



SPICe Briefing
Pàipear-ullachaidh SPICe

How is the Scottish economy performing? 2nd Quarter 2017

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This briefing summarises the latest GDP release from the Scottish Government: Scotland Gross Domestic Product 2nd Quarter 2017 (April to June 2017) published on 4 October 2017.



Contents

Background	3
Quarterly and annual growth	4
Average annual GDP change and the fiscal framework	7
Industry sector sizes	8
Bibliography	9

Background

Gross Domestic Product (GDP) is a measure of the total amount of goods and services produced. The Scottish Government produces a number of reports on GDP:

- Every three months (quarterly) it publishes total GDP and GDP by broad industry group in Scotland and the UK as a whole. GDP is calculated using "chained volume measures" and is presented as an index, the Chained Volume Index (2013=100). This publication contains no cash values of GDP. Looking at the percentage change in the index over time is the most common way of measuring changes in GDP. The index measures the economy in "real terms" i.e. the figures take into account the effect of inflation and allow for meaningful comparisons over time. Estimates are also seasonally adjusted, which removes the effect of price changes over time. The most recent publication is [Scotland Gross Domestic Product 2nd Quarter 2017](#) (published 4 October 2017).¹ The next publication with 2017 Quarter 3 data is due on 17 January 2018.
- Around 4 weeks after the publication of the above, the Government releases estimates of the cash value of GDP as well as the Chained Volume Index. This publication does not contain figures for the UK as a whole. The most recent publication is [Quarterly National Accounts Scotland, 2017 Quarter 1](#)² (published 23 August 2017). The next publication for 2017 Quarter 2, is planned for 8 November 2017.

There are different ways of measuring changes to GDP. Three common ways include:

- Short term, "quarterly" (3-month) change: the change compared to the previous quarter, for instance Q2 2017 on Q1 2017
- "Annual" change: the change compared to the same quarter a year before, for instance Q2 2017 on Q2 2016
- Average annual change: the change in the average of the most recent four quarters compared to the average of the four previous quarters

For more on GDP see [SPICe Briefing 13/48 What is GDP?](#)³

For a summary of GDP: 2nd Quarter 2017 see SPICe infographic [Gross Domestic Product \(GDP\): 2nd Quarter 2017](#).⁴

Quarterly and annual growth

Table 1 compares Scottish and UK GDP growth at Q2 2017. Both quarterly and annual growth in Scotland has been a third of the UK rate.

Table 1: GDP Scotland and UK, Q2 2017

	UK	Scotland	Difference (percentage point)
Quarterly (Q2 17 on Q1 17)	+0.3	+0.1	-0.2
Annual (Q2 17 on Q2 16)	+1.5	+0.5	-1.0
Average annual (Q2 17)	+1.7	+0.4	-1.3

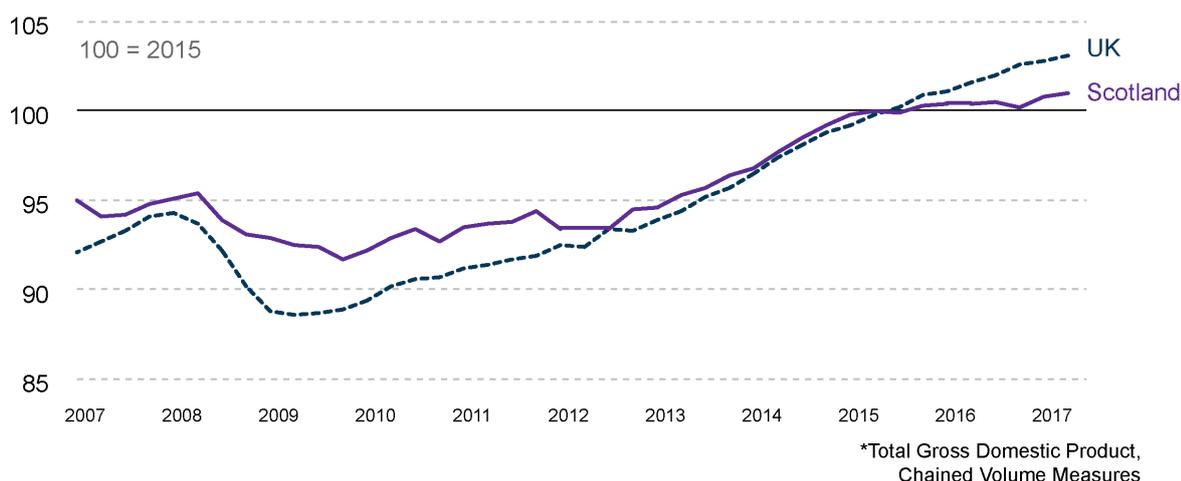
By all three measures, Scottish growth has been slower than UK. The divide between Scotland and UK has also widened since Q1 2017 for both quarterly and annual GDP change, but not average annual growth where it has narrowed by 0.1% as shown in Table 2 (Q1 2017). Scottish growth in Q1 2017 was revised down from 0.7% to 0.6%.

