

South West Business Economy Module

South West Economy Projections –

Autumn 2006

Introduction

This bulletin provides an outline of the latest economic projections for the South West region from the South West Business Economy Module, part of the South West Observatory. The projections are prepared on a twice-yearly basis by Economic Systems Consultancy & Research (ESCR). The projections described in this bulletin are based on information available as of November 2006 and cover the period from 2005-2011. They reflect new national and regional information, and revised national forecasts, since the Spring edition. More detailed projections can be obtained in MS Excel™ format from the SWBEM website (www.swbem.org.uk).

Background

World and UK economic growth during 2006 has proven more robust than was expected earlier in the year. Real UK GDP increased at an annual rate of 2.8 per cent during the year to Q3 2006, slightly above the long-run trend. More robust UK growth was largely driven by stronger growth of fixed investment. Most of the forecasting organisations surveyed by HM Treasury have increased their 2006 forecasts for GDP and employment growth, comparing the current (November) and March editions of the Treasury's *Forecasts for the UK Economy* (Table 1). The median forecast for growth of real UK GDP during 2006 has risen from 2.2% to 2.6%. The consensus is also for stronger employment growth than previously expected. The median forecast of UK employment growth in 2006 has risen from only 0.3% in March to 0.8% in November.

Table 1: Forecasts for the UK Economy

(Median Independent Forecasts)

	March 2006		November 2006	
	2006	2007	2006	2007
<i>Growth of</i>				
GDP	2.2	2.5	2.6	2.5
Private Consumption	2.1	2.3	2.2	2.3
Government Consumption	2.2	2.4	2.3	2.5
Fixed Investment	3.1	3.3	4.9	3.4
Exports	5.2	4.6	16.1	4.8
Imports	4.8	4.6	15.6	4.6
Consumer Prices (CPI Inflation)	1.9	1.9	2.6	2.0
Average Earnings	4.2	4.2	4.2	4.2
Employment	0.3	0.5	0.8	0.7
Interest Rate	4.25	4.50	5.00	5.00

Source: HM Treasury, *Forecasts for the UK Economy*

Forecasts for inflation have also risen significantly. The median forecast for CPI inflation during 2006 rose from 1.9% in the March survey to 2.6% in the November survey. This partly reflects the rapid rise in oil prices over the period from March – May 2006, when spot prices for Brent Crude rose from around \$60 per barrel to more than \$75 per barrel. Since the end of August, however, oil prices have slipped back substantially, with Brent Crude prices falling to around \$60 per barrel at the time of writing. This reflected a drop in global demand and reduced tension over security of supply from Iran. While the market remains volatile, the outlook for oil prices and general inflation may well be more benign than previously expected, possibly avoiding further rises in UK interest rates.

No new data on output are available for the UK regions since the Spring projections were issued. There are, however, new data on the labour market, trade in goods, and population, which have been used to inform the revised projections. Measured changes to the South West economy are, however, small, with all the main labour market variables in particular showing changes which are well within the margins of error in the source surveys. As a result, changes to the South West Economy Projections since the last edition primarily reflect greater optimism for economic growth at the UK level.

Output (GVA)

South West Gross Value Added (GVA) is projected to grow, in current price terms, from £78.7 billion in 2004 to around £87.7 billion in 2006 and £93.1 billion during 2007. GVA is projected to increase at an average annual rate of 6.0% over the period 2005-2011, the 5th highest growth rate amongst the UK regions.

