

(Press Release - 10th May 2017)

Analysis of latest Quarterly National Accounts for Scotland (QNAS) statistics for Quarter 4 and for 2016 as a whole

The following analysis looks at data relating to the Scottish economy's performance in **cash terms** and **including North Sea activity** (in contrast to the Scottish Government's quarterly GDP publication, which is in real terms and looks only at onshore activity).

Key points

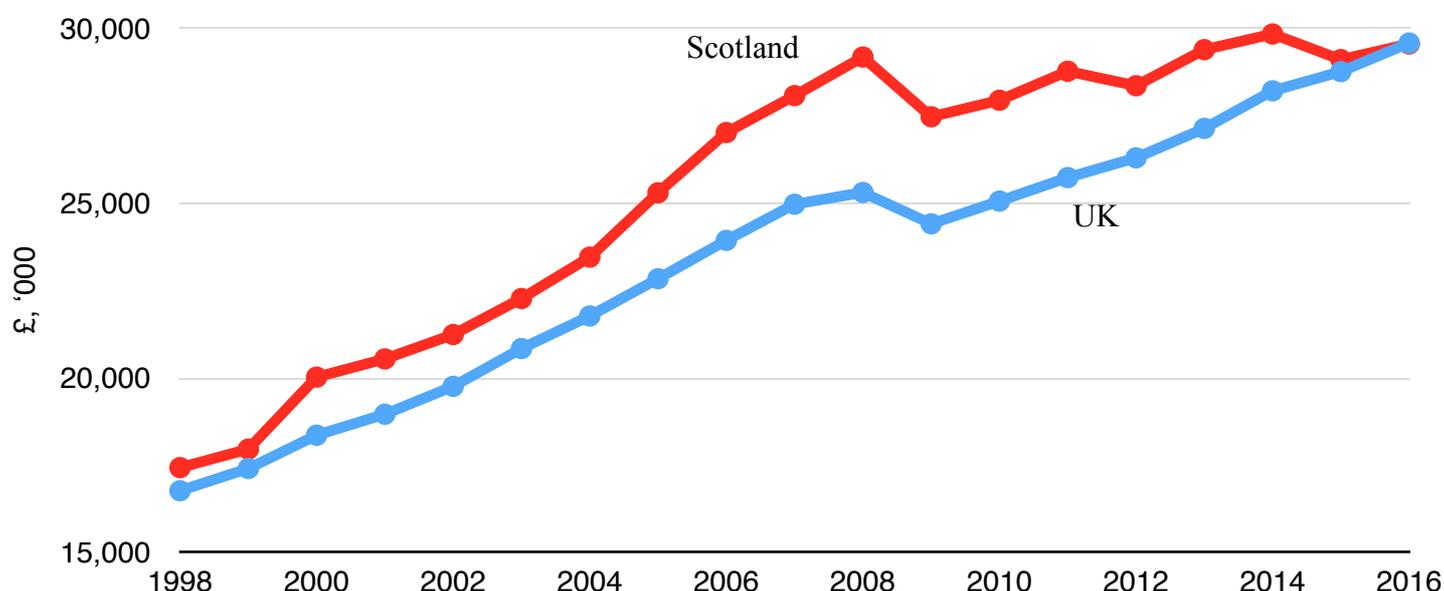
- Latest data reveals **growth of 0.8% in Scottish GDP in the fourth quarter (Q4) of 2016**. For the year 2016 as a whole growth was 1.7%, well below the UK growth level of 3.6%.
- **Scottish GDP per capita** (£29,541) in Q4, still 1% below its peak level of 2 years ago. For 2016 as a whole the Scottish figure (£29,554) is, for the first time since the 1970's, slightly below the UK level (£29,580).
- For the first calendar year on record North Sea oil related **Tax Revenues** were negative (£-338 million). The recent decline contrasts with a period of relative stability over the 8 year period of 2005-2012, when Scottish offshore oil revenues averaged around £8 billion a year and never fell below £6 billion in any single year.
- The onshore **Trade deficit** has worsened a little in Q4 and for 2016 as a whole **the deficit of £-10 billion is £1.6 billion higher than in 2015**.
- The **Savings Ratio** for Scotland in Q4 was 2.6%, the lowest on record (since 1998). In comparison the UK figure was 3.3%, also the lowest on record (since 1963).

