SCOTTISH TRENDS

(Press Release - 2nd May 2018)

Analysis of latest Quarterly National Accounts for Scotland (QNAS) statistics for Quarter 4 and for 2017 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 1% in Scottish GDP in Q4 of 2017**. For the year **2017 as a whole growth was 3.4%**, a little below the UK growth level of 3.8%. (See Table 1) This is the **fastest rate of growth seen since 2013**, due to a modest revival in North Sea fortunes.
- **Scottish GDP per capita** for 2017 as a whole is, for the second year running, below the UK level (£30,482 vs £30,866 which is equivalent to a differential of just over 1%).
- **North Sea Oil related Tax Revenues** have recovered from being negative (£-130 million) in 2016 back into a small surplus (£+1,015 million). The recent low level contrasts with the 2005-2012 period when Scottish offshore oil revenues averaged around £7 billion a year and never fell below £5 billion in any single year.
- The onshore **Trade deficit** improved in 2017, **the deficit of £-12 billion is £0.7 billion lower than in 2016**. While Scotland's trade balance with the Rest of the UK remains heavily in the red, the trade balance with the Rest of the World improved a little, moving from a small trade deficit to a small trade surplus.
- The **Savings Ratio** for Scotland in Q4 was 7.6%, the second lowest, after 2006, on record (since 1998). In comparison the UK figure was 4.9%, also the lowest on record (since 1963).

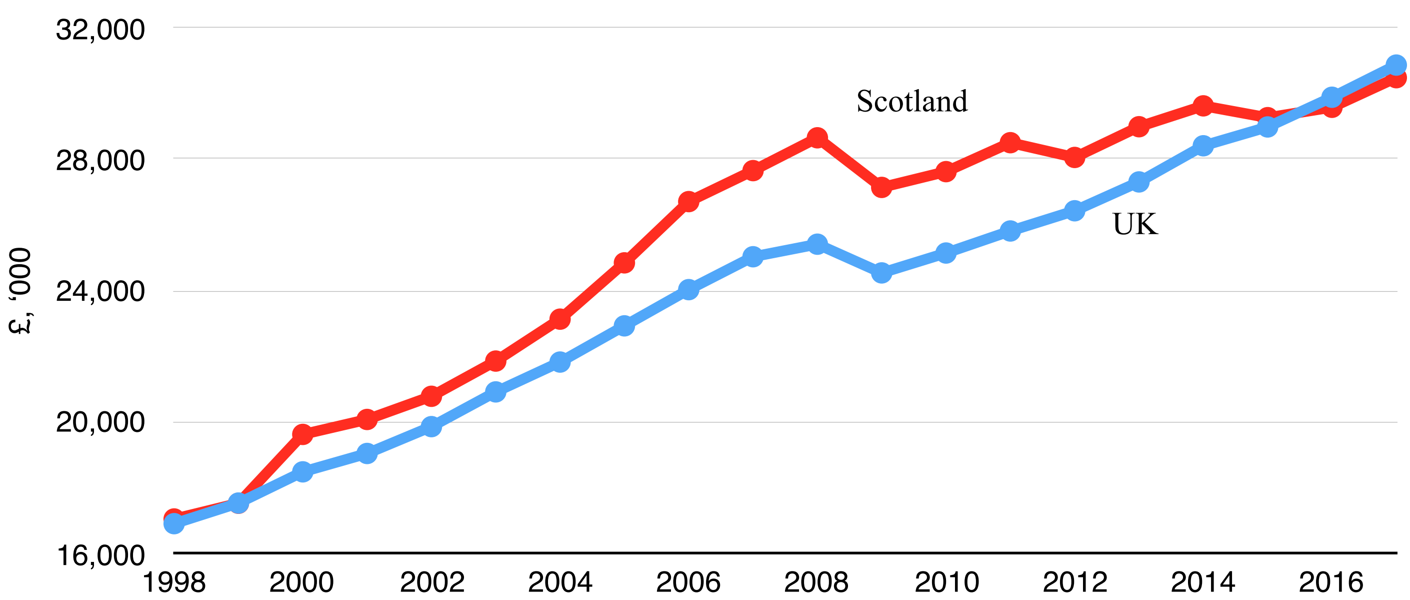
The importance of National Accounts data is that it allows for a fuller understanding of the economic picture. As well as looking at GDP in terms of sectors of output (e.g. Manufacturing), as the headline GDP index does, the National Accounts also allows for a breakdown in terms of income and expenditure, including the onshore trade balance. While the GDP measure exaggerates Scottish income, due to foreign ownership issues (see End Note), it is a reasonably good guide to the taxable potential of an economy.

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

GDP per capita

- **Scottish GDP per capita** for 2017 as a whole is, for the second year running, below the UK level. Chart 1 shows that Scotland's GDP per capita has moved from near parity to being well above that of the UK, before falling back to being near parity again.
- Unlike 1999, the last time Scottish and UK GDP per capita were similar, the chances of a return to a significant Scottish advantage (as happened overt the decade from 2004 to 2014) are slim, as North Sea output now is only a third of the level seen in 1999.