Figure 1: Projected Growth of GVA

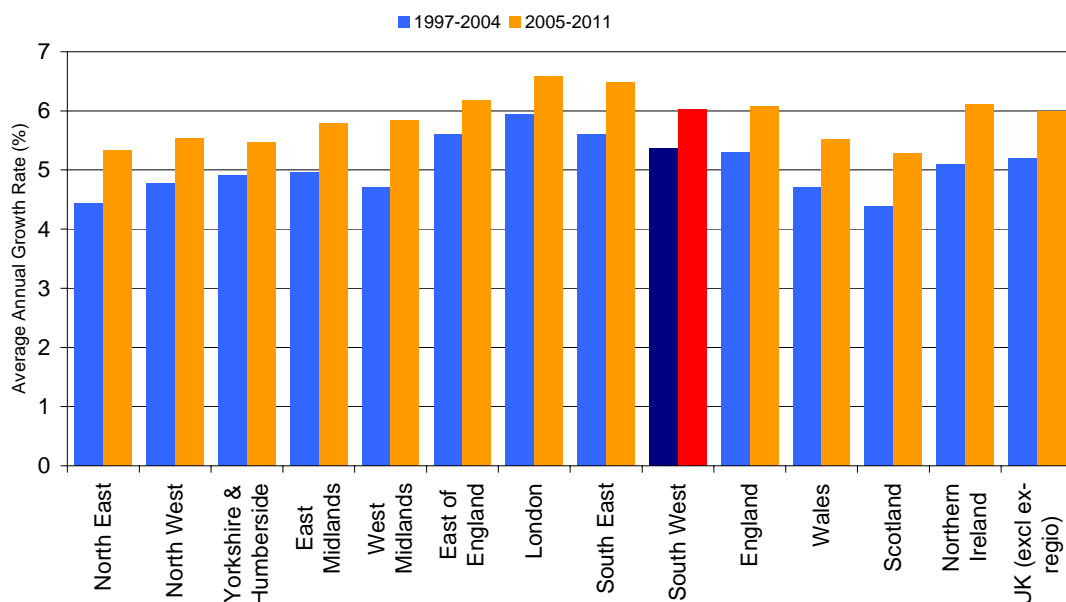
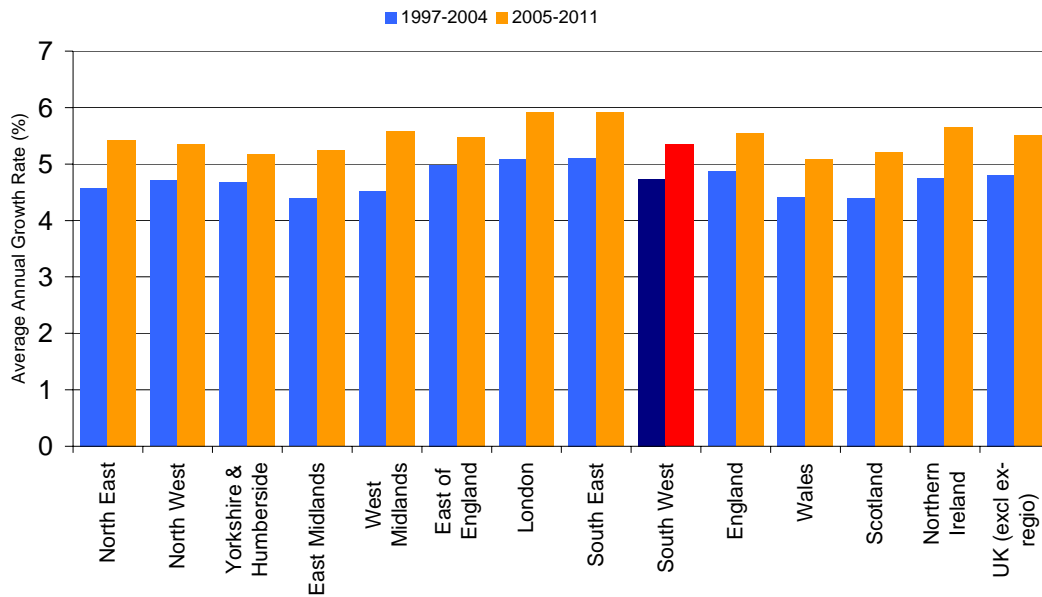
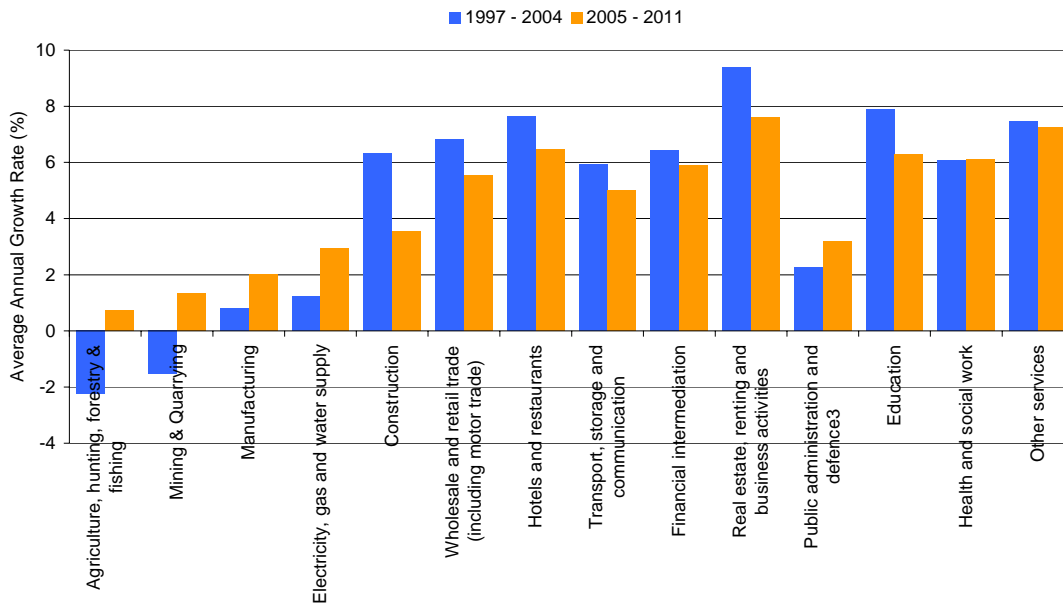


