SCOTTISH TRENDS

(Press Release - 20th March 2019)

Analysis of latest Scottish GDP (2018 Q4 and full annual year 2018) statistics

Fourth Quarter figures confirm another year of low growth for the Scottish Economy, on a par with the UK.

Todays official figures for Scottish Gross Domestic Product (GDP) - onshore and in 'real' terms - go up to the Fourth Quarter of 2018 and allow us to look at the outcome for 2018 as a whole.

Key points

- Latest data reveals growth in the **Scottish economy in the Fourth Quarter** (Q4) **of 2018 of 0.3%**, slightly above the **UK** growth rate of 0.2%;
- For **2018 as a whole, the Scottish economy grew by 1.4%,** as did the UK;
- This time last year it looked like **2017** had been another bad year, with growth of only 0.8%, less than half the 1.8% seen for the UK. However, revisions to the data have increased GDP growth for Scotland in 2017 to 1.5% (compared to 2.1% for the UK).
- It now looks like t**he Scottish economy seriously under performed in 2015 and 2016 but since then (2017 and 2018) has returned to growth on a par with that of the UK as a whole,** although still below the historical average. The main culprit for the 2015 and 2016 underperformance may well be the downturn in North Sea oil and gas activity, in particular with respect to the Manufacturing sector of Metal Products & Machinery.
- Scottish growth in **2018** was double the 0.7% that had been forecast by the Scottish Fiscal Commission (SFC) last May. Much of this better than expected performance can be put down to Manufacturing, which grew by almost 3% after 3 years of near static or falling output.
- The performance of **Private Sector Services remains a worry**. In 2018 each main sub-sector grew by between 0.4 to 0.8% less than its UK counterpart. If this relatively slower performance continues, and Manufacturing returns to a more normal performance, then 2019 could again be another poor year, in line withe the SFC's current forecast of 1.2%, or even lower;
- In **GDP per capita** (standard of living) terms, Scotland grew by 0.9% in 2018, marginally above the 0.8% seen for the UK;
- On a slightly more reassuring note, the specially constructed **'Active Economy'** measure (essentially Manufacturing and (non-financial) Private Sector Services) has grown at a healthier rate of 2.2% in 2018, although still below the 2.9% seen 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.)

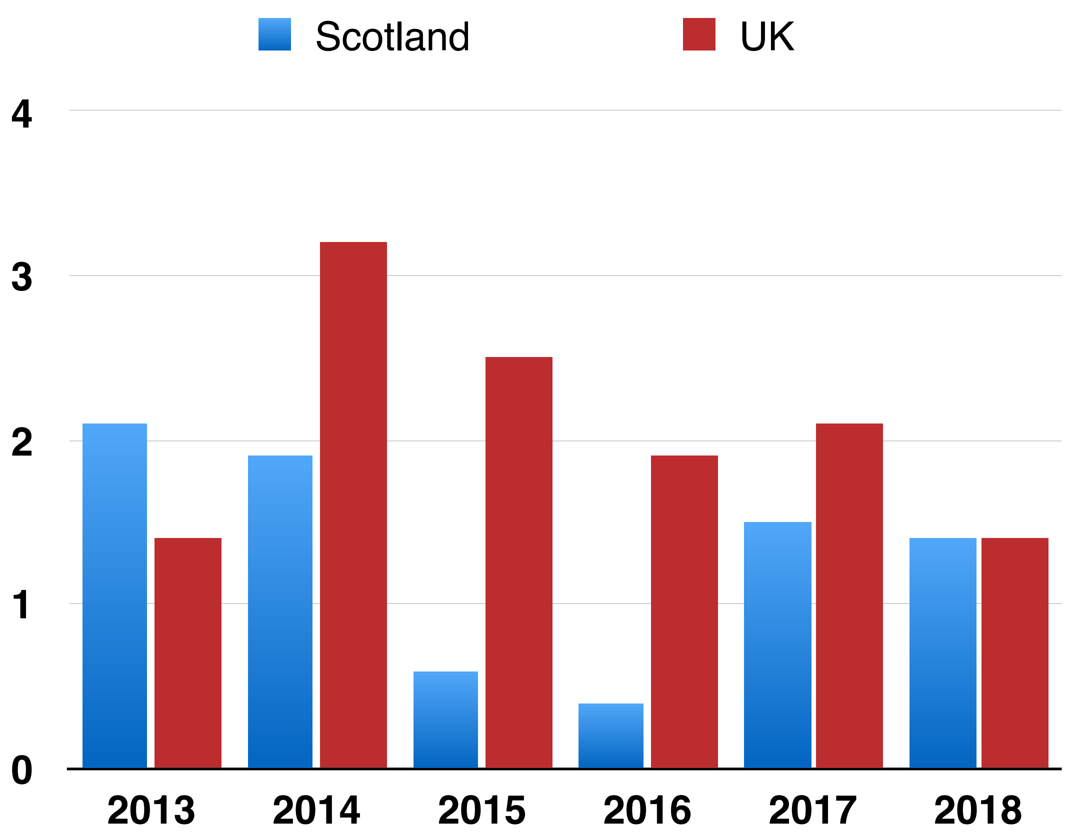
Comparison of growth rates over time and across sectors

Revisions to GDP growth pattern

Significant data revisions over the past year have changed the interpretation of the Scottish economy's recent performance. This time last year it looked like 2017 had been a very bad year but, post revisions (which doubled the growth rate), it now looks to have been more normal, due to Construction sector revisions, which lowered output in 2016 and raised it in 2017. As a result, whereas it had looked like 2016 and 2017 were very poor years, it is now 2015 and 2016 that look like the weakest growth years of late.

