the private sector was 2.1% and in the public sector 3.7%.
- 4.11 Retail Price Index year-on-year inflation fell from -1.1% in May to -1.6% in June. CPI annual inflation (the Government's target measure) was 1.8% in June, down from 2.2% in May, and below the Government's target of 2% for the first time since September 2007. Downward pressure was mainly from food and lower price increases than for June 2007-June 2008 for furniture. The UK's CPI inflation rate for May at 2.2% was above the provisional comparable figure for the EU as a whole of 0.7%. According to the British Retail Consortium, shop price inflation stood at 0.5% in July, with notable decreases in the rate of increase in fresh food prices and in meat prices due to lower commodity prices which had previously impacted on the cost of animal feed.
- 4.12 The output price index for home sales of manufactured products fell by 1.2% in the year to June 2009, compared with a fall of 0.3% in the year to May. The import price index for materials and fuels purchased by manufacturing industry fell by 11.0% in the year to June. These trends helped to prompt a further £50 million of Quantitative Easing by the Bank of England.

- 4.13 According to a report by the Department of Communities and Local Government, the average cost of a home in the UK rose by 1.1% between March and April, with the annual decrease declining by 13% to an April average of £189,215 (which is approximately 30% above the April to June Scotland average). The more recent Halifax and Nationwide indexes given above also show reductions in the annual increases in house prices, although some commentators still expect further house price decreases (e.g. by a further 10% by mid 2010).
- 4.14 The price per barrel of West Texas Intermediate rose to \$71.33 on 4<sup>th</sup> August (provisional) – an increase of 14.1% on the previous month, but still 39.9% below its price a year ago. The Economist's 4<sup>th</sup> August sterling index of all commodities rose by 5.2% on the previous month and was 6.0% down on a year earlier. According to the median of 31 forecasts in a Bloomsberg survey, the pound will exchange for \$1.63 by the end of 2010 (\$1.65 currently).
- 4.15 Britain's borrowing rose again in June, and now stands at £799 billion (56.6% of GDP), although the figures are on track for the Chancellor's forecast of net borrowings of £175 billion for the year to be met. Redressing this will inevitably require substantial reductions in public spending once the economy recovers from the recession.
- 4.16 The FTSE 100 index has been recovering strongly, reaching its highest level since January of 4,560 in July, and since rising further to 4,700 plus.
- 4.17 There was a fall of 2.7% in the number of people visiting Britain in 2008, the first decrease in seven years, with a particularly sharp fall of 17% in US visitors. Both French and Irish visitors outnumbered US visitors for the first time for over a decade. More recently, there was a seasonally adjusted increase of 3% in visits to the UK between the first and second quarters of 2009, although visits in the 12 months to May (not seasonally-adjusted) were 8% down on the previous year. Similarly, the number of visits abroad by UK residents decreased by 8% in the 12 month period to May compared with the previous year.
- 4.18 The Ernst and Young ITEM Club, which uses the Treasury's economic model, has predicted that, on the worst case scenario, a swine flu pandemic could lead to the UK's GDP falling by an extra 3.0% in 2009 and 1.7% in 2010 on current forecasts. This level of seriousness is not generally expected, but autumn this year has been identified as the time of greatest risk of mass infection.
- 4.19 The Centre for Economic and Business Research expects 334,000 jobs to be lost across the business services sector during the coming three years, which would equate to more than half of the jobs that were created in the sector during the past five years being lost by 2011.

### ***The Budget – Economic Prospects***

- 4.20 The main points from the Chancellor's Budget are repeated below from previous Monthly Reports. The Treasury is continuing to expect a recovery in GDP before the end of the year (although the GDP contraction for the year could be 4% or higher according to other forecasts).
- GDP is expected to contract by 3.5% in 2009, before picking up from late 2009 – with growth of 1.25% in 2010 and 3.5% in 2011. The 2010 and 2011 expectations are considered over-optimistic by many analysts, although indicators released since the Budget and recent business confidence surveys tend to endorse the view that the economy should begin to improve later this year.
  - Inflation (on the CPI measure) is expected to fall to 1% by the end of 2009 and remain below the 2% target during 2010, returning close to target during 2011. The RPI rate of inflation is expected to fall to -3% by September.
  - Borrowing is forecast to peak at 12.4% of GDP in 2009/10 as the downturn impacts on tax receipts, with total Government debt continuing to rise to reach 79% of GDP by 2013/14.

- Business investment is not expected to make a positive contribution to GDP growth until 2011. In 2011, Government consumption and investment is expected to make a negative contribution of 0.75% to GDP growth, with General government investment 16.75% lower in 2011 than in 2010. Many analysts, however, consider that public expenditure will need to be cut further as the UK recovers from recession because of lower tax receipts than expected by the Treasury.
- The Balance of Payments Current Account deficit is expected to increase to a low of £51 billion in 2010 (from £24.5 billion in 2008), which would represent 3.5% of GDP.

4.21 According to a recent OECD report (International Migration Outlook 2009), migration to the UK and Ireland from the new EU member countries declined by more than 50% in the first 4 months of 2009.

## **5. Scotland's Economy**

- 5.1 The impact of the recession on the Scottish economy has been broadly similar to the impact on the UK economy. Recent surveys by Lloyds TSB, the Bank of Scotland and the Royal Bank of Scotland all suggest signs of recovery in expectations and confidence, with the service sector and exporters leading the way. The Lloyds TSB report indicates that credit availability has improved and that credit costs have fallen in importance as a concern.
- 5.2 GVA in Scotland fell by 1.2% over the year to the end of the first quarter of 2009 and by 2.4% in the first quarter of 2009. Over the year, GVA in the service sector fell by 0.7%, by 2.8% in the production sector and by 3.3% in the construction sector. The fall in the last three quarters is the largest since records began in 1963.
- 5.3 Like-for-like retail sales in June were 2.2% higher than in June 2008, following a decline in May (when clothing and homeware shops were particularly badly hit). Drier sunny weather this June than last June and clearance bargains encouraged expenditure. Like-for-like retail sales growth in Scotland between April and June over the second quarter of 2008 at 1.8% was similar to UK growth of 1.7%.
- 5.4 Between May 2007 and May 2009, retail sales of Scottish food and drink brands across Britain increased by 21%, sales of Scottish brands in Scotland over the same period increased by 18%, and Scottish food exports to countries outside the UK increased by 16% between early 2007 and early 2009. Measures to support the sector announced in June by the Scottish Government included a new strategy for the food and drink manufacturing sector to increase sales by a third to £60 billion by 2017. Advice and additional funding is being provided to local producers to help them develop markets for their products and encourage the growth of farmers markets, farm shops and local food initiatives.
- 5.5 UK Farming Unions believe that prices for beef and lamb should remain strong for the remainder of 2009, which might help to stem the steep fall in the numbers of sheep and cattle being kept. Farm borrowing rose by almost 7% in the three months to July compared with the same period in 2008 according to Bank of England figures. Sales of agricultural machinery in Britain in the first six months of 2009 were on a par with the same period in 2008 according to Agricultural Engineers Association data.
- 5.6 Scottish export sales declined by 3.4% in the first quarter of 2009 over the previous quarter and by 6.5% over the year. This was an improvement on the fall of 9.6% between the third and fourth quarter of 2008. Global demand has remained reasonably strong for premium products including whisky, seafood and beef.
- 5.7 More than 4,000 jobs were created or secured in 2008 through the work of Scottish Development International (a joint venture between the Scottish Government, SE and HIE), of which 80% were by firms already in Scotland. Nearly half of the jobs paid salaries of more than £31,000.