Figure 2: Growth of GVA per Head



Projected population growth for the South West is, however, marginally above that for most other English regions, so that GVA per head is projected to grow more slowly than in England as a whole. This implies that GVA per head in the South West is projected to decline slightly relative to the national level over the period to 2011.

Figure 3: South West Output Growth by Industry



The projections suggest that all broad industry sectors in the South West will grow, in current (nominal) price terms, over the period 2005-2011, although output from Mining & Quarrying and (particularly) Agriculture, Forestry & Fishing is expected to decline in real terms over this period, while that from Manufacturing is projected to be roughly constant in real terms. The fastest

growing sectors are projected to be Retail & Wholesale Distribution and 'Other Services'. More detailed sector projections for 2005-7 are available from the swbem website.

Employment

Total employment in the South West (measured by employee jobs) is projected to rise at an average annual rate of 2.6 per cent during 2005-2011, the highest growth rate among the UK regions. This implies around 370,000 new employee jobs in the region over this period, many of them part-time.

Figure 4: Growth of ABI Employee Jobs

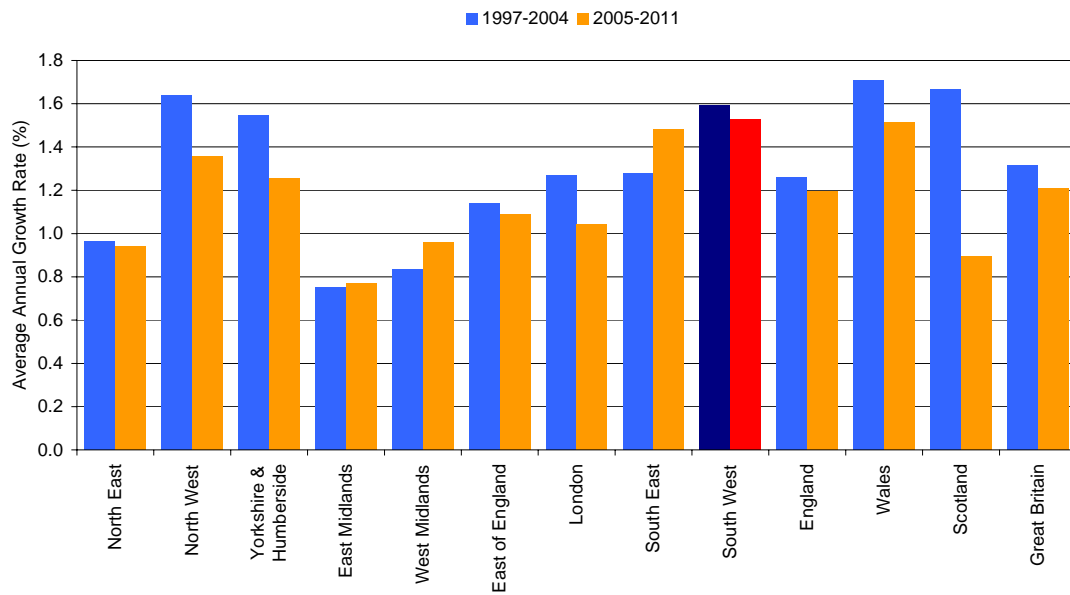
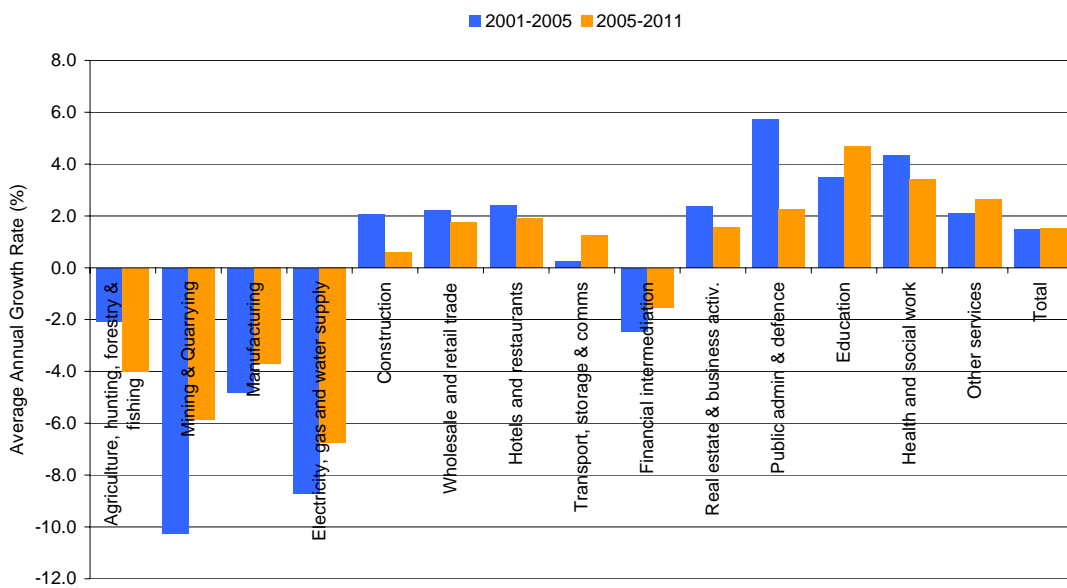


Figure 5: Growth of South West Employee Jobs



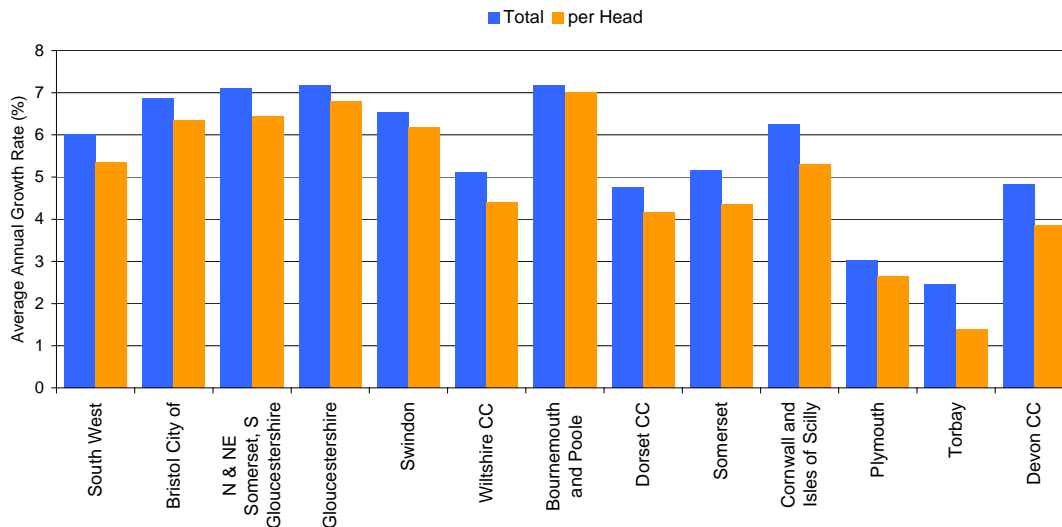
As in the recent past, employment growth is projected to be concentrated in Services (both private and public) and Construction, with the 'Production'

sectors (primary, secondary, manufacturing, energy & water) seeing continued falls in employment during 2005-2011. More detailed employment projections for 2005-7 can be obtained from the swbem website.