Chart 1, below, highlights this pattern. It shows how Scottish GDP has changed since the last period of more 'normal' (i.e. around 2% per annum) growth in 2012 and 2013, splitting the period from 2014 to 2018 into two periods: 2014 to 2016, which saw very poor Scottish growth; and 2016-2018, where the performance gap with the UK as a whole closed.

Chart 1: GDP growth rates, 2012 to 2018



2014 - 2016

This period was substantially affected by the decline in North Sea activity, triggered by the steep fall in the oil price. As a result, Oil & Gas UK estimate that employment fell by almost 40% (184,000 jobs which includes direct, -5,000, indirect, -80,000, and induced, -100,000) between 2014 and 2017.

Oil & Gas UK also estimate that the areas of the onshore economy most affected by North Sea activity are Metal Products & Machinery, within Manufacturing, and Professional Services &

Support Administration, within Services. In the case of the former, this dependency appears to be confirmed by the data which shows a fall of almost a quarter between 2014 and 2016. However, evidence for the latter is less clear cut. While Professional Services & Support Administration grew more slowly in Scotland than in the UK, this differential was not dissimilar to that seen for other private sector services.

Scotland's economic performance over this period may have also reflected the downward trend in growth seen at the UK level over the same period.

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

		2 YEARS OF POOR GROWTH FOR SCOTLAND….			**…..FOLLOWED BY 2 YEARS OF 'RECOVERY'**		
	2015 Scottish GDP Weights	**% change 2014 to 2016**			**% change 2016 to 2018**		
		Scotland	**UK**	**Difference**	**Scotland**	**UK**	**Difference**
GDP (O) (1,2)	**100**	**1.0**	**4.4**	**-3.4**	**2.8**	**3.5**	**-0.7**
GDP per capita* (3)		**0**	**2.8**	**-2.8**	**2.0**	**2.3**	**-0.3**
- population change		*1*	*1.6*	*-0.6*	*0.8*	*1.2*	*-0.4*
Active Economy	**43**	**0.6**	**6.4**	**-5.8**	**3.4**	**6.5**	**-3.1**
By main sectors:							
- Production	**17**	**-6**	**2**	**-8**	**4**	**3**	**2**
- Manufacturing	11	-7	0	-7	4	3	1
- Metal Products	***2***	***-23***	***-6***	***-18***	***-2***	***5***	***-6***
- Construction	**6**	**8**	**9**	**-1**	**5**	**8**	**-3**
- Services	**76**	**2.2**	**4.7**	**-2.5**	**2.5**	**3.8**	**-1.3**
- Distrib'n & Hospitality	14	3	9	-5	3	5	-2
- Transport & Comm'ns	8	3	8	-5	5	8	-4
- Business & Finance	29	3	5	-2	2	4	-2
- Profess'l & Admin	***11***	***3***	***8***	***-6***	***2***	***9***	***-7***
- Government & Other	26	1	1	0	2	1	1

Sources: Scottish Government GDP release (March 2019); 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.

2016-2018

By 2017 the employment shake out in North Sea related activity had passed, although it is estimated that there has been little in the way of bounce-back, at least in employment terms, since then. Beyond this impact, Manufacturing returned to growth and Public Sector Services growth improved over this period.

After the major revisions seen over the past year, the initial GDP growth out-turn for 2018 might be considered very much a preliminary estimate at this stage, although hopefully the scale of revisions seen over the past year will turn out to be a very rare event.

Construction remains a potential issue, with ONS and Scottish Government data at odds with each other. At present ONS data suggests an 11% cash terms fall in Scottish Construction sector output in 2018, over 2017, while todays Scottish Government real terms data suggests no change in 2018.

Elsewhere, the Scottish **Labour Market** continues to perform at, or near, a near historic high. This contradiction, with the GDP performance, remains an unusual feature of the current economic landscape, although it does help explain the poor productivity performance.

Quotes:

"Scotland's GDP growth performance in 2018 was stronger than had been predicted and similar to that of the UK, whilst still being, overall, disappointingly low.

This better than expected performance was largely down to renewed growth in Manufacturing, particularly Computer & Electrical Products.

The future still looks less than bright however, not just due to potential Brexit impacts but also a concerns over a lack of dynamism in Scottish Private Sector Services performance."

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