



SPICe Briefing  
Pàipear-ullachaidh SPICe

# How is the Scottish Economy performing? 1st Quarter 2017

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This briefing summarises the latest GDP release from the Scottish Government: Scotland Gross Domestic Product 1st Quarter 2017.



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# 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 1st Quarter 2017](#). The next publication is due on 4 October 2017.
- 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 Quarter 4 2016](#). Q1 2017 figures will be published on 23 August 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 Q1 2017 on Q4 2016
- "Annual" change: the change compared to the same quarter a year before, for instance Q1 2017 on Q1 2016
- Average annual change: the change in the average of the most recent four quarters compared to the average of the four previous quarters

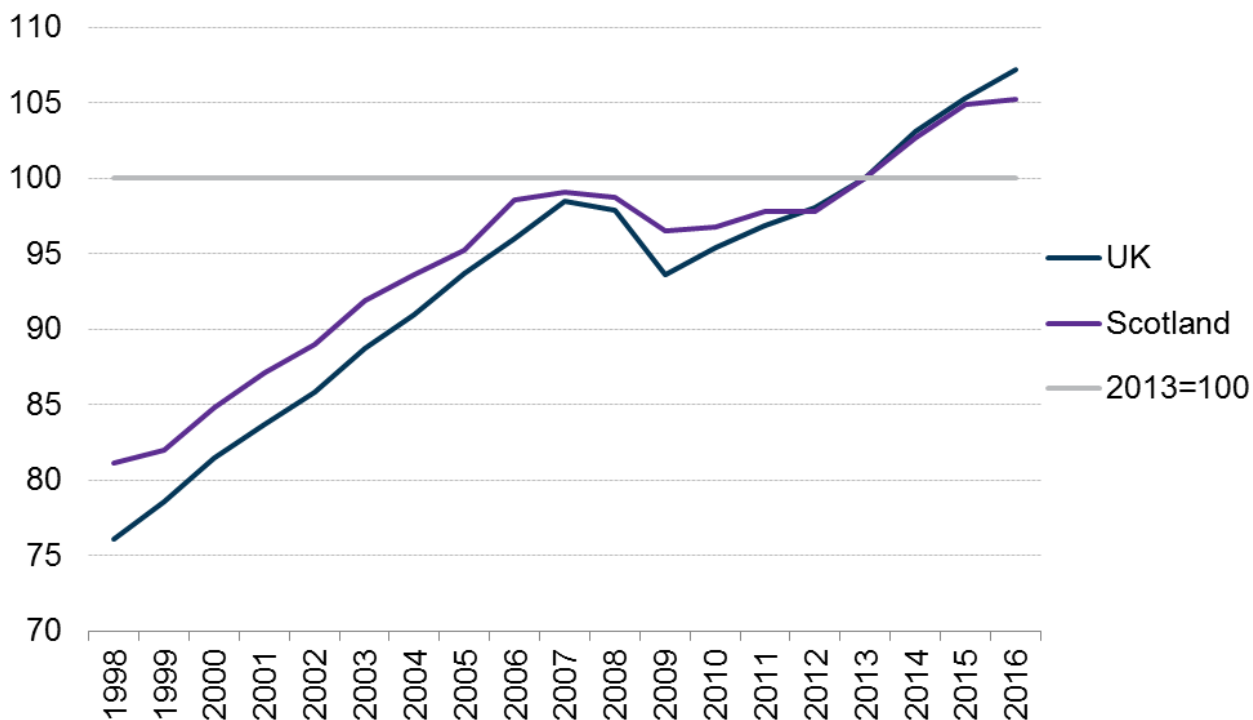
For more on GDP see [SPICe Briefing 13/48 What is GDP?](#)

For a summary of GDP: 1st Quarter 2017 see SPICe infographic [SB 17-45 Gross Domestic Product \(GDP\): 1st Quarter 2017](#).

