

(Press Release - 19th September 2018)

Analysis of latest Scottish GDP (2018 Q2) statistics, including latest data revisions

Latest figures confirm good growth in Scottish Economy in first half of 2018

Today's official figures for Scottish Gross Domestic Product (GDP) - onshore and in 'real' terms - go up to the Second Quarter of 2018 and incorporate the significant revisions published in the last National Accounts data for Scotland.

Key points

- Latest data reveals growth in the **Scottish economy in the Second Quarter (Q2) of 2018 of 0.5%**, above the **UK** growth rate of 0.4%. In part, this uptick is due to output in some industries, including Construction, recovering from the bad weather experienced in Q1;
- For the **first half of 2018**, the **Scottish economy grew by 1.4%**, in comparison to the **first half of 2017**, in comparison to the UK's 1.2%;
- The specially constructed '**Active Economy**' measure (essentially Manufacturing and (non-financial) Private Sector Services) for Scotland grew by 0.7% in the last quarter and by 2.7% compared to the same quarter a year ago, on a par with the UK;
- **Revised data** shows that while recent growth in Scottish GDP has been better than previously estimated, it was still disappointingly low, with an annual average growth rate of 1.1% since 2010 (slightly lower than pre-revisions figure of 1.2% a year);
- Much of the change in the pattern of growth seen year-by-year since 2010 is due to **unprecedented revisions to Construction sector output**, which is now much less volatile and closer to the profile seen at the UK level;
- In comparison to Scotland's 1.1% annual GDP growth rate post 2010, the UK economy has grown by around double this rate, at 2% a year.
- More recently the performances of **Manufacturing, the Business Services sector and the Retail & Wholesale have been a particular worry**.

(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, post revisions

In August the Scottish Government published revised GDP data back to 1998. As a result of these - sometimes very large - revisions, the pattern of Scottish economic growth has changed, although the average growth rate has remained around the same.

Since 2010 in particular the average GDP growth rate of the Scottish economy has been very poor and around half the growth rate seen for the UK. Even when changes in population growth are taken into account a significant differential remains.

Table 1 highlights the sources of the slowdowns by sector, over a series of time periods: i) since 1998; ii) since 2010; and iii) since 2014, both in absolute terms and in relative (to the UK economy) terms.

Table 1: Scotland vs UK growth comparisons, %, real terms

Sector	1998 to 2017			2010 to 2017			2014 to 2017		
	Sc	UK	Diff	Sc	UK	Diff	Sc	UK	Diff
GDP	30	46	-16	8	15	-7	2	6	-4
GDP per capita	22	27	-5	4	9	-5	1	4	-3
<i>by Industry</i>									
Manufacturing	-2	0	-2	6	6	0	-5	3	-8
Construction	16	37	-21	14	22	-8	12	16	-4
Services	39	58	-19	7	17	-10	3	7	-4
<i>by Service</i>									
- Retail/Wholesale	39	41	-2	10	25	-15	5	11	-6
- Accom'n & Food	3	48	-45	5	17	-12	5	9	-4
- Trans/Info/Comms	52	95	-43	13	22	-9	5	12	-7
- Financial	55	44	11	-2	-2	0	3	1	2
- Business	98	130	-32	23	42	-19	3	12	-9
- Public Admin.	0	-1	1	-10	-13	3	-2	-3	1
- Education	-2	13	-15	2	8	-6	2	2	0
- Health/SocialWork	40	78	-38	7	15	-8	4	3	1
- Other	25	24	1	4	13	-9	-1	2	-3

Source: Scottish Government, Scotland's GDP Q2 2018, September 2018; ONS UK National Accounts.

