April 2007

economic update

Highlands and Islands Enterprise
Iomairt na Gaidhealtachd 's nan Eilean

Highlands and Islands

Highlights

In 2005, the population of the Highlands and Islands was 440,761. This represents an increase of 1.7% since 2001 and compares to a 0.6% increase overall in Scotland.

Unemployment in the Highlands and Islands has been consistently below the Scottish rate. In January 2007 the unemployment rate was 2.4% in the Highlands and Islands compared to 2.8% in Scotland.

The female dominated sector of 'public administration, education and health' is the largest employment sector, accounting for 34.4% of jobs in 2005. 'Agriculture and fishing', 'construction', 'distribution, hotels and restaurants' and 'transport and communications' account for a higher proportion of employees in the Highlands and Islands than in Scotland.

In 2005, the majority of workers (61.5%) were employed by companies with 49 or fewer employees. This demonstrates the dominance of employment within small businesses in the Highlands and Islands.

Business start-ups in the Highlands and Islands are slightly higher than in Scotland. In 2005, there were 4.7 new start-ups per 1,000 of the population compared to 4.2 per 1,000 in Scotland.

House prices have risen rapidly in recent years. The median house price in the Highlands and Islands area in 2005 was £88,000 compared to £89,000 in Scotland.

Lochalsh – Eilean Donan Castle

Highlands and Islands key facts:

Population: 440,761

Area: 4,050,000 hectares

Key sectors: primary industries, construction, tourism, transport and communications

Introduction

This document provides information and analysis on the socio-economic profile of the Highlands and Islands area (H&I). Where possible, the most recent and accurate available data has been used.

Population

Table 1 shows the change in the resident population in H&I compared to Scotland from 2001 to 2005.

Table 1: Resident population: 2001-2005

	2001	2005	Change (2001-2005)	% Change (2001 base)
H&I	433,448	440,761	7,313	1.7
Scotland	5,064,200	5,094,800	30,600	0.6

Source: GROS Mid-Year Estimates

Between 2001 and 2005, H&I area experienced population growth of 1.7% compared to population growth of 0.6% in Scotland.

Within the broad pattern of population growth in H&I, levels of population change have varied within individual Local Enterprise Companies (LEC's).

Table 2 shows population change by LEC area.

Table 2: Resident population: 2001-2005

	2001	2005	Change (2001-2005)	% Change (2001 base)
Argyll and the Islands	69,898	71,091	1,193	1.7
Caithness and Sutherland	38,426	38,262	-164	-0.4
Innse Gall (Outer Hebrides)	26,450	26,370	-80	-0.3
Inverness and East Highland	133,561	137,648	4,087	3.1
Lochaber	18,791	18,915	124	0.7
Moray	87,000	88,120	1,120	1.3
Orkney	19,220	19,590	370	1.9
Shetland	21,960	22,000	40	0.2
Skye and Wester Ross	18,142	18,765	623	3.4

Source: GROS Mid-Year Estimates

Between 2001 and 2005, Skye and Wester Ross experienced the greatest rate of population growth (3.4%). This was 1.7% above the average in H&I. At 3.1%, I&EH experienced the next highest rate of population growth which was 1.4% above the average in H&I. The only other LEC to experience growth above the H&I average was Orkney at 1.9%.

Two LEC's experienced population decline between 2001 and 2005. They were Caithness & Sutherland (-0.4%) and Innse Gall (-0.3%).

Age structure

Table 3 shows the changing age structure of H&I, compared to Scotland from 2001 to 2005.

Table 3: Distribution of population by age: 2001-2005 (% of total population)

Age group	H&I Mid-2001	H&I Mid-2005	Scotland Mid-2005
0-4	5.4	4.9	5.2
5-19	18.6	18.2	18.2
20-44	32.0	30.3	34.4
45-64	26.8	28.4	25.8
65-84	15.3	16.2	14.6
85+	2.0	2.0	1.8

Source: GROS Mid-Year Estimates

In 2001, 55.9% of the population of H&I was 44 years or younger. By 2005 the population had aged and 53.5% were 44 years or younger compared to 57.8% in Scotland. These changes indicate a propensity towards an ageing population and a resulting challenge for the area.