# Quarterly and annual growth

Figure 1 shows Scotland compared to the UK GDP. Figure 1 shows total GDP as measured by the Chained Volume Index (2013=100) in Scotland and the UK from 1998 to 2016.

**Figure 1: GDP, 1998 to 2016, Scotland and UK (2013=100)**



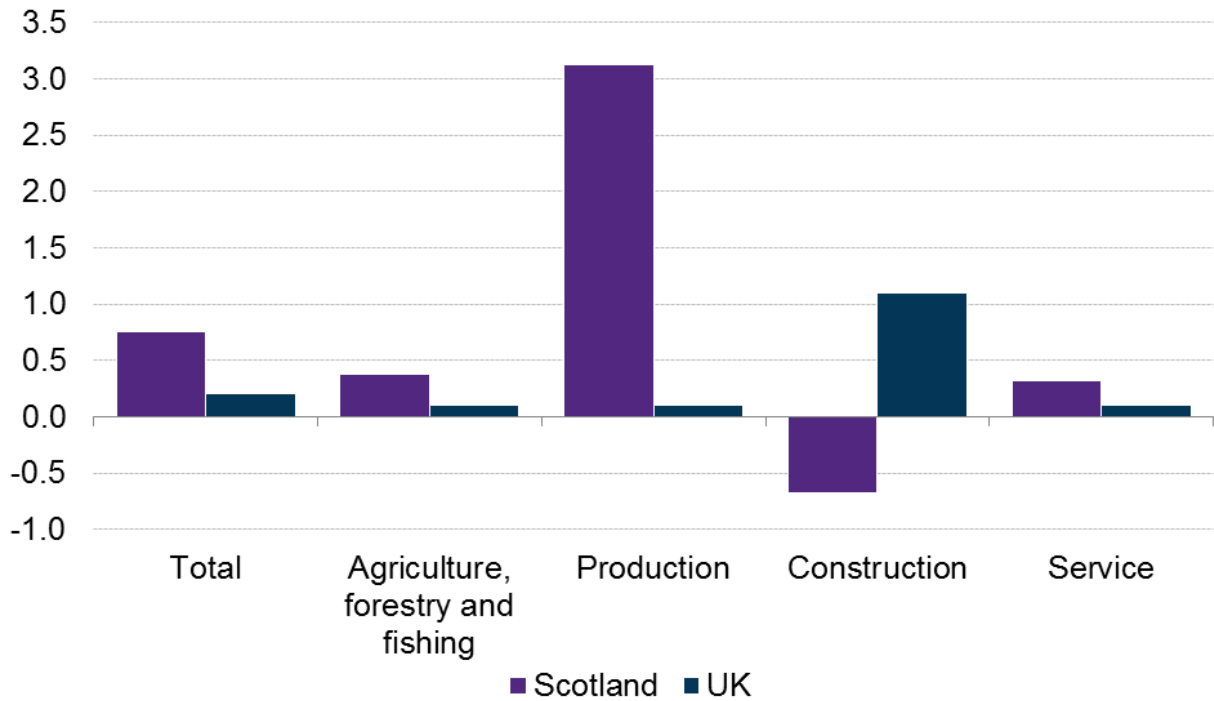
After outperforming the UK from 1998 to 2012, Scotland's GDP performance has been relatively lower than the UK since 2012.

The UK has now seen 17 consecutive quarters of unbroken growth (Q1 2013 to Q1 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 2013, Scotland's quarterly growth has been higher than the UK five times including Q1 2017 (0.8% compared to the UK's 0.2%). Before this, Scottish quarterly growth had been slower than the UK's as a whole for seven consecutive quarters.

Concerning annual trends (Q1 2016 compared to Q1 2017), Scotland has not seen a decrease in GDP since Q3 2012, though the UK has not seen a decrease since Q4 2009. Scottish annual growth has been slower than the UK's as a whole for seven consecutive quarters.