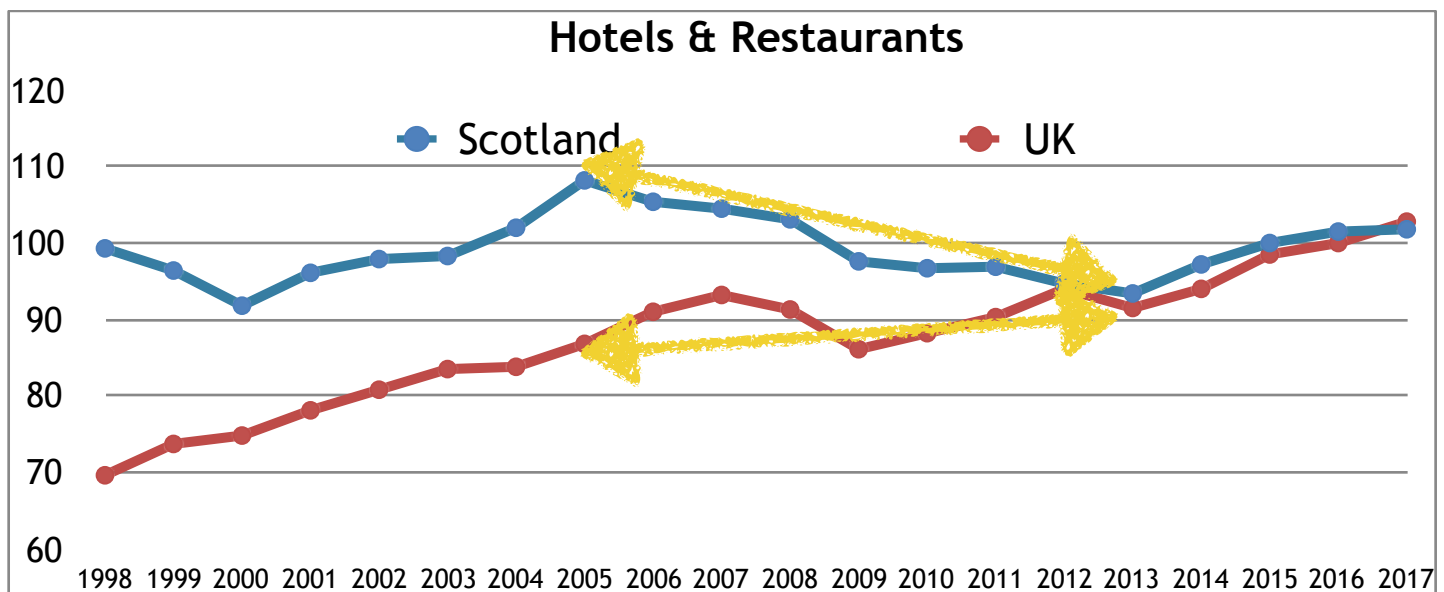
- (1) As North Sea related activity is allocated to the UK as a whole, and not on a regional basis, the UK measure shown excludes it in order to make overall UK GDP growth more comparable with the Scottish figure.
- (2) The UK GDP figure shows the average across Income, Expenditure and Output measures 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.
- (4) GDP per capita adjusts for changes in population and hence is a better measure of how living standards (GDP per head of population) have changed.
- (5) Differences shown in **RED** indicate a relatively poor performance for Scotland relative to the UK. Differences shown in **GREEN** indicate a relatively good performance for Scotland relative to the UK.

Table 1 shows that revisions have not altered **the main driver of the recent growth differential between Scotland and the UK, which has been Private Sector Services**. Indeed the unusual patterns of growth seen across a range of such private sector services, including ‘Retail & Wholesale’, ‘Transport, Information & Communications’ and ‘Business Services’, remain difficult to explain.

