

## **Economic Data Inquiry**

### **Scottish Fiscal Commission**

Thank you for the opportunity to respond to the Committee's call for evidence on Scottish economic statistics. As you may be aware, from April 2017 the Scottish Fiscal Commission has been responsible for producing the independent and official economic and fiscal forecasts for Scotland that will support Parliament's Budget process.

The Commission's forecasts feed directly into the Budget decisions that Parliament will take and also into the Government's cash management. In turn, the economic statistics produced by the Scottish Government and others are critical to the Commission creating these forecasts. Although there have been significant advances in the quality and range of Scottish economic statistics it is vital that this progress continues.

I would first like to take the opportunity to set out some of the Commission's overarching views on Scottish economic statistics. More detail is provided in the Annex.

- In general, the statistics available for Scotland are more comprehensive than available in other countries and regions of the UK and this is to be welcomed
- The Commission aims to be as transparent as possible in its work. Having economic statistics to base its work on that are easily publically available and widely trusted is highly valuable. Therefore National Statistics kite marks for key Scottish Government Scottish economic statistics are helpful in ensuring transparency and independence in production and the quality assurance that is required for a series to be designated as national statistics.
- We accept that the depth and breadth of available economic statistics are to some extent limited by the surveys that are conducted in Scotland on both the household and business side. These surveys could be expanded, or the way data is collected could be changed, but this is an expensive and long-term ambition, and may have implications for burden on businesses.
- Given the information that is available, and accepting the uncertainty inherent in it, the Commission strongly encourages the Scottish Government to produce more information in certain instances which would support the Commission's activities.
- We believe more could also be gained by considering statistics that could be published by the ONS based on existing surveys, and again this is something the Scottish Government should be pursuing.

- The Scottish Government should also seek to access administrative data, such as that held by HMRC, to ensure that the statistics produced are the best quality possible given the limitations on the survey data collected.

In the Commission's view the following are the top priorities for developments to Scottish economic data:

1. Work on developing price data and deflators for Scotland
2. GDP by component of expenditure being published in constant prices
3. Better and more timely data on Scottish wages, for example developing a Scottish boost to the Monthly Wages and Salaries Survey to create a Scottish Average Weekly Earnings
4. A more comprehensive breakdown of public sector expenditure in Scotland by different levels of Government and type of expenditure provided on a basis consistent with GDP(E) in QNAS

This said, developments to source data and publishing more information are not enough to improve the usability of statistics. There is a need to produce data in easily useable formats to allow them to be exploited fully. We are keen to encourage the Scottish Government to publish series in formats that are aimed at economic modellers and forecasters such as ourselves. This should encourage reuse of the statistics, and also allow the Commission to explain more easily how these statistics are used in our work.

Sincerely,



Susan Rice CBE

## Scottish Fiscal Commission – Detailed Response

This Annex provides more detailed and specific points on particular economic statistics. This focuses on Scottish Government economic statistics publications including GDP, Quarterly National Accounts and GERS, as well as ONS publications on earnings data.

The immediate priorities for development and exploration are:

1. Work on developing price data and deflators for Scotland
2. GDP by component of expenditure being published in constant prices
3. Better and more timely data on Scottish wages, for example developing a Scottish boost to the Monthly Wages and Salaries Survey to create a Scottish Average Weekly Earnings
4. A more comprehensive breakdown of public sector expenditure in Scotland by different levels of Government and type of expenditure provided on a basis consistent with GDP(E) in QNAS

A list is also provided of selected economic statistics that the Commission relies on as part of its forecasting work.

### GDP

The Scottish Government is investigating the feasibility of reducing the time taken to produce a first estimate of Scottish GDP. This estimate could then potentially be revised at future GDP releases, which would make the situation in Scotland more similar to the approach at the UK level, with more than one release of GDP a quarter.