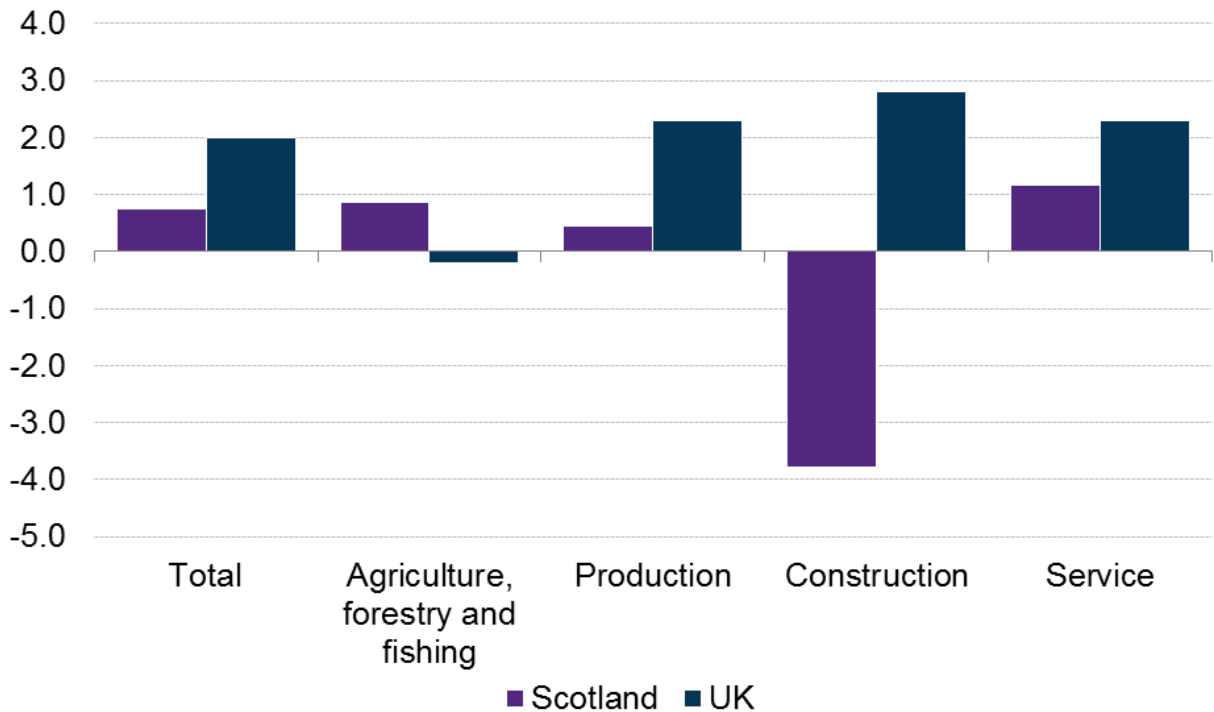
Figure 2 shows the GDP change by industry in Scotland and the UK in the past three months. Scottish GDP growth has been driven by the production sector, which registered relatively high growth at 3.1%, while construction saw a 0.7% decrease. In the UK however, construction growth was the strongest, at 1.1%.

**Figure 2: Quarterly growth (%), Q1 2017, Scotland and UK**



Quarterly growth should be considered with annual growth levels (Figure 3).

**Figure 3: Annual growth (%), Q1 2017, Scotland and UK**



While short term growth was stronger in Scotland than the UK as a whole, annual growth has been stronger in the UK at 2.0% compared to Scotland (+0.7%).