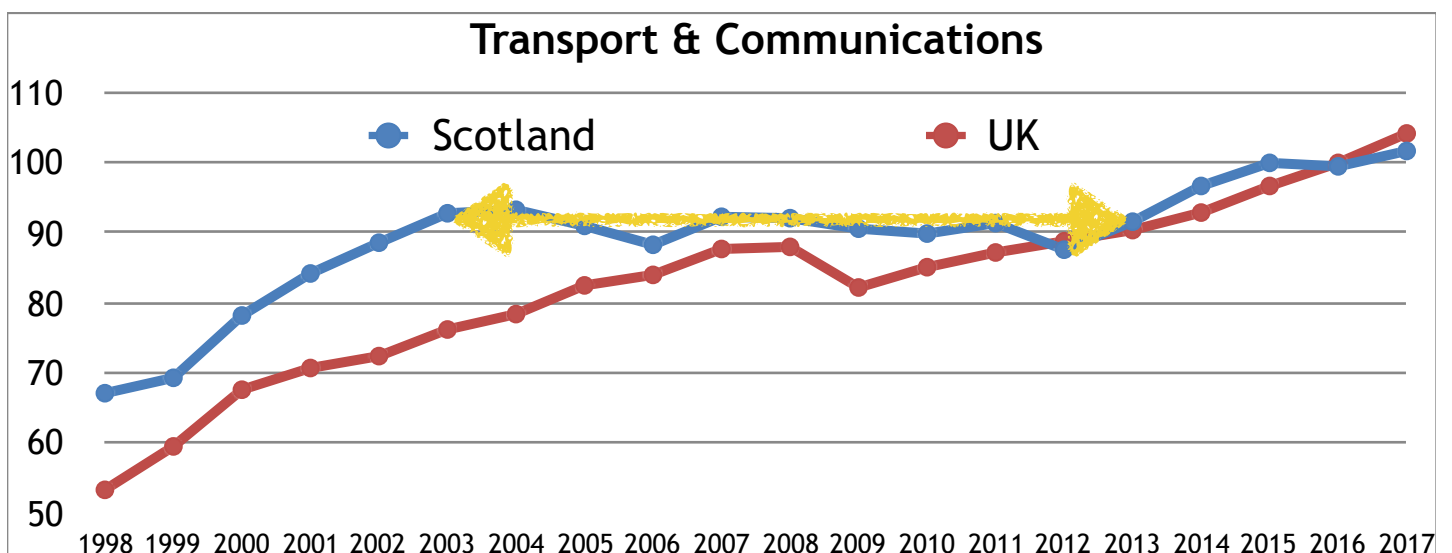
Looking at some of the more peculiar performances in more detail:

- The Scottish hospitality sector (**Hotels & Restaurants**) has seen next to no growth in almost 20 years while at the UK level it has grown by almost 50%. While Scottish output fell by over 10% from 2005 to 2013, UK output rose by over 5% in the same period. Since that point both have grown at similar rates.