The remainder of this press release looks at each of these areas in more detail and illustrates some of the points using charts and tables.

GDP

- Latest data reveals **growth of 0.8% in Scottish GDP in the fourth quarter (Q4) of 2016**. For the year 2016 as a whole growth was 1.7%, well below the UK growth level of 3.6%. (See Table 1)
- The level of **Scottish GDP** in 2016 remains below that seen two years ago, in contrast to the 4% growth seen at the UK level. Much of this poorer performance can be attributed to the slowdown in North Sea activity.
- **Scottish GDP per capita** (£29,541) in Q4, still 1% below its peak level of 2 years ago. For 2016 as a whole the Scottish figure (£29,554) is, for the first time since the 1970's, slightly below the UK level (£29,580). (See also Note on National Accounts)

Chart 1: Scottish and UK (both including North Sea) GDP per capita (£, '000)



Sources: QNAS, May 2017, ONS UK National Accounts

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

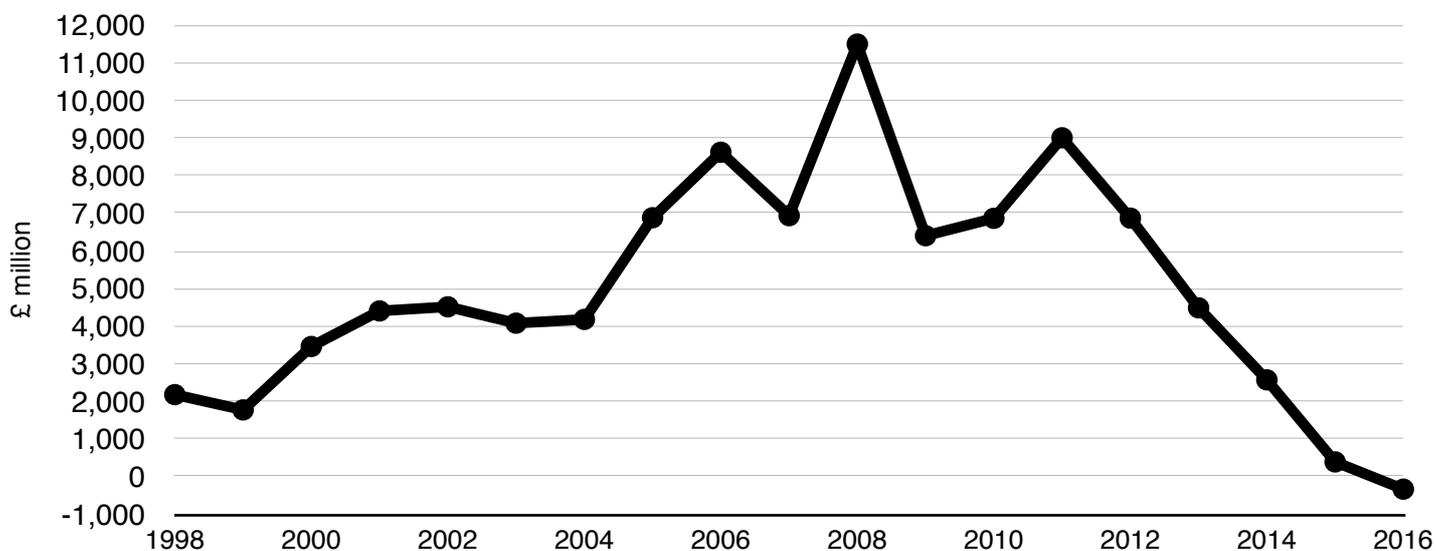
	% change on Q3 of 2016		% change on Q4 of 2015		% change 2016 on 2015		
	Scotland	UK	Scotland	UK	Scotland	UK	Diff
GDP							
- onshore only	0.5	-	2.3	-	2.3	-	-
- inc North Sea	0.8	1.5	1.7	4.8	1.7	3.6	-1.9
- per capita (inc North Sea)	0.7	1.3	1.5	4.0	1.5	2.8	-1.3

