

(Press Release - 18th September 2019)

## Analysis of latest Scottish GDP (2019 Q2) statistics, including latest data revisions

### Latest figures confirm the Scottish Economy shrank in the second quarter of 2019, in line with the UK as a whole

Todays official figures for Scottish Gross Domestic Product (GDP) - onshore and in 'real' terms - go up to the Second Quarter of 2019 and incorporate the significant revisions published in the last National Accounts data for Scotland.

#### Key points

- Latest data reveals that the **Scottish economy shrank in the Second Quarter (Q4) of 2019 by -0.3%**, which was more than the UK's -0.2%;
- This fall was largely down to a **-2.5% drop in Manufacturing output**, as reflected in the '**Active Economy**' measure (Manufacturing and (non-financial) Private Sector Services), which shrank by 0.7%. This drop is thought to be associated with the end of stockpiling seen in Q1;
- In the first half of 2019, the Scottish economy grew by 1.1% compared to the first half of 2018, as against 1.5% for the UK;
- New **GDP data for all English regions** allows for a comparison of sectoral growth with Scotland. The new data shows that, since 2012, Scotland has performed relatively well with respect to **Manufacturing, Financial services and Public Administration**. However, in terms of the **Distribution (Retail & Wholesale) and Business sectors** Scotland's performance is notably worse than any other English region. Furthermore, in terms of the key political target of improving output in the **Health & Social Work** sector, Scotland ranks joint bottom;
- **Revised data** shows that growth in Scottish GDP for 2016 had been better than previously estimated, up 0.4% (but with a corresponding fall in 2017), due to Manufacturing output being revised up by almost 5% in that year. This means that 2016 is no longer a year of very low growth but is still, in absolute and relative (to the UK) terms, a poor one, with growth under 1%;
- Since 2014, Scotland's GDP growth rate has been half that seen for the UK. Some of this underperformance will be down to a slump in North Sea activity but widespread slower growth (under half that seen in the UK for all private sector service groupings) suggests that other forces are also at play.

*(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 latest revisions

Table 1 highlights Scottish and UK growth performances over: the full twenty years (1998 to 2018) of data available; split between the first and second decades; and since the slowdown that began in 2014.

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

Sector	1998 to 2018			1998 to 2008			2008 to 2018			2014 to 2018		
	Sc	UK	Diff	Sc	UK	Diff	Sc	UK	Diff	Sc	UK	Diff
<b>GDP</b>	32	46	-14	23	29	-6	8	13	-5	4	8	-4
<b>GDP per capita</b>	23	29	-6	20	22	-2	3	6	-3	2	5	-3
<b>Active Economy</b>	37	59	-22	17	31	-14	11	22	-11	5	13	-8
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<b>by Industry</b>												
<b>Manufacturing</b>	8	1	7	-4	0	-4	12	1	11	4	4	0
<b>Construction</b>	14	37	-23	12	19	-7	3	16	-13	10	17	-7
<b>Services</b>	40	61	-21	31	37	-6	7	17	-10	4	9	-5
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<b>by Service</b>												
<b>Distrib'n &amp; Hospitality</b>	33	47	-14	21	21	0	10	21	-11	7	14	-7
<b>Transport &amp; Comms</b>	54	104	-50	39	65	-26	11	24	-13	6	17	-11
<b>Business &amp; Financial</b>	67	78	-11	52	48	4	10	20	-10	4	9	-5
<b>Gov &amp; Other</b>	16	30	-14	13	21	-8	3	8	-5	1	2	-1

Source: Scottish Government, Scotland's GDP Q2 2019, September 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.
- (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.

