

Yesterday, the Scottish Government published new national accounts data up to the end of 2018.

In it, updated figures for Scottish GDP per capita were published. In the light of these figures, the Scottish Government tweeted that GDP per person in Scotland was higher than the UK average.



ScotGovEconomy @scotgoveconomy · 12h

In 2018, the value of Scotland's GDP per person increased to £32,800 – higher than the UK average of £31,900. #GDP



Derek Mackay MSP, OCEA, Jamie Hepburn MSP and 2 others

What drives this result? And should we be cautious in reading too much into such comparisons?

The chart below shows GDP per capita figures for Scotland and the UK as a whole under two different oil allocations for Scotland – with and without.

Why do we show it this way?

Under national account definitions, there are 13 'regions/nations' of the UK – 9 English regions (London, the North East etc), 3 devolved nations (Scotland, Wales and Northern Ireland) and 1 'extra-regio' region which incorporates all economic activity that takes place

outside of the UK landmass, but is still part of UK economic activity. This 'extra-regio' activity includes things like embassies and military bases abroad but the majority of it is oil and gas extraction activity that takes place on the UK Continental Shelf.

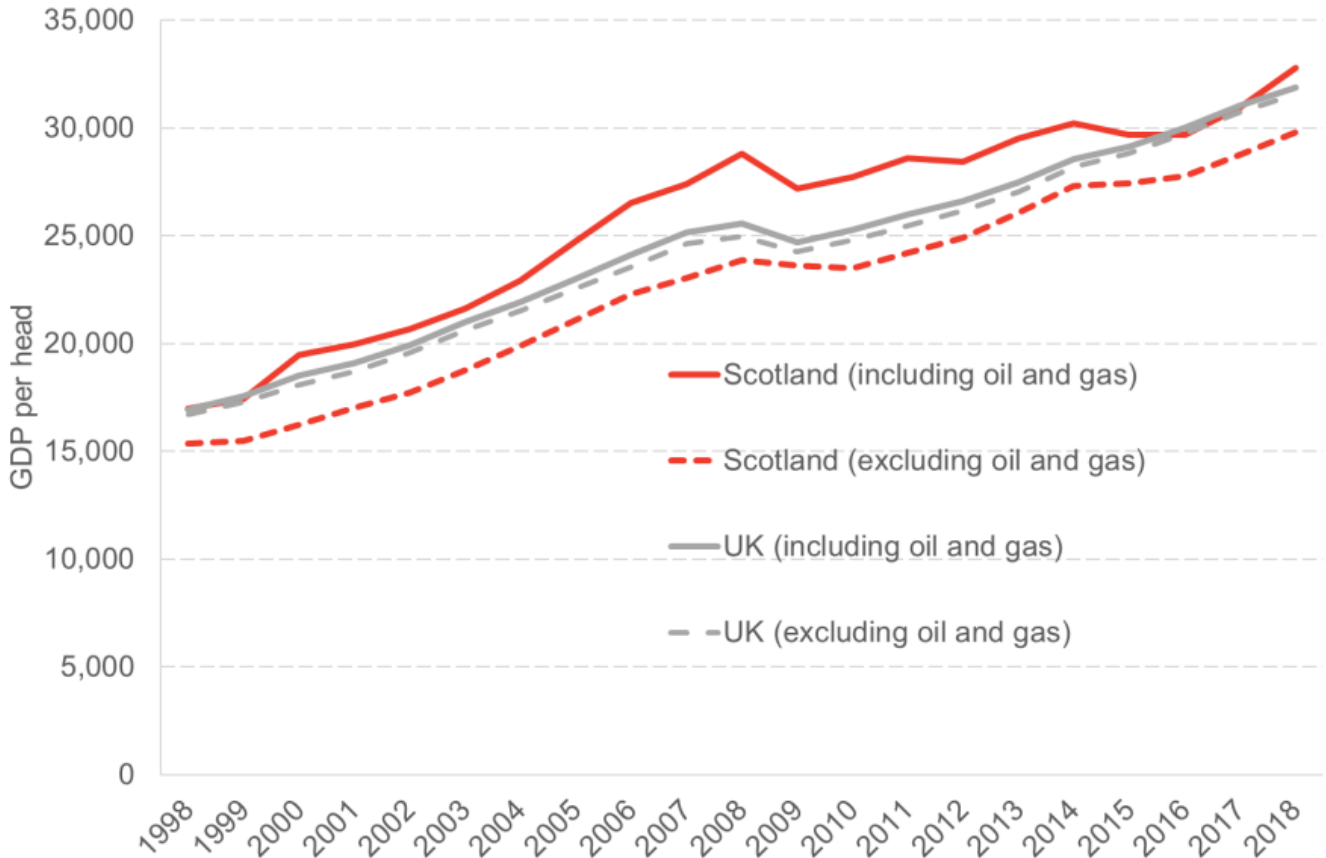
The Scottish Government publishes two sets of GDP statistics.