Table 2: GDP Scotland and UK, Q1 2017

	UK	Scotland	Difference (percentage point)
Quarterly (Q1 17 on Q2 16)	+0.2	+0.6	+0.4
Annual (Q1 17 on Q2 16)	+1.5	+0.5	-0.9
Average annual (Q1 17)	+1.7	+0.3	-1.4

Figure 1 shows total GDP as measured by the Chained Volume Index (2015=100) in Scotland and the UK from 1998 to 2017. Note that Scottish GDP

Figure 1: GDP, 2007 to 2017, Scotland and UK (2015=100)



After outperforming the UK from 1998 to 2012, Scotland's GDP performance has been relatively lower than the UK since 2012.

The UK has now seen 18 consecutive quarters of unbroken growth (Q1 2013 to Q2 2017). In that same time, Scotland has also seen growth in every quarter, except in Q3 2015 (-0.1%) and more recently in Q4 2016 (-0.2%). Since Q1 2015, quarterly growth in Scotland has been higher than the UK twice (Q1 2015 and Q1 2017).

John McLaren from Scottish Trends stated: ⁵

“ The performance in the first half of 2017 does little to make up for the complete lack of growth seen in the Scottish economy through 2016, compared with merely ‘poor’ growth seen for the UK;”

Figure 2 shows the GDP change by industry in Scotland and the UK in the past three months. While Scottish Q1 2017 growth was driven by the manufacturing sector, manufacturing fell by 0.7% from Q1 to Q2 2017. Commenting on Q1 2017 growth earlier this year (September 2017), the Fraser of Allander Institute stated:

“ The [Q1 2016] upturn was driven by a bounce back in a number of manufacturing sectors. These same sectors had been some of the hardest hit in recent times, so holding on to such gains will be a success in its own right.”

Q2 2017 growth was driven by the Services industries which grew by 0.7% and accounts for 75% of the economy using 2014 weighting (in comparison, UK services growth was 0.4%).

Agriculture, Forestry & Fishing industries also grew by 0.6% (but this sector accounts for only 1% of the economy using 2014 weights). UK agriculture dropped by 0.1% however.