- 5.8 Unemployment in Scotland rose in both May and June to 4.0% in June, although there were improvements in all 15 Local Authority areas north of the Central Belt except Fife and Angus. On the ILO measure, unemployment in Scotland in the three months to May was 6.7%. There is a general expectation that unemployment will rise further, with substantial reductions in financial services.
- 5.9 In July, Diageo announced that it was cutting up to 900 jobs, including closing its Kilmarnock bottling plant, and in August, Whyte and Mackay warned that around 100 jobs might go due to the economic situation and a “punitive” UK legislative climate. In contrast, William Grant & Sons, which employs more than 700 people in Scotland, has said that there is no risk to jobs.
- 5.10 Accountant and business adviser PKF recently reported that 933 Scottish companies went into liquidation in the year to June 2009 – 145 more than in 2002, the previous highest year. The analysis was based on figures from the Accountant in Bankruptcy. This trend is confirmed by recent figures on personal and company insolvencies in Scotland from the UK Government’s Insolvency Service.
- 5.11 Royal Bank of Scotland, now 70% owned by the British Government, suffered losses of \$59.3 billion in 2008, the largest of any global bank.
- 5.12 VisitScotland’s analysis for the first quarter of 2009 shows that, despite declines in the number of trips, both domestic and international visitors are staying longer and spending more per night, with growth in visitors from EU15 countries. These trends are expected to continue into 2010. Savings are being made in business travel, but PKF’s survey for May showed a 0.6% increase in hotel occupancy year on year in Scotland compared with a 6.4% reduction in England and a 5.4% reduction in Wales.
- 5.13 There is concern that Scotland’s self catering sector, worth £302 million to the Scottish economy last year according to VisitScotland, will suffer from the removal of tax concessions for people running self-catering holiday homes from next spring to comply with EU legislation. Currently, landlords of furnished holiday lets are deemed as operating a business for tax purposes, which allows them to write off any losses against other personal income – a concession introduced 25 years ago to boost investment in self-catering holiday accommodation.
- 5.14 A recent study has shown that sea angling supports nearly 3,200 ftes in Scotland and is worth over £140 million annually to the Scottish economy. Another report shows that grouse shooting is worth more than £30 million annually to the Scottish economy and supports 940 ftes.

***Fraser of Allander Forecasts***

- 5.15 In its June 2009 Economic Commentary, Fraser of Allander made the following forecasts:

<b>Central Scenario</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
GVA	-2.9%	-0.9%	0.6%	1.4%
Agriculture	-5.7%	-0.2%	1.1%	2.8%
Manufacturing	-7.0%	-2.4%	1.7%	3.6%
Construction	-2.4%	-0.7%	0.4%	1.1%
Services	-2.0%	-0.6%	0.3%	0.8%
Net Annual Change in Jobs	-84,399	-51,451	11,301	26,824
Claimant Count Unemployment	4.6%	5.0%	5.7%	5.4%

- 5.16 The job change projections are more pessimistic than the Institute’s February forecasts for 2009 and 2010, but more optimistic for 2011 and 2012. The GVA figures for 2010, 2011 and 2012 are more pessimistic than those of most forecasters for the UK as a whole.

### *The Scottish Economic Recovery Programme*

5.17 On 15 June, the Scottish Government published an update on the Scottish Economic Recovery Programme: Preparing for Recovery. The following measures are included in the Update:

Nearly £350 million of capital spending has been accelerated into both 2008-09 and 2009-10 to maintain key skills in the Scottish economy, support around 6,350 jobs and provide the modern infrastructure essential for longer-term Scottish economic growth.

#### *Supporting Jobs and Communities*

Jobs are being supported through, for example:

- **Investing in affordable housing** with accelerated spending of £120 million as part of the record £675 million Affordable Housing Investment Programme. This accelerated spending will help create over 1,000 jobs directly.
- **Reducing the tax burden on businesses and households.** The expansion of the Small Business Bonus Scheme will save the average small business owner £1,400. Households are being helped with the extension of the council tax freeze this year, saving Scottish households £420 million over three years.
- **Accelerating improvements to the planning process.** This includes the launch of a new online planning system, ePlanning.
- **Directly investing in communities** through a £60 million Town Centre Regeneration Fund.
- **Making communities more energy efficient** with a £30 million investment as part of a pilot initiative to help 90,000 homes with home insulation.
- **Increasing financial advice for individuals.**

#### *Strengthening Education and Skills*

The following are examples of actions being taken by the Scottish Government:

- **Support businesses and individuals** through ScotAction – the Scottish Government’s skill support package. It is an integrated package providing skills assistance – including wage subsidies in some circumstances – for training for work, training in work and training from work to work.
- **Increase support for people facing redundancy** with the strengthening of the Partnership Action for Continuing Employment (PACE) initiative to help those businesses and individuals facing redundancy.
- **Further support of apprenticeships.** Skills Development Scotland is working with a number of organisations which has led to Modern Apprenticeships being re-introduced or expanded into the food, life sciences and construction sectors. In February 2009, £16 million of funding was announced to help support an additional 7,800 apprenticeships this year. The number of apprenticeship opportunities in the hospitality sector will be increased by at least 300, as people of all ages can now apply for this apprenticeship, with a further 200 individuals engaging in Professional Cookery training.
- **Improve the services available to the unemployed.** Through changes to the eligibility rules, those who become unemployed can now access vocational training through Training to Work much more quickly.

- **Strengthen education for young people.** 16+ Learning Choices will offer a place of learning to every young person as they reach their compulsory school leaving age. In support of this, £16 million will be invested in developing pilots of Activity Agreements to help and support young people who wish to learn in a community or third sector environment.
- **Invest in our learning institutions.** The Scottish Funding Council has established the new Horizon Fund which will develop and invest in projects that are intended to bring economic, social, cultural and other benefits to Scotland.

### *Investing in Innovation and the Industries of the Future*

- **Increasing incentives for business to use and pursue innovation.** In the last year, Scottish Enterprise's R&D grant programme has levered over £100 million of private sector investment into research projects. The £10 million Saltire Prize has been launched to provide the largest innovation prize for marine renewables.
- **Establishing a Scottish Investment Bank.** Initially it will have funds of £150 million to support innovative high-growth potential businesses. The Scottish Government is investigating how the bank can be developed through finance from Europe and other parts of the public sector.
- **Working with the private sector to increase the competitiveness of our key sectors.** Industry Advisory Boards for all key sectors are being established to bring forward action plans to develop competitiveness.