Chart 1: Scottish and UK (both including North Sea) GDP per capita (£, '000), 1998 to 2017



Sources: QNAS, May 2018, ONS UK National Accounts

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

	% change 2017 on 2016			% change 2017 on 2009		
	Scotland	UK	Diff	Scotland	UK	Diff
GDP						
- onshore only	**2.7**	**-**	**-**	**23.4**	**-**	**-**
- inc North Sea	**3.4**	**3.8**	**-0.4**	**16.4**	**33.3**	**-16.9**
- per capita (inc North Sea)	**3.0**	**3.3**	**-0.3**	**12.3**	**25.8**	**-13.5**

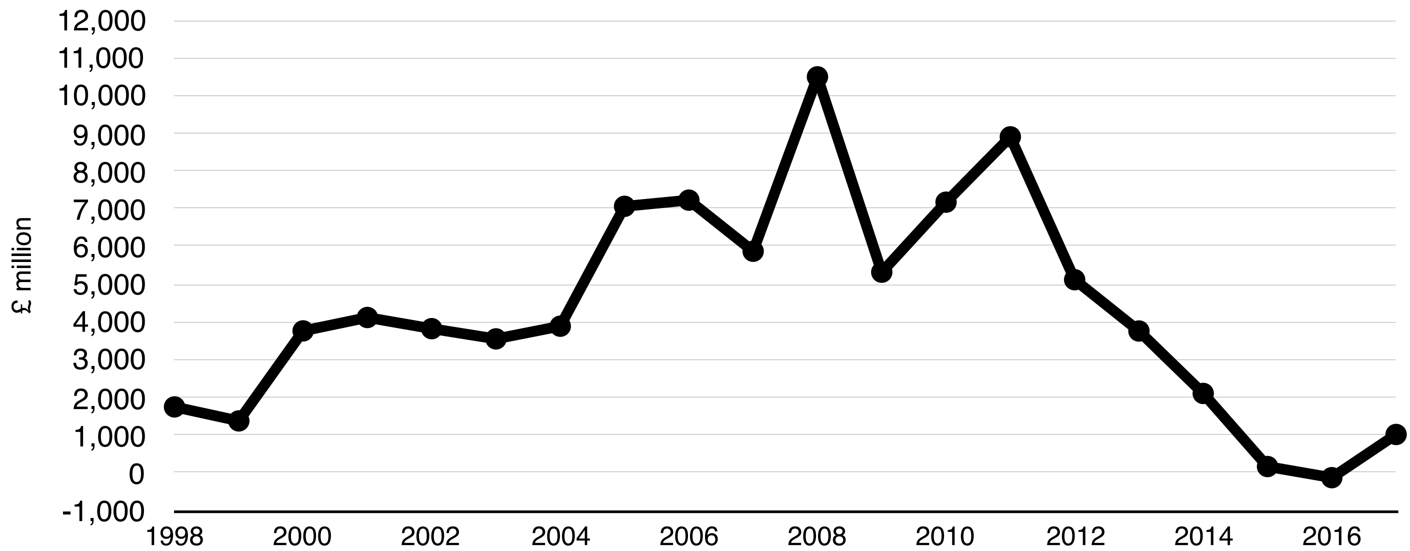
Sources: Scottish Government QNAS release (May 2018), ONS National Accounts

Table 1 also shows the longer term economic growth differential for Scotland and the UK. Since 2009 (i.e. post recession), the Scottish economy has grown at less than half the rate of the UK economy. Much of this differential can be accounted for by the weakening contribution from the North Sea, due to a combination of falling production and prices.

North Sea contribution to the Scottish Government's Finances

- North Sea Oil (NSO) related tax revenues have recovered from being negative (£-130 million) in 2016 back into a surplus (£+1,015 million). The recent low level contrasts with the 2005-2012 period when Scottish offshore oil revenues averaged around £7 billion a year and never fell below £5 billion in any single year. The rapid decline in recent years is highlighted in Chart 2.
- Any recovery to 2005-2012 type levels is unlikely as the Scottish Government's latest projection (see https://beta.gov.scot/publications/oil-and-gas-analytical-bulletin-june-2015/Oil%20and%20gas%20analytical%20bulletin%20-%20June%202015.pdf?inline=true) of future oil tax revenues makes clear. It estimates that, even at $100 a barrel, the North Sea would bring in less than £3 billion a year of tax revenues.
- As recently as 2008 North Sea taxes were the second largest contributor to Scottish public sector revenues.