There will always be a trade-off between the timeliness of publication and the stability of the estimates, that is, the amount they are likely to be revised between one publication and the next. Where exactly to draw the line in terms of the trade-off is challenging to know and depends on the profile of data releases and modelling time. There may be further considerations in the coming months and years, such as the change to the ONS publication timetable for UK data, and the use of administrative data which may alter publication timetables.

The Scottish Government must continue to consult with users on the planned changes to the GDP timetable, and how the UK level changes and changes to data sources may impact on the quality of the estimates at different times.

A particular area of difficulty is the measurement of the construction industry in Scotland. These estimates are particularly prone to volatility and revision, and as such can have a large impact on the overall growth and productivity figures. The

Scottish Government must provide information on how it is working with ONS to improve the data about this key industry.

### Quarterly National Accounts

The national accounts represent a single, comprehensive and consistent source of data on the Scottish economy and form the core of any macroeconomic forecasting model. Improvements to the breadth and quality of the national accounts is a key area of interest for the Commission.

The Commission forecasts the economy both in real and nominal terms, or in constant and current prices in national accounts terms. Whilst headline GDP and GDP by Industry - GDP(O) - are published in constant prices, most of the rest of the national accounts are published in current prices. There are good reasons for this due to the availability of data, in particular prices and deflators for Scotland.

The Commission makes more use of GDP by income – GDP(I) – and GDP by expenditure - GDP(E) – than GDP(O). These are only available in current prices and therefore the Commission creates its own “real prices” series, based on UK deflators of equivalent UK values in the case of GDP(E), and based on UK consumer prices in the case of GDP(I).

Accepting that data for this are limited, it would be helpful if the Scottish Government could publish GDP(E) in particular in constant prices. This would help Scottish economic statistics users in a number of ways:

- Accepting that data users are likely to attempt to deflate the series themselves, it would be better for those expert in the statistics to do this
- This would mean a single and consistent set of GDP(E) used across statistics users
- It increases the transparency and accessibility of the Commission’s work if it can point to a simpler set of sources for input to its work

Whilst the price information used would be reliant on UK data rather than Scottish specific deflators, as long as the sources and methodology were clear, this would be beneficial to users.

Related to this, in terms of longer-term improvements to the Quarterly National Accounts, more price data for Scotland would be valuable, and this is something that the Scottish Government should discuss with the ONS.

Whilst challenging, the Commission would also welcome estimates of Scotland’s capital stock to help improve estimates of Scotland’s potential output and productivity.

### Data on earnings

Whilst the labour market is reasonably well surveyed via the LFS and APS, there is less information available on wages and incomes. Analysis of Scottish earnings is an essential part of economic forecasts generally and income tax forecasts in particular.

The ONS publish a number of statistics on earnings from different surveys.

The Annual Survey of Hours and Earnings (ASHE) is helpful but is only published once per year and only covers a subset of the population excluding the large number of self-employed individuals.

For the UK, Average Weekly Earnings (AWE), derived from the Monthly Wages and Salaries Survey, is more comprehensive and the primary source of timely information on changes in earnings in the UK. However, values for Scotland are not provided.

Gross Weekly Earnings from the LFS provides values for Scotland but is acknowledged by the ONS to be less reliable than either ASHE or AWE, is known to underestimate earnings and is only available for full-time employees.

As part of its forecasting work the Commission relies on the QNA estimates of Compensation of Employees (COE), which is derived to be both consistent with estimates of GDP and information available from ASHE. The Commission regards this as the best source of information on income in Scotland available at the moment. However, it is highly aggregated, and does not, for example, allow for analysis by different types of income or types of individual.

One way to improve on this would be if the ONS could provide AWE for Scotland from the Monthly Wages and Salaries Survey. The Commission has not investigated this as a possibility before but others may already have done so. Sample size for Scotland may be an issue, or perhaps geographic identifiers for the data are not available, but it would be worth exploring the possibilities.