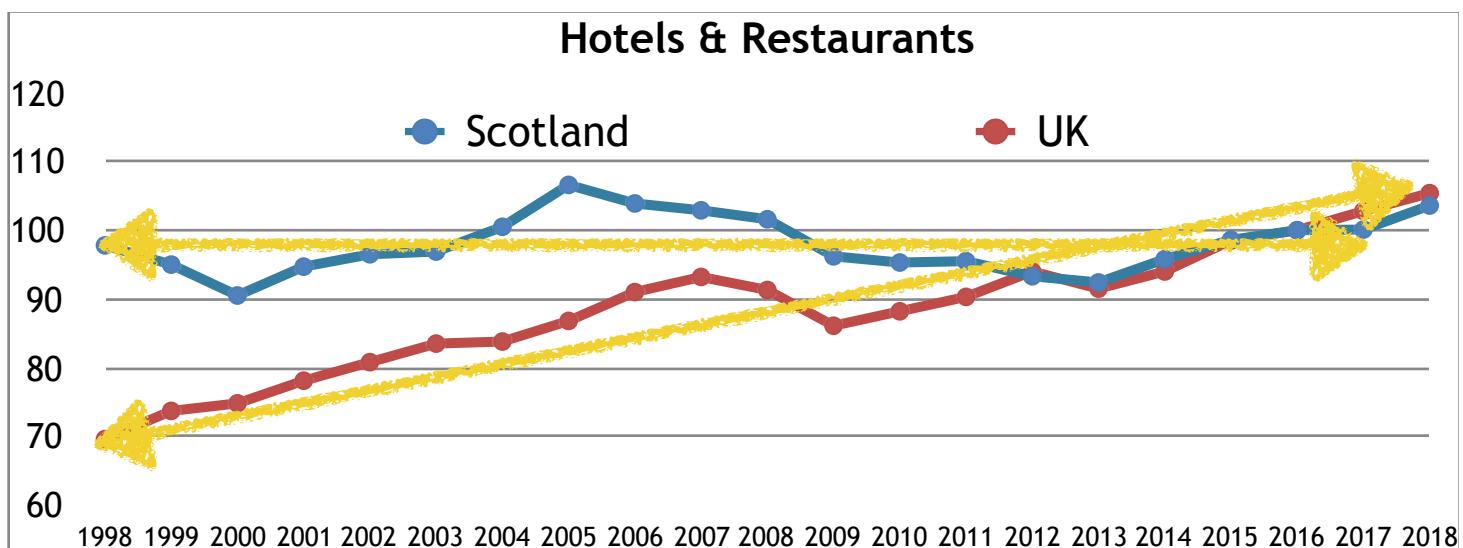
Over the full period (1998 to 2018), on the positive side, Scottish **Manufacturing** has outperformed the UK. However, this has been more than offset by poor performances in **Construction** and in '**Transport, Information and Communications**'. Table 1 also shows that much of Scotland's relatively poorer, post 1998, performance, after adjusting for population, has taken place since 2014.

It is noticeable that output related to the **Active Economy** (essentially Manufacturing and, non-financial, Private Sector Services) has grown much more slowly in Scotland, particularly since 2014. Given the relatively good performance of Scottish Manufacturing, this highlights the poor performance of, non-financial, Private Sector Services in Scotland.