South West Sub-Regions

Output growth is projected to be strongest in the urban north-east of the region and in Cornwall, with slower growth projected for the rural sub-regions and for Plymouth and Torbay.

Figure 6: Growth of GVA - South West Sub-Regions (2005-11)



Methods

The South West Business Economy Module projections are intended to give an indication of economic prospects for the South West region if recent trends continue (so far as these can be identified from available data) and if the national economy performs as predicted by the most recent HM Treasury forecasts.

The projections are based on detailed analysis of recent trends in output and employment by industry at national, regional and sub-regional levels. This analysis uses official ONS estimates of output (GVA) and employment (ABI Employee Jobs). The projections take account of the relationships between regional and national economic activity by sector and of the most recent HM Treasury forecasts for UK economic growth. The detailed sector projections utilise additional information on output and employment from the South West Regional Accounts. For information on how to obtain the regional accounts and the accompanying ECON|i software, please contact SWBEM (see below for contact details).

The South West Business Economy Module (part of the South West Observatory) provides a dynamic source of economic and business research and intelligence, with comprehensive data and analysis to support regional development and evidence-based decision-making. To improve the availability of regional data, the Business Economy Module has developed a set of regional accounts which are freely available to all. The Business and Economy module is funded and supported by the South West of England Regional Development Agency. For further information please visit the South West Business Economy Module website (www.swbem.org.uk).

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South West Observatory:
Business Economy Module

Projected GVA, 2005-2011

	Value, Current Prices				Average Annual Growth Rate (%)	
	2005	2006	2007	2011	1997-2004	2005-2011
TOTAL	£ billion					
North East	35.7	37.6	39.7	48.8	4.4	5.3
North West	107.0	112.8	119.1	147.8	4.8	5.5
Yorkshire & Humberside	78.9	83.2	87.8	108.6	4.9	5.5
East Midlands	69.1	73.0	77.3	96.8	5.0	5.8
West Midlands	85.9	90.9	96.2	120.8	4.7	5.8
East of England	105.6	112.1	119.1	151.3	5.6	6.2
London	174.1	185.6	198.1	255.2	5.9	6.6
South East	166.7	177.6	189.4	243.1	5.6	6.5
South West	82.7	87.7	93.1	117.5	5.4	6.0
England	905.7	960.7	1019.8	1289.8	5.3	6.1
Wales	41.1	43.3	45.8	56.7	4.7	5.5
Scotland	85.8	90.4	95.2	116.9	4.4	5.3
Northern Ireland	24.3	25.7	27.3	34.6	5.1	6.1
UK (excl ex-regio)	1056.9	1120.1	1188.1	1498.0	5.2	6.0
PER HEAD	£ thousand					
North East	14.1	14.9	15.7	19.4	4.6	5.4
North West	15.7	16.5	17.4	21.5	4.7	5.4
Yorkshire & Humberside	15.7	16.5	17.3	21.2	4.7	5.2
East Midlands	16.1	16.9	17.8	21.8	4.4	5.2
West Midlands	16.1	17.0	17.9	22.3	4.5	5.6
East of England	19.1	20.1	21.2	26.3	5.0	5.5
London	23.3	24.7	26.2	32.9	5.1	5.9
South East	20.4	21.6	22.9	28.8	5.1	5.9
South West	16.3	17.2	18.1	22.3	4.7	5.3
England	18.0	18.9	20.0	24.8	4.9	5.5
Wales	13.9	14.6	15.3	18.7	4.4	5.1
Scotland	16.8	17.7	18.6	22.8	4.4	5.2
Northern Ireland	14.1	14.8	15.7	19.6	4.7	5.7
UK (excl ex-regio)	17.6	18.5	19.5	24.2	4.8	5.5
PER HEAD (INDEX, UK = 100)						
North East	80.4	80.4	80.4	80.1		
North West	89.4	89.3	89.1	88.7		
Yorkshire & Humberside	89.2	89.0	88.7	87.6		
East Midlands	91.6	91.4	91.1	90.2		
West Midlands	91.6	91.7	91.8	92.0		
East of England	108.7	108.8	108.7	108.6		
London	132.7	133.4	134.0	135.9		
South East	116.3	116.9	117.4	119.1		
South West	93.1	93.0	92.9	92.3		
England	102.3	102.4	102.4	102.5		
Wales	78.9	78.7	78.4	77.1		
Scotland	95.9	95.6	95.3	94.3		
Northern Ireland	80.2	80.2	80.3	80.9		