The 31 page document gives a lot more detail than the above summary.

- 5.18 As a result of money coming to Scotland after the last Budget, an additional £16.1 million will be provided to fund thousands of new College places over the next two years, and £12 million will be spent on improving facilities.
- 5.19 The Scottish Futures Trust has published its first business plan, which covers the next 10 months and highlights 13 projects valued at more than £2.7 billion and ranging from the development of the school programme to a new model of financing regeneration.
- 5.20 The Scottish Government published a Renewables Action Plan on July 1<sup>st</sup>. It identifies collective actions to ensure that at least a fifth of Scotland's energy comes from renewables by 2020.

## **6. The Highlands and Islands**

- 6.1 The unemployment rate for the Highlands and Islands remained significantly lower than in Scotland or Great Britain in May and June 2009. On the Claimant Count measure, unemployment in the Travel to Work Areas (TTWAs) in the HIE area was 2.7% in June 2009 (7,199 people), compared with 4.0% in Scotland and 4.1% in Great Britain. The highest local rate was in Dunoon and Bute (4.8%). The Highlands and Islands rate of 2.7% fell from 2.9% in April 2009, but was significantly higher than in June 2008 (1.6%). Details are provided in the June and July 2009 Unemployment digests produced by HIE's Planning and Economics team.
- 6.2 On the more comprehensive ILO measure of unemployment, which currently tends to be the main indicator quoted for British and Scottish unemployment, the unemployment rate in the Highlands and Islands would be 50-60% higher than the Claimant Count rate. This would give a June 2009 rate of 4.0-4.3%.
- 6.3 Vacancies notified to Jobcentre Plus offices increased by 18.2% between April and June 2009 in the Highlands and Islands from 1,874 to 2,216. The number of live unfilled vacancies in the Highlands and Islands rose by 14.4% over the period from 1,432 to 1,638.

- 6.4 The continuing decrease in unemployment in the Highlands and Islands between April and June 2009 relates largely to seasonality – i.e. employers engaging staff for the tourism season. This is clear from the reductions in unemployment in the TTWAs that have a high dependence on tourism – as illustrated in Section 7 below.
- 6.5 The main factors which will affect the Highlands and Islands economy positively and negatively through the period of recovery from the national recession can be summarised as follows:

***Positive Factors***

- Plans for major new developments in many parts of the region (although implementation has been delayed in some cases). This reflects the growth impetus in the area, especially around the Moray Firth and in Shetland, that preceded the recession.
- Opportunities to attract more tourist visitors through the depreciation of sterling, with Homecoming 2009 an extra boost (although relatively expensive holidays and destinations within the area might be suffering from reduced discretionary consumer expenditure). Evidence on the season to-date suggests that trade has been stronger than last year (helped by good weather) – particularly for the less expensive accommodation suppliers.
- UHI growth through investment in buildings and facilities, and continuing increases in undergraduates and post-graduates (taught and research). Some 241 degrees were awarded in 2007/08 (compared with 235 in 2006/07), there were 7,625 students (up from 6,847) and 4,742 fee students (up from 4,434). Developments at North Highland College are highlighted in Section 7 and a decision is to be made soon by Inverness College on the location of its major campus development.
- Renewable energy projects continuing to be brought forward. New ownerships of facilities at Machrihanish and Arnish will help the region to maximise engineering-related benefits, and Nigg remains a major potential resource for this sector. 20 companies have applied to the Crown Estate for a total of 42 leases to develop wave and tidal energy projects in the Pentland Firth and surrounding waters, with substantial scope for associated developments in Caithness, North Sutherland and Orkney.
- Reduced costs of imported commodities, including oil; improving business competitiveness (although this benefit is beginning to reduce).
- Export growth, especially where new or expanding markets can be accessed, through the depreciation of sterling.
- Scope to build on the area's success in developing a customer contact centre industry. Employment has increased by 50% in the area over the past five years to 3,400 people in 30 centres, many in smaller or remote communities.
- A generally thriving salmon farming sector. According to an SSPO survey, primary salmon production generated local wages of over £36 million last year, while expenditure on suppliers and services from the Highlands and Islands totalled £143 million. Over the past 3 years, salmon farmers have made capital investments in excess of £84 million, of which 96% has been in the Highlands and Islands.
- A report earlier this year by Oil & Gas UK highlighting a £15 billion market for services needed to abandon nearly 5,000 platforms and wells in UK waters (an opportunity for decommissioning over the next 15 years).

### ***Negative Factors***

- Due to the recession and credit restrictions, continuing reduced demand for new housing and shelved private housing developments reducing employment in the construction sector and related trades, and the reduced grant levels for funding house building by the area's housing associations reducing affordable housing development. Between April and June 2009, the reduced volume of residential housing sales on the same period the previous year ranged from -25.6% in Shetland to -48.6% in Orkney. The average reduction in the Highlands and Islands (c40.4%) compared with a 47.8% reduction in Scotland.
- The overall cumulative impact on the construction sector and related businesses and other businesses in the engineering sector and the supply chain due to reduced private sector investment.
- Poor employment prospects for school, college and University leavers in 2009 (and probably in 2010).
- Job reductions in Local Authorities through budgetary pressures (accentuated by the freezing of Council Tax), with a likelihood of substantial public sector spending cuts to enable the Government to repay borrowings and in response to reduced taxation income (especially from 2011) – see further below.
- A risk of continuing sluggishness in oil and gas related investment, exploration, etc, due to the low oil price (despite a recent recovery) – potentially affecting the availability of offshore or overseas work for Highlands and Islands residents as well as Highlands and Islands suppliers to the sector. Only 15 exploration wells were drilled in the North Sea in the 3 months to June 2009, 57% fewer than in the second quarter of 2008 according to Deloitte research, whilst activity in Norwegian waters increased by 50%.
- Reduced demand for value-added consumer products, unless selling into niche markets relatively unaffected by the recession.
- Reduced demand for business services where employers focus on core functions and protect the jobs of permanent staff (reflecting national trends).
- Rising unemployment across sectors as those businesses faced by a sustained or increasing reduction in demand are unable to economise on operating costs through reducing the hours or pay of employees. To-date, major closures or rationalisations have not as evident in the Highlands and Islands as in previous recessions. National unemployment is expected to continue to rise significantly and the rate in the Highlands and Islands could again increase after the current tourism season.
- Rising induced unemployment through reduced spending by those who lose their jobs or have reduced income from their employment.

### ***Public Sector Dependency***

- 6.6 As illustrated below from Annual Business Inquiry data for 2007, the Highlands and Islands is highly dependent on public sector employment. In addition to direct employment in the sectors shown, the construction sector and other private sector businesses in the area are also heavily reliant on public spending. The expected reduction in public sector spending in forthcoming years is thus likely to impact disproportionately on the Highlands and Islands.