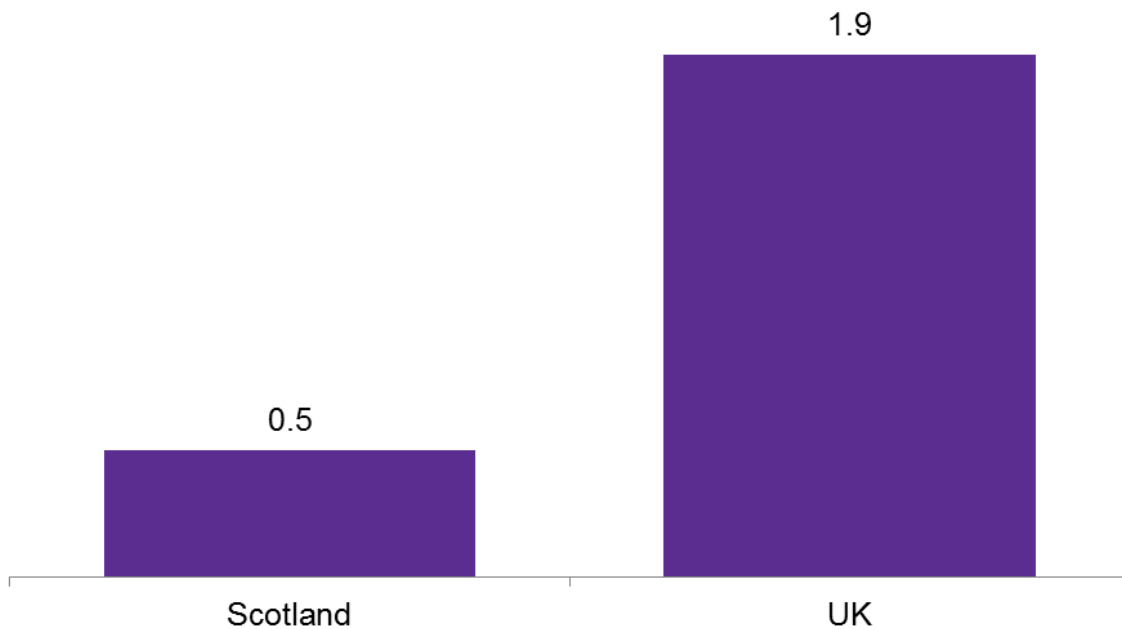
Concerning the production sector, while short term growth was high in Scotland, annual growth has been much slower at 0.4%. Equally the quarterly fall in construction is a reflection of a broader trend, with this sector falling by 3.8% compared to Q1 2016.

# 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 framework 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). 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."

Figure 4 shows average annual GDP change in Scotland and the UK as at Q1 2017. Between the four quarters ending in Q1 2016 and the four quarters ending in Q1 2017, Scottish GDP increased by 0.5% compared to 1.9% in the UK as a whole.

**Figure 4: Average annual GDP change (%), Q1 2017, Scotland and the UK**



# Industry sector sizes

Scotland's economy is broken down into four weighted industry categories. Table 1 compares the size of each sector in the economy as of 2013 (most recent figures) in Scotland and the UK as a whole. In both, the service sector dominates, more so in the UK than Scotland. This is followed by production, though it accounts for less than a fifth of the economy in both cases. Construction, and agriculture, forestry and fishing, are small sectors in comparison, at 6.3% and 1.2% respectively in Scotland.

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 1: Sector weights (2013), Scotland and UK**