Communities with a large proportion of inhabitants over retirement age tend to generate lower levels of economic activity. In turn, this can have an impact on community confidence and the sustainability of services. This may prove particularly challenging in rural areas because dispersed settlement patterns and low population densities make the delivery of services more difficult.

The decrease in the population of those aged between 20 and 44 years in H&I indicates that more young people are leaving the area than are coming in. The lack of higher education provision in the area is a contributing factor to the net loss of young people.

In-migration

Table 4 shows the number of applications for National Insurance (NI) numbers that were made by migrants from European Union (EU) accession and European Economic Area (EEA) states in H&I from 1st February to 16th July 2006.

Table 4: Applications for NI numbers by migrants from EU accession and EEA states: 1 February 2006 - 16 July 2006

	Polish Number	%	Other Number	%	Total Number
Invergordon	4	66.7	2	33.3	6
Inverness	471	62.7	280	37.3	751
Kirkwall	18	60.0	12	40.0	30
Lerwick	14	26.9	38	73.1	52
Portree	9	31.0	20	69.0	29
Stornoway	17	48.6	18	51.4	35
Wick	41	83.7	8	16.3	49
Elgin	39	70.9	16	29.1	55
Fort William	71	47.7	78	52.3	149
H&I	684	59.2	472	40.8	1156

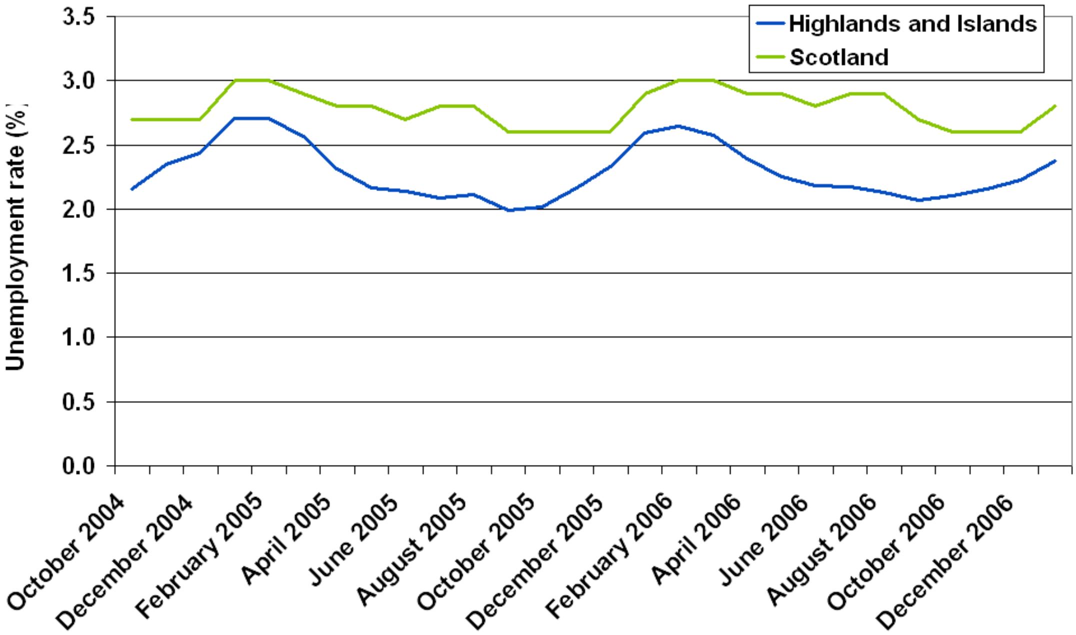
Source: Jobcentre Plus

There were 1,156 applications for NI numbers made in H&I by people arriving from EU accession and EEA states during this period. Almost two thirds of these applications were made in Inverness (65%). The Highlands and Islands have become popular with people moving from EU accession states. Historically, most in-migrants to the Highlands and Islands were people from other parts of Scotland and the UK. They had previously visited or had links to the area and they roughly matched the demographic profile of the resident population.