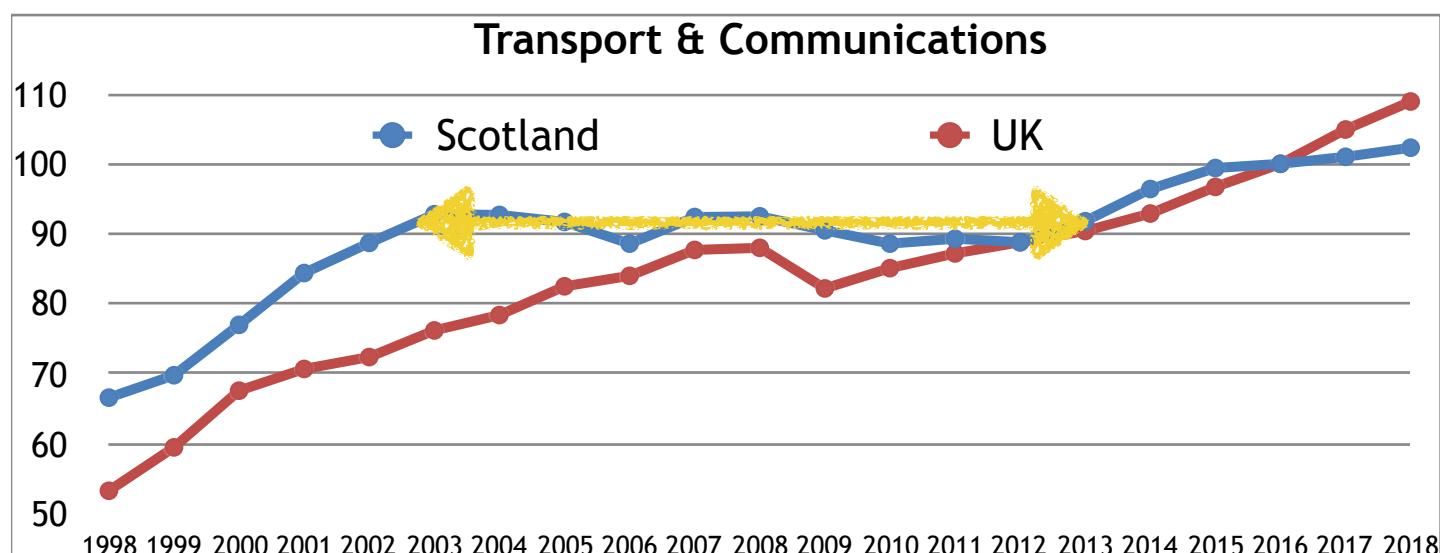
Looking at some of these comparative performances in more detail:

(Note that in all the charts shown below 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.)

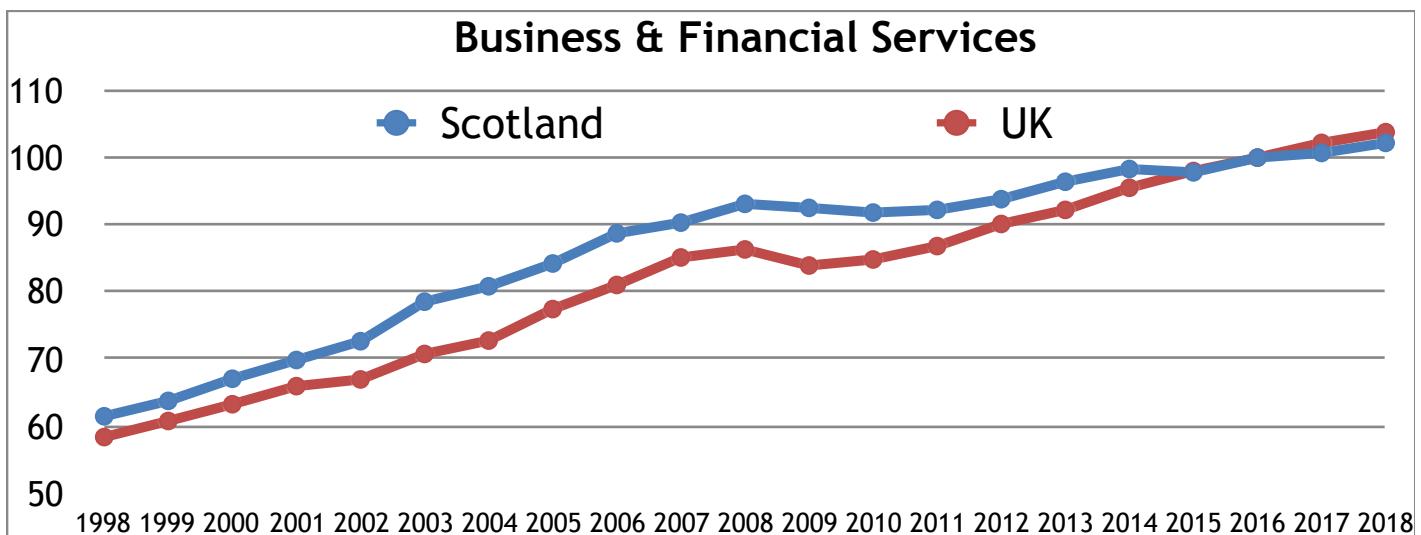
- The Scottish Hospitality sector (**Hotels & Restaurants**) has seen next to no growth over the past 20 years, while at the UK level it has grown by almost 50%. In particular, Scottish output fell by over 10% from 2005 to 2013. Since that point both Scotland and UK Hospitality output have grown at similar rates.