<b>Public Administration, Education and Health % of All Employees</b>	
Western Isles	39.2
Argyll and the Islands	37.0
Shetland	35.3
Orkney	33.8
Moray	32.9
Highland	31.9
Highlands and Islands	33.5
Scotland	30.3
Great Britain	26.9

### *Air and Ferry Travel*

- 6.7 Passengers through Highlands and Islands airports declined by 3% in 2008/09 over the previous year according to figures in HIAL's Annual Report, although freight trade in tonnes was up by 4%. The main decline was through Inverness Airport – a 6% reduction in passengers – although aircraft movements increased by 1% and freight tonnage by 16%. 54% of all 1,229,034 passengers used Inverness Airport (663,985). Tiree achieved the highest rate of increase in passengers (+9% to reach 8,736), while freight tonnage was down through Sumburgh (-3%), Kirkwall (-12%) and Benbecula (-4%). Other than Tiree, only Wick experienced an increase in passengers (+3% to 27,320).
- 6.8 A study is underway to establish how best to design and build a fleet of small ferries to serve remote communities off the Scottish and Irish coastlines, including Tarbert to Portavadie, Gigha to Tayinloan, Oban to Lismore, Tobermory to Kilchoan, and Sconser to Raasay. The EU has provided a grant of £233,750. The RET pilot is reported in Section 7 under the Outer Hebrides.

### *Creative Industries*

- 6.9 According to a recent report by Ekos for HIE, 1,650 creative industries businesses employ 13,285 people in the Highlands and Islands and the sector accounts for about 5% of the total economy of the region. In July, HIE approved £537,150 of funding to HI Arts over two years, just under half of which will be used to encourage cultural groups to operate at a more sustainable, business-like level through the Community Cultural Enterprise Growth Programme. Creative Scotland 2009 Ltd has established a new £5 million Innovation Fund, which includes £750,000 for a Creative Scotland Rural Innovation Fund to support cross-agency working in rural areas.

### *Agricultural Support*

- 6.10 More than 7,250 crofters and farmers in the most fragile areas of the Highlands and Islands are to share in a £15 million subsidy boost in the next two years. The 38% increase in less-favoured areas support will come partly from stopping or reducing payments to the 3,500 producers who have ceased livestock production or cut cattle and sheep numbers.

## **7. Sub-Regions**

7.1 The notes below on each area relate to events and announcements between 1 June and 9 August.

### **Highland**

- 7.2 Claimant Count unemployment fell from 3.0% to 2.8% between April and June 2009, continuing the downward trend between March and April. The main reductions were in Lochaber (down from 2.5% to 2.1%), Ullapool and Gairloch (down from 2.1% to 1.6%) and Skye and Lochalsh (down from 2.9% to 2.0%) – all strong tourism areas. The rate in Wick rose from 4.4% to 4.7% between April and May, but fell to 4.6% in June – 64% higher than the Highland average. The rate in Invergordon in June was 4.1% – the second highest in Highland.
- 7.3 The June 2009 unemployment rate for Highland at 2.8% was nevertheless almost twice the June 2008 rate of 1.5%.
- 7.4 Notified vacancies rose by 55% in the Inner Moray Firth between April and June to 1,085, just 15% below the June 2008 figure of 1,284. There was a smaller improvement in Caithness and Sutherland between April and June (+11%), but a reduction in Lochaber, Skye and Wester Ross (-25%). The 197 notified vacancies in this area in June 2009 was 36% below the June 2008 level of 310 – although there has been a high dependence on recruiting migrant labour in this and other tourism dependent areas in recent years.
- 7.5 According to Registers of Scotland, house prices in Highland fell by 5.2% between the second quarter of 2008 and the second quarter of 2009, although they were 4.3% higher than in the first quarter of 2009. The average residential property price in Highland in the second quarter of 2009, £152,226, was 4.6% above the Scottish average, with the median price, £137,500, 10.0% higher. The volume of sales in the second quarter of 2009 in Highland fell by 39.6% on the previous year, but by less than the 47.8% fall in Scotland.

### ***Events and Announcements***

- Highland Council will need to make major expenditure savings, possibly totalling around £100 million, over the next four years. The Council hopes that natural wastage will avoid substantial cuts in direct staffing, but if (indicatively) £40,000 of Council spending supports 1 full time equivalent job on average (inclusive of the multiplier), a spending cut of £90 million would result in c2,250 fewer ftes in the Highland economy by 2013.
- Tulloch Homes' workload in 2009 and its rehiring of 30 of the 60 staff laid off earlier in the year is an indication of the Highlands not having been as severely affected by the recession as the rest of the UK. The company has also placed £28 million of contracts with other construction companies.
- Inverness Chamber of Commerce's half-yearly business climate survey (reported in July) shows that more than half of its 300 members are expecting tougher trading conditions than six months previously. However, there are signs of optimism in the renewable energy, IT and tourism sectors.
- Plans were announced in June by Scottish and Southern Energy to build two generating plants between Inverness and Fort William, involving large scale dams and reservoirs. Together these would generate more power than Glendoe, near Fort Augustus, which is now operational. Around 3,000 jobs were created through Glendoe's 3 year construction period. It cost £160 million and can produce up to 100MW of electricity.
- The Millennium windfarm project, between Invergarry and Fort Augustus, has received Scottish Government consent to erect six additional turbines.

- Dingwall was successful in attracting £463,000 from the Scottish Government's Town Centre Regeneration Fund towards amenity improvements, visitor signage and information, etc. Also, a masterplan has been produced for consultation for a 12 acre site north of the High Street (the Dingwall Riverside Development Brief), which envisages an interpretive visitor centre, allotments, parkland, community buildings, new shops and houses.
- Port Services (Invergordon) Ltd has purchased a £5m crane, which has safeguarded about 40 full time jobs and created more than 200 temporary posts on an offshore accommodation service rig contract.
- Whyte and Mackay is reducing its Scottish workforce by around 100, and 30 jobs could be lost at Invergordon Distillery (out of 133) and 3 at Dalmore Distillery, Alness (out of 17).
- In early July, a cruise liner with the highest yet number of passengers (3,183) visited Invergordon. Some 47 tours with buses and boats visited tourist businesses in the Highlands. Approximately 50 cruise ships are expected to call in at Invergordon this summer, bringing visitors from across the world.
- The final Masterplan for Nigg (taking account of consultation responses) is to be agreed by Highland Council on 23 September, prior to submission to Scottish Government Ministers for consideration as supplementary planning guidance. Enterprise Minister, Jim Mather, chaired a meeting on July 29<sup>th</sup> with representatives of KBR (current yard owners), the Wakelyn Trust, Scottish Government, Highland Council and HIE. KBR are considering further options for Nigg focusing on the offshore wind energy sector, with a potential decision by the end of the year. Compulsory purchase of the yard by Highland Council is an option.
- Also on July 29<sup>th</sup>, DSM Demolition Group (Birmingham-based) announced £70 million plans to purchase and develop the yard as Scotland's leading fabrication centre for the offshore windfarm industry, as well as a hub for other maritime, oil and gas decommissioning work, "creating up to 1,500 jobs". About 150 people currently work at the yard, including Global Energy Group employees and staff employed at the oil terminal that services the Beatrice Field.
- Dunlia (Dornoch) laid off 20 employees in July due to losing a major beef boning and packaging contract from Caithness-based North Highland Products Ltd (Mey Selections) to a Perth company. A smaller contract for boning and packaging lamb for Mey Selections, employing 5 staff, is continuing.
- Redevelopment plans for Dornoch Castle Hotel will create six full time jobs through a £1.6 million project, with completion scheduled for spring 2011.
- The contract has been awarded to develop a new £8 million 22 bed hospital in Bonar Bridge to replace Migdale Hospital.
- A community trust is being established to channel community benefit dividend should an onshore oil drilling operation off Lybster proceed. London-based Caithness Oil spent £10 million last year on exploration.
- There is local resident opposition to plans by City Centre Estates (Leisure) Ltd to establish a £1 million egg production plant with waste-to-energy complex on the south side of Latheronwheel.
- Caithness Horizons complex in Thurso has been awarded five-star status as a visitor attraction by VisitScotland. The Centre opened in December 2008 after a £4 million plus refurbishment of the town hall and neighbouring folk museum.