Unemployment

Figure 1 shows the unemployment rate for H&I compared to Scotland from October 2004 to January 2007. It uses figures based on the claimant count which is a measure of those people who are claiming Jobseeker's Allowance (JSA).

Figure 1: Unemployment rates: 2004-2007



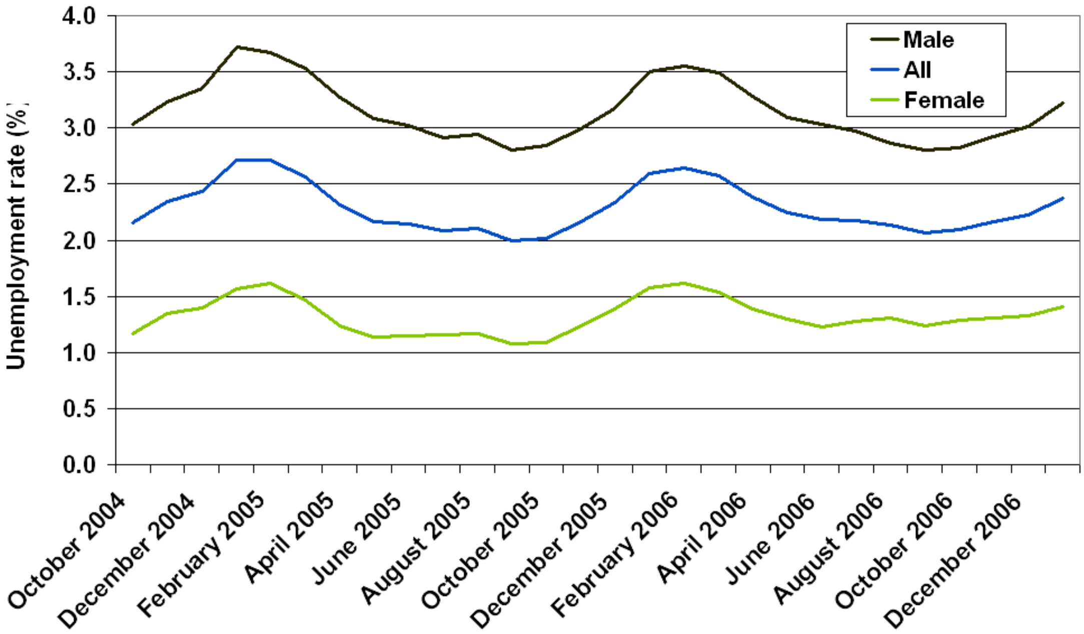
Source: Claimant Count (NOMIS)
Note: Rates estimated using GROS Mid-2004 and Mid-2005 working population estimates

In January 2007, the unemployment rate was 2.4% in H&I compared to 2.8% in Scotland. The unemployment rate for H&I has been consistently lower than Scotland over the period. Unemployment in H&I is cyclical with rates rising in the winter months and falling in the summer season. This seasonality reflects the relative dominance of tourism and primary industries in the economy.

Unemployment by gender

Figure 2 illustrates the male and female unemployment trends for H&I from October 2004 to January 2007.

Figure 2: Male and female unemployment rates: 2004-2007



Source: Claimant Count (NOMIS)
Note: Rates estimated using GROS Mid-2004 and Mid-2005 working population estimates

Unemployment in H&I is characterised by greater male than female unemployment. Female unemployment fluctuated between 1.1% and 1.6% over the period whereas male unemployment fluctuated between 2.8% and 3.7%.

There are a number of reasons for this gendered pattern of unemployment, which is exhibited in all LECs and nationally. Low female unemployment is influenced by the tendency for women with families to claim JSA only when financial constraints make it absolutely necessary.

Income

Table 5 shows the average gross weekly earnings in H&I and Scotland for 2006.

Table 5: Average gross weekly earnings (£): 2006			
	H&I	Scotland	H&I as a % of Scotland
All employees	304.60	347.20	87.7

Source: ASHE (residency-based)

Figures from ASHE estimate the median gross weekly income for H&I in 2006 as £304.60. This compares to the Scottish average of £347.20. Relatively low average earnings are influenced by the high share of employment (and in particular self employment), in relatively low paying sectors such as tourism and the primary sectors and higher winter unemployment rates. However, there are some well paying employers in the area who pay higher than average earnings.