### GERS and QNA

QNAS provides statistics on the Scottish economy. GERS provides statistics on a different basis, covering public sector spending for the *benefit* of Scotland – for example foreign defence and diplomatic spending – though not necessarily in Scotland, and therefore not part of the domestic Scottish economy. However, GERS provides a number of helpful breakdowns not provided in QNAS, such as a breakdown of public sector spending in Scotland separately by the Scottish Government and UK Government. These breakdowns can be used to approximate public sector expenditure values on a QNAS basis. QNAS should provide these

values directly, that is GDP(E) consumption and investment separately by SG, UKG and local government.

Long-term Scottish economic statistics

Forecasting the economy depends on having a long time-series of data in order to have a better understanding of patterns and trends in the Scottish economy. The Commission would support efforts to create more GDP and national accounts series going back further in time and on a consistent basis. We accept however that these would have to be used with caution and appropriate caveats, and the data are likely to be available only on an annual frequency.

Scottish consumer sentiment

The Scottish Government already publishes detailed results from its Consumer sentiment survey. However, these are on a somewhat ad hoc basis alongside the state of the economy. It would be helpful if these statistics had their own regular, fixed and pre-announced publication timetable.

**Key statistics used in the Commissions forecasts**

The table lists some of the key variables that are part of the Commissions modelling and forecasting. In many instances, these are not directly available publically, and the Commission undertakes additional modelling and analysis to create these variables in a useable format based on the available statistics. The table also lists the published statistics from which these variables are derived. Ideally for the Commission, the statistics should be published in a form ready to be fed into the forecasting models without the need for extensive further modelling. The Commission would be happy to discuss this further and provide more detail.

<b>Grouping</b>	<b>Variable</b>	<b>Unit</b>	<b>Statistics currently based on</b>
Extensive breakdown of GDP(E) in constant prices	Private consumption	Constant £m	SG QNA GDP(E) Final Consumption Expenditure excluding general government in current prices and UK deflator
	Private business investment	Constant £m	SG QNA GFCF by sector Business Investment in current prices and UK deflator
	Investment in dwellings	Constant £m	SG QNA GFCF by sector dwellings in current prices and UK deflator
	Government capital expenditure	Constant, £m	SG QNA GFCF by sector General Government in current prices and UK deflator
	Government consumption expenditure	Constant, £m	SG QNA GDP(E) Final Consumption Expenditure General Government in current prices and UK deflator
	Exports to Rest of UK	Constant, £m	SG QNA GDP(E) Exports to the rest of the UK in current prices and UK deflator
	Exports to Rest of world	Constant, £m	SG QNA GDP(E) Exports to the rest of the world in current prices and UK deflator

<b>Grouping</b>	<b>Variable</b>	<b>Unit</b>	<b>Statistics currently based on</b>
	Imports from Rest of UK	Constant, £m	SG QNA GDP(E) Imports from the rest of the UK in current prices and UK deflator
	Imports from Rest of world	Constant, £m	SG QNA GDP(E) Imports from the rest of the world in current prices and UK deflator
	SG Government consumption expenditure in Scotland	Constant, £m	Combination of SG QNA GDP(E), GERS and Scottish Government accounting data and UK deflator
	UK Government consumption expenditure in Scotland	Constant, £m	Combination of SG QNA GDP(E) and GERS and UK deflator
	Local Government consumption expenditure in Scotland	Constant, £m	Combination of SG QNA GDP(E) and GERS and LG finances data and UK deflator
	SG Government capital expenditure in Scotland	Constant, £m	Combination of SG QNA GDP(E), GERS and Scottish Government accounting data and UK deflator
	UK Government capital expenditure in Scotland	Constant, £m	Combination of SG QNA GDP(E) and GERS and UK deflator
	Local Government capital expenditure in Scotland	Constant, £m	Combination of SG QNA GDP(E) and GERS and LG finances data and UK deflator
Households, earnings and GDP(I)	Real personal disposable income	Constant, £m	Multiple data sources including SG QNA GDP(I) Compensation of Employees and other items in the income account in current prices and UK deflator