- The ‘Transport, Information & Communications’ (TIC) industry has grown by a fairly healthy 50% since 1998, although for the UK as a whole it has more than doubled. It is noticeable that, similar to the Hospitality sector in Scotland, TIC output was at a standstill for a decade (2003 to 2013) and at time when the UK sector continued to grow. It is unclear whether there is any connection between the poor Scottish Hospitality and TIC sector underperformance’s.



- ‘Business and Financial 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 (17% of the economy) and tends to be one of 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. (Note: this sector includes the large ‘Real Estate’ sector which grows at a fairly constant rate, even over the 2009 recession period, and therefore tends to dampen any erratic movements.)



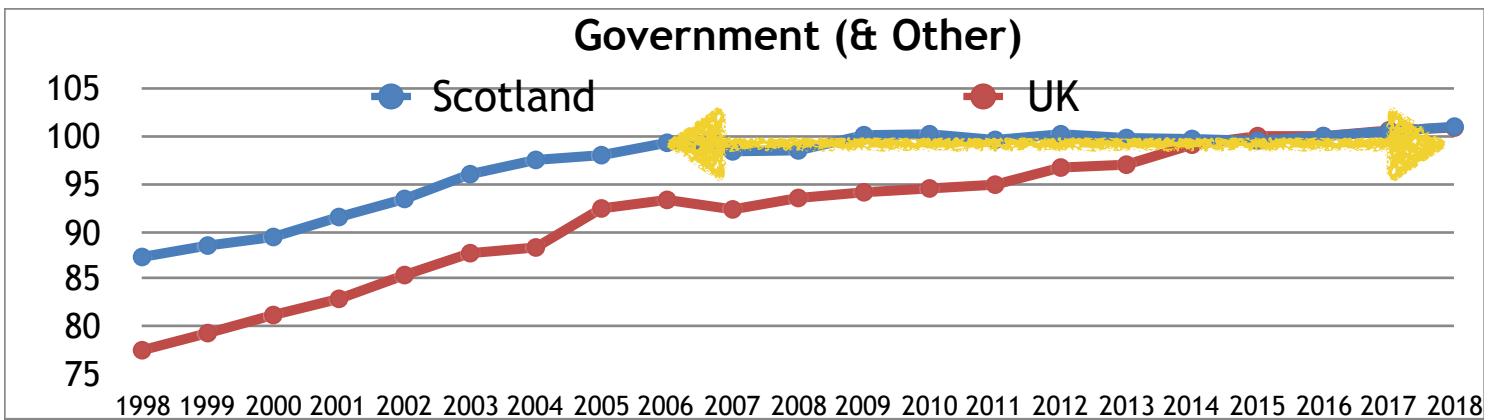
- While it continues to expand, the Scottish Distribution (**Retail & Wholesale**) sector has seen growth at less than half the pace of the UK since 2012.