Gross Value Added (GVA)

Gross Value Added (GVA) provides an indication of an area's productivity. It is a measure of the income generated by a sector from the production of goods and services after the deduction of input costs incurred in the production process (excluding wages and capital investment costs).

Table 6 shows the GVA per full-time employee for the 6 main local authority areas within H&I and Scotland in 2004.

Table 6: GVA per full time employee (£): 2004			
	Manufacturing	Construction	Services
Argyll and Bute	64,349	35,450	22,967
Highland	47,724	36,444	24,967
Moray	56,839	44,417	27,440
Orkney	36,637	35,775	24,560
Shetland	25,876	37,789	27,950
Innse Gall (Outer Hebrides)	23,082	35,855	28,574
Scotland	52,962	38,574	28,821

Source: Scottish Executive, Scottish Annual Business Statistics, 2004

In 2004, the GVA per full-time employee in the 'manufacturing' sector is lower in the island local authority areas (Orkney, Shetland and Innse Gall) as well as in the Highland local authority area, compared to Scotland. However, the GVA per full-time employee in 'manufacturing' is higher in Moray and in Argyll and Bute compared to Scotland.

The GVA per full-time employee in the 'construction' sector is also higher in Moray than in Scotland. In all other H&I local authorities, the GVA per full-time employee in 'construction' is lower than in Scotland.

The GVA per full-time employee in the 'service' sector is lower in all of the local authority areas in H&I than in Scotland.

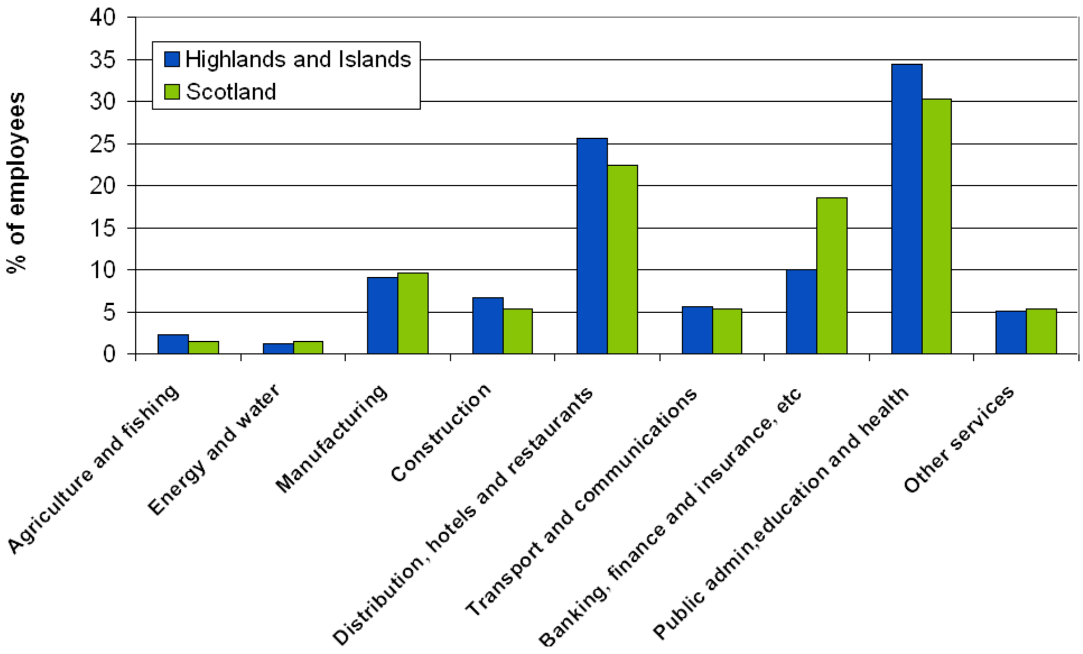
Lower GVA is in general affected by the dominance of activities involving relatively low value outputs as well as the prevalence of small firms unable to reap advantages from economies of scale. Specifically, lower GVA in the 'services' sector is a reflection of the dominance of tourism and the associated varied outputs due to seasonality.