Chart 2: Scottish North Sea Revenues (geographic share), £ million, 1998 to 2017



Source: QNAS, May 2018

Trade (excluding North Sea)

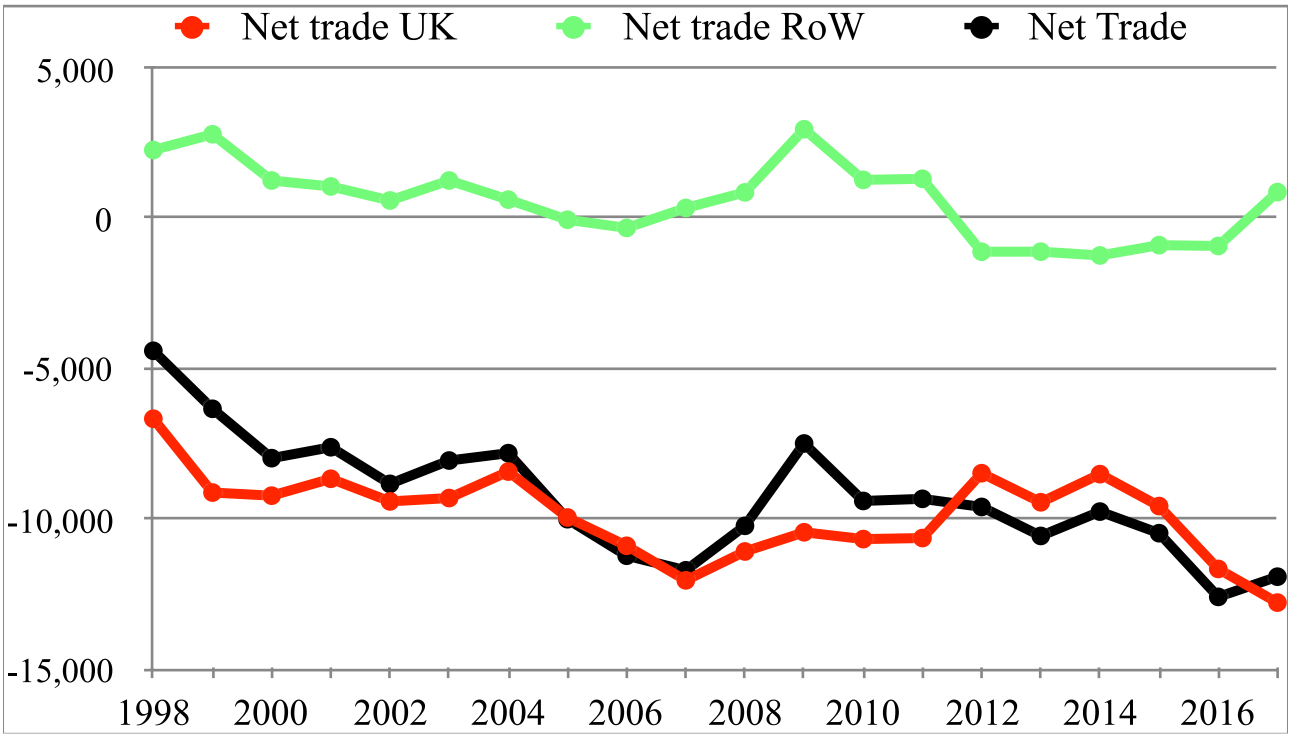
- The onshore **Trade deficit** has improved a little in 2017 and now stands at **£-11.9 billion.**
- This improvement is down to a shift from a deficit to small surplus with respect to **trade with the Rest of the World,** which might have been been brought about by a **positive Brexit/ exchange rate depreciation impact on Scottish overseas trade figures**.
- Scotland's **trade balance with respect to the UK** remains heavily in deficit, at around £-13 billion, and was slightly worse than seen for 2016.

Table 2: Trade data, Scotland and the UK, 2017 (£, billion)

	Exports		Imports		Trade Balance	
	Level	**% Change**	**Level**	**% Change**	**Level**	**Change, £bn**
Total Scottish	**82.2**	**7.3**	**94.1**	**5.5**	**-11.9**	**0.7**
- Scotland to RoUK	*49.6*	*5.6*	*62.4*	*6.4*	*-12.8*	*-1.1*
- Scotland to RoW	*32.6*	*10*	*31.7*	*3.9*	*0.9*	*1.9*
UK	**617**	**11.3**	**651**	**9.3**	**-34**	**7**

Sources: QNAS, May 2018; ONS UK National Accounts

Chart 3: Onshore Net Trade Balance positions for Scotland (£, billion)



Source: QNAS, May 2018

Savings ratio

- The **Savings Ratio** for Scotland in Q4 was 7.6%, the second lowest, after 2006, on record (since 1998). In comparison the UK figure was 4.9%, also the lowest on record (since 1963).

Quotes:

"The Scottish National Accounts data for 2017 shows that GDP growth has been boosted by a slight recovery in the North Sea contribution, such that overall growth is the fastest seen since 2013.

However, for the fourth year in a row, growth in Scottish GDP per capita, trails that of the UK. Going back to 2009, the historically low UK annual growth figure of 3% has still been double that seen in Scotland (1.5%)."

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End 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 assets 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 relative decline (vs the UK) observed in GDP per capita in recent years (see Chart 1) is probably greater than it is in GNI terms.