- Firstly, their headline statistics, which form the base of all government targets, the fiscal framework and the official measure of real-terms growth in the Scottish economy. These don't include the production activity from oil and gas in the North Sea (though it does include the onshore supply chain that supports it). So when the Scottish Government said yesterday that ["Scottish GDP grew 0.3% in the fourth quarter of 2018, above UK rate of 0.2%"](#), it is this 'onshore' activity that they are talking about.
- Secondly, since the turn of the decade, the Scottish Government has also started to publish nominal estimates of Scottish GDP when the actual production from oil and gas is included. So when the Scottish Government said yesterday that ["In 2018, the value of Scotland's GDP per person increased to £32,800 - higher than the UK average of £31,900"](#), it is both the 'onshore' and 'offshore' activity that they are talking about.

You can see why it can be confusing.

Chart: GDP per person Scotland and the UK

GDP per capita- the importance of oil, and are Scots actually better off?



Source: Scottish Government, ONS, FAI calculations

Overall, Scottish and UK GDP per person are very similar. Both have been rising - in the main since 1998 - but growth has been slower the past few years.

In 2018, Scottish GDP per person is estimated at £32,800 including a geographical share of oil and gas output and £29,800 excluding of oil and gas output. This compares to a UK figure of £31,900 (including oil and gas output). The Scottish Government don't publish this, but if we exclude oil and gas at the UK level this lowers the UK figure to around £31,600.

Therefore, it is true to say that GDP per capita in Scotland, including oil and gas, is higher than in the UK as a whole. But there a few important caveats.

Firstly, oil and gas extraction is a peculiar thing in the production of real terms economic statistics. It is essentially how much oil and gas is produced over a given time period - in our case, 'Scottish' waters. Produce more, GDP goes up; produce less, GDP goes down. Over recent years, as production in the North Sea has declined, so has the gap between Scottish

GDP per capita- the importance of oil, and are Scots actually better off?

GDP figures including oil and gas output vis-à-vis figures that exclude it (see chart).

So movements in GDP including oil are driven by structural factors, most of which lie outside the control of the Scottish (or indeed UK) governments. The gap between Scottish GDP per person including and excluding oil and gas will gradually decline over time, as the basin matures.

Secondly, in 2018, the figures tell us that Scotland's GDP was boosted by around £3,000 per person simply because of a geographic share oil and gas output being included in the Scottish figures.

At a UK level that boost to the economic statistics is equivalent to around £300 per person.

