

(Press Release - 4th October 2017)

## Analysis of latest Scottish GDP (2017 Q2) statistics

### Scottish Economy slows but still (just) grows in Q2 of 2017

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

#### Key points

- Latest data reveals an increase in the **Scottish economy in the Second Quarter (Q2) of 2017 of only 0.1%**, below the (still poor) **UK** growth rate of 0.3%;
- The performance in the first half of 2017 does little to make up for the **complete lack of growth seen in the Scottish economy through 2016**, compared with merely 'poor' growth seen for the UK;
- Scottish **Manufacturing output** is at the heart of both comparisons, growing by close to 3% in the first half of 2017 after falling by almost 6% through 2016. **Construction** output also fell through 2016, down over 6%, and this falling trend has continued in the first half of 2017, down over 4%;
- The **'Active' economy** (essentially Manufacturing and (non-financial) Private Sector Services) **measure of output** highlights how the underlying strength of the Scottish economy remains a worry. On this measure the discrepancy in growth with the UK in 2016 was even larger. However, this is also the area that has improved the most in 2017;
- **The (onshore) impact of falling activity in the North Sea** will no doubt be a major factor in explaining Scotland's poor 2016 performance and its negative impact is likely to have weakened during 2017.
- Comparing GDP output data **on a like for like basis with the UK** (i.e. using purely GDP output data for the UK, as opposed to the GDP average) then **Scotland's performance has been even worse over the past two and a half years** than is shown in the official publication. While Scotland has grown by 1.2%, the UK has grown by 4.5%.

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

The pattern of Scottish GDP growth has been slow and erratic since the start of 2015.

From 2015 Q1 to 2015 Q3 it was at a virtual standstill (+0.1%). This was followed by a return to average (0.5%) growth for 1 quarter, which in turn was followed by virtual standstill again (-0.1%) in the year from Q4 2015 to Q4 2016 (see Table 1).

Table 1 shows that the latter standstill was largely down to falling **Manufacturing**, along with falling **Construction** output and weak (**non-financial**) **services sector** growth. The recovery in the first half of 2017 of 2017 has been driven by a bounce back in **Manufacturing** output.

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

	2016 WAS A BAD YEAR FOR SCOTLAND....			....BUT GETTING BETTER IN 2017		
	% change 2015 Q4 to 2016Q4			% change 2016 Q4 to 2017 Q2		
	Scotland	UK	Difference	Scotland	UK	Difference
<b>GDP</b>	-0.1	2.6	<b>-2.7</b>	0.7	0.5	0.2
<b>GDP per capita</b>	-0.3	1.8	<b>-2.1</b>	0.6	0.3	0.3
<b>Active Economy</b>	-0.1	4.4	<b>-4.5</b>	1.4	0.3	1.1
<i>By main sectors:</i>						
<b>- Production</b>	-5.7	2.3	<b>-8.0</b>	1.6	0.0	1.6
<b>- Construction</b>	-6.1	5.5	<b>-11.6</b>	-4.1	1.3	-5.4
<b>- Services</b>	1.8	2.5	-0.7	1.0	0.5	0.5
- Retail & Hosp'y	1.3	5.7	<b>-4.4</b>	0.1	0.1	0.0
- Transport & Comm'ns	0.2	4.7	<b>-4.5</b>	1.4	0.4	1.0
- Financial & Business	3.3	1.5	1.8	1.5	0.7	0.8
- Gov't & Other	0.9	1.0	-0.1	0.9	0.6	0.3

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

Colour Code for difference columns: Orange = UK very much better than Scotland; Green = Scotland very much better than the UK. Highlight applies to difference >2% over years and to 2016Q4.

### IMPORTANT NOTE

The figure for UK GDP growth (2015Q4 to 2016Q4) in Table 1 (2.6%) is well above that shown in today's Scottish GDP release (1.7%). This is because the latter is adjusted to be consistent with overall UK GDP data and as a result is inconsistent with the output elements that make up GDP (O), as can be seen by the fact that all 3 major constituents (Production, Construction and Services) are growing at a faster rate than 1.7%.

## The impact of North Sea activity on Onshore GDP

While a fall in activity in North Sea activity helps to explain some of the slow growth throughout 2016, it is not a straightforward story.

The decline in Construction is unlikely to be closely connected to North Sea activity (but more likely the winding down of large scale infrastructure projects like the replacement Forth Road Bridge).

It is difficult to see why Wholesale & Retail and Transport & Communications services would be becalmed by North Sea problems, as has been seen.

On the other hand one might have expected Financial and Business services to take a knock but instead both grew, the latter up by 7%. *(However, there must be some doubt attached to this improvement as it almost all occurred in a single quarter (2016Q1) and has not been reflected in UK figures or in Scottish workforce jobs data.)*

This leaves the impact of recent, erratic, North Sea activity still open to speculation.

### Quote:

*“The second quarter of 2017 has proved disappointing again, after the positive signs in Q1. The bounce back in Manufacturing has ended and, as expected, Construction continues to fall.*

*Over the last 10 quarters, notable growth in the Scottish economy has been restricted to 2 quarters (2015Q4 and 2017Q1) with the remainder exhibiting essentially no growth. This remains a worrying trend.*

*Furthermore, on a like for like basis with the UK then Scotland’s performance has been even worse over the past two and a half years than is shown in the official publication.*

*Finally, for the Economy Secretary of the Scottish Government to describe the 0.1% quarterly increase as “**Todays figures are good news**” suggests that he considers such a poor performance to be acceptable. Surely that cannot be the case.”*

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