

(Press Release - 18th January 2017)

Analysis of latest Quarterly Scottish GDP (2016 Q3) statistics, including estimates for the 'Active Economy'

Today's official figures for the Third Quarter of 2016 includes the first estimate of Scottish GDP growth post the Brexit vote of last June.

Key points

- **Latest data reveals growth in the Scottish economy in the Third Quarter (Q3) of 2016 was 0.2%, the same, low, (revised) figure as is now reported for the Second Quarter. Over the past four quarters growth has been only 0.7%.**
- **This compares poorly with UK growth of 0.6% in Q3 and 2.3% over the past year.**
- **The underlying health of the Scottish economy (as measured by specially constructed 'Active Economy', see below) is even worse, contracting by -0.1% in the last quarter and by -0.2% over the past year.**
- **Since the end of 2013 the 'Active Economy' measure has grown by only 2.3% in Scotland, compared to over 11% for the UK.**
- **Much of this underperformance is due to the sluggishness of Private Sector Services in Scotland.**
- **During 2014 and early 2015 this weakness was largely disguised by rapid growth in Scottish Construction. However, a return to more normal levels of output means that Construction is now detracting from overall economic growth in Scotland.**

(Note: As North Sea related activity is allocated to the UK as a whole, and not on a regional basis, the UK measure shown throughout this analysis excludes it in order to make overall GDP growth more comparable with the Scottish figure. Hence both effectively refer to 'onshore' GDP growth.)

The 'Active Economy' measure

As discussed in a recent Scottish Trends paper [see <http://scottishtrends.co.uk/wp-content/uploads/2016/11/New-GDP-measure.pdf>], an alternative measure of economic activity can be calculated which excludes the more erratic and the more difficult to measure elements of GDP in order to concentrate on core activities based around Manufacturing and Private Sector (non financial) Services.

Based on this measure:

- in Q3, the 'Active Economy' in Scotland **fell** by -0.1%, compared with growth of +1% at the UK level;
- over the past year (Q3 2016 on Q3 2015), the active economy in Scotland also fell, by -0.2%, compared with growth of +3.6% in the UK.

Longer Term Overview (see Table 1)

Table 1 illustrates how growth in UK GDP has been faster than in Scotland since the end of 2013. This is largely due to the fact that, for the UK, growth has been fairly broad-based across **Private Services sub sectors**, whereas in Scotland it has been very much concentrated in the **Construction** sector.

Table 1 shows that:

- for all UK Private Services sub sectors, bar Financial services, growth since the end of 2013 has been well above 10% and in the case of Business services almost 16%;
- in contrast, no Scottish Private Services sub sector has achieved a growth rate even approaching double figures;
- the most important growth discrepancies involves ‘Retail & Wholesale’ and ‘Business’ services, where the the growth differential is both high and applies to sectors which each account for over 10% of the economy.

Other points of interest

Construction

- The Construction sector continues to operate at a historically high level but is now over 5% below its peak level of late 2015.
- ONS data on regional Construction output shows Q3 to be around a third higher than over the period 2010-2013 but 5% lower than the peak of a year ago. However, this relatively mild overall downturn hides a decline of a third in infrastructure output, which had been driving the very fast growth in 2014 and 2015, offset in part by a rise in private housing new build and in other (non-infrastructure, non housing) new work.
- It remains to be seen how the Construction sector performance evolves but there remains a considerable risk that it will continue to have a dampening effect on overall growth through 2017.

Quotes:

“The latest Scottish GDP figures are grim. Not only was Q3 bad but Q2 has also been revised down. This continues the longer term sluggish performance of the Scottish economy over the last 3 years relative to the UK. It is Private Sector services that remains at the root of the problem and neither the Scottish nor the UK government appear to be able to do any thing about galvanising them.”

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Table 1: Economic growth comparison: Scotland and the UK, % change

	% change on Q4 of 2013		
	Scotland	UK	Difference
GDP*	4.7	7.6	-2.9
GDP per capita*	3.8	4.7	-0.9
Active Economy**	2.3	11.4	-9.1
<i>By main sectors:</i>			
- Manufacturing	-6.3	2.2	-8.5
- Construction	27.1	11.5	15.6
- Services	4.3	8.7	-4.4
Of which:			
<i>Private sector</i>			
- Wholesale & Retail	4.4	13.9	-9.5
- Hotels & Restaurants	7.4	14.2	-6.8
- Transport & Comm'ns	2.4	11.8	-9.4
- Financial Services	6.9	4.7	2.2
- Business Services	7.8	15.9	-8.1
- Other Services	2.9	12.8	-9.9
<i>Public sector</i>			
- Admin & Defence	-3.7	-5.1	1.4
- Education	0.9	1.6	-0.7
- Health & Social Work	4.7	6.7	-2.0

Sources: Scottish Government GDP release (January 2017); ONS UK National Accounts

* Excluding extra regio (mainly North Sea related) activity.

Colour Code for end column: Red = UK very much (>5%) better than Scotland; Green = Scotland very much (>5%) better than the UK.