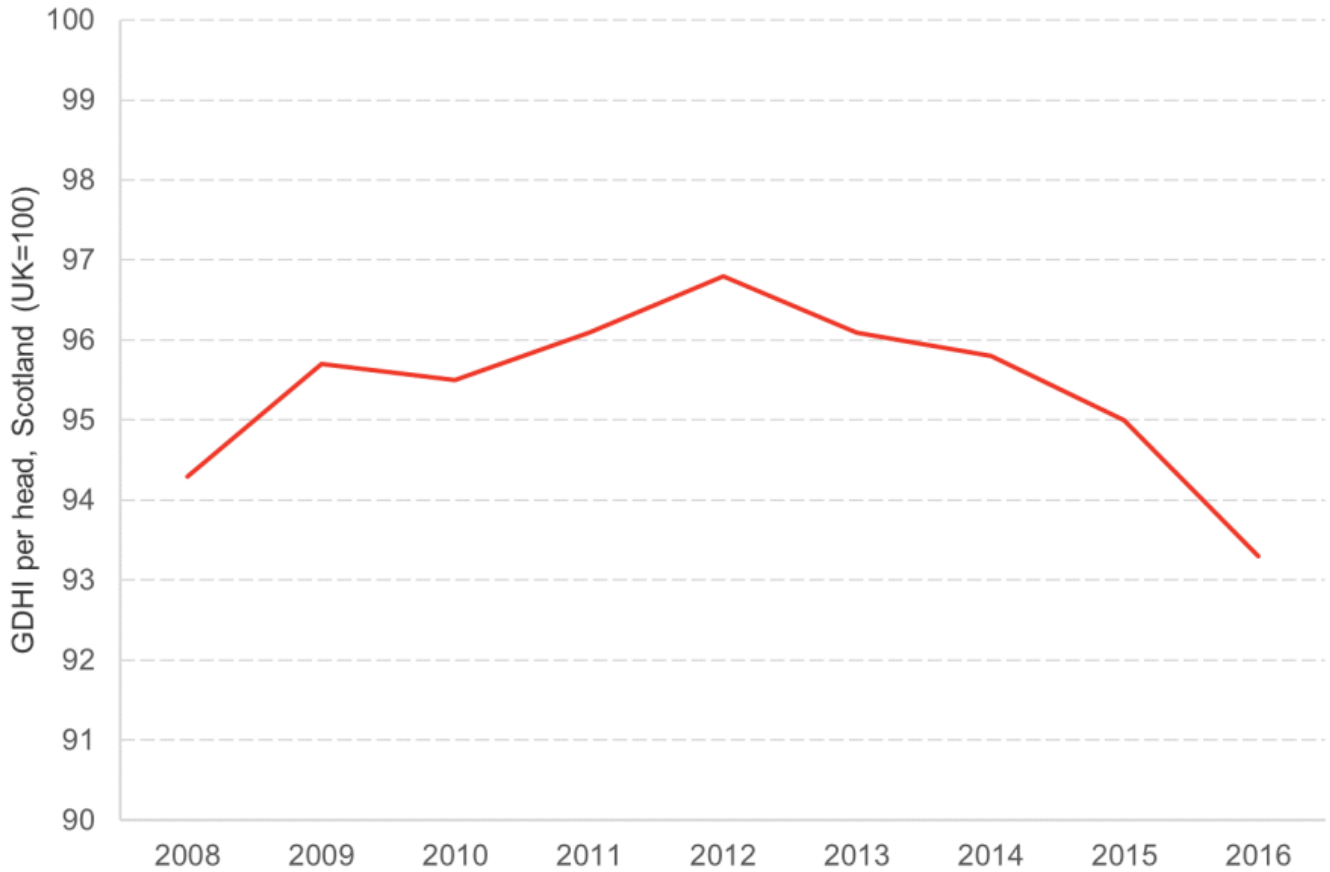
Another thing to remember is that this does not mean that 'average' person in Scotland is better off than the 'average' person in the UK. Why?

Firstly, GDP simply measures how much output is produced in a country over a given period of time. It doesn't measure how much people living in Scotland benefit from this production. For most people in Scotland, how much is produced from an oil rig in the North Sea in a given quarter has little impact on their day-to-day economic situation, much in the same way as it has little impact on the prosperity of someone living in the rest of the UK. Most of the investment is driven by overseas factors and international businesses dominate the market.

More relevant measures of how people in Scotland benefit from activity include things like disposable household income per capita - see chart.

Chart: GDHI per head Scotland (UK=100)

GDP per capita- the importance of oil, and are Scots actually better off?



Source: ONS

Secondly, it's also important to remember that GDP doesn't capture how much of the wealth flowing from oil and gas production stays within Scotland. The most recent figures of such a calculation - Gross National Income - show that Scottish retained income was estimated to equal only 94.5% of Scottish GDP.

[NB: Recall GNI provides a measure of a country's total national income. It includes all the income earned by a country's residents and businesses at both home and abroad. It contrasts with GDP which measures the income of anyone within a country's boundaries, regardless of who produces it. See our recent [blog](#) for more information.]

In other words, there is a net outflow of income from Scotland to the rest of the UK and/or overseas. A key reason for this is that the high level of overseas ownership amongst oil and gas operators means that many of the profits have in the past flowed out of Scotland.

This is, of course, directly related to the point above: if a sizeable proportion of the

GDP per capita- the importance of oil, and are Scots actually better off?

economic activity flows out of the country in profits outside of Scotland, then households will not benefit. This is not just an issue for oil and gas , but it is particularly pronounced in this industry.

So yes, technically, Scotland has higher GDP per person than the UK in 2018 to the tune of £900 per person.

But we need to be careful about how much it really tells us how well the core Scottish economy is tracking or faring in comparison to elsewhere. And it certainly can't be concluded that the average person in Scotland is £900 better off than the average person in the rest of the UK.

These figures - and any conclusions that people draw from them - should be treated with significant caution.