- Firms bidding to pioneer commercial marine power production in the Pentland Firth are being encouraged to maximise their use of the local supply chain. 20 companies have made a total of 42 applications to the Crown Estate for leases.
- ASCO, an Aberdeen oil and gas logistics company, has acquired a 50% stake in Scrabster Port Services. Representatives of ASCO, which has operations spanning the globe, are confident the local port can play a key role in the development of new oil and gas reserves west of Shetland and ongoing efforts to exploit renewable energy in the Pentland Firth. Eight to ten jobs are due to be created shortly as the workload at the harbour increases significantly, although this could rise.
- Scottish renewable energy consultant SgurrEnergy has established an office at Scrabster. A small number of jobs are expected to be created in the area over the next 18 months.
- £14 million is being invested in new facilities at North Highland College – a Centre for Energy and Environment, which will deliver a £4 million research programme, a £3 million campus building which will also be used as a teaching facility offering post-graduate qualifications, and a £7 million engineering skills centre. HIE is contributing £2.2m towards the developments.
- Unrelated to these developments, up to 15 jobs could be lost at North Highland College, which needs to address a deficit of at least £150,000.
- Abbey Properties are planning an energy and data park at Forss, west of Thurso.
- The US engineering conglomerate URS is proposing to compete with the Pentland Alliance to run the Dounreay site.
- Nunia, which employs 160 in Caithness on work associated with decommissioning the nuclear site and radiation scans of local beaches, has opened a new office in Thurso to accommodate 20-30 design, consultancy and office staff. Its diversification plans include targeting the renewable energy and oil and gas sectors.
- The future for the workforce at Vulcan has become less secure now that it looks certain the Ministry of Defence will not be extending its current contract at its reactor base in Caithness. Barring new commercial work being found, the site is set to go into decommissioning mode in five years' time. Vulcan will require a workforce to decontaminate and dismantle its redundant plant, but it is unclear how many of the 280 employees of site contractor Rolls-Royce would be required for the clean-up.
- A pipeline contract that employed around 55 people was completed at Subsea 7's yard at Wester in July, and the yard is to operate on a care and maintenance basis until another order is secured.
- Inverness College is to make a decision soon on its preferred location for a new £60m campus – relocating to Beechwood or expanding and redeveloping its existing Longman site.
- Lifescan made a profit of £66 million in 2008, compared with £70.5 million in 2007. The company employed c1,500 staff in 2008, 200 fewer than in 2007. "Management remains confident the company will continue to perform well in the future".
- Highland Hospice will not be compensated by the UK Government for the £700,000 that it lost through the Icelandic banking crisis.
- Another food company has expressed interest in taking over the Strathaird Salmon factory in Inverness which closed in July with the loss of more than 300 jobs.

- Following completion of a £9 million harbour and 150-berth marina development, Inverness Harbour Trust is drawing up plans for a 120 bed boutique hotel, seafood restaurant, coffee shop, retail outlets, visitor centre, offices and chandlery.
- Asda has been given outline planning permission to build its first Inverness store on farmland at Slackbuie – a 70,000 sq ft development.
- Nairnside Ltd plans to transform a chicken farm at Clephanton near Cawdor into a fish processing and packing plant that could create 150 jobs.
- The owners of the Highland Food Stop site at Gollanfield plan to expand the facility into a 50 bedroom budget hotel, which would provide up to 20 jobs.
- Highland Grain, a North Kessock malting barley co-operative, is investigating whether grain dust can be used as an alternative fuel.
- Scotland's first 17 New Energy Homes, a concept developed by the Highland Housing Alliance, have been erected rapidly on site after factory assembly, with renewable heat pump technology, under-floor heating, roof insulation and low energy windows. The Scottish Government provided £300,000 towards the development and has confirmed funding of £1.9 million for 22 of the 55 units to be built as part of the Scottish Housing Expo planned to be held in Inverness in 2010.
- Inverness College is offering a new Modern Apprenticeship for the life sciences sector. Life sciences companies throughout Scotland can recruit two apprentices for one, with the Scottish Government covering the full salary costs of the second apprentice. It is providing up to £3 million to support the recruitment of 100 new apprentices in the sector in Scotland.
- Proposals have been put forward for a major development in Sleat to build around 70 houses, create new business units and a large community recreational space and provide room for further expansion of Sabhal Mor Ostaig over a 15-20 year period.
- The underwater testing stations on the west coast run by QinetiQ are likely to be reduced to a single manned site at Kyle from 2012, with the potential loss of about 20 jobs out of a total staff of around 120.
- Highland Stoneware, collaborating with HIE through its Byte the Bullet programme, is investing £100,000 to introduce new web-based marketing, with technologies developed with assistance from Nairn-based Pinnacle Business Solutions. HIE has awarded £25,000 to the project.
- Aviemore Highland Resort has been bought by Macdonald Hotels after going into “pre-pack” administration with losses of nearly £59 million, saving around 270 jobs. The company has since announced a £3.5 million investment package, mostly to refurbish the resort's hotels.
- A feasibility study has been completed for Aviemore Sports Centre Company on proposals for a new sports centre, potentially including an ice arena (for skating and ice hockey), indoor tennis courts and a multi-purpose sports hall – all with audience seating and with scope to host a wide range of events. Three sites are under consideration, including one at Aviemore Highland Resort which would dovetail with the swimming pool, and funding is being explored.
- Active Outdoor Pursuits, which operates Craigower Lodge Outdoor Centre in Newtonmore, has opened an activity information and booking centre in the former Tourist Board building in Aviemore. “Active Aviemore” will sell outdoor clothing and equipment, provide bike and ski hire, and have an internet café and gallery for local artists, with plans for a climbing wall and ropes course in the grounds.
- Tesco plans a new store in Aviemore which will be three times larger than the current outlet.