The conclusion inferred from these findings is that productivity in H&I is generally lower than in Scotland overall as a result of lower output values. Increased economic diversity with growth in the higher value sectors will help improve productivity in the area.

Employment by sector

Figure 3 illustrates the distribution of employment by sector in H&I and Scotland in 2005.

Figure 3: Employment by sector: 2005



Source: ABI (NOMIS)
Note: These figures exclude the self-employed. Actual employment is likely to be higher, particularly in primary industries and tourism.

In H&I, 'public administration, education and health' is the most dominant employment sector with 34.4% of the total workforce. This figure is 4.1% more than in Scotland. Tiree and Kinlochleven have benefited from the Scottish Executive's Small Units Public Sector Jobs Dispersal. Several jobs re-located from Edinburgh to these areas and provided a significant boost to the fragile economies. In turn this has helped to secure the viability of local shops, school rolls and public services.

The 'distribution, hotels and restaurant' sector accounts for the next largest percentage. It employs 25.6% of the total workforce in H&I compared to 22.4% in Scotland. This reflects the on-going prevalence of tourism related employment within the H&I economy.

'Construction' provides a larger percentage of employment in H&I (6.7%) than in Scotland (5.4%). This is likely to be influenced by local builders serving the local markets, particularly in island or remote economies, due to the high costs involved in contracting work from the mainland. The 'construction' sector has expanded in recent years, influenced by the growth of Inverness and increased demand for new housing throughout H&I.

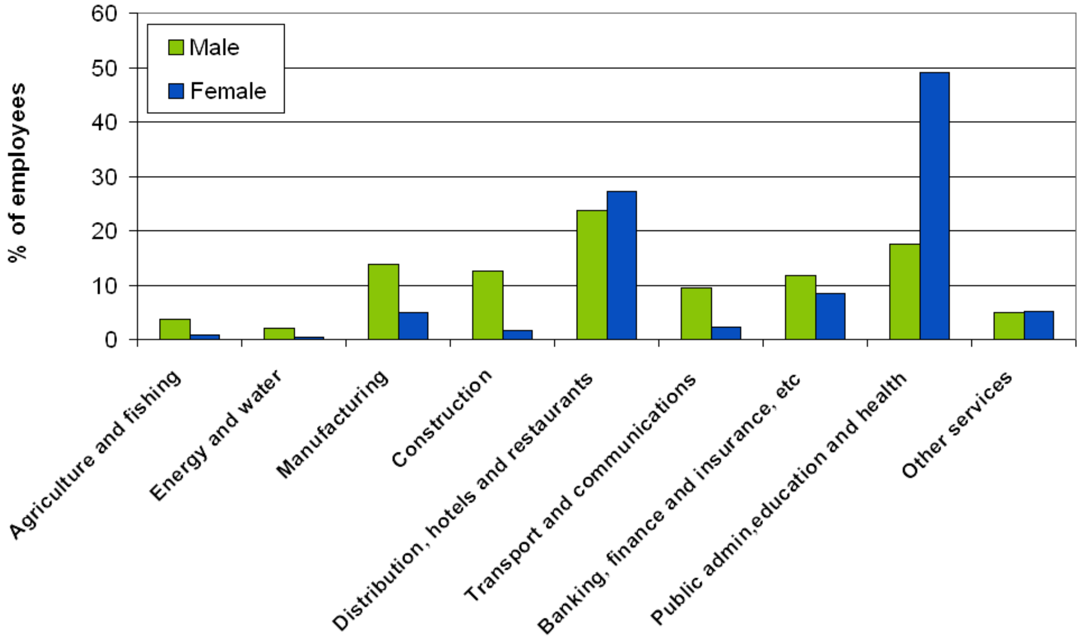
The 'agriculture and fishing' sector also accounts for a larger percentage of employment in H&I (2.3%) than in Scotland (1.5%). These traditional sectors continue to be prominent economic drivers in rural and island communities despite declining employee numbers in recent years.