Figure 2: Quarterly GDP growth (%), Q2 2017, Scotland and UK

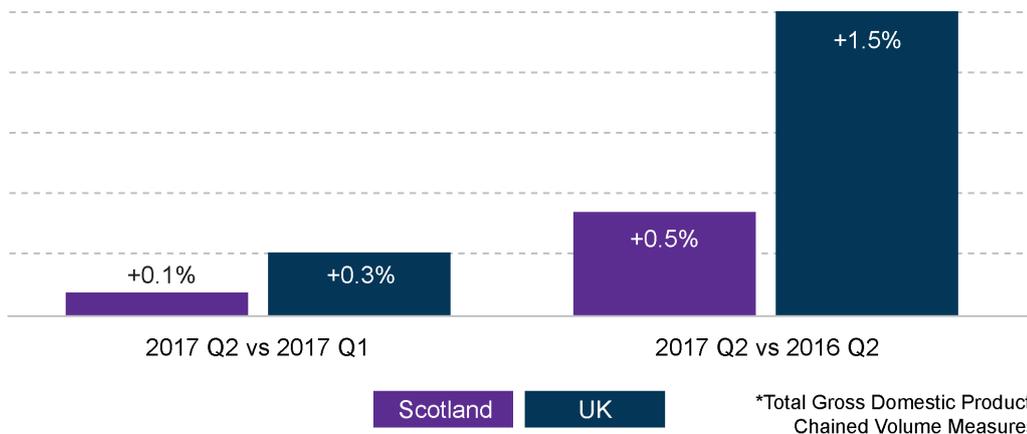
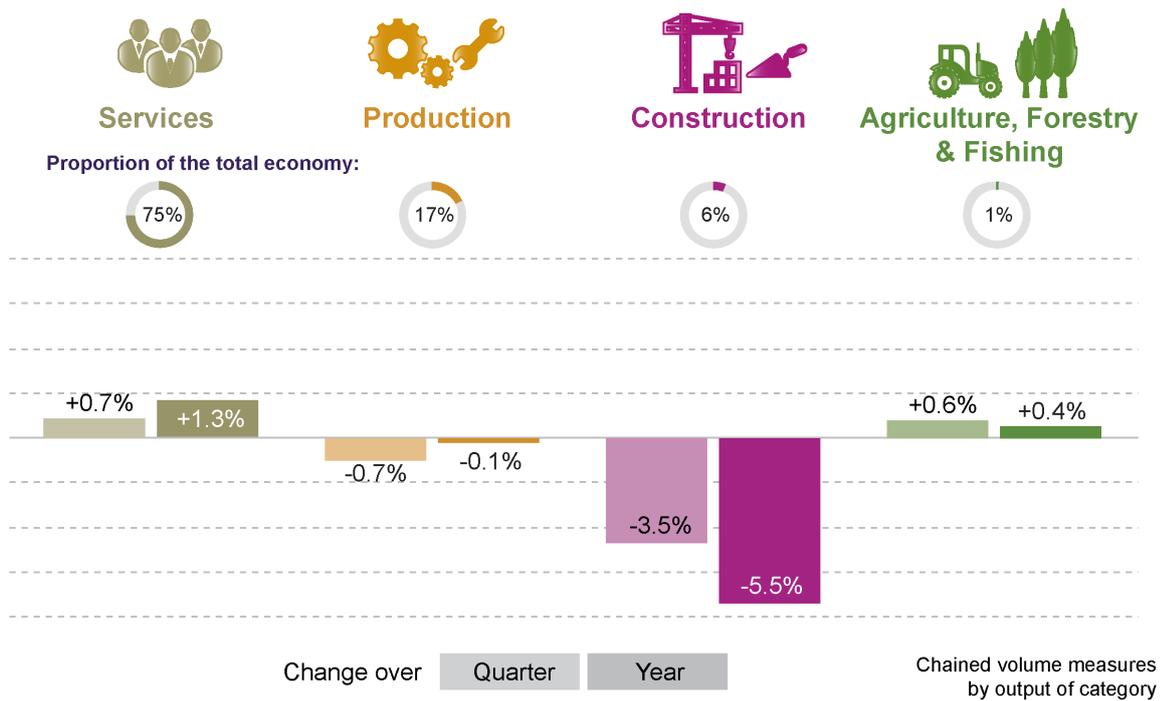


Figure 3 shows quarterly and annual growth for each sector in Scotland in Q2 2017.

Figure 3: Quarterly GDP growth by sector (%), Q2 2017, Scotland



Construction registered a sharp drop in Scotland (-3.5%) and a lesser one in the UK (-0.5%). Production also fell in Scotland (-0.7%) and the UK (-0.3%). The Herald pointed out this means the construction sector "has shrunk for 18 consecutive months." ⁶

All production sectors dropped over the quarter in Scotland, except mining and quarrying (+0.6%) which accounts for less than 1% of the economy.

