

(Press Release - 19th December 2018)

Analysis of latest Scottish GDP (2018 Q3) statistics

Latest figures show slowing Scottish economic growth in Third Quarter of 2018

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

Key points

- Latest data reveals growth in the **Scottish economy in the Third Quarter (Q3) of 2018 of 0.3%**, half the **UK** growth rate of 0.6%;
- Compared to the same **quarter of 2017, the Scottish economy grew by 1.5%**, the same growth as seen for the UK;
- The main contribution to the uptick seen in the first half of 2018 in growth came from the **Manufacturing** sector, in particular **Food & Drink** and **Electrical Goods**. This may be due in part to a positive Brexit effect via a lower value of sterling improving exports. However, Q3 saw a fall back in Manufacturing output, mainly in relation to falling Food & Drink output;
- In the wider economy, particularly **Private Sector Services**, the recovery in the oil price and in North Sea activity is likely to have improved growth conditions so far in 2018. However, the decline in oil prices since the end of Q3 may lead to a diminution of any such positive effects;
- The specially constructed '**Active Economy**' measure (essentially Manufacturing and (non-financial) Private Sector Services) for Scotland flatlined in the Third Quarter, compared to a rise of 0.7% for the UK.

(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 highlights growth patterns over two time periods: i) since the Third Quarter of 2014; and ii) since the Fourth Quarter of 2017, both in absolute terms and in relative (to the UK economy) terms.

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

Sector	2013 Q3 to 2018 Q3			2017 Q4 to 2018 Q3		
	Sc	UK	Diff	Sc	UK	Diff
GDP	3.7	7.6	-3.9	1.2	1.0	0.2
GDP per capita	1.7	4.3	-2.6	0.9	0.6	0.3
by Industry						
Manufacturing	-3.3	3.8	-7.1	2.6	-0.2	2.8
Construction	11.9	16.9	-5	1.9	1.4	0.5
Services	4.4	8.1	-3.7	1.3	1.3	0
by Service						
- Retail/Wholesale	6.2	14.0	-7.8	0.5	2.5	-2
- Accom'n & Food	7.2	12.3	-5.1	2.1	3.0	-0.9
- Trans/Info/Comms	9.9	16.9	-7	3.5	2.8	0.7
- Financial	6.7	1.2	5.5	4.0	0.9	3.1
- Business	3.4	15.6	-12.2	1.3	1.3	0
- Public Admin.	-0.8	-3.0	2.2	0.1	0.1	0
- Education	1.8	1.7	0.1	0.2	0.4	-0.2
- Health/SocialWork	4.8	2.8	2	0.5	0.5	0
- Other	-3.0	3.3	-6.3	1.5	1.0	0.5

Source: Scottish Government, Scotland's GDP Q3 2018, December 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.

The main contribution to Scotland's slightly better performance, compared to the UK, **since the last quarter of 2017** has come from **Manufacturing**, particularly in Quarter 1 of 2018.

This rise in Manufacturing output was in turn down largely to fast growth in Food & Drink and in Electrical Products. In terms of **Food & Drink**, the improvement may have been helped by the post **Brexit** fall in sterling, making exports cheaper, although Q3 saw a fall back in this sector. In terms of **Electrical Products**, this series is erratic and the one-off 20% increase seen in the first half of 2018 may just be 'noise' rather than a sign of underlying strong and maintained growth. Interestingly, neither of these boosts to Manufacturing is linked to any recovery in **North Sea activity**.

Table 1 also shows that the recent Scottish boost in output has done little to close the slower growth gap that has emerged, relative to the UK economy, **over the past four years**. The main driver of this differential has been **Private Sector Services**, especially the slower growth seen in **Business Services**.

The bulk of this slower growth relates to the period from the Third Quarter of 2014 to the First Quarter of 2016, during which time the Scottish economy stood still (+0.1%) while the UK economy continued to grow (+3%). During this period the biggest drag on the Scottish economy was Manufacturing, which fell by over 6% and Business Services which also, unusually, fell. In contrast UK Manufacturing was flat and Business Services grew strongly.

Quotes:

“Scotland relatively good economic performance in 2018 has stalled somewhat in Quarter 3, with much of the recent advantage gained over the UK having been lost as Manufacturing fell back. With a falling oil price and an uncertain Brexit looming, prospects remain poor.”

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