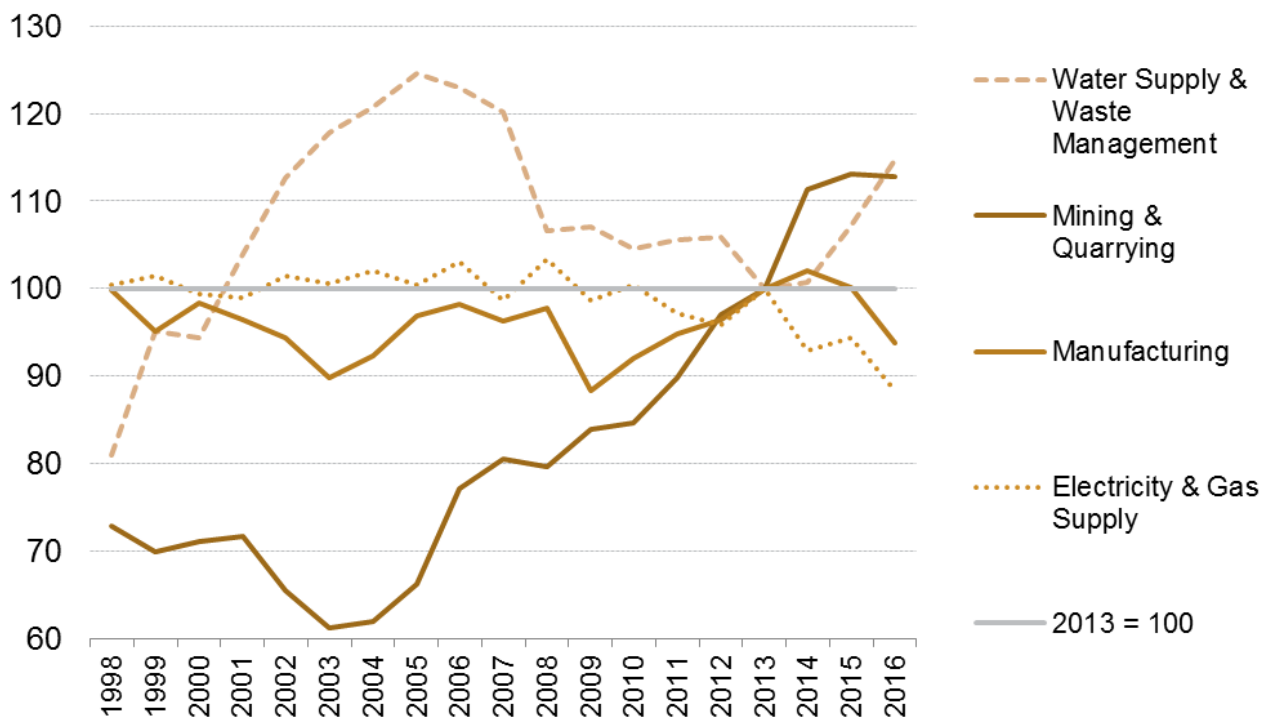
	Scotland	UK
<b>Agriculture, forestry and fishing</b>	1.2%	0.7%
<b>Production</b>	17.9%	14.6%
Mining and Quarrying Industries	2.9%	1.8%
Manufacturing	11.3%	10.3%
Electricity & Gas Supply	2.5%	1.5%
Water Supply & Waste Management	1.3%	1.1%
<b>Construction</b>	6.3%	5.9%
<b>Service sector</b>	74.6%	78.8%
Distribution, Hotels and Catering	13.1%	13.6%
Transport, Storage and Communication	7.6%	10.6%
Business Services and Finance	28.9%	31.7%
Government, and Other Services	25.0%	22.9%

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.

# What makes a sector: production

The production sector includes mining and quarrying industries, manufacturing, electricity and gas supply, water supply and waste management. Figure 5 shows sub-sectoral GDP from 1998 to 2013 in Scotland. It shows a strong growth in mining and quarrying industries, and a recent increase in waste supply and waste management. Electricity and gas supply has seen a steady decline over time however, with annual GDP lower than at any other point since 1998. Manufacturing has also seen a decline since 2014, and has not been so low since 2010. Overall, GDP in the production sector has not been this low since 2012.

**Figure 5: Production sector, 1998 to 2016, Scotland (2013=100)**



Growth has been strongest in mining and quarrying industries since 1998 (+54.7% when comparing the GDP Index for 1998 and 2017) while it saw the opposite trend in the UK (-53.1% since 1998). Two sectors in Scotland have declined since 1998:

- Manufacturing at -6.1% with a smaller but similar trend in the UK at -2.0% since 1998
- Electricity and gas supply at -12.0% since 1998 (while there was a 9.1% growth in the UK).