- The Strathspey Railway Charitable Trust is pushing ahead to implement long-standing plans to extend the railway to Grantown. £5 million will need to be raised for the project.
- Scottish Water has received planning consent for new treatment works costing £10 million at Kinakyle on the outskirts of Aviemore. This is part of its £17 million plans to supply homes in Badenoch and Strathspey with a “limitless” new source of drinking water. The major investment is related to expected housing growth, but angling interests, including the Spey Fishery Board, believe that the river system could be badly affected.
- Work on a £10 million flood prevention scheme in Inverness is set to begin in September. The project, to be completed over 5 years, is intended to divert flood water away from homes in Hilton, Lochardil and Holm.
- Highland Council plans to spend £4.28 million over the next three years on new or upgraded sports facilities in Lochaber, including (in 2012) £2 million on an international-class kayaking site at the Fort William Tailrace.
- The Council has given outline planning consent for Lorne Developments’ proposal to build 301 houses at Caol, of which 105 would be affordable. This would be the largest housing development in the area for nearly 30 years.
- Also, the Council has approved revised plans for a new 60 bed Travelodge and shops complex in Fort William. Demolition of the Grand Hotel and building work could begin by the end of the year.
- There were 18,500 attendances over the two days of the Aonach Mor stage of the Mountain Bike World Cup in June – up 25% on last year and with 40% of visitors from outside Scotland.
- A proposal by Cheshire-based Kingate Developments to build a 90 bed care home in Fort William was rejected by the Council on the grounds of over-provision. The developer already has outline consent for a 60 bed home next to the Fort William health centre. This raises an interesting issue about care home development in the Highlands that caters for people from outside the area as well as locals – extra employment is created, but pressure is put on social work and health services.

## **Shetland**

- 7.6 Shetland’s Claimant Count unemployment remained steady between April and June 2009 at a relatively low 1.4% – although, as noted in previous reports, its ILO unemployment rate could be significantly higher (in the region of 3.6%).
- 7.7 Notified vacancies in Shetland rose from 47 to 59 between April and June, although the June figure was much lower than the unusually high figure of 186 in June 2008.
- 7.8 Shetland was one of just four Local Authority areas in Scotland where the average house price rose between the second quarter of 2008 and the second quarter of 2009 – by 5% to £108,920. This average price was 25% below the Scottish average, however. The volume of sales in Shetland in the second quarter of 2009 fell by 25.6% from the previous year – the lowest reduction of all of Scotland’s 32 Local Authorities.

## *Events and Announcements*

- Subject to Planning consent, TOTAL plans to start work on a new £500 million gas processing plant at Sullom Voe next summer to take gas from the Laggan / Tormore field that it plans to develop for onward export to St Fergus. Some 1,500 fte job years could be created in Shetland during the construction phase, and up to 100 ftes each year in Shetland during the 13 year operational phase (or more dependent on the supply chain impacts of the onshore and offshore aspects of the project).
- Three of the statutory consultees – RSPB, SNH and SEPA – have objected or made a series of objections to the Viking Energy proposals to build 150 large windfarm turbines in central Shetland. Other organisations that have objected include the John Muir Trust, and over 1,000 comments on the plan had been submitted to the Government's Energy Consents Unit by the end of July. The consultation deadline has been extended until 13 November. Alan Wishart has been appointed as project co-ordinator for the next 12 months, and has stood down from his post of chairman of SIC's Infrastructural Committee and other potentially conflicting roles.
- A Whalsay business, the Serene Fishing Company, is taking delivery of a 71.7 metre pelagic trawler built in Norway. The new ship is the first pelagic trawler ordered for the UK fleet with a covered rather than open deck.
- Shetland shellfish producer Isle of Shuna, based in Walls, is to create ten new jobs after receiving £479,000 of EFF (European Fisheries Fund) funding for cooking facilities to produce new mussel products. Support has also been provided by HIE and SIC.
- Island Innovations has received £691,000 in EFF for its salmon farming business, and smaller grants have been awarded to Sandsound Mussels and Uyeasound Salmon.
- Whalsay Fish Processors has been sold to Aberdeen processing company SCAF and has received a loan of almost £750,000 from SIC. This will help protect the current workforce of c40 full time and 20 part time staff processing salmon, as well as monkfish, scallops and mussels. 40 new jobs could be generated through new businesses from Framgord, which is owned by a Shetland partner in SCAF.
- The Shetland Halibut Company is being wound up after failure to achieve a 50:50 male to female ratio (also the experience of others that have tried halibut fishing) and the loss of 3,700 escaped fish in a severe gale in January 2008. Female halibut grow to a larger size than male fish and command a higher price per kilo.
- A grant fund, with an expected £1 million in EFF, £150,000 from the Scottish Government and £100,000 from SIC, is being established as an ISA recovery scheme to invest in salmon farming projects that will create or safeguard jobs and improve the health of welfare of the fish being farmed.
- Leeds University scientists are working on a two-year project to make natural hair dyes from Shetland seaweed, with skin cream and other treatments possibly following if the project is a success.
- SIC has approved plans for a new £49 million school to replace the Anderson High School, and consultation is taking place on the most appropriate site.
- The North Yell Development Group has applied for Planning permission to erect five 850 KW wind turbines near Cullivoe. Its application for a grid connection was refused because of the limited capacity of the local grid, but connection to the National Grid would be possible if a subsea cable goes ahead.

- Visitor numbers achieved by Shetland Museum and Archive were again well above the original target in its second year – 83,000, following 89,000 in the first year, June 2007-May 2008.
- A comprehensive draft development plan for Lerwick town centre has been published for consultation by Lerwick Old Town Development Association with a number of short, medium and long term proposals.
- SIC is to spend £60,000 on a study into how the telecoms network could be hooked up to a fibre optic cable at Maywick laid by a Faroese company last year, which would significantly improve broadband reliability.
- On August 2<sup>nd</sup>, Lerwick harbour received its 1,000<sup>th</sup> cruise liner visit. The harbour now hosts about 50 cruise liners each year, with the number of passengers and size of ships continually growing. Around 25,000 passengers are expected in Lerwick this year, double the figure in 1997. A 2007 study estimated that cruise liners generated more than £1.5 million for the Shetland economy.

## **Orkney**

- 7.9 Claimant Count unemployment in Orkney fell from 1.4% in April to 1.1% in June 2009 – the lowest TTWA rate in the Highlands and Islands, although, as noted in previous Monthly Reports, Orkney’s ILO rate is significantly higher.
- 7.10 49 vacancies were notified to JobCentre Plus in June 2009, down from April and May, while there were just 30 live unfilled vacancies in June compared with 53 in April and 99 in June 2008.
- 7.11 The average house price in Orkney rose by 1% between the second quarters of 2008 and 2009 following a rapid increase between the first quarters of 2008 and 2009. Nevertheless, at £114,405, the average second quarter of 2009 price was 21% below the Scottish average (although 5% higher than the Shetland average and 30% higher than the Western Isles average). Orkney was the only Scottish Local Authority area with fewer transactions in the second quarter of 2009 than in the first quarter.