'Banking, finance and insurance' accounts for a smaller number of employees in H&I (10%) than in Scotland (18.5%).

Employment by gender

Figure 4 shows the percentage of male and female employees, by sector, in H&I in 2005.

Figure 4: Employment by gender and sector: 2005



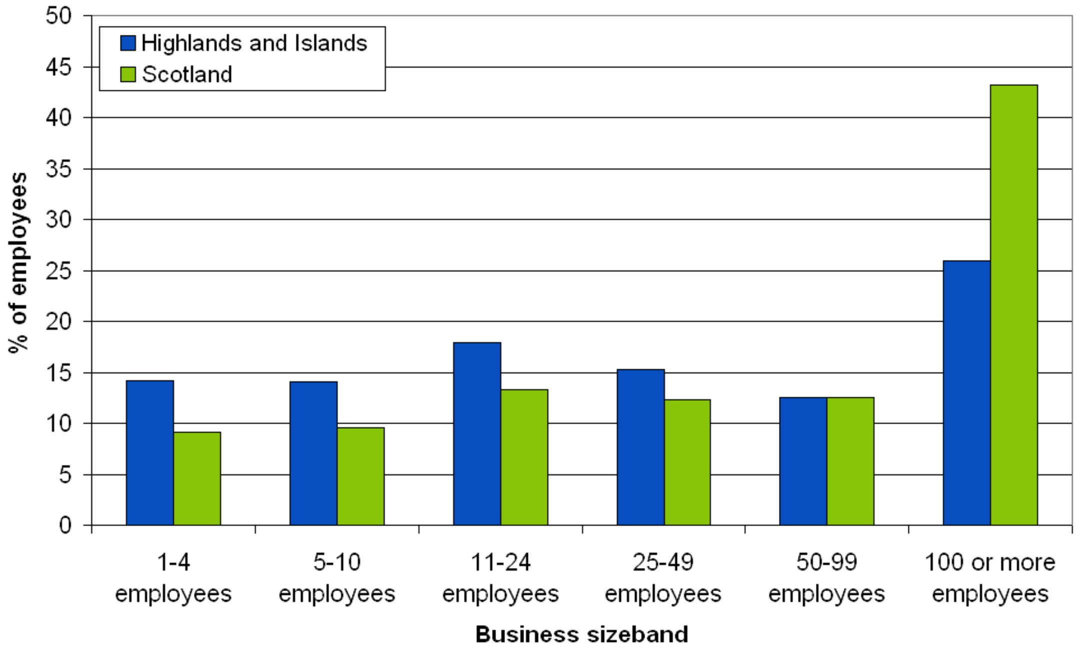
Source: ABI (NOMIS)
Note: These figures exclude the self-employed. Actual employment is likely to be higher, particularly in primary industries and tourism.

Female employment is far more concentrated than male employment, with 'distribution, hotels and restaurants' and 'public administration, education and health', accounting for 76.3% of female jobs. 'Agriculture and fishing', 'energy and water', 'manufacturing', 'construction', 'transport and communications' and 'banking, finance and insurance' are all male dominated. These gender trends are replicated in the majority of LEC areas.

Employment by company size

Figure 5 shows employment by company size in H&I and Scotland for 2005 (excludes self-employment).

Figure 5: Employment by sizeband: 2005



Source: ABI (NOMIS)

Businesses with 100 or more employees provide over a quarter of jobs in H&I (26%) compared to 43.1% in Scotland. The majority of the working population in H&I are employed by small enterprises. Over half of those in employment (61.5%) work for firms with 49 or fewer employees. This figure is 17.2% above the Scottish average.

Business starts

Table 7 shows the number and rate of new business start-ups per 1,000 of the population in H&I and Scotland for the year ending 2005.

