Introduction

The Rural Scotland in Focus 2010 report concluded that the economy of rural areas was slightly less affected than urban areas by the recession. This conclusion was reached by considering the differences between the economic structure of both areas (for example, differences in the importance of sectors such as agriculture, food and hotels and catering) and identifying the economic sectors that had been most affected by the economic crisis.

For this 2012 update, the availability of more recent data enables a deeper analysis of the economic situation of rural areas during the recession period 2008-09 to be undertaken.

Regional Economic Growth

During the 2008-09 recession, predominantly urban areas were the most affected by recessionary pressures with a decrease in their output of 3.2 per cent between 2007 and 2009.

Predominantly rural areas experienced a decrease of 1.9 per cent in income (similar to the national average) whilst output in the remaining areas (known as intermediate) actually increased by 1.1 per cent.

In rural areas a number of sectors were particularly hard hit including: construction, business services, other services and household activities, and real estate. However, there was growth in the production and the public administration, education and health sectors which partially offset the economic contraction in rural areas.

The Regional Labour Market

Between 2007 and 2010 the number of people in employment fell by a total of 4 per cent. In rural areas the decrease was 2.4 per cent and in non-rural areas 4.6 per cent. Figure 2 presents the sector contribution.

Regional Growth and Unemployment

The statistical analysis (i.e., Okun’s Law) highlights that there is a two way relationship between growth and unemployment: that is, growth affects unemployment and unemployment affects growth.

The analysis of the relationship between economic growth and the unemployment rate in Scotland indicates that an increase of 1 percentage point in the unemployment rate is reflected in a decrease of 1.7 per cent in the real GVA growth without differences between rural and non-rural areas. Figure 4 presents the regional results.

However, there are differences in terms of the impact of real GVA growth on the unemployment rate. Thus, in the long term an increase of 1 per cent in real GVA in predominantly rural areas decreases the unemployment rate by 0.33 percentage points, whilst in the other areas the decrease is 0.65 percentage points.

Conclusions

Overall, the reviewed evidence suggests that whilst the rural areas suffered a contraction in economic activity in the 2007/10 period, they were slightly more resilient than Scotland’s urban areas, which suffered higher rates of decline. However, there are marked differences in the impact across rural Scotland.

Long run analysis of the impact of growth on unemployment highlights that growth in urban areas has a greater effect in terms of reducing unemployment than growth in rural areas. This may have important implications for policies aimed at reducing unemployment in Scotland.

For more information on Rural Scotland in Focus 2012, please see: www.sac.ac.uk/ruralpolicycentre