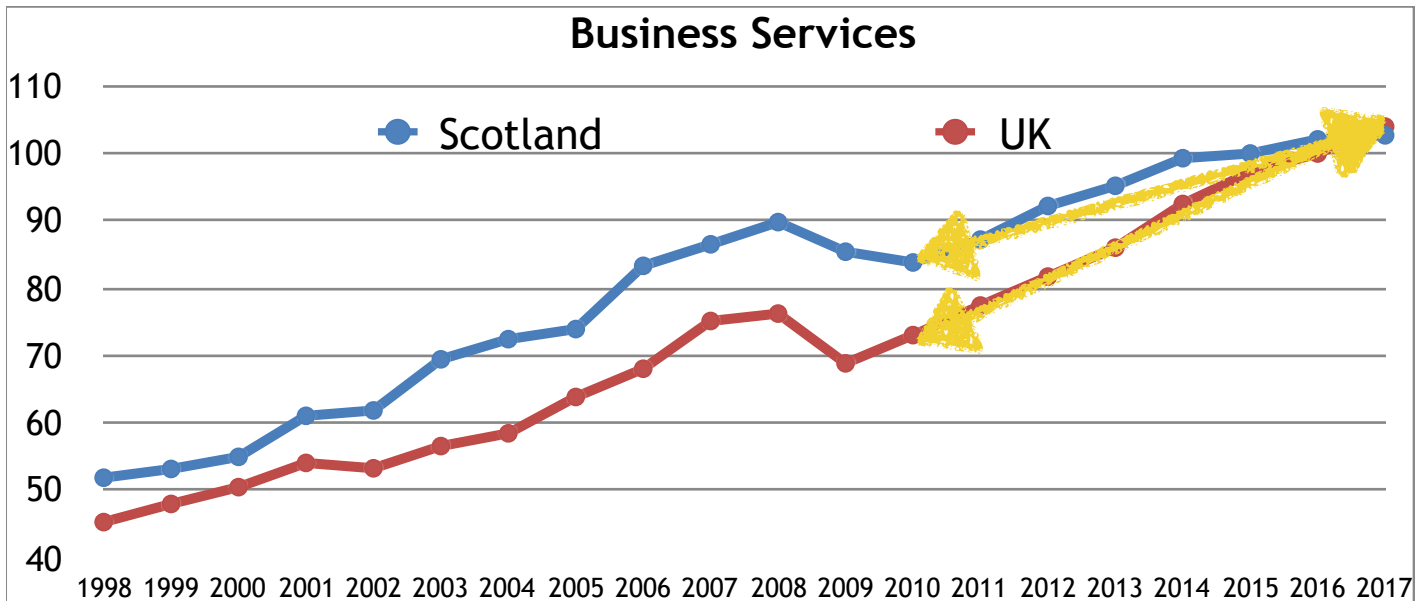
(Note that in all the charts shown the data is indexed to a particular year = 100. In other words it is not the level but the gradient of the slope that is relevant when comparing growth performances.)



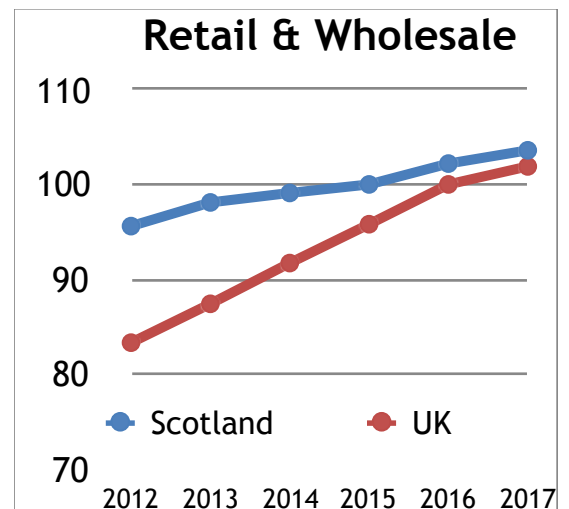
- The ‘**Transport, Information & Communications**’ industry has grown by a fairly healthy 50% since 1998, although for the UK as a whole it has almost doubled. It is noticeable that in Scotland the sector was at a standstill for a decade (2003 to 2013) and at a time when the UK sector continued to grow, by over 15%, despite the financial crash related downturn.



- ‘**Business services**’ growth in Scotland has lagged behind that of the UK since 2010, but this growth gap has worsened since 2014. This is important as it is both a large sector (10% of the economy) and tends to be the fastest growing. The decline in oil and gas activity may be partly to blame as Business Services account for more than a quarter of related indirect employment.