Sources: Scottish Government QNAS release (May 2017), ONS National Accounts

North Sea contribution to Scottish Economy and Finances

- Due to the decline in the North Sea's contribution to the economy, Scotland's **GDP per capita** is almost unchanged since 2008, whereas the UK's has continued to grow (+17%). The longer term comparative rise and decline vs the UK since 1998 is shown in Chart 1.
- Unlike 1999, when Scottish and UK GDP per capita were also very similar, the chances of a revival in the Scottish advantage (as happened post 1999 up to 2008) are slim as North Sea output now is only a third of the level seen in 1999.
- For the first calendar year on record North Sea oil related **Tax Revenues** were negative (£-338 million). The rapid decline in recent years is highlighted in Chart 2. The recent decline contrasts with an 8 year period (2005-2012) of relative stability, when Scottish offshore oil revenues averaged around £8 billion a year and never fell below £6 billion in any single year.
- The Scottish Government's latest projection (2015) of future oil tax revenues estimated that, even at \$100 a barrel, the North Sea would contribute less than £3 billion a year up to 2019/20.
- As recently as 2008 North Sea taxes were the single largest contributor to Scottish public sector revenues.

Chart 2: Scottish North Sea Revenues (geographic share), £ million



Source: QNAS, May 2017

Trade (excluding North Sea)

- The onshore **Trade deficit** has worsened a little in Q4 and for 2016 as a whole **the deficit of £-10 billion is £1.6 billion higher than in 2015**.
- It is **difficult to discern any positive Brexit/exchange rate depreciation impact on Scottish Trade figures**. Exports to the Rest of the World (RoW) fell in Q4, as did Imports.
- It is worth noting that the Trade balance for previous quarters of 2016 have been revised, resulting in a considerable improvement on what had previously been estimated for the first 3 quarters of the year. This largely involved the Imports side of the balance.

Table 2: Trade data, Scotland and the UK, 2016 (£, billion)

	Exports		Imports		Trade Balance	
	Level	Change	Level	Change	Level	Change
Total Scottish	73.2	1.1	83.2	2.7	-10.0	-1.6
- <i>Scotland to RoUK</i>	<i>46.6</i>	<i>0.5</i>	<i>51.3</i>	<i>2.1</i>	<i>-4.7</i>	<i>-1.6</i>
- <i>Scotland to RoW</i>	<i>26.6</i>	<i>0.6</i>	<i>31.9</i>	<i>0.6</i>	<i>-5.3</i>	<i>0</i>
UK	547.6	30.1	584.6	37.4	-37.0	-7.2

Sources: QNAS, May 2017; ONS UK National Accounts

Savings ratio

- The **Savings Ratio** for Scotland in Q4 was 2.6%, the lowest on record (since 1998). In comparison the UK figure was 3.3%, also the lowest on record (since 1963).

Quotes:

“The latest National Accounts data shows that 2016 was a disappointing year for the Scottish economy. Much of this was connected to a further decline in the contribution of the North Sea.

Furthermore, the Scottish Trade balance for 2016 has worsened by £1.6 billion from 2015 and the savings ratio is at a record low.

As a result, worries persist over the economy’s future growth potential and over the self financed element of the Scottish budget.”

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Note on National Accounts Statistics for Scotland

National Accounts (cash terms) statistics are important for any country but they are particularly so for a country like Scotland which potentially has a large component of its economy that is dependent on a natural commodity (in Scotland’s case oil).

While real terms (i.e. adjusted for inflation) changes to GDP give an accurate picture of the underlying growth of the economy in normal circumstances, this is less true when dealing with natural commodities. These are often largely exported and their price is determined externally, i.e. in international terms, rather than internally. Because of this difference, adjusting for inflation is less relevant, as a high price is good for the exporting country (i.e. Scotland) though bad for importing countries.

However, cash terms GDP does not adjust for another crucial factor affecting our reading of the Scottish economy, the high degree of foreign ownership, particularly in relation to North Sea activity. To adjust for this, and get to Gross National Income (GNI), income flows relating to Scottish owned overseas and to overseas owned assets in Scotland are needed but are currently unavailable.

What we can say is that, due to this ownership factor, the decline observed in GDP per capita in recent years is probably greater than it is in GNI terms.