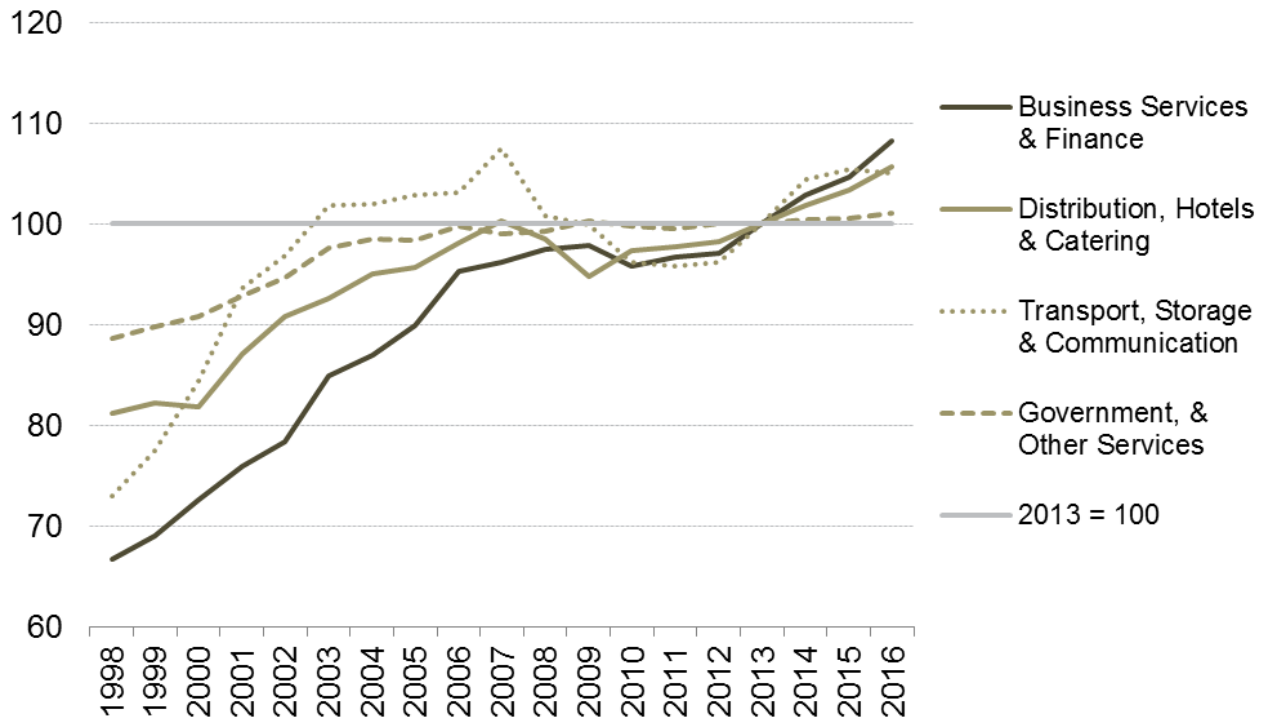


## What makes a sector: service

The service sector is made up of distribution, hotels and catering; transport, storage and communication; business services and finance; and government, and other services.

Figure 6 shows sub-sectoral GDP from 1998 to 2013 in Scotland.

**Figure 6: Service sector, 1998 to 2016, Scotland (2013=100)**



The strongest growth since 1998 has been in business services and finance (+62.5% since 1998 compared to 71.4% in the UK) and weakest in government and other services at 14.0% since 1998 (compared to 28.0% in the UK since 1998). While transport, storage and communication has almost doubled in the UK since 1998 (+92.0%), it has grown by only 43.9% in Scotland over that time. Distribution, hotels and catering has also seen stronger growth since 1998 in the UK as a whole (+42.8%) than in Scotland (+30.2% since 1998).

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