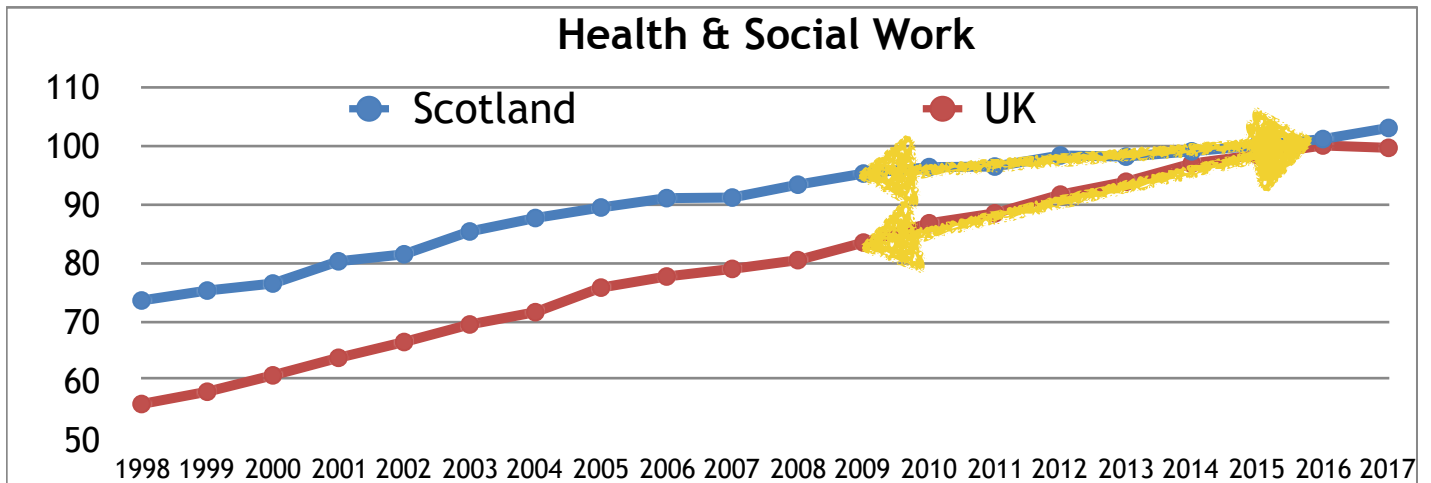


While it has performed relatively well in the longer run, the Scottish **Retail & Wholesale** sector has seen sluggish growth since 2012, compared to the rapidly expanding UK sector.