Projected Employment (ABI Employee Jobs), 2005-2011

	Thousands				Average Annual Growth Rate (%)	
	2005	2006	2007	2011	1997-2004	2005-2011
North East	1,013	1,021	1,029	1,071	1.0	0.9
North West	3,061	3,098	3,137	3,319	1.6	1.4
Yorkshire & Humberside	2,274	2,299	2,326	2,451	1.5	1.3
East Midlands	1,815	1,826	1,839	1,901	0.7	0.8
West Midlands	2,359	2,377	2,396	2,498	0.8	1.0
East of England	2,331	2,353	2,377	2,487	1.1	1.1
London	3,989	4,026	4,066	4,245	1.3	1.0
South East	3,693	3,744	3,797	4,033	1.3	1.5
South West	2,224	2,256	2,288	2,436	1.6	1.5
England	22,758	22,999	23,256	24,441	1.3	1.2
Wales	1,176	1,192	1,209	1,287	1.7	1.5
Scotland	2,347	2,365	2,384	2,476	1.7	0.9
Great Britain	28,505	28,811	29,136	30,640	1.3	1.2

Projected South West GVA by Industry

	Value (£ million)				Average Annual Growth Rate (%)	
	2005	2006	2007	2011	1997-2004	2005-2011
Agriculture, forestry & fishing	1,288	1,297	1,305	1,357	-2.2	0.9
Mining & Quarrying	338	342	346	371	-1.5	1.6
Manufacturing	11,884	12,203	12,544	13,649	0.8	2.3
Electricity, gas and water supply	1,963	2,025	2,085	2,404	1.2	3.4
Construction	4,547	4,754	4,977	5,802	6.3	4.1
Wholesale and retail trade	10,713	11,429	12,202	15,615	6.8	6.5
Hotels and restaurants	3,440	3,718	4,025	5,337	7.6	7.6
Transport, storage & communication	5,434	5,766	6,123	7,652	5.9	5.9
Financial intermediation	4,442	4,781	5,156	6,640	6.4	6.9
Real estate, renting & business	20,204	22,108	24,228	33,782	9.4	8.9
Public administration & defence	5,376	5,591	5,819	6,697	2.3	3.7
Education	5,606	6,013	6,447	8,590	7.9	7.4
Health and social work	5,829	6,260	6,727	8,825	6.1	7.2
Other services	4,158	4,536	4,957	6,794	7.5	8.5
Total	85,223	90,822	96,941	123,514	5.4	6.0

Projected South West Employment by Industry

	Thousands				Average Annual Growth Rate (%)	
	2005	2006	2007	2011	2001-2005	2005-2011
Agriculture, forestry & fishing	26.8	25.8	24.8	21.0	-2.1	-4.0
Mining & Quarrying	4.4	4.1	3.9	3.0	-10.2	-5.9
Manufacturing	245.9	236.8	228.0	195.9	-4.8	-3.7
Electricity, gas and water supply	9.7	9.1	8.5	6.4	-8.7	-6.8
Construction	102.4	103.0	103.7	106.0	2.1	0.6
Wholesale and retail trade	426.1	433.6	441.2	472.7	2.2	1.7
Hotels and restaurants	175.3	178.6	182.1	196.3	2.4	1.9
Transport, storage & communication	109.9	111.3	112.7	118.3	0.3	1.2
Financial intermediation	79.5	78.3	77.1	72.4	-2.4	-1.5
Real estate, renting & business	297.2	301.9	306.7	326.3	2.4	1.6
Public administration & defence	140.3	143.5	146.7	160.4	5.7	2.3
Education	220.6	231.0	241.9	290.6	3.5	4.7
Health and social work	282.4	292.0	301.9	345.0	4.3	3.4
Other services	103.8	106.6	109.4	121.5	2.1	2.7
Total	2,224	2,256	2,288	2,436	1.5	1.5