Table 7: New business start-ups by area: Y/E 2005

Area	Start-ups	Start-ups per 1,000 population*
H&I	2,053	4.7
Scotland	21,383	4.2

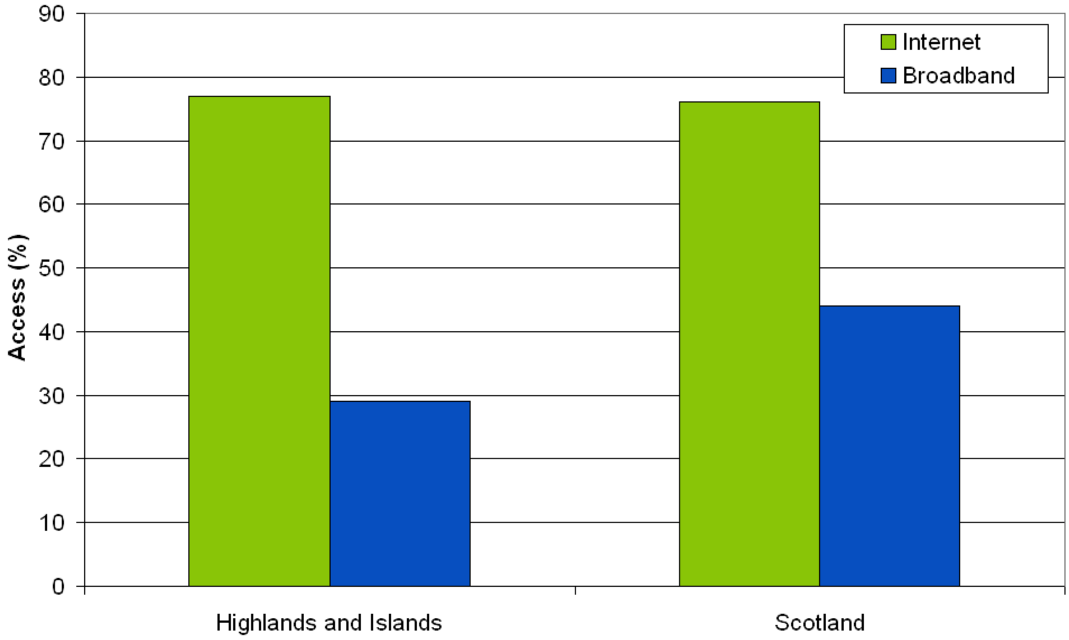
Source: Committee of Scottish Clearing Banks
*Figures estimated using population from GROS 2005 Mid-Year Estimates

With 4.7 start-ups per 1,000 of the population, H&I had a higher business start-up rate compared Scotland with 4.2. In H&I, business start-ups tend to be higher in rural areas than in towns or cities as individuals are more likely to enter into self-employment due to a lack of alternative employment opportunities.

E-business

Figure 6 details the proportion of businesses with access to the internet and broadband in H&I and Scotland for 2005.

Figure 6: E-business: 2005



Source: Highlands and Islands E-Business Survey, 2005

In H&I, 29% of businesses have broadband access compared to 44% in Scotland. Lower levels of e-business adoption are influenced by misconceptions regarding availability and a lack of technical skills.

Social factors

Quality of life

Crime rates in H&I are low. All local authority areas in H&I had a crime rate below the Scottish rate of 863 per 10,000 of the population in 2004-2005. In particular, the island areas have very low crime rates, with 346 per 10,000 of the population in Innse Gall (Outer Hebrides), 294 per 10,000 of the population in Orkney and 322 per 10,000 of the population in Shetland. Low crime rates, coupled with the outstanding natural environment make the area very attractive to potential new residents.

Educational attainment

Tables 8 and 9 show SQA attainment in publicly funded secondary schools at the end of S4 and S6, by education authority, in 2005/06.