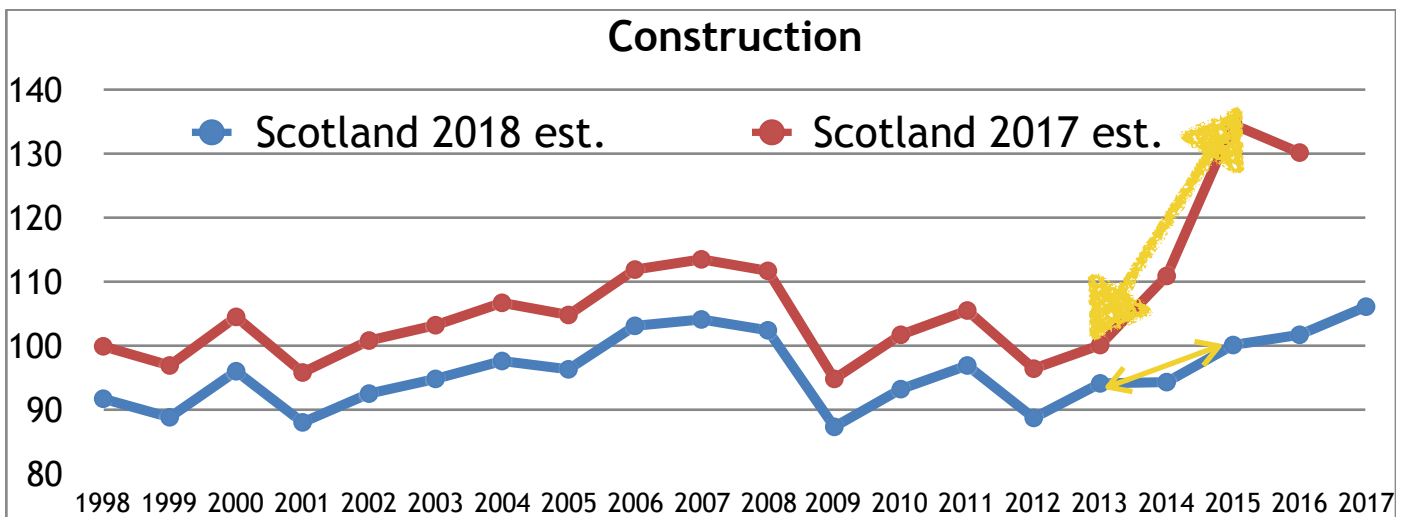


In terms of **Public Sector Services**:

- The ‘**Public Administration**’ sector (central and local government) has performed noticeably better in Scotland post 2010 (especially once adjustments for population change have been made), perhaps reflecting the tougher settlements at local government level seen in England;
- The ‘**Education**’ sector differential in the UK’s favour is unsurprising given demographic factors;
- The ‘**Health and Social Work**’ sector differential in favour of the UK goes back to at least 1998 and was at its worst from 2006 to 2015, although it has improved of late. Public spending patterns in this area are thought to be similar so such a striking difference in output growth is perplexing. It suggest slower productivity growth in Scotland but the quantity and quality of outcomes in this field of activity are notoriously difficult to measure.



In terms of **Construction**, the picture remains one of confusion. The worrying large revisions in recent quarters simply reinforce the doubts over why the original data was ever used in the first place. Furthermore, the ONS’s regional data still suggests that the earlier pattern remains valid. In other words the two sources are now inconsistent.



In terms of **Manufacturing**, output has fallen of late, in contrast to the rise seen at the UK level and despite the boost from a lower exchange rate. In particular, the ‘Metal Products’ sub-sector has seen a decline in output of over 20% since 2014. This may be related to the decline in North Sea activity, as this area includes the manufacture of critical parts for oil and gas infrastructure, containers, drilling and construction facilities.

Explaining relatively Scotland poor showing

The fall in **North Sea activity** will undoubtedly have played some role in Scotland's poor performance of late. For example, data published by Oil & Gas UK (covering onshore and offshore - i.e. direct, indirect and induced - jobs) suggests that total employment supported by the oil and gas industry fell by 40% (or 184,000) between 2014 and 2017, before (it is currently estimated) recovering a little (by 3,000) in 2018.

For 2016 it is estimated that Scotland benefited from almost 40% of these oil and gas related jobs and so might be expected to have lost the same proportion in this period of down-sizing. While Scotland's employment situation has remained healthy despite this loss, it may be that the oil and gas related jobs were of a higher quality and so any replacement jobs still led to a slowing of GDP growth over this period. As discussed earlier, the onshore areas of greatest dependency on oil and gas are Manufacturing and Business Services, which might help to explain their recent poor performances.

Besides the North Sea, some other employment trends may be slowing Scottish growth relative to the UK. For example, **UK employment in car manufacturing**, a relatively high productivity industry, has increased by 42,000 in the past 5 years and by 13,000 in other forms of transport equipment. However, Scotland will not have profited much from this as it has no car manufacturing or assembly plants.

Beyond the contributing factors outlined above it remains difficult to identify other specific causes for such a relative slowdown. This is particularly the case with respect to some of the longer term discrepancies, i.e Hotels & Restaurants and Transport & Communications.

Quotes:

“Scotland continues to perform relatively well in 2018. It is particularly welcome to see that much of this growth has returned to the ‘active’ side of the economy, including Manufacturing and most Private Sector Services.

However, Scotland's longer term GDP growth performance continues to disappoint, despite recent data revisions. While the recent uptick in output over the last six months is welcome it does little to redress past failings and its source remains largely a mystery, as too does the causes of past underperformance. Even at the higher growth rates seen in the past two quarters Scotland is still only looking at a growth rate of around 1.5% for 2018 as a whole.”

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