Projected GVA, South West Sub-Regions, 2005-2011

	2005	Value, Current Prices			Average Annual Growth Rate (%)	
		2006	2007	2011	1997-2004	2005-2011
TOTAL	£ billion					
South West	82.7	87.7	93.1	117.5	5.4	6.0
Glos, Wiltshire and N Somerset	44.7	47.7	50.9	65.9	5.7	6.7
Bristol City of	9.8	10.5	11.2	14.6	5.4	6.9
N & NE Somerset, S Glos	11.8	12.6	13.5	17.8	6.3	7.1
Gloucestershire	11.4	12.2	13.1	17.2	6.8	7.2
Swindon	4.6	5.0	5.3	6.8	4.0	6.5
Wiltshire CC	7.1	7.5	7.8	9.6	4.9	5.1
Dorset and Somerset	17.4	18.4	19.5	24.2	5.2	5.7
Bournemouth and Poole	5.1	5.5	5.9	7.8	5.8	7.2
Dorset CC	5.1	5.3	5.6	6.7	4.9	4.7
Somerset	7.2	7.6	8.0	9.8	5.0	5.2
Cornwall and Isles of Scilly	6.1	6.5	6.9	8.8	6.7	6.3
Devon	14.5	15.2	15.8	18.5	4.1	4.1
Plymouth	3.4	3.5	3.6	4.0	3.0	3.0
Torbay	1.4	1.4	1.5	1.6	2.1	2.4
Devon CC	9.8	10.3	10.8	13.0	4.8	4.8
PER HEAD	£ thousand					
South West	16.3	17.2	18.1	22.3	4.7	5.4
Glos, Wiltshire and N Somerset	20.1	21.3	22.7	28.8	5.2	6.2
Bristol City of	24.7	26.2	28.0	35.7	5.2	6.4
N & NE Somerset, S Glos	19.1	20.3	21.6	27.8	5.6	6.4
Gloucestershire	19.7	21.1	22.5	29.2	6.4	6.8
Swindon	25.4	27.0	28.7	36.4	3.5	6.2
Wiltshire CC	15.8	16.5	17.2	20.5	4.0	4.4
Dorset and Somerset	14.3	15.0	15.8	19.2	4.6	5.1
Bournemouth and Poole	17.0	18.2	19.5	25.5	5.7	7.0
Dorset CC	12.6	13.1	13.7	16.1	4.2	4.2
Somerset	14.0	14.6	15.2	18.0	4.1	4.4
Cornwall and Isles of Scilly	11.7	12.3	12.9	15.9	5.7	5.3
Devon	13.1	13.5	13.9	15.9	3.4	3.3
Plymouth	13.7	14.0	14.4	16.0	3.1	2.6
Torbay	10.4	10.5	10.6	11.3	1.2	1.4
Devon CC	13.4	13.9	14.4	16.8	3.9	3.9
PER HEAD (INDEX, South West = 100)						
South West	100.0	100.0	100.0	100.0		
Glos, Wiltshire and N Somerset	123.4	124.3	125.4	129.1		
Bristol City of	151.4	152.9	154.6	160.3		
N & NE Somerset, S Glos	117.1	118.4	119.7	124.6		
Gloucestershire	121.0	122.7	124.4	131.2		
Swindon	155.8	157.2	158.8	163.4		
Wiltshire CC	97.0	96.1	95.2	91.8		
Dorset and Somerset	87.6	87.4	87.1	86.2		
Bournemouth and Poole	104.3	106.0	107.9	114.6		
Dorset CC	77.3	76.5	75.6	72.3		
Somerset	85.8	85.0	84.2	81.0		
Cornwall and Isles of Scilly	71.7	71.7	71.6	71.5		
Devon	80.2	78.7	77.1	71.2		
Plymouth	84.0	81.9	79.8	71.9		
Torbay	63.6	61.3	58.9	50.5		
Devon CC	82.1	80.9	79.7	75.4		