

(Press Release - 27th June 2018)

Analysis of latest Scottish GDP (2018 Q1) statistics

Latest GDP figures confirm poor Scottish economic performance in the First Quarter of 2018

Today's official figures for Scottish Gross Domestic Product (GDP) - onshore and in 'real' terms - go up to the First Quarter (Q1) of 2018.

As expected, given earlier Office for National Statistics (ONS) figures for Construction sector output and the UK out-turn, Q1 saw continuing weak growth.

Key points

- Latest data reveals growth in the **Scottish economy in the First Quarter (Q1) of 2018 of 0.2%**, slightly above below the **UK's 0.1%**. However, the specially constructed '**Active Economy**' measure (Manufacturing and (non-financial) Private Sector Services) for Scotland has performed much better, growing by almost 1% in Q1;
- The main weakness in Q1 was a big fall in **Construction** output (-3.5%), in part related to poor weather in Q1. However, this was balanced out by strong performances in **Manufacturing** (+1.8%) and **Transport & Communications** (+1.6%);
- In **GDP per capita** (standard of living) terms, Scotland has now experienced no growth over the past 3 years, compared to a modest rise of 1% a year for the UK over the same period;

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

Comparison of growth rates over time and across sectors

Table 1 below highlights the growth rates in key sector over the past year and the past 3 years.

It highlights in particular the turnaround in Manufacturing performance and in Services, where Scotland has outgrown the UK over the past year.

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

	2014 Scottish GDP Weights	% change 2017Q1 to 2018Q1			% change 2015Q1 to 2018Q1		
		Scotland	UK	Difference	Scotland	UK	Difference
GDP (O) ^(1,2)	100	0.8	1.3	-0.5	1.6	4.9	-3.3
GDP per capita* ⁽³⁾		0.1	0.6	-0.5	0.4	3.1	-2.7
Active Economy		2.2	2.3	-0.1	2.4	9.6	-7.2
<i>By main sectors:</i>							
- Production	17	2.4	2	0.4	-4.5	5.0	-9.5
- Manufacturing	11	1.6	2.5	-0.9	-4.5	4.6	-9.1
- Construction	6	-9.2	-2.7	-6.5	-7.3	7.5	-14.8
- Services	75	1.4	1.3	0.1	3.8	5.7	-1.9
- Retail & Wholesale	11	2.4	1.5	0.9	5.6	9.1	-3.5
- Hotels & Catering	3	3.7	-1.9	5.6	5.6	5.6	0.0
- Transport & Comm'ns	8	2.2	2.8	-0.6	2.4	11.6	-9.2
- Business	10	2.2	3.5	-1.3	5.6	13.5	-7.9
- Health & Social Work	9	1.4	1.2	0.2	4.3	4.8	-0.5

Sources: Scottish Government GDP release (June 2018); ONS UK National Accounts.

- (1) As North Sea related activity is allocated to the UK as a whole, and not on a regional basis, the UK measure shown excludes it in order to make overall UK GDP growth more comparable with the Scottish figure.
(2) The UK GDP figure shows the average across Income, Expenditure and Output measures and is used in the Scottish Government's release, although this means that sectoral changes do not add up to the overall UK change.
(3) GDP per capita is shown including the North Sea, consistent with ONS statistics.

CONSTRUCTION

Construction fell by 3.5% in Q1, the ninth consecutive quarter that it has declined (equivalent to a 12.5% decline from its peak). It is unclear how much of this fall was due to poor weather in Q1 and how much is related to the continuing adjustment from unusually high output in 2015.

However, Office for National Statistics (ONS) data for (cash terms) Scottish Construction output showed a much bigger fall in Q1, of 11% (compared to a 3% fall for the UK), with output back to the level seen 3 years ago. This suggest that there may be yet more to come in terms of falling Scottish Construction output.

The ONS data highlights that (i) **new infrastructure work** has fallen to almost half the level of the peak level seen in the 2nd half of 2015, (ii) **new public work** is at its lowest level in almost 4 years, and (iii) **new private commercial work** has fallen to its lowest level in almost 5 years. (Note that, strangely, official ONS data for Construction sector jobs has remained virtually flat over this dramatic period of rise and fall in output.)

ACTIVE ECONOMY

While the economy as a whole continues to flounder, its foundations are looking a little more secure. Those parts of the economy that are better measured and less susceptible to erratic shifts, essentially Manufacturing and non financial Private Sector Services, have grown by over 2% compared to a year ago and in line with UK output. This contrasts with the relatively poor performance of the Active Economy in the preceding years.

Both points are likely to be related to the changing fortunes of the North Sea sector and its onshore impact.

Quotes:

“Scotland’s GDP growth performance was predictably poor in the first quarter of 2018, given the well sign posted slump in the Construction output.

However, the underlying position has improved somewhat, with Manufacturing and Private Sector Services combined showing growth of over 2% on a year ago.

The new Cabinet Secretary for the Economy, Derek Mackay, faces the same difficult task as his predecessor in trying to bolster Scottish economic growth or at least in trying to better understand the sources of its current weakness.

He did not get off to a good start by claiming that “Scotland’s economy is strong, with output per head the highest in the UK outside London and the south-east.” In fact, Scotland’s economy remains weak and output per head is unchanged on 3 years ago.”

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