Table 8: % S4 roll gaining 5+ awards at Standard Grade 1-2 by the end of S4	
	2005/06
Argyll and Bute	37
Highland	38
Innse Gall (Outer Hebrides)	47
Moray	36
Orkney	45
Shetland	45
Scotland	34

Source: Scottish Executive
Note: Argyll and Bute Council area is not contiguous with A&I boundary

Table 9: % S4 roll gaining 3+ awards at Higher Grade A-C by the end of S6	
	2005/06
Argyll and Bute	28
Highland	33
Innse Gall (Outer Hebrides)	40
Moray	28
Orkney	37
Shetland	34
Scotland	30

Source: Scottish Executive
Note: Argyll and Bute Council area is not contiguous with A&I boundary

In 2005/06 a larger percentage of S4 pupils in all education authorities in H&I achieved 5 or more awards at Standard Grade, levels 1-2, compared to 34% in Scotland. In particular, a large percentage of S4 pupils in the island areas achieved 5 or more awards at Standard Grade, levels 1-2. This included 47% in Innse Gall (Outer Hebrides), 45% in Orkney and 45% in Shetland.

In 2005/06, a larger percentage of S4 pupils in Highland, Innse Gall (Outer Hebrides), Orkney and Shetland education authorities gained 3 or more awards at Higher Grade (A-C) by the end of S6. This compared to the Scottish level of 30%. A lower percentage of S4 pupils in Argyll and Bute and in Moray education authorities gained 3 or more awards at Higher (A-C) by the end of S6, compared to Scotland.

The provision of high quality schooling influences the retention and attraction of people with families.

School leavers

Table 10 shows the destinations of school leavers from H&I and Scotland in 2005/06.

Table 10: School leaver destinations (%): 2005/06

	H&I	Scotland
Full-time higher education	29.8	30.0
Full-time further education	18.9	23.0
Training	3.1	5.0
Employment	35.0	26.0
Unemployed and actively seeking employment or training	7.6	11.0
Unemployed and NOT actively seeking employment or training	3.0	2.0
Unknown	2.5	2.0

Source: Careers Scotland
Note: Figures may not sum due to rounding.

In 2005/06, a large proportion of school leavers in H&I (35%) went on to find employment compared to 26% in Scotland. A lower percentage of school leavers in H&I entered full-time higher or further education (48.7%) compared to 53% in Scotland.

Patterns of school leaver destinations may be affected by the availability of education, employment and training in a location. Access to positive opportunities can influence whether or not young people stay in their local area.

House prices

Table 11 shows the median price of house sales and the percentage change for all LEC areas between 2002 and 2005 compared to H&I and Scotland.

Table 11: Median house prices: (£) 2002-2005

	2002	2005	Change (2002-05)	% Change (2002-05)
Argyll and the Islands	48,000	82,000	34,000	70.8
Caithness and Sutherland	43,000	69,250	26,250	61.0
Innse Gall (Outer Hebrides)	38,000	65,150	27,150	71.4
Inverness and East Highland	59,000	103,000	44,000	74.6
Lochaber	50,500	80,000	29,500	58.4
Moray	50,000	82,500	32,500	65.0
Orkney	44,500	80,200	35,700	80.2
Shetland	46,010	58,000	11,990	26.1
Skye and Wester Ross	65,000	120,000	55,000	84.6
Highlands and Islands	51,500	88,000	36,500	70.9
Scotland	57,029	89,000	31,971	56.1

Source: Communities Scotland

Between 2002 and 2005, there was a 70.9% increase in median house prices in H&I. This compared to a 56.1% increase in Scotland over the same period. With the exception of Shetland, this trend was replicated across each LEC, with house prices rising at a faster rate than in Scotland.

This trend is largely a reflection of a housing supply shortage, influenced by population growth outpacing the construction of new houses.

Summary

Some positive trends have been seen in H&I over recent years including population growth that has outpaced population growth overall in Scotland.

The main employment sector is 'public administration, education and health', where female employees outnumber males. The 'agriculture and fishing', 'construction' and 'distribution, hotels and restaurant' sectors are larger in H&I relative to Scotland. This is reflected in more seasonal unemployment rates in the area. Furthermore, the dominance of tourism, low paying industries and higher winter unemployment rates give rise to lower income levels in H&I compared to the Scottish average. The GVA across the local authorities within H&I tends to be below the Scottish average due to the prevalence of activities with outputs of relatively low monetary value. Employment within small businesses is more prevalent than in Scotland and business start-ups are also higher. E-business adoption is lower in H&I than in Scotland. House prices have been increasing at a faster rate than the Scottish average.

Contact information

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