## ***Events and Announcements***

- A Government White Paper published in July, the UK Low Carbon Transition Plan, includes provision for up to £8 million for EMEC.
- Argo’s Bakery in Stromness was awarded £432,000 for a new processing facility from the Food Processing and Marketing Grant Scheme.
- The £3.8 million five-year Stromness Townscape Heritage Initiative is underway. Projects include building repair, reinstatement of architectural detail, bringing vacant space back into use and training in traditional building and restoration skills through Orkney College.
- A project team has been recruited to implement the 48 projects aimed at conserving and celebrating the natural, cultural and built landscape of Scapa Flow through the ten-year £2.1 million Scapa Flow Landscape Partnership Scheme.
- A survey commissioned by OIC reports that cruise ships boost Orkney’s economy by £2.8 million per year, through between 60 and 70 cruise ships calling into Orkney each year with more than 30,000 passengers and 10,000 crew. 94% of passengers came ashore to tour or shop and spent an average of £49.
- Orkney is to host the prestigious 2011 British Ports Association Annual Conference, which draws delegates from port authorities, government ministers, and the shipping and tourism industries.

- Orkney has been awarded an additional £300,000 from the Scottish Government for 12 more new Council houses.
- Orkney Brewery took both first and second place in the Champion Beer of Scotland competition, held in Edinburgh in June.

## **Outer Hebrides**

- 7.12 Unemployment in the Eilean Siar TTWA fell from 4.0% in April 2009 to 3.4% in June – although this was more than 50% higher than its June 2008 rate of 2.2%.
- 7.13 Notified vacancies in June (92) were 11.5% down on April, and 58.9% down on June 2008. There were 63 live unfilled vacancies in June 2009, similar to April and May.
- 7.14 Average house prices in the Outer Hebrides fell by 13.9% between the second quarters of 2008 and 2009 – the greatest rate of decrease of Scotland’s Local Authorities and more than twice the average decline in Scotland of 6.5%. The average house price in the second quarter of 2009, £87,772 (54 transactions) was £18,300 lower than the next lowest average in Scotland (£106,077 in West Dunbartonshire), and 40% below the Scotland average of £145,553. This is an encouraging indicator of affordability.

## ***Events and Announcements***

- In mid June, it was announced that employment at the Ministry of Defence missile testing station in the Uists operated by QinetiQ is to be reduced by 125, from 215 to 90, by the end of 2014, with most of the jobs expected to go in 2013. The MoD claims that £50 million will be saved over a 20 year period through upgrading its air range base in Aberperth, Wales. Trials will be controlled remotely, and the command and control centre on South Uist and one of the accommodation blocks at West Camp in Balivanich will close. A taskforce to try to save the jobs has been established with representation from the Scottish Government, CnES, HIE and other agencies, and a socio-economic study and an independent study of defence-related issues have been commissioned.
- The RET pilot operating on all ferry routes to the Western Isles and one route in Argyll has helped increase car crossings by 23% and passengers by 14% over the same period in 2007/08. By route:
  - Oban-Castlebay / Lochboisdale – cars +26%, passengers +19%
  - Uig-Tarbert / Lochmaddy – cars +25%, passengers + 16%
  - Ullapool-Stornoway – cars +24%, passengers +13%
- Sunday ferry crossings between Stornoway and Ullapool began in July.
- Net Services (Scotland) Ltd has received almost £390,000 from the EFF for purchasing and installing washing and antifouling machines, a crane, net dryer and filtration system for the new net washing plant on the site of the former seafood factory on Scalpay.
- Tender documents worth a total of £110 million have been published for construction work and maintenance over 30 years on five schools in the Western Isles.
- The North of Scotland Industries Group has established an Outer Hebrides focus group to promote the region’s energy industry and attract investment to the area.
- Through the UK Government’s Future Jobs Fund, 20 jobs are to be created in the Western Isles for those aged 18-24 who have been on Jobseekers Allowance for at least 12 months – potentially including opportunities for young people to return to the Western Isles, as well as those living in

the area. The successful bid was progressed by Third Sector Hebrides, and the new jobs will be aimed at community support initiatives.

- Consultation is taking place to assess the most appropriate location in the Western Isles for a St Kilda centre as part of a feasibility study for a working group of agencies including HIE.

## **Moray**

- 7.15 Claimant Count unemployment in Moray fell from 2.8% to 2.6% between April and June – the June rate of 2.6% comparing with 1.8% in June 2008.
- 7.16 Notified vacancies rose from 289 in April to 400 in June – just 7% lower than the 432 notified vacancies in June 2009. Live unfilled vacancies in June 2009, 292 (the same as in April), were however 29% lower than the 414 in June 2008.
- 7.17 House prices in Moray fell by 4.6% to £135,819 between the second quarters of 2008 and 2009, compared with a 6.5% reduction in Scotland, to a level that was 6.7% below the Scotland average.

### ***Events and Announcements***

- Planning consent has been given for 700 additional homes on two sites in Elgin – one to Robertson Homes and Scotia Homes, and the other to Barratt North Scotland. This will give a boost to the construction sector.
- Plans have been put forward for a £1.5 million hotel and entertainment venue in Elgin on the site of the former Elgin Club.
- Redco Milne have submitted a Planning application for a supermarket, petrol station and shops on a site at Bogton Road, Forres. A youth facility with meeting space, climbing wall and skate park, new ground for Forres Mechanics and all-weather sports pitches are included in a masterplan that is being developed – to be provided at a later date from proceeds of the sale of the commercial land.
- A Planning application has been made for a new Health Centre and Hospital in Forres on a site near the Old Thornhill Farm.
- Lossie Seafoods, which had already doubled its salmon smoking capacity, has plans for a £600,000 investment next year to extend its Buckie factory and install new equipment, with the support of a £174,000 EFF grant. Some 95% of the company's output is exported.
- The Sustainable Development Research Centre (SDRC) at Horizon Scotland, Forres has ceased trading with the loss of 4 jobs. Its financial difficulties were related to a changed way in which the Scottish Funding Council's research development grants are allocated. SDRC and UHI were unable to agree a way of bridging SDRC's funding gap.
- Moray Council needs to make savings of at least £8 million over the next two years, and anticipates increasing charges once the Council Tax freeze is lifted in 2011/12.
- Moray is to receive an additional £200,000 from the Scottish Government for eight new Council houses.
- The Scottish Government has approved a 29 turbine windfarm on the Altyre Estate near Forres.