Economy Secretary Keith Brown said on 4 October 2017: ⁷

"... it is particularly pleasing to see growth over the first half of the year in industries linked to the oil and gas supply chain, which provides more evidence that confidence is gradually returning to the sector."

Quarterly growth should be considered with annual growth levels. Construction also registered a sharp annual drop in Scotland (-5.5%) but strong growth in the UK (+4.1%). Production registered a small annual drop in Scotland (-0.1%) compared to 0.2% growth in the UK, though the biggest production sector - manufacturing - grew in both Scotland (+0.2%) and the UK (+0.9%). On the other hand, mining and quarrying dropped by 0.3 and 0.9% in Scotland and the UK respectively.

Average annual GDP change and the fiscal framework

The agreement between the Scottish government and the United Kingdom government on the Scottish government's fiscal framework⁸ states that a Scotland-specific economic shock (outturn or forecast) triggers from 1 April 2017 the option for the Scottish Government to borrow up to £600m for resource spend (within the total overall resource borrowing limit of £1.75bn). As stated in the fiscal framework, the Scottish Government is only able to deploy resource borrowing to support a forecast shortfall in tax receipts, greater than forecast demand on devolved social security powers or for in-year cash management. The borrowing cannot be applied to generally increase the resource budget.

A Scotland-specific economic shock is triggered when onshore Scottish GDP growth is below 1% in absolute terms on a rolling 4 quarter basis, and 1 percentage point below UK GDP growth over the same period. The framework states: "Once a shock is triggered, the annual cyclical resource borrowing (of up to £600m) lasts for each financial year in which the trigger applies, plus the following two financial years, as the economy and public finances recover."

Between the four quarters ending in Q2 2016 and the four quarters ending in Q2 2017, Scottish GDP increased by 0.4% (this is below 1%) compared to 1.7% in the UK as a whole (this is a 1.3 percentage point difference).

The Scottish Government does not currently have access to the additional borrowing flexibilities provided in the Fiscal Framework. This is because the new borrowing powers took effect on 1 April 2017 and four rolling quarters of GDP data after this date, which are part of the required criteria for considering these flexibilities, have not yet accumulated.

Industry sector sizes

Note that the UK Government GDP is measured using 2015 weights while Scottish Government GDP figures use 2014 weights.

Scotland's economy is broken down into four weighted industry categories.

Table 3 compares the size of each sector in the economy as of 2014 (most recent figures) in Scotland. The service sector dominates and this is growing. This is followed by production and shrunk between 2013 and 2014. Construction, and agriculture, forestry and fishing, are small sectors in comparison, accounting for 6.4% and 1.4% growth respectively in Scotland. Both these sectors grew between 2013 and 2014 relative to other sectors.

Notable differences between the two areas include electricity and gas supply; mining and quarrying industries and agriculture, forestry and fishing - all of which account for almost double the share of the economy in Scotland than in the UK as a whole. Alternatively, transport, storage and communication account for a much large share of the UK economy than in Scotland.

Table 3: Sector weights, 2014, Scotland (2013 weights in brackets)

	Scotland
Agriculture, forestry and fishing	1.4 (1.2)
Production	17.1 (17.9)
Mining and Quarrying Industries	2.1 (2.9)
Manufacturing	11.2 (11.3)
Electricity & Gas Supply	2.6 (2.5)
Water Supply & Waste Management	1.3 (1.3)
Construction	6.4 (6.3)
Service sector	75.1 (74.6)
Distribution, Hotels and Catering	14.1 (13.1)
Transport, Storage and Communication	8.1 (7.6)
Business Services and Finance	27.3 (28.9)
Government, and Other Services	25.6 (25.0)

Any changes in these sectors should take into account their relative weights in the economy. Strong growth in production for instance should take into account the fact that this sector accounts for less than a fifth of the Scottish economy.

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