

(Press Release - 5th July 2017)

## Analysis of latest Scottish GDP (2017 Q1) statistics

### Scottish Economy up in Q1 of 2017 as Manufacturing sector recovers some of the lost growth over past 2 years

Today's official figures for Scottish Gross Domestic Product (GDP) - onshore and in real terms - go up to the First Quarter of 2017.

#### Key points (see also Table 1)

- Latest data reveals a healthy increase in the **Scottish economy in the First Quarter (Q1) of 2017 of 0.8%**, well above the **UK\*** growth rate of 0.2%;
- However, **over the past two years**, Scottish growth of 1.2% remains well below the 3.5% seen for the UK;
- Scottish **Manufacturing output** is at the heart of both comparisons, growing by over 4% in the latest quarter but still down by 6% over the past 2 years. The recent recovery was driven by the Chemicals (including refined petroleum) and Metals sectors;
- Compared to 2 years ago, output from the **'Active' economy** is unchanged;
- **Since the Brexit vote** the UK economy has continued to out-perform the Scottish economy, with growth in most major industrial sectors higher in the UK than in Scotland;
- **Prospects for 2017** remain poor and another year of <1% growth is a real possibility;

(\* 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 such activity in order to make overall UK GDP growth comparable with the Scottish figure. Hence, all GDP measures shown here effectively refer to 'onshore' GDP growth only.)

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

	PAST 2 YEARS			SINCE BREXIT VOTE		
	% change since 2015 Q1			% change 2016 Q2		
	Scotland	UK	Difference	Scotland	UK	Difference
<b>GDP*</b>	1.2	3.5	-2.3	0.6	1.4	-0.8
<b>GDP per capita*</b>	0.7	2.2	-1.5	0.4	0.9	-0.5
<b>Active Economy</b>	0.1	6.5	<b>-6.4</b>	0.7	2.4	<b>-1.7</b>
<i>By main sectors:</i>						
<b>- Manufacturing</b>	-6.1	1.5	<b>-7.6</b>	0.8	0.8	0.0
<b>- Construction</b>	-1.8	4.6	<b>-6.4</b>	-2.0	1.8	<b>-3.8</b>
<b>- Services</b>	2.7	5.0	-2.3	0.7	1.8	-1.1
Of which:						
<i>Private sector</i>						
- Wholesale & Retail	1.9	7.8	<b>-5.9</b>	-1.2	1.9	<b>-3.1</b>
- Hotels & Restaurants	2.4	10.3	<b>-7.9</b>	-1.4	4.7	<b>-6.1</b>
- Transport & Comm'ns	0.6	6.4	<b>-5.8</b>	2.3	2.7	-0.4
- Financial Services	8.5	1.7	<b>6.8</b>	0.0	1.0	-1.0
- Business Services	3.9	8.6	<b>-4.7</b>	2.1	3.2	-1.1
- Other Services	2.8	7.7	<b>-4.9</b>	1.2	1.6	-0.4
<i>Public sector</i>						
- Admin & Defence	-1.5	-3.4	1.9	-0.7	-0.4	-0.3
- Education	0.9	1.1	0.2	1.1	1.1	0.0
- Health & Social Work	2.1	6.5	<b>-4.4</b>	1.3	1.6	-0.3

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

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

Colour Code for difference columns: Orange = UK very much better than Scotland; Green = Scotland very much better than the UK. Highlight applies to difference >4% over 2 years and to >2% since Brexit.