- Distance Lab, based at the Horizon Centre, Forres, has launched its first commercial spin-out company. Lost Values Ltd combines technology and traditional craft techniques in producing fashion garments, handmade gifts and keepsakes.
- Moray Tourism Development Group's plans to take forward a unique vision for the area are being supported with a two year £120,000 cash injection from HIE and Moray Council. The funding will give the group the resources to work towards their vision to see Moray "internationally renowned as the 'home of malt whisky' combining a rich, traditional heritage with modernity and innovation to deliver unique, high value, lifestyle experiences in a destination with a strong sense of place." The Moray Tourism Development Group is a steering group bringing together the private sector, HIE, Moray Council, VisitScotland and Historic Scotland.
- Baxters has reduced its headquarters staffing by 12, Forsyths Group has reduced its workforce by around 15 in recent months, and Claymore Dairies is closing its Elgin depot and merging operations with its head office and dairy in Nairn.
- Whyte and Mackay's rationalisation (see under Highland) is understood to include three job losses at Tamnavulin distillery, and the rationalisation by Diageo (see under Scotland) could impact on Moray, although the new Roseisle distillery will boost the area.
- Hunter's tweed, formerly made in the now closed factory in Brora, is to be produced at Johnston's of Elgin using the original patterns and Scottish wool, with a shop opening in Brora, "Calluna Country" to sell this and other products.

### **Argyll and the Islands**

- 7.18 The number of people claiming unemployment benefit fell by 4.8% in May and by 1.6% between May and June, continuing the downward trend between April and May (-4.5%). In June, Dunoon and Bute had the highest unemployment rate of the HIE area TTWAs (4.8%) and Campbeltown the third highest (4.3%).
- 7.19 There were 212 unfilled vacancies in the area in June 2009, 29% down on April 2009 and 19% down on June 2008. Live unfilled vacancies increased, however, from 198 in April to 219 in June.
- 7.20 Average house prices in Argyll and Bute fell by only 0.6% between the second quarters of 2008 and 2009, although the volume of sales fell by 46.6%. At £144,487, the average house price in the area in the second quarter of 2009 was close to the Scottish average of £145,553.

### ***Events and Announcements***

- A new Campbeltown Creamery is to be built, with funding from the Scottish Government (up to £3.9 million), the sale of First Milk's existing site to Tesco, and funds from First Milk (the UK's leading dairy farmer co-operative). This will secure the future of the 42 dairy farmers in Kintyre and Gigha that supply the creamery and other supply chain businesses. The dairy sector in Kintyre is estimated to be worth £11 million to the local economy. The new Tesco store is expected to provide more than 200 new jobs.
- Welcon has won a £10 million order which is part of a £600 million, 152 turbine onshore wind farm that SSE is to build near Abingdon in Lanarkshire.
- Jobs have been protected at Telecom Service Centres' Rothesay base through Viking Direct setting up its customer services department there following a pilot. Around 50 TSC staff currently work on the Viking contract.

- Argyll Telecoms, which employs 25 people, has moved to a new facility built by HIE at Sandbank Business Park, Dunoon. HIE also provided grant of up to £137,100 towards the fit-out of the offices.
- Sandbank-based marketing services company DDL Group announced 12 redundancies in July through moving much of its warehousing operations to Cheshire. It expects, however, to replace this local employment with home-based telephone jobs.
- HIE has approved £417,000 funding to Landcatch Ltd.
- Tarbert has received £984,500 from the Town Centre Regeneration Fund towards a regeneration initiative that will improve integration between the harbour and the town centre.
- Jura Distillery, which employs 17 full and part-time workers on the island, is to lose two of its workforce as part of parent company Whyte and Mackays 100 job cuts.
- Ardalanish Isle of Mull Weavers is producing certified organic wool to chain shop Jigsaw for a new line of women's jackets, skirts, coats and hats. The deal will boost its sales this year by 25%. The company's business has been relatively unaffected by the downturn "as buyers look to invest in quality clothes that last". It sources wool from the owners' Hebridean sheep and local crofters with similar rare breeds.
- The RET pilot has helped increase car crossings by 13% and passengers by 8% on the Oban-Coll / Tiree route over the same period in 2007/08.
- Feedback from businesses in Mull, Coll, Tiree and Islay reported in the Oban Times suggests that this will be a very successful tourism season – boosted by UK residents holidaying closer to home.
- Dunstaffnage Marina is seeking permission for 60 new berths, which would increase its total to 250. The relatively cheap berthing rates on the west coast of Scotland are a factor in migration to the area.
- Argyll and Bute Council are drawing up plans for a new road in Oban that is expected to cost £17 million, to which the Council has allocated £6 million. The road will enable 600 additional houses to be built.
- The new Machrihanish Dunes golf course is now open. It is the first 18 hole links course developed in the west of Scotland for over 100 years and will employ up to 15 full time staff plus caddies.
- A Steering Committee has been formed to take forward the Phoenix Project in Lochgilphead, with plans including a new public hall with heritage centre, backpackers hostel, environmental improvements, regular Gala Day and Hogmanay party. This initiative is at an early stage.
- Argyll and Bute Council has allocated more than £800,000 towards a 61 home affordable housing development in Lochgilphead, with a later phase of houses envisaged in the future.
- With an increase in the price of gold, Scotland's only goldmine near Tyndrum owned by Scotgold Resources Ltd (an Australian company) plans to go into commercial production. Gold could be produced by 2011, providing local employment for 54 people.
- Crinan Boatyard has received £105,000 in funding (including an EFF grant) for construction of a second slipway and additional carriages. Also, a number of Argyll and Bute boats have received EFF funding for gear configuration changes to improve selectivity (less than £1,000 each).

- Two of the three sea lochs in which raised levels of naturally occurring algal toxins had been identified have now reopened for shellfish harvesting – Loch Striven and Loch Scridain. Toxins in Loch Fyne, however, remain higher than statutory levels.

## 8. Principal References

- 8.1 The principal sources of statistical information for this report are given below. Many of the sources are regularly updated, and more recent figures and projections could be obtained from the relevant websites.

OECD Quarterly National Accounts, 25 May 2009

OECD Economic Outlook, June 2009

IMF – World Economic Outlook Update, July 8, 2009

IMF Executive Board Concludes 2009 Article IV Consultation with the United Kingdom, July 16, 2009

World Bank Global Development Finance 2009 – Charting a Global Recovery, 22 June 2009

HM Treasury – Forecasts for the UK Economy – A comparison of independent forecasts, July 2009

HM Treasury Pocket Data Bank (as at 4 August 2009)

HM Treasury – Budget 2009

Budget 2009: The Economy & Public Finances – Supplementary Material

ONS – Miscellaneous Statistical Bulletins

BRC / KPMG Retail Sales Monitor for June 2009

Scottish Retail Consortium, Retail Sales Monitor for June 2009

The Scottish Government – Preparing for Recovery: Update, 15 June 2009

The Scottish Government – State of the Economy, Dr Andrew Goudie, 29 May 2009

The Scottish Government News Releases

Fraser of Allander Institute Economic Commentary, Vol 33 No 4, June 2009

Monthly Economic & Social Tourism Trends for Scotland, June / July 2009 – VisitScotland

HIE Unemployment digests, June and July 2009 (Planning & Economics)

Registers of Scotland News Release (Data on Residential Property Prices and Transactions in Scotland) – August 2009

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August 2009**