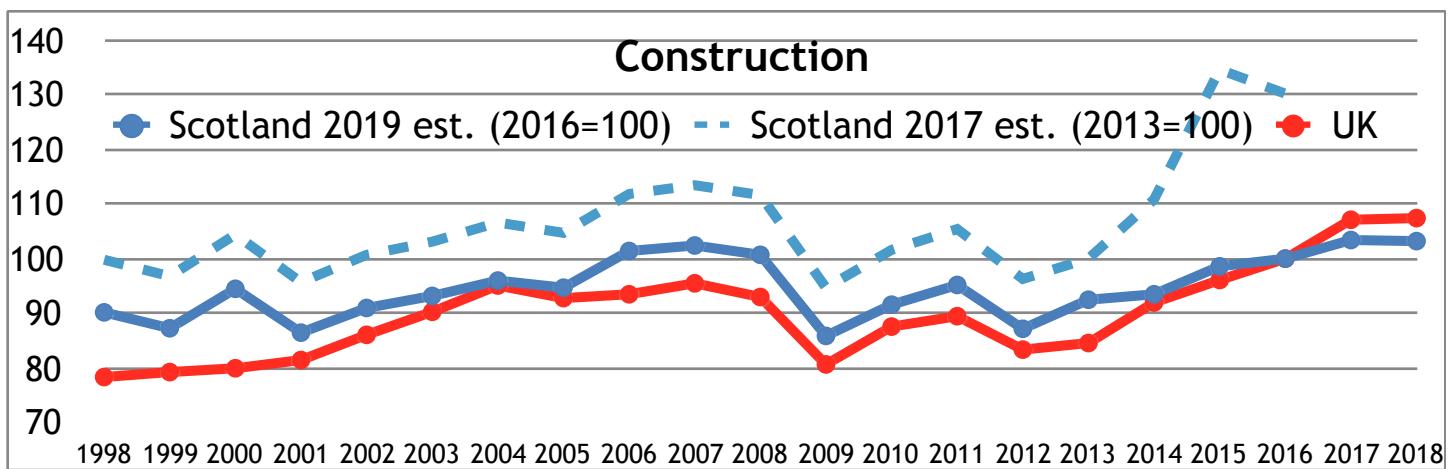
#### In terms of **Government (Public Sector) Services**:

- Output from Scottish and UK Government services (i.e. **Public Administration, Education and Health & Social Work**) grew, at not dissimilar rates, up to around 2006. Thereafter Scottish output has flatlined, while at the UK level growth has been maintained, albeit at a lower rate. Although the differential is reduced once adjustments for population change have been made, it still exists, despite the tougher settlements at local government level seen in England;
- Within this total, post 2014, Scottish ‘**Health and Social Work**’ related output, in per capita terms, has actually fallen, unlike for the UK. The only other Scottish sector to experience such a fall is ‘Public Administration’. However, given the relative budget settlements for Health

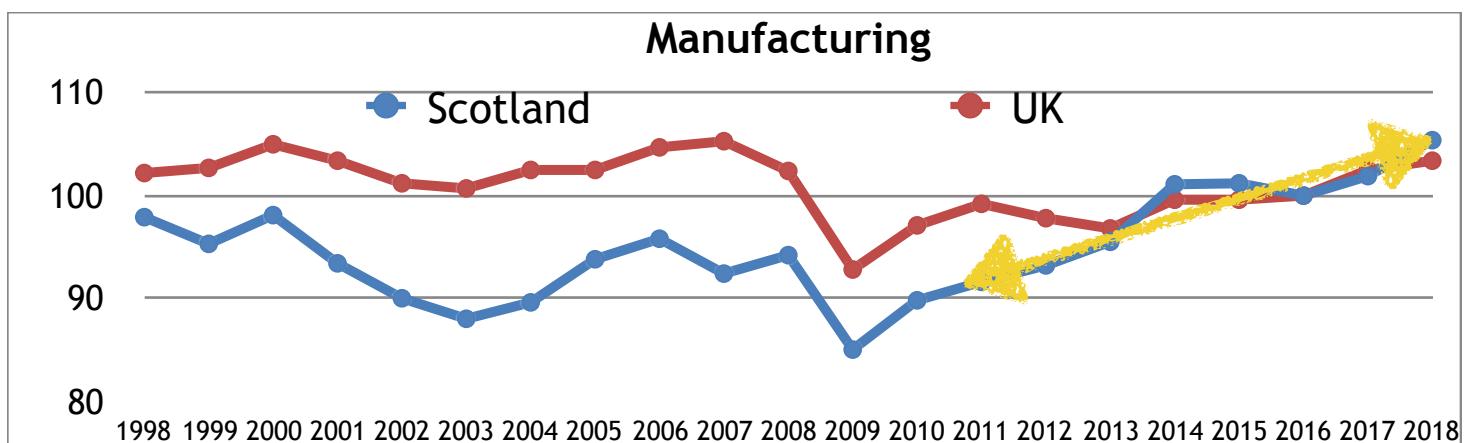
(protected) and Local Government (unprotected), the outcome is much more surprising in relation to Health & Social Work services. Scottish Government employment statistics show that NHS staffing in Scotland grew by close to 4% from 2013 to 2018, which implies a worrying decline in productivity in this sector.



- In terms of **Construction**, the latest output estimates are wildly different from those made only two years ago. Hopefully the methodology that replaced the, clearly warped, figures estimated in the past will have improved matters.



- In terms of **Manufacturing**, post 2009, Scotland has seen both historically strong growth and faster growth relative to the UK, despite the North Sea related slowdown.



## Explaining Scotland's recent economic performance, relative to the UK

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 almost 50% (over 200,000 jobs) between 2014 and 2018, before (it is currently estimated) recovering a little (by 9,000) in 2019.

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.

Beyond the North Sea slump it remains difficult to identify other specific causes for such a relative slowdown. However, Scotland's lower growth in terms of **Distribution and Business** services hints at some worrying problems in relation to these 'basic' building blocks of the economy.

## Comparison of Scotland and English regional growth, 2012 to 2018

The ONS now publishes 'experimental' GDP data for all English regions back to 2012. Looking over the period as a whole (i.e. between 2012 to 2018): (Note: where comparisons with English regions are made these have been adjusted for population change)

- Compared to English regions, **Scotland performs relatively well in terms of:** 1) **Manufacturing** (+13%), where it is estimated to have experienced the second or third highest growth in output since 2012 (after the West Midlands and London, although the 16% increase in output in 2018 for the latter looks suspect); 2) **Financial services** (+7%) where, in comparison, every English region experienced a fall in output and in most cases of well over 10%; 3) **Public Administration** (-4%), where many English regions saw falls in output of well over 10% and only London saw growth;
- Compared to English regions, **Scotland performs relatively badly in terms of:** 1) **Distribution services (Wholesale & Retail)** (+10%), where Scotland had the slowest growth, less than half the rate seen in every English region; **Business services** (+12%), where, again, Scotland grew the slowest and by less than half the rate seen in every English region; **Health and Social Work services** (+1%, i.e. a FALL in output per capita terms), where Scotland, along with the West Midlands experienced the lowest growth while some English regions (e.g. North West) grew by well over 10%;
- **Construction** activity in English regions is calculated using ONS data that the Scottish government statisticians no longer use and which give unrealistically high growth in recent years;
- There are clearly **still some data issues that need resolving**, for example, the 'Administrative & Support services' sector in the West Midlands is estimated to have grown by over 40% in 2018 alone, which seems highly unlikely.

## **Quotes:**

*“Like the UK, Scotland’s economy has performed poorly in the second quarter of 2019. This was largely down to a reversal of the, stockpiling related, fast growth seen in Manufacturing in Q1.*

*Looking at Scotland’s performance over a longer timeframe and across sectors suggests that the Manufacturing sector has performed relatively well over the past decade. However, Distribution services and Business services have shown a worrying underperformance over the past 5 to 6 years.*

*In addition, the Health and Social Work sector, despite significant boosts to the NHS budget, has seen falling output (in per capita terms) since 2012, in contrast to most other parts of the UK. Such a contraction highlights concerns over falling Scottish productivity in this sector.”*

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