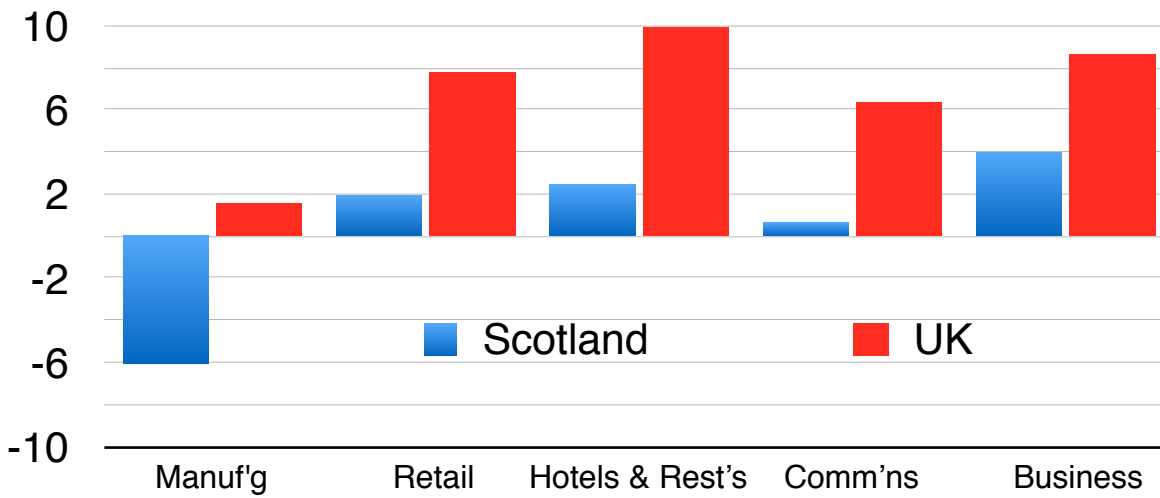
## Comparison of growth rates over time (see Table 1)

### The past 2 years (Q1 2015 to Q1 2017)

Over the past 2 years the Scottish economy has only grown at about a third of the rate of the UK.

The sources of this relative underperformance have been fairly widespread but have been particularly notable in Manufacturing and in all private sector services, with the exclusion of the Financial sector, see Table 1 and Chart 1.

**Chart 1: Growth differentials over the past 2 years**



**Since the Brexit vote (Q2 2016 to Q1 2017)**

Since the Brexit vote the UK economy has continued to out-perform the Scottish economy, with growth in most major industrial sectors higher in the UK than in Scotland, particularly with regards to Retail and to Hotels & Restaurants. (see Table 1 and Chart 2).

**Chart 2: growth differentials since Brexit votes**



**Analysis by sector and other points of interest**

**Manufacturing**

The main sources for the 6% decline in Manufacturing output over the past 2 years have been ‘Metals & Machinery’ (-15%) and ‘Other Manufacturing & Repair’ (-12%).

**Construction**

Output has fallen by over 6% since the end 2015 peak, but continues to operate at a historically high level, over 25% higher than the average output level from 1998 to 2013.

ONS Construction data for Scotland shows that this 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 (non infrastructure) new public work.

## Financial Services

For the first year since the financial crisis ‘Financial and Insurance activities’ grew substantially in 2016, up 9%. This was considerably more than the rise seen for the UK as a whole (2%). However, there must be some doubt attached to this improvement as it all occurred in a single quarter (2016Q1) and has not been reflected in UK figures or in Scottish workforce jobs data.

## The ‘Active’ economy

(An alternative measure of economic activity based on the less erratic and the more reliably measured elements of GDP [see <http://scottishtrends.co.uk/wp-content/uploads/2016/11/New-GDP-measure.pdf>] .)

The ‘Active’ economy is almost unchanged from the level seen 2 years ago. This highlights the fact that Manufacturing and Private Sector services are performing poorly, in absolute terms and relative to the UK.

## 2017 forecast

Looking forward, the prospects for economic growth in 2017 do not look very promising.

**Construction** may still have some way to go to normalise its output after the unusually high growth seen through 2014 and 2015 (up 33% from 2014 Q1 to 2015 Q2 and, in 2015, almost 20% higher than for any other year since 1998). For example, work on the Forth Replacement Bridge will come to an end as it is due to open in August. As a result, the Construction sector may continue to have a dampening effect on overall growth through 2017.

The **Retail** sector could be negatively affected by on-going falls in real wages and in consumer confidence, as well as worries over the impact of Brexit and rising inflation.

Overall, this suggests continued low growth. Latest forecasts by **E&Y Item Club** and by the **Fraser of Allander Institute (FoAI)** confirm this view, with the former forecasting growth of 0.9% in 2017 and the latter 1.2%. However, within their 0.9% total, FoAI forecast growth in the Construction sector of 0.7% (E&Y have the sector flat) whereas contraction seems more likely, possibly by as much as 5-10%.

Adjusting for this over-optimism suggests that growth in 2017 may again be under 1%.

**Quote:**

*“The first quarter of 2017 has provided welcome respite with respect to Scotland’s poor economic performance in recent times.*

*However, issues remain. While Manufacturing has bounced back but remains well down on the level of output seen two years ago and private sector services continue to struggle, especially in comparison